



Al-Samaani Co.: Storage solutions, FY20 to turn profitable after double-digit growth in sales and margins expansion. The company is seeking to expand into logistics services. However, we believe the recent jumps in the stock price is unjustified under current fundamentals. We initiate our coverage on Al-Samaani with an **'Underweight'** recommendation.

Al-Samaani: The core business of the company is to provide integrated solutions for multiple types of storage systems. Where the company manufactures and supplies multiple types of shelves and storage platforms. Furthermore, the company entered into agreements with local companies to provide logistics services and storage systems, in line with the company's expansion plans.

COVID-19 stalling growth: Saudi Arabia's economy was adversely impacted for major part of H1-20 due to the restrictions imposed to control the spread of COVID-19, along with the adverse impact on oil price and demand. With the lifting of restrictions toward the end of June, the economic activity has been steadily improving towards pre-COVID levels.

Economic activity showing signs of recovery: Key domestic consumption indicators (consumer and credit card loans and POS transactions) have shown a positive rebound in the last few months, reflective of the positive impact of the easing of restrictions.

VAT increase to curtail demand: There could be some near-term pressure on the retail sector with increase in the VAT from 5% to 15% and withdrawal of cost-of-living allowance. However, retail sector's long-term prospects remain positive. Most retail companies have expansion plans in place to capitalize on the growth prospect, which provide al-Samaani with a growth opportunity.

Strategically placed: We believe the company's strong presence in Central regions will play a vital role in its growth. Therefore, we believe the company will be among the key beneficiaries of projects in Riyadh and any other regions due to the strategic location and easy access to other regions.

Turning a profit despite COVID-19 pressure: Al-Samaani posted sales of SAR 21.06mn in H1-20; a 12.0%Y/Y increase. The company is expected to post sales of SAR 52.31mn and SAR 59.60mn in FY20 and FY21, respectively.

AJC View & Valuation: We value Al-Samaani Co. on 60% weight for DCF (3.0% terminal growth, 8.7% average WACC), and 20% weight each for P/E (16x FY21E EPS) and EV/EBITDA (12.5x FY21E EBITDA) based on relative valuation. Although we expect the company to switch to profitability in FY20, we believe the current rally in the stock is not supported by its fundamentals. Delays in the company's expansion plans and any major change in the macro level are considered as the downside risk to our valuation. We initiate Al-Samaani Co. with an **"Underweight"** recommendation.

Underweight

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenue	39.5	42.0	52.6	59.3
Growth %	-14.4%	6.3%	24.5%	13.9%
Gross Profit	10.8	9.8	14.9	17.2
Net Profit	0.46	(1.90)	2.14	2.79
EPS*	0.18	(0.76)	0.86	1.11

Source: Company reports, Aljazira Capital *After capital raise

Key Ratios

	FY18	FY19	FY20E	FY21E
Gross Margin	27.3%	23.3%	28.6%	28.9%
Net Margin	1.2%	-4.5%	4.1%	4.7%
P/E	NM	NM	NM	NM
P/B	2.8	10.3	9.5	9.1
EV/EBITDA	35.1	(1242.5)	85.0	73.8
ROA	1.1%	NM	5.0%	6.2%
ROE	1.2%	NM	6.3%	7.8%

Source: Company reports, Aljazira Capital

Shareholders Pattern

	Holdings
Mohammad Abdullah Al-Samaani	17.0%
Bandar Mohamed Al-Samaani	11.5%
Abdullah Mohamed Al-Samaani	6.1%

Source: Tadawul, Aljazira Capital

Key Market Data

Market Cap (mn)	325.0
YTD%	-3.6%
52 week (High)/(Low)	146.0/20.5
Share Outstanding (mn)	2.5

Source: Tadawul, Aljazira Capital

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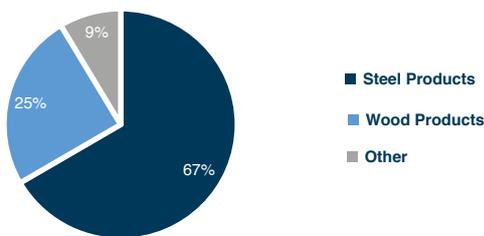
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Introduction: Founded in 1994, Al-Samaani Co. is based in Buraydah, Saudi Arabia. The core business of the company is to provide integrated solutions for multiple types of storage systems. Where the company manufactures and supplies all kinds of shelves and storage platforms. The company has expanded to diversify its products types for storage with handling high production capabilities and flexible properties. Furthermore, the company entered new agreements with local companies to provide logistics services and storage systems, in line with the company's expansion plans and diversification of its activities and services provided to others. Al-Samaani Co. primarily caters to All Saudi regions.

