

Results missed due to higher OPEX, gross margins remain under pressure despite top-line improvement.

Al Othaim posted net income of SAR 116mn in Q1-24, down 3.0% Y/Y (down 31.1% on a sequential basis). The result was 22.4% and 6.4% below our and consensus forecast of SAR 150mn and SAR 124mn, respectively. The deviation to our forecast is primarily owed to higher than estimated operating expenses, which stood at SAR 497mn (SAR 40mn above forecasts) and were up 10.0% Y/Y. The company saw revenues grow by 9.0% Y/Y (+18.3% on a Q/Q basis) to SAR 3,033mn, 5.6% above our forecast of SAR 2,872mn. The revenue growth was driven by addition of new stores and Ramadan sales (Q1-24 had 12 additional Ramadan days). Gross margins remained flat at 20.7% in Q1-24 (down 469bps Q/Q), 142bps lower than our forecast of 22.1%, most likely due to more promotions and discounts during Ramadan. We retain our "Neutral" rating on Al Othaim, with a TP of SAR 14.6 share.

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- The company saw revenues grow by 9.0% Y/Y (+18.3% on a Q/Q basis) to SAR 3,033mn, 5.6% above our forecast of SAR 2,872mn. The revenue growth was driven by addition of new stores and Ramadan sales, note that Q1-24 had 12 additional Ramadan days as compared to the same period last year. The company opened net ten stores in Q1-24 compared to net nine openings in Q4-23.
- Gross profit was logged in at SAR 626mn in Q1-24 as compared to SAR 574mn in Q1-23, in line with our estimate of SAR 634mn. Gross margins remained flat at 20.7% in Q1-24 (down 469bps Q/Q), 142bps lower than our forecast of 22.1%, most likely due to more promotions and discounts.
- Operating profits grew by 5.6% Y/Y to SAR 130mn (AJC estimate SAR 177mn), while operating margins stood at 4.3% (AJC estimate 6.2%). Operating expenses came SAR 40mn above our estimate; OPEX to sales increased by 15bps Y/Y to 16.4% (47bps above our expectation of 15.9%). Overall, net margins saw an attrition of 48bps Y/Y (-275bps Q/Q) and stood at 3.8%, (AJC estimate 5.2%).

AJC view and valuation: Al Othaim posted below expected results mainly due to higher operating expenses. OPEX to sales increased by 15bps Y/Y to 16.4% (47bps above our expectation of 15.9%). A sustainable increase in OPEX to sales poses a downside risk to our estimates, we await more details on this front. We expect Al Othaim to post normalized income CAGR of 10.1% between 2023-25. However, Our TP of **SAR 14.6/share** implies an upside of 14.8% from current market price, hence we retain our "Neutral" rating on Al Othaim.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,782	2,563	3,033	9.0%	18.3%	5.6%
Gross Profit	574	650	626	9.1%	-3.6%	-1.2%
<i>Gross Margin</i>	<i>20.6%</i>	<i>25.3%</i>	<i>20.7%</i>			
EBIT	123	186	130	5.6%	-30.4%	-26.9%
Net Profit	120	169	116	-3.0%	-31.1%	-22.4%
EPS	0.13	0.19	0.13			

Source: Tadawul, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	14.6
Upside / (Downside)*	14.8%

Source: Tadawul *prices as of 12th May 2024

Key Financials

SARmn (unless specified)	FY21	FY22	FY23	FY24E
Revenue	8,404	9,566	10,204	10,966
Growth %	-4.6%	13.8%	6.7%	7.5%
Gross Profit	1,764	2,072	2,272	2,492
Net profit	300	1,081	485	476
Growth %	-33.4%	260.3%	-55.2%	-1.8%
EPS	0.34	1.20	0.54	0.53
DPS	0.40	1.23	0.60	0.60

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23	FY24E
Gross Margin	21.0%	21.7%	22.3%	22.7%
Net Margin	3.6%	11.3%	4.8%	4.3%
P/E (x)	32.1	8.7	24.5	24.0
P/B (x)	7.1	6.7	6.9	5.9
EV/EBITDA (x)	16.7	15.2	15.8	13.1
Dividend Yield	1.8%	11.8%	4.5%	4.7%

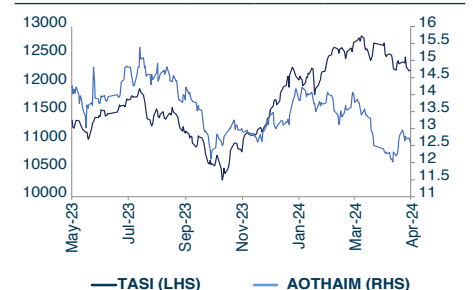
Source: Company reports, Argaam, AJC research

Key Market Data

Market Cap(bn)	11.3
YTD%	-3.6%
52 week (High)/(Low)	15.6/11.9
Share Outstanding (mn)	900

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg, AJC Research

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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.

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