

## Kuwait Real Estate Sector

December - 2014

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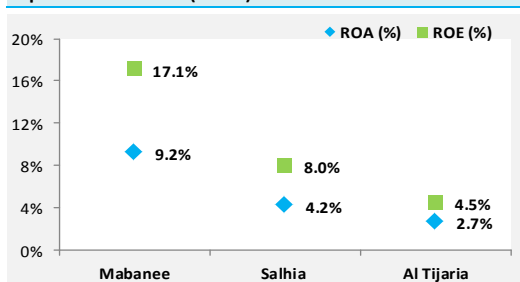
Company Name	CMP (25 Dec 14)	Target Price	Upside/Downside	KAMCO Rating
<b>Mabane Co.</b>	<b>0.970</b>	<b>1.183</b>	<b>+22.0%</b>	<b>Outperform</b>
<b>Commercial Real Estate</b>	<b>0.094</b>	<b>0.106</b>	<b>+12.7%</b>	<b>Outperform</b>
<b>Salhia Real Estate</b>	<b>0.375</b>	<b>0.379</b>	<b>+1.0%</b>	<b>Neutral</b>

**Listed companies in the real estate sector in Kuwait have seen a profitability turnaround starting 2012 with cumulative net profits of KWD 397 million recorded during 2012, 2013 and 9M-2014 supported by increase in operational revenues and lower levels of booked provisions and impairments.** This positive performance came after a streak of losses reported by a majority of the real estate companies during 2009, 2010 and 2011, with the exception of a few operationally strong companies, post the financial crisis led by a steep decline in overall business activity. The sector recorded cumulative losses of KWD 362 million during 2009-2011, mainly due to the drop in revenues generated from core real estate activity that declined to its lowest level of KWD 228.4 million in 2009. This was in addition to provisions and impairments booked against investment in securities and projects under construction that further pushed the sector into losses.

**Financial leverage for the sector stood at 0.69x by the end of September-2014** which we consider to be at a healthy level compared to other sectors in the Kuwaiti market . During 9M-2014, total debt for the sector registered an increase of 11.3%, or KWD 179 million, to reach KWD 1.76 billion by the end of September 2014.

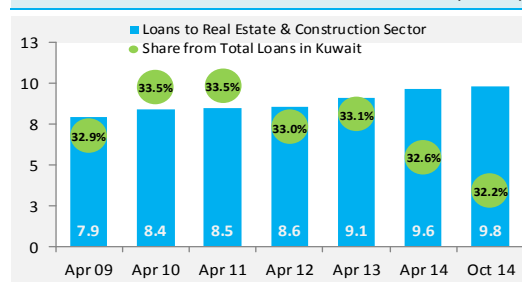
**On the Real Estate activity, due to higher average real estate prices in the Kuwait seen during the last 5 years, the average transaction size reached KWD 0.553 million in 2014 compared to KWD 0.298 million in 2010, an increase of 85.3% over the same period.**

### Expected ROE & ROA (2015e)



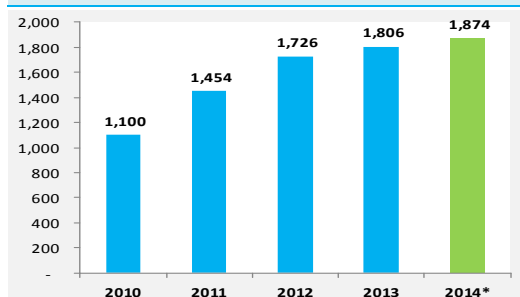
Source: KAMCO Research

### Credit Facilities to Real Estate & Construction Sector (KWD Bn)



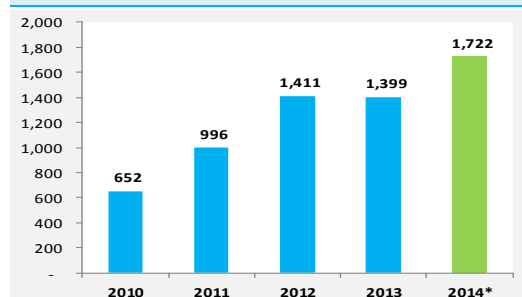
Source: Central Bank of Kuwait

### Residential Property Sales in Kuwait (KWD Mn)



Source: Ministry of Justice - Kuwait  
\* KAMCO Estimates based on 11 actual months

### Investment Property Sales in Kuwait (KWD Mn)



Source: Ministry of Justice - Kuwait  
\* KAMCO Estimates based on 11 actual months

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## Kuwait Real Estate Sector

The Real Estate Sector in Kuwait was one of the most severely affected sectors since the onset of the financial crisis in 2008. Retrenchment and restructuring became the theme during the post-crisis period as real estate developers were looking at ways to mitigate potential losses and boost liquidity. Meanwhile, banks tried to stabilize their loan portfolio to avoid further provisions that reached unprecedented levels in 2008 and 2009. Also, a number of listed real estate companies started to focus on core operations (during 2010-2014) and diversify away from over reliance on investment income which became a major threat given the sharp increase in volatility and the massive losses incurred by the local and international bourses. The financial and credit turmoil had dried up a large portion of the revenue stream, especially those earned from equity investments in addition to the sharp reduction in real estate activity, fall in property prices, and the decline in rent. Amid all this chaos, real estate companies adjusted their strategies to focus on cost cutting as new development projects were completed and launched in the market.

Growth during the last 5 years witnessed in the Kuwaiti Real Estate sector was affected adversely by the depreciation in the value of properties across different segments as well as the tight credit market conditions. In addition, there has been a drop in new real estate projects due to the lack of resources to fund such projects as well as the risk aversion attitude adopted by most developers especially when it came to participating in BOT projects.

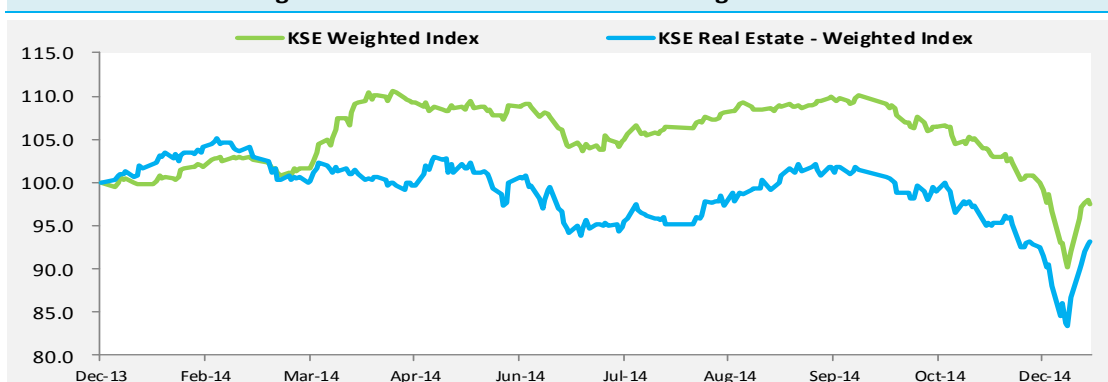
Overall, the financial standing of the Real Estate Sector (listed companies) remains healthy despite the lack of primary income sources and unfavorable business environment. On the other hand, the sector remains exposed to equity investments in securities and associated companies which will keep the overall risk relatively high especially with renewed fears from further deterioration in asset prices and its impact on the performance of the sector.

### Real Estate Sector Performance - Market Performance

In line with the overall stock market performance and of the sectors on KSE, the Real Estate Sector saw steep decline during the last quarter of 2014 as market sentiments turned bearish due to the ongoing slide in oil prices that shaped the sector's and the Kuwait exchange's performance during the 2nd half of 2014. Since the beginning of October 2014 until December 25, 2014, the Real Estate Sector Index declined by 8.0% while the KSE Weighted index dropped by 10.7% over the same period after oil prices declined to four-year low levels at sub-USD 60/barrel.

The Real Estate Sector Weighted Index has shed 6.9% since the beginning of 2014 resulting in market capitalization decline of KWD 245 million to reach KWD 2.41 billion by December 25<sup>th</sup>, 2014. On the other hand, KSE Weighted index declined by 2.5% during the same period to lose around KWD 1.16 billion for its market capitalization.

**Real Estate Sector Weighted Index Performance vs. KSE Weighted Index since Jan 2014**



Source: KSE & KAMCO Research (Rebased Index 100)

## Kuwait Economic Indicators

Kuwait is the 4th largest economy in the GCC region with a GDP of KWD 49.8 billion as of 2013 that is expected to reach KWD 50.6 billion in 2014. In real terms, GDP growth still remains subdued owing to the sluggish economic conditions across the globe.

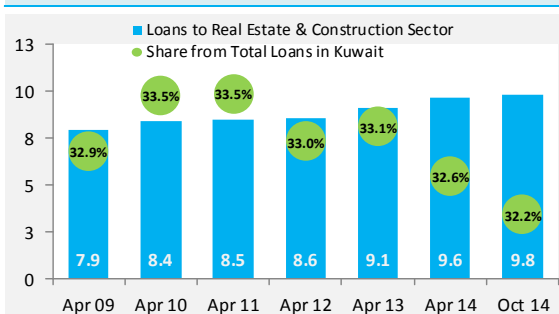
Credit facilities extended by Kuwaiti banks during the first 10 months of 2014 continued with the upward momentum seen during 2013 as it increased by 4.9% to reach KWD 30.38 billion at the end of October-2014. Personal facilities and credit to the real estate sector and the construction sector increased by 2.7% to reach KWD 9.78 billion at the end of October 2014 as compared to KWD 9.61 billion level at the end of December 2013. During the same period in 2013, credit facilities to real estate and construction sector saw a higher growth rate of 7.1%.

Given the slowdown in local property market and the challenging operating environment faced by Real Estate companies and contractors in Kuwait, local banks' exposure to this sector (32.2% of banks' loan portfolios) indicates that further correction in the property market might expose local banks to additional credit risk.

Despite the conservative lending policies and low appetite by banks to extend credit, along with the restructuring of corporate debt and the ongoing delay in implementing a dozen of infrastructure and economic projects, the credit market has witnessed signs of recovery in 2013 and 1H-14.

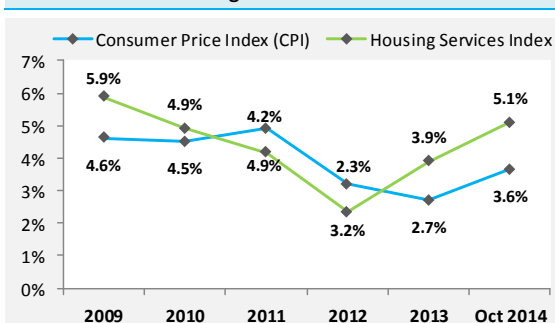
Inflation represented by housing services index recorded the highest inflation rate during the last 4 years (2010-Oct 2014) to reach 5.1% during the first 10 months of 2014 compared to a lower rate of 3.9% registered in 2013. On the other hand, the Consumer price Index (CPI) increased to 3.6% during the first 10 months compared to lowest level seen during the last 5 years of 2.7% witnessed in 2013.

### Credit Facilities to Real Estate & Construction Sector (KWD Bn)



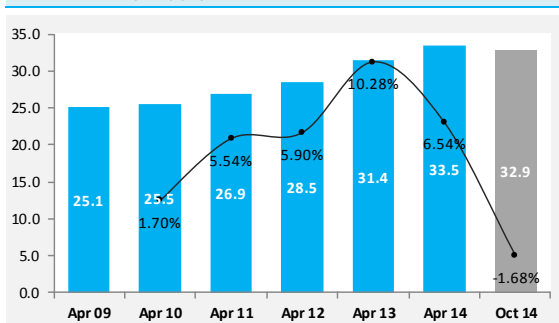
Source: Central Bank of Kuwait

### Inflation - CPI vs. Housing Services Index in Kuwait



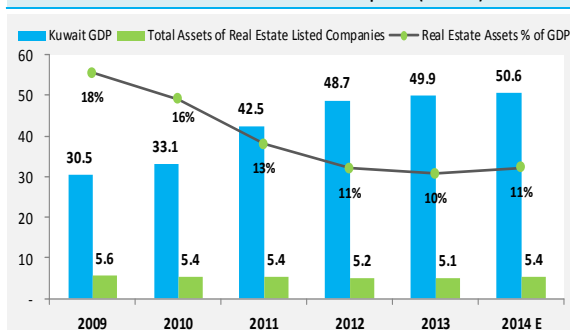
Source: Kuwait Central Statistical Bureau

### Kuwait Money Supply - M2 (KWD Bn)



Source: Central Bank of Kuwait

### Kuwait GDP vs. Total Assets of Real Estate Listed Companies (KWD Bn)



Source: IMF & KAMCO Research

## Real Estate Segment Analysis

Comprising of three major segments; Residential, Investment and Commercial Properties; the Real Estate Sector's total annual sales has seen a significant increase since 2010 after being severely hit by the financial crisis in 2008 and 2009. Total real estate sales almost doubled in 2014 to reach KWD 4.27 billion as compared to KWD 2.02 billion recorded in 2010, representing an increase of 111.2% over the same period.

On the other hand, due to higher real estate prices during the last 5 years the average transaction size reached KWD 0.553 million in 2014 compared to KWD 0.298 million in 2010 recording an increase of 85.3% over the same period. The highest average transactions size registered by the commercial property segment amounted to KWD 5.7 million compared to an average of KWD 3.18 million seen in 2010.

The Residential Segment of the real estate market in Kuwait primarily consists of properties under the government housing program known as, the Public Authority for Housing Welfare (PAHW), thereby, making the Residential segment the largest and the most important in this sector. Residential property sales grew at a 4-year CAGR of 14.2% to reach KWD 1.87 billion in 2014 compared to KWD 1.1 billion in 2010.

Despite the increase in sales of the residential properties, this segment has seen a decline in its market share during the last 5 years which decreased from 54.5% in 2010 to reach a low of 43.9% in 2014. This decline in market share mainly emanated from the significant increase in sales witnessed in the Investment Properties segment during the same period which grew at a 4-year CAGR of 27.5% to reach KWD 1.72 billion in 2014 as compared to KWD 0.65 billion registered in 2010. As a result, the market share of investment property sales increased from 32.3% in 2010 to 40.4% of the total real estate sales.

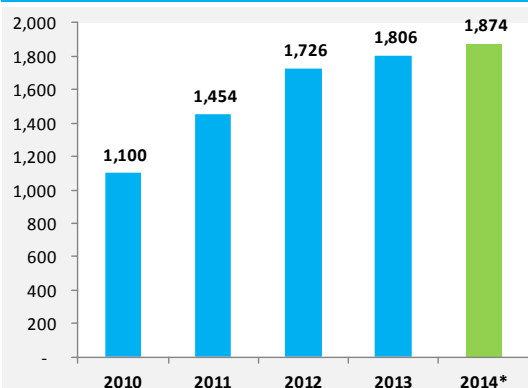
Total sales figure for the Commercial properties segment grew at a 4-year CAGR of 25.4% to reach KWD 566 million in 2014 compared to KWD 229 million in 2010. More recently, this segment has seen increased focus resulting in increasing number of commercial buildings and new malls, hotels and resorts.

Real Estate Sales	2010	2011	2012	2013	2014*
<b>Sales (KWD Mn)</b>					
Residential property	1,100	1,454	1,726	1,806	1,874
Investment property	652	996	1,411	1,399	1,722
Commercial property	229	231	252	397	566
Other properties	38	28	42	78	104
<b>Total Sales (KWD Mn)</b>	<b>2,020</b>	<b>2,709</b>	<b>3,431</b>	<b>3,680</b>	<b>4,266</b>
<b>Number of transactions</b>					
Residential property	5,102	5,924	7,848	6,189	5,775
Investment property	1,554	1,491	1,597	1,738	1,749
Commercial property	72	76	75	103	99
Other properties	40	19	39	72	93
<b>Total Number of transactions</b>	<b>6,768</b>	<b>7,510</b>	<b>9,559</b>	<b>8,102</b>	<b>7,716</b>
<b>Average Transaction size (KWD Mn)</b>					
Residential property	0.216	0.245	0.220	0.292	0.324
Investment property	0.420	0.668	0.884	0.805	0.985
Commercial property	3.177	3.034	3.359	3.852	5.701
Other properties	0.953	1.494	1.078	1.085	1.125

Source: Ministry of Justice - Kuwait

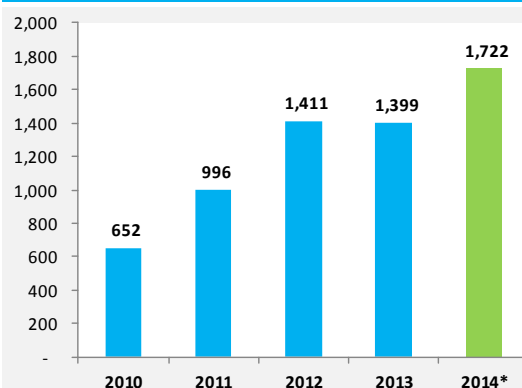
\* KAMCO Estimates based on 11 actual months

Note: Other Property consist of Industrial, Warehousing and Coast Side Properties

**Residential Property Sales in Kuwait (KWD Mn)**

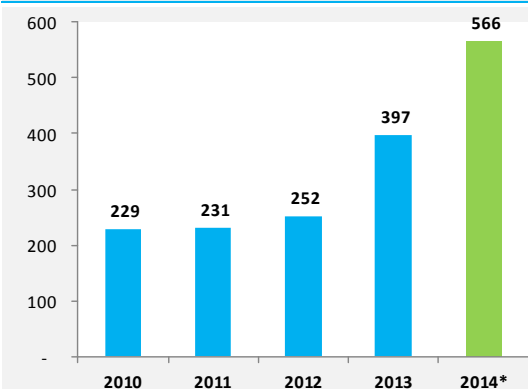
Source: Ministry of Justice - Kuwait

\* KAMCO Estimates based on 11 actual months

**Investment Property Sales in Kuwait (KWD Mn)**

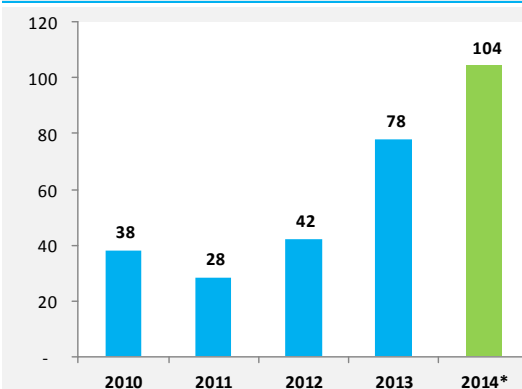
Source: Ministry of Justice - Kuwait

\* KAMCO Estimates based on 11 actual months

**Commercial Property Sales in Kuwait (KWD Mn)**

Source: Ministry of Justice - Kuwait

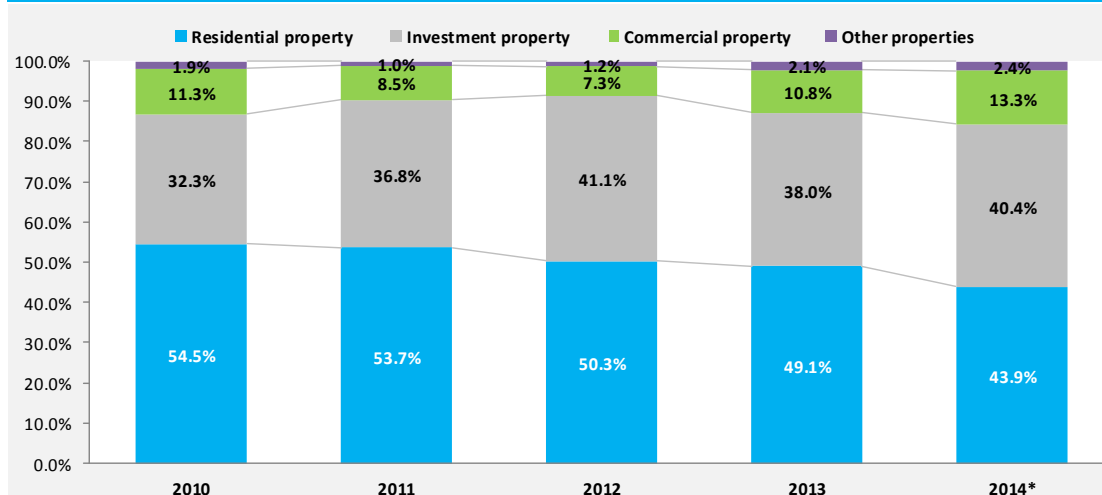
\* KAMCO Estimates based on 11 actual months

**Other Properties Sales in Kuwait (KWD Mn)**

Source: Ministry of Justice - Kuwait

\* KAMCO Estimates based on 11 actual months

Note: Other Property consist of Industrial, Warehousing and Coast Side Properties

**Breakdown of Properties Sales by value (2010-2014\*)**

Source: Ministry of Justice - Kuwait

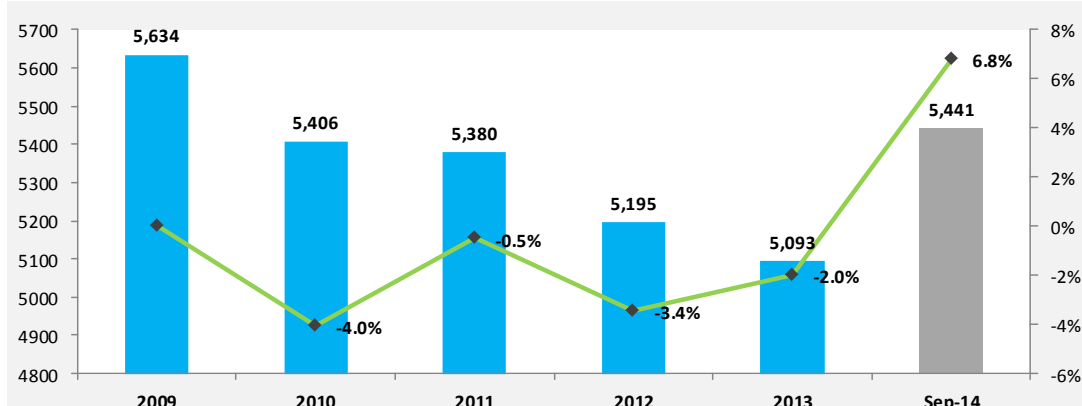
\* KAMCO Estimates based on 11 actual months

## Fundamental Analysis

*Coverage in the fundamental analysis section includes only the 38 Real Estate companies which were listed on the Kuwait Stock Exchange by the end of December 2014.*

During the first 9 months of 2014, the total assets base of the real estate sector jumped from KWD 5.09 billion to KWD 5.44 billion at the end of September 2014, representing an increase of 6.8%. The effects of the financial crisis were evident on the Real Estate Sector, where it declined from its high levels in 2009 when it reached KWD 5.63 billion to its lowest levels of KWD 5.09 billion seen at the end of December 2013.

