MAY 2015

SAUDI REAL ESTATE SECTOR

NCB CAPITAL

WHITE LAND FEES DETERMINES THE SECTOR OUTLOOK

The long-term outlook for the residential segment will be highly dependent on further details announced regarding fees on white land and progress of the Ministry of Housing projects. We believe regulations regarding housing loans are impacting demand for housing units in the short-term. We revise Dar Al Arkan to Under Review, downgrade Al Akaria to Neutral (PT SR39.9), while remaining Neutral on Taiba (PT SR42.3).

- **Fees on white land to impact the sector, reducing demand-supply gap**
  The Council of Ministers approved applying of fees on white land in March 2015. We believe imposing fees on white land will help reduce the demand-supply gap specifically for affordable residential units. We believe listed developers will be negatively impacted due to the large land bank held. However, the significance will depend on the awaited regulation details.

- **Housing loan regulations impact short-term demand outlook**
  The recent housing loan regulation capped the loan-to-value ratio at 70%. We believe such regulations, in addition to the anticipation of lower unit prices from fees on white land, will impact demand. This has been reflected in the recent data points, were growth in rental prices outpaced that of selling prices in Riyadh and Jeddah.

- **Revise rating on Dar Al Akran to Under Review**
  We revise our rating for Dar Al Arkan to Under Review due the uncertainties surrounding the impact from fees on white land. The company has a land bank of 34mn sqm. Neither the location nor exact parcel sizes are known. Developed and undeveloped lands account for 90% of our total NAV valuation. Accordingly, we are cautious on Dar Alarkan outlook until further clarifications regarding white land fees are announced.

- **Downgrade Al Akaria to Neutral, remain Neutral on Taiba**
  We downgrade Al Akaria to Neutral with a PT of SR39.9, while maintaining our Neutral rating on Taiba with a PT of SR42.3. Fees on white lands a key risk for Al Akaria. The company has a land bank of 20.6mn sqm. However, it plans to develop plots through the recently approved SR3.7bn debt facilities, thereby mitigating the impact of fees. Taiba has an unclear timeline for halting CPO hotels, in addition to an unclear rebuilding plan. Accordingly, it is difficult to project future earnings. The company has recently invested an additional SR715mn in local equities. We believe CPO compensation was used to finance these investments. This is a key concern as the company is diverting away from its core business.

Exhibit 1: Saudi Real Estate companies – valuation matrix

	Rating	PT (SR)	MCap $mn	Stock perf (%) QTD	Stock perf (%) YTD	P/E (x) `15	EV/ EBITDA `15	P/BV (x) `15	DY (%) `15	ROE (%) `15
Dar Al Arkan	UR	NA	2,719	10.2	16.1	17.2	15.2	0.6	-	3.3
Taiba	N	42.3	1,763	3.1	8.3	17.5	14.4	1.6	3.6	9.1
Al Akaria	N	39.9	1,196	4.8	11.8	23.4	11.6	1.3	2.7	5.4

Source: NCBC Research, Bloomberg, All prices as of May 11, 2015.
N: Neutral, UW: Underweight, OW: Overweight, UR: Under Review, NC: Not Covered

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SAUDI REAL ESTATE SECTOR OUTLOOK

Government regulations drive the Real Estate Outlook

Fees on white land to bridge the housing demand-supply gap

In March 2015, the Saudi Council of Ministers approved the implementation of fees on white land within city boundaries in Saudi Arabia. The regulation was proposed by the Ministry of Housing around six months earlier and was referred to the Supreme Economic Council in September 2014. However, the Ministry has not announced details regarding the regulation yet. The previous Minister of Housing suggested placing fees of SR10-150/sqm on white land plots of a total area over 10,000 sqm.

Imposing fees on white land will help reduce the demand-supply gap specifically for affordable residential units

We believe imposing fees on white land will help reduce the demand-supply gap specifically for affordable residential units. This regulation will increase the availability of land for development. Thereby, it will help reducing the overall land prices and will increase the supply of housing units. Historically, the trend of owning and not developing/selling lands has resulted in an average annual increase of 7% in land prices.

The significance of this decision will depend on fee per sqm, definition of white land, unit specification and time frame

We believe listed developers such as Dar Al Arkan, Akaria, Arriyadh Development may be negatively impacted by this regulation, provided the land bank held by these companies. The significance of this decision will depend on 1) fee applied per sqm, 2) definition of white land, 3) unit specification in order for a land not to be considered white and 4) time frame for applying this regulation.

Housing loan regulations impact demand growth potential

Recent residential financing regulations along with fees on white land may impact demand for owned units in the near term

The recent housing loan regulation capped the loan-to-value ratio at 70%. This means individuals will be required to finance 30% of the unit value when taking housing loans. We believe such regulations, in addition to the anticipation of lower unit prices from placing fees on white land, will impact demand for owned housing units in the near term.

According to JLL, the increase in villa rental prices outpaced the increase in selling prices by 16% in Riyadh. Moreover, the increase in apartment rental prices outpaced selling prices by 3% in Riyadh. A similar trend was seen in Jeddah, as well. We believe the relative slowdown in the sale prices, in comparison to rental prices, is attributed to the new residential loan regulations which increased the difficulty of owning units.

