

## Initiation Coverage

August 20, 2020

**Recommendation** Neutral

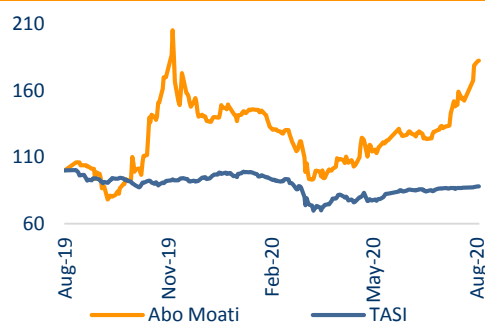
Current Price (SAR)	23.2
Target Price (SAR)	22.0
Upside/Downside (%)	-5.1%

As of August 11th, 2020

### Key Data (Source: Bloomberg)

Market Cap (SAR mn)	464
52 Wk High (SAR)	28.95
52 Wk Low (SAR)	10.00
Total Outstanding shares (in mn)	20
Free Float (%)	61.0%

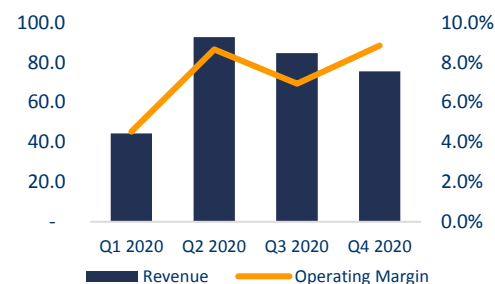
### Abo Moati Vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	37.2%	34.3%
6m	38.3%	41.7%
12m	80.8%	91.8%

Major Shareholders (%)	%
Saad Abdullah Saad Abo Moati	19.69%
Saeed Omar Saeed Basaeed	19.33%

### Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, Falcom Research; Data as of 11<sup>th</sup> August 2020

Abdullah Saad Mohammed Abo Moati for Bookstores Co. (Abo Moati) was established in 1994 and is one of the oldest companies in the wholesale business for stationery and office supplies in Saudi Arabia. In FY20, Abo Moati's revenue fell 6.2% YoY to SAR 297.1mn owing to the decline in ink sales and temporary closure of retail and wholesale stores since March 16, 2020, because of the COVID-19 outbreak. Net profit for the year also dropped 18.3% to SAR 14.8mn on higher operating expense as the company had opened new retail branches, along with lower other income and leasing returns. The net margin narrowed to 5.0% in FY20 from 5.7% in FY19.

We initiate coverage on Abo Moati with a Neutral rating as, although its business was impacted due to the store closures in line with the government's directives, the company's retail expansion plans continue to instill faith in future growth prospects.

#### Continued expansion plans to defy pandemic blues in medium term

Following a merger with Muhammad Rashed Alduwish Company in 2008, the company acquired Almaujah Trading in 2013, which specialized in distributing HP and Cannon office supplies, to expand its business outreach. The company continues to open new showrooms across brands amid the pandemic, reflecting the management's confidence in its long-term strategy. The industry is expected to take a hit from the pandemic; however, as the Saudi economy limps back to normalcy following the lifting of lockdown restrictions, we expect Abo Moati to gradually resume business activities and benefit from its expansion plans in the medium term.

#### Abo Moati to benefit from government move to promote and protect SMEs

As part of Vision 2030, the government has laid out plans to push SME contribution to GDP to 35% by 2030 from 20% in 2017, a key move in diversifying government revenues from oil dependency. The government encouraged financial institutions to allocate up to 20% of overall loans to facilitate better access to funding for SMEs. In March 2020, it also announced SAR 50bn in financial aid to support SMEs such as Abo Moati and many others observing downtrends in business activity due to the pandemic and oil price slump.

#### Abo Moati's balance sheet strength remains intact even as revenues decline

The company's business has been severely affected of late due to lower ink sales, reduced income from real estate leases, and more recently, temporary store closures. However, negligible long-term debt on the balance sheet looks comforting in times of current economic stress such as this. Moreover, the company continues to pay consistent dividends, which is reassuring to investors.

#### Move to TASI enhances transparency and stock liquidity

Abo Moati debuted on the NOMU parallel market, which was launched in 2017 with lighter listing requirements to diversify and broaden the capital market for SMEs. The company later moved to TASI, Saudi Arabia's main index, in 2019, which requires adherence to stricter disclosure procedures and provides access to better financing facilities. The stock price saw a considerable run-up and improved liquidity since then.

