



CURRENT PRICE	<b>USD 24.36</b>
FAIR VALUE	<b>USD 35.09</b>
RECOMMENDATION	<b>BUY</b>

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## POCKETS OF VALUE

### MONOPOLISTIC POSITION

The Lebanese Company for the Development and Reconstruction of Beirut Central District (SOLIDERE) is the sole owner of Beirut Central District (BCD) and a leading master developer in the Middle East and North Africa (MENA) region. It gained its image and reputation in the region owing to the successful development of Beirut Central District.

### UNIQUE RESOURCES AT LOW COST

Having acquired its land bank in 1994, and having implemented substantial infrastructural developments in Beirut Central District, the company has successfully capitalized on the surge in real estate prices in Lebanon. The company's current land bank, strategically situated in the most prestigious area in Lebanon, stands at 1.9 million sqm of built-up-area (BUA), of which 1.5 million sqm are located at the sea front of Beirut city.

### AMPLE LIQUIDITY PROVIDING STRONG BUFFER

Solidere enjoys healthy liquidity, and its prospective financial situation looks robust. Free cash flows remain positive throughout our forecast period, which will allow the company to easily meet future funding needs.

### WELL-POSITIONED FOR FUTURE GROWTH THROUGH SOLIDERE INTERNATIONAL

Owing to its solid financial position, Solidere is well-positioned to benefit, through Solidere International (SI), from the downturn in the region's real estate sector. The company's cash level is high at a time when funding is a major concern for real estate developers, which will allow it to tap into profitable projects in the coming years.

### VALUATION

We initiate coverage on Solidere with a Buy recommendation. Our estimated fair value of USD 35.09 provides investors with an upside potential of 44.05%, based on the current price of USD 24.36 per share, while offering investors a high dividend yield of 4% amid the current low interest rate environment.

## STOCK DATA

Market Cap (USD)	3,778,014,373
Number of Shares	155,090,902
Free Float	94%
Av. Monthly Liquidity (USD)	59,434,336
52-week High (USD)	34.79
52-week Low (USD)	14.51
Trailing PE	20.68
PE 09 E	20.12
PB	2.03



Year	2008	2009E	2010E	2011E	2012E	2013E
Revenues (USD million)	286	302	348	699	952	1,013
Net Income (USD million)	183	188	215	438	599	638
EPS (USD)	1.18	1.21	1.38	2.82	3.86	4.12

### COMPANY COVERAGE

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## INVESTMENT RATIONALE

✉ The Lebanese real estate market has been flourishing, demonstrating its resilience to political instability and its ability to escape the fallout from many crises that have affected the country as well as the region.

✉ Beirut is characterized by a limited supply of residential spaces and structural shortages in the available land bank due to the relatively small land mass of the Lebanese capital.

✉ Solidere is the sole owner of Beirut Central District and a leading master developer in the MENA region, owning a diversified portfolio of residential, commercial, and retail projects.

✉ Having acquired its land bank in 1994, and due to the substantial infrastructural developments implemented in Beirut Central District, the company has successfully capitalized on the surge in real estate prices in Lebanon. Solidere's land bank is valued at USD 62.70 per share, implying that the company's stock is trading at a 61.15% discount.

✉ The company's current land bank, which is strategically situated in the most prestigious area in Lebanon, stands at 1.9 million sqm of built-up-area (BUA), of which 1.5 million sqm are located at the sea front of Beirut city, and are the only remaining undeveloped plots in that area.

✉ By the end of 2009, the company is expected to deliver the southern part of the "Souks" project, a modern shopping district which will extend on an area of 50,334 sqm. The Souks will offer more than 200 retail shops, movie theaters and department stores. Solidere is planning to lease all of the shops. This will boost rental revenues by over USD 25 million in the first year of operation, and rental revenues are expected to reach USD 100 million in five years, thus securing continuous cash flows for the company.

✉ Solidere enjoys a healthy liquidity position, and its prospective financial situation looks robust. Free cash flows remain positive throughout our forecast period, which will allow the company to meet future funding needs. The only remaining costs are from building infrastructure on the re-claimed land, which are estimated at a maximum of USD 100 million.

✉ Solidere gained a good reputation in Lebanon and the region as an urban planner specialized in implementing the city-making philosophy, for the successful development of Beirut Central District.

✉ As part of its expansionary plan, the company has established Solidere International, which is registered in the Dubai International Financial Centre. Solidere International promotes markets and invests in real estate projects in the region. It focuses mainly on fully-integrated real estate projects in the Middle East, North Africa and Mediterranean basin. So far, Solidere International has been involved in major projects in the UAE, Egypt, and other countries in the region.

✉ Owing to its solid financial position, Solidere is well-positioned through Solidere International, to benefit from the downturn in the region's real estate sector. The company's cash level is high at a time when funding is a major concern for real estate developers, which will allow it to tap into profitable projects in the coming years.

✉ We initiate coverage on Solidere with a Buy recommendation. Our estimated fair value of USD 35.09 provides investors with an upside potential of 44.05%, based on the current price of USD 24.36 per share, while offering investors a high dividend yield of 4% amid the current low interest rate environment.



## LEBANESE REAL ESTATE SECTOR

### 1. MARKET OVERVIEW

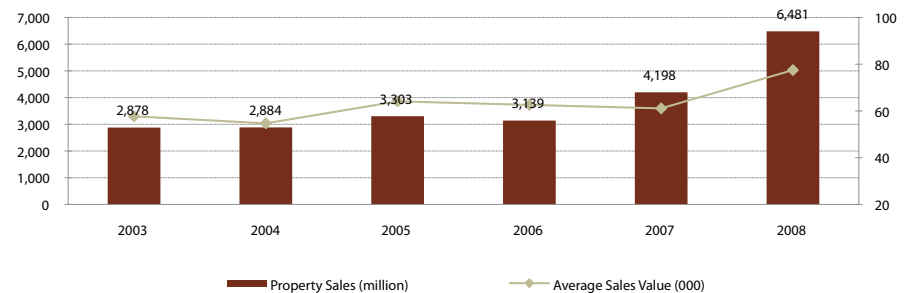
The Lebanese real estate sector, a liberal and open market, has proven historically sound and is steadily growing. Thriving in good and prosperous periods, the sector has always shown resilience in times of tense political and security conditions in Lebanon.

The local real estate market had to face a series of unfortunate internal events, namely a five-week war on the country in 2006, and a number of security rifts between 2003 and 2007. Despite this adversity, the sector kept up sustained levels of activity year after year, albeit growing more slowly. With the normalization of the political and security conditions following the Doha accord in May 2008, real estate activity shot up to record levels.

More recently, although the ongoing global financial crisis has not totally spared the Lebanese real estate market, its repercussions have been much milder than elsewhere in the Arab region. While prime Gulf real estate markets have seen a collapse in both activity and prices following the tightening of liquidity conditions and drop in assets market values across the globe, the Lebanese market has only seen a relative slowdown in activity in recent months, with comparatively moderate drops in real estate property prices (10%-15%) bringing real estate property closer to appealing value.

Both demand and supply side indicators show the relative resilience to adversity. On the demand side, the total value of real estate sales transactions registered 17.6% average growth per annum over the period from 2003 to 2008 (54.4% year-on-year in 2008), while the number of sales transactions has followed a similar path, increasing by 10.9% per annum in the covered period (21.8% year-on-year in 2008). With the total value of transactions growing faster than the number of operations year after year, the average sales value per real estate transaction has also been on the rise, depicting a growing interest for higher end estate, mostly from Arab citizens. The relatively milder effect of the crisis started to manifest itself this year, with first quarter 2009 real estate transaction values posting a moderate drop of 4.8% when compared to the corresponding period of the previous year.

**Figure 1:** Evolution of Real Estate Indicators (USD)



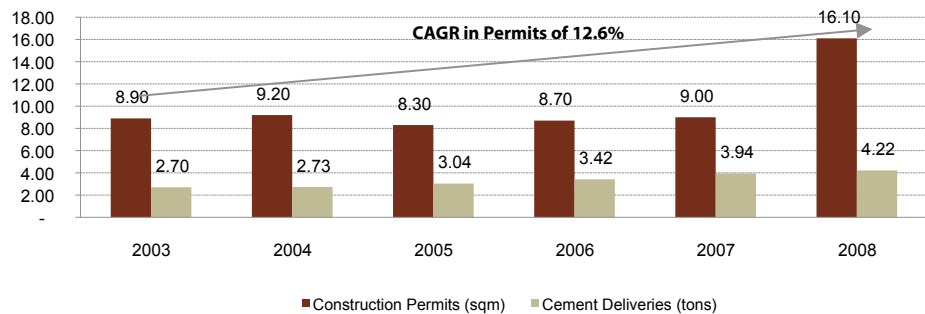
Source: Real Estate Registry, Bank Audi's Research Department



The regional breakdown of real estate transaction values by region shows that Beirut and its surroundings account for more than half of total real estate sales activity in Lebanon (52.4%), followed by the Metn area (19.2%), Kesrouan (12.3%), North Lebanon (6.8%), South Lebanon (5.8%), the Bekaa (2.9%), and other areas (0.6%), as per official Real Estate Registry statistics.

