Analyst Comment

NBK CAPITAL

September 07, 2009

SULTAN CENTER (SCFK.KW)

- Sultan Center had a 22% increase in revenue in 2Q2009 compared to 2Q2008. This growth was buoyed by the operation in Lebanon which was acquired in 3Q2008. Excluding the effect of the Lebanese operation, Sultan Center's revenue would have grown by around 9%. Kuwait, the largest grocery operation for Sultan Center, saw a 6% increase in sales in 2Q2009.

- Sultan Center achieved an EBITDA of KD 4.2 million in 2Q2009, which represents a 19% drop from the same period last year. This result is 11% lower than our forecast of KD 4.7 million. The decline in EBITDA has been mostly due to a 41% increase in SG&A costs in 2Q2009, and which is behind most of the fall in the EBITDA margin from 8.6% in 2Q2008 to 5.7% in 2Q2009. As we mentioned in our initiation of coverage on Sultan Center, the assets acquired in Lebanon are impacting the operating margins of the company. However, we find comfort that on a quarter-on-quarter basis, Sultan Center's EBITDA margin has been relatively stable.

- The group's share of results from associates increased by 32% in 2Q2009 to KD 2.4 million, while finance charges declined by 7% to KD 1.8 million.

- Net income declined by 59% to KD 2.7 million in 2Q2009. Most of the drop in net income is related to the change in the method for accounting for investments. Sultan Center has re-classified all its investments as available-for-sale and thus the change in fair value of investments does not go through the income statement. Excluding the effect of investment income in 2Q2008, Sultan Center's net income would decline by 26%.

- The fair value of investments classified as available-for-sale increased by KD 5.3 million in 2Q2009.

- We maintain our long term fair value for Sultan Center at KD 0.330 per share. This is 29% over Sultan Center's closing price as of 7 September 2009; hence, our "Buy" recommendation.

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Related Research

- Sultan Center Initiation of Coverage – 21 July 2009

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