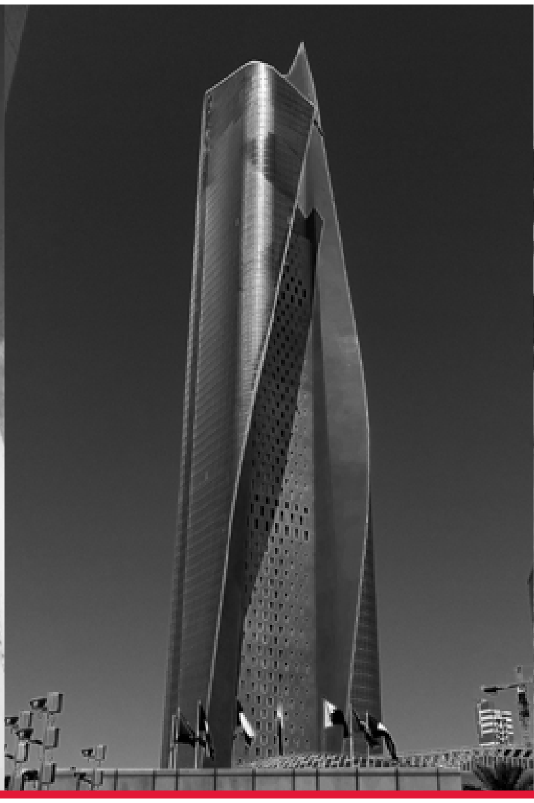


May 2014

KUWAIT IN FOCUS

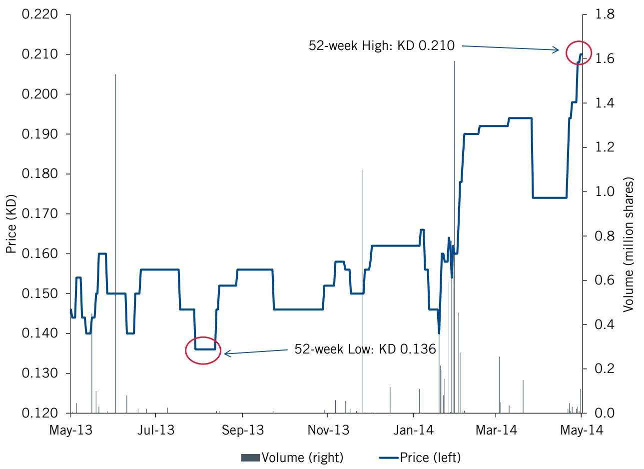
ALARGAN REAL ESTATE COMPANY (ALARGAN)

Key Data

General		Daily Liquidity	
KSE Code	ARGAN.KSE	52-week avg. volume	157,000
Reuters	ARGK.KW	52- week avg. value (KD)	4,453
Price (KD)		**Price Performance**	
Closing Price	0.210	YTD	29.6%
52-week High/Low	0.210 / 0.136	12-month	43.8%
Market Capitalization		**Issued Shares**	
KD (million)	55.65	Millions	265.00
Ownership Structure			
Closely-held: 53.83%		Public: 46.17%	

Price as of close on May 1, 2014. Source: Bloomberg, Zawya, and NBK Capital

Stock Performance



Source: Bloomberg and NBK Capital

Highlights

- ALARGAN International Real Estate Company was initially started as a family owned contracting company in 1994 specializing in the construction of residential projects. Today, the company has successfully grown to become one of the leading residential developers in the GCC, offering a wide array of real estate services.
- When looking at the FY2013 results, we can see that EBITDA amounted to KD 7.6 million, a decline of 9.5% YoY from KD 8.4 million during 2012. This was due to a gain of KD 2.1 million from the partial sale of an associate in 2012, which in turn also boosted net profit for that period.
- As of December 2013, the company's net-debt-to-equity stood at 0.65x, slightly up from 0.61x at the end of 2012.

