SEPTEMBER 2014

KSA REAL ESTATE SECTOR

REGULATORY RULINGS DRIVE SECTOR OUTLOOK

The long-term outlook for the sector will be driven by the Ministry of Housing programs, any rulings on white lands, financing programs and compulsory purchase orders on properties in the vicinity of the Holy mosques. We believe that a ruling on white land will accelerate residential development, supporting current efforts of the MoH to close the demand-supply gap. On opening the market, we believe international investors may consider this sector due to its defensive nature and strong macroeconomic fundamentals. We remain Neutral on Dar Al Arkan, Taiba and Al Akaria.

- **Ministry of Housing efforts driving outlook of residential development**
  Outlook for the Real Estate sector has been heavily dependent on the Ministry of Housing programs lately. The MoH is currently working on developing 214,000 units across Saudi. These units are built based on a low-cost model that addresses the need for affordable housing. Therefore, we believe that margins will be below market average of 18-20%. However, contracts with the MoH remain attractive for developers given its scalability. From listed companies, we believe Dar Al Arkan and Akaria are best positioned to win such contracts provided their track record.

- **Fees on white land – the next milestone?**
  The Ministry of Housing has lately been pushing for regulatory decisions to be taken on white lands. A decision is expected to be taken soon. We believe that any ruling, such as fees, will be a positive trigger for real estate development that will further help close the current demand-supply gap. Companies with large land banks, such as Dar Al Arkan and Al Akaria, would be directly impacted by this.

- **The opening of the Saudi market to impact the sector positively**
  We expect higher inflows of foreign capital from the opening of the TASI to international investors. Real estate sector may be a beneficiary given the growth outlook from the MoH programs, residential financing potential and CPOs. We believe that a re-rating and multiple expansions may be possible, as opening the market may reduce the risk premium assumed.

- **Maintain Neutral rating on all stocks under coverage**
  We remain Neutral on Dar Al Arkan (PT SR14.0), Taiba (PT SR48.0) and Al Akaria (PT SR44.1). Our PTs were revised up by 5%-15%, mostly due to the change in valuation parameters rather than changes in fundamentals. Potential contracts with the MoH, white land regulation and update on CPOs will be key catalysts driving the sector going forward.

Exhibit 1: Saudi Real Estate companies – valuation matrix

	Rating	TP (SR)	MCap $mn	Stock perf (%) Aug	YTD	P/E (x) `15	EV/ EBITDA `15	P/BV (x) `15	DY (%) `15	ROE (%) `15
Dar Al Arkan	N	14.0	4,461	12.3	57.3	19.1	16.4	0.9	-	4.7
Taiba	N	48.0	1,890	2.5	19.9	28.2	16.1	1.8	3.4	6.3
Al Akaria	N	44.1	1,522	10.7	37.4	26.2	15.6	1.6	2.1	6.3

Source: NCBC Research, Bloomberg, All prices as of September 4, 2014.
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

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SAUDI REAL ESTATE SECTOR OUTLOOK

Housing programs and potentials fees on white land

Unit's pipeline highly correlated with white lands fees: As part of the planned housing programs, the Ministry of Housing (MoH) is currently working on developing 214,000 units through 165 projects across Saudi. These housing programs aim to offer affordable housing units to address the shortage in housing supply. We believe this shortage is a result of the relatively high priced units and limited real estate financing options. Around one million applicants applied for the MoH programs (land, land & loan, loan and housing units), with more than 621,000 found eligible. Moreover, the MoH is focusing on resolving the issue of white lands in Saudi by proposing fees of SR10-150/sqm on land plots of 10,000 sqm or more. However, no decision has been taken yet. We believe that any fee will accelerate the pace of residential development and help narrow the current demand-supply gap.

More than 600k applicants found eligible for housing aid. This will provide more opportunities for real estate developers.

Developers to take part in the MoH programs: The MoH opened the door for developers to bid for several housing projects. We believe such contracts with the MoH are beneficial for developers, due to the size of such contracts and potential for future contracts with MoH. Units developed by the MoH will be low-cost models. Accordingly, margins will vary depending on the land owner, the MoH or the developer. We believe that developers will generate higher margins (25-30%) if the units were built on their lands. As per recent press releases, two listed companies who have placed bids for the MoH projects in Riyadh. These projects aim to develop 5,000 housing units in the northern area of Riyadh, on the MoH land. We expect the MoH to award contracts soon. From companies listed on the TASI, we believe **Dar Al Arkan** and **Al Akaria** are best positioned to be awarded these contracts due to its track record and current land bank. Other listed developers include Arriyadh Development, Emaar KAEC and Knowledge Economic City.

Dar Al Arkan and Akaria likely to win contracts for developing units in Riyadh.

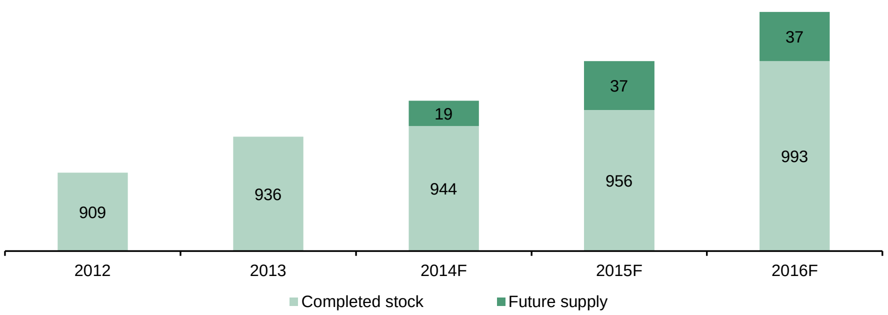
Riyadh residential supply and prices trending upwards

Residential supply in Riyadh to increase at only 3.2% CAGR till 2016E: From 944k units as of 1Q14, the total residential units stock is expected to increase at a 3.2% CAGR till 2016E to 1,030k units. This relatively slow trend of growth magnifies the expectations that the MoH will resolve the residential housing issues. A number of residential compounds and master planned communities are currently under construction in Riyadh to capitalize on market demand. These projects include Al Akaria's DQ project and Dar Al Arkan's Shams Al Riyadh project.

