

AL OTHAIM

NEUTRAL

CURRENT PRICE SAR124.0

UPSIDE +0.1%

PRICE TARGET SAR124.2

COMPANY UPDATE

Fair valuation, remain Neutral

We remain Neutral on Al Othaim with a revised PT of SAR124.2. The revision in PT is due to lower interest rates and higher target multiples. We expect revenues to grow at a CAGR of 4.4% between 2019-2025f, driven by 1) store expansions and 2) higher share of modern trade. The stock trades at 2021f P/E and EV/EBITDA of 26.2x and 13.3x respectively, which reflects all the positives.

- VAT impact is temporary:** The impact of VAT increase is expected to be temporary as expenditure on essentials is expected to take precedence over discretionary spending. VAT hike is expected to have a minimal impact on 2020 performance (strong pre-VAT and lockdown buying in H1 20 followed by weak sales in Q3 20). In 2021f, we expect the increase in VAT to put pressure on Al Othaim, resulting in a sales growth of 2.2% (vs avg. 8.0% during 2016-19). The impact of higher VAT is expected to be gradually absorbed and sales growth is expected to normalize, similar to 2018 when VAT was introduced.
- Modern retail and store expansion to drive topline:** On a net basis, Al Othaim opened 7 stores so far in 2020f, taking the store count to 291 (248 in Saudi, 43 in Egypt). The store expansion was muted in 2020 due to COVID-19, and we expect Al Othaim to resume its expansion activity in 2021f. We expect Al Othaim to open 9-10 store/year (vs 36/25 stores in 2018/2019), taking the total stores to 337 by 2025f and supporting a sales CAGR growth of 4.4% during 2019-2025f. We are conservative on Al Othaim expansions given the revival of Panda, expansion of Bindawood in the central region and growth of e-commerce. However, the company will benefit from the increase of modern retail in the total grocery segment.
- Margin expansion due to change in sales mix:** We expect Al Othaim's margins to expand steadily going forward. This is driven by favorable sales mix (higher contribution from retail vs wholesale sales) and better support from suppliers which we believe will offset the impact of higher employees cost. Recently, the government increased the minimum monthly salary of Saudis to be fully included in Nitaqat from SAR3,000 to SAR4,000. We expect EBITDA margins to increase to 9.2% by 2025f from 8.8% in 2019.
- Remain Neutral on fair valuations:** We remain Neutral on Al Othaim with a revised PT of SAR124.2 (vs SAR83.0 earlier). The stock increased +52.1% ytd and is currently trading at a 2021f P/E and EV/EBITDA of 26.2x and 13.3x vs the peer group average of 22.3x and 11.2x, respectively. We believe the current stock price fully reflects all the positives.

Summary Financials

SAR mn	2019	2020f	2021f	2022f	2023f	2024f	2025f
Revenues	8,166	8,941	9,141	9,489	9,840	10,194	10,552
Gross Income	1,689	1,876	1,891	1,967	2,045	2,124	2,204
Gross margin (%)	20.7%	21.0%	20.7%	20.7%	20.8%	20.8%	20.9%
EBIT	396	465	477	513	549	587	625
EBIT Margin	4.8%	5.2%	5.2%	5.4%	5.6%	5.8%	5.9%
Net Income	345	412	426	457	488	520	552
Net margin (%)	4.2%	4.6%	4.7%	4.8%	5.0%	5.1%	5.2%
EPS (SAR)	3.83	4.57	4.73	5.08	5.42	5.78	6.14

Source: Tadawul, NCBC Research estimates

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الأهلي كابيتال
NCB Capital

STOCK DETAILS

M52-week range H/L (SAR)	139/75
Market cap (\$mn)	2,980
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.3)	0.8	64.7
Rel. to market	(15.5)	(8.9)	53.9

Avg daily turnover (mn)	SAR	US\$
3M	16.1	4.3
12M	18.1	4.8

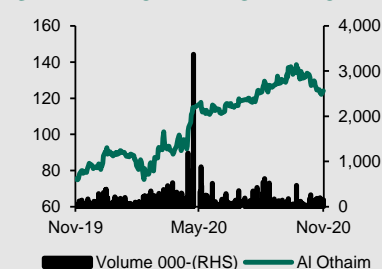
Reuters code	4001.SE
Bloomberg code	AOTHAIM AB
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VALUATION MULTIPLES

