

# Abdullah Al Othaim Markets

**A. Al Othaim Markets showed an above-average performance during Q1 2020. The Coronavirus-induced surge in demand, combined with the company's covered ground in terms of stores, led to a 21% Y-o-Y increase in revenue. Momentum is expected to persist towards the end of the year. However, weak online presence could be a challenge in the long-run.**

28 June 2020

<b>Recommendation</b>	<b>Neutral</b>
<b>Current Price (28-06-2020)</b>	<b>SAR113.8</b>
<b>Target Price (52 Weeks)</b>	<b>SAR107.0</b>
<b>Upside/ (Downside)</b>	<b>-5.9%</b>
<b>Shariah Compliance</b>	<b>Pass</b>

## Key Points

We start our coverage for Al-Othaim with a **NEUTRAL** recommendation and 52 weeks target price at **SAR107**; this represents a downside potential of **5.9%**.

- A. Al Othaim Markets (Al-Othaim) showed strong performance during the first quarter of the year. Revenues increased by 21% Y-o-Y, while net income increased by 44%.
- Unlike some sectors, it seems like the retail sector, specifically Al-Othaim was able to capitalize on the increase in demand and marginalized competition. During the period, Al-Othaim was able to capture market share as smaller businesses are being forced out of the market amid the pandemic.
- Due to the company's primary operations in food retail and wholesale, we expect that the demand will remain high towards the end of the year. Moreover, we expect an exceptionally strong quarter (Q2 2020) on the back of the application of VAT in the beginning of the 3<sup>rd</sup> quarter.
- Going forward, Al-Othaim could face intense competition through e-commerce retailers due to the growing that consumer shift towards online shopping amid the pandemic outbreak. We believe that the only way for the company to maintain market share is through heavily investing in an online platform rather than physical expansion.

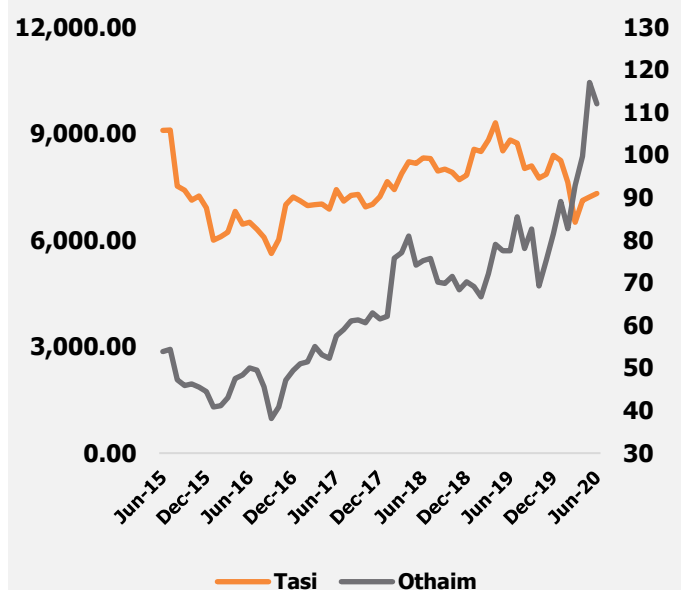
## Key Growth Catalysts

- Al-Othaim's Physical Presence
- Al-Othaim markets among the 100 largest companies in the Middle-East in 2020
- Higher than Average Return on Capital Employed

## Key Risk Factors

- Volatile Dividend Payment
- Weak Online Presences Compared to Big Retail Competitors

<b>Reuters Code</b>	4001.SE
<b>Bloomberg Code</b>	AOTHAIM:SA
<b>52 Weeks High</b>	SAR120.00
<b>52 Weeks Low</b>	SAR67.50
<b>Market Cap</b>	SAR10.24bn
<b>P/E</b>	27.3
<b>EPS</b>	4.2
<b>Last Dividends</b>	SAR1.5
<b>AVG Value Traded</b>	SAR230.5mn



# Company Overview

## Al-Othaim Markets Establishment

- Abdullah Al Othaim Commercial Company is a continuity of Salih Al-Othaim Trading Establishment, founded in 1376h (1956) by late Sheikh Salih Al-Othaim. By the rootage of Abdullah AlOthaim name as a leader in the field of central and cash & carry markets the company continued to give good and interesting marketing experiment, with competitive prices, excellent services, and quality, and all this was led not only by introducing new ideas in marketing but also in establishing creativity concepts in dealing with vendors and clients, moreover, by introducing new techniques in retail and wholesale business throughout its branches.
- Abdullah Al Othaim Markets provides consumer products in Saudi Arabia through more than 243 branches. The company has also expanded into Egypt and had opened 43 branches as of February 2020. In May 2020, the company upgraded from MSCI Saudi Arabia small-cap index to MSCI Saudi Arabia index for leading companies, which currently includes 33 Saudi Companies. Abdulaziz Abdullah Al Othaim has been the CEO of the company since 2016.

## Al-Othaim's Revenue at Glimpse

### Geographic Distribution of Al-Othaim's Revenue:

- Al-Othaim's operations are not only limited to the Kingdom, but the company also operates in Egypt since 2016. Al-Othaim currently operates and manages a total of 245 stores in Saudi Arabia and 46 stores in Egypt.

### Al-Othaim's Revenue is Mainly Derived from 3 segments

- While the company operates mainly in food supplies retail and wholesale, Al-Othaim also generates revenues from real estate and leasing. The company leases commercial centers for the purpose of investment for its own interest. Finally, the company has an "Other" segment, which includes revenues outside retail and leasing operations.

## Key Shareholders

Name	Ownership (%)
Al Othaim Holding Company	27.60%
Abdullah Saleh Ali Al Othaim	6.00%
Free Float	66.00%

Source: Tadawul

### Geographical Segmentation of Retail and Wholesale (Q1 2020)



# Company Analysis



## Al-Othaim's Product offering

GROCERY	FRESH & BAKERY	FROZEN	BEVERAGE	HEALTH & BEAUTY	BABY NEEDS	HOME CARE	ELECTRONICS
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### FOOD ITEMS HIGH QUALITY, LOWEST PRICES



- Hot Drinks
- Home Baking
- Milk
- Pasta Noodles
- Breakfast Food
- Canned Food
- Oriental Food
- Oils & Ghee
- Rice & Sugar
- Cereal Food

- Bakery
- Dairy Products
- Fresh Meat
- Fresh Chicken & Eggs
- Fruits and Vegetables
- Delicatessens

### FRESH & BAKERY COMING DAILY, WITH BEST PRICE



### FROZEN ITEMS HIGH QUALITY, FROZEN AND CHILLED



- Ice cream & Cakes
- Pastries
- Chicken & Meat
- Fruits & Vegetables
- Ready to Eat
- Fish & Seafood

- Confectionery
- Drinks & Juice

### SWEETS & DRINKS GOOD VARIETY OF DESERTS AND DRINKS



### HEALTH & BEAUTY PERSONAL CARE KITS



- Shaving Needs
- Body Face Care
- Deodorant
- Hair care
- Woman Care
- Soup & Shower Gel
- Dental Care

- Baby Care
- Baby Food

### BABY NEEDS CHILD CARE ACCESSORIES



### HOME CARE HOME CARE ACCESSORIES



- Kitchen Needs
- Clothes Care
- Disinfectant
- Plastic Products
- Pet Food
- Household
- Dishwashing
- Paper Products
- Foils and Cling Films

- Personal Care
- Outdoor & Camping
- Computer Accessories
- Tools & Hardware
- Home Appliances

