الراجحي المالية
alrajhi capital

| US$1.469bn | 21.78% | US$3.26mn |
|---|---|---|
| Market Cap | Free Float | Avg. Daily Volume |

| | | |
|---|---|---|
| **Target price** | 720.00 | 37.0% above current |
| **Current price** | 525.00 | as at 21/05/2023 |

Existing rating

Underweight | Neutral | **Overweight**

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# Jahez International Co.

## TP revised to SAR720/sh; maintain Overweight

*FY22 can be termed as the year of turmoil for Jahez marred with one-offs. The company managed to increase its Gross Merchandize Value (GMV) and net revenues by 28% YoY and 38% YoY respectively in FY22 while gross profit margins expanded by 1.2 percentage points to 22.4%. The average take rates increased to 12.5% in FY22 as against 11.6% in FY21. However, due to one-off expenses related to the logistics segment, the bottom-line suffered. Adjusting for the one-offs, the bottom line showed growth of 18% YoY. Going forward, we expect the top-line to increase by a 5-year CAGR of 20% while average commission rates to stay at 12.5% of GMV. We have toned down our growth assumptions, post one-off FY22 earnings, reducing our TP and FY23 EPS by 35% and 39% respectively. The stock has taken a decent beating and is down by 25% since the announcement of Impact Finance Private Equity fund to transfer its shares to unitholders of the fund. We believe that this represents a good entry point in the scrip providing an upside of 37% to our DCF-based TP of SAR720/sh. Hence, we resume our coverage after a hiatus with an overweight rating.*

**Performance (Rebased to 100)**


**Earnings**

| (SAR mn) | 2022 | 2023E | 2024E |
|---|---|---|---|
| Revenue | 1,602 | 2,106 | 2,644 |
| Revenue growth | 38% | 31% | 26% |
| Gross profit | 359 | 464 | 602 |
| Gross margin | 22% | 22% | 23% |
| EBITDA | 85 | 215 | 289 |
| EBITDA margin | 5% | 10% | 11% |
| Net profit | 59 | 167 | 240 |
| Net margin | 4% | 8% | 9% |
| EPS | 5.62 | 15.93 | 22.91 |
| DPS | 0.00 | 0.00 | 0.00 |
| Payout ratio | 0% | 0% | 0% |
| P/E | 93.4x | 33.0x | 22.9x |
| EV/EBITDA | 76.5x | 30.2x | 22.5x |
| RoE | 5.9% | 14.2% | 16.8% |

**Source:** Company data, Al Rajhi Capital.

**FY22 profitability hit hard by one-offs:** The company faced unprecedented challenges during FY22 leading to huge one-off expenses pushing down the profitability. The cost pressure was mainly faced by the logistics segment as the company had to hire its fleet to comply with the regulators. Not only the freelance drivers had to be let go in order to comply with the regulations, but the company also faced issues regarding the availability of rental cars. Due to the above-mentioned factors, the company miss out on several orders and reduce its delivery radius. Hence, in 2H22 the company incurred a one-off expense to the tune of SAR79.5mn related to all the costs needed for hiring of the drivers. Even once these drivers were hired, they did not contribute much to the top-line growth as it can take about 2-3 months to get the driving license and the necessary training required.

**Top-line growth remained impressive**: Despite the above-mentioned challenges, the company managed to increase its GMV by 28% YoY which boosted the revenues to SAR1.6bn representing an increase of 38% YoY. The growth in revenues was assisted by a rise in active users by 47% YoY to 2.8mn while the number of orders received increased to 69mn up 34% YoY. The company also managed to improve its commission rate to 12.4% of GMV in FY22 as against 11.6% last year. Resultantly, the gross profit swelled up by 46% YoY to SAR 359mn aided by increased sales as well as improved GP margins of 22.4% in FY22 as against 21.2% last year. The operating profit saw a huge decline of 49% YoY owing to the one-off hiring expenses mentioned above. Adjusting for those, the operating profit and net profit increased by 18% each to SAR141mn and SAR138mn (EPS: SAR13.2/sh).