The new regulation impact residential sale prices in Riyadh and Jeddah, resulting in higher rental prices

We believe the new regulation has also resulted in a decrease in residential transactions across Riyadh and Jeddah. According to the Ministry of Justice data, the volume of villa and apartment transactions declined 70% and 33% in Riyadh, respectively, since the regulation came into effect in Nov-14. Moreover, Jeddah experienced a 59% and 27% reduction in villa and apartment transactions, respectively. As a result, rental rates increased in 1Q15 with this trend expected to continue going forward. Moreover, we believe the announcement of fees on white lands may trigger further slowdown in transactions, as individuals await the details of the ruling.

Ministry of Housing plans faster execution of housing project

Overview of the Saudi Housing program

The Saudi government focussed on reducing the housing demand-supply gap since 2011, when a Royal decree instructed to build 500,000 housing units for a total of around US$67bn. However, several issues including shortage of land led to delays in the execution of this project and the introduction of alternative programs such as the 'ESKAN' products (Housing Unit, Loan, Land and Land & Loan). The ministry received over one million applications for the scheme and a total of 754,570 individuals were found eligible for housing aid.

Over 237,000 units in the pipeline, majority remains in design phase

As part of the recent cabinet reshuffle, Dr. Essam bin Saeed was appointed as an acting Minister of Housing in March 2015. The focus of the new Minister is execution of the program, through involving private sector developers as well. Bids for around 1,000 units have been awarded to private developers in Riyadh, with bids offered for constructing 26,000 housing units between Medina, Jeddah, Qatif and Dammam. We believe such contracts are attractive to developers. However, units developed by the MoH will be of low-cost models. Therefore, we believe that margins for developers will be lower than the industry standards, assuming the developer does not pre-own the land.

The Ministry is currently working on designing and developing 237,445 units through 184 projects across Saudi. However, around 60% of these units remain in the design phase.

Exhibit 2: Breakdown of Ministry of Housing projects

Projects	No. of projects	Units
Design phase	94	141,567
Bidding process	25	21,360
Under construction	65	74,518
Total	**184**	**237,445**

Source: Ministry of Housing, NCBC Research

Office rental rates unchanged in Riyadh; Jeddah rentals grow

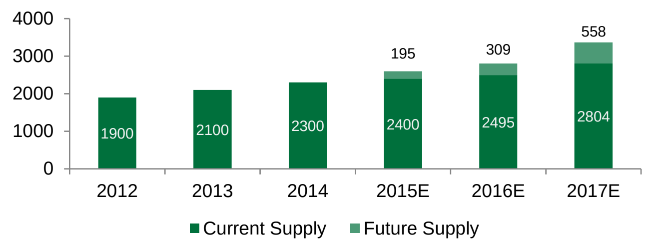
Riyadh office rental prices remain unchanged, while Jeddah prices increase

Office rental prices remained unchanged in Riyadh, however, vacancy rates declined to 16% in 1Q15 vs. 19% in 1Q14. We believe this came as a result of the minimal additional office space entering the market over the past year. However, the Information Technology & Communications Complex (ITCC) project and the King Abdullah Financial District (KAFD) are expected to be completed by 2017. These projects, in addition to others, are expected to add around 44% to the GLA, thereby impacting the outlook on rental rates negatively in Riyadh. We believe the impact will be minimal for **Al Akaria** provided the limited expansions in this segment and low probability of reducing prices provided the near full utilization of office space on hand.

Although occupancy rates improved in Jeddah by around 300 bps to 6%, rental rates also increased 7% YoY in 1Q15. The outlook for the office rental prices in Jeddah is neutral in terms of occupancy and rental prices, provided the low additional quantity of around 27% expected by 2018E.

Exhibit 3: Riyadh office supply

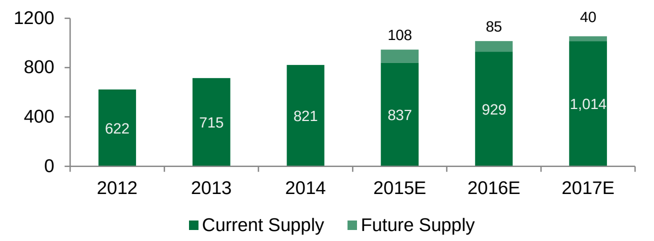
'000 sqm



Source: JLL, NCBC Research

Exhibit 4: Jeddah office supply

'000 sqm



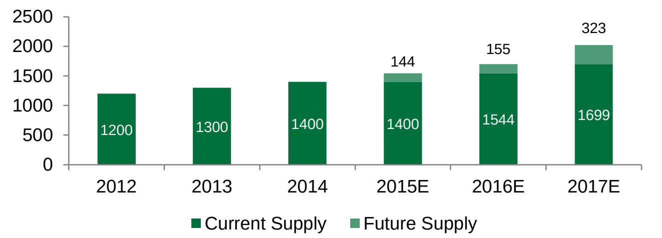
Source: JLL, NCBC Research

Mixed outlook on retail segment

The vacancy rates declined marginally while rental rates increased in 1Q15 for both Riyadh and Jeddah. In Riyadh, various delayed projects are expected to increase GLA by 44% by 2018E. With the strong demand for commercial space, the outlook for rental prices is positive. Despite that further commercial areas are expected to open up by 2020E. We believe this is positive for **Dar Al Arkan**, as it plans to expand further into the retail segment. Retail area supply in Jeddah is expected to increase by around 35% by 2018E. However, the outlook on both vacancy rates and renal prices remains muted.