The main products and services for the storage:

1. Racking systems, Including:
 - Pallet Racking
 - Very Narrow Aisle (VNA)
 - Double Deep Pallet Racking
 - Flow Racking
2. Shelving systems
3. Pallets
4. Material handling equipment (Forklifts, Containers, etc...)
5. Others
 - Warehouse Accessories
 - Warehouse Fire Protection
 - Cold Storage Solutions

Sales Breakdown (FY19)



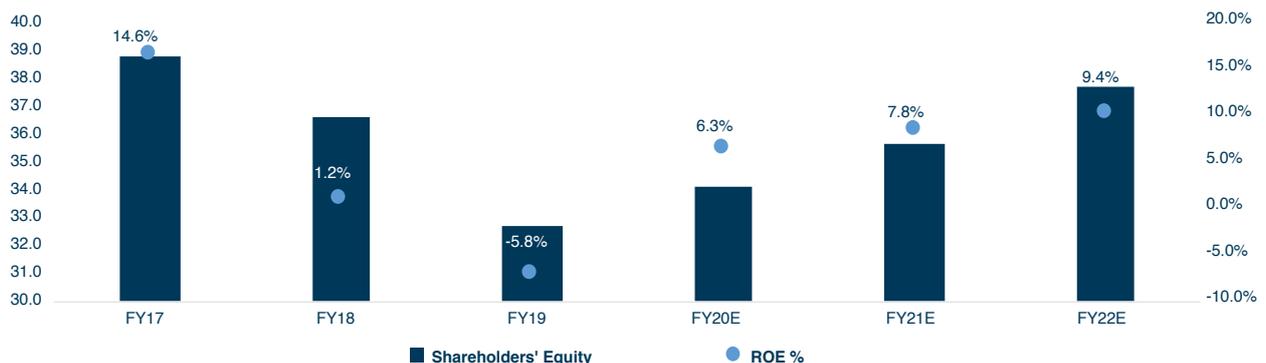
Source: Tadawul, Aljazira Capital

Total Assests



Source: Tadawul, Aljazira Capital

ROE to Shareholder Equity



Source: Tadawul, Aljazira Capital

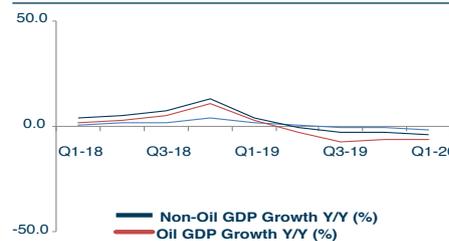
MACRO OUTLOOK AND SECTOR VIEW

COVID-19 adversely impacted GDP in Q1-20; Rebound likely in FY21: KSA's GDP witnessed a turnaround in FY18 (Up 2.43%). However, the turnaround was short lived as the GDP rose merely by 0.33% in FY19. Overall GDP declined by 1.01% in Q1-20, mainly led by a 4.62% decline in oil GDP. The IMF expects GDP to decline by 6.8% in FY20, driven by the pandemic and the decline in oil prices, but expects it to recover by 3.1% in FY21.

Saudi unemployment rate declined until Q1-20; Near-term pressure exists due to the impact of the pandemic: The unemployment rate has decreased from 12.9% in Q1-18 to 11.8% in Q1-20. However, the number of job seekers increased by 7.5% Y/Y in Q1-20. COVID-19 could adversely impact the unemployment rate in the near-term. In the long-term, the unemployment rate could improve further as more Saudis gain employment, supported by increased spending by the government as it strives to achieve an unemployment rate target of 9.0% by FY22.

