

# Kuwait Real Estate Primer

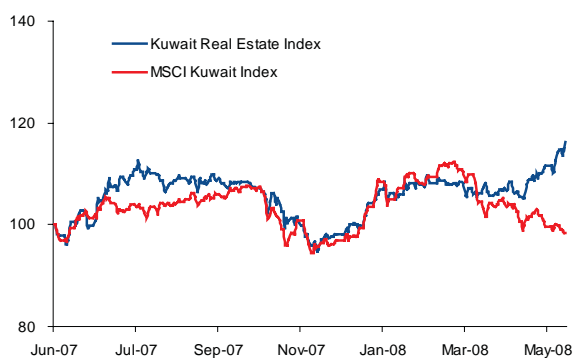
## A Paradigm Shift

### Key Data

General	
Value of Real Estate Sales (Monthly Average - Last Five Years)	KD 162.9 million
Number of Units Sold (Monthly Average - Last Five Years)	654
Upcoming Important Real Estate Projects	
Khairan Residential City	KD 7.4 billion
Arifjan / Sabah Al Ahmad Urban Housing	KD 2.9 billion
Kuwait Real Estate Sector	
Market Capitalization	KD 4.89 billion
Price-to-Earnings Ratio (PER)	13.7x
Price-to-Book Ratio (PBV)	2.7x
Dividend Yield (%)	3.3%
Return on Average Assets (ROAA) - FY2007	16.8%
Return on Average Equity (ROAE) - FY2007	10.4%

Sources: Ministry of Justice, Kuwait Stock Exchange, and NBK Capital

### Relative Performance of the Sector



Sources: Reuters, MSCI, and NBK Capital

### Highlights

- The Kuwaiti real estate sector is experiencing an unprecedented growth phase supported by a surge in oil prices and robust economic growth. Real estate prices are at an all-time high across all segments of the sector.
- Driving this expansion is the growing young local population and a significant influx of expatriates as a result of increased corporate activity. The sector is also benefitting from the robust economic growth and high per capita disposable income. Ample liquidity has resulted in significant investment in the sector as well. Changes in the laws relating to construction of commercial properties have resulted in a slew of ongoing projects.
- Sales of real estate units across the sector actually dipped in 2006 compared to 2002, primarily due to a decrease in sales of investment properties. Burgeoning sales in 2007 were due mainly to an increase in sales of residential properties. This segment accounted for 78.5% of incremental sales in the sector.
- Residential township projects worth KD 49.5 billion and infrastructure projects worth KD 11.6 billion are expected to be completed within the next five years.
- Real estate companies listed on the Kuwait Stock Exchange (KSE) have reported record profit growth in the recent past. However, there is concern for investors owing to the quality of earnings, which reflect a large share of non-core investment activities.

### Key Ratios

Company Name [RIC]	Closing Price (KD)*	Market Cap. (KD '000)	Change in Price (%)		TTM** Valuation Multiples	
			YTD	1-Year	PER (x)	PBV (x)
Mabane Company [MABK.KW]	1.400	584,430	20.7%	59.1%	31.9	6.5
Al Mazaya Holding Co. [MAZA.KW]	0.950	425,406	72.7%	111.1%	13.5	3.9
National Real Estate Co. [NREK.KW]	0.500	355,499	1.0%	-20.0%	9.1	1.6
Commercial Real Estate Co. [TIJK.KW]	0.226	351,000	-8.1%	-11.0%	7.9	1.6
Salhia Real Estate Co. [SREK.KW]	0.540	213,356	8.0%	20.0%	6.9	1.4
Tamdeen Real Estate Co. [TAMK.KW]	0.500	186,466	27.9%	22.2%	16.1	1.0
United Real Estate Co. [UREK.KW]	0.164	126,505	1.2%	-3.5%	12.4	1.1
Al Enma'a Real Estate Co. [ENMA.KW]	0.285	122,288	58.3%	82.7%	12.1	2.0
Grand Real Estate Projects Co. [GRND.KW]	0.305	110,762	-1.6%	-6.2%	5.3	1.1
Al-Massaleh Real Estate Co. [MREC.KW]	0.178	35,103	-13.6%	-1.1%	11.4	0.8

\* Prices as of May 27, 2008. \*\* Trailing Twelve Month. Sources: Company financials, Kuwait Stock Exchange, and NBK Capital

### Analyst

Rajat Bagchi  
Direct: +965-2595115  
[rajat.bagchi@nbkcapital.com](mailto:rajat.bagchi@nbkcapital.com)

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
<b>OIL ECONOMY - IMPACT ON THE KUWAITI REAL ESTATE SECTOR</b>	<b>4</b>
Population Trend-Key Driver for the Sector	6
<b>KUWAITI REAL ESTATE SECTOR</b>	<b>8</b>
Residential Segment	8
Investment Segment	8
Commercial Segment	8
Size of Kuwaiti Real Estate Sector	8
Stock of Houses	10
Construction Activity	10
Housing Program for the Citizens	11
Trend Of Price and Demand	12
Demand and Price Trends — Residential Properties	13
Demand and Price trends — Investment Properties	14
Demand and Price trends — Commercial Properties	14
Residential Properties — Rental Rates and Land Prices	15
Investment Properties — Rental Rates and Land Prices	16
Commercial Properties — Rental Rates and Land Prices	18
Real Estate Sector — Funding	20
The GCC Story - Real Estate Loans as a Percentage of Nominal GDP	24
The GCC Story - Real Estate Loans as a Percentage of Total Loans	25
<b>KUWAIT - UPCOMING REAL ESTATE PROJECTS</b>	<b>26</b>
<b>KUWAITI REAL ESTATE SECTOR PERFORMANCE</b>	<b>29</b>
Performance of the Real Estate Index compared to the KSE Index	29
Valuation - Real Estate Sector Compared to Other Listed Companies	30
Dividends — Rewarding or Hurting?	33
De facto Investment Companies	35
<b>KUWAITI REAL ESTATE SECTOR — WHO'S WHO</b>	<b>38</b>
Mabanee Company	38
Al Mazaya Holding Co.	41
National Real Estate Co.	44
Commercial Real Estate Co.	47
Salhia Real Estate Co.	51
Tamdeen Real Estate Co.	54
United Real Estate Co.	58
Al Enma'a Real Estate Co.	61
Grand Real Estate Projects Co.	64
Al Massaleh Real Estate Co.	68
<b>REAL ESTATE COMPANIES' FACT SHEETS</b>	<b>72</b>

---

## EXECUTIVE SUMMARY

---

The Kuwaiti real estate sector is expected to enter a new phase, promoted by robust economic growth due to escalating oil prices. Cross-border political stability has also reinforced faith in the sector to recover gradually, leading to increased real estate investments. We expect the sector to slowly emerge from the effects of the political tension that has surrounded this region for so long. Though geopolitical tensions have not been entirely resolved, the situation has improved markedly. Developments in the sector over the last few years are quite heartening.

The sector comprises three main segments: residential, investment, and commercial. The residential segment caters to the housing needs of Kuwaiti nationals. The investment segment, consisting of high-rise apartments, is one of the most important segments mainly because it supplies the entire housing needs of Kuwait's significant expatriate population. The commercial segment includes the construction of commercial complexes and the sale or rent of spaces for office, retail, and warehousing use.

Government expenditure as a percentage of nominal gross domestic product (GDP) in 2006 was the lowest in the last 13 years. This had a damaging effect on the real estate and construction sector, whose contribution to the nominal GDP in 2006 was the lowest in the last 13 years. The sector's contribution steadily declined from a peak of 11% in 2002 to a low of 6% in 2006. In the real estate sector, few benefits have been realized from high oil prices and the consequent economic boom. We believe that the political crisis prevailing in Kuwait after the 1991 Iraq invasion played a major role in the failure to route investments to the sector. However, this trend is likely to change in the future.

Sales of real estate units actually dipped in 2006 compared to 2002, due largely to decreased sales of investment properties. Burgeoning sales in 2007 were due mainly to increased sales of residential properties, which accounted for 78.2% of incremental sales in the sector.

Real estate prices, whether rental rates or land prices, are currently at an all-time high in Kuwait. All three segments are experiencing the same trend. Since 1995, investment property rental rates have increased more than rental rates in the other two segments. The trend is virtually the same for land prices, with the investment segment registering the highest growth.

Supported by high oil prices and a booming economy, real estate projects worth many billions of dollars are in progress in Kuwait. We have classified these projects into three main segments: housing and township projects, infrastructure and tourism projects, and commercial towers. The notable projects we wish to highlight include the KD 24.8 billion Silk City megaproject, the Arifjan and Khairan residential projects, Project Kuwait, and tourism development projects such as Bubiyan and Failaka Island.

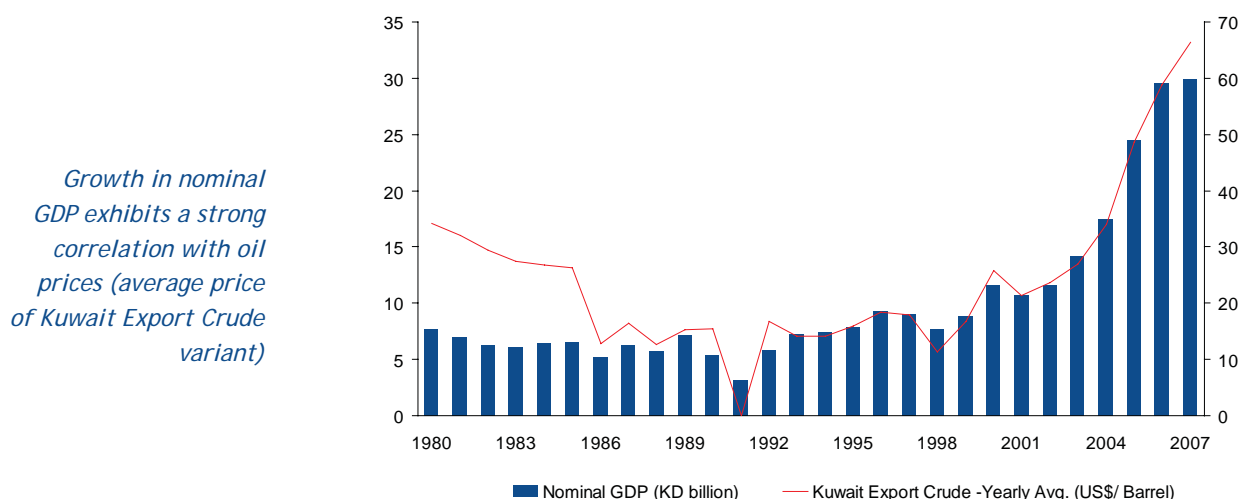
The real estate index has consistently underperformed compared to the KSE index. We attribute this weak performance to the relatively lower growth in earnings compared to the rest of the market and to the susceptibility of earnings. The inability to generate sufficient cash from core business operations has also damaged investor sentiment. Profit growth in the recent past has concerned investors, owing to the quality of earnings, which reflect a large share of non-core investment activities.

## OIL ECONOMY - IMPACT ON THE KUWAITI REAL ESTATE SECTOR

Kuwait as an economy is a pure oil play. Kuwait's strategic global importance lies in the fact that it ranks fourth and ninth in proven global oil reserves and global oil exports, respectively. Kuwait is an important producer and exporter of crude oil globally, accounting for 3.3% of global oil production and 4% of global oil exports in 2006. Kuwait produced 2.66 million barrels per day and exported 1.72 million barrels per day in 2006. Kuwait's strategic plan to increase production to 3 million barrels per day by 2010 and to further increase it to 4 million barrels per day by 2020 is likely to strengthen its already firm foothold in the global oil scene and will be crucial for the country's continuing economic growth.

Because Kuwait is an oil-rich country, its economic prospects are closely related to the vagaries of oil prices. In Figure 1 we have shown Kuwait's nominal GDP and the movement of the yearly average prices of Kuwait Export Crude. We observe how oil prices have played a major role in Kuwait's recent economic boom, resulting in a 22.5% five-year compounded annual growth rate (CAGR) from 2001 to 2006 in nominal GDP.

**Figure 1** Positive Correlation between Nominal GDP and Crude Oil Prices



IMF forecast used for 2007 GDP estimates. Sources: Central Bank of Kuwait, OPEC Annual Statistical Bulletin, IMF, and NBK Capital

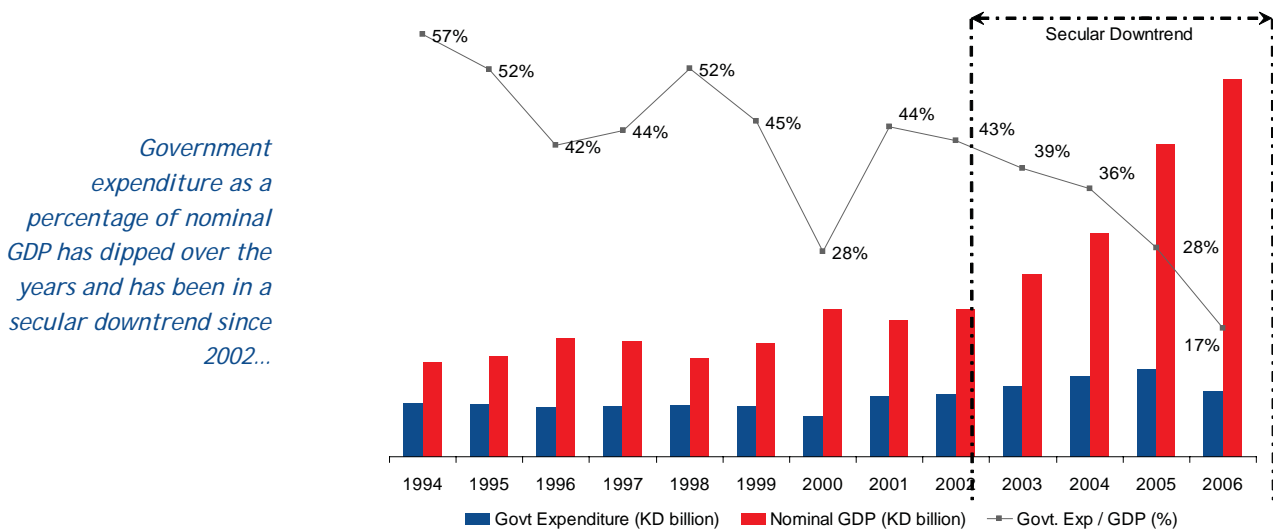
In oil-rich countries such as those of the Gulf Cooperation Council (GCC), non-oil sectors do not exist independently but are directly linked to the prospects of the "black gold." Upswings and downswings in oil prices have a direct bearing on the prospects of non-oil sectors. However, Kuwait has been able to marginally bring down the weight of oil GDP as a percentage of nominal GDP, from 62% in 1973 to 59% in 2006. The last five-year (2002–2006) average share of oil GDP and non-oil GDP in the total GDP has been virtually the same.

On the public-finance front, government revenues have been totally dominated by oil revenues over the years. Oil revenues increased from 85% of total government revenues

in 2001 to 94% in 2006—a healthy five-year CAGR of 26.2%. In a three-year period, the growth has been even more impressive, at 33.1%. However, growth of non-oil revenues has been modest, at 4.2% over five years and 8.2% over three years. A surge in oil prices has led to a significant fiscal surplus, which increased from 5.5% of nominal GDP in 2001 to 23.3% in 2006. The fiscal surplus stood at KD 6.9 billion in 2006, compared to KD 0.59 billion in 2001, registering a whopping CAGR of 63.5%. However, high oil prices alone were not solely responsible for the all-time-high fiscal surplus. In spite of high oil prices and the healthy growth in GDP, government expenditure has been unable to keep pace with GDP growth, thus further augmenting the surplus.

Considering that oil assets are government controlled, it is obvious that the rise in oil prices should lead to similar trends in government revenues and expenditures. A rise in government expenditure is likely to propel domestic demand as a whole, which will percolate down to the various economic sectors, and in turn, will contribute to a higher GDP. Taking the above into account, we actually observe something very different while analyzing the trend of government expenditure as a percentage of nominal GDP. We see in Figure 2 that government expenditure as a percentage of nominal GDP is in a secular downtrend, falling from 44.4% in 2001 to 17.3% in 2006 (the lowest level in the last 13 years).

**Figure 2 Government Expenditure as a Percentage of Nominal GDP**

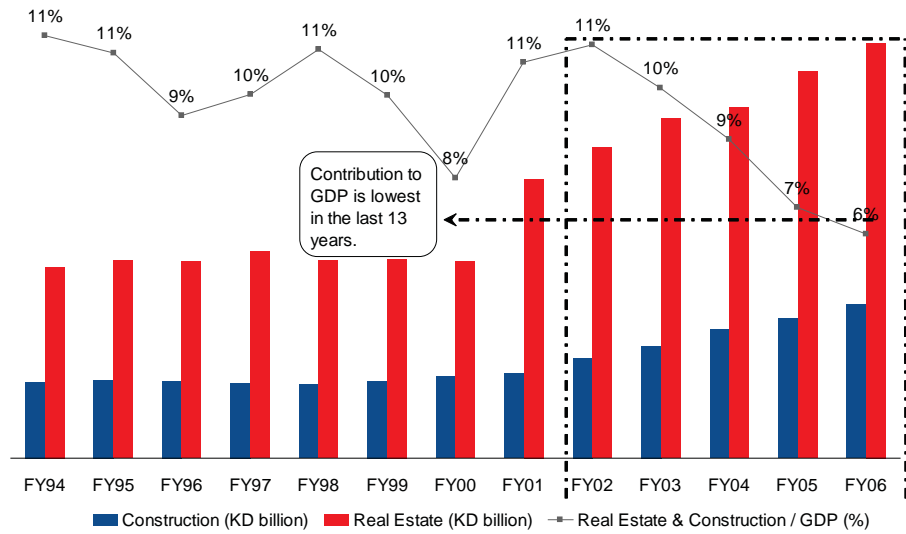


Sources: Central Bank of Kuwait and NBK Capital

The above figure brings us to the stage of binding the Kuwaiti economy to the real estate sector. Low government expenditure as a percentage of nominal GDP in 2006 had a dreadful effect on the Kuwaiti real estate sector. As can be seen in Figure 3, the contribution of the real estate and construction sector to nominal GDP in 2006 was also the lowest in the last 13 years. The contribution declined steadily from 11.1% in 2002 to a low of 6% in 2006. Benefits resulting from high oil prices and the consequent economic boom are not really evident in the real estate sector. We believe that the political environment prevailing in Kuwait after the 1991 Iraq invasion played a major role in the failure to route investments to the sector. But we have already experienced change in the recent past, which is likely to intensify in the future.

Figure 3 Contribution of Real Estate & Construction Sector to GDP

...and this has influenced the decrease in the contribution of the real estate and construction sector to nominal GDP over the years



Sources: Central Bank of Kuwait and NBK Capital

### Population Trend-Key Driver for the Sector

One of the most important factors affecting any country's real estate sector is the population, and Kuwait is no exception. We would like to highlight several important features regarding Kuwait's demographics. Most important is the dominance of the expatriate population, which accounts for 67.9% of the total population, according to the Central Bank of Kuwait's 2006 end-of-year population data. An equally important fact is the youthfulness of the total population: 21.1% of the total population is younger than 15 year.

As of year-end 2006, Kuwait's total population stood at 3.18 million people, comprising 2.16 million expatriates and 1.02 million Kuwaiti nationals. We have analyzed a 10-year trend (1996–2006) in the population data and observed that Kuwait's national population has grown at a CAGR of 3.4% over the last 10 years, whereas the expatriate population has grown at a higher CAGR, of 4.7%. These figures translate into a total population growth rate of 4.3% over this period. The growth rates for the expatriate population are far stronger in the shorter time frame of five years (2001-2006). The expatriate population grew at a healthy CAGR of 8.5% for the same period. The total population, supported by the expatriate population growth, grew at a sound rate of 6.6% for the same time period. However, the growth in the local Kuwaiti population was modest, at a five-year CAGR of 3.3%.

The expatriate population accounted for a significant 82.6% of the country's total labour force. Kuwaiti nationals accounted for the remaining. The country's total labour force grew at a five-year CAGR of 9.1%, due primarily to the growth in the expatriate labour force. The expatriate labour force grew at a CAGR of 9.7% over the same period.

Figure 4 Population and Labour Force Statistics

Population Statistics	2001	2002	2003	2004	2005	2006
<b>Total Population</b>						
Kuwaitis	870,283	898,285	927,686	956,234	992,217	1,023,316
Y-O-Y growth (%)	3.4%	3.2%	3.3%	3.1%	3.8%	3.1%
% of total population	37.7%	37.1%	36.4%	34.7%	33.2%	32.1%
Non-Kuwaitis	1,438,819	1,521,643	1,618,998	1,797,422	1,998,972	2,159,644
Y-O-Y growth (%)	4.6%	5.8%	6.4%	11.0%	11.2%	8.0%
% of total population	62.3%	62.9%	63.6%	65.3%	66.8%	67.9%
<b>Total Population</b>	<b>2,309,102</b>	<b>2,419,928</b>	<b>2,546,684</b>	<b>2,753,656</b>	<b>2,991,189</b>	<b>3,182,960</b>
Y-O-Y growth (%)	4.1%	4.8%	5.2%	8.1%	8.6%	6.4%
<b>Population Composition</b>						
< 15 yrs (%)	25.0%	24.2%	23.3%	22.4%	21.5%	21.1%
15 yrs < x < 60 yrs (%)	72.1%	72.9%	73.8%	74.8%	75.6%	76.0%
> 60 yrs (%)	2.9%	2.9%	2.9%	2.8%	2.9%	2.9%
<b>Labour Force</b>						
Kuwaitis	249,796	265,478	279,356	299,276	320,511	341,185
Y-O-Y growth (%)	7.1%	6.3%	5.2%	7.1%	7.1%	6.5%
% of total labour force	19.6%	19.5%	19.1%	18.3%	17.6%	17.4%
Non-Kuwaitis	1,021,481	1,098,812	1,186,736	1,335,039	1,495,581	1,621,770
Y-O-Y growth (%)	6.1%	7.6%	8.0%	12.5%	12.0%	8.4%
% of total labour force	80.4%	80.5%	80.9%	81.7%	82.4%	82.6%
<b>Total Labour Force</b>	<b>1,271,277</b>	<b>1,364,290</b>	<b>1,466,092</b>	<b>1,634,315</b>	<b>1,816,092</b>	<b>1,962,955</b>
Y-O-Y growth (%)	6.3%	7.3%	7.5%	11.5%	11.1%	8.1%

Sources: Central Bank of Kuwait and NBK Capital

*The expatriate population clearly dominates the labour force, which means it dominates the total population*

---

## KUWAITI REAL ESTATE SECTOR

---

The Kuwaiti real estate sector comprises three specific segments: residential, investment, and commercial. We discuss each of these segments in detail below.

### *Residential Segment*

The Kuwaiti government has a “cradle-to-grave” policy concerning its citizens and is expected to provide housing for all Kuwaiti nationals. The residential segment is comprised primarily of houses, a significant number of which are supposed to be allocated under the national housing scheme. This being the preferred form of housing for Kuwaitis, it is the most important segment in terms of the housing requirements of Kuwaiti nationals.

### *Investment Segment*

The investment segment is comprised primarily of land purchases and the construction of residential apartments for rent. The investment segment is important due to Kuwait's significant expatriate population. Since this segment of the population cannot, by law, buy properties, all the housing needs of this section of society are fulfilled by the investment property segment. Construction usually takes the form of high-rise apartment buildings and differs from the residential segment in that the end user is a tenant and not an owner. The prime investment areas in urban Kuwait are Salmiya, Hawally, and Jabriya.

### *Commercial Segment*

This segment is involved in the construction of commercial complexes and the sale or rent of spaces in commercial complexes for offices and/or retail establishments. Commercial complexes are generally combined with commercial car parks to address insufficient parking in prime commercial areas. Location is one of the key factors in this segment and plays an important role in yielding high rental rates and property price appreciation. The high cost of land, due to the scarcity of commercial building sites, means that investors are generally large corporations or high-net-worth individuals. The main commercial areas in Kuwait are Kuwait City, Sharq, Farwaniya, Hawally, and parts of Salmiya.

Laws governing high-rise construction in Kuwait have changed significantly over the years. Until the mid 1990s, high-rises were limited to a maximum height of 20 floors. This was subsequently increased to 30 floors, and three years ago increased to 40 floors for buildings in downtown areas. However, the plot area requirement for 30-floor towers was a minimum of 1,000 sq. m, while it was between 2,000 and 6,000 sq. m for 40-floor towers. Kuwait Municipality approved the first 50-floor tower for the Secretariat of Al-Awqaf thereby lending its support to other seekers of 50-floor permits. Further relaxing the laws, 60-floor buildings were given the green light, with a plot area requirement of more than 6,000 but less than 10,000 sq. m. Once again, the height restrictions were further relaxed during 2005, when Kuwait Municipality decided to allow the construction of 100-floor buildings in Kuwait City. However, such buildings could not occupy more than 10,000 sq. m in area. This new trend will attract more developers because more floors would mean more income from the same plot of land.

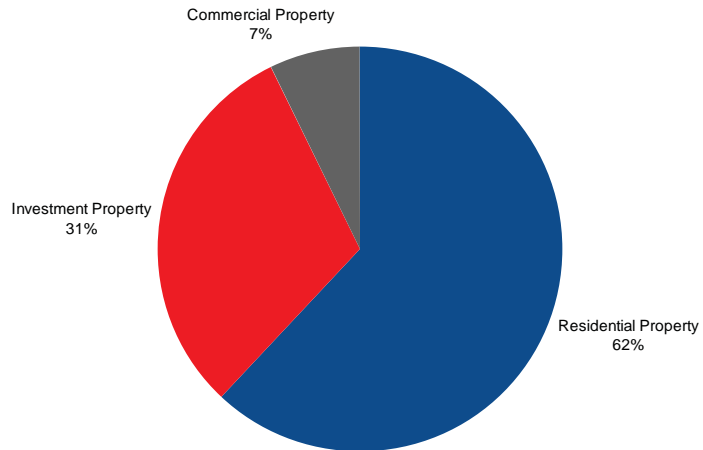
### *Size of Kuwaiti Real Estate Sector*

In this section we wanted to give an idea of the size of the real estate sector in terms of floor space (in sq. ft. or sq. m) covered in each of the segments. But unavailability of the

desired data from reliable sources has limited us to quantifying the size of the sector in terms of monthly average transaction values and number of units sold for properties in each segment. Figure 5 shows the breakdown of the Kuwaiti real estate sector in terms of transaction value, based on monthly averages from 2002 through February 2008.

**Figure 5** Segmentation of Kuwaiti Real Estate Sector (by transaction value)

*Residential properties accounted for 62% of average monthly transactions from 2002 through February 2008*

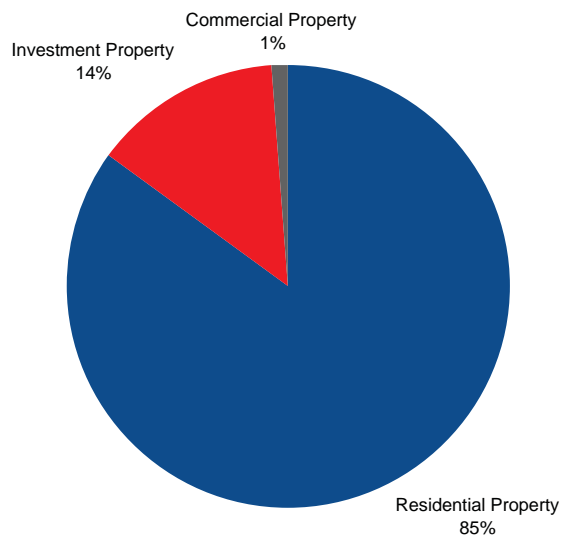


Sources: Ministry of Justice and NBK Capital

Figure 6 shows the breakdown of the Kuwaiti real estate sector in terms of units sold, based on monthly averages from 2002 through February 2008. Residential properties accounted for 85% of total properties sold during this period.

**Figure 6** Segmentation of Kuwaiti Real Estate Sector (by no. of units sold)

*Residential properties accounted for 85% of real estate units sold from 2002 through February 2008*



Sources: Ministry of Justice and NBK Capital

### Stock of Houses

In this section we address the housing stock in the residential and investment segments over the years, as well as comparative growth rates. We also take a close look at the trend in construction permits issued by Kuwait Municipality between 2002 and June 2007 for the sector's various segments.

Figure 7 shows that the growth in residential homes registered with the Public Authority for Civil Information grew by a modest 1.8% in June 2007, to 133,832, compared to 131,504 one year before. However, the growth in apartment units was healthy, at 6.9%, reaching 232,668 in June 2007, compared to 217,648 in June 2006. Houses and apartments grew at a five-year CAGR of 2% and 5.7%, respectively. Worth mentioning is the fact that vacancy rates for both houses and apartments decreased marginally, to 16.8% and 36.8%, respectively, in June 2007, compared to 17.9% and 37% in June 2006.

**Figure 7** Housing Stock

Year	Number ('000)		Change ('000)		% Change	
	Houses	Apartments	Houses	Apartments	Houses	Apartments
June 02	121.0	176.5	2.7	4.5	2.3	2.6
June 03	122.8	180.8	1.7	4.3	1.4	2.4
June 04	128.5	191.3	5.7	10.5	4.7	5.8
June 05	130.2	204.7	1.7	13.4	1.4	7.0
June 06	131.5	217.6	1.3	13.0	1.0	6.3
June 07	133.8	232.7	2.3	15.0	1.8	6.9

*Houses and apartment units grew at a five-year CAGR of 2% and 5.7%, respectively*

Sources: Public Authority for Civil Information and NBK Capital

### Construction Activity

We observe a declining trend analyzing the number of permits issued by Kuwait Municipality for the construction of real estate units in the residential, investment, and commercial segments. In Figure 8 we see that the total number of permits issued actually decreased by a CAGR of 7.1% between 2001 and 2006. Total permits issued by the municipality stood at 9,763 in 2006 compared to 14,093 in 2001. The key aspect to examine is the number of permits issued for new construction, which decreased at a CAGR of 9.4% in the same period. This is attributable to the decreased number of permits issued for the residential segment. The number of permits issued for the residential segment decreased more than the numbers for the other segments, at a CAGR of 10.9% in the same period. The percentage of permits issued for the residential segment (as a percentage of total permits) has declined steadily from 35% in 2002 to 28% in 2006. However, the bright spot was the commercial segment, which grew at a CAGR of 8.7% between 2001 and 2006.

Figure 8 Permits for Construction

Total numbers of permits issued decreased by a CAGR of 7.1% between 2001 and 2006

Permit Type	2002	2003	2004	2005	2006	Mid-2007
<b>Total</b>	<b>14,093</b>	<b>14,381</b>	<b>9,183</b>	<b>9,704</b>	<b>9,763</b>	<b>5,588</b>
New construction	5,560	5,629	3,640	3,907	3,390	1,796
Commercial	46	154	55	52	86	30
Investment	524	868	913	712	426	314
Industrial	103	162	55	85	140	49
Residential	4,887	4,445	2,617	3,058	2,738	1,403
Additions	6,949	6,432	4,566	4,921	5,789	3,616
Renovations	1,584	2,320	977	876	584	176

\* Jahra governorate figures not included in 2004 and 2005. Sources: Kuwait Municipality and NBK Capital

### Housing Program for Citizens

As discussed earlier, the residential segment is one of the most important in the Kuwaiti real estate market. No discussion of the Kuwaiti real estate sector is complete without detailing the housing program for Kuwaiti nationals. The housing program is a high priority for the government, which is obligated to provide housing for all citizens. Only Kuwaiti citizens qualify for this program, based on specific criteria. Such citizens receive subsidized financing from the Savings and Credit Bank (a government-held financial institution set up for the purpose of providing housing loans to Kuwaitis at subsidized rates) of up to KD 70,000.

Figure 9 shows the trend in applications submitted to the government and the residential units that have actually been distributed. The number of requests increased from 7,215 in 2002 to 8,643 in 2006, growing at a CAGR of 4.62% during that period. Though the gap decreased from 6,653 in 2002 to 5,274 in 2006, an increased supply of residential units is required to correct the imbalance.

Figure 9 Government Housing Program for Citizens

The gap between requests submitted and distributed units has decreased, but it is still quite large

	2002	2003	2004	2005	2006
Submitted Requests	7,215	7,207	7,286	7,350	8,643
<b>Distributed Residential Units</b>					
Houses	51	-	-	807	768
Plots	511	1,799	2,277	2,085	2,601
<b>Total</b>	<b>562</b>	<b>1,799</b>	<b>2,277</b>	<b>2,892</b>	<b>3,369</b>
<b>Gap</b>	<b>6,653</b>	<b>5,408</b>	<b>5,009</b>	<b>4,458</b>	<b>5,274</b>

Sources: Public Authority for Civil Information and NBK Capital

Buying a home remains a challenge, as housing shortages exist in most price ranges, causing property prices to spiral upward across the country. This increase in prices has resulted in land prices accounting for more than 50% of the cost of a finished house, compared with the usual range of 20%–30%. Efforts by the Public Authority for Housing Welfare (PAHW) to speed up government housing projects and allocate additional government housing are commendable; however, the housing supply is still growing more slowly than the demand.

