

AL OTHAIM

الأهلي كابيتال
NCB Capital

EVENT FLASH

Record high 1Q net income on strong sales growth

Al Othaim reported a strong set of 1Q17 results, with net income increasing +29.0% YoY to SR60.2mn. This is the highest 1Q net income on record and is in-line with NCBC estimates of SR60.9mn. We believe aggressive store openings and Opex efficiencies are key positives, which would drive the earnings going forward. The company trades at a 2017E P/E of 16.3x vs sector at 15.0x.

- NCBC view on the results:** Al Othaim reported a strong set of 1Q17 results, with net income increasing +29.0% YoY to SR60.2mn. This is the highest 1Q net income on record and is in-line with the NCBC estimates of SR60.9mn. Adjusting for the fire incident related provisions in 1Q16 and 1Q17, net income increased 15.3% YoY to SR63.7mn from SR55.2mn. We believe this growth is mainly attributed to higher sales (+16.8% YoY).
- Al Othaim's sales increased +16.8% YoY to a record high 1Q level of SR1,876mn in 1Q17, coming in-line with our estimates of SR1,853mn. We believe the sales growth was driven by the 36 new stores opened since 1Q16 (18 in Saudi and 18 in Egypt). Al Othaim currently has 181 stores (163 in Saudi Arabia and 19 in Egypt) as of 1Q17.
- Gross margins expanded 54bps YoY to 17.1% in 1Q17, coming in-line with our estimates of 17.0%. We believe the improvement was driven by lower discounts and better supplier terms. As a result, gross profits increased +20.6% YoY to SR320.1mn, coming in-line with our estimates. Opex increased +18.7% YoY to SR256mn. We believe the increase is due to the store expansions and marketing initiatives. EBIT increased +28.6% YoY to SR64.4mn, with EBIT margins expanding 32bps YoY to 3.4%.
- Al Othaim took provisions of SR8.6mn in 1Q16 for losses from a fire incident in its 55% owned subsidiary, Riyadh Food Industries, and also recorded provisions of SR3.5mn in 1Q17 for a fire incident in one of its branches. The losses are insured and the claim of reimbursement is in process. Adjusted net income increased +15.3% YoY to SR63.7mn from SR55.2mn in 1Q16.
- We remain Overweight on Al Othaim with a PT of SR111.3. Al Othaim remains our top-pick among covered Retail stocks. Store expansions along with a defensive product portfolio are key positives. Aggressive expansion in the Egyptian retail market further supports the earnings outlook. Al Othaim trades at a 2017E P/E of 16.3x vs sector at 15.0x.

1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var [^]	% QoQ
Revenues	1,876	1,606	16.8	1,853	1.2	(2.7)
Gross income	320.1	265.5**	20.6	315.0	1.6	(11.7)**
Gross margin (%)	17.1%	16.5%	0.54	17.0%	0.07	(1.74)
EBIT	64.4	50.1**	28.6	57.4	12.2	(39.1)**
Margin (%)	3.4%	3.1%	0.32	3.1%	0.34	(2.05)
Net income	60.2	46.6**	29.0	60.9	(1.3)	(37.0)**
Margin (%)	3.2%	2.9%	0.30	3.3%	(0.08)	(1.75)
Adj. Net income	63.7	55.2**	15.3	60.9	4.4	(33.4)**
Adj. Margin (%)	3.4%	3.4%	0.0	3.3%	0.1	(1.6)
Reported EPS (SR)	1.34	1.04	29.0	1.35	(1.3)	(37.0)

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts; **Restated

OVERWEIGHT

Target price (SR) 111.3

Current price (SR) 95.6

Upside/Downside (%) 8.1

STOCK DETAILS

M52-week range H/L (SR)	110/70
Market cap (\$ mn)	1,237
Shares outstanding (mn)	45
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.8)	0.3	5.6
Rel. to market	(0.8)	1.7	2.7

Avg daily turnover (mn)	SR	US\$
3M	5.0	1.3
12M	5.0	1.3

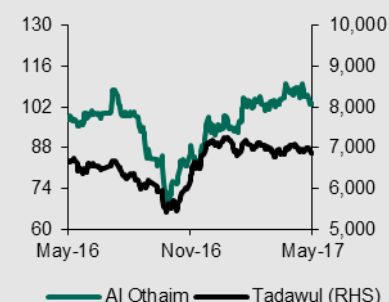
Reuters code	4001.SE
Bloomberg code	ALOTHAIM AB
	www.othaimmarkets.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	20.1	16.3	14.1
P/B (x)	3.7	3.4	3.0
EV/EBITDA (x)	12.8	11.3	10.3
Div Yield (%)	1.9	2.4	2.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

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

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware of, and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.