

GCC Real Estate Sector Report

GCC Real Estate

- We update our target prices and recommendations on the GCC real estate sector
- Multiples mostly below historical averages, but this is justified in some cases
- Fundamentals in favor of Saudi, selective on UAE and Kuwait

Update price targets and recommendations...

Given the recent rally in regional markets and a sequence of company-specific events taking place, we have updated our models for the eight GCC real estate equities under our coverage. Emaar and Salhia are two value trades that we believe are undervalued. We increase target prices and maintain our Strong Buy recommendation on both stocks. We issue a Buy on Akaria as it remains one of our favorite exposures to the buoyant Riyadh rental market offering stable operations and a very solid balance sheet. EEC is now becoming an interesting name with the strategic shift focusing on land sales along with improved financing have successfully created value. We await more confirmations on the impact of the new strategy but expect strong earnings growth and surprises that could force us to change our valuation again. We also increase our target price for Dar Alarkan, Aldar and Sorouh and recommend a Hold stance after the recent price rally.

Multiples mostly below historical averages, but this is justified in some cases...

Real estate equities are still trading at distressed multiples compared to their respective indices and the majority are trading at a discount to their 5-year average multiples. We believe this is justified for stocks that are exposed to stressed markets (Aldar/Sorouh), but is unwarranted in other cases especially for well diversified names (Emaar/Salhia). Earlier in 2011, we noted potential for convergence in the case of Saudi real estate equities and saw prices catch up aggressively to recover from the widening gap in price multiples.

Fundamentals in favor of Saudi, selective on UAE and Kuwait...

Our view is that Saudi enjoys more solid fundamental prospects for growth in the real estate sector over the UAE and Kuwait. Prices of land and ready units as well as rents have seen significant increases in 2011 with rental yields in Jeddah and Riyadh now amongst the highest in the world. We expect this pattern to continue in 2012 as we do not see any practical change in fundamentals.

We suspect Dubai residential sales prices are bottoming out but a noticeable recovery remains offsite in the near term while Abu Dhabi will remain pressured by the growing vacancy rates and incessant supply. We prefer exposure to retail and hospitality in 2012 despite some negative anticipated pressures on the latter given a slowdown in tourist arrivals as opposed to the politically troubled 2011.

In Kuwait, we prefer the retail segment but suspect it is nearing saturation with an additional 22% to 4Q11 stock entering the market during 2012-13. The office segment will underperform in 2012 as vacancy rates increase on new supply.

Global Research - GCC Real Estate

Company	MKT. Cap USD mn	PEx 2012e	PBX 2012e	RoE 2012e	CMP	Target Price LC/share	Recommendation
Emaar	5,025	11.60	0.60	5.6%	3.25	4.00	Strong Buy
Aldar	1,368	12.28	0.68	5.6%	1.23	1.30	Hold
Sorouh	843	6.67	0.47	8.0%	1.18	1.25	Hold
Dar Alarkan	3,845	13.05	0.88	6.8%	13.10	13.05	Hold
EEC	2,924	22.30	1.39	6.4%	12.90	13.00	Hold
Akaria	960	26.90	1.10	4.1%	29.30	32.50	Buy
Mabane	2,037	16.42	3.29	18.0%	1.040	1.140	Hold
Salhia	448	16.35	0.90	5.5%	0.244	0.290	Strong Buy

Source: Global Research

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View & recommendation:**Emaar:**

Emaar remains one of our favorite regional picks in terms of real estate exposure offering a uniquely positioned portfolio of segmental and geographic operational coverage. Dubai based development sales revenues will drop from 41% in 2011 to only 26% in 2012 while contribution from international sales will increase from 18% to 34% YoY, based on our assumptions. Dubai based retail and hospitality will carry on their positive drive from 2011 although we see some risks to 2012 hospitality rates. Based on our SOTP valuation, we raise our fair value target of Emaar to AED4.00/share from AED3.30/share and issue a **Strong Buy** recommendation on the stock.

Aldar:

Aldar disappointed again in 2011 despite the AED642 million net profits that were mainly driven by infusions from the government of Abu Dhabi's new bailout package. Looking forward, we expect the scheduled government receivables to generate sufficient cash flow to meet its capex requirements in the process of building a lucrative investment portfolio. Debt overhang remains a key issue with financial charges weighing heavily on the bottom line. We value Aldar at AED1.30/share reflecting a 5.4% upside potential over the current market price with a **Hold** call on the stock.

Sorouh:

Sorouh's 2011 gross margin on property sales came in significantly below expectations reflecting the prevailing weakness in Abu Dhabi residential and office markets. We roll out the last deliveries of ongoing projects through to 2014 assuming some delays after which revenues will solely rely on investment properties along with project management fees from government projects. We do not see major risks on the financing side given declining capex requirements and balanced financing structure. We update on Sorouh with a fair value target of AED1.25/share up from AED1.05/share and a **Hold** recommendation.

Dar Alarkan:

We believe that the default concerns on the SAR3.75 billion 2012 sukuk that pushed the stock price to its all time low of SAR6.05/share are now over and that investors have priced that in. The company's business model positions it favorably in the fundamentally strong land and residential property sales market of Riyadh. AlQasr mall will be delivered in 2Q12 offering usable collateral for new debt, which should lower average debt service costs. We have changed our valuation of Dar Alarkan raising our target price 46% to SAR13.05/share but issue a **Hold** recommendation from Strong Buy previously given the recent price rally.

Emaar the Economic City:

EEC is now one of our favorite stories after the change in strategy and improved financing profile. The change in revenue mix towards land sales has enabled EEC to monetize on its idle land bank with minimal capex requirements and a much shorter cash cycle. We now forecast 2012-2014 revenue CAGR of 51% up from 10% previously and 2.8x revenue growth in 2012. For now, we are still looking at testing the absorption of EEC's land offering and accordingly opt to remain conservative in our assumptions against management guidance and, accordingly, update with a target price of SAR13.00/share and a **Hold** recommendation.

Akaria:

Akaria maintains its stable operating profile managing its rental portfolio of the Riyadh located properties. We expect the 292 villas of the Diplomatic Quarters 2 project to be delivered in 2Q13 and to be fully rented out by the end of the year. No significant progress so far on the Binban project as the company awaits government approvals. We expect the first wave of sales from the Binban project to be pushed back to 2015 from 2014. Based on our SOTP valuation of Akaria, we now value the company at SAR32.50/share up from SAR28.90/share and issue a **Buy** recommendation.

Mabaneer:

Mabaneer is approaching the completion of phase III of its flagship project The Avenues Mall adding 95,000 sqm of high end GLA to its retail offering boosting 2012 revenues and earnings by 58% and 65%, respectively. We believe the market has thoroughly priced in the change in earnings from Phase III in anticipation of operational surprises that could stem from improving yields. Mabaneer is currently the highest priced real estate equity under our coverage trading at a 2012e forward PBx of 3.29x above a peer average of 0.84x ex-Mabaneer and KSE average of 1.40x. We raise our target price to KWD1.140/share with a **Hold** recommendation.

Salhia:

Salhia's diversified operating portfolio maintained its performance in 2011 reporting revenues of KWD43.9 million up 2% YoY. The company increased its stake in AlAsima Real Estate Company to 96.4% during 2011, giving potential to the revival of its renovation project. Excluding development projects on lack of clarity, we believe the stock is a value bargain as we maintain our views on current operations and update with a target price of KWD0.290/share and a **Strong Buy** recommendation.

Update valuations; see most stocks now as fairly priced...

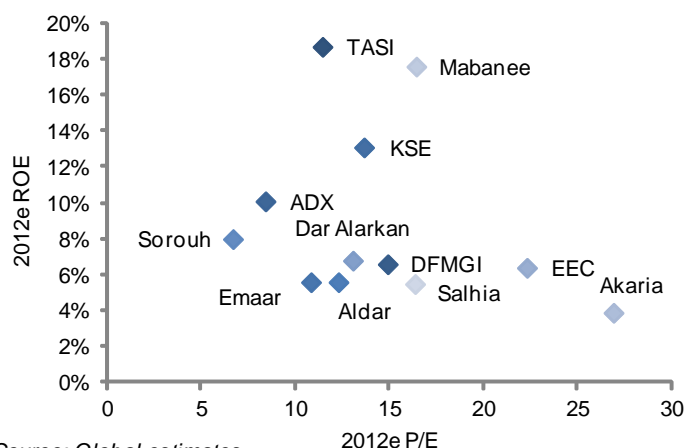
Given the recent market rally in emerging markets and the associated impact on regional markets along with an active sequence of events in recent months, we have updated our models based on the most recent views we devised on the eight equities under coverage. Major changes to our models are twofold. The first is the utilization of a lower WACC across the board given increasing investor risk appetite and growing liquidity in regional markets. The second is company specific with several of the companies under coverage witnessing noteworthy amendments that warrant considerable changes. Most of our previous target prices were achieved and in some cases preceded as the markets moved vigorously in a very short time horizon.

Change in assumptions and target prices:

Local Currency mn	2012e Revenues			2012e Net profit			Target price			New Recommendation
	Old	New	Change	Old	New	Change	Old	New	Change	
Emaar	7,850	8,370	6.6%	1,592	1,706	7.2%	3.30	4.00	21.2%	Strong Buy
Aldar	2,110	6,090	187.5%	228	409	79.4%	1.10	1.30	18.2%	Hold
Sorouh	2,827	3,061	8.3%	324	464	43.2%	1.05	1.25	19.0%	Hold
Dar Alarkan	3,680	3,501	-4.9%	1,223	1,130	-7.6%	8.90	13.05	46.6%	Hold
EEC	457	1,536	236.1%	(26)	501	na	7.65	13.00	69.9%	Hold
Akaria	244	255	4.5%	122	131	7.4%	28.90	32.50	12.5%	Buy
Mabaneer	58	61	4.1%	33	35	5.3%	0.980	1.140	16.3%	Hold
Salhia	44	44	0.0%	7	8	5.5%	0.245	0.290	18.4%	Strong Buy

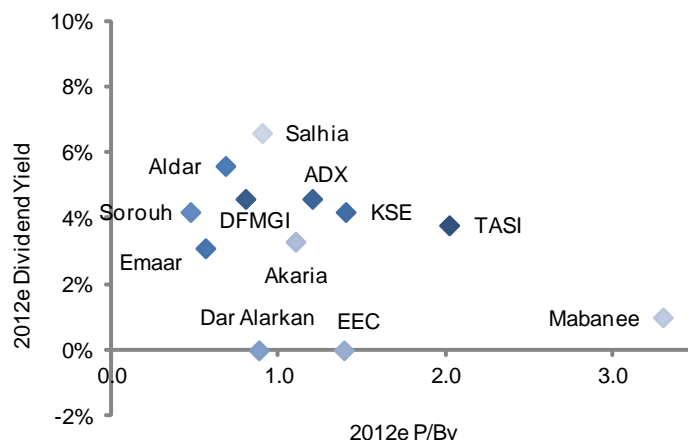
Source: Global Research

2012e PEx vs. 2012e ROE



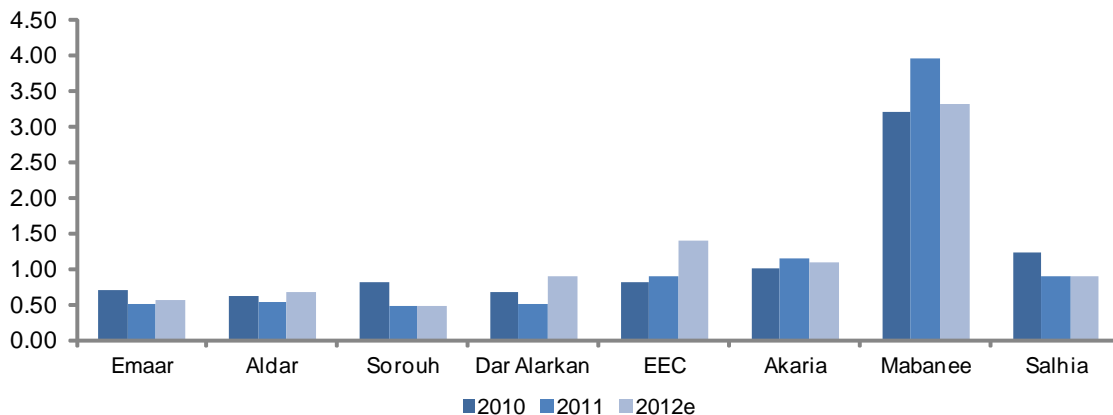
Source: Global estimates

2012e PBx vs. 2012e Dividend Yield



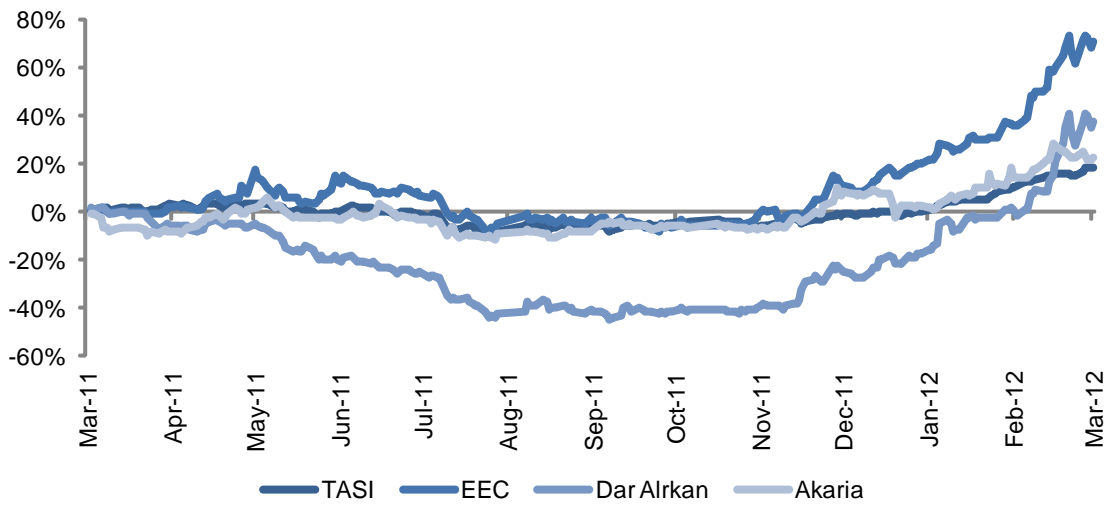
Source: Global estimates

PBx 2010-2012e



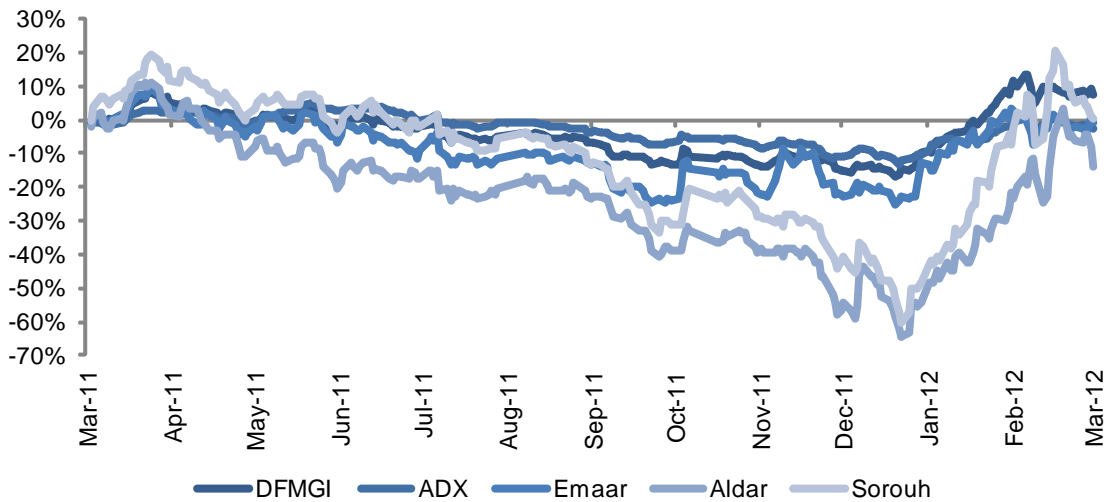
Source: Global estimates

Saudi 1 Yr price performance



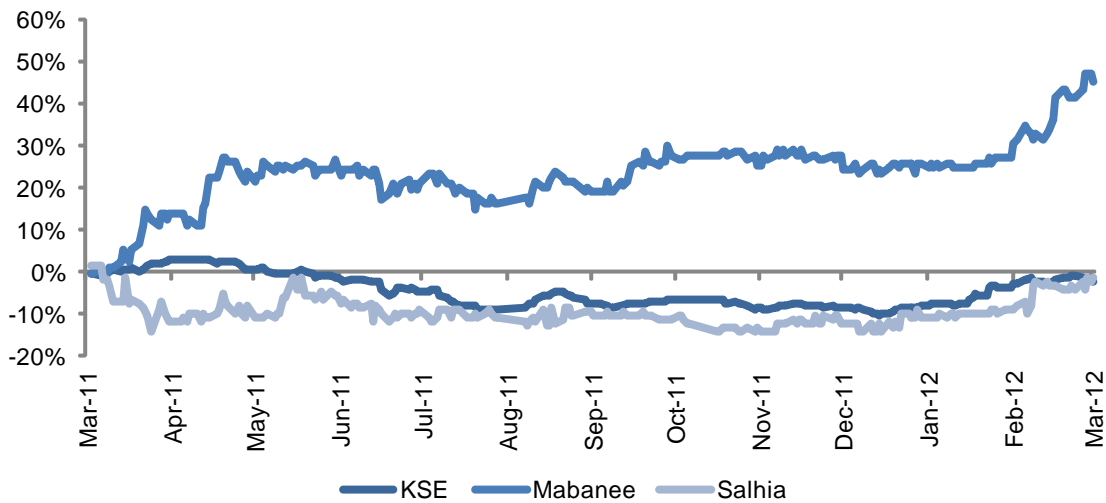
Source: Bloomberg

UAE 1 Yr price performance



Source: Bloomberg

Kuwait 1 Yr price performance



Source: Bloomberg

Trading below 5-year average multiples...

Real estate equities are still trading at distressed multiples compared to their respective indices and the majority are trading at a discount to their 5-year average multiples. Although we believe this trend is justified for stocks that lack segmental and/or geographical diversification or are exposed to stressed markets, we believe that this is unwarranted in other cases. We have suggested this convergence earlier last year in the case of Saudi real estate equities and saw prices catch up aggressively to recover the widening gap in price multiples.

Mabaneer is the only stock under coverage trading at a forward 2012 PBx of more than 3x reflecting the superior quality of its underlying assets. Mabaneer's PBx of 3.29x is, relatively, high compared to 1.17x peer average (0.84 ex-Mabaneer) and Kuwait's average of 1.40x. In our view, this premium prices in assets and earnings growth expected in 2012e and 2013e. We expect Mabaneer to continue experiencing elevated RoE and RoA going forward as its earnings double by 2013e.

Emaar currently appears attractive to us trading at a low forward PBx multiple of 0.60x; a 7.7% discount to its 5-year average and 28% discount to DFMGI. Investors are still, unjustifiably in our opinion, assigning a high discount to the company's assets given geopolitical instability in some regional markets, where it operates, and fundamental concerns on Dubai assets. In our view, these concerns are unwarranted given that most of international developments are sold already and deliveries are picking up pace since 2011 while we rule out chances of significant impairments to assets in the local market given our outlook on the Dubai market. Further, the write off of Dubai Banking Group in 2011 along with the improvement in strategy and, accordingly, stock price of Emaar the Economic City are all positive signs to improved quality of Emaar's assets.

Dar Alarkan and EEC forward multiples moved higher on a 130% and 125% rally during a four months period. EEC is trading at a 20% forward PBx premium to Saudi real estate and 40% premium to the stock's five years average. We now see both stocks as fairly valued and expect them to maintain current price levels until further catalysts materialize justifying higher multiples.

2011-2012e PBx, PEx and 5 Yr. average

	P/Bx		5 Yr. Average	2012e Premium / Discount	P/Ex		5 Yr. Average	2012e Premium / Discount
	2011	2012e			2011	2012e		
Emaar	0.50	0.60	0.65	-7.7%	8.86	11.60	40.40	-73.2%
Aldar	0.53	0.68	0.82	-17.1%	5.85	12.28	9.74	26.1%
Sorouh	0.47	0.47	0.89	-47.2%	9.26	6.67	10.40 *	-35.9%
Dar Alarkan	0.50	0.91	0.99	-8.1%	7.20	13.05	9.58	36.2%
EEC	0.85	1.39	0.99	40.4%	75.62	22.30	na *	na *
Akaria	1.13	1.10	1.01	8.9%	24.05	26.90	24.74	8.7%
Mabaneer	3.94	3.29	3.22	2.2%	27.81	16.42	25.53	-35.7%
Salhia	0.89	0.90	0.96	-6.2%	16.15	16.35	14.75	10.8%
Average	1.10	1.17	1.19	-2.4%	21.85	15.60	20.79	-24.3%

* Adjusted figure

Source: Global Research & company reports

2011-2012e ROE, ROA and 5 Yr. average

	RoE		5 Yr. Average	2012e Premium / Discount	RoA		5 Yr. Average	2012e Premium / Discount
	2011	2012e			2011	2012e		
Emaar	6.1%	5.6%	8.2%	-31.7%	6.1%	5.6%	4.0%	40.0%
Aldar	9.1%	5.6%	8.2% *	8.7%	1.6%	1.2%	2.2% *	-45.4%
Sorouh	5.8%	8.0%	10.7%	-25.2%	2.7%	4.1%	4.2%	-2.4%
Dar Alarkan	7.0%	6.8%	11.8%	-42.4%	4.5%	4.9%	7.3%	-32.9%
EEC	1.1%	6.4%	-1.6%	na	0.6%	3.4%	-1.8%	na
Akaria	5.7%	4.1%	4.2%	-2.3%	4.4%	3.8%	4.0%	-5.0%
Mabaneer	12.5%	18.0%	12.6%	44.0%	6.8%	10.3%	6.8%	48.5%
Salhia	5.5%	5.5%	4.8% *	14.6%	2.5%	2.7%	3.1% *	-12.9%
Average	6.6%	7.5%	7.6%	4.1%	3.7%	4.6%	4.1%	12.3%

* Adjusted figure

Source: Global Research & company reports

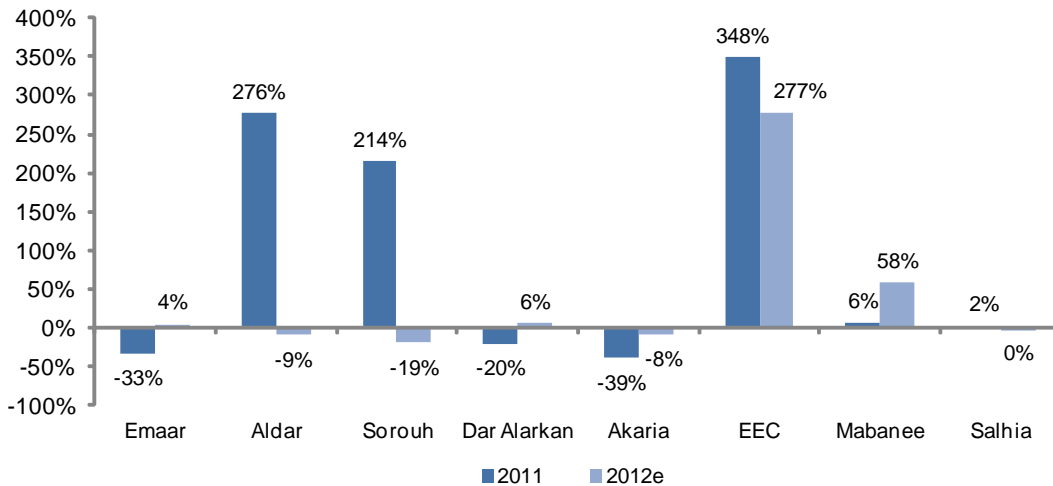
EEC and Mabaneer revenues' will grow in 2012...

EEC reported a 3.5x YoY revenue growth in 2011 on a strategic shift towards land sales versus the older strategy that relied on property sales and lease of industrial plots. We expect EEC revenue growth to outperform again in 2012 on significantly higher sales of serviced land plots from Tala Gardens and the industrial valley.

Mabaneer will witness revenue growth of 58% in 2012, based on our calculations. Phase III of The Avenues Mall is scheduled to start operations in 3Q12, which will add 95,000 sqm to the company's retail offering. Our model factors in revenues from Phase III in 4Q12 and adds the one-off arrangement fees payment from new tenants.

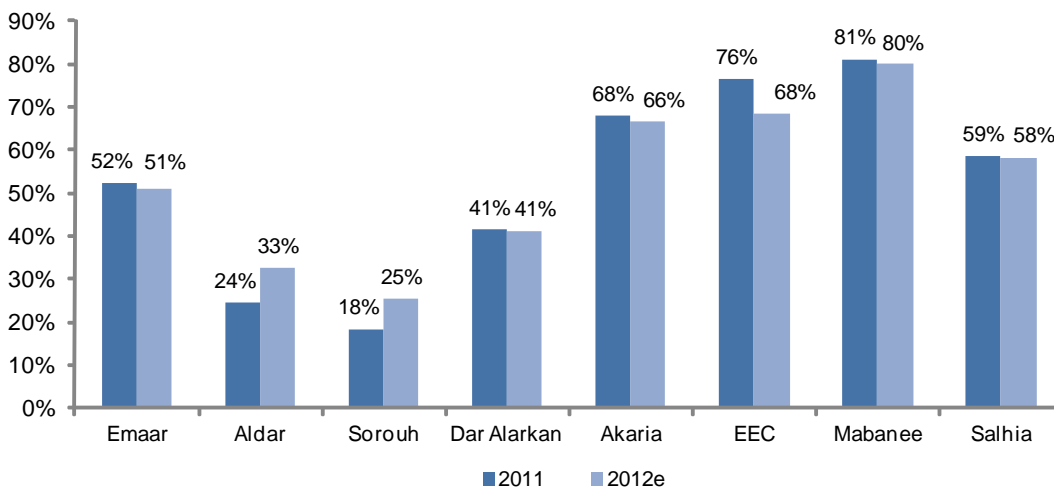
We do not expect any other significant changes in revenues of companies under coverage during 2012 as we do not factor in any surprises other than the feedback on scheduled deliveries we received from management along with the already running operations. In the case of the three Saudi stocks, deviation in land sales remain the key trigger to any revenue surprises. In our view, this scenario is vital for EEC, specifically. For UAE stocks, deviation on scheduled deliveries is the key concern given the immense number of units to be handed over during 2012-2014 in the local (Aldar & Sorouh) and international (Emaar) markets and the near absence of land sales.

