

# Abdullah Al Othaim Markets

Retail – Industrial

AOTHAIM AB: Saudi Arabia

16 September 2020

الراجحي المالية  
Al Rajhi Capital



**US\$3.033bn** Market cap  
**66%** Free float  
**US\$4.401mn** Avg. daily volume

Target price **148.0** +18% over current  
Current price **126.0** as at 15/9/2020

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## Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

Period End (SAR)	12/19A	12/20E	12/21E
Revenue (mn)	8,166	9,521	10,117
Revenue Growth	8.8%	16.6%	6.3%
EBITDA (mn)	712	832	935
EBITDA Growth	38.0%	16.8%	12.4%
EPS	3.9	5.1	6.1
EPS Growth	3.6%	31.2%	19.0%
DPS	3.00	3.95	4.71
Payout Ratio	76.7%	77.0%	77.0%
ROE	23.7%	29.0%	31.9%

Source: Company data, Al Rajhi Capital

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## Strong earnings visibility: Remain overweight

Abdullah Al Othaim Q2 2020 net profit of SAR125mn (+113% y-o-y) beat our estimates of SAR91mn on account of strong top-line growth, improved gross margins and reduced operational expenditure due to government support. Revenue increased 19% y-o-y to SAR2.57bn compared to our estimates of SAR2.43bn, the main reason for the growth in top-line was increased consumer demand for staple products during lockdown and pre-vat buying observed in later half of the quarter. The real estate business observed some headwinds from the disruption of the economic activities amid COVID 19, the company provided discount to its tenants which negatively impacted the performance of its subsidiaries and associates.

**Key Operating Metrics:** The growth in LFL sales was 15.6% y-o-y in Q2 2020, the average basket size grew 3.25% y-o-y while number of transactions grew 14% y-o-y. The company opened 2 new stores in Q2 2020 taking the total store count to 277 in retail division and 11 in wholesale division. The company intends to open ~24 store in 2020e in KSA (this number might be less due to closure conditions). As on Q2 2020 58% of the total sales are generated by Saudi nationals and 42% by expats.

Figure 1 Al Othaim Q2 2020 results

(SAR mn)	Q2 2019	Q1 2020	Q2 2020	% Chg YoY	% Chg QoQ	ARC Est
Revenue	2,171	2,379	2,574	18.6%	8.2%	2,432
Gross Profit	394	459	512	29.9%	11.5%	467
Gross Profit margin	18.2%	19.3%	19.9%			19.2%
Operating Profit	71	111	148	108.9%	33.7%	130
Net Profit	59	100	126	114.7%	26.4%	91

Source: Company data, Al Rajhi Capital

**Outlook:** AlOthaim has a scalable business model arising due to the company's ability to open new stores in catchment areas. The company generates strong free cash flow and reinvest a portion of it by opening new stores generating a high ROE of ~20%. The company's operating income have more than doubled from SAR148mn in 2015 to SAR313mn indicating a CAGR of 21% from 2015-2019. The company over the past few years have gained significant market share from unorganized players and focuses to continue doing that by opening 20-25 stores over the next few years. The company targets lower to mid income segment of the society and should benefit from down-trading in consumer spending. The company's established brand image, specific focus to mid-low income segment of the society and scalable business model makes its difficult for new entrants to enter the market. We expect AlOthaim to benefit from higher VAT as consumer will down-trade in their purchases. Therefore, we change our forecast and increase our target price to SAR148/sh from SAR116/sh.

**Valuations and Key Risks:** We value AlOthaim using equal mix given to DCF and PE based relative valuation, our DCF based target price based on 2% terminal growth and 8.48% WACC is SAR150/sh and PE based relative valuation based on 24X FY2021 EPS is SAR146/sh thus equal weighted tp stands at SAR148/sh implying 18% upside from cmp of SAR126/sh.

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**Key Downside Risks to our valuation:**

- 1) Any slowdown in store opening will have a negative impact on our valuations
- 2) Since AlOthaim 42% of the total revenue is exposed to expat's consumption any significant expat exodus will have negative impact on our revenue and valuation.
- 3) Generally the new store break even in 2-3 years any prolonged period in breakeven of new stores will have a negative impact on our valuations.



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"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.

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