

# Abdullah Al Othaim Markets

Retail Sector

AOTHAIM AB: Saudi Arabia

20 November 2011

الراجحي المالية  
Al Rajhi Capital



**US\$0.567bn** Market cap  
**55%** Free float  
**US\$0.715mn** Avg. daily volume

Target price **109.4** 15.75% over current  
Consensus price **111.0** 17.5% over current  
Current price **94.50** as at 19/11/2011

Research Department  
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Underweight

Neutral

**Overweight**

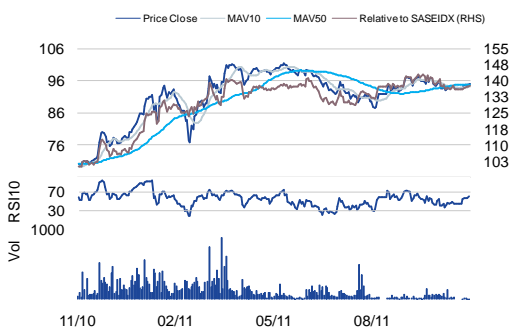
## Key themes

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 is still attractive despite that its stock already performed well this year.

## Performance

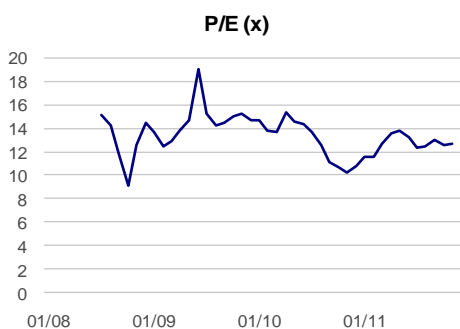


## Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	3,521	4,198	4,831	5,430
Revenue Growth	11.6%	19.2%	15.1%	12.4%
EBITDA (mn)	190	237	282	333
EBITDA Growth	42.7%	24.6%	19.1%	17.8%
EPS	7.20	7.49	8.40	9.74
EPS Growth	108.9%	4.1%	12.2%	16.0%

Source: Company data, Al Rajhi Capital

## Valuation



Source: Company data, Al Rajhi Capital

# Alothaim Further upside

We remain Overweight on Alothaim and lift our target price to SAR109.4 despite the weaker than expected bottomline. However, we think the results included some encouraging numbers such as top line growth and like-for-like sales growth. Net profit was subdued due to capitalized interest costs and low other income compared to last year. Looking forward, we expect Q4 results to be strong in terms of both top and bottom line. Although the stock has performed well this year (+20% YTD), we see further upside as the company is still in a growth stage and has at least two years of double digit growth.

**Robust top line growth in line:** Alothaim posted year-on-year growth of 18% in Q3, reaching SAR1.13bn, in line with our estimate of SAR1.15bn. Healthy like-for-like sales growth coupled with opening new stores continued to drive the company's sales. As a result, we believe that Alothaim will continue to gain market share which currently stands at 4.7% (4% in 2009). However, we believe that last Ramadan month hasn't been strong compared to the same season during that last couple of years, resulting in lower growth compared to H1.

**Healthy organic growth coupled with opening new stores:** Alothaim opened 11 stores in 2010 and nine new stores in the first nine months of 2011 to reach a total of 105 outlets. On that basis, we estimate that Alothaim achieved about 9% SSS growth in Q3; this was below the figures achieved in Q1 and Q2 of 11% and 10% respectively. That said, 9% like-for-like sales growth is solid and we expect the company to achieve similar SSS growth of 9-10% in Q4. Further, we suppose that Alothaim will continue to achieve respectable organic growth of about 6-8% in 2012.

**High SG&A outweigh improving gross margin:** Alothaim's gross margin rose by 30bps from 7.0% in Q3 2010 to 7.3% in Q3 2011. However, SG&A at 4.4% of sales was much higher than that seen in both Q2 2011 and Q3 2010 of 3.8% and 4.1%. We attribute this increase to intensive marketing activities due to weak Ramadan season. This fed through to an increase in operating profit of 5.5%. Looking ahead, we do not expect gross margin to improve significantly, but we assume that SG&A will go back to H1 level of 4.1% as a proportion of sales.

