



US\$0.538bn Market cap **55%** Free float **US\$1.947mn** Avg. daily volume

Target price **106.2** 18.30% over current
 Consensus price **111.0** 23.7% over current
 Current price **89.75** as at 16/8/2011

Underweight **Neutral** **Overweight**

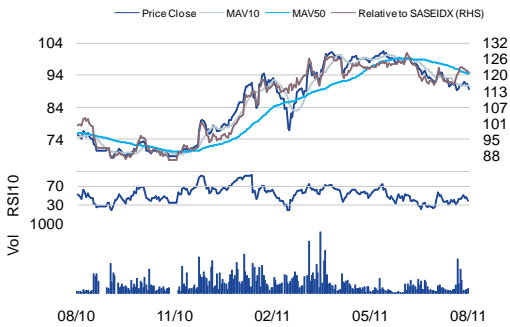
Key themes

Driven by rising population, improving education, and changing lifestyle, we expect the retail sector in Saudi Arabia to continue growing. Alothaim has a very strong position in the grocery market. We expect it to continue growing by opening new stores and benefiting from Saudis' changing lifestyle.

Implications

Alothaim is a respectable company which we find interesting. It is performing well operationally and financially. In our view, the company has become attractive again as the share price has recently fallen.

Performance

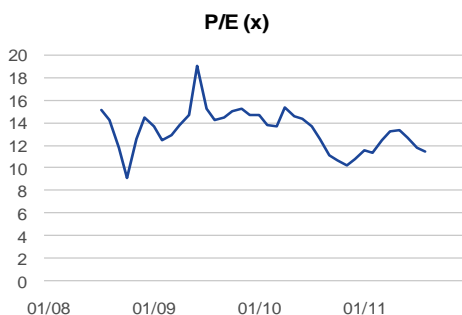


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	3,521	4,214	4,807	5,405
Revenue Growth	11.6%	19.7%	14.1%	12.4%
EBITDA (mn)	190	231	282	329
EBITDA Growth	42.7%	21.5%	22.1%	16.3%
EPS	7.20	8.08	9.27	10.30
EPS Growth	108.9%	12.3%	14.7%	11.0%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Alothaim

Consistently above expectations

Alothaim released Q2 results with robust top and bottom line growth. *Driven by remarkable like-for-like sales growth and new store openings, revenues grew by 21% year-on-year. Operating and net profit jumped by 25% and 31% year-on-year due to continuous improvement in gross margin. On the other hand, Alothaim announced signing an agreement to acquire Alothaim Investment Company; we await detailed prospectus to reflect this transaction in our model. That said, we have raised our earnings forecasts on the back of outstanding Q2 results and hence set a new price target of SAR106.2. This new target offers 18% upside as the share price recently fell. Therefore, we upgrade our rating to Overweight.*

Remarkable SSS growth supports top line: Alothaim posted year-on-year revenue growth of 21% in Q2 2011. Healthy like-for-like sales growth coupled with opening new stores continued to drive the company's sales. As a result, Alothaim's market share of grocery retailing market has increased to roughly 4.7% (4% in 2009). Alothaim opened 11 stores in 2010 and six new stores in H1 2011. On that basis, we estimate that Alothaim achieved about 11% and 10% SSS growth in Q1 and Q2 respectively. We think that this outstanding figure was mainly stimulated by rising grocery prices and the two salary bonus declared by government and many private entities. Therefore, we suppose that Alothaim will continue to achieve respectable organic growth of about 8-10% in 2011.

Continuous improvement in gross margin: Alothaim's gross margin rose from 7.6% in Q2 2010 to 8.0% in Q2 2011. SG&A at 4.1% of sales was similar to that seen in Q1 2011 but much higher than the Q2 2010 level of 3.8%. We attribute this year on year increase to the two salary bonus paid to all employees (SAR5.3mn) and the intensive marketing activities. The improvement in gross margin fed through to an increase in operating and net profit of 25% and 31% respectively. Looking forward, we do not expect gross margin to improve significantly, but we think that the remaining quarters will be better to hold full year's gross close to last year's level.

Acquiring Alothaim Investment could be dilutive: Alothaim recently announced that it will acquire Alothaim Investment & Real estate Company. Alothaim markets will issue 7.25mn new shares (32.2% capital increase) to Alothaim Investment Company owners in exchange for their stakes. As a result, Alothaim markets ownership in Alothaim Investment Company will increase from 13.6% to 100%. From one perspective, we see this acquisition as a positive one as it supports the company's core business (finding stores locations), plus diversifying its portfolio. Nevertheless, considering its size, this transaction could be dilutive to shareholders on the short term. According to the company, the deal is expected to be completed during the next 3-4 months. That said, we await detailed prospectus to be able to reflect the transaction in our model.

