Kuwait in Focus

December 2010

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OIL MARKET AND BUDGET DEVELOPMENTS

Price of Kuwait Export Crude reaches 2-year high... Budget could see KD 3–5 billion surplus...

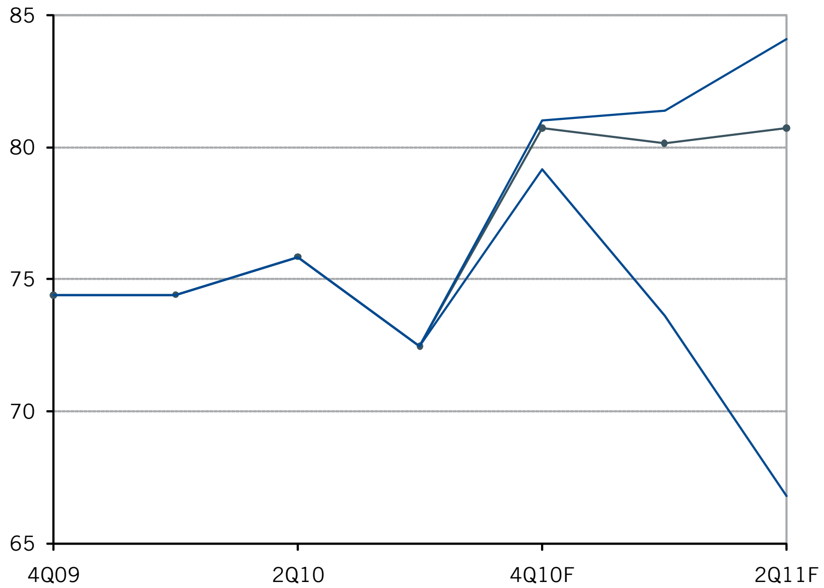
Oil prices took another leg upwards in the month to early December, albeit after a spell of intra-month volatility. The price of Kuwait Export Crude (KEC) had risen above USD 85 per barrel (pb) by December 3rd from USD 79 at the start of November, a rise of 8%. This was the highest level seen October 2008, when prices were collapsing from record highs as the financial crisis struck.

The impetus for higher prices came largely from the demand side, including surprisingly strong power-related diesel demand from China and colder-than-expected temperatures in Europe, which fired up demand for heating fuels. Meanwhile, US crude stock levels – although still high on a historic basis – have seen a counter-seasonal decline. Away from the fundamentals, it is also worth noting that the latest rise in oil prices has coincided with a period of untypical strength for the US dollar – or more accurately, a bout of euro weakness. As a result, the price of a barrel of oil in euro terms rose by around Eur 8 to Eur 64 pb in the month to early December, breaking out of its narrow Eur 50-60 pb trading range of much of this year. The dollar's impact on oil's performance, however, may not have disappeared forever.

Talk resurfaces over USD 100 per barrel oil...

Other major global benchmark crude prices enjoyed a similarly positive month. The price of Brent crude breached the USD 90 pb mark for the first time in two years, standing at nearly USD 92 in early December. The price of West Texas Intermediate (WTI) – usually the more expensive benchmark – rose by slightly less to stand at USD 89 pb. As prices appear to be testing a new, higher trading range, talk is beginning to resurface about USD 100 oil. The flattening of the crude futures curve to end-2013 – which has lately inverted for the first time since 2008 – is partly a testament to how rapidly the market is perceived to be tightening.

Kuwait Export Crude (USD/barrel)



Future Projections Correspond to NBK's price scenarios. Source: NBK Economic Research Department

2010 oil demand growth now seen as one of strongest for 30 years...

Reports on the recent strength of global oil demand have led to some hefty increases in analysts' forecasts for oil demand for the year as a whole. Both the International Energy Agency (IEA) and the Centre for Global Energy Studies (CGES) now expect demand to have risen by 2.3-2.4 million barrels per day (mbpd) this year, or 2.8%, up 0.2 mbpd and 0.5 mbpd respectively on their previous forecasts. This will make 2010 the second strongest year for global demand in more than 30 years. 2011 is expected to be considerably weaker, with growth of 1.2 to 1.5 mbpd on the back of less inventory restocking, the impact of tighter monetary policy on Chinese demand and almost universally tighter fiscal policy, especially in Europe. Within the overall total, most of the growth is seen coming from emerging markets. Some analysts see demand from OECD countries resuming its structural, year-on-year decline.

OPEC crude supplies increase; some members welcome higher prices...

After stagnating for much of this year, OPEC-11 (i.e. excluding Iraq) crude oil output rose strongly in October. Production increased by 165,000 bpd from September to reach 26.89 mbpd, its highest for nearly two years. Big increases were seen in both Angola (+81,000 bpd) and Nigeria (+97,000 bpd) – already two of the organization's largest 'overproducers' relative to their official production ceilings. Production changes in other members were mixed.

KEC Price Scenarios

	Scenario		
USD per barrel	Low Price	Base Case	High Price
2009	60.4	60.4	60.4
1Q10	74.4	74.4	74.4
FY09/10	68.6	68.6	68.6
2Q10	75.9	75.9	75.9
3Q10	72.5	72.5	72.5
4Q10f	79.2	80.7	81.0
2010f	75.5	75.9	75.9
1Q11f	73.6	80.2	81.4
FY10/11f	75.3	77.3	77.7
2Q11f	66.8	80.7	84.1

Source: NBK Economic Research Department

Total OPEC-11 output is around 2 mbpd above quota levels and the cartel will make its next official announcement on quotas at its December 11th meeting in Ecuador. It is likely to maintain a cautious approach, however. In its public statements, the organization continues to say that the market remains well supplied and it is concerned about the durability of the global economic recovery. Moreover, some OPEC members are now said to favor a looser production stance only if oil breaches the USD 100 pb mark – partly due to the effect of the weaker dollar in reducing oil revenues in local currency terms.

Prices seen stable in 1H2010...

Our central forecast has oil demand growing by an average of 1.3 mbpd in 2011, following growth of 2.4 mbpd in 2010. Meanwhile, non-OPEC supplies are expected to rise by 0.6 mbpd in 2011, while OPEC's production of natural gas liquids – not subject to quotas – will rise by 0.5 mbpd. The net result of these changes appear to suggest the need for an increase in OPEC output to avoid a stock draw in 2011. A rise in OPEC crude oil production of around 0.5 mbpd – perhaps involving higher production from rehabilitated fields in Iraq – could be enough to keep prices more or less in check. Under this scenario, the price of KEC remains just above USD 80 pb in 1Q11 and 2Q11, perhaps drifting higher in the second half of the year. This results in an average price of USD 77 for FY2010/11 as a whole.

Unchanged OPEC production could tighten market, send prices higher…

If OPEC were to leave its production unchanged from current levels, however – either by design or because of Iraqi output not meeting expectations – prices could rise much further. But most of the increase would probably come in the second half of 2011, once still-high stock levels have been whittled down. In this case, the price of KEC would still be around USD 84 pb in 2Q11, before rising to above USD 100 pb by 4Q11. Given OPEC's reluctance to sanction much higher prices, however, it is likely to increase production to prevent such a spike from occurring in the first place.

Weaker world economic growth presents key downside risk…

The downside risks to prices come mostly from the threat of lower-than-expected demand growth in 2011 – not unreasonable given the precarious nature of economic conditions in many countries. If demand grows by just 0.8 mbpd next year, the price of KEC could fall to below USD 60 pb by end-2011. Again, the bulk of the adjustment in prices comes beyond the current fiscal year.

12th successive annual surplus seen for Kuwait's budget…

For FY 2010/11, these scenarios yield average prices for KEC within the narrow band of USD 75-78 pb (although much greater differences would show up the following fiscal year). At this level, the Kuwaiti budget seems almost certain to see another large surplus, despite a big increase in project-related spending this year. If, as we expect, actual spending comes in 5-10% below budget, this year's surplus is likely to be between KD 3.5 and 5.3 billion before allocations to the Reserve Fund for Future Generations. This would be equivalent to around 9-14% of forecast GDP – and Kuwait's 12th successive annual budget surplus.

Budget Estimates/Forecast for Fiscal Years 2009/2010 and 2010/2011

	Under Alternative Oil Price Scenarios					
million KD, unless otherwise noted	FY 2009/10		FY 2010/11			
	Official Budget	Actual	Possible Budget	Low Case	Base Case	High Case
Oil Price ($/barrel)	35.0	68.6	43.0	75.3	77.3	77.7
Total Revenues	**8,075**	**17,688**	**9,719**	**18,882**	**19,361**	**19,821**
Oil Revenues	6,925	16,585	8,617	17,780	18,259	18,719
Non-Oil Revenues	1,150	1,103	1,102	1,102	1,102	1,102
Expenditures (official)	12,116	11,251	16,160	16,160	16,160	16,160
Surplus (deficit)	**-4,041**	**6,437**	**-6,441**	**2,722**	**3,201**	**3,661**
After RFFG	-4,849	4,668	-7,413	834	1,265	1,679
Expenditures (NBK estimate)				15,352	14,948	14,544
Surplus (deficit), NBK estimate				3,530	4,413	5,277
After RFFG				1,642	2,477	3,295

Source: NBK Economic Research Department

MONETARY DEVELOPMENTS OCTOBER 2010

Credit growth stabilizing... Dinar gains on Euro following European sovereign debt worries

October money supply (M2) expanded KD 50 million month on month (m/m), or 0.2%, recording a third consecutive monthly increase. As a result, the annualized three month average growth improved slightly, rising to 5%. This follows renewed commitment, by the government, to faster execution of large projects, which has helped steady the pace of credit growth.

However, despite improvement in the last few months, that was not enough to fully undo the decline in credit experienced earlier this year and related to slower economic activity. Year on year (y/y) growth in M2 was 1.9%in October.

Monetary Highlights

KD Millions, unless otherwise noted	Oct 2010 mn KD	Change One Month mn KD	%	Twelve Month mn KD	%	Year-to-Date mn KD	%
Local Bank Assets	41,374	233	0.6	1,123	2.8	1,053	2.6
of which:							
Claims on Gov't	1,901	6	0.3	1	0.0	-20	-1.1
Credit to Residents	25,093	47	0.2	181	0.7	-14	-0.1
Foreign Assets	7,416	315	4.4	134	1.8	60	0.8
Money Supply (M2)	25,207	50	0.2	481	1.9	311	1.3
Private Deposits	24,409	53	0.2	445	1.9	289	1.2
Sight Deposits	4,574	-61	-1.3	446	10.8	636	16.1
Savings Deposits	2,964	1	0.0	179	6.4	241	8.8
KD Time Deposits & CDs	14,846	72	0.5	476	3.3	140	1.0
FC Deposits	2,025	41	2.1	-656	-24.5	-728	-26.5

Source: NBK Economic Research Department

Credit growth stabilizing

Outstanding credit to residents rose 0.2% m/m, or KD 47 million. Lending to the industrial sector led the increase in October, rising by KD 56 million m/m. Personal lending was steady with household/consumer lending rising KD 33 million, though lending for the purchase of securities fell KD 6 million. Meanwhile, lending to non-bank financial institutions fell KD 20 million m/m.

Credit growth has somewhat stabilized, despite persistent weakness, and registered 0.7% y/y growth. Year to date (ytd), credit is almost unchanged, down 0.1% (-KD 14 million). The household/consumer credit along with loans to the industrial and trade sector recorded decent growth this year, at 3.4%, 6.8%, and 3.8% ytd, respectively. This was offset, however, by declines in loans to real estate, non-bank financial institutions, and purchase of securities lending.

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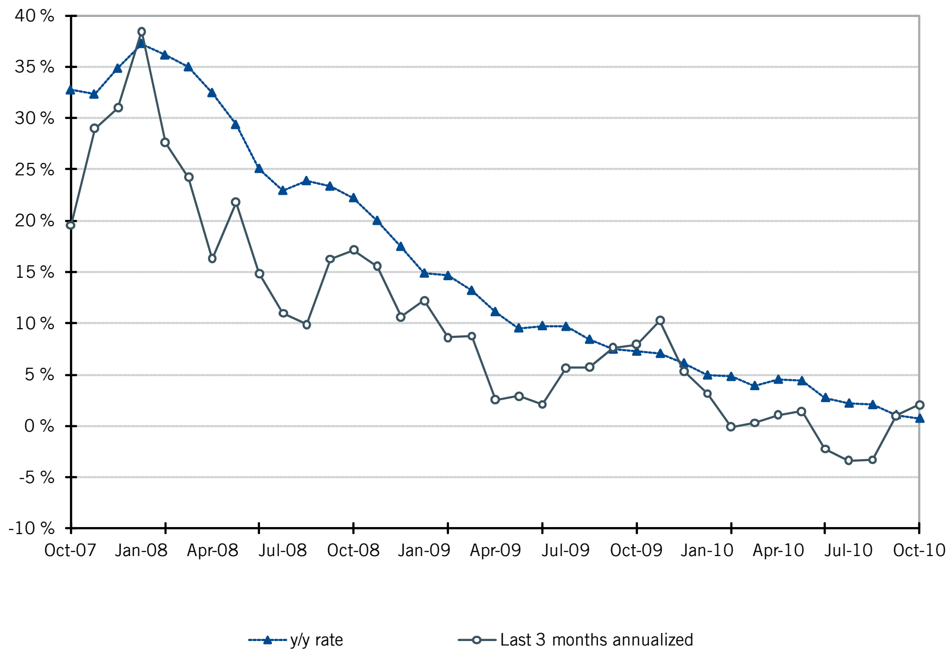
Credit Indicators (Percent Growth)



Source: NBK Economic Research Department

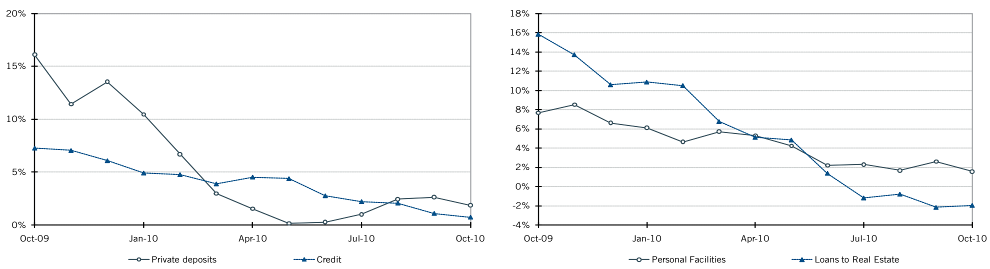
Deposits growth slow, matching credit

Private deposits rose KD 98 million m/m, split roughly half/half between resident and non-resident deposits. Resident deposits in local currency were up KD 12 million m/m and witnessed a shift towards longer maturity deposits, while foreign currency (FC) resident deposits rose KD 41 million, stronger growth compared to the previous period.

Over the year, growth in deposits has been slow at 1.6% ytd. Banks have found little need to attract/keep deposits, as they had little trouble managing their liquidity/funding needs amid the slow credit growth environment.

Meanwhile, average rates offered on KD private deposits are hovering close to record lows on the back of ample liquidity at banks, leaving little room for further drops. The 1-month, 3-month and 6-month KD deposits rates were unchanged in October at 1.03, 1.20, and 1.44%, respectively. 12-month rates rose 1 bp to 1.72%.

Credit Indicators (Year-on-Year Growth)



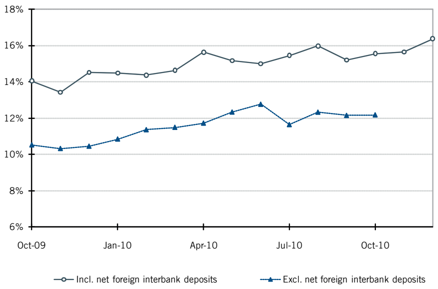
Source: NBK Economic Research Department

Banks assets up in October

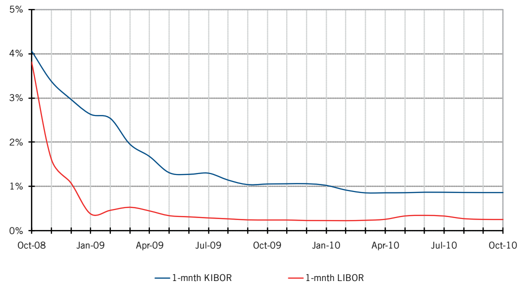
Bank assets grew 0.6% or KD 233 million m/m, pushing growth to 2.6% ytd. Growth was largely driven by NBK's rights issue concluded during October and raised KD 160 million. Meanwhile, bank reserves with the CBK rose KD 46 million m/m, helping lift liquidity ratios further.

Liquidity Indicators

Liquid Assets to Total Assets



Interbank Rates

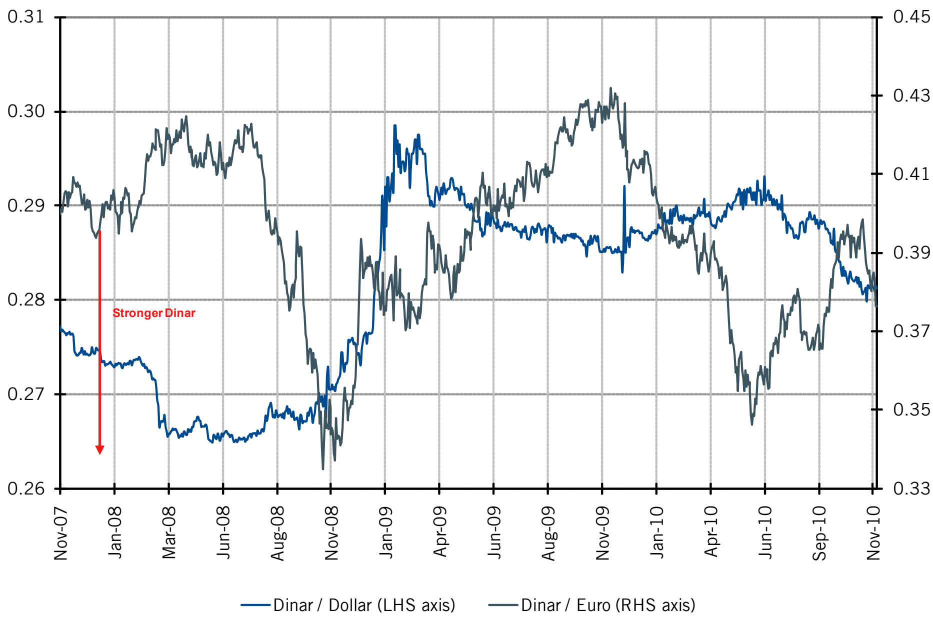


Source: NBK Economic Research Department

Dinar gains on Euro

The dinar rose almost 6% against the Euro since the start of November, after reaching a seven month low on November 4. The rally resulted from renewed fears over Euro zone sovereign debt troubles. Those led to considerable Euro weakness against major currencies.

Monetary Indicators Exchange Rates (Fils per foreign currency)



Source: NBK Economic Research Department

Monetary Highlights – October 2010

	Oct 2010	One Month Change				3 Month Change				12 Month Change				Year-to-Date	
		Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	
	mn KD	mn KD		%		mn KD		%		mn KD		%		mn KD	%
Total Liquidity (M2)	**25,207**	**50**	**62**	**0.2**	**0.2**	**306**	**-111**	**1.2**	**-0.4**	**481**	**665**	**1.9**	**2.7**	**311**	**1.3**
1) Currency in Circulation	798	-4	8	-0.4	1.0	14	-12	1.7	-1.5	36	40	4.7	5.3	23	2.9
2) Private Sector Deposits	24,409	53	54	0.2	0.2	292	-99	1.2	-0.4	445	625	1.9	2.6	289	1.2
KD Deposits	22,384	12	36	0.1	0.2	157	-164	0.7	-0.7	1,101	1,303	5.2	6.2	1,017	4.8
Sight Deposits	4,574	-61	57	-1.3	1.3	-83	-120	-1.8	-2.5	446	540	10.8	13.2	636	16.1
Savings Desposits	2,964	1	20	0.0	0.7	42	-42	1.4	-1.4	179	188	6.4	6.8	241	8.8
Time Deposits & CDs	14,846	72	-42	0.5	-0.3	198	-2	1.4	0.0	476	575	3.3	4.0	140	1.0
FC Deposits	2,025	41	18	2.1	0.9	135	65	7.2	3.4	-656	-678	-24.5	-25.5	-728	-26.5
Money (M1)	**5,373**	**-64**	**65**	**-1.2**	**1.2**	**-69**	**-132**	**-1.3**	**-2.4**	**482**	**580**	**9.9**	**11.9**	**659**	**14.0**
Quasi-Money	**19,835**	**114**	**-4**	**0.6**	**0.0**	**375**	**21**	**1.9**	**0.1**	**-1**	**85**	**0.0**	**0.4**	**-347**	**-1.7**
Net Foreign Assets	**9,639**	**179**	**-13**	**1.9**	**-0.1**	**190**	**-11**	**2.0**	**-0.1**	**232**	**693**	**2.5**	**7.9**	**196**	**2.1**
1) CBK (net)	5,338	-51	-2	-1.0	0.0	18	64	0.3	1.2	279	512	5.5	10.5	330	6.6
Foreign Assets	5,409	-53	-2	-1.0	0.0	18	64	0.3	1.2	279	511	5.4	10.3	330	6.5
Foreign Liabilities	70	-2	0	-2.2	0.6	0	1	-0.4	0.8	-1	-1	-1.1	-0.8	0	0.0
2) Local Banks (net)	4,300	230	-10	5.7	-0.3	173	-75	4.2	-1.8	-47	181	-1.1	4.7	-134	-3.0
Foreign Assets	7,416	315	-176	4.4	-2.4	133	191	1.8	2.8	134	311	1.8	4.6	60	0.8
Foreign Liabilities	3,116	85	-165	2.8	-5.2	-40	266	-1.3	9.6	181	130	6.2	4.5	194	6.6
Domestic Assets	**15,568**	**-129**	**74**	**-0.8**	**0.5**	**116**	**-100**	**0.7**	**-0.6**	**249**	**-28**	**1.6**	**-0.2**	**115**	**0.7**
1) Claims on Gov't (net)	-2,558	-3	56	0.1	-2.1	170	-9	-6.2	0.4	670	276	-20.8	-9.7	669	-20.7
CBK (net)	-546	28	22	-4.9	-3.7	265	-88	-32.7	18.2	505	541	-48.1	-48.5	619	-53.2
Claims	0	0	0			0	0	…	…	0	0	…	…	0	…
Deposits	546	-28	-22	-4.9	-3.7	-265	88	-32.7	18.2	-505	-541	-48.1	-48.5	-619	-53.2
Local Banks (net)	-2,013	-31	34	1.6	-1.7	-95	79	5.0	-3.8	166	-265	-7.6	15.5	50	-2.4
Claims	1,901	6	1	0.3	0.0	6	1	0.3	0.0	1	-5	0.0	-0.3	-20	-1.1
Deposits	3,914	37	-34	1.0	-0.9	102	-78	2.7	-2.0	-165	260	-4.0	7.2	-70	-1.8
2) Claims on Private Sector	27,332	42	138	0.2	0.5	263	248	1.0	0.9	447	529	1.7	2.0	314	1.2
Credit Facilities	25,093	47	19	0.2	0.1	128	62	0.5	0.2	181	269	0.7	1.1	-14	-0.1
Other Local Investments	2,239	-6	119	-0.2	5.6	134	186	6.4	9.0	266	260	13.5	13.1	328	17.2
3) Other (net)	-9,205	-168	-120	1.9	1.3	-317	-339	3.6	3.9	-869	-833	10.4	10.2	-868	10.4

Source: NBK Economic Research Department

Monetary Highlights – October 2010 (Continued)

	Oct 2010	One Month Change				3 Month Change				12 Month Change				Year-to-Date	
		Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	Sep 2010	Oct 2010	
	mn KD	mn KD		%		mn KD		%		mn KD		%		mn KD	%
Total Bank Assets	**41,374**	**233**	**-313**	**0.6**	**-0.8**	**190**	**216**	**0.5**	**0.5**	**1,123**	**1,822**	**2.8**	**4.6**	**1,053**	**2.6**
Liquid Assets	**5,721**	**-130**	**-216**	**-2.2**	**-3.6**	**-209**	**-263**	**-3.5**	**-4.3**	**631**	**957**	**12.4**	**19.6**	**662**	**13.1**
Cash and CBK Balances	328	40	-47	14.1	-14.1	86	-46	35.6	-13.7	-101	-192	-23.6	-40.0	-65	-16.5
CBK Bonds	1,344	0	0	0.0	0.0	0	-16	0.0	-1.1	503	503	...	...	327	...
Public Debt Instruments	1,901	6	1	0.3	0.0	7	1	0.4	0.0	1	-5	0.0	-0.3	-20	-1.1
Inter-Local Bank Deposits	694	-177	-90	-20.3	-9.4	-444	-26	-39.0	-2.9	-193	36	-21.8	4.3	-161	-18.9
Time Deposits w/ CBK	1,454	0	-79	0.0	-5.1	143	-177	10.9	-10.9	422	615	40.8	73.3	582	66.7
Credit Facilities	**25,093**	**47**	**19**	**0.2**	**0.1**	**128**	**62**	**0.5**	**0.2**	**181**	**269**	**0.7**	**1.1**	**-14**	**-0.1**
Trade	2,347	3	32	0.1	1.4	45	59	1.9	2.6	109	132	4.9	6.0	86	3.8
Industry	1,602	56	1	3.6	0.0	47	-25	3.0	-1.6	154	85	10.6	5.8	102	6.8
Construction	1,772	-6	24	-0.4	1.4	-19	0	-1.1	0.0	102	178	6.1	11.1	47	2.7
Agriculture and Fishing	13	-1	0	-3.8	-1.5	-1	0	-7.4	-0.8	-1	-1	-6.7	-9.0	0	1.6
Non-Bank Financial Institutions	2,800	-20	-43	-0.7	-1.5	-73	-71	-2.5	-2.5	-132	-99	-4.5	-3.4	-102	-3.5
Personal Facilities	8,434	27	11	0.3	0.1	71	97	0.8	1.2	130	213	1.6	2.6	48	0.6
Purchase of Securities	2,684	-6	-15	-0.2	-0.6	-4	30	-0.2	1.1	-126	-67	-4.5	-2.4	-143	-5.0
Other Pers. Facs.	5,750	33	26	0.6	0.5	75	67	1.3	1.2	256	280	4.7	5.1	190	3.4
Consumer Loans		...	9	...	1.4	...	26	...	4.0	...	61	...	9.8	...	...
Installment Loans		...	2	...	0.0	...	15	...	0.3	...	343	...	7.7	...	...
Other		...	15	...	6.7	...	26	...	12.0	...	-124	...	-34.0	...	...
Real Estate	6,473	14	17	0.2	0.3	97	11	1.5	0.2	-129	-143	-2.0	-2.2	-124	-1.9
Crude Oil & Gas	228	3	-5	1.5	-2.0	1	-8	0.6	-3.5	28	31	14.0	15.8	10	4.6
Public Services		...	...	...	...	...	...	...	...	...	...	...	...	...	...
Other	1,426	-31	-19	-2.1	-1.3	-40	0	-2.7	0.0	-79	-126	-5.2	-7.9	-80	-5.3
Foreign Assets	**7,416**	**315**	**-176**	**4.4**	**-2.4**	**133**	**191**	**1.8**	**2.8**	**134**	**311**	**1.8**	**4.6**	**60**	**0.8**
Other Assets	**3,144**	**1**	**59**	**0.0**	**1.9**	**139**	**226**	**4.6**	**7.8**	**178**	**285**	**6.0**	**10.0**	**345**	**12.3**
Total Deposit Liabilities	**29,006**	**-82**	**-83**	**-0.3**	**-0.3**	**-60**	**-214**	**-0.2**	**-0.7**	**106**	**980**	**0.4**	**3.5**	**55**	**0.2**
Private Sector Deps	24,409	53	54	0.2	0.2	292	-99	1.2	-0.4	445	625	1.9	2.6	289	1.2
Gov't Deposits	3,914	37	-34	1.0	-0.9	102	-78	2.7	-2.0	-165	260	-4.0	7.2	-70	-1.8
Interbank	683	-172	-103	-20.1	-10.7	-454	-37	-39.9	-4.1	-174	95	-20.3	12.4	-164	-19.3
Foreign Liabilities	**3,116**	**85**	**-165**	**2.8**	**-5.2**	**-40**	**266**	**-1.3**	**9.6**	**181**	**130**	**6.2**	**4.5**	**194**	**6.6**
Other Liabilities	**3,526**	**71**	**-75**	**2.1**	**-2.1**	**55**	**96**	**1.6**	**2.9**	**36**	**54**	**1.0**	**1.6**	**-17**	**-0.5**
Equity	**5,726**	**158**	**10**	**2.8**	**0.2**	**236**	**68**	**4.3**	**1.2**	**800**	**659**	**16.2**	**13.4**	**821**	**16.7**

	OCT	Sep	Aug	Jul	Jun	Dec	Oct
	2010					2009	
	%						
Balance Sheet Structure:							
Liquid Assets/Total Assets *	12.2	12.1	12.3	11.6	12.8	10.4	10.5
Credit/Total Assets	60.6	60.9	60.4	60.6	61.0	62.3	61.9
DPBs/Total Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Assets/Total Assets	17.9	17.3	17.6	17.7	16.9	18.2	18.1
Private Sector Deposits/Total As.	59.0	59.2	58.6	58.6	59.8	59.8	59.5
Loans to Deposits **	89.2	89.5	89.5	90.0	89.2	91.0	90.3
Reserve Ratio	21.8	21.6	22.1	21.0	22.5	18.9	19.2

**Liquid assets include cash, public debt instruments, time deposits with CBK, and net interbank deposits.*

***Loans used in the LDR ratio include resident, non-resident, financial inst., in both KD and FC. Deposits used in the LDR ratio include private, government, and financial inst. Source: NBK Economic Research Department*

REAL ESTATE ACTIVITY

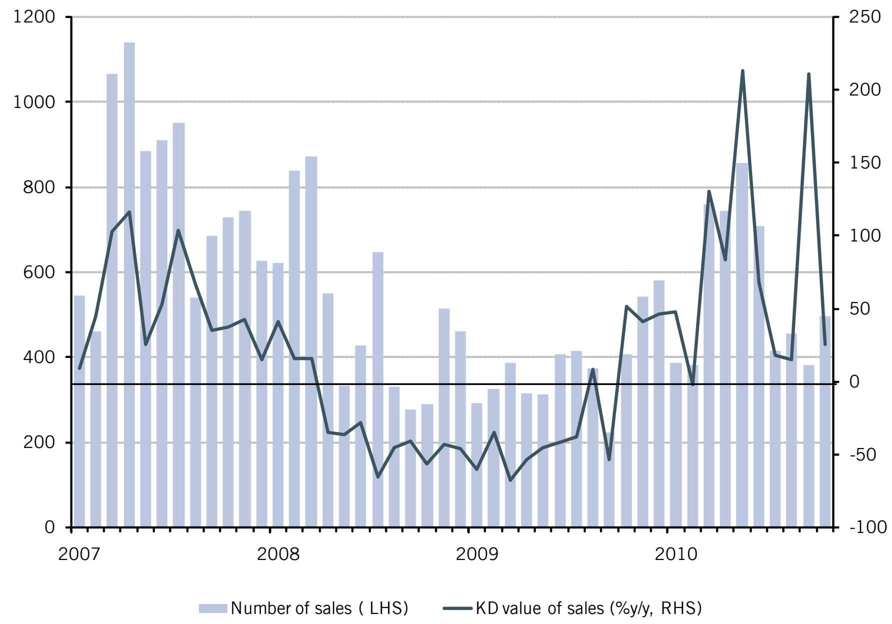
Real estate transactions bounce in October, but by less than expected

Sales overview

Real estate activity improved significantly in October, though by less than was expected following the end of the traditionally slow summer and Ramadan periods. There were 496 property transactions (residential, commercial and investment) registered at the Ministry of Justice, up 30% from September. This was a broad improvement on the preceding two months, but is still well below the exceptionally strong 700+ per month levels seen between March and June.

Almost all of the increase in activity in October came from the residential sector (see below) - traditionally by far the most actively traded segment - where sales are being underpinned by improving economic prospects and strong underlying demand. Early signs from the weekly figures show transactions continuing to pick-up in the first half of November, suggesting that activity may well enjoy a strong end to the year.

Total Real Estate Sales



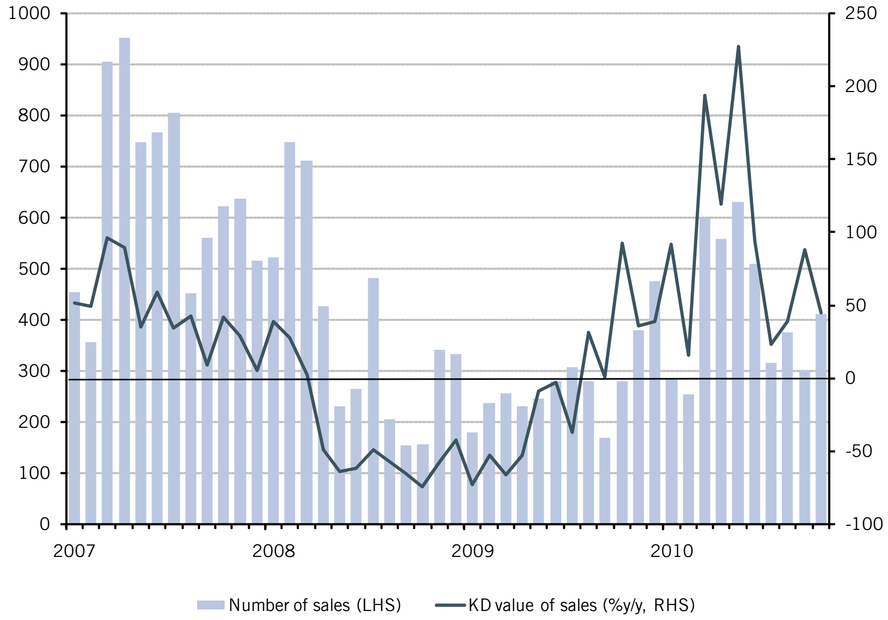
Source: Ministry of Justice

In KD value terms, the improvement in sales in October was much more modest, rising just 0.4% from September to KD 180 million. The main reason was the drop in sales in the commercial sector, where sales values tend to be highest. Sales in this sector had been unusually high in September. Excluding the volatile commercial sector, total sales values rose 32% month-on-month, and show a modestly recovering post-summer trend.

i) Sales – residential (mostly villas and land)

There were 412 residential sales in October, up 37% from 301 in September and up nearly 50% on a year ago. Although still below the 600+ monthly sales seen earlier this year, the post-summer recovery in the residential sector looks fairly sure-footed. Admittedly, almost half of October's transactions were accounted for by sales of land rather than buildings, with a chunk of these involving the Sabah Al Ahmed Marine project. But excluding land sales, residential activity is up around one quarter on its 3Q 2010 average and almost 50% on its average in 2009. Average transaction values are more or less unchanged on their year-ago levels.

Residential Sales

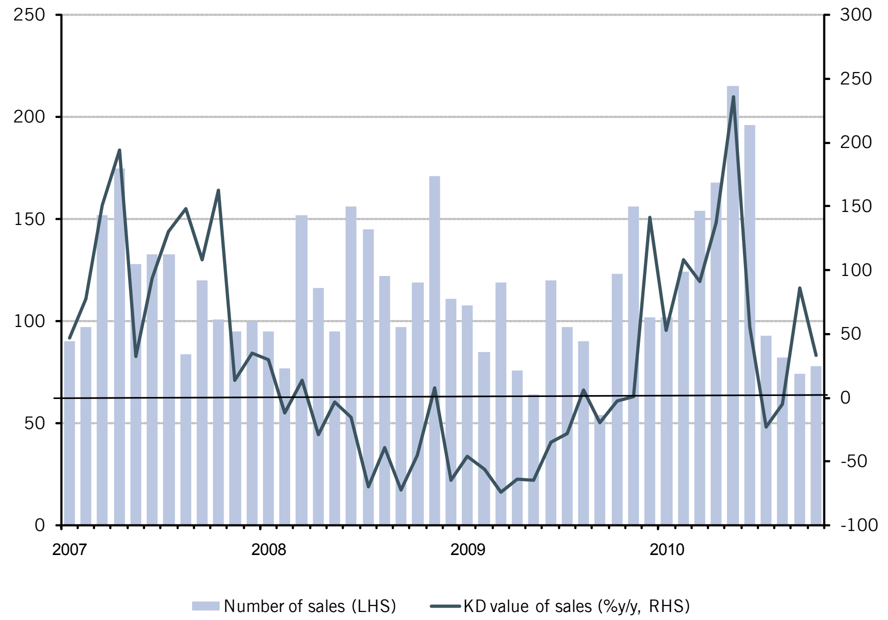


Source: Ministry of Justice

ii) Sales – investment (mostly apartments)

The number of transactions in the investment segment rose – somewhat surprisingly – just 5% between September and October, to 78. This is 37% below the levels of a year earlier and not far off some of the lowest levels recorded during 2009. The reasons for the absence of a larger post-Ramadan bounce are somewhat unclear; it could just be data 'noise'. It is also worth bearing in mind that activity in this segment held up fairly well during the financial crisis, so even at current levels, sales do not look exceptionally weak. Nevertheless, there does seem scope for them to strengthen somewhat over coming months.

Apartment Sales

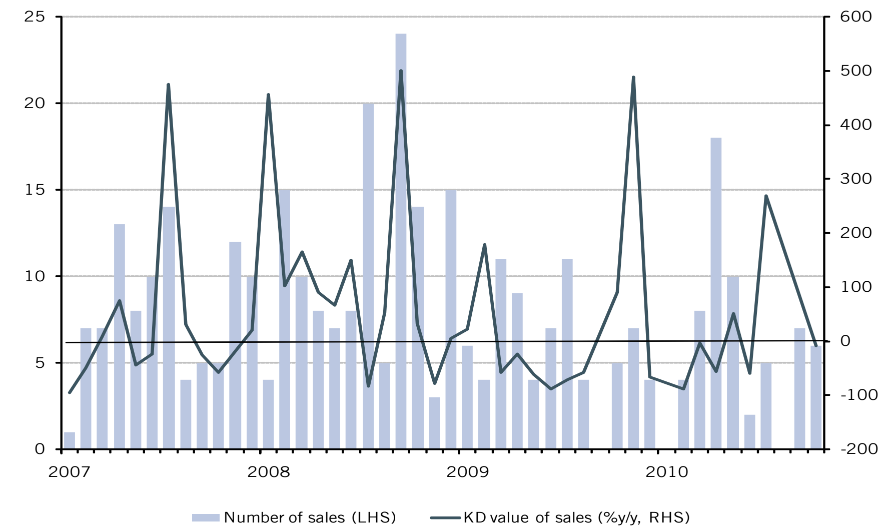


Source: Ministry of Justice

iii) Sales – commercial

There were six sales of commercial property in October, down from seven in September. In value terms, sales fell by nearly half from September, to KD 39 million. However, the September figure was skewed by one exceptionally large transaction; the October figure was in fact the sixth largest on record. While this is encouraging, the segment is still some way from exhibiting a sustained recovery. Sales volumes are still at or below their monthly averages for 2005 – 2009, and concerns remain about the outlook for the office market in particular, given the large increase in supply expected over coming years.

Commercial Sales



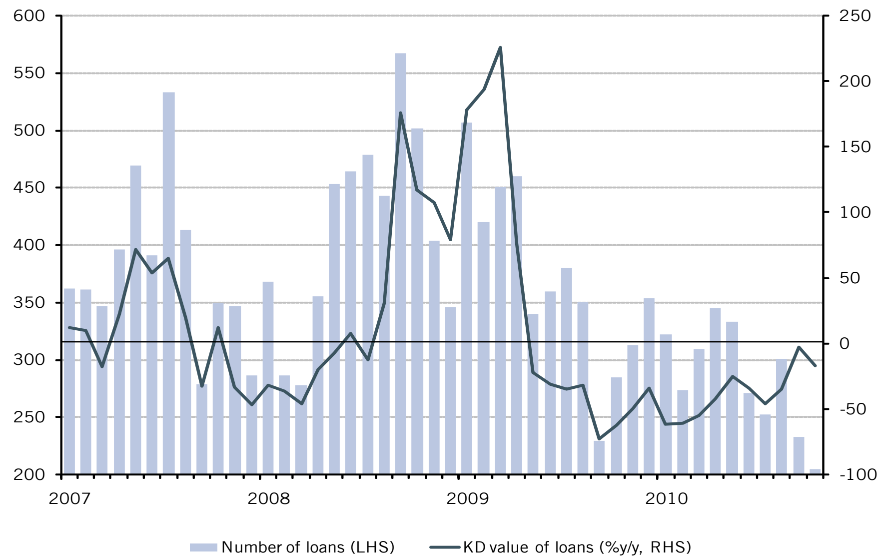
Source: Ministry of Justice

Savings and Credit Bank loans

The number of loan approvals made by the Savings and Credit Bank (SCB) fell to 205 in October, down 12% from 233 in September. This was the lowest number of approvals since 2003. The fall in the month was caused by a big fall in the number of loans approved for additions and renovations, which fell by 29% to just 87. These had been the more commonly approved type of loans for the past year. By contrast, loan approvals for property purchases – which have been weak over the past year – rose to 118 in October, up 6% on the month.

So far, 2010 has been an unusually weak year for SCB loan approvals – largely related to the slow pace of the government's land distribution program from earlier on. The speed of plot distributions is due to accelerate in 2011, though it may still take some time for that to filter into stronger demand for SCB loans.

SCB Loan Approvals



Source: The Savings and Credit Bank

Real Estate Sales and SCB Housing Loans

Real Estate Sales	Monthly Avg. 2008	Monthly Avg. 2009	August 2010	September 2010	October 2010	% M/M	% Y/Y
Sales Values (mn KD)	**156.2**	**108.7**	**110.9**	**179.4**	**180.1**	**0.4**	**25.8**
Residential Property	74.8	55.5	76.9	68.5	89.2	30.2	44.6
Apartments	56.7	36.9	34.0	39.6	51.9	31.0	33.1
Commercial	24.7	16.3	0.0	71.3	39.0	-45.3	-8.2
Number of Transactions	**514**	**382**	**457**	**382**	**496**	**29.8**	**21.6**
Residential Property	381	277	375	301	412	36.9	47.1
Apartments	121	100	82	74	78	5.4	-36.6
Commercial	11	6	0	7	6	-14.3	20.0
Average Transaction Size (000 KD)	**320.3**	**281.2**	**242.6**	**469.6**	**363.1**	**-22.7**	**3.5**
Residential Property	203.3	199.3	205.1	227.7	216.6	-4.9	-1.7
Apartments	477.2	373.3	414.0	535.0	665.1	24.3	109.9
Commercial	2563.4	2880.6	N/A	10181.4	6503.3	-36.1	-23.5

SCB Housing Loans	Monthly Avg. 2008	Monthly Avg. 2009	August 2010	September 2010	October 2010	% M/M	% Y/Y
Value of Approved Loans (mn KD)	**15.0**	**13.5**	**7.7**	**6.9**	**6.9**	**-0.7**	**-17.3**
New Construction	10.2	8.0	1.8	2.1	2.4	14.3	-21.7
Purchase of Existing Homes	3.2	3.9	4.0	3.4	3.2	-6.6	-13.2
Additions & Renovations	1.5	1.6	1.9	1.4	1.3	-8.5	-18.1
Number of Approved Loans	**412**	**371**	**301**	**233**	**205**	**-12.0**	**-28.1**
New Construction	195	126	39	37	42	13.5	-22.2
Purchase of Existing Homes	89	77	88	74	76	2.7	-2.6
Additions & Renovations	128	167	174	122	87	-28.7	-43.1
Value of Disbursed Loans (mn KD)	**12.1**	**12.8**	**9.4**	**8.3**	**10.6**	**27.8**	**-7.9**
New Construction	7.0	7.8	5.0	3.6	5.2	46.1	-17.9
Purchase of Existing Homes	3.6	3.3	2.8	3.3	3.4	2.0	-4.2
Additions & Renovations	1.5	1.6	1.6	1.4	2.0	41.8	22.6

Sources: Ministry of Justice and the Savings and Credit Bank

PUBLIC FINANCE

FY 10/11: Oil and non-oil revenues up 19%... Infrastructure spending improves

Seven months into fiscal year 2010/11 (FY10/11), oil and non-oil revenues were up 19%, reflecting strong oil prices and a recovering local economy. Spending was in line with recent patterns and the budget balance is poised to record a 12th consecutive surplus this year.

So far, actual revenues reached KD 11.6 bn and are at 119% of the budget for the entire fiscal year. Total spending, amounting to KD 5.9 bn, rose considerably from the comparable period last year, although remained at merely 37% of budget (typical of mid-year reported figures).

Total expenditures showed an increase of 49% compared to the same period last year, largely due to exceptional transfers this year to PIFSS (social security). More importantly, though, demand impacting expenditures1 have grown at a more modest rate of 5%.

Revenues and Expenditures – Seven Months of Fiscal Year 2010/1011

	Levels	Y/Y	7mos: Actual to Budget	
			FY10/11	Average*
	mn KD	% ch.	%	%
Total Revenues	**11,535**	**19.1**	**118.7**	**131.5**
Oil revenues	10,880	19.1	126.3	140.9
Non-oil revenues	655	19.2	59.4	64.3
Total Expenditures	**5,942**	**49.1**	**36.8**	**33.8**
Wages & Salaries	1,125	-2.6	31.4	32.4
Goods & Services	1,127	205.2	38.4	22.7
Vehicles and Equipment	56	-50.2	25.0	14.5
Projects, Maintenance and Land Purchases	651	47.2	31.0	20.9
Misc. Exp. and Transfers	2,982	56.5	40.7	42.4
Surplus (before RFFG)	**5,594**	**-1.9**	**...**	**...**
Demand Impacting Expenditures	**3,548**	**5.0**	**33.1**	**33.5**

** Average for similar period, last 5 years. Demand impacting expenditures are those spending categories that drive domestic demand. They exclude items such as transfers to Public Institute for Social Security, transfers abroad, spending on military procurement, fuel costs and subsidies, and housing loan forgiveness. Source: NBK Economic Research Department.*

Hence, the surplus according to the 7-month follow-up statement came at KD 5.5 bn before the allocation to the Reserve Fund for Future Generations (RFFG). We forecast the surplus for the entire FY10/11 to be between KD 3.4 and 5.3 bn.

Oil revenues surpassed budget projection

As expected, oil revenues have already surpassed the budget projection for the entire year, since Kuwait Export Crude (KEC) has averaged USD 75 pb, way above the assumed price of USD 43 pb in the budget. Meanwhile, oil revenues were up 19% compared to the same period last year, when KEC averaged USD 64 pb.

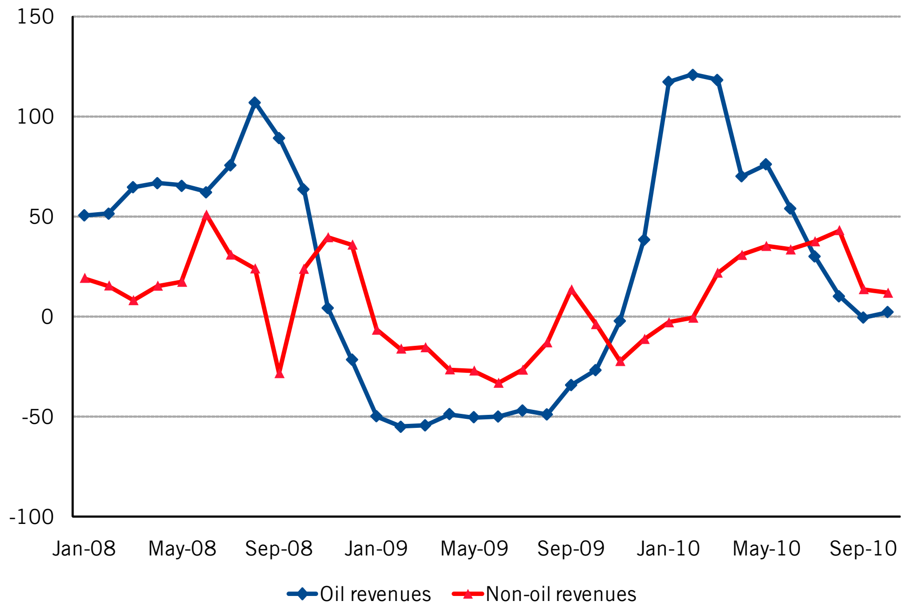
Non-oil revenues came at 59% of budget, slightly behind the historical average, yet totaled KD 700 mn, also up 19% from last year. However, year on year (y/y) growth seemed to be slowing in recent months (something to monitor in coming months).

Non-oil revenues also up despite lower income taxes

At KD 63 mn, "income tax revenues" was the only category that declined, falling 9% from last year, and reflecting the persistent weak business environment. However, the decline was exclusive to taxes on non-oil foreign companies (down 40%), while taxes on KSE listed companies was up 33% which is in line with our somewhat positive view on locally listed companies and the local economy.

On the other hand, "miscellaneous revenues and fees" was the best performing chapter in non-oil revenues and grew by 121% (+KD 82 mn) compared to the same period last year, owing to stronger consumer spending. While "custom fees" were up 26% (+KD 25mn) reflecting an improving trade sector, which is also seen in higher credit extended to that sector.

Oil & Non-oil Revenues (% Y-o-Y, 3mma)



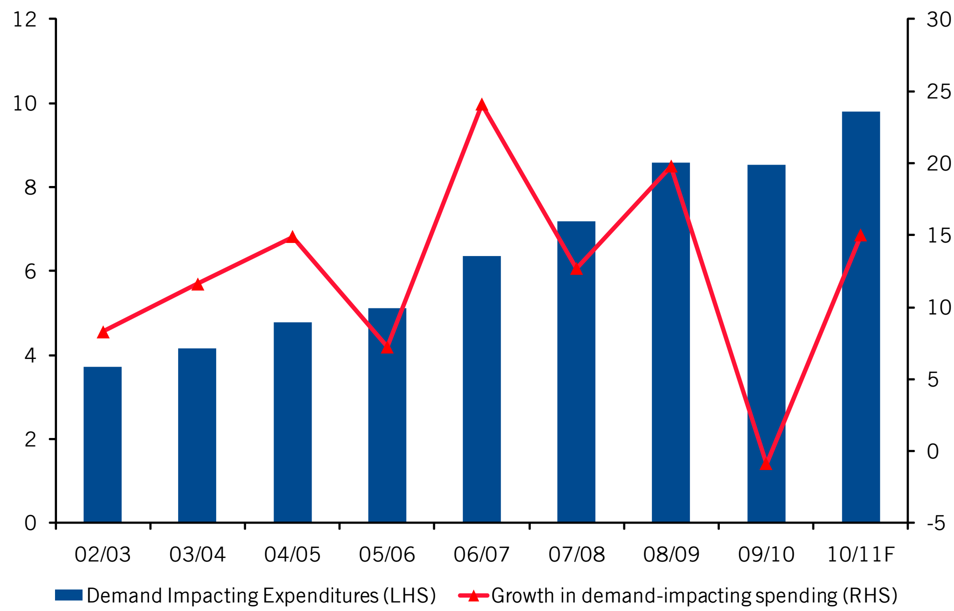
Source: NBK Economic Research Department

By October, total expenditures were at 37% of budget, above the historic average of 34%. Total expenditures were up a good 49% compared to the same period last year and reached KD 5.9 bn. Exceptional transfers this year contributed generously to this significant growth.

