

September 05, 2011

SALHIA REAL ESTATE (SREK.KW)

12-Month Fair Value: KD 0.265

Recommendation: Buy - Risk Level: 3

Last Close (05 September 2011): KD 0.208

- Salhia's 2Q2011 revenue was up 2% year-on-year (YoY) to KD 11.2 million, which was 5.8% higher than our forecasts of KD 10.6 million. This growth was mainly due to an 11% YoY rise in care home operations to KD 4.02 million in 2Q2011, which was 5% ahead of our forecasts. However, this increase was offset by the decline in real estate and hotel operations. The real estate operation was down 1.7% YoY to KD 3.97 million in 2Q2011 (less than 1% below our forecasts). In addition, revenue from hotel Operations decreased by 2% to KD 3.2 million in 2Q2011, compared to 2Q2010 (9% ahead of our forecasts).
- The company reported EBITDA of KD 5.43 million in 2Q2011, up 2.6% YoY and 6.4% ahead of our forecasts of KD 5.1 million. This growth was driven by the increase in total revenue and a 51% YoY decrease in general and administrative expenses during the period. Overall, however, operating margins were consistent with our expectations.
- Investment income dropped by 80% to KD 0.62 million in 2Q2011, compared to KD 3.2 million in 2Q2010. As a result, Salhia recorded a net profit of KD 1.7 million in 2Q2011, which is 57% lower compared to 2Q2010.
- On June 2011, Salhia acquired an additional 46.39% stake in Al Asima Real Estate Co., increasing its ownership stake to 96.39% (refer to our previous analyst comment on Salhia, June 21, 2011). Since the acquisition did not constitute an acquisition of business, the transaction has been accounted for as an acquisition of assets. Accordingly, the difference between the carrying value of the net assets acquired and the purchase consideration has been allocated to the carrying value of the investment property in Al Asima (thus generating no goodwill).
- In 2006, Salhia sold real estate assets with a carrying value of KD 16.5 million to Al Asima, resulting in a gain of KD 98.1 million (of which Salhia recorded KD 49.05 million in its accounts, in line with its ownership of the company at that time). The excess of the gain over the carrying value of the associate was accounted for as a deferred gain in prior periods. Following the acquisition on June 2011, the elimination of the gain on sale of real estate assets of KD 49.05 million was adjusted against the value of the acquired investment property. As a result, Investment properties more than doubled to KD 141.1 million as of June 30, 2011, compared to KD 66.1 million in 2010.
- Following the acquisition, the company's debt-to-equity ratio jumped to 1.08x at the end of June, 2011 compared to 0.59x at the end of 2010. Salhia's equity and total debt stood at KD 128.4 million and KD 139.2 million, respectively, as of June 30, 2011.
- Overall, with the exception of slightly stronger-than-expected performances in the hotels and care home divisions, these results were very much in line with our anticipations. We will be speaking to management regarding the sustainability of the revenue performance in hotels and care homes, but any changes to our estimates are likely to be minimal.
- We remain very comfortable with our investment case for Salhia. We reiterate our 'Buy' recommendation, with our fair value of KD 0.265 per share representing an upside potential of 27% from the last closing price of KD 0.208.

Loic Pelichet

T. +971 4365 2818

E. loic.pelichet@nbkcapital.com

Mariam Al-Bahar

T. +965 2259 5138

E. mariam.albahar@nbkcapital.com

Related Research

- Analyst Comment - 21 June 2011
- Re-initiation of Coverage - 25 May 2011
- Analyst Comment - 25 November 2008

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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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

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

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

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

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

Lebanon**National Bank of Kuwait**

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

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

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

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

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

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

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

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

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

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

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