SEPTEMBER 2014

KSA RETAIL SECTOR

STRONG ORGANIC GROWTH SUPPORTS OUTLOOK

We believe the Saudi Retail sector outlook remains positive, led by strong earnings growth from store expansions, strong organic growth, margin stability and Saudisation pressures easing. Announcements on opening the market helped the sector in expanding YTD gains to 50%, with expectations that international investors will be interested in this sector given the demographic and economic strengths of Saudi. Our PTs increased upon reducing the additional risk premium. We upgrade Al Othaim to Overweight, downgrade Al Hokair to Neutral, while maintaining other ratings.

- **Positive outlook on strong organic growth and expansions**
  The outlook for the Saudi Retail sector remains strong supported by strong organic growth, store expansions and margin expansions. EIU expects a CAGR 7.8% growth for the sector till 2018E. We expect organic growth to stand between 8-10% for companies such as Al Hokair and Al Othaim. Moreover, covered companies are expanding by adding new stores locally and internationally, which will be a catalyst that drives growth for the sector.

- **Upgrade Al Othaim to Overweight, downgrade Al Hokair to Neutral**
  We upgrade Al Othaim to Overweight (PT SR127.1) on new store openings, margin stability, strong organic growth outlook and overcoming the negative effects of Saudisation. Al Othaim trades at a 2015E P/E of 19.0x vs. sector at 24.5x which is relatively attractive provided the strong fundamentals. We downgrade Al Hokair to Neutral (PT SR123.5) on fair valuation and the relatively unchanged outlook. Al Hokair trades at a 2015E P/E of 30.4x.

- **Maintain ratings on the remaining stocks under coverage**
  We remain Neutral on Jarir and Extra while Overweight on Shaker. Although Jarir has a strong balance sheet, dividend track record and prudent management, we believe the valuation is fair at the current levels. However, we maintain our Overweight rating on Shaker given the improved outlook for the company, as the AC market stabilizes.

- **Opening of the TASI to have a net positive effect on the sector**
  Due to the opening of the TASI to international investors, we expect a significant inflow of foreign capital to the market. We believe the retail sector will be a beneficiary due to the strong macro-economic outlook, rising disposable income and growing population. We expect this move to reduce the risk premium assumed, resulting in re-rating and multiple expansion.

Exhibit 1: Retail companies under coverage – Valuation matrix

	Rating	PT (SR)	MCap $mn	Stock perf (%) Aug	Stock perf (%) YTD	P/E (x) '15	EV/ EBITDA '15	P/BV (x) '15	DY (%) '15	ROE (%) '15	ROA (%) '15
Al Hokair*	N	123.5	6,837	10.2	75.4	30.4	22.3	9.2	1.8	32.3	16.2
Jarir	N	196.5	4,909	2.2	28.5	20.8	20.4	12.3	3.8	62.8	35.8
Al Othaim	OW	127.1	1,324	0.6	78.6	19.0	14.1	4.3	1.4	24.6	10.8
Extra	N	134.5	959	(0.6)	21.2	17.5	10.7	5.4	2.9	30.9	15.9
Shaker	OW	103.0	800	9.3	22.8	13.5	13.9	2.7	5.3	20.3	12.6

Source: NCBC Research, All prices as of September 08, 2014; * 2015 numbers refer to FY15 – year ending March 2015 ; N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

Mohamed Tomalieh
m.tomalieh@ncbc.com
+966 12 690 7635

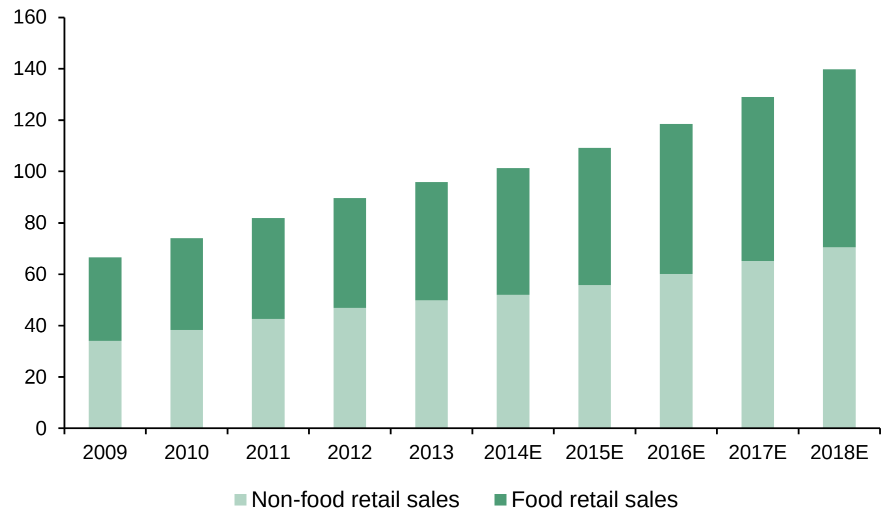
Outlook for the Saudi Retail sector

Retail outlook remains strong, on demand growth and expansions

- **EIU data reflects a strong growth outlook for the Saudi retail sector**

The Economist Intelligence Unit (EIU) expects Saudi's retail sector to record a CAGR of 7.8% in sales by 2018E (US$140bn in 2018E vs. US$96bn in 2013). This is due to favorable macro factors such as demographics (64% under the age of 34), governmental spending and increasing income per capita. We expect a strong growth for the sector with the revenues of covered stocks increasing at a CAGR of 13% during 2013-18E.

Exhibit 2: Saudi retail sales outlook (US$bn)

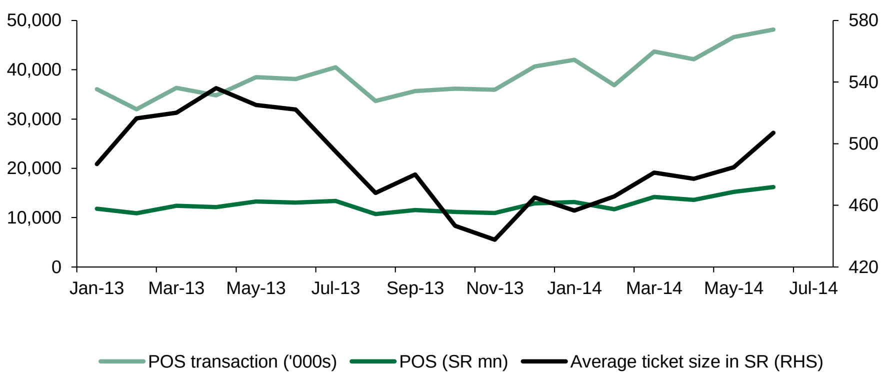


Source: EIU January 2014

- **POS data reveals acceleration in retail spending**

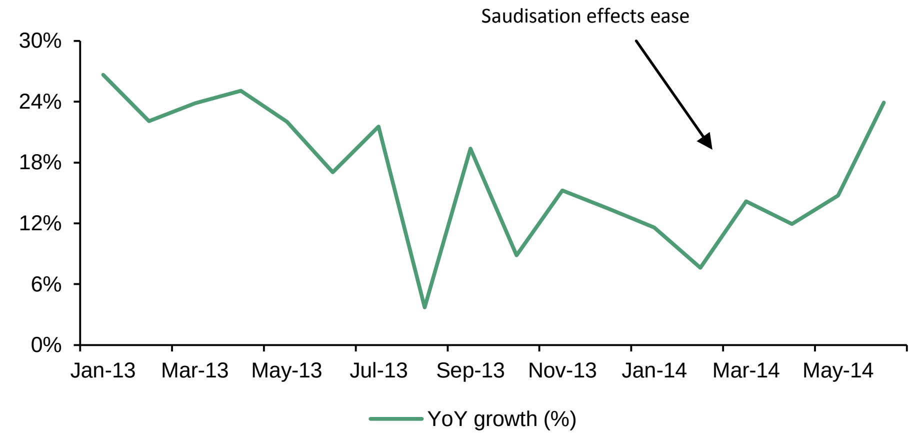
POS data are a proxy of the retail activity. The latest data shows acceleration in spending particularly in the past two months. Total transactions value and volume increased 23% and 11% YTD, respectively. During 2009–13, the value and transactions more than doubled to SR144bn and 294mn, respectively. Moreover, the average ticket size grew to SR507 YTD vs. SR451 in 2009.

Exhibit 3: POS – Value, transactions and ticket size



Source: SAMA

Exhibit 4: POS – Value, transactions and ticket size



Source: SAMA

Key sector drivers: store expansions and organic growth

- **Successful execution of store expansion to drive top-line growth**

Revenue growth through store expansion remains one of the key drivers for the sector. This, supported by consolidation in the retail sector's fragmented market, is the key advantage of larger retailers to increase market share. The majority of the top retailers have expansion plans to drive top-line growth. However, execution risks remain a concern given the recent changes in the labor market which had a direct impact on contractors. This may be seen through the lower-than-expected store openings in 2013. In general, we are relatively conservative in our estimates for store expansions vs. management guidance. For example, Al Othaim management expects to open 15 stores annually, while we assume 7-10 stores annually.

Exhibit 5: New store openings in 2014 vs. new stores in 2013

Stores

	Targeted in 2014	Opened in 2013
Al Hokair*	200+	200+
Jarir	7	0
Extra	3–4	8
Al Othaim	15	13

Source: NCBC Research estimates, * 2014E equates to FY15E (year ending March 2015)

- **Sustainable high organic growth for the sector**

Organic growth remained high across the sector which supports our strong outlook. Among the stocks under coverage, Al Hokair and Al Othaim have recorded a significant organic growth over the past few years, which the management expects to be sustainable. We estimate an organic growth of 8-10% for Al Hokair and Al Othaim, going forward. For Jarir and Extra, organic growth expectations range between 4-7%.