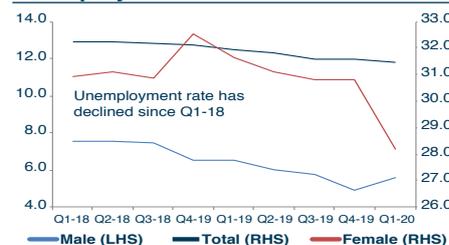
Consumer spending improves with lifting of lockdown restrictions: Consumer and credit card loans increased by SAR 20.3bn from Q2-19 to SAR 355.9bn in Q2-20, representing an increase of 6.0% Y/Y. Point-of-sale (POS) transactions increased by SAR 4.0bn from Q2-19 to SAR 76.6bn in Q2-20. The decline in cash withdrawals in Q2-20 was instead of is mainly due to people remaining confined to their homes amid lockdown restrictions. The increase in these indicators signifies consumers are financially better-positioned with a higher confidence level when making big-value purchase decisions; this would drive private consumption demand. Despite the impact of the pandemic, the consumption story remains on track, which should benefit the overall retail sector.

GDP Growth



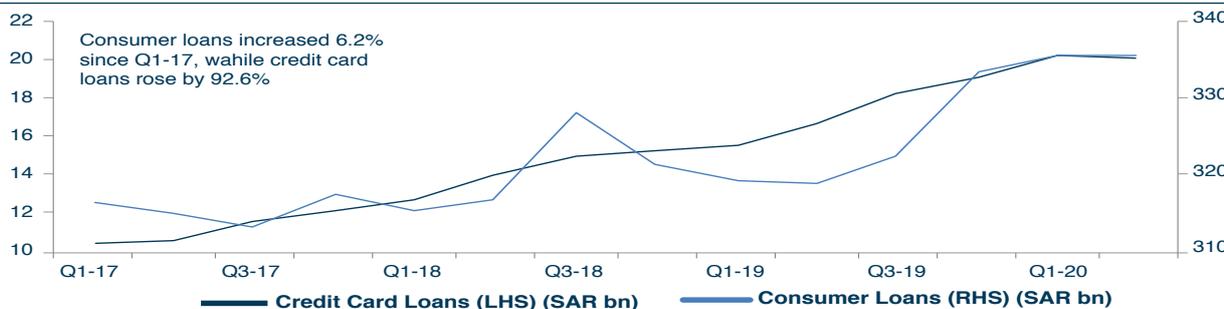
Source: KSA Ministry of Statistics

Unemployment Rate



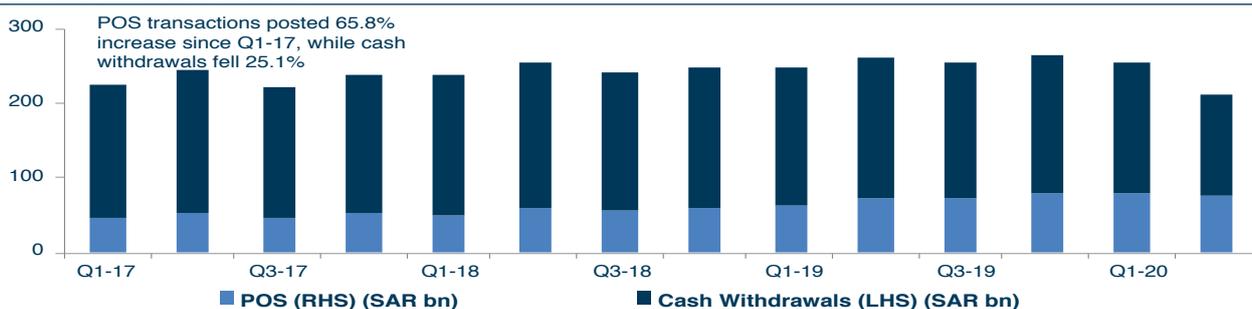
Source: KSA Ministry of Statistics

Retail Loans



Source: SAMA

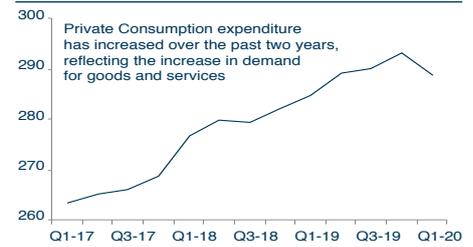
POS and Cash Withdrawals



Source: SAMA

Private consumption momentum continues; slight blip in Q1-20 attributed to the pandemic: The impact of the metrics mentioned above is reflected in 1.5% Y/Y increase in private consumption expenditure from SAR 284.8bn in Q1-19 to SAR 289.0bn in Q1-20; the growth rate moderated from 3.9% in Q4-19 due to the impact of COVID-19. However, the uptrend is expected to continue, driven by government reforms and growth in employment.

