Target Price: SAR24.50/share
Current Price: SAR20.96/share
Upside: ~17.0%
Rating: Overweight

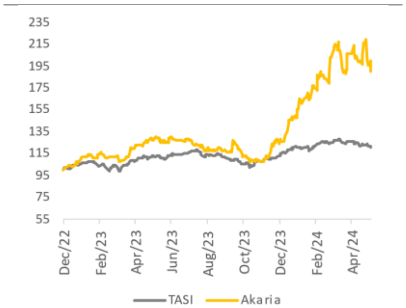
Saudi Real Estate Company (ALAKARIA)

Raise TP to SAR24.5 on robust backlog and better margins

Stock data	
TASI ticker	4020
Mcap (SARmn)	7,860
Trad. Val (3m) (SARmn)	37.2
Free float	35.4%
QFI holding	5.7%
TASI FF weight	0.12%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- Strong backlogs and enhancement of rental properties to propel overall revenue growth (+8.5% CAGR over 2023-27e).
- Margins are likely to remain healthy with gross margins ranging 25-29% over 2023-27e, depending on revenue mix.
- Our blended SOTP and P/B (1.6x ’24 BVPS) valuation methods yield a TP of SAR24.5/sh. (SAR17.0/sh earlier), implying an upside of ~17% and an Overweight rating.

Binyah remains a key growth driver in medium to long term: KSA is witnessing a strong jump in infrastructure activities with Akaria’s 60% owned infrastructure company, Binyah, likely to be one of the key beneficiaries (as reflected in Akaria’s revenue from Binyah; increased 4.5x over 2020-23), primarily due to its exposure to Giga projects (such as Diriyah, Qiddiya). Despite a 69% y/y jump in revenue from Binyah, its backlog remains robust at ~SAR3.1bn at the end of 2023, implying a strong revenue visibility for 2024-25e. As per our calculation, the current backlog is expected to be recognized over the next 2 years, implying an annual revenue run rate of ~SAR1.5bn. Accordingly, on a conservative basis, we raise our infrastructure revenue forecasts by ~43% to SAR1.3bn for 2024e and SAR1.4bn for 2025e, respectively.

Refurbishment of existing rental properties to enhance utilization and yield: Akaria currently boasts a diverse portfolio of 12 rental properties, generating ~SAR300mn in 2023 (~17% of total). Furthermore, Akaria plans to upgrade ~33% (~200,000 sqm) of its existing portfolio by 2029e, aiming to enhance both utilization and rental yield. As of 2023, the company has already refurbished 16% of its target portfolio, allowing it to implement a rent escalation strategy, with a likely 52% rental revision for Olaya Oasis, 112% for apartments and 56% for villas and duplexes in DQ residence (phase I and II). Given that the upgrade and rental revision for these properties occurred mostly towards the end of 2023, we expect the full impact of the rent escalation to be visible in 2024e. Consequently, we expect rental income from existing portfolio to grow at a CAGR of 5.4% (+4.3% CAGR earlier) over 2023-27e. Additionally, Akaria is also likely to begin the operation of 7 new rental properties in 2027e-28e, ensuring medium-term rental growth.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e
Revenue	2,051	1,814	2,800	2,978
Revenue growth	*99%*	*-12%*	*54%*	*6%*
Operating Profit	260	337	513	453
Operating margin	*13%*	*19%*	*18%*	*15%*
Net profit*	111	68	219	166
Net profit margin	*5%*	*4%*	*8%*	*6%*
EPS (SAR)	0.29	0.18	0.58	0.44
DPS (SAR)	0.0	0.0	0.0	0.0
BVPS	12.5	13.0	13.9	14.5
P/B	1.7x	1.6x	1.5x	1.4x

*Source: Company, GIB Capital. * Attributable to equity shareholders*

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Figure 2: Binyah ongoing project summary

Client	Contract value (SARmn)
Diriyah Gate	722
Diriyah Gate	532
Diriyah Gate	374
MISK	276
Qiddiya Investment Co.	405
Qiddiya Investment Co.	1639
Triple Bay North Interchange	101
NMCD	109
Diriyah Gate	550

