



US\$6.56bn Market cap **30%** Free float **US\$8.14mn** Avg. daily volume

Target price 111.20 *-5.1% over current*
Consensus price 127.90 *9.1% over current*
Current price 117.20 *as at 19/10/2014*

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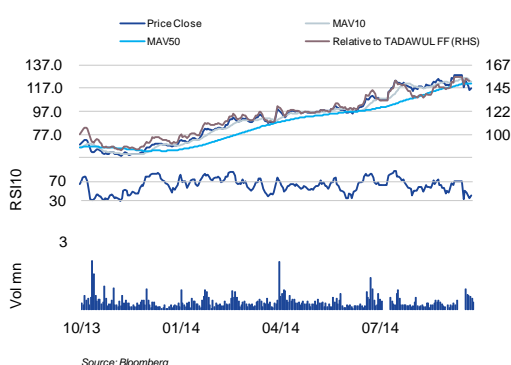
Existing rating

Underweight **Neutral** Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	03/12A	03/13A	03/14A	03/15E
Revenue (mn)	3,203	4,659	5,482	7,656
Revenue Growth	24.4%	45.5%	17.7%	39.6%
EBITDA (mn)	553	758	946	1,295
EBITDA Growth	51.9%	37.0%	24.9%	36.9%
EPS	2.14	2.94	3.61	4.68
EPS Growth	41.8%	37.9%	22.6%	29.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Fawaz Abdulaziz

Other income boosts bottom-line

Alhokair reported its Q2 FY2015 results, which were mostly in line with our estimate, but missed the consensus bottom-line forecast by a significant margin. Revenue came in at SAR2,072mn (+32% y-o-y), driven by the acquisition of Blanco. However, we are concerned about the operating performance of the company, as operating profit rose by a marginal 2.8% y-o-y. The bottom-line was partially salvaged by a ~150% jump in other income. As a result, net profit gained 7.7% to SAR303.7mn, in line with our SAR314.7mn estimate. We await the company's detailed financial results to ascertain the reason for the drop in operating margin. For now, we are reiterating our Neutral rating on Alhokair with a target price of SAR111.2 per share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- **Revenues:** Alhokair's revenue surged 32% y-o-y to SAR2,072mn, mostly in line with our SAR1,997mn forecast (consensus estimate: SAR2,098mn). The jump in sales was primarily supported by the company's acquisition of Blanco (at the end of FY2014) and new store openings.
- **Gross and operating profit:** Gross profit surged 26.8% y-o-y to SAR574.5mn, in line with our SAR557.3mn estimate. Gross profit margin slipped by around 110bps y-o-y to 27.7%, as we expected. However, the company's operating profit rose by a marginal 2.8% y-o-y to SAR290.4mn, which was lower than our forecast of SAR341.3mn. As a result, the operating profit margin fell by around 400bps y-o-y to 14%.
- **Net profit:** The company's net profit increased 7.7% y-o-y to SAR303.7mn despite a comparatively poor operating level performance. Alhokair's bottom-line was supported by other income of about SAR44mn (an increase of ~150% y-o-y). The net profit was mostly in line with our estimate of SAR314.7mn, but missed the consensus estimate of SAR362.7mn by a significant margin.

Figure 1 Alhokair: summary of Q2 FY2015 results

(SAR mn)	Q2 FY2014	Q1 FY2015	Q2 FY2015	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,570	1,665	2,072	32.0%	24.5%	1,997
Gross profit	452.9	441.7	574.5	26.8%	30.1%	557.3
Gross profit margin (%)	28.9%	26.5%	27.7%			27.9%
Operating profit	282.6	215.8	290.4	2.8%	34.6%	341.3
Net profit	282.1	191.2	303.7	7.7%	58.9%	314.7

Source: Company data, Al Rajhi Capital (* Alhokair follows a April – March financial year)



Conclusion: Alhokair's growth has been driven by organic as well as inorganic growth. The company's top-line growth this quarter was supported by an increase in same-store sales, new store openings, and the acquisition of Blanco. We are mainly concerned over the sharp dip in operating profit margin in this quarter (-400bps y-o-y). Another concern for us is the high proportion of net income being accounted by other income (~15% in Q2 FY2015). We await the release of the detailed financial results to understand the performance better. For now, we are reiterating our Neutral rating on Alhokair with a target price of SAR111.2 per share.

Major Developments

Dividend of SAR1.25 per share for H1 FY2015

Alhokair announced a dividend of SAR1.25 per share for the first half of FY2015, amounting to a total of SAR262.5mn. The shareholders registered at the end of the trading day on October 23, 2014 will be eligible for the dividend.

Signs financing facility for US\$200mn

Alhokair reported that it has signed an Islamic financing facility with Societe Generale Bank for US\$200mn to fund the acquisition of 42 women's clothing shops from Al Dana.



Disclaimer and additional disclosures for Equity Research

Disclaimer

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"**Overweight**": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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