

Abdullah Al Othaim Markets

Retail – Industrial

AOTHAIM AB: Saudi Arabia

6 Aug 2017

الراجحي المالية
Al Rajhi Capital



US\$1.485bn

Market cap

66%

Free float

US\$0.683mn

Avg. daily volume

Target price

121.6

-1.1% over current

Current price

123.0

as at 3/8/2017

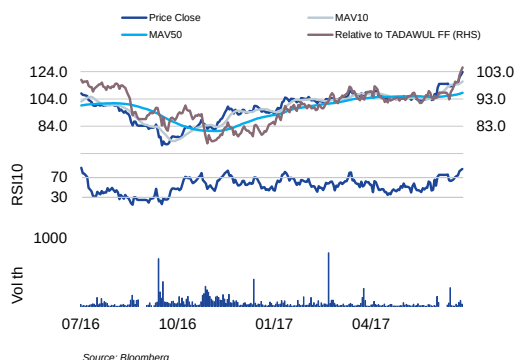
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	6,036	7,172	8,100	9,075
Revenue Growth	14.2%	18.8%	12.9%	12.0%
EBITDA (mn)	339	381	434	465
EBITDA Growth	11.4%	12.5%	13.8%	7.4%
Adj EPS	5.1	5.1	6.3	7.0
Adj EPS Growth	7.5%	-1.1%	24.0%	11.0%

Source: Company data, Al Rajhi Capital; Note: 2015/2016 financials are non IFRS

Valuation

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
P/E (x)	24.0	24.2	19.5	17.6
P/B (x)	5.0	4.5	3.7	3.2
EV/EBITDA (x)	15.9	14.1	12.4	11.6
RoE (%)	20.9%	18.5%	18.8%	18.4%

Source: Company data, Al Rajhi Capital

Al Othaim

Q2: Margin gains offset weaker revenue; Raise TP

Al Othaim's Q2 was a mixed bag, with weaker than expected revenue and a stronger than expected operating margin. Q2 revenue growth at 9.6% y-o-y was lower than our estimate of 15.7% y-o-y growth, on the back of ~3.5% y-o-y decline in LFL sales (excluding Egypt stores) by our calculations. The weak consumption environment has impacted the top-line of most consumer companies, notwithstanding the full impact of Ramadan in Q2 this year vs. ~20 days last year. Gross margin continues to improve (up 68 bps y-o-y) and we are confident that the company's product profile (highly skewed towards food) and scale efficiencies on the back of expanding store network allow further headroom for gross margin improvement going forward. SG&A expenses, which negated gross margin gains and impacted profitability in 2H 2015 and much of 2016, seem to have stabilized – SG&A as % of revenue remained flat y-o-y in the last two quarters. This led to 32bps/ 65bps growth in Q1/ Q2 operating margin in 2017. We believe a focus on capping SG&A expenses, in the backdrop of lower than previously expected revenue growth but improving gross margin profile, will lead to ~17% earnings CAGR over FY16-18e. Based on our estimates, our revised Dec-2017 target price stands at SAR121.6 per share (SAR111 per share earlier) which implies 1% downside from current price, hence maintain Neutral rating. Al Othaim remains one of the strongest consumer franchises in Saudi Arabia with a strong operating profile and importantly, high revenue visibility in the current environment. Though short term upside appears limited, long term investors can play Al Othaim for secular compounding gains in the next few years.

- Change in estimates:** We cut our LFL growth estimates going forward, but factor in higher operating margin, leading to our 2017e/ 2018e revenue estimates cut by 2.7%/ 4.2% respectively while our net income estimates are revised upwards by 10.8%/ 4.5% respectively.
- Higher FCFs and likely higher dividend:** As Al Othaim emerges with a stronger operating profile along with stable to lower capex requirements going forward, the stage is set for higher FCFs. Further, the conclusion of sale of Hail Mall (expect it to be completed in 2017) will nearly accomplish debt free status for Al Othaim. Hence, we believe it is likely that dividend payout will be increased in the next few years.
- Valuation:** Our DCF based target price is SAR117.3 per share, assuming 10.52% WACC (no debt in capital structure) and 3% terminal growth. Our P/E based target price (18x FY18 earnings) stands at SAR125.7. The equal weighted target price stands at SAR121.6 (earlier SAR111), implying ~1% downside from the current price. Maintain Neutral rating.

Figure 1 Al Othaim: Summary of Q2 2017 results

(SAR mn)	Q2 2016	Q1 2017	Q2 2017	% Chg YoY	% Chg QoQ	ARC Est
Revenue	1,976	1,876	2,165	9.6%	15%	2,336
Gross Profit	312	320	357	14%	11%	386
Gross Profit margin	15.8%	17.1%	16.5%	na	na	16.5%
Operating Profit	44.8	64.4	63.0	41%	-2%	63.7
Net Profit	49.8	60.2	71.2	43%	18%	65.6

Source: Company data, Al Rajhi Capital

Please see penultimate page for additional important disclosures. Al Rajhi Capital (Al Rajhi) is a foreign broker-dealer unregistered in the USA. Al Rajhi research is prepared by research analysts who are not registered in the USA. Al Rajhi research is distributed in the USA pursuant to Rule 15a-6 of the Securities Exchange Act of 1934 solely by Rosenblatt Securities, an SEC registered and FINRA-member broker-dealer.



IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.