الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Key adjustments in valuation methodology

12-month price target prices of all companies under our coverage are adjusted with our amended valuation methodology. It is worthy to note that the 12-month price targets of few stocks were adjusted recently in investment/event updates of the respective companies. The key amendments in our valuation methodology are given below;

- Upward revision in the company's risk free rate to 3.3% (due to increase in US 10-year bond yield to 2.63%); where, the impact of such revision on valuation is minimal due to CAPM equation.
- We used 5-years monthly beta as compared to previous 2-year weekly beta. The reason of changing our horizon for beta is to reduce the impact of volatility on our valuation.
- In order to reduce the impact of terminal value on overall valuation, we used 10-year explicit cash flows (as compared to our previous practice of considering 4-years cash flow) for DCF based valuation.
- We dropped the idea of blended valuation approach (absolute valuation model + comparative valuation) in the favor of either absolute valuation model (based on cash flows) or relative valuation model; if applicable.

Banks and Financial Services Sector

Q4-2013 earnings estimates – AJC banking universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating*
1120	Al Rajhi	SAR	2,029.8	1.4	18.2%	6.2%	73.7	**Neutral**
1150	Alinma	SAR	273.0	0.2	4.2%	31.5%	14.5	**Neutral**
1140	AlBilad	SAR	176.9	0.4	-10.2%	12.9%	28.3	**Underweight**

Source: Aljazira Capital *Our ratings are based on the closing prices of 25/12/2013

Al Rajhi Bank (Al Rajhi)

Al Rajhi is expected to post a healthy growth in earnings, increasing 6.2% YoY during 4Q2013. The growth is likely to be driven by a 3.2% YoY rise in the special commission income and expectation of lower operating costs. The overall banking income (operating income) in 2013 is likely to remain flat rising a marginal 0.2% YoY and earnings are expected to increase 0.5% YoY. We estimate the yield on average interest earnings assets to continue declining in 2013 on account of high competition in the industry, ample liquidity, and flat interest rate expectations, while the cost of funds is likely to remain higher owing to the change in the bank's deposit mix. In 2013, we expect the bank's loan book to increase 14.9% YoY, while deposits to rise 15.0% YoY.

The bank continues to benefit from its expansive retail foothold, dominant market position, strong fundamentals, and healthy growth potential. However, we maintain our "**Neutral**" stance on the company as we believe the stock is adequately valued.

Alinma Bank (Alinma)

Alinma's earnings are likely to grow at a robust rate of 31.5% YoY during 4Q2013. The growth is expected to be led by 37.4% YoY growth in banking income supported by a strong growth in non-special commission income. During 2013, we estimate the bank's operating income to grow 25.7% YoY, while earnings to increase 36.1% YoY to reach SAR 997.9mn. The bank's cost-to-income ratio is expected to decline to 46.7% in 2013 from 50.7% in 2012, as its operations embark on a more mature phase. During the same period, Alinma's loan book is expected to rise 38.8% YoY and deposits 55.0% YoY.

We maintain our "**Neutral**" rating on the stock as the company's high valuation compared to its peers makes it an unsuitable investment opportunity at present.

Bank AlBilad (AlBilad)

AlBilad's earnings are estimated to increase 12.9% YoY in 4Q2013. The net special commission income is expected to rise 33.2%, while non-special commission income could grow 33.8% YoY during the quarter. During 2013, we expect the bank's operating income to grow 15.3% YoY, supported by 18.7% YoY increase in net special commission income. AlBilad's loan book is likely to increase 34.0% YoY and deposits to expand 25.0% YoY during the same period. Furthermore, during 2013, the bank's NPL ratio is likely to remain high at 3.4% vis-à-vis its peers.

During the quarter, the bank announced the purchase of a building (for bank headquarters in Riyadh), amounting to SAR 410mn funded from its internal sources. We have incorporated this in our forecast but it does not impact valuation.

Despite aggressive expansion plans of the bank, high costs and poor asset quality remain a concern; hence, we maintain our "**Underweight**" rating on AlBilad. Moreover, the run up in share price since the beginning of 2013(up ~59.7%) increases the downside risk.

