



EVENT FLASH

Strong results due to capitalising financing expenses

Al Akaria reported a strong set of 1Q17 results. Net income increased 102% YoY, to SR54mn. This is significantly higher than the NCBC estimates of SR22.2mn. With revenues and all profit lines being broadly in-line, we believe the deviation in earnings came from lower financing expenses and higher investment income. We believe any announcement regarding the development of Al Waseel project is a positive catalyst for the company. However, potential fees on white lands remain a key risk.

- **NCBC view on results:** Al Akaria announced a strong set of 1Q17 results, with net income increasing 102% YoY to SR54mn. This is significantly higher than the NCBC estimates of SR22.2mn. With revenues and all profit lines being broadly in-line, we believe the deviation in earnings came from 1) lower financing expenses due to the capitalization of costs on projects under construction and 2) higher investment income.
- Revenues increased 8.2% to SR78.6mn, coming in-line with our estimates of SR78.4mn. We believe this YoY increase is a result of higher rental prices and occupancy at the Diplomatic Quarter. However, due to a contraction of 374bps in gross margins to 66.6%, growth on the gross profit level was limited to 2.5% YoY to SR52.4mn.
- EBIT declined 4.1% YoY to SR40.4mn. We believe this decline is due to an increase in Opex from SR9mn in 1Q16 to SR12mn in 1Q17. However, net income increased 102% YoY to SR54mn. We believe this is due to the capitalisation of SR22mn of financing expenses for projects under construction. We expected financing expenses of SR30mn in 1Q17, in-line with 4Q16 levels. Moreover, we believe this growth is attributed to higher investment income. We expected an investment income of SR11.5mn and believe it may have been as high at SR21.6mn.
- The Council of Ministers approved the white land fees legislation. Initially, fees will be payable on white land in Riyadh, Jeddah and Dammam. According to our assumption, we expect the fee on Al Akaria's 20.6mn sqm land bank to be between SR15mn–SR21mn (17%–24% of 2015 net income).
- We are Neutral on the stock with a PT of SR39.9. The general stability in the operating activities of Al Akaria is a key positive compared to peers. As financing expense pressures from Al Waseel project ease and the company's projects operate, we believe the earnings outlook for the company will improve. Dividend yield of the company stands at 4.8%, however dividends may be at risk for the next few years due to the projects under construction.

1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var [^]	% QoQ
Revenues	78.6	72.6	8.2	78.4	0.2	(12.2)
Gross income	52.4	50.4**	3.9	54.5	(3.9)	(9.5)
EBIT	40.4	41.4**	(2.4)	44.4	(9.0)	(20.4)**
Net income	54.0	25.6**	111.3	22.3	142.8	122.**
EPS (SR)	0.45	0.21	111.3	0.19	142.8	122.3

Source: Company, NCBC Research, [^] % Var indicates variance from NCBC forecasts; **Restated

NEUTRAL

Target price (SR)	39.9
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Current price (SR)	21.0
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STOCK DETAILS

M52-week range H/L (SR)	27/15
Market cap (\$mn)	670
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.2	(15.1)	10.0
Rel. to market	3.0	(14.6)	5.7

Avg daily turnover (mn)	SR	US\$
3M	10.8	2.9
12M	9.8	2.6

Reuters code	4020.SE
Bloomberg code	SRECO AB
	www.al-akaria.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	29.1	34.8	42.4
P/B (x)	0.7	0.7	0.8
EV/EBITDA (x)	7.2	7.3	7.8
Div Yield (%)	4.8	4.8	4.8

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

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

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