

AL HOKAIR

NEUTRAL

CURRENT PRICE SAR21.2

UPSIDE +43.9%

TARGET PRICE SAR30.5

EVENT FLASH

Opex efficiencies offset by higher other expenses

Al Hokair reported a weak set of CYQ3 18 results, with a net income of SAR10mn. This compares to the NCBC estimates of SAR68.3mn and CYQ3 17 earnings of SAR6.8mn (+46.6% yoy). We believe the lower than expected results are mainly attributed to 1) weak sales, 2) gross margin contraction and 3) higher other expenses.

- **NCBC View on Results:** Al Hokair reported a weak set of CYQ3 18 results, with a net income of SAR10mn. This compares to the NCBC and consensus estimates of SAR68.3mn and SAR45.8mn, respectively. Net income in CYQ3 17 stood at SAR6.8mn, reflecting a growth of +46.6% yoy. We believe the lower than expected results are attributed to 1) weak sales, 2) gross margin contraction and 3) higher other expenses namely financing expenses.
- Sales declined -15.3% yoy to SR1,273mn, 8.0% lower than our estimates. We believe the decline in sales was due to the closure of loss making stores and lower retail spending as a result of the expat exodus. Al Hokair reported a net closure of 179 stores over the past year, reaching a total of 1,824 stores. Management plans a further net closure of 50 stores between June 2018 and June 2019.
- Gross margins contracted -33 bps yoy to 19.6% in CY3Q 18, coming lower than the NCBC estimates of 22.0%. We believe the margin contraction is mainly due to discounts offered and higher provisions, despite Al Hokair's effort to manage inventory and negotiate better terms with suppliers. Moreover, we believe a change in the sales mix towards lower margin brands further pressured gross margins.
- Opex declined 26.0% yoy to SAR185mn in CYQ3 18, coming lower than our estimates of SAR229mn. Opex-to-sales decreased to 14.5% vs our estimates of 16.6%. We believe this improvement came as a result of the management's focus on closing underperforming stores and controlling promotional expenses. As a result, EBIT margins expanded +176bps yoy to 5.1% compared to CYQ3 17 levels of 3.4%. Other expenses stood at SAR55mn vs SAR44mn in CYQ3 17. We believe the increase came as a result of higher financing expenses and FX losses.
- We are Neutral on Al Hokair with a PT of SAR30.5. We believe the net closure of stores is a key risk on the top-line growth prospects of Al Hokair. However, the cost optimisation measures and the growth potential of Aleph, authorized distributor of Apple, are key positive catalysts going forward.

Q3 18 Results Summary

SARmn	Q3 18	Q3 17	%, yoy	Q3 18f	%, var^	%, qoq
Revenues	1,273	1,504	(15.3)%	1,384	(8.0)%	1,846
Gross income	249.9	300.1	(16.7)%	304.5	(17.9)%	45.3
Gross margin (%)	19.6%	20.0%	(33)bps	22.0%	(237)bps	2.5%
EBIT	65.2	50.6	28.8%	75.0	(13.1)%	304.9
EBIT Margin (%)	5.1%	3.4%	176bps	5.4%	(30)bps	16.5%
Net income	10.0	6.8	46.6%	68.3	(85.3)%	249.2
Net margin (%)	0.8%	0.5%	33bps	4.9%	(415)bps	13.5%
EPS (SAR)	0.05	0.03	46.6%	0.33	(85.3)%	1.19

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

Please refer to the last page for important disclaimer

الأهلي كابيتال
NCB Capital

STOCK DETAILS

52-week range H/L (SAR)	34/19
Market cap (\$mn)	1,189
Shares outstanding (mn)	210
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	(6.7)	(14.9)	(35.8)
Rel. to market	(4.2)	(9.6)	(47.6)

Avg daily turnover (mn)	SAR	US\$
3m	15.7	4.2
12m	14.8	4.0

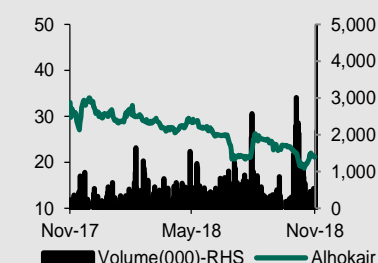
Reuters code	4240.SE
Bloomberg code	ALHOKAIR AB
www.fawazalhokair.com	

VALUATION MULTIPLES

	17a	18f	19f
PE (x)	11.4	13.6	10.2
PB (x)	1.5	1.4	1.3
EV/EBITDA (x)	6.6	6.9	6.5
Div Yield (%)	0.0	0.0	5.9

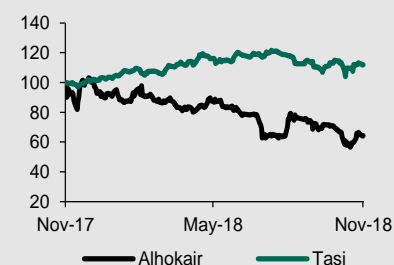
Source: NCBC Research forecasts

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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