



Transformation has reduced losses, more work needed to go back to pre-pandemic profit levels; Update to Neutral with TP of SAR 33.0/share

SACO reported a net loss of SAR 24.3mn in Q4-23, losses were down 68.5% Y/Y, sequentially losses widened by 99.4% due to 252bps contraction in gross margins and higher operating expenses. The reduction in net losses on an Y/Y basis is owed to low base due to clearance of old inventory in Q4-22. On full year 2023 basis, SACO posted net losses of SAR 68.9mn, down 51.6% Y/Y, the reduction in losses came on account of 524bps expansion in gross margins to 11.2%, better operational efficiency and decrease in impairment loss on non-financial assets by SAR 21.6mn. SACO's turnaround plan has shrunk losses, however we believe SACO needs to significantly improve store efficiency (sales/sqm) to return to pre-pandemic profitability levels. After rallying 61.6% from its recent low we update our recommendation to "Neutral" on SACO with a TP of SAR 33.0/share indicating a downside of 18.0% from last close.

Higher operating expenses and weaker gross margins widened losses sequentially in Q4-23, while low base (due to inventory clearance in Q4-22) resulted in reduction in losses on an Y/Y basis: SACO reported a net loss of SAR 24.3mn in Q4-23, losses were down 68.5% Y/Y, sequentially losses widened by 99.4% due to 252bps contraction in gross margins and higher operating expenses. The reduction in losses on an Y/Y basis is owed to sizable clearance of old inventory in Q4-22. Bottom line was significantly lower than our expectation of loss of SAR 6.4mn due to lower gross margins. On a full year 2023 basis SACO posted net losses of SAR 68.9mn, down 51.6% Y/Y, the reduction in net losses came on account of 524bps expansion in gross margins to 11.2%, better operational efficiency and decrease in impairment loss on non-financial assets by SAR 21.6mn.

The company posted, in line with estimate, revenue of SAR 239mn in Q4-23, down 23.4% Y/Y (up 8.9% Q/Q), the Y/Y decline in revenue is owed to the clearance of old inventory in Q4-22. For full year 2023, revenues declined by 18.2% Y/Y, due to inventory clearance in 2022 and delayed arrival of newly sourced products. In addition, there was also a stagnation seen in retail market in general in 2023.

The company recorded gross profits of SAR 22.4mn as compared to SAR 23.7mn losses booked in Q4-22, due to one off impact last year. On a sequential basis gross profits declined by 14.2% Q/Q in Q4-23, mainly due to 252bps contraction in gross margins. For full year 2023, gross profits expanded by 53.9% Y/Y to SAR 104.1mn, due to 524bps Y/Y improvement in gross margins to 11.2%.

Operating income remained negative, with the company posting operating loss of SAR 23.8mn in Q4-23, down 65.4% Y/Y (up 202.3% sequentially). The sequential increase in operating losses is due to higher operating expenses. Operating losses contracted by 54.9% Y/Y in full year 2023, due to decline in administrative, general and selling and marketing expenses.

AJC view and valuation: SACO posted a below expected bottom line of SAR -24.3mn in Q4-23 due to weaker gross margins and above expected operating expenses. The company under new management and turnaround program has been able to reduce losses, however we believe that SACO needs to improve its store efficiency (revenue per square meter) significantly to return back to pre-pandemic profit levels. After rallying 61.6% from its recent low SACO trades at 2025E PE of 39.4x, hence we update our recommendation to "Neutral" on SACO with a TP of SAR 33.0/share indicating a downside of 18.0% from last close.

Results Summary

SARmn (unless specified)	Q4-22	Q3-23	Q4-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	311.9	219.4	239.0	-23.4%	8.9%	-0.7%
Gross profit	-23.7	26.1	22.4	NM	-14.2%	-30.2%
Gross margin	-7.6%	11.9%	9.4%			
EBIT	-68.9	-7.9	-23.8	-65.4%	202.3%	750.5%
Net profit	-77.2	-12.2	-24.3	-68.5%	99.4%	277.8%
EPS	-2.14	-0.34	-0.68	-68.5%	99.4%	277.8%

Source: Company Report, Aljazira capital

Recommendation	Neutral
Target Price (SAR)	33.0
Upside / (Downside)*	(18.0%)

Source: Tadawul *prices as of 6th March 2024

Key Financials

in SAR mn, (unless specified)	FY23	FY24E	FY25E	FY26E
Revenue	930	1,137	1,275	1,372
Growth %	-18.2%	22.3%	12.2%	7.6%
Gross Profit	104	186	226	246
Net Profit	(69)	12	37	47
Growth %	NM	NM	205.2%	27.8%
EPS	-1.92	0.33	1.02	1.30

Source: Company reports, Aljazira Capital

Key Ratios

	FY23	FY24E	FY25E	FY26E
GP Margin	11.2%	16.3%	17.7%	17.9%
Net Margin	-7.4%	1.1%	2.9%	3.4%
P/E (x)	NM	120.4	39.4	30.9
P/B (x)	4.2	4.1	3.9	3.6
EV/EBITDA (x)	42.8	15.1	12.5	10.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%

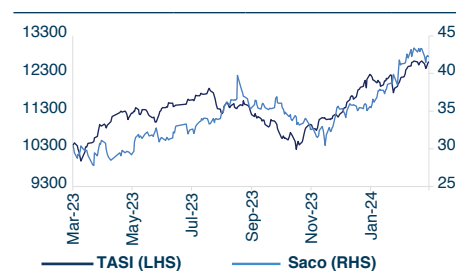
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	1.4
YTD%	4.0%
52 weeks (High)/(Low)	45.7/24.9
Share Outstanding (mn)	36.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RATING
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
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3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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