Revenue change YoY 2011-12e



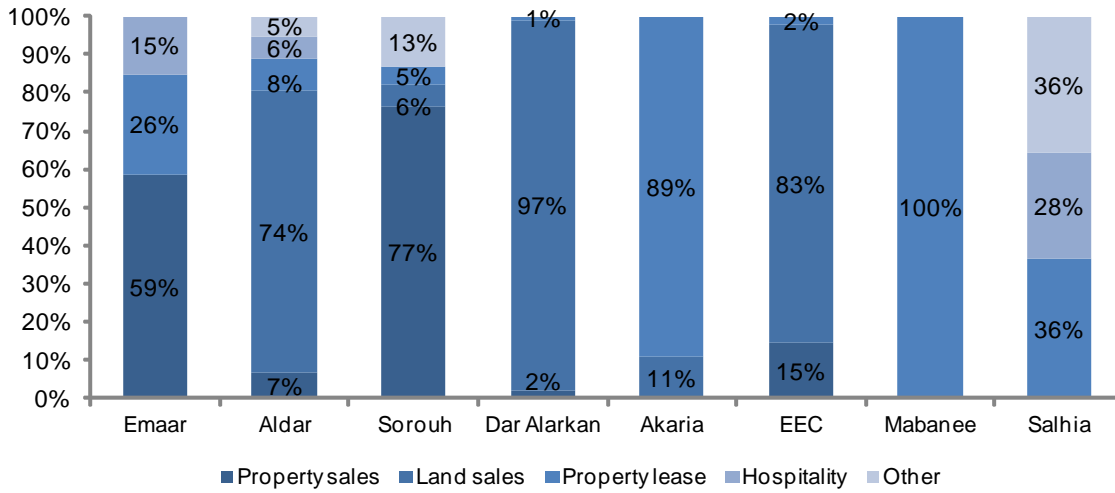
Source: Global estimates & company filings

Gross margin 2011-12e



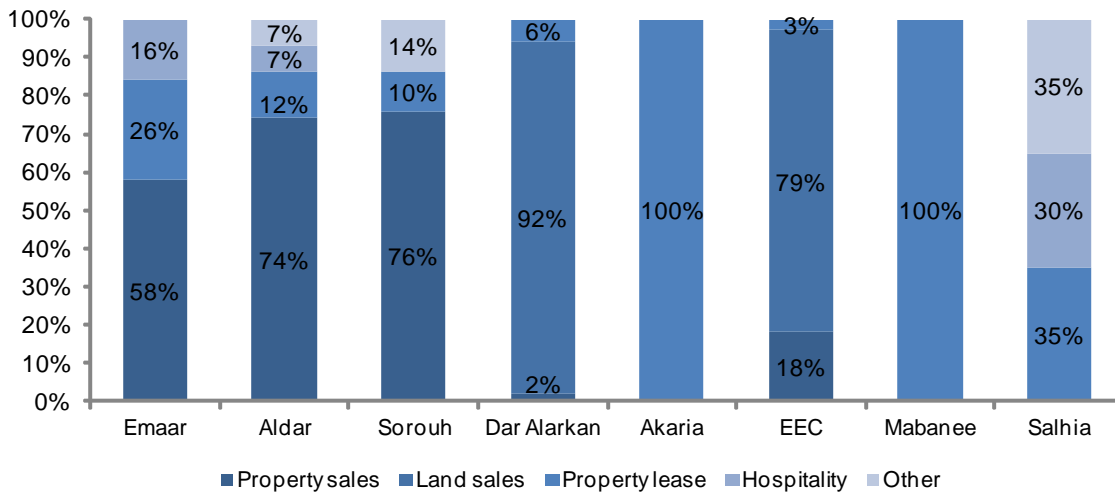
Source: Global estimates & company filings

Revenue breakdown 2011



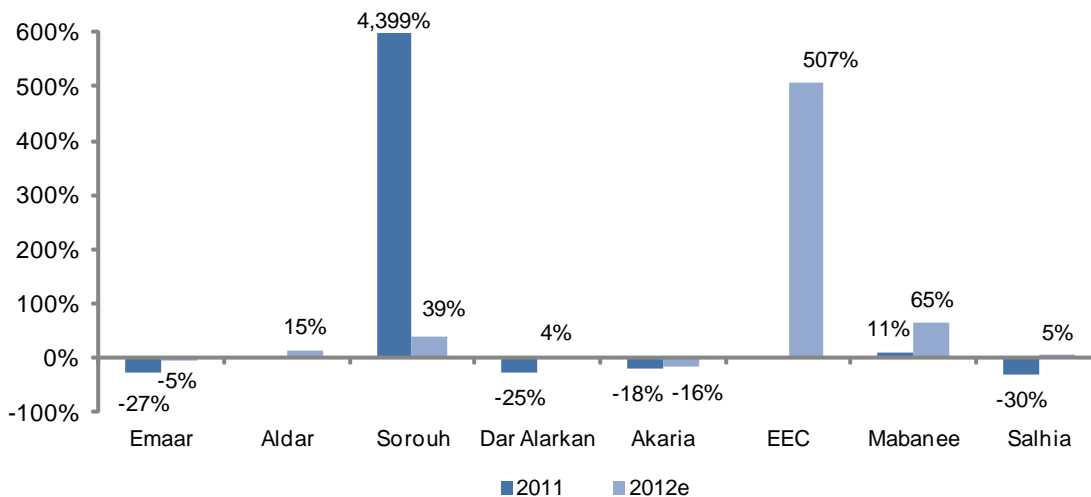
Source: Global estimates & company filings

Revenue breakdown 2012



Source: Global estimates & company filings

Net income change YoY 2011-12e



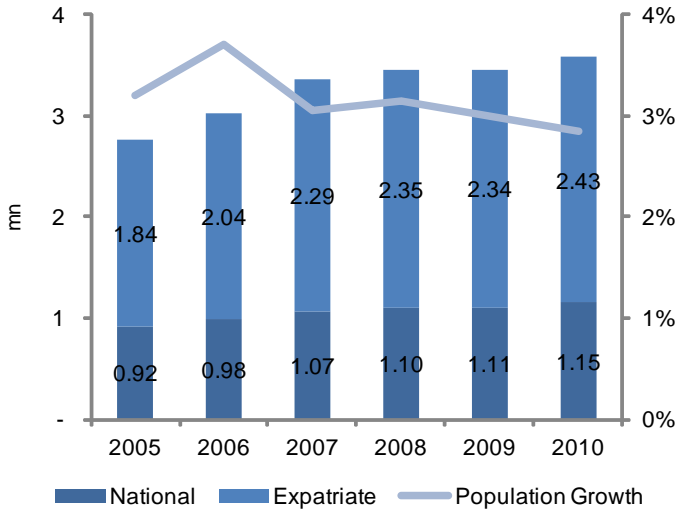
Source: Global estimates & company filings

Long term demographics favor Saudi over the UAE and Kuwait...

Saudi's demographic landscape offers a more solid long term scenario compared to that of the UAE and Kuwait. The national Saudi population represents 73% of the aggregate versus only 32% in Kuwait and 18% in the UAE implying a more sustainable organic demand for housing over the long term. Almost 60% of the Saudi population is below the age of 30 compared to 54% in Kuwait and 46% in the UAE. Further, Saudi has the most balanced gender structure with expatriate males representing only 18% of total population as opposed to 44% in Kuwait and 69% in the UAE.

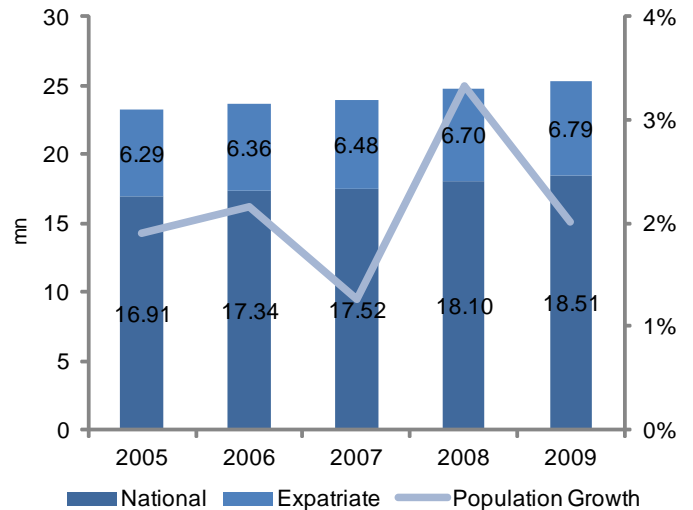
Although Saudi witnessed the slowest 5-year population CAGR amongst the three countries registering 2.1% versus 3.2% in Kuwait and 6.8% in the UAE, sustainability remains a key advantage of the Saudi demographic profile given its organic nature and the ability to maintain a growth trend. Unlike the UAE which saw its population decrease by 4.4% in 2009 and Kuwait by 0.3%, the Saudi population saw growth in both its expatriate and national populations between 2005 and 2009.

Kuwait National & Expatriate Population 2005-10



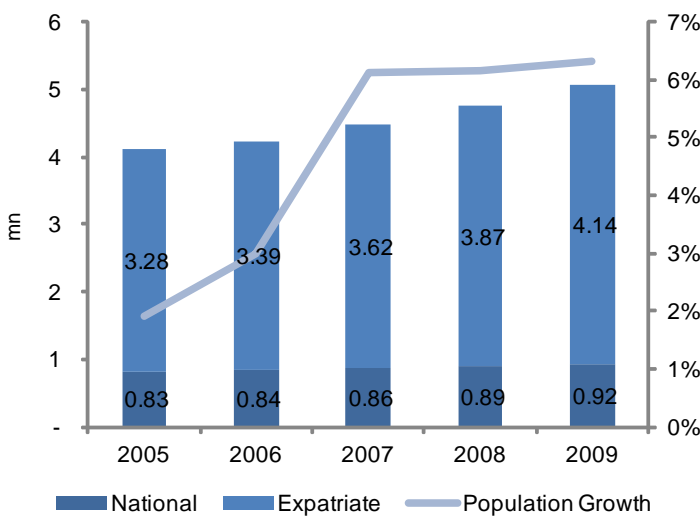
Source: The Public Authority for Civil Information

Saudi National & Expatriate Population 2005-09



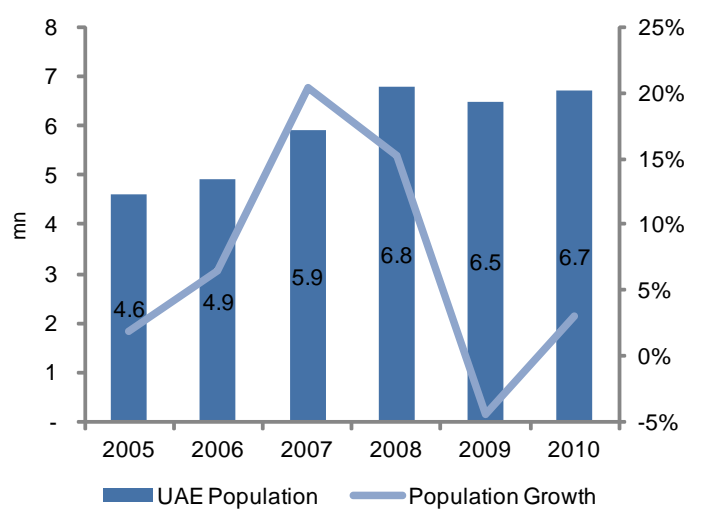
Source: Central Department of Statistics & Information

UAE National & Expatriate Population 2005-09 (National Sources)



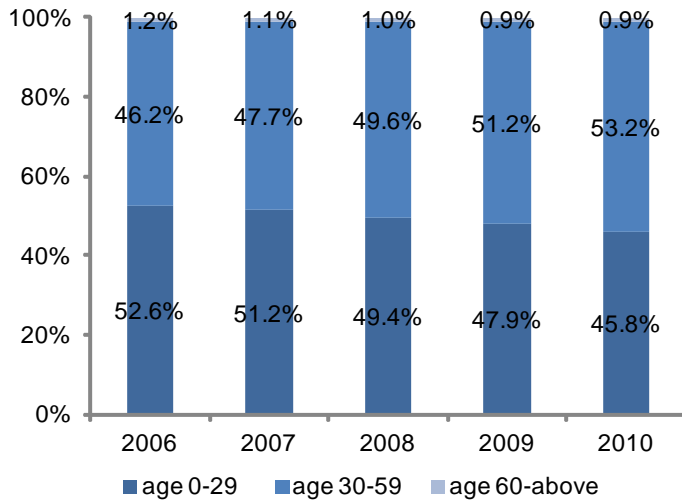
Source: Ministry of Economy

UAE Population 2005-10 (EIU)



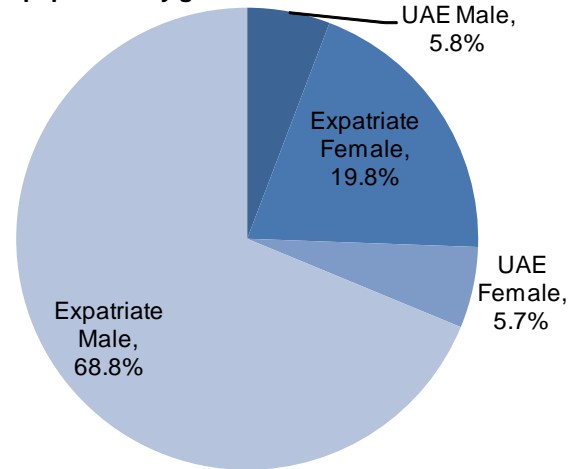
Source: Economist Intelligence Unit

UAE population by age group 2006-10



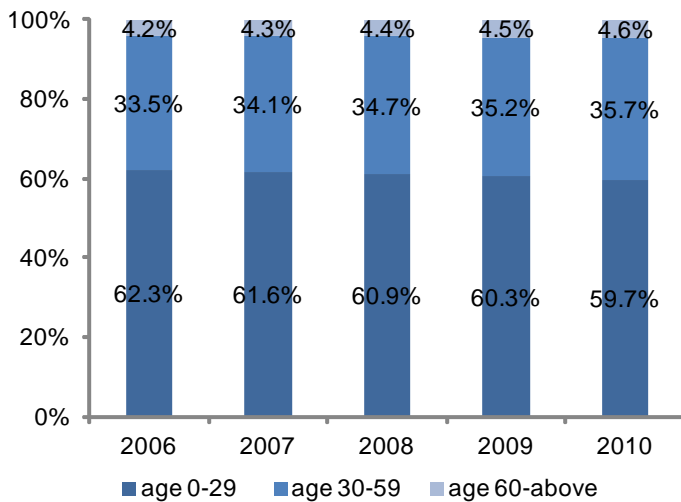
Source: UAE National Bureau of Statistics, UN

UAE population by gender 2010



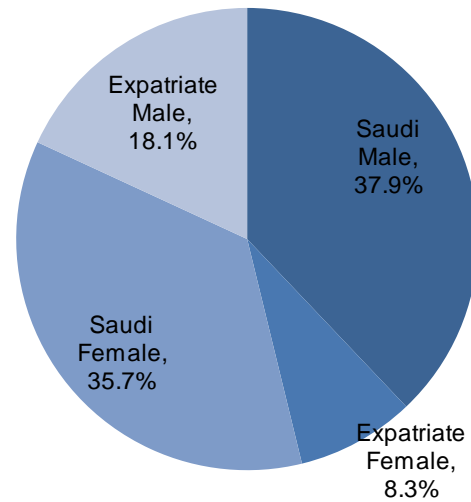
Source: UAE National Bureau of Statistics

Saudi Arabia population by age group 2006-10



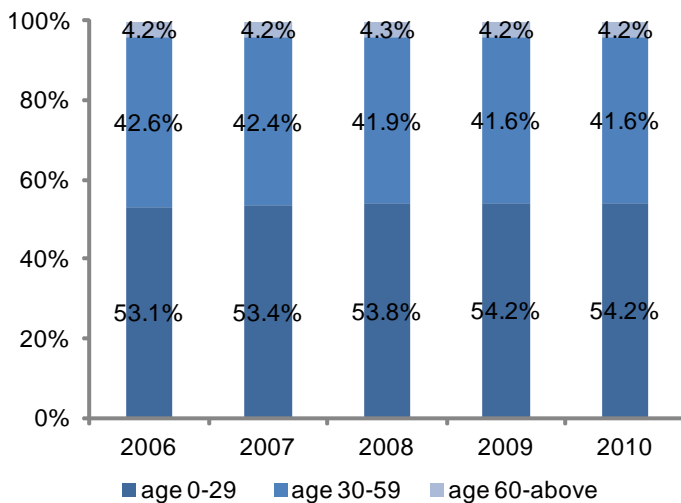
Source: Central Department of Statistics & Information, UN

Saudi Arabia population by gender 2009



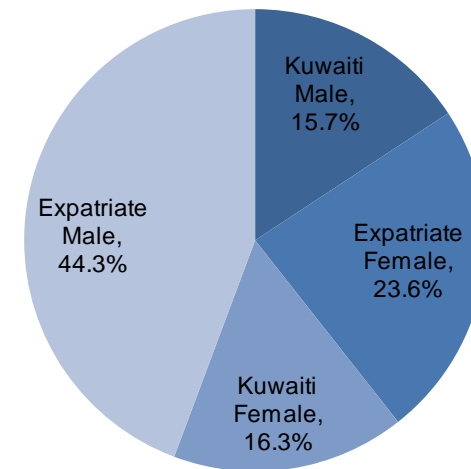
Source: Central Department of Statistics & Information

Kuwait population by age group 2006-10



Source: The Public Authority for Civil Information, UN

Kuwait population by gender 2010



Source: The Public Authority for Civil Information

Saudi macro prospects are more solid...

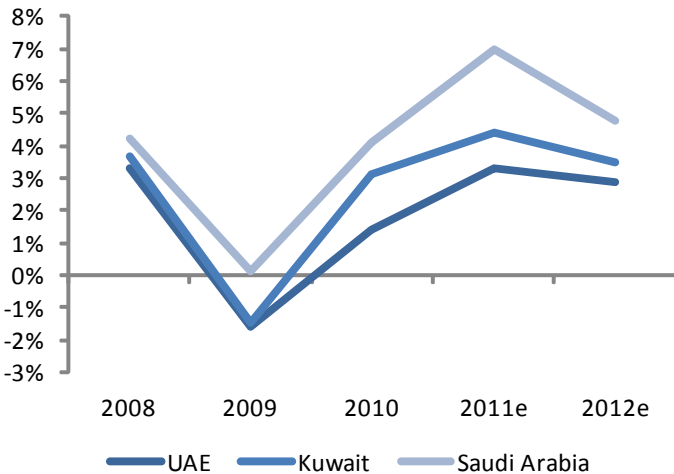
The Saudi economy posts more vigorous growth figures witnessed in a 2008-2011e average GDP growth of 3.9% as opposed to 2.4% for Kuwait and 1.6% for the UAE. Saudi also maintains a more robust M2 growth that averaged at 13% in 2011 versus 6% for Kuwait and 10% for the UAE. Quarterly inflation in the UAE hovers between negative 0.5% to a positive 2% (3Q11: 0.1% YoY) with the housing component strongly heading down reflecting the pressures on the sector between 2009 and 2011. Saudi and Kuwait report healthier inflation figures at 5% and 5.6%, respectively on annual basis in 3Q11.

The more favorable Saudi economic landscape is more encouraging for the real estate sector, in our view. Direct government spending and the REDF housing loans will continue to generate market activity in the sector in the short to medium term. Major constraints to the development of the Saudi undersupplied sector are related to the structural and legislative inefficiencies along with affordability limitations.

The UAE economy is still suffering from the detrimental spill of the global financial crises and the internal liquidity and debt maturity holdups. The real estate sector has acted as an added down-drag with property prices moving southbound and market activity is relatively muted. As a general trend, we expect this pattern to dig into 2012.

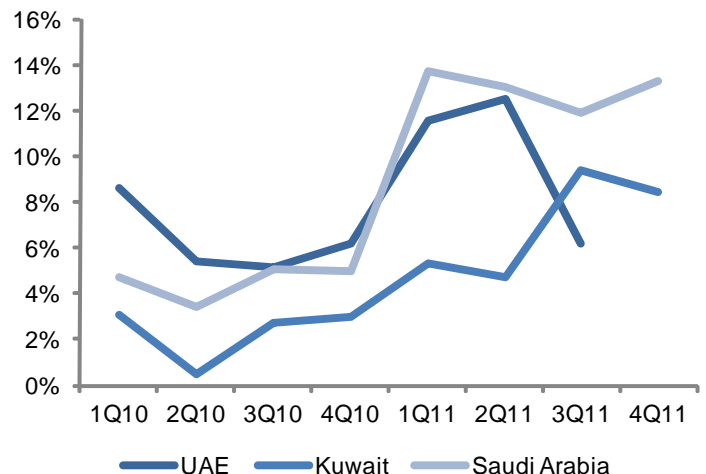
In Kuwait, growth of the real estate sector is relatively slow compared to other non-oil sectors with a nominal growth of only 1.5% in 2010 compared to 12% in other sectors. Price appreciation and activity in the Kuwaiti residential segment are the key growth drivers yet affordability remains an issue.

GDP growth 2008 - 2012e



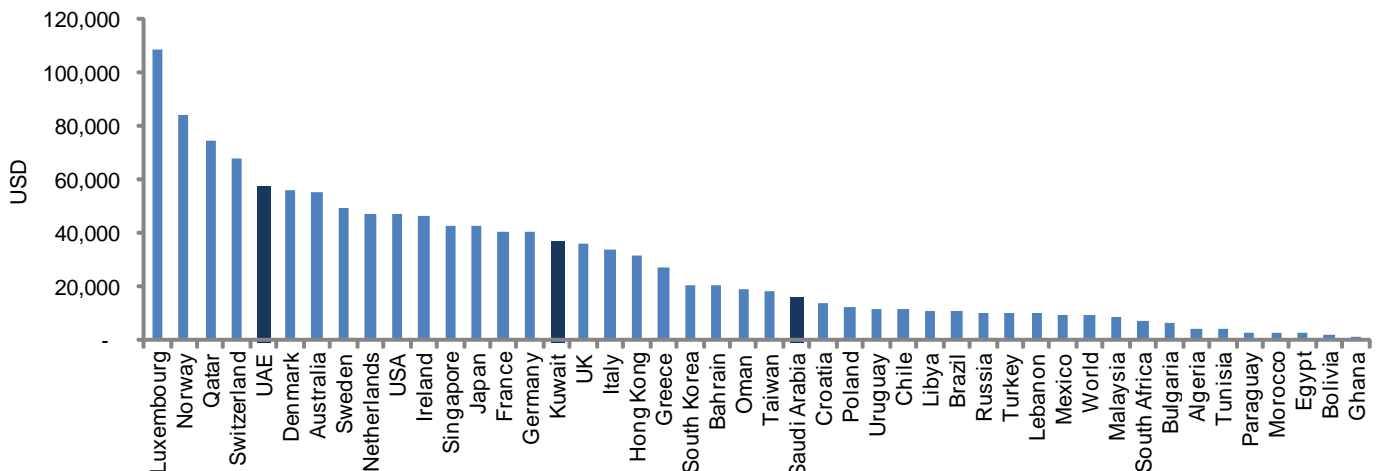
Source: National Central Banks, Reuters, IMF

M2 YoY growth 1Q10 - 4Q11



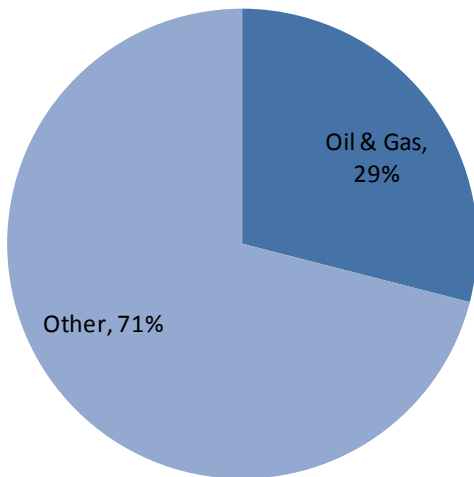
Source: National Central Banks, EIU

GDP per Capita 2010



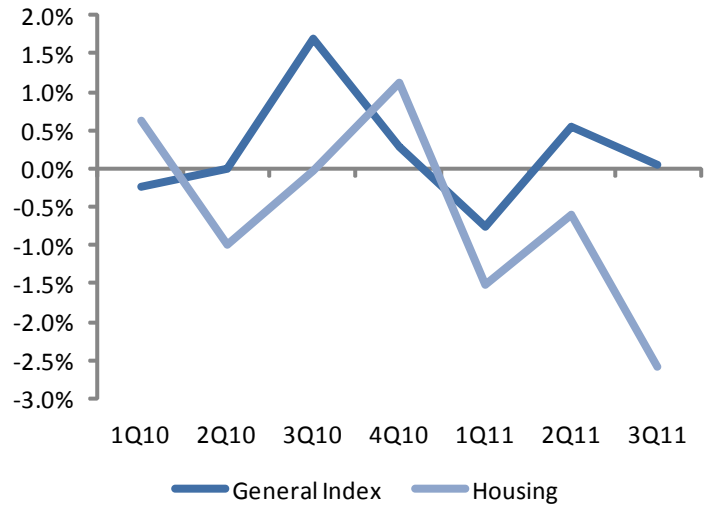
Source: IMF

UAE GDP Breakdown 2010



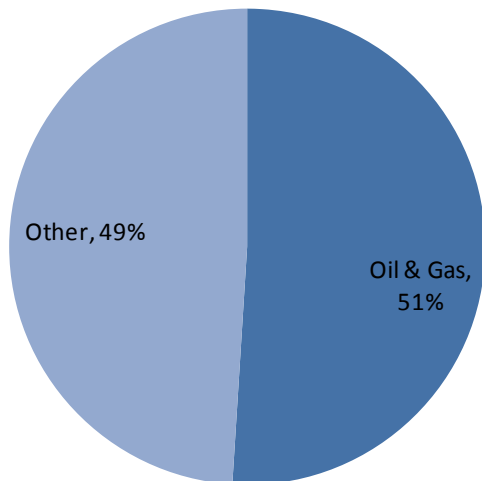
Source: UAE Central Bank

UAE Inflation 1Q10 - 3Q11



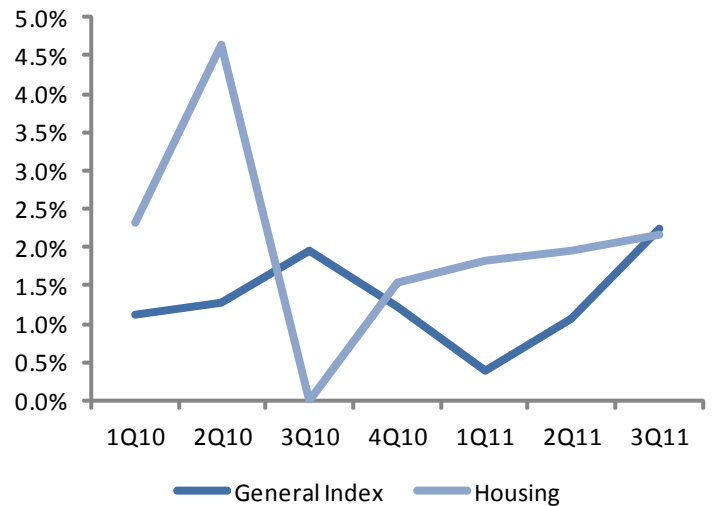
Source: National Central Banks

Saudi Arabia GDP Breakdown 2010



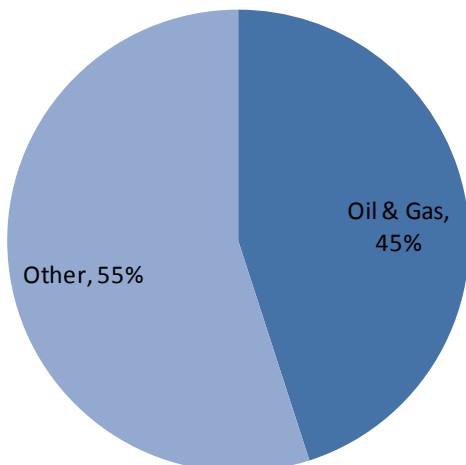
Source: SAMA

Saudi Arabia Inflation 1Q10 - 3Q11



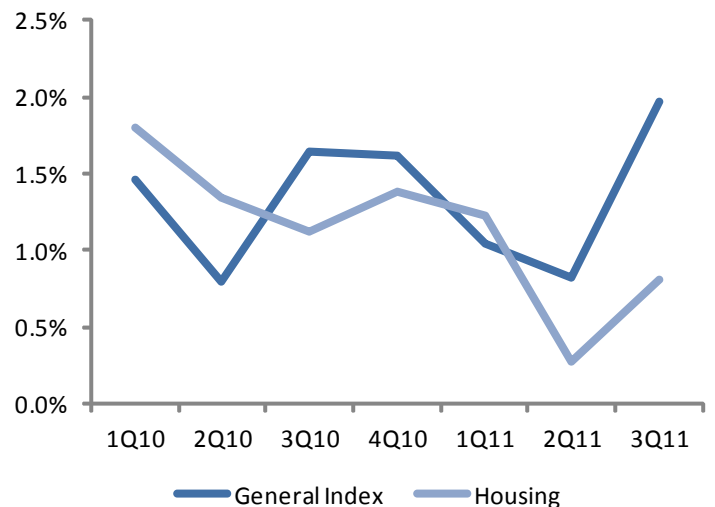
Source: SAMA

Kuwait GDP Breakdown 2010



Source: Kuwait Central Bank

Kuwait Inflation 1Q10 - 3Q11



Source: Kuwait Central Bank

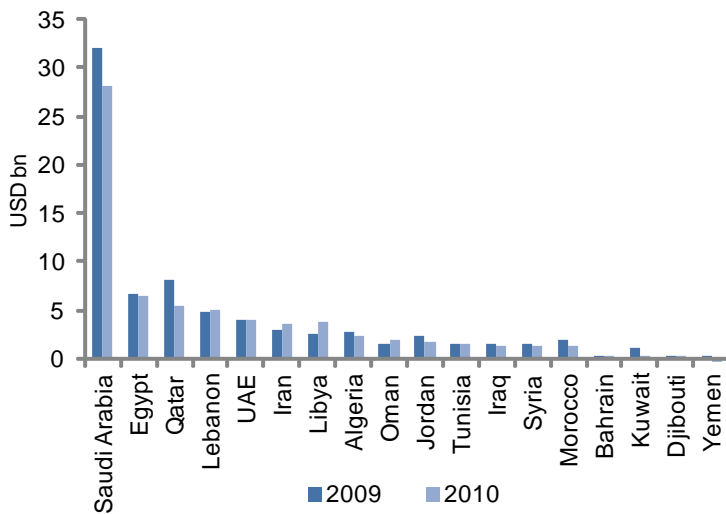
Saudi is also more business friendly...

