

KEY DATA

Fair Value per Share (KWD)	0.390
Closing Price (KWD) *	0.335
52-week High / Low (KWD)	0.370 / 0.244
YTD / 12-month return	-6.8% / 40.2%
Trailing P/E	33.2
Shares Outstanding (million)	513
Market Cap (KWD million)	172
Free Float	72.22%
Reuters / Bloomberg Code	SREK.KW / SRE KK

*Price close as of June 02, 2013. Sources: Reuters and NBK Capital

KEY METRICS

	2012A	2013F	2014F	2015F
EPS (KWD)	0.016	0.016	0.016	0.019
EPS Growth	-12.0%	-0.7%	-0.8%	22.3%
P/E	20.8	21.0	21.1	17.3
P/B	1.32	1.31	1.31	1.28
Dividend Yield	4.5%	4.3%	4.3%	5.2%
EV/EBITDA	13.0	13.0	13.4	13.7
Revenue (KWD 000s)	45,321	44,998	44,130	44,108
Revenue Growth	3.3%	-0.7%	-1.9%	0.0%
EBITDA (KWD 000s)	22,371	22,358	21,663	21,192
EBITDA Growth	-2.0%	-0.1%	-3.1%	-2.2%
EBITDA Margin	49.4%	49.7%	49.1%	48.0%
Net Profit (KWD 000s)	8,255	8,196	8,134	9,944
Net Profit Growth	15.5%	-0.7%	-0.8%	22.3%

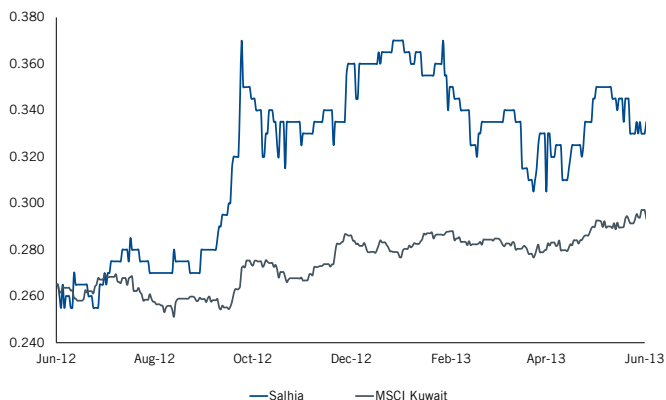
Sources: Company and NBK Capital

QUARTERLY FORECASTS

KWD 000s	1Q2013A	2Q2012A	2Q2013F	3Q2013F
Revenue	11,767	10,877	10,800	11,170
EBITDA	5,724	5,288	5,179	4,940

Sources: Company financial statements and NBK Capital

REBASED PERFORMANCE



Sources: Reuters and NBK Capital

12-Month Fair Value: KD 0.390

Recommendation: Hold – Risk Level**: 3

Reason for Report: 1Q2013 Results

- The 1Q2013 revenues amounted to KWD 11.8 million, increasing 4% YoY, and 3% ahead of our estimate of KWD 11.4 million, mainly due to stronger-than-expected hotel operations for the quarter. The company's gross profit for 1Q2013 amounted to KWD 7.3 million (+7% YoY), ahead of our estimate of KWD 6.8 million. Salhia's 1Q2013 net profit amounted to KWD 2.5 million, increasing 10% from KWD 2.3 million in 1Q2012.
- For FY2013, we now estimate total revenues to stand at KWD 45.0 million compared to our previous estimate of KWD 41.5 million. This increase is mainly due to an upward revision in our real estate operations revenues and hotel operations revenues in line with new management guidance. However, we have slightly lowered our care home operations revenue due to a downward revision in our average realization rate estimates.
- Beyond FY2013, we expect a slight decrease in real estate operations revenues for the next two years due to the increased availability of office and retail space in the market. In addition, we expect a slight decrease in hotel operations revenues of 3% for FY2013 (partially on the back of increased competition on Al-Rayya Ballroom), and about 5% over the following two years as a result of new hotel operators gaining market share. However, we expect an increase in revenues from care home operations on the back of increased average realization rates.
- Our new fair value for Salhia Real Estate stands at KD 0.390 per share, compared to our previous fair value of KD 0.300 per share. However, the stock has rallied 67% since our last update (dated 25 January 2012), and though we have raised our fair value for Salhia, the current share price is trading 14% below our new fair value. We therefore maintain our "Hold" recommendation on the stock.

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**Please refer to page 6 for recommendations and risk ratings.

1Q2013 Results

The 1Q2013 revenues amounted to KWD 11.8 million, increasing 4% YoY, and 3% ahead of our estimate of KWD 11.4 million. The breakdown is as follows:

- Real Estate Operations: KWD 3.8 million, decreasing 8% YoY, and below our estimate of KWD 4.3 million. Management has clarified that this decrease (consistent with the decrease seen in 4Q2012) came on the back of short-term vacancies, witnessed in the first quarter of FY2013 (also witnessed in the fourth quarter of FY2012).
- Hotel Operations: KWD 4.0 million, increasing 19% YoY, and ahead of our forecast of KWD 3.3 million. This increase was mainly attributed to a large conference that took place during 1Q2013.
- Care Home Operations: KWD 3.9 million, increasing 3% YoY and slightly ahead of our estimate of KWD 3.8 million.