Demand- impacting spending more subdued

On the other hand, demand-impacting spending growth was more subdued at merely +5% and stood at KD 3.5 bn. Spending on these categories came at 33% of budget, in line with the historic average. Based on recent trends, we believe demand-impacting spending should close the year at KD 9.8 bn registering y/y growth of 15%.

Full Fiscal Year (KD Billion)



Source: NBK Economic Research Department

Spending on chapter 1, "wages and salaries", amounted to KD 1.1 bn, slightly down y/y (-2.6%) according to the 7-month follow-up statement probably due to delayed reporting. However; compared to budget, spending on this chapter was in line with the historic average.

Chapter 2, "goods and services" spending, saw hefty growth of 205% (+KD 758 mn) mostly due to higher oil prices and the cost of fuel incurred by the Ministry of Electricity and Water "MEW".

Spending on chapter 5, "miscellaneous expenditures and transfers", also grew a considerable 57% (KD 1.1 bn) almost half of which was spent in October. The large exceptional transfer to PIFSS in the current fiscal year accounts for the bulk of the increase in spending on this chapter.

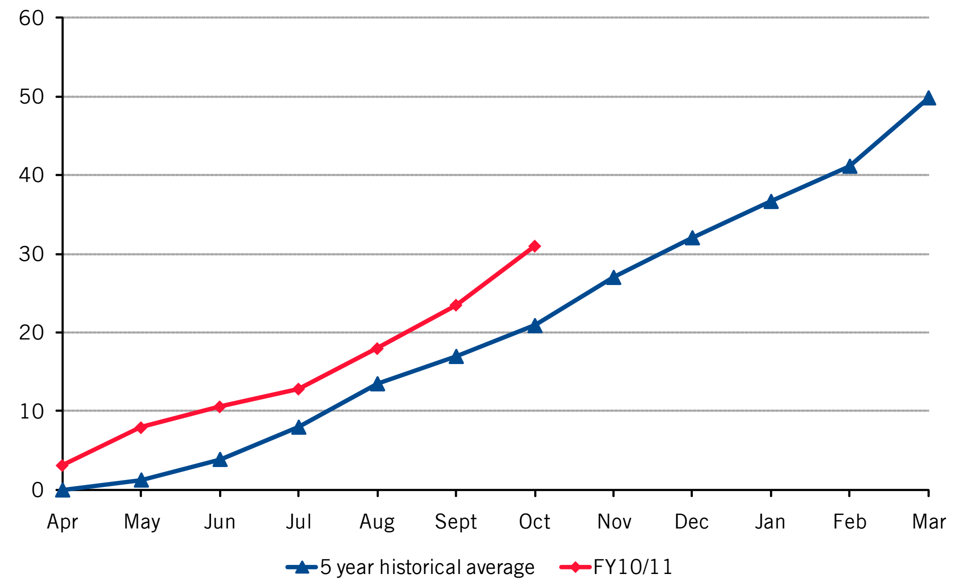
More importantly, spending on chapter 4, "projects, maintenance and land purchases", seemed to be gaining momentum and catching up with the budget figures. At KD 651 mn, capital expenditures grew by a good 47% y/y and came at 31% of budget, in good comparison to the historic average of 21% (chart).

Kuwait to register a surplus

If spending continues to proceed along recent trends catching up more with the budget as the year nears its end, we forecast a government surplus between KD 3.4 and 5.3 bn.

Projects, maintenance and land purchases

Spending pace %: actual spending / budget



Source: NBK Economic Research Department

Companies in Focus

- Ahli United Bank (Almutahed)
- Al Ahli Bank of Kuwait (ABK)
- Aviation Lease and Finance Company (ALAFCO)
- Boubyan Petrochemical
- Burgan Bank (Burgan)
- Burgan Co. for Well Drilling, Trading & Maintenance (Burgan Well Drilling)
- City Group
- Commercial Real Estate Company (Altijaria)
- Gulf Cable and Electrical Industries Company (Gulf Cable)
- Gulf Insurance Company (GIC)
- Injazzat Real Estate Development Company (Injazzat)
- Kuwait Cement Company
- Kuwait Finance House (KFH)
- Kuwait Financial Center (Markaz)
- Kuwait Food Group (Americana)
- Kuwait and Gulf Link Transport Company (KGL)
- Kuwait National Cinema Company (KNCC)
- Kuwait Projects (KIPCO)
- Mabanee Company
- Mashaer Holding Company (Mashaer)
- Mobile Telecommunications Company (Zain)
- National Industries Group Holding (NIG)
- National Investment Company (NIC)
- National Real Estate Company (NREC)
- Oula Fuel Marketing Company (Oula)
- Tamdeen Group
- Tamdeen Investment Company (Tamdeen)
- United Real Estate Company (United Real Estate)
- YIACO Medical Company (YIACO)

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AHLI UNITED BANK (ALMUTAHED)

Key Data

General		Liquidity	
KSE Code	ALMUTAHED.KSE	52-week avg. volume	406,734
Reuters Code	ALMUTAHED.KW	52-week avg. value (KD)	222,687
Price (KD)		**Price Performance**	
Closing Price	0.750	YTD	61.6%
52-week High/Low	0.750 / 0.45	1-Year Period	61.6%
Market Capitalization		**Shares Outstanding**	
Million KD	724.71	Latest (million)	966.27
Ownership Structure			
Closely Held: 79%		Public: 21%	

Price as of close on December 13, 2010 Sources: Reuters, Zawya, and NBK Capital

Stock Performance

Sources: Zawya and NBK Capital

Highlights

- Ahli United Bank (Almutahed), previously known as Bank of Kuwait and the Middle East, was established in 1941 as the first banking and financial institution in Kuwait. The bank currently holds a 6% share of the total assets in the Kuwaiti banking sector.
- In January 2010, Almutahed announced that it had been converted into an Islamic bank and that its name was Ahli United Bank.
- Almutahed announced a net profit of KD 19.6 million in 9M2010, which is 29% higher than 9M2009, despite a 12% decline in operating income, on the back of a 39% decline in loan loss provisioning year-over-year (YoY). Lending declined in 3Q2010 (down 3%), bringing the year-to-date (YTD) loan growth to 6%, matching the growth in FY2009. Deposits declined for the second consecutive quarter in 3Q2010, putting the 9M2010 decline at 9%, compared with 2% growth in FY2009.
- Almutahed's asset quality indicators deteriorated in 2009, although to a smaller extent than occurred with the bank's Kuwaiti peers. The non-performing loans (NPLs)-to-gross loans ratio increased to 4.9% at the end of December 2009 from 3.05% at the end of December 2008. The NPL coverage ratio declined to 107% at the end of 2009 from 127% at the end of 2008.
- In September 2010, Fitch affirmed Almutahed's long-term issuer default and individual bank ratings at A-/C with a "Stable" outlook. Fitch also stated that Almutahed's Tier 1 and total capital adequacy ratios were sufficient, as they were higher than the regulatory minimum requirements.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Growth in Loans	21.8%	35.6%	17.7%	6.0%	6.3%
Growth in Deposits	13.8%	19.7%	12.0%	1.9%	-8.6%
Growth in Net Profit	13.0%	6.8%	6.6%	-72.2%	29.4%
Growth in Operating Income	3.4%	20.1%	14.3%	-19.7%	-12.2%
NPLs-to-Gross Loans	3.3%	2.7%	3.0%	4.9%	N/A
NPL Coverage	122%	127%	127%	107%	N/A
Capital Adequacy	18.1%	15.6%	14.8%	16.8%	N/A
Growth in Costs	14.5%	22.2%	3.9%	-12.3%	1.9%
Cost-to-Income	32.3%	32.9%	29.9%	32.6%	35.1%
RoAA	2.5%	2.3%	2.3%	0.6%	N/A
RoAE	20.5%	19.1%	20.0%	6.3%	N/A

Sources: Company's financial statements and NBK Capital

Overview

Ahli United Bank (Almutahed), previously known as Bank of Kuwait and the Middle East, was established in 1941, making it the first banking and financial institution in Kuwait. Almutahed was initially established as the Kuwaiti branch of a British bank (the Iranian Imperial Bank), and was later acquired by the HSBC Group in 1959. In 1971, the Kuwait Investment Authority (KIA) took over after local regulations restricted foreign ownership of banks. In 2002, Ahli United Bank (AUB) took control of 48% of the bank's capital, which AUB increased to 74.9% in August 2005. The bank offers a full range of services, including retail, corporate, treasury, and investment management services. Almutahed operates via a network of 25 branches and nearly 70 ATMs across Kuwait. At the end of September 2010, Almutahed's total assets stood at KD 2.48 billion, accounting for 6% of the total banking sector assets in Kuwait. In June 2008, Almutahed received approval from the Central Bank of Kuwait (CBK) to convert into a fully Shari'ah-compliant bank. In January 2010, the bank announced it had converted into an Islamic bank. The bank's principal subsidiary is the Kuwait and Middle East Financial Investment Company (KMEFIC), which offers investment and portfolio management services. Almutahed currently owns a 49.55% stake in KMEFIC, one of the largest brokerage houses in Kuwait, with operations in Oman, the United Arab Emirates (UAE), Jordan, and Egypt.

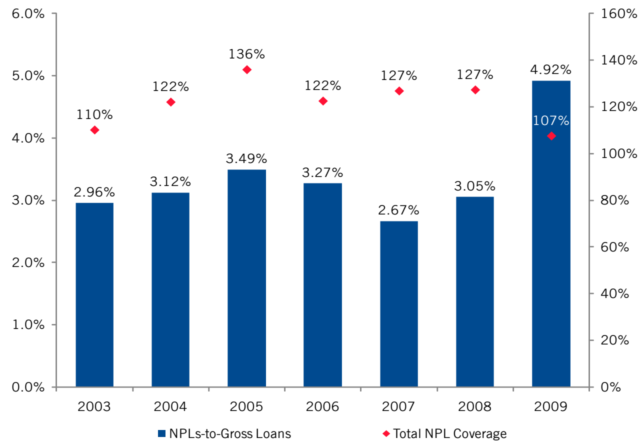
Latest News

- **September 2010:** Fitch affirmed Almutahed's long-term issuer default and individual bank ratings at A-/C with a "Stable" outlook. Fitch also stated that Almutahed's Tier 1 and total capital adequacy ratios were sufficient, as they were higher than the regulatory minimum requirements.
- **April 2010:** The bank was renamed Ahli United Bank (Almutahed) and begun operations in compliance with Islamic Shari'ah laws as of April 1, 2010. This followed a resolution passed by the CBK in December 2009 recognizing the transition of Almutahed to a Shari'ah-compliant bank.
- **March 2010:** Almutahed received approval to increase its capital from KD 104 million to KD 140 million.

Asset Quality

- Almutahed's asset quality indicators deteriorated in 2009, although to a smaller extent than the bank's Kuwaiti peers. NPLs nearly doubled from KD 46.7 million as of December 2008 to KD 81 million as of December 2009. The NPLs-to-gross loans ratio increased to 4.9% at the end of December 2009 from 3.05% at the end of December 2008. The NPL coverage ratio declined to 107% at the end of 2009 from 127% at the end of 2008. Total NPL coverage fell below 120% for the first time since 2004.
- Almutahed's pre-liberation NPLs accounted for only 2% of the total NPLs at the end of December 2009, which was much lower than most of the bank's peers.

NPLs-to-Gross Loans and NPL Coverage Ratio



Sources: Company's financial statements and NBK Capital

NPL Analysis – Pre-invasion versus Post-liberation

	Pre-invasion				
KD Thousands	2005	2006	2007	2008	2009
NPLs	1,980	1,970	1,870	1,860	1,943
Specific Provisions	1,980	1,970	1,870	1,860	1,943
% of Total NPLs	7%	6%	5%	4%	2%
	Post-liberation				
KD Thousands	2005	2006	2007	2008	2009
NPLs	25,770	29,469	32,673	44,868	79,191
Specific Provisions	15,839	17,122	20,235	26,934	48,263
% of Total NPLs	93%	94%	95%	96%	98%
Post-Liberation					
NPL Growth	5%	14%	11%	37%	76%
Provisions Growth	50%	8%	18%	33%	79%
NPL Coverage	61%	58%	62%	60%	61%
KD Thousands	Total				
NPLs	27,750	31,439	34,543	46,728	81,134
Total Provisions	37,692	38,476	43,766	59,423	87,143
NPL Coverage	**136%**	**122%**	**127%**	**127%**	**107%**
NPLs-to-Gross Loans	**3.49%**	**3.27%**	**2.67%**	**3.05%**	**4.92%**

Sources: Company's financial statements and NBK Capital

Financial Statement Analysis

Income Statement

- Almutahed recorded a net profit of KD 19.6 million in 9M2010, which is 29% above the net profit of KD 15.12 million in 9M2009, despite a 12% decline in operating income, on the back of a 39% decline in loan loss provisioning charges YoY.

- Net interest income rose by 5% YoY to KD 44.6 million in 9M2010, compared to KD 42.6 million in 9M2009. Almost all of the components of non-interest income declined in 9M2010 compared to 9M2009, with fees and commissions down 30%, foreign exchange down 10%, and net investment earnings down 65%. Total operating income declined by 12% YoY in 9M2010 and stood at KD 59 million, compared to KD 67.2 million in 9M2009.
- Costs remained fairly stable in 9M2010, increasing by just 2% YoY. The cost-to-income ratio (CIR) rose to 35.1% in 9M2010 due to weak operating income, compared to 32.6% in FY2009.
- Net provisioning charges declined to KD 20.5 million in 9M2010, compared with KD 33.7 million in 9M2009, and accounted for 51% of the income before provisions.
- Almutahed recorded a net profit of KD 14.3 million in 2009, which is 72% below that of 2008, on the back of weaker non-interest income and a surge in loan loss provisions and investment provisions. However, on the operational level, net interest income (NII) growth was robust at 36%, driven by a larger drop in interest expenses than in interest income. Total operating income stood at KD 85 million in 2009, which is 20% lower than the KD 106 million recorded in 2008.
- On a positive note, costs were well controlled in 2009 and actually declined by 12% during the year, compared to the marginal 4% growth recorded in 2008. However, the larger decline in operating income pushed the cost-to-income ratio up to 32.6% in 2009. Although slightly higher than the 2008 level (29.9%), the cost-to-income ratio was still in line with the levels seen in previous years.
- Loan loss provisioning charges nearly doubled to KD 28 million in 2009, compared with KD 15.8 million in 2008. However, the impact of investment provisioning charges on profitability was larger, as they grew to KD 16.2 million in 2009 from KD 1.5 million in 2008. These provisions were against investments in the AFS portfolio.

Balance Sheet

- Almutahed's balance sheet grew by 10% in 9M2010, as total assets stood at KD 2.48 billion at the end of September 2010. Comparatively, in FY2009, total assets grew by a mere 1%. Lending declined in 3Q2010 (down 3%) bringing the year-to-date (YTD) loan growth to 6%, matching the growth in FY2009. Loan growth was robust between 2005 and 2008, recording a compound annual growth rate (CAGR) of 25%.
- Deposits declined for the second consecutive quarter in 3Q2010, putting the 9M2010 decline at 9%, compared with 2% growth in FY2009, as deposits reached KD 1.33 billion in September 2010. Almutahed has been losing market share in deposits over the past four years due to tough competition in the corporate sector. In 2005, Almutahed's total deposits accounted for 7% of the total sector deposits, and at the end of September 2010, this share had dropped to less than 5%.
- The bank's liquid assets (defined as cash and interbank balances) declined by 13% in 3Q2010, after a decline of 38% in 2Q2010. At the end of September 2010, liquid assets accounted for 14% of total assets, which is slightly lower than the 16% ratio as of December 2009.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Interest Income	139,945	109,350	83,635	76,636
Interest Expense	(97,515)	(51,817)	(41,016)	(32,057)
Net Interest Income	**42,430**	**57,533**	**42,619**	**44,579**
Fees and Commissions	23,019	14,468	11,578	8,064
Foreign Exchange Income	5,015	3,879	2,998	2,687
Net Investment Earnings	35,629	9,128	10,016	3,508
Other Operating Income	(149)	40	(37)	152
Total Operating Income	**105,944**	**85,048**	**67,174**	**58,990**
Staff Expenses	(18,222)	(17,087)	(12,683)	(12,184)
Depreciation	(2,153)	(2,336)	(1,739)	(2,160)
Other Expenses	(11,267)	(8,313)	(5,874)	(6,341)
Total Operating Expenses	**(31,642)**	**(27,736)**	**(20,296)**	**(20,685)**
Loan Loss Prov.	(15,848)	(27,979)	(33,712)	(20,458)
Investment and Other Prov.	(2,683)	(19,092)	-	-
Other Income / (Exp.)	(2,243)	(701)	(720)	(937)
Minority Interest	(2,163)	4,722	2,669	2,652
Net Income	**51,365**	**14,262**	**15,115**	**19,562**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Cash and Cash Equivalents	430,336	490,032	374,483	355,705
Due from Banks	297,128	43,424	153,596	324,695
Loans and Advances	1,251,476	1,472,932	1,561,104	1,658,853
Net Investments	172,758	128,804	75,591	48,208
Investment in Associates	8,774	8,048	8,231	8,234
Net Fixed Assets	35,503	49,772	46,176	46,795
Others	42,574	44,006	41,352	39,786
Total Assets	**2,238,549**	**2,237,018**	**2,260,533**	**2,482,276**
Liabilities and Shareholders' Equity				
Due to Banks and Oth.Fin.Inst.	609,790	483,271	527,777	846,505
Customers' Deposits	1,278,618	1,432,511	1,460,255	1,334,803
Other Liabilities	46,877	49,344	35,165	39,198
Total Liabilities	**1,935,285**	**1,965,126**	**2,023,197**	**2,220,506**
Total Shareholders' Equity	**269,884**	**243,066**	**213,159**	**240,017**
Minority Interest	33,380	28,826	24,177	21,753
Total Liabilities and Equity	**2,238,549**	**2,237,018**	**2,260,533**	**2,482,276**

Sources: Company's financial statements and NBK Capital

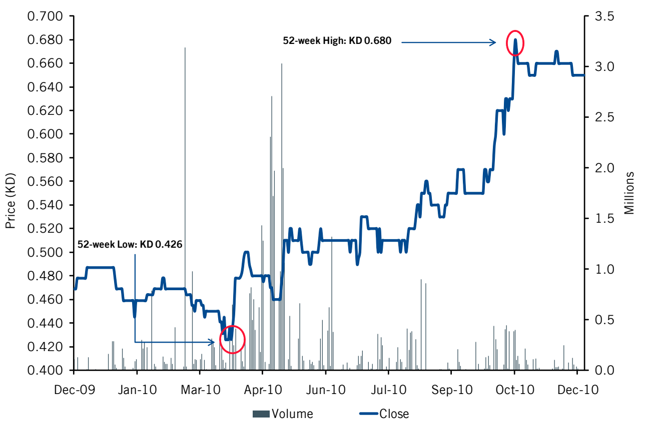
AL AHLI BANK OF KUWAIT (ABK)

Key Data

General		Liquidity	
KSE Code	ABK.KSE	52-week avg. volume	284,201
Reuters Code	ABKK.KW	52-week avg. value (KD)	135,280
Price (KD)		**Price Performance**	
Closing Price	0.650	YTD	33.5%
52-week High/Low	0.680 / 0.426	1-Year Period	38.6%
Market Capitalization		**Shares Outstanding**	
Million KD	927.23	Latest (million)	1,427
Ownership Structure			
Closely Held: 51%		Public: 49%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Al Ahli Bank of Kuwait (ABK) was established in 1967. The Behbehani family, currently ABK's largest shareholder, holds approximately 30% of the bank's total share capital. With an asset base of KD 2.88 billion as of September 2010, ABK accounts for 7% of the total banking assets in Kuwait.
- ABK recorded a net profit of KD 41.5 million in 9M2010, which is 71% higher than the net profit in 9M2009. This positive result was achieved despite a decline in operating income (down 5% YoY in 9M2010), as loan loss provision charges dropped by 72% to KD 8.3 million in 9M2010, compared with KD 29.8 million in 9M2009.
- In 2Q2010, ABK raised its capital base by 25% from KD 115 million to KD 144 million via a rights issue. The bank's outstanding shares rose from 1.15 billion to 1.44 billion. The bank issued the shares for KD 0.350 (premium of KD 0.250 per share), taking the total subscription value to KD 101 million.
- ABK has historically maintained a comfortable capital adequacy ratio (CAR), above the minimum required by the Central Bank of Kuwait (CBK). As of December 2009, the bank's CAR stood at 17.23%, and the Tier I ratio stood at 15.60%.
- At the annual general meeting (AGM) held on March 28, 2010, ABK shareholders approved the distribution of a cash dividend of KD 0.015 per share for the year ended December 2009. This translates into a payout ratio of 44% for 2009 and a dividend yield of 3%.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Growth in Loans	16.6%	30.4%	13.9%	-5.0%	-3.8%
Growth in Deposits	13.0%	40.0%	-9.8%	-7.7%	-0.1%
Growth in Net Profit	27.6%	26.7%	-39.5%	-14.9%	71.2%
Growth in Operating Income	34.6%	13.2%	-3.7%	-2.3%	-4.9%
NPLs-to-Gross Loans	3.6%	3.0%	2.5%	6.0%	N/A
NPL Coverage	187%	169%	209%	113%	N/A
Capital Adequacy	15.3%	14.0%	14.7%	17.2%	N/A
Growth in Costs	21.6%	29.1%	7.4%	5.5%	7.5%
Cost-to-Income	20.1%	23.0%	25.6%	27.6%	30.8%
RoAA	2.7%	2.8%	1.5%	1.3%	N/A
RoAE	22.8%	26.1%	14.6%	12.2%	N/A

Sources: Company's financial statements and NBK Capital

Overview

Al Ahli Bank of Kuwait (ABK) was established in 1967 by one of Kuwait's prominent business families—the Behbehani family. The family is currently the largest shareholder, holding approximately 30% of the bank's total share capital. The bank has a relatively small network of 24 branches (including two overseas branches in Dubai and Abu Dhabi) and 57 ATMs in Kuwait. ABK is also awaiting approval for licenses to open new branches in Oman and Qatar. The bank has created a strong franchise in corporate and commercial banking, which is ABK's main focus. Retail lending, considered to be very secure and highly profitable in Kuwait, is another key area of focus. As of September 2010, ABK had an asset base of KD 2.88 billion, translating into a market share of approximately 7% of the total banking assets in Kuwait. ABK's loan and deposit market shares at the end of September 2010 stood at approximately 7% and 6.5%, respectively. The bank provides commercial banking and asset management services, as well as investment banking services via its wholly owned subsidiary Ahli Capital Investment Company.

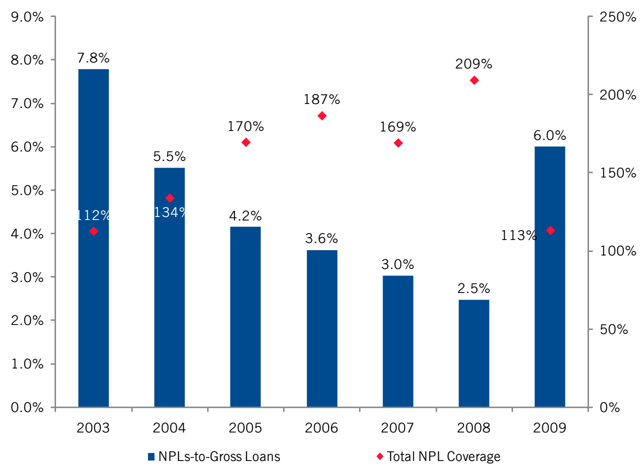
Latest News

- **May 2010:** S&P affirmed ABK's long- and short-term counterparty credit ratings at BBB+/A-2. The rating agency also revised the bank's Outlook to "Stable" from "Negative."
- **April/May 2010:** In 2Q2010, ABK raised its capital base by 25% from KD 115 million to KD 144 million via a rights issue. The bank's shares outstanding rose from 1.15 billion to 1.44 billion. The bank issued the shares for KD 0.100 with a premium of KD 0.250 per share, taking the total subscription value to KD 101 million.
- **March 2010:** At the annual general meeting (AGM) held on March 28, 2010, ABK shareholders approved the distribution of a cash dividend of KD 0.015 per share for the year ended December 2009. This translates into a payout ratio of 44% for 2009 and a dividend yield of 3%.
- **February 2010:** Fitch affirmed ABK's long-term issuer default rating (IDR) at A- and short-term IDR at F2. The individual rating stood at C/D with a "Stable" Outlook for the long-term IDR.

Asset Quality

- ABK's post-liberation non-performing loans (NPLs) rose nearly five-fold from KD 18.8 million in 2008 to KD 92.3 million in 2009, taking the NPLs-to-gross loans ratio to 4.3% in 2009 from 0.8% in 2008. Total NPLs-to-gross loans stood at 6% at the end of 2009, compared with 2.5% in December 2008. NPL coverage dropped to 113% at the end of December 2009 (the lowest in the past six years) from 209% in 2008.

NPLs-to-Gross Loans and NPL Coverage Ratio



Sources: Company's financial statements and NBK Capital

NPL Analysis – Pre-invasion versus Post-liberation

	Pre-invasion				
KD Thousands	2005	2006	2007	2008	2009
NPLs	39,034	38,628	36,463	36,863	37,949
Specific Provisions	39,034	38,628	36,463	36,863	37,949
% of Total NPLs	71%	69%	61%	66%	29%
	Post-liberation				
KD Thousands	2005	2006	2007	2008	2009
NPLs	15,867	17,093	23,191	18,757	92,334
Specific Provisions	13,374	16,675	12,588	8,446	16,696
% of Total NPLs	29%	31%	39%	34%	71%
Post-Liberation					
NPL Growth	-15%	8%	36%	-19%	392%
Provisions Growth	-7%	25%	-25%	-33%	98%
NPL Coverage	84%	98%	54%	45%	18%
KD Thousands	**Total**				
NPLs	54,901	55,721	59,654	55,620	130,283
Total Provisions	93,081	103,965	100,881	116,451	147,185
NPL Coverage	**170%**	**187%**	**169%**	**209%**	**113%**
NPLs-to-Gross Loans	**4.2%**	**3.6%**	**3.0%**	**2.5%**	**6.0%**

Sources: Company's financial statements and NBK Capital

Financial Statement Analysis

Income Statement

- ABK recorded a net profit of KD 41.5 million in 9M2010, which is 71% higher than the net profit in 9M2010, on the back of a steep drop in loan loss provision charges compared to 9M2009.
- Net interest income declined by 9% YoY as the loan book decreased by nearly 4% in 9M2010. However, fees and commissions increased by 13% YoY in 9M2010 to reach KD 18.1 million. While foreign exchange income remained flat over the period, the bank reported slightly lower net investment earnings of KD 2.6 million in 9M2010, versus KD 2.9 million in 9M2009. Total operating income fell by 5% YoY in 9M2010.
- Loan loss provisions dropped to KD 8.3 million in 9M2010, accounting for 17% of the income before provisions (IBP), compared with KD 29.8 million in 9M2009. Investment provisions were nearly halved in 9M2010 to KD 2.7 million compared to KD 5 million in 9M2009.
- Operating costs grew by 7.5% YoY in 9M2010, taking the cost-to-income ratio (CIR) to 30.8% for 9M2010, compared to 27.6% in FY2009.
- ABK announced a net profit of KD 39 million in 2009, which is 15% below that of 2008, on the back of weaker non-interest income and a doubling of loan loss provisions compared to 2008.
- NII reached KD 81.8 million in 2009, which is 19% higher than the KD 68.5 million recorded in 2008. All non-interest income components fell, posting a combined drop of 36% in 2009. Total operating income reached KD 110.4 million (2% lower than 2008) supported primarily by NII growth.
- ABK took net loan loss provisions of KD 32 million in 2009, 90% of which were recorded during 2Q2009 and 3Q2009. Investment provisions also negatively impacted profitability during that year, but to a lesser extent than in 2008. Total investment provisions in 2009 stood at KD 5.4 million, compared to KD 26.6 million in 2008. Total provisions accounted for 49% of the income before provisions (IBP) in 2009.
- Costs remained well controlled in 2009 and 2008, growing by 7% and 5%, respectively, compared to the double-digit growth of more than 20% seen in each of the previous three years. However, weaker growth in operating income increased the CIR to 27.6% in FY2009, compared with a CIR of 25.6% in FY2008. ABK's cost-to-income ratio averaged around 22% between 2005 and 2007.

Balance Sheet

- ABK's total assets decreased by 3% in 9M2010, slightly exceeding the 2% drop in FY2009, and stood at KD 2.88 billion at the end of September 2010. Net loans (KD 1.95 billion) declined for the third consecutive quarter (-1%), bringing the year-to-date (YTD) decline to 4% as of September 2010. Customer deposits were nearly flat at KD 1.84 billion at the end of September 2010.
- In 2009, net loans declined for the first three quarters, before increasing by 1% in 4Q2009. At the end of 2009, net loans stood at KD 2.02 billion, which is 5% below the net loans at the end of December 2008. In 2008, lending growth stood at 14% with the loan book reaching KD 2.13 billion by December 2008.
- Deposits fell by 8% in 2009, putting total deposits at KD 1.84 billion at the end of December 2009. This was driven primarily by a drop in time deposits, which fell from KD 1.66 billion in 2008 to KD 1.48 billion in 2009, a decline of 11%. Sight deposits, however, increased by 8%, from KD 332 million to KD 359 million.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Interest Income	185,341	138,227	106,310	88,833
Interest Expense	(116,869)	(56,453)	(45,224)	(33,169)
Net Interest Income	**68,472**	**81,774**	**61,086**	**55,664**
Fees and Commissions	24,493	20,296	16,074	18,081
Foreign Exchange Income	5,073	3,650	2,855	2,829
Net Investment Earnings	8,729	3,162	2,872	2,560
Other Operating Income	6,235	1,514	1,160	788
Total Operating Income	**113,002**	**110,396**	**84,047**	**79,922**
Staff Expenses	(18,393)	(19,943)	(14,575)	(15,279)
Depreciation	(1,238)	(1,764)	(1,280)	(1,351)
Other Expenses	(9,302)	(8,816)	(7,083)	(8,022)
Total Operating Expenses	**(28,933)**	**(30,523)**	**(22,938)**	**(24,652)**
Loan Loss Prov.	(15,213)	(32,174)	(29,786)	(8,322)
Investment and Other Prov.	(19,489)	(5,324)	(5,044)	(2,657)
Other Income / (Exp.)	(3,331)	(3,201)	(2,021)	(2,756)
Net Income	**46,036**	**39,174**	**24,258**	**41,535**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Cash and Cash Equivalents	842,748	679,916	773,718	736,504
Loans and Advances	1,870,012	2,129,103	2,023,694	1,946,139
Net Investments	205,095	159,273	109,455	123,308
Net Fixed Assets	13,956	33,822	31,786	32,214
Others	29,346	34,845	27,335	38,471
Total Assets	**2,961,157**	**3,036,959**	**2,965,988**	**2,876,636**
Liabilities and Shareholders' Equity				
Due to Banks and Oth.Fin.Inst.	335,401	648,567	740,313	515,754
Customers' Deposits	2,207,998	1,991,676	1,837,673	1,835,560
Other Liabilities	98,664	84,304	57,516	66,473
Total Liabilities	**2,642,063**	**2,724,547**	**2,635,502**	**2,417,787**
Total Shareholders' Equity	**319,094**	**312,412**	**330,486**	**458,849**
Total Liabilities and Equity	**2,961,157**	**3,036,959**	**2,965,988**	**2,876,636**

Sources: Company's financial statements and NBK Capital

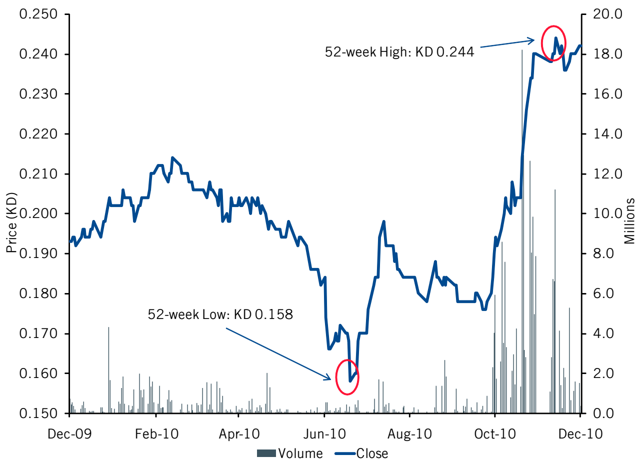
AVIATION LEASE AND FINANCE COMPANY (ALAFCO)

Key Data

General		Liquidity	
KSE Code	ALAFCO.KSE	52-week avg. volume	1,248,637
Reuters Code	ALAF.KW	52-week avg. value (KD)	264,544
Price (KD)		**Price Performance**	
Closing Price	0.242	YTD	22.2%
52-week High/Low	0.244 / 0.158	1-Year Period	26.7%
Market Capitalization		**Shares Outstanding**	
Million KD	179.72	Latest (million)	742.64
Ownership Structure			
Closely held: 65.09%		Public: 34.91%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Aviation Lease and Finance Company (ALAFCO) is a Shari'ah-based commercial aircraft leasing company.
- ALAFCO has a very diverse client base, from Asia to the Middle East, Africa, and the United States. Additionally, many of ALAFCO's clients are government entities, which represent less risk.
- ALAFCO's main revenue stream comes from operating leases, effectively turning the company into an asset-heavy company.
- ALAFCO's FY2009-2010 revenues grew by 47% year-on-year (YoY) to KD 39.7 million, on account of healthy growth in revenues from the Middle East region and Europe. The company's fleet grew to 40 aircraft at the end of September 2010 (from 26 at the end of September 2009). Operating profits grew by 44% YoY to KD 19.6 million, representing a stable operating margin of 50%. The strong operating performance, however, was dampened to a certain extent by a 44% YoY increase in finance costs. As a result, net profit for the year grew by only 6% YoY to KD 10.8 million. The company's board of directors has recommended a cash dividend of 5 fils per share (equating to a dividend yield of 2.06%) and 5% in bonus shares (five shares per each 100 shares).
- ALAFCO recorded revenue of KD 27 million in FY2008-2009, a decline of 1% from KD 27.3 million in FY2007-2008. On the other hand, net profit in FY2008-2009 was KD 10.2 million, a 1% growth from the KD 10 million reported in FY2007-2008.

Analyst

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Key Ratios

	FY2005-2006	FY2006-2007	FY2007-2008	FY2008-2009	FY2009-2010
EBIT (KD Millions)	9.6	15.3	16.2	13.6	19.6
EBIT Margin	42%	57%	59%	50%	50%
Net Profit Margin	36%	34%	37%	38%	27%
Investment-to-equity	0%	2%	0%	0%	0%
Net Debt-to-equity	1.5	1.4	1.4	2.1	3.4
Interest Coverage Ratio (EBIT / Net Int. Exp.)	2.1	2.1	2.6	2.2	2.3
ROA (%)	5%	4%	4%	3%	2%
ROE (%)	15%	12%	13%	12%	11%

Sources: Company's financial statements and NBK Capital

Overview

Aviation Lease and Finance Company (ALAFCO) is a provider of Shari'ah-based commercial aircraft leasing products. Headquartered in Kuwait, ALAFCO was established in 1992 and listed on the Kuwait Stock Exchange in 2000. ALAFCO also offers a variety of consulting services in relation to aircraft acquisition and disposal, lease management, and technical monitoring. Currently, 54% of the company is owned by Kuwait Finance House; Kuwait Airways owns 11%, and the remaining 35% is publicly listed.

ALAFCO has a diverse client base with clients from Asia, the Middle East, Africa, and the United States. The company's largest client base comes from China and Turkey, however, following an agreement with Saudi Arabian Airlines, the Middle East has become a vital contributor to Alafco's revenues.

Latest News

- **July 2010:** ALAFCO announced that Ethiopian Airlines and China's Okay Airways will each lease three new Boeing 737-800 aircraft from ALAFCO, for a period of 96 months. Furthermore, Russia's Transaero Airlines will also lease one Boeing 777-200 from ALAFCO, for a period of 96 months.
- **May 2010:** Kuwait Finance House (KFH) signed a deal with Turkish Airlines to lease three Airbus A320-200 aircraft for seven years, where ALAFCO will finance the purchase and lease of the aircraft, in addition to managing the deal on behalf of KFH.

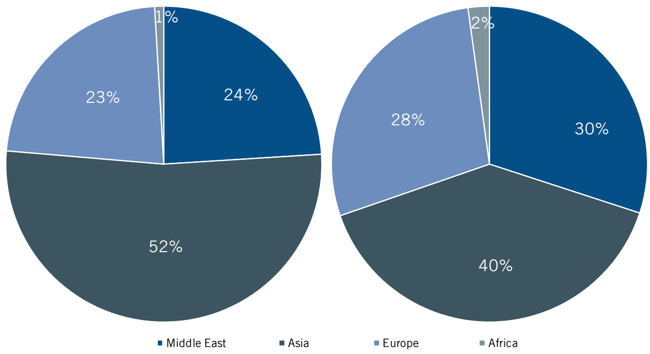
Financial Statement Analysis

Income Statement

Full Year 2009-2010

- ALAFCO's FY2009-2010 revenues grew by 47% YoY to KD 39.7 million, on account of a 50% YoY growth in operating lease income to KD 39.3 million. The company's fleet grew to 40 aircraft at the end of September 2010 (from 26 at the end of September 2009). Furthermore, ALAFCO is targeting a fleet of 59 owned and managed aircraft by September 2011.
- Revenues from Asia (representing 40% of total revenues) grew by a marginal 1% YoY. However, the Middle East region and Europe came in as the major drivers for the year, with revenues growing by 66% YoY and 65% YoY, respectively. The following figure highlights the geographical revenue split for ALAFCO over the past two fiscal years.

ALAFCO Revenue Split



Sources: Company financial statements and NBK Capital

- Due to healthy revenue growth, operating profits managed to grow by 44% YoY to KD 19.6 million, representing a stable operating margin of 50%.
- The strong operating performance, however, was dampened to a certain extent by a 44% YoY growth in finance costs to KD 9.1 million. As a result, net profit for the year grew by only 6% YoY to KD 10.8 million.
- The company's board of directors has recommended a cash dividend of 5 fils per share (equating to a dividend yield of 2.06%) and 5% in bonus shares (five shares per each 100 shares).
- While during FY2009-2010 non-recurring line items did not feature in Alafco's financial statements, through the past years, ALAFCO has had some nonrecurring contributors to its bottom line (such as gain on disposal of available-for-sale investments and gain on disposal of property and equipment). After adjusting net income for the impact of these non-recurring items, we notice a 28% decline in adjusted net profit for FY2008-2009 to KD 7 million from the KD 9.7 million reported in FY2007-2008.

Adjusted Net Income

(KD Millions)	FY2006-2007	FY2007-2008	FY2008-2009	FY2009-2010
Net Income	9.1	10.1	10.2	10.8
Net Income Margin (%)	34%	37%	38%	27%
Net Income ex. Non-recurring	7.6	9.7	7.0	10.8
Adj. Net Income Margin (%)	29%	36%	26%	27%

Sources: Company financial statements and NBK Capital

Balance Sheet

- Naturally, ALAFCO is a very asset-heavy company, as the majority of the company's leases are structured as operating leases. Thus, the assets are recorded on ALAFCO's balance sheet as property, plant, and equipment (PP&E).
- Examining PP&E, we notice that during FY2009-2010 ALAFCO had an addition of KD 145 million under aircraft and engine that resulted in a 57% YoY increase in net PP&E.
- Additionally, ALAFCO is a zero investment company, an indication of the company's focus on core operations.
- As of September 2010, ALAFCO had net debt amounting to KD 349 million, up 77% YoY. Additionally, the company has a net debt-to-equity ratio of 3.4x, versus 2.1x at the end of September 2009.
- Although the net debt-to-equity ratio has grown considerably during FY2009-2010, ALAFCO has maintained consistent interest coverage numbers. For FY2009-2010, ALAFCO recorded an interest coverage ratio (EBIT/Finance Cost) of 2.3x (versus 2.2x achieved in FY2008-2009).
- ALAFCO had an ROA of 2% for FY2009-2010, down from 3% in the previous year. Additionally, ROE for FY2009-2010 stood at 11%, down from 12% in the previous year. Although both statistics have declined slightly, we still consider them strong results.

Financial Statements

Income Statement (KD '000)	FY2006-2007	FY2007-2008	FY2008-2009	FY2009-2010
Operating lease income	26,317	24,278	26,291	39,326
Consultancy and service income	471	2,840	561	253
Finance lease income	39	165	141	78
Total Revenue	**26,827**	**27,282**	**26,993**	**39,657**
Murabaha income	526	339	103	406
Gain on disposal of AFS	-	313	-	-
Gain on disposal of PP&E	1,482	-	3,173	-
Other income	-	237	134	373
Staff costs	(679)	(1,043)	(1,297)	(1,536)
Depreciation	(10,287)	(9,465)	(11,194)	(17,726)
Finance costs	(7,775)	(6,553)	(6,294)	(9,068)
Other operating expenses	(580)	(550)	(904)	(765)
Directors fees	(60)	(60)	(60)	(75)
Profit before tax	**9,454**	**10,501**	**10,653**	**11,266**
Zakat	-	(86)	(107)	(113)
KFAS	(86)	(95)	(96)	(102)
NLST	(238)	(264)	(268)	(284)
Net Income	**9,130**	**10,055**	**10,182**	**10,767**

Balance Sheet (KD '000)	FY2006-2007	FY2007-2008	FY2008-2009	FY2009-2010
Assets				
PP&E	205,332	186,338	299,518	471,032
Capital advances	26,077	63,004	59,538	43,614
AFS	1,448	-	-	-
Receivables	440	200	1,651	284
Finance lease receivables	2,669	2,128	1,817	-
Cash and balances	9,105	9,264	27,706	20,636
Total Assets	**245,070**	**260,935**	**390,230**	**535,567**
Liabilities and Shareholders' Equity				
Due to financial institutions	118,829	121,720	224,887	369,959
Security deposits	9,228	14,798	30,782	31,326
Maintenance reserve	6,466	5,764	7,032	12,696
Other liabilities	31,985	37,506	33,971	18,833
Total Liabilities	**166,507**	**179,788**	**296,672**	**432,814**
Total Equity	**78,563**	**81,147**	**93,558**	**102,753**
Total Liabilities & Equity	**245,070**	**260,935**	**390,230**	**535,567**

Sources: Company financial statements and NBK Capital

BOUBYAN PETROCHEMICAL

Key Data

General		Liquidity	
KSE Code	BPCC.KSE	52-week avg. volume	1,613,292
Reuters Code	BPCC.KW	52-week avg. value (KD)	821,056
Price (KD)		**Price Performance**	
Closing Price	0.530	YTD	29.3%
52-week High/Low	0.570 / 0.400	1-Year Period	30.9%
Market Capitalization		**Shares Outstanding**	
Million KD	257	Latest (million)	485
Ownership Structure			
Closely held: 18.65%		Public: 81.35%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance

Sources: Zawya and NBK Capital

Analyst

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Highlights

- Due to Boubyan Petrochemical's dependence on income from investments, the company must effectively be looked at as a holding company.
- Boubyan's most notable key strategic investment is the company's 9% stake in EQUATE—a private company founded in 1995 as a joint venture between government-owned Petrochemical Industries Company (PIC) and Union Carbide Corporation, now a wholly owned subsidiary of the Dow Chemical Company, and Boubyan Petrochemical Company. Aside from EQUATE, Boubyan also holds sizeable available-for-sale and trading investments in undisclosed entities, representing 53% of total assets at the end of July 2010.
- Boubyan's net profit figure is highly dependent on dividend income and investment income.
- The quarter ended July 2010 has been a difficult quarter for Boubyan, in terms of both operational and investment performance. While revenues during the quarter grew marginally, by 3% year-on-year (YoY), to KD 6.6 million, operating profits declined by 83% YoY to KD 227,123. This decline was driven by a 27% YoY increase in operating costs. Net income, on the other hand, declined by 66% YoY to KD 1.7 million in 1Q2010-2011 as a result of an 87% YoY decline in investment income to KD 714,217 (versus KD 5.3 million in 1Q2009-2010).
- Boubyan Petrochemical reported slower operational growth but heightened operational efficiency in the company's FY2009-2010 results. The company's revenues declined by 8% YoY to KD 23 million. However, EBIT came in at KD 5.3 million (versus only KD 1.4 million in FY2008-2009), representing an EBIT margin of 23% (versus 5% in FY2008-2009). Finally, net income for the year grew by 5% YoY to KD 21.4 million. The company's board of directors approved a cash dividend of KD 0.030 per share (Ex-dividend date: August 3, 2010) on full-year earnings, representing a payout ratio of 68% (versus 60% in FY2008-2009).
- With the exception of EQUATE, we are uncertain about the exact composition of the majority of Boubyan's investments.

Key Ratios

	FY2006-2007	FY2007-2008	FY2008-2009	FY2009-2010	1Q2010-2011
Net Debt to Equity	0.30	0.34	0.68	0.67	0.76
Investments/Total Assets	91.0%	86.6%	86.6%	85.2%	82.4%
Investments/Equity	123.4%	126.1%	154.7%	151.1%	160.9%
ROA (%)	14.2%	14.5%	5.1%	5.1%	N/A
ROE (%)	19.0%	20.5%	8.1%	9.1%	N/A

Sources: Company's financial statements and NBK Capital

Overview

Boubyan Petrochemical, operationally, is a company that acts as a third party between customers and petrochemical manufacturers that specialize in products such as polyethylene and ethylene glycol.

However, taking into account Boubyan's operational structure and the company's dependence on core and non-core investments, Boubyan must be analyzed as a holding company. Although Boubyan Petrochemical has been growing operationally since its inception, the company still depends on EQUATE as well as some non-core investments.

EQUATE Overview

EQUATE Petrochemical Company is a private company founded in 1995 as a joint venture between government-owned Petrochemical Industries Company (PIC) and Union Carbide Corporation, now a wholly owned subsidiary of the Dow Chemical Company, and Boubyan Petrochemical Company.

Currently, both Dow Chemical Company and PIC own 42.5% of EQUATE. Boubyan Petrochemical Company holds 9%, and the remaining 6% is owned by Qurain Petrochemical Industries Company, a publicly traded company established in Kuwait in 2004. Producing polyethylene and ethylene glycol for the markets of Asia, the Middle East, Africa, and Europe, EQUATE owes its success to Kuwait's rich hydrocarbon resources.

Latest News

- **September 2010:** EQUATE Petrochemicals Company signed a deal with Aquatech International to build a water recycling plant (part of a comprehensive environmental project by EQUATE, valued at more than USD 11 million). The plant is expected to reduce the company's water consumption and cut carbon emissions associated with purifying water. However, EQUATE did not disclose the value of the contract.
- **July 2010:** Boubyan's board of directors approved a cash dividend of KD 0.030 per share on FY2009-2010 earnings. The cash dividend equates to a payout ratio of 68% (versus 60% in FY2008-2009) with an ex-dividend date of August 01, 2010.
- **June 2010:** Boubyan increased its ownership in Oman's Muna Noor Incorporated to 100% from its previous 80% stake. The company bought the additional 20% stake in Muna Noor Incorporated for KD 4.7 million.
- **May 2010:** Boubyan announced the purchase of a 24% stake in Al Kout Industrials Projects for KD 8.2 million from Shuaa Capital via an auction on the bourse. Al Kout is engaged in the production and marketing of salt, chlorine, and other similar products.

Financial Statement Analysis

Income Statement

1Q2010-2011

- The quarter ended July 2010 has been a difficult quarter for Boubyan, in terms of both operational and investment performance.
- Revenues during the quarter grew marginally, by 3% YoY, to KD 6.6 million. However, the cost of sales increased by 25% YoY to KD 5.3 million, and general and administrative expenses grew by 39% YoY to KD 1 million. As a result, EBIT declined by 83% YoY KD 227,123, representing an EBIT margin of 3% (versus 21% in 1Q2009-2010).
- Overall, net income for the quarter declined by 66% YoY to KD 1.7 million. This decline was primarily driven by an 87% YoY decline in investment income to KD 714,217 (versus KD 5.3 million in 1Q2009-2010) and the company's deteriorating operating performance. In terms of the positives, gains on foreign exchange stood at KD 167,537 (versus KD 874,340 in losses on foreign exchange during 1Q2009-2010), dividend income grew by 22% YoY to KD 3.3 million, and impairments of available-for-sale investments declined by 24% YoY to KD 1.1 million.

FY2009-2010

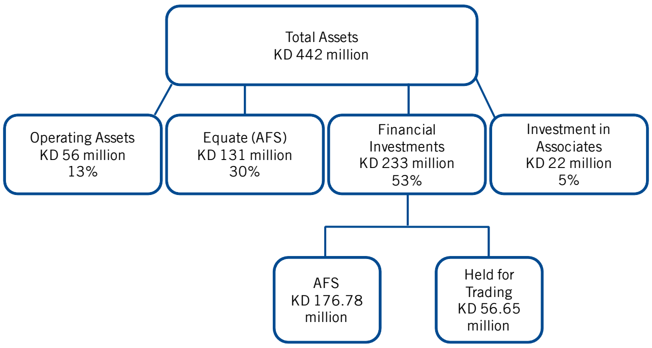
- FY2009-2010 was a year of slow operational growth but heightened operational efficiency for Boubyan. The company's revenues declined by 8% YoY to KD 23 million.
- On the other hand, the company's full-year EBIT came in at KD 5.3 million versus only KD 1.4 million in FY2008-2009. The EBIT margin for the year stood at 23% (versus 5% in FY2008-2009). The improvement in the EBIT margin can largely be accredited to a 14% YoY decline in cost of sales and a total of KD 3.1 million in reversal of provisions during the year.

- The company's profits have always been highly dependent on dividend and investment income. However, during FY2009-2010, dividend income declined by 24% YoY, while net investment income dropped 47% YoY. Furthermore, the share of results from associates also declined by 92% YoY. As a result, profit before impairment declined by 39% YoY to KD 45.4 million.
- Net income for the year grew by 5% YoY to KD 21.4 million. This increase is largely due to a 58% YoY reduction in impairments of available-for-sale investments to KD 22 million.

Balance Sheet

- Boubyan Petrochemical's asset portfolio effectively transforms the company into a holding company. The chart below breaks down Boubyan's asset portfolio.

