

# Saudi Arabia Real Estate Sector

05 June 2016

Company	Recomm.
Dar Al Arkan Saudi Real Estate Co.	<b>BUY</b> <b>HOLD</b>

- Economic diversification, improved policy framework and Saudi Vision 2030 to facilitate real estate sector growth
- Land prices to remain under pressure in the medium term
- Housing segment to drive the overall real estate sector
- Margins to remain under pressure in the short term

We are initiating coverage on the Saudi Real Estate Sector with a **BUY** recommendation on Dar Al Arkan at SAR6.38/share (upside of 27.9%) and with a **HOLD** recommendation on Saudi Real Estate Company (Al Akaria) at SAR20.34/share (upside of 4.3%).

### Dar Al Arkan (DAAR) - TP SAR: 6.38/share; Upside 27.9%

Initiate coverage of Dar Al Arkan Real Estate Development Company (DAAR) with a **BUY** at a target price of SAR6.38/share. As per our discussion with company management, DAAR is unlikely to be exposed to land fees as the current land portfolio is either fully developed and for sale, under development with infrastructure being built or is purely raw land with few municipal services. DAAR is very well positioned to settle its debt obligations as it is sitting on cash of SAR1bn, receivables of SAR2.9bn and land bank at an estimated market value of SAR24.8bn. Our target price offers an upside of 27.9% compared to current market price of SAR4.99/share. It is currently trading at 2016 PE and P/Bv multiple of 16.6x and 0.30x respectively. Company weights in Tadawul All Share Index, Tadawul RE Index & MSCI GCC IMI Islamic Index are 0.9%, 9.35% and 0.95% respectively.

### Saudi Real Estate Company (Al-Akaria) - TP SAR: 20.34/share; Upside 4.3%

Initiate coverage of Saudi Real Estate Company (Al-Akaria) with a **HOLD** at a target price of SAR20.34/share. Al-Akaria owns 20.5mn sq.m of land. The fair / market value of land as of Dec-2015 stands at SAR8.15bn i.e. almost 2.4x the book value. Al-Akaria is expected to benefit from the completion of its upcoming projects such as The Village Project, ALAKARIA Marriott Project & ALAKARIA Residences Project. Overall revenue of the company is expected to grow at a CAGR of 12.1% during 2016-19 (rental revenue and land sales revenue CAGR of 12.4% and 10.0% respectively). Because of acquiring sizable loan in previous year, financial charges are expected to eat-up sizable chunk from the profit which will subside once the revenue from new projects starts flowing in. Going forward, we expect the net income to rise by 5.4% in 2016 on account of better occupancy rates as well as because of land sales. While during 2016-19 we expect company to report a net income CAGR of 13%. Our target price offers an upside of 4.3% compared to current market price of SAR19.50/share. It is currently trading at 2016 PE and P/Bv multiple of 12.5x and 0.66x respectively.

### KSA Real Estate Universe

	CMP	Stock Performance		PE (x)	PBv (x)	Tgt Price	Upside	Recomm.
	(SAR)	1m (%)	3m (%)	2016e	2016e	(SAR)	(%)	
Dar Al Arkan	4.99	-12.5%	6.6%	16.6	0.30	6.38	27.9%	<b>BUY</b>
Al-Akaria	19.5	3.5%	6.7%	12.5	0.66	20.34	4.31%	<b>HOLD</b>

Source: OABInvest

## Valuation Methodology

We adopt a SOTP approach to arrive at a fair value for Saudi real estate equities. We construct our valuation methodology based on the following criteria:

- For investment properties, we utilize a two-stage DCF approach valuing each project according to its respective credentials and discounting it at the project's WACC before arriving at a terminal reversion value based on available market capitalization rates on the last year of our forecast horizon.
- For development properties, we utilize a one-stage DCF approach extended over the life of the project. We discount each project's FCF by the relative WACC and build our assumptions for selling prices and margins based on management guidance and prevailing market trends.
- Where management guidance is not available on land sales, we use historical patterns and current market trends as basis to our forecasts. Individual prices and margins of land plots differ based on our assessments of factors including location, state of development and available information on comparable sales.
- Market trends of listed real estate equities vary largely across MENA markets. Further, different accounting practices impede the construction of peer valuations. Accordingly, we have not incorporated relative valuations in our fair value targets.
- For DCF, we use a 5-year forecast horizon. Thereafter, in line with sustainable rental growth, we apply a terminal growth rate of 2%. To calculate cost of equity, we use the US risk-free rate of 1.92% and then add an equity risk premium of 8.01% along with Country and Company specific risk premium. We also use a beta (5 year monthly adjusted) to calculate WACC.

### Dar Alarkan - Equity Valuation

	Value (SAR 000)	/share	Methodology
Retail Lease	1,702,994	1.58	Capitalization Method
Commercial Lease	77,385	0.07	DCF
Residential Lease	661,039	0.61	DCF
Development Sales	783,168	0.73	DCF
Land Sales	8,206,347	7.60	DCF
<b>Total NPV</b>	<b>11,430,933</b>	<b>10.58</b>	
Add: Investments	776,207	0.72	As of 2015
Add: Cash	1,001,061	0.93	As of 2015
Less: Debt	6,292,562	5.83	As of 2015
Less: Minority Interest	20,973	0.02	As of 2015
<b>Total Equity Value</b>	<b>6,894,666</b>	<b>6.38</b>	
CMP		4.99	
Upside Potential		27.9%	

Source: OABInvest

### Al-Akaria - Equity Valuation

	Value (SAR 000)	/share	Methodology
Retail Lease	502,993	4.19	Capitalization Method
Commercial Lease	806,007	6.72	DCF
Residential Lease	1,155,410	9.63	DCF
Development Sales	123,020	1.03	DCF
Land Sales	587,298	4.89	DCF
<b>Total NPV</b>	<b>3,174,729</b>	<b>26.46</b>	
Add: Investments	1,016,194	8.47	As of 2015
Add: Cash	863,442	7.20	As of 2015
Less: Debt	(2,613,462)	(21.78)	As of 2015
<b>Total Equity Value</b>	<b>2,440,903</b>	<b>20.34</b>	
CMP		19.50	
Upside Potential		4.3%	

Source: OABInvest

### Sensitivity Analysis

#### Dar Al Arkan

		Growth Rate (%)				
		0.0%	1.0%	2.0%	3.0%	4.0%
WACC (%)	8.7%	6.91	7.72	8.77	10.19	12.21
	9.7%	6.02	6.64	7.42	8.44	9.81
	10.7%	5.30	5.78	<b>6.38</b>	7.14	8.12
	11.7%	4.69	5.08	5.56	6.14	6.87
	12.7%	4.18	4.50	4.88	5.33	5.90

		Cost of Equity (%)				
		9.9%	10.9%	11.9%	12.9%	13.9%
CoD (%)	4.0%	8.77	7.66	6.77	6.03	5.41
	5.0%	8.47	7.42	6.57	5.87	5.27
	6.0%	8.19	7.19	<b>6.38</b>	5.71	5.13
	7.0%	7.92	6.98	6.20	5.56	5.00
	8.0%	7.66	6.77	6.03	5.41	4.88

#### Al-Akaria

		Growth Rate (%)				
		0.0%	1.0%	2.0%	3.0%	4.0%
WACC (%)	7.7%	21.77	24.37	27.89	32.90	40.63
	8.7%	19.11	21.04	23.55	26.95	31.79
	9.7%	16.99	18.47	<b>20.34</b>	22.77	26.05
	10.7%	15.26	16.43	17.86	19.67	22.02
	11.7%	13.83	14.77	15.89	17.28	19.02

		Cost of Equity (%)				
		10.1%	11.1%	12.1%	13.1%	14.1%
CoD (%)	0.5%	27.89	24.51	21.84	19.66	17.86
	1.5%	26.67	23.55	21.06	19.03	17.33
	2.5%	25.55	22.66	<b>20.34</b>	18.43	16.82
	3.5%	24.51	21.84	19.66	17.86	16.35
	4.5%	23.55	21.06	19.03	17.33	15.89

## PEER Group Comparison

Ticker	Company	Market Cap, USD '000	P/E'16e	P/B'16e	Div Yield'16e (%)	EV/Sales	EV/EBITDA
Emaar AB Equity	EMAAR ECONOMIC CITY	3,073	27.12	1.29	NA	10.64	31.16
<b>AlArkan AB Equity</b>	<b>DAR AL ARKAN REAL ESTATE DEV</b>	<b>1,437</b>	<b>16.60</b>	<b>0.29</b>	<b>0.00</b>	<b>4.46</b>	<b>10.10</b>
<b>SRECO AB Equity</b>	<b>SAUDI REAL ESTATE CO</b>	<b>624</b>	<b>12.50</b>	<b>0.66</b>	<b>3.50</b>	<b>11.72</b>	<b>15.69</b>
ADCO AB Equity	ARRIYADH DEVELOPMENT CO.	638	13.20	1.24	5.52	9.85	13.04
SRE KK Equity	SALHIA REAL ESTATE CO KSC	594	NA	NA	NA	NA	NA
MABANEE kk Equity	MABANEE CO SAKC	2,303	13.45	2.05	1.79	9.46	16.15
Emaar UH Equity	EMAAR PROPERTIES PJSC	11,988	10.37	1.03	2.86	2.91	7.06
Aldar UH Equity	ALDAR PROPERTIES PJSC	5,630	9.56	0.98	3.92	3.94	9.44
Deyaar UH Equity	DEYAAR DEVELOPMENT PJSC	923	41.93	0.72	NA	6.55	68.69
UPP UH Equity	UNION PROPERTIES PJSC	763	NA	0.55	4.25	5.52	NA
RAKProp UH Equity	RAK PROPERTIES	332	23.46	0.33	8.20	4.75	16.39
TMGH EY Equity	T M G HOLDING	1,373	9.08	0.44	3.79	2.06	7.73
AMER EY Equity	AMER GROUP HOLDING	169	11.00	1.06	NA	0.58	NA
HELI Ey Equity	HELIOPOLIS HOUSING	606	20.58	9.47	3.93	10.63	18.27
MNHD EY Equity	MEDINET NASR HOUSING	851	14.54	5.25	0.33	7.49	12.96
PHDC EY Equity	PALM HILLS DEVELOPMENTS SAE	609	6.40	0.75	1.53	2.04	7.22
OCDI Ey Equity	SIX OF OCTOBER DEVELOPMENT	432	9.35	1.02	NA	1.53	5.23

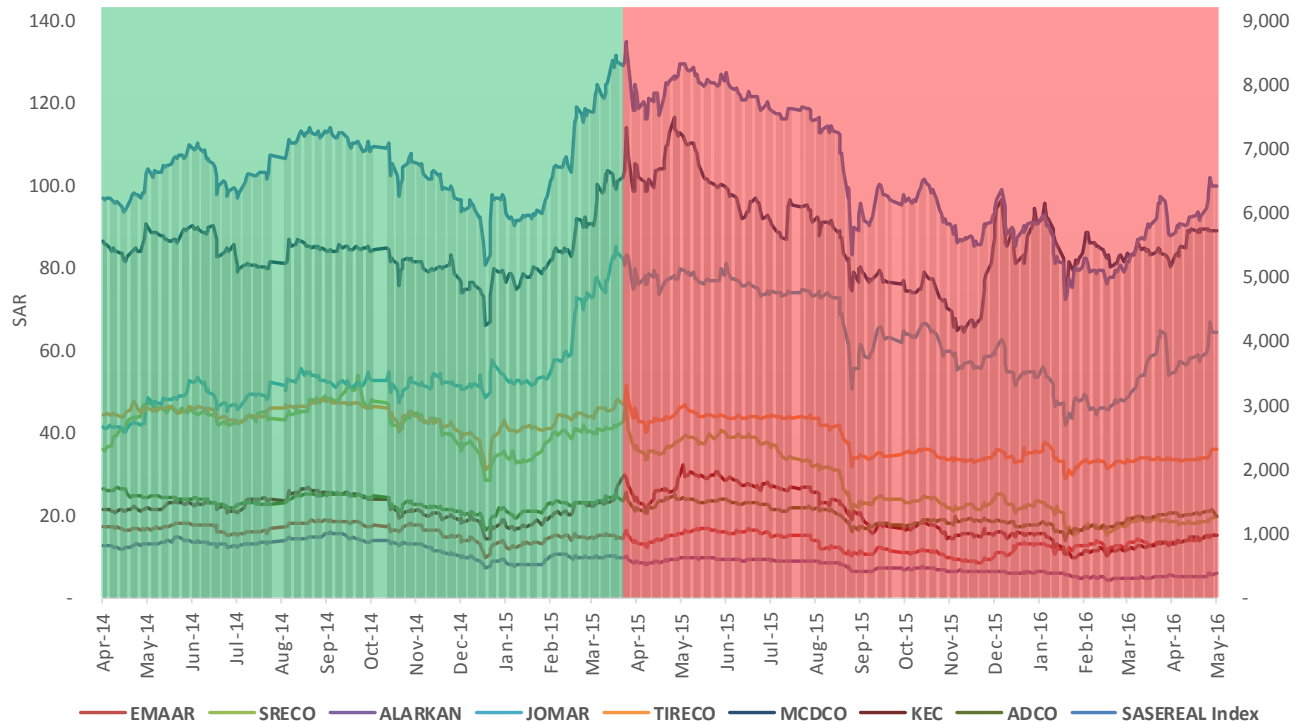
Source: Bloomberg & OABInvest

## Saudi Real Estate Sector – Opportunities & Challenges

### White Land Tax

According to several real estate agencies and experts in the Kingdom, the government owns about 15% of total “white land,” or open land not designated for development, through the Ministry of Housing, the General Organization for Military Industries, and others. It is estimated that the total value of this white land at about USD800bn, with the government holding amounting to about USD130bn.

