

## DAR AL ARKAN



This is an extract of our published report, the full version of which can be found on the [ncbc.com](http://ncbc.com) website

## COMPANY UPDATE

## Land sales drive 2Q12 performance

We remain Neutral on Dar Al Arkan with a price target of SR10.9/share. Although, 2Q12 revenues will record a significant YoY growth owing to the land plot sale to SABIC, we believe that the current valuation on the stock is fair.

- Earnings revised upwards:** Based on its recent announcement on Tadawul, we expect Dar Al Arkan to report a 2Q12 net income of SR176mn. This includes the additional revenue of SR742mn from its land sale to SABIC. Our 2012 revenue estimates have been revised upwards from SR3,820mn to SR4,562mn, this indicates a 37.7% YoY increase. We are currently expecting the company to generate 2012 gross margins of 36.6% and net margins of 27.1%.
- SABIC land sale first of its kind:** From our discussions with management, we understand that Dar Al Arkan's land sale to SABIC is the first of its kind. Through this transaction, the company is implementing the "corporate housing market strategy", whereby it sells plots of land of an already existing project to third party corporations.
- Details on the land sale:** Based on our findings, we understand that this transaction is a pure cash deal and ultimately a beneficial step for the company in terms of cash receipts. The total area for the land plot sold is 1.8 million sqm, with a net area of 835,000 sqm and 1 million sqm BUA. The remaining area for the project is 3.2 million sqm, with BUA of 4.3 million sqm.
- 1 month to the repayment of Sukuk:** In July 2012, the largest outstanding sukuk issue (SR3.7bn) will mature and this will result in a significant cash outflow. Given the company's current cash position, we believe that it will be able to proceed with its development activities post the repayment of its debt.
- Valuation fair at current levels:** We remain Neutral on Dar Al Arkan with a price target of SR10.9/share. The stock is currently trading at a 2012E P/B of 0.7x. Since our last update on the company, the stock has underperformed the TASI by 4.2%, in line with our Neutral rating on the stock.

## NEUTRAL

|                           |             |
|---------------------------|-------------|
| <b>Target price (SR)</b>  | <b>10.9</b> |
| <b>Current price (SR)</b> | <b>9.7</b>  |

## STOCK DETAILS

|                         |           |
|-------------------------|-----------|
| M52-week range H/L (SR) | 14.3/5.95 |
| Market cap (\$mn)       | 2,635     |
| Shares outstanding (mn) | 1,080     |
| Listed on exchanges     | TADAWUL   |

| Price perform (%) | 1M     | 3M     | 12M  |
|-------------------|--------|--------|------|
| Absolute          | (15.4) | (10.2) | 19.1 |
| Rel. to market    | (9.0)  | 0.87   | 17.0 |

| Avg daily turnover (mn) | SR  | US\$ |
|-------------------------|-----|------|
| 3M                      | 716 | 191  |
| 12M                     | 260 | 69.4 |

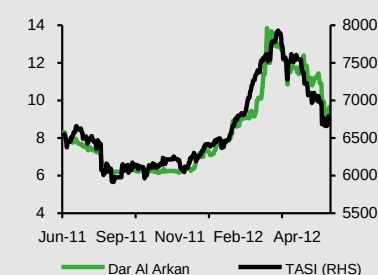
|                |                                                      |
|----------------|------------------------------------------------------|
| Reuters code   | 4300.SE                                              |
| Bloomberg code | ALARKAN AB                                           |
|                | <a href="http://www.alarkan.com">www.alarkan.com</a> |

## VALUATION MULTIPLES

|                  | 11A  | 12E  | 13E  |
|------------------|------|------|------|
| Reported P/E (x) | 9.6  | 8.5  | 8.6  |
| Adjusted P/E (x) | 11.4 | 10.9 | 10.3 |
| P/B (x)          | 0.70 | 0.66 | 0.62 |
| Div Yield (%)    | -    | -    | -    |

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Bloomberg

**Tariq Al Alaiwat** +966 2 690 7627  
t.alalaiwat@ncbc.com

**Asma Dakkak** International client contact  
+973 1757 9452  
a.dakkak@ncbc.com

[www.ncbc.com](http://www.ncbc.com)

## Financials summary

| SR mn               | 2011A | 2012E | 2013E | 2014E | 2015E | CAGR 11-15E |
|---------------------|-------|-------|-------|-------|-------|-------------|
| Revenue             | 3,313 | 4,562 | 4,270 | 4,680 | 2,842 | (3.8)       |
| Operating income    | 1,250 | 1,543 | 1,419 | 1,427 | 1,006 | (5.3)       |
| Reported net income | 1,088 | 1,237 | 1,213 | 1,337 | 983   | (2.5)       |
| Operating margin %  | 37.7  | 33.8  | 33.2  | 30.5  | 35.4  | -           |
| Net margin %        | 32.8  | 27.1  | 28.4  | 28.6  | 34.6  | -           |
| ROE %               | 7.3   | 7.8   | 7.1   | 7.3   | 5.1   | -           |
| EPS (SR)            | 1.01  | 1.15  | 1.12  | 1.24  | 0.91  | -           |

Source: Company, NCBC Research estimates

13 JUNE 2012

Kindly send all mailing list requests to [research@ncbc.com](mailto:research@ncbc.com)

**NCBC Research website**

<http://research.ncbc.com>

**Brokerage website**

[www.alahlitadawul.com](http://www.alahlitadawul.com)  
[www.alahlibrokerage.com](http://www.alahlibrokerage.com)

**Corporate website**

[www.ncbc.com](http://www.ncbc.com)

**NCBC Investment Ratings**

|               |                                                                                                                                                                                                                                                                                                                 |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| OVERWEIGHT:   | Target price represents expected returns in excess of 15% in the next 12 months                                                                                                                                                                                                                                 |
| NEUTRAL:      | Target price represents expected returns 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 |

**Other Definitions**

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

**Important information**

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.