

AL OTHAIM

الأهلي كابيتال
NCB Capital

EVENT FLASH

Strong sales growth supports all-time high earnings

Al Othaim reported a strong set of 4Q16 results, with net income increasing 5.9% YoY to an all-time high of SR94.5mn. This is higher than NCBC estimates of SR77mn. We believe the deviation in earnings came from a higher than expected revenue growth of +24.1% YoY and lower than expected Opex, offsetting the impact of lower rental income from OREIDCO.

- **NCBC view on the results:** Al Othaim reported a strong set of 4Q16 results, with net income increasing 5.9% YoY to a record high of SR94.5mn. This is higher than the NCBC estimates and consensus estimates of SR77mn and SR90mn, respectively. We believe the deviation was largely due to the strong revenue growth (+24.1% YoY) and lower than expected Opex, which offset the impact of lower other income from Al Othaim's real estate arm (OREIDCO) and higher Zakat provisions.
- Al Othaim's sales increased 24.1% YoY to SR1,928mn in 4Q16. This is a record high top-line level and exceeds our estimates of SR1,821mn. We believe this was driven by a c.22% YoY growth in sales from the opening of 32 new stores since 4Q15, along with an organic growth of c.2%. Al Othaim has 174 stores (160 in Saudi Arabia and 14 in Egypt) as of 4Q16. We believe the staple product nature of Al Othaim supported its overall strong sales growth in comparison to companies selling discretionary products.
- Gross margins contracted 107bps YoY to 19.3% in 4Q16. This compares with our gross margin estimates of 20.0%. We believe the weakness in margins is due to the promotions offered to support overall sales growth.
- Opex increased 16.8% YoY to SR270mn, as a result of the aggressive store expansions and marketing initiatives. EBIT increased 20.0% YoY to SR102.38mn, with EBIT margins contracting 18bps YoY to 5.3%. This is significantly higher than our EBIT profit and margin estimates of SR70.3mn and 3.9%, respectively. We estimated Opex to continue to increase by c.SR60mn YoY to SR295mn, similar to the previous quarter. However Opex grew by only SR39mn YoY, which we believe is due to lower than expected marketing expenses and general operational efficiencies.
- We remain Overweight on Al Othaim with a PT of SR111.3. Al Othaim remains our top-pick among covered Retail stocks. Al Othaim is currently trading at a 2017E P/E of 15.1x vs. 15.9x of the covered Retail stocks.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var [^]
Sales	1,928	1,553	24.1	1,821	5.9
Gross income	372.6	316.7	17.6	364.9	2.1
Gross margin (%)	19.3%	20.4%	(1.07)	20.0%	(0.72)
Operating income	102.3	85.3	20.0	70.3	45.6
Operating margin (%)	5.3%	5.5%	(0.18)	3.9%	1.45
Net income	94.5	89.2	5.9	76.9	22.8
Net margin (%)	4.9%	5.7%	(0.84)	4.2%	0.68
EPS	2.10	1.98	5.9	1.71	22.8

Source: Company, NCBC Research. ^% Var indicates variance from NCBC estimates
Please refer to the last page for important disclaimer

OVERWEIGHT

Target price (SR) 111.3

Current price (SR) 95.6

STOCK DETAILS

M52-week range H/L (SR)	108/65
Market cap (\$ mn)	1,148
Shares outstanding (mn)	45
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.4)	26.6	46.8
Rel. to market	3.5	1.1	22.7

Avg daily turnover (mn)	SR	US\$
3M	6.9	1.8
12M	5.4	1.4

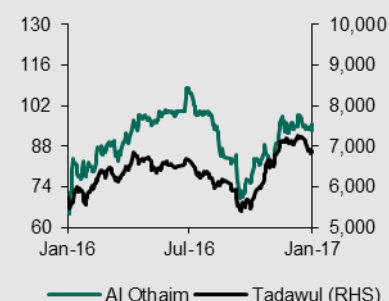
Reuters code	4001.SE
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VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	18.6	23.1	15.1
P/B (x)	3.9	3.6	3.2
EV/EBITDA (x)	13.4	14.1	10.5
Div Yield (%)	2.1	2.4	2.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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