

TAIBA

NEUTRAL

CURRENT PRICE SAR29.2

UPSIDE +15.6%

TARGET PRICE SAR33.7

EVENT FLASH

Opex efficiencies offset by higher Zakat expense

Taiba reported a higher than expected set of Q3 18 results, with net income declining 2.5% yoy to SAR60.1mn. This compares to the NCBC estimates of SAR55.0mn. We believe the decline in earnings is mainly due to lower investment income and higher Zakat expense. The company managed to reduce its Opex levels, which is a key highlight of the results.

- Taiba reported a higher than expected set of Q3 18 results, with net income declining 2.5% yoy to SAR60.1mn. This compares to the NCBC estimates of SAR55.0mn. With sales growing 2.0% yoy, we believe the decline in earnings came as a result of lower investment income and higher Zakat. This offset the opex efficiencies recorded by the company.
- Sales stood at SAR134mn in Q3 18, increasing 2.0% yoy. This compares to our estimates of SAR122mn. We believe the yoy increase is due to higher ADR and occupancy rates. Gross margins expanded 177 bps yoy to 64.3%, while EBIT margins expanded significantly from 49.6% in Q3 17 to 56.6% in Q3 18, as a result of the continued opex efficiencies. Opex-to-sales declined to 7.7% in Q3 18 vs 12.9% in Q3 17 and our estimates of 10.2%.
- We estimated an investment income of SAR5.2mn and a Zakat expense of SAR6.2mn, with total non-operating losses standing at SAR5.9mn. However, non-operating losses came-in at SAR15.7mn, which we believe is due to a lower investment income potentially due to 1) delay in receiving dividends from equity investment and 2) significantly higher Zakat expense.
- Taiba invested SAR446mn in SABIC and Makkah Construction upon receiving the compulsory purchase order (CPO) payment from the government between 2014-2015. It also increased its investment in SAFCO by SAR269mn to SAR895mn. The current value of these investments currently stands at SAR1.27bn. We believe investing CPO compensations in equities exposes Taiba to a significant risk, which may impact its ability to build new hotels.
- We are Neutral on Taiba with a PT of SAR33.7. The equity investments are the main risk for Taiba. Although the company has several projects planned including building hotels and commercial properties in Madinah, Riyadh, Jeddah and Khobar, we believe the potential revenue is significantly lower than the hotels that received CPOs. Moreover, all these projects, except for the Madinah Airport Hotel, remain in the design phase and not yet finalized. The company has a 2019f dividend yield of 5.5%, which we believe is sustainable and is among the highest in the sector.

Q3 18 Results Summary

SAR mn	Q3 18	Q3 17	% yoy	Q3 18f	% var^	% qoq
Revenues	134.0	131.4	2.0%	122.4	10.0%	25.1%
Gross income	86.1	82.1	4.9%	73.4	17.2%	33.4%
Gross margin (%)	64.3%	62.5%	177bp	60.0%	395bp	396bp
EBIT	75.8	66.6*	13.7%	60.9	24.6%	45.6%
EBIT Margin (%)	56.6%	50.7%	585bp	49.8%	659bp	793bp
Net income	60.1	62.0*	(3.0)%	55.0	9.3%	29.3%
Net margin (%)	44.9%	47.2%	(233)bp	45.0%	(29)bp	146bp
EPS (SAR)	0.40	0.41	(3.0)%	0.37	9.3%	29.3%

Source: Company, NCBC Research, ^ %, var indicates variance from NCBC forecasts, *restated

الأهلي كابيتال
NCB Capital



STOCK DETAILS

52-week range H/L (SAR)	40/27
Market cap (\$mn)	1,166
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	1.0	(4.6)	(26.1)
Rel. to market	3.1	1.2	(38.9)

Avg daily turnover (mn)	SAR	US\$
3m	1.3	0.3
12m	4.4	1.2

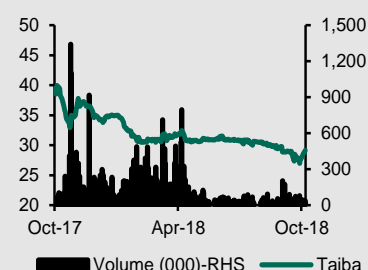
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

VALUATION MULTIPLES

	17a	18f	19f
PE (x)	24.2	19.5	19.1
PB (x)	1.2	1.2	1.2
EV/EBITDA (x)	6.5	6.8	6.8
Div Yield (%)	5.5	5.5	5.5

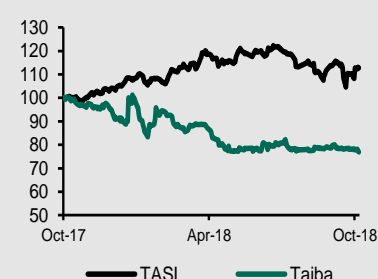
Source: NCBC Research forecasts

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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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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