

# DAR AL ARKAN



This is an extract of our published report, the full version of which can be found on the ncbc.com website

## COMPANY UPDATE

### Valuation fair at current levels

We remain Neutral on Dar Al Arkan with our price target decreasing by 0.9% to SR10.7/share. Growth in residential revenue has been revised down in 2012E by 49% due to a delay in Shams Arriyadh's contribution. This leads to an overall decline in adjusted profitability estimates for 2012E by 27% to SR1,431mn. We believe the current valuation on the stock is fair.

- Earnings estimates revised down due to delayed contribution from Shams Arriyadh:** We have revised down our residential revenue estimates due to a delay in Shams Arriyah's contribution. We expect 2H12 revenues of SR1,491mn, 24% below our previous estimate and down 4.8% YoY. Our 2012E revenue estimate of SR3,846mn indicates a YoY growth of 16.1%, owing to the company's land sale to SABIC. We are currently expecting the company to generate 2012E gross margins of 38.3% and net margins of 27.2%.
- Payment of July sukuk (SR3.75bn) completed successfully:** In July 2012, Dar Al Arkan announced the successful repayment of its largest outstanding sukuk issue for SR3.75bn. Currently, the company's total debt stands at approximately SR4.1bn, which equals 26.6% debt-to-capital.
- Future financing remains an area of concern:** Potential issues in raising funds remains a concern for Dar Al Arkan. Dar Al Arkan operates a capital intensive business and requires large sums of cash to meet its working capital and development targets. Currently, it is developing Shams Arriyadh and Shams Al-Arous which will require capex of SR11.8bn. We believe the potential reluctance of banks/financial institutions to lend to the company remains an area of concern.
- Valuation fair at current levels:** We remain Neutral on Dar Al Arkan with our price target decreasing by 0.9% to SR10.7/share. The stock is currently trading at a 2012E P/B of 0.67x. Since our last update on the company, the stock has underperformed the TASI by approximately 1%, in line with our Neutral rating on the stock. We believe the company lacks catalysts in the short-run to support an outperformance of the TASI.

#### Financials summary

SR mn	2011A	2012E	2013E	2014E	2015E	CAGR 11-15E
Revenue	3,313	3,846	4,043	4,487	3,205	(0.8)
Operating income	1,250	1,348	1,308	1,330	1,021	(4.9)
Reported net income	1,088	1,047	1,081	1,212	998	(2.1)
Operating margin %	37.7	35.0	32.4	29.6	31.9	
Net margin %	32.8	27.2	26.7	27.0	31.1	
ROE %	7.3	6.6	6.5	6.8	5.4	
EPS (SR)	1.01	0.97	1.00	1.12	0.92	

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

## NEUTRAL

**Target price (SR)** 10.7

**Current price (SR)** 9.6

#### STOCK DETAILS

M52-week range H/L (SR)	14.3/6.0
Market cap (\$mn)	2,822
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.9	(0.5)	57.6
Rel. to market	5.4	(3.5)	42.9

Avg daily turnover (mn)	SR	US\$
3M	379	101
12M	347	92

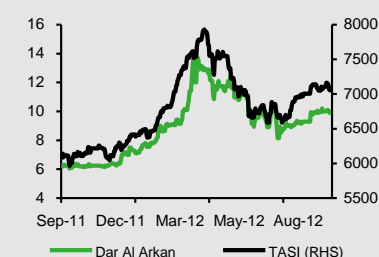
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
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#### VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	9.7	10.1	9.7
Adjusted P/E (x)	11.4	13.6	12.2
P/B (x)	0.70	0.67	0.63
Div Yield (%)	-	-	-

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Bloomberg

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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

**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

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