



US\$3.18bn Market cap
18% Free float
US\$4.89mn Avg. daily volume

Target price **1,100**
Current price **1,131** -2.7% over current as at 17/04/2022

Research Department
Pritish Devassy, CFA

Tel +966 11 836 5464, devassy@alrajhi-capital.com

Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2021A	2022E	2023E
Revenue	1,221	1,746	2,465
Revenue growth	166%	43%	41%
Gross profit	272	389	561
Gross margin	22%	22%	23%
EBITDA	125	186	275
EBITDA margin	10%	11%	11%
Net profit	117	187	273
Net margin	10%	11%	11%
EPS	11.16	17.80	26.04
DPS	0.00	0.00	0.00
Payout ratio	0%	0%	0%
P/E	101.4x	63.5x	43.4x
EV/EBITDA	97.7x	65.8x	44.5x
RoE	62.2%	16.5%	19.4%

Source: Company data, Al Rajhi Capital

Jahez International Co

Initiating coverage with a TP of SAR1,100/sh

As one of the food delivery apps in Saudi, Jahez benefitted significantly from the pandemic, which introduced a new behaviour of online food consumption in KSA. As a result, the company's revenues grew 2.9x y-o-y in 2020 and again 2.7x y-o-y in 2021, the growth coming from an increase in market size as well as increasing market share. The company gained market share from 13% in 2019 to c.30% in 2021, mainly through lower take rates than its competitors and expanding the network of merchants (1,780 in 2019 to 7,061 in 2021) supported by increased delivery partners (6,301 in 2019 to 50,854 in 2021). The company has guided for average revenue growth of 45-55% between 2021 and 2023. We believe two factors determine the future course for the company: a) extent of penetration of online food delivery- as a consumption behaviour b) intensity of competition. Supply-side factors, such availability of delivery partners/in-demand restaurants are also factors to be considered. We value the company based on DCF method to capture longer-term growth and arrive at a valuation of SAR1,100 per share as our target price. The stock trades at 101x 2021 earnings and 64x 2022e earnings and hence would be sensitive to growth rates.

Growth and potential: As per the IPO prospectus, the share of the online food aggregator business of the total foodservice market has expanded from 4.5% in 2019 to 12.1% in 2020 and it is expected to touch 14.4% in 2023. In terms of absolute increase, there is expected to be a SAR5bn increase in terms of online food GMV in the next two years for the whole market and we expect Jahez's market share will continue to improve, helping the company grow at an average rate of c.40-45%, between 2021 and 2023. This growth is likely to be supported by the company's expansion into other cities and new users.

Competitive intensity: While there are around 15+ food delivery apps, unlike most of the delivery apps abroad we have not seen irrational discounts or pricing behaviour. This has helped the company make SAR117 mn profits in 2021 from a loss of SAR6 mn in 2019 (as compared to global peers, which incur losses even after many years of operations). As per our understanding, delivery fees across the apps have remained relatively standardized (depending on the location) across the apps. Overall, the focus for food delivery apps in KSA has been on profits than market share and we expect this to continue. To retain customer base, Prime membership has been launched by Jahez for SAR95/month. The company expects the subscription fee to change depending on the usage.

Guidance for 2021-23: In 2021, the company's reported numbers were inline with previous guidance across all metrics – GOV, Revenue, EBITDA and net profit. Guidance for 2021-23 is revenue growth of 45-55% and an EBITDA growth of 55-65%.

Valuation: We are positive about the long term trends of the company. We do expect a 40-45% CAGR growth in the next 2 years as compared to a 45-55% growth guidance by the company. On the other hand, we forecast EBITDA margins to be 11% compared to the company guidance of 9-12%. The business model favours larger players, as the scale increases the number of visits to the app increases, providing operating leverage. We assume 12% take rate and a market share of 35%. Our DCF based valuation is 1,100/share. This does not include valuations of Pik/Logi which are immaterial at the moment. Our DCF valuation implies a 23x on 2025 earnings.



Key risks to watch:

1. Given that the company is in early-stage and in a relatively new sector, there are likely to be higher risks than usual, in terms of customer behaviour, especially considering the easing restrictions in KSA.
2. In a population of around 33mn with around 2/3rds Saudi nationals, the max. potential of active users could be somewhere around 5mn (1.9mn in 2021). Assuming the remaining 3.1mn gets captured in 2022 itself, with order per similar margin as in 2021, the profit could be around 330mn and hence the P/E would be at the higher end of the stocks in KSA (at around 33x) with almost all of the growth already captured. Thus unless take rates increase or Pik/Logi takes off, valuations may not be cheap at current levels.
3. While the online food delivery to overall food services market for UAE is 33%+, (more than double the size of KSA, currently at around 15%), the size of online food consumption on a per capita basis is already higher in KSA than in UAE and hence the penetration numbers may be entirely not comparable.
4. Post Covid, customer habit of eating out is likely to revert to normal levels; this in turn could impact the demand for online food delivery.
5. To improve its market share the company has started Prime membership scheme, wherein food delivery is done based on monthly subscription. Higher orders per user under this scheme, could impact the profitability of this scheme, despite the cost of discount on foods are shared by both Jahez and the merchant.
6. Given the company's foray into new markets, there is likely to be an increase in customer acquisition costs. In 2020 and 2021, due to the impact of Covid, there was a natural progression of customers towards online delivery, with limited cost. With the impact of Covid fading, there is a likelihood of cost increasing, as Jahez attempts to enter new areas and improve its presence in its existing market. Some of these costs are shown as a discount to revenue, for instance discount on foods, and therefore could impact growth in revenue.
7. A lower than expected pickup in Jahez's new ventures, including Logi and PIK, which are likely to receive a bulk of the IPO proceeds, could impact the profitability and the returns of the company.
8. As the number of deliveries are expected to double and as the company moves to serve tier 2/3 cities, supply factors such as delivery partners, cost of delivery due to possibly higher distance, visas issued for drivers, frequency of ordering may have to be closely monitored.
9. While the company had estimated a GOV of 4.4bn to 5.3bn for 2021, the actual GOV came at the lower end SAR4.5bn. This was mainly on account of likely lower than expected 4Q, which we believe was mainly because of Riyadh season which changed the food consumption pattern. We believe the number of orders could have picked up in 1Q, but again because of seasonal factors (Ramadan), there is a possibility for Q2 to be lower than the usual run rate. Thus the company would need to grow much faster in the remaining periods. In 4Q alone the revenue growth was only 3.3% q-o-q.
10. Other key downside risks to our estimates are higher than expected competition by newer players who may try to cut into market share, by lowering commission rates, saturation in restaurants added, and inability to pass the cost of drivers.



Company Overview

Figure 1 Key Operating Metrics

Key operating metrics of Jahez	
GMV - (SAR bn)	3.3
Market share	
2019	13%
2021	30%
Orders Delivered	
Delivered in 2021 (mn)	51.6
KPI's 2021	
Active users	+1.9 mn
Delivery partners	+50k
Average commission rate	11.6%
Merchant Branches	16,000+
Average monthly orders per user	4.7

Source: Company data, Al Rajhi Capital

Jahez International Company (Jahez) is a leading food delivery platform, which specializes in delivering restaurant orders online. The company launched its operation in 2016 in the city of Riyadh and in 2017, it expanded to cities outside Riyadh and was incorporated into a limited liability company. In 2018, Alamat International transferred its assets to Jahez and in 2020, it acquired a 60% stake in Co Kitchen and opened its first location. In the same year, it aggressively expanded in twenty-eight cities and soft launched PIK in 2021. The company is one of the leading players in the industry with a market share of c.30% in 2021, which was an increase from 13% in 2019. Jahez has delivered 51.6 mn orders delivered for 2021 alone and had a GMV of SAR3.3 bn. In 2021, the company had active users of more than 1.9 mn, more than 50,000 delivery partners, more than 16,000 merchant branches, and earned an average commission rate of 11.6%.