International markets offer growth potential despite FX volatility

- **International expansions offer alternative sources of growth**

We believe retailers in Saudi could further grow through expansions in the GCC. Leading Saudi retailers have started expanding into other GCC countries. We believe that strong brands, existing distribution capabilities and supply chain management strengths have eased the entry into newer geographies and segments. Al Hokair reported 51% and 105% YoY increase in its revenue from international markets in FY14 and 1Q15, respectively. Al Hokair has a wide presence internationally with 611 stores expected in FY15 (30% of total) and an estimated average of 70 new store openings annually. On the other hand, Extra has 3 stores and Jarir has 4 stores outside of Saudi.

- **However, FX markets volatility to impact earnings, mainly for Al Hokair**

With the exception to Al Hokair, We believe that stocks under coverage are less exposed to foreign exchange (FX) risks given their domestic/GCC operations. However, Al Hokair is exposed to this risk as it is expected to generate 26% of its total revenues from international operations in FY15E. Currently, Al Hokair has presence in more than 10 countries, including the US, Egypt, Jordan, Kazakhstan, Azerbaijan, and Georgia.

In FY13 Al Hokair posted FX gains of SR8.1mn due to the appreciation of the US$. The appreciation of the US$ vs. Euro results in lower COGS and increased transaction gains given that the company's major suppliers (such as Zara and Marks & Spencer) are located in Europe. Although it offers a potential gain in terms of other income, this exposure may increase the volatility of Al Hokair earnings.

Saudisation remains the main focus

Tightening Saudisation rules not expected to impact covered stocks

- **Companies in lower Nitaqat zones are facing pressure from the MoL**

Saudisation continue to be the main focus of the government. A new campaign will be launched next month where the Ministry of Labor (MoL) intends to penalize around 17,000 red zone companies. The Nitaqat program, which began in June 2011, aims to reduce the Kingdom's unemployment rate by creating job opportunities for Saudis in the private sector. According to this program, firms are classified under Premium, Green, Yellow, and Red categories based on their Saudisation rate. Companies meeting high levels of Saudisation are rewarded with incentives whereby those that fail to comply face heavy penalties. We believe the impact of this drive to be higher on small players and independent stores in the highly fragmented retail market rather than on stocks under coverage. We believe that these regulations actually help larger retailers, as the market consolidates, to gain market share.

- **Stocks under coverage are relatively safe**

For the retail sector, the Saudisation requirement is 17%. All companies under coverage comfortably meeting the requirements and are in the Green band. We expect the renewed MoL campaigns to have a short-term impact on margins, from wage inflation, for companies with a lower percentage of Saudi nationals.

Exhibit 6: High Saudization rates for stocks under our coverage

Company	MCap (USD mn)	Total Employees	Saudization %	Status
Al Hokair	6,837	12,109	46	Green
Jarir	4,909	2,585	~40	Green
Extra	959	~2,500	24	Green
Al Othaim	1,324	8,000	27	Green

Source: Tadawul, Zawya, Company Reports, NCBC Research estimates

Positive impact from Saudisation in the long-term

- **Positives include higher discretionary income from employing locals**

Despite the short-term concerns, we believe that the increased employment of Saudis in the private sector and higher salaries will lead to higher discretionary consumption. The Ministry of Labor recently announced that the number of Saudis employed in the private sector increased from 0.72mn to 1.46mn since the launch of Nitaqat program, with a clear trend of an increasing number of women joining the labour market (women employment grew 85% YoY to 398,538 in 2013). Moreover, the average monthly salary of Saudis in the private sector increased at a CAGR of 10.9% during 2010–13. We expect these factors to increase spending power of Saudis and to benefit discretionary retailers such as Al Hokair, Jarir, and Extra.

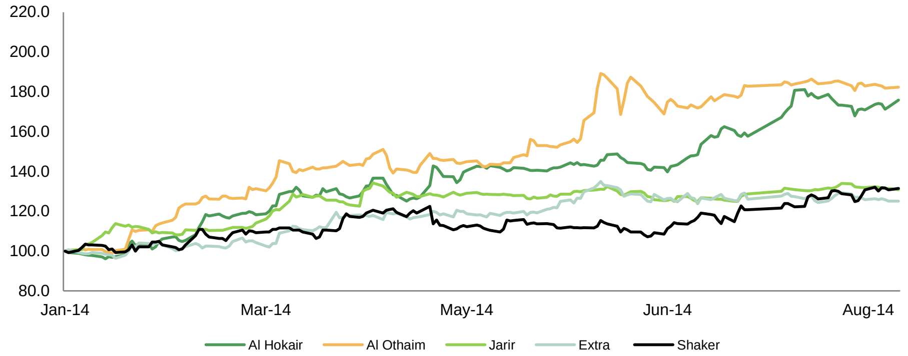
Outperformance of the retail sector YTD

Best performing sector YTD, driven by positive sentiment

- **Sentiment driven rally, outperforming the index by 22%**

The retail sector is the best performing sector YTD in the TASI, increasing 50% and outperforming the index by 22%. We believe this rally is driven by positive sentiment on opening up the market to FIIs, in addition to the continued interest on Saudi focused sectors that will benefit from the strong macroeconomic outlook. From companies under coverage, Al Othaim rallied the most, increasing 78.6% YTD. Aside from re-rating effects, we believe that the strong performance has been supported by the strong earnings growth and positive outlook on the company.

Exhibit 7: YTD performance of stocks under coverage



Source: Tadawul, Bloomberg

From the stocks under coverage, Al Othaim, Jarir, and Al Hokair have a relatively higher free float market capitalization and liquidity (turnover). These factors, along with the strong fundamentals, may make these stocks witness relatively higher FII inflows upon opening up the market and/or joining the MSCI EM Index.

Exhibit 8: Trading activity of our coverage stocks

Company	MCap (US$mn)	Avg. monthly turnover (US$mn)	Velocity %	Free float %	YTD change
Al Hokair	6,837	155.2	2.4%	51.0	75.4
Jarir	4,909	127.0	2.6%	99.9	28.5
Extra	959	69.0	7.1%	38.3	21.2
Al Othaim	1,324	202.3	15.2%	72.3	78.6
Shaker	800	139.0	16.6%	65.5	22.8

Source: Tadawul

Opening market to FIIs, leads to further P/E expansions

Increased market appetite, on opening to FIIs

- **Investment inflows from FII expected on joining MSCI EM Index**

The CMA has announced in July 2014 that the TASI will open to foreign institutional investors in 1H15. We expect this move to reduce the systematic risk assumed, which may result in a re-rating and multiple expansion. Accordingly, we lowered the additional risk premium of Saudi from 0.90% to 0.75%. We believe that the retail sector is an attractive area for FII to consider provided the positive macro-economic outlook, rising disposable income and the highly growing population.

- **Saudi retail sector multiple up 20% in one year; continues to trade at a premium vs. emerging market peers**

We believe that the continued rally in the Saudi retail sector is due to higher multiples that investors are willing to pay for the retail sector, due to the positives of the sector highlighted above. Therefore, the rally is not solely as a result of an upward revision in earnings estimates for these companies. We believe that opening the TASI to FIIs may be another factor that triggers further multiple expansions. Over the past year, the blended forward P/E multiple of the Saudi retail sector has increased by 20% (17.9x to 21.5x) vs. 14% expansion in the P/E of the MSCI EM Retail index. Consequently, the premium of the Saudi retail sector over the MSCI index expanded further to 29% vs. 22% during this period.

The 12-month blended forward P/E for Al Othaim, Al Hokair, Jarir and Extra have expanded 53%, 49%, 25%, and 18% over the past year, respectively. This compares to the TASI and retail sector at 39% and 20%, respectively. The consolidated net profit of our four retail names (excludes Shaker) grew 15% YoY in the past four quarters, which supports our view that the recent rally is also supported by earnings growth. We expect Al Hokair, Al Othaim, and Jarir's earnings to increase 9%, 16%, and 20% YoY, respectively, in 2015E.

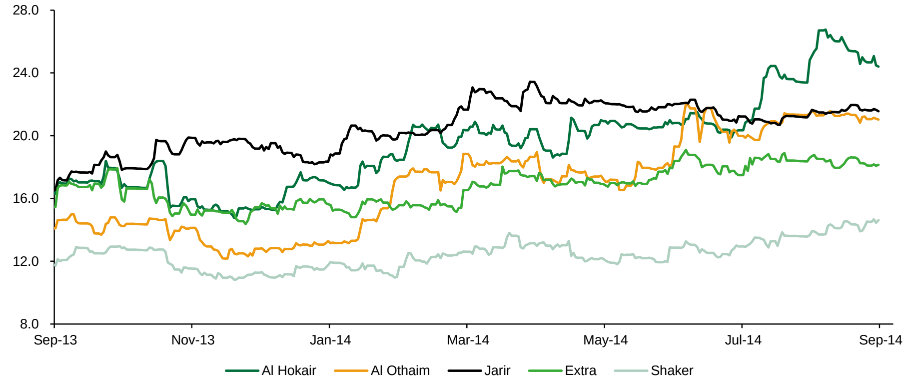
Exhibit 9: Retail P/E multiples compared to earnings growth outlook

Multiple (x)

	Forward P/E			P/E inc	P/E	EPS
	2014E	2015E	2016E	1-yr (%)	(3-yr avg)	(3-yr CAGR %)
Al Hokair*	33.2	30.4	24.2	49	14.4	21.4
Jarir	24.9	20.8	17.7	25	16.2	15.4
Extra	19.3	17.5	15.7	18	14.9	11.5
Al Othaim	22.1	19.0	16.7	53	13.0	15.5

Source: NCBC Research estimates, *Refers to the financial year

Exhibit 10: Blended forward P/E of covered stocks



Source: Bloomberg

Changes to estimates

In the table below, we have highlighted the changes to our 2014E and 2015E estimates and price targets since our last update on the sector in 1Q14.

Exhibit 11: Changes to estimates

In SR mn, unless otherwise stated

		Old 2014E	New 2014E	% Chg	% Gr	Old 2015E	New 2015E	% Chg	% Gr
Al Hokair*									
Revenue		6,845	6,984	2.0	49.9	7,999	8,181	2.3	17.1
EBIT		940	889	(5.4)	52.2	1,130	1,079	(4.5)	21.4
Net profit		911	843	(7.4)	36.1	1,103	1,057	(4.2)	25.3
Price target	SR					101.8	123.5	21.4	
Jarir									
Revenue		6,144	5,665	(7.8)	8.0	7,300	6,652	(8.9)	17.4
Gross profit		934	893	(4.5)	12.4	1,114	1,065	(4.4)	19.3
EBIT		771	727	(5.8)	12.1	928	877	(5.5)	20.6
Net profit		784	738	(5.8)	12.9	936	885	(5.5)	19.9
Price target	SR					185.6	196.5	5.9	
Extra									
Revenue		3,799	3,758	(1.1)	10.9	4,342	4,317	(0.6)	14.9
Gross profit		676	681	0.6	13.1	774	769	(0.6)	13.0
EBIT		183	194	5.9	12.6	216	213	(1.5)	9.9
Net profit		179	186	4.2	11.4	211	206	(2.6)	10.3
Price target	SR					114.9	134.5	17.0	
Al Othaim									
Revenue		5,292	5,331	0.7	16.4	5,968	6,073	1.8	13.9
Gross profit		886	903	1.9	17.1	996	1,032	3.6	14.3
EBIT		190	205	7.9	18.7	213	237	11.1	15.9
Net profit		219	224	2.3	16.6	246	261	6.2	16.3
Price target	SR					84.2	127.1	50.9	
Shaker**									
Revenue		NA	1,485	NA	NA	NA	1,624	NA	NA
Gross profit		NA	398	NA	NA	NA	438	NA	NA
EBIT		NA	136	NA	NA	NA	153	NA	NA
Adj. net profit		194	161	(17.1)	(31.6)	222	222	(0.0)	37.7
Price target	SR					94.8	103.0	8.6	

Source: NCBC Research estimates, * 2014E equates to FY15E (year ending March 2015) , 2015E equates to FY16E (year ending March 2016),
**Due to change in the reporting method by Shaker, all profit lines except for net income are not comparable to our previous estimates

Summary of changes to estimates:

Al Hokair

- We revised equity risk premium from 8.38% to 8.0%. This includes a reduction of 15 bps in the Saudi premium, due to opening the market to international investors. This revision, in addition to a slight downward revision in RFR, has added SR11.4 or 11.2% to our PT.
- We have revised the P/E premium over peers to 30%, from 25%, to match the current historical and forward average premium. As a result, our PT has increased by 2.5%.

Al Othaim

- We have revised up our estimates of the back off 1) higher organic growth and 2) improved margins on anticipation of higher incentives/rebates from suppliers. These changes in the fundamentals added SR23.5 or 27.9% to our PT
- We revised the equity risk premium from 8.38% to 8.0%. This includes a reduction of 15 bps in the Saudi premium due to opening the market to international investors. This revision, in addition to slight downward revisions in RFR, has added 14.5% or SR12.2 to our PT

- We have increased the P/E derived PT to SR129.9 (revised up 46% - equivalent to a 2015E P/E of 22.4x). This is due to the increased premium over peers. This added SR7.2 or 8.5% to our PT.

Jarir

- We revised the equity risk premium from 8.38% to 8.0%. This includes a reduction of 15 bps in the Saudi premium, due to opening the market to international investors. This revision, in addition to slight downward revisions in RFR, has added SR13.3 or 7.2% to our PT.
- We have revised the P/E premium over peers to 50%, from 35%, to match the current historical and forward average premium. Despite this, our PT based on peer valuation methodology declined by 3%.
- We have revised downwards our estimate by 4-10%, mainly due to lower organic growth from the slowdown in consumer electronics market.

Extra

- Driven by the slight improved outlook and the better than expected 1H14 results, we have revised our earnings estimate upwards. As a result of improved margin outlook, lower S&D expenses and other fundamental factors, our PT went increased by SR14.6 or 12.6%.
- We revised equity risk premium from 8.38% to 8.0%. This includes a reduction of 15 bps in the Saudi premium due to opening the market to international investors. This revision, in addition to slight downward revisions in RFR, has added 6.3% or SR7.2 to our PT.
- According to the current historical and forward average premium over peers, we revised Extra's P/E and P/BV premium from 10% to 25%. However, overall our PT decreased by around 1.9% or SR2.2.

Shaker

- Due to change in the reporting method, following the stake sale in LG Shaker, all profit lines except for net income are not comparable to our previous estimates.
- We have revised our net income estimates upwards significantly, mainly due to the one-off gain reported in 2Q14. Adjusting for this, our estimates for 2014E have declined. However, we believe the outlook remains strong for Shaker, and we therefore maintain our estimates for future years.
- We revised equity risk premium from 8.38% to 8.0%. This includes a reduction of 15 bps in the Saudi premium due to opening the market to international investors. This revision, in addition to slight downward revisions in RFR, has added 5.1% or SR4.8 to our PT
- We have reduced the P/E and P/BV premium over peers to match the current historical and forward average premium. This has decreased our PT by 12.6% or SR11.9.

RETAIL | SEPTEMBER 2014

AL OTHAIM

CHANGE IN RATING

Upgrade on improved earnings & margin outlook

We upgrade Al Othaim to Overweight, with PT rising to SR127.1, primarily driven by strong top-line growth from new store openings and high single-digit organic growth. Sustainability of this growth will be a key catalyst. Additionally, we believe that higher volumes will lead to better terms from suppliers, thereby supporting margin outlook. Execution of new store openings remains a key risk for the company provided the relative difficulties faced by contractors.

- **New stores and organic growth key catalysts:** Al Othaim plans to open 15 new stores in 2014 after opening 13 in 2013; we estimate 9 stores (7 super markets and 2 corner stores) for 2014. Furthermore, the company's organic growth remained strong at 9%. We anticipate organic growth to sustain going forward due to the high growth in the Saudi population. We believe new store openings and organic growth will be the key drivers for both top and bottom-line. We estimate revenues to grow 16.4% YoY in 2014E, with approximately half of this driven by organic growth.

- **Margin outlook positive on higher volumes:** Due to the progress in opening new stores, we expect margins to expand. This is mainly driven by the company's ability to leverage its higher sales volumes with suppliers, leading to better discounts and rebates. Despite higher gross margins, we estimate Al Othaim's 2014E EBIT/net margin to remain flat on wage inflation concerns (hiring of more locals), in addition to higher cost associated with opening of new stores. However, we expect the OpEx pressure to decrease in the future, on better efficiencies and economies of scale.

- **Income from Associate/RE entity gaining traction:** During 2008–12, Al Othaim's income from associates (primarily from a 13.65% stake in its sister company that manages five malls) averaged around 10% of its reported net income. However, in 2013, this contribution increased to 14%, led by higher rents and increased malls under management. We believe the RE business will play a significant role in Al Othaim's bottom-line growth, especially after the addition of the Hail mall to its portfolio.

- **Upgrade to Overweight**: We upgrade Al Othaim to overweight, given the strong earnings outlook supported by improvement in organic growth and new store openings. The stock trades on 2015E P/E of 19.0x, a 18.8% premium to peers, which we believe is justified provided the growth outlook.

Summary Financials

SR mn	2013A	2014E	2015E	2016E	2017E	CAGR (%)
Revenues	4,580	5,331	6,073	6,693	7,462	13.0
Gross profit	771	903	1,032	1,140	1,279	13.5
Gross margin (%)	16.8	16.9	17.0	17.0	17.1	
EBIT	172	205	237	267	311	15.9
EBIT margin (%)	3.8	3.8	3.9	4.0	4.2	
Net income	192	224	261	297	346	15.8
Net margin (%)	4.2	4.2	4.3	4.4	4.6	
EPS (SR)	4.28	4.99	5.80	6.60	7.70	15.8

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price (SR)	127.1
Current price (SR)	110.2

STOCK DETAILS

M52-week range H/L (SR)	115/59
Market cap ($ mn)	1,324
Shares outstanding (mn)	45
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.9)	7.4	65.1
Rel. to market	(4.6)	(7.4)	29.7

Avg daily turnover (mn)	SR	US$
3M	42.7	11.4
12M	37.1	9.9

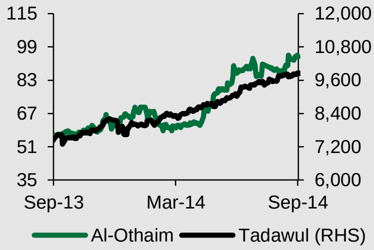
Reuters code	4001.SE
Bloomberg code	ALOTHAIM AB
	www.othaimmarkets.com

VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	25.8	22.1	19.0
P/B (x)	6.2	5.2	4.3
EV/EBITDA (x)	12.2	16.4	14.1
Div Yield (%)	1.4	1.4	1.4

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Why do we upgrade Al Othaim to Overweight?

We upgraded Al Othaim to Overweight given the strong fundamentals, growth outlook (organic and expansions) and changes in other valuation metrics since our last update in 1Q14. We have revised our estimates upwards in terms of organic growth and margin outlook. This is due to better than expected 2Q14 earnings, and management feedback. However, we remain conservative on areas such as store expansions due to possible execution risks.

High single-digit organic growth …

- We believe that favorable demographics and increasing income supports a strong outlook for the Saudi retail sector. Due to these drivers, Al Othaim has managed to achieve a high organic growth rate of 9%, with management forecasting a sustainable growth rate of 8% going forward. One of the reasons supporting this growth is the launch of a unique loyalty program Iktissab, which aims to retain customers and building a database to monitor the success of this program. The company has 700,000 active users with Iktissab that constitute around 60% of sales for the company.

…store expansions enhance this growth further

- Al Othaim management is targeting to open 15 new stores per year in Saudi (13 stores in FY13). These stores will be a combination of supermarkets and corner stores. Store openings YTD have been relatively weak (6 stores), with the management finding 10 stores to be a realistic figure for 2014. We assume that the company will be opening 7-10 stores going forward.

Positive margin outlook supported by higher volumes

- We believe Al Othaim could see margin expansion due to the expected sales growth from store opening and organic growth. We believe that higher volumes will better position Al Othaim to negotiate higher discounts/rebates with suppliers. This has been seen through better than expected margins in 2Q14. Accordingly, we have revised our estimates for margins upwards, with EBIT margins at 3.9% in 2014E (3.6% previous estimate) and rising to 4.5% in 2019E (3.9% previous estimate).

Exhibit 12: Change in organic growth

SR

	2014E	2015E	2016E	2017E	2018E	2019E
Productivity (New)	21.82	23.35	24.28	25.26	26.01	26.79
Productivity (Old)	21.42	22.71	23.62	24.56	25.30	26.06

Source: NCBC Research estimates

Exhibit 13: Change in margins

EBIT %

	2014E	2015E	2016E	2017E	2018E	2019E
EBIT Margins (New)	3.8	3.9	4.0	4.2	4.3	4.5
EBIT Margins (Old)	3.6	3.6	3.7	3.7	3.8	3.9

Source: NCBC Research estimates

Financials

Exhibit 14: Income statement

In SR mn, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
Net sales	**4,105**	**4,580**	**5,331**	**6,073**	**6,693**	**7,462**	**8,148**
% change	0.3	11.6	16.4	13.9	10.2	11.5	9.2
Gross income	**685**	**771**	**903**	**1,032**	**1,140**	**1,279**	**1,405**
Gross margin (%)	16.7	16.8	16.9	17.0	17.0	17.1	17.2
Operating expenses	569	651	756	860	946	1,050	1,141
Operating profit	**156**	**172**	**205**	**237**	**267**	**311**	**353**
Operating margin	3.8	3.8	3.8	3.9	4.0	4.2	4.3
EBITDA	240	265	303	338	364	404	443
% change	3	10	14	12	8	11	10
Dep. & Amortization	84.1	92.5	97.9	101.0	97.3	93.6	89.9
Pre-tax profit	176	197	230	267	304	354	404
Tax (Zakat)	3.8	4.6	5.3	6.1	6.9	8.1	9.2
Reported net income	172	192	224	261	297	346	395
% change	14.4	12.0	16.7	16.3	13.8	16.6	14.0
Reported net margin %	4.2	4.2	4.2	4.3	4.4	4.6	4.8
Adjusted net income	**172**	**193**	**224**	**261**	**297**	**346**	**395**
Adjusted net margin %	4.2	4.2	4.2	4.3	4.4	4.6	4.8
Reported EPS (SR)	3.8	4.3	5.0	5.8	6.6	7.7	8.8
Adjusted EPS (SR)	**3.8**	**4.3**	**5.0**	**5.8**	**6.6**	**7.7**	**8.8**

Source: Company, NCBC Research estimates * Based on 230mn shares

Exhibit 15: Balance Sheet

In SR mn, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
Cash & cash equivalent	63	110	223	380	595	890	1,220
Other current assets	402	458	516	594	656	730	800
Investment in associate companies	174	194	220	251	287	328	376
Net fixed assets	580	712	809	846	879	908	934
Projects under construction	533	511	489	468	448	429	410
Total assets	**1,763**	**2,002**	**2,273**	**2,551**	**2,876**	**3,295**	**3,750**
Loans & short-term Murabaha	78	45	45	45	45	45	45
Current portion of long-term loan & Murabaha	105	78	83	44	38	33	30
Other current liabilities	757	888	1,024	1,159	1,265	1,410	1,537
Long-term loans & Murabaha	101	135	102	82	70	62	56
Other liabilities	41	48	55	63	71	79	88
Total liabilities	**1,083**	**1,195**	**1,308**	**1,394**	**1,488**	**1,629**	**1,756**
Share capital	225	225	225	225	225	225	225
Reserves & surplus	74	93	116	142	172	206	246
Shareholders' funds	680	806	962	1,156	1,386	1,664	1,992
Total equity & liab	**1,763**	**2,002**	**2,273**	**2,551**	**2,876**	**3,295**	**3,750**

Source: Company, NCBC Research estimates

Exhibit 16: Cash flow statement

In SR mn, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
Cash flow from op. (a)	228	338	406	428	446	519	550
Cash flow from inv.(b)	(139)	(197)	(198)	(145)	(144)	(144)	(144)
NOPLAT	168	200	232	261	304	345	391
WC	72	78	58	44	71	57	65
Capex	(204)	(171)	(114)	(108)	(102)	(96)	(97)
Depreciation	93	98	101	97	94	90	86
Free cash flow	129	204	276	294	365	396	444
Cash flow from fin.(c)	(69)	(94)	(96)	(126)	(87)	(80)	(76)
Debt	(47)	(27)	(28)	(58)	(19)	(13)	(8)
Net chg. in cash (a+b+c)	20	47	112	157	215	295	330
Cash at start of the year	44	63	110	223	380	595	890
Cash at end of the year	63	110	223	380	595	890	1,220

Source: Company, NCBC Research estimates

Exhibit 17: Key Ratios

Per share, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
EPS	3.8	4.3	5.0	5.8	6.6	7.7	8.8
FCF per share	3.0	3.4	5.1	6.8	7.3	9.1	9.9
Div per share	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Book value per share	15.1	17.9	21.4	25.7	30.8	37.0	44.3
Valuation ratios (x)							
P/E	28.9	25.8	22.1	19.0	16.7	14.3	12.6
P/FCF	36.5	32.5	21.7	16.2	15.0	12.2	11.1
P/BV	7.3	6.2	5.2	4.3	3.6	3.0	2.5
EV/sales	0.3	0.5	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	5.1	12.2	16.4	14.1	12.4	10.4	8.7
Div yield (%)	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Profitability ratios (%)							
Gross margins	16.7	16.8	16.9	17.0	17.0	17.1	17.2
Operating margin	3.8	3.8	3.8	3.9	4.0	4.2	4.3
EBITDA margins	5.9	5.8	5.7	5.6	5.4	5.4	5.4
Net profit margins	4.2	4.2	4.2	4.3	4.4	4.6	4.8
ROE (%)	28.4	25.9	25.4	24.6	23.4	22.7	21.6
ROA (%)	10.0	10.2	10.5	10.8	10.9	11.2	11.2
Liquidity ratios							
Current ratio	0.5	0.6	0.6	0.8	0.9	1.1	1.3
Quick Ratio	0.2	0.2	0.3	0.4	0.6	0.7	0.9
Operating ratios (days)							
Inventory	34	35	31	32	33	33	34
Receivables outstanding	7	7	9	9	8	8	8
Payables outstanding	57	59	58	57	57	57	57
Operating cycle	41	42	40	41	41	41	42
Cash cycle	(16)	(17)	(17)	(16)	(15)	(15)	(15)

Source: Company, NCBC Research estimates

RETAIL | SEPTEMBER 2014

AL HOKAIR

NCB CAPITAL

CHANGE IN RATING

Downgrade to Neutral on fair valuations

We downgrade Al Hokair to Neutral with our PT up by 21.4% to SR123.5. The earnings outlook remains strong driven by aggressive store expansions and improved margins, with the international segment being the major driver. However, the stock is up 75.4% YTD (vs. TASI at 28%) and trades at a fair 30.4x FY15E P/E. Execution risk on new stores and volatility in other income remain the key concerns.

- **Growth outlook remains strong:** We expect Al Hokair to report a strong CAGR of 18% in net income from FY14–19E. We believe top-line growth will be driven by store expansions and high organic growth. In-line with this, the company has announced in September 2014, the acquisition of 42 woman apparel stores from Al Danah Trading Group for SR383mn.Moreover, the long-term margin stability/expansion will support bottom-line growth. The strong outlook for the fashion retail market in the region and Al Hokair's strong market presence should also support the company's growth outlook.
- **International segment a key growth area:** An increasing proportion of Al Hokair's revenues and profits are generated from international stores, with international performance improving strongly. We believe this strong performance (revenues up 105% YoY in the last quarter) was primarily due to an increase in efficiencies of its 186 stores (51% of total stores in FY14) that opened in the past two years. The management is targeting one-third of total revenues and stores from the international segment by FY17E vs. the current contribution of 19% and 22%, respectively. We expect revenues from this segment to increase at a CAGR of 30% to SR3.9bn in FY14–19E.
- **Expansion in EBIT margins going forward:** EBIT margins currently stand at 12.5–13.1%. Al Hokair has a long-term target of 16–17%, on cost savings in rents, logistics, and various other operational efficiencies. Moreover, the company aims to focus on higher-margin segments, i.e. value fashion segments. We believe the successful execution of top-line growth plans will be combined with EBIT margin expansions. We expect EBIT margin to grow to 14.1% in FY18E vs. 13.1% in FY14, and an average of 11.4% in FY09–13.
- **Fair valuations; downgrade to Neutral:** Although the outlook of Al Hokair remains strong, we downgrade it to Neutral as we believe all the positives are priced in. Al Hokair currently trades at a 2015E P/E of 30.4x compared to sector average of 24.5x.

Summary Financials

SR mn	FY14A	FY15E	FY16E	FY17E	FY18E	CAGR (%)
Revenues	5,482	6,984	8,181	9,459	10,752	18.3
Operating income	720	889	1,079	1,296	1,518	20.5
Operating margin (%)	13.1	12.7	13.2	13.7	14.1	
Net income	771	843	1,057	1,278	1,510	18.3
Net margin (%)	14.1	12.1	12.9	13.5	14.0	
EPS (SR)	3.67	4.02	5.03	6.09	7.19	18.3

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	**123.5**
Current price (SR)	**121.9**

STOCK DETAILS

M52-week range H/L (SR)	123/59
Market cap ($mn)	6,837
Shares outstanding (mn)	210
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.1	21.7	82.3
Rel. to market	(2.7)	6.9	46.8

Avg daily turnover (mn)	SR	US$
3M	33.8	9.0
12M	28.2	7.5

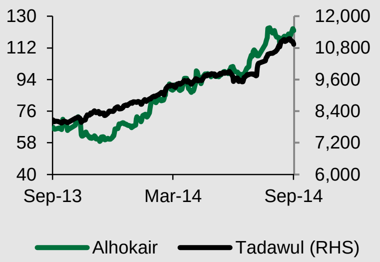
Reuters code	4240.SE
Bloomberg code	ALHOKAIR AB
	www.fawazalhokair.com

VALUATION MULTIPLES

	FY14A	FY15E	FY16E
P/E (x)	33.2	30.4	24.2
P/B (x)	10.6	9.2	7.6
EV/EBITDA (x)	27.8	22.3	18.7
Div Yield (%)	1.8	1.8	1.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Financials

Exhibit 18: Income statement

In SR mn, unless otherwise stated

	FY13	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
Net sales	4,659	5,482	6,984	8,181	9,459	10,752	12,076
% change	45.5	17.7	27.4	17.1	15.6	13.7	12.3
EBITDA	758	946	1,177	1,403	1,651	1,904	2,168
EBITDA margin (%)	16.3	17.3	16.9	17.2	17.5	17.7	18.0
Dep. & Amortization	174	226	288	324	355	385	412
EBIT	584	720	889	1,079	1,296	1,518	1,756
% change	32.9	23.3	23.4	21.4	20.1	17.2	15.7
EBIT margin (%)	12.5	13.1	12.7	13.2	13.7	14.1	14.5
Other income	99	144	66	71	78	88	98
Interest income, net	(34)	(50)	(65)	(35)	(26)	(15)	(5)
Pre-tax profit	649	814	890	1,115	1,348	1,592	1,850
Tax (Zakat)	(31)	(42)	(46)	(57)	(70)	(82)	(95)
Net income	620	771	843	1,057	1,278	1,510	1,754
% change	38.5	24.5	9.3	25.3	21.0	18.1	16.2
Net margin (%)	13.3	14.1	12.1	12.9	13.5	14.0	14.5
EPS (SR)	2.95	3.67	4.02	5.03	6.09	7.19	8.35

Source: Company, NCBC Research estimates

Exhibit 19: Balance sheet

In SR mn, unless otherwise stated

	FY13	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
Cash & cash equivalent	134	101	(35)	154	406	1,095	2,074
Other current assets	1,768	2,411	2,726	3,141	3,644	4,083	4,611
Investments	239	260	266	274	285	300	320
Net fixed assets	1,350	1,616	1,824	1,836	1,824	1,741	1,587
Other assets	578	628	638	650	664	678	690
Total assets	**4,070**	**5,016**	**5,420**	**6,055**	**6,823**	**7,897**	**9,281**
Current portion of long-term debts	438	773	670	762	762	672	583
Other current liabilities	651	1,154	1,483	1,724	1,968	2,282	2,578
Long-term debt	872	566	361	65	(231)	(438)	(555)
Other liabilities	66	70	81	94	109	127	140
Total liabilities	2,027	2,563	2,595	2,646	2,608	2,644	2,747
Share capital	700	1,050	1,050	1,050	1,050	1,050	1,050
Reserves & surplus	251	328	413	518	646	797	972
Retained earnings	1,071	1,047	1,334	1,813	2,491	3,377	4,483
Shareholders' equity	2,022	2,426	2,797	3,381	4,187	5,224	6,505
Total equity & liab.	**4,070**	**5,016**	**5,420**	**6,055**	**6,823**	**7,897**	**9,281**

Source: Company, NCBC Research estimates

Exhibit 20: Cash flow statement

In SR mn, unless otherwise stated

	FY13	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
Cash flow from op. (a)	346	742	1,172	1,238	1,408	1,809	1,971
Cash flow from inv. (b)	(1,180)	(442)	(513)	(356)	(368)	(331)	(290)
NOPLAT	683	843	1,023	1,229	1,440	1,666	1,924
WC	(140)	14	(173)	(260)	(125)	(230)	(220)
Capex	(376)	(497)	(336)	(343)	(301)	(258)	(269)
Depreciation	226	288	324	355	385	412	437
Free cash flow	392	648	838	981	1,398	1,589	1,872
Cash flow from fin. (c)	770	(333)	(795)	(693)	(787)	(789)	(702)
Debt	771	29	(307)	(204)	(296)	(296)	(207)
Net chg. in cash (a+b+c)	1,163	316	44	288	611	800	1,170
Cash at start of the year	198	134	101	(35)	154	406	1,095
Cash at end of the year	134	101	(35)	154	406	1,095	2,074

Source: Company, NCBC Research estimates

Exhibit 21: Key ratios

Per share, unless otherwise stated

	FY13	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
EPS	3.0	3.7	4.0	5.0	6.1	7.2	8.4
FCF per share	5.6	6.2	4.0	4.7	6.7	7.6	8.9
Div. per share	1.0	2.3	2.3	2.3	2.3	2.3	2.3
Book value per share	9.6	11.6	13.3	16.1	19.9	24.9	31.0
Valuation ratios (x)							
P/E	41.3	33.2	30.4	24.2	20.0	17.0	14.6
P/FCF	32.6	19.7	15.3	13.0	9.2	8.1	6.8
P/BV	12.7	10.6	9.2	7.6	6.1	4.9	3.9
EV/Sales	5.6	4.8	3.8	3.2	2.7	2.3	2.0
EV/EBITDA	34.2	27.8	22.3	18.7	15.7	13.2	11.1
Div yield (%)	0.8	1.8	1.8	1.8	1.8	1.8	1.8
Profitability ratios (%)							
Gross margins	24.3	25.5	25.3	25.4	25.5	25.6	25.6
Operating margin	12.5	13.1	12.7	13.2	13.7	14.1	14.5
EBITDA margins	16.3	17.3	16.9	17.2	17.5	17.7	18.0
Net profit margins	13.3	14.1	12.1	12.9	13.5	14.0	14.5
ROE (%)	36.2	34.7	32.3	34.2	33.8	32.1	29.9
ROA (%)	18.6	17.0	16.2	18.4	19.9	20.5	20.4
Liquidity ratios							
Current ratio	1.7	1.3	1.3	1.3	1.5	1.8	2.1
Quick ratio	0.7	0.5	0.4	0.5	0.6	0.8	1.1
Operating ratios (days)							
Inventory	114	137	126	125	125	125	125
Receivables outstanding	0	0	0	0	0	0	0
Payables outstanding	35	49	49	49	48	50	51
Operating cycle	114	137	126	125	125	125	125
Cash cycle	79	88	77	76	77	75	74

Source: Company, NCBC Research estimates

EXTRA

NCB CAPITAL

COMPANY UPDATE

Organic growth and margin expansion key drivers

We remain Neutral on Extra with our PT up 17% to SR134.5. Results of 2Q14 show a continued trend of improvement, after the short-term pressures seen in 2013. We believe that earnings outlook remains strong with store openings, organic growth and margin expansions being the main drivers. Execution risk and price-led competition remain key concerns.

- **Expected recovery after short-term pressures:** We expect an improvement in Extra's performance following the short-term negative impacts from Saudisation. The company's revenues grew 1.3% YoY in 2Q14, despite exceptional sales (34%YoY) recorded in 2Q13 from a one-off 10th year anniversary event this supports our outlook on the company. We believe the outlook for Extra will be strong, given its high market share and the expected revival in demand for consumer electronics. With construction activities increasing, we believe that demand for white goods will rise. We expect Extra's earnings to increase at a CAGR of 11.4% during 2013–2018E.
- **Store openings and organic growth outlook key to top-line growth:** The strong outlook for Saudi retail sector and its on-going consolidation are the key drivers for store expansion. We expect Extra to open around three/four stores a year till 2018, leading to further increase in its market share. This expansion coupled with improving outlook for organic growth will support the company's top-line growth. We estimate revenues to increase at a CAGR of 10.5% during 2013–18E.
- **Margin improvement key to our outlook:** We believe margin outlook remains key for the profitability of Extra. In the past few years, the company's EBIT margins have been declining, largely due to pre-opening costs of new stores. However, margins were flat YoY in 1H14, indicating that the pressure is easing off. Only three new stores opened YTD vs. 20 in the past three years. We expect net margin to remain flat in 2H14; with any positive surprise from increases in margins being a key catalyst for the stock.
- **Fair valuations, relatively in-line with peers:** We remain Neutral on Extra with a PT of SR134.5. Organic growth and margins remains key to a sustainable outlook. The stock trades at a 17.5x 2015E P/E and a dividend yield of 2.9%. This yield is relatively in-line with peers.

Summary Financials

SR mn	2013A	2014E	2015E	2016E	2017E	CAGR (%)
Revenues	3,388	3,758	4,317	4,762	5,198	11.3
Gross profit	602	681	769	848	923	11.3
Gross margin (%)	17.8	18.1	17.8	17.8	17.8	
Operating profit	172	194	213	237	267	11.6
Operating margin (%)	5.1	5.2	4.9	5.0	5.1	
Net income	167	186	206	229	259	11.5
Net margin (%)	4.9	5.0	4.8	4.8	5.0	
EPS (SR)	5.58	6.21	6.86	7.63	8.63	11.5
DPS (SR)	3.00	3.50	3.50	4.50	4.75	12.2

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	134.5
Current price (SR)	119.7

STOCK DETAILS

M52-week range H/L (SR)	131/94
Market cap ($mn)	959
Shares outstanding (mn)	30
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.4)	(5.4)	1.0
Rel. to market	(3.2)	(20.2)	(34.5)

Avg daily turnover (mn)	SR	US$
3M	11.3	3.0
12M	12.7	3.4

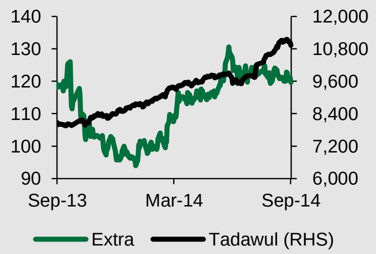
Reuters code	4003.SE
Bloomberg code	EXTRA AB
	www.extrastores.com

VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	21.5	19.3	17.5
P/B (x)	7.4	6.3	5.4
EV/EBITDA (x)	13.5	12.0	10.7
Div Yield (%)	2.5	2.9	2.9

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Financials

Exhibit 22: Income statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Revenues	**3,015**	**3,388**	**3,758**	**4,317**	**4,762**	**5,198**
% change	22.5	12.4	10.9	14.9	10.3	9.2
Cost of goods sold	(2,485)	(2,786)	(3,078)	(3,548)	(3,914)	(4,275)
Gross profit	**531**	**602**	**681**	**769**	**848**	**923**
Gross margin (%)	17.6	17.8	18.1	17.8	17.8	17.8
Operating expenses	(367)	(429)	(486)	(556)	(611)	(656)
EBITDA	**192**	**210**	**239**	**264**	**292**	**327**
EBITDA margin (%)	6.4	6.2	6.4	6.1	6.1	6.3
Dep. & Amortization	28	38	45	50	55	60
EBIT	163	172	194	213	237	267
EBIT margin (%)	5.4	5.1	5.2	4.9	5.0	5.1
Financing charges	0	(1)	(3)	(2)	(2)	(2)
Financial income	0	0	0	0	0	0
Other income	(0.0)	0.5	0.6	0.7	0.7	0.8
Pre-tax profit	163	172	192	211	235	266
Tax (Zakat)	(5)	(5)	(5)	(6)	(6)	(7)
Net income	**159**	**167**	**186**	**206**	**229**	**259**
(%)change	20.1	5.5	11.4	10.3	11.3	13.0
Net margin (%)	5.3	4.9	5.0	4.8	4.8	5.0
EPS (SR)	**5.29**	**5.58**	**6.21**	**6.86**	**7.63**	**8.63**

Source: Company, NCBC Research estimates

Exhibit 23: Balance sheet

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash and cash equivalents	48	35	15	54	116	222
Trade receivables	12	16	21	20	20	19
Due from related parties	0	0	0	0	0	0
Inventories	417	480	484	558	616	672
Pre-payment & other	78	63	60	64	69	75
Total current assets	556	594	583	698	823	991
Investment in a subsidiary	0	0	0	0	0	0
Property and equipment	390	459	488	525	535	531
Total non-current assets	391	459	488	525	535	531
Total assets	**946**	**1,053**	**1,071**	**1,223**	**1,358**	**1,522**
Medium term loans - cr portion	0	0	0	0	0	0
Trade payables and other liabilities	439	434	422	468	503	546
Total current liabilities	439	526	459	505	541	583
Medium-term loan	0	0	0	0	0	0
Other liabilities	35	39	44	52	58	65
Total non-current liabilities	35	39	44	52	58	65
Total liabilities	**474**	**565**	**503**	**557**	**599**	**649**
Share capital	240	300	300	300	300	300
Statutory reserves	32	49	68	88	111	137
Retained earnings	200	139	200	278	348	436
Shareholders' funds	473	488	568	667	759	873
Total equity & liab	**946**	**1,053**	**1,071**	**1,223**	**1,358**	**1,522**

Source: Company, NCBC Research estimates

Exhibit 24: Cash flow statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from op. (a)	153	153	218	233	265	306
Cash flow from inv.(b)	(109)	(107)	(77)	(87)	(66)	(55)
NOPLAT	189	207	230	260	289	312
WC	(18)	(31)	(26)	(19)	(24)	(23)
CAPEX	(74)	(87)	(66)	(55)	(40)	(41)
Depreciation	45	50	55	60	63	66
Free cash flow	142	140	194	245	289	314
Cash flow from fin.(c)	(61)	(59)	(162)	(107)	(137)	(144)
Net chg. in cash (a+b+c)	(17)	(13)	(20)	39	62	106
Cash at start of the year	65	48	35	15	54	116
Cash at end of the year	48	35	15	54	116	222

Source: Company, NCBC Research estimates

Exhibit 25: Key ratios

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Per share ratios (SR)						
EPS	5.3	5.6	6.2	6.9	7.6	8.6
FCF per share	1.2	1.4	4.7	4.7	6.5	8.2
Div per share	2.0	3.0	3.5	3.5	4.5	4.8
Book value per share	15.8	16.3	18.9	22.2	25.3	29.1
Valuation ratios (x)						
P/E	22.6	21.5	19.3	17.5	15.7	13.9
P/FCF	100.3	85.6	25.3	25.7	18.5	14.7
P/BV	7.6	7.4	6.3	5.4	4.7	4.1
EV/sales	0.9	0.8	0.8	0.7	0.6	0.5
EV/EBITDA	14.7	13.5	12.0	10.7	9.4	8.1
Div yield (%)	1.7	2.5	2.9	2.9	3.8	4.0
Profitability ratios (%)						
Gross margins	17.6	17.8	18.1	17.8	17.8	17.8
Operating margin	5.4	5.1	5.2	4.9	5.0	5.1
EBITDA margins	6.4	6.2	6.4	6.1	6.1	6.3
Net profit margins	5.3	4.9	5.0	4.8	4.8	5.0
ROE	33.6	34.3	32.8	30.9	30.2	29.6
ROA	15.9	15.8	16.3	15.9	15.9	16.1
Liquidity ratios						
Current ratio	1.2	1.3	1.3	1.4	1.4	1.4
Quick Ratio	0.2	0.2	0.2	0.2	0.2	0.2
Operating ratios (days)						
Inventory	61	63	57	57	57	57
Receivables outstanding	1	2	2	2	2	1
Payables outstanding	64	57	50	48	47	47
Operating cycle	63	65	59	59	59	59
Cash cycle	(2)	8	9	11	12	12

Source: Company, NCBC Research estimates

JARIR

NCB CAPITAL

COMPANY UPDATE

Margin expansion remains the key catalyst

We remain Neutral on Jarir with our PT increasing to SR196.5. Despite the opening of three new stores, the top-line growth was weak at 4% YoY in 1H14. This was primarily due to lower segmental demand from the consumer electronics segment (64% to total revenues). However, we believe margin expansion remains the key catalyst for the company. The outlook remains strong, but we believe Jarir is currently trading at fair valuations. The 2015E P/E stands at 20.8x, representing a 49% premium over peers.

- **Weak top-line growth due to lower segmental demand:** Jarir's revenues grew 4.0% YoY in 1H14, despite opening three new stores. This was mainly led by lower sales from the electronics segment, which contributes 64% to total revenues. However, we believe the growth outlook for the company remains strong, driven by new store openings and organic growth. We forecast Jarir's revenues to increase at a CAGR of 12% between 2013–18E.
- **Margin expansion to support profitability:** We believe the improvement in margins (gross margin up 44bps YoY in 2Q14) will continue as seen in the last few quarters. The company's previous margin contraction was primarily due to the sales from the electronics segment. With the stabilization of the sales-mix, as well as benefits from economies of scale, we expect strong top-line growth to be reflected at the bottom-line. We believe that net margin will stand at 13.0% in 2014E, with it rising to 13.4% by 2017E.
- **New store openings important for growth:** Jarir opened three new stores YTD vs. its target of seven new stores in 2014. This follows no new store openings in 2013. We believe that new store openings are a positive top-line growth driver that will further improve Jarir's outlook. We conservatively estimate five new store openings to a total of 37 stores in 2014. We expect new stores to account for more than half of the 8.0% expected revenue growth in 2014. Any positive surprises on store openings will provide a further upside for the stock.
- **Fairly priced at current levels:** We are currently neutral on Jarir with a PT of SR196.5. We believe Jarir's strong outlook supports the current premium of 49% to peers. The company currently trades at 2015E P/E is 20.8x, which we view as a fair valuation.

Summary Financials

SR mn	2013A	2014E	2015E	2016E	2017E	CAGR (%)
Revenues	5,243	5,665	6,652	7,640	8,449	12.7
Gross profit	794	893	1,065	1,242	1,365	14.5
Gross margin (%)	15.2	15.8	16.0	16.3	16.2	
EBIT	648	727	877	1,037	1,133	15.0
EBIT margin (%)	12.4	12.8	13.2	13.6	13.4	
Net income	653	738	885	1,040	1,133	14.8
Net margin (%)	12.5	13.0	13.3	13.6	13.4	
EPS (SR)	7.3	8.2	9.8	11.6	12.6	14.8

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	**196.5**
Current price (SR)	**204.3**

STOCK DETAILS

M52-week range H/L (SR)	213/145
Market cap ($ mn)	4,909
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.6)	1.4	40.1
Rel. to market	(3.3)	(13.4)	4.7

Avg daily turnover (mn)	SR	US$
3M	14.4	3.9
12M	23.2	6.2

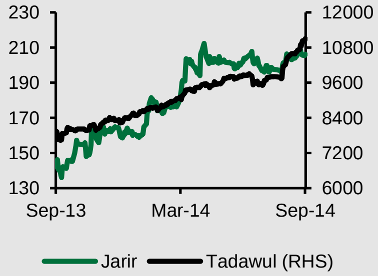
Reuters code	4190.SE
Bloomberg code	JARIR AB
	www.jarirbookstore.com

VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	28.1	24.9	20.8
P/B (x)	15.7	13.9	12.3
EV/EBITDA (x)	27.5	24.6	20.4
Div Yield (%)	2.8	3.2	3.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Financials

Exhibit 26: Income statement

In SR mn, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
Revenue	**4,634**	**5,243**	**5,665**	**6,652**	**7,640**	**8,449**	**9,246**
% change	11.7	13.1	8.0	17.4	14.9	10.6	9.4
COGS	3,940	4,448	4,772	5,587	6,398	7,084	7,766
Gross income	**694**	**794**	**893**	**1,065**	**1,242**	**1,365**	**1,480**
Gross margin (%)	15.0	15.2	15.8	16.0	16.3	16.2	16.0
Operating expenses	132	146	166	188	205	232	254
Operating expenses as % of sales	2.9	2.8	2.9	2.8	2.7	2.8	2.8
Operating profit	562	648	727	877	1,037	1,133	1,226
Operating margin	12.1	12.4	12.8	13.2	13.6	13.4	13.3
EBITDA	**584**	**669**	**749**	**903**	**1,067**	**1,166**	**1,262**
Interest income, net	(5)	(7)	(5)	(3)	(3)	(3)	(1)
Pre-tax profit	588	674	763	915	1,076	1,172	1,259
Tax (Zakat)	18	21	26	31	36	39	42
Net income	**570**	**653**	**738**	**885**	**1,040**	**1,133**	**1,217**
% change	11.1	14.6	12.9	19.9	17.6	8.9	7.4
Net margin	12.3	12.5	13.0	13.3	13.6	12.6	12.6
EPS (SR)	**6.33**	**7.26**	**8.20**	**9.83**	**11.56**	**12.59**	**13.52**

Source Company, NCBC Research estimates

Exhibit 27: Balance sheet

In SR mn, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
Cash & cash equivalents	111	86	32	19	16	32	24
Other current assets	1,022	1,088	1,120	1,346	1,593	1,761	1,970
Investments	6	5	5	4	4	3	2
Net fixed assets	814	994	1,122	1,245	1,350	1,460	1,575
Other assets	28	28	28	28	28	28	28
Total assets	**1,981**	**2,201**	**2,306**	**2,643**	**2,991**	**3,284**	**3,599**
Due to banks	0	0	0	0	0	0	0
Other current liabilities	680	657	718	861	993	1,093	1,183
Long-term loans	200	125	58	50	75	42	8
Other liabilities	58	77	98	106	122	136	151
Total liabilities	**955**	**1,028**	**985**	**1,144**	**1,284**	**1,348**	**1,419**
Share capital	600	900	900	900	900	900	900
Reserves & surplus	426	273	421	599	808	1,035	1,280
Shareholders' funds	1,026	1,173	1,321	1,499	1,708	1,935	2,180
Total equity & liab.	**1,981**	**2,201**	**2,306**	**2,643**	**2,991**	**3,284**	**3,599**

Source: Company, NCBC Research estimates

Exhibit 28: Cash flow statement

In SR mn, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
Cash flow from op. (a)	553	591	810	835	971	1,113	1,149
Cash flow from inv. (b)	(93)	(143)	(150)	(148)	(135)	(143)	(151)
NOPLAT	628	702	847	1,003	1,095	1,185	1,279
WC	(89)	29	(84)	(115)	(67)	(119)	(89)
Capex	(232)	(150)	(148)	(135)	(143)	(151)	(160)
Depreciation	21	22	26	30	34	37	40
Free cash flow	328	604	641	783	918	951	1,070
Cash flow from fin. (c)	(408)	(474)	(715)	(699)	(840)	(955)	(1,006)
Debt	42	33	(125)	8	(8)	(50)	(33)
Net chg. in cash (a+b+c)	51	(25)	(54)	(12)	(3)	23	23
Cash at start of the year	60	111	86	32	19	16	32
Cash at end of the year	111	86	32	19	16	32	24

Source: Company, NCBC Research estimates

Exhibit 29: Key ratios

Per share, unless otherwise stated

	2012	2013	2014E	2015E	2016E	2017E	2018E
EPS	6.3	7.3	8.2	9.8	11.6	12.6	13.5
FCF per share	9.2	6.6	9.0	9.3	10.8	12.4	12.8
Cash EPS	9.9	7.5	8.4	10.1	11.9	13.0	13.9
Div. per share	5.2	5.8	6.6	7.9	9.2	10.1	10.8
Book value per share	11.4	13.0	14.7	16.7	19.0	21.5	24.2
Valuation ratios (x)							
P/E	32.3	28.1	24.9	20.8	17.7	16.2	15.1
P/FCF	22.2	31.1	22.7	22.0	18.9	16.5	16.0
P/BV	17.9	15.7	13.9	12.3	10.8	9.5	8.4
EV/Sales	1.3	3.5	3.2	2.8	2.4	2.2	2.0
EV/EBITDA	10.5	27.5	24.6	20.4	17.3	15.8	14.5
Div. yield (%)	5.1	2.8	3.2	3.8	4.5	4.9	5.3
Profitability ratios (%)							
Gross margins	15.0	15.2	15.8	16.0	16.3	16.2	16.0
Operating margin	12.1	12.4	12.8	13.2	13.6	13.4	13.3
EBITDA margins	12.6	12.8	13.2	13.6	14.0	13.8	13.7
Net profit margins	12.3	12.5	13.0	13.3	13.6	13.4	13.2
ROE (%)	59.0	59.4	59.2	62.8	64.9	62.2	59.1
ROA (%)	30.8	31.2	32.7	35.8	36.9	36.1	35.4
Liquidity ratios							
Current ratio	1.6	1.5	1.5	1.4	1.5	1.6	1.6
Quick ratio	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Operating ratios (days)							
Inventory	57	54	49	50	51	51	52
Receivables outstanding	20	18	18	19	20	20	21
Payables outstanding	53	43	46	46	47	47	46
Operating cycle	78	72	67	69	72	71	73
Cash cycle	25	28	21	23	24	24	27

Source: Company, NCBC Research estimates

INDUSTRIAL INVESTMENT | SEPTEMBER 2014

SHAKER

COMPANY UPDATE

Outlook improves as market stabilizes

We remain Overweight on Shaker with a PT of SR103.0. We believe that demand for ACs and other household appliances will increase, driven by the relative pick-up in the construction sector. We expect margins to improve supported by lower commodity prices and economies of scale. These factors, coupled with higher income from associates will improve Shaker's profitability. The company is trading at an attractive 2015E P/E of 13.5x.

- **Earnings growth outlook to remain strong:** We expect Shaker's 2H14 net income to increase significantly to SR70.7mn vs. SR0.4mn in 2H13, primarily driven by a SR50mn one-off provision charged in 4Q13 on new energy requirement concerns. We believe the top-line growth will start recovering upon the stabilization of the AC market. The earnings growth outlook for Shaker remains strong and we estimate a CAGR of 2.8% over 2013–18E.
- **Stable/lower commodity prices to aid margins:** With raw materials accounting for 60–70% of COGS, we believe the outlook for copper plays a significant role in the margin outlook. Copper prices declined 4% YTD and with a stable outlook, we expect it to support margin expansion. However, higher OpEx from wage inflation pressured margins, as seen in 1H14. However, due to higher volumes and economies of scale, we expect the operational cost as a percentage of sales to decline going forward.
- **Government contracts and positive housing outlook supports demand:** The government's on-going focus to investment in infrastructure remains a key driver of home appliances and AC market. Recently, the Ministry of Education granted a contract worth SR38.3mn to supply LG air conditioners to a number of schools. We believe the increasing population and housing projects will remain the key focus going forward, supporting ACs demand.
- **Remain Overweight on attractive valuations:** We remain Overweight on Shaker with a PT of SR103.0. We believe the outlook of the AC market remains positive, with Shaker being a key beneficiary of the ongoing government spending benefiting from its large market share in the AC market. The stock is trading at an attractive valuation of 13.5x P/E 2015E, at a discount of 2.3% to peers.

