

Initiation Coverage

August 10, 2020

Recommendation Neutral

Current Price (SAR)	54.6
Target Price (SAR)	53.1
Upside/Downside (%)	(2.8%)

As of July 28th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR mn)	1,638
52-Wk High (SAR)	57.6
52-Wk Low (SAR)	29.5
Total Outstanding shares (in mn)	30
Free Float (%)	94.3%

Alaseel Vs TASI (Rebased)

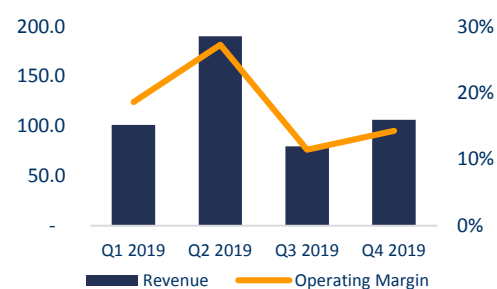


Price Performance (%)	Absolute	Relative
1m	5.4%	4.2%
6m	18.8%	31.4%
12m	85.1%	103.3%

Major Shareholders (%)

Mohammed Abdullah Ibrahim Al Jedaie	5.80%
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Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, Falcom Research; Data as of 28th July 2020

Thob Al Aseel is a leading manufacturer of readymade, wholesale, and retail garments in Saudi Arabia since 1989. In FY19, Thob Al Aseel's revenue advanced 26% YoY to SAR 477mn with the expansion of its customer base, addition of new products, and development of its ecommerce platform. Net profit for the year was up 41.9% YoY to SAR 80.4mn, despite an increase in operating expenses and higher Zakat provision and taxes.

We initiate coverage on Thob Al Aseel with a Neutral rating as we expect moderate impact on the company's revenues despite the prevailing lockdown situation and depressed discretionary spending in the aftermath of the COVID-19 crisis. The company's most important quarter, 2Q20 (seasonality-wise), may see increased sales from the ecommerce platform.

Focus on expansion through multiple means aids growth

In 2017, Thob Al Aseel expanded its national footprint with the acquisition of Aljedaiie Fabrics. The company was also listed on NOMU, the parallel market. Since then, Thob Al Aseel has grown in strength with its focus on expanding its market outreach and experimenting with the ecommerce platform that followed its Tadawul listing in 2019. Therefore, despite the COVID-19 crisis and the consequent global lockdown, Thob Al Aseel managed to grow its revenue by 16% YoY in 1Q20, defying all market trends. Though we expect the pandemic to dent some of the company's growth plans, the company's business model and results are expected to show resilience in FY20.

Capital-light business model, lack of debt bodes well in downturn

Despite foraying into new markets and sales channels, the company has remained debt-free with a position of net cash as its expansionary activities were mostly funded through capital raises. This gives Thob Al Aseel enough financial muscle to borrow at competitive rates for expansion, if needed. Low leverage is a welcome factor in financial downturns such as the current one.

Impressive financial performance reflects in market performance

The company's return on equity (ROE) improved to 15.2% in FY19 compared to 11.1% in FY18 and the return on assets (ROA) was up to 13.2% from 10.3% for the same period. In the past one year, the company's share price outperformed with a surge of about 85% compared to a decline of 18% in the main index. Even in the present crisis, Thob Al Aseel plans to pay out dividends in line with past years, reflecting its confidence in future performance. Though the stock trades at a higher P/E ratio than its peers', this is justified in view of the high returns to shareholders.

Constant reinvention needed to survive market competition, changing consumer preferences

Thob Al Aseel needs to continuously innovate to stay ahead of its peers in a commoditized market. Rising sales and administrative expenses have brought its operating margin under pressure, which offset the drop in the average cost of sales. Besides, although the Saudi people are ethnically conscious and wear the Thob Al Aseel with pride, the exposure of the younger generation to the Internet and a diversion to a less conservative culture may lead to a change in consumer preferences.

Valuation: We valued Thob Al Aseel using the DCF approach to arrive at a fair value of SAR 53.1 per share. We considered WACC at 5.6% with a terminal growth rate of 2.0%.