**Interests squeezed bottom line in Q4:** In addition to high SG&A costs, discontinuing capitalization of finance charges related to Dammam mall has halted net profit further. Also, it's worth noting that other income was tiny compared to same period last year, which led to lower net profit of SAR36mn.

**Dividends likely to increase:** Alothaim distributed SAR3.0 per share in dividends for the year 2010. On the back of strong performance so far in 2011, we expect the company to increase its dividends to SAR3.5 per share for this year. By our estimates, this implies a payout ratio of 46% and a dividend yield of 3.7%. Nonetheless, this yield is still relatively low compared to peers (Jarir 5.3%)

**Conclusion:** Though below our estimates, Alothaim's Q3 results were respectable. On the back of strong like-for-like sales growth and improving margins, we have revised our earnings forecasts and hence set a new target price of SAR109.4 (old target: SAR106.2), implying 15% upside potential. Thus, we retain our Overweight rating. Alothaim trades on a 2012 EV/EBITDA multiple of 7.5x and a PE ratio of 11.2x; the stock offers a dividend yield of 3.7%.

Disclosures Please refer to the important disclosures at the back of this report.

Powered by Enhanced Datasystems' EFA Platform



### 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\$)	2.126bn / 0.567bn		
52-week range	70.00 - 101.5		
Daily avg volume (US\$)	0.715mn		
Shares outstanding	22.50mn		
Free float (est)	55%		
Performance:	1M	3M	12M
Absolute	-1.6%	5.3%	37%
Relative to index	-3.1%	3.5%	40.8%
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	4,198	4,831	5,430
EBITDA (SARmn)	190	237	282	333
Net Profit (SARmn)	162	169	189	219
EPS (SAR)	7.20	7.49	8.40	9.74
DPS (SAR)	3.00	3.45	3.45	3.90
EPS Growth	108.9%	4.1%	12.2%	16.0%
EV/EBITDA (x)	11.2	9.0	7.5	6.4
P/E (x)	13.1	12.6	11.2	9.7
P/B (x)	4.7	3.9	3.2	2.7
Dividend Yield	3.2%	3.7%	3.7%	4.1%

Source: Company data, Al Rajhi Capital

## Q3 results: below our estimates

Below we present Alothaim's Q3 results versus our estimates.

Figure 1. Alothaim: 2010Q3A vs. 2011Q3A vs. 2011Q3E (our estimates)

(SAR) mn	2010Q3A	2011Q3A	YOY % chg.	2011Q3E
<b>Total Revenues</b>	<b>966.7</b>	<b>1,136.2</b>	<b>17.5%</b>	<b>1,153.1</b>
<b>Gross Profit</b>	<b>68.0</b>	<b>82.5</b>	<b>21.3%</b>	<b>84.2</b>
Gross margin	7.0%	7.3%		7.3%
<b>Operating Profit</b>	<b>31.0</b>	<b>32.7</b>	<b>5.5%</b>	<b>40.3</b>
<b>Net Income</b>	<b>45.9</b>	<b>36.0</b>	<b>-21.5%</b>	<b>50.4</b>

Source: Company data, Al Rajhi Capital

## Q4: growth continues

Below we present our estimates for Q4 and 2011 full year.

Figure 2. Alothaim: 2010Q4A vs. 2011Q4E & FY2010A vs. FY2011E

(SAR) mn	2010Q4A	2011Q4E	YOY % chg.	FY2010A	FY2011E	YOY % chg.
<b>Total Revenues</b>	<b>909.3</b>	<b>1,069.8</b>	<b>17.6%</b>	<b>3,520.8</b>	<b>4,197.9</b>	<b>19.2%</b>
<b>Gross Profit</b>	<b>90.7</b>	<b>101.6</b>	<b>12.0%</b>	<b>278.3</b>	<b>339.0</b>	<b>21.8%</b>
	10.0%	9.5%		7.9%	8.1%	
<b>Operating Profit</b>	<b>49.3</b>	<b>56.7</b>	<b>15.0%</b>	<b>140.6</b>	<b>162.7</b>	<b>15.7%</b>
<b>Net Income</b>	<b>53.0</b>	<b>54.9</b>	<b>3.7%</b>	<b>161.9</b>	<b>168.5</b>	<b>4.1%</b>