Total operating costs for 1Q2013 stood at KWD 4.5 million, decreasing 2% YoY, and 3% below our estimate of KWD 4.6 million. This decrease is mainly due to operating costs associated with real estate operations (given the lower real estate operations revenue). Therefore, the company's gross profit for 1Q2013 amounted to KWD 7.3 million, increasing 7% YoY, and 7% ahead of our estimate of KWD 6.8 million. EBITDA for 1Q2013 reached KWD 5.7 million compared to our estimate of KWD 5.1 million.

Salhia's attributable net profit amounted to KWD 2.5 million, increasing 10% from KWD 2.3 million in 1Q2012.

Cash from operations stood at KWD 5.9 million during 1Q2013, compared to KWD 11.2 million in 4Q2012 (it is to be noted that an inter-company reversal in receivables took place in 4Q2012). Cash from operations before changes in working capital amounted to KWD 6.0 million in 1Q2013, compared to KWD 5.4 million in 4Q2012.

Revised Estimates

Based on new management guidance, we have revised our estimates for FY2013 onward to reflect the following:

- For FY2013, we now estimate total revenues to stand at KWD 45.0 million compared to our previous estimate of KWD 41.5 million. The breakdown is as follows:
 - We have revised our occupancy and rental rate assumptions upward for most of Salhia's office and commercial space in line with management guidance. Therefore, our revised revenue from real estate operations for FY2013 is KWD 16.1 million, as against our previous assumption of KWD 13.4 million.
 - Our new hotel operations revenue estimate is KWD 12.6 million, as against our previous estimate of KWD 11.0 million. Though we have slightly revised our average room rates for JW Marriot Hotel and Courtyard Marriot Hotel upward from our previous assumptions, our new hotel operations revenue estimate represents a decrease of 3.2% YoY, partially on the back of an expected decrease in Al-Rayya Ballroom revenues. This is due to an expected rise in hotel competition including the Regency, the Regency ballroom, and the Jumeirah Messila Beach Hotel & Spa.
 - We have slightly revised our care home operations revenue downward to KWD 16.3 million, as against our previous assumption of KWD 17.1 million. This is due to a downward revision in our average realization rate estimate to KWD 794/bed/month (consistent with the actual average realization rates in FY2012) from our previous assumption of KWD 849/bed/month. However, this was marginally compensated by an upward revision in our FY2013 occupancy rate assumption of 95%, compared to our previous assumption of 93%.

- Our revised gross profit for FY2013 amounts to KWD 25.8 million, as against our previous assumption of KWD 22.8 million. We now estimate an EBITDA of KWD 22.4 million, as against our previous estimate of KWD 19.8 million. Therefore, our new gross profit margin and EBITDA margin estimates stand at 57%, and 50%, respectively.
- For 2Q2013, we expect total revenues to reach KWD 10.8 million and expect gross profit to stand at KWD 6.2 million. Our 2Q2013 EBITDA estimate amounts to KWD 5.2 million, translating into an EBITDA margin of 48% for the quarter.
- Beyond FY2013, we expect a slight decrease in real estate operations revenues for the next two years due to the increased availability of office and retail space in the market (including Al-Hamra complex). In addition, we expect a decrease in hotel operations revenues of about 3% in FY2013 (partially on the back of increased competition on Al-Rayya Ballroom) and a further decrease of about 5% over the following two years as a result of new hotel operators (as mentioned above) gaining market share. However, we expect an increase in revenues from care home operations of about 2% in FY2014, and another 5% increment in FY2015 to the end of our forecast horizon on the back of increased average realization rates. Our revised estimates are as follows:

Figure 1 Summary of Estimate Changes

KWD (000s)	2013		2014		2015	
	old	new	old	new	old	new
Revenue	41,453	44,998	42,358	44,130	42,511	44,108
EBITDA	19,792	22,358	19,557	21,663	19,465	21,192
Net Profit	7,258	8,196	6,652	8,134	8,002	9,944

Source: NBK Capital

Update on Al-Asima Project

Salhia continues to weigh its options with Al-Asima land (21,414 sq.m.) regarding the government-owned plot that is interspersed within the land (18,738 sq.m.). Though this issue has put a halt to the progression of the project, management discussions have pointed toward recent efforts in putting life back into it. Management has expressed its determination to move this current non-yielding asset into a yielding one with the following options: renting the land from the government, buying the land from the government (a time-consuming matter pending approvals), or proceeding with construction on the plot they already own. In addition, the company, which originally designed the project to be a mix of retail and office space of more than NLA 100,000 sq.m., is now looking at a smaller NLA of 55,000-70,000 sq.m. of pure retail space, abandoning the concept of office spaces. Clarity on the matter is expected to materialize by the end of FY2013.