Figure 2 Financial Drivers

Financial summary and KPIs

	2020A	2021A	2022E	2023E		2020A	2021A	2022E	2023E
Income statement (SARmn)					Per share data (SAR) - Post listing				
Revenue	459	1,221	1,746	2,465	EPS	3.75	11.16	17.80	26.04
Gross profit	109	272	389	561	BVPS	4.33	17.95	108.05	134.18
EBITDA	44	125	186	275	DPS	NA	0.00	0.00	0.00
Operating profit	40	119	180	268	FCF	15.59	18.88	22.84	35.87
Net income	39	117	187	273					
Revenues breakdown (%)					Operational data				
Delivery fees	62%	61%	60%	60%	No. of active users (mn)	1.0	1.9	2.8	3.6
Commission	33%	32%	33%	33%	Order received (mn)	19.5	51.6	72.5	101.7
Online payment fees	2%	5%	5%	5%	Average order size (SAR)	72.6	64.8	65.4	66.1
Advertising and marketing revenue	2%	4%	4%	4%	GMV (SARmn)	1,418	3,343	4,742	6,724
Others	1%	-2%	-2%	-2%	Avg. delivery fees per order (SAR)	14.6	14.4	14.5	14.5
					Avg. commission per order (SAR)	7.7	7.5	7.9	7.9
					Avg. commission rate (%)	10.6%	11.6%	12.0%	12.0%
					Avg. delivery cost per order	15.0	15.5	15.8	15.8
Balance sheet (SARmn)					KPIs				
Cash	206	392	635	1,014	Gross margin (%)	23.6%	22.3%	22.3%	22.8%
Other current assets	9	44	62	88	EBITDA margin (%)	9.5%	10.3%	10.7%	11.2%
Fixed tangible assets	6	8	769	775	Operating margin (%)	8.8%	9.8%	10.3%	10.9%
Intangible assets	4	4	3	2	Net margin (%)	8.6%	9.6%	10.7%	11.1%
Other non-current assets	7	47	59	72	ROA (%)	16.9%	23.7%	12.2%	14.0%
Total assets	232	494	1,528	1,951	ROE (%)	86.5%	62.2%	16.5%	19.4%
Collection due to customers	106	165	236	333	D/E (x)	0.1x	0.1x	0.0x	0.0x
Total debt	7	26	30	32	Net debt/EBITDA (x)	-4.6x	-2.9x	-3.3x	-3.6x
Other liabilities	74	115	129	179					
Shareholders' equity	45	188	1,134	1,408					
Liabilities & Equity	232	494	1,528	1,951	Valuation metrics				
Cash flow (SARmn)					P/E (x)	301.9x	101.4x	63.5x	43.4x
Operating activities	175	206	246	387	P/BV (x)	261.0x	63.0x	10.5x	8.4x
Investing activities	(5)	(17)	(6)	(10)	EV/EBITDA (x)	280.7x	97.7x	65.8x	44.5x
Financing activities	(3)	(3)	3	3	EV/sales (x)	26.7x	10.0x	7.0x	5.0x
Change in cash	167	186	243	379	EV/GMV (x)	8.6x	3.7x	2.6x	1.8x

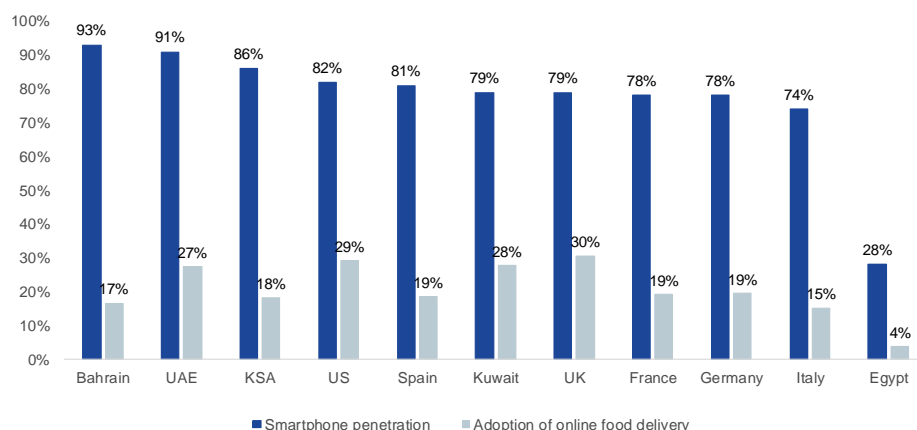
Source: Company data, Al Rajhi Capital



Investment Highlights

Growing addressable market

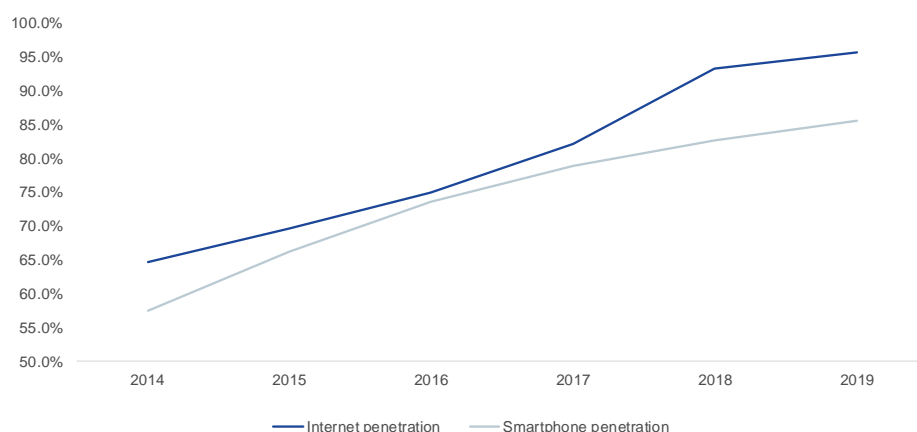
Figure 3 Internet and smartphone penetration among peers in 2019



Source: Statista Digital Market Outlook, Newzoo, Emarketer, Arthur D. Little analysis, Company data, Al Rajhi Capital

Given the proliferation of low-cost internet and smartphone, individuals using the internet and smartphones have been growing exponentially. Individuals using the internet in the Kingdom have grown from 64.7% in 2014 to 95.7% in 2019, while the penetration of smartphone usage has grown from 57.5% in 2014 to 85.6% in 2019. Saudi Arabia has one of the highest smartphone penetrations globally, however, its penetration on the adoption of online food delivery, at 18% (in 2019), is lower than even some of its regional peers. Given this, we feel that the market for online food delivery is underpenetrated, which offers upside for growth.

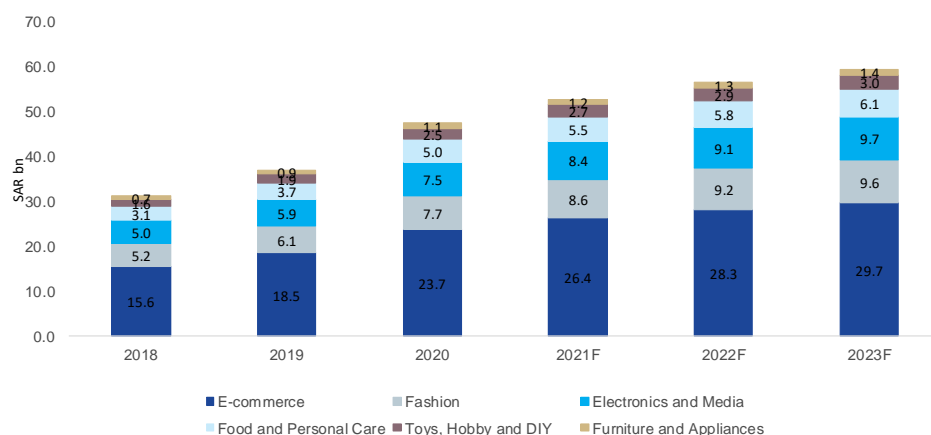
Figure 4 Internet and smartphone penetration in KSA



Source: World Bank, Arthur D. Little analysis, Company data, Al Rajhi Capital



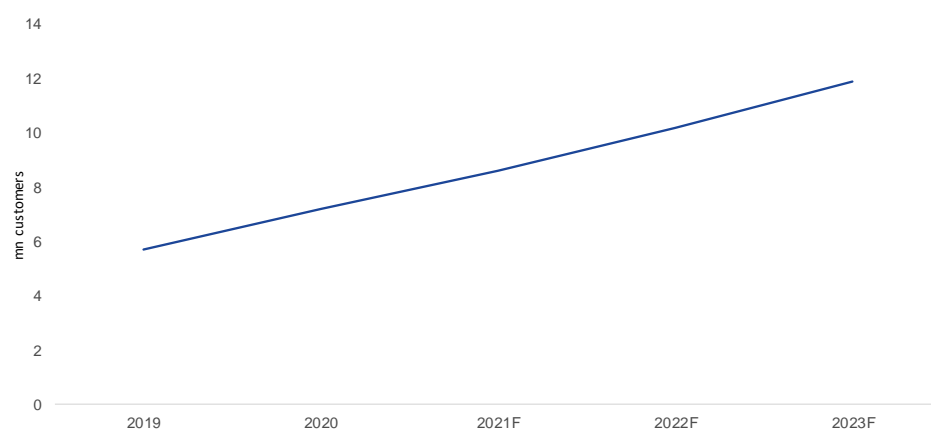
Figure 5 E-commerce GMV market size



Source: Statista, Company data, Al Rajhi Capital

The food services market in the Kingdom on average fell by 17% (CAGR) between 2020 and 2018 and was impacted by Covid related lockdown, which had resulted in a reduction in the number of people going out to eat. However, for the same period, the market size of online food providers, in terms of the gross merchandise value (GMV) increased at an CAGR of 56%, with the market share of online food providers improving from 3.5% in 2018 to 12.1% in 2020. The adoption of online food delivery in the Kingdom has gained impetus during Covid times and we expect this trend to continue in the medium term. It has been estimated that the food services market in the Kingdom will recover and is expected to grow at an CAGR of 26% between 2020 and 2023, while the growth of the online food delivery market is expected to continue to outperform, growing at 34% (CAGR) for the same period. The growth rates of GMV in KSA is one of the highest in the region and is expected to outperform its regional peers in the medium term.

