# Saudi Real Estate

## Nothing but the Rent

24 February 2010

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Research Department

# Saudi Real Estate

Sector Note – Initiation of Coverage 24 February 2010

## Nothing but the Rent

- **Property ownership flat despite strong domestic demand story explained by low mortgage penetration and hence affordability**
- **Mortgage law to boost lending but likely to take time given low base; assuming 20% CAGR (2010-2012) we estimate only 10% of annual demand will be financed**
- **Medium term we prefer exposure to the rental market through Al Akaria. Initiate on Al Akaria and DAAR with a Buy and TPs of SAR34.8 and SAR18.9, respectively**

**Mortgage law likely to further encourage lending, but given low base, it is unlikely to have a meaningful impact on ownership in the short term.** Deleveraging and risk aversion in the wake of the financial crisis prompted lenders to conserve liquidity. Retail lending was flat YTD in 3Q09, with the contraction in consumer loans countered by a 15% growth in mortgages. The mortgage law should further encourage lending, but considering the low base (2% of total loans), it is likely to take time to have a meaningful impact. Our analysis suggests that even if we were to assume a mortgage CAGR of 20% over the next three years, property financing would only account for 10% of total annual demand.

**For the time being, we prefer exposure to the rental market given the exceptionally high occupancy and yields.** While we believe Dar Al Arkan (DAAR) is better placed to benefit from the sector transformation underway, in the medium term our preferred play is Al Akaria given its exposure to the rental market, which is likely to outperform. Although we understand the inevitable re-rating of asset prices could potentially lead to yield compression (currently at 11% in Riyadh), REITs also stand to benefit from upward revision of investment assets.

**Long-term Saudi domestic demand story obvious, but bottom-line ownership remains flat.** Demand is driven by robust growth of the indigenous population, shrinking household size, urban migration, a young population, expanding middle class, and replacement demand. However, prices remain subdued due to the underleveraged position of market. Rapid yield expansion explained by stronger rental appreciation a reflection of housing needs.

**We initiate on Al Akaria and DAAR with a Buy and TPs of SAR34.8 and SAR18.9, respectively.** Despite the comparable upside on both (c40%), thematically we prefer Al Akaria as it is a more direct play on the domestic demand story given the current market maturity curve. We like its strong balance sheet (net cash of SAR644 million) and earnings visibility. We are comfortable with DAAR's ability to continue to sell land given its proven track record. Future projects pose an upside risk to our valuation, but we are cautious on its funding strategy considering its stretched balance sheet. We value Al Akaria and DAAR at a 17% and 27% discount to their respective 2010e NAVs of SAR41.8 and SAR25.9, reflecting their risk profile.

**Saudi Real Estate Key Performance Indicators**

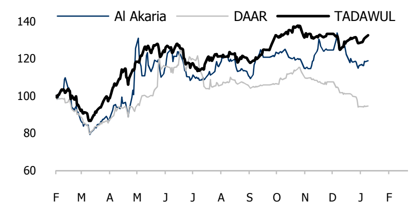
| SAR | Al Akaria | | Dar Al Arkan | |
|---|---|---|---|---|
| **Financials** | **2010e** | **2011e** | **2010e** | **2011e** |
| Revenue (mn) | 268 | 404 | 5,891 | 9,595 |
| NPAT (mn) | 123 | 166 | 1,860 | 3,486 |
| EPS | 1.0 | 1.4 | 1.7 | 3.2 |
| | | | | |
| **Valuations** | | | | |
| P/NAV | 0.6x | 0.5x | 0.5x | 0.5x |
| P/E | 24.4x | 18.1x | 8.0x | 4.3x |
| P/B | 0.9x | 0.9x | 0.9x | 0.8x |

Source: HC estimates

| **Al Akaria** | **BUY** |
|---|---|
| **Target Price (SAR)** | **34.8** |
| Market Price (SAR)* | 24.95 |
| Upside | 40% |
| Bloomberg Code | SRECO AB |
| RIC Code | 4020.SE |
| Market Cap. (USDmn) | 798 |
| Daily Turnover (USDmn) | 1.8 |

| **Dar Al Arkan** | **BUY** |
|---|---|
| **Target Price (SAR)** | **18.9** |
| Market Price (SAR)* | 13.85 |
| Upside | 36% |
| Bloomberg Code | AL ARKAN AB |
| RIC Code | 4300.SE |
| Market Cap.(USDmn) | 3,989 |
| Daily Turnover (USDmn) | 26.5 |

Price Performance Chart




*Prices as of 22 February 2010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# Investment Summary

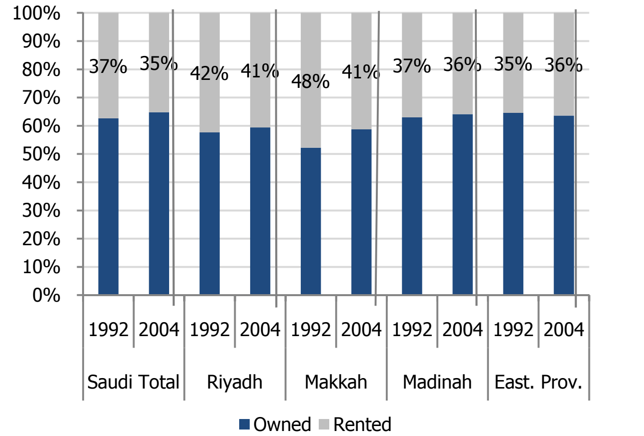
- **Long-term domestic demand story attractive, but mortgages key to unlock affordability and hence ownership, which historically has remained stagnant (2pp from 1992–2004)**

- **We prefer exposure to the rental market given the resilience of the Saudi consumer; rentals were up 5% in 2009 (vs. 50% decline in the UAE), while prices were down 5% in 2009, on our estimates**

- **We believe Al Akaria is a good way to play the theme as its investment portfolio is largely operational with average weighted occupancy of 95%**

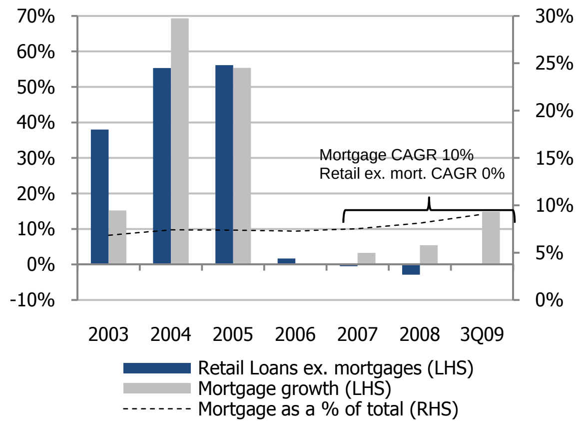
**Chart 1**

Despite strong demand, property ownership flat




Source: Housing & Population Census 1992, 2004

Mortgages a standout growth area in retail lending




Source: SAMA, MEP, HC estimates

Despite the obvious demand story in Saudi, property ownership was flat from 1992 to 2004 due to low mortgage penetration, in our opinion. Nonetheless, mortgages are a growth area and the pending law is likely to further encourage lending, but given the low base (2% of total loans), we believe it is unlikely to have a meaningful impact in the short term. As shown in the table below, even if we were to assume 20% mortgage CAGR (2010–2012), we estimate only 10% of annual demand will be financed.

**Table 1:** Based on 20% mortgage CAGR (2010–2012) we estimate only 10% of annual demand will be financed

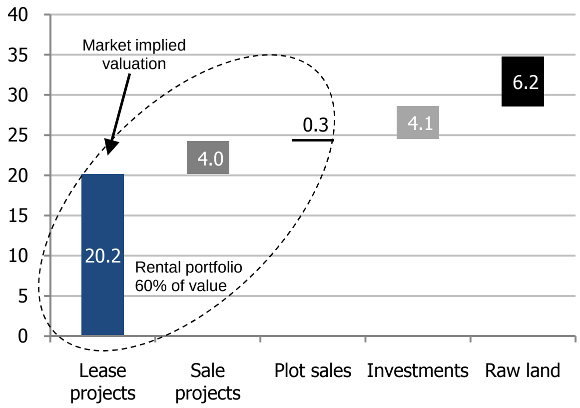
| | 2004a | 2005a | 2006a | 2007a | 2008a | 2009e | 2010e | 2011e | 2012e |
|---|---|---|---|---|---|---|---|---|---|
| **Real Estate Development Fund (REDF)** | | | | | | | | | |
| Loan Disbursements | 1,773 | 2,516 | 3,965 | 3,558 | 3,729 | 3,907 | 4,094 | 4,291 | 4,496 |
| Avg. Unit Price (SARm) | 0.31 | 0.32 | 0.34 | 0.36 | 0.37 | 0.39 | 0.41 | 0.43 | 0.45 |
| *Price Growth %* | *3%* | *3%* | *5%* | *5%* | *10%* | *-5%* | *5%* | *5%* | *5%* |
| **Units Financed** | **5,649** | **7,783** | **11,682** | **9,983** | **9,964** | **10,441** | **9,924** | **9,905** | **9,885** |
| Remarks | REDF book growth limited (1% CAGR 1997-2007), hence struggling to meet growing needs. Commercial banks likely to drive growth going forward. We extrapolate from historic trends to forecast future growth | | | | | | | | |
| **Commercial Banks** | | | | | | | | | |
| Loan Disbursements | 4,038 | 5,549 | 718 | 2,722 | 20 | 3,875 | 4,650 | 6,707 | 8,384 |
| **Avg. Unit Price SARm** | 0.63 | 0.65 | 0.68 | 0.71 | 0.75 | 0.79 | 0.83 | 0.87 | 0.91 |
| *Price Growth %* | *3%* | *3%* | *5%* | *5%* | *10%* | *-5%* | *5%* | *5%* | *5%* |
| **Units Financed** | **6,433** | **8,583** | **1,058** | **3,819** | **26** | **4,931** | **5,636** | **7,742** | **9,216** |
| Total Units Financed (annual) | 12,083 | 16,366 | 12,740 | 13,803 | 9,990 | 15,373 | 15,560 | 17,646 | 19,101 |
| Demand (units) | | | 140,223 | 144,691 | 149,372 | 154,279 | 175,129 | 186,169 | 192,523 |
| Finance % of Demand | | | 9.1% | 9.5% | 6.7% | 10.0% | 8.9% | 9.5% | 9.9% |
| Remarks | We estimate that the number of units financed p.a. will grow to 19,000 by 2012e from 10,000 in 2008 as a percent of total demand to reach 10% in 2012e, which is still low to have an impact on property ownership | | | | | | | | |

Source: SAMA, MEP, HC estimates, *annualized 3Q09 numbers

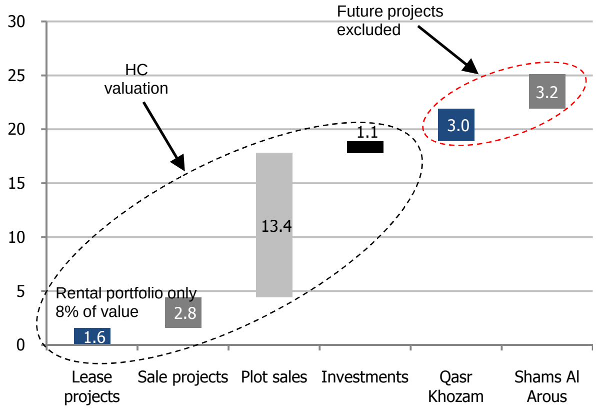
For the time being we prefer exposure to the rental market given the exceptionally high occupancy and yields. While we believe DAAR is better placed to benefit from the sector transformation underway, in the medium term our preferred play is Al Akaria given its exposure to the rental market which is likely to outperform. Although we understand that the inevitable re-rating of asset prices could potentially lead to yield compression (currently at 11% in Riyadh), real estate investment trusts (REIT) also stand to benefit from upward revision of investment assets.

## Chart 2

Akaria Value Breakdown by Segment (AED/share)




DAAR Value Breakdown by Segment (AED/share)




Source: HC estimates

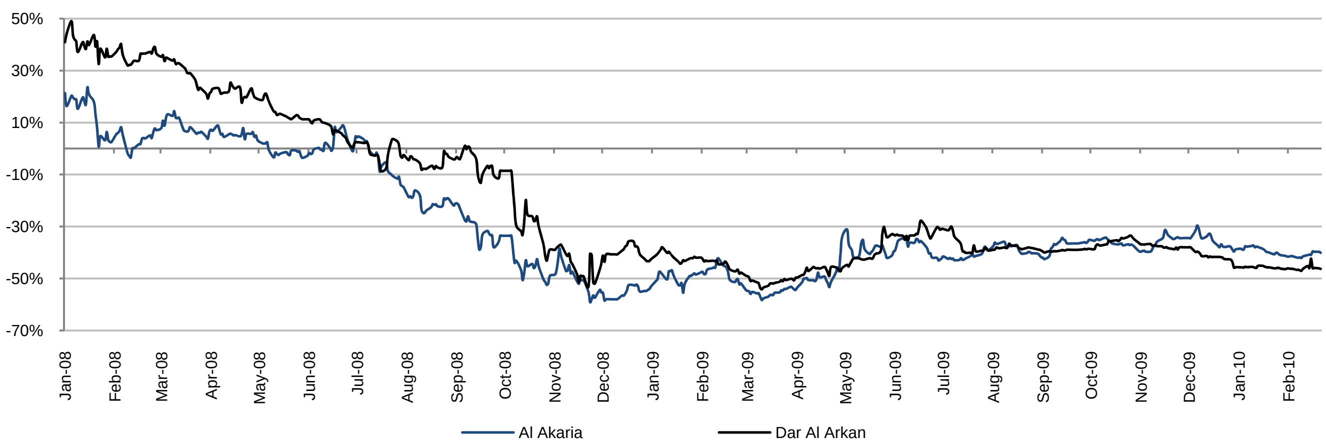
Source: HC estimates

Thematically, our preferred play on the sector is Al Akaria, given its REIT-like business model and its exposure to the rental market through mostly operational assets. The company's rental portfolio is for the most part mature with stable occupancy levels and hence recurring income stream. We value Al Akaria's rental business at SAR20/share, representing 60% of the company's overall value. We value DAAR's future exposure to the rental market at SAR1.6/share, accounting for less than 10% of the company's valuation. DAAR's value is mostly derived from plot sales (70% of value), a reflection of the company's land developer business model. We like Al Akaria's strong balance sheet (net cash of SAR644 million) and earnings visibility. We are comfortable with DAAR's ability to continue to sell land considering its track record. Future projects pose an upside risk to our valuation, but we are cautious on the company's funding strategy considering its stretched balance sheet.

Saudi real estate is trading at a 50% discount to 2010e NAV, in line with Egypt, but at a large premium to UAE, reflecting the more favorable sector dynamics, in our opinion. We value Al Akaria and DAAR at a 17% and 25% discount to their 2010e NAVs of SAR41.8/share and SAR25.9/share, respectively. Considering that Al Akaria's book is largely made up of operating rental properties, cash, investments, and land, we feel it is relatively more solid and hence warrants a lower discount. The 17% DCF discount to NAV reflects the market value of the land bank. On the other hand, the higher discount attributed to DAAR's NAV of 25% reflects the highly volatile and risky nature of its plot-sales-based business model.

## Chart 3

Saudi real estate trading at 40% discount to 2010e NAV



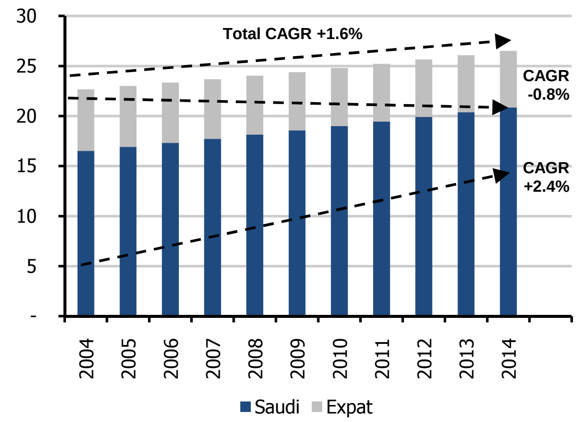

Source: Company data

# Top-down: We Prefer Exposure to the Rental Market

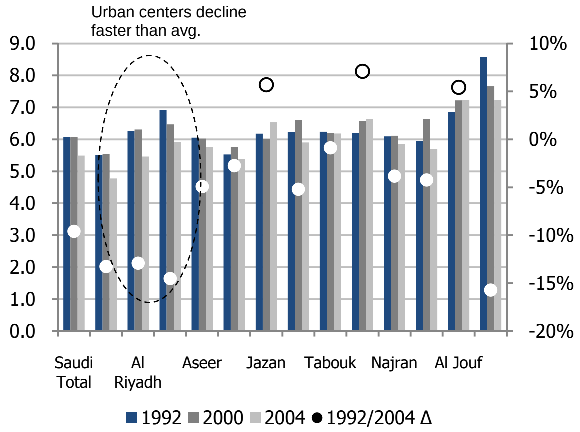
- **Demand driven by robust indigenous population growth, shrinking households, urbanization, and a young population; new supply is lagging and housing stock needs refurbishment**
- **Property ownership has remained flat due to low mortgage availability and absence of off-plan sales model**
- **Regulatory framework likely to boost mortgages, but given low base it is unlikely to have a meaningful impact in short term; we prefer the rental market as it is currently a more direct play on domestic demand**

## Chart 4

(i) Robust indigenous population growth at +2.4% CAGR.
Expat population CAGR of -1% due to Saudization.
Saudi youth likely to drive demand.




