

## TAIBA



## EVENT FLASH

## Earnings surprise from higher investment income

Taiba reported a net income of SR102mn in 3Q15, declining 88% YoY. However, adjusted earnings increased 15% YoY. Although net income was higher than our expectations of SR85mn, all other profit lines came 11-13% below estimates. Accordingly, we believe the earnings surprise may be attributed to a higher than expected income from equity investments and lower financing expenses. We believe the unclear outlook on earnings remains a key concern for Taiba. Moreover, the large equity investments of the company are a key risk. We are Neutral on the company with a PT of SR42.3.

- NCBC view on results:** Taiba reported a better than expected set of results, with a net income of SR102mn vs. the NCBC estimates of SR85mn. Earnings declined 87.5% YoY, however it increased 15% YoY when adjusting for one-offs from compulsory purchase orders (CPOs). We believe the earnings surprise is attributed to higher income from investments in equities, provided other profit lines were 11-13% below expectations.
- We believe sales may have been as low as SR130mn vs. our estimates of SR156mn and SR157mn in 3Q14. We believe this came from a higher than expected negative impact of hotels removed through CPO's. Out of the six hotels receiving CPOs, compensations were received for Reyadah and Ajwah hotels. The remaining hotels are expected to halt operations soon. We believe this, in addition to the sale of Bakkah ARAC hotel impacted sales, increasing the ambiguity on Taiba's plan to return to pre-CPO EBIT levels.
- We expected investment income to be SR13mn and believe it may have been as high as SR41mn in 3Q15. This compares to SR4.5mn in 2Q15. We believe the majority of this investment income constituted of dividends from equity investments made by the company in 2014.
- Taiba invested SR445.8mn in SABIC and Makkah Construction during 2014, in addition to increasing its investment in SAFCO by SR269mn to SR895mn. We believe the CPO compensations 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 for Taiba. Moreover, the equity investments of the company increase the 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.

## 3Q15 Results Summary

SR mn	3Q15A	3Q14A	% YoY	3Q15E	% Var <sup>^</sup>
Gross income	82.9	95.1	(12.9)	93.9	(11.8)
Operating income	71.2	86.9	(18.1)	82.2	(13.4)
Net income	102.1	817.2	(87.5)	85.3	19.8
EPS	0.68	5.45	(87.5)	0.57	19.8

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC estimates

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## NEUTRAL

**Target price (SR)** 42.3

**Current price (SR)** 35.6

## STOCK DETAILS

M52-week range H/L (SR)	51.5/30.8
Market cap (\$ mn)	1,424
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.1	(18.5)	(11.9)
Rel. to market	0.8	(0.6)	7.5

Avg daily turnover (mn)	SR	US\$
3M	9.3	2.5
12M	37.6	10.0

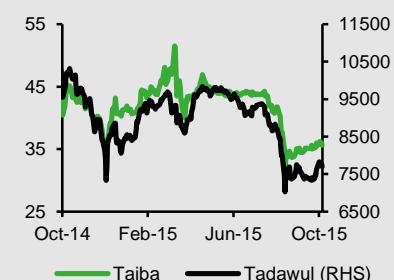
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	<a href="http://www.taiba.com.sa">www.taiba.com.sa</a>

## VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	4.4	14.2	22.4
P/B (x)	1.3	1.3	1.3
EV/EBITDA (x)	10.5	9.8	10.6
Div Yield (%)	8.7	4.5	4.5

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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18 OCTOBER 2015

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- 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

**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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