

# Abdullah Al Othaim Markets Co.

## Pressure on Margins as Demand Normalizes Post the Pandemic

**Abdallah Al-Othaim Markets (Al-Othaim) revenues dropped significantly compared to Q1 2020, as people no longer stock-pile as they did at the beginning of the COVID-19 Pandemic. The VAT impact is clear in the consumer demand, however, the company's persistent expansion is expected to maintain revenue gains throughout FY2021e.**

In line with our previous expectations, Al-Othaim saw a normalization in demand compared to the abnormally high demand in Q1 2020, on the back of the stock piling phenomena. Evidently, Al-Othaim posted revenues of SAR2,097mn for Q1 2021, a drop of 11.9% Y-o-Y compared to SAR2,379mn in Q1 2020 (+2.6% Q-o-Q). Moreover, it is safe to say that revenues were also affected by the increase in the VAT in July, 2020, whose impact is starting to materialize, in addition to the shift in e-learning that negatively impacted the company's school season. On the other hand, COGS for the period dropped by 12.6% Y-o-Y (+10.6% Q-o-Q), in line with the drop in sales, resulting in gross profit of SAR419mn (-8.7% Y-o-Y, -10.6% Q-o-Q).

Gross profit margin for Q1 2021 reached 20.0%, an improvement compared to 19.3% achieved in Q1 2020, however, it's a significant drop from 25.8% posted in Q4 2020.

Due to the steep decline in sales during the quarter (Y-o-Y), operating profit dropped by 40.1%, reaching SAR66mn in Q1 2021, compared to SAR111mn in Q1 2020. On quarterly basis, the company's operating profit dropped by 63.7% compared to SAR183mn in Q4 2020. The drop on quarterly basis is partly due to the decline in real estate revenues during Q1 2021. Operating profit margin for Q1 2021 is 3.2%, a drop of 140 bps compared to 4.6% in Q1 2020 and massive drop compared to 8.9% posted in Q4 2020.

Similarly, net income for Q1 2021, dropped significantly from SAR99mn in Q1 2020 to SAR58mn in Q1 2021 (-42.0% Y-o-Y, -65.1% Q-o-Q). Net income margin stood at 2.8% in Q1 2021, a drop compared 4.2% in Q1 2020 and 8.1% in Q4 2020.

It is worth noting that the year 2020 was a significantly high base year for comparison; as during H1 2020 demand on Al-Othaim products surged due to the COVID-19-induced panic purchasing, while Q4 2020 results included annual target incentives, which were recognized at the end of the fiscal year.

We believe that the growth in revenue by almost 3.0% Q-o-Q is a strong indication that despite the lowered demand and unfavorable market conditions, Al-Othaim remains resilient due to its wide footprint across the Kingdom and Egypt. It's also worth noting that during March, 2021, the company opened a new branch in Riyadh, bringing the total number of branches in the Kingdom to 254. Furthermore, the company announced the distribution of a 30% cash dividend to shareholders for H2 2020, at SAR3 per share, amounting to a total of SAR270mn.

FY2021e, we expect that revenues will continue to flatten out as the post-VAT demand normalizes, however, the company's strong market standing, solid expansion strategy and the market consolidation are bound to significantly support Al-Othaim throughout the year.

**We update our 52 weeks target price SAR133.0/share while maintaining our Neutral recommendation.**

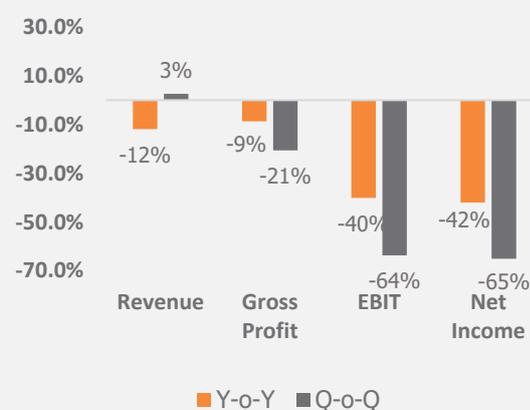
09 May 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (06-05-2021)	SAR131.0
Target Price (52 Weeks)	<b>SAR133.0</b>
Upside/ (Downside)	1.6%
Shariah Compliance	Pass

### Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	2.6%	12.8%	13.4%
Gross Margin	20.0%	25.8%	19.3%
EBIT Margin	3.2%	8.9%	4.6%
Net Margin	2.8%	8.1%	4.2%

### Key Financial Results (Q1 2021)



### Share Price Performance



# Guide to Ratings and Disclaimer

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of its value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	A downside potential of more than 20% in 52-week period

## Itqan Capital

Al Zahraa District, Al Zahraa Commercial Center,

PO Box 8021, Jeddah 21482,

Kingdom of Saudi Arabia

Tel: 966 12 263 8787

Fax: 966 12 263 8789

[info@itqancapital.com](mailto:info@itqancapital.com)

[www.itqancapital.com](http://www.itqancapital.com)

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