Abdullah Al Othaim Markets Co.(A.OTHAIM MARKET)

Investment Update

Expansions to drive normalized earnings at 10.8% CAGR over 2024-28; our estimates were revised down on slow ramp up & higher finance cost

Al Othaim has seen consistent deterioration in sales efficiency, revenue generated per square meter of retail space declined for the seventh consecutive quarter in Q4-24 to SAR 3,706 per sqm (down 4.4% Y/Y). Store ramp ups are taking longer time and competition has intensified, due to new entrants, aggressive store role outs, and branching out of big players into new geographies and segments. Basket size has shrunk, however customers are making more frequent visits; Othaim's focus on corner store aligns well with this change in consumption trend. We cut earnings estimates by 22-24% for 2025-28, due to slower sales growth and higher finance expense. Note that lease finance expense increased by 28.4% Y/Y in 2024, despite a corresponding 8.2% increase in total store area; sizably exceeding our expectation. Trading at 2025E P/E of 23.8x, we retain our "Neutral" rating on Al Othaim, with a downwards revised TP of SAR 11.0/share implying an upside of 12.1% from market price.

Sales efficiency continues to deteriorate as new stores are taking longer time to ramp up; there is also cannibalization and increasing competition: Al Othaim has seen a consistent decline in sales momentum, revenue generated per square meter of retail space declined for the seventh consecutive quarter in Q4-24 to SAR 3,706 per sqm (down 4.4% Y/Y). Revenue for Q4-24 grew by 3.4% Y/Y to SAR 2,650mn, while total retail space increased by 8.2% Y/Y to 715,000 square meter (company added 7 new stores in Egypt and 49 stores in KSA). The decline in rev/sqm can be attributed to (1) sales cannibalizations by new stores, (2) lower business activities in freshly launched stores that are yet to ramp up to optimal levels, and (3) increasing competition in kingdom's retail landscape. Competition in retail has intensified on account of (1) entry of new players like lulu, Carrefour, spinneys, (2) aggressive store role outs by big players, (3) increasing share of online retail and delivery aggregators (hungerstation, Jahez and noon), and (3) branching out of big players into smaller convenience store format (Bindawood's Dash stores and Othaim's corner stores) and new geographies (Al Othaim's focus on western region where it has a market share of just 5%).

Normalized earnings are under pressure from higher selling and distribution costs and finance expense (primarily from leases on new stores): Al Othaim posted net income of SAR 286.4mn in Q4-24, up 72.9% Y/Y (+280% sequentially). Excluding the impact of one off SAR 161mn gain on IPO of fourth milling company, the Q4-24 net income declined by 22.4% Y/Y to SAR 125mn. At gross level, profit for the company was up 4.4% Y/Y in Q4-24 to SAR 678.5mn, driven by 3.4% Y/Y increase in sales to SAR 2,650mn and 26bps expansion in gross margin to 25.6%. Operating profit declined by 4.32% Y/Y to SAR 178mn due to 54bps margins contraction driven by the 9.9% Y/Y increase in selling and distribution expenses. Further down the income statement, finance expense on lease liabilities and borrowings saw major increases of 42% Y/Y and 243% Y/Y to SAR 40.6mn and SAR 11.6mn, due to new store additions and recently availed SAR 315mn short term loan. Excluding one off gain of SAR 99mn on sale of investment property from 2023 net income, SAR 18mn zakat reversal and SAR 161mn gain on IPO of fourth milling in 2024 net income, normalized earnings for 2024 declined by 12% Y/Y. The aforementioned decline in normalized earnings was driven by 42% Y/Y increase in interest expense (primarily from leases on new stores) in 2024.

Basket size has shrunk, however customers are making more frequent visits; Othaim's focus on corner store aligns well with this change in consumption trend: Inflationary pressures, high interest rates and increase in cost of living, has impacted consumer buying power. This has effected Al Othaim in the form of reduction in basket size, which has shrunk by 12.1% Y/Y in 2024. However, the effect of the aforementioned reduction in basket size is negated to some extent by the solid double digit growth of 16.3% Y/Y in the number of transactions, essentially customers are making smaller but more frequent purchases. The aforementioned change in consumption trend aligns well with othaim's strategy to open more corner stores (number of corner stores have almost doubled to 83 over the last 4 years), as customers will likely prefer travelling shorter distances to make purchases of smaller basket size. We also highlight that LFL customer spend growth stood at 2.2% in 2024, and Al Othaims loyalty program customers under IKTISSAB has reached 86.4% penetration. Moreover, Al Othaim's market share in hypermarket and supermarket has grown to reach 20%.