Residential supply in Riyadh is expected to reach 1,030k units by 2016. This slow trend magnifies the expectations that the MoH will resolve the residential housing issues.

Exhibit 2: Residential supply in Riyadh

Units ('000s)



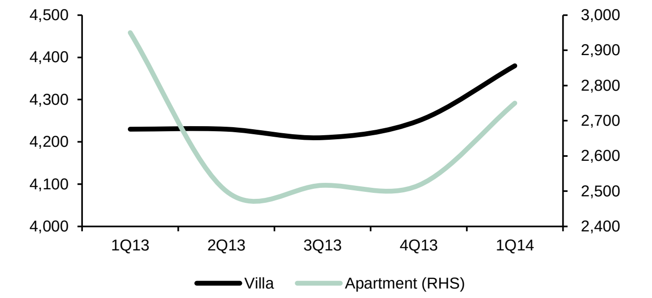
Source: JLL, NCBC Research

Riyadh residential prices and annual rents are increasing; +ve for Al Akaria and Dar Al Akran: Average prices of villas and apartments have continued to increase in Riyadh. However, price increases have varied depending on the region. For villas, north Riyadh witnessed the highest increase of around 20% over the last six months. Meanwhile, east Riyadh had the highest increase in apartment prices (up 19% in 1H14). Looking at rental prices, average rentals for a 4 bedroom villa remained relatively stable in 1Q14. The highest increase in villa rental prices was in north Riyadh (up 5%), while rents in south Riyadh decreased by marginally by 2.6% in 1Q14. Apartment rental prices have continued to increase – up 2.2% for a 2 bedroom apartment. All areas in Riyadh experienced an increase in apartments rentals, with the highest being for south Riyadh (up 5.2%), followed by central Riyadh (up 2.1%).

Average rentals for villas were mostly stable while it increased for apartments in 1Q14.

Exhibit 3: Average prices in Riyadh

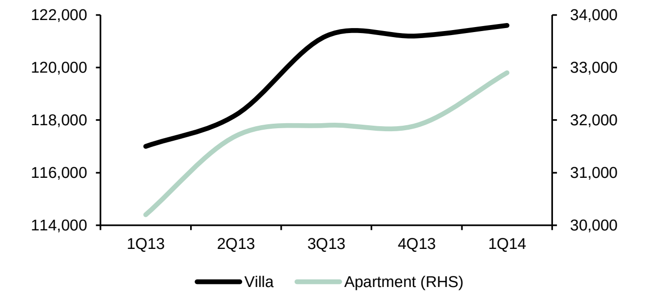
SR per sqm



Source: JLL, NCBC Research

Exhibit 4: Average annual rents in Riyadh

SR per annum



Source: JLL, NCBC Research

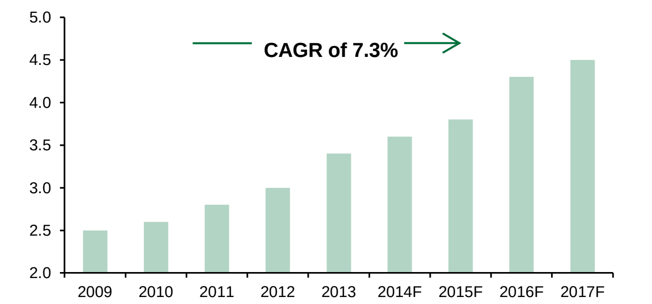
Office vacancy rates increasing; yields higher than EMEA average

Riyadh office vacancy rates expect to increase; -ve for Al Akaria: Riyadh is expected to witness large increase in office supply as KAFD and ITCC buildings are completed. The current supply of Grade A and Grade B stock will increase by around 50% to 4.5mn sqm by 2017E vs. around 3mn sqm currently. Accordingly, vacancy rates in Riyadh are expected to increase. Rents for Grade A offices have remained relatively stable whereas Grade B rents have declined slightly over the past 12 months. We believe that the increase in office supply will be negative for **Al Akaria**.

Vacancy rates to increase in Riyadh as the city start witnessing large increase in supply from KAFD and ITCC projects.

Exhibit 5: Riyadh office stock (2009-2017F)

