



EVENT FLASH

Weak results on higher than expected Opex

Taiba reported a weak set of 1Q16 results with net income declining 75.5% YoY to SR49.5mn. Adjusting for one-offs, net income is down 18% YoY. This compares to the NCBC estimates of SR49.5mn. With gross profits being in-line, we believe the deviation is mainly attributed to higher than expected Opex and lower investment income. We believe the unclear earnings outlook remains a concern for Taiba. Moreover, the equity investment book is a key risk. We are Neutral on the stock with a PT of SR42.3.

- **NCBC view on results:** Taiba reported a weak set of results, with a net income of SR49.5mn vs. the NCBC estimates of SR58mn. This is the lowest levels since 4Q12. Earnings declined 75.5% YoY. Adjusting for one-offs from compulsory purchase orders (CPOs), net income declined around 18% YoY. We believe this weakness is attributed to higher Opex and lower than expected income from the equity investments, provided gross profit was in-line with our expectations.
- Assuming unchanged margins, we believe sales were SR113mn vs. our estimates and 1Q15 levels of SR118mn. We believe this decline came as a result of 1) hotels removed through CPO's and 2) sale of Bakkah ARAC Hotel. Out of the six hotels receiving CPOs, compensations were received for only Reyadah and Ajwah hotels. We believe this, in addition to the sale of Bakkah ARAC hotel, impacted sales and increased the un-clarity on Taiba's plan to return to pre-CPO EBIT levels.
- We believe Opex stood at SR17mn vs. our estimates of SR13mn. Moreover, we believe investment income stood at SR3mn vs. our estimates of SR5mn. This compares to SR34mn in 4Q15 and 3Q15. We believe these factors were the main reasons for the deviation in earnings.
- Taiba invested SR445.8mn in SABIC and Makkah Construction during 2014, while increasing its investment in SAFCO by SR269mn to SR895mn. Investments in these companies stand at SR1.09bn. 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 weakness continues.
- We are currently Neutral on Taiba with a PT of SR42.3. We believe the unclear outlook remains a key concern. 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.

1Q16 Results Summary

SR mn	1Q16A	1Q15A	% YoY	1Q16E	% Var^
Gross income	71	74	(4.6)	73	(4.0)
Operating income	53	62	(14.6)	61	(12.4)
Net income	50	202	(75.5)	58	(14.2)
EPS	0.33	1.35	(75.5)	0.38	(14.2)

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

NEUTRAL

Target price (SR) 42.3

Current price (SR) 34.0

STOCK DETAILS

52-week range H/L (SR)	46.9/28.8
Market cap (\$ mn)	1,360
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.5	13.7	(21.6)
Rel. to market	0.0	(5.6)	10.4

Avg daily turnover (mn)	SR	US\$
3M	4.5	1.2
12M	11.5	3.1

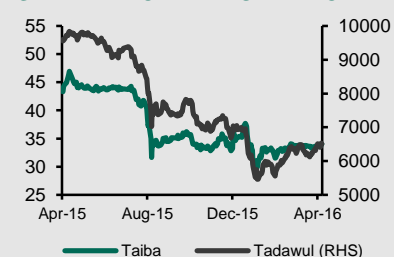
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	11.7	18.3	17.6
P/B (x)	1.3	1.3	1.3
EV/EBITDA (x)	9.2	9.6	9.2
Div Yield (%)	4.7	4.7	4.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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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

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