

# Abdullah Al Othaim Markets

## Retail Sector

AOTHAIM AB: Saudi Arabia

06 March 2011

الراجحي المالية  
Al Rajhi Capital



**US\$0.462bn** Market cap  
**55%** Free float  
**US\$4.657mn** Avg. daily volume

Target price **90.80** 17.80% over current  
Consensus price **85.00** 10.4% over current  
Current price **77.00** as at 2/3/2011

Research Department  
**Khalid Alruwaigh, Investment Analyst**  
Tel 966 1 211 9310, alruwaighka@alrajhi-capital.com

Underweight

Neutral

Overweight

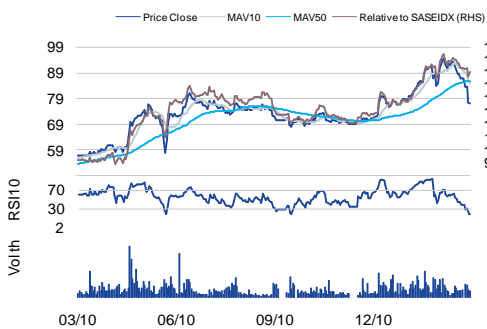
### Key themes

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. However, its attractions seem to be reflected in the share price, which has appreciated recently.

### Performance

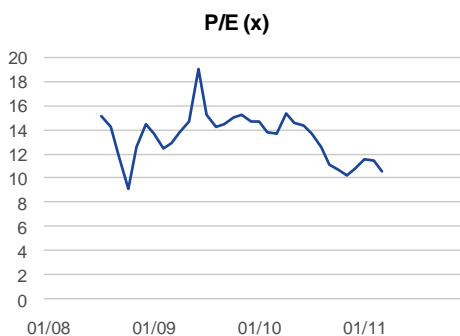


### Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	3,521	3,975	4,481	5,013
Revenue Growth	11.6%	12.9%	12.7%	11.9%
EBITDA (mn)	190	233	289	343
EBITDA Growth	42.7%	22.6%	23.7%	19.0%
EPS	7.20	7.65	8.27	9.26
EPS Growth	108.9%	6.3%	8.1%	12.0%

Source: Company data, Al Rajhi Capital

### Valuation



Source: Company data, Al Rajhi Capital

## Alothaim Time to buy

*We believe Alothaim has a solid business model and is still growing. The company's share price has fallen recently in line with the market and now offers 17% upside to our revised target price of SAR90.4. The company's Q4 results showed year-on-year sales growth of 16% driven by robust like-for-like sales growth and new store openings. Operating profit grew by 51% year-on-year due to better margins, although the 222% growth in net income reflects investment income and is unsustainable. We upgrade Alothaim to Overweight*

**Strong top line growth:** Alothaim posted year-on-year sales growth of 16% in Q4 2010. This was above our estimate of 13%. We think that healthy like-for-like sales growth (approximately 6%) coupled with opening new stores drove the company's sales in Q4. Alothaim continues to offer competitive promotions and promote its loyalty cards to increase its consumer base. Driven by new store openings and reasonable same store sales growth, we expect Alothaim to achieve strong revenue growth of close to 13% in 2011. By the end of 2011, we expect Alothaim's total number of outlets to reach 106.

**Healthy same-store sales (SSS) growth:** By our estimate, Alothaim achieved 6% same store sales growth in Q4 2010. Although we see a changing trend toward supermarkets and hypermarkets from traditional "bakala" (small grocery stores), we think that traditional stores will remain dominant. Furthermore, we do not expect Alothaim's stores to benefit fully from this trend as they do not offer the pleasure that other, more classy supermarkets and hypermarkets such as Safeway provide. Therefore, we suppose that Alothaim will continue to achieve respectable organic growth of about 5%.

**Continuous improvement in gross margin:** Alothaim's gross margin rose from 9.2% in Q4 2009 to 10.0% in Q4 2010. SG&A at 4.6% of sales was better than the 5.1% seen in Q4 2009 but much higher than the Q3 level of 3.8%; however, we think that this reflects business seasonality. The full-year gross margin of 7.9% was much better than the previous year's level of 6.7%. This gross margin of 7.9% is impressive compared to those of other grocery retailing companies such as Panda. Looking forward, we do not expect the gross margin to improve significantly, but we think Alothaim can hold it at the current level.

**Growth at net level unsustainable:** Reflecting the year-on-year improvement in the gross margin and reduction in SG&A costs as a proportion of sales, operating profit grew by 51% year-on-year in Q4. Net income grew by a much stronger 222% growth; however, this increase reflects investment income and is unsustainable. Looking forward, we expect Alothaim to achieve strong top line growth of 13%, but we expect more modest growth in net profit as we do not expect the company to replicate Q4's investment profits.

**Conclusion:** Alothaim reported strong sales and profits growth for Q4. We expect healthy like-for-like sales expansion and new store openings to drive growth further. We have marginally revised our forecasts and set a new target price of SAR90.4 (old target: SAR86.4). Thus, we upgrade our rating from Neutral to Overweight. After the recent fall in its share price, we see Alothaim as good value on an EV/EBITDA multiple of 7.4x and a PE ratio of 10.1x compared to other retail groups such as Jarir. We expect Alothaim's strong growth, improving margins, and dividend yield of 3.2% to support the share price.