Boubyan Asset Breakdown – July 2010



Sources: Company's financial statements and NBK Capital

- The chart above highlights the vast difference in size between Boubyan's operating assets and its investments. Operating assets account for only 13% of total assets. However, investment in EQUATE, other financial investments, and investment in associates account for 30%, 53%, and 5% of total assets, respectively.
- EQUATE is considered a key strategic investment for the company since Boubyan has board representation and is involved in the decision-making process.
- Boubyan's net debt-to-equity ratio increased to 0.76x at the end of July 2010, from 0.67x at the end of April 2010. This increase was driven primarily by an 8% quarter-on-quarter (QoQ) increase in total debt and an 8% QoQ decline in total shareholders' equity.

Financial Statements

Income Statement (KD '000)	FY2008-2009	FY2009-2010	1Q2009-2010	1Q2010-2011
Sales	25,189	23,079	6,362	6,583
EBIT	**1,365**	**5,331**	**1,366**	**227**
Dividend income	19,101	14,552	2,673	3,262
Net investment income	57,440	30,702	5,296	714
Share of results of associates	2,784	230	299	212
Finance cost	(7,301)	(7,817)	(1,874)	(1,950)
Other Income	599	2,434	(807)	365
Profit before impairment	**73,988**	**45,432**	**6,953**	**2,831**
Impairment of investments AFS	(52,105)	(21,965)	(1,515)	(1,145)
Taxes	(861)	(968)	(225)	(16)
Director's fees	(75)	(75)	-	-
Minority Interest	(612)	(1,016)	(284)	(11)
Net Income	**20,335**	**21,407**	**4,927**	**1,659**

Balance Sheet (KD '000)	FY2007-2008	FY2008-2009	FY2009-2010	July-2010
Cash and cash equivalents	17,797	7,590	10,006	17,814
Accounts receivable	6,422	8,756	9,335	8,424
Inventories	2,525	2,620	3,775	3,398
Investments carried at fair value	46,983	35,508	56,712	56,652
Total Current Assets	**73,728**	**54,474**	**79,828**	**86,289**
Investments AFS (EQUATE)	131,500	120,000	130,500	130,500
Investments AFS (Others)	170,549	189,459	182,762	176,781
Investments in associates	13,544	14,674	13,594	21,528
Exchange of deposits	602	7,250	6,630	6,016
Property, plant, and equipment	10,525	10,080	14,778	14,522
Goodwill	2,575	2,575	6,002	6,002
Total Assets	**403,023**	**398,512**	**434,095**	**441,637**
Accounts payable and accruals	11,435	11,271	10,875	8,640
Dividends payable	1,640	2,334	2,663	16,912
Bank overdraft	-	-	268	867
Islamic financing payables	-	-	45,000	53,000
Term loans	111,814	160,330	129,334	135,079
Total Liabilities	**124,889**	**173,935**	**188,139**	**214,498**
Total Shareholder's Equity	**276,800**	**223,043**	**244,927**	**226,198**
Minority Interest	**1,333**	**1,534**	**1,028**	**940**
Total Liabilities and Sh. Equity	**403,023**	**398,512**	**434,095**	**441,637**

Sources: Company's financial statements and NBK Capital

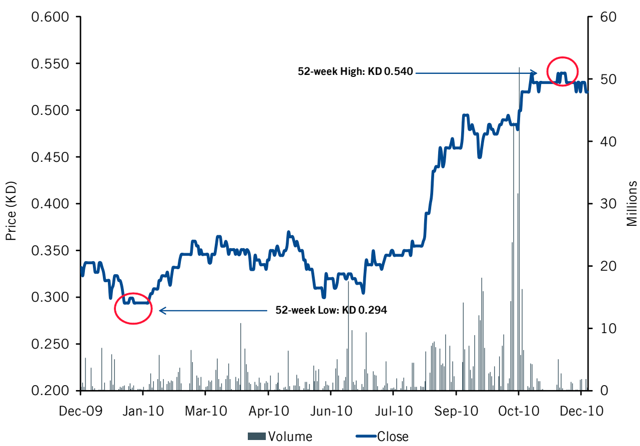
BURGAN BANK (BURGAN)

Key Data

General		Liquidity	
KSE Code	BURG.KSE	52-week avg. volume	3,200,417
Reuters Code	BURG.KW	52-week avg. value (KD)	1,293,846
Price (KD)		**Price Performance**	
Closing Price	0.520	YTD	63.5%
52-week High/Low	0.540 / 0.294	1-Year Period	59.0%
Market Capitalization		**Shares Outstanding**	
Million KD	714.90	Latest (million)	1,374.82
Ownership Structure			
Closely Held: 78%		Public: 22%	

Price as of close on December 13, 2010 Sources: Reuters, Zawya, and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Burgan Bank was established in 1977 and held approximately 10% of the total banking assets in Kuwait as of September 2010. Kuwait Investment Projects Company (KIPCO) currently owns 52% of the bank, after the sale of a 17% stake to Bahrain-based United Gulf Bank (UGB) in November 2010.
- In 2Q2010, Burgan completed the acquisition of Tunis International Bank (TIB) from UGB as part of the bank's regional expansion strategy. In 1Q2010, Burgan became a majority shareholder of Bank of Baghdad (BOB) after purchasing an additional 6.48% stake for USD 10.7 million from UGB, which increased Burgan's total ownership in BOB to 51.8%. In April 2009, the bank transferred 45.31% of BOB shares and 60% of Algeria Gulf Bank (AGB) shares from UGB. By July 2008, Burgan had acquired a 43.7% stake in Jordan Kuwait Bank (JKB) from UGB.
- Burgan recorded a net profit of KD 3.8 million in 3Q2010 after recording a net loss of KD 8.7 million in 2Q2010. The improvement in quarterly net profit was largely due to a decline in loan loss provision charges from KD 28.7 million in 2Q2010 to KD 14.9 million in 3Q2010. The bank recorded a net loss of KD 3 million in 9M2010, compared with a net profit of KD 13.5 million in 9M2009. Net interest income grew by 4.4% YoY, supporting a 6% increase in operating income in 9M2010. Net loans declined for the third quarter in a row to reach KD 2.12 billion at the end of September 2010. Year-to-date (YTD) deposit growth stood at 6%, reaching KD 2.57 billion as of September 2010, with the majority of the growth occurring in 3Q2010 (+5.5% QoQ).
- Burgan's capital adequacy ratio (CAR) stood at 16.9% at the end of December 2009, up from 13.8% at the end of December 2008, and above the minimum regulatory requirement of 12%.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Growth in Loans	18.3%	50.2%	50.1%	5.3%	-5.5%
Growth in Deposits	6.1%	33.2%	46.6%	0.4%	6.0%
Growth in Net Profit	31.5%	34.3%	-50.5%	-83.2%	n/m
Growth in Operating Income	25.8%	20.7%	14.6%	27.7%	5.9%
NPLs-to-Gross Loans	3.4%	1.7%	1.4%	9.8%	N/A
NPL Coverage	165%	224%	321%	76%	N/A
Capital Adequacy	16.50%	16.58%	13.77%	16.90%	N/A
Growth in Costs	15.0%	17.6%	20.1%	30.0%	30.1%
Cost-to-Income	27.1%	26.4%	27.7%	28.1%	35.1%
RoAA	2.7%	3.0%	1.1%	0.2%	N/A
RoAE	22.0%	24.5%	11.2%	1.9%	N/A

Sources: Company's financial statements and NBK Capital

Overview

Established in 1977, Burgan Bank (Burgan) is the youngest commercial bank in Kuwait. The bank was primarily government owned for two decades. The bank underwent a major structural change in 1997 when Kuwait Investment Projects Company (KIPCO), Kuwait's leading holding company, took over the government's share to become the largest shareholder. KIPCO currently owns 52% of the bank. Along with the change in ownership came a shift in strategic focus and management style. The bank operates via a network of 21 branches and more than 130 ATMs around Kuwait. The bank's activities can be broadly divided into four main categories: retail banking, corporate banking, private and international banking, and treasury and investments. As of September 2010, Burgan held approximately 10% of the country's total banking assets with an asset base of KD 4.18 billion. Burgan operates on the three main strategic pillars of client satisfaction and care, leveraging the bank's operational and technological capabilities, and nurturing staff. Thus, the bank has focused its efforts on bringing innovative products and services to the market, enhancing customer satisfaction, and improving delivery channels. The long-term strategy remains focused on transforming branches and taking a more customer-centric approach. Burgan is the only bank in the Gulf Cooperation Council (GCC) with ISO 9001:2000 certification for all its banking business.

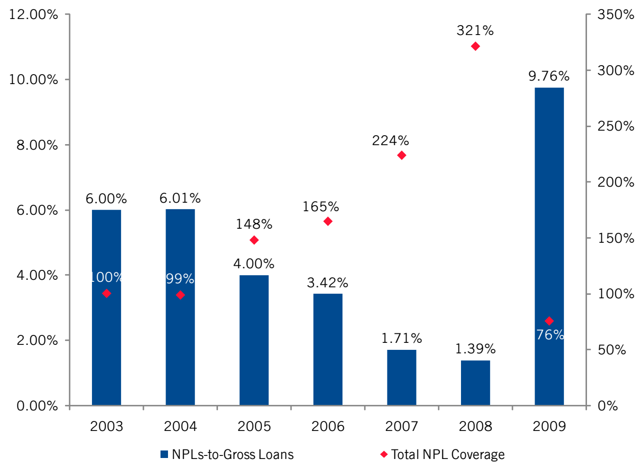
Latest News

- **November 2010:** United Gulf Bank (UGB) increased its holding in Burgan Bank to 17% after receiving the necessary approvals from the Central Bank of Kuwait.
- **September 2010:** Burgan completed the issuance of a USD 400 million subordinated bond, which was rated 'A3' by Moody's and 'BBB' by S&P. Burgan stated that it intends to use the bond proceeds to enhance the bank's capital base, and support its market expansion strategy with a focus on the Middle East and North Africa.
- **June 2010:** Burgan completed the acquisition of Tunis International Bank (TIB) from UGB. The acquisition was part of Burgan's regional expansion strategy, which also included the purchases of JKB, AGB, and BOB from UGB.
- **June 2010:** Burgan received approval from its shareholders to issue bonds in Kuwaiti dinars or their equivalent in foreign currencies, within the maximum allowable limit of KD 140 million.
- **May 2010:** S&P affirmed Burgan's long- and short-term counterparty credit ratings at BBB+/A-2 with a "Stable" Outlook.
- **April-May 2010:** In 2Q2010, Burgan raised its capital base from KD 104 to KD 140 million via a rights issue. The bank issued 360 million new shares, which increased the number of outstanding shares from 1.04 billion to 1.4 billion. The bank issued the shares for KD 0.100 with a premium of KD 0.180 per share, taking the total subscription value to KD 100.8 million.

Asset Quality

Burgan's asset quality indicators significantly deteriorated in 2009, as the NPLs-to-gross loans ratio rose to 9.8% compared to 1.4% as of December 2008. Consequently, NPL coverage fell to 76% at the end of 2009 (the lowest in the past seven years) compared to a record high of 321% in December 2008. Between 2004 and 2008, there was a continuous improvement in the bank's asset quality indicators as the NPLs-to-gross loans ratio fell from 6.01% in 2004 to 1.4% in 2008; NPL coverage increased from 99% to more than 300% during the same period.

NPLs-to-Gross Loans and NPL Coverage Ratio



Sources: Company's financial statements and NBK Capital

NPL Analysis – Pre-invasion versus Post-liberation

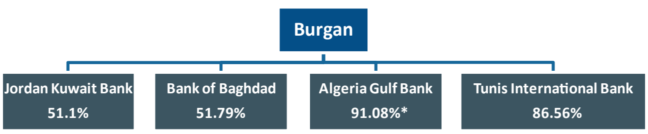
KD Thousands	2005	2006	2007	2008	2009
Pre-invasion					
NPLs	5,169	5,111	4,949	4,952	5,050
Specific Provisions	5,169	5,111	4,949	4,952	5,050
% of Total NPLs	15%	15%	20%	16%	2%
Post-liberation					
NPLs	28,825	29,183	20,341	26,050	231,645
Specific Provisions	14,360	17,487	13,392	16,989	70,136
% of Total NPLs	85%	85%	80%	84%	98%
Post-Liberation					
NPL Growth	-30%	1%	-30%	28%	789%
Provisions Growth	-25%	22%	-23%	27%	313%
NPL Coverage	50%	60%	66%	65%	30%
Total					
NPLs	33,994	34,294	25,290	31,002	236,695
Total Provisions	50,306	56,503	56,592	99,575	179,128
NPL Coverage	**148%**	**165%**	**224%**	**321%**	**76%**
NPLs-to-Gross Loans	**4.0%**	**3.4%**	**1.7%**	**1.4%**	**9.8%**

Sources: Company's financial statements and NBK Capital

Expansion Strategy

- In 2Q2010, Burgan completed the acquisition of Tunis International Bank (TIB) from UGB. Burgan now owns an 86.5% share in TIB.
- In 1Q2010, the bank acquired a 6.48% stake in BOB's shares from UGB. Burgan previously held 45.31% of BOB, so the bank's total ownership increased to 51.79%.
- In 2Q2009, the bank completed the transfer of 60% of AGB's shares, taking Burgan's total ownership to 65.11%. Following the acquisition of TIB in 2Q2010, Burgan's effective ownership in AGB increased to 91.08%, as TIB owns a 30% stake in AGB.
- In July 2008, Burgan acquired a 43.86% equity stake in JKB. Burgan previously owned 7.24% of JKB, so this acquisition increased Burgan's total ownership to 51.1%.
- Purchasing stakes in JKB, AGB, BOB, and TIB was a part of Burgan's expansion strategy, which was announced in 2008. The shares were bought from UGB for KD 194 million. UGB, an investment bank based in Bahrain, is also majority owned (85%) by KIPCO.

Post-transaction Shares in Subsidiaries



**TIB owns a 30% stake in AGB, increasing Burgan's effective ownership in AGB.*
Sources: NBK Capital

Financial Statement Analysis

Income Statement

- Burgan recorded a net profit of KD 3.8 million in 3Q2010 after recording a net loss of KD 8.7 million in 2Q2010. The positive net profit figure in 3Q2010 was largely due to a sizable decline in loan loss provisioning charges from KD 28.6 million in 2Q2010 to KD 14.9 million in 3Q2010. Overall, however, the bank recorded a net loss of KD 3 million in 9M2010, compared with a net profit of KD 13.5 million in 9M2009.
- Net interest income grew by 4% YoY despite a 5% decline in the loan book in 9M2010. Income from fees and commissions rose by 7%, while foreign exchange income surged by 38% YoY. Total operating income was supported by a surge in net investment income, which grew from KD 5.1 million in 9M2009 to KD 12.1 million in 9M2010. The increase was the result of a gain of KD 10.91 million in 9M2010 from the revaluation of two of the bank's subsidiaries—namely, BOB and TIB.
- Although net loan loss provision charges declined in 3Q2010 (-33% YoY and -48% QoQ), net loan loss provision charges in 9M2010 stood at KD 66 million, which is 31% higher than 9M2009.
- Costs grew by 30% YoY, pushing the cost-to-income ratio (CIR) up to 35% in 9M2010, compared with a CIR of 28% in FY2009.
- Burgan announced a net profit of KD 6.2 million in 2009, which is 83% below that of 2008, as net loan loss provisioning charges more than doubled compared to 2008. However, on the operational level, net interest income (NII) growth was robust, up 50% over 2008. Income from fees and commissions grew by 34%, and foreign exchange income turned positive. However, almost all other non-interest income components declined compared to 2008. Total operating income reached KD 155 million, which is 28% over that of 2008.

Balance Sheet

- Burgan's total assets increased by 2% in 9M2010 following slow growth of 4% in 2009. Between 2004 and 2008, total assets saw a compound annual growth rate (CAGR) of 23%.
- Net loans declined for the third consecutive quarter in 3Q2010 to reach KD 2.12 billion at the end of September 2010, resulting in a YTD decline in loans of 5.5%. Net loans grew by 5% in FY2009. Total deposits were nearly flat in 1H2010, but surged by 5.5% in 3Q2010, taking YTD deposit growth to 6%, with total deposits reaching KD 2.57 billion at the end of September 2010.
- Burgan's total borrowings more than doubled from KD 50.2 million in June 2010 to KD 112 million in September 2010. The increase in borrowings for the period stemmed from the issuance of USD 400 million subordinated notes by one of the bank's special purpose entities. Furthermore, the subordinated debt is eligible as Tier II capital under the Basel II regulations of the Central Bank of Kuwait.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Interest Income	208,744	201,996	154,124	127,768
Interest Expense	(140,727)	(100,167)	(79,590)	(49,978)
Net Interest Income	**68,017**	**101,829**	**74,534**	**77,790**
Fees and Commissions	22,416	29,966	22,371	23,921
Foreign Exchange Income	(237)	4,499	3,984	5,485
Net Investment Earnings	26,435	5,077	5,095	12,115
Income from Associate	-	786	632	-
Other Operating Income	4,474	12,552	9,178	3,308
Total Operating Income	**121,105**	**154,709**	**115,794**	**122,619**
Staff Expenses	(17,985)	(20,994)	(15,474)	(19,058)
Other Expenses	(15,501)	(22,542)	(17,608)	(23,979)
Total Operating Expenses	**(33,486)**	**(43,536)**	**(33,082)**	**(43,037)**
Loan Loss Provisions	(36,396)	(79,389)	(50,205)	(66,018)
Investment Provisions	(10,158)	(3,448)	(2,304)	760
Other Income / (Exp.)	(5,331)	(7,732)	(4,554)	(8,994)
Minority Interest	1,331	(14,393)	(12,145)	(8,358)
Net Income	**37,065**	**6,211**	**13,504**	**(3,028)**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Cash and Cash Equivalents	864,899	938,333	1,019,137	1,136,925
Due from Banks	380,568	532,412	407,427	457,842
Loans and Advances	1,421,104	2,132,990	2,246,949	2,123,888
Net Investments	110,146	107,404	140,952	135,995
Investment in Associates	-	-	15,434	-
Net Fixed Assets	17,804	30,607	36,664	45,352
Others	53,026	201,253	235,208	275,531
Total Assets	**2,847,547**	**3,942,999**	**4,101,771**	**4,175,533**
Liabilities and Shareholders' Equity				
Due to Banks and Oth.Fin.Inst.	732,112	795,486	977,804	862,248
Customers' Deposits	1,648,538	2,416,101	2,424,981	2,570,763
Borrowings	42,998	197,943	123,022	111,791
Other Liabilities	72,759	147,668	139,903	99,757
Total Liabilities	**2,496,407**	**3,557,198**	**3,665,710**	**3,644,559**
Minority Interest	-	75,515	110,586	109,895
Total Shareholders' Equity	**351,140**	**310,286**	**325,475**	**421,079**
Total Liabilities and Equity	**2,847,547**	**3,942,999**	**4,101,771**	**4,175,533**

Sources: Company's financial statements and NBK Capital

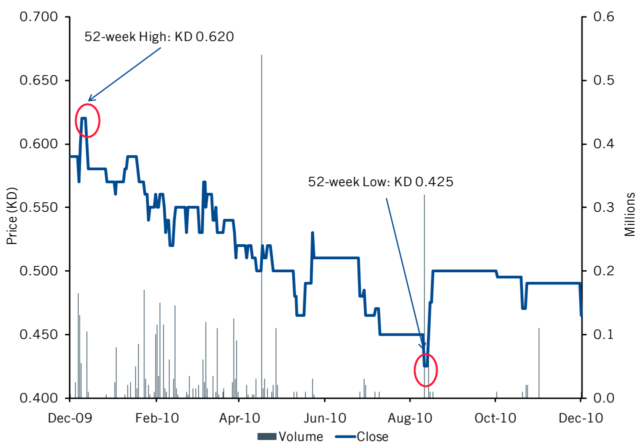
BURGAN CO. FOR WELL DRILLING, TRADING AND MAINTENANCE (BURGAN WELL DRILLING)

Key Data

General		Liquidity	
KSE Code	BURG.KSE	52-week avg. volume	48,824
Reuters Code	ABAR.KW	52-week avg. value (KD)	25,599
Price (KD)		**Price Performance**	
Closing Price	0.465	YTD	-19.8%
52-week High/Low	0.620 / 0.425	1-Year Period	-21.2%
Market Capitalization		**Shares Outstanding**	
Million KD	97	Latest (million)	210
Ownership Structure			
Closely held: 82.29%		Public: 17.71%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

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Highlights

- Burgan announced its 1H2010-2011 results with successive declines in the company's operating performance. While revenues came in flat at KD 20.9 million, contract costs (excluding depreciation) grew by 25% year-on-year (YoY) to KD 15.2 million. As a result, adjusted gross profits declined by 34% YoY to KD 5.7 million, representing an adjusted gross margin of 27%.
- The 1H2010 EBITDA declined by 44% YoY to KD 4.5 million, on account of declining gross profits and a 65% YoY growth in general and administrative expenses. Thus, the EBITDA margin declined to 22%, from 38% in 1H2009-2010. Net Income for the period stood at KD 67,478 (versus KD 5.3 million in 1H2009-2010). The deeper decline in net income (versus EBITDA) largely relates to a 162% YoY growth in finance costs and a 46% YoY increase in total depreciation expenses.
- Burgan Well Drilling has been a high-margin business with annual EBIT margins ranging between 39% and 27% over the past few years. However, this trend reversed over the second half of FY2009-2010, with the FY2009-2010 EBIT margin coming in at 15% (versus 27% in FY2008-2009). This was driven by a 52% YoY increase in contract costs and an 82% YoY increase in depreciation costs.
- Over the same period, net margins have ranged between 23% and 36%; however, the FY2009-2010 net margin came in at 7.4%. This decrease was primarily driven by the decline in operating performance during 2H2009-2010 (operating profit for FY2009-2010 fell 29% YoY to KD 5.8 million) and a 78% YoY increase in finance costs during the year.

Key Ratios

	FY2006-2007	FY2007-2008	FY2008-2009	FY2009-2010	1H2010-2011
EBITDA (KD millions)	11.2	12.1	10.9	10.8	4.5
EBITDA Margin	48%	45%	37%	28%	22%
EBIT (KD millions)	9.1	9.6	8.2	5.8	1.5
EBIT Margin	39%	36%	27%	15%	7%
Adj. Gross Margin	52%	49%	41%	32%	27%
Net Profit Margin	36%	35%	23%	7%	0%
Quick Ratio	1.4	0.6	0.1	0.2	0.3
Current Ratio	1.7	1.1	0.3	0.4	0.5
Net Debt to Equity	0.0	0.3	0.7	1.3	1.4
Interest Coverage Ratio (EBIT / Net Int. Exp.)	10.1	23.3	5.2	2.1	0.8
ROA	16.8%	15.2%	8.4%	2.3%	N/A
ROE	33.8%	27.2%	16.3%	6.0%	N/A

Sources: Company's financial statements and NBK Capital

Overview

Burgan Company for Well Drilling, Trading, and Maintenance (Burgan Well Drilling) is an oil service company that provides manpower for well drilling and rig mobilization, as well as repair and maintenance services for Burgan Well Drilling-owned and non-owned wells and rigs. Burgan Well Drilling's sole source of revenue is service contracts with various government-operated oil companies. The company has operations principally in Kuwait and Bahrain and has a longstanding relationship with Kuwait Oil Company (KOC) and its parent, Kuwait Petroleum Corporation. Burgan Well Drilling was founded in 1970 and was listed on the Kuwait Stock Exchange in 2005.

Latest News

- **August 2010:** Burgan recently announced its intention to add 10 more drilling rigs next year, to bring the company's total number of rigs to 41. Management claims to have a market share of nearly 50% in Kuwait's oil exploration sector (with 31 rigs at the end of March 2010). The company has also appointed advisors to restructure its debt. Additionally, the company claims to have paid USD 90 million of its USD 125 million Ijara facility secured last year. However, the article does not disclose how exactly how the debt was repaid.
- **March 2010:** Burgan is awarded a contract to supply six oil rigs worth KD 58.54 million to state-owned Kuwait Oil Co. over a period of five years.

Financial Statement Analysis

Income Statement

1H2010-2011

- The second quarter of FY2010-2011 has gotten successively worse for Burgan. While revenues during 1H2010-2011 came in flat at KD 20.9 million, contract costs (excluding depreciation) grew by 25% YoY to KD 15.2 million. As a result, adjusted gross profits declined by 34% YoY to KD 5.7 million, representing an adjusted gross margin of 27% (versus 42% in 1H2009-2010).
- The 1H2010 EBITDA declined by 44% YoY to KD 4.5 million, on account of declining gross profits and a 65% YoY growth in general and administrative expenses. As a result, the EBITDA margin declined to 22%, from 38% in 1H2009-2010.
- Net Income for the period stood at KD 67,478 (versus KD 5.3 million in 1H2009-2010). The deeper decline in net income (versus EBITDA) largely relates to a 162% YoY growth in finance costs to KD 1.8 million and a 46% YoY increase in total depreciation expenses to KD 3 million.
- Furthermore, we would like to highlight that while deterioration in operating performance has impacted the income statement, the company's operating cash flows have also suffered (albeit to a relatively lesser extent) from a 58% YoY decline to KD 1.6 million (from KD 3.9 million in 1H2009-2010).

FY2009-2010

- Following the stellar financial performance in the first half of FY2009-2010, 2H2009-2010 was rather subdued, pushing the FY2009-2010 YoY growth for net income into negative territory. Revenue for FY2009-2010 was KD 39 million, a 30% increase compared to the KD 30 million reported during FY2008-2009.
- The FY2009-2010 adjusted gross profit remained stable at KD 12.3 million compared to the adjusted gross profit in FY2008-2009. However, the adjusted gross profit margin contracted from 41% in FY2008-2009 to 32% in FY2009-2010. This decrease was driven by a 52% YoY increase in contract costs (excluding depreciation), which outpaced revenue growth during the period.
- EBIT for the year declined by 29% YoY to KD 5.8 million, driven primarily by an 82% YoY increase in depreciation costs. This represented an EBIT margin of 15% (versus 27% in FY2008-2009). On the other hand, EBITDA declined by only a marginal 1% YoY to KD 10.8 million, representing an EBITDA margin of 28% (versus 37% in FY2008-2009).
- Net profit for FY2009-2010 came in at KD 2.9 million, down 58% YoY. This decrease was primarily driven by the decline in operating performance and a 78% YoY increase in finance costs for the year.
- Despite declines in net profits over FY2009-2010, cash flows from operating activities remained relatively stable at KD 10.3 million versus KD 10.5 million in FY2008-2009.

Balance Sheet

- At the end of September 2010, Burgan's loan book grew by 4% quarter-on-quarter (QoQ) to KD 71 million. Short-term debt represented 27% of total debt. The company's debt-to-equity ratio grew to 1.4x from 1.3x at the end of June 2010.
- We note that the interest coverage ratio of 2.1x observed in FY2009-2010 is the lowest interest coverage ratio seen by the company in the last six full fiscal years. As of 1H2010-2011, the company's interest coverage ratio had declined to 0.8x, from 8.7x in 1H2009-2010.

Financial Statements

Income Statement (KD '000)	FY2008-2009	FY2009-2010	1H2009-2010	1H2010-2011
Contract revenue	29,870	38,942	20,908	20,901
Contract costs*	(17,571)	(26,624)	(12,173)	(15,174)
Adjusted Gross Profit	**12,298**	**12,318**	**8,735**	**5,727**
SG&A	(1,387)	(1,547)	(734)	(1,210)
Depreciation	(2,745)	(5,002)	(2,086)	(3,049)
Operating Profit	**8,166**	**5,769**	**5,914**	**1,468**
Provision for bad debts	-	(295)	-	-
Profit/(loss) on sale of PP&E	(5)	-	-	-
Other income	580	307	135	105
Finance costs	(1,557)	(2,775)	(682)	(1,791)
Foreign exchange gain (loss)	-	-	186	288
Profit Before Taxes	**7,183**	**3,006**	**5,553**	**71**
Contribution to KFAS	(65)	(27)	(50)	(1)
NLST	(184)	(75)	(139)	(2)
Zakat	(74)	(30)	(55)	(1)
Net Income	**6,861**	**2,874**	**5,309**	**67**

Balance Sheet (KD '000)	FY2007-2008	FY2008-2009	FY2009-2010	Sept-2010
Cash on hand and at banks	916	185	335	1,106
Contract receivables	4,313	4,277	8,776	12,245
Unbilled contract receivables	237	139	10	102
Prepayments and other receivables	678	782	4,634	4,736
Inventory & construction in progress	3,731	5,490	5,685	5,772
Total Current Assets	**9,875**	**10,872**	**19,440**	**23,961**
Property, plant, and equipment	55,603	86,781	133,454	133,149
Total Assets	**65,478**	**97,653**	**152,894**	**157,110**
Due to bank	-	1,906	3,815	2,153
Term loans - current portion	3,139	10,939	4,906	4,346
Ijara Payable - current portion	-	-	11,964	12,553
Advances from KOC	1,302	1,179	1,990	1,679
Notes Payable	-	1,277	8,127	8,127
Murabaha contract	-	8,754	-	-
Accounts payable	4,369	8,406	18,548	19,601
Total Current Liabilities	**8,809**	**32,462**	**49,350**	**48,459**
Term loans - non-current portion	7,654	9,711	28,047	40,532
Ijara Payable - non-current portion	-	-	18,172	11,218
Advances from KOC	10,271	9,214	6,427	5,902
Provision for indemnity	319	354	301	334
Total Liabilities	**27,053**	**51,741**	**102,296**	**106,445**
Total Equity	**38,425**	**45,912**	**50,597**	**50,665**
Total Liabilities and Equity	**65,478**	**97,653**	**152,894**	**157,110**

**Excludes depreciation. Sources: Company's financial statements and NBK Capital*

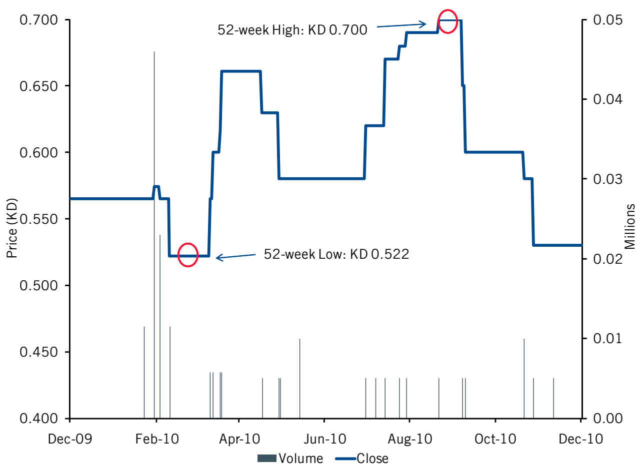
CITY GROUP

Key Data

General		Liquidity	
KSE Code	TRANSPORT.KSE	52-week avg. volume	8,696
Reuters Code	TTGC.KW	52-week avg. value (KD)	5,113
Price (KD)		**Price Performance**	
Closing Price	0.530	YTD	-6.2%
52-week High/Low	0.700/ 0.522	1-Year Period	-6.2%
Market Capitilization		**Outstanding Shares**	
Million KD	59.89	Latest (million)	113.01
Ownership Structure			
Closely Held: 90.52%		Public: 9.48%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Total revenue for the period increased by 29%, from KD 9.62 million in 9M2009 to KD 12.44 million in 9M2010. In 9M2010, the transportation business line witnessed close to a 37% year-on-year (YoY) increase in revenue. In terms of the other segments, on a YoY basis, travel and tourism revenue rose by approximately 19% while the warehousing business segment recorded a 7% decline in revenue. Purchased in 1Q2009, the warehousing and real estate segment contributed KD 1.085 million to total revenues of KD 12.44 million in 9M2010.
- The 9M2010 EBITDA increased by around 18% to reach KD 3.6 million, compared to KD 3.0 million in 9M2009. This translates into an EBITDA margin of 29% in 9M2010, down from 32% in 9M2009. Furthermore, general and administrative expenses depressed EBITDA as they increased by 30% YoY. Depreciation charges increased by around 54% during the same period.
- The 9M2010 results witnessed a sharp decrease of 74% in reported net income. However, if we exclude the KD 2.7 million gain on the acquisition of the warehousing business in 9M2009, the company's net profit would have declined by only 31% in 9M2010, which would be mainly due to the jump in finance costs and the increase in general and administrative expenses.
- City Group had a total debt-to-equity ratio of 0.45x as of the end of September 2010. The company remains well positioned to service its debt through high liquidity and strong cash-generating capabilities.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Gross Profit Margin (%)	48.8%	47.7%	45.9%	46.8%	45.1%
Operating Profit Margin (%)	23.2%	17.4%	19.7%	17.9%	11.6%
Net Profit Margin (%)*	42.6%	30.0%	28.0%	17.0%	9.0%
ROAA	5.4%	8.5%	8.1%	9.7%	N/A
ROAE	6.3%	10.5%	9.7%	11.7%	N/A
Current Ratio (X)	3.80	5.70	4.76	1.96	1.90
Debt to Assets (X)	0.14	0.10	0.05	0.11	0.29
Debt to Equity (X)	0.18	0.12	0.06	0.14	0.45
Receivables Turnover Ratio	4.33	3.42	3.33	3.42	N/A
Inventory Turnover Ratio	25.82	20.24	16.83	13.43	N/A
Payables Turnover Ratio	1.14	2.49	2.57	2.69	N/A

**From continuing operations and adjusted for one-off items such as impairment and gain on asset acquisitions. Sources: Company's financial statements and NBK Capital*

Overview

City Group Co. KSC, formerly known as The Transport and Warehousing Group Co. KSC, is a public limited company listed on the Kuwait Stock Exchange (KSE) with paid-up capital of KD 11.3 million. City Group is engaged in a variety of activities related to land, sea, and air transport. Below we list the company's four fully owned subsidiaries:

- Transport and Warehousing Real Estate Group Company
- Boodai Aviation Company
- Boodai Aviation Agencies Company
- Abar Oilfield Services Company

Latest News

- **September 2010:** City Group signed a USD 30 million loan agreement with International Finance Corporation (IFC), a member of World Bank Group, for a period of seven years. This loan will support the company in acquiring companies within the region, as well as facilitate the purchase of environmentally friendly buses.
- **May 2010:** The company acquired 51% of Jordan's Autobus (Comprehensive Multiple Transport Company or CMTC). The transaction was completed through a KD 6.2 million capital injection. To support the acquisition, City signed a USD 30 million loan agreement with IFC, a member of the World Bank Group.
- **February 2010:** City Group stated that the company's board of directors recommended a 15% distribution of bonus shares for FY2009.
- **December 2009:** City Group signed an agreement with Comprehensive Multiple Transport to acquire 50% of the company's paid-up capital, by increasing Comprehensive Multiple Transport's capital by JOD 15 million. City Group will receive 15 million shares for a nominal value of JOD 1 per share.
- **January 2009:** City Group's wholly owned subsidiary, Transport and Warehousing Real Estate Group, acquired 100% of the net assets of the real estate division of Al Masar United Company for a cash consideration of KD 9.5 million.

Financial Statement Analysis

Income Statement

- In 9M2010, the transportation business line witnessed an almost 37% YoY increase in revenue; travel and tourism revenue rose by approximately 19% while the warehousing business segment recorded a 7% decline in revenue. Purchased in 1Q2009, the warehousing and real estate segment contributed KD 1.085 million to total revenues of KD 12.44 million in 9M2010. Total revenue for the period increased by 29% from KD 9.62 million in 9M2009 to KD 12.44 in 9M2010. In January 2009, City Group's wholly owned subsidiary, Transport and Warehousing Real Estate Group, acquired 100% of the net assets of the real estate division of Al Masar United, which contributed the aforementioned KD 1.085 million to total revenue of KD 12.44 million in 9M2010. In FY2009, this new revenue stream accounted for 12% of the total revenue. In FY2008, City Group's revenue grew by just 0.4%, compared to the almost 7% increase seen in FY2007. This limited growth was mainly due to the slowdown in the travel and tourism business line, which decreased by 40% in 2008 in the midst of the global financial crisis. A closer look at the total revenue reveals that the transport business is still the main contributor to total revenue: 82% in 9M2010, 75% in FY2009, 88% in FY2008, and 79% in FY2007.
- The 9M2010 EBITDA increased by around 18% and reached KD 3.6 million, compared to KD 3.0 million in 9M2009. This translates into an EBITDA margin of 29%, down from 32% in 9M2009. Furthermore, general and administrative expenses depressed EBITDA as they increased by 30% YoY. Depreciation charges increased by around 54% during the same period.
- The 9M2010 results witnessed a sharp decrease of 74% in reported net income. However, the 9M2009 KD 2.7 million gain on the acquisition of the warehousing business was "unusual" since the purchase price of the warehousing business was determined to be lower than the provisional fair value of the net assets acquired. If we exclude this gain from 1Q2009, the company's net profit would have declined by almost 31% in 9M2010. This decrease is mainly due to the jump in finance costs and the increase in general and administrative expenses.

Balance Sheet

- Liquidity concerns are not a source of worry for this company; City Group's debt-to-equity ratio decreased from 0.49x at the end of June 2010 to 0.45x at the end of September 2010. The company has a sufficient cash balance of 2.5 million to cover its finance costs. From March 2010 to June 2010, the debt-to-equity ratio jumped from 0.11x to 0.49x, due to the increase in current and non-current borrowings for the acquisition of CMTC during the period. Cash and cash equivalents decreased by approximately 50% between June 2010 and September 2010, from KD 4.7 million to KD 2.5 million, as the company serviced its debt. Total debt stood at KD 16.0 million at the end of June 2010 and decreased to KD 14.8 million at the end of September 2010.
- Total assets stood at KD 52.1 million as of September 30, 2010, compared to KD 54.1 million at the end of June 2010. The largest component was property, plant, and equipment (PP&E), which accounted for 63% of the total assets.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Revenue	11,903	12,679	9,617	12,436
Cost of Goods sold	6,443	6,750	5,011	6,826
Gross Profit	**5,460**	**5,930**	**4,605**	**5,610**
G & A expenses	1,652	1,751	1,571	2,045
EBITDA	**3,808**	**4,179**	**3,034**	**3,565**
Depreciation	1,462	1,903	1,376	2,122
Operating Income	**2,346**	**2,276**	**1,658**	**1,444**
Other income	521	485	358	383
Share of income from associates	-	42	-	-
Bad debt provision	(63)	(331)	-	-
Finance costs	(213)	(190)	(123)	(612)
Profit before Tax	**2,591**	**2,281**	**1,893**	**1,214**
Taxes	(150)	(226)	(274)	(97)
Profit from continued operations	**2,441**	**2,055**	**1,620**	**1,117**
Gain on purchase of warehousing bus.	2,676	2,676	2,676	-
Interest on time deposits	891	106	1	-
Impairment of fixed assets	(404)	(1,858)	-	-
Net Income	**5,603**	**2,979**	**4,296**	**1,117**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Cash and cash equivalents	13,525	15,382	1,845	2,499
Trade and other receivables	3,935	3,215	4,205	7,247
Due from related parties	12,185	730	1,371	1,821
Inventories	336	429	576	943
Current Assets	**29,982**	**19,756**	**7,997**	**12,510**
Fixed-assets-PP&E	11,886	10,305	23,752	32,874
Intangible assets	-	-		204
Goodwill	-	-		6,064
Deffered tax assets	-	-		414
Investment in associates	-	-	87	-
Investment in securities	-	-	104	-
Total Non Current Assets	**11,886**	**10,305**	**23,943**	**39,555**
Total Assets	**41,868**	**30,061**	**31,940**	**52,065**
Current portion of loan	2,767	1,625	1,580	2,873
Trade and other payables	2,493	2,526	2,501	3,725
Current Liabilities	**5,260**	**4,151**	**4,081**	**6,598**
Non-current portion of loan	1,387	-	1,850	12,007
Post employment benefits	499	543	612	674
Non-Current Liabilities	**1,886**	**543**	**2,462**	**12,681**
Total Liabilities	**7,146**	**4,694**	**6,543**	**19,279**
Share Capital	9,827	9,827	9,827	11,301
Legal reserve	4,837	5,144	5,465	5,465
General Reserve	4,837	5,144	5,465	5,465
Retained Earnings	15,223	5,251	4,641	4,427
Foreign exchange translation reserve				(75)
Non-controlling interest				6,204
Total Equity	**34,722**	**25,367**	**25,397**	**32,787**
Total Liabilities and Equity	**41,868**	**30,061**	**31,940**	**52,066**

Sources: Company's financial statements and NBK Capital

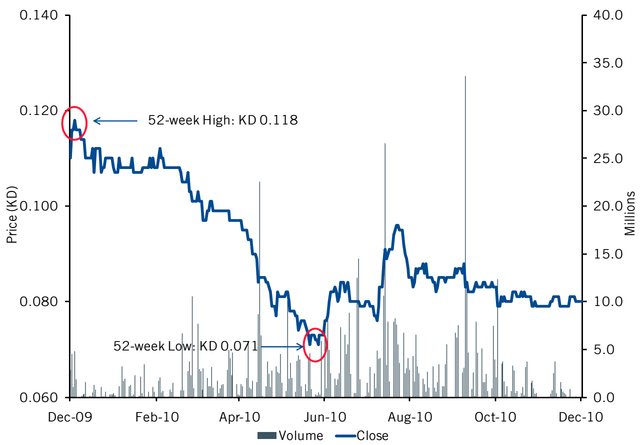
COMMERCIAL REAL ESTATE COMPANY (ALTIJARIA)

Key Data

General		Liquidity	
KSE Code	ALTIJARIA.KSE	52-week avg. volume	2,900,854
Reuters Code	CRCK.KW	52-week avg. value (KD)	253,318
Price (KD)		**Price Performance**	
Closing Price	0.080	YTD	-28.6%
52-week High/Low	0.118 / 0.071	1-Year Period	-27.3%
Market Capitalization		**Outstanding Shares**	
Million KD	146.79	Latest (million)	1,834.81
Ownership Structure			
Closely Held: 17.46%		Public: 82.54%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Analyst

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Highlights

- The Kuwait-based Commercial Real Estate Company (Altijaria) is a Shari'ah-compliant real estate investment, development, and management company. The company's main focus is residential and commercial property development, along with investments in Kuwait and the region.
- Real-estate-related revenue dropped by 47% to KD 14.1 million in 9M2010, compared to KD 26.8 million in 9M2009. This was mainly due to the decline in the change in the fair value of real estate properties.
- The change in the fair value of real estate properties fell to KD 4.5 million in 9M2010, compared to KD 16.9 million in 9M2009. Historically, change in the fair value of real estate properties has been one of the main drivers of real-estate-related revenue. The contribution of the change in the fair value of real estate properties accounted for 32% of real-estate-related revenue in 9M2010 and averaged 47% in the last five years (2005-2009).
- The company holds investment properties that are valued at KD 212 million as per the 9M2010 financial statements. Investment properties accounted for 50% of total assets as of September 30, 2010. Since the market capitalization of the company was KD 147 million as of December 13, 2010, we feel this fact is worth highlighting.
- The company's investment book (both available for sale [AFS] and held for trading) stood at KD 39.7 million according to the 9M2010 financial statements. The company's investment book accounts for 16% of shareholder equity. Almost 86% of the AFS investment is in the unquoted category.

Key Ratios

	2006	2007	2008	2009	9M2010
Rental Income (% of real-estate-related rev.)	33.6%	16.1%	29.7%	13.1%	29.5%
Profit from sale of real estate (% of real-estate-related rev.)	32.3%	34.4%	8.2%	14.7%	38.6%
Change in fair value (% of real-estate-related rev.)	31.6%	48.6%	62.0%	72.0%	31.7%
Revaluation gains (% of net profit)	42.7%	59.3%	85.9%	162.3%	143.8%
EBITDA (KD million)	14.2	37.4	19.6	41.8	11.4
EBITDA Interest Cover (x)	3.9	5.8	2.5	4.0	1.5
Net Debt-to-Equity (x)	0.2	0.4	0.7	0.7	0.7
Operating Profit Margin	77.0%	88.6%	82.5%	91.2%	81.0%
Net Profit Margin	191.1%	105.3%	60.8%	41.5%	30.6%
Adjusted Net Profit Margin	57.7%	73.3%	49.9%	68.4%	26.5%
Investment Book (% of Total Assets)	8.9%	12.3%	12.3%	10.1%	9.5%
Investment Book (% of Total Equity)	13.9%	18.4%	22.4%	17.7%	16.4%

Sources: Company's financial statements and NBK Capital

Overview

The Kuwait-based Commercial Real Estate Company (Altijaria) is a Shari'ah-compliant real estate investment, development, and management company. The company's main focus is residential and commercial property development, along with investment in Kuwait and the region. The company was established in 1968 and was listed on the Kuwait Stock Exchange at the end of 2004. Altijaria aims to drive growth by seizing investment and real estate opportunities and expanding abroad to diversify the company's revenue stream. The company has adopted the following business model. Altijaria engages in business activities related to commercial and residential real estate. Within the real estate sphere, the company handles the sale, purchase, and lease of land and property.

Altijaria's network expansion through consortiums and alliances with various firms in the Gulf Cooperation Council (GCC) drives the company's focus toward developing large-scale projects rather than smaller residential and commercial projects. The company's ventures and acquisitions, such as First Investment Bank (Islamic Bank), are radically strengthening Altijaria's business model in favor of greater diversification.

Latest News

- **April 2010:** At the annual general meeting held on April 19, 2010, Altijaria's shareholders approved 7% bonus shares, which increased the number of outstanding shares from 1.65 billion to 1.83 billion.

Major Projects

Major completed projects – Kuwait

Al-Manar – Located in Bnaid Al Gar, this project consists of a 16-floor residential tower (two- and three-bedroom apartments) and six townhouses. One of the most important features of this super-deluxe residential complex is its sea view.

Al Yarmouk Villas, Phase 1 – Located in the Yarmouk area, the development consists of 18 plots, each 400 sq. m. 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 and a beach covering an area of approximately 386 sq. m. The built-up area is approximately 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, a garden, and private parking. The resort includes facilities such as squash courts, a health club, landscaped gardens, and a swimming pool.

Al-Shrooq Tower – Located on Jaber Al-Mubarak 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.

Budoor Tower – Located in the Sharq area on the Ahmed Al Jaber Street, this office tower consists of 17 floors and includes commercial shops in the basement, on the ground floor, and on the mezzanine.

Major ongoing projects – Kuwait

Symphony – This mixed-use project is located in Salmiya and is built on an area of 11,500 sq. m. The project consists of commercial shops (divided into a basement, ground floor, mezzanine, and first floor), with two towers on top. The office tower has 11 floors, and the other tower is a hotel with 20 floors.

Al Tijaria Tower – This is another mixed-use project and will include malls and office space. The tower is located in the Sharq area and is built on an area of 4,295 sq. m. The top part of the tower, designated for office space, consists of 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.

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 includes apartments, penthouses, and townhouses. 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 – Kuwait

X-Zone Project – This will be an entertainment complex built on an area of 5,940 sq. m. The project 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, and will be built on an area of 5,373 sq. m. adjacent to the Fahaheel Expressway. The project will consist of 15 floors, and will contain a mix of dwelling units, such as individual townhouses and penthouses. The project will include provisions for outdoor and indoor recreational activities.

Salmiya Park – This is one of the most important tourism projects launched in Kuwait and is spread over an area of 380,000 sq. m. The estimated cost of the project is KD 19 million.

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. The project will include a hotel, a commercial complex, a major adapted and covered stadium, and tennis and squash courts—all for an estimated investment of KD 28 million.

Major international projects

House Towers Project – The Hajer and Al Mukam Towers are residential towers that will be located very close to Kaaba in Saudi Arabia. This project will mainly serve the housing needs of pilgrims. The Hajer Tower will be a mixed-use project and will consist of 31 floors, of which 10 floors 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 a hotel and hotel apartments.

Ain Athari – Bahrain Park – This is an international build-operate-transfer (BOT) project and will be developed in cooperation with two other companies in the region. The project is located in Bahrain and will be built over an area of 170,000 sq. m.

Financial Statement Analysis

Income Statement

- Real-estate-related revenue dropped by 47% to KD 14.1 million in 9M2010, compared to KD 26.8 million in 9M2009. This was mainly due to the decline in the change in the fair value of real estate properties.
- The change in the fair value of real estate properties fell to KD 4.5 million in 9M2010, compared to KD 16.9 million in 9M2009. Historically, change in the fair value of real estate properties has been one of the main drivers of real-estate-related revenue. The contribution of the change in the fair value of real estate properties accounted for 32% of real-estate-related revenue in 9M2010 and averaged 47% in the last five years (2005-2009).
- The company's rental income decreased by 13%, to KD 4.2 million in 9M2010, compared to KD 4.8 million in 9M2009. The rental income accounted for 30% of the real-estate-related revenue in 9M2010.
- Operating profit dropped by almost half to 11.4 million in 9M2010, compared to 24 million in 9M2009. This was mainly due to the change in fair value of real estate properties. In tandem, net profit decreased by 76% to KD 4.3 million in 9M2010, compared to KD 18 million in the same period a year before.

Balance Sheet

- Altijaria had a net debt-to-equity ratio of 0.65x as of September 30, 2010, which is flat compared to the 2009 figure (the average net debt-to-equity ratio over the five years from 2005 to 2009 is 0.44x). The company's equity and total debt stood at KD 242 million and KD 159 million, respectively, as of September 30, 2010.
- The company's EBITDA interest coverage stood at 1.5x in 9M2010, compared to 4x for 2009.
- The company holds investment properties that are valued at KD 212 million as per 9M2010 financial statements. Investment properties accounted for 50% of total assets as of September 30, 2010. Since the market capitalization of the company was KD 147 million as of December 13, 2010, we feel this fact is worth highlighting.
- Altijaria's investment book (both AFS and held for trading) stood at KD 39.7 million according to the 9M2010 financial statements. The company's investment book accounts for 16% of shareholder equity. Almost 86% of the AFS investment is in the unquoted category.