In last two years performance of Saudi Arabia real estate sector can be divided into two parts i.e. before and after news of fees on white lands. The Saudi Council of Ministers approved the implementation of fees on white land within city boundaries at the end of March 2015 and since then most of the stocks did not see those prices. From that announcement till end of April 2016, Tadawul RE Index is down 26%. Dar Al Arkan and Akaria stocks received severed beating as it was well known that these companies have huge amount of land bank in their pockets. Saudi Real Estate Company and Dar Al Arkan are down 58.3% and 43.5% since then.



Source: Bloomberg

However, the sector heaved a sigh of relief when details of the fees introduction was released as earlier it was assumed to be a blanket introduction while later the focus of the fees shifted to land plots which are for residential use within urban areas, those which have been held for substantial periods of time and remain undeveloped, and on those with municipal services such as roads and utilities provided for.

Among our coverage both company carry substantial amount of land. Dar Al Arkan has a land bank of 34mn sq.m while Akaria carries land bank of 20.5mn sq.m. Although much was expected that in order to avoid the tax the companies will go on selling spree but this was not witnessed. DAAR sold 3.40mn sq.m of

residential mixed-use land which was just tad higher than 3.23mn sq.m sold in 2014. Although we believe that introduction of tax is a step in the right direction but at the same time this could lead to some unwanted developments as well. For instance, a landowner could do small additions/development on the land just to avoid falling under the bracket of the new tax.

In case of Dar Al Arkan it is unlikely the Company will be exposed to land fees as the current land portfolio is either fully developed and for sale, under development with infrastructure being built or is purely raw land with few municipal services. While in the case of Akaria, the company owns tracts of land around 20.5mn sq.m, of which land within the urban boundary amount to 10.04mn sq.m. The Company is under the follow-up with the government agencies to obtain the necessary licenses to start investment. However, if things did not materialize, Akaria would either end up paying tax or will sell the land falling under the rule or a combination of both.

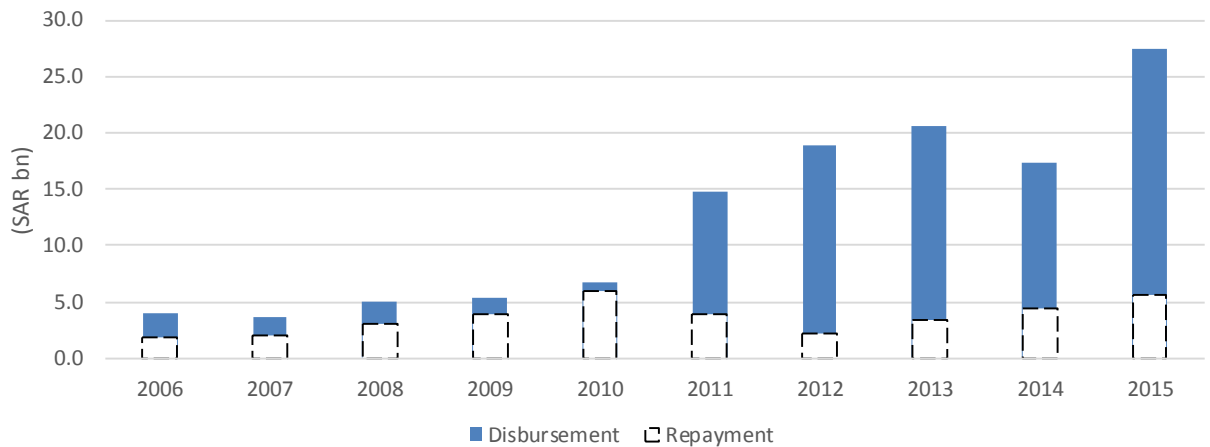
**Draft rules on Saudi ‘white land’ tax to be submitted soon**

In the first week of May 2016, housing ministry said that an annual tax of 2.5% will be levied on undeveloped urban land held by individuals or non-government entities. The ministry is expected to announce the cities targeted for the initial phase of application during the month of Ramadan. Saudi Arabia’s housing ministry is working on draft regulations for the tax on unused land which will be submitted for approval to the cabinet within a month.

Taxes will be estimated according to the location of the land within the urban area, land use, the applicable construction laws and availability of infrastructure services on the land. In addition, a sub-committee will be formed by the ministry to estimate land values. The ministry will also decide which cities are experiencing a housing shortage and define taxable lands in them. Taxes will be imposed gradually in five stages on areas ranging between 500,000 square meters and 10,000 square meters.

**Saudi Real Estate Development Fund**

In last quarter of 2015, Saudi Arabia announced that it plans to convert state-owned housing fund into a bank, the latest in a string of reforms to the economic policy tools announced since King Salman bin Abdulaziz Al Saud took the throne in January 2015.



Source: SAMA

The fund has 40 branches across the Kingdom and a size of SAR183bn (USD49bn). After its conversion the Real Estate Development Fund will offer financing in cooperation with the private sector. The fund would offer housing loans to eligible people. Previously, the fund had offered interest-free loans for new residential construction. The fund will expand its lending volumes while widening the range of its operations to include mortgages for existing homes.

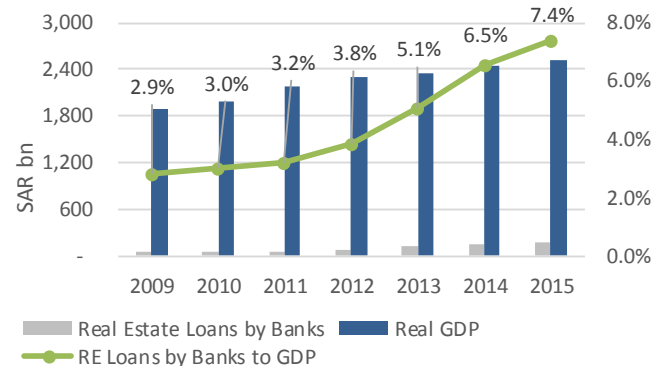
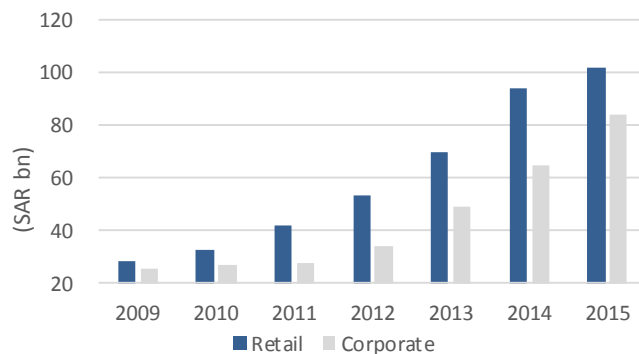
Recently, King Salman met with Housing Minister and RE development authorities end of Q1 2016 and went through the importance of developing the housing projects. Contracts for 180,000 units to be delivered as soon as possible have been signed with different local and international developers. REDF approved SAR15bn real estate loans in 2015 and introduced new schemes which will be implemented during 2016. REDF new schemes will allow loans to be extended to RE developers. REDF loans can cover the down payments for RE mortgages to banks and down payments to off plan sales of properties.

### Saudi Mortgage Law

Registering exponential growth rates in 2010 and 2011, Saudi Arabia saw a need to issue a more comprehensive regulatory framework for home loan activity and a new law. They issued a comprehensive Mortgage Law in 2012 which is a collection of five different laws comprising:

- **The Real Estate Finance Law:** The law addresses the authority of SAMA in regulating the real estate mortgage market, facilitation of refinancing via structured finance and securitization, and provision of additional liquidity support by the government.
- **The Mortgage Law:** This law introduces the new regulatory framework of being able to mortgage the real estate without taking title by the financiers and also avail second-ranking mortgages.
- **The Finance Lease Law:** This law deals with Finance Lease Contracts in general and extends beyond leases provided regarding real estate to leases of immovable or movable assets, utilities, services, or other rights such as intellectual property.
- **The Finance Companies Law:** Regulates the incorporation, activities, and governance of finance companies to provide financing including but not limited to, real estate finance, general leasing finance, finance of credit cards and consumer finance in a Shariah compliant manner.
- **The Execution Law:** Expands a judicial court's authority to provide injunctive and declaratory judgment and enforce such orders.

Real Estate Loans by Banks

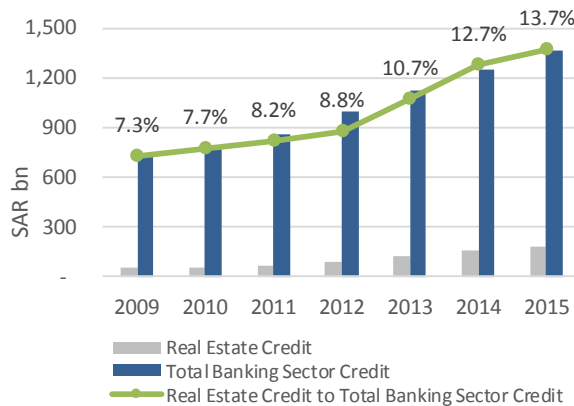


Source: SAMA & IMF

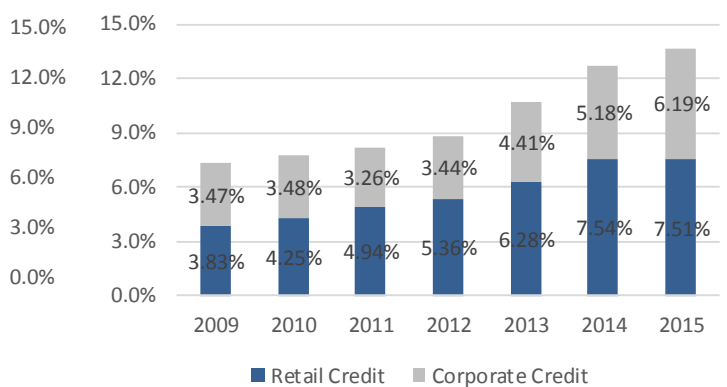
Unpacking the statistics, aggregate data for the banking sector shows that real estate lending continued to grow till 2015. According to figures from SAMA, retail real estate loans by banks totaled SAR186.4bn in 2015, a 17.3% increase on the SAR158bn in 2013. Apart from this, renovation and home improvement loans rose from SAR25.6bn in 2014 to SAR37.0bn in 2015.

In first quarter of 2016, Saudi Arabia's central bank allowed mortgage companies to supply a greater share of funding for home purchases, raising the maximum permitted contribution to 85% from 70% of the value of the house. The change was part of a series of steps taken by the Saudi authorities in recent months to make financing more readily available for home purchases, as they seek to address complaints by a burgeoning population of young people over the kingdom's shortage of affordable housing. Earlier in December 2015, Central Bank licensed a national home finance company, Bidaya, and in February 2016 it introduced an "affordable mortgage" program through which the Ministry of Finance would guarantee 15% of the financing for a home purchase.

**Real Estate Credit to Total Banking Sector Credit**



**Breakup of RE Credit**



Source: SAMA

From the perspective of the Kingdom's banks, the mortgage market, in the longer term, remains one of potential, with considerable scope for future growth in the area. According to statistics released by SAMA, real estate finance from banks despite its substantial growth over recent years still accounts very low when compared to international peers. Credit to retail stands at 7.51% in 2015 while the same for corporates stands at 6.19% of the total credit by the banking sector.

### Economic Cities in the Kingdom

As part of the government's 10<sup>th</sup> Development Plan for 2015-19 there are ongoing efforts to diversify the economy spatially by building industrial developments around the country. By 2020 four new economic cities are due to be completed, with anticipated populations of 40,000, 80,000, 200,000 and 250,000 at Rabigh, Hail, Medina and Jazan, respectively.

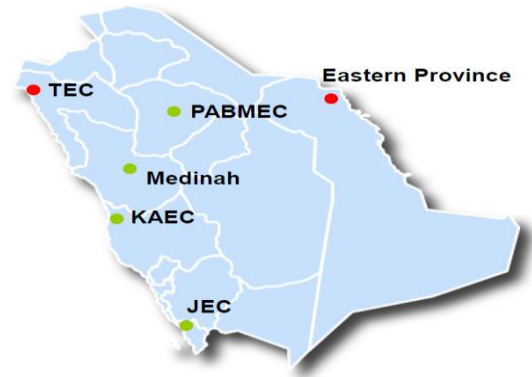
The government envisions the cities, as islands of relative liberalism. New economic guidelines would allow for foreign ownership of private companies, accompanied by a streamlined bureaucracy that will reduce turnaround on simple transactions, like visas and customs documents. By isolating economic and social reform to these special economic zones, the government hopes to create controlled "islands of change" that will seep liberal ideas out of the rest of the country.



