SALHIA REAL ESTATE

Back to Business

May 25, 2011

KEY DATA

Fair Value per Share (KD)	0.265
Closing Price (KD) *	0.212
52-week High / Low (KD)	0.278 / 0.204
YTD / 12-month return	-23.8% / -6.3%
Trailing P/E	10.1
Shares Outstanding (million)	488
Market Cap (KD million)	104
Free Float	72.22%
Reuters / Bloomberg Code	SREK.KW / SRE KK

**As of May 24, 2011. Sources: Reuters, Kuwait Stock Exchange, and NBK Capital*

KEY METRICS

	2010A	2011F	2012F	2013F
EPS (KD)	0.026	0.015	0.014	0.013
EPS Growth	39.9%	-42.4%	-5.7%	-5.1%
P/E	10.1	14.1	14.9	15.7
PBV	0.93	0.80	0.79	0.78
Dividend Yield	9.4%	5.0%	4.7%	4.4%
EV/EBITDA	7.8	8.3	8.7	8.9
Revenue (KD 000s)	42,996	40,585	39,959	39,664
Revenue Growth	-2.8%	-5.6%	-1.5%	-0.7%
EBITDA (KD 000s)	20,905	19,622	18,759	18,237
EBITDA Growth	-2.6%	-6.1%	-4.4%	-2.8%
EBITDA Margin	48.6%	48.3%	46.9%	46.0%
Net Profit (KD 000s)	10,204	7,350	6,934	6,580
Net Profit Growth	40.8%	-28.0%	-5.7%	-5.1%

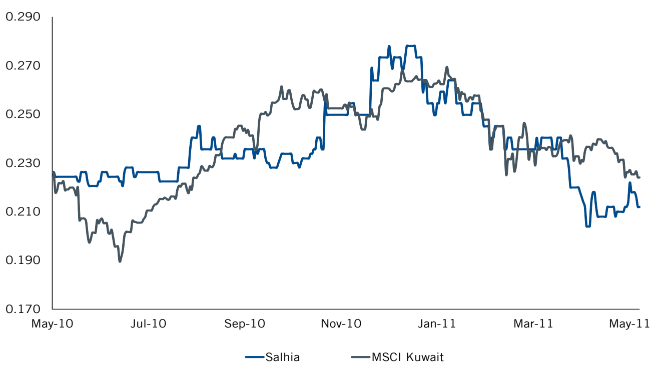
Sources: Company financial statements and NBK Capital

QUARTERLY FORECASTS

KD 000s	1Q2010A	2Q2010A	1Q2011E	2Q2011F
Revenue	11,236	10,903	10,958	10,552
EBITDA	5,539	5,294	5,298	5,102

Source: NBK Capital

REBASED PERFORMANCE



Sources: MSCI, Reuters, and NBK Capital

Analysts

Rajat Bagchi

T. +965 2259 5115
E. rajat.bagchi@nbkcapital.com

Mariam Al-Bahar

T. +965 2259 5138
E. mariam.albahar@nbkcapital.com

HIGHLIGHTS

12-Month Fair Value: KD 0.265

Recommendation: Buy – Risk Level: 3**

Reason for Report: Reinitiation of coverage

- **Reinstate coverage with a "Buy" recommendation; upside potential 25%:** Our past concern regarding Salhia's available-for-sale (AFS) portfolio has been resolved due to the management's decision to focus on the core business, which has led to a significant reduction in the AFS portfolio. Accordingly, we reinitiate our coverage of Salhia with a "Buy" recommendation and a new fair value of KD 0.265 per share (upside of 25%). We believe the company's undervalued property portfolio completely outweighs the expected decline in operations. Our earlier apprehension regarding the company's AFS portfolio and its likely adverse impact on the shareholders' equity was justified in the context of the global financial crisis. Eventually, we withdrew our recommendation on the stock and put it "Under Review" in an update on November 11, 2008.
- **All negatives priced in; current stock price assumes distressed asset values:** We feel the current stock price of KD 0.212 is extremely depressed considering the fair value of the Salhia complex only is KD 98.4 million / KD 0.201 per share which alone accounts for 95% of the current market cap. We believe concerns regarding the expected new supply in the Kuwaiti office and hotel segment are already factored into the current stock price. The stock currently trades on a price-to-net asset value (NAV) of 0.32x and on a price-to-book value of 0.93x.
- **Dividend story:** The company's strong free cash flow generating ability and consistent dividend record will be a catalyst. The company has only missed dividends twice (2003 and 2008) in the last fourteen years, with an average dividend payout ratio of 74% during the same period (average of 70% over our forecast horizon). The stock currently trades at a forward dividend yield of 5%.
- **Real estate and hotel segments – area of concern; care home operation likely to benefit from Germany's demographics:** The hotel segment revenue in 2010 dropped by 21.5% YoY, which clearly highlights the anticipated slowdown in that segment. We expect this trend to continue. As for the real estate operations, we expect a new supply of almost 350,000 sq. m. in the office segment in Kuwait over the near term, which will put pressure on occupancy rates and will reduce rental rates for the company's office properties going forward. Accordingly, we expect revenue from real estate and hotel segments to decrease at a six-year CAGR of 3.5%. However, the German-based care home operation is likely to benefit from the country's increasing ageing population. Accordingly we forecast segment revenue to grow at a six-year CAGR of 4%.

