

August 18, 2010

## SULTAN CENTER (SCFK.KW)

**12-Month Fair Value: KD 0.270**

**Last Close (17 August 2010): KD 0.198**

**Recommendation: Buy - Risk Level: 4**

- Sultan Center has announced preliminary figures for 2Q2010; however, full financial are not yet available. Based on an initial analysis of the disclosed figures, the retailer's results appear to be within our expectations for the quarter.
- Total revenue in 2Q2010 reached KD 74.6 million, 1.7% above 2Q2009 and 1% lower than our forecast. Revenue growth was driven by a 4% increase in grocery sales due to higher contribution from Lebanon and Oman, as well as additional revenue generated from the newly opened store in Bahrain. The results generated from these operations helped offset declines in grocery sales in 2Q2010 of 2% and 6% in Kuwait and Jordan, respectively.
- Trade revenue declined by 15% year on year to reach KD 12.1 million in 2Q2010. We expect this decline to widen in the coming quarters as Agility's subsistence prime vendor (SPV) contract expires on December 05, 2010. In our forecasts for trade revenue we are reflecting declines of 22% and 69% in FY2010 and FY2011, respectively.
- Net income fell from KD 2.7 million in 2Q2009 to KD 0.8 million in 2Q2010. We feel that this drop is largely due to a 68% decline in National Real Estate Company's (NREC) net income. NREC has a significant impact on Sultan Center's bottom line, as it is the largest component of results of associates. The group's share of results from associates accounted for 87% of Sultan Center's net income in 2Q2009. We hope to have more insight on the matter upon the release of full financials.
- Sultan Center's expansion plan has been on track with three out of the six stores planned for 2010 already open. We believe this will be an important catalyst for growth for grocery sales going forward.
- We maintain our long term fair value for Sultan Center at KD 0.270 per share. This is 36% over Sultan Center's closing price as of 17 August 2010; hence, our current recommendation for the stock is a "Buy."

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### Related Research

- Sultan Center Update - 25 May 2010

## RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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