Global Research
Sector – Real Estate
Equities - Kuwait
October 10, 2011

جلوبل Global

Kuwait Real Estate Sector

Kuwait Real Estate

- **Buoyant residential & retail markets but weak commercial offices settings**
- **Mabanee: a pure retail rental story with one mega project; The Avenues**
- **Salhia: a well diversified investment properties portfolio**
- **Buy – Mabanee, Strong Buy – Salhia**

Buoyant residential & retail markets but weak fundamentals for commercial offices

The residential segment of the Kuwaiti real estate sector is, relatively, the most buoyant driven by growing population and shortage in supply. Quoted prices of houses designated for private living or investment purposes have been on the rise for the past two years driven by increasing land prices due to the scarcity of new supply of serviced land. The upscale retail segment is considerably undersupplied although several malls have opened up in the past five years and more supply is yet to enter the market through to 2013. The commercial office segment, however, is significantly oversupplied with high vacancy rates exerting downward pressure on asset prices and rental rates.

Mabanee: a pure retail rental story with operations rotating around The Avenues

Mabanee is a pure real estate portfolio manager with operations solely concentrated in Kuwait and rotate around one project; The Avenues Mall. The early move into the megamall segment has granted The Avenues the needed positioning to generate visitor traffic and establish client loyalty while we expect the completion of phase III in 2Q12 to boost Mabanee's revenues more than twofold by 2013 and will significantly enhance the company's cash generation capacity. We forecast a 4-year revenue CAGR of 20% and a net profit CAGR of 19% through to 2014 while maintaining an average gross margin of 71% in line with 2009 and 2010 actual figures.

Salhia: a well diversified investment properties portfolio

Salhia's operations are focused on owning and managing real estate assets. Salhia manages a well diversified portfolio that has exposure to the Kuwaiti retail, office and hospitality segments in addition to the management of senior citizens home care operations in Germany. The company enjoys a stable revenue profile although we perceive its high exposure to the local office and hotel markets as risks in the medium term. The collective contribution from the two segments to the top-line representing 79% of all Kuwait generated revenue and 51% of 2010 aggregate figure. Further, we believe that the inherent risk related to Salhia's portfolio of financial investments has decreased significantly and is mostly factored in the stock price.

Initiate coverage on two Kuwait real estate companies

We initiate coverage on two listed Kuwait real estate stocks. We initiate on Mabanee with a target price of KWD0.980/share and a **BUY** recommendation and on Salhia Real Estate with target price of KWD0.265/share and a **STRONG BUY** recommendation.

Global Research - Kuwait Real Estate

Company	CMP KWD	Mkt. Cap (KWD mn)	P/E 2011e	P/B 2011e	Target Price	Upside Potential	Rating
Mabanee	0.830	455	23.6	3.4	0.980	18%	BUY
Salhia	0.206	103	14.5	0.8	0.265	29%	STRONG BUY

Source: Bloomberg, Global Research

Market price for 2011 and subsequent years as per closing prices on October 09, 2011

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Valuation & Recommendation

Valuation Methodology

For arriving at fair value targets for listed Kuwait real estate developers, we utilize a Sum of the Parts (SOTP) approach by valuing each project separately. For DCF based valuations, we use the Capital Asset Pricing Model (CAPM) to arrive at the cost of equity of each company and adjust the project WACC based on our projections for the degree of riskiness of each project. We value the hospitality segment using a two stage DCF approach with inputs on ADRs and occupancy rates being driven from market data and forecasted in line with long term trends. For retail valuations, we value retail properties utilizing a capitalization rate for the current year net operating income for operating properties or for the second operating year for properties under construction. We apply a two stage DCF for commercial real estate held for investment. For both companies under coverage, we exclude land from the valuation given the difficulty to unlock land value and the lack of specific guidance by management on land sales, especially that both companies' are not land traders.

MABANEE

Mabanee's operations are solely concentrated in Kuwait and rotate around one project; The Avenues Mall. The early move into the megamall segment, which has historically been undersupplied in Kuwait, has granted The Avenues the needed positioning to generate visitor traffic and create loyalty to the mall via the associated entertainment facilities offered. The company's unique exposure to the upbeat higher-end retail segment in Kuwait forms a solid support against future competition that is scheduled to enter the market through to the end of 2013. We expect the completion of phase III of The Avenues in 2Q12 to boost Mabanee's revenues by more than twofold by 2013 and will significantly enhance the company's cash generation capacity given that capex requirements will be only directed towards maintenance of existing property. Further plans for additional expansions in the mall are in the pipelines awaiting official approvals. Our SOTP valuation of Mabanee yields a fair value target of KWD0.980/share implying an upside potential of 18% from the current market price. We initiate coverage with a **BUY** recommendation on the stock.

Salhia Real Estate

Salhia's adopts a pure asset management model as the company's core operations are only directed towards the ownership and management of real estate assets with no exposure the sales market. Salhia manages a well diversified portfolio that has exposure to the Kuwaiti retail, office and hospitality segments in addition to the management of senior citizens home care operations in Germany with further plans to penetrate the UK real estate market. The company enjoys a stable revenue profile although we perceive its high exposure to the local office and hotel markets as risks in the medium term. We believe that the risks stemming from Salhia's large portfolio of financial investments has decreased significantly and are mostly factored in the stock price. Our SOTP valuation of Salhia yields a fair value target of KWD0.265/share implying an upside potential of 29% from the current market price. We initiate coverage with a **STRONG BUY** recommendation on the stock.

MENA Real Estate Listed Equities Multiples

Ticker	Security	P/E	PB	P/S	EV/EBITDA
Kuwait					
SRE KK Equity	Salhia Real Estate Co KSC	12.5	0.8	1.8	9.1
ALTIJARI KK Equity	Commercial Real Estate Co	11.9	0.5	4.6	12.3
URC KK Equity	United Real Estate Co	12.2	0.6	2.9	19.8
TAM KK Equity	Tamdeen Real Estate Co	20.2	0.8	3.3	18.0
ARGAN KK Equity	AlArgan International Real Estate Co	8.1	0.5	4.1	12.3
INJAZZAT KK Equity	Injazzat Real Estate Co	20.4	0.5	6.1	46.3
UREC KK Equity	Union Real Estate Co	15.4	0.8	11.7	15.9
ARABREC KK Equity	Arab Real Estate Co	39.4	0.2	4.3	197.9
MABANEE KK Equity	Mabanee Company SAKO	22.5	3.3	17.5	21.4
Average		**18.1**	**0.9**	**6.2**	**39.2**
Saudi Arabia					
EMAAR AB Equity	Emaar Economic City		0.8	58.9	
ALARKAN AB Equity	Dar Al Arkan Real Estate Development	5.0	0.5	1.9	9.3
MCDCO AB Equity	Makkah Construction and Development	18.2	1.5	47.3	15.2
SRECO AB Equity	Saudi Real Estate Co	13.2	0.9	5.8	10.3
TIRECO AB Equity	Taiba Real Estate Co	25.2	0.9	8.3	20.5
ADCO AB Equity	Arriyadh Development Co	14.4	1.1	8.4	10.6
Average		**15.2**	**0.9**	**21.8**	**13.2**
United Arab Emirates					
EMAAR UH Equity	Emaar Properties PJSC	10.9	0.5	1.6	7.2
ALDAR UH Equity	Aldar Properties PJSC		0.7	1.1	
SOROUH UH Equity	Sorouh Real Estate Co	8.2	0.5	2.2	10.4
DEYAAR UH Equity	Deyaar Development		0.3	0.5	
UPP UH Equity	Union Properties PJSC		0.3	0.3	11.7
RAKPROP UH Equity	RAK Properties PJSC	4.1	0.2	1.9	4.5
Average		**7.8**	**0.4**	**1.3**	**8.5**
Qatar					
BRES QD Equity	Barwa Real Estate Co	6.7	1.0	3.9	30.0
UDCD QD Equity	United Development Co	5.1	0.7	2.1	
Average		**5.9**	**0.8**	**3.0**	**30.0**
Egypt					
TMGH EY Equity	Talaat Moustafa Group	11.3	0.3	1.7	12.6
AMER EY Equity	Amer Group Holding	3.4	1.0	1.2	3.7
HELI EY Equity	Heliopolis Housing	10.2	4.1	4.5	8.7
PHDC EY Equity	Palm Hills Developments SAE	4.6	0.3	0.8	4.9
MNHD EY Equity	Medinet Nasr Housing	20.9	4.0	2.8	
OCDI EY Equity	Six of October Development	41.2	1.3	1.6	3.1
ZMID EY Equity	Zahraa El Maadi Investment & Dev.	3.9	1.5	2.8	2.1
Average		**13.6**	**1.8**	**2.2**	**5.9**
MENA Average		**12.1**	**1.0**	**6.9**	**19.3**

As of 09 October 2011 closing

Source: Bloomberg, Global Research

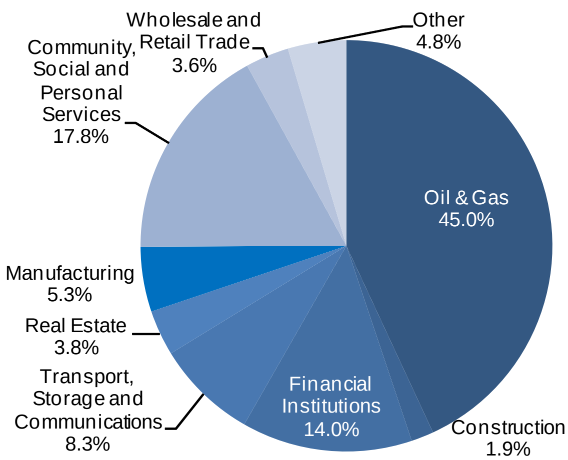
Kuwait Economic Profile

Kuwait's real GDP is expected to grow by 4.4% in 2011 after growing by an estimated 2% in 2010 and shrinking 4.5% in 2009 and is expected to register a 3.8% CAGR through to 2014. According to data from the Central Bank of Kuwait, Oil & Gas contributed 45% of aggregate 2009 GDP reflecting the country's high reliance on hydrocarbons. Real estate development contribution stood at 3.8% while that of construction was 1.9% during the same year.

The Kuwaiti Parliament approved, in February 2010, a government-proposed economic plan at a total cost of KWD37bn (USD104 bn). The plan aims at enhancing the role of the private sector while diversifying the economy away from the hydrocarbon sector. The plan will be executed via government expenditures along with planned participations from the private sector, mainly through a BOT scheme. The role of the private sector will also involve privatization of government entities, such as Kuwait Airways and several electricity & water plants. Under the new development plan, real GDP of the private sector is expected to grow at an average rate of 8.8%, while non-oil GDP is expected to witness growth at an average rate of 7.5% during the same period.

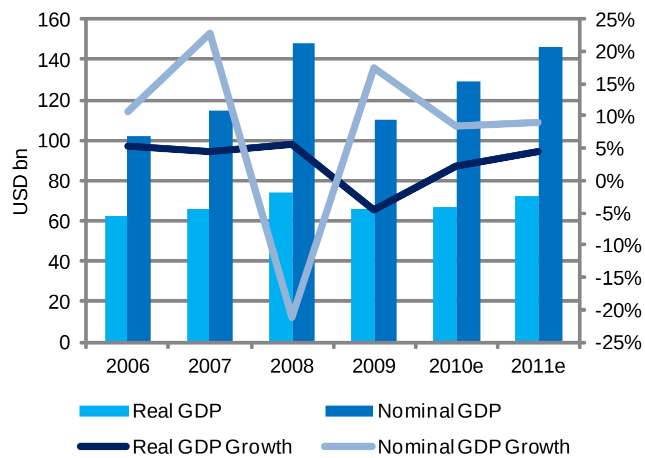
During the period spanning from 1Q07 through to 2Q11, Kuwait's national CPI registered a growth of 28% while the housing index increased by 36% during the same period. The Housing index reported its largest jump in 3Q07 moving 5.1% to the upside. National inflation has significantly slowed down since mid 2008 after a period of incessant increases led by escalations in prices of global food and agricultural products.

GDP Breakdown 2009



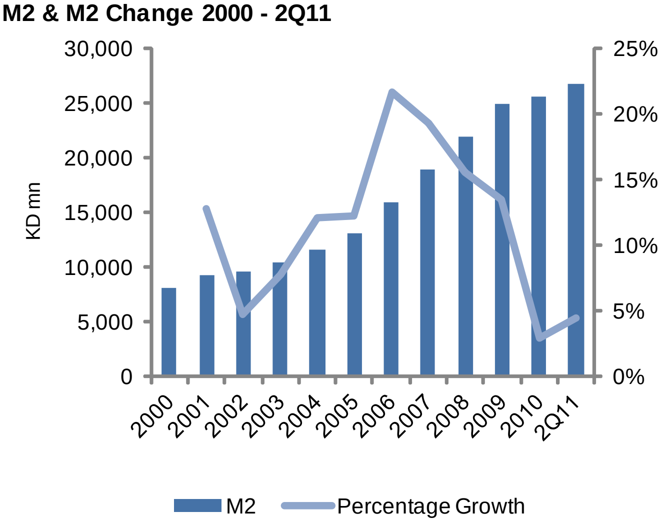
Source: Central Bank of Kuwait

GDP Growth 2006 - 2011e



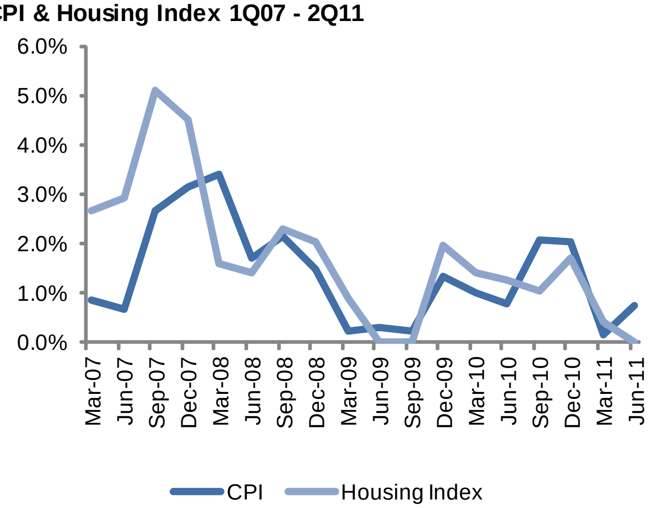
Source: Central Bank of Kuwait

M2 & M2 Change 2000 - 2Q11



Source: Central Bank of Kuwait

CPI & Housing Index 1Q07 - 2Q11



Source: Kuwait Central Statistics Office

Demographic Profile

Kuwait's aggregate population stood at 3.6 mn as of the end of 2010. Total population grew more than sevenfold from less than 0.5 mn in the 1960's to the current figure. Kuwait registered a steady population growth that averaged 5.2% between 2005 and 2010. Growth peaked in 2007 at 9% on growing business activity and bottomed in 2009 with an aggregate growth of 0.85% as the number of expatriate residents declined by 0.3% while 2010 saw a moderate growth in population of 3.6%. Growth in Kuwaiti population registered a 2005 - 2010 CAGR of 3.2%.

Kuwaiti nationals represent 32% of the total at 1.4 mn while expatriates make the balance. In line with other GCC countries, male population represents 60% of total population driven by male expatriate workers at 44% of total residents whereas Kuwaiti population is split evenly between males and females. Expatriate males represent 62% of the total workforce in the country.

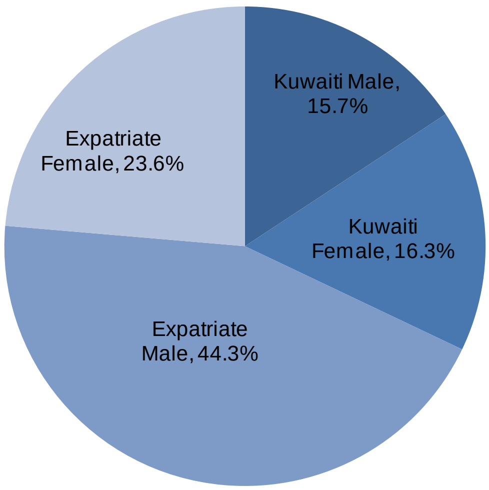
A key characteristic of Kuwait's demographic profile is the large number of the working population constituting people between the ages of 15 to 59. Working population represented 72% of the aggregate mainly due to the large number of expatriates working and living in Kuwait. This, in turn, reflects the lower dependency ratio and higher income generation per person, which is reflected in higher consumer spending. Kuwait's dependency ratio was 32% as of mid-year 2010. The country's dependency on expatriate workers, however, poses sustainability risks for population growth and reflects high sensitivity to economic conditions.

In terms of geographic distribution, Farwaniya and Hawally are the two most populated governorates. The two governorates are highly dominated by expatriate inhabitants living mostly in high rise towers in and around commercial and business areas. Mubarak AlKabeer is the least populated governorate and is highly dominated by local residents and is characterized by low business activity. Kuwait City, the capital of Kuwait is inhabited with 509,692 residents and encompasses the CBD along with government entities and residential areas.

Kuwait Population									
	Kuwaiti			Non- Kuwaiti			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Capital	109,473	115,304	224,777	171,179	113,736	284,915	280,652	229,040	509,692
Hawally	96,384	99,088	195,472	332,804	241,476	574,280	429,188	340,564	769,752
Farwaniya	103,553	108,575	212,128	528,431	195,341	723,772	631,984	303,916	935,900
Ahmadi	119,353	121,620	240,973	312,430	129,179	441,609	431,783	250,799	682,582
Mubarak Al-Kabeer	65,913	67,081	132,994	51,592	39,326	90,918	117,505	106,407	223,912
Jahraa	68,688	72,828	141,516	187,503	125,817	313,320	256,191	198,645	454,836
Other	268	235	503	2,776	2,101	4,877	3,044	2,336	5,380
Total	563,632	584,731	1,148,363	1,586,715	846,976	2,433,691	2,150,347	1,431,707	3,582,054

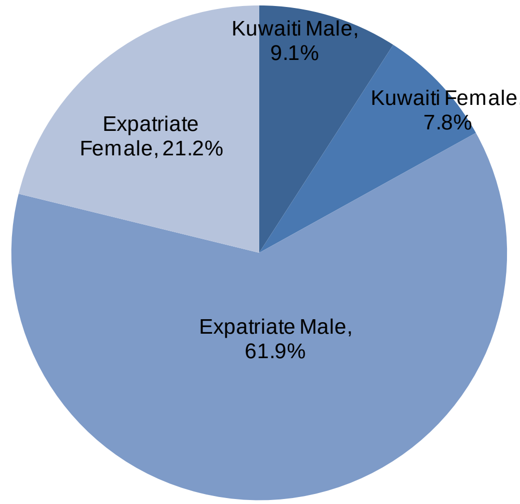
Source: The Public Authority for Civil Information

Kuwait Population Breakdown



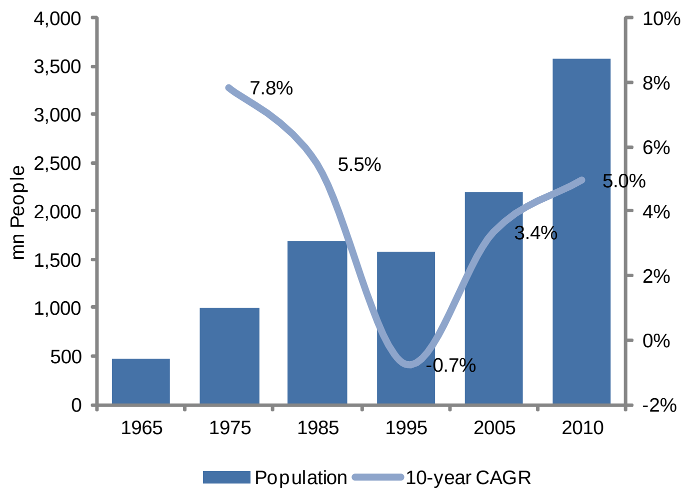
Source: The Public Authority for Civil Information

Kuwait Workforce Breakdown



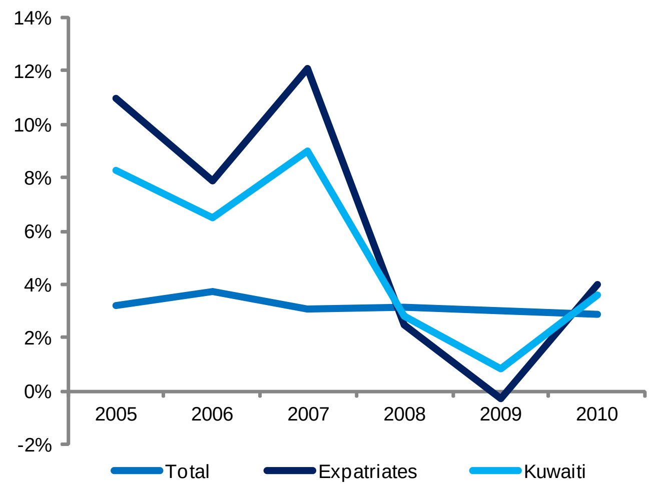
Source: The Public Authority for Civil Information

Kuwait Population Growth & 10-Year CAGR



Source: The Public Authority for Civil Information

Kuwait Expatriate & National Population Growth

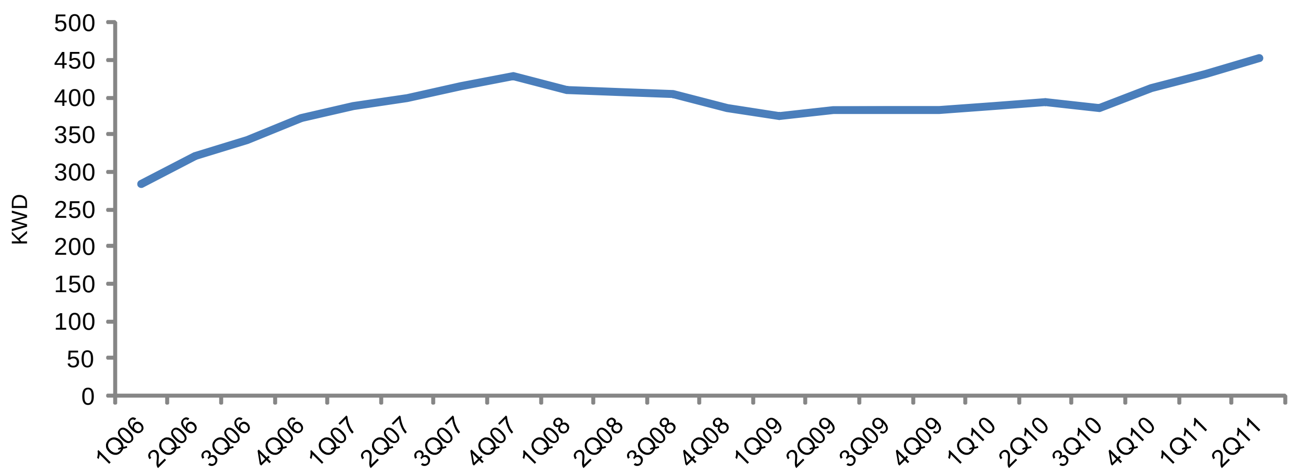


Source: The Public Authority for Civil Information

Sector Fundamentals

The residential segment in Kuwait is the most buoyant driven by growing population and shortage in supply. According to the classification of the Kuwaiti Ministry of Justice, the residential segment is broadly broken down into two sub-segments. The first is private housing and is defined as a single family dwelling located in areas of low population density and are mostly owned and occupied by Kuwaiti nationals. The private housing is the most active in terms of trading volume and value amounting for more than 50% of total transactions over the past 5 years. With the exception of 2H08 – 1H09 when land prices softened slightly on the wake of the financial crises and the associated troubles in the real estate sector, prices of ready to move in houses and land plots designated for private housing have been in constant increase. This trend was highly driven by increases in land prices due to the scarcity of new supply of serviced land.

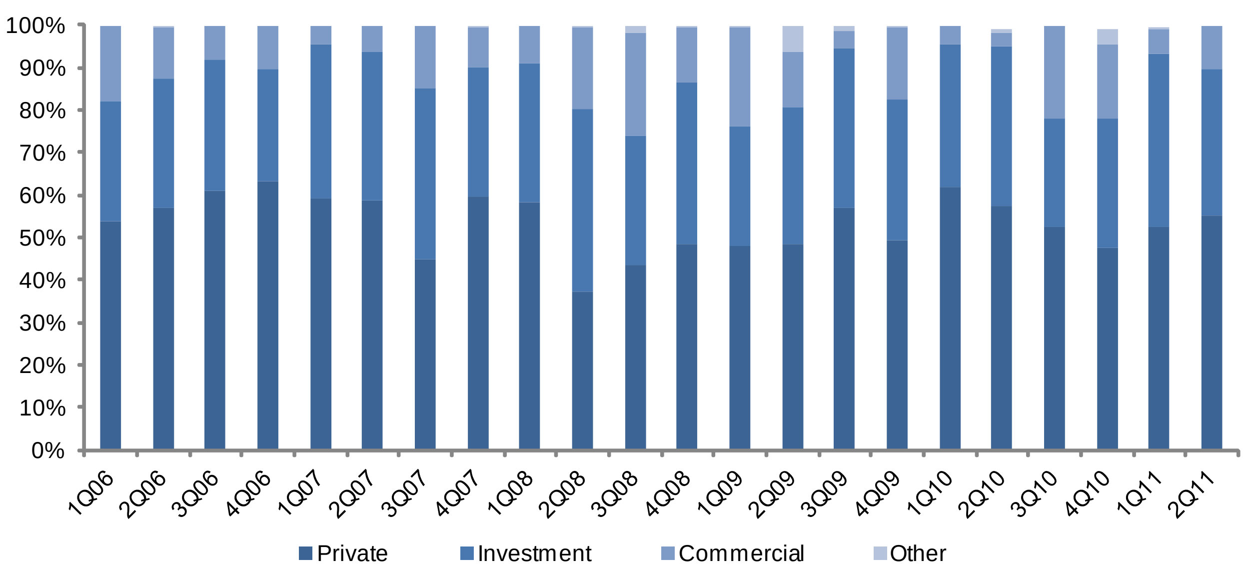
Blended average prices of land designated for private housing 1Q06 - 2Q11



Source: Ministry of Justice & Global Database

The second attractive sub-segment is the investment housing, which encompasses buildings structured in the form of multiple floors designated for rent. Investment housing units are dominantly occupied by expatriates. Vacancy rates in investment houses are usually significantly low averaging at 5% and the take up rate is significantly high reflecting the high demand for these units. Rental yields for investment houses average at 7-9% based on location, age of the building and available facilities. Transactions for investment houses capture the second place in terms of volume and value of aggregate real estate transactions averaging at 35-40% of total transactions over the past five years.

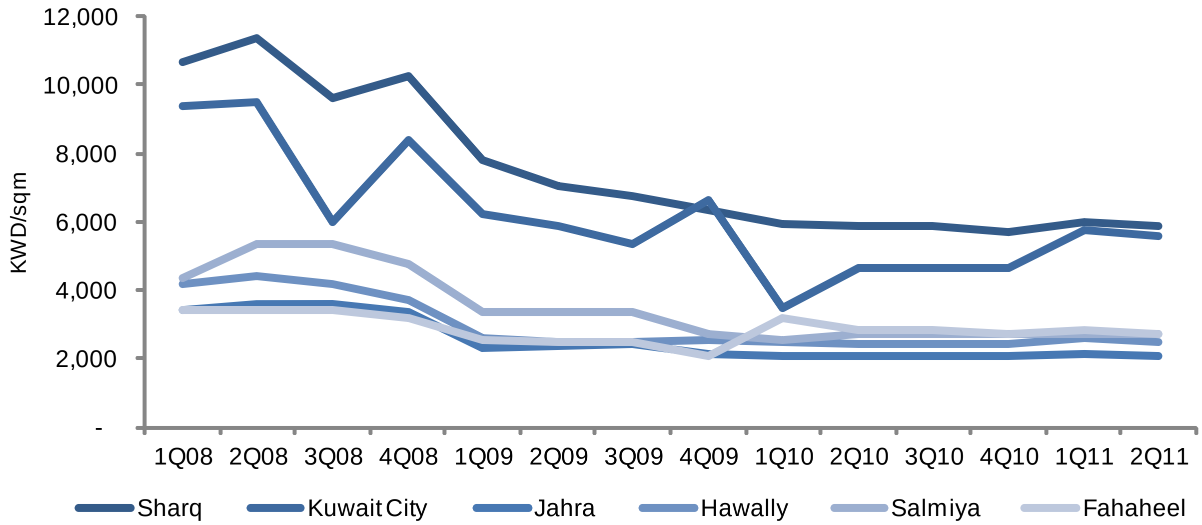
Breakdown of real estate transactions by segment 1Q06 - 2Q11



Source: Ministry of Justice & Global Database

Commercial offices properties were hit the hardest on the back of severe oversupply that entered the market during the period 2H08 and 1H09. Vacancy rates are hovering at high levels of 20-25% with rental rates per sqm in several buildings dropping by more than 50% from their peak levels in 4Q08. Selling prices, especially in the CBD area in Kuwait City have dropped by 50-60% on average due to the new supply that entered the market. In 1Q11, Kuwait Investment Authority (KIA) announced that intends to allocate KWD1 bn to invest in the local commercial property market in an attempt to stabilize the stagnant segment by injecting new cash as investor sentiment continues to be on the negative side. In our view, the commercial segment will continue to suffer from the current state of oversupply in the short to medium term. We believe that even if asset prices and rental rates reach a state of stabilization in the near future, there are still no solid fundamental signs of price improvements in the horizon.

Average prices of commercial properties per sqm in selective areas 1Q08 - 2Q11



Source: Ministry of Justice & Global Database

On the retail front, the area of Salmiya has historically been the commercial centre of Kuwait with a variety of small to medium sized malls in addition to traditional markets. Kuwait has more than 50 covered malls of varying age and quality offering a GLA of 681,000sqm. Due to the undersupply of modern retail space, the take-up and occupancy rates have historically been high. This pattern, however, is witnessing a gradual shift as more modern malls are becoming available setting a price ceiling on rentals for older malls and traditional markets.

Current prominent mall supply in Kuwait encompasses Marina Mall, located in Salmiya area, Alkout Mall in Fahaheel, Souk Sharq, Salhiya Commercial Complex and Arraya Centre in Kuwait City, 360 Mall in Surra and The Avenues in AlRai area. These malls all run high occupancy levels reflecting the high demand for modern retail outlets. We believe that in spite of the new retail supply currently in the pipelines and expected to enter the market in the coming 2 years, demand for the higher end retail segment will remain strong given that they not only act as shopping centers but also as one of the highly attractive entertainment destinations for visitors. Further, we believe that Kuwait's young population and relatively high income per capita will provide the retail industry with the needed fundamental growth drivers over the medium term.