**Kuwait Real Estate Sector - Total Assets (2009 - Sep 2014) - KWD Mn**



Source: KAMCO Research & RE Companies Financial Statements

During 2009-2013, the Real Estate sector witnessed a decline of 9.6% in total assets, equivalent to a decrease of KWD 540 million, to record KWD 5.09 billion by the end of 2013 in comparison with KWD 5.63 billion by the end of 2009; this is due mainly to the drop in value of investment properties and equity investments triggered by the correction in the local property market and the sharp losses that hit the local & international capital markets.

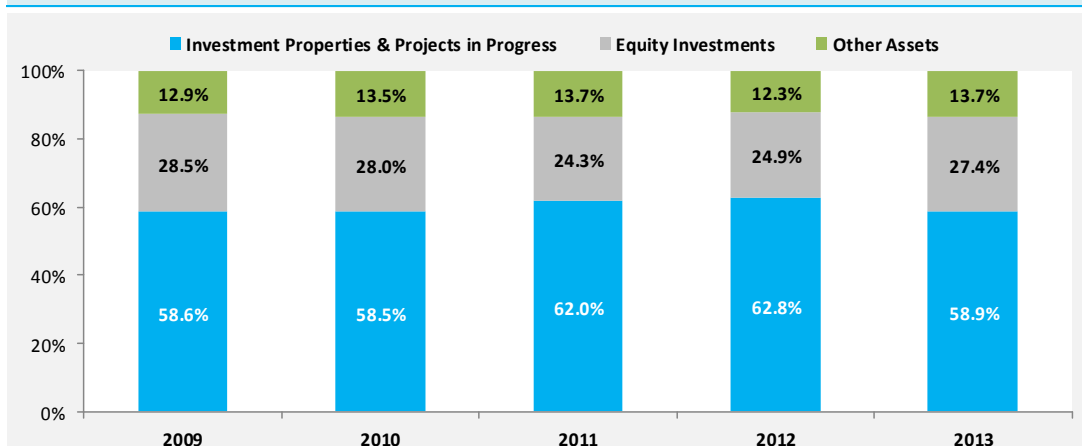
KWD Mn	2009	2010	2011	2012	2013
<b>Sector's Balance Sheet</b>					
Cash & Cash Equivalents	185.5	180.5	177.5	165.9	186.9
Accounts Receivables & Due to Related Parties	428.4	412.4	363.1	339.1	348.0
Equity Investments	975.5	895.2	791.6	756.1	744.8
Investment in Associated & Unconsolid. Subsidiaries	628.3	618.0	514.0	537.5	652.0
Investment Properties & Projects in Progress	3,301.7	3,163.2	3,336.7	3,264.8	2,998.9
Other Assets	114.2	136.9	196.5	131.7	162.7
<b>Total Assets</b>	<b>5,633.6</b>	<b>5,406.1</b>	<b>5,379.5</b>	<b>5,195.1</b>	<b>5,093.3</b>
Bank Loans & Borrowings	1,945.2	1,863.6	1,860.4	1,746.3	1,581.4
Accounts Payable & Other Credit Balances	758.8	710.2	782.4	705.2	638.0
Other Liabilities	90.5	98.4	56.8	85.8	62.8
<b>Total Liabilities</b>	<b>2,794.6</b>	<b>2,672.2</b>	<b>2,699.6</b>	<b>2,537.2</b>	<b>2,282.1</b>
Minority Interest	253.3	195.3	268.0	170.2	158.3
<b>Shareholders' Equity</b>	<b>2,585.7</b>	<b>2,538.6</b>	<b>2,411.9</b>	<b>2,487.8</b>	<b>2,652.9</b>
<b>Total liabilities and equity</b>	<b>5,633.6</b>	<b>5,406.1</b>	<b>5,379.5</b>	<b>5,195.1</b>	<b>5,093.3</b>

Source: KAMCO Research & R.E Companies Financial Statements

Investment properties witnessed the largest drop of KWD 303 million to record KWD 3.0 billion at the end of 2013 down from KWD 3.3 billion in 2009. This decline was in large part due to the depreciation in the value of Real Estate properties, delay in implementing projects due to shortage in liquidity and the efforts of many Real Estate companies to divest part of their real estate portfolios in order to raise cash for paying off debt obligations and finance their operations.

The value of equity investments (Investment Portfolios) dropped KWD 207 million to KWD 1.4 billion by the end of 2013 as compared to KWD 1.60 billion in 2009. This decline is mainly attributed to the sharp losses in regional and international equity markets during the year 2010 along with liquidating investment portfolios to raise cash and honor debt obligations. Many of the real estate companies have been forced to liquidate part of their investment properties and equity investments to finance their operations in the midst of the current tight credit conditions where many real estate companies have no access to the local and regional credit markets.

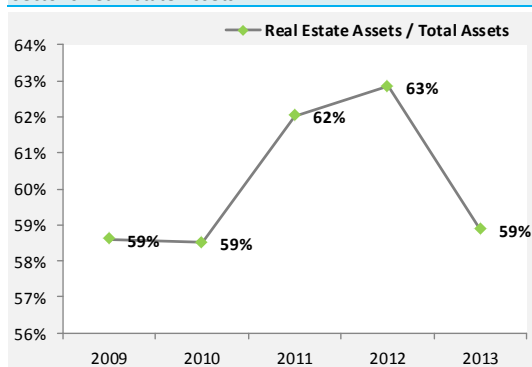
**Real Estate Sector - Asset Structure (2009 - 2013)**



Source: KAMCO Research & RE Companies Financial Statements

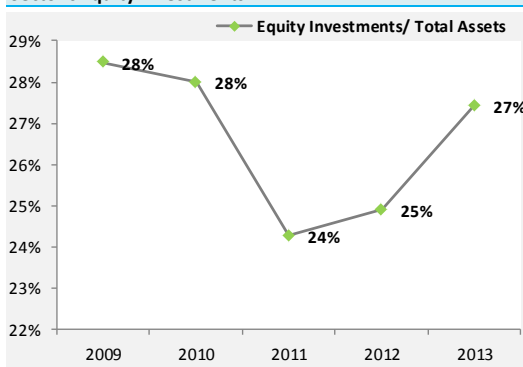
The asset structure for the real estate sector in Kuwait can be divided into two major parts, real estate assets and equity investment assets. The structure remain at the same levels for each segment during the last 5 years, non-core activities equity investments for the sector contributing about 27.4% or KWD 1.4 billion, while the core real estate assets contributed 59% or KWD 3.0 billion at the end of Dec-2013.

**Sector's Real Estate Assets**



Source: KAMCO Research and Companies Financial Statements

**Sector's Equity Investments**

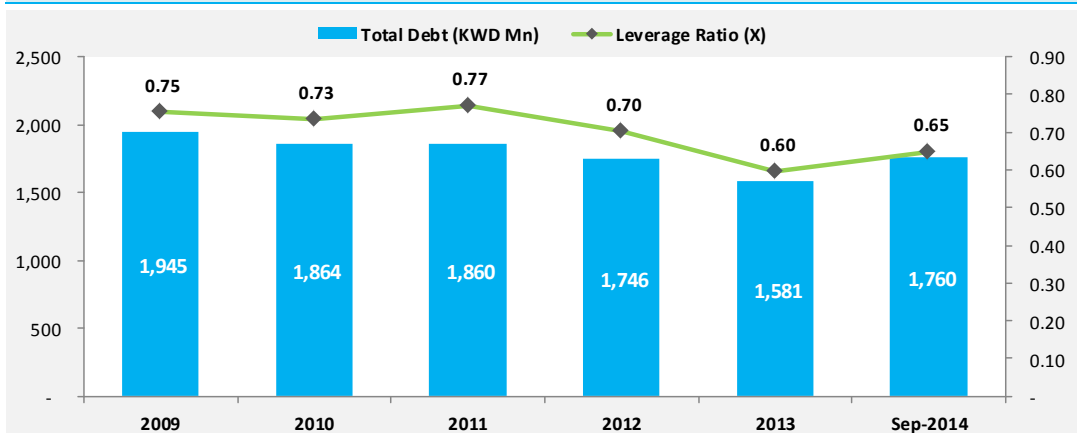


Source: KAMCO Research and Companies Financial Statements

## Debt and Financial Leverage

The level of borrowings for the real estate sector has been declining since 2009 till 2013 primarily due to the tight credit conditions in the local and international credit markets and the fragile operating environment which is affecting the financial standing of the sector. Some companies are facing difficulties in paying off their debt obligations due to the lack of robust sources of income as well as the oversupply of properties and the scarcity of demand. During the same period total debt declined by 18.7%, or KWD 364 million to reach KWD 1.58 million by the end of Dec-2013.

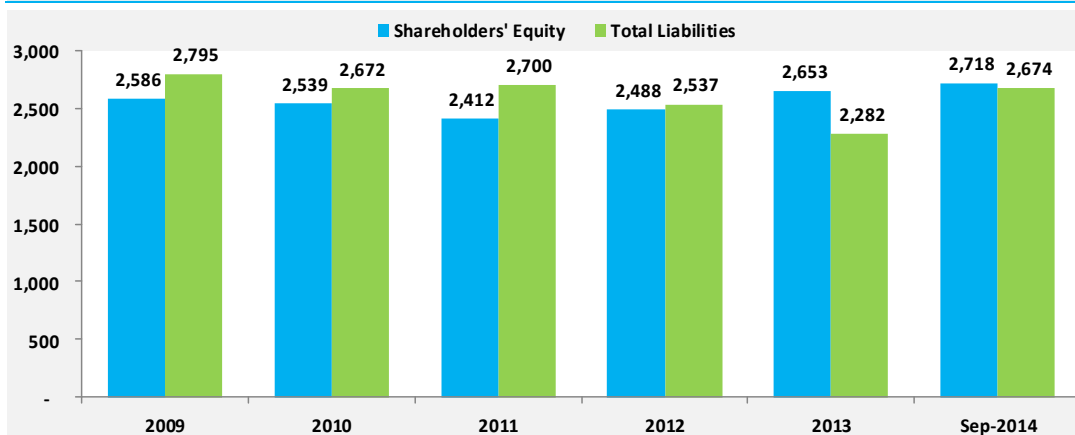
## Kuwait Real Estate Sector - Debt and Leverage Ratio (2009 - Sep 2014) - KWD Mn



Source: KAMCO Research & RE Companies Financial Statements

During the 9M-2014, total debt for the sector registered an increase of 11.3%, or KWD 179 million, to reach KWD 1.76 billion by the end of September 2014. On the other hand, the sector's shareholders' equity base remained robust ranging between KWD 2.4 billion and KWD 2.65 billion level over the past 5 years. As a result, the financial leverage for the Real Estate sector registered 0.69x by the end of September-2014 which is considered an acceptable and healthy ratio compared to other sectors in the Kuwaiti market. Given the slowdown in local property market and the challenging operating environment faced by Real Estate companies and contractors in Kuwait, local banks' exposure to this sector (32.2% of banks' loan portfolios) indicates that further correction in the property market might expose local banks to additional credit risk.

## Kuwait Real Estate Sector - Shareholders Equity and Total Liabilities (2009 - Sep 2014) - KWD Mn



Source: KAMCO Research & RE Companies Financial Statements

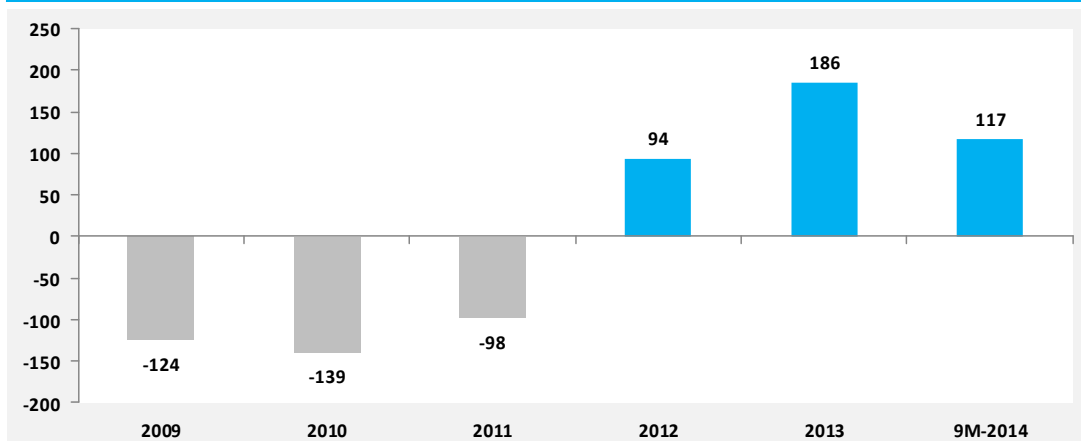
## Sector's Profitability

With the exception of a few strong operational companies, the Real Estate sector has been posting losses after the financial crisis which was struggling during 2009, 2010 and 2011 to improve its profitability. The sector recorded a three years cumulative losses of KWD 362 million during 2009-2011, mainly due to the drop in revenues generated from real estate activities that declined in 2009 to its lowest level of KWD 230.7 million in addition to provisions and impairments booked against investment in securities and projects under construction also weighed down on the Sectors' profitability. During 9M-2014, listed Real Estate companies announced their financial results with net profit dropping 16.9% to KWD 117.0 million down from KWD 140.8 million reported during the same period in 2013.



Provisions and impairments booked by Real Estate companies listed on the Kuwait Stock Exchange reached high levels in 2009, 2010 and 2011 at KWD 134.5 million, KWD 135.0 million and KWD 126.0 million, respectively. This massive amount of provisions and impairments followed a period of high speculations when real estate prices soared and became very attractive (speculative) to investors.

**Real Estate Sector - Profitability Trend (2009 - Sep 2014) - KWD Mn**



Source: KAMCO Research & RE Companies Financial Statements

Starting 2012, the Real Estate Sector turned its bottom line to show a positive numbers to record a cumulative profits of KWD 397 million during the 2012, 2013 and 9M-2014 supported by the increase in the operational revenues and lower levels of booked provisions and impairments.

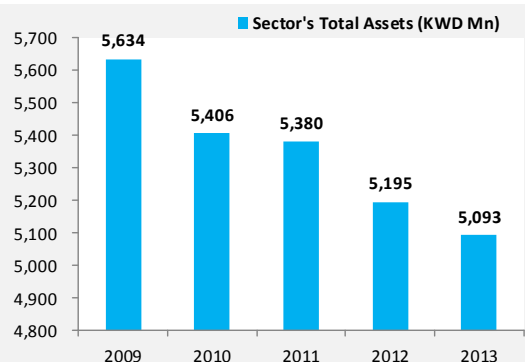
During 2013, the sector's income of real estate activities increased by 30.7%, or KWD 98 million KWD compared to the FY 2012, while in comparison with last 5 years the income from real estate activities increased by 80%, or KWD 185 million compared to income registered during FY 2009, indicating a pickup in the property market. Provisions for the impairments of investments which amounted to KWD 24 million and KWD 55 million in 2012 and 2013, albeit lower than those booked in 2009, 2010 and 2011, continued to add pressure on the Sector's bottom line which reported a net profit of KWD 94.1 million in 2012 and KWD 185 million in 2013.

KWD Mn	2009	2010	2011	2012	2013
<b>Sector's Income Statement</b>					
Income from Real Estate Activities	230.7	260.0	367.8	318.1	415.8
Investment Income / (Loss)	23.9	(33.4)	(13.1)	37.7	79.7
Other Income / (Loss)	(1.0)	1.8	13.0	17.1	22.4
<b>Total Revenues</b>	<b>253.5</b>	<b>228.4</b>	<b>367.6</b>	<b>372.9</b>	<b>517.9</b>
Operating Expenses	(162.7)	(191.0)	(273.2)	(201.1)	(204.6)
Finance Charges	(80.2)	(73.1)	(69.9)	(69.3)	(58.5)
<b>Income from Operations</b>	<b>10.6</b>	<b>(35.6)</b>	<b>24.5</b>	<b>102.5</b>	<b>254.8</b>
Impairments & Provisions	(134.5)	(135.0)	(126.0)	(24.1)	(55.0)
Other Income / (Expenses)	(0.5)	31.5	3.6	15.7	(14.1)
<b>Net Profit / (Loss)</b>	<b>(124.5)</b>	<b>(139.1)</b>	<b>(98.0)</b>	<b>94.1</b>	<b>185.7</b>

Source: KAMCO Research & R.E Companies Financial Statements

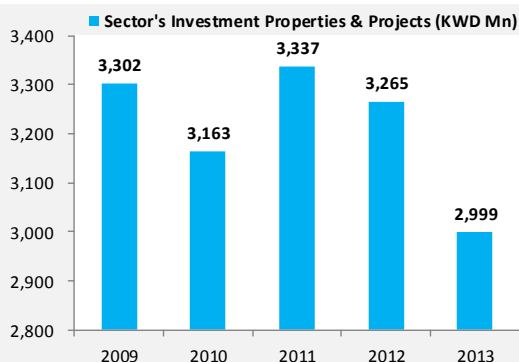
## Kuwait Real Estate Sector - Financial Indicators (2009-2013)

### Sector's Total Assets (KWD Mn)



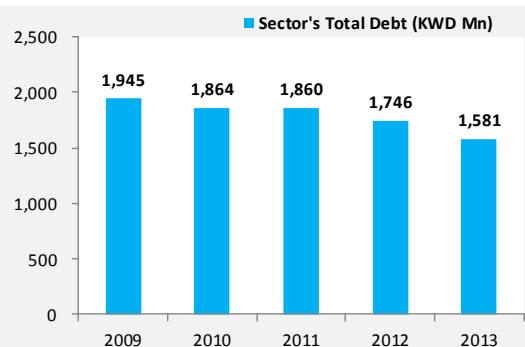
Source: KAMCO Research and Companies Financial Statements

### Sector's Investment Properties & Projects (KWD Mn)



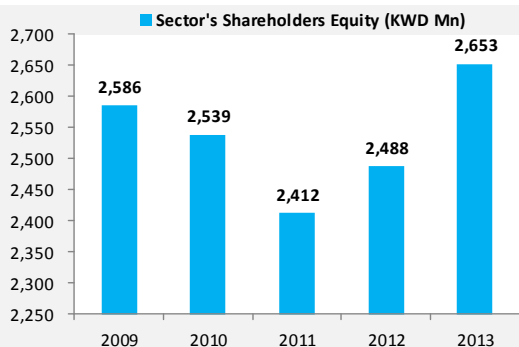
Source: KAMCO Research and Companies Financial Statements

### Sector's Total Debt (KWD Mn)



Source: KAMCO Research and Companies Financial Statements

### Sector's Shareholders Equity (KWD Mn)



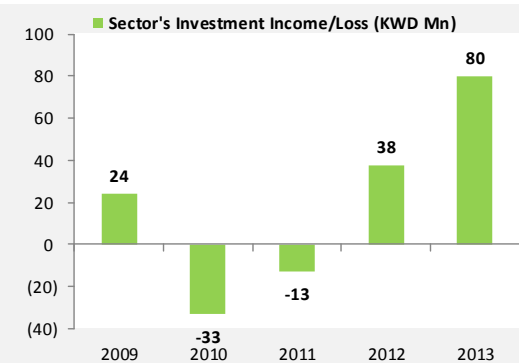
Source: KAMCO Research and Companies Financial Statements

### Sector's Income from Real Estate Activities (KWD Mn)



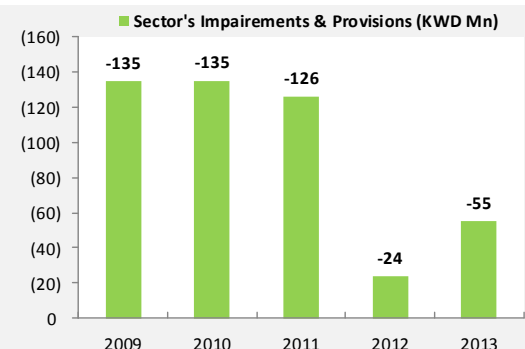
Source: KAMCO Research and Companies Financial Statements

### Sector's Investment Income/Loss (KWD Mn)



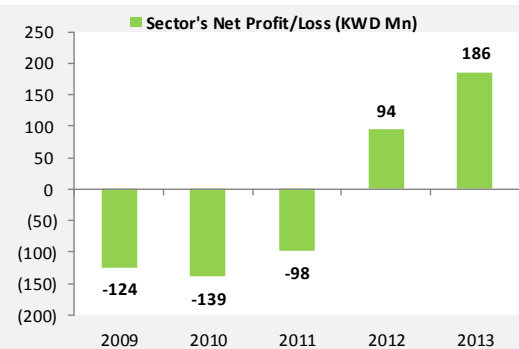
Source: KAMCO Research and Companies Financial Statements

