

### KEY DATA

Fair Value per Share (KWD)	0.300
Closing Price (KWD) *	0.206
52-week High / Low (KWD)	0.264 / 0.200
YTD / 12-month return	-1.0% / -19.1%
Trailing P/E	19.8
Shares Outstanding (million)	496
Market Cap (KWD million)	102
Free Float	72.22%
Reuters / Bloomberg Code	SREK.KW / SRE KK

\*Price close as of January 24, 2012. Sources: Reuters, Zawya, and NBK Capital

### KEY METRICS

	2010A	2011F	2012F	2013F
EPS (KWD)	0.026	0.013	0.010	0.009
EPS Growth	39.9%	-48.5%	-27.1%	-4.6%
P/E	10.0	15.3	21.0	22.0
PBV	0.92	0.79	0.79	0.78
Dividend Yield	9.7%	4.6%	3.3%	3.2%
EV/EBITDA	7.7	7.9	8.1	8.4
Revenue (KWD 000s)	42,996	42,901	42,736	41,874
Revenue Growth	-2.8%	-0.2%	-0.4%	-2.0%
EBITDA (KWD 000s)	20,905	20,560	19,918	19,343
EBITDA Growth	-2.6%	-1.7%	-3.1%	-2.9%
EBITDA Margin	48.6%	47.9%	46.6%	46.2%
Net Profit (KWD 000s)	10,204	6,682	4,873	4,650
Net Profit Growth	40.8%	-34.5%	-27.1%	-4.6%

Sources: Company and NBK Capital

### QUARTERLY FORECASTS

KWD 000s	4Q2010A	3Q2011A	4Q2011F	1Q2012F
Revenue	11,541	9,610	11,583	11,755
EBITDA	7,199	4,247	5,551	5,633

Sources: Company financial statements and NBK Capital

### REBASED PERFORMANCE



Sources: Reuters and NBK Capital

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### HIGHLIGHTS

**12-Month Fair Value: KD 0.300**

**Recommendation: Buy – Risk Level\*\*: 3**

**Reason for Report: 3Q2011 Results**

- **The 3Q2011 results were very much in line with our expectations**, with the exception of the lower-than-expected performance of the hotel segment. Salhia's revenues were up 3.2% year-on-year (YoY) to KWD 9.6 million, as against our estimate of KWD 10.96 million (12% below our estimate). The YoY growth was mainly due to a 5% increase in care home operations to KWD 3.99 million in 3Q2011, which was in line with our forecast. In addition, revenue from real estate operations was up 1.7% to KWD 3.7 million in 3Q2011 compared to 3Q2010, which was in line with our forecast.
- **New assumptions:** We now forecast total revenue will grow at a six-year compound annual growth rate (CAGR) of 0.3% for our forecast period (FY2010-FY2016), compared to a decrease of 0.8% in our earlier assumption. We forecast real estate operation will decrease at a six-year CAGR of 3.6% over our forecast horizon, compared to our old assumption of 3.4%. As for the hotel segment, we now forecast revenue to decrease at a six-year CAGR of 1.8% over our forecast period, compared to our earlier assumption of a 3.5% decrease.
- **We reiterate our "Buy" recommendation for Salhia:** Our new fair value for the stock is KWD 0.300 per share, 7% higher than our old fair value. We reiterate our "Buy" recommendation, with the fair value of KWD 0.300 per share representing an upside potential of 45.6% from the last closing price of KWD 0.206. We still believe that the current stock price is extremely depressed and that the concerns regarding the expected new supply in the Kuwaiti office and hotel segments are already factored into the current stock price.

\*\*Please refer to page 5 for recommendations and risk ratings.

### Salhia'S 3Q2011 results

- The company released its 3Q2011 results. Salhia's revenues were up 3.2% year-on-year (YoY) to KWD 9.6 million, as against our estimate of KWD 10.96 million (12% below our estimate). The YoY growth was mainly due to a 5% increase in care home operations to KWD 3.99 million in 3Q2011, which was in line with our forecast.
- The variation from 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 third quarter. 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 was up 1.7% to KWD 3.7 million in 3Q2011 compared to 3Q2010, which was in line with our forecast.
- EBITDA came in at KWD 4.25 million, up 47.8% compared to 3Q2010, but below our estimate of KWD 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 in 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. The profitability of the real estate and care homes segments was in line with our estimates.
- Investment income dropped by 96% to KWD 0.155 million in 3Q2011, compared to KWD 4.1 million in 3Q2010. Therefore, the company recorded a net profit of KWD 0.65 million in 3Q2011, which is 76% lower than KWD 2.7 million in 3Q2010.