***Please refer to page 9 for recommendations and risk ratings.*

Reinitiate Coverage of Salhia Real Estate

Our past concern regarding Salhia's AFS portfolio has been resolved due to management's decision to focus on the core business, which led to a significant reduction in the AFS portfolio. From a peak exposure of KD 102.7 million at the end of 2007 (67% of total shareholders' equity), the AFS portfolio stood at KD 23.4 million at the end of December 2010 (21% of shareholders' equity). The 2010 year-end balance for the AFS portfolio was the lowest over the last six years, and as a percentage of total shareholders' equity was the lowest over the last 14 years; furthermore, it was well below the historical 14-year average of 42%.

Our apprehension regarding the AFS portfolio and its likely adverse impact on shareholders' equity was justified in the context of the global stock market meltdown. Accordingly, we withdrew our recommendation on the stock and put it "Under Review" in an update on November 11, 2008.

AFS Portfolio – Losses and Planned Liquidation Lowers Concentration

As per the 2010 financial statements, the managed portfolio (both local and foreign) accounted for 37% of the total investment portfolio, whereas unquoted securities accounted for almost 61%, and funds accounted for the rest. We have not taken into account any investment income for forecasting purposes.

The AFS portfolio accounted for 21% of shareholders' equity as of December 2010, which is the lowest in the last 14 years

Figure 1 AFS Investments

AFS Portfolio - KD million	**2007**	**2008**	**2009**	**2010**
Managed Portfolios - (quoted securities)	88.5	97.0	41.7	8.7
Managed Funds	0.36	0.30	0.23	0.54
Unquoted Securities	22.2	30.3	21.9	14.2
Total AFS Investments	**102.7**	**71.8**	**63.8**	**23.4**
Local Investments	29.5	21.8	15.3	8.4
Foreign Investments	73.2	50.0	48.5	15.0
Local Investments (as a % of Total AFS portfolio)	28.7%	30.3%	24.0%	35.9%
Foreign Investments (as a % of Total AFS portfolio)	71.3%	69.7%	76.0%	64.1%
AFS portfolio (as a % of shareholders' equity)	**67.4%**	**67.6%**	**52.6%**	**20.9%**
AFS portfolio (as a % of total assets)	**31.6%**	**27.2%**	**24.3%**	**11.2%**

Sources: Company Financials and NBK Capital

Liquidation of Investments Significantly Lowers Debt

The current debt-to-equity ratio of 0.59x is a notable drop from 0.92x in 2009, which was mainly due to a 40% decline in total debt. This decline was brought about through the liquidation of a portion of the AFS portfolio, which was kept as collateral for short-term loans. The arrangement carried a predefined term, wherein the liquidation proceeds from the portfolio would be used only for repaying the debt. The lowering of debt is likely to result in average annual savings of around KD 1.5 million in interest expenses going forward. The current outstanding debt of KD 65.8 million is the lowest in the last 9 years. Salhia has maintained an average debt-to-equity ratio of 1x over the last 10 years, ranging from a maximum of 1.28x in 2003, to a minimum of 0.59x in 2010. The company's robust business model and hidden assets (undervalued real estate properties on the books) provide further comfort in securing the debt repayment. These hidden reserves can come in useful when placing collateral for the refinancing of short-term loans. The company has a proven history of continued debt serviceability and we expect it to maintain a debt-to-equity ratio in the range of 0.4x–0.5x in the foreseeable future. We expect the EBIT interest cover ratio to average 3.6x over our entire forecast period. At the end of FY2010, loans worth KD 12 million were secured by real estate properties and land banks, which together appear at a book cost of KD 56 million. Long-term loans accounted for 76% of total loans outstanding at the end of 2010. Loans amounting to KD 30 million at the end of 2010 were obtained by subsidiaries, with no recourse on Salhia.