### Sector's Impairments & Provisions (KWD Mn)



Source: KAMCO Research and Companies Financial Statements

### Sector's Net Profit/Loss (KWD Mn)



Source: KAMCO Research and Companies Financial Statements

## Kuwait Real Estate Sector - Key Financial Indicators (2009-2013)

KWD Mn	2009	2010	2011	2012	2013
<i>Sector's Balance Sheet</i>					
Cash & Cash Equivalents	185.5	180.5	177.5	165.9	186.9
Accounts Receivables & Due to Related Parties	428.4	412.4	363.1	339.1	348.0
Equity Investments	975.5	895.2	791.6	756.1	744.8
Investment in Associated & Unconsolid. Subsidiaries	628.3	618.0	514.0	537.5	652.0
Investment Properties & Projects in Progress	3,301.7	3,163.2	3,336.7	3,264.8	2,998.9
Other Assets	114.2	136.9	196.5	131.7	162.7
<b>Total Assets</b>	<b>5,633.6</b>	<b>5,406.1</b>	<b>5,379.5</b>	<b>5,195.1</b>	<b>5,093.3</b>
Bank Loans & Borrowings	1,945.2	1,863.6	1,860.4	1,746.3	1,581.4
Accounts Payable & Other Credit Balances	758.8	710.2	782.4	705.2	638.0
Other Liabilities	90.5	98.4	56.8	85.8	62.8
<b>Total Liabilities</b>	<b>2,794.6</b>	<b>2,672.2</b>	<b>2,699.6</b>	<b>2,537.2</b>	<b>2,282.1</b>
Minority Interest	253.3	195.3	268.0	170.2	158.3
<b>Shareholders' Equity</b>	<b>2,585.7</b>	<b>2,538.6</b>	<b>2,411.9</b>	<b>2,487.8</b>	<b>2,652.9</b>
<b>Total liabilities and equity</b>	<b>5,633.6</b>	<b>5,406.1</b>	<b>5,379.5</b>	<b>5,195.1</b>	<b>5,093.3</b>

KWD Mn	2009	2010	2011	2012	2013
<i>Sector's Income Statement</i>					
Income from Real Estate Activities	230.7	260.0	367.8	318.1	415.8
Investment Income / (Loss)	23.9	(33.4)	(13.1)	37.7	79.7
Other Income / (Loss)	(1.0)	1.8	13.0	17.1	22.4
<b>Total Revenues</b>	<b>253.5</b>	<b>228.4</b>	<b>367.6</b>	<b>372.9</b>	<b>517.9</b>
Operating Expenses	(162.7)	(191.0)	(273.2)	(201.1)	(204.6)
Finance Charges	(80.2)	(73.1)	(69.9)	(69.3)	(58.5)
<b>Income from Operations</b>	<b>10.6</b>	<b>(35.6)</b>	<b>24.5</b>	<b>102.5</b>	<b>254.8</b>
Impairments & Provisions	(134.5)	(135.0)	(126.0)	(24.1)	(55.0)
Other Income / (Expenses)	(0.5)	31.5	3.6	15.7	(14.1)
<b>Net Profit / (Loss)</b>	<b>(124.5)</b>	<b>(139.1)</b>	<b>(98.0)</b>	<b>94.1</b>	<b>185.7</b>

Key Ratios	2009	2010	2011	2012	2013
Return on Average Assets (%)	NM	NM	NM	1.8%	3.6%
Return on Average Equity (%)	NM	NM	NM	3.8%	7.2%
ROA (%)	NM	NM	NM	1.8%	3.6%
ROE (%)	NM	NM	NM	3.8%	7.0%
Net Profit Margin (%)	NM	NM	NM	29.6%	44.7%
Real Estate Income / Total Income	91.0%	113.8%	100.0%	85.3%	80.3%
Operating Profit Margin	4.2%	-15.6%	6.7%	27.5%	49.2%
Real Estate Assets / Total Assets	58.6%	58.5%	62.0%	62.8%	58.9%
Equity Investments / Total Assets	28.5%	28.0%	24.3%	24.9%	27.4%
Total Debt / Equity (X)	0.75	0.73	0.77	0.70	0.60

<i>Sector's Trading Data &amp; Valuation Multiples</i>					
Market Capitalization (KWD Mn)	1,969	1,807	1,635	2,109	2,505
Paid Dividends (KWD Mn)	15.5	19.5	43.2	60.0	66.4
Volume Traded (Shares Mn)	23,014	15,564	9,059	22,304	43,621
Value Traded (KWD Mn)	2,157	1,246.6	730.4	1,401.7	3,059.7
Deals ('000)	362.4	163.4	121.4	322.5	671.1
Price to Earnings Multiple (X)	NM	NM	NM	22.4	13.5
Price to Book Value Multiple (X)	0.76	0.71	0.68	0.85	0.94
Dividend Yield (%)	0.8%	1.1%	2.6%	2.8%	2.7%

Source: KAMCO Research and Companies Financial Statements

# Mabane Co.

## Investment Thesis

We are initiating coverage on Mabane Co. with an Outperform rating and a price target of KWD 1.183 per share representing an upside of 22.0% on the stock. The company's topline grew at a 4-years CAGR of 25.8% (2009-2013) supported by the new phases going live at the avenues mall, the single largest revenue driver of the company.

For the forecast period 2014-2018, we expect rental revenue and other revenue to increase at a CAGR of 8%. We expect average revenue growth of 5% during 2014e-2017e, till the time the company prepares to launch the final phase of the Avenues mall. Thereafter, for year 2018e we expect a revenue growth of 21.7% on the back of increase in rental income from the final phase.

We expect that the company will continue to borrow in order to cover the cost of construction related to the expansion of the phase IV of the Avenues Mall, as well as any future plans of expansion in the GCC, without risking neither the company's current operations nor its healthy capital structure. Historically the company managed to borrow a total amount of KWD 230.3 million during the last 5 years (2009-2013) and additional KWD 84.3 million during 9M-2014. During the corresponding period the company successfully repaid a total amount of KWD 250 million, highlighting the company's strong cash generating ability to meet its debt obligations and ongoing expansion plans.

Mabane's net profit declined by 6.5% during the 9M-14 at KWD 36.26 million compared to KWD 38.78 million reported during the same period in 2013. The key reason for lower profits is attributed to the decline in arrangement fees from investors which declined from KWD 12.0 million to KWD 2.17 million which weighed down the overall income from investment properties. On the other hand, revenues from investment properties reached around KD 51.8 million during the first nine month of 2014 compared to KWD 45.2 million recorded during the same period in 2013, in addition to a total of KWD 5.8 million coming from the arrangement and advertising fees for tenants.

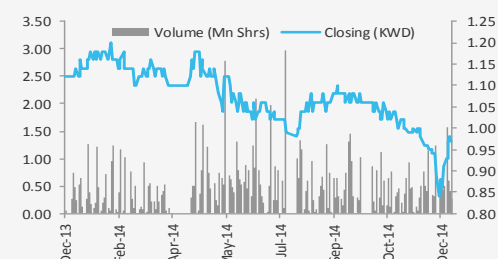
Key Indicators	2013	2014e	2015e	2016e	2017e	2018e
Revenue (KWD Mn)	86.2	87.6	92.5	96.4	104.7	126.0
Net Profit	47.9	48.4	50.5	51.8	55.6	69.5
Leverage (X)	0.56	0.64	0.52	0.50	0.48	0.31
ROAA (%)	12.1%	10.4%	9.4%	9.1%	8.9%	10.6%
ROAE (%)	22.6%	19.7%	18.1%	16.6%	16.0%	17.7%
EPS (KWD)	0.068	0.065	0.068	0.070	0.075	0.094
BVP (KWD)	0.327	0.355	0.400	0.446	0.497	0.565
PE (X)	16.36	14.81	14.18	13.82	12.89	10.30
PB (X)	3.43	2.73	2.42	2.17	1.95	1.72
Yield (%)	2.23%	2.36%	2.47%	2.53%	2.72%	3.40%

## Outperform

CMP 25-Dec-14 KWD 0.970

Target Price KWD 1.183

Upside/Downside +22.0%



Price Perf.	1M	3M	12M
Absolute	-3.0%	-10.2%	-10.7%
Relative	1.8%	1.0%	-8.1%

### Stock Data

Bloomberg Ticker	MABANEE KK
Reuters Ticker	MABK.KW
Last Price (KWD)	0.970
M.Cap (KWD Mn)	717
M.Cap (USD Mn)	2451
52-Week Range (KWD)	1.200/0.840
52-Week ADVT (KWD Mn)	0.481

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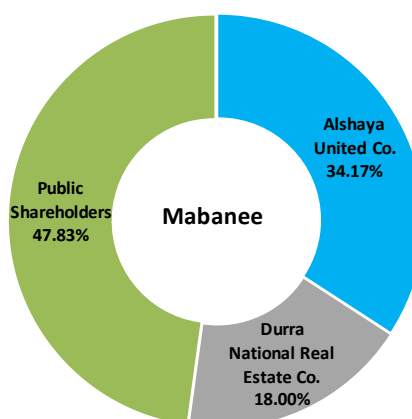
## Company Overview

Mabaneer Co. is a public shareholding real estate company which was listed on the Kuwait Stock Exchange during November 1999 and is currently the largest real estate company in its sector representing around 30% of the total real estate sector market capitalization. The Avenues, owned by Mabaneer Co., which is also the largest mall in Kuwait in terms of Gross Leasable Area (GLA), is currently expanding as the company is working on adding its latest extension of the Grand Avenue and Prestige.

The Avenues mall is designed to include four phases, three of which are currently operational. Phase I of The Avenues started construction during 2004 and opened for operations during April 2007. The phase II of the mall opened in April 2008 adding to the company's success in the previous phase. During November 2012, Mabaneer completed and launched Phase III (Grand Avenues) of the Avenues Mall.

Meanwhile, the construction of phase IV of the mall was initiated during 2014 and expected to be launched after three years. This expansion will add 50,000 sqm of leasable space and will bring the total leasable area in the mall to around 320,000 sqm.

**Mabaneer's Shareholding Structure**



## Subsidiaries of Mabaneer

Company Name	Country	Ownership	Principal Activity
Kuwait Prefabricated Building Co. W.L.L	Kuwait	100.0%	General Trading & Contracting
AL- Rai Real Estate Co.	Kuwait	100.0%	Investments
Second National For Trading and Contracting Co.	Kuwait	100.0%	Investments, general trading and contracting
The Avenues Holding S.A.K.	Kuwait	100.0%	Investments
Fifth Ring Road Company W.L.L.	Kuwait	100.0%	Investments, general trading and contracting
KBCC Realty International Ltd.	B.V.I.	100.0%	Investments
Mabaneer Egypt for Real Estate Development Co.	Egypt	100.0%	Investments in Real Estate
Mabaneer Bahrain Company W.L.L.	Bahrain	100.0%	Investments in Real Estate
The Avenues for Publication, Advertising, Distribution and Technical Production Co.W.L.L.	Kuwait	100.0%	Advertising, publishing, distribution and art production
Al-Rai Logistica K.S.C.	Kuwait	100.0%	Warehousing Facilities, Construction And Management
Rifah Al Khaleej W.L.L.	Saudi Arabia	55.0%	Construction

Source: Mabaneer Financial Statement

## Associates of Mabaneer

Company Name	Country	Ownership	Principal Activity
Injaz Real Estate Building Company W.L.L	Kuwait	40.0%	Real Estate

Source: Mabaneer Financial Statement

## Business Model

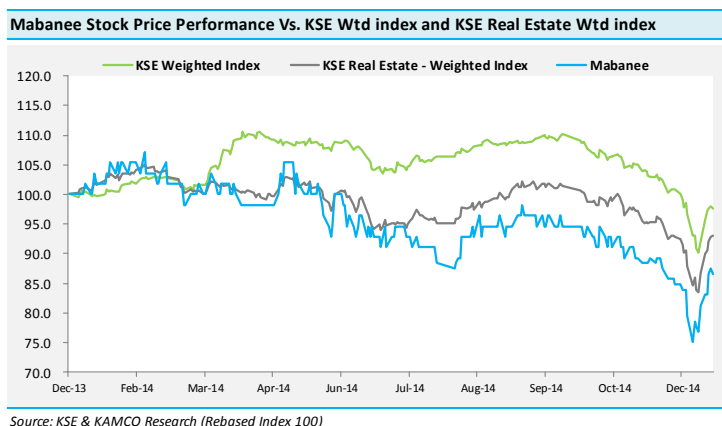
Mabaneer operates as a mall developer-owner-operator and the mall rental income accounts for over 70% to 75% of the company's revenues, while the remainder is driven by advertising services for tenants as well as logistics services. Mabaneer has significant exposure to the local retail market, which makes up 99% of the company's gross leasable area (GLA), while an office building (Mabaneer Office building) accounts for the rest.

Mabaneer's business success depends on its strategic partnerships with local and international retailers, which helps attract other major tenants and local consumers alike. The company's largest shareholder, Al Shaya Group, which owns a 34.17% stake in the company, owns franchise rights in the region for 70 international retail brands. According to Mabaneer, a significant portion of their stores are currently occupied by Al Shaya Group.

### Historical Price Performance

Mabaneer's current share price as on 25 December-2014 was KWD 0.970, recording a year to date decrease of 6.8% (adjusted for dividends) resulting in total market capitalization of KWD 716.6 million.

During the last 52 weeks Mabaneer's closing price reached the highest price of KWD 1.200 while the lowest during the same period was KWD 0.840. Since the listing date in 1999 Mabaneer's price reached the highest price ever of KWD 1.840 on 18 Jun-08 before the financial crisis starts.



Based on the 9M-2014 financial results, trailing twelve month PE multiple works out to be 15.78x as compared to the real estate sector PE of 16.0x, while Mabaneer PB stood at 2.87x compared to 0.91x for the real estate sector.

On the other hand, dividend yield stood at 2.44% below the sector dividend yield of 2.97%. The company's beta stood at 1.41 based on the historical price for more than 5 years. The YTD-2014 capital turnover ratio recorded 14.8%.

### The Avenues Mall

The Avenues mall is the largest mall in the State of Kuwait in terms of GLA and soon to be, upon the completion of phase IV, one of the largest retail malls in the Middle East.

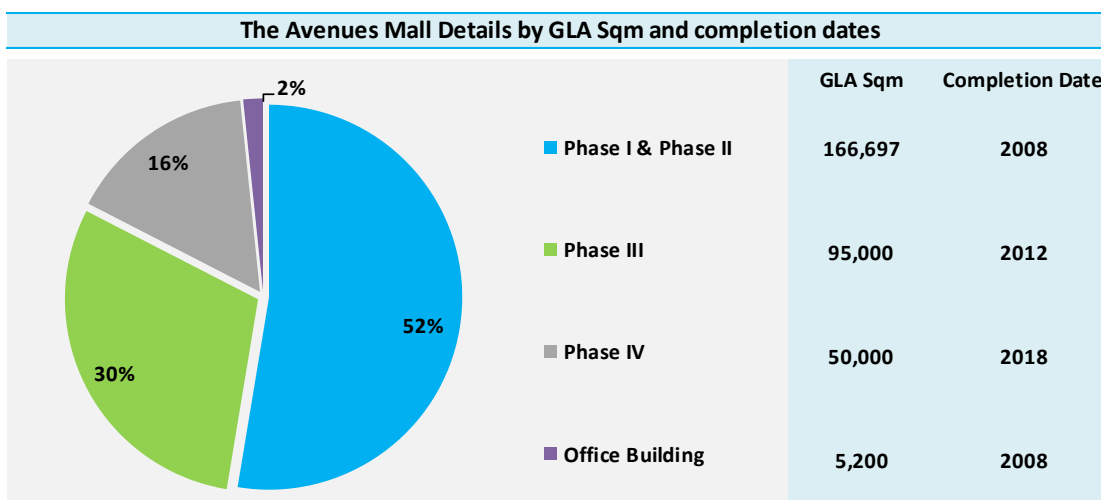
In addition, the Avenues is currently one of the largest shopping malls in the world and is the number one destination and the most frequently visited location in Kuwait. Market research and tourism reports have started placing it on the regional tourism map.

The mall is currently occupied by a diverse group of tenants bringing to Kuwait some of the biggest names in the retail business and medium to high end brand names. Accordingly, major retail groups occupy around 80% of the total leasable area represented by Al Shaya Group among other large regional and international Groups.

The large presence of major retail groups increases the robustness of Mabaneer's quality of income where such tenants have the ability to withstand temporary economic shocks or weak consumer spending and therefore are less likely to close their stores in comparison with other small retailers that might not have the same financial capacity.

## Phase IV

Phase IV of The Avenues has already commenced and is expected to be opened in approximately three years. This new phase will include a five-star hotel and an extension of the Grand Avenue and Prestige. It will also include the Electra District, similar to Times Square in New York, as well as the Plaza District, inspired by the Piazza San Marco in Venice.



Source: KAMCO Research & Mabanee

The new phase will also include the Orchid District which will house a number of boutiques with an overhanging garden and restaurants at the center.

As reported by Mabanee, Phase IV will be built at a cost of approximately KWD 114 million (US 400 million) and will add 50,000 sqm of leasable space. This will bring the total leasable area in the mall to around 320,000 sqm.

## Future Expansion plans

Upon the completion of future expansion projects, at an investment of around KWD 500 million (USD 1.8 billion), the total leasable area of the complete project will come to around 370,000 sqm stretching across a land plot of 425,000 sqm.

In addition, as for the 9,516 sqm land plot that the company owns in Salmiya, the judicial process is in its final stages and the company is studying whether to develop it or sell it.

## Land Bank

As disclosed by Mabanee during June 2014, the Company, along with one of the Saudi Arabia based real estate development companies, has acquired a parcel of land in Riyadh (Saudi Arabia) for a total value of KWD 100 million to establish a commercial complex.

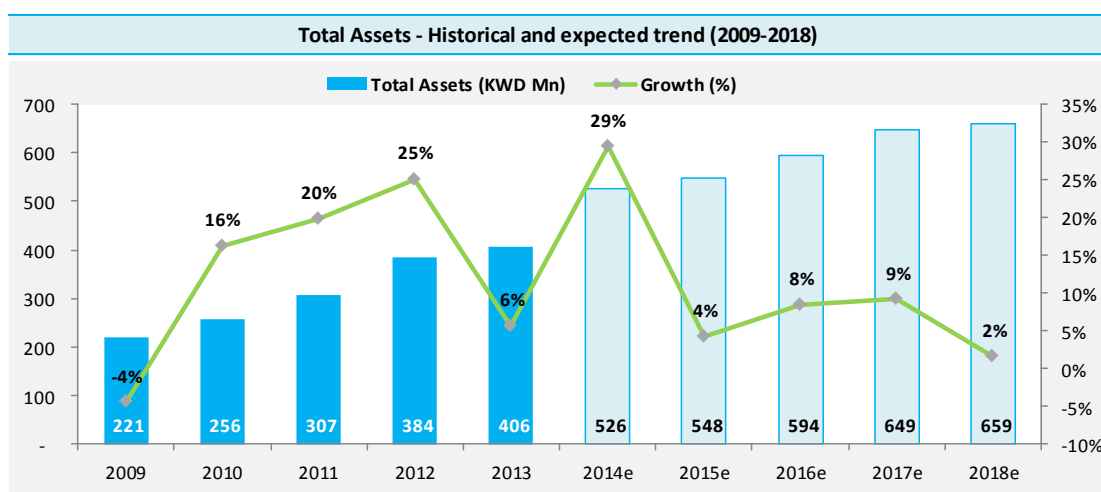
On June 23, 2014 the company announced that it will pay 55% of the KWD 100 million land. In addition, an earlier disclosure by Mabanee during April 2014 states that the company has acquired a parcel of land for a total value of KWD 39 million as part of an investment project.

## Financial Performance

### Asset Structure and Funding Base

The growth in total assets for Mabaneer has stemmed mainly from the development of The Avenues mall. Total assets registered a compounded annual growth rate (CAGR) of 19.9% between 2009 and Sep-2014 mainly on the back of the 23% CAGR for investment properties from KWD 170 million at the end of 2009 to reach KWD 452 million by the end of Sep-2014. Mabaneer's asset base current stands at KWD 523 million.

Driven by its phase IV expansion for The Avenues, Mabaneer's net income is projected to grow at a 7.84% CAGR from 2014 through 2018. During this period, we expect the operating profit margin to slightly increase from 58.2% in 2013 to around 58.3% by the end of 2018. This is due to the significant increase in rental income flowing from its phase IV operations that is expected to start during Q4-2017. In order to be conservative in our projections, we estimated that phase III operations would not start until the beginning of the fourth quarter of 2017. Accordingly, Mabaneer's ROAE is expected to range between 16% and 19.7% while ROAA is also expected to range between 9.0% to around 11.0% over the same period.



