

Abdullah Al Othaim Markets

Retail – Industrial

AOTHAIM AB: Saudi Arabia

12 May 2019

الراجحي المالية
Al Rajhi Capital



US\$1.852bn Market cap
66% Free float
US\$3.193mn Avg. daily volume

Target price **88.00** 14.8% over current
Current price **76.60** as at 12/5/2019

Research Department
Pratik Khandelwal

Tel +966 11 211 9301, pratikK@alrajhi-capital.com

Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	12/17A	12/18A	12/19E	12/20E
Revenue (mn)	7231	7515	7966	8523
Revenue growth	3.1%	3.9%	6.0%	7.0%
EBITDA (mn)	469	510	547	592
EBITDA growth	23.10%	9%	7%	8%
Adj EPS	5	3.4	4.2	4.5
Adj EPS growth	97%	-32%	24%	7%

Source: Company data, Al Rajhi Capital

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Healthy top-line growth to sustain; revise TP to SAR88/sh

Al Othaim's Q1 net profit increased 1.6% y-o-y to SAR68mn, beating our estimate of SAR65mn. The increase in net profit was mainly attributable to higher sales and better than expected income from associates. Going forward, we expect top-line to continue to grow 6% in FY19E as the company increases its market share, on the back of store expansion in Saudi Arabia and Egypt. We have observed consumer sentiments picking up in Q1 FY19 specially in food and beverages sector, this will help the company in improving its LFL growth and basket size. We believe that the net profit margin should improve to 4.6% (currently 4.1%) by the end of FY19E driven by cost efficiency and reduced cost related to Saudisation. The company's finance cost is under control due to low debt in its capital structure even as the company continues to invest in expansion plans to gain market share. Post Q1 results, we revise our forward looking estimates as we foresee healthy revenue visibility for the company driven by increasing market share and pick up of the overall retail sector. We revise our target price to SAR88 per share (earlier: SAR76 per share), implying 14.8% upside. Reiterate Overweight rating on the stock. Al Othaim's attractive FY19E anticipated dividend yield of ~5.2% should appeal to income-seeking investors.

Q1 Results: Revenue increased to SAR1,959mn (9% y-o-y, our estimate: SAR1,924mn), likely due to sale contribution from new stores (currently 222 stores in Saudi Arabia and ~38 stores in Egypt) and marginal improvement in LFL growth. However, gross profit increased 12% y-o-y to SAR383mn, while gross margin expanded to 19.54% mainly due to strong bargaining power of the company which led to favourable pricing from suppliers. Operating profit increased to SAR75mn mainly due to adoption of IFRS 16 while the net profit improved 1.6% y-o-y to SAR68mn due to increased sales and better than expected income from associates.

Figure 1 Abdullah Al Othaim Markets: Summary of Q4 2018 results

(SAR mn)	Q1 2018	Q4 2018	Q1 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,798.0	1,950.0	1,960.0	9.0%	0.5%	1,924.0
Gross profit	342.0	476.0	383.0	12.0%	-19.5%	356.0
Gross margin	19.0%	24.4%	19.5%	2.7%	-19.9%	18.5%
Operating profit	64.0	149.0	75.0	17.2%	-49.7%	77.0
Net profit	67.2	107.0	68.3	1.6%	-36.2%	65.0

Source: Company data, Al Rajhi Capital



Valuation: We continue to value Al Othaim using equal weights for DCF and P/E based relative valuation. Our DCF based target price is SAR88 per share, assuming 10% WACC (no debt in capital structure) and 3% terminal growth. Our P/E based target price (21x FY19 earnings) stands at SAR88 per share. Accordingly, the equal weighted target price stands at SAR88, implying 14.8% upside from the current price implying Overweight rating. Al Othaim remains an attractive bet for long term investors who seek value appreciation along with attractive dividend yields (FY19E: 5.2%).

Risks: Upside risk include 1) faster than expected shift of the unorganized share in the consumer sector towards organized players, 2) higher than expected store openings on the back of aggressive expansion. Downside risks include higher increase employment related costs on the back of Saudization vs. our expectations.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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