



Al Othaim posted a strong set of results. Net income stood at SAR 75.4mn (SAR 0.84 EPS), above our estimate of SAR 52.2mn. Net profit growth was driven by a double-digit increase in revenue and also margin expansion. The company opened six stores in Q3-19, which contributed to overall revenue growth. Margin expansion can be attributed to the company's ability to manage costs despite store expansion. Margins are expected to further improve in Q4-19. We maintain our **"Overweight"** rating on the stock with a TP of **SAR 88.60/share**.

- Al Othaim recorded a net income of SAR 75.4mn in Q3-19 (EPS of SAR 0.84), up 38.8% Y/Y and 28.3% Q/Q. Net profit for Q3-19 was above our and market estimate of SAR 52.2mn and SAR 50.1mn, respectively. The Y/Y increase was due to growth in sales driven by the opening of six stores during the quarter and margin expansion attributed to efficient cost control.
- The company's revenue came in at SAR 1,937.4mn in Q3-19, up 11.0% Y/Y; it was above our estimate of SAR 1,875.0mn. Revenue growth could be attributed to higher-than-expected average revenue per store. The company opened six stores in Q3-19 (five in KSA and one in Egypt). The addition of stores and flatish average revenue per store were the key reasons for double-digit revenue growth.
- Gross profit stood at SAR 398.3mn, up 17.2% Y/Y; it was above our estimate of SAR 370.1mn. The GP Margin increased to 20.6% in Q3-19 from 19.5% in Q3-18, coming in above our estimate of 19.7%. We attribute the increase in GP Margin to the company's efficient cost-control measures, despite the increase in the number of stores.
- Operating profit stood at SAR 84.5mn, up 87.5% Y/Y, significantly above our estimate of SAR 53.6mn. Net OPEX rose 6.4% Y/Y to SAR 313.8mn from SAR 294.9mn in Q3-18 due to higher sales.

AJC view: Al Othaim's overall results exceeded our expectations. We expect the sales momentum seen in Q3-19 to continue in Q4-19, driven by the opening of new stores in Q4-19. We revise our EPS estimate for FY-19 to SAR 3.96 from SAR 3.63. We believe Al Othaim stands to benefit from increased retail demand, which would bolster its growth in the long term. We have projected an increase in store count to 357 at the end of FY22 from 276 in Q3-19. The company's strategy of continued expansion augurs well, enabling it to increase its market share and capitalizing on the growth opportunity. Revenue growth is well supported by stable margins, driving net profit growth. Upside and downside risks rest mainly on macro and sector-wide conditions. We value Al Othaim on 50% weight for DCF (3.0% terminal growth and 7.0% average WACC), and 25% weight each for P/E (22.5x FY20 EPS) and EV/EBITDA (10.8x FY20 EBITDA) based relative valuation. These yield a target price of SAR 88.6/share, implying an upside of 29.5% from the current levels. The stock is currently trading at a P/E of 16.6x based on our FY20 EPS estimate. We maintain our **"Overweight"** rating on Al Othaim with a TP of **SAR 88.60/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,744.7	2,171.6	1,937.4	11.0%	-10.8%	3.3%
Gross Profit	339.9	394.6	398.3	17.2%	0.9%	7.6%
<i>Gross Margin</i>	19.5%	18.2%	20.6%	-	-	-
EBIT	45.1	69.7	84.5	87.5%	21.3%	57.6%
Net Profit	54.3	58.7	75.4	38.8%	28.3%	44.3%
EPS	0.60	0.65	0.84	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR) 88.6

Upside / (Downside)* 29.5%

Source: Tadawul *prices as of 4th of November 2019

Key Financials

	FY17	FY18	FY19E
Revenues	7,231.1	7,515.1	8,159.1
Growth %	3.1%	3.9%	8.6%
Net Income	449.5	302.6	356.3
Growth %	42.2%	-32.7%	17.8%
EPS	4.99	3.36	3.96

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E
Gross Margin	19.9%	20.4%	20.8%
Net Margin	6.2%	4.0%	4.4%
P/E	15.5x	20.1x	17.3x
P/B	3.5x	3.9x	3.8x
EV/EBITDA (x)	11.1x	12.0x	11.8x
Dividend Yield	3.4%	2.2%	4.4%

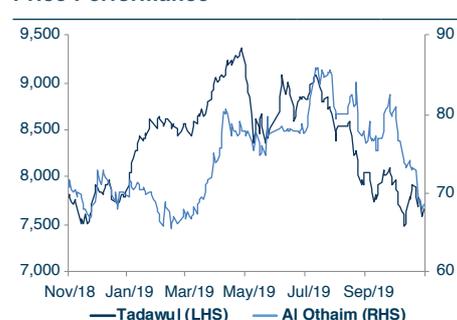
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	6.16
YTD %	-2.6%
52 week (High)/(Low)	85.90/62.20
Shares Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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.
- 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.

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