



**US\$2.995bn** Market cap    **66%** Free float    **US\$3.655mn** Avg. daily volume

Target price **140.0** 13% over current  
Current price **124.0** as at 21/2/2021

Research Department  
**Pratik Khandelwal**

Tel +966 11 836 5486, pratikk@alrajhi-capital.com

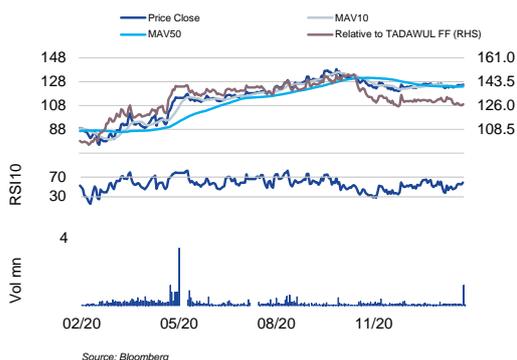
Existing rating

Underweight

Neutral

**Overweight**

Performance



Earnings

Period End (SAR)	12/20A	12/21E	12/22E
Revenue (mn)	8,812	9,300	9,915
Revenue Growth	7.9%	5.5%	6.6%
EBIT (mn)	519	541	630
EBIT Growth	29.9%	4.3%	16.5%
EPS	5.0	5.1	6.0
EPS Growth	30.8%	1.4%	19.1%
DPS	3.0	3.9	4.7
Payout Ratio	59.9%	77.0%	77.0%
ROE	30.3%	25.7%	28.6%

Source: Company data, Al Rajhi Capital

## Abdullah Al Othaim Markets

### Margins Surprise; Remain our top staple pick

AlOthaim's Q4 2020 net profit of SAR165mn (including SAR6.7mn gains from asset re-valuation) beat our estimates of SAR95mn and consensus estimates of SAR119mn by huge margin. The main reason for the beat was a positive surprise on gross margins which expanded 141bps y-o-y due to higher rebate from suppliers. The revenue dropped ~3% y-o-y in Q4 2020 likely due to delay in school re-opening and expat exodus. We note the expat exodus might create a challenging environment for the overall grocery retailers still we believe that AlOthaim is better positioned compared to its peer and should benefit from incremental VAT as we expect consumers to down-trade, secondly the market share of modern trade is increasing as the industry is consolidating and company is expanding to tap this opportunity, this in turn would help the company to expand its market share and will lead to a strong revenue growth in near future. Therefore AlOthaim remains our top-pick in consumer staples segment due to its strong return metrics (ROE~30% in FY2020), strong balance sheet (zero net debt company as of 9M2020) and aggressive expansion plans through internal accruals. We value Othaim at SAR140/sh using equal mix given to DCF and PE based relative valuation.

**Q4 2020 Earnings Summary:** Revenue declined ~3% y-o-y to SAR SAR2.045bn meeting our estimates of SAR2.042bn, the main reason for the decline in top-line was delay in school re-opening as well as lower consumer spending due to higher VAT. The gross margins expanded 141bps despite a fall in revenue due to rebates from suppliers and increase in other operating revenue. The operating profit improved 12% y-o-y to SAR183mn due to improvement in operating margins by 113bps. Consequently the net income increased 16% y-o-y to SAR165mn including SAR6.7mn gains arising from revaluation of assets available for sale.

Figure 1 Summary of Q4 2020 result

(SAR mn)	Q4 2020	Q4 2019	Y-o-Y	Q3 2020	Q-o-Q	ARC est	vs ARC
Revenue	2,045	2,099	-3%	1,813	13%	2,042	0%
Gross profit	528	512	3%	412	28%	493	7%
Gross margin	26%	24%		23%		24%	
Operating profit	183	164	12%	77	137%	115	59%
Operating margin	9%	8%		4%		6%	
Net profit	165	142	16%	61	173%	95	73%
Net margin	8%	7%		3%		5%	

Source: Company data, Al Rajhi Capital

**Outlook and Valuation:** We remain bullish on AlOthaim due to consolidation of overall grocery market, company's aggressive expansion plan and down-trading due to higher VAT. We value the company using equal mix given to DCF and PE based relative valuation. Both our DCF (1.5% terminal growth, 7.84% WACC) and PE based valuation (26X FY2021 EPS) target price is SAR140/sh which implies 13% upside from CMP of SAR124/sh.



**Key Downside Risks:** Downside risk to our valuation includes,

- 1) Delay in new store opening will have a downside risk to our valuations.
- 2) If the Saudization level increases then it will impact the margins adversely and poses a downside risk to our valuations.



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### Contact us

**Mazen AlSudairi**  
Head of Research  
Tel : +966 11 834 5468  
Email: [alsudairim@alrajhi-capital.com](mailto: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](mailto:research@alrajhi-capital.com)

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