Source: Company data, GIB Capital

Figure 3: Rental properties saw rent escalation in 2023

Property	Total GLA (Sqm)	Revision %*
Akaria Shopping Centre 3	45,638	8-20%
Akaria Plaza	76,479	5-10%
Olaya Oasis	123,000	~52%
Diplomatic Quarters	210,979	112% for apartments and 56% for villas & duplexes

*Source: Company data, GIB Capital, * Escalation for most of renewals*

Akaria Park and Sedra 1 & 2 to drive land and unit sales revenue in 2024: Akaria Park is nearing completion with 92% of the work done. As of 2023, the company has sold over SAR1.1bn worth of units, ~84% of the total estimated project value (as per our calculation). Given that the collection is linked to a completion percentage, we expect the company to recognize revenue amounting to ~SAR420mn in 2024e. This, along with the Madinah Faraudh Land project (2024-26e), is expected to generate a total ~SAR500mn in revenue from land sales over 2024e-25e. Furthermore, three additional unit sales projects, Fai Sedra (1) and (2), and Vyda Residential (Narjes Business Park and Sitteen Vertical were converted from freehold and leasehold properties), are expected to generate additional SAR2.4bn revenues from unit sales over 2024e-26e. Overall, Akaria's strong unit and land sales pipeline is expected to generate a total of ~SAR2.9bn revenues over 2024-26e with Sedra 1 and Akaria Park likely driving most of the revenues in 2024 due to their completion timelines.

Tamear is likely to turn around in 2024-25: Tamear, a fully owned subsidiary of Akaria, has a total backlog of SAR333mn (including SAR285mn DQ project with 2 years duration) at the end of 2023. In addition, the company recently won a new contract worth ~SAR160mn (22 months contract duration) in April 2024. Accordingly, we now expect Tamear to generate ~SAR170-210mn annually during 2024e-25e. We also note that Tamear faced challenges in 2023, primarily due to losses in the Al Mashreqia project. However, with the Al Mashreqia project nearing its completion (likely in Nov 2024), coupled with management's initiatives to restructure the subsidiary's balance sheet (SAR21mn provision made in 2023), Tamear's performance is expected to turn around and may become profitable in the coming period.

1Q24 earnings miss mainly due to a delay in revenue recognition; annual outlook remains intact: 1Q revenue declined ~37% q/q to SAR428mn (below our estimate of SAR746mn), largely due to lower-than-expected revenue from the real estate sales (-85% q/q) and the infrastructure segment (+7% q/q). Gross and operating margins narrowed down by 13ppts q/q and 15ppts q/q to 30% and 18%, respectively, mainly due to a decline in high-margin real estate sales. Consequently, net income dropped by 98% q/q, reaching SAR3mn vs our estimate of SAR111mn.

Despite the earning miss, which was mainly due to a delay in revenue recognition, we are not worried about the miss and continue to maintain our positive outlook on the company, as we now expect the bulk of real estate sales revenues (mainly from Al Akaria Park) to be recognized in 2H24, given that it is linked to a completion percentage, as discussed earlier.

Figure 4: 1Q24 results summary

SARmn	1Q24	1Q23	y/y %	4Q23	q/q %	GIBC est.	Variance %
Revenues	**428**	**393**	**8.8%**	**677**	**-36.8%**	**746**	**-42.7%**
Cost of sales	299	265	12.8%	384	-22.3%	476	-37.3%
Gross profit	**129**	**128**	**0.6%**	**292**	**-55.8%**	**270**	**-52.2%**
Opex	51	50	3.0%	67	-23.7%	70	-26.9%
Operating profit	**78**	**79**	**-0.9%**	**225**	**-65.4%**	**200**	**-61.0%**
Net income	**3**	**9**	**-67.4%**	**157**	**-98.2%**	**111**	**-97.4%**
Gross margin	30.2%	32.6%		43.2%		36.2%	
Operating margin	18.2%	20.0%		33.3%		26.8%	
Net margin	0.7%	2.3%		23.2%		14.9%	

Source: Company data, GIB Capital

Revision in estimates: Post factoring robust backlog, a healthy improvement in utilization/rental rates for certain properties, and margin expansions, we revise our overall revenue estimates upwards by 17% and 21% for 2024e and 2025e, respectively. Further, we also revised our gross margin estimates upwards to ~28% for 2024 (~24% earlier; although still lower than 31% in 2023 due to a revenue mix) and 25% (~22% earlier) for 2025e. Consequently, we expect a net income of SAR219mn in 2024 and SAR166mn in 2025, with a net margin of ~8% and ~6%, respectively (~4% in 2023).

