



## EVENT FLASH

## In-line results; financing expenses weigh on earnings

Al Akaria reported an in-line set of 4Q16 results. Net income declined 11.3% YoY, to SR26mn. With revenues growing 23.8%, we believe the net income decline came mainly from higher financing expenses related to Al Waseel project. We are currently Neutral on the company with a PT of SR39.9. Any announcement regarding the development of Al Waseel project is a positive catalyst. However, potential fees on white lands remain a key risk.

- **NCBC view on the results:** Al Akaria announced an in-line set of 4Q16 results. Net income declined 11.3% YoY (+31.5% QoQ), to SR26mn. This compares to the NCBC estimates of SR25mn. With sales increasing 23.8% YoY, we believe the decline in earnings came mainly from higher financing expenses related to the Al Waseel project and other one-off expenses related to bad debt provisions and consultancy fees.
- Revenues increased 23.8% to SR90mn, compared our estimates of SR79mn. We believe this YoY increase is a result of higher rental prices and occupancy. However, due to a contraction of 460bps in gross margins to 67.8%, growth on the gross profit level was limited to 15.9% YoY.
- EBIT increased 27.6% YoY to SR54mn. Opex efficiencies led to overall Opex declining to SR7mn in 4Q16 vs. SR10mn in 4Q15. Net income declined 11.3% YoY to SR26mn, coming in-line with our expectations of SR25mn. We believe the YoY decline is due to higher financing expenses. We expected financing expenses of SR29mn and believe it came-in at SR31mn.
- The Council of Ministers approved the white land fees legislation. Initially, fees will be payable on white land in Riyadh, Jeddah and Dammam, at a rate of 2.5% per annum of the land value. We believe these fees will lead to a short-term weakness in the real estate market. According to our assumption, we expect the fee on Al Akaria's 20.6mn sqm land bank to be between SR15mn–SR21mn (which is 10%–14% of 2015 net income).
- We are Neutral on the stock with a PT of SR39.9. The general stability in the operating activities of Al Akaria is a key positive compared to peers. As financing expense pressures from Al Waseel project ease and the company's projects operate, we believe the earnings outlook for the company will improve. Dividend yield of the company stands at 4.1%, however dividends may be at risk for the next few years due to the projects under construction.

## 4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var <sup>^</sup>
Sales	90	72	23.8	79	13.9
Gross income	61	52	15.9	54.0	12.5
Gross margin (%)	67.8%	72.4%	(4.60)	68.7%	(0.85)
Operating income	54	42	27.6	46	16.9
Operating margin (%)	59.9%	58.1%	1.77	58.3%	1.58
Net income	26	29	(11.3)	25	6.0
Net margin (%)	29.1%	40.7%	(11.54)	31.3%	(2.17)
EPS	0.22	0.25	(11.3)	0.21	6.0

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

Please refer to the last page for important disclaimer

## NEUTRAL

Target price (SR) 39.9

Current price (SR) 24.5

## STOCK DETAILS

M52-week range H/L (SR)	27/15
Market cap (\$mn)	785
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.9)	57.6	46.3
Rel. to market	2.1	32.1	22.2

Avg. daily turnover (mn)	SR	US\$
3M	10.2	2.7
12M	12.1	3.2

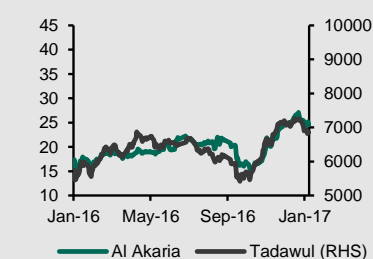
Reuters code	4020.SE
Bloomberg code	SRECO AB
	<a href="http://www.al-akaria.com">www.al-akaria.com</a>

## VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	19.9	32.7	29.8
P/B (x)	0.9	0.9	0.9
EV/EBITDA (x)	6.0	5.9	5.5
Div Yield (%)	4.1	4.1	4.1

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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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**

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

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