	2019	2020e	2021e	2022e
Revenues (SAR mn)	477	513	577	649
Gross Profit (SAR mn)	181	192	213	237
EPS (SAR)	2.7	2.8	3.1	3.3
Operating Margin (%)	19.9%	19.4%	18.7%	18.0%
RoE (%)	15.2%	14.9%	14.9%	14.9%
P/E (x)	16.3x	19.3x	17.8x	16.4x
P/B (x)	2.5x	2.9x	2.6x	2.5x
EV/EBITDA (x)	10.4x	14.7x	13.6x	12.5x

Source: Company Financials, Falcom Research

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Valuation Summary

Explanation of the valuation methodology and assumptions

We valued Thob Al Aseel using the DCF approach to arrive at a fair value of SAR 53.1 per share. We considered WACC at 5.6% with a terminal growth rate of 2.0%.

In relative terms, Thob Al Aseel is trading at an EV/EBITDA of 7.0x, showing a premium of 22.0% to its peers and a P/E of 12.6x, showing a premium of 36.8%.

SAR Mn	FY 2019A	FY 2020E	FY 2021E	FY 2022E	FY 2023E
EBIT	95	99	108	117	126
Less: Taxes and Zakat	(15)	(16)	(17)	(18)	(20)
Add: Depreciation, amortization and impairment	2	2	3	3	4
Less: Changes in working capital	(76)	(22)	(48)	(49)	(47)
Less: Net capital expenditure	(3)	(3)	(3)	(4)	(4)
Free Cash Flow to firm	4	61	42	49	59
<i>Discount Factor</i>		1.0	0.9	0.9	0.8
PV of free cash flow to firm		60	39	43	49
Net Present Value (A)					190
PV Terminal Value (B)					1,379
Assumed Terminal Growth Rate					2.0%
Discount Rate					5.6%
Enterprise Value (A+B)	1,569	WACC Assumptions			
Total Cash	40	Risk free rate	2.6%		
Total Debt	17	Market returns	7.2%		
Minority Interest	0	Beta	0.4x		
Equity Value in SAR mn	1,592	Cost of equity	5.7%		
Number of shares in mn	30	Post tax cost of debt	0.0%		
Target Price in SAR per share	53.1	Weight of equity in capital structure	98.8%		
CMP in SAR as on July 28th 2020	54.6	Weight of debt in capital structure	1.2%		
Upside/(Downside) to current market price	(2.8%)	WACC	5.6%		

Source: Company Financials, Falcom Research Estimates

Risks

Upside Risks:

- A sharp economic recovery after the COVID-19 pandemic if contained can significantly boost consumer confidence and may lift discretionary spending levels.

Downside Risks

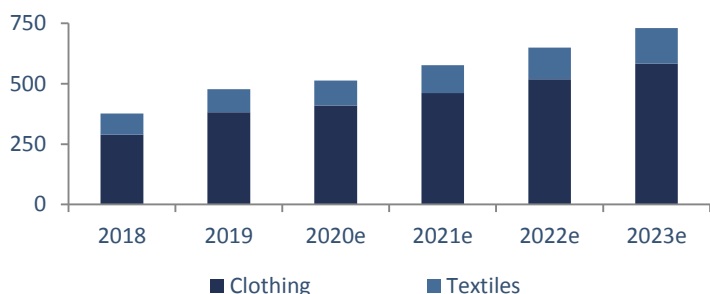
- Any further spread of the virus and non-recovery of oil prices may force the government to implement austerity measures that can impact economic activities and discretionary spending.
- The company's inability to attract younger customers due to changing consumer, cultural preferences can hurt its prospects.