Kuwait Retail Existent & New Supply

Mall	Location	GLA	Completion
Operating Space	N/A	681,000	N/A
The Symphony	Salmiya	12,000	2011
Olympia	Salmiya	11,000	2011
United Tower	Kuwait City	5,000	2012
AlHamra Mall	Kuwait City	23,000	2012
AlOthman Charity Complex	Hawally	17,000	2012
The Avenues Phase 3	AlRai	95,000	2012
AlAndalus	Hawally	10,000	2012
Capital Tower Mall	Kuwait City	15,000	2013
Total		869,000	

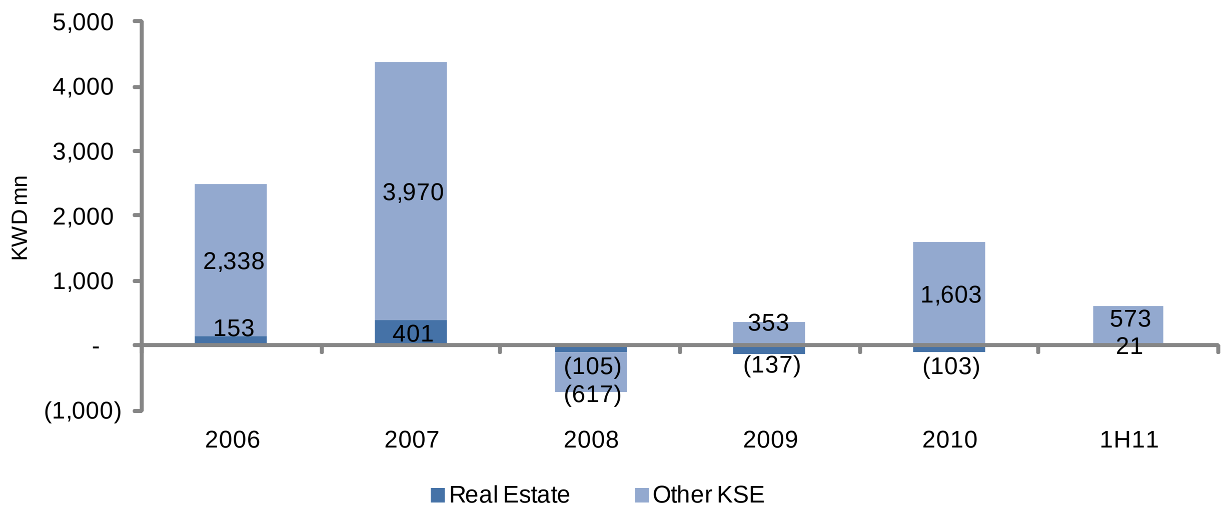
Source: DTZ & Global Database

Sector Earnings & Price Performance

A total of 37 real estate developers are listed on the Kuwait Stock Exchange. Aggregate earnings of Kuwait based listed developers peaked in 2007 at KWD401 mn representing 9.2% of total listed companies' earnings. Earnings trended downwards since 2008 in tandem with the real estate and financial markets. Aggregate KSE companies' performance registered a combined loss of KWD701 mn of which KWD105 mn was attributable to real estate developers. During 1H11, real estate companies reported a 4.3% growth in earnings over 1H10 at KWD21 mn.

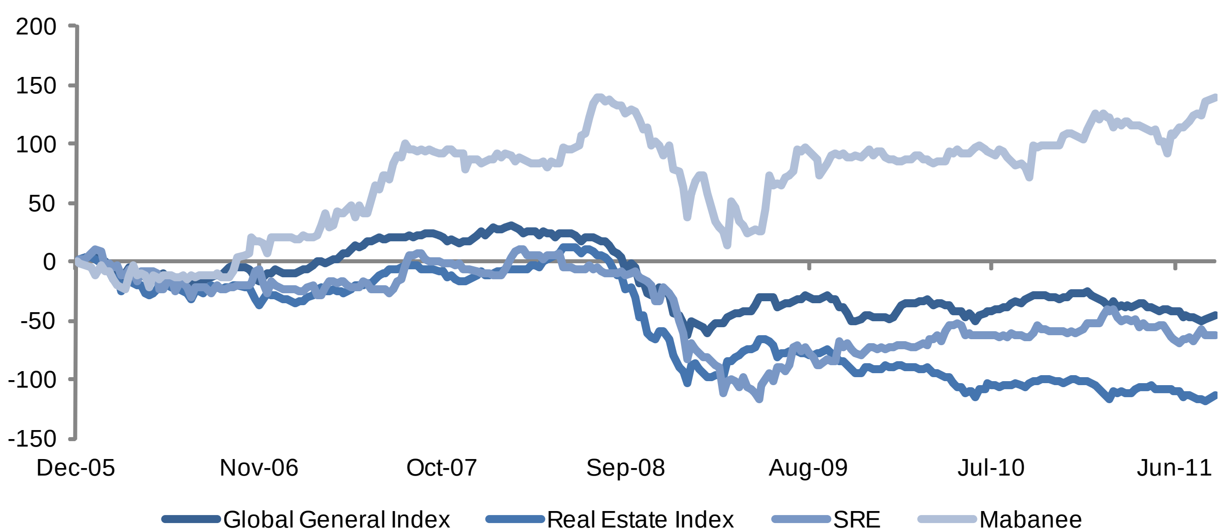
The real estate index has significantly underperformed global general index-Kuwait moving down 72% versus 42% for the general index. Both indexes peaked in 3Q07 before getting hit by the financial crisis and diverting direction southbound. Salhia share price peaked in 1Q06 at KWD0.648/share and bottomed in 1Q09 at KWD0.134/share and is currently trading at KWD0.206/share at a PBx of 0.9x. Mabanee, however, has outperformed both the general index and the real estate index adding 104% to its share value in the period between 1Q06 and 3Q11. Mabanee's share price peaked in 2Q08 at KWD1.382/share before dropping down to KWD0.312 in 1Q09 but managed to recover to a current KWD0.810/share trading at a PB of 3.3x.

KSE & listed real estate companies net income 2006 - 1H11



Source: KSE & Global Database

Index & stock performance 2005 - 1H11



Source: KSE & Global Database

Company Profile

Mabanee

Buy
Target Price
KWD0.980

Market Data

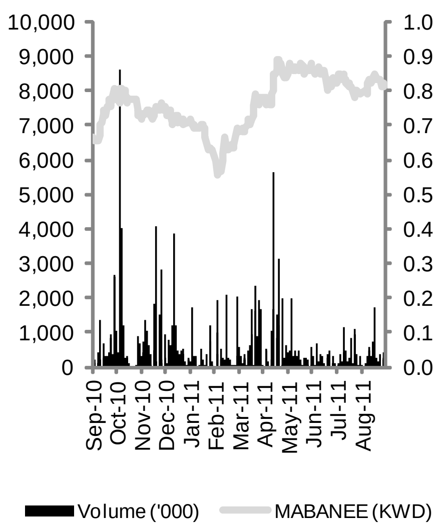
Bloomberg Code:	MABANEE KK
Reuters Code:	MABK.KW
CMP (09 Oct. 2011):	0.830
O/S (000)	552.6
Market Cap (KWD mn):	461.1
Market Cap (USD mn):	1,701.5
P/E 2011e (x):	23.6
P/B 2011e (x):	3.44

Price Performance 1-Yr

High (KWD):	0.890
Low (KWD):	0.555
Average Volume: (000)	583,796

	1m	3m	12m
Absolute (%)	1.25	(5.81)	22.05
Relative (%)	3.07	(0.10)	34.26

Price Volume Performance



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- **Highly lucrative retail portfolio**
- **The completion of Phase III will increase revenues twofold by 2013**
- **4-year revenue CAGR of 20% and net profit CAGR of 19%**
- **Initiate coverage with a BUY recommendation and TP of KWD0.980**

Highly lucrative Retail portfolio

Mabanee's operations are solely concentrated in Kuwait and rotate around one project; The Avenues Mall. The early move into the megamall segment, which has historically been undersupplied in Kuwait, has granted The Avenues the needed positioning to generate visitor traffic. The Avenue's unique exposure will act as a support to the future competition that is scheduled to enter the market through to the end of 2013, in our view.

The completion of Phase III will increase revenues twofold by 2013

The Avenues mall represents 98% of Mabanee's GLA. Phases I & II have been fully operative since 4Q08 covering a GLA of 166,000 sqm with an average rental rate of KWD18/sqm/month and has a current 98% occupancy rate. Construction of Phase III is scheduled to be completed in 1H12 adding 95,000 sqm to available GLA with an expected rental rate of KWD40-45/sqm/month, which will boost Mabanee's revenues more than twofold by 2013 and will significantly enhance the company's cash generation capacity.

4-year revenue CAGR of 20% and net profit CAGR of 19%

Our model yields a 4-year revenue CAGR of 20% and a net profit CAGR of 19% through to 2014 while maintaining an average gross margin of 71% in line with 2009 and 2010 actual figures given flat figures from core operations. In terms of financing, we expect total debt outstanding to peak in 2012 at KWD128 mn and start dropping afterwards on lower capex requirements and high cash generation.

Initiate Coverage with TP KWD0.980/share

We value Mabanee using a SOTP approach by valuing The Avenues project according to its credentials and our perception of its riskiness profile. Our SOTP valuation of Mabanee yields a fair value target of KWD0.980/share, which implies an upside potential of 18% from the current market price of KWD0.830/share. We, accordingly, initiate a BUY recommendation.

Investment Indicators

	2010	2011e	2012e	2013e	2014e
Revenue (KWD mn)	35.60	37.02	63.37	74.37	73.82
Net Profit (KWD mn)	18.74	18.95	30.77	37.96	37.93
EPS (KWD)	0.34	0.34	0.56	0.69	0.69
BVPS (KWD)	2.30	2.35	2.91	3.29	3.38
EV/EBITDA (x)	21.36	21.84	12.48	9.59	8.63
P/E (x)	21.50	23.62	14.55	11.79	11.80
P/B (x)	3.20	3.44	2.79	2.46	2.40

Source: Company Reports & Global Research

Valuation & Recommendation

For arriving at a fair value for Mabanee, we applied a capitalization rate of 9% to phases I & II for our estimated 2011 core operating income, which is in line with 2010. For phase III, we have applied the same rate for 2013 profits assuming it is the first year of full operations. We have excluded all non-recurring income like arrangement fees.

Mabanee – Equity Valuation

KWD (000)	Value	/share	Methodology
Investment Properties	613,109	1.11	Capitalization Rate 9%
Add: 2Q11 Cash	4,947	0.01	
Add: Investments 2Q11	31,023	0.06	
Less: Debt 2Q11	106,008	0.19	
Total Equity Value	543,071	0.980	
CMP		0.830	
Upside Potential		18%	

Source: Global Research

Recommendation

Mabanee's operations are solely concentrated in Kuwait and rotate around one project; The Avenues Mall. The early move into the megamall segment, which has historically been undersupplied in Kuwait, has granted The Avenues the needed positioning to generate visitor traffic. The company's unique exposure to the buoyant higher-end retail segment in Kuwait, which has historically suffered from severe undersupply, acts as a support to the future competition that is scheduled to enter the market through to the end of 2013. The completion of phase III of The Avenues in 2Q12 will boost Mabanee's revenues more than twofold by 2013 and will significantly enhance the company's cash generation capacity given that capex requirements will be only directed towards maintenance of existing property. Our SOTP valuation of Mabanee yields a fair value target of KWD0.980/share implying an upside potential of 18% from the current market price. We initiate coverage with a **BUY** recommendation on the stock.

Key Risks to Valuation

- **Slowdown in Kuwait's economy**

  Although we do not factor in any significant slowdowns in the overall economy or consumer spending, we believe that the prolonged deterioration in the global economy could have negative impacts in population growth especially in the expatriate population which is highly elastic to the health of the business environment.

- **Geographic concentration risk**

  Mabanee's operations have a unilateral geographic concentration, which geographic concentration risk as all projects are based in Kuwait. Although we do not perceive any significant political or economic risks evolving in Kuwait and prefer its overall economic conditions to other MENA markets, the lack of diversification due to the sole exposure to one market poses a threat in the case of any unforeseen events.

- **Segment concentration risk**

  Although we like the operational quality of Mabanee's retail properties and maintain an overall positive outlook on the segment, the sole exposure to one segment could propose negative risks to the company's operations in case the retail segment fundamentals deteriorate.

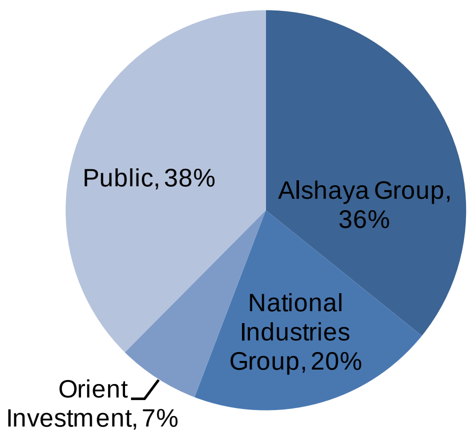
- **Delays in project delivery**

  Our earnings forecasts are based on management guidance of scheduled delivery for phase II of The Avenues. Any deviations in the actual delivery date beyond the end of 2Q12 would warrant amendments to our valuation.

Profile

Mabanee was established in 1964 as a Closed Kuwaiti Shareholding Company and was listed on the Kuwaiti Stock Exchange in 1999. The company is the largest listed real estate developer in Kuwait with a market capitalization of KWD455.6 mn and a paid up capital of KWD55.5 mn spread over 555.5 thousand shares with a par value of KWD0.1 per share. Mabanee is 36% owned by Alshaya Group, 20% by National Industries Company, 7% by Orient Investment Company and 38% of the company's shares are available for the public.

Mabanee Ownership Structure

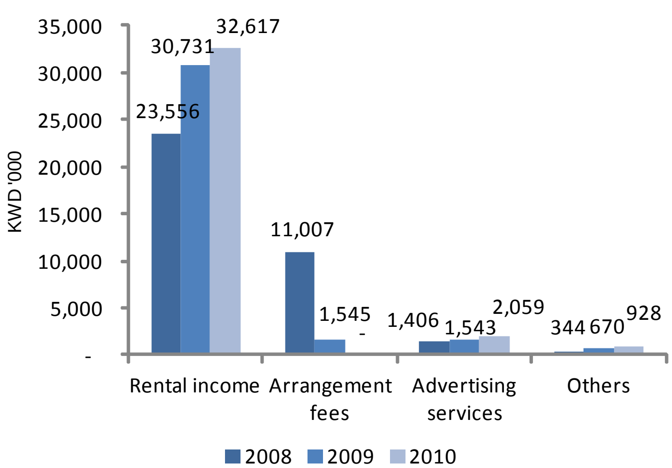


Source: Zawya

Business Model

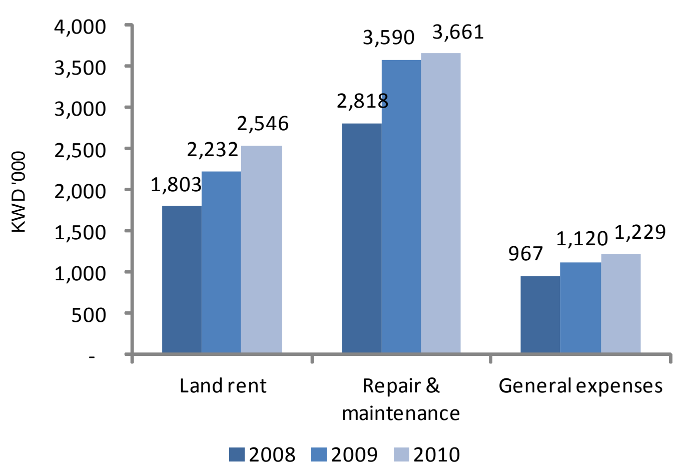
Mabanee adopts a pure retail rental scheme as its business model relies on a sole source of recurring income from its fully owned The Avenues Mall located in Kuwait and accounting for 98% of its available leasable area while the balance is made from the leased Mabanee Office Building. After the success of phases I & II, Mabanee is nearing completion (65% completed) of phase III of The Avenues, which is scheduled to be operative in 1H12. Investment properties revenues accounted for 92% of Mabanee's 2010 revenues (91%, 2009) inclusive of related services like arrangement fees and advertisements for mall tenants managed by the company. The land over which The Avenues Mall is built is not owned by Mabanee but is leased from the government under secured long term contract.

Mabanee Revenues Breakdown 2008 - 10



Source: Company Financial Reports

Mabanee Expenses Breakdown 2008 - 10



Source: Company Financial Reports

Based on our outlook on the Kuwaiti real estate sector, Mabanee's high exposure to the retail segment as opposed to the office segment positions it in a preferable spot given the more favorable outlook on the former. Further, The Avenues enjoys a first mover advantage as the first mega mall in the country and currently has an occupancy rate of 98%. Accordingly, Mabanee has the capacity to charge good premiums and maintain its existent tenant occupancy with a long waiting list of retailers waiting to rent in the mall.