Exhibit 5: Riyadh retail supply

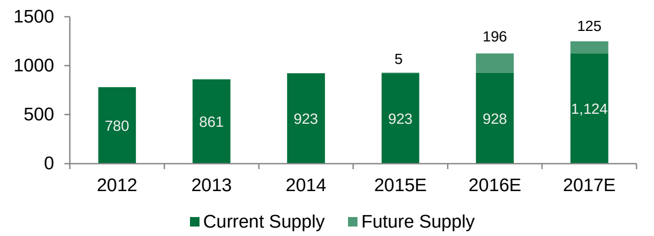
'000 sqm



Source: JLL, NCBC Research

Exhibit 6: Jeddah retail supply

'000 sqm



Source: JLL, NCBC Research

Changes to estimates

In the table below we highlight the changes to our 2015E and 2016E numbers, as well as price targets, since our last update on the sector in January 2015.

Exhibit 7: Changes to estimates

In SR mn, unless otherwise stated

		Old 2015E	New 2015E	% Chg	% Gr	Old 2016E	New 2016E	% Chg	% Gr
Dar Al Arkan									
Revenue		3,283	2,988	(9.0)	(2.2)	3,923	3,619	(7.8)	21.1
Gross Profit		1,306	1,283	(1.8)	(1.3)	1,570	1,547	(1.4)	20.6
Net Profit		723	592	(18.1)	3.0	1,044	862	(17.5)	45.6
Target price	SR					13.0	NA	NA	
Taiba									
Revenue		532	454	(14.7)	(9.4)	548	471	(14.1)	3.7
Gross Profit		348	311	(10.8)	1.0	362	283	(21.9)	(9.1)
Net Profit		257	377	46.6	(69.0)	266	238	(10.4)	(36.7)
Target price	SR					48.0	42.3	(11.8)	
Al Akaria									
Revenue		291	290	(0.1)	(14.9)	317	317	(0.1)	9.1
Gross Profit		233	233	0.3	(16.7)	253	254	0.5	9.0
Net Profit		258	191	(25.8)	(30.7)	212	209	(1.3)	9.3
Target price	SR					41.0	39.9	(2.6)	

Source: NCBC Research estimates

Summary of changes to estimates:

Dar Al Arkan

- Lowered land sale revenues from SR3.2bn to SR2.9bn for 2015 due to weaker than expected land sales in 1Q15. Land sales revenues declined to SR690mn in 1Q15 and SR574mn in 4Q14 vs. average of SR791mn historically. Similarly, land sale revenues for 2016 onwards have been marginally revised down.
- Gross margin assumption on land plots sold revised up by 320bps to 42% from 38.8% earlier. Gross margins on land plots sold revised marginally upwards for future years as well.
- Decreased SG&A expenses from SR253mn to SR231mn due to lower than expected SG&A expenses in 1Q15.
- Other income lowered by around SR20mn per annum, while financing expenses increased of the back off higher than expected levels in 1Q15.

Taiba

- Decreased revenue estimates by around SR78mn for 2015E and future years. This is due to the impact of the sale of Bakkah Arac hotel in January 2015 and the impact of hotels removed as part of the CPOs.
- Increased 2015E other income by SR156mn mainly due to the SR142mn capital gain from the sale of Bakkah Arac hotel.
- Decreased SG&A expenses by around SR12mn annually, as expenses in 1Q15 came-in significantly lower than expected. We believe this is due to lower number of hotels.

Al Akaria

- Revenues, gross profit and operating profit estimates broadly unchanged.
- Net income estimate lowered by SR66mn in 2015 mainly due to exclusion of the one-off capital gain of SR68.3mn related to land sale. We were earlier expecting this to happen during 2015. However, the company reported this one-off gain in 4Q14.

REAL ESTATE | MAY 2015

DAR AL ARKAN

CHANGE IN RATING

Outlook dependent on details of white land fees

We revise our rating for Dar Al Arkan to Under Review on the uncertainties surrounding the impact from fees on white land. The company has a land bank of around 34mn sqm. Neither the location nor exact parcel sizes are known. Accordingly, we have not made any assumption regarding the impact of fees in our estimates. Developed and undeveloped lands account for 90% of total our NAV valuation. We are cautious until further clarifications regarding white land fees are announced. However, positives for the stock remain the ability to execute residential projects and attractive P/B of 0.57x vs. historical average of 0.70x.