Petrochemical Sector

Q4-2013 earnings estimates – AJC Petrochemical universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating*
2010	Sabic	SAR	6,521.6	2.2	0.9%	11.8%	123.3	**Overweight**
2020	Safco	SAR	745.6	2.2	1.6%	-35.0%	160.6	**Neutral**
2060	Tasnee	SAR	476.3	0.7	110.4%	96.8%	37.5	**Overweight**
2260	Sahara	SAR	150.4	0.3	1.4%	133.3%	24.0	**Overweight**
2290	Yansab	SAR	598.7	1.1	-30.8%	-6.6%	75.5	**Neutral**
2310	Sipchem	SAR	196.1	0.5	5.9%	24.4%	32.6	**Neutral**
2330	Advanced***	SAR	161.3	0.98	14.4%	37.9%	37.0	**Neutral**
2350	Kayan	SAR	82.6	0.1	90.9%	NM**	16.0	**Neutral**
IQCD	IQ	QAR	1,916.6	3.2	8.3%	7.6%	195.8	**Overweight**

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013 **Not Meaningful *** Actual results announced

Petrochemicals sector

The regional sector is still facing several challenges in the long-run; where, the ongoing development in the shale reservoir across the globe has a significant contribution followed by the sustainability of economic growth in key economies. Moreover, considering the rapid development in the sector's dynamics across the globe; we believe that the regional sector has entered in 'mature growth phase'. We believe the most appropriate strategy to sustain the sector's profitability growth (considering the mentioned industry life cycle) would be horizontal & vertical diversification; where, the vertical diversification (acquiring or establishing of value added capacities and develop technology) in local market will be more beneficial due to tax & cost consideration.

In the shorter run, the sector's growth trajectory is mainly associated with the movement prices of key products and the magnitude of recovery in economies across the globe. Consequently, the performance of facilities having propylene & related derivatives; usually; outperformed the sector in 2013. The best example could be the chronological surge in profitability of Advanced Petrochemical Company and Sahara Petrochemical Company on quarterly basis.

In addition, the lack of clarity on the rise in the feedstock gas prices increased uncertainty on the local market. Based on our understanding, we do not believe that the feedstock gas prices could rise in near to medium term; especially, after the recent developments in shale gas reservoirs and on the Iranian front. In addition, we believe the rise in feedstock gas prices will mainly hurt the profitability of those facilities which used ethane gas cracker to produce the related chemical and derivative. However, we believe there will be no change in the discounts on liquid feedstock any time soon.

Key highlights Q4-2013

- Overall the prices of key products witnessed positive trend; where, the rise in prices of derivatives remained higher than its related feedstock. Like, propylene and polypropylene prices witnessed an increase of 1.8% and 2.1%, respectively, as compared to a rise of 1.2% in the average prices of propane feedstock. Hence, we assume improvement in operating margin (eliminating the impact of any shutdowns).

- TiO2 prices indicated QoQ increase of 2.4% in Q4-2013; first time increase since Q1-2012.

- Fertilizer (urea & ammonia) prices remained on lower levels but indicated QoQ stability.

- **Sipchem and Sahara** signed MoU for a potential merger between the two entities (for more information please refer to our report 'Sipchem & Sahara proposed merger deal'). Furthermore, Sipchem, recently, announced the completion and partially start of operation from its units to produce ethylene vinyl acetate (EVA) and low linear density polyethylene (LDPE); where these facilities are owned by International Polymers Company - IPC (75.0% owned by Sipchem)

Key shutdowns in Q4-2013;

- **Yansab** olefin cracker remained out of operation for around 21 days due to a technical failure in cooling water network. In addition, initially the shutdown was for 12 days but extended for more than 9 days.
- **Industries Qatar's** polyethylene, ammonia, urea and steel complexes are scheduled to remain out of operation for 10, 16, 14 and 50 days, respectively in Q4-2013.
- Production complex of Al Waha Petrochemical Company (a subsidiary of **Sahara**) went out of operation from 24th Dec 2013 for 15 days. Hence, the impact of shutdown will be limited to 6-7 days in Q4-2013.

Upcoming stars

Based on our petrochemical universe, we believe **Sipchem, Sahara and Kayan** are having huge growth potential because these entities are in growth phase (like Kayan started making profits in Q3-2013; whereas, several new projects of Sahara and Sipchem are in pipeline). Moreover, the successful merger between Sipchem & Sahara will further open new the growth opportunities.

Cement Sector

Note: The below expectations does not include the government subsidy of SAR 50/tonne for the imported clinker.