Consumption Growth



Source: SAMA

Adverse impact of the pandemic fades out, as retail sector regains momentum: The lockdown restrictions imposed in March adversely impacted discretionary spending in the retail sector. Some companies adopted business models wherein e-commerce played a vital role. With the lifting of restrictions from June 21, the retail sector has regained momentum, which is reflected in the stock prices. The food & staples index generated staggering returns of 63.5% in the last six months, while the retailing index gained a staggering return of 31.3%, marginally lower than the returns generated by the TASI.

Price Performance



Source: Bloomberg

Increase in VAT and withdrawal of cost-of-living allowance represent near-term challenges: To mitigate the impact on the economy, Saudi Arabia has announced important austerity measures such as increase in VAT from 5% to 15% from July and discontinuation of cost-of-living allowance from June. This resulted in huge pre-buying in June. However, retail sales would be impacted in the near term as consumers would take some time to come to terms with the impact of these measures. However, this is not expected to significantly impact the retail sector's long-term prospects. We expect high demand in the long term due to an improved outlook on the industry and construction sectors, along with the government's long-term vision to raise the private sector contribution to 60% from 40% by 2030. This is likely to boost the company's revenue and improve the production efficiency.

This year has been an eventful one, with COVID-19 adversely impacting the economy and the retail sector. However, the easing of restrictions by the government and realignment of business models by companies have resulted in a remarkable turnaround. Although the significant increase in share prices might not seem completely justified, it is reflective of the long-term positivity. The hike in the VAT rate and withdrawal of cost-of-living allowance present near-term challenges. However, the country's long-term consumption trend remains intact.

Positional and competitive advantages over the Al-Samaani's core business in Saudi Arabia: Shelf sales of the company are considered as the core business. This kind of product is usually growing relatively with the CAPEX expansions of the private sector, retail & consumer sectors and wholesales storages. Where the government has an ambitious reform program aimed at increasing private sector participation in the economy, as Saudi Arabia accelerated efforts to diversify its economy. Furthermore, a growing demand for the company's shelves is mainly derived by the local official requirements from the municipalities and the Food & Drug Authority, in addition to a huge demand by warehouses, which makes the expected potential demand higher. Moreover, the company enjoys a low competition level in the local market that is likely to offer the company more space for expansion with any sudden increase in demand.

Finally, the company has an advantage of owning a large number of customers in local market due to its more than 25 Yrs. experience and history in the local market.

Equity Story

Strategically placed in central to cater growth and customer's need: We believe the company's strong presence in Central regions plays a key role in its growth. The company will be among the main beneficiaries of projects in Riyadh and any other regions due to the strategic location and ease of access to other regions. Furthermore, due to the lower cost of expansion, and its leverage free balance sheet, the expected growth in demand can be easily supported through expansion. The expected high growth potential is likely to come from higher demand, along with its diversification plans into logistics services and others.

Al-Samaani entered new logistics agreements in FY20: The company signed, on June 21, a three-year logistics contract with National Aquaculture Group (NAQUA) for a total value of SAR 33.46 million (SAR 11.15mn per year). Moreover, on September 13, Al-Samaani signed a contract with Seera Group Holding to provide logistics services at a value of SAR 6.48mn. These contracts fall in line with the company's expansion plans and diversification of its activities and services provided to others.

Double-digit growth in sales lead to profits in FY20, despite the effects of COVID-19: Al-Samaani posted sales of SAR 21.06mn in H1-20; a 12.0%Y/Y increase. The company is expected to post sales of SAR 52.31mn and SAR 59.60mn in FY20 and FY21, respectively; indicating Y/Y growth of 24.5% in FY20, and 13.9% in FY21; where the jump is mainly expected from the new agreements the company signed during FY20.