- **Fees on white land potential negative impact unknown yet**
  Dar Al Arkan has a land bank of 40mn sqm. Around 34mn sqm is developed or undeveloped land, with no developments on them. This is the largest land bank amongst listed peers. We believe the impact of white land fees may be significant. However, this will depend on the definition of white lands and time frame for applying it. Even if Dar Al Arkan is not largely impacted by fees, the overall expected decline in land prices from fees will impact the company.
- **Execution of residential projects a potential positive catalyst**
  Landscaping requirements by SABIC have held back the execution of Shams Al Riyadh project. Dar Al Arkan is placing a master plan for the project and we expect it to be completed by 2019E. We believe that an earlier than expected execution of this project and others, including Shams Al Arous, will be a positive catalyst as it increases the proportion of stable leasable assets.
- **Potential contracts as MoH looks into partnerships**
  We believe the Ministry of Housing will continue to partner with private developers in order to execute the housing programs. Winning such contracts from the MoH will improve the revenue visibility, as it lowers the dependency of selling land plots and potential impact of white land fees.
- **Under Review rating due to white land fees uncertainty**
  We revise our rating on Dar Al Arkan to Under Review. Depending on the updates on white land fees, the impact may be significant on Dar Al Arkan. As the stock is trading at 2015E P/B valuation of 0.57x vs. historical levels of 0.70x, we believe the discount is reflecting the uncertain outlook.

Summary Financials

SR mn	2013A	2014A	2015E	2016E	2017E	CAGR (%)
Revenues	2,931	3,056	2,988	3,619	3,764	6.5
EBITDA	1,002	1,062	1,052	1,270	1,314	7.0
Net income	681	575	592	862	961	9.0
EBITDA margin (%)	34.2	34.7	35.2	35.1	34.9	-
Net margin (%)	23.2	18.8	19.8	23.8	25.5	-
ROE (%)	4.0	3.3	3.3	4.5	4.8	-
EPS (SR)	0.63	0.53	0.55	0.80	0.89	9.0
DPS (SR)	-	-	-	-	-	-

Source: Company, NCBC Research estimates

UNDER REVIEW

Target price (SR)	NA
Current price (SR)	9.4

STOCK DETAILS

M52-week range H/L (SR)	16.0/7.1
Market cap ($mn)	2,719
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	9.0	(0.7)	(29.6)
Rel. to market	1.9	(5.7)	(27.7)

Avg daily turnover (mn)	SR	US$
3M	529.8	141.3
12M	429.4	114.5

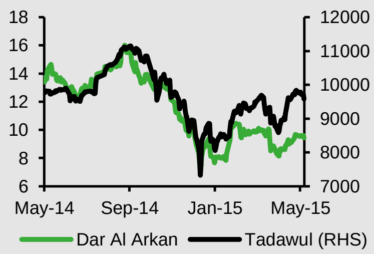
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	www.alarkan.com

VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	17.7	17.2	11.8
P/B (x)	0.6	0.6	0.5
EV/EBITDA (x)	15.0	15.2	12.6
Div Yield (%)	-	-	-

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Financials

Exhibit 8:Income Statement

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Revenues	2,931	3,056	2,988	3,619	3,764	4,012
Cost of sales	(1,778)	(1,757)	(1,705)	(2,072)	(2,163)	(2,285)
Gross profit	**1,153**	**1,299**	**1,283**	**1,547**	**1,601**	**1,727**
SG&A expenses	(151)	(237)	(231)	(278)	(287)	(304)
EBITDA	1,002	1,062	1,052	1,270	1,314	1,423
Depreciation of fixed assets	(4)	(4)	(5)	(5)	(5)	(5)
Amortization of def charges	(28)	(38)	(37)	(51)	(70)	(97)
EBIT	**970**	**1,020**	**1,011**	**1,214**	**1,239**	**1,321**
Financing cost	(314)	(493)	(457)	(395)	(321)	(260)
Other income	39	47	54	65	68	72
EBT	699	590	607	884	985	1,133
Zakat expense	(18)	(15)	(15)	(22)	(25)	(28)
Adj net income	681	575	592	862	961	1,105
Add: capitalized interest	-	-	-	-	-	-
Reported net income	**681**	**575**	**592**	**862**	**961**	**1,105**
EPS	**0.63**	**0.53**	**0.55**	**0.80**	**0.89**	**1.02**

Source: NCBC Research estimates

Exhibit 9: Balance Sheet

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Cash	2,279	1,135	407	362	376	401
Accounts receivable	1,848	3,739	3,688	3,764	3,841	3,921
Development properties	16,553	17,106	17,406	17,098	17,024	16,861
Investment properties	2,695	3,567	3,498	3,429	3,362	3,296
Total assets	**24,197**	**26,383**	**25,829**	**25,478**	**25,425**	**25,296**
Accounts payable	487	390	379	388	369	360
Total outstanding debt	5,989	7,714	4,313	3,188	3,188	1,500
Total liabilities	**7,205**	**8,815**	**7,670**	**6,457**	**5,443**	**4,210**
Capital	10,800	10,800	10,800	10,800	10,800	10,800
Statutory reserve	885	942	1,002	1,088	1,184	1,294
Retained earnings	5,308	5,825	6,358	7,133	7,998	8,992
Shareholders' equity	16,993	17,568	18,160	19,021	19,982	21,086
Liab & equity	**24,197**	**26,383**	**25,829**	**25,478**	**25,425**	**25,296**