Q4-2013 earnings estimates – AJC cement universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating*
3010	Arabian Cement	SAR	104.13	1.30	518.6%	32.7%	70.7	Overweight
3020	Yamamah Cement	SAR	151.78	0.75	2.5%	-12.8%	73.1	Overweight
3030	Saudi Cement	SAR	239.79	1.57	4.6%	14.5%	113.9	Overweight
3040	Qassim Cement	SAR	127.44	1.42	11.1%	-10.9%	90.3	Neutral
3060	Yanbu Cement	SAR	162.19	1.03	16.2%	-20.3%	79.3	Overweight
3050	Southern Cement**	SAR	251.0	1.79	34.5%	-1.1%	123.6	Overweight
3002	Najran Cement	SAR	15.40	0.09	-42.0%	-73.8%	25.2	Neutral

Source: Aljazira Capital * Our ratings are based on the closing prices of 30/12/2013** Actual results announced

Sector Outlook

We believe that this is a good entry point for the cement sector, since the sector is being affected by external factors, rather than weakness on the fundamental fronts. We believe given the initiative by the government to support the construction activities, the authorities will intervene to facilitate the procedures for solving the shortage of labors during the coming months. The 2014 budget of SAR855bn (USD 228bn) is living example of government's efforts to support the infrastructure and construction. However one impediment to growth in the sector has been the shortage of labor, which has been aggravating since the implementation of the new law regarding the legalization of the work permits. In light of large infrastructure projects in the coming years, we believe the government will take up the issue seriously and will work towards easing the labor issue soon.

Cement sector – Margins under pressure for 4Q-2013 estimations.

The cement sector in 4Q-2013 witnessed a slowdown in growth due to slowdown in construction activity during the current quarter, which we believe was a result of shortage of labor. Cement dispatches in Oct-13 and Nov-13 showed declines of 9% and 22% MoM. Due to the slowdown in sales, we expect the cost per ton for the sector to show a general rise, as production will be comparatively higher than sales.

Margins are likely to be adversely affected by clinker import.

We believe margins in 4Q-2013 may come under pressure due to the expectation of higher production costs, as companies were obliged to import clinker to adhere to the government's decree of maintaining two months of inventory level and their shares in 6mn tons clinker for 2013. According to the statistics of Yamamah Cement, the companies in 11M-2013 imported 3.56mn tons of clinker, out of which 1.6mn has been imported during only the first 2 months of Q4-2013. Consequently, the favorable cost structure of cement companies may change in the next quarters due to the lack of profitability and costly impact of the imported clinker.

Governmental subsidies mitigate the impact of import costs on margins

Cement companies in the Kingdom benefit from higher profitability compared with their regional and global peers; this is primarily on account of a favorable cost structure due to access to subsidized raw materials and fuel. However, the margins in the last two quarters were under pressure due to imported clinker and price realizations being regulated by the government. Therefore, the Saudi government has taken a series of measures to mitigate the import costs concern in the cement sector by subsidizing the imported clinker. For Example, Southern Cement Company announced that the company has received a government subsidy for imported clinker, which brought the net income to SAR 251 mn after making an operating profit of SAR 218 mn. According to some executives in the cement industry, companies have approval to receive subsidy of SAR 50/tonne on imported clinker, after they achieve their share of imports as directed by the government, but this decision is not yet confirmed by government officials.

Yanbu Cement Company (YNCC)

Yanbu Cement Company is expected to post net profits of SAR 162.2mn (EPS; SAR1.03) for 4Q-2013, depicting a fall of 20.3% YoY and a jump of 16.2% QoQ. The QoQ rise in earnings is due to lower impact of imported clinker for the company, which would decrease its cost per ton from SAR 131 to 122, as gross margins are expected to improve to 51% in 4Q-2013 from 48% in 3Q-2013.

Najran Cement Company (NCC)

Najran Cement Company is expected to post net profits of SAR 15.40mn (EPS; SAR0.09) for 4Q-2013, depicting fall of 73.8% YoY and 42.0% QoQ. The company is expected to show a net loss of about SAR 18 mn due to importing 130 thousand tons during the first two months of the current quarter. In addition, we expect the cost per ton to show a general rise, as production is estimated to be comparatively higher than sales by 13%.

Arabian Cement (ACC)

We expect Arabian Cement Company to post earnings of SAR 104.2mn for 4Q-2013, depicting jumps of 32.7% YoY and 518% QoQ. The QoQ jump is primarily due to the low base effect as the company in 3Q-2013 registered an impairment loss SAR 79.3mn on Qatrana cement its subsidiary in Jordan.