Source: Company data, Al Rajhi Capital



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

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

We expect gross margin to slightly improve

Alothaim is attractive on P/E of 11.2x and EV/EBITDA of 7.5x

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
<b>Revenue</b>	<b>3,155</b>	<b>3,521</b>	<b>4,198</b>	<b>4,831</b>	<b>5,430</b>
Cost of Goods Sold	(2,944)	(3,242)	(3,859)	(4,441)	(4,991)
<b>Gross Profit</b>	<b>211</b>	<b>278</b>	<b>339</b>	<b>390</b>	<b>440</b>
Government Charges					
S.G. & A. Costs	(121)	(138)	(176)	(197)	(217)
<b>Operating EBIT</b>	<b>89</b>	<b>141</b>	<b>163</b>	<b>193</b>	<b>223</b>
Cash Operating Costs	(3,022)	(3,330)	(3,961)	(4,549)	(5,098)
EBITDA	133	190	237	282	333
Depreciation and Amortisation	(44)	(50)	(74)	(89)	(110)
<b>Operating Profit</b>	<b>89</b>	<b>141</b>	<b>163</b>	<b>193</b>	<b>223</b>
Net financing income/(costs)	6	13	9	(1)	0
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	(16)	13	2	2	2
Other Expenses	-	-	-	-	-
<b>Net Profit Before Taxes</b>	<b>80</b>	<b>166</b>	<b>173</b>	<b>194</b>	<b>225</b>
Taxes	(2)	(4)	(5)	(5)	(6)
Minority Interests	-	-	-	-	-
<b>Net profit available to shareholders</b>	<b>78</b>	<b>162</b>	<b>169</b>	<b>189</b>	<b>219</b>
Dividends	(56)	(68)	(78)	(78)	(88)
Transfer to Capital Reserve					
	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Adjusted Shares Out (mn)	22.50	22.50	22.50	22.50	22.50
CFPS (SAR)	5.41	9.40	10.80	12.37	14.63
EPS (SAR)	3.45	7.20	7.49	8.40	9.74
DPS (SAR)	2.500	3.000	3.450	3.450	3.897
<b>Growth</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Revenue Growth	8.2%	11.6%	19.2%	15.1%	12.4%
Gross Profit Growth	17.3%	32.2%	21.8%	15.1%	12.8%
EBITDA Growth	38.4%	42.7%	24.6%	19.1%	17.8%
Operating Profit Growth	51.4%	57.7%	15.7%	18.7%	15.3%
Net Profit Growth	24.5%	108.9%	4.1%	12.2%	16.0%
EPS Growth	24.5%	108.9%	4.1%	12.2%	16.0%
<b>Margins</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Gross profit margin	6.7%	7.9%	8.1%	8.1%	8.1%
EBITDA margin	4.2%	5.4%	5.6%	5.8%	6.1%
Operating Margin	2.8%	4.0%	3.9%	4.0%	4.1%
Pretax profit margin	2.5%	4.7%	4.1%	4.0%	4.1%
Net profit margin	2.5%	4.6%	4.0%	3.9%	4.0%
<b>Other Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
ROCE	15.2%	22.4%	21.7%	22.2%	20.3%
ROIC	18.5%	29.0%	24.4%	24.3%	23.8%
ROE	24.2%	40.9%	33.8%	31.2%	30.1%
Effective Tax Rate	2.9%	2.5%	2.7%	2.5%	2.5%
Capex/Sales	4.8%	7.9%	6.1%	4.7%	4.6%
Dividend Payout Ratio	72.6%	41.7%	46.1%	41.1%	40.0%
<b>Valuation Measures</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
P/E (x)	27.4	13.1	12.6	11.2	9.7
P/CF (x)	17.5	10.0	8.8	7.6	6.5
P/B (x)	6.2	4.7	3.9	3.2	2.7
EV/Sales (x)	0.7	0.6	0.5	0.4	0.4
EV/EBITDA (x)	15.9	11.2	9.0	7.5	6.4
EV/EBIT (x)	23.8	15.1	13.1	11.0	9.5
EV/IC (x)	4.5	3.3	2.7	2.3	2.1
Dividend Yield	2.6%	3.2%	3.7%	3.7%	4.1%

