

Q2 23 - COMPANY UPDATE

Store expansion and consumer down-trading to drive growth

We maintain our Neutral rating on Al Othaim with a revised PT of SAR13.9 (from SAR12.3). We believe Al Othaim's outlook is positive given 1) consumer's down-trading driven by the rising costs of living and 2) the company's aggressive store expansion plan which is a key growth catalyst going forward. However, we believe all positives are already priced in. The stock is trading at 2023f P/E and EV/EBITDA of 26.0x and 13.7x vs the global peer group average of 22.9x and 12.2x, respectively.

- Aggressive store expansion, the key growth catalyst**

After a brief slowdown during COVID-19, Al Othaim resumed its aggressive store expansion strategy by opening 23 and 34 net new stores in 2021 and 2022, respectively. It also opened 9 net new stores in Q1 23, taking the total store count to 360 (315 in Saudi and 45 in Egypt). The company is planning to maintain the strong expansion strategy in 2023f by opening 9-10 new stores per quarter with an increased focus on the western region. We factor an average of 25 new stores annually, taking the total store count to 426 by 2025f. We expect revenues to deliver a strong 2022-25f CAGR of 8.5% to SAR12.2bn in 2025f, driven mainly by the ongoing LFL recovery (1.9% projected LFL growth in 2023f) and the store expansions in the Saudi retail segment (2022-25f revenues CAGR of 8.4%).

- Consumer down-trading to support growth**

We believe Al Othaim is benefiting from its unique exposure to low and mid-income consumer groups due to consumers down-trading trends during the inflationary environment. However, we highlight that the entrance of smaller grocery retailers especially through online channels is a potential risk that could attract consumer's spending. Despite that, Al Othaim's strong expansion plans are expected to help it maintain an attractive market share going forward.

- Strong earnings profile with attractive dividends**

We expect the strong top-line growth driven by the increased number of stores and higher supplier incentives will be the key profitability drivers going forward. We project net income to increase by 31.8% yoy (adjusting for one-off capital gains recorded in 2022) to SAR475mn in 2023f, and to deliver a 2022-25f CAGR of 19.5%. We project gross margins to marginally improve to 22.1% in 2025f from 21.8% in 2022 (+23 bps), as we believe the higher costs will be offset by higher supplier incentives received. Given the growth plans, we believe the company will maintain its healthy payout ratio and expect a dividend payout of c91% during the 2023f-2025f translating into a dividend yield of 3.6% in 2023f.

- Remain Neutral with a revised PT of SAR13.9**

We maintain our Neutral rating on Al Othaim with a revised PT of SAR13.9 (from SAR12.3). We believe the aggressive store expansion plans and consumer's down-trading trends are the key stock drivers going forward. The stock currently trades at 2023f P/E and EV/EBITDA of 26.0x and 13.7x, vs the global peer group average of 22.9x and 12.2x, respectively.

Summary Financials

SAR mn	2022	2023f	2024f	2025f	CAGR
Revenues	9,550	10,732	11,499	12,191	8.5%
Gross income	2,086	2,352	2,529	2,690	8.9%
Gross margin (%)	21.8	21.9	22.0	22.1	
EBIT	411	507	577	642	16.0%
EBIT Margin (%)	4.3	4.7	5.0	5.3	
Net income	1,080	475	544	615	(17.1)%
Adj. Net income	360	475	544	615	19.5%
Net margin (%)	11.3	4.4	4.7	5.0	
Adj. Net margin (%)	3.8	4.4	4.7	5.0	
EPS (SAR)	1.20	0.53	0.60	0.68	(17.1)%
Adj. EPS (SAR)	0.40	0.53	0.60	0.68	19.5%

Source: The company, SNB Capital Research

NEUTRAL

Price target (SAR)	13.9
Current price (SAR)	13.7
Upside/Downside (%)	1.5

VALUATION MULTIPLES

	22	23f	24f
P/E (x)	11.5	26.0	22.7
P/B (x)	8.8	8.6	8.3
EV/EBITDA (x)	15.6	13.7	12.4
Div Yield (%)	8.9*	3.6	4.0

Source: SNB Capital Research estimates *Includes one-off dividends.

MAJOR SHAREHOLDERS

Investor	% Ownership
Al Othaim Holding Co.	33.7%
Foreign Investors	8.4%

Source: Saudi Exchange, SNB Capital. As of 15 June 2023

STOCK DETAILS

M52-week range H/L (SAR)	15/10
Market cap (\$mn)	3,350
Shares outstanding (mn)	900
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	(2.1)	20.8	33.0
Rel. to market	(3.7)	6.0	37.0

Avg daily turnover (mn) SAR US\$

3m	20.3	5.4
12m	15.6	4.2

Reuters code	4001.SE
Bloomberg code	AOTHAIM AB
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