Abdullah Al Othaim Markets Co.

Investment Update

Aggressive expansion & stiff competition pressured performance; Reiterate 'Neutral' with revised down TP of SAR 7.7/share

Al Othaim posted a net income of SAR 41mn in Q2-25, up 0.7% Y/Y (down 46.1% Q/Q), 13.7/14.2% above AJC and consensus estimate, respectively. The company has managed to increase its market share to ~20% in the hyper/supermarket due to addition of 121 stores since 2022. However, the rapid expansion has resulted in increase in finance expense on lease liabilities and a decline in sales efficiency (rev/sqm has declined to SAR 15,283 in TTM vs SAR 16,943 in 2022); meanwhile growing competition has impacted profit margins. We expect revenue per square meter to decline by 2.3% Y/Y in 2025 to SAR 15,212 then remain largely unchanged in 2026. Overall, in this backdrop we revise down our 2025 earnings estimate by 22.6% on the back of 3.9% cut in sales, 57bps reduction in operating margins and 12.5% increase in finance expenses. We forecast medium term (2024-29) normalized earnings CAGR of 6.4%, driven by 3.9% sales CAGR and 60bps expansion in operating margins. We maintain our "Neutral" recommendation with downwards revised TP of SAR 7.7/share.

Q2-25 earnings were above consensus expectations; on better-than-expected gross margins: Al Othaim posted a net income of SAR 41mn in Q2-25, up 0.7% Y/Y (down 46.1% on a sequential basis), 13.7/14.2% above AJC and consensus estimate of SAR 35.5/36.0mn respectively. The deviation to our estimates was mainly due to higher GP margin (96bps above AJC estimate) and less than expected below EBIT expenses. Revenues increased by 2.9% Y/Y (down 19.1% Q/Q due to absence of Ramadan) to SAR 2,535mn, deviation of +1.1% to AJC estimate of SAR 2,507mn. The improvement in sales is owed to addition of 41 stores over the last 12 months. Revenue per store declined by 6.8% Y/Y to SAR 5.42mn as new stores are yet to ramp up to optimal levels, and also since Q2-24 had ten Ramadan days. Othaim added three new branches and simultaneously closed three branches in Q2-25 (zero net openings), while it opened net nine branches in the same period last year. Gross profit increased by 6.8% Y/Y (down 8.4% Q/Q) to SAR 579mn (deviation of +5.6% to AJC estimate of SAR 548mn). Gross margins expanded by 83bps Y/Y (up 266bps Q/Q) to 22.8% (deviation of +96bps to AJC estimate of 21.9%). The improvement can be attributable to absence of Ramdan promotion and discounts in Q2-25. Operating profit grew by 3.0% Y/Y (down 27.6% sequentially) to SAR 77mn. Operating margins remained largely unchanged Y/Y (-36bps Q/Q) to 3.0%. Opex were 6.1%/SAR 29mn above AJC estimate as Opex to sales stood at 19.8% vs AJC estimate of 18.9% and 19.0% in Q2-24.

Sales efficiency has deteriorated over the last three years as new stores are yet to ramp up and there is stiffer competition; rev/sqm to remain under pressure in 2025/26: Othaim's revenue efficiency has undergone a substantial deterioration over the last three years. Revenue per square meter of retail space has declined from SAR 16,943 in 2022, SAR 16,283 in 2023 and SAR 15,575 in 2024 to SAR 15,283 in trailing twelve months (TTM) ending Q2-25. The aforementioned decline can be attributable to multiple reasons (1) addition 121 new stores since end of 2022 that are yet to ramp up to optimal operating levels, (2) change in store formats – Othaim has added 31 smaller corner stores since 2022, that are likely to generate less revenue per square meter, (3) increased competition from new discounters such as Lulu and branching out of big players into smaller convenience store format (Bindawood dash), (4) sales cannibalization by new stores, and (5) change in channel mix, consumers are increasing online purchases from aggregators who have inhouse stores. We expect revenue per square meter to decline by 2.3% Y/Y in 2025 to SAR 15,212 then remain largely unchanged in 2026.

