

US\$3.3bn Market Cap. 66.3% Free Float US\$5.3mn Avg. Daily Value traded

# Abdullah Al Othaim Markets Co.

## Maintaining a Neutral Rating

### Neutral

#### Price Target (SAR): 15.0

Current: 13.9

Upside/Downside: 7.9% above current

Valuation Multiples	23A	24E	25E
P/E (x)	24.4	28.8	28.1
EV/EBITDA (x)	16.0	15.2	14.1

#### Major Shareholders % Ownership

Al Othaim Holding Company	33.67
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Price Performance	1M	3M	YTD
Absolute	-2.3%	7.1%	5.2%
Relative to TASI	-7.4%	-5.9%	0%

### Earnings

SARmn	2023	2024E	2025E
Revenue	10,204	11,511	13,210
Revenue growth	6.9%	12.8%	14.8%
Gross profit	2,272	2,534	2,906
Gross margin	22.3%	22.0%	22.0%
EBITDA	858	960	1,056
EBITDA margin	8.4%	8.3%	8.0%
Net profit	488	434	446
Net margin	4.8%	3.8%	3.4%
EPS	0.5	0.5	0.5
DPS	0.6	0.5	0.5
Payout ratio	110.8%	100.0%	100.0%
P/E	24.4x	28.8x	28.1x
RoE	34.8%	31.4%	32.1%

Source: Company data, Al Rajhi Capital.

We revise our Fair Value of Al Othaim from SAR14/sh to SAR15/sh while maintaining our neutral rating on the stock. The company plans to expand its presence in the kingdom with the addition of over 190 stores by 2026 in-order to increase its market share in the western region and capitalize on the on-going expansion in Riyadh. While the management plans to manage the capex associated with this aggressive expansion plan by focusing on smaller format store, it simultaneously plans to renovate its existing store as well. On account of increasing its stores by ~50%, we expect Al Othaim's topline to register a CAGR of ~13% between 2024-2027. In our opinion, current stock price balances the potential benefit of this aggressive expansion with the risks of further decline in LFL sales. The stock currently trades at a forward P/E of 28.8x and offers a dividend yield of 3.5%.

**Expanding its Presence Across KSA:** Al Othaim plans to expand its presence in the kingdom while minimizing any potential cannibalization and is targeting to have 600+ stores by the end of 2026 (in our expectation we have assumed the company will reach this number by 2027). As per the management, the focus of this expansion would be in the western region (where it has low to modest presence) and in certain areas of Riyadh (where it does not have any stores and wants to take advantage of the government's plan to expand Riyadh).

Furthermore, these stores are expected to be in supermarket format with an area of 1,000-1,500 sq.mt depending on the location. As per the management, the supermarket format would not only have relatively less construction and labour cost but would also be in-line with the current consumer preference.

In addition to expanding its footprint, the management also plans to renovate its existing store in the next three years (from 2024 to 2026). As per our understanding, the total capex associated with this renovation plus the recurring maintenance capex from 2024 to 2026 would be ~SAR100mn per annum.

**Topline CAGR of ~13% amid aggressive expansion:** On account of increasing its stores by ~50%, we expect Al Othaim's topline to register a CAGR of ~13% between 2024-2027.

As per the company's management, it takes ~2-3 years for a store to reach its potential sales. Hence, while we expect aggressive expansion in its store network to result in a higher cost of lease, the incremental sales from the 115 stores that were opened in the last three years can be expected to support the company's bottom-line. As a result, we expect Al Othaim's net income to grow at a CAGR of ~6% between 2024-2025.

**Recommendation and Valuation:**

We maintain our neutral rating on the stock with a Fair Value of SAR15/sh. We value the stock using discounted cashflow and EV/EBITDA method giving equal weight to each. In the DCF method, we value the core business using the cost of equity of 9% and terminal growth rate of 2.5%. Furthermore, we value the company's stake in Gulf Flour Milling Industrial Company using comparable P/E multiple. For the EV/EBITDA method, we take the target EV/EBITDA multiple of 15.0x largely in-line with the company's history.

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	16	50.0%	8	12.3%
EV/EBITDA	15	50.0%	8	10.7%
<b>Target price</b>			<b>15</b>	
CMP			13.9	
<b>Upside/(Downside)</b>			<b>7.9%</b>	
Dividend yield			3.5%	
<b>Total returns</b>			<b>11.4%</b>	

Source: Al Rajhi Capital estimates.

## Financials

Figure 2 **Income Statement**

SAR mn	2023	2024E	2025E
<b>Revenue</b>	<b>10,204</b>	<b>11,511</b>	<b>13,210</b>
<i>y-o-y growth</i>	6.9%	12.8%	14.8%
Cost of Sales	7,932	8,976	10,304
<b>Gross Profit</b>	<b>2,272</b>	<b>2,534</b>	<b>2,906</b>
<i>y-o-y growth</i>	8.9%	11.6%	14.7%
<i>margins</i>	22.3%	22.0%	22.0%
<b>Operating Profit</b>	<b>461</b>	<b>517</b>	<b>551</b>
<i>y-o-y growth</i>	12.1%	12.2%	6.6%
<i>margins</i>	4.5%	4.5%	4.2%
<b>Net Income</b>	<b>488</b>	<b>434</b>	<b>446</b>
<i>y-o-y growth</i>	-54.8%	-10.9%	2.7%
<i>margins</i>	4.8%	3.8%	3.4%
EPS	0.5	0.5	0.5

Source: Company data, Al Rajhi Capital.

Figure 4 **Ratios and Multiples**

	2023	2024E	2025E
RoE	34.8%	31.4%	32.1%
Debt/EBITDA (x)	2.4	2.4	2.4
P/E (x)	24.4	28.8	28.1
D/Y	4.5%	3.5%	3.6%
EV/EBITDA (x)	16.0	15.2	14.1

Source: Company data, Al Rajhi Capital.

Figure 3 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash & Short term investments	218	207	175
Accounts receivable, net	43	48	54
Inventories	1,090	1,193	1,411
Advance payments	168	168	168
<b>Total current assets</b>	<b>1,519</b>	<b>1,616</b>	<b>1,809</b>
PPE & Intangible Assets	1,719	1,988	2,215
Right of use assets	1,904	2,121	2,369
Investment in associates	191	232	273
Investment properties	677	651	625
Equity investment	3	3	3
Others	24	24	24
<b>Total Assets</b>	<b>6,036</b>	<b>6,636</b>	<b>7,318</b>
Accounts payable	1,801	2,147	2,541
Current portion of Lease Liability	148	184	206
Others	498	498	498
<b>Total Current liabilities</b>	<b>2,447</b>	<b>2,829</b>	<b>3,245</b>
LT portion of Lease Liability	1,898	2,111	2,371
Others	295	295	295
<b>Total Liabilities</b>	<b>4,639</b>	<b>5,234</b>	<b>5,911</b>
Share Capital	900	900	900
Retained earnings/Accum deficit	463	468	473
Reserve	34	34	34
<b>Total shareholders' equity</b>	<b>1,397</b>	<b>1,402</b>	<b>1,407</b>

Source: Company data, Al Rajhi Capital.

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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.

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