

AL HOKAIR

NEUTRAL

CURRENT PRICE SR25.9

UPSIDE +17.8%

TARGET PRICE SR30.5

COMPANY UPDATE

First-ever loss on lower sales and provisions

Al Hokair reported a weak set of CY1Q18 results, recoding its first net loss at SR184.4mn vs a profit of SR86.0mn in CY1Q17. This compares to the NCBC estimates of SR39.8mn. We believe results were impacted by weak discretionary demand leading to lower sales, provisions and increased Opex. Al Hokair trades at a CY2018E P/E of 12.4x, lower than the sector 2018E P/E of 18.6x.

- NCBC view on the results:** Al Hokair reported a weak set of CY1Q18 results, recording its first loss on record at SR184.4mn. This compares to a profit of SR86.0mn in CY1Q17 and is significantly lower than the NCBC and consensus estimates of SR39.8mn and SR60.6mn, respectively. We believe the weaker than expected set of results are mainly attributed to 1) -15.1% YoY decline in sales due to the muted discretionary spending, 2) contraction in gross margins due to provisions and 3) +22.5% YoY increase in Opex.
- Sales declined -15.1% YoY to SR1,193mn, coming lower than our estimates of SR1,356mn. We believe the decline in sales came as a result of the inventory clearance discounts which the company offered to support sales, due to the muted discretionary spending (LFL of c.-18%). We expect further weakness in sales in the coming quarters due to the expected expat departure from 3Q18 onwards as well as net store closures during the year. Al Hokair has closed 60 stores between March 2017 and December 2017 to 1,952 and expects further closure of 25 stores by September 2018.
- Gross margins contracted significantly by 1,905bps YoY to a record low of 3.8% in CY1Q18 vs our estimates of 24.7% and 22.8% in CY1Q17. We believe the weak margins and overall weak results are mainly due to increased provisions for slow moving inventory, in addition to the discounts offered to support sales.
- Despite the decline in sales, Opex increased +22.5% YoY to SR213mn. We believe this is due to increased selling/marketing expenses, in addition to higher wage expenses as a result of the Saudization drive and increased Saudization quotas for various retail subsectors.
- We remain Neutral on Al Hokair with a PT of SR30.5. Al Hokair currently trades at a CY2018E P/E of 12.4x vs. the sector P/E of 18.6x. We believe the expat departure from higher cost of living will impact Al Hokair starting from 3Q18. Moreover, having a net closure of stores along with negative LFL will lead to a continued weak sales growth in upcoming quarters.

CY1Q18 Results Summary

| SRmn | CY1Q18A | CY1Q17A** | % YoY | CY1Q18E | %Var^ | % QoQ |
|------------------|---------|-----------|------------|---------|------------|------------|
| Revenues | 1,193 | 1,405 | (10.5)% | 1,356 | (12.0)% | (11.6)% |
| Gross income | 45.3 | 321.1 | (85.9)% | 334.2 | (86.4)% | (85.8)% |
| Gross margin (%) | 3.8% | 22.8% | (1,905)bps | 24.7% | (2,085)bps | (1,981)bps |
| EBIT | (167.3) | 147.0 | NM | 49.4 | NM | NM |
| EBIT Margin (%) | (14.0)% | 10.5% | NM | 3.6% | NM | NM |
| Net income | (184.4) | 86.0 | NM | 39.8 | NM | NM |
| Net margin (%) | (15.5)% | 6.1% | NM | 2.9% | NM | NM |
| EPS (SR) | (0.88) | 0.41 | NM | 0.19 | NM | NM |

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

الأهلي كابيتال
NCB Capital

STOCK DETAILS

| | |
|-------------------------|---------|
| M52-week range H/L (SR) | 48/26 |
| Market cap (\$mn) | 1,452 |
| Shares outstanding (mn) | 210 |
| Listed on exchanges | TADAWUL |

| Price perform (%) | 1M | 3M | 12M |
|-------------------|--------|--------|--------|
| Absolute | (6.5) | (4.7) | (38.4) |
| Rel. to market | (10.9) | (10.0) | (50.4) |

| Avg daily turnover (mn) | SR | US\$ |
|-------------------------|------|------|
| 3M | 13.6 | 3.6 |
| 12M | 12.9 | 3.5 |

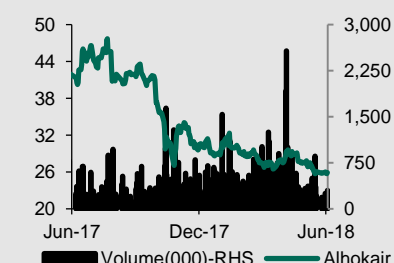
| | |
|----------------|-----------------------|
| Reuters code | 4240.SE |
| Bloomberg code | ALHOKAIR AB |
| | www.fawazalhokair.com |

VALUATION MULTIPLES

| | FY17A | FY18E | FY19E |
|---------------|-------|-------|-------|
| P/E (x) | 12.8 | 52.9* | 12.4 |
| P/B (x) | 1.9 | 1.7 | 1.6 |
| EV/EBITDA (x) | 7.7 | 8.0 | 7.5 |
| Div Yield (%) | 0.0 | 0.0 | 4.8 |

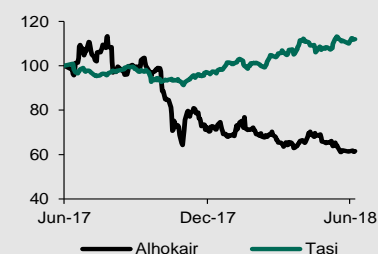
Source: NCBC Research estimates; *Actuals

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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Brokerage website
www.alahlitadawul.com
www.alahlibrokerage.com
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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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