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**KUWAIT IN FOCUS**

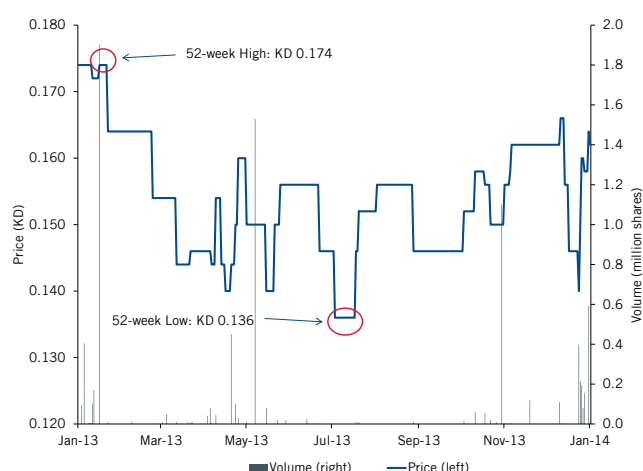
## ALARGAN REAL ESTATE COMPANY (ALARGAN)

### Key Data

General		Daily Liquidity	
KSE Code	ARGAN.KSE	52-week avg. volume	135,038
Reuters	ARGK.KW	52-week avg. value (KD)	3,633
Price (KD)		Price Performance	
Closing Price	0.162	YTD	0.0%
52-week High/Low	0.174 / 0.136	12-month	-6.9%
Market Capitalization		Issued Shares	
KD (million)	42.93	Millions	265.00
Ownership Structure			
Closely-held: 53.83%		Public: 46.17%	

Price as of close on January 27, 2014. Source: Bloomberg, Zawya, and NBK Capital

### Stock Performance



Source: Bloomberg and NBK Capital

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### Key Ratios

	2009	2010	2011	2012	9M2013
Net Share in Associates' Results (% of Operating Income)	n/m	68%	55%	37%	14%
Net Share in the Associates' Results (% of Net Profit)	n/m	98%	74%	66%	29%
EBITDA Interest Cover (x)	2.39	4.40	5.38	2.57	2.18
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%	17%
Investment in Associates (% of Total Equity)	32%	34%	42%	35%	34%

Source: Company's financial statements and NBK Capital

- 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 9M2013 results, we can see that EBITDA amounted to KD 4.3 million, a decline of 20% YoY from KD 5.4 million during 9M2012. This was due to a gain of KD 1.4 million from the partial sale of an associate in 9M2012, which in turn also boosted net profit for that period.
- As of September 2013, the company's net-debt-to-equity stood at 0.65x, slightly up from 0.61x at the end of 2012.

## 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, focusing on developing integrated, quality and affordable residential communities.

ALARGAN expanded its reach via strategic integration by developing operating companies for major real estate services, including property management, contracting, brokerage, landscaping, hospitality and project management. This integration helped pave the way for ALARGAN's growth by enabling the company to further capitalize on the value chain of real estate development.

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.

The company believes 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 catalysts 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 in order to diversify its exposure and benefit from high growth markets.

Figure 1 ALARGAN main subsidiaries and associates

Company Name	Country	Category
ALARGAN 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
ALARGAN 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 consist of 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 the SHIK 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.
- The company also generates revenues from its contracting activity in Kuwait. The contracting backlog amounted to KD 7.7 million at the end of 9M2013.
- 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	Duration (months)	Total Cost (millions)	Al Argan Share
<b>Bahrain</b>				
Jeyoun	Townhouses/Commercial	74	BHD 19.3	10.00%
Al Jood Bu Gowa	Townhouses/commercial (20,100 sq.m)	Phase I (BC): 16 Phase II (RA): 24	BHD 18	100.00%
Saar Gate	Commercial (Building 7)	Completed	BHD 0.364	20.00%
<b>Kuwait</b>				
Al Salmiya Complex	Commercial (Rent)	26	KWD 3.34	100.00%
<b>Oman</b>				
Beyout Al Faje*	Residential/Commercial	70	OMR 12.2	7.50%
Al Qurm Gardens**	Residential	80	OMR 7.9	25.00%
Al Qurm Gardens***	Commercial	Completed	OMR 6.97	10.00%
Telal Al Qurm	Mixed-Use Development (10,578 sq.m)	33	OMR 8.4	100.00%
Suroh Al Qurm	Residential/Commercial	33	OMR 48	28.48%
Al Waha****	Mixed-Use Development (684,154 sq.m)	131	OMR 49.1	37.50%
Barka Resort*****	Mixed-Use Development (500,000 sq.m)	61	OMR 63.2	30.00%
Naseem Salalah	2 model homes/ selling plots	24	OMR 3	100.00%
<b>Saudi Arabia</b>				
Manazel Qurtoba 1	Mixed Use, Integrated housing community (364,035 sq.m)	84	SAR 424.3	27.583%
Manazel Qurtoba 2	Mixed Use (132,585 sq.m)	36	n/a	27.583%
Mashariq Al Riyad	Mixed Use (711,878 sq.m)	36	n/a	27.583%
Murjana	Residential (112,288 sq.m)	36	SAR 294.5	27.583%
Murooj	Mixed Use (234,340 sq.m)	36	SAR 233.9	27.583%
Al Suhool	Mixed Use (977,307 sq.m)	85	SAR 842.2	27.583%
Al Argan Gardens	Western-Style gated community (44,159 sq.m)	30	n/a	27.583%
Janadriya	Mixed Use (2,135,283 sq.m)	24	n/a	27.583%
Green Oasis	Integrated housing community (~400,000 sq.m)		Upcoming project	
Al Shurooq	Residential (36,402 sq.m)		Upcoming project	
Al Fursan	Residential (467,924 sq.m)		Upcoming project	

\* Breakdown of AIRE's share: 15% through ATI

\*\* Breakdown of AIRE's share: 50% through ATI

\*\*\* Breakdown of AIRE's share: Qurm Gardens owns 40% of Qurm Gardens Commercial, ATI owns 50% of Qurm Gardens

\*\*\*\*Breakdown of AIRE's share: 25% direct, 12.5% through ATI

\*\*\*\*\*Breakdown of AIRE's share: 60% through ATI

Source: ALARGAN Real Estate Company

## Latest News

- **December 2013:** ALARGAN announced the launch of its new project in Oman with a total cost of OMR 200 million. The project will be an integrated touristic complex comprising of various amenities including hotels, a traditional souk and commercial strips surrounding a manmade lagoon.
- **July 2013:** The company announced that it has signed a contract to get new credit facilities worth KD 31 million from a local bank. These new facilities will be primarily used to repay an existing credit facility worth KD 30 million, and will be repaid in installments until December 2018, with an interest rate that is 3% above the Central Bank of Kuwait's rate.

## 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 of 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 under 45%), with resorts representing just under 40% of revenues and rentals just above 15%. Segmental gross margins were in line with sector averages in 9M2013 (projects/contracting: 13.4%, resorts 51% and rentals 89%).
- The company generated free cash flow in 9M2013, 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

### 9M2013

- Gross profit from projects amounted to KD 0.9 million during the period, as against KD 0.6 million in 9M2012. In addition, gross profit from rents and resorts increased 24.9% and 5.4% YoY, respectively.

- When looking at the 9M2013 results, we can see that EBITDA amounted to KD 4.3 million, a decline of 20% YoY from KD 5.4 million during 9M2012. This was due to a gain of KD 1.4 million from the partial sale of an associate in 9M2012, which in turn also boosted net profit for that period.
- Though a general improvement in the company's operational performance was witnessed during 9M2013, net profit declined 31% YoY to KD 1.8 million from a previous level of KD 2.6 million in 9M2012. This was due to the above-mentioned exceptional gain.

## Balance Sheet

- As of September 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)	2011	2012	9M2012	9M2013
Gross Profit from projects	(88)	478	560	891
Gross Profit from rents	1,954	2,120	1,735	2,160
Gross Profit from resorts	2,863	3,308	2,777	2,931
Group's share of results from associates	3,935	2,897	1,140	521
<b>Operating Gross Profit</b>	<b>9,089</b>	<b>9,309</b>	<b>6,560</b>	<b>6,834</b>
Gain on partial sale of an associate	-	2,068	1,421	-
Unrealized gain from change in fair value of inv. prop	2,037	493	-	-
General and administrative expenses	(3,345)	(3,481)	(2,538)	(2,553)
<b>EBITDA</b>	<b>7,781</b>	<b>8,389</b>	<b>5,443</b>	<b>4,282</b>
Depreciation & amortization	(676)	(654)	(459)	(447)
<b>Operating Profit</b>	<b>7,105</b>	<b>7,735</b>	<b>4,984</b>	<b>3,835</b>
Net gains (losses) on investments	(104)	22	22	(7)
Net Interest Income (Expense)	(1,432)	(3,215)	(2,362)	(1,952)
Others	(144)	33	35	12
<b>EBT</b>	<b>5,426</b>	<b>4,575</b>	<b>2,678</b>	<b>1,887</b>
Taxes	(10)	(119)	(88)	(51)
BOD remuneration	(25)	(30)	-	-
Minority Interest	91	48	(13)	29
<b>Net Profit</b>	<b>5,300</b>	<b>4,378</b>	<b>2,603</b>	<b>1,808</b>

Balance Sheet (KD thousands)	2010	2011	2012	Sep-13
Cash and cash equivalents	680	587	5,873	3,272
Murabaha Investments	806	806	806	11,506
Due from customers for contract work	726	715	2,313	2,797
Current Receivables	9,963	10,989	15,152	15,398
Land held for trading	7,999	7,954	8,046	8,104
Inventory	286	265	290	580
Due from related parties- non current portion	9,083	7,063	10,812	10,941
Investment in associates	21,479	28,711	24,334	23,814
Development Properties	0	0	0	2,629
Investment properties	51,156	54,674	55,688	56,527
Other Assets	4,515	4,380	4,193	3,980
<b>Total Assets</b>	<b>106,692</b>	<b>116,143</b>	<b>127,506</b>	<b>139,547</b>
<b>Total Debt</b>	<b>33,740</b>	<b>36,011</b>	<b>49,056</b>	<b>60,045</b>
<b>Total Liabilities</b>	<b>44,381</b>	<b>48,490</b>	<b>57,665</b>	<b>69,625</b>
Minority Interest	594	685	734	705
<b>Shareholders' Equity</b>	<b>61,717</b>	<b>66,968</b>	<b>69,107</b>	<b>69,217</b>
<b>Total Liabilities and Equity</b>	<b>106,692</b>	<b>116,143</b>	<b>127,506</b>	<b>139,547</b>

Source: Company's financial statements and NBK Capital