

DAR AL ARKAN

الأهلي كابيتال
NCB Capital

EVENT FLASH

Strong results supported by higher land sales

Dar Al Arkan reported a strong set of 3Q16 results. Net income increased 21.3% YoY to SR112.5mn, higher than the NCBC estimates of SR54.6mn. This is the highest 3Q net income since 3Q13. We believe the deviation is mainly attributed to higher than expected land sales. We are Under Review of the stock. Dar Al Arkan trades at a 2016E P/B of 0.3 vs. 5-year historic levels of 0.6x.

- **NCBC view on the results:** Dar Al Arkan reported a strong set of 3Q16 results, with net income increasing 21.3% YoY, to SR112.5mn. This is the highest 3Q net income since 3Q13 and is significantly higher than the NCBC estimates of SR54.6mn. We believe the strong results and deviation are attributed to strong land sales and lower than expected Opex.
- Historically, land sales made-up 90-95% of total sales, with the remaining mainly coming from rental income. According to our calculation, we believe land sales came-in at SR580mn vs. our estimates of SR390mn. This would be the highest land sales level since 1Q15, and represents an increase of 14.6% YoY. The Ministry of Justice index shows the real estate transaction values in Saudi have declined c.25% YoY during 3Q16 and 24% YoY during the past year (1437H). Accordingly, we believe Dar Al Arkan managed to outperform by offering lower margins.
- Gross margins stood at 39.7%, contracting from 44.8% in 3Q15. This is the lowest level since 3Q14. We believe selling at lower margins, has supported overall land sale levels. Moreover, Opex stood at SR43.3mn vs. our estimates of SR52mn and SR60mn in 3Q15. We believe this is positive, and led to a limited margin contraction of 99bps on the EBIT level to 32.7%.
- In June 2016, the Council of Ministers approved the white land fees legislation. Initially, fees will be payable on white land in Riyadh, Jeddah and Dammam, at a rate of 2.5% per annum. These fees will be used to fund the development of the Ministry of Housing projects. We believe these fees will lead to a continued weakness in the real estate market. According to our assumption, we expect the fee on Dar Al Arkan's 38.4mn sqm land bank to be between SR137mn–SR160mn (which is 38%–45% of 2015 net income).
- We are currently Under Review on the stock. Although execution of projects is a positive catalyst, fees on white land and the overall slowdown in real estate transaction values remain key risks. Dar Al Arkan currently trades at a 2016E P/B of 0.3x vs. historic levels of 0.6x.

3Q16 Results Summary

SR mn	3Q16A	3Q15A	% YoY	3Q16E	% Var [^]
Sales	617.6	540.9	14.2	427.3	44.5
Gross income	245.2	242.2	1.3	192.3	27.5
Gross margin (%)	39.7%	44.8%	(5.06)	45.0%	(5.30)
Operating income	201.9	182.2	10.8	140.3	43.9
Net income	112.5	92.7	21.3	54.6	105.9
Net margin (%)	18.2%	17.1%	1.07	12.8%	5.43
EPS	0.10	0.09	21.3	0.05	105.9

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

Please refer to the last page for important disclaimer

UNDER REVIEW

Target price (SR)	NA
Current price (SR)	4.7

STOCK DETAILS

M52-week range H/L (SR)	7/4
Market cap (\$mn)	1,351
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(11.3)	(31.0)	(32.5)
Rel. to market	(6.7)	(16.3)	(6.0)

Avg. daily turnover (mn)	SR	US\$
3M	144.7	38.6
12M	155.5	41.5

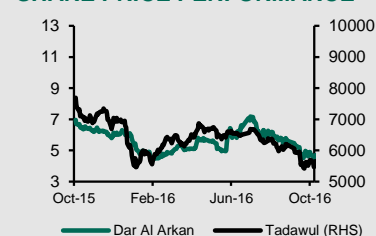
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	www.alarkan.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	14.1	22.4	17.4
P/B (x)	0.3	0.3	0.3
EV/EBITDA (x)	14.0	17.3	17.2
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

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.