Retail Sector

Q4-2013 earnings estimates – AJC retail universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating
4001	Othaim	SAR	59	2.62	40.7%	-2.4%	136.3	Overweight
4190	Jarir	SAR	163.3	1.81	-12.3%	18.4%	179.2	Overweight
4240	AlHokair***	SAR	119.2	1.14	-57.7%	7.9%	157.0	Overweight

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013 *** Q3-2013/14

Retail Sector

The biggest threat for the sector (especially food retailers) in the short term is the regularization of labor market. We believe that this will continue to affect the sector with availability of affordable labors and reduced working hours.

It is worthy to mention that the food retail is more susceptible to the developments in labor market; however, non-food retail (electronics, stationaries & fashion) segment has a minimal impact. We, therefore, believe in short-run the growth in electronics & stationary retailers remain mainly associated with (i) induction of new smart devices and (ii) back to school season after mid break.

However, in the long-term the outlook remains positive for the sector with growth in the population, disposable income and high composition of young population which has high consumption habits, more jobs for local Saudis which translate into higher income and more spending.

Healthcare Sector

Q4-2013 earnings estimates – AJC healthcare universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating
4002	Mouwasat	SAR	46.3	0.93	5%	8.8%	111.5	Overweight
4004	Dallah	SAR	32.9	0.70	50.7%	-11.9%	97.0	Overweight
4005	Care	SAR	24.2	0.54	28.8%	-3.2%	74.1	Overweight
2070	Spimaco	SAR	56.8	0.7	69.1%	5.7%	68.4	Neutral

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013

Healthcare Sector

With a total of 12.9% (SAR108bn) of total spending for the year 2014 has been allocated to health and social affairs (Saudi Arabia's 2014 budget), we believe that this provides a positive outlook for the sector as this will provide solid grounds for improving the healthcare infrastructure in the country. Where, the unfortunate rise of lifestyle diseases, like obesity, diabetes and cardiovascular ailments will further enhance the income of the healthcare institutions. According to World Health Organization (World Health Statistics 2012), the sector is still lagging with just 22 beds per 10,000 populations, which provides an ample room for growth in the sector for existing and new players to capitalize on.

Key highlights Q4-2013

- **Care** recently announced the opening of the phase one of the expansion project of its hospital, which is an addition of 200 beds to the existing 100 beds in the building, however, the readiness of commercial operation for the project is yet to be announced.
- **Dallah** has announced several developments which highlight the points we made above regarding the opportunities in this sector. They announced purchasing of lands in north & west of Riyadh to construct hospitals in those areas. It also announced the inauguration of the specialized pediatrics building as an extension to Dallah Hospital with a total capacity of 70 beds and 26 outpatient clinics including its supporting facilities. We believe such developments are key for the companies to take full benefit in this growing sector.

Agriculture & Food Industries Sector

Q4-2013 earnings estimates – AJC Agriculture & Food universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating
2280	Almarai	SAR	340.9	0.57	-28.3%	-7.6%	65.52	Overweight
6001	Halwani	SAR	27.2	0.95	59%	7%	73.4	Overweight
6004	Catering	SAR	138.1	1.68	3.5%	31.7%	175.6	Overweight
6070	Aljouf Agr.	SAR	41.1	1.64	19.5%	2.1%	57.0	Overweight

Source: Aljazira Capital * Our ratings are based on the closing prices of 30/12/2013

Agriculture & Food Sector

According to Business Monitor International (Saudi Arabia Food & Drink report Q3-2013), per capita food consumption in the Kingdom is expected to grow at a CAGR of 4.71% between 2012-2016, whereas the food consumption growth is expected to grow at a CAGR of 8.9% from 2013-2017. This bodes well for the sector in general. However, with the ongoing government campaign against illegal labor force might have a slight negative effect on food consumption in the near future but it should not be a big factor in the longer run. We believe that with the much needed stability in Egypt in the near future will be of a significant benefit to **Halwani** as well.

Key highlights Q4-2013

- **Aljouf Agriculture** has recently announced a financing deal with the Saudi Industrial Development Fund (SIDF) worth SAR30.7mn whereby the company plans to use this money in expanding its olive oil factory, as we have previously stated that the company is aggressively pursuing exposure in the olive oil market due to the government's stance to ban local wheat production. We believe that this move is a positive one for the company which will reap its benefits in the future.
- For 4Q-2013 we expect **Saudi Catering Company** to post earnings of SAR 138.1mn, depicting jump of 31.7%YoY and 3.5% QoQ. The jump in earnings is primarily expected due to higher number of planes owned by Saudi airlines and higher influx of passenger traffic.