**Economic Cities Location**



**Names of Economic Cities**



Source: SAGIA & EY

	King Abdullah Economic City (KAEC)	Prince Abdulaziz Bin Mousaed Eco City (PABMEC)	Knowledge Economic City (KEC)	Jazan Economic City (JEC)
<b>Master Developers</b>	Emaar Economic City	Rakisa Holding Company	Quad International	MMC International
<b>Contractor</b>	Saudi Bldg & Cons Mngt	-	Al Dar, Al Arabia Arch & Al Rajhi Holding	Saudi BinLadin Group
<b>Timeline</b>	2006-2029	2009-2025	2006-2020	2007-2037
<b>Current Status</b>	Construction – Execution	On Hold	Construction – Execution	Construction – Execution
<b>Population (mn)</b>	2,000,000	80,000	200,000	250,000
<b>Investment (USD bn)</b>	93	8	7	27
<b>Focus</b>	Port, Logistics, Light Industry & Services	Logistics, Agribusiness, Minerals & Construction Material	Knowledge based industries with an Islamic focus & services	Energy & labor intensive industries

**Real Estate Components within Economic Cities**

	KAEC	PABMEC	KEC	JEC
<b>Airport</b>	–	YES	YES	–
<b>Seaport</b>	YES	–	–	YES
<b>Educational</b>	–	YES	YES	–
<b>Commercial</b>	YES	–	YES	YES
<b>Residential</b>	YES	YES	YES	–
<b>Hospitality &amp; Leisure</b>	YES	YES	YES	–
<b>Logistics &amp; Industrial</b>	YES	YES	–	YES
<b>Healthcare</b>	YES	YES	YES	YES

Source: SAGIA & EY

**Benefits offered at Economic cities:**

- 100% foreign ownership of projects, including property required to support the business activities in addition to owning private residences
- Minimum capital requirement and no restrictions on repatriation of capital.
- No personal income tax and a minimal 20% corporate tax for foreign companies
- Ability to carry forward losses indefinitely.
- Exemption of import fees for selected raw materials imported for manufacturing products.
- No export duties within 17 countries of the Greater Arab Free Trade Area.

- Preferential treatment for national products in Saudi Government procurement.
- Contract term: minimum two years; no escalation during the first two years, year 3 onwards at 5% per annum.

With depleting oil reserves and low oil prices and to achieve desired targets in 10<sup>th</sup> development plan as well as in the newly issued Vision 2030, it has become a necessity for KSA to rope in private investment to sustain its ambitious plans. Government focus on developing clusters to feed the Kingdom's growing economy was a step in the right direction and we expect it to come out with desired results provided timelines are met and commitments are served. These economic clusters will alter the economic landscape and provide wealth of opportunities to investors. These cities will fire up the engines in real estate, industrial, transport and educational sector. According to SAGIA, these economies cities once operational by 2020, would contribute USD150bn to the GDP.

### **Saudi Vision 2030**

Saudi government has always been committed to increasing home ownership amongst its national. Time and again it has addressed the issue in a number of ways, although few have made much progress – there is still an estimated 500,000 unit shortage in the Kingdom, according to JLL. Construction of homes in the country failed to keep pace with neighboring United Arab Emirates partly also because developers have been unable to fund construction through advanced sales, known as off-plan. The new Vision reiterates the commitment while adding a few new items. The key goal is to increase the percentage of Saudis that own their own homes from 47% currently to 52% by 2020. It also wants to increase the amount of private development in the sector, potentially selling off state-owned land and property. Freeing up land to the market is also the aim of long-awaited fees on vacant (white) land. Finally, the government has again committed to building homes for lower-income Saudis – this time 100,000 units over the next year.

### **Off-plan Sales**

In early 2016, Saudi Arabia approved that real estate developers will now be permitted to sell off-plan units. Strict measures, however, will be enforced for such transactions. Down payments cannot exceed 20% of the unit's value, and must be made by check or bank transfer into escrow accounts, which can be accessed and monitored by authorities. Developers will be required to pay buyers 5% of the value, in the event that the delivery of the property is delayed for 12-months or more. In addition, developers must guarantee structural and insulation on building units sold for at least ten years from the delivery date. Electrical and mechanical works should have guarantee of a least one year.

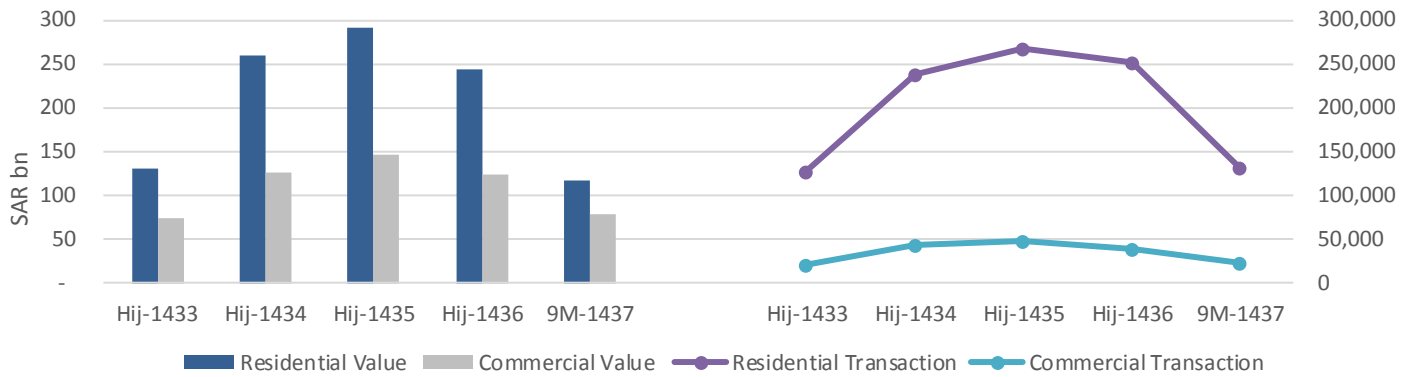
The Saudi government has imposed strict controls on the promotion and sale of off-plan properties in recent years. In 2009, the kingdom had introduced a ban on such activities for developments that are only in the planning stage. The total value of projects under the Ministry of Commerce and Industry real estate off-plan sales program reached more than USD9bn (SAR34bn) since its approval, including projects of more than USD3.5bn (SAR13bn) licensed during 2015. The program continues to follow up and supervise the implementation of 29,000 real estate off-plan sales units in various regions of the Kingdom.

## Current State of Real Estate Sector in Saudi Arabia

### White land tax put a halt at real estate transactions

Real estate transaction continued to grow once the mortgage law kicked-in in 2012. Transactions volumes as well as value jumped at a CAGR of over 46% during Hij 1433-1435. Total number of transaction registered in Hij 1435 were at 315,366 worth value of SAR437bn. However, the news regarding introduction of land tax in early 2015 put a halt on the transactions and the Hij 1436 ended with a drop of 7.9% in transactions and 16.0% in value at 290,488 and SAR367bn respectively. The situation has continued to worsen and in 9M of Hij 1437, transactions have further dropped to 154,108 valued at SAR195bn. Almost 60% of the transaction were from the residential segment while the remaining from commercial segment. In terms of type of transactions value, land sales amounted the most at 90% followed by agricultural land sales at 4% and apartments at 3%.

### Real Estate Transaction & Values



Source: Ministry of Justice

Real estate transactions decreased 7.7% in 1Q16 SAR83.3bn as compared to the corresponding period of 2015. This was a manifestation of the white land tax with investors looking at properties located outside the boundaries defined by the new levy. The number of transactions in 1Q16 dropped 20% compared to the same period last year, and 26.7% compared to 2014, reaching 62,000 deals. The number of properties exchanging hands dropped 20% compared to the same period last year, and 26.5% compared to 2014, reaching 66,500 lands. In terms of acreage, volumes grew 28.6% compared to the same period last year, reaching 979mn sq.m.

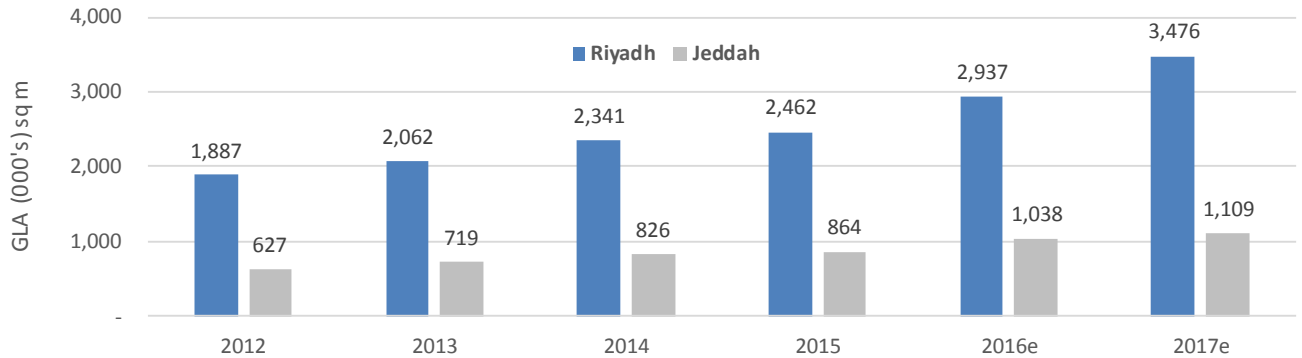
### Saudi Office Market

The completion rate of commercial projects in Riyadh was low in 2015, with only 121,000 sq.m of the proposed 500,000 sq.m scheduled by developers actually delivered (24%). This was mainly due to labor shortages and delays in obtaining permits and services for some projects. While a substantial amount of supply is scheduled for delivery over the next couple of years, materialization rates are expected to remain low. In terms of rentals, they remained relatively stable throughout the year at SAR 1,056 per sq.m. Similarly, vacancy rates maintained their stability at 16%. Performance indicators are expected to decline in 2016 with the volume of new supply resulting in increased vacancies and lower rentals in the Riyadh market.

In Jeddah, only 38,000 sq.m of GLA entered the market in 2015, comprising mostly of small space up to 5,000 sq.m, with the exception of few. The development of small-scale projects reflects Jeddah's role as a

secondary business centre after Riyadh. While a significant amount of office space is scheduled to be delivered in 2016, further delays are expected and not all this space is likely to materialize. In terms of rentals, the year began on a healthy note with a 7% average Y-o-Y increase in rents resulting from the entry of quality office space into the market, with conditions remaining favorable for landlords. Rental rates continued to grow, albeit at a slower rate, recording growth of 4% over the year. As occupiers maintain a cautionary approach to expansion following anticipated cuts in government spending, vacancy rates may increase and rental levels are likely to peak during 2016.

#### Office Supply

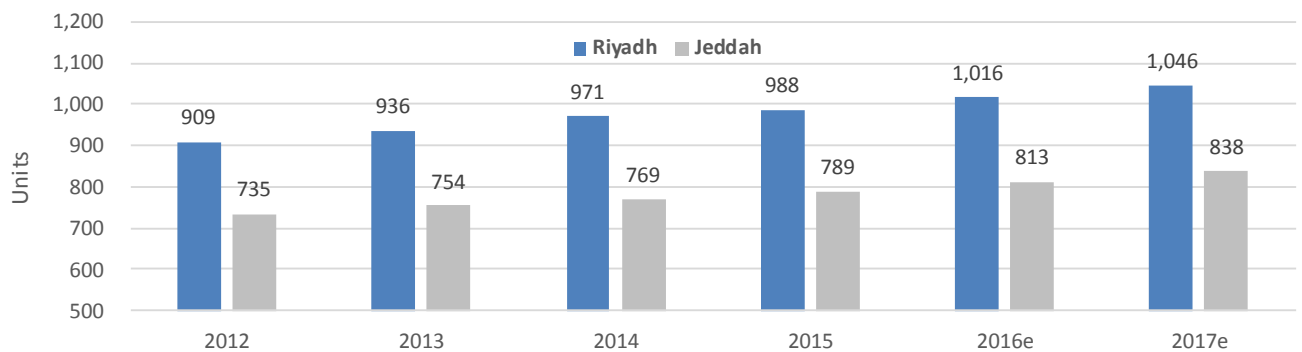


Source: JLL

#### Saudi Residential Market

In Riyadh, approximately 17,000 residential units entered the market in 2015, the majority of which were standalone villas or small apartment buildings. Looking ahead at the upcoming supply, there are a number of large-scale projects which could potentially add 28,000 units in Riyadh during 2016, actual deliveries are likely to be significantly less. Around 2,250 land plots were handed over to end users within the Eskan Airport Project in Riyadh in 2015. Apart from this development, there are no other major planned or under construction affordable housing projects in Riyadh.