VALUATION

In light of the recent developments in Kuwait and other geographic locations where the company operates, we have adopted a conservative outlook for all business segments. Our risk rating of 3 for Salhia is based on our subjective criteria, such as risks associated with developments in a sector similar to the company's business segments, market risk relating to the investment portfolio, and currency risk.

We reinitiate our coverage of Salhia with a "Buy" recommendation and a new fair value of KD 0.265 per share, implying an upside potential of 25% compared to the last closing price. The fair value has been arrived at by using three valuation methods: discounted cash flow (DCF), net asset value (NAV), and sum-of-the-parts (SOTP; using forward EV/EBITDA multiples).

Significantly undervalued property portfolio: As mentioned earlier, we feel the current stock price assumes distressed asset values for the company's property portfolio which we highlight by analyzing the gross rental yields of a few properties. Salhia complex, Sahab tower, Arraya office tower and Arraya complex (excluding Courtyard Marriott) together (roughly account for 35% of the total real estate and land portfolio), appear at a total book value of 56.4 million as of the end of December 2010, almost 75% below their total fair value of KD 223.4 million (as per the company's valuation). These four properties generated average gross rental yields of 6.7% based on their 2010 gross rental income and fair value provided by the company. Applying current benchmark gross rental yields of 8.5% prevailing in Kuwait to the total rental income generated by these properties in 2010, we arrive at a total fair value of KD 179 million, which is 20% lower than the fair value provided by the company for these properties. This results in a NAV per share of KD 0.480, which is more than double the current market price and does not consider the remaining property portfolio, which appears at a book value of KD 96 million / KD 0.196 per share. This fair value assumes a terminal gross rental yield of 6.85% based on our rental income forecasts for these properties in FY2016, which we feel reasonable considering the expected pressure on rental rates and occupancy rates for office properties in Kuwait going forward.

Real estate and hotel segments – area of concern; care home operations likely to benefit from Germany's demographics: The hotel segment revenue in 2010 dropped by 21.5% YoY, which clearly highlights the anticipated slowdown in that segment. We expect this trend to continue. As for the real estate operations, we expect a new supply of almost 350,000 sq. m. in the office segment in Kuwait over the next 12–24 months, which will put pressure on occupancy rates and lower rental rates for the company's office properties going forward. Accordingly we expect revenue from the real estate and hotel segments to decrease at a six-year CAGR of 3.4% and 3.5%, respectively, between 2010 and 2016. However, the German-based care home operation are likely to benefit from the country's demographics. Proportionally larger ageing population in Germany is likely to result in revenue growth for this segment. We expect moderate increases in both bed occupancy and average realization per bed, thus resulting in segment revenue growth of a six-year CAGR of 4% until 2016.

Salhia's higher EBITDA margin for each of its business segments compared to its global and regional peers results in higher segmental EV/EBITDA multiples for the company. This explains the higher fair value of KD 0.458 as per this method compared to the other two valuation methods.

Our new 12-month fair value for Salhia is KD 0.265 per share

Figure 2 Fair Value per Share

Valuation Method	Value (KD)	Weight
Discounted cash flow	0.196	70%
Net asset value	0.409	20%
Sum-of-the-parts	0.458	10%
Weighted average fair value	**0.265**	**100%**

Source: NBK Capital

Net Asset Value

Our NAV valuation (Figure 3) for Salhia is based on the restatement of the value of investment properties (real estate properties), other real estate properties included in the property, plant, and equipment (PP&E) block, and the AFS portfolio.

Major assumptions in the NAV valuation are as follows:

- The market value of investment properties (real estate properties), and other real estate properties included in the PP&E block is derived from the company's annual financial statements for 2010. The company discloses the market value of its property portfolio at the end of every year as valued by independent qualified third-party valuers.
- We have applied a discount factor to the fair value of the company's real estate property portfolio and land to capture both systematic as well as liquidity risks specific to Kuwait as well as to the other countries in which Salhia operates. In the case of properties for which the discounted value dropped below their respective book value, we considered the book value of the property. In the case of properties for which fair value provided by the company was less than the book value, we considered the fair value.
- Regarding the quoted securities under the AFS portfolio, our discussions with the company's management led to our understanding that the quoted securities include a mix of both regional as well as global stocks. Due to the absence of a detailed breakdown of the portfolio, we used the MSCI World index as a benchmark index for this portfolio. Accordingly, we assumed a current market value of KD 8.9 million for the quoted securities compared to the December 2010 market value of KD 8.7 million, which is in line with the year-to-date return (YTD) return for MSCI World index (up 3% on a YTD basis). As for the unquoted category of securities, we have applied a discount rate of 50% to appropriately capture the liquidity risk.