Recommendation	**Neutral**
Target Price (SAR)	**11.0**
Upside / (Downside)*	**12.1%**

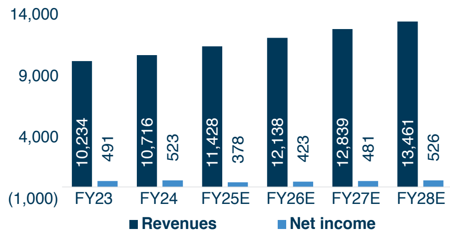
Source: Tadawul *prices as of 10th March 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenue	10,234	10,716	11,428	12,138
Growth %	7.0%	4.7%	6.6%	6.2%
Gross Profit	2,269	2,411	2,568	2,743
Net Profit	491	523	378	423
Growth %	-54.6%	6.6%	-27.7%	11.8%
EPS	0.55	0.58	0.42	0.47
DPS	0.60	0.55	0.35	0.40

Source: Company reports, Aljazira Capital Research

Revenue/Income (SAR mn)



Source: Company reports, AlJazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
GP Margin	22.2%	22.5%	22.5%	22.6%
Net Margin	4.8%	4.9%	3.3%	3.5%
P/E (x)	24.2	18.1	23.8	21.3
P/B (x)	8.7	7.1	6.5	6.2
ROE	35.5%	38.9%	27.8%	29.7%
EV/EBITDA (x)	16.0	13.6	11.8	11.1
Div Yield (%)	4.5%	5.3%	3.5%	4.0%

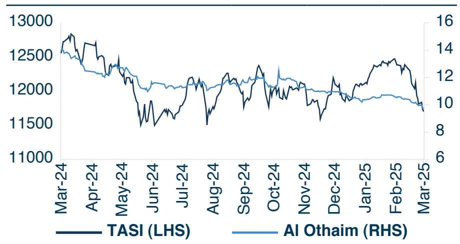
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	8.7
YTD%	-6.67%
52 weeks (High)/(Low)	14.1/9.5
Share Outstanding (mn)	900.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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Investment Update

Revenue growth expectations are based on medium term (2024-28E) store area expansion of 17.5%: We expect Al Othaim to post revenue growth of 6.6% in 2025, while we see topline to grow at a CAGR of 5.9% in the medium term (2024-28). Our view on revenue growth is premised on the expectation of 4.1% CAGR in total store area over 2024-28. Moreover, we see sales per square meter to expand from SAR 15,575 in 2024 to SAR 16,182 in 2028. Note that Al Othaim expanded its store footprint by 65,000sqms and 54,000sqms in 2023 and 2024, respectively. On this front we highlight that, the retail giant has opened 49 new branches inside the Kingdom and 7 new branches in Egypt in 2024, this takes the cumulative branch network to 465. Within kingdom the company added 32 supermarkets and 17 corner stores taking total super market and corner stores to 306 and 83, respectively.

Normalized profits to increase by 8.3% Y/Y in 2025; we cut earnings estimates by 22-24% for 2025-28 due to slower sales growth and higher finance expense: We expect the company to post a 8.3% Y/Y increase in normalized (excluding tax reversals and IPO gains from 2024 net income) earnings in 2025 to SAR 378mn. We estimate 6.6% Y/Y increase in sales to transpire into 6.5% increase in gross profit. Operating profit is estimated to increase by 9.6% Y/Y mainly driven by the increase in rental income; corresponding to 12bps improvement in operating margins to 4.5%. Moving further down the income statement, we estimate finance expenses to grow by 8.2% Y/Y (driven by short term loans and leases), limiting the improvement in normalized before tax earnings to 7.8% Y/Y. Overall, we forecast medium term (2024-28) normalized earnings CAGR of 10.8%, driven by 5.9% sales CAGR and 56bps expansion in gross margin. We have cut our 2025, 2026, 2027 earnings estimates by 21.8%, 23.8%, 22.0% to SAR 378mn, SAR 423mn, SAR 481mn, respectively. The downward revision is driven by (1) 5.0%, 6.1%, 5.6% cut in 2025, 2026, 2027 estimated revenues as store ramp ups and LFL sales are slower than earlier expectations and (2) 30%, 36%, 43% increase in finance expense on leased stores (note that lease finance expense increased by 28.4% Y/Y in 2024, despite a corresponding 8.2% increase in total stores area; sizably exceeding our expectation).

