REAL ESTATE | 13 JUNE 2012

DAR AL ARKAN

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.

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

NEUTRAL

Target price (SR)	**10.9**
Current price (SR)	**9.7**

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

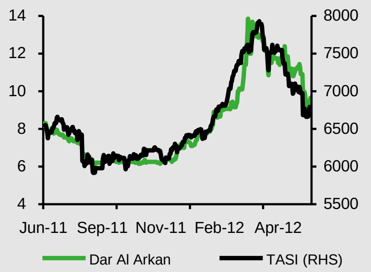
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
	www.alarkan.com

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

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

www.ncbc.com

Kindly send all mailing list requests to research@ncbc.com

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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