Gross margin is expected to expand to 28.6% in FY20, compared to 23.3% in FY19. Operating profit rose to SAR 1.34mn in H1-20 compared to a loss SAR 0.72mn in H1-20. The increase in operating profit was mainly due to lower labor costs and improved operating efficiency. Thus, we expect Al-Samaani to post net profit of SAR 2.14mn in FY20 (EPS: SAR 0.86), compared to a loss of SAR 1.90mn in FY19. We believe the company's potential expansions in the future would support its growth in the coming years.

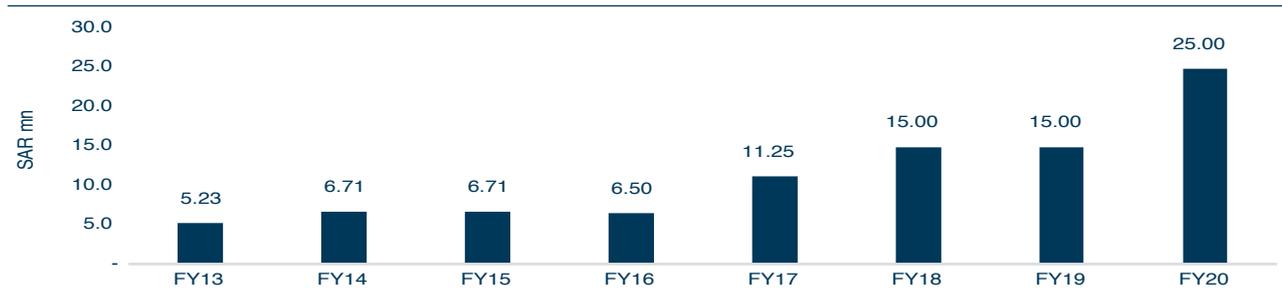
Net Margin



Source: Tadawul, Aljazira Capital

Capital hike in FY20 to support the company's expansion plans: During Jun-20, Al-Samaani Co. approved the board's recommendation on a capital increase by 66.67% from SAR 15 million to SAR 25 mn via a bonus share distribution for FY20. The capital increase aims to boost the company's capital base, so as to support future growth and expansions, and maintain its solvency. The step was financed through capitalizing SAR 10 mn from shares premium account. The increase came after a series of capital hikes in the past 7 years, reflecting the company's willingness for expansions.

Capital

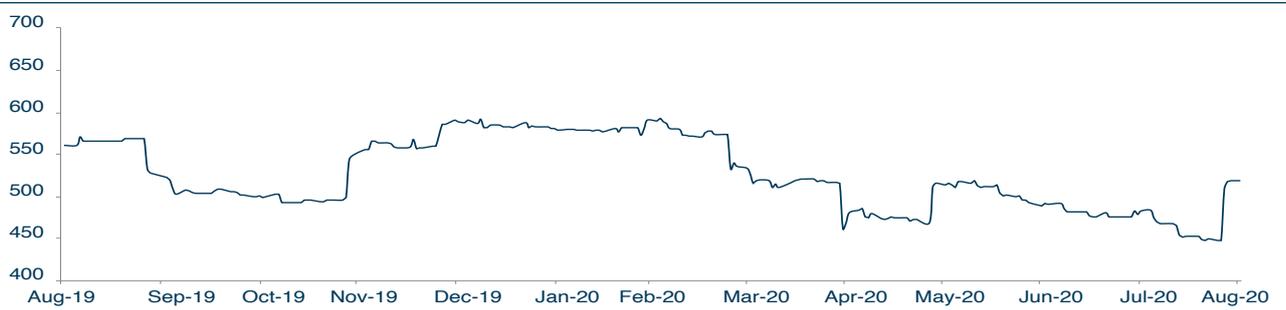


Source: Tadawul, Aljazira Capital

Low lending rates could be a key support to finance the company’s potential expansions with a low cost: The Saudi interbank offer rate (SAIBOR 6 Months) has declined steeply since the beginning of Mar-20, amid the Coronavirus (COVID-19) outbreak and low interest rate environment. The SAIBOR 6 Month rate decreased from 2.0% in March to 0.9% in September 2020. Any future rise in SAIBOR might negatively impact Al-Samaani Co. for any potential lending. The company remained debt free in FY19, which allows the company to finance its expansions amid these low interest rates.

