

November 29, 2011

SALHIA REAL ESTATE (SREK.KW)

12 Month Fair Value KD 0.280

Recommendation: Buy – Risk Level 3

Last close (28 November 2011): KD 0.202

- The company released its 3Q2011 results. Salhia's revenues were up 3.2% year-on-year (YoY) to KD 9.6 million, as against our estimate of KD 10.96 million (12% below our estimate). The YoY growth was mainly due to a 5% increase in care home operations to KD 3.99 million in 3Q2011, which was in line with our forecast.
- The variation to our forecast was mainly due a lower-than-expected performance in the hotels segment. There has been a seasonality trend in the hotel segment historically; we have witnessed a drop in the performance of this segment during the 3Q. However, the seasonality effect was more pronounced than we had anticipated: 3Q2011 revenues were more than 50% below 1Q2011's, whereas in FY2010 the drop had been just below 40%.
- Furthermore, revenue from real estate operations were up 1.7% to KD 3.7 million in 3Q2011 compared to 3Q2010, which was in line with our forecast.
- EBITDA came in at KD 4.25 million, up 47.8% compared to 3Q2010, but below our estimate of KD 5.38 million. The YoY increase was mainly due to the 11% decline in total expenses and the decrease in losses from the share of joint venture's results. The sharper-than-expected drop in hotel revenues is in our view entirely responsible for the shortfall to our EBITDA estimates: hospitality is a highly operationally geared business, where even a small drop in revenues leads to a big drop in profitability, as a high proportion of costs is fixed. Profitability of the real estate and care homes segments was in line with our estimates.
- Investment income dropped by 96% to KD 0.155 million in 3Q2011, compared to KD 4.1 million in 3Q2010. Therefore, the company recorded a net profit of KD 0.65 million in 3Q2011, which is 76% lower than KD 2.7 million in 3Q2010.
- Overall, with the exception of the lower-than-expected performance of the hotel segment in 3Q2011, the results were very much in line with our expectations. We will need to speak to management regarding the hospitality division. However, we are reasonably comfortable any changes to our FY2011 estimates will be minimal. Pending this, we reiterate our buy recommendation on the stock with our fair value at KD 0.280 per share, representing an upside potential of 38.6%.

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Related Research

- Analyst Comment - 09 October 2011

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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