

Arabian Centres Co. (ACC) - 1QFY23 Result Review

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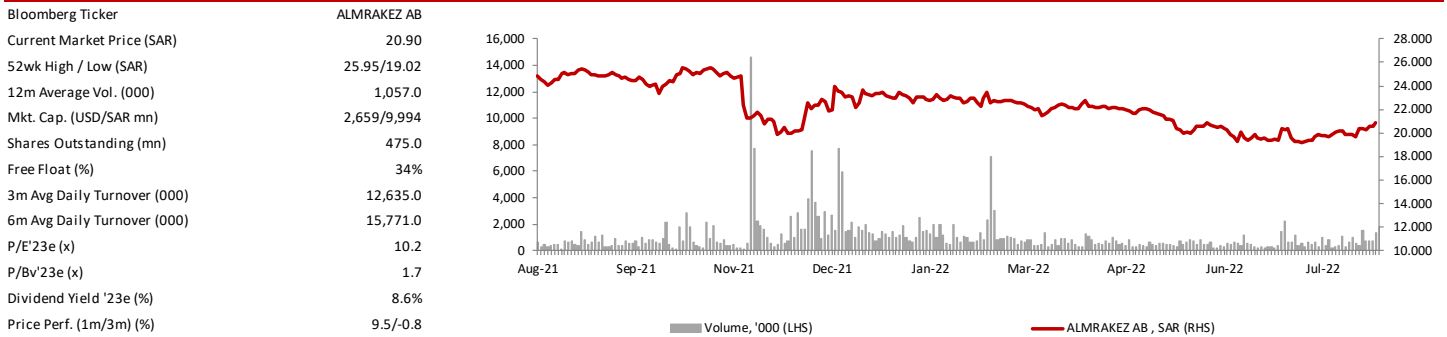
Previous Recommendation: **Accumulate**

Target Price (SAR): **25.50**

Previous Reco. & Date: TP: SAR 25.5 per share; Accumulate on 30-Jun-2022

Current Upside / (Downside): 22%

Date: 8/17/2022



Top-line expands 10% YoY but misses our expectation

Arabian Centres Company's (ACC) revenue in 1Q FY23 (ended June 2022) rose 10% YoY to SAR 563.0mn. However, the revenue was 13% below our estimate which we believe resulted from an expected sale of land at Qassim not materializing. Excluding our partial revenue estimate of about SAR 94mn from the Qassim land plot sale, revenue came in line (+2% variance).

A relatively faster rise in costs constraints operating profit growth

ACC booked a SAR 25mn impairment loss due to a fire incident at the Mall of Dhahran. In addition, a 22.3% YoY jump in G&A expense and SAR 1.6mn loss on equity accounted investee (vs. NIL in 1Q FY22) primarily impacted operating profit which increased at a lesser pace (+4% YoY) vs. revenue. While the revenue was below our estimate, costs exceeded, and as a result, operating profit came in 30% below our forecast.

Higher zakat charges further weigh on the bottom-line

Despite a lower-than-expected operating profit, the zakat expense of SAR 9.3mn was nearly double our estimate. This, we believe, partially led to an increase in a miss at the net profit level (vs. operating profit). Net profit in 1Q FY23 edged up 1% YoY to SAR 127.7mn (47% below our estimate).

Maintain target price

Despite a weaker-than-expected result, we stick to our SAR 25.50 target price on ACC. The rationale behind our stance is that the company is registering continued improvement in the average occupancy at its properties, which at 94.1% on a like-for-like basis exceeded both last year's period and pre-COVID levels. An increase in costs also resulted from expansion and a ramp-up at new properties should aid in improved performance over the coming quarters, in our opinion. We would also like to get more clarity on the Qassim land sale and might come up with an update on our rating or target price if required.

Income Statement												
(SAR mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	4QFY22e	YoY (%)	QoQ (%)	Var (%)	FY21	FY22e	YoY (%)
Sales/Revenue	510.7	497.0	510.6	506.6	563.0	646.1	10%	11%	-13%	1,856.4	2,024.9	9.1%
Gross Profit (Loss)	285.7	266.9	290.4	283.5	306.1	390.7	7%	8%	-22%	1,023.1	1,126.4	10.1%
Operating Profit (Loss)	214.5	183.1	189.9	202.2	223.0	316.5	4%	10%	-30%	816.6	789.8	-3.3%
Net Profit (Loss) after Zakat and tax	126.6	91.6	111.9	131.3	127.7	241.5	1%	-3%	-47%	486.7	433.8	-10.9%
Balance Sheet												
(SAR mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	4QFY22e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	5,821.7	5,912.0	6,025.9	5,800.9	5,910.5	5,690.9	2%	2%	4%			
Key Ratios												
	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	4QFY22e						
Gross Profit Margin	55.9%	53.7%	56.9%	56.0%	54.4%	60.5%						
Operating Profit Margin	42.0%	36.8%	37.2%	39.9%	39.6%	49.0%						
Net Profit Margin	24.8%	18.4%	21.9%	25.9%	22.7%	37.4%						
Return on Equity (RoE)	8.7%	6.2%	7.4%	9.1%	8.6%	17.0%						
Annualized EPS (SAR)	0.27	0.19	0.24	0.28	1.08	0.51						
BVPS (SAR)					12.44	11.98						
TTM P/E (x)					21.5							
Current P/BV (x)					1.7							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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