

Jahez International Co.

Continuing operational scale up, TP revised to SAR37/sh

Overweight

Price Target (SAR): 37.00

Current (24th April 2024): 32.00
Upside/Downside: 16.00% above current

Valuation Multiples	23	24E	25E
P/E (x)	53.6	34.3	23.1
P/B (x)	5.5	6.4	4.1

Major Shareholders	% Ownership
ALAMAT International Co.	26.70
Dhirwa Holding Company	7.16
Impact Finance Corporation	6.25

Price Performance	YTD	3M	1M
Absolute	-19%	5.3%	21.0%
Relative to NOMU	-17.1%	-0.2%	13.7%

Geographical penetration across GCC countries namely KSA, Bahrain and Kuwait combined with vertical expansion by way of ramping up the non-KSA platform business and other verticals were the major highlights for Jahez's FY23 financial performance. Besides, inorganic growth continues to be a key driver for growth on the back of a confluence of cross selling opportunities, synergies, and strong execution capabilities. Over the recent years, the company has restructured their business beyond the pure consumer-facing food delivery vertical towards digital solutions and last mile delivery services in the logistic arm. The company's strategy positions it to leverage its existing staff network for other high margin verticals. Additionally, Jahez's stake acquisition (35%) in Sol would aid the company's logistic operations by catering to restaurants as a supplier for essential items enabling an uptick in engagements via partnerships with restaurants. Similarly, the partnership with Marn would bring about synergies on the digital forefront. Therefore, we anticipate Jahez to witness cost optimization and margin expansion as economies of scale and investments in non-Saudi platform business (Kuwait and Bahrain) materialize. In other note, we expect revenues in FY24 to grow by ~21% underpinned by the improvement in the average delivery fees per order as market dynamics improve and a sustained growth in GMV. We anticipate continued growth in the number of active users, albeit at a slower pace (10% CAGR expected between 2023-2030) as the addressable market size starts to mature. Nevertheless, we expect operating leverage benefits to pave the way for continued margin growth over the coming years. Overall, post updating FY23 financials, we revise our estimates by taking a conservative stance on the user count growth outlook. On the back of our expectations for a stable and continued top-line growth trajectory and relatively slower cost growth contributing to higher profitability, we revise our TP to SAR37/sh from the earlier TP of SAR36/sh and maintain our rating at "Overweight".

Earnings

(SARmn)	2023	2024E	2025E
Revenue	1,785	2,156	2,564
Revenue growth	11%	21%	19%
Gross profit	406	508	656
Gross margin	23%	24%	26%
EBITDA	155	234	327
EBITDA margin	9%	11%	13%
Net profit	125	196	290
Net margin	7%	9%	11%
EPS	0.60	0.93	1.38
DPS	0.00	0.00	0.00
P/E	53.6x	34.3x	23.1x
EV/EBITDA	50.4x	33.4x	23.9x
RoE	10.9%	14.5%	17.5%

Source: Company data, Al Rajhi Capital

A wrap on FY23 results- FY23 revenue growth for Jahez was bolstered by decent growth numbers across several key performance indicators. To shed light on numbers, the company reported a 23% growth in the number of orders (84.8mn in FY23) aided by a strong growth in the active user count in FY23 (3.5mn versus 2.8mn in FY22). Moreover, the GMV continued to inch up at a solid pace in FY23 although the average order value declined to SAR60.1 due to the impact of GCC market mix. The key thing to note here is that the subdued (single digit) pace of growth in the delivery revenue vertical owing to the slash in the average delivery fees per order in order to be in sync with market discounting trend was offset by higher commission revenues. The expansion in commission revenues was driven by a 110-bps y-o-y growth in take rates (13.6% in FY23). Moreover, the company's vertical expansion into the cloud kitchen segment and logistic segment enhanced the revenue stream. On the other hand, the company witnessed marginal improvement in the gross margins despite increased cost outlays with regard to the expansion strategies and we expect the improvement to continue. However, at the operating level, the leverage might start to kick in from FY24 onwards as operating margins for FY23 came in at ~5.8% versus adjusted operating margins of ~8.8% in FY22 (adjusted for one-off fleet expenses). The higher operating expenses in FY23 can be attributed to fresh expansion. Overall, healthy metrics in the delivery platform vertical underscored the strong y-o-y revenue growth.