Source: KAMCO Research & Mabaneer

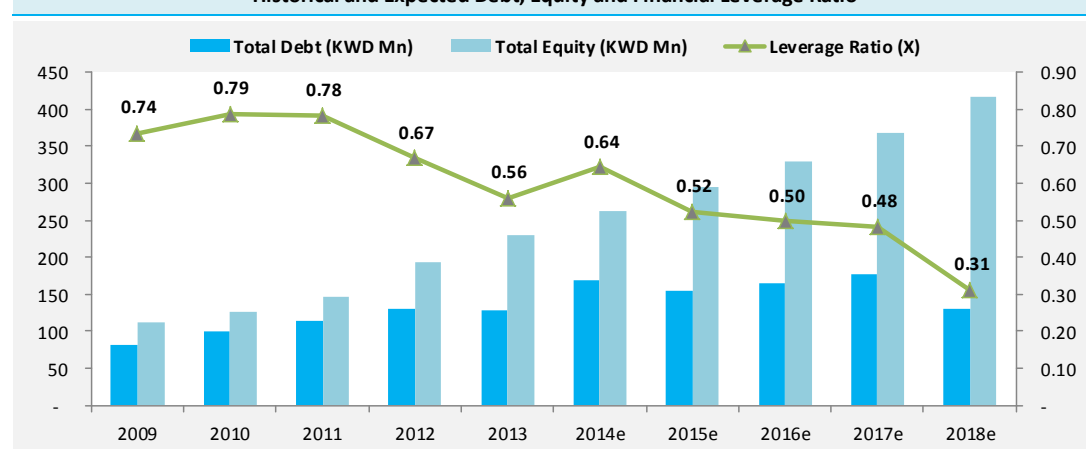
During the period 2009-2012, Mabaneer has maintained a low cash position between KWD 5.1 million in 2010 and KWD 12 million in 2012 despite generating healthy cash flows. Most of the cash generated has been directed toward capital expenditure during these years, with limited support from raising debt. Starting 2013, Mabaneer has showed a new high level of cash which reached KWD 23.3 million at the end of 2013 and KWD 34.4 million at the end of Sep-2014, this rise in cash level is highly attributed to the increase in rental revenue in FY-2013 and 9M-2014 after opening the phase III of the Avenues mall.

Mabaneer's financial leverage ratio (Debt / Equity) stood at 0.71x by the end of Sep-2014 in comparison with 0.56x and 0.67x by the end of 2013 and 2012, respectively. Even though Mabaneer relied on debt for the financing the construction for the Phase I, Phase II and Phase III of The Avenues Mall and is still following the same model for the construction of Phase IV, the financial leverage ratio is considered well within a healthy range due in large part to its solid equity base backed by a large amounts of retained earnings that stem from the mall's successful operations. This strong performance aided the retained earnings account to reach around KWD 95.4 million by the end of 2013 and to reach KWD 110.7 million by the end of Sep-2014. Furthermore, capitalizing on current market conditions and the low to mid interest rates, keeping a certain level of debt on the balance



sheet enables Mabaneer to keep its cost of capital at comfortably low levels while leveraging its growth and increasing its return on invested capital.

Historical and Expected Debt, Equity and Financial Leverage Ratio



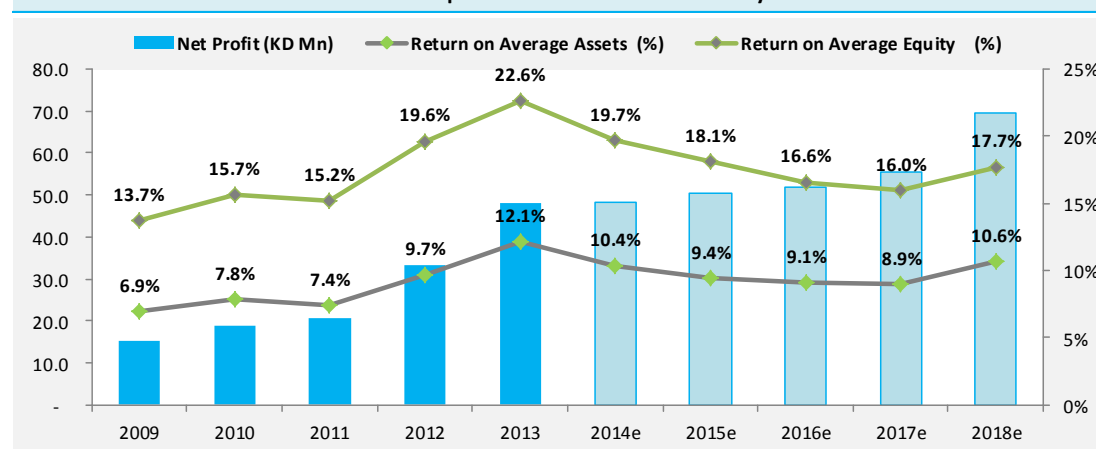
Source: KAMCO Research & Mabaneer

Keeping the success of current operations in mind, we believe that Mabaneer is well positioned to service its debt obligations in the future and has the capacity to borrow more funds in order to expand in future projects without risking neither the company's current operations nor its healthy capital structure. Historically the company managed to borrow a total amount of KWD 230.3 million during the last 5 years (2009-2013) and additional KWD 84.3 million during 9M-2014. During the corresponding period the company successfully repaid a total amount of KWD 250 million.

### Profitability

Mabaneer's net profit declined by 6.5% during the 9M-2014 period at KWD 36.26 million compared to KWD 38.78 million reported during the same period in 2013. The key reason for lower profits is attributed to the decline in arrangement fees from investors from KWD 12.0 million to KWD 2.17 million which weighed down the overall income from investment properties. On the other hand, revenues from investment properties (Income from mall operations) reached around KD 51.8 million during the first nine month of 2014 compared to KWD 45.2 million recorded during the same period in 2013, in addition to a total of KWD 5.8 million coming from the arrangement and advertising fees for tenants.

Historical and Expected Net Profit and Profitability Ratios



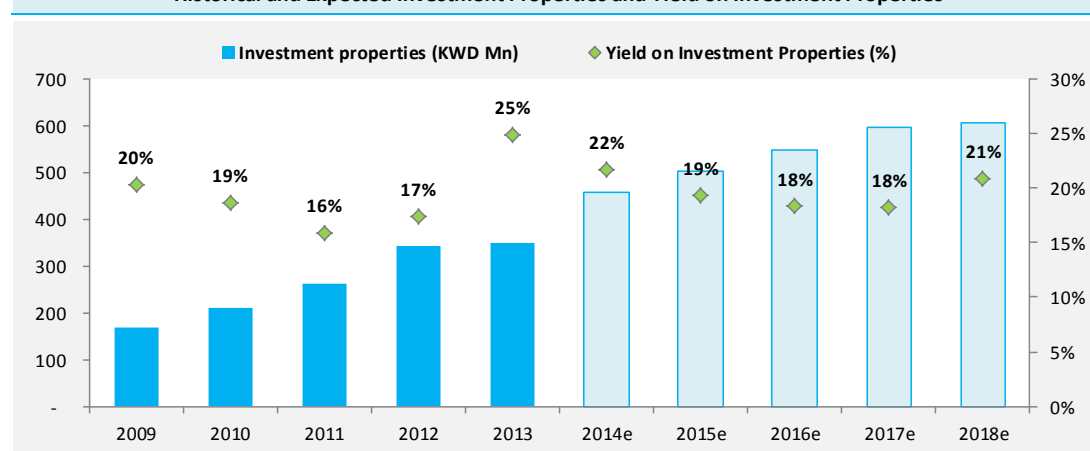
Source: KAMCO Research & Mabaneer

Mabaneer had steadily improved net profits since financial year 2009 recording a 4-year CAGR of 33.0% at the end of 2013, with net profits reaching KWD 47.9 million compared to KWD 15.3 million for the year ended 2009.

Investment properties revenues (Income from mall operations) constitute the majority of Mabanee's income, registering an average of 81.4% over the last 4 years. Investment Properties revenues reached KWD 61.96 million in 2013, up from KWD 30.73 million in 2009. While it reached its highest level during the 9M-2014 reached KWD 51.8 million compared to KWD 45.2 million during the same period a year earlier, representing an increase of 14.6%.

For the forecasted period (2014e-2018e), we expect rental revenue and other revenues to increase at a CAGR of 8%. We expect average revenue growth of 5% during 2014e-2017e, till the time the company prepares to launch the final phase of the Avenues mall. Thereafter, for year 2018e we expect a revenue growth of 21.7% on the back of increase in rental income from the final phase.

**Historical and Expected Investment Properties and Yield on Investment Properties**



Source: KAMCO Research & Mabanee

Following the expansion plan and the opening of phase III, Investment Properties expenses increased over the last 5 years to reach KWD 11.95 million during the 9M-2014 compared to a total of KWD 15.4 million and KWD 8.6 million in 2013 and 2012, respectively. Investment Properties expenses are dominated by Repair and Maintenance expenses which accounted for 45% of investment properties expenses in 2013 and during the 9M-14 which reached KWD 5.37 million during the 9M-2014, up from KWD 5 million during the same period in 2013.

The Company has managed over the course of the last five years to shift its major source of income from market speculations to core operating and sustainable recurring income. This venture is strengthening Mabanee's footing in the real estate sector in Kuwait and the region as well as enabling the company to use The Avenues as a cash cow to finance its strategy for growth and help the company by maintaining a healthy asset structure and reducing its cost of capital.

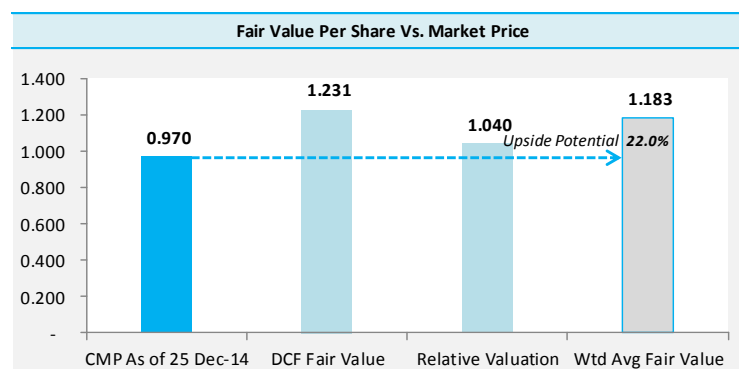
Mabanee's margins declined in 2013 due to tough market conditions and the increase in expenses as well as after the acquisition of Al- Rai Logistica. The company's gross margin fell to 67.0% in 2013 from 69.6% in 2012 and 72.6% in 2011, while operating profit margin declined to 58.2% in 2013 from 61.6% in 2012.

Core profitability ratios have been gradually increasing during the last 5 years, where Return on Average Assets (ROAA) and Return on Average Equity (ROAE) reached 12.1% and 22.6% in 2013, respectively, compared to 2012 ratios of 9.7% and 19.6%.

## Valuation & Recommendation

**“Outperform” rating with a Price Target of KWD 1.183 representing an upside of 22.0%**

We have valued the company using Discounted Cash Flow (DCF) and relative valuation based on Price to Earnings multiple. We have assigned 75% weight to the DCF-based valuation and 25% weight to the relative valuation in order to arrive at an estimated fair value of KWD 1.183 per share.



Valuation Method			
	Value KWD	Weight (%)	Weighted Value KWD
DCF Fair Value Per Share	1.231	75%	0.923
Relative Valuation Per Share	1.040	25%	0.260
<b>Weighted Average Fair Value per Share</b>			<b>1.183</b>
Current Market Price			0.970
<b>Upside/Downside</b>			<b>22.0%</b>

### Discounted Cash Flow Model

Our DCF valuation is based on explicit forecast of free cash flow for the next five fiscal years (2014e-2018e) and a terminal value afterward. Our discount factor is based on a modified Capital Asset Pricing Model which takes into account various risk premiums pertaining to equity market risk, company specific risk, as well as industry related risk factors on top of the risk free rate. The forecasted cash flows over the projected horizon are discounted back using a weighted average cost of capital of 8.37% using a target debt to equity ratio that goes in line with the company's future expansion plans. We assumed a terminal growth rate of 3.0% in computing the terminal value considering the long term growth in the economy and its impact on the sector and the company.

DCF Valuation	Fair Value of Equity (KWD Mn)	Fair Value Per Share (KWD)
Present Value of FCFF	134.3	0.182
Present Value of Terminal Value	948.5	1.284
<b>Present Value of Cash Flow</b>	<b>1,082.9</b>	<b>1.466</b>
Investments (Q3-14)	14.2	0.019
Cash (Q3-14)	34.5	0.047
Debt (Q3-14)	(221.9)	(0.300)
<b>Equity Fair Value</b>	<b>909.6</b>	<b>1.231</b>

Based on the above assumptions, we arrived at an estimated fair value for Mabanee's equity at KWD 909.6 Mn, which, considering 738 Mn outstanding shares, translates to per share fair value price of KWD 1.231.

### Sensitivity Analysis

The sensitivity analysis for the change in fair value share price to the changes in WACC and the terminal growth rate is mentioned in the below table.

Price Sensitivity based on DCF Model								
Terminal Growth Rate	Weighted Average Cost of Capital							
		7.00%	7.50%	8.00%	8.37%	9.00%	9.50%	10.00%
	2.00%	1.395	1.236	1.104	1.019	0.897	0.815	0.743
	2.25%	1.475	1.301	1.158	1.066	0.935	0.847	0.771
	2.50%	1.563	1.372	1.216	1.116	0.976	0.882	0.801
	2.75%	1.662	1.450	1.279	1.171	1.020	0.919	0.833
	3.00%	1.774	1.538	1.349	1.231	1.067	0.959	0.867
	3.25%	1.900	1.635	1.426	1.297	1.119	1.002	0.903
	3.50%	2.044	1.745	1.512	1.370	1.175	1.049	0.943
	3.75%	2.210	1.869	1.608	1.450	1.237	1.100	0.985
	4.00%	2.404	2.011	1.716	1.540	1.305	1.155	1.031

### Relative Valuation

Company	Country	M.Cap USD Mn	PE (x) 2015e	PB (x) 2015e
EMAAR Properties PJSC	UAE	15,029	15.47	1.48
EMAAR Malls Group	UAE	10,630	22.03	2.63
Aldar Properties	UAE	5,566	11.81	1.04
EMAAR Economic City	Saudi Arabia	2,899	25.68	1.27
Dar Al Arkan Real Estate Development	Saudi Arabia	2,552	9.98	0.52
Mabane Co.	Kuwait	2,451	14.18	2.42
Taiba Holding Co.	Saudi Arabia	1,547	23.12	1.45
Union Properties Co.	UAE	1,039	7.37	0.59
Saudi Real Estate Co.	Saudi Arabia	1,038	18.16	1.13
Arriyadh Development Co.	Saudi Arabia	697	15.84	1.14
Salhia Real Estate Co.	Kuwait	658	16.99	1.35
Eshraq Properties Co.	UAE	576	4.81	0.85
Commercial Real Estate Co.	Kuwait	547	13.75	0.61
		<b>45,229</b>	<b>15.21</b>	<b>1.32</b>

Source: KAMCO Research & Bloomberg

For peer-based valuation, we have used the forward price to earnings based on the 2015 expected net profit and the current market capitalization, which resulted in relative share price of KWD 1.040, based solely on the relative valuation.

### Recommendation

Based on our valuation, the company is currently trading at a 18.0% discount to our weighted average fair value estimate indicating an “**Outperform**” rating following KAMCO’s recommendation scale and a price target of KWD 1.183 per share representing an upside potential of 22.0% on the stock.

## Financial Indicators

Balance Sheet (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
<b>Assets</b>								
Cash and Cash Equivalents	9.7	12.0	23.2	32.0	9.2	8.0	13.5	11.5
Account Receivable	3.9	5.7	6.6	9.2	9.7	10.1	11.0	13.4
<b>Total Current Assets</b>	<b>13.7</b>	<b>17.8</b>	<b>29.8</b>	<b>41.2</b>	<b>18.9</b>	<b>18.1</b>	<b>24.6</b>	<b>24.9</b>
Investment properties	262.2	341.7	350.4	456.8	501.6	548.8	596.9	607.5
Other Non-Current Assets	31.3	24.7	26.1	27.7	27.4	27.3	27.1	26.8
<b>Total Non-Current Assets</b>	<b>293.5</b>	<b>366.5</b>	<b>376.5</b>	<b>484.4</b>	<b>529.0</b>	<b>576.1</b>	<b>624.0</b>	<b>634.3</b>
<b>Total assets</b>	<b>307.2</b>	<b>384.2</b>	<b>406.3</b>	<b>525.6</b>	<b>547.9</b>	<b>594.2</b>	<b>648.6</b>	<b>659.2</b>
<b>Liabilities</b>								
Term Loans	27.1	25.2	41.3	44.7	38.7	50.7	66.7	71.7
Trade and other payables	25.3	29.7	15.0	30.5	31.5	32.7	34.7	40.0
<b>Total current Liabilities</b>	<b>52.4</b>	<b>54.9</b>	<b>56.3</b>	<b>75.2</b>	<b>70.2</b>	<b>83.4</b>	<b>101.4</b>	<b>111.7</b>
Provision for staff Indemnity	0.6	1.0	1.0	1.3	1.6	1.9	2.4	2.9
Other non-current liabilities	19.9	29.8	31.5	19.4	20.5	21.7	23.0	24.3
Due to related party	0.0	0.0	0.0	43.4	43.4	43.4	43.4	43.4
Term Loans	87.6	104.2	87.5	123.8	116.1	113.4	110.7	59.0
<b>Total Non-current Liabilities</b>	<b>108.1</b>	<b>134.9</b>	<b>120.0</b>	<b>187.9</b>	<b>181.6</b>	<b>180.4</b>	<b>179.5</b>	<b>129.7</b>
<b>Total liabilities</b>	<b>160.5</b>	<b>189.9</b>	<b>176.3</b>	<b>263.1</b>	<b>251.8</b>	<b>263.9</b>	<b>280.8</b>	<b>241.3</b>
<b>Shareholders' Equity</b>								
Share capital	55.6	64.0	70.4	73.9	73.9	73.9	73.9	73.9
Share premium	0.0	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Treasury shares	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Total Reserves	31.9	39.0	49.8	61.3	71.9	71.9	71.9	71.9
Retained earnings	61.5	76.7	95.4	112.7	135.7	169.8	207.3	257.4
<b>Total Shareholders Equity</b>	<b>146.7</b>	<b>193.9</b>	<b>229.9</b>	<b>262.1</b>	<b>295.7</b>	<b>329.8</b>	<b>367.3</b>	<b>417.4</b>
Non controlling interest	0.0	0.5	0.1	0.4	0.4	0.5	0.5	0.5
<b>Total liabilities and equity</b>	<b>307.2</b>	<b>384.2</b>	<b>406.3</b>	<b>525.6</b>	<b>547.9</b>	<b>594.2</b>	<b>648.6</b>	<b>659.2</b>

Income Statement (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
Investment properties revenue	37.7	48.3	79.4	80.4	85.0	88.5	96.4	117.3
logistics revenue	-	4.2	6.8	7.1	7.5	7.9	8.3	8.7
<b>Revenue</b>	<b>37.7</b>	<b>52.5</b>	<b>86.2</b>	<b>87.6</b>	<b>92.5</b>	<b>96.4</b>	<b>104.7</b>	<b>126.0</b>
Investment properties expenses	(7.1)	(8.6)	(15.4)	(15.7)	(16.4)	(16.9)	(18.3)	(22.4)
logistics expenses	-	(4.0)	(6.5)	(6.8)	(7.1)	(7.5)	(7.9)	(8.2)
Depreciation	(3.2)	(3.3)	(6.7)	(6.5)	(6.9)	(7.2)	(7.9)	(9.3)
<b>Expenses</b>	<b>(10.3)</b>	<b>(16.0)</b>	<b>(28.5)</b>	<b>(29.0)</b>	<b>(30.4)</b>	<b>(31.6)</b>	<b>(34.1)</b>	<b>(39.9)</b>
<b>Gross profit</b>	<b>27.3</b>	<b>36.5</b>	<b>57.8</b>	<b>58.6</b>	<b>62.1</b>	<b>64.7</b>	<b>70.5</b>	<b>86.1</b>
General and administrative expenses	(1.9)	(2.4)	(3.1)	(3.4)	(3.5)	(3.7)	(4.3)	(5.2)
Finance costs	(1.9)	(1.7)	(4.4)	(4.2)	(5.3)	(6.4)	(7.7)	(7.7)
Share of results from associates	(1.5)	(0.5)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Other Income/Loss	(0.2)	3.2	0.4	0.1	-	-	-	-
<b>Profit before KFAS,NLST,Zakat &amp; Directors' Fees</b>	<b>21.8</b>	<b>35.0</b>	<b>50.2</b>	<b>50.7</b>	<b>53.0</b>	<b>54.4</b>	<b>58.3</b>	<b>72.9</b>
<b>Profit of the year</b>	<b>20.8</b>	<b>33.4</b>	<b>47.9</b>	<b>48.4</b>	<b>50.5</b>	<b>51.8</b>	<b>55.6</b>	<b>69.6</b>
<b>Attributable to equity holders of the Group</b>	<b>20.8</b>	<b>33.3</b>	<b>47.9</b>	<b>48.4</b>	<b>50.5</b>	<b>51.8</b>	<b>55.6</b>	<b>69.5</b>
<b>EPS (KWD)</b>	<b>0.034</b>	<b>0.048</b>	<b>0.068</b>	<b>0.065</b>	<b>0.068</b>	<b>0.070</b>	<b>0.075</b>	<b>0.094</b>

Cash Flow (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
Net cash from operating activities	45.0	49.9	47.0	104.5	66.4	69.7	76.2	94.0
Net cash (used in) from investing activities	(50.2)	(49.9)	(15.9)	(113.8)	(53.3)	(56.2)	(58.1)	(22.2)
Net cash from (used in) financing activities	9.8	2.4	(19.9)	18.0	(35.9)	(14.7)	(12.5)	(73.8)
Change in cash and cash equivalents	4.6	2.3	11.2	8.7	(22.8)	(1.2)	5.6	(2.1)
<b>Cash at the end of the year</b>	<b>9.7</b>	<b>12.0</b>	<b>23.2</b>	<b>32.0</b>	<b>9.2</b>	<b>8.0</b>	<b>13.5</b>	<b>11.5</b>