Recommendation	**Neutral**
Target Price (SAR)	**7.7**
Upside / (Downside)*	**4.4%**

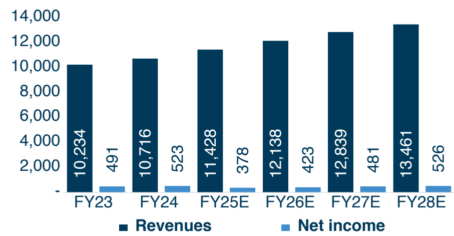
Source: Tadawul *prices as of 1st Sept 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenue	10,716	10,982	11,313	11,864
Growth %	4.7%	2.5%	3.0%	4.9%
Gross Profit	2,411	2,492	2,607	2,753
EBIT	471	434	506	550
Net Profit	523	293	358	402
Growth %	6.6%	-44.1%	22.4%	12.4%
EPS	0.58	0.33	0.40	0.45
DPS	0.55	0.32	0.39	0.44

Source: Company reports, Aljazira Capital Research

Fig 1: Revenue and net income (SAR mn)



Source: AlJazira Capital, Company reports Research

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	22.5%	22.7%	23.0%	23.2%
EBITDA Margin	4.4%	3.9%	4.5%	4.6%
Net Margin	4.9%	2.7%	3.2%	3.4%
P/E (x)	18.1	22.8	18.6	16.5
P/B (x)	7.1	5.0	5.0	4.9
EV/EBITDA (x)	13.6	11.1	10.2	9.7
Dividend Yield	5.3%	4.3%	5.3%	5.9%

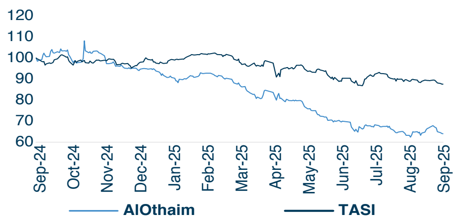
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	6.7
YTD%	-30.29%
52 weeks (High)/(Low)	12.5/7.17
Share Outstanding (mn)	900

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, AlJazira Capital Research

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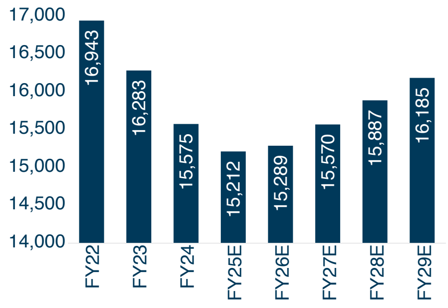
Higher selling & distribution expenses and expansion related increase in lease payments are pressurizing margins; operating margin to drop 45bps Y/Y in 2025: The company has managed to improve its gross margins to 22.67% in TTM ending Q2-25 from 22.2% in 2023, driven by progressive rebates and sales growth. However, Othaim has seen a sizable deterioration in its operating metrices as selling and distribution expenses have grown from 17.0% of sales in 2023 to 17.8% in TTM Q2-25. Overall operating margins are down 38bps to 4.1% in TTM Q2-25 as compared to 4.5% in 2Q23. Going further down the income statement, profitability is also pressured by the increase in finance costs, that is primarily driven by rise in lease liabilities from new store additions, and higher short-term borrowings. Overall, we expect operating margin to decline by 45bps Y/Y to 3.9% in 2025.

Revenues to grow in low single digits in the medium term; store additions have slowed down drastically in 1H-25 with only six store additions: We expect Al Othaim to post revenue growth of 2.5% in 2025, while we see topline to grow at a CAGR of 3.9% in the medium term (2024-29). Our view on revenue growth is premised on the expectation of 3.7% CAGR in total store area over 2024-29. Moreover, we see sales per square meter expanding from SAR 15,575 in 2024 to SAR 16,185 in 2029. Note that Al Othaim expanded its store footprint by 65,000 sqms and 54,000 sqms in 2023 and 2024, respectively. On this point we highlight that there is a drastic slowdown in store additions with five stores added in Q1-25 and only one store added in Q2-25, this takes the cumulative branch network to 471.

