

May 31, 2012

## SALHIA REAL ESTATE (SREK.KW)

12 – Month Fair Value: KWD 0.300

Recommendation: Accumulate – Risk Level: 3

Last Close (30 May 2012): KWD 0.265

- Salhia Real Estate reported its detailed 1Q2012 results this morning.
- **Revenues of KWD 11.34 million were 3% below our estimate of KWD 11.7 million.** The segmental breakdown shows the shortfall came almost entirely from hotel operations, which reported revenues of KWD 3.35 million, as against our estimate of KWD 3.6 million. Real estate operations reported revenues of KWD 4.22 million, in line with our estimate of KWD 4.25 million, whilst care homes reported revenues of KWD 3.76 million, in line with our estimate.
- **Gross profit came in at KWD 6.82 million, 1% below our estimate of KWD 6.96 million,** the difference being entirely due to the lower than expected hospitality revenues. Segment profitability was broadly in line with our estimates.
- **EBITDA came in at KWD 5.16 million, which was 8.4% below our forecast of KWD 5.63 million.** This was entirely due to higher-than-expected SG&A spend. SG&A declined 13.5% YoY in FY2011, and our discussions with management indicated that they would remain at FY2011 levels in FY2012. There was a strong seasonality in FY2011, where 1Q2011 SG&A spend represented 42% of FY2011 spend. This seasonality had not existed at all in previous years. It may be the case that it is happening again in FY2012, in which case our FY2012 SG&A forecasts would stand. We will speak to management to clarify this.
- **The company reported an attributable net profit of KWD 2.29 million** (we do not forecast net profit on a quarterly basis for Salhia). Joint venture reported a loss of KWD -0.4 million, as against a profit of KWD 1 million in 1Q2011, however investment income came in at KWD 1.15 million (as against KWD 0.47 million in 1Q2011). Finance costs of KWD -1.8 million were exactly in line with forecasts.
- **The one negative surprise came from the cash flow.** Cash flow from operations was low at KWD 0.44 million, as against KWD 3.4 million in 1Q2011. This was entirely due to an almost doubling of receivables (from KWD 4.75 million at YE2011 to KWD 9.75 million at end 1Q2012), marking a strong deterioration in WCR. Pre WCR cash flow from operations was in line with forecasts. There is a strong chance that the change in receivables will prove a one-off blip, but we will have to clarify this with management.
- **Overall, the operating performance of Salhia was in line with estimates, and any changes to our forecasts following these results are unlikely to prove material.** We will be speaking to management before updating our forecasts and valuation.
- **Salhia's share price has rallied strongly since our last analyst comment, and there is now a 13% upside to our Fair Value. We therefore downgrade our Recommendation from "Buy" to "Accumulate".**

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Thank you for your support.

#### Related Research

- Analyst Comment - 29 March 2012
- Salhia Real Estate Update - 25 January 2012

## 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

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