

AL AKARIA



EVENT FLASH

In-line results, reflecting earnings stability of Al Akaria

Al Akaria reported an in-line set of results, with net income declining 37.4% to SR38.4mn. Adjusting for one-offs in 3Q14, net income is up 10% YoY. We believe the adjusted net income growth may be attributed to improved rental revenues, margins and other income.

- **NCBC view on results:** Al Akaria reported a net income of SR38.4mn for 3Q15, decreasing 37% YoY. This is in-line with the NCBC and consensus estimates of SR39mn. On an adjusted basis, net income increased 10% YoY. The gross and operating profits increased 6% YoY, driven by higher revenues from increased rental income. We believe this, along with improved other income, supported the adjusted net income growth.
- Sales increased by 4.1% YoY to SR70.9mn, in-line with our estimates of SR71.7mn. We believe it came from higher rental income from increased rental prices and occupancy. This is the highest 3Q growth in sales since 2013. We expect a sales growth of 5.3% in 2015E, with a CAGR growth of 6.3% till 2017E.
- Gross and operating margins expanded 120-170 bps YoY to 70.6% and 62.6%, respectively. These are the highest gross margins (excl. land sales) since 4Q13. We believe it was driven by an increase in rental prices and operating efficiencies. We estimate gross margins for the year to stand at 71%, in-line with the historical average.
- We believe that the decision of the Saudi Council of Ministers to implement fees on white land will negatively impact Al Akaria considering that the company will soon have a land bank of 20.6mn sqm, if the recently announced land purchase of 7mn sqm is accounted for. However, the impact of this regulation will depend on the Ministry of Housing's definition of white land and time frame for implementation.
- We are currently Neutral on the stock with a PT of SR39.9. We believe the company's focus on diversifying its portfolio from office and commercial to residential and hospitality segments will help reduce concentration risk.

3Q15 Results Summary

SR mn	3Q15A	3Q14A	% YoY	3Q15E	% Var^
Sales	70.9	68.1	4.1	71.7	(1.2)
Gross profit	50.1	46.9	6.7	49.0	2.2
Margin(%)	70.6	68.9	1.7	68.3	2.3
Operating profit	44.4	41.8	6.2	43.1	2.9
Margin(%)	62.6	61.4	1.2	60.1	2.5
Net profit	38.4	61.3	(37.4)	39.2	(2.1)
EPS (SR)	0.32	0.51	(37.4)	0.33	(2.1)
Margin(%)	54.1	90.0	(35.9)	54.6	(0.5)
Adj. Net profit	38.4	34.9	9.9	38.4	(2.1)

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

Please refer to the last page for important disclaimer

NEUTRAL

Target price (SR) 39.9

Current price (SR) 24.0

STOCK DETAILS

M52-week range H/L (SR)	46.9/21.1
Market cap (\$ mn)	766
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.2)	(28.1)	(40.1)
Rel. to market	(2.6)	(10.1)	(20.8)

Avg daily turnover (mn)	SR	US\$
3M	23.2	6.2
12M	16.0	4.3

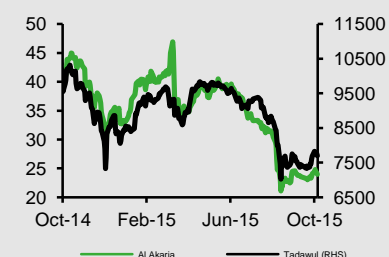
Reuters code	4020.SE
Bloomberg code	SRECO AB
	www.al-arkia.com

VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	10.4	15.0	13.7
P/B (x)	0.8	0.8	0.8
EV/EBITDA (x)	3.1	3.9	3.5
Div Yield (%)	4.2	4.2	4.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Corporate websitewww.ncbc.com**NCBC Investment Ratings**

OVERWEIGHT:	Target price represents an in 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

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