	19a	20f	21f
PE (x)	32.4	27.1	26.2
PB (x)	7.5	7.3	7.0
EV/EBITDA (x)	15.4	13.6	13.3
Div Yield (%)	2.4	3.2	3.2

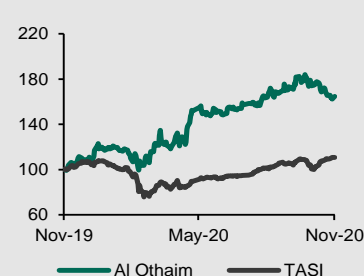
Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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Financials

Exhibit 1: Changes to estimates

In SAR mn, unless otherwise stated

	Old 2020f	New 2020f	% Chg	Old 2021f	New 2021f	% Chg
Revenue	8,464	8,941	5.6%	9,024	9,141	1.3%
Gross Profit	1,743	1,876	7.7%	1,867	1,891	1.3%
EBIT	400	465	16.4%	453	477	5.2%
Net profit	348	412	18.3%	393	426	8.3%
Price target		SAR		83.0	124.2	49.6%

Source: NCBC Research estimates

Exhibit 2: Income Statement

In SAR million, unless otherwise stated

	2019	2020f	2021f	2022f	2023f	2024f	2025f
Sales	8,166	8,941	9,141	9,489	9,840	10,194	10,552
% change	8.8%	9.5%	2.2%	3.8%	3.7%	3.6%	3.5%
Cost of sales	6,477	7,065	7,250	7,521	7,795	8,070	8,348
Gross profit	1,689	1,876	1,891	1,967	2,045	2,124	2,204
% change	10.3%	11.1%	0.8%	4.1%	3.9%	3.9%	3.8%
Gross margin (%)	20.7%	21.0%	20.7%	20.7%	20.8%	20.8%	20.9%
Operating expenses	1,376	1,461	1,515	1,560	1,603	1,645	1,687
Opex as % of sales	16.8%	16.3%	16.6%	16.4%	16.3%	16.1%	16.0%
EBITDA	715	785	792	830	872	918	967
Change %	38.1%	9.9%	0.9%	4.8%	5.1%	5.3%	5.3%
EBITDA margin (%)	8.8%	8.8%	8.7%	8.7%	8.9%	9.0%	9.2%
Dep. & Amortization	318.9	319.9	315.4	316.8	323.2	331.9	341.7
EBIT	396	465	477	513	549	587	625
Change %	19.5%	17.6%	2.4%	7.6%	7.0%	6.8%	6.6%
EBIT margin (%)	4.8%	5.2%	5.2%	5.4%	5.6%	5.8%	5.9%
Pre-tax profit	366	428	443	475	508	541	575
Zakat & income tax	10.8	12.7	13.1	14.1	15.0	16.0	17.0
Non-controlling interest	3.3	3.9	4.0	4.3	4.6	4.9	5.2
Net income	345	412	426	457	488	520	552
% change	13.9%	19.5%	3.4%	7.3%	6.8%	6.5%	6.3%
Net margin (%)	4.2%	4.6%	4.7%	4.8%	5.0%	5.1%	5.2%
EPS (SAR)	3.83	4.57	4.73	5.08	5.42	5.78	6.14

Source: NCBC Research estimates

Exhibit 3: Balance Sheet

In SAR million, unless otherwise stated

	2019	2020f	2021f	2022f	2023f	2024f	2025f
Cash and cash equivalents	262	496	634	787	1,019	1,251	1,477
Inventory	786	794	814	845	876	907	938
Other current assets	239	258	266	275	284	294	303
Total Current Assets	1,288	1,548	1,714	1,907	2,178	2,451	2,718
Net fixed assets	1,433	1,400	1,393	1,382	1,365	1,351	1,335
Other non current assets	2,045	2,090	2,132	2,165	2,189	2,203	2,206
Total non current assets	3,478	3,490	3,525	3,546	3,554	3,554	3,541
Total assets	4,766	5,038	5,240	5,453	5,733	6,005	6,259
Short term financing	136	-	-	-	-	-	-
Other current liabilities	1,832	2,135	2,205	2,251	2,353	2,436	2,511
Total Current liabilities	1,968	2,135	2,205	2,251	2,353	2,436	2,511
Other liabilities	1,273	1,322	1,385	1,450	1,517	1,587	1,659
Total non-current liabilities	1,273	1,322	1,385	1,450	1,517	1,587	1,659
Total liabilities	3,241	3,457	3,589	3,701	3,871	4,023	4,170
Share capital	900	900	900	900	900	900	900
Reserves & surplus	65	106	148	194	243	295	350
Shareholders equity	1,487	1,539	1,605	1,702	1,807	1,922	2,025
Total equity & liabilities	4,766	5,038	5,240	5,453	5,733	6,005	6,259