Valuation: Post revising our estimates, we raise our target price to SAR24.5/share (SAR17.0 earlier) based on blended SOTP one-year forward (8.6% unchanged WACC, 2.5% terminal growth) and P/B (1.6x on 2024e BVPS) methods. We note that the company currently trades at 1.7x TTM P/B (3Y average: 1.4x), vs the local peers' average of 1.6x. However, on a conservative basis, we have assumed a slightly lower multiple than the current trading multiple to reflect the uncertainties around the restricted and not available-for-use land.

Figure 5: SOTP Valuation

SARmn	Methods	Value
Enterprise value		
Investment properties (existing and near-term projects)	NPV	1,962
Sold units and lands	NPV	411
Infrastructure projects (Binyah)	NPV	4,818
Facility management (Mumtalakat)	NPV	177
Construction projects (Tamear)	NPV	187
Investments properties (Long Term)	Cap rate @8%	994
Tota Enterprise value		**8,550**
(-) Debt		(3,280)
(-) Pension/liabilities		(32)
(+) Cash		838
(+) Investments		366
(+) Restricted land value		3,364
(+) Investment in JV		295
(-) Minority		(1,998)
Equity value		**8,103**
Number of shares (mn)		375
Equity value per share		**21.6**
Adjusted equity value per share*		**24.6**

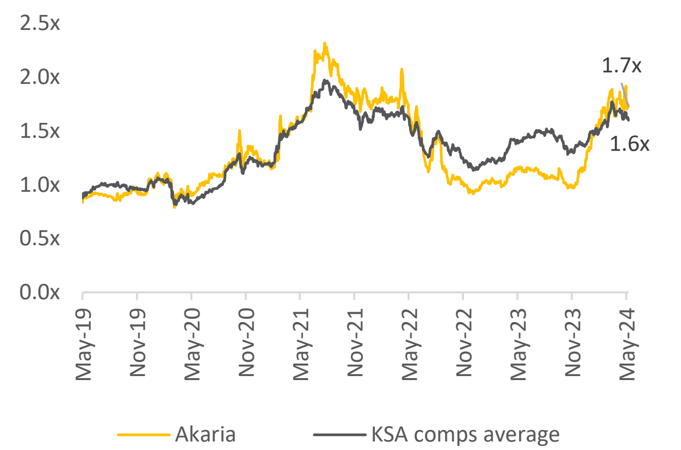
*Source: GIB Capital * using a 2.5% terminal growth rate*

Figure 6: P/B sensitivity analysis

Sensitivity analysis					
P/B multiple (x)	**1.50x**	**1.55x**	**1.60x**	**1.65x**	**1.70x**
BVPS 2024e	13.9	13.9	**13.9**	13.9	13.9
1yr fwd P/B-based price	**22.9**	**23.7**	**24.5**	**25.2**	**26.0**