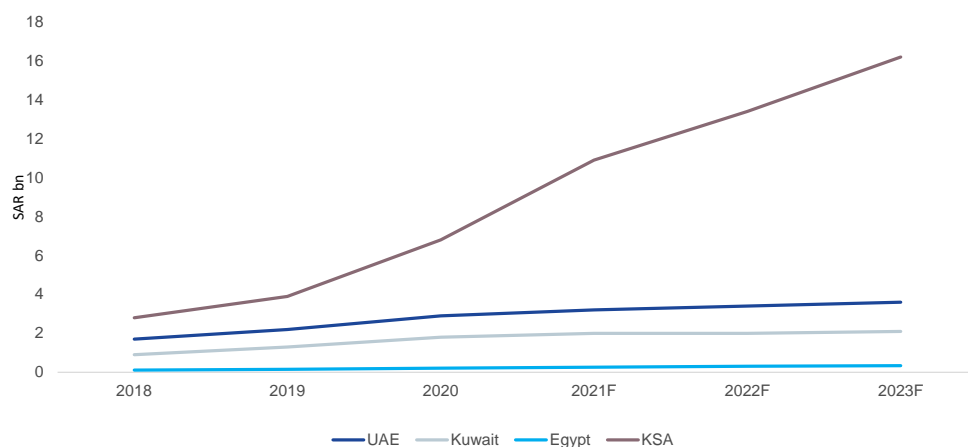
Figure 6 Number of active customers in KSA



Source: RedSeer, Company data, Al Rajhi Capital

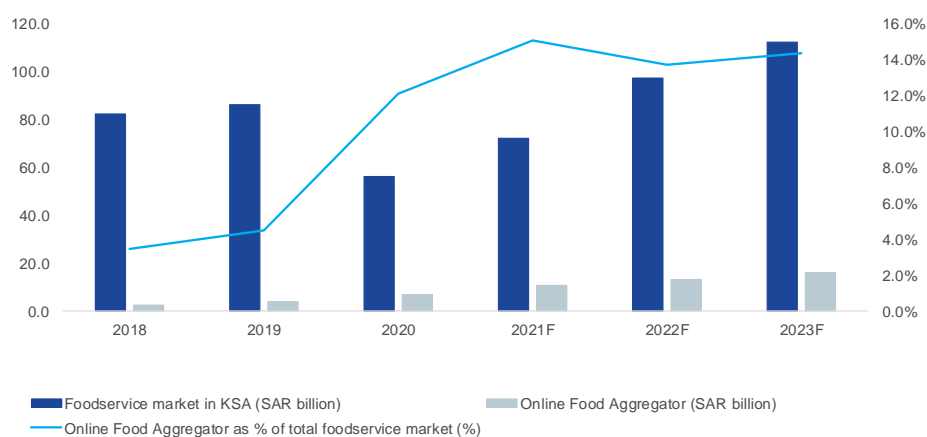


Figure 7 Online Food Aggregator market size in GMV



Source: Statista, Arthur D. Little analysis, Company data, Al Rajhi Capital

Figure 8 Market Share of Online Aggregators



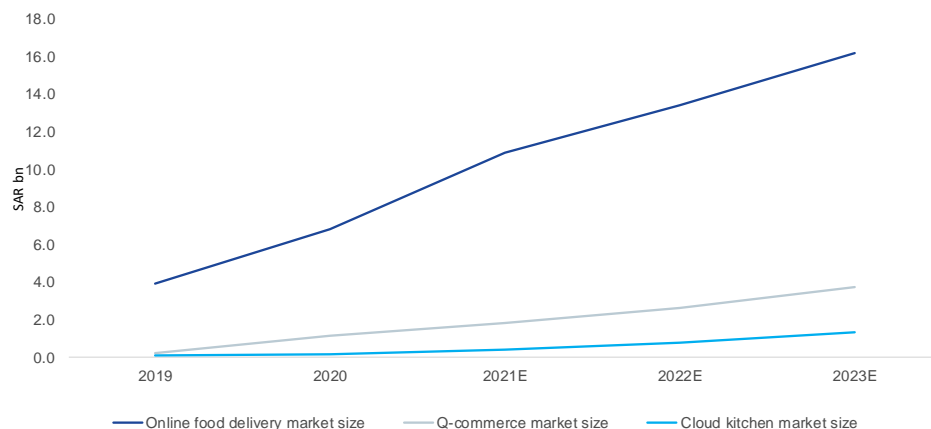
Source: RedSeer, Company data, Al Rajhi Capital

Online food delivery market size in Saudi Arabia is estimated at SAR6.8 bn in 2020 and grew by 74% y-o-y. This momentum is expected to continue, with the market growing at a CAGR of 34% between 2020 and 2023. The Q-commerce market size in Saudi Arabia is estimated at SAR1.1 bn in 2020 and grew by more than 5x y-o-y, with the segment expected to grow at an CAGR of c.50% between 2020 and 2023. The Cloud kitchen market size in Saudi Arabia is estimated at SAR0.2 bn in 2020 and grew by more than 2x y-o-y, with the segment expected to grow at an CAGR of 97% between 2020 and 2023.



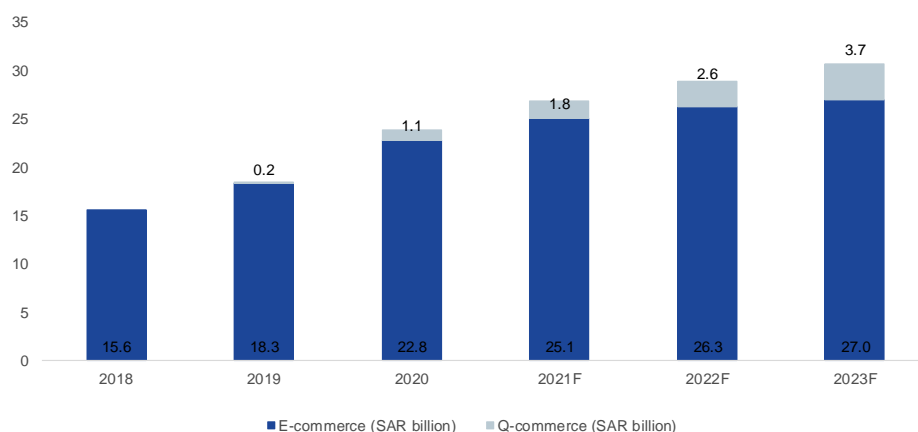
High market growth expected in Q-commerce and cloud kitchen

Figure 9 Q-commerce and Cloud Kitchen market size



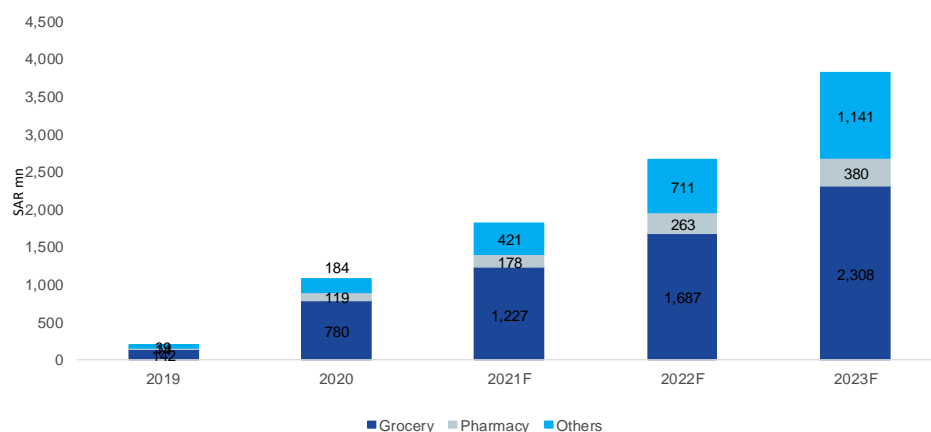
Source: Market Consultant, Company data, Al Rajhi Capital

