Abdullah Al Othaim Markets

Retail – Industrial
AOTHAIM AB: Saudi Arabia
28 Aug 2023

alrajhi capital

US$3.6bn	66.3%	US$7.0mn
Market Cap	Free Float	Avg. Daily Volume

Target price	13.8	5.5% below current
Current price	14.6	as at 27/08/2023

Existing rating

Underweight | **Neutral** | Overweight

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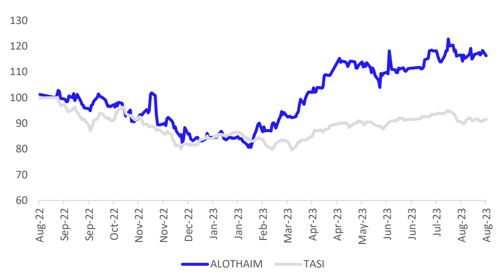
Performance (Rebased to 100)



Earnings

Period End (SARmn)	2021	2022E	2023E
Revenue	4,883	6,852	6,565
YoY %	19.5%	40.3%	-4.2%
Gross Profit	463	647	725
GM Margin %	9.5%	9.4%	11.0%
YoY %	6.1%	39.7%	12.0%
EBITDA	368	521	586
EBITDA Margin	7.5%	7.6%	8.9%
Net Income	240	352	403
Net Income Margin %	4.9%	5.1%	6.1%
YoY %			
EPS	1.60	2.35	2.69
YoY %	10%	47%	14%
DPS	1.44	1.63	1.88
Dividend payout ratio (%)	90%	70%	70%
ROE	12%	17%	18%

Source: Company data, Al Rajhi Capital

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Seasonality impact; We revise TP to SAR13.8/sh and maintain neutral.

Alothaim reported a decent topline growth in 2Q23 with revenue of SAR2,420mn in 2Q23, up 7.3% y-o-y, supported by a higher revenue from existing and new stores. LFL growth was 0.9% vs -2.0% last year. 2Q is seasonally weaker than the rest of the quarters. Alothaim continued with its store expansion plan during the quarter and opened net nine new stores during the quarter (2Q22: nine store additions), raising the total number of stores to 369. Gross and operating margins saw some enhancement, coming in at 21.0% and 2.7%, respectively, (2Q22: GM: 20.8%, OM: 2.8%). Higher opex pressure seen in 2Q23 was offset by the benefits recorded on complying with IFRS15 (related to suppliers' contracts). Income from associate was disappointing in 2Q23 as it turned to losses of SAR3.8mn on the back of weak performance of the Fourth Milling subsidiary as well as losses from the Riyadh Food subsidiary. Additionally, higher financing cost for leases weighed down on profitability and net margin. While the company reported a net profit of SAR139mn, up 178.6%, reflecting a margin of 5.8%, adjusted net profit (excluding the one-off capital gain of SAR97mn) reached SAR42mn, a decline of 17.1% y-o-y, with an adjusted net margin of 1.7%.

Figure:1 2Q23 earnings (SAR mn)

(SAR mn)	2Q 2023	2Q 2022	*Y-o-Y*	1Q 2023	*Q-o-Q*	ARC est	*vs ARC*
Revenue	2,420	2,255	7.3%	2,781	-13.0%	2,525	-4.2%
Gross profit	508	469	*8.4%*	574	*-11.5%*	532	*-4.5%*
Gross margin	21.0%	20.8%		20.6%		21.1%	
Operating profit	65	62	*4.0%*	123	*-47.2%*	68	*-4.3%*
Operating margin	2.7%	2.8%		4.4%		2.7%	
Net profit	139	50	*178.6%*	120	*16.2%*		
Net margin	5.8%	2.2%		4.3%			
Adjusted net profit*	42	50	*-17.1%*	120	*-65.4%*	64	*-34.8%*
Adjusted net margin	1.7%	2.2%		4.3%		2.5%	

*excl. one-off gain

Source: Company data, Al Rajhi Capital

Alothaim 2Q23 performance: Alothaim has managed to open nine stores during the second quarter of the year, supporting the quarter's growth of 7.3% (88% of the growth came from new stores) and aiding in maintaining the revenue growth of the company. The second quarter is relatively weak compared to other quarters which is reflected in lower LFL growth. Operating cost increased by SAR37mn y-o-y mainly driven by the openings of the new stores, which added further pressure on operating profit margin. We expect growth to accelerate in the second half as the new stores ramp up which will enhance the performance. Thus, we revise our target price for Alothaim from SAR11.7/sh to SAR13.8/sh, while the current market price is SAR14.6/sh (5.5% lower).

Valuations: We value Alothaim using a blended approach of DCF and P/E relative valuation (assigned equal weights). We arrived at the DCF approach-based target price of SAR14.6/sh based on a 2.5% terminal growth and a WACC of 7.8%, while the P/E valuation-based TP of SAR12.9/sh is based on 28x multiple and 2023e EPS. Our overall value comes to SAR13.8/sh. Key upside risks to our valuations are higher-than-anticipated sales growth, better-than-expected improvement in gross margin, and lower-than-expected capex spending on store expansions. Downside risks are higher competition in the retail sector, lower sales growth, and/or lower margins.

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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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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