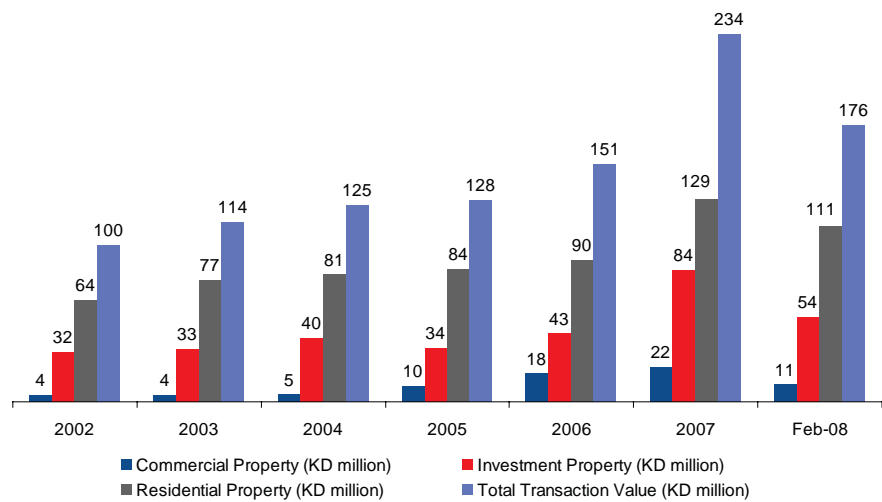
As a result, citizens are finding it extremely difficult to fund their house purchases with the allotted Savings and Credit Bank subsidy of KD 70,000. Incremental borrowing by citizens has resulted in commercial banks' real estate loan portfolios swelling over the years (discussed in detail in the real estate funding section).

*Trend of Price and Demand*

The average monthly transaction values of properties sold across the sector's various segments from 2002 through February 2008 are shown in Figure 10. The average value of the sector increased at a five-year CAGR (2002–2007) of 18.6%, with the commercial and investment segments outperforming the sector by growing at 41% and 21.5%, respectively.

**Figure 10** Trend of Transaction Value across Segments

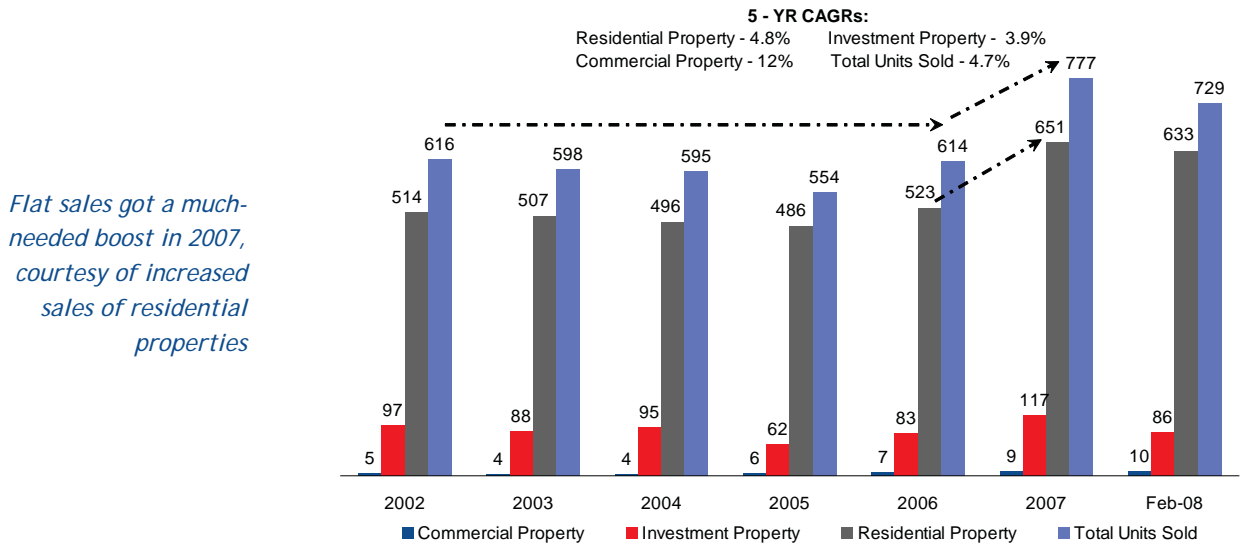
*The commercial and investment segments outperformed the sector in terms of growth in monthly average transaction value (five-year CAGR)*



Sources: Ministry of Justice and NBK Capital

We observe that sales of real estate units dipped in 2006 compared to 2002 (Figure 11), due primarily to the decrease in sales of investment properties. Burgeoning sales in 2007 were due mainly to increased sales of residential properties. Increased sales of residential properties accounted for 78.2% of total incremental sales.

Figure 11 Trend of Units Sold across Segments

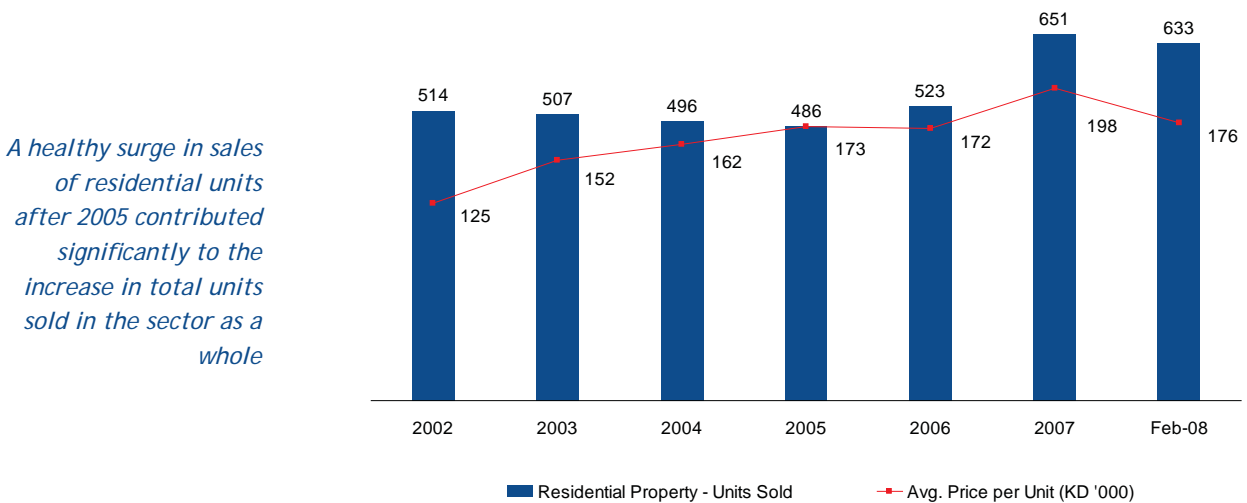


Sources: Ministry of Justice and NBK Capital

Demand and Price Trends – Residential Properties

Sales of residential units decreased in 2005 compared to 2002, but registered year-on-year growth rates of 7.7% and 24.3% in the last two years. This growth was instrumental in driving the sales of the sector as a whole (Figure 12).

Figure 12 Average Prices and Number of Units Sold – Residential Properties



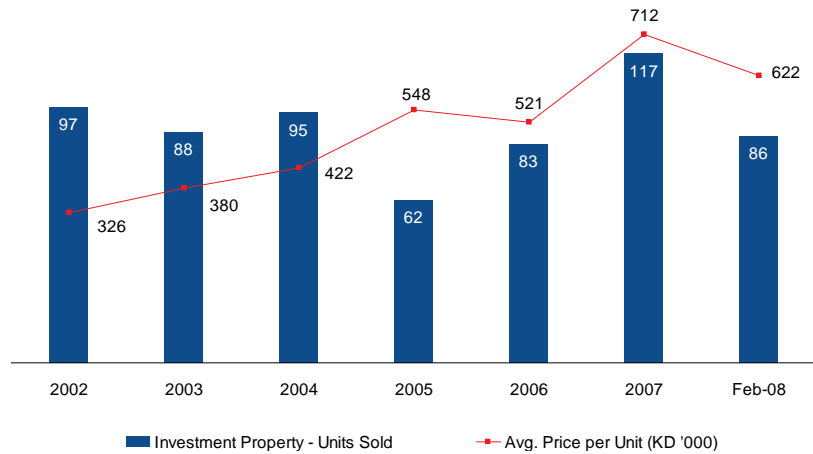
Sources: Ministry of Justice and NBK Capital

*Demand and Price trends – Investment Properties*

Sales in the investment segment grew by a healthy rate of 34.5% and 41.2% in 2006 and 2007. This resulted in prices shooting up from KD 548,313 per unit in 2005 to KD 712,360 per unit in 2007 (Figure 13).

**Figure 13 Average Prices and Number of Units Sold – Investment Properties**

*The increase in units sold from 2005 on has pushed up prices significantly*



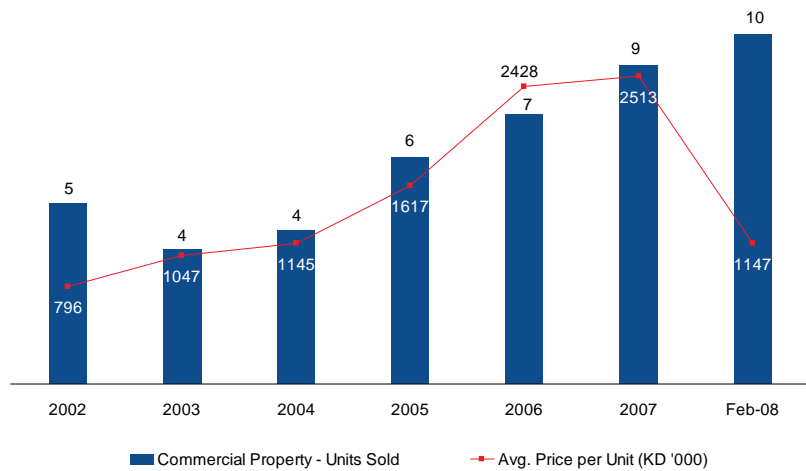
Sources: Ministry of Justice and NBK Capital

*Demand and Price trends – Commercial Properties*

Though the number of units sold has increased at a five-year (2002–2007) CAGR of 12%, prices have gone up by 25.9% in the same period. Both prices and units sold in this particular segment have comfortably outpaced the sector. Average prices have grown at a five-year CAGR of 25.9%, compared to 13.2% for the sector as a whole (Figure 14).

**Figure 14 Average Prices and Number of Units Sold – Commercial Properties**

*Average prices have increased at a five-year (2002-2007) CAGR of 25.9%, compared to a 13.2% increase for the sector as a whole*



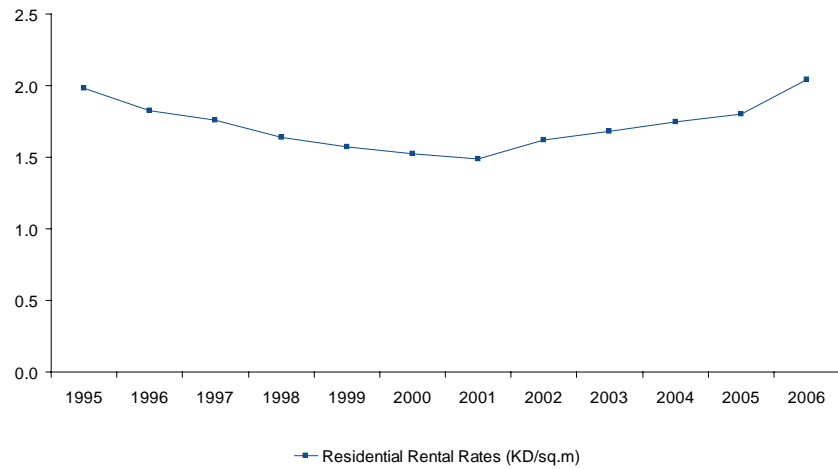
Sources: Ministry of Justice and NBK Capital

*Residential Properties – Rental Rates and Land Prices*

Rental rates for residential properties have gone up steadily, from KD 1.49 per sq. m in 2001 to KD 2.01 per sq. m in 2006 (Figure 15). Though rental rates for 2006 were the highest since 1995, they were only marginally higher than the 1995 level. Political stability and robust economic growth due to escalating oil prices have played a vital role in the overall improved prospects of the Kuwaiti real estate sector, with residential properties being no exception. We do not have up-to-date data on residential rental rates, but industry players suggest they will continue to increase.

**Figure 15 Rental Rates for Residential Properties**

*Though the rental rates for residential properties are at their highest level in the last 12 years, they are only marginally higher compared to 1995 level*

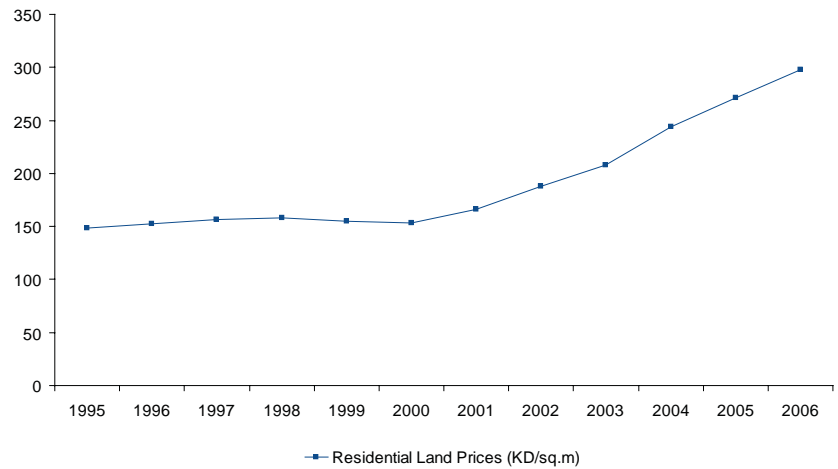


Sources: Kuwait International Bank and NBK Capital

We observe similar trends in land prices for residential properties in Kuwait. Prices have escalated to an all-time high of KD 298 per sq. m in 2006. Prices have more than doubled in the last 12 years, from KD 148 per sq. m in 1995 to the current levels (Figure 16).

**Figure 16 Land Prices for Residential Properties**

*A similar trend is evident in land prices for residential properties*

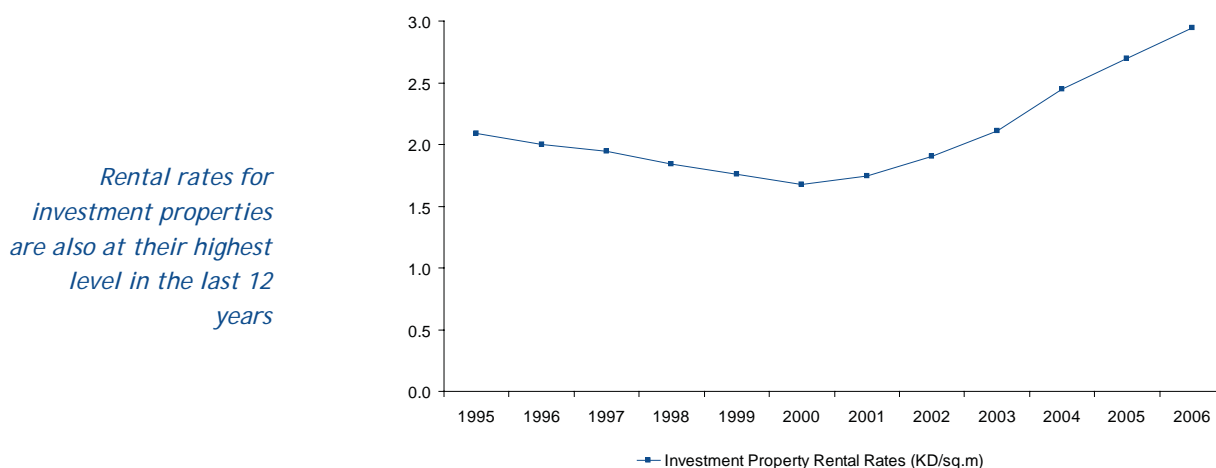


Sources: Kuwait International Bank and NBK Capital

### Investment Properties – Rental Rates and Land Prices

Rental rates for investment properties have increased from KD 1.68 per sq. m in 2000 to KD 2.99 per sq. m in 2006 (Figure 17). Rental rates for 2006 reached their highest level in the last 12 years. Robust economic growth due to spiraling oil prices and increased corporate activity, resulting in an influx of expatriates, has played a vital role in the increase in rental rates for investment properties over the years.

**Figure 17 Rental Rates for Investment Properties**



Sources: Kuwait International Bank and NBK Capital

Figure 18 shows the average monthly rental rates in the various governorates for different apartment sizes. Rents are highest in the Capital governorate, where they range from KD 210 per month for a one-bedroom apartment to KD 250–KD 310 per month (depending on the size) for a two-bedroom apartment. It would cost KD 360 per month to rent a three-bedroom apartment. The Capital governorate is followed by Hawally, where the rents range from KD 190 a month for a one-bedroom apartment to KD 225–KD 235 per month (depending on the size) for a two-bedroom apartment. A three-bedroom apartment would cost KD 340 per month to rent. Rents are lowest in Ahmadi and Jahra.

**Figure 18 Rental Rates per Month for Apartments**

*Rents for apartments are highest in the Capital governorate, followed by Hawally*

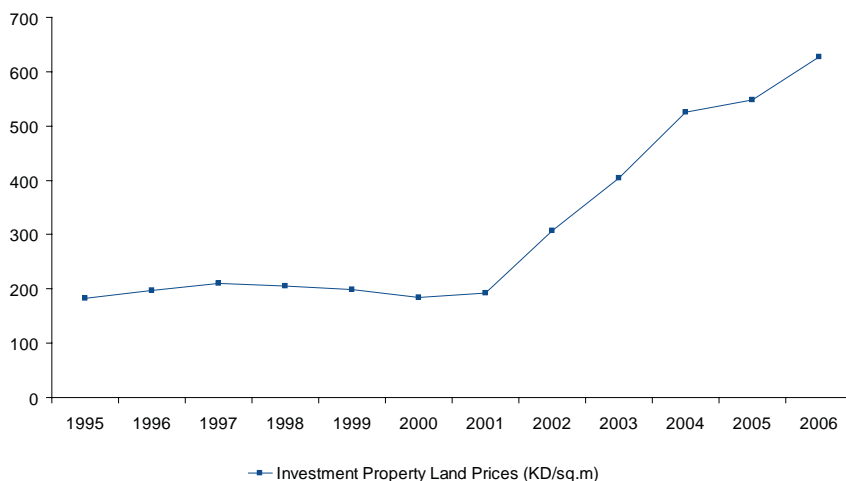
Governorate	Average Rentals per Month (KD) as of Dec 2007				
	1 Bedroom 48-50 sq.m	2 Bedroom 55-60 sq.m	2 Bedroom 70-75 sq. m	2 Bedroom 80-85 sq. m	3 Bedroom 100-110 sq. m
Hawally	190	225	245	265	340
Capital	210	250	285	310	360
Farwaniya	160	190	205	235	265
Ahmadi	160	180	200	225	255
Jahra	150	190	210	235	250

Sources: Kuwait Finance House real estate report and NBK Capital

Land prices for investment properties have increased almost three and half times in the last 12 years, to KD 628 per sq. m in 2006 compared to KD 183 per sq. m in 1995 (Figure 19). However, prices were almost flat from 1995 to 2001. Prices increased almost 60%, to KD 307 per sq. m, in 2002, compared to KD 193 per sq. m one year before. Land prices for investment properties more than doubled in 2006 compared to 2002.

**Figure 19 Land Prices for Investment Properties**

*Land prices for investment properties have increased three and a half fold in the last 12 years*

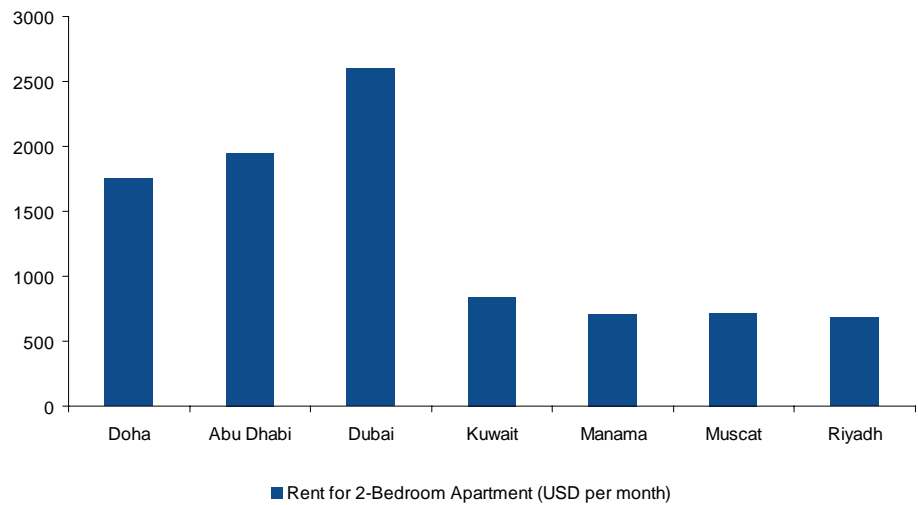


Sources: Kuwait International Bank and NBK Capital

Figure 20 compares the average monthly rental rates for two-bedroom apartments across the GCC. Dubai is the most expensive in terms of rent, with Abu Dhabi and Doha ranking second and third, respectively. Increased corporate activity and significant growth in the number of expatriates has been the main reason for the increase in rent across the GCC. The significant rise in rents has led to soaring inflation in most of these cities. Though rents have risen in Kuwait over the last few years, the rate of increase has been far lower than that in some of the other cities, such as Dubai, Abu Dhabi, and Doha.

**Figure 20** Average Rents for Two-bedroom Apartments in GCC Cities

*Dubai leads the pack in terms of rental rates for a two-bedroom apartment, and Kuwait ranks fourth*



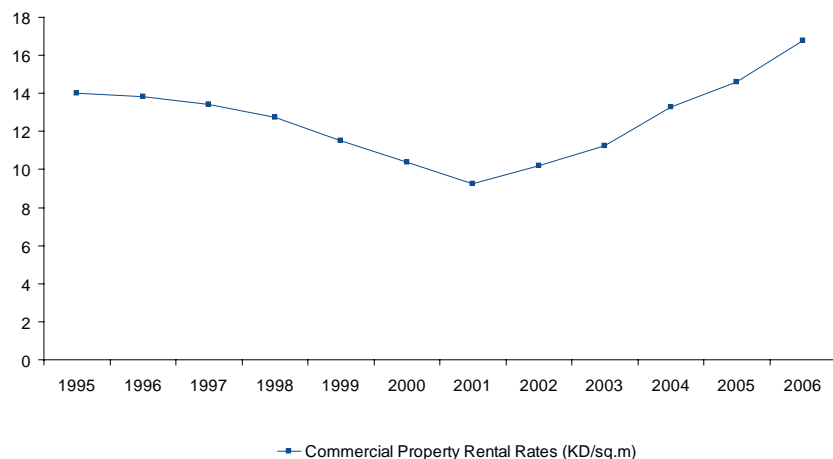
Sources: Colliers, Gulf Talent, and NBK Capital

**Commercial Properties – Rental Rates and Land Prices**

Rental rates for commercial properties have grown at a 10-year CAGR of 2% (Figure 21). The growth rate has been even higher over five years. Rental rates grew at a five-year CAGR of 12.6% for the period ending 2006. As with the segments discussed earlier, the rates are the highest in the last 12 years.

**Figure 21** Rental Rates for Commercial Properties

*Rental rates have grown at a five-year CAGR of 12.6% for the period ending 2006*



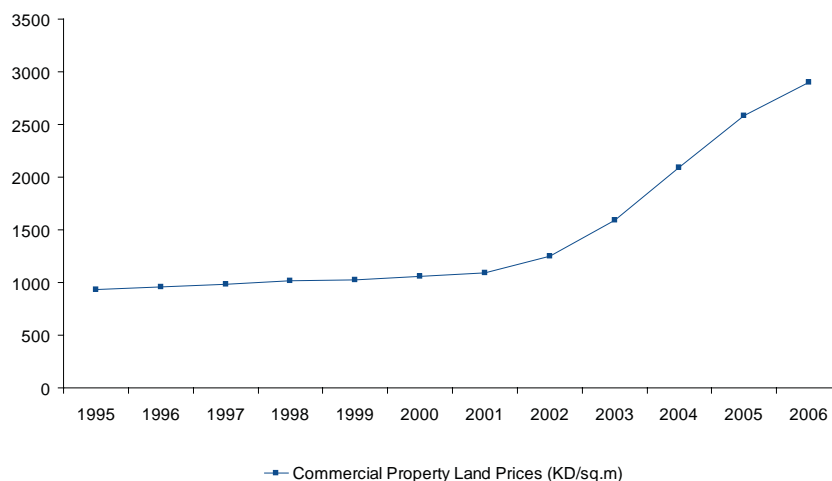
Sources: Kuwait International Bank and NBK Capital

Land prices for commercial properties increased more than threefold, to KD 2,898 per sq.m in 2006 compared to KD 936 per sq. m in 1995. Prices grew at a modest CAGR of 2.6%

in the period 1995–2001 and at an impressive CAGR of 21.6% between 2001 and 2006 (Figure 22).

**Figure 22 Land Prices for Commercial Properties**

*Prices grew at a modest CAGR of 2.6% between 1995 and 2001 and at an impressive CAGR of 21.6% between 2001 and 2006*



Sources: Kuwait International Bank and NBK Capital

Figure 23 shows the prevailing rental rates in 2007 for Kuwait's various commercial property segments. A prime office location can be rented for an effective average rate of KD 11 per sq. m per month, but a Class B office can rent for an effective average rate of only KD 7 per sq. m per month. Similarly, the effective average rate for retail spaces can range from KD 14 sq. m to KD 29.5 sq. m

**Figure 23 Current Rates for Commercial Properties**

*The current rental rate for prime office space is KD 11 sq. m per month, while the peak rate is KD 14 sq. m per month.*

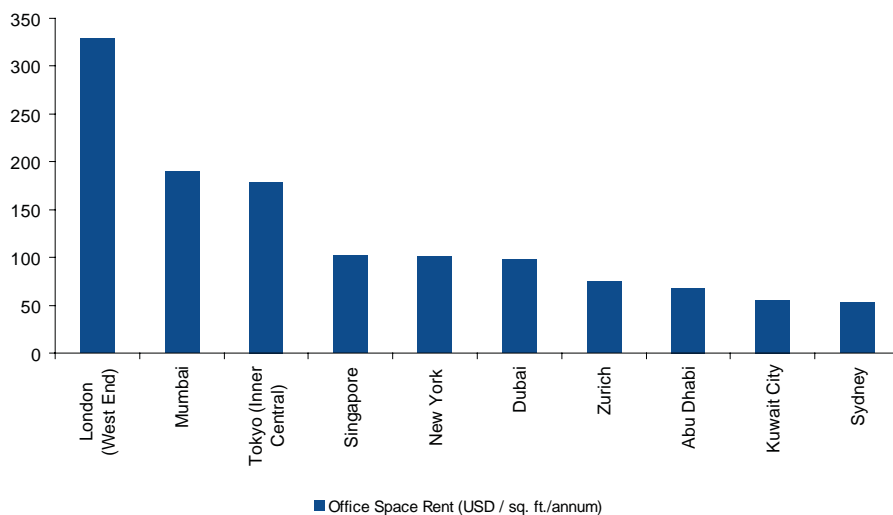
Rents (KD / sq. m / month)	Low	High	Effective Avg.	Vacancy
<b>Downtown Office</b>				
New Construction (AAA)	8	14	11	4%
Class A (Prime)	8	14	11	2%
Class B (Secondary)	4	10	7	3%
<b>Industrial</b>				
Bulk Warehouse	3	5	4	10%
Manufacturing	5	15	10	6%
<b>Retail</b>				
City Centre	12	25	18.5	3%
Neighbourhood Serv. Cent.	8	20	14	3%
Regional Shopping Malls	24	35	29.5	3%
<b>Development Land (KD/sq. m)</b>				
Office in CBD	9,000	13,000		
Industrial	650	1,600		
Retail / Commercial	3,000	6,000		
Residential	600	3,000		

Sources: NAI Global and NBK Capital

Figure 24 compares office rents across the globe. London’s West End is most expensive, followed by Mumbai, Tokyo, and Singapore. Though Kuwait City is far down the list, we included it for the sake of comparison. Dubai boasts the most expensive office space in the GCC, whereas Kuwait is quite cheap compared to other cities across the globe.

**Figure 24 Rents for Office Space across the Globe**

*Office rents are relatively cheap in Kuwait compared to other cities across the globe*



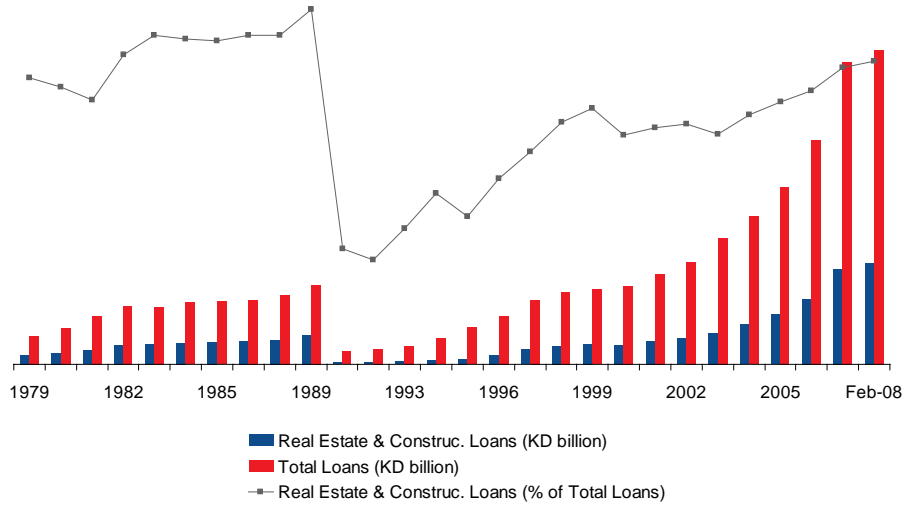
Sources: CB Richard Ellis, Colliers, and NBK Capital

**Real Estate Sector – Funding**

The trend of real estate and construction loans as a percentage of total loans disbursed over the years in Kuwait is shown in Figure 25. The period under study (1979–February 2008) can be divided into three phases. During the first phase, or the pre-Gulf War era (1979–1989), the percentage of real estate and construction loans increased from 30.6% in 1979 to a peak of 37.9% in 1989. The second phase, or post-Gulf War era (1991–2001), saw a bottoming out at 12.3% in 1991, then a steady climb to 25.2% in 2001. The third phase, or oil boom era, experienced a steady rise, from 25.6% in 2002 to 32.3% in February 2008.

Figure 25 Real Estate and Construction Loans (% of Total Loans)

As a result of increased real estate activity, real estate and construction loans as a percentage of total loans rose from 25.2% in 2001 to 32.3% in February 2008

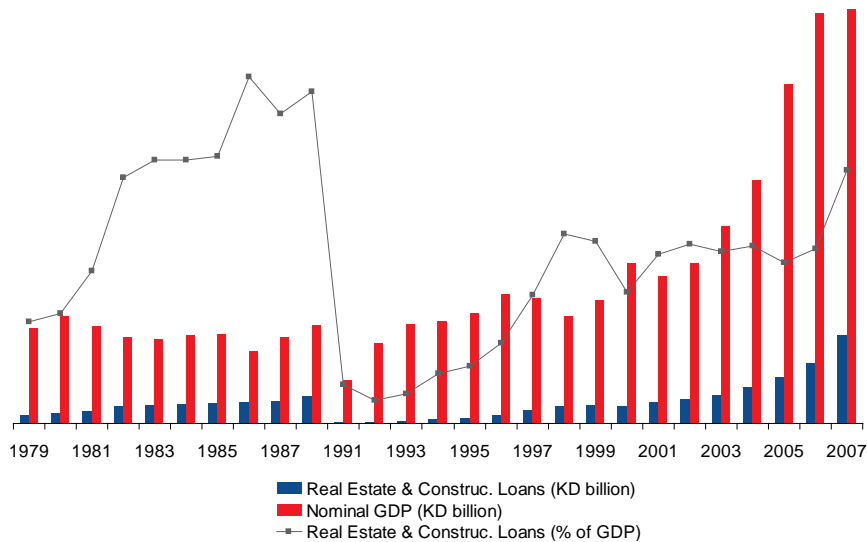


\* Data unavailable for 1988 and 1990. Sources: Central Bank of Kuwait and NBK Capital

As in Figure 25, we see a similar trend in real estate and construction loans as a percentage of nominal GDP (Figure 26). However, the percentage increased sharply, from 14.7% in 2006 to 21.3% in 2007, with an average increase of 15.8% over the last five years (2002–2007).