### 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\$) 1.732bn / 0.462bn  
52-week range 56.25 - 94.50  
Daily avg volume (US\$) 4.657mn  
Shares outstanding 22.50mn  
Free float (est) 55%

Performance: 1M 3M 12M  
Absolute -15.4% 8.1% 35.7%  
Relative to index 2.9% 24.2% 53.1%

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	3,975	4,481	5,013
EBITDA (SARmn)	190	233	289	343
Net Profit (SARmn)	162	172	186	208
EPS (SAR)	7.20	7.65	8.27	9.26
DPS (SAR)	2.50	2.50	2.50	2.63
EPS Growth	108.9%	6.3%	8.1%	12.0%
EV/EBITDA (x)	9.1	7.4	6.0	5.0
P/E (x)	10.7	10.1	9.3	8.3
P/B (x)	3.9	3.1	2.5	2.1
Dividend Yield	3.2%	3.2%	3.2%	3.4%

Source: Company data, Al Rajhi Capital

## Looking forward: strong sales growth and decent profits

Below we summarise our forecasts for Alothaim Q1 2011 and 2011 full year.

**Figure 1. Alothaim: 2010Q1A vs. 2011Q1E & FY2010A vs. FY2011E**

(SAR) mn	2010Q1A	2011Q1E	YOY % chg.	FY2010A	FY2011E	YOY % chg.
<b>Total Revenues</b>	<b>797.3</b>	<b>902.2</b>	<b>13.2%</b>	<b>3,520.8</b>	<b>3,975.2</b>	<b>12.9%</b>
<b>Gross Profit</b>	<b>55.3</b>	<b>63.2</b>	<b>14.3%</b>	<b>278.3</b>	<b>313.4</b>	<b>12.6%</b>
Gross profit margin	6.9%	7.0%		7.9%	7.9%	
<b>Operating Profit</b>	<b>28.3</b>	<b>30.7</b>	<b>8.5%</b>	<b>140.6</b>	<b>159.1</b>	<b>13.1%</b>
<b>Net Income</b>	<b>31.7</b>	<b>33.4</b>	<b>5.1%</b>	<b>161.9</b>	<b>172.1</b>	<b>6.3%</b>

Source: Company data, Al Rajhi Capital



We expect revenues to reach SAR3.5bn this year

We expect revenue growth to remain above 11% over the next three years

We expect Alotthaim to maintain last year's gross margin

Alotthaim is attractive on P/E of 10.1x and EV/EBITDA of 7.4x

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>3,975</b>	<b>4,481</b>	<b>5,013</b>
Cost of Goods Sold	(2,944)	(3,242)	(3,662)	(4,127)	(4,612)
<b>Gross Profit</b>	<b>211</b>	<b>278</b>	<b>313</b>	<b>354</b>	<b>401</b>
Government Charges					
S.G. & A. Costs	(121)	(138)	(154)	(175)	(195)
<b>Operating EBIT</b>	<b>89</b>	<b>141</b>	<b>159</b>	<b>179</b>	<b>206</b>
Cash Operating Costs	(3,022)	(3,330)	(3,742)	(4,193)	(4,669)
EBITDA	133	190	233	289	343
Depreciation and Amortisation	(44)	(50)	(74)	(109)	(138)
<b>Operating Profit</b>	<b>89</b>	<b>141</b>	<b>159</b>	<b>179</b>	<b>206</b>
Net financing income/(costs)	6	13	5	(1)	(4)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	(16)	13	13	13	13
Other Expenses	-	-	-	-	-
<b>Net Profit Before Taxes</b>	<b>80</b>	<b>166</b>	<b>177</b>	<b>191</b>	<b>214</b>
Taxes	(2)	(4)	(4)	(5)	(5)
Minority Interests	-	-	-	-	-
<b>Net profit available to shareholders</b>	<b>78</b>	<b>162</b>	<b>172</b>	<b>186</b>	<b>208</b>
Dividends	(56)	(56)	(56)	(56)	(59)
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	10.94	13.13	15.39
EPS (SAR)	3.45	7.20	7.65	8.27	9.26
DPS (SAR)	2.500	2.500	2.500	2.500	2.625
<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%	12.9%	12.7%	11.9%
Gross Profit Growth	17.3%	32.2%	12.6%	13.0%	13.3%
EBITDA Growth	38.4%	42.7%	22.6%	23.7%	19.0%
Operating Profit Growth	51.4%	57.7%	13.1%	12.7%	14.7%
Net Profit Growth	24.5%	108.9%	6.3%	8.1%	12.0%
EPS Growth	24.5%	108.9%	6.3%	8.1%	12.0%
<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%	7.9%	7.9%	8.0%
EBITDA margin	4.2%	5.4%	5.9%	6.4%	6.9%
Operating Margin	2.8%	4.0%	4.0%	4.0%	4.1%
Pretax profit margin	2.5%	4.7%	4.4%	4.3%	4.3%
Net profit margin	2.5%	4.6%	4.3%	4.2%	4.2%
<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%	19.7%	16.8%	15.9%
ROIC	18.5%	29.0%	23.9%	20.3%	18.1%
ROE	24.2%	40.9%	34.0%	29.6%	27.1%
Effective Tax Rate	2.9%	2.5%	2.5%	2.5%	2.5%
Capex/Sales	4.8%	7.9%	8.6%	8.0%	8.0%
Dividend Payout Ratio	72.6%	34.7%	32.7%	30.2%	28.3%
<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)	22.3	10.7	10.1	9.3	8.3
P/CF (x)	14.2	8.2	7.0	5.9	5.0
P/B (x)	5.1	3.9	3.1	2.5	2.1
EV/Sales (x)	0.5	0.5	0.4	0.4	0.3
EV/EBITDA (x)	13.0	9.1	7.4	6.0	5.0
EV/EBIT (x)	19.4	12.3	10.9	9.7	8.4
EV/IC (x)	3.7	2.7	2.0	1.6	1.3
Dividend Yield	3.2%	3.2%	3.2%	3.2%	3.4%