Telecommunication & Information Technology Sector

Q4-2013 earnings estimates – AJC Telecom universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating*
7010	Saudi Telecom	SAR	2,449.9	1.2	-27.6%	424%	62.1	Overweight
7020	Etihad Etisalat	SAR	1855.8	2.4	10.0%	-1.2%	103.7	Overweight
QTEL	Ooredoo	QAR	547.2	1.71	62.2%	4.7%	146.8	Neutral

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013

We believe, the Saudi telecom sector at current penetration levels of around 180% in voice is already saturated, due to which we believe growth from voice will remain limited. However we believe going forward the sector will sustain its growth due to the boom in data services, as broad band and internet subscribers registered growth of 23%YoY and 8%YoY respectively in 3Q-2013 .However, we believe there will be a short term impact on revenues from the illegal labor correction by the authorities as discussed below.

Government measure to control labor market to hurt profitability

The Saudi Telecom sector as a whole has been affected by the new regulation implemented by the government to control the labor market. The recent steps taken by the government to regularize the labor market has resulted in eviction of hundreds of thousands of illegal workers from the Kingdom. The mobile subscribers showed a fall of 4.1% from 53.3mn in 3Q-2012 to 51mn in 3Q-2013. This decrease in the customer base will negatively impact the sector profitability and will result in lower than expected revenues.

Hajj and Umrah Pilgrims

Lower hajj and umrah pilgrims due to the ongoing expansion in the haram mosque, adversely affected Mobily and STC. However, Mobily’s dependence on hajj pilgrim is higher than STC, due to which we believe Mobily will be more adversely affected by the cut in the number of pilgrims.

Saudi Telecom Company (STC)

We expect STC to post earnings of SAR 2.45bn for 4Q-2013, depicting a jump of 424% YoY, and a fall of -27.6% QoQ. The YoY jump in earnings is due to the lower base as the company booked an impairment loss of SAR641mn on its investments. Whereas QoQ fall in earnings is due to extraordinary profits in 3Q-2013, which were the result of adjustment for international provision and accruing revenue from the projects resulting from the Universal Service fund. We don’t have sufficient data to decide whether such positive profits could happen in 4Q-2014.

Etihad Etisalat (Mobily)

We expect Mobily to post earnings of SAR 1.86bn for 4Q-2013, depicting a fall of 1.2% YoY and a jump of 10% QoQ. The YoY fall in earnings is due to the lower hajj pilgrims and a decrease in customer base as a result of the current government measure to legalize the labor market.

Ooredoo (formerly QTEL)

We expect Ooredoo post earnings of QAR 547.2mn for 4Q-2013, depicting jump of 4.7% YoY and 62.2% QoQ. We expect the company to post foreign exchange loss during the year due to the depreciation in the Indonesian Rupiah. The YoY rise in earnings is due to the impairment realized in 4Q-2012 , and higher income tax expense.

Industrial Investment Sector

Q4-2013 earnings estimates – AJC industrial investment universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating
1211	Ma'aden	SAR	90.2	0.1	-93.7%	-77.8%	37.0	Overweight
1212	Astra	SAR	70.1	0.9	38.3%	10.6%	59.2	Overweight
1214	Shaker	SAR	3.5	0.10	-88.8%	-43.6%	96.4	Overweight

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013

Industrial Investment Sector

The sector is considered as a third pillar for the development in kingdom. Hence, the sector is expected to show significant growth in longer-run. However, in short-medium term, the sector is witnessing several challenges listed below;

- Uncertainty regarding the inception of upcoming projects.
- Unfavorable prices of metals and other industrial products like gold and DAP.
- Higher pre-operating costs; which hurt the company's net profitability.

Based on our understanding, the sector is in growth phase (volatile profitability, low competition, and capacity expansions); and have appropriate strategy i.e. horizontal & conglomerate diversification.