Source: NCBC Research estimates

Exhibit 10: Cash flow Statement

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Cash flow from op. (a)	1,005	333	736	913	1,010	1,189
Cash flow from inv.(b)	(751)	(1,966)	(301)	308	74	163
Cash flow from fin.(c)	1,490	489	(1,164)	(1,266)	(1,070)	(1,327)
Net chg. in cash (a+b+c)	1,743	(1,144)	(729)	(45)	15	25
Cash at start of the year	536	2,279	1,135	407	362	376
Cash at end of the year	2,279	1,135	407	362	376	401

Source: NCBC Research estimates

Exhibit 11: Key Ratios

Per share, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Reported EPS	0.63	0.53	0.55	0.80	0.89	1.02
Adjusted EPS	0.63	0.53	0.55	0.80	0.89	1.02
Div per share	-	-	-	-	-	-
Book value per share	15.7	16.3	16.8	17.6	18.5	19.5
FCF per share	1.6	(0.1)	0.8	1.4	1.2	1.4
Valuation ratios (x)						
Reported P/E	15.0	17.7	17.2	11.8	10.6	9.2
Adjusted P/E	15.0	17.7	17.2	11.8	10.6	9.2
P/BV	0.60	0.58	0.56	0.54	0.51	0.48
P/FCF	6.1	(84.0)	12.2	6.6	7.7	6.7
EV/EBITDA	15.9	15.0	15.2	12.6	12.1	11.2
Div yield (%)	-	-	-	-	-	-
Profitability ratios (%)						
Gross margins	39.3	42.5	42.9	42.8	42.5	43.0
Operating margin	33.1	33.4	33.8	33.6	32.9	32.9
Net profit margins	23.2	18.8	19.8	23.8	25.5	27.5
ROE	4.0	3.3	3.3	4.5	4.8	5.2
ROA	2.8	2.2	2.3	3.4	3.8	4.4

Source: NCBC Research estimates

AL AKARIA

CHANGE IN RATING

Land bank risk mitigated by planned developments

We downgrade Al Akaria to Neutral with a PT of SR39.9. We remain cautious on Al Akaria, provided the potential risk of fees on white lands. The company has a land bank of 20.6mn sqm, however it plans to develop large plots through the recently approved SR3.7bn debt facilities which mitigates the impact of fees. We believe further developments regarding residential projects will be a positive catalyst in the near term.

- **Fees on white land potentially a key risk**
  The decision of the Saudi Council of Ministers to implement fees on white land may negatively impact Al Akaria, provided the company has a land bank of 20.6mn sqm (including recently announced 7mn sqm land). However, the company has acquired debt facilities worth SR3.7bn, including SR1.5bn from the Public Investment Fund (PIF). We believe Al Akaria will use the amount raised for residential development projects, which could reduce the potential impact of the fees on the company.

- **Update on the use of SR3.7bn loan facilities is a key driver**
  Al Akaria gained approvals for SR3.7bn in loans in 2014 from the PIF and local banks. A total of SR2.2bn will finance the acquisition of a 7mn sqm land. We believe any announcement regarding planned developments on this plot and the use of the SR1.5bn facility from PIF will be a key positive catalyst for the company. We believe Al Akaria's strategy is in-line with governmental agencies (PIF) of developing residential projects.

- **Lower concentration risk supports outlook**
  Al Akaria's strategy to diversify from the office and commercial segment into the residential and hospitality segment is an attraction point. The Seteen Street and Diplomatic Quarter (DQ) projects are planned to be completed by 2017E, with part of the DQ project being rented out already. We believe these projects, in addition to the Al Remal and other planned residential developments will lower the concentration risk of revenue streams.

- **Downgrade on fair valuations and white land risk**
  We downgrade Al Akaria to Neutral on fair valuations, with a PT of SR39.9. We believe updates on residential projects are a positive catalyst, however any the white land fee regulation is a key risk.

Summary Financials

SR mn	2013A	2014A	2015E	2016E	2017E	CAGR (%)
Revenues	259	341	290	317	331	6.3
EBITDA	191	257	209	228	238	5.7
Net income	156	276	191	209	228	9.9
EBITDA margin (%)	73.9	75.3	71.9	72.1	72.1	-
Net margin (%)	60.3	81.0	65.9	66.1	68.8	-
ROE (%)	4.7	8.0	5.4	5.8	6.1	-
EPS (SR)	1.30	2.30	1.60	1.74	1.90	9.9
DPS (SR)	1.00	1.00	1.00	1.00	1.00	-

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	**39.9**
Current price (SR)	**37.4**

STOCK DETAILS

M52-week range H/L (SR)	54.1/28.4
Market cap ($ mn)	1,196
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.8	(3.3)	(18.0)
Rel. to market	(1.2)	(8.2)	(16.1)

