

21 October 2011

Dar Al Arkan Real Estate

3Q11 results update

Hold

Target price
SR6.45

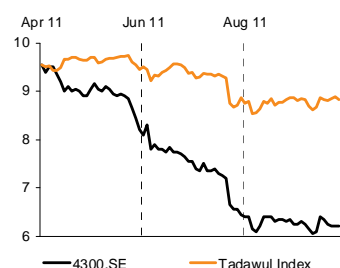
Price
SR6.20

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (SR)	6.30	7.35	n/a
Absolute (%)	-1.6	-15.6	n/a
Rel market (%)	-1.4	-11.0	n/a
Rel sector (%)	n/a	n/a	n/a



Market capitalisation
SR6.70bn (€1.30bn)

Average (12M) daily turnover
SR43.99m (€8.14m)

Sector: European-DS Tot Mrkt
RIC: 4300.SE, ALARKAN AB
Priced SR6.20 at close 19 Oct 2011.
Source: Bloomberg

Analysts

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Operating performance was better than our expectations due to higher-than-estimated land sales and gross margin, but we believe the stock may continue to experience an overhang from debt repayments of SR4.8bn in next 15 months.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (SRm)	5,464	4,142	3,265	3,383	5,931
Net rental income (SRm)	0.00	0.00	16.20	125.3	211.2
Normalised PTP (SRm)	2,173	1,483	1,066	1,059	1,546
Normalised EPS (SR)	1.97	1.35	0.95	0.96	1.40
Normalised PE (x)	3.15	4.60	6.55	6.49	4.44
Dividend per share (SR)	1.00	0.00	0.00	0.00	0.00
Dividend yield (%)	16.10	0.00	0.00	0.00	0.00
Adj NAV per share (SR)	12.80	13.20	14.10	15.10	16.50
NNNAV per share (SR)	12.80	13.20	14.10	15.10	16.50
Disc/(prm) to adj NAV (%)	51.70	53.00	56.10	58.90	62.40
Net debt to tot ass (%)	25.70	27.80	22.40	18.90	-0.75

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Operating results better than our expectations

DAAR reported 3Q11 revenue of SR755m (down 5% qoq and down 17% yoy), slightly above our estimate of SR734 (Reuters consensus was SR833m). The revenue beat was mainly due to better-than-expected land sales. Land sales were SR730m (down 4% qoq and down 12% yoy) versus our estimate of SR700m. Revenue from property sales remained subdued and declined from SR31m in 2Q11 to SR22m, as the company sold only 28 units in its Al Qasr and Al Tital developments compared to 43 units sold in 2Q11. Gross margin of 42.3% was 240bp better than our expectation mainly because gross margin from land sales at 43% was 300bp higher than our estimate. Operating profit was SR290m versus our estimate of SR264m.

Net profit was below our estimate due to lower non-operational income

Despite both revenue and gross margin beats and in-line operating expenses, net profit at SR227m (down 24% qoq and down 22% yoy) missed our estimate of SR265m (Reuters consensus was SR259m) due to a fall in non-operating income from SR57m in 2Q11 to SR3m in 3Q11 (our estimate was SR57m). Non-operating income for the company is a factor of interest income and loss/gain on its swap derivative linked to a bank loan. The company has a fixed for floating rate exchange agreement with a bank on a notional amount of SR844m.

We expect debt overhang to continue to weigh on the stock

Overall, the operational performance has been better than our expectations; however, we expect volatility in the results to remain due to a higher dependency on the choppy land sales, which we expect to contribute about 95% of the total revenue over the next 12 months. Despite attractive valuation with current PB multiple of 0.44x, we would prefer to remain on the sidelines maintaining our Hold rating with a TP of SR6.45, as we believe the stock may continue to experience an overhang mainly linked to its debt repayments of about SAR4.8bn over the next 15 months. Although receivables have slightly improved from SR1,683m in 2Q11 to SR1,542m in 3Q11, days sale outstanding still remains high at 162.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	0.00	0.00	16.2	125.3	211.2
Prop development income	519.3	376.7	88.2	258.2	2720
Other revenue	4945	3765	3161	3000	3000
Total property income	5464	4142	3265	3383	5931
Other costs	-3103	-2484	-2013	-2122	-4172
EBITDA	2361	1658	1252	1262	1759
DDA & Impairment (ex gw)	-40.6	-40.1	-34.5	-37.3	-33.7
EBITA	2321	1618	1217	1225	1725
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	2321	1618	1217	1225	1725
Associates (pre-tax)	-4.64	0.00	0.40	0.00	0.00
Net interest	-143.5	-134.9	-151.4	-165.9	-179.2
Other pre-tax items	-0.00	0.00	0.00	0.00	0.00
Reported PTP	2173	1483	1066	1059	1546
Taxation	-50.0	-27.0	-43.7	-27.0	-39.0
Minority interests	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	-0.00	-0.00	0.00
Reported net profit	2123	1456	1023	1032	1507
Dividends declared	-1080	0.00	0.00	0.00	0.00
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	2361	1658	1252	1262	1759
Normalised PTP	2173	1483	1066	1059	1546
Normalised net profit	2123	1456	1023	1032	1507

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	2223	1189	1965	464.8	3877
Props under dev	4023	3859	4346	6099	4950
Other current assets	14468	15132	13620	11780	10060
Investment prop	1518	1914	2726	2746	2766
Other non-current assets	1268	1255	1249	1252	1254
Total assets	23501	23349	23906	22341	22908
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Long term debt (3)	5572	6679	2600	-35.7	-415.7
Other liabilities	3806	2170	5783	5823	5263
Total liabilities	9378	8849	8383	5787	4847
Total equity (incl min)	14124	14500	15522	16554	18061
Total liab & sh equity	23501	23349	23906	22341	22908
Net debt	6036	6491	5358	4222	-171.1

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	2361	1658	1252	1262	1759
Change in working capital	-731.5	-476.7	930.9	127.5	2909
Net interest (pd) / rec	-143.5	-134.9	-151.4	-165.9	-179.2
Taxes paid	-50.0	-27.0	-43.7	-27.0	-39.0
Other oper cash items	55.2	29.5	27.4	0.00	0.00
Cash flow from ops (1)	1492	1049	2015	1196	4449
Capex (2)	0.00	0.00	0.00	0.00	0.00
Disposals/(acquisitions)	-927.6	-398.5	-819.8	-36.3	-36.3
Other investing cash flow	-47.0	-0.00	-0.25	0.00	0.00
Cash flow from invest (3)	-974.6	-398.5	-820.1	-36.3	-36.3
Incr / (decr) in equity	n/a	n/a	n/a	n/a	n/a
Incr / (decr) in debt	725.3	-605.2	-418.9	-2660	-1000
Ordinary dividend paid	0.00	-1080	0.00	0.00	0.00
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	264.7	0.00	0.00	0.00	0.00
Cash flow from fin (5)	990.0	-1685	-418.9	-2660	-1000
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	1507	-1035	776.3	-1500	3413
Equity FCF (1+2+4)	1492	1049	2015	1196	4449

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Dar Al Arkan Real Estate (RIC: 4300.SE, Rec: Hold, CP: SR6.20, TP: SR6.45): We value DAAR using a sum-of-the-parts methodology, from which we derive our target price. Key risks to our target price relate to debt-repayment risk, refinancing risk and land sales visibility softening should macro conditions worsen. Should recently announced government plans to build 500,000 houses, and should the mortgage market coming into existence create an uplift in the land and property prices, DAAR may be a key beneficiary of it, providing upside risk.

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