

Abdullah Al Othaim Markets

Retail: Industrial
AOTHAIM AB: Saudi Arabia
20 March 2023



US\$2.726bn Market Cap 66.3% Free Float US\$5.95mn Avg. Daily Volume

Target price 117.0 1% above current
Current price 116.0 as at 19/03/2023

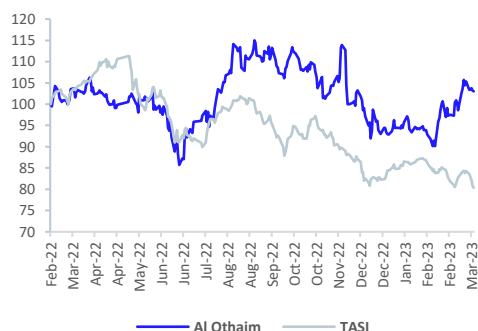
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Existing rating

Underweight **Neutral** Overweight

Performance (Rebased to 100)



Earnings

Period End (SAR)	2022	2023e	2024e
Revenue (mn)	9,566	10,508	11,316
Revenue Growth	13.7%	9.9%	7.7%
Gross Profit	2,072	2,278	2,459
Gross Profit Margin	22%	22%	22%
EBITDA	757	803	848
EBITDA Margin	7.9%	7.6%	7.5%
Net Income	380	414	448
Net Income Margin	4%	4%	4%
DPS	4.5	5.0	5.3
P/E	9.7	25.2	23.3
EV/EBITDA	15.2	14.3	13.5

Source: Company data, Al Rajhi Capital. Note: Adjusted net income considered here.

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Strong earnings, we revise our target price to SAR117/sh and maintain neutral.

In 4Q22, Alotaim reported strong positive numbers exceeding our estimates with topline growth of 17% as a result of higher prices and the increase in number of stores (16 new stores in 4Q). The strong growth resulted to higher gross profit (SAR642mn) with a growth of 18% vs our estimate of (SAR575mn) 11.7% higher than our estimate as margin at end of 4Q stood at 25.8%. Also, as the company added 16 stores, OPEX increased by 64mn y-o-y in 4Q and by 233mn for the full year. The company managed to increase earnings in 4Q despite the increase in operating costs, the company was able to grow its bottom line from SAR155mn in 4Q21 to SAR197mn in 4Q22.

Figure1: Summary of 4Q22 Results

(SAR mn)	4Q 2022	3Q 2022	4Q 2021	ARC Est.	Cons Est.	q-o-q	y-o-y	vs ARC	vs Cons
Revenue	2,492.3	2,348.2	2,138.1	2,437.4	2,454.0	6.1%	16.6%	2.3%	0.7%
Gross Profit	642.3	462.6	543.8	575.2		38.8%	18.1%	11.7%	
G. margin	25.8%	19.7%	25.4%	23.6%					
Op. profit	194.3	50.8	166.1	165.7		282.5%	17.0%	17.3%	
Op. margin	7.8%	2.2%	7.8%	6.8%					
Net profit	196.6	744.6	154.6	155.2	147.4	-73.6%	27.1%	26.7%	-5.0%
Net margin	7.9%	31.7%	7.2%	6.4%	6.0%				

Source: Company data, Al Rajhi Capital

Othaim growth and outlook:

Alotaim has plans of adding around 25 to 30 new stores annually for the coming few years. We expect that to translate to revenue growth of a high single digit. We also expect the expansion to result in an improved bargaining power with suppliers which expands margins. Also, greater presence increases the number of customers and their loyalty. However, we expect OPEX to remain at the range of 18.5% of sales during the expansion period and then declines once the growth slow down. In 2022, operating expenses increased by SAR233mn mainly due to opening of new stores. We expect OPEX to increase by \approx SAR175mn in 2023. That being said, we revise our valuation from SAR104/sh to SAR117/sh from the current market price of SAR116/sh (1% above CMP).

Dividend Policy: Alotaim payout ratio was around 120% for 2020 and 2021, while in 2022 it was 113%. We believe the company can not maintain such payout ratios for longer time. However, we expect the company to maintain a payout ratio in the range of 90% to 100%. Dividend per share is per our estimates will be SAR4.5/sh and SAR5/sh in 2023 and 2024, resulting in a yield of 3.9% and 4.3% respectively.

Valuations: We arrived at our target price for the company using equal mix of DCF and P/E. The DCF target price is based on a 2.5% terminal growth and a WACC of 8.2% reaching to SAR119/share. The P/E target price based on 26x and FY 2023 EPS is SAR115/sh. Overall, we change our target price to SAR117/sh and maintain a neutral rating. Upside risks to our valuation are, better than expected improvement in gross margin, lower than expected capex spending. Downside risks are, lower earnings, greater competition leading to thin margins, higher cost than expected.

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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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