#### Residential Supply



Source: JLL

In Jeddah, majority of the 20,000 new units delivered over the past year have been in the form of standalone villas and small apartment buildings. These projects bring total residential supply to around 789,000 units at the end of 2015. Looking ahead at 2016 and 2017, major project completions such as Salman Bay Housing and several of the Eskan projects are expected to add a significant number of units to the market in addition

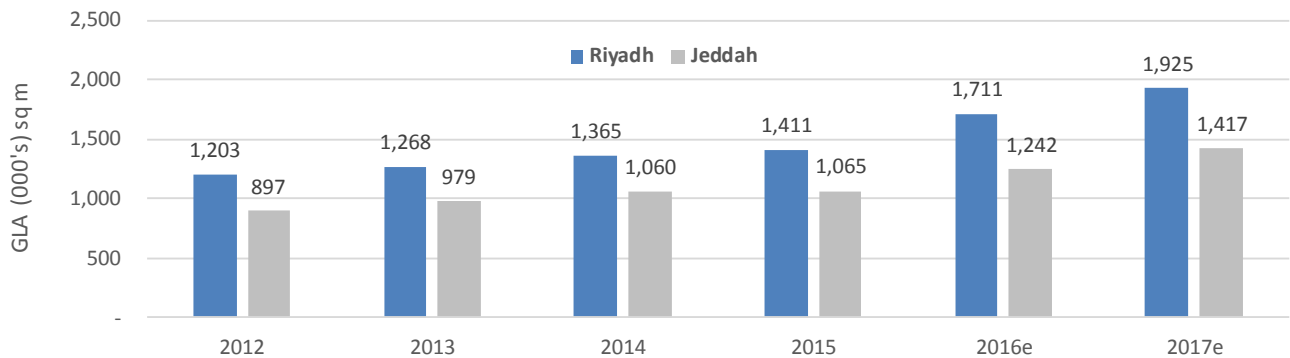
to stand-alone villas. There are currently 15,000 affordable units now under construction within the Eskan and Salman Bay Housing developments, with a further 15,000 planned.

### Saudi Retail Market

A significant amount of retail space is expected to enter the market in Riyadh over the next two years. This is expected to increase vacancy rates and decrease rents as competition in the market increases. In Riyadh, annual rental rates increased steadily in 2015 at an average of 2% for super regional malls and 4% for regional malls. As new retail space enters the market in 2016, this is expected to add downward pressure on rentals in Riyadh while vacancies may increase.

Vacancy rates in Jeddah remained stable at 7% for the first half of the year, but increased to 11% by year-end as some older centers were under renovation or lost tenants to better quality retail space. Looking ahead, vacancy rates are expected to decrease in the short term while lease rates are expected to show lower growth over the next year. In Jeddah, according to a survey of major retailers conducted by JLL and the Jeddah Chamber of Commerce (JCCI), average rents grew 7% Y-o-Y in 2015.

### Retail Supply



Source: JLL

A significant amount of retail space is expected to enter the market in Riyadh over the next two years. This is expected to increase vacancy rates and decrease rents as competition in the market increases. However, the decision of the Saudi Arabian General Investment Authority (SAGIA) to allow 100% foreign ownership of retail and wholesale businesses in the Kingdom is likely to result in increased demand for retail space from international retailers. This increased demand from foreign retailers should counter the effect of the substantial supply entering the market across the Kingdom.

# Dar Al Arkan Real Estate Devp. Co.

**TP : SAR 6.38/share**

Recommendation	<b>BUY</b>
Bloomberg Ticker	ALARKAN AB
Current Market Price (SAR)	4.99
52wk High / Low (SAR)	9.5 / 4.3
12m Average Vol. (000)	21,864
Mkt. Cap. (USD/SAR mn)	1,437 / 553
Shares Outstanding (mn)	1,080
Free Float (%)	91%
3m AVD Turnover (000)	104,448
6m AVD Turnover (000)	116,954
PE 2016e (x)	16.66
PBv 2016e (x)	0.30
Dividend Yield 2016e (%)	0%

Price Performance:	
1 month (%)	-12.46%
3 month (%)	6.62%
12 month (%)	-45.88%

*Initiate coverage of Dar Al Arkan Real Estate Development Company (DAAR) with a **BUY** at a target price of SAR6.38/share. As per our discussion with company management, DAAR is unlikely to be exposed to land fees as the current land portfolio is either fully developed and for sale, under development with infrastructure being built or is purely raw land with few municipal services. Hence its total land block which equals 34mn sq.m will not fall under the tax bracket. DAAR is very well positioned to settle its debt obligations as it is sitting on cash of SAR1bn, receivables of SAR2.9bn and land bank at an estimated market value of SAR24.8bn. Apart from above option, company has commendable track record of doing repayments which will help DAAR to renegotiate its Murabaha facilities. We expect revenue and net income to grow at a CAGR of 10.1% and 13.0% respectively during 2015-19.*

*Our target price offers an upside of 27.9% compared to current market price of SAR4.99/share. It is currently trading at 2016 PE and P/Bv multiple of 16.6x and 0.30x respectively. Company weights in Tadawul All Share Index, Tadawul RE Index & MSCI GCC IMI Islamic are 0.9%, 9.35% and 0.95% respectively.*

### Risk to Target Price

- Land bank falling under the white land tax
- Delays in commencement of income yielding projects
- Fall in real estate prices more than estimated
- Unable to turn around the revenue composition in favor of recurring Business
- Failure in securing or delay in the development work due to non-availability of finances

### Catalysts

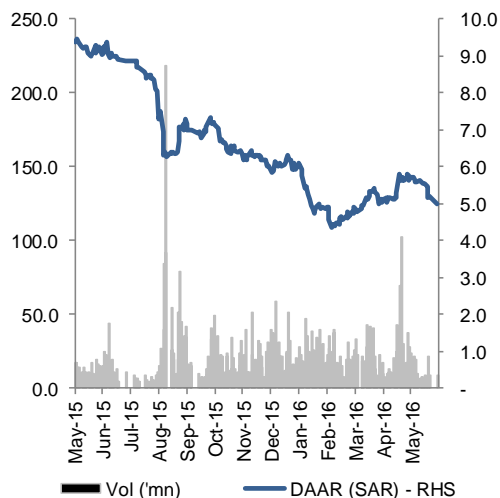
- Land bank estimated market value of SAR24.8bn
- Announcement of new recurring revenue projects
- Earlier than estimated completion of projects
- Better offer availed on land sales

### Key Financial Data and Estimates

	2014	2015	2016e	2017e	2018e	2019e
Revenue (SAR mn)	3,056	2,211	2,398	2,638	3,031	3,248
Net Income (SAR mn)	575	359	324	392	508	586
Gross Margins (%)	42.5%	44.5%	40.0%	39.5%	39.0%	39.0%
Net Margins (%)	18.8%	16.2%	13.5%	14.9%	16.8%	18.0%
Debt to Equity (x)	0.44	0.36	0.34	0.32	0.30	0.28
Cash as % of Assets	4.3%	4.0%	3.7%	3.8%	4.3%	5.1%
ROE (%)	3.3%	2.0%	1.8%	2.1%	2.7%	3.0%
PE (x)	9.38	15.01	16.66	13.74	10.60	9.20
PBv (x)	0.50	0.30	0.30	0.29	0.28	0.27

Source: Company Filings and OABInvest

### Price Volume Performance



Source: Zawya

**Hettish Karmani**  
 Head of Research  
[h.karmani@oabinvest.com](mailto:h.karmani@oabinvest.com)  
 Tel: 00968 - 24754316

### DAAR unlikely to be exposed to land fees

The Government introduced proposed fees on undeveloped land which has affected the land trading business in 2015 owing to initial uncertainty as to the extent of the impact of the fees and their likely effect on land. The focus of the fees is on land plots which are for residential use within urban areas, those which have been held for substantial periods of time and remain undeveloped, and those provided with municipal services such as roads and utilities.

As per the management, It is unlikely DAAR will be exposed to land fees as the current land portfolio is either fully developed and for sale, under development with infrastructure being built or is purely raw land with few municipal services. Hence its total land block which equals 34mn sq.m will not fall under the tax bracket.

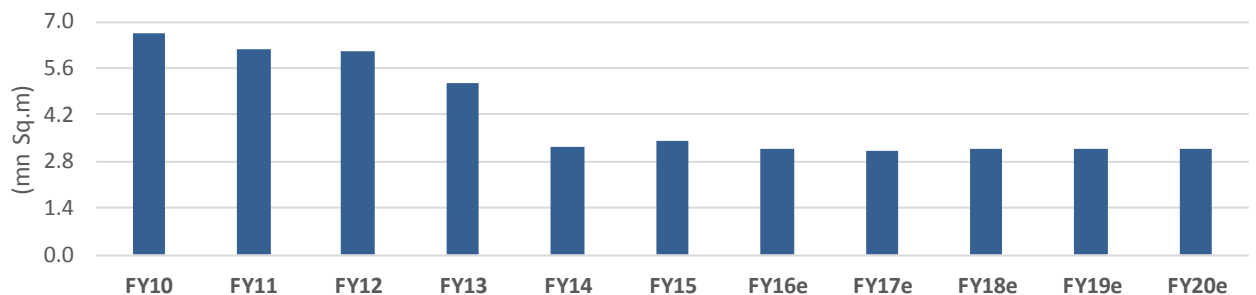
It would be worth mentioning that the land bank (excluding land of leasing and residential/commercial projects) has been booked at SAR14.4bn as of 2015. Over the years, DAAR has realized margins averaging 42%. If we take 42% as the margin the rough market value of the land equals to SAR24.82bn.

### Land Sales to continue to reinforce the topline as well as to fulfill the obligations

Land sales have continued to be the major revenue earner for DAAR. In 2015, the company sold 3.40mn sq.m of residential mixed-use land which was just tad higher than 3.23mn sq.m sold in 2014. In 2015, DAAR spent SAR1.08bn on land purchases, acquisition of rental properties and development projects. Nevertheless, DAAR was a net seller of land in 2015. The revenue generated from land sales amounted to SAR2.0bn (94% of total) in 2015 compared to SAR2.9bn (95.9% of the total).

In 2015, market challenges affected the Company’s land sales and therefore caused revenues and profits to be lower. These challenges included concerns over land fees, the mortgage law which introduced more stringent regulations in respect of new mortgages for housing and consequently are holding back significant mortgage uptake as well as a marked decline in land transactions. Also, there were changes in the Government’s approach to the market in terms of strategic direction via the Ministry of Housing (‘MOH’). The resulting lower volumes in land transactions.

Geographical Split of DAAR's land bank				
	2013	2014	2015	1Q16
Jeddah	45%	60%	64%	64%
Riyadh	30%	14%	14%	14%
Makkah	18%	20%	20%	20%
Others	7%	6%	2%	2%



Source: DAAR Annual Reports & OAB Invest

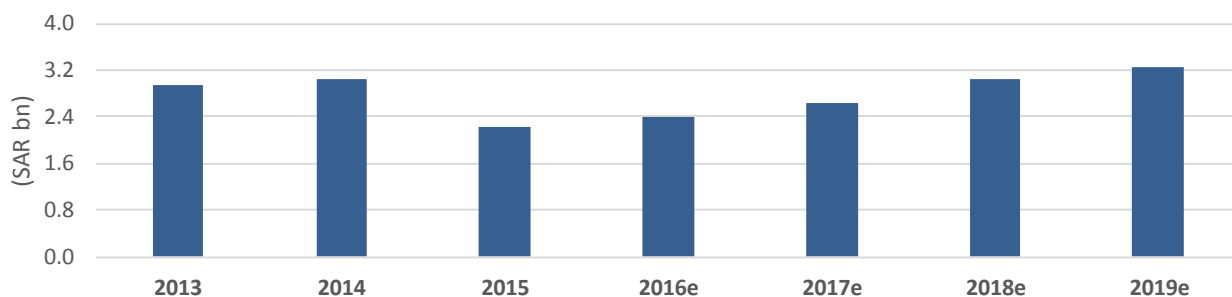
Going forward, we expect land sales to continue but not at the pace at which we saw it in 2012-13 as we expect company to be prudent in utilizing land in timely and efficient manner as in the coming years we will see a rush in land sales because of the white land fee application which might drop the prices. Secondly

DAAR is well positioned to leverage opportunities in the future when market conditions, whilst managing cash flow effectively and plan for future Sukuk repayments.

However we believe the proportion of land sales contribution to the topline will drop from currently 94% to about 60% by 2020 as per our estimates.