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	62	45	185
Current Receivables	-	-	-	-	-
Inventories	220	283	342	392	445
Other current assets	90	82	96	96	96
<b>Total Current Assets</b>	<b>417</b>	<b>410</b>	<b>501</b>	<b>534</b>	<b>727</b>
Fixed Assets	721	948	1,129	1,266	1,406
Investments	99	105	118	118	118
Goodwill	-	15	14	14	14
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>820</b>	<b>1,067</b>	<b>1,261</b>	<b>1,398</b>	<b>1,538</b>
<b>Total Assets</b>	<b>1,237</b>	<b>1,478</b>	<b>1,762</b>	<b>1,932</b>	<b>2,264</b>
Short Term Debt	95	172	206	206	206
Accounts Payable	472	552	685	735	842
Accrued Expenses	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	64	98	87	87	87
<b>Total Current Liabilities</b>	<b>631</b>	<b>821</b>	<b>978</b>	<b>1,029</b>	<b>1,135</b>
Long-Term Debt	242	179	200	208	300
Other LT Payables	-	-	-	-	-
Provisions	22	29	34	34	34
<b>Total Non-current Liabilities</b>	<b>264</b>	<b>208</b>	<b>234</b>	<b>242</b>	<b>334</b>
Minority interests	-	-	-	-	-
Paid-up share capital	225	225	225	225	225
Total Reserves	118	224	325	436	570
<b>Total Shareholders' Equity</b>	<b>343</b>	<b>449</b>	<b>550</b>	<b>661</b>	<b>795</b>
<b>Total Equity</b>	<b>343</b>	<b>449</b>	<b>550</b>	<b>661</b>	<b>795</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,237</b>	<b>1,478</b>	<b>1,762</b>	<b>1,932</b>	<b>2,264</b>

Healthy gearing level (Net Debt/EBITDA of 1.4x)

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	230	306	344	369	321
Net Debt/EBITDA (x)	1.72	1.61	1.45	1.30	0.97
Net Debt to Equity	67.0%	68.1%	62.6%	55.8%	40.4%
EBITDA Interest Cover (x)	(21.4)	(14.8)	(27.9)	221.8	(1,797.2)
BVPS (SAR)	15.24	19.93	24.42	29.38	35.33

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
<b>Net Income before Tax &amp; Minority Interest</b>	<b>80</b>	<b>166</b>	<b>173</b>	<b>194</b>	<b>225</b>
Depreciation & Amortisation	44	50	74	89	110
Decrease in Working Capital	95	55	46	1	53
Other Operating Cashflow	(1)	(7)	(9)	(5)	(6)
<b>Cashflow from Operations</b>	<b>218</b>	<b>263</b>	<b>284</b>	<b>279</b>	<b>383</b>
Capital Expenditure	(152)	(277)	(254)	(226)	(250)
New Investments	-	-	(1)	-	-
Others	(3)	(7)	-	-	-
<b>Cashflow from investing activities</b>	<b>(156)</b>	<b>(283)</b>	<b>(255)</b>	<b>(226)</b>	<b>(250)</b>
<b>Net Operating Cashflow</b>	<b>62</b>	<b>(20)</b>	<b>29</b>	<b>53</b>	<b>133</b>
Dividends paid to ordinary shareholders	(34)	(56)	(68)	(78)	(85)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	-	-	-	-
<b>Cashflow from financing activities</b>	<b>18</b>	<b>(42)</b>	<b>(12)</b>	<b>(70)</b>	<b>7</b>
Total cash generated	81	(62)	17	(17)	140
Cash at beginning of period	27	107	45	62	45
<b>Implied cash at end of year</b>	<b>107</b>	<b>45</b>	<b>62</b>	<b>45</b>	<b>185</b>

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%	6.1%	4.7%	4.6%

Source: Company data, Al Rajhi Capital



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#### 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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