



EVENT FLASH

Strong results on margin expansions

Al Hokair reported better than expected set of CY1Q17 results, with a net income of SR79.4mn. This compares to the NCBC estimates of SR54.9mn. The strong set of results, despite decline in revenue, is mainly due to strong growth in gross margins. We believe this is due to better inventory management. We are Neutral on Al Hokair with a PT of SR37.7.

- NCBC view on the results:** Al Hokair reported a better than expected set of CY1Q17 results, with a net income of SR79.4mn vs. a profit of SR3.2mn in CY1Q16. This is significantly higher than the NCBC estimates of a profit of SR54.9mn and consensus estimate of SR61.7mn. The strong results come despite a decline in revenues, suggesting a strong growth in gross margins due to better inventory management.
- Sales declined -6.3% YoY (flat QoQ) at SR1,420mn. This is in-line with our estimates of SR1,399mn. We believe sales were impacted by the cautious consumer spending on discretionary products, following the allowance cuts. According to the data published in February, the PoS total value of transactions increased +6.1% YoY. This compares to a historical average growth rate of +16.2% YoY between 2012 and 2015.
- Gross margins of Al Hokair expanded +737bps YoY (+128bps QoQ) to 23.2%, exceeding our estimates of 21.3%. We believe the strong expansion in margins is due to lower provisions on inventory. Al Hokair's management was in negotiations with its suppliers to lower its upfront purchase of inventory, as demand for discretionary products remained weak.
- Yesterday, a Royal Decree was announced regarding returning allowances of governmental employees to their original levels. We believe this will support discretionary spending, specifically on companies selling discretionary products. We previously expected the allowance cuts to lead to a decline of -10% in average salaries and -20% in discretionary spending capacity of individuals. However, the positive impact of this may be slightly negated by the announcement of employing only Saudis at commercial centres which will lead to higher Opex for companies such as Al Hokair.
- We are Neutral on Al Hokair with a PT of SR37.7. Further margin expansions from better inventory management is expected to be a key catalyst going forward. Al Hokair trades at a CY2017E P/E of 16.7x, higher than the retail sector 2017E P/E of 13.8x. The stock has been halted from trading today for not announcing its annual results on time.

CY1Q17 Results Summary

SR mn	CY1Q17A	CY1Q17E	CY1Q16A	CY4Q16A	% YoY	Var*(%)
Revenues	1,420	1,399	1,516**	1,430	(6.3)	1.5
Gross income	328.9	297.7	239.4 **	313.0	37.4	10.5
Gross margin (%)	23.2%	21.3%	15.8%	21.9%	7.37	1.88
EBIT	97.4	79.0	59.4 **	85.0	64.1	23.3
Net income	79.4	54.9	3.2	40.5	NM	44.5
Net margin (%)	5.6%	3.9%	0.2%	2.8%	5.38	1.66
EPS (SR)	0.38	0.26	0.02	0.19	NM	44.5

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts ; **Restated

NEUTRAL

Target price (SR)	37.7
Current price (SR)	29.1
Upside/Downside (%)	29.6

STOCK DETAILS

M52-week range H/L (SR)	53/22
Market cap (\$mn)	1,632
Shares outstanding (mn)	210
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.1)	(0.0)	(0.3)
Rel. to market	(0.1)	(0.0)	(0.4)

Avg daily turnover (mn)	SR	US\$
3M	12.7	3.4
12M	33.9	9.1

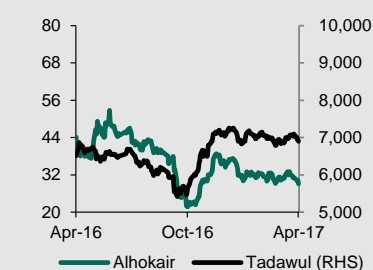
Reuters code	4240.SE
Bloomberg code	ALHOKAIR AB
	www.fawazalhokair.com

VALUATION MULTIPLES

	FY16A	FY17E	FY18E
P/E (x)	9.9	16.0	16.7
P/B (x)	2.3	2.0	1.8
EV/EBITDA (x)	7.3	8.1	8.5
Div Yield (%)	0.0	0.0	0.0

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

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