### Revenue fell by 27.6% in 2015; expected to grow at a CAGR of 10% during 2015-19

DAAR reported revenue of SAR2.2bn in 2015, compared to SAR3.0bn in 2014, decline of 27.6%. The decline was mainly due to the decrease in land sales. Rental revenues increased by 9% to reach SAR136mn during 2015 compared to SAR125mn in 2014 due to the growing occupancy ratios of the Company’s residential and commercial properties assigned for lease in Riyadh and Madinah regions. Company did not earn any revenue from the sale of residential properties in 2015 due to the Company’s renting strategy. Revenues from the sale of land were SAR2.0bn in 2015 compared to SAR2.9bn in 2014, representing a decrease of 29% mainly due to the lower area of land sold and lower average selling price per square meter attributable to location and development status of the properties sold compared to 2014. Average selling price per sq.m dropped by 32.6% to SAR610 per sq.m compared to SAR905 per sq.m in 2014.



Source: DAAR Annual Reports & OAB Invest

Going forward, we expect revenue to grow at a CAGR of 10% during 2015-19. We expect, land sales revenue to grow at a CAGR of 2% mainly because of expectation of lower prices while we expect the revenue from recurring business to grow over five folds as occupancy rates are expected to rise as well as revenue from new leasing properties will kick in as well.

From the upcoming projects we expect the revenue to flow in from the Shams Ar Riyadh project in 2018. DAAR sold 1.8mn sq.m of land from Shams Ar Riyadh project to SABIC and 0.4mn sq.m to others so the remaining land of this project amounts to 2.8mn sq.m on which 13,574 apartments would be leased, 2550 residential units would be sold while the commercial land designated for sale stands at 489k sq.m. As of 2015, 55% of the project infrastructure is complete.

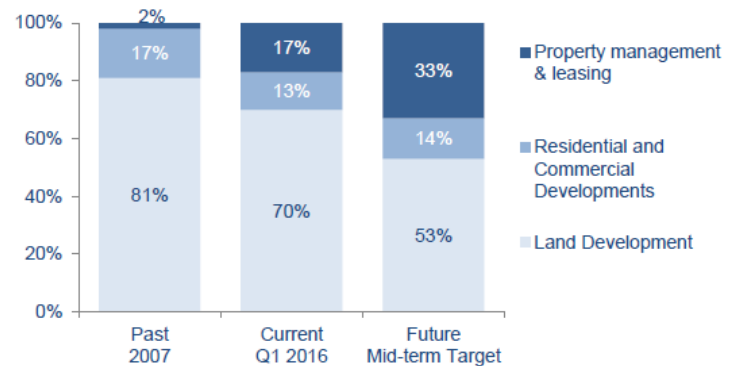
Juman project in which DAAR is the master developer continues to be refined at pre-concept level. Juman is located in Dammam and will be an integrated, Master Planned community providing its residents and visitors modern waterfront living. DAAR holds 18% of the project.

Shams Al Arous project which is company’s third master planned community is located in Jeddah. All the land has infrastructure in place. DAAR has been selling land parcels to sub developers and brokers. DAAR will recognize recurring revenue from 3,304 residential units and 190k sq.m commercial space.



### DAAR remains focused on business diversification

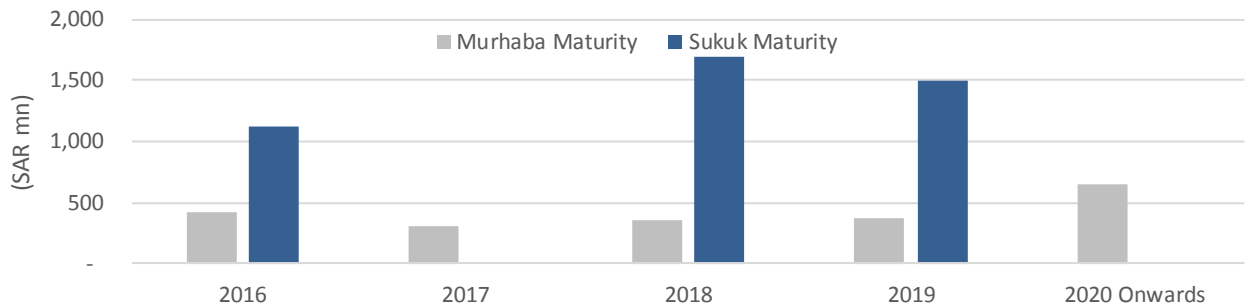
Dar Al-Arkan continues to emphasize on diversifying its revenue streams and, thereby reduce its dependence on land sales. The company indicated that it is aiming to bring down the contribution of land sales to close to 50% in the next five to seven years, while increasing the level of property management/leasing and residential/commercial developments to take care of the remaining.



Although we have seen slight changes to the proportion as the land sales revenue contribution to the total dropped from 97.8% in 2012 to 93.8% in 2015. Going forward, we expect that once the new projects kick-in and their contribution flows we estimates land sales contribution to the total to drop to 60% by 2020.

### Debt obligations on the cards; to be fulfilled effortlessly

DAAR’s total outstanding debt as of 2015 stands at SAR6.29bn compared to SAR7.60bn in 2014. The company repaid, the fourth Sukuk worth SAR1.5bn and also paid Murhaba facilities amounting to SAR550mn in 2015.

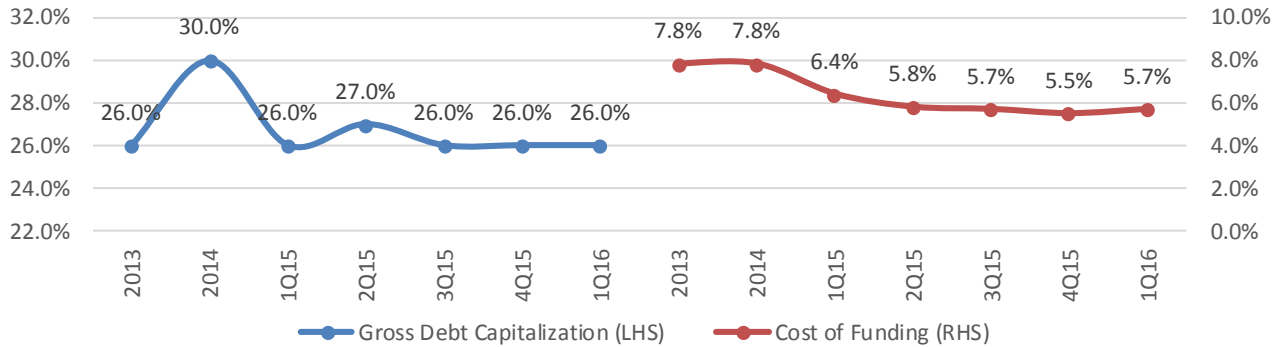


Source: DAAR Annual Reports

DAAR raised Sukuk amounting to SAR12.8bn of which SAR8.5bn has been repaid whereas the remaining SAR4.3bn is due for maturity in next 1-4 years. The ratio of international Islamic Sukuk to total financing amount as of 2015 stands at 67% whereas the Murahaba’s and Ijaras with local and regional banks were 33%.

In 2016, DAAR would witness maturity of SAR1.54bn worth of credit (SAR1.12bn Sukuk and SAR418mn worth of Murahaba facilities). In our view company is very well positioned to settle their obligations as it is sitting on cash of SAR1bn, receivables of SAR2.9bn and land bank at an estimated market value of SAR24.8bn. Apart from above option, company has commendable track record of doing repayments which will help DAAR to continue to build on its relationship and access the international as well as local markets for future needs.

The same was voiced by rating agency [Moody’s](#) which was of the opinion that Dar Al Arkan will be able to adequately address its SAR1.5bn of debt maturities due in 2016 primarily through internal cash sources. The B1 rating assumes that management will continue to pursue financial policies that build up cash buffers ahead of its SAR3.9bn in debt maturing in 2018 and 2019.



Source: DAAR Annual Reports

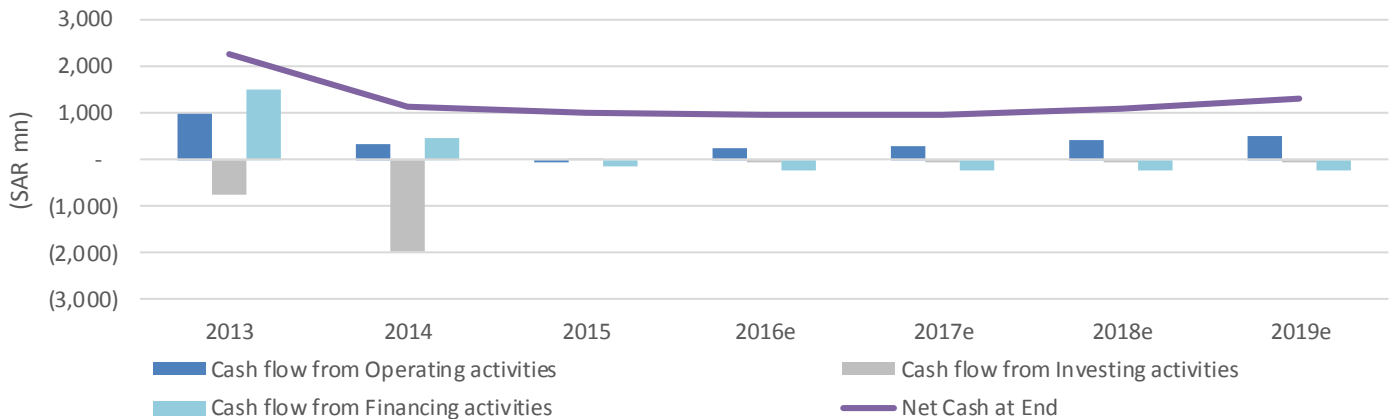
In terms of cost of funding, the average stands at 5.7% which has declined from 7.8% at the end of 2014. The decline can be attributed to cautious cash management as well as because of improving credit terms with local banking institutions on new debt.

### Cash flows expected to grow

**Cash Flow from Operating Activities:** We expect DAAR's cash flow from operations to grow and remain positive throughout the forecast period backed by incremental earnings and efficient working capital management. As per our forecasts, the company's future earnings would be sufficient to fund its working capital requirements.

**Cash Flow from Investing Activities:** DAAR is expected to invest in investment properties to build its income generating portfolio. The projects in progress and land banks are expected to generate cash as they reach completion.

**Cash Flow from Financing Activities:** We have assumed additions in the Islamic Murabaha to fund investment requirements while at the same time we have taken up the maturity of Islamic Murabaha and Sukuk as per schedule. We have not assumed any dividend payouts by the Company in our forecast period.

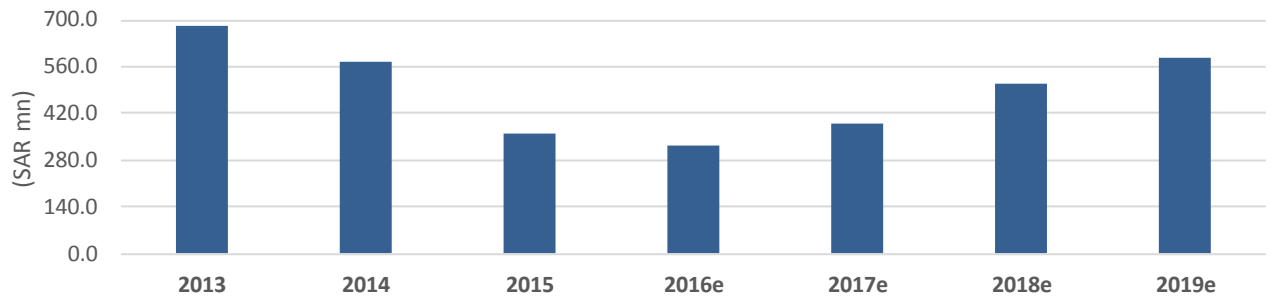


Source: DAAR Annual Reports & OAB Invest

**Net income to drop in 2016 by 10%; expected to grow at a CAGR of 13% during 2015-19**

Net income reported by the company in 2015 was SAR359mn compared to SAR575mn in 2014, drop of 37.5%. The decline in the net income was driven by lower land sales and lower operating income in spite of a decrease in selling and general administrative expenses and finance costs.

In 1Q16, DAAR reported a 60.7% drop in net profit. The Company recorded a net profit of SAR57.85m compared with SAR147.29m in the same period a year earlier. The company cited lower sales revenue as the reason behind the latest slump.



