Abdullah Al Othaim Markets Co.

Result Flash Note 1Q-2017 | May 2017

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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Q1-2017 results in-line with consensus. Net income came at SAR 60.2mn (SAR1.34 EPS) against our estimates of SAR 55.7mn. The deviation is mainly due to higher than expected top line growth supported by LFL growth and 16.8% YoY expansions in store network (21 new local stores YoY). Continued sales growth in line with our FY2017 outlook on non-discretionary retail. We remain Neutral on the company with an unchanged PT of 100.1 SAR per share.

- A.Othaim Market reported marginally higher than expected net income for the quarter. Net income came at SAR 60.2mn (EPS SAR 1.34), posting 29.0% growth YoY and a 37.0% QoQ decline. The result was supported by top line growth, in addition to improving performance of subsidiaries and associates. The QoQ decline is mainly due to annual targets incentives recognition (rebates) at the end of the fiscal year, in addition to decrease in rent revenues. Subsidiaries and associates performance improved as a result of ceasing non-profitable activities. Quarterly earnings include a SAR 3.5mn fire incident loss (fully covered by insurance). The same quarter last year included a fire incident loss of SAR 8.6mn, which lowered the comparative growth base for the current quarter.
- Revenue for the quarter stood at SAR 1875.7mn; an increase of 16.7%YoY and a 2.8% QoQ decline. The YoY growth was supported by growing LFL sales of existing branches and expansions (21 new local stores added YoY). Total store count stood at 174 by the end of FY2016, of which, 15 were in Egypt while 159 are local. The company currently operates 22 stores in Egypt, making less than 1% of total revenue. The company plans on reaching 200 stores by the end of FY2017. We expect Al-Othaim to add between 24-26 new stores by the end of the year.
- Gross profit for the quarter stood at SAR 320.1mn depicting a 20.5% growth YoY and 11.7% QoQ decline. Gross margins for the quarter stood at 17.0% compared to 16.5% for the same quarter last year and 18.8% last quarter (supported by rebates). FY2017 gross margins are estimated to stand at 17.8% supported by store network growth. Saudization efforts were long expected to pressure margins. However, improving labor productivity metrics would mitigate the risk of margin compression. Operating income grew 28.5%YoY, in-line with top line growth.

AJC view: We maintain our FY2017 outlook for the company and sector, backed by continued sales growth and expanding margins in MGRs' (Mass Grocery Retailers). Room for market share gains in Mass Grocery, VAT exemption on basic items, and the reversal of public employees allowance cuts (announced on April 2017) alleviate macro pressure on the company and sector. Visibility on the level and magnitude of H2-2017 impact of higher utility costs is low. Upside and downside risks rest mainly on macro and industry wide conditions. Our revised EPS is estimated at SAR 7.9 per share, excluding non-recurring items would put FY2017 EPS at SAR 5.75 per share (12.5% YoY). Al-Othaim currently trades at a premium to TASI and sector. TTM PE stands at 19.3x while estimated forward PE stands at 18.1x (excluding non-recurring items). We remain "**Neutral**" on Al-Othaim with an unchanged PT of SAR 100.1 per share.

Results Summary

SARmn (unless specified)	Q1-2016	Q4-2016	Q1-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	1606.2	1928.2	1875.7	16.7%	-2.8%	3.5%
Gross Profit	265.5	362.7	320.1	20.5%	-11.7%	0.5%
Gross Margin	*16.5%*	*18.8%*	*17.0%*	-	-	-
EBIT	50.1	105.8	64.4	28.5%	-39.2%	-
Net Profit	46.6	95.5	60.2	29.1%	-36.3%	5.4%
EPS	**1.04**	**2.12**	**1.34**	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	**'Neutral'**
Current Price* (SAR)	104.5
Target Price (SAR)	**100.1**
Upside / (Downside)	**2.8%**

*prices as of 10th of May 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenue	6035.8	7171.7	7,773.5
Gross Profit	998.5	1,271.6	1,382.5
Net Profit	230.9	230.0	356.7*
EPS	5.13	5.11	7.90*

Source: Company reports, Aljazira Capital
*includes SAR96.8mn non-recurring item

Key Market Data

Market Cap (mn)	4,702.0
YTD %	5.25%
Shares Outstanding (mn)	45.0
52 Week (High)	111.0
52 Week (Low)	63.0

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	16.5%	17.7%	17.8%
Net Margin	3.8%	3.2%	3.3%*
P/E	17.3x	19.3x	18.1x*
P/B	3.6x	3.6x	3.2x
Dividend Yield	2.3%	2.0%	1.9%

Source: Company reports, Aljazira Capital
*excluding non-recurring item

Price Performance

Source: Bloomberg, 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.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
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.

Disclaimer