

April 18, 2016

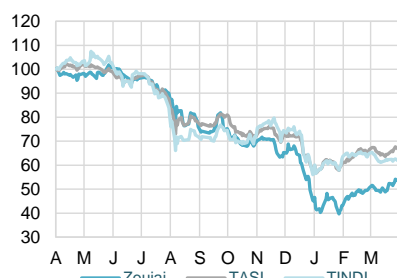
Expected Total Return

Price as of Apr-17, 2016	SAR 21.80
Upside to Target Price	5.5%
Expected Dividend Yield	6.9%
Expected Total Return	12.4%

Market Data

52-Week H/L	SAR 44.00/15.85
Market Capitalization	SAR 654 mln
Enterprise Value	SAR 682 mln
Shares Outstanding	30.0 mln
Free Float	73.8%
12-Month ADTV ('000's)	297.1
TASI Weight	0.07%
Reuters Code	2150.SE
Bloomberg Symbol	Zoujaj AB

1-Year Price Performance



Source: Bloomberg

Associates Disappoint

National Company for Glass Industries (Zoujaj) announced preliminary 1Q2016 results on April 13th with an EPS of SAR 0.42 (-33% Y/Y and +257% Q/Q). Earnings missed our estimate due to associate's underperformance while revenue beat is driven by stable core business. We believe the lower construction activity in UAE and KSA would have resulted in associate income being weaker. The core business is stable due to higher bottling volumes despite weakening margins. Valuation remains in a close range to peers with 2016 P/E of 11.6x versus Gulf Glass at 12.2x and Majan Glass at 12.4x. We retain our target price of SAR 23.00 but revise to Hold rating from Buy on valuation concerns and limited upside of +6%.

Bottling business performs well

Revenue beat estimates by +10% to SAR 33.7 million versus our estimate of SAR 30.4 million, growing by +21% Y/Y and +3% Q/Q. We believe the beat is driven by a blend of higher volumes and stable realization. We expect volume sales in excess of 24 MT of glass containers during 1Q2016. The new capacity addition in 4Q provides a boost over long term.

Fuel cost and associate income drags bottom lime

Zoujaj had earlier reported a fuel cost impact of SAR 3.5 million, but higher utilization rate of 86% minimized such effect. Gross profit increased by +7% Y/Y and +14% Q/Q to SAR 11.4 million. Gross margins though improved sequentially but fell to 34% in 1Q2016 from 38% in 1Q2015. Operating profit followed suit, with SAR 7.8 million (+3% Y/Y and +53% Q/Q), beating estimates of SAR 6.9 million. Operating margins dipped by 420 bps to 23% in 1Q2016 from 27% in 1Q2015.

Associates fail to deliver

Associates continue to disappoint and currently expect SAR 5 million versus SAR 8 million estimated earlier. We believe a weaker construction outlook and falling demand for float glass in the UAE and KSA has led to a drop in associate income since 2Q2015. As a result, earnings of SAR 12.5 million missed expectations of SAR 16.2 million, margins dropped to 37% in 1Q2016 from 67% in 1Q2015.

Valuations tight, revise to Hold

Zoujaj has declined by -17% on a YTD basis but has rallied by +34% since its lows in February. We believe the current rally has limited any further upside as valuations hold tight versus its 2016-18E earnings growth. The stock offers a +12% total return, hence revise to Hold but dividend yield of 6.9% is still attractive. Our target price remains unchanged at SAR 23.00.

	Zoujaj	TASI	TINDI
Apr-17, 2016	21.80	6,412	5,465
Total Change			
6-months	(23.0%)	(7.3%)	(13.5%)
1-Year	(44.7%)	(30.7%)	(36.8%)
2-Year	(31.1%)	(32.7%)	(32.9%)

	1Q2016 (SAR mln)	Actual	RC Forecast
Revenue		33.7	30.4
Gross Profit		11.4	12.5
Operating Income		7.8	6.9
Net Income		12.5	16.2
EPS (SAR)		0.42	0.53

	Key Financials			
FY December 31 (SAR mln)	2015A	2016E	2017E	2018E
Revenue	103	108	112	118
EBITDA	30	32	34	38
Net Profit	45	57	58	62
EPS (SAR)	1.50	1.88	1.93	2.07
DPS (SAR)	1.50	1.50	1.50	1.75
BVPS (SAR)	13.21	14.12	15.38	16.51
ROAA	6%	8%	8%	8%
ROAE	8%	9%	9%	9%
P / E	14.5x	11.6x	11.3x	10.5x
P / B	1.6x	1.5x	1.4x	1.3x
P / S	6.3x	6.1x	5.8x	5.5x
EV/ EBITDA	22.7x	21.3x	20.1x	17.9x
EV/ Sales	6.6x	6.3x	6.1x	5.8x

Stock Rating

Strong Buy	Buy	Hold	Sell	Not Rated
Expected Total Return \geq 25%	Expected Total Return \geq 15%	Expected Total Return $<$ 15%	Overvalued	Under Review/ Restricted

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