

31 March 2021 Results Update

July 5, 2021

Recommendation Underweight

Previous Recommendation	Underweight
Current Price (SAR)	54.5
Target Price (SAR)	35.0
Upside/Downside (%)	(35.8%)

As of July 4, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.1
52-Wk High (SAR)	60.8
52-Wk Low (SAR)	16.5
Total Outstanding shares (in mn)	20.0
Free Float (%)	89.5%

ABO MOATI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	3.0%	(0.1%)
6m	0.7%	(27.3%)
12m	229.5%	177.4%

Major Shareholders (%)

Saad Abdullah Saad Abo Moati	5.40%
Saeed Omar Saeed Basaeed	5.33%

Quarterly Sales (SAR mn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of July 4, 2021

Top line shrinks in 4Q20 on lower demand for stationery supplies

Abdullah Saad Mohammed Abo Moati for Bookstores Co. (Abo Moati)'s revenue fell 22.2% YoY to SAR 231.2mn in 4Q20 as the COVID-19 pandemic and related restrictions weighed on the company's top line. Gross profit declined 19.8% YoY to SAR 48.3mn, but gross margin widened 62 bps YoY to 20.9% in 4Q20. Operating profit plummeted 57.1% YoY to SAR 9.1mn, whereas operating margin shrank 321 bps YoY to 4.0% in the year. Higher zakat expense led to a 61.6% YoY plunge in the bottom line to SAR 5.3mn in 4Q20 and a 236 bps YoY contraction in net margin to 2.3%.

The company reported weak performance in 4Q20, as the top line and bottom line fell sharply during the year. This was primarily due to the implementation of lockdown, which led to temporary closure of stores and showrooms across the Kingdom to curb the spread of the pandemic. Moreover, lower demand for stationery supplies as corporates and schools functioned remotely during most parts of the year, also hampered the company's sales. These factors resulted in a drop in sales across the Wholesale and Retail (down 30.7% YoY to SAR 134.9mn) and Inks (down 5.9% YoY to SAR 96.3mn) segments. However, we anticipate better demand for office and school supplies on the reopening of schools and offices, steady increase in vaccination rates, and pick-up in economic activity in the forthcoming quarters. The company is also on track with its expansion plans in the retail space and has already launched its 11th retail showroom in the KSA. Nevertheless, the possibility of a relapse in the number of cases amid new variants of the virus may result in renewed restrictions and could be detrimental for the company's business activities. Furthermore, higher VAT rate, decline in consumer spending, low business activity, and expat exodus may create headwinds for the company. Due to these factors, we believe the stock might have run ahead of its fundamentals, and in light of the rich valuation, we retain our "Underweight" rating on the stock.

- Revenue declined 22.2% YoY to SAR 231.2mn in 4Q20 as the pandemic and related precautionary measures hurt the top line during the year. Moreover, revenue was down 12.1% YoY to SAR 66.4mn in 4Q21.
- Gross profit (down 19.8% YoY to SAR 48.3mn) fell at a slower pace than the top line as the cost of sales slumped 22.8% YoY to SAR 182.9mn during the period. As a result, gross margin widened to 20.9% as against 20.3% in 4Q19.
- The lower gross profit translated into a 57.1% YoY plunge in operating profit to SAR 9.1mn. Consequently, operating margin tightened to 4.0% in 4Q20 as opposed to 7.2% in 4Q19.
- Net income nosedived 61.6% YoY to SAR 5.3mn as increased zakat expense offset lower finance charges and higher other income during 4Q20. Subsequently, net margin slipped to 2.3% in 4Q20 compared with 4.7% in 4Q19.
- Net income plummeted 73.4% YoY to SAR 0.8mn in 4Q21 due to lower top line and higher SG&A expenses during the quarter.
- Abo Moati reported an EPS of SAR 0.27 in 4Q20 compared with SAR 0.69 in 4Q19.
- On April 7, the company renewed its SAR 45mn Islamic financing facility with Samba Financial Group. The facility has a one-year tenure and will support its working capital objectives.
- On April 26, Abo Moati launched a new 291 sqm showroom in Jeddah. This is the company's 11th retail showroom in the KSA and is in line with its expansion strategy in the retail space.
- On June 27, the company inked a one-year, SAR 20mn Islamic credit facility with Arab National Bank. The facility will be utilized for meeting its working capital requirements.

Valuation: We revise our target price upward to a fair value of SAR 35.0 per share but maintain our "Underweight" rating on the stock.

	4Q20	4Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	66.4	75.5	(12.1%)	289.0	231.2	25.0%
Gross Profit (SAR mn)	14.1	15.9	(11.7%)	63.2	48.3	31.0%
EBITDA (SAR mn)	3.0	6.3	(51.5%)	26.0	17.3	50.6%
Net Profit (SAR mn)	0.8	3.1	(73.4%)	15.9	5.3	198.9%
EPS Basic (SAR)	0.04	0.16	(73.4%)	0.80	0.27	198.9%
Gross Margin (%)	21.2%	21.1%	0.1%	21.9%	20.9%	1.0%
EBITDA Margin (%)	4.6%	8.3%	(3.7%)	9.0%	7.5%	1.5%
Net Profit Margin (%)	1.3%	4.2%	(2.9%)	5.5%	2.3%	3.2%

Source: Company Financials, FALCOM Research

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FALCOM Rating Methodology

July 5, 2021

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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