Figure 26 Real Estate and Construction Loans (% of Nominal GDP)

Real estate and construction loans as a percentage of nominal GDP increased substantially, from 14.7% in 2006 to 21.3% at the end of 2007

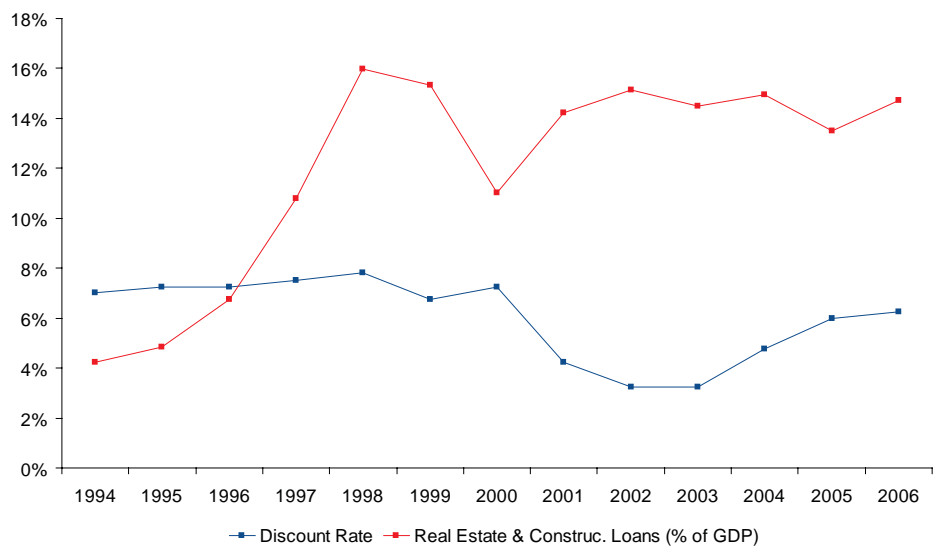


\* Data unavailable for 1988 and 1990. Sources: Central Bank of Kuwait and NBK Capital;

We have tried to establish the relationship between the discount rate set by the Central Bank of Kuwait and real estate and construction loans as a percentage of nominal GDP. For the period between 1994 and 2000, the discount rate ranged within the 105-basis-point band between 6.75% and 7.8%, whereas real estate loans as a percentage of nominal GDP shot up from a paltry 4.22% in 1994 to 11% in 2000, reaching a high of 16% in 1998. But post 2000, real estate loans as a percentage of nominal GDP have been consistent, averaging 15.5% over the last seven years. However, the discount rate has moved up appreciably, from a recent low of 3.25% in 2003 to the current level of 5.75% (Figure 27).

**Figure 27 Relationship between Discount Rate and Real Estate loans (% of GDP)**

*Post 2000, real estate loans as a percentage of nominal GDP have been consistent, averaging 15.5% over the last seven years despite the discount rate increasing from 3.25% in 2003 to the current level of 5.75%*

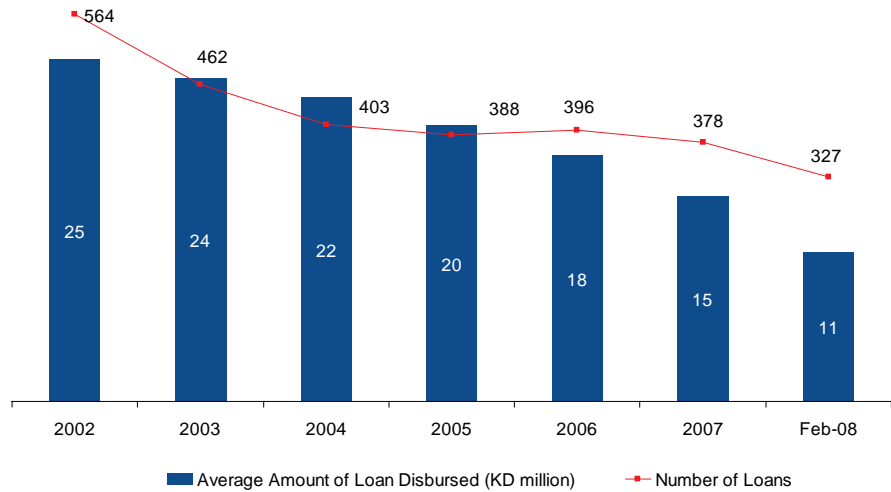


Sources: Central Bank of Kuwait and NBK Capital

We see a contrasting trend in the loans disbursed by the Savings and Credit Bank (Figure 28) relating to the government housing scheme for Kuwaiti nationals. From 2002 through February 2008 we observe a declining trend in the number of approved loans (monthly average) and amounts disbursed (monthly average).

**Figure 28 Trends in Loans for the Housing Scheme – Savings and Credit Bank**

*Average monthly figures for total loans declined from KD 24.9 million in 2002 to KD 15 million in 2007*

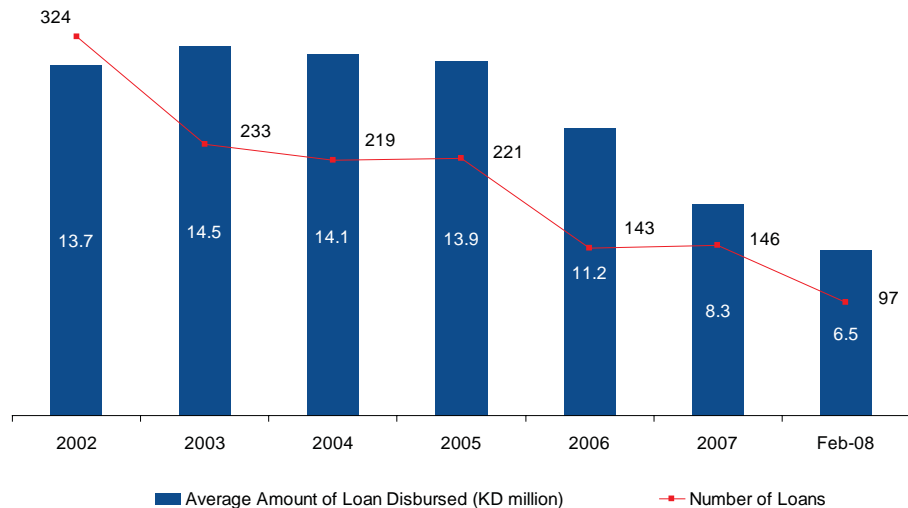


*Average monthly figures for numbers and amounts of loans. Sources: Savings and Credit Bank and NBK Capital*

From 2002 to 2007, new-construction loans accounted for an average of 61% of total loans and their share as a percentage of total loans disbursed has dropped marginally, from 55.1% in 2002 to 54.6% in 2007. Average monthly figures for new-construction loans decreased from KD 13.7 million in 2002 to KD 8.3 million in 2007 (Figure 29).

**Figure 29 Trend in Loans for New Construction – Savings and Credit Bank**

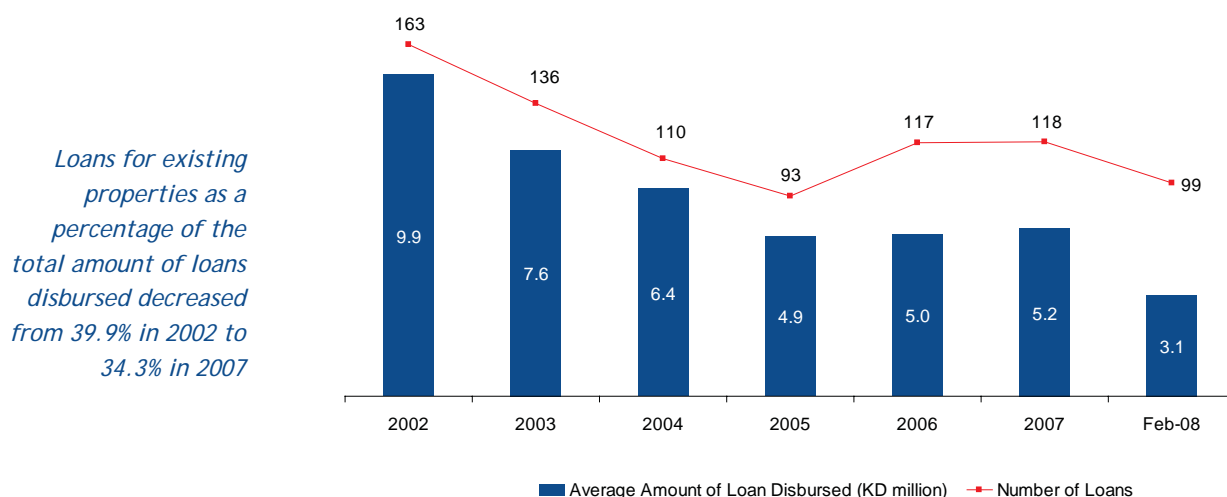
*Average monthly figures for loans disbursed for new construction decreased from KD 13.7 million in 2002 to KD 8.3 million in 2007*



*Average monthly figures for numbers and amounts of loan. Sources: Savings and Credit Bank and NBK Capital*

One of the main reasons for the decrease in total loans disbursed is the decrease in loans in the existing properties segment. The share of loans for existing properties (as a percentage of total loans disbursed) decreased from 39.9% in 2002 to 34.3% in 2007. Average monthly amounts of loans for existing properties dipped from KD 9.9 million in 2002 to KD 5.2 million in 2007.

**Figure 30** Trend in Loans for Existing Properties – Savings and Credit Bank



*Loans for existing properties as a percentage of the total amount of loans disbursed decreased from 39.9% in 2002 to 34.3% in 2007*

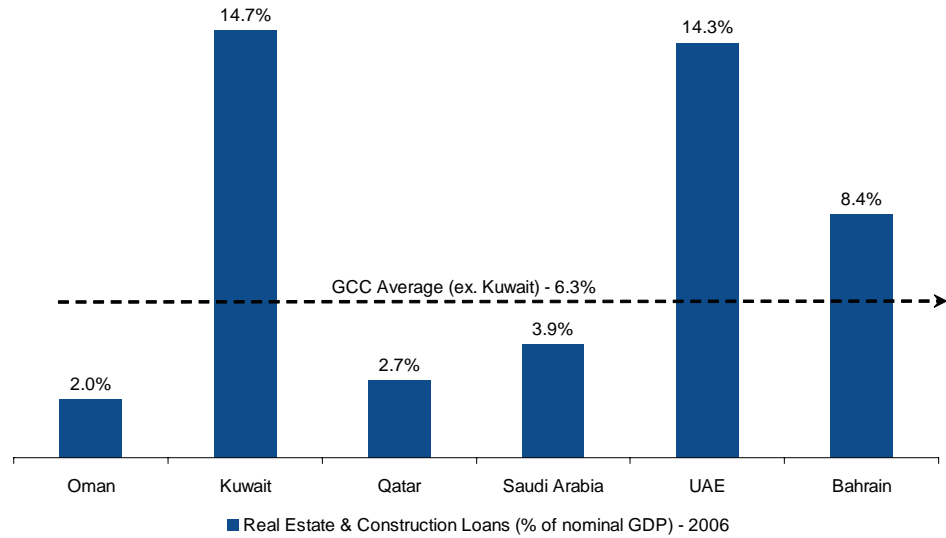
Average monthly figures for numbers and amounts of loans. Sources: Savings and Credit Bank and NBK Capital

**The GCC Story - Real Estate Loans as a Percentage of Nominal GDP**

We see in Figure 31 that Kuwait is far above the GCC average (excluding Kuwait) for 2006 in terms of real estate and construction loans as a percentage of nominal GDP. Kuwait tops the table with 14.7%, more than double the GCC (excluding Kuwait) average of 6.3%. The UAE is a close second with 14.3%, and Bahrain is a distant third with 8.4%.

**Figure 31 Real Estate and Construction Loans (% of GDP) – GCC Countries**

*Kuwait's real estate and construction loans as a percentage of nominal GDP were more than double the GCC average (excluding Kuwait) in 2006*



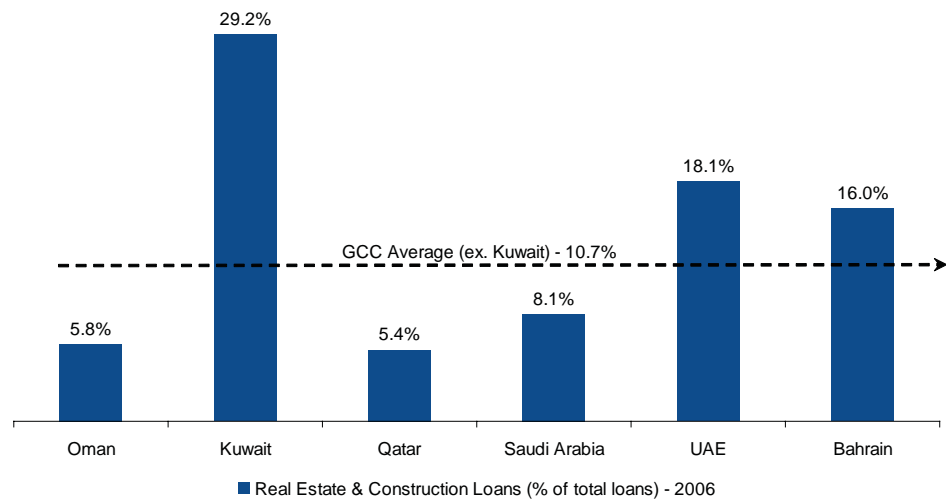
Sources: Respective central banks and NBK Capital

**The GCC Story - Real Estate Loans As A Percentage Of Total Loans**

We can observe a similar trend in Figure 32, which shows real estate loans as a percentage of total loans disbursed by the banking systems of the respective GCC countries. Kuwait tops the table with 29.2%, almost triple the GCC average (excluding Kuwait) of 10.7%. The UAE and Bahrain are a distant second and third, with 18.1% and 16%, respectively. Qatar ranks last, with real estate and construction loans accounting for a paltry 5.4% of total loans.

**Figure 32 Real Estate and Construction Loans (% of total loans) – GCC Countries**

*Kuwait's real estate and construction loans as a percentage of total loans were almost triple the GCC average (excluding Kuwait) in 2006*



Sources: Respective central banks and NBK Capital

## KUWAIT - UPCOMING REAL ESTATE PROJECTS

Supported by high oil prices and a booming economy, Kuwait has real estate projects in the works worth many billions of dollars. We have classified these projects into three main segments: housing and township projects, infrastructure and tourism projects, and commercial projects. The notable projects that we would like to highlight are the KD 24.8 billion Silk City megaproject, the Arifjan and Khairan residential projects, Project Kuwait, and tourism development projects such as Bubiya and Failaka Island.

Starting with the housing and township projects, a whopping KD 49.5 billion worth of projects are in progress (Figure 33). More than half of this value is accounted for by the much touted Silk City project, the third-largest project in the entire Middle East in terms of value. But the worrying factor is the continuous delays in the project, as a result of which it seems the project has lost a bit of its momentum. The project will be developed by Tamdeen Real Estate Company and Ajial Real Estate Entertainment and is scheduled to be completed in several stages over a 25-year period. The city will cover an area of 250 sq. km. and will be located in the Sabiya region on the northern shore of Kuwait Bay. The project includes residential city housing for about 700,000 people and state-of-the-art medical, health, and educational facilities. It also includes a financial complex, a cultural complex, and entertainment and leisure facilities. The Grand Mubarak Tower (Burj Mubarak al Kabeer) is the centerpiece of the project and is expected to rise to a height of 1,001 meters when completed.

The Arifjan and Khairan residential projects are also slated for construction, and are being offered to the private sector on a build-operate-transfer (BOT) basis over a 20-year period. The Arifjan project, costing KD 2.92 billion, is a comprehensive residential project with more than 11,000 residential units and associated facilities accommodating more than 100,000 people. It will be built over an estimated area of 40 sq. km. The Khairan residential project is a massive project, which will add 26,000 residential units at a cost of KD 7.37 billion. The Jaber Al-Ahmad project is already under construction and is scheduled for completion in early 2009. It will comprise 1,240 housing units accommodating 78,000 residents. The Subiya project, located at the north end of Kuwait City, will comprise 50,000 residential units and will boast a new 75-kilometer motorway and 36-kilometer causeway from Kuwait City.

**Figure 33 Township and Housing Projects**

Housing & Township Projects	Estimated Cost KD million	Project Start	Project End
Silk City	24,820		
Subiya Urban Development	5,840	2008	2012
Arifjan / Sabah Al - Ahmad Urban Housing	2,920	2007	2012
Mutlaa Township	2,920	2008	2012
Fahd Al Abdullah Township	2,920	2008	2012
Khabary City	1,606	2007	2012
Ahmadi Township Development	584	2008	2013
Jahra Housing Project	500	2007	2010
Khairan Residential City	7,370		

Sources: Ministry of Public Welfare, Zawya, and NBK Capital

*Township and housing projects worth KD 49.5 billion are expected to be completed in the near future*

According to news sources, the Public Authority for Housing Welfare (PAHW) is currently implementing 29 housing projects at a total cost of KD 224 million. This involves the construction of 4,460 housing units, complete with amenities and infrastructure. These include the ongoing projects in Jaber Al-Ahmed City and Saad Al-Abdullah City. The PAHW is working on the design and construction of 1,016 housing units in Block B in Jaber Al-Ahmed City, with the aim of distributing 400 units to qualified housing grant applicants in February 2008. Construction of the remaining houses will be completed in June 2008, while the establishment of major services for 840 housing units in Block Five will be completed in January 2009. In Saad Al-Abdullah City, the PAHW is currently building 1,495 housing units; 714 units located in Block Eight will be completed by the end of 2007, and 781 units in Block Ten will be completed by the beginning of 2009. A further 288 houses under construction in Al-Nadha (South Sulaibikhat) will be completed in 2008.

The main infrastructure and tourism projects we would like to highlight are Project Kuwait and the tourism development projects involving the islands of Bubiyan and Failaka.

The visionary Project Kuwait, worth KD 2.32 billion, is a strategic project aimed at developing the Northern Oilfields in order to increase oil production levels to 4 million barrels per day by 2020, up from the current levels of 2.66 million barrels per day. The 4th Refinery Project is expected to be the world's largest greenfield refinery project. It would raise the country's refining capacity to 1.5 million barrels per day, with an estimated overall investment of KD 3.82 billion (Figure 34).

The estimated KD 1.75 billion development on Bubiyan Island involves the construction of a new port, container terminal, and residential and commercial infrastructure. The project aims to open the port (with a capacity of 2.5 million tons a year) by 2008. The second stage will involve the dredging of a 40-kilometer-long, 260-meter-wide, 14-meter-deep approach channel at a cost of KD 136.5 million.

**Figure 34**      **Infrastructure And Tourism Projects**

*Important infrastructure and tourism projects already under way are aimed at strategically boosting the overall future growth of the country*

Infrastructure & Tourism Projects	Estimated Cost KD million	Project Start	Project End
Project Kuwait	2,320		
4th Refinery Project	3,820		
Bubiyan Island	1,752	2007	2011
Failaka Island Resort	972	2006	2014
Kuwait City Metro	526	2007	2011
Subiya Causeway	438	2006	2010
Bubiyan Seaport	350	2006	2016
Kuwait Airport Expansion	292	2007	2010
Iraqi Saudi Border Road	146	2007	2010
First Ring Road Project	27		
Media City	117	2007	2010
New Kuwait University Campus	876	2007	2013

Sources: Ministry of Public Works, Director General of Civil Aviation, and NBK Capital

The Avenues is a landmark development in Kuwait's retail industry. The first phase has already been inaugurated and is fully operational. The mall is scheduled for completion in 2008 and will be the largest in Kuwait by a considerable margin. The mall will have around 250 stores, 35 restaurants and cafés, and a 10-screen multiplex. It is built over 425,000 sq. m and is divided into three phases in the Al-Rai area. Upon completion, The Avenues will have a gross built-up area of almost 500,000 sq. m, a gross leasable area (GLA) of 160,000 sq. m, and parking for more than 6,000 cars.

The other two upcoming retail projects worth mentioning here are the Mall of Kuwait and 360° Kuwait. Both projects will be developed by Tamdeen Real Estate Company.

Mall of Kuwait will be located in the Sabahiya area, covering a massive retail area of 150,000 sq. m. It will be comparable to The Avenues, which is currently the largest mall in Kuwait. The mall will consist of a hypermarket, five anchor stores, globally renowned retail brands, and entertainment facilities.

360° Kuwait will add another project to Tamdeen Real Estate's portfolio of distinguished retail properties. It will be located at the intersection of King Faisal Highway and the 6th Ring Road and will cover a retail area of over 75,000 sq. m. The project will consist of a hypermarket, two department stores, and other entertainment facilities.

The major skyscrapers under construction include the Hamra Tower, which is expected to be Kuwait's tallest tower at 412 meters (at least until the Grand Mubarak Tower is built), with a massive built-up area of over 270,000 sq. m; Arraya II, with about 65,000 sq. m; and Kuwait Trade Center, with 30,045 sq. m. There are also several other mixed-used developments with ancillary retail facilities and office floors under construction.

A huge number of new office towers are expected to change Kuwait's landscape in the coming years. The tourism industry is also undergoing the beginnings of a boom, with 90 hotel licenses granted since 2003. The entertainment sector is expected to witness high growth rates, with the building of more parks and entertainment complexes in the coming years.

**Figure 35 Real Estate Projects – Commercial Projects**

Commercial Projects	Area sq. m	Project Start	Project End
Avenues - Phase II	40,000		2008
Hamra Tower	270,000	2005	2009
Arraya II	65,000		2008
Kuwait Trade Centre	30,045	2005	2008
Other Commercial Towers	Height (m)	Floors	Project End
Square Capital Tower	350.5	63	2008
Business City Office Tower	260	59	2008
Central Bank of Kuwait	240	42	2008
Al Waqf Tower	230	50	2008
Crystal Tower	208	52	2008
26th February Tower	170	32	2008
25th February Tower	170	32	2008

Sources: NAI Global, Skyscraperpage.com, and NBK Capital

*An estimated 270 new office towers are expected to change Kuwait's landscape in the coming years*

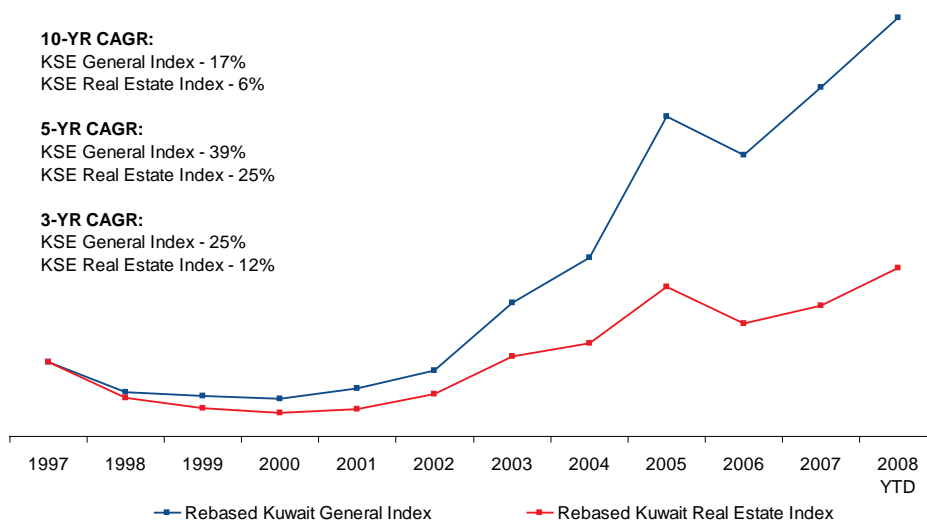
**KUWAITI REAL ESTATE SECTOR PERFORMANCE**

*Performance of the real estate index compared to the KSE index*

The Kuwait Real Estate Index has been a consistent underperformer compared to the KSE index (Figure 36). This is attributable to relatively low growth in earnings compared to the rest of the market and to the susceptibility of earnings. The inability to generate sufficient cash from core business operations has also hurt investor sentiment, which is discussed below in detail.

**Figure 36** Consistent Underperformance of the Kuwait Real Estate Index

*The Kuwait Real Estate Index has consistently underperformed the benchmark price index*

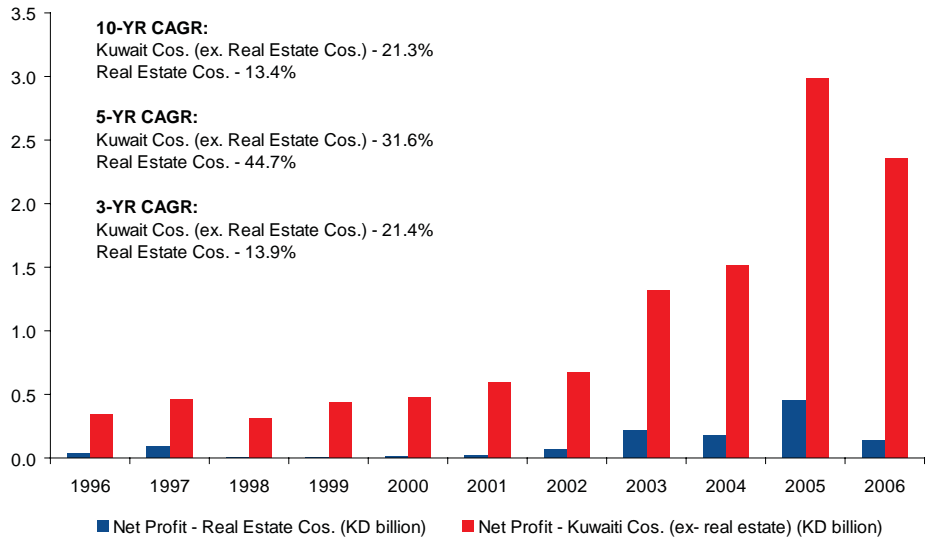


Sources: Kuwait Stock Exchange and NBK Capital

We observe that real estate companies have underperformed Kuwaiti companies (excluding real estate companies) on the basis of long-term earnings growth (Figure 37). Kuwaiti companies have grown at a 10-year CAGR of 21.3%, whereas the earnings for real estate companies have grown at a 10-year CAGR of 13.4% in the same period.

**Figure 37 Earnings Growth Captured in Index Performance**

*The underperformance in earnings growth explains the index movements*



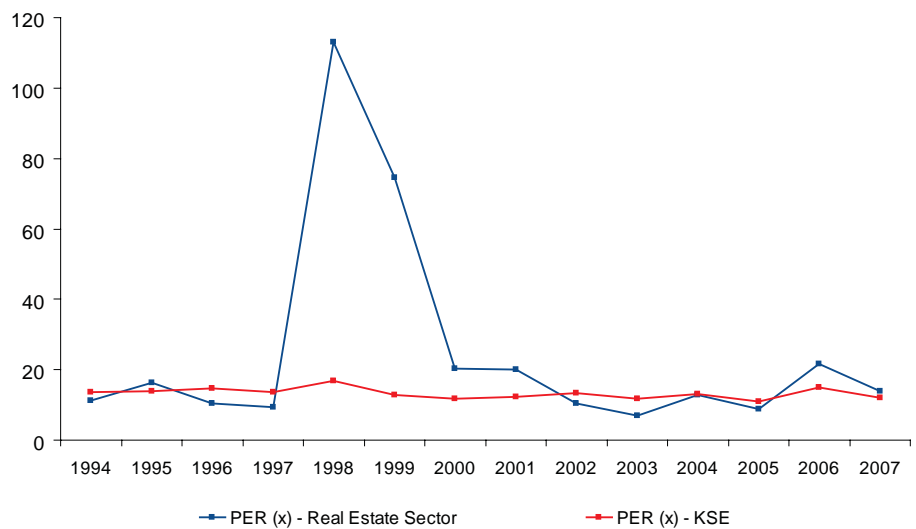
Sources: Kuwait Stock Exchange and NBK Capital

**Valuation - Real Estate Sector Compared to Other Listed Companies**

Kuwaiti listed companies have traded in the price-to-earnings ratio (PER) band of 11x–16.7x, whereas Kuwaiti real estate companies have exhibited a higher range of PER (x), as shown in Figure 38 below. The real estate sector has consistently lagged behind in terms of earnings growth, but this has not been reflected in the historical PER (x).

**Figure 38 PER (x) - Kuwaiti Real Estate Sector Compared to the Market**

*The historic band of PER (x) for the real estate sector is not fully reflective of the earnings growth*

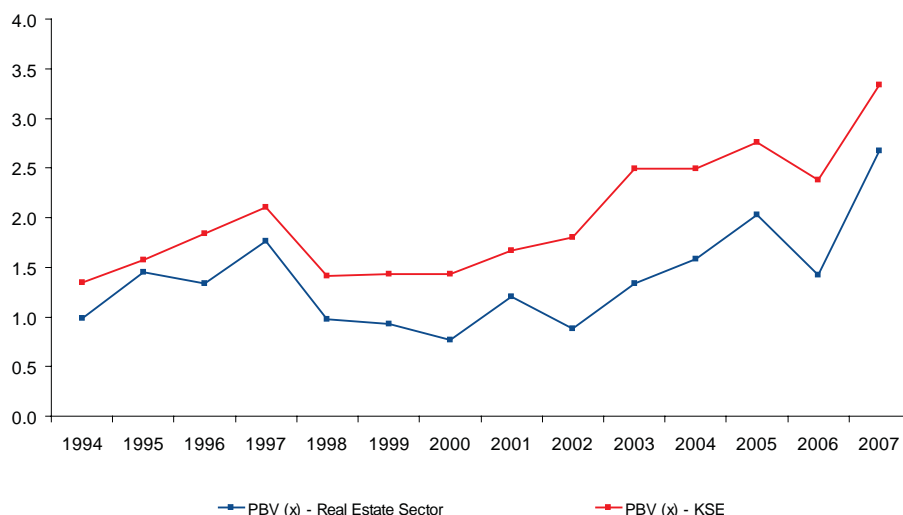


Sources: Kuwait Stock Exchange and NBK Capital

However, we can observe that the Kuwaiti real estate sector has traded at a discount to the market in terms of the price-to-book-value (PBV) ratio. We feel that the consistently lower return on average equity (ROAE) for the sector has been instrumental in the comparatively lower PBV multiples. Kuwaiti real estate companies have traded in the PBV (x) band of 0.77x–2x, while the market traded in the range of 1.35x–2.5x (Figure 39).

**Figure 39 PBV (x) for the Real Estate Sector – at a Discount to the Market PBV**

*The real estate sector has traded at a lower PBV(x) over the years compared to the broader market*

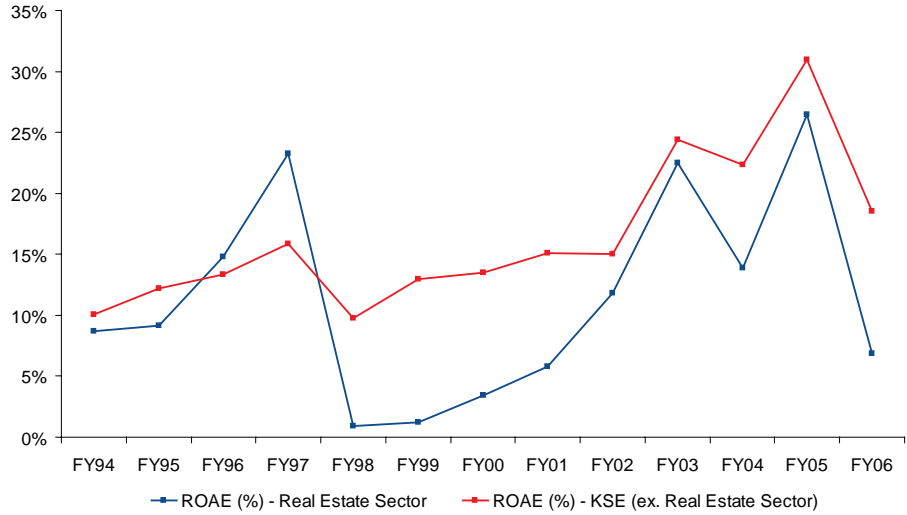


Sources: Kuwait Stock Exchange and NBK Capital

The real estate sector has consistently generated lower ROAE compared to Kuwaiti listed companies (excluding real estate companies) apart from the ROAE achieved in 1996 and 1997 (Figure 40). This can be attributed to the low equity multiplier (total assets to total equity) for the sector compared to the rest of the market. Using the DuPont model, we can derive ROAE as the product of return on average assets (ROAA) and the equity multiplier. As shown in Figure 41, the sector has outperformed the market in terms of ROAA. Hence the lower ROAE can be attributed to the lower equity multipliers. Lower ROAE has led to the sector trading at a considerable discount to the market in terms of PBV.

**Figure 40** Generating Comparatively Lower Returns on Shareholders' Equity

*The real estate sector has generated a lower return on average equity (ROAE) compared to the broader market*

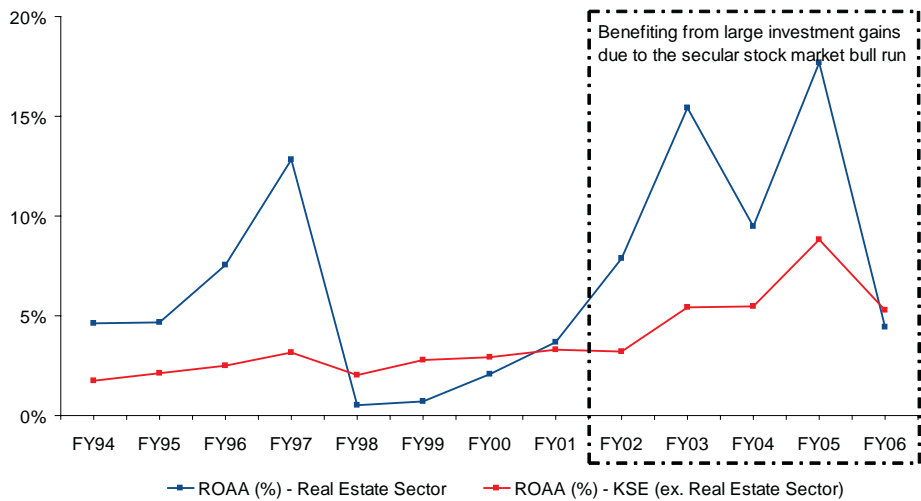


Sources: Respective company financials, Kuwait Stock Exchange, and NBK Capital

Real estate companies have generated a higher return on average assets (ROAA) as a result of significant investment gains from cashing in on the stock market bull run. The realized and unrealized investment gains have resulted in comparatively higher net profit margins, which are instrumental in generating a higher ROAA.