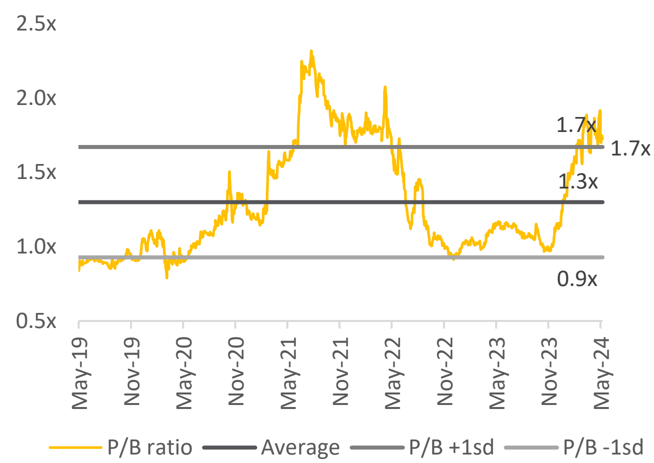
Source: GIB Capital

Figure 7: Akaria vs KSA comps average – P/B



Source: Bloomberg, GIB Capital

Figure 8: Akaria's P/B trend



Source: Bloomberg, GIB Capital

Scenario analysis: The company's Al Widyan land is restricted, and some lands in Benban, Al Aarid, and AlDammam industrial areas are unavailable for use or development due to ongoing government studies. These lands have a total book value of ~SAR3.4bn (including capital WIP; as of 1Q24) and a market value of SAR8.5bn (as of December 2023). However, potential compensation from the government remains uncertain.

In our base case valuation, we have conservatively included only the book value of these lands (including the capital WIP). Yet, there's a possibility of compensation exceeding the book value or market value, or Akaria might receive a stake in some projects. We've assessed four scenarios to gauge the impact of these land restrictions on our valuation.

Figure 9: Scenario analysis

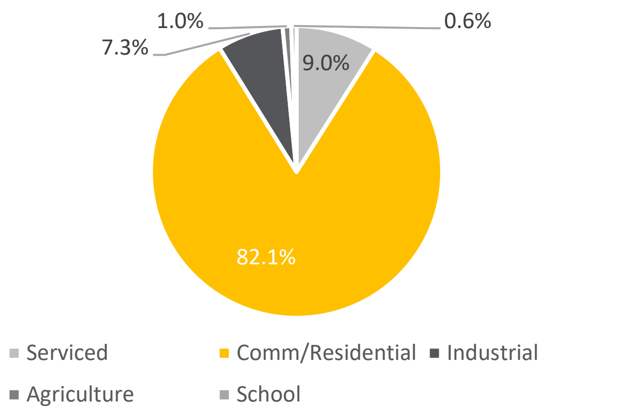
Scenario analysis				
	BV (base case)	**MV - 65%**	**MV - 80%**	**MV**
Restricted land value (SARmn)	**3,364**	**5,525**	**6,800**	**8,500**
SOTP	24.6	31.2	35.1	40.2
P/B price	24.5	35.8	31.5	33.6
Average target price (SAR)	**24.5**	**33.5**	**33.3**	**36.9**

Source: GIB Capital

Risks: Economic slowdown, persistently high-interest rates, failure to win projects or receive incentives from the Government, higher-than-expected increase in construction costs, and delays in construction/projects, downward revision in rental rates act as downside risks to our valuation.

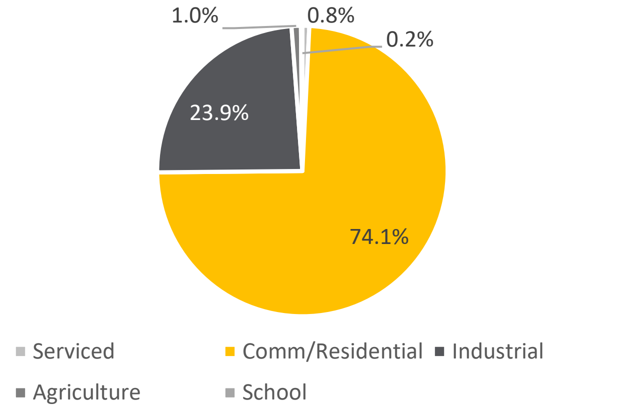
Financial analysis in charts

Figure 10: Landbank distribution by land use - MV (SAR9.9bn)



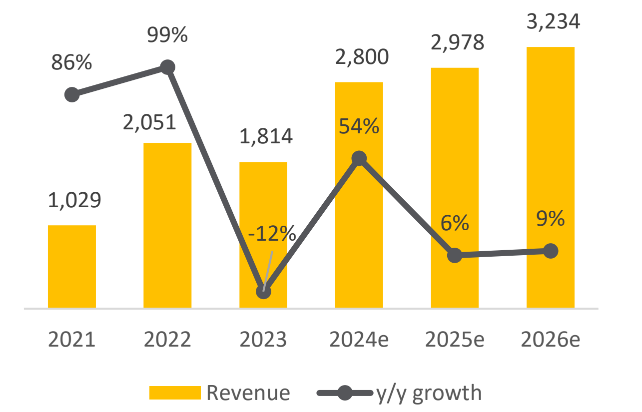
Source: Company data, GIB Capital

Figure 11: Distribution by land use - Land Size (23.7mn sqm)



