



EVENT FLASH

Earnings surprise due to higher investment income

Taiba reported a net income of SR68.5mn for 2Q16, increasing 20.2% YoY. This is higher than the NCBC estimates of SR54.2mn. We believe this growth was mainly supported by a higher than expected equity investment income and lower Opex. We believe investment income stood at SR17mn in 2Q16 vs. our estimates of SR10mn. We believe the unclear earnings outlook remains a key concern for Taiba, with the large equity investment adding to this risk. We are Neutral on the stock with a PT of SR42.3.

- **NCBC view on the results:** Taiba reported a better than expected set of 2Q16 results, with net income increasing 20.2% YoY to SR68.5mn. This compares to the NCBC estimates of SR54.2mn. We believe the surprise is attributed to a lower than expected Opex level (SR10mn vs. our estimates of SR12.8mn) and higher income from the company's investment in equities.
- Assuming unchanged margins, we believe sales were SR128mn vs. our estimates of SR120mn and 2Q15 levels of SR115mn. We believe this growth was supported by higher ADR and occupancy, as a result of a higher number of Ramadan season days during 2Q16 vs. 2Q15. There were 25 days of Ramadan in 2Q16 vs. 13 days in 2Q15.
- We believe investment income stood at SR17mn in 2Q16. This compares to our estimates of SR10mn, SR4.5mn in 2Q15 and SR5.3mn in 1Q16. We believe the majority of this investment income constituted of dividends from the company's equity investments.
- Taiba invested SR445.8mn in SABIC and Makkah Construction during 2014, while increasing its investment in SAFCO by SR269mn to SR895mn. We believe the compulsory purchase order (CPO) compensation financed these investments. Investing CPO compensations in equity is exposing the company to a significant risk which may reduce its ability to build new hotels, if the market declines.
- Out of the six hotels receiving CPOs, compensations were received for only Reyadah and Ajwah hotels. We believe this, in addition to the sale of Bakkah ARAC hotel, will limit the potential for sales growth and increase the uncertainty on Taiba's plan to return to pre-CPO profitability levels.
- We are currently Neutral on Taiba with a PT of SR42.3. We believe the unclear outlook on earnings remains a key concern. Moreover, the equity investments of the company add to this risk. Although the company plans to build hotels in Riyadh, Jeddah and Khobar, we believe the revenue potential is significantly lower than the hotels receiving CPOs.

2Q16 Results Summary

SR mn	2Q16A	2Q15A	% YoY	2Q16E	% Var^
Gross income	72	64	12.3	67	6.9
Operating income	62	54	14.3	54	13.4
Net income	69	57	20.2	54	26.3
EPS	0.46	0.38	20.2	0.36	26.3

Source: Company, NCBC Research ^ % Var indicates variance from NCBC estimates

NEUTRAL

Target price 42.3

Current price (SR) 33.3

STOCK DETAILS

52-week range H/L (SR)	44.3/28.8
Market cap (\$ mn)	1,333
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.9)	(2.0)	(24.0)
Rel. to market	(3.0)	(3.8)	5.0

Avg daily turnover (mn)	SR	US\$
3M	5.0	1.3
12M	6.1	1.6

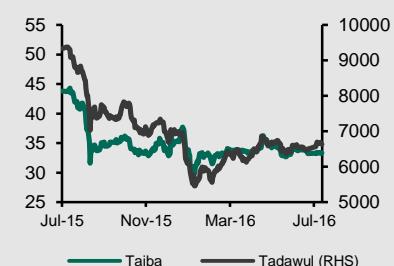
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	11.4	18.0	17.2
P/B (x)	1.3	1.3	1.3
EV/EBITDA (x)	8.8	9.2	8.8
Div Yield (%)	4.8	4.8	4.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the 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

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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