**Figure 41** Volatile ROAA due to Significant Investment Gains

*The trend changes for return on average assets (ROAA), but outperformance can be largely attributed to significant investment gains (both unrealized and realized) resulting from the secular stock market bull run*

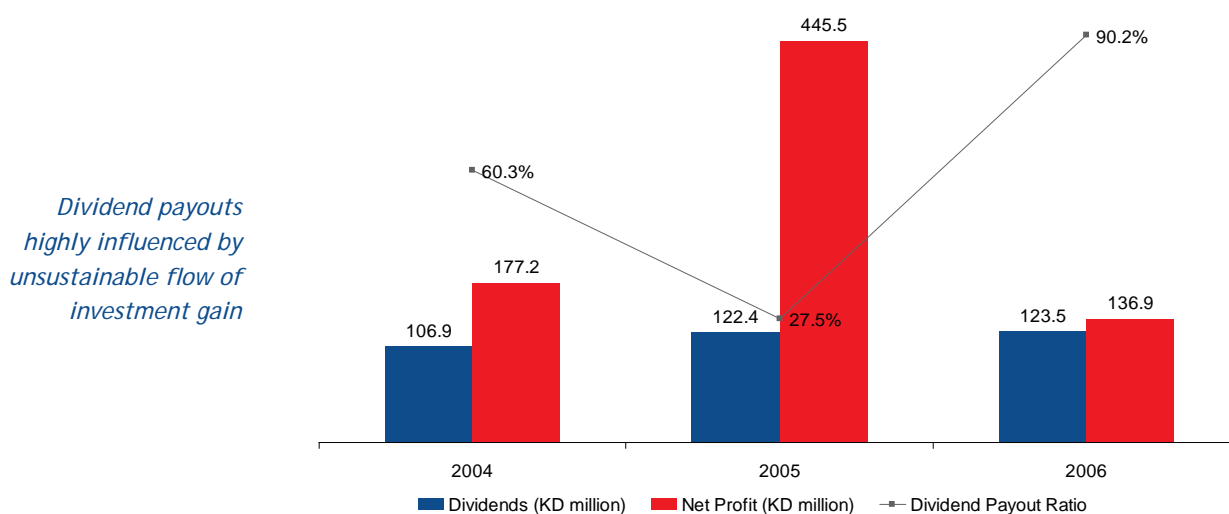


Sources: Kuwait Stock Exchange and NBK Capital

### Dividends – Rewarding or Hurting?

The listed real estate companies paid cash dividends amounting to KD 123.5 million in fiscal year (FY) 2006, compared to KD 122.4 million in FY 2005. The corresponding payout ratios were 90% and 27.5% for FY 2006 and FY 2005, respectively (Figure 42). We would like to discuss the source of such payouts in order to determine the impact of the dividend policy on shareholders.

**Figure 42** Dividend Payout for the Kuwaiti Real Estate Companies

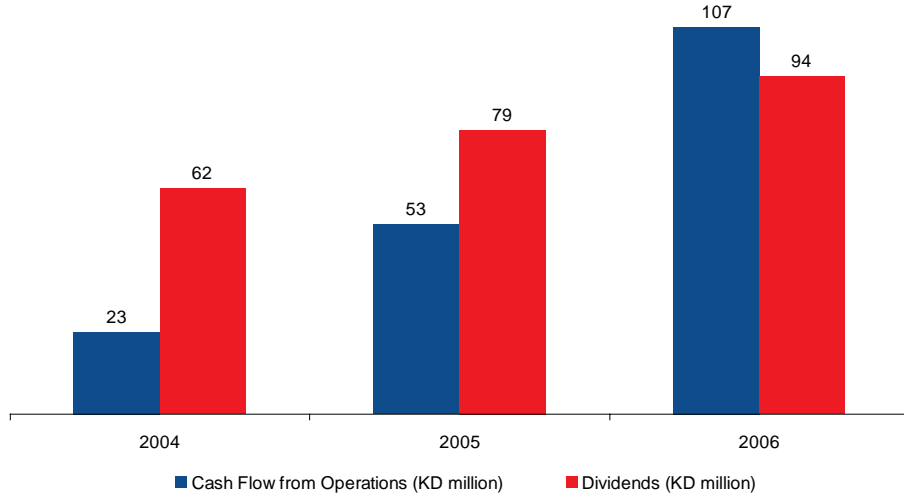


Sources: Respective company financials and NBK Capital

We observe that cash flows from operations are not sufficient to meet dividend payments (other than in 2006) and hence are cause for concern (Figure 43). In order to analyze this we have taken a sample of the top 15 Kuwaiti listed real estate companies in terms of market capitalization. Either dividends are being paid by selling operating assets and business operations (if it is from discontinued operations, it makes sense), or out of noncore income streams, which is highly unsustainable. Meeting dividends from either of these two sources cannot be sustained in the long run. Past reserves can be handy for making dividend payments as well. But this can also erode shareholders' value since the reserve should ideally be used for propelling future growth.

**Figure 43** Dividend Payout vs. Cash Flow from Operations for the Top 15 Kuwaiti Real Estate Companies

*Cash flow from operations is not enough to meet dividend payout*

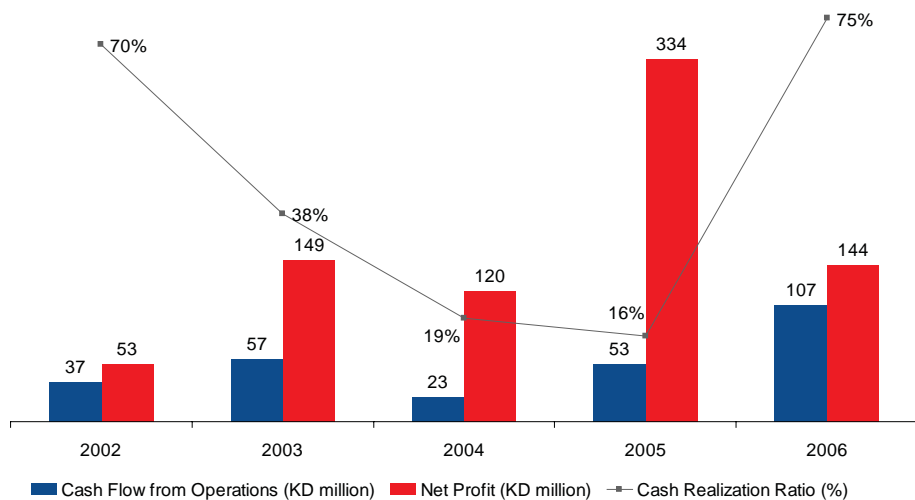


Sources: Respective company financials and NBK Capital

We can observe an interesting pattern in Figure 44. The cash realization ratio (cash flow from operations divided by net profit) is an important financial parameter for analyzing companies. It shows the strength of the cash flow from core business operations, and how effectively the company is managing its working capital cycle. It also reflects on the depreciation policy of the company. We would prefer an increase in the cash realization ratio on the back of surging profits. An increase in the ratio due to a drop in profits is, however, not desirable. We see exactly that happening among listed real estate companies, with the ratio decreasing from 69.7% in 2002 to a paltry 15.8% in 2005. The rise in 2006 is on the back of decreasing profits.

**Figure 44** Cash Realization Ratio for the Top 15 Kuwaiti Real Estate Companies

*The cash realization ratio rises in 2006 on the back of decreasing profits*

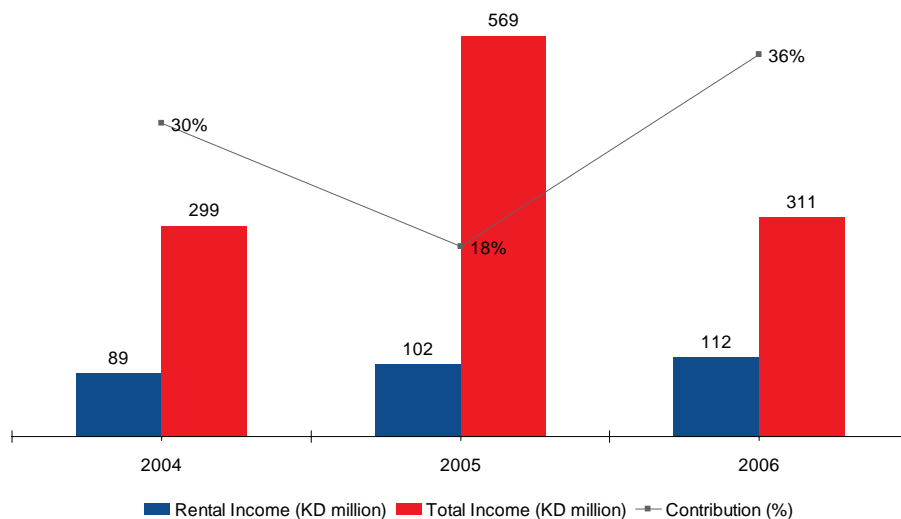


Sources: Respective company financials and NBK Capital

In analyzing the focus on the main business line of the sector, we observe that the contribution of rental income (revenue from core operations) to total income has more than doubled, to 36.1% in 2006, mainly due to a significant drop (down 45.3% year on year) in total income (Figure 45). Rental income increased to KD 112.2 million in 2006, a growth of 9.88% compared to 2005.

**Figure 45 Contribution of Rental Income to Total Income**

*The contribution of rental income appears to have increased mainly due to the fact that total income has plummeted because of a decline in investment income and unrealized investment losses*



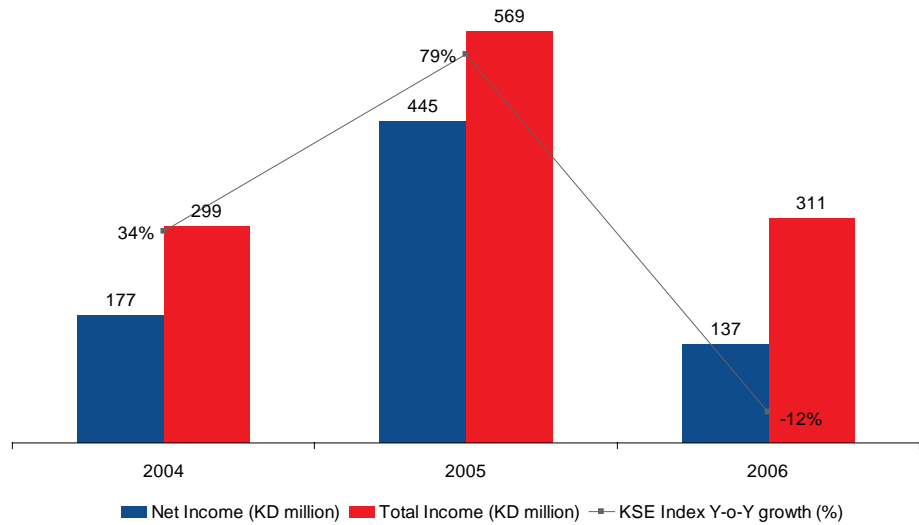
Sources: Respective company financials and NBK Capital

### *De facto Investment Companies*

A closer examination of real estate companies' (entire sector) financials gives the impression of more investment activities and less core real estate operations, leading to these companies' de facto status as investment companies. The profitability of the real estate companies is strongly correlated with movements on the equity markets (Figure 46). We clearly see that a contraction in the stock index in 2006 led to overall profits dipping to KD 136.86 million (down 69.2% year on year) in 2006 compared to KD 445.5 million in 2005.

**Figure 46 Correlation between Index Movement and Profitability**

*The stock market plays a major role in the profitability of real estate companies*

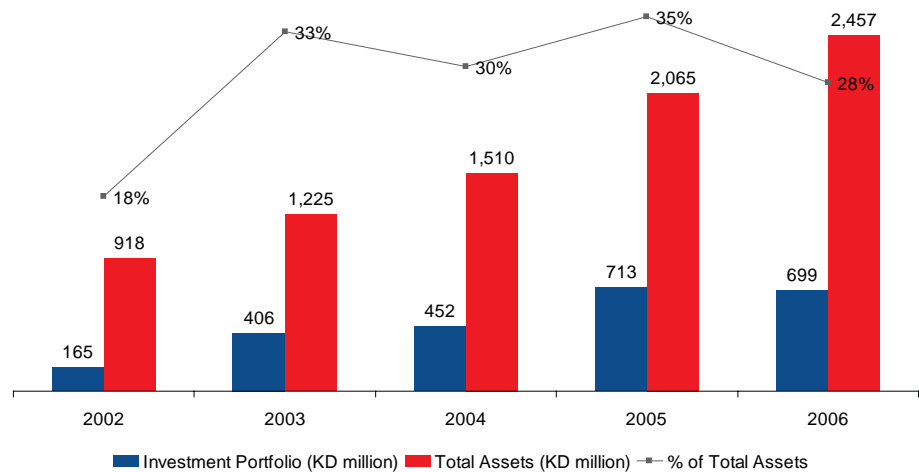


Sources: Respective company financials, Kuwait Stock Exchange, and NBK Capital

Investments as a percentage of total assets have increased from 17.9% in 2002 to 28.4% in 2006 (Figure 47). For the purpose of this analysis, we examined the top 15 real estate companies (80% of the total market capitalization of the sector), sorted on the basis of highest market capitalization.

**Figure 47 Percentage of Investments in Total Assets for Top 15 Kuwaiti Real Estate Companies**

*Investments have accounted for almost 29% of total assets on average over the last five years*



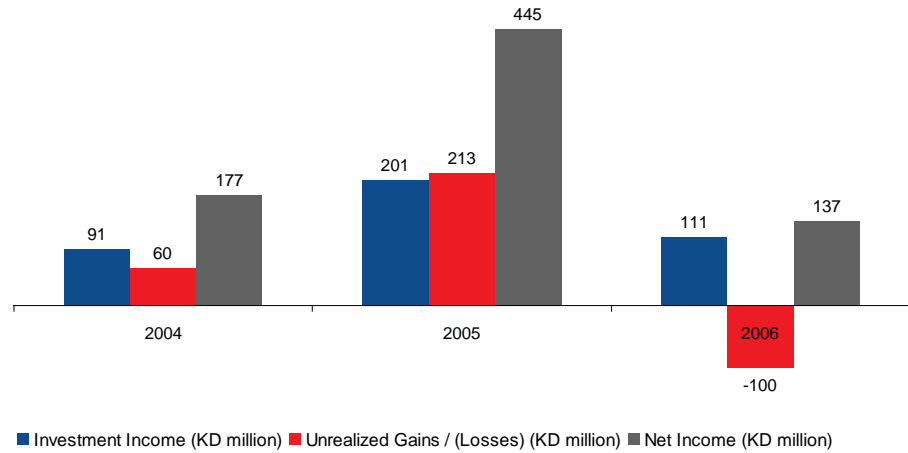
Sources: Respective company financials and NBK Capital

We showed earlier that the profitability of the listed real estate companies was significantly influenced by the whims of the stock market. We observe in Figure 48 that realized investment gains and unrealized investment gains and losses noticeably affect the profitability of real

estate companies. We observe that realized investment income has decreased from KD 201 million in 2005 to KD 111 million in 2006, due primarily to stock markets shedding 12% in the same period. Similar trends were visible in unrealized investment losses, which amounted to KD 100 million in 2006 compared to gains of KD 213 million in 2005. This led to a significant fall in net profits, to KD 137 million in 2006 compared to KD 445 million in 2005.

**Figure 48** Realized and Unrealized Investment Income – Main Driver for Profits

*A dip in the stock markets resulted in lower investment income and higher unrealized investment losses*

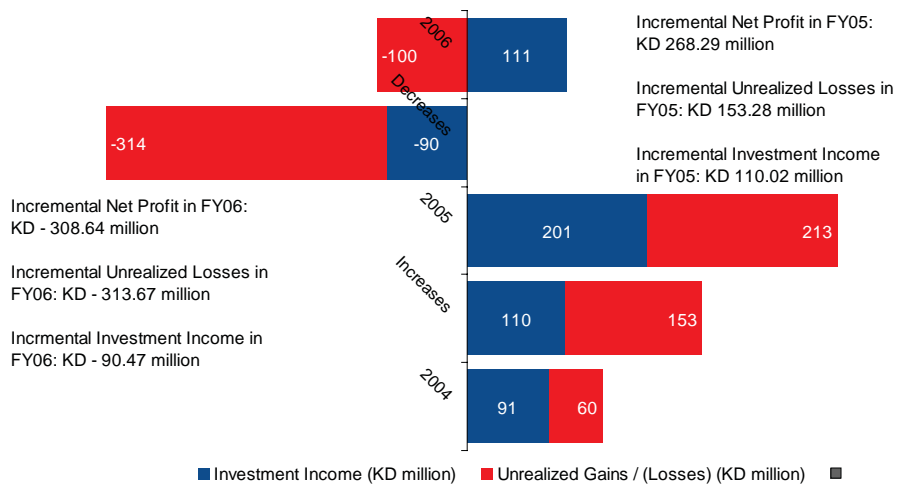


Sources: Respective company financials and NBK Capital

The advantage of noncore income is that it can be earned by incurring negligible expenses. Hence, whatever is accounted for in the top line trickles down and is added directly to the bottom line with virtually no expense. The impact of investment income on the net profit of the real estate companies can be deduced by a simple incremental analysis (Figure 49).

**Figure 49** Realized and Unrealized Investment Income – Incremental Analysis

*A significant amount of incremental net profit is due to investment income and unrealized investment gains*



Sources: Respective company financials and NBK Capital

## KUWAITI REAL ESTATE SECTOR – WHO'S WHO

### MABANEE COMPANY

Mabane Company catapulted into the big league of real estate players with its landmark The Avenues project. It is a Kuwaiti shareholding company and has been listed under the real estate sector of the Kuwait Stock Exchange since 1999. The company is currently the largest real estate company in Kuwait in terms of market capitalization. The company boasts a current market capitalization of KD 584 million. The company operates in three main business areas: real estate, investment, and construction.

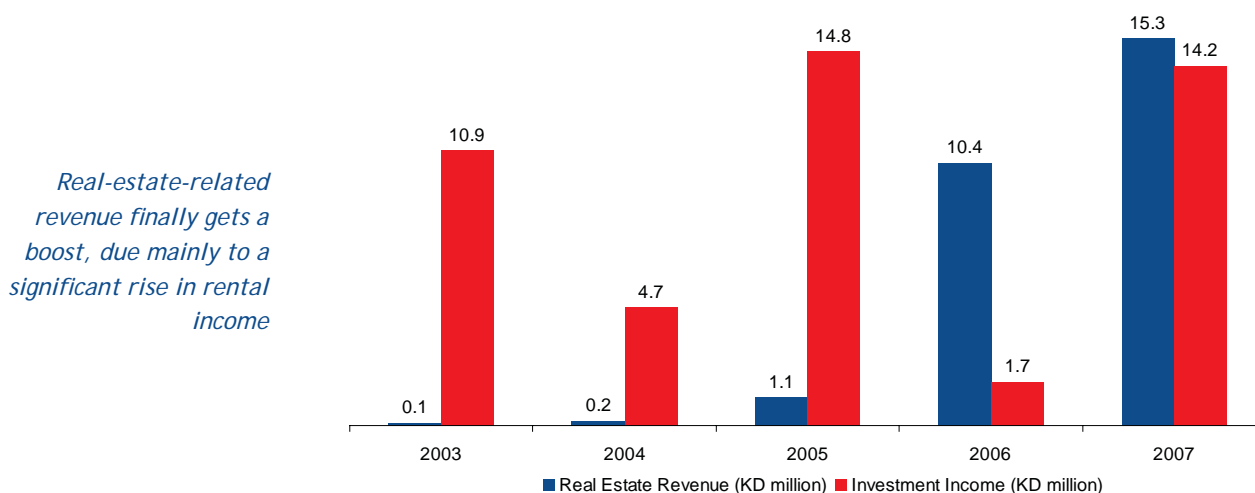
#### Major projects

The Avenues is a landmark development in Kuwait's retail industry. The first phase has already been inaugurated and is fully operational. The mall is scheduled for completion in 2008 and will be the largest in Kuwait by a considerable margin. The mall will have around 250 stores, 35 restaurants and cafés, and a 10-screen multiplex. It is built over 425,000 sq.m and is divided into three phases in the Al-Rai area. Upon completion, The Avenues will have a gross built-up area of almost 500,000 sq. m, a GLA of 160,000 sq. m, and parking for more than 6,000 cars.

#### Financial statements review

Real-estate-related revenue for the company grew by 47%, to KD 15.28 million in 2007, compared to 2006, due mainly to a significant rise in rental income (Figure 50). The boost to rental revenue was entirely due to the completion of the first phase of The Avenues. Investment income for the company increased at a five-year CAGR of 19.4% for the period 2002 to 2007.

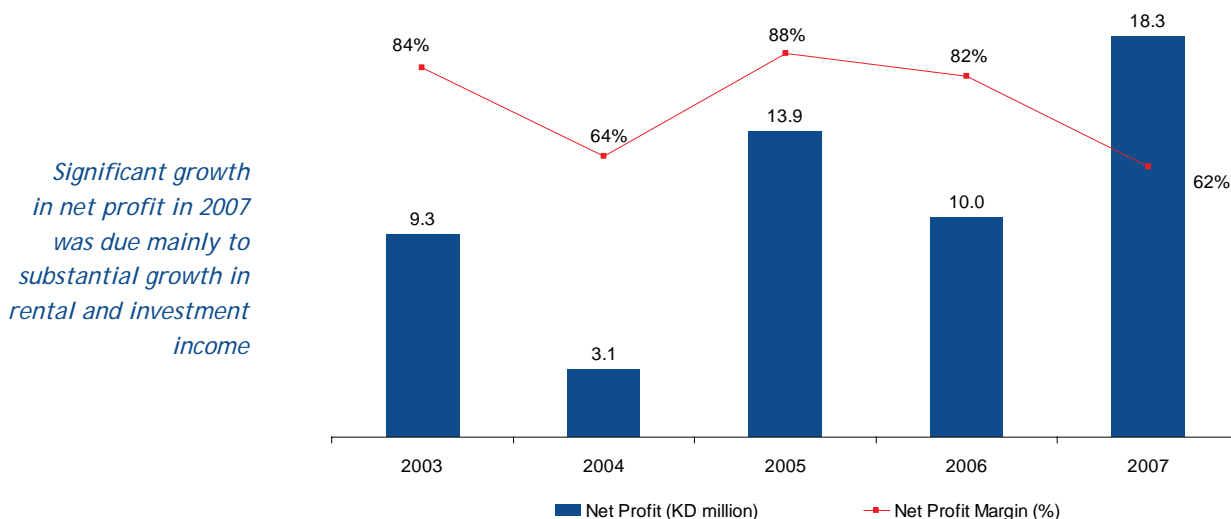
Figure 50 Real-Estate-Related Revenue and Investment Income



Sources: Company financials and NBK Capital

The company's net profit increased 82.5%, to KD 18.31 million in 2007, compared to KD 10.03 million in 2006, due mainly to investment income (Figure 51). The company reported investment income of KD 14.2 million in 2007, compared to KD 1.73 million in 2006. Net profit grew at a five-year CAGR of 29.5% in the period 2002 to 2007. The net profit margin decreased marginally, to 61.8% in 2007, from 84.4% in 2003.

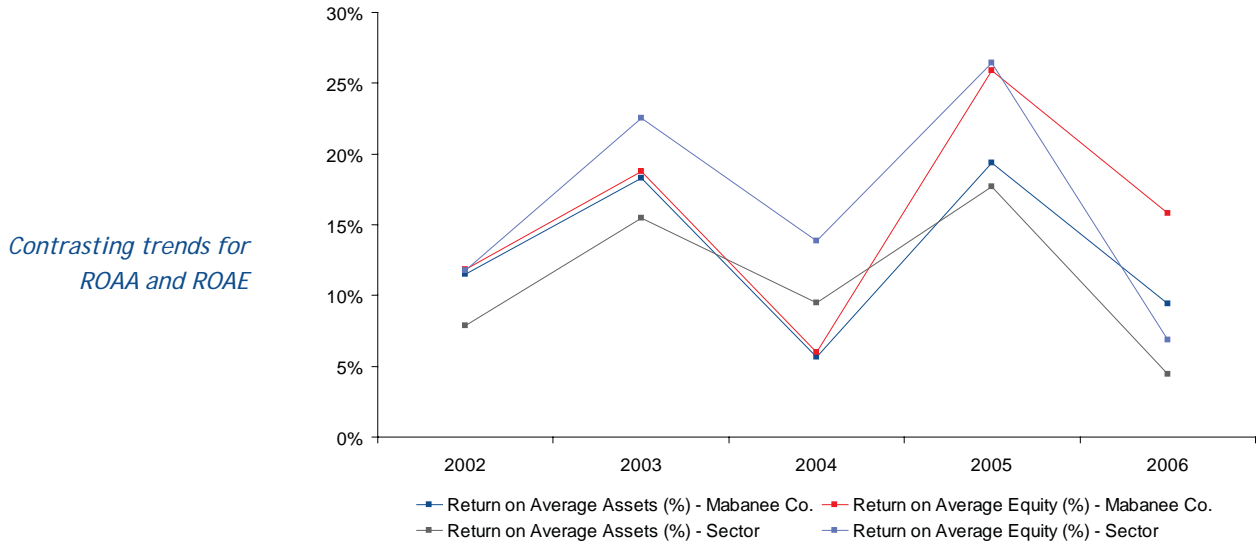
**Figure 51 Net Profit and Net Profit Margin - Mabane Company**



Sources: Company financials and NBK Capital:

Figure 52 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to Mabane Company. The company generated comparatively higher ROAA than the sector on a consistent basis, with the exception of 2004. ROAA for the company decreased from 11.5% in 2002 to 9.4% in 2006. The sector exhibited similar trends, reporting an ROAA of 7.9% in 2002, compared to 4.4% in 2006. However, we observe a contrasting trend in ROAE. The company underperformed the sector in each of the last five years, with the exception of 2006. The ROAE for the company increased from 11.8% in 2002 to 15.8% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

Figure 52 ROAA and ROAE – Compared to the Real Estate Sector

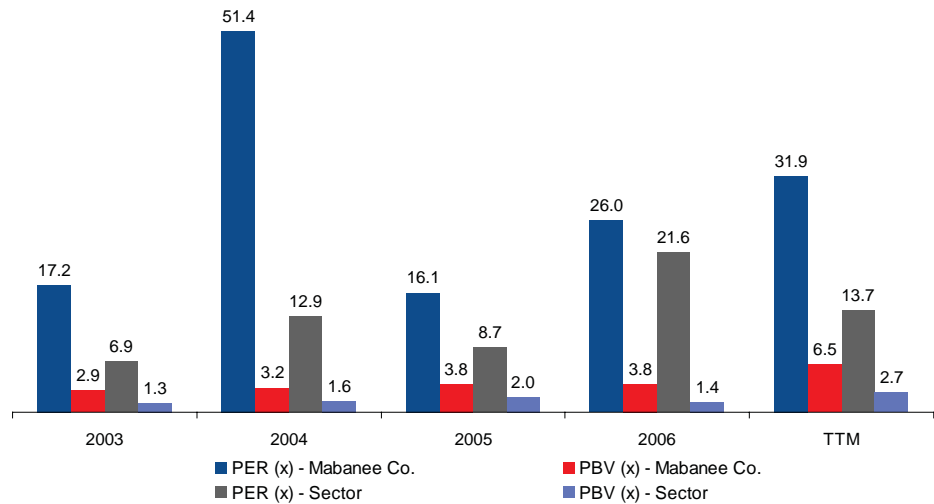


Sources: Company financials and NBK Capital

Mabanee Company has traded at a premium to the sector on both a PER (x) and a PBV (x) value basis from 2003 on. The premium has been significant for both the multiples (Figure 53).

Figure 53 PER (x) and PBV (x) – Compared to the Real Estate Sector

*The company has traded at a premium to the sector on both a PER(x) and a PBV(x) basis from 2003 on*



Sources: Company financials and NBK Capital

## AL MAZAYA HOLDING CO.

Al Mazaya Holding Company is one of the premier real estate development companies in Kuwait. The company currently has regional projects worth USD 10 billion in the pipeline. The company is listed on both the Kuwait and Dubai stock markets. The company focuses primarily on deluxe villas and high-class residential buildings and commercial projects, including office and retail buildings all across the region, though Kuwait and Dubai are currently the main target markets.

### *Major subsidiaries*

**Al Mazaya Real Estate Development Company K.S.C.** – Incorporated in May 2004, Al Mazaya Real Estate Development Company K.S.C. is engaged in owning, selling, managing, and developing real estate properties and offering consultancy services. The company is a wholly owned subsidiary of Al Mazaya Holding Co.

**First Dubai for Real Estate Development Company K.S.C** – This company was incorporated as a subsidiary of Al Mazaya Holding Co. in August 2006. The company's activities include investing in local and foreign companies and real estate properties. The company is listed on the KSE.

**7 Zones Company (under establishment)** – 7 Zones is being structured to give a one-stop-shop service to prospective customers building homes and/or offices. It will be headquartered in Kuwait and will have a franchise store in every GCC country in the near future. Showrooms and offices will be available for lease and/or rent and will also include large parking bays, small restaurants, and coffee shops.

**Mazaya Qatar Real Estate Development Co.** – This shari'a-compliant subsidiary was incorporated as a Qatari shareholding company last June, with the intention of investing in and developing various real estate projects in Qatar.

**Mazaya Lebanon Holding S.A.L.** – Mazaya Lebanon Holding S.A.L. was incorporated in July 2005 in Lebanon. The company focuses on investing in both Lebanese and foreign real estate companies. In addition, the company's activities include creating companies and offering management services and loans to established companies. The company also invests in bonds and shares.

### *Major projects in Kuwait*

**Global Tower** – The Global Tower is a 22-floor tower designed to provide for the office segment. The tower is located in Sharq, one of Kuwait's strategic commercial areas.

**Kuwait Business town** – This mixed-use project will cover a total area of 23,300 sq. m and includes an office and residential tower.

### *Major projects in Dubai*

**Icon Jumeirah Lake Towers** – This residential tower with 400 units is located in Jumeirah Lakes. The individual units differ in interior design and size. Residents have a wonderful lake view from one side and a spectacular view of the Jumeirah Islands from the other.

**Healthcare City** – This vast project is being built on 500 acres. The company is developing seven buildings in the Dubai Healthcare City (DHCC). The project will create a high-end medical facility hub that ensures high-quality and innovative healthcare management,

education, and research, with international enrichment programs. It will be a one-of-a-kind project in the region.

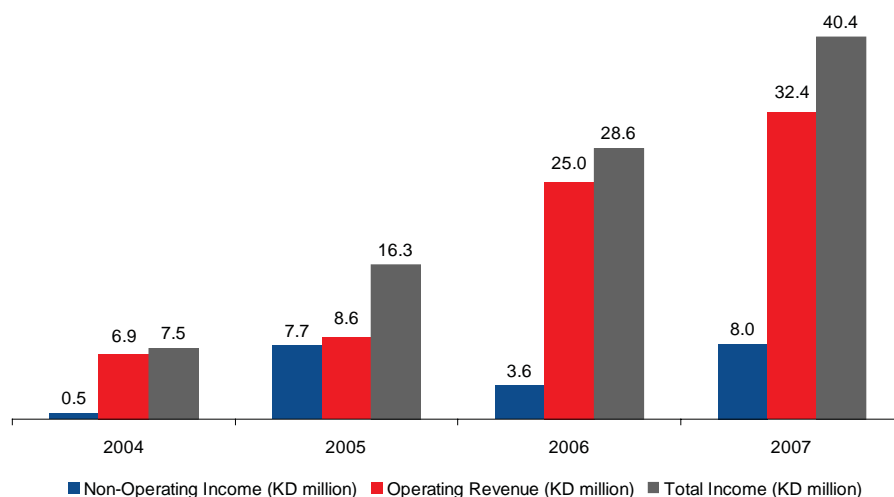
**Mazaya Business Avenue** – Aimed at becoming a global hub for international investors, traders, and retailers, this project promises an excellent business environment. Enhanced high-end security and service systems add to the positives.

*Financial statements review*

Operating revenue increased 29.4% in 2007, to KD 32.39 million, compared to KD 25.04 million in 2006 (Figure 54). This increase was entirely due to gains from the sale of investment properties amounting to KD 13.84 million. Non-operating revenue more than doubled, to KD 8 million in 2007, compared to KD 3.56 million in 2006, due primarily to an increase in the share of profit from joint ventures and gains from the partial disposal of a subsidiary. Total income increased 41.3% in 2007, to KD 40.39 million, compared to KD 28.59 million in 2006.

**Figure 54 Breakdown of Top line - Al Mazaya Holding Co.**

*Operating revenue increased in 2007 compared to the previous year, due entirely to gains from the sale of investment properties*

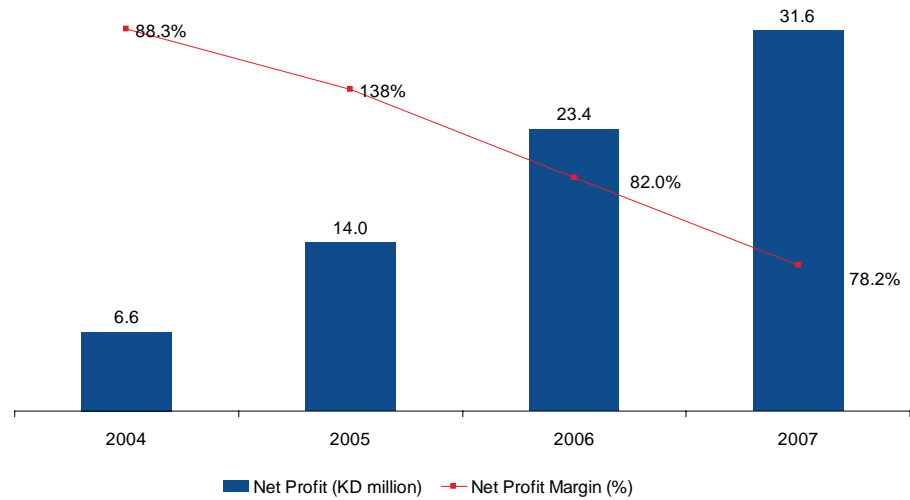


Sources: Company financials and NBK Capital

Net profit for the company increased by 35%, to KD 31.6 million in 2007, compared to KD 23.43 million in 2006, due largely to the sale of investment properties and an increase in the share of profits from joint ventures. However, the net profit margin decreased to 78.2% in 2007, from 82% in 2006 (Figure 55).