Figure 1 **Earnings summary**

| (SARmn) | 2019 | 2020 | 2021 | 2022 | % chg y-o-y |
|---|---|---|---|---|---|
| Revenue | 159 | 459 | 1,160 | 1,602 | *38%* |
| Gross Profit | 25 | 109 | 246 | 359 | *46%* |
| Gross Margin | 16% | 24% | 21% | 22% | - |
| Op. Profit | -6 | 40 | 119 | 61 | *-49%* |
| Op. Margin | -4% | 9% | 10% | 4% | - |
| Net Profit | -6 | 40 | 117 | 59 | *-50%* |
| Net Margin | -4% | 9% | 10% | 4% | - |

Source: Company data, Al Rajhi Capital

Figure 2 **Earnings summary adjusted for one-offs**

| (SARmn) | 2021 | 2022 | % chg y-o-y |
|---|---|---|---|
| Revenue | 1,160 | 1,602 | *38%* |
| Gross Profit | 246 | 359 | *46%* |
| Gross Margin | 21% | 22% | - |
| Op. Profit | 119 | 141 | *18%* |
| Op. Margin | 10% | 9% | - |
| Net Profit | 117 | 138 | *18%* |
| Net Margin | 10% | 9% | - |

Source: Company data, Al Rajhi Capital

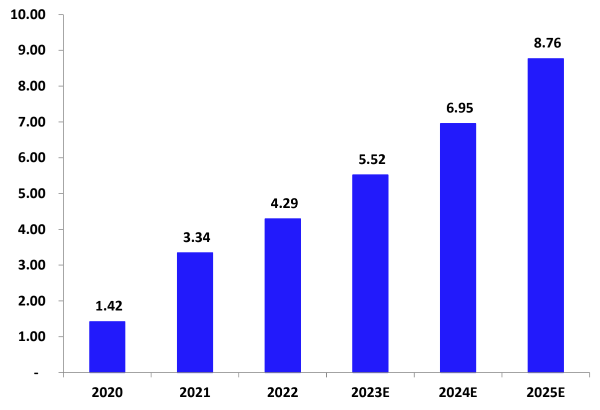
**Implication of Impact Finance share transfer to unitholders:** As per the recent announcement on the bourse, Impact Finance Private Equity Fund announced its intention to transfer its shares to the unit holders of the fund. Impact Finance was the major shareholder of Jahez having a total of 3.2mn shares representing 31.3% shareholding in the company. The announcement came post the removal of the ownership restriction on the company's substantial shareholders. The stock took a major beating after the announcement, plummeting to a low of SAR506/sh (↓28%) and later stabilizing at SAR530 levels. Overall, we would like to flag that the selling overhang might persist, however, the transfer of shares will help increase the free float of the company helping it to meet the requirements of listing into the main market next year.

In addition to this, we would also like to highlight that the company may be looking to announce a stock split in order to improve the stock liquidity.

**Valuations:** Going forward, we expect the company's GMV to keep growing albeit at a slower pace. We expect Jahez's GMV and net revenue to grow at a 5-year CAGR of 20% while having assumed a flat commission rate of 12.5% and the delivery fees at SAR 14.5/order. We value the stock through DCF methodology using a WACC of 10.2% and terminal growth of 3.5% to arrive at our target price of SAR720/share. We believe the recent selling pressure on the stock provides a good entry point as the scrip provides an upside of 37% to the last close.

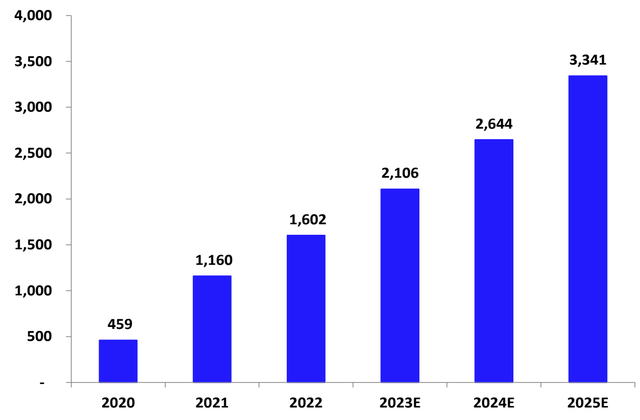
**Risks:** Key downside risks include**:** i) selling overhang post-transfer of shares to unitholders of Impact Finance PE Fund; ii) rising competition to put pressure on take rates; iii) slow growth from KSA, Bahrain, or Kuwait markets; and iv) impairment on the cloud kitchen business.