### ELECTRONICS AVAILABLE AT COMPETITIVE PRICES



# Company Analysis

## Key Growth Catalysts

### Al-Othaim's Physical Presence

- Since the beginning of the year, the entire world was faced with the new Coronavirus that soon was declared by the World Health Organization as a pandemic. Nations worldwide started shutting down and forcing curfews, not knowing the duration of this pandemic, people started stockpiling groceries as a result of the pandemic-induced panic.
- Saudi Arabia was no different; the stockpiling phenomena started in the Kingdom in February. While panic is slowly subsiding as the government is slowly easing restrictions, the consumer demand for groceries is not expected to decrease.
- Given the nature of the products provided by Al-Othaim, being essential and durable, the company witnessed a huge surge in demand during the quarter. According to a consumer behavior study by Steady Pace, demand on cleaning products increased by 44% since the beginning of the year, demand on essential food items increased 47%, while personal care products (including grooming appliances) increased by 31%.
- Al-Othaim targets low to mid-income segment, and its majority of the revenue comes from groceries and fresh food segment. Being a large organized player, with a strong brand image and multi-channel distribution capabilities, Al-Othaim was able to increase its market share from 5% in 2015 to 9% in 2019 (while the overall grocery market size had shrunk 3% during the same period). In-fact A-Othaim has been expanding at neighborhood areas in Riyadh aggressively, which is helping it to capture the market share from local convenience stores. The increase in market share is expected to continue during the year as smaller/unorganized are being marginalized in addition to Al-Othaim's aggressive expansion plans.
- Due to the company's strong balance sheet, coupled with the company's covered ground in terms of stores, both in Saudi Arabia and Egypt, the company is expected to continue delivering consistent growth during the pandemic. With a total of 291 stores in both regions, Al-Othaim is a market leader providing convenience to its customers, which is an advantage over the entire Saudi Retailing sector.

Al-Othaim Store Locations in Saudi Arabia



Al-Othaim Store Locations in Cairo





# Company Analysis

## Al-Othaim markets among the 100 largest companies in the Middle-East in 2020

- In its June 2020 issue and for the third year in a row, Forbes Middle-East continues to select Abdullah Al-Othaim Markets Company among the 100 largest public companies in the Middle-East for the year 2020.
- Al-Othaim is the sole company in the food retail sector to enter the list in addition to ranking third in the retails sector in Saudi Arabia. The list included the largest 100 companies in the Middle East in a comparison that covered various major industrial, financial and economic entities.
- The selection was based on the company's performance during the year, was Forbes raised its estimate of the company's market value to USD2.2bn and the value of the assets to USD1.3bn
- Such ranking, especially by an elite specialized magazine such as Forbes, sets Al-Othaim Markets in a different league compared to its competition. Moreover, it reflects the company's contribution to the Kingdom's economic growth, which is bound to provide safety for the company going forward.

## Higher than Average Return on Capital Employed (ROCE)

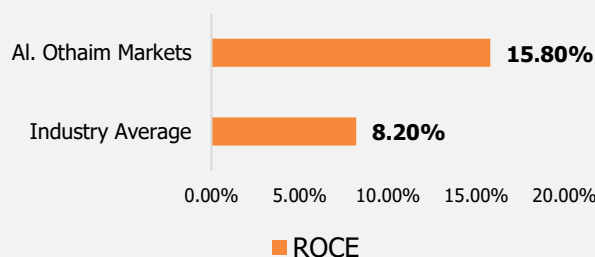
- While no two businesses are exactly alike, the ROCE is a useful measure of business efficiency as it takes into consideration the company's liabilities as well as assets.
- While the Consumer retailing industry averaged at around 8.2%, during the quarter, Al-Othaim's ROCE was valued at 15.8%.
- The higher than average ROCE suggests more effective use of capital compared to similar companies in the industry, which shows how Al-Othaim stacks up against its industry.