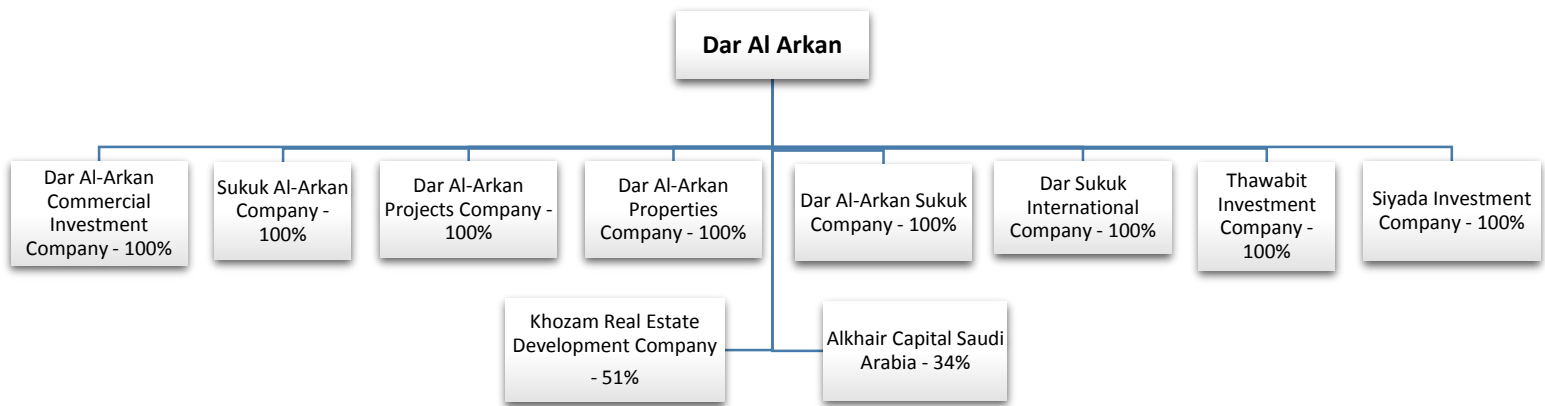
Source: DAAR Annual Reports & OAB Invest

Going forward, we expect the net income to drop in 2016 on account of lower land sales as well as because of lower selling price. However once the clarity on fees is issued in June 2016 we expect the real estate transactions to pick up.

## About the Company

Dar Al-Arkan is a leading real estate development company in the Kingdom of Saudi Arabia, specializing in residential real-estate. Based in Riyadh, from July 2002 to January 2004, Dar Al-Arkan operated as a limited liability company with a capital base of SAR140mn. The company increased its capital to SAR5.40bn through a private placement in the domestic market in 2004 while converting to a partnership limited by shares. Subsequent to the private placement, Dar Al-Arkan converted to a joint stock company in 2005. In December 2007, Dar Al-Arkan listed its shares on the Saudi Stock Exchange.

The Company operates in three segments: DAR Projects, DAR Investments and DAR Properties. The Company, along with its subsidiaries, specializes in the development of master-planned lifestyle residential communities offering developed land parcels, apartments and villas, lease of real estate projects and related activities, including construction, maintenance and reconstruction of residential and commercial buildings.

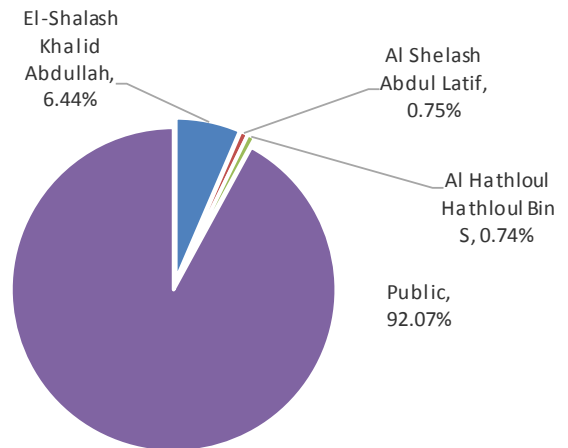


### Board of Directors

Name	Position
Mr Yousef Bin Abdullah Shelash Al-Shelash	Chairman
Mr Abdulaziz Abdullah Al Shelash	Director
Mr Hethloul Bin Saleh Al-Hethloul	Director
Dr Abdulrahman Hamad Saleh Al Harkan	CEO / Director
Mr Tarek Bin Mohammed Ali Al Jarallah	Director
Mr Majid Bin Roumi Al Roumi	Director
Mr Ahmed Mohamed Othman Al Dahash	Director
Mr Majid Bin Abdulrahman Al Kassim	Director
Mr Khalid Bin Abdullah Al Shelash	Director
Mr Saleh Bin Moraikhan Al Motairi	Director
Mr Abdullatif Bin Abd. Shelash Al-Shalash	Director

Source: Zawya & Bloomberg

### Shareholding Structure



## Financial Statements

(SAR mn)	2013	2014	2015	2016e	2017e	2018e	2019e
<b>Income Statement</b>							
Revenue	2,931	3,056	2,211	2,398	2,638	3,031	3,248
Cost of Sales	(1,778)	(1,757)	(1,228)	(1,439)	(1,596)	(1,849)	(1,981)
<b>Gross Profit</b>	<b>1,153</b>	<b>1,299</b>	<b>983</b>	<b>959</b>	<b>1,042</b>	<b>1,182</b>	<b>1,267</b>
S G & A	(151)	(237)	(204)	(221)	(244)	(280)	(300)
D & A	(32)	(42)	(40)	(38)	(36)	(35)	(33)
<b>Operating Profit</b>	<b>970</b>	<b>1,020</b>	<b>739</b>	<b>700</b>	<b>762</b>	<b>867</b>	<b>933</b>
Net Financial Charges	(314)	(493)	(385)	(382)	(374)	(361)	(348)
Other Income	43	63	14	14	15	15	16
<b>Profit Before Taxation</b>	<b>699</b>	<b>590</b>	<b>368</b>	<b>332</b>	<b>402</b>	<b>522</b>	<b>601</b>
Income tax	(18)	(15)	(9)	(8)	(10)	(13)	(15)
<b>Net Profit</b>	<b>681</b>	<b>575</b>	<b>359</b>	<b>324</b>	<b>392</b>	<b>508</b>	<b>586</b>
<b>Balance Sheet</b>							
Cash and marketable securities	2,279	1,135	1,001	951	973	1,115	1,334
Receivables and prepayments	1,849	2,565	2,923	3,022	3,125	3,233	3,347
Short term deposits with banks		1,175	-	-	-	-	-
Development WIP	972	794	437	437	437	437	437
Net fixed assets	2,769	3,639	3,570	3,582	3,598	3,616	3,638
Land and projects in progress	15,581	16,311	16,597	16,614	16,630	16,647	16,664
Other long term assets	748	763	776	792	808	824	840
<b>Total Assets</b>	<b>24,197</b>	<b>26,383</b>	<b>25,305</b>	<b>25,398</b>	<b>25,571</b>	<b>25,872</b>	<b>26,261</b>
Accounts payables	1,284	1,190	1,065	1,072	1,079	1,087	1,094
Islamic borrowings	5,904	7,607	6,293	6,055	5,828	5,614	5,409
Other liabilities	17	19	21	21	21	21	21
Retained earnings	5,308	5,825	6,148	6,472	6,864	7,373	7,958
Other Adjustments	11,685	11,742	11,778	11,778	11,778	11,778	11,778
<b>Total Equity &amp; Liability</b>	<b>24,197</b>	<b>26,383</b>	<b>25,305</b>	<b>25,398</b>	<b>25,571</b>	<b>25,872</b>	<b>26,261</b>
<b>Cash Flow Statement</b>							
Cash flow from Operating activities	1,005	333	(14)	254	316	425	496
Cash flow from Investing activities	(751)	(1,966)	16	(66)	(67)	(69)	(72)
Cash flow from Financing activities	1,490	489	(137)	(238)	(226)	(215)	(204)
Change in cash	1,743	(1,144)	(134)	(50)	23	141	220
<b>Net Cash at End</b>	<b>2,279</b>	<b>1,135</b>	<b>1,001</b>	<b>951</b>	<b>973</b>	<b>1,115</b>	<b>1,334</b>
<b>Ratio Analysis</b>							
Gross Margin	39.3%	42.5%	44.5%	40.0%	39.5%	39.0%	39.0%
Operating Margin	33.1%	33.4%	33.4%	29.2%	28.9%	28.6%	28.7%
Net Margin	23.2%	18.8%	16.2%	13.5%	14.9%	16.8%	18.0%
Return on Assets	2.8%	2.2%	1.4%	1.3%	1.5%	2.0%	2.2%
Return on Equity	4.0%	3.3%	2.0%	1.8%	2.1%	2.7%	3.0%
Current Ratio (x)	2.51	1.70	1.68	1.69	1.74	1.83	1.95
Quick Ratio (x)	1.80	0.86	1.14	1.15	1.20	1.29	1.41
Debt / Equity (x)	0.36	0.44	0.36	0.34	0.32	0.30	0.28
EV/Revenues (x)	3.14	3.95	4.92	4.46	1.67	1.41	1.25
EPS (SAR)	0.63	0.53	0.33	0.30	0.36	0.47	0.54
Book Value Per Share (SAR)	15.73	16.27	16.60	16.90	17.26	17.73	18.27
Market Price (SAR) *	9.85	8.13	6.20	4.99	4.99	4.99	4.99
Market Capitalization (SAR mn)	10,638	8,780	6,696	5,389	5,389	5,389	5,389
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E Ratio (x)	7.91	9.38	15.01	16.66	13.74	10.60	9.20
P/BV Ratio (x)	0.63	0.50	0.30	0.30	0.29	0.28	0.27

Source: Company Reports & OABInvest

\* Market price for 2016 and subsequent years as per closing prices on June 02, 2016

# Saudi Real Estate Co. (Al-Akaria)

**TP: SAR 20.34/share**

Recommendation	<b>HOLD</b>
Bloomberg Ticker	SRECO AB
52wk High / Low (SAR)	40.5 / 14.5
Current Market Px. (SAR)	19.5
12m Average Volume	815,000
Mkt. Cap. (USD/SAR mn)	624 / 240
Shares Outstanding (mn)	120.0
Free Float (%)	35%
3m AVD Turnover (000)	17,996
6m AVD Turnover (000)	17,535
PE 2016e (x)	12.50
PBv 2016e (x)	0.66
Dividend Yield 2016e (%)	3.5%

**Price Performance:**

1 month (%)	3.50%
3 month (%)	6.67%
12 month (%)	-50.31%

*Initiate coverage of Saudi Real Estate Company (Al-Akaria) with a **HOLD** at a target price of SAR19.5/share. Al-Akaria owns 20.5mn sq.m of land. The book value of the land is SAR3.4bn while the fair / market value as of December 2015 stands at SAR8.15bn i.e. almost 2.4x the book value. Al-Akaria is expected to benefit from the completion of its upcoming projects such as The Village Project, Al-Akaria Marriott Project & Al-Akaria Residences Project. Overall revenue of the company is expected to grow at a CAGR of 12.1% during 2016-19 (rental revenue and land sales revenue to grow at CAGR of 12.4% and 10.0% respectively during 2016-19). Because of acquiring sizable loan in previous year, financial charges are expected to eat-up sizable chunk from the profit which will subside once the revenue from new projects starts flowing in. Going forward, we expect the net income to rise by 5.4% in 2016 on account of better occupancy rates as well as because of land sales. While during 2016-19 we expect company to report a net income CAGR of 13%.*

*Our target price offers an upside of 4.3% compared to current market price of SAR19.5/share. It is currently trading at 2016 PE and P/Bv multiple of 12.5x and 0.66x respectively.*

*Company weights in Tadawul All Share Index, Tadawul RE Index & MSCI GCC IMI Islamic are 0.11%, 1.2% and 0.1% respectively.*

**Risk to Target Price**

- Land bank falling under the white land tax
- Delays in commencement of income yielding projects
- Fall in real estate prices more than estimated

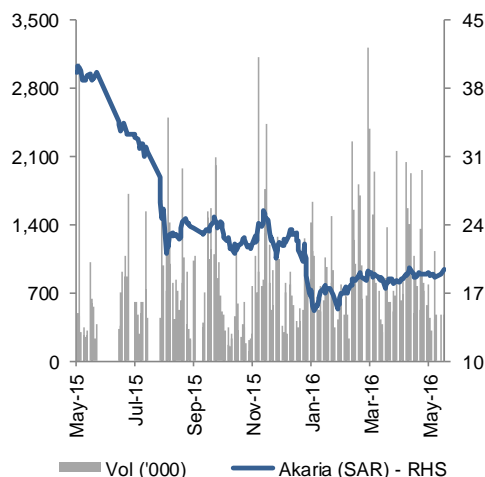
**Catalysts**

- Fair value of land (Inv & Built up) 2.4x times the book value
- Earlier completion of new recurring revenue projects
- Better offer availed on land sales

**Key Financial Data and Estimates**

	2014	2015	2016e	2017e	2018e	2019e
Revenue (SAR mn)	341	279	363	425	497	512
Net Income (SAR mn)	276	148	156	186	221	225
Gross Margins (%)	74.3%	79.8%	76.0%	75.0%	74.0%	73.5%
Net Margins (%)	81.0%	52.4%	51.5%	51.5%	51.5%	51.1%
Debt to Equity (x)	0.00	0.76	0.76	0.74	0.73	0.72
Cash as % of Assets	0.1%	13.6%	11.6%	10.5%	9.5%	8.7%
ROE (%)	8.0%	4.3%	5.3%	6.0%	6.7%	6.6%
PE (x)	8.47	16.00	12.50	10.67	9.14	8.96
PBv (x)	1.16	0.68	0.66	0.64	0.62	0.59

Source: Company Filings and OABInvest

**Price Volume Performance**


Source: Zawya

**Hettish Karmani**

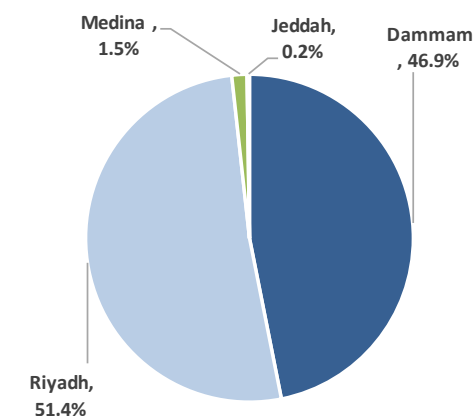
Head of Research

[h.karmani@oabinvest.com](mailto:h.karmani@oabinvest.com)

Tel: 00968 - 24754316

## Second highest land bank amongst the listed real estate players in Kingdom

Al-Akaria owns 20.5mn sq.m of land of which 10.3mn sq.m land is outside the urban boundary which does not fall under the ambit of white land tax while the land within the urban boundary spans across 10.2mn sq.m. Land within the urban boundary is in an area of 10.04mn sq.m, within projects and investment, whether the company starts making use of it or is under follow up with the government agencies to obtain necessary license to start investment. This land poses certain uncertainty and some fraction of it might fall under the white land tax. Management (investor relation) has not been able to confirm about any development regarding it.