Conclusion: Alothaim reported strong sales and profits growth for Q2. We expect healthy like-for-like sales and new store openings to drive growth further. We have revised our forecasts earnings and hence set a new target price of SAR106.2 (old target: SAR95.5). Thus, we upgrade our rating from Neutral to Overweight. Alothaim trades on an EV/EBITDA multiple of 8.7x and a PE ratio of 11.1x, and offers dividend yield of 3.7%.

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Corporate summary

Abdullah Al Othaim Markets is the second grocery retailer in Saudi Arabia with a value of \$US0.5bn. The company is an extension of Saleh Al-Othaim company which was founded in 1957. Al-Othaim has around 29 stores that wholesales and retails food products & supplies, household equipments, electrical and mechanical equipment, cooked and non-cooked catering services and other products. Furthermore, Al-Othaim owns private labels such as HALEY, Proof, SHERR, and REX.

Share information

Market cap (SAR/US\$) 2.019bn / 0.538bn
52-week range 68.25 - 101.5
Daily avg volume (US\$) 1.947mn
Shares outstanding 22.50mn
Free float (est) 55%

Performance: 1M 3M 12M
Absolute -2.5% -8.4% 18.9%
Relative to index 4.7% 0.4% 20.6%

Major Shareholder:
Alothaim company 27.6%
Abdulaziz Saleh Alothaim 17.7%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	3,521	4,214	4,807	5,405
EBITDA (SARmn)	190	231	282	329
Net Profit (SARmn)	162	182	209	232
EPS (SAR)	7.20	8.08	9.27	10.30
DPS (SAR)	3.00	3.30	3.30	3.91
EPS Growth	108.9%	12.3%	14.7%	11.0%
EV/EBITDA (x)	10.6	8.7	7.2	6.1
P/E (x)	12.5	11.1	9.7	8.7
P/B (x)	4.5	3.6	2.9	2.4
Dividend Yield	3.3%	3.7%	3.7%	4.4%

Source: Company data, Al Rajhi Capital

Figure 1. Alothaim: 2010Q2A vs. 2011Q2E vs. 2011Q2A & 2010Q3A vs. 2011Q3E

(SAR) mn	2010Q2A	2011Q2E	2011Q2A YOY % chg.	2010Q3A	2011Q3E YOY % chg.		
Total Revenues	847.5	984.7	1,025.4	21.0%	966.7	1,153.1	19.3%
Gross Profit	64.3	75.8	82.0	27.6%	68.0	84.2	23.8%
Gross profit margin	7.6%	7.7%	8.0%		7.0%	7.3%	
Operating Profit	32.1	38.4	40.1	25.2%	31.0	40.4	30.3%
Net Income	31.3	37.9	41.1	31.2%	45.9	50.4	10.0%

Source: Company data, Al Rajhi Capital

We expect weaker net profit growth as Q3 2010 included unsustainable other income



