



Higher than expected net profit due to increase in revenue; highest GP margin recorded at 25.8% in Q4-22 since Q4-20

Al Othaim posted a net income of SAR 196.6mn (EPS: SAR 2.18) which is higher than our estimate and consensus estimate of SAR 150.2mn and SAR 152.8mn, respectively. The deviation from our result was due to slightly higher-than-expected revenue and higher GP margin. GP margin expanded from 25.6% in Q4-21 to 25.8% in Q4-22, above our estimate of 24.3%, mainly attributable to incentives received by the company from its suppliers on meeting annual sales targets. Robust store expansion is expected to support the company's growth in MT. We maintain our "Neutral" rating on the stock with a revised TP of SAR 120.0/share.

- Al Othaim's net income increased 31.4% Y/Y to SAR 196.6mn in Q4-22, above our estimate and consensus estimate of SAR 150.2mn and SAR 152.8mn, respectively. On a sequential basis, net income in Q4-22 was lower (-73.6% Q/Q) than that of SAR 744.6mn in Q3-22 as the company recorded a one-off capital gain (SAR 701.2mn) from sale of stake in Al Othaim Investment Company and idle land in Madinah. Additionally, the company recognized profit from Gulf Flour Milling Company in Q4-22 which was partially recorded in Q4-21.
- Revenue increased by 16.1% Y/Y (+6.1% Q/Q) to SAR 2,492.3mn in Q4-22, broadly in-line with our estimate of SAR 2,372.0mn. The increase in revenue was largely attributable to the contribution from both new and old stores. Al Othaim added 16 stores in Q4-22 taking the total number of stores to 350. We foresee revenues to increase by 7.6% Y/Y and 4.5% Y/Y in FY23E and FY24E, respectively, mainly driven by store expansions.
- Gross profit increased 16.7% Y/Y (+37.1% Q/Q) to SAR 642.3mn and was above our estimate of SAR 575.7mn driven by recognizing annual target incentives from suppliers. The GP margin expanded from 25.6% in Q4-21 to 25.8% in Q4-22 and was above our estimate of 24.3%. Going forward, we expect GP margin to remain stable at 21.8% and 21.9% in FY23E and FY24E, respectively.
- Operating profit improved by 15.6% Y/Y (+282.6% Q/Q) to SAR 194.3mn, above our estimate of SAR 158.7mn. Net OPEX rose 17.2% Y/Y to SAR 448.0mn in Q4-22, which can be mainly ascribed to expenses related to the ramp-up of new stores. However, the operating profit margin remained constant at 7.8% in Q4-22 as compared to that in Q4-21 but was above our estimate of 6.7%.

AJC view: Al Othaim reported better-than-expected set of results in Q4-22. Improvement in net profit is boosted mainly by an increase in sales and enhancement in margins. The GP margin expanded to 25.8% in Q4-22 as the company received incentives after achieving the annual sales target which is recorded in the books during the end of the financial year. However, in the near term, subdued consumer buying behavior is likely to limit margin expansion. Nevertheless, going forward we foresee an increase in the company's top line in the MT driven by impressive store expansions. The stock is trading at a P/E of 24.5x, based on our FY23 EPS estimate. We maintain our "Neutral" rating on Al Othaim, with a revised TP of SAR 120.0/share implying an upside of 11.7% from current market price.

Results Summary

SARmn	Q4-21	Q3-22	Q4-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,146.6	2,348.2	2492.3	16.1%	6.1%	5.1%
Gross Profit	550.3	468.6	642.3	16.7%	37.1%	11.6%
Gross Margin	25.6%	20.0%	25.8%	-	-	-
EBIT	168.1	50.8	194.3	15.6%	282.6%	22.4%
Net Profit	149.6	744.6	196.6	31.4%	-73.6%	30.9%
EPS	1.66	8.27	2.18	-	-	-

Source: Aljazira Capital Research, Company Filing, Tadawul

Recommendation	Neutral
Target Price (SAR)	120.0
Upside / (Downside)*	11.7%

Source: Tadawul *prices as of 12th of February 2023

Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	8,404	9,566	10,290	10,756
Growth %	-4.6%	13.8%	7.6%	4.5%
Gross Profit	1,764.0	2,072.5	2,243.7	2,360.3
Net Profit	300	1,079	394	429
Growth %	-33.4%	259.6%	-63.5%	8.8%
EPS	3.33	11.99	4.38	4.76

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	21.0%	21.7%	21.8%	21.9%
Net Margin	3.6%	11.3%	3.8%	4.0%
P/E (x)	32.1	9.0	24.5	22.5
P/B (x)	7.1	4.3	3.9	3.5
EV/EBITDA (x)	16.7	14.1	12.9	12.2
Dividend Yield	1.8%	11.4%	3.7%	3.7%

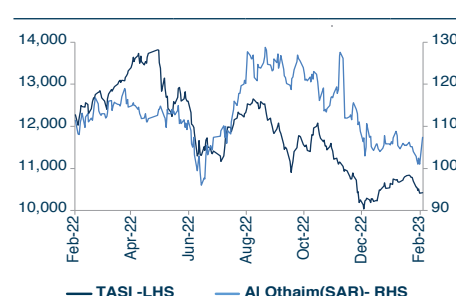
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	9.7
YTD %	3.3%
52 Week (High)/(Low)	128.8/96.0
Shares Outstanding (mn)	90.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH
DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING
TERMINOLOGY

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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068