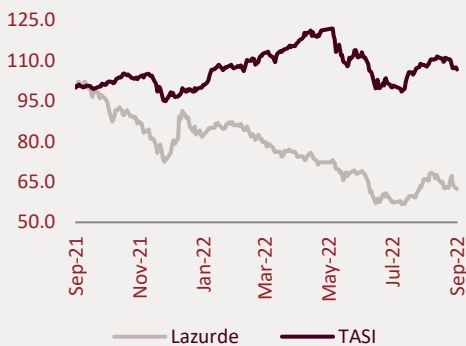


2Q22 Results Update

September 6, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	15.4
Target Price (SAR)	17.2
Upside/Downside (%)	11.7%
<i>As of September 5, 2022</i>	
<b>Key Data (Source: Bloomberg)</b>	
Market Cap (SAR mn)	885.5
52-wk High (SAR)	25.8
52-wk Low (SAR)	14.0
Total Outstanding shares (in mn)	57.5
Free Float (%)	47.7%

Lazurde vs. TASI (Rebased)

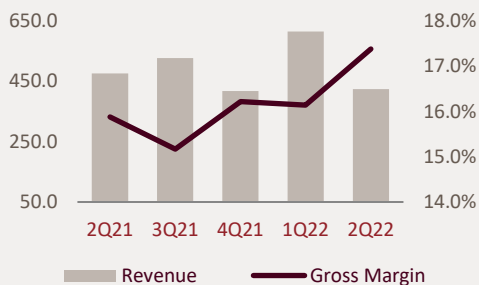


Price Performance (%)	Absolute	Relative
1m	(5.5%)	(4.0%)
6m	(21.8%)	(16.7%)
12m	(37.7%)	(44.4%)

Major Shareholders (%)

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



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of September 5, 2022

Weakening of EGP against SAR hurts top line

Lazurde Company for Jewelry (Lazurde)'s revenue dropped 10.8% YoY to SAR 424.0mn in 2Q22, owing to weakening of EGP against the Saudi riyal. Despite a 12.4% YoY decline in cost of sales, gross profit slipped 2.4% YoY to SAR 73.7mn during the quarter; however, gross margin improved 150bps YoY to 17.4%. Decline in general and administrative expenses was offset by rise in both selling and marketing expenses and provision for expected credit losses. Consequently, operating profit decreased 26.1% YoY to SAR 14.9mn in 2Q22, with operating margin narrowing 73bps YoY to 3.5%. Decline in finance cost, rise in other income, and reversal in income tax led to a 6.3% YoY rise in the net profit to SAR 8.5mn during the quarter, with the net profit margin expanding 32bps YoY to 2.0%.

Lazurde reported a mixed performance in 2Q22, as the bottom line improved despite a fall in the top line. The decline in the top line could be attributed to lower contributions from the wholesale segment (down 12.0% YoY to SAR 372.6mn) and retail segment (down 0.9% YoY to SAR 51.5mn). Revenue from operations fell 3.6% YoY to SAR 117.1mn in 2Q22 owing to EGP's lower FX rate. In KSA, wholesale operating revenue rose 17.8% YoY during the quarter, following strong sales from Lazurde gold in traditional gold souks. However, in Egypt, wholesale operating revenue declined 19.6% YoY despite increase in selling prices in the wholesale and retail segments, mainly due to the difference in the exchange rate. Revenue from the company's e-commerce segment rose to SAR 7.2mn in 2Q22 from SAR 6.1mn in 2Q21. Although the company managed to reduce its finance costs by 20.8% YoY to SAR 6.8mn in 2Q22, it recorded a negative cash inflow from operations. Nevertheless, demand for its products remains strong, and the company continues to grow its retail business through new points of sales and a stronger assortment. The company has been successful in finding promising new retail locations for new stores. It also plans to expand the e-commerce segment by increasing investment in technology, infrastructure, systems, and a state-of-the-art experienced digital organization. Lazurde plans to expand its Miss L' fashion jewelry line through retail points of sales, e-commerce, and third-party retailers, which will boost its top line. In view of these factors, we maintain our "Overweight" rating on the stock.

- Lower revenue contribution from Egypt owing to EGP's lower FX rate against the Saudi riyal resulted in a 10.8% YoY fall in revenues to SAR 424.0mn in 2Q22.
- Gross profit slipped 2.4% YoY to SAR 73.7mn in 2Q22 despite a 12.4% decline in cost of sales; however, gross margin expanded to 17.4% in 2Q22 from 15.9% in 2Q21.
- Rise in both selling and marketing expenses and provision for expected credit losses resulted in a 26.1% YoY decline in operating profit to SAR 14.9mn in 2Q22; consequently, operating margin narrowed to 3.5% in 2Q22 from 4.2% in 2Q21.
- Lower finance charges, rise in other income, reduction in zakat expense, and reversal in income tax led to a 6.3% YoY increase in the net profit to SAR 8.5mn in 2Q22. Subsequently, the net profit margin improved to 2.0% compared to 1.7% in 2Q21.
- In 2Q22, the company's earnings per share stood at SAR 0.15 compared to SAR 0.14 in 2Q21.

**Valuation:** We revise our target price to a fair value of SAR 17.2 per share and retain our "Overweight" rating on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	424.0	475.4	(10.8%)	2,083.0	1,971.5	5.7%
Gross Profit (SAR mn)	73.7	75.5	(2.4%)	346.0	307.7	12.4%
EBITDA (SAR mn)	25.2	31.8	(20.8%)	154.3	128.0	20.6%
Net Profit (SAR mn)	8.5	8.0	6.3%	47.4	22.0	115.0%
EPS Basic (SAR)	0.15	0.14	6.3%	0.82	0.38	115.0%
Gross Margin (%)	17.4%	15.9%	1.5%	16.6%	15.6%	1.0%
EBITDA Margin (%)	5.9%	6.7%	(0.7%)	7.4%	6.5%	0.9%
Net Profit Margin (%)	2.0%	1.7%	0.3%	2.3%	1.1%	1.2%

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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