

TAIBA



EVENT FLASH

Strong operations offset by lower investment income

Taiba reported a weak set of 4Q16 results. Net income declined 27.2% YoY, to SR55mn. This compares to the NCBC estimates of SR78.8mn. With all other profit lines recording YoY growth, we believe the decline in earnings is attributed mainly to lower income from equity investments at SR16mn vs. our estimates of SR44mn. We believe the large equity investments are a key risk for the company. We are Neutral on the stock with a PT of SR42.3.

- **NCBC view on the results:** Taiba reported a weak set of 4Q16 results. Net income declined 27.2% YoY, to SR55mn. This compares to the NCBC estimates of SR78.8mn. The performance of the core operations of Taiba remains positive, with revenues increasing 3.7% YoY to SR110mn and margins coming significantly above our estimates. However, a lower income from equity investments led to the YoY decline and variance in earnings.
- Sales of Taiba stood at SR110mn in 4Q16, increasing 3.7% YoY and coming in-line with our estimates. We believe this growth was supported by higher ADR and occupancy, as a result of the Umrah season. Moreover, Gross and EBIT margins came +260 bps and +442 bps higher than expected. EBIT margins expanded 14bps YoY to 44.5%, leading to a higher growth of 4.1% YoY in EBIT to SR49mn.
- We believe other/investment income stood at SR16mn in 4Q16. This compares to our estimates of SR44mn, SR34mn in 4Q15 and SR10.1mn in 3Q16. We believe the majority of this investment income constituted of dividends from the company's equity investments. Moreover, we believe the deviation from our estimates is due to the timing of dividend distributions.
- 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.
- 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.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var^
Sales	110	106	3.7	109	0.7
Gross income	61	60	2.0	58	5.6
Gross margin (%)	55.2%	56.2%	(0.92)	52.6%	2.60
Operating income	49	47	4.1	44	11.8
Operating margin (%)	44.5%	44.4%	0.14	40.1%	4.42
Net income	55	75	(27.2)	79	(30.2)
Net margin (%)	49.9%	71.1%	NM	72.0%	NM
EPS	0.37	0.50	(27.2)	0.53	(30.2)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC estimates
Please refer to the last page for important disclaimer

NEUTRAL

Target price (SR) 42.3

Current price (SR) 39.0

STOCK DETAILS

M52-week range H/L (SR)	41/29
Market cap (\$mn)	1,560
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.0	18.2	32.2
Rel. to market	5.0	(7.3)	8.2

Avg. daily turnover (mn)	SR	US\$
3M	4.3	1.1
12M	4.6	1.2

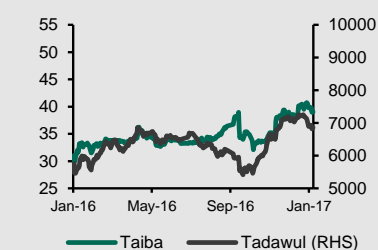
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	13.4	21.5	20.6
P/B (x)	1.5	1.5	1.5
EV/EBITDA (x)	12.0	11.9	11.4
Div Yield (%)	4.1	4.1	4.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

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

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

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.