Abdullah Al Othaim Markets
Retail – Industrial
AOTHAIM AB: Saudi Arabia
06 November 2019

الراجحي المالية
Al Rajhi Capital

US$1.642bn	66%	US$2.105mn
Market cap	Free float	Avg. daily volume

Target price	79.00	5% over current
Current price	75.00	as at 5/11/2019

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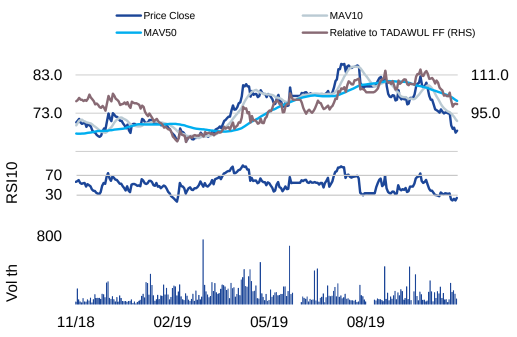
Existing rating

Underweight	**Neutral**	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2018	2019e	2020e
Revenue	7515.1	8116.3	8806.2
Revenue growth	3.9%	8.0%	8.5%
Gross profit	1532.3	1680.1	1884.5
Gross margin	20.4%	20.7%	21.4%
EBITDA	509.9	550.2	590.0
EBITDA margin	6.8%	6.8%	6.7%
Net profit	302.6	349.0	378.0
Net margin	4.0%	4.3%	4.3%
EPS	3.36	2.91	3.16
DPS	3.00	1.50	1.60
Payout ratio	90%	52%	51%
EV/EBITDA	10.5x	11.1x	9.6x
P/E	31.8x	27.6x	25.4x
RoE	18.2%	19.0%	18.7%

Source: Company data, Al Rajhi Capital

Abdullah Al Othaim Markets
Beat Estimates; Remain Neutral

Abdullah Al Othaim reported a net profit of SAR75mn (+38% y-o-y) beating our and consensus estimates of SAR54mn and SAR53mn respectively by huge margin. The revenue grew 11% y-o-y to SAR1.9bn in line with our estimates likely due to improvement in LFL growth of existing stores and store expansion. Gross margin improved by 110bps due to IFRS16 adjustment. Operating margin improved by 178bps due to higher top-line and less than expected increase in operating expenditure. Net margin improved by 78bps even after a negative impact of SAR5.23mn arising due to implementation of IFRS 16. We have observed a pickup in consumer spending in the grocery segment this quarter for companies operating in similar business and we believe this to continue which should drive LFL growth of existing stores for the company. The company is planning to add ~28 stores in 2019e (which is ~8% of the total existing stores) which should increase its market share in future. We are bullish on the overall growth story of Al Othaim as the company's product offerings aligns with local taste and preferences. Though concerns relating to higher SG&A remains due to rising expat levy as well new stores expansion, we see gross margin to sustain at current levels or even improve as the company receives rebate on bulk orders from its suppliers. We remain neutral on the stock with a positive bias and keep our target price unchanged at SAR79/share which implies 5% upside from CMP.

Figure 1 Abdullah Al Othaim Markets: Summary of Q3 2019 results

SARmn	3Q18	2Q19	3Q19	% chg y-o-y	% chg q-o-q	ARC est.
Revenue	1745	2172	1937	11%	-11%	1945
Gross Profit	340	395	398	17%	1%	372
G. margin	19.5%	18.2%	20.6%	1.09%	2.39%	19.1%
Op. profit	45	70	85	88%	21%	52
Op. margin	2.58%	3.21%	4.36%	1.78%	1.15%	2.67%
Net profit	54	59	75	39%	28%	50
Net margin	3.11%	2.70%	3.89%	0.78%	1.19%	2.57%

Valuation: We continue to value Al Othaim using equal weights for DCF and P/E based relative valuation. Our DCF based target price is SAR82 per share, assuming 9% WACC and 2% terminal growth. Our P/E based target price (24x FY20e earnings) stands at SAR77 per share. Accordingly, the equal weighted target price stands at SAR79 implying 5% upside from current price of SAR75/sh. indicating a "Neutral" rating.

Key upside risks:

1. Lower than expected increase in SG&A cost due to expat levy and new store expansion
2. Higher than expected store openings on the back of aggressive expansion

Key downside risks

1. Higher than expected increase in employment related costs on the back of Saudization.
2. Higher than expected increase in SG&A due to new store expansion will impact operating margin negatively and thereby our valuation

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"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.

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