Source: Annual Report

As per annual report of the company, investment land book value stands at SAR3.3bn compared to its market value at SAR6.6bn while build up land book value stands at SAR120mn compared to its market value of SAR1.5bn. The total gain company can book at current valuation stand at SAR4.74bn.

(SAR mn)	Book Value	Fair Value	Unrealized Gain	% Unreal. Gain
<b>Investment Land</b>	3,302	6,636	3,333	101%
<b>Built-up Land</b>	120	1,511	1,391	1155%
<b>Total</b>	3,423	8,147	4,724	138%

Source: Annual Report

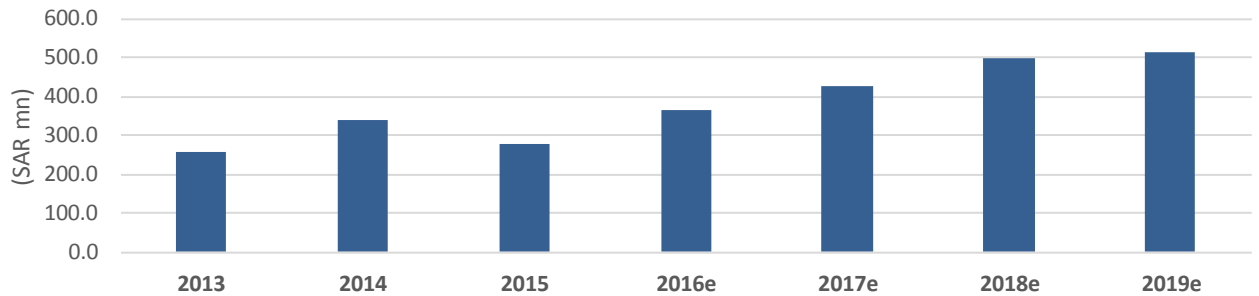
Land Location	Area in sqm	Status
King Fahd Road land (old Akaria)	1,671	Built-Up
Land of Steen Street first centre - Riyadh	10,000	Built-Up
Land of Olya Scheme - Riyadh	238,538	Built-Up
Land of Steen Street second centre - Riyadh	9,325	Built-Up
<b>Total Built-up Land Area</b>	<b>259,534</b>	
First Sixty Commercial Parking Land- Riyadh	2,241	Investment
Al Thomama Road Land - Riyadh	430,727	Investment
Shuaib Daiaa Land, Al Qusaim Road- Riyadh	596,700	Investment
Riyadh Hills Project's Land	44,465	Investment
Western Industrial Zone Land - Dammam	5,675,630	Investment
King Fahd Airport Road Land - Dammam	3,941,966	Investment
King Abdul Aziz Road - Jeddah	49,800	Investment
King Fahd Southern Road Land - Riyadh	30,000	Investment
Salbouxh Bunian Road Land - Riyadh	648,189	Investment
Southern Binban land (no. 13) - Riyadh	871,597	Investment
Southern Binban land (no. 15) - Riyadh	519,059	Investment
Third Circular Land - Medina	63,493	Investment
King Khaled Road - Medina	157,280	Investment
Al Qusaim Road - Medina	1,578	Investment
Al Qusaim Road - Medina	85,572	Investment
Qurtuba no. 26 Plan 3115 - Riyadh	1,919	Investment
Qurtuba plan Lands - Riyadh	28,023	Investment
Land no. 20 Plan no. 2737 Narjis Street- Riyadh	25,570	Investment
Al Aqiq Southern Street - Riyadh	25,500	Investment
Land plot no.4 Plan no.2737 Narjis Street - Dammam	40,000	Investment
Land of Al waseel - Riyadh	7,103,000	Investment
<b>Total Investment Land Area</b>	<b>20,342,309</b>	
<b>Total Land Area</b>	<b>20,601,843</b>	

During 2015, company bought a land with an area of 7.1mn sq.m in the north of Riyadh city, worth SAR2.13bn (SAR 300/meter), to be used in real estate projects that will raise the income of the company in the future. The company also entered into an agreement with Inma Investment Company to buy a land north of Riyadh with area of about 4.5mn sq.m at a price of (SAR400/meter), at a total cost of about SAR1.8bn, by establishing real estate investment fund licensed by the Capital Market Authority. The company’s share of the land is 250k sq.m.

**Revenue dropped by 46.6% in 2015; expected to grow at a CAGR of 16% during 2015-19**

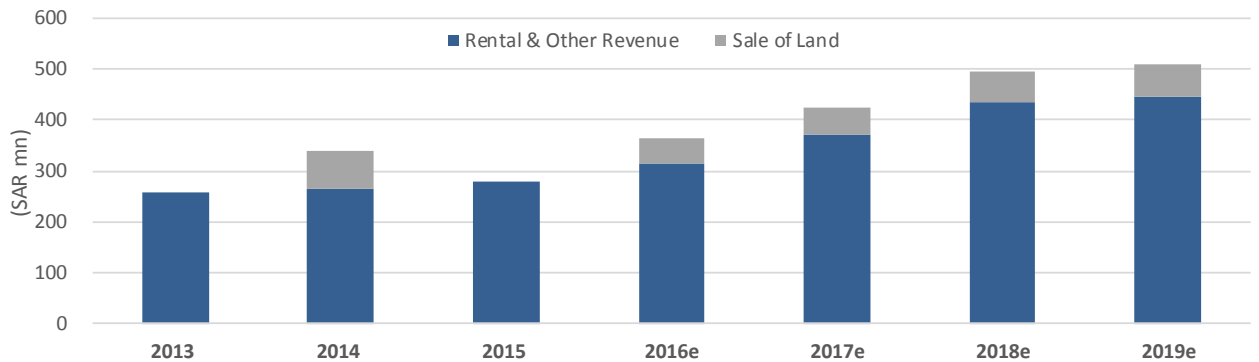
Al-Akaria reported 46.6% drop in revenue in 2015. The decline in the company’s revenues in 2015 despite the increase in rental income was because of lack of land sales compared to land sales in the previous year worth SAR77mn. Rental revenue of the company went up by 5.7% to SAR277.1mn compared to SAR262.1mn in 2014. In the absence of land sales, rental revenue contribution to the total was 99.4% compared to 76.8% in 2014. The company was also able to add 62 Villa to ALAKARIA housing in the Diplomatic Quarter, which increased rental income by SAR15mn, equivalent to 5.8% from the previous year.

During 1Q16, company reported an increase of 8.1% in revenue to SAR72.6mn compared to SAR67.2mn in 1Q15. During 1Q16, company did not report any land sale and the rental revenue contributed almost 92% of the revenue. While the rest of the revenue came from maintenance and other activities.



Source: Annual Reports & OAB Invest

Going forward, we expect revenue to grow at a CAGR of 12% during 2015-19. We expect, land sales revenue to grow at a CAGR of 10% while we expect the rental and other revenues to grow at a CAGR of 12.4% during 2016-19. Land sales is expected to contribute on an average of 13% to the total during 2016-19.



Source: Annual Reports & OAB Invest



Upcoming projects of Al-Akaria are:

**The Village Project:** The project is located on an area of (430,727) square meters in Remal District -south of King Khalid International Airport in Riyadh. The company has completed the infrastructure works of the project site which include: roads, lighting, water, electricity, sewage and drainage network for flood and rains. The company has started execution of (28) housing units in an effort to reduce the overall cost of the project estimated at about SAR1.13bn.

**ALAKARIA Marriott Project:** The project is located on Salah Al-Deen Street (the Siteen Street) on a land area of 10 thousand square meters. The company's aims to establish a mixed use building consists mainly of: four star hotel, apartment hotel, offices and auditoriums for meetings and events. The total estimated cost of this project is SAR425mn. The company has prepared the feasibility study, studies concerning the efficient utilization of the land, hired a designer to design the new mixed use building, signed several agreements with Marriott International to manage, operate and support the project, building license issued and began excavation work. The company is working currently on finalizing the procedures for launching requirements of bid to implement the project.

**ALAKARIA Residences Project:** The project which will cost about SAR508mn aims to build 299 residential units in the Diplomatic Quarter in Riyadh. The company has completed some villas and has started leasing some of them since the second quarter of 2015. The company expects to complete all residential units before the end of the second quarter of 2016.

### Operational Statistics of Al-Akaria

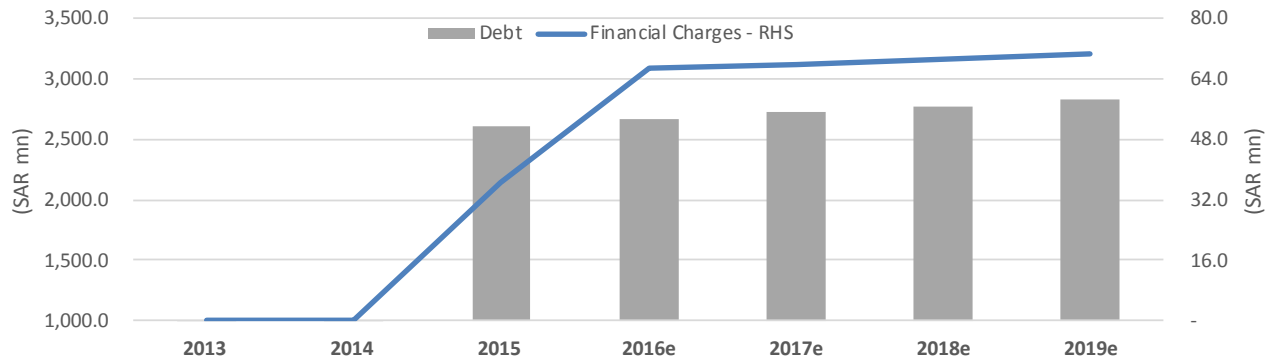
	2014	2015	2018e
Residential Apartments in Olaya complexes	100%	100%	100%
Trade fairs in all centers	91%	89%	95%
Offices in all commercial centers	93%	92%	95%
Block of flats in Diplomatic Quarter (1)	100%	100%	100%
Diplomatic Quarter (2)	-	92%	96%

Statement (unit average space)	Numbers of office s [292 m <sup>2</sup> ]	Numbers of exhibitions [116 m <sup>2</sup> ]	Build-ings	Apart-ments	Numbers of independent villas [504]	Number of double villas [242 m <sup>2</sup> ]
First Commercial Center	59	122				
Second Commercial Center	211	129				
Third Commercial Center	140	53				
Steen trading complex	144	8				
Eastern complex (Olya)			21	338		
Northern complex (Olya)			25	372		
Western complex (Olya)			8	161		
Southern complex (Olya)			5	100		
Diplomatic Quarter (1)			19	122	66	132
Diplomatic Quarter (2)					29	33
AIKARIA Plaza	138	17				
<b>Total</b>	<b>692</b>	<b>329</b>	<b>78</b>	<b>1093</b>	<b>95</b>	<b>165</b>

Source: Annual Report & OABInvest

### Financial charges to double in 2016 and to average around 16% of the revenue

During 2015, the company obtained a long term Islamic loan from local bank. As of 2015, outstanding balance of the loan amounts to SAR2.11bn. The loan was obtained at Saudi Interbank offering rate (SIBOR) plus and agreed margin. During the year Company also signed a long term loan agreement with Public Investment Fund amounting to SAR1.5bn to finance investment projects in Riyadh. The outstanding balance amounts to SAR495mn. Maturity of the loan is in 2025 and its installments are payable semiannually.



