

Abdullah Al Othaim Markets

Target Price: SAR 130.00

Upside/ (Downside): 4.0%

Recommendation	Hold
Bloomberg Ticker	AOTHAIM AB
Current Market Price (SAR)	125.00
52wk High / Low (SAR)	129.00/95.00
12m Average Vol. (000)	135.9
Mkt. Cap. (USD/SAR Mn)	29,250/11,250
Shares Outstanding (mn)	90.0
Free Float (%)	66%
3m Avg Daily Turnover (SAR '000)	18,184.3
6m Avg Daily Turnover (SAR '000)	20,313.4
P/E'23e (x)	22.6
EV/EBITDA'23e (x)	12.6
Dividend Yield '23e (%)	3.2%

Price Performance:

1 month (%)	(1.4)
3 month (%)	19.0
12 month (%)	8.7

Source: Bloomberg, valued as of 14 September 2022

Price-Volume Performance



Source: Bloomberg

- **Al Othaim continues to add new stores at a fast pace, despite already having a sizeable presence in the Kingdom.**
- **The company is estimated to witness subdued profitability as compared to our previous expectations due to certain macroeconomic headwinds**
- **The recent run-up in prices seems to have priced in near-term positives**
- **Shareholders could receive large one-off dividends subject to general assembly approval of two recent transactions by September end**

Abdullah Al Othaim Markets' (Al Othaim) second-quarter results showed the company's retail stores faced some challenges in revenue generation, which we term as temporary, and expect the situation to ease going forward, aided by a revival in religious tourism. Al Othaim remains committed to further expanding its domestic geographical reach which is visible in the recent stores' numbers, and we expect the trend to continue. However, we do foresee the company facing some challenges in ramping up new stores, with rising inflation and supply chain issues posing problems, and hence we taper our profitability expectations. Accordingly, we reduce our FY22 EPS estimate by about 13% to SAR 3.69. However, two recent transactions executed by the company — i) sale of a stake in Abdullah Al-Othaim Investment Company, and ii) sale of owned land by the company in Al-Madinah Al-Munawarh, could lead to significant dividend inflows for shareholders, as indicated by the management. We expect the general assembly to approve the said transactions on 27 September 2022. While we have not estimated the likely dividend emanating from the gains registered from the said transactions, our analysis shows income from these would boost FY22 EPS to around SAR 11.

2Q 2022 earnings synopsis: Al Othaim's top line in 2Q 2022 registered a modest growth of 4%, driven primarily by the bulk revenue contributor retail segment (87.8% of 2Q revenue; +4% YoY). The company continued to expand its retail stores' portfolio, adding 8 stores in 2Q 2022 after opening 7 stores in 1Q 2022, which was twice our estimate. Al Othaim also added 1 wholesale store in Saudi Arabia (our estimate: NIL). Consequently, their total stores in the Kingdom reached 276 in retail and 12 in wholesale, while stores in Egypt stood unchanged at 44. However, blended average revenue per store fell 3.7% YoY in 2Q 2022, coming in about 11% below our estimate, likely impacted by some supply chain issues and the phasing of Ramadan month. As a result, total revenue missed our estimate by 10%. Weakness in the average per store revenue amidst an increase in G&A and S&D costs, partly attributable to the addition of new stores, weighed on the operating performance; hence operating profit rose at a slower rate of 2% YoY to SAR 57.4mn (45% miss), despite a 14% jump in the gross profit. Income from continuing operations climbed 16.8% YoY to SAR 46.6mn, supported by a 6% YoY decrease in lease finance charges and the company registering SAR 5.9mn in income from associates (2Q21: -SAR1.2mn). Yet, net profit attributable to shareholders slipped 2.7% YoY as a SAR 8.7mn gain from discontinued operations was recorded in 2Q 2021 (2Q 2022: ~SAR 76k gain).

Valuation and risks: We continue to value the company based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/E and EV/EBITDA multiples) with equal weights assigned to each of them. We opine recent pressure on the average store revenue is a temporary phenomenon, and hence expect it to recover this quarter onwards on the back of relatively improved operating conditions with a resumption of Hajj. Yet, in FY22, we lowered average per-store realization growth to 3.5% from slightly over 7% estimated previously. On the other hand, we revise our total store count by the end of FY22 to 342 from 337 earlier

factoring in the recent expansion trend. We contend this will mostly offset the likely softening in per-store revenue growth and hence our FY22 revenue estimate is down only slightly to SAR 9.38bn from SAR 9.65bn. However, we believe recent macroeconomic headwinds in the form of rising inflation led by increasing interest rates, and supply chain issues will continue to prevail in the near future, which could hinder ramping up of the newly added stores, thereby weighing on profitability. Thus, we lower our 5-year bottom line CAGR to 20% from 22%, previously. The stock has appreciated c. 20% from the end of 2Q 2022 till 14 September, likely discounting most of the near-term positives. Hence, we assign a **Hold** rating (vs. **Accumulate**, previously) with a target price of SAR 130.00 (4.0% upside). Currently, the stock trades at 22.6x P/E and 12.6x EV/EBITDA, based on our FY23 estimates. Downside risks to our valuation include less than expected addition of new stores, expected recovery in average per store realization not materializing, and lower than estimated margins. Key upside risks to our valuation include more than expected addition of new stores, better than estimated average store revenue, and better than forecasted profitability.

