

June 21, 2011

SALHIA REAL ESTATE (SREK.KW)

12-Month Fair Value: KD 0.265

Recommendation: Buy - Risk Level: 3

Last Close (20 June 2011): KD 0.218

- **Stake in Al-Asima up to 96.3%; remaining shareholders' bought at par:** Salhia Real Estate Co. (Salhia) announced that it has acquired 371.3 million shares of Al Asima Real Estate Co. (representing 46.34% of its outstanding shares) for a total value of KD 37.13 million (KD 0.100 per share) thus raising Salhia's current stake to more than 96%. The recently raised capital of KD 17.5 million was used to finance this deal partly while the rest was financed by a mix of internal cash flows and debt.
- **Recap on Al Asima project – project currently in limbo:** Al-Asima project, considered one of the most ambitious projects in Salhia's history, was planned to be built on a 21,414 sq. m. of land located in Al-Sharq area. In 2006, Salhia formed a separate company (Al-Asima Real Estate Co.) with 50% ownership (initial contribution of KD 40 million) while the rest was sold to the public. During the same year Salhia sold this piece of land to Al Asima Real Estate Co. which resulted in a profit of KD 98.1 million.
- **Financial implications from Salhia's standpoint – debt likely to almost double:** With the increase in stake, Salhia will be fully consolidating financials of Al-Asima Real Estate Co. from 2Q2011. This should result in a noticeable jump in debt-to-equity ratio to over 1x compared to 0.57x at the end of March, 2011 considering KD 52.3 million debt on Al-Asima's balance sheet and the additional debt to finance the deal. In 2010, Salhia reported losses from its investment in Al-Asima of KD 1.43 million that mainly represented its share of finance costs paid by the later. This should also double considering the increase in ownership. Overall, we believe the company will benefit from the new capital mix which should lower the WACC for future valuation.
- **We reiterate our 'Buy' recommendation on Salhia** with our fair value at KD 0.265 per share representing an upside potential of 21.5% in addition to a dividend yield of 4.7% based on our forecasted dividend payout for 2011. The stock is currently trading at 0.33x its 2010 NAV and 0.95 its 1Q2011 equity.

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Related Research

- Re-initiation of Coverage - 25 May 2011
- Analyst Comment - 25 Nov. 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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