Figure 1 **Earnings Summary H2 2023**

(SARmn)	H2 2023	H1 2023	H2 2022	% chg y-o-y	% chg h-o-h	ARC Estimates
Revenue	949	836	863	13.6%	10.0%	960
Gross Profit	221	185	190	19.7%	16.2%	240
Gross Margin	23.3%	22.1%	22.1%	NM	NM	25.0%
Op. Profit*	60	42	79	42.1%	-23.7%	100
Op. Margin	6.4%	5.1%	9.2%	NM	NM	10.4%
Net Profit**	63	63	80	-0.1%	-22.1%	77
Net Margin	6.6%	7.5%	9.3%	NM	NM	8.0%

Source: Company data, Al Rajhi Capital; * H2 2022 Operating profit adjusted for one-off driver expenses of SAR79.53mn **H2 2022 Net profit adjusted for one-off

Valuations: Going forward, we expect the company's GMV to keep growing albeit at a slower pace. We value the company based on the DCF methodology using a WACC of 10.2% and terminal growth of 3.5% to arrive at our target price of SAR37/share. We expect the company to exhibit earnings resilience and stability over the coming years. Hence, we slightly increase our TP for the company from the earlier TP of SAR36/sh to SAR37/sh and accordingly maintain our rating at "Overweight" implying an upside of 16% at the current price.

Risks: The key downside risks to our valuation assumptions are i) pressure on take rates due to increased competition; ii) subdued growth from KSA, Bahrain, or Kuwait markets; and iii) higher discounting in the delivery fees.

Financials

Figure 2 Income Statement

(SAR mn)	2023	2024E	2025E
Sales	1,785	2,156	2,564
Cost of Sales	(1,379)	(1,648)	(1,908)
<i>% of revenues</i>	77.3%	76.4%	74.4%
Gross Income	406	508	656
General and administrative expenses	(106)	(115)	(136)
Marketing & advertising expenses	(150)	(172)	(205)
Research and Development Expenses	(42)	(23)	(26)
Impairment loss on trade receivables	(5)	0	0
Operating Expenses	(303)	(310)	(366)
<i>% of revenues</i>	17.0%	14.4%	14.3%
Operating Income	103	198	290
Other income	(1)	0	0
Unrealized gains on investment at fair value through profit or loss	3	3	4
Financial costs	41	3	3
Profit before tax	146	205	296
Zakat & Tax	(27)	(19)	(21)
Net Profit Before Unusual Items	119	186	275
Non-controlling interest	7	10	15
Net Income	125	196	290
Adj. EPS (SAR/sh)	0.60	0.93	1.38

Source: Al Rajhi Capital estimates

Figure 4 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash from operating activities	257	181	373
Cash from investing activities	(16)	(15)	(18)
Cash from financing activities	(34)	(7)	(5)
Net change in cash and cash equivalents	206	159	349
Cash and cash equivalents, at the end of the period	1,109	1,268	1,618

Source: Al Rajhi Capital estimates

Figure 5 Key Ratios

KPIs	2023	2024E	2025E
Gross margin (%)	22.7%	23.6%	25.6%
EBITDA margin (%)	8.7%	10.8%	12.7%
Operating margin (%)	5.8%	9.2%	11.3%
Net margin (%)	7.0%	9.1%	11.3%
ROA (%)	7.6%	10.6%	12.9%
ROE (%)	10.9%	14.5%	17.5%
D/E (x)	0.1x	0.1x	0.1x

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

(SAR mn)	2023	2024E	2025E
Assets			
Inventory	10	2	2
Trade receivables	36	30	35
Prepayments and advances	72	110	131
Due from related parties	0	0	0
Cash and cash equivalents	1,109	1,268	1,618
Deposits with financial institutions	108	108	108
Total current Assets	1,335	1,517	1,893
Property and Equipment	54	62	72
Other investments	0	0	0
Intangible Assets	81	79	78
Investments at fair value through profit or loss	84	88	91
Right-of-use assets	97	106	111
Total non-current assets	316	335	351
Total assets	1,651	1,852	2,245
Liabilities			
Collections due to customers	162	160	190
Current portion of lease liabilities on right-of-use assets	33	23	25
Short-term loans	2	2	2
Trade payables	84	60	70
Accrued expenses and other current liabilities	116	108	128
Due to related parties	0	0	0
Zakat provision	29	29	29
Total current liabilities	425	382	445
Non-current portion of lease liabilities on right-of-use assets	63	92	101
Employee benefit obligation	17	27	42
Total non-current liabilities	80	118	143
Shareholders' equity			
Capital	105	105	105
Share premium	740	740	740
Statutory and other reserve	48	48	48
Retained earnings	259	454	745
Equity attributable to shareholders of the Parent Company	1,152	1,347	1,638
Non-controlling interest	(6)	4	19
Total equity	1,145	1,352	1,657
Total liabilities	1,651	1,852	2,245

Source: Al Rajhi Capital estimates

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