Adjusting for all of the above, we arrive at an adjusted NAV of KD 199.7 million / KD 0.409 per share, which is almost double the current stock price.

The NAV valuation yields a fair value of KD 0.409 per share, almost double the current market price

Figure 3 Fair Value – Net Asset Value

	KD ('000)
Shareholders' equity attributable to the parent company (2010)	111,710
Less: Book cost of investment properties (2010)	66,078
Less: Book cost of real estate properties included in the PP&E block (2010)	86,271
Less: Book cost of available-for-sale investment portfolio (2010)	23,405
Add: Treasury shares at market price (15.2 million shares)	3,227
Add: Market value of investment properties (2010)	222,355
Add: Market value of real estate properties included in the PP&E block (2010)	146,990
Add: Market value of available-for-sale investment portfolio (2010)	16,010
Net Asset Value (NAV)	**324,537**
Less: Adjustment on market value of real estate properties	124,845
Adjusted NAV	**199,692**
Per Share Value in KD (on adjusted NAV)	**0.409**
Current Market Price (KD)	0.212
Upside/Downside	**92.9%**

Source: Company and NBK Capital

We would like to highlight that the company holds notable undervalued real estate properties. Worth mentioning are the Salhia complex and the entire Arraya complex (including the mall, the Arraya II office tower, the old office tower, car park, Courtyard Marriott, and the convention center), at a book cost of KD 10 million and KD 66.3 million, respectively, at the end of 2010. These are worth KD 98.4 million and KD 137.3 million, respectively, as per valuation carried out by independent valuers hired by the company. Without applying the discount, we arrive at a NAV of KD 324.5 million / KD 0.665 per share, which is more than triple the current stock price.

FINANCIAL PERFORMANCE REVIEW AND OUTLOOK

- There were two key takeaways from the FY2010 financial statements – 1) Depressed results for the hotel segment, which negatively affected the overall performance of the company; and 2) liquidation of the AFS portfolio, which resulted in lower debt levels.
- Salhia's total revenue decreased by almost 3% to KD 43 million in 2010, compared to KD 44.2 million in 2009. The drop in revenue was mainly due a 21.5% YoY drop in revenue from the hotel segment.
- The company recorded a net profit of KD 10.2 million in 2010, which was 41% higher than in 2009. This was mainly due to the decrease in provisions for the impairment of AFS investments and the increase in investment income. Investment income increased by 14% to KD 8.9 million in 2010, compared to KD 7.8 million in 2009. While provisions for the impairment of AFS investments more than halved to KD 4.2 million in 2010.

The overall results in 2010 were marred by the disappointing results in the hotel segment

Figure 4 Financial Performance 2010 and Forecasts

Segment results (KD million)	2010	2009	YoY growth	Common size		Forecast	
				2010	2009	2011f	2012f
Real estate operations	16.3	13.4	21.3%	37.9%	30.4%	15.2	14.1
Hotel operations	11.6	14.8	-21.5%	27.0%	33.4%	11.0	10.4
Care home operations	15.1	16.0	-5.6%	35.1%	36.2%	14.4	15.4
Total revenue	**43.0**	**44.2**	**-2.8%**	**100.0%**	**100.0%**	**40.6**	**40.0**
Real estate operations	14.0	11.9	17.8%	85.7%	88.2%		
Hotel operations	6.9	10.2	-32.8%	59.3%	69.2%		
Care home operations	4.3	4.9	-12.5%	28.3%	30.5%		
Gross profit	**25.1**	**27.0**	**-6.9%**	**58.4%**	**61.0%**	**23.5**	**22.5**
Real estate operations	12.0	10.0	20.3%	73.6%	74.2%		
Hotel operations	5.8	7.9	-26.3%	50.4%	53.7%		
Care home operations	3.1	3.6	-13.8%	20.4%	22.3%		
EBITDA	**20.9**	**21.5**	-2.6%	**48.6%**	**48.5%**	**19.6**	**18.8**
Net Profit	**10.2**	**7.2**	**40.8%**	**23.7%**	**16.4%**	**7.3**	**6.9**