**Valuation:** We valued Abo Moati using the DCF approach to arrive at a fair value of SAR 22.0 per share. We considered WACC at 6.8% with a terminal growth rate of 2.0%.

	2020	2021e	2022e	2023e
Revenues (SAR mn)	297	273	306	318
Gross Profit (SAR mn)	60	57	66	70
EPS (SAR)	0.7	0.6	0.8	1.0
Operating Margin (%)	7.6%	6.9%	8.0%	8.9%
RoE (%)	6.3%	5.0%	6.8%	7.7%
P/E (x)	17.3x	38.8x	27.8x	23.3x
P/B (x)	1.1x	1.9x	1.9x	1.8x
EV/EBITDA (x)	10.4x	19.0x	15.6x	13.8x

Source: Company Financials, Falcom Research

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## Valuation Summary

### Explanation of the valuation methodology and assumptions

We valued Abo Moati using the DCF approach to arrive at a fair value of SAR 22.0 per share. We considered WACC at 6.8% with a terminal growth rate of 2.0%.

In relative terms, Abo Moati is trading at an EV/EBITDA of 10.4x, showing a discount of 14.8% to its peers and a P/E of 17.3x, showing a discount of 31.7%.

SAR Mn	FY 2020A	FY 2021E	FY 2022E	FY 2023E	FY 2024E	
EBIT	23	19	25	28	32	
Less: Taxes and Zakat	(3)	(2)	(3)	(3)	(3)	
Add: Depreciation, amortization and impairment	9	9	9	9	10	
Less: Changes in working capital	45	(1)	(14)	(9)	(9)	
Less: Net capital expenditure	(1)	(3)	(3)	(3)	(3)	
<b>Free Cash Flow to firm</b>	<b>73</b>	<b>21</b>	<b>14</b>	<b>23</b>	<b>26</b>	
<i>Discount Factor</i>		<i>1.0</i>	<i>0.9</i>	<i>0.8</i>	<i>0.8</i>	
<b>PV of free cash flow to firm</b>		<b>20</b>	<b>12</b>	<b>19</b>	<b>21</b>	
<b>Net Present Value (A)</b>					<b>72</b>	
<b>PV Terminal Value (B)</b>					<b>436</b>	
<b>Assumed Terminal Growth Rate</b>					<b>2.0%</b>	
<b>Discount Rate</b>					<b>6.8%</b>	
<b>Enterprise Value (A+B)</b>	<b>508</b>	<b>WACC Assumptions</b>				
<b>Total Cash</b>	21	Risk free rate				2.7%
<b>Total Debt</b>	87	Market returns				6.3%
<b>Minority Interest</b>	0	Beta				1.0x
<b>Equity Value in SAR mn</b>	<b>442</b>	<b>Cost of equity</b>				<b>9.1%</b>
<b>Number of shares in mn</b>	20	<b>Post tax cost of debt</b>				<b>0.2%</b>
<b>Target Price in SAR per share</b>	<b>22.0</b>	Weight of equity in capital structure				74.8%
<b>CMP in SAR as on August 11<sup>th</sup> 2020</b>	23.2	Weight of debt in capital structure				25.2%
<b>Upside/(Downside) to current market price</b>	<b>(5.1%)</b>	<b>WACC</b>				<b>6.8%</b>

Source: Company Financials, Falcom Research Estimates

### Risks

#### Upside Risk:

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

#### Downside Risks

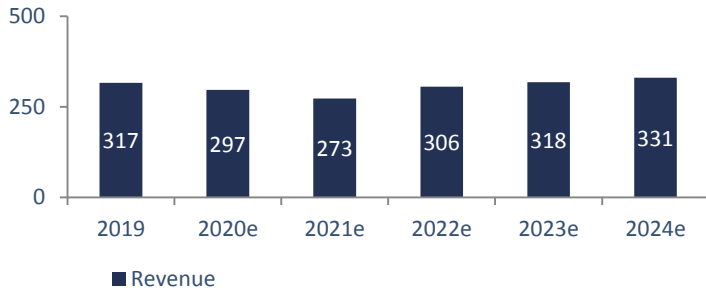
- Any further spread of the virus and non-recovery in oil prices could force the government to implement austerity measures that can adversely impact economic activities and discretionary spending.
- The company's inability to attract customers due to changing consumer preferences or emergence of other sales channels can hurt its prospects.

