

AI Othaim posted a net income of SAR 91.3mn (SAR 1.01 EPS), above our estimate and consensus estimate of SAR 62.7mn and SAR 68.4mn, respectively. The net profit increased 58.3% Y/Y, led by a rise in revenues with the beginning of the Ramadan season in the first quarter of the current year. GP margin remained flat at 19.9% in Q1-22 on an annual basis. We expect the continued expansion strategy to benefit the company's growth in the mid-term. We maintain our "Neutral" rating on the stock with a TP of SAR 121.0/share.

- AI Othaim's net income stood at SAR 91.3mn in Q1-22 (EPS of SAR 1.01), up 58.3% Y/Y (decline of 39.0% Q/Q). The net profit for the quarter was above our estimate and market estimate of SAR 62.7mn and SAR 68.4mn, respectively. The rise in net profit was aided by increased revenues, coupled with improved performance of subsidiaries and associates. We expect the net profit margin to improve in FY22 to 4.4% from 3.6% in FY21.
- The company's revenue increased 17.4% Y/Y (up 15.1% Q/Q) to SAR 2,462.4mn in Q1-22, above our estimate of SAR 2,205.3mn. The rise in revenues was driven by the early commencement of the Ramadan season this year (in Q1-22) compared to the previous year (in Q2-21).
- Gross profit increased 16.6% Y/Y to SAR 488.9mn, above our estimate of SAR 438.4mn. GP Margin came in at 19.9% (in line with our expectations), compared to 20.0% in Q1-21.
- Operating profit increased 34.4% Y/Y to SAR 90.3mn, above our estimate of SAR 74.9mn. Net OPEX increased 13.2% Y/Y to SAR 398.6mn in Q1-22, owing to increased expenses due to opening new stores and enhancing competencies across senior positions. The operating margin expanded to 3.7% in Q1-22 compared to 3.2% in Q1-21, above our estimate of 3.4%.

AJC view: Overall, AI Othaim reported better-than-expected results for Q1-22. We expect the rise in inflation and consumer buying behavior to put short-term pressure on the company's margins in FY22. However, the company's ongoing expansion strategy would help gain further market share. This, in turn, is expected to enhance AI Othaim's revenue growth and improve GP margins supported by higher bargaining power. We expect the company to add 25 stores annually on average over the next 4–5 years, which would drive margin expansion. We value AI Othaim on 50% weight for DCF (3.0% terminal growth and 6.0% average WACC) and 25% weight each for relative valuation based on P/E (24.6x FY23 EPS) and EV/EBITDA (13.0x FY23 EBITDA). These yield a TP of SAR 121.0/share, implying a 6.1% upside from current levels. The stock is trading at a P/E of 24.8x, based on our FY22 EPS estimate. We maintain our "Neutral" rating on AI Othaim, with a TP of SAR 121.0/share.

Results Summary

SARmn	Q1-21	Q4-21	Q1-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,097.2	2,138.5	2,462.4	17.4%	15.1%	11.7%
Gross Profit	419.2	544.2	488.9	16.6%	-10.2%	11.5%
Gross Margin	20.0%	25.4%	19.9%	-	-	-
EBIT	67.2	168.1	90.3	34.4%	-46.3%	20.4%
Net Profit	57.7	149.6	91.3	58.3%	-39.0%	45.7%
EPS	0.64	1.66	1.01	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR)	121.0
Upside / (Downside)*	6.1%

Source: Tadawul *prices as of 10th of May 2022

Key Financials

(in SAR mn, unless specified)	FY20	FY21	FY22E
Revenue	8,808.2	8,403.7	9,343.8
Growth %	7.9%	-4.6%	11.2%
Net Profit	450.9	300.1	413.0
Growth %	30.8%	-33.4%	37.6%
EPS	5.01	3.33	4.59

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E
Gross Margin	21.7%	21.0%	21.4%
Net Margin	5.1%	3.6%	4.4%
P/E (x)	24.6x	32.1x	24.8x
P/B (x)	7.3x	7.1x	6.4x
EV/EBITDA (x)	14.3x	16.9x	14.4x
Dividend Yield	4.9%	1.8%	1.8%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(mn)	10.2
YTD%	5.4%
52 week (High)/(Low)	105.6/130.8
Share Outstanding (mn)	90.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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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.

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