Figure 10 E-commerce and Q-commerce market sizes in GMV in the Kingdom



Source: Statista, Redseer, Arthur D. Little analysis, Company data, Al Rajhi Capital

Figure 11 Q-commerce market

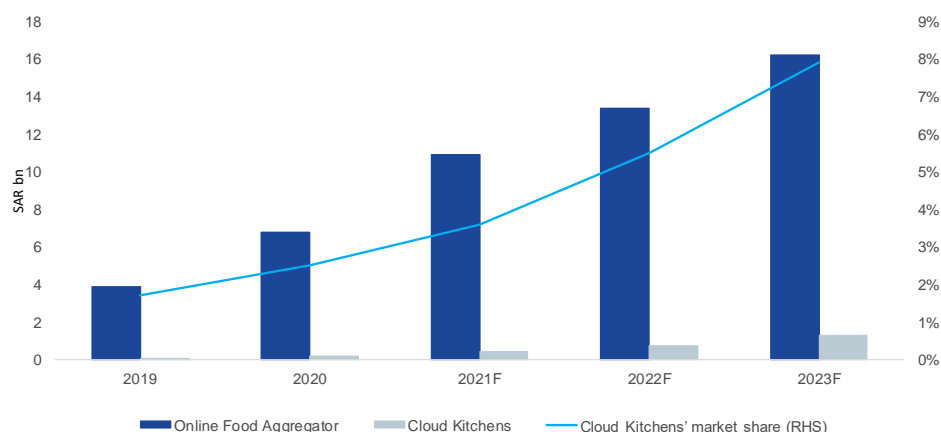


Source: RedSeer, Arthur D. Little analysis, Company data, Al Rajhi Capital



The E-commerce market size in Saudi Arabia is estimated at SAR23 bn in 2020, in terms of GMV, and grew at a CAGR of 21% between 2018 and 2020, of which Q-commerce accounted for 5%. Quick commerce or Q-commerce, is when an order is delivered within 2-3 hours directly from a store or through dark stores. Growth in Q-commerce is expected to be driven by the increased preference of consumer to comfort and quick delivery. Improvement in technology and the entry of existing online food aggregators into Q-commerce are expected to be key enablers of growth.

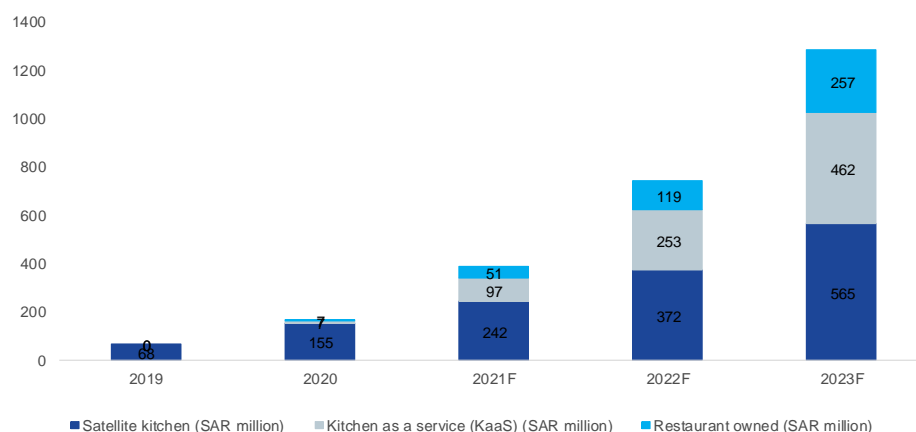
Figure 12 Cloud Kitchen GMV Market and Market Share



Source: RedSeer, Company data, Al Rajhi Capital

Similarly, cloud kitchens, which are commercial kitchens made available for food businesses that offer only delivery, GMV is estimated at SAR0.2 bn in 2020 in Saudi Arabia and is expected to grow at a CAGR of 97% between 2020 and 2023. The market share of cloud kitchen on online food aggregators is expected to increase from 2.5% in 2020 to 8% in 2023.

Figure 13 Cloud Kitchen Market

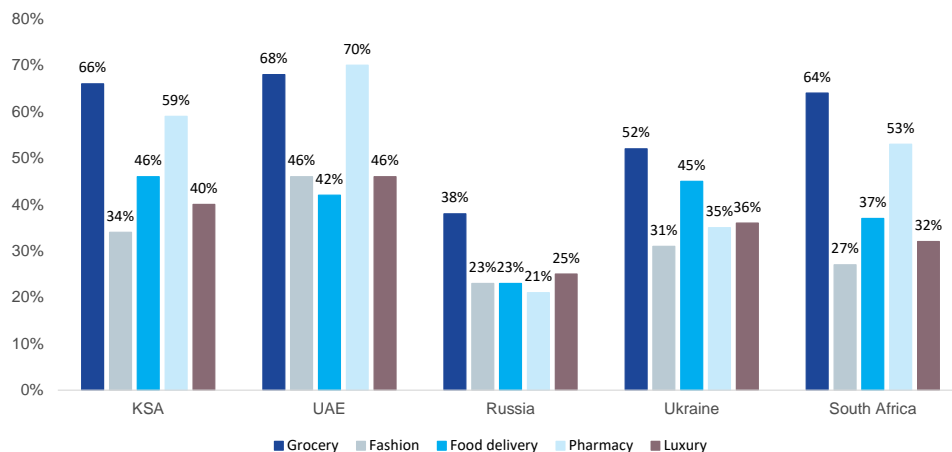


Source: RedSeer, Company data, Al Rajhi Capital



Covid hastens technology adoption

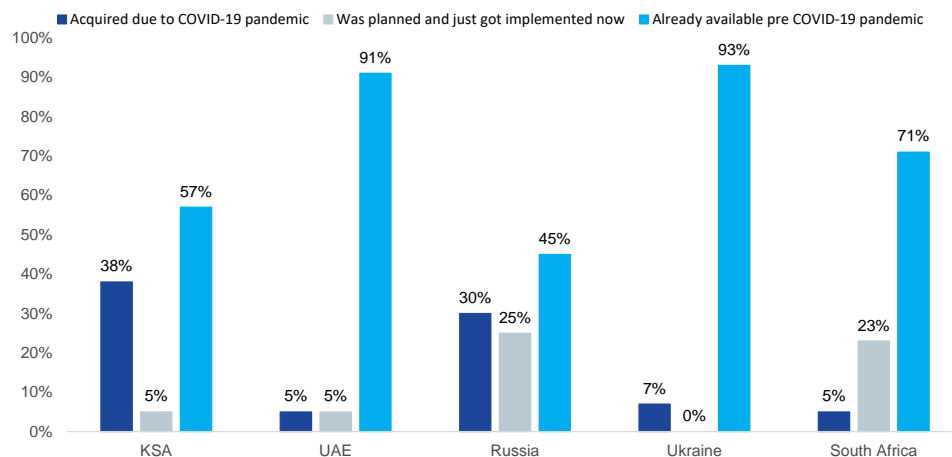
Figure 14 Consumer e-commerce adoption in selected countries during COVID-19



Source: Visa - The United Arab Emirates (UAE) eCommerce Landscape 2020, Company data, Al Rajhi Capital

While Covid had a negative impact on eating out, it has aided higher investment in companies to upgrade their technology offering and online delivery model. KSA had one of the fastest adoptions of e-commerce globally. 38% of merchant e-commerce adoption happened in the Kingdom, due to Covid, while in food delivery, the Kingdom had an adoption of 46%, during the pandemic. These were one of the highest conversion rates, compared to other countries globally.

