

## TAIBA



## EVENT FLASH

## Lower sales and increased Opex impact earnings

Taiba reported a broadly in-line set of 3Q17 results. Net income decreased -21.8% YoY, to SR64.8mn. This compares to the NCBC estimates of SR69.2mn. We believe the YoY weakness came as a result of a -5.3% YoY decline in sales, increased Opex and lower investment income. We believe the large equity investment exposure remains a key risk for the company going forward.

- **NCBC view on the results:** Taiba reported a broadly in-line set of 3Q17 results. Net income decreased -21.8% YoY, to SR64.8mn. This compares to the NCBC estimates of SR64.8mn. We believe allowance cut and overall economic slowdown impacted the performance of the company's hotels. As a result, revenues declined by -5.3% YoY. However, gross margins came above our estimates at 62.5% (+109 bps YoY) supported by the Hajj season.
- Sales stood at SR131mn in 3Q17, decreasing -5.3% YoY and coming in-line with our estimates of SR134mn. We believe this decline was due to lower ADR and occupancy rate. Despite gross margin expansions YoY, EBIT margins contracted by 438bps YoY to 49.6% as a result of an increase in Opex. We believe Opex stood at SR17mn in 3Q17 vs our estimates and 3Q16 levels at SR10mn.
- We believe other/investment income stood at SR9.3mn in 3Q17. This compares to our estimates of SR11.4mn, SR10.1mn in 3Q16 and SR1.3mn in 2Q17. We believe the majority of this investment income constituted of dividends from the company's equity investments. Moreover, we believe the deviation from 2Q17 levels is due to the timing of dividend distributions.
- Taiba invested SR445.8mn in SABIC and Makkah Construction upon receiving the compulsory purchase order (CPO) payment from the government. It also increased its investment in SAFCO by SR269mn to SR895mn. Investing CPO compensations in equity is exposing the company to a significant risk which may reduce its ability to build new hotels, if the value of these investments depreciates.
- We are Neutral on Taiba with a PT of SR42.3. We believe the unclear outlook on earnings remains a key concern. Moreover, the equity investments of the company add to this risk. Although the company plans to build hotels in Riyadh, Jeddah and Khobar, we believe the potential revenue is significantly lower than the hotels that received CPOs.

## 3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	131	139	(5.3)%	134	(2.0)%	11.1%
Gross income	82.1	85.2	(3.7)%	77.7	5.6%	21.3%
Gross margin (%)	62.5%	61.4%	109bps	58.0%	448bps	525bps
EBIT	65.1	74.9	(13.0)%	67.4	(3.3)%	13.5%
EBIT Margin (%)	49.6%	53.9%	(438)bps	50.3%	(70)bps	106bps
Net income	64.8	82.9**	(21.8)%	69.2	(6.4)%	19.1%**
Net Margin (%)	49.3%	59.7%	(1,041)bps	51.6%	(233)bps	333bps
EPS (SR)	0.43	0.55	(21.8)%	0.46	(6.4)%	19.1%

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

## NEUTRAL

Target price (SR)	42.3
Current price (SR)	39.4
Upside/Downside (%)	7.3

## STOCK DETAILS

M52-week range H/L (SR)	46/33
Market cap (\$mn)	1,578
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.4)	(8.4)	18.0
Rel. to market	(0.8)	(6.0)	1.8

Avg. daily turnover (mn)	SR	US\$
3M	1.3	0.4
12M	3.6	1.0

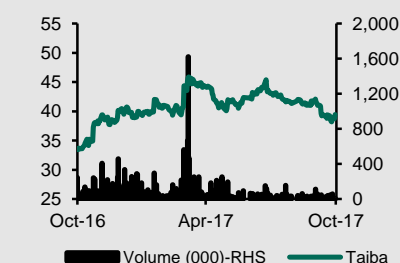
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	23.7	22.9	21.2
P/B (x)	1.5	1.5	1.5
EV/EBITDA (x)	11.5	10.7	9.8
Div Yield (%)	4.1	4.1	4.1

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

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

NC: Not covered. NCBC does not cover this company

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