Financial Statements

Income Statement (KD' 000)	2008	2009	9M2009	9M2010
Rental Income	7,075	6,012	4,794	4,174
Hotel income	6	101	101	19
Change in fair value	14,744	33,021	16,896	4,489
Investment Income	(2,315)	(2,100)	354	1,814
Total income	21,466	43,765	27,112	15,953
Operating expenses	(4,185)	(4,270)	(2,811)	(3,007)
Operating profit	19,631	41,831	24,157	11,446
Net Income	**14,465**	**19,057**	**18,119**	**4,325**

Balance Sheet (KD' 000)	2007	2008	2009	Sep-2010
Cash and Bank Balances	535	4,284	2,410	1,546
Investment Properties	123,248	128,825	191,478	211,631
Total Assets	**337,493**	**398,697**	**413,035**	**419,522**
Short-Term Debt	29,727	102,565	64,738	95,841
Long-Term Debt	55,489	46,512	94,952	63,113
Total Debt	85,216	149,077	159,690	158,954
Total Liabilities	**112,039**	**179,959**	**177,760**	**177,896**
Shareholders' Equity	**225,455**	**218,738**	**235,275**	**241,626**
Total Liabilities and Equity	**337,493**	**398,697**	**413,035**	**419,522**

Sources: Company's financial statements and NBK Capital

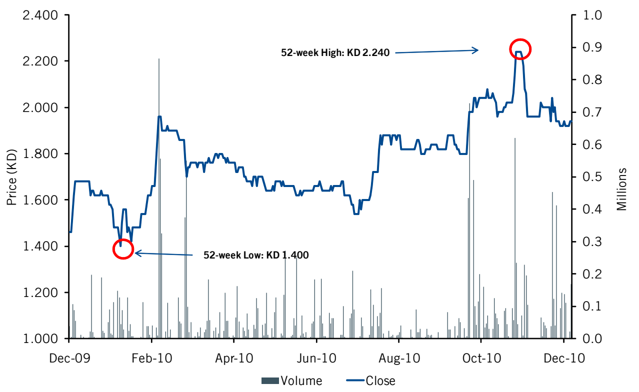
GULF CABLE AND ELECTRICAL INDUSTRIES COMPANY (GULF CABLE)

Key Data

General		Liquidity	
KSE Code	CABL.KSE	52-week avg. volume	78,186
Reuters Code	CABL.KW	52- week avg. value (KD)	141,096
Price (KD)		**Price Performance**	
Closing Price	1.940	YTD	19.8%
52-week High/Low	2.240/1.400	1-Year Period	32.9%
Market Capitalization		**Outstanding Shares**	
Million KD	407.3	Latest (million)	209.9
Ownership Structure			
Closely Held: 46.4%		Public: 53.6%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Gulf Cable and Electrical Industries Company (Gulf Cable) is the market leader in Kuwait, with the largest market share in the electric cable business.
- Gulf Cable set up new plants in 2009 across the GCC. The company boosted production capacity in 2008 to 75,000 tons/year from the previous 50,830 tons/year in 2007.
- The company has large investments in the financial markets. Investments represented more than 100% of shareholders' equity and 72% of total assets as of September 2010. Investment income (derived mainly from dividends) contributed a significant 86% of net income.
- Gulf Cable gained a foothold in the regional market in 2006 by acquiring 94.5% of a cable producer in Jordan (KD 8 million) capable of producing an additional 20,000 tons of cable per year. The company plans on doubling its cable-producing capabilities in Jordan to 40,000 tons.
- Acting as a regional player allows Gulf Cable to take advantage of the increased spending by governments on major development projects (e.g., infrastructure). Approximately 50k to 60k MW of power generation capacity is likely to be added within the Middle East region over the next four years. According to Middle East Electricity, Arab nations are expected to spend up to USD 120 billion on power projects between 2008 and 2012.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
EBITDA Margin	31.0%	27.2%	17.6%	16.0%	12.7%
EBIT Margins	29.3%	26.1%	16.4%	14.0%	10.7%
Net Income Margin	30.4%	32.0%	2.9%	14.8%	37.0%
Investment Book-to-Assets	70.0%	75.6%	54.2%	69.4%	71.7%
Investment Book-to-Equity	73.9%	87.1%	84.7%	113.3%	103.6%
Investment Income-to-Net Income	17.2%	31.4%	-400.7%	41.7%	86.1%
ROAA	11.2%	10.1%	1.1%	4.2%	14.8%
ROAE	12.4%	11.3%	1.5%	6.8%	21.4%
Adjusted ROAA	27.2%	23.0%	14.9%	7.8%	3.6%
Debt-to-Equity	2.2%	12.3%	50.9%	55.4%	39.2%

Sources: Company's financial statements and NBK Capital

Overview

With a production capacity of 75,000 tons/year, Gulf Cable is one of the most dominant regional players in the manufacturing and supply of cables. Established in 1975, the company's core operations involve cables to distribute electricity. These cables are strictly low- and medium-voltage cables made of copper (approximately 70% of total produced cables) or aluminum (approximately 30%). Gulf Cable's production facilities allow it to produce other forms of cables such as data transmission cables, conductors, and telephone cables. Furthermore, Gulf Cable has its own copper rod plants, enabling it to produce 12,000 tons of copper per year (the main raw material used in the production of cables). The group is composed of the parent company along with its subsidiary Gulf Cable and Multi Industries Company–JSC, located in Jordan. The company sells its products within the Middle East, including the United Arab Emirates (UAE), Oman, Jordan, Qatar, Bahrain, and Saudi Arabia.

Latest News

- **September 2010:** Gulf Cable signed a 10-month contract with the Kuwait Ministry of Electricity and Water to supply medium-voltage cables. The contract is valued at USD 15.2 million.
- **February 2010**: Gulf Cable won a contract valued at KD 6.2 million with an undisclosed entity to supply cables.

Financial Statement Analysis

Income Statement

- Sales showed an upward trend, growing at a CAGR of 32.8% between 2005 and 2008. Despite the strong performance throughout the period, sales declined year-on-year by 35.3% in 2009, Sales improved in the first nine months of 2010, growing by 26.4% year-on-year. Gross margins improved slightly from 17.2% in 9M2009 to 18.3% in 9M2010.
- The company's bottom line is highly dependent on income from investments. In 2008, the loss from investments stood at KD 12.9 million. The losses incurred in 2008 wiped out any profits made from investments in the previous two years. In 2009, investment income rallied back to KD 4.38 million, representing 41.7% of total income. As a matter of fact, the company's investments helped boost profits as operations involving core assets declined year-on-year. Moving into the first nine months of 2010, the company further supported its dependence on investments, as investment income helped boost net income by KD 21 million (representing 86% of total income).
- EBITDA levels experienced a decline year-on-year, dropping from KD 19.3 million in 2008 to KD 11.39 million in 2009. Looking at the 9M2010 results, the company reported a 21% improvement in EBITDA compared to 9M2009, to reach KD 8.3 million. This came on the back of improved revenue.
- Looking at net profit strictly from an operational point of view (i.e., excluding any profit from investments), we find that, over the years, adjusted net income showed more stability than actual net income. Between 2006 and 2009, actual net income swung between KD 3.2 million and KD 26.9 million; however, adjusted net income remained in a more constrained range, moving within KD 6.1 million and KD 18.4 million. In 9M2009 and 9M2010, adjusted net income showed stability at KD 3.3 million.

Return on Assets

	2006	2007	2008	2009
ROAA	11.2%	10.1%	1.1%	4.2%
Adjusted ROAA	27.2%	23.0%	14.9%	7.8%

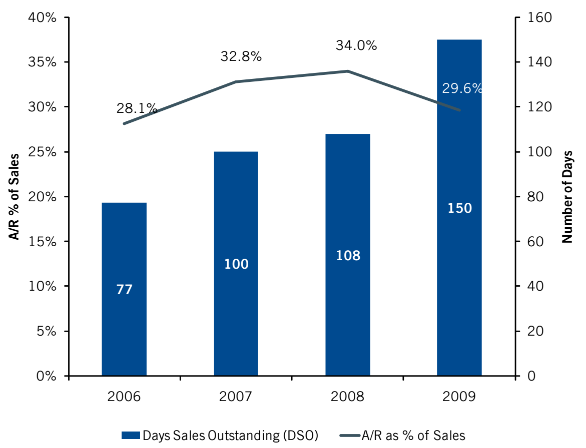
Sources: Company report and NBK Capital

Balance Sheet

- A significant portion of assets have been allocated to market investments. At the end of 2009, the company had available-for-sale (AFS) investments (fair value of KD 178.5 million) accounting for 113% of the total shareholders' equity (69% of total assets). In a nine-month period, the company's AFS account increased by 30.2%, bringing the total AFS investments to KD 232 million by the end of September 2010 (72% of total assets).
- Accounts receivable constituted 10.2% of total assets in September 2010. Gulf Cable trades with large electrical trading companies within the region, and is involved in government-related projects. This provides for confidence in receivables going forward.
- Since the AFS portfolio is accounted for at fair value, any marked-to-market gains or losses are reflected in the revaluation reserve account. According to the 2009 results, the fair value reserve account improved to KD 44.8 million, from KD 35.1 million in 2008, adding back KD 9.7 million of shareholders' equity after the devastating impact of the effects of the financial crisis. By September 2010, the revaluation reserve account had jumped to KD 98.1 million, pushing shareholders' equity up by 42.4% during the nine-month period.

- Looking at Gulf Cable from an operational standpoint, 4.6% of the company's assets consists of property, plant, and equipment (PP&E) valued at KD 15.1 million by September 2010.
- Inventory balances increased at a CAGR of 26.6% between 2005 and 2009 to reach KD 34.3 million. By September 2010, inventory levels continued to climb, increasing by 7% over the first nine months as a result of a 20% increase in the value of finished goods. Converting inventory into cash is taking more time for the company. In 2008, Gulf Cable was able to convert inventory into cash in close to 173 days. By 2009, days inventory outstanding (DIO) stood at 274 days. Along with the increase in DIO, days sales outstanding (DSO) also increased in 2009 to 150 days from 108 days in 2008.
- The debt-to-equity ratio declined significantly from 55% in 2009 to 39% in September 2010 despite the slight increase in total debt.

Days Sales Outstanding and A/R as a Percentage of Sales



Sources: Company's financial statements and NBK Capital

Cash Flow

- In 2009, cash flow from operations increased to KD 50.1 million from negative KD 4.4 million in 2008 due to a significant improvement in the management of working capital. This was driven by declining inventories and receivables. In 9M2010, the exact opposite took place. Cash flow from operations retracted year-on-year to negative KD 6.6 million from KD 46 million in 9M2009 as a result of a decline in changes in working capital.
- As mentioned earlier, Gulf Cable raised a significant amount of debt in 2009. The debt, coupled with the improvements in operating cash flows was used to help purchase AFS investments of KD 47.6 million and pay dividends of KD 13.7 million.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Total Revenue	109,858	71,125	51,248	64,770
Cost of Revenue	(87,817)	(55,246)	(42,456)	(52,906)
Gross Profit	**22,041**	**15,878**	**8,792**	**11,864**
Selling/General/Admin Expenses	(4,027)	(5,943)	(3,029)	(4,957)
Operating Income	**18,014**	**9,935**	**5,763**	**6,907**
Inv. Income (Exp), Net Non-Op.	(15,360)	(207)	2,235	17,336
Other, Net	919	1,386	1,297	277
Net Income before Taxes	**3,573**	**11,115**	**9,294**	**24,521**
Contributions to KFAS	(36)	(111)	(93)	(245)
NLST	-	(148)	(101)	(46)
Zakat	-	(50)	(31)	(14)
Directors Remuneration	(310)	(310)	(233)	(233)
Net Income (before Minoirty Int.)	**3,227**	**10,495**	**8,836**	**23,983**
Minority Interest	(10)	(28)	(17)	(14)
Net Income (Parent Co.)	**3,217**	**10,467**	**8,819**	**23,969**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Property, plant and equipment	11,627	14,975	15,920	15,078
Available for sale investment	248,450	128,446	178,452	232,396
Good will	-	-	-	-
Non-Current Assets	**260,078**	**143,421**	**194,372**	**247,474**
Inventories	34,713	48,756	34,248	36,643
Trade Account Receivable	27,519	37,351	21,087	33,238
Other Reveivable and prepayments	3,064	4,913	1,268	1,152
Fixed deposit	201	186	388	401
Cash and bank balances	2,983	2,403	5,591	5,411
Current Assets	**68,479**	**93,609**	**62,582**	**76,846**
Total Assets	**328,556**	**237,030**	**256,954**	**324,320**
Long term provisions	1,376	1,229	1,324	1,440
Long term loans	2,574	12,925	10,564	5,670
Non Current Liabilities	**3,950**	**14,155**	**11,888**	**7,110**
Trade A/P	1,019	1,089	1,650	1,294
Other Payables and accruals	5,635	5,771	9,238	9,466
Current Portion of LT loans	572	4,939	5,132	5,076
Short term loans	27,399	56,412	71,500	77,000
Due to banks	4,683	2,936	49	137
Current Liabilities	**39,307**	**71,147**	**87,569**	**92,973**
Total Liabilities	**43,257**	**85,301**	**99,457**	**100,083**
Fair Value reserve	163,861	35,076	44,826	98,122
Other Equity	121,437	116,348	112,382	125,842
Total Equity	**285,299**	**151,424**	**157,208**	**223,964**
Minoirty Interest		**305**	**289**	**273**
Total Liabilities and Equity	**328,556**	**237,030**	**256,954**	**324,320**

Sources: Company's financial statements and NBK Capital

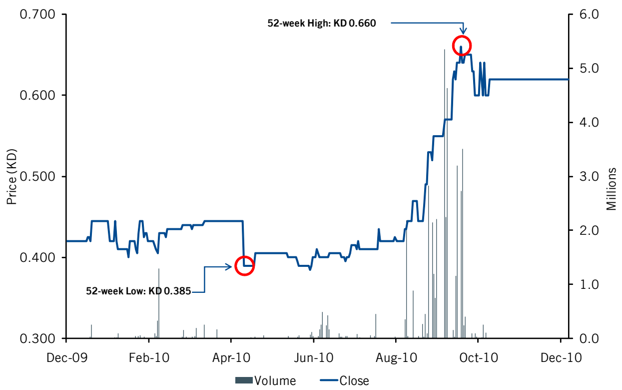
GULF INSURANCE COMPANY (GIC)

Key Data

General		Liquidity	
KSE Code	GINS.KSE	52-week avg. volume	382,479
Reuters Code	GINS.KW	52- week avg. value (KD)	208,882
Price (KD)		**Price Performance**	
Closing Price	0.620	YTD	39.3%
52-week High/Low	0.660/0.385	1-Year Period	47.6%
Market Capitalization		**Outstanding Shares**	
Million KD	105.183	Latest (million)	169.65
Ownership Structure			
Closely Held: 84.8%		Public: 15.2%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Gulf Insurance Company (GIC) is the largest insurance company in Kuwait in terms of written and retained premiums.
- Approximately 43.5% of GIC is owned by KIPCO (the largest major shareholders are the Al Sabah family).
- GIC displayed strong growth in written premiums over the past four years, increasing at a CAGR of 22.4%. Moreover, in the first nine months of 2010, written premiums also improved at a similar pace.
- A significant portion of the company's risks are shared with reinsurers. Close to half of the total claims are passed on to reinsurers. Sharing risks with reinsurers has helped the company maintain positive net income.
- If we look at the company's underwriting profit, GIC is paying out KD 0.980 in claims for every KD 1.000 underwritten in contracts. If the discounts on claims are included, the claims paid out top KD 1.000. This comes mainly on the back of increased casualty claims.
- A large portion of GIC's liquid assets (held for trading and quoted securities) increased in the nine months of 2010. In effect, the company's ability to pay claims has increased; liquid investments alone are capable of paying more than 100% of total claims. The strength of the company's balance sheet goes further. Cash as well as time deposits (very liquid assets) alone cover up to 88% of total claims.
- GIC held an investment book worth KD 86.6 million at the end of September 2010, which represented 34% of total assets.
- In 2009, GIC expanded its presence in the region through the acquisition of a Jordanian insurance company—Arab Orient Insurance Company. In addition, GIC strengthened its position in other subsidiaries, including Arab Misir Insurance Group and Syrian Kuwait Insurance Company.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Premiums written Growth	63.1%	5.0%	16.9%	12.2%	22.9%
Underwriting Profit Growth	-16.5%	-16.9%	264.2%	-52.8%	46.9%
Loss Ratio	77.7%	70.9%	61.0%	75.5%	71.7%
Expense Ratio	19.2%	26.1%	25.3%	23.6%	26.6%
Combined Ratio	96.9%	97.0%	86.3%	99.1%	98.3%
Adjusted RoAA	5.2%	3.8%	1.6%	2.0%	5.1%
Adjusted RoAE	13.8%	10.6%	4.4%	7.0%	15.0%
Inv Book-to-total Assets	43.4%	41.6%	37.8%	29.4%	33.6%
Inv Book-to-total Equity	134.4%	107.2%	118.0%	112.0%	118.8%

Sources: Company's financial statements and NBK Capital

Overview

GIC is the largest insurance company in Kuwait in terms of written and retained premiums. Established in 1962, GIC covers life and non-life segments throughout the region through subsidiaries. Areas of non-life insurance covered include motor, marine and aviation, and property and casualty insurance.

Latest News

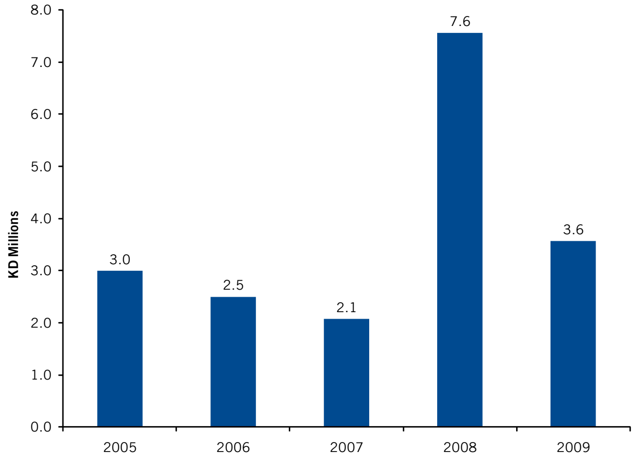
- **October 2010:** KIPCO sold a 39.2% stake in Gulf Insurance Company to Fairfax (a global insurance and reinsurance group based in Canada).
- **February 2010**: Bahrain Kuwait Insurance Company announced that Gulf Insurance Company acquired a stake valued at BHD 1.8 million, resulting in a stake equal to 56.1%.

Financial Statement Analysis

Income Statement

- In the insurance industry, there are two main drivers for revenue growth. The first involves the number of issued insurance contracts alongside the level of risk associated with those contracts. The higher the risk, the higher the expected premiums, and, hence, the higher the potential revenue from written premiums. The second driver of revenue involves the investment income/gains from investing premiums received from clients.
- Premiums written have increased at a solid four-year CAGR of 22.4%. In 2009, GIC recorded KD 97.2 million in written premiums. Of the total written premiums, KD 45 million was passed on to reinsurers. In 9M2010, premiums written improved by 22.9% compared to the same period last year.
- Underwriting profit is the most important indicator in the insurance industry. This determines how well the company is generating profits strictly from its core business. The underwriting business includes premiums earned, as well as commission on reinsurance and issuance fees less any operating expenses (i.e., claims incurred and other expenses). GIC has produced a profit from its underwriting business throughout the years, as a result of a large contribution from commissions received on ceded reinsurance. Underwriting profit jumped from KD 2.5 million in 2006 to KD 7.6 million in 2008. In 2009, underwriting profit dropped to KD 3.6 million as a result of a 38% increase in operating expenses. The jump in operating expenses came as a result of increased claims incurred during the year. In 9M2010, GIC's underwriting profit increased by an outstanding 47% year-on-year to reach KD 5.1 million. The result came mainly from an improvement in policy issuing fees.

Underwriting Profit



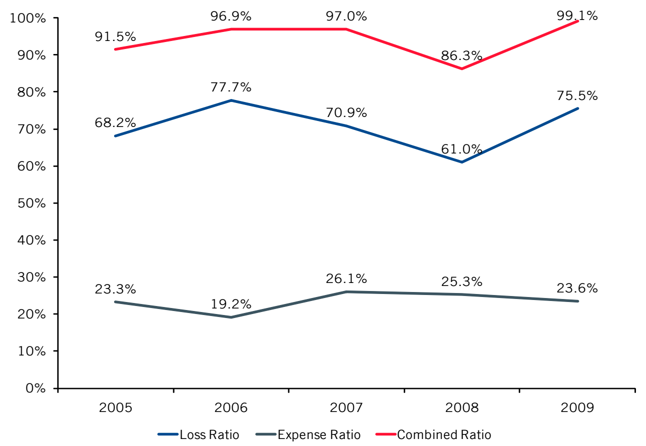
Source: Company reports

- "Commissions received on ceded reinsurance" are fees received from reinsurers to share risks (i.e., costs) associated with any claim incurred in return for a share of the profits from premiums. We examined the effect if these were removed from the underwriting profits. If these are excluded from the equation, GIC's underwriting profit drops significantly; the company would have incurred a loss of KD 4.3 million in 2009. We can even see the effects of profits from reinsurance in 9M2010. Stripping out these commissions, GIC's underwriting profit turns to a loss of KD 1.4 million—still a slight improvement compared to 9M2009 levels. This will be clarified further when we take a look at the company's combined ratio.
- The quality of earnings can be measured by the company's combined ratio. The combined ratio determines how much a company is paying out on claims versus how much it is making on premiums. A combined ratio of more than 100% indicates the company is paying out more in claims than it is profiting from premiums, and a ratio of less than 100% means the company is making more on premiums than it is giving out in claims. GIC displayed improvements in the company's combined ratio, dropping from 91.5% in 2005 to 86.3% in 2008. This means that, for every KD 1.000 in written contracts, GIC paid out KD 0.860 in claims in 2008. However, in 2009 the company's combined ratio increased to 99%. The calculations were conducted without including discounts on claims offered by GIC. If these are to be included in the calculation, the combined

ratio would be above 100%. The company maintained its combined ratio in the first nine months of 2010 at 98%.

- Investment income is an integral part of generating profits as well. GIC has broken up its income generated from investments into life insurance and non-life insurance investments. On the life insurance front, GIC invests in three types of securities: investments held for trading, debt securities, and time and call deposits. The investments generated a total of KD 1.6 million in 2009. The relatively safer investments, the debt securities as well as time and call deposits, were behind the generation of KD 1.1 million in interest income in 2009, making up the largest portion of investment income from life insurance.
- The non-life insurance investments contribute the larger portion of the company's investment income. GIC generated a gain of KD 3.8 million in 2009 from non-life insurance investments, up from a loss of KD 1 million in the previous year. A large contributor to the gain from investments is the KD 1.7 million in realized gains from available-for-sale (AFS) investments as well as dividend income from AFS. An investment impairment loss of KD 2.1 million was not enough to offset the company's gains.
- GIC's net profit grew by a healthy 40% in 2009, reaching KD 5 million (parent company profit, i.e., excluding minority interest); however, on a three-year CAGR base, the company's net profit declined by 8%. The year-on-year growth in net profit came as a result of growth in written premiums, increased commission from reinsurance, and an improvement in net investment gains. Looking at the 9M2010 results, GIC's net income increased by 12.7% compared to the same period last year, reaching KD 6.6 million.

Coverage Ratio



Source: Company financial statements

Balance Sheet

- Historically, AFS investments constituted the largest portion of GIC's assets, representing 27% of total assets by December 2008. This share dropped to 16.1% by 2009, as the company shied away from investments during the financial collapse, and sought shelter into other assets such as cash. The company increased its cash account by 36.8% in 2009 through the sale of a significant portion of the AFS investments during the year. As of the end of 2009, GIC's cash balance represented the largest portion (30%) of total assets. By September 2010, the company returned to pre-crisis days whereby AFS became the largest portion of the balance sheet, constituting 21% of total assets.
- Nevertheless, the company still maintains a large investment book. As of December 2009, the company held an investment book worth KD 74.7 million. The main criterion here is to determine how risky these investments are in order to determine how effective the company will be in terms of being able to pay its claims (since fewer details are provided in the quarter results, we restrict our analysis to FY2009). This is difficult to examine, as the breakdown of these investments is formed under general categories; however, just to get an idea, held-for-trading (HFT) investments and AFS investments in quoted securities represented more than 40% of the company's total investments, while debt securities and held-to-maturity securities made up the rest as of 2009.
- One measure of success for an insurance business is determined by whether the company is capable of paying insurance claims through premiums on its investments. The outstanding claims recorded under liabilities determine how much GIC owes in claims that have been reported. The company reported outstanding claims of KD 70.6 million as of September 2010, of which KD 40.7 million (58%) has been reinsured. Taking these factors into consideration, we find that GIC's cash balance is capable of covering up to 2.5 times net outstanding claims. Even if reinsurance claims are not taken into account, the company's cash balance can cover up to 88% of total claims reported. Hence, we believe GIC is in a good position to pay off its outstanding claims.
- A significant portion of the claims reported in 2009 came from causalities, with a recorded net liability balance of KD 21.2 million. This represents 72.6% of total claims in 2009. The majority of GIC's liabilities come from required reserves. These reserves are divided into four categories: 1) outstanding claim reserve, 2) unearned premium reserve, 3) life mathematical reserve, and 4) additional reserve. The outstanding claims reserve makes up 39.1%

of total reserves (adjusted for reinsurance recoverable on outstanding claims), and is the largest of all reserves. This reserve represents all claims that have yet to be paid out.

- Another significant chunk of the liability pie is insurance payables, which represent 14.4% of the total assets. This includes any payables to the reinsurance business and claims to policyholders that have yet to be paid out.
- The total debt accumulated by GIC reached KD 17 million as of 2009, up from KD 7 million at the end of 2008. This increased the company's total debt-to-equity ratio to 0.26x in 2009, up from 0.09x in 2008. This has little bearing on the company, as GIC has managed to maintain a negative net debt level since 2006. By the end of September 2010, the company maintained its debt level at KD 3.9 million.
- GIC expanded its reach in the insurance industry by acquiring a 55% stake in a Jordanian company named Arab Orient Insurance Company. The stake purchased amounted to a total of KD 8.8 million, of which KD 5.3 million was recorded as goodwill. Moreover, GIC strengthened its position in Arab Misr Insurance Group (increasing its stake from 85.5% to 94.8%) and in Syrian Kuwait Insurance Company (increasing its stake from 53.8% to 44.4%).

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Premiums written	86,609	97,219	73,831	90,737
Reinsurance premiums ceded	(44,211)	(44,958)	(33,025)	(44,169)
Net premiums written	42,398	52,260	40,806	46,568
Movement in unearned premiums	(901)	(755)	(1,449)	(6,616)
Net premiums earned	41,497	51,505	39,357	39,952
Commission on ceded reinsurance	6,723	7,899	6,116	6,584
Policy issuance fees	1,434	2,280	1,390	2,081
Net Inv. income from life insurance	480	1,586	1,735	1,272
Net Revenue	50,134	63,270	48,597	49,889
Claims incurred	(23,984)	(35,918)	(25,924)	(27,241)
Commission and discounts	(6,263)	(7,089)	(4,386)	(4,223)
Inc. in life mathematical reserve	(693)	(2,159)	(2,408)	(370)
Inc. in additional reserve	(192)	(110)	(70)	(169)
Maturity & cancel of life ins. policy	(450)	(702)	(533)	(863)
Gen. and Admin. expenses	(10,506)	(12,135)	(10,045)	(10,614)
Expenses	**(42,088)**	**(58,113)**	**(43,365)**	**(43,480)**
Net Underwriting Results	8,046	5,156	5,232	6,409
Net Investment (loss) income	(1,048)	3,772	3,935	3,814
Sundry Income	59	123	96	90
Other Charges	(2,158)	(2,978)	(2,173)	(2,268)
Net Income	**4,899**	**6,073**	**7,090**	**8,046**
Minority Interest	**1,292**	**1,023**	**1,257**	**1,473**
Net Income (Parent Co.)	**3,607**	**5,049**	**5,833**	**6,573**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Property and Equipment	6,192	6,459	5,528	6,967
Investments in ass. comp.	4,051	5,371	2,272	2,555
Intangible assets	2,725	2,934	8,307	9,680
Financial Instruments	92,775	90,820	74,725	86,602
Loans sec.by life ins. policies	438	732	862	922
Prem. and insurance receivable	22,961	27,842	37,242	38,480
Reins. recoverable on out.claims	22,225	37,231	38,053	40,746
Property held for sale	291	229	176	171
Other Assets	6,365	12,164	10,353	9,620
Cash and Cash Equivalents	65,009	56,195	76,873	62,323
Total Assets	**223,031**	**239,976**	**254,391**	**258,066**
Total liab. from ins. contracts	76,232	95,258	107,867	117,199
Bank Overdraft	7,889	7,016	17,019	3,852
Premiums received in advance	2,737	6,320	1,265	1,275
Isurance payables	25,507	30,771	36,079	37,238
Other liabilities	11,011	11,196	10,718	10,768
Amt. to policy holders-Takaful fund	-	-	-	-
Total Liabilities	**123,376**	**150,560**	**172,948**	**170,332**
Total Equity	**86,571**	**76,977**	**66,711**	**72,895**
Minority interest	13,084	12,440	14,731	14,840
Total Liabilities and Equity	**223,031**	**239,976**	**254,391**	**258,066**

Sources: Company's financial statements and NBK Capital

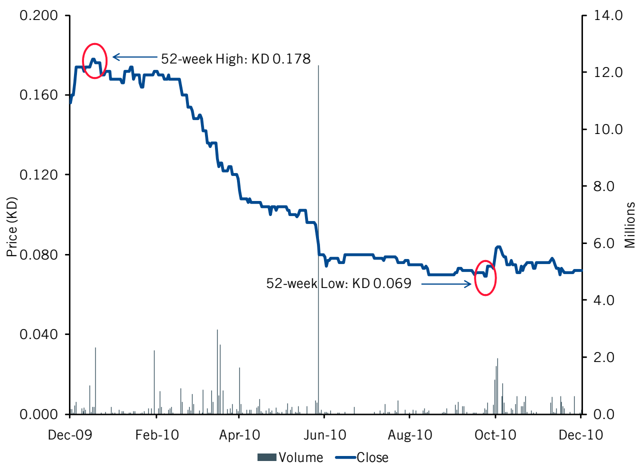
INJAZZAT REAL ESTATE DEVELOPMENT COMPANY (INJAZZAT)

Key Data

General		Liquidity	
KSE Code	INJAZZAT.KSE	52-week avg. volume	389,886
Reuters Code	INJA.KW	52-week avg. value (KD)	41,999
Price (KD)		**Price Performance**	
Closing Price	0.072	YTD	-59.1%
52-week High/Low	0.178 / 0.069	1-Year Period	-53.8%
Market Capitilization		**Outstanding Shares**	
Million KD	24.89	Latest (million)	345.65
Ownership Structure			
Closely Held: 57.69%		Public: 42.31%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Injazzat Real Estate Development Co. (Injazzat) is a Kuwait-based real estate development company that operates across various sectors, including commercial, residential, hotels, and entertainment. The company also owns a portfolio of indirect investments in funds and shares of real estate companies. Injazzat is diversified across regions and several countries.
- The company holds investment properties that are valued at KD 109 million as per 9M2010 financial statements. Investment properties accounted for 65% of total assets as of September 30, 2010. Since the market capitalization of the company was KD 25 million as of December 13, 2010, we feel this fact is worth highlighting.
- Rental income decreased by 29%, to KD 1.7 million in 9M2010 compared to KD 2.5 million in 9M2009. The company's rental income has not been sufficient to meet operating expenses in addition to finance charges, resulting in a deficit of KD 2.9 million in 9M2010. This was the trend for 2008 and 2009, with deficits of KD 5.7 million and KD 3.4 million, respectively.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Rental Income (% of Total Income)	2.7%	4.7%	11.9%	nmf	34.5%
Change in Fair Value of Inv. Prop.(% of Real-Estate-Related Rev.)	61.7%	48.9%	36.5%	nmf	43.7%
Change in Fair Value of Inv. Prop. (% of Net Profit)	72.5%	61.5%	64.9%	nmf	nmf
Investment Income (% of Total Income)	15.0%	12.8%	1.0%	nmf	15.3%
EBITDA (KD million)	10.7	18.6	24.5	-13.2	3.1
EBITDA Interest Cover (x)	8.9	4.6	4.1	-2.8	0.9
Net Debt-to-Equity	0.4	1.0	0.9	1.6	1.7
Net Profit Margin	72.2%	69.3%	55.7%	nmf	7.5%
Investment Book (% of Total Assets)	16.2%	15.1%	13.9%	9.8%	10.1%
Investment Book (% of Total Equity)	29.7%	39.6%	33.0%	30.7%	31.0%

Sources: Company's financial statements and NBK Capital

Overview

Established in 1998, Injazzat is a Kuwait-based company that was listed on the Kuwait Stock Exchange in 2002. The company is active in owning and operating residential properties, retail development, mixed-use commercial development, build-operate-transfer (BOT) projects, and hospitality and entertainment properties. The company also engages in real estate activities and investments, including direct and indirect investments, buying and selling of real estate, and management of properties within Kuwait, the Middle East, Europe, and the United States.

Latest News

- **April 2010:** The company reached a preliminary agreement to acquire between 51% and 100% of Aqar Real Estate Investments Company, which still awaits approval. Aqar's shareholders who sell their stakes can use the proceeds of the sale to subscribe to Injazzat's capital increase, which will follow the acquisition. The current market capitalization of Injazzat and Aqar Real Estate Investments is KD 27.3 million and KD 18.7 million, respectively, as of October 19, 2010.

Major Projects

Major completed projects – Kuwait

Al Dhow Tower

This office tower consists of 33 stories and a total built-up area of 24,129 sq. m. The tower is strategically built in Sharq on a total land area of approximately 2,000 sq. m. Al Dhow Tower is an income-generating asset.

Al Dajeej Ministries Building

Injazzat acquired the Al Dajeej Ministries Building, located in Farwaniya, in 2003 as another source of rental income. The property has an office space area of 10,634 sq. m. and is fully occupied by the departments of various ministries under long-term leases.

Major upcoming projects – Kuwait

Shuwaikh Project

The company has acquired a plot of 25,300 sq. m. in the Shuwaikh industrial area to develop a multi-use complex. This complex will include commercial shops and offices, with a total built-up area of 96,900 sq. m. The project is expected to be completed by the end of 2010.

Injazzat Tower

This office tower is located next to the Dhow Tower in Sharq on a 1,000 sq. m. block. The tower consists of 28 stories covering a built-up area of about 15,750 sq. m.; construction is due to be completed in 2010.

Major completed projects – International

Al Qouz Residential Project

The project consists of two labor accommodation buildings providing 620 rooms along with offices and commercial shops. Located in Dubai, the project is built on a block of 100,000 sq. feet with an estimated total built-up area of approximately 224,180 sq. feet. In June 2007, after the project reached full occupancy, the company sold 50% of its share in the project to a Kuwaiti company.

Al Muhaisna Project (Labor Accommodation)

This project is situated in the Al Muhaisna area of Dubai and covers an area of about 56,914 sq. feet. The project consists of two floors and is composed of 401 rooms. It has been fully leased for five years. Injazzat acquired this project in 2007, a 50% joint venture with First Real Estate Co. (Bahrain), as part of the company's strategy of holding income-generating properties.

Land Trading

An integral part of Injazzat's investment activities involves land trading, which includes buying parcels of land for direct resale or to be split into sub-plots and sold on to one or more buyers. The company has experience in land trading in Kuwait, Bahrain, and several other international venues.

Kuwait

The Al Mal and Aqar Joint Projects Company was established in 2005, in cooperation with Aqar Real Estate Investment Company (Aqar). Injazzat owns 66.7% of the company, while Aqar has a 33.3% stake. The new company merged Injazzat's two plots with Aqar's plot in Sharq, covering an area of 3,000 sq. m., to develop an office tower with a built-up area of nearly 35,000 sq. m.

Bahrain

The company has acquired several well-situated parcels in Al Seef, Ras Al Zuwaid, Al Janabeah Bahrain Investment Wharf, and the Sar areas in Bahrain.

Saudi Arabia

In December 2007, the company acquired, in association with other parties, a multi-use 223,372 sq. m. plot of land in the eastern area of Dammam. The company intends to develop part of the land and sell the rest.

Qatar

The company acquired several parcels of land in the Lusail area for development and trading purposes. The company has also acquired shares in a Qatari company that owns land in the Al Khor area resort.

UAE

The company has acquired various plots of land in Umm Al Quwain in the United Arab Emirates (UAE). One parcel of land, covering an area of about 56,700 sq. m., is situated in Umm Al Tho'oub, and the second one, covering an area of about 6,272 sq. m., is situated in the Al Maidan area. The aim is to hold on to these parcels and sell them at a gain.

Bulgaria

Injazzat invested in a land acquisition program in Luilin on the northeastern side of Sofia, Bulgaria, and in the Bistritsa Hills on the southwestern side of Sofia.

United States

Injazzat, in partnership with other investors, purchased two adjacent tracts of land totaling 28.71 acres in McKinney, Texas, in the United States, for trading purposes.

Financial Statement Analysis

Income Statement

- Real-estate-related income for the company remained flat at KD 4.3 million in 9M2010 compared to 9M2009.
- The company recorded a gain of KD 1.9 million relating to a change in the fair value of investment properties in 9M2010; this accounted for 44% of the company's real-estate-related revenue.
- Historically, top-line and bottom-line growth has been mainly driven by a change in the fair value of investment properties and profit from the sale of investment properties. The change in the fair value of investment properties accounted for an average of 54% of the real-estate-related revenue and an average of 67% of the company's net profit in the five years from 2004 to 2008.
- Rental income decreased by 29%, to KD 1.7 million in 9M2010, compared to KD 2.5 million in 9M2009. The company's rental income has not been sufficient to meet operating expenses in addition to finance charges, resulting in a deficit of KD 2.9 million in 9M2010. This was the trend for 2008 and 2009, with deficits of KD 5.7 million and KD 3.4 million, respectively.
- The company's EBITDA remained flat at KD 3.1 million in 9M2010 compared to 9M2009.
- Investment income decreased significantly by 77% to KD 0.8 million in 9M2010, compared to an investment income of KD 3.4 million in 9M2009. This resulted in net profit declining from KD 2.8 million in 9M2009 to KD 0.4 million in 9M2010.

Balance Sheet

- The company holds investment properties that are valued at KD 109 million as per 9M2010 financial statements. Investment properties accounted for 65% of total assets as of September 30, 2010. Since the market capitalization of the company was KD 25 million as of December 13, 2010, we feel this fact is worth highlighting.
- The company's investment book stood at KD 16.9 million as of September 30, 2010, which accounted for 10% of total assets and 31% of total equity. Although the investments as a percentage of equity are quite high, we would like to highlight that the company's available-for-sale investments primarily represent investments in real estate development projects and portfolios managed through specialized real estate investment managers.
- The company has maintained an average net debt-to-equity ratio of 0.8x over the five years from 2005 to 2009, while the net debt-to-equity ratio reached 1.7x as of September 30, 2010 (1.56x as of 2009). The company's equity and total debt stood at KD 55 million and KD 101 million, respectively, as of September 30, 2010.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Rental income	3,264	3,417	2,469	1,747
Profit on sale of dev. properties	-	-	-	-
Management and placement fees	3,752	324	283	438
Income from sale of inv. properties	9,182	52	52	16
Change in fair value of inv. propertie:	9,953	(18,886)	-	1,877
Other operating income	1,097	3,818	1,510	213
Total real-estate-related rev.	**27,246**	**(11,275)**	**4,314**	**4,291**
Operating expenses	2,946	2,116	1,293	1,302
Operating profit	**24,300**	**(13,391)**	**3,021**	**2,990**
Investment Income	280	3,513	3,426	774
Total Income	27,526	(7,762)	7,739	5,065
Total expenses	8,943	6,835	4,792	4,650
Net Income	**15,326**	**(20,197)**	**2,818**	**378**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Cash and Bank Balances	14,705	22,882	16,316	10,181
Investment Properties	102,411	125,232	110,494	108,857
Total Assets	**167,021**	**203,026**	**170,697**	**167,904**
Total Debt	77,403	98,544	101,281	96,696
Total Liabilities	**98,171**	**112,611**	**110,414**	**107,689**
Shareholders' Equity	**63,920**	**85,305**	**54,606**	**54,521**
Minority Interest	4,929	5,109	5,677	5,695
Total Liabilities and Equity	**167,021**	**203,026**	**170,697**	**167,904**

Sources: Company's financial statements and NBK Capital

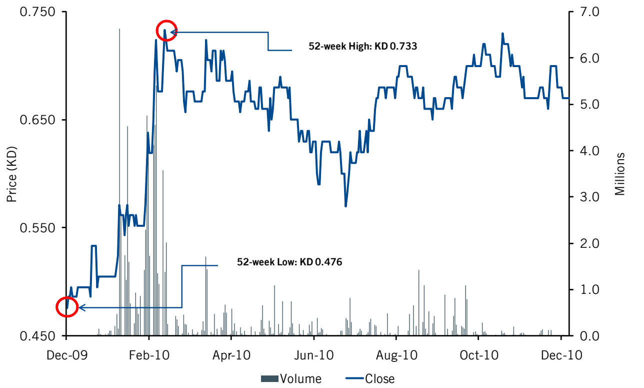
KUWAIT CEMENT COMPANY

Key Data

General		Liquidity	
KSE Code	KCEM.KSE	52-week avg. volume	448,560
Reuters Code	KCEM.KW	52- week avg. value (KD)	284,259
Price (KD)		**Price Performance**	
Closing Price	0.670	YTD	25.7%
52-week High/Low	0.733/0.476	1-Year Period	40.8%
Market Capitalization		**Outstanding Shares**	
Million KD	406.9	Latest (million)	607.3
Ownership Structure			
Closely Held: 63.4%		Public: 36.6%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Analyst

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Highlights

- Kuwait Cement Company is a dominant player in the local cement market, with a production capacity of 3.8 million tons.
- Kuwait Cement has a large investment book on the company balance sheet. Among the largest of the company's investments is an 8.92% share in National Industries Group (NIG). NIG is one of the largest companies in terms of market capitalization on the Kuwait Stock Exchange (KSE).
- Major development projects are under way. With oil the main source of revenue in Kuwait, government spending on large projects will persist. As a result, the demand for cement will increase, improving revenues for cement companies.
- Saudi Arabia's excess cement production may cause a commotion in the Kuwaiti market due to the competitive advantage of Saudi cement producers. This is the result of subsidies provided by the Saudi government on energy costs.
- Kuwaiti companies enjoy a geographic advantage in terms of access to the Iraqi market. Kuwait Cement's planned capacity addition is likely to play an important role in exporting cement for the reconstruction activity in Iraq.
- In 2Q2010, sales dropped by 23% year-on-year. Despite the slump in sales, gross profit margin actually improved by 400 basis points, increasing from 33% in 2Q2009 to 37%.
- Kuwait Cement announced its preliminary 9M2010 results. The company reported a net profit of KD 11.3 million compared to KD 14.9 million in 9M2009.

Key Ratios

	2007	2008	2009	2Q2010
Gross Profit Margin	34.5%	26.4%	33.5%	37.3%
EBITDA Margin	49.7%	29.1%	30.1%	48.8%
Profit Margin	66.5%	5.0%	20.7%	31.1%
Adj Profit Margin (w/o Investment Income)	28.9%	18.1%	22.3%	37.9%
Investment Book-to-Assets	83.3%	52.5%	38.7%	36.8%
Investment Book-to-Equity	100.4%	94.3%	70.2%	65.4%
ROAA	16.8%	1.4%	5.2%	3.8%
Adjusted ROAA	36.8%	17.9%	10.4%	3.4%
ROAE	20.9%	2.0%	9.5%	6.3%
Debt-to-Equity	17.2%	72.9%	59.2%	53.4%
Interest Coverage Ratio	8.9 x	5.2 x	6.0 x	9.0 x

Sources: Company's financial statements and NBK Capital

Overview

Kuwait Cement Company is one of the three cement players in Kuwait. Kuwait Cement is the largest local cement player involved in the production and distribution of ordinary cement, sulphate-resistant Portland cement, and Portland cement for industrial purposes as well as other types of cement. The company has the capacity to produce up to 3.8 million tons of cement, and a clinker capacity of 4 million tons per year, with the majority of Kuwait Cement's core operations driven by the housing market. The company strictly caters to the Kuwaiti market, which consumes approximately 5.5 to 6 million tons of cement a year.

Latest News

- **November 2010:** Kuwait Cement announced its preliminary 9M2010 results. The company reported a net profit of KD 11.3 million compared to KD 14.9 million in 9M2009.
- **April 2010**: Kuwait Cement announced that it expects to complete the construction of a second clinker furnace in 1H2011.
- **January 2009:** Kuwait Cement signed a deal worth USD 53.5 million with Descon Engineering, a Pakistan-based company, to expand the cement plant in Shuaiba. This will increase clinker capacity from 2.5 million tons to 5 million tons.

Financial Statement Analysis

Income Statement

- Sales declined from KD 86.4 million in 2008 to KD 61.8 million in 2009. Despite the drop in sales, gross margins improved from 26% in 2008 to 34% in 2009. The improvement in margins came as a result of a 34% decline in the company's cost of raw material (the largest portion of costs) in 2009. In 2Q2010, sales dropped by 23% year-on-year. Despite the slump in sales, gross profit margin actually improved by 400 basis points, increasing from 33% in 2Q2009 to 37% in 2Q2010.
- On an operational front, EBITDA improved by 19% between 2Q2009 and 2Q2010 to reach KD 6 million. The stronger results came on the back of the declining cost of goods sold (COGS) due to a significant drop in costs associated with raw materials.
- As we have mentioned in past issues, the company's exposure to investments is cause for some concern. A significant portion of income comes from investments, thus introducing a high degree of volatility in earnings. Losses from investments grew from a loss of KD 11.7 million in 2008 to a loss of KD 16 million in 2009. The company still focuses on investments as a key source of income; however, Kuwait Cement seems to be deviating from this strategy, and is moving toward more focus on core operations. If the company continues down this path, we can expect more stability in earnings going forward. In 2Q2010, income from investments contributed a loss of KD1.2 million in 2Q2010 compared to a gain of KD 0.4 million in the same period last year.
- The impact of investment losses on Kuwait Cement was offset by a reversal on impairments in 2009 in the amount of KD 24 million (mainly from building and machinery). As a result, Kuwait Cement's bottom line improved significantly in 2009, tripling to KD 12.8 million.
- Kuwait Cement operates better as a cement company than as an asset management firm. Looking at the operational return on assets (adj. ROAA) vs. the actual return on assets (ROAA), we notice a more stable set of returns. Our calculation for the adj. ROAA involved looking strictly at operations on the income statement and stripping out any investment from the balance sheet. Between 2005 and 2009, the company experienced a drop in its adj. ROAA from 18% to 10%; whereas actual ROAA (including investments) fell from 19% to 5%. In 2Q2010, the TTM adj. ROAA dropped to 4%, similar to that of the same period last year.
- Interest coverage ratios improved from 5.2x in 2008 to 6.0x in 2009 as a result of a 25% decline in finance charges due to the drop in debt. We saw the effects of decreased debt trickle into the 2Q2010 results as interest coverage improved compared to 2Q2009, increasing from 7.3x to 9.0x.

Balance Sheet

- Kuwait Cement has significant exposure to investments, whereby the company's investment book made up 65% of shareholders' equity by June 2010.
- Shareholders' equity remained relatively stable, increasing by a mere 3% in 2009. Available-for-sale (AFS) investments represented the largest portion of assets, making up 33.8% of total assets by the end of 2009. Kuwait Cement's largest position held in AFS investments is an 8.92% stake in the NIG holding company. This investment alone constitutes 15% of total assets, a smaller contribution to total assets than before. The value of this investment increased from KD 46.8 million in 2008 to KD 52.3 million in 2009 only to decrease to the current value of KD 35.8 million. The drop in NIG's value was partly responsible for the

2% decline in shareholders' equity as the value of the company's investments took a hit of KD 12 million in the first half of the year.

- Property, plant, and equipment (PP&E) increased significantly from KD 12.8 million in 2008 to KD 65.8 million in 2009. This comes as a result of KD 29.9 million in additions along with KD 24 million in reversal of impairment losses. Moreover, the company has KD 29.9 million that has been added to capital work in progress. In 2Q2010, PP&E increased significantly to KD 81.6 million as a result of properties that have come online this year—namely, the addition of a new kiln.

- The company has increased its production capacity to 3.8 million tons of cement per year, with expectations of reaching 5 million tons. To produce this amount, Kuwait Cement will have to increase its clinker capacity as well. The capacity expansion would require approximately an additional KD 15 million capital expenditure going forward. How will this be financed? The KD 19.2 million in cash will come in handy to help finance the project.

- Kuwait Cement has raised plenty of debt over the years. Total debt grew from KD 40.7 million in 2005 to KD 97.2 million in 2008, with the majority of debt short-term. By 2009, the company shifted its strategy. After paying KD 16.2 million throughout 2009, total debt dropped to KD 81.2 million by the end of the year. Moreover, Kuwait Cement refinanced a significant portion of its total debt, so that long-term debt would account for a larger portion of total debt. By June 2010, total debt declined to KD 71.8 million as the company managed to pay off an outstanding KD 9.4 million in the first half of the year.

- In 2006 and 2007, Kuwait Cement used the bulk of the company's cash flows from operations (CFFO) along with non-core sources of cash (dividends from investments) to purchase AFS investments and pay out dividends. In 2008, the company took on KD 45.2 million in debt to help pay out dividends and purchase additional AFS and PP&E. In 2009, things changed: debt was being repaid, more AFS investments were being sold than purchased, and the largest portion of Kuwait Cement's CFFO was being invested in PP&E (KD 12.5 million). In the first half of 2010, the company managed to pay off KD 9.4 million in debt, helping improve some of its solvency ratios; however, KCEM dipped into its cash balance to purchase additional investments valued at KD 12.7 million.

- Kuwait Cement's CFFO (adjusted for investments at fair value) improved from KD 2.7 million in 2008 to KD 23.9 million in 2009. More importantly, free cash flows (FCFs using the adjusted cash flow from operations) jumped from a loss of KD 6.4 million in 2008 to KD 23.9 million in 2009. The improvement in cash flow for operations comes from stronger working capital, mainly from the decline in inventory. In 2Q2010, the company hit negative FCFs because of increased capital expenditures worth KD 12.7 million.

