

3Q20 Results Update

November 20, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	51.6
Target Price (SAR)	55.0
Upside/Downside (%)	6.6%

As of October 28, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.5
52-Wk High (SAR)	61.3
52-Wk Low (SAR)	37.0
Total Outstanding shares (in mn)	30.0
Free Float (%)	94.3%

ALASEEL vs. TASI (Rebased)

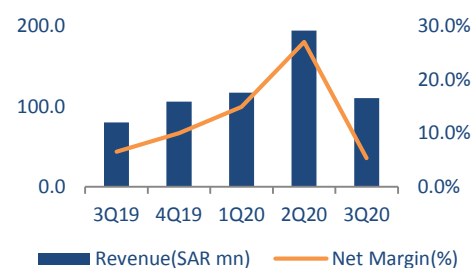


Price Performance (%)	Absolute	Relative
1m	(9.6%)	(7.1%)
6m	16.2%	(1.8%)
12m	35.4%	31.1%

Major Shareholders (%)

Mohammed Abdullah Ibrahim Al Jedaie	5.80%
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Revenue (SAR mn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of October 28, 2020

Higher top line, reduced operating expenses support bottom line; margins contract in 3Q20

Thob Al Aseel (Al Aseel) reported a 38.2% YoY rise in revenue to SAR 110.1mn in 3Q20, following the launch of new products during the quarter. The top line was also supported by Thob's inking of a medical equipment supplies agreement with National Unified Procurement Company (NUPCO) in 3Q20. Total general and administration expense and selling and marketing expense fell 22.9% YoY to SAR 14.8mn on the management's implementation of cost-controlling measures, resulting in a 16.2% YoY rise in operating income. Net income increased 13.6% YoY to SAR 5.9mn due to a higher top line and reduced operating costs. However, the net margin for the quarter shrank to 5.4% from 6.5% in 3Q19 and 27.0% in 2Q20, respectively.

The company continued to report YoY revenue growth in 3Q20 and shrugged off concerns regarding the COVID-19 pandemic. Launch of new products, coupled with robust sales through e-commerce channels, boosted the top line in 9M20. New medical product contracts generated sales of approximately SAR 57.0mn in 3Q20. The company signed several contracts in the Saudi healthcare sector in 3Q20 and aims to further diversify its product mix by launching more products in the Saudi healthcare market. Additionally, sound fundamentals and marginal debt on Thob's balance sheet would further boost its growth plans. However, these factors appear to have been reflected in the company's recent stock performance, and we see limited upside potential. Thus, we maintain a Neutral rating on the stock.

- Thob's revenue rose 38.2% YoY to SAR 110.1mn in 3Q20 owing to the launch of new products and the signing of a medical equipment supply contract during the quarter. Revenue dropped 43.2% QoQ from SAR 193.8mn recorded in 2Q20.
- Gross profit (up 8.2% YoY to SAR 31.6mn) grew at a slower pace than revenue, as cost of sales surged 55.5% YoY to SAR 78.5mn in 3Q20. This led to a contraction in the gross profit margin to 28.7% in 3Q20, against 36.6% in 3Q19 and 38.6% in 2Q20.
- Operating profit increased 16.2% YoY to SAR 10.6mn, supported by 35.0% YoY and 11.9% YoY decline in general and administration expense, and selling and marketing expense, respectively. However, the operating margin shrank to 9.6% in 3Q20 compared with 11.4% in 3Q19.
- Net profit surged 13.6% YoY to SAR 5.9mn due to the higher top line and lower operating expenses. Nevertheless, the net profit margin narrowed down to 5.4% in 3Q20.
- EPS inched up to SAR 0.20 in 3Q20 compared with SAR 0.17 in 3Q19. However, it contracted from SAR 1.74 reported in 2Q20.
- On July 28, the company announced the signing of a medical equipment supplies contract worth SAR 73.1mn with NUPCO.

Valuation: We maintain our target price at a fair value of SAR 55.0 per share and retain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	110.1	79.6	38.2%	529.7	477.2	11.0%
Gross Profit (SAR mn)	31.6	29.2	8.2%	188.0	180.7	4.1%
EBITDA (SAR mn)	11.0	9.6	15.0%	101.4	97.2	4.3%
Net Profit (SAR mn)	5.9	5.2	13.6%	84.8	80.4	5.5%
EPS Basic (SAR)	0.20	0.17	13.6%	2.8	2.7	5.5%
Gross Margin (%)	28.7%	36.6%	(7.9%)	35.5%	37.9%	(2.4%)
EBITDA Margin (%)	10.0%	12.0%	(2.0%)	19.1%	20.4%	(1.2%)
Net Profit Margin (%)	5.4%	6.5%	(1.2%)	16.0%	16.8%	(0.8%)

Source: Company Financials, FALCOM Research

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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