Figure 55 Net Profit and Net Profit Margin - Al Mazaya Holding Co.

The sale of investment properties and an increase in the share of profits from joint ventures drove net profit growth in 2007 compared to 2006

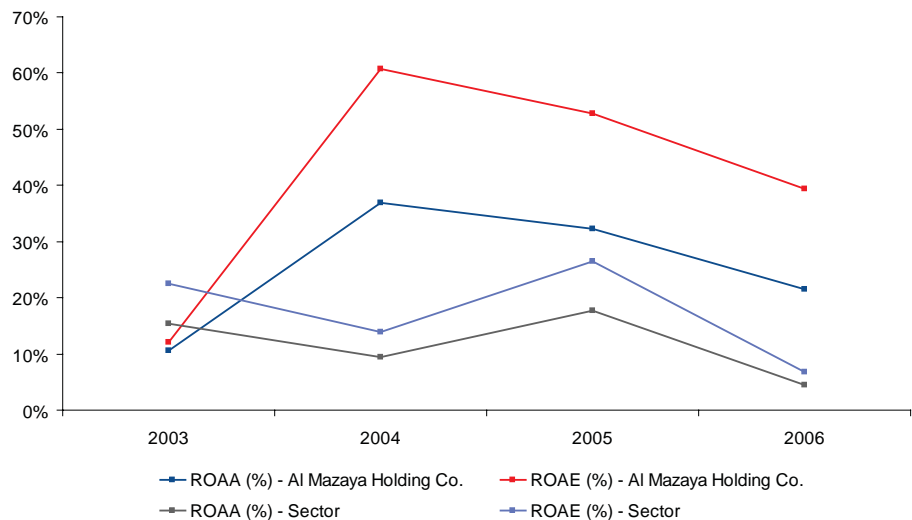


Sources: Company financials and NBK Capital

Figure 56 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to Al Mazaya Holding Co. The company has consistently generated higher return ratios compared to the sector from 2004 on. ROAA for the company more than doubled, from 10.6% in 2003 to 21.6% in 2006. However, the sector exhibited contrasting trends, reporting an ROAA of 15.4% in 2003 compared to 4.4% in 2006. The ROAE for the company increased from 12.1% in 2003 to 39.3% in 2006, compared to 22.5% and 6.8% for the sector in 2003 and 2006, respectively.

Figure 56 ROAA and ROAE – Compared to the Real Estate Sector

The company has consistently generated higher return ratios compared to the sector from 2004 on

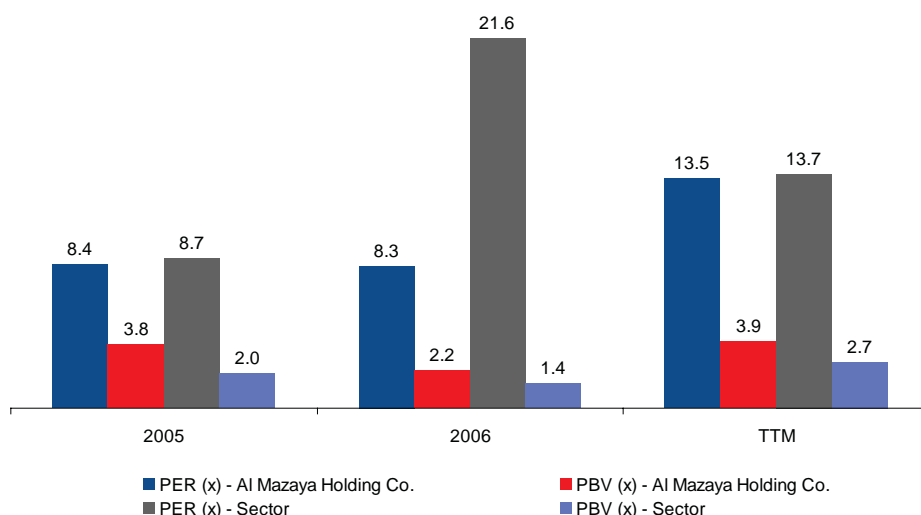


Sources: Company financials and NBK Capital

The company has traded at a discount to the sector on a PER (x) basis since 2005, but currently trades almost at par compared to the sector PER (x) of 13.7x. However, it has generally traded on a premium compared to the sector on a PBV (x) basis (Figure 57).

**Figure 57 PER (x) and PBV (x) – Compared to the Real Estate Sector**

*The company currently trades at a par compared to the sector PER (x) of 13.7x, and trades at a premium on a PBV (x) basis*



Sources: Company financials and NBK Capital

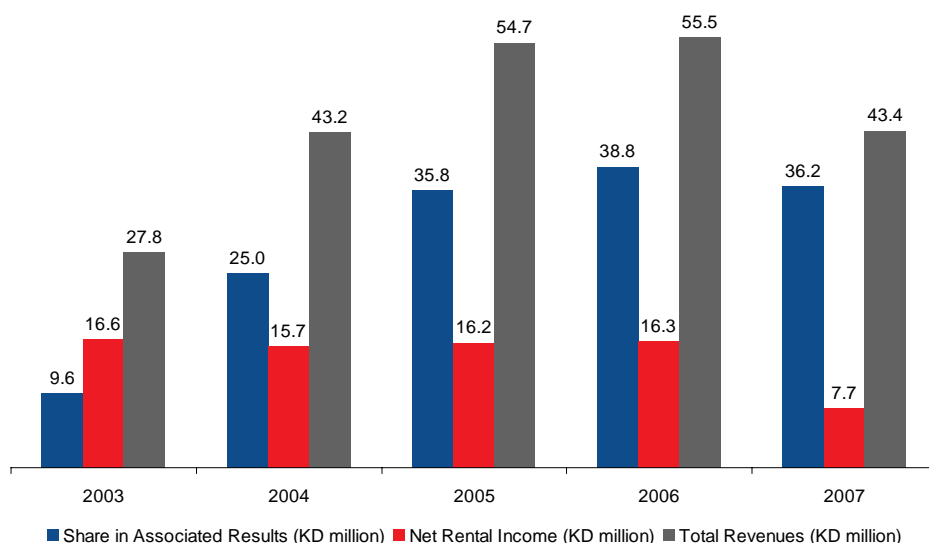
## NATIONAL REAL ESTATE CO.

### Financial statements review

Net rental revenue for the company has decreased at a five-year CAGR of 10.9% for the period 2002 to 2007. Net rental revenue was down significantly, by 53%, to KD 7.68 million in 2007, compared to KD 16.3 million in 2006 (Figure 58). Net rental revenue as a percentage of total revenues decreased steadily, from 59.7% in 2003 to 17.7% in 2007. Total revenues for the company grew at a five-year CAGR of 19.4% for the period 2003 to 2007. However, total income dipped 21.7%, to KD 43.4 million in 2007, compared to KD 55.46 million in 2006, due mainly to a decrease in net rental income. The results of associated companies have contributed significantly to total income growth over the years. Proportionate profits of associated companies (as a percentage of total revenues) increased steadily, from 34.7% in 2003 to 83.3% in 2007.

Figure 58 Breakdown of Top line - National Real Estate Co.

*Proportionate profits from associated companies have contributed significantly to total income growth over the years*

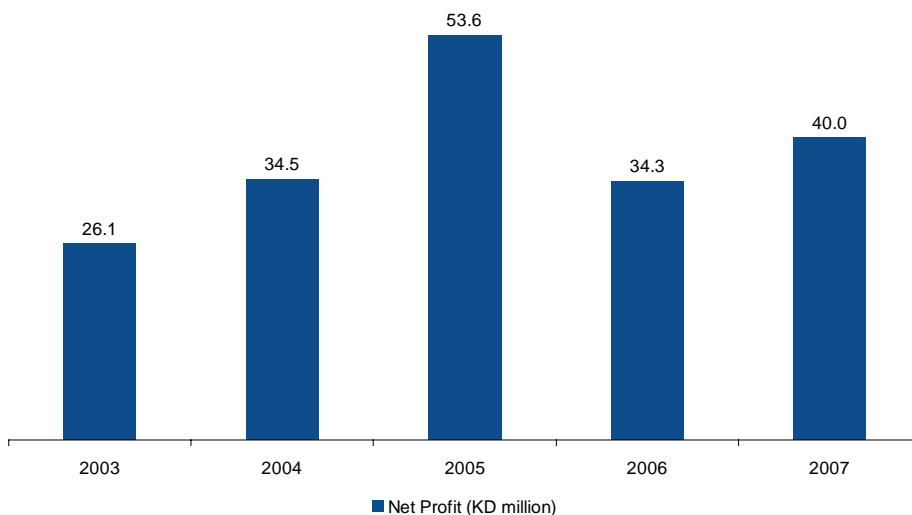


Sources: Company financials and NBK Capital

Net profit for the company increased at a five-year CAGR of 30% for the period 2003 to 2007. Net profit for 2007 increased by 16.7%, to KD 39.99 million, compared to KD 34.25 million in 2006, due primarily to growth in investment income (Figure 59). The 2006 net profit took a beating due to a KD 13.36 million provisioning relating to the cancellation of a management contract for the Kuwait Free Trade Zone.

Figure 59 Net Profit over the Years - National Real Estate Co.

*The company reported an increase in net profit despite a decrease in total income, due mainly to growth in investment income*

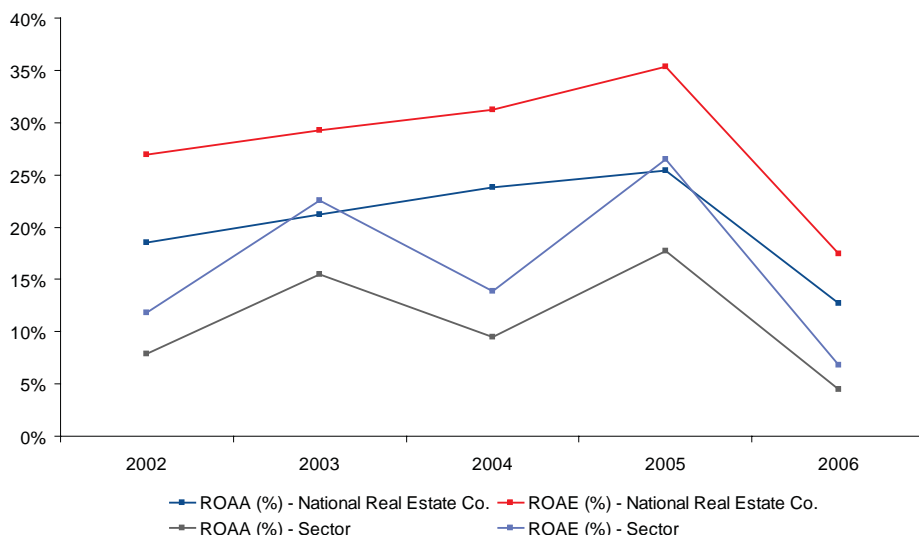


Sources: Company financials and NBK Capital

Figure 60 shows the trend in ROAA and ROAE for the Kuwaiti real estate sector compared to National Real Estate Co. ROAA for the company decreased from 18.6% in 2002 to 12.7% in 2006. The sector has exhibited similar trends, reporting an ROAA of 7.9% in 2002 compared to 4.4% in 2006. The ROAE for the company decreased from 26.9% in 2002 to 17.4% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

**Figure 60 ROAA and ROAE – Compared to the Real Estate Sector**

*The company has comprehensively outperformed the sector in both ROAA and ROAE in most of the years between 2003 and 2006*

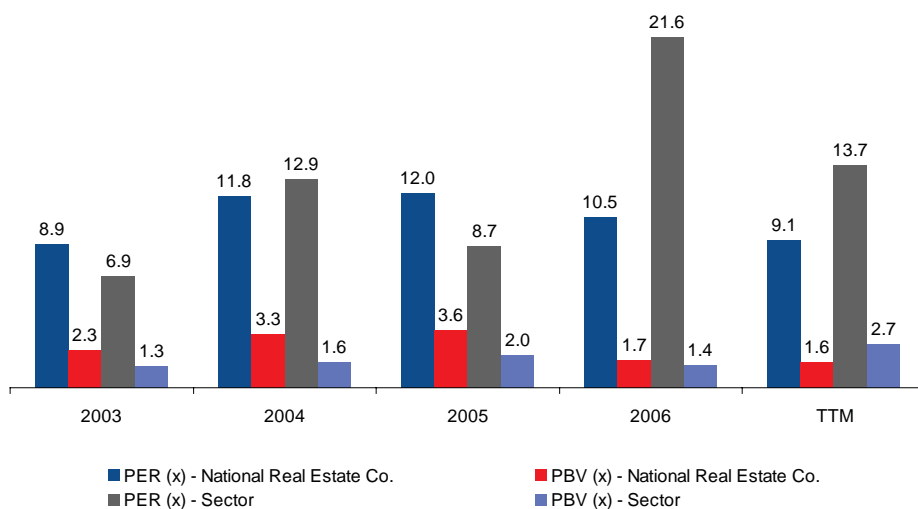


Sources: Company financials and NBK Capital

The company has traded at a discount to the sector on both a PER (x) and a PBV (x) basis for the last several years (Figure 61). The discount has been significant for PBV (x), as the company is currently trading at 1.6x, compared to the sector PBV (x) of 2.7x.

**Figure 61 PER (x) and PBV (x) – Compared to the Real Estate Sector**

*The company has traded at a discount to the sector on both a PER (x) and PBV (x) basis for the last couple of years*



Sources: Company financials and NBK Capital

## COMMERCIAL REAL ESTATE CO.

Commercial Real Estate Company, a shari'a-compliant company, is one of the largest real estate companies in Kuwait in terms of market capitalization. It was established in 1968 and was listed on the KSE at the end of 2004. The main focus of the company is residential and commercial property development and investment in Kuwait and in the region.

### *Major Completed Projects*

**Al-Manar** – Located in Bnaid Al Gar, this super-deluxe residential complex provides a sea view. The complex consists of a 16-floor residential tower (two- and three-bedroom apartments) and six townhouses.

**Al Yarmouk Villas, Phase 1** – This project, located in the Yarmouk area, consists of 18 plots, each 400 sq. m in size. The built-up area of each plot ranges from 460 sq. m to 550 sq. m.

**Al Yarmouk Villas, Phase 2** – This project includes 14 plots, each covering an area of around 386 sq. m. The villas have super-deluxe finishings, and residents can choose from five design options. The built-up area is around 450 sq. m per plot.

**Rester Beach Resort** – Located on the Gulf beach in the Al-Egila area, the project consists of 31 townhouses, each of which has two floors and a garden and private parking. The resort includes other facilities such as squash courts, a health club, landscaped gardens, and a swimming pool.

**Al-Shrooq Tower** – Located on Jaber Al-Mubarik Street in the Sharq area, this tower consists of 21 floors and includes commercial shops in the basement, on the ground floor, and on the mezzanine.

### *Major Ongoing Projects*

**Symphony** – This is a mixed-use project located in Salmiya, facing Salem Al Mubark Street on one side and the Gulf road on the other side. The project, which is built on an area of 11,500 sq. m, consists of commercial shops (divided into a basement, ground floor, mezzanine, and first floor) with two towers on top. The office tower comprises 11 floors, and the other tower, with 20 floors, is for a hotel.

**Kuwait Trade Center** – This is another mixed-use project and will include malls and office spaces. Kuwait Trade Center is located in the Sharq area and is built on an area of 4,295 sq. m. The top part of the tower is designated for office space and rises 40 floors.

**The Dome** – Located in Abu-Halifa on the coastal road, the project is built on an area of 15,195 sq. m and consists of restaurants, coffee shops, and facilities for entertainment activities such as video games, bowling, and other games.

**Juman Residential Complex** – Built on an area of 7,950 sq. m, this residential project is located in Mahboula, facing the Fahaheel Express Road. The project consists of two buildings of 12 floors each, which include apartments, penthouses, and townhouses. An oasis is located in the center of the project to provide a unique experience. The project also includes swimming pools, a paradise island for children, a waterfall, and other facilities such as tennis courts, a gymnasium, and commercial shops.

### *Major upcoming projects*

**X-Zone Project** – This will be an entertainment project on an area of 5,940 sq. m, facing the coastal road in the Abu Al Hasania area. It will consist of restaurants, coffee shops, a games area, two movie theaters, and other advanced entertainment facilities.

**Ruba** – The Ruba Project will be a residential building located in Mahboula, built on an area of 5,373 sq. m, adjacent to the Fahaheel Expressway. It will consist of 15 floors, and basements 1 and 2 and will contain a mix of dwelling units such as individual townhouses and penthouses. It will also include provisions for outdoor and indoor recreational activities.

**Salmiya Park** – This is one of the most important tourism projects launched in Kuwait in the recent past. Built at a cost of about KD 19 million, the project is spread over an area of 380,000 sq. m

**Kuwait International Tennis Complex** – Built over an area of 70,000 sq. m, this will be a one-of-a-kind project in the region. It will include a hotel, a commercial complex, a stadium, and tennis and squash courts, all for an estimated investment of about KD 28 million.

### *Major international projects*

**House Towers Project – Hajer and Al Mukam Towers** – Hajer and Al Mukam Towers are residential towers that will be located very close to Kaaba in Saudi Arabia. This project will cater mainly to the housing needs of religious-minded people who seek to live in close proximity to Kaaba. The Hajer tower will be a mixed-use project and will consist of 31 floors, 10 floors of which will be occupied by the Mövenpick Hotel. The remaining floors will consist of furnished hotel apartments. Al Mukam Tower, also a mixed-use tower, will consist of 45 floors and will include hotel and hotel apartments.

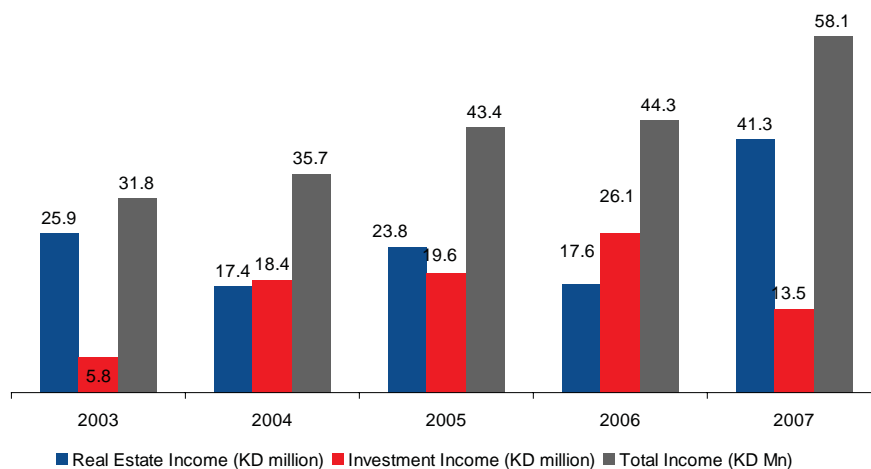
**Ain Athari – Bahrain Park** – This is an international BOT-system project. The park project will be developed in participation with two other companies in the region. It is located in the Kingdom of Bahrain and will be built over an area of 170,000 sq. m

### *Financial Statements Review*

Real estate revenue for the company grew at a five-year CAGR of 22.9% in the period 2002 through 2007, which was instrumental to total revenue growth. Though real estate revenue accounts for the bulk of total revenue, real-estate-related revenue as a percentage of total revenue decreased from 81.6% in 2003 to 71% in 2007. Total revenue increased by 31.1%, to KD 58.1 million in 2007, compared to KD 44.32 million in 2006, due entirely to real estate revenue (up almost two and half fold year on year). Total revenue increased at a five-year CAGR of 32.2% in the period 2003 through 2007. Investment revenue accounted for 3.3% of total revenue in 2007 (Figure 62).

Figure 62 Total Revenue Breakdown - Commercial Real Estate Co.

Real-estate-related revenue as a percentage of total revenue decreased from 81.6% in 2003 to 71% in 2007

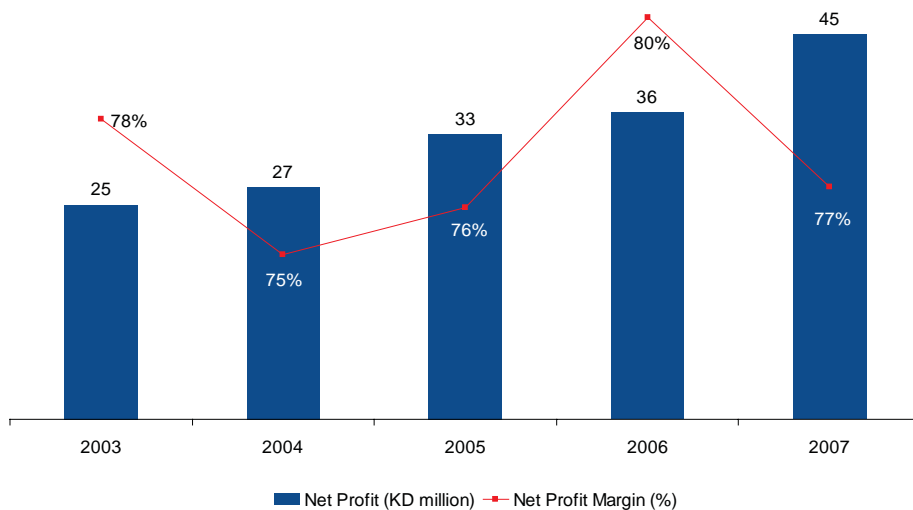


Sources: Company financials and NBK Capital

Net profit income increased at a five-year CAGR of 28.9% for the period 2002 through 2007. The net profit margin decreased marginally, from 78.3% in 2003 to 76.8% in 2007. The company generated an average net profit margin of 77.5% over the five years from 2003 to 2007 (Figure 63).

Figure 63 Net Profit and Net profit margin - Commercial Real Estate Co.

Healthy net profit margins over the years



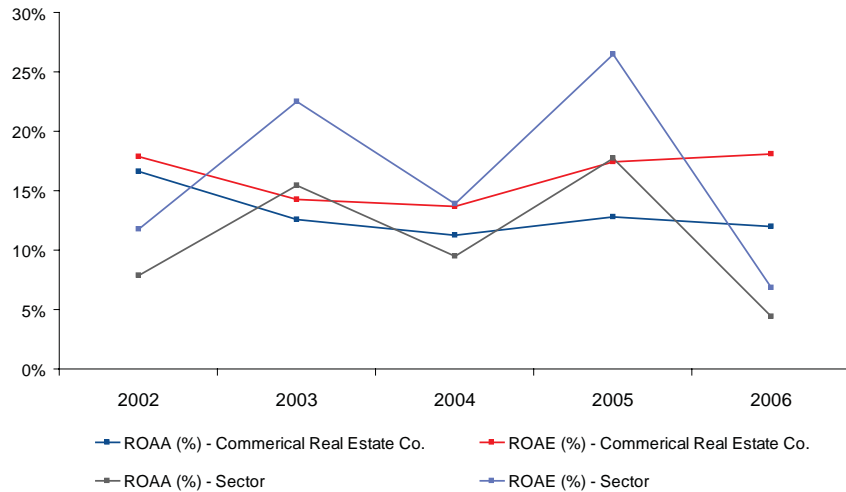
Sources: Company financials and NBK Capital

Figure 64 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to Commercial Real Estate Co. ROAA for the company decreased from 16.6% in 2002 to 12% in 2006, due primarily to asset growth outpacing net profit growth. The sector also exhibited similar trends, reporting an ROAA of 7.9% in 2002 compared to 4.4% in 2006.

The ROAE for the company was almost flat, at 18.1% in 2006 (17.9% in 2002), compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

**Figure 64 ROAA and ROAE – Compared to the Real Estate Sector**

*The company comprehensively outperformed the sector in terms of ROAA and ROAE for 2006*

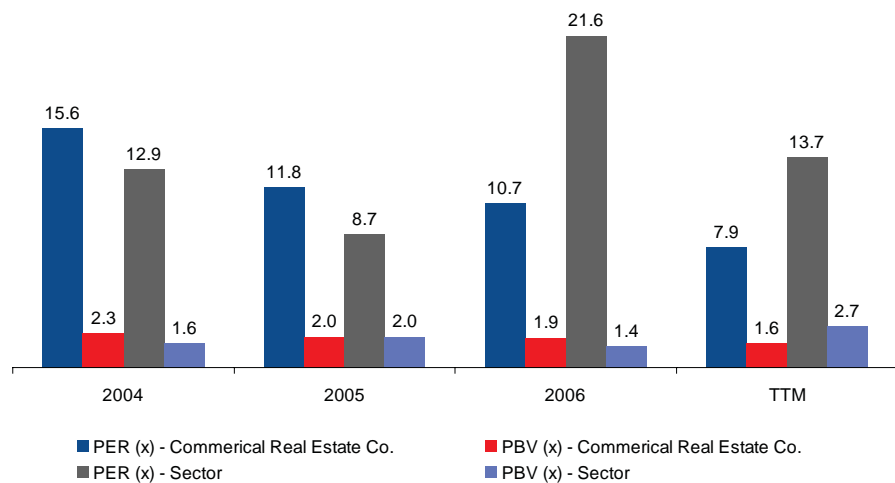


Sources: Company financials and NBK Capital

The premium for the company over the sector in terms of both PER (x) and PBV (x) has come down over the years (Figure 65). The company currently trades at a marginal discount to the sector on both PER (x) and PBV (x) basis. The company currently trades at a PER (trailing twelve months [ttm]) of 7.9x, compared to the sector PER (ttm) of 13.7x. On a PBV (x) basis, the company trades at 1.6x compared to the sector PBV (x) of 2.7x.

**Figure 65 PER (x) and PBV (x) – Compared to the Real Estate Sector**

*The company currently trades at a discount to the sector on both PER and PBV*



Sources: Company financials and NBK Capital

## SALHIA REAL ESTATE CO.

Established in 1974, Salhia Real Estate Company is a Kuwait-based company listed on the Kuwait Stock Exchange. The company specializes in the development of megaprojects such as office buildings and recreational centers. The company operates across three specific business segments: real estate operations, hotel operations, and care home operations.

The company owns major mixed-use towers such as Salhia Commercial Centre, Sahab Tower, and Arraya Center, and owns two of the prime hotel properties in Kuwait, namely, JW Marriott and Marriott Courtyard.

The company is involved in operating care homes in Germany through its subsidiaries Al Haddia Holding GmbH, SAREC, Dana, Dana Ambulante, and Gredo. It also has a joint venture, Key Property Investments (KPI), and owns 50% of Drawbridge Securities Limited, which deals in property development in the United Kingdom.

### *Major upcoming projects*

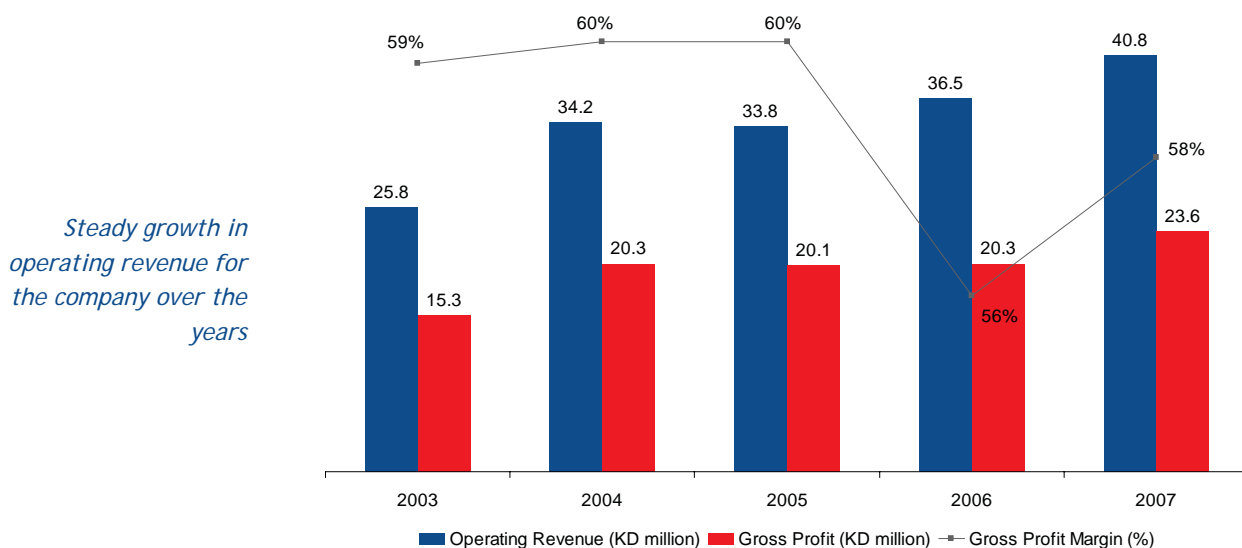
**New Arraya Tower** – This office tower is built over an area of 1,058 sq. m, with a height of 60 floors. This makes it one of the highest new towers in Kuwait City. The project is expected to be completed by the end of 2008.

**Al-Asima Project** – The project is a pioneering idea to develop the Capital part of the Sharq area and is spread over an area of 21,414 sq. m. The project consists of a commercial complex, car parking on three basement levels, coffee shops, restaurants, cinema, hotel apartments with four-star services, multipurpose halls, a health club, and a 70-floor office tower over an area of approximately 1,400 to 1,600 sq. m per floor. The entire project will be overseen by the newly established Al-Asima Real Estate Company (joint stock closed company, 50% held by Salhia Real Estate Co.). The project will cost approximately KD 240 million, inclusive of the value of the project land and buildings to be constructed. During the fourth quarter of 2006, Salhia Real Estate Co. sold its land located in the Sharq area (an area of 21,414 sq. m) to the Al-Asima Real Estate Company, realizing a profit of KD 98 million.

### *Financial statements review*

Operating revenue for the company has grown at a five-year CAGR of 14.7% for the period 2002 to 2007 (Figure 66). Gross profit for the company grew at a five-year CAGR of 15.1% for the same period. The gross profit margin decreased from 59.2% in 2003 to 57.8% in 2007. The company reported a growth of 11.8% in operating revenue, to KD 40.8 million in 2007, compared to KD 36.5 million in 2006, due primarily to hotel operations and care home operations.

Figure 66 Top line and Gross Profit Margin - Salhia Real Estate Co.



Sources: Company financials and NBK Capital

Net profit increased at a five-year CAGR of 36.1% for the period 2002 to 2007, mainly due to one-time, nonrecurring income of KD 49 million and KD 26.78 million in 2007 and 2006, respectively, from the sale of properties (Figure 67). Net profit decreased by 36.8%, to KD 30.98 million in 2007, compared to 2006, due mainly to a decrease in the gain from sale of properties during the year.

Figure 67 Investment Income, Gain from Sale of Properties, and Net Profit - Salhia Real Estate Co.