Saudi has consistently topped the region in terms of FDI inflows with the majority of these inflows being injected in the petrochemicals sector. The UAE has also been amongst the top recipients in the region while Kuwait is ranked amongst the least beneficiaries of FDI inflows with only USD81 million entering the country in 2010.

Saudi is also top ranked, region-wise, in terms of ease of doing business. The Saudi ranking has been improving consistently moving from a global ranking of 23rd in 2007 to the 10th in 2011 reflecting a more business friendly environment. On the other hand, Kuwait's ranking deteriorated from 40th in 2007 down to the 71st in 2011 while the UAE was ranked in the 35th place in 2011.

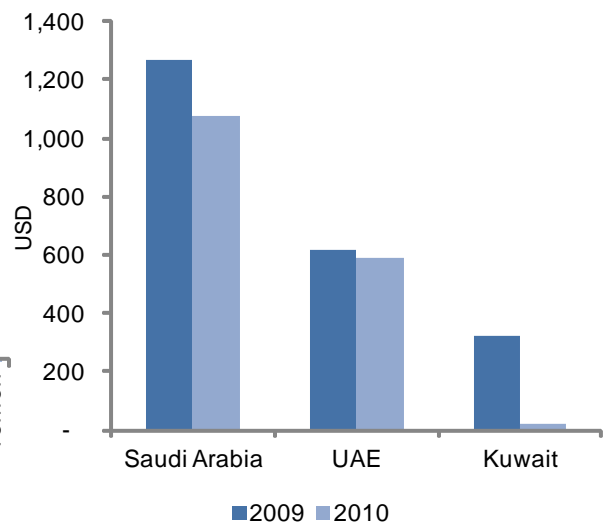
The UAE and Saudi, accordingly, are better positioned to attract new business, which will have a positive impact on the oversupplied office segment in all three countries and will, in turn, create more demand for housing and increase consumer spending, a trend we see materializing sooner in Saudi given its more stable economic outlook.

MENA FDI inflow 2009-2010



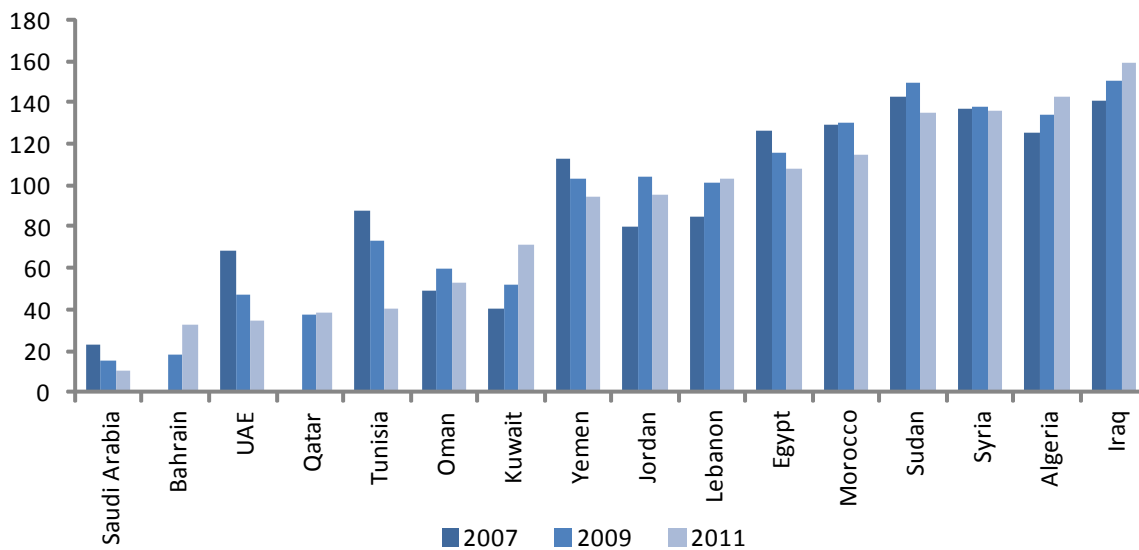
Source: UNCTAD

FDI inflow per capita 2009-2010



Source: UNCTAD

Ease of doing business ranking 2007-2011



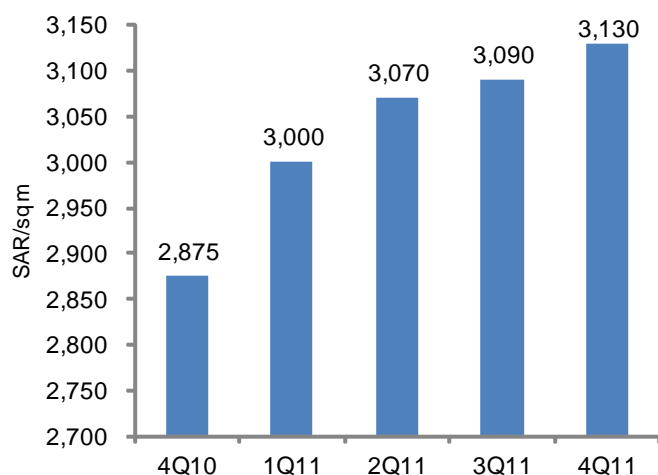
Source: World Bank

Residential market update:

Riyadh and Jeddah residential markets still strong...

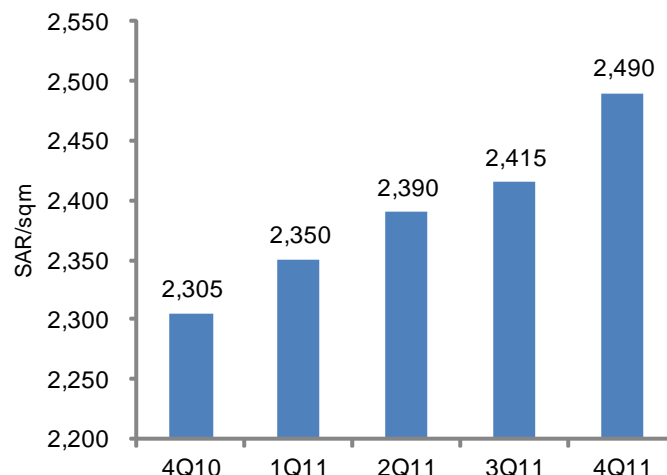
Selling prices of ready to move in residential units and land continued their upward move during 2011 in both Riyadh and Jeddah driven by stringent supply shortage coupled with affordability constraints. Villa and apartment prices increased by 8-10% on average in Riyadh while Jeddah witnessed a more aggressive increase of 13-15%.

Riyadh average villa selling prices 4Q10-4Q11



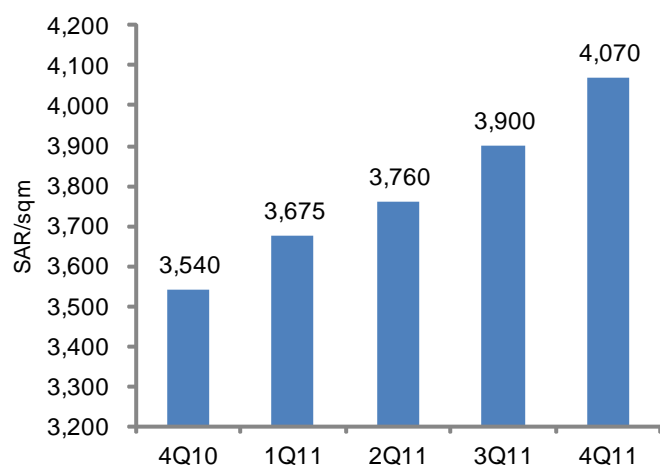
Source: Global database & industry sources

Riyadh average apartment selling prices 4Q10-4Q11



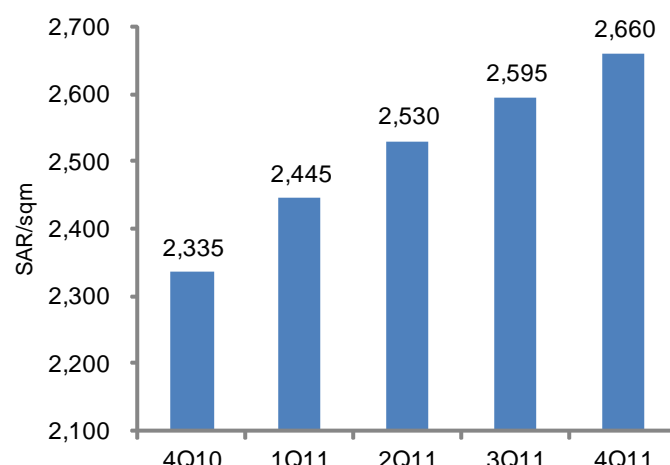
Source: Global database & industry sources

Jeddah average villa selling prices 4Q10-4Q11



Source: Global database & industry sources

Jeddah average apartment selling prices 4Q10-4Q11

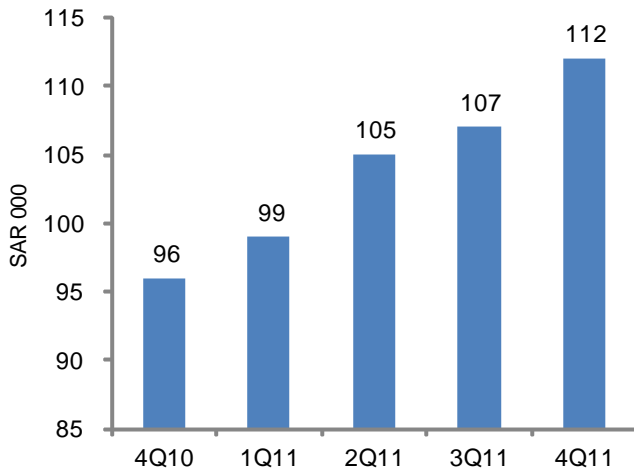


Source: Global database & industry sources

Rental yields expanded in Riyadh versus a year earlier to 8.4% up from 7.9% for villas and 7.8% from 7.4% for 2-bedroom apartments. In Jeddah, yields contracted to 8.8% for villas from 9.1% in 4Q10 while those for 2-bedroom apartments shrank from 11.5% to 10.8% as property prices increase faster than rent, which indicates potential for further rent appreciation in 2012.

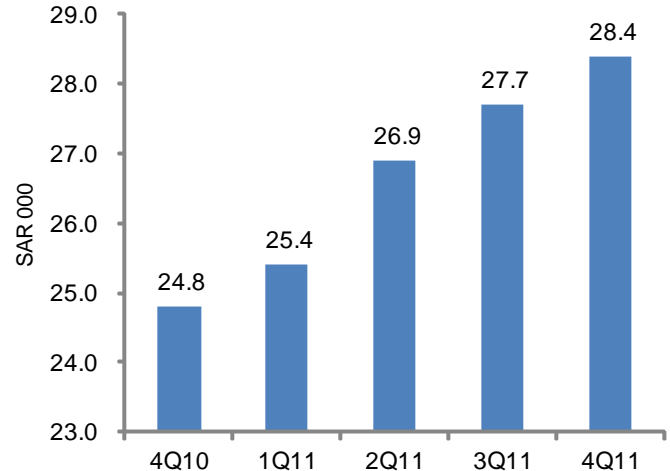
Selling prices and rentals are expected to maintain their upward move given the persistent supply shortage of affordable units along with the country's young and growing population. The increase in the REDF loan from SAR300k to SAR500K and the added flexibility that allows utilizing the full loan amount to purchase ready units will stimulate demand for residential apartments. Further, should the current negotiations on increasing housing allowance for government employees get approved; further inflationary pressures on rents will materialize.

Riyadh average 3-bed. villa rentals 4Q10-4Q11



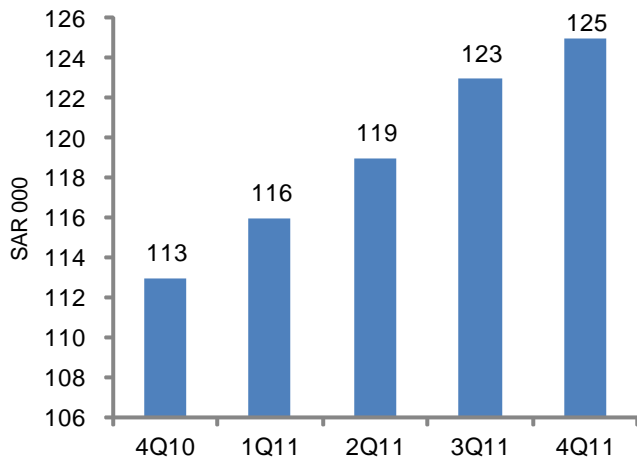
Source: Global database & industry sources

Riyadh average 2-bed. apartment rentals 4Q10-4Q11



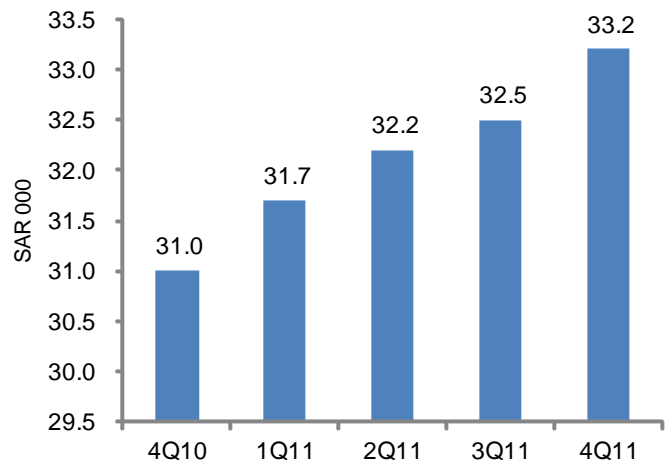
Source: Global database & industry sources

Jeddah average 3-bed. villa rentals 4Q10-4Q11



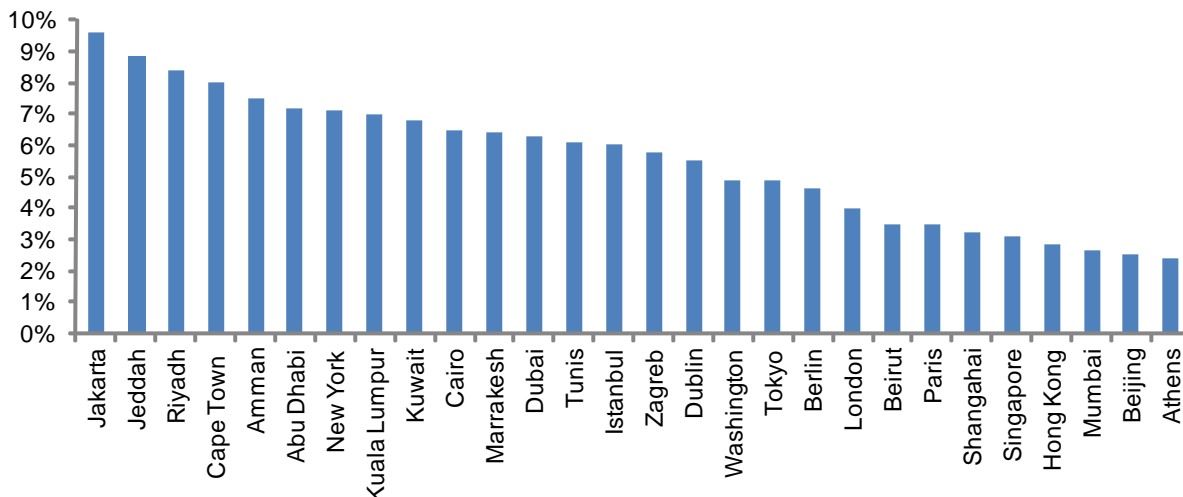
Source: Global database & industry sources

Jeddah average 2-bed. apartment rentals 4Q10-4Q11



Source: Global database & industry sources

Global average gross rental yields

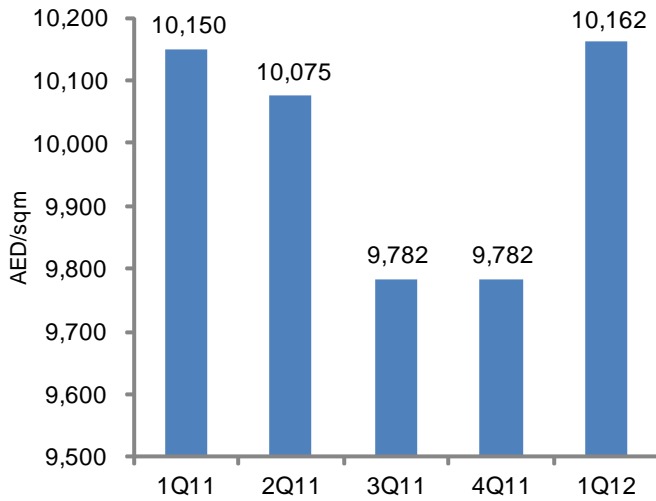


Source: Global Database, Global Property Guide, JLL

Dubai to bottom out in 2012, Abu Dhabi will continue to plunge...

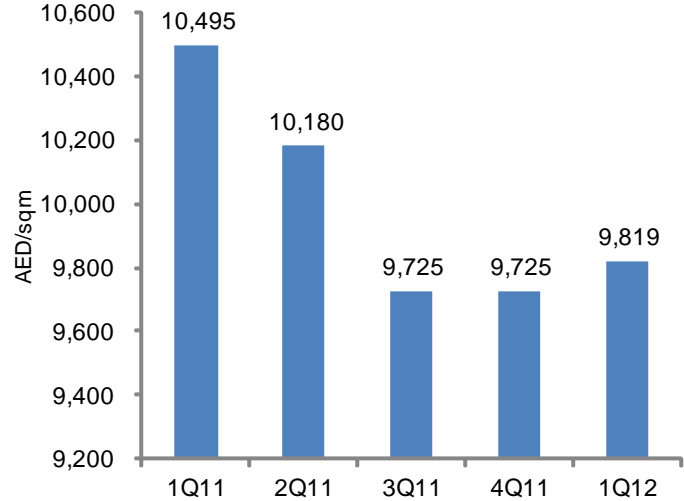
We suspect Dubai residential selling prices could have bottomed out between 4Q11-1Q12 and are entering a stagnant phase of stabilization with selective price increases; a pattern already materializing in well established areas and for selective properties. Both Dubai villa and apartment offerings have seen minor price increases in 1Q12 after stabilizing in 3Q11 and 4Q11.

Dubai average villa selling prices 1Q11-1Q12



Source: Global database & industry sources

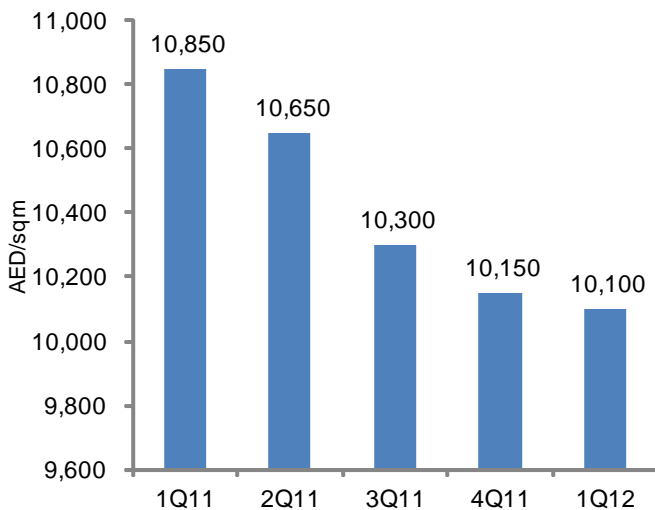
Dubai average apartment selling prices 1Q11-1Q12



Source: Global database & industry sources

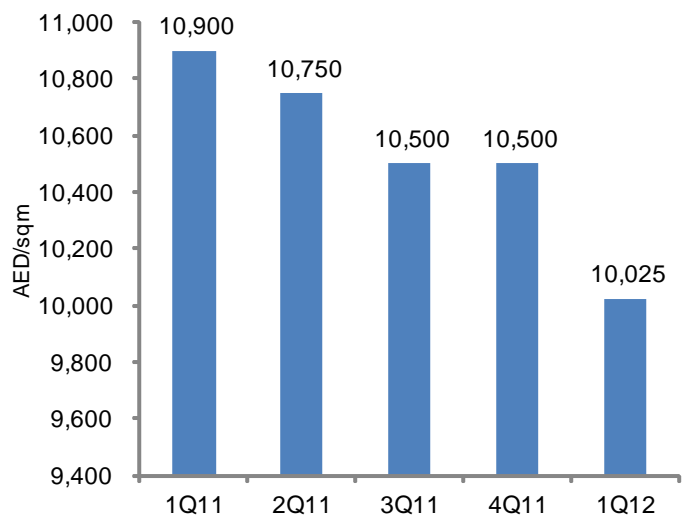
In Abu Dhabi prices are still declining as new supply enters the market. Villa prices dropped 7% between 1Q11 and 1Q12 while apartment prices declined by 8% during the same period and down 5% in 1Q12 alone on quarterly basis. We expect further declines to materialize for at least the coming four quarters.

Abu Dhabi average villa selling prices 1Q11-1Q12



Source: Global database & industry sources

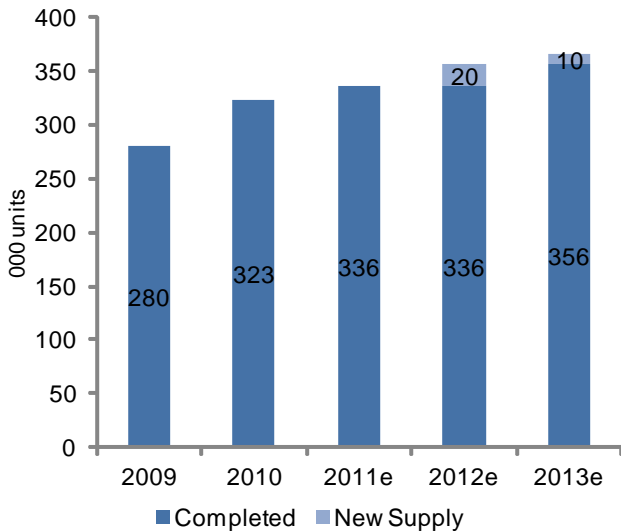
Abu Dhabi average apartment selling prices 1Q11-1Q12



Source: Global database & industry sources

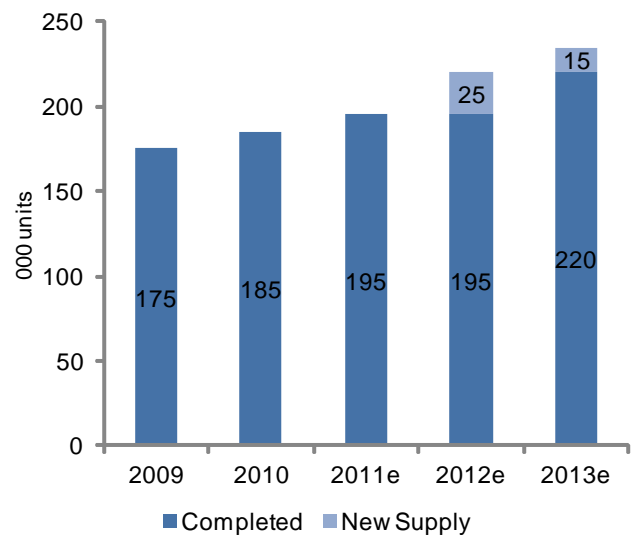
We estimate the Dubai market is currently 20% oversupplied, which means that 67,000 units are currently vacant. We expect this figure to increase as an additional 20,000 units are scheduled to enter the market in 2012 representing a 6% increase on the current stock. In Abu Dhabi, vacancy rates are estimated at 15% of 4Q11 stock of 195,000 units. A fresh supply of 25,000 units is scheduled to enter the market in 2012, which has already impacted property prices in 1Q12. We expect Abu Dhabi to be negatively affected by growing supply through to 1Q13 despite the current rationalization in property delivery.