Analyst

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Key Ratios

	2009	2010	2011	2012	2013
Net Share in Associates' Results (% of Operating Income)	n/m	68%	55%	37%	40%
Net Share in the Associates' Results (% of Net Profit)	n/m	98%	74%	66%	71%
EBITDA Interest Cover (x)	2.39	4.40	5.38	2.57	2.67
Net debt-to-total-equity (x)	0.57	0.52	0.52	0.61	0.65
Investment in Associates (% of Total Assets)	18%	20%	25%	19%	18%
Investment in Associates (% of Total Equity)	32%	34%	42%	35%	36%

Source: Company's financial statements and NBK Capital

Overview

ALARGAN International Real Estate Company was initially started as a family owned contracting company in 1994 specializing in the construction of residential projects. Today, the company has successfully grown to become one of the leading residential developers in the GCC, offering a wide array of real estate services.

Through strategic integration, ALARGAN expanded its reach by developing operating companies for major real estate services, including property management, contracting, brokerage, landscaping, hospitality and project management. The synergies created from these operating companies helped pave the way for ALARGAN's growth, enabling the company to optimize its value creation throughout the real estate development cycle.

In 2002, ALARGAN became a closed Kuwaiti shareholding company. It was clear that regional expansion was necessary to maximize the growth potential of the company, which led to the establishment of strategic partnerships in Oman in 2003, Bahrain in 2005 and Saudi Arabia in 2006. In 2007, ALARGAN was listed on the Kuwait Stock Exchange.

ALARGAN Core Business

ALARGAN focuses on the development and marketing of integrated, quality and affordable residential communities throughout the GCC. In addition, the company has realized the emerging importance of the commercial component to service, and creates value for the community residents. ALARGAN has also moved into the hospitality segment through the development of several projects in Kuwait and Oman.

ALARGAN's current emphasis is on geographic and segment diversification. However, the company continues to regard affordable housing as its core business. This strategy has proved successful in Oman, Bahrain and most notably in Saudi Arabia with its vast market and relatively pre-mature developers.

Moreover, ALARGAN continues to pursue a strategic integration of its services under the real estate value chain. In that respect, ALARGAN's contracting and project management subsidiaries, serve as service providers in the majority of the company's developments. ALARGAN also holds strategic stakes in other real estate-related companies primarily in the areas of property management, asset management and financing. This integration of real estate services enables the company to deliver quality, affordable residential products and services to the market at attractive prices.

We believe that the macroeconomic fundamentals within the GCC region remain attractive due to several encouraging factors such as high oil prices, government spending and population growth which act as a catalyst for further growth in the real estate sector. In the long term, ALARGAN aims to further expand into new markets with robust economic and population growth within the MENA Region.

Figure 1 ALARGAN Main Subsidiaries and Associates

Company Name	Country	Category
ALARAGAN TOWELL Investment Company	Oman	Associate
ALARGAN Bahrain	Bahrain	Associate
ALARGAN Projects	Saudi Arabia	Associate
ALARGAN National General Trading & Contracting	Kuwait	Subsidiary
ALARGAN Real Estate Project Management	Kuwait	Subsidiary
ARGANA Hotels & Resorts	Kuwait	Subsidiary
ALARAGAN Gulf Real Estate Management Company	Kuwait	Subsidiary

Source: ALARGAN Real Estate Company

The company's current revenue-generating assets include:

- **Movenpick Hotel, Al Bida'a, Kuwait:** With a total built-up area of 41,020 sq.m, this project includes a resort, health club, villas, and serviced flats. In addition, the hotel encompasses an additional commercial area of 3,380 sq.m. The commercial center is comprised of 16 shops and numerous high-end restaurants.
- **C Club, Al Bida'a, Kuwait:** The health club, with a built-up area of 2,938 sq.m. has a capacity of 500 members. The health club's facilities include a gymnasium, aerobic studios, pools, squash courts, and a spa.
- **ALARGAN Business Centre, Kuwait:** Located in the Kuwait Free Trade Zone, the business center consists of two units of commercial blocks that include 32 offices.
- **ARGAN Business Park, Kuwait:** A waterfront office complex, located in the Free Trade Zone. It consists of nine buildings linked together, and was completed in 4Q2011. The development's total built-up area consists of 20,665 sq.m.
- **Al Rimal Hotel and Resort, Al Bida'a, Kuwait:** Previously known as "SHIIK Resort", Al Rimal Hotel and Resort was completed in 2Q2010 with a land area of 22,202 sq.m. The development includes a hotel/resort with a built-up area of 26,842 sq.m., a commercial area of 16 shops with a built-up area of 5,086 sq.m, and a club with a built-up area of 2,900 sq.m.
- **ALARGAN Square, Salmiyah, Kuwait:** in 2013, the company commenced construction activities for "ALARGAN Square", a retail/commercial complex set on a 7,000 sq.m. plot leased under a private Build, Operate and Transfer (BOT) structure. The company anticipates that this project, located in a prime location in Salmiyah, will be a landmark income-generating property within its existing portfolio of assets.