On the supply side, construction permits increased by 12.6% per annum on average over the past five years (78.9% year-on-year in 2008), and cement deliveries, a coincident indicator of construction activity, rose by an average of 9.2% per annum between 2003 and 2008 (7.7% year-on-year in 2008). All throughout the covered period, property developers have been trying to catch up with demand while taking advantage of new opportunities in this lucrative sector by acquiring land plots and launching new projects in trendy areas. Over the first quarter of 2009, permits rose by 4.5% on a yearly basis (in square meters), which indicates a slowdown - but evidently not a halt - in activity, while cement deliveries grew by a satisfactory 9.1%.

**Figure 2:** Evolution of Constructions Indicators (Millions)



Source: Order of Engineers of Beirut and Tripoli, Banque du Liban, Bank Audi's Research Department

## 2. MARKET TRENDS

### *Appreciation of real estate property values in recent years*

Within the context of strong activity in the Lebanese real estate market, and the tangible improvement in the local political and security conditions in the aftermath of the Doha accord in May 2008, real estate properties whose value grew steadily over the past few years (at a three-year average of 25%-30% per annum, in Beirut as estimated by Ramco Real Estate Advisers), shot up last year (by a Ramco estimate of 50%-60% on average).

Demand in the Lebanese real estate market comes mainly from foreigners, especially Arab nationals, and from Lebanese expatriates. Arab nationals have increasingly focused on Lebanese real estate this decade. The 9/11 events prompted them to repatriate part of their assets from the US and the Western world. Some of these were reinvested in the Arab region, including in Lebanese real estate. Subsequently, Arab nationals chose cities in their own region as their preferred tourist destinations, a trend that went hand in hand with the appreciation of the Euro vis-à-vis the US dollar - a currency of reference in most Arab economies - which made traditional European destinations more expensive.



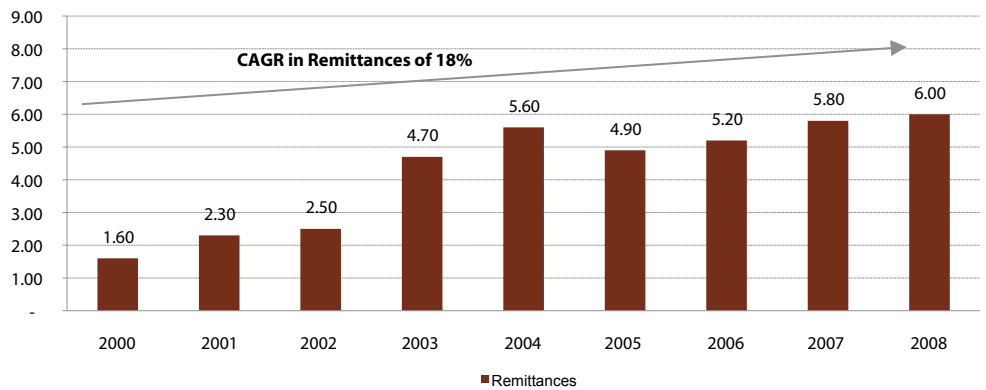
With Lebanon gaining in visibility, both as a promising real estate market and an attractive touristic hotspot, more and more Arab nationals have been purchasing private residences in Lebanon, both in Beirut, the heart of Lebanese real estate, and its surroundings. Gulf-based developers have found Lebanon an undervalued market for realty, and have started several joint venture projects in the country. Arab investments in Lebanon in general showed double-digit growth over the past five years. Acquisitions of Lebanese realty in particular reached new heights, and accounted for no less than 60% of total Arab investments in the country.

Foreign interest in Lebanese real estate has been facilitated by relaxed regulations on foreign ownership of property. Law no. 296 of April 2001, aimed at encouraging investments in the real estate sector, lowered the real estate registration fees for foreigners from 16% to 5% (and from 6% to 5% for Lebanese nationals), while allowing foreigners to invest in up to 3,000 square meters of land freely, i.e. without prior approval from Lebanese authorities.

Similarly, local residents have been increasingly demanding realty in their country. Apart from the steady growth in Lebanon's resident population, societal changes leading to a higher number of double-income households have increased disposable income and fostered the demand for realty. Sociological patterns have evolved as well, further giving a boost to local property demand, with more and more bachelors seeking to live by themselves, and non-Beirutis renting or purchasing a pied-à-terre in the capital for education or professional purposes.

The large Lebanese diaspora, scattered across the world, has continuously maintained strong ties with its relatives and its homeland. Remittances from Lebanese expatriates have shown a steady progression, rising by 18% on average per annum since the beginning of this decade. Lebanon benefits from one of the highest remittances per capita ratio in the world, and this financial support of the locals facilitates their acquisition of residences. Remittances are not forecasted to be dramatically affected by the outbreak of the global financial crisis.

**Figure 3:** Remittances to Lebanon (USD Billions)



Source: World Bank, Bank Audi's Research Department



Over the past couple of years, Lebanese expatriates, especially those working in the neighboring Gulf region, have played a more direct and major role in driving demand for Lebanese real estate. Lebanese expatriates view these business hubs as temporary places of residency, unlike the European and American continents towards which the Lebanese headed during the 1975-1990 civil war. While it is true that part of the older generation, having fled their country a couple of decades ago, is returning to the country following the normalization of the political situation over a year ago, many expatriates that have been living in the Gulf have accumulated sufficient wealth to return to Lebanon either for their children's education or to establish a family, all of which is contributing to demand for real estate in Lebanon.

The increase in demand and return of favorable conditions, in a country narrow in size, has coincided with a couple of external factors further boosting real estate prices. First, the surge in global construction and raw materials prices, mostly in 2008, contributed to said appreciation in Lebanese realty. Steel prices in Lebanon started rising last year and reached record highs during summer time, but eased markedly when the global financial crisis erupted.

The second factor is tied to the pre-crisis regional real estate boom. Within the context of soaring commodity prices benefitting oil-rich countries in the pre-crisis period, the emergence of Gulf cities as the new business hubs of the region at large, and the speculative component of property demand in these markets, the real estate market in the Arab world witnessed a frenetic activity which triggered excessive price hikes. With Arab investors also channeling their excess liquidity into real estate investments in Lebanon, the local property market started seeing demand at prices that were much higher than those to which it was accustomed.

Most developers and promoters used the hike in construction prices and the signing of the Doha accord as an excuse for considerably raising end-buyer prices in successive waves throughout the year. The last such wave coincided with the outbreak of the global financial crisis in September 2008, and thus proved difficult to pass on to end customers.

The global financial crisis, regarded as the most severe in contemporary history, triggered a wave of sell-offs and deleveraging in the four corners of the globe, with assets, including real estate, losing significantly in value, in what resembles a downward spiral. Arab markets, particularly those of the Gulf region, have suffered greatly, with real estate activity frozen in certain areas and projects put on hold if not canceled. What is somewhat peculiar is that the spillover of the crisis on the Lebanese real estate market has been rather limited so far.

### **Why Lebanese real estate has been relatively shielded from the global crisis?**

The relative resilience of the local sector to such adversity lies in the regulatory framework and the nature of demand in this market. First and foremost, bank lending to the sector is well regulated by the Central Bank of Lebanon. The latter has long kept a close eye on property investments and actively contributed to preventing a real estate bubble.

For these reasons, local developers mostly rely on their own equity for their projects, rather than borrowing from the banking sector. A good chunk of presale funds adds to this self-financing, but leverage in real estate development is low, especially in the upper end of the market, thus enhancing the solid financial standing of the industry on the supply side, while ensuring the continuity of projects underway in difficult times.

Second, while demand for real estate in Lebanon has slowed down from the peak levels of summer 2008, the intactness of real estate demand drivers are seemingly cushioning the effects of the global financial crisis on the local property market.