Alshaya Group, which owns 36% of Mabanee, is also one of the largest MENA retailers with the list of its franchises including brand names like Debenhams, Harvey Nichols, H&M, Next and Starbucks amongst several other prominent brands. Alshaya, currently occupies around 20% of the operating GLA of the Avenues. The strategic partnership with Alshaya Group provided Mabanee with an added tenant security through strong brand positioning and guaranteed placement.

Given its current operational profile, Mabanee has a 100% geographical exposure to the Kuwaiti market. We believe that in the short term, Mabanee will continue to benefit from the high end positioning and loyalty to The Avenues and will, hence, be able to maintain its planned rental rates and associated margins. Over the longer term, it appears that the market could reach a state of saturation given the new supply of retail space entering the market, which would squeeze margins. Further, the company has identified plans to replicate The Avenues model in other MENA markets like Egypt and Abu Dhabi. These plans were going under feasibility studies but are put on hold due to the ongoing political and economic unrests in the region.

Mabanee manages its operations through 9 subsidiaries and two associates. The business focus of all associates and subsidiaries is related to real estate management and investments with the exception of AlRai Logistica, which operates in the logistics business and is 49.9% owned by Mabanee. Management has indicated that there are ongoing negotiations to acquire the other 50% stake of the company in order to benefit from its land bank that is located adjacent to The Avenues mall and could be used for future expansions beyond phase III.

Mabanee Associates and Subsidiaries

Name	Principal Activity	Location	Ownership
AlRai Logistica KSC	Warehousing facilities, construction and management	Kuwait	49.9%
Injaz Real Estate Building Company WLL	Real estate development and investments	Kuwait	40%
Kuwait Prefabricated Building Company WLL	General trading and contracting	Kuwait	100%
AlRai Real Estate Company WLL	Investment in real estate	Kuwait	100%
Second National for Trading and Contracting Company WLL	Investments, general trading and contracting	Kuwait	100%
The Avenues Holding SAK	Management of Movie Theaters	Kuwait	100%
AlRai Lake Company WLL	Investments, general trading and contracting	Kuwait	100%
Fifth Ring Road Company WLL	Investments, general trading and contracting	Kuwait	100%
KBCC Realty International Limited	Investments	B.V.I	100%
Mabanee Egypt for Real Estate Development Ltd.	Investments in real estate	Egypt	100%
Mabanee Bahrain Company WLL	Investments in real estate	Bahrain	100%

Source: Company Financial Reports

Project Profile

The Avenues mall represents 98% of Mabanee's GLA and is accordingly the principal source of Mabanee's income. Phases I & II have been fully operative since 1Q09 encompassing 426 stores over a GLA of 166,000 sqm. The total development cost for the first two phases is KWD164 mn with an average rental rate of KWD18/sqm/month implying a significantly high gross yield on cost of 20% at the current 98% occupancy rate. The average rental rate of phases I & II is considered relatively low as it encompasses the lower rate of anchor tenants and the movies theater located in phase. Anchor tenants pay an average KWD9/sqm whereas retail stores located in phase II pay around KWD25/sqm resulting on the net KWD18/sqm.

The Avenues Phases I, II & III Key Metrics

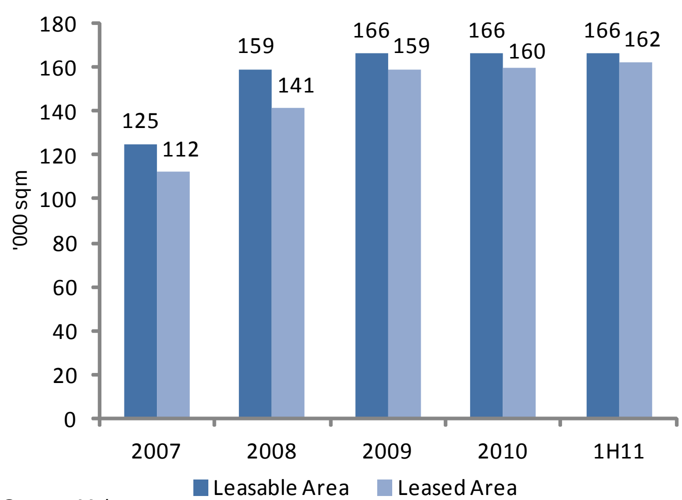
	GLA 000 sqm	Stores	Development Cost KWD mn	Completion	Average Rent KWD/sqm/month
Phases I & II	166	426	164	4Q08	18
Phase III	95	450	145	2Q12	40

Source: Mabanee & Global Research

Construction of Phase III is scheduled to be completed in 1H12 adding 95,000 sqm to The Avenues available GLA. Phase III will target higher end tenants relative to phases I & II. Phase III design encompasses six districts each resembles a traditional shopping area from a global venue like Soku, which resembles the New York Soho district and The Grand Avenues that is designed like Paris' Champs Elysees. According to management, the inquiry and admission rates for the Phase III extension is significantly high and covers the available leasable area several times. Management also indicated targeting an average rental rate of KWD40-45/sqm/month for phase III.

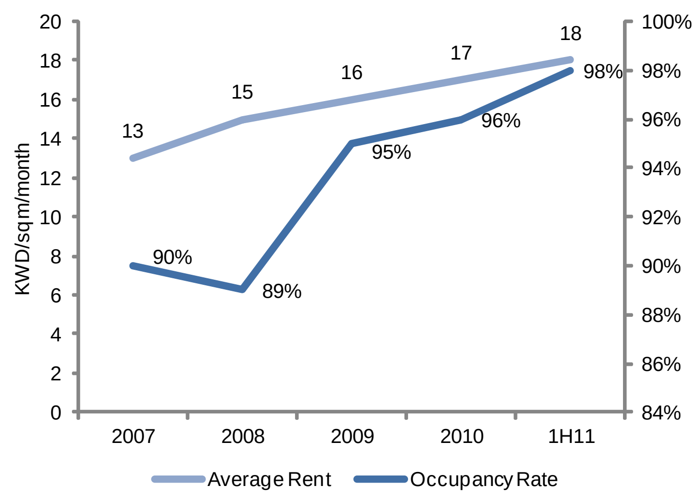
Phases I & II occupancy rate has increased from 89% in 2008 to a current 98% in 1H11 at the same time that the average rental rate registered continuous increases from KWD13/sqm in 2007 to KWD18/sqm at the end of 1H11. In our view, the combined impact of the growing occupancy rate coupled with the power to charge escalating rates to increase the average rental rate over the period demonstrates the superior positioning of The Avenues in spite of the new competition entering the market like 360 Mall, which started operations in 2009. Average footfall has grown at a 4% CAGR between 1Q09 and 2Q11 to register an average footfall of 498,000 visitors per week in the latter compared to 363,000 in the former.

The Avenues Leasable & Leased Area 2007 - 1H11



Source: Mabanee

The Avenues Occupancy Rate & Average Rent 2007 - 1H11



Source: Mabanee

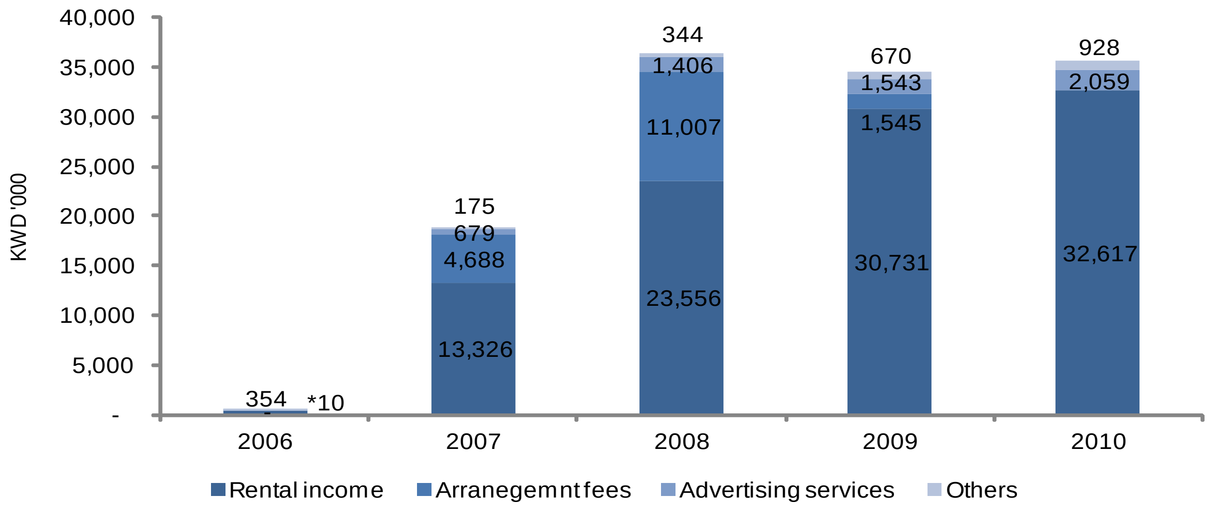
After the completion of phase III, Mabanee plans to expand The Avenues by phase IV, which will have an estimated GLA of 110,000sqm. The extension is currently in the final stages of its design and management is awaiting approvals from authorities. Phase IV is planned to be completed in 2015 and will bring the total available GLA of The Avenues to 371,000sqm making it the largest mall in the region.

Mabanee's sole exposure to the office segment is the Mabanee Commercial Building in Salhiya. The building is 100% occupied and is secured by long term contracts with a stable tenant profile residing the premises for several years.

Financial Highlights

Mabanee revenues peaked in 2008 at KWD36.3 mn registering a significant increase from the KWD18.9 mn registered in 2007 and the KWD372 mn in 2006 as phases I & II of the Avenues started operations. Revenues from the core rental income reported its fifth year of continuous growth in 2010 at KWD32.6 mn, up from a marginal KWD354,000 in 2006 and KWD13.3 mn in 2007. Arrangement fees represent a one-time fee from new tenants for moving into the premises and accordingly have accordingly fluctuated from KWD0 in 2006 and 2010 to a high of KWD11 mn in 2008 on new contracts for tenants occupying The Avenues. Advertising fees grew from 2% of total revenues in 2007 to 6% in 2010 witnessing consecutive YoY growth to settle at KWD2 mn in 2010. Further, Mabanee realizes other income from parking and associated services to tenants. In 2010, other income stood at KWD928,000 representing 3% of total revenues.

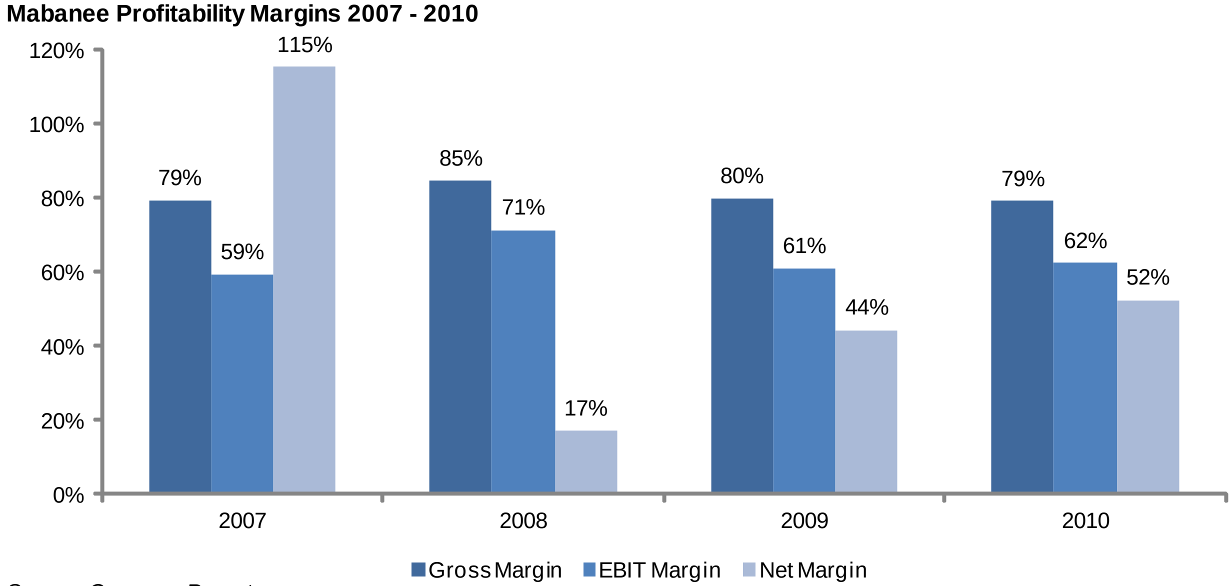
Mabanee Revenue Breakdown 2006 - 2010



Source: Company Reports

Mabanee's gross margin hovered between a low of 79% in 2010 (70% including depreciation expense) and a high of 85% in 2008 with the difference being driven by the degree of contribution from the higher margin arrangement fees versus the lower margin rental income. Operating profit margin also peaked in 2008 at 71% on higher gross margin and stood at 62% in 2010. Net margin saw significant fluctuations during 2007 and 2008 on recognition of KWD14 mn of investment income from financial investments in 2007, which was reversed into a KWD13.5 mn loss in 2008. Net margin stood 52% in 2010.

Mabanee Profitability Margins 2007 - 2010



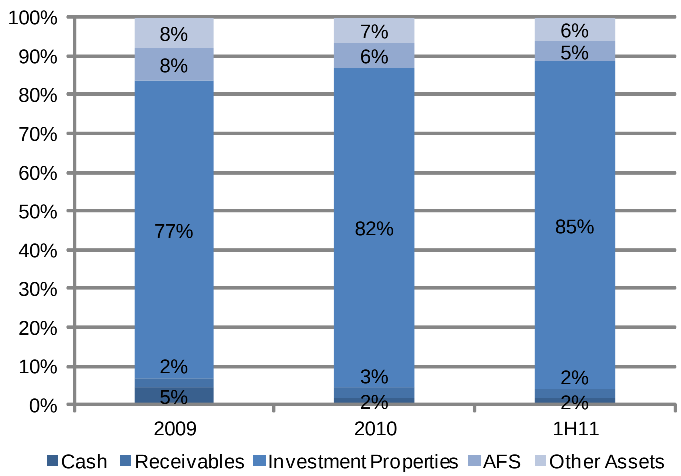
Source: Company Reports

As of 1H11, Mabanee's assets were comprised of 85% investment properties representing The Avenues and the commercial building reported at a carrying amount of KWD239 mn inclusive of KWD88 mn related to the construction of phase III. Management estimates the useful life of its buildings of 50 years and hence realizes an annual depreciation charge of 2-3.33%. According to a third party independent valuation, the estimated fair value of Mabanee's investment properties as of 1H11 was KWD503 mn representing a 110% premium over the reported book value. Further, the company's land bank located in Kuwait has a fair value of KWD192 mn, which is reported off balance. The land plots in Kuwait comprise a 9,500sqm in Salmiya area and 187,000 in AlRai area adjacent to The Avenues and will be utilized in further mall expansions. Moreover, Mabanee owns a stake in two land plots located in Damam, KSA and Abu Dhabi, UAE.

Mabanee had an investment portfolio in financial assets, which stood at KWD16 mn in 1H11 representing 6% of total assets. The value of the investment portfolio peaked in 2007 at KWD42 mn during the market boom but was hit afterwards forcing the company to recognize a subsequent loss of KWD13 mn in 2008 before liquidating the portfolio. Management indicated that they are in the process of fully divesting the portfolio to maintain focus on core business operations.

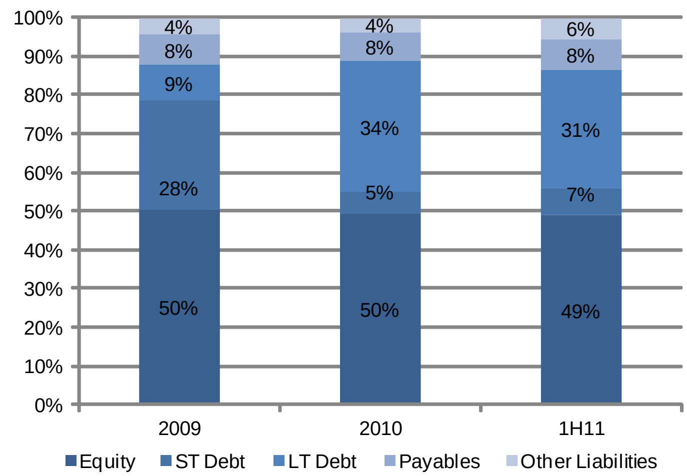
Mabanee's debt profile comprises an aggregate of 38% of the company's financial structure. The company was able to transfer KWD48 mn of short term debt into long term debt in 2010. As of 1H11, Mabanee's debt to equity ratio stood at 0.69x down from 0.57x in 2010 but less than the high of 0.74x in 2008. Return on assets came in at 7.3% in 2010 while return on equity registered 13.7%.

Mabanee Assets Breakdown 2009 - 1H11



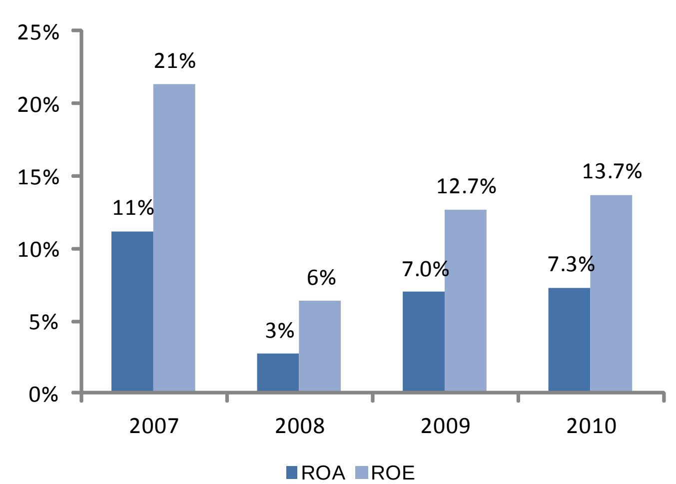
Source: Company Reports

Mabanee Liabilities & Equity Breakdown 2009 - 1H11



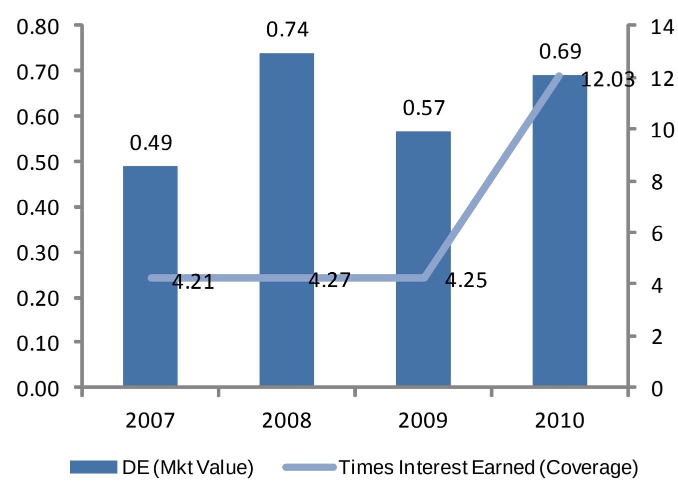
Source: Company Reports

Mabanee ROA & ROE 2007 - 2010



Source: Company Reports

Mabanee D/E and Coverage Ratio 2007 - 2010



Source: Company Reports

Key Forecast Assumptions

Based on management guidance on current occupancy levels and rental rates, we factor in 98% occupancy and a rental rate of KWD18/sqm/month for phases I & II in 2011 and then increase it by an annual rate of 3% going forward versus a historical 5-year average of 6.7%. Our view is devised on the assertion that in spite of the expected increase in competition over the coming few years, The Avenues positioning as an early mover in the mega mall segment and the uniqueness of its product offering as a prominent shopping and entertainment destination will provide management with enough power to price accordingly.

For phase III, we factor in a rental rate of KWD40/sqm/month (below management guidance of KWD45/sqm/month) on the available GLA of 95,000 sqm with no further rental hikes. We assume project completion at the end of 1H12 and accordingly account for revenues from phase II only in 2H12 with an associated occupancy of 90% increasing gradually to 98% in 2014. For 2012, we also account for KWD9 mn arrangement fees as new tenants move into Phase III. We also expect advertising fees to contribute an annual KWD3 mn to Mabanee's top line.

Mabanee Revenue Forecasts 2011 - 2014

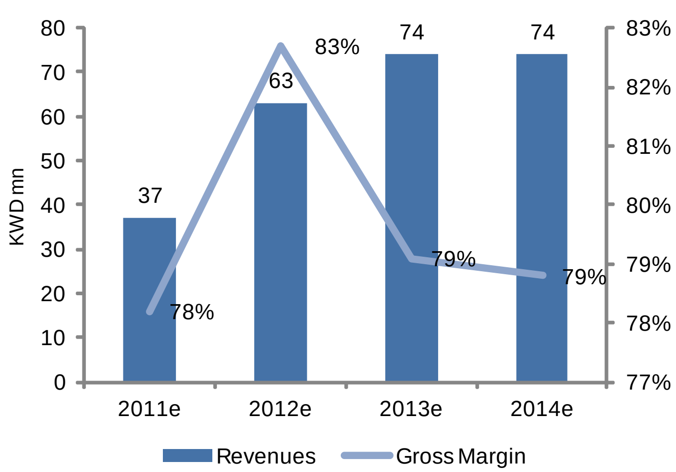
KWD (000)	2011	2012	2013	2014
Phases I & II	33,519	33,854	33,854	34,192
Phase III	-	17,020	35,910	35,910
Arrangement fees	300	9,000	1,000	-
Advertising & others	3,200	3,500	3,605	3,713
Total	37,019	63,374	74,369	73,815

Source: Global Research Forecasts

We maintain a gross margin of 71% (79% excluding depreciation expense) going forward in line with 2009 and 2010 actual figures given flat figures from core operations. 2012 represents the only exception on the back of recognition of contributions from the higher margins arrangement fees.

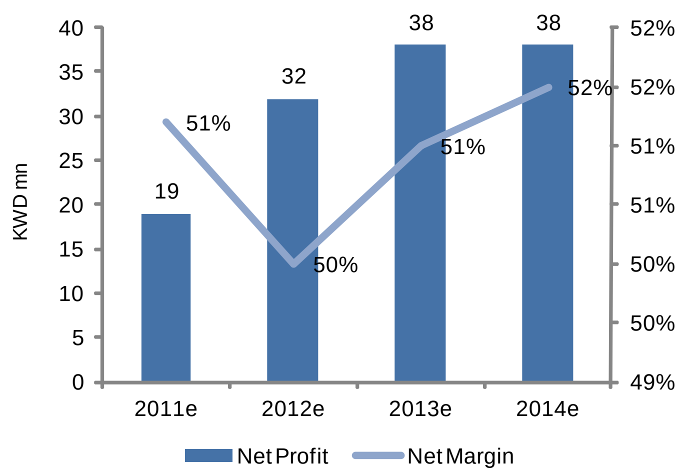
In terms of financing, we expect total debt outstanding to peak in 2012 at KWD128 mn and start dropping gradually afterwards. We exclude phase IV from our valuations and accordingly do not account for any funding or revenues for this expansion. We expect Mabanee's asset base to be dominated by its investment properties representing 87% of total assets while we also factor in a gradual liquidation of the financial investment portfolio through to 2014.

Mabanee Revenues & Gross Margin Forecasts 2011 - 2014



Source: Global Research Forecasts

Mabanee Net Profit & Net Margin Forecasts 2011 - 2014



Source: Global Research Forecasts

Financial Statements

Income Statement			Mabanee				
(KWD mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Revenues	36.3	34.5	35.6	37.0	63.4	74.4	73.8
Cost of revenues	(5.6)	(6.9)	(7.4)	(7.8)	(13.3)	(15.6)	(15.5)
Gross profit	**30.7**	**27.5**	**28.2**	**29.2**	**50.1**	**58.8**	**58.3**
SG&A	(2.3)	(2.5)	(2.8)	(3.0)	(5.1)	(5.9)	(5.9)
EBITDA	**28.4**	**25.1**	**25.4**	**26.3**	**45.0**	**52.8**	**52.4**
Depreciation & amortization	(2.5)	(3.1)	(3.2)	(3.5)	(4.2)	(4.9)	(4.9)
Provisions	-	(1.0)	(0.0)	-	-	-	-
EBIT	**25.9**	**21.0**	**22.2**	**22.7**	**40.8**	**47.9**	**47.6**
Share of gain from associates and JV's	0.2	0.6	(0.5)	0.2	0.4	0.5	0.5
Interest expense	(6.1)	(4.9)	(1.8)	(3.2)	(9.0)	(8.6)	(8.4)
Other income	(13.5)	(0.5)	(0.2)	-	-	-	-
Net profit before tax	**6.6**	**16.1**	**19.6**	**19.8**	**32.2**	**39.7**	**39.7**
Taxes	(0.2)	(0.8)	(0.9)	(0.9)	(1.4)	(1.7)	(1.7)
Net profit after tax	**6.3**	**15.4**	**18.7**	**18.9**	**30.8**	**38.0**	**37.9**
Minority interest	-	-	-	-	-	-	-
Net profit excluding minority	**6.3**	**15.4**	**18.7**	**18.9**	**30.8**	**38.0**	**37.9**

Source: Company Reports & Global Research

The company's Financial Year ends in December

Balance Sheet	Mabanee						
(KWD mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Cash and marketable securities	24.0	10.2	5.1	2.4	3.5	28.1	33.2
Receivables	6.5	4.3	6.7	6.1	10.1	12.7	12.1
Other Assets	0.8	-	-	-	-	-	-
Total current assets	**31.3**	**14.4**	**11.8**	**8.4**	**13.5**	**40.8**	**45.3**
Fixed assets	12.3	0.7	1.0	1.0	1.0	1.0	1.1
Investment properties	145.4	169.8	211.3	253.6	299.2	299.5	302.5
Other noncurrent assets	41.9	35.7	32.3	26.5	20.9	17.1	10.0
Total long term assets	**199.6**	**206.2**	**244.6**	**281.1**	**321.1**	**317.7**	**313.6**
Total assets	**230.8**	**220.6**	**256.4**	**289.5**	**334.7**	**358.5**	**358.9**
Short term bank loans & bank overdrafts	66.2	61.7	14.0	23.1	23.4	23.9	24.8
Accounts & notes payables	16.9	17.4	19.9	22.2	35.2	42.5	42.5
Total current liabilities	**83.0**	**79.2**	**33.9**	**45.3**	**58.6**	**66.4**	**67.3**
Long term debt	40.8	20.2	86.0	103.8	104.9	99.6	94.6
Non-convertible sukuk	-	-	-	-	-	-	-
Other financial liabilities	9.4	9.9	9.5	10.5	10.5	10.5	10.5
Total long term liabilities	**50.2**	**30.0**	**95.5**	**114.3**	**115.3**	**110.1**	**105.1**
Paid up capital	39.4	43.3	48.1	48.1	48.1	48.1	48.1
Other Adjustments	21.5	23.6	28.8	28.8	28.8	28.8	28.8
Retained earnings	36.6	44.5	50.1	53.1	83.8	105.1	109.6
Shareholders' equity	**97.6**	**111.4**	**127.0**	**129.9**	**160.7**	**182.0**	**186.5**
Total liabilities & equity	**230.8**	**220.6**	**256.4**	**289.5**	**334.7**	**358.5**	**358.9**

Source: Company Reports & Global Research

The company's Financial Year ends in December

Cash Flow Statement	Mabanee						
(KWD mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Net profit before tax	6.6	16.1	19.6	19.8	32.2	39.7	39.7
Depreciation & amortization	2.6	3.2	3.3	3.5	4.2	4.9	4.9
Interest expense	6.1	4.9	1.8	3.2	9.0	8.6	8.4
Other adjustments	13.9	2.0	0.9	2.0	(4.3)	(2.6)	3.6
Operating CF before changes in WC	**29.1**	**26.3**	**25.7**	**28.5**	**41.1**	**50.7**	**56.5**
Changes in accounts & notes receivables	(1.8)	1.2	(2.5)	(0.7)	4.0	2.6	(0.6)
Changes in accounts & notes payables	(6.0)	0.0	1.8	2.3	13.0	7.3	(0.0)
Other changes in working capital	(5.8)	0.0	(1.3)	-	-	-	-
Operating cash flow	**15.6**	**27.5**	**23.7**	**30.1**	**58.1**	**60.7**	**55.9**
Additions to fixed assets	(30.9)	(0.2)	(0.5)	(42.3)	(45.7)	(0.3)	(3.0)
Net change in financial investments	(7.8)	(9.8)	(37.1)	(0.8)	(4.5)	(2.7)	(6.2)
Other investing activities	9.3	(0.2)	0.3	(7.6)	(2.3)	(11.1)	(3.4)
Investing cash flow	**(29.4)**	**(10.2)**	**(37.3)**	**(50.7)**	**(52.5)**	**(14.1)**	**(12.6)**
Net financing raised	39.3	(32.2)	18.1	17.8	1.0	(5.2)	(5.0)
Dividends Paid	-	-	(4.5)	-	(5.6)	(16.7)	(33.3)
Other financing activities	(2.3)	(0.6)	0.0	-	-	-	-
Financing cash flow	**37.0**	**(32.7)**	**13.6**	**17.8**	**(4.5)**	**(21.9)**	**(38.3)**
Net changes in cash	**23.2**	**(15.4)**	**(0.0)**	**(2.7)**	**1.1**	**24.7**	**5.1**
Beginning cash	(2.6)	20.5	5.1	5.1	2.4	3.5	28.1
End cash	**20.5**	**5.1**	**5.1**	**2.4**	**3.5**	**28.1**	**33.2**

Source: Company Reports & Global Research

The company's Financial Year ends in December

Ratio Analysis	Mabanee						
	2008	2009	2010	2011e	2012e	2013e	2014e
Liquidity Ratios							
Current Ratio (x)	0.38	0.18	0.35	0.14	0.42	1.17	1.89
Quick Ratio (x)	0.37	0.18	0.35	0.14	0.42	1.17	1.89
Cash Ratio	0.29	0.13	0.15	0.01	0.24	0.98	1.71
Receivables Outstanding (Days)	65.2	45.1	69.1	59.8	58.0	62.3	60.0
Working Capital (mn)	(51.8)	(64.7)	(22.1)	(38.8)	(34.3)	11.0	59.7
Profitability Ratios							
Total Assets Turnover (x)	0.16	0.16	0.14	0.13	0.19	0.19	0.17
Net Fixed Assets Turnover (x)	0.23	0.20	0.17	0.15	0.21	0.26	0.25
Gross Profit Margin	84.6%	79.9%	79.1%	79.0%	79.0%	79.0%	79.0%
Operating Margin	71.3%	60.9%	62.3%	61.5%	64.3%	64.4%	64.4%
Net Profit Margin	17.1%	44.4%	52.4%	51.2%	48.6%	51.0%	51.4%
Return on Assets	2.7%	7.0%	7.3%	6.6%	9.0%	9.8%	8.9%
Return on Equity	6.4%	12.7%	13.7%	13.5%	18.0%	19.7%	19.3%
Leverage Ratios							
Times Interest Earned (x)	4.27	4.25	12.03	7.17	4.54	5.54	5.69
Debt / Equity (x)	0.24	0.18	0.22	0.28	0.29	0.28	0.27
Valuation Ratios							
EPS (KWD)	0.11	0.28	0.34	0.34	0.56	0.69	0.69
Book Value Per Share (KWD)	1.76	2.00	2.30	2.35	2.91	3.29	3.38
EV/Revenue (x)	14.61	15.06	15.24	15.51	8.86	6.81	6.13
EV/EBITDA (x)	18.66	20.70	21.36	21.84	12.48	9.59	8.63
Dividend Yield	0.0%	1.0%	0.0%	0.0%	0.0%	3.7%	7.5%
Market Price (KWD)	0.443	0.579	0.727	0.830	0.830	0.830	0.830
Market Capitalization (KWD mn)	245	320	402	458.6	458.6	458.6	458.6
P/E Ratio (x)	39.3	20.9	21.5	23.6	14.5	11.8	11.8
P/BV (x)	2.5	2.9	3.2	3.4	2.8	2.5	2.4

Source: Company Reports & Global Research

** Market price for 2011 and subsequent years as per closing prices on Oct 09, 2011*

Salhia Real Estate

STRONG BUY
Target Price
KWD0.265

Market Data

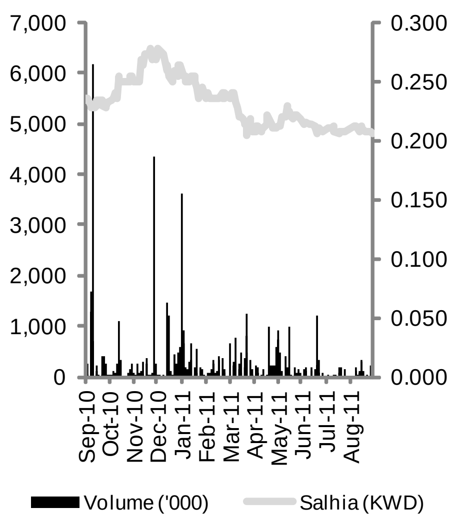
Bloomberg Code:	SRE KK
Reuters Code:	SREK.KW
CMP (09 Oct. 2011):	KWD0.206
O/S (000)	496,463
Market Cap (KWD mn):	103.3
Market Cap (USD mn):	373.5
P/E 2011e (x):	14.5
P/B 2011e (x):	0.8

Price Performance 1-Yr

High (KWD):	0.278
Low (KWD):	0.204
Average Volume: (000)	322

	1m	3m	12m
Absolute (%)	-1.0	-6.4	-5.7
Relative (%)	0.9	-0.7	6.5

Price Volume Performance



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- **Owns and manages a well diversified operating portfolio**
- **Stable revenues, but high exposure to the office market is a risk**
- **Risk from the financial investment portfolio minimized substantially**
- **Initiate Coverage with TP KWD0.265/share**

Well diversified operating real estate portfolio

Salhia's adopts a pure rental model as the company's core operations are only directed towards generating recurring income from the management of its owned real estate assets. Salhia has a well diversified portfolio that has exposure to the Kuwaiti retail, office and hospitality segments in addition to senior citizens home care facilities in Germany with further plans to penetrate the UK real estate market.

Stable revenues, but high exposure to the office market is a risk

Salhia enjoys a stable revenue profile although we perceive its high exposure to the local office and hotel markets as risks in the medium term. The collective contribution from the office segment to the top-line represented 34% of all Kuwait based generated revenue and 22% of the aggregate 2010 figure, up from 22% and 14% in 2009 as Arraya Tower II became fully operative. Further, we see the slowdown in business visits as a potential threat to the hospitality segment.

Risk from the financial investment portfolio minimized substantially

Salhia has an AFS investment portfolio valued at KWD23 mn as in 1H11. The value of the portfolio peaked in 2007 at KWD103 mn representing 32% of total assets during the time when local and global financial markets were booming. In 2008, Salhia realized an impairment loss of KWD48 mn on its AFS investments ahead of another KWD10 mn in 2009 and KWD4 mn in 2010. We believe the risk of further substantial impairments to the portfolio has decreased significantly given its current size.

Initiate Coverage with TP KWD0.265/share

Our SOTP valuation for Salhia Real Estate yields a fair value target of KWD0.265/share. Our price target for Salhia implies an upside potential of 29% from the current market price and accordingly, we initiate coverage with a STRONG BUY recommendation on the stock.

Investment Indicators

	2010	2011e	2012e	2013e	2014e
Revenue (KWD mn)	43.0	44.6	44.7	44.8	44.5
Net Profit (KWD mn)	10.2	7.1	7.1	6.8	7.0
EPS (KW Fils)	20.6	14.4	14.9	14.4	14.7
BVPS (KWD)	0.2	0.2	0.3	0.3	0.3
EV/EBITDA (x)	8.2	11.5	11.4	11.4	10.9
P/E (x)	13.53	14.47	14.01	14.49	14.17
P/B (x)	1.23	0.84	0.80	0.76	0.72

Source: Company Reports & Global Research

Valuation & Recommendation

For arriving at a fair value for Salhia, we utilized a Sum Of The Parts (SOTP) approach by valuing each project separately. For DCF valuations, we have used the Capital Asset Pricing Model (CAPM) to arrive at the cost of equity and adjusted our WACC to the upside for the hospitality and office operations based on our projections for the degree of riskiness of each project. The following assumptions were made in order to arrive at the SOTP target value:

- A risk-free rate of 2.1% has been assumed which is the yield on US 10-year Treasury bill.
- A market risk premium of 7.5% has been assumed.
- Adjusted beta assumed at 1.1.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model is 11.3%.
- The cost of debt has been assumed at 5%.
- On the basis of above assumptions we have derived a WACC of 10.7%.

Salhia Real Estate - Equity Valuation

KWD (000)	Value	/share	Methodology
Retail	48,290	0.097	Capitalization Rate 9%
Office	46,945	0.095	DCF
Hospitality	73,353	0.148	DCF
Care Home	72,720	0.146	DCF
Total NPV	241,308	0.486	
Add: 2Q11 Cash	7,333	0.015	
Add: Investments 2Q11	23,319	0.047	
Less: Debt 2Q11	139,239	0.280	
Less: Minority Interest	665	0.001	
Total Equity Value	132,056	0.266	
CMP		0.206	
Upside Potential		29%	

Source: Global Research

Recommendation

Salhia's core operations are only directed towards the ownership and management of real estate assets. Salhia manages a well diversified portfolio that has exposure to the Kuwaiti retail, office and hospitality segments in addition to the management of senior citizens home care operations in Germany with further plans to penetrate the UK real estate market. Salhia enjoys a stable revenue profile although we perceive its high exposure to the local office and hotel markets as risks in the medium term. We believe that the risks stemming from Salhia's large portfolio of financial investments has decreased significantly is mostly factored in the stock price. Our SOTP valuation of Salhia yields a fair value target of KWD0.265/share implying an upside potential of 29% from the current market price. We initiate coverage with a **STRONG BUY** recommendation on the stock.

Key Risks to Valuation

- **Slowdown in Kuwait's economy**

  Although we do not factor in any significant slowdowns in the overall economy or consumer spending, we believe that the prolonged deterioration in the global economy could have negative impacts in population growth especially in the expatriate population which is highly elastic to the health of the business environment.

- **Distressed fundamentals for the commercial office market**

  We have factored in gradual declines in rental rates for Salhia's office properties based on our negative view on the segment fundamentals. Any considerable changes in market conditions, which we believe are more to the downside, would force us to reconsider our valuation assumptions for this segment.

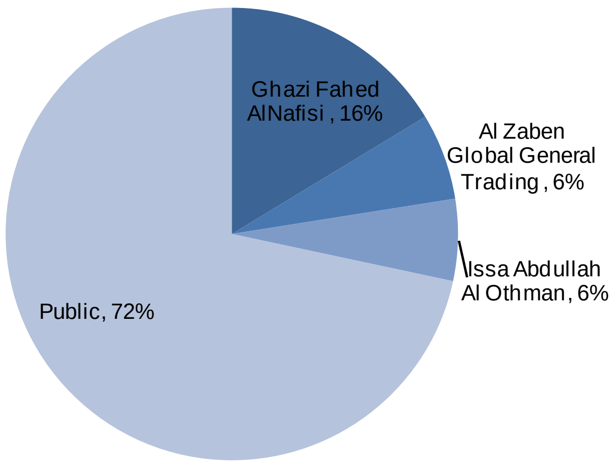
- **More provisions and impairments**

  Salhia has recognized hefty impairments on the fair value of its investment properties as well as its investments in financial assets. We are on the side that these provisions should slowdown over the coming few years. However, any unforeseen deterioration in asset prices would impose additional risks to our forecasts.

Profile

Salhia Real Estate was established in 1974 as a real estate development and management company headquartered in Kuwait. The company shares' were later made available to the public in 1984. Current paid up capital is KWD50.7 mn spread over 507 mn outstanding shares while the company's market capitalization stands at KWD106 mn as of September 28, 2011. Salhia's free float is relatively high amounting to 72% of total shares outstanding while other major shareholders' comprise Ghazi Fahed AlNafisi; a private investor owning 16% of the company does shares, AlZaben Global General Trading Company holding 6% and Issa Abdullah AlOthman own the remaining 6% of Salhia's shares.

Salhia Ownership Structure



Source: Zawya

Business Model

Salhia's business is another pure rental model as the company owns and manages a large portfolio of high-end investment properties in several locations in Kuwait, the GCC, UK and Germany. The company's portfolio encompasses four major segments comprising shopping malls, office buildings, hotels and home care operations with no exposure to the residential sector neither in Kuwait nor internationally. Salhia's real estate operations are based on the development and leasing of retail and office properties. Hospitality operations consist of hotel services provided through the company's two owned hotels based in Kuwait; the JW Marriott and Courtyard Marriott in addition to other complimentary services like Arraya Ball Room and food & beverage services. The Care Home operations are based in Germany and represent lodging and service activities provided by subsidiary companies.

Salhia Subsidiaries

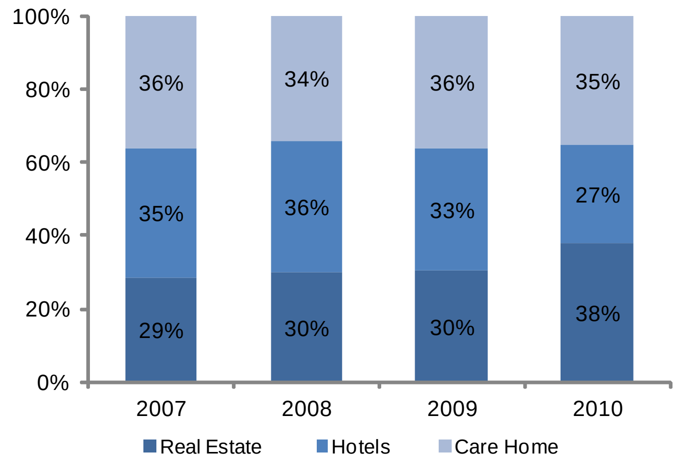
Directly held:			
Name	**Principal activity**	**Location**	**Ownership**
Drawbridge Securities Limited	Property development	United Kingdom	50.00%
Ingelby Limited	Property development	United Kingdom	50.00%
AlAsima Real Estate Company KSC	Property development	Kuwait	90.39%
Haddia Holding GMBH	Holding company	Germany	90.89%
Bunyan AlSalhia Project Management Company WLL	Project management	Kuwait	100.00%
Held through Haddia Holding GMBH:			
Name	**Principal Activity**	**Location**	**Ownership**
Dana Senioreneinrichtungen GMBH	Care home operator	Germany	40%
Dana Ambulante Pfegedientse GMBH	Care home service provider	Germany	40%
Dana Services GMBH (Gredo GMBH)	Care home catering service provider	Germany	40%
SAREC GMBH	Leasing of property	Germany	100%
Dana Semiorenresidenzen und Pflegeheime GMBH	Company for further operations	Germany	100%

Source: Company Reports

Contribution from the three operating segments has been proportionate over the past several years especially for Care Home operations reflecting the segment's revenue generation stability. The share of the hotels segment deteriorated significantly in 2010 to 27% of total revenues down from a historical 35% average on slower business environment, lower occupancy rates and increasing contribution from the office segment..

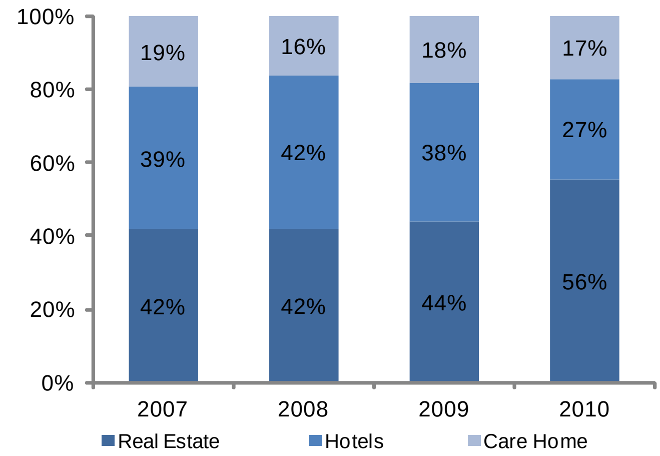
The real estate segment (office & retail), however, has the largest contribution to gross profits with a four year average of 46% versus 36% for hotels and 18% for Care Home. Real estate, which combines the results of retail and office investment properties, reports an average gross margin of 85% compared to 65% for hotels and 29% for Care Home.

Salhia Revenue Breakdown by Segment 2007 - 2010



Source: Company Reports

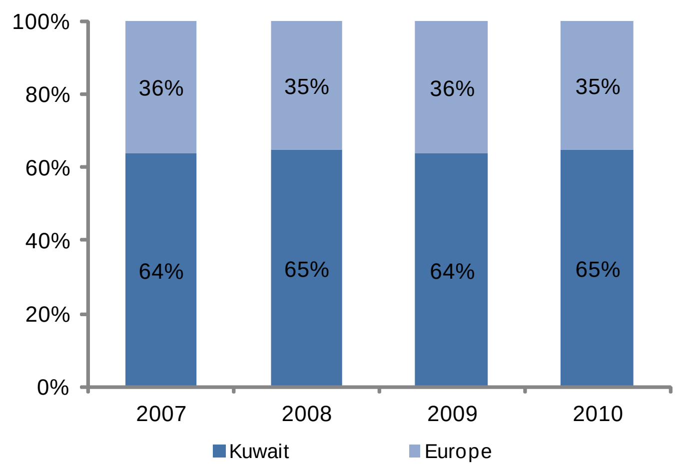
Salhia Gross Profit Breakdown by Segment 2007 - 2010



Source: Company Reports

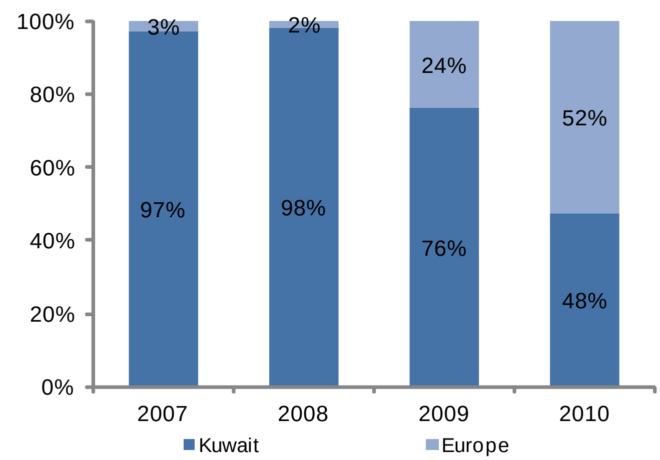
In terms of geographic presence, Salhia's retail, office and hotel properties are all located in Kuwait whereas the Care Home operations are based in Germany. Revenue decomposition revealed stable contributions of 65:35 percent from Kuwait and Germany, respectively. Care Home operations, which represent assisted living apartments and nursing homes, have had little capex requirements. During 2007 and 2008, Salhia reported capex of KWD37 mn for development of properties in Kuwait versus minor maintenance capex of KWD0.8 in Care Home. After the completion of Arraya Tower II in Kuwait City, Local capex requirements dropped to KWD5 mn and KWD1.6 mn in 2009 and 2010 while capex requirements for European operations increased to KWD1.7 mn in 2010 on new projects undertaken in the UK.

Salhia Geographical Revenue Breakdown 2007 - 2010



Source: Company Reports

Salhia Geographical Capex Breakdown 2007 - 2010



Source: Company Reports

Project Profile

Retail Portfolio

Salhia's retail portfolio comprises the retail space attached to Salhia Commercial Complex and Arraya Plaza, both of which are located in Kuwait City. The Salhia Commercial Complex is one of the oldest and most prestigious shopping malls in Kuwait. The retail space of the complex spreads over 14,372 sqm and has been fully occupied with an esteemed tenant profile for seventeen consecutive years and has, accordingly established the needed loyalty for the shopping centre. Arraya Plaza was established in 2003 as a mixed use centre for retail and office space. The retail GLA covers 10,749 sqm and is currently running a 100% occupancy rate.

Both shopping centers are occupied with high end boutique retailers and have areas designated for a selection of restaurants and cafes. This mix coupled with the prominent location given that both centers are located in the CBD area act as a source of attraction to visitors. Further, all retail areas in both malls are designated for small size line shops with no anchor tenants, which enables Salhia to realize higher rental income. The combined revenue of the two malls stood at KWD5.8 mn in 2010 representing 21% of Kuwait related revenue and 13% of Salhia's total revenue.

Salhia Retail Portfolio

Name	GLA	Average Occupancy		Average Rental Rate		Revenue	
				KWD/sqm/month		KWD mn	
	sqm	2009	2010	2009	2010	2009	2010
Salhia Commercial Complex	14,372	100%	100%	20.5	21.8	3.50	3.58
Arraya Plaza	10,749	100%	100%	21.1	20.4	2.29	2.22

Source: Salhia Real Estate

Commercial Portfolio

Salhia's commercial portfolio consists of four properties; Salhia Commercial Complex office space, AlSahab Tower, Arraya Commercial Centre attached office space and Arraya Tower II. The collective leasable offering of the four towers stands at 78,485 sqm located in the CBD area. Salhia Complex although being relatively old, has historically been considered one of the most prominent commercial premises in Kuwait and is, hence, able to maintain high occupancy and rental rates. Arraya commercial centre and Arraya Tower II are both modern structures located in the heart of the CBD area. Given their superior facilities and location, the take up rate for both buildings is significantly high and are renting at averagely moderate rates. Out of Salhia's portfolio, AlSahab Tower faces the highest downside risk as it lacks any specific attractions other than being located near Salhia Complex. The tower's vacancy rate increased in 2010 to 6% up from 1% in the previous coupled with a decrease in average rent from KWD12.5/sqm/month to KWD11.4/sqm/month. Rental contracts for the tower are based on a 3-5 years lease term and we believe that there is high potential for downward pressure on both rents and occupancy rates as older contracts become due for renewal.

Salhia Commercial Portfolio

Name	Completion	GLA	Average Occupancy		Average Rental Rate		Revenue	
					KWD/sqm/month		KWD mn	
		sqm	2009	2010	2009	2010	2009	2010
Salhia Commercial Complex	1978	25,471	99%	99%	10.7	10.8	3.29	3.25
AlSahab Tower	1997	10,738	99%	94%	12.5	11.4	1.50	1.39
Arraya Commercial Centre	2003	5,950	100%	100%	8.7	8.7	0.63	0.63
Arraya Tower II	2008	36,326	59%	83%	8.1	10.0	0.75	4.16

Source: Salhia Real Estate

Revenues from the commercial portfolio stood at KWD9.4 mn in 2010 after receiving a significant boost from the completion of Arraya Tower II which added 36,326 sqm (86% increase) to Salhia's leasable office space. The collective contribution from the office segment to the top line represented 34% of the company's Kuwait generated revenues and 22% of the aggregate 2010 figure up from 22% and 14% in 2009.

Given the negative outlook on the office segment in Kuwait, we believe that Salhia's commercial rental portfolio will be subject to high risk over the coming years. Although the rates for Arraya Tower II are based on relatively recent contracts and reflect market expectations, we believe that the downward risk for AlSahab Tower and Salhia Complex could by higher given their older age.

Hospitality Portfolio

The hospitality segment activities are all based in Kuwait and encompass five lines of revenue generation. Salhia owns two hotels located in the CBD that are managed by the Marriot Group. The JW Marriott has 315 rooms and Courtyard Marriott with 306 rooms. Both hotels have seen occupancy rates and ADR's dropping on slower business conditions which resulted in a revenue decrease of 17% in 2010. We believe that operations in the hotel segment will remain feeble in the coming 2-3 years given the current global and regional conditions especially that occupancy in both hotels is driven business visitors. Other lines include Arraya Ballroom, food & beverage services in addition to revenue recognized from providing accommodation to hotel workers in towers owned by Salhia.

Salhia Hospitality Portfolio

Name	Rooms	Average Occupancy		Average Daily Rate KWD/night		Revenue KWD mn	
		2009	2010	2009	2010	2009	2010
JW Marriott	315	43%	38%	89	85	4.71	3.99
Courtyard Marriott Hotel	306	55%	47%	66	63	3.68	2.98
Arraya Ballroom	1,500*					2.47	1.89
Food & Beverages						3.92	3.04
Staff Housing						0.65	0.81

** sqm*

Source: Salhia Real Estate

Care Home

Salhia, through its 90.9% owned Haddia Holding GMBH manages a total of 1,800 beds in 4 properties for assisted living apartments and 13 nursing homes. The properties are located in Germany's North Western region and are owned by SAREC, a fully owned subsidiary of Haddia. Revenues from The care home operations have been stable over the past five years hovering around an average of KWD14.8 mn annually.

Salhia Care Home Operations

Name	Beds	Average Occupancy		Average Bed Rate KWD/bed/month		Revenue KWD mn	
		2009	2010	2009	2010	2009	2010
Income from beds	1,800	91%	86%	814	813	15.99	15.10

Source: Salhia Real Estate

Other Projects

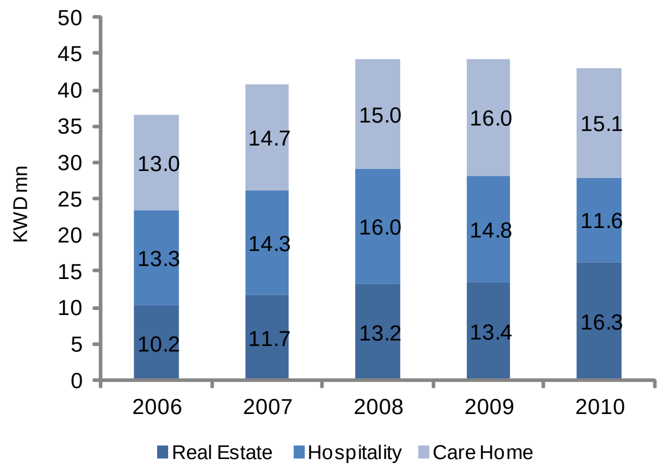
Amongst the other projects in Salhia's portfolio is AlAsima project; a mixed use development with an initial cost estimate of KWD240 mn. In 2Q11, Salhia increased its stake in AlAsima Real Estate Company, which owns AlAsima project from 50% to 96.39%. According to management, site work for initial phases has begun after securing all formal approvals, but was halted by notification from the Ministry of Finance pending execution of a leasing agreement.

Further, Salhia also has plans to initiate operations in the UK. A master plan and an initial detailed planning consent were obtained in November 2009 from the city council of Birmingham to develop the Beorma project, which is planned to be a vital part of the city's regeneration proposals. The scheme will provide space in excess of 59,500 sqm of GLA and will be developed in three phases.

Financial Highlights

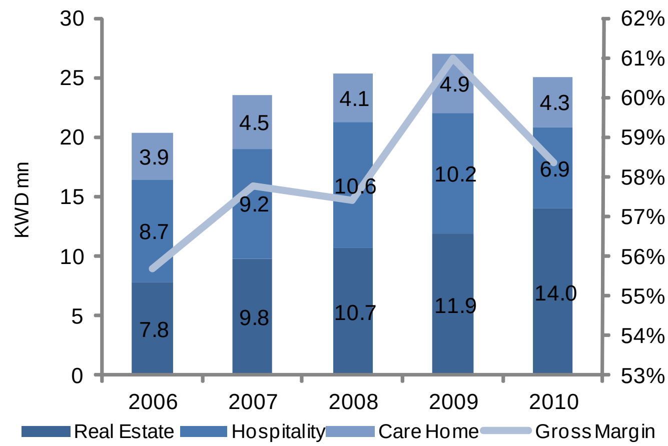
Revenues registered a 5-year CAGR of 4% between 2006 and 2010 peaking at KWD44 mn in 2008 and 2009 before softening 3% in 2010. The drop of 2010 was driven by lower income from the hospitality segment which dropped 21% affected by the slowing business environment. Care home also slowed down to KWD15.1 mn from KWD16 mn in 2009 but remained above its 5-year average of KWD14.8 mn on lower occupancy and rental rates. The growth achieved from the office segment, however, compensated for the slowdown with revenues from Arraya Tower II increasing almost fivefold to KWD4.1 mn while revenues from retail remained unchanged at KWD5.8 mn.

Salhia Revenue Breakdown 2006 - 2010



Source: Company Reports

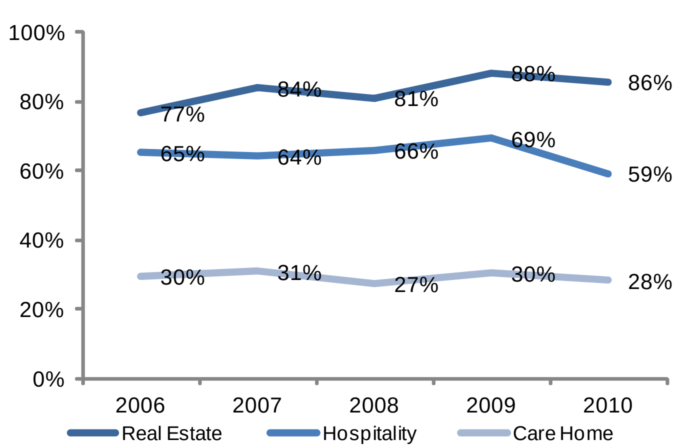
Salhia Gross Profit & Gross Margin 2006 - 2010



Source: Company Reports

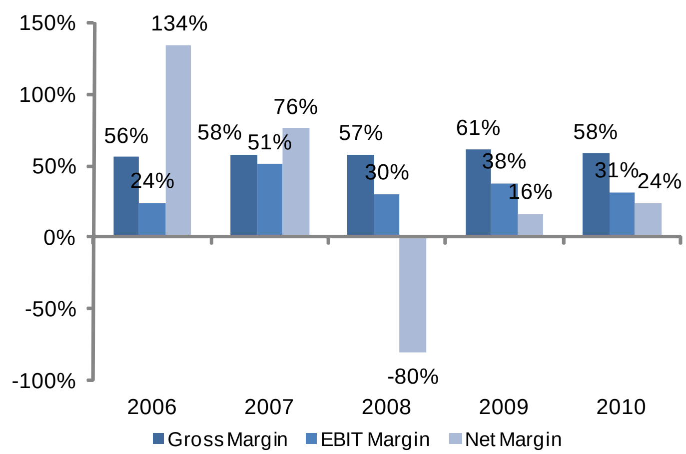
The real estate segment, which includes retail and commercial operations, achieved a gross margin 86% in 2010 above its 5-year average of 83% while the hospitality segment's gross margin dropped to 1,000bps to 59% from 69% the prior year and Care Home operations reported a gross margin of 28%. 2010 aggregate gross margin came in at 58% down from 61% in 2009. Salhia's operating margin dropped to 31% in 2010 from 38% in 2009 on lower gross margin and higher SG&A and depreciation expenses. 2010 net profit was KWD10 mn registering an increase of 41% over the prior year with an associated margin of 24% up from 16%. The increase in 2010 net profit was driven by higher investment income, which constituted 82% of net profit before tax, lower interest expense and lower Impairment loss on financial assets available for sale.

Salhia Gross Margin by Segment 2006 - 2010



Source: Company Reports

Salhia Profitability Margins 2006 - 2010

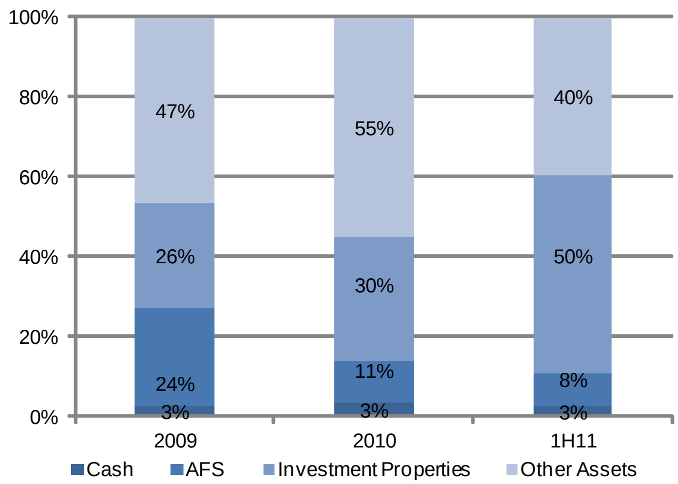


Source: Company Reports

As of 1H11, Salhia's assets had KWD141 mn of investment properties, equivalent to 50% of total assets. The figure increased from KWD66 mn at the end of 2010 due to the consolidation of the assets of AlAsema Real Estate Company after the acquisition of the additional 40% stake in 2Q11. Total debt also increased, on the back of the same accounting treatment, from 39% of total liabilities and equity to 49% at KWD139 mn increasing the company's debt to equity (Market Value) to 1.35x up from 0.64x at the end of 2010. Salhia's Kuwait based assets represented 77% of total assets at the end of 2010 while international assets comprised the balance 23%.

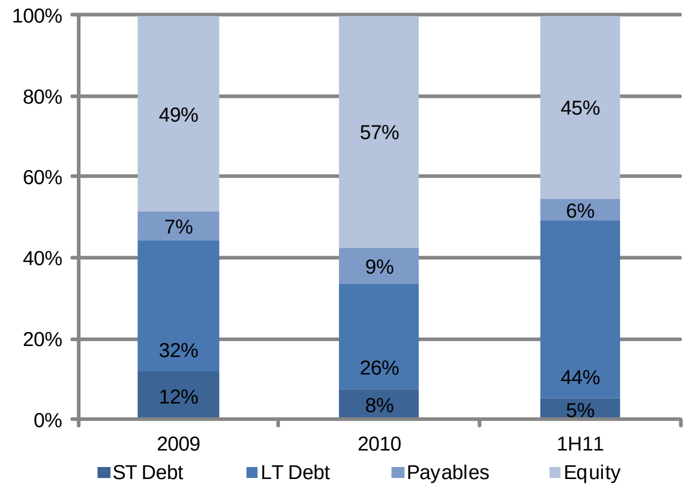
Salhia has a portfolio of Available for Sale (AFS) investments valued at KWD23 mn in 1H11, unchanged from the end of 2010. The portfolio consists of KWD7 mn of local investments and KWD16 mn of international investments. The value of the portfolio peaked in 2007 at KWD103 mn representing 32% of total assets during the time when local and global financial markets were booming. In 2008, Salhia realized an impairment loss of KWD48 mn on its available for sale investments ahead of another KWD10 mn in 2009 and KWD4 mn in 2010. Management has indicated that it is currently working on divesting the financial investment portfolio but is awaiting better market conditions.