- The company also generates revenues from its contracting activity in Kuwait. The contracting backlog amounted to KD 6.2 million at the end of FY2013.
- Most of the company's middle-income housing projects are undertaken entirely through associate companies, and are therefore not part of the consolidated revenues. This is where one can expect most of the value-creation to originate from in the near future.

Figure 2 Upcoming Projects across the GCC

Project Name	Project Description	Al Argan Share
Bahrain		
Jeyoun	Townhouses/Commercial	10.00%
ALARGAN Village	Commercial component of Jeyoun	
Al Jood Bu Gowa	Townhouses/commercial (20,100 sq.m)	100.00%
Kuwait		
ALARGAN Square	Commercial (Rent) (Previously known as Al Salmiya Complex)	100.00%
Oman		
Beyout Al Faye*	Residential/Commercial	7.50%
Telal Al Qurm	Mixed-Use Development (10,578 sq.m)	100.00%
Suroh Al Qurm	Residential/Commercial	28.48%
Al Waha**	Mixed-Use Development (684,154 sq.m)	37.50%
Barka Resort***	Mixed-Use Development (500,000 sq.m)	30.00%
Naseem Salalah	Residential	100.00%
* Breakdown of AIRE's share: 15% through ATI		
** Breakdown of AIRE's share: 25% direct, 12.5% through ATI		
*** Breakdown of AIRE's share: 60% through ATI		
Saudi Arabia		
Manazel Qurtoba 1	Mixed Use,Integrated housing community (364,035 sq.m)	27.583%
Manazel Qurtoba 2	Mixed Use (133,000 sq.m)	27.583%
Murjana	Residential (113,000 sq.m)	27.583%
Murooj	Mixed Use (234,000 sq.m)	27.583%
Al Suhool	Mixed Use (977,000 sq.m)	27.583%
Al Argan Gardens	Western-Style community (44,159 sq.m)	27.583%
Al Rehab	Residential, (386,000 sq.m)	27.583%
Janadriya	Mixed Use (2,135,000 sq.m)	27.583%
Green Oasis	Integrated housing community (712,000 sq.m)	27.583%

Source: ALARGAN International Real Estate Company

Latest News

- **March 2014:** The company's Board of Directors proposed the distribution of KD 0.007 in cash dividends for FY2013.
- **January 2014:** ALARGAN announced that it has finalized the transfer of its 27.58% stake in ALARGAN Projects Company to a real estate fund in Saudi Arabia that ALARGAN fully owns. The transaction was done at book value, and no gains will be recorded as a result.
- **January 2014**: The company announced that it has secured a KD 1 million loan from a local bank, which will mature on December 31, 2014. The interest rate on the loan is 2.5% above the discount rate reported by the Central Bank of Kuwait.
- **December 2013:** The company announced that it has acquired a 5% stake in Health Plus Trading Company for a value of KD 24 thousand, thus increasing ALARGAN's stake to 60%.
- **December 2013:** ALARGAN announced the launch of a new project in Oman with a total cost of OMR 200 million. The project is classified as an integrated tourist complex (ITC) by the Ministry of Tourism in Oman, and comprises of various amenities including hotels, a traditional souk and commercial strips surrounding a manmade "Crystal Lagoon".

Financial Statement Analysis

- The company reports its headline P&L in an unconventional way. The key P&L item is the Operating Gross Profit, which amalgamates the gross profits from the three segments, where the company has fully consolidated subsidiaries [projects (mainly contracting and real estate services), rentals and resorts] as well as the share in results of associates (through which the company performs its main activity, middle-income housing). Resorts have traditionally accounted for more than 45% of this gross operating profit, although it can be expected that, as the affordable housing activity builds up in coming years, associates will become the main item.
- In terms of revenues (specified in the notes to the financial statements), the split is more oriented towards projects/contracting (just above 45%), with resorts representing just under 40% of revenues and rentals just above 15%. Segmental gross margins were broadly in line with sector averages in FY2013 (projects/contracting: 8.7%, resorts: 46% and rentals: 89%).
- The company generated free cash flow in FY2013, and can be expected to continue doing so. However, it should be remembered that the affordable housing activity, where the main investments will take place, are housed in associate companies, and as such are not fully consolidated.

Income Statement

FY2013

- Gross profit from projects amounted to KD 0.8 million during 2013, as against KD 0.5 million in 2012. In addition, gross profit from rents and resorts increased 38% and 6% YoY, respectively.
- When looking at the FY2013 results, we can see that EBITDA amounted to KD 7.6 million, a decline of 9.5% YoY from KD 8.4 million during 2012. This was due to a gain of KD 2.1 million from the partial sale of an associate in 2012, which in turn also boosted net profit for that period.

- Net profit declined 11% YoY to KD 3.9 million from a previous level of KD 4.4 million in 2012. This was due to the above-mentioned exceptional gain.

Balance Sheet

- As of December 31, 2013, the company's net-debt-to-equity stood at 0.65x, slightly up from 0.61x at the end of 2012.

Financial Statements

Income Statement (KD thousands)	2010	2011	2012	2013
Gross Profit from projects	737	(88)	478	828
Gross Profit from rents	1,631	1,954	2,120	2,908
Gross Profit from resorts	2,188	2,863	3,308	3,541
Dep. charged to projects, rent & resorts	387	425	507	473
Share of results from associates	3,920	3,935	2,897	2,758
Operating Gross Profit	**8,864**	**9,089**	**9,309**	**10,509**
Gain on partial sale of associate	-	-	2,068	-
Unrealized gain (inv. prop.)	588	2,037	493	1,218
General and admin. expenses	(3,022)	(3,345)	(3,481)	(4,099)
EBITDA	**6,429**	**7,781**	**8,389**	**7,628**
Depreciation & amortization	(654)	(676)	(654)	(645)
Operating Profit	**5,775**	**7,105**	**7,735**	**6,982**
Net gains (losses) on investments	(328)	(104)	22	(79)
Net Interest Income (Expense)	(1,441)	(1,432)	(3,215)	(2,843)
Others	8	(144)	33	(4)
EBT	**4,015**	**5,426**	**4,575**	**4,056**
Profit from disc. Operations	143			
Taxes	(124)	(10)	(119)	(121)
BOD remuneration	(25)	(25)	(30)	-
Minority Interest	26	91	48	71
Net Profit	**3,983**	**5,300**	**4,378**	**3,864**

Balance Sheet (KD thousands)	2010	2011	2012	2013
Cash and cash equivalents	680	587	5,873	12,318
Murabaha Investments	806	806	806	806
Due from customers for contracts	726	715	2,313	3,319
Current Receivables	9,963	10,989	14,954	15,559
Land held for trading	7,999	7,954	8,046	8,193
Inventory	286	265	290	301
Due from related parties- Long Term	9,083	7,063	10,812	11,010
Investment in associates	21,479	28,711	24,334	25,845
Development Properties	0	0	0	2,938
Investment properties	51,156	54,674	55,688	58,869
Other Assets	4,515	4,380	4,193	3,597
Total Assets	**106,692**	**116,143**	**127,307**	**142,755**
Total Debt	**33,740**	**36,011**	**49,056**	**59,484**
Total Liabilities	**44,381**	**48,490**	**57,466**	**70,926**
Minority Interest	**594**	**685**	**734**	**723**
Shareholders' Equity	**61,717**	**66,968**	**69,107**	**71,106**
Total Liabilities and Equity	**106,692**	**116,143**	**127,307**	**142,755**

Source: Company's financial statements and NBK Capital