FOOD AND STAPLES RETAILING | 04 AUGUST 2019

AL OTHAIM

الأهلي كابيتال
NCB Capital

OVERWEIGHT
CURRENT PRICE SAR85.1

DOWNSIDE -4.9%
TARGET PRICE SAR80.9

EVENT FLASH

Sales growth offset by higher other expenses

Al Othaim reported a lower than expected set of Q2 19 results, with net income declining -20.8% yoy to SAR58.7mn. This compares to the NCBC and consensus estimates of SAR66.5mn and SAR76.8mn, respectively. We believe the lower than expected results were mainly due to higher financing expenses, as sales and all other profit lines were in-line with our estimates. Al Othaim currently trades at a 2019f PE of 18.1x vs covered retail peers average of 19.0x.

- **NCBC view on the results:** Al Othaim reported a lower than expected set of Q2 19 results, with net income declining -20.8% yoy to SAR58.7mn. This compares to the NCBC and consensus estimates of SAR66.5mn and SAR76.8mn, respectively. We believe the lower than expected results were mainly due to higher financing expenses, as sales and all other profit lines were in-line with our estimates. The yoy growth in sales is mainly due to new store expansions, which offset the impact of negative LFL.
- Al Othaim's sales increased +7.4% yoy to SAR2,172mn in Q2 19, coming in-line with our estimates. We believe the yoy growth is mainly attributed to new store openings, which offset the negative LFL of c.-2.0%. Since Q2 18, Al Othaim opened 15 supermarkets and 5 minimarkets in Saudi. It increased the number of minimarkets in Egypt from 3 stores to 8 stores. This increased the total store count to 245 stores (199 in Saudi Arabia and 46 in Egypt).
- Gross margins contracted marginally by -38bp yoy to 18.2% in Q2 19 vs our estimates of 18.8%, which we believe is due to higher discounts offered during the Ramadan season. Opex increased +5.5% yoy to SAR325mn, in-line our estimates. We believe the yoy increase in opex is due to expenses associated with the new store openings.
- Other expenses stood at SAR11mn in Q2 19 vs our estimates of an expense of SAR5.5mn. This compares to an other income of SAR6.9mn in Q2 18. This drove the yoy weakness and the deviation from our estimates. The increase in other expenses was driven by higher financing expenses.
- We are Overweight on Al Othaim with a PT of SAR80.9. We believe aggressive store expansions, with a focus on Saudi, will be a key growth catalyst going forward. Al Othaim currently trades at a 2019f PE of 18.1x vs covered retail peers average of 19.0x.

Q2 19 Results Summary

SAR mn	Q2 19a	Q2 18a	% yoy	Q2 19f	%Var^	% qoq
Revenues	2,172	2,022	7.4%	2,164	0.3%	10.8%
Gross income	394.6	375.2	5.2%	406.8	(3.0)%	2.2%
Gross margin (%)	*18.2%*	*18.6%*	*(38)bps*	*18.8%*	*(63)bps*	*(154)bps*
EBIT	69.7	67.2	3.7%	72.1	(3.3)%	(7.3)%
EBIT Margin (%)	*3.2%*	*3.3%*	*(11)bps*	*3.3%*	*(12)bps*	*(63)bps*
Net income	58.7	74.1	(20.7)%	66.5	(11.7)%	(14.1)%
Net Margin (%)	*2.7%*	*3.7%*	*(96)bps*	*3.1%*	*(37)bps*	*(78)bps*
EPS (SAR)	0.65	0.82	(20.7)%	0.74	(11.7)%	(14.1)%

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

STOCK DETAILS

M52-week range H/L (SAR)	86/62
Market cap ($mn)	963
Shares outstanding (mn)	50
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	9.1	8.7	15.3
Rel. to market	11.2	16.1	10.8

Avg daily turnover (mn)	SAR	US$
3M	8.8	2.3
12M	16.5	4.4

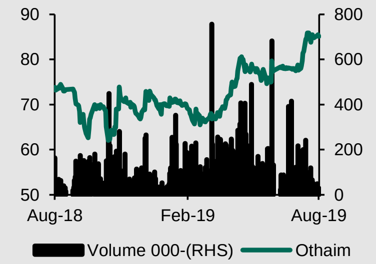
Reuters code	4001.SE
Bloomberg code	AOTHAIM AB
	www.othaimmarkets.com

VALUATION MULTIPLES

	18a	19f	20f
PE (x)	25.3	18.7	16.9
PB (x)	4.6	3.9	3.4
EV/EBITDA (x)	14.8	12.3	11.1
Div Yield (%)	1.8	2.1	2.2

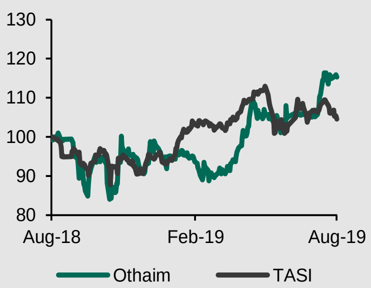
Source: NCBC Research estimates, *Actual

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 11 874 9771
m.tomalieh@alahlicapital.com

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

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