Figure 15 Merchant e-commerce adoption in selected countries during COVID-19

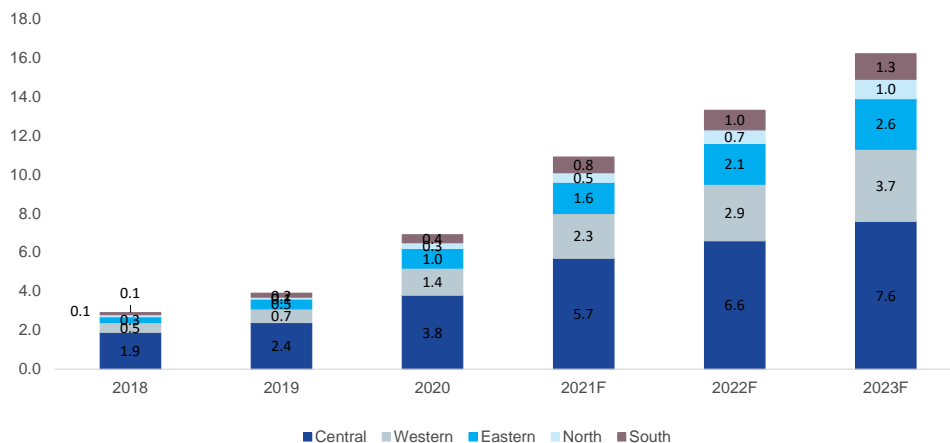


Source: Visa - The United Arab Emirates (UAE) eCommerce Landscape 2020, Company data, Al Rajhi Capital



Improving market share of Jahez across the region

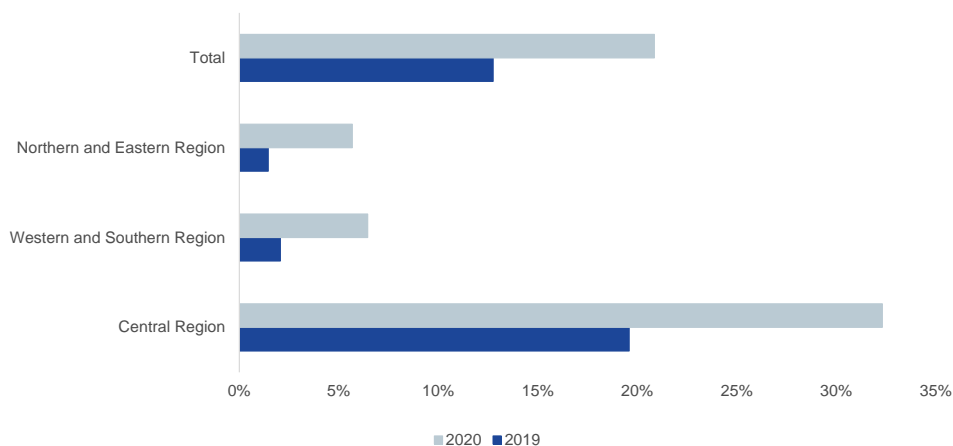
Figure 16 Regional Market (SAR bn)



Source: RedSeer, Company data, Al Rajhi Capital

Among the online food aggregators regionally, the south registered the fastest growth (CAGR) in GMV of c.100% between 2018 and 2020, while the eastern region registered an CAGR of c.83% for the same period. This was followed by north (CAGR 73%), west (CAGR 67%), and central (CAGR 41%). Going forward, between 2020 and 2023 northern and southern regions are expected to grow at the fastest rates, 49% CAGR and 48% CAGR, respectively, followed by the west (CAGR 38%), east (CAGR 38%), and central (CAGR 26%).

Figure 17 Regional Market Share



Source: Company data, Al Rajhi Capital

In the growing food delivery market, Jahez has increased its market share across all regions. The market share of Jahez in the Kingdom increased to 21% in 2020, from 13% in 2019, which has further increased to 30% in 2021. The company continues to be strong in the central region, with a market share of 32% in 2020, which was an increase from 20% in 2019. The company has also improved its market share in the western and southern regions to 6% in 2020 from 2% in 2019, while the market share in the northern and eastern regions has increased to 6% in 2020 from 1% in 2019.

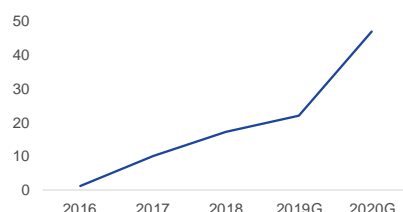
Strong improvement in reach and KPIs

Jahez has been consistently improving its presence and operating metric, over the past few years. The company's presence, in terms of cities, has increased from 1 in 2016 to 47 in 2020,



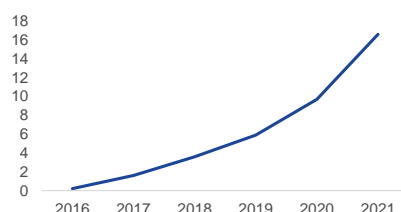
increasing at an CAGR of c.162%. Its number of restaurant branches has increased from c.200 in 2016 to c.16,500 in 2021, growing at a CAGR of c.140% during the period. The number of drivers has increased from c.200 in 2016 to c.50,800 in 2021, growing at an CAGR of +200%.

Figure 18 Number of Cities



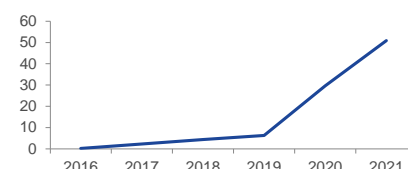
Source: Company data, Al Rajhi Capital

Figure 19 Number of Restaurant Branches (in 000)



Source: Company data, Al Rajhi Capital

Figure 20 Number of Drivers (in 000)



Source: Company data, Al Rajhi Capital

Strong business model

Jahez advantage to merchants:

- Low take rates enhance the returns for merchant
- Quick and simple on-boarding and menu integration
- Efficient marketing and logistics through Jahez
- Improved visibility and brand awareness through Jahez
- Jahez's platform provides important data insights to the merchants
- Serving more than 7,000 merchants and more than 16,000 merchant branches in 2021.

Differentiated technology that is proprietary and scalable

- Current system design allows high integration with new products
- Strong data processing that helps in improving algorithms and innovations to improve offerings.
- Efficient and automated escalation engine to monitor operations
- Effective data privacy and system security
- Reliable technology, including SQL, Java, Swift, and postgres

Expanding to new verticals

- **Co-Kitchens:** The cloud kitchen platform was soft-launched in 2020 and provides commercial kitchen space to delivery-only restaurants. The total KSA GMV for cloud kitchen is expected to increase by c.7.6x from SAR0.2 bn in 2020 to SAR1.3 bn in 2023.
- **PIK:** This quick commerce platform was soft-launched in 2021 and connects local merchants, customers, and delivery partners. The total KSA GMV for quick commerce of this segment is expected to increase by c.3.4x from SAR1.1 bn in 2020 to SAR3.7 bn in 2023.
- **Logi:** This last-mile delivery platform provides any company that requires last-mile delivery to any business and products. The total KSA GMV of e-commerce is expected to increase by 1.2x from SAR22.8 bn in 2020 to SAR27 bn in 2023.



Strong market position in an industry with very few players

Figure 21 Competitor Profile

Competitor Profile	Jahez	Competitor A	Competitor B
Market share (GMV) Year 2019 Snapshot	13%	65% - 75%	5% - 8%
Month February 2021 Snapshot	28%	44% - 49%	10% - 15%
Average order size 2020 (SAR)	73	55 - 65	45 - 55
Average take rates with merchants 2020 (%)	12%	21%	18%

Source: RedSeer, Company data, Al Rajhi Capital

The Saudi Arabia food delivery market is categorized by three players accounting for c.80-90% of the GMV market share as of Feb-21. In this market, Jahez has a market share of 30% as of 2021. It was the largest player in terms of average order size at SAR73 in 2020.

Operating metrics vis-à-vis peers show upside

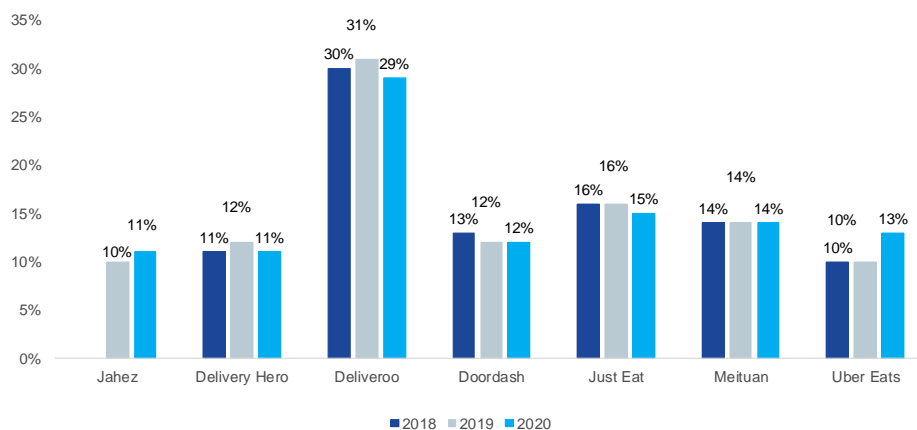
Figure 22 Peer revenue growth

Year	2017	2020	growth
Delivery Hero (EUR bn)	0.5	2.8	5.1x
Deliveroo (GBP bn)	0.3	1.2	4.3x
Just Eat (EUR bn)	0.2	2.0	12.0x
Doordash (USD bn)	0.3	2.9	10.0x
Meituan (CNY bn)	5.3	66.3	12.5x

Source: Company data, Al Rajhi Capital

On average, the revenue of companies in the food delivery business globally has grown at c.11.5x, three/two-year average growth in 2020, with the companies growing between 4.3x to 12.5x in the past two to three years. This provides visibility on the food delivery market globally and the potential of growth for companies in the industry.