Dubai residential supply



Source: Global database & industry sources

Abu Dhabi residential supply

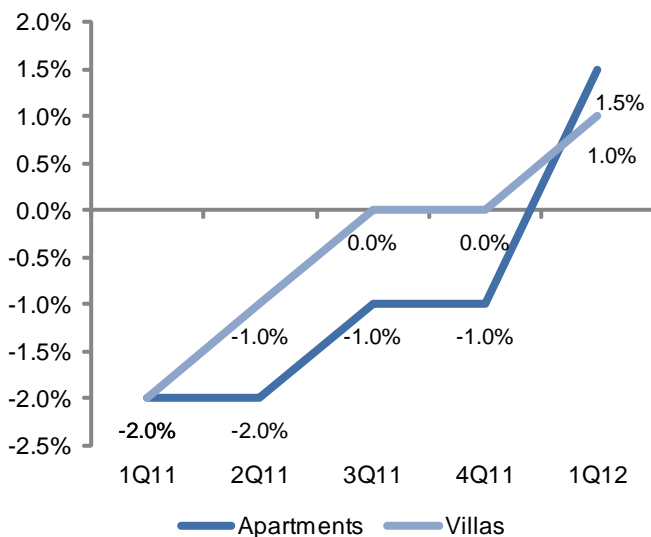


Source: Global database & industry sources

The pace of decline in Dubai rents slowed down significantly in 2011 and is starting to shift gradually into selective increases in areas of higher quality and demand. We expect improvements in rental rates to be capped in the short term by new supply and declining rents in the outskirts of the city.

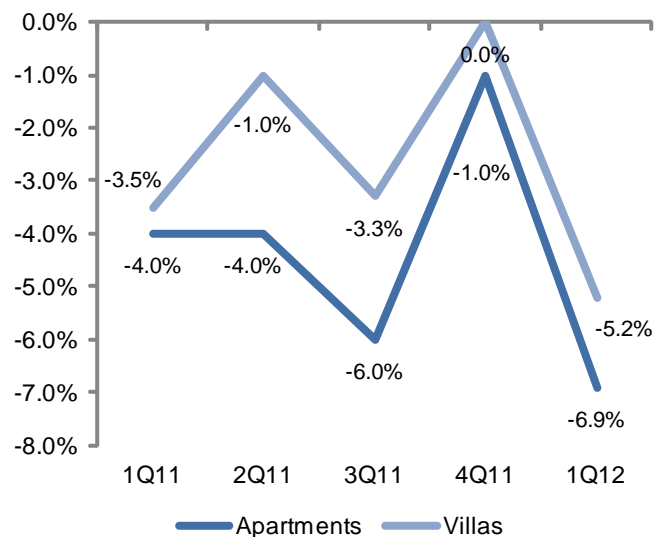
Abu Dhabi rents are dropping on new supply and rental yields, currently at 7.2%, are being compressed converging with Dubai yields, which we estimate at a current 6.6%.

Dubai average QoQ rental change 1Q11-1Q12



Source: Global database & industry sources

Abu Dhabi average QoQ rental change 1Q11-1Q12

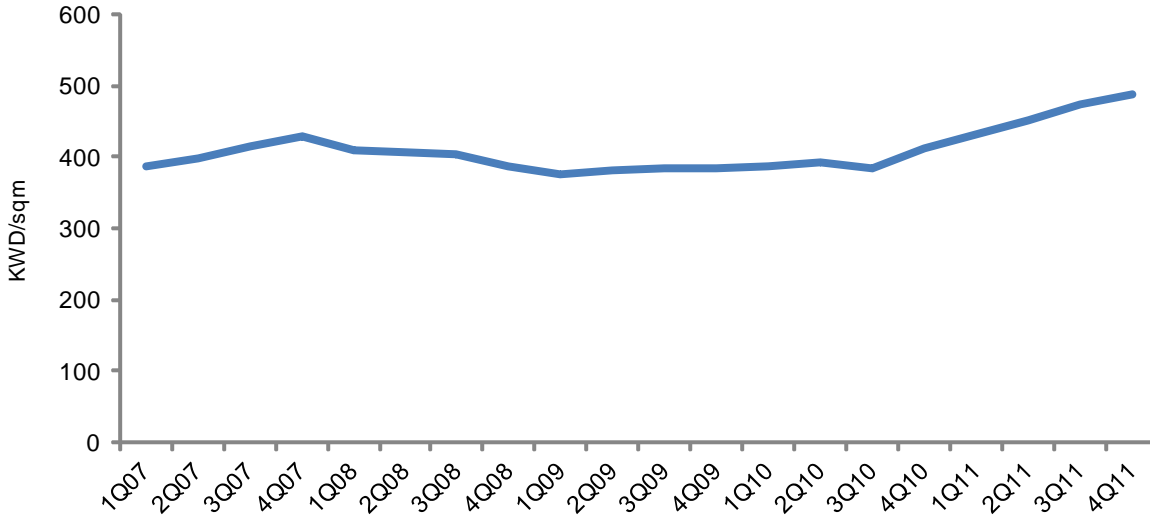


Source: Global database & industry sources

Kuwait's land prices and private residential housing maintain positive trend...

Prices of land designated for private housing maintained the positive trend upwards since the recovery that started in 3Q09 driven by scarcity of new supply of quality serviced land.

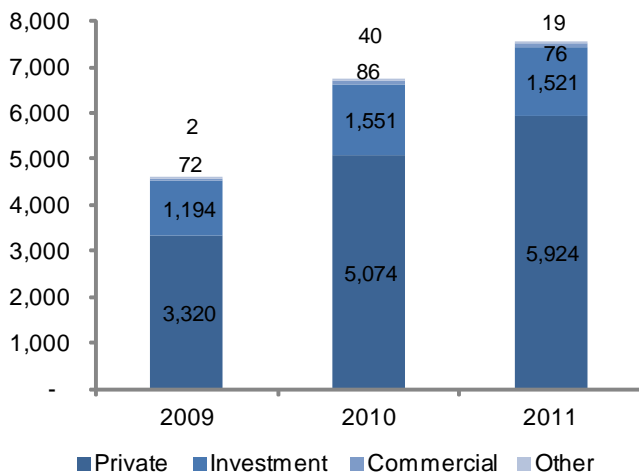
Blended average prices of land designated for private housing 1Q07 - 4Q11



Source: Ministry of Justice & Global Database

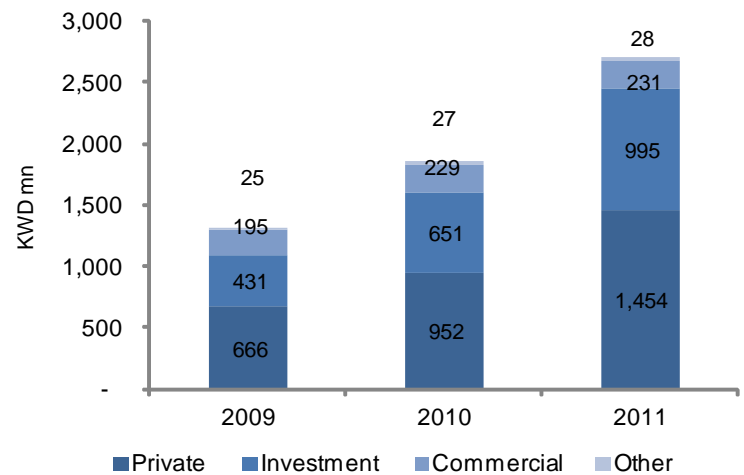
Activity in the private housing segment picked up significantly with the value of transactions rising 118% to KWD1.5 million in 2011 over 2009 while the number of transactions increased 78% to 5,924 transactions implying a 22% increase in value per transaction. The investment housing segment followed registering a more robust 88% growth in value per transaction during the same period. We expect the uptrend in the private and investment housing segments to continue in 2012 as real estate, as an asset class, remains a better yielding investment compared to financial markets.

Number of transactions by segment 2009-2011



Source: Ministry of Justice & Global Database

Value of transactions by segment 2009-2011



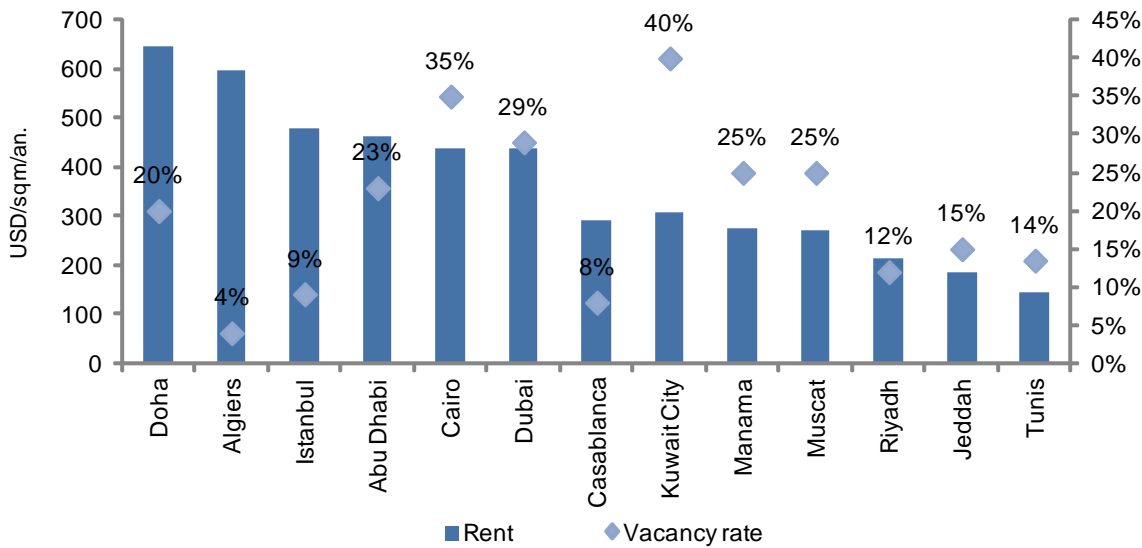
Source: Ministry of Justice & Global Database

Office market update:

Oversupply along with declining rents & asset values across all markets...

We have a negative outlook on all five office markets under coverage. Average prices and rents have dropped during 2011 on four of the five markets we cover on the back of high oversupply and stagnant demand growth. Riyadh, the exception, saw some increase on average rents due to tenant upgrades, rather than demand growth, as new higher quality supply was made available. In our view, vacancy rates will increase and rents will drop in 2012 on new supply entering all five markets.

Average MENA prime office rents & vacancy rates 4Q11

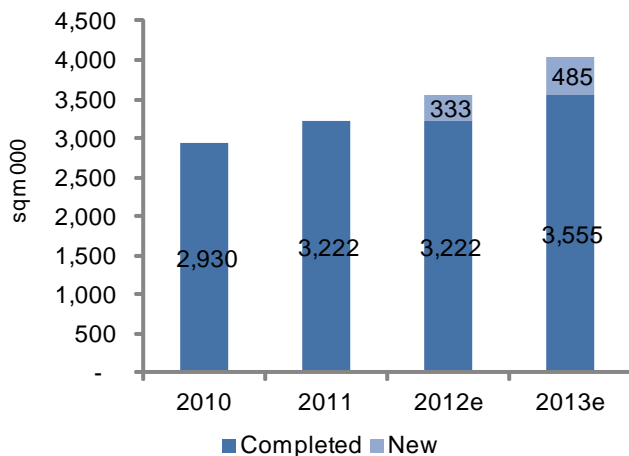


Source: Global database & industry sources

Pressures on Saudi vacancies and rents to grow in 2012 ...

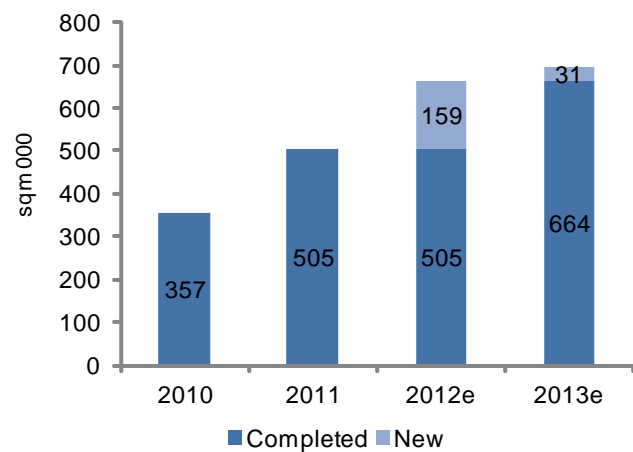
Riyadh vacancy is expected to increase over the coming two years as new high quality supply of 818,000 sqm, equivalent to 25% of 4Q11 offering, enters the market between 2012 and 2014. Jeddah is expecting a larger 31% addition to its 4Q11 supply as an additional 159,000 sqm become ready for delivery in 2012.

Riyadh Office Supply 2010-2013



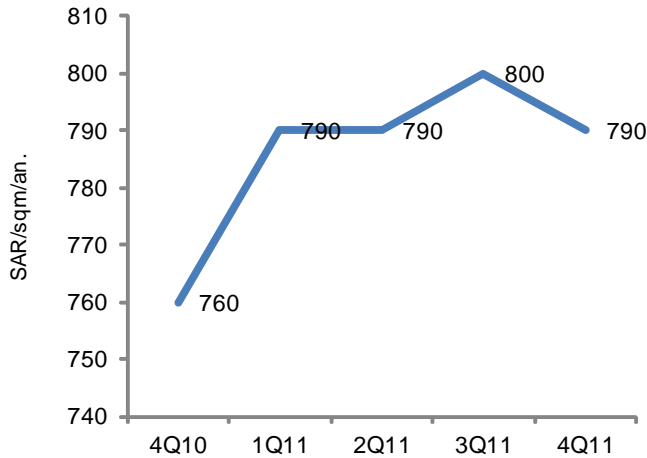
Source: Global Database & JLL

Jeddah Office Supply 2010-2013



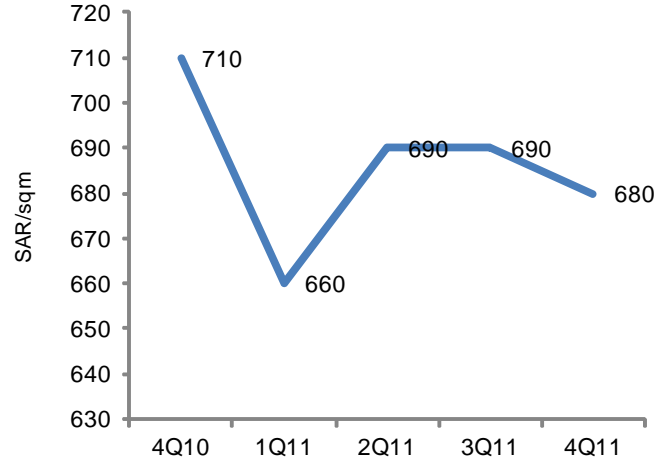
Source: Global Database & JLL

Riyadh average office rent 4Q10-4Q11



Source: Global database & industry sources

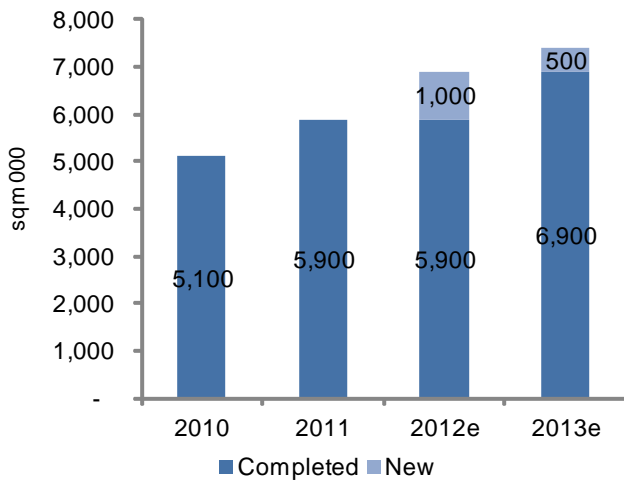
Jeddah average office rent 4Q10-4Q11



Source: Global database & industry sources

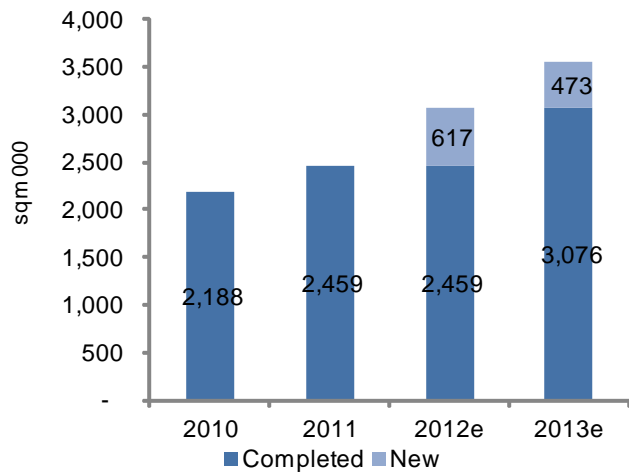
More supply and rent compression in the UAE as well...

Dubai office supply 2010-2013



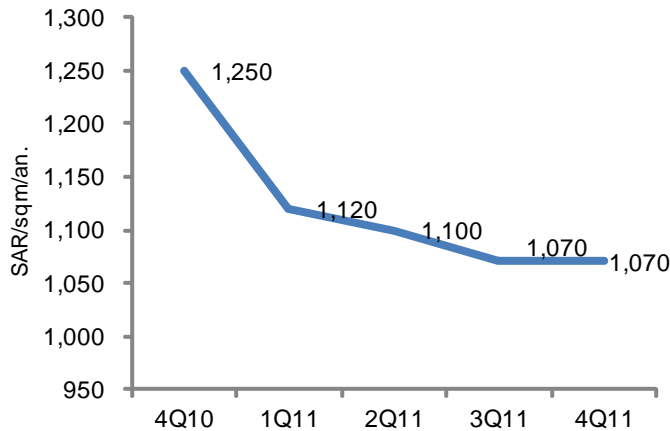
Source: Global Database & JLL

Abu Dhabi office supply 2010-2013



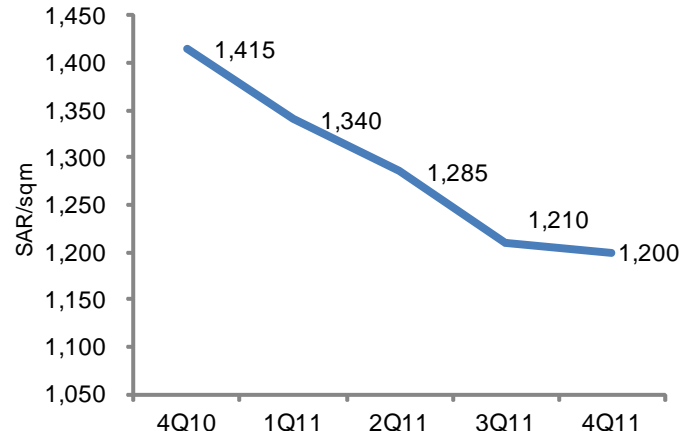
Source: Global Database & JLL

Dubai average office rent 4Q10-4Q11



Source: Global database & industry sources

Abu Dhabi average office rent 4Q10-4Q11

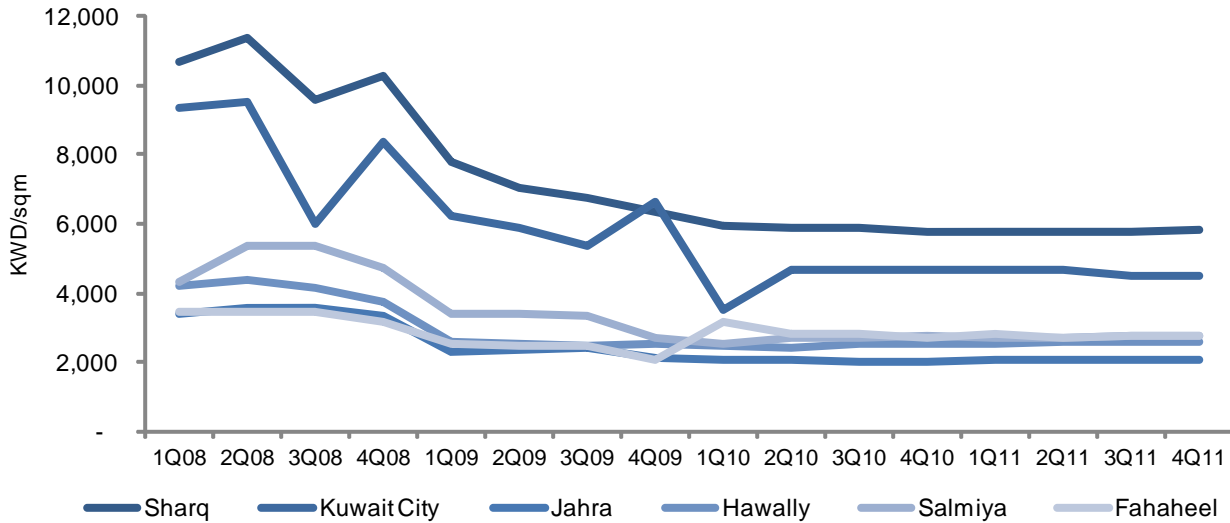


Source: Global database & industry sources

The same scenario holds in Kuwait...

Current vacancy rates in Kuwait’s office buildings is estimated at 40% on average and reaches up to 70% in new towers in the capital governorate, where the CBD and the financial center are located. Further pressure is on sight with an estimated addition of 1.2 million sqm; 30% to the existent stock is currently in the pipelines. Average office rents dropped by 22% during the year as average rents stood at KWD5-7 per sqm. Yields at current selling prices stand at a high 7-9% but are expected to drop on the near absence of any new demand.

Average prices of commercial properties per sqm in selective areas 1Q08 - 4Q11



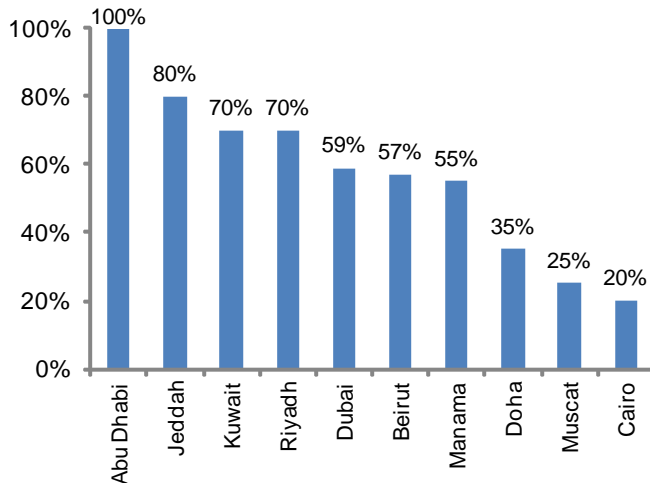
Source: Ministry of Justice, KFH & Global Database

Retail market update:

Operating strong across the board...

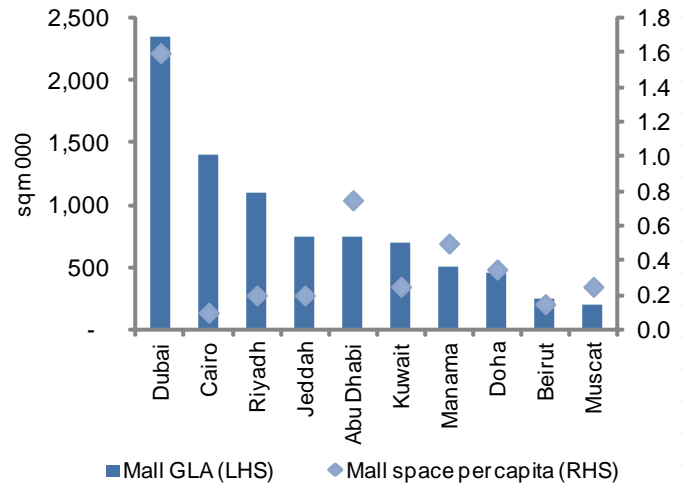
We prefer exposure to the retail segment in the markets' under coverage given low to moderate vacancy rates, stable rents and high absorption of superior quality retail space. On the longer term, high rates of urbanization, soaring GDP per capita driven by hydrocarbons, young and growing populations along with an economically active expatriate population and a positive outlook for consumer spending are all sustainable demand growth drivers. With the exception of EEC, all companies under coverage either have an exposure or are in the process of developing high end retail outlets to add to their investment portfolio.

Percentage of GLA completed 2005-2010



Source: Global Database, JLL

Mall space & mall space per capita 2Q11



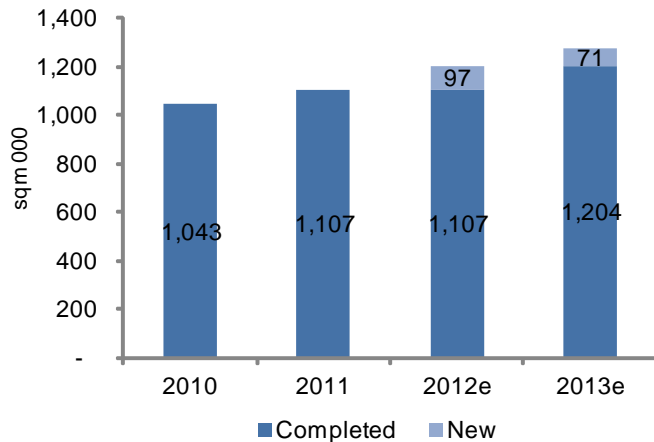
Source: Global Database, JLL

Limited supply in Riyadh and Jeddah in 2012...

Riyadh and Jeddah will expand their retail offering by 15% and 12%, respectively, during 2012-13. We believe that the two markets are well positioned to absorb the new supply as they replace current stock with new higher quality offerings. We expect rentals to increase slightly throughout the year on higher averages for new supply.

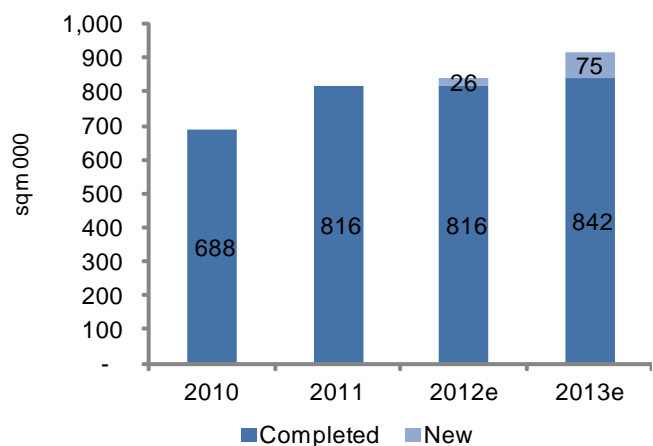
Modern retail malls are an important source of entertainment in Saudi as a replacement to the absence of several other entertainment means due to cultural restrictions, which is an added source of demand and footfall generation. Further, Jeddah enjoys high footfall and consumer spending generated from religious tourism to Makkah.

