

## DAR AL ARKAN



## EVENT FLASH

## Lowest net income on record on weak land sales

Dar Al Arkan announced a disappointing set of 2Q15 results, with net income being the lowest on record at SR70.5mn. This is significantly below the NCBC and consensus estimates of SR138mn and SR149mn, respectively. Earnings declined 42% YoY and 52% QoQ. We believe the deviation came mainly from weak land sales. According to our calculations, we believe land sales may have been as low as SR515mn vs. SR735mn in 2Q14. We are Under Review on the stock and believe fees on white land remain a key risk, leading to a discount on land plots.

- **NCBC view on results:** Dar Al Arkan reported a disappointing set of results with net income declining 42% YoY, to SR70.5mn. This is the lowest net income level on record, and is significantly below the NCBC and consensus estimates of SR138mn and SR149mn, respectively. We believe the deviation came from weak land sales, lower financing expenses and other income.
- According to our calculations, we believe land sales may have been as low as SR515mn vs. SR735mn in 2Q14. This compares to management guidance of SR700-SR800mn in land sales per quarter. We estimated gross margins at 42%, in-line with 2014 levels and management guidance.
- Positives from the results include lower SG&A (payroll and consultancy fees) and financing expenses. Opex came-in at SR66.7mn vs. SR69.8mn in 2Q14 and our estimates of SR72.2mn. Other income/expenses came-in at –SR92.2mn vs. our estimates of –SR103mn, which we believe is due to lower than expected financial charges and zakat due to a lower zakat base.
- In March 2015, the Saudi Council of Ministers approved implementing fees on white land within city boundaries. We believe this may have a negative impact on companies such as Dar Al Arkan, however, this impact will depend on the definition of white land and if it would be applicable to developers such as Dar Al Arkan. The company currently holds a land bank of 40mn sqm, which include developed and undeveloped land plots.
- We are currently Under Review on the stock. Although execution of projects is a positive catalyst, fees on white land remain a key risk that may lead to a discount on land plots held by the company. Dar Al Arkan currently trades at a 2015E P/B of 0.5x vs. historic levels of 0.7x.

## 2Q15 Results Summary

SR mn	2Q15A	2Q14A	% YoY	2Q15E	% Var <sup>^</sup>
Gross income	229	294	(22.0)	315	(27.2)
Operating income	163	224	(27.5)	243	(33.0)
Net income	71	121	(41.9)	138	(48.7)
EPS	0.07	0.11	(41.9)	0.13	(48.7)

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC estimates

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## UNDER REVIEW

Target price (SR)	NA <sup>^</sup>
Current price (SR)	9.00

## STOCK DETAILS

M52-week range H/L (SR)	16.2/6.8
Market cap (\$ mn)	2,578
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.3)	3.3	(30.9)
Rel. to market	1.3	0.8	(25.4)

Avg daily turnover (mn)	SR	US\$
3M	257.5	68.7
12M	380.7	101.5

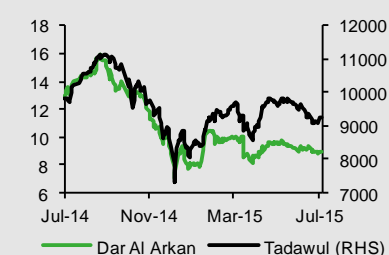
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	<a href="http://www.alarkan.com">www.alarkan.com</a>

## VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	16.8	16.3	11.2
P/B (x)	0.6	0.5	0.5
EV/EBITDA (x)	14.5	14.7	12.1
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635  
m.tomalieh@ncbc.com

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Kindly send all mailing list requests to [research@ncbc.com](mailto:research@ncbc.com)

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<http://research.ncbc.com>

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- OVERWEIGHT:** Target price represents an in share price in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents a change in the share price 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

**Other Definitions**

- NR:** Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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