

January 30, 2017

Rating **Neutral**
12- Month Target Price **SAR 19.00**

Expected Total Return

Price as on Jan-29, 2017	SAR 20.31
Upside to Target Price	(6.5%)
Expected Dividend Yield	4.9%
Expected Total Return	(1.5%)

Market Data

52 Week H/L	SAR 22.4/14.6
Market Capitalization	SAR 609 mln
Enterprise Value	SAR 698 mln
Shares Outstanding	30.0 mln
Free Float	73.8%
12-Month ADTV ('000's)	320.8
Bloomberg Code	ZOUJAJ AB

1-Year Price Performance

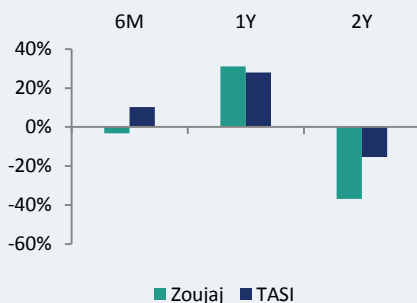


Fig in SAR Mln	RC.Est	Actuals
Revenue	9.0	17.2
Gross Profit	(5.0)	5.5
EBIT	(10.0)	1.9
Net Income	(9.0)	(5.7)
LPS (SAR)	(0.30)	(0.19)

NATIONAL COMPANY FOR GLASS INDUSTRIES (ZOUJAJ) 4Q2016 First Look

Associates Underperforms

National Company for Glass Industries (Zoujaj) announced preliminary 4Q2016 results with earnings above our expectations. LPS of SAR (0.19) was lower than our SAR (0.30) forecast. A weak 4Q2016 was due to i) impact of shutdown for a period of 70 days, which resulted in stoppage cost of SAR 4.0 million ii) bleak outlook in associate business led to a receivable write down of SAR 5.0 million iii) a -74% Q/Q sharp fall in share of associate income to SAR 2.2 million, was the lowest in 2016 and iv) its key associate, Guardian RAK ends up in a loss of SAR 0.6 million, the first in four years. We adjust our estimates as associate income looks further subdued for 2017, while core business is likely to be affected on slowdown on demand in 2017. We revise our estimates and reduce our target price to SAR 19.00 (earlier SAR 21.00). 2017E P/E of 16.0x is expensive versus TASI's 14.5x and to peers, Gulf Glass at 12.6x and Majan Glass at 13.1x. We maintain Neutral.

Revenue in-line with 3Q on shutdown impact

Revenue of SAR 17.2 million came higher to expectations as utilization rates improved and volumes sales surged despite shutdown. Revenue increased by +1% Q/Q but declined by -47% Y/Y due to impact of partial shutdown in 4Q (40-day impact in 4Q alone). We believe Plant-2 has managed to keep decent operating rates. Zoujaj spend nearly SAR 75 million for rebuilding its furnace and upgrading its production lines.

Gross margins back to normalcy

Zoujaj reported gross profit of SAR 5.5 million, recovering from a loss of SAR (0.3) million in 3Q2016, but declined by -45% Y/Y. Gross margins improved significantly to 32% after a gap of few quarters. Operating profit of SAR 1.9 million followed suit versus loss of SAR (3.7) million in 3Q2016 and SAR 5.1 million during same period last year. The dismayed performance of associates coupled with stoppage cost of SAR 4 million have added to the fury for a weak 4Q2016.

Some restructuring initiatives could be possible in 2017

Share of associate income (Gulf Guard, Guardian RAK and SANLEC) recorded a -74% Q/Q decline and reached SAR 2.2 million, but recovered from a loss in 4Q2015. Zoujaj recorded a receivable write-down loss of SAR 5.0 million from associates. It liquidated and recorded a loss provision of SAR 246K on sale of one of its associate during the quarter. Gulf Guard posted a positive surprise as it swung to net profit of SAR 2.7 million in 4Q2016 compared to net loss of SAR (1.6) million in 4Q2015. These said factors led to a group net loss of SAR (5.7) million but lower than our estimate of SAR (9.0) million in 4Q. We expect some restructuring costs in associate business to affect negatively in 2017 but to aid some growth in 2018.

Maintain Neutral but revise target price to SAR 19.00

We reduce our target price to SAR 19.00 (earlier SAR 21.00) as associate business continues to have opaque outlook. We maintain neutral as valuation looks peaked while 2017E DPS of SAR 1.00 yields 4.9%. The stock has rallied by +77% in 2016 and +25% in 4Q2016, which looks overdone.

Key Financial Figures

FY Dec31 (SAR Mln)	2015A	2016A	2017E
Revenue	104	101	110
EBITDA*	30	37	42
Net Profit	45	22	38
EPS (SAR)	1.50	0.73	1.27
DPS (SAR)	1.50	0.75	1.00
BVPS (SAR)	13.21	13.00	13.06

*2016 EBITDA is an estimate

Key Financial Ratios

FY Dec31	2015A	2016A	2017E
ROAA	6%	4%	5%
ROAE	11%	6%	10%
P/E	13.5x	27.7x	16.0x
P/B	1.5x	1.6x	1.6x
EV/EBITDA	23.5x	18.9x	16.6x
EV/Sales	6.7x	6.9x	6.3x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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