Riyadh retail supply 2010-2013



Source: Global Database & JLL

Jeddah retail supply 2010-2013

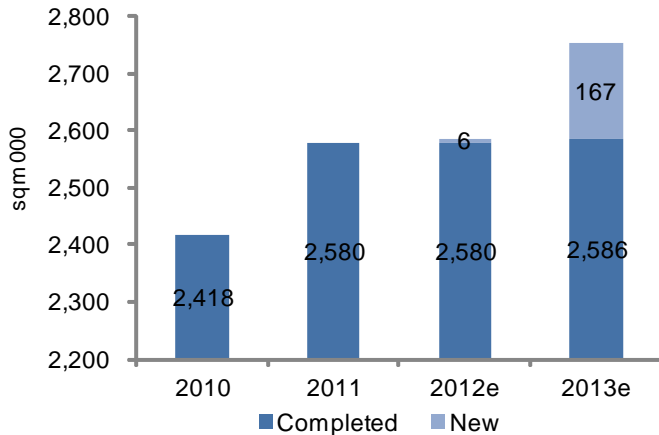


Source: Global Database & JLL

Abu Dhabi rentals under threat on new supply and replacement demand...

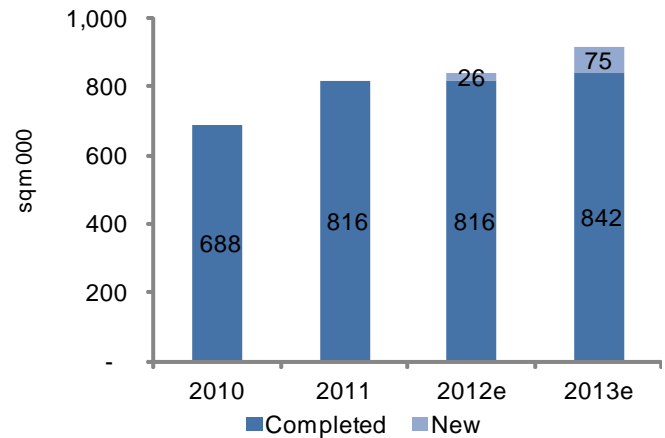
Dubai and Abu Dhabi are both approaching saturation especially the former with its world class offering. However, Dubai malls remain a high source of attraction to the city's large influx of tourists. Abu Dhabi is reshaping its retail offering towards more world class super regional malls. The capital's high end retail will increase 37% during 2012-13, which will force rents downwards and increase vacancy rates in older stock.

Dubai retail supply 2010-2013



Source: Global Database & JLL

Abu Dhabi retail supply 2010-2013

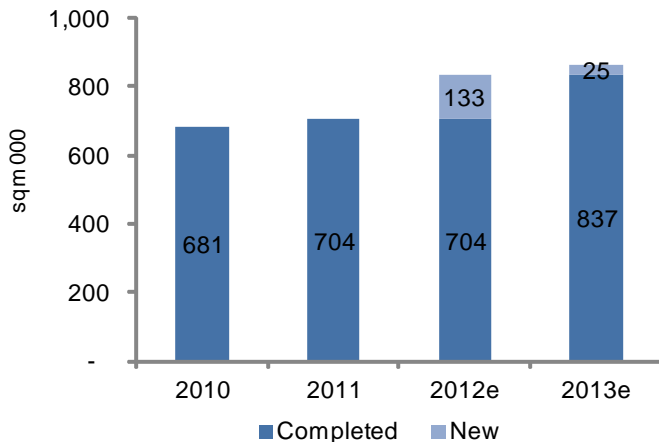


Source: Global Database & JLL

Kuwait is nearing saturation...

Retail offering in Kuwait is shifting towards modern mega-mall stock that can host an array of international brands and entertainment attractions. An addition of 22% to 4Q11 stock will enter the market during 2012-13 with the largest contribution being Mabanee's 95,000 sqm phase III of The Avenues Mall. Footfall is the highest in higher end malls offering entertainment attractions. We expect rents to stagnate or soften slightly in the near term for the modern generation of retail stock and decrease for older one as tenants upgrade to outlets in higher footfall malls.

Kuwait retail supply 2010-2013



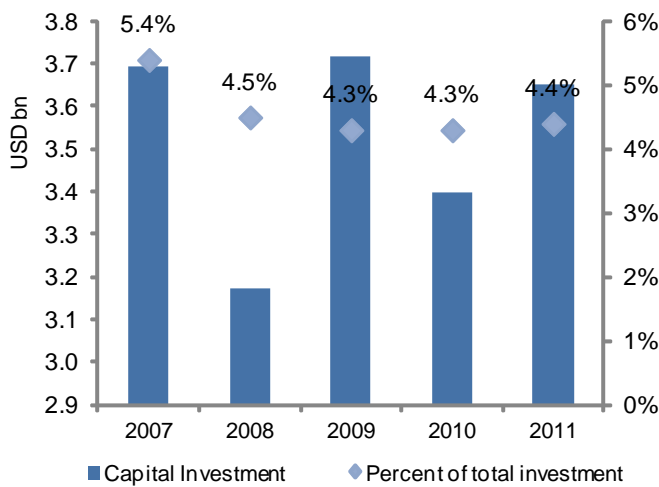
Source: Global Database & DTZ

Hospitality market update:

UAE better positioned to attract more tourism...

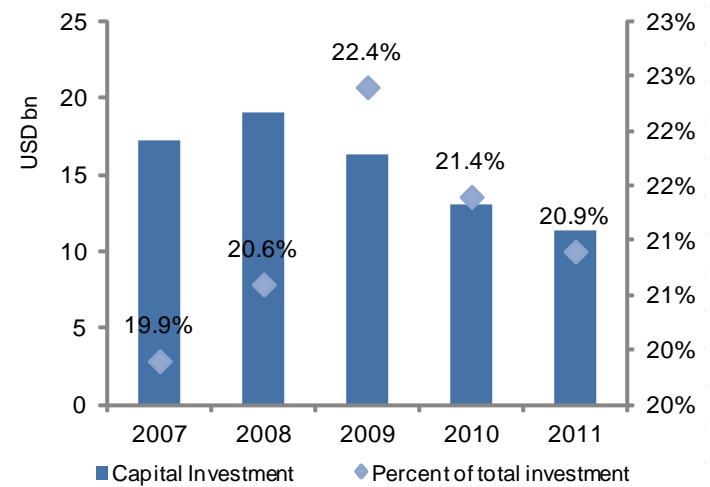
The UAE is better positioned to capture more tourist arrivals as opposed to Saudi and Kuwait. UAE investments in tourism and travel related infrastructure have consistently outpaced its two regional peers over the past ten years. The percentage of tourism and travel capital investment to overall economy capital investment averaged 21% for the UAE between 2007 and 2011 versus a regional average of 7.1% and a low of 4.6% for Saudi and 3.3% for Kuwait.

Saudi capital investment in tourism 2007-2011



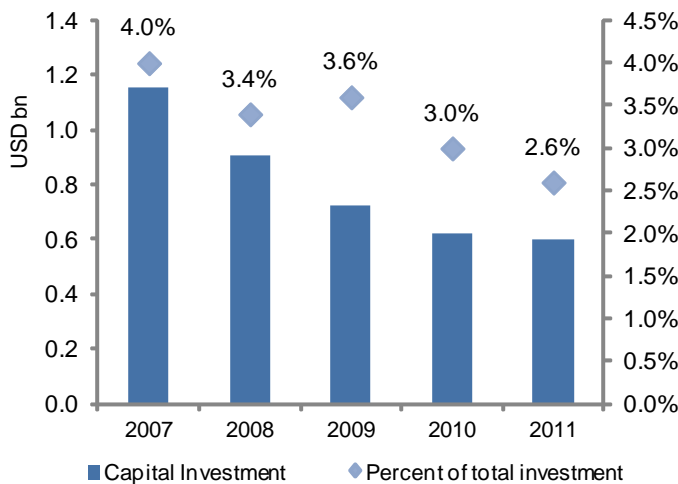
Source: National Statistical Sources & WTTC

UAE capital investment in tourism 2007-2011



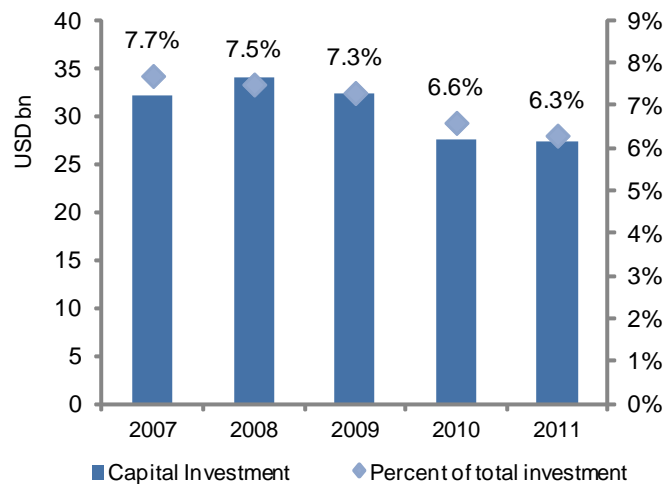
Source: National Statistical Sources & WTTC

Kuwait capital investment in tourism 2007-2011



Source: National Statistical Sources & WTTC

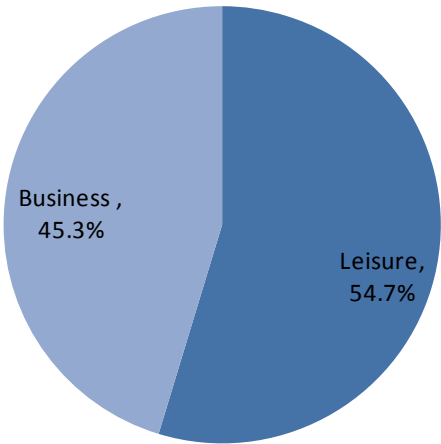
Middle East capital investment in tourism 2007-2011



Source: National Statistical Sources & WTTC

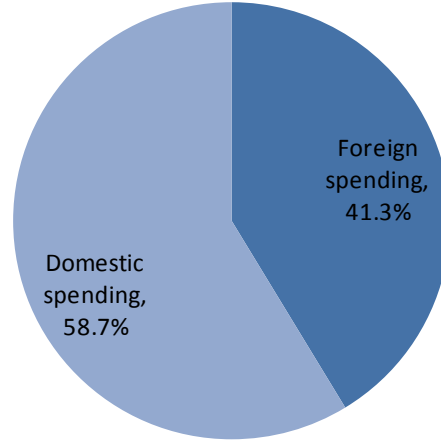
Spending by leisure visitors as percent of total tourist spending is the highest in the UAE while Saudi has the highest share of business spending. We believe this pattern is sustainable in the foreseeable future given each country's cultural and business attractiveness profile. Leisure spending in Saudi is, however, stable given it is mostly driven by the inelastic religious tourism. Kuwait has the least foreign spending by tourist visitors as it is highly reliant on domestic tourism representing 86% of total tourist spending.

Saudi leisure vs. business travel spending



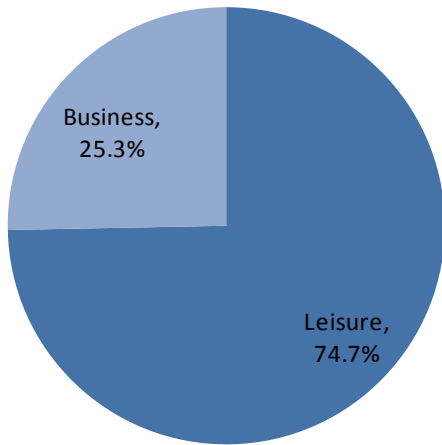
Source: WTTC

Saudi foreign vs. domestic travel spending



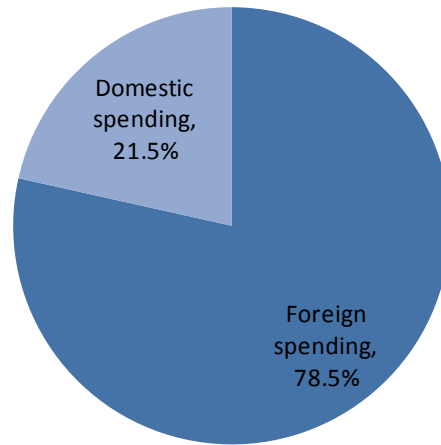
Source: WTTC

UAE leisure vs. business travel spending



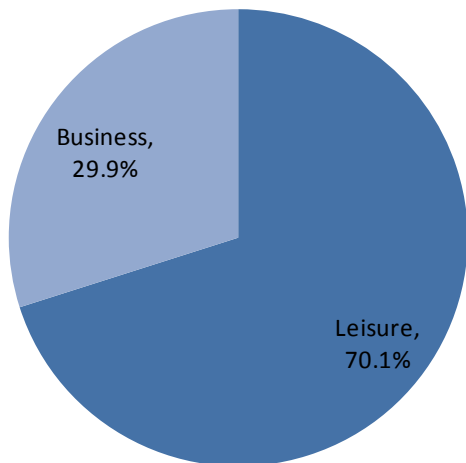
Source: WTTC

UAE foreign vs. domestic travel spending



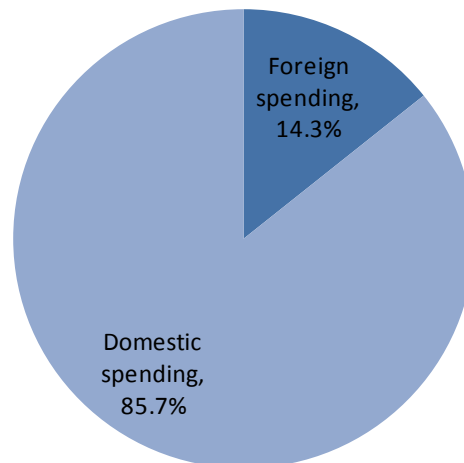
Source: WTTC

Kuwait leisure vs. business travel spending



Source: WTTC

Kuwait foreign vs. domestic travel spending

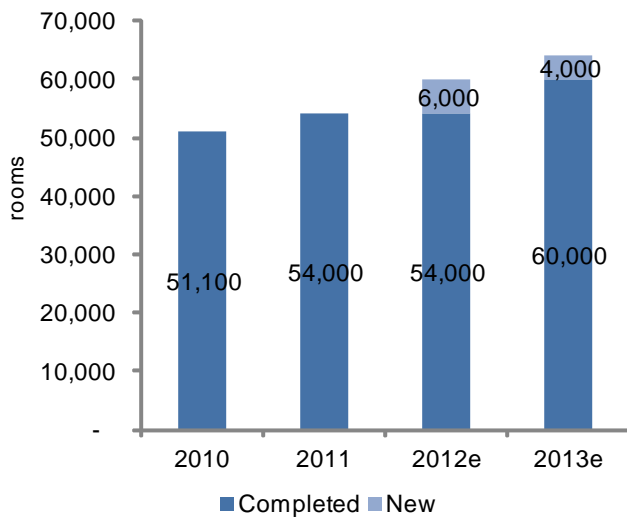


Source: WTTC

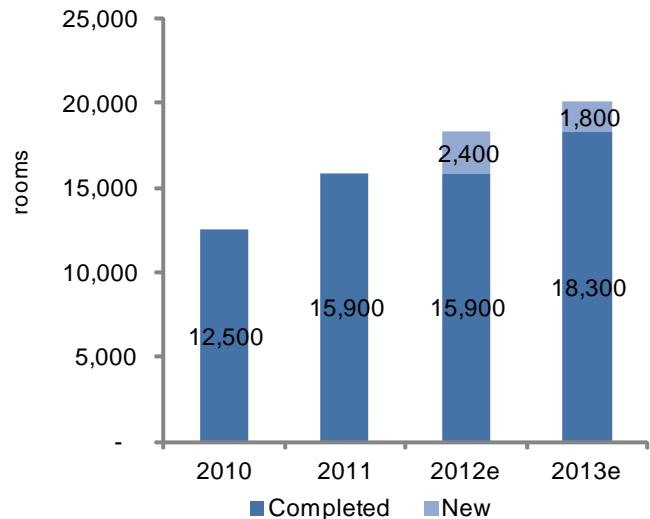
New supply in Abu Dhabi and Dubai to cap improvements...

Abu Dhabi and Dubai occupancy rates increased by 9.9% and 7.0% during 2011 as a direct result of replacement tourism influx avoiding politically troubled destinations like Tunisia, Bahrain and Egypt, which reported a YoY drop of 44.9% in occupancy rates. Dubai tourist arrivals increased 11% in 9M11 while Abu Dhabi arrivals grew 16% YoY through to November 2011. We see this trend slowing in 2012, which should pressure rates downwards. Further, with business travel still dwindling and new supply equivalent to 43% and 24% of Abu Dhabi and Dubai current room supply to enter the market in 2012-14, we see the medium term prospects of the segment as still fragile.

Dubai hotel room supply 2010-2013



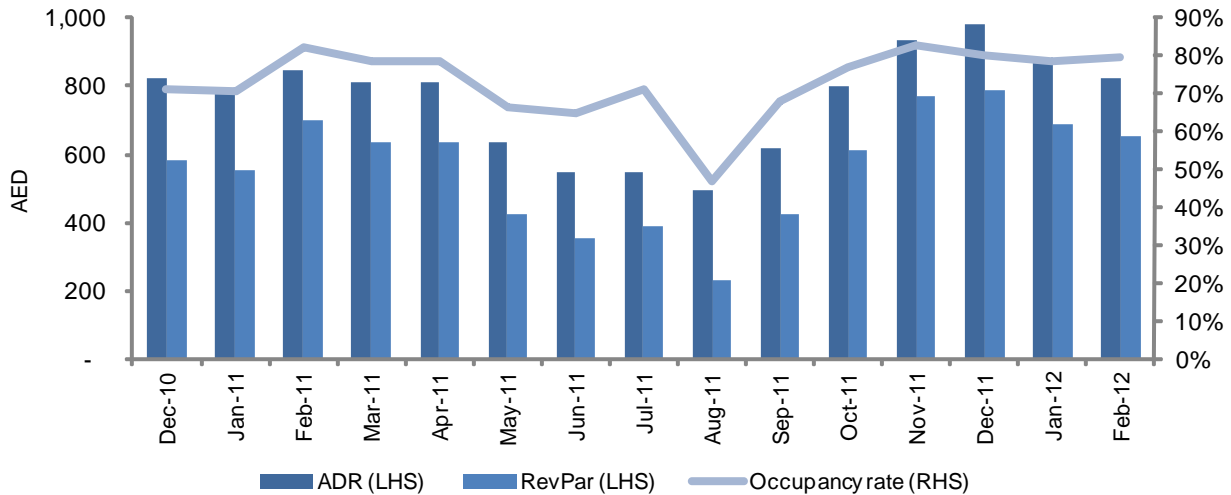
Abu Dhabi hotel room supply 2010-2013



Source: Global Database & JLL

Source: Global Database & JLL

UAE MoM ADR, RevPar & occupancy rate

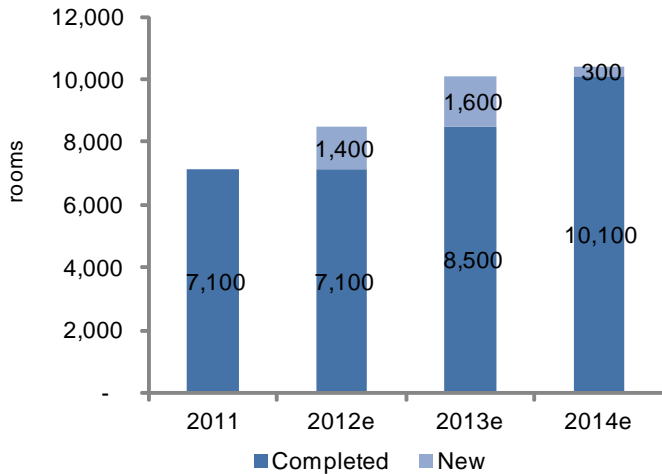


Source: STR Global

New supply in the pipelines in Saudi as well...

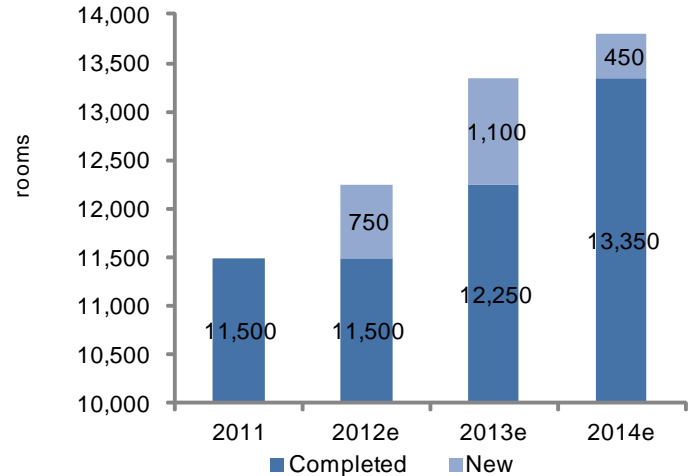
Riyadh and Jeddah saw their ADRs reported the highest regional increase during 2011 with the former up 6.6% and the latter up 6.9% YoY. Nationwide average occupancy rates also increased 8.6% but are still low at 58.2% compared to 71.4% in the UAE. Demand for hotel rooms in Riyadh and Jeddah is mostly driven by business tourism or domestic leisure as the two cities miss on the bulk of the flow of religious tourism concentrated in Makkah and Madina. We expect 2012 to fair well in both markets but perceive the current vacancy rates along with the upcoming supply as potential threats.

Riyadh hotel room supply 2011-2014



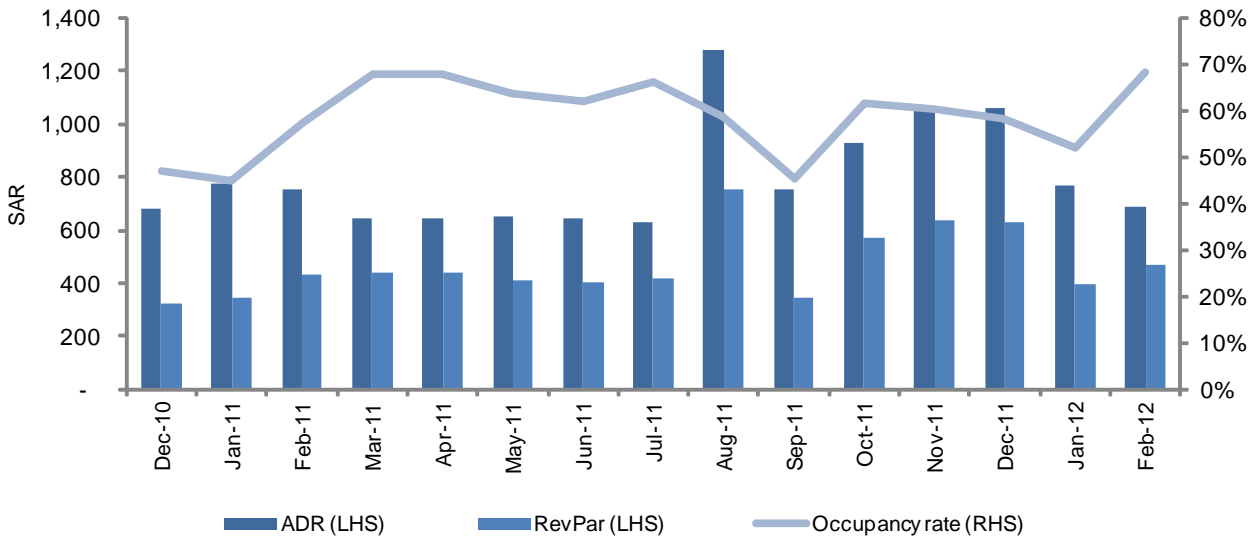
Source: Global Database & JLL

Jeddah hotel room supply 2011-2014



Source: Global Database & JLL

Saudi MoM ADR, RevPar & occupancy rate



Source: STR Global

Kuwait hospitality struggles with sluggish demand...

Average occupancy rates in Kuwait hover around 40-50% and drops to as low as 8-10% during the summer, when outbound tourism increases, and the month of Ramadan. Despite the delays in delivery of several hotels, we expect the market to be pressured further with the new 2,000 rooms scheduled to enter the market through to the end of 2014. With the country lacking the necessary business and leisure competitiveness with its regional peers, we have a negative outlook on the Kuwaiti hospitality market.

Companies' Section

Emaar Properties

Buy
Target Price
AED4.00

Market Data

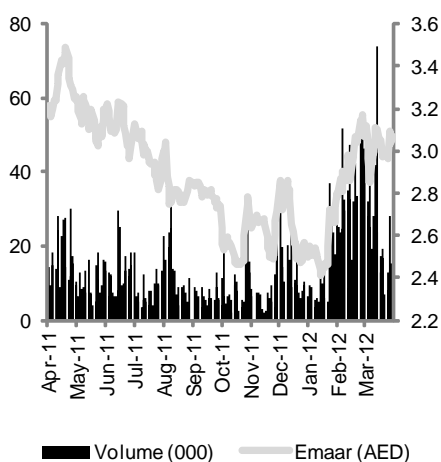
Bloomberg Code:	EMAAR UH
Reuters Code:	EMAR. DU
CMP (04 April 2012):	AED3.03
O/S (mn)	6,091.2
Market Cap (AED mn):	18,456.4
Market Cap (USD mn):	5,024.7
P/E 2012e (x):	11.60
P/Bv 2012e (x):	0.60

Price Performance 1-Yr

High (AED):	3.49
Low (AED):	2.41
Average Volume (mn):	14.1

	1m	3m	12m
Absolute (%)	3.6	24.7	2.2
Relative (%)	2.4	-2.8	-10.9

Price Volume Performance



- Offers the best diversified segmental and geographical exposure
- Significant growth in international sales in 2012
- No major concerns on the funding side
- Update with TP: AED4.00 and maintain Strong Buy

Emaar remains one of our favorite regional picks in terms of exposure offering a uniquely positioned portfolio of segmental and geographic operational coverage. Based on our calculations, revenues from Dubai based development sales will drop from 41% in 2011 to only 26% in 2012 lowering geographical concentration risks associated with exposure to the Dubai market. Based on our estimates and scheduled deliveries, contribution from international sales will increase from 18% to 34% YoY.

Dubai based Retail and hospitality operations will maintain their positive drive from 2011 although we see some risks to 2012 hospitality related rates. Dubai mall footfall averaged 4.4 million in 2011 and hotel occupancy rates stood at 81.2% up from 75% in 2010. In line with our overall views on the market, we believe Emaar's exposure to the two segments will continue to position it as a key beneficiary of Dubai tourism.

We do not expect any liquidity squeezes as Emaar has to refinance AED5.2 billion of maturing debt in 2012. We believe Emaar will be able to resort to bank financing or issue new sukuk under the USD2 billion 2015 trust certificate issuance program of which the company only issued USD500 million in February 2011.

Emaar's 35% stake in EEC (EMAAR AB) reflects a direct AED0.28/share addition to the stock price as EEC's market price increases twofold in the last two quarters. Based on our assessment of EEC, we believe this increase could be sustainable given the new strategic shift in EEC's model, which we see as value accretive. We assign a 50% discount to Amlak Finance market capitalization awaiting further clarity, but do not, however, anticipate a total write off from Emaar's balance sheet.

Based on our SOTP valuation, we raise our fair value target of Emaar to AED4.00/share from AED3.30/share and issue a **Strong Buy** recommendation on the stock. Emaar is currently trading at AED3.27/share, which offers an upside potential of 22%.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (AED mn)	12,150	8,112	8,370	8,075	6,595	6,754
Net profit (AED mn)	2,448	1,794	1,706	1,519	1,228	1,115
ROA	4.0%	3.2%	3.1%	2.8%	2.4%	2.1%
ROE	7.9%	6.1%	5.6%	4.8%	3.8%	3.3%
Dividend yield	0.0%	2.9%	2.9%	2.9%	3.0%	2.9%
P/E (x)	8.90	8.86	11.60	13.04	16.12	17.75
P/Bv (x)	0.70	0.50	0.60	0.59	0.57	0.56

Source: Global research & company reports

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Valuation:

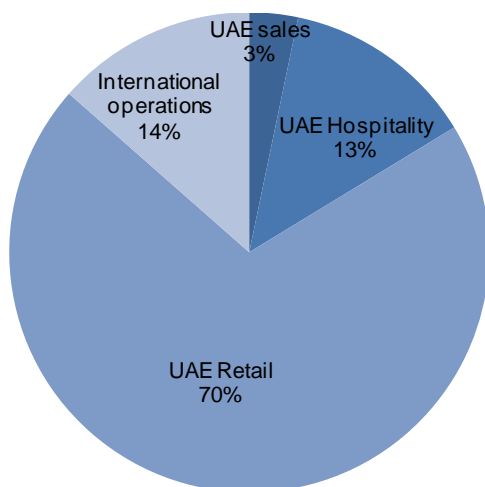
For arriving at a fair target for Emaar properties, we utilize a SOTP valuation approach. For UAE DCF valuations, we use a base WACC of 12.34% that could be adjusted based on the perceived associated risks of each segment and specific project. For international operations, we utilize a different WACC for different markets reflecting their respective riskiness.

Emaar Properties - Equity valuation

	Value (AED 000)	/share	Methodology
UAE development sales	846,072	0.14	DCF
UAE Hospitality	3,368,542	0.55	DCF
UAE Retail	18,165,739	2.94	Capitalization method 8.5%
International operations	3,498,199	0.57	DCF
Total NPV	25,878,552	4.21	
Add: quoted subsidiaries	3,799,500	0.62	Market capitalization
Add: unquoted subsidiaries	3,476,465	0.57	Book value FY11
Add: cash	2,865,272	0.47	Book value FY11
Less: debt	11,120,811	1.83	Book value FY11
Less: minority interest	280,672	0.05	Book value FY11
Total equity value	24,618,305	4.00	
CMP		3.27	
Upside potential		22.4%	

Source: Global research

Emaar Properties NPV breakdown



Source: Global research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Revenue	8,413	12,150	8,112	8,370	8,075	6,595	6,754
	Revenue growth	-21.5%	44.4%	-33.2%	3.2%	-3.5%	-18.3%	2.4%
	Cost of sales	(4,314)	(7,604)	(3,877)	(4,114)	(4,102)	(3,245)	(3,877)
	Gross Profit	4,099	4,547	4,236	4,256	3,973	3,351	2,877
	SG&A	(1,276)	(1,224)	(1,162)	(1,172)	(1,090)	(890)	(912)
	D&A	(636)	(805)	(762)	(703)	(748)	(751)	(716)
	Other operating income	232	113	57	29	41	50	57
	Operating profit	2,420	2,631	2,368	2,410	2,176	1,760	1,306
	Net financial charges	139	(90)	(170)	(343)	(354)	(288)	5
	Other income	(531)	(63)	(245)	(185)	(148)	(118)	(95)
	Profit Before Taxation	2,028	2,478	1,954	1,881	1,674	1,354	1,217
	Income tax	24	(1)	(36)	(56)	(50)	(41)	(24)
	Net Profit	2,051	2,477	1,918	1,825	1,624	1,313	1,192
	Loss from discontinued operations	(1,762)	-	-	-	-	-	-
Minority interest	38	(29)	(124)	(118)	(105)	(85)	(77)	
Net Profit Attributable to Shareholders'	327	2,448	1,794	1,706	1,519	1,228	1,115	
Net profit growth	98%	648%	-27%	-5%	-11%	-19%	-9%	
Balance Sheet	Cash and marketable securities	2,267	5,042	2,865	2,270	2,102	2,100	3,968
	Receivables and prepayments	750	711	573	758	738	713	439
	Development properties	31,076	26,492	26,611	25,277	24,606	23,760	21,975
	Investments in associates and JV	7,861	7,592	6,684	6,684	6,684	6,684	6,684
	Intangible assets	439	46	46	46	46	46	46
	Net fixed assets	15,368	16,649	16,299	16,380	16,442	15,692	16,029
	Other assets	6,385	5,971	6,975	6,855	6,909	6,825	6,646
	Total Assets	64,145	62,504	60,054	58,271	57,528	55,820	55,787
	Accounts payables	9,545	8,939	8,314	8,847	8,612	8,316	9,889
	Advances from customers	15,888	9,889	8,145	7,978	6,786	5,089	3,563
	Short-term debt	4,500	4,455	5,234	3,245	3,213	2,763	2,763
	Long-term debt	4,125	6,714	5,886	4,486	4,478	4,291	3,147
	Other liabilities	1,207	1,207	885	957	940	919	875
	Retained earnings	7,878	10,018	10,475	11,601	11,994	12,681	13,727
Other Adjustments	21,002	21,282	21,114	21,156	21,505	21,760	21,824	
Total Equity & Liability	64,145	62,504	60,054	58,271	57,528	55,820	55,787	
Cash Flow	Cash Flow from Operating Activities	(1,751)	464	759	902	1,038	739	2,959
	Cash Flow from Investing Activities	(2,505)	(2,798)	(119)	(81)	(72)	721	(337)
	Cash Flow from Financing Activities	1,044	2,258	(1,293)	(2,769)	(1,093)	(1,421)	(713)
	Change in Cash	(3,213)	(76)	(653)	(1,948)	(127)	39	1,909
	Net Cash at End	1,860	4,954	4,260	2,270	2,102	2,100	3,968
Ratio Analysis	Gross margin	48.7%	37.4%	52.2%	50.9%	49.2%	50.8%	42.6%
	Operating margin	28.8%	21.7%	29.2%	28.8%	26.9%	26.7%	19.3%
	Net margin	3.9%	20.1%	22.1%	20.4%	18.8%	18.6%	16.5%
	Return on assets	3.2%	4.0%	3.2%	3.1%	2.8%	2.4%	2.1%
	Return on equity	7.1%	7.9%	6.1%	5.6%	4.8%	3.8%	3.3%
	Current ratio (x)	0.42	0.61	0.44	0.44	0.43	0.45	0.50
	Quick ratio (x)	0.20	0.40	0.24	0.24	0.23	0.24	0.34
	Debt / Equity (x)	1.26	169.48	-0.35	3.51	10.31	-1.63	0.00
	Times Interest Earned (x)	11.17	7.41	4.21	4.45	4.04	3.56	3.16
	EV/Revenues (x)	3.77	2.30	2.95	3.01	3.14	3.75	3.21
	EV/EBITDA (x)	10.37	8.13	7.64	8.11	8.67	9.85	10.73
	EPS (AED)	0.05	0.40	0.29	0.28	0.25	0.20	0.18
	Book Value Per Share (AED)	4.74	5.14	5.19	5.38	5.50	5.65	5.84
	Market Price (AED) *	4.16	3.58	2.59	3.25	3.25	3.25	3.25
Market Capitalization (AED mn)	25,340	21,807	15,776	19,797	19,797	19,797	19,797	
Dividend Yield	0.0%	0.0%	2.9%	2.9%	2.9%	3.0%	2.9%	
P/E Ratio (x)	77.50	8.90	8.86	11.60	13.04	16.12	17.75	
P/Bv Ratio (x)	0.90	0.70	0.50	0.60	0.59	0.57	0.56	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Aldar Properties

Hold
Target Price
AED1.30

Market Data

Bloomberg Code:	ALDAR UH
Reuters Code:	ALDR.AD
CMP (04 April 2012):	AED1.23
O/S (mn)	4,085.1
Market Cap (AED mn):	5,024.7
Market Cap (USD mn):	1,367.9
P/E 2012e (x):	12.28
P/Bv 2012e (x):	0.68

- **Second bailout eliminates idle assets and improves funding profile**
- **Expect revenues to drop on shrinking backlog**
- **Revise revenues and net income factoring in new government sales**
- **Downgrade to HOLD with TP: AED1.35/share from Strong Buy**

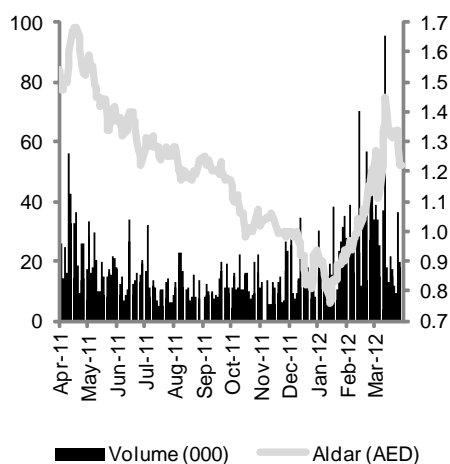
The second government bailout package to Aldar saved the company from its eminent debt obligations over which it would have defaulted and monetized the company's idle assets. We now see Aldar in a better position to maintain operations as business focus gradually shifts towards asset management.

Price Performance 1-Yr

High (AED):	1.68
Low (AED):	0.76
Average Volume (mn):	17.1

	1m	3m	12m
Absolute (%)	5.0	36.1	-19.6
Relative (%)	5.2	27.4	-21.4

Price Volume Performance



Our initial opinion on the merger talks with Sorouh is that it is in favor of Aldar. We see similarities in business models and offering in the coming three years, which validates a merger that will create cost synergies. However, at a 2.1x 2012e debt to equity ratio, Aldar is far more financially stretched than Sorouh. Further, the merger will create a bigger entity that is more exposed to the fragile Abu Dhabi real estate market in terms of running projects and landbank. Details remain unclear at the moment to value the final impact on both companies'.

We expect revenues to drop through to the end of 2014 on declining sales as current projects phase out of the backlog and do not assume or see any potential for significant large projects in the medium term. Accordingly, we only factor in revenues from the growing high quality investment portfolio of Aldar and rule out any sales revenues effective 2014.

Aldar is trading at a forward 2012e PBx of 0.68x; a 20% premium to the UAE average of 0.57x and to Emaar, which we believe has a better asset quality. In our view, this implies that the market is now discarding any additional impairments to Aldar's assets.

Aldar has outperformed the ADI during 1Q12 by 27% on a sequence of news flow that was mostly positive along with speculations on the outcome of the merger with Sorouh. We believe the share is currently trading near its fair value price target with most changes now priced in until new catalysts emerge. Our earlier outlook was that real estate equities were highly distressed and that a 2012e PBx of 0.42x for Aldar, at its trough, was not justified. We now change this view and lean more towards stability in the current price range.

Based on our SOTP approach, we now value Aldar at AED1.35/share up from AED1.10/share but change our call to **Hold** from Strong Buy. The change in our target price is a result of the lower WACC we now apply, improved outlook on investment properties, specifically retail operations and better development sales given the new sales to the government of Abu Dhabi.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (AED mn)	1,791	6,743	6,090	4,609	2,746	2,971
Net profit (AED mn)	(11,249)	642	409	488	318	350
ROA	-26.7%	1.6%	1.2%	1.7%	1.2%	1.4%
ROE	-298.1%	9.1%	5.6%	6.4%	4.1%	4.4%
Dividend yield	0.0%	8.1%	3.1%	4.4%	3.2%	3.1%
P/E (x)	na	5.85	12.28	10.29	15.80	14.47
P/Bv (x)	0.60	0.53	0.68	0.66	0.65	0.63

Source: Global research & company reports

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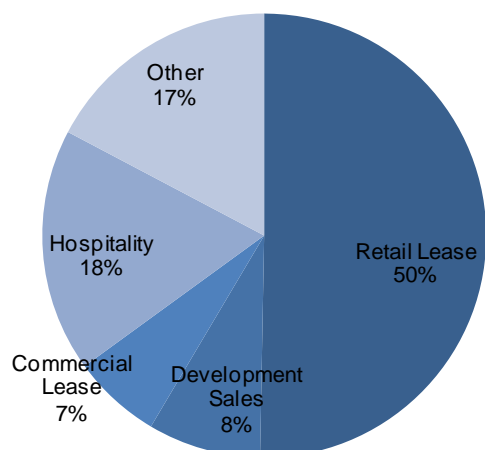
Valuation:

We valued Aldar using a SOTP approach where we valued development sales using a one-stage DCF based on the life of each project and its forecasted sales and margins. We have also applied the same methodology for government projects over which Aldar receives project management fees. Ongoing operations, excluding retail, are valued via a two-stage DCF methodology. Our WACC for Aldar is 13.8%, which we adjust based on every project's credentials. For the retail portfolio, we utilized the capitalization method with a capitalization rate of 9%.

Aldar - Equity valuation

	Value (AED 000)	/share	Methodology
Retail Lease	6,330,212	1.55	Capitalization method 9.0%
Development Sales	1,035,565	0.25	DCF
Commercial Lease	782,778	0.19	DCF
Hospitality	2,154,505	0.53	DCF
Other	2,138,177	0.52	DCF
Total NPV	12,441,236	3.05	
Add: investments	817,776	0.20	Book value FY11
Add: cash	4,157,680	1.02	Book value FY11
Add: government receivables	6,133,739	1.50	Book value FY12
Less: debt	18,252,469	4.47	Book value FY11
Less: minority interest	-	-	Book value FY11
Total equity value	5,297,962	1.30	
CMP		1.23	
Upside potential		5.4%	

Source: Global research

Aldar NPV breakdown

Source: Global research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Revenue	1,979	1,791	6,743	6,090	4,609	2,746	2,971
	Revenue growth	-60.2%	-9.5%	276.4%	-9.7%	-24.3%	-40.4%	8.2%
	Cost of sales	(1,542)	(1,503)	(5,097)	(4,101)	(2,724)	(1,327)	(1,374)
	Gross Profit	437	288	1,646	1,988	1,885	1,420	1,598
	SG&A	(917)	(665)	(415)	(411)	(300)	(179)	(193)
	D&A	(94)	(514)	(590)	(788)	(853)	(877)	(1,045)
	Other operating income	(606)	(2,898)	(1,822)	-	-	-	-
	Operating profit	(1,180)	(3,789)	(1,182)	789	732	364	359
	Net financial charges	194	(455)	(982)	(513)	(404)	(228)	(209)
	Other income	1,823	(7,004)	2,806	133	160	182	198
	Profit Before Taxation	837	(11,249)	642	409	488	318	348
	Income tax	-	-	-	-	-	-	1
	Net Profit	837	(11,249)	642	409	488	318	349
	Minority interest	-	-	-	-	-	-	1
Net Profit Attributable to Shareholders'	837	(11,249)	642	409	488	318	350	
Net profit growth	-76%	-1443%	na	-36%	-19%	-35%	10%	
Balance Sheet	Cash and marketable securities	10,313	2,432	4,158	1,544	2,135	1,420	1,629
	Receivables and prepayments	14,598	5,453	5,241	3,145	1,195	1,111	1,034
	Development WIP	10,909	13,878	7,134	7,134	4,994	2,000	2,000
	Other current assets	101	6,354	4,720	4,720	4,248	3,398	2,039
	Net fixed assets	27,141	14,969	10,867	10,991	11,877	13,603	14,258
	Other long term assets	3,283	4,259	7,998	6,162	5,061	4,179	3,474
	Total Assets	66,345	47,344	40,118	33,696	29,509	25,713	24,434
	Accounts payables	6,527	6,171	8,460	5,237	3,963	2,362	2,555
	Short-term debt	4,696	10,473	5,080	1,056	1,290	1,000	1,000
	Long-term debt	34,001	17,761	13,141	15,013	12,425	10,874	9,170
	Other liabilities	4,321	8,693	6,343	5,042	4,214	3,702	3,743
	Retained earnings	6,289	(6,514)	(5,754)	(5,501)	(5,232)	(5,073)	(4,882)
	Other Adjustments	10,512	10,761	12,848	12,848	12,848	12,848	12,848
	Total Equity & Liability	66,345	47,344	40,118	33,696	29,509	25,713	24,434
Cash Flow	Cash flow from operating activities	(1,056)	(1,305)	4,300	(863)	3,831	2,563	2,275
	Cash flow from investing activities	(13,485)	1,975	7,296	(1,461)	(886)	(1,727)	(654)
	Cash flow from financing activities	13,978	(1,275)	(8,873)	(1,578)	(2,354)	(1,551)	(1,412)
	Change in cash	(563)	(605)	2,723	(3,902)	591	(715)	209
	Net Cash at End	2,663	2,058	5,446	1,544	2,135	1,420	1,629
Ratio Analysis	Gross margin	22.1%	16.1%	24.4%	32.7%	40.9%	51.7%	53.8%
	Operating margin	-59.6%	-211.6%	-17.5%	13.0%	15.9%	13.3%	12.1%
	Net margin	42.3%	-706.7%	9.5%	6.7%	10.6%	11.6%	11.7%
	Return on assets	1.3%	-26.7%	1.6%	1.2%	1.7%	1.2%	1.4%
	Return on equity	5.0%	-298.1%	9.1%	5.6%	6.4%	4.1%	4.4%
	Current ratio (x)	2.63	1.18	1.16	1.72	1.66	1.59	1.34
	Quick ratio (x)	1.82	0.33	0.51	0.49	0.44	0.51	0.53
	Debt / Equity (x)	2.30	7.67	2.57	2.19	1.80	1.53	1.28
	Times Interest Earned (x)	-4.29	-5.28	-1.07	1.23	1.23	1.02	1.01
	EV/Revenues (x)	14.34	14.41	2.09	2.39	2.51	3.81	2.87
	EV/EBITDA (x)	na	na	11.43	9.21	7.30	8.42	6.08
	EPS (AED)	0.20	-3.10	0.16	0.10	0.12	0.08	0.08
	Book Value Per Share (AED)	4.11	1.04	1.74	1.80	1.86	1.90	1.95
	Market Price (AED) *	5.04	2.33	0.92	1.23	1.23	1.23	1.23
	Market Capitalization (AED mn)	12,993	6,006	3,558	5,025	5,025	5,025	5,025
Dividend Yield	0.0%	0.0%	8.1%	3.1%	4.4%	3.2%	3.1%	
P/E Ratio (x)	24.90	na	5.85	12.28	10.29	15.80	14.47	
P/BV Ratio (x)	1.20	0.60	0.53	0.68	0.66	0.65	0.63	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Sorouh Real Estate

Hold
Target Price
AED1.25

Market Data

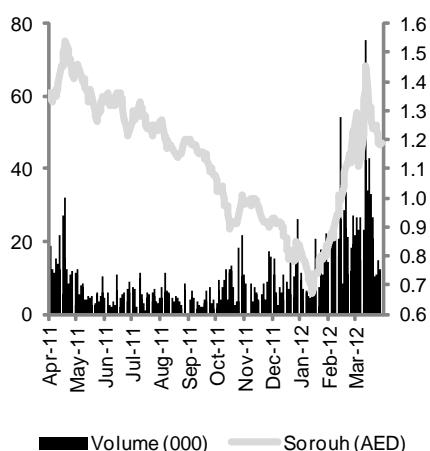
Bloomberg Code:	SOROUH UH
Reuters Code:	SOR.AD
CMP (04 April 2012):	AED1.18
O/S (mn)	2,625.0
Market Cap (AED mn):	3,097.5
Market Cap (USD mn):	843.3
P/E 2012e (x):	6.67
P/Bv 2012e (x):	0.47

Price Performance 1-Yr

High (AED):	1.54
Low (AED):	0.67
Average Volume (mn):	9.8

	1m	3m	12m
Absolute (%)	2.2	54.6	-9.1
Relative (%)	2.5	45.9	-10.9

Price Volume Performance



■ Volume (000) — Sorouh (AED)

- **Merger with Aldar not in favor of Sorouh, in our view**
- **Business model drifting towards property management**
- **Fairly priced given distressed margins and unappealing exposure**
- **Hold with TP: AED1.25/share**

We believe the current merger talks with Aldar are not in favor of Sorouh, given current prospects. Similarities in the business models and business offering in the coming three years exist, which validates a merger that will create cost synergies. However, we do not see Sorouh as financially stretched as Aldar is and only see strategic motives as its business model shifts totally towards managing its operating assets and, hence, seek cost cutting initiatives. The merger, in our view, will create a bigger entity that is more geographically exposed to the fragile Abu Dhabi real estate market.

With the exception of minor delays in project deliveries or sales, we expect Sorouh's revenue mix to be composed of pure long term recurring sources along with project management fees by 2015. Sorouh's investment properties are highly exposed to the unfavorable Abu Dhabi residential and office segments.

Sales margins on development sales disappointed in 2011 at 13.8% below 2010 margins of 25.4% and our early estimates of 20-23%. Aggregate 2011 gross margin came in at 18.3% against 44.1% in the previous year. Based on our negative view on the Abu Dhabi property market, we see this drop in margins as sustainable for at least the coming two years beyond which Sorouh would have no further exposure to the property sales segment.

In our view, the market is pricing in the unappealing exposure of Sorouh's sales and investment properties along with declining assets in the current stock price. Sorouh is trading at forward PBx of only 0.47x reflecting a 17% discount to the UAE and Abu Dhabi real estate averages. Sorouh has the lowest PBx amongst our GCC real estate coverage, which averages at 1.16x. Further, it is trading at near half its 5-year average PBx.

Our assumptions for the timing of scheduled deliveries change slightly and we amend the outlook on margins, we now estimate 2012e earnings of AED464 million up from AED324 million driven by higher revenue recognition. Our new net margin stands at 15.2% with an RoE of 8.0% from 10.7% and 4.7% previously.

Our SOTP for Sorouh is AED1.25/share up from AED1.05/share reflecting our new earnings and a lower WACC. Despite the new higher target price, we change our recommendation from Strong Buy to **Hold** given the current market price of AED1.18/share, which only gives an upside potential of 7.1%.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (AED mn)	1,205	3,788	3,061	3,349	2,016	1,158
Net profit (AED mn)	7	335	464	508	531	441
ROA	0.1%	2.7%	4.1%	5.1%	6.3%	5.7%
ROE	0.3%	5.8%	8.0%	8.4%	8.5%	6.8%
Dividend yield	0.0%	4.2%	4.2%	8.2%	8.6%	7.8%
P/E (x)	631.40	9.26	6.67	6.10	5.83	7.03
P/Bv (x)	0.80	0.47	0.47	0.45	0.43	0.42

Source: Global research & company reports

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Valuation:

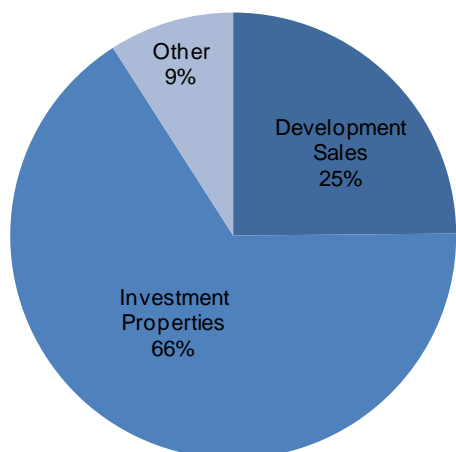
For arriving at a fair target for Sorouh, we utilize a SOTP valuation approach. We apply a base WACC of 13.80% to which we make amendments based on the perceived riskiness of each project.

Sorouh - Equity valuation

	Value (AED 000)	/share	Methodology
Development Sales	942,495	0.36	DCF
Investment Properties	2,505,935	0.95	DCF
Other	344,019	0.13	DCF
Total NPV	3,792,449	1.44	
Add: investments	460,273	0.18	Book value FY11
Add: cash	1,837,831	0.70	Book value FY11
Less: debt	2,653,572	1.01	Book value FY11
Less: minority interest	118,760	0.045	Book value FY11
Total equity value	3,318,221	1.25	
CMP		1.18	
Upside potential		7.1%	

Source: Global Research

Sorouh NPV breakdown



Source: Global research

Financial Statements

(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Revenue	3,103	1,205	3,788	3,061	3,349	2,016	1,158
Revenue growth	-16.7%	-61.2%	214.3%	-19.2%	9.4%	-39.8%	-42.6%
Cost of sales	(2,180)	(674)	(3,094)	(2,284)	(2,538)	(1,236)	(577)
Gross Profit	923	532	693	777	810	780	581
SG&A	(272)	(216)	(182)	(184)	(201)	(161)	(93)
D&A	(26)	(29)	(26)	(35)	(38)	(41)	(40)
Other operating income	(274)	(328)	(192)	-	-	-	-
Operating profit	352	(42)	293	559	572	578	448
Net financial charges	(42)	(44)	30	(38)	(2)	19	45
Other income	186	101	60.68	11.16	11.16	11.16	11.16
Profit Before Taxation	495	16	383	532	581	608	505
Income tax	-	-	-	-	-	-	-
Net Profit	495	16	383	532	581	608	505
Minority interest	(12)	(9)	(49)	(68)	(74)	(77)	(64)
Net Profit Attributable to Shareholders'	483	7	335	464	508	531	441
Net profit growth	-74.0%	-98.5%	4399%	39%	9%	5%	-17%
Cash and marketable securities	2,763	1,307	1,837	1,111	1,467	1,509	1,854
Receivables and prepayments	2,813	2,799	2,502	2,817	2,511	1,714	926
Development WIP	3,778	5,273	4,143	3,480	1,566	626	-
Other current assets	672	971	888	906	859	832	815
Net fixed assets	1,413	1,827	3,457	3,790	4,155	4,153	4,154
Intangible assets	613	445	325	227	227	227	227
Other long term assets	1,645	1,011	998	972	950	929	929
Total Assets	13,698	13,634	14,150	13,303	11,735	9,992	8,907
Accounts payables	5,437	5,762	4,889	3,214	2,679	1,613	926
Short-term debt	990	13	425	459	459	459	459
Long-term debt	1,083	1,630	2,229	2,719	1,360	339	136
Other liabilities	63	52	43	43	43	43	43
Share capital	2,500	2,625	2,625	2,625	2,625	2,625	2,625
Retained earnings	3,103	2,994	3,295	3,530	3,784	4,050	4,248
Other Adjustments	522	559	644	712	786	863	470
Total Equity & Liability	13,698	13,634	14,150	13,303	11,735	9,992	8,907
Cash flow from operating activities	(1,589)	(449)	241	(102)	1,505	796	307
Cash flow from investing activities	(15)	582	644	712	786	863	470
Cash flow from financing activities	(2,309)	(606)	599	490	(784)	(755)	39
Change in cash	(3,912)	(473)	(77)	55	356	43	345
Net Cash at End	1,606	1,133	1,056	1,111	1,467	1,509	1,854
Gross margin	29.7%	44.1%	18.3%	25.4%	24.2%	38.7%	50.2%
Operating profit margin	11.3%	-3.4%	7.7%	18.2%	17.1%	28.7%	38.7%
Net Profit margin	15.6%	0.6%	8.8%	15.2%	15.2%	26.3%	38.1%
Return on assets	3.6%	0.1%	2.7%	4.1%	5.1%	6.3%	5.7%
Return on equity	8.0%	0.3%	5.8%	8.0%	8.4%	8.5%	6.8%
Current ratio (x)	1.56	1.79	1.76	2.21	1.96	2.12	2.71
Quick ratio (x)	0.87	0.71	0.82	1.01	1.19	1.42	2.12
Debt / Equity (x)	0.33	0.53	0.86	1.03	0.59	0.26	0.19
Times Interest Earned (x)	2.86	-0.40	13.13	8.79	15.72	36.23	37.68
EV/Revenues (x)	0.53	3.83	2.15	1.75	1.10	1.31	1.43
EV/EBITDA (x)	2.53	14.64	8.23	9.01	6.02	4.26	3.39
EPS (AED)	0.18	0.00	0.13	0.18	0.19	0.20	0.17
Book Value Per Share (AED)	2.33	2.35	2.50	2.52	2.62	2.72	2.80
Market Price (AED) *	2.48	1.63	0.86	1.17	1.17	1.17	1.17
Market Capitalization (AED mn)	6,510	4,279	2,258	3,071	3,071	3,071	3,071
Dividend Yield	0.0%	0.0%	4.3%	4.3%	8.3%	8.6%	7.9%
P/E Ratio (x)	14.80	631.40	9.18	6.61	6.05	5.78	6.97
P/BV Ratio (x)	1.20	0.80	0.47	0.46	0.45	0.43	0.42

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Dar Alarkan

Hold
Target Price
SAR13.05

Market Data

Bloomberg Code:	ALARKAN UH
Reuters Code:	4300.SA
CMP (04 April 2012):	SAR13.10
O/S (mn)	1,080.0
Market Cap (SAR mn):	14,418.0
Market Cap (USD mn):	3,844.5
P/E 2012e (x):	13.05
P/Bv 2012e (x):	0.88

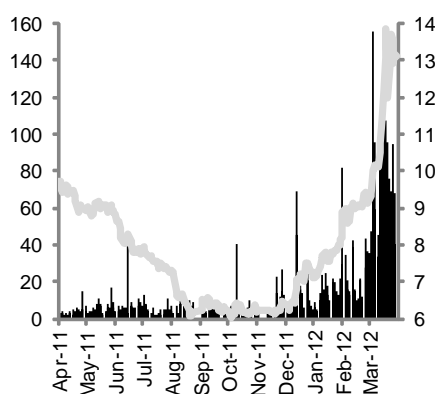
- Improving cash balance ahead of the 2012 Sukuk maturity
- Slow progress in property development
- We expect 2012 earnings slightly above 2011
- Raise TP but downgrade to HOLD from Strong Buy

Price Performance 1-Yr

High (SAR):	13.85
Low (SAR):	6.05
Average Volume (mn):	15.83

	1m	3m	12m
Absolute (%)	37.9	81.7	32.9
Relative (%)	28.7	56.6	9.5

Price Volume Performance



■ Volume (000) — Dar Alarkan (SAR)

Dar Alarkan is a well suited play on the booming Riyadh property market. Market fundamentals are attractive and we see Dar Alarkan as the most attractive beneficiary of current market conditions amongst listed Saudi real estate equities given the company's business model and existing land bank.

