

DAR AL ARKAN



EVENT FLASH

Undeveloped land liquidation leads to surprise

Dar Al Arkan reported a strong set of 4Q17 results. Net income increased +760.0% YoY to SR321mn, coming significantly higher than the NCBC estimates. This is the highest net income since 2Q12. We believe the deviation in earnings is mainly attributed to the highest land sales on record. Dar Al Arkan trades at a 2017E P/B of 0.6x, in-line with the 5-year historic average.

- **NCBC view on the results:** Dar Al Arkan reported a strong set of 4Q17 results, with net income increasing +760.0% YoY, to SR321mn. This is the highest net income since 2Q12 and is significantly higher than the NCBC estimates of SR48mn. We believe the strong results and deviation are attributed to strong sale of developed and undeveloped lands.
- Historically land sales made-up 90-95% of total sales. However in 4Q17 we believe it accounted for c.98% of total sales, with the remaining coming from rental income and sale of units. According to our calculation, we believe land sales came-in at SR2,395mn vs. our estimates of SR403mn. This is the highest land sales on record, and represents an increase of +642% YoY.
- Gross margins stood at 19.1%, contracting significantly from 41.5% in 4Q16. This is the lowest level on record. The strong sales and weak margins suggest that Dar Al Arkan sold undeveloped land, along with the usual sale of developed land. We believe the majority of land sales occurred in Jeddah, as c.66% of the total land bank of Dar Al Arkan is located there. Assuming 0.5mn sqm of developed land was sold at Shams Al Arous, similar to 3Q17, we believe up to 6.7mn sqm of undeveloped land was sold during 4Q17. According to our analysis of the large land sale, the land bank of Dar Al Arkan declined to c.24mn sqm vs 38.4mn sqm in 4Q16.
- The Council of Ministers approved the white land fees legislation, at a rate of 2.5% per annum. According to management feedback, the white land fee on Dar Al Arkan's land bank will be SR22mn per annum. However during 2017E, Dar Al Arkan managed to reduce this fee to around SR11mn as the majority of these lands are developed lands.
- We are currently Under Review on the stock. Although aggressive sale of undeveloped land is a positive catalyst, there is low clarity regarding what the company will do with such cash levels. We believe SAMA's announcement of reducing the LTV to 10% may support the prospects of residential development at Dar Al Arkan. The company currently trades at a 2016E P/B of 0.6x, in-line with historic averages.

4Q17 Results Summary

SR mn	4Q17A	4Q16A	% YoY	4Q17E	%Var [^]	% QoQ
Revenues	2,435	410	493.2	447	444.9	64.2
Gross income	465	170	173.0	165	182.3	31.8
Gross margin (%)	19.1%	41.5%	(22.4)	36.9%	(17.8)	(4.68)
EBIT	429	97	343.9	128	234.2	37.4
Margin (%)	17.6%	23.5%	(5.93)	28.7%	(11.1)	(3.44)
Net income	321	37	760.0	48	565.9	53.1
Margin (%)	13.2%	9.1%	4.09	10.8%	2.39	(0.97)
EPS (SR)	0.30	0.03	760.0	0.04	565.9	53.1

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts; **Restated

UNDER REVIEW

Target price	N/A
Current price (SR)	10.0

STOCK DETAILS

52-week range H/L (SR)	15/6
Market cap (\$ mn)	2,897
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.0)	32.2	69.1
Rel. to market	(12.6)	22.8	61.9

Avg daily turnover (mn)	SR	US\$
3M	654.2	174.5
12M	315.0	84.0

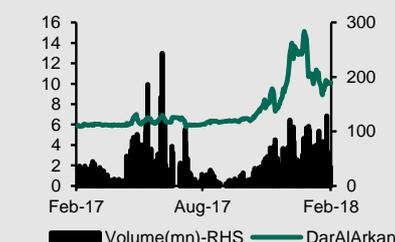
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	43.3	38.4	30.3
P/B (x)	0.6	0.6	0.6
EV/EBITDA (x)	26.3	26.4	24.1
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

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

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

NC: Not covered. NCBC does not cover this company

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