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Global Investment House

Kuwait

Salhia Real Estate Company K.S.C.
Investment Update

Reuters Code:
SREK.KW

July 2005

HOLD

Listing:
Kuwait Stock Exchange

Price Current:
700fils (July 06, 2005)

Investment Summary

- We had recommended a "Buy" on the Salhia Real Estate Co., (SREC) stock in our last report in March 2003. The stock was quoting at 415fils, and we had valued it at a fair value of 475fils. Since then the stock moved up considerably during 2003, closing the year at 580fils, thereby justifying our valuation.

- Salhia's real estate business contributed 27.8% to the total revenue, followed by hotel operations at 38.2% & care home operations contributing 34.0% in FY2004. Its domestic operations contributed 64.4% (FY2003: 60.7%) to the top-line, with balance 35.6% (FY2003: 39.3%) coming from Europe.

- FY2004 has been a good year for SREC, with 32.2% growth in total revenues to KD34.2mn from KD25.8mn in FY2003. Real estate operations saw a growth of 50.3% in revenues to KD9.5mn, followed by 39.2% growth in hotel operations to KD13.0mn and 14.5% growth in care home operations revenue to KD11.6mn.

- JV investments have grown at a CAGR of 54% during FY2001-04 and net fixed assets grown at a CAGR of 20%. Overall total assets on the balance sheet have grown at a CAGR of 17% during the same period.

- SREC earned an average ROI - return on investments (capital employed) of 5.5% in FY2004, decreasing from 6.2% in FY2003. Its return on core revenue assets decreased from 6.9% in FY2003 to 6.1% in FY2004. Both have declined on back of marginally increasing operating profits (only 5.7%) in FY2004, coupled with increase of 14% and 16.5% in core revenue assets & total capital employed respectively by SREC in FY2004, as compared to FY2003.

- Net profits grew by only 7.4% to KD10.2mn in FY2004. Total EPS for SREC declined by 5.5% from 36.4fils in FY2003 to 34.4fils in FY2004. Of this, EPS from extraordinary item (UNCC payments) was 9.7fils in FY2003, while it was zero in FY2004. Ignoring the extra-ordinary item, EPS from ordinary activities has increased by 29% from 26.7fils to

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34.4fils. SREC has declared & finalized 25% dividend amounting to 25fils for FY2004 (10fils in FY2003).

- Based on the Discounted Cash Flow method (DCF) and Peer Group Valuation method, we value the stock of SREC at 713fils per share which is higher by 1.9% as compared to the current market price of 700fils per share. Hence, we revise our earlier rating and recommend a **HOLD** on the stock.

- **As per the various press reports, SREC is in the process of selling few of its properties, the income from which cannot be estimated at this point of time. Therefore, the same has not been considered in our projected financials as per the management advice. Otherwise, the fair value of the company's stock would have been higher than what we have estimated.**

SREC at a Glance

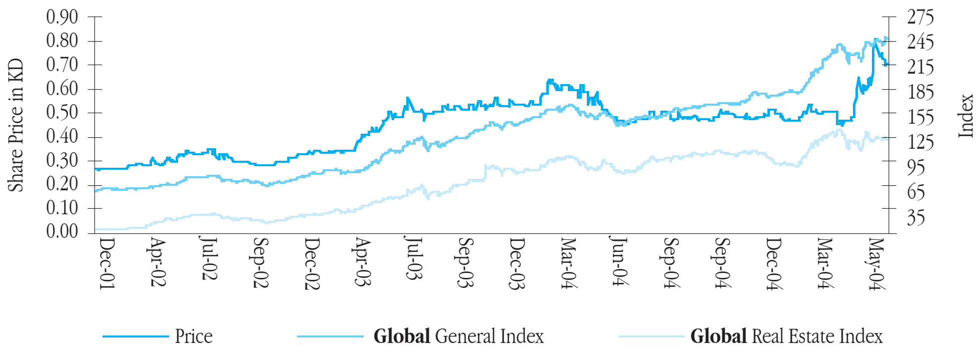
Price 700fils (July 06, 2005)	Shares in issue 314.92mn	Market Cap KD220.45mn	52 - week price range 810-450fils

Year	Revenues from Operations (KD Mn)	Operating Profit (KD Mn)	Net Profit (KD Mn)	EPS (fils)	BVPS (fils)	ROAE (%)	P/E (x)	P/BVPS (x)
2006F	45.6	18.0	17.2	54.6	361.3	15.7	12.8	1.9
2005F	39.3	14.3	13.1	41.6	336.7	12.7	16.8	2.1
2004A	34.2	10.7	10.3	34.4	320.1	11.4	15.1	1.6
2003A	25.8	10.1	9.5	36.4	330.4	13.2	15.9	1.8

*Source: SREC and **Global** Research*

Note: Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing market price in the Kuwait Stock Exchange as on July 06, 2005.

Share Price movement vis-à-vis "Global's" General and Real Estate Indices



*Source: Kuwait Stock Exchange & **Global** Research*

Key Performance Drivers during FY2004….

SREC derives its core revenues from developing, managing & leasing out prime commercial (office, retail & leisure) real estate, running two hotels, developing & managing nursing & care home operations in Kuwait, UK & Germany. SREC holds 100% stake (direct ownership) in the following properties in Kuwait.

Table 01: Key Divisions, Affiliated Hotels & properties

ENTITY	COUNTRY	HOLDING
Salhia Complex	Kuwait	100.0%
JW Marriott Kuwait	Kuwait	100.0%
Arraya Centre	Kuwait	100.0%
Courtyard by Marriott Kuwait	Kuwait	100.0%
Arraya Office Tower	Kuwait	100.0%
Arraya Staff Housing	Kuwait	100.0%

*Source: SREC annual report & **Global** Research*

It operates through a number of subsidiary companies in Germany & a joint-venture in UK. The details are in the table below.

Table 02: Subsidiary & Associate Companies

ENTITY	COUNTRY	HOLDING	Activity
Haddia Holding GmbH	Germany	90.0%	Holding Company
SAREC GmbH	Germany	90.0%	Leasing of properties
Dana GmbH	Germany	90.0%	Care home operator
Dana Ambulante GmbH	Germany	90.0%	Care home service provider
Gredo GmbH	Germany	90.0%	Care home catering service provider
Drawbridge Securities Ltd.	UK	100.0%	Property development
Key Property Investments (KPI)	UK	50.0%	Property development – equal JV with St. Mowden Properties of UK

*Source: SREC annual report & **Global** Research*

- In Kuwait SREC derives revenue in the form of rentals from the prime Salhia commercial complex (KD4.5mn in FY2004) & Sahab office towers (KD0.97mn in FY2004). Both these assets are fully-rented, to a mix of top retail brands & corporate (International and Kuwaiti companies).

- SREC also derives rental revenues to the extent of KD3.2mn from the prime Arraya Centre - I, which comprises of Arraya offices & shopping centre, along with a convention centre & outdoor recreational plaza. Both the offices & shopping centre are fully-rented to a mix of prime retail brands boutiques & restaurants, local & international companies. Therefore, clearly rental revenues are the key drivers for the real estate business.

- Other revenue drivers for SREC include the hotel business, which generated KD13.0mn in FY2004 (KD9.4mn in FY2003). It runs & manages two hotels in Kuwait, the JW

Marriott & Courtyard by Marriott Hotel which are showing greater activity given the economic boom in the country & greater involvement of international companies. A key driver for hotel revenues.

- Arraya Ballroom (convention centre) is also a part of the hotel business & it is showing greater activity as it has been well received in the local market and has been a key driver for the hotel business in FY2004.

- SREC also has in its portfolio a mix of downtown properties in Kuwait. This includes the Fahad Al-Salem Street Properties, Al-Soor Street Building, which add value to SREC's portfolio in terms of rental revenue to the extent of KD0.4mn and KD0.25mn respectively. Al-Shuhada Street residential property which is also part of SREC downtown portfolio, is being managed as a residential unit & leased to the group's hotel staff.

- There are other assets in this portfolio like the Al-Asima, which along with Fahad Al-Salem Street properties hold significant development & redevelopment potential respectively. This is a huge revenue generation opportunity for SREC in the years to come, highly accretive to the bottom line.

- In UK, SREC has invested into an equal JV with St. Mowden Properties to establish Key Properties Investments (KPI) 8½ years ago. Income accrued to SREC from this JV amounted to KD2.1mn in FY2004, declining marginally from KD2.3mn in FY2003. KPI owns & manages almost 1.055mn square meters of rentable space on a total asset base valued at KD137mn as of end FY2004.

- This JV, owns key real estate assets (as highlighted in the latter part of this report), through which it derives a mix of rental income & capital gains on sale of key real estate. Real estate assets (across various locations in UK) in KPI's portfolio like, the Farnborough Town shopping centre, Elephant & Castle Area, and Rugby City hold significant development & re-development potential. This is a key revenue driver for this JV.

- Drawbridge Securities Ltd., a 100% subsidiary of SREC established in 2002 is into real estate development in various British cities, by asset reorganization & change of land use. It has been mandated to increase the market value of assets under its control or management, by way of initiating change of land use & reorganization. This remains a key performance driver for this venture of SREC.

- As at end FY2004, through its subsidiary Haddia GmbH, SREC runs & manages 1,663 beds across 13 nursing & 6 senior-citizens homes in various towns across Germany. This business generated a revenue of KD11.6mn in FY2004, increasing from KD10.1mn in FY2003. Total assets of Haddia increased from KD41.6mn in FY2003 to KD52.8mn in FY2004. Revenue growth from the care home & nursing business will come from adding on more beds & higher utilization / occupancy rates across various properties in Germany.

New Developments in FY2004…..

Keeping in mind the key performance drivers for the company, new developments in SREC are highlighted below. These developments will drive the top-line & net earnings of SREC going forward.

Local Portfolio….

- SREC completed the renovations, modernization & maintenance works at Salhia Commercial complex during FY2004. Salhia Commercial Complex and Al-Sahab Towers, both of which are premium properties in terms of rental as compared to other properties in the area, maintained 100% occupancy during FY2004 as well (FY2003: 100%)

- SREC also completed & operated the 450-space new Salhia complex car park in 3Q-2004. This facility will serve both tenants & visitors to the complex and other nearby group properties which includes the JW Marriott Hotel & Al-Sahab tower.

- SREC's latest development, the Arraya Centre in Kuwait's Al-Sharq area opened in Kuwait during the second-half of FY2003 & got fully-operational in FY2004. Arraya offices & shopping centre boasted 100% occupancy during FY2004. The Arraya car park for 1400-vehicles was also put into operations during 2004. This serves the entire Arraya centre – I & will also serve the Arraya Centre – II of the company as and when it gets completed.

- Courtyard by Marriott hotel, the 4-star, 318 room property of the Salhia group which is an integral part of the Arraya – I, formally opened during FY2004. The JW Marriott Hotel completed its two year of operations in 2004. This 236-rooms luxury hotel with additional 79-suites, is being managed by JW Marriott. SREC has spend over KD6.1mn over the past 4-years to refurbish & upgrade the property & its facilities.

- SREC has finalized the design of the new 57-storey tower as Arraya Centre – II to be built on the Western side of the Arraya centre site. Project is expected to commence during FY2005 & over 56,000sqm of space is estimated to be developed during the course of next 2~3 years.

- The Al-Soor street building has been emptied of its tenant beginning FY2005 & is now vacant. The Fahad Al-Salem street property, with 8-buildings has also been demolished by SREC during early FY2005. Both these sites offer substantial redevelopment potential for the company. SREC is still in the design & planning stage of the Al-Asima property, getting the designs developed by international firms for this large & unique island site bounded by 4-streets, with a total area of 21,414sqm.

Table 03: Summary of SREC Local Property Portfolio

LOCAL ASSETS	SPECIFICATIONS			TYPE
SALHIA COMPLEX	**Flagship properties of the company**			
- Salhia Commercial Complex	35,202sqm of office & commercial space.	Prime - property & location, Salhia.	100% occupancy - top retail shops & brands, offices of top local & int'l private companies & government institution.	Office-cum-retail
- Al Sahab Towers	10,890sqm of office & commercial space, across 22-storey tower.	Prime - property & location, Adjacent to Salhia.	100% occupancy - offices of top MNCs & Kuwaiti Cos.	Office
- JW Marriott Kuwait	16-storey, 5-star property.	Prime - property & location, Adjacent to Salhia.	236 rooms, 73 luxury, 4 royal & 2 princes suites	Hotel & recreation
- Salhia Car-park complex	Spread over 14,000sqm, fully operational.	Prime - property & location, Salhia.	Space for 450 - cars, serves Salhia, Sahab Towers & JW Marriott Hotel	Multi - level car park
ARRAYA CENTRE - I	**Key Investments in the Eastern Part of Kuwait City, Al Sharq**			
- Arraya Complex	18,758sqm of office & commercial space.	Prime - property & location.	100% occupancy - 66 outlets housing top brand boutiques, cafes, restaurants and offices of leading local & international corporations	Office cum Luxury Mall & Recreation
- Courtyard by Marriott Hotel	4-star hotel, across 23 floors in 2-towers of 12 & 31-storey each.	Prime - property & location.	309 rooms	Hotel & recreation
- Arraya Ballroom	2,750sqm rentable space	Prime - property & location.	Comprises - meeting space & offices on 2-floors	Convention center
- Arraya Outdoor Recreational Plaza	Spread over 3,000sqm	Prime - property & location.	Outdoor plaza, with license to build 3-outdoor cafes	Leisure & recreation
- Arraya Car Park	Spread over 16,800sqm, fully operational.	Prime - property & location.	6-level + basement car park for 1400 vehicles, serves the entire Arraya-I.	Multi - level car park
- Arraya Centre - Phase II	Over 56,000sqm of build-up space spread over 57-storey tower, to be developed.	Prime - property & location.	To be built on 1,058sqm site, mid-2005 onwards, on the western side of the Arraya Centre site.	Office
DOWN TOWN PROPERTIES	**Key Downtown properties in Kuwait City**			
- Fahad Al-Salem Street Properties Development Project (The Super Block Project)	8 buildings with 3,605sqm area. Demolished now.	Mix of commercial & residential area. To be redeveloped as commercial complex – retail and multi -storey office tower, including a multi-level car park.		Mixed-use
- Al-Soor Street Building	1,222 sqm building. Vacant now.	Mix of commercial - offices & retail showrooms, stores & residential area. Plot to be sold or redeveloped.		Mixed - use
- Al-Shuhada Street Residential Properties	Two, 15-storey towers, across 2,900sqm	150 studio & 90 other, fully-furnished apartments, leased to the groups hotel (Marriott) staff		Residential Apartments
Al-Asima Project	Spread across 21,414sqm of unique island-site	Prime location plot in Al Sharq area, to be developed as a mixed-use development incl. retail, cinema, leisure, office tower & car park		Mixed - use

*Source: SREC Annual report & **Global** Research*

International Portfolio……

- KPI's 4 main investments include – Farnborough Town Shopping Centre, the Elephant & Castle Shopping centre, a portfolio of commercial property leased to companies like – Marconi & Alstom and the Rugby City Development. KPI sold seven properties which were part of the Marconi & Alstom portfolio in seven different locations during FY2004, generating a profit of KD0.72mn.

- During FY2004 KPI bought 65% of Basingstoke Malls for KD17.7mn, which has a total rentable space of 29,000sqm & an initial rental revenue of KD1.2mn.

- Rugby City development was conceptualized between KPI & Area municipality in end-2003. KPI has taken approvals to build 2 commercial units on its properties in the Business park in Accrington. During the year it initiated the process of taking approvals, to build residential & commercial units at its Edge-Lean property in Manchester. KPI also transformed Pool Property into furnished office units.

- Drawbridge Securities Ltd., developed & sold one of its properties in FY2004, profiting KD0.20mn. It plans to develop more of such projects in the future.

- Haddia completed the Plon building in mid-July 2004, which added one more nursing home with 154 beds to its portfolio. It is being managed by Dana Gmbh, a subsidiary of SREC. Haddia completed the Neustadt buildings consisting of one nursing home (156 beds) and two senior citizens residences (83 apartments) to its portfolio, during Oct-2004.

Rating report…..

- Capital Intelligence (CI) rating March 2005 report assigned Long Term rating of BBB+ & Short Term rating of A2 with stable outlook to SREC. CI has based its rating on the hidden value of SREC’s core assets (fixed assets & investment properties), apart from its core operating performance.

- Based on the independent 3rd-party valuation reports (provided by Salhia), CI believes that aggregate market value of SREC’s core assets is much higher than the reported values, thus taking the shareholders fund significantly higher & effective leverage much lower (Source: CI rating report on SREC for March 2005).

Other…..

- A key board member of the company, Sheikh Mohammed Jarrah Al-Sabah resigned during the year & was replaced by a new board member.

Table 04: Summary of SREC International Property Portfolio

INTERNATIONAL ASSETS	SPECIFICATIONS		TYPE
Key Property Investments Ltd. (KPI)	**UK Investment Arm of SREC (JV with St. Mowden Properties of UK)**		
- Farnborough Town Shopping Centre (FTSC)	33,466sqm of built-up shopping & leisure facilities, office & residential units, multi-storey car park.	This property to undergo redevelopment over a number of years, to be executed in phases. Space to be leased to leading British companies.	Mixed - use
- Elephant & Castle Area Development Project (ECDAP)	33,850sqm of retail, leisure & office space & a 142-bay car park.	This property to undergo redevelopment, to include a modern shopping centre, high-rise residential tower & car parks. 5,500 residential units, 75,000sqm of retail space, 55,000sqm of diff. activities & 2,200sqm of office space.	Mixed - use
- Marconi Portfolio*	2.2mn sqft area, spread over 11 commercial properties in UK.	Mix of - industrial estates, warehouses, open storage spaces, office accommodation & playing fields leased to Marconi.	Office + Industrial
- Alstom + Refugee Assurance Portfolio*	Total floor space of 0.8mn sqm, across 500acres of land in UK	Spread across 10 cities & 18 properties, leased to Alstom at a guaranteed return of ~10%	Office
- Basingstoke Malls**	Total rentable space of 29,000sqm & an initial rental revenue of KD1.2mn.	KPI purchased this mall in 2004, along with other parties. KPI owns 65% of the Mall, purchased for KD17.7mn	Retail
- Drawbridge Securities Ltd.	Est. in 2002. Real estate development in various British cities. One of the project got completed & sold in 2004, generating a profit of KD0.20mn	Main aim is to increase the market values of the land owned by the company through - planning permissions, change of land use & reorganization.	Mixed – use
- Rugby City Development	Property located in 3-locations - Boughton road, Leicester road & Cattle Market. The entire area to be redeveloped as a modern urbanized area as per the Master Plan, finalized between KPI & local municipality in 2003	Plan is to develop 710 residential unit, 52,000sqm area as employment centre & government building, open & services area totaling 78,000sqm.	Mixed - use
Haddia Holding	**Development, ownership & management of nursing homes & senior citizen homes, in Germany**		
- Haddia GmbH	Company established in 1993, now owns & manages 1,663 beds across 13 nursing homes & 6 senior-citizens homes equipped with 737 beds.	Haddia achieved a total revenue of KD11.6mn on a asset base of KD52.8mn in FY2004. Locations - Appen, Hannover, Bad Pyrmont & Bad Schwartz, Plon, Neustadt	Nursing + Senior citizen homes
- Plon Building	Comprise of one nursing home, spread over a 7,360sqm area with 154 beds.	This nursing home got completed in mid-July 2004, and is managed by Dana GmbH, a subsidiary of SREC.	Nursing home
- Neustadt Buildings	Comprises of one nursing home (156 beds) & two senior citizen residences (83 apartments), built over on a 41,251sqm site.	Total project costs - KD10.8mn. The project got completed in Oct - 2004.	Nursing + Senior citizen homes

*Source: SREC Annual report & **Global** Research, * sold during FY2004, ** bought during FY2004.*

Real Estate Sector in Kuwait

In the non-oil segment, real estate & construction activity and ownership of dwellings is a key constituent of the economy and the GDP. In the GCC countries, the contribution of real estate and construction sectors to GDP is quite significant. It averaged around 10% of the GDP as of end-2003 across the GCC. In case of Kuwait it was 7.3% as at end-2003, down marginally from 8.3% in 2002.

Real estate in Kuwait can be broadly divided into three main segments - Residential, Investment and Commercial Properties. Although other segments such as agricultural property, industrial, warehousing and public property also exist, there is little or negligible reported activity.

Demand for credit in the real estate market….

Real estate sector along with the construction industry contributed almost 7.3% to the total GDP as at end 2003. The two combined form the cornerstone of the local economy, excluding the oil & gas sector. Solid financial profile of local banks as well as balance sheet restructuring has allowed Kuwaiti banks to feed the growing need for credit, thereby assisting economic growth.

From KD7.1bn as at year end-2003, demand for credit has grown by a robust 38% to KD9.8bn as at the end of 2004. Demand for credit in the construction and real estate segment, grew by 48.2% and 23.2% respectively during the said period.

As at end-2004, almost 24% of all credit was to the real estate & construction sector, increasing from 23% in Q2-2004. This is indicative of the fact that bank credit growth has been feeding the growth in the real estate markets over the last couple of quarters in 2004. After evidence mounted that bank credit growth was feeding growth in the capital and real estate markets out of control, the Central Bank of Kuwait (CBK) stepped in and mandated commercial banks to limit net loans to 80% of the total customer deposits and deposits from financial institutions.

Due to the fact that the majority of banks were already in excess of 80% of the said ratio, the banks were given a deadline of December 2004 to comply. Despite this instruction from the Central Bank, total credit extended to the private sector grew quite robustly by 38% as at the end of 2004 from end-2003. Currently, the deadline has been extended to July 2005.

However if we look at quarter-to-quarter data, as at end-4Q 2004 demand for credit slowed considerably to 0.4% from the 3Q-2004 levels. Credit growth to the construction & real estate sector also slowed down considerably to 2.2% and 2.8% respectively during the 3Q-2004 to 4Q-2004. It seems that the CBK diktat has worked well limiting the indiscriminate growth of credit in these two sectors.

The effect was also partly due to the fact that the interest rates in the local economy has started to increase, in-line with the increase in the CBK discount rate, which in turn is linked to the US Fed-rate as highlighted below.

Table 05: Credit Facilities to Residents

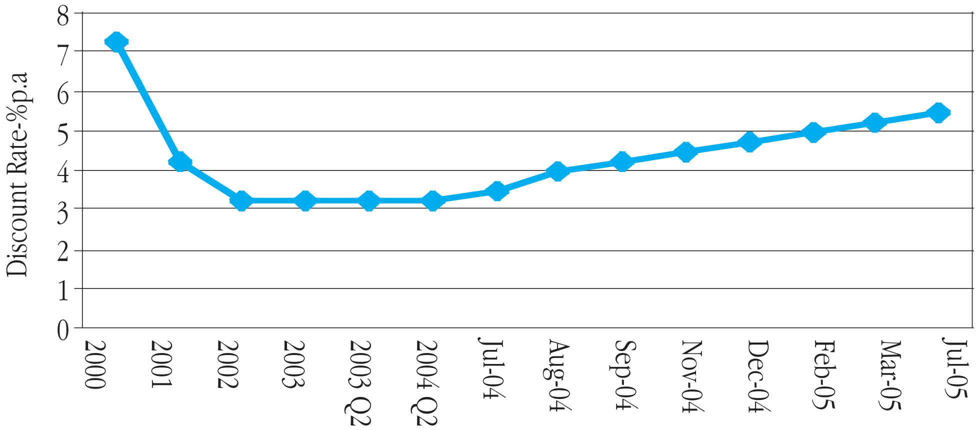
Figures in KD Mn	2003	1Q - 2004	2Q-2004	3Q-2004	4Q-2004	3Q-4Q 2004, % change	2003-04, % change
Trade	950.1	1,122.9	1,223.8	1,549.2	1,411.2	-8.9%	48.5%
Industry	500.6	452.9	536.8	500.3	454.9	-9.1%	-9.1%
Construction	473.2	634.2	617.5	686.1	701.5	2.2%	48.2%
Agriculture & Fishing	20.2	41.3	26.5	26.7	29.7	11.2%	47.0%
Non-bank, FIs	526.1	804.0	675.7	687.1	641.3	-6.7%	21.9%
Personal facilities	2,813.6	3,623.6	3,844.9	4,002.6	4,015.2	0.3%	42.7%
Real Estate	1,318.9	1,491.8	1,538.9	1,581.3	1,625.4	2.8%	23.2%
Crude oil & gas	69.0	81.6	105.5	71.4	55.1	-22.8%	-20.1%
Public services	0.4	0.5	0.4	0.1	0.1	0.0%	-75.0%
Other	437.6	693.0	791.7	665.3	873.9	31.4%	99.7%
Total	**7,110**	**8,946**	**9,362**	**9,770**	**9,808**	0.4%	38.0%

Source: CBK, ***Global*** *Research*

Rising interest rates….

CBK hiked the rate once again by 25bps from 5.25% to 5.5% in July-2005.

Chart 1: CBK Interest rates trend



Source: CBK, ***Global*** *Research*

Since July 2004, CBK raised local interest rates by a total of 150bps in five different instances to 4.75% in December 2004. CBK further hiked the interest rates, twice by a total of 50bps to 5.25% till March 2005. Effective from July 3, 2005, CBK further raised the interest rates by 25 basis points to 5.5%. Rise in interest rates is not likely to impact the rising credit to this sector, given the underlying buoyancy of the market, excess money supply & inflow from Islamic Funds.

Comparative analysis….

Six-largest listed companies in terms of total assets, in the real estate sector control almost KD1.16bn worth of total assets, funded by KD739.8mn worth of shareholders equity & KD333.3mn worth of total debt (long term & short term). Almost KD625.1mn was invested as investments & KD26.7mn as cash & bank balances.

These companies generated almost KD115.8mn in net profits on a total of KD739.8mn worth of owners equity & KD349.0mn worth of paid-up share capital.

Salhia Real Estate Co., represented almost 19.1% of total assets & 32.6% of total debt among these top-6 companies. Commercial Real Estate Co., controls the largest percentage of total assets at 20.1%.

Tamdeen had the lowest ROAE & ROAA at 5.4% & 3.01% respectively, among all the players highlighted above, followed by SREC at 11.4% & 5.96% respectively as at end-FY2004.

Table 06: Snapshot of 6-largest listed real estate companies in Kuwait

KD' 000	KREC	UREC	NREC	SREC	TAMDEEN	CREC
Core revenues	16,353	14,163	40,644	34,165	5,835	33,949
Operating Profits	29,608	14,887	30,579	10,684	8,403	29,505
Other Income	25,200	7,649	11,371	8,015	6,192	1,762
Net Profits	**25,710**	**13,405**	**34,462**	**10,252**	**5,016**	**26,940**
Cash & Bank Balances	12,665	2,178	1,053	4,258	363	5,759
Investments	88,449	129,096	74,776	40,254	140,908	151,596
Total Assets – 2004	**175,360**	**168,530**	**159,615**	**221,069**	**202,249**	**233,488**
Shareholders Equity – 2004	118,275	96,387	122,270	100,794	116,585	185,507
Total Debt – 2004	47,913	55,403	17,074	108,572	69,651	34,659
Paid-Up Capital – 2004	62,803	54,191	46,640	31,492	32,000	121,883
EPS (fils)	41.5	26.1	79.5	34.4	16.6	22.7
Book Value per share (fils)	188.3	177.9	262.2	320.1	364.3	152.2
F/D shares outstanding, mn	628.0	541.9	466.4	314.9	320.0	1218.8
ROAE	24.1%	15.7%	31.2%	11.4%	5.4%	13.7%
ROAA	16.41%	8.51%	23.79%	4.96%	3.01%	11.26%
Price, 11th May 2005, fils	230	415	1320	470	405	246
P/E	5.5	15.9	16.6	13.7	24.4	10.8
P/BV	1.2	2.3	5.0	1.5	1.1	1.6

*Source: Annual reports & **Global** Research.*

Competitive landscape.....

- Existing, large & established real estate companies in Kuwait like National Real Estate Co (NREC)., United Real Estate Co (UREC), Tamdeen, Commercial Real Estate Co (CREC), etc. pose a serious competition to SREC. These companies and other listed & unlisted players are in the similar lines of business as SREC.

- Newly listed companies like the Mazaya Holding Co., & unlisted companies like Kuwait Business Town (KBT), International Resorts Co., are also aggressively trying to make a mark for themselves in the local real estate market in Kuwait, by getting into developing, leasing & management of commercial (office & retail) real estate. KBT will carry out a mix of office & retail space development over the next couple of years, on one of the most prime real estates in Kuwait City.

- Numerous new licenses for new hotels have been issued by the local government. This should add to the competitive woes of Salhia in its hotel business in the medium to long-term.

- SREC also faces a competitive investing environment in the international markets, especially the mature markets of Western Europe Salhia operates in. Large & well-capitalized, local & international real estate companies, in these markets creates a competitive environment in acquiring or selling a real estate portfolio.

Operational Highlights

Snapshot of real estate revenues….

- As shown below, average per sqm rental revenues for SREC, amounted to KD9.2/- sqm per month in FY2004, increasing by almost 50% from KD6.1 per sqm per month in FY2003. These exclude the revenues from car-parks etc.

- Core properties of the group – Salhia complex (retail & offices), Sahab Towers (offices) & Arraya-I (retail & offices) remained 100% occupied through out the FY2004 & FY2003 (except for Arraya-I). Arraya-I came fully on-line during FY2004, as it opened formally in FY2003.

- Salhia remains the flagship property of the group with sold rental revenues & premier brands, boutiques & corporate as it clients. The same holds true for Sahab & now the Arraya-I. Both Salhia & Arraya-I are positioned as premium malls, to attract wealthier or the more affluent class of shoppers, with all the major brands belonging to the luxury end of the retail spectrum.

- Annual rentals from Salhia & Sahab have increased by 15.3% and 5.4% to KD4.5mn & KD0.97mn respectively in FY2004. The increase has come about without any additions to the net leaseable area in these 2 properties during the year, thereby increasing the per sqm revenues.

- We see a marked jump in the total rental revenues & per sqm revenues of Arraya-I as the property achieved first full year of operations & 100% occupancy in FY2004, after formally opening in FY2003. Revenues from car-park have almost doubled in FY2004. Revenues from car-park although rising, will remain fringe at best.

Table 07: Revenue-Rentable area mix

Asset	Area in Sqm					FY2003 Revenues		FY2004 Revenues	
	Office	Commercial	Residential	Car-park	Total	Annual, KD Mn	KD/sqm, monthly*	Annual, KD Mn	KD/sqm, monthly*
Salhia Complex	25,544	12,811	-	14,000	52,355	3.90	8.5	4.50	9.8
Sahab Towers	9,540	1,350	-	-	10,890	0.92	7.0	0.97	7.4
Arraya Centre-I	5,880	12,000	-	16,800	34,680	0.80	3.7	3.19	14.9
Buildings**	-	3,046	8,176	-	11,221	0.40	3.0	0.40	3.0
Al Soor	-	1,586	4,833	-	6,419	0.20	2.6	0.25	3.2
Car-parks etc	-	-	-	30,800	30,800	0.10	0.3	0.20	0.5
Total	**40,964**	**30,793**	**13,008**	**30,800**	**115,565**	**6.32**	**6.1**	**9.51**	**9.2**

*Source: SREC annual report & **Global** Estimates, *excludes car park, ** Properties at Fahad Al Salem Street.*

Financial Performance – 1st Quarter 2005

Table 08: Income Statement

Amount in KD'000	**Q1 - 2004**	**Q1 - 2005**	**% change**
Income from Real Estate, Hotel & Care Home ops	9,135	8,568	-6.2%
Direct Operating Expenses	(3,628)	(3,602)	-0.7%
Gross Profit	**5,507**	**4,965**	**-9.8%**
Share in JV results	725	499	-31.1%
Administrative Expenses	(1,017)	(1,384)	36.1%
Sales & marketing expenses	(649)	(580)	-10.7%
EBIDTA	**4,566**	**3,501**	**-23.3%**
Depreciation & Amortization	(956)	(1,275)	33.3%
EBIT, Operating profits	**3,610**	**2,226**	**-38.3%**
Financing Charges	(1,237)	(1,611)	30.3%
EBT	**2,373**	**615**	**-74.1%**
Add: Investment & interest income	200	2,344	1072.0%
Provisions for impairment of investments	(400)	(43)	-89.3%
Add: Other Income	45	87	93.7%
EBT, from continuing operations	2,218	3,003	35.4%
Net Profit	**1,948**	**2,778**	**42.6%**
EPS (fils)	**7.5**	**9.2**	**22.7%**

Source: SREC

- During the Q1-2005, income from real estate, hotel & care home operations of Salhia, declined by 6.2% from the corresponding period in 2004. This has driven the gross profit & operations to decline by 10% & 38.3% respectively.

- The segment results of Salhia for 1Q-2005, tell us that revenues from real estate & hotel operations have decreased by 0.9% & 22.2% respectively, as compared to 1Q-2004. However, revenues from care home operations of the company have increased by 13.4% during the 1Q-2005, as compared to 1Q-2004.

- However, the net profits for Salhia rose by 42.6% to KD2.78mn during the Q1-2005 as compared to KD1.95mn during the corresponding period last year. EPS has gone up by 23% to 9.2fils during the first-quarter of 2005. This was driven by a stupendous 1072% increase in SREC's investment & interest income to KD2.34mn during the Q1-2005 as compared to only KD0.2mn during Q1-2004.

- SREC's net fixed assets portfolio as at end Q1-2005 was KD101.2mn, increasing marginally from KD99.2mn as at end of FY2004. Its investment properties portfolio was KD67.4mn, marginally changing from KD68.7mn as at end-FY2004. Its total assets as at end of Q1-2005 are KD218.6mn.

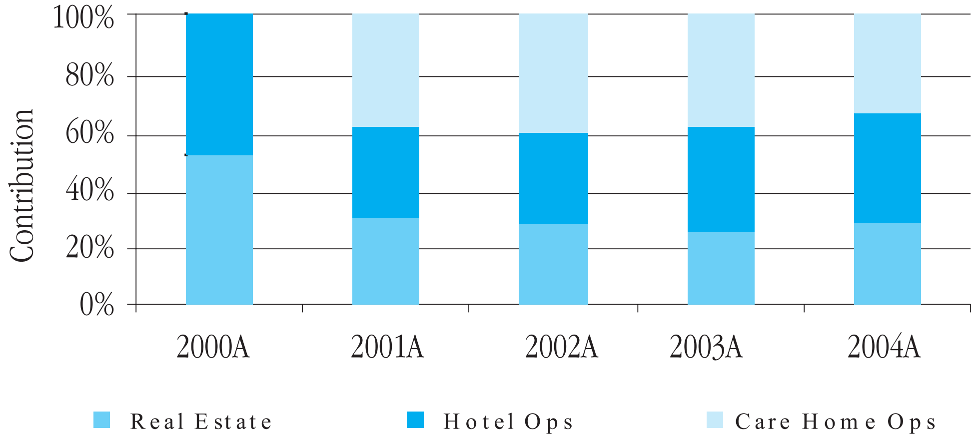
- The company has paid off some of its long-term loans during the quarter. The same has gone down to KD89.0mn during Q1-2005, from KD98.8mn as at end of FY2004. Total shareholder's equity as of end Q1-2005 stood at KD101.32mn, increasing marginally from KD100.8mn as at end of FY2004.

Analysis of FY2004 performance

Total Revenue, asset & liabilities mix…..

- Revenue mix of SREC is as highlighted below. Real estate business contributed 27.8% to the total revenue, followed by hotel operations at 38.2% & care home operations contributing 34.0% respectively in FY2004.

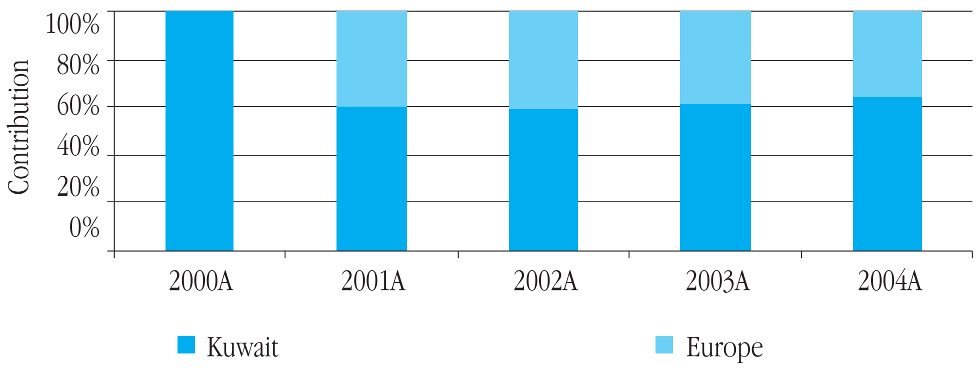
Chart 2: Revenue Mix



*Source: SREC Annual reports & **Global** Research*

- During FY2004, SREC domestic operations contributed 64.4% (FY2003: 60.7%) to the top-line, with balance 35.6% (FY2003: 39.3%) coming from Europe. Revenues from Europe have grown from nil in 2000 to its present levels, overall increasing the revenue pie for the company.

Chart 3: Geographical Revenue Mix



*Source: SREC Annual reports & **Global** Research*

- Overall total revenue has grown at a CAGR of 24% during FY2001-2004, with income from real estate, hotel & care home operations growing by 21.1%, 33.1% and 18% respectively during the same period. Revenues from the JV investment have grown by 45.7% during the same period. This is driven by investments made in this JV by SREC, which has grown at a CAGR of 54% during the same period.

- FY2004 has been a good year for SREC, with 32.2% growth in total revenues to KD34.2mn from KD25.8mn in FY2003. Real estate operations saw a growth of 50.3% in revenues to KD9.5mn, followed by 39.2% growth in hotel operations to KD13.0mn and 14.5% growth in care home operations revenue to KD11.6mn.

- Revenues from share of income in JV results have declined by 10.1% to KD2.1mn in FY2004, from KD2.32mn in FY2003. This is despite the fact that the management has increased the total investment in this JV by 23% to KD17.2mn in FY2004. This investment is of long-term nature and good results are expected in the coming years by the management from this JV.

Table 09: Revenue break-up

Amount, in KD'000	2001A	2002A	2003A	2004A	% CAGR, 2001-04	% change 2003-04
Real Estate Operations	**5,346**	**5,585**	**6,323**	**9,501**	**21.1%**	**50.3%**
- % of total revenues	29.7%	27.2%	24.5%	27.8%		
Hotel Operations	**5,535**	**6,542**	**9,370**	**13,046**	**33.1%**	**39.2%**
- % of total revenues	30.8%	31.8%	36.3%	38.2%		
Care Home Operations	**7,096**	**8,414**	**10,147**	**11,619**	**17.9%**	**14.5%**
- % of total revenues	39.5%	41.0%	39.3%	34.0%		
Total Revenues	**17,978**	**20,541**	**25,841**	**34,165**	**23.9%**	**32.2%**
Share of income in JV results	***677***	***622***	***2,329***	***2,094***	***45.7%***	***-10.1%***

*Source: SREC annual report and **Global** research*

- Over the years the care home operations have increasingly added to the SREC's top-line. The same grew from zero in FY2000, to 39.3% of the total revenues in FY2003. However, although increasing in absolute terms, its percentage contribution to the total revenue has declined to 34.0% during FY2004. This is due to a resurgence in the revenues from the core real estate business for SREC, as highlighted in the table above.

- Percentage share of the hotel operations have increased quite rapidly over the years. It now contributes 38.2% to the total revenues in FY2004, increasing from 30.8% in FY2001. Overall in absolute terms, revenues have grown across each category thereby increasing the overall revenue pie for the company.

- Core revenue assets of SREC have grown at a CAGR of 19% during FY2001-04, with maximum growth seen in JV investments, which grew at a CAGR of 54%, followed by Net fixed assets growing at 20%. Overall total assets on the balance sheet have grown at a CAGR of 17% during the same period.

Table 10: Core revenue assets

Amount, in KD'000	FY2001	FY2002	FY2003	FY2004	% CAGR, 2001-04	% change 2003-04
Net fixed Assets	57,170	74,796	104,382	99,229	20%	-5%
Investment Properties (Net)	48,857	44,086	44,142	68,707	12%	56%
Joint Venture Investments	4,714	11,514	13,960	17,188	54%	23%
Total core revenue assets	**110,741**	**130,397**	**162,484**	**185,125**	**19%**	**14%**
Total Assets	**136,915**	**152,724**	**191,981**	**221,069**	**17%**	**15%**

*Source: SREC annual report and **Global** research*

Return on core assets….

- SREC earned an average ROI - return on investments (capital employed) of 5.5% in FY2004, decreasing from 6.2% in FY2003. Its return on core revenue assets decreased from 6.9% in FY2003 to 6.1% in FY2004.

- Both have declined on back of marginally increasing operating profits (only 5.7%) in FY2004, coupled with increase of 14% and 16.5% in core revenue assets & total capital employed respectively, by SREC in FY2004, as compared to FY2003.

- However, average ROI & return on core revenue assets had increased steadily from 5.3% & 6.6% in FY2001 to 6.2% & 6.9% respectively in FY2003.

Table 11: Returns on core assets

Average return	FY2001	FY2002	FY2003	FY2004
Return on core revenue assets*	6.6%	5.2%	6.9%	6.1%
Return on average investments (ROAI)**	5.3%	4.5%	6.2%	5.5%

*Source: **Global** Research, SREC annual reports*

*Note: * Operating profit / core revenue assets, ** Operating profit / capital employed*

Healthy growth in operating profits…..

- Operating profits of SREC have grown at a CAGR of 19.6% during FY2001-2004, slightly lower than the gross profits, which have grown at a CAGR of 23.8% during the same time.

- However, operating profit grew marginally by 5.7% to KD10.7mn in FY2004 from KD10.1mn in FY2003, while gross profits increased handsomely by 33% to KD20.3mn in FY2004 from KD15.3mn in FY2003. SREC has maintained its gross margins in FY2004 (59.5%) at FY2003 levels (59.2%). It has been able to control its direct operating costs as a % of sales.

- Its operating margin declined from 39.1% FY2003 to 31.3% in FY2004. This is directly correlated to the increase in administrative expenses by 38.7% to KD4.9mn and sales & marketing expenses by 45.3% to KD2.4mn in FY2004. Depreciation expenses soared by 91% to KD4.4mn, as new assets came online (especially in the investment properties category).

- Given the debt driven asset expansion strategy of SREC over the years, financing charges have increased by 41.2% to KD5.2mn in FY2004.

Growth in net profits from ordinary activities….

- SREC's net profits have grown at a CAGR of 20.3% during FY2001-2004, mirroring the growth rate in top-line during the same period which grew by 24%. However after increasing by 44% in FY2003, net profits grew by only 7.4% to KD10.2mn in FY2004. This was despite the 128% increase in interest & investment income to KD5.95mn in FY2004 over the previous year.

- SREC also received KD2.55mn as extra-ordinary items (UNCC payment) in FY2003. It was zero in FY2004. This was a major contributor to net profits in FY2003 & hence its growth of 44% in FY2003. Taking this out from the net profit figure of FY2003 decreases the growth in net profits to 5.4% only in FY2003 over FY2002. And it takes the growth in net profits to 46.5% in FY2004 over FY2003.

- Total EPS for SREC declined by 5.5% from 36.4fils in FY2003 to 34.4fils in FY2004. Of this EPS from extraordinary item (UNCC payments) was 9.7fils in FY2003, while it was zero in FY2004. **Ignoring the extra-ordinary item, EPS from ordinary activities has increased by 29% from 26.7fils to 34.4fils.**

- Decline in total EPS should be seen in the light of expansion in paid-up equity capital carried out by SREC in FY2004 (more details on this in the latter part of this report).

Growth in dividend & capital expansion….

- SREC has declared & finalized 25% dividend amounting to 25fils for FY2004. This is up from 10% dividend amounting to 10fils per share in FY2003. Dividend payout ratio was 73% in FY2004, increasing from 27% in FY2003. SREC has maintained a healthy dividend pay out, averaging 61% each year during FY2001-2004.

- SREC announced a 10% stock dividend (bonus shares) in FY2004, by way of an issue of 23.84mn shares amounting to KD2.38mn. SREC expanded its paid-up capital by issuing 47.68mn shares at 350fils (premium of 250fils) & 4.98mn shares at 330fils (premium of 230fils) as part of the employee stock option plan.

- Combined the total paid-up capital has increased by 32% from KD23.8mn in FY2003 to KD31.5mn in FY2004. Total inflow to SREC by way of capital expansion is KD18.3mn (KD5.3mn as paid-up & KD13.0mn as share premium).

Return on Equity….

- ROAE of the company has declined from 13.2% in FY2003 to 11.4% in FY2004. ROAA also declined marginally from 5.5% in FY2003 to 5.0% in FY2004. Although net profits have increased by 7.4% in FY2004.

- Both these indicators have declined, as shareholders equity & total assets have increased by 28% & 15.2% respectively in FY2004, bringing the denominator effect into play. Overall ROAE & ROAA have increased steadily for SREC since FY2000 to FY2003 on back of rising profitability over the period.

- SREC earned an average ROI - return on investments (capital employed) of 5.5% in FY2004, decreasing from 6.2% in FY2003. ROI for SREC averaged around 5.1% during FY2000-2004.

Asset expansion & utilization…..

- Being a asset heavy company, asset utilization & efficiency of SREC remains on the lower side, as compared to companies in other industry. This is due to the fact that, SREC primarily generates its revenue in the form of rent from managing a mix of commercial properties (retail and offices), service apartment complex, hotels & managed care assets and car parks.

- Real Estate business is a fixed asset dependent business, and any increase in top line must come from adding (developing or buying into) high quality real estate into the property portfolio. SREC has done that quite consistently for the past 4-years. Its core revenues assets have increased at a CAGR of 19% during FY2001-2004, from KD110.7mn to KD185.1mn. Its total assets have increased at a CAGR of 17% during FY2001-2004, from KD136.9mn to KD221.1mn.

Strong Cash Flows…..

- SREC generates strong cash flow from operations. SREC generated KD7.7mn in FY2004, down from KD16.4mn in FY2003. Total CFO generated during FY2001-2004 was KD39.9mn, while its total cash outflow on investing activity amounted to KD60.0mn during the same period. The shortfall was made good by cash inflow from financing activity to the extent of KD17.9mn during the same period.

- During FY2004 cash inflow from operations & financing activities to the extent of KD7.7mn and KD16.4mn was just enough to cover the cash outflow of KD24.9mn on account of investing activities carried out by SREC.

- CFO / Net Profit ratio for SREC was a healthy 75% for FY2004, declining from 172% in FY2003. Its 4-years average CFO / Net Profit was a robust 123.5%. This is indicative of its robust cash flow (from operations) generating capacity, which is a positive factor.

Debt Levels…..

- SREC had almost KD109mn worth of debt on its balance sheet, as of end-FY2004. Of this KD9.8mn constituted dues to banks & balance KD98.8mn was in the form of long term loans, increasing from KD92.7mn in FY2003.

- Of the KD98.8mn in FY2004, KD54.0mn (mix of KD, Japanese Yen & US$ denominated) is being utilized for local business & the balance KD44.8mn (Euro-denominated) is part of its 90% owned subsidiary – Haddia holdings, which will be paid by the subsidiary company out of its earnings, with no recourse to SREC balance sheet in case of default.

- These loans are going to be repaid in equal installments, periodically over the next 5-year, period ending FY2010. However, SREC is likely to raise more debt for its new projects on a regular basis, based on the status of its new projects in the next 3~5 years.

Strengths of the company

- Salhia is among the top-3 largest real estate companies in the Kuwaiti market, in terms of total revenues & asset-size. It has well-diversified revenue stream from real estate, hotel

& high-end senior citizen & nursing homes. It owns a high-quality real estate portfolio, well-balanced between office, retail & leisure, hotels in Kuwait. Occupancy levels at its existing commercial & office properties were 100% for FY2004 & FY2003 as well.

- Geographically Salhia has diversified revenue stream from – Kuwait, UK & Germany. The company is well capitalized (it had a KD18.3mn capital expansion in FY2004). Salhia also owns some key assets in the local market, which hold significant amount of redevelopment potential over the medium to long term (as highlighted elsewhere in this report).

- Salhia has significant hidden assets on its books. This is due to the fact that SREC does not reflect the current valuations of its properties on its operating statements. Investment properties are recorded at cost, as are the fixed assets, which are stated at depreciated cost less any impairment in these assets.

- As per Salhia's FY2004 annual report, based on independent 3rd-party valuation the market value of investment properties (Salhia & Sahab complex, part of Arraya that got transferred from CWIP to Investment properties in FY2004) is close to KD192mn, as compared to the recorded book value of KD68.7mn only (Land: KD30.4mn & Buildings: KD38.3mn). Similarly the market value of its fixed assets (especially the land, buildings & CWIP pertaining to Arraya, hotels and Haddia) is also substantially higher than what is recorded on the balance sheet.

- Capital Intelligence (CI) rating March 2005 report, assigned L/T rating of BBB+ & S/T rating of A2 with stable outlook to SREC. CI has based its rating on the above-mentioned embedded value of its assets, apart from the its core operating performance.

Risks & Concerns

- SREC is planning to execute a number of projects simultaneously. This entails project execution & funding risk. Apart from this local laws & municipal regulations, which regulate the real estate markets including the land use & zoning rights pose a significant challenge to Salhia, for both its local & international projects. Any significant changes in local laws in respective countries can impact the operations.

- Given 1:1 debt-equity ratio as at end FY2004, Salhia faces the risk of increasing its leverage as it goes for new project with significant amount of debt funding. This will depress further its already low ROI (5.5% in FY2004, decreasing from 6.2% in FY2003). Its ROE has also decreased from 13.2% in FY2003 to 11.4% in FY2004.

- Apart from this there is certain amount of currency & interest rates risk, as Salhia has a geographically diversified revenue, assets & liabilities base. Almost 50% of its debt is denominated in foreign currency like – Euro, Japanese Yen & US$, while 25% of its assets are abroad. Changing yields & interest rates in the international financial markets will directly & indirectly impact value of assets in these markets. Salhia is also exposed to regulatory risk in each of the international markets it operates in.

Outlook & Future prospects

A. Booming local economy…..

Economic surplus - Nominal GDP of Kuwait is estimated at US$48.5bn for 2004, rising by 16.6% from US$41.6bn in 2003, thereby increasing the per capita income by almost 12% to US$18,265 from US$16,336 in 2003. Rising surplus and stronger regional economies, with higher reported GDP & rising per capita income (due to soaring oil prices & production) is the key driver for the local real estate market.

Rising credit flow - Abundant liquidity in the system with rising credit outflow to individuals and retail investors (who are lapping up increased availability of easy and cheap credit), are influential factors for the real estate market. Credit to the construction & real estate sector increased by 48.2% & 23.2% respectively as at end-2004, from end-2003 levels. As compared to this total credit to the private sector grew by 38% during the same period.

Government spends - Rising government spending with intent to create key public infrastructure like roads & sewerage networks, creation of utilities like water & power plants, tourism-cum-entertainment & leisure infrastructure including real estate, is key for driving local business. Further efforts to privatize government businesses, repatriation of capital (post 9/11) in the region and increased focus on attracting FDI into the region, is creating buoyancy in the regional real estate markets. Hence SREC stands to benefits in the medium to long term.

Population - As per the latest estimates, population of Kuwait is estimated at 2.7mn in FY2004, increasing by 8% over 2.5mn in FY2003. This extraordinary rise in populations is due both to the increase in indigenous population and inflow of expatriates, who are mainly driven by the tremendous economic opportunity in the region. This is one of the most potent drivers for real estate demand.

Regional stability - One can say with fair amount of confidence that the region is more stable after the removal of the old regime in Iraq. This has fuelled business optimism and is a big boost to investment activity in the region. It is now business as usual in the adjoining regional economies including the GCC. Apart from the above, government regulations and laws play a key role in the real estate market, and in our view, are the most important external triggers for this sector.

All the above individually and in combination, along with other factors have been driving the demand for business, residential and retail real estate markets in Kuwait and will continue to do so.

B. The core portfolio….

SREC's main strength lies in developing & managing premium retail & office real estate and leasing it out to top-clients, at premium rentals. It has maintained 100% occupancy in its key properties like Salhia Complex & Sahab Towers over the past of couple of years, and now the Arraya – I also boasted 100% occupancy levels in FY2004, its first full-year of operations.

Rental revenue from the Salhia & Sahab Towers have increased by 12.3% in FY2004 from the previous year. However, SREC's total real estate revenues have jumped by over 50% in FY2004 from the previous year, as the Arraya – I got fully operational & achieved 100% occupancy levels during the year. Going forward we believe core assets of Salhia are likely to be fully-occupied, with 8~10% increase in total rentals, with little or no addition in net lease-able to these core assets. Salhia also derives revenue from the car-parks, however the amount is not very large, but a nominal growth rate of 5% y-o-y has been factored into our estimates.

C. Downtown properties…..

SREC has plans to redevelop Al Soor street building, which has been emptied of its tenants beginning FY2005. SREC will loose to the extent of KD0.25mn in annual rental revenue from this beginning FY2005. There is no clear time-line & visibility on the redevelopment plan of this asset, hence gains (capital or rental) from this have not been included into our revenue estimates for the future. However the opportunity loss in the form of loss of rentals, is not very high on this relatively small asset (as compared to the overall real estate rentals of SREC).

The Fahad Al-Salem street property with 8-buildings has been demolished by SREC. It is planning comprehensive redevelopment, as a mix of retail & office tower complex (the Super Block Project). This project is estimated to be developed over the next 3~4 years, at a cost of KD30~35mn. Rentals from this asset will only accrue beyond FY2008, hence revenues from this have not been included into our estimates for the future. However, going forward SREC will also incur an opportunity loss to the extent of the annual rental revenue of KD0.4mn (FY2004-end) from this asset.

Salhia plans to develop the Al-Asima site in Al-Sharq area, as a mix of commercial (retail & leisure) and office complex. This asset will be developed as a mix of retail, leisure & office complex. For this SREC is in the process of getting approvals, change of zoning rights & licenses from local government bodies. However this site is unlikely to be developed in the next couple of years and the revenue potential including the development costs at this stage are unknown, hence not factored into our estimates.

D. Development of Arraya – II

As an extension of the Arraya centre-I, SREC will develop the a 57-storey tower (Arraya – II) on a 1,058sqm site adjacent to the Arraya – I in the heart of city. Over 56,000sqm of rentable space is likely to be developed over the next 2~3 years, at an estimated cost of KD20mn. Project is likely to be developed by FY2007. For all practical purposes the revenue inflow from rent should begin in FY2008 (last quarter) & has been factored into our estimates. Revenue model of Arraya – II is akin to the Arraya- I, that is rentals. SREC does not plan to sell any part of the asset.

Going forward, these projects combined should drive the top-line growth of the company in the medium to long term and also substantially to the bottom-line. Overall we believe that SREC will continue to derive its value from developing more projects in the local market, as it has a relatively strong pipe-line of assets which can be developed or redeveloped over a period of time.

E. Hotel Business…..

Given the 33.1% CAGR in the hotel business over the past 4-years, revenues from the hotel business are likely to remain robust in the near-future. This is due to the buoyancy in the local market, driven by a rapidly expanding local economy & sustained business optimism. The second hotel of the company, Courtyard by Marriott formally opened during FY2004. Therefore its full-year impact on the operating statement remains to be seen. The same should reflect in the FY2005.

The F&B business and the Arraya Ballroom business is likely to outperform the core hotel room business, which reported 45~50% occupancy levels in FY2004. Management expects great demand for their top-class convention centre, while the occupancy levels in their hotel business is likely to remain at FY2004 levels. We also expect some routine capex on maintenance in the hotel business.

F. KPI Portfolio…..

Numerous real estate assets in the KPI portfolio hold significant development & redevelopment potential. This includes the – Farnborough Shopping Centre, Elephant & Castle Area Development Project and the Rugby City developments. Most of these assets are going to be developed over the medium to long term as per the approved Master plan from the respective municipality and local zoning rights.

KPI is actively seeking a JV with leading contracting companies for this. It has plans to acquire more such properties in order to exploit its redevelopment potential. This should add to the net assets of the company, leading to higher rentals, increase in local asset values and capital gains from sale of developed rented properties. Further KPI is expected to constantly rejig its portfolio of investments by selling some of the existing properties from its portfolio and purchase new ones to enhance yields.

KPI will develop its properties in Rugby City in 3-locations at – Boughton Road, Leicester Road & Cattle market, as per the detailed master plan it has finalized with the local municipality. KPI plans to develop a distribution centre & warehouse (total area 20,000sqm) at the business park in Accrington, for which it has obtained licenses. It also has plans to develop residential & commercial units at Edge-Lean, Manchester. The time-frame of the above & impact on the revenue of KPI, and hence its share of income on SREC's operating statement is unknown at this stage. We will have to wait and see how the situation unfolds.

Drawbridge Securities Ltd., will continue to enhance market value of assets under its control by way of asset reorganization, change of land use and obtaining building licenses for such properties. This should drive revenues in the medium to long term.

G. Haddia Portfolio…..

Haddia added 1-nursing home each at Plon & Neustadt respectively, and 2 senior citizen residence in Neustadt during the latter part of FY2004. SREC's FY2004 revenues from care home business grew by only 14.5%, as compared to 50% and 39% for the real estate & hotel business respectively. Average occupancy rate of the Haddia's building were impacted by the development & expansion works being carried out by the company, as respective buildings require at least 9~12 months to achieve desired occupancy rates.

However, both these project should increase the total rentals of the subsidiary going forward, as the full year impact of these two assets on the total revenues of Haddia remains gets recorded in FY2005. No new developments and expansion are expected in the near term. Haddia will capitalize on the assets it has created, and revenue increase is likely to be due to higher occupancy levels over the next couple of years, thereby improving margins.

Valuation and Recommendation

SREC has strong real estate portfolio in the local as well as international markets which will continue to bring substantial gains especially from the booming local real estate sector.

For real estate companies, we have used the Discounted Cash Flow Method (DCF) for valuation, discounting the Free Cash flow to the Firm (FCFF). However, we have now included a comparative valuation method (Price to Book Value) which more accurately reflects the market expectations about real estate companies which are asset heavy, deriving a large part of their revenues from renting or leasing fixed assets, managing assets like – hotels, apartments, buying & selling real estate etc.

Equity risk premium of 5.75% and a terminal growth rate of 3.75% assumed for SREC

The DCF model is constructed based on a 4-year (FY2005-2008) forecast of free cash flows to the firm (FCFF) for SREC. The cash flow for the forecast period and the terminal value is then discounted back at the discount rate (WACC here), to provide the total net present value (NPV) of the firm. In our calculations, we have made the following assumptions in order to arrive at the value of equity & weighted average cost of capital of SREC.

1. Risk free rate of 5.5%, as per the latest discount rate issued by the Central Bank of Kuwait.
2. Equity risk premium of 5.75%.
3. Beta assumed to be 1. Actual beta of the company is below 1. Therefore to more appropriately reflect the market risk we have taken it as 1.
4. Terminal growth rate of free cash flows is taken as 3.75%.

Using the above assumptions, under the Capital Asset Pricing Model, the cost of equity for the company is calculated as 11.25%, which is consistent for a niche-player in the Kuwaiti Real Estate industry.

SREC is also carrying debt on its balance sheet (KD108.57mn as at end FY2004) with an average financing expenses of 4.9% for FY2004. Given the rising interest rates in the local economy and hence to appropriately reflect the cost of debt & capture the rising interest rates in the calculation of WACC, we have assumed the cost of debt at 5.5%. Based on the above, the weighted average cost of capital (WACC) is calculated as 8.27%. This is the discounting rate used to discount the free cash flows to the firm.

Based on the above approach, the estimated fair value per share for SREC is 703fils. This suggests that the stock's estimated fair value is higher by 0.4% from its current market price of 700fils per share (July 6th, 2005).

Table 12: Free Cash Flow Valuation

FREE CASH FLOW CALCULATION (figures in KD)		2005F	2006F	2007F	2008F
Free Cash Flow		7,077,677	7,881,085	11,517,534	14,580,041
Terminal Value		-	-	-	334,796,632
Total Free Cash Flow		7,077,677	7,881,085	11,517,534	349,376,673
Discounted FCFF		6,802,057	6,995,756	9,442,939	264,570,033
Net Present Value of the FCFF	287,810,784				
Total Cash & Investments*	42,105,001				
Less: Value of Debt	(108,571,717)				
Total Value (NPV) of Equity	**221,344,068**				
Total number of shares outstanding	314,923,706				
Per Share Value, in fils	**703**				
Price as on July 06, 2005, in fils	700				
Premium / (Discount) %	0.4%				

** as of Q1 2005*

*Source: **Global** Research*

Sensitivity Analysis

A sensitivity analysis for different estimated long-run future growth rates and cost of capital is provided as below. The table provides estimated fair values for SREC shares based on a range of varying inputs. The shaded area at the center shows the most probable range of alternatives.

Table 13: Sensitivity Analysis

		Terminal Growth Rate				
		1.75%	2.75%	3.75%	4.75%	5.75%
Cost of Capital	6.27%	745	995	1,444	2,485	7,539
	7.27%	568	724	968	1,407	2,423
	8.27%	445	551	**703**	942	1,370
	9.27%	355	431	534	683	916
	10.27%	286	343	417	518	663

*Source: **Global** Research*

Peer Group Valuation

The peer group valuation is being used to compare the fair value of SREC arrived at using the DCF calculation. The peer group comparison uses Balance Sheet and P&L multiples of listed Kuwaiti Real Estate Companies which reflect the profitability and growth potential of the stock.

We believe that the comparative valuation for the real estate sector is more appropriately reflected through the price to book value (P/BV) multiple. Therefore, the peer group valuation is done by comparing the P/BV multiples enjoyed by other real estate companies in the sector. The book value multiples of a stock are a reflection of various factors such as the expected profitability, growth potential as perceived by the market, predictability and sustainability of revenues, quality of earnings and the quality of management among others.

The weighted average P/BV based on market capitalization (as on July 06, 2005) of the listed real estate companies in Kuwait based on the Q1 2005 financial results ranges from 0.97times to 5.29times with the average multiple being at 2.24times. Therefore, on the basis of industry average P/BV of 2.24times, SREC's stock price valuation comes to 754fils based on the estimated book value per share of 336.7fils for FY2005.

We revise our rating to HOLD.

As the book value multiples vary with time and are dependent on several factors such as market sentiment and other qualitative factors, we have provided 20% weightage to the book value multiple and 80% to the DCF value calculation. Based on the weighted average fair valuation mentioned below we have arrived at a fair value of 713fils, which implies that the estimated fair value arrived at by using the weighted average method is about 1.9% higher than the current market price of 700fils. Therefore, based on the estimated fair value we revise our earlier rating on Salhia Real Estate Company and recommend a **HOLD** on the stock for a medium term perspective.

Table 14: Weighted average fair value calculation

Per share, in fils	Fair value	Weightage	Weighted value
As per DCF method	703	80%	562
As per P/BV multiple	754	20%	151
Weighted Value			**713**
Market Price (July 6th 2005)			700.0
Premium / (Discount) %			1.9%

Given the FY2004 and Q1 2005 performance of SREC, we expect it to perform better in FY2005 and improve over the FY2004 results, especially it is likely to register a substantial growth in income from sale of properties. As per the various press reports, SREC is in the process of selling few of its properties, the income from which cannot be estimated at this point of time. Therefore, the same has not been considered in our projected financials as per the management advice. Otherwise, the fair value of the company's stock would have been higher than what we have estimated.

Balance Sheet

	Salhia Real Estate Company K.S.C.						
Amount in KD'000	**2002A**	**2003A**	**2004A**	**2005F**	**2006F**	**2007F**	**2008F**
Cash & Cash Equivalents	2,646	3,624	4,259	4,931	5,731	2,737	2,491
Account Receivables & prepayments	3,758	4,883	8,211	7,518	8,720	9,991	11,695
Inventories	144	131	409	551	517	529	604
Current Assets	**6,548**	**8,638**	**12,879**	**13,000**	**14,968**	**13,258**	**14,790**
Investments	15,780	20,860	23,066	25,142	27,153	29,597	32,261
Joint Venture Investment	11,514	13,960	17,188	18,801	20,655	22,788	25,240
Gross Fixed Assets (incl. cwip)	90,949	122,254	120,109	127,316	134,954	143,052	151,635
Accumulated Depreciation	(16,153)	(17,872)	(20,880)	(24,190)	(26,991)	(31,471)	(36,392)
Net fixed Assets	**74,796**	**104,382**	**99,229**	**103,126**	**107,964**	**111,580**	**115,243**
Investment Properties (Gross)	44,630	54,771	80,707	84,742	88,132	90,776	93,499
Acc. depreciation (incl_translation_adj)	(543)	(10,629)	(12,000)	(13,559)	(14,982)	(15,886)	(17,765)
Investment Properties (Net)	**44,086**	**44,142**	**68,707**	**71,184**	**73,150**	**74,890**	**75,734**
TOTAL ASSETS	**152,724**	**191,982**	**221,070**	**231,252**	**243,889**	**252,113**	**263,268**
Due to banks	7,037	8,307	9,770	9,770	9,770	9,770	9,770
Payables	5,909	10,448	9,255	10,974	12,729	14,819	17,346
Provisions	125	294	172	500	632	731	859
Current Liabilities	**13,071**	**19,050**	**19,197**	**21,244**	**23,131**	**25,320**	**27,974**
Long-term loans	72,686	92,714	98,802	101,766	104,819	101,674	98,624
Government loans	-	0	-	-	-	-	-
Employee indemnity (terminal benefits)	853	1,205	1,342	1,342	1,342	1,342	1,342
TOTAL LIABILITIES	**86,610**	**112,968**	**119,341**	**124,352**	**129,292**	**128,336**	**127,940**
Minority interest	153	247	935	872	809	747	684
SHAREHOLDERS EQUITY							
Share capital	23,841	23,841	31,492	31,492	31,492	31,492	31,492
Forex translation reserve	439	2,874	4,637	4,637	4,637	4,637	4,637
Cumulative Changes in Fair Value of Investments	927	6,520	978	978	978	978	978
Share Premium	14,457	14,457	27,525	27,525	27,525	27,525	27,525
Treasury stock	-	-	(2,779)	(2,779)	(2,779)	(2,779)	(2,779)
Statutory reserve	6,067	7,055	8,121	9,481	11,265	13,365	15,872
Voluntary reserve	6,067	7,055	8,121	9,481	11,265	13,365	15,872
General reserve	4,250	4,250	4,250	4,250	4,250	4,250	4,250
Retained earnings	9,913	12,715	18,451	20,964	25,155	30,198	36,798
Total shareholders equity	**65,962**	**78,766**	**100,794**	**106,029**	**113,788**	**123,031**	**134,644**
TOTAL LIABILITIES & EQUITY	**152,724**	**191,982**	**221,070**	**231,252**	**243,889**	**252,113**	**263,268**

Income Statement

	Salhia Real Estate Company K.S.C.						
Amount in KD'000	**2002A**	**2003A**	**2004A**	**2005F**	**2006F**	**2007F**	**2008F**
Income from Real Estate, Hotel & care home Ops	20,541	25,841	34,165	39,333	45,624	52,271	61,184
Direct Operating Expenses	(8,847)	(10,539)	(13,822)	(14,947)	(17,337)	(19,340)	(22,638)
Gross Profit	**11,694**	**15,302**	**20,343**	**24,387**	**28,287**	**32,931**	**38,546**
Share in JV results	622	2,329	2,094	2,304	2,649	3,047	3,504
Administrative Expenses	(2,862)	(3,536)	(4,904)	(5,113)	(5,931)	(6,795)	(7,954)
Sales & marketing expenses	(990)	(1,678)	(2,439)	(2,360)	(2,737)	(3,136)	(3,671)
EBIDTA	**8,464**	**12,418**	**15,095**	**19,217**	**22,268**	**26,046**	**30,425**
Depreciation & Amortization	(2,224)	(2,310)	(4,410)	(4,869)	(4,225)	(5,384)	(6,800)
EBIT, Operating profits	**6,240**	**10,108**	**10,685**	**14,348**	**18,043**	**20,662**	**23,625**
Financing Charges	(3,276)	(3,647)	(5,150)	(5,618)	(5,858)	(6,132)	(6,132)
EBT	**2,965**	**6,461**	**5,534**	**8,730**	**12,185**	**14,530**	**17,493**
Net Provisions	-	-	-	-	-	-	-
Add: Investment & interest income	3,498	2,610	5,951	5,507	6,387	7,318	8,566
Provisons for impairment of investments	(385)	(622)	(254)	-	-	-	-
Add: Other Income	1,020	(461)	(30)	-	-	-	-
EBT, from continuing operations	**7,097**	**7,988**	**11,202**	**14,236**	**18,572**	**21,848**	**26,059**
Minority interest	(7)	26	63	63	63	63	63
Foreign Tax	(237)	(692)	(604)	(691)	(795)	(914)	(1,051)
Extraordinary Items	73	2,550	-	-	-	-	-
Earnings Before KFAS, NLST, BoD	**6,926**	**9,872**	**10,660**	**13,608**	**17,840**	**20,997**	**25,071**
KFAS Contribution	(62)	(89)	(96)	(123)	(161)	(189)	(226)
BoD Remuneration	(77)	(77)	(77)	(77)	(77)	(77)	(77)
NLST	(152)	(161)	(236)	(301)	(396)	(466)	(557)
Net Profit	**6,635**	**9,545**	**10,252**	**13,107**	**17,207**	**20,265**	**24,211**

P & L Appropriation account							
Appropriations							
Transfer to Statutory Reserve	(693)	(987)	(1,066)	(1,361)	(1,784)	(2,100)	(2,507)
Transfer to Voluntary Reserve	(693)	(987)	(1,066)	(1,361)	(1,784)	(2,100)	(2,507)
Cash Dividend KD	(4,224)	(4,768)	-	(7,873)	(9,448)	(11,022)	(12,597)
Stock Dividend KD	-	-	(2,384)	-	-	-	-
Fair Value Adjustments on Investments Sold	(188)	-	-	-	-	-	-
Sale of Treasury Shares	(3)	-	-	-	-	-	-
Op bal of Retained Earnings	9,122	9,956	12,759	18,494	21,007	25,198	30,241
Closing balance of Retained Earnings	**9,956**	**12,759**	**18,494**	**21,007**	**25,198**	**30,241**	**36,841**

Cash Flow Statement

Amount in KD'000	2002A	2003A	2004A	2005F	2006F	2007F	2008F
	Salhia Real Estate Company K.S.C.						
Profit before tax, extraordinary items, KFAS payment, NLST and BoD remuneration	**7,097**	**7,988**	**11,202**	**14,236**	**18,572**	**21,848**	**26,058**
Adjustments:							
Investment & interest income	(3,498)	(2,610)	(5,951)	(5,507)	(6,387)	(7,318)	(8,566)
Share in JV results	(622)	(2,329)	(2,094)	(2,304)	(2,649)	(3,047)	(3,504)
Provision Write Back	-	-	-	-	-	-	-
Forex Translation (Gain) Loss	668	708	118	-	-	-	-
Financial Charges	3,276	3,647	5,150	5,618	5,858	6,132	6,132
Depreciation	2,224	2,310	4,410	4,869	4,225	5,384	6,800
(Gain) Loss on Disposal of Fixed Assets	(1,091)	-	-	-	-	-	-
Provision for employee terminal benefits	117	461	246	-	-	-	-
Provisions for impairment of investments	385	622	254	-	-	-	-
Operating profit before changes in operating assets & liabilities	**8,556**	**10,797**	**13,334**	**16,913**	**19,618**	**22,999**	**26,921**
Decrease / (Increase) in Inventories	82	13	(278)	(142)	34	(13)	(75)
Decrease (Increase) in A/R & Prepayments	(1,342)	(1,131)	(3,328)	693	(1,202)	(1,271)	(1,704)
(Decrease) Increase in A/P and Accruals	2,274	4,607	(1,588)	1,719	1,755	2,090	2,527
Cash from operations	**9,570**	**14,286**	**8,140**	**19,184**	**20,205**	**23,806**	**27,669**
Payment of Employee Terminal Benefits	(42)	(108)	(109)	-	-	-	-
Taxes paid	-	-	-	(691)	(795)	(914)	(1,051)
Extra-ordinary item	73	2,550	-	-	-	-	-
KFAS payment	(112)	(62)	(89)	(96)	(123)	(161)	(189)
BoD remuneration	(77)	(77)	(77)	(77)	(77)	(77)	(77)
NLST Paid	(135)	(152)	(161)	-	(301)	(396)	(466)
Net cash from operating activities	**9,277**	**16,436**	**7,704**	**18,320**	**18,910**	**22,259**	**25,886**
INVESTING ACTIVITIES							
Sale / (Purchase) of investments properties	(5,034)	(11,962)	(18,440)	(4,035)	(3,390)	(2,644)	(2,723)
Joint Venture Investment	(6,539)	-	-	(1,613)	(1,854)	(2,133)	(2,453)
Investments & interest income	9,441	14,177	13,438	5,507	6,387	7,318	8,566
Sale / (Purchase) of investments	-	-	-	(2,076)	(2,011)	(2,444)	(2,664)
Dividends received	718	758	756	-	-	-	-
Purchase of real estate & fixed assets	(16,657)	(27,044)	(20,769)	(7,207)	(7,639)	(8,097)	(8,583)
Proceeds from disposal of real estate	6,251	-	-	-	-	-	-
Dividend income from JVs	-	618	-	2,304	2,649	3,047	3,504
Interest income received	73	38	28	-	-	-	-
Proceed from sale of investment prop. & fixed assets	-	-	34				
Net cash from investing activities	**(11,746)**	**(23,417)**	**(24,953)**	**(7,120)**	**(5,858)**	**(4,953)**	**(4,353)**
FINANCING ACTIVITIES							
Financial charges paid	(3,278)	(3,627)	(5,112)	(5,618)	(5,858)	(6,132)	(6,132)
Inc (dec) in long-term loans, net	4,470	15,038	6,088	2,964	3,053	(3,145)	(3,050)
Inc in share capital & share premium a/c	-	-	18,335	-	-	-	-
Sale (purchase) of treasury shares	1,265	-	(2,779)	-	-	-	-
Dividend paid	(4,224)	(4,722)	(110)	(7,873)	(9,448)	(11,022)	(12,597)
Net cash from financing activities	**(1,768)**	**6,689**	**16,421**	**(10,527)**	**(12,253)**	**(20,299)**	**(21,779)**
Inc (dec) in cash & cash equivalents	(4,237)	(292)	(828)	673	799	(2,993)	(246)
Opening cash & cash equivalents	(154)	(4,391)	(4,683)	4,259	4,931	5,731	2,737
Closing cash & cash equivalents	(4,391)	(4,683)	(5,511)	4,931	5,731	2,737	2,491
Due to banks	7,037	8,307	9,770				
Bank balances & cash	2,646	3,624	4,259	4,931	5,731	2,737	2,491
FCF	**(12,414)**	**(22,570)**	**(31,505)**	**7,078**	**7,881**	**11,518**	**14,580**

Ratios

	Unit	2002A	2003A	2004A	2005F	2006F	2007F	2008F
				Salhia Real Estate Company K.S.C.				
Profitability Ratios								
Gross Profit Margin	%	56.9	59.2	59.5	62.0	62.0	63.0	63.0
Direct operating costs / Sales	%	43.1	40.8	40.5	38.0	38.0	37.0	37.0
Operating Profit Margin	%	30.4	39.1	31.3	36.5	39.5	39.5	38.6
Net Profit Margin	%	32.3	36.9	30.0	33.3	37.7	38.8	39.6
Return on Average Equity	%	10.3	13.2	11.4	12.7	15.7	17.1	18.8
Return on Average Assets	%	4.6	5.5	5.0	5.8	7.2	8.2	9.4
Return on Average Investments	%	4.5	6.2	5.5	6.7	8.1	8.9	9.9
Liquidity & Activity Ratios								
Current Ratio (CA/CL)	X	0.5	0.5	0.7	0.6	0.6	0.5	0.5
Quick Ratio (Cash and Cash Eqv/CL)	X	0.5	0.4	0.7	0.6	0.6	0.5	0.5
Debtors (Average collection period)	days	70.2	61.0	69.9	73.0	65.0	65.3	64.7
Days Inventory	days	7.6	4.8	7.1	11.7	11.2	9.9	9.1
Days Payables	days	197.1	283.3	260.1	247.0	249.5	260.0	259.3
Net Working Capital	days	(119.2)	(217.5)	(183.1)	(162.3)	(173.3)	(184.7)	(185.5)
Inventory Turnover	X	47.8	76.6	51.2	31.1	32.5	37.0	39.9
Debtors Turnover	X	5.2	6.0	5.2	5.0	5.6	5.6	5.6
Net Fixed Asset Turnover (average)	X	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Net Fixed Asset Turnover, incl investment prop's (average)	X	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Total Assets Turnover (average)	X	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Equity Turnover (average)	X	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Leverage Ratios								
Long term Debt (incl. govt. loan) to Equity		1.10	1.18	0.98	0.96	0.92	0.83	0.73
Total Debt Ratio (TD/CE)		0.55	0.56	0.52	0.51	0.50	0.48	0.45
Growth Ratios								
Income from real estate & hotel operations	%	14.3	25.8	32.2	15.1	16.0	14.6	17.1
Net Profit	%	12.5	43.9	7.4	27.9	31.3	17.8	19.5
Total Assets	%	11.5	25.7	15.2	4.6	5.5	3.4	4.4
Net Worth	%	5.7	19.4	28.0	5.2	7.3	8.1	9.4
Valuation Ratios								
EPS total	fils	28.0	36.4	34.4	41.6	54.6	64.3	76.9
EPS from ordinary activity	fils	27.7	26.7	34.4	41.6	54.6	64.3	76.9
EPS from extraordinary item	fils	0.3	9.7	0.0	0.0	0.0	0.0	0.0
Book value per share - BVPS (in fils)	fils	276.7	330.4	320.1	336.7	361.3	390.7	427.5
No. of Shares Outstanding	mn	238.4	238.4	314.9	314.9	314.9	314.9	314.9
Price Per Share	fils	340.0	580.0	520.0	700.0	700.0	700.0	700.0
Market cap	KD Mn	81.1	138.3	163.8	220.4	220.4	220.4	220.4
P/E multiple	X	12.1	15.9	15.1	16.8	12.8	10.9	9.1
P/BV multiple	X	1.2	1.8	1.6	2.1	1.9	1.8	1.6
Shareholders' Dividends	%	20.0	10.0	25.0	30.0	35.0	40.0	45.0
Dividend per share	fils	20.0	10.0	25.0	30.0	35.0	40.0	45.0
Dividend payout ratio	%	71%	28%	73%	72%	64%	62%	59%

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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 has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist				
Company	Recommendation	Ticker	Price	Disclosure
Salhia Real Estate Company K.S.C.	HOLD	SREK.KW	700fils	1,10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
2. The company being researched holds more than 5% stake in Global Investment House.
3. Global Investment House makes a market in securities issued by this company.
4. Global Investment House acts as a corporate broker or sponsor to this company.
5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.
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9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three month.
10. Please see special footnote below for other relevant disclosures.

Global Research: Equity Ratings Definitions	
Global rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price