(ii) Shrinking household size (-10% 1992-2004).
Urban centers declining the fastest.
Trend likely to persist, driving demand for smaller units.



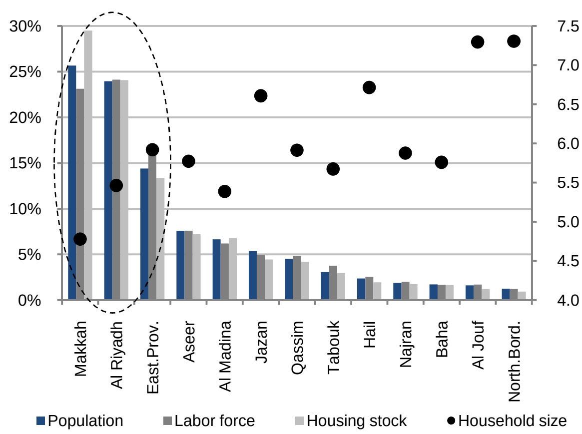

Source: Central Department of Statistics, MEP 8th Development Plan

Source: Central Department of Statistics, Survey 2008, US Census Bureau

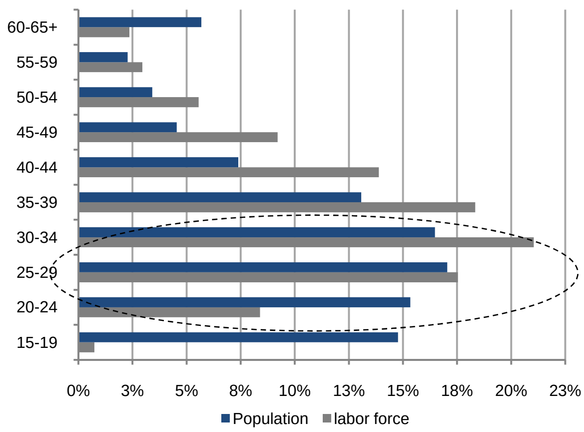
Housing needs in Saudi are apparent with sector dynamics characterized by favorable demographic trends and shortages in most segments. Demand is driven by the (i) the indigenous population (75% Saudis), (ii) healthy population growth (2004–2008 CAGR of 2%), (iii) shrinking household size (6.1 in 1992 to 5.5 in 2004, a 10% decline), (iv) urban migration (Makkah, Riyadh, and the Easter Province account for 65% of total population), (v) overwhelmingly young population (49%% between the age of 20 to 34), (vi) an expanding middle class, and (vii) replacement demand.

## Chart 5

(iii) Urbanization:
Two thirds of population, labor force, and housing stock concentrated in three provinces




(iv) Young upwardly mobile population:
Half the population and labor force between ages 20 and 34.

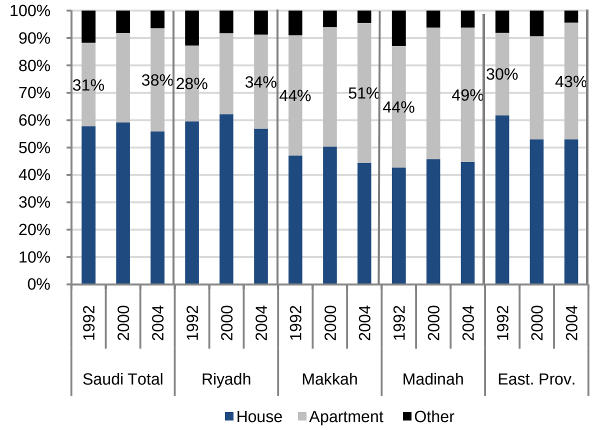



Source: Central Department of Statistics, Census 2004

Source: Central Department of Statistics, Survey 2008, US Census Bureau

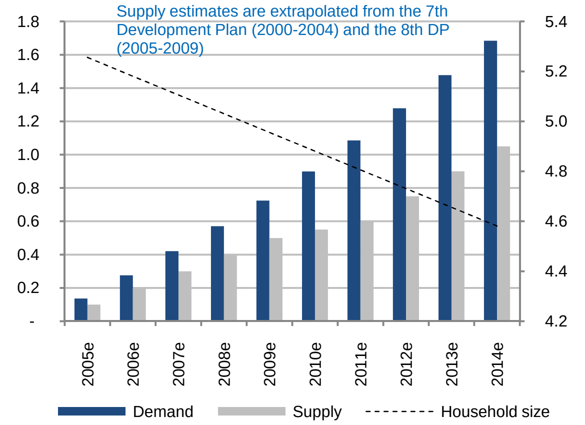
## Chart 6

(v) Urban migration driving demand towards smaller units. Apartments as % of total units up to 38% in 2004 from 31% in 1992




Source: Housing & Population Census 1992, 2000, 2004

(vi) Supply lagging (units in mn). Based on the historic avg. we estimate annual delivery of 110K units, compared to annual demand of 190K units

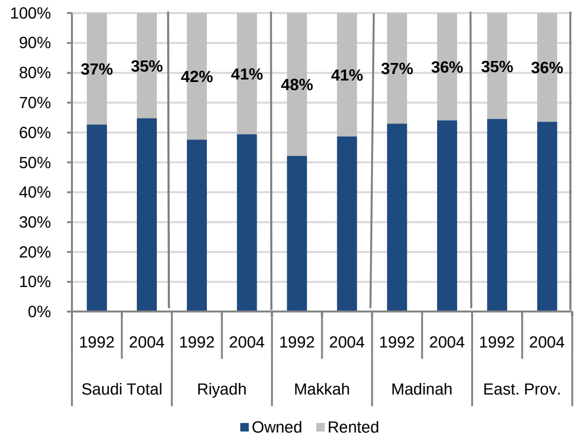



Source: CDSI, MEP, 7th & 8th Development Plans

The transformation underway is driven by (i) integrated communities even though the Saudis still prefer independent housing, (ii) a changing family structure (gradual acceptance of smaller units/apartments), (iii) a slow adoption of the off-plan sales model (preference for ready products), and (iv) an evolving mortgage market (regulatory framework still pending).

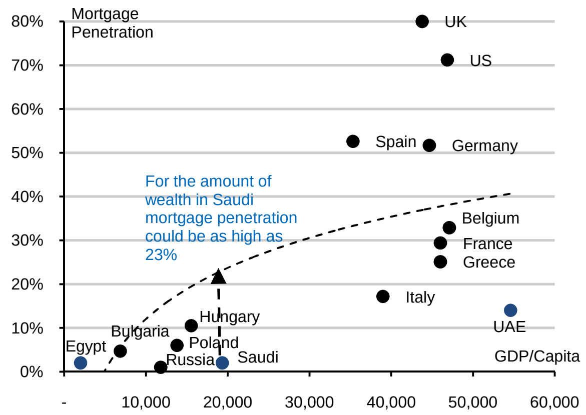
## Chart 7

Bottom-line property ownership flat from 1992 to 2004. Held back by affordability of newly branching out young households




Source: Housing & Population Census 1992, 2004

Mortgages key to boost affordability and hence ownership. Absence of regulatory framework holding back commercial bank lending

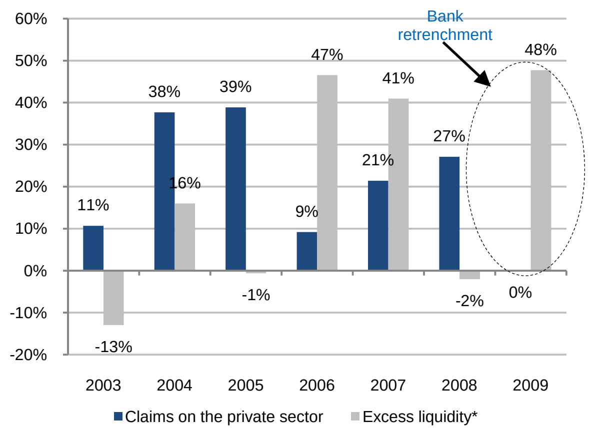



Source: SAMA, Central Banks, IMF, Eurostat

However, the sector remains at an early/fragile stage of maturity and hence we are cautious about the repercussions of the financial crisis, which may have slowed down the process. Deleveraging/restructuring and risk aversion in the wake of the financial crisis has prompted lenders to conserve their liquidity. Also, the Saad and Algosaibi troubles have not helped. Bank reserves with SAMA more than doubled to SAR90 billion YoY in November 2009. During the same period, foreign assets held by banks rose 32%. Bank lending to the private sector was flat in 2009 versus 27% growth in 2008.

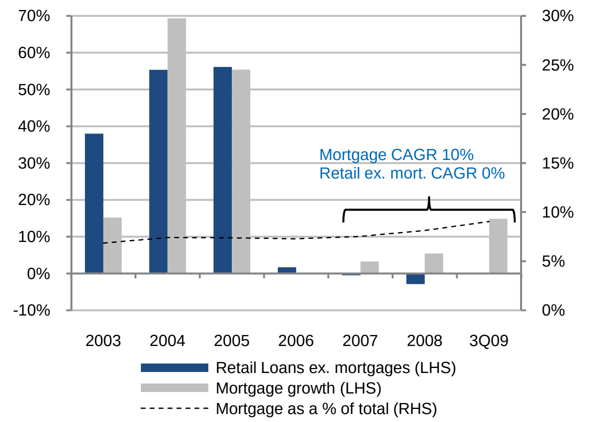
## Chart 8

Deleveraging/restructuring and risk aversion in the wake of the financial crisis has prompted lenders to conserve their liquidity…




Source: SAMA, *Reserves & Foreign Assets

…but banks continued to grow their mortgage books in 2009. Over past three years, mortgages have been a stand out growth area in retail loans




Source: SAMA, MEP, HC estimates

Despite clear bank retrenchment in 2009 (flat YoY loan growth), commercial banks continue to grow their mortgage books (+15% YTD in 3Q09). Overall retail lending was flat YTD in 3Q09, with the contraction in consumer loans counteracted by a 15% growth in mortgages. This came as a surprise and can only be explained, we believe, by the relative resilience of the property market in Saudi (prices down 5% on our estimates), the collateralized nature of these loans, and anticipation of the mortgage law.

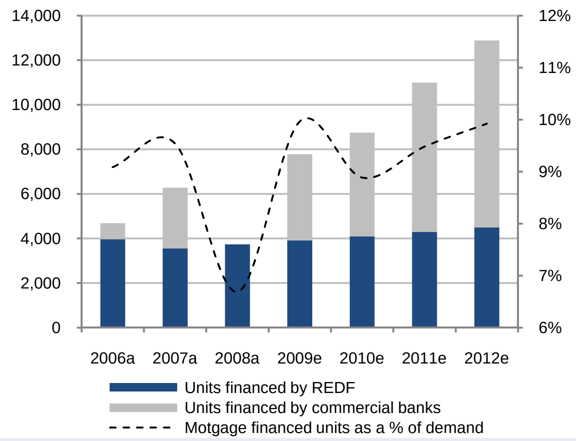
**Table 2:** Based on 20% mortgage CAGR (2010-2012) we estimate only 10% of annual demand would be financed

| | 2004a | 2005a | 2006a | 2007a | 2008a | 2009e | 2010e | 2011e | 2012e |
|---|---|---|---|---|---|---|---|---|---|
| **Real Estate Development Fund (REDF)** | | | | | | | | | |
| Outstanding Loans | 68,996 | 68,889 | 71,241 | 73,393 | 75,595 | 77,863 | 80,199 | 82,604 | 85,083 |
| Growth | *-0.6%* | *-0.2%* | *3.4%* | *3.0%* | *3.0%* | *3.0%* | *3.0%* | *3.0%* | *3.0%* |
| Loan Repayments | 2,185 | 2,622 | 1,829 | 2,039 | 1,527 | 1,639 | 1,759 | 1,885 | 2,018 |
| *Loan Repayments %* | *3.2%* | *3.8%* | *2.6%* | *2.8%* | *2.0%* | *2.1%* | *2.2%* | *2.3%* | *2.4%* |
| Loan Disbursements | 1,773 | 2,516 | 3,965 | 3,558 | 3,729 | 3,907 | 4,094 | 4,291 | 4,496 |
| Avg. Unit Price (SARm) | 0.31 | 0.32 | 0.34 | 0.36 | 0.37 | 0.39 | 0.41 | 0.43 | 0.45 |
| *Price Growth %* | *3%* | *3%* | *5%* | *5%* | *10%* | *-5%* | *5%* | *5%* | *5%* |
| **Units Financed** | **5,649** | **7,783** | **11,682** | **9,983** | **9,964** | **10,441** | **9,924** | **9,905** | **9,885** |
| Remarks | REDF book growth limited (1% CAGR 1997-2007), hence struggling to meet growing needs. Commercial banks likely to drive growth going forward. We extrapolate from historic trends to forecast future growth | | | | | | | | |
| **Commercial Banks** | | | | | | | | | |
| Outstanding Loans | 8,790 | 13,656 | 13,690 | 15,631 | 14,905 | 17,886* | 21,463 | 26,829 | 33,536 |
| Growth | 69% | 55% | 0% | 14% | -5% | 20% | 20% | 25% | 25% |
| Loan Repayments | 440 | 683 | 685 | 782 | 745 | 894 | 1,073 | 1,341 | 1,677 |
| *Loan Repayments %* | *5.0%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* | *5.0%* |
| Loan Disbursements | 4,038 | 5,549 | 718 | 2,722 | 20 | 3,875 | 4,650 | 6,707 | 8,384 |
| Avg. Unit Price (SARm) | 0.63 | 0.65 | 0.68 | 0.71 | 0.75 | 0.79 | 0.83 | 0.87 | 0.91 |
| *Price Growth %* | *3%* | *3%* | *5%* | *5%* | *10%* | *-5%* | *5%* | *5%* | *5%* |
| **Units Financed** | **6,433** | **8,583** | **1,058** | **3,819** | **26** | **4,931** | **5,636** | **7,742** | **9,216** |
| Remarks | Since REDF targets the low income segment with awards capped at SAR300K, for commercial banks we assume double the prices. Also, in line with 2009 annualized, we assume 20% loan growth in 2010e and 25% in 2011/12e | | | | | | | | |
| Total Units Financed (annual) | 12,083 | 16,366 | 12,740 | 13,803 | 9,990 | 15,373 | 15,560 | 17,646 | 19,101 |
| Demand (units) | | | 140,223 | 144,691 | 149,372 | 154,279 | 175,129 | 186,169 | 192,523 |
| Finance % of Demand | | | 9.1% | 9.5% | 6.7% | 10.0% | 8.9% | 9.5% | 9.9% |
| Remarks | We estimate that the number of units financed p.a. will grow to 19,000 by 2012e from 10,000 in 2008 as a percent of total demand to reach 10% in 2012e, which is still low to have an impact on property ownership | | | | | | | | |

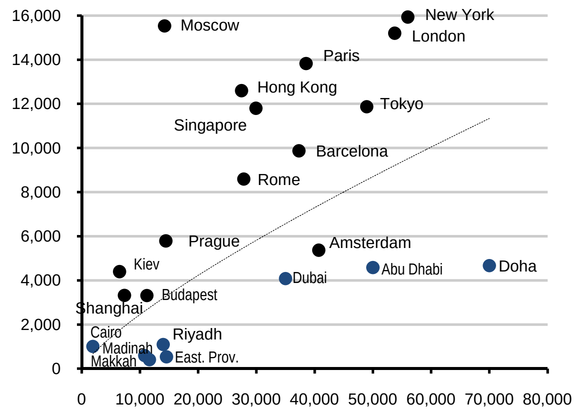
Source: SAMA, MEP, HC estimates, *annualized 3Q09 numbers

## Chart 8

Number of units financed to reach 10% of annual demand by 2012e. But given low base it is unlikely to have a meaningful impact on home ownership




2009 res prices USD/m$^2$ (y-axis) vs. GDP/capita in USD (x-axis). Wider availability of home financing likely to boost affordability and hence pricing




Source: SAMA. MEP, HC estimates

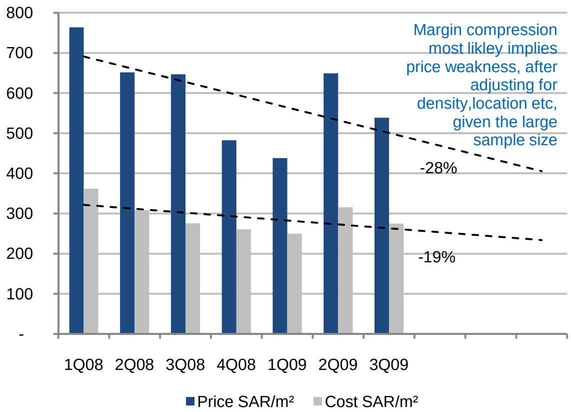
Source: Better Homes, Colliers International, Global Property Guide, HC Research

According to SAMA, the mortgage law has been drafted and is likely to be issued in the coming months. The proposed law is likely to provide banks with legal recourse to foreclosure, thereby encouraging them to lend more aggressively. That said, considering the low base (2% of total loans), in our opinion, it is likely to take time to have a meaningful impact on property ownership (commercial bank financing only accounts for 3% of total annual unit demand).

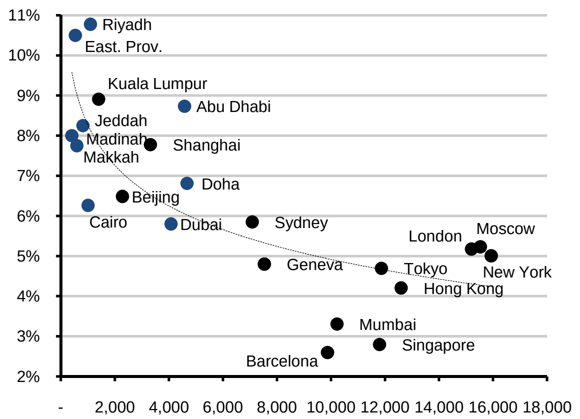
Asset prices in Saudi remain subdued because of the underleveraged position of the market while rentals were pushed higher by an acute shortage resulting in rapid yield expansion. The branching out of the young population, thus far seems to have been absorbed by the rental market. As with other property markets, mortgages are key to unlocking affordability and ownership, resulting in price rerating, and potentially yield compression.

## Chart 9

Since property price indices are hard to come by in Saudi, we look at DAAR's average plot prices to estimate market movement. Plots -9% in 2009e




Global rental yields in 2009 (y-axis) vs. prices USD/m$^2$ (x-axis). Restrained prices and strong rental growth mean rapid yield expansion

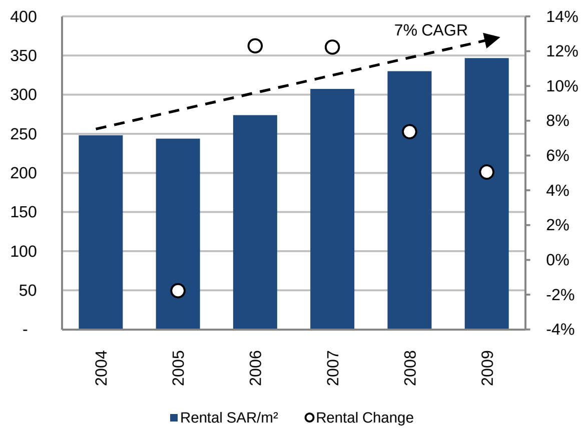


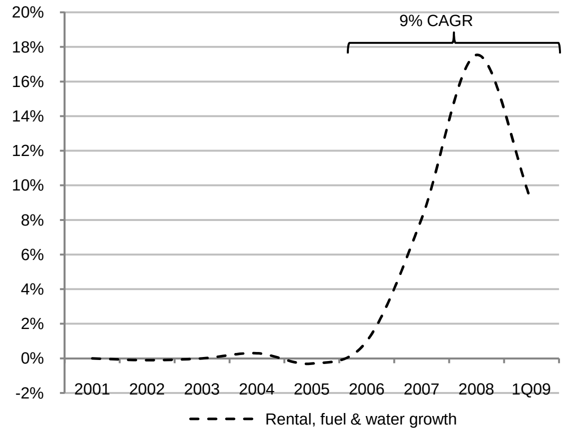

Source: Dar Al Arkan, HC estimates

Source: Better Homes, Colliers International, Global Property Guide, HC Research

**Chart 10**

| Rentals up 5% in 2009e based on Al Akaria's investment portfolio which has not changed since 2004 with occupancy holding up | We cross check Al Akaria's implied rental growth rate against CPI data which also shows strong growth in rentals in 2009 |
|---|---|




Source: Al Akaria, HC estimates

Source: Saudi Arabian Monetary Agency

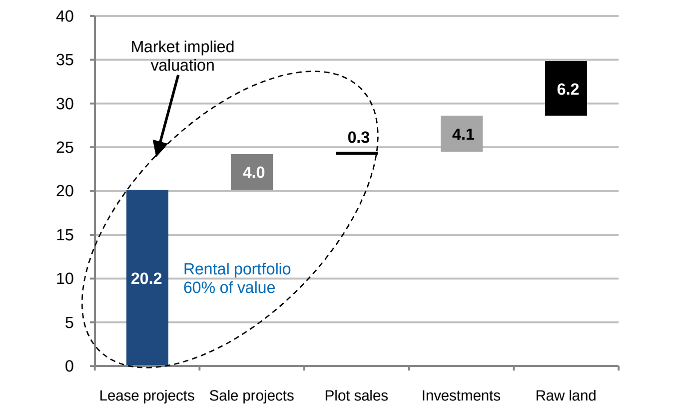
Since the structural transformation is likely to be a lengthy process (whether in terms of wider availability of mortgage financing, an evolving regulatory framework, a cultural shift towards integrated communities, smaller units, and acceptance of the off-plan sales model), we feel the introduction of the mortgage law, while a necessary first step, over the medium-term is unlikely to have a meaningful impact on home ownership. For that reason, we currently prefer exposure to the rental market which is likely to continue to benefit from high occupancy levels and yields. Longer-term, however, asset prices are likely to close the gap, resulting in yield compression, which would also benefit REITs through upward revision of their rental portfolios.

# Bottom-up: Our Preferred Play is Al Akaria

- **Thematically our preferred play is Al Akaria given its exposure to the rental market (60% of its valuation); we also like the company's strong balance sheet (net cash of SAR644 million) and earnings visibility**
- **We are comfortable with DAAR's its land developer business model, but are concerned about its high gearing; we exclude future projects from our valuation as we do not see a clear funding strategy**
- **Saudi property sector trading at 40% discount to 2010e NAV, reflecting more defensive nature. We value Al Akaria at a 17% discount on its 2010 NAV of SAR41.8 and DAAR 27% on a 2010e NAV of SAR25.9.**

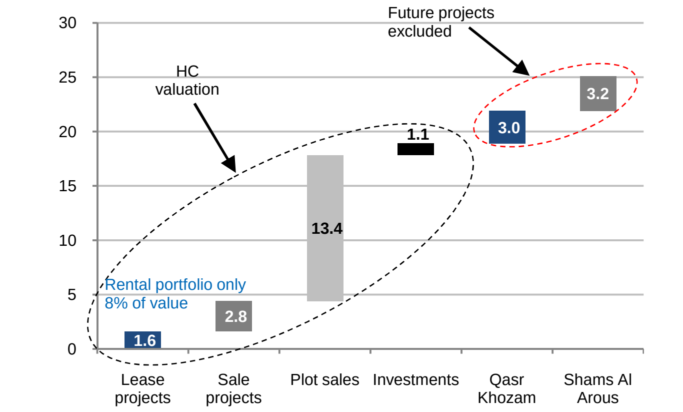
**Chart 10**

Akaria Value Breakdown by Segment (AED/share)




Source: HC estimates

DAAR Value Breakdown by Segment (AED/share)




Source: HC estimates

## We initiate on Al Akaria and DAAR with a Buy recommendation and TPs of SAR34.8 and SAR18.9, repectively

Following on our macro theme, our preferred play on the sector is Al Akaria given its REIT-like business model and exposure to the rental market through mostly operational assets. The company's rental portfolio is for the most part mature with stable occupancy levels and hence recurring income stream. We value Al Akaria's rental business at SAR20/share, representing 60% of the company's overall value. We value DAAR's future exposure to the rental market at SAR1.6/share, accounting for less than 10% of the company's valuation. DAAR's value is mostly derived from plot sales (70% of value), a reflection of the company's land developer business model. While DAAR more recently has been trying to diversify its income stream, given the lack of the off-plan sales model in Saudi, its dependence on land sale to partially fund its development plans is likely to persist going forward. Having said that, the company's competitive advantage lies in its ability to procure land at competitive rates, develop it, and resell it at a healthy margin (c50%), which it has managed to do very well in the past and even during the worst of the financial crisis (FY09 land sales at SAR4.9 billion).

We value real estate companies using a combination of DCF analysis and land valuation (please refer to the valuation assumptions tables for Al Akaria on page 25 and for DAAR on page 32), and cross check against their NAVs. Where a final master plan is available, we use a sum of the parts DCF. Otherwise, we rely on land valuation only. For Al Akaria, we value all of the company's projects using a DCF (please refer to the project details section on page 24 for Al Akaria and 31 for DAAR) and add the company's long-term investments and raw land bank at cost. For DAAR, we value all current underdevelopment projects using a DCF and assume that all the land on its balance sheet (SAR13.4 billion) will be sold over the next six years. For the time being, we exclude the company's future projects (Al Qasr Khozam and Shams Al Arous) from our valuation until further details are available. Also, given the huge capex requirements for these projects (SAR12.5 billion on our estimates), we have doubts about the company's ability to fund them without external support. As with Akaria, we add long-term investments at cost on top of our DCF.

Al Akaria's market implied valuation is largely derived from its rental business, but also its planned sales development in Riyadh. Accordingly, it seems that in current market conditions investors are not willing to pay for the company's investments and, more importantly, land bank, which are both held at cost (on average SAR70/m²). We feel the market is skeptical about the company's ability to monetize these assets over the medium term, especially considering the lack of land sales in FY09. For that reason, we look more closely at Al Akaria's land portfolio and try to map its movement in order to understand its potential

**Table 3:** Al Akaria Land Bank History and Progression

| | 2005 | | | 2006 | | | | 2007 | | | | 2008 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Area (m²) | Cost SARm | Remarks | Additions (m²) | Area (m²) | Cost SARm | Remarks | Additions (m²) | Area (m²) | Cost SARm | Remarks | Additions (m²) | Area (m²) | Cost SARm | Remarks | Land cost SAR/m² |
| Akaria old head quarter plot | | | | | | | | 1,671 | 1,671 | | Land on top of which sits property classified at cost | - | 1,671 | | Classified under investment properties and are not part of raw land | |
| Old Al Seteen plot | | | | | | | | 10,000 | 10,000 | 120 | | - | 10,000 | | | 469 |
| Al Olaya plot | | | | | | | | 323,459 | 323,459 | | | (87,878) | 235,581 | | | |
| Al Seteen plot #2 | | | | | | | | 9,407 | 9,407 | | | - | 9,407 | | | |
| Shayeeb Al Dayaah plot - Al Qaseem Rd. | 600,000 | | Classified in the financials as raw land at cost | - | 600,000 | | | - | 600,000 | | | - | 600,000 | | | |
| Al Takhsees Rd. plot | 430,000 | | | - | 430,000 | | | - | 430,000 | | | - | 430,000 | | | |
| Al Basateen plot | 244,623 | | | - | 244,623 | | | - | 244,623 | | | - | 244,623 | | | |
| Al Seteen parking plot | 2,241 | | | - | 2,241 | 417 | | - | 2,241 | | | - | 2,241 | | | 38 |
| Al Dammam West Industrial Area plot | 5,677,630 | | | - | 5,677,630 | | | - | 5,677,630 | | | - | 5,677,630 | | | |
| King Fahid Airport Rd. plot in Dammam | 3,941,966 | 541 | | - | 3,941,966 | | | - | 3,941,966 | | | - | 3,941,966 | | | |
| Tilal Al Riyadh plot | 76,541 | | | - | 76,541 | 54 | Put up for sale during the year and classified at cost | (16,680) | 59,861 | | | - | 59,861 | | | 706 |
| Hay Al Rabeeg in Riyadh | 8,323 | | | 10,453 | 18,776 | 2 | | (18,776) | | | | - | | | | |
| Hay Qartabah in Riyadh | 144,533 | | | - | 144,533 | 48 | | (24,639) | 119,894 | | | - | 119,894 | | | 332 |
| Hay Al Yarmouk in Riyadh | 135,000 | | | - | 135,000 | 20 | | (135,000) | | | | - | | | | |
| King Abd Al Aziz Rd. plot in Jeddah | | | | 49,800 | 49,800 | | Acquired during the year | - | 49,800 | | | - | 49,800 | | | |
| King Fahid Rd. plot in Riyadh | | | | 30,000 | 30,000 | 427 | | - | 30,000 | | | - | 30,000 | | | 586 |
| Salbough Binban Rd. plot | | | | 648,189 | 648,189 | | | (51,489) | 596,700 | | | - | 596,700 | | | |
| South Binban plot #13 | | | | | | | | 871,597 | 871,597 | | Acquired during the year | - | 871,597 | | Plot used for the Binban development | |
| South Binban plot #15 | | | | | | | | 519,059 | 519,059 | 182 | | - | 519,059 | | | 125 |
| Madinah Third Roundabout plot | | | | | | | | 63,493 | 63,493 | | | - | 63,493 | | | |
| King Khalid Rd. plot in Medinah | | | | | | | | | | | | 157,280 | 157,280 | | Acquired during the year | |
| Al Qaseem Rd. plot in Medinah | | | | | | | | | | | | 1,579 | 1,579 | 60 | | 245 |
| Al Qaseem Rd. plot in Medinah | | | | | | | | | | | | 85,572 | 85,572 | | | |
| **Total** | **11,260,857** | | | | **11,999,299** | | | | **13,551,401** | | | | **13,707,954** | | | |

Source: Company data, HC estimates

Given that Saudi accounting standard prohibits marking to market, assets are recorded on the balance sheet at cost, eliminating the need for fair value accounting. Al Akaria and DAAR (and most Saudi developers for that matter) do not provide an independent market valuation of their land banks (available for most UAE and Egyptian builders) or a breakdown of its acquisition cost. Unless the land turnover is high and there is a clear purpose assigned to it, it becomes difficult to judge its fair value and relevance of its cost. In the above table, we map Al Akaria's land movement to get a better sense of the company's acquisition history. Ideally, the more recent the more accurate. Land on top of which sits property is classified under investment properties at SAR120 million. We are not concerned about this as it forms part of our valuation of the company's rental business. Al Akaria's land bank in 2005 financials was held at cost at SAR540 million and broken down into plots in Riyadh and most in Dammam. The Riyadh plots were largely sold off in 2007, which left the Dammam plots valued at SAR420 million. We feel its low cost of SAR38/m² reflects that it is the company's oldest and least prime (located in the industrial area of Dammam).

The company acquired in 2007 three plots in Jeddah and Riyadh for SAR427 million (SAR585/m²), which we fairly represent current valuations given the company's more recent purchase and the net upward price movement since. Al Akaria acquired in 2007 another three plots in Riyadh for SAR182 million (SAR125/m²). South Binban plot #13 will be used for the company's sale development and as such we exclude it from our raw land bank valuation. The company acquired in 2008 three plots in Medinah for SAR60 million (SAR245/m²).

Al Akaria's land bank is more or less broken down evenly between plots held at historic cost (SAR417 million) and plots acquired more recently (SAR561 million excluding the Binban #13 plot). We are more comfortable with the newly acquired plots given their smaller size (1.7 million m² in total) and likely good location. While it is difficult for us to judge the quality of the plots' locations since the company plans to develop the cheapest (South Binban plot #13), it is probable that the premium paid for the rest implies a better location. On the other hand, we are cautious about the older plots given their location (largely in the Dammam industrial area) and large size, making them harder to monetize. We feel their low historic carrying cost of SAR38/m² should conservatively represent their future worth given the strong domestic demand story in Saudi. Accordingly, we believe this land has an option value, which is hard to overlook.

## We carry forward long-term investments at cost and add it on top of our DCF

**Table 3**

| | Al Akaria | | Dar Al Arkan | |
|---|---|---|---|---|
| | **Amount** | **Ownership** | **Amount** | **Ownership** |
| **Investments in Associate Companies:** | | | | |
| Al Mouayqaliyah Commercial Center | 157.67 | 25.0% | | |
| | | | | |
| **Investments in Other Companies:** | | | | |
| United Glass Company | 30.00 | 15.0% | | |
| Kanan National Development Company | 46.58 | 2.1% | | |
| Dar Al Tamleek Company | 28.00 | 10.0% | | |
| Knowledge Economic City Development Company | 112.46 | 9.5% | | |
| Hael Cement Company | 16.00 | 25.0% | | |
| Teeba Real Estate Investment & Development Company | 0.01 | | | |
| | | | | |
| **Other investments:** | 76.0 | | | |
| | | | | |
| **Total** | **467** | | **1,162** | **15%-34%** |

Source: Company data

Al Akaria's long-term investments at the end of 2009 stood at SAR467 million. As highlighted in the above table, the amount mainly represents investments in associate companies and strategic investments in other companies. DAAR's long-term investments stood at SAR1.2 billion at the end of 2009. While the company does not provide a breakdown of these investments, it classifies them as shares of companies that are not publically traded. DAAR's ownership in these companies ranges from 15% to 34%. Since we have very little details on these investments for both Al Akaria and DAAR we carry the amount forward at cost and add it to our DCF.

## For DAAR future projects pose upside risk to our valuation, potentially adding SAR6.2/share

For DAAR, announced future projects present an upside risk to our valuation. For the time being, we do not include the two projects highlighted in the table overleaf due to lake of details as they are still in the planning stage and, more importantly, we do not see any clear funding strategy. That said, the company recently raised USD450 million to refinance debt due in March. Despite the high cost of 10.75%, we believe it allows the company to conserve its cash to build capacity, thus quickly capturing further market share when the market improves. Still, we estimate DAAR's cost share in the two projects at SAR12.5 billion, which we feel without government support is difficult to fund given (i) the absence of the off-plan sales model, (ii) the already high leverage position of the company (net debt/equity of 43%), and (iii) outstanding capex requirements for current underdevelopment projects.

**Table 4**

| Qasr Khozam | | Shams Al Arous | |
|---|---|---|---|
| Location | Jeddah | Location | Jeddah |
| Timeline | 4Q10–3Q15 | Timeline | 2010–2015 |
| Surface Area (m²) | 4,100,000 | Surface Area (m²) | 3,000,000 |
| Density | 610% | Number of Units | 10,000 |
| Built-up Area (m²) | 25,000,000 | Total Estimated Cost (SARm) | 7,500 |
| Estimated Demolition Cost (SAR/m²) | 270 | Cost per Unit (SARm) | 0.75 |
| Estimated Land Infrastructure Cost (SAR/m²) | 130 | | |
| Total Estimated Cost (SARm) | 10,000 | Average Margin | 30% |
| Plot Sale Price SAR/m² | 650 | Average Unit Price (SARm) | 1.1 |
| Project NPV (SARm) | 6,250 | Project NPV (SARm) | 3,500 |
| DAAR Shareholding | 51% | DAAR shareholding | 100% |
| DAAR Project NPV (SARm) | 3,188 | DAAR Project NPV (SARm) | 3,500 |
| Shares Outstanding (million) | 1,080 | Shares Outstanding (million) | 1,080 |
| **Value per Share** | **3.0** | **Value per Share** | **3.2** |

Source: Company data, HC estimates. *Blue: data provided by the company Red: assumptions based on historic data

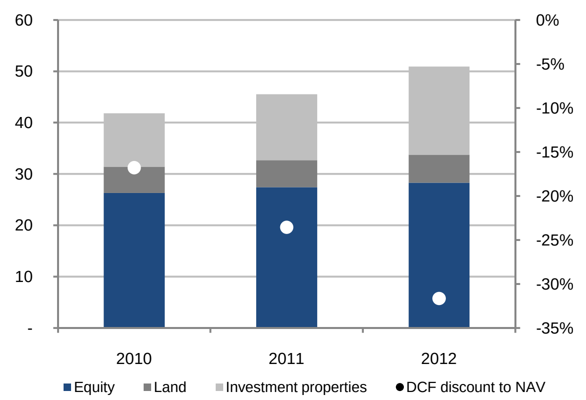
We view the above projects as potential catalysts for the stock if they were to go through. We understand that Al Qasr Khozam is based on a JV between DAAR and the government. Therefore, our assumptions are based on a similar model to that of Sorouh on Lulu Island, where the company was given the land for free in return for a share of the profits. According to DAAR, Qasr Khozam is a pure land development project that entails the demolition of existing buildings followed by the redeployment of basic infrastructure. The developed land will then be sold off. We assume a margin of 40% based on historic plot sale prices in Jeddah. We estimate this project could add SAR3/share to our valuation.

Shams Al Arous is a property development project which entails building of 10,000 units (both villas and apartments) at a total estimated investment cost of SAR7.5 billion (or SAR750,000 per unit). Here we assume a gross margin of 30%, in line with previous developments, to arrive at a project NPV of SAR3.5 billion or SAR3.2/share.

## We value Al Akaria and DAAR at a 17% and 27% discount to their 2010e NAVs of SAR41.8 and SAR25.9

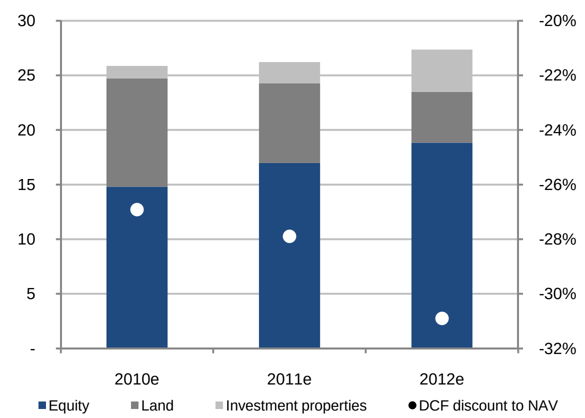
**Chart 11**

Al Akaria NAV Breakdown by Segment (SAR/share)




Source: HC estimates

DAAR NAV Breakdown by Segment (SAR/share)




Source: HC estimates

We value Al Akaria at a 17% discount on its 2010 NAV of SAR41.8 and DAAR 27% on a 2010e NAV of SAR25.9. Considering that Al Akaria's book is largely made up of operating rental properties, cash, investments, and land, we feel it is relatively more solid and hence warrants a lower discount. The 17% DCF discount to NAV reflects the market value of the land bank. The higher discount attributed to DAAR's NAV of 27% reflects the highly volatile and risky nature of its plot sales based business model (please refer to page 15).

Since Al Akaria and DAAR's land is recognized at cost on their books, we value them at fair value using the residual method. For both, we assume a developer margin of 20% of revenue and work backwards to the value of land based on prevailing property market prices and costs. We also revalue the companies' rental businesses which are recognized at cost. To value investment properties, we use a capitalization rate of c7% (WACC of c10% - terminal growth rate of 3%). To compute NOI (net operating income), we apply a blended margin for residential, retail, and office of 70%.

## Saudi trades at a 40% discount to 2010e NAV, at a premium to sector, reflecting stronger fundamentals

**Table 5:** MENA Real Estate Comparative Multiples

| Company | Bloomberg Code | Market Cap (USD mn) | Recommendation | TP | Upside | P/BV | | | P/NAV | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2009a | 2010e | 2011e | 2009a | 2010e | 2011e |
| **SAUDI** | | | | | | | | | | | |
| Al Akaria | SRECO AB | 798 | Buy | 34.8 | 39% | 1.0x | 0.9x | 0.9x | 0.6x | 0.6x | 0.5x |
| Dar Al Arkan | AL ARKAN AB | 3,989 | Buy | 18.9 | 36% | 1.1x | 0.9x | 0.8x | 0.5x | 0.5x | 0.5x |
| **Average** | | | | | | **1.0x** | **0.9x** | **0.9x** | **0.6x** | **0.6x** | **0.5x** |
| **UAE** | | | | | | | | | | | |
| Emaar | EMAAR UH | 4,996 | Buy | 6.6 | 119% | 0.6x | 0.6x | 0.5x | 0.3x | 0.2x | 0.2x |
| Aldar | ALDAR UH | 2,711 | Buy | 9.7 | 151% | 0.6x | 0.6x | 0.5x | 0.3x | 0.3x | 0.2x |
| Aldar (ex reval) | ALDAR UH | 2,711 | Buy | 9.7 | 151% | 1.0x | 0.9x | 0.7x | 0.3x | 0.3x | 0.2x |
| Sorouh | SOROUH UH | 1,492 | Buy | 3.1 | 42% | 0.9x | 0.8x | 0.7x | 0.4x | 0.4x | 0.3x |
| **Average** | | | | | | **0.8x** | **0.8x** | **0.7x** | **0.3x** | **0.3x** | **0.2x** |
| **EGYPT*** | | | | | | | | | | | |
| TMGH | TMGH EY | 2,700 | Buy | 9.1 | 23% | 0.6x | 0.6x | 0.5x | 0.6x | 0.5x | 0.4x |
| SODIC | OCDI EY | 578 | Buy | 105 | 18% | 1.4x | 1.4x | 1.1x | 0.6x | 0.6x | 0.5x |
| PHD | PHDC EY | 1,131 | Hold | 9.5 | 7% | 1.8x | 1.4x | 1.1x | 0.7x | 0.6x | 0.5x |
| ODH | ODHN EY | 1,570 | Hold | 95 | 30% | 1.9x | 1.6x | 1.4x | 0.5x | 0.5x | 0.5x |
| **Average** | | | | | | **1.4x** | **1.3x** | **1.0x** | **0.6x** | **0.5x** | **0.5x** |
| **Sector Average** | | | | | | **1.1x** | **1.0x** | **0.9x** | **0.5x** | **0.5x** | **0.4x** |

Source: HC estimates (Based on prices as of 22 February 2010)
*2009 estimates as full financials not out yet

## Al Akaria and DAAR Downside Risks

- **Execution Risk:** For Al Aakaria, the shift from single building lease properties to large-scale projects is likely to introduce execution risk. For DAAR, the sheer scale of developments in diverse geographic locations (Riyadh and Jeddah) is likely to stretch management and operational capacity, introducing the risk of delays and/or project cancellation.

- **Governance Risk:** Al Akaria and DAAR still operate in an underdeveloped regulatory environment where minority interest can be overlooked.

- **Concentration Risk:** Since most of Al Akaria's and DAAR's current projects are in Al Riyadh, exposure to any downturn in the property market there is high. However, DAAR indicated that it intends to launch two mega projects in Jeddah, which should somewhat mitigate this risk if they were to go through.

## DAAR Upside Risks

- **Future Projects:** DAAR has a pipeline of projects currently in the planning stage (Al Qasr Khozam and Shams Al Arous) and as such are not reflected in our valuation. Once final details are disclosed, those projects could potentially add SAR6.2/share to our valuation.

- **Better-than-Expected Price Performance:** A faster-than-expected economic recovery could lead to better-than-expected price performance.

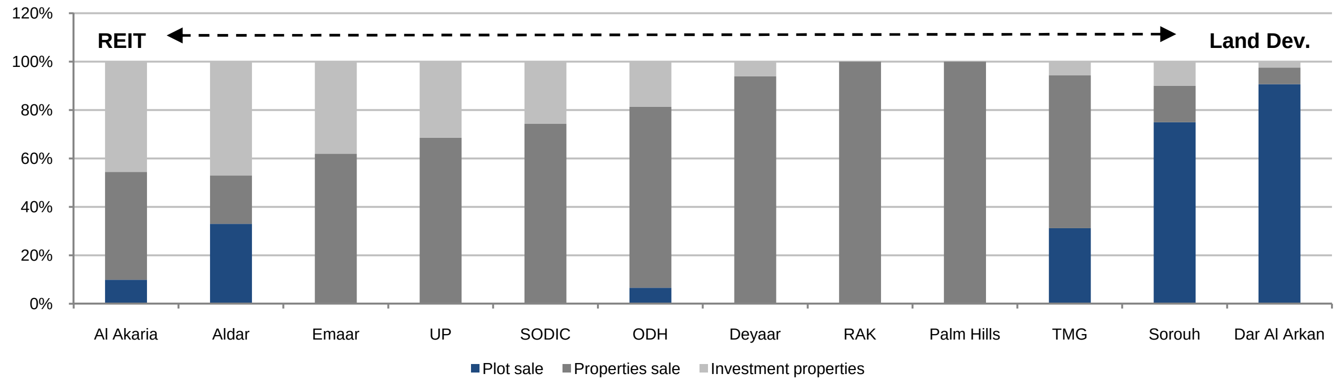
- **Cost Benefits:** A sustained downturn in the global economy could put further pressure on commodity prices and hence construction costs.

# Business Model

- **Al Akaria's business model currently most closely resembles a REIT (rental account for 80% of revenues), but going forward it plans to venture into property sale to take advantage of its large land bank (14 million m²).**
- **DAAR's business model is highly skewed to plot sales, accounting for 90% of planned BUA. However, the company is trying to diversify its income stream by expanding it unit sales and building up its investment portfolio.**
- **The absence of the off-plan sales model in Saudi means higher gearing and risk of capital lock up in unsold inventories.**

**Chart 12**

Segment Exposure: Land Bank Breakdown (BUA in m²)

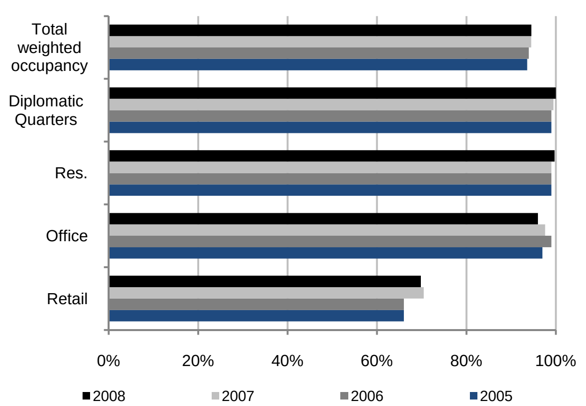



Source: Company Data, HC Estimates

Al Akaria and DAAR's business models are pretty straightforward as they currently remain largely skewed to one segment. Al Akaria, for instance, holds property in Riyadh that it has been operating and leasing out for decades. Roughly 80% of the company's top-line has historically been driven by rental income, with the remaining coming from plot sales. The company also holds a very large land bank (c14 million m²) which other than the periodic sale of small plots, remains mostly idle.

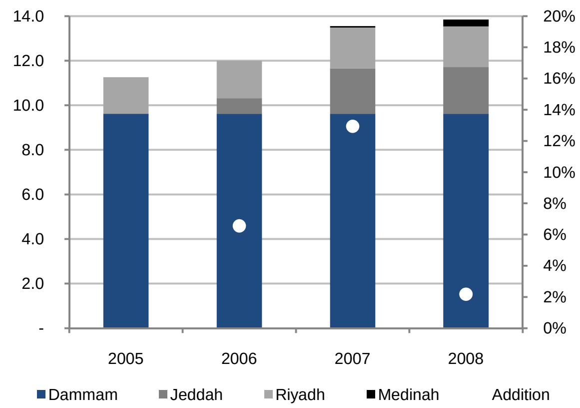
**Chart 13**

Al Akaria's Weighted Average Occupancy




Source: Company data

Al Akaria Land bank by Region (million m²)

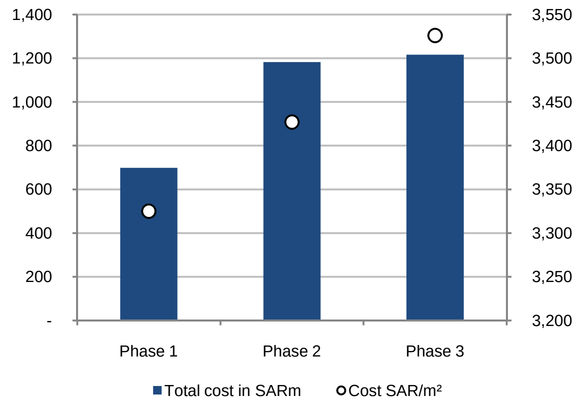



Source: Company data

Al Akaria's newly appointed management recently decided to venture into property sales to better monetize this land. The company's South Binban #13 plot (870m² acquired at an average cost of SAR180/m²) will be the site of its first property development in Riyadh. The development is planned to encompass c3,000 villas built over three phases with an estimated construction and delivery timeframe of five years starting 2011 (please refer to the project details sheet on page 24).

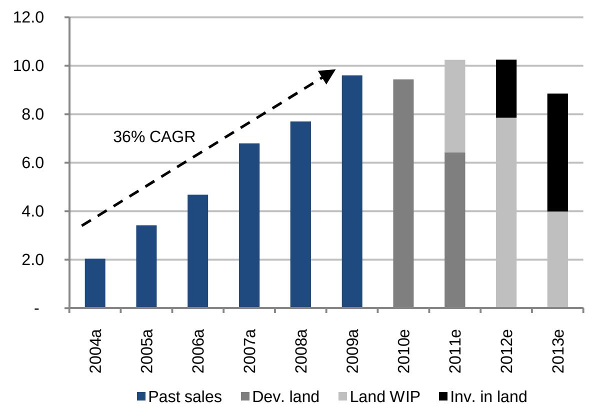
## Chart 14

Al Akaria's First Sales Project Estimated Costs (SARm)




Source: Company data, HC estimates

DAAR Plot Sales (m²)—36% CAGR 2004–2009



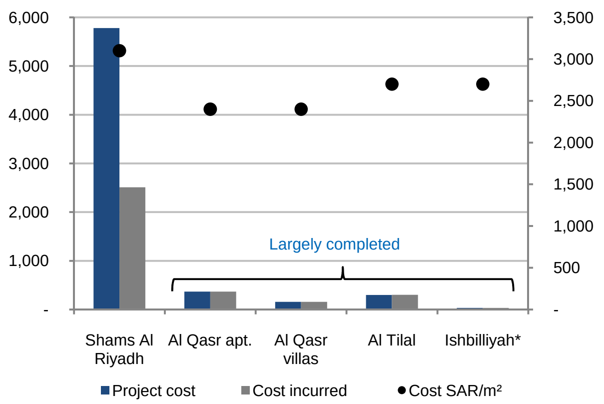

Source: Company data, HC estimates

DAAR's business model is skewed towards land sales, historically accounting for 80% of its revenue. Over the years DAAR has built strong relationships and developed a competitive edge in land procurement (mainly through auctions), development, and resale at a healthy margin (50% on average). While, the company does not disclose the size, cost, or location of its land bank, based on an average selling price of SAR650/m² and margins of 45%, we estimate the land on its balance sheet (SAR13.4 billion) represents c40 million m². That said, the company may have off balance sheet land that is not accounted for.

DAAR has a strong track record in property development with over 5,000 units developed during the last decade. However, the lack of the off-plan sales model in Saudi and to a lesser extent the preference for independent housing (in contrast to integrated communities) has slowed down the company's drive into that segment. That said, the company has a relatively large project in Riyadh underdevelopment (Shams Al Riyadh, 2,700 villas), which when delivered is expected to contribute strongly to revenue (please refer to chart 21 on page 20). The company has recently announced two big projects in Jeddah (Al Qasr Khozam and Shams Al Arous). For the time being we do not include these projects in our assumptions due to a lack of details, but more importantly a lack of a clear funding strategy (DAAR's share in the cost is estimated at SAR12.5 billion). We believe that until the pre-sales model catches on in Saudi, land sales are likely continue to drive revenue.

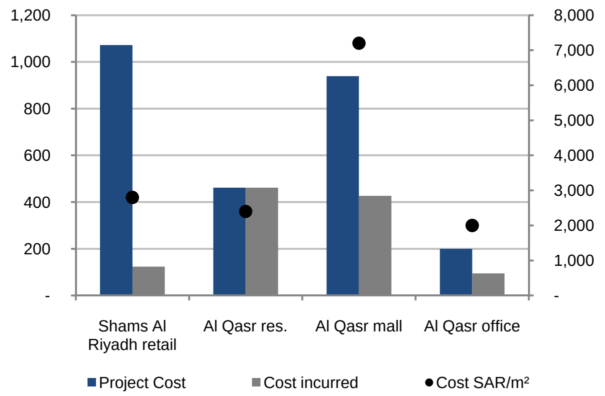
## Chart 15

DAAR Unit Sales: Portfolio largely complete, Shams Al Riyadh first deliveries in early 2011e (SARm)




Source: Company data, HC estimates

DAAR Lease Projects: First rental property completed, contribution to start this year (SARm)

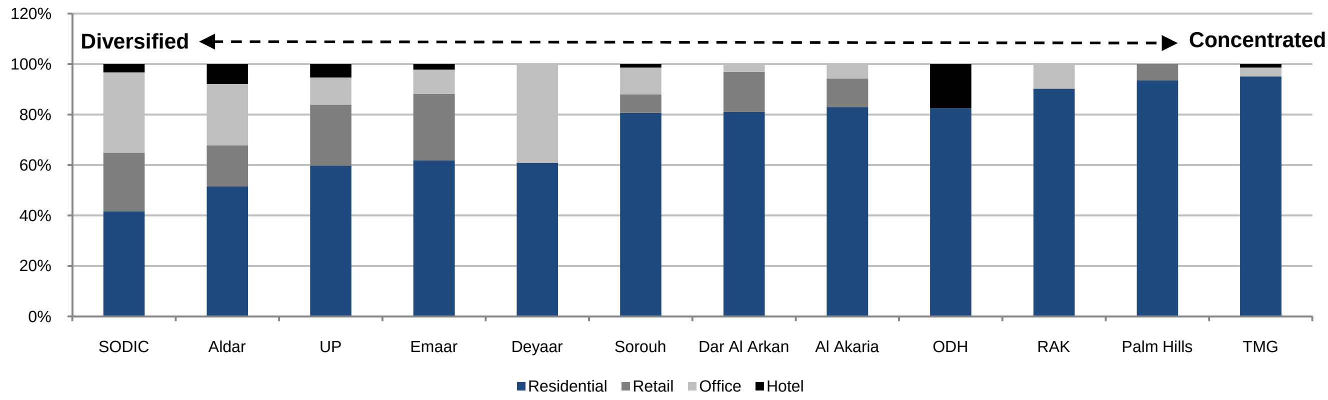



Source: Company data, HC estimates

DAAR is also developing an investment portfolio to take advantage of the exceptionally high rental yields in Riyadh (c11%). The first rental income is expected this year, mainly from Al Qasr, its low income development in Riyadh. Given our preference for the rental market, we believe holding property is more value accretive, especially considering the absence of the off-plan sales model. This means that either way (holding or divesting), projects are fully funded externally, introducing the risk of capital lock-in in unsold inventories, which will need to be transferred to investment properties. That said, we understand the company wants to expand rapidly and hence divestment offers an immediate boost to cash flows.

## Chart 16

Sector exposure: land bank breakdown (BUA in m²)




Source: Company Data, HC Estimates

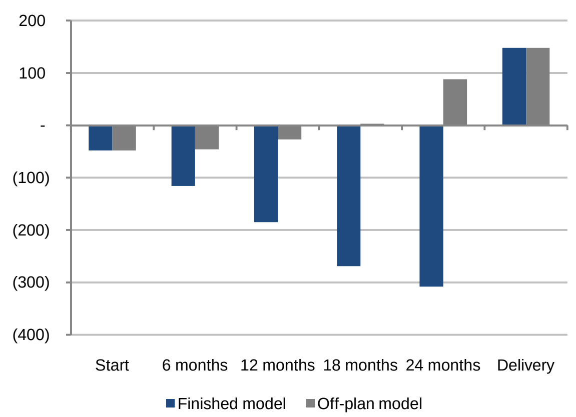
Al Akaria's largely exposed to the residential market in Riyadh (more than 80% of its portfolio) with occupancy levels close to 100%. But it also has exposure to office (5% of the portfolio) and the more competitive retail market (15% of the portfolio) with lower occupancies on an average of c70%. The company mainly targets the mid-income segment, but also has exposure to the low-end (e.g. Al Riyadh Building Complex) and the high-end segments (e.g. the Diplomatic Quarters).

DAAR's portfolio breakdown is very similar to that of Al Akaria with the biggest exposure to the residential market (c80%). The company's exposure to the residential market is largely through property sales (it only plans to hold 10% of its residential portfolio—1,300 apartments in its Al Qasr development). In contrast, its exposure to the office and retail markets is through lease properties within its integrated communities (please refer to the projects details sheet on page 31). DAAR's core target market is the middle income segment through Shams Al Riyadh (roughly 80%), but it also has exposure to the low income segment through Al Qasr Development (c17% of the portfolio) and to some extent the high-income segment through part of it retail portfolio (c3%).

### Absence of off-plan sales model partially offset by cash on delivery plot sales model

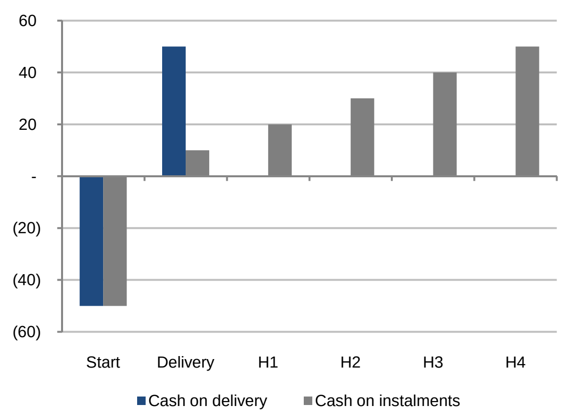
## Chart 17

Unit Sales: Off-plan versus finished cumulative net cash flows (SARm)




Source: HC estimates

Plot Sales: Cash on delivery vs. installments cumulative net cash flows (SARm)




Source: HC estimates

The off-plan sales model remains largely unaccepted in Saudi as buyers typically prefer to inspect the property before committing. This, we believe, is bound to change with time as regulation becomes more clearly defined and developers gradually build their reputation and hence trust among end users. However, this cultural evolution is likely to take time as part of the overall sector transformation (availability of financing, appreciation of integrated communities, etc.).

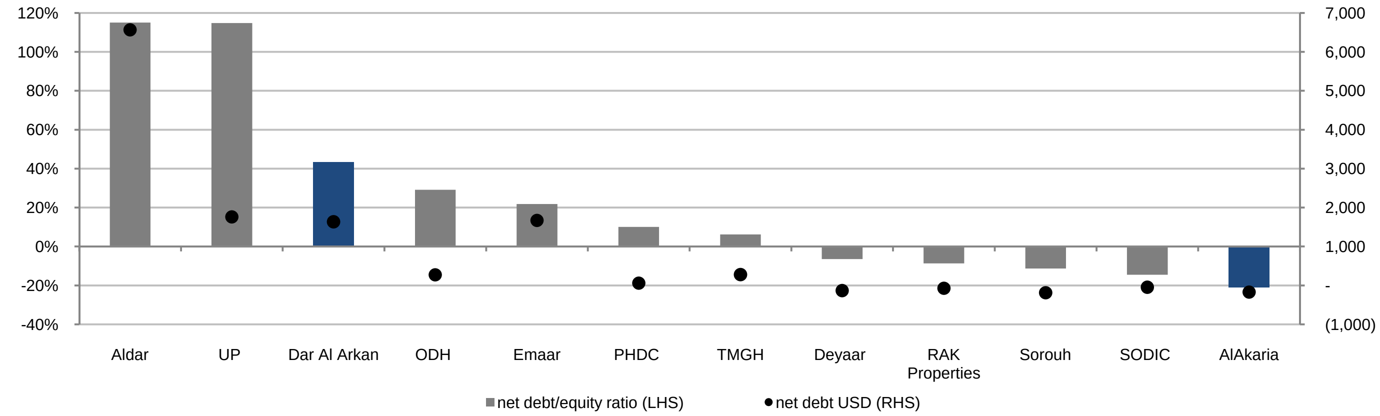
The pre-finished sales model that most Saudi developers follow means higher cash requirements and the risk of capital lock-in in unsold inventories. The advantage of the off-plan model (followed by other more mature and predominantly expat-driven property markets in the Gulf) project take up is insured given that developments only break ground after a certain percentage of sales is achieved. Developments are self-financing as they are typically funded through customer installments. The prefinished model, however, is more cash intensive as it requires external funding. This means developers need to rely on a combination of plot sales and debt financing. The pre-finished model introduces the risk of unsold inventories since appetite is difficult to test until delivery.

That said, the cash on delivery plot sales model followed in Saudi partially offsets cash requirements, but limits land utilization. In other GCC countries land is usually sold to sub-developers on installments, whereas in Saudi land is typically sold to end users for cash. Since land is sold on a BUA basis (built-up area), given the lower affordability of individual cash buyers, this we believe limits building density and hence land utilization.

## Prefinished sales model means higher gearing and risk of capital lock up in unsold inventories

**Chart 18**

Al Akaria's liquidity position strongest in sector, while DAAR's balance sheet stretched




Source: Company data

As highlighted in the above chart, Al Akaria has the strongest balance sheet in the sector with a net cash position of SAR640 million and net cash/equity of 20%. The company has zero leverage as it has relied on its recurring income stream to fund its operations. Also, the company's negative working capital model, with rentals collected a year in advance, has helped it remain self sufficient. Going forward we believe that the company is likely to raise debt in order to fund its first sales development in Riyadh (Binban). Al Akaria indicated that it is likely to raise the money from Saudi's Public Investment Fund (PIF), which is the majority shareholder in the company with 65% ownership.

DAAR, on the other hand, is among the most highly leveraged with net debt of SAR6.1 billion and net debt/equity ratio of 40%. As discussed earlier, we believe the higher gearing is a reflection of the pre-finished sales model. Although the company has indicated that it has enough cash to fund its current underdevelopment projects, we feel that is dependent to a large part on plot sales. DAAR recently announced two major projects in Jeddah (Qasr Khozam and Shams Al Arous) that would require an estimated investment of SAR12.5 billion over the next five years. Therefore, we believe the company would likely need to raise additional debt and at the same time refinance its existing debt with the bulk coming due in 2010 and 2012. DAAR recently raised USD450 million through a sukuk issuance priced at 10.75% to partly refinance its 2010 sukuk due in March. Despite the high cost, this allows DAAR to conserve its cash to build capacity, thus quickly capturing more market share when the market improves.

**Table 6:** DAAR's Debt Profile

| SARm | 2009 | Maturity | Cost |
|---|---|---|---|
| ST Islamic Murabaha | 400 | 2010 | Sibor +1.50% to +2.00% |
| LT Islamic Murabaha | 400 | Eight semi-annual payments starting in 2010 | Sibor +2.50% |
| LT Islamic Murabaha | 500 | 2011 | Sibor +3.50% |
| LT Islamic Murabaha | 305 | 2012 | Sibor +2.25% |
| sukuk 2010 | 2,250 | 2010 | Libor +2% |
| sukuk 2012 | 3,750 | 2012 | Libor +2.25% |
| sukuk 2014 | 750 | 2014 | Sibor +4% |
| sukuk 2015 | 1,688 | 2015 | 10.75% |
| Total | | | |

Source: Company data

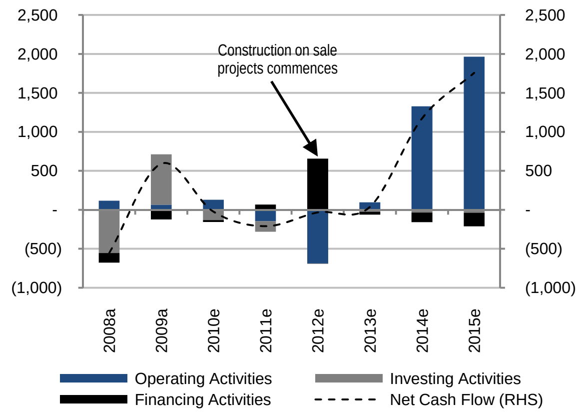
## Cash flows

### Operating cash flows sufficient for current underdevelopment projects

Al Akaria's less capital intensive rental-based model and its slow approach to development has enabled it to accumulate excess liquidity over the past few years. Ahe company's cash balance at the end of 2009 stood at SAR643 millio, which we believe is enough to finance the development of phase two of the Diplomatic Quarters (high-income residential lease project in Riyadh), which according to the company is expected to break ground this year. We estimate total expenditure on this project of SAR255 million. That said, we believe the company would need to raise external funding for the development of it sales project (Binban in Riyadh), with an estimated total cost of SAR3 billion. Since the project will likely be broken down into three phases, proceeds from the first should help partially finance the other two. Still, we estimate the company would need to raise roughly SAR800 millio. Al Akaria indicated that they are likely to get this funding from the Public Investment Fund (65% majority shareholder). Given the extensive cash needed during the development of the project, we assume the company will cut its dividend payout ratio to 25% in 2012 from 85% in 2008.

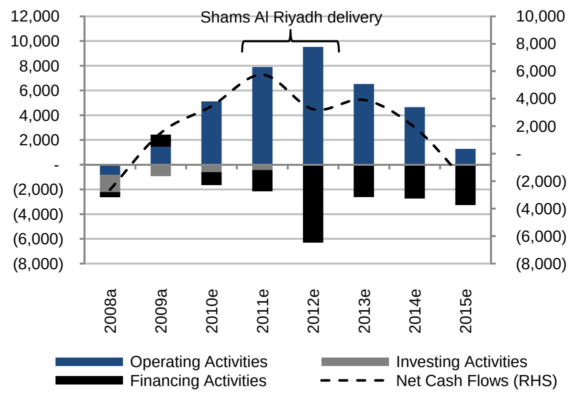
**Chart 19**

Internal funding adequate until construction activity on first sale project picks up pace in 2012e




Source: HC Estimates

Bulk of costs already incurred, expect strong operating cash flows going forward




Source: HC Estimates

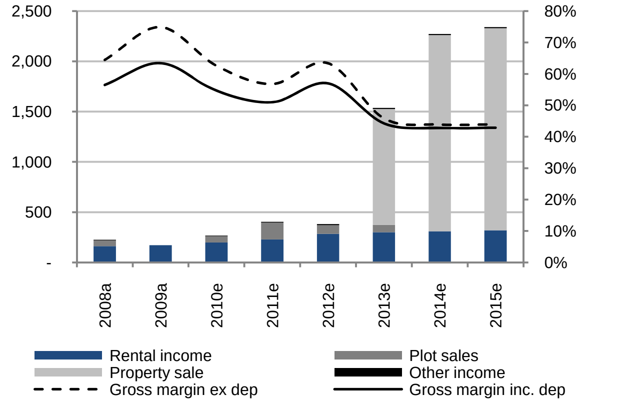
Our analysis of DAAR's cash flows are based on current underdevelopment projects only. As we discussed earlier, although the company has indicated that it is looking to launch two new projects (Al Qasr Khozam and Shams Al Arous), for the time being we exclude them from our analysis due to a lack of details and, more importantly, the tight credit markets and hence the availability of funding. We estimate the company's share in the costs of those projects at roughly SAR12.5 billion. While the projects are likely to be spread over multiple phases, with one typically funding the other, given the absence of the off-plan sales model in Saudi, each phase has to be completely finished before work on the next can commence. In any case, based on the above cash flow assumptions, we feel it is difficult to funded these projects through operational cash flows. Additionally, given DAAR's stretched balance sheet, external funding would also be difficult/expensive (10.75% latest issuance), in our opinion.

We estimate the total construction cost of ongoing developments at SAR6 billion, of which we estimate half has already been incurred. In the latest financials, development properties stood at SAR4 billion, which means that the company has roughly SAR1 billion of inventories yet to be sold (mainly Al Qasr project). Accordingly, we estimate cash outflow on sale properties of SAR3 billion and cash inflow of SAR10 billion assuming blended margins of 30%. Regarding plot sales, we estimate that the bulk of the infrastructure costs have already been incurred (developed land and land underdevelopment). For raw land (classified under investment), we estimate additional infrastructure costs of SAR500 million (SAR50/m²). In terms of investment properties, we estimate DAAR's planned expenditure will total SAR2.7 billion, of which the company has already spent SAR1.5 billion. This implies future cash outflow of SAR1.2 billion over the next three years.

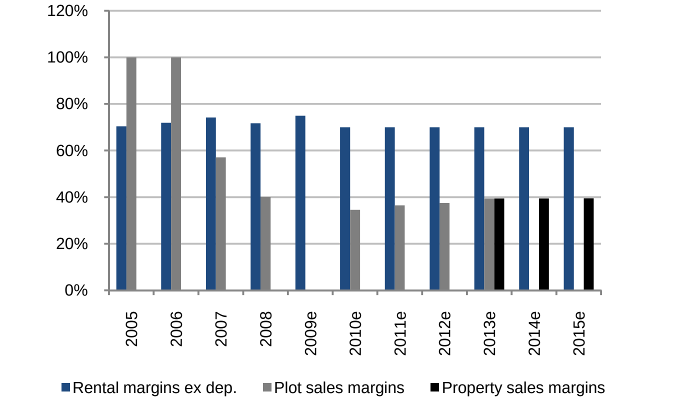
Financials: sector to witness moderate earnings growth in 2010e

**Chart 20**

Al Akaria Revenue Breakdown by Segment (SARm)




Al Akaria Margin Breakdown by Segment




Source: Company data, HC estimates

Source: Company data, HC estimates

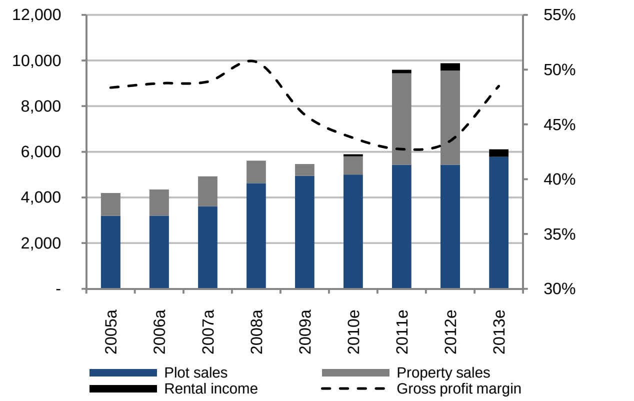
Al Akaria, like most regional developers, follows the completed contract method (as opposed to the percentage of completion method) and it recognizes revenue from property sales on delivery. Accordingly, revenue is volatile as it naturally spike when deliveries are made. Al Akaria's first sale project (Binban) is estimated to be delivered in three phases, the first of which is expected in 2013e. We estimate revenue will jump almost 300% in 2013e and 48% in 2014e on the delivery of the second phase.

We expect revenue in 2010 to increase by 56% mainly on the assumption of plot sales. Despite the lack of land sales in 2009, we assume cSAR60 million in plot sales in 2010 driven by an improvement in the macro environment. Al Akaria Plaza, which came on line at the beginning of the year, is expected to start contributing to the top-line, even though the company indicated that occupancy is likely to be in the range of 35%, in line with the natural maturity cycle of a lease property considering the competitive nature of the retail market in Riyadh.

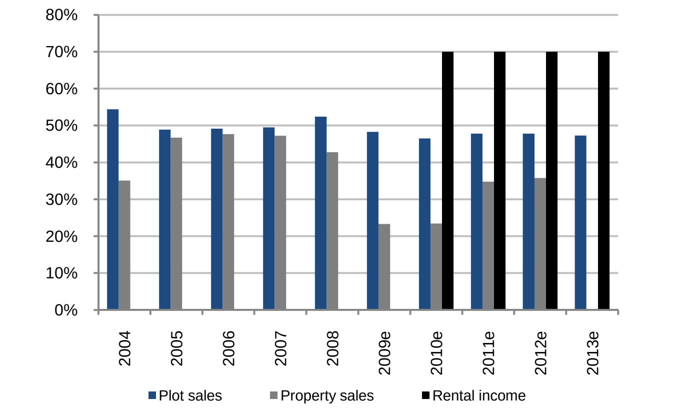
Margins are expected to come under pressure this year, compressing to 63% from 75% in 2009as a result of the contribution from the lower margin plot sales. Our gross profit margin estimates exclude depreciation on investment properties, which the company includes within direct costs. For the sake of consistency and peer comparison, we strip it out. We estimate that margins are likely to come under further pressure starting 2013e due to a change in mix from the high margin rental business (70%) towards lower margin property sales (35% on our estimates). Since we do not assume any future projects and the last deliveries are expected in 2015e, we expect margins to jump back to 70% from 2016e onwards, driven by the rental business.

**Chart 21**

DAAR Revenue Breakdown by Segment (SARm)




DAAR Margin Breakdown by Segment




Source: Company data, HC estimates

Source: Company data, HC estimates

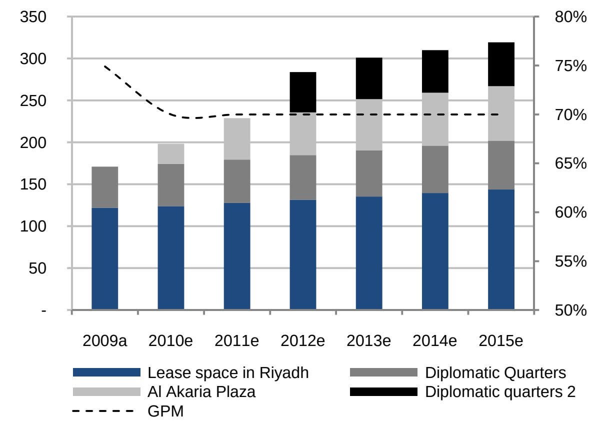
For DAAR we forecast that revenue is likely to continue to be driven by plot sales until Shams Al Riyadh project deliveries start in 2011e. This year we expect plot sales to make up rough 85% of the DAAR's top-line. However, we expect the contribution from plot sales to decline to below 60% in 2011e and 2012e, upon the deliveries of phase one and two of Shams Al Riyadh. Since, for the time being, we do not include future projects in our model. We estimate a spike in land sale contribution to 95% in 2013e. In terms of recurring income, the first rental contribution is expected this year upon the delivery of the Al Qasr residential apartments and office buildings. Going forward, we estimate rental contribution will increase from 2% in 2010e to 5% by 2013e. Overall DAAR is trying to diversify its income stream but we expect plot sales to remain the key revenue driver over our forecast period, accounting on average for c75% of the total.

Given our expectations of a stronger year driven by a pickup in lending, we estimate an 8% rise in revenues largely on the back of stronger property sales/deliveries (53% growth), but also an small increase in plot sales driven by volume and slight price improvement. We do not expect any new project deliveries in 2010, just some sales from previous project launches. In 2011e, we expect revenues to grow by 63% on the delivery of phase 1 of Shams Al Riyadh.

Gross profit margins compressed in 2009 on lower prices, which according to the company had to do more with the less prime location of the land plots sold and not market weakness. While margin expansion seems likely this year driven by an expected improvement in the macro environment, to be conservative we maintain margins at the same levels of 45% in 2010e. In 2011e, despite the higher contribution from the typically lower margin property sales segment, we expect margins to remain intact on shifting property mix from low-end apartments (Al Qasr Development, 20% GPM) to mid-end villas (Shams Al Riyadh 35%, GPM). Beyond 2013e, we expect strong margin improvement due to lower contribution from property sales, but higher contribution from the rental business (70% GPM).

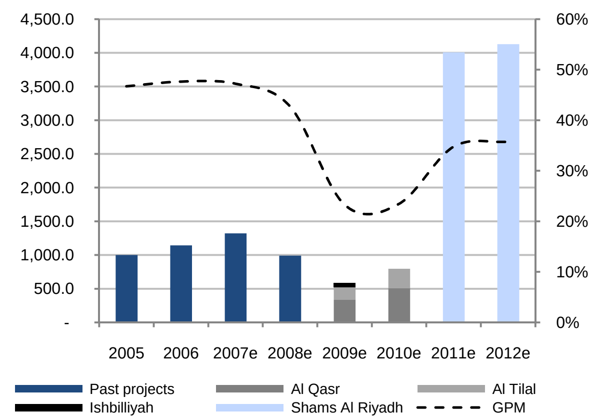
## Chart 22

Al Akaria Rental Income by Project (SARm)




Source: Company data, HC estimates

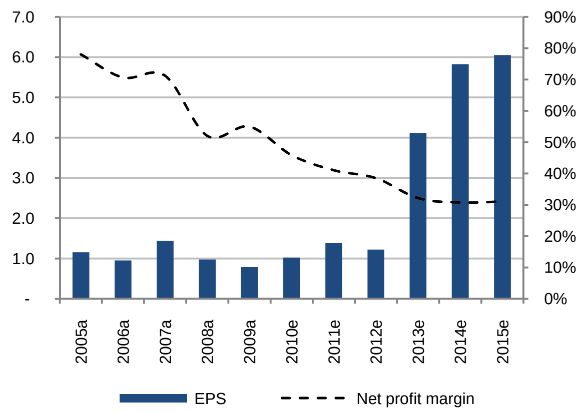
DAAR Property Sale Breakdown by Project (SARm)




Source: Company data, HC estimates

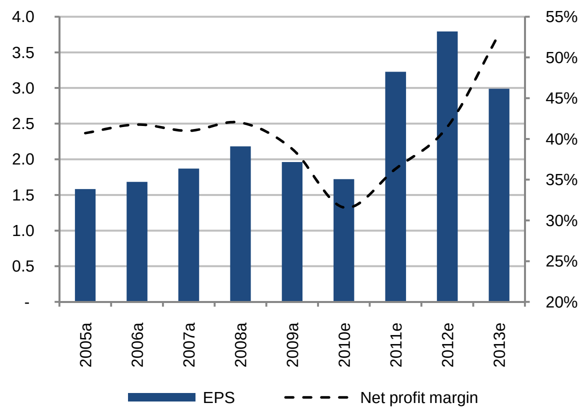
## Chart 23

Al Akaria EPS and NPM




Source: Company data, HC estimates

DAAR EPS and NPM




Source: Company data, HC estimates

We expect Al Akaria's earnings to grow by 30% in 2010e and 35% in 2011e, mainly driven by higher rental income (Al Akaria Plaza coming on line), but also on the assumption of some plot sales. We expect an 11% decline in NPAT in 2010e as a result of financing costs associated with the expected debt raising to finance the Binban project. We expect net profit margins to decline this year to 46% from 55% in 2009 on the back of higher contribution from plot sales. We expect further margin compression in 2013e, 2014e, and 2015e on a shift in mix towards lower margin sale properties.

For DAAR, we expect a 12% decline in earnings in 2010e despite an estimated 8% growth in revenue as a result of gross margin compression on stronger delivery of Al Qasr project as well as higher financing costs. As a result, we expect net profit margins to compress to 32% from 39% in 2009. That said, we expect NPAT growth of 87% in 2011e and 18% in 2012e on the delivery of phase one of Shams Al Riyadh. Nonetheless, we expect margins to expand during these years due to lower interest expense as the company pays down cSAR5 billion of debt.

# Al Akaria

## Project Details, Valuation, and Financials

# Al Akaria Project Details

**Table 7:** Sale Projects

| Project | No. of Units | Unit Size ($m^2$) | NSA ($m^2$) | Construction Cost (SAR/$m^2$) | Price (SAR/$m^2$) | Margin |
|---|---|---|---|---|---|---|
| **Al Qaseem Road** | | | | | | |
| Phase 1 | 700 | 300 | 210,000 | | | |
| Phase 2 | 1,150 | 300 | 345,000 | | | |
| Phase 3 | 1,150 | 300 | 345,000 | | | |
| **Total** | **3,000** | **300** | **900,000** | **3,150** | **4,950** | **36%** |

Source: Company data, HC estimates

**Table 8:** Lease Properties

| Project | No. of Units | Unit Size ($m^2$) | NLA ($m^2$) | Construction Cost (SAR $m^2$) | Rent (SAR/$m^2$ p.a) | Occupancy |
|---|---|---|---|---|---|---|
| **Akaria Commercial Center 1,2 &3** | | | | | | |
| Office | 418 | 150 | 62,700 | | | |
| Retail | 315 | 200 | 63,000 | | | |
| | | | | | | |
| **Al Seteen Center** | | | | | | |
| Office | 208 | 150 | 31,200 | | | |
| Retail | 76 | 200 | 15,200 | | | |
| Apartment | 103 | 200 | 20,600 | | | |
| | | | | | | |
| **Al Riyadh Buildings Complex** | | | | | | |
| Apartments | 969 | 200 | 193,800 | | | |
| **Total** | **2,089** | **185** | **386,500** | **Complete** | **350** | **90%** |
| | | | | | | |
| **Diplomatic Quarters Phase 1** | | | | | | |
| Apartments | 122 | 200 | 24,400 | | | |
| Villas | 198 | 500 | 99,000 | | | |
| **Total** | **320** | **386** | **123,400** | **Complete** | **408** | **100%** |
| | | | | | | |
| **Diplomatic Quarters Phase 2** | | | | | | |
| Apartment/Villas | **220** | **500** | **110,000** | **2,250** | **450** | **90%** |
| | | | | | | |
| **Akaria Plaza** | | | | | | |
| Office | 400 | **150** | 60,000 | | | |
| Retail | 65 | **200** | 13,000 | | | |
| **Total** | **465** | **157** | **73,000** | **Complete** | **1,080** | **80%** |

Source: Company data, HC estimates

# Al Akaria DCF Assumptions

**Table 9:** Lease Properties Assumptions

| Lease Properties | 2007 | 2008 | 2009 | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Diplomatic Quarters** | | | | | | | | | | | |
| Rent in SAR/m² | 220 | 220 | 198 | 204 | 210 | 216 | 223 | 230 | 236 | 244 | 251 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Occupancy Rates | | | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Leasable/BUA | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% |
| **Other Lease Space in Riyadh** | | | | | | | | | | | |
| Rent in SAR/m² | 195 | 195 | 176 | 181 | 186 | 192 | 198 | 203 | 210 | 216 | 222 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Occupancy Rates | | | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Leasable/BUA | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| **Al Akaria Plaza** | | | | | | | | | | | |
| Rent in SAR/m² | 600 | 600 | 540 | 556 | 573 | 590 | 608 | 626 | 645 | 664 | 684 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Occupancy Rates | | | 0% | 40% | 60% | 60% | 70% | 70% | 70% | 70% | 70% |
| Leasable/BUA | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| **Diplomatic Quarters 2** | | | | | | | | | | | |
| Rent in SAR/m² | 250 | 250 | 225 | 232 | 239 | 246 | 253 | 261 | 269 | 277 | 285 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,500 | 2,500 | 2,250 | 2,318 | 2,387 | 2,459 | 2,532 | 2,608 | 2,687 | 2,767 | 2,850 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Occupancy Rates | | | 0% | 0% | 0% | 90% | 90% | 90% | 90% | 90% | 90% |
| Leasable/BUA | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Company data, HC estimates

**Table 10:** Sale Projects Assumptions

| Binban Phase 1/2/3 | 2007 | 2008 | 2009 | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Prices in SAR/m² | 5,500 | 5,500 | 4,950 | 5,099 | 5,251 | 5,409 | 5,571 | 5,738 | 5,911 | 6,088 | 6,271 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 3,500 | 3,500 | 3,150 | 3,245 | 3,342 | 3,442 | 3,545 | 3,652 | 3,761 | 3,874 | 3,990 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Net Saleable Area to Gross | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Company data, HC estimates

**Table 11:** Land Sale Assumptions

| Land Sales | 2007 | 2008 | 2009e | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Prices in SAR/m² | 439 | 439 | 373 | 385 | 396 | 408 | 420 | 433 | 446 | 459 | 473 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 264 | 264 | 264 | 271 | 280 | 288 | 297 | 306 | 315 | 324 | 334 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |

Source: Company data, HC estimates

# Al Akaria Financials

Income Statement (SAR Million)

| Year to 31 December | 2008a | 2009a | 2010f | 2011f | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sale of Land | 57 | - | 62 | 166 | 87 | 72 | - |
| Sale of Properties | - | - | - | - | - | 1,153 | 1,951 |
| Rental Income | 162 | 171 | 198 | 229 | 284 | 301 | 310 |
| Other Income | 6 | - | 7 | 8 | 10 | 11 | 11 |
| **Revenue** | **225** | **171** | **268** | **404** | **381** | **1,537** | **2,272** |
| | | | | | | | |
| Cost of Land infrastructure | (34) | - | (41) | (106) | (54) | (44) | - |
| Cost of Properties | - | - | - | - | - | (698) | (1,182) |
| Direct Rental Expenses | (46) | (43) | (60) | (69) | (85) | (90) | (93) |
| **Total Cost** | **(80)** | **(43)** | **(100)** | **(175)** | **(139)** | **(832)** | **(1,275)** |
| *% of Sales* | *36%* | *25%* | *37%* | *43%* | *37%* | *54%* | *56%* |
| **Gross Profit** | **145** | **128** | **167** | **229** | **242** | **705** | **997** |
| *Margin* | *64%* | *75%* | *63%* | *57%* | *63%* | *46%* | *44%* |
| | | | | | | | |
| **Operating Expenses:** | | | | | | | |
| Depreciation | (18) | (20) | (21) | (23) | (24) | (24) | (24) |
| SGA Expenses (Excl. Depreciation) | (17) | (17) | (27) | (40) | (38) | (154) | (227) |
| **Operating Expenses** | **(34)** | **(36)** | **(48)** | **(64)** | **(62)** | **(178)** | **(251)** |
| | | | | | | | |
| **EBIT (Incl. Revaluation Gain)** | **110** | **92** | **120** | **165** | **179** | **527** | **745** |
| *Margin* | *49%* | *54%* | *45%* | *41%* | *47%* | *34%* | *33%* |
| | | | | | | | |
| Net Financing cost | - | 6 | 13 | 9 | (22) | (21) | (24) |
| Other Income/ Expenses | 27 | 17 | 8 | 9 | 11 | 12 | 12 |
| **Profit Before Taxes** | **137** | **115** | **140** | **183** | **168** | **518** | **734** |
| Income Tax | (20) | (21) | (18) | (17) | (21) | (24) | (35) |
| | | | | | | | |
| Minority Shareholder Interest | - | - | - | - | - | - | - |
| | | | | | | | |
| **Net Profit (Loss)** | **117** | **94** | **123** | **166** | **147** | **494** | **699** |
| *Margin* | *52%* | *55%* | *46%* | *41%* | *39%* | *32%* | *31%* |
| **Basic EPS** | **1.0** | **0.8** | **1.0** | **1.4** | **1.2** | **4.1** | **5.8** |
| | | | | | | | |
| DPS | 0.7 | 0.7 | 0.3 | 0.3 | 0.3 | 1.0 | 1.5 |
| *Payout ratio* | *71%* | *87%* | *25%* | *25%* | *25%* | *25%* | *25%* |
| | | | | | | | |
| **EBITDA** | **124** | **101** | **141** | **189** | **203** | **551** | **770** |
| *Margin* | *55%* | *59%* | *53%* | *47%* | *53%* | *36%* | *34%* |

Source: Company data, HC estimates

## Balance Sheet (SAR Million)

| Year to 31 December | 2008a | 2009a | 2010f | 2011f | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and Cash Equivalents | 749 | 644 | 620 | 409 | 375 | 413 | 1,585 |
| Trade and Other Receivables (Current and Non Current) | 13 | 13 | 9 | 7 | 4 | 2 | - |
| Other Current Assets | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| Land Held for Sale | 174 | 135 | 131 | 98 | 44 | - | - |
| Development Property WIP | 125 | 125 | 127 | 472 | 1,370 | 1,828 | 1,216 |
| Inventory | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| **Current Assets** | **1,068** | **925** | **895** | **994** | **1,802** | **2,252** | **2,810** |
| | | | | | | | |
| Long-Term Investments | 477 | 491 | 491 | 491 | 491 | 491 | 491 |
| Land | 667 | 747 | 747 | 747 | 747 | 747 | 747 |
| Property, Plant, and Equipment | 6 | 5 | 9 | 15 | 20 | 43 | 76 |
| Investment Properties | 663 | 641 | 1,099 | 1,205 | 1,181 | 1,158 | 1,135 |
| Investment Properties WIP | 309 | 354 | - | - | - | - | - |
| **Non Current Assets** | **2,123** | **2,238** | **2,346** | **2,458** | **2,439** | **2,438** | **2,448** |
| | | | | | | | |
| **Total Assets** | **3,191** | **3,163** | **3,241** | **3,452** | **4,241** | **4,690** | **5,258** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Trade and Other Payables | 33 | 36 | 27 | 20 | 13 | 7 | - |
| Advances from Customers | 43 | 40 | 29 | 12 | 2 | 0 | - |
| Provision for Tax | 29 | 17 | 17 | 17 | 17 | 17 | 17 |
| **Current Liabilities** | **105** | **93** | **72** | **49** | **33** | **24** | **17** |
| | | | | | | | |
| Borrowing and Long-Term Debt | - | - | - | 100 | 800 | 800 | 800 |
| Provision for Employee Services | 11 | 12 | 12 | 12 | 12 | 12 | 12 |
| **Non-Current Liabilities** | **11** | **12** | **12** | **112** | **812** | **812** | **812** |
| | | | | | | | |
| Minority Interest in Subsidiaries | - | - | - | - | - | - | - |
| | | | | | | | |
| Paid-Up Capital | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Statutory and Other Reserves | 1,790 | 1,799 | 1,799 | 1,799 | 1,799 | 1,799 | 1,799 |
| Retained Earnings | 137 | 98 | 197 | 332 | 437 | 894 | 1,469 |
| Unrealized Losses on Investments | (53) | (39) | (39) | (39) | (39) | (39) | (39) |
| **Shareholder Equity** | **3,074** | **3,058** | **3,156** | **3,291** | **3,397** | **3,854** | **4,429** |
| | | | | | | | |
| **Total Liabilities and Equity** | **3,191** | **3,163** | **3,241** | **3,452** | **4,241** | **4,690** | **5,258** |

Source: Company data, HC estimates

## Cash Flow Statement (SAR Million)

| Year to 31 December | 2008a | 2009a | 2010f | 2011f | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| **Net Profit Before Minorities** | **137** | **60** | **123** | **166** | **147** | **494** | **699** |
| Depreciation and Amortization | 20 | 9 | 21 | 23 | 24 | 24 | 24 |
| Change in Working Capital | (43) | (4) | (14) | (334) | (858) | (421) | 607 |
| Change in Provisions | 5 | 1 | - | - | - | - | - |
| Net Financing Cost | - | 6 | 13 | 9 | (22) | (21) | (24) |
| Interest Income/Expenses | - | (6) | (13) | (9) | 22 | 21 | 24 |
| **Net Cash Generated From Operating Activities** | **119** | **66** | **130** | **(144)** | **(687)** | **97** | **1,330** |
| | | | | | | | |
| **Investments Activities:** | | | | | | | |
| Capex (PPE) | (3) | (15) | (4) | (6) | (6) | (23) | (34) |
| Capex (Investment Properties) | (184) | 659 | (126) | (129) | - | - | - |
| Others | (367) | 3 | - | - | - | - | - |
| **Net Cash Generated From Investment Activities** | **(554)** | **647** | **(130)** | **(135)** | **(6)** | **(23)** | **(34)** |
| | | | | | | | |
| **Financing Activities:** | | | | | | | |
| Dividends Paid | (122) | (122) | (24) | (31) | (41) | (37) | (124) |
| Bank Borrowings Raised | - | - | - | 100 | 700 | - | - |
| **Net Cash Generated From Financing Activities** | **(122)** | **(122)** | **(24)** | **69** | **659** | **(37)** | **(124)** |
| | | | | | | | |
| **Net Addition (Deduction) in Cash** | (558) | 591 | (24) | (211) | (34) | 37 | 1,173 |
| Cash at Beginning | 619 | 61 | 644 | 620 | 409 | 375 | 413 |
| **Cash at End of Fiscal Year** | **61** | **652** | **620** | **409** | **375** | **413** | **1,585** |

Source: Company data, HC estimates

# Al Akaria Valuation

**Table 10:** FCF (SARmn)

| Year | 2008a | 2009a | 2010e | 2011e | 2012e | 2013e | 2014e | ... | 2027e |
|---|---|---|---|---|---|---|---|---|---|
| **EBIT** | 110 | 92 | 120 | 165 | 179 | 527 | 745 | | 268 |
| Tax Rate | | (21) | (18) | (17) | (21) | (24) | (35) | | (66) |
| EBIT * (1-T) | | 71 | 102 | 148 | 158 | 503 | 710 | | 202 |
| Depreciation and Amortization | 14 | 9 | 21 | 23 | 24 | 24 | 24 | | 21 |
| Capital Expenditure | (554) | 647 | (130) | (135) | (6) | (23) | (34) | | (9) |
| Changes in Working capital | (43) | (4) | (14) | (334) | (858) | (421) | 607 | | |
| **Free Cash Flow: Explicit Period** | **(583)** | **723** | **(21)** | **(298)** | **(681)** | **83** | **1,308** | | **214** |
| | | | | | | | | | |
| **Terminal Growth Rate** | | | | | | | | | **3.0%** |
| FCF: Terminal | | | | | | | | | 3,001 |
| **FCF: Total** | **(583)** | **723** | **(21)** | **(298)** | **(681)** | **83** | **1,308** | | **3,215** |

Source: HC estimates

**Table 11:** DCF Value (SAR)

| Terminal Growth Rate | 3.00% | WACC | |
|---|---|---|---|
| **NPV: FCF mn** | **2,320** | Beta | 0.9 |
| Net Debt/ (Cash) mn | (620) | Risk Free Rate | 4.5% |
| Equity mn | 2,939 | Country Risk Premium | 6.5% |
| Outstanding Shares mn | 120 | | |
| **DCF Value** | **24.5** | **Cost of Equity** | **10.4%** |
| | | Cost of Debt | 5.0% |
| Value of Land | 747 | **After tax cost of debt** | **4.3%** |
| Value of Investments | 491 | Weights (SARmn) | |
| Value of Land and Investments | 1,238 | Equity Market Capitalization | 2,994 |
| **Value of land and investments per share** | **10.3** | Debt | 0.0 |
| **Total Value** | **34.8** | Total | **2,994** |
| | | Tax Rate | 15.0% |
| | | **WACC** | **10.4%** |

Source: HC estimates

# Dar Al Arkan

## Project Details, Valuation, and Financials

# DAAR Project Details

**Table 12:** Sale Projects

| Project | No. of units | Unit Size ($m^2$) | No. of BR | NSA ($m^2$) | Construction Cost (SAR/$m^2$) | Price (SAR/$m^2$) | Margin |
|---|---|---|---|---|---|---|---|
| **Shams Al Riyadh Villa** | | | | | | | |
| | 1,157 | 400 | 4 | 660,800 | | | |
| | 700 | 600 | 4 | 420,000 | | | |
| | 250 | 800 | 5 | 200,000 | | | |
| | 235 | 1,000 | 5 | 235,000 | | | |
| | 196 | 1,200 | 6 | 235,200 | | | |
| | 156 | 1,500 | 6 | 234,000 | | | |
| **Total** | **2,694** | **622** | **4.4** | **1,985,000** | **3,100** | **5,400** | **43%** |
| | | | | | | | |
| **Al Qasr Apartment** | | | | | | | |
| | 87 | 80 | 2 | 6,960 | | | |
| | 928 | 168 | 3 | 155,904 | | | |
| | 464 | 205 | 4 | 95,102 | | | |
| **Total** | **1,479** | **174** | **3.3** | **257,966** | **2,400** | **4,000** | **40%** |
| | | | | | | | |
| **Al Qasr Villa** | | | | | | | |
| Al Reehan | 16 | 300 | 4 | 4,800 | | | |
| Al Khazamah | 102 | 320 | 4 | 32,640 | | | |
| Al Narjass | 92 | 223 | 3 | 20,516 | | | |
| Al Jouri | 44 | 382 | 4 | 16,808 | | | |
| **Total** | **254** | **294** | **3.6** | **74,764** | **2,400** | **3,800** | **37%** |
| | | | | | | | |
| **Al Tilal Villas** | | | | | | | |
| Al Rawshan | 252 | 305 | 4 | 76,860 | | | |
| Al Dar | 43 | 334 | 4 | 14,362 | | | |
| Al Rouda | 4 | 346 | 4 | 1,384 | | | |
| Al Retaj | 42 | 351 | 4 | 14,742 | | | |
| Al Iwan | 24 | 303 | 3 | 7,272 | | | |
| Al Nakheel | 80 | 317 | 4 | 25,360 | | | |
| Al Aqueeq | 16 | 344 | 4 | 5,504 | | | |
| Al Huda | 4 | 360 | 4 | 1,440 | | | |
| Al Asima | 36 | 310 | 4 | 11,160 | | | |
| Al Mahrousa | 16 | 314 | 4 | 5,024 | | | |
| **Total** | **517** | **315** | **4.0** | **163,108** | **2,700** | **4,800** | **44%** |
| | | | | | | | |
| **Ishbiliah Villas** | | | | | | | |
| **Total** | **40** | **315** | | **12,600** | **2,700** | **4,800** | **44%** |

Source: Company data, HC estimates

**Table 13:** Lease Projects

| Project | No. of units | Unit Size $m^2$ | No. of BR | NLA $m^2$ | Construction Cost SAR $m^2$ | Rent (SAR/$m^2$ p.a) | Yield |
|---|---|---|---|---|---|---|---|
| **Al Qasr Residential** | | | | | | | |
| | 411 | 80 | 2 | 32,880 | | | |
| | 722 | 168 | 3 | 121,296 | | | |
| | 185 | 205 | 4 | 37,925 | | | |
| **Total** | **1,318** | **146** | **2.8** | **192,101** | **2,400** | **160** | **4%** |
| | | | | | | | |
| **Al Qasr Mall** | | | | **78,000** | **7,200** | **600** | |
| | | | | | | | |
| **Al Qasr Office** | | | | **75,000** | **2,000** | **400** | |
| | | | | | | | |
| **Shams Al Riyadh Retail** | | | | **225,000** | **2,800** | **500** | |

Source: Company data, HC estimates

# DAAR DCF Assumptions

**Table 14:** Sale Projects Assumptions

| Shams Arriyadh | 2007 | 2008 | 2009 | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Prices in SAR/m² | 5,400 | 5,400 | 4,590 | 4,728 | 4,870 | 5,016 | 5,166 | 5,321 | 5,481 | 5,645 | 5,814 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 3,100 | 2,790 | 2,790 | 2,874 | 2,960 | 3,049 | 3,140 | 3,234 | 3,331 | 3,431 | 3,534 |
| Growth Rate | | -10% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Net saleable Area to Gross | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | | | | | | | | | | | |
| **Al Qasr Residential Apartments** | | | | | | | | | | | |
| Prices in SAR/m² | 4,000 | 4,000 | 3,400 | 3,502 | 3,607 | 3,715 | 3,827 | 3,942 | 4,060 | 4,182 | 4,307 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,400 | 2,400 | 2,400 | 2,472 | 2,546 | 2,623 | 2,701 | 2,782 | 2,866 | 2,952 | 3,040 |
| Growth Rate | | | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Net saleable Area to Gross | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% |
| | | | | | | | | | | | |
| **Al Tilal Villas** | | | | | | | | | | | |
| Prices in SAR/m² | 4,800 | 4,800 | 4,080 | 4,202 | 4,328 | 4,458 | 4,592 | 4,730 | 4,872 | 5,018 | 5,168 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,700 | 2,700 | 2,700 | 2,781 | 2,864 | 2,950 | 3,039 | 3,130 | 3,224 | 3,321 | 3,420 |
| Growth Rate | | | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Net saleable Area to Gross | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | | | | | | | | | | | |
| **Ishbilliah Villas** | | | | | | | | | | | |
| Prices in SAR/m² | 4,800 | 4,800 | 4,080 | 4,202 | 4,328 | 4,458 | 4,592 | 4,730 | 4,872 | 5,018 | 5,168 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,700 | 2,700 | 2,700 | 2,781 | 2,864 | 2,950 | 3,039 | 3,130 | 3,224 | 3,321 | 3,420 |
| Growth Rate | | | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Net saleable Area to Gross | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Company data, HC estimates

**Table 15:** Land Sale Assumptions

| Land Sales | 2007 | 2008 | 2009e | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Prices in SAR/m² | 650 | 650 | 553 | 569 | 586 | 604 | 622 | 640 | 660 | 680 | 700 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 300 | 300 | 300 | 309 | 318 | 328 | 338 | 348 | 358 | 369 | 380 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |

Source: Company data, HC estimates

**Table 16:** Lease Projects Assumptions

| Lease Properties | 2007 | 2008 | 2009a | 2010e | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Occupancy Rates | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% |
| | | | | | | | | | | | |
| **Al Qasr Mall** | | | | | | | | | | | |
| Rent in SAR/m² | 600 | 600 | 510 | 525 | 541 | 557 | 574 | 591 | 609 | 627 | 646 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 7,200 | 7,200 | 7,200 | 7,416 | 7,638 | 7,868 | 8,104 | 8,347 | 8,597 | 8,855 | 9,121 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Leasable/BUA | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% |
| | | | | | | | | | | | |
| **Al Qasr Residential Lease** | | | | | | | | | | | |
| Rent in SAR/m² | 160 | 160 | 136 | 140 | 144 | 149 | 153 | 158 | 162 | 167 | 172 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,400 | 2,400 | 2,400 | 2,472 | 2,546 | 2,623 | 2,701 | 2,782 | 2,866 | 2,952 | 3,040 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Leasable/BUA | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% |
| | | | | | | | | | | | |
| **Shams Arriyadh Retail** | | | | | | | | | | | |
| Rent in SAR/m² | 500 | 500 | 425 | 438 | 451 | 464 | 478 | 493 | 507 | 523 | 538 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,800 | 2,800 | 2,520 | 2,596 | 2,673 | 2,754 | 2,836 | 2,921 | 3,009 | 3,099 | 3,192 |
| Growth Rate | | 0% | -10% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Leasable/BUA | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% |
| | | | | | | | | | | | |
| **Al Qasr Office** | | | | | | | | | | | |
| Rent in SAR/m² | 400 | 400 | 340 | 350 | 361 | 372 | 383 | 394 | 406 | 418 | 431 |
| Growth Rate | | 0% | -15% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Costs in SAR/m² | 2,000 | 2,000 | 2,000 | 2,060 | 2,122 | 2,185 | 2,251 | 2,319 | 2,388 | 2,460 | 2,534 |
| Growth Rate | | 0% | 0% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| | | | | | | | | | | | |
| Leasable/BUA | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% |

Source: Company data, HC estimates

# DAAR Financials

Income Statement (SAR Million)

| Year to 31 December | 2008a | 2009a | 2010f | 2011f | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sale of Land | 4,620 | 4,945 | 5,000 | 5,428 | 5,432 | 5,778 | 3,744 |
| Sale of Properties | 990 | 519 | 797 | 4,008 | 4,128 | - | - |
| Rental Income | - | - | 94 | 160 | 319 | 328 | 338 |
| **Revenue** | **5,611** | **5,464** | **5,891** | **9,595** | **9,878** | **6,106** | **4,083** |
| | | | | | | | |
| Cost of Land | (2,199) | (2,559) | (2,675) | (2,832) | (2,835) | (3,047) | (1,998) |
| Cost of Properties | (567) | (398) | (610) | (2,615) | (2,652) | - | - |
| Direct Rental Expenses | - | - | (28) | (48) | (96) | (99) | (101) |
| **Total Cost** | **(2,766)** | **(2,957)** | **(3,313)** | **(5,495)** | **(5,582)** | **(3,145)** | **(2,099)** |
| *% of Sales* | *49%* | *54%* | *56%* | *57%* | *57%* | *52%* | *51%* |
| | | | | | | | |
| **Gross Profit** | **2,845** | **2,507** | **2,578** | **4,100** | **4,296** | **2,961** | **1,983** |
| *Margin* | *51%* | *46%* | *44%* | *43%* | *43%* | *48%* | *49%* |
| | | | | | | | |
| **Operating Expenses:** | | | | | | | |
| SGA Expenses | (150) | (146) | (147) | (240) | (247) | (153) | (102) |
| Other | (1) | - | - | - | - | - | - |
| Depreciation and Amortization | (50) | (41) | (80) | (96) | (102) | (100) | (97) |
| **Operating Expenses** | **(201)** | **(186)** | **(228)** | **(336)** | **(349)** | **(253)** | **(200)** |
| | | | | | | | |
| **EBIT (Incl. Revaluation Gain)** | **2,644** | **2,321** | **2,351** | **3,764** | **3,947** | **2,708** | **1,784** |
| *Margin* | *47%* | *42%* | *40%* | *39%* | *40%* | *44%* | *44%* |
| | | | | | | | |
| Net Financing Cost (Islamic Murabha/Sukuk Charges) | (245) | (146) | (454) | (208) | 234 | 590 | 829 |
| Other Income | 17 | (2) | 12 | 19 | 20 | 12 | 8 |
| **Profit Before Taxes** | **2,417** | **2,173** | **1,908** | **3,575** | **4,201** | **3,311** | **2,621** |
| Income Tax | (60) | (54) | (48) | (89) | (105) | (83) | (66) |
| | | | | | | | |
| Minority Shareholder Interest | - | - | - | - | - | - | - |
| | | | | | | | |
| **Net Profit (Loss)** | **2,356** | **2,118** | **1,860** | **3,486** | **4,096** | **3,228** | **2,555** |
| *Margin* | *42%* | *39%* | *32%* | *36%* | *41%* | *53%* | *63%* |
| **Basic EPS** | 3.3 | 2.0 | 1.7 | 3.2 | 3.8 | 3.0 | 2.4 |
| | | | | | | | |
| DPS | 2.6 | 1.2 | 1.0 | 2.0 | 2.3 | 1.8 | 1.4 |
| *Payout ratio* | *81%* | *61%* | *61%* | *61%* | *61%* | *61%* | *61%* |
| | | | | | | | |
| **EBITDA** | **2,696** | **2,321** | **2,431** | **3,860** | **4,049** | **2,808** | **1,881** |
| *Margin* | *48%* | *42%* | *41%* | *40%* | *41%* | *46%* | *46%* |

Source: Company data, HC estimates

Balance Sheet (SAR Million)

| Year to 31 December | 2008a | 2009a | 2010f | 2011f | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and Cash Equivalents | 716 | 2,223 | 5,681 | 11,425 | 14,653 | 18,562 | 20,469 |
| Due From Related Parties | 57 | 3 | 3 | 3 | 3 | 3 | 3 |
| Prepaid Expenses and Others | 1,737 | 233 | 151 | 105 | 58 | - | - |
| Trade and Other Receivables | 949 | 846 | 550 | 381 | 211 | - | - |
| Developed Land Short- and Long-Term | 3,099 | 4,458 | 1,783 | 0 | 0 | 0 | 0 |
| Investment in Land | 3,727 | 3,683 | 3,683 | 3,683 | 2,947 | 1,473 | - |
| Land WIP | 3,726 | 5,245 | 5,245 | 4,196 | 2,098 | 525 | (0) |
| Development Properties WIP | 4,195 | 4,023 | 3,735 | 2,377 | 0 | 0 | 0 |
| **Current Assets** | **18,206** | **20,715** | **20,833** | **22,170** | **19,970** | **20,562** | **20,472** |
| | | | | | | | |
| Investments in Associates | 1,120 | 1,162 | 1,162 | 1,162 | 1,162 | 1,162 | 1,162 |
| Deferred Charges Net | 127 | 98 | 94 | 91 | 87 | 84 | 80 |
| Property, Plant, and Equipment | 120 | 103 | 138 | 172 | 204 | 235 | 265 |
| Investment Properties (Incl. WIP) | 591 | 1,518 | 2,003 | 2,302 | 2,211 | 2,123 | 2,039 |
| **Non Current Assets** | **1,958** | **2,882** | **3,398** | **3,727** | **3,664** | **3,604** | **3,547** |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total Assets** | **20,164** | **23,597** | **24,230** | **25,896** | **23,634** | **24,167** | **24,019** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Trade and Other Payables | 171 | 471 | 306 | 212 | 118 | - | - |
| Borrowings and Short-Term Debt | 1,635 | 2,700 | - | - | - | - | - |
| Other | 613 | 635 | 635 | 635 | 635 | 635 | 635 |
| **Current Liabilities** | **2,420** | **3,806** | **941** | **847** | **753** | **635** | **635** |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Borrowing and Long-Term Debt | 6,000 | 5,655 | 7,293 | 6,693 | 2,538 | 2,438 | 1,688 |
| Provision for End of Service Indemnities | 8 | 12 | 12 | 12 | 12 | 12 | 12 |
| **Non current Liabilities** | **6,008** | **5,667** | **7,305** | **6,705** | **2,550** | **2,450** | **1,700** |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Minority Interest in Subsidiaries | - | 265 | 265 | 265 | 265 | 265 | 265 |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Paid-Up Capital | 7,200 | 10,800 | 10,800 | 10,800 | 10,800 | 10,800 | 10,800 |
| Statutory and Other Reserves | 3,600 | 462 | 462 | 462 | 462 | 462 | 462 |
| Retained Earnings | 936 | 2,597 | 4,457 | 6,817 | 8,804 | 9,555 | 10,157 |
| **Shareholder Equity** | **11,736** | **14,124** | **15,984** | **18,344** | **20,331** | **21,082** | **21,684** |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total Liabilities and Equity** | **20,164** | **23,597** | **24,230** | **25,896** | **23,634** | **24,167** | **24,019** |

Source: Company data, HC estimates

## Cash Flow Statement (SAR Million)

| Year to 31 December | 2008a | 2009a | 2010f | 2011f | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| **Net Profit Before Minorities** | **2,417** | **2,173** | **1,860** | **3,486** | **4,096** | **3,228** | **2,555** |
| Depreciation and Amortization | 50 | 41 | 80 | 96 | 102 | 100 | 97 |
| Change in Working Capital | 296 | 2,236 | 3,175 | 4,312 | 5,333 | 3,199 | 1,998 |
| Change in Provisions | 4 | 5 | - | - | - | - | - |
| Net Financing Cost | - | - | (454) | (208) | 234 | 590 | 829 |
| Interest Income/Expenses | - | - | 454 | 208 | (234) | (590) | (829) |
| **Net Cash Generated From Operating Activities** | **2,766** | **4,455** | **5,116** | **7,894** | **9,531** | **6,527** | **4,651** |
| | | | | | | | |
| **Investments activities:** | | | | | | | |
| Capex (Land) | (744) | (1,193) | - | - | - | - | - |
| Capex (Investments) | (3,798) | (930) | - | - | - | - | - |
| Capex (Excl IP and Hotels)/PPE | (3) | (1) | (40) | (40) | (40) | (40) | (40) |
| Capex (IP WIP) | (425) | (1,818) | (557) | (385) | - | - | - |
| **Net Cash Generated From Investment Activities** | **(4,971)** | **(3,942)** | **(597)** | **(425)** | **(40)** | **(40)** | **(40)** |
| | - | - | - | - | - | - | - |
| **Financing Activities:** | - | - | - | - | - | - | - |
| Dividends Paid | (1,620) | - | - | (1,126) | (2,109) | (2,478) | (1,953) |
| Bank Borrowings Raised | 1,235 | 720 | (1,062) | (600) | (4,155) | (100) | (750) |
| Others | (41) | 270 | - | - | - | - | - |
| Net Cash Generated from Financing Activities | **(426)** | **990** | **(1,062)** | **(1,726)** | **(6,264)** | **(2,578)** | **(2,703)** |
| | | | | | | | |
| **Net Addition (Deduction) in Cash** | **(2,630)** | **1,507** | **3,458** | **5,744** | **3,228** | **3,909** | **1,908** |
| Cash at Beginning | 3,347 | 717 | 2,224 | 5,681 | 11,425 | 14,653 | 18,562 |
| **Cash at End of Fiscal Year** | **717** | **2,224** | **5,681** | **11,425** | **14,653** | **18,562** | **20,469** |

Source: Company data, HC estimates

# DAAR Valuation

**Table 17:** FCF (SARmn)

| Year | 2008a | 2009a | 2010e | 2011e | 2012e | 2013e | 2014e | ... | 2027e |
|---|---|---|---|---|---|---|---|---|---|
| **EBIT** | 2,644 | 2,321 | 2,351 | 3,764 | 3,947 | 2,708 | 1,784 | | 261 |
| Tax Rate | 3% | 3% | 3% | 3% | 3% | 3% | 3% | | 3% |
| EBIT * (1-T) | 2,578 | 2,263 | 2,292 | 3,670 | 3,848 | 2,641 | 1,739 | | 255 |
| Depreciation and Amortization | 50 | - | 80 | 96 | 102 | 100 | 97 | | 75 |
| Capital Expenditure | (4,971) | (3,942) | (597) | (425) | (40) | (40) | (40) | | (40) |
| Changes in Working capital | 296 | 2,236 | 3,175 | 4,312 | 5,333 | 3,199 | 1,998 | | - |
| **Free Cash Flow: Explicit Period** | **(2,046)** | **557** | **4,951** | **7,653** | **9,244** | **5,900** | **3,794** | | 290 |
| | | | | | | | | | |
| **Terminal Growth Rate** | | | | | | | | | **3%** |
| FCF: Terminal | | | | | | | | | 3,903 |
| **FCF: Total** | **(2,046)** | **557** | **4,951** | **7,653** | **9,244** | **5,900** | **3,794** | | **4,194** |

Source: HC estimates

**Table 18:** DCF Value (SAR)

| **Terminal Growth Rate** | **3.00%** |
|---|---|
| **NPV: FCF (mn)** | **20,862** |
| Net Debt/ (Cash) mn | 1,612 |
| Equity mn | 19,251 |
| Outstanding Shares | 1,080 |
| **DCF Value** | **17.8** |
| | |
| Value of Investments (mn) | 1,162 |
| Value of Investments per share | 1.1 |
| **Total Value** | **18.9** |

Source: HC estimates

| **WACC** | |
|---|---|
| Beta | 1.2 |
| Risk Free Rate | 4.5% |
| Country Risk Premium | 6.5% |
| | 0.0% |
| **Cost of Equity** | **12.3%** |
| Cost of Debt | 7.0% |
| **After tax cost of debt** | **6.8%** |
| Weights (SARmn) | - |
| Equity Market Capitalization | 14,850 |
| Debt | 8,355 |
| Total | 23,204 |
| Tax Rate | 2.5% |
| **WACC** | **10.7%** |

Source: HC estimates

## Rating Scale

| Recommendation | Upside |
|---|---|
| Buy | Greater than 20% |
| Hold | -5% to 20% |
| Sell | Less than -5% |

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