Operating and market risks could pose a threat to the company: One of the major risks the company faces is that it relies on its main raw material that is Steel, as price fluctuations could severely affect the company’s operations. Al-Samaani also relies on major suppliers in the region such as SABIC. Thus, the company is planning on diversifying their suppliers, and using a buying policy that guarantees the availability of the required raw material. Furthermore, increase in competition and fluctuations in raw material prices are considered major threats to the company.

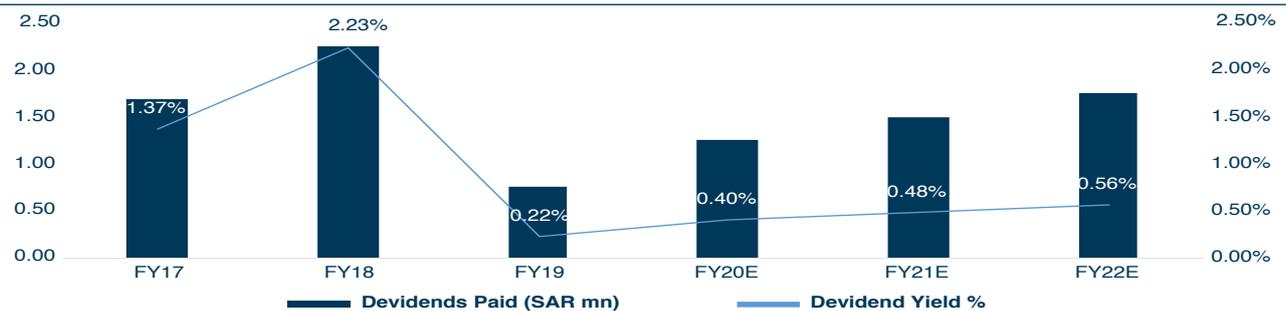
Steel Price (USD)



Source: Argaam, Aljazira Capital

Dividends paid despite posting losses for FY19: Although the company recorded losses in FY19, Al-Samaani Co. announced cash dividend payment for the year of SAR 0.75mn at 5% of capital (SAR 0.50 per share prior its capital raise); a 66.7% decline from the previous year’s dividends. If the company continues to post losses for the coming years, it will not be able to sustain its dividend payments. However, we expect the company to pay dividends for FY20 and FY21 of SAR 0.50 and SAR 0.60 per share, respectively, as we believe the company will turn back to profitability in FY20.