Financial Statements

Income Statement (KD '000)	2008	2009	2Q2009	2Q2010
Total Revenue	86,399	61,792	15,894	12,278
Cost of Revenue	(63,572)	(41,074)	(10,684)	(7,694)
Gross Profit	**22,827**	**20,718**	**5,210**	**4,584**
Selling/General/Admin Expenses	(2,991)	(3,510)	(1,249)	(796)
Other Operating income	374	123	942	1,703
Operating Income	**20,210**	**17,331**	**4,903**	**5,490**
Provisions & Impairment (Net)	-	15,833	16,763	(7)
Inv. Income (Exp), Net Non-Op	(11,715)	(16,050)	447	(1,169)
Associates	833	(119)	433	296
Finance Charges	(3,850)	(2,894)	(670)	(613)
FX	(984)	(499)	-	-
Net Income before Taxes	**4,495**	**13,601**	**21,876**	**3,998**
Contributions to KFAS	(43)	(129)	(197)	(30)
NLST	-	(302)	(128)	(38)
Zakat	-	(204)	(299)	(74)
Directors Remuneration	(140)	(154)	-	(35)
Net Income	**4,312**	**12,813**	**21,251**	**3,822**

Balance Sheet (KD '000)	2007	2008	2009	Jun-10
AFS Investments	197,555	107,616	84,278	75,977
PP&E	8,430	12,807	65,771	81,580
Other Non Current Assets	11,944	16,189	15,856	15,953
Total Non Current Assets	**217,929**	**136,612**	**165,905**	**173,510**
HFT Investments	106,090	17,727	12,022	12,054
C&CE	17,143	41,516	38,017	19,171
Other Current Assets	23,963	43,529	33,115	34,765
Total Current Assets	**147,195**	**102,771**	**83,154**	**65,990**
Total Assets	**365,125**	**239,384**	**249,059**	**239,499**
Total Equity	**302,711**	**133,339**	**137,139**	**134,513**
Loans	11,200	38,798	54,938	39,023
Other Non Current Liabilites	1,291	1,498	1,544	1,608
Total Non Current Liabilities	**12,491**	**40,296**	**56,481**	**40,632**
Loans	40,750	58,356	26,233	32,755
Other Current Liabilities	9,174	7,392	29,205	31,600
Total Current Liabilities	**49,923**	**65,748**	**55,439**	**64,355**
Total Liabilities	**62,414**	**106,044**	**111,920**	**104,987**
Total Liabilities and Equity	**365,125**	**239,384**	**249,059**	**239,499**

Sources: Company's financial statements and NBK Capital

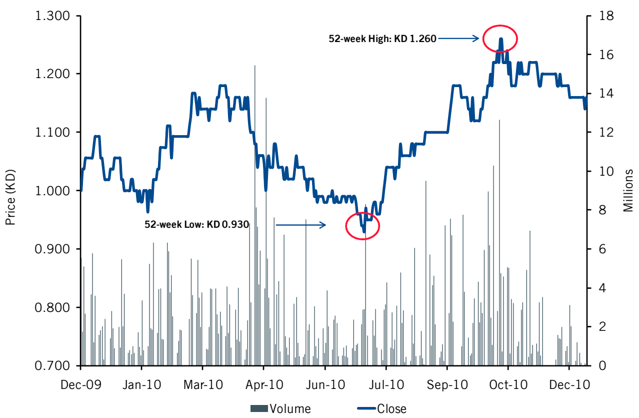
KUWAIT FINANCE HOUSE (KFH)

Key Data

General		Liquidity	
KSE Code	KFIN.KSE	52-week avg. volume	2,669,053
Reuters Code	KFIN.KW	52-week avg. value (KD)	2,904,563
Price (KD)		**Price Performance**	
Closing Price	1.160	YTD	13.8%
52-week High/Low	1.260 / 0.930	1-Year Period	13.8%
Market Capitalization		**Shares Outstanding**	
Million KD	2,859.10	Latest (million)	2,464.74
Ownership Structure			
Closely Held: 48%		Public: 52%	

Price as of close on December 13, 2010 Sources: Reuters, Zawya, and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Analyst

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Highlights

- Kuwait Finance House (KFH) was established in 1977 as the first fully Shari'ah-compliant bank in Kuwait. It is currently the largest Islamic bank in Kuwait and the second-largest Islamic bank in the world. As of June 2010, KFH's assets accounted for 29% of Kuwait's total banking assets. KFH has been expanding aggressively over the past few years, purchasing stakes in companies domestically and abroad. As of December 2009, KFH had 13 consolidated subsidiaries and eight associates in the region.
- KFH recorded a net profit of KD 97.3 million in 9M2010, which is 8.5% lower than that in 9M2009. Total operating income was nearly flat at KD 404 million in 9M2010, despite an 18% increase in net interest income year-over-year (YoY), as investment income declined (-67%) compared to 9M2009. Total assets grew by 7% in 9M2010 to reach KD 12.1 billion at the end of September 2010. Receivables growth outpaced asset growth at 11% and reached KD 5.63 billion, while deposits grew by 2% in 9M2010 to stand at KD 7.38 billion at the end of September 2010.
- In December 2010, KFH announced that it liquidated a real estate fund in Turkey, amounting to capital profit of 14%, with total profits exceeding USD 10 million. The profits from October and November will be distributed amongst the fund's shareholders by 10% annually resulting in investor returns exceeding 70% over 6 years.
- In December 2010, KFH initiated an early installment payment of USD 250 million to several international and regional banks. The payment is a part of a murabaha deal worth USD 850 million, which was secured in 2006 to fund the bank's expansion plans.

Key Ratios

	2006	2007	2008	2009	9M2010
Growth in Receivables	32.0%	43.6%	19.9%	6.5%	10.7%
Growth in Leased Assets	7.4%	43.6%	27.0%	9.0%	-1.2%
Growth in Depositors' Accounts	16.9%	43.7%	23.3%	9.8%	1.7%
Growth in Operating Income	42.1%	41.1%	12.2%	-11.5%	-0.5%
Growth in Net Profit	36.5%	69.9%	-43.0%	-24.3%	-8.5%
NPRs-to-Gross Receivables	4.1%	3.8%	12.6%	11.8%	N/A
NPR Coverage	137%	97%	47%	57%	N/A
Capital Adequacy	18.9%	23.3%	21.7%	15.2%	N/A
Growth in Costs	59.9%	3.4%	30.6%	22.0%	11.9%
Cost-to-Income	39.1%	28.7%	33.3%	45.9%	48.4%
RoAA	2.9%	3.6%	1.6%	1.1%	N/A
RoAE	24.9%	28.8%	12.8%	9.6%	N/A

Sources: Company's financial statements and NBK Capital

Overview

Kuwait Finance House (KFH) is the second-largest bank (holding a 29% market share of the total banking assets in Kuwait as of September 2010) and the largest Islamic bank in Kuwait. KFH is also the world's second-largest Islamic bank. The bank was established in 1977 as Kuwait's premier Shari'ah-compliant banking institution and has since grown to hold the lion's share of the country's Islamic banking business. The government of Kuwait is the largest shareholder, holding approximately 43% of the bank's share capital via several public institutions, including the Kuwait Investment Authority (24.1%), the Public Authority for Minors' Affairs (10.5%), and the Kuwait Awqaf Public Foundation (8.2%). KFH's activities can be broadly divided into retail and corporate banking, treasury, and investments. The bank provides only Shari'ah-compliant products and services through 51 branches and more than 144 ATMs in Kuwait. KFH is also the leader in auto and real estate financing in Kuwait. An aggressive expansion strategy over the past few years has helped the bank expand its international network to Bahrain, Saudi Arabia, the United Arab Emirates (UAE), Turkey, and Malaysia, wherein KFH offers Islamic banking, investments, real estate, and leasing services via subsidiaries and associates.

Subsidiaries and Associates as of December 2009

Consolidated Subsidiaries	Country	Stake	Principal Activities
Al Muthana Investment Co.	Kuwait	100%	Islamic finance and investments
Al Nakheel United Real Estate Co.	Kuwait	100%	Real estate development and leasing
Baitak Real Estate Investment Co.	Saudi Arabia	100%	Real estate development and investment
Development Enterprises Holding Co.	Kuwait	100%	Infrastructure and industrial investments
KFH Private Equity Ltd.	Cayman Islands	100%	Islamic investments
Kuwait Finance House (Malaysia) Berhad	Malaysia	100%	Islamic banking services
Liquidity Management House	Kuwait	100%	Islamic finance and investments
International Turnkey Systems Co.	Kuwait	97%	Computer maintenance, consultancy, and software services
Kuwait Finance House	Bahrain	93%	Islamic banking services
Kuwait Turkish Participation Bank	Turkey	62%	Islamic banking services
Al Enma'a Real Estate Company	Kuwait	62%	Real estate, investment, trading, and real estate mgmt.
ALAFCO - Aviation Lease and Finance Co.	Kuwait	53%	Aircraft leasing and financing services
Aref Investment Group	Kuwait	53%	Islamic investments
Associates	**Country**	**Stake**	**Principal Activities**
Direct Investments			
First Takaful Insurance Co.	Kuwait	27%	Islamic Takaful insurance
Liquidity Management Centre Co.	Bahrain	25%	Islamic banking and financial services
Gulf Investment House	Kuwait	20%	Islamic investments
National Bank of Sharjah	UAE	20%	Islamic banking services
First Investment Co.	Kuwait	9%	Islamic investments
Indirect Investments			
Sokouk Real Estate Development Co.	Kuwait	49%	Real estate development
Munsha'at Real Estate Projects Co.	Kuwait	30%	Real estate projects management
A'ayan Leasing and Investment Co.	Kuwait	16%	Leasing and Islamic investment

Sources: Company's financial statements and NBK Capital

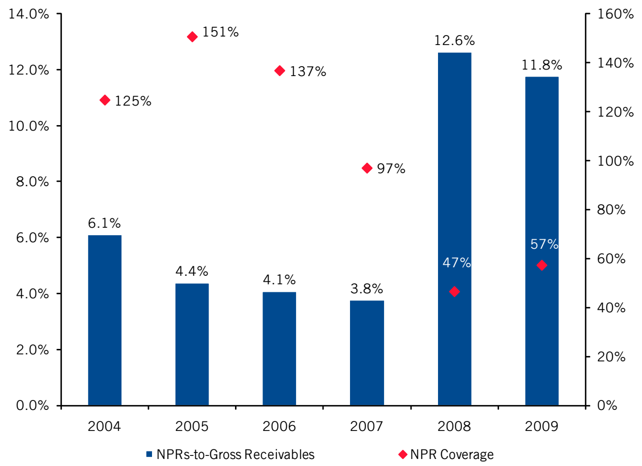
Latest News

- **December 2010:** KFH announced that it liquidated a real estate fund in Turkey, amounting to capital profit of 14%, with total profits exceeding USD 10 million. The profits from October and November will be distributed amongst the fund's shareholders by 10% annually resulting in investor returns exceeding 70% over 6 years.
- **December 2010**: KFH initiated an early installment payment of USD 250 million, originally due in March 2011, to several international and regional banks. The payment is a part of a murabaha deal worth USD 850 million, which was secured in 2006 to fund the bank's expansion plans.
- **November 2010:** Aref Investment Group, a subsidiary of KFH, has signed a debt restructuring agreement with a consortium of local Kuwaiti banks and financial institutions for a five-year period, which includes a grace period of 18 months.
- **September 2010:** KFH–Turkey announced a USD $100 million Sukuk issuance, which will be administered by KFH subsidiary Liquidity Management House in collaboration with Citibank. The Sukuk will be listed on the London Bourse, and have been assigned a BBB- rating by Fitch.
- **June 2010:** S&P affirmed the long- and short-term counterparty credit ratings of KFH at A-/A-2, given the bank's strong ties with the government of Kuwait with a "Negative" Outlook.
- **May 2010:** First Investment Company will be restructuring a debt owed to KFH, worth KD 45 million (less than 1% of receivables as of March 2010) by issuing a five-year Sukuk. KFH also helped restructure the debt owed by one of its subsidiaries, Aref Investment Group, amounting to USD 450 million, to long-term debts ranging from 18 months to five years.

Asset Quality

- In terms of asset quality, although still fairly weak, KFH saw a slight improvement in the non-performing receivables (NPRs)-to-gross receivables ratio, which decreased from 12.6% in 2008 to 11.8% in 2009. Furthermore, the NPR coverage ratio increased to 57% in 2009 compared to 47% in 2008. Total NPR growth remained flat in 2009, as NPRs stood at KD 642 million at the end of December 2009.

NPRs-to-Gross Receivables and NPR Coverage Ratio



Sources: Company's financial statements and NBK Capital

NPR Analysis – Pre-invasion versus Post-liberation

KD Thousands	2005	2006	2007	2008	2009
Pre-invasion					
NPRs	31,737	31,693	6,368	6,309	6,275
Specific Provisions	31,737	31,693	6,368	6,309	6,275
% of total NPRs	32%	26%	4%	1%	1%
Post-liberation					
NPRs	67,189	88,531	149,663	635,859	635,797
Specific Provisions	59,050	67,954	71,866	158,428	212,644
% of total NPRs	68%	74%	96%	99%	99%
Post-Liberation					
NPR Growth	1%	32%	69%	325%	0%
Provisions Growth	6%	15%	6%	120%	34%
NPR Coverage	88%	77%	48%	25%	33%
Total					
NPRs	98,926	120,224	156,031	642,168	642,072
Total Provisions	149,016	164,455	151,355	299,107	368,128
NPR Coverage	**151%**	**137%**	**97%**	**47%**	**57%**
NPRs-to-Gross Receivables	**4.4%**	**4.1%**	**3.8%**	**12.6%**	**11.8%**

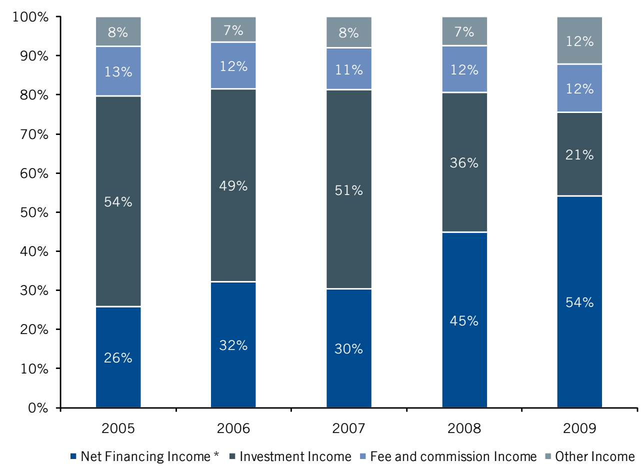
Sources: Company's financial statements and NBK Capital

Financial Statement Analysis

Income Statement

- KFH recorded a net profit of KD 97.3 million in 9M2010, which is 8.5% below that in 9M2009, on the back of weak investment income. Net financing income stood at KD 220.8 million in 9M2010, versus KD 186.9 million in 9M2009, which is up 18% YoY.
- Fee and commission income was nearly flat in 9M2010 at KD 47 million, and foreign exchange gains stood at KD 9.4 million in 9M2010, versus foreign exchange losses of KD 3.8 million in 9M2009. However, investment income declined by 67% to KD 45.2 million in 9M2010, down from KD 139 million in 9M2009, resulting in a slight decline (-0.5%) in operating income in 9M2010. Furthermore, impairment charges in 9M2010 stood at KD 122.6 million, which is 11% lower than in 9M2009.
- Costs grew by 12% YoY, taking the cost-to-income ratio (CIR) to 48% in 9M2010, which is slightly higher than the CIR of 46% in FY2009. This is higher than the ratios of most of the bank's peers in the region. Islamic banks typically operate on a higher cost base than their conventional peers. KFH's lower operating efficiency further relates to the building of a wider international network, the implementation of Basel II reporting systems, and continuous improvements in information technology (IT).
- KFH announced a net profit of KD 118.7 million in 2009, which is 24% lower than that in 2008, on the back of weaker non-financing income and high impairment charges.
- Net financing income rose to KD 281 million in 2009, which is 7% higher than the KD 263 million recorded in 2008. Almost all non-financing income components declined in 2009. Overall, the combined non-financing income fell by 26% in 2009. Total operating income reached KD 520 million, which is 11% lower than the 2008 level.
- Total impairment charges remained high at KD 204 million in 2009, although they were slightly lower (-3%) than the 2008 level. The impairments were related to exposures in the high-risk real estate sector and troubled investment companies. Income before provisions decreased by 12% compared to 2008.

Operating Income Breakdown

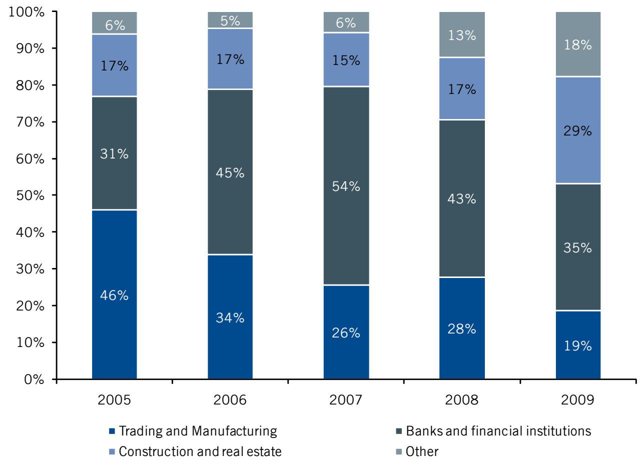


** Net financing Income = Financing income less distribution to depositors' accounts less Murabaha and Ijara costs. Sources: Company's financial statements and NBK Capital*

Balance Sheet

- Total assets grew by 7% in 9M2010 to reach KD 12.1 billion at the end of September 2010, matching the growth witnessed in FY2009. In 2008, the balance sheet grew by 20% after a compound annual growth rate (CAGR) of 37% between 2004 and 2007.
- Receivables growth (+11%) outpaced asset growth in 9M2010 and reached KD 5.63 billion at the end of September 2010, while leased assets declined slightly (-1%) to KD 1.27 billion. In 2009, receivables grew by 6%, while leased assets grew by 9%. As with most other Kuwaiti banks, KFH's lending book grew substantially between 2004 and 2008 with receivables and leased assets growing at a CAGR of 34% and 24%, respectively.
- On the funding side, the bank saw a 34% increase in interbank borrowings in 9M2010, with the majority of the growth occurring in 1Q2010 (33%). Deposits increased by 2% to KD 7.38 billion at the end of September 2010. In 2009, deposit growth outpaced receivables and leased assets growth at 10%. KFH's deposit base accounts for around 26% of the total deposits in the Kuwaiti banking sector. The deposit base is the primary source of funds for KFH's lending portfolio, as Islamic banks are restricted from accessing longer-term wholesale funding due to the unavailability of instruments that comply with Shari'ah law. However, KFH is able to borrow via short-term Murabaha facilities (equivalent to interbank borrowing, which increased by 33% in 9M2010), issuing Sukuks, or Shari'ah-compliant structured financing.
- KFH reported a drop in the total capital adequacy ratio (CAR) to 15.21% in 2009, compared to 21.7% as of December 2008. The Central Bank of Kuwait (CBK) requires all conventional banks to calculate and report CARs as per Basel II regulations as of January 1, 2005. However, this is not yet binding for Islamic banks. Therefore, KFH and the other Islamic banks in Kuwait currently report CAR based on Basel I norms. However, KFH has implemented systems to enable the bank to report based on Basel II requirements, if and when the CBK directives require Islamic banks to do so.

Receivables Breakdown



Sources: Company's financial statements and NBK Capital

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Financing Income	561,271	528,411	401,975	388,632
Distribution to Depositors	(216,800)	(192,584)	(170,286)	(137,119)
Murabaha and Ijara costs	(81,194)	(54,543)	(44,780)	(30,745)
Net Financing Income	**263,277**	**281,284**	**186,909**	**220,768**
Fee and Commission Income	70,140	63,406	47,026	47,355
Foreign Exchange Income	13,547	(2,250)	(3,837)	9,380
Investment Income	209,897	111,613	138,982	45,222
Other Income	29,998	65,523	36,321	80,808
Operating Income	**586,859**	**519,576**	**405,401**	**403,533**
Impairments	(210,940)	(203,885)	(137,249)	(122,572)
Staff Costs	(96,254)	(111,893)	(84,450)	(83,673)
Gen and Admin Expenses	(70,873)	(86,757)	(62,264)	(79,657)
Depreciation	(28,547)	(40,031)	(27,917)	(32,062)
Operating Profit	**180,245**	**77,010**	**93,521**	**85,569**
Other Expenses	(5,593)	(5,190)	(4,747)	(4,157)
Minority Interest	(17,692)	46,921	17,610	15,929
Net Income	**156,960**	**118,741**	**106,384**	**97,341**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Cash and Bank Balances	553,565	368,062	444,943	446,183
Short-term Intl. Murabaha	1,067,291	1,312,153	1,257,573	1,105,622
Receivables	3,988,131	4,779,788	5,090,398	5,633,617
Trading properties	126,413	57,590	126,386	189,802
Leased Assets	930,657	1,181,825	1,288,066	1,272,739
Investments	896,098	1,038,602	1,042,026	1,162,255
Investments in Associates	341,279	449,496	410,838	370,962
Investment Properties	247,300	279,574	506,464	546,376
Other Assets	239,694	485,713	522,394	617,468
Fixed Assets	407,488	591,339	601,606	710,046
Total Assets	**8,797,916**	**10,544,142**	**11,290,694**	**12,055,070**
Liabilities and Sh. Equity				
Due to Banks and Fin. Inst.	1,186,391	1,595,452	1,460,925	1,962,785
Depositor's Accounts	5,361,155	6,611,556	7,261,827	7,383,654
Other Liabilities	380,853	394,033	563,451	644,672
Total Liabilities	**6,928,399**	**8,601,041**	**9,286,203**	**9,991,111**
Minority Interest	196,094	354,546	324,138	309,475
Deferred Revenue	374,608	344,426	464,602	516,424
Fair Value Reserve	86,843	11,394	(33,597)	(58,771)
Foreign Currency Trans. Res.	1,972	(7,548)	7,531	15,566
Total Shareholders' Equity	**1,210,000**	**1,240,283**	**1,241,817**	**1,281,265**
Total Liabilities and Equity	**8,797,916**	**10,544,142**	**11,290,694**	**12,055,070**

Sources: Company's financial statements and NBK Capital

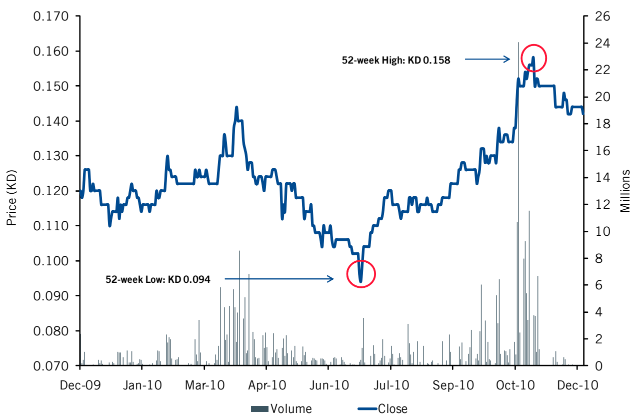
KUWAIT FINANCIAL CENTER (MARKAZ)

Key Data

General		Liquidity	
KSE Code	MARKAZ.KSE	52-week avg. volume	1,379,576
Reuters Code	MARKZ.KW	52-week avg. value (KD)	183,032
Price (KD)		**Price Performance**	
Closing Price	0.142	YTD	22.4%
52-week High/Low	0.158 / 0.094	1-Year Period	22.4%
Market Capitalization		**Shares Outstanding**	
Million KD	65.02	Latest (million)	457.91
Ownership Structure			
Closely Held: 21%		Public: 79%	

Price as of close on December 13, 2010 Sources: Reuters, Zawya, and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Kuwait Financial Center (Markaz) was established in 1974 and has become one of the leading asset management and investment banking institutions in the Middle East and North Africa (MENA) region.
- Markaz was the first to offer a derivatives trading platform in 2005, and is currently the only options market maker for stocks listed on the Kuwait Stock Exchange (KSE). In 2009, Markaz saw a decline in the number of contracts traded, in line with the overall weak performance of the KSE; total volume traded on the KSE declined by 27%, and the total value traded declined by 41% in 2009.
- Markaz announced a net profit of KD 6.9 million in 9M2010, which is 66% higher than the net profit of KD 4.2 million recorded in 9M2009, on the back of an improvement in investment income. Management fees and commissions declined by 8% year-over-year (YoY) in 9M2010 and stood at KD 5.6 million.
- Costs were reasonably well controlled in 9M2010, increasing by 3% YoY. Costs have declined in the past two years (-8% in 2008 and -23% in 2009), after more than doubling between 2004 and 2007.
- Markaz's assets under management (AUMs) increased by 23% in 9M2010 to KD 985.9 million, compared to KD 799 million at the end of December 2009, with the majority of the growth occurring in 3Q2010. This follows two consecutive years of decline in AUMs (-3% in 2009 and -34% in 2008).

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Management fees and comm-to-Op.Income	89.5%	42.4%	-102.6%	92.7%	46.0%
RoAA	3.6%	16.4%	-11.7%	2.0%	N/A
RoAE	4.6%	22.8%	-18.1%	3.2%	N/A
Total Debt-to-Total Equity	31.2%	38.7%	66.8%	39.8%	37.4%
Net Debt-to-Total Equity	28.3%	36.8%	51.9%	25.1%	31.8%
Interest Coverage Ratio	4.02	13.18	-5.81	3.23	12.47
Operating Cash Flow Ratio	2.77	-1.74	2.61	3.27	-0.67
Liquid Assets-to-Total Assets	38.5%	39.7%	39.7%	44.6%	45.9%
Debt-to-Assets	23.1%	26.8%	36.6%	27.3%	23.4%
Equity-to-Assets	74.1%	69.9%	58.0%	68.7%	69.5%

Sources: Company's financial statements and NBK Capital

Overview

Kuwait Financial Center (Markaz) was established in 1974 and has become one of the leading asset management and investment banking institutions in the MENA region. The primary services of the company include investment management, corporate financing, investment and financial advisory services, private equity, mutual funds and real estate fund management, money market, and foreign exchange. Following the 1990 invasion, Markaz went through a major restructuring process as the company began divesting a substantial portion of its non-core assets, affiliates, and subsidiaries abroad. Markaz then increased its paid-up capital and was listed on the KSE in April 1997. Markaz has since expanded its operations via subsidiaries in the United States (US), Bahrain, Kuwait, and Saudi Arabia, and representative offices in Algeria and Lebanon. Markaz has brought several innovative products to the markets, including Kuwait's first domestic mutual fund, the first Real Estate Investment Trust (REIT), and the first derivative products trading platform. In fact, Markaz has been the only options market maker for stocks listed on the KSE since 2005. As of September 2010, Markaz's assets under management (AUMs) stood at KD 985.9 million (USD 3.5 billion).

Latest News

- **July 2010:** The Central Bank of Kuwait approved Markaz's request to repurchase or divest a maximum of 20% of the company's issued shares for a six-month period beginning on July 23, 2010.
- **May 2010:** Markaz bought a 48.35% stake in Kuwait's Al Kout Industrial Projects worth KD 16.4 million, on behalf of its clients, from UAE-based Shuaa Capital.
- **March 2010:** Markaz's board of directors proposed no dividend distributions for 2009.
- **March 2010:** Markaz announced it had submitted proposals to the KSE in 2009 to allow new entrants in the options market for market making in order to enhance liquidity via increased competition. Furthermore, proposals to allow options trading during the official market hours were also submitted.

Strategy

- Markaz embarked on a rapid expansion strategy across the globe soon after the company's incorporation in 1974. In 1976, Markaz established its first merchant bank in Korea in partnership with Hyundai Engineering and Construction Company. In 1978, Markaz began its real estate activity in Los Angeles, California. A year later, the company acquired a majority stake in the Bank of Lebanon and Kuwait. Although the 1990 invasion resulted in a halt to major operating activities, Markaz maintained its ground, focusing on managing its existing investments. As the restructuring process was completed in 1999, Markaz once again began looking for investment opportunities in the region.
- In the US, Mar-Gulf Management Incorporated (Mar-Gulf) has acted as Markaz's asset management arm since 1988. The fully owned subsidiary is involved in the ownership and development of industrial, retail, and commercial properties in Los Angeles, California. Other major subsidiaries include other fully owned asset management companies in the US, fund management firms in Bahrain, and consultancies in Kuwait.

Major Subsidiaries

Subsidiary	Country	Proportion of Ownership	Principal Activity
Mar-Gulf Management Inc.	USA	100%	Asset Management
KFC Lone Star, Inc	USA	100%	Asset Management
KFC Lone Star 1, Inc	USA	100%	Asset Management
First Management and Economic Consultancy Co.	Kuwait	100%	Economic Consultancy
Markaz Gulf Fund Co.	Bahrain	99%	Fund Management
Markaz Real Estate Opportunities Fund Co.	Bahrain	99%	Fund Management
Marsoft for Computer Programming, Operations and Consultancy Services Co.	Kuwait	67%	Computer Consultancy

Source: Company's financial statements and NBK Capital

Financial Statement Analysis

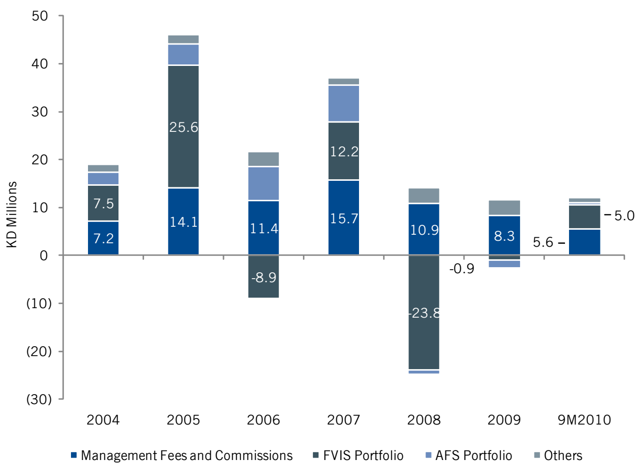
Income Statement

- Markaz posted a net profit of KD 5.5 million in 3Q2010 after recording a net loss of KD 2.3 million in 2Q2010. Net profit for the 9M2010 period reached KD 6.9 million, up 66% compared to KD 4.2 million in 9M2009, on the back of a surge in investment income.
- Management fees and commissions declined by 8% YoY to KD 5.6 million, and contributed 46% of the total operating income in 9M2010. Total operating income stood at KD 12.1 million in 9M2010, up 34% compared to KD 9 million in 9M2009. The surge in operating income was primarily driven by a surge in net investment income from KD 603 thousand in 9M2009 to KD 5.5 million in 9M2010.
- Costs were reasonably well controlled in 9M2010, increasing by 3% YoY to KD 4.8 million. Costs declined in the previous two years (-8% in 2008 and -23% in 2009), after having more than doubled between 2004 and 2007. Markaz's cost-to-income ratio has been volatile, primarily

due to the changing nature of the operating income. However, if we look at costs as a share of total revenues (defined as interest income, dividend income, and management fees and commissions), there was a strong improvement in 9M2010, as the ratio dropped to 40% in 9M2010, compared to 52% in 9M2009.

- In 2009, Markaz announced a net profit of KD 2.57 million, compared to the net loss of KD 18.8 million recorded in 2008. Management fees and commissions declined by 23%, reaching KD 8.3 million. However, total operating income turned positive in 2009, driven by significantly lower losses in the investment portfolio compared with 2008. Markaz's operating income breakdown has not been consistent over the years. Since 2004, management fees and investment income have continually alternated as the largest contributor to operating income.

Operating Income Breakdown



Sources: Company's financial statements and NBK Capital

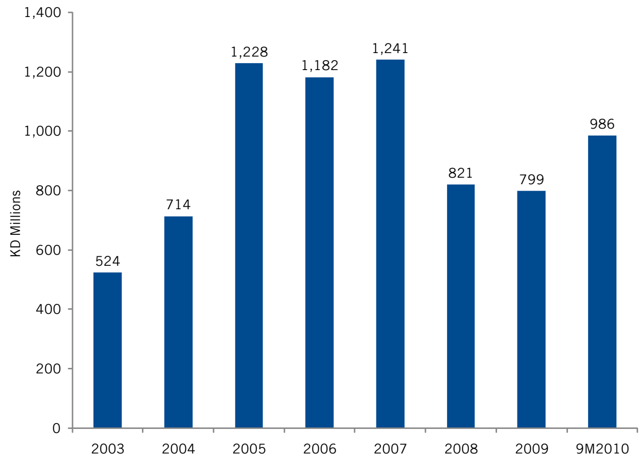
Balance Sheet

- Markaz's assets grew by 9% between December 2009 and September 2010 to reach KD 130.6 million. In 2009, total assets dropped by 10% to KD 119.5 million. The trading investment portfolio grew by 31% to KD 54 million in 9M2010, while the available-for-sale (AFS) portfolio grew by 13% during the same period.

- Markaz's short-term borrowings declined to KD 2.1 million at the end of September 2010, down 48% from December 2009. Markaz's short-term borrowings stood at KD 4 million at the end of December 2009, after dropping to KD 861 thousand in June 2009 from KD 20.8 million at the end of December 2008.

- Markaz's assets under management (AUMs) increased by 23% in 9M2010 to KD 985.9 million, compared to KD 799 million at the end of December 2009. This follows two consecutive years of decline in AUMs (-3% in 2009 and -34% in 2008). Between 2003 and 2007, Markaz's AUMs grew by a compound annual growth rate (CAGR) of 24% to reach KD 1.2 billion, with most of the growth achieved in the first two years of the period in question.

Assets under Management



Sources: Company's financial statements and NBK Capital

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Interest and Dividend Income	3,206	1,888	1,469	1,207
Management fees and commissions	10,854	8,338	6,032	5,555
Net gain/(loss) from FVIS Invest.	(23,834)	(904)	2,974	4,979
Net gain/(loss) from AFS Invest.	(858)	(1,730)	(2,371)	551
Net income on sale of Invest. Prop.	428	-	-	(268)
Provision for credit losses	(131)	653	143	38
Foreign Exchange gain/ (loss)	(302)	735	749	(14)
Other Income	61	17	16	21
Total Operating Income	**(10,576)**	**8,997**	**9,012**	**12,069**
General and Admin Expenses	(5,436)	(5,140)	(3,784)	(4,186)
Finance Costs	(2,758)	(1,194)	(900)	(632)
Total Operating Expenses	**(8,194)**	**(6,334)**	**(4,684)**	**(4,818)**
Other Expenses	-	(123)	(193)	(351)
Minority Interest	(14)	33	20	12
Net Income	**(18,784)**	**2,573**	**4,155**	**6,912**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Cash and Cash Equivalents	2,430	11,416	12,061	5,091
Trading Investments	66,978	37,153	41,165	54,023
AFS Investments	76,829	50,954	47,187	53,103
Acc. Receivables and Oth. Assets	12,211	9,206	4,690	4,383
Short-term Financing	5,207	3,972	54	811
Loans to Customers	20,388	17,472	11,873	11,067
Invest. Prop and Prop. Under Development	3,101	1,321	1,931	1,657
Fixed Assets	574	738	573	425
Total Assets	**187,718**	**132,232**	**119,534**	**130,560**
Liabilities and Shareholders' Equity				
Due to Banks and Fin. Inst.	432	2,774	3	3,413
Acc. Payables and Oth. Liabilities	5,336	3,900	4,253	5,017
Dividends Payable	424	416	368	349
Short-term Borrowings	22,990	20,820	4,012	2,100
Bonds	27,300	27,595	28,680	28,440
Total Liabilities	**56,482**	**55,505**	**37,316**	**39,319**
Minority Interest	66	80	47	520
Total Shareholders' Equity	**131,170**	**76,647**	**82,171**	**90,721**
Total Liabilities and Equity	**187,718**	**132,232**	**119,534**	**130,560**

Sources: Company's financial statements and NBK Capital

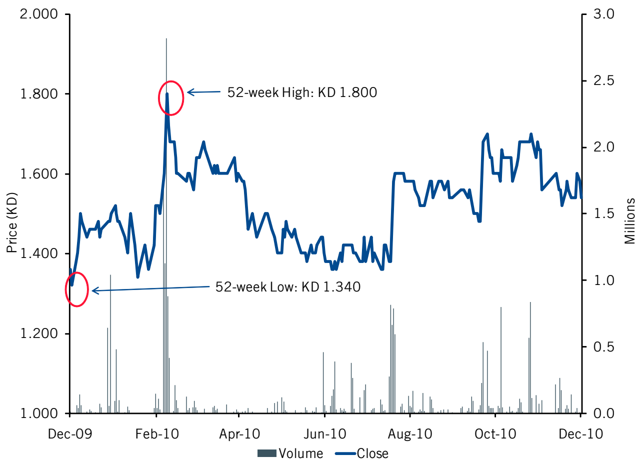
KUWAIT FOOD GROUP (AMERICANA)

Key Data

General		Liquidity	
KSE Code	FOOD.KSE	52-week avg. volume	127,808
Reuters Code	FOOD.KW	52-week avg. value (KD)	201,623
Price (KD)		**Price Performance**	
Closing Price	1.520	YTD	4.1%
52-week High/Low	1.800 / 1.340	1-Year Period	-16.5%
Market Capitalization		**Shares Outstanding**	
Million KD	611	Latest (million)	402
Ownership Structure			
Closely held: 66.33%		Public: 33.67%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

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Highlights

- Operationally, Americana has solid revenue numbers as well as healthy margins historically. This is evident as Americana posted an 11% year-on-year (YoY) increase in revenue for FY2009.
- Americana reports revenues in three different segments: restaurants, industries, and commercial and retail; with restaurants contributing the majority to annual sales.
- Although historically both gross profit and EBITDA have grown consistently on a yearly basis, 2009 is the exception with both figures declining YoY.
- Top-line number aside, the company has a sizable investment portfolio with investments accounting for 23% of total assets and 50% of total equity as of 1H2010.
- Americana's dependence on investment income has led the company to have a very volatile net profit figure.
- Americana announced cash dividends for FY2009 at KD 0.060 per share, down 20% YoY from KD 0.075 per share in FY2008. The FY2009 dividend indicates a 66% payout ratio, compared to an 86% payout ratio in FY2008.
- Americana reported its 9M2010 results, with revenues growing by 11% YoY to KD 510 million, while gross profits grew by 13% YoY to KD 89.5 million, representing a gross margin of 18% (versus 17% in 9M2009). EBITDA grew by 7% to KD 70 million, primarily on account of improving gross profits. As a result, the EBITDA margin declined to 13.7% (from 14.3% in 9M2009). Net income grew by 110% YoY to KD 35 million, with the increase driven by KD 11. 5 million in gains from available for sale investments (versus KD 5.6 million in losses from available from sale investments recorded during 9M2009). Furthermore, borrowing costs declined by 32% YoY over the same period.

Key Ratios

	2006	2007	2008	2009	9M2010
EBITDA (KD millions)	53	61	104	87	70
EBITDA Margin	16%	14%	19%	14%	14%
Gross Profit Margin	21%	18%	22%	17%	18%
Net Profit Margin	10%	13%	6%	6%	7%
Operating Margin	12%	10%	14%	8%	8%
ROE (%)	15%	20%	12%	14%	N/A
ROA (%)	9%	11%	6%	6%	N/A
Net Debt to Equity	0.20	0.27	0.58	0.34	0.28
Current Ratio	1.24	1.25	0.95	1.03	1.11
Quick Ratio	0.42	0.40	0.31	0.44	0.44
Day Sales Outstanding (DSO)	31	30	27	26	N/A
Interest Coverage (EBIT / Net Interest Expense)	8.02	5.61	7.32	3.92	5.61
Investment/Equity	0.75	0.75	0.51	0.53	0.55

Sources: Company's financial statements and NBK Capital

Overview

Kuwait Food Group (Americana) is a franchising and restaurant management company established in 1964. Americana's most notable assets across the MENA region include franchise rights to KFC, Hardees, Pizza Hut, and TGI Fridays.

Since 1988, when Americana had 166 stores distributed across seven chains, the company's store portfolio has grown exponentially. As of FY2008, Americana boasted 1,064 outlets, under 18 different chains, across 17 countries. In 2008 alone, Americana managed to open 179 new outlets, which translates into a new outlet opening every two days.

Additionally, Americana's portfolio includes a range of consumer food products that are manufactured in 18 company owned plants, such as Americana Meat. The company opened the first factory for meat products in the Middle East in 1973 in Kuwait. Since then, the number of commercial and industrial affiliated companies reached 22 by the end of FY2008.

Latest News

- **October 2010:** Americana has signed a formal area development agreement with the US based Darden Restaurants Inc., for the introduction of three new restaurant brands in the Middle East. The three subject brands are Darden's Red Lobster, Olive Garden, and LongHorn Steakhouse. The agreement calls for Americana to initially develop a minimum of 60 restaurants in Bahrain, Egypt, Kuwait, Lebanon, Qatar, Saudi Arabia, and United Arab Emirates over the next five years.

Financial Statement Analysis

Income Statement

9M2010

- Americana's 9M2010 revenues grew by 11% YoY to KD 510 million. Gross profits during the same period increased by 13% YoY to KD 89.5 million, representing a gross margin of 18% (versus 17% in 9M2009).
- The 9M2010 EBITDA grew by 7% to KD 70 million, primarily on account of improving gross profits. On the other hand selling and marketing expenses grew by 19% YoY to KD 43.6 million, and general and administrative expenses grew by 16% YoY to KD 3.8 million. As a result, the EBITDA margin declined to 13.7% (from 14.3% in 9M2009).
- Net income during 9M2010 grew by 110% YoY to KD 35 million. The increase is primarily driven by KD 11. 5 million in gains from available-for-sale (AFS) investments recorded during 9M2010; this compares to KD 5.6 million in losses from available from sale investments recorded during 9M2009. Furthermore, borrowing costs declined by 32% YoY to KD 7.5 million.

FY2009

- When we consider Americana on an operational basis, we see a stable company with healthy operational numbers and solid operational margins. The company's operational strength is evident historically as Americana has posted strong revenue growth, with revenue growing at a CAGR of 26% between 2005 and 2009. This trend of strong top-line performance did not subside in FY2009 as Americana posted an 11% increase in revenue, to KD 616 million versus KD 557 million in FY2008.
- Americana breaks down revenue into three segments: restaurants, industries, and commercial and retail. The restaurants' segment, which consists of Americana's forays into fast food and quality service restaurants, generated 52% of the company's total revenue in FY2009. Americana's manufacturing activities, such as Americana Meat and Americana Cake, are represented through the industries sector, which contributed to 47% of total revenue in FY2009. Finally, commercial and retail contributed to 1% of total revenue in FY2009.
- With respect to gross profit, Americana has been able to consistently grow this figure in line with revenue over the past several years, with 2009 being the sole exception over the past five years. Although total revenue grew YoY by 11%, Americana's cost of sales grew by 18% for the year, resulting in a 15% drop in gross profit for FY2009 when compared to FY2008.
- Over the years Americana has had a fairly consistent gross profit margin trend with the margin fluctuating between a high of 22% and a low of 17% during the previous five years. As for FY2009, gross profit margin has contracted to 17% from the 22% recorded in FY2008.
- Historically, Americana has posted impressive EBITDA growth. Between 2005 and 2009, EBITDA has grown at a CAGR of 32%. Although impressive, it must be noted that EBITDA growth has not been stable, fluctuating from 83% growth in 2006 to 16% in 2007. Once again, FY2009 acts as the exception to this rule as EBITDA declined by 16% YoY. This decline is mainly due to a 18% YoY growth in cost of sales and 16% YoY increase in marketing expenses. Naturally, EBITDA margins contracted to 14% in FY2009, down from 19% in FY2008.

- Operationally, Americana appears to be a sound company, but the exposure it has to non-core investments has a substantial impact on the company's net profit. Americana's income from AFS and investments at fair value dropped by 76% in FY2009 over FY2008. Yet, a substantial growth in income from associates has offset this drop and resulted in a 3% increase in net profit YoY from KD 35 million in FY2008 to KD 36 million in FY2009. Due to the company's dependence on investments, Americana's bottom line has been rather volatile.
- Americana announced cash dividends for FY2009 at KD 0.060 per share, down 20% YoY from KD 0.075 per share in FY2008. The FY2009 cash dividend is indicative of a 66% payout ratio, which compares to an 86% payout ratio in FY2008.

Balance Sheet

- Americana has a sizable investment book with an array of cross investments with other Al-Kharafi-owned counterparts. As of September 2010, Americana's investment book represents 28% of total assets. As at the end of 9M2010, Americana's investment-to-equity ratio stood at 0.55x, though this ratio has declined over the years from 0.75x in FY2006. Americana's most notable investments are in National Investments Company, Gulf Cable, and Gulf Franchising.
- Examining Americana's day sales outstanding (DSO), we notice that the number declined from 30 days in FY2007 to 26 days in FY2009, which indicates more efficient collection of outstanding receivables.
- Americana has a net debt-to-equity ratio of 0.28x as at the end of 9M2010, with total debt amounting to KD 125 million. Short-term debt accounts for 55% of the total debt. Americana has a solid interest coverage ratio of 5.6x based on 9M2010 financials, which indicates that the company is well positioned to service its debt.
- Finally, on the dividend front, the company has paid dividends in each of the last five years, but with a very inconsistent payout ratio ranging between 15% and 83%.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Sales	557,449	616,425	457,188	509,661
Cost of sales*	(437,475)	(514,662)	(377,898)	(420,162)
Gross Profit	**119,974**	**101,763**	**79,290**	**89,499**
Selling and marketing expenses	(40,277)	(46,582)	(36,822)	(43,649)
General and administrative	(3,405)	(3,573)	(3,245)	(3,765)
EBIT	**76,292**	**51,608**	**39,223**	**42,085**
Other income	453	557	245	250
Gain/ losses from investments	12,060	-	-	-
Gains from AFS	4,055	3,923	(5,602)	11,529
Loss from drop of value in AFS	(36,872)	(11,377)	-	-
Gain on sale of stake in related co.	-	2,038	1,180	-
Share of associates' results	745	16,844	666	-
Net foreign exchange gain/losses	(978)	(490)	(241)	124
Borrowing Cost	(10,425)	(13,174)	(11,018)	(7,502)
Profit Before Taxes	**45,330**	**49,929**	**24,453**	**46,486**
Income tax of subsidiaries	(2,965)	(5,560)	(2,030)	(3,326)
Contribution to KFAS	(259)	(345)	(171)	(362)
National Labour Support Tax	(791)	(865)	(352)	(693)
Zakat	(305)	(375)	(151)	(303)
Board of Directors' remuneration	(72)	(72)	-	-
Net Profit for the Year	**40,938**	**42,712**	**21,749**	**41,802**
Minority Interest	5,715	6,436	5,018	6,634
Net Income	**35,223**	**36,276**	**16,731**	**35,168**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Inventories	67,603	91,280	74,498	94,123
Trade receivables and others	35,324	40,729	43,476	48,518
Other debit balances	26,224	33,878	33,846	33,647
Investments at fair value	52,768	-	-	-
Cash and cash equivalent	34,572	21,662	37,448	36,987
Total Current Assets	**216,491**	**187,549**	**189,268**	**213,275**
Property, plant and equipment	167,720	223,792	233,105	224,913
Biological assets	2,151	2,444	3,615	3,542
Intangible assets	10,684	13,557	13,656	13,657
Investments in associates	1,849	2,662	-	-
Available-for-sale investments	185,221	124,602	150,107	174,623
Total Assets	**584,116**	**554,606**	**589,751**	**630,010**
Loans and bank facilities	77,414	109,438	70,668	69,170
Payables and other credit balances	96,279	88,813	112,391	123,678
Total Current Liabilities	**173,693**	**198,251**	**183,059**	**192,848**
Loans	42,297	55,805	62,671	55,479
Provision for indemnity	14,157	17,029	18,802	22,065
Total Liabilities	**230,147**	**271,085**	**264,532**	**270,392**
Total Equity	**353,969**	**283,521**	**325,219**	**359,618**
Total Liabilities and Equity	**584,116**	**554,606**	**589,751**	**630,010**

**Cost of sales includes depreciation and amortization. Sources: Company financial statements and NBK Capital*

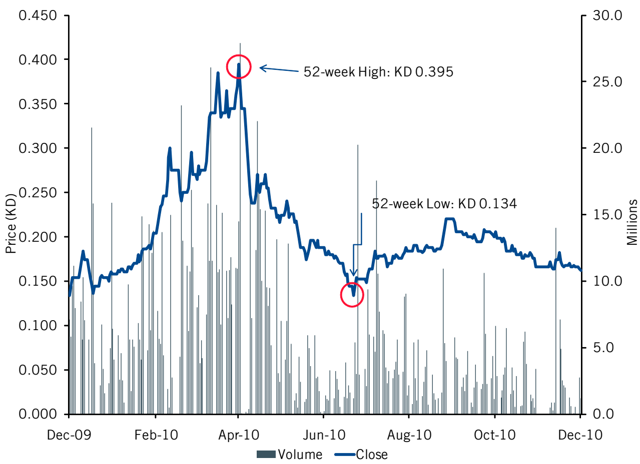
KUWAIT AND GULF LINK TRANSPORT COMPANY (KGL)

Key Data

General		Liquidity	
KSE Code	KGL.KSE	52-week avg. volume	5,677,592
Reuters Code	KGL.KW	52-week avg. value (KD)	1,303,148
Price (KD)		**Price Performance**	
Closing Price	0.162	YTD	12.5%
52-week High/Low	0.395 / 0.134	1-Year Period	20.9%
Market Capitilization		**Outstanding Shares**	
Million KD	42.81	Latest (million)	264.27
Ownership Structure			
Closely Held: 15.4%		Public: 84.6%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Kuwait and Gulf Link Transport Company's 2Q2010 net profit stood at KD 1.14 million, which illustrates a significant increase in comparison to the loss of KD 0.37 million in 2Q2009.
- KGL's revenue stood at KD 13.92 million for the period compared to KD 13.57 million in 2Q2009, an increase of 3% year-on-year (YoY). In addition, gross profit declined by 4%, from KD 3.62 million in 2Q2009 to KD 3.47 million in 2Q2010, and KGL operational performance weakened, as EBITDA declined 6% YoY. Although the EBITDA margin weakened from 75% in 2Q2009 to 69% in 2Q2010, it improved sequentially from 51% in 1Q2010.
- KGL offers a full range of transportation and logistics services, namely, overland cargo transport, passenger transport through buses, and car rental services.
- Of the company's associates, the largest two are KGL Logistics and KGL Ports International. KGL owns 45.9% of KGL Logistics and 41.7% of KGL Ports International. KGL Logistics, which is publicly listed, focuses on warehousing, freight forwarding, and stevedoring, while KGL Ports International develops and manages container terminals.

Analyst

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Key Ratios

	2006	2007	2008	2009	2Q2010
Gross Profit Margin (%)	20.1%	29.6%	26.8%	26.8%	24.9%
Net Profit Margin (%)	45.8%	18.3%	-14.5%	1.1%	8.2%
EBITDA Margin (%)	24.7%	32.7%	35.4%	43.2%	69.1%
ROAA	14.4%	5.0%	-3.4%	0.8%	N/A
ROAE	36.2%	14.5%	-11.1%	2.7%	N/A
Current Ratio (X)	0.76	0.61	0.85	0.96	0.92
Quick Ratio (X)	0.74	0.59	0.84	0.94	0.90
Debt to Assets (X)	0.50	0.52	0.55	0.55	0.52
Net Debt to Equity (X)	1.25	1.45	1.67	1.59	1.49
Interest Coverage Ratio (X)	0.53	1.01	0.34	0.71	0.65
Investment to Equity (X)	0.07	0.12	0.08	0.03	0.04

Sources: Company's financial statements and NBK Capital

Overview

Established in 1982, Kuwait and Gulf Link Transport Company is one of the leading providers of transport-related services in the Gulf region. Headquartered in Kuwait, KGL provides integrated supply chain management services throughout the Gulf and MENA (Middle East and North Africa) region.

KGL's core business lies in logistics, transportation, port management, shipping, and freight forwarding. Through the company's transportation unit, KGL provides overland cargo transportation services for manufactured goods, consumables, petroleum, raw materials, and heavy equipment. KGL's passenger transport service includes bus transportation through local and international lines, in addition to private taxi and limousine operations. The company's car rental unit focuses on renting and leasing vehicles to commercial, corporate, and government clients within Kuwait.

KGL Logistics

KGL Logistics, a 45.9%-owned associate of KGL, provides supply chain services specializing in warehousing, freight forwarding, and stevedoring. The warehousing unit offers second-, third-, and fourth-party logistics services. Freight forwarding includes air, sea, and land transport in addition to customs clearance and cargo insurance. The stevedoring function entails the establishment of partnerships with port authorities and shipping lines within Kuwait and the Gulf Cooperation Council (GCC).