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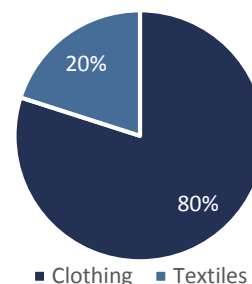
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Key Charts

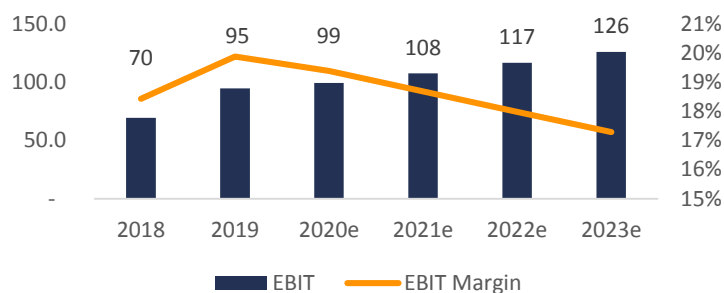
Revenue (SAR mn)



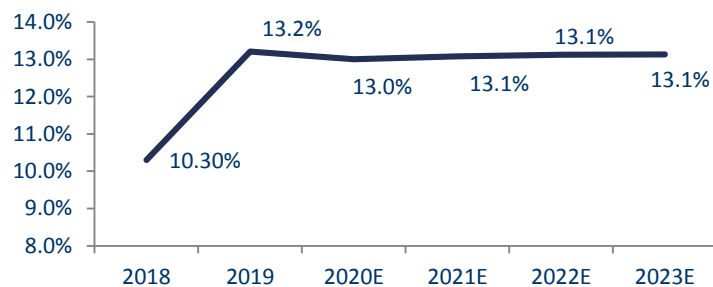
Revenue Split (2019)



