

We remain “Neutral” on Jabal Omar with a PT of SAR 50.0 per share. Recent bad debt provisions are a concern, setting a level of uncertainty to earnings outlook. Our assumptions do not discount for the recent BOD recommendation to turn Jabal Omar into a holding company and expand investments to nearby areas.

Q1-1437 earnings record a SAR 75.5mn loss: Revenues ended the quarter at SAR 104.5mn compared to SAR 239.1mn last year, a 56.2% decline YoY. The decline in revenues is mainly due to the change in the quarter's revenue mix, auctioned unit sales taking place last year accounted for the difference in revenues. Revenues from hotels and commercial segment grew 105.6% and 12.8% respectively YoY. Net income for the quarter recorded a SAR 75.5mn loss. The recorded loss was mainly due to an increase in cost of revenues and SG&A, as well as a bad debt provision related to commercial area sales equivalent to SAR 8.08mn. Q1-2016/1437 revenues breakdown were relatively consistent with the previous quarter, auctioned unit sales made 10.8% of revenues, while commercial and hospitality segments contributed 34.2% and 54.9% respectively.

Reiterated Negative working capital note by auditors, default on the current portion of Ministry of Finance (MOF) loan, we expect Jabal Omar to resolve both matters by next quarter: In their latest announcement, Jabal Omar disclosed a recurring note from its auditor (appeared in the last three quarters) indicating that current liabilities exceeded current assets for the period. Negative working capital arose mainly from the current portion of the ministry of finance loan, standing at SAR 650mn. The company arranged a 12 year SAR 8bn loan with two local banks in an effort to meet short term obligations, and finance on-going and remaining phases. According to the company, the loan will be used to pay off the outstanding current portion of long term debt. Jabal Omar expects to reach an agreement with the ministry of finance to extend the SAR 3bn loan; our assumptions include a 3 year extension.

Progress in the hospitality segment, albeit delays. Hotel rooms currently stand at 2010 rooms and suites in 4 operating hotels, compared to 484 suites at the start of last year: Notable progress in the hospitality segment, level of delays unclear given the absence of a clear post delays project timeline. We should also note that the company started leasing in the S2 commercial area, raising potential revenues from commercial operations for the year. Jabal Omar announced earlier that the company is committed to auctioning all 204 residential units in an effort to fund on-going phases of the project. 43 units (out of a total of 86 from phase 1) have been auctioned on two occasions, 20 units in the first and 23 in the second, and have grossed SAR 1134.4mn in revenues in total, averaging 26.4mn per unit. It is unclear how the company will approach the rest of the auctions as no announcement or timeline has been declared for the residential units.

Earnings outlook to remain volatile with low visibility going forward. Recent bad debt provisions are a concern, we remain “Neutral” on Jabal Omar with a PT of SAR 50.0 per share: Jabal Omar had SAR 8mn in bad debt provisions for its most recent quarter, totalling SAR 114.3mn for the previous three quarters; according to the company, the provisions are related to commercial area revenues, further details were not disclosed. We maintain our “Neutral” recommendation with a lower PT of SAR 50.0 based on revised earnings outlook and lower visibility going forward. Our assumptions do not discount for the recent BOD recommendation to turn Jabal Omar into a holding company and expand investments to nearby areas.

Recommendation	'Neutral'
Current Price* (SAR)	45.7
Target Price (SAR)	50.0
Upside / (Downside)	9.4%

*Prices as of 15th of February 2016

Price Performance



Key Financials

SARmn (unless specified)	FY14	FY15	FY16E
Revenues	731.1	779.4	1,103.8*
Growth %	1503%	6.6%	41.6%
Net Income	421.9	91.9	407.4
Growth %	-	-78.2%	53%
EPS	0.45	0.01	0.44

Source: Company reports, Aljazira Capital

*Assuming units auction in FY2016

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E
Gross Margin	71.8%	55.7%	64%
Net Margin	57.7%	11.8%	36.9%
P/E	104.4x	561x	102.7x
P/B	5.2x	5.5x	4.2x
EV/EBITDA (x)	122.9	219.7	80
ROE	4.5%	1%	4.1%
ROA	2.27%	0.46%	1.53%

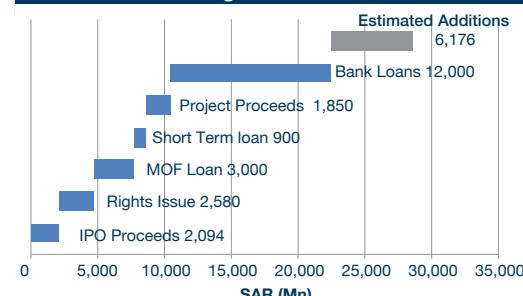
Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
GOSI	9.31%
Makkah Construction and Development	10.19%
Jabal Omar Founders	16.6%

Source: Company reports, Aljazira Capital

Jabal Omar is expected to add SAR 6bn from different funding sources.



Source: Company reports, Aljazira Capital

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- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Rating Terminology

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