KGL Ports International

A 41.7%-owned associate of KGL, KGL Ports International covers the development, operations, and management of container terminals and roll-on-roll-off operations. This company is headquartered in Kuwait and has additional operations within Egypt and the United Arab Emirates (UAE). Locally, KGL PI manages and operates the terminal at Shuaiba Port.

Latest News

- **August 2010:** The company announced earnings for 2Q2010 as net profit stood at KD 1.14 million, which illustrates a significant increase in comparison to KD 0.37 million in 2Q2009.
- **April 2010**: The company announced that KGL Transportation Company, KGL's fully owned subsidiary, was awarded a three-year contract worth KD 3.6 million to rent buses to transport Public Authority for Applied Education and Training students.
- **January 2010:** KGL reported that the company's wholly owned subsidiary, KGL Car Rental Company, won a KD 9.7 million contract to rent cars to Kuwait Petroleum Company. KGL Car Rental's contract is for 30 months, effective January 7, 2010.

Financial Statement Analysis

Income Statement

2Q2010

- In 2Q2010, the company's revenue stood at KD 13.92 million compared to KD 13.57 million in 2Q2009, an increase of 3% year-on-year. The three reporting segments for KGL are land transport, passenger and petrol transport, and car rental. Land transport remained the highest contributor to revenue with a 73% share.
- Gross profit declined by 4%, from KD 3.62 million in 2Q2009 to KD 3.47 million in 2Q2010, and EBITDA declined 6% from KD 10.2 million in 2Q2009 to KD 9.62 million in 2Q2010.
- The EBITDA margin weakened to 69% in 2Q2010 versus 75% a year ago, it improved sequentially from 51% in 1Q2010.
- KGL reported a net profit attributable to shareholders of KD 1.14 million in 2Q2010 versus a net loss of KD 0.37 million in 2Q2009.

2009

- In 2009, KGL reported revenue of KD 53.24 million, representing a decline of 7% from 2008. Of the three reporting segments, land transport remained the highest contributor to revenue with a 58% share.
- Operational performance improved as the EBITDA margin expanded from 35% in 2008 to 43% in 2009. EBITDA increased by 13% from KD 20.4 million in 2008 to KD 23 million in 2009.
- KGL reported a net profit attributable to shareholders of KD 0.61 million in 2009. This performance may appear weak at first glance; however, there was improvement compared to the net loss of KD 8.34 million registered in 2008. Improving from a negative 15% net profit margin in 2008, the company achieved a 1% net profit margin in 2009.

Balance Sheet

- As of June 30, 2010, the company has a current ratio of 0.92x, which represents a slight deterioration versus FY2009's current ratio of 0.96x.
- KGL's property, plant, and equipment (PP&E), which stands at KD 118 million as of June 30, 2010, accounted for 52% of total assets.
- As of June 30, 2010, the current portion of term loans was 36% of the total outstanding term loans of KD 104.2 million. The company's net debt-to-equity ratio on as of June 30, 2010, was 1.49x compared to 1.59x at year-end 2009.
- In the last quarter, the company lowered its exposure to equity markets as available-for-sale investments, which mainly consist of quoted securities, dropped to KD 3.42 million in 2Q2010 versus KD 5.2 million in 1Q2010.

Financial Statements

Income Statement (KD '000)	2008	2009	2Q2009	2Q2010
Revenue	57,495	53,242	13,568	13,925
Cost of Sales	(42,062)	(38,977)	(9,945)	(10,457)
Gross Profit	15,433	14,265	3,624	3,468
Share of results of associates	206	852	142	843
Gain on sale of associates	1,431	-	-	-
Gain on sale of share of subsidiaries	2,069	-	-	-
Gain/Loss on sale of AFS	(2,962)	312	(181)	-
Unrealized gain on inv.at fair value	7,001	7,535	-	-
Share of results of unconsol. subsidiaries	-	-	-	-
Increase in fair value of inv. property	139	(58)	-	-
Unrealized gain on investment property	-	-	-	-
Profit on sale of investment property	433	-	-	-
Gain/Loss on sale of PP&E	(1,957)	(3,283)	(230)	(38)
Impairment loss of investments	(2,308)	(255)	-	-
Impairment on loss in joint venture	(116)	-	-	-
Allowance for doubtful debts	(5,500)	(3,489)	-	(387)
Other income	1,382	1,844	228	1,366
G&A expenses	(11,545)	(8,687)	(1,733)	(2,529)
Provision for impairment of receivables	-	-	-	-
Finance costs	(11,531)	(7,861)	(2,173)	(1,445)
Profit from continued operations	(7,825)	1,174	(323)	1,280
Loss from discontinued operations	(86)	(395)	-	-
KFAS	-	(38)	(45)	(37)
NLST	-	(19)	0	(31)
Zakat	-	(79)	(19)	(41)
Directors Remuneration	-	(50)	-	-
Profit for the Year	(7,911)	593	(388)	1,172
Minority Interest	426	(13)	(22)	30
Net Income	(8,338)	606	(366)	1,142

Balance Sheet (KD '000)	2007	2008	2009	June-10
Property, plant, and equipment	142,168	133,583	119,551	117,930
Intangible assets	857	1,029	853	823
Investment properties	13,257	9,561	9,538	9,538
Investment in associates	21,454	15,776	16,482	18,154
Investment in uncon.subsidiaries	4,563	3,967	4,590	4,451
Investment in joint venture	116	-	-	-
Available-for-sale investments	10,337	5,613	2,385	3,418
Project in progress	-	475	635	656
Total non-current assets	**192,751**	**170,005**	**154,034**	**154,971**
Inventory and spare parts	1,267	792	1,598	1,898
Land held for trading	-	-	-	-
Receivables	35,798	29,912	25,674	25,843
Due from related parties	9,468	19,406	16,949	19,547
Other debit balances	-	-	-	-
Cash and cash equivalents	7,508	6,414	7,202	5,496
Investments at FV through IS	-	13,467	21,232	21,232
Total current assets	**54,041**	**69,991**	**72,654**	**74,016**
Total assets	**246,792**	**239,996**	**226,688**	**228,986**
Share capital	20,329	26,427	26,427	26,427
Treasury shares	(541)	(633)	(772)	(772)
Share premium	26,241	30,307	30,307	30,307
Statutory reserve	8,046	8,046	8,046	8,051
Voluntary reserve	8,046	8,046	8,046	8,051
Foreign currency translation reserve	(549)	(607)	(790)	(773)
Employee stock option reserve	1,000	1,000	1,000	1,000
Fair value reserve	(1,267)	(1,449)	(2,931)	(2,703)
Retained earnings	17,946	(556)	50	3,088
Equity attributable to shareholders	**79,250**	**70,581**	**69,383**	**72,676**
Minority interest	4,063	4,089	3,733	3,796
Total equity	**83,313**	**74,670**	**73,115**	**76,472**
Provision for employees' indemnity	2,068	1,829	1,938	2,090
Non-current portion of term loans	64,775	74,184	72,199	67,007
Non-current Murabaha payable	7,696	6,737	3,625	3,278
Total non-current liabilities	**74,540**	**82,750**	**77,761**	**72,375**
Current portion of term loans	41,584	28,557	37,147	37,182
Current portion of Murabaha payable	6,410	4,361	8,528	6,876
Bonds issued	-	-	-	-
Trade payables	11,206	7,654	9,339	28,841
Due to related parties	9,847	6,399	3,207	2,083
Other credit balances	12,227	18,501	15,314	-
Bank overdraft	7,665	17,104	2,277	5,157
Total current liabilities	**88,939**	**82,576**	**75,812**	**80,139**
Total liabilities	**163,479**	**165,325**	**153,573**	**152,514**
Total Equity and Liabilities	**246,792**	**239,996**	**226,688**	**228,986**

Sources: Company's financial statements and NBK Capital

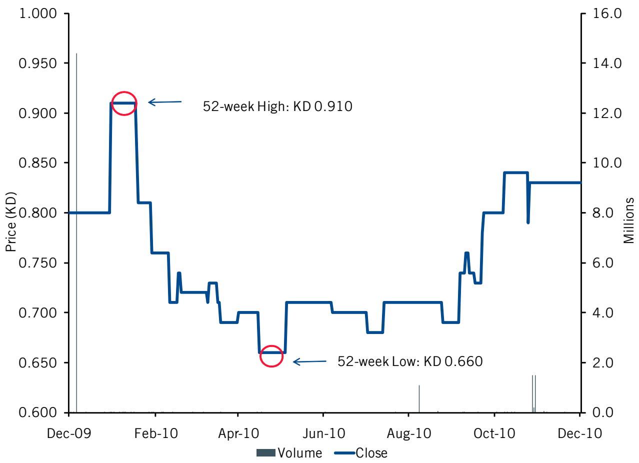
KUWAIT NATIONAL CINEMA COMPANY (KNCC)

Key Data

General		Liquidity	
KSE Code	KCIN.KSE	52-week avg. volume	152,969
Reuters Code	KCIN.KW	52-week avg. value (KD)	115,666
Price (KD)		**Price Performance**	
Closing Price	0.830	YTD	3.7%
52-week High/Low	0.910 / 0.660	1-Year Period	3.7%
Market Capitilization		**Outstanding Shares**	
Million KD	83.88	Latest (million)	101.06
Ownership Structure			
Closely Held: 59.99%		Public: 40.01%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

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Highlights

- The company released its results for 9M2010, and net profit stood at KD 4.04 million, a significant increase compared to KD 2.20 million in 9M2009.
- Kuwait National Cinema Company (KNCC) is engaged in the cinema and entertainment industry in Kuwait. The company imports and distributes video and cinema film and equipment; KNCC is also involved in the construction of cinema theatres and handles the operation of those cinemas.
- In 9M2010, operating revenue rose by 30% to reach KD 11.00 million compared to KD 8.47 million in the same period last year.
- The increase in the company's revenue did not keep pace with the rise in operating costs; 9M2010 witnessed a 43% increase in operating costs, which pushed down the gross profit margin from 25% in 9M2009 to 17% in 9M2010.
- KNCC recorded KD 3.27 million in operating profit for 9M2010 versus KD 2.40 million in 9M2009, an increase of approximately 36%. In 2008 and 2007, KNCC did not generate the majority of profits from the company's core operations; rather, KNCC was counting on gains from available-for-sale (AFS) investments, gains from associates, and gains from the sale of investment properties to generate profits.
- KNCC has an acceptable level of leverage with a debt-to-equity ratio of 0.4x. However, we note that all of the company's debt is of a short-term nature. Total debt at the end of September 2010 stood at KD 16.2 million.

Key Ratios

	2006	2007	2008	2009	9M2010
Gross Profit Margin (%)	23.6%	31.8%	23.6%	20.5%	17.2%
Operating Profit Margin (%)	36.7%	24.2%	-54.1%	14.2%	29.7%
Net Profit Margin (%)	106.6%	96.6%	39.2%	26.5%	36.7%
ROAA	19.0%	15.5%	7.3%	4.5%	N/A
ROAE	22.8%	20.9%	10.4%	6.7%	N/A
Current Ratio (X)	0.4	0.1	0.5	0.7	0.5
Debt to Assets (X)	0.1	0.2	0.2	0.3	0.2
Debt to Equity (X)	0.1	0.3	0.3	0.4	0.4
Receivables Turnover Ratio	4.6	6.3	12.6	9.2	N/A
Inventory Turnover Ratio	59.5	25.0	32.5	40.6	N/A
Payables Turnover Ratio	3.2	2.3	2.4	1.9	N/A

Source: Company's financial statements and NBK Capital

Overview

Kuwait National Cinema Company (KNCC) was established in 1954. KNCC, an affiliate of Tamdeen Real Estate Company and formerly known as Kuwait Cinema Company, is a Kuwait-based company engaged in the cinema and entertainment industry in Kuwait. The company imports and distributes video and cinema film and equipment; KNCC is also involved in the construction of cinema theatres and handles the operation of those cinemas. In addition, the company invests in foreign shares and funds. In 2005, KNCC enhanced its corporate and consumer image by rebranding as Cinescape.

The company has investment stakes in Tamdeen Shopping Centers Company (30%) and Tamdeen Holding Company (20%).

KNCC has been listed on the Kuwait Stock Exchange since 1984. The company's stock is relatively illiquid, with a 12-month average daily trading volume of 156 thousand shares.

Latest News

- **October 2010:** The company released its results for 9M2010, and net profit stood at KD 4.04 million, a significant increase compared to KD 2.20 million in 9M2009.
- **April 2010**: The company approved the distribution of 36% cash dividends, equivalent to KD 0.036 per share for the fiscal year ending December 31, 2009. In the previous year, the company distributed a cash dividend of KD 0.040 per share. The dividend payout ratio for 2008 and 2009 was 74% and 120%, respectively.

Financial Statement Analysis

Income Statement

- Before 2006, KNCC had two business lines: the cinema division and the video division. However, the company discontinued the video division in 2006 since this segment was witnessing declining profitability.
- In 9M2010, operating revenue rose by 30% to reach KD 11.00 million, compared to KD 8.47 million in the same period last year. KNCC is an essential source of entertainment for the population of Kuwait, and hence, the company has shown top-line growth thus far this year.
- The company's operating costs increased by 43% in 9M2010, which outdid the 30% growth in operating revenues. Hence, gross profit margins dropped from 25% in 9M2009 to 17% in 9M2010.
- KNCC recorded KD 3.3 million in operating profit for 9M2010 versus KD 2.4 million in 9M2009, a 36% increase. This increase was mainly due to the increase in other operating income from KD 2.6 million in 9M2009 to KD 3.3 million in 9M2010. Moreover, the company recorded a gain in the fair value of investments of KD 375,704 in 9M2010 versus a loss of KD 13,998 in the comparable period last year. Finally, KNCC reported a lower level of impairments in trade and other receivables, boosting the company's operating profit, which reached KD 3.3 million in 9M2010. In 2009, the company had an operating profit of KD 1.61 million, compared to an operating loss of KD 6.5 million in 2008. KNCC had no impairments in 2009 as opposed to 2008, when the company had several impairments related to property and equipment, intangible assets, and inventory, which amounted to a little more than KD 9 million; these impairments resulted in an operating loss of KD 6.5 million in 2008.
- KNCC's 9M2010 performance boasts profits from the company's core operations, which, as we stated before, led to KD 3.3 million in operating profit; in 9M2009, operating profit stood at KD 2.4 million, implying a 36% YoY (year-on-year) increase. In 2008, KNCC did not generate profits from its core operations; rather, it counted on gains from available-from-sale investments, gains from associates, and gains from the sale of investment properties to generate positive profit. In 2008, despite a weak set of operational results and the above-mentioned impairments, the saving grace for the company's bottom line came from the KD 6.2 million gain from the sale of investment properties (more details below). As a result, the decline in net income was limited to 48%, and net income reached KD 4.7 million, compared to KD 9 million in 2007.
- In 2009, the company sold its stake in Tamdeen Entertainment Company, which resulted in a profit of KD 0.080 million. In 2009, the company also witnessed a gain from available-for-sale investments of KD 0.12 million versus a KD 0.030 loss in 2008. In 2008, the company disposed of an investment property representing the value of a real estate portfolio of one of KNCC's associate companies, Tamdeen Shopping Centers. As a result, the company recognized a gain of KD 6.2 million from that sale.
- In February 2010, a cash dividend of KD 0.036 per share for 2009 was approved by the shareholders of the parent company.

Balance Sheet

- KNCC's investments in associates consist of a 30% stake in Tamdeen Shopping Centers and a 20% stake in Tamdeen Holding. The previous 25% stake in Tamdeen Entertainment was sold to a related party in 2009. Investments in associates made up 44% of total assets at the end of September 2010, similar to the case at the end of June 2010.
- Real estate held for trading accounted for approximately KD 7 million at the end of September 2010. This takes up a significant portion of current assets, namely 65%. We have no further information regarding the classification of the actual real estate that is held for trading.
- Shareholders of the subsidiary Mall of Kuwait Real Estate Company decided to liquidate the company, so KNCC stopped consolidating the subsidiary's financial statements starting from the liquidation date (June 2, 2010). The subsidiary's losses amounted to KD 1,188 for the period ended June 2, 2010, and KD 1.006 million was transferred to investments in an unconsolidated subsidiary.
- KNCC has an acceptable level of leverage, with a debt-to-equity ratio of 0.4x. However, we note that all of the company's debt is of a short-term nature. Total debt at the end of September 2010 stood at KD 16.2 million.

Financial Statements

Income Statement (KD '000)	2008	2009	1H2009	1H2010
Operating Revenues	12,002	11,270	5,461	7,440
Operating Costs	(9,164)	(8,959)	(3,905)	(6,055)
Gross Profit	**2,838**	**2,312**	**1,556**	**1,385**
Other operating income	4,056	3,640	1,817	2,192
G&A	(1,971)	(1,277)	(518)	(680)
Gain/Loss from inv. at fair value through P&L	(162)	(87)	(35)	376
Impairment in value of P&E	(9,215)	-	-	-
Impairment of trade and other receivables	-	-	(310)	(60)
Impairment in inventory	(137)	-	-	-
Contingent liabilities provision	-	-	-	-
Other operating exp.	(1,883)	(2,672)	(717)	(821)
Provision for doubtful debts	(18)	(310)	-	-
Decline in inventory's net realizable value	-	-	-	-
Operating Profit	**(6,492)**	**1,605**	**1,792**	**2,391**
Impairment in AFS	-	-	-	-
Gains from available for sale investments	(30)	122	47	489
Gain from associates	6,111	995	357	872
Gain from sale of associates		79	-	-
Gain on sale of investment property	6,235	1,607	-	-
Gain on sale of PP&E				
Finance costs	(810)	(1,201)	(555)	(367)
Board of Directors remuneration	(90)	(90)	-	-
Net Profit before tax	**4,924**	**3,118**	**1,641**	**3,385**
Contribution to KFAS	(45)	(19)	(11)	(28)
National Labour Support Tax	(121)	(79)	(41)	(85)
Zakat	(52)	(29)	(16)	(28)
Net Income	**4,707**	**2,991**	**1,573**	**3,244**

Balance Sheet (KD '000)	2007	2008	2009	June-10
PP&E	22,611	17,737	14,581	14,572
Intangible Assets	1,366	1,074	1,177	869
Inv. In unconsilated subsidiary	-	-	-	1,007
Inv. Property	14,487	-	-	-
Inv. In associates	17,577	28,324	28,552	29,425
Available for sale investments	7,559	5,889	5,911	9,164
Advance payment to purchase films	907	687	952	432
Total Non-Current Assets	**64,506**	**53,712**	**51,172**	**55,467**
Inventories	341	223	218	229
Trade and other recievables	831	1,076	1,363	1,202
Real estate held for trade	-	-	6,995	6,995
Inv. at fair value through profit and loss	-	62	729	-
Cash	214	7,323	8,843	2,378
Total Current Assets	**1,386**	**8,684**	**18,148**	**10,804**
Total Assets	**65,892**	**62,395**	**69,320**	**66,271**
Share capital	8,085	10,106	10,106	10,106
Treasury shares	(841)	(903)	(903)	(854)
Statutory reserve	4,244	4,745	5,053	5,053
General reserve	5,160	5,662	5,983	5,983
Land revaluation reserve	8,808	8,144	8,144	8,144
Change in fair value reserve	2,742	615	(304)	(884)
Translation reserve	-	87	504	341
Retained earnings	17,196	16,745	15,110	14,721
Total Equity	**45,394**	**45,200**	**43,692**	**42,610**
Post Employment benefits	401	461	546	566
Total Non-Current Liabilities	**401**	**461**	**546**	**566**
Trade and other payables	3,683	3,986	5,301	6,393
Dividend payables	582	478	605	756
Due to a related party	223	-	-	-
Loans and bank facilities	15,608	12,270	19,177	15,947
Total Current Liabilities	**20,097**	**16,734**	**25,083**	**23,095**
Total Liabilities	**20,498**	**17,195**	**25,629**	**23,661**
Total Equity and Liabilities	**65,892**	**62,395**	**69,320**	**66,271**

Sources: Company's financial statements and NBK Capital

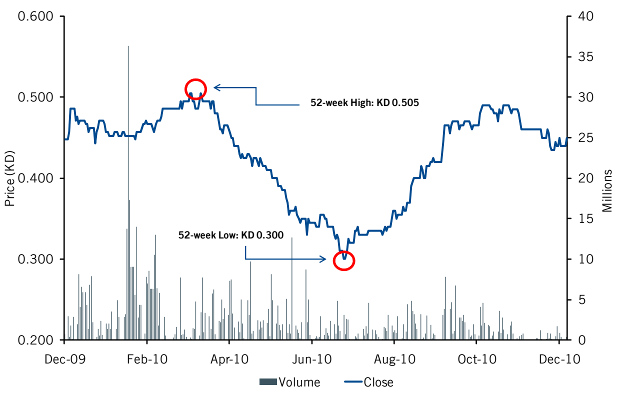
KUWAIT PROJECTS (KIPCO)

Key Data

General		Liquidity	
KSE Code	KPROJ.KSE	52-week avg. volume	1,850,532
Reuters Code	KPROJ.KW	52- week avg. value (KD)	791,725
Price (KD)		**Price Performance**	
Closing Price	0.450	YTD	-2.6%
52-week High/Low	0.505/0.300	1-Year Period	0.4%
Market Capitalization		**Outstanding Shares**	
Million KD	545,540	Latest (million)	1,212,312
Ownership Structure			
Closely Held: 62.4%		Public: 37.6%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Kuwait Projects (KIPCO) is one of the region's largest investment holding companies, with a significant stake held by Kuwait's ruling family. The company has investments in more than 50 companies across different industries and regions.
- KIPCO has two main subsidiaries: a) Burgan Bank (refer to pg. 32), b) United Gulf Bank. The subsidiaries are fully consolidated, and make up a large portion of KIPCO's assets. Before the third quarter of the year, KIPCO had a significant stake in Gulf Insurance Company; but sold a 39% stake to Fairfax Insurance (a company based in Canada).
- Of the total KD 2.4 billion in loans and advances, Burgan Bank was responsible for KD 2.2 billion in 2009. Burgan Bank and United Gulf Bank have completed several transactions in recent years; United Gulf Bank sold several of its subsidiaries and an associate (which include banks within the region) to Burgan Bank. The subsidiaries and associate sold include Jordan Kuwait Bank, Algeria Gulf Bank, and Bank of Baghdad.
- Showtime, once a subsidiary of KIPCO, provides media services within the MENA region. KIPCO entered into a joint venture agreement with its largest competitor, Al Mawarid (Orbit TV), to form the largest pay-satellite television service in the Middle East.
- KIPCO's total revenue improved by 5.9% in 2009 mainly due to the sale of KIPCO's stake in its subsidiary, Showtime. In 9M2010, total revenue dropped by 16% largely due to the deconsolidation of Gulf Insurance Company and a drop in investment and interest income.
- Following declining revenues, net income dropped from KD 42 million in 9M2009 to KD 31 million in 9M2010 (27% decline year-on-year). In addition, the company's profit margin dropped from 13.7% in 9M2009 to 11.9% 9M2010.

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Key Ratios

	2006	2007	2008	2009	9M2010
Growth In Revenue	92.6%	287.6%	-50.2%	22.0%	-16.2%
Profit Margin	21.9%	59.0%	5.5%	9.9%	11.9%
Current Ratio	0.62	1.14	1.08	1.13	1.14
Net Debt-to-Equity	1.48	-0.47	-0.74	-0.66	-0.41
Investment -to-Equity (HFT + AFS)	123.8%	71.7%	65.8%	64.3%	51.1%

Source: Company's financial statements and NBK Capital

Overview

Kuwait Projects (KIPCO) is one of the region's largest investment holding companies and one of the largest Kuwaiti companies in terms of assets. KIPCO currently has direct and indirect stakes in more than 50 (companies subsidiaries and associates) across 21 countries. The company's primary lines of investment are in banking (commercial and investment), insurance, and digital satellite services. The company was incorporated in 1975, and is largely held by members of the Kuwaiti royal family.

KIPCO's direct investments include the following:

KIPCO's Major Direct Investments as of 2009

Subisidary	Country of Incorporation	KIPCO interest
United Gulf Bank	Bahrain	95%
Burgan Bank	Kuwait	57%
Gulf Insurance Company	Kuwait	69%
Gulf DTH (Showtime)	Cayman Islands	0%
United Gulf Management Incorporation	USA	100%
United Gulf Management Ltd.	UK	100%
Hunter Capital Company	USA	100%
Kuwait United Consultancy Company	Kuwait	98%
Kuwait Projects Company	Cayman Islands	100%
KIPCO Private Equity Company	Cayman Islands	100%
Global Direct Television for General Trading and Contracting Company	Kuwait	0%

Source: Company financial statements

Latest News

- **September 2010:** KIPCO announced that it will sell a 39.2% stake in Gulf Insurance Company for KD 60 million.
- **August 2010:** KIPCO announced approval of a divesture of an 11.9% stake in United Industries Company for a total value of KD 11 million.
- **March 2010**: KIPCO signed a memorandum of understanding with Munich Re, a Germany-based entity, to launch a new pension company whereby Munich Re will be responsible for providing a wide range of specialized services (training, actuarial, and technical services).
- **February 2010**: KIPCO announced its full-year results, and achieved a net profit of KD 46.3 million in 2009, compared to KD 24.1 million in 2008.
- **January 2010:** Burgan Bank, one of KIPCO's subsidiaries, announced that it has become the majority shareholder in Bank of Baghdad, in an attempt to diversify the bank's regional footprint.

Financial Statement Analysis

Balance Sheet

- KIPCO is Kuwait's largest investment holding company, and therefore, we need to look at some of its important subsidiaries. The company has more than 50 investments in different companies; however, there are four main subsidiaries we need to focus on:

Burgan Bank

Established in 1977, Burgan Bank was primarily government owned for two decades. It underwent a major structural change in 1997, when KIPCO purchased the government's share to become the largest shareholder. For more details on Burgan Bank, please refer to pg. 32.

Gulf Insurance Company

Gulf Insurance Company (GIC) is the largest insurance company in Kuwait in terms of written and retained premiums. Established in 1962, GIC covers life and nonlife segments throughout the region through subsidiaries. For more details on Gulf Insurance Company, please refer to pg. 48.

KIPCO recently sold a 39% stake of Gulf Insurance Company to Fairfax Insurance Company. Therefore, GIC is no longer accounted for as a subsidiary.

Gulf DTH L.D.C. ("Showtime")

Overview

Showtime Arabia operates as a digital satellite pay television network in the MENA region. The company began operations in 1996 as a joint venture between KIPCO (the majority stakeholder) and CBS Corporation (the minority stakeholder). The company is recognized for broadcasting popular Hollywood shows.

Financial Overview

Showtime Income Statement

- Although information on Showtime's financial performance is limited, it is evident the company has been operating at a loss. However, there have been signs of improvement.
- Revenue steadily increased year-on-year between 2006 and 2009. Revenue managed to increase by 9% in 2009, after the joint venture was established between Orbit and Showtime. Moreover, in 9M2010, revenue from media-related activities weakened 20% year-on-year.

- In spite of the landmark deal between Orbit and Showtime, net losses increased from KD 7 million in 2008 to KD 10.5 million in 2009. Details on the joint venture have not been provided; however, we assume that some of the losses associated are due to start-up costs. We view the merger as a positive development, and expect the company to benefit going forward. Losses widened in 9M2010, amounting to KD 12.8 million, 54% higher than the losses incurred in 9M2009.

Orbit Showtime Deal

- As of August 2009, KIPCO entered into a joint venture agreement with Al Mawarid Investments and other companies to form Panther. The newly established joint venture is responsible for distributing pay-satellite television services throughout the MENA region.
- Panther acquired Showtime, Global Direct Television, and Orbit in order to carry out the company's designated service. KIPCO owns 60.5% of Panther, and Al Mawarid the remaining 39.5%. Moreover, Al Mawarid holds a call option to purchase an additional 10.5% stake in the company between November 2010 and February 2011. If Al Mawarid decides to exercise the entire call option, each company will have a 50% stake in Panther.
- The merger of Orbit and Showtime marks the widest choice of premium channels offered in the Middle East on a single platform. The new service gives subscribers access to 75 channels with current Hollywood shows.
- As the company looks to improve its financial performance, the merger could be the solution to climb into profitability. There will be higher economies of scale, resulting in declining costs and improved efficiency, and bargaining power will increase as competition decreases. Moreover, combined, the two heavyweight companies dominate the media market in the region.

United Gulf Bank (UGB)

Overview

United Gulf Bank (UGB) was incorporated in 1980 and was acquired by KIPCO in 1988. KIPCO increased its ownership to 95% by the end of 2009.

Financial Overview

UGB Income Statement

- Total income (including investment income, income from fees, commissions, foreign exchange [FX] revaluation, and the share of results from associates) was weaker in 2009 than in 2008, as a result of weaker performance in investment income. Investment income slipped 66.5% in 2009, dropping from USD 281 million to USD 94.2 million. Breaking up investment income a little further, we find that the drop was a result of a decline in gain on sale, which decreased from USD 364 million in 2008 to USD 26.7 million in 2009. This is due to an agreement to sell some of the company's operations in 2008. This is explained in more detail in the UGB balance sheet analysis. As a matter of fact, if we strip away the gains from the sale of the group's operations in 2008 and 2009, investment income would have increased in 2009. However, fees and commissions fell 57.8% within the same time period. In 9M2010, the company's financial performance took a turn for the better and helped offset the weaker performance in the previous year. Although investment and interest income dropped by 2% and 23%, respectively, year-on-year, net income in 9M2010 improved to KD 45 million—more than doubling on a year-on-year basis. The improvement came largely as a result of an improvement in fees and commission income coupled with the reduction in impairment charges.
- The drop in total income trickled down to operating profit in 2009 (total income less interest expense, salaries and benefits, and general and administrative expenses). Operating profit from continuing operations (after provisions) declined by 73.3% in 2009; whereby, UGB recognized an impairment loss of USD 19.7 million. In 9M2010, operating profit actually showed an improvement year-on-year, increasing four-fold to USD 38.8 million. The fact that the company did not record impairment losses was also a large contributor to improved operating profits. Even if we do not consider the effects of impairment charges, UGB still improved operating profit (pre-impairment losses) by 59.1% in 9M2010 on a year-on-year basis.
- Low operating income played a role in the drop in net income in 2009, which fell from USD 214.6 million in 2008 to USD 23.8 million in 2009. In the first nine months of 2010, net income more than doubled year-on-year to reach USD 45 million compared to 19.9 million in 9M2009.

UGB Balance Sheet

- UGB's balance sheet experienced a major transition between 2007 and 2009, as the bank sold some of its major subsidiaries and an associate to its sister company, Burgan Bank. The subsidiaries and associate included Jordan Kuwait Bank (JKB), which was sold in July 2008, Algeria Gulf Bank (AGB) and Bank of

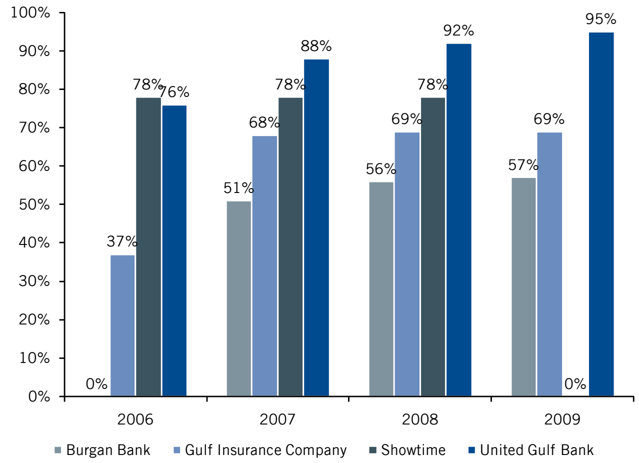
Baghdad (BOB), which were sold in the first quarter of 2009, and Tunis International Bank (TIB), which is expected to be sold this year.

- UGB experienced a significant decrease in loans between 2007 and 2009 as a result of the sale of the bank's subsidiaries and associate (i.e., AGB, TIB, and BOB) to Burgan Bank. The assets held by the banks were reclassified as held for sale. TIB and AGB's loans and advances alone accounted for USD 388 million in December of 2008. UGB recorded loans and advances of USD 7.8 million in 2008, down from USD 291.9 million in 2007. By 2009, UGB's loans and advances had increased to USD 52.5 million, and were maintained throughout the first nine months of 2010.
- As of September 2010, investments in associated companies represented the largest portion of UGB's assets (31% of total assets) overtaking non-trading investments. Some of the company's recognized investments in associates include KAMCO, the Kuwait Education Fund, Syria Gulf Bank, and United Cable Company.
- UGB's assets in non-trading investments are mainly composed of available-for-sale (AFS) investments. At the end of the third quarter of 2010, non-trading investments represented 26.4% of total assets. As of December 2009, the largest portion of non-trading investments was in unquoted debt securities. The breakdown was not provided for 3Q2010.

KIPCO Balance Sheet

- Looking at the entire KIPCO group, the following graph shows the company's holdings and the change in its proportionate stake in each of the main subsidiaries. Burgan Bank, historically treated as an associate, was consolidated in 2007 as a result of KIPCO purchasing a controlling stake. In the same year, KIPCO (along with the proportional stakes held by KIPCO's subsidiaries) sold its entire stake in National Mobile Telecommunications Company (Wataniya) to Qtel for a gain of KD 468.1 million. In 2009, the company sold its stake in Showtime to Panther (in which KIPCO owns a large stake); therefore, Showtime is no longer treated as a subsidiary. Moreover, Gulf Insurance Company, once KIPCO's largest investment in an insurance company, was deconsolidated as a result of selling a 39% stake to Fairfax Insurance.
- Of KIPCO's total assets as of 2009, 45.5% consisted of loans and advances, mainly due to the consolidation of Burgan Bank's KD 2.2 billion loans and advances. However, despite the increase in Burgan Bank's and UGB's loans and advances in 2009, KIPCO's total loans actually dropped by 3.7% in that period. The reason for the drop is unclear. By September 2010, loans and advances were relatively stable although dropping by 3% over the nine-month period from December 2009.
- The company is in a solid position to repay its KD 868 million debt, as KIPCO's cash balance represented the second-largest asset (KD 1.1 billion) as of September 2010. This puts the company's net debt at negative KD 224 million.

Proportionate Stake in KIPCO's Main Subsidiaries



Sources: Company's financial statements and NBK Capital

Income Statement

- KIPCO provides a revenue break-down for the following segments: a) commercial banking, b) asset management and investment banking, c) insurance, d) media, and e) others. The total revenue from these sectors declined by 10% in 2009 due to a 2.5% drop in the company's largest revenue generator, the commercial banking sector. Although some of these business units have been deconsolidated and no longer contribute to KIPCOs top line (i.e., media and insurance revenue), the revenue generated from each segment is still provided. Therefore, we can still compare revenue generated from each of the business units to last year. As a result, the revenue generated strictly from these business units indicates an 8.8% drop in revenue between 9M2009 and 9M2010.
- The largest portion of KIPCO's revenue is derived from interest income, stemming mainly from the company's 56% holding in Burgan Bank, which accounted for more than 97.4% of KIPCO's total interest income in 2009. Interest

income increased more than nine times since 2007. The large jump came as a result of the full consolidation of Burgan Bank in 2007. As KIPCO displayed impressive growth in interest income in 2008 (almost doubling from 2007 levels), growth from interest income dropped in 2009. In spite of this, total income still managed to grow year-on-year by 22% in 2009. The growth was driven by KIPCO's sale of Showtime, increasing investment income throughout the year. KIPCO recognized a KD 46.4 million gain based on the fair value of the businesses acquired by Panther. Moving on to 9M2010, interest income still represented the largest portion of revenue. However, in absolute terms, interest income dropped by 20%, contributing largely to the decrease of total revenue to KD 261 million in 9M2010 from KD 312 million in 9M2009.

- KIPCO incurred large provisions and impairments on investments amounting to KD 82 million in 2009, compared to KD 37 million in 2008. Burgan Bank contributed KD 79.4 million in credit loss provisions and an additional KD 3.4 million in impairments on investments. However, KIPCO managed to weather the storm, and increased profits by the end of the year
- Net income followed revenue growth, as the company experienced a 33.3% increase in net income in 2009 as a result of improved sales coupled with a decline in expenses. However, the company experienced weakened profit margins across the majority of KIPCO's business units. In 9M2010, there was a slight turn of events. Net income of the parent company dropped by 27% to stand at KD 31 million due to weaker revenues.

Net Income and Profit Margin Breakdown by Segment

	Net Income		Margins	
	2008	2009	2008	2009
Commercial Banking	37,309	23,524	14.4%	9.3%
Asset Management and Investment Bank	73,515	132,247	47.9%	69.9%
Insurance	4,899	6,073	8.9%	8.6%
Media	(7,928)	(10,492)	-15.0%	-18.3%
Others	3,765	516	34.1%	7.6%
Inter-segmental	(65,580)	(87,204)		
Total	**45,980**	**64,664**	**10.4%**	**13.9%**

Sources: Company's financial statements and NBK Capital

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Interest income	232,018	207,283	154,771	126,049
Investment Income	52,975	81,262	66,276	49,478
Fees and commission income	53,989	49,901	30,254	29,246
Share of results from associates	(3,002)	(1,037)	360	3,822
Net insurance premium earned	40,055	49,813	-	-
Digital satellite television services	52,883	57,453	44,276	35,496
Foreign exchange gain	(5,924)	2,021	1,366	10,238
Other Income	17,302	19,575	14,614	7,174
Total Revenue	**440,296**	**466,271**	**311,917**	**261,503**
Total Expenses	(394,316)	(401,607)	(257,192)	(229,558)
Profit from Disc Ops	-	-	7,090	28,185
Profit Before Tax	**45,980**	**64,664**	**61,815**	**60,130**
Tax	(3,534)	(8,103)	(4,616)	(9,447)
Profit for the year	**42,446**	**56,561**	**57,199**	**50,683**
Minority Interest	18,321	10,243	14,403	19,634
Net Income (Parent Company)	**24,125**	**46,318**	**42,796**	**31,049**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Cash in Hand and at Banks	878,576	972,021	1,027,700	1,093,012
T Bills and Bonds	433,709	387,378	417,049	418,107
Loans and advances	1,696,456	2,518,992	2,425,496	2,346,388
Fair Value thru profit and loss	204,309	75,853	57,750	36,230
Financial Assets Available for sale	264,362	266,327	276,538	236,568
Financial assets held to maturity	6,872	15,367	21,721	5,262
Other Assets	165,070	212,039	206,928	174,902
Investments in Associates	246,393	238,889	252,072	379,800
Investment Properties	7,958	7,003	54,515	64,937
Property and Equipment	56,488	67,180	63,411	70,571
Intangible Assets	318,805	416,886	531,877	504,640
Total Assets	**4,278,998**	**5,177,935**	**5,335,057**	**5,330,417**
Due to banks and Fin. Institutions	829,614	917,125	1,027,150	818,599
Deposits from customers	1,622,298	2,484,034	2,408,003	2,566,396
Loans payable	297,943	396,969	368,465	322,892
Bonds	64,829	50,995	49,294	46,909
Medium term notes	202,754	122,605	247,052	499,172
Other Liabilities	279,126	362,560	357,609	166,059
Total Liabilities	**3,296,564**	**4,334,288**	**4,457,573**	**4,420,027**
Equity (Parent Company)	**663,389**	**543,787**	**553,836**	**543,887**
Minority Interest	319,045	299,860	323,648	366,503
Total Liabilities and Equity	**4,278,998**	**5,177,935**	**5,335,057**	**5,330,417**

Sources: Company's financial statements and NBK Capital

MABANEE COMPANY

Key Data

General		Liquidity	
KSE Code	MABANEE.KSE	52-week avg. volume	470,851
Reuters Code	MABK.KW	52-week avg. value (KD)	337,358
Price (KD)		**Price Performance**	
Closing Price	0.800	YTD	25.8%
52-week High/Low	0.890 / 0.540	1-Year Period	22.1%
Market Capitilization		**Outstanding Shares**	
Million KD	404.09	Latest (million)	505.12
Ownership Structure			
Closely Held: 63.51%		Public: 37.49%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance

Sources: Zawya and NBK Capital

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Highlights

- Mabanee is a pure retail rental player. The company owns the Avenues Mall, a landmark development and the largest shopping mall of its kind in Kuwait. Though Mabanee is a Kuwaiti story now, the company plans to expand regionally.
- The company is currently Kuwait's largest real estate company in terms of market capitalization. Moreover, within the Kuwaiti real estate sector, Mabanee reports the highest rental income. The company plans to consolidate its position by executing Phase III of the Avenues, resulting in a unique mix of a mass market and luxury/concept mall under the same umbrella.
- We would like to highlight that the Avenues Mall boasts high occupancy rates backed by tenants that are well-known all across the Gulf Cooperation Council (GCC). Mabanee has pulled in major retail groups, which constitute 80% of all tenants in Phase I and Phase II.
- Rental income increased by 6.7%, to KD 24.4 million in 9M2010, compared to KD 22.8 million in 9M2009.
- Mabanee owns investment properties (Phases I and II of the Avenues Mall), which were shown at a cost of KD 201 million as of September 30, 2010. This block is worth KD 323 million per independent evaluators' valuation, resulting in a mark-to-market (MTM) gain of around KD 122 million.
- The company generated strong cash flows from operating activities, as it recorded KD 12.3 million in 9M2010, compared to KD 15.2 million in 9M2009.

Key Ratios

	2007	2008	2009	9M2010
Rental Income (% of Total Income)	40%	102%	89%	92%
Investment Income (% of Total Income)	43%	-58%	-1%	0%
Investment Income (% of Net Profit)	65%	-217%	-3%	0%
EBITDA (KD million)	12.8	28.4	25.1	20.2
EBITDA Interest Cover (x)	4.8	4.7	4.5	4.2
Net Debt-to-Equity (X)	0.7	0.8	0.6	0.8
Operating Profit Margin	59%	71%	64%	67%
Adjusted Net Profit Margin	40%	54%	46%	59%
Net Profit Margin	115%	17%	44%	59%
Investment Book (% of Total Assets)	21%	11%	8%	6%
Investment Book (% of Total Equity)	45%	27%	17%	13%

Sources: Company's financial statements and NBK Capital

Overview

Mabanee, a pure retail rental player in Kuwait, is currently the country's largest real estate company in terms of market capitalization. The company owns the Avenues mega-mall, a landmark development in Kuwait's retail industry and the largest shopping mall of its kind in the country. Mabanee plans to consolidate its position by executing Phase III of the Avenues, resulting in a unique mix of a mass market and luxury/concept mall under the same umbrella. Though Mabanee is a Kuwaiti story now, the company plans to expand regionally.

Latest News

- **April 2010:** At the annual general meeting held on March 28, 2010, Mabanee's shareholders approved the distribution of a cash dividend of KD 0.01 per share for the first time in the company's history, which translates into a dividend yield of 1.4%. They also approved 10% bonus shares, which has increased the number of outstanding shares from 459.2 million to 505 million.

The Avenues Project

The Avenues is divided into three phases built over 425,000 sq. m. of land in the Al Rai area. Phases I and II (combined net leasable area of 166,697 sq. m.) of the project were completed in April 2007 and April 2008, respectively. Meanwhile, according to the company, construction of Phase III commenced during October 2009 and is 35% completed as of now. Phase III will be handed over to tenants in 1Q2012. Upon Phase III's completion, the Avenues will have a net leasable area (NLA) of 261,697 sq. m. and a parking lot that can accommodate more than 15,000 cars. Phase III of the Avenues will include an Old Souk, Gold Souk, Bazaar, Luxury Mall, SOKU, Grand Avenue Mall, and three underground parking lots.

- The Old Souk, consisting of many small stores with local sellers, will deliver a traditional Kuwaiti Souk atmosphere.
- The Bazaar will be a vivid and vibrant section, similar to the Istanbul Bazaar, featuring large household items and goods.
- The Luxury Mall will include designer boutiques and high-end stores.
- The SOKU area, inspired by New York's SoHo, will evoke a youthful experience.
- The Grand Avenue, flanked by flagship stores, will be an indoor avenue with an outdoor feeling.

The regional retail giant Alshaya Group has a 37% ownership, giving the company a strategic advantage over its competitors. Alshaya-run stores comprise a sizeable area of the Avenues, which lends a degree of stability to the tenant profile. Mabanee has pulled in major retail groups, which constitute 80% of all tenants in Phase I and Phase II. Also worth highlighting is the long waiting list for tenants, which will likely to be advantageous to the mall's owners in times of economic adversity.

Shareholder Structure

Name	Type	Country	Holding
Alshaya Group [via AlShaya United Commercial Company]	Corportate	Kuwait	36.45%
National Industries Group Holding	Corportate	Kuwait	20.01%
Orient Investment Company	Corportate	Kuwait	6.59%
Public	-	-	36.95%
Foreign Ownership Structure			
Open to GCC Investors			100.00%
Open to Foreign Investors			100.00%

Sources: Zawya and NBK Capital

The Avenues Project

The Avenues - Key Statistics	Phase I	Phase II	Phase III
Segment	Mass Market	Upmarket	Luxury/Concept
Completion	April 2007	April 2008	1Q2012
Occupancy Rate* (%)	97%		-
Net Leasable Area (sq.m.)	124,608	42,089	95000
No. of stores	426		500
Development Cost	KD 164 million		KD 145 million

**Average rate as of 3Q2010. Sources: Company's financial statements and NBK Capital*

Financial Statement Analysis

Income Statement

- Rental income increased by 6.7%, to KD 24.4 million in 9M2010, compared to KD 22.8 million in 9M2009.
- Mabanee did not record any placement fees income in 9M2010, compared to KD 1.5 million in 9M2009. These fees are realized upon signing new leasing contracts, and since the first two phases are almost fully leased, placement fees are likely to be minimal going forward until the third phase is complete.
- Investment properties expenses increased by 6%, to KD 5.4 million, in 9M2010, compared to KD 5.1 million in 9M2009. Increases in land rent resulted in the overall increase in investment properties expenses.
- The company recorded EBITDA of KD 20.2 million in 9M2010, increased slightly by 3% compared to 9M2009. Mabanee's EBITDA margin stood at 75.8% in 9M2010.
- The company's finance cost dropped by 68% to KD 1.3 million in 9M2010, compared to KD 4 million in 9M2009. However, we would like to highlight that finance costs of

KD 3.5 million in 9M2010 and 0.4 million in 9M2009, which were associated with the construction of the Avenues have been excluded from finance costs, and capitalized within the total costs of investment properties.

- Hence, Mabanee's net profit increased by 2.7% to KD 15.6 million in 9M2010, compared to KD 15.2 million in 9M2009. This increase is mainly due to the decline in finance cost, as we discussed earlier. However, if we include the capitalized borrowing cost of KD 3.5 million in 9M2010 and KD 0.4 in 9M2009, Mabanee's net profit would have decreased by 18% to KD 12.1 million in 9M2010, compared to KD 14.8 million in 9M2009.

Balance Sheet

- The company owns investment properties (Phases I and II of the Avenues Mall), which were shown at a cost of KD 201 million as of September 30, 2010. This block is worth KD 323 million per independent evaluators' valuation, resulting in an MTM gain of around KD 122 million.
- Mabanee owns a plot measuring 9,516 sq. m. in Salmiya, and 186,692 sq. m. of land adjacent to the Avenues Mall in Al Rai. Of the Al Rai land, 99,327 sq. m. is set aside for the construction of Phase III of the Avenues. Mabanee also owns a 40% stake in a 223,000 sq. m. piece of land in Saudi Arabia and a 10% stake in a 5.5 million sq. m. piece of land in Abu Dhabi.
- The company's net debt-to-equity ratio increased to 0.78x in 9M2010 from 0.64x in 2009. Mabanee's total debt stood at KD 100 million at the end of 9M2010, compared to KD 82 million in 2009. The company's EBITDA interest coverage slightly decreased to 4.2x in 9M2010 from 4.5x in 2009. We would like to highlight that, to calculate the EBITDA interest coverage, we include the capitalized interest expense of KD 3.5 million in 9M2010 and KD 0.6 million in 2009.
- Mabanee's investment book (both available for sale [AFS] and held for trading) stood at KD 15.4 million as of September 30, 2010, accounting for 13% of the shareholders' equity and 6% of the total assets. Almost 51% of the AFS investments in 9M2010 are in the "unquoted" category. The remaining portion is invested in locally listed securities.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Rental Income	23,556	30,731	22,848	24,374
Placement fees	11,007	1,545	1,464	0
Other Inv. properties revenue	1,750	2,213	1,694	2,218
Total Inv. properties revenue	36,312	34,489	26,005	26,592
Inv. properties expenses	5,588	6,941	5,103	5,408
Gross Profit	30,724	27,547	20,902	21,184
General & administrative expenses	2,296	2,460	1,307	1,020
EBITDA	28,427	25,088	19,595	20,164
Depreciation	2,528	3,051	2,237	2,389
EBIT	25,899	22,037	17,358	17,775
Allowance for doubtful debts	0	1,033	0	0
Finance costs	6,068	4,938	4,026	1,279
EBT	19,831	16,066	13,332	16,496
Net (loss) gain from investments	(13,485)	(487)	1,419	(44)
Other Income	225	564	1,095	(167)
Net Income	**6,225**	**15,310**	**15,170**	**15,579**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Cash & Cash Equivelant	3,916	24,017	10,172	4,731
Investment Properties	100,653	157,122	169,797	200,697
Investment Book	41,726	26,267	18,663	15,439
Total Assets	**195,239**	**230,819**	**220,613**	**247,585**
Short-term loans	32,903	66,184	61,730	58,168
Long-term loans	37,857	40,779	20,179	42,258
Total Liabilities	**102,242**	**133,211**	**109,218**	**124,135**
Shareholders' Equity	**92,997**	**97,608**	**111,394**	**123,450**
Total Liabilities and Equity	**195,239**	**230,819**	**220,613**	**247,585**

Sources: Company's financial statements and NBK Capital

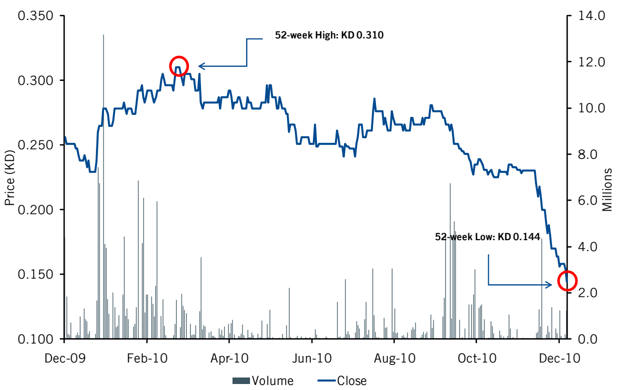
MASHAER HOLDING COMPANY (MASHAER)

Key Data

General		Liquidity	
KSE Code	MASHAER.KSE	52-week avg. volume	1,003,679
Reuters Code	MASK.KW	52- week avg. value (KD)	256,594
Price (KD)		**Price Performance**	
Closing Price	0.144	YTD	-37.1%
52-week High/Low	0.310/0.144	1-Year Period	-43.8%
Market Capitalization		**Outstanding Shares**	
Million KD	26.6	Latest (million)	185.0
Ownership Structure			
Closely Held: 35.8%		Public: 63.2%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- Mashaer is a Kuwait-based company that provides a range of services (such as accommodation and transportation packages) for Haj and Umrah pilgrims.
- Mashaer acts as a "middleman" by providing services to Haj and Umrah pilgrims. The company's gross margins have been historically low.
- People will continue to attend Haj and Umrah, thus ensuring a sustainable revenue stream going forward; however, it does not come without risk. Risks such as flu epidemics could significantly affect the company's revenue stream.
- The company changed its reporting method in 2009 by no longer strictly defining revenue. Instead, the company created a breakdown of income. On an operational level, the company's operating income improved from KD 4.6 million in 2008 to KD 9.5 million in 2009. Historically, the company's non-operating income contributed significantly to the bottom line; however, in 1H2010, non-operating items had a smaller effect than in the past.
- Income from real estate seems to have driven operating income in 2009; however, the value achieved from real-estate-related activity has resulted from unrealized gains. Other operating activities (such as providing Haj and Umrah services, joint ventures [JVs], and associates) are beginning to contribute less to operating income than they did previously. In 1H2010, these operating items contributed less than 10% of the company's total income.
- The company repaid a significant portion of its debt in 2009 by liquidating the collateral pledged against that debt (including murabaha investments, a commercial complex, and land). Total debt dropped by 40% in 2009. We expect this decrease in debt will reduce finance charges (one of the company's largest expenses) going forward. Liquidating the company's collateral affected the company's liquidity, raising some concern about how Mashaer will pay its current debt of KD 22.2 million.