Source: Company Financials and NBK Capital

Real Estate Operations – Outlook

According to various industry sources, a huge supply of office space in Kuwait is expected from the end of 2011 onwards, with a staggering 350,000 sq.m. set to hit the market over the next 24 months. Almost 60% of this (Al Hamra, Kuwait Business Town, and United Tower) is expected to be completed by the end of 2011. This kind of supply will be a totally new experience for the Kuwaiti office segment, and we expect the company to bear the brunt of the negative impact of this new supply. Accordingly, we anticipate that the company's occupancy levels will dip, leading to a softening in rental rates. We expect revenues from real estate operations to decrease to a six-year CAGR of 3.4% between 2010 and 2016.

We expect average occupancy rates for Salhia's office buildings to drop from the current level of almost 97% to 90% by 2016, while the occupancy rates for retail spaces are expected to drop to 92.5% by 2016 compared to full occupancy in 2010. We expect rental income for retail segment to remain flat over the forecast period for both the Salhia Commercial Complex and the Arraya Commercial Centre, mainly due to flat rental rates thus, compensating for the drop in occupancy rates. As for the office space, we expect rental income to decrease at a six-year CAGR of 5.2% over the forecast period, mainly due to the drop in both rental rates as well as occupancy rates across all properties within the office segment.

Figure 5 Expected Supply of Office Space in Kuwait

A staggering 350,000 sq.m of new office space is expected to hit the Kuwaiti market over the next two years

Notable upcoming supply in office space	Area (sq. m)
Al Tijara Tower	26,580
Al Waqf Tower	22,000
Panasonic Tower	19,500
Olympia (Salmiya)	17,700
Symphony (Salmiya)	17,000
Al Hamra	106,000
Kuwait Business Town	68,000
United Tower	35,400
Free Trade Zone	20,000
Al Othman Charity Complex (Hawally)	12,000
Wafra New Building (Salmiya)	4,000
Al Ras Business Tower (Salmiya)	1,200
Total	**349,380**

Source: Various industry sources and NBK Capital

We have a more positive outlook on the high-end retail segment in Kuwait compared to the office segment. We expect limited new supply for the high-end retail segment in Kuwait over the next 12-18 months. Worth mentioning is the Grand Avenues and luxury mall (net leasable area of 50,000-55,000 sq. m.) which is part of Avenues phase III and is expected to be operational by 3Q2012. The much anticipated Al-Hamra tower will consist of a high-end mall with a net leasable area of 23,000 sq. m and is expected to be completed by the end of 2011. Accordingly, we expect new supply of around 73,000–78,000 sq.m. to hit the high-end retail market in the near term. In spite of the new supply, we feel that Kuwait is underserved in the high-end retail segment considering that the new supply would result in total stock of around 100,000 sq.m within this particular segment. Hence, we believe that Salhia's two high-end malls and those that are upcoming can coexist given the country's high per capita GDP and purchasing patterns of consumers. However, this niche luxury mall segment, which has been Salhia's exclusive territory within the retail rental sector in Kuwait, is definitely going to face more competition in the future. Accordingly, we are a bit conservative about the retail segment as well, and have incorporated it into our forecasts by declining occupancy rates for the company in future.

Hotel Operations – Outlook

The hotel segment is showing signs of slowdown, as evident from the 2010 results. With many new hotels opening and existing ones adding new rooms, we expect both average room occupancy and average room rates to take a beating. According to the Kuwait Hotel Owners' Association, an additional 1,400 new hotel rooms (almost 50% of existing hotel rooms in the 5-star category) are expected to be available over the next three years. In the 4-star category, it is expected that the number of hotel rooms will double compared to the current levels over the same time frame. Even if we are to believe that many of the previously declared hotel projects may have been delayed or entirely shelved due to the financial crisis, the creation of 50–60% of the planned supply of rooms would nevertheless have a severe negative impact on the segment as a whole. However, in these difficult times, we feel the prime location and the fact that both of the Salhia hotels are managed by the Marriott group are big positives for the company.

A 21.5% YoY drop in revenue from hotel segment in 2010 clearly highlights the anticipated slowdown in the Kuwaiti hotel market, which we expect to continue. Accordingly, we expect revenues from hotel operations to decrease at a five-year CAGR of 3.5% between 2010 and 2016. We expect occupancy rates for the JW Marriott to drop from 50% in 2010 to an average of 40% over our forecast period. We also expect occupancy rates for the Courtyard Marriott to decline going forward, dropping from 55% in 2010 to an average of 45% over our forecast horizon. Furthermore, we expect average room rates for the JW Marriott to decrease from KD 85–90 per night in 2010 to an average range of KD 60–65 per night over our forecast period. We forecast room rates per night for the Courtyard Marriott to decline from KD 60–65 in 2010 to an average range of KD 50–55 over our forecast period.

Care Home Operations – Outlook

The company's management is comparatively upbeat about this segment, taking into account the demographics of Germany, which are dominated by higher life expectancy and falling birth rates. With an aging population and higher disposable income, Germany is experiencing heightened demand for quality facilities and nursing skills to address the needs of older affluent adults. Coupled with the fact that an increasing number of baby boomers will be moving into the old age bracket, prospects for the care home business in Germany appear bright.

It is predicted that Germany will continue the trend towards an ever-ageing population. As per official German statistics, the German population is expected to shrink from the current level of 82.3 million to 68.8 million by 2050. The proportion of people aged over 85 will increase, and it is estimated that the number of people in need of care will more than double by 2050. Moreover, it is expected that more than 10 million people in German will be 80 years of age or older by 2050, a shade less than triple what this population was in 2005 (3.7 million). It is also expected that the life expectancy of those aged 65 in 2050 will be 4.5 years longer than for 65-year-old people today. The average age of the population will rise from 42 to 50, and every second German will be over 48 by the year 2050. All of these factors are expected to lead to increased demand for old age health care.

All of the above mentioned factors lend credence to the bright prospects for the care home industry, which we expect will have a positive impact on the care home operations for Salhia. Accordingly we expect bed occupancy rates for Salhia's care home operations to increase from 89% in 2010 to 95% over our forecast period. However, it is worth mentioning that players in this particular sector in Germany do not enjoy any pricing power as bed rates are regulated by the local government. The government negotiates the bed rates with care home operators once every 3 years. Bed rates are generally increased to adjust for prevailing inflation. Accordingly, we forecast average bed rates for this segment to grow by 4% over our forecast period, which should result in revenues from care home operations growing at a similar CAGR over our forecast horizon.

FINANCIAL STATEMENTS

Income Statement (KD Thousands)	Historical		Forecast				
Fiscal Year Ends December	2009	2010	2011	2012	2013	2014	2015
Total Revenue	44,213	42,996	40,585	39,959	39,664	40,148	40,329
Cost of Revenue	17,249	17,895	17,085	17,456	17,676	18,212	18,428
Gross Profit	**26,964**	**25,101**	**23,499**	**22,503**	**21,988**	**21,935**	**21,901**
Selling/General/Admin. Expenses	5,230	5,359	5,377	5,494	5,751	5,922	6,049
Depreciation/Amortization	5,043	6,239	6,270	6,075	5,887	5,704	5,527
Operating Income	**16,692**	**13,503**	**11,852**	**10,934**	**10,350**	**10,309**	**10,325**
Interest Income (Exp), Net Non-Operating	(6,263)	(4,719)	(3,426)	(3,308)	(3,303)	(3,524)	(3,713)
Net Income before Taxes	**8,475**	**10,820**	**9,234**	**8,954**	**8,738**	**8,636**	**8,657**
Provision for Income Taxes	(1,525)	(1,051)	(1,385)	(1,520)	(1,659)	(1,653)	(1,654)
Net Income after Taxes	**6,950**	**9,770**	**7,850**	**7,434**	**7,080**	**6,982**	**7,003**
Minority Interest	(299)	(434)	(500)	(500)	(500)	(500)	(500)
Net Income	**7,249**	**10,204**	**7,350**	**6,934**	**6,580**	**6,482**	**6,503**

