

## AL AKARIA



## EVENT FLASH

## Delivery of KEC villas supports earnings

Al Akaria reported a good set of 4Q13 results with a net income growth of 8.9% to SR61.8mn, significantly higher than our and consensus estimates. We attribute this to higher than expected delivery of villas in the Knowledge Economic City (60 vs. our estimate of 20). Due to the reclassification of the project in the company's financials, the gains from the delivery were reported below the operating line, which explains the weak top-line performance.

- **Good profit growth, but top line distorted by reclassifications:** Net income for 4Q13 came in at SR61.8mn, 36% higher than our estimate and 47% higher than consensus. The reported net income was 8.9% higher on a YoY basis and 70.7% on a QoQ basis. We note that the reclassification of the KEC villa project meant that the income was recorded below the operating line. .
- **Delivery of KEC villas supported the strong net income growth:** We attribute the higher than expected net income to higher number of villas delivered. We believe Akaria delivered around 60 villas out of the 200 villas (30% of total) in the Knowledge Economic City, compared to our estimate of 20 villas (10% of total). We believe the majority of the remaining 70% will be delivered in 2014E.
- We believe the company capitalised the SR34mn penalty fee paid by the contractor for the cancellation of the contract to build the Diplomatic Quarter compound (announced on 12 January 2014) as deferred revenue. The project is 78% complete and the company is looking to assign the project to another contractor. This fee will be reported in the income statement once the project is fully completed.
- We are currently Neutral on Al Akaria with a PT of SR34.1. Continued delivery of KEC villas will be a key positive catalyst for the stock in 2014.

## NEUTRAL

**Target price (SR)** 34.1

**Current price (SR)** 34.2

## STOCK DETAILS

M52-week range H/L (SR)	36.1/27.8
Market cap (\$mn)	1,078
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.3)	6.3	5.6
Rel. to market	(4.2)	(2.9)	(16.0)

Avg daily turnover (mn)	SR	US\$
3M	22.7	6.0
12M	21.4	5.7

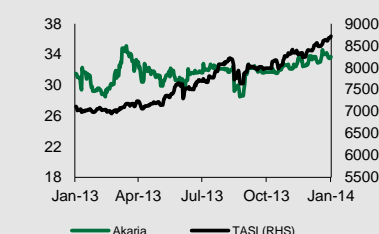
Reuters code	4020.SE
Bloomberg code	SRECO AB
	<a href="http://www.al-akaria.com">www.al-akaria.com</a>

## VALUATION MULTIPLES

	12A	13E	14E
Reported P/E (x)	22.0	27.6	16.5
P/BV (x)	1.2	1.2	1.2
EV/EBITDA (x)	10.2	9.9	7.0
Div Yield (%)	3.0	3.0	3.0

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Bloomberg

## 4Q13 Results Summary

SR mn	4Q13A	4Q12A	% Y o Y	4Q13E	% Var <sup>^</sup>
Sales	65.8	62.9	4.6	95.4	(31.1)
Gross profit	47.4	43.9	8.1	66.8	(29.0)
Operating profit	42.1	40.2	4.8	60.1	(30.0)
Net income	61.8	56.8	8.9	45.6	35.6
EPS (SR)	0.52	0.47	8.9	0.38	35.6

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

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# DAR AL ARKAN



## EVENT FLASH

## Land sales and financing costs pressure earnings

Dar Al Arkan reported a weak set of 4Q13 results. Although the 4Q13 net income increased 8.9%, sales declined 21% YoY. In addition, the reported net income was 38% below NCBC estimate and consensus. We believe that the disappointing net income compared to our estimates is due to lower than expected land sales and higher than expected financing expenses. We also believe that gross margins for the company were lower than expected driven by an unfavourable change in the revenue mix.

- **Sales** for 4Q13 came in at SR693mn, down 21% YoY and lower than NCBC estimate of SR806mn.
- **Gross profit** for 4Q13 came in at SR263mn, down 15% YoY and lower than the NCBC estimate of SR342mn.
- **Operating income** for 4Q13 came in at SR221mn, decreasing 9% YoY and was lower than the NCBC estimate of SR290mn.
- **Net income** for 4Q13 came in at SR157mn, increasing 9% YoY. This is lower than the NCBC estimate of SR255mn. 4Q13 earnings were down 14% on a QoQ basis.
- **NCBC View on Results:** Dar Al Arkan reported a weak set of 4Q13 results, with gross and operating lines down 9% and 15% YoY, respectively, although net income is up 9% due to higher other income compared to 4Q12. We believe that lower land sales, change in the revenue mix and higher than expected financing expenses led to the margin pressures and net income being 38.5% lower than our estimate.
- Net income for the company came in 38.5% lower than our estimates, while sales and gross profits were 23.2% and 23.8% lower than expected respectively. This compares to a miss of 14.0% on the top line. This suggests significantly lower than expected gross margins; based on our calculations gross margins were 38% in 4Q13, lower than our estimate of 42%. We believe this is mainly due to unfavourable revenue mix as the share of rental income increased compared to land sales, which offer higher margins. .
- We are currently OW on the stock with a price target of SR11.7. The key positive for the company remains the large land bank, and increasing revenue from leased properties. A continued relative increase in rental income compared to land sales will cause gross margin pressures going forward.

### 4Q13 Results Summary

SR mn	4Q13A	4Q12A	% Y o Y	4Q13E	% Var^
Sales	693	877	(21.0)	806	(14.0)
Gross profit	263	309	(14.9)	342	(23.2)
Operating profit	221	242	(8.7)	290	(23.8)
Net income	157	144	8.9	255	(38.5)
EPS (SR)	0.15	0.13	8.9	0.24	(38.5)

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

## OVERWEIGHT

<b>Target price (SR)</b>	<b>11.7</b>
<b>Current price (SR)</b>	<b>10.2</b>

### STOCK DETAILS

M52-week range H/L (SR)	11.0/8.0
Market cap (\$mn)	2,966
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	9.6	6.2	19.1
Rel. to market	5.7	(3.0)	(2.5)

Avg daily turnover (mn)	SR	US\$
3M	104.9	28.0
12M	185.5	49.5

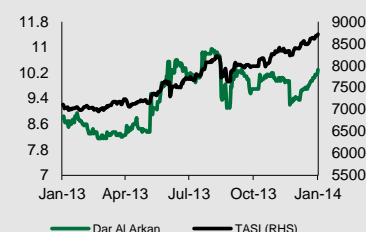
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	<a href="http://www.alarkan.com">www.alarkan.com</a>

### VALUATION MULTIPLES

	12A	13E	14E
Reported P/E (x)	11.1	14.1	13.7
P/B (x)	0.69	0.67	0.64
EV/EBITDA (x)	13.3	15.4	14.7
Div Yield (%)	-	-	-

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Bloomberg

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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

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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