

3Q21 Results Update

December 14, 2021

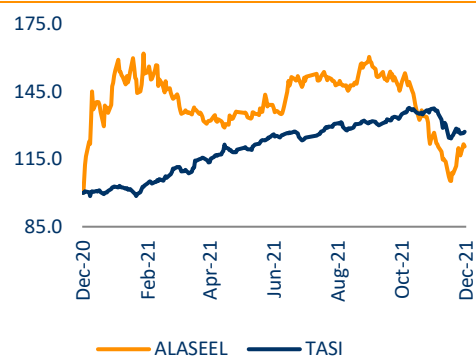
Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	52.0
Target Price (SAR)	55.0
Upside/Downside (%)	5.8%

As of December 13, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.6
52-Wk High (SAR)	72.1
52-Wk Low (SAR)	41.3
Total Outstanding shares (in mn)	30.0
Free Float (%)	94.5%

ALASEEL vs. TASI (Rebased)

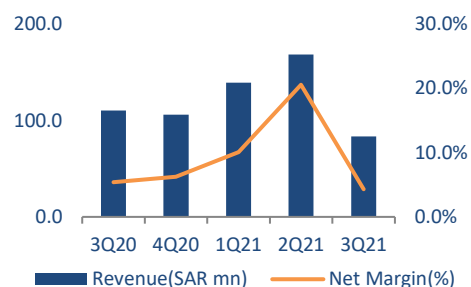


Price Performance (%)	Absolute	Relative
1m	(4.8%)	2.7%
6m	(13.3%)	(14.4%)
12m	20.7%	(6.5%)

Major Shareholders (%)

Mohammed Abdullah Ibrahim Al Jedaie	5.56%
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Revenue (SAR mn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 13, 2021

Earnings impacted due to weakness in top line

Thob Al Aseel (Thob)'s revenue dropped 24.3% YoY to SAR 83.3mn in 3Q21 owing to lower revenue recorded by the Thobes segment. Meanwhile, cost of sales slipped 32.9% YoY to SAR 52.7mn. Consequently, gross profit inched down 2.9% YoY to SAR 30.7mn. However, gross margin expanded by 811bps YoY to 36.8% in 3Q21. Higher SG&A expenses led to a 24.2% YoY slump in operating profit to SAR 8.1mn in 3Q21, while EBIT margin marginally improved by 2 bps YoY to 9.8%. Higher finance expense in addition to lower topline led to a 39.5% YoY plunge in net profit to SAR 3.6mn, while net margins fell by 108bps YoY to 4.3% in 3Q21.

Thob reported weak performance during 3Q21 as its topline was down 24.3% YoY to SAR 83.3mn and bottom line declined by 39.5% YoY to SAR 3.6mn. Topline in 3Q21 was impacted by higher revenue base in 3Q20 due to the signing of a contract for medical supplies. Revenue from the Fabrics segment rose 12.9% YoY to SAR 14.7mn but was countervailed by the 29.3% YoY drop in revenue from the Thobes segment to SAR 68.6mn in 3Q21. This could be attributed to the higher base as customers took advantage of government initiatives to mitigate the effects of COVID-19 during 3Q20. Moreover, an unfavorable product mix during the quarter weighed on the bottom line and profit margins. The company is assessing market conditions to launch new products and sign additional contracts in the medical equipment procurement space. The company's shareholders approved to raise the company's capital by 33.33% to SAR 400mn through a one-for-three bonus share distribution to support its growth plans in this segment and maintain its solvency. Therefore, considering these factors, we change our rating to "Neutral" on the stock.

- Thob's revenue nosedived 24.3% YoY to SAR 83.3mn in 3Q21 owing to a high base in 3Q20 as the company signed a new contract for medical supplies in 3Q20. Revenue fell 50.4% QoQ from SAR 168.1mn in 2Q21 due to the seasonality factor of the company's business activity and the previous quarter coinciding with the holy month of Ramadan.
- Gross profit decreased by 2.9% YoY to SAR 30.7mn due to the decline in topline. However, gross margin improved to 36.8% from 28.7% in 3Q20.
- Higher total SG&A expenses resulted in a 24.2% YoY plunge in operating profit to SAR 8.1mn in the quarter. However, operating margin narrowed to 9.8% in 3Q21 from 9.7% in 3Q20.
- Lower topline and higher finance expense resulted in a 39.5% YoY decrease in net profit to SAR 3.6mn in 3Q21. Consequently, net margin shrank to 4.3% from 5.4% in 3Q20.
- On September 30, Thob's Board paid SAR 0.75 per share as cash dividend for 1H21, worth SAR 22.5mn (7.5% of the company's share capital).
- On October 21, Thob's Board approved a 33.3% increase in share capital to SAR 400mn through one-for-three bonus share distribution. The company aims to strengthen its capital to match the size of its business and future plans and maintain solvency.

Valuation: We revise our target price to a fair value of SAR 55.0 per share and change our rating on the stock to "Neutral".

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	83.3	110.1	(24.3%)	516.8	527.3	(2.0%)
Gross Profit (SAR mn)	30.7	31.6	(2.9%)	186.0	188.5	(1.3%)
EBITDA (SAR mn)	11.3	11.2	0.9%	105.0	101.1	3.9%
Net Profit (SAR mn)	3.6	5.9	(39.5%)	86.0	82.4	4.4%
EPS Basic (SAR)	0.12	0.20	(39.5%)	2.9	2.7	4.4%
Gross Margin (%)	36.8%	28.7%	8.1%	36.0%	35.7%	0.3%
EBITDA Margin (%)	13.5%	10.2%	3.4%	20.3%	19.2%	1.2%
Net Profit Margin (%)	4.3%	5.4%	(1.1%)	16.6%	15.6%	1.0%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

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, FALCOM Research.

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