Adverse conditions across global markets have indeed softened demand and put some projects on hold, at least large-scale ones. But one should not forget that within the context of low nominal interest rates and not so low inflation rates (high in the second and third quarters of 2008 and moderate thereafter), real interest rates have been either negative or slightly positive, but are nowhere near recent realty performance and return on real estate investments. Also, with global capital markets in deep trouble, available liquidity has been channeled either towards banks, yielding relatively constant, low interest rates, or towards realty, expected to yield much more, at least in the medium to long term.

Since demand in Lebanon is driven by end-users and not speculators, the need for residences is genuine. Returning expatriates or newlyweds cannot really postpone their realty purchase, and have continued to push up demand in the local market in the months following the eruption of the crisis.

The interaction between supply and demand is still dynamic, but the sector is not totally immune to the crisis. After having held up during the few months following September 2008, real estate and construction indicators are now showing that the local market is feeling the pinch of the crisis, albeit slightly when compared to the Gulf markets. Foreigners are reportedly still purchasing realty in the country, though at a slower pace than previously in light of tighter liquidity conditions, while local residents are still contributing to demand, but increasingly adopting a wait-and-see attitude.

### **Why real estate prices in Lebanon are rather sticky on the downside?**

From one angle, the global financial crisis could be considered as having played a positive role in the local real estate market, as it has pushed prices down from peak levels, albeit marginally, bringing them closer to an appealing value. But market sentiment is still rather positive: developers are not desperate to sell, and those who are cash-rich anticipate better days ahead, which explains the lack of tangible discounts on realty available for sale.

According to Ramco Real Estate Advisers, asking prices have not officially declined, but developers tend to be able to close a deal only if they offer a rebate. Real estate prices overall, according to the same source, have dropped by 10% to 15% (20% in some areas) since the onset of the crisis. This slight correction, by far narrower than the abrupt fall in Gulf property prices, can be attributed to an adjustment to the decreasing cost of construction, but also to a lower, more realistic profit margin for developers.

Ramco executives assert that in spite of the aforementioned market-driven correction, local realty prices today stand about 30% higher than at the start of 2008. Breaking down property cost into its components helps in understanding the mechanism of price stickiness on the downside.

Property prices are comprised to a large extent by the cost of land, and to a lesser extent by other costs, namely construction costs, including transportation costs, materials cost and currency fluctuation effects, labor costs, engineering and studies cost, but also the real estate developer margin.

The second component has benefited from a reduction in transportation costs following the drop in global oil prices in the second half of last year, and from the effect of the depreciation of the Euro vis-à-vis the US dollar from summer 2008 peak rates of 1.60 US Dollar per Euro on the prices of imported materials, given that most such materials originate from European countries. However, these positive effects were offset by a rise in labor costs, especially following the Lebanese government's adjustment of salaries to the higher cost of living late in 2008, with retroactive effect.

More importantly, the key component of property prices, the cost of land, has not really moved down, as land is getting increasingly scarce in many areas of the capital city and its surroundings. Land prices are also lifted by the anticipation of strong demand following parliamentary elections this summer. This pushes land owners to hold on to their assets and prevents land prices from reflecting the lower demand relative to spring and summer 2008.



### 3. MARKET OUTLOOK

In recent months, all attention was focused on the local parliamentary elections held this June and their outcome, which, according to local real estate sources, represent a significant determinant of sector activity in the months ahead. Indeed, the political environment remains the true barometer of real estate activity in the country. During times of instability, demand is rather restrained, although it does not cease, and during times of stability, demand soars, as buyer sentiment is at its highest.

With the election process having been smooth, and results causing overall positive reactions from all parties, who indicated their willingness to cooperate in the next phase, Lebanese parliamentary elections appear to have sent positive signals to the broader Arab community, and to international investors.

Real estate experts believe that following the relative slowdown in property demand and the slight price correction of the past few months, real estate developers could very well, in anticipation of future demand, tend to maintain prices at their current levels or even increase them slightly, all the more so since buyers have in recent months had the time to get accustomed to the new price dynamics in the local market.

The fundamental drivers of real estate demand in Lebanon could very well re-emerge. The increasing number of Arab nationals visiting Lebanon could give a boost to demand. They have perceived positive signals from Lebanese parliamentary elections, especially that investment in realty yields sure value. Lebanese expatriates could also be encouraged by the continued stability. Demand in the commercial segment could increase, with multinationals possibly moving their headquarters from the Gulf to Beirut.

Local buyers - newlyweds, residents seeking to move to new premises - who might have been postponing their decision regarding the purchase of realty in Lebanon until after local elections, could begin to resurface. Besides, with remittances only foreseen to drop marginally this year, financial support from the Lebanese diaspora is not expected to decrease, at least not tangibly. Demand from locals could shift increasingly towards less expensive, smaller size flats, while Arab nationals would continue to seek large size apartments and upper-end realty, though they could end up buying relatively smaller high-end estate.

It is important to mention that within the context of the global crisis, which slowed down the launch of new projects in recent months, and thus reduced near-term supply, impending demand will have to be met by the existing supply of properties, thereby ensuring a better equilibrium between supply and demand in coming months. Hence, real estate prices in Lebanon could remain at or close to current levels, or even increase slightly.

Finally, there are still risks to the outlook in Lebanon. They are the continued threat of political and security instability, and additional spillovers from the global financial crisis on the global economy in general and regional economies in particular. Yet, the Lebanese real estate market today is characterized by healthy fundamentals and good perspectives, and could contribute to developing overall economic activity in the country, but also raise Lebanon's visibility on the regional real estate map and progressively reestablish the country and its capital's status as a major realty hotspot in the Middle East and North Africa region in the years ahead.



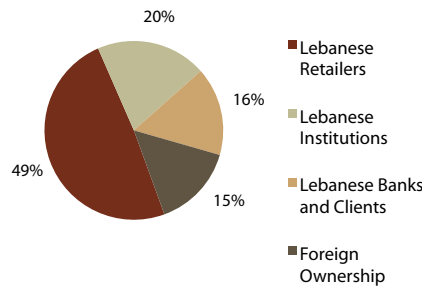
## COMPANY PROFILE

The Lebanese company for the Development and Reconstruction of the Beirut Central District was established on the 5th of May, 1994, with the aim of undertaking all the infrastructure work needed to return life to a site that had been destroyed by the Lebanese civil war. The company, which was exempted from income tax in the first 10 years following incorporation, was originally given a life span of 25 years to accomplish its mission. During 2005, the Council of Ministers approved the extension of the duration of the company for 10 years.

### SHARE OWNERSHIP

No individual or corporation can directly or indirectly own more than 10% of the total capital of the Company.

**Figure 4:** Share Ownership



Source: Solidere as of June 2009

### HISTORY OF OWNERSHIP

Under the Law 177 of 1991, Solidere was formed as a Joint stock company listed on the Beirut Stock Exchange. It proceeded to acquire 1.2 million sqm of devastated land from the Beirut Central District in May 1994.

The company's share capital is made up of two types of common stocks, Solidere A and Solidere B shares, which are both listed on the Lebanese Stock Exchange.

**Class A Shares:** These shares were issued to individual or corporate property owners in the Beirut Central District in exchange for their real estate property contributions. The Higher Appraisal Committee placed the final figure on all private real estate value in the Beirut Central District at USD 1.17 billion.

**Class B Shares:** These shares were issued through an IPO to investors against their cash contributions. The subscription offer for 6.5 million shares at a par value of USD 100 lasted three months, closing on the 10th of January, 1994, and was oversubscribed 1.42 times.

As announced in the official gazette of September 19, 1996, the board of directors of Solidere decided to split the value of the share from USD 100 to USD 10 with the prime objective of facilitating trading.

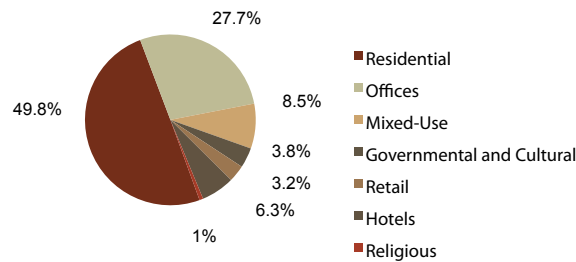


**OBJECTIVE**

The underlying drive in establishing Solidere is to rejuvenate Beirut City Center and make it an internationally renowned location that would attract numerous multinational institutions. In that sense, Solidere wants to revive the symbolic central site of what was once a very cosmopolitan location, drawing businessmen, tourists and residents.

The project encompasses the reconstruction and development of 4.69 million sqm of built-up space segmented for various uses, such as business units, residential units, recreational units, archeological sites and public units.

