

November 29, 2021

3Q21 Results Update

Recommendation Overweight

Previous Recommendation	Neutral
Current Price (SAR)	17.9
Target Price (SAR)	22.0
Upside/Downside (%)	22.0%

As of November 28, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.0
52-wk High (SAR)	28.8
52-wk Low (SAR)	15.1
Total Outstanding shares (in mn)	57.5
Free Float (%)	47.7%

Lazurde vs. TASI (Rebased)

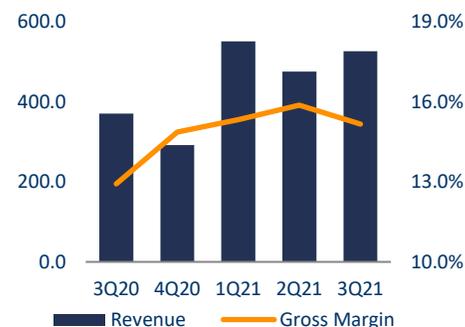


Price Performance (%)	Absolute	Relative
1m	(18.5%)	(10.3%)
6m	(19.0%)	(21.5%)
12m	1.0%	(22.9%)

Major Shareholders (%)

Abdul Aziz Saleh Ali Al-Othaim	11.21%
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Quarterly Sales (SAR mn) and Gross Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 28, 2021

Lazurde records highest net income in five years

Lazurde Company for Jewelry (Lazurde)'s revenue surged 42.0% YoY to SAR 526.6mn in 3Q21, driven by higher revenues in wholesale and retail segments. Slower rise in cost of sales drove gross profit higher by 66.6% YoY to SAR 79.9mn in 3Q21; gross margin improved 224bps YoY to 15.2% in the quarter. The company's operating profit stood at SAR 24.0mn in 3Q21, as against operating loss of SAR 0.1mn in 3Q20; operating margin stood at 4.6% in 3Q21. Lower finance cost and Zakat expense countervailed the rise in other expenses. This helped the company register a net profit of SAR 7.8mn in 3Q21, as against a net loss of SAR 18.8mn in 3Q20; the net profit margin stood at 1.5% in 3Q21, as against a net loss margin of (5.1%) in 3Q20.

Lazurde reported a strong performance in 3Q21, driven by higher revenues in the wholesale (up 46.1% YoY to SAR 468.4mn) and retail (up 15.8% YoY to SAR 58.2mn) segments. Revenue from operations swelled 38.4% YoY to SAR 129.8mn in 3Q21. The company's new initiatives Miss L', InStyle, TOUS, and E-Commerce contributed 31% to operating revenue in 3Q21. Revenue from wholesale, retail and E-Commerce operations accounted for 55%, 40% and 5%, respectively, to revenue from operations in 3Q21. Operating revenues from the company's new product lines Miss L' and Lazurde InStyle surged to SAR 27.3mn in 3Q21 from SAR 14.4mn in 3Q20. The company is diversifying and expanding its revenue streams by adding new brands and entering new channels. Implementation of strategic and commercial initiatives including optimization of gold working capital and rights issue in June 2021 helped the company reduce finance costs significantly by 51.4% YoY to SAR 6.5mn in 3Q21, the lowest in 10 years. Lazurde's bank cash loans dropped to SAR 5mn in 3Q21 which led to total gold and cash bank loans reduced to SAR 884mn. The company continued to focus on cash generation; it reported a positive cash inflow from operations of SAR 30.0mn in 3Q21, the highest since 2017. Lazurde is well positioned with product innovation and experimentation through new business mediums. In view of these factors, we revise our rating on the stock to "Overweight."

- Revenue climbed 42.0% YoY to SAR 526.6mn in 3Q21 from SAR 370.8mn in 3Q20, driven by higher revenues from all sales channels and geographies.
- Gross profit soared 66.6% YoY to SAR 79.9mn, following slower rise in cost of sales; as a result, gross margin expanded to 15.2% in 3Q21 from 12.9% in 3Q20.
- A higher top line counterbalanced the rise in selling and marketing expenses. This helped the company register an operating profit of SAR 24.0mn in 3Q21, as against an operating loss of SAR 0.1mn in 3Q20; operating margin stood at 4.6%.
- Lower finance charge and zakat expenses helped the company register a net profit of SAR 7.8mn in 3Q21, as against a net loss of SAR 18.8mn in 3Q20. Subsequently, the net profit margin stood at 1.5%, compared to a net loss margin of (5.1%) in 3Q20.
- In 3Q21, the company generated strong positive cash inflow from operations of SAR 30.0mn.

Valuation: We revise our target price to a fair value of SAR 22.0 per share and revise our rating on the stock to "Overweight."

	3Q'21	3Q'20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	526.6	370.8	42.0%	2,095.5	1,278.4	63.9%
Gross Profit (SAR mn)	79.9	47.9	66.6%	324.3	183.0	77.3%
EBITDA (SAR mn)	35.8	10.9	227.6%	146.1	21.1	593.3%
Net Profit (SAR mn)	7.8	(18.8)	NM	39.4	(120.5)	NM
EPS basic (SAR)	0.18	(0.44)	NM	0.92	(2.80)	NM
Gross Margin (%)	15.2%	12.9%	2.2%	15.5%	14.3%	1.2%
EBITDA Margin (%)	6.8%	2.9%	NM	7.0%	1.6%	5.3%
Net Profit Margin (%)	1.5%	(5.1%)	NM	1.9%	(9.4%)	NM

Source: Company Financials, FALCOM Research

3Q21 Results Update

FALCOM Rating Methodology

November 29, 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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