Analyst

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Key Ratios

	2008	2009	1H2010
EBITDA Growth	N/A	204.7%	-87.9%
Net Income Growth	N/A	123.8%	-80.0%
Investment Book-to-Equity	12.1%	10.9%	8.4%
Net Debt-to-Equity	52.9%	36.4%	32.1%
Real Estate Income as % of Operating income	35.9%	90.9%	103.4%
Haj and Umrah as % of Operating Income	14.3%	0.6%	10.1%
Associates as % of Operating Income	48.6%	8.6%	-16.9%
JV as % of Operating Income	1.2%	N/A	N/A
Interest Coverage Ratio	0.9 x	5.3 x	0.3 x

Sources: Company's financial statements and NBK Capital

Overview

Mashaer is a Kuwait-based company that provides a range of services for Haj and Umrah pilgrims in accordance with Islamic Shari'ah. These services include providing hotel reservations and transportation packages; trading and leasing real estate, warehouses, and means of transportation; importing and exporting foodstuffs and consumable items; organizing conferences, seminars, and exhibitions; and providing medical service arrangements.

Latest News

- **November 2010:** Mashaer announced its 9M2010 results, reporting a net loss of KD 1.4 million compared to a net profit of KD 0.7 million in 9M2009.
- **January 2010**: The company changed its name from Haj and Umrah Services Consortium Company to Mashaer Holding Company.
- **June 2009:** Mashaer announced that its board of directors had appointed Jassem Mohammed Al Awadi as the company's new CEO as of May 10, 2009.

Financial Statement Analysis

Income Statement

- The newly named Mashaer Holding Company significantly changed its accounting policies. One of the most important changes is related to the company's operating segments and revenue recording. In 2008, Haj and Umrah Services Consortium Company broke its revenue down into five main categories: properties under development, hotel reservations, tickets, transportation, and other. In 2009, the company did not provide a clear indication of revenue, but broke down total income into several segments, including Haj and Umrah services, real estate, investment income, and JVs and associates, among many other income generators.
- Because Mashaer's current reporting method does not clearly specify a revenue breakdown, we looked at the company's income generated strictly from operating activities. We defined the company's operating income as income generated from Haj and Umrah services, real estate income, and JVs and associates. The company's operating income doubled between 2008 and 2009 to reach KD 9.5 million. This resulted mainly from a jump in the revaluation of a hotel property in Saudi Arabia, whereby the company gained KD 6.6 million in unrealized gains. As a matter of fact, if we strip out the unrealized gains from real estate income, operating income actually would have dropped year-on-year. Moving into the first half of 2010, the company's operating income took a hit, dropping by 30% compared to the same period last year. Operating income reached KD 1.8 million during the first six months of 2010 due a drop in results from associates. Profits from associates dropped from KD 1.1 million in 1H2009 to a loss of KD 0.3 million in 1H2010.
- In 2008, the income generated from operations seemed more diversified than it is now, because income from real estate contributed 36% of total operating income. Haj and Umrah services were responsible for 14% of operating income, and income from JVs and associates made up the other half. In 2009, however, real estate income contributed 91% of total operating income. Although the fact that the company's land value increased over the past year justifies this, the concern is that all operating segments have shown a decline in income generation over the past year. Income from Haj and Umrah services declined 92% year-on-year while JVs and associates dropped by more than 63% during the same period. Services provided for Haj and Umrah should be a fee-based income generator. The drop in this segment's income destabilizes the company's earnings. In 1H2010, the company maintained a significant contribution from real estate operations, which represented close to 71% of the total income generated.
- As a result of strong income from operating activities, EBITDA also improved significantly year-on-year, tripling from KD 2.1 million in 2008 to KD 6.5 million in 2009. This improvement clearly comes from improved operating results and stable operating expenses. The company's EBIT level also showed significant improvement, largely because of an 88% drop in depreciation charges. The reason for that drop is unclear, but it might be because of assets reaching or nearing the end of their useful life. In 1H2010, EBITDA levels declined to one-third 1H2009 levels as a result of declining operating income and a 22% increase in operating expenses.
- Net income improved greatly between 2008 and 2009, from a loss of KD 19.9 million to a profit of KD 4.7 million. Aside from improved operating income, this strong growth also resulted from improved investment income and steep declines in finance charges and impairment losses. In 1H2010, net income dropped by 70% year-on-year, to KD 0.9 million. The drop in finance charges and reversals of impairment losses were not enough to offset the decline at the operating level.

Balance Sheet

- Mashaer's total debt as of December 31, 2009, was KD 24.8 million, all of which was short-term debt. This result is a significant improvement (40% decrease) over last year's debt level of KD 41.6 million. The company repaid its debt mainly by liquidating the pledged collateral. By the end of 2009, the company had settled a tawarruq finance facility of KD 7.5 million from pledged murabaha collateral, and transferred investment property rights valued at KD 8.1 million. In addition, the company paid KD 2.1 million of debt in cash. As a result, the company's cash balance declined to KD 0.2 million in 2009 from KD 0.9 million in 2008. Moving into the June 2010, the company maintained the same level of debt (KD 22.4 million).
- The company's current ratio stood at 0.41x at the end of June 2010. As a matter of fact, Mashaer's total current assets were insufficient to pay off even just its short-term debt. We are still worried about how the company will manage to pay its upcoming debt. It is worth noting, however, that the group recognizes this problem and is taking the steps necessary to renegotiate the terms of its remaining debt obligations, in addition to selling certain properties to settle a portion of the company's current liabilities, according to Mashaer's financial statements.
- The largest portion of assets is in investments in properties, which made up 42% of the company's total assets as of June 2010. These properties include developed properties, jointly controlled properties, and properties under development.
- The company's holdings of available-for-sale (AFS) investments dropped by 19% in 2009. The breakdown of these investments includes local quoted shares, local unquoted shares, and foreign unquoted shares. Local unquoted shares made up 62.5% of AFS investments in 2009. The decline results from a drop in local unquoted shares, which slipped from KD 8.5 million in 2008 to KD 6.8 million in 2009. The company has not yet provided a breakdown for the first half of 2010; however, Mashaer had managed to maintain its AFS value at 8% of total assets at the end of June 2010.

Financial Statements

Income Statement (KD '000)	2008	2009	1H2009	1H2010
Operating Income	4,577	9,516	2,622	1,909
Operating Expenses	(2,429)	(2,971)	(1,113)	(1,727)
EBITDA	2,148	6,545	1,509	183
Depreciation	(2,045)	(235)	(171)	(209)
EBIT	103	6,310	1,337	(26)
Investment Income (loss)	(2,509)	1,290	2,605	943
Other Income (loss)	88	26	135	(62)
Finance Charges	(2,342)	(1,226)	(761)	(580)
Impariment Losses (reversals)	(15,277)	(1,421)	-	392
EBT	(19,936)	4,978	3,317	667
Taxes	-	(240)	(154)	(36)
Net Income	(19,936)	4,738	3,163	632

Balance Sheet (KD '000)	2008	2009	Jun-10
Investment Properties	40,965	41,118	42,372
Goodw ill	11,000	11,000	12,225
Investment in Associates	18,645	21,354	22,630
Available-for-Sale	13,353	10,834	8,380
Other	1,951	681	1,337
Non Current Assets	**85,914**	**84,988**	**86,943**
Amount due to related parties	10,708	6,417	6,858
Investment deposits and Murabaha	7,698	230	240
Cash and Cash Equivalents	942	202	356
Other	6,440	8,522	5,553
Current Assets	**25,787**	**15,371**	**13,007**
Total Assets	**111,702**	**100,359**	**99,951**
Other Liabilities	7,399	8,128	9,282
Total Liabilities	**49,001**	**32,952**	**31,530**
Total Equity	**62,700**	**67,407**	**68,420**
Total Liabilities and Equity	**111,702**	**100,359**	**99,951**

Sources: Company's financial statements and NBK Capital

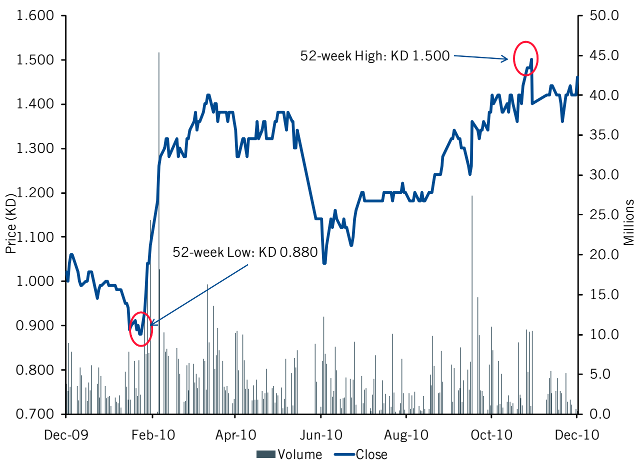
MOBILE TELECOMMUNICATIONS COMPANY (ZAIN)

Key Data

General		Liquidity	
KSE Code	ZAIN	52-week avg. volume	4,644,209
Reuters Code	ZAIN.KW	52-week avg. value	5,770,044
Price (KD)		**Price Performance**	
Closing Price	1.460	YTD	43.1%
52-week High/Low	1.500 / 0.880	1-Year Period	43.1%
Market Capitalization		**Outstanding Shares**	
Million KD	6,267	Latest (million)	4,292
Ownership Structure			
Closely Held: 41.78%		Public: 58.22%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

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Highlights

- Zain announced 9M2010 results with revenues growing by 8% year-on-year (YoY) to KD 1 billion. The company's adjusted EBITDA reached KD 452 million, representing an adjusted EBITDA margin of 44.8% (versus 49.2% in 9M2009). Net income reached KD 976 million. After adjusting for reversal of provisions during 9M2009 and the gain on sale of Zain Africa BV during 2Q2010, we note that normalized EBITDA and net income would have grown by 9% YoY and 61% YoY, respectively.
- As at the end of September 2010, Etisalat submitted a preliminary conditional offer to buy a 46% stake in Zain Group for KD 1.700 per share (around USD 11.7 billion for the 46% stake). As of November 7, 2010, Zain's board has approved its shareholder request for Etisalat to commence the due diligence process. However, currently no definitive agreement has been reached.
- If Etisalat's offer to buy Zain is approved, Zain should divest its 25% stake in Zain Saudi Arabia due to regulatory requirements imposed by the Communications and Information Technology Commission (CITC) (Etisalat already owns a 27.46% stake in Mobily—Saudi Arabia's second-largest mobile operator). According to recent news flows, Qtel and Batelco have expressed interest in acquiring Zain Saudi Arabia.
- Zain's FY2009 revenues grew by 16% YoY to KD 2.3 billion. Adjusted EBITDA grew 24% YoY to KD 937 million in FY2009, representing an adjusted EBITDA margin of 40.4% compared to 37.6% in FY2008. Net income, on the other hand, declined 39% YoY to KD 195 million.

Key Ratios

	2006	2007	2008	2009	9M2010*
Gross Profit Margin (%)	78.8%	77.3%	77.0%	72.4%	73.5%
Adjusted EBITDA Margin (%)	43.9%	41.2%	37.6%	40.4%	44.8%
Operating Profit Margin (%)	30.8%	26.9%	19.0%	21.8%	32.0%
Net Profit Margin (%)	22.7%	19.1%	16.1%	8.4%	96.6%
ROA	10.6%	8.2%	6.6%	3.5%	N/A
ROE	23.2%	21.8%	16.9%	8.6%	N/A
Current Ratio (X)	0.66	0.54	0.69	0.48	1.53
Debt to Equity (X)	1.02	1.25	0.86	0.94	0.11
Debt to Assets (X)	0.40	0.45	0.35	0.38	0.08
Investment/Equity	11.9%	29.2%	14.9%	13.8%	10.3%
Receivables Turnover Ratio	7.03	6.81	6.82	5.72	N/A
Inventory Turnover Ratio	18.57	17.29	15.15	19.65	N/A
Payables Turnover Ratio	0.64	0.68	0.51	0.68	N/A

**Operating statistics exclude the impact of Zain Africa BV. Sources: Company financial statements and NBK Capital*

Overview

Mobile Telecommunications Company is a leading regional telecom operator. Operating under the brand name "Zain," the company was established in Kuwait in 1983 as the Gulf's first mobile operator. The company's shares are listed on the Kuwait Stock Exchange (KSE); Zain's largest shareholder is the Kuwait Investment Authority with a 24.6% stake. Zain's main strategic objective was to become one of the top 10 mobile telecommunications companies in the world in 2011, with 150 million customers and an EBITDA of USD 6 billion. However, given the recent sale of Zain's African operations, we expect the company to revisit its overall strategic focus. Zain is currently the leading mobile operator in Kuwait, Jordan, Bahrain, Palestine, and Sudan, while being the third-largest operator in Saudi Arabia with a growing market share.

Subsequent to the initial announcement of Zain Africa BV deal, management recommended an extraordinary cash dividend of KD 0.170 per share on FY2009 earnings, which was paid on June 10, 2010. The FY2009 dividends represent a 240% YoY increase compared to FY2008 dividends of KD 0.050 per share. The FY2009 payout ratio of 312% is notably higher than the FY2008 payout ratio of 66%. Following the recent completion of the deal, management has further disclosed that its board will recommend a dividend ranging between KD 0.200 and KD 0.240 per share on FY2010 earnings.

Zain, which was once on its way to becoming a global telecom operator, has clearly reverted to the path of a regional player. Post the sale of Zain's African assets, the company's scope of operations has been reduced to nine countries from 24 countries, with Iraq, Kuwait, Sudan, Jordan, Bahrain, and Palestine being the major revenue sources, a management contract in Lebanon, and associates in Saudi Arabia and Morocco. At the end of September 2010, Zain's subscriber base (excluding Africa, but including Sudan) stood at 35.3 million, which compares to Zain's 28.2 million subscribers at the end of September 2009.

Zain's relatively mature Middle East operations have proved to be a source of reliable cash flow for the group. After the sale of the African assets, the company's exposure will be focused on the Middle East. The Middle Eastern markets are characterized by high gross domestic product (GDP) per capita, high average revenue per user (ARPU), a high penetration rate, and moderate growth potential. The company's exposure to Africa had pressured Zain's margins as the company operated in low-ARPU countries that involved significant investments in network roll-outs. A direct effect of expanding the network is the increase of Zain's depreciation expenses and finance costs. However, with the successful completion of Zain's African asset sales, we expect the company's future sales and profitability mix to change considerably.

What Is the Story in Zain's Key Markets After the Sale of African Assets?

Kuwait: Fierce Competition

As we have stated in our previous publications, with the award of the third mobile license to a consortium led by STC (branded as Viva, which formally launched its services in September 2008), Kuwait witnessed a revival of competition in the mobile market. Competition in 2009 was intense as Zain's share of new subscriber additions declined to 9% from 41% in 2008—reflecting the full year's impact of a new market entrant. During the same period, Viva captured the lion's share of new subscriber additions at 63% versus 32% in 2008, while Wataniya's share remained stable at 28%.

We find that Zain has been focusing on ARPU maintenance with the blended ARPU during 9M2010 coming at USD 54 (5% lower than an ARPU of USD 57 in 2009). This compares to Wataniya's 9M2010 blended ARPU of USD 39 (6% lower than the 2009 blended ARPU of USD 41). The discrepancy between Zain's blended ARPU levels versus Wataniya's can be explained by the higher concentration of post-paid subscribers in Zain's mobile subscriber base at 34.8% (at the end of September 2010), versus a much lower 17% for Wataniya.

Viva seems to be losing steam in terms of new subscriber capture rates. During 9M2010, Viva captured only 10.7% of the new mobile subscriber additions. However, Zain has been able to capture 13.8% of the net additions during the same period, while Wataniya captured the lion's share of 76.5%. However, Zain still maintains its market leadership with a 44% market share at the end of September 2010 (versus 46% at the end of 2009), while Viva has maintained a steady market share of 16%. Wataniya, on the other hand, increased its market share to 40% at end of September 2010, from 38% at the end of 2009.

Over 9M2010, Zain has invested in optimizing its network performance by adding 51 sites to have a total of 1,715 as at the end of September 2010. Zain is looking to implement a series of strategic initiatives to capture the demand for data services and minimize churn rates. During this period, the operator has been targeting high-value customers via loyalty and retention programs, while also having launched products such as prepaid BlackBerry services. However, Wataniya has invested significantly in terms of re-launching its brand, giving it a modern and more youthful look – while targeting the smart phone and youth segments. Meanwhile, Viva has maintained its focus on the pre-paid and international call segments.

From a regulatory standpoint, the Ministry of Communication (MOC) in Kuwait is looking to implement per-second billing in the Kuwaiti mobile market, and had started dialogue with Kuwaiti mobile operators during September 2010.

Furthermore, the MOC has also issued a notice with regards to the implementation of mobile number portability (MNP). While we believe these developments would make Kuwait's mobile market more competitive, we are yet to see issuance of any imminent deadlines for the implementation of these measures.

Sudan: Good Performance

We believe that there is still plenty of room for growth in Sudan. With increased competition, the mobile market is growing at a rapid pace: the penetration rate increased from 12% in 2006 to 47% as of September 2010 (per Zain's earnings release).

Zain is the market leader in Sudan, with its market share having grown from 58% at the end of September 2009 to 60% at the end of September 2010. While maintaining a dominant position in the market, Zain is looking for means to stimulate increase in mobile usage via introduction of value-added services. Examples of such efforts include the soft launch of Facebook service and unlimited daily broadband offers. Zain has also been focusing on further customization of its offers to target different market segments. During 1H2010, the operator also invested in increasing its network coverage and has successfully rolled out 113 new sites.

Zain's reported blended ARPU during 9M2010 stood at USD 10, versus USD 12 in 2009.

Iraq: Thriving in the Face of Competition

In 2004, the three mobile operators in Iraq did not fully compete with each other, as each operator was licensed to cover separate parts of the country. It was not until 2007 that real competition began after the regulator awarded nationwide licenses. As a result, the number of mobile subscribers in Iraq has grown at a CAGR of 29% between 2006 and 2009, while the penetration rate reached 68% at the end of 2009 (from 33% at the end of 2006).

During 9M2010, the mobile subscriber base in Iraq grew by 12% to 22.7 million (versus a 14% growth rate for all of 2009). We believe the growth of the Iraqi mobile market will be fairly resilient, especially given that a new subscriber registration process implemented by the regulator resulted in weaker market growth during 3Q2010. We estimate that the overall penetration rate in the country grew to 74% at the end of September 2010.

After the sale of Zain's African assets, the operator's focus has shifted to capturing growth in the Middle Eastern markets—we believe the operator's performance in Iraq during 9M2010 is a testament to that commitment. Zain Iraq has recently re-vamped its existing mass acquisition products, significantly increased its point of sales, and launched new value-added services (VAS) and data services. The operator's strategy also focuses on customer retention via loyalty programs, aimed at rewarding customers and promoting growth in usage levels. Going forward, management looks to focus its efforts on providing high-speed data services to its customers in Kurdistan. Zain Iraq's success can be evidenced by a 61% capture rate for new subscriber additions during 9M2010 (versus 24% in 2009); this compares to a 24% share for Asiacell and a 15% share for Korek Telecom.

Overall, Zain maintains the market leading position with an estimated market share of 52% at the end of 9M2010 (versus 51% at the end of 2009), followed by Asiacell with 35% (versus 36% at the end of 2009) and Korek Telecom with a stable 13%. However, Zain's blended ARPU for 9M2010 stood at USD 11.1 versus an ARPU of USD 15.1 for Asiacell.

Additionally, we note that in May 2010, the Iraqi cabinet approved the issuance of a fourth mobile license via an open tender (expected to conclude in 1Q2011). The winning operator is expected to have a 65% stake in the subject venture, with the remaining 35% to be owned by the Iraqi Communications Ministry. The license will include 2G and 3G services throughout Iraq. Furthermore, the winner will be subject to a 30% revenue share with the government. We note that Etisalat, MTN, Turkcell, Vodafone, Verizon, and Orange Telecom have showed interest in the subject license.

Latest News

- **September 2010:** As at the end of September 2010, Etisalat submitted a preliminary conditional offer to buy a 46% stake in Zain Group for KD 1.700 per share (around USD 11.7 billion for the 46% stake). If Etisalat's offer to buy Zain is approved, Etisalat should divest the 25% stake in Zain Saudi Arabia due to regulatory requirements imposed by the Communications and Information Technology Commission (CITC) (Etisalat already owns a 27.46% stake in Mobily—Saudi Arabia's second-largest mobile operator). According to recent news flows, Qtel and Batelco have expressed interest in acquiring Zain Saudi Arabia.
- **August 2010:** Zain Saudi Arabia has invited its shareholder assembly to vote on a plan to reduce its share capital by 48% to SAR 7.3 billion from its initial SAR 14 billion. The date for the shareholders' meeting remains to be fixed. The number of shares will decline to 732.8 million after Zain Saudi Arabia eliminates one share for every 2.096 shares held. The reduction in capital is intended to absorb accumulated losses. Subsequent to the shareholders' approval on the share cancellation, the board intends to invite shareholders to vote on a rights issue for 438.3 million new shares, which will raise the company's share

capital to SAR 11.7 billion. Furthermore, the founding shareholders have the right to subscribe to the rights issue via the capitalization of all or part of the loans issued by them to Zain Saudi Arabia.

- **August 2010:** Zain received USD 295.4 million from Bharti as partial compensation for its previous sale of Zain Africa BV. The company also disclosed that it will be receiving USD 104.6 million within 10 months and USD 700 million a year from the date of signing the deal with Bharti, in March 2010.
- **July 2010:** Zain Saudi Arabia announced its 2Q2010 results with revenues growing by 107% YoY to SAR 1.45 billion. Gross profits grew by 357% YoY and reached SAR 608 million. Furthermore, the operator turned EBITDA positive during 2Q2010 – within a period of 22 months since commencing operations – this comes in ahead of initial management expectations. The operator's total subscribers stood at approximately 7 million versus 5.6 million at the end of 1Q2010. The management plans to expand its network coverage further to 93% of populated areas within Saudi Arabia by the end of 2010.
- **June 2010:** Zain appointed Khaled Al Omar as the CEO of Zain Kuwait, replacing Khalid Al Hajeri.

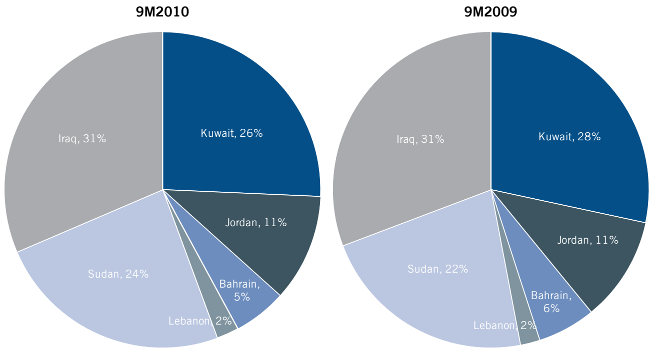
Financial Statement Analysis

Income Statement

9M2010

- On financial statements starting with 1Q2010, the Zain group has classified the results of its African operations under "discontinued operations."
- Over 9M2010, Zain's revenues (excluding African operations) grew by 8% YoY to KD 1.01 billion. The growth was primarily driven by Sudan, Iraq, and Jordan, with their revenues growing (on a YoY basis) by 18%, 11%, and 11%, respectively.
- The 9M2010 adjusted EBITDA declined by 2% YoY to KD 452 million. We note that marketing expenses, general and administrative expenses, and cost of sales grew (on a YoY) basis by 27%, 18%, and 17%, respectively. As a result, adjusted EBITDA margin declined to 44.8% from 49.2% in 9M2009.
- The 9M2010 net income came in at KD 976 million versus KD 190 million in 9M2009. The majority of the increase relates to KD 778 million in gains (before taxes) from the sale of Zain Africa BV, recorded during 2Q2010. Furthermore, finance costs declined by 30% YoY to KD 49 million, while currency revaluation gains stood at KD 24 million (versus currency revaluation losses of KD 11 million in 9M2009).

Revenue Breakdowns by Geography (Excluding Africa)



Source: Company reports

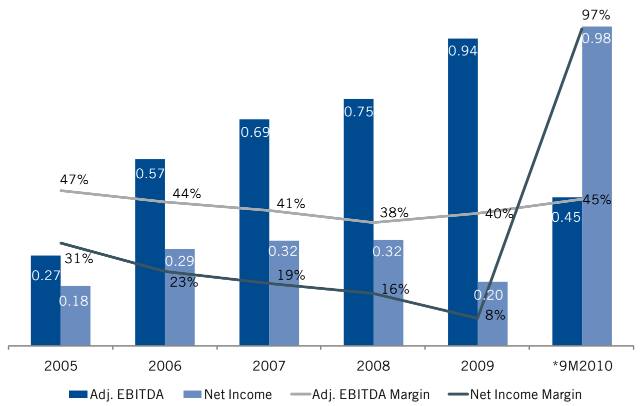
- We note that the 9M2009 results included several reversals of provisions that resulted in extraordinary net income and EBITDA gains of KD 63 million and KD 44.8 million, respectively. Excluding these provision reversals and the gain on sale of Zain Africa BV (during 9M2010), Zain's 9M2010 EBITDA would have grown by 9% YoY, while net income would have grown by 61% YoY.
- Following the completion of the Zain Africa BV deal, management further disclosed that its board will recommend a dividend ranging between KD 0.200 and KD 0.240 per share for FY2010 earnings.

FY2009

- Zain's top line grew at an impressive CAGR of around 41% between 2005 and 2009. In 2009, Zain's consolidated revenue grew by 16% to exceed KD 2.3 billion. Zain's top line benefited from the consolidation of its Iraqi operations towards the end of 2008, which was previously accounted for under equity method. Revenues from Sudan exhibited a 22% YoY increase, African revenues declined by 6% YoY, Kuwaiti revenues declined by 8% YoY, and revenues from other countries increased by 14% YoY.
- On the EBITDA front, Zain's adjusted EBITDA grew at a CAGR of 36% between 2005 and 2009. However, if we look at the adjusted EBITDA margin, we will notice that it decreased from 47.3% in 2005 to 40.4% in 2009, mainly due to Zain's aggressive expansion plan.

- The 2009 adjusted EBITDA grew by 24% to KD 937 million, implying an adjusted EBITDA margin of 40%, up from 38% in 2008. This improvement is due to the program "Drive 11." This initiative has had a positive impact in 2009, as Zain has focused on controlling operating expenses related to marketing and distribution. Furthermore, the management was also able to maintain sufficient cost control with general and administrative expenses having increased only 6% YoY while marketing expenses declined by 10% YoY.
- As for the bottom line, the company's profitability has been decreasing; the net profit margin dropped to 8% in FY2009, compared to 31% in FY2005. In FY2009, the bottom line declined 39% YoY and reached around KD 195 million. This was mainly because of a 216% YoY increase in the share of losses from associates and a 26% YoY increase in finance costs.
- Subsequent to the initial announcement of Zain Africa BV deal, management recommended an extraordinary cash dividend of KD 0.170 per share on FY2009 earnings, which was paid in June 2010. The FY2009 dividends represent a 240% YoY increase compared to FY2008 dividends of KD 0.050 per share. The FY2009 payout ratio of 312% is notably higher than the FY2008 payout ratio of 66%.

Adj. EBITDA and Net Income Profile (in KD Billions)

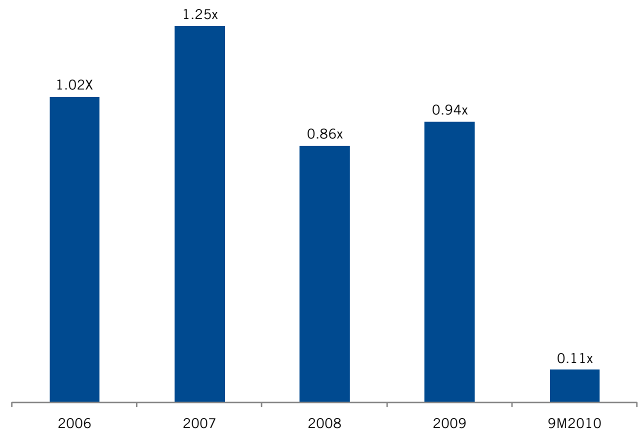


**Excluding Zain Africa. Sources: Company reports and NBK Capital*

Balance Sheet

- Following the sale of Zain Africa BV, the debt profile of the company has seen improvement, as a substantial portion of the company's debt (relating to the African operations) is no longer a feature of Zain's balance sheet. Zain had a debt-to-equity ratio of 0.11x at the end of September 2010 versus 0.94x at the end of December 2009. As of September 2010, the company's total debt stood at KD 290 million (down 87% since December 2009); this compares to a cash balance of KD 635 million (up 138% since December 2009).

Debt-to-Equity Ratio



Sources: Company reports and NBK Capital

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009*	9M2010*
Revenue	2,003,080	2,318,372	932,606	1,009,816
Cost of Goods sold	(461,070)	(639,843)	(239,600)	(267,434)
Gross Profit	**1,542,010**	**1,678,529**	**693,006**	**742,382**
Distribution, Mkt. and OPEX	(577,348)	(518,533)	(156,508)	(198,829)
G&A	(210,749)	(222,944)	(77,563)	(91,595)
Depreciation & Amortization	(303,363)	(398,093)	(111,025)	(123,987)
Impairment Losses-Goodwill	(63,262)	(22,864)	-	-
Prov. for Doubtful Debt	(6,587)	(10,974)	(1,975)	(4,367)
Operating Income	**380,701**	**505,121**	**345,935**	**323,604**
Interest Income	31,489	13,372	6,516	13,105
Investment Income	(599)	(8,226)	(3,631)	(619)
Sh. of loss of associates	(20,659)	(65,374)	(48,357)	(35,199)
Sh. of loss on jointly contr. ent.	-	-	(1,776)	(5,950)
FV gain on prev. held equity int.	152,413	-	-	-
Other income	21,470	11,666	9,538	14,072
Finance Costs	(128,002)	(160,710)	(69,711)	(49,083)
Gain (Loss) of currency revaluatio	(37,091)	(38,172)	(11,274)	24,020
Board of directors remuneration	(32)	(32)	(24)	(24)
Contribution to KFAS	(2,978)	(1,818)	(2,029)	(2,109)
Nat. Labor Support Tax & Zakat	(5,877)	(5,156)	(5,194)	(3,492)
Profit before Tax	**390,835**	**250,671**	**219,993**	**278,325**
Gain from discontinued operations			**8,190**	**741,809**
Taxes	(53,720)	(39,430)	(25,822)	(29,382)
Profit for the year	**337,115**	**211,241**	**202,361**	**990,752**
Minority interest	15,113	16,233	11,913	15,115
Net Income	**322,002**	**195,008**	**190,448**	**975,637**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010*
Cash and bank balances	261,263	367,871	267,175	635,136
Trade and other receivables	246,276	293,903	405,434	521,393
Loan to an associate	-	79,673	-	-
Inventories	22,047	30,427	32,554	13,369
Invs. - at fair value through P&L	23,002	16,676	7,464	7,685
Deferred tax assets	64,724	88,805	134,049	303
Investments - available-for-sale	179,468	96,904	98,492	97,805
Investment in associates	259,640	216,389	209,834	165,210
Loan to associates	170,875	-	141,996	183,774
Property and equipment	1,495,602	2,026,790	2,151,768	776,416
Intangible assets	1,637,255	2,234,423	2,245,453	1,352,138
Other financial assets	6,850	2,378	2,539	-
Total Assets	**4,367,002**	**5,454,239**	**5,696,758**	**3,753,229**
Trade and other payables	557,889	908,773	939,944	587,900
Due to banks	453,747	231,138	536,472	182,326
Due to non-contr. Int. holders	18,509	-	-	-
Due to banks	1,531,512	1,670,788	1,615,994	107,525
Deferred tax liabilities	31,763	30,283	38,704	-
Other non-current liabilities	25,276	212,128	87,166	150,309
Total Liabilities	**2,618,696**	**3,053,110**	**3,218,280**	**1,028,060**
Total Shareholder's Equity	**1,581,927**	**2,219,412**	**2,296,602**	**2,633,136**
Minority Interest	166,379	181,717	181,876	92,033
Total Liabilities and Equity	**4,367,002**	**5,454,239**	**5,696,758**	**3,753,229**

**Operating performance excludes the impact of Africa. Sources: Company financial statements and NBK Capital*

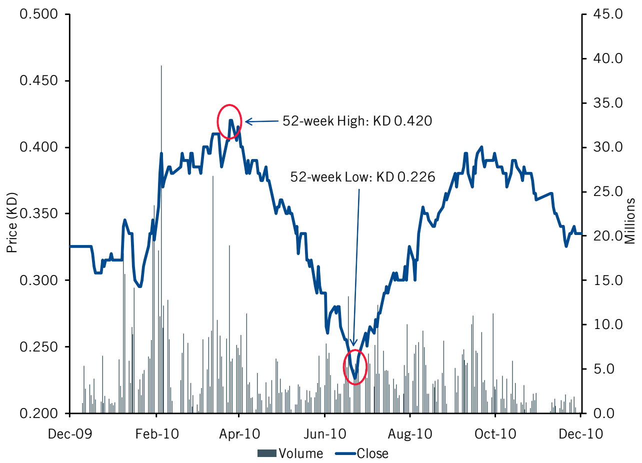
NATIONAL INDUSTRIES GROUP HOLDING (NIG)

Key Data

General		Liquidity	
KSE Code	NIND.KSE	52-week avg. volume	4,657,959
Reuters Code	NIND.KW	52-week avg. value (KD)	1,615,483
Price (KD)		**Price Performance**	
Closing Price	0.335	YTD	9.8%
52-week High/Low	0.420 / 0.226	1-Year Period	6.3%
Market Capitalization		**Shares Outstanding**	
Million KD	434	Latest (million)	1,295
Ownership Structure			
Closely held: 26.33%		Public: 73.67%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- National Industries Group Holding (NIG) is one of the largest listed investment holding companies in Kuwait. Established in 1961, NIG was listed on the Kuwait Stock Exchange in 1984.
- NIG reported its 9M2010 results with revenues growing by 8% year-on-year (YoY) to KD 73.7 million, while gross profits grew by 34% YoY to KD 16.7 million on the back of improved operational efficiency. On the positive side, the company exhibited declining impairments on investments and finance costs, and realization of foreign exchange gains. However, the company also faced a sizeable decline in income from investments. As a net effect, net income came in at KD 0.6 million (versus KD 0.4 million in 9M2009).
- We note that NIG's bottom line is highly dependent on investment income. We have noted the effect of reduced investment income on 9M2010 performance above. As for FY2009, although NIG reported a 15% YoY decline in revenues to KD 96 million, the company's net loss narrowed from KD 282 million in FY2008 to KD 23 million in FY2009. The improvement is due to an 87% YoY decline in impairments to available-for-sale (AFS) investments to KD 43 million, a 61% YoY increase in investment income to KD 60 million, and a 24% YoY decline in finance costs to KD 52 million.
- NIG has investments spread across several regions spanning an array of industries. As of the end of 9M2010, NIG's total investments stood at approximately KD 1 billion, accounting for 63% of total assets.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Net Debt to Equity	0.4	0.8	2.6	2.0	1.8
Investments/Total Assets	0.6	0.7	0.6	0.6	0.6
Investments/Equity	1.2	1.5	2.9	2.4	2.2
ROA (%)	11%	12%	-14%	-1%	N/A
ROE (%)	20%	25%	-44%	-6%	N/A

Sources: Company's financial statements and NBK Capital

Overview

National Industries Group Holding (NIG) is one of the largest listed investment holding companies on the Kuwait Stock Exchange since its initial public offering in 1984. Incorporated in 1961, NIG was established with the sole purpose of participating in the advancement of Kuwait's infrastructure and promoting its progression through the development of Kuwait's building materials industry. In the early stages of the company, NIG was instrumental in the development of Kuwait's industrial base through the establishment of companies such as Kuwait Cement Company, Kuwait Metal Pipes Industries, and Gulf Cables. As the company grew throughout the years, it embarked on a policy of product diversification and international expansion during the latter decade, with the GCC serving as its first target market outside Kuwait. As a result, NIG has a web of operations across the GCC, Pakistan, Europe, and the Americas spanning several industries, including petrochemicals, infrastructure, and financial services.

Latest News

- **January 2010:** Moody's downgrades the corporate family and probability of default rating of NIG along with debt ratings on the USD 475 million debt issue to B1 from Ba3 reflecting the absence of tangible steps taken by the company to improve the flexibility and debt capital structure, as expected by Moody's. NIG's credit profile remains geared toward the short term and depends heavily on uncommitted bilateral credit lines.

Financial Statement Analysis

Income Statement

9M2010

- NIG's 9M2010 revenues grew by 8% YoY to KD 73.7 million, while direct costs grew by a marginal 2% YoY to KD 57 million. As a result, gross profits grew by 34% YoY to KD 16.7 million, representing a gross margin improvement to 23% versus 18% in 9M2009.
- On the negative side, investment income declined by 54% YoY to KD 28.7 million, interest and other operating income was down by 75% YoY to KD 2.8 million, while share of profits from associates declined by 37% YoY to KD 4.8 million. Furthermore, losses on fair value of investment properties stood at KD 0.9 million (versus KD 4 million in gains on fair value of investment properties during 9M2009).
- In terms of the positives, finance costs declined by 29% YoY to KD 28.8 million and impairments on available-for-sale investments declined by 77% YoY to KD 6.7 million. Furthermore, gains on foreign exchange stood at KD 1.9 million (versus foreign exchange losses of KD 13 million in 9M2009).
- The net effect, however, has been positive with net income coming in at KD 0.6 million (versus KD 0.4 million in 9M2009).

Full Year 2009

- NIG reported its FY2009 revenues at KD 96 million, a 15% YoY drop. NIG's revenue is broken down into three major segments: investments, specialist engineering, and building materials. However, the company does not provide a revenue split between these segments.
- The FY2009 gross profit came in at KD 19 million, a 16% YoY drop. The gross margin for the year remained unchanged at 20% when compared to FY2008.
- On the other hand, NIG's operating profit for FY2009 came in at KD 64 million, up 10% YoY. The improvement in operating profit was primarily driven by a 61% YoY increase in investment income to KD 60 million.
- NIG's net loss for FY2009 came in at KD 23 million having reduced from a net loss of KD 282 million in FY2008. The improvements were primarily driven by an 87% YoY decline in impairments to available-for-sale investments and a 24% YoY decline in finance costs.

Balance Sheet

- As a holding company, NIG's balance sheet is naturally dominated by a sizable investment book. The company's latest financials show that investments account for 63% of total assets. Total investments held by NIG grew by 8% quarter-on-quarter (QoQ) to KD 1 billion.
- NIG's investments are largely dominated by available-for-sale investments at KD 861 million. The remaining investments are distributed between held-for-trading investments and investment properties.
- NIG investments are spread accross different regions of the world. The following is a list of some subsidiaries and associates that fall within NIG's investment book based on the company's FY2009 financial statements.

NIG Subsidiaries and Associates

National Industries Group Holding (NIG)					
Local Subsidiaries	% Ownership	Associates	% Ownership	Foreign Subsidiaries	% Ownership
Denham Investment	85%	Kuwait Privatization	28%	NIG Bahrain	100%
Eagle Propriety	100%	Kuwait Cement	25%	NIC Holding Guernsey	100%
Gas & Oil Field Services	100%	Marsa Alam Holding	20%	NIG Guernsey LTD	100%
Ikarus Petroleum	72%	Al Raya	23%	NIC Holding UK	100%
National Combined Health	100%	Eastern United Petroleum	20%	BI Group	100%
National Industries Co.	51%	Kuwait Rocks	38%		
National Land Transport	100%	Meezan Bank	46%		
NIC for Combined Energy	100%	Noor Telecom	40%		
Noor Financial	51%	Project Holding Co.	31%		
		Mabanee	20%		

Sources: Company's financial statements and NBK Capital

National Industries Company

- NIG's 51%-owned subsidiary, National Industries Company (NIC), is one of the largest building materials manufacturers in the region. Listed on the Kuwait Stock Exchange, NIC is principally engaged in the provision of complementary products to meet the demands of housing and infrastructure projects. The company has production facilities in both Kuwait and Saudi Arabia, with a product portfolio that includes aerated concrete blocks, sand lime bricks, ready mix, and concrete pipes.

Ikarus Industrial Petroleum (Ikarus), Saudi International Petroleum (SIPCHEM), and National Industrialization Company (Tasnee)

- Ikarus, NIG's 72% owned subsidiary, is an investment vehicle with a range of investments in petrochemicals and the oil and gas sector within the MENA region. Incorporated in Kuwait, Ikarus was listed on the Kuwait Stock Exchange in 2008. The company's current business strategy entails investing in start-ups or acquisitions of at least a 20% stake in large and mature operations with stable cash flows.
- Key investments of Ikarus include SIPCHEM and Tasnee. The former was founded in 1998 in Saudi Arabia and produces butandiol, methanol, acetic acid, vinyl acetate monomer, and carbon monoxide. Tasnee, on the other hand, was established in Saudi Arabia in 1985 and produces various chemical and metallurgical products such as polypropylene, HDPE, LDPE, and lead. Ikarus owns an 8% and 5.3% stake in SIPCHEM and Tasnee, respectively.

Noor Financial Investments (Noor)

- Noor Financial Investment Company (Kuwait), NIG's 51% owned subsidiary, is engaged in investment activities and financial services primarily in Kuwait, the Middle East, Asia, and other emerging markets. Noor provides a range of financial services, which include advisory services, underwriting, syndications, and asset management. Noor follows a diversified investment strategy with major investments in private equity and direct investments in the capital markets. Noor actively invests in the Kuwaiti capital markets and diversifies its investments through the international capital markets, which include other GCC countries, emerging markets such as Pakistan, China, and India, and limited exposure in the developed markets of the United States and Europe. In addition to serving independent clients, Noor plays a vital role in advising NIG and its subsidiaries on investment transactions.

Kuwait Privatization Project Holding Co. (KPPHC)

- Kuwait Privatization Project Holding Co. (KPPHC) was established in 1994 and is currently listed on the Kuwait Stock Exchange. The major shareholders are NIG and Kuwait Financial Center (which is 12% owned by NIG).
- The objective of KPPHC is to finance, evaluate, and provide consulting services to a selected group of Kuwaiti companies and regional projects, with a focus on controlling stakes in entities providing services in the different sectors such as energy, infrastructure, and real estate, as well as participating in build-operate-transfer (BOT) government projects.

Mabanee

- Mabanee, a pure rental play in the Kuwait retail segment, is currently the largest real estate company in Kuwait in terms of market capitalization. NIG currently owns 20% of Mabanee.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Sales	112,821	96,191	68,201	73,707
Cost of sales	(89,782)	(76,865)	(55,726)	(57,046)
Gross Profit	**23,039**	**19,326**	**12,475**	**16,661**
Income from investments	37,088	59,864	61,984	28,710
Profit from disposal of subs	-	1,653	1,653	646
Share of profits of associates	2,451	4,379	7,571	4,794
Income on disposal of assoc.	-	5,753	5,753	-
Changes in FV of inv. property	5,697	3,610	3,996	(930)
Interest and other opr. income	31,509	13,414	11,596	2,847
Distribution costs	(6,612)	(4,495)	(2,864)	(3,050)
G&A	(22,815)	(24,212)	(17,917)	(16,834)
Finance costs	(67,609)	(51,582)	(40,771)	(28,793)
Impairment in value of AFS inv.	(326,305)	(43,183)	(29,647)	(6,672)
Impairment in value of wakala	(2,485)	(7,483)	(2,498)	-
Imprm. in value of rec. & other				(2,320)
(Loss)/gain on foreign exchg.	(11,514)	(12,456)	(13,068)	1,885
Profit before taxes and dir. rem.	**(337,556)**	**(35,412)**	**(1,737)**	**(3,056)**
Taxes and directors' rem.	(314)	(116)	(150)	51
Net income for the year	**(337,870)**	**(35,528)**	**(1,887)**	**(3,005)**
Minority Interest	(55,907)	(12,341)	(2,316)	(3,575)
Net Income	**(281,963)**	**(23,187)**	**429**	**570**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Goodwill	10,697	8,231	8,333	8,142
PPE	34,304	40,506	49,421	49,306
Investment in associates	286,301	303,079	263,487	270,624
Investment properties	-	22,645	33,742	34,530
Available for sale inv.	846,206	634,900	703,807	759,362
Deferred tax	132	108	-	111
Inventories	23,323	22,992	22,571	20,220
Available for sale inv.	-	178,114	108,406	101,965
Accounts receivables	129,232	89,635	84,918	90,215
Murabaha and wakala inv.	33,883	29,800	10,201	11,784
Investments at fair value	590,542	158,816	128,332	118,560
Short-term deposits	187,079	214,999	131,464	110,932
Bank balances and cash	17,894	29,325	30,132	27,197
Total Assets	**2,159,593**	**1,733,150**	**1,574,814**	**1,602,948**
Liabilities and Shareholders' Equity				
Bonds and trust cert.	171,227	158,720	150,773	142,433
Long-term borrowing	165,190	177,837	35,145	78,842
Leasing creditors	375	608	683	463
Provisions	9,558	8,369	9,055	8,456
Total Non-current Liabilities	**346,350**	**345,534**	**195,656**	**230,194**
Accounts payable	74,569	80,545	44,440	42,226
Bonds issued	-	14,431	14,306	14,212
Short-term borrowing	571,211	767,124	732,481	685,215
Due to banks	37,046	39,719	43,603	31,720
Total Current Liabilities	**682,826**	**901,819**	**834,830**	**773,373**
Total Liabilities	**1,029,176**	**1,247,353**	**1,030,486**	**1,003,567**
Total Shareholders' Equity	**933,418**	**347,870**	**400,500**	**453,030**
Minority Interest	196,999	137,927	143,828	146,351
Total Equity and Liabilities	**2,159,593**	**1,733,150**	**1,574,814**	**1,602,948**

Sources: Company financial statements and NBK Capital

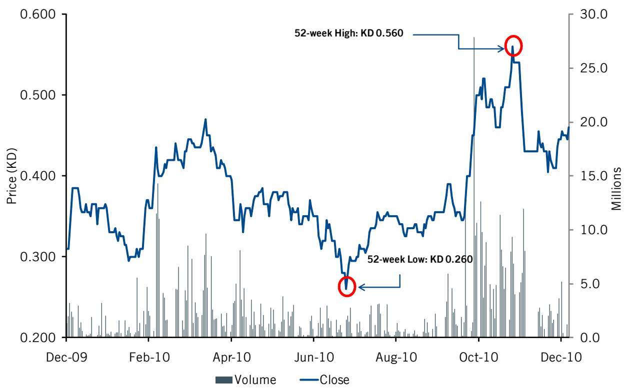
NATIONAL INVESTMENT COMPANY (NIC)

Key Data

General		Liquidity	
KSE Code	NINV.KSE	52-week avg. volume	2,603,984
Reuters Code	KINV.KW	52- week avg. value (KD)	1,086,420
Price (KD)		**Price Performance**	
Closing Price	0.460	YTD	26.0%
52-week High/Low	0.560/0.260	1-Year Period	48.4%
Market Capitalization		**Outstanding Shares**	
Million KD	403.1	Latest (million)	876.2
Ownership Structure			
Closely Held: 68.1%		Public: 31.9%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- National Investment Company (NIC) is one of the largest asset management companies in Kuwait, with a market capitalization of around KD 403 million.
- The company seems to be improving its operating income, whereby management fees have become a larger portion of total income, increasing from 31% in 9M2009 to 33% in 9M2010.
- In spite of the company's large debt position, a significant portion of NIC's investments are liquid. This allows NIC to convert investments into cash relatively quickly, making it easy to repay debt.
- Assets under management (AUM) grew from KD 1 billion in 2004 to KD 2.6 billion in 2009.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Net Income Growth	-27.7%	136.2%	-135.6%	25.8%	-222.9%
Management and Advisory Fees Growth	-84.0%	0.8%	-4.6%	-40.0%	0.3%
AUM Growth	3.7%	65.4%	-38.8%	14.7%	N/A
AFS-to-Assets	35.7%	34.3%	61.6%	65.3%	69.0%
AFS-to-Equity	60.5%	55.0%	82.4%	81.2%	89.2%
ROAA	13.2%	15.4%	-6.0%	-10.3%	-5.5%
ROAE	20.4%	22.9%	-7.2%	-13.4%	-7.1%
Debt-to-Equity	69.8%	33.7%	27.9%	20.3%	25.5%

Sources: Company's financial statements and NBK Capital

Overview

NIC is involved in investment management. This includes equity trading, private equity investments, and asset management services. The company is responsible for managing several funds, including equity, alternative, and money market funds. Some of the most notable equity funds include the Al-Wataniya Fund (investing in Kuwaiti listed equities), the Al-Safwa Fund (Shari'ah-compliant equity investments), and the Al-Darji Fund (GCC Shari'ah-compliant equities). NIC has a large proprietary book from which the company tries to derive most of its profits.