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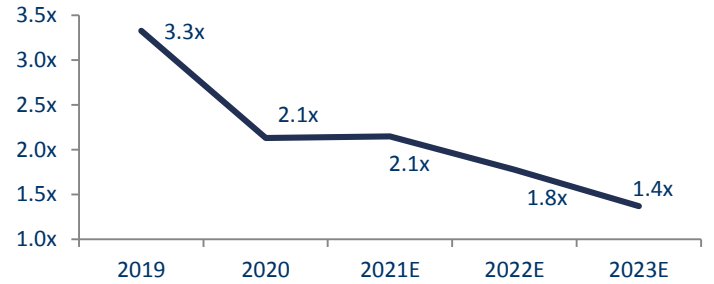
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## Key Charts

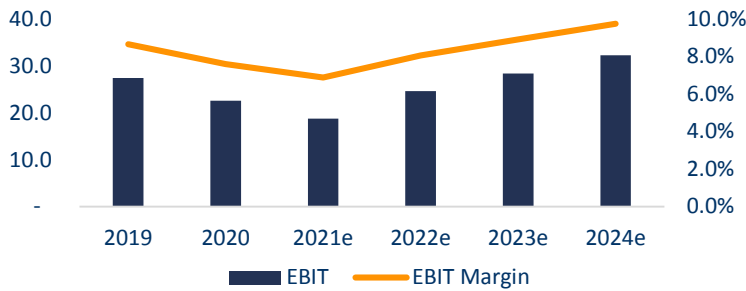
Revenue (SAR mn)