Source: Company data, Al Rajhi Capital



Balance sheet is expanding due to the increase in operations

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	107	45	14	25	25
Current Receivables	-	-	-	-	-
Inventories	220	283	325	367	411
Other current assets	90	82	82	82	82
<b>Total Current Assets</b>	<b>417</b>	<b>410</b>	<b>421</b>	<b>474</b>	<b>518</b>
Fixed Assets	721	948	1,215	1,465	1,728
Investments	99	105	105	105	105
Goodwill	-	15	15	15	15
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>820</b>	<b>1,067</b>	<b>1,335</b>	<b>1,584</b>	<b>1,847</b>
<b>Total Assets</b>	<b>1,237</b>	<b>1,478</b>	<b>1,756</b>	<b>2,058</b>	<b>2,365</b>
Short Term Debt	95	172	172	172	172
Accounts Payable	472	552	651	695	777
Accrued Expenses	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	64	98	98	98	98
<b>Total Current Liabilities</b>	<b>631</b>	<b>821</b>	<b>920</b>	<b>964</b>	<b>1,046</b>
Long-Term Debt	242	179	243	371	446
Other LT Payables	-	-	-	-	-
Provisions	22	29	29	29	29
<b>Total Non-current Liabilities</b>	<b>264</b>	<b>208</b>	<b>272</b>	<b>400</b>	<b>474</b>
Minority interests	-	-	-	-	-
Paid-up share capital	225	225	225	225	225
Total Reserves	118	224	339	469	619
<b>Total Shareholders' Equity</b>	<b>343</b>	<b>449</b>	<b>564</b>	<b>694</b>	<b>844</b>
<b>Total Equity</b>	<b>343</b>	<b>449</b>	<b>564</b>	<b>694</b>	<b>844</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,237</b>	<b>1,478</b>	<b>1,756</b>	<b>2,058</b>	<b>2,365</b>

Reasonable gearing level (Net Debt/EBITDA of 1.7x)

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	230	306	401	518	592
Net Debt/EBITDA (x)	1.72	1.61	1.72	1.80	1.72
Net Debt to Equity	67.0%	68.1%	71.0%	74.6%	70.2%
EBITDA Interest Cover (x)	(21.4)	(14.8)	(47.4)	328.7	80.0
BVPS (SAR)	15.24	19.93	25.08	30.86	37.53

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>177</b>	<b>191</b>	<b>214</b>
Depreciation & Amortisation	44	50	74	109	138
Decrease in Working Capital	95	56	57	2	39
Other Operating Cashflow	(2)	(7)	(12)	(17)	(22)
<b>Cashflow from Operations</b>	<b>217</b>	<b>265</b>	<b>296</b>	<b>285</b>	<b>369</b>
Capital Expenditure	(152)	(277)	(342)	(358)	(401)
New Investments	(3)	-	-	-	-
Others	(3)	(7)	-	-	-
<b>Cashflow from investing activities</b>	<b>(159)</b>	<b>(283)</b>	<b>(342)</b>	<b>(358)</b>	<b>(401)</b>
<b>Net Operating Cashflow</b>	<b>57</b>	<b>(18)</b>	<b>(46)</b>	<b>(74)</b>	<b>(32)</b>
Dividends paid to ordinary shareholders	(34)	(56)	(56)	(56)	(58)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	-	-	-	-
<b>Cashflow from financing activities</b>	<b>(20)</b>	<b>8</b>	<b>72</b>	<b>18</b>	<b>11</b>
Total cash generated	38	(10)	26	(56)	(21)
Cash at beginning of period	27	107	45	14	25
<b>Implied cash at end of year</b>	<b>64</b>	<b>97</b>	<b>71</b>	<b>(41)</b>	<b>4</b>

We expect high Capex as a result of expansions

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	4.8%	7.9%	8.6%	8.0%	8.0%

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.

### Contact us

**Dr. Saleh Alsuhaibani**  
Head of Research  
Tel : +966 1 2119434  
alsuhaibanis@alrajhi-capital.com

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561  
Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

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