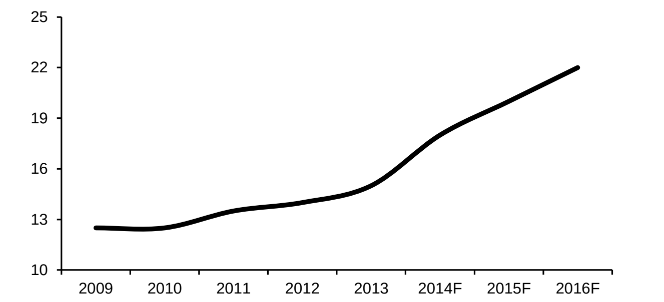
Mn sqm



Source: Knight Frank, NCBC Research

Exhibit 6: Riyadh office vacancy rates

%

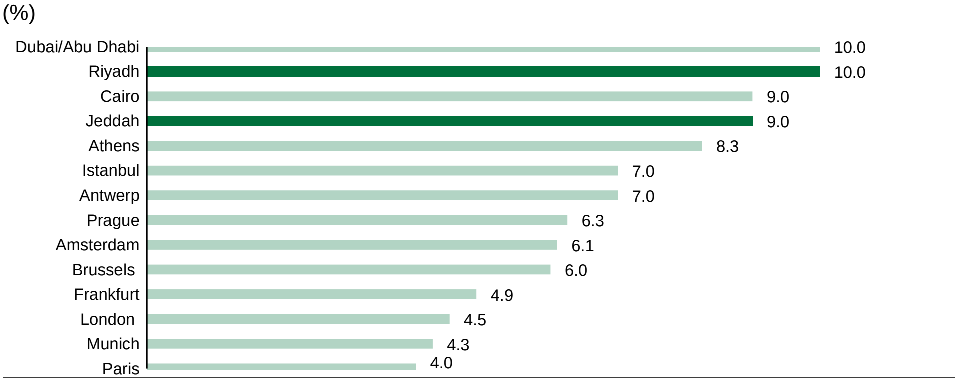


Source: Knight Frank, NCBC Research

Saudi office yields higher than EMEA average: According to Colliers, Riyadh and Jeddah have one of the highest yields in the EMEA region for office segment. The prime yield in Riyadh and Jeddah is relatively in-line with peers in the GCC region, but are much higher compared to cities in the other parts of EMEA region. The prime yield in Riyadh and Jeddah stands at 10.0% and 9.0%, respectively. However, in other cities such as Paris, London, Brussels and Athens the rate ranges between 4.0-8.3%

Riyadh and Jeddah office yields at 9-10% vs. 4-8% for peers in the EMEA region (ex-GCC).

Exhibit 7: EMEA Office Prime Yield (1H14)



Source: Colliers International, NCBC Research

Valuations increase on opening market to foreign Investors

Risk premium reduced as markets open to international investors: The CMA has announced in July 2014 that the TASI will open to international institutional investors in 1H15. As a result, we have reduced the equity risk premium for the Saudi market vs. the U.S. market by 15bps to 0.75%, from 0.9% previously. We believe that the direct market access may lead to higher allocation of funds to Saudi, especially once added to the MSCI EM index. Moreover, easier access to the market makes the TASI more attractive, with less additional risk associated with it.

Real Estate amongst attractive sectors to international investors: We believe the real estate sector will be among the sectors which international investors will consider, due to the favourable demographics and strong macroeconomic fundamentals of Saudi. The outlook on the sector is supported by 1) MoH programs that aim at narrowing the demand-supply gap for housing units, and 2) efforts to increase means of real estate financing (step-up/additional loans, Mortgage Law full approval).

Change to estimates

In the table below we highlight the changes to our 2014E and 2015E numbers, as well as price targets, since our last update on the sector in July 2014.

Exhibit 8: Changes to estimates

In SR mn, unless otherwise stated

		Old 2014E	New 2014E	% Chg	% Gr	Old 2015E	New 2015E	% Chg	% Gr
Dar Al Arkan									
Revenue		3,306	3,315	0.3	13.1	3,424	3,465	1.2	4.5
Gross Profit		1,362	1,346	(1.2)	16.7	1,415	1,403	(0.9)	4.3
Net Profit		773	739	(4.4)	8.4	892	874	(2.1)	18.3
Target price	SR					13.3	14.0	4.9	
Taiba									
Revenue		476	476	-	25.4	492	492	-	3.5
Gross Profit		342	326	(4.7)	24.0	350	343	(2.1)	5.0
Net Profit		255	885	247	235	255	251	(1.7)	(71.6)
Target price	SR					44.2	48.0	8.5	
Al Akaria									
Revenue		284	275	(3.0)	6.4	335	323	(3.6)	17.3
Gross Profit		226	220	(2.6)	5.6	268	259	(3.3)	17.7
Net Profit		186	183	(1.5)	17.4	224	218	(3.0)	18.8
Target price	SR					38.2	44.1	15.3	

Source: NCBC Research estimates

Summary of changes to estimates:

Dar Al Arkan

- Our revenue estimate for 2014 is broadly unchanged. However, it has increased for future years due to higher rental income, supported by a rise in investment properties to SR3.6bn vs. SR2.7bn earlier.
- Due to the weak 2Q14 performance, we have reduced the gross margins and operating margins of the company by 60bps and 166bps, respectively for 2014.

Taiba

- Revised dividend distributions upwards to SR2.6/share, from SR1.6/share previously, due to an extraordinary dividend of SR1/share announced earlier this year.
- The company acquired a SR400mn long-term debt in May 2014. We have accounted for this, and assumed that this amount will revolve going forward.
- Added capital gains of SR672mn from the CPO of Reyada Hotel. This represents Taiba's 89.9% share in Al Aqeeq, which owns this property and made SR731mn in capital gains from Reyada.
- Other capital gains added include two lands receiving CPOs, with a total capital gain of SR14.8mn. One of the lands is owned to Taiba, while the other is owned to Al Aqeeq.

Al Akaria

- Revised all major line items down in the range of 1.5-3.5% in 2014, based on the 1H14 performance.
- Zakat revised downward by an average of SR3.8mn for future years. Depreciation was reduced by an average of SR20.5mn for 2017-2020E.

DAR AL ARKAN

COMPANY UPDATE

Negative impact from potential fees on white land

We remain neutral on Dar Al Arkan (PT SR14.0). We kept 2014E revenue estimates unchanged but revised it upwards for future years due to higher rental income. Investment properties increased to SR3.6bn vs. SR2.7bn previously. This increased rental income by around SR50mn. We have also reduced gross and operating margins by 60-166bps for 2014, based on the relatively weak 1H14 performance. Execution of Shams Al Riyadh project and potential contracts from the Ministry of Housing will be the key positive catalysts going forward. However, any announcements regarding fees on white land may impact the company negatively provided the 34mn sqm land bank currently held.

Exhibit 9:Income Statement

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Revenues	3,557	2,931	3,315	3,465	4,108	4,265
Cost of sales	(2,163)	(1,778)	(1,969)	(2,062)	(2,441)	(2,542)
Gross profit	**1,394**	**1,153**	**1,346**	**1,403**	**1,667**	**1,722**
SG&A expenses	(154)	(151)	(192)	(199)	(234)	(241)
EBITDA	**1,240**	**1,002**	**1,154**	**1,204**	**1,433**	**1,481**
Depreciation of fixed assets	(21)	(4)	(4)	(4)	(4)	(4)
Amortization of def charges	(34)	(28)	(34)	(20)	(21)	(22)
EBIT	**1,185**	**970**	**1,116**	**1,180**	**1,409**	**1,456**
Financing cost	(406)	(314)	(434)	(363)	(263)	(195)
Other income	93	39	76	80	94	98
EBT	**873**	**699**	**759**	**897**	**1,240**	**1,360**
Zakat expense	(25)	(18)	(20)	(23)	(32)	(35)
Adj net income	**847**	**681**	**739**	**874**	**1,208**	**1,324**
Add: capitalized interest	142	-	-	-	-	-
Reported net income	**989**	**681**	**739**	**874**	**1,208**	**1,324**
EPS	0.92	0.63	0.68	0.81	1.12	1.23

Source: NCBC Research estimates

Exhibit 10: Balance Sheet

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash	536	2,279	2,126	1,080	1,567	3,009
Accounts receivable	2,126	1,848	2,061	2,123	2,187	2,252
Development properties	15,760	16,553	16,472	16,679	16,273	16,139
Investment properties	2,737	2,695	3,592	3,531	3,471	3,412
Total assets	**21,980**	**24,197**	**25,070**	**24,228**	**24,309**	**25,621**
Accounts payable	426	487	495	503	504	484
Total outstanding debt	4,440	5,989	6,033	4,313	3,188	3,188
Total liabilities	**5,669**	**7,205**	**7,338**	**5,623**	**4,496**	**4,483**
Capital	10,800	10,800	10,800	10,800	10,800	10,800
Statutory reserve	817	885	959	1,046	1,167	1,299
Retained earnings	4,695	5,308	5,973	6,759	7,846	9,038
Shareholders' equity	**16,311**	**16,993**	**17,732**	**18,605**	**19,813**	**21,137**
Liab & equity	**21,980**	**24,197**	**25,070**	**24,228**	**24,309**	**25,621**

Source: NCBC Research estimates

NEUTRAL

Target price (SR)	**14.0**
Current price (SR)	**15.5**

STOCK DETAILS

M52-week range H/L (SR)	16.0/9.1
Market cap ($mn)	4,461
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	**1M**	**3M**	**12M**
Absolute	6.9	15.6	70.2
Rel. to market	0.5	3.3	25.8

Avg daily turnover (mn)	**SR**	**US$**
3M	324	86.5
12M	322	85.8

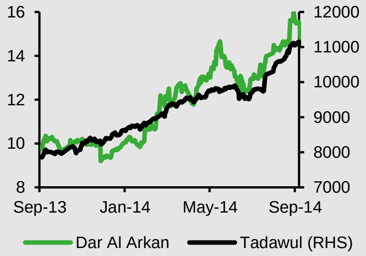
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	www.alarkan.com

VALUATION MULTIPLES

	13A	14E	15E
Reported P/E (x)	24.5	22.6	19.1
P/B (x)	0.98	0.94	0.90
EV/EBITDA (x)	19.6	17.1	16.4
Div Yield (%)	-	-	-

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Exhibit 11: Cash flow Statement

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from op. (a)	685	1,005	614	902	1,227	1,330
Cash flow from inv.(b)	379	(751)	(863)	(207)	406	133
Cash flow from fin.(c)	(3,034)	1,490	96	(1,741)	(1,146)	(22)
Net chg. in cash (a+b+c)	(1,970)	1,743	(153)	(1,046)	487	1,442
Cash at start of the year	2,506	536	2,279	2,126	1,080	1,567
Cash at end of the year	536	2,279	2,126	1,080	1,567	3,009

Source: NCBC Research estimates

Exhibit 12: Key Ratios

Per share, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Reported EPS	0.92	0.63	0.68	0.81	1.12	1.23
Adjusted EPS	0.78	0.63	0.68	0.81	1.12	1.23
Div per share	-	-	-	-	-	-
Book value per share	15.1	15.7	16.4	17.2	18.3	19.6
FCF per share	1.4	1.6	0.1	0.9	1.7	1.4
Valuation ratios (x)						
Reported P/E	16.9	24.5	22.6	19.1	13.9	12.6
Adjusted P/E	19.7	24.5	22.6	19.1	13.9	12.6
P/BV	1.03	0.98	0.94	0.90	0.84	0.79
EV/EBITDA	15.9	19.6	17.1	16.4	13.7	13.3
Div yield (%)	-	-	-	-	-	-
Profitability ratios (%)						
Gross margins	39.2	39.3	40.6	40.5	40.6	40.4
Operating margin	33.3	33.1	33.7	34.1	34.3	34.1
Net profit margins	27.8	23.2	22.3	25.2	29.4	31.0
ROE	6.1	4.0	4.2	4.7	6.1	6.3
ROA	4.5	2.8	2.9	3.6	5.0	5.2

Source: NCBC Research estimates

TAIBA

COMPANY UPDATE

CPOs and extraordinary dividends key drivers

We remain neutral on Taiba with a PT of SR48.0. Although the CPOs on the remaining four hotels and potential for extraordinary dividends may be a short-term catalyst for the stock, the key risks to our valuations include the ability to maintain current levels of profitability in the long-run. This risk also weighs on the ability of the company to maintain dividends. Expansions in other cities such as Jeddah and Khobar, may partially negate the effect of hotels receiving CPOs in the central area of the Prophet's mosque.

- **CPOs for the four remaining hotels key for stock performance**
  Taiba received a compensation of SR942mn for its Reyadah ARAC hotel during 2Q14, and recorded a capital gain of SR731mn. The compensation was SR368,400/sqm vs. expectations of around SR300,000/sqm. We believe the remaining four hotels of Taiba will also receive a similar value. Although these compensations may act as short-term catalysts, the prominent risk remains the vague long-term outlook/strategy.

- **Increase 2014E dividends; risk of maintaining dividends in long-run**
  We expect Taiba to increase its dividends to SR2.6/share in 2014E, as the company announced extraordinary dividends of SR1.0/share. This is the third year in a row when the company increases dividends. We believe that Taiba may continue to distribute extraordinary dividends, as CPOs come through. Although new hotel openings in Jeddah, Khobar and Riyadh will partially negate the effect of the hotels receiving CPOs, we do not expect the company to be able to maintain the current dividends in the long-run.

- **Occupancy rates in Riyadh improving; Jeddah poses downside risks**
  Taiba is planning to expand in Jeddah, Khobar and Riyadh. This move will reduce the geographical risk and dependency on religious tourism. for these markets, the occupancy rates for hotels in Riyadh are bottoming out while occupancy rates in the Jeddah continue to decline. We believe, the trend will continue in Jeddah as more rooms enter the market over the next two years.

- **Remain Neutral with a PT of SR48.0**
  We remain neutral on Taiba with a PT of SR48.0. Higher than expected CPOs for the remaining four hotels and potential extraordinary dividends will remain the key potential catalysts for the company going forward. However, the execution risk of new hotels outside of Madinah, ability to maintain current levels of profitability in the long-run and uncertainty regarding the ability to maintain dividends at current levels are key risks.

Financial summary

SR mn	2013A	2014E	2015E	2016E	2017E	CAGR (%)
Revenues	379	476	492	521	550	9.7
EBITDA	227	283	297	318	338	10.4
Net income	264	885	251	269	285	2.0
EBITDA margin (%)	60.0	59.6	60.4	60.9	61.4	-
Net margin (%)	69.6	186.1	51.0	51.5	51.9	-
ROE (%)	7.6	22.2	6.3	6.7	7.0	-
EPS (SR)	1.76	5.90	1.67	1.79	1.90	2.0
DPS (SR)	1.40	2.60	1.60	1.60	1.60	3.4

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	**48.0**
Current price (SR)	**47.3**

STOCK DETAILS

M52-week range H/L (SR)	48.2/35.4
Market cap ($mn)	1,890
Shares outstanding (mn)	150
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.8	2.4	31.3
Rel. to market	(4.6)	(9.9)	(13.2)

Avg daily turnover (mn)	SR	US$
3M	50.9	13.6
12M	62.0	16.5

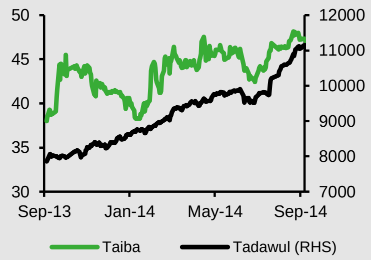
Reuters code	4090.SE
Bloomberg code	TIRECO AB
	www.taiba.com.sa

VALUATION MULTIPLES

	13A	14E	15E
Reported P/E (x)	26.8	8.0	28.2
P/B (x)	2.0	2.0	1.8
EV/EBITDA (x)	21.0	16.9	16.1
Div Yield (%)	3.0	5.5	3.4

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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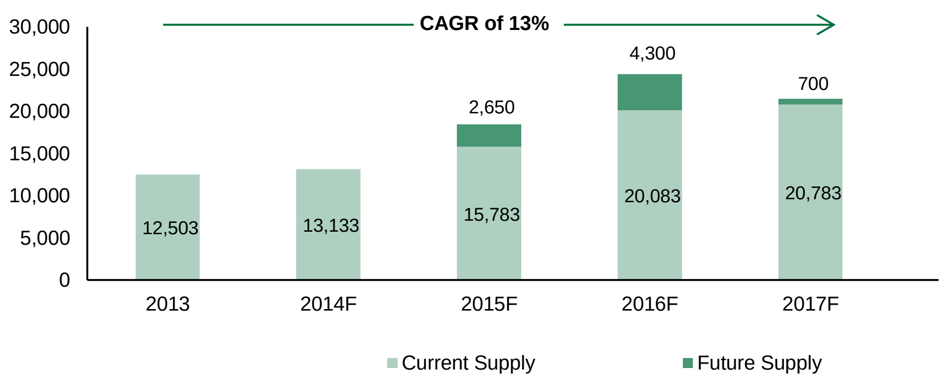
Strong hotel supply in Riyadh; Occupancy rates bottoming out

Strong pipeline of hotel supply in Riyadh: Around 20% of the 155 additional hotel developments planned in Saudi over the next two years will be in Riyadh. The total supply of 3, 4 and 5 star hotels in Riyadh stands at around 13k rooms by 1Q14, with a significant number of completions expected in 2014 and 2015. This due to the delay of several projects originally scheduled to finish in 2013, due to Saudisation pressures on the construction market.

Around 20% of the future supply in Saudi over next two years will be in Riyadh.

Exhibit 13: Riyadh hotel supply 2013 - 2017F

No. of rooms



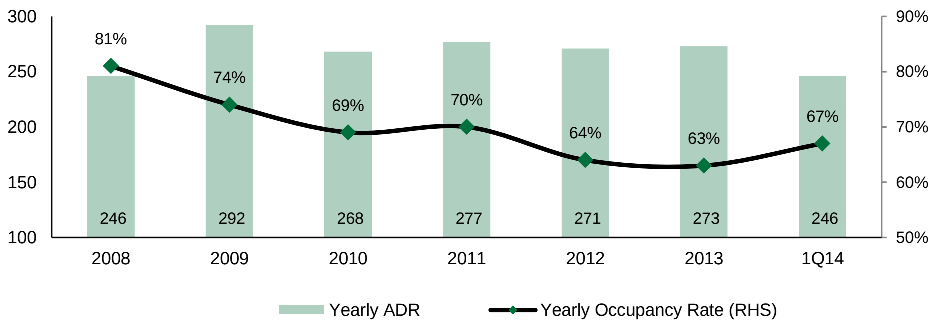
Source: JLL, NCBC Research

Hotel occupancy rates bottoming out in the Riyadh: The hotel occupancy rates in Riyadh are bottoming out, as the market began to absorb the increase in supply over the last two years. However, the improvement in occupancy levels has been achieved at the cost of lower average daily room rates (ADRs) and revenue per available room (RevPAR). Occupancy levels over 1Q14 have averaged 67%, up from 63% in 1Q13.

The Riyadh hotel market is showing signs of improvement, with occupancy rates bottoming-out.

Exhibit 14: Hotel performance in Riyadh (2008 - 1Q14)

US$ unless specified



Source: JLL, NCBC Research

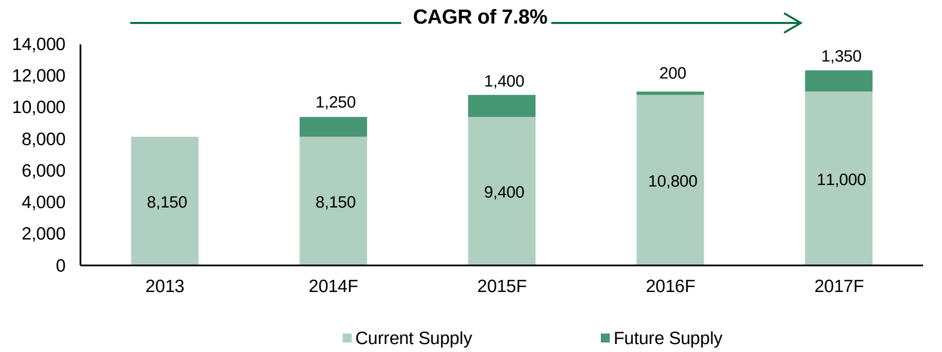
Downside risk to occupancy rates in Jeddah from increased supply

Jeddah hotel supply to increase at 7.8% CAGR till 2017: Jeddah hotel market is expected to see a 7.8% CAGR increase in hotel supply till 2017. Around 1,250 rooms are expected to be added in 2014 and around 1,400 rooms in 2015 will increase the total number of rooms to 10,800 rooms.

Strong hotel supply expected during 2014-2015 in Jeddah.

Exhibit 15: Jeddah hotel supply 2013 - 2017F

No. of rooms



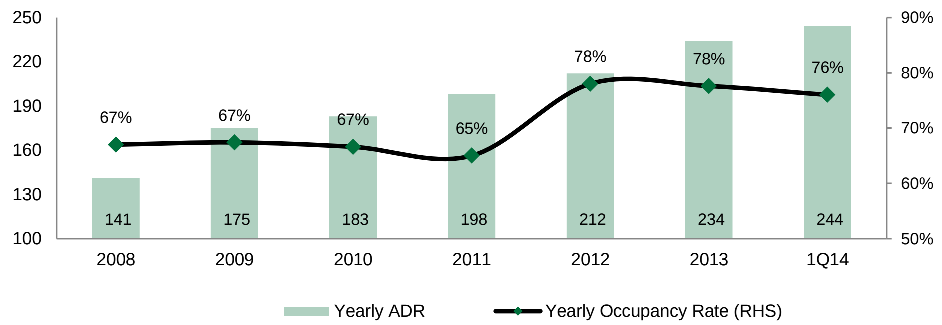
Source: JLL, NCBC Research

Occupancy rates to face pressures as hotel supply increases: While ADR has been continuously increasing in Jeddah, the occupancy levels have been declining since 2012. As more rooms enter the hotel market over the next two years, occupancy rates and ADRs may decrease even further.

Occupancy rates may be under pressure in Jeddah as hotel supply increases.

Exhibit 16: Hotel performance in Jeddah (2008 - 1Q14)

US$ unless specified



Source: JLL, NCBC Research

Financials

Exhibit 17:Income Statement

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Revenues	447	379	476	492	521	550
Adjusted revenue	283	334	476	492	521	550
Cost of revenue	(143)	(116)	(149)	(150)	(156)	(162)
Gross profit	**304**	**263**	**326**	**343**	**366**	**389**
S.G.&A. expenses	(38)	(36)	(43)	(45)	(48)	(50)
EBITDA	253	227	283	297	318	338
Depreciation	(25)	(19)	(37)	(42)	(47)	(52)
Operating income	**228**	**208**	**246**	**255**	**270**	**286**
Income from associates	3	4	3	3	3	3
Investment income	29	74	40	42	44	49
Other income	200	34	674	2	2	2
Inc. before Zakat & MI	**459**	**315**	**943**	**283**	**301**	**321**
Zakat	(9)	(13)	(38)	(11)	(11)	(12)
Income before MI	451	303	904	272	290	309
Minority interest	(44)	(39)	(19)	(20)	(22)	(23)
Net income	**406**	**264**	**885**	**251**	**269**	**285**
EPS	**2.7**	**1.8**	**5.9**	**1.7**	**1.8**	**1.9**

Source: NCBC Research estimates

Exhibit 18: Balance Sheet

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	157	196	1,098	1,033	1,051	1,088
Accounts receivable	55	74	96	100	100	106
Inventory, net	9	7	9	9	10	10
Due from related parties	4	1	1	1	2	2
Current assets	**225**	**356**	**1,283**	**1,222**	**1,241**	**1,284**
Investments in companies	1,014	1,083	1,086	1,089	1,093	1,096
Fixed assets, net	2,823	2,878	2,900	2,924	2,945	2,964
Non-current assets	3,846	3,976	3,999	4,024	4,047	4,068
Total Assets	**4,071**	**4,332**	**5,282**	**5,246**	**5,287**	**5,352**
Accounts payable	191	139	179	179	186	194
Dividends payable	75	80	80	80	80	80
Current liabilities	**291**	**284**	**334**	**281**	**287**	**298**
End of service indemnity	13	8	10	12	13	14
Non-current liabilities	99	228	616	603	590	577
Total Liabilities	**389**	**512**	**950**	**884**	**877**	**875**
Paid Capital	1,500	1,500	1,500	1,500	1,500	1,500
Statutory reserves	1,000	1,000	1,000	1,000	1,000	1,000
Other reserves	106	106	106	106	106	106
Retained earnings	514	567	1,060	1,069	1,096	1,140
Dividends	60	60	60	60	60	60
Total shareholders' equity	**3,363**	**3,486**	**3,979**	**3,988**	**4,015**	**4,059**
Total liabilities & equity	**4,071**	**4,332**	**5,282**	**5,246**	**5,287**	**5,352**

Source: NCBC Research estimates

Exhibit 19: Cash flow Statement

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Net income	**406**	**264**	**885**	**251**	**269**	**285**
Dep. and amortization	25	28	37	42	47	52
Non-cash adjustments	3	(110)	56	(49)	3	7
Interest expense	-	-	21	20	20	19
Accounts receivable	3	(4)	(10)	(1)	3	(2)
Prepayments & others	11	(12)	(13)	(2)	(4)	(4)
Inventory	1	2	(2)	(0)	(1)	(1)
Accounts payable	(58)	(8)	4	0	1	1
Accruals / other payables	36	(21)	35	0	7	6
Operating cash flows	**242**	**160**	**1,014**	**262**	**345**	**365**
Capex	174	(52)	(60)	(66)	(69)	(71)
Investments in companies	(325)	2	(3)	(3)	(3)	(3)
Deferred charges	8	(8)	(2)	(1)	(1)	(1)
Investing cash flows	**(131)**	**(58)**	**(64)**	**(71)**	**(73)**	**(75)**
Change in debt	(6)	174	346	(14)	(14)	(14)
Dividends	(158)	(210)	(390)	(240)	(240)	(240)
Minority interest	(42)	(24)	19	20	22	23
Financing cash flows	**(116)**	**(62)**	**(47)**	**(256)**	**(254)**	**(252)**
Net cash flow	(5)	40	902	(65)	18	37
Opening cash balance	162	157	196	1,098	1,033	1,051
Ending cash balance	**157**	**196**	**1,098**	**1,033**	**1,051**	**1,088**

Source: NCBC Research estimates

Exhibit 20: Key Ratios

Per share, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
EPS	2.7	1.8	5.9	1.7	1.8	1.9
Div per share	1.2	1.4	2.6	1.6	1.6	1.6
Book value per share	22.4	23.2	26.5	26.6	26.8	27.1
FCF per share	0.7	0.7	6.3	1.3	1.8	1.9
Valuation ratios (x)						
P/E	17.4	26.8	8.0	28.2	26.4	24.8
P/BV	2.1	2.0	1.8	1.8	1.8	1.7
P/FCF	63.8	69.9	7.5	37.1	26.1	24.5
EV/sales	10.7	12.6	10.0	9.7	9.2	8.7
EV/EBITDA	18.9	21.0	16.9	16.1	15.0	14.1
Div yield (%)	2.5	3.0	5.5	3.4	3.4	3.4
Profitability ratios (%)						
Gross margins	68.1	69.3	68.6	69.6	70.1	70.6
EBITDA margins	56.7	60.0	59.6	60.4	60.9	61.4
Operating margins	51.0	54.9	51.7	51.8	51.8	51.9
Net profit margins	91.0	69.6	186.1	51.0	51.5	51.9
ROE	12.1	7.6	22.2	6.3	6.7	7.0
ROA	10.0	6.1	16.8	4.8	5.1	5.3

Source: NCBC Research estimates

REAL ESTATE | SEPTEMBER 2014

AL AKARIA

COMPANY UPDATE

PIF loan, a key driver of Al Akaria’s outlook

We remain Neutral on Al Akaria with a PT of SR44.1. We believe that large scale residential projects may be announced soon by Al Akaria, provided the approval of a SR1.5bn loan from the Public Investment Fund (PIF). Given that the loan has only been approved and no details for projects have been announced, we have not priced this into our models yet. Updates on Al-Remal project, contract from the Ministry of Housing or details of the SR1.5bn loan from PIF will be positive catalysts for Al Akaria. However, any further delay in the DQ project, may be a potential risk in the short-term.