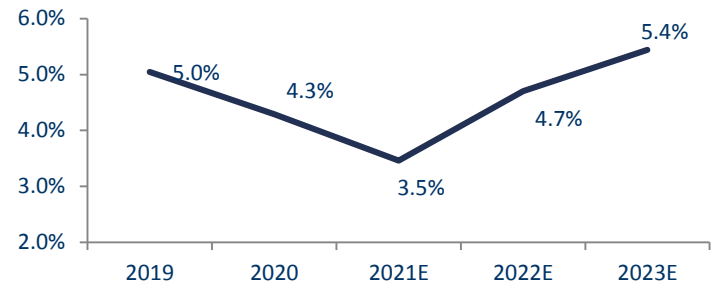
Net Debt/EBITDA



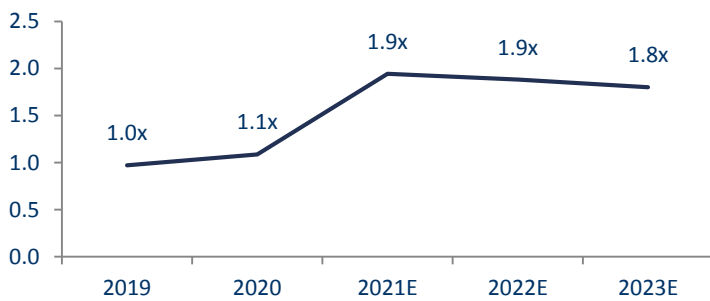
EBIT & Margin



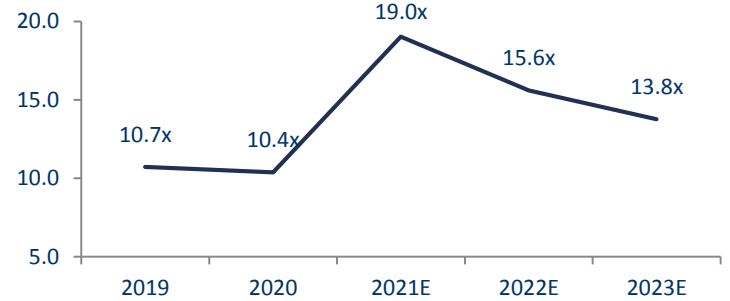
Return on Assets



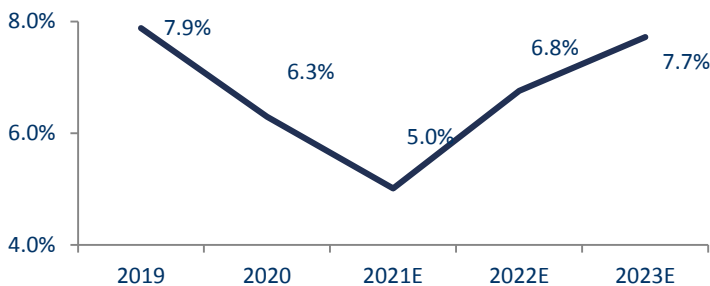
Price to Book



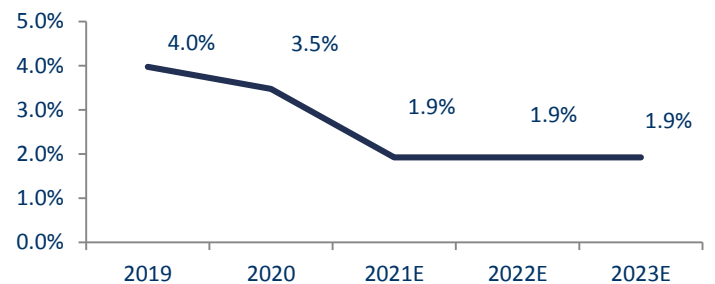
EV/EBITDA



Return on Equity



Dividend Yield



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## Summary Financials

P&L (SAR mn)	2020	2021e	2022e	2023e
Revenue	297	273	306	318
Gross Profit	60	57	66	70
EBITDA	31	27	34	37
EBIT	23	19	25	28
Other Non-Operating Inc. (Exp.)	5	5	5	5
Net Interest	-	-	-	-
PBT	17	14	19	23
Zakat	3	2	3	3
Net Income	15	12	17	20
EPS	0.7	0.6	0.8	1.0
DPS	0.4	0.4	0.4	0.4

BS (SAR mn)	2020	2021e	2022e	2023e
Cash	21	28	28	36
Current Assets	192	198	212	229
Fixed Assets	84	78	72	66
Intangibles	70	70	70	70
Total Assets	346	345	354	365
Current Liabilities	98	95	96	97
Short Term Debt	87	87	87	87
Long Term Debt	-	-	-	-
Shareholders Equities	236	239	246	257
Total Liabilities & Shareholder Equity	346	346	354	366

CF (SAR mn)	2020	2021e	2022e	2023e
Operating Cash Flow	25	21	26	29
Working Capital Changes	45	(1)	(14)	(9)
Cash Flow from Operating Activities	71	19	11	20
Capex	(1)	(3)	(3)	(3)
Cash Flow from Investing Activities	(21)	(3)	(3)	(3)
Changes in Debt	(33)	-	-	-
Dividends	(9)	(9)	(9)	(9)

Source: Bloomberg, Company Financials, Falcom Research

Growth	2020	2021e	2022e	2023e
Revenue	(6.2%)	(8.0%)	12.0%	4.0%
EBITDA	2.8%	(11.7%)	22.0%	11.6%
Operating profit	(17.7%)	(16.8%)	31.3%	15.0%
PBT	(15.3%)	(19.4%)	37.7%	18.0%
Net Income	(18.3%)	(19.4%)	39.3%	19.4%

Ratios (%)	2020	2021e	2022e	2023e
Gross Margin	20.3%	20.8%	21.5%	22.0%
EBITDA Margin	10.5%	10.1%	11.0%	11.8%
EBIT Margin	7.6%	6.9%	8.0%	8.9%
Net Margin	5.0%	4.4%	5.4%	6.2%
ROE	6.3%	5.0%	6.8%	7.7%
ROCE	9.1%	7.5%	9.6%	10.5%
ROA	4.3%	3.5%	4.7%	5.4%
Debt/Equity	0.4x	0.4x	0.4x	0.3x
Net Debt/EBITDA	2.1x	2.1x	1.8x	1.4x
FCF Yield	27.3%	3.6%	1.8%	3.7%
Dividend Yield	3.5%	1.9%	1.9%	1.9%

Valuation	2020	2021e	2022e	2023e
P/E	17.3x	38.8x	27.8x	23.3x
P/B	1.1x	1.9x	1.9x	1.8x
EV/EBITDA	10.4x	19.0x	15.6x	13.8x
EV/EBIT	14.3x	27.9x	21.2x	18.2x
EV/Sales	1.1x	1.9x	1.7x	1.6x

Peer Valuations	P/E	EV/EBITDA
Jarir Marketing Co.	20.2x	17.2x
Fawaz Abdulaziz Al Hokair Company	35.6x	10.6x
United Electronics Company	17.5x	12.2x
Saudi Company for Hardware	30.5x	12.1x
<b>Abo Moati</b>	<b>17.3x</b>	<b>10.4x</b>
<b>Sector Median</b>	<b>25.3x</b>	<b>12.2x</b>
<b>Premium/ (Discount)</b>	<b>(31.7%)</b>	<b>(14.8%)</b>

## 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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