



Al Othaim posted net income of SAR 142.2mn (SAR 1.58 EPS), below our estimate of SAR 155.4mn due to higher than expected OPEX and lower GP Margin. Net profit growth was driven by 8.1%Y/Y in revenue growth; in addition Q4-18 result was impacted by a SAR 38.7mn impairment provision. The company opened 13 stores in Q4-19, which contributed to overall revenue growth. Margin contraction can be attributed to the offered discounts and store expansion. We maintain our **"Overweight"** rating on the stock with a revised TP at **SAR 92.50/share**.

- Al Othaim recorded a net income of SAR 142.2mn in Q4-19 (EPS of SAR 1.58), up 33.0% Y/Y and 88.6% Q/Q. Net profit for Q4-19 came below our and market estimates of SAR 155.4mn and SAR 154.8mn, respectively. The Y/Y increase was due to growth in sales driven by the opening of 13 stores during the quarter and the impact of impairment loss of SAR 38.71mn during Q4-18.
- The company's revenue came at SAR 2,105.5mn in Q4-19, up 8.1% Y/Y; it was slightly above our estimate of SAR 2,093.7mn. Revenue growth is attributed to the addition of stores, despite the expected marginal decline in average revenue per store. The company opened 13 stores in Q4-19.
- Gross profit stood at SAR 508.4mn, up 6.7% Y/Y; in-line with our estimate of SAR 514.2mn. The GP Margin declined to 24.15% in Q4-19 from 24.46% in Q4-18, coming below our estimate of 24.6%. We attribute the decline in GP margin to the increase in depreciation due to the increase in the number of stores.
- Operating profit stood at SAR 160.3mn, up 5.8% Y/Y, below our estimate of SAR 170.8mn. Net OPEX rose 5.9% Y/Y to SAR 343.8mn from SAR 324.8mn in Q4-18 due to higher sales and rising expats levy.

AJC view: We expect the sales momentum seen in FY19 to continue in FY20, driven by the opening of new stores. We revise our EPS estimate for FY-20 to SAR 4.42 from SAR 4.2. We believe Al Othaim stands to benefit from increased retail demand, in-addition Al-Othaim is a discount retailer, which places it in a position to attract budget conscious customers, bolstering its' long term growth prospects. We have projected an increase in store count to 362 at the end of FY22 from 242 in FY19. The company's strategy of continued expansion augurs well, enabling it to increase its market share and capitalizing on the growth opportunity. Revenue growth is supported by stable margins, driving 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 an upside of 4.0% from the current levels. The stock is currently trading at a P/E of 20.2x based on our FY20 EPS estimate. We maintain our **"Overweight"** rating on Al Othaim with a revised TP of **SAR 92.50/share**.

Results Summary

SARmn (unless specified)	Q4-18	Q3-19	Q4-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,947.6	1,935.2	2,105.5	8.1%	8.8%	0.6%
Gross Profit	476.3	400.0	508.4	6.7%	27.6%	-1.13%
Gross Margin	24.46%	20.67%	24.15%	-	-	-
EBIT	151.5	87.7	160.3	5.8%	82.7%	-6.2%
Net Profit	106.9	75.4	142.2	33.0%	88.7%	-8.5%
EPS	1.19	0.84	1.58	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR)	92.50
Upside / (Downside)*	4.0%

Source: Tadawul *prices as of 10th of February 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	7,504.5	8,165.9	9,013
Growth %	3.8%	8.8%	10.3%
Net Income	302.6	344.7	398
Growth %	-32.7%	3.9%	15.6%
EPS (diluted)	3.36	3.83	4.42

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	20.4%	20.7%	20.7%
Net Margin	4.0%	4.2%	4.4%
P/E	17.8x	23.3x	20.2x
P/B	3.9x	4.9x	4.3x
EV/EBITDA (x)	12.0x	12.0x	10.6x
Dividend Yield	4.4%	3.4%	3.4%

Source: Company reports, Argaam, Aljazira Capital

Key Market Data

Market Cap(bn)	8.02
YTD%	10.4%
52 week (High)/(Low)	96.80/65.50
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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