Abdullah Al Othaim Markets
Retail – Industrial
AOTHAIM AB: Saudi Arabia
05 September 2021

الراجحي المالية
Al Rajhi Capital

US$2.779bn	66%	US$4.714mn
Market cap	Free float	Avg. daily volume

Target price	110.00	-5% over current
Current price	117.00	as at 2/9/2021

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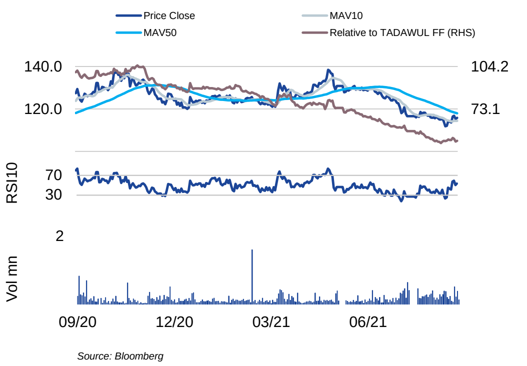
Existing rating

Underweight | **Neutral** | Overweight

Performance



Earnings

Period End (SAR)	12/20A	12/21E	12/22E
Revenue (mn)	8,811	8,496	9,283
Revenue Growth	7.9%	-3.6%	9.3%
Gross Profit (mn)	1,911	1,725	1,884
Gross Margin	21.7%	20.3%	20.3%
EBITDA (mn)	835	633	767
EBITDA Growth	16.7%	-24.2%	21.2%
EPS	5.01	2.84	4.21
EPS Growth	30.8%	-43.4%	48.5%
DPS	6.00	2.19	3.25
Payout Ratio	119.8%	100.0%	78.0%
ROE	29.6%	16.1%	22.6%

Source: Company data, Al Rajhi Capital

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Valuation looks stretched, Downgrade to Neutral

AlOthaim's Q2 2021 net profit of SAR48mn missed our our estimates of SAR98mn by huge margin. The main reason for the miss was 15.1% y-o-y drop in LFL growth and 16.29% y-o-y fall in basket size on a higher base last year. Accordingly, the revenue dropped ~16% y-o-y in Q2 2021 mainly due to lower consumer spending, expat exodus (in Q1 2021 18.7k expats left the job market with majority of them being low income, who could have been a customer of AlOthaim) and distance learning which affected the product mix and likely the margins. In H1 2021 the company opened 9 new stores in KSA and 1 new store in Egypt while the guidance is to open 24 stores in total. With school reopening we expect the revenue growth to pick up in coming quarter but margins to remain impacted like in Q2 2021 due to higher promotions and discounting. Barring the near-term headwinds, which is short term rather than structural in our view we remain bullish on long-term story of AlOthaim due to its strong balance sheet and aggressive expansion plans through internal accruals. The company announced a dividend of SAR2/sh (payout ratio of ~171%) for H1 2021. Post Q2 2021 earnings we revise our near-term forecast and reduce our tp to SAR110/sh from SAR140/sh and downgrade our rating to "Neutral".

Q2 2021 Earnings Summary: Revenue declined ~15.7% y-o-y to SAR2.171bn lower than our estimates of SAR2.3bn, 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 declined 145bps in-line with fall in LFL and basket size growth. The operating profit declined 63% y-o-y to SAR55.3mn due to drop in operating margins by 319bps. Consequently, the net income declined 62% y-o-y to SAR48mn.

Figure 1 Summary of Q2 2021 result

(SAR mn)	2Q 2021	2Q 2020	Y-o-Y	1Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	2,171	2,574	-16%	2,097	4%	2,301	-6%
Gross profit	400	512	-22%	419	-4%	458	-13%
Gross margin	18%	20%		20%		20%	
Operating profit	55	148	-63%	66	-16%	106	-48%
Operating margin	3%	6%		3%		5%	
Net profit	48	57	-62%	58	-17%	98	-51%
Net margin	2%	5%		3%		4%	

Source: Company data, Al Rajhi Capital

Outlook and Valuation: We change our near-term forecast as we expect the reduction in purchasing power to impact the gross margins. We value the company using equal mix given to DCF and PE based relative valuation. Our DCF (1.5% terminal growth, 7.84% WACC) target price is SAR112/sh and PE based relative valuation (26X FY2022 EPS) is SAR109/sh therefore equal weighted tp stands at SAR110/sh which implies ~5% downside from CMP of SAR117/sh. We downgrade AlOthaim to "Neutral".

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Key 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.

Key upside risks to our valuations:

Strong back to school in H2 2021 might will have a favourable product mix and impact the gross margins positively. This will have a positive impact on revenue and poses an upside risk to our valuation.

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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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