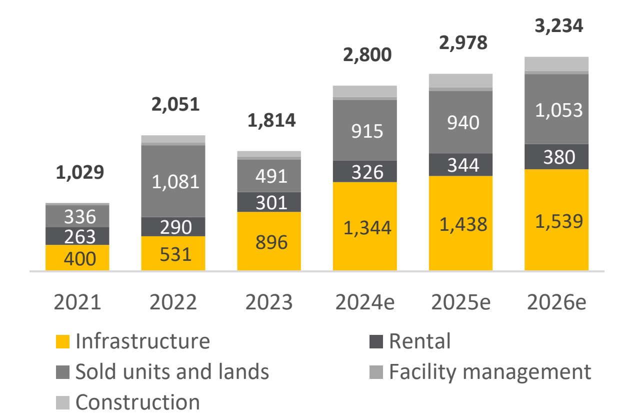
Source: Company data, GIB Capital

Figure 4: Revenue (SAR mn)



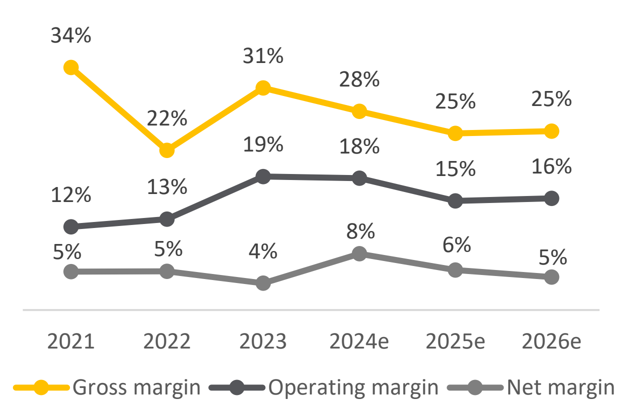
Source: Company data, GIB Capital

Figure 5: Revenue breakup by segment (SAR mn)



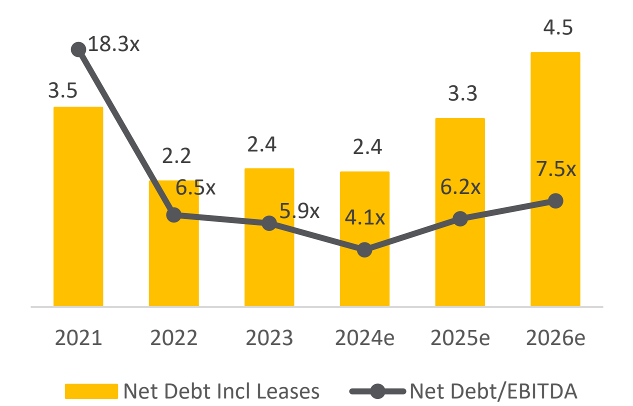
Source: Company data, GIB Capital

Figure 6: Margin trends



Source: Company data, GIB Capital

Figure 7: Leverage trend (SAR bn)



Source: Company data, GIB Capital

Financials

Figure 8: Summarized basic financial statements (SARmn)