Source : KAMCO Research and Mabane

## Key Financial Ratios

Key Ratios	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
<b>Asset Structure Ratios</b>								
Total Liabilities / Total Assets (%)	52.2%	49.4%	43.4%	50.0%	46.0%	44.4%	43.3%	36.6%
Total Debt / Total Assets (X)	0.37	0.34	0.32	0.32	0.28	0.28	0.27	0.20
Total Debt / Equity (X)	0.78	0.67	0.56	0.64	0.52	0.50	0.48	0.31
ST- Debt/Equity (X)	0.18	0.13	0.18	0.17	0.13	0.15	0.18	0.17
LT-Debt/Equity (X)	0.60	0.54	0.38	0.47	0.39	0.34	0.30	0.14
<b>Liquidity Ratios</b>								
Current Ratio (X)	0.54	0.68	1.10	1.13	0.58	0.47	0.52	0.48
Quick Ratio (X)	0.28	0.35	0.57	0.58	0.31	0.25	0.27	0.25
Cash Ratio (Cash & Eq./Current Liabilities)	0.17	0.22	0.31	0.34	0.17	0.14	0.15	0.14
<b>Operating Efficiency Ratios</b>								
Receivables Turnover (X)	43.31	44.46	55.72	42.41	37.41	34.43	34.37	39.43
Receivables Days	8.43	8.21	6.55	8.61	9.76	10.60	10.62	9.26
Total Assets Turnover Ratio (X)	0.14	0.17	0.24	0.20	0.19	0.17	0.18	0.20
Investment Properties Turnover (X)	0.14	0.14	0.23	0.18	0.17	0.16	0.16	0.19
<b>Profitability Ratios</b>								
Return on Average Assets (%)	7.4%	9.7%	12.1%	10.4%	9.4%	9.1%	8.9%	10.6%
Return on Average Equity (%)	15.2%	19.6%	22.6%	19.7%	18.1%	16.6%	16.0%	17.7%
ROA (%)	6.8%	8.7%	11.8%	9.2%	9.2%	8.7%	8.6%	10.6%
ROE (%)	14.2%	17.2%	20.8%	18.5%	17.1%	15.7%	15.1%	16.7%
ROIC (%)	9.4%	11.9%	16.7%	14.0%	12.9%	12.2%	12.3%	15.4%
Gross Profit Margin (%)	72.6%	69.6%	67.0%	66.9%	67.1%	67.2%	67.4%	68.3%
Operating Profit Margin (%)	62.4%	61.6%	58.2%	58.2%	57.6%	56.7%	56.0%	58.1%
Net Profit Margin (%)	55.2%	63.7%	55.6%	55.2%	54.6%	53.8%	53.1%	55.2%
Average Cost of Debt (%)	1.8%	1.4%	3.4%	2.8%	3.3%	4.0%	4.5%	5.0%
Interest Coverage Ratio (X)	12.32	21.16	12.32	13.12	11.09	9.53	8.59	10.47
<b>Working Capital</b>								
Revenues / Working Capital	0.57	0.84	1.27	2.50	1.35	1.02	0.90	0.97
A/P & Other Credit Balances T/O	0.28	0.43	1.46	0.74	0.75	0.75	0.76	0.77
A/R & Other Debit Balances T/O	9.62	9.13	13.13	9.51	9.50	9.51	9.48	9.38
<b>Market Data and Valuation Ratios</b>								
Closing Share Price (KWD)	0.860	1.180	1.120	0.970	0.970	0.970	0.970	0.970
Number of Shares (Mn)	556	640	704	739	739	739	739	739
Market Capitalization (KWD Mn)	478	755	788	717	717	717	717	717
EPS (KWD)	0.034	0.048	0.068	0.065	0.068	0.070	0.075	0.094
Book Value Per Share (KWD)	0.264	0.303	0.327	0.355	0.400	0.446	0.497	0.565
Dividend Per Share (KWD)	0.010	0.020	0.025	0.023	0.024	0.025	0.026	0.033
Price to Earnings Multiple (X)	25.15	24.40	16.36	14.81	14.18	13.82	12.89	10.30
Price to Book Value Multiple (X)	3.26	3.89	3.43	2.73	2.42	2.17	1.95	1.72
Dividend Yield (%)	1.2%	1.7%	2.2%	2.4%	2.5%	2.5%	2.7%	3.4%

Source : KAMCO Research and Mabanee

Note : Forward Valuation ratios are based on current market prices

# Commercial Real Estate Co.

## Investment Thesis

We are initiating coverage on Commercial Real Estate Co. (Al Tijaria) with an Outperform rating and a price target of KWD 0.106 per share representing an upside of 12.7% on the stock. The company's rental income and net hotel revenues recorded KWD 14.28 million during the 9M-2014 as compared to KWD 12.85 million during the same period in 2013 representing an increase of 11.1% over the period.

Fundamentally, we believe the debt to equity levels of the company is still moderate, not overleveraged and the company can fund its future projects with additional borrowings. However, we are cautious on higher finance costs that has weighed down net profit historically as the company paid around KWD 42.8 million in interest cost during (2009-9M 2014), resulting in almost 60% deterioration of the net profits that amounted to KWD 69.0 million during the same period. We expect that the finance cost would decrease to a total amount of KWD 29 million during the next five years (2014e-2018e).

Over the past 5 years, Al-Tijaria has managed to keep its exposure to equity investments at an average of 8.0% while allowing its real estate assets to contribute to an average of 62.3% over the same period. We don't expect to see a significant change in the assets structure of Al Tijaria during the next five year and the investment properties will remain contributing the total assets by an average of 62.5% during (2014e-2018e).

Al-Tijaria's net profit increased by 1.3% during the 9M-2014 period to recorded KWD 7.98 million compared to KWD 7.88 million recorded during the same period in 2013. The key reason for higher profits is attributed to the 7.4% increase in the gross profit mainly supported by the higher rental income, in addition to the onetime gain on sale of investment properties which amounted to KWD 4.13 million during the 9M-2014. On the other hand, income from gain on sale of land and real estate held for trading witnessed a decline from KWD 5.87 million during 9M-2013 to KWD 0.01 million during 9M-2014.

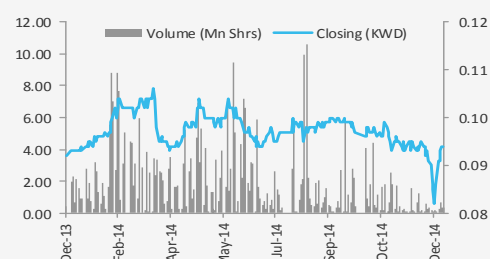
Key Indicators	2013	2014e	2015e	2016e	2017e	2018e
Revenue (KWD Mn)	17.9	19.7	21.8	24.2	26.8	29.7
Net Profit	15.0	10.6	11.6	12.2	13.2	14.6
Leverage (X)	0.39	0.45	0.44	0.44	0.45	0.46
ROAA (%)	4.0%	2.7%	2.9%	3.0%	3.2%	3.5%
ROAE (%)	5.9%	4.1%	4.5%	4.6%	5.0%	5.4%
EPS (KWD)	0.009	0.006	0.007	0.007	0.008	0.009
BVP (KWD)	0.151	0.151	0.153	0.155	0.157	0.159
PE (X)	10.42	15.14	13.75	13.13	12.08	10.93
PB (X)	0.61	0.62	0.61	0.61	0.60	0.59
Yield (%)	7.61%	5.29%	5.82%	6.10%	6.63%	7.33%

## Outperform

CMP 25-Dec-14 KWD 0.094

Target Price KWD 0.106

Upside/Downside +12.7%



Price Perf.	1M	3M	12M
Absolute	1.1%	-5.1%	2.2%
Relative	5.8%	6.1%	4.8%

### Stock Data

Bloomberg Ticker	ALTIJARI KK
Reuters Ticker	TIJK.KW
Last Price (KWD)	0.094
M.Cap (KWD Mn)	160
M.Cap (USD Mn)	547
52-Week Range (KWD)	0.106/0.082
52-Week ADVT (KWD Mn)	0.170

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## Company Overview

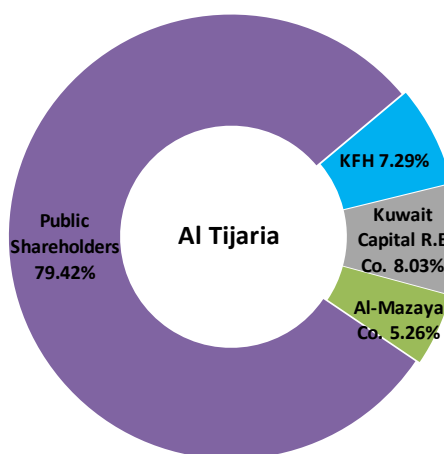
The Commercial Real Estate Co. (CRC) or "Al Tijaria" was established in 1968. CRC is a Sharia-compliant real estate investment, development and management company headquartered in Kuwait with operations spread across the GCC and MENA region. CRC was listed on the Kuwait Stock Exchange in December 2004. The company's share capital as of end of September-2014 stands at KWD 170.2 million.

CRC has been in business over the last 45 years and is one of the oldest institutions with rich experience and tremendous brand equity in the region and lists amongst the top notch real estate companies. The company's core business is in real estate development both residential and commercial properties in Kuwait.

The company's core business model is fundamentally driven by value creation through development of real estate properties that are capable of producing sustainable income and earnings stream. CRC

does this on its own or through associates. Furthermore, this strategy is complemented with the large land bank portfolio it has developed over the last five decades and other strategic financial investments.

**Al Tijaria's Shareholding Structure**



Source: Kuwait Stock Exchange

## Subsidiaries of Al Tijaria

Company Name	Country	Ownership	Principal Activity
Al-Motajara Real Estate Co.	Kuwait	100.0%	General Trading & Contracting
Symphony Style Hotel (formerly Missoni Hotel)	Kuwait	100.0%	Investments
Al - Tijara Real Estate Development Co.	Kuwait	100.0%	Investments, general trading and contracting
Commercial Real Estate Development Co.	Kuwait	100.0%	Investments

Source: Al Tijaria Financial Statement

## Associates of Al Tijaria

Company Name	Country	Ownership	Principal Activity
Hajar Tower Real Estate Co.	Kuwait	20.0%	Investment Properties
Bayan Real Estate Co.	Saudi Arabia	21.7%	Investment Properties
Al - Salmiya Group Co.	Kuwait	28.1%	Investment Properties
Kuwait Resort Co.	Kuwait	33.0%	Services
Afkar Holding Co.	Kuwait	19.4%	Holding Company
Kuwait Commercial Markets Co.	Kuwait	22.9%	Investment Properties
Mozon Holding Co.	Morocco	34.0%	Holding Company
Industrial And Financial Investment Co.	Kuwait	17.3%	Financial Services
Foras Al-Khalijja Co.	Kuwait	36.0%	Investment Properties
Omran International Real Estate Development Co.	Saudi Arabia	33.3%	Investment Properties
Spirit Real Estate Development Co.	Kuwait	34.1%	Investment Properties

Source: Al Tijaria Financial Statement

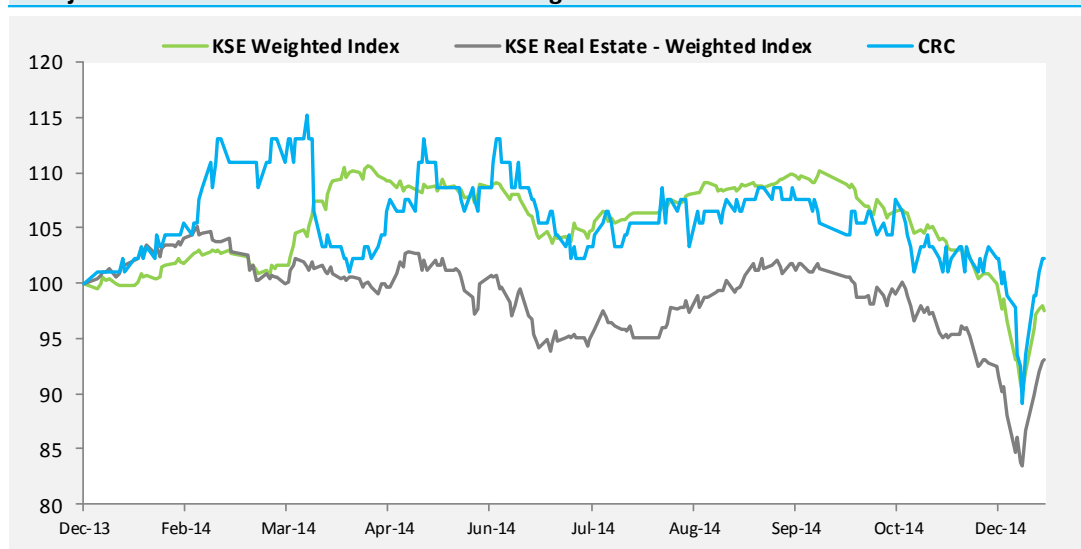


## Historical Price Performance

Al Tijaria's current share price as on 25 December 2014 was KWD 0.094, recording a year to date increase of 8.7% (adjusted for dividends) resulting in total market capitalization of KWD 160.0 million.

During the last 52 weeks Al Tijaria's closing price reached the highest price of KWD 0.106 while the lowest during the same period was KWD 0.082. Since the listing date in 2004 Al Tijaria's price reached the highest price ever of KWD 0.305 on 19 Feb-08 before the financial crisis starts.

### AL Tijaria Stock Price Performance Vs. KSE Weighted index and KSE Real Estate index



Source: KSE & KAMCO Research (Rebased Index 100)

Based on the 9M-2014 financial results, trailing twelve month PE multiple works out to be 10.58x as compared to the real estate sector PE of 16.0x, while Al Tijaria's PB stood at 0.63x compared to 0.91x for the real estate sector.

On the other hand, dividend yield stood at 6.38% above the sector dividend yield of 2.97%. The company's beta stood at 1.29 based on the historical price for more than 5 years. The YTD-2014 capital turnover ratio recorded 24.4%.

## Al Tijaria Completed Projects

### Al Tijaria Tower

The Al Tijaria Tower is located in Sharq area facing the Sour Street in front of Al Shaheed garden and is a landmark building in the Kuwait city skyline, Located on a land plot area of 4293.6 m<sup>2</sup> the building has commercial area and offices.

### Symphony Complex & Symphony Style Hotel Kuwait

The Symphony Complex is located in Salmiya on a land area of 11,749 m<sup>2</sup> and a built-up area of more than 95,000 m<sup>2</sup>. The complex houses Commercial shops in the Basement 1, Ground and Mezzanine Floors. Hotel Missoni is located in Tower 1. The Tower 2 hosts Offices from the 2nd floor to the 11th floor.

### Al Dome

It's located at the coastal road strip in Abu-Hulaifa area on a 5000 M2 plot. It consists of a ground floor level and a basement with a total built up area of 9,800 m<sup>2</sup>. It contains restaurants, cafes, bowling area and game arcade.

### Juman Residential Complex

The Juman Residential Complex is located on a plot area 7,950 m<sup>2</sup> facing the Fahaheel Express Road in Mahboula. The design consists of two residential buildings of 12 floors each.

## Al Tijaria Ongoing Projects

### Dine Zone Restaurants

Dine Zone Restaurants on the sea-front in oqaila beaches has 26 Villa-type Restaurants on a site of 17,378 m<sup>2</sup>. Each Restaurant will be made up of Ground & First floor levels and enclose the extensive central landscape with a total BUA of 8300 m<sup>2</sup>.

### Light Restaurants

Light Restaurants , the first of Minimalist Architectural Design Style Restaurants Complex in Kuwait, made up of 11 Fine Dining Restaurants Complex is located at the prime T-junction along the coastal road in Mahboula in the site area of 5940 m<sup>2</sup>.

### Thatcher Residential Complex

Thatcher Residential Complex is located in Mahboula facing the Fahaheel Expressway on a plot of area 5,373m<sup>2</sup>. The complex offers a range of residential facilities including 16 Stories residential building containing 77 apartments of 2 bedroom, 3 bedroom units and penthouses, six plaza villas and each villa has three floors.

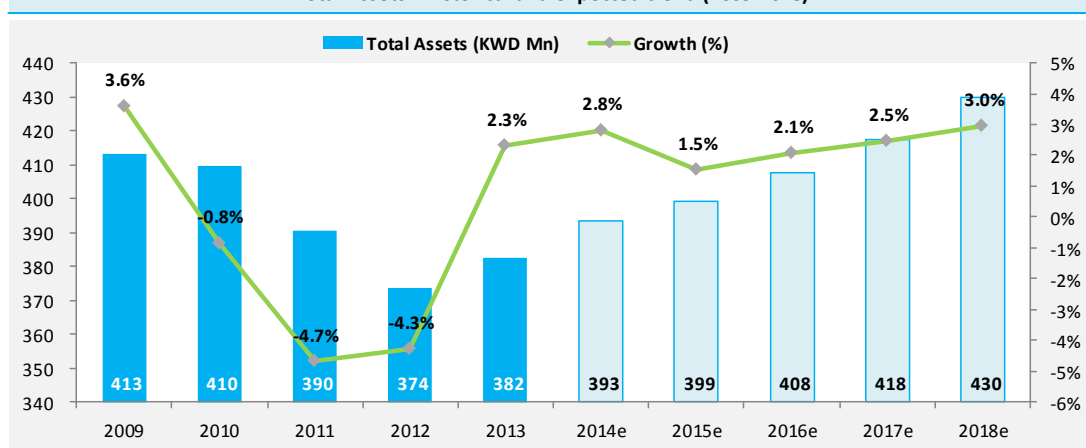
Source of Projects: Al Tijaria

## Financial Performance

### Asset Structure and Funding Base

Al Tijaria total assets stood at KD 391.6 million as of end Sep-2014, up from KD 382.4 million as of end Dec-2013. After three consecutive years of decrease in the total assets during (2010-2012) which resulted in a cumulative decline of 9.5% in total assets, the company managed to increase its total assets base by 2.3% in FY2013 followed by an increase of 2.4% during the 9M-2014 period. We expect to see a moderate and steady increase in total assets during the next 5 financial years (2014e-2018e) to reach around KWD 430 million by the end of 2018e resulting in a 5-year CAGR of 2.37%.

Total Assets - Historical and expected trend (2009-2018)

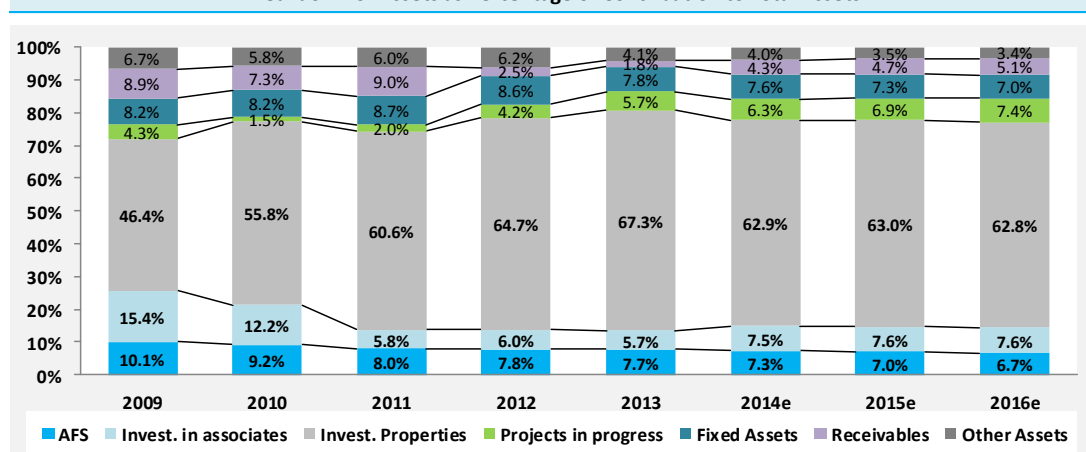


Source: KAMCO Research & Al Tijaria

Al-Tijaria's non-current assets (long-term investments) represent a substantial portion of the total assets. These include investment properties, projects in progress, properties and equipment, investment in securities (available for sale), and investment in associates companies. Total non-current assets stood at KWD 358.8 million as of end September-2014 representing 91.6% of the total assets.

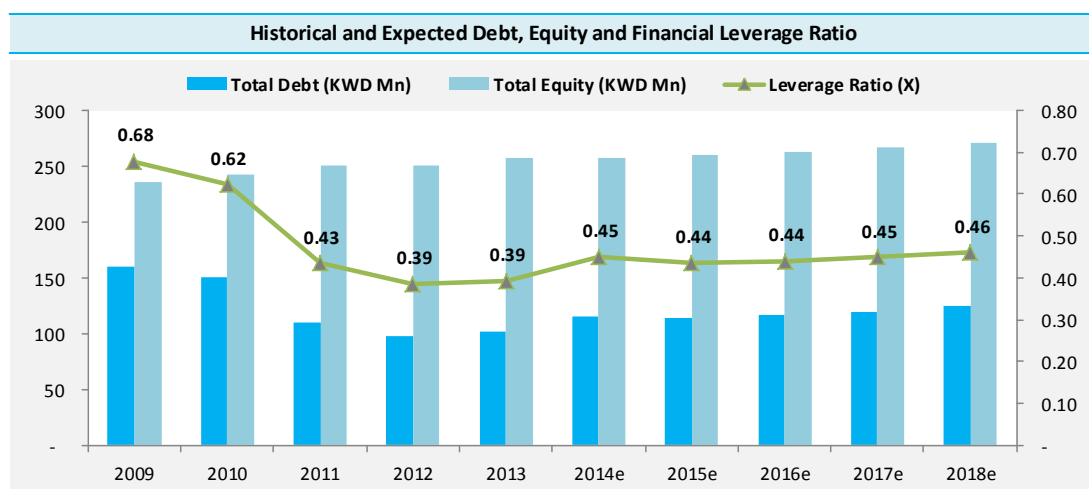
Over the past 5 years, the Al-Tijaria has managed to keep its exposure to equity investments at an average of 8.0% while allowing its real estate assets to contribute to an average of 62.3% over the same period. We don't expect to see a significant change in the assets structure of Al Tijaria during the next five years and believe that investment properties would continue to account for an average 62.5% of total assets during 2014e-2018e.