### The 33 Entries by Saudi Arabia in Forbes' List of Largest 100 Companies in the Middle East



Images by Forbes Middle East

### Return on Capital Employed Averages



# Company Analysis

## Key Risk Factors

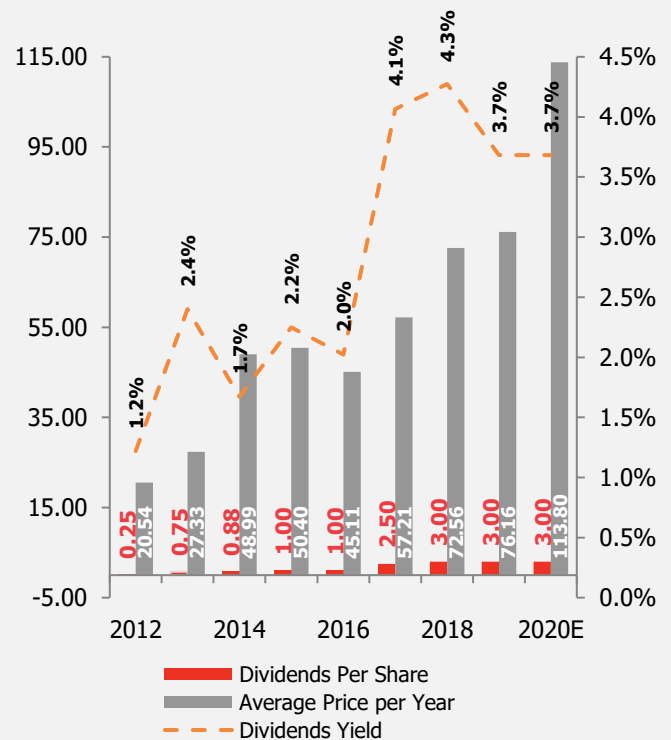
### Volatile Dividend Payment

- While Al-Othaim provides its shareholders with a rather consistent cash dividend payments, the company's dividends have been relatively volatile throughout the years.
- For the TTM, Al-Othaim's current dividend yield is 2.6%. It is worth noting that the dividend yield of the market's top 25% dividend payers is 6.5%, while the average for the bottom 25% is 2.8%.
- Moreover, over the years, the increase in DPS was not proportionate to the increase in Al-Othaim's average annual share price.
- The company's volatile dividend payment, relatively stagnant DPS, and the average dividend yield could make it less attractive to dividend-seeking investors; however, the company's strong cash positions allows for consistent payments.

### Weak Online Presences Compared to Big Retail Competitors

- While the duration for the pandemic remains unknown, it is undoubtedly that the market is gearing up to the changes in the market dynamics after the coronavirus pandemic is over. It is already evident that more consumers are turning to online shopping, especially during the strict quarantine restrictions.
- 69% of Saudi consumers have shopped online since the start of the year, and that could be attributed to the ease and convenience of online shopping during the current global situation.
- With smaller players out of the picture, Al-Othaim's main retailing competitors have invested heavily in their online shopping platforms. Moreover, with Amazon taking over Souq, Al-Othaim will soon be competing with an e-commerce giant.
- Until Al-Othaim starts seriously investing in an online shopping platform, the company's market share is at a threat as Brick and Mortar stores slowly lose their appeal in the years after the pandemic.

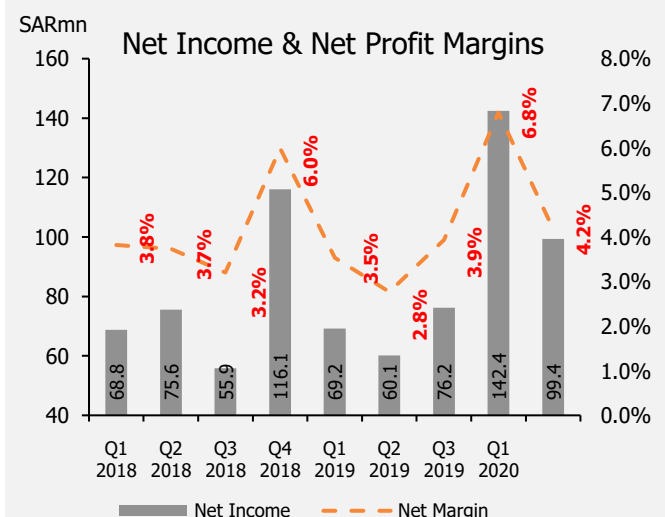
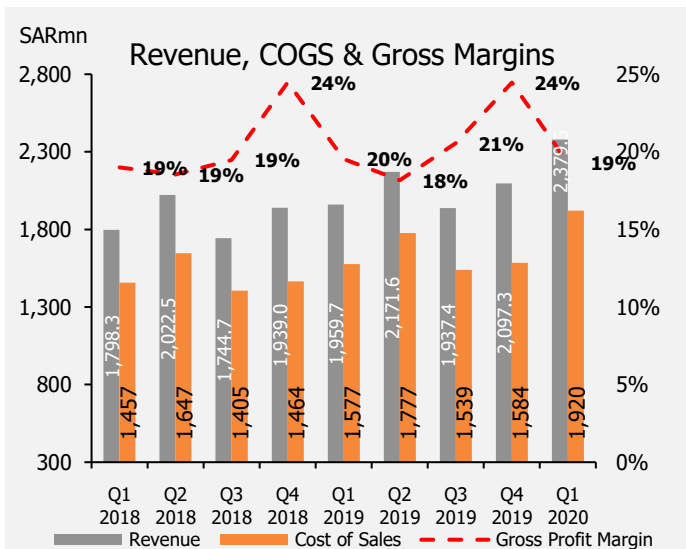
Dividend Per Share & Dividend Yield