Figure 23 Commission rate comparable

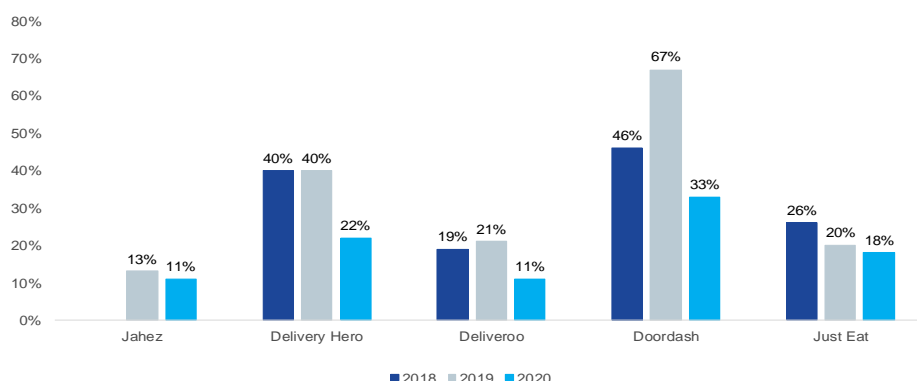


Source: Company data, Al Rajhi Capital

The commission rate of Jahez at 11% for 2020, compared to an average commission rate of c.15%, and was lower than most of its peers, due to the relatively lower take rates with the merchants. We expect this to improve over the period and will aid the overall profitability of Jahez, improving the operating leverage.



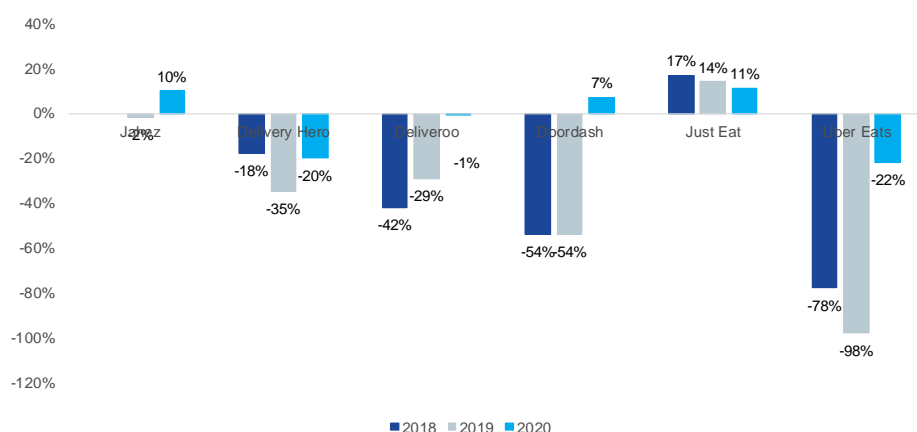
Figure 24 Market spending to revenue comparable



Source: Company data, Al Rajhi Capital

The EBITDA margins of Jahez at c.10% for 2020 was one of the highest among its peers. We feel that the company has been able to turn profitable at a faster rate and we see further room for improvement in profitability, as we expect both order per person and the commission rates to improve in the medium term.

Figure 25 EBITDA margins comparable

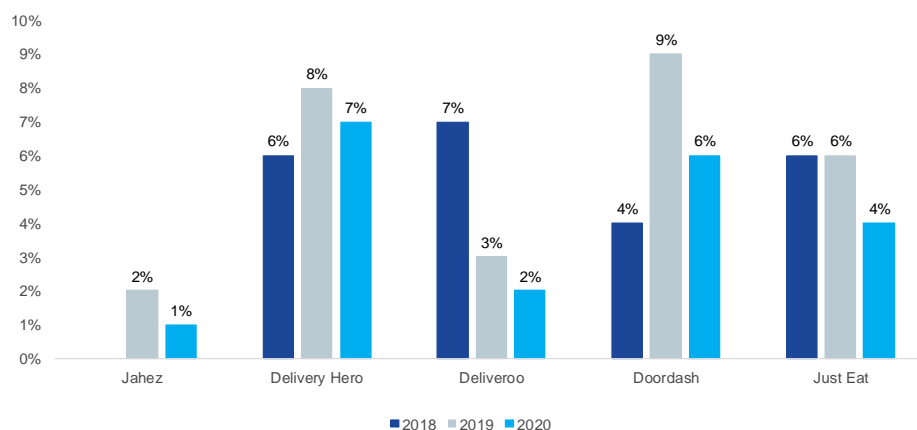


Source: Company data, Al Rajhi Capital

Capex requirements of companies in the segment have been relatively low at an average of c.4% of revenue in 2020. Jahez at 1% of revenue was one of the lowest among its peers and shows the ability of the company to scale up its operations in a short period, at a relatively lower cost. In Q1 2021, more than 70% of Jahez's delivery revenue was from delivery partners employed by logistics companies and the balance from freelance delivery partners. As of Q1 2021, a very small portion of the company drivers were employed by the company. The company transferred all of the delivery partners, along with the small portion of employed drivers to Logi. As a result of this, the company can scale up its operations at a relatively low investment.

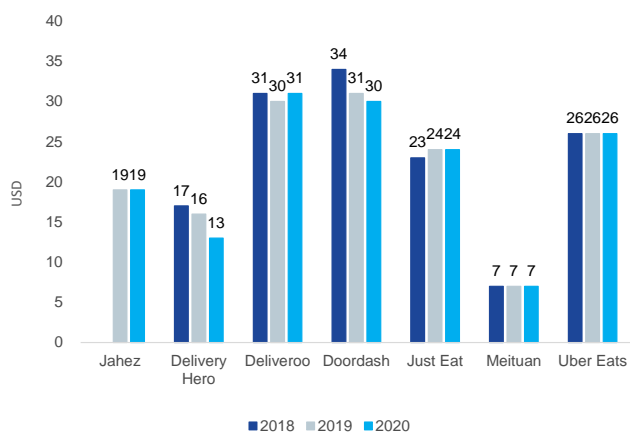


Figure 26 Capex to revenue



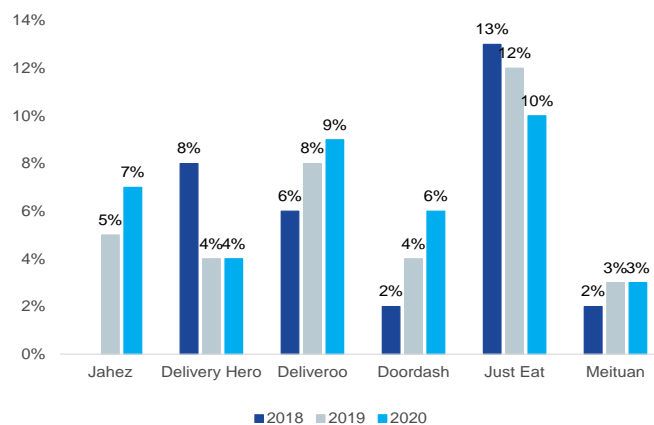
Source: Company data, Al Rajhi Capital

Figure 27 Average order value*



Source: Company data, Al Rajhi Capital
(*Excluding VAT and taxes for Jahez)

Figure 28 Gross profit as a % of GMV*

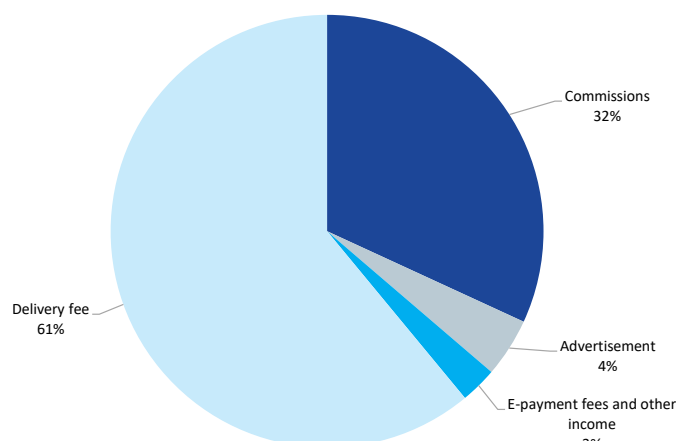


Source: Company data, Al Rajhi Capital
(*GMV for Jahez do not include VAT and Delivery fees)