Dar Alarkan 2011 financials revealed a cash balance of SAR2.5 billion and receivables of SAR1.2 billion up from AED1.2 billion and SAR1.6 billion a year earlier. Further, we understood that cash build up has continued in 1Q11 as collections increased and new land sales took place. In our view, this has removed the drag on the stock, which traded at an all-time low of SAR6.05 in October 2011.

We maintain our view that Dar Alarkan will be able to meet its SAR3.75 billion debt obligation due on July 2011 but at the expense of freeing up cash for capex requirements, which has resulted in project delivery delays. We factor in a one year delay in unit deliveries from Shams Arrayidh and Shams AlArous phase I.

The fair value exercise undertaken by the company yielded a fair value of SAR14.8 billion representing a 53% premium over the book value of SAR9.7 billion. The valuation sent another positive signal to investors on the quality of the company's assets. We see this as critically important for Dar Alarkan given its high reliance on land sales.

AlQasr Mall is scheduled to start operations late in 2Q12, which we see as a high quality addition to the company's small but growing investment portfolio. Once the mall is operative, Dar Alarkan will securitize it in order to raise new debt at favorable rates given that the overall average debt service rate is expected to increase once the 2012 Sukuk are paid and new higher interest debt is rolled over.

We expect 6% and 4% revenue and net income growth as we see no material changes in the revenue mix from 2011. Dar Alarkan will remain reliant on land sales for cash generation with minimal property sales while contribution from investment properties will pick up but stay muted in percentage terms.

The stock price has outperformed TASI by 29% in March 2012 and by 10% on a yearly basis. We believe this was justified by the alleviation of concerns over the company's debt obligations that pressured it during 2011. We raise our target price to SAR13.05/share up from a previous SAR8.90/share mainly reflecting a lower discount rate. However, we change our call from Strong Buy to **Hold** as we do not see much appreciation from the current levels on the absence of new catalysts.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (SAR mn)	4,142	3,313	3,501	4,158	4,401	4,427
Net profit (SAR mn)	1,456	1,088	1,130	1,398	1,476	1,476
ROA	6.2%	4.5%	4.9%	5.9%	6.2%	6.1%
ROE	10.0%	7.0%	6.8%	8.2%	8.5%	8.3%
Dividend yield	7.3%	0.0%	0.0%	7.3%	7.9%	7.9%
P/E (x)	10.13	13.55	13.05	10.55	9.99	10.00
P/Bv (x)	1.02	0.95	0.88	0.87	0.85	0.83

Source: Global research & company reports

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Valuation:

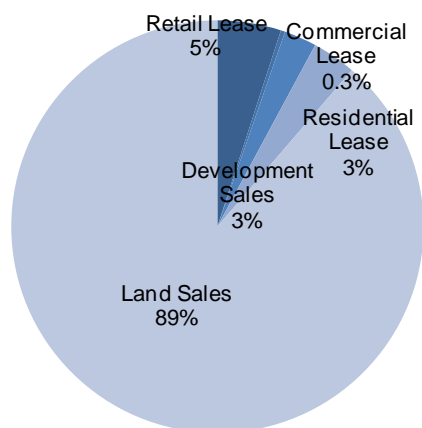
For arriving at a fair target for Dar Alarkan, we utilize a SOTP valuation approach. For leased properties and land sales, we utilize a two-stage DCF approach with a terminal growth rate of 3% and a base WACC of 11.71%, which we adjust based on the perceived risks of each segment and specific project. We apply the same concept and WACC for development sales for which we utilize a one stage DCF.

Dar Alarkan - Equity valuation

	Value (SAR 000)	/share	Methodology
Retail Lease	883,012	0.82	Capitalization method 8.5%
Commercial Lease	59,405	0.06	DCF
Residential Lease	451,706	0.42	DCF
Development Sales	609,941	0.56	DCF
Land Sales	15,730,314	14.57	DCF
Total NPV	17,734,377	16.42	
Add: investments	1,245,364	1.15	Book value FY11
Add: cash	2,505,774	2.32	Book value FY11
Less: debt	7,392,136	6.84	Book value FY11
Less: minority interest	-	-	Book value FY11
Total equity value	14,093,379	13.05	
CMP		13.10	
Upside potential		-0.4%	

Source: Global Research

Dar Alarkan NPV breakdown



Source: Global research

Financial Statements

(SAR mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Revenue	5,464	4,142	3,313	3,501	4,158	4,401	4,427
Revenue growth	-2.6%	-24.2%	-20.0%	5.7%	18.8%	5.8%	0.6%
Cost of sales	(2,957)	(2,378)	(1,943)	(2,064)	(2,450)	(2,566)	(2,594)
Gross Profit	2,507	1,764	1,369	1,437	1,708	1,835	1,833
SG&A	(146)	(106)	(91)	(96)	(116)	(123)	(124)
D&A	(41)	(40)	(28)	(17)	(18)	(17)	(18)
Operating profit	2,321	1,618	1,250	1,324	1,574	1,695	1,691
Net financial charges	(146)	(214)	(213)	(222)	(213)	(247)	(243)
Other income	(2)	79	100	60	80	80	73
Profit Before Taxation	2,173	1,483	1,137	1,163	1,441	1,528	1,521
Income tax	(50)	(27)	(49)	(33)	(43)	(52)	(47)
Net Profit	2,123	1,456	1,088	1,130	1,398	1,476	1,475
Minority interest	-	-	-	-	-	-	-
Net Profit Attributable to Shareholders'	2,123	1,456	1,088	1,130	1,398	1,476	1,475
Net profit growth	-10%	-31%	-25%	4%	24%	6%	0%
Cash and marketable securities	2,223	1,189	2,506	1,345	1,558	1,267	1,022
Receivables and prepayments	846	1,667	1,228	1,353	1,501	1,761	1,937
Development WIP	1,200	1,013	2,678	1,759	1,002	1,027	1,027
Net fixed assets	1,621	2,005	2,836	3,233	3,444	3,523	3,607
Land and projects in progress	16,446	16,310	13,690	14,194	14,755	14,771	14,771
Other long term assets	1,165	1,164	1,164	1,280	1,408	1,549	1,704
Total Assets	23,501	23,349	24,101	23,164	23,668	23,897	24,067
Accounts payables	1,106	1,115	1,107	1,119	1,133	1,134	1,134
Short-term debt	2,688	1,000	4,634	863	1,035	1,449	1,304
Long-term debt	5,572	6,721	2,758	4,450	4,450	3,950	3,950
Other liabilities	12	13	14	14	14	14	14
Retained earnings	2,597	2,827	3,915	5,045	5,363	5,678	5,993
Other Adjustments	11,527	11,673	11,673	11,673	11,673	11,673	11,673
Total Equity & Liability	23,501	23,349	24,101	23,164	23,668	23,897	24,067
Cash flow from operating activities	1,497	2,410	2,015	1,432	1,459	1,176	1,298
Cash flow from investing activities	(975)	(1,802)	(351)	(513)	(339)	(219)	(239)
Cash flow from financing activities	985	(1,643)	(348)	(2,080)	(908)	(1,247)	(1,305)
Change in cash	1,507	(1,035)	1,317	(1,160)	212	(291)	(245)
Net Cash at End	2,224	1,189	2,506	1,345	1,558	1,267	1,022
Gross margin	45.9%	42.6%	41.3%	41.1%	41.1%	41.7%	41.4%
Operating margin	42.5%	39.1%	37.7%	37.8%	37.8%	38.5%	38.2%
Net margin	38.8%	35.1%	32.8%	32.3%	33.6%	33.5%	33.3%
Return on assets	9.0%	6.2%	4.5%	4.9%	5.9%	6.2%	6.1%
Return on equity	15.0%	10.0%	7.0%	6.8%	8.2%	8.5%	8.3%
Current ratio (x)	1.13	1.83	1.12	2.25	1.87	1.57	1.64
Quick ratio (x)	0.81	1.35	0.65	1.36	1.41	1.17	1.21
Debt / Equity (x)	0.58	0.53	0.47	0.32	0.32	0.31	0.30
Times Interest Earned (x)	15.87	7.55	5.88	5.97	7.41	6.87	6.96
EV/Revenues (x)	3.34	4.02	4.19	5.91	4.58	4.12	4.08
EV/EBITDA (x)	7.72	10.04	10.85	15.42	11.96	10.58	11.36
EPS (SAR)	1.97	1.35	1.01	1.05	1.29	1.37	1.37
Book Value Per Share (SAR)	13.08	13.43	14.43	15.48	15.77	16.07	16.36
Market Price (SAR) *	14.05	9.00	7.25	13.10	13.10	13.10	13.10
Market Capitalization (SAR mn)	15,174	9,720	7,830	14,148	14,148	14,148	14,148
Dividend Yield	23.7%	11.1%	0.0%	0.0%	7.6%	8.2%	8.2%
P/E Ratio (x)	7.15	6.68	7.20	12.52	10.12	9.58	9.59
P/BV Ratio (x)	1.07	0.67	0.50	0.85	0.83	0.82	0.80

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Emaar the Economic City

Hold
Target Price
SAR13.00

Market Data

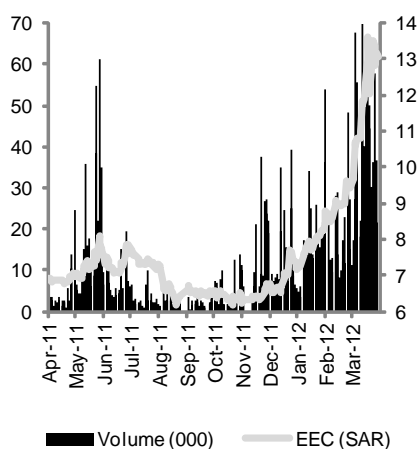
Bloomberg Code:	EMAAR AB
Reuters Code:	4220.SE
CMP (04 April 2012):	SAR12.90
O/S (mn)	850.0
Market Cap (AED mn):	10,965.0
Market Cap (USD mn):	2,923.8
P/E 2012e (x):	22.30
P/Bv 2012e (x):	1.39

Price Performance 1-Yr

High (SAR):	13.60
Low (SAR):	6.20
Average Volume (mn):	12.70

	1m	3m	12m
Absolute (%)	34.7	79.3	88.4
Relative (%)	25.5	54.2	64.9

Price Volume Performance



■ Volume (000) — EEC (SAR)

- **Change in strategy bodes well for EEC**
- **Land sales could increase revenues threefold in 2012e**
- **Short term price risks at 23% forward PBx premium to Saudi peers**
- **Maintain HOLD, but increase TP to SAR13.00/share**

EEC undertook a radical change in strategy during 2011 shifting away from a focus on luxury property development, which required high cash tie up and a high degree of infrastructure capital expenditure. The new strategy is more directed towards generating revenues from the short cash cycled land sales capitalizing on price appreciations in and around the already developed areas of KAEC. We believe the new strategy will bode well for EEC given the current buoyant market in Jeddah, relatively attractive prices compared to locations near Jeddah along with superior zoning and planning by a well recognized global developer.

Property and land sales were SAR398 million in 2011, of which we estimate the bulk is land sales, up from only SAR84 million in 2010. Based on guidance we received from management, EEC is now preparing to launch land sales on the Tala Gardens area. The project is a 2 million sqm residential serviced land with a building permit for 2-story villas at an average price of SAR700/sqm. EEC is also planning sales of 3.6 million sqm of land in the industrial valley during 2012 at an average price of SAR250/sqm. These figures imply significant margins above the raw land price of SAR25/sqm EEC paid upon acquisition of the 168 million sqm KAEC land.

In May 2011, EEC received SAR5 billion loan from the Saudi Finance Ministry with a 10-year tenure and a grace period of 3 years. The loan saved EEC's operations from stagnation as cash resources were totally consumed and project development completely stalled. It has revived the development of the seaport of which Phase I is expected to be operative by 4Q13. Further, cash is also utilized in servicing the company's large landbank to support more land sales in coming years.

We opt to stay conservative in the meantime until we receive more confirmation on market absorption of the offered land. We factor in the sale of only 1.5 million sqm from Tala Gardens and 1 mn sqm from the industrial valley. We also assume minor deliveries from ready properties. EEC is letting part of its residential apartment's inventory and is expecting to have its 120 key 4-star hotel operative by 4Q12.

We increase our target price of EEC from SAR7.65/share to SAR13.00/share reflecting the new improved outlook on the company's operations. We issue a **Hold** recommendation on the stock after the recent market rally but remain cautious on earnings surprises that can force us to alter our model significantly. EEC is currently trading at a 23% forward PBx premium to Saudi peers with a multiple of 1.39x; the highest in Saudi.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (SAR mn)	90.9	407.7	1,536.3	1,436.9	1,396.1	1,216.9
Net profit (SAR mn)	(583.8)	82.6	501.3	338.3	244.8	254.7
ROA	-6.6%	0.6%	3.4%	2.3%	1.6%	1.7%
ROE	-8.0%	1.1%	6.4%	4.1%	2.9%	2.9%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (x)	na	75.62	21.87	32.41	44.79	43.05
P/Bv (x)	0.80	0.85	1.39	1.33	1.30	1.26

Source: Global research & company reports

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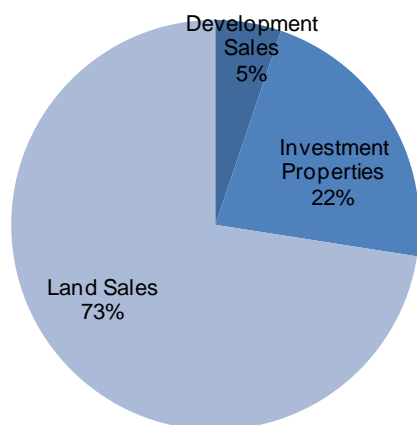
Valuation:

We use a SOTP approach to valuing EEC. We apply a one stage DCF to development sales based on the life of each project and scheduled deliveries. For investment properties including residential rentals the industrial valley, the seaport and hospitality assets, we apply a two-stage DCF methodology with a terminal growth rate of 3%. We apply a WACC of 10.98% to EEC to which we apply specific adjustments when warranted based on the risk profile of each project.

Emaar Economic City - Equity valuation

	Value (SAR 000)	/share	Methodology
Development Sales	567,959	0.67	DCF
Investment Properties	2,435,934	2.87	DCF
Land Sales	7,934,311	9.33	DCF
Total NPV	10,938,204	12.87	
Add: investments	295,980	0.35	Book value FY11
Add: cash	4,879,328	5.74	Book value FY11
Less: debt	5,061,684	5.95	Book value FY11
Less: minority interest	-	-	Book value FY11
Total equity value	11,051,828	13.00	
CMP		12.90	
Upside potential		0.8%	

Source: Global Research

EEC NPV breakdown

Source: Global Research

Financial Statements

(SAR mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement							
Revenue	261	91	408	1,536	1,437	1,396	1,217
Revenue growth	156.5%	-65.1%	348.4%	276.8%	-6.5%	-2.8%	-12.8%
Cost of sales	(191)	(155)	(96)	(487)	(575)	(689)	(628)
Gross Profit	69	(64)	312	1,050	862	707	589
SG&A	(283)	(185)	(142)	(384)	(359)	(349)	(304)
D&A	(37)	(58)	(45)	(54)	(75)	(80)	(34)
Other operating income	(54)	(283)	-	-	-	-	-
Operating profit	(305)	(590)	125	612	428	278	250
Net financial charges	12	2	(41)	(82)	(90)	(100)	(108)
Other income	1	10	5	8	25	85	131
Profit Before Taxation	(292)	(578)	89	538	363	263	273
Income tax	(17)	(6)	(6)	(36)	(25)	(18)	(18)
Net Profit	(309)	(584)	83	501	338	245	255
Minority interest	-	-	-	-	-	-	-
Net Profit Attributable to Shareholders'	(309)	(584)	83	501	338	245	255
Net profit growth	-6%	-89%	na	507%	33%	-28%	4%
Balance Sheet							
Cash and bank balance	864	339	4,879	3,362	2,604	1,739	1,093
Receivables and prepayments	400	115	68	256	239	263	289
Development properties	509	1,103	1,046	1,082	1,384	1,821	2,266
Other current assets	-	14	6	6	6	6	6
Assets classified as held for disposal	139	204	210	210	210	210	231
Other long term assets	79	225	381	438	504	579	637
Net fixed assets	7,315	6,884	7,156	9,264	9,926	10,478	10,669
Total Assets	9,305	8,885	13,746	14,617	14,873	15,096	15,192
Accounts payables	1,298	1,442	1,121	1,536	1,437	1,396	1,217
Short-term debt	-	-	-	-	-	-	-
Long-term debt	-	-	5,062	5,000	5,000	5,000	5,000
Other liabilities	126	145	184	199	216	235	255
Share capital	8,500	8,500	8,500	8,500	8,500	8,500	8,500
Retained earnings	(618)	(1,202)	(1,120)	(618)	(280)	(35)	220
Total Equity & Liability	9,305	8,885	13,746	14,617	14,873	15,096	15,192
Cash Flow							
Cash flow from operating activities	(626)	(350)	(64)	550	(180)	122	(30)
Cash flow from investing activities	(743)	(198)	(3,566)	(2,006)	(578)	(987)	(616)
Cash flow from financing activities	-	-	5,000	(62)	-	-	-
Change in cash	(1,369)	(548)	1,371	(1,517)	(758)	(865)	(646)
Net Cash at End	806	258	4,879	3,362	2,604	1,739	1,093
Ratio Analysis							
Gross margin	26.7%	-70.1%	76.4%	68.3%	60.0%	50.7%	48.4%
Operating profit margin	-117.2%	-649.0%	30.6%	39.8%	29.8%	19.9%	20.6%
Net Profit margin	-118.5%	-642.1%	20.3%	32.6%	23.5%	17.5%	20.9%
Return on assets	-3.3%	-6.6%	0.6%	3.4%	2.3%	1.6%	1.7%
Return on equity	-3.9%	-8.0%	1.1%	6.4%	4.1%	2.9%	2.9%
Current ratio (x)	1.37	1.09	5.35	3.06	2.95	2.74	3.00
Quick ratio (x)	0.97	0.31	4.41	2.35	1.98	1.43	1.14
Debt / Equity (x)	-	-	0.69	0.63	0.61	0.59	0.57
EBITDA coverage ratio	-	-	2.05	5.09	3.56	2.31	2.08
EV/Revenues (x)	19.69	62.64	23.54	8.20	9.30	10.19	12.22
EV/EBITDA (x)	na	na	56.43	na	na	39.71	52.27
EPS (SAR)	(0.36)	(0.69)	0.10	0.59	0.40	0.29	0.30
Book Value Per Share (SAR)	9.27	8.59	8.68	9.27	9.67	9.96	10.26
Market Price (SAR) *	9.60	7.10	7.35	12.90	12.90	12.90	12.90
Market Capitalization (SAR mn)	8,160	6,035	6,248	10,965	10,965	10,965	10,965
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E Ratio (x)	na	na	75.62	21.87	32.41	44.79	43.05
P/BV Ratio (x)	1.00	0.80	0.85	1.39	1.33	1.30	1.26

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Saudi Real Estate Company (Akaria)

Hold
Target Price
SAR32.50

Market Data

Bloomberg Code:	SRECO UH
Reuters Code:	4020.SE
CMP (04 April 2012):	SAR29.30
O/S (mn)	120.0
Market Cap (SAR mn):	3,600.0
Market Cap (USD mn):	959.9
P/E 2012e (x):	26.90
P/Bv 2012e (x):	1.10

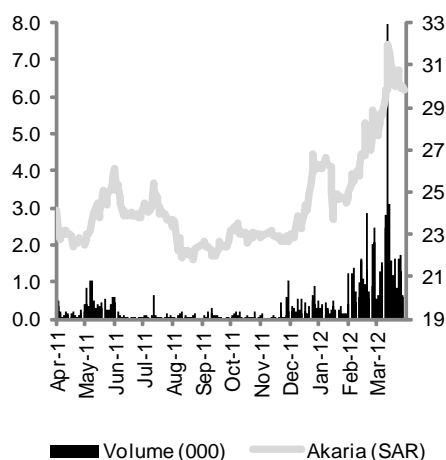
- **A pure play on Riyadh attractive rental market**
- **Improved occupancy rates across all properties in 2011**
- **Fair value assessment yields P/NAVx of 0.52x vs. PBx of 1.10x**
- **Buy with TP: SAR32.50/share**

Price Performance 1-Yr

High (SAR):	32.0
Low (SAR):	21.8
Average Volume (mn):	0.4

	1m	3m	12m
Absolute (%)	6.1	11.8	30.0
Relative (%)	-3.1	-13.3	6.5

Price Volume Performance



Akaria is one of the few pure plays on the attractive Riyadh residential rental market and is one of our favorite picks, despite low return ratios, on market exposure, solid balance sheet, stable earnings and potential operational improvements.

Occupancy rates improved across all Akaria's properties during 2011. Average retail occupancies increased from 58.9% in 2010 to 81.3% while office space occupancies moved up to 88.5% from 67.9% the previous year. Diplomatic Quarters 1 and Olaya Complex are now fully let at 100% occupancy rate.

In line with the appreciating rents in Riyadh, Akaria increased average rents by high double digits. This will reflect gradually when new rental contracts are being signed as current contracts do not include an escalation clause. The company is currently working on renovating its older buildings to further justify rent escalations and improve tenant profile. Further, a feasibility study for the demolition and reconstruction of the old Seteen building is currently being conducted.

Akaria conducted a fair value exercise of its investment properties at the end of 2011. The valuation yielded a fair market value of SAR5.7 billion (SAR47.1/share) as opposed to book value of SAR2.1 billion (SAR17.5/share) implying a P/NAVx of 0.52x as opposed to current PBx of 1.10x. Landbank is valued at SAR4.5 billion equivalent to 3.5x its book value of SAR1.3 billion.

We believe the fair value exercise could justify further stock price appreciation beyond current levels. However, Akaria is not an active land trader and we treat land sales as a positive earnings surprise but do not include them in our model, with the exception of what is identified by the company (2011: SAR11.7 mn). Accordingly, we believe that Akaria's stock price will continue to trade at a significant discount to NAV so long as the landbank remains inoperative.

Progress in Diplomatic Quarters 2 is developing on schedule and the 292 villas are expected to be let by 4Q12 and we assume full occupancy by 2Q13. For the Binban project, we shift delivery forward one year to 2015 from 2014 before as no important advancements have taken place other than some preliminary infrastructure works.

We raise our fair value target of Akaria to SAR32.50/share from SAR28.90/share with a **Buy** recommendation on lower WACC and improved occupancy rates as well as adding earnings from the sale of Knowledge Economic City villas.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (SAR mn)	432.1	264.7	254.8	281.9	310.5	1,398.9
Net profit (SAR mn)	183.1	149.7	130.7	143.7	153.1	366.7
ROA	5.3%	4.4%	3.8%	4.2%	4.0%	8.5%
ROE	5.7%	4.7%	4.1%	4.5%	4.7%	10.2%
Dividend yield	3.4%	4.2%	3.4%	3.4%	3.4%	6.8%
P/E (x)	17.40	23.48	26.90	24.47	22.96	10.35
P/Bv (x)	1.00	1.11	1.10	1.10	1.08	1.05

Source: Global research & company reports

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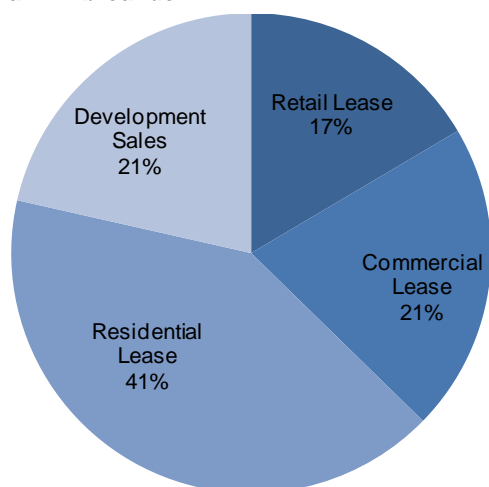
Valuation:

We value Akaria's retail properties utilizing a capitalization rate of 9.0%. For other properties, we utilize a two-stage DCF methodology and, only for development sales, we use a one stage DCF with a terminal growth rate of 3%. We apply a WACC of 11.6% to Akaria.