AJC view and valuation: Al Othaim is the fastest growing retailer in Saudi market that has managed to materially increase its market share to 20% in sup/hyper market space. The company has rapidly expanded its store foot print to 465 stores in 2024 as compared to 294 in 2020, corresponding to a 42% increase in store area to 715,000 Sqms. The company is expected to deliver robust 2025E ROE of 27.8%. Overall, we forecast medium term (2024-28) normalized earnings CAGR of 10.8%, driven by 5.9% sales CAGR and 56bps expansion in gross margin. Othaim's value for money proposition, higher contribution of private labels, strong loyalty program (Ikitsaab) and robust supply chain drive superior returns for the company.

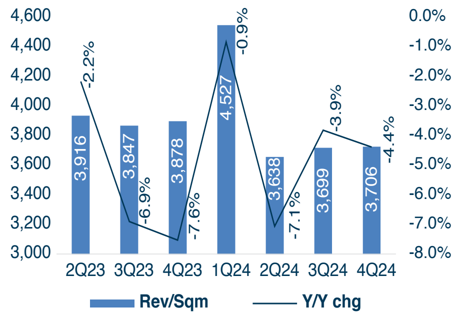
We value Al Othaim with 50% weightage to DCF (RFR 4.25%, terminal growth 2.5%, WACC 8.4%) and 25% each to PE (24.5x) and EV/EBITDA (13.5x) valuation based on 2025E estimates. We arrive at a revised TP of **SAR 11.0/share** implying an upside of 12.1% from current market price, hence we retain our "**Neutral**" rating on Al Othaim.

Blended valuation summary

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	10.7	50%	5.4
P/E (2025E)	10.3	25%	2.6
EV/EBITDA (2025E)	12.2	25%	3.0
Weighted average 12-month price target			**11.0**
Current Price (SAR/share)			9.8
Expected Capital Gain			**12.1%**

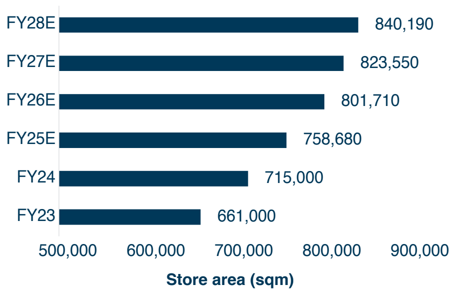
Source: Bloomberg, Aljazira Capital research

Fig 2: Deteriorating sales efficiency



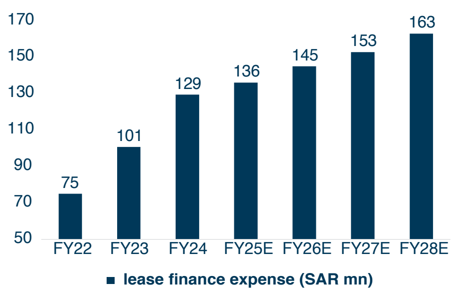
Source: Company accounts, Aljazira Capital Research

Fig 3: Expanding retail footprint



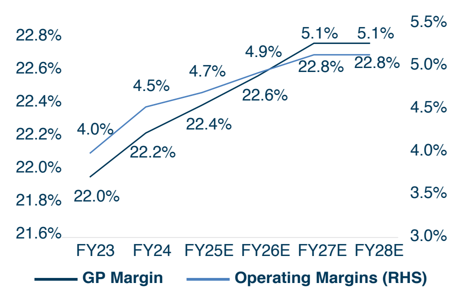
Source: Company accounts, Aljazira Capital Research