Salhia Asset Breakdown 2009 - 1H11



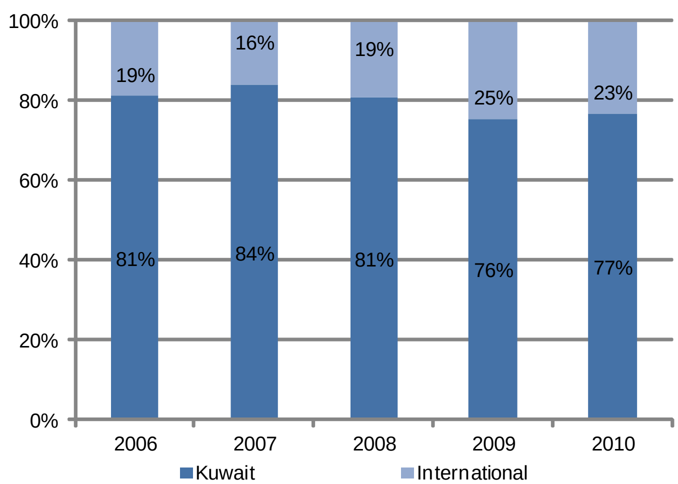
Source: Company Reports

Salhia Liabilities & Equity Breakdown 2009 - 1H11



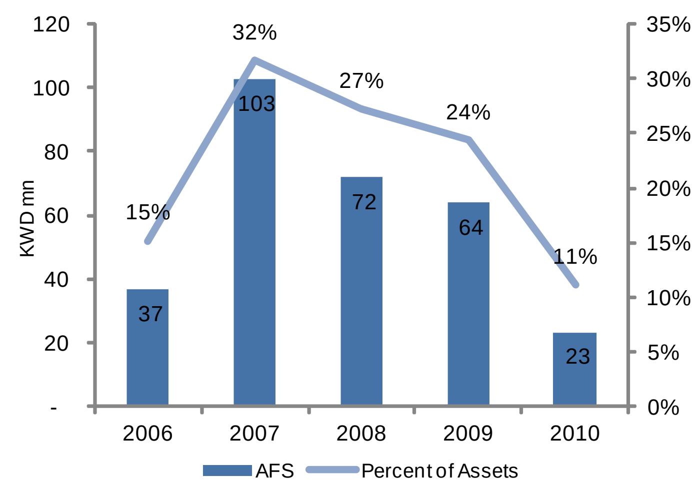
Source: Company Reports

Salhia Asset Geographical Breakdown 2006 - 2011



Source: Company Reports

Salhia AFS & AFS as Percent of Total Assets 2006 - 2010



Source: Company Reports

Key Forecast Assumptions

For retail properties, we maintain the current rates of occupancy and rents given the profile of Salhia's shopping centers and their tenant base. Salhia complex has gained the loyalty and luxury positioning that provides the needed pricing power while Arraya Centre young age and modern structure place it in a scarce segment offering. Further, the location of both properties in the CBD area enhances footfall growth on the two centers.

The commercial office rentals operations propose the largest threat to Salhia's revenues over the short to medium term. AlSahab tower is already showing signs of weakness in terms of occupancy and rents and we expect further downwards pressure on the entity as it is relatively old and lacks any significant attractions. We also see the same risk for the office space of Salhia Commercial Centre given its older age but maintain the view that the complex' positioning as a luxury destination would create some floor against significant deteriorations. Further, for both Arraya Towers office space, we see growing competition from the supply entering the market in the same area where they are located with the same quality and facilities. Accordingly, in line with the market trend, we drop the average rent of Salhia's portfolio by 15% from KWD10.48/sqm/month in 2010 to KWD8.94/sqm/month.

For the hospitality segment, we believe that hotel occupancy has bottomed out in 2010 but see minor improvements over the coming two years given the current global and regional situation. We also see minor improvements in ADRs over the same period with the view that any significant rate hikes will be compensated for with lower occupancy rates. We expect to see gradual improvements in the food & beverage segment and negligible improvements in revenues from Arraya Ballroom.

We like the exposure to the care home operations given its stable profile, low capex requirements and the sector's anti-cyclical nature. We maintain stable revenues from this segment at an average KWD14.5 mn annually through to 2014 below the historical average of KWD15.2 mn.

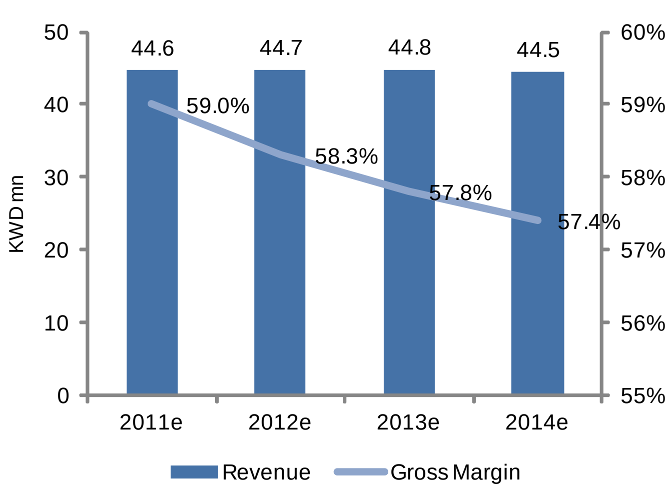
Salhia Revenue Forecast 2011 - 2014

KWD (000)	2011	2012	2013	2014
Retail	6,427	6,431	6,450	6,454
Commercial offices	9,534	9,074	8,480	7,832
Hospitality	14,419	14,806	15,292	15,494
Care Home	14,261	14,403	14,547	14,693
Total	44,641	44,715	44,770	44,472

Source: Global Research Forecasts

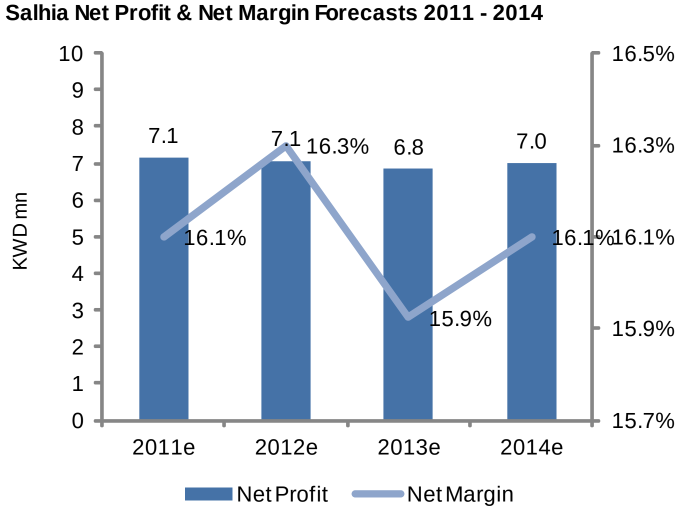
Given our expectations of lower contributions from the higher margin office segment, we expect to see margin compressions in Salhia's gross figure over the coming four years. We also expect the pace of impairment recognition on investment properties and AFS to slowdown gradually over the same period.

Salhia Revenues & Gross Margin Forecasts 2011 - 2014



Source: Global Research Forecasts

Salhia Net Profit & Net Margin Forecasts 2011 - 2014



Source: Global Research Forecasts

Financial Statements

Income Statement	Salhia Real Estate						
(KWD mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Revenues	44.1	44.2	43.0	44.6	44.7	44.8	44.5
Cost of revenues	(18.8)	(17.2)	(17.9)	(18.3)	(18.6)	(18.9)	(18.9)
Gross profit	**25.3**	**27.0**	**25.1**	**26.3**	**26.1**	**25.9**	**25.5**
SG&A	(6.9)	(5.2)	(5.4)	(5.6)	(5.6)	(5.6)	(5.6)
EBITDA	**18.4**	**21.7**	**19.7**	**20.8**	**20.5**	**20.3**	**20.0**
Depreciation & amortization	(5.2)	(5.0)	(6.2)	(6.0)	(6.1)	(6.3)	(6.5)
Provisions	-	-	-	-	-	-	-
EBIT	**13.3**	**16.7**	**13.5**	**14.7**	**14.4**	**14.0**	**13.5**
Interest income	0.2	0.1	0.2	0.2	0.3	0.2	0.3
Interest expense	(7.2)	(6.3)	(4.7)	(5.6)	(7.5)	(7.3)	(6.7)
Other income	(42.8)	(2.0)	1.8	(1.6)	0.8	0.8	0.8
Net profit before tax	**(36.5)**	**8.5**	**10.8**	**7.7**	**8.0**	**7.7**	**7.9**
Taxes	(0.0)	(1.5)	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)
Net profit after tax	**(36.5)**	**7.0**	**9.8**	**7.0**	**7.2**	**7.0**	**7.1**
Minority interest	(1.0)	(0.3)	(0.4)	(0.1)	0.2	0.1	0.2
Net profit excluding minority	**(35.5)**	**7.2**	**10.2**	**7.1**	**7.1**	**6.8**	**7.0**

Source: Company Reports & Global Research

The company's Financial Year ends in December

Balance Sheet	Salhia Real Estate						
(KWD mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Cash and marketable securities	7.6	7.5	7.4	4.0	6.5	5.9	6.7
Receivables	6.4	9.6	6.4	5.8	5.8	5.8	5.8
Inventories	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Total current assets	**14.4**	**17.4**	**14.1**	**10.2**	**12.6**	**12.1**	**12.8**
Net fixed assets	166.8	172.1	161.9	236.1	238.3	242.1	236.4
Available for sale investments	71.8	63.8	23.4	23.4	23.4	23.4	23.4
Other noncurrent assets	11.0	9.0	10.3	10.5	10.6	10.7	10.8
Total long term assets	**249.6**	**244.9**	**195.6**	**270.0**	**272.3**	**276.3**	**270.7**
Total assets	**264.0**	**262.3**	**209.7**	**280.1**	**284.9**	**288.4**	**283.5**
Short term bank loans	29.5	29.9	15.1	15.1	15.1	15.1	15.1
Accounts & notes payables	18.7	17.1	17.3	18.0	18.0	18.0	17.9
Total current liabilities	**48.1**	**47.0**	**32.4**	**33.1**	**33.1**	**33.1**	**33.0**
Long term debt	98.1	81.0	50.7	124.1	121.6	118.0	106.2
Other financial liabilities	11.5	12.9	14.4	-	-	-	-
Total long term liabilities	**109.6**	**94.0**	**65.0**	**124.1**	**121.6**	**118.0**	**106.2**
Paid up capital	38.8	37.5	37.2	47.6	47.6	47.6	47.6
Other Adjustments	71.3	81.6	65.4	65.6	65.4	65.3	65.1
Retained earnings	(3.8)	2.3	9.7	9.8	17.2	24.4	31.6
Shareholders' equity	**106.3**	**121.3**	**112.2**	**122.9**	**130.1**	**137.2**	**144.3**
Total liabilities & equity	**264.0**	**262.3**	**209.7**	**280.1**	**284.9**	**288.3**	**283.5**

Source: Company Reports & Global Research

The company's Financial Year ends in December

Cash Flow Statement	Salhia Real Estate						
(KWD mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Net profit before tax	(36.5)	7.4	10.4	7.7	8.0	7.7	7.9
Depreciation & amortization	5.2	5.0	6.2	6.0	6.1	6.3	6.5
Net interest expense	7.0	6.2	4.5	5.6	7.5	7.3	6.7
Provisions & Impairments	52.3	1.7	(4.7)	-	-	-	-
Other adjustments	(8.4)	2.3	4.0	(9.4)	(9.1)	(7.6)	(10.6)
Operating CF before changes in WC	**19.5**	**22.7**	**20.4**	**10.0**	**12.5**	**13.7**	**10.5**
Changes in accounts & notes receivables	2.6	(3.3)	3.2	(0.6)	0.0	0.0	(0.0)
Change in inventories	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.0)	0.0
Changes in accounts & notes payables	(1.7)	(1.9)	0.0	0.7	0.0	0.0	(0.1)
Other changes in working capital	(1.5)	(0.3)	(0.9)	-	-	-	-
Operating cash flow	**18.9**	**17.2**	**22.8**	**10.0**	**12.5**	**13.8**	**10.3**
Additions to fixed assets	10.1	(6.1)	(3.3)	(74.2)	(2.2)	(3.9)	5.7
Additions to financial assets	(9.1)	9.4	29.3	-	-	-	-
Other investing activities	10.7	4.6	3.9	(11.5)	(5.4)	(6.8)	(3.5)
Investing cash flow	**11.7**	**7.9**	**29.9**	**(85.7)**	**(7.6)**	**(10.6)**	**2.2**
Net financing raised	(22.8)	(6.5)	(22.9)	73.5	(2.5)	(3.6)	(11.8)
Dividends Paid	(17.9)	-	(5.7)	-	-	-	-
Other financing activities	(0.4)	(6.3)	(4.7)	-	-	-	-
Financing cash flow	**(41.1)**	**(12.8)**	**(33.4)**	**73.5**	**(2.5)**	**(3.6)**	**(11.8)**
Net changes in cash	**(10.5)**	**12.3**	**19.2**	**(2.2)**	**2.5**	**(0.5)**	**0.7**
Beginning cash	(14.8)	(25.3)	(13.0)	6.2	4.0	6.5	5.9
End cash	**(25.3)**	**(13.0)**	**6.2**	**4.0**	**6.5**	**5.9**	**6.7**

Source: Company Reports & Global Research

The company's Financial Year ends in December

Ratio Analysis	Salhia Real Estate						
	2008	2009	2010	2011e	2012e	2013e	2014e
Liquidity Ratios							
Current Ratio (x)	0.30	0.37	0.44	0.32	0.37	0.33	0.39
Quick Ratio (x)	0.29	0.36	0.43	0.30	0.36	0.32	0.38
Cash Ratio	0.13	0.16	0.23	0.13	0.18	0.14	0.21
Receivables Outstanding (Days)	52.8	79.5	54.6	47.5	47.5	47.5	47.5
Working Capital (mn)	(33.7)	(29.6)	(18.3)	(22.6)	(20.9)	(22.3)	(20.1)
Profitability Ratios							
Total Assets Turnover (x)	0.17	0.17	0.21	0.16	0.16	0.16	0.16
Net Fixed Assets Turnover (x)	0.26	0.26	0.27	0.19	0.19	0.18	0.19
Gross Profit Margin	57.4%	61.0%	58.4%	59.0%	58.3%	57.8%	57.4%
Operating Margin	30.0%	37.8%	31.4%	33.0%	32.3%	31.3%	30.3%
Net Profit Margin	-80.4%	16.4%	23.7%	16.0%	16.5%	15.9%	16.4%
Return on Assets	-13.8%	2.6%	4.7%	2.5%	2.5%	2.4%	2.5%
Return on Equity	-33.4%	5.2%	7.7%	5.7%	5.6%	5.1%	5.0%
Leverage Ratios							
Times Interest Earned (x)	1.85	2.67	2.86	2.64	1.92	1.92	2.02
Debt / Equity (x)	1.24	1.07	0.64	1.35	1.32	1.29	1.17
Ratios Used for Valuation							
EPS (KW Fils)	(71.5)	14.6	20.6	14.38	14.85	14.36	14.68
Book Value Per Share (KWD)	0.21	0.24	0.23	0.25	0.26	0.28	0.29
EV/Revenue (x)	5.08	4.68	3.76	5.34	5.23	5.18	4.90
EV/EBITDA (x)	12.17	9.51	8.19	11.48	11.42	11.43	10.91
Dividend Yield	5.7%	0.0%	7.5%	0.0%	0.0%	0.0%	0.0%
Market Price (KWD)	0.211	0.207	0.278	20.8%	20.8%	20.8%	20.8%
Market Capitalization (KWD mn)	104.8	102.8	138.0	103.26	103.26	103.26	103.26
P/E Ratio (x)	na	14.17	13.5	14.47	14.01	14.49	14.17
P/BV (x)	0.99	0.85	1.23	0.84	0.80	0.76	0.72

Source: Company Reports & Global Research

** Market price for 2011 and subsequent years as per closing prices on Oct 08, 2011*

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Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Mabanee	BUY	MABANEE KK	MABK.KW	KWD 0.830	1,10
Salhia Real Estate	STRONG BUY	SRE KK	SREK.KW	KWD 0.206	1,10

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