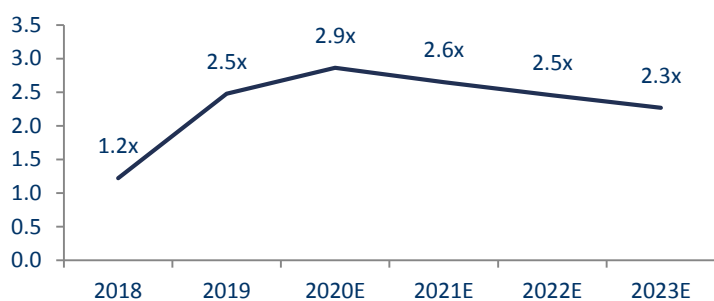
EBIT & Margin



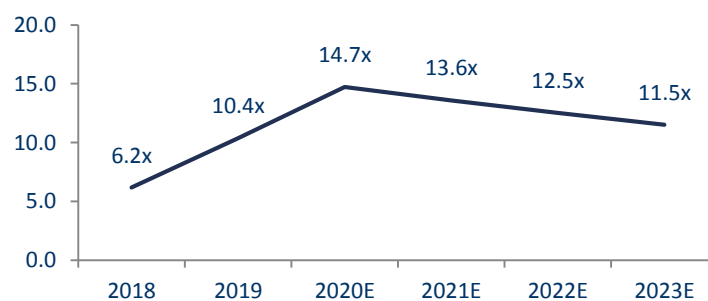
Return on Assets



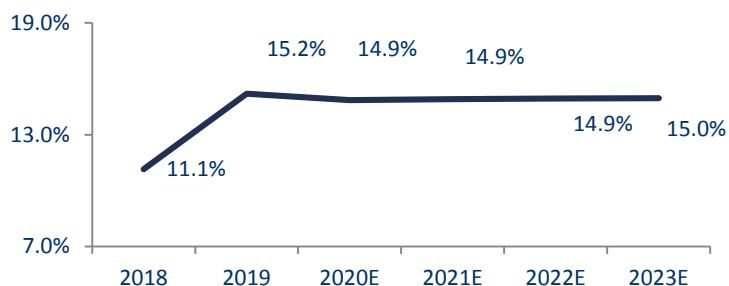
Price to Book



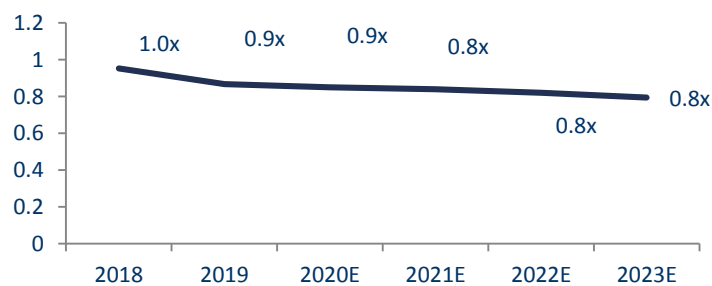
EV/EBITDA



Return on Equity



Working Capital/Sales



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Summary Financials

P&L (SAR mn)	2019	2020e	2021e	2022e
Revenue	477	513	577	649
Gross Profit	181	192	213	237
EBITDA	97	102	111	120
EBIT	95	99	108	117
Earnings from Associates	-	-	-	-
Net Interest	1	-	-	-
Other expenses/income net	1	1	1	1
PBT	95	101	109	118
Minorities	-	-	-	-
Zakat	(15)	(16)	(17)	(18)
Net Income	80	85	92	100
EPS	2.7	2.8	3.1	3.3

BS (SAR mn)	2019	2020e	2021e	2022e
Cash	117	137	136	136
Current Assets	585	629	680	735
Fixed Assets	5	5	6	6
Intangibles	1	1	1	1
Total Assets	609	653	705	761
Current Liabilities	65	67	72	78
Short Term Debt	-	-	-	-
Long Term Debt	-	-	-	-
Shareholders Equities	529	572	618	668
Total Liabilities & Shareholder Equity	609	654	705	761

CF (SAR mn)	2019	2020e	2021e	2022e
Operating Cash Flow	116	87	95	103
Working Capital Changes	(76)	(22)	(48)	(49)
Cash Flow from Operating Activities	40	66	47	54
Capex	(3)	(3)	(4)	(4)
Cash Flow from Investing Activities	(3)	(3)	(4)	(4)
Changes in Debt	(13)	-	-	-
Dividends	(60)	(42)	(46)	(50)

Source: Bloomberg, Company Financials, Falcom Research

Growth	2019	2020e	2021e	2022e
Revenue	26.5%	7.5%	12.5%	12.5%
EBITDA	34.1%	4.9%	8.5%	8.4%
Operating profit	36.4%	4.8%	8.4%	8.3%
PBT	36.1%	5.7%	8.5%	8.3%
Net Income	42.0%	5.7%	8.5%	8.3%

Ratios (%)	2019	2020e	2021e	2022e
Gross Margin	37.9%	37.5%	37.0%	36.5%
EBITDA Margin	20.4%	19.9%	19.2%	18.5%
EBIT Margin	19.9%	19.4%	18.7%	18.0%
Net Margin	16.8%	16.6%	16.0%	15.4%
ROE	15.2%	14.9%	14.9%	14.9%
ROCE	17.5%	17.0%	17.0%	17.1%
ROA	13.2%	13.0%	13.1%	13.1%
Debt/Equity	NA	NA	NA	NA
Net Debt/EBITDA	(1.2x)	(1.3x)	(1.2x)	(1.1x)
FCF Yield	0.3%	3.7%	2.6%	3.0%
Dividend Yield	4.6%	2.6%	2.8%	3.0%

Valuation	2019	2020e	2021e	2022e
P/E	16.3x	19.3x	17.8x	16.4x
P/B	2.5x	2.9x	2.6x	2.5x
EV/EBITDA	12.3x	14.7x	13.6x	12.5x
EV/EBIT	12.5x	15.1x	13.9x	12.9x
EV/Sales	2.5x	2.9x	2.6x	2.3x

Peer Valuations	P/E	EV/EBITDA
Youngone holdings Co Ltd	2.9x	3.4x
Ace bed Co Ltd	9.6x	6.3x
Cowell Fashion co Lts	8.2x	5.2x
Garware technical Fibres Ltd	16.7x	13.8x
Tamron Co Ltd	8.8x	2.2x
Panasonoc manufacturing Mala	13.9x	7.7x
Al Aseel Company CJSC	12.6x	7.0x
Sector Median	9.2x	5.7x
Premium/ (Discount)	36.8%	22.0%

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.

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