

2Q20 Results Update

August 31, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.1
Target Price (SAR)	55.6
Upside/Downside (%)	(4.2%)

As of August 17th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.7
52-Wk High (SAR)	59.0
52-Wk Low (SAR)	30.7
Total Outstanding shares (in mn)	30
Free Float (%)	94.3%

ALASEEL vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	10.5%	6.0%
6m	26.3%	27.8%
12m	57.2%	66.5%

Major Shareholders (%)

Mohammed Abdullah Ibrahim Al Jedaie	5.80%
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Revenue (SAR bn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 17th, 2020

Steady topline growth boosts 2Q20 profits

Thob Al Aseel (ALASEEL) reported a 1.9% YoY rise in revenue in 2Q20, as the launch of new products in the Saudi market and the signing of a medical equipment supply agreement boosted sales. This led to an 8.1% YoY increase in operating income. Operating margin improved to 28.9% in 2Q20 from 27.3% in 2Q19. The company witnessed an 8.2% YoY rise in net income, as better sales and lower operating costs offset a 31.3% YoY increase in Zakat expense. This led the net margin for the quarter to expand to 27.0% from 25.4% in 2Q19 and 14.9% in 1Q20, respectively.

Despite the economic challenges posed by the COVID-19 crisis, the company has reported revenues growth in H120, indicating limited impact of the pandemic on Alaseel. This steady growth in revenue is driven by increasing demand for its products as the company continues to diversify and strengthen its sales channels, improve e-commerce sales, and launch new products. In addition, the company's financial fundamentals remain strong and a capital-light model bodes well for a future expansion plans, as Alaseel has negligible debt on its balance sheet. However, these factors appear to have been reflected in the company's recent stock performance, and we see limited upside potential. Thus, we maintain a Neutral rating on the stock.

- Alaseel's revenue rose 1.9% YoY to SAR 193.8mn in 2Q20 due to the introduction of new products to the market and the signing of a medical equipment supply contract during the quarter. Revenue was up 65.0% QoQ from SAR 117.5mn in 1Q20.
- Gross profit (up 4.5% YoY to SAR 74.9mn) rose at a faster pace than revenue, as cost of sales grew to SAR 119.0mn in 2Q20. This resulted in a 93.0 bps YoY expansion in gross margin to 38.6%.
- Operating profit increased 8.1% YoY to SAR 56.0mn, as a 31.4% YoY and 26.5% YoY decline in general and administration expenses and selling and marketing expenses, respectively, offset a 490.7% YoY rise in employee costs. The operating margin inched up 164.2 bps YoY to 28.9%.
- Net profit surged 8.2% YoY and 198.8% QoQ to SAR 52.3mn, primarily due to higher sales and reduced operating expenses. This resulted in a 157.1 bps YoY rise in net margin to 27.0% in 2Q20.
- On 28th July, Alaseel signed a contract worth SAR 73.1mn with NUPCO to supply medical equipment. This is expected to bolster the company's results in the next quarter.

Valuation: We maintain our target price at a fair value of SAR 55.6 per share and retain our Neutral rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	193.8	190.1	1.9%	513.0	477.2	7.5%
Gross Profit (SAR mn)	74.9	71.7	4.5%	193.2	180.7	6.9%
EBITDA (SAR mn)	56.5	52.3	7.9%	102.9	97.2	5.8%
Net Profit (SAR mn)	52.3	48.3	8.2%	85.7	80.4	6.7%
EPS Basic (SAR)	1.74	1.61	8.2%	2.9	2.7	6.7%
Gross Margin (%)	38.6%	37.7%	0.9%	37.7%	37.9%	(0.2%)
EBITDA Margin (%)	29.1%	27.5%	1.6%	20.1%	20.4%	(0.3%)
Net Profit Margin (%)	27.0%	25.4%	1.6%	16.7%	16.8%	(0.1%)

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 Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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