# Company Analysis

## Financial Results

- Despite the challenging economic state that the entire world is going through as a result of the coronavirus pandemic, Al-Othaim was able to achieve outstanding top and bottom-line numbers during the first quarter of the year 2020.
- During the quarter, Al-Othaim reported an impressive 21% growth Y-o-Y, from SAR1,960mn in Q1 2019, to SAR2,379mn in Q1 2020. The increase in revenue is a result of the surge in demand during the period, triggered by the pandemic. We expect that a similar growth rate is due in Q2 2020, as the VAT is announced to be applied in July; therefore, people are likely to increase their purchases in the durable segment (electronics) in order to lock down cheaper prices before the VAT application.
- During the quarter, Al-Othaim opened two new branches in Saudi Arabia, bringing the total number of stores in the Kingdom to 245 stores. This could possibly explain the increase in COGS during the quarter by 22% Y-o-Y from SAR1,464mn in Q1 2019 to SAR1,577mn in Q1 2020.
- That being said, the increase in revenue in Q1 2020 overweighed the increase in COGS for the same period, resulting in a 20% Y-o-Y increase in gross profit. Gross profit increased from SAR383mn in Q1 2019 to SAR459mn in Q1 2020. However, the gross profit margin remained almost flat, with a slight decrease in 2bp Y-o-Y, reaching 19.3% in Q1 2020.
- Rental income dropped by 5% Y-o-Y, which was expected given the circumstances. Meanwhile, SG&A increased by 12% Y-o-Y, from SAR327mn in Q1 2019 to SAR367mn in Q1 2020. The increase in SG&A could be attributed to the increase in demand during the period, in addition to the new branches that opened during the year.
- Operating income also increased during the quarter by an impressive 47% Y-o-Y, from SAR75mn in Q1 2019 to SAR111mn in Q1 2020. Moreover, Operating profit margin increased from 4% in Q1 2019 to 5% in Q1 2020.
- During the quarter, the company's share in associated increased slightly by 4% Y-o-Y, while finance costs from leasing liabilities increase by 16% Y-o-Y. Al-Othaim managed to report a 44% increase in profit before zakat, were in increased from SAR71mn in Q1 2019 to SAR103mn in Q1 2020.
- The impact of the implementation of IFRS 16 was reflected in the company's bottom-line numbers for the 9m period, as the company's net income dropped from SAR383mn in 9m 2018 to SAR363mn in 9m 2019, representing a drop of 5% Y-o-Y and a drop in net income margin from 25% in 2018 to 22% in 2018. However, on a quarterly basis, the net income remained almost flat with a value of SAR142mn in Q3 2019.
- Finally, for the first quarter of 2020, the company reported a net income of SAR99mn, which is a 44% increase compared to the SAR69mn reported in Q1 2019. The increase in demand during the period greatly supported the companies' bottom line number during the quarter. The net profit margin increased slightly by 7bp, reaching 4% in Q1 2020.



# Valuation Rational

## DFC Valuation

	2019	2020 F	2021 F	2022 F	2023 F	2024 F
EBITDA	710	742	786	831	884	945
Operating CF	642	745	818	862	927	988
Capex	(446)	(405)	(409)	(412)	(465)	(471)
FCFF	196	341	409	449	462	517
Stub Period (FCF to be discounted)	0	257	409	449	462	517
PV (FCFF)	0	242	357	364	349	366
WACC	8.2%					
Perpetuity Growth	3.0%					
PV-FCFF	1,677					
PV-TV	7,472					
Net Debt	(658)					
Less: End of services benefits	(146)					
Add: Investment	883					
Intrinsic Values	9,227					
Shares Outstanding	90					
Equity value per share	102.5					
CMP (28/06/2020)	113.8					
Upside / Downside (%)	-9.9%					

We have valued Al-Othaim using DCF and multiples approaches, considering a WACC is equal to 8.2% (based on a risk-free rate of 4.4%, market risk premium 7.3%, Beta of 0.63).

Based on the DCF valuation, the fair price of the Al-Othaim share price is SAR102.5, which is lower than the traded value by 9.9%.