Breakdown of Assets as Percentage of Contribution to Total Assets



Source: KAMCO Research & Al Tijaria

Al Tijaria has been funding its growth in assets predominately through debt which is mainly in the form of Islamic financing products, considering the company's adherence to Islamic Sharia principles. Borrowings (short and long term total debt) dominated the company's total liabilities (excluding shareholders equity) and accounted for an average of 90% of the total liabilities between 2009 and Sep-2014.

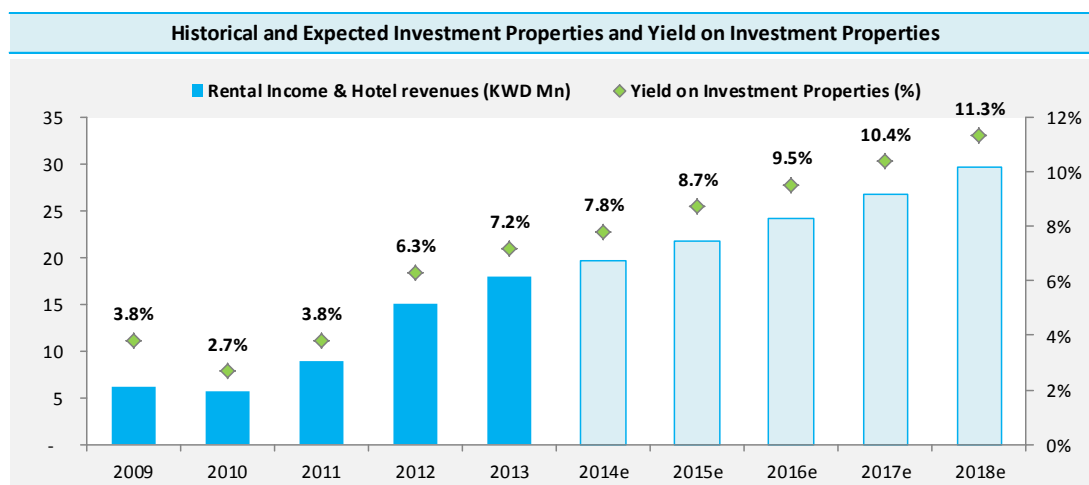


Source: KAMCO Research & Al Tijaria

During the 9M-2014, the Al-Tijaria raised its interest bearing debt from KWD 101.4 million at the end of Dec-2013 to about KWD 117.8 million at the end of Sep-2014. Supported by the strong equity base of KWD 254.7 million at the end of Sep-2014, Al Tijaria was able to keep its leverage ratio at low levels recorded at 0.46(x). Fundamentally, we believe that the debt to equity levels for the company is still moderate, not overleveraged and the company can fund its future projects with additional borrowings. However, we are cautious on higher finance costs that has weighed down net profit historically as the company paid around KWD 42.8 million in interest costs during 2009-9M 2014, resulting in almost 60% deterioration of the net profits that amounted to KWD 69.0 million during the same period. We expect that the finance cost would decrease to a total amount of KWD 29 million during the next five years (2014e-2018e)

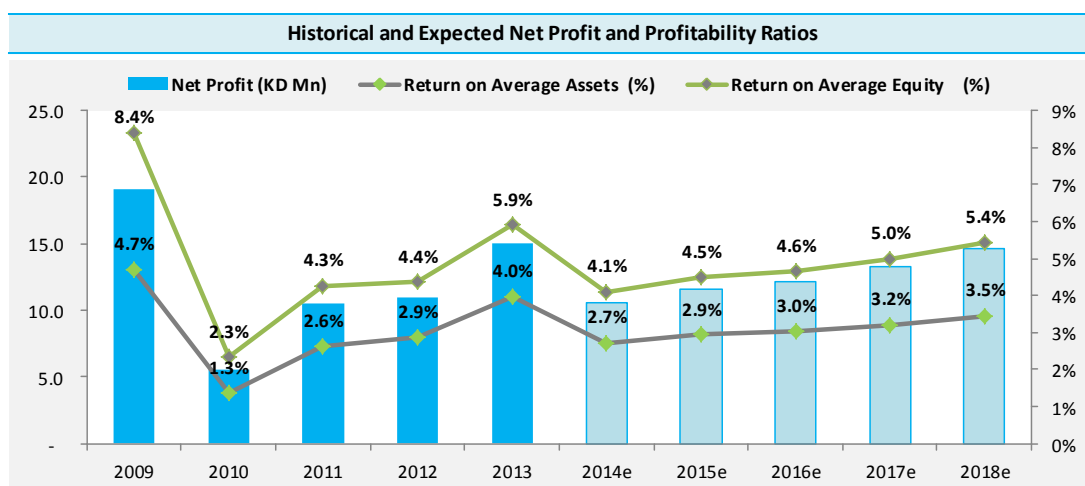
## Profitability

The company's rental income and net hotel revenues was recorded at KWD 14.28 million during 9M -2014 as compared to KWD 12.85 million during the same period in 2013 representing an increase of 11.1%. Rental income stood at KWD 8.03 Mn during 9M-14, contributing to about 89% of the gross profit during 9M-14. Historically, total rental income recorded a 5-year CAGR (2009-2013) of 21% supported by the opening of the new projects by the company.



Source: KAMCO Research & Al Tijaria

Al Tijaria's net profit increased by 1.3% during 9M-2014 to record at KWD 7.98 million compared to KWD 7.88 million recorded during the same period in 2013. The key reason for higher profits is attributed to the 7.4% increase in the gross profit mainly supported by the higher rental income, in addition to the onetime gain on sale of investment properties which amounted to KWD 4.13 million during the 9M-2014. On the other hand, income from gain on sale of land and real estate held for trading witnessed a decline from KWD 5.87 million during 9M-2013 to KWD 0.01 million during 9M-2014. However, income from associates reached KWD 1.09 million during the 9M-2014 compared to KWD 0.16 million during the same period last year, showing a solid growth of almost six times.



Source: KAMCO Research & Al Tijaria

The company's total operating expenses during the 9M-2014 showed a 2.2% increase to KWD 7.0 million compared to same period last year mainly due to higher general and administrative expenses which increased by 14% to reach KWD 1.93 million compared to KWD 1.69 million. Finance charges which represents the major expense head was higher also by 2.0% to reach KWD 3.38 million during the 9M-2014 compared to KWD 3.31 million during the same period in 2013.

Al Tijaria's gross profit increased at a CAGR of 34.4% from KWD 4.56 million to KWD 11.08 million during 2010-2013 while net profit grew at a CAGR of 39.3% from KWD 5.55 million to KWD 15.02 million. During the same period, finance cost, which accounts for a significant portion of operating expenses, declined by 25% from KWD 10.25 million to KWD 4.34 million during 2010-2013. We expect that the gross profit of Al Tijaria would grow at a CAGR of 10.2% during the next 4 years (2014e-2018e), while the finance cost and G&A will grow at a CAGR of 9.1% and 10.8%, respectively, during the same period. As a result, we believe that the net profit of Al Tijaria would show positive annual growth rates of between 5% and 10% during 2015e-2018e and to grow at a CAGR of 8.5% during the same period.

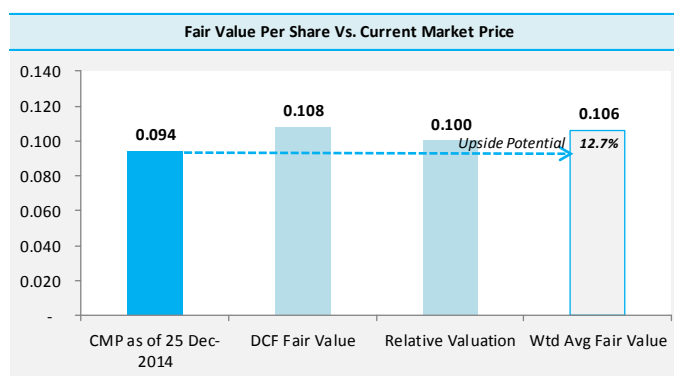
In line with the growth in earnings over the last few years, Al Tijaria's key profitability ratios – Return on Assets (RoA), Return on Equity (RoE) and Return on Invested Capital (RoIC) have steadily increased during the period 2010-2013. RoA increased from 1.4% to 3.9%, RoE is up from 2.3% to 5.8% while RoIC increased from 1.9% to 4.4%.

During the same period, Return on Average Assets (RoAA) improved from 1.3% to 4.0% while Return on Average Equity (RoAE) rose from 2.3% to 5.9%.

## Valuation & Recommendation

**“Outperform” rating with a Price Target of KWD 0.106 representing an upside of 12.7%**

We have valued The Commercial Real Estate company (Al Tijaria) using Discounted Cash Flow (DCF) and relative valuation based on Price to Earnings multiple. We have assigned 75% weight to the DCF-based valuation and 25% weight to the relative valuation in order to arrive at an estimated fair value of KWD 0.106 per share.



### Valuation Method

	Value KWD	Weight (%)	Weighted Value KWD
DCF Fair Value Per Share	0.108	75%	0.081
Relative Valuation Per Share	0.100	25%	0.025
<b>Weighted Average Fair Value per Share</b>			<b>0.106</b>
Current Market Price			0.094
<b>Upside/Downside</b>			<b>12.7%</b>

### Discounted Cash Flow Model

Our DCF valuation is based on explicit forecast of free cash flow for the next five fiscal years (2014e-2018e) and a terminal value afterward. Our discount factor is based on a modified Capital Asset Pricing Model which takes into account various risk premiums pertaining to equity market risk, company specific risk, as well as industry related risk factors on top of the risk free rate. The forecasted cash flows over the projected horizon are discounted back using a weighted average cost of capital of 10.62% using a target debt to equity ratio that goes in line with the company's future expansion plans. We assumed a terminal growth rate of 3.0% in computing the terminal value considering the long term growth in the economy and its impact on the sector and the company.

DCF Valuation	Fair Value of Equity (KWD Mn)	Fair Value Per Share (KWD)
Present Value of FCFF	86.0	0.051
Present Value of Terminal Value	208.6	0.123
<b>Present Value of Cash Flow</b>	<b>294.6</b>	<b>0.173</b>
Cash (Q3-14)	6.9	0.004
Debt (Q3-14)	(117.8)	(0.069)
<b>Equity Fair Value</b>	<b>183.7</b>	<b>0.108</b>

Based on the above assumptions and the DCF valuation method, we arrived at an estimated fair value for Al Tijaria's equity at KWD 183.7 Mn, which, considering 1,702 Mn outstanding shares, translates to per share fair value price of KWD 0.108.

### Sensitivity Analysis

The sensitivity analysis for the change in fair value share price to the changes in WACC and the terminal growth rate is mentioned in the below table.

Price Sensitivity based on DCF Model								
Terminal Growth Rate	Weighted Average Cost of Capital							
		9.0%	9.5%	10.0%	10.6%	11.0%	11.5%	12.0%
	2.00%	0.128	0.115	0.104	0.093	0.086	0.079	0.072
	2.25%	0.133	0.120	0.108	0.096	0.089	0.081	0.074
	2.50%	0.139	0.125	0.113	0.100	0.093	0.084	0.077
	2.75%	0.146	0.131	0.118	0.104	0.096	0.087	0.080
	3.00%	0.153	0.136	0.123	0.108	0.100	0.091	0.082
	3.25%	0.160	0.143	0.128	0.112	0.104	0.094	0.086
	3.50%	0.169	0.150	0.134	0.117	0.108	0.098	0.089
	3.75%	0.178	0.157	0.140	0.122	0.113	0.102	0.092
	4.00%	0.188	0.165	0.147	0.128	0.118	0.106	0.096

### Relative Valuation

For peer-based valuation, we have used the forward price to earnings based on the 2015 expected net profit and the current market capitalization, which resulted in relative share price of KWD 0.100, based solely on the relative valuation.

Company	Country	M.Cap USD Mn	PE (x) 2015e	PB (x) 2015e
EMAAR Properties PJSC	UAE	15,029	15.47	1.48
EMAAR Malls Group	UAE	10,630	22.03	2.63
Aldar Properties	UAE	5,566	11.81	1.04
EMAAR Economic City	Saudi Arabia	2,899	25.68	1.27
Dar Al Arkan Real Estate Development	Saudi Arabia	2,552	9.98	0.52
Mabane Co.	Kuwait	2,350	13.60	2.32
Taiba Holding Co.	Saudi Arabia	1,547	23.12	1.45
Union Properties Co.	UAE	1,039	7.37	0.59
Saudi Real Estate Co.	Saudi Arabia	1,038	18.16	1.13
Arriyadh Development Co.	Saudi Arabia	697	15.84	1.14
Salhia Real Estate Co.	Kuwait	649	16.77	1.33
Eshraq Properties Co.	UAE	576	4.81	0.85
Commercial Real Estate Co.	Kuwait	530	13.32	0.59
		<b>45,101</b>	<b>15.16</b>	<b>1.32</b>

Source: KAMCO Research & Bloomberg

### Recommendation

Based on our valuation, the company is currently trading at a 11.3% discount to our weighted average fair value estimate indicating an “**Outperform**” rating following KAMCO’s recommendation scale and a price target of KWD 0.106 per share representing an upside potential of 12.7% on the stock.

## Financial Indicators

Balance Sheet (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
<b>Assets</b>								
Cash and cash equivalents	13.0	11.3	5.7	7.2	4.8	4.1	4.5	6.5
Receivables and other debit balances	35.1	9.4	6.8	16.9	18.7	20.7	22.9	25.4
Other Current Assets	10.3	11.9	9.8	8.5	9.1	9.7	10.4	11.1
<b>Total Current Assets</b>	<b>58.5</b>	<b>32.7</b>	<b>22.3</b>	<b>32.5</b>	<b>32.6</b>	<b>34.5</b>	<b>37.9</b>	<b>43.0</b>
Investment properties	236.5	241.8	257.2	247.5	251.7	255.9	260.2	264.5
Other Non-Current Assets	95.4	99.3	102.9	113.2	115.0	117.1	119.6	122.3
<b>Total Non-Current Assets</b>	<b>331.9</b>	<b>341.1</b>	<b>360.1</b>	<b>360.7</b>	<b>366.7</b>	<b>373.0</b>	<b>379.7</b>	<b>386.9</b>
<b>Total assets</b>	<b>390.4</b>	<b>373.8</b>	<b>382.4</b>	<b>393.2</b>	<b>399.3</b>	<b>407.5</b>	<b>417.6</b>	<b>429.9</b>
<b>Liabilities</b>								
Financing from third party	14.1	16.5	14.5	25.8	32.3	39.3	46.4	55.0
Payables and Other credit balances	12.9	10.1	11.3	7.3	11.1	12.5	14.0	15.6
<b>Total current Liabilities</b>	<b>27.0</b>	<b>26.6</b>	<b>25.8</b>	<b>33.1</b>	<b>43.4</b>	<b>51.7</b>	<b>60.4</b>	<b>70.6</b>
Financing from third party	95.1	80.6	87.0	89.9	81.2	76.9	73.4	69.8
Employees' end of service indemnity	1.0	1.1	1.1	1.2	1.3	1.3	1.4	1.5
<b>Total Non-current Liabilities</b>	<b>96.1</b>	<b>81.7</b>	<b>88.1</b>	<b>91.1</b>	<b>82.4</b>	<b>78.3</b>	<b>74.8</b>	<b>71.4</b>
<b>Total liabilities</b>	<b>123.1</b>	<b>108.3</b>	<b>113.9</b>	<b>124.2</b>	<b>125.8</b>	<b>130.0</b>	<b>135.2</b>	<b>142.0</b>
<b>Shareholders' Equity</b>								
Share capital	183.5	183.5	170.2	170.2	170.2	170.2	170.2	170.2
Share premium	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Treasury shares	(17.4)	(19.5)	(0.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Total Reserves	53.3	54.9	57.5	59.3	61.2	63.1	65.2	67.5
Retained earnings	30.4	31.0	29.3	28.1	29.5	30.5	32.0	33.8
<b>Total Shareholders Equity</b>	<b>251.2</b>	<b>251.3</b>	<b>257.8</b>	<b>257.3</b>	<b>260.5</b>	<b>263.5</b>	<b>267.1</b>	<b>271.2</b>
Non controlling interest	16.1	14.1	10.7	11.8	12.9	14.0	15.3	16.7
<b>Total liabilities and equity</b>	<b>390.4</b>	<b>373.8</b>	<b>382.4</b>	<b>393.2</b>	<b>399.3</b>	<b>407.5</b>	<b>417.6</b>	<b>429.9</b>

Income Statement (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
Rental Income	6.5	10.7	12.9	14.1	15.5	17.1	18.7	20.6
Net hotel revenues	2.4	4.3	5.1	5.6	6.3	7.1	8.1	9.2
<b>Revenue</b>	<b>8.9</b>	<b>15.1</b>	<b>17.9</b>	<b>19.7</b>	<b>21.8</b>	<b>24.2</b>	<b>26.8</b>	<b>29.7</b>
Rental Operating expenses	(1.4)	(1.9)	(3.0)	(2.9)	(3.2)	(3.5)	(3.8)	(4.2)
Hotel operating expenses	(2.5)	(3.4)	(3.9)	(4.3)	(4.9)	(5.5)	(6.3)	(7.1)
<b>Expenses</b>	<b>(3.9)</b>	<b>(5.3)</b>	<b>(6.9)</b>	<b>(7.2)</b>	<b>(8.1)</b>	<b>(9.0)</b>	<b>(10.1)</b>	<b>(11.3)</b>
<b>Gross profit</b>	<b>5.0</b>	<b>9.8</b>	<b>11.1</b>	<b>12.5</b>	<b>13.8</b>	<b>15.2</b>	<b>16.7</b>	<b>18.4</b>
Other Income	21.9	16.9	29.1	9.2	9.8	10.2	10.7	11.1
General and administrative expenses	(4.2)	(3.9)	(3.6)	(2.7)	(2.9)	(3.3)	(3.6)	(4.0)
Finance costs	(8.3)	(5.6)	(4.3)	(4.7)	(5.1)	(6.0)	(6.5)	(6.7)
Depreciation - Hotel	(3.5)	(2.2)	(2.2)	(2.1)	(2.1)	(2.0)	(2.0)	(1.9)
Impairments & Provisions	-	(2.4)	(12.9)	-	-	-	-	-
<b>Profit before KFAS,NLST,Zakat &amp; Directors' Fees</b>	<b>11.0</b>	<b>12.6</b>	<b>17.2</b>	<b>12.2</b>	<b>13.4</b>	<b>14.1</b>	<b>15.3</b>	<b>16.9</b>
<b>Profit of the year</b>	<b>10.5</b>	<b>12.1</b>	<b>16.4</b>	<b>11.6</b>	<b>12.7</b>	<b>13.3</b>	<b>14.5</b>	<b>16.0</b>
<b>Attributable to equity holders of the Group</b>	<b>10.5</b>	<b>10.9</b>	<b>15.0</b>	<b>10.6</b>	<b>11.6</b>	<b>12.2</b>	<b>13.2</b>	<b>14.6</b>
<b>EPS (KWD)</b>	<b>0.006</b>	<b>0.006</b>	<b>0.009</b>	<b>0.006</b>	<b>0.007</b>	<b>0.007</b>	<b>0.008</b>	<b>0.009</b>

Cash Flow (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
Net cash from operating activities	43.1	12.5	20.8	2.4	16.2	14.8	16.2	17.7
Net cash (used in) from investing activities	19.3	(2.1)	(14.5)	2.7	(2.8)	(3.0)	(3.3)	(3.5)
Net cash from (used in) financing activities	(53.3)	(13.1)	(8.8)	(1.7)	(15.7)	(12.5)	(12.5)	(12.2)
Change in cash and cash equivalents	9.1	(2.6)	(2.5)	3.4	(2.4)	(0.7)	0.4	2.0
<b>Cash at the end of the year</b>	<b>13.0</b>	<b>6.2</b>	<b>3.7</b>	<b>7.2</b>	<b>4.8</b>	<b>4.1</b>	<b>4.5</b>	<b>6.5</b>