Valuation and Recommendation

Though we believe the increased supply in the Kuwaiti office and hotel segment will affect Salhia's revenue stream over the coming years, the changes in our estimates have had a positive impact on valuation; our new fair value for Salhia Real Estate is KD 0.390 per share, compared to our previous fair value of KD 0.300 per share. The breakdown is as follows:

Figure 2 Valuation

Valuation Method	Value (KD)	Weight
Discounted cash flow	0.365	80%
Net asset value	0.466	20%
Weighted average fair value	0.390	100%

Source: NBK Capital

Since our last update (dated 25 January 2012), the stock has rallied 67%, and though we have raised our fair value for Salhia, the current share price of KD 0.335 (as of 02 June 2013) is trading 14% below our new fair value. We therefore maintain our "Hold" recommendation on the stock.

FINANCIAL STATEMENTS

Income Statement (KWD Thousands)		Historical		Forecast			
Fiscal Year Ends December	2011	2012	2013	2014	2015	2016	2017
Total Revenue	43,854	45,321	44,998	44,130	44,108	44,813	45,256
Cost of Revenue	18,130	19,391	19,190	19,112	19,321	19,755	20,151
Gross Profit	25,724	25,930	25,808	25,017	24,787	25,057	25,104
Selling/General/Admin. Expenses	4,636	5,003	4,950	4,854	5,094	5,435	5,488
Depreciation/Amortization	6,242	6,261	6,184	5,956	5,737	5,526	5,323
Share in JV's results	1,748	1,444	1,500	1,500	1,500	1,500	1,500
Operating Income	16,594	16,110	16,173	15,707	15,455	15,597	15,793
Interest Income (Exp), Net Non-Operating	(6,006)	(7,096)	(6,897)	(6,675)	(6,395)	(5,961)	(5,563)
Non-Operating Income, Total	(351)	3,475	2,270	2,221	2,221	2,224	2,226
Provision for AFS Investments	(1,894)	(2,990)	(2,000)	(2,000)	-	-	-
Net Income before Taxes	8,342	9,499	9,546	9,252	11,281	11,860	12,457
Provision for Income Taxes	(1,192)	(1,223)	(1,340)	(1,109)	(1,326)	(1,140)	(1,387)
Net Income after Taxes	7,150	8,276	8,206	8,144	9,954	10,720	11,070
Minority Interest	0	(21)	(10)	(10)	(10)	(10)	(10)
Net Income	7,150	8,255	8,196	8,134	9,944	10,710	11,060

Balance Sheet (KWD Thousands)		Historical		Forecast			
Fiscal Year Ends December	2011	2012	2013	2014	2015	2016	2017
ASSETS							
Cash and Short-Term Investments	7,793	10,862	32,716	39,578	36,952	35,394	32,291
Total Receivables, Net	4,754	5,024	5,400	5,516	5,734	6,274	6,788
Total Current Assets	12,883	16,256	38,476	45,469	43,061	42,116	39,555
Property/Plant/Equipment	91,438	87,498	83,954	80,554	77,292	74,161	71,158
Long-Term Investments	22,976	17,009	-	-	-	-	-
Investment Properties	62,852	63,519	61,753	60,036	58,367	56,745	55,167
Other Long-Term Assets- total	90,626	93,499	92,474	91,449	92,424	93,399	94,374
TOTAL ASSETS	280,775	277,781	276,658	277,509	271,145	266,421	260,254

LIABILITIES & EQUITY							
Accounts Payable	15,019	16,907	17,999	18,093	18,305	18,821	19,234
Total Current Liabilities	15,019	16,907	17,999	18,093	18,305	18,821	19,234
Total Debt	135,020	128,002	125,200	125,200	116,000	109,000	101,000
Other Liabilities	-	-	-	-	-	-	-
Total Liabilities	150,039	144,909	143,199	143,293	134,305	127,821	120,234
Total Equity	130,122	130,184	130,770	131,528	134,152	135,912	137,333
TOTAL LIABILITIES AND EQUITY	280,775	277,781	276,658	277,509	271,145	266,421	260,254

Cash Flow (KWD Thousands)		Historical		Forecast			
Fiscal Year Ends December	2011	2012	2013	2014	2015	2016	2017
Cash from Operating Activities	19,006	21,668	21,318	20,068	19,482	19,504	19,291
Cash from Investing Activities	(45,109)	3,344	21,362	4,513	523	588	566
Cash from Financing Activities	10,191	(10,239)	(16,825)	(13,719)	(22,631)	(21,650)	(22,960)
Net Change in Cash	(15,911)	14,772	25,854	10,862	(2,626)	(1,558)	(3,103)

Sources: Company financials and NBK Capital

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
HOLD		BETWEEN -15% AND 20%		
SELL		LESS THAN -15%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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