Balance Sheet (KD Thousands)	Historical		Forecast				
Fiscal Year Ends December	2009	2010	2011	2012	2013	2014	2015
ASSETS							
Cash and Short-Term Investments	7,472	7,385	23,215	28,002	32,620	40,560	48,699
Total Receivables, Net	9,628	6,435	6,899	7,193	7,536	8,030	8,267
Total Current Assets	**17,437**	**14,124**	**30,439**	**35,534**	**40,493**	**48,991**	**57,390**
Property/Plant/Equipment, Total - Net	172,067	161,864	157,030	152,344	147,800	143,394	139,122
Long-Term Investments	63,798	23,405	23,405	23,405	23,405	23,405	23,405
TOTAL ASSETS	**262,342**	**209,684**	**221,428**	**222,143**	**222,908**	**227,350**	**231,827**
LIABILITIES & EQUITY							
Accounts Payable	17,148	17,287	17,249	17,182	17,155	17,464	17,644
Total Current Liabilities	**17,148**	**17,287**	**17,249**	**17,182**	**17,155**	**17,464**	**17,644**
Total Debt	110,937	65,794	58,782	56,273	53,840	54,596	55,428
Other Liabilities	12,926	14,354	15,854	17,354	18,854	20,354	21,854
Total Liabilities	**141,011**	**97,435**	**91,884**	**90,809**	**89,849**	**92,414**	**94,926**
Total Equity	**119,974**	**111,710**	**129,005**	**130,795**	**132,520**	**134,397**	**136,362**
TOTAL LIABILITIES AND EQUITY	**262,342**	**209,684**	**221,428**	**222,142**	**222,908**	**227,349**	**231,827**

Cash Flow (KD Thousands)	Historical		Forecast				
Fiscal Year Ends December	2009	2010	2011	2012	2013	2014	2015
Cash from Operating Activities	17,241	22,756	16,939	16,047	15,299	15,175	15,185
Cash from Investing Activities	7,861	29,903	(761)	(525)	(423)	(260)	(71)
Cash from Financing Activities	(12,840)	(33,410)	(348)	(10,736)	(10,257)	(6,976)	(6,974)
Net Change in Cash	12,262	19,249	15,831	4,786	4,618	7,940	8,139

Sources: Company Financials and NBK Capital

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

DISCLAIMER

The information, opinions, tools, and materials contained in this report (the “Content”) are not addressed to, or intended for publication, distribution to, or use by, any individual or legal entity who is a citizen or resident of or domiciled in any jurisdiction where such distribution, publication, availability, or use would constitute a breach of the laws or regulations of such jurisdiction or that would require Watani Investment Company KSCC (“NBK Capital”) or its subsidiaries or its affiliates to obtain licenses, approvals, or permissions from the regulatory bodies or authorities of such jurisdiction. The Content, unless expressly mentioned otherwise, is under copyright to NBK Capital. Neither the Content nor any copy of it may be in any way reproduced, amended, transmitted to, copied, or distributed to any other party without the prior express written consent of NBK Capital. All trademarks, service marks, and logos used in this report are trademarks or service marks or registered trademarks or registered service marks of NBK Capital.

The Content is provided to you for information purposes only and is not to be used, construed, or considered as an offer or the solicitation of an offer to sell or to buy or to subscribe for any investment (including but not limited to securities or other financial instruments). No representation or warranty, express or implied, is given by NBK Capital or any of its respective directors, partners, officers, affiliates, employees, advisors, or representatives that the investment referred to in this report is suitable for you or for any particular investor. Receiving this report shall not mean or be interpreted that NBK Capital will treat you as its customer. If you are in doubt about such investment, we recommend that you consult an independent investment advisor since the investment contained or referred to in this report may not be suitable for you and NBK Capital makes no representation or warranty in this respect.

The Content shall not be considered investment, legal, accounting, or tax advice or a representation that any investment or strategy is suitable or appropriate for your individual circumstances or otherwise constitutes a personal recommendation to you. NBK Capital does not offer advice on the tax consequences of investments, and you are advised to contact an independent tax adviser.

The information and opinions contained in this report have been obtained or derived from sources that NBK Capital believes are reliable without being independently verified as to their accuracy or completeness. NBK Capital believes the information and opinions expressed in this report are accurate and complete; however, NBK Capital gives no representations or warranty, express or implied, as to the accuracy or completeness of the Content. Additional information may be available upon request. NBK Capital accepts no liability for any direct, indirect, or consequential loss arising from the use of the Content. This report is not to be relied upon as a substitution for the exercise of independent judgment. In addition, NBK Capital may have issued, and may in the future issue, other reports that are inconsistent with and reach different conclusions from the information presented in this report. Those reports reflect the different assumptions, views, and analytical methods of the analysts who prepared the reports, and NBK Capital is under no obligation to ensure that such other reports are brought to your attention. NBK Capital may be involved in many businesses that relate to companies mentioned in this report and may engage with them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions, and estimates contained in this report reflect a judgment at the report’s original date of publication by NBK Capital and are subject to change without notice.