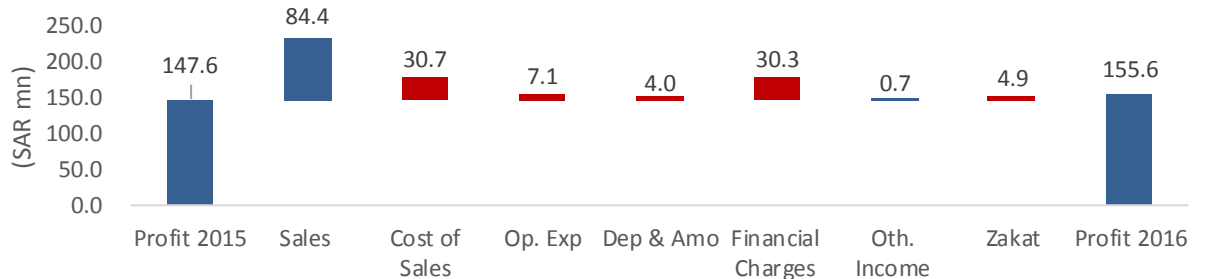
Source: Annual Reports & OAB Invest

During 2015, company reported financial charges of SAR36.mn whereas there was no such amount on company books in previous years. While in 1Q16, financial burden amounted to SAR22mn which is expected to reach SAR66.6mn in 2016 and to a high of SAR71mn in 2019.

### Net income to rise in 2016 by 5.4%; expected to grow at a CAGR of 11% during 2015-19

Net income reported by the company in 2015 was SAR148mn compared to SAR276mn in 2014, drop of 46.6%. The decline in the net income was driven by absence of land sales, lower other income as well as because of reporting of financial charges which were not present in 2014. In 1Q16, Al-Akaria reported a 38.2% drop in net profit. The Company recorded a net profit of SAR26.6mn compared with SAR43.12mn in the same period a year earlier. The company higher financial charges as the reason behind the drop in the income.

#### 2016 Profit Evolution



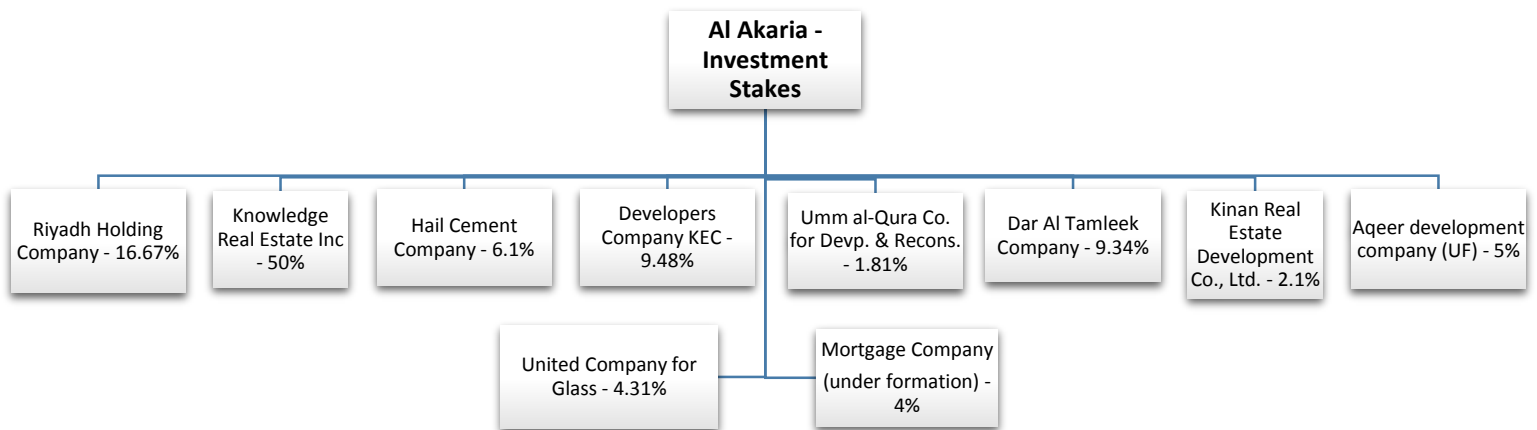
Source: OAB Invest

Going forward, we expect the net income to rise by 5.4% in 2016 on account of better occupancy rates as well as because of sale of small portion of land. While during 2016-19 we expect company to report a net income CAGR of 13%.

## About the Company

Al Akaria was established by royal decree in 1976 and has been a leading Saudi real estate development company since its inception, delivering numerous innovative residential, retail and commercial projects. Al Akaria has paid up capital of SAR1.2bn, Al Akaria is a Saudi Joint Stock Company that trades publicly as the Saudi Real Estate Company on the Saudi Stock Exchange. The company has strong support from the Saudi government, as almost 2/3<sup>rd</sup> of it is owned by government which is represented by Pension Investment Fund and Public Pension Agency, in addition to support from local agencies and international partners. Headquartered in Riyadh, Al Akaria has over 400 employees.

The main activities of this company are: purchasing and selling real estate, Acquisition of suitable lands, developing, and constructing residential and commercial buildings for the purpose of selling and renting. Managing real estate for its benefit or for the benefit of third parties, purchasing, producing and then selling and renting materials and equipment needed in building and carrying out construction of buildings and doing all works which achieve its objectives.

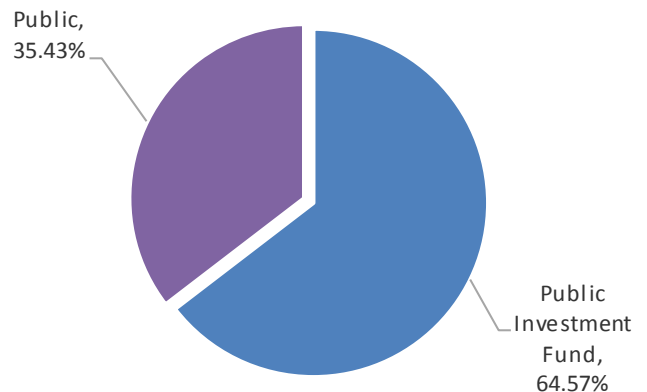


## Board of Directors

Name	Position
Mr. AbdulRahman M. Ali Al Mufdi	Chairman
Mr. Hamad Abdullah Al Dossary	Director
Mr. Jabr AbdulRahman Al Jabr	Director
Mr. Salman Nasser Al-Hawawi	Director
Mr. Abdulaziz S. Al Anbar	Director
Mr. Hamad Ali Al Showair	Director
Dr. Ahmed Abdullah Bakrman	Director
Mr. Abdrahman M. Ascehybani	Director
Dr. Khalid Skait Al-Skait	Director
Mr Abdullah Bin Ibrahim Al-Iyadi	CEO

Source: Zawya & Bloomberg

## Shareholding Structure



## Financial Statements

(SAR mn)	2013	2014	2015	2016e	2017e	2018e	2019e
<b>Income Statement</b>							
Revenue	259	341	279	363	425	497	512
Cost of sales	(77)	(88)	(84)	(119)	(139)	(164)	(172)
<b>Gross Profit</b>	<b>181</b>	<b>253</b>	<b>195</b>	<b>245</b>	<b>286</b>	<b>333</b>	<b>340</b>
Operating expense	(18)	(25)	(29)	(36)	(43)	(50)	(51)
<b>Operating profit</b>	<b>163</b>	<b>229</b>	<b>166</b>	<b>208</b>	<b>243</b>	<b>283</b>	<b>288</b>
Net financial charges	-	-	(36)	(67)	(68)	(69)	(71)
Other income	4	63	37	37	38	39	40
<b>Profit Before Taxation</b>	<b>167</b>	<b>292</b>	<b>166</b>	<b>179</b>	<b>214</b>	<b>253</b>	<b>257</b>
Income tax	(11)	(15)	(18)	(23)	(27)	(32)	(33)
<b>Net Profit Attributable to Shareholders'</b>	<b>156</b>	<b>276</b>	<b>148</b>	<b>156</b>	<b>186</b>	<b>221</b>	<b>225</b>
<b>Balance Sheet</b>							
Cash and marketable securities	18	4	863	749	698	659	623
Receivables and prepayments	121	130	79	96	109	123	128
Development WIP and land	12	115	174	174	174	174	174
Net fixed assets	1,988	1,968	4,198	4,412	4,637	4,874	5,122
Other long term assets	1,411	1,470	1,013	1,035	1,058	1,082	1,108
<b>Total Assets</b>	<b>3,551</b>	<b>3,687</b>	<b>6,328</b>	<b>6,466</b>	<b>6,676</b>	<b>6,912</b>	<b>7,154</b>
Accounts payables	16	27	61	25	30	35	36
Short-term debt	-	-	-	-	-	-	-
Long-term debt	-	-	2,613	2,666	2,719	2,773	2,829
Other Liabilities	231	200	227	245	274	307	346
Retained earnings	154	281	290	376	477	595	715
Other Adjustments	3,150	3,179	3,136	3,154	3,176	3,202	3,228
<b>Total Equity &amp; Liability</b>	<b>3,551</b>	<b>3,687</b>	<b>6,328</b>	<b>6,466</b>	<b>6,676</b>	<b>6,912</b>	<b>7,154</b>
<b>Cash Flow Statement</b>							
Cash flow from operating activities	182	155	251	182	272	313	332
Cash flow from investing activities	(45)	(48)	(1,884)	(268)	(281)	(295)	(310)
Cash flow from financing activities	(121)	(121)	2,492	(29)	(42)	(57)	(58)
Change in cash	16	(14)	859	(115)	(51)	(39)	(36)
<b>Net Cash at End</b>	<b>18</b>	<b>4</b>	<b>863</b>	<b>749</b>	<b>698</b>	<b>659</b>	<b>623</b>
<b>Ratio Analysis</b>							
Gross margin	70.1%	74.3%	79.8%	76.0%	75.0%	74.0%	73.5%
Operating margin	63.1%	67.0%	59.4%	66.0%	65.0%	64.0%	63.5%
Net margin	60.3%	81.0%	52.4%	51.5%	51.5%	51.5%	51.1%
Return on assets	4.4%	7.5%	2.3%	2.9%	3.3%	3.7%	3.7%
Return on equity	4.7%	8.0%	4.3%	5.3%	6.0%	6.7%	6.6%
Current ratio (x)	0.65	1.19	4.20	4.14	3.52	3.03	2.61
Quick ratio (x)	0.60	0.63	3.54	3.43	2.89	2.47	2.11
Debt / Equity (x)	0.00	0.00	0.76	0.76	0.74	0.73	0.72
Times Interest Earned (x)	0.00	0.00	4.56	3.60	4.07	4.59	4.59
EV/Revenues (x)	8.97	6.85	14.67	11.72	10.25	8.96	8.89
EV/EBITDA (x)	12.32	9.21	21.17	15.69	14.09	12.62	12.58
EPS (SAR)	1.30	2.30	1.22	1.56	1.83	2.13	2.18
Book Value Per Share (SAR)	27.53	28.83	28.55	29.42	30.45	31.64	32.86
Market Price (SAR) *	34.60	33.41	23.00	19.50	19.50	19.50	19.50
Market Capitalization (SAR mn)	4,152	4,009	2,760	2,340	2,340	2,340	2,340
Dividend Yield	2.9%	3.0%	5.1%	3.5%	4.1%	4.8%	4.9%
P/E Ratio (x)	15.00	8.47	16.00	12.50	10.67	9.14	8.96
P/BV Ratio (x)	1.26	1.16	0.68	0.66	0.64	0.62	0.59

Source: Company Reports & OABInvest

\* Market price for 2016 and subsequent years as per closing prices on 02 June, 2016

## Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

**Disclaimer:** This report has been prepared by research department in IMG – Oman Arab Bank, and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such, and the bank accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute IMG's Research department judgment as of the date of production of this report, and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any purpose.

### Oman Arab Bank - Investment Management Group (IMG)



OAB - IMG Winner of the  
'Best Brokerage Award'  
from MSM for  
6 Consecutive Years



39<sup>th</sup> International Trophy for Quality  
Awarded to Oman Arab Bank SAOC  
By Trade Leaders' Club

**Research Division**  
Email: [Research@oabinvest.com](mailto:Research@oabinvest.com)

**Business Development Division**  
Email: [BD@oabinvest.com](mailto:BD@oabinvest.com)

**Product Development Division**  
Email: [b.alrousan@oabinvest.com](mailto:b.alrousan@oabinvest.com)

**Asset Management Division**  
Email: [assetmanagement@oabinvest.com](mailto:assetmanagement@oabinvest.com)

**Brokerage Division**  
Email: [brokerage@oabinvest.com](mailto:brokerage@oabinvest.com)

**Corp. Finance & Advisory Division**  
Email: [corporatefinance@oabinvest.com](mailto:corporatefinance@oabinvest.com)

**Wealth Management-NRI**  
Email: [S.parvez@oabinvest.com](mailto:S.parvez@oabinvest.com)

**Custody Division**  
Email: [custody@oabinvest.com](mailto:custody@oabinvest.com)

**Customer Services Division**  
Email: [customerservice@oabinvest.com](mailto:customerservice@oabinvest.com)

PO Box 2010, Ruwi, 112, Muscat-Oman. Tel: +968 24754576 Fax: +968 24125125  
Web site: <http://www.oabinvest.com>  
e-mail: [research@oabinvest.com](mailto:research@oabinvest.com)