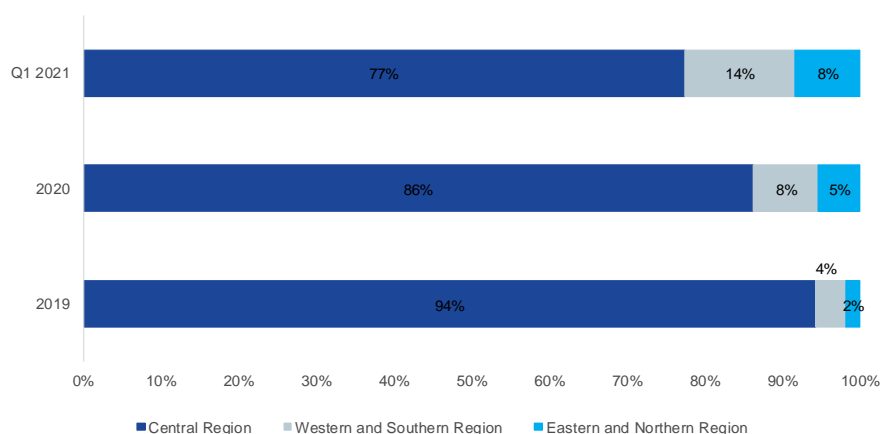
Strong financial performance

Figure 29 Revenue breakup for 2021



Source: Company data, Al Rajhi Capital

Figure 30 Commission revenue breakup by region

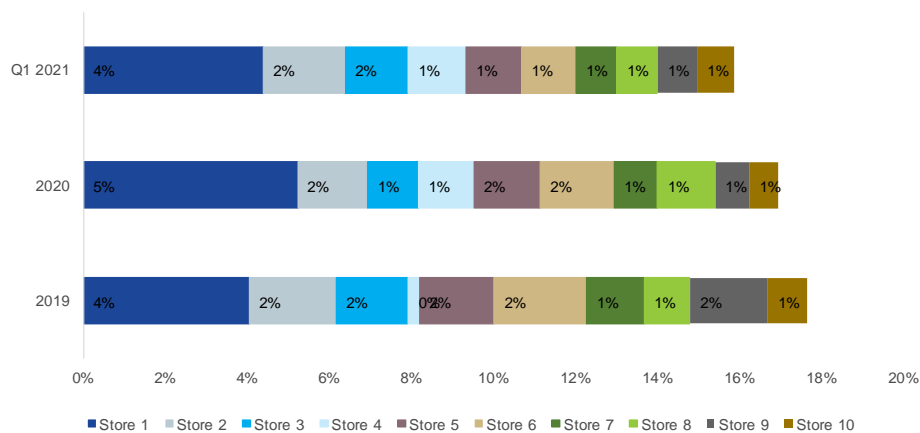


Source: Company data, Al Rajhi Capital

Jahez registered a revenue of SAR1,221 mn for 2021, which was an increase of 165.8% y-o-y. The revenue stream of Jahez is dominated by delivery fees, which accounted for 61% of revenue in 2021, a fall from 66% in 2019. Commissions accounted for 32% of revenue, an increase from the levels of 30% in 2019. The balance revenue came from advertisement (4%) and e-payment fees, and others (3%). Revenue growth was driven by delivery fee, which has grown by 161% y-o-y, and commissions, which have increased by 159% y-o-y in 2021. Revenue growth was driven mainly by improvement in penetration and an increased preference of consumers to opt for delivery. The revenue of the company appears to be well-diversified with the proportion of its revenue from its top ten stores accounting for c.16% of revenue in Q1 2021, a fall from c.18% in 2019.

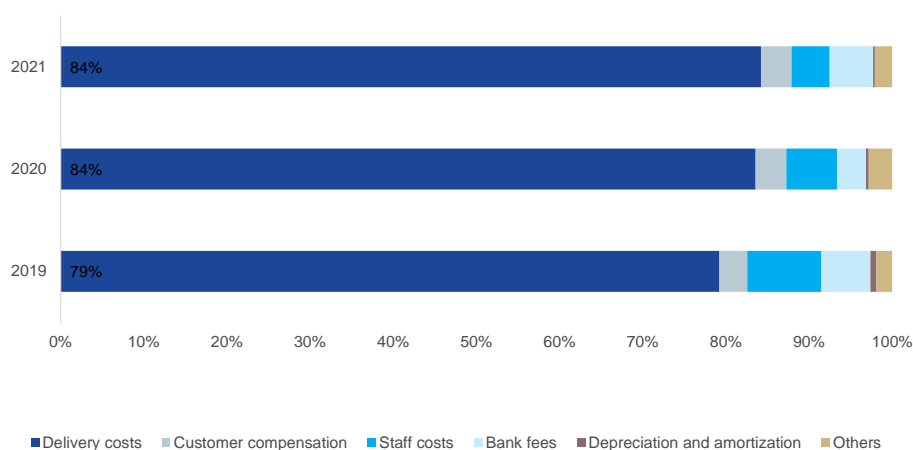


Figure 31 Proportion of revenue from top ten stores



Source: Company data, Al Rajhi Capital

Figure 32 Proportion of cost of sales

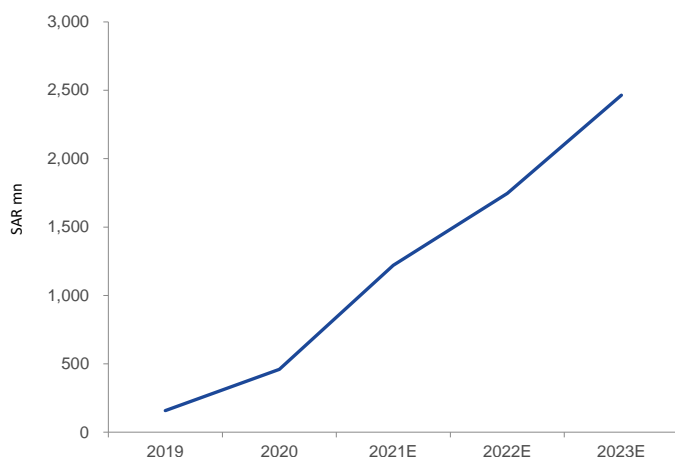


Source: Company data, Al Rajhi Capital

Going forward, we expect this trend to continue, given the relatively low base of the market and the ability of the company to expand operations and improve its market share. Given this, we expect the number of active users to grow by c.40% for the next two years. Added to this, we also see room for commission income to increase, given its currently low take rates of 12%, compared to the average take rates of 18-21%. Overall, we expect the revenue of the company to grow at an average rate of c.40-45% for the next two years.

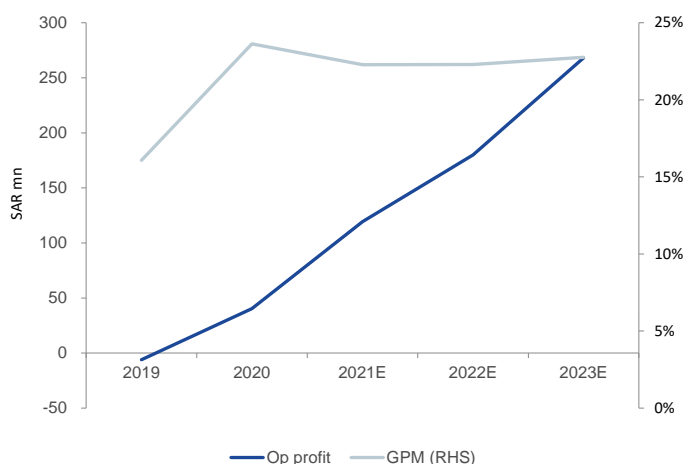


Figure 33 Revenue Trend



Source: Company data, Al Rajhi Capital

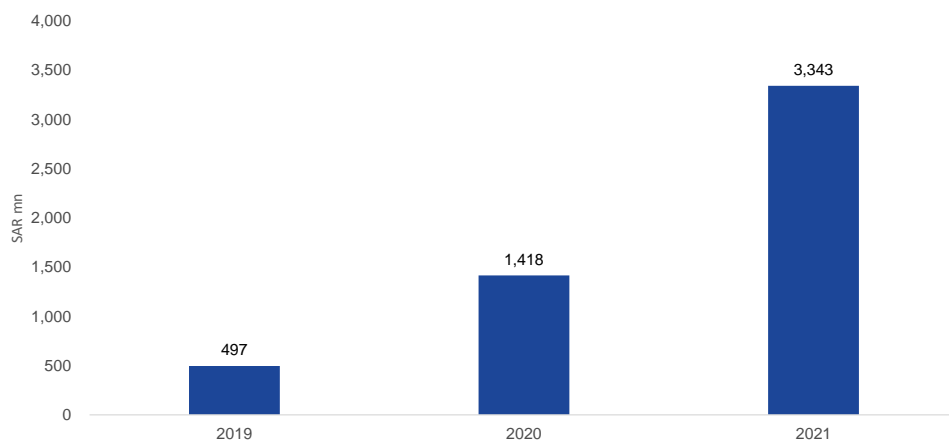
Figure 34 Trend in Op profit and margins



Source: Company data, Al Rajhi Capital

The operating profit of Jahez increased to SAR119 mn in 2021, compared to SAR40 mn in 2020, a growth of 195%. Higher revenue and an improvement in operating margins from 8.8% in 2020, to 9.8% in 2021, were the main drivers for the company's growth in profitability. 84% of the company's cost of sales was accounted for by the cost of delivery in 2021, while the balance is largely fixed cost. We expect margins to be favorably aided by higher volume and delivery, creating an improvement in operating leverage. Added to this, an improvement in commission income will also aid in an improvement in the margins.