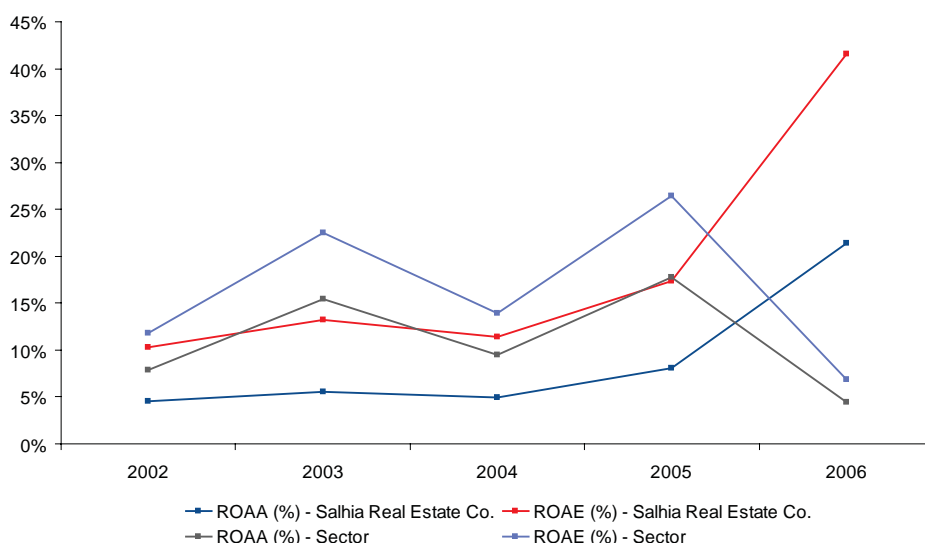


Sources: Company financials and NBK Capital

Figure 68 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to the Salhia Real Estate Co. The company underperformed the sector in terms of ROAA. The company generated lower ROAA in every year except 2006 (distorted by nonrecurring revenues). ROAA for the company increased from 4.6% in 2002 to 21.3% in 2006. The sector reported an ROAA of 7.9% in 2002 compared to 4.4% in 2006. The ROAE for the company increased from 10.3% in 2002 to 41.5% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

**Figure 68 ROAA and ROAE – Compared to the Real Estate Sector**

*The company has consistently underperformed the sector in terms of ROAA and ROAE, with the exception of 2006, when the bottom line was boosted due to a one-time gain from the sale of property*

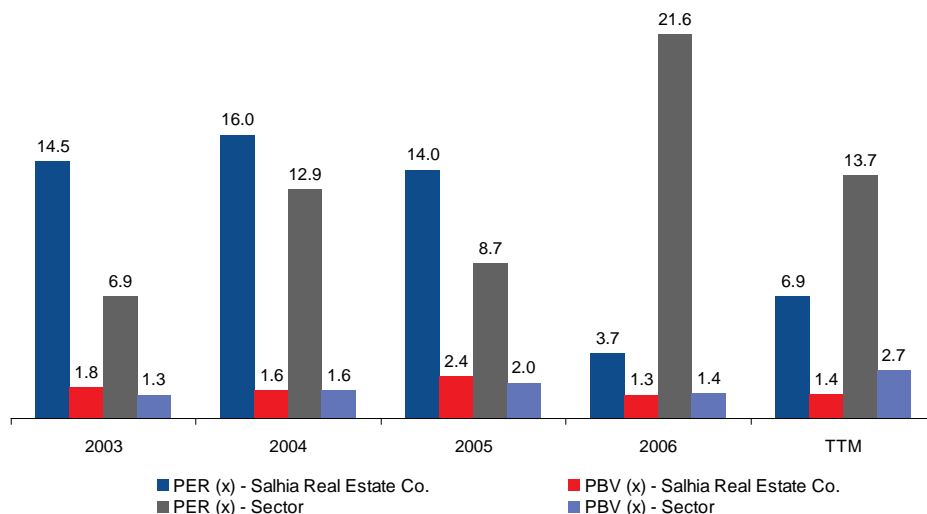


Sources: Company financials and NBK Capital

Salhia Real Estate Co. traded at a premium to the sector on a PER (x) basis from 2003 to 2005 (Figure 69). But for the last several years, it has traded at a substantial discount to the sector, due mainly to the gain from property sales, which boosted the net profit in the same period. On a PBV (x) basis, it has been a mixed story, with the company sometimes underperforming and sometimes outperforming the sector.

Figure 69 PER (x) and PBV (x) – Compared to the Real Estate Sector

*The substantial discount to the sector on a PER (x) basis over the last couple of years is due mainly to nonrecurring items boosting the net profit in the same period*



Sources: Company financials and NBK Capital

## TAMDEEN REAL ESTATE CO.

Tamdeen Real Estate Company is one of Kuwait's leading real estate companies involved in investments, financing, and the development of commercial real estate portfolios. The company's forte is retail development projects. Founded in 1982, it is a listed public shareholding company and is responsible for delivering mixed-use developments in Kuwait. Following its merger with the Salmiya Real Estate Company in 1997, the company gained a strong foothold in the retail market. The company recently sold its prestigious Al Fanar Shopping Center and plans to use the proceeds for other upcoming ventures.

### Major subsidiaries and affiliates

**Tamdeen SCD** – A subsidiary of Tamdeen Real Estate Company, Tamdeen SCD specializes in the development, leasing, and management of shopping centers.

**Tamdeen Investment Company** – Tamdeen Investment Company was established in August 1997. The company invests in financial, industrial, and service projects in the Gulf region. At the end of 2006, the company's assets were valued at KD 172.3 million, and owner's equity was valued at KD 133 million. The company's main strategic investment is through the Ahli United Bank, Bahrain (AUB).

**The Kuwait National Cinema Company** – This company is the leading entertainment company in Kuwait and was established in October 1954 as the first cinema company in the region. It was eventually listed on the KSE. In November 2005, the company launched the new brand Cinescape.

### Major projects

**Madinat Al Fahaheel** – Located in southern Kuwait, Madinat Al Fahaheel consists of a series of projects overlooking the Fahaheel Waterfront. This project includes the impressive

Al Kout–Fahaheel Waterfront Project, which extends along the Arabian Gulf. It also includes the Al Manshar Towers and Complex development, comprising a shopping center, four residential towers, a 15-floor tower for corporate offices, the five-star Al Manshar Rotana Hotel, and a multipurpose hall. Al Kout and Al Manshar comprise a large mixed-use development of 300,000 sq. m, resulting in a GLA of 100,000-plus sq. m

**Mall of Kuwait** – This mall is located in the Sabahiya area and covers a massive retail area of 150,000 sq. m. It will be comparable to The Avenues, currently the largest mall in Kuwait. The mall will consist of a hypermarket, five anchor stores, globally renowned retail brands, and entertainment facilities.

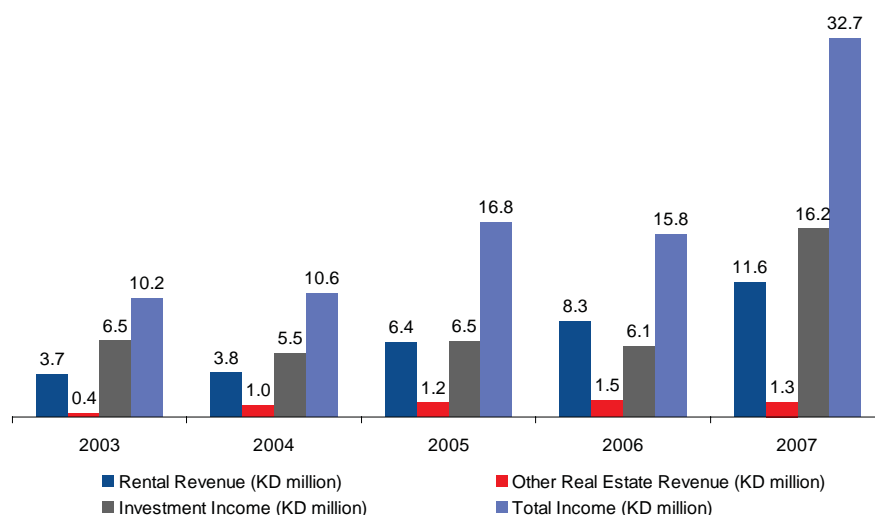
**360° Kuwait** – This distinguished retail property will be located at the intersection of King Faisal Highway and the 6th Ring Road and will cover a retail area of over 75,000 sq. m. The project will consist of a hypermarket, two department stores, and other entertainment facilities.

### Financial statements review

Rental revenue for the company grew at a five-year CAGR of 23.9% for the period from 2002 to 2007 (Figure 70). However, rental revenue as a percentage of total income remained stagnant at 36% over the period. Total income more than doubled, to KD 32.65 million in 2007, compared to KD 15.77 million in 2006, due primarily to investment income (up more than two and a half fold year on year). Total income increased at a five-year CAGR of 43.7% for the period from 2002 to 2007, due mainly to investment income. Investment income as a percentage of total income increased from 19% in 2002 to 50% in 2007.

Figure 70 Breakdown of Top line - Tamdeen Real Estate Co.

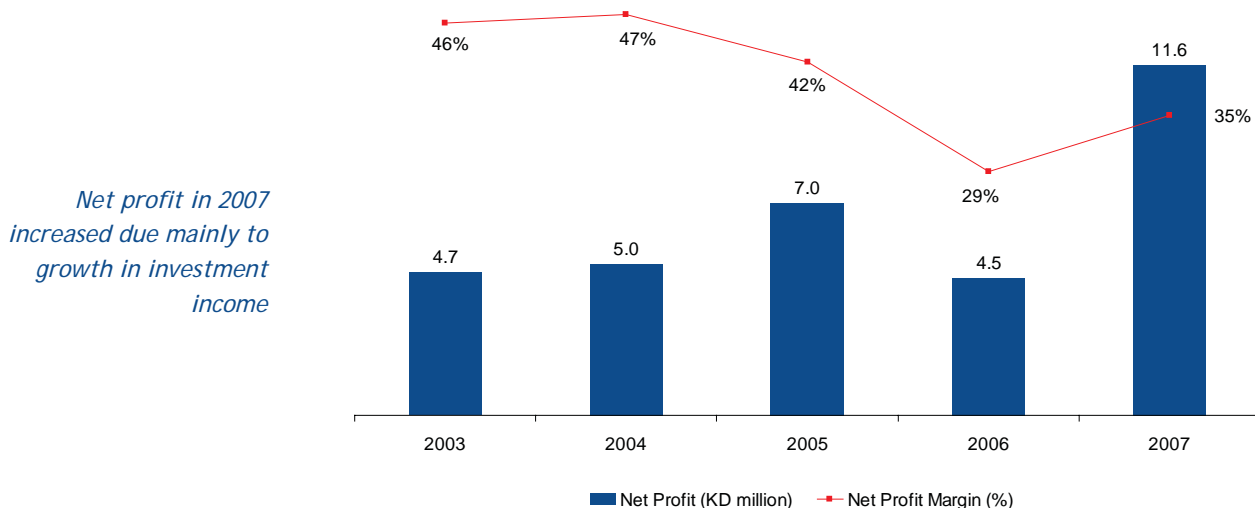
*One of the main reasons for the rise in total income is the growth in investment income, as its share in the total income increased from 19% in 2002 to 50% in 2007*



Sources: Company financials and NBK Capital

Net profit increased at a five-year CAGR of 41.1% for the period 2002 to 2007 (Figure 71). One of the main drivers of net profit growth over the period is investment revenue. Net profit increased more than two and half fold, to KD 11.56 million in 2007, due mainly to increases in investment revenue.

**Figure 71 Net Profit and Net Profit Margin - Tamdeen Real Estate Co.**

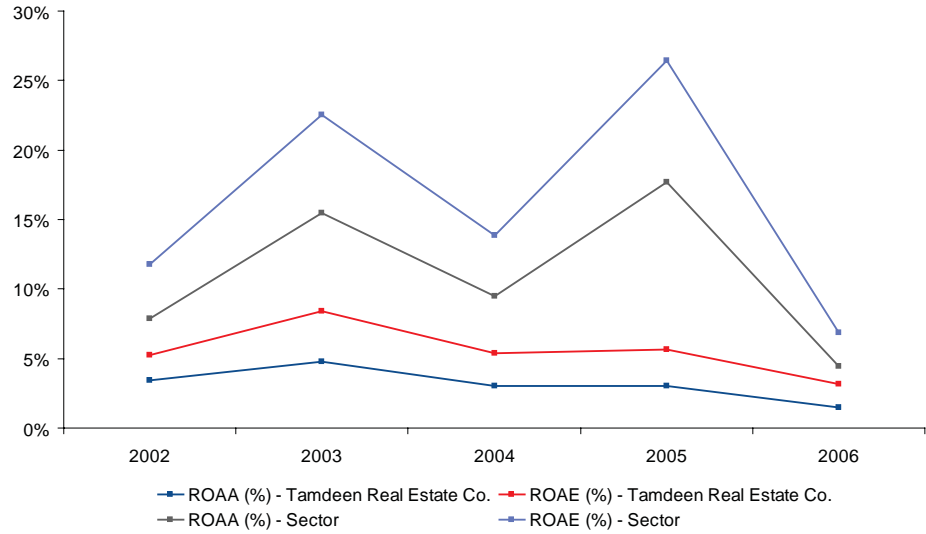


Sources: Company financials and NBK Capital

Figure 72 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to Tamdeen Real Estate Co. The company has underperformed the sector. ROAA for the company decreased from 3.4% in 2002 to 1.5% in 2006. The sector exhibits similar trends, reporting an ROAA of 7.9% in 2002 compared to 4.4% in 2006. The ROAE for the company decreased from 5.2% in 2002 to 3.2% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

**Figure 72 PER (x) and PBV (x) – Compared to the Real Estate Sector**

*The company has consistently underperformed the sector in terms of ROAA and ROAE*

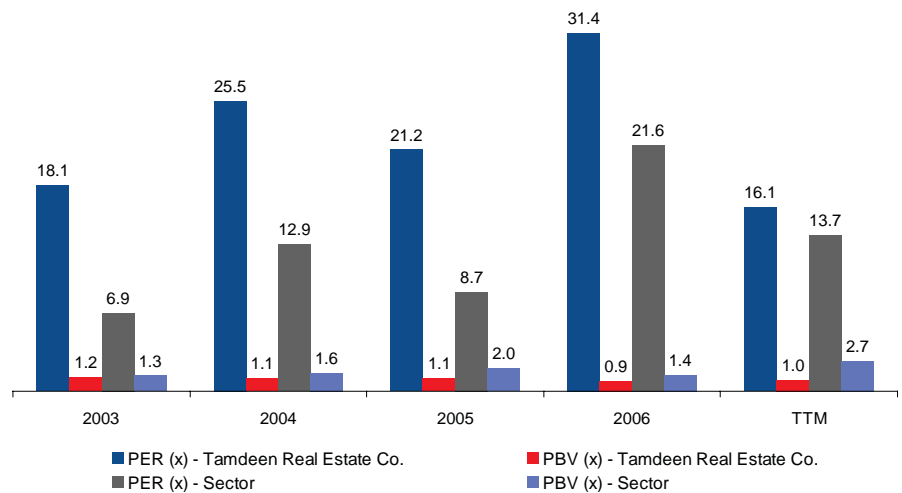


Sources: Company financials and NBK Capital

Tamdeen Real Estate Co. has always traded at a premium to the sector on a PER (x) basis (Figure 73). The company currently trades at a PER (x) (ttm) of 16.1x compared to the sector PER (x) (ttm) of 13.7x. However, on a PBV (x) basis, the company has always traded at a discount to the sector, due primarily to the relatively low ROAE generated by the company compared to the sector.

**Figure 73 ROAA and ROAE – Compared to the Real Estate Sector**

*The company trades at a discount to the sector on a PER (x) and PBV (x) basis*



Sources: Company financials and NBK Capital

## UNITED REAL ESTATE CO.

Originally founded in 1973, United Real Estate Company is one of the premier real estate companies in Kuwait. The company is a real estate developer in Kuwait, focusing mainly on hospitality, commercial, and retail properties. The company's portfolio includes commercial complexes, hotels, resorts, residential buildings, shopping malls, high-rise office buildings, and mixed-use projects (office, retail, and residential). It has a limited presence in the residential segment. The company develops properties and rents and manages third-party properties. The company conceptualizes the targeted property, taking into consideration location and economic activity, and then outsources the construction. The company's total assets and equity stood at KD 243.4 million and KD 112 million in 2007, respectively. KIPCO has an effective interest of 35% in United Real Estate Co.

### *Major existing projects*

**Marina World** – This project was developed to capitalize on the Kuwaiti government's initiative to renovate the coastline. Marina World consists of an inland shopping center (Marina Mall) and a 3-kilometer multifeatured coastal strip (Marina Seaside). Marina Seaside includes the Marina Crescent, Club el Marina, and other similar facilities. Marina Hall encompasses 2,870 sq. m. The hall's car park has parking spaces for 1,500 cars. The Marina Hotel includes 91 rooms and 7 suites overlooking the sea, a fine dining restaurant, a business center, and a health club. The hotel also has other facilities such as two swimming pools with a bar, two tennis courts, a squash court, and a sandy beach.

**Sheraton Heliopolis** – This hotel has recently come under the Fairmont management. It is one of the prime properties in Egypt, located in the Heliopolis area, which is 10 minutes from the international airport. The company's expansion strategy for this prime hotel property is in line with the growing tourism demand in Egypt. The expansion will comprise 250 rooms, eight suites, and a presidential suite. It includes a 3,000-sq. m atrium garden, a 2,000-sq. m conference room, six meeting rooms, a business center, a VIP lounge, and many restaurants and cafés.

**Bhamdoun Hotel & Commercial Center** – This is a four-star hotel situated on the main street of Bhamdoun Mahatta in Lebanon. It consists of a commercial center, a four-star hotel, and a car park. The commercial center consists of three floors, which include storage areas, retail areas, common service areas, terraces, and a 9-nine-meter-wide walkway.

**Rawcheh Hotel** – This is a five-star hotel located on the main street of Rawcheh in Beirut. It consists of a 22-floor hotel tower and five basements built on an area of 5,015 sq. m. The hotel tower has a built-up area of 29,767 sq. m and includes meeting rooms, a banquet hall, restaurants, shops, a VIP lounge, a swimming pool, a health club, and other facilities.

### *Major upcoming projects*

**Kuwait Business City** – Kuwait Business City (KBC) is located next to the Al-Shaheed and Madina Buildings in the Sharq area of Kuwait City. It encompasses a land space of 4,852 sq. m. The project is expected to be completed in 2008. KBC will consist of two towers, one commercial and the other residential, as well as a retail center, multilevel parking, and other facilities. The commercial tower will consist of 45 floors, yielding a net leasable space of 39,000 sq. m, while the residential tower will rise 26 floors, spreading over 6,500 sq. m. The two towers will be connected to the existing Shaheed and City Towers. The retail center will consist of three floors and occupy a space of over 4,000 sq. m. The project is aimed

at providing an ideal business environment to professionals and investors, both local and foreign.

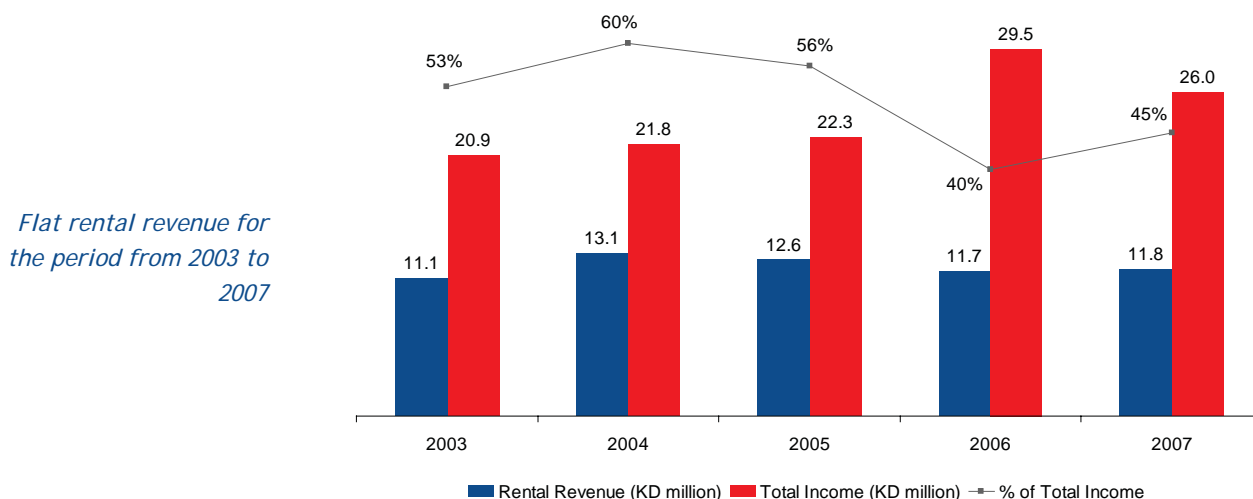
**United Tower** – This will be a 60-floor mixed-use tower and will accommodate commercial offices on its higher floors, while the middle floors will be dedicated to luxury residential apartments. The lower floors will be for a high-end commercial mall with luxury retail stores. The tower will also include a business centre, a health club, and a spa with state-of-the-art facilities. The project will be completed in three phases by 2010, at a cost of KD 70 million.

**Projects in Oman** – The company has started construction of a tourist complex in Salalah, Oman. The estimated cost of the project will be around USD 70 million. The project, expected to be completed by 2009, includes stores, an international café, restaurants, a hypermarket, a cinema, and a bowling alley, among many other facilities. The project will also include three- to four-star hotel apartments.

### Financial statements review

Rental revenue for the company grew at a five-year CAGR of 15.2% for the period from 2002 to 2007. Rental revenue was almost flat, at KD 11.81 million in 2007, compared to the same period a year ago. Total income decreased almost 12%, to KD 25.98 million in 2007, compared to KD 29.5 million in 2006, due primarily to the inclusion of some investment-related income that was not present in the 2007 financials. Rental income as a percentage of total income decreased from 52.9% in 2003 to 45.5% in 2007 (Figure 74).

Figure 74 Breakdown of Top line - United Real Estate Co.

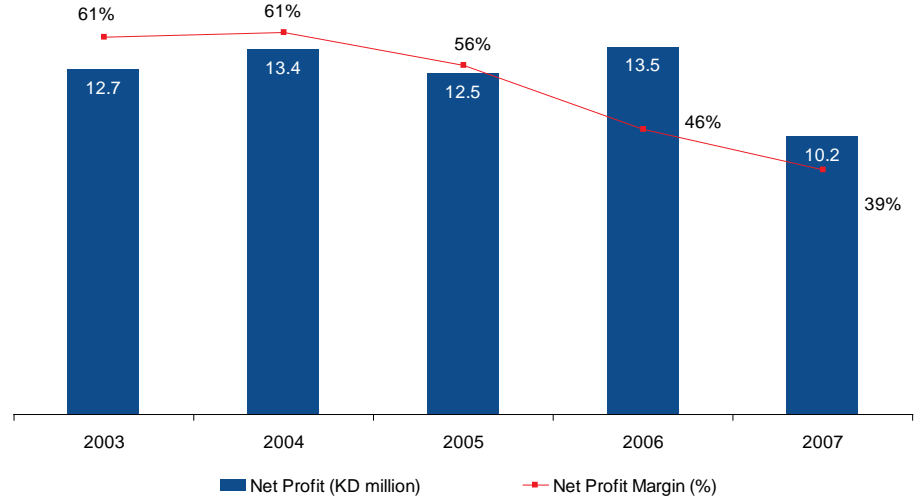


Sources: Company financials and NBK Capital

Net profit for the company increased at a five-year CAGR of 30.5%, to KD 10.22 million in 2007 (Figure 75). However, the net profit margin decreased from 60.6% in 2003 to 39.3% in 2007. Net profit for 2007 was down by 24.5%, to KD 10.22 million in 2007, compared to KD 13.52 million in 2006, due mainly to the inclusion of some investment-related income that was not present in the 2007 financials.

Figure 75 Net Profit and Net Profit Margin - United Real Estate Co.

*Net profit has shown a mixed trend, with moderate growth until 2006 and then a drop in 2007*

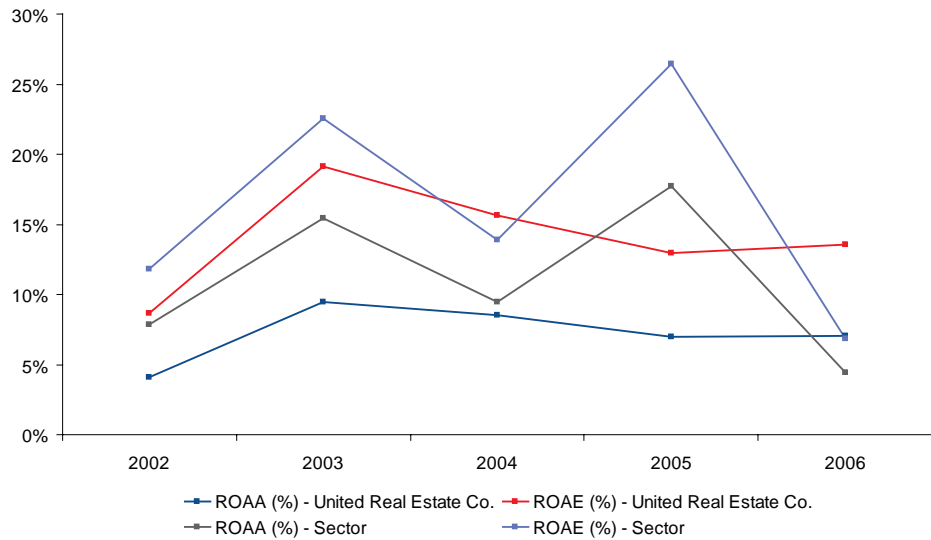


Sources: Company financials and NBK Capital

Figure 76 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to United Real Estate Co. ROAA for the company increased from 4.1% in 2002 to 7% in 2006. The sector, however, exhibited contrasting trends, reporting an ROAA of 7.9% in 2002 compared to 4.4% in 2006. The ROAE for the company increased from 8.7% in 2002 to 13.6% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

Figure 76 ROAA and ROAE – Compared to the Real Estate Sector

*The company outperformed the sector both ROAA and ROAE in 2006*

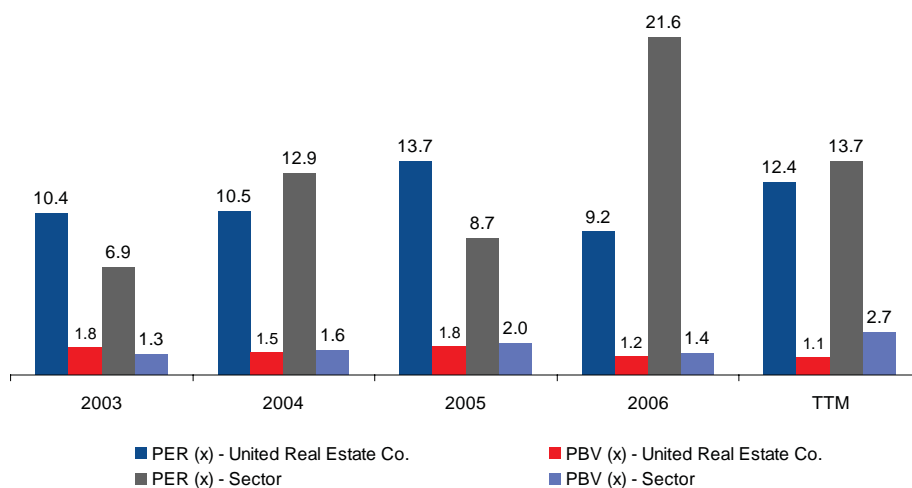


Sources: Company financials and NBK Capital

The company has traded at a discount to the sector in terms of both PER (x) and PBV (x) for the last several years (Figure 77). The discount has been significant for PBV (x), as the company is currently trading at 1.1x compared to the sector PBV (x) of 2.7x.

Figure 77 PER (x) and PBV (x) – Compared to the Real Estate Sector

*The company has traded at a discount to the sector both PER (x) and PBV (x) for the last several years*



Sources: Company financials and NBK Capital

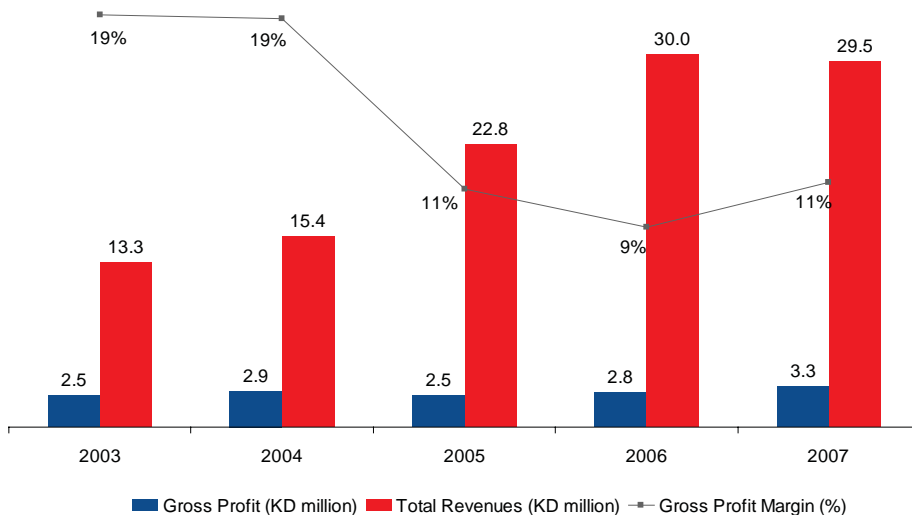
## AL ENMA'A REAL ESTATE CO.

### Financial statements review

Total revenues for the company have grown at a five-year CAGR of 13.4% for the period 2002 to 2007. Gross profit for the same period grew at a CAGR of 5.6%. However, total revenues decreased marginally, by 2%, to KD 29.46 million in 2007, compared to KD 30 million in 2006. Gross profit grew by 20%, to KD 3.32 million in 2007, compared to KD 2.77 million in 2006. The gross profit margin decreased from 19% in 2003 to 11% in 2007 (Figure 78).

**Figure 78** Top line, Gross Profit and Gross Profit Margin - Al Enma Real Estate Co.

*Despite a flat top line, gross profit increased by 20% in 2007 compared to 2006*

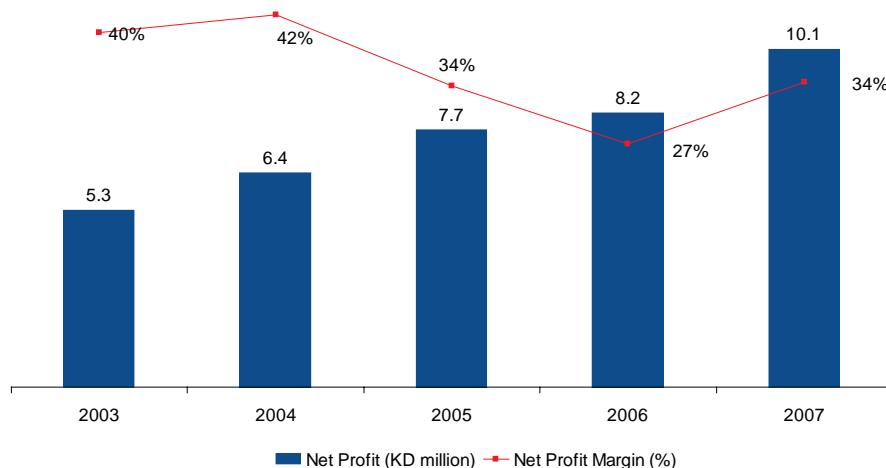


Sources: Company financials and NBK Capital

Net profit for the company increased at a five-year CAGR of 21.3% for the period 2002 to 2007. The net profit margin decreased from 40% in 2003 to 34% in 2007. Net profit for 2007 increased by 23%, to KD 10.13 million, compared to KD 8.22 million a year earlier, due primarily to a 50% increase in investment income (Figure 79).

**Figure 79** Net Profit and Net Profit Margin - Al Enma Real Estate Co.

*Net profit growth for 2007 was due mainly to investment income*

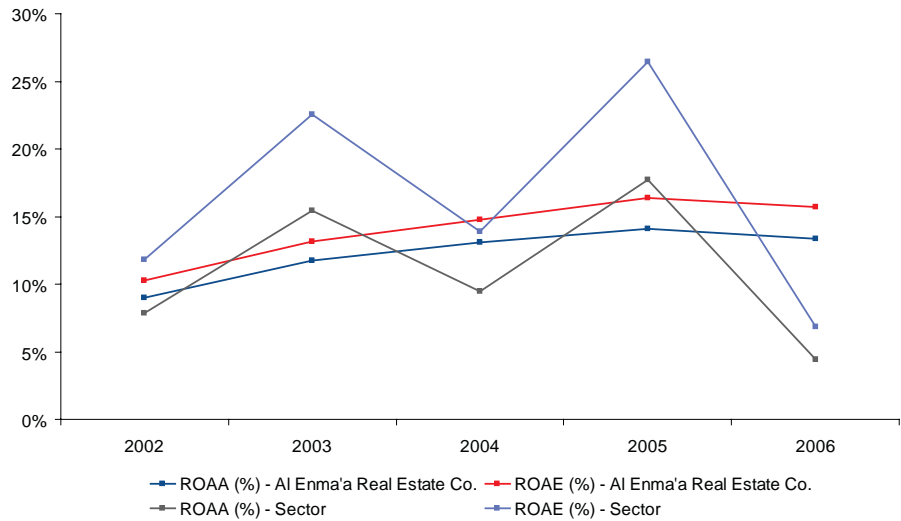


Sources: Company financials and NBK Capital

ROAA for Al Enma'a Real Estate Co increased from 9% in 2002 to 13.4% in 2006, due mainly to a consistent rise in profitability. However, the sector exhibited contrasting trends, reporting an ROAA of 7.9% in 2002 compared to 4.4% in 2006. Thanks to consistent profitability over the last five years, the ROAE for the company increased from 10.3% in 2002 to 15.7% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively (Figure 80).

**Figure 80 ROAA and ROAE – Compared to the Real Estate Sector**

*The company comprehensively outperformed the sector in both ROAA and ROAE in 2006*

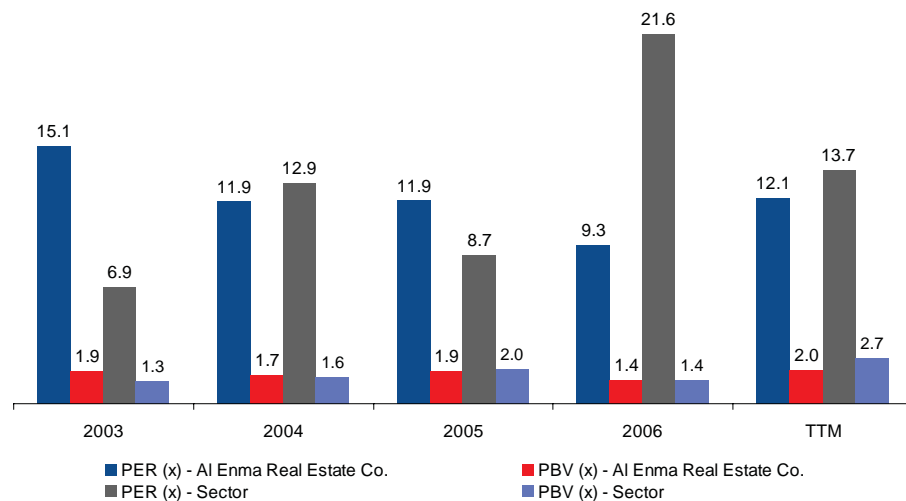


Sources: Company financials and NBK Capital

The company currently trades at a marginal discount on a ttm basis, which is not reflective of the higher return ratios for the company compared to the sector.