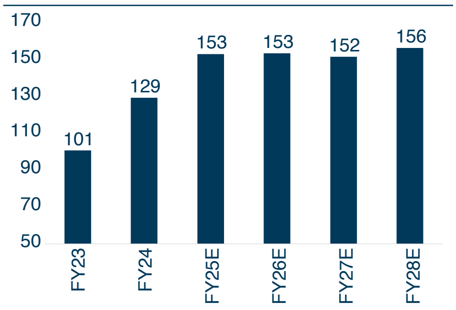
Normalized profits to decline by 19.2% in 2025; we cut our 2025 earnings estimates by 22.6% on higher operating expenses and finance costs: We expect the company to record a 19.2% Y/Y decline in normalized (excluding tax reversals and IPO gains from 2024 net income) earnings in 2025 to SAR 293mn. We estimate 2.5% Y/Y increase in sales to transpire into 3.4% increase in gross profit to SAR 2,492mn. Operating profit is estimated to decline by 7.9% Y/Y to SAR 434mn mainly driven by the 6.6% increase in selling and distribution expenses; corresponding to 45bps decline in operating margins to 3.9%. Moving further down the income statement, we estimate finance expenses to grow by 18.3% Y/Y (driven by leases and short-term loans). Overall, we have revised down our earnings estimate for 2025 by 22.6% on the back of 3.9% cut in sales, 57bps reduction in operating margins (due to higher S&D expenses) and 12.5% increase in finance expenses. Overall, we forecast a normalized earnings CAGR of 6.4% in the medium term (2024-29).

Fig 2: Rev/Sqm has deteriorated (SAR)



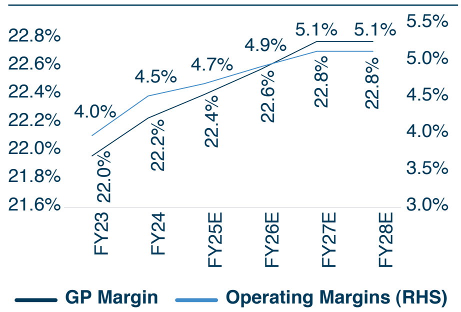
Source: Company accounts, Aljazira Capital research

Fig 3: Finance expense (SAR mn)



Source: Company accounts, Aljazira Capital research

Fig 4: Gross and operating margin trend



Source: Company accounts, Aljazira Capital research

AJC view and valuation: Al Othaim is the fastest growing retailer in Saudi that has managed to increase its market share to ~20% in sup/hyper market space. The company has rapidly expanded its store count to 471 in Q2-25 from 350 in 2022. This rapid expansion has resulted in a decline in sales efficiency and increase in finance expense on lease liabilities, meanwhile growing competition has impacted profit margins. Overall, in this backdrop we revise down our 2025 earnings estimate by 22.6% on the back of 3.9% cut in sales, 57bps reduction in operating margins and 12.5% increase in finance expenses. We forecast medium term (2024-29) normalized earnings CAGR of 6.4%, driven by 3.9% sales CAGR and 60bps expansion in operating margins.

We value Al Othaim with 50% weightage to DCF (RFR 4.25%, terminal growth 2.5%, WACC 8.4%) and 50% on PE (21.0x) valuation based on 2026E estimates. We arrive at a revised TP of **SAR 7.7/share** implying an upside of 4.4% from current market price, hence we retain our "**Neutral**" rating on Al Othaim.

Blended valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	7.1	50%	3.5
P/E (2026E)	8.4	50%	4.2
Weighted average 12-month price target			**7.7**
Current Price (SAR/share)			7.4
Expected Capital Gain			**4.4%**