Avg daily turnover (mn)	SR	US$
3M	19.8	5.3
12M	16.3	4.3

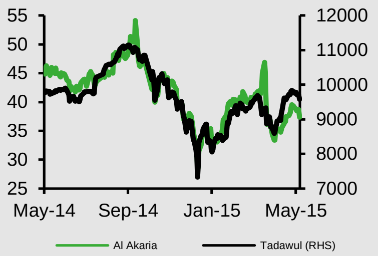
Reuters code	4020.SE
Bloomberg code	SRECO AB
	www.al-akaria.com

VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	16.2	23.4	21.4
P/BV (x)	1.3	1.3	1.2
EV/EBITDA (x)	9.4	11.6	10.6
Div Yield (%)	2.7	2.7	2.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Financials

Exhibit 12:Income Statement

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Revenues	259	341	290	317	331	332
Cost of revenue	(51)	(61)	(57)	(63)	(65)	(66)
Gross profit	**208**	**280**	**233**	**254**	**266**	**267**
SG&A expenses	(17)	(23)	(25)	(26)	(27)	(28)
EBITDA	**191**	**257**	**209**	**228**	**238**	**238**
Depreciation	(28)	(28)	(28)	(29)	(20)	(24)
Operating income	163	229	180	200	218	214
Other income	4	63	23	23	23	23
EBT	**167**	**292**	**203**	**222**	**241**	**237**
Zakat provision	(11)	(15)	(12)	(13)	(13)	(14)
Net income	**156**	**276**	**191**	**209**	**228**	**223**
EPS (SR)	**1.3**	**2.3**	**1.6**	**1.7**	**1.9**	**1.9**

Source: NCBC Research estimates

Exhibit 13: Balance Sheet

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Cash & cash equivalents	18	4	8	16	43	145
Accounts receivable, net	120	228	251	274	286	287
Inventory, net	1	1	1	1	2	2
Land available for sale	12	3	12	12	12	12
Current assets	151	249	285	315	355	458
Investments	1,129	1,134	1,142	1,151	1,160	1,170
Investment properties	2,270	2,304	2,345	2,414	2,481	2,472
Non-current assets	3,400	3,438	3,488	3,565	3,642	3,642
Total assets	**3,551**	**3,687**	**3,772**	**3,880**	**3,997**	**4,100**
Accounts payable	77	56	56	60	63	63
Unearned revenue	155	153	169	184	192	193
Current liabilities	232	210	225	245	255	256
End-of-service indemnity	15	17	18	18	18	18
Total liabilities	**247**	**227**	**242**	**262**	**273**	**275**
Paid Capital	1,200	1,200	1,200	1,200	1,200	1,200
Reserves	1,866	1,893	1,913	1,933	1,956	1,979
Retained earnings	154	281	332	399	482	562
Unrealized gains (losses)	84	85	85	85	85	85
Shareholders' equity	**3,304**	**3,460**	**3,530**	**3,617**	**3,724**	**3,825**
Total liabilities & equity	**3,551**	**3,687**	**3,772**	**3,880**	**3,997**	**4,100**

Source: NCBC Research estimates

Exhibit 14: Cash flow Statement

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Net Income before zakat	**167**	**292**	**203**	**222**	**241**	**237**
Non-cash adjustments	25	4	4	5	5	5
Investment revenue	(26)	(60)	(19)	(19)	(20)	(21)
Depreciation	28	29	28	29	20	24
EOSB	2	3	2	2	2	2
Accounts receivable	(38)	(31)	(27)	(27)	(17)	(6)
Inventory	1	(0)	(0)	(0)	(0)	(0)
Land available for sale	-	(68)	(9)	-	-	-
Accounts payable	61	2	3	3	2	0
Unearned revenue	(23)	(2)	15	15	8	1
Zakat	(14)	(13)	(16)	(12)	(13)	(13)
EOSB	(1)	(0)	(2)	(2)	(2)	(2)
Operating cash flows	**182**	**155**	**184**	**216**	**227**	**228**
Proceeds from invsts	5	40	11	11	11	11
Capex	(49)	(89)	(70)	(97)	(88)	(15)
Investing cash flows	**(45)**	**(48)**	**(59)**	**(87)**	**(78)**	**(4)**
Increase in capital	-	-	-	-	-	-
Change in debt	(2)	(2)	-	-	-	-
Dividends	(120)	(120)	(122)	(122)	(122)	(122)
Financing cash flows	**(121)**	**(121)**	**(122)**	**(122)**	**(122)**	**(122)**
Net cash flows	**16**	**(14)**	**4**	**8**	**27**	**102**
Opening balance	3	18	4	8	16	43
Ending balance	**18**	**4**	**8**	**16**	**43**	**145**