Source : KAMCO Research and Al Tijaria



## Key Financial Ratios

Key Ratios	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
<b>Asset Structure Ratios</b>								
Total Liabilities / Total Assets (%)	31.5%	29.0%	29.8%	31.6%	31.5%	31.9%	32.4%	33.0%
Total Debt / Total Assets (X)	0.28	0.26	0.27	0.29	0.28	0.29	0.29	0.29
Total Debt / Equity (X)	0.43	0.39	0.39	0.45	0.44	0.44	0.45	0.46
ST- Debt/Equity (X)	0.06	0.07	0.06	0.10	0.12	0.15	0.17	0.20
LT-Debt/Equity (X)	0.38	0.32	0.34	0.35	0.31	0.29	0.27	0.26
<b>Liquidity Ratios</b>								
Current Ratio (X)	2.16	1.23	0.87	0.98	0.75	0.67	0.63	0.61
Cash Ratio (Cash & Eq./Current Liabilities)	0.48	0.43	0.22	0.22	0.11	0.08	0.07	0.09
<b>Operating Efficiency Ratios</b>								
Inventory Turnover (X)	0.41	0.51	0.86	0.85	0.89	0.93	0.97	1.01
Inventory Days	885	720	423	431	412	394	376	360
Receivables Turnover (X)	0.27	0.68	2.21	1.67	1.23	1.23	1.23	1.23
Receivables Days	1,337	540	165	219	297	297	297	297
Total Assets Turnover Ratio (X)	0.02	0.04	0.05	0.05	0.06	0.06	0.06	0.07
Investment Properties Turnover (X)	0.04	0.06	0.07	0.08	0.09	0.10	0.10	0.11
<b>Profitability Ratios</b>								
Return on Average Assets (%)	2.6%	2.9%	4.0%	2.7%	2.9%	3.0%	3.2%	3.5%
Return on Average Equity (%)	4.3%	4.4%	5.9%	4.1%	4.5%	4.6%	5.0%	5.4%
ROA (%)	2.7%	2.9%	3.9%	2.7%	2.9%	3.0%	3.2%	3.4%
ROE (%)	4.2%	4.4%	5.8%	4.1%	4.5%	4.6%	5.0%	5.4%
ROIC (%)	3.2%	3.4%	4.4%	3.1%	3.5%	3.6%	3.9%	4.4%
Gross Profit Margin (%)	56.6%	65.0%	61.8%	63.4%	63.0%	62.7%	62.3%	61.9%
Operating Profit Margin (%)	273.4%	101.1%	83.9%	50.8%	54.7%	51.8%	51.1%	51.3%
Net Profit Margin (%)	161.8%	102.0%	116.6%	74.7%	74.9%	71.4%	70.8%	71.2%
Average Cost of Debt (%)	6.3%	5.4%	4.4%	4.4%	4.5%	5.3%	5.5%	5.5%
Interest Coverage Ratio (X)	2.33	3.26	4.96	3.58	3.63	3.33	3.36	3.51
<b>Working Capital</b>								
Revenues / Working Capital	NM	NM	5.17	NM	2.02	1.41	1.19	1.08
A/P & Other Credit Balances T/O	0.30	0.52	0.61	0.99	0.72	0.72	0.72	0.72
A/R & Other Debit Balances T/O	0.25	1.60	2.64	1.17	1.17	1.17	1.17	1.17
<b>Market Data and Valuation Ratios</b>								
Closing Share Price (KWD)	0.077	0.071	0.092	0.094	0.094	0.094	0.094	0.094
Number of Shares (Mn)	1,835	1,835	1,702	1,702	1,702	1,702	1,702	1,702
Market Capitalization (KWD Mn)	141	130	157	160	160	160	160	160
EPS (KWD)	0.006	0.006	0.009	0.006	0.007	0.007	0.008	0.009
Book Value Per Share (KWD)	0.137	0.137	0.151	0.151	0.153	0.155	0.157	0.159
Dividend Per Share (KWD)	0.005	0.005	0.007	0.005	0.005	0.006	0.006	0.007
Price to Earnings Multiple (X)	12.81	11.04	10.42	15.14	13.75	13.13	12.08	10.93
Price to Book Value Multiple (X)	0.56	0.52	0.61	0.62	0.61	0.61	0.60	0.59
Dividend Yield (%)	6.5%	7.0%	7.6%	5.3%	5.8%	6.1%	6.6%	7.3%

Source : KAMCO Research and Al Tijaria

Note : Forward Valuation ratios are based on current market prices

# Salhia Real Estate Co.

## Investment Thesis

**We are initiating coverage on Salhia Real Estate Co. (SRE) with a Neutral rating and a price target of KWD 0.379 per share representing an upside of 1.0% on the stock.** The company's revenue (Real Estate, Hotel net and Care Home) was recorded at KWD 32.9 million during 9M-2014 as compared to KWD 33.3 million during the same period in 2013 representing a decrease of 1.3%. Historically, the 4-year revenue CAGR (2009-2013) reached 1.1% highlighting the steady income from Salhia's core business.

**Salhia's operating costs increased at a CAGR of 3.0% during 2009-2013** which pushed down the CAGR for the gross profit to negative 0.3% during the same period. The company's yield on investment property is one of the highest in the sector due to its luxury buildings, malls and offices, in addition to the high occupancy rates recorded by Salhia during the last year.

**Going forward, we expect the yield on investment properties to increase from 32.2% registered in 2013 to 34.9% in 2018e** due to the expected increase in rental rates over the same period. In addition, we expect Salhia's gross profit to grow during the next 4 years (2014e-2018e) at a CAGR of 1.1%. Meanwhile finance cost is expected to remain at the same level over the forecast period whereas G&A is expected to decrease at a CAGR of 4.2%. As a result, we believe net profit would grow at CAGR of 2.4% during the same period.

**During 9M-2014, total assets decreased by 1.3% to reach KWD 207.7 million** compared to KWD 274.3 million at the end of 2013. We don't expect any major change in the size and components of total assets during the next five years (2014e-2018e).

**Based on our expectations, Salhia is expected to focus on bringing down its rising financing cost** by partially repaying some of its outstanding debt that would also lower its debt-to-equity ratio from 0.82x in 2013 to 0.60x in 2018e.

Key Indicators	2013	2014e	2015e	2016e	2017e	2018e
Revenue (KWD Mn)	46.1	46.5	47.2	48.0	48.7	49.2
Net Profit	16.0	11.4	11.3	11.7	12.2	12.8
Leverage (X)	0.82	0.79	0.73	0.69	0.65	0.60
ROAA (%)	5.8%	4.2%	4.2%	4.4%	4.6%	4.9%
ROAE (%)	11.9%	8.2%	8.0%	8.1%	8.3%	8.6%
EPS (KWD)	0.032	0.022	0.022	0.023	0.024	0.025
BVP (KWD)	0.283	0.282	0.286	0.291	0.296	0.303
PE (X)	12.38	16.83	16.99	16.47	15.81	14.97
PB (X)	1.41	1.33	1.31	1.29	1.27	1.24
Yield (%)	5.00%	5.15%	4.85%	5.09%	5.07%	5.26%

## Neutral

CMP 25-Dec-14

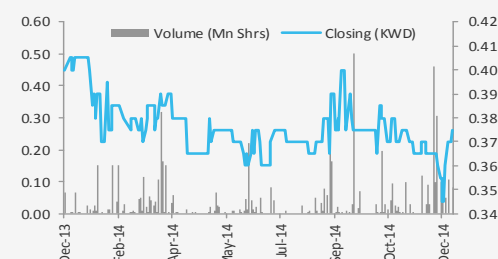
KWD 0.375

Target Price

KWD 0.379

Upside/Downside

+1.0%



Price Perf.	1M	3M	12M
Absolute	2.7%	0.0%	-2.6%
Relative	7.5%	11.2%	0.0%

Stock Data	
Bloomberg Ticker	SRE KK
Reuters Ticker	SREK.KW
Last Price (KWD)	0.375
M.Cap (KWD Mn)	192
M.Cap (USD Mn)	658
52-Week Range (KWD)	0.405/0.335
52-Week ADVT (KWD Mn)	0.011

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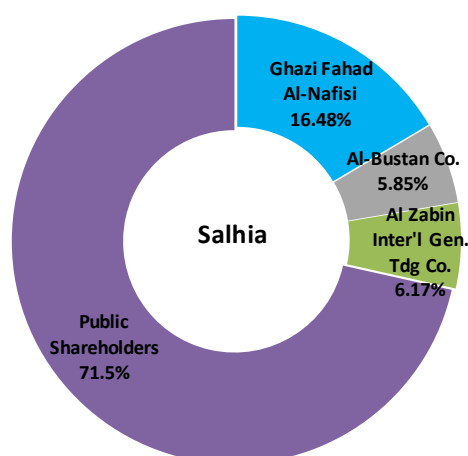
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## Company Overview

Salhia is one of Kuwait's leading retail real estate owners and developers. Since its inception in 1974, the Company has grown away from the local market and established close relationships and partnerships with premier European real estate retailers. Salhia's local property portfolio is concentrated in Kuwait's central business district, while its international portfolio spans across UK and Germany. Salhia's UK operations is effected through its Joint venture entity, KPI, while its German operations, which primarily deal with nursing homes and residences for the elderly, is provided through its German subsidiary, Haddia Holding.

Salhia is known for its ability to create unique, quality destinations and for its exceptional track record of maintaining 100% occupancy rate throughout its local property portfolio. The company places considerable emphasis on the quality of its tenants and on building longstanding relationships with them. Currently, the Company has a couple of local high profile, development projects in the pipeline and a number of similar projects in the UK market as part of its joint venture agreement.

**Salhia's Shareholding Structure**



Source: Kuwait Stock Exchange

Salhia Real Estate Company has more than 32 years of experience in the local and European real estate markets. It was established in 1974 and its shares were floated on the Kuwait Stock Exchange in September 1984.

## Subsidiaries of Salhia Real Estate

Company Name	Country	Ownership	Principal Activity
Haddia Holding GMBH	Germany	90.9%	Holding Co.
Drawbridge Securities Limited	UK	50.0%	Property Development
Salhia International Investment Limited	UK	100.0%	Property Development
Bunyan Al-Salhia Project Management Co. W.L.L.	Kuwait	100.0%	Project Management
Al Asima Real Estate Company K.S.C	Kuwait	99.7%	Real Estate
Key Property Investments	UK	50.0%	Real Estate Leasing and Development

Source: Salhia Financial Statement

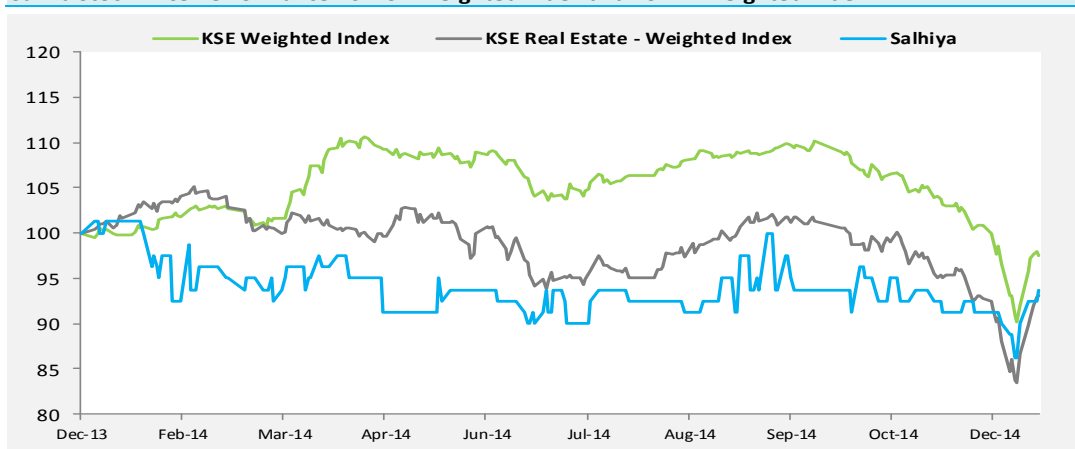
## Historical Price Performance

Salhia's current share price as on 25 December 2014 was KWD 0.375, recording a year to date decrease of 1.3% (adjusted for dividends) resulting in total market capitalization of KWD 192.3 million.

During the last 52 weeks Salhia's closing price reached the highest price of KWD 0.405 while the lowest during the same period was KWD 0.335. Since January 2008 Salhia's price reached the highest price of KWD 0.680 on 04 Feb-08 before the beginning of the financial crisis.

Based on the 9M-2014 financial results, the company's trailing twelve month PE multiple stood at 10.84x as compared to the real estate sector PE of 16.0x, while the Salhia's PB stood at 1.40x compared to 0.91x for the real estate sector. On the other hand, dividend yield stood at 5.15% above the sector dividend yield of 2.97%. The company's beta stood at 0.43 based on the historical price for more than 5 years. The YTD-2014 capital turnover ratio recorded 1.3%.

**Salhia Stock Price Performance Vs. KSE Weighted index and KSE RE weighted index**



Source: KSE & KAMCO Research (Rebased Index 100)

## Salhia Local Investments/Projects

### Salhia Commercial Complex

Salhia Complex has kept its place among other shopping malls since its inception in 1978 until the present day ranked as one of the most important shopping malls and commercial offices in the region due to its history as the first shopping complex in Kuwait. Also the location of Salhia Complex in the middle of Kuwait City has helped in maintaining a 100% occupancy for many years. Salhia Complex consists of three commercial floors.

### Salhia Plaza

Since Completion in 2005, the Plaza quickly became an attraction for visitors due to its proximity to Salhia Complex. The plaza is located above the two basements parking floors in front of Salhia Commercial Complex. The site contains selected trendy restaurants and cafes surrounded in the middle by a fountain illuminated at night and a large landscaping making it a great choice for visitors.

### Sahab Tower

Sahab Tower consists of twenty-storey commercial offices connected to Salhia Complex with a bridge on the mezzanine floor. Also Sahab Tower is occupied by largest international and local companies. Since 1997, Sahab Tower is keeping a rate of occupancy of 100% due to the excellence of services it provides.

### JW Marriott Hotel - Kuwait City

The luxurious five star JW Marriott Hotel Kuwait City is located in the heart of Kuwait's business district. Considered amongst Kuwait's market leading hotels, this elegant 313 room hotel has 73 suites.

### Arraya Commercial Centre

Arraya Centre is one of the most important projects for Salhia Real Estate Company . Arraya Centre with its three shopping floors comprises of a wide selection of retail fashion stores and international franchises along with a fancy cafes and restaurants. Arraya Centre includes seven commercial office floors hosting major local and international corporations.

### Arraya Tower

Arraya Tower has 60 floors which is for commercial use offers its best services to the valuable tenants. The leasing process continued in 2013 to rent the limited available floors in the tower to reach 90% occupancy.

### Courtyard by Marriott Hotel - Kuwait City

The hotel is targeting businessmen who prefer a productive, energizing stay to achieve their business goals, the 264 room Courtyard by Marriott Hotel Kuwait City is the ideal hotel for refreshing business. In the heart of Kuwait City's Financial district, this modern property is attached to the magnificent Arraya Shopping Mall.

### Arraya Ballroom

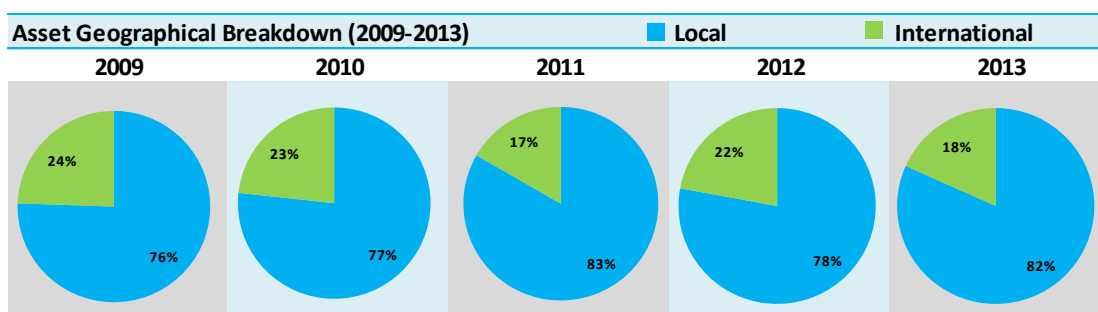
Managed by Marriott International, the Arraya Ballroom is 1,500 square meter ballroom and is one of the largest event venues in Kuwait with unparalleled meeting, event services and facilities.

### Al-Asima Project

The cost of the project is scheduled to be KD 240 million. This project is owned by Al-Asima Real Estate Company, which is owned by Salhia Real Estate Company at a percentage rate of 99.74%.

## Salhia International investments/Projects

Salhia has a couple of significant investments in the United Kingdom and Germany and through three major business areas, Real Estate Operations, Hotel Operations, and Care Home Operations.

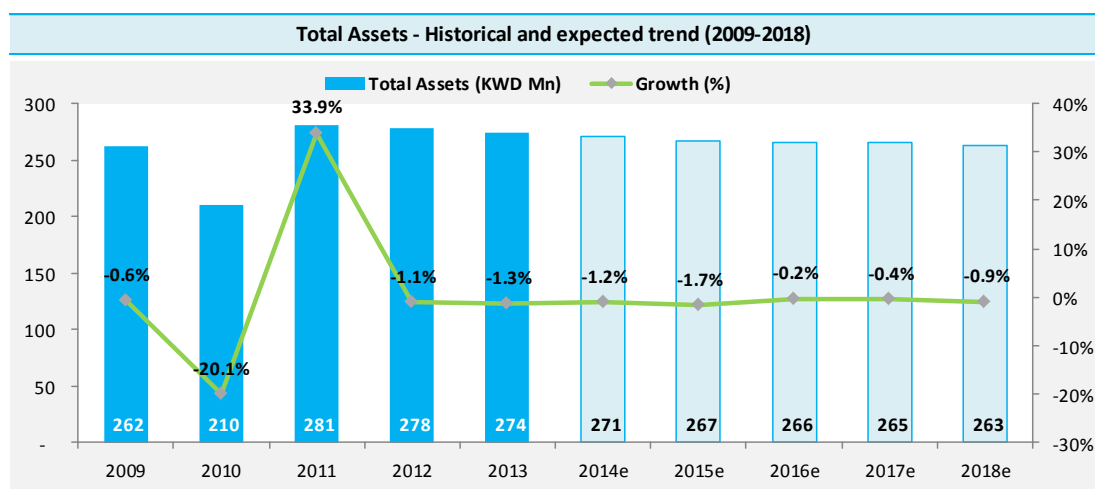


Source: Salhia Real Estate Website

## Financial Performance

### Asset Structure and Funding Base

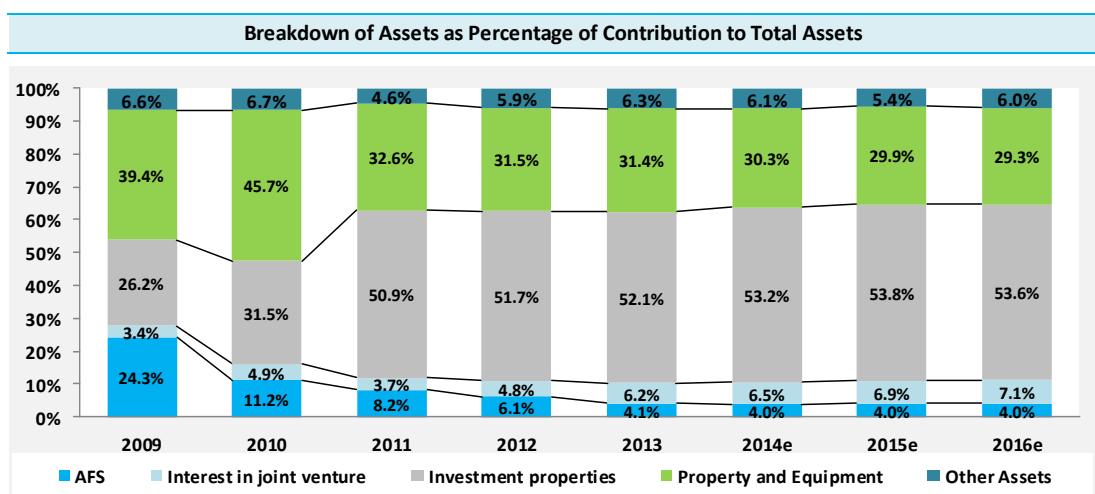
Despite the decline in total assets during the years 2010, 2012, 2013 and during 9M-14, total assets grew at a CAGR of 0.7% between 2009 and Sep-2014 supported by the 34% increase in the company's total assets during 2011 on the back of asset acquisition which amounted to KWD 80 million. During 9M-2014 total assets decreased by 1.3% to reach KWD 207.7 million compared to KWD 274.3 million at the end of 2013. We don't expect any major change in the size and components of total assets during the next five years (2014e-2018e).



Source: KAMCO Research & Salhia Financials

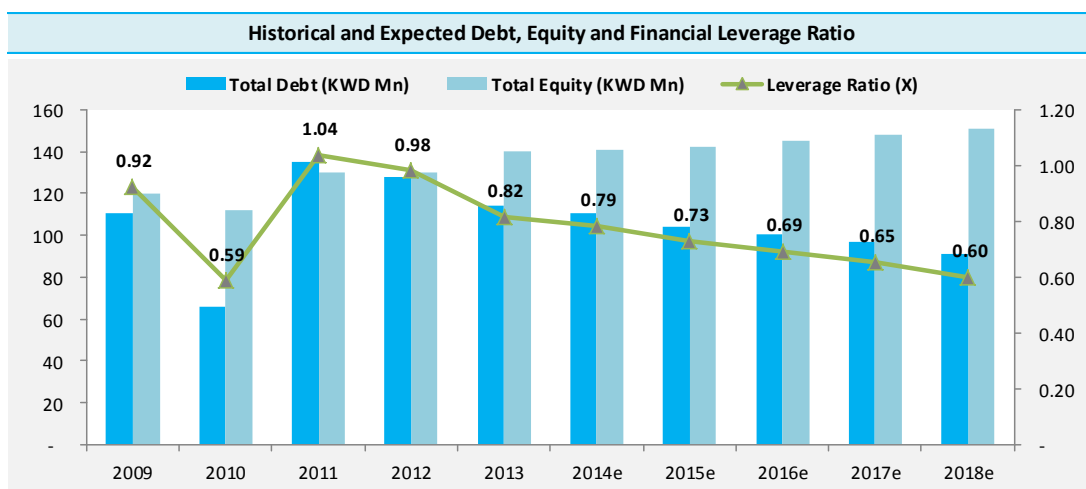
Given the nature of Salhia's business, net fixed assets (Investment Properties and Property & Equipment), which primarily consist of the Company's hotels and ballrooms as well as the nursing home care units, and investment properties constitute a majority share of assets with a percentage contribution ranging between a low of 65.6% recorded as of the end of 2009 and a high of 83.5% recorded as of the end of Sep-2014.

It is important to note that the individual share of investment properties in the Company's asset structure has varied considerably since 2011. It increased from the second majority share of 31.5% to a high of 50.9% in 2011 and currently at 53.4%, representing the highest individual asset contributor. As of the end of Sep 2014, net fixed assets was recorded at KWD 225.93 million compared to KWD 228.87 million at the end of 2013 showing a decline by 1.3%.



