

October 31, 2017

Rating
12- Month Target Price

Neutral
SAR 22.00

Expected Total Return

Price as on Oct-30, 2017	SAR 20.90
Upside to Target Price	5.3%
Expected Dividend Yield	7.2%
Expected Total Return	12.4%

Market Data

52 Week H/L	SAR 22.6/15.1
Market Capitalization	SAR 688 mln
Enterprise Value	SAR 775 mln
Shares Outstanding	32.9 mln
Free Float	74.7 %
12-Month ADTV (000's)	282.1
Bloomberg Code	ZOUJAJ AB

1-Year Price Performance

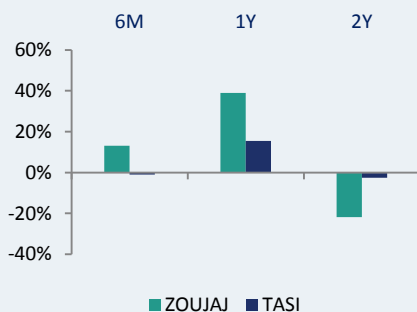


Fig in SAR Mln	RC.Est	Actuals
Revenue	26.0	31.7
Gross Profit	7.0	5.5
EBIT	3.9	1.4
Net Income	22.0	14.8
EPS (SAR)	0.67	0.45

NATIONAL COMPANY FOR GLASS INDUSTRIES (ZOUJAJ)

3Q2017 First Look

Earnings Miss

National Company for Glass Industries (Zoujaj) reported its 3Q2017 results last week with earnings miss, as growth in associate income was below our expectations. The relatively lower Q/Q earnings this time led to a revision in our 2017-19 estimates but maintain our Neutral stance. In our view, current growth trends does not qualify for a re-rating as both core and non-core income need to see an improvement at similar pace. Despite current valuation trends pointing to a Buy conviction; we wait for some more earnings consistency. 2018E P/E of 9.6x though cheaper versus TASI's 13.9x, but slight qualitative concerns persist. We maintain our target price at SAR 22.00 and expect a revision until we see sustained earnings momentum. Maintain Neutral.

Revenue beat estimates

Revenue of SAR 31.7 million beat our SAR 26.0 million estimate, believed to be on higher volumes sales. Revenue increased by +20% Q/Q but grew by +86% Y/Y due to a 70-day shutdown between 3Q and 4Q of 2016. We expect the decent utilization rates in old production lines to have led growth in volume sales.

Fixed costs on a high

Despite high revenue, fixed cost continues to be dampener due to higher D&A charges, assumed to be due to low utilization in its new production line. Higher D&A charges of 23% of sales (SAR 7.2 million) continue to compress margins, suggest lower operating leverage. Gross margins have contracted by 980 bps Q/Q though Y/Y is not comparable due to shut down in 3Q2016. Gross profit of SAR 5.5 million came lower to our expectations of SAR 7.0 million, declined by -24% Q/Q but emerged from a loss of SAR (0.3) million in 3Q2016. The Q/Q decline of -24% in operating profit to SAR 1.4 million followed suit from gross profit trends, versus a loss of SAR (3.7) million in 3Q2016; missed our SAR 3.9 million estimate. Operating margins stood at 4.4% in 3Q2017, declined by 920 bps from 2Q2017.

Normalized earnings this time

Unlike the sharp jump in 2Q where associate income quadrupled from 1Q to SAR 34 million due to acquisition of 10% additional stake in two of its associate; Zoujaj, this time recorded associate income of SAR 14.4 million in 3Q2017. It declined by -59% Q/Q but improved by +68% Y/Y. Overall, earnings of SAR 14.8 million in 3Q2017 missed our estimate of SAR 22.0 million, with a decline of -61% due to one-off boost in 2Q but grew almost 3.8x from SAR 3.9 million in net income (shutdown) during 3Q2016.

Maintain Neutral on qualitative aspects

We maintain our target price at SAR 22.00 but wait for some more clarity for a re-rating. The stock did not attract enough investor attention since 2Q2017 results and trading in a SAR 19-20 range, returned -0.3% in 3Q. For now, yield of 7.2% is the only sweetener; else wait for core earnings to pick up in 2018.

Key Financial Figures

FY Dec31 (SAR Mln)	2016A	2017E	2018E
Revenue	101	127	122
EBITDA	37	52	54
Net Profit	22	83	72
EPS (SAR)	0.67	2.52	2.19
DPS (SAR)	0.75	1.50	1.50
BVPS (SAR)	17.09	18.11	18.80

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	12%	13%
ROAE	4%	14%	12%
P/E	31.3x	8.3x	9.6x
P/B	1.2x	1.2x	1.1x
EV/EBITDA	21.0x	14.9x	14.4x
EV/Sales	7.7x	6.1x	6.4x

Santhosh Balakrishnan

santhosh.balakrishnan@riyadcapital.com
+966-11-203-6809

Seham M Alzayed

siham.m.alzaed@riyadcapital.com
+966-11-203-6813

Riyad Capital is licensed by the Saudi Arabia
Capital Market Authority (No. 07070-37)

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.