### Latest news

- The company announced that its 99.7% owned subsidiary, Al Asima Real Estate Company, has signed a KWD 53 million long-term Tawarruq (Islamic facility) with one of the local banks to restructure its existing debts.
- Salhia Real Estate Co. announced that it has signed an agreement to secure Islamic financing worth KWD 25 million from two local banks. The move is part of the company's policy to convert its financial obligations from short term to long term and make its activities shari'ah-compliant.

### Revised estimates

We are still comfortable with our earlier assumptions for the top line. However, we have made a few changes to our estimates over our forecast period mainly to integrate 3Q2011 figures, and these changes have a small positive impact on our valuation for Salhia.

The main changes to our earlier estimates are as follows:

- **Real Estate operations:** We forecast revenue from real estate operations will decrease at a six-year compound annual growth rate (CAGR) of 3.6% over our forecast horizon, compared to our earlier assumption of 3.4%. This marginal decrease in our forecast is entirely due to the anticipated slight decrease in the Arraya commercial center rental rates over our forecast period. This is the result of the new supply of retail space that has recently come into the Sharq area where Arraya commercial center is located, namely, the Al-Hamra complex (which comprises 23,000 sq.m. of new retail space within Arraya catchment area).
- **Hotel segment:** We forecast total revenue from hotel operations will increase to KWD 11.85 million in 2011, up from our previous estimate of KWD 10.98 million. However, we now forecast total revenue from hotel operations will decrease at a six-year CAGR of 1.8% over our forecast period, compared to our earlier assumption of a 3.5% decrease.

- We still expect a slowdown in the Kuwaiti hotel market, and this upward revision in the hotel average room rate and occupancy rate is due to the fact that we previously were very conservative.
- We forecast total revenue will increase to KWD 42.9 million in FY 2011, compared to our earlier assumption of KWD 40.6 million. In addition, we forecast total revenue will grow at a six-year CAGR of 0.3% over the forecast horizon, compared to a decrease of 0.8% of our earlier assumption.
- We expect EBITDA to decline by 1.7% to KWD 20.6 million in 2011 from KWD 20.9 million in 2010. In addition, we expect EBITDA margin to slightly decrease from 49% in FY2011 to 46% in FY2016.

### Valuation and recommendation

We arrived at our new valuation using the same methodology as conducted previously, using three valuation methods: discounted cash flow (DCF), net asset value (NAV), and sum-of-the-parts (SOTP; using forward EV/EBITDA multiples).

We have increased our fair value for Salhia by 7% to KWD 0.300 per share, compared to our earlier value of KWD 0.280 per share. With Salhia's last closing price of KD 0.206, the share retains an upside potential of 45.6%. We therefore re-iterate our "Buy" recommendation for the stock.

This increase in our fair value for Salhia is mainly driven by the increase in value generated from the DCF method. Upward revision in the occupancy and average room rate for the hotel segment mainly contributed to this increase.

Figure 1 Fair Value per Share

Valuation Method	Old		New		Change
	Weight	Value (KD)	Weight	Value (KD)	
Discounted cash flow	70%	0.219	70%	0.236	8%
Net asset value	20%	0.434	20%	0.434	0%
Sum-of-the-parts	10%	0.439	10%	0.449	2%
<b>Weighted average fair value</b>	<b>100%</b>	<b>0.280</b>	<b>100%</b>	<b>0.300</b>	<b>7%</b>

*Our new 12-month fair value for Salhia is KWD 0.300*

Source: NBK Capital

Sum-of the-parts valuation: the difference between the old and new valuation in Figure 1 is due to the fact that we have updated the multiple for our sample.

Furthermore, we believe that the concerns regarding the expected new supply in the Kuwaiti office and hotel segments are already factored into the current price, and that the current stock price of KWD 0.206 is extremely depressed. We feel this is a good buying opportunity, with the 45.6% upside potential from our new valuation.

## FINANCIAL STATEMENTS

Income Statement (KWD Thousands)	Historical		Forecast				
Fiscal Year Ends December	2009	2010	2011	2012	2013	2014	2015
Total Revenue	44,213	42,996	42,901	42,736	41,874	42,948	42,973
Cost of Revenue	17,249	17,895	18,478	19,119	19,087	19,849	20,067
<b>Gross Profit</b>	<b>26,964</b>	<b>25,101</b>	<b>24,422</b>	<b>23,617</b>	<b>22,787</b>	<b>23,100</b>	<b>22,906</b>
Selling/General/Admin. Expenses	5,230	5,359	5,363	5,449	5,444	5,476	5,479
Depreciation/Amortization	5,043	6,239	6,270	6,075	5,887	5,704	5,527
<b>Operating Income</b>	<b>16,692</b>	<b>13,503</b>	<b>12,790</b>	<b>12,093</b>	<b>11,456</b>	<b>11,920</b>	<b>11,900</b>
Interest Income (Exp), Net Non-Operating	(6,263)	(4,719)	(5,969)	(7,825)	(7,538)	(7,031)	(6,563)
<b>Net Income before Taxes</b>	<b>8,475</b>	<b>10,820</b>	<b>7,629</b>	<b>5,596</b>	<b>5,611</b>	<b>6,739</b>	<b>7,383</b>
Provision for Income Taxes	(1,525)	(1,051)	(937)	(714)	(951)	(834)	(1,044)
<b>Net Income after Taxes</b>	<b>6,950</b>	<b>9,770</b>	<b>6,692</b>	<b>4,883</b>	<b>4,660</b>	<b>5,905</b>	<b>6,339</b>
Minority Interest	(299)	(434)	(10)	(10)	(10)	(10)	(10)
<b>Net Income</b>	<b>7,249</b>	<b>10,204</b>	<b>6,682</b>	<b>4,873</b>	<b>4,650</b>	<b>5,895</b>	<b>6,329</b>

Balance Sheet (KWD Thousands)	Historical		Forecast				
Fiscal Year Ends December	2009	2010	2011	2012	2013	2014	2015
<b>ASSETS</b>							
Cash and Short-Term Investments	7,472	7,385	12,468	18,241	15,421	16,452	15,924
Total Receivables, Net	9,628	6,435	7,293	7,692	7,956	8,590	8,810
<b>Total Current Assets</b>	<b>17,437</b>	<b>14,124</b>	<b>20,104</b>	<b>26,297</b>	<b>23,733</b>	<b>25,471</b>	<b>25,185</b>
Property/Plant/Equipment, Total - Net	172,067	161,864	157,030	152,344	147,800	143,394	139,122
Long-Term Investments	63,798	23,405	23,405	23,405	23,405	23,405	23,405
Other Long-Term Assets, Total	9,040	10,291	88,156	88,488	88,868	89,248	89,628
<b>TOTAL ASSETS</b>	<b>262,342</b>	<b>209,684</b>	<b>288,695</b>	<b>290,534</b>	<b>283,807</b>	<b>281,519</b>	<b>277,340</b>

<b>LIABILITIES &amp; EQUITY</b>							
Accounts Payable	17,148	17,287	18,233	18,377	18,110	18,682	18,801
<b>Total Current Liabilities</b>	<b>17,148</b>	<b>17,287</b>	<b>18,233</b>	<b>18,377</b>	<b>18,110</b>	<b>18,682</b>	<b>18,801</b>
Total Debt	110,937	65,794	125,200	125,200	116,000	109,000	101,000
Other Liabilities	12,926	14,354	15,854	17,354	18,854	20,354	21,854
<b>Total Liabilities</b>	<b>141,011</b>	<b>97,435</b>	<b>159,287</b>	<b>160,931</b>	<b>152,964</b>	<b>148,037</b>	<b>141,655</b>
<b>Total Equity</b>	<b>119,974</b>	<b>111,710</b>	<b>128,870</b>	<b>129,065</b>	<b>130,303</b>	<b>132,944</b>	<b>135,146</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>262,342</b>	<b>209,684</b>	<b>288,695</b>	<b>290,534</b>	<b>283,807</b>	<b>281,519</b>	<b>277,340</b>

Cash Flow (KWD Thousands)	Historical		Forecast				
Fiscal Year Ends December	2009	2010	2011	2012	2013	2014	2015
Cash from Operating Activities	17,241	22,756	18,991	18,093	17,064	17,933	17,610
Cash from Investing Activities	7,861	29,903	(78,408)	(589)	(479)	(309)	(96)
Cash from Financing Activities	(12,840)	(33,410)	64,501	(11,730)	(19,405)	(16,593)	(18,043)
Net Change in Cash	12,262	19,249	5,083	5,773	(2,820)	1,031	(529)

Sources: Company financials and NBK Capital

**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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