Akaria - Equity valuation

	Value (SAR 000)	/share	Methodology
Retail Lease	468,147	3.90	Capitalization method 9.0%
Commercial Lease	654,406	5.45	DCF
Residential Lease	1,115,749	9.30	DCF
Development Sales	579,377	4.83	DCF
Land Sales	11,717	0.10	Book value FY11
Total NPV	2,829,395	23.58	
Add: investments	1,017,365	8.48	Book value FY11
Add: cash	53,573	0.45	Book value FY11
Less: debt	-	-	Book value FY11
Less: minority interest	-	-	Book value FY11
Total equity value	3,900,333	32.50	
CMP		29.30	
Upside potential		10.9%	

Source: Global Research

Akaria NPV breakdown

Source: Global research

Financial Statements

	(SAR mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Revenue	171	432	265	255	282	310	1,399
	Revenue growth	-23.9%	152.4%	-38.8%	-3.7%	10.6%	10.1%	350.6%
	Cost of sales	(43)	(168)	(85)	(86)	(95)	(106)	(898)
	Gross Profit	128	264	180	169	187	205	501
	SG&A	(17)	(28)	(19)	(25)	(28)	(31)	(140)
	D&A	(20)	(24)	(27)	(26)	(27)	(27)	(27)
	Other operating income	-	(15)	-	-	-	-	-
	Operating profit	111	222	160	144	158	174	361
	Net financial charges	-	-	-	-	-	(4)	(4)
	Other income	17	(8)	5	5	5	5	57
	Profit Before Taxation	128	213	165	149	163	174	413
	Income tax	(16)	(30)	(15)	(18)	(20)	(21)	(46)
	Net Profit	112	183	150	131	144	153	367
	Minority interest	-	-	-	-	-	-	-
Net Profit Attributable to Shareholders'	112	183	150	131	144	153	367	
Net profit growth	-4%	63%	-18%	-13%	10%	7%	140%	
Balance Sheet	Cash and marketable securities	644	159	54	181	191	163	245
	Receivables and prepayments	88	89	69	70	76	81	86
	Development WIP and land	18	18	12	12	12	312	300
	Net fixed assets	1,989	2,062	2,111	2,133	2,154	2,151	2,149
	Other long term assets	498	1,152	1,151	1,017	1,017	1,119	1,231
	Total Assets	3,237	3,480	3,397	3,412	3,450	3,826	4,011
	Accounts payables	27	16	14	15	20	22	98
	Short-term debt	-	-	-	-	-	-	-
	Long-term debt	-	-	-	-	-	350	350
	Other liabilities	144	262	209	211	220	211	220
	Retained earnings	99	172	95	93	102	120	185
	Other Adjustments	2,967	3,031	3,078	3,091	3,106	3,121	3,155
	Total Equity & Liability	3,237	3,480	3,397	3,411	3,448	3,824	4,008
	Cash Flow	Cash flow from operating activities	108	206	121	469	650	(159)
Cash flow from investing activities		597	(605)	(15)	(222)	(519)	(99)	(382)
Cash flow from financing activities		(122)	(86)	(211)	(120)	(120)	230	(241)
Change in cash		583	(485)	(105)	127	10	(28)	82
Net Cash at End		644	159	54	181	191	163	245
Ratio Analysis	Gross margin	63.3%	61.0%	67.9%	66.4%	66.2%	65.9%	35.8%
	Operating margin	53.4%	51.3%	60.6%	56.4%	56.2%	55.9%	23.9%
	Net margin	54.1%	42.4%	56.6%	51.3%	51.0%	49.3%	24.3%
	Return on assets	2.9%	5.3%	4.4%	3.8%	4.2%	4.0%	8.5%
	Return on equity	3.0%	5.7%	4.7%	4.1%	4.5%	4.7%	10.2%
	Current ratio (x)	4.73	1.00	0.63	1.22	1.22	2.53	2.07
	Quick ratio (x)	4.60	0.92	0.57	1.16	1.16	1.10	1.08
	Debt / Equity (x)	0.00	0.00	0.00	0.00	0.00	0.11	0.10
	Times Interest Earned (x)	0.00	0.00	0.00	0.00	0.00	39.55	76.35
	EV/Revenues (x)	17.41	7.99	10.85	13.18	12.28	10.76	2.38
	EV/EBITDA (x)	27.25	13.26	15.36	19.74	18.71	16.66	9.24
	EPS (SAR)	0.77	1.53	1.25	1.09	1.20	1.28	2.83
	Book Value Per Share (SAR)	25.55	26.69	26.45	26.54	26.73	27.01	27.84
	Market Price (SAR) *	25.80	26.20	26.20	29.30	29.30	29.30	29.30
	Market Capitalization (SAR mn)	3,096	3,144	3,144	3,516	3,516	3,516	3,516
	Dividend Yield	2.5%	3.4%	4.2%	3.4%	3.4%	3.4%	6.8%
P/E Ratio (x)	33.40	17.40	23.48	26.90	24.47	22.96	10.35	
P/BV Ratio (x)	1.00	1.00	1.11	1.10	1.10	1.08	1.05	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Mabaneer

Hold
Target Price
KWD1.140

Market Data

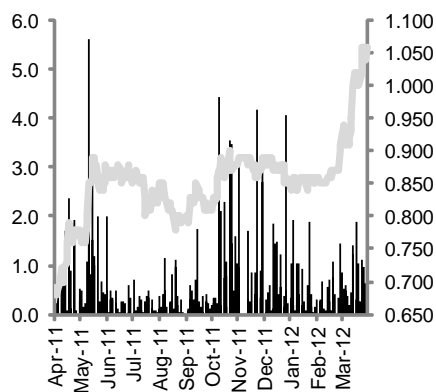
Bloomberg Code:	MABANEE KK
Reuters Code:	MABK.KW
CMP (04 April 2012):	KWD1.040
O/S (mn)	577.9
Market Cap (KWD mn):	566.7
Market Cap (USD mn):	2,037.4
P/E 2012e (x):	16.42
P/Bv 2012e (x):	3.29

Price Performance 1-Yr

High (KWD):	1.14
Low (KWD):	0.77
Average Volume (mn):	9.0

	1m	3m	12m
Absolute (%)	16.5	26.2	53.6
Relative (%)	14.7	18.0	52.1

Price Volume Performance



■ Volume (000) — Mabaneer (KWD)

- Quality earnings with strong revenue growth in 2012e and 2013e
- Current occupancy of 98% and high take-up rate for Phase III
- Limited upside potential given price rally and high PBx, in our view
- Downgraded to HOLD from Buy

Mabaneer's pure retail offering in the Kuwaiti market serves the company well in terms of earnings quality and visibility. In our view, Mabaneer offers one of the most defensive exposures in our coverage given Kuwait's high GDP per capita and consumption, stable operations and tenant profile along with The Avenues attractive positioning as a shopping and entertainment destination in Kuwait.

Phase III is scheduled to commence operations late in 3Q12 adding 95,000 sqm to Mabaneer's GLA, equivalent to 58% of the current GLA of 166,000 sqm. Phase III will include 450 stores with high end offering and no anchor stores as compared to 426 stores in phases I & II, which, according to management, translates in a significantly higher rent of KWD40/sqm; more than twofold that of the first two phases. For now, we remain conservative and factor in average rent of KWD35/sqm for Phase III.

We expect occupancy rate of 95% for Phase III by 2013 as the mall becomes fully operative up from a current pre-opening take-up rate of 80%. However, against the proposition that Phase III will generate new demand as it caters for a different market segment, we believe the new added supply will absorb footfall from Phases I & II especially from the mall's F&B offering.

2011 revenues from investment properties came in at KWD37.6 million up 5.6% YoY. Occupancy rates increased to 98% from 96% in 2010 and average rent per sqm also increased 5.8% to KWD18/sqm as contracts are renewed at higher rates. We expect 2012 revenues of KWD60.8 million accounting for a 4% growth in rent for ongoing operations, 4Q12 operations in Phase III and a one-off key money of KWD18 million.

Despite our fondness of Mabaneer's operational profile and exposure, we believe the stock has limited upside potential as most catalysts are fairly priced in. Mabaneer has outperformed the index by 52% in the past 12-months appreciating a strong 54% in absolute terms versus only 2.5% for KSE. Further, the stock is currently trading at forward 2012e PBx of 3.29x; a significantly high premium to KSE 1.40x and our coverage average of 1.16x and 0.84x ex-Mabaneer.

Based on our assumptions, we see more risks to the upside once we are confirmed on Phase III average rents. We also see a growing dividend story over the coming years as generation of free cash flow solidifies. We do not, however, account for Phase IV capex requirements given lack of guidance. Our model yields a price target of KWD1.140/share for Mabaneer and we issue a **Hold** recommendation on the stock.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (KWD mn)	35.6	37.7	60.8	72.9	73.8	74.9
Net profit (KWD mn)	18.7	20.8	35.2	42.9	45.0	46.3
ROA	7.3%	6.8%	10.3%	12.7%	13.3%	13.8%
ROE	13.4%	12.5%	18.0%	19.5%	19.6%	19.4%
Dividend yield	0.0%	1.0%	1.0%	3.2%	6.3%	6.3%
P/E (x)	21.50	27.81	16.42	13.47	12.86	12.47
P/Bv (x)	3.20	3.94	3.29	2.88	2.77	2.64

Source: Global research & company reports

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Valuation:

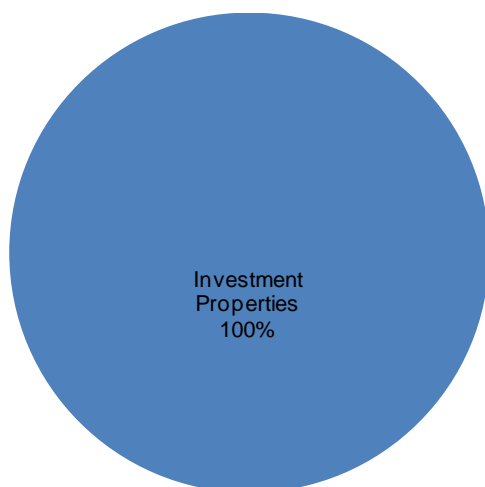
Mabanees’s assets comprise retail properties with minor exposure (less than 1%) to office rental properties. Hence, we apply a capitalization rate of 8.5% to 2013 net operating income, which is the first full year of operations for Phase III.

Mabanees - Equity valuation

	Value (KWD 000)	/share	Methodology
Investment Properties	710,280	1.278	Capitalization method 8.5%
Total NPV	710,280	1.278	
Add: investments	28,254	0.051	Book value FY11
Add: cash	9,745	0.018	Book value FY11
Less: debt	114,783	0.207	Book value FY11
Less: minority interest	-	-	Book value FY11
Total equity value	623,496	1.140	
CMP		1.040	
Upside potential		9.6%	

Source: Global Research

Mabanees NPV breakdown



Source: Global research

Financial Statements

	(KWD mn)	2009	2010	2011e	2012e	2013e	2014e	2015e
Income Statement								
Revenue		34.5	35.6	37.7	60.8	72.9	73.8	74.9
Revenue growth		-5.0%	3.2%	5.8%	61.5%	19.8%	1.2%	1.5%
Cost of sales		(6.9)	(7.4)	(7.1)	(12.3)	(14.9)	(14.5)	(14.3)
Gross profit		27.5	28.2	30.5	48.5	58.0	59.3	60.6
SG&A		(2.5)	(2.8)	(1.9)	(4.3)	(5.1)	(5.2)	(5.2)
D&A		(3.1)	(3.2)	(3.2)	(3.5)	(4.1)	(4.1)	(4.0)
Other operating income		(1.0)	(0.0)	-	-	-	-	-
Operating profit		21.0	22.2	25.4	40.8	48.8	50.1	51.3
Net financial charges		(4.9)	(1.8)	(1.9)	(2.9)	(2.8)	(2.0)	(1.8)
Other income		0.1	(0.8)	(1.7)	(1.0)	(1.0)	(1.0)	(1.0)
Profit before taxation		16.1	19.6	21.8	36.9	45.0	47.1	48.5
Income tax		(0.8)	(0.9)	(1.0)	(1.6)	(2.0)	(2.1)	(2.1)
Net profit		15.4	18.7	20.9	35.3	43.0	45.0	46.4
Directors' fees		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit attributable to shareholders'		15.3	18.7	20.8	35.2	42.9	45.0	46.3
Net profit growth		143.0%	21.9%	11.3%	69.3%	22.0%	4.7%	3.1%
Balance Sheet								
Cash and marketable securities		10.2	5.1	9.7	6.3	3.3	5.1	3.1
Receivables and prepayments		4.3	6.7	6.0	9.7	12.4	12.1	12.3
Net fixed assets		170.5	212.3	263.2	310.4	310.7	313.8	317.0
Other long term assets		35.7	32.3	28.3	16.2	14.1	11.3	11.3
Total assets		220.6	256.4	307.2	342.5	340.6	342.4	343.7
Accounts payables		17.4	16.3	25.3	32.7	40.0	42.7	41.6
Short-term debt		61.7	14.0	27.1	27.5	28.1	29.1	30.1
Long-term debt		20.2	86.0	87.6	86.0	51.6	41.3	33.0
Other liabilities		9.9	13.2	20.4	20.4	20.4	20.4	20.4
Retained earnings		44.5	50.1	61.5	90.6	115.3	123.6	133.4
Other adjustments		66.9	77.9	85.2	85.2	85.2	85.2	85.2
Total equity & liability		220.6	256.4	307.2	342.5	340.6	342.4	343.7
Cash Flow								
Cash flow from operating activities		27.5	23.7	45.0	56.8	60.4	63.2	66.1
Cash flow from investing activities		(10.2)	(37.3)	(50.2)	(54.9)	(12.4)	(15.2)	(23.8)
Cash flow from financing activities		(32.7)	13.6	9.8	(5.4)	(50.9)	(46.3)	(44.3)
Change in cash		(15.4)	(0.0)	4.6	(3.4)	(3.0)	1.7	(2.0)
Net cash at end of period		5.1	5.1	9.7	6.3	3.3	5.1	3.1
Ratio Analysis								
Gross margin		79.9%	79.1%	81.1%	79.8%	79.6%	80.4%	80.9%
Operating margin		60.9%	62.3%	67.5%	67.0%	67.0%	67.9%	68.5%
Net margin		44.4%	52.4%	55.2%	57.8%	58.9%	60.9%	61.9%
Return on assets		7.0%	7.3%	6.8%	10.3%	12.7%	13.3%	13.8%
Return on equity		12.7%	13.4%	12.5%	18.0%	19.5%	19.6%	19.4%
Current ratio (x)		0.18	0.39	0.30	0.30	0.30	0.34	0.33
Quick ratio (x)		0.18	0.39	0.30	0.30	0.30	0.34	0.33
Debt / Equity (x)		0.14	0.17	0.20	0.18	0.13	0.11	0.10
Times interest earned (x)		4.25	12.03	13.20	14.20	17.20	25.14	29.16
EV/Revenues (x)		18.83	18.89	18.13	11.23	8.91	8.62	8.40
EV/EBITDA (x)		25.89	26.48	23.86	15.42	12.27	11.75	11.37
EPS (KWD Fils)		27.55	33.60	37.40	57.57	70.22	73.55	75.80
Book value per share (KWD Fils)		20.05	22.85	26.41	28.77	32.81	34.17	35.77
Market price (KWD Fils) *		579	727	860	1040	1040	1040	1040
Market capitalization (KWD mn)		321.7	403.9	477.8	577.9	577.9	577.9	577.9
Dividend yield		1.0%	0.0%	1.0%	1.0%	3.2%	6.3%	6.3%
P/E Ratio (x)		20.90	21.50	27.81	16.42	13.47	12.86	12.47
P/BV Ratio (x)		2.90	3.20	3.94	3.29	2.88	2.77	2.64

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

Salhia Real Estate

Strong Buy
Target Price
KWD0.290

Market Data

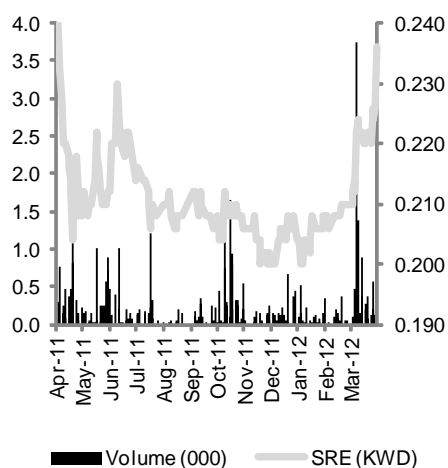
Bloomberg Code:	SRE KK
Reuters Code:	SREK.KW
CMP (04 April 2012):	KWD0.244
O/S (mn)	512.7
Market Cap (KWD mn):	125.1
Market Cap (USD mn):	448.4
P/E 2012e (x):	16.35
P/Bv 2012e (x):	0.90

Price Performance 1-Yr

High (KWD):	1.14
Low (KWD):	0.77
Average Volume (mn):	9.0

	1m	3m	12m
Absolute (%)	12.4	20.6	10.4
Relative (%)	11.3	12.4	8.9

Price Volume Performance



■ Volume (000) — SRE (KWD)

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- **Stable revenues generated from geographically diversified portfolio**
- **Expect improvements in bottom line on lower impairments**
- **Maintain Strong Buy recommendation**

Salhia manages a diversified portfolio that has exposure to the local retail, hospitality and office segments in addition to an international exposure to the international healthcare segment via its 90.9% owned Care Home operations in Germany.

Revenues are stable at the current 2011 level of KWD43.9 million with minor changes in the revenue mix from the three reported segments. As of 2011, property lease and Care Home each contributed 36% to the topline while hospitality made the balance.

Salhia acquired an additional stake of 46.39% in AIAsima Real Estate Company for a consideration of KWD37 million increasing its ownership to 90.36%. The acquisition resulted in an immediate increase of investment properties by KWD80 million and debt by KWD53 million, which doubled the company's debt to equity ratio from 0.54x to 1.08x. Salhia secured new long term debt of KWD35 million to replace the KWD31.5 million maturing in 2012.

AFS investments stood at KWD23 million at the end of 2011 representing 8.2% of total assets down from 10.9% in 2010. Impairments on these assets continued to pressure net profit with a loss of KWD1.9 million in 2011 compared to a loss of KWD4.1 million in 2010.

Over the past two years, Salhia recognized an impairment loss of KWD4.3 million on land owned in Oman and Bahrain on the back of the troubled political situation in the two countries. Investment properties are reported at book value of KWD143 million (KWD0.282/share) and has a fair value of KWD354 million (KWD0.698/share). In our view, the market values Salhia according to its income generation capacity and ignores asset values that will not be monetized.

We believe impairments on AFS and investment properties will decline in 2012 on an improved outlook on equity markets and an improved political environment. However, the impact of lower impairments will be, partially muted by higher net financial charges on growing debt balance.

We see Salhia as a value trade and update with a new fair value target of KWD0.290/share up from KWD0.245/share and maintain our previous **Strong Buy** recommendation on the stock.

Investment Indicators

	2010	2011	2012e	2013e	2014e	2015e
Revenue (KWD mn)	43.0	43.9	43.8	43.8	43.8	43.9
Net profit (KWD mn)	10.2	7.2	7.6	7.5	8.1	8.2
ROA	4.7%	2.5%	2.7%	2.6%	2.9%	3.0%
ROE	7.7%	5.5%	5.5%	5.1%	5.2%	5.7%
Dividend yield	7.5%	6.1%	6.1%	6.1%	6.1%	6.1%
P/E (x)	13.53	17.44	16.35	16.76	15.42	15.35
P/Bv (x)	1.23	0.96	0.90	0.86	0.81	0.90

Source: Global Research & company reports

Valuation:

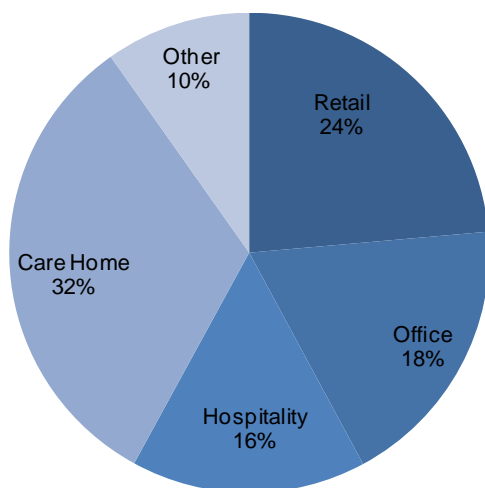
For arriving at a fair target for Salhia Real Estate, we utilize a SOTP valuation approach. For DCF valuations, we use a base WACC of 12.69% that could be adjusted based on the perceived associated risks of each segment and specific project. Specifically, we increase our WACC for Kuwait based office and hospitality operations given the high risks associated with these two segments.

Salhia Real Estate - Equity valuation

	Value (KWD 000)	/share	Methodology
Retail	57,332	0.112	Capitalization method 9%
Office	45,040	0.088	DCF
Hospitality	38,438	0.075	DCF
Care Home	78,332	0.153	DCF
Other	23,809	0.046	Mixed
Total NPV	242,951	0.474	
Add: investments	33,414	0.065	Book value FY11
Add: cash	7,793	0.015	Book value FY11
Less: debt	135,019	0.263	Book value FY11
Less: minority interest	665	0.001	Book value FY11
Total equity value	148,474	0.290	
CMP		0.244	
Upside potential		18.7%	

Source: Global Research

Salhia Real Estate NPV breakdown



Source: Global research

Financial Statements

	(KWD mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Revenue	44.2	43.0	43.9	43.8	43.8	43.8	43.9
	Revenue growth	0.2%	-2.8%	2.0%	-0.2%	0.1%	0.0%	0.2%
	Cost of sales	(17.2)	(17.9)	(18.1)	(18.2)	(18.5)	(18.6)	(18.6)
	Gross Profit	27.0	25.1	25.7	25.5	25.3	25.1	25.3
	SG&A	(5.2)	(5.4)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
	D&A	(5.0)	(6.2)	(6.2)	(6.7)	(6.9)	(7.2)	(7.2)
	Other operating income	-	-	-	-	-	-	-
	Operating profit	16.7	13.5	14.8	14.2	13.8	13.3	13.5
	Net financial charges	(6.2)	(4.5)	(6.0)	(6.2)	(6.5)	(5.6)	(5.8)
	Other income	(2.0)	1.8	(0.5)	0.7	1.3	1.6	1.6
	Profit Before Taxation	8.5	10.8	8.3	8.7	8.6	9.3	9.2
	Income tax	(1.5)	(1.1)	(1.2)	(1.1)	(1.2)	(1.3)	(1.3)
	Net Profit	7.0	9.8	7.1	7.6	7.4	8.0	7.9
	Minority interest	0.3	0.4	0.0	0.0	0.1	0.2	0.2
Net profit attributable to shareholders¹	7.2	10.2	7.2	7.6	7.5	8.1	8.2	
Net profit growth	-120%	41%	-30%	7%	-2%	9%	0%	
Balance Sheet	Cash and marketable securities	7.5	7.4	7.8	7.5	8.2	7.8	7.0
	Receivables and prepayments	9.6	6.4	4.8	4.7	4.7	4.7	4.8
	Inventories	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	Net fixed assets	172.1	161.9	234.5	235.9	238.9	232.5	226.2
	Available for sale investments	63.8	23.4	23.0	20.7	18.6	16.7	11.7
	Other long term assets	9.0	10.3	10.4	10.3	10.2	10.3	10.3
	Total Assets	262.3	209.7	280.8	279.4	281.0	272.4	260.3
	Accounts payables	17.1	17.3	15.0	15.0	15.0	15.0	15.0
	Short-term debt	29.9	16.5	31.5	23.6	23.8	22.7	23.8
	Long-term debt	81.0	49.3	103.5	102.5	96.4	80.5	83.0
	Other liabilities	12.9	14.4	-	-	-	-	-
Retained earnings	2.3	9.7	8.3	13.5	16.5	21.5	39.7	
Other Adjustments	119.0	102.6	122.4	124.9	129.3	132.7	98.9	
Total Equity & Liability	262.3	307.1	280.8	279.4	281.0	272.4	260.3	
Cash Flow	Cash flow from operating activities	17.2	22.8	19.0	23.4	14.3	12.7	9.3
	Cash flow from investing activities	7.9	29.9	(45.1)	2.7	(7.7)	3.9	(3.7)
	Cash flow from financing activities	(12.8)	(33.4)	10.2	(8.9)	(5.9)	(17.0)	(6.5)
	Change in cash	12.3	19.2	(15.9)	17.2	0.7	(0.4)	(0.8)
Net Cash at End	7.5	7.4	7.8	7.5	8.2	7.8	7.0	
Ratio Analysis	Gross margin	61.0%	58.4%	58.7%	58.3%	57.8%	57.4%	57.7%
	Operating margin	37.8%	31.4%	33.9%	32.5%	31.4%	30.4%	30.7%
	Net margin	16.4%	23.7%	16.4%	17.5%	17.0%	18.5%	18.6%
	Return on assets	2.6%	4.7%	2.5%	2.7%	2.6%	2.9%	3.0%
	Return on equity	5.2%	7.7%	5.5%	5.5%	5.1%	5.2%	5.7%
	Current ratio (x)	0.37	0.42	0.28	0.33	0.34	0.34	0.31
	Quick ratio (x)	0.36	0.41	0.27	0.32	0.33	0.33	0.30
	Debt/Equity (x)	1.07	0.54	1.08	1.01	0.96	0.82	0.85
	Times Interest Earned (x)	2.67	2.86	2.47	2.25	2.08	2.34	2.29
	EV/Revenues (x)	4.68	4.57	5.33	5.57	5.42	5.04	5.13
	EV/EBITDA (x)	9.51	9.95	11.09	11.67	11.47	10.76	10.88
	EPS (KWD Fils)	14.60	20.55	13.99	14.92	14.56	15.82	15.90
	Book Value Per Share (KWD Fils)	0.24	0.23	0.25	0.27	0.28	0.30	0.27
	Market Price (KWD Fils) *	207	278	208	244	244	244	244
	Market Capitalization (KWD mn)	102.8	142.5	106.6	125.1	125.1	125.1	125.1
	Dividend Yield	0.0%	7.5%	6.1%	6.1%	6.1%	6.1%	6.1%
P/E Ratio (x)	14.17	13.53	17.44	16.35	16.76	15.42	15.35	
P/BV Ratio (x)	0.85	1.23	0.96	0.90	0.86	0.81	0.90	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on April 04, 2012

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The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research have been mentioned in the table below under the heading of disclosure.

Disclosure Checklist					
Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Emaar Properties	Strong Buy	EMAAR UH	EMAR.DU	AED3.03	1,10
Aldar Properties	Hold	ALDAR UH	ALDR.AD	AED1.23	1,10
Sorouh Real Estate	Hold	SOROUH UH	SOR.AD	AED1.18	1,10
Dar Alarkan Development	Hold	ALARKAN AB	4300.SE	SAR13.10	1,10
Emaar Economic City	Hold	EMAAR AB	4220.SE	SAR12.90	1,10
Akaria	Buy	SRECO AB	4020.SE	SAR29.30	1,10
Mabane Holding	Hold	MABANEE KK	MABK.KW	KWD1.040	1,10
Salhia Real Estate	Strong Buy	SRE KK	SREK.KW	KWD0.244	1,10
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STRONG BUY	Fair value of the stock is >20% from the current market price
BUY	Fair value of the stock is between +10% and +20% from the current market price
HOLD	Fair value of the stock is between +10% and -10% from the current market price
SELL	Fair value of the stock is < -10% from the current market price

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