Source: NCBC Research estimates

Exhibit 15: Key Ratios

Per share, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
EPS	1.3	2.3	1.6	1.7	1.9	1.9
FCF per share	0.9	(0.9)	0.9	1.0	1.1	1.8
Div per share	1.0	1.0	1.0	1.0	1.0	1.0
Book value per share	27.5	28.8	29.4	30.1	31.0	31.9
Valuation ratios (x)						
Reported P/E	28.7	16.2	23.4	21.4	19.7	20.1
P/FCF	43.7	(42.5)	41.1	39.3	33.2	21.2
P/BV	1.4	1.3	1.3	1.2	1.2	1.2
EV/EBITDA	12.6	9.4	11.6	10.6	10.1	10.1
Div yield (%)	2.7	2.7	2.7	2.7	2.7	2.7
Profitability ratios (%)						
Gross margins	80.4	82.1	80.3	80.2	80.3	80.3
Operating margin	63.1	67.0	62.1	63.0	65.9	64.4
EBITDA margins	73.9	75.3	71.9	72.1	72.1	71.7
Net profit margins	60.3	81.0	65.9	66.1	68.8	67.3
ROE	4.7	8.0	5.4	5.8	6.1	5.8
ROA	4.4	7.5	5.1	5.4	5.7	5.4

Source: NCBC Research estimates

TAIBA

COMPANY UPDATE

Cautious outlook on CPO risk and investments

We maintain our Neutral rating on Taiba with a PT of SR42.3. We are cautious on the company provided the following 1) unclear timeline for halting operations of hotels receiving CPOs, 2) unclear plan to rebuild hotels and therefore difficulty in projecting future earnings, 3) potential inability to replace hotels receiving CPOs with similar ones in the new Central area in Madinah and 4) use of CPO proceed to increase investments in Saudi equities by SR715mn and 5) selling other operational non-CPO hotels such as Bakkah ARAC. However, we believe a higher than expected compensation for the remaining hotels receiving CPOs may be a short-term positive catalyst for the stock.

- **Unclear outlook for CPO hotels and future rebuilding plan**
  Three of the remaining hotels receiving CPOs are still operational. There is no timeline for halting their operations. This, in addition to an unclear strategy post-receiving CPO compensations, drives uncertainty on future earnings of the company. Moreover, a key risk remains the ability to replace the current hotels with similar ones in the new Central area in Madinah.

- **Sale of Bakkah ARAC increases underlying risks**
  Taiba sold Bakkah ARAC hotel in Makkah earlier this year, recording a capital gain of SR142mn. We believe this adds to the low earnings visibility risk associated with CPOs and is not aligned with the company's strategy to diversify its portfolio in the Holy cities.

- **Increasing investments in equities a key risk**
  Taiba invested SR445.8mn in SABIC and Makkah Construction during 2014, in addition to increasing its investment in SAFCO by SR269mn to SR895mn. We believe the CPO compensations financed these investments, with this exposing the company to a significant unnecessary risk.

- **Maintain Neutral rating on unclear earnings outlook**
  We maintain our Neutral rating on Taiba, with a PT of SR42.3. We are cautious on the company provided the underlying risks and low visibility on future earnings. Moreover, we believe investing in equities rather from CPO compensations rather than core business is a significant risk.

Summary Financials

SR mn	2013A	2014A	2015E	2016E	2017E	CAGR (%)
Revenues	379	501	454	471	488	6.5
EBITDA	227	261	278	259	275	4.9
Net income	264	1,214	377	238	252	(1.2)
EBITDA margin (%)	60.0	52.2	61.2	54.9	56.4	-
Net margin (%)	69.6	242.3	83.1	50.6	51.5	-
ROE (%)	7.6	30.4	9.1	5.8	6.1	
EPS (SR)	1.76	8.09	2.51	1.59	1.68	(1.2)
DPS (SR)	1.40	3.10	1.60	1.60	1.60	3.4

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	**42.3**
Current price (SR)	**44.1**

STOCK DETAILS

M52-week range H/L (SR)	51.5/30.8
Market cap ($mn)	1,763
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.6	2.0	(4.3)
Rel. to market	(5.5)	(2.9)	(2.4)

Avg daily turnover (mn)	SR	US$
3M	110.0	29.3
12M	53.4	14.2

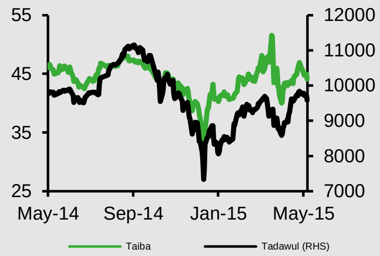
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	5.4	17.5	27.7
P/B (x)	1.7	1.6	1.6
EV/EBITDA (x)	15.3	14.4	15.5
Div Yield (%)	7.0	3.6	3.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Financials

Exhibit 16: Income Statement

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Revenues	379	501	454	471	488	531
Adjusted revenue	334	463	454	471	488	531
Cost of revenue	(116)	(193)	(143)	(188)	(195)	(212)
Gross profit	**263**	**308**	**311**	**283**	**293**	**318**
S.G.&A. expenses	(36)	(47)	(33)	(24)	(18)	(21)
EBITDA	227	261	278	259	275	297
Depreciation	(19)	(30)	(43)	(47)	(51)	(56)
Operating income	**208**	**231**	**235**	**211**	**224**	**241**
Income from associates	4	-	-	-	-	-
Investment income	73	58	61	60	64	64
Other income	34	1,088	158	15	16	17
Inc. before Zakat & MI	**315**	**1,361**	**438**	**270**	**286**	**305**
Zakat	(13)	(36)	(26)	(10)	(12)	(13)
Income before MI	303	1,325	411	260	274	293
Minority interest	(39)	(111)	(34)	(22)	(23)	(24)
Net income	**264**	**1,214**	**377**	**238**	**252**	**268**
EPS	**1.8**	**8.1**	**2.5**	**1.6**	**1.7**	**1.8**

