

**First Quarter for the Period Ending in 30th of June 2020 Results Update**

**October 18, 2020**

**Recommendation Underweight**

Previous Recommendation	Neutral
Current Price (SAR)	31.6
Target Price (SAR)	25.0
Upside/Downside (%)	(20.9%)

As of September 27, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR mn)	632.0
52-Wk High (SAR)	35.5
52-Wk Low (SAR)	11.5
Total Outstanding shares (in mn)	20.0
Free Float (%)	61.0%

**ABO MOATI vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	14.9%	10.4%
6m	161.6%	130.5%
12m	184.7%	181.4%

**Major Shareholders (%)**

Saeed Omar Saeed Basaeed	19.33 %
Saad Abdullah Saad Abo Moati	17.15%

**Quarterly Sales (SAR bn) and Operating Margin**



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

**Weak first quarter for the period ending in 30th of June 2020 performance due to COVID-19 pandemic**

Abdullah Saad Mohammed Abo Moati for Bookstores Co. (Abo Moati)'s net profit contracted 27.2% YoY to SAR 0.7mn in first quarter for the period ending in 30th of June 2020, as a sharp reduction in the top line weighed down the company's bottom line. Revenue for the period was down 18.4% YoY to SAR 36.2mn as preventive measures against the pandemic, initiated by the government during the quarter, subdued sales. Operating profit fell 33.9% YoY to SAR 1.3mn owing to the shrunken top line. In addition to these factors mentioned, a reduction in other income weighted the bottom line, which in turn narrowed the company's margins in first quarter for the period ending in June 2020.

The company's performance in first quarter for the period ending in June 2020 was hampered by the pandemic as the Saudi government declared lockdown measures to curb the spread of the virus. This resulted in Abo Moati announcing store closures, which hit the bottom line. Though, the gradual reopening of the Saudi economy is expected to support the company's business activities, the industry is expected to take a hit from the pandemic in 2020. We anticipate subdued demand for office and school supplies during the year as corporations and schools deploy work-from-home and learn-from-home models, respectively. The higher VAT rate and lower oil prices, which are expected to impact consumer and government spending, respectively, remain key headwinds for the company. Furthermore, the rising number of COVID-19 cases and a possibility of more lockdowns to curb the pandemic may again hurt the company's bottom line. Abo Moati continued its expansion plans with the launch of a new showroom in Jeddah, which takes its showroom tally in Saudi Arabia to 10. However, we believe stock has ran ahead of the fundamentals. In view of the rich valuation, we revise our rating to "Underweight" on the stock.

- Revenue plunged 18.4% YoY to SAR 36.2mn in first quarter for the period ending in June 2020 from SAR 44.3mn first quarter for the period ending in 30th of June 2019 as the kingdom's measures to limit the spread of the pandemic hurt the top line. Revenue declined 52.1% QoQ from SAR 75.5mn in the previous quarter.
- Gross profit (down 13.6% YoY to SAR 7.9mn) declined at a slower rate than the top line owing to the 19.7% YoY fall in the cost of sales to SAR 28.3mn during the period. Thus, the gross profit margin for the quarter expanded to 21.8% against 20.6% in first quarter for the period ending in June 2019 and 21.1% in fourth quarter for the period ending in 31st of March 2020.
- Operating profit plummeted 33.9% YoY to SAR 1.3mn in first quarter for the period ending in June 2020 as lower SG&A expenses were offset by the sharp drop in the top line. Consequently, operating profit margin contracted to 3.7% in first quarter for the period ending in June 2020 as against 4.5% in first quarter for the period ending in June 2019 and 6.0% in fourth quarter for the period ending in March 2020.
- Reduction in finance charges during the quarter was offset by the decline in other income, resulting in a 27.2% YoY decline in net profit to SAR 0.7mn in first quarter for the period ending in June 2020. Consequently, the net profit margin slipped to 2.0% in first quarter for the period ending in June 2020 compared to 2.2% in first quarter for the period ending in June 2019 and 4.7% in fourth quarter for the period ending in March 2020.
- On July 12, Abo Moati launched a new showroom at Jeddah with an area of 373.0 sq. m, taking its tally of showrooms in the kingdom to 10.
- On July 20, the company renewed its Islamic financing facility with Samba Financial Group worth SAR 45.0mn for another year – to be used for working capital requirements.
- On September 10, the company's shareholders approved a cash dividend of SAR 0.5 per share for the year ending in 31<sup>st</sup> of March 2020, worth SAR 10.0mn.

**Valuation:** We revise our target price to a fair value of SAR 25.0 per share and alter our rating to "Underweight".

	30th June 2020 (Q)	30th June 2019 (Q)	% YoY	31st March 2021 (Y)	31st March 2020 (Y)	% YoY
Revenues (SAR mn)	36.2	44.3	(18.4%)	279.2	297.1	(6.0%)
Gross Profit (SAR mn)	7.9	9.1	(13.6%)	58.0	60.2	(3.7%)
EBITDA (SAR mn)	3.0	3.3	(7.5%)	25.9	29.1	(11.0%)
Net Profit (SAR mn)	0.7	1.0	(27.2%)	13.0	14.8	(12.0%)
EPS basic (SAR)	0.04	0.05	(27.2%)	0.65	0.74	(12.0%)
Gross Margin (%)	21.8%	20.6%	1.2%	20.8%	20.3%	0.5%
EBITDA Margin (%)	8.4%	7.4%	1.0%	9.3%	9.8%	(0.5%)
Net Profit Margin (%)	2.0%	2.2%	(0.2%)	4.7%	5.0%	(0.3%)

Source: Company Financials, FALCOM Research

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**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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