On an expansion spree: Al Othaim primarily operates retail stores of different formats in Saudi Arabia and Egypt i) It has a leading market position and high market share in various regions ii) expansion of the brick-and-mortar stores remained solid (174 in FY16 to 314 by the end of FY21), iii) registered over 100% YoY growth in new stores addition during 1H22 (16 stores opened in 1H22 vs. 7 in 1H21). iv) continued organic expansion remains the primary focus area for the management v) efficient working capital management even during tough times vi) prudent fiscal management – despite continued investment in new stores, the company has only resorted to short-term debt occasionally. As of 2Q22-end, short-term loans stood at SAR 80.0mn while cash & cash equivalents were SAR 92.7mn.

Financials & valuation summary:

Year	FY19	FY20	FY21	FY22e	FY23e	FY24e
Revenues (SAR mn)	8,165.9	8,811.5	8,403.2	9,381.2	10,711.6	11,624.2
Net income (SAR mn)	344.7	451.0	305.1	992.9	498.2	659.6
Gross margin	20.7%	21.7%	21.0%	21.0%	21.9%	23.0%
Net profit margin	4.2%	5.1%	3.6%	10.6%	4.7%	5.7%
RoE	21.9%	29.9%	21.1%	58.9%	24.1%	29.2%
FCF (SAR/share)	4.9	8.0	6.7	4.5	6.9	7.9
DPS (SAR/share)*	1.5	6.0	4.0	4.0	4.1	4.4
Dividend Yield**	1.8%	4.9%	3.7%	3.2%	3.3%	3.5%
P/E (x)**	21.3x	24.5x	31.9x	11.3x	22.6x	17.1x
EV/EBITDA (x)**	11.6x	14.2x	16.0x	16.8x	12.6x	10.0x

Source: Company Reports, U Capital Research; *FY22e DPS does not include potential dividends from one-off gains

**P/E, EV/EBITDA and Div. yield from 2022 onwards calculated on price of 14/09/2022

Key financials

In SAR mn, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Net sales	8,166	8,811	8,403	9,381	10,712	11,624
Cost of sales	(6,473)	(6,900)	(6,640)	(7,413)	(8,361)	(8,949)
Gross profit	1,693	1,911	1,764	1,968	2,350	2,675
General and administrative expenses	(108)	(109)	(123)	(149)	(161)	(175)
Selling and marketing expenses	(1,267)	(1,343)	(1,384)	(1,530)	(1,708)	(1,862)
Rental income, net	80	57	85	81	86	93
Operating profit	399	519	344	372	571	735
Other income (expenses), net	(0)	(4)	9	5	6	8
Financing charges, net	(5)	(1)	(1)	(1)	(1)	(1)
Income before zakat and income tax	366	469	320	1,065	526	696
Zakat	(11)	(16)	(11)	(67)	(24)	(32)
Net income for the period	345	451	305	993	498	660
Balance Sheet						
Cash and cash equivalents	262	278	183	1,142	1,296	1,521
Trade receivables, net	41	42	31	39	40	43
Inventories	786	859	859	991	962	1,005
Right of use leased assets	1,158	1,330	1,443	1,398	1,379	1,351
Property, plant and equipment, net	1,433	1,408	1,393	1,341	1,411	1,478
Total assets	4,766	4,965	5,102	6,020	6,261	6,666
Accruals and other payables	533	618	743	632	728	764
Lease contracts liabilities	1,221	1,388	1,528	1,495	1,475	1,445
Trade payables	1,329	1,364	1,406	1,784	1,833	1,962
Total liabilities	3,241	3,396	3,692	3,978	4,089	4,223
Paid-in share capital	900	900	900	900	900	900
Retained earnings	530	523	342	870	967	1,234
Equity Attributable to Shareholders	1,487	1,524	1,373	2,000	2,127	2,393
Cash Flow Statement						
Net cash generated from operating activities	657	887	834	676	1,006	1,132
Net cash generated from investing activities	(155)	(114)	(273)	725	(445)	(482)
Net cash (used in) provided by financing activities	(460)	(758)	(656)	(443)	(407)	(424)
Cash and cash equivalents at the end of the period	262	278	183	1,142	1,296	1,521
Key Ratios						
Gross margin (%)	20.7%	21.7%	21.0%	21.0%	21.9%	23.0%
EBITDA margin (%)	8.8%	9.7%	8.1%	7.5%	8.5%	9.7%
Operating margin (%)	4.9%	5.9%	4.1%	4.0%	5.3%	6.3%
Net margin (%)	4.2%	5.1%	3.6%	10.6%	4.7%	5.7%
ROA	8.2%	9.3%	6.1%	17.9%	8.1%	10.2%
ROE	21.9%	29.9%	21.1%	58.9%	24.1%	29.2%
Current Ratio (x)	0.6x	0.7x	0.6x	1.0x	1.0x	1.1x
Capex/Sales	2.3%	1.6%	1.8%	2.5%	3.4%	3.4%
Debt-Equity Ratio	0.8x	0.9x	1.1x	0.7x	0.7x	0.6x
EPS	3.8	5.0	3.4	11.0	5.5	7.3
BVPS	16.5	16.9	15.3	22.2	23.6	26.6
DPS*	1.5	6.0	4.0	4.0	4.1	4.4
Dividend Payout Ratio	39.2%	119.7%	118.0%	36.3%	74.4%	59.6%
Dividend Yield (%)	1.8%	4.9%	3.7%	3.2%	3.3%	3.5%
P/E (x)	21.3x	24.5x	31.9x	11.3x	22.6x	17.1x
P/BV (x)	4.9x	7.3x	7.1x	5.6x	5.3x	4.7x
EV/EBITDA (x)	11.6x	14.2x	16.0x	16.8x	12.6x	10.0x
Price as at period end**	81.5	122.8	108.2	125.0	125.0	125.0

Source: Company Reports, U Capital Research; *FY22e DPS does not include potential dividends from one-off gains

**Current market price is used for forecast periods

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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