



SACO posted net income of SAR 24.2mn (EPS: SAR 0.67) in Q4-20, above our estimate of SAR 20.3mn. Net income growth was driven by higher GP Margin and lower OPEX. However, revenue growth in Q4-20 was minimal due to hike in VAT from July. Even though revenue would be slightly impacted in the near term owing to the hike in VAT, the company was able to expand its GP Margins. We revise our recommendation to “Neutral”, and keep our TP unchanged at **SAR 57.1/share**, as the upside from current levels seems limited.

- SACO recorded net income of SAR 24.2mn in Q4-20 (EPS: SAR 0.67), up 3x Y/Y and up 46.7% Q/Q. Net profit for Q4-20 was above our estimate of SAR 20.3mn. The Y/Y increase was ascribed to higher GP Margin and lower OPEX. We expect a Y/Y increase in net profit in Q1-21 driven by cost cutting initiatives taken by the company to boost the GP Margin and lower net income base for Q1-20.
- The company's revenue totaled SAR 402.0mn in Q4-20, up 2.5% Y/Y and 21.0% Q/Q; this was in line with our estimate of SAR 384.2mn. The hike in VAT from July adversely impacted the company's revenue. The company opened one store during the quarter and closed one showroom. The company plans to open at least 3-4 stores by the end of FY21. New residential mortgage loans rose by 65.5% Y/Y to SAR 16.0bn in January. The company stands to benefit from the stellar increase in mortgage loans, as demand for home improvement would follow the rise in mortgage loans.
- Gross profit stood at SAR 90.9mn in Q4-20, up 5.9% Y/Y and 37.8% Q/Q; it was above our estimate of SAR 76.1mn. GP Margin increased to 22.6% in Q4-20 from 21.9% in Q4-19, above our estimate of 19.8%. We believe that cost-efficiency initiatives and rent negotiations with landlords were instrumental in the increase in GP Margin. The increase in VAT does not seem to have impacted the GP Margins, which is a positive sign.
- Operating profit stood at SAR 38.9mn in Q4-20, up 117.5% Y/Y and 34.9% Q/Q. Moreover, net OPEX decreased 23.4% Y/Y to SAR 52.0mn from SAR 68.0mn in Q4-19, above our estimate of SAR 42.4mn. Since the SANED benefits are no longer in place, we expect OPEX to increase in FY21.

AJC view: SACO's overall results were above our expectations. We believe the company stands to gain from the potential spike in demand for home improvement, following the record increase in mortgage loans. We update our EPS estimate for FY21 to SAR 2.53 from SAR 2.34 to reflect higher GP Margin posted in Q4-20. In the long term, we believe SACO has the potential to benefit from growth opportunities through store expansion, introduction of new product categories, new distribution centre, and increased online sales, all of which could lead to higher market share. LT market share gains through expansions in a highly fragmented market remain SACO's main LT positive catalyst. The impact on revenue from pressure on purchasing power and loss of market share to competitors are key downside risks to this valuation. We value SACO by assigning 50% weight for DCF (3.0% terminal growth and 7.3% average WACC), and 25% weight each for P/E (19.0x FY21E EPS) and EV/EBITDA (10.0x FY21E EBITDA) based relative valuation, yielding a TP of SAR 57.1/ share. The stock is currently trading at P/E of 22.9x based on our FY21 EPS estimate. We update our recommendation on SACO to “Neutral” with a TP of **SAR 57.1/share**.

SARmn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	392.1	332.1	402.0	2.5%	21.0%	4.6%
Gross Profit	85.8	66.0	90.9	5.9%	37.8%	19.5%
<i>Gross Margin</i>	<i>21.9%</i>	<i>19.9%</i>	<i>22.6%</i>	-	-	-
EBIT	17.9	28.8	38.9	117.5%	34.9%	15.3%
Net Profit	6.0	16.5	24.2	300.4%	46.7%	18.8%
EPS	0.17	0.46	0.67	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **57.1**

Upside / (Downside)* **-0.3%**

Source: Tadawul *prices as of 11th of March 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenue	1,457.8	1,481.8	1,554.6
Growth %	4.8%	1.6%	4.9%
Net Income	61.6	85.5	91.1
Growth %	-37.1%	38.8%	6.6%
EPS	1.71	2.38	2.53

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	19.3%	20.0%	19.7%
Net Margin	4.2%	5.8%	5.9%
P/E (x)	30.4	24.5	22.9
P/B (x)	3.5	3.6	3.4
EV/EBITDA (x)	12.0	10.9	10.6
Dividend Yield	3.8%	2.1%	2.6%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.09
YTD %	-0.3%
52 Week (High)/(Low)	63.30/33.15
Shares Outstanding (mn)	36.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.

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