The value of any investment or income may fall as well as rise, and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price, or income of that investment. In the case of investments for which there is no recognized market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

NBK Capital has not reviewed the addresses of, the hyperlinks to, or the websites referred to in the report and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to NBK Capital’s own website material) is provided solely for your convenience and information, and the content of the linked site does not in any way form part of this document. Accessing such websites or following such links through this report or NBK Capital’s website shall be at your own risk.

© COPYRIGHT NOTICE

This is a publication of NBK Capital. No part of this publication may be reproduced or duplicated without the prior consent of NBK Capital.

NBK CAPITAL

Kuwait

Head Office
38th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research
35th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage
37th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates

NBK Capital Limited
Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506
Dubai, UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey

NBK Capital
Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

NATIONAL BANK OF KUWAIT

Kuwait

National Bank of Kuwait SAK
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
T. +965 2242 2011
F. +965 2243 1888
Telex: 22043-22451 NATBANK

INTERNATIONAL NETWORK

Bahrain

National Bank of Kuwait SAK
Bahrain Branch
Seef Tower, Al-Seef District
P.O. Box 5290, Manama, Bahrain
T. +973 17 583 333
F. +973 17 587 111

Saudi Arabia

National Bank of Kuwait SAK
Jeddah Branch
Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
T. +966 2 653 8600
F. +966 2 653 8653

United Arab Emirates

National Bank of Kuwait SAK
Dubai Branch
Sheikh Rashed Road, Port Saeed
Area, ACICO Business Park
P.O. Box 88867, Dubai
United Arab Emirates
T. +971 4 2929 222
F. +971 4 2943 337

Jordan

National Bank of Kuwait SAK
Head Office
Al Hajj Mohd Abdul Rahim Street
Hijazi Plaza, Building # 70
P.O.Box 941297,
Amman -11194, Jordan
T. +962 6 580 0400
F. +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
Sanayeh Head Office
BAC Building, Justinian Street
P.O. Box 11-5727, Riyad El Solh
1107 2200 Beirut, Lebanon
T. +961 1 759 700
F. +961 1 747 866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O.Box 3420, Baghdad, Iraq
T. +964 1 7182198/7191944
+964 1 7188406/7171673
F. +964 1 7170156

Egypt

Al Watany Bank of Egypt
13 Al Themar Street
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza, Egypt
T. +202 333 888 16/17
F. +202 333 79302

United States of America

National Bank of Kuwait SAK
New York Branch
299 Park Avenue, 17th Floor
New York, NY 10171, USA
T. +1 212 303 9800
F. +1 212 319 8269

United Kingdom

National Bank of Kuwait (Intl.) Plc
Head Office
13 George Street,
London W1U 3QJ, UK
T. +44 20 7224 2277
F. +44 20 7224 2101

NBK Investment
Management Limited
13 George Street
London W1U 3QJ, UK
T. +44 20 7224 2288
F. +44 20 7224 2102

France

National Bank of Kuwait (Intl.) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
T. +33 1 5659 8600
F. +33 1 5659 8623

Singapore

National Bank of Kuwait SAK
Singapore Branch
9 Raffles Place #51-01/02
Republic Plaza, Singapore 048619
T. +65 6222 5348
F. +65 6224 5438

Vietnam

National Bank of Kuwait SAK
Vietnam Representative Office
Room 2006, Sun Wah Tower
115 Nguyen Hue Blvd, District 1
Ho Chi Minh City, Vietnam
T. +84 8 3827 8008
F. +84 8 3827 8009

China

National Bank of Kuwait SAK
Shanghai Representative Office
Suite 1003, 10th Floor,
Azia Center, 1233 Lujiazui Ring Rd.
Shanghai 200120, China
T. +86 21 6888 1092
F. +86 21 5047 1011

ASSOCIATES

Qatar

International Bank of Qatar (QSC)
Suhaim bin Hamad Street
P.O.Box 2001
Doha, Qatar
T. +974 447 3700
F. +974 447 3710

Turkey

Turkish Bank
Head Office
Valikonagl Avenue No. 1
P.O.Box 34371 Nisantasi,
Istanbul, Turkey
T. +90 212 373 6373
F. +90 212 225 0353

KUWAIT ▪ DUBAI ▪ ISTANBUL ▪ CAIRO