



Al Othaim posted net income of SAR 165.5mn (SAR 1.84 EPS), above our and consensus estimates of SAR 140.4mn and SAR 118.5mn, respectively. A 140 bps Y/Y increase in GP Margin led to an increase in net profit. A one-time profit from the revaluation of assets for sale aided the rise in net income. We revise our rating on the stock to **"Neutral"** with a revised TP of **SAR 119.0/share** to account for the better-than-expected net profit, improved margin, and recovery in economic scenario.

- Al Othaim's net income stood at SAR 165.5mn in Q4-20 (EPS of SAR 1.84), up 16.3% Y/Y and 172.7% Q/Q. Net profit for Q4-20 was above our and market estimates of SAR 140.4mn and SAR 118.5mn, respectively. The results included SAR 6.7mn profit from the revaluation of assets related to discontinued operations. A hike in VAT rate and education moving to the online mode led to a slight Y/Y decline in revenue, which was more than offset by a 140 bps Y/Y expansion in GP Margin. We expect net profit to decline marginally in FY21 due to a higher base of FY20 and increase thereafter.
- The company's revenue decreased 2.6% Y/Y to SAR 2,044.8mn in Q4-20, in-line with our estimate of SAR 2,140.3mn. A hike in VAT rate in July and the loss of "back-to-school" sales (as education moved online mode to contain the spread of the virus) also hit sales. We believe these factors would impact the company's performance in the near term. However, its long-term prospects remain positive.
- Gross profit rose 3.1% Y/Y to SAR 528.0mn, in-line with our estimate of SAR 518.6mn. The GP Margin increased to 25.8% in Q4-20 from 24.4% in Q4-19, above our estimate of 24.2%.
- Operating profit increased 11.6% Y/Y to SAR 183.1mn, above our estimate of SAR 155.3mn. Net OPEX fell 0.9% Y/Y to SAR 345.0mn from SAR 348.2mn in Q4-19, below our estimate of SAR 363.3mn. The Operating Margin improved to 9.0% against 7.8% in Q4-19, above our estimate of 7.3%.

AJC view: We expect sales to be pressured in the near term due to the hike in VAT rate and the move of education online. However, the improvement in GP Margin is a positive sign. We believe Al Othaim stands to benefit from increased retail demand, which would boost its growth in the long term. The company's strategy of continued expansion bodes well, enabling it to increase market share and capitalize on growth opportunities. Margin expansion supports the increase in revenue, which in turn drives growth in net profit. Upside and downside risks rest mainly on macro and sector-wide conditions. We value Al Othaim on 50% weight for DCF (3.0% terminal growth and 6.6% average WACC), and 25% weight each for relative valuation based on P/E (22.5x FY21 EPS) and EV/EBITDA (12.5x FY21 EBITDA). These yield a target price of SAR 119.0/share, implying a downside of 4.3% from the current levels. The stock is currently trading at a P/E of 25.7x, based on our FY21 EPS estimate. Better-than-expected results, margin expansion, and improvement in the economic situation leads us to upgrade our rating on Al Othaim to **"Neutral"** with a revised TP of **SAR 119.0/share**.

Results Summary

SARmn (unless specified)	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,098.5	1,812.8	2,044.8	-2.6%	12.8%	-4.5%
Gross Profit	512.3	411.6	528.0	3.1%	28.3%	1.8%
Gross Margin	24.4%	22.7%	25.8%	-	-	-
EBIT	164.1	77.2	183.1	11.6%	137.2%	17.9%
Net Profit	142.2	60.7	165.5	16.3%	172.7%	17.9%
EPS	1.58	0.67	1.84	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **119.0**

Upside / (Downside)* **-4.3%**

Source: Tadawul *prices as of 10th of February 2021

Key Financials

(in SAR mn, unless specified)	FY19	FY20	FY21E
Revenues	8,165.9	8,811.5	9,203.2
Growth %	8.8%	7.9%	4.4%
Net Income	344.7	451.0	433.6
Growth %	-0.4%	30.8%	-3.9%
EPS	3.83	5.01	4.82

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	20.7%	21.7%	21.1%
Net Margin	4.2%	5.1%	4.7%
P/E	21.0x	24.7x	25.7x
P/B	4.9x	7.1x	6.1x
EV/EBITDA	11.9x	9.9x	9.9x
Dividend Yield	3.7%	3.2%	1.6%

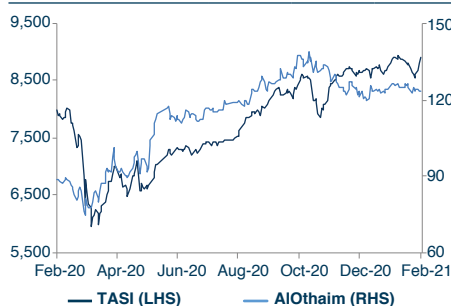
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	11.1
YTD%	0.7%
52 week (High)/(Low)	141.0/68.8
Share Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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