

2Q20 Results Update

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	21.9
Target Price (SAR)	20.7
Upside/Downside (%)	(5.4%)

As of September 27, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	941.7
52-wk High (SAR)	24.0
52-wk Low (SAR)	10.0
Total Outstanding shares (in mn)	43.0
Free Float (%)	33.3%

Lazurde vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	42.8%	38.2%
6m	109.8%	78.7%
12m	41.3%	38.0%

Major Shareholders (%)

L'Azurde Holding Company	50.86%
Abdul Aziz Saleh Ali Al-Othaim	14.89%

Quarterly Sales (SAR mn) and Gross Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 27, 2020

October 17, 2020

Closure of malls and gold souks, reduced working hours and impacted top line in 2Q20

Lazurde Company for Jewelry (Lazurde) reported a net loss of SAR 66.2mn in 2Q20 against the net profit of SAR 12.2mn in 2Q19. The company's revenue declined 68.0% YoY to SAR 170.9mn in 2Q20 due to the complete closure of malls and gold souks, and reduced working hours during the quarter. This sharp drop in the top line offset the decline in SG&A expenses and resulted in an operating loss of SAR 16.2mn during the quarter. The company posted a one-off product recall loss worth SAR 34.7mn in 2Q20, which further weighed on the bottom line. Lazurde's margins contracted sharply during the period, with the net margin contracting to (38.7%) against 2.3% in 2Q19.

Lazurde's performance worsened in 2Q20, as the company was impacted by the complete closure of gold souks and malls during the first half of 2Q20. A reduction in working hours, implemented in the latter half of the quarter as a precautionary measure during the COVID-19 pandemic, further hurt the top line. The company was also impacted by a sharp reduction in wholesale revenue, as the surge in gold prices during the quarter weighed on sales volumes. However, the company recently announced several measures to mitigate the impact of the COVID-19 pandemic and boost profitability. These measures include boosting e-commerce presence, optimizing the wholesale business through cost-control measures, expanding its efficient retail business in Egypt, launching a new retail jewelry line, and shifting focus to the practice of jewelry sale by piece. The company also plans to expand its TOUS business in the kingdom and boost its Miss L' jewelry line sales by increasing presence across retail, e-commerce, and third-party retailers. Nevertheless, higher VAT rates and the resultant reduction in consumer spending, imposition of more lockdowns due to rising COVID-19 cases, and consistently high gold rates remain key headwinds for the company in 2H20. Thus, considering the mentioned factors, we maintain our "Neutral" rating on the stock.

- Revenue fell 68.0% YoY to SAR 170.9mn in 2Q20 from SAR 533.8mn in 2Q19 owing to the decline in revenue contribution from both wholesale and retail segments. Revenue declined 73.0% QoQ from SAR 633.7mn in 1Q20.
- Gross profit plunged 73.9% YoY to SAR 21.1mn in 2Q20, as the sharp drop in cost of sales (down 66.9% YoY to SAR 149.8mn) was offset by the decline in the top line. As a result, the gross profit margin for the quarter contracted to 12.3% as against 15.1% in 2Q19.
- The above-mentioned factors offset the improvement in SG&A expenses and resulted in an operating loss of SAR 16.2mn in 2Q20 against the operating profit of SAR 28.0mn in 2Q19. Consequently, the operating margin contracted to (9.4%) as against 5.3% in 2Q19.
- The company recorded a loss of SAR 34.7mn in 2Q20 due to the recall of products from its wholesale clients. In addition to this one-time expense, higher finance charges and lower net other income in 2Q20 led the company to report a net loss of SAR 66.2mn in the quarter against a net profit of SAR 12.2mn in 2Q19.
- Consequently, the net margin worsened to (38.7%) compared with 2.3% in 2Q19. EPS for the quarter stood at SAR (1.54) against SAR 0.28 in 2Q19.

Valuation: We revise our target price upward to a fair value of SAR 20.7 per share and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	170.9	533.8	(68.0%)	1,659.6	1,976.4	(16.0%)
Gross Profit (SAR mn)	21.1	80.8	(73.9%)	229.1	287.8	(20.4%)
EBITDA (SAR mn)	(4.9)	39.0	NM	74.6	109.3	(31.8%)
Net Profit (SAR mn)	(66.2)	12.2	NM	(45.2)	(17.5)	NM
EPS basic (SAR)	(1.54)	0.28	NM	(1.05)	(0.41)	NM
Gross Margin (%)	12.3%	15.1%	(2.8%)	13.8%	14.6%	(0.8%)
EBITDA Margin (%)	(2.9%)	7.3%	NM	4.5%	5.5%	(1.0%)
Net Profit Margin (%)	(38.7%)	2.3%	NM	(2.7%)	(0.9%)	NM

Source: Company Financials, FALCOM Research

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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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