Dividend Payments



Source: Tadawul, Aljazira Capital



Key Financial Data

Amount in SAR mn, unless otherwise specified	FY13	FY14	FY15	FY16*	FY17**	FY18	FY19	FY20E	FY21E	FY22E
Income Statement										
Revenues	32.1	45.7	48.3	38.4	46.2	39.5	42.0	52.3	59.6	60.6
Y/Y	-10.1%	42.4%	5.6%	-20.4%	20.2%	-14.4%	6.3%	24.5%	13.9%	1.6%
Cost of Sales	(24.8)	(36.6)	(32.9)	(23.8)	(28.9)	(28.8)	(32.2)	(37.4)	(42.4)	(42.9)
Gross Income	7.3	9.1	15.4	14.6	17.3	10.8	9.8	14.9	17.2	17.7
Operating Expenses	(4.9)	(6.1)	(9.9)	(7.4)	(11.0)	(9.5)	(11.5)	(12.4)	(14.2)	(14.2)
Income from Operations	2.4	3.0	5.5	7.2	6.3	0.9	(1.6)	2.5	3.1	3.5
Investments and other	0.1	0.0	(0.5)	(0.1)	0.1	0.5	0.5	0.4	0.6	0.9
Financing Expense	0.0	0.0	0.0	0.0	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Zakat	(0.1)	(0.1)	(0.2)	0.0	(0.5)	(0.9)	(0.8)	(0.8)	(0.8)	(0.8)
Net Income for the Period	2.4	2.9	4.8	7.1	5.7	0.5	(1.9)	2.1	2.8	3.6
Y/Y	-3.6%	22.1%	64.2%	47.6%	-20.0%	-92.0%	-	-	30.1%	27.7%
Balance Sheet										
Assets										
Cash and Cash Equivalents	1.0	4.0	1.8	2.7	2.3	2.7	2.0	1.7	1.1	1.1
Receivables, Net	2.7	7.0	9.7	8.4	11.3	11.1	12.6	15.8	18.0	18.3
Inventory	6.3	9.5	8.5	7.3	11.1	9.1	9.2	8.2	6.7	9.6
Other current assets	2.8	1.1	1.6	1.9	18.1	13.5	10.7	9.6	11.2	10.5
Property, Plant & Equipment	6.4	6.4	5.6	5.3	4.7	5.6	5.0	6.0	6.3	5.8
Other non-current assets	0.3	1.8	0.0	0.1	0.5	0.6	1.4	1.4	1.4	1.4
Total Assets	19.6	29.9	27.2	25.7	48.0	42.6	41.0	42.7	44.8	46.7
Liabilities & owners' equity										
Total current liabilities	10.0	17.2	14.6	7.6	8.1	4.0	6.0	6.2	6.7	6.5
Total non-current liabilities	2.0	1.5	1.0	1.2	1.1	2.0	2.2	2.3	2.4	2.5
Paid-up capital	5.2	6.7	6.7	6.5	11.3	15.0	15.0	25.0	25.0	25.0
Statutory reserves	0.0	0.0	0.0	0.7	1.3	1.3	1.3	1.5	1.8	2.2
Retained earnings	2.4	2.9	4.8	9.7	11.9	6.5	2.3	7.6	8.8	10.5
Shares premium	0.0	1.6	0.0	0.0	14.3	13.8	14.1	0.0	0.0	0.0
Total equity	7.6	11.3	11.5	16.9	38.8	36.6	32.7	34.1	35.7	37.7
Total equity & liabilities	19.6	29.9	27.2	25.7	48.0	42.6	41.0	42.7	44.8	46.7

*For the period from 1st Jan 2016 to 7th Nov 2016

** For the period from 8th Nov 2016 to 31st Dec 2017

Key Fundamental Ratios

Amount in SAR mn, unless otherwise specified	FY13	FY14	FY15	FY16*	FY17**	FY18	FY19	FY20E	FY21E	FY22E
Liquidity Ratio										
Current Ratio (x)	1.3	1.3	1.5	2.7	5.3	9.1	5.8	5.7	5.5	6.0
Quick Ratio (x)	0.7	0.7	0.9	1.7	3.9	6.9	4.2	4.4	4.5	4.6
Profitability										
Gross Margins	22.7%	19.9%	31.9%	37.9%	37.4%	27.3%	23.3%	28.6%	28.9%	29.2%
Operating Margins	7.5%	6.6%	11.3%	18.7%	13.7%	2.3%	-3.7%	4.8%	5.2%	5.8%
Net Margins	7.5%	6.4%	10.0%	18.5%	12.3%	1.2%	-4.5%	4.1%	4.7%	5.9%
ROA	12.3%	9.8%	17.7%	27.7%	11.8%	1.1%	-4.6%	5.0%	6.2%	7.6%
ROE	31.5%	26.0%	41.8%	42.1%	14.6%	1.2%	-5.8%	6.3%	7.8%	9.4%
Leverage Ratios										
Debt/Equity	0.7	1.2	0.9	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Debt/Capital	1.1	1.9	1.6	0.5	0.4	0.0	0.0	0.0	0.0	0.0
Debt/Assets	28.5%	43.4%	39.4%	12.3%	8.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Valuations										
EPS (SAR)	0.96	1.17	1.92	2.84	2.27	0.18	-0.76	0.86	1.11	1.42
BVPS (SAR)	3.05	4.50	4.61	6.74	15.51	14.64	13.09	13.65	14.26	15.08
Dividend Yield	NM	NM	NM	NM	1.4%	2.2%	0.2%	0.3%	0.4%	0.5%
PE (x)	NM	NM	NM	NM	21.7	NM	NM	NM	NM	NM
PB (x)	NM	NM	NM	NM	3.2	2.8	10.3	10.6	10.2	9.6

*For the period from 1st Jan 2016 to 7th Nov 2016

** For the period from 8th Nov 2016 to 31st Dec 2017

NM: Not Meaningful



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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer

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