Figure 35 GMV movement



Source: Company data, Al Rajhi Capital

Going forward we expect the trend of improvement in margins to continue, as we see expect improvement in volume to aid in improved operating leverage, while the higher commission is also likely to have a favorable impact on profitability. Overall, we expect operating profits to increase at an average rate of c.50% for the next two years.

In line with the strong profitability, cash flow for the company has also been strong, with operating cash flow, net of Capex, at SAR201 mn in 2021, which was an increase of 19% y-o-y. Strong improvement in profitability and a relatively low Capex have aided strong cash flows. This along with, a relatively low debt obligation, has aided in a strong return on equity of 62% in 2021. Going forward, we expect a return on equity to continue to remain high, though drop to c.20% by 2023, due to the IPO.



Valuation

We expect Jahez to witness an strong growth in GMV (40-45% CAGR over 2021-23 vs. 40-50% guided), on the back of a higher number of active users (35-40% CAGR over 2021-23) and increased ordering frequencies. This would be further supported by higher income levels, and changes in customers' behaviour and preference. Post COVID-19, more people have started ordering online food delivery at home, driving better unit economics for the company. Consequently, we forecast Jahez's top-line to grow at 40-45% CAGR over FY2021-23E, driven by its core food delivery operations. Higher top-line, at the back of increased active number of users, coupled with improved average order size and take rates (9.5% in 2019 to 12% in 2023), will aid EBITDA to grow at a CAGR of 45-50% over 2021-23. With significant growth in operations, along with favourable unit economics, we expect net profit to continually improve over the medium term.

DCF-based valuation

Based on 4% terminal growth and a WACC of 10.2%, we get a fair value of SAR1,100 per share.

Figure 36 Sensitivity analysis of DCF-based valuation

		Terminal growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
WACC	9.2%	1,126	1,201	1,291	1,401	1,536
	9.7%	1,046	1,109	1,184	1,272	1,380
	10.2%	978	1,031	1,094	1,167	1,254
	10.7%	918	964	1,017	1,078	1,150
	11.2%	866	906	951	1,003	1,063

Source: Company data, Al Rajhi Capital



Detailed Financials

Figure 37 Income Statement

(SAR mn)	2019	2020	2021	2022E	2023E	2024E	2025E
Sales	159	459	1,221	1,746	2,465	3,268	3,822
Y-o-Y		189.7%	165.8%	43.0%	41.2%	32.6%	17.0%
Cost of Sales	(133)	(351)	(949)	(1,357)	(1,904)	(2,500)	(2,896)
% of revenues	83.9%	76.4%	77.7%	77.7%	77.2%	76.5%	75.8%
Gross Income	25	109	272	389	561	768	926
Y-o-Y		325.7%	150.6%	43.1%	44.1%	37.0%	20.6%
GPM	16.1%	23.6%	22.3%	22.3%	22.8%	23.5%	24.2%
General and administrative expenses	(6)	(11)	(26)	(35)	(48)	(63)	(75)
% of revenues	4.0%	2.5%	2.1%	2.0%	2.0%	1.9%	2.0%
Marketing & advertising expenses	(21)	(49)	(113)	(162)	(228)	(297)	(328)
% of revenues	13.0%	10.8%	9.3%	9.3%	9.3%	9.1%	8.6%
Research and Development Expenses	(3)	(5)	(11)	(12)	(16)	(20)	(21)
% of revenues	1.6%	1.1%	0.9%	0.7%	0.7%	0.6%	0.6%
Impairment loss on trade receivables	(0)	(0)	(3)	0	0	0	0
Impairment loss on due from related parties	(2)	(2)	0	0	0	0	0
Other income	0	0	0	0	0	0	0
Operating Expenses	(32)	(68)	(153)	(209)	(293)	(380)	(424)
% of revenues	19.9%	14.8%	12.5%	12.0%	11.9%	11.6%	11.1%
Operating Income	(6)	40	119	180	268	388	502
Y-o-Y		NM	194.9%	50.8%	49.0%	44.8%	29.3%
OPM	-3.8%	8.8%	9.8%	10.3%	10.9%	11.9%	13.1%
Other income	0	0	0	0	0	0	0
Unrealized gains on investment at fair value through profit or loss	0	0	8	14	15	17	20
Financial costs	(0)	(0)	(1)	(1)	(1)	(1)	(1)
IPO costs	0	0	(6)	0	0	0	0
Profit before tax	(6)	41	121	193	283	405	521
Zakat & Tax	(0)	(1)	(4)	(6)	(8)	(12)	(16)
% of PBT	-2.0%	2.8%	3.7%	3.0%	3.0%	3.0%	3.0%
Net Profit Before Unusual Items	(6)	39	117	187	274	392	505
Non-controlling interest	0	(0)	0	(1)	(1)	(1)	(2)
% of PBT			-0.3%	0.3%	0.3%	0.3%	0.3%
Net Income	(6)	39	117	187	273	391	504
Y-o-Y		NM	197.9%	59.5%	46.3%	43.2%	28.8%
NPM	-4.1%	8.6%	9.6%	10.7%	11.1%	12.0%	13.2%
Adj. EPS (SAR/sh)	(0.61)	3.75	11.16	17.80	26.04	37.29	48.03

Source: Company data, Al Rajhi Capital



Figure 38 Balance Sheet

(SAR mn)	2019	2020	2021	2022E	2023E	2024E	2025E
Assets							
Inventory	0	0	0	0	0	1	1
Trade receivables	7	4	7	10	13	18	21
Prepayments and advances	1	4	37	52	74	98	115
Due from related parties	0	0	0	0	0	0	0
Cash and cash equivalents	39	206	392	635	1,014	1,520	2,094
Total current Assets	47	215	435	697	1,102	1,637	2,230
Property and Equipment	3	6	8	11	17	25	35
Other investments	0	0	0	758	758	758	758
Intangible Assets	4	4	4	3	2	2	1
Investments at fair value through profit or loss	0	0	20	34	49	66	86
Right-of-use assets	6	7	27	25	23	22	20
Total non-current assets	13	17	59	831	849	872	900
Total assets	60	232	494	1,528	1,951	2,509	3,130
Liabilities							
Collections due to customers	30	106	165	236	333	441	516
Current portion of lease liabilities on right-of-use assets	1	1	5	6	6	7	7
Short-term loans	3	0	0	0	0	0	0
Trade payables	4	7	29	30	42	55	63
Accrued expenses and other current liabilities	13	35	75	87	123	163	191
Due to related parties	2	28	1	1	1	1	1
Zakat provision	0	1	4	4	4	4	4
Total current liabilities	54	178	279	364	509	671	783
Non-current portion of lease liabilities on right-of-use assets	5	5	21	24	26	28	29
Employee benefit obligation	1	3	6	7	8	10	12
Total non-current liabilities	6	8	27	31	34	38	41
Shareholders' equity							
Capital	1	5	96	105	105	105	105
Share premium	0	0	0	749	749	749	749
Statutory reserve	0	2	13	13	13	13	13
Retained earnings	(1)	38	79	266	539	930	1,434
Equity attributable to shareholders of the Parent Company	0	44	187	1,132	1,405	1,797	2,300
Non-controlling interest	0	1	1	2	2	4	5
Total equity	0	45	188	1,134	1,408	1,800	2,306
Total liabilities	60	232	494	1,528	1,951	2,509	3,130

Source: Company data, Al Rajhi Capital

Figure 39 Cash Flow Statement

(SAR mn)	2019	2020	2021E	2022E	2023E	2024E	2025E
Cash from operations	19	175	206	246	387	519	591
Capex	-3	-5	-17	-6	-10	-15	-20
Free cash flow	16	169	189	240	377	504	571
Cash flow from financing	2	-3	-3	3	3	2	2
Net cash from change	18	167	186	243	379	506	573

Source: Company data, Al Rajhi Capital



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Contact us

Mazen AlSudairi, CFA

Head of Research

Tel : +966 11 836 5468

Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

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