Source: NCBC Research estimates

Exhibit 17: Balance Sheet

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Cash & cash equivalents	274	795	704	739	780	843
Accounts receivable	74	52	63	60	61	68
Inventory, net	7	8	7	7	8	8
Due from related parties	1	2	2	2	2	2
Current assets	**356**	**857**	**776**	**808**	**851**	**921**
Investments in companies	1,083	1,788	1,788	1,788	1,788	1,788
Fixed assets, net	2,878	2,561	2,563	2,564	2,562	2,558
Non-current assets	3,976	4,355	4,355	4,354	4,352	4,347
Total Assets	**4,332**	**5,211**	**5,131**	**5,163**	**5,203**	**5,268**
Accounts payable	139	145	108	142	147	160
Dividends payable	80	91	91	91	91	91
Current liabilities	**284**	**484**	**233**	**246**	**254**	**268**
End of service indemnity	8	10	11	11	12	12
Non-current liabilities	228	410	411	411	412	412
Total Liabilities	**512**	**894**	**644**	**657**	**665**	**679**
Paid Capital	1,500	1,500	1,500	1,500	1,500	1,500
Statutory reserves	1,000	1,000	1,000	1,000	1,000	1,000
Other reserves	106	106	106	106	106	106
Retained earnings	567	1,314	1,449	1,446	1,456	1,482
Dividends	60	75	75	75	75	75
Total shareholders' equity	**3,486**	**3,998**	**4,133**	**4,129**	**4,139**	**4,166**
Total liabilities & equity	**4,332**	**5,211**	**5,131**	**5,163**	**5,203**	**5,268**

Source: NCBC Research estimates

Exhibit 18: Cash flow Statement

In SR millions, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
Net income	**264**	**1,214**	**377**	**238**	**252**	**268**
Dep. and amortization	28	43	43	47	51	56
Non-cash adjustments	(111)	(1,109)	(10)	(20)	4	2
Interest expense	-	-	17	17	17	17
Accounts receivable	(4)	10	(15)	5	(0)	(3)
Prepayments & others	(11)	11	4	(1)	(1)	(4)
Inventory	2	(1)	1	(0)	(0)	(1)
Accounts payable	(8)	(3)	(3)	3	0	1
Accruals / other payables	(21)	131	(35)	31	5	12
Operating cash flows	**160**	**296**	**379**	**320**	**327**	**349**
Capex	(52)	1,362	(45)	(47)	(50)	(52)
Investments in companies	80	(900)	-	-	-	-
Deferred charges	(8)	(1)	(0)	(0)	(0)	(0)
Investing cash flows	**20**	**461**	**(46)**	**(48)**	**(50)**	**(52)**
Change in debt	174	340	(200)	-	-	-
Dividends	(210)	(450)	(240)	(240)	(240)	(240)
Minority interest	(24)	(125)	34	22	23	24
Financing cash flows	**(62)**	**(236)**	**(425)**	**(237)**	**(236)**	**(234)**
Net cash flow	118	521	(91)	35	41	62
Opening cash balance	157	274	795	704	739	780
Ending cash balance	**274**	**795**	**704**	**739**	**780**	**843**

Source: NCBC Research estimates

Exhibit 19: Key Ratios

Per share, unless otherwise stated

	2013A	2014A	2015E	2016E	2017E	2018E
EPS	1.8	8.1	2.5	1.6	1.7	1.8
Div per share	1.4	3.1	1.6	1.6	1.6	1.6
Book value per share	23.2	26.7	27.6	27.5	27.6	27.8
FCF per share	1.2	5.0	2.2	1.8	1.8	2.0
Valuation ratios (x)						
P/E	25.0	5.4	17.5	27.7	26.3	24.6
P/BV	1.9	1.7	1.6	1.6	1.6	1.6
P/FCF	36.9	8.7	19.8	24.3	23.9	22.3
EV/sales	10.5	8.0	8.8	8.5	8.2	7.5
EV/EBITDA	17.6	15.3	14.4	15.5	14.5	13.5
Div yield (%)	3.2	7.0	3.6	3.6	3.6	3.6
Profitability ratios (%)						
Gross margins	69.3	61.5	68.5	60.0	60.0	60.0
EBITDA margins	60.0	52.2	61.2	54.9	56.4	56.0
Operating margins	54.9	46.1	51.7	44.9	45.8	45.5
Net profit margins	69.6	242.3	83.1	50.6	51.5	50.6
ROE	7.6	30.4	9.1	5.8	6.1	6.4
ROA	6.1	23.3	7.3	4.6	4.8	5.1

Source: NCBC Research estimates

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NCBC Investment Ratings

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

NC: Not covered. NCBC does not cover this company