**Figure 5:** Built-up Area Composition



Source: Solidere

The site is the historical and geographical core of the city that was once the vibrant financial, commercial and administrative hub of Lebanon, but lost it prominent status during the 16-year civil war. The reconstruction of the Beirut Central District is also intended to accelerate the economic recovery of the country. It is a fully integrated project whose completion will deliver a city center that is up to international standards.

**MANAGEMENT TEAM**

The Board is elected by the General Assembly of Shareholders for a three-year period. Its main role is to protect shareholders and ensure them a proper return on their investment.

**Figure 6:** Management Table

Name	Position
Nasser Chammaa	Chairman and General Manager
Maher Baydoun	Vice-Chairman
Nabil Boustani	Vice-Chairman
Mounir Douaidy	General Manager
Raphael Sabbagh	Member
Joseph Asseily	Member
Sarkis Demerdjian	Member
Fouad Al Khazen	Member
Sami Nahas	Member
Mosbah Kanafani	Member
Basile Yared	Member
Abdulhafiz Mansour	Member
Maher Daouk	Member

Source: Solidere



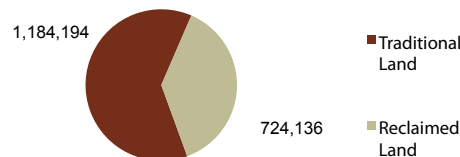
## STRATEGY

1995-2006

The company's primary objective was to finance and execute all infrastructure works in the Beirut Central District and the two marinas, and the treatment of the land reclaimed from the sea. The master plan was revisited numerous times so as to come up with an end-product that would offer an attractive and useful urban setting, while at the same time addressing environmental, historical and social concerns.

In addition to completing the installation of modern infrastructure such as roads, sewage systems, utilities, public spaces and marine works, Solidere reclaimed 724,136 sqm from the sea in order to transform a former dumping site into public gardens, recreational and cultural areas and office spaces. Consequently, the total surface area of 1.8 million sqm consists of 724,136 sqm and 1,184,194 sqm of reclaimed land, and traditional land respectively, and the total built-up area (BUA) is 4.69 million sqm.

**Figure 7:** Land Bank Composition



Source: Solidere

Solidere did not only re-develop demolished buildings, but also restored buildings that had not yet been renovated by their former owners in order to create conformity in the style of the buildings in the BCD.

### 2007

Seeking diversification, the company established its associate Solidere International. This expansion gave Solidere the opportunity to gain a foothold in the MENA region by establishing alliances with leading local companies and governments.

### 2009

The company's emphasis is on adding to its investment property portfolio in order to maintain cash flow stability. By the end of 2009, Solidere expects to launch the southern part of Souks project with more than 100,000 sqm of net leasable floor space, which is expected to increase rent revenues significantly.

### 2011

The company expects to start delivering land plots in the reclaimed area of the Beirut Central District within the next two years. Solidere has already sold 179,000 sqm of built-up area during 2006, but sales revenues from these transactions will not be recognized in its income statement until the delivery date.

### BEYOND 2011

Solidere plans on keeping part of the unsold land plots in order to build a rental portfolio that spans commercial and retail segments. It will put emphasis on developing a sizable investment property portfolio to secure cash flow stability for the company.



## DOMESTIC BUSINESS

Beirut was the birth place of Solidere which had as its sole project the development of Beirut City Center, encompassing a total built-up area of million 4.69 sqm.

### THE SOUKS

The Souks is a modern shopping district in the heart of Beirut. It constitutes a unique environment that integrates archeological features and gardens accentuating the site's historical value. Through its reconstruction, Solidere is hoping to re-create the area's attraction as a place of social interaction for all Lebanese people.

The total built-up area consists of over 90,000 sqm divided into two parts: South Souks and North Souks.

The South part of the Souks consists of restaurants as well as gold and other retail shops and is expected to open by the end of 2009. The North Souk consists of 27,000 sqm of department stores, an entertainment complex including 14 cinemas, entertainment magnets, and games arcades. It should open by 2011.

**Figure 8:** Completion Schedule of The Souks

Development	BUA/ sqm	Completion Year
Phase One: Southern Part	51,003	2009
Phase Two: Northern Part	40,718	2011

Source: Solidere

All of the shops will be offered for rent, thus securing a continuous stream of income reaching USD 45 million in 2011.



## SAIFI

Saifi Village, in the heart of downtown Beirut, is set to become one of the region's hottest art destinations with galleries, antique shops, design studios and specialist boutiques. It is a residential project with 34,000 sqm of floor space, including 4,102 sqm of retail space at street level. It is composed of 137 apartments in 16 low-rise buildings forming four clusters over 7,400 sqm of land.

Due to strong demand, Solidere is currently working on extending the village. The extended area of 2,937 sqm offers about 11,225 sqm of residential and 1,066 sqm of commercial floor space. The new residential cluster is formed of six buildings with modern facades facing the streets.



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## BEIRUT WATERFRONT DEVELOPMENT

This project is undertaken by Beirut Waterfront Development s.a.l., established in 2004 as a 50-50 joint venture between Solidere and Stow Waterfront Development s.a.l. It offers 20,000 sqm of BUA and covers two plots. On plot One, the development consists of four floors plus three basements, accommodating 57 apartments and a yacht club. On plot Two, the development consists of 26 quay-side restaurants and shops at floor level, extending from the western limit of the marina development site to the yacht club building.

## WADI ABOU JAMIL

The company plans to develop the Wadi Abou Jamil area into three residential projects. The first project covers two lots of 22,400 sqm of total floor space. It is composed of seven buildings of six floors each. The second project consists of a lot of 5,000 sqm of floor space that will accommodate three buildings of seven floors each and will include a penthouse complex. The third project covers 20,300 sqm of floor space in six buildings of seven floors, each built around an internal garden.





## REGIONAL BUSINESSES

### SOLIDERE INTERNATIONAL (SI)

Although Solidere’s primary objective was to rebuild the center of the Lebanese capital which was destroyed during the Civil War, the company has successfully expanded into the Middle East and North Africa through the establishment of its associate Solidere International. This expansion created the opportunity for Solidere to gain a foothold in a region that has witnessed an economic and real estate boom.

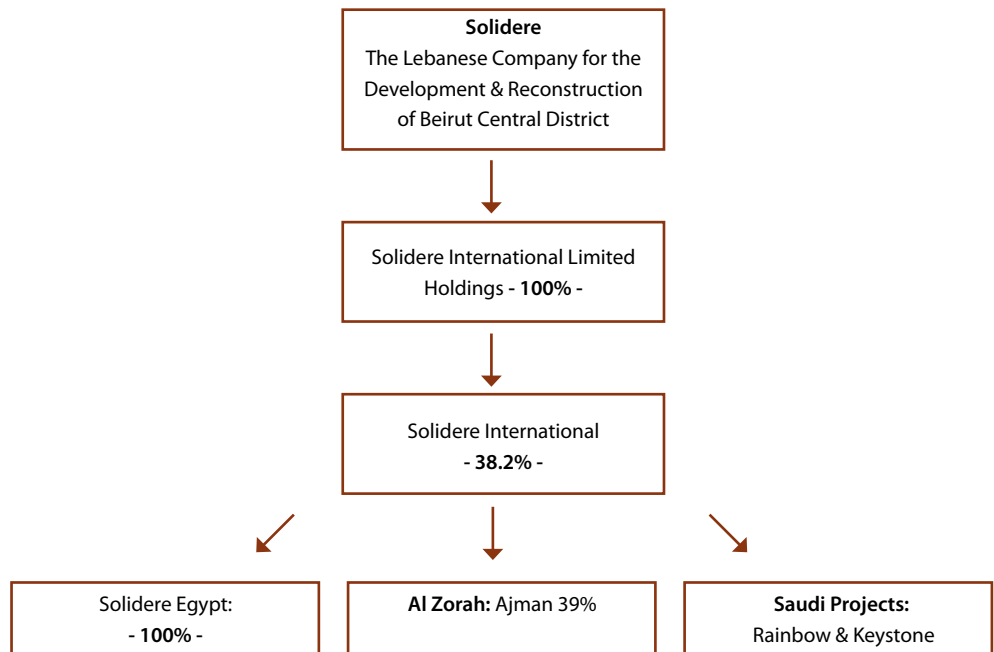
Solidere International was established in 2007, at a time when revenue diversification was essential to the company due to the difficult economic and political conditions in Lebanon. Solidere International is registered with the Dubai International Financial Centre. Its objective is to identify, promote, purchase, invest in, develop, and manage real estate projects in the Middle East and the Mediterranean Basin.

The new company is headquartered in Dubai. It was capitalized at USD 700 million through a private placement offering. Solidere owns 38.2% of Solidere International and retains management control. Solidere’s actual cash contribution towards the capitalization of Solidere International was USD 219.4 million, for which management obtained shareholder approval in late June 2007.

SI is currently operating in three countries with the following projects:

- 1) UAE: Al Zorah Ajman
- 2) Egypt: Easttown and Westtown
- 3) Saudi Arabia: Rainbow and Keystone

### Subsidiaries & Affiliates



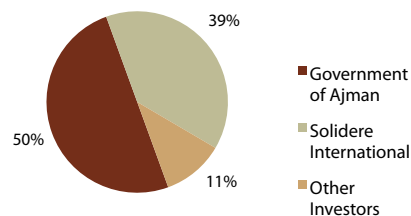
## 1. SI PROJECT IN UAE: AL ZORAH, AJMAN

In order to emulate Abu Dhabi and Dubai, the government of Ajman entered into a joint venture with Solidere International, with the intention of replicating the successful business model that was applied to the Beirut Central District.

The capital of the newly established firm is AED 4 billion and is divided as follows:

- 📁 50% owned by the Ajman government. It was contributed in the form of land.
- 📁 39% owned by Solidere International.
- 📁 11% owned by other investors.

**Figure 9:** Al Zorah Ownership Structure



Source: Solidere International

Ajman project is targeting a total Net Sellable Area of 22 million sqm spread over an area of 12 million sqm developed in several phases. It is planning to sell 65% of the Net Sellable Area as developed land, 30% as developed properties, and to develop and let the remaining 5%.

Land Sale	65%
Developed properties sale	30%
Rent	5%

Source: Solidere International

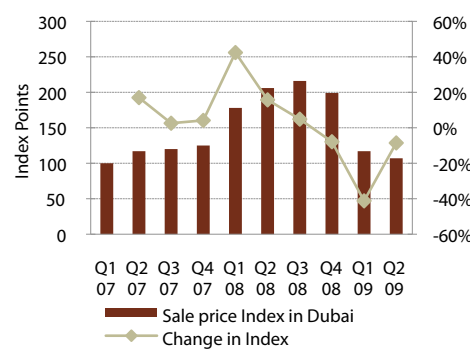
However, recent developments in the real estate sector in the UAE have imposed changes on the phasing of the project.



**UAE REAL ESTATE SECTOR: DRASTIC CHANGES AHEAD**

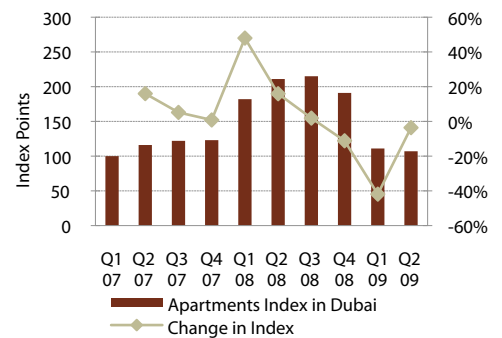
Surviving the real estate downturn in the UAE is the main concern for real estate developers given the current tight financing conditions, lack of investor confidence, and negative market sentiment. Previously driven by speculators, the market is increasingly reflecting real demand. This follows a 46% deflation in sale prices from their peak last year, according to Colliers International. The high-end property segment was affected the most. After robust growth experienced over the past few years, the Dubai real estate sector is facing its worst year ever, and there is no clear indication of whether it has hit the bottom or not.

**Figure 10: Sale Price Index in Dubai**



Source: Colliers International

**Figure 11: Apartment Index in Dubai**



Source: Colliers International

**A Quick Look at the Dubai Housing and Rental Market**

Despite the project delays announced by real estate developers, about 65,000 to 90,000 housing units are expected to be delivered in Dubai by 2011. This is accompanied by a drop in the residential occupancy rate, which fell from 93% in 2008 to about 74% in March 2009 according to MEED. The population is declining as expatriates are being laid off and have to return to their homelands. Consequently, an oversupply of units is predicted for the coming years, widening the supply-demand gap. Since most of the demand for real estate is coming from non-locals, it is more sensitive to global economic shocks.

Due to the declining population, rents are expected to keep falling till the end of the summer, and tenants are likely to relocate to more affordable locations such as the Dubai Marina. However, the overcrowding of Abu Dhabi, where rents are unaffordable, makes Dubai comparatively attractive.

**AJMAN REAL ESTATE: A BUMPY ROAD**

Ajman is the smallest of the seven Emirates of the UAE, but it has the potential to follow in the footsteps of its neighboring Emirates due to its abundant wealth and its unique resources. Over the past few years, Ajman has become a major recipient of new investments in real estate and construction projects. The demand for housing units has increased due to the high occupancy rates and elevated rents prevalent in the neighboring Emirates.

However, Ajman, like the other Emirates, was severely affected by the current financial crisis. Demand for real estate in the less expensive emirates, including Ajman, has slumped as prices in Dubai have become more affordable over the past few months.

As a result, the government of Ajman is currently striving to resolve property disputes between real estate developers and parties that did not meet their contractual obligations. It has set up a committee to ensure the effectiveness of the implemented resolutions.



## **OUR VIEW ON SOLIDERE INTERNATIONAL, AL ZORAH PROJECT**

Solidere International was established in 2007, the year which marked the start of the real estate crisis in the United States. At that time, the property markets were still heating up in the MENA region, supported by the exceptional rise in oil prices. SI prepared the master plan of Ajman, pre-sold 30% of the project, and was in the tender phase when MENA markets crashed in August 2008. A crisis of this size required drastic measures. SI reacted immediately by undertaking a major restructuring effort to concentrate on the core by rephasing the project.

Since only a few contracts had been signed and SI was still in possession of its cash, it had a high degree of freedom of action.

We look at the current situation as a chance for SI to leverage on its experience and strong cash position in order to benefit from the emerging opportunities in the market at a time when regional competitors are suffering and running short of liquidity.



**2. SI PROJECTS IN EGYPT: ALLIANCE WITH SODIC**

In April 2007, Solidere International entered into an alliance with SODIC for the development of two projects in the suburbs of Cairo: Easttown and Westtown. SODIC is relying on Solidere’s expertise and successful business model, as well as their management capabilities, to profitably establish their two city centers.

SODIC is responsible for the financing, construction and general management, while Solidere International’s main responsibilities include Master planning, sale and marketing, and development.

Sixth of October for Development & Investment Company (SODIC) is an Egyptian corporation that was established in 1996 as a public joint stock real estate company to develop a plot of land in the west of Cairo that extends over a surface of 10.7 million sqm. Presently, SODIC’s main aim is to benefit from the housing boom in one of the most populous countries of the Middle East.

The two mixed-use city centers capitalize on the new counter-urbanization trend and will bring new facilities to an underserved market.

**EGYPTIAN REAL ESTATE SECTOR**

After the recent run-up in property prices in Egypt, the real estate sector is expected to enter a correction phase, reflecting slower economic growth at the macroeconomic level and sluggish land sales and falling off-plan property sales at the microeconomic level. However, a severe slump is unlikely, given that real estate demand is driven by favorable demographics and solid fundamentals rather than speculation.

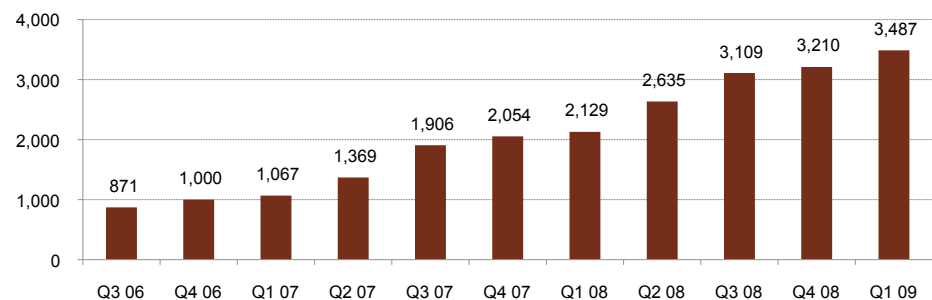
**Housing Demand**

Egypt has experienced rapid population growth in the past decades. With high birth rates and an increase in life expectancy, the country is expected to maintain the same trend in population growth for the coming years. Hence, demand for middle- and low-income housing, which makes up the bulk of housing needs, is expected to be less affected than demand for high-end residential properties.

**Increasing availability of mortgages**

The Greater Cairo region has a high population density of 36,500 people per square kilometer. In an attempt to reduce the city’s congestion, the Egyptian authorities developed new regulations encouraging mortgage lending in order to finance new urban communities and developments in Cairo suburbs. Although the total mortgage value is still low, as the mortgage sector is developing only slowly, it is set to grow in the coming years to constitute greater percentage of GDP.

**Figure 12:** Total Mortgage Value in Egypt (Million EGP)



Source: Ministry of Investment in Egypt



**Supply**

Starting 2010, housing unit deliveries are expected to accelerate in Cairo’s new urban suburbs in the East and West part of Cairo. They should be able to house 2.5 million people in a few years and 10 to 12 million people by 2027. The land allocated for the development of high-end residences is greater than the estimated future demand for this segment. As a result, a shift in developers’ master planning is anticipated to fulfill the greater needs of the middle- and low-income households.

**EASTOWN AND WESTOWN**

SODIC	Eastown	Westown
Location	Located in the New Cairo district near the new campus of the American University of Cairo and Cairo’s international airport	Located on the Cairo-Alexandria road and is adjacent to SODIC’s “Allegria” residential project.
Project's Size and Built-up Area	It will be developed over a built-up area of 1.37 million sqm beginning 2009 and is expected to be completed in 10 years. Eastown is designed to accommodate over 30,000 residents, retail workers and office employees.	It will be developed over a built-up area of 1.75 million sqm beginning 2009 and is expected to be completed in 10 years. Eastown is designed to accommodate over 40,000 residents, retail workers and office employees.
SI's fees and Options	For each sqm of BUA sold by SODIC as land or developed areas, SI receives a fee amounting to 7% out of the net sale margin. For each square meter of BUA of SODIC developed areas leased, it receives 7.5% of the lease.  Solidere has the option to buy 50,000 sqm of land area at a price of EGP 1,100/sqm before 2010.	For each sqm of BUA sold by SODIC as land or developed areas, SI receives a fee amounting to 10% out of the net sale margin. For each square meter of BUA of SODIC developed areas leased, it receives 10% of the lease.  Solidere has exercised the option that was offered by SODIC to buy 250,000 sqm of land area at a price of EGP 950/sqm.

Source: Solidere International

**OUR VIEW ON SOLIDERE INTERNATIONAL, EASTOWN AND WESTOWN**

At the moment, SODIC is in the process of revising its master plans for Eastown and Westown, taking into account a variety of factors, including tight credit conditions and an expected increase in the supply of high-end residential units in the coming years.; Another factor is the expected cash flows improvement after 2010, following the delivery of units in the key project Allegria, which will strengthen the company’s liquidity position and profitability. A fundamental factor is also the company’s solid balance sheet, which showed no long term obligations and a net cash position of EGP 265 million by the end of the first quarter of 2009.

Though SODIC has started the development of four plots, we believe that it will not fully launch either the Eastown or the Westown project before 2010, thereby delaying the originally projected cash flows for Solidere International.



### **3. SI PROJECTS IN KSA**

To benefit from the expected growth in the Saudi Real Estate market, SI is currently involved in developing projects with Saudi partners as well as considering the development of mixed-used projects in prime locations in Riyadh. The company is also involved in developing Jeddah Central District, a 6 million sqm area in the center of the city and restoring its historical heritage.

### **OTHER PROJECTS**

Solidere International is also involved in other projects in different countries such as Algeria, Turkey, and Monte Negro.



## FINANCIAL ANALYSIS AND FORECASTS

### Income Statement Analysis

Solidere recognizes revenues on the basis of the full accrual method and upon delivery of the land plots and units to customers. Accordingly, the company does not record sales on its income statements unless the units have been handed over to the buyers; thus payments received from customers before delivery are recorded as deferred revenues, and the cost of sales is recorded relative to the recognized revenues.

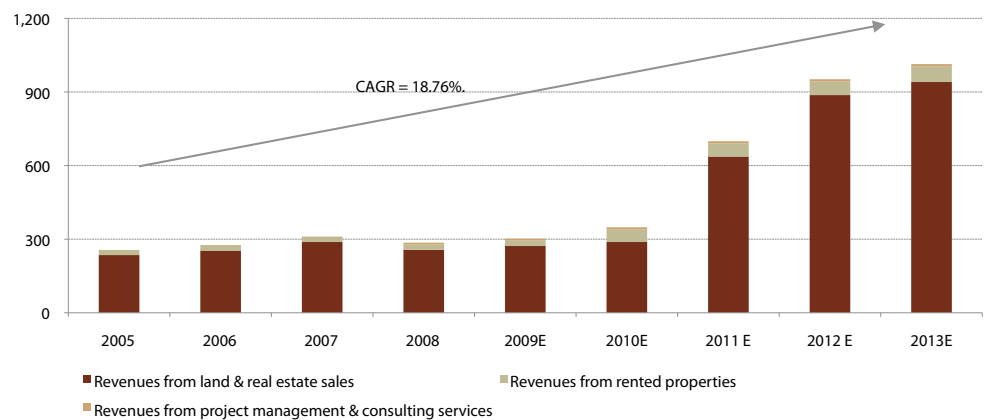
2011 will mark a critical turning point for Solidere's profitability, which is expected to soar when the company starts delivering in the sea front area.

### Consolidated Revenues

The sustained growth in revenues is attributed mainly to land sales, which constituted 90% of total revenues in 2008, with a similar high proportion in previous years. Sales of real estate and land plots increased from USD 235 million in 2005 to USD 257 million in 2008 at a CAGR of 3% against a CAGR of 1% for cost of sales over the same period.

Revenues from property sales are very low, as the company's main objective is to develop Beirut Central District.

**Figure 13:** Revenues Composition (Million USD)



Source: Solidere, Audi Capital estimates

The company is expected to experience stable growth in revenues from land sales in 2009 and 2010, after which land sale revenues are expected to soar as the company begins to fully recognize revenues from reclaimed land sales. 2011 revenues will include the recognized sales of the 179,000 sqm of reclaimed land that was sold in 2006, but has not yet been delivered.

Revenues from rented properties increased slightly, with a CAGR of 1% from 2005 to 2008. The yield on investment properties decreased from 14% to reach 10% in 2008 due to the USD 80 million transferred from projects under development to the investment properties. However, this revenue is expected to rise from USD 22 million in 2008 to around USD 47 million in 2010, securing a stable stream of income in the future. The main reason behind this growth in rental income is the opening of the southern part of Souks by the end of 2009, all of which will be rented out.

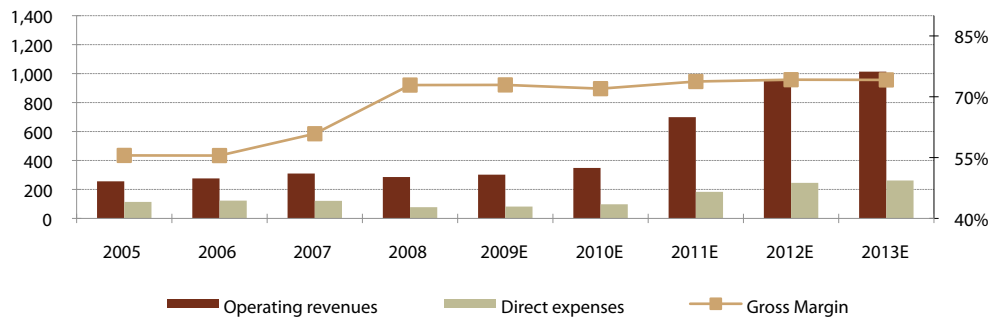


**Gross Margin**

The cost of land and real estate sales and direct expenses as a percentage of revenues decreased from 44% in 2005 to 27% in 2008, which led to an improvement in the gross margin from 56% in 2005 to 73% in 2008. This increase is the result of the recent spike in real estate prices, and the substantial infrastructural development of Beirut Central District.

Direct expenses include pre-acquisition cost comprising technical and master plan studies, infrastructure costs relating to the sea front defense works, marina works, and reclaiming of land and waste treatment. Eviction costs, which are the costs of relocating previous settlers out of the BCD area, are incorporated with the operating costs as well.

**Figure 14:** Gross Margin and Gross Profits (Million USD)



Source: Solidere, Audi Capital estimates

Solidere’s gross margin shows moderate fluctuations due to the infrastructural developments and the increase in real estate prices. However, the gross margin is expected to stabilize at around 74% going forward.

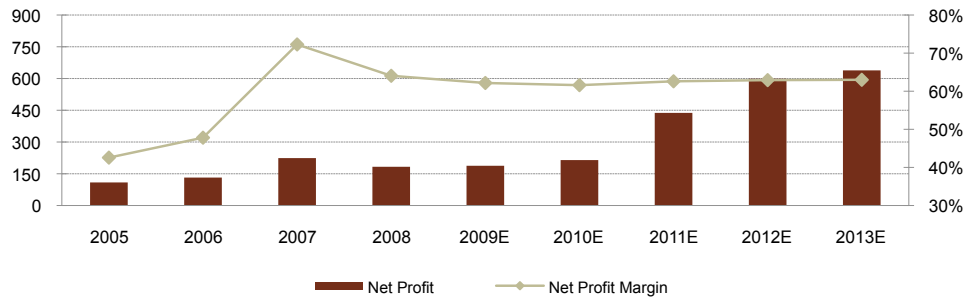
**Net Profit**

The remarkable increase in the net profit margin in 2007 has to be attributed to the USD 68 million Solidere’s share of results of an associate (Solidere International). It is noteworthy that the net profit margin of 2007 exceeded the gross margin due to the introduction of this item under Investments in Associates. The company accounts for these investments under the equity method, where the interest in the associate is carried in the balance sheet at cost and adjusted for the yearly results of the associates and for impairment losses.

The company recorded considerable growth in net profits, which went from USD 109 million in 2005 to USD 183 million in 2008, rising at a CAGR of 19%. The main reason for this increase is again the rise in real estate prices starting from 2007



**Figure 15: Net Profit and Net Profit Margin (Million USD)**



Source: Solidere, Audi Capital estimates

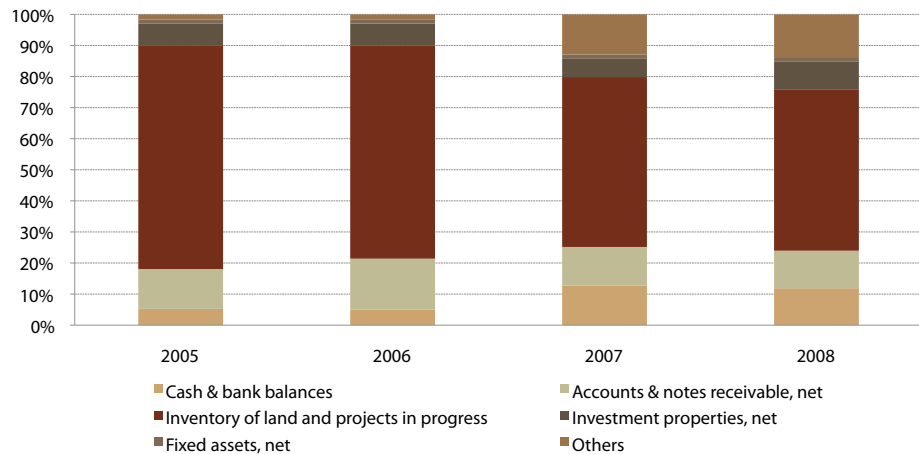
We expect a slight increase in earnings until 2011, when the delivery of plots of reclaimed land will help boost the top and bottom lines.

**BALANCE SHEET ANALYSIS**

**ASSETS**

Solidere’s asset base slightly expanded since 2005. Total assets increased from USD 2,127 million to reach USD 2,455 million in 2008 at a CAGR of 4.9%. As highlighted in the chart below, the composition of the company’s assets did not change a lot over the past four years. The principal change was the lesser contribution of inventory of land and projects in progress to total assets, which changed from 72% in 2005 to 52% in 2008.

**Figure 16: Asset Structure**



Source: Solidere

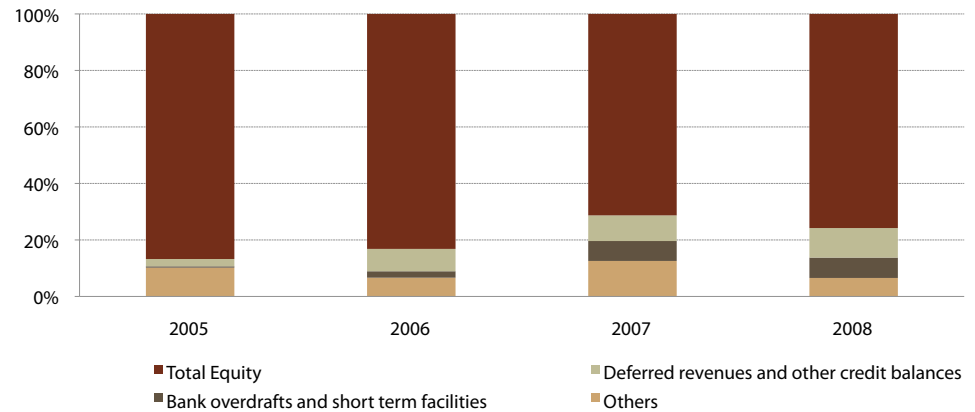
The contribution of cash and bank balances to total assets constituted 12% in 2008, compared to much lower rates in previous years, owing to the USD 200 million in credit facilities the company is using.

The inventory of land and projects in progress is comprised of 86% developed land and 14% real estate development projects. The developed land is located at the sea front of Beirut and BCD, which Solidere is planning to sell as built-up area. As for the developed real estate, the company is planning to let it to ensure the sustainability of future cash flows.



## LIABILITIES AND SHAREHOLDERS' EQUITY

Figure 17: Liabilities and Shareholders' Equity



Source: Solidere

In Solidere's balance sheet, equity dominates the funding composition, as it contributed 76% to total assets in 2008, compared with 71%, 83%, and 87% in 2007, 2006, and 2005 respectively.

The company has repaid almost its entire long-term debt issued in 1996, although it has entered into new short-term facilities whose covenants stipulate that the company maintain a debt-to-equity ratio of 1:4 and a minimum equity balance of USD 1 billion.

Unlike most of the regional real estate developers, which have high debt-to-equity ratios, Solidere's debt level is minimal, reflecting its healthy liquidity position and its high borrowing capacity.

Deferred revenues increased significantly during 2006 because the company received payments from reclaimed land sales before the completion of infrastructure works. Once completed, deferred revenues will be realized in the income statement.



## SWOT ANALYSIS

### STRENGTHS

- Management has built expertise in real estate development
- The company's land bank, strategically located in the most prestigious area in Lebanon, was acquired long before the surge in real estate prices
- Solid balance sheet with low debt and ample liquidity
- The company established Solidere International to seize the opportunities of the real estate sector in the MENA region and to diversify its source of revenues
- SI entered into an alliance with SODIC, the fastest growing real estate development in Egypt, a country with one of the largest populations in the region
- Al Zorah sold 30% of the Ajman project and SI exercised the option offered by SODIC to buy land at attractive prices

### WEAKNESSES

- The company has a limited life span and a limited land bank
- Political instability in Lebanon

### OPPORTUNITIES

- Stronger demand for residential properties and offices, combined with limited supply, will lead to further price increases
- Although Lebanon recently witnessed a price surge in real estate, the current prices are still considered relatively cheap when compared with the region, leaving untapped investment opportunities

### THREATS

- Political instability in the region impeding capital inflow.
- Expanded in the UAE at a time when real estate prices started to correct.
- International financial crisis causing a freeze in lending and affecting the mortgage business.
- Repetition of Israeli attack on Lebanon.
- Discouraging macroeconomic environment in Lebanon caused by high public debt and a chronic budget deficit.



## VALUATION

We have valued Solidere using a Sum of the Parts (SOTP) methodology with a suggested price per share of USD 35.09 resulting in an upside potential of 44.05% from the current stock price of USD 24.36 on the Beirut Stock Exchange. We used a mix of Discounted Cash Flow (DCF) and Net Asset Value (NAV) methods to value the Beirut Central District project, and the book value method to value Solidere International (SI).

The SOTP methodology breaks up Solidere into two main projects:

- 1) Beirut Central District
- 2) Solidere International

### 1) BEIRUT CENTRAL DISTRICT

We have valued Solidere-BCD using two methodologies: NAV and DCF.

#### a. NAV

Based on the NAV valuations, the market value of the Solidere – BCD land bank is calculated at USD 62.70 per share, which represents a premium to our target price. This is due to the fact that cash flows are discounted at a discount rate of 14.32%, while the annual BUA prices are assumed to increase at a lower rate. The estimated NAV per share is based on land assets stated at their current market values the market value of the existing investment properties.

**Figure 18:** NAV Calculation

Land Bank	Area	Market Value	Market Value
	('000 sqm)	USD/ sqm	USD '000
Value of unsold units in reclaimed land	1,500	4,250	6,375,000
Value of unsold units in BCD	454	3,000	1,362,000
Developed Area			
Souks	117	8,000	939,984
Existing Properties	105	4,000	420,000
Cash to be collected from sales Backlog			731,000
Remaining infrastructure cost			(100,000)
Firm Value			9,727,984
Number of Shares Outstanding			155,148
<b>Net Asset Value per share</b>			<b>62.70</b>

Source: Solidere, Audi Capital estimates

#### b. DCF

We have valued Solidere - Beirut Central District using DCF, which resulted in a fair value of USD 25.46. We applied a five-year valuation model to the Beirut project, where we used a discount rate of 14.32% representing a risk-free rate of 3.51%, an equity risk premium of 10.81% and a beta of 1.51. We applied a 3% perpetual growth rate in calculating terminal value.


**Figure 19: Forecasted Free Cash Flows**

(USD million)	2009 E	2010 E	2011 E	2012 E	2013 E
Net Income	188	215	438	599	638
Change in Working Capital	0	-58	-171	74	60
Non-Cash Charges	5	5	6	7	7
Capex	50	50	-	-	-
Free Cash Flow to the Equity	143	228	614	531	586
Present Value of Free Cash Flow to the Equity	125	175	411	311	300
Present Value of Terminal Value					2,629
Intrinsic Value of the Firm					3,951
Discount Rate					14.32%
Terminal Growth Rate					3%
Shares Outstanding (million)					155
<b>Intrinsic Value per Share (USD)</b>					<b>25.46</b>

Source: Audi Capital estimates

## 2) SOLIDERE INTERNATIONAL

In the absence of a clear roadmap for Solidere International, we have valued Solidere's share in SI using the book value method, leaving the door open for an upgrade when the revised master plan is finalized. Using the book value method, Solidere's share amounts to USD 338 million or USD 2.18 per share, implying an ownership interest of 38.18% or 4,199,800 shares.

It is worth noting that currently SI is trading in the range of USD 100 compared to an estimated book value of USD 80.45, resulting in a price-to-book ratio of 1.24.

**Figure 20: Solidere International**

Solidere International	Value
(USD Million)	
Total Equity	885
Solidere's share in SI	38.18%
Solidere's Investment In SI (Valued at Book)	338
Number of Shares Outstanding for Solidere	155
<b>Value per Share</b>	<b>2.18</b>

Source: Solidere International

## FAIR VALUE

We arrived at our fair value of USD 35.09 by assigning 80% weight to the Discounted Cash Flows and 20% weight to Net Asset Value per Share.

**Figure 21: Combination of Valuation Methodologies**

Projects (USD)	DCF	NAV	Book Value	Weighted Value
Beirut Central District	25.46	62.70	-	32.91
Solidere International	-	-	2.18	2.18
<b>Total</b>				<b>35.09</b>

Source: Audi Capital estimates



## APPENDIX A: PROJECTED INCOME STATEMENT

(USD '000)	2008	2009 E	2010 E	2011 E	2012 E	2013 E
Revenues from land & real estate sales	256,636	272,115	288,442	636,898	887,318	940,557
Revenues from rented properties	21,671	22,121	51,755	53,454	55,254	63,080
Revenues from project management & consulting services	7,427	7,835	8,282	8,787	9,297	9,761
Cost of land and real estate sales	(62,423)	(66,188)	(70,159)	(154,916)	(215,826)	(228,776)
Charges on rented properties	(8,346)	(8,519)	(19,931)	(20,585)	(21,279)	(24,293)
Cost related to project management & consulting services	(6,713)	(7,082)	(7,486)	(7,942)	(8,403)	(8,823)
(Loss)/gain on sale of investment properties	(2,108)	-	-	-	-	-
<b>Net revenues from operations</b>	<b>206,144</b>	<b>220,283</b>	<b>250,903</b>	<b>515,696</b>	<b>706,360</b>	<b>751,507</b>
Share result from an associate	(1,799)	-	-	-	-	-
General & administrative expenses	(19,352)	(20,803)	(21,843)	(22,935)	(24,082)	(25,286)
Depreciation of fixed assets	(4,513)	(4,964)	(5,460)	(6,006)	(6,607)	(7,268)
Provision against land development cost	1,567	-	-	-	-	-
Other taxes	(3,740)	(3,996)	(4,552)	(9,356)	(12,815)	(13,634)
Other Income	832	-	-	-	-	-
Interest Income	55,496	47,824	52,606	57,867	63,654	70,019
Interest Expense	(20,310)	(18,098)	(19,908)	(21,898)	(24,088)	(26,497)
<b>Profit before tax</b>	<b>214,327</b>	<b>220,245</b>	<b>251,746</b>	<b>513,367</b>	<b>702,422</b>	<b>748,841</b>
Income tax expense	(31,608)	(32,481)	(37,127)	(75,710)	(103,591)	(110,437)
<b>Net Income</b>	<b>182,719</b>	<b>187,764</b>	<b>214,619</b>	<b>437,657</b>	<b>598,831</b>	<b>638,404</b>

Source: Company Financials, Audi Capital estimates



## APPENDIX B: PROJECTED BALANCE SHEET

(USD '000)	2008	2009 E	2010 E	2011 E	2012 E	2013 E
Cash & bank balances	291,703	412,199	687,910	1,077,627	1,705,049	2,479,375
Prepayments and other debit balances	34,803	25,299	19,434	21,919	14,904	14,904
Accounts & notes receivable, net	296,402	360,788	308,038	388,140	429,028	376,223
Investment securities	5,901	5,901	5,901	5,901	5,901	5,901
Inventory of land and projects in progress	1,274,487	1,258,299	1,238,140	1,083,224	867,398	638,622
Investment properties, net	216,787	208,268	188,337	167,752	146,473	122,180
Investment in an associate	296,445	296,445	296,445	296,445	296,445	296,445
Fixed assets, net	37,305	32,341	26,880	20,874	14,267	6,999
<b>Total Assets</b>	<b>2,453,832</b>	<b>2,599,540</b>	<b>2,771,085</b>	<b>3,061,882</b>	<b>3,479,465</b>	<b>3,940,649</b>
Bank overdrafts and short term facilities	176,997	176,997	176,997	176,997	176,997	176,997
Accounts payable and other liabilities	95,311	106,717	98,124	43,828	14,297	4,766
Dividends payable	62,990	186,586	205,006	192,408	179,810	167,212
Deferred revenues and other credit balances	256,524	234,555	339,092	414,218	430,189	430,189
Deferred credits under structured contracts	-	-	-	-	-	-
Loans from banks and financial institutions	2,347	2,347	-	-	-	-
<b>Total Liabilities</b>	<b>594,168</b>	<b>707,202</b>	<b>819,219</b>	<b>827,450</b>	<b>801,293</b>	<b>779,164</b>
Issued capital at par value \$10 per share						
100,000,000 class (A) shares	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
65,000,000 class (B) shares	650,000	650,000	650,000	650,000	650,000	650,000
Legal reserve	94,067	112,844	134,305	178,071	237,954	301,795
Retained Earnings	272,280	286,177	324,243	563,044	946,900	1,366,373
Cumulative change in fair value of available-for-sale securities	185	185	185	185	185	185
Surplus on sales of treasury shares	11,654	11,654	11,654	11,654	11,654	11,654
Less: Treasury shares	(168,521)	(168,521)	(168,521)	(168,521)	(168,521)	(168,521)
<b>Total Shareholders' Equity</b>	<b>1,859,665</b>	<b>1,892,338</b>	<b>1,951,866</b>	<b>2,234,432</b>	<b>2,678,172</b>	<b>3,161,485</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>2,453,832</b>	<b>2,599,540</b>	<b>2,771,085</b>	<b>3,061,882</b>	<b>3,479,465</b>	<b>3,940,649</b>

Source: Company Financials, Audi Capital estimates



## FAIR VALUE DEFINITION

It is an unbiased estimate of the 12-month potential market price of the stock

## RECOMMENDATION GUIDE



**BUY:** Upside potential in share price is more than 30%

**ACCUMULATE:** Upside potential in share price is between 10 and 30%

**HOLD:** Upside or downside potential in share price less than 10%

**REDUCE:** Downside potential in share price is between 10 and 30%

**SELL:** Downside potential in share price is more than 30%

## ADDRESS

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