Source: NCBC Research estimates

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Exhibit 4: Cash Flow Statement

In SAR million, unless otherwise stated

	2019	2020f	2021f	2022f	2023f	2024f	2025f
Cash flow from op. (a)	659	963	772	772	867	889	926
Cash flow from inv.(b)	(156)	(303)	(319)	(306)	(301)	(303)	(302)
NOPLAT	445	511	525	563	600	639	679
WC	(51)	235	37	2	57	37	29
Capex	(185)	(237)	(239)	(220)	(212)	(205)	(198)
Depreciation	319	320	315	317	323	332	342
Free cash flow	410	731	510	528	630	660	704
Cash flow from fin.(c)	(460)	(425)	(315)	(313)	(334)	(354)	(398)
Debt	136	(136)	-	-	-	-	-
Net chg. in cash (a+b+c)	43	234	138	153	232	232	226
Cash at start of the year	219	262	496	634	787	1,019	1,251
Cash at end of the year	262	496	634	787	1,019	1,251	1,477

Source: NCBC Research estimates

Exhibit 5: Key Ratios

Per share, unless otherwise stated

	2019	2020f	2021f	2022f	2023f	2024f	2025f
Per Share Ratios							
EPS	3.8	4.6	4.7	5.1	5.4	5.8	6.1
FCF per share	4.9	6.6	4.3	4.3	5.3	5.4	5.7
Cash EPS	7.5	6.6	6.6	6.8	7.0	7.3	7.6
Book value per share	16.5	17.1	17.8	18.9	20.1	21.4	22.5
Valuation ratios (x)							
PE	32.4	27.1	26.2	24.4	22.9	21.5	20.2
P/FCF	25.4	18.8	28.7	28.6	23.4	22.8	21.7
P/Cash EPS	16.5	18.7	18.9	18.3	17.7	17.0	16.3
PBV	7.5	7.3	7.0	6.6	6.2	5.8	5.5
EV/sales	1.4	1.2	1.2	1.1	1.0	1.0	0.9
EV/EBITDA	15.4	13.6	13.3	12.5	11.6	10.8	10.0
PEG Ratio	2.3	1.4	7.7	3.3	3.4	3.3	3.2
Profitability ratios (%)							
Gross margins	20.7%	21.0%	20.7%	20.7%	20.8%	20.8%	20.9%
Operating margin	4.8%	5.2%	5.2%	5.4%	5.6%	5.8%	5.9%
EBITDA margin	8.8%	8.8%	8.7%	8.7%	8.9%	9.0%	9.2%
Net profit margin	4.2%	4.6%	4.7%	4.8%	5.0%	5.1%	5.2%
Return Ratios							
Div per share	3.0	4.0	4.0	4.0	4.3	4.5	5.0
Div yield (%)	2.4%	3.2%	3.2%	3.2%	3.4%	3.6%	4.0%
Cash dividend coverage (%)	128%	114%	118%	127%	128%	128%	123%
Payout ratio (%)	78%	87%	85%	79%	78%	78%	81%
ROE	22.6%	27.5%	27.3%	27.9%	28.1%	28.1%	28.3%
ROA	8.4%	8.5%	8.4%	8.6%	8.8%	8.9%	9.1%
Liquidity ratios							
Current ratio	0.7	0.7	0.8	0.8	0.9	1.0	1.1
Quick Ratio	0.3	0.4	0.4	0.5	0.6	0.6	0.7
Operating ratios (days)							
Inventory	44	41	41	41	41	41	41
Receivables outstanding	10	10	10	10	10	10	10
Payables outstanding	58	62	63	61	62	62	62
Operating cycle	44	44	44	44	44	44	44
Cash cycle	(15)	(19)	(19)	(17)	(18)	(18)	(18)
Leverage Ratios							
Debt/Equity	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/ Equity	(0.1)	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)	(0.7)
Net debt/ EBITDA	(0.2)	(0.6)	(0.8)	(0.9)	(1.2)	(1.4)	(1.5)
Interest Coverage ratio	5.9	7.2	7.4	7.7	7.9	8.2	8.4

Source: NCBC Research estimates

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