Income statement	2021a	2022a	2023a	2024e	2025e	2026e
Revenue	**1,029**	**2,051**	**1,814**	**2,800**	**2,978**	**3,234**
revenue y/y	*86%*	*99%*	*-12%*	*54%*	*6%*	*9%*
COGS	681	1,595	1,253	2,025	2,246	2,428
Gross Profit	**347**	**456**	**561**	**774**	**732**	**806**
Gross Profit margin	*34%*	*22%*	*31%*	*28%*	*25%*	*25%*
General and administrative expenses	174	152	187	218	232	252
Selling and marketing expenses	55	45	37	43	47	51
Operating profit	**119**	**260**	**337**	**513**	**453**	**503**
Operating margin	*12%*	*13%*	*19%*	*18%*	*15%*	*16%*
Finance costs	77	149	246	269	276	331
PBT	**112**	**163**	**158**	**301**	**229**	**203**
Zakat/tax	32	18	29	30	23	20
NI attributable to equity holders	**55**	**111**	**68**	**219**	**166**	**148**
Net margin	*5%*	*5%*	*4%*	*8%*	*6%*	*5%*
y/y	*NM*	*101%*	*-39%*	*224%*	*-24%*	*-11%*
EPS	**0.1**	**0.3**	**0.2**	**0.6**	**0.4**	**0.4**
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout	0%	0%	0%	0%	0%	0%
EBITDA	**194**	**341**	**412**	**588**	**534**	**598**
Net debt (w/o lease liabilities)	3,460	2,087	2,289	2,238	3,188	4,361
Net debt (w/ lease liabilities)	3,535	2,226	2,442	2,389	3,336	4,506

Balance Sheet	2021a	2022a	2023a	2024e	2025e	2026e
Developed properties	554	70	976	576	576	576
Trade receivables	340	155	138	213	227	246
Prepayments and other receivables	277	224	240	388	430	465
Inventories	13	54	20	33	37	40
Total Current Assets	**1,639**	**1,673**	**2,212**	**1,998**	**1,508**	**1,563**
Investments properties	5,377	5,381	5,434	6,019	7,199	8,560
Developed properties - non-current	0	922	426	426	426	426
Total Non-Current Assets	**6,141**	**7,180**	**6,699**	**7,302**	**8,503**	**9,890**
Total Assets	**7,781**	**8,853**	**8,911**	**9,300**	**10,011**	**11,454**
Current Liabilities	3,078	767	866	1,034	1,102	1,157
Non-current Liabilities	1,704	3,392	3,162	3,060	3,457	4,626
Equity	2,999	4,693	4,883	5,206	5,452	5,670
Total Equity and Liabilities	**7,781**	**8,853**	**8,911**	**9,300**	**10,011**	**11,454**
BVPS	8.0	12.5	13.0	13.9	14.5	15.1

Cashflow	2021a	2022a	2023a	2024e	2025e	2026e
Cashflow from Operations	234	-175	-88	664	280	260
Cashflow from Investing	1	-1	-102	-661	-1,265	-1,464
Cashflow from Financing	-305	892	-143	-52	436	1,202
Total Cashflows	**-70**	**716**	**-333**	**-49**	**-550**	**-2**

Source: Company, GIB Capital

Figure 9: Key ratios

Key ratios	2021a	2022a	2023a	2024e	2025e	2026e
Profitability ratios						
RoA	1%	1%	1%	2%	2%	1%
RoE	2%	2%	1%	4%	3%	3%
Sales/Assets	13%	23%	20%	30%	30%	28%
Net margin	5.3%	5.4%	3.7%	7.8%	5.6%	4.6%
Liquidity ratios						
Currrent Assets/ Current Liabilities	0.5	2.2	2.6	1.9	1.4	1.4
Debt to Total Equity (w/ IFRS liab.)	1.3	0.7	0.7	0.6	0.7	0.8
Receivable Days	121	28	28	28	28	28
Inventory Days	7	12	6	6	6	6
Payable days	38	17	30	30	30	30
Cash conversion cycle	89	23	4	4	4	4
Debt ratios						
Net Debt/EBITDA (w/o IFRS liab.)	17.9	6.1	5.6	3.8	6.0	7.3
Net Debt/EBITDA (w/ IFRS liab.)	18.3	6.5	5.9	4.1	6.2	7.5
Debt/Assets (w/o IFRS liab.)	0.5	0.4	0.4	0.3	0.3	0.4
Net Debt/Equity (w/o IFRS liab.)	1.2	0.4	0.5	0.4	0.6	0.8
Net Debt/Equity (w/ IFRS liab.)	1.2	0.5	0.5	0.5	0.6	0.8
Valuation ratios						
P/E	143.1	71.1	116.2	35.9	47.2	53.2
P/B	2.6	1.7	1.6	1.5	1.4	1.4
EV/EBITDA	42.9	24.4	20.2	14.1	15.6	13.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, GIB Capital

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