

# Abdullah Al Othaim Markets

Retail – Industrial

AOTHAIM AB: Saudi Arabia

09 August 2018

الراجحي المالية  
Al Rajhi Capital



US\$1.776bn

Market cap

66%

Free float

US\$2.135mn

Avg. daily volume

Target price

83.0

12.1% over current

Current price

74.0

as at 7/8/2018

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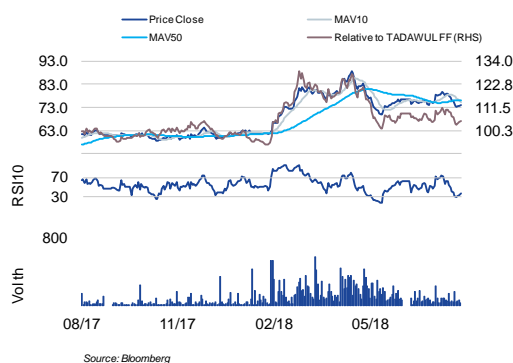
Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

Period End (SAR)	12/16A	12/17A	12/18E	12/19E
Revenue (mn)	7,015	8,041	8,757	9,559
Revenue Growth	16.2%	14.6%	8.9%	9.2%
EBITDA (mn)	381	486	525	572
EBITDA Growth	12.5%	27.5%	8.0%	8.9%
Adj EPS	2.5	3.7	4.1	4.5
Adj EPS Growth	2.8%	41.9%	10.3%	9.6%

Source: Company data, Al Rajhi Capital

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## Long-term story remains intact

Al Othaim's Q2 net profit was in-line with our estimate; however, top-line came in below our expectation. Revenue miss likely came in on the back of challenging operating conditions. However, the key positive for Al Othaim was the beat in gross profit margin (18.6% vs. our estimate of 16.8%), likely on the back of improved productivity of stores, including the new ones. We expect further improvement in gross margin as the company's product mix and economies of scale (on the back of higher number of stores) start yielding results. Additionally, the company's ability to reign in operating costs should result in transferring the gains to the bottom-line. We opine that the company is well placed to overcome near-term headwinds arising from various reforms having its impact on the consumption pattern (refer our published note: [Saudi Consumers: Primary market survey, Insights into changing consumer patterns](#)) and reduction in expat population as the company gains market share on the back of gradual shift of the sector towards organized players. Consequently, we revise our target price to SAR83.0 per share with Overweight rating as we believe the long-term story for the stock still holds. Moreover, Al Othaim's attractive FY18 anticipated dividend yield of ~4.1% should appeal to income-seeking investors.

**Q2 Results:** Q2 revenue grew by 4.5% y-o-y to SAR2,022mn (our estimate: SAR2,338mn), primarily on the back of store expansions. Sequentially, the 12.5% jump in the top-line was driven by Ramadan in Q2. Gross profit margin of 18.6% (+14bps y-o-y; our estimate: 16.8%) grew, likely driven by higher productivity of the stores, including the new stores. Operating profit of SAR67mn came in line with our estimate of SAR66mn, however, operating profit margin improved by 7bps y-o-y to beat our estimate of 2.8%. Further, higher profits from associates and lower financing expenses lifted net profit by 4.1% y-o-y to SAR74mn, in line with our estimate.

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

Figure 1 Abdullah Al Othaim Markets: Summary of Q2 2018 results

(SAR mn)	Q2 2017	Q1 2018	Q2 2018	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,936	1,798	2,022	4.5%	12.5%	2,338
Gross profit	356	342	375	5.3%	9.8%	392
Gross profit margin	18.4%	19.0%	18.6%			16.8%
Operating profit	63	64	67	6.6%	4.8%	66
Net profit	71	67	74	4.1%	10.2%	72

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 SAR84.5 per share, assuming 10.65% WACC (no debt in capital structure) and 3% terminal growth. Our P/E based target price (18x FY19 earnings) stands at SAR81.4 per share. Accordingly, the equal weighted target price stands at SAR83.0, implying 12.1% 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 (FY18E: 4.1%).



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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.

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