Exhibit 21: Income Statement

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Revenues	325	259	275	323	328	345
Cost of revenue	(120)	(51)	(55)	(64)	(66)	(69)
Gross profit	**205**	**208**	**220**	**259**	**262**	**276**
SG&A expenses	(16)	(17)	(25)	(25)	(26)	(26)
EBITDA	**189**	**191**	**195**	**234**	**236**	**250**
Depreciation	(27)	(28)	(29)	(29)	(29)	(30)
Operating income	**161**	**163**	**166**	**204**	**207**	**219**
Other income	30	4	29	26	17	20
EBT	**191**	**167**	**195**	**230**	**224**	**239**
Zakat provision	(12)	(11)	(12)	(12)	(13)	(14)
Net income	**180**	**156**	**183**	**218**	**212**	**225**
EPS (SR)	**1.5**	**1.3**	**1.5**	**1.8**	**1.8**	**1.9**

Source: NCBC Research estimates

Exhibit 22: Balance Sheet

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	3	18	1	26	76	202
Accounts receivable, net	96	120	128	150	152	160
Inventory, net	1	1	1	1	1	2
Land available for sale	12	12	12	12	12	12
Current assets	**139**	**151**	**142**	**189**	**241**	**375**
Investments	1,051	1,129	1,144	1,156	1,159	1,162
Investment properties	2,255	2,270	2,343	2,418	2,458	2,440
Non-current assets	**3,307**	**3,400**	**3,486**	**3,574**	**3,617**	**3,601**
Total assets	**3,445**	**3,551**	**3,628**	**3,763**	**3,858**	**3,977**
Accounts payable	45	77	83	93	95	100
Unearned revenue	141	155	165	193	196	206
Current liabilities	**187**	**232**	**248**	**286**	**291**	**306**
End-of-service indemnity	14	15	15	15	15	16
Total liabilities	**201**	**247**	**262**	**301**	**306**	**322**
Paid Capital	1,200	1,200	1,200	1,200	1,200	1,200
Reserves	1,850	1,866	1,884	1,906	1,927	1,950
Retained earnings	135	154	197	272	341	422
Unrealized gains (losses)	59	84	84	84	84	84
Shareholders' equity	**3,245**	**3,304**	**3,366**	**3,462**	**3,552**	**3,655**
Total liabilities & equity	**3,445**	**3,551**	**3,628**	**3,763**	**3,858**	**3,977**

Source: NCBC Research estimates

NEUTRAL

Target price (SR)	**44.1**
Current price (SR)	**47.6**

STOCK DETAILS

M52-week range H/L (SR)	48.9/28.6
Market cap ($ mn)	1,522
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	**1M**	**3M**	**12M**
Absolute	5.1	5.5	66.8
Rel. to market	(1.3)	(6.8)	22.4

Avg daily turnover (mn)	**SR**	**US$**
3M	12.8	3.4
12M	30.1	8.0

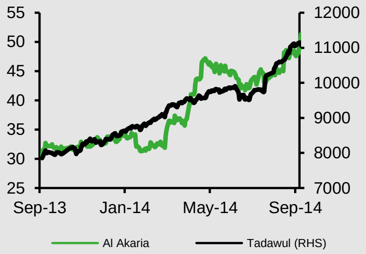
Reuters code	4020.SE
Bloomberg code	SRECO AB
	www.al-akaria.com

VALUATION MULTIPLES

	13A	14E	15E
Reported P/E (x)	36.6	31.2	26.2
P/BV (x)	1.7	1.7	1.6
EV/EBITDA (x)	19.1	18.7	15.6
Div Yield (%)	2.1	2.1	2.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Exhibit 23: Cash flow Statement

In SR millions, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Net Income before zakat	**191**	**167**	**195**	**230**	**224**	**239**
Non-cash adjustments	(13)	25	2	2	2	2
Investment revenue	(17)	(26)	(25)	(23)	(13)	(13)
Depreciation	27	28	29	29	29	30
EOSB	3	2	2	2	2	2
Accounts receivable	8	(38)	(9)	(24)	(4)	(10)
Inventory	0	1	(0)	(0)	(0)	(0)
Land available for sale	80	-	-	-	-	-
Accounts payable	(10)	61	6	10	2	4
Unearned revenue	(24)	(23)	10	29	3	10
Zakat	(16)	(14)	(12)	(12)	(12)	(13)
EOSB	(0)	(1)	(1)	(1)	(1)	(1)
Operating cash flows	**229**	**182**	**195**	**241**	**230**	**249**
Proceeds from invsts	(53)	5	11	11	11	11
Capex	(106)	(49)	(101)	(105)	(70)	(12)
Investing cash flows	**(159)**	**(45)**	**(90)**	**(94)**	**(59)**	**(1)**
Increase in capital	-	-	-	-	-	-
Change in debt	(2)	(2)	-	-	-	-
Dividends	(119)	(120)	(122)	(122)	(122)	(122)
Financing cash flows	**(121)**	**(121)**	**(122)**	**(122)**	**(122)**	**(122)**
Net cash flows	**(51)**	**16**	**(17)**	**25**	**50**	**127**
Opening balance	54	3	18	1	26	76
Ending balance	**3**	**18**	**1**	**26**	**76**	**202**

Source: NCBC Research estimates

Exhibit 24: Key Ratios

Per share, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
EPS	1.5	1.3	1.5	1.8	1.8	1.9
FCF per share	1.0	0.9	0.8	1.1	1.3	1.9
Div per share	1.0	1.0	1.0	1.0	1.0	1.0
Book value per share	27.0	27.5	28.0	28.8	29.6	30.5
Valuation ratios (x)						
Reported P/E	31.8	36.6	31.2	26.2	27.0	25.4
P/FCF	45.7	55.6	63.1	44.0	36.3	24.7
P/BV	1.8	1.7	1.7	1.6	1.6	1.6
EV/EBITDA	19.3	19.1	18.7	15.6	15.4	14.6
Div yield (%)	2.1	2.1	2.1	2.1	2.1	2.1
Profitability ratios (%)						
Gross margins	63.0	80.4	79.9	80.2	80.0	80.1
Operating margin	49.6	63.1	60.4	63.3	63.1	63.7
EBITDA margins	58.0	73.9	70.9	72.3	72.1	72.4
Net profit margins	55.2	60.3	66.5	67.4	64.6	65.3
ROE	5.5	4.7	5.4	6.3	6.0	6.2
ROA	5.2	4.4	5.0	5.8	5.5	5.7

Source: NCBC Research estimates

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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

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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