

AL OTHAIM



EVENT FLASH

Weaker than expected results

Al Othaim announced its 2Q12 results on 10 July 2012 post market hours. All profit lines declined by 11-19% YoY due to higher operating costs and came in 8-12% below what we had been expecting. We await full details before updating our model.

- **Sales:** 2Q12 came in at SR1,061mn vs. the NCBC estimate of SR1,109mn. Al Othaim reported SR1,025mn in 2Q11.
- **Gross profit:** 2Q12 came in at SR73.4mn vs. NCBC estimate of SR83.1mn. 2Q12 was a decrease of 10.5% YoY (SR82.0mn in 2Q11).
- **Net Income:** 2Q12 came in at SR36.8mn vs. NCBC estimate of SR39.9mn. 2Q12 was a decrease of 10.5% YoY (SR41.1mn in 2Q11).
- In summary, Al Othaim reported a poor set of 2Q12 results with all profit lines below what we had been expecting. We believe a combination of poor sales coupled with higher costs, led to the YoY net income decline of 10.5%. However, the operating profit line was even worse, reporting a YoY decline of 18.6%; we believe higher non-operating income reduced the YoY decline on the net line.
- Al Othaim management highlighted the following reasons for the weak profit growth during 2Q12: 1) Increase in operating costs (mainly staff related) and 2) Pre-operating cost of new stores. We believe management continued to spend on marketing campaigns to try and stimulate growth; another potential reason for the weak performance at the Ebit level.
- When compared to our estimates, all profit lines came in 8-12% lower than what we had been expecting.
- Due to lack of quorum at the 30 June 2012 EGM, the BoD have rescheduled the meeting to 29 July in order to approve the purchase of the RE arm. The RE acquisition seems attractive given the actual 2011 financials of the RE company are better than expected and its implied valuation is now lower with the decline in Othaim's share price from the one used at the time of agreement. We also believe the acquisition will be EPS accretive.
- **We are currently Overweight on the stock with a price target of SR105:** The stock currently trades at a 2012E P/E of 12.2x. We will update our model when the full financial statements are published.

2Q12 Results Summary

SR mn	2Q12A	2Q11A*	% Y o Y	2Q12E	% Var^
Sales	1,061	1,025	3.5	1,109	(4.3)
Gross income	73.4	82.0	(10.5)	83.1	(11.7)
Operating income	35.5	43.6	(18.6)	39.9	(11.0)
Net income	36.8	41.1	(10.5)	39.9	(7.9)
EPS	1.64	1.83	(10.5)	1.78	(7.9)

Source: Company, NCBC Research estimates ^ % Var indicates variance from NCBC forecasts * All profit figures restated

OVERWEIGHT

Target price (SR)	105
Current price (SR)	84.5

STOCK DETAILS

M52-week range H/L (SR)	103/84
Market cap (\$mn)	508
Shares outstanding (mn)	23
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(7.1)	(7.7)	(9.6)
Rel. to market	(6.0)	4.0	(11.8)

Avg daily turnover (mn)	SR	US\$
3M	6.5	1.7
12M	6.1	1.6

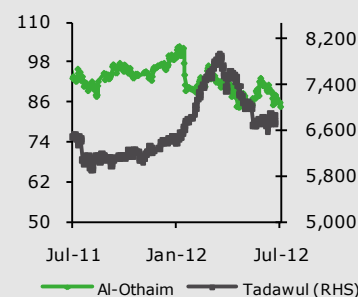
Reuters code	4001.SE
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VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	12.7	12.2	10.8
P/B (x)	3.6	2.8	2.4
EV/EBITDA (x)	10.4	9.3	8.0
Div Yield (%)	3.2	0.0	3.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

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Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

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OVERWEIGHT:	Target price represents expected returns in excess of 15% in the next 12 months
NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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