Fig 4: Lease finance exp saw big increase over 2022-24



Source: Company accounts, Aljazira Capital Research

Fig 5: Gross and operating margin trend



Source: Company accounts, Aljazira Capital Research

Key Financials

Amount in USD mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Revenues	10,234	10,716	11,428	12,138	12,839	13,461	14,073
Y/Y	**7.0%**	**4.7%**	**6.6%**	**6.2%**	**5.8%**	**4.9%**	**4.5%**
Cost of Sales	(7,965)	(8,305)	(8,860)	(9,395)	(9,905)	(10,358)	(10,802)
Gross profit	**2,269**	**2,411**	**2,568**	**2,743**	**2,933**	**3,103**	**3,271**
Rental income	87	101	119	127	134	140	147
Selling & distribution exp	(1,739)	(1,866)	(1,987)	(2,105)	(2,225)	(2,333)	(2,439)
General & administrative exp	(159)	(177)	(186)	(198)	(209)	(219)	(229)
Operating profit	**460**	**471**	**516**	**570**	**635**	**694**	**753**
Y/Y	**17.2%**	**2.4%**	**9.6%**	**10.4%**	**11.4%**	**9.3%**	**8.4%**
Share in income of associates	32	194	31	33	35	37	39
Other income/(expenses)	31	23	22	23	24	26	27
Financial charges	(101)	(129)	(136)	(145)	(153)	(163)	(169)
Profit before zakat	**514**	**528**	**396**	**443**	**504**	**551**	**599**
Zakat	(17)	0	(14)	(15)	(17)	(19)	(21)
Non-controlling interest	(7)	(5)	(4)	(4)	(5)	(6)	(6)
Net income	**491**	**523**	**378**	**423**	**481**	**526**	**572**
Y/Y	**-54.6%**	**6.6%**	**-27.7%**	**11.8%**	**13.7%**	**9.3%**	**8.7%**
EPS (SAR)	**0.55**	**0.58**	**0.42**	**0.47**	**0.53**	**0.58**	**0.64**
DPS (SAR)	**0.60**	**0.55**	**0.35**	**0.40**	**0.45**	**0.50**	**0.55**
Balance sheet							
Assets							
Cash & bank balance	182	88	143	199	227	298	367
Other current assets	1,334	1,499	1,541	1,584	1,622	1,646	1,662
Property & Equipment	1,716	2,093	2,264	2,438	2,613	2,777	2,925
Other non-current assets	2,811	3,323	3,517	3,750	3,990	4,230	4,471
Total Assets	**6,044**	**7,002**	**7,465**	**7,972**	**8,453**	**8,951**	**9,426**
Liabilities & owners' equity							
Total current liabilities	2,445	2,967	3,066	3,231	3,334	3,618	3,885
Total non-current liabilities	2,198	2,663	2,959	3,234	3,530	3,663	3,787
Paid -up capital	900	900	900	900	900	900	900
Retained earnings	466	436	500	563	639	715	792
Total owners' equity	1,400	1,372	1,440	1,507	1,589	1,670	1,754
Total equity & liabilities	**6,044**	**7,002**	**7,465**	**7,972**	**8,453**	**8,951**	**9,426**
Cashflow statement							
Operating activities	716	946	978	1,067	1,173	1,262	1,364
Investing activities	(64)	(525)	(855)	(924)	(982)	(1,024)	(1,063)
Financing activities	(784)	(518)	(68)	(87)	(163)	(168)	(232)
Change in cash	(132)	(97)	56	56	28	71	69
Ending cash balance	**182**	**88**	**143**	**199**	**227**	**298**	**367**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	0.6	0.5	0.5	0.6	0.6	0.5	0.5
Quick ratio (x)	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Profitability ratios							
GP Margin	22.2%	22.5%	22.5%	22.6%	22.8%	23.1%	23.2%
Operating Margins	4.5%	4.4%	4.5%	4.7%	4.9%	5.2%	5.3%
EBITDA Margin	8.4%	8.4%	8.8%	9.0%	9.0%	9.0%	9.0%
Net Margins	4.8%	4.9%	3.3%	3.5%	3.7%	3.9%	4.1%
Return on assets	8.4%	8.0%	5.2%	5.5%	6.0%	6.2%	6.4%
Return on equity	35.5%	38.9%	27.8%	29.7%	33.0%	34.3%	35.5%
Market/valuation ratios							
EV/sales (x)	1.3	1.1	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	16.0	13.6	11.8	11.1	10.7	10.3	10.0
EPS (SAR)	0.55	0.58	0.4	0.5	0.5	0.6	0.6
BVPS (SAR)	1.5	1.5	1.5	1.6	1.7	1.8	1.9
Market price (SAR)*	13.2	10.5	10.0	10.0	10.0	10.0	10.0
Market-Cap (SAR mn)	11,880	9,450	9,000	9,000	9,000	9,000	9,000
Dividend yield	4.5%	5.3%	3.5%	4.0%	4.5%	5.0%	5.5%
P/E ratio (x)	24.2	18.1	23.8	21.3	18.7	17.1	15.7
P/BV ratio (x)	8.7	7.1	6.5	6.2	5.9	5.6	5.3

Source: Company filings, AlJazira Capital Research

الجزيرة كابيتال
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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer