

KEY DATA

Fair Value per Share (SAR)	92.5
Closing Price (SAR)*	90.0
52-week High / Low (SAR)	91.5/46.1
YTD / 12-month Return	39%/68%
P/E (TTM)	12.9
Shares Outstanding (million)	70
Market Cap (SAR million)	6,300
Free Float	30.0%
Reuters / Bloomberg Code	4240.SE / ALHOKAIR AB

*Prices as of August 04, 2012. Sources: Bloomberg and NBK Capital

KEY METRICS

Fiscal Year Ends March	FY11/12	FY12/13F	FY13/14F	FY14/15F
EPS (SAR)	6.4	6.7	7.8	8.8
EPS Growth	42%	4%	17%	13%
P/E	14.1	13.5	11.6	10.2
Dividend Yield	2.2%	3.3%	3.9%	4.4%
EV/EBITDA	12.3	10.7	9.1	8.1
Revenue (SAR million)	3,203	3,823	4,525	5,149
Revenue Growth	24%	19%	18%	14%
EBITDA (SAR million)	539	623	726	816
EBITDA Growth	48%	16%	17%	12%
EBITDA Margin	16.8%	16.3%	16.0%	15.8%

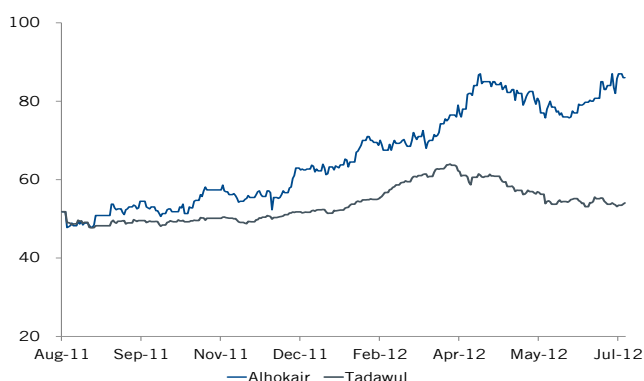
Prices as of August 04, 2012. Sources: Alhokair and NBK Capital

QUARTERLY FORECASTS

SAR million	2QFY12A	1QFY13A	2QFY13F	3QFY13F
Revenue	1,009	865	1,204	898
EBITDA	220	139	255	122

Sources: Company financial statements and NBK Capital

REBASED PERFORMANCE



Sources: Bloomberg and NBK Capital

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HIGHLIGHTS

12-Month Fair Value: SAR 92.5

Recommendation: Hold — Risk Level: 3**

Reason for Report: 1Q2012/13 Results Update

- Recent results came in ahead of our expectations, mainly on higher sales.** The 1Q2012/13 sales grew 19% YoY to SAR 865 million (11% higher than our forecast). EBITDA stood at SAR 139 million (a 14% YoY increase) and beat our forecast by 8%. However, EBITDA margins declined 70 bps YoY to 16.1%, driven by higher SG&A expenses on aggressive expansion across all markets. Below the operating line, net profit was significantly boosted by SAR 30 million of other income (including forex gains and investment income, which is usually volatile) and led to 48% YoY growth in net profit, to SAR 121 million.
- The 16% YoY domestic sales growth in 1Q2012/13 was impressive and reassuring, while international operations continue to be ramped up.** The decent 4% YoY like-for-like (LFL) sales growth and the opening of 42 new stores drove the sustained double-digit sales growth in the domestic market. We believe the ongoing Saudization initiatives continue to support the growth momentum. The company also remains aggressive in expanding its international footprints and entered Georgia with 19 stores in 1Q2012/13. Alhokair also opened 24 other new stores across different international locations during the quarter.
- Saudization and rapid expansion will provide continuous support to sales growth in the near future.** The company plans to expand further and open more than 200 new stores across all locations during the remainder of FY2012/13, including further penetration into the lucrative CIS region with the launch of operations in Armenia in 3Q2012/13. Overall, we expect FY2012/13 sales to grow by 19% YoY to SAR 3.8 billion (2% higher than our earlier forecast). However, we expect continuous pressure from SG&A expenses due to ongoing expansion and forecast EBITDA growth of 16% YoY to SAR 623 million (3% higher than our earlier forecast).
- We have increased our fair value to SAR 92.5** from SAR 86.5 earlier, which represents a 3% upside from the last close. Correspondingly, **we assign a “Hold” recommendation** from an “Accumulate” earlier. The stock has rallied 19% since our initiation on 1 April 2012 and is up 39% YTD. We continue to like the company and favor the Saudi retail story, however, we believe, much of the growth potential is already priced-in at these levels.

**Please refer to page 6 for recommendations and risk ratings.

RECENT RESULTS CONFIRM POSITIVE GROWTH OUTLOOK

Alhokair’s latest results show sustained double-digit sales growth, which confirms our overall positive outlook on the Saudi branded apparel retail industry. Sales grew by an impressive 19% YoY in 1Q2012/13, which was significantly higher than our expectations due to ongoing expansion and decent like-for-like growth on the very high comparable base of last year. In addition to favorable economic and attractive demographic drivers, the industry is currently benefiting from an ongoing Saudization drive, which is helping boost disposable income among Saudi households. Alhokair also continues to expand aggressively further into the Commonwealth of Independent States (CIS) region, which will support the overall growth momentum for the company over the near-to-medium-term. Therefore, we expect Alhokair’s sales to remain on a double-digit growth trajectory over the coming quarters.

Figure 1 1Q2012/13 Financial Performance

SAR million	1Q2011/12A	1Q2012/13A	YoY change	1Q2012/13F	Variance
Sales	725	865	19%	779	11%
Gross profit	335	406	21%	na	na
Gross profit margin	46.2%	47.0%			
EBITDA	121	139	14%	129	8%
EBITDA margin	16.8%	16.1%		16.6%	
Other income	2	30	1671%		
Net profit	82	121	48%	na	na

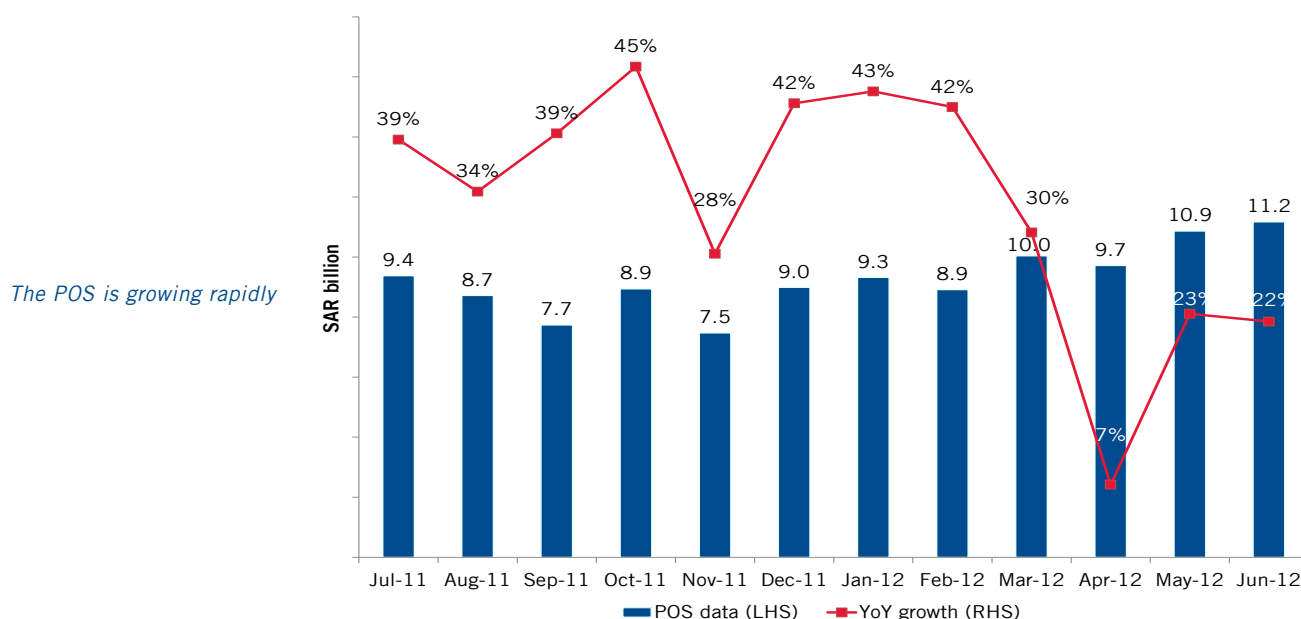
Impressive sales growth and operating performance; significant non-operating income boosted growth in net profit

Sources: Alhokair and NBK Capital

Point of sales data continue to demonstrate resilience in retail sales in Saudi Arabia

The latest banking sector data from the Saudi Arabian Monetary Agency (SAMA) show that the point-of-sales (POS) data continue to grow by double digits, demonstrating the resilience of the Saudi retail market.

Figure 2 Saudi Point of Sales Data (Monthly)



The POS is growing rapidly

Source: SAMA

Saudization initiatives are helping grow household income levels and improve consumer sentiment

The Saudi government's ongoing Saudization initiatives (salary increases, workforce quotas, curbs on visas for expatriate workers, etc.) are leading to higher salary levels for Saudi nationals along with growing disposable income in general and helping boost the overall consumer sentiment in Saudi Arabia. We remain of the view that the rise in disposable income should find its way into spending on consumer discretionary goods, including apparel.

Alhokair's sales: Aggressive expansion in local as well as international markets

Strong and sustained growth in domestic operations

Alhokair's sales grew 19% YoY in 1Q2012/13 to SAR 865 million, beating our forecast by 11% as the company remains a beneficiary of rising income levels in Saudi Arabia. Sales in Saudi Arabia rose 16% YoY (domestic sales contribute 87% of total sales), helped by 4% LFL growth and the addition of 42 new stores in the country. This suggests that while LFL grew at a decent pace (broadly similar to our expectations), quicker-than-expected productivity gains at newly opened stores supported sustained high growth in domestic sales and helped beat our overall sales forecast by a significant margin.

Further expansion into the attractive yet under-penetrated CIS region

Alhokair also continues to expand internationally, primarily in the CIS region. The company started trading in Georgia in 1Q2012/13 and opened 19 stores in the country during the quarter. Alhokair also expanded aggressively in other international markets, including Azerbaijan, Kazakhstan, Morocco, and the US, and opened 24 new stores in various international locations, in addition to 19 stores in Georgia. Overall, international sales grew 52% YoY, and currently contribute 13% to total sales compared to 8% in FY2011/12. The company is also planning to enter Armenia in 3Q2012/13, further penetrating into the CIS region.

Alhokair aims to open more than 200 stores across all markets, including around 120 stores in Saudi Arabia, during the rest of FY2012/13. Positive consumer sentiment in Saudi Arabia and expansion across all markets should support the double-digit sales growth over the coming quarters. Overall, we have increased our sales forecast for FY2012/13 by 2% to SAR 3.8 billion (19% YoY growth) on the back of sustained signs of healthy sales growth, as witnessed over the recent past.

Margins: Improving gross profit margin – however, SG&A expenses are rising more steeply

GPM may improve on depreciating Euro and rising contribution from international operations

We established in our initiation report on Alhokair on 1 April 2012 that a depreciating Euro (EUR) against the US Dollar (USD) or Saudi Arabian Riyal is margin-positive for Alhokair, as the company's significant portion of merchandise is priced in EUR. The EUR has been declining against the USD in the recent past, which we believe should help the gross profit margin (GPM) expand in the near term. Moreover, we believe international operations are more profitable for Alhokair, as the company employs a greater mix of the pull model. Increasing contributions from international operations, especially the more profitable CIS region, should be beneficial from the GPM perspective. During 1Q2012/13, the GPM improved by 80 bps YoY to 47.0%. We believe a combination of the aforementioned drivers may have helped the GPM expand YoY. As the EUR is currently trading at 10% lower than the average of FY2011/12 and Alhokair continues to expand further into the CIS, we believe the GPM may improve slightly during FY2012/13.

Increasing SG&A (as a percentage of sales) due to ongoing expansion more than fully offset the gains at the GPM level

On the other hand, SG&A expenses as a percentage of sales rose rapidly to 30.9% in 1Q2012/13 (+150 bps YoY). We believe the aggressive expansion (local as well as international) along with wage pressures due to Saudization may have caused the rapid rise in SG&A expenses during the first quarter this year. Going forward, we believe these factors will continue to impact profitability during the rest of the year. We expect the pressure from SG&A may more than fully offset the expected gain in the GPM for the rest the year, as was seen during 1Q2012/13. In 1Q2012/13, the EBITDA margin declined 70 bps YoY to 16.1%.

Overall, we expect EBITDA to grow by 16% YoY to SAR 623 million (3% higher than our earlier forecast), while the EBITDA margin may contract slightly by 50 bps YoY to 16.3%.

Other forecast changes

Our other forecast changes are relatively insignificant and are primarily to align with trends witnessed during 1Q2012/13. We continue to lack visibility on non-operating income, which mostly includes forex gains and losses, dividend income, and other non-recurring income. We note that during 1Q2012/13, these other incomes contributed 25% to the net profit. Over the last few quarters, the company has been positively but significantly benefitting from these income sources. However, our forecast for other income for the rest of the year is relatively modest, as we do not have any visibility on these items.

Figure 3 Summary of Forecast Changes

SAR million	FY2011/12A	FY2012/13F		YoY change	Change from Old Value
		Old Value	New Value		
Revenues	3,203	3,743	3,823	19%	2%
Gross profit	1,447	1,676	1,739	20%	4%
Gross profit margin	45.2%	44.8%	45.5%		
EBITDA	539	604	623	16%	3%
EBITDA margin	16.8%	16.1%	16.3%		
Operating profit	426	463	486	14%	5%
Operating profit margin	13.3%	12.4%	12.7%		
Net profit	447	446	467	4%	5%

Sources: Alhokair and NBK Capital

Valuation

We continue to be bullish on the company's growth prospects and the overall retail industry in Saudi Arabia, in general. However, a 19% rally since our initiation makes us believe that the expected future growth is already reflected in the current stock prices. Therefore, our current recommendation on the stock is a "Hold" from an "Accumulate" earlier.

Figure 4 Fair Value per Share

Valuation Method	Weights	Old Value	New Value	% Change
Discounted cash flow	70%	SAR 85.3	SAR 89.8	5.3%
Peer comparison	30%	SAR 89.2	SAR 98.8	10.8%
Weighted average fair value	100%	SAR 86.5	SAR 92.5	7.0%

Our new 12-month fair value
for Alhokair is
SAR 92.5 per share

Source: NBK Capital

FINANCIAL STATEMENTS

Balance Sheet (SAR million)	Historic		Forecast				
Fiscal Year Ends March	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
ASSETS							
Cash	107	198	429	471	502	677	591
Total Receivables, Net	430	457	552	668	815	906	998
Total Inventory	599	746	890	1,050	1,200	1,352	1,490
Total Current Assets	1,136	1,401	1,871	2,188	2,516	2,935	3,079
Property/Plant/Equipment, Total - Net	613	790	898	965	1,015	1,051	1,081
Investments and Other Long-term Assets	278	245	247	252	260	270	281
Goodwill and Intangibles	143	140	146	154	163	173	184
TOTAL ASSETS	2,169	2,575	3,162	3,559	3,955	4,429	4,625
LIABILITIES & EQUITY							
Accounts Payable	616	562	665	819	934	1,038	1,143
Short-Term Debt	161	227	275	225	175	150	125
Total Current Liabilities	777	789	940	1,044	1,109	1,188	1,268
Long-Term Debt	225	313	275	225	175	150	125
Other Liabilities	73	72	78	86	96	110	127
Total Liabilities	1,075	1,173	1,293	1,355	1,381	1,449	1,520
Total Equity	1,095	1,402	1,869	2,204	2,574	2,980	3,104
TOTAL LIABILITIES AND EQUITY	2,169	2,575	3,162	3,559	3,955	4,429	4,625

Income Statement (SAR million)	Historic		Forecast				
Fiscal Year Ends March	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
Total Revenue	2,575	3,203	3,823	4,525	5,149	5,728	6,312
Operating Expenses	(2,210)	(2,663)	(3,200)	(3,799)	(4,333)	(4,817)	(5,308)
Depreciation/Amortization	(102)	(114)	(137)	(157)	(178)	(198)	(220)
Operating Income	262	426	486	569	638	712	783
Finance Charges	(16)	(18)	(21)	(20)	(16)	(13)	(11)
Other	89	76	46	48	53	57	61
Zakat	(15)	(36)	(38)	(44)	(50)	(56)	(62)
Minority Interest	(4)	(1)	(6)	(8)	(11)	(14)	(17)
Net Income	315	447	467	544	615	687	754

Cash Flow Statement (SAR million)	Historic		Forecast				
Fiscal Year Ends March	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
Cash from Operating Activities	400	452	562	587	719	820	906
Cash from Investing Activities	(313)	(212)	(193)	(196)	(201)	(216)	(230)
Cash from Financing Activities	4	(9)	(328)	(360)	(342)	(691)	(760)
Net Change in Cash	91	231	41	31	176	(86)	(85)

Sources: Alhokair and NBK Capital

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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