

## AL OTHAIM



This is an extract of our published report, the full version of which can be found on the [ncbc.com](http://ncbc.com) website

## COMPANY UPDATE

## Growth potential outweighs competition concerns

We remain overweight on Al Othaim with a PT of SR105. While slow organic growth and increased competition remain key concerns, growth prospects through planned store expansions and stable margins are key positives for the stock. An attractive valuation of 13.0x 2012e P/E leads to an upside potential of 17%

- **New stores to continue to drive top line in 2012:** Al Othaim's top-line growth in 2012 should be primarily driven by new store openings, as we expect organic growth to remain slow for the rest of the 2012 due to intensified competition within the sector. We conservatively expect the company to open eight stores in 2012 (against the management target of 12), taking the store count to 116 by the end of the year.
- **Slowing organic growth key concern:** Al Othaim's organic revenues fell 2% in 1Q12 after rising 11% in 2011. We believe this decline was primarily due to increased competitive pressures from new players such as Lulu and existing regional players like Bin Dawood. Although the company launched promotions to deal with competition, the desired impact was not achieved. We expect organic revenue growth to remain under pressure with overall revenues growing by 10% in 2012 and CAGR of 10% during 2011-2015.
- **Top-line volume growth key to margins:** We believe good growth on the top-line, based largely on volume growth, is the key factor in estimating margins. This is due to the rebates received from suppliers if certain sales targets are achieved. Simply put, if sales volumes are lower than expected, this will lead to lower rebates and thus margin pressure. We estimate gross margin to contract from 7.9% to 7.5% in 2012.
- **Acquisition of RE stake accretive in short term:** Al-Othaim's RE arm generated net income of SR93mn in 2011. Therefore, the acquisition would add SR80.3mn (i.e. 86.4% of SR93mn) to the reported 2011 net income, taking it to SR230mn. Based on issuance of 7.25mn new shares to fund the acquisition, total shares of Al Othaim will rise to 29.7mn. Thus, the revised 2011 EPS would be SR7.74 vs. the SR6.67 reported, an accretion of 16%.
- **Remains overweight on attractive valuation:** We remain overweight on Al Othaim with a PT of SR105. Good sector growth potential is the key positive; slowing organic growth is the key concern. At 13.0x 2012e P/E, the stock remains attractively valued.

## Summary Financials

SR mn	2011A	2012E	2013E	2014E	2015E	CAGR (%)
Sales	4,091	4,493	5,003	5,503	6,002	10.1
Gross income	323	337	370	396	420	6.8
Gross margin (%)	7.9	7.5	7.4	7.2	7.0	
Operating income	158	154	173	188	195	5.5
Operating margin (%)	3.9	3.4	3.5	3.4	3.2	
Net income	150	156	175	197	209	8.6
Net margin (%)	3.7	3.5	3.5	3.6	3.5	
EPS (SR)	6.67	6.91	7.79	8.77	9.28	8.6

Source: Company, NCBC Research

## OVERWEIGHT

**Target price (SR)** 105

**Current price (SR)** 90

## STOCK DETAILS

M52-week range H/L (SR)	103/84
Market cap (\$mn)	541
Shares outstanding (mn)	23
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	7.1	(1.9)	(9.5)
Rel. to market	9.4	8.7	(15.2)

Avg daily turnover (mn)	SR	US\$
3M	7.0	1.9
12M	6.4	1.7

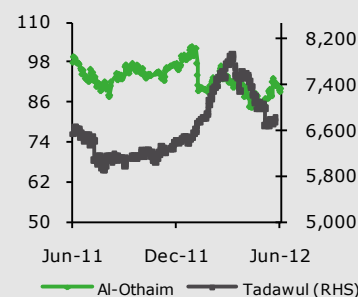
Reuters code	4001.SE
Bloomberg code	AL OTHAIM AB
	<a href="http://www.othaimmarkets.com">www.othaimmarkets.com</a>

## VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	13.5	13.0	11.6
P/B (x)	3.8	2.9	2.5
EV/EBITDA (x)	10.4	9.8	8.5
Div Yield (%)	3.2	0.0	3.2

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Reuters

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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

NC: Not covered. NCBC does not cover this company

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