## Comparable Valuation – Consumer Retail

Name	Country	P/E
A. Othaim Market	KSA	27.25
Extra	KSA	16.36
Saco	KSA	29.67
Jarir	KSA	17.50
Savola	KSA	36.18
<b>Median</b>		<b>27.25</b>
<b>Value Per Share</b>		<b>113.8</b>

## Weighted Valuation

Based on a weighted valuation approach, where the DCF is weighed 60%, and multiple valuation is weighed 40%; we value Al-Othaim share price at SAR107

Valuation Approach	Weight	Value
DCF	60%	102.53
P/E Consumer retail	40%	113.80
<b>Valuation</b>	<b>100%</b>	<b>107.04</b>



# Valuation Rational

Regional Peers	Country	Code	Market Price (SR)	Market Cap (SRBN)	P/E	Sales (SRMN)	Net Income (SRMN)
<b>A. Othaim Market</b>	<b>KSA</b>	<b>4001</b>	<b>113.8</b>	<b>10.24</b>	<b>27.25</b>	<b>8,585.71</b>	<b>375.89</b>
Extra	KSA	4003	56.3	3.38	16.36	5,309.34	206.46
Saco	KSA	4008	44.6	1.61	29.67	1,445.56	54.11
Jarir	KSA	4190	146.2	17.54	17.50	8,878.05	1,002.73
Savola	KSA	2050	43.5	23.23	36.18	22,975.16	642.06

## Financial Ratios

	2018A	2019 A	2020 E	2021 F	2022 F	2023 F	2024 F
Return on Average Assets (%)	8.85%	8.27%	7.55%	7.50%	7.44%	7.68%	7.96%
Return on Average Equity (%)	21.59%	23.46%	23.26%	23.74%	26.26%	29.61%	0.00%
Income Before Zakat Margin (%)	4.74%	4.49%	4.35%	4.35%	4.36%	4.40%	4.45%
Net Income Margin (%)	4.12%	4.26%	4.22%	4.22%	4.23%	4.27%	4.32%
Revenue Growth (%)	3.78%	8.81%	7.16%	6.19%	5.78%	7.10%	6.77%
DPS	1.50	4.50	3.00	3.00	4.50	6.00	6.00

## Income Statement

	2018A	2019 A	2020 E	2021 F	2022 F	2023 F	2024 F
Revenues	7,504	8,166	8,751	9,293	9,830	10,527	11,240
Cost of revenues	(5,973)	(6,477)	(6,941)	(7,371)	(7,796)	(8,350)	(8,915)
Gross Profit	<b>1,531</b>	<b>1,689</b>	<b>1,810</b>	<b>1,922</b>	<b>2,033</b>	<b>2,177</b>	<b>2,325</b>
SG&A	(1,283)	(1,376)	(1,474)	(1,556)	(1,637)	(1,742)	(1,849)
Zakat	(9)	(11)	(11)	(12)	(13)	(14)	(15)
<b>Net Income</b>	<b>309</b>	<b>348</b>	<b>369</b>	<b>392</b>	<b>416</b>	<b>450</b>	<b>485</b>

## Balance Sheet

	2018A	2019 A	2020 E	2021 F	2022 F	2023 F	2024 F
Current Assets	1,316	1,288	1,460	1,811	2,043	2,161	2,313
Non-Current Assets	2,332	3,478	3,555	3,628	3,695	3,806	3,909
<b>Total Assets</b>	<b>3,648</b>	<b>4,766</b>	<b>5,015</b>	<b>5,440</b>	<b>5,738</b>	<b>5,967</b>	<b>6,222</b>
Current Liabilities	1,827	1,968	1,929	2,055	2,178	2,335	2,494
Non-Current Liabilities	121	1,273	1,461	1,638	1,802	1,965	2,116
<b>Total Equity</b>	<b>1,699</b>	<b>1,525</b>	<b>1,624</b>	<b>1,746</b>	<b>1,757</b>	<b>1,667</b>	<b>1,612</b>
<b>Total Liabilities and Equity</b>	<b>3,648</b>	<b>4,766</b>	<b>5,015</b>	<b>5,440</b>	<b>5,738</b>	<b>5,967</b>	<b>6,222</b>

# Guide to Ratings and Disclaimer

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of it value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	A downside potential of more than 20% in 52-week period

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