

## AL HOKAIR

الأهلي كابيتال  
NCB Capital

## EVENT FLASH

## Margin expansion and lower costs support earnings

Al Hokair announced a higher than expected set of CY4Q17 results. Net income stood at SR48.7mn vs our estimates of SR25.1mn, decreasing 1.2% YoY. We believe the YoY weakness came from a decline in sales by 5.6% YoY, meanwhile the variance from our estimates came from higher than expected gross margins (+183 bps YoY) and lower expenses.

- **NCBC view on the results:** Al Hokair reported a stronger than expected set of CY4Q17 results, with net income decreasing 1.2% YoY to SR48.7mn. This is higher than the NCBC and consensus estimates of SR25.1mn and SR32.5mn, respectively. We believe the YoY weakness came from a decline in sales by -5.6% YoY, meanwhile the variance from our estimates were attributable to improvements in 1) cost of sales which resulted in a gross margin expansion of 183bps YoY to 23.6% vs. 21.8% in CY4Q16 and 2) lower Opex and other expenses.
- Sales declined -5.6% YoY to SR1,350mn, coming in line with our estimates of SR1,400mn. We believe the decline in sales came as a result of inventory clearance discounts, which the company offered to support sales as domestic consumer spending. With a net closure of 25 stores as of CY2Q17 to 1,955 stores, we believe LFL stood at c.-6% YoY during the quarter. This reflects the muted growth in spending of individuals in Saudi, which is expected to improve upon the announcement of the cost of living allowances and citizen account. The management expects a net closure of 63 international stores (24 openings and 87 closures) and a closure of 13 stores in Saudi (83 openings and 96 closures) between June 2017 and June 2018.
- Gross margins expanded +183bps YoY to 23.6% vs our estimates of 22.5%. We believe this comes as a result of Al Hokair's management focus on better inventory management, as demand growth remains relatively muted. Opex increased +5.5% YoY to SR230mn, coming lower than our estimates of SR238mn. Moreover, non-operating expenses dropped 9.5% YoY to SR40mn, coming lower than our estimates of SR52mn. We believe lower Opex and other expenses led to the positive surprise in earnings.
- We are Neutral on Al Hokair with a PT of SR42.2. Expanding gross margins due to limited discounts is a positive catalyst. Moreover, we believe the government's cost of living allowance and Citizen Account payments may support LFL levels going forward. Al Hokair trades at a CY2018E P/E of 10.0x, lower than the Retail sector at 15.1x.

## CY4Q17 Results Summary

SR mn	CY4Q17A	CY4Q16A	% YoY	CY4Q17E	%Var^	% QoQ
Revenues	1,350	1,430	(5.6)%	1,400	(3.6)%	(10.2)%
Gross income	319	312**	2.3%	315	1.2%	6.2%
Gross margin (%)	23.6%	21.8%	183bps	22.5%	111bps	364bps
EBIT	89	94**	(5.1)%	77	15.6%	3.3%
EBIT Margin (%)	6.6%	6.6%	4bps	5.5%	109bps	86bps
Net income	49	49**	(1.2)%	25	94.0%	611.8%
Net margin (%)	3.6%	3.4%	16bps	1.8%	181bps	315bps
EPS (SR)	0.23	0.23**	(1.2)%	0.12	94.0%	611.8%

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

## NEUTRAL

Target price (SR) 42.2

Current price (SR) 30.2

## STOCK DETAILS

M52-week range H/L (SR)	48/27
Market cap (\$mn)	1,694
Shares outstanding (mn)	210
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.1)	0.7	(3.4)
Rel. to market	(3.3)	(6.0)	(9.6)

Avg daily turnover (mn)	SR	US\$
3M	13.8	3.7
12M	14.2	3.8

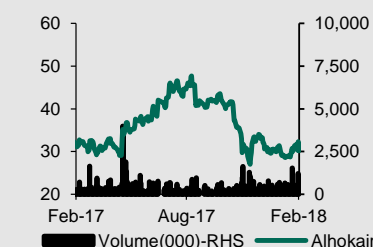
Reuters code	4240.SE
Bloomberg code	ALHOKAIR AB
	www.fawazalhokair.com

## VALUATION MULTIPLES

	FY17A	FY18E	FY19E
P/E (x)	16.2	12.3	10.0
P/B (x)	2.2	1.9	1.7
EV/EBITDA (x)	8.7	8.2	7.2
Div Yield (%)	0.0	0.0	4.1

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](mailto:research@ncbc.com)

**NCBC Research website**

<http://research.ncbc.com>

**Brokerage website**

[www.alahlitadawul.com](http://www.alahlitadawul.com)  
[www.alahlibrokerage.com](http://www.alahlibrokerage.com)

**Corporate website**

[www.ncbc.com](http://www.ncbc.com)

**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

**Important information**

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware of, and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.