

September 27, 2021

**1Q22 Results Update**

**Recommendation Underweight**

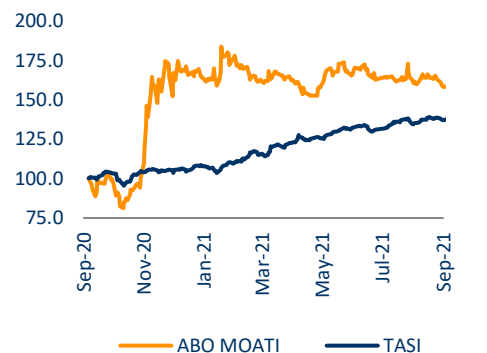
Previous Recommendation	Underweight
Current Price (SAR)	50.1
Target Price (SAR)	35.0
Upside/Downside (%)	(30.1%)

As of September 26, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	1.0
52-Wk High (SAR)	60.8
52-Wk Low (SAR)	25.5
Total Outstanding shares (in mn)	20.0
Free Float (%)	89.5%

**ABO MOATI vs. TASI (Rebased)**

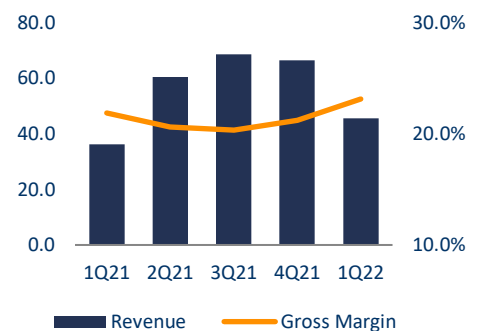


Price Performance (%)	Absolute	Relative
1m	(0.8%)	(2.8%)
6m	(2.1%)	(22.7%)
12m	58.5%	20.7%

**Major Shareholders (%)**

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

**Quarterly Sales (SAR mn) and Gross Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 26, 2021

**Top line rises on recovery in demand for stationery supplies**

Abdullah Saad Mohammed Abo Moati for Bookstores Co. (Abo Moati) recorded a 25.5% YoY rise in its revenue to SAR 45.4mn in 1Q22, driven by returning of commercial activities to the normal level in the quarter. Its gross profit increased by 32.8% YoY to SAR 10.5mn, while gross margin expanded by 126 bps YoY to 23.1% in 1Q22. A fall in selling, general, and administrative expenses helped the company to report an operating profit of SAR 2.8mn in 1Q22 as against an operating loss of 0.8mn in 1Q21. Its operating margins stood at 6.1% in 1Q22. Abo Moati reported a net income of SAR 1.9mn in 1Q22 as against a net loss of SAR 1.8mn in 1Q21, driven by a sharp rise in top line.

Sharp rise in top line on back of a strong performance during the quarter helped Abo Moati report a net profit in 1Q22 as compared to a net loss on 1Q21. The company reported an increase in rental income and a decrease in operating and financing expenses during the quarter. Demand for stationery supplies from corporates and schools improved during the quarter as compared with that in 1Q21, when corporates and schools were functioning remotely that hindered the company's sales. The company's revenue from the wholesale segment rose by 27.9% YoY to SAR 28.8mn, while revenue from the ink segment increased by 21.6% YoY to SAR 16.6mn in 1Q22. Going ahead, schools and offices are expected to reopen in 2Q22, following the ongoing vaccination drive, which could boost demand for office and school supplies in the forthcoming quarters. Nevertheless, the resurgence of new Delta variant could force the country to impose restrictions, adversely affecting the company's business activities. Furthermore, higher VAT rate and a decline in consumer spending are likely to pose headwinds for the company. After factoring the abovementioned factors, we believe the stock might have moved ahead of its fundamentals. Given the rich valuation, we maintain our "Underweight" rating on the stock.

- Abo Moati's revenue rose by 25.5% YoY to SAR 45.4mn in 1Q22 as commercial activities returned to the normal level in the quarter.
- Driven by higher top line growth and slower rise in cost of sales, its gross profit rose by 32.8% YoY to SAR 10.5mn 1Q22. Its gross margin widened to 23.1% from 21.8% in 1Q22.
- Higher gross profit helped the company report an operating profit of SAR 2.8mn in 1Q22 as against an operating loss of SAR 0.8mn in 1Q21. Its operating margin stood at 6.1% in 1Q22 as opposed to (-)2.3% in 1Q21.
- Lower interest expense offset the rise in zakat expenses as Abo Moati reported a net income of SAR 1.9mn in 1Q22 as against a net loss of 1.8mn in 1Q21. Its net margin stood 4.2% in 1Q22 as opposed to (-)5.0% in 1Q21.
- The company reported an EPS of SAR 0.1 in 1Q22 compared with SAR (0.09) in 1Q21.
- Its Board of Directors recommends a cash dividend of SAR 0.5 per share for FY21, totaling SAR 10mn.

**Valuation:** We retain our target price of SAR 35.0 per share and maintain our "Underweight" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	% YoY
Revenues (SAR mn)	45.4	36.2	25.5%	279.7	231.2	21.0%
Gross Profit (SAR mn)	10.5	7.9	32.8%	61.6	48.3	27.7%
EBITDA (SAR mn)	5.2	0.9	485.1%	29.4	17.3	70.2%
Net Profit (SAR mn)	1.9	(1.8)	NM	16.9	5.3	216.2%
EPS Basic (SAR)	0.10	(0.09)	NM	0.84	0.27	216.2%
Gross Margin (%)	23.1%	21.8%	1.3%	22.0%	20.9%	1.2%
EBITDA Margin (%)	11.5%	2.5%	9.0%	10.5%	7.5%	3.0%
Net Profit Margin (%)	4.2%	(5.0%)	NM	6.0%	2.3%	3.7%

Source: Company Financials, FALCOM Research

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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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