**Figure 81 PER (x) and PBV (x) – Compared to the Real Estate Sector**

*The company has traded at a discount to the sector on both a PER (x) and a PBV (x) basis for the last several years*



Sources: Company financials and NBK Capital

## GRAND REAL ESTATE PROJECTS CO.

The Grand Real Estate Projects Company was established in 1989 to meet the increasing demand for large-scale high-end luxury properties. The company's activities include the purchase, sale, construction, and management of buildings, in both the residential and office segments. In line with its long-term aims, the company has become a strategic investor in many firms throughout the Middle East. One of its key holdings is the 100%-owned IDG International Property Group, the exclusive Kuwait agent for a portfolio of local and international clients such as Nokia, Siemens, and Cisco.

### *Major strategic investments*

The company owns stakes in a group of distinctive companies in various essential fields across the Gulf region, including the real estate, investment, tourism, and entertainment sectors.

**Grand Touristic** – This establishment is involved in the management of tourism-related Arabian real estate projects in a Shari'a-compliant manner.

**Hojjaj** – The main business focus for Hojjaj concerns the sale, marketing, and organization of tourist trips and pilgrimages, specifically for Hajj and other Islamic locations.

**International Projects Consultancy Company** – International Projects Consultancy Company's range of activities includes business management, economic analysis, corporate finance, marketing research, project management, feasibility studies, property and facility management, and project development.

**IDG International Property Group** – Established in 2004, IDG International Property Group is one of the largest consultancies in the region and offers a pioneering and distinctive range of services. These include economic and real estate consultation plus facilities management and supervision across Kuwait and the region.

**Arabian Family Leisure** – Established in 2004 to complement the real estate activities of the company, Arabian Family Leisure (AFL) is involved in leisure-related real estate projects such as shared-ownership projects, condominium hotels, private residence clubs, and proportional-ownership properties. Specializing in the development of premium-quality leisure products for the family market, AFL is currently introducing new resort concepts into the GCC marketplace.

**Sakani Housing Projects Company** – Due to the increasing demand for residential projects and community developments, the company established the Kuwait-based Sakani Housing Projects Company to contribute to the contracting and construction of community developments that support national growth.

### *Major projects*

**Waves Resort, Algeria** – The impressive Waves Resort–Ain Taya project is a coastal development located to the east of the city of Algiers.

**Al Noor City, Khartoum, Sudan** – Al Noor City is located in the southwestern part of Sudan's capital city. It consists of 137 million sq. m of commercial, residential, and leisure facilities. It is also home to universities, schools, shops, restaurants, sporting amenities, and a variety of health facilities.

**Bahrain Business Park, Manama** – The Bahrain Business Park is a mixed-use project in Al Seef, Manama. It consists of one residential building and one office tower and stands on a basement that comprises three levels of parking and two levels of commercial premises, plus a mezzanine.

**Al Mohannad Tower, Sharjah** – This mixed-use project is located in a prime location in Sharjah and consists of over 60,000 sq. mon 41 floors. It includes a convenient retail area on the mezzanine floor, plus five floors of parking. It offers one-, two-, and three-bedroom apartments. All apartments share a floor dedicated to a health club, an open-air swimming pool, a gymnasium, and outdoor facilities.

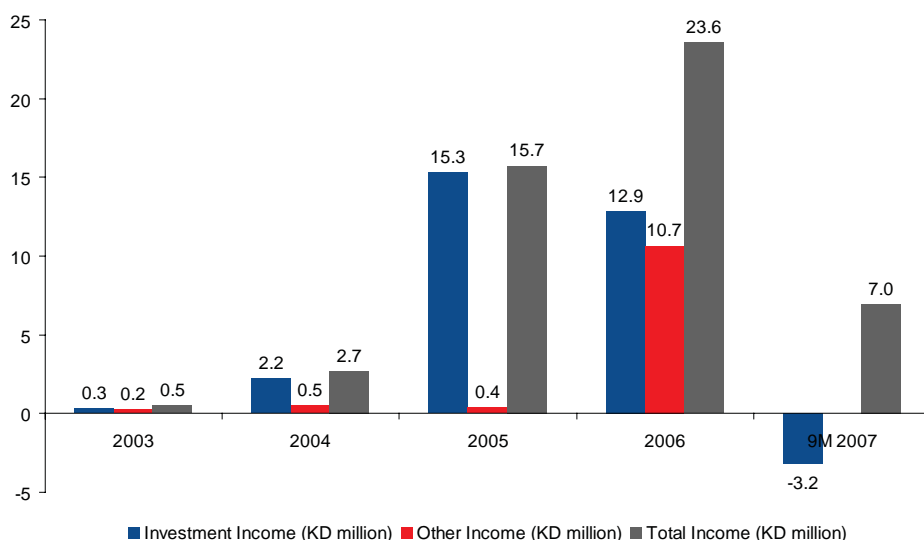
**Al Hamra City, Cairo** – This mixed-use development consists of spacious villas and landscaped apartment buildings over a stretch of 3,746 sq. m. The business and commercial facilities, four- and five-star hotels, golf club, and schools and universities add to the positives of Al Hamra City.

*Financial statements review*

The company’s top line has been propelled by investment income over the years. But a change in this trend is quite evident. Total income for the company grew at a five-year CAGR of 125.2% for the period 2001 through 2006. Investment income grew at an equally impressive rate of 123.3% in the same period. However, investment income as a percentage of total income decreased from 100% in 2002 to 55% in 2006. Total income declined by 21.3%, to KD 6.97 million in the first nine months of 2007, compared to the same period last year, the loss arising from investments in securities, compared to gains a year ago (Figure 82).

**Figure 82 Breakdown of Top line - Grand Real Estate Projects Co.**

*Investment income as a percentage of total income has decreased over the years*

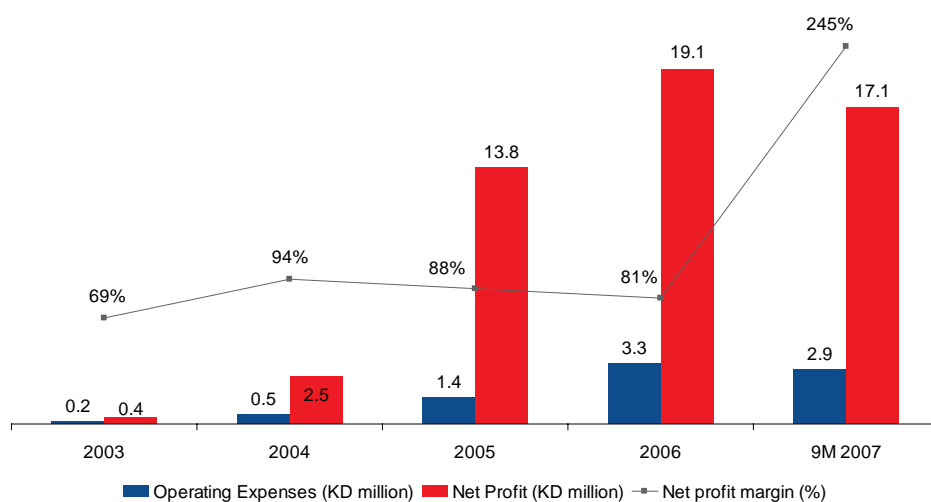


Sources: Company financials and NBK Capital

Net profit for the company increased at a five-year CAGR of 147% during the period 2001 and 2006. Operating expenses during the same period grew by 75.7%. Net profit for 2006 increased by 38.7%, to KD 19.14 million, compared to KD 13.8 million in 2005. The net profit margin increased from 57% in 2002 to 81% in 2006. Net profit for the first nine months of 2007 increased by 38.5%, to KD 17.05 million, due mainly to the inclusion of proceeds from discontinued operations. Without these proceeds, profit from continued operations declined by 45.5%, to KD 3.85 million in the first nine months of 2007, compared to KD 7.08 million the previous year.

**Figure 83** Net Profit and Net Profit Margin - Grand Real Estate Projects Co.

*Discontinued operations resulted in net profit growth for 9M 2007*

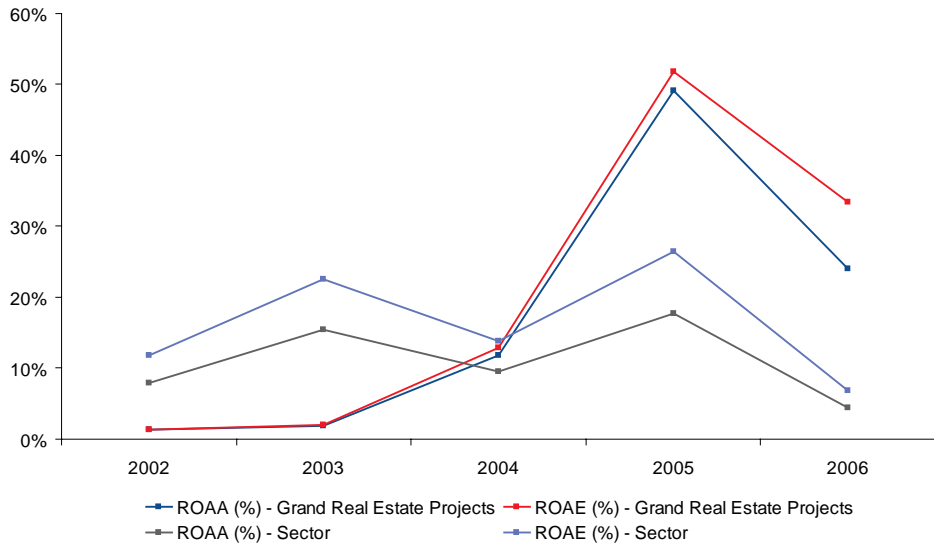


Sources: Company financials and NBK Capital

Figure 84 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to Grand Real Estate Projects Co. ROAA for the company increased from 1.4% in 2002 to 24% in 2006. The sector, however, exhibited contrasting trends, reporting an ROAA of 7.9% in 2002 compared to 4.4% in 2006. The ROAE for the company increased from 1.4% in 2002 to 33.4% in 2006, compared to 11.8% and 6.8% for the sector in 2002 and 2006, respectively.

Figure 84 ROAA and ROAE – Compared to the Real Estate Sector

The company comprehensively outperformed the sector in both ROAA and ROAE in 2006



Sources: Company financials and NBK Capital

The company has traded at a discount to the sector on a PER (x) basis for the last several years (Figure 85). The discount has been significant on a ttm basis for both PER (x) and PBV (x). The company is currently trading at a PER (x) and PBV (x) of 5.3x and 1.1x, respectively, compared to the sector multiples of 13.7x and 2.7x.

Figure 85 PER (x) and PBV (x) – Compared to the Real Estate Sector

The company is currently trading at a PER (x) and PBV (x) of 5.3x and 1.1x, respectively, compared to the sector multiples of 13.7x and 2.7x



Sources: Company financials and NBK Capital

## AL MASSALEH REAL ESTATE CO.

Al Massaleh Real Estate Company specializes in all major real estate domains, including conception, design, financing, structuring, investment, acquisition, construction, leasing, and management. It is also engaged in hospitality, leisure, retail, warehousing, cleaning, environmental protection, and maintenance.

### *Major subsidiaries and affiliates*

**Tameer Real Estate Company** – This company was established in 1978 with the main objectives of acquisition and management of commercial and residential buildings. The company's main operations include investment and the operation of hospitality and leisure properties. The company has the Ramada franchise in Lebanon, North Africa, and Malta.

**Al Corniche Club Company** – This company's main activities include constructing, investing, and managing health and sports clubs in Kuwait and abroad. The company has recently opened Al Corniche Club in Kuwait, which is an exclusive seafront fitness and lifestyle club and spa.

**Al Ahlea Circle Cleaning K.S.C.** – Established in 1981, Al Ahlea Circle Cleaning Co. is one of the oldest and largest cleaning-service companies in Kuwait. It is also the leading provider of logistical support services to multinational companies in Kuwait.

### *Major projects*

**Prime Tower, Dubai** – The Prime Tower is an office tower comprising 36 floors. The Prime Tower will consist of 30 levels of comfortable office space, with one level for a health club and cafeteria and two levels allocated for retail establishments. In addition, the tower will have six parking levels at the podium level, three basement levels, and a special zone for loading service trucks.

**Mistra Heights Complex, Malta** – This urban lifestyle project will encompass 1,000 residential units of varying sizes. The project is located in the northeastern part of Malta. The project is built on an area of approximately 41,260 sq. m and is expected to be completed by 2010.

**Massaleh Towers, Kuwait** – This 86-unit residential complex is situated in Benaïd Algar behind the Safir International Hotel, overlooking the sea. It consists of eight towers, each tower containing one-, two-, or three-bedroom apartments, including duplexes and penthouses. A new project consisting of two 30-floor towers with one-, two-, and three-bedroom apartments and duplexes will soon be on offer. The towers will provide an additional 149 units, plus the podium shop area and additional parking space.

**Saifi Crown, Lebanon** – This is a residential tower set in one of the most posh districts of Beirut. It consists of 22 floors and is home to the best cafés, restaurants, and retail stores carrying renowned fashion brands. The tower consists of three layouts. The project includes four underground levels for parking, drivers' rooms, stores, and electromechanical services. It is expected to be ready by the end of January 2010.

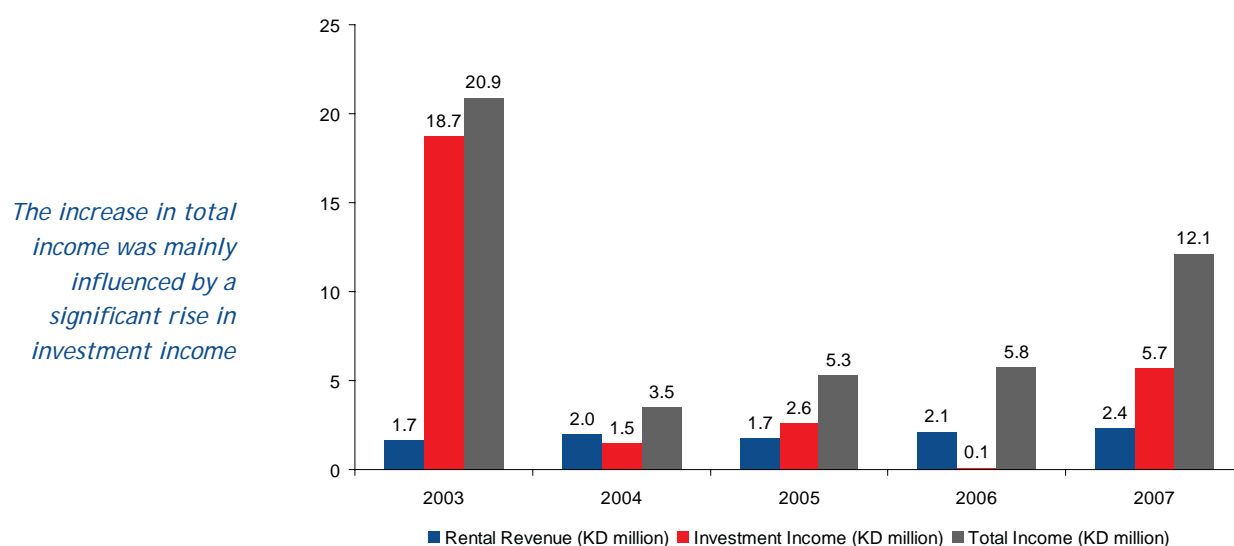
**Jiwar Adma, Lebanon** – This gated residential complex is located in the hills of Adma. It is built over an area of 20,550 sq. m encompassing 22 buildings with 220 apartments. A mini market, a swimming pool, electrical generators, and a water well are some of the other services provided.

**Universal Tower, Kuwait** – Universal Tower is one of the recently built commercial towers located in the financial district of Kuwait City. It consists of 20 floors, including a basement, ground floor, and mezzanine, with approximately 300 sq. m per floor.

#### *Financial statements review*

Rental revenue for the company grew at a five-year CAGR of 11% for the period 2002 to 2007, and grew by 10.2% in 2007 compared to 2006. Total income increased at a five-year CAGR of 19.5% for the period 2003 to 2007. Total income more than doubled, to KD 12.13 million in 2007, compared to 2006, due mainly to a significant rise in investment income (Figure 86).

**Figure 86** Breakdown of Top line - Al Massaleh Real Estate Co.

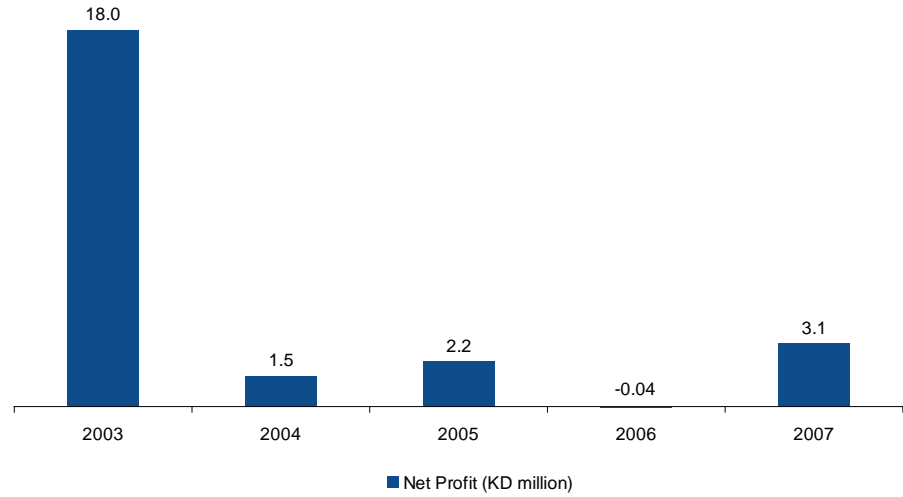


Sources: Company financials and NBK Capital

The company has performed very poorly in terms of profitability in recent years (Figure 87). However, net profit for 2007 increased, due primarily to significant investment gains. The company reported a net profit of KD 3.07 million in 2007, compared to a net loss of KD 0.043 million in 2006.

Figure 87 Net Profit over the Years - Al Massaleh Real Estate Co.

*The rise in net profit for 2007 was due mainly to an increase in investment income*

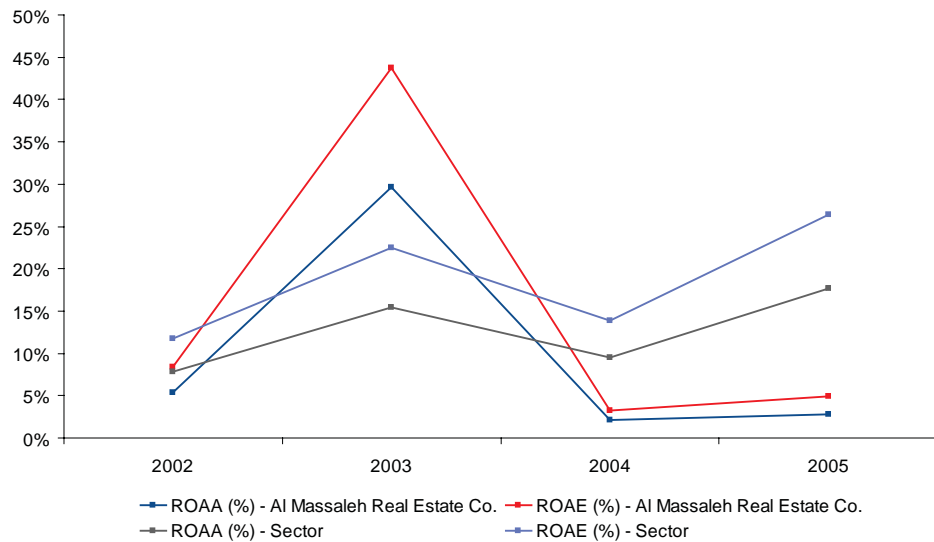


Sources: Company financials and NBK Capital

Figure 88 shows the trends in ROAA and ROAE for the Kuwaiti real estate sector compared to Al Massaleh Real Estate Co. ROAA for the company decreased from 5.4% in 2002 to 2.8% in 2005. However, the sector exhibited contrasting trends, reporting an ROAA of 7.9% in 2002, compared to 9.5% in 2005. The ROAE for the company decreased from 8.4% in 2002 to 4.9% in 2005, compared to 11.8% and 13.9% for the sector in 2002 and 2005, respectively.

Figure 88 ROAA and ROAE – Compared to the Real Estate Sector

*The company consistently underperformed the sector in ROAA and ROAE with the exception of one year only*

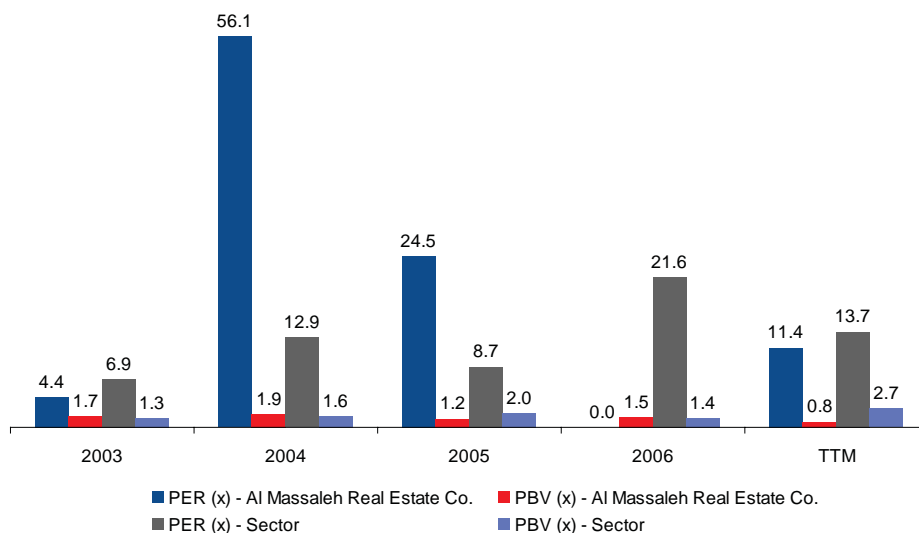


Sources: Company financials and NBK Capital

Al Massaleh Real Estate Co. traded at a premium to the sector on a PER (x) basis in 2004 and 2005, but the premium has come down significantly over the last 12 months. The company also quotes at a substantial discount to the sector on a PBV (x) basis (Figure 89).

Figure 89 PER (x) and PBV (x) – Compared to the Real Estate Sector

*The company trades at a discount to the sector on both PER (x) and PBV (x) basis*



Sources: Company financials and NBK Capital

## MABANEE COMPANY

## Key Data

General		Liquidity (million)	
Reuters Code	MABK.KW	Avg. Daily Volume	0.870
Bloomberg Code	MABANEE.KK	Avg. Daily Value in KD	0.991
Price (KD)		Price Performance	
Closing Price	1.40	YTD	20.7%
52-Week High	1.40	1-Year Period	59.1%
52-Week Low	1.16	1-Month Period	18.6%
Market Capitalization		Outstanding Shares	
Million KD	584	Latest (million)	417.45

## Company Financials

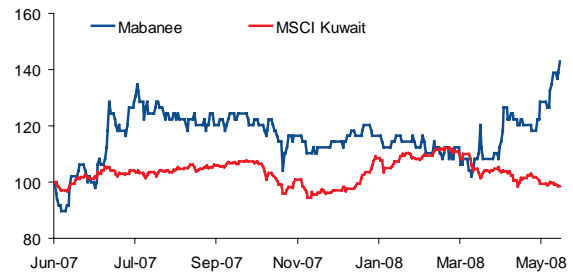
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	36,197	33,093	37,695
Net Property, Plant & Equipment	30,456	71,583	28,803
Long-Term Investments	23,504	18,862	128,741
<b>Total Assets</b>	<b>90,157</b>	<b>123,538</b>	<b>195,239</b>
<b>Total Current Liabilities</b>	<b>12,283</b>	<b>20,909</b>	<b>54,930</b>
<b>Total Long Term Debt</b>	<b>19,106</b>	<b>33,930</b>	<b>37,857</b>
Other Liabilities	180	199	12,901
<b>Total Equity</b>	<b>58,588</b>	<b>68,500</b>	<b>89,551</b>
<b>Total Liabilities and Equity</b>	<b>90,157</b>	<b>123,538</b>	<b>195,239</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	15,902	12,119	29,505
<b>Gross Profit</b>	<b>15,416</b>	<b>12,119</b>	<b>29,505</b>
Selling, General & Adm Expense	1,463	868	2,259
<b>Total Operating Expense</b>	<b>1,060</b>	<b>1,728</b>	<b>7,656</b>
<b>Operating Income</b>	<b>14,356</b>	<b>10,391</b>	<b>21,849</b>
<b>Net Income Before Taxes</b>	<b>14,356</b>	<b>10,361</b>	<b>18,932</b>
Provision for Income Taxes	418	330	626
<b>Net Income After Taxes</b>	<b>13,938</b>	<b>10,031</b>	<b>18,306</b>
<b>Net Income</b>	<b>13,938</b>	<b>10,031</b>	<b>18,306</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	9,311	-2,558	31,134
Cash from Investing Activities	-30,453	-20,548	-55,166
Cash from Financing Activities	20,923	19,006	25,623
<b>Net Change in Cash</b>	<b>-219</b>	<b>-4,100</b>	<b>1,591</b>

Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure

Not Available

\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
EBITDA Margin	90%	86%	80%
Net Profit Margin	88%	83%	62%
Investments / Total Assets	60%	26%	21%
Return on Average Assets	19%	9%	11%
Return on Common Average Equity	26%	16%	23%
EPS (KD)	0.03	0.03	0.05
Dividend Yield	0.0%	0.0%	0.0%
Dividend Payout Ratio	0%	0%	0%
Price-to-Earnings Ratio	16.1	26.0	31.9
Price-to-Book	3.84	3.81	6.53
Total Debt-to-Equity	0.33	0.50	0.42

n.a.= Not Available. Sources: Company financials, and NBK Capital

## AL MAZAYA HOLDING

## Key Data

General		Liquidity (million)	
Reuters Code	MAZA.KW	Avg. Daily Volume	2.14
Bloomberg Code	MAZAYA.KK	Avg. Daily Value in KD	1.41
Price (KD)		Price Performance	
Closing Price	0.95	YTD	72.7%
52-Week High	0.95	1-Year Period	111.1%
52-Week Low	0.43	1-Month Period	31.9%
Market Capitalization		Outstanding Shares	
Million KD	425	Latest (million)	447.80

## Company Financials

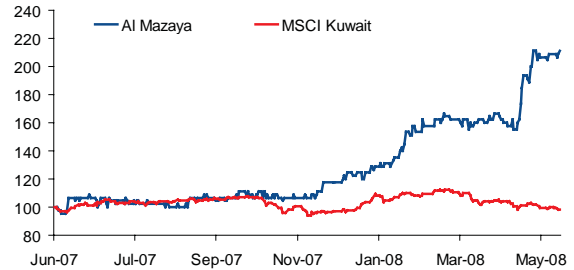
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	24,075	61,480	99,669
Net Property, Plant & Equipment	16,051	60,540	131,947
Long-Term Investments	10,968	44,146	35,450
<b>Total Assets</b>	<b>51,094</b>	<b>166,166</b>	<b>267,066</b>
<b>Total Current Liabilities</b>	<b>18,852</b>	<b>69,705</b>	<b>96,575</b>
<b>Total Long Term Debt</b>	<b>830</b>	<b>4,831</b>	<b>54,754</b>
Minority Interest	0	3,828	6,498
<b>Total Equity</b>	<b>31,412</b>	<b>87,802</b>	<b>109,239</b>
<b>Total Liabilities and Equity</b>	<b>51,094</b>	<b>166,166</b>	<b>267,066</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	10,147	24,430	32,389
<b>Gross Profit</b>	<b>10,147</b>	<b>24,430</b>	<b>32,389</b>
Selling, General & Adm Expense	1,255	2,950	4,191
Depreciation and Amortization	23	58	223
<b>Total Operating Expense</b>	<b>1,278</b>	<b>3,031</b>	<b>7,526</b>
<b>Operating Income</b>	<b>8,869</b>	<b>21,399</b>	<b>24,863</b>
Net Financing Income/ (Expenses)	-439	-814	-954
Net Other Income/ (Expenses)	5,988	4,058	9,087
<b>Net Income Before Taxes</b>	<b>14,418</b>	<b>24,643</b>	<b>32,996</b>
Provision for Income Taxes	410	826	959
<b>Net Income After Taxes</b>	<b>14,008</b>	<b>23,817</b>	<b>32,037</b>
Minority Interest	0	-385	-435
<b>Net Income</b>	<b>14,008</b>	<b>23,432</b>	<b>31,602</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	11,891	44,235	-28,762
Cash from Investing Activities	-10,248	-42,280	-1,338
Cash from Financing Activities	-2,493	10,912	43,966
<b>Net Change in Cash</b>	<b>-850</b>	<b>12,867</b>	<b>13,866</b>

Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure

Not Available

\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
EBITDA Margin	88%	88%	77%
Net Profit Margin	138%	96%	98%
Investments / Total Assets	22%	45%	13%
Return on Average Assets	27%	1%	4%
Return on Common Average Equity	53%	39%	32%
EPS (KD)	0.06	0.09	0.10
Dividend Yield	3.0%	7.1%	3.7%
Dividend Payout Ratio	26%	59%	49%
Price-to-Earnings Ratio	8.44	8.30	13.46
Price-to-Book	3.76	2.22	3.89
Total Debt-to-Equity	0.03	0.06	0.50

n.a.= Not Available. Sources: Company financials, and NBK Capital

## NATIONAL REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	NREK.KW	Avg. Daily Volume	2.20
Bloomberg Code	NRE.KK	Avg. Daily Value in KD	1.31
Price (KD)		Price Performance	
Closing Price	0.500	YTD	1.0%
52-Week High	0.750	1-Year Period	-20.0%
52-Week Low	0.440	1-Month Period	6.4%
Market Capitalization		Outstanding Shares	
Million KD	355	Latest (million)	711

## Company Financials

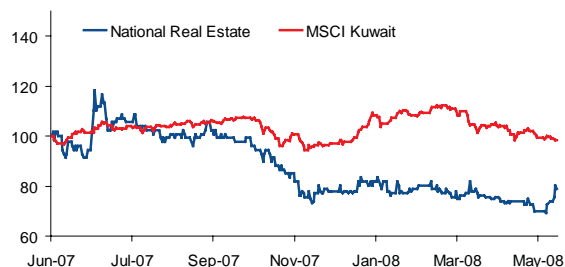
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	13,328	15,207	83,761
Net Property, Plant & Equipment	7,255	7,243	8,297
Long-Term Investments	240,942	255,150	304,218
<b>Total Assets</b>	<b>261,525</b>	<b>277,600</b>	<b>396,276</b>
<b>Total Current Liabilities</b>	<b>72,966</b>	<b>56,073</b>	<b>142,718</b>
Minority Interest	6,916	8,726	21,542
Other Liabilities	463	577	3,643
<b>Total Equity</b>	<b>181,180</b>	<b>212,224</b>	<b>228,373</b>
<b>Total Liabilities and Equity</b>	<b>261,525</b>	<b>277,600</b>	<b>396,276</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	54,702	59,574	47,791
<b>Gross Profit</b>	<b>54,702</b>	<b>59,574</b>	<b>47,791</b>
Selling, General & Adm Expense	11,591	14,507	11,654
Depreciation and Amortization	617	672	239
<b>Total Operating Expense</b>	<b>13,301</b>	<b>28,176</b>	<b>12,338</b>
<b>Operating Income</b>	<b>41,401</b>	<b>31,398</b>	<b>35,453</b>
Net Financing Income/ (Expenses)	15,429	5,570	6,812
Net Other Income/ (Expenses)	-1,548	(1,897)	(2,340)
<b>Net Income Before Taxes</b>	<b>55,282</b>	<b>35,071</b>	<b>39,925</b>
<b>Net Income After Taxes</b>	<b>54,746</b>	<b>35,071</b>	<b>39,832</b>
Minority Interest	-1,137	-821	-809
<b>Net Income</b>	<b>53,609</b>	<b>34,250</b>	<b>39,023</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	8,631	14,471	-2,518
Cash from Investing Activities	-40,176	18,540	-63,037
Cash from Financing Activities	31,011	-26,390	70,867
Foreign Exchange Effects	-	880	(369)
<b>Net Change in Cash</b>	<b>-534</b>	<b>7,501</b>	<b>4,943</b>

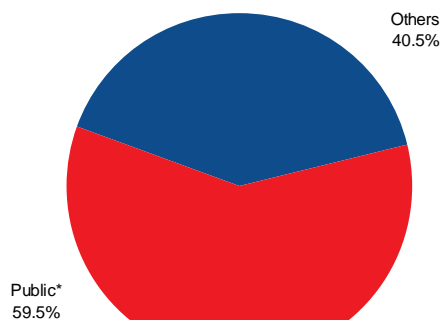
Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure



\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
Gross Profit Margin	95%	92%	92%
EBITDA Margin	77%	54%	75%
Net Profit Margin	98%	57%	82%
Investments / Total Assets	2%	2%	5%
Return on Average Assets	25%	13%	12%
Return on Common Average Equity	35%	17%	18%
EPS (KD)	0.08	0.05	0.06
Dividend Yield	1.6%	6.0%	4.0%
Dividend Payout Ratio	19%	63%	36%
Price-to-Earnings Ratio	12.01	10.52	9.11
Price-to-Book	3.55	1.70	1.56

n.a.= Not Available. Sources: Company financials, and NBK Capital

## COMMERCIAL REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	TJK.KW	Avg. Daily Volume	2.91
Bloomberg Code	ALTIJARI.KK	Avg. Daily Value in KD	0.81
Price (KD)		Price Performance	
Closing Price	0.226	YTD	-8.1%
52-Week High	0.272	1-Year Period	-11.0%
52-Week Low	0.224	1-Month Period	-2.6%
Market Capitalization		Outstanding Shares	
Million KD	351	Latest (million)	1554.64

## Company Financials

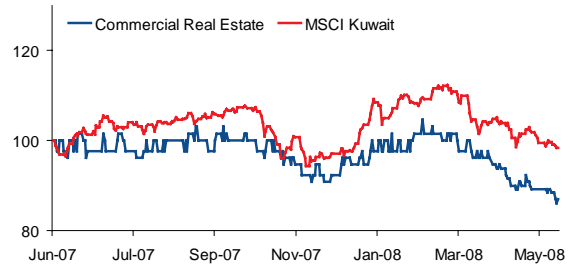
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	56,648	95,168	49,135
Net Property, Plant & Equipment	66,194	56,750	59,458
Long-Term Investments	160,780	159,159	228,900
<b>Total Assets</b>	<b>283,994</b>	<b>311,449</b>	<b>337,493</b>
<b>Total Current Liabilities</b>	<b>43,105</b>	<b>61,751</b>	<b>55,706</b>
<b>Total Long Term Debt</b>	<b>43,404</b>	<b>50,019</b>	<b>55,489</b>
<b>Total Equity</b>	<b>194,794</b>	<b>198,521</b>	<b>225,454</b>
<b>Total Liabilities and Equity</b>	<b>283,994</b>	<b>311,449</b>	<b>337,493</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	39,249	27,239	50,425
<b>Gross Profit</b>	<b>39,209</b>	<b>27,229</b>	<b>49,877</b>
Selling, General & Adm Expense	2,623	3,786	5,108
Depreciation and Amortization	2,521	157	140
<b>Total Operating Expense</b>	<b>5,144</b>	<b>3,943</b>	<b>5,610</b>
<b>Operating Income</b>	<b>34,105</b>	<b>23,296</b>	<b>44,815</b>
Net Financing Income/ (Expenses)	360	13,476	1,228
<b>Net Income Before Taxes</b>	<b>34,465</b>	<b>36,772</b>	<b>46,043</b>
Provision for Income Taxes	976	1,144	1,394
<b>Net Income After Taxes</b>	<b>33,489</b>	<b>35,628</b>	<b>44,649</b>
<b>Net Income</b>	<b>33,177</b>	<b>35,628</b>	<b>44,649</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	15,987	18,074	7,218
Cash from Investing Activities	-32,121	24,342	-41,876
Cash from Financing Activities	15,558	-12,009	-3,397
<b>Net Change in Cash</b>	<b>-576</b>	<b>30,407</b>	<b>-38,055</b>

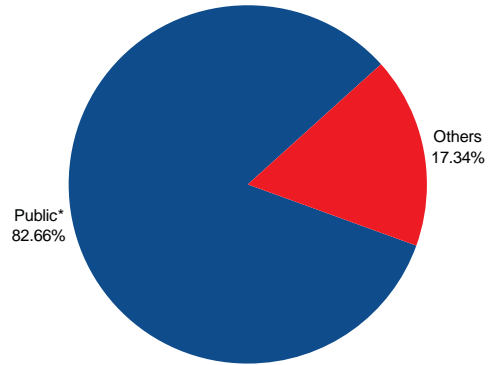
Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure



\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
EBITDA Margin	93%	86%	89%
Net Profit Margin	76%	80%	77%
Equity Investments/ Total Assets	27%	39%	50%
Return on Average Assets	13%	12%	14%
Return on Common Average Equity	17%	18%	21%
EPS (KD)	0.03	0.03	0.03
Dividend Yield	3.9%	4.2%	5.7%
Dividend Payout Ratio	44%	44%	49%
Price-to-Earnings Ratio	11.8	10.7	7.9
Price-to-Book	2.0	1.9	1.6
Total Debt-to-Equity	0.2	0.3	0.2

n.a.= Not Available. Sources: Company financials, and NBK Capital

## SALHIA REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	SREK.KW	Avg. Daily Volume	0.658
Bloomberg Code	SRE.KK	Avg. Daily Value in KD	0.351
Price (KD)		Price Performance	
Closing Price	0.54	YTD	8.0%
52-Week High	0.62	1-Year Period	20.0%
52-Week Low	0.43	1-Month Period	3.8%
Market Capitalization		Outstanding Shares	
Million KD	213	Latest (million)	395.10

## Company Financials

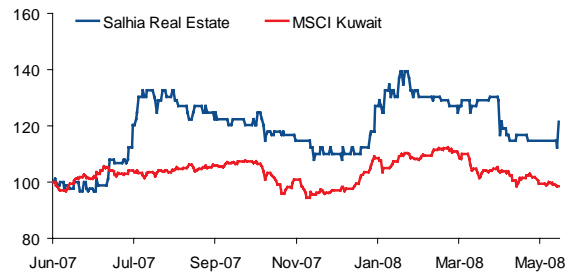
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	10,078	11,290	47,838
Net Property, Plant & Equipment	99,281	123,955	116,082
Long-Term Investments	107,705	107,206	160,777
<b>Total Assets</b>	<b>217,064</b>	<b>242,451</b>	<b>324,697</b>
<b>Total Current Liabilities</b>	<b>30,247</b>	<b>18,485</b>	<b>82,125</b>
<b>Total Long Term Debt</b>	<b>83,911</b>	<b>79,875</b>	<b>80,736</b>
Minority Interest	941	923	1,209
Other Liabilities	0	9,057	9,505
<b>Total Equity</b>	<b>101,965</b>	<b>134,111</b>	<b>151,122</b>
<b>Total Liabilities and Equity</b>	<b>217,064</b>	<b>242,451</b>	<b>324,697</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	33,778	36,503	40,803
COGS	13,667	16,180	17,225
<b>Gross Profit</b>	<b>20,111</b>	<b>20,323</b>	<b>23,578</b>
Selling, General & Adm Expense	7,454	6,475	8,530
Depreciation and Amortization	5,198	5,200	5,202
<b>Total Operating Expense</b>	<b>11,154</b>	<b>10,008</b>	<b>13,425</b>
<b>Operating Income</b>	<b>8,957</b>	<b>10,315</b>	<b>10,153</b>
Net Financing Income/ (Expenses)	4,391	-7,831	-589
Net Other Income/ (Expenses)	5,175	49,172	24,442
<b>Net Income Before Taxes</b>	<b>18,523</b>	<b>51,656</b>	<b>34,006</b>
Provision for Income Taxes	1,023	2,701	2,815
<b>Net Income After Taxes</b>	<b>17,500</b>	<b>48,955</b>	<b>31,191</b>
Minority Interest	43	74	-215
<b>Net Income</b>	<b>17,543</b>	<b>49,029</b>	<b>30,976</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	13,079	11,302	18,993
Cash from Investing Activities	4,893	49,784	-68,961
Cash from Financing Activities	-29,400	-26,384	17,409
<b>Net Change in Cash</b>	<b>-11,428</b>	<b>34,702</b>	<b>-32,559</b>

Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure

Not Available

\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
Gross Profit Margin	60%	56%	58%
EBITDA Margin	42%	43%	38%
Net Profit Margin	52%	134%	76%
Investments / Total Assets	13%	15%	32%
Return on Average Assets	8%	21%	11%
Return on Common Average Equity	17%	42%	22%
EPS (KD)	0.06	0.16	0.09
Dividend Yield	6.1%	8.4%	8.2%
Dividend Payout Ratio	86%	31%	56%
Price-to-Earnings Ratio	14.0	3.7	6.9
Price-to-Book	2.4	1.3	1.4
Total Debt-to-Equity	0.8	0.6	0.5

n.a.= Not Available. Sources: Company financials, and NBK Capital

## TAMDEEN REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	TAMK.KW	Avg. Daily Volume	1.142
Bloomberg Code	TAM.KK	Avg. Daily Value in KD	0.705
Price (KD)		Price Performance	
Closing Price	0.500	YTD	27.9%
52-Week High	0.600	1-Year Period	22.2%
52-Week Low	0.368	1-Month Period	11.1%
Market Capitalization		Outstanding Shares	
Million KD	186	Latest (million)	372.93

## Company Financials

Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	13,096	20,585	27,602
Net Property, Plant & Equipment	44,690	69,738	69,146
Long-Term Investments	206,500	260,622	335,335
<b>Total Assets</b>	<b>264,286</b>	<b>350,945</b>	<b>432,083</b>
<b>Total Current Liabilities</b>	<b>21,591</b>	<b>32,416</b>	<b>67,091</b>
<b>Total Long Term Debt</b>	<b>66,595</b>	<b>103,599</b>	<b>105,448</b>
Minority Interest	41,952	57,911	63,908
Other Liabilities	2,352	2,496	2,479
<b>Total Equity</b>	<b>131,796</b>	<b>154,523</b>	<b>193,157</b>
<b>Total Liabilities and Equity</b>	<b>264,286</b>	<b>350,945</b>	<b>432,083</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	18,953	18,132	37,161
COGS	4,620	5,071	10,026
<b>Gross Profit</b>	<b>14,333</b>	<b>13,061</b>	<b>27,135</b>
Selling, General & Adm Expense	3,974	4,271	6,379
Depreciation and Amortization	1,395	1,389	2,293
<b>Total Operating Expense</b>	<b>6,069</b>	<b>6,554</b>	<b>10,543</b>
<b>Operating Income</b>	<b>8,264</b>	<b>6,507</b>	<b>16,592</b>
<b>Net Income Before Taxes</b>	<b>8,264</b>	<b>6,507</b>	<b>16,592</b>
Provision for Income Taxes	79	234	553
<b>Net Income After Taxes</b>	<b>8,185</b>	<b>6,273</b>	<b>16,039</b>
Minority Interest	-1,170	-1,743	-4,477
<b>Net Income</b>	<b>7,015</b>	<b>4,530</b>	<b>11,562</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	6,551	7,462	-14,680
Cash from Investing Activities	-42,926	-49,831	-18,704
Cash from Financing Activities	38,375	47,882	31,450
<b>Net Change in Cash</b>	<b>2,000</b>	<b>5,513</b>	<b>-1,934</b>

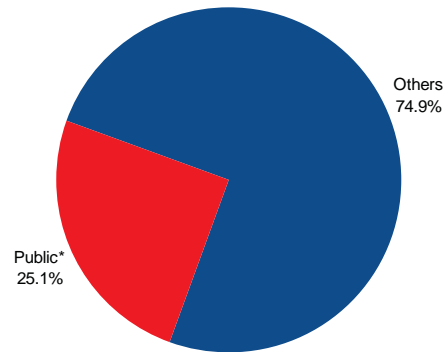
Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure



\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
Gross Profit Margin	76%	72%	73%
EBITDA Margin	51%	44%	51%
Net Profit Margin	37%	25%	31%
Investments / Total Assets	65%	49%	49%
Return on Average Assets	3.0%	1.5%	3.0%
Return on Common Average Equity	5.6%	3.2%	6.7%
EPS (KD)	0.02	0.01	0.03
Dividend Yield	2.6%	2.9%	2.2%
Dividend Payout Ratio	55%	90%	35%
Price-to-Earnings Ratio	21.2	31.4	16.1
Price-to-Book	1.1	0.9	1.0
Total Debt-to-Equity	0.5	0.7	0.5

n.a.= Not Available. Sources: Company financials, and NBK Capital

## UNITED REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	UREK.KW	Avg. Daily Volume	2.87
Bloomberg Code	URC.KK	Avg. Daily Value in KD	0.51
Price (KD)		Price Performance	
Closing Price	0.164	YTD	1.2%
52-Week High	0.188	1-Year Period	-3.5%
52-Week Low	0.152	1-Month Period	3.8%
Market Capitalization		Outstanding Shares	
Million KD	127	Latest (million)	771.37

## Company Financials

Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	12,015	18,934	29,952
Net Property, Plant & Equipment	38,154	12,727	25,444
Long-Term Investments	140,834	161,083	188,062
<b>Total Assets</b>	<b>191,003</b>	<b>192,744</b>	<b>243,458</b>
<b>Total Current Liabilities</b>	14,750	16,236	14,428
<b>Total Long Term Debt</b>	75,972	73,836	103,679
Minority Interest	3,251	334	13,318
<b>Total Equity</b>	97,030	102,338	112,033
<b>Total Liabilities and Equity</b>	<b>191,003</b>	<b>192,744</b>	<b>243,458</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	12,634	11,670	11,810
COGS	2,487	4,917	4,702
<b>Gross Profit</b>	<b>10,147</b>	<b>6,753</b>	<b>7,108</b>
Selling, General & Adm Expense	3,450	4,505	3,593
Depreciation and Amortization	1,145	1,507	1,377
<b>Total Operating Expense</b>	<b>-2,812</b>	<b>-385</b>	<b>694</b>
<b>Operating Income</b>	<b>12,959</b>	<b>7,138</b>	<b>6,414</b>
Net Financing Income/ (Expenses)	2,404	13,618	9,988
Net Other Income/ (Expenses)	(2,384)	(6,733)	(5,883)
<b>Net Income Before Taxes</b>	<b>12,979</b>	<b>14,023</b>	<b>10,519</b>
Provision for Income Taxes	430	470	362
<b>Net Income After Taxes</b>	<b>12,549</b>	<b>13,553</b>	<b>10,157</b>
Minority Interest	-10	28	56
<b>Net Income</b>	<b>12,539</b>	<b>13,581</b>	<b>10,213</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	3,466	3,531	4,513
Cash from Investing Activities	-10,512	18,055	-25,928
Cash from Financing Activities	5,839	-14,380	27,472
<b>Net Change in Cash</b>	<b>-1,486</b>	<b>6,946</b>	<b>5,859</b>

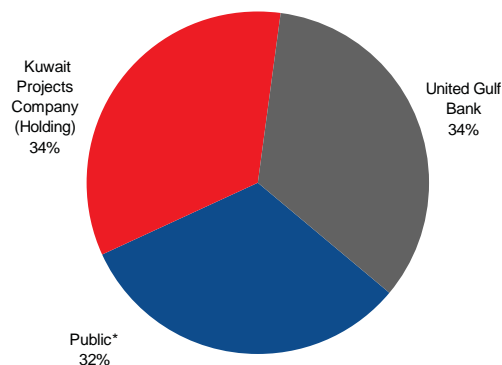
Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure



\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
Gross Profit Margin	80%	58%	60%
EBITDA Margin	112%	74%	66%
Net Profit Margin	100%	116%	86%
Investments / Total Assets	2%	6%	8%
Return on Average Assets	7.0%	7.0%	4.7%
Return on Common Average Equity	13.0%	13.6%	9.5%
EPS (KD)	0.02	0.03	0.02
Dividend Yield	4.7%	0.0%	0.0%
Dividend Payout Ratio	63%	0%	0%
Price-to-Earnings Ratio	13.8	9.2	12.4
Price-to-Book	1.8	1.2	1.1
Total Debt-to-Equity	0.78	0.72	0.93

n.a.= Not Available. Sources: Company financials, and NBK Capital

## AL ENMA'A REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	ERESCO.KW	Avg. Daily Volume	2.80
Bloomberg Code	ERESCO.KK	Avg. Daily Value in KD	0.67
Price (KD)		Price Performance	
Closing Price	0.285	YTD	58.3%
52-Week High	0.300	1-Year Period	82.7%
52-Week Low	0.156	1-Month Period	5.6%
Market Capitalization		Outstanding Shares	
Million KD	122	Latest (million)	429.08

## Company Financials

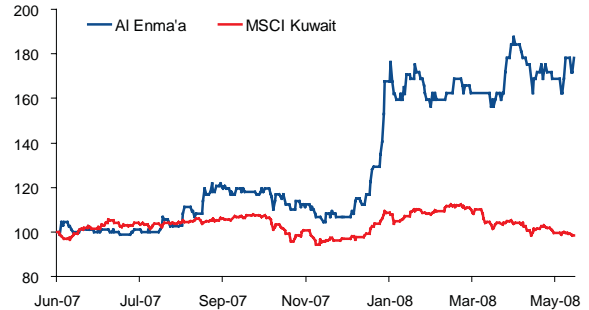
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	22,906	26,525	30,126
Net Property, Plant & Equipment	3,020	2,410	2,512
Long-Term Investments	32,193	35,814	40,605
<b>Total Assets</b>	<b>58,119</b>	<b>64,749</b>	<b>73,243</b>
<b>Total Current Liabilities</b>	<b>8,151</b>	<b>7,261</b>	<b>9,818</b>
Other Liabilities	669	2,268	2,556
<b>Total Equity</b>	<b>49,299</b>	<b>55,220</b>	<b>60,869</b>
<b>Total Liabilities and Equity</b>	<b>58,119</b>	<b>64,749</b>	<b>73,243</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	22,786	30,029	29,464
COGS	20,287	27,264	26,143
<b>Gross Profit</b>	<b>2,499</b>	<b>2,765</b>	<b>3,321</b>
Selling, General & Adm Expense	689	846	784
<b>Total Operating Expense</b>	<b>689</b>	<b>846</b>	<b>784</b>
<b>Operating Income</b>	<b>1,810</b>	<b>1,919</b>	<b>2,537</b>
Net Financing Income/ (Expenses)	6,074	5,040	7,712
Net Other Income/ (Expenses)	77	1,523	239
<b>Net Income Before Taxes</b>	<b>7,961</b>	<b>8,482</b>	<b>10,488</b>
Provision for Income Taxes	227	260	357
<b>Net Income After Taxes</b>	<b>7,734</b>	<b>8,222</b>	<b>10,131</b>
Minority Interest	0	0	0
<b>Net Income</b>	<b>7,734</b>	<b>8,222</b>	<b>10,131</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	960	2,690	6,404
Cash from Investing Activities	778	1,419	798
Cash from Financing Activities	-1,569	-3,236	-3,646
<b>Net Change in Cash</b>	<b>169</b>	<b>873</b>	<b>3,556</b>

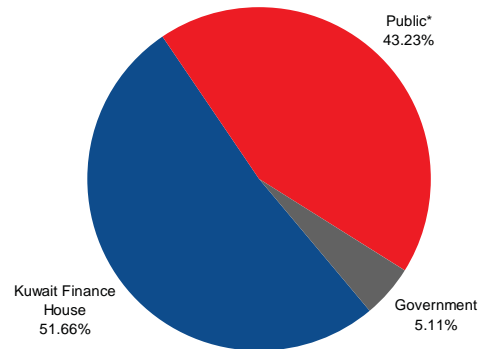
Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure



\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
Gross Profit Margin	11%	9%	11%
EBITDA Margin	8%	6%	9%
Net Profit Margin	34%	27%	34%
Return on Average Assets	14%	13%	15%
Return on Common Average Equity	16%	16%	17%
EPS (KD)	0.02	0.02	0.03
Dividend Yield	5.8%	5.8%	3.5%
Dividend Payout Ratio	48%	43%	39%
Price-to-Earnings Ratio	11.89	9.31	12.07
Price-to-Book	1.87	1.39	2.01

n.a.= Not Available. Sources: Company financials, and NBK Capital

## GRAND REAL ESTATE PROJECTS CO.

## Key Data

General		Liquidity (million)	
Reuters Code	GRND.KW	Avg. Daily Volume	4.16
Bloomberg Code	GRAND.KK	Avg. Daily Value in KD	1.46
Price (KD)		Price Performance	
Closing Price	0.305	YTD	-1.6%
52-Week High	0.410	1-Year Period	-6.2%
52-Week Low	0.300	1-Month Period	0.0%
Market Capitalization		Outstanding Shares	
Million KD	111	Latest (million)	363.15

## Company Financials

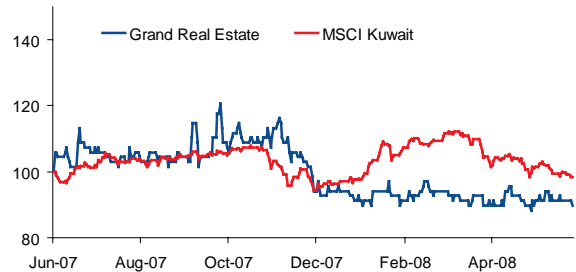
Balance Sheet (KD 000s)	2004	2005	2006
<b>Total Current Assets</b>	1,563	5,640	37,394
Net Property, Plant & Equipment	50	32	87
Long-Term Investments	20,047	28,786	87,716
<b>Total Assets</b>	<b>21,660</b>	<b>34,458</b>	<b>125,197</b>
<b>Total Current Liabilities</b>	<b>1,897</b>	<b>789</b>	<b>16,781</b>
Minority Interest	0	0	3,487
Other Liabilities	53	158	24,263
<b>Total Equity</b>	<b>19,710</b>	<b>33,511</b>	<b>80,666</b>
<b>Total Liabilities and Equity</b>	<b>21,660</b>	<b>34,458</b>	<b>125,197</b>

Income Statement (KD 000s)	2004	2005	2006
Revenue	3,091	15,766	20,567
<b>Gross Profit</b>	<b>3,091</b>	<b>15,719</b>	<b>20,507</b>
Selling, General & Adm Expense	508	1,452	2,946
<b>Total Operating Expense</b>	<b>522</b>	<b>1,473</b>	<b>3,316</b>
<b>Operating Income</b>	<b>2,569</b>	<b>14,246</b>	<b>17,191</b>
Net Financing Income/ (Expenses)	0	0	2,582
<b>Net Income Before Taxes</b>	<b>2,569</b>	<b>14,246</b>	<b>19,773</b>
Provision for Income Taxes	23	446	636
<b>Net Income After Taxes</b>	<b>2,546</b>	<b>13,800</b>	<b>19,137</b>
<b>Net Income</b>	<b>2,549</b>	<b>13,802</b>	<b>19,137</b>

Cash Flow (KD 000s)	2004	2005	2006
Cash from Operating Activities	-205	6,228	-2,476
Cash from Investing Activities	221	-5,717	2,963
Cash from Financing Activities	0	0	-1
<b>Net Change in Cash</b>	<b>16</b>	<b>511</b>	<b>486</b>

Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure

Not Available

\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2004	2005	2006
Gross Profit Margin	100%	100%	100%
EBITDA Margin	84%	91%	84%
Net Profit Margin	94%	88%	81%
Investments / Total Assets	74%	78%	26%
Return on Average Assets	11.8%	49.2%	24.0%
Return on Common Average Equity	12.9%	51.9%	33.4%
EPS (KD)	0.02	0.06	0.07
Dividend Yield	n.a	3.1%	2.0%
Dividend Payout Ratio	0%	40%	14%
Price-to-Earnings Ratio	n.a	9.68	8.29
Price-to-Book	n.a	3.99	1.97
Total Debt-to-Equity	0.00	0.00	0.00

n.a.= Not Available. Sources: Company financials, and NBK Capital

## AL MASSALEH REAL ESTATE CO.

## Key Data

General		Liquidity (million)	
Reuters Code	MREC.KW	Avg. Daily Volume	0.420
Bloomberg Code	MREC.KK	Avg. Daily Value in KD	0.080
Price (KD)		Price Performance	
Closing Price	0.178	YTD	-13.6%
52-Week High	0.236	1-Year Period	-1.1%
52-Week Low	0.176	1-Month Period	-22.6%
Market Capitalization		Outstanding Shares	
Million KD	35	Latest (million)	197.21

## Company Financials

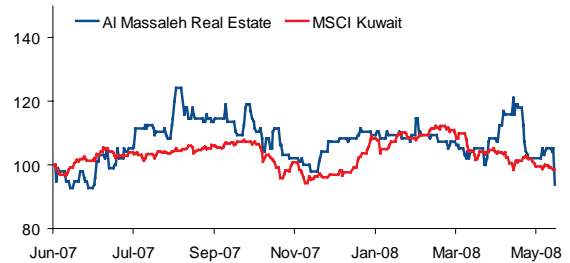
Balance Sheet (KD 000s)	2005	2006	2007
<b>Total Current Assets</b>	3,726	8,394	6,244
Net Property, Plant & Equipment	11,624	13,590	47,130
Long-Term Investments	61,113	60,802	56,777
Other Assets	5,143	1,185	3,681
<b>Total Assets</b>	<b>81,606</b>	<b>83,971</b>	<b>113,832</b>
<b>Total Current Liabilities</b>	<b>4,312</b>	<b>5,230</b>	<b>17,230</b>
<b>Total Long Term Debt</b>	<b>17,745</b>	<b>20,519</b>	<b>39,539</b>
Minority Interest	14,864	14,072	12,703
<b>Total Equity</b>	<b>44,556</b>	<b>44,010</b>	<b>44,201</b>
<b>Total Liabilities and Equity</b>	<b>81,606</b>	<b>83,971</b>	<b>113,832</b>

Income Statement (KD 000s)	2005	2006	2007
Revenue	1,849	4,166	5,003
COGS	585	1,051	1,136
<b>Gross Profit</b>	<b>1,264</b>	<b>3,115</b>	<b>3,867</b>
Selling, General & Adm Expense	1,587	1,884	2,694
Depreciation and Amortization	490	1,259	1,654
<b>Total Operating Expense</b>	<b>2,077</b>	<b>3,523</b>	<b>5,532</b>
<b>Operating Income</b>	<b>-813</b>	<b>-408</b>	<b>-1,665</b>
Net Financing Income/ (Expenses)	3,225	-781	5,117
Net Other Income/ (Expenses)	47	724	(1,241)
<b>Net Income Before Taxes</b>	<b>2,459</b>	<b>-465</b>	<b>2,211</b>
Provision for Income Taxes	52	0	100
<b>Net Income After Taxes</b>	<b>2,407</b>	<b>-465</b>	<b>2,111</b>
Minority Interest	-223	422	959
<b>Net Income</b>	<b>2,184</b>	<b>-43</b>	<b>3,070</b>

Cash Flow (KD 000s)	2005	2006	2007
Cash from Operating Activities	-10	617	1,350
Cash from Investing Activities	-10,813	-2,498	-2,923
Cash from Financing Activities	123	-683	559
<b>Net Change in Cash</b>	<b>-10,700</b>	<b>-2,564</b>	<b>-1,014</b>

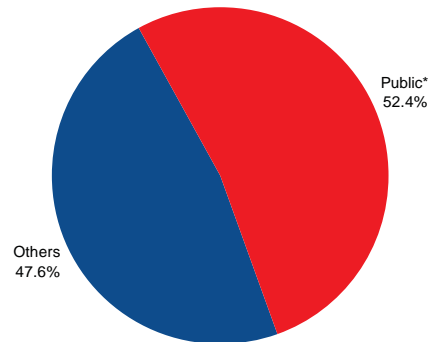
Sources: Company financials, and NBK Capital

## Rebased Performance



Sources: Reuters, MSCI, and NBK Capital

## Shareholder Structure



\* Public does not mean free float only. Sources: Zawya, and NBK Capital

## Key Ratios

	2005	2006	2007
Gross Profit Margin	68%	75%	77%
EBITDA Margin	-17%	20%	0%
Net Profit Margin	118%	-1%	61%
Investments / Total Assets	69%	69%	47%
Return on Average Assets	2.8%	n.m	3.1%
Return on Common Average Equity	4.9%	n.m	7.0%
EPS (KD)	0.01	-0.0002	0.02
Dividend Yield	0.0%	0.0%	0%
Dividend Payout Ratio	0%	0%	0%
Price-to-Earnings Ratio	24.52	n.m	11.43
Price-to-Book	1.20	0.98	0.79
Total Debt-to-Equity	0.40	0.47	0.89

n.a.= Not Available. Sources: Company financials, and NBK Capital



## NBK Capital

### Kuwait

#### Head Office

17th Floor, Dar Al-Awadi Building  
Ahmed Al-Jaber Street, Sharq  
P.O. Box 4950, Safat 13050  
Kuwait  
Tel: +965 224 6900  
Fax: +965 224 6904

## International Network

### United Arab Emirates

#### NBK Capital Limited

Precinct Building 3, Office 404  
Dubai International Financial Center  
P.O. Box 506506, Dubai  
United Arab Emirates  
Tel: +971 4 365 2800  
Fax: +971 4 365 2805

### Turkey

#### NBK Capital

Arastima ve Musavirlik AS  
SUN Plaza, 30th Floor  
Dereboyu Sk. No.24  
Maslak 34398, Istanbul, Turkey  
Tel: +90 212 276 5400  
Fax: +90 212 276 5401

## NBK Capital MENA Research

Tel: +965 224 6663  
Fax: +965 224 6984  
E-mail: menaresearch@nbkcapital.com

## Disclaimer

This document and its contents are prepared for your personal information purposes only and do not constitute an offer, or the solicitation of an offer, to buy or sell a security or enter into any other agreement. Projections of potential risk or return are illustrative, and should not be taken as limitations of the maximum possible loss or gain. The information and any views expressed are given as of the date of writing and subject to change. While the information has been obtained from sources believed to be reliable, we do not represent that it is accurate or complete and it should not be relied on as such. Watani Investment Company (NBK Capital), its affiliates and subsidiaries accept no liability for any direct, indirect or consequential loss arising from use of this document or its contents. At any time, the employees of NBK Capital and its affiliates and subsidiaries may at their discretion hold a position, subject to change, in any securities or instruments referred to, or provide services to the issuer of those securities or instruments.

[www.nbkcapital.com](http://www.nbkcapital.com)

## NBK

### Kuwait

#### National Bank of Kuwait SAK

Abdullah Al-Ahmed Street  
P.O. Box 95, Safat 13001  
Kuwait City, Kuwait  
Tel: +965 242 2011  
Fax: +965 243 1888  
Telex: 22043-22451 NATBANK

## International Network

### Bahrain

#### National Bank of Kuwait SAK

**Bahrain Branch**  
Seef Tower, Al-Seef District 428  
P.O. Box 5290, Manama  
Bahrain  
Tel: +973 17 583 333  
Fax: +973 17 587 111

### Jordan

#### National Bank of Kuwait SAK

**Amman Branch**  
Shareef Abdul Hamid Sharaf St  
P.O. Box 941297  
Shmeisani, Amman 11194  
Jordan  
Tel: +962 6 560 8800  
Fax: +962 6 560 8811

### Saudi Arabia

#### National Bank of Kuwait SAK

**Jeddah Branch**  
Al-Andalus Street, Red Sea Plaza  
P.O. Box 15385  
Jeddah 21444, Saudi Arabia  
Tel: +966 2 653 8600  
Fax: +966 2 653 8653

### Lebanon

#### National Bank of Kuwait

**(Lebanon) SAL**  
BAC Building  
Justinian Street, Sanayeh  
P.O. Box 11-5727, Riyad El Solh  
Beirut 1107 2200, Lebanon  
Tel: +961 1 741111/742222  
Fax: +961 1 747846/747866

### Iraq

#### Credit Bank of Iraq

Street 9, Building 178  
Sadoon Street, District 102  
P.O. Box 3420  
Baghdad, Iraq  
Tel: +964 1 7182198/7191944  
+964 1 7188406/7171673  
Fax: +964 1 7170156

### Egypt

#### Al Watany Bank of Egypt

13 Al Themar Street  
Gameat Al Dowal AlArabia  
Fouad Mohie El Din Square  
Mohandessin, Giza, Egypt  
Tel: +20 2 33388816/33388817  
Fax: +20 2 33379302

## United States of America

### National Bank of Kuwait SAK

#### New York Branch

299 Park Avenue  
New York, NY 10171  
USA  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

## United Kingdom

### National Bank of Kuwait

#### (International) Plc

#### Head Office

13 George Street  
London W1U 3QJ, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

### National Bank of Kuwait

#### (International) Plc

#### Portman Square Branch

7 Portman Square  
London W1H 6NA, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7486 3877

## NBK Investment

### Management Limited

13 George Street  
London W1U 3QJ, UK  
Tel: +44 20 7224 2288  
Fax: +44 20 7224 2102

## France

### National Bank of Kuwait

#### (International) Plc

#### Paris Branch

90 Avenue des Champs-Elysees  
75008 Paris, France  
Tel: +33 1 5659 8600  
Fax: +33 1 5659 8623

## Singapore

### National Bank of Kuwait SAK

#### Singapore Branch

9 Raffles Place #51-01/02  
Republic Plaza  
Singapore 048619  
Tel: +65 6222 5348  
Fax: +65 6224 5438

## Vietnam

### National Bank of Kuwait SAK

#### Vietnam Representative Office

Room 2006, Sun Wah Tower  
115 Nguyen Hue Blvd, District 1  
Ho Chi Minh City  
Vietnam  
Tel: +84 8 827 8008  
Fax: +84 8 827 8009

## China

### National Bank of Kuwait SAK

#### Shanghai Representative Office

Suite 1003, 10th Floor, Azia Center  
1233 Lujiazui Ring Road  
Shanghai 200120  
China  
Tel: +86 21 6888 1092  
Fax: +86 21 5047 1011

## Associates

### Qatar

#### International Bank of Qatar (QSC)

Suhaim bin Hamad Street  
P.O. Box 2001  
Doha, Qatar  
Tel: +974 447 3700  
Fax: +974 447 3710