

DAR AL ARKAN



This is an extract of our published report, the full version of which can be found on the ncbc.com website

COMPANY UPDATE

Valuation fair at current levels

We remain Neutral on Dar Al Arkan with our price target decreasing by 0.9% to SR10.7/share. Growth in residential revenue has been revised down in 2012E by 49% due to a delay in Shams Arriyadh's contribution. This leads to an overall decline in adjusted profitability estimates for 2012E by 27% to SR1,431mn. We believe the current valuation on the stock is fair.

- Earnings estimates revised down due to delayed contribution from Shams Arriyadh:** We have revised down our residential revenue estimates due to a delay in Shams Arriyah's contribution. We expect 2H12 revenues of SR1,491mn, 24% below our previous estimate and down 4.8% YoY. Our 2012E revenue estimate of SR3,846mn indicates a YoY growth of 16.1%, owing to the company's land sale to SABIC. We are currently expecting the company to generate 2012E gross margins of 38.3% and net margins of 27.2%.
- Payment of July sukuk (SR3.75bn) completed successfully:** In July 2012, Dar Al Arkan announced the successful repayment of its largest outstanding sukuk issue for SR3.75bn. Currently, the company's total debt stands at approximately SR4.1bn, which equals 26.6% debt-to-capital.
- Future financing remains an area of concern:** Potential issues in raising funds remains a concern for Dar Al Arkan. Dar Al Arkan operates a capital intensive business and requires large sums of cash to meet its working capital and development targets. Currently, it is developing Shams Arriyadh and Shams Al-Arous which will require capex of SR11.8bn. We believe the potential reluctance of banks/financial institutions to lend to the company remains an area of concern.
- Valuation fair at current levels:** We remain Neutral on Dar Al Arkan with our price target decreasing by 0.9% to SR10.7/share. The stock is currently trading at a 2012E P/B of 0.67x. Since our last update on the company, the stock has underperformed the TASI by approximately 1%, in line with our Neutral rating on the stock. We believe the company lacks catalysts in the short-run to support an outperformance of the TASI.

Financials summary

SR mn	2011A	2012E	2013E	2014E	2015E	CAGR 11-15E
Revenue	3,313	3,846	4,043	4,487	3,205	(0.8)
Operating income	1,250	1,348	1,308	1,330	1,021	(4.9)
Reported net income	1,088	1,047	1,081	1,212	998	(2.1)
Operating margin %	37.7	35.0	32.4	29.6	31.9	
Net margin %	32.8	27.2	26.7	27.0	31.1	
ROE %	7.3	6.6	6.5	6.8	5.4	
EPS (SR)	1.01	0.97	1.00	1.12	0.92	

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

NEUTRAL

Target price (SR)	10.7
Current price (SR)	9.6

STOCK DETAILS

M52-week range H/L (SR)	14.3/6.0
Market cap (\$mn)	2,822
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.9	(0.5)	57.6
Rel. to market	5.4	(3.5)	42.9

Avg daily turnover (mn)	SR	US\$
3M	379	101
12M	347	92

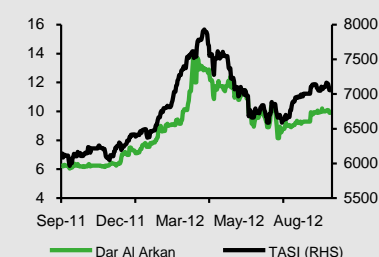
Reuters code	4300.SE
Bloomberg code	ALARKAN AB
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VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	9.7	10.1	9.7
Adjusted P/E (x)	11.4	13.6	12.2
P/B (x)	0.70	0.67	0.63
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

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

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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

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