

Al Othaim posted net income of SAR 99.6mn (SAR 1.11 EPS), in-line with our estimate of SAR 95.2mn and above the consensus estimate of SAR 84.4mn. Net profit growth was driven by a 21.4% Y/Y increase in revenue and higher operating margin. The increased demand for essentials attributable to COVID-19, drove the increase in sales. We expect the company to report solid financials in FY-20 as the pandemic continues to spur the demand for groceries and food supplies. We change our rating to **“Neutral”** on the stock with a TP of **SAR 92.50/share** due to limited upside potential from the current levels.

- Al Othaim recorded a net income of SAR 99.6mn in Q1-20 (EPS of SAR 1.11), up 45.7% Y/Y and down 30.0% Q/Q. Net profit for Q1-20 was in line with our estimate of SAR 95.2mn and above the market estimates of SAR 84.4mn. Net profit growth was attributed to a 21.4% Y/Y increase in revenue and higher operating profit.
- The company's revenue came in at SAR 2,379.5mn in Q1-20, up 21.4% Y/Y; it was broadly in line with our estimate of SAR 2,257.1mn. The Y/Y increase was attributed to the growth in sales, which was driven by the surge in consumer demand for groceries and food supplies as required to stock up in the face of global pandemic. In addition, the first week of the month of Shaaban fell in the last week of March 2020, which contributed to the increase in demand. The demand for essentials is expected to be high in FY-20 due to the pandemic, which should benefit Al Othaim in the near term.
- Gross profit stood at SAR 459.3mn, up 18.8% Y/Y; in line with our estimate of SAR 453.5mn. The GP Margin declined to 19.3% in Q1-20 from 19.7% in Q1-19, coming in below our estimate of 20.1%. The decline in GP margin could be attributed to the increase in depreciation due to the rise in the number of stores.
- Operating profit stood at SAR 110.6mn, up 43.9% Y/Y, broadly in line with our estimate of SAR 102.8mn. Net OPEX rose 12.6% Y/Y to SAR 348.7mn from SAR 309.6mn in Q1-19, in line with our estimate of SAR 350.7mn. However, Operating Margin improved to 4.6% against 3.9% in Q1-19, in line with our estimate of 4.6%.

AJC view: We expect the sales momentum seen in Q1-20 to continue in FY-20, driven by the opening of new stores and increased demand for essentials driven by the pandemic. We estimate EPS for FY-20 at SAR 4.66, as COVID-19 drives earnings growth in the short-term. 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 the growth opportunity. Revenue growth is well supported by stable margins, which in turn drives net profit growth. 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 7.0% average WACC), and 25% weight each for P/E (22.5x FY20 EPS) and EV/EBITDA (12.0x FY20 EBITDA) based relative valuation. These yield a target price of SAR 92.50/share, implying a downside of 4.5% from the current levels. The stock is currently trading at a P/E of 20.8x based on our FY20 EPS estimate. We update our rating to **“Neutral”** on Al Othaim with a TP of **SAR 92.50/share**.

Results Summary

SARmn (unless specified)	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,959.7	2,098.5	2,379.5	21.4%	13.4%	5.4%
Gross Profit	386.5	512.3	459.3	18.8%	-10.3%	1.3%
Gross Margin	19.7%	24.4%	19.3%	-	-	-
EBIT	76.9	164.1	110.6	43.9%	-32.6%	7.6%
Net Profit	68.3	142.2	99.6	45.7%	-30.0%	4.6%
EPS	0.76	1.58	1.11	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR)	92.50
Upside / (Downside)*	-4.5%

Source: Tadawul *prices as of 6th of May 2020

Key Financials

	FY18	FY19	FY20E
Revenues	7,504.5	8,165.9	9,286.5
Growth %	3.8%	8.8%	13.7%
Net Income	340.0	352.1	419.4
Growth %	2.6%	3.6%	19.8%
EPS (diluted)	3.78	3.91	4.66

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	20.4%	20.7%	20.5%
Net Margin	4.5%	4.3%	4.5%
P/E	17.6x	21.0x	20.8x
P/B	3.9x	5.0x	5.0x
EV/EBITDA (x)	11.8x	11.9x	10.3x
Dividend Yield	3.0%	1.8%	4.7%

Source: Company reports, Argaam, Aljazira Capital

Key Market Data

Market Cap(bn)	7.8
YTD%	19.0%
52 week (High)/(Low)	102.80/67.50
Share Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg

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- 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.
- 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.
- 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.
- 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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