Key highlights Q4-2013

- **Astra** started commercial operation from its long-awaited steel plant in Iraq (please refer to our report 'Start of commercial operation from Al Tanmiya for steel industries - Astra Industrial Group').
- DAP price continue its downward trend and indicated QoQ decline of 17.7% in Q4-2013.
- **Ma'aden** started preliminary operation from its aluminum rolling mill in late Q4-2013. The rolling mill has an annual designed capacity to produce 380.0 thousand tons of aluminum sheets. The financial impact is expected from Q2-2014.
- Average gold and silver prices indicated QoQ decline of 4.4% and 3.4%, respectively, in Q4-2013.
- **Shaker** has witnessed several developments during the quarter; it announced the completion of the acquisition procedures of 20% of Energy Management Services – Emirates Co. (EMI), and we believe EMI will play a crucial role for the company to effectively & efficiently overcome the upcoming challenges in energy consumption and saving. Shaker has also been appointed by LG as a non-exclusive distributor in the Kingdom for its LED Lighting products labeled LG Brand for a period of two years effective 1/11/2013, we believe this is another key development for the company to solidify its position in the local market.

Building and Construction Sector

Q4-2013 earnings estimates – AJC B & C universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating
2320	Al Babtain	SAR	15.8	0.4	-3.5%	28.8%	33.9	**Neutral**
2040	Saudi Ceramics	SAR	49.6	1.3	-31.0%	-25.0%	144.4	**Overweight**

Source: Aljazira Capital *Our ratings are based on the closing prices of 25/12/2013

Al Babtain Power & Telecommunication Co. (Babtain)

Al Babtain is expected to post robust growth in earnings, increasing 28.8% YoY. The strong growth in earnings is likely to be driven by higher revenues from the poles and lighting segment in addition to lower production costs. During August 2013, the company announced its subsidiary, Al-Babtain Power and Telecommunication Company (Egypt); signed a six-month contract worth SAR 141.8 mn with Sonelgaz (based in Egypt) for manufacture and supply of electric power transmission towers. The project will be internally funded, and its financial impact is expected to be reflected in this quarter's financial results. During 2013, we expect the company's net earnings to increase 56.6% YoY to SAR 94.5mn. We believe the sector would continue to benefit from the increased spending in Saudi Arabia's Information and Communications Technology sector.

With the stock price up 27.3% since the beginning of this year, we find the company adequately valued; hence, we maintain a "**Neutral**" rating on the stock.

Saudi Ceramics

We expect the company to show a fall in its earnings, primarily due to the lower sales, due to the shortage in labor. We expect the company to post SAR 49.6mn depicting fall of 31.0% QoQ and 25.0% YoY.

Real Estate Development Sector

Q4-2013 earnings estimates – AJC real estate universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating*
2320	Dar Alarkan	SAR	184.7	0.17	0.7%	28.6%	10.9	**Overweight**
2040	Emaar	AED	680.1	0.11	17.0%	32.8%	10.85	**Overweight**

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013

Emaar Properties

We expect Emaar properties to post earnings of AED 680.mn, depicting jump of 17.0%QoQ and 32.8% YoY. The strong jump in earnings is primarily due to sales revenue realization on unit sales due higher per unit prices and higher unit sales. Strong occupancy rates during the quarter and higher footfall in malls division.

DarAlarakan

We expect DarAlarakan to post earnings of SAR184.7mn, depicting jump of 0.7% QoQ and 28.6%YoY. The company is expected to post all its earnings from land sales, as no unit sales in expected during the year.

Transportation and Logistics Sector

Q4-2013 earnings estimates – AJC transportation/logistics universe

Company code	Company name	Currency	Forecasted – Net profits Q4-2013 (mn)	Forecasted – EPS Q4-2013	Forecasted – QoQ growth	Forecasted – YoY growth	12-month price target	Rating*
4260	Budget	SAR	40.1	1.31	5.3%	28.9%	74.8	Overweight
ARMX	Aramex	AED	74.2	0.05	24.0%	11.5%	3.49	Overweight
Airarabia	Air Arabia	AED	87.9	0.02	-56.6%	8.4%	2.23	Overweight

Source: Aljazira Capital *Our ratings are based on the closing prices of 30/12/2013

International United Motors Company (Budget)

We expect budget to post earnings of SAR 40.1mn depicting a jump of 28.9%YoY and 5.3%QoQ. The sales are expected to pick due to the high-seasonality trend of Saudi Arabia's car rental industry (on account of religion tourism) in H2. However, we expect the share of revenues from car long-term leasing to show decline due to lower construction activity.

Air Arabia

We expect Airarabia to post earnings of AED 87.9mn depicting a jump f 8.4% YoY, whereas we expect the company to post fall of 56.6% QoQ primarily due to the full year depreciation expense realized during the quarter.

ALJAZIRA CAPITAL الجزيرة للأسواق المالية الجزيرة كابيتال

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. 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.
3. 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.
4. 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.

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