Source: Bloomberg, Aljazira Capital Research, Dated 1st Sept 2025

Key Financial Data

Amount in SARmn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Revenues	10,234	10,716	10,982	11,313	11,864	12,432	12,955
Y/Y	**7.0%**	**4.7%**	**2.5%**	**3.0%**	**4.9%**	**4.8%**	**4.2%**
Cost of Sales	(7,965)	(8,305)	(8,490)	(8,706)	(9,111)	(9,526)	(9,906)
Gross profit	**2,269**	**2,411**	**2,492**	**2,607**	**2,753**	**2,906**	**3,050**
GPM	**22.2%**	**22.5%**	**22.7%**	**23.0%**	**23.2%**	**23.4%**	**23.5%**
Rental income	87	101	104	107	113	118	123
Selling & distribution exp	(1,739)	(1,866)	(1,989)	(2,030)	(2,129)	(2,231)	(2,325)
General & administrative exp	(159)	(177)	(174)	(180)	(188)	(197)	(206)
Operating profit	**460**	**471**	**434**	**506**	**550**	**597**	**644**
Y/Y	**17.2%**	**2.4%**	**-7.9%**	**16.5%**	**8.7%**	**8.7%**	**7.8%**
OPM	**4.5%**	**4.4%**	**3.9%**	**4.5%**	**4.6%**	**4.8%**	**5.0%**
Share in income of associates	32	194	41	43	45	47	49
Other income/(expenses)	31	23	18	18	19	20	21
Financial charges	(101)	(129)	(153)	(153)	(152)	(156)	(161)
Profit before zakat	**514**	**528**	**313**	**383**	**431**	**477**	**521**
Zakat	(17)	0	(12)	(14)	(16)	(18)	(19)
Non-controlling interest	(7)	(5)	(9)	(11)	(12)	(14)	(15)
Net income	**491**	**523**	**293**	**358**	**402**	**445**	**486**
Y/Y	**-54.6%**	**6.6%**	**-44.1%**	**22.4%**	**12.4%**	**10.6%**	**9.2%**
EPS (SAR)	**0.55**	**0.58**	**0.33**	**0.40**	**0.45**	**0.49**	**0.54**
DPS (SAR)	**0.60**	**0.55**	**0.32**	**0.39**	**0.44**	**0.48**	**0.53**
Balance sheet							
Assets							
Cash & bank balance	182	88	92	121	98	224	299
Other current assets	1,334	1,499	1,758	1,756	1,790	1,822	1,844
Property & Equipment	1,716	2,093	2,138	2,207	2,277	2,342	2,403
Other non-current assets	2,811	3,323	3,447	3,604	3,741	3,885	4,037
Total Assets	**6,044**	**7,002**	**7,436**	**7,689**	**7,906**	**8,274**	**8,582**
Liabilities & owners' equity							
Total current liabilities	2,445	2,967	3,250	3,453	3,568	3,827	4,024
Total non-current liabilities	2,198	2,663	2,808	2,851	2,945	3,045	3,146
Paid -up capital	900	900	900	900	900	900	900
Retained earnings	466	436	442	449	458	466	476
Total owners' equity	1,400	1,372	1,378	1,385	1,394	1,402	1,412
Total equity & liabilities	**6,044**	**7,002**	**7,436**	**7,689**	**7,906**	**8,274**	**8,582**
Cashflow statement							
Operating activities	716	946	577	858	942	1,005	1,059
Investing activities	(64)	(525)	(329)	(340)	(351)	(356)	(359)
Financing activities	(784)	(518)	(244)	(489)	(614)	(523)	(626)
Change in cash	(132)	(97)	4	29	(23)	126	74
Ending cash balance	**182**	**88**	**92**	**121**	**98**	**224**	**299**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	0.6	0.5	0.6	0.5	0.5	0.5	0.5
Quick ratio (x)	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Profitability ratios							
GP Margin	22.2%	22.5%	22.7%	23.0%	23.2%	23.4%	23.5%
Operating Margins	4.5%	4.4%	3.9%	4.5%	4.6%	4.8%	5.0%
EBITDA Margin	8.4%	8.4%	7.9%	8.5%	8.6%	8.7%	8.9%
Net Margins	4.8%	4.9%	2.7%	3.2%	3.4%	3.6%	3.8%
Return on assets	8.4%	8.0%	4.1%	4.7%	5.2%	5.6%	5.9%
Return on equity	35.5%	38.9%	21.9%	26.7%	30.0%	32.9%	35.7%
Market/valuation ratios							
EV/sales (x)	1.3	1.1	0.9	0.9	0.8	0.8	0.8
EV/EBITDA (x)	16.0	13.6	11.1	10.2	9.7	9.3	8.9
EPS (SAR)	0.55	0.58	0.3	0.4	0.4	0.5	0.5
BVPS (SAR)	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Market price (SAR)*	13.2	10.5	7.4	7.4	7.4	7.4	7.4
Market-Cap (SAR mn)	11,880	9,450	6,660	6,660	6,660	6,660	6,660
Dividend yield	4.5%	5.3%	4.3%	5.3%	5.9%	6.5%	7.2%
P/E ratio (x)	24.2	18.1	22.8	18.6	16.5	15.0	13.7
P/BV ratio (x)	8.7	7.1	5.0	5.0	4.9	4.9	4.9

Source: Company reports, Aljazira Capital Research

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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