Summary Financials

SR mn	2013A	2014E	2015E	2016E	2017E	CAGR (%)
Sales	1,741	1,485	1,624	1,725	1,830	1.3
Gross income	500	398	438	469	499	0.0
Gross margin (%)	28.7	26.8	27.0	27.2	27.2	
EBIT	196	136	153	170	181	(2.0)
EBIT margin (%)	11.3	9.1	9.4	9.8	9.9	
Net income	186	474	222	241	256	8.4
Net margin (%)	10.7	31.9	13.7	14.0	14.0	
EPS (SR)	5.30	13.54	6.34	6.89	7.33	8.4

Source: Company, NCBC Research

OVERWEIGHT

Target price (SR)	**103.0**
Current price (SR)	**85.7**

STOCK DETAILS

M52-week range H/L (SR)			90/69
Market cap ($mn)			800
Shares outstanding (mn)			35
Listed on exchanges			TADAWUL
Price perform (%)	**1M**	**3M**	**12M**
Absolute	(1.3)	14.2	3.2
Rel. to market	(4.0)	(0.6)	(32.3)

Avg. daily turnover (mn)	**SR**	**US$**
3M	18.6	5.0
12M	25.4	6.8

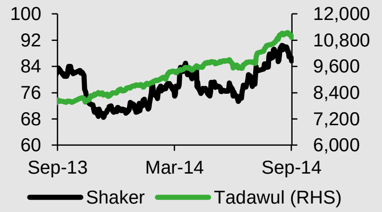
Reuters code	1214.SE
Bloomberg code	SHAKER AB
	www.shaker.com.sa

VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	16.2	6.3	13.5
P/B (x)	4.6	2.9	2.7
EV/EBITDA (x)	14.8	15.8	13.9
Div Yield (%)	2.9	5.3	5.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Financials

Exhibit 30: Income statement

In SR mn, unless otherwise stated

	2012*	2013*	2014E	2015E	2016E	2017E	2018E
Sales	**1,738**	**1,741**	**1,485**	**1,624**	**1,725**	**1,830**	**1,933**
% change	11.0	0.2	(14.7)	9.4	6.2	6.1	5.6
Costs of goods sold	(1,218)	(1,242)	(1,087)	(1,186)	(1,256)	(1,332)	(1,407)
Gross profit	**520**	**500**	**398**	**438**	**469**	**499**	**527**
Gross margin (%)	29.9	28.7	26.8	27.0	27.2	27.2	27.2
Operating expenses	(280)	(303)	(262)	(285)	(299)	(318)	(336)
EBITDA	270	226	169	190	207	220	231
EBITDA margin (%)	15.5	13.0	11.4	11.7	12.0	12.0	11.9
Dep. & Amortization	30	30	34	37	37	39	40
EBIT	**240**	**196**	**136**	**153**	**170**	**181**	**191**
EBIT margin (%)	13.8	11.3	9.1	9.4	9.8	9.9	9.9
Other income	2	1	1	1	1	1	1
Financial charge	(16)	(19)	(14)	(11)	(12)	(13)	(14)
Share of result of an associate	0	0	5	1	1	1	1
Pre-tax profit	226	179	439	143	159	169	178
Tax (Zakat)	(17)	(22)	(32)	(12)	(14)	(14)	(16)
Net income before minority intt.	210	217	507	240	261	277	292
Minority interest	(22)	(32)	(33)	(18)	(20)	(21)	(22)
Net income	**188**	**186**	**474**	**222**	**241**	**256**	**270**
% change	4.1	(1.1)	155.3	(53.2)	8.6	6.4	5.3
Net margin (%)	10.8	10.7	31.9	13.7	14.0	14.0	14.0
EPS (SR)	**5.36**	**6.73**	**4.61**	**6.34**	**6.89**	**7.33**	**7.71**

Source: NCBC Research estimates, *Historical years include the consolidated LG Shaker

Exhibit 31: Balance sheet

In SR mn, unless otherwise stated

	2012*	2013*	2014E	2015E	2016E	2017E	2018E
Cash and cash equivalents	75	89	710	663	727	811	889
Accounts receivable & prepayment	347	439	211	231	249	267	285
Inventories	630	648	491	536	570	608	645
Total current assets	1,052	1,176	1,412	1,430	1,546	1,685	1,819
Investment in an associate	5	12	16	17	18	19	19
Property and equipment	300	301	287	264	236	203	169
Intangible asset	0	0	0	0	0	0	0
Total non-current assets	305	313	303	281	254	221	189
Total assets	**1,357**	**1,489**	**1,716**	**1,711**	**1,800**	**1,907**	**2,008**
Due to banks	412	387	333	264	286	319	348
Accounts payable & accruals	199	201	100	97	96	102	108
Zakat & income tax payable	13	19	19	19	19	19	19
Cr portion of long-term loan	26	18	16	12	9	7	5
Total current liabilities	650	624	468	392	410	447	479
Employee end of service benefit	31	35	30	33	35	37	39
Tax provisions	0	0	0	0	0	0	0
Term loans	43	41	34	29	22	16	11
Total non-current liabilities	74	75	65	62	57	53	51
Total liabilities	**724**	**699**	**533**	**454**	**467**	**500**	**530**
Share capital	350	350	350	350	350	350	350
Statutory reserves	66	79	126	148	173	175	175
Retained earnings	112	225	554	596	638	700	760
Shareholders' funds	528	654	1,030	1,095	1,161	1,225	1,285
Minority interest	105	136	153	162	172	182	193
Total equity & liab	**1,357**	**1,489**	**1,716**	**1,711**	**1,800**	**1,907**	**2,008**

Source: NCBC Research estimates, *Historical years include the consolidated LG Shaker

Exhibit 32: Cash flow statement

In SR mn, unless otherwise stated

	2012*	2013*	2014E	2015E	2016E	2017E	2018E
Cash flow from op. (a)	133	148	815	212	247	268	283
Cash flow from inv.(b)	(39)	(38)	(20)	(13)	(10)	(6)	(6)
NOPLAT	225	218	240	260	278	292	308
WC	(108)	283	(67)	(53)	(50)	(50)	(51)
Capex	(32)	(20)	(13)	(10)	(6)	(6)	(6)
Depreciation	30	34	37	37	39	40	40
Free cash flow	116	516	196	235	261	276	291
Cash flow from fin.(c)	(80)	(36)	(235)	(245)	(173)	(178)	(199)
Net chg. in cash (a+b+c)	14	74	561	-47	64	84	79
Cash at start of the year	61	75	149	710	663	727	811
Cash at end of the year	75	149	710	663	727	811	889

Source: NCBC Research estimates, *Historical years include the consolidated LG Shaker

Exhibit 33: Key Ratios

Per share, unless otherwise stated

	2012*	2013*	2014E	2015E	2016E	2017E	2018E
Per share ratios (SR)							
EPS	5.4	5.3	13.5	6.3	6.9	7.3	7.7
FCF per share	2.8	3.3	14.7	5.6	6.7	7.5	7.9
Div per share	4.0	2.5	4.5	4.5	5.0	5.5	6.0
Book value per share	15.1	18.7	29.4	31.3	33.2	35.0	36.7
Valuation ratios (x)							
P/E	16.0	16.2	6.3	13.5	12.4	11.7	11.1
P/FCF	31.1	25.9	5.8	15.3	12.7	11.5	10.9
P/BV	5.7	4.6	2.9	2.7	2.6	2.4	2.3
EV/sales	2.0	1.9	1.8	1.6	1.5	1.4	1.3
EV/EBITDA	12.6	14.8	15.8	13.9	12.5	11.5	10.7
Div yield (%)	4.7	2.9	5.3	5.3	5.8	6.4	7.0
Profitability ratios (%)							
Gross margins	29.9	28.7	26.8	27.0	27.2	27.2	27.2
Operating margin	13.8	11.3	9.1	9.4	9.8	9.9	9.9
EBITDA margins	15.5	13.0	11.4	11.7	12.0	12.0	11.9
Net profit margins	10.8	10.7	31.9	13.7	14.0	14.0	14.0
ROE (%)	35.5	28.4	46.0	20.3	20.8	20.9	21.0
ROA (%)	13.2	11.6	27.7	12.6	13.0	13.1	13.4
Liquidity ratios							
Current ratio	4.9	5.4	7.1	7.9	8.5	8.6	8.6
Quick Ratio	1.7	2.2	2.1	2.4	2.6	2.6	2.6
Operating ratios (days)							
Inventory	189	190	165	165	166	167	167
Receivables outstanding	73	92	52	52	53	53	54
Payables outstanding	60	59	33	30	28	28	28
Operating cycle	262	283	217	217	218	220	221
Cash cycle	202	224	183	187	190	192	193

Source: NCBC Research estimates, *Historical years include the consolidated LG Shaker

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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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