Figure 3 **GMV trend (SAR bn)**



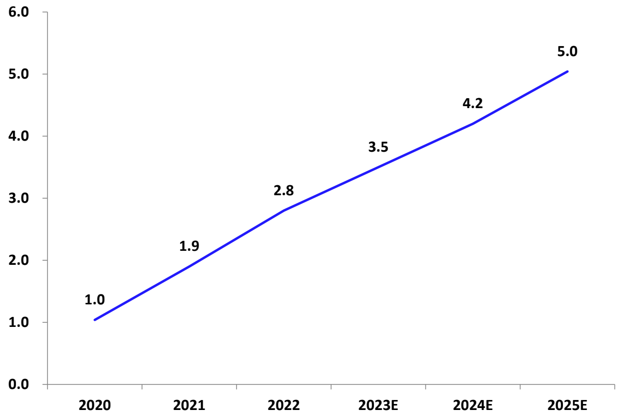

Source: Company Data, Al Rajhi Capital estimates

Figure 4 **Revenue trend (SAR mn)**



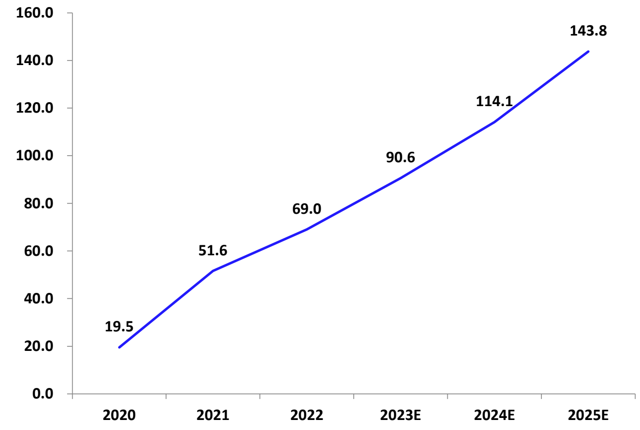

Source: Company Data, Al Rajhi Capital estimates

Figure 5 **No. of active users (mn)**



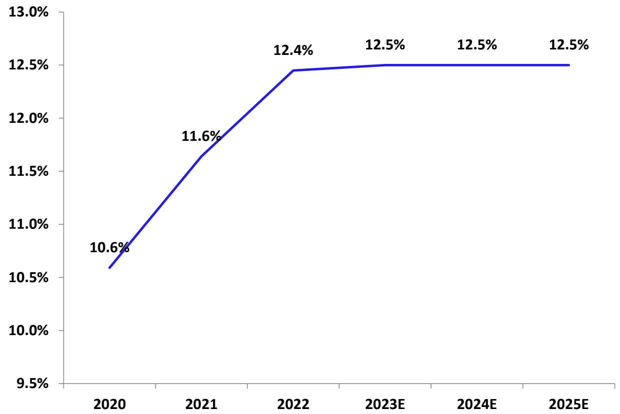

Source: Company Data, Al Rajhi Capital estimates

Figure 6 **Number of orders received (mn)**



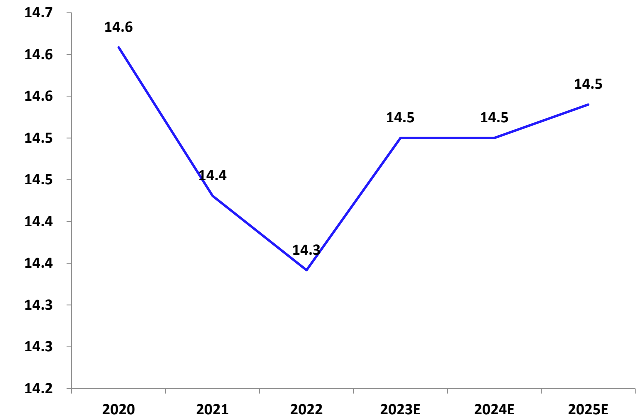

Source: Company Data, Al Rajhi Capital estimates

Figure 7 **Average commission rate (%)**




Source: Company Data, Al Rajhi Capital estimates

Figure 8 **Average delivery fees per order (SAR)**




Source: Company Data, Al Rajhi Capital estimates

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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