الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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AlJouf Agriculture: Q3-2016 revenue was in-line with our estimate; however, higher than expected production cost led to margin contraction in 3Q2016. SAR 5.8mn increase in selling & marketing expenses due to cost of crops delivery. Due to high sales and harvest season; 2H2016 earnings to witness higher impact of reduction in energy subsidy; "Overweight" recommendation reiterated with lower PT.

Amount in SAR mn; unless specified	Forecasts 3Q-16	Actual 3Q-16	Deviation (%)
Sales revenues	124.50	122.90	- 1.3%
Net profit	42.10	33.72	-19.9%
EPS (SAR)	1.40	1.12	(0.28)

Despite recording sales revenue in-line with our expectation; higher OPEX and higher than expected production cost led to weak performance in 3Q2016: 3Q2016 net profit came below our expectation and showed a deviation of 19.9% from AJC estimates and 18.0% from the market consensus of SAR 41.1mn. AlJouf Agriculture Company posted net income of SAR 33.72mn; indicating a fall of 22.2%YoY and an increase of 51.2%QoQ. We believe that the YoY weak profitability is mainly attributed to i) A drop in sales ii) higher production cost after increase in fuel cost iii) SAR 5.8mn increase in selling & distribution expenses due to carrying the cost of crops delivery. The company's revenues came in-line with our estimates,however the bottom line was severely impacted by higher than expected production cost, leading to weak gross margins. We believe the company witnessed higher energy cost in 3Q2016 compared to 1H2016, since higher operating expenses in 2H-2016 was due to higher sales and harvest season. Thus, the impact of higher fuel cost is likely to continue in 4Q2016.

The company reported a 0.1%YoY decline in revenue for 3Q2016 to SAR 122.9mn, which is in-line with AJC estimate of 124.5mn. Despite the seasonal productivity and a strong demand on some products categories, the sales decline was due to the disposal of some fruit trees because of low productivity.

In 3Q2016, AlJouf Agriculture Company reported a 13.3%YoY decline in gross profit to SAR 49.81mn, well below our estimates of SAR 58.6mn. We believe the deviation is mainly attributed to higher than expected cost of goods sold. The company's gross margin contracted 620 bps to 40.5% due to higher fuel costs in the comparison period last year. Operating expenses increased by 18.9%YoY, largely driven by 29.4%YoY increase in selling and distribution expenses, despite the 30.1%YoY decline in general and administration expenses for 3Q2016. In addition, operating profit margin declined 820 bps to 28.2% due to weak gross profit.

Based on the 9M-2016 performance, we expected the company to maintain recording sales growth in FY2017/18 due to the successful expansions in olive cultivation, which will help the company to lower the future impact of wheat cultivation & green fodder production decline. This is expected to lead overall sales revenue to increase at a CAGR of 2.3%, during FY2015-19. Operating costs are expected to increase at a slower rate than the increase in revenues. We expect that the tendency to sell a large part of the crops before harvest would decrease the future input cost. Furthermore, we believe, the company's plans to increase efficiency, will be a key factor in countering the current adverse impact of the rise in energy prices.

We reiterate our "Overweight" recommendation on AlJouf Agriculture with a lower PT of SAR 33.80/share indicating a potential upside of 33.0%: AlJouf Agriculture Co. is expected to post SAR 98.1mn in net income (3.27 EPS) for 2016, recording an increase of 7.7%YoY despite the impact of Increase in energy and water prices. Thus, we maintain our '**Overweight**' recommendation for the stock with a target price at SAR 33.80/share; indicating a potential upside of 33.0% over current market price of SAR 25.40/share (as of 20th Oct 2016). The company is trading at a forward PE and PB of 7.8x and 0.8x respectively based on our 2016 earnings forecast.

We expect the company to maintain its dividend payment at SAR 1.0 DPS (3.4% D/Y) in 2016. At the end of 3Q2016, Aljouf's debt-to-equity ratio stood at 11.3%, with gross debt at around SAR 34.8mn. Going forward, we believe a strong balance sheet and sustainable cash flows would be sufficient for the company to repay existing debt and having the flexibility to increase the dividend payment beyond 2016.

Recommendation	**Overweight**
Current Price* (SAR)	**25.40**
Target Price (SAR)*	**33.80**
Upside / (Downside)	**33.0%**

*prices as of 20th of October 2016

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Revenues	350.3	369.0	377.2	381.1
Growth %	2.7%	5.3%	2.2%	1.0%
Net Income	107.0	91.10	98.12	99.95
Growth %	4.8%	-14.9%	7.7%	1.9%
EPS	3.57	3.04	3.27	3.33

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Gross Margin	43.4%	38.1%	42.4%	42.5%
EBITDA Margin	48.7%	37.0%	39.7%	39.9%
Net Margin	30.5%	24.7%	26.0%	26.2%
P/E	11.44x	10.98x	7.77x	7.62x
P/B	1.57x	1.19x	0.84x	0.78x
EV/EBITDA (x)	7.21x	7.51x	4.99x	4.66x
ROE	14.5%	11.3%	11.2%	10.6%
ROA	12.4%	9.7%	9.9%	9.6%
Dividend Yield	2.4%	3.0%	3.9%	3.9%

Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Fitaihi Holding Group Company	14.0%
Riyad M. A. Al Humaidan	12.85%
Public	73.15%

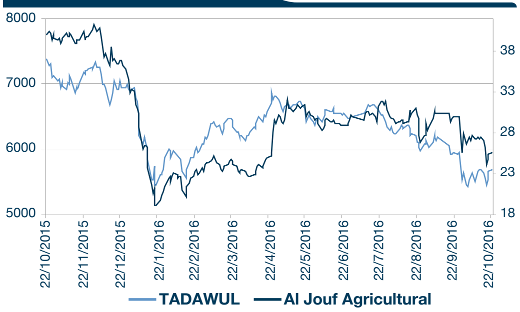
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(mn)	762.0
YTD %	-2.8%
52 Week (High)	41.60
52 Week (Low)	18.60
Shares Outstanding (mn)	30.0

Source: Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer