REAL ESTATE | 24 APRIL 2016

DAR AL ARKAN

الأهلي كابيتال
NCB Capital

EVENT FLASH

Disappointing results on weak land sales

Dar Al Arkan announced a disappointing set of 1Q16 results with a net income of SR57.9mn, the second lowest net income on record. This is significantly below the NCBC estimates of SR82mn. Earnings declined 60.7% YoY, but increased 18.9% QoQ. We believe the deviation came mainly from weak land sales. We are Under Review on the stock. Fees on white land remain a risk, which negatively impact the land plots value and land sales going forward.

- **Gross profit:** 1Q16 came-in at SR192mn, down 42.1% YoY. This compares to the NCBC estimate of SR254mn.
- **Operating profit:** 1Q16 came-in at SR145mn, down 43.8% YoY. This compares to the NCBC estimates of SR180mn.
- **Net income:** 1Q16 net income stood at SR57.9mn, a decline of 60.7% YoY. This compares to the NCBC estimates of SR82mn.
- **NCBC View on Results:** Dar Al Arkan reported a disappointing set of results with net income declining 61% YoY, to SR57.9mn. This is the second lowest net income level on record, and is significantly below the NCBC estimates of SR82mn. We believe these weak results came from weak land sales due to a general slowdown in the real estate market and lower other income.
- Sales came-in at around SR435mn vs. our estimates of SR578mn. This would be the second lowest sales level on record. It compares to SR419mn in 4Q15 and SR722mn in 1Q15. Moreover, it is below the management's guidance of SR600-700mn in sales per quarter. Historically, land sales made-up 90-95% of total sales with the remaining mainly coming from rental income. Accordingly, we believe land sales stood at around SR400mn. We believe this is the main reason for the earnings disappointment.
- In March 2015, the Saudi Council of Ministers approved implementing fees on white land within city boundaries. We believe this may have a negative impact on companies such as Dar Al Arkan. However, this impact will depend on the definition of white land and if it would be applicable to developers such as Dar Al Arkan. The company currently holds a land bank of 38.4mn sqm, which include developed and undeveloped land plots.
- We are currently Under Review on the stock. Although execution of projects is a positive catalyst, fees on white land remain a key risk. Dar Al Arkan currently trades at a 2015E P/B of 0.3x vs. historical levels of 0.7x.

1Q16 Results Summary

SR mn	1Q16A	1Q15A	% YoY	1Q16E	% Var^
Gross income	192	331	(42.1)	254	(24.6)
Operating income	145	258	(43.8)	180	(19.5)
Net income	58	147	(60.7)	82	(29.6)
EPS	0.05	0.14	(60.7)	0.08	(29.6)

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

UNDER REVIEW

Target price (SR)	**NA**
Current price (SR)	**5.3**

STOCK DETAILS

52-week range H/L (SR)	9.8/4.4
Market cap ($ mn)	1,512
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	2.9	4.2	(42.4)
Rel. to market	1.4	(16.4)	(11.4)

Avg daily turnover (mn)	SR	US$
3M	106.6	28.4
12M	166.3	44.4

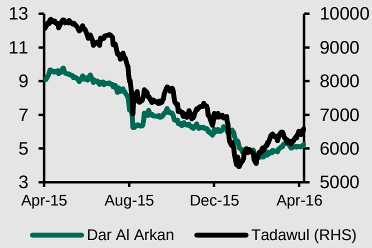
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	www.alarkan.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	15.8	11.3	9.4
P/B (x)	0.3	0.3	0.3
EV/EBITDA (x)	14.8	12.1	11.7
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

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OVERWEIGHT: Target price represents an increase in the share price in excess of 15% in the next 12 months

NEUTRAL: Target price represents a change in the share price between -10% and +15% in the next 12 months

UNDERWEIGHT: Target price represents a fall in share price exceeding 10% in the next 12 months

PRICE TARGET: Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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