We expect revenues to reach SAR4.2bn by the end of this year

We expect revenue growth to remain strong over the next three years

We expect gross margin to slightly improve

Alothaim is attractive on P/E of 11.1x and EV/EBITDA of 8.7x

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	3,155	3,521	4,214	4,807	5,405
Cost of Goods Sold	(2,944)	(3,242)	(3,876)	(4,423)	(4,973)
Gross Profit	211	278	338	384	432
Government Charges					
S.G. & A. Costs	(121)	(138)	(173)	(186)	(211)
Operating EBIT	89	141	165	198	222
Cash Operating Costs	(3,022)	(3,330)	(3,983)	(4,525)	(5,077)
EBITDA	133	190	231	282	329
Depreciation and Amortisation	(44)	(50)	(66)	(84)	(107)
Operating Profit	89	141	165	198	222
Net financing income/(costs)	6	13	10	4	4
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	(16)	13	12	12	12
Other Expenses	-	-	-	-	-
Net Profit Before Taxes	80	166	187	214	238
Taxes	(2)	(4)	(5)	(5)	(6)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	78	162	182	209	232
Dividends	(56)	(68)	(74)	(74)	(88)
Transfer to Capital Reserve					
	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	22.50	22.50	22.50	22.50	22.50
CFPS (SAR)	5.41	9.40	11.02	13.03	15.05
EPS (SAR)	3.45	7.20	8.08	9.27	10.30
DPS (SAR)	2.500	3.000	3.300	3.300	3.913
	12/09A	12/10A	12/11E	12/12E	12/13E
Growth					
Revenue Growth	8.2%	11.6%	19.7%	14.1%	12.4%
Gross Profit Growth	17.3%	32.2%	21.6%	13.6%	12.5%
EBITDA Growth	38.4%	42.7%	21.5%	22.1%	16.3%
Operating Profit Growth	51.4%	57.7%	17.3%	20.0%	12.0%
Net Profit Growth	24.5%	108.9%	12.3%	14.7%	11.0%
EPS Growth	24.5%	108.9%	12.3%	14.7%	11.0%
	12/09A	12/10A	12/11E	12/12E	12/13E
Margins					
Gross profit margin	6.7%	7.9%	8.0%	8.0%	8.0%
EBITDA margin	4.2%	5.4%	5.5%	5.9%	6.1%
Operating Margin	2.8%	4.0%	3.9%	4.1%	4.1%
Pretax profit margin	2.5%	4.7%	4.4%	4.5%	4.4%
Net profit margin	2.5%	4.6%	4.3%	4.3%	4.3%
	12/09A	12/10A	12/11E	12/12E	12/13E
Other Ratios					
ROCE	15.2%	22.4%	21.6%	21.9%	19.4%
ROIC	18.5%	29.0%	24.7%	26.9%	25.6%
ROE	24.2%	40.9%	36.0%	33.1%	30.1%
Effective Tax Rate	2.9%	2.5%	2.8%	2.5%	2.5%
Capex/Sales	4.8%	7.9%	4.5%	4.3%	4.6%
Dividend Payout Ratio	72.6%	41.7%	40.8%	35.6%	38.0%
	12/09A	12/10A	12/11E	12/12E	12/13E
Valuation Measures					
P/E (x)	26.0	12.5	11.1	9.7	8.7
P/CF (x)	16.6	9.5	8.1	6.9	6.0
P/B (x)	5.9	4.5	3.6	2.9	2.4
EV/Sales (x)	0.6	0.6	0.5	0.4	0.4
EV/EBITDA (x)	15.1	10.6	8.7	7.2	6.1
EV/EBIT (x)	22.6	14.4	12.2	10.2	9.1
EV/IC (x)	4.3	3.1	2.8	2.4	2.2
Dividend Yield	2.8%	3.3%	3.7%	3.7%	4.4%

Source: Company data, Al Rajhi Capital



Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	107	45	36	49	203
Current Receivables	-	-	-	-	-
Inventories	220	283	342	388	443
Other current assets	90	82	88	88	88
Total Current Assets	417	410	466	526	735
Fixed Assets	721	948	1,071	1,195	1,337
Investments	99	105	111	111	111
Goodwill	-	15	14	14	14
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	820	1,067	1,196	1,320	1,462
Total Assets	1,237	1,478	1,662	1,846	2,197
Short Term Debt	95	172	102	102	102
Accounts Payable	472	552	684	728	838
Accrued Expenses	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	64	98	80	80	80
Total Current Liabilities	631	821	866	910	1,020
Long-Term Debt	242	179	200	206	300
Other LT Payables	-	-	-	-	-
Provisions	22	29	33	33	33
Total Non-current Liabilities	264	208	233	239	333
Minority interests	-	-	-	-	-
Paid-up share capital	225	225	225	225	225
Total Reserves	118	224	338	472	619
Total Shareholders' Equity	343	449	563	697	844
Total Equity	343	449	563	697	844
Total Liabilities & Shareholders' Equity	1,237	1,478	1,662	1,846	2,197

Healthy gearing level (Net Debt/EBITDA of 1.1x)

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	230	306	266	258	198
Net Debt/EBITDA (x)	1.72	1.61	1.15	0.91	0.60
Net Debt to Equity	67.0%	68.1%	47.2%	37.0%	23.5%
EBITDA Interest Cover (x)	(21.4)	(14.8)	(23.6)	(73.3)	(87.7)
BVPS (SAR)	15.24	19.93	25.02	30.99	37.53

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	80	166	187	214	238
Depreciation & Amortisation	44	50	66	84	107
Decrease in Working Capital	95	55	47	(2)	55
Other Operating Cashflow	(1)	(7)	(5)	(5)	(6)
Cashflow from Operations	218	263	295	291	393
Capital Expenditure	(152)	(277)	(188)	(209)	(249)
New Investments	-	-	-	-	-
Others	(3)	(7)	-	-	-
Cashflow from investing activities	(156)	(283)	(188)	(209)	(249)
Net Operating Cashflow	62	(20)	107	82	145
Dividends paid to ordinary shareholders	(34)	(56)	(68)	(74)	(85)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	-	-	-	-
Cashflow from financing activities	18	(42)	(117)	(68)	9
Total cash generated	81	(62)	(10)	14	154
Cash at beginning of period	27	107	45	36	49
Implied cash at end of year	107	45	36	49	203

We expect Capex to moderate over the next three years

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	4.8%	7.9%	4.5%	4.3%	4.6%

Source: Company data, Al Rajhi Capital



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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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