Source: KAMCO Research & Salhia Financials

On the liabilities side, bank facilities and loans represents almost 42% of the Company's capital base with a total debt of KWD 113.61 million as of September 30, 2014. Salhia's financial leverage ratio (Debt / Equity) stood at 0.83x at the end of September-14 as compared to 0.82x and 0.98x at the end of 2013 and 2012, respectively. Based on our expectations, Salhia seems to be focusing on pushing down its rising finance by partially repaying some of its outstanding debt to decrease its debt to equity ratio from 0.82x in 2013 to 0.60x in 2018e.

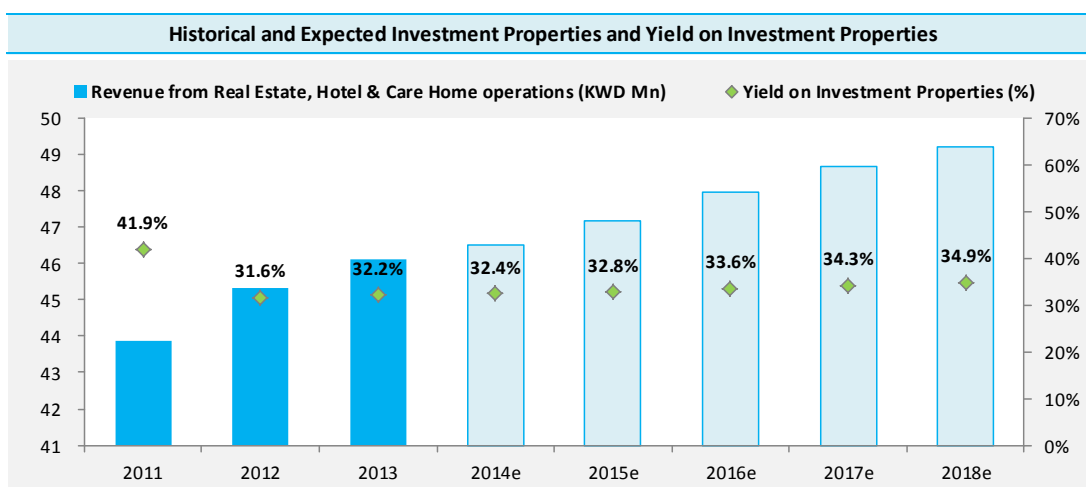


Source: KAMCO Research & Salhia Financials

## Profitability

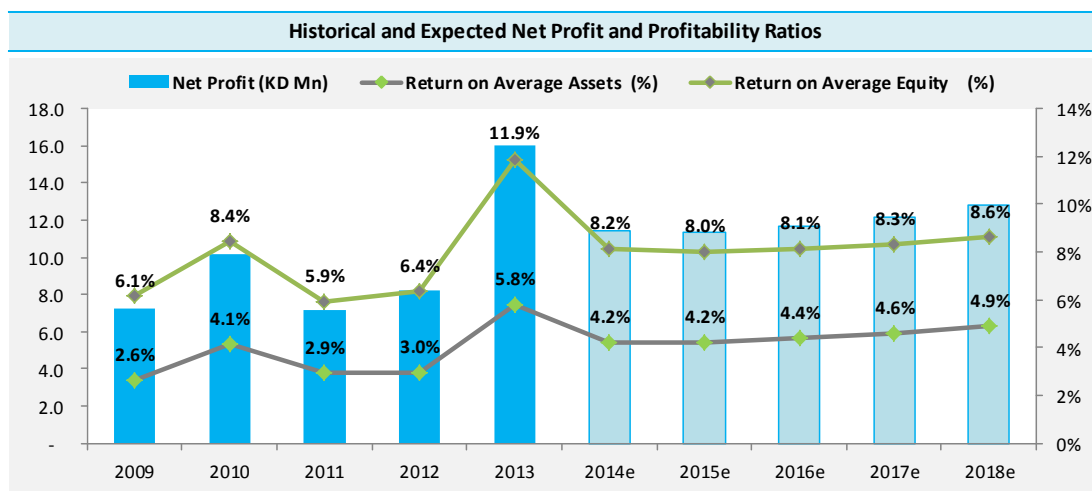
The company's revenue (Real Estate, Hotel net and Care Home) was recorded at KWD 32.9 million during 9M-2014 as compared to KWD 33.3 million during the same period in 2013 representing an increase of 1.3%. Historically, the 4-year revenue CAGR (2009-2013) reached 1.1% highlighting the steady income from Salhia's core business. On the other hand, operating costs increased at a CAGR of 3.0% during (2009-2013) that weighed down on the average growth rate of gross profit recorded at negative 0.3% during the same period. The yield on investment properties of Salhia is one of the highest in the sector due to its luxury buildings, malls and offices, in addition to the high occupancy rates showed by Salhia during the last year.

Going forward, we expect the yield on investment properties to increase from 32.2% registered in 2013 to 34.9% in 2018e due to the expected increase in rental rates during the same period.



Source: KAMCO Research & Salhia Financials

During 9M-2014, Salhia's net profit showed a significant increase of 26.8% to reach KWD 8.14 million compared to KWD 6.42 million recorded during the same period in 2013. The increase in net profit was mainly due to the lower impairment loss on financial assets available for sale and lower finance cost which amounted to KWD 0.3 million and KWD 3.37 million during the 9M-2014 compared to KWD 2.0 million and KWD 4.62 million reported during the same period in 2013, respectively. As a result of the lower impairments and finance cost net profit surged during the same period.



Source: KAMCO Research & Salhia Financials

Salhia's net profit increased at a compounded annual growth rate (CAGR) of 21.9% from KWD 7.25 million to KWD 16.01 million during 2009-2013. It is pertinent to note that the company's net profit almost doubled to KWD 16.01 Mn during 2013 as compared to KWD 8.26 Mn during 2012. This increase was mainly due to the KWD 13.17 million earned from share in joint venture results which represents the company's 50% interest in UK-based joint venture entity.

During the same period (2009-2013), the 2nd higher contributor account to the company's expenses, the finance cost, declined by 9.4% from KWD 6.26 million to KWD 5.67 million during 2009-2013.

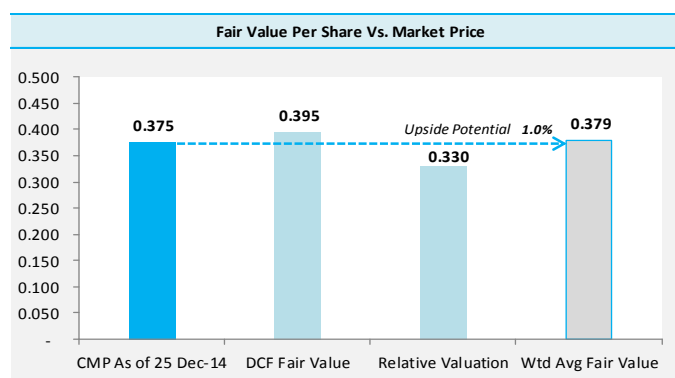
We expect Salhia's gross profit to grow at a CAGR of 1.1% during the next years (2014e-2018e). Meanwhile, finance cost is expected to remain at the same level during the forecast period and G&A is expected to decrease at a CAGR of 4.2% during the same period. As a result, we believe net profit would grow at CAGR of 2.4% during the same period.



## Valuation & Recommendation

*“Outperform” rating with a Price Target of KWD 0.379 representing an upside of 1.0%*

We have valued Salhia real Estate company using Discounted Cash Flow (DCF) and relative valuation based on Price to Earnings multiple. We have assigned 75% weight to the DCF-based valuation and 25% weight to the relative valuation in order to arrive at an estimated weighted average fair value of KWD 0.379 per share.



### Valuation Method

	Value KWD	Weight (%)	Weighted Value KWD
DCF Fair Value Per Share	0.395	75%	0.296
Relative Valuation Per Share	0.330	25%	0.083
<b>Weighted Average Fair Value per Share</b>			<b>0.379</b>
Current Market Price			0.375
<b>Upside/Downside</b>			<b>1.0%</b>

### Discounted Cash Flow Model

Our DCF valuation is based on explicit forecast of free cash flow for the next five fiscal years (2014e-2018e) and a terminal value afterward. Our discount factor is based on a modified Capital Asset Pricing Model which takes into account various risk premiums pertaining to equity market risk, company specific risk, as well as industry related risk factors on top of the risk free rate. The forecasted cash flows over the projected horizon are discounted back using a weighted average cost of capital of 9.64% using a target debt to equity ratio that goes in line with the company's future expansion plans. We assumed a terminal growth rate of 3.0% in computing the terminal value considering the long term growth in the economy and its impact on the sector and the company.

DCF Valuation	Fair Value of Equity (KWD Mn)	Fair Value Per Share (KWD)
Present Value of FCFF	79.3	0.155
Present Value of Terminal Value	216.3	0.422
<b>Present Value of Cash Flow</b>	<b>295.6</b>	<b>0.577</b>
Investments (Q3-14)	10.8	0.021
Cash (Q3-14)	9.8	0.019
Debt (Q3-14)	(113.6)	(0.2)
<b>Equity Fair Value</b>	<b>202.6</b>	<b>0.395</b>

Based on the above assumptions and the DCF valuation method, we arrived at an estimated fair value for Salhia's equity at KWD 202.6 Mn, which, considering 513 Mn outstanding shares, translates to per share fair value price of KWD 0.395.

### Sensitivity Analysis

The sensitivity analysis for the change in fair value share price to the changes in WACC and the terminal growth rate is mentioned in the below table.

Price Sensitivity based on DCF Model								
Terminal Growth Rate	Weighted Average Cost of Capital							
		8.5%	9.0%	9.5%	9.6%	10.5%	11.0%	11.5%
	2.00%	0.423	0.382	0.346	0.336	0.286	0.262	0.240
	2.25%	0.442	0.398	0.359	0.350	0.297	0.271	0.248
	2.50%	0.463	0.415	0.374	0.364	0.308	0.281	0.256
	2.75%	0.485	0.434	0.390	0.379	0.320	0.291	0.265
	3.00%	0.509	0.454	0.407	0.395	0.332	0.302	0.275
	3.25%	0.536	0.476	0.426	0.413	0.345	0.313	0.285
	3.50%	0.566	0.500	0.446	0.432	0.360	0.325	0.295
	3.75%	0.598	0.526	0.467	0.452	0.375	0.339	0.307
	4.00%	0.634	0.555	0.491	0.475	0.392	0.353	0.319

### Relative Valuation

For peer-based valuation, we have used the forward price to earnings based on the 2015 expected net profit and the current market capitalization, which resulted in relative share price of KWD 0.330, based solely on the relative valuation.

Company	Country	M.Cap USD Mn	PE (x) 2015e	PB(x) 2015e
EMAAR Properties PJSC	UAE	15,029	15.47	1.48
EMAAR Malls Group	UAE	10,630	22.03	2.63
Aldar Properties	UAE	5,566	11.81	1.04
EMAAR Economic City	KSA	2,899	25.68	1.27
Dar Al Arkan Real Estate Development	KSA	2,552	9.98	0.52
Mabane Co.	Kuwait	2,350	13.60	2.32
Taiba Holding Co.	KSA	1,547	23.12	1.45
Union Properties Co.	UAE	1,039	7.37	0.59
Saudi Real Estate Co.	KSA	1,038	18.16	1.13
Arriyadh Development Co.	KSA	697	15.84	1.14
Salhia Real Estate Co.	Kuwait	649	16.77	1.33
Eshraq Properties Co.	UAE	576	4.81	0.85
Commercial Real Estate Co.	Kuwait	530	13.32	0.59
		<b>45,101</b>	<b>15.16</b>	<b>1.32</b>

Source: KAMCO Research & Bloomberg

### Recommendation

Based on our valuation, Salhia real Estate company is currently trading at a 1.0% discount to our weighted average fair value estimate indicating a “Neutral” rating following KAMCO’s recommendation scale and a price target of KWD 0.379 per share representing an upside potential of 1.0% on the stock.

## Financial Indicators

Balance Sheet (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
<b>Assets</b>								
Cash and Cash Equivalents	4.5	7.4	7.3	7.5	5.3	6.7	7.5	6.7
Fixed deposits	3.3	3.5	2.7	3.0	3.0	3.0	3.0	3.0
Account Receivable	4.8	5.0	6.9	5.6	5.7	5.8	5.9	5.9
Financial assets available for sale	23.0	17.0	11.3	10.8	10.8	10.8	10.8	10.8
Net fixed Assets	234.5	231.2	228.9	226.3	223.2	220.3	217.7	215.2
Other Assets	10.8	13.7	17.2	17.9	18.6	19.4	20.1	20.9
<b>Total assets</b>	<b>280.8</b>	<b>277.8</b>	<b>274.3</b>	<b>271.1</b>	<b>266.6</b>	<b>266.0</b>	<b>264.9</b>	<b>262.6</b>
<b>Liabilities</b>								
Loans from Banks	120.4	125.7	114.4	110.5	104.1	100.7	96.8	90.9
Accounts payable and other liabilities	15.0	16.9	16.6	16.7	16.8	16.9	17.0	17.0
Due to banks and financial institution	14.6	2.3	-	-	-	-	-	-
<b>Total liabilities</b>	<b>150.0</b>	<b>144.9</b>	<b>131.1</b>	<b>127.3</b>	<b>120.9</b>	<b>117.6</b>	<b>113.8</b>	<b>107.9</b>
<b>Shareholders' Equity</b>								
Share capital	51.3	51.3	51.3	51.3	51.3	51.3	51.3	51.3
Share premium	35.1	35.1	35.1	35.1	35.1	35.1	35.1	35.1
Treasury shares	(3.9)	(3.9)	(3.9)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Total Reserves	39.4	39.5	43.3	43.6	44.8	44.8	44.8	44.8
Retained earnings	8.3	8.3	14.5	14.8	15.4	18.1	20.8	24.2
<b>Total Shareholders Equity</b>	<b>130.1</b>	<b>130.2</b>	<b>140.2</b>	<b>140.7</b>	<b>142.5</b>	<b>145.2</b>	<b>147.9</b>	<b>151.4</b>
Non controlling interest	0.6	2.7	3.0	3.1	3.1	3.2	3.3	3.3
<b>Total liabilities and equity</b>	<b>280.8</b>	<b>277.8</b>	<b>274.3</b>	<b>271.1</b>	<b>266.6</b>	<b>266.0</b>	<b>264.9</b>	<b>262.6</b>

Income Statement (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
Contract revenues	43.9	45.3	46.1	46.5	47.2	48.0	48.7	49.2
Operating costs	(18.1)	(19.4)	(19.4)	(19.8)	(20.0)	(20.4)	(20.7)	(20.9)
<b>Gross profit</b>	<b>25.7</b>	<b>25.9</b>	<b>26.7</b>	<b>26.8</b>	<b>27.2</b>	<b>27.6</b>	<b>28.0</b>	<b>28.3</b>
General and administrative expenses	(3.9)	(4.0)	(4.2)	(4.4)	(4.5)	(4.5)	(4.6)	(4.7)
Depreciation	(6.2)	(6.3)	(6.3)	(6.1)	(5.5)	(5.3)	(5.1)	(4.9)
Finance costs	(6.0)	(7.1)	(5.7)	(5.1)	(5.1)	(5.4)	(5.4)	(5.2)
Other Income/Loss	(1.3)	1.0	7.2	1.7	0.7	0.8	0.8	0.9
Foreign tax	(0.7)	(0.7)	(0.9)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
<b>Profit before KFAS,NLST,Zakat &amp; Directors' Fees</b>	<b>7.6</b>	<b>8.8</b>	<b>16.9</b>	<b>12.1</b>	<b>12.0</b>	<b>12.4</b>	<b>12.9</b>	<b>13.6</b>
<b>Profit of the year</b>	<b>7.1</b>	<b>8.3</b>	<b>16.1</b>	<b>11.5</b>	<b>11.3</b>	<b>11.7</b>	<b>12.2</b>	<b>12.9</b>
<b>Attributable to equity holders of the Group</b>	<b>7.2</b>	<b>8.3</b>	<b>16.0</b>	<b>11.4</b>	<b>11.3</b>	<b>11.7</b>	<b>12.2</b>	<b>12.8</b>
<b>EPS (KWD)</b>	<b>0.016</b>	<b>0.017</b>	<b>0.032</b>	<b>0.022</b>	<b>0.022</b>	<b>0.023</b>	<b>0.024</b>	<b>0.025</b>

Cash Flow (KWD Mn)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
Net cash from operating activities	19.0	21.7	18.9	22.8	21.2	21.6	21.9	22.2
Net cash (used in) from investing activities	(3.3)	3.3	8.8	(3.7)	(2.4)	(2.4)	(2.4)	(2.4)
Net cash from (used in) financing activities	10.2	(10.2)	(25.6)	(18.9)	(21.1)	(17.8)	(18.8)	(20.5)
Change in cash and cash equivalents	(15.9)	14.8	2.2	0.2	(2.2)	1.4	0.8	(0.8)
<b>Cash at the end of the year</b>	<b>(9.7)</b>	<b>5.1</b>	<b>7.3</b>	<b>7.5</b>	<b>5.3</b>	<b>6.7</b>	<b>7.5</b>	<b>6.7</b>

Source : KAMCO Research and Salhia

## Key Financial Ratios

Key Ratios	2011	2012	2013	2014e	2015e	2016e	2017e	2018e
<b>Asset Structure Ratios</b>								
Total Liabilities / Total Assets (%)	53.4%	52.2%	47.8%	46.9%	45.4%	44.2%	42.9%	41.1%
Total Debt / Total Assets (X)	0.48	0.46	0.42	0.41	0.39	0.38	0.37	0.35
Total Debt / Equity (X)	1.04	0.98	0.82	0.79	0.73	0.69	0.65	0.60
ST- Debt/Equity (X)	0.25	0.11	0.08	0.10	0.12	0.23	0.09	0.11
LT-Debt/Equity (X)	0.79	0.87	0.73	0.69	0.62	0.46	0.56	0.50
<b>Liquidity Ratios</b>								
Current Ratio (X)	0.27	0.52	0.60	0.54	0.43	0.32	0.54	0.49
Quick Ratio (X)	0.42	0.83	1.01	0.96	0.84	0.92	0.97	0.92
Cash Ratio (Cash & Eq./Current Liabilities)	0.13	0.32	0.35	0.34	0.25	0.19	0.34	0.30
<b>Operating Efficiency Ratios</b>								
Inventory Turnover (X)	56.65	55.03	55.68	57.89	56.19	56.23	56.18	56.08
Inventory Days	6.44	6.63	6.55	6.30	6.50	6.49	6.50	6.51
Receivables Turnover (X)	7.84	9.27	7.73	7.44	8.37	8.38	8.37	8.35
Receivables Days	46.56	39.38	47.21	49.06	43.62	43.58	43.62	43.70
Total Assets Turnover Ratio (X)	0.18	0.16	0.17	0.17	0.18	0.18	0.18	0.19
Investment Properties Turnover (X)	0.31	0.32	0.32	0.32	0.33	0.34	0.34	0.35
<b>Profitability Ratios</b>								
Return on Average Assets (%)	2.9%	3.0%	5.8%	4.2%	4.2%	4.4%	4.6%	4.9%
Return on Average Equity (%)	5.9%	6.4%	11.9%	8.2%	8.0%	8.1%	8.3%	8.6%
ROA (%)	2.5%	3.0%	5.9%	4.2%	4.3%	4.4%	4.6%	4.9%
ROE (%)	5.5%	6.4%	11.4%	8.1%	8.0%	8.1%	8.2%	8.5%
ROIC (%)	3.2%	3.6%	6.9%	5.0%	5.1%	5.8%	5.5%	5.9%
Gross Profit Margin (%)	58.7%	57.2%	57.8%	57.5%	57.5%	57.5%	57.5%	57.5%
Operating Profit Margin (%)	34.8%	33.2%	33.6%	33.8%	34.5%	35.2%	35.7%	36.1%
Net Profit Margin (%)	16.3%	18.3%	34.8%	24.6%	24.0%	24.4%	25.0%	26.2%
Average Cost of Debt (%)	6.0%	5.4%	4.7%	4.5%	4.8%	5.3%	5.5%	5.5%
Interest Coverage Ratio (X)	2.39	2.34	4.13	3.55	3.51	3.46	3.53	3.80
<b>Working Capital</b>								
Revenues / Working Capital	0.90	2.57	4.06	3.29	2.51	1.39	3.45	2.91
A/P & Other Credit Balances T/O	1.21	1.15	1.17	1.18	1.19	1.21	1.22	1.23
A/R & Other Debit Balances T/O	9.22	9.02	6.68	8.31	8.31	8.31	8.31	8.31
<b>Market Data and Valuation Ratios</b>								
Closing Share Price (KWD)	0.208	0.370	0.400	0.375	0.375	0.375	0.375	0.375
Number of Shares (Mn)	513	513	513	513	513	513	513	513
Market Capitalization (KWD Mn)	107	190	205	192	192	192	192	192
EPS (KWD)	0.016	0.017	0.032	0.022	0.022	0.023	0.024	0.025
Book Value Per Share (KWD)	0.263	0.263	0.283	0.282	0.286	0.291	0.296	0.303
Dividend Per Share (KWD)	0.015	0.015	0.020	0.019	0.018	0.019	0.019	0.020
Price to Earnings Multiple (X)	13.42	22.16	12.38	16.83	16.99	16.47	15.81	14.97
Price to Book Value Multiple (X)	0.79	1.41	1.41	1.33	1.31	1.29	1.27	1.24
Dividend Yield (%)	7.2%	4.1%	5.0%	5.1%	4.8%	5.1%	5.1%	5.3%

Source : KAMCO Research and Salhia

Note : Forward Valuation ratios are based on current market prices





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