Latest News

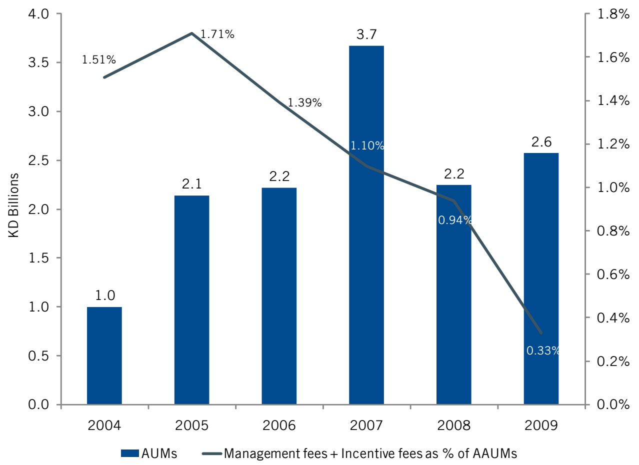
- **August 2010:** NIC announced its 2Q2010 results, achieving a net profit of KD 2.7 million compared to KD 5.3 million in 2Q2009.
- **May 2010:** The company has clarified media reports, and has confirmed it sold 10% of its stake in United Medical Services Company in 2009.
- **May 2010:** Kuwait Central Bank approved the request to sell or buy back a maximum of 10% of the company's total outstanding shares for a six-month period starting May 21, 2010.

Financial Statement Analysis

Income Statement

- With the company's business operations revolving around market investments, NIC's earnings have been quite volatile. Earnings between 2004 and 2009 fluctuated significantly, from a high of KD 59.1 million in 2005 to a loss of KD 26.1 million in 2009. In 9M2010, net income improved year–on-year. Net profit reached KD 6.2 million in 9M2010 compared to a loss of KD 5.1 million in 9M2009.
- A significant portion of the company's reported income derives from market investments (which include realized and unrealized gains, sales of available-for-sale [AFS] investments, and dividend income). Between 2005 and 2009, income from market investments averaged one-third of total income. In 2009, market investments contributed KD 5.8 million to total income (42%), up from a loss of KD 0.6 million in 2008. Impairment losses of KD 33 million pushed the company into a net loss in 2009 (KD 26 million). In 9M2010, investment income contributed 41% of the company's total income—on par with 9M2009 levels, contributing KD 6.2 million to the company's bottom line.
- We define an investment company's profit from operations as income generated from management and advisory fees less general and administrative costs. This gives a clearer picture of how well the company has been able to generate stable income streams from investing clients' funds. Profit from operations declined in 2009, as management fees were almost halved year-on-year and incentive fees were wiped out. The EBIT margins were slashed from 61% in 2008 to 41% in 2009. These results came after a weak performance in 2008. In 2008, we saw the effect of the financial crisis take a toll on the company's operating profits as they dropped by 34.8% compared to the 2007 results. In 9M2010, operating income was maintained relative to the same period last year, at KD 5.9 million. EBIT margins were also maintained year-on-year closing in at 44% in 9M2010.
- Between 2004 and 2008, management fees as a percentage of average assets under management (AAUM) were consistently below 1%. This figure declined from 0.94% in 2005 to 0.33% in 2009. Furthermore, incentive fees as a percentage of AAUM also fell from 0.77% in 2005 to nil by 2009. This could be due to the effects of the financial crisis, whereby fees related to the management of funds were affected in one way, and incentive fees were not paid due to the difficulty in outperforming the benchmark.

Assets under Management



Sources: Company's financial statements and NBK Capital

Balance Sheet

- Assets declined by 18% in 2009 due to a significant decline in AFS investments and a drop in investments in associates. A decline in mutual fund investments coupled with a drop in unquoted equity investments were the main reasons for the 13% decline in AFS. By the end of September 2010, the company's assets had actually increased by 18.4% over the nine-month period. The jump in assets can be attributed mainly to an increase in AFS, most of which came from the purchase of new securities. By September 2010, the company's AFS investments stood at 69% of total assets.
- NIC's debt-to-equity ratio increased from 20.3% in December 2009 to 25.5% in September 2010. It is worth noting that NIC has taken on only short-term debt. With cash and HFT investments totaling KD 31 million as of September 2010, the company has sufficient funds to repay up to 58% of debt immediately.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Realized/Unrealized gain on invest.	(10,426)	3,318	6,034	1,188
Investment Income	40,799	11,189	8,797	13,394
Foreign Exchange Trading	2,675	638	444	3,007
Share of Results from Associates	(496)	(4,900)	(150)	238
Other Income	-	3,500	3,500	-
Income	**32,552**	**13,745**	**18,625**	**17,827**
Selling/General/Admin Expenses	(10,956)	(4,692)	(3,259)	(3,319)
Operating Income	**21,596**	**9,053**	**15,366**	**14,508**
Finance Costs	(4,425)	(2,247)	(1,746)	(1,751)
Other, Net	(37,904)	(32,882)	(18,677)	(6,270)
Net Income before Taxes	**(20,733)**	**(26,076)**	**(5,057)**	**6,487**
Share of Associate tax	-	-	-	-
Zakat	-	-	-	(65)
Contribution to KFAS	-	-	-	(45)
NLST	-	-	-	(162)
Directors' fees	-	-	-	-
Net Income	**(20,733)**	**(26,076)**	**(5,057)**	**6,215**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Cash and Cash Equivalents	53,769	11,673	10,745	14,320
Investments	251,434	190,459	163,430	202,494
Other Assets	112,727	75,351	53,311	52,439
Total Assets	**417,930**	**277,483**	**227,486**	**269,253**
Short Term Debt	99,707	57,937	37,132	53,198
Accounts Payable and Accruals	22,752	12,123	7,510	7,778
Total Liabilities	**122,459**	**70,060**	**44,642**	**60,976**
Total Equity	**295,471**	**207,423**	**182,844**	**208,277**
Total Liabilities and Equity	**417,930**	**277,483**	**227,486**	**269,253**

Sources: Company's financial statements and NBK Capital

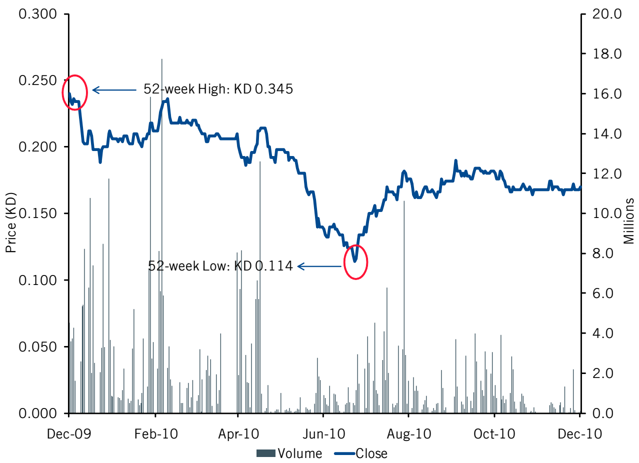
NATIONAL REAL ESTATE COMPANY (NREC)

Key Data

General		Liquidity	
KSE Code	NRE.KSE	52-week avg. volume	1,930,339
Reuters Code	NREK.KW	52-week avg. value (KD)	377,089
Price (KD)		**Price Performance**	
Closing Price	0.170	YTD	-14.1%
52-week High/Low	0.240 / 0.114	1-Year Period	-29.2%
Market Capitilization		**Outstanding Shares**	
Million KD	138.41	Latest (million)	814.20
Ownership Structure			
Closely Held: 40.52%		Public: 59.48%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- National Real Estate Company (NREC) is one of the largest real estate companies in Kuwait in terms of market capitalization. The company is primarily a rental player and operates across the Middle East and North Africa (MENA) region.
- The company is part of the Sultan Group, and holds a 22.4% stake in Agility, according to the 9M2010 financial statements. NREC's stake in Agility appeared at a cost of KD 218.7 million on the balance sheet as of September 30, 2010. The Agility stake, as of November 30, 2010, has a market value of KD 119.6 million, and accounts for almost 19% of the total assets and 42% of the total shareholders' equity. Since the market capitalization of the company was KD 138 million as of December 13, 2010, we feel this is worth highlighting.
- A back-of-the-envelope calculation shows Souq Sharq accounts for the majority of NREC's rental income. NREC owns other income-generating properties in Kuwait, but our main concern is the age of those properties.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Rental Income (% of Total Income)	23.7%	12.9%	17.9%	13.2%	31.8%
Net Share in the Associates' Results (% of Total Income)	56.4%	60.9%	70.3%	54.1%	45.9%
Net Share in the Associates' Results (% of Net Profit)	113.3%	92.8%	172.0%	118.9%	102.4%
EBITDA (KD million)	6.2	-4.4	-9.7	11.2	-4.4
EBITDA Interest Cover (x)	1.8	-0.8	-2.9	3.8	-1.9
Net Debt-to-Equity	0.1	0.4	0.7	0.7	0.7
Capital Work in Progress (% of Total Assets)	6.1%	9.6%	44.2%	19.3%	19.0%
Investment in Associates (% of Total Assets)	61.0%	46.8%	33.4%	35.2%	34.8%
Investment in Associates (% of Total Equity)	79.8%	81.2%	84.6%	86.7%	85.4%
Investment Book (% of Total Assets)	3.4%	5.2%	3.7%	3.0%	2.8%
Investment Book (% of Total Equity)	4.5%	9.0%	9.3%	7.4%	6.8%

Sources: Company's financial statements and NBK Capital

Overview

National Real Estate Company (NREC) is one of the largest Kuwaiti real estate companies in terms of market capitalization. The company was established in 1973, and was listed on the Kuwait Stock Exchange in 1984. NREC specializes in developing, trading, and managing commercial and industrial real estate properties, including shopping centers, office properties, resorts and hotels, and retail centers, locally and internationally.

Completed Projects

Country	Project	Location	Use	Year of completion	Leasable Area (sq. m)
Kuwait	Mishal Tower	Sharq	Commercial Offices, Retail	2008	-
	Sharq Marke	Sharq	Retail	1998	28,300
	El Joan Resort	Juliaa	Resort	-	-
	Watya Complex	Qebla	Commercial Complex	1979	11,186
	Souq Al Wataniya	Mirqab	Commercial Complex	1978	12,971
	Al Wataniya Tower	Kuwait City	Commercial Complex	1989	3,332
	Bobyan Complex	Farwaniya (Dhajeej Area)	Commercial Complex	1993	9,916
	Dasman Complex	Dasman	Commercial Complex	1979	16,081
Libya	Palm City Residences	Janzour	Residential Appartments, Con	2010	-

Sources: Company's financial statements and NBK Capital

Upcoming Projects

Country	Project	Location	Use
UAE	Najmat Abu Dhabi	Reem Island, Abu Dhabi	Mega-Commercial Center
	TECOM Dubai	Dubai Media City	Hotel, Commercial Offices
	SHAMS Abu Dhabi	Reem Island, Abu Dhabi	Hotel, Commercial Offices, Residential
Iraq	Erbil Mega	Erbil	Shopping mall, Appartments, Hotel, Offices
Egypt	TELAL	6th of October	Residential Villas
Jordan	Aqaba	AL-Aqaba City	Offices, Warehouse
	Amman	Zahran Road, Amman	Mix Use
Lebanon	Agricola Project	Al Romail	Residential
	West End Project	Pastor Street, Gemmayze	Commercial Offices
Pakistan	Canal Residence	Lahore	Luxury Residential Villas

Sources: Company's financial statements and NBK Capital

Latest News

- **June 2010:** Agility's shareholders approved the distribution of a KD 0.04 per-share cash dividend for the year ended December 2009.
- **June 2010:** The company announced that it has launched a EUR 109 million Palm City residential project in Libya.

Financial Statement Analysis

Income Statement

- The company's rental income increased by 16.8%, to KD 7.5 million in 9M2010, compared to KD 6.5 million in 9M2009.
- A closer look at the financial statements shows that the company reported negative EBITDA of KD 4.4 million in 9M2010 compared to negative EBITDA of KD 4.6 million in 9M2009.
- The company's net share in the associates' results for 9M2010 is entirely due to the share of Agility's profit. The net share of the associates' results reached KD 10.9 million in 9M2010, which is 58% lower than in 9M2009. The proportionate profits from associate companies (as a percentage of total income) decreased significantly, from 79% in 9M2009 to 46% in 9M2010.
- National Holding Group Company (Lebanese Shareholding Company), a wholly owned subsidiary of NREC, sold two of its subsidiaries in Lebanon for a total value of KD 6.3 million and realized a profit of KD 4.3 million in 2Q2010.
- Though the gain on the sale of the subsidiaries boosted the 9M2010 net profit, the impact was offset by the decrease in the share of the associates' results. Net profit decreased by 48% in 9M2010, to KD 10.6 million, compared to KD 20.6 million in 9M2009. This decrease was mainly due to the decline in the net share of the associates' results.

Balance Sheet

- The company is part of the Sultan Group, and holds a 22.4% stake in Agility, according to the 9M2010 financial statements. NREC's stake in Agility appeared at a cost of KD 218.7 million on the balance sheet as of September 30, 2010. The Agility stake, as of November 30, 2010, has a market value of KD 119.6 million, and accounts for almost 19% of the total assets and 42% of the total shareholders' equity. Since the market capitalization of the company was KD 138 million as of December 13, 2010, we feel this is worth highlighting.
- The company had a net debt-to-equity ratio of 0.71x at the end of 9M2010, compared to 0.68x at the end of 9M2009. The company's equity and total debt stood at KD 257 million and KD 199 million, respectively, as of September 30, 2010. NREC has short-term debt of KD 28 million and KD 17.2 million in cash.

- NREC is exposed in a limited way in terms of market investments compared to some of the company's Kuwaiti counterparts. The company's investment book stood at KD 17.6 million as of September 30, 2010, which accounted for 7% of the shareholders' equity, almost the same as the average of the last five years of 8%.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Rental Income	8,030	8,587	6,460	7,542
Operating Expenses	13,398	12,989	9,065	17,439
Net Share in the Associates' Results	31,465	35,108	25,934	10,876
Investment Income	3,454	155	84	746
Total Income	44,759	64,954	33,009	23,683
Net Income	**18,292**	**29,520**	20,562	10,621

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Cash & Cash Equivalent	12,960	16,678	11,081	17,184
Investment in Associates	185,405	177,843	218,299	219,762
Investment Properties	66,412	66,680	199,633	201,456
Capital Work in Progress	38,217	235,429	119,800	119,996
Total Assets	**396,276**	**532,949**	**620,057**	**630,829**
Bank Facilities	**114,807**	**156,556**	**192,432**	**199,325**
Total Liabilities	**146,362**	**300,185**	**344,907**	**347,694**
Minority Interest	**21,542**	**22,647**	**23,248**	**25,762**
Shareholders' Equity	**228,372**	**210,117**	**251,902**	**257,374**
Total Liabilities and Equity	**396,276**	**532,949**	**620,057**	**630,829**

Sources: Company's financial statements and NBK Capital

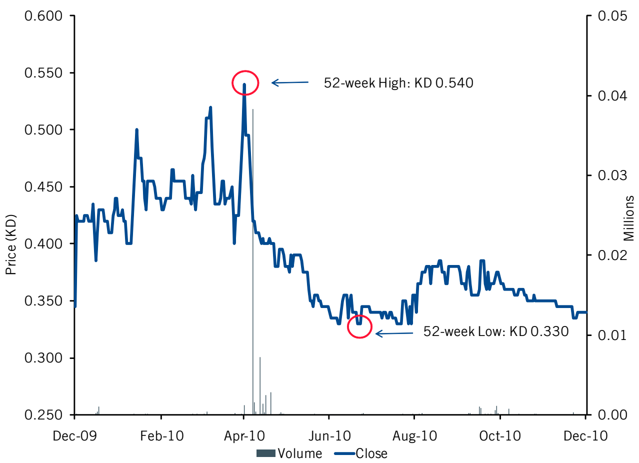
OULA FUEL MARKETING COMPANY (OULA)

Key Data

General		Liquidity	
KSE Code	OULAFUEL.KSE	52-week avg. volume	341,567
Reuters Code	OULA.KW	52-week avg. value (KD)	140,621
Price (KD)		**Price Performance**	
Closing Price	0.340	YTD	-20.9%
52-week High/Low	0.540 / 0.330	1-Year Period	1.4%
Market Capitilization		**Outstanding Shares**	
Million KD	101.91	Latest (million)	299.73
Ownership Structure			
Closely Held: 61.3%		Public: 38.7%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- For 1H2010, net profit stood at KD 1.60 million, a decrease of 10% compared to KD 1.78 million in 1H2009.
- Oula is one of the two publicly listed fuel station operators in Kuwait. The company's operating assets consist of 40 gas stations acquired from the government. Oula was listed on the Kuwait Stock Exchange (KSE) on December 18, 2006.
- Oula has a major presence in the Kuwaiti retail petrol market. The company along with its closest publicly listed competitor, Soor, dominates the market with a combined market share north of 60%, according to our estimate.
- Oula's business model is simple and stable, if not especially lucrative. The company has no control over prices or the direct costs of sales. The government of Kuwait sets the retail price of petrol. Oula procures petrol from the state, which allows the company to market that petrol at a specified gross profit margin. In terms of fundamental drivers, Oula's top-line growth is largely predicated on the demand for petrol and the company's ability to open new fuel stations. Demand for petrol is relatively inelastic; the company's revenue grew only 2.2% in FY2009. However, revenue fell by 2% in 1H2010 compared to 1H2009. Operating margins remain low, around the 3–4% mark.

Analyst

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Key Ratios

	2006	2007	2008	2009	1H2010
Gross Profit Margin	12.8%	12.8%	12.8%	12.8%	12.4%
EBITDA Margin	5.2%	4.0%	4.7%	5.0%	4.7%
Operating Profit Margin	2.8%	3.7%	4.4%	3.3%	2.9%
Net Profit Margin	4.6%	5.5%	4.1%	4.2%	4.0%
ROAA	6.7%	7.8%	6.5%	7.1%	N/A
ROAE	10.5%	11.0%	8.2%	8.7%	N/A
Current Ratio	1.56	1.83	1.84	1.65	1.70
Quick Ratio	1.54	1.81	1.80	1.62	1.67
Investment to Equity	0.6%	7.0%	15.0%	15.9%	14.9%

Sources: Company's financial statements and NBK Capital

Overview

Oula is one of the only two publicly listed fuel station operators in Kuwait. Established in May 2004, the company derives the majority of its revenues from retail petrol sales at 40 petrol stations in Kuwait. Oula also generates income from 1) customer-service centers at the fuel stations, 2) automotive services (car washes, oil changes, car maintenance, etc.), 3) filling and storing fuel, and 4) shipping and trading petroleum products. Historically, the company has been involved in buying, leasing, and selling real estate assets related to its operational activities and has invested a portion of its financial surplus in various financial investments. Oula has a wholly owned subsidiary, Oula National Market Services, and owns 25% of Petronet Global Computer Services. The government has a 24% stake in Oula through the Kuwait Petroleum Corporation (KPC).

Shareholder Structure

Major Shareholders	Type	Country	Holding
Alfa Energy	Corporate	United Kingdom	24.61%
Kuwait Petroleum Corporation	Government	Kuwait	24.00%
Kharafi National	Corporate	Kuwait	12.00%
Others			0.69%
Public			38.70%

Sources: Zawya and NBK Capital

Latest News

- **August 2010:** The company released earnings for 1H2010, and net profit stood at KD 1.60 million, a decrease of 10% compared to KD 1.78 million in 1H2009.
- **July 2010:** The company approved the election of the new board of directors for a three-year term, including Chairman Abdul Hussein Al-Sultan and Vice Chairman Sheikh Talal Al-Sabah.
- **April 2010:** Oula announced that its board of directors has accepted the resignation of its chairman, Ahmed Abdul Aziz Ahmed Al Ghannam, effective April 22, 2010.
- **April 2010:** The board of directors recommended a distribution of 10% cash dividends, representing KD 0.010 per share, for the fiscal year ending December 31, 2009. Oula paid a similar dividend for FY2008 and FY2007, but paid no dividends for FY2006.
- **November 2009:** Oula announced the appointment of a new chairman, Ahmed Abdul Aziz Ahmed Al Ghannam, effective November 16, 2009.

Financial Statement Analysis

Income Statement

- The relatively inelastic demand for petrol drives steady growth in Oula's top line. However, revenue declined slightly, by 2%, from KD 40.5 million in 1H2009 to KD 39.6 million in 1H2010.
- Gross margins fell in 1H2010 to 12.4% versus 12.8% in 1H2009. This is the first time that Oula's gross margins have declined below the 12.8% mark since the company's inception. Oula's gross margins have remained relatively stable because the government sets the retail price of petrol. Oula procures petrol from the state, which allows the company to market that petrol at a specified gross profit margin. Gross profit for 1H2010 declined by 5% compared to 1H2009.
- Because Oula has no control over gross margins, the company's operating profitability depends almost entirely on management's ability to streamline operating costs. Our analysis shows that Oula's 1H2010 profitability slightly declined on an EBITDA basis by 7%, from KD 1.998 million in 1H2009 to KD 1.866 million in 1H2010. As a result, Oula's EBITDA margin decreased to 4.7% in 1H2010 from 4.9% in 1H2009.
- Operating profit decreased by 13% in the period, from KD 1.34 million in 1H2009 to KD 1.16 million in 1H2010. Operating costs declined by 2% on a year-on-year (YoY) basis. This decline was primarily driven by a 30% reduction in general and administrative expenses for the period, from KD 1.22 million in 1H2009 to KD 0.86 million in 1H2010.
- In 1H2010, net income decreased to KD 1.60 million from KD 1.78 million in the previous period, a decrease of 10% YoY.

Balance Sheet

- Oula remains debt-free due to the limited scope of expansion beyond the company's existing footprint in Kuwait. The company had a cash balance (including term deposits with maturities within one year) of KD 9.6 million as of June 30, 2010.
- Unlike many Kuwaiti companies, Oula does not have an overwhelmingly significant investment book. As we have stated previously, the company invests part of its excess capital in financial investments. Oula's investment book made up 15% of the company's shareholders' equity on June 30, 2010, lower by 100 basis points (bps) since December 31, 2009. Available-for-sale (AFS) investments, which include unquoted local investments susceptible to impairment (recorded at cost because their fair values cannot be determined reliably), make up about 67% of the overall investment book as of 1H2010, versus 68% in FY2009.

Breakdown of Available-for-Sale Investments

Financial Investments (KD '000)	2008	2009	1H2009	1H2010
Available for sale investments	4,347	4,261	4,328	3,777
Of which, held in unquoted investments	1,916	1,755	2,242	1,912
Murabaha investments	1,500	1,500	1,700	1,500
Wakala investments	-	475	1,145	400
Total Financial Investments	**5,847**	**6,236**	**7,173**	**5,677**
Investment to Equity	15.0%	15.9%	19.0%	14.9%
AFS as a % of total investments	0.74	0.68	0.60	0.67

Source: Company's financial statements

Financial Statements

Income Statement (KD '000)	2008	2009	1H2009	1H2010
Revenue	78,634	80,332	40,508	39,647
Cost of Sales	(68,569)	(70,049)	(35,323)	(34,717)
Gross Profit	**10,065**	**10,282**	**5,185**	**4,930**
Operating Costs	(4,833)	(5,833)	(2,619)	(2,908)
General & Admin. Expenses	(1,791)	(1,815)	(1,220)	(857)
Operating Income	**3,441**	**2,634**	**1,345**	**1,165**
Depreciation & Amortization	272	1,420	654	702
EBITDA	**3,713**	**4,054**	**1,999**	**1,866**
Impairment of AFS	(1,400)	(19)	-	-
Loss on Sale of AFS	(220)	(53)	(7)	(47)
Group share of results from assoc.	-	(13)	-	-
Cash Dividend	155	24	19	35
Interest income	918	450	244	167
Other Income	490	573	263	352
EBT	**3,383**	**3,597**	**1,864**	**1,672**
KFAS	(30)	(32)	(17)	(15)
NLST	(81)	(89)	(46)	(41)
Zakat	(32)	(37)	(19)	(17)
Board of Directors Remuneration	(45)	(45)	-	-
Net Income	**3,195**	**3,394**	**1,782**	**1,599**

Balance Sheet (KD '000)	2007	2008	2009	June-10
PP&E and Intangibles	26,092	27,922	28,729	28,199
Available for sale investments	2,740	4,347	4,261	3,777
Investment in associates	-	466	453	453
Total Non-Current Assets	**28,831**	**32,735**	**33,442**	**32,429**
Inventory	321	324	343	252
Trade and other receivables	1,324	1,358	1,423	2,409
Time deposits	16,308	3,030	4,100	7,600
Murabaha investments	-	1,500	1,500	1,500
Wakala investments	-	-	475	400
Cash and cash equivalents	4,324	7,552	7,387	2,010
Total Current Assets	22,278	13,764	15,227	14,171
Total Assets	**51,109**	**46,499**	**48,670**	**46,600**
Share Capital	29,973	29,973	29,973	29,973
Statutory reserve	921	1,259	1,619	1,619
Voluntary reserve	921	1,259	1,619	1,619
Fair value reserve	94	(82)	(127)	37
Retained Earnings	6,997	6,517	6,194	4,796
Total Equity	**38,906**	**38,927**	**39,278**	**38,043**
Provision for staff indemnity	61	105	190	220
Total Non-Current Liabilities	**61**	**105**	**190**	**220**
Trade and other payables	789	1,492	1,786	2,186
Due to related parties	11,353	5,975	7,416	6,150
Total Current Liabilities	**12,142**	**7,467**	**9,202**	**8,337**
Total Liabilities	**12,203**	**7,572**	**9,392**	**8,556**
Total Liabilities and Equity	**51,109**	**46,499**	**48,670**	**46,600**

Sources: Company's financial statements and NBK Capital

TAMDEEN GROUP

Key Data

General		Liquidity	
KSE Code	TAM.KSE	52-week avg. volume	1,039,414
Reuters Code	TAMK.KW	52-week avg. value (KD)	314,747
Price (KD)		**Price Performance**	
Closing Price	0.270	YTD	-10.0%
52-week High/Low	0.370 / 0.250	1-Year Period	-6.9%
Market Capitalization		**Outstanding Shares**	
Million KD	100.74	Latest (million)	373.12
Ownership Structure			
Closely Held: 73.63		Public: 26.37%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance

Sources: Zawya and NBK Capital

Highlights

- Tamdeen Real Estate Company (Tamdeen Group) specializes in developing, trading, and managing commercial and industrial real estate, including retail centers, office properties, and hotels in local and international markets.
- The company operates through its four subsidiaries, Tamdeen Shopping Centers Development Company, Tamdeen Holding Company, Tamdeen Investment Company, and Tamdeen Entertainment.
- The Tamdeen Group has several major projects currently under construction. We feel that these upcoming projects, in Kuwait and in other countries in the Gulf Cooperation Council (GCC), will boost income, diversify the company's portfolio, and broaden its regional base.
- Operational income for the company increased by 74% in 9M2010, to KD 14.1 million, compared to KD 8.1 million in 9M2009. Although no breakdown of operational income was provided, we assume that the increase is primarily attributable to a boost in rental income from the opening of the 360° Mall in mid-2009.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Operating Income (% of Total Income)	46%	31%	31%	56%	58%
Total Recurring Income (% of Total Income)	54%	35%	32%	64%	61%
Investment Income (% of Total Income)	34%	44%	24%	12%	26%
EBITDA (KD million)	3.39	5.10	1.13	5.31	5.78
EBITDA Interest Cover (x)	0.7	0.5	0.1	0.6	0.7
Adjusted EBITDA Interest Cover (x)	1.4	1.1	0.6	1.0	1.0
Net Debt-to-Equity (x)	0.7	0.8	1.9	2.4	2.0
ROAA (%)	1%	3%	3%	1%	1%
Adjusted ROAA (%)	-2%	-4%	-1%	-1%	-1%
Investment Book (% of Total Assets)	47%	46%	26%	19%	24%
Investment Book (% of Total Equity)	106%	102%	119%	100%	109%

Sources: Company's financial statements and NBK Capital

Overview

Tamdeen Real Estate Company is one of Kuwait's leading real estate companies. Originally established in 1982, the company was recently rebranded as Tamdeen Group. It is engaged in real estate investment and development activities inside and outside Kuwait. Tamdeen Group specializes in developing, trading, and managing commercial and industrial real estate properties, including retail centers, office properties, and hotels. The company sold its flagship property, Al-Fanar Mall, in 2008, and recently completed the 360° Mall. Tamdeen Group also manages properties for third parties, establishes and manages real estate investment funds, conducts real estate studies, provides consultancy services, and invests in companies with similar activities. Tamdeen Group operates through four subsidiaries, Tamdeen Shopping Center Development Company, Tamdeen Holding Company, Tamdeen Investment Company, and Tamdeen Entertainment.

Shareholder Structure

Name	Type	Country	Holding
Fateh Al Khair Group Holding Company	Corporate	Kuwait	25%
Al Salemiya United Real Estate Company	Corporate	Kuwait	20%
KIPCO Asset Management Company	Corporate	Kuwait	15%
Mashaal Jassem Al Marzouk	Private	Kuwait	12%
Public	-	-	28%
Foreign Ownership Structure			
Open to GCC Investors			100%
Open to Foreign Investors			100%

Sources: Zawya and NBK Capital

Subsidiaries

Name	Country	Holding
Tamdeen Housing Company (80% Directly, 20% via Tamdeen Holding Company	Kuwait	100.00%
Tamdeen Investment Company	Kuwait	51.37%
Manshar Real Estate Company	Kuwait	50.00%
Tamdeen Entertainment Company	Kuwait	45.00%
Tamdeen Holding Company	Kuwait	43.00%
Fu-com Central Markets Company	Kuwait	33.00%
Tamdeen Shopping Center Development Company	Kuwait	30.00%
Ajmal Holding Company	Bahrain	29.00%
Beyoo Leasing and Finance Company	Kuwait	21.00%

Sources: Company's financial statements, Zawya, and NBK Capital

Major Projects

Major completed projects

360° Mall

360° Mall is a shopping mall destination situated at the intersection of King Faisal Highway and 6th Ring Road. The mall, strategically located in a busy and rapidly growing residential area, has a unique circular design. Completed in June 2009, the mall has a shopping area of more than 82,000 sq. m. and is the second-largest mall in Kuwait after the Avenues.

Madinat Al Fahaheel

Madinat Al Fahaheel is a mixed-use development spread over 300,000 sq. m. in Fahaheel. The project has two main components: Al Kout and Al Manshar Towers and Complex.

Al Kout

The Al Kout shopping center offers a mix of international, regional, and local brands complemented by a food court and a yacht club. The shopping center is acclaimed for its design and has won several accolades.

Al Manshar Towers and Complex

Just a short walk from Al Kout, Al Manshar Towers and Complex is a mixed-use commercial and residential real estate project, featuring a shopping mall, a food court, four residential towers, an office tower, and the five-star Al Manshar Rotana Hotel.

Al Manshar Rotana Hotel

This five-star hotel with 200 rooms on 18 floors is located to the west of the Al Manshar Towers and Complex. The hotel was completed in April 2007.

Major upcoming projects

Mall of Kuwait

The Mall of Kuwait will be located between the two highways linking Kuwait City to the south in the Sabahiya area. The mall will have a massive retail area of 150,000 sq. m., a hypermarket, five anchor stores, and entertainment facilities. However, anecdotal evidence indicates that the project may be delayed or even canceled.

Baraya

The Baraya project is a joint venture by Tamdeen Group, Imtiaz Investment Company, and Barwa Real Estate Company from Qatar. This mixed-use project, located in the heart of Doha, is part of the renovation of Doha's downtown. The project will incorporate a premium shopping mall with 70,000 sq. m. of leasable retail space, a five-star business hotel, and a 25-storey class A office tower with a leasable area of around 30,000 sq. m.

Sarab Al Areen

Sarab Al Areen is located in the Al Areen development in the south of the Kingdom of Bahrain. Sarab Al Areen will be the sole retail component in this prestigious development, with an estimated gross leasable area of 175,000 sq. m.

Financial Statement Analysis

Income Statement

- Total recurring income, which includes operational income, fees from managing real estate and investment portfolios, and other operating income, increased by 64% in 9M2010, to KD 14.8 million, compared to KD 9 million in 9M2009.
- Operational income for the company increased by 74% in 9M2010, to KD 14.1 million, compared to KD 8.1 million in 9M2009. Although no breakdown of operational income was provided, we feel that the increase is primarily attributable to a boost in rental income from the opening of the 360° Mall in mid-2009.
- Operational income accounted for 58% of Tamdeen Group's total income in 9M2010, compared to an average of 39% over the previous five years.
- The company reported EBITDA of KD 5.8 million in 9M2010, compared to KD 2.5 million for 9M2009.
- The company's EBITDA interest coverage stood at 0.7x in 9M2010, compared to 0.6x in 2009.
- This apparently low EBITDA interest coverage does not take into account dividend income from Tamdeen Group's indirect ownership of Ahli United Bank (AUB). Adjusted EBITDA interest coverage stood at 1x in 2009.
- Investment income increased significantly to KD 6.2 million in 9M2010, compared to KD 2.5 million in 9M2009, providing a boost to the company's net profit. Thus, investment income as a percentage of total income increased to 26% in 9M2010 compared to 16% in 9M2009. Accordingly, net profit grew by 83%, to KD 3.7 million in 9M2010, compared to KD 2 million in 9M2009.

Balance Sheet

- The company's net debt-to-equity ratio decreased from 2.4x in 2009 to 2x at the end of 9M2010. On September 30, 2010, the company's equity and total debt stood at KD 105 million and KD 221 million, respectively. We would like to highlight the fact that this debt was raised by mortgaging investment properties, available-for-sale (AFS) investments, and projects in progress.
- Tamdeen Group fully consolidates Tamdeen Investment Company, as the parent company holds a 51.3% majority stake in this subsidiary. Thus, the total debt of KD 221 million was not entirely attributable to the parent company. Tamdeen Investment Company, which had KD 55.6 million of debt outstanding as of September 30, 2010, accounted for 25% of Tamdeen Group's total debt.
- The company's investment book (both AFS and held for trading) stood at KD 115 million at the end of September 2010, accounting for 109% of the shareholders' equity and 24% of the total assets. Of this amount, KD 101 million (88%) is due to the consolidation of Tamdeen Investment Company's (investment portfolio of KD 101 million as of September 2010).

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Operational Income	11,676	13,735	8,119	14,148
Operational Expenses	5,655	4,558	2,382	4,007
Net Operating Income	**6,021**	**9,177**	**5,737**	**10,141**
Other Operating Income	422	1,935	784	569
Fees from Management of RE & Inv. Portfolios	225	72	93	32
Profit from Sale of Share in a Subsidiary	-	-	-	-
Profit from Sale of Investment Properties	36,227	-	-	-
Impairment in Value of Investment Properties	(18,741)	-	-	-
Profit from Sale of Inv. in Lands & RE HFT	39	-	-	212
Sale of Land included in Projects in Progress	-	1,777	-	147
Net Investments Income	8,951	3,049	2,535	6,237
Share of (loss)/Profit in associated companies	(3,508)	2,161	1,920	1,757
Impairment in Value of Inv.in an associated Co.	-	(2,488)	(2,489)	-
Other Income	2,748	1,623	2,445	1,127
Foreign Currency Exchange (loss)/Profit	(90)	(75)	(70)	(13)
Expenses and other Charges				
Staff Costs	3,794	3,536	1,988	2,192
General and Administrative Expenses	4,157	3,786	2,438	2,889
Finance Costs	10,028	9,221	6,458	8,576
Profit for the year before KFAS, NLST & Zaka	**14,315**	**1,071**	**454**	**6,552**
Contribution to KFAS	(143)	(25)	(33)	(21)
Contribution to Zakat	(135)	(26)	(93)	(46)
Provision for NLST	(328)	(101)	(137)	(126)
Board of Directors' remuneration	(243)	(124)	-	-
Profit for the year				
Shareholders of the Parent Company	**13,593**	**2,703**	**2,018**	**3,690**
Minority interest	(127)	(1,908)	(1,827)	2,669
Net Income	**13,466**	**795**	**191**	**6,359**

Balance Sheet (KD '000)	2007	2008	2009	Sep-2010
Assets				
Non-current assets				
Available-for-sale investments	197,463	119,065	85,378	113,986
Investments in associated companies	51,113	52,668	52,922	57,622
Investments in unconsolidated subsidairy Co.	-	800	841	1,748
Investment properties	86,759	48,333	124,619	141,580
Projects in progress	68,450	179,671	80,396	62,372
Machines and equipment	696	802	3,104	10,552
Total non-current assets	**404,481**	**401,339**	**347,260**	**387,860**
Current Assets				
Cash and bank balances	1,595	11,214	13,593	5,795
Short-term deposits	4,347	11,776	167	8,991
Inv. at fair value through statement of income	18	204	995	827
Accounts receivable and other debit balances	7,120	22,277	29,050	27,932
Inv. in lands and real estate held for trading	14,522	4,813	53,978	52,283
Total current assets	**27,602**	**50,284**	**97,783**	**95,828**
Total assets	**432,083**	**451,623**	**445,043**	**483,688**
Liabilities and Shareholders' Equity				
Total equity - Parent company	193,157	100,230	86,023	105,152
Minority interest	63,908	125,050	114,464	132,750
Total equity	**257,065**	**225,280**	**200,487**	**237,902**
Liabilities				
Non-current liabilities				
Term loans	85,600	119,250	150,847	147,425
Bonds Issued	19,848	-	-	-
Refundable rental deposits	2,077	3,697	4,173	4,422
Provision for end of service indemnity	402	470	570	798
Total non-current liabilities	**107,927**	**123,417**	**155,590**	**152,645**
Current liabilities				
Bank facilities	4,172	14,221	17,289	13,828
Accounts payable and other credit balances	18,029	20,530	21,170	20,056
Current portion of term loans	44,890	68,175	50,507	59,257
Total current liabilities	**67,091**	**102,926**	**88,966**	**93,141**
Total liabilities	**175,018**	**226,343**	**244,556**	**245,786**
Total Equity and Liabilities	**432,083**	**451,623**	**445,043**	**483,688**

Sources: Company's financial statements and NBK Capital

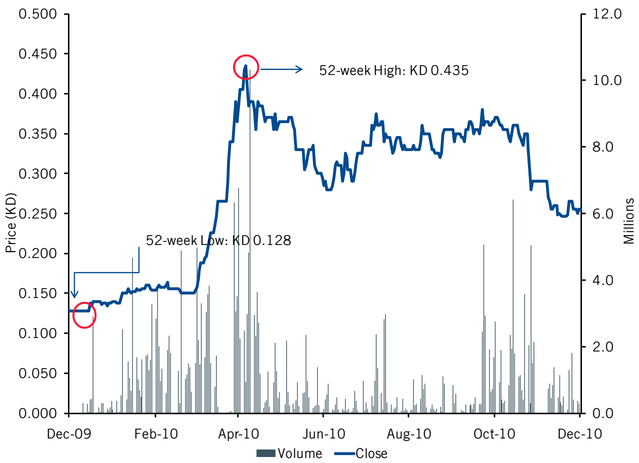
TAMDEEN INVESTMENT COMPANY (TAMDEEN)

Key Data

General		Liquidity	
KSE Code	TAMI.KSE	52-week avg. volume	1,148,798
Reuters Code	TAMI.KW	52-week avg. value (KD)	329,664
Price (KD)		**Price Performance**	
Closing Price	0.255	YTD	82.1%
52-week High/Low	0.435 / 0.128	1-Year Period	99.2%
Market Capitilization		**Outstanding Shares**	
Million KD	79.52	Latest (million)	311.85
Ownership Structure			
Closely Held: 76.37%		Public: 23.63%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Analyst

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Highlights

- The company released its results for 9M2010, and net profit for the period stood at KD 2.78 million, a 14% increase compared to KD 2.43 million in 9M2009.
- In April 2010, Tamdeen Investment Company, along with other investors, agreed to sell a 25% stake in Ahli United Bank (AUB) for USD 1.35 billion to a group of Qatari investors; Tamdeen estimated its profit from the transaction at USD 340 million.
- Tamdeen Real Estate Company is Tamdeen's majority shareholder, with a 51.37% stake. Fatah Al Khair Holding Group, a Kuwaiti family-owned business, owns 15% of the company, and Kuwait Portland Cement Company has a 7.88% stake.
- Quoted investments in foreign securities accounted for roughly 87% of Tamdeen's available-for-sale (AFS) investments as of September 30, 2010. These investments are in equities, which tend to be volatile. This increases the risk associated with these securities.
- Although the company owns no interest-bearing financial assets, Tamdeen faces interest rate risk through floating interest rate loans from banks and banking facilities.
- Tamdeen has no long-term debt and has decreased its short-term debt year-on-year (YoY); the company has roughly KD 56 million in short-term debt (short-term loans and banking facilities) as of September 2010.

Key Ratios

	2006	2007	2008	2009	9M2010
Net Profit Margin (%)	67.5%	59.2%	21.4%	19.9%	45.9%
ROAA	3.5%	4.2%	0.9%	1.6%	N/A
ROAE	4.2%	5.8%	1.4%	3.0%	N/A
Current Ratio (X)	0.12	0.03	0.08	0.09	0.08
Debt to Assets (X)	0.18	0.27	0.42	0.45	0.35
Debt to Equity (X)	0.24	0.39	0.78	0.84	0.55
AFS-to-Assets	85.2%	80.4%	66.5%	54.0%	63.9%
AFS-to-Equity	110.3%	114.0%	124.0%	100.3%	99.6%
Equity-to-Assets	77.2%	70.6%	53.6%	53.8%	64.2%

Sources: Company's financial statements and NBK Capital

Overview

In 1997, Tamdeen Investment (formerly known as Gulf Investment Projects Company) was established and registered as an investment company with the Central Bank of Kuwait. The company was listed on the Kuwait Stock Exchange (KSE) in May 2006.

Tamdeen Real Estate Company is Tamdeen's majority shareholder, with 51.37% ownership. Fatah Al Khair Holding Group, a Kuwaiti family-owned business, holds a 15% stake in Tamdeen Investment; Fatah Al Khair also owns a 25% stake in Tamdeen Real Estate Company. Kuwait Portland Cement owns 7.88% of the investment company, and the balance of the equity is publicly traded.

The company's main activities are as follows:

- Managing financial investment transactions related to securities, including acquiring and selling private sector shares and bonds.
- Providing consulting services to clients on asset utilization, as well as consulting and advisory services on mergers and acquisitions (M&A) and business succession to corporate clients.
- Delivering investment and portfolio management services. The company holds many direct investments. Its primary investments are in Ahli United Bank and Kuwait National Cinema Company.
- Tamdeen had an asset base of around KD 158 million and shareholders' equity amounting to around KD 102 million as of September 30, 2010. The company's stock is relatively illiquid, with a 12-month average daily trading volume of KD 1,024,751.

Latest News

- **October 2010:** The company released its results for 9M2010, and net profit for the period stood at KD 2.78 million, a 14% increase compared to KD 2.43 million in 9M2009.
- **April 2010:** Tamdeen Investment Company, along with other investors, agreed to sell a 25% stake in Ahli United Bank (AUB) for USD 1.35 billion to a group of Qatari investors; Tamdeen estimated its profit from the transaction at USD 340 million.
- **April 2010:** The company announced that the Central Bank of Kuwait had approved the company's request to buy back 10% of its shares within a six-month period, effective April 1, 2010.
- **March 2010:** Tamdeen's board of directors recommended the distribution of 6% cash dividends, representing KD 0.006 per share, for FY2009. Tamdeen paid no cash dividend for FY2008.
- **September 2009:** Tamdeen announced that the Central Bank of Kuwait had approved the company's request to buy back 10% of its shares within a six-month period, effective October 1, 2009.

Financial Statement Analysis

Income Statement

- In 9M2010, the company recorded a KD 4.1 million gain from available-for-sale investments, which made up 67% of total revenue for the period. This figure represents a 7% increase from the gain in 9M2009, which stood at KD 3.8 million.
- In 9M2010, Tamdeen's share of associates' results slightly increased to KD 1.08 million from KD 1.02 million in 9M2009. This period's figure represented 18% of total revenues. In addition, in 9M2010, the company recorded a gain from the sale of investment properties of KD 0.08 million while no such gains were recorded in the same period last year.
- In 9M2010, subscription and portfolio management fees declined by 24% and 15%, respectively. Subscription fees decreased from KD 42,790 in 9M2009 to KD 32,350 in 9M2010, while management fees declined from KD 93,340 in 9M2009 to KD 79,130 in 9M2010.
- Because Tamdeen deals with financial instruments in USD and Qatari Riyals, the company is exposed to foreign exchange (FX) risk. The company incurred a FX loss of KD 16,600 in 9M2010, lower than the loss of around KD 80,000 in 9M2009.
- Total expenses and other charges decreased by 58% in 9M2010 to reach KD 3.28 million, compared with KD 7.77 million in 9M2009. The major contributor to total expenses was finance costs (66%), which decreased from KD 2.8 million in 9M2009 to KD 2.1 million in 9M2010.
- On the back of positive growth in operating profit, Tamdeen's net profit increased by 14% in 9M2010, from KD 2.43 million in 9M2009 to KD 2.78 million in 9M2010. The company's net profit margin increased from 24% in 9M2009 to 46% in 9M2010.

Balance Sheet

- The company's asset base on September 30, 2010, showed an increase of 9% compared to June 30, 2010. This was mainly due to the increase in AFS investments, which stood at KD 101.3 million as of September 30, 2010, compared to KD 89.4 million as of June 30, 2010. Of the total asset base, AFS investments accounted for 64% of the total group's assets and almost 100% of total equity.
- Quoted investments in foreign securities accounted for roughly 87% of Tamdeen's AFS investments as of September 30, 2010. These investments are in equities, which tend to be volatile. This increases the risk associated with these securities.
- On the liabilities side, the company's loan book increased by only 0.75% in 3Q2010; this book currently accounts for 98% of Tamdeen's total liabilities. Tamdeen had only short-term debt (short-term loans and banking facilities), representing 35% of the company's total assets as September 30, 2010. Between the end of June 2010 and the end of September 2010, the short-term loans remained unchanged, and bank facilities decreased by a small 4%. These loans and bank facilities carry floating interest rates and are secured against AFS investments. The company's short-term debt stands at around KD 56 million.
- The group manages portfolios for clients, the value of which amounted to around KD 273 million as of September 30, 2010.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Gains from AFS investments	7,766	4,385	3,803	4,074
Gains from sale of inv in associates	-	5,059	4,984	-
Gains from sale of inv properties	-	-	-	82
Share from associates' results	(986)	1,294	1,023	1,089
Subscription fees	1,107	49	43	32
Loss/gain on FX		-	(80)	(17)
Portfolio management fees	225	128	93	79
Other revenue	390	483	336	718
Total revenue	**8,502**	**11,398**	**10,202**	**6,057**
General and administrative costs	(1,470)	(1,299)	(903)	(1,030)
Staff costs	-	-	-	-
Finance costs	(5,080)	(3,632)	(2,811)	(2,149)
Loss in fair value		(4,000)	-	-
Impairment of investment	-	-	(3,972)	-
Other Expenses	(134)	(201)	(85)	(100)
Total expenses & other charges	**(6,684)**	**(9,132)**	**7,771**	**3,279**
Net Income	**1,818**	**2,266**	**2,431**	**2,777**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Assets				
Cash and cash equivalents	633	4,413	4,570	3,859
Receivables & other debit balances	572	1,545	562	731
Available for sale investments	192,817	103,960	68,299	101,301
Properties held for trading	-	-	-	20,432
Investment properties			22,286	-
Investments in associates	44,828	45,421	29,634	30,971
Land & R/E under development	817	894	919	958
Real estate held for trading	-	-	-	-
Properties and equipment	30	205	181	201
Investment properties				
Projects under progress				
Total assets	**239,695**	**156,438**	**126,451**	**158,452**
Liabilities				
Payables and other credit balances	5,075	7,120	1,100	1,050
Loans and bank facilities	65,376	65,410	57,186	55,625
End of service indemnity	60	48	76	95
Total liabilities	**70,511**	**72,578**	**58,362**	**56,769**
Equity				
Share capital	28,350	31,185	31,185	31,185
Share premium	10,000	10,000	10,000	10,000
Changes in fair value reserve	119,892	33,426	14,778	48,771
Retained earnings	9,592	8,388	10,416	11,383
Other Liabilities	1,350	861	1,710	345
Total equity	**169,184**	**83,860**	**68,089**	**101,683**
Total Liabilities and Equity	**239,695**	**156,438**	**126,451**	**158,452**

Sources: Company's financial statements and NBK Capital

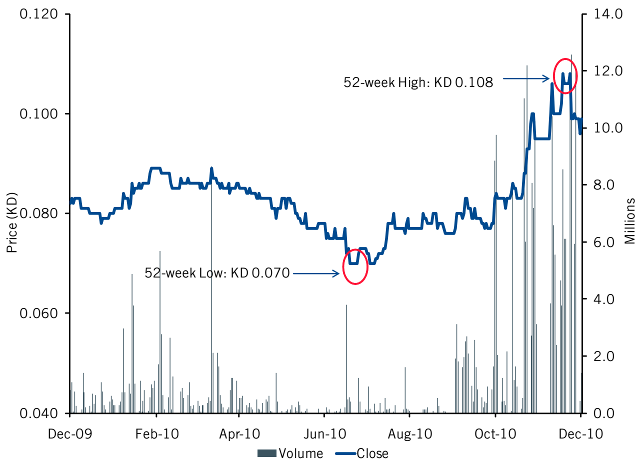
UNITED REAL ESTATE COMPANY

Key Data

General		Liquidity	
KSE Code	URC.KSE	52-week avg. volume	1,528,279
Reuters Code	UREK.KW	52-week avg. value (KD)	139,473
Price (KD)		**Price Performance**	
Closing Price	0.099	YTD	23.8%
52-week High/Low	0.108 / 0.070	1-Year Period	20.7%
Market Capitalization		**Outstanding Shares**	
Million KD	78.01	Latest (million)	787.97
Ownership Structure			
Closely Held: 40.55		Public: 59.45%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance



Sources: Zawya and NBK Capital

Highlights

- United Real Estate Company (United Real Estate) is one of the premier real estate companies in Kuwait. The company develops real estate, with a major focus on hospitality, commercial, and retail properties. United Real Estate's real estate portfolio includes commercial complexes, hotels, resorts, residential buildings, shopping malls, high-rise office buildings as well as mixed-use projects.
- United Real Estate has major projects across various business segments and geographic locations. We feel this diversification not only lends strength to the business model but also insulates the company from downturns in any particular region or country.
- The company holds land that appears at a value of KD 67 million on the balance sheet according to the 9M2010 financial statements. Land for development accounted for almost 21% of the total assets and 42% of the total shareholders' equity as of September 30, 2010. Since United Real Estate's current market cap is KD 78 million as of December 13, 2010, we feel this issue is worth highlighting.
- The company's investment book stood at KD 21.8 million as of September 30, 2010, accounting for 15% of the shareholders' equity and 7% of the total assets.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Rental Income (% of Total Income)	39.6%	39.6%	51.2%	49.9%	60.8%
Non–Operating Income (% of Total Income)	42.1%	28.9%	15.2%	1.2%	5.4%
Non–Operating Income (% of Net Profit)	91.7%	84.3%	58.0%	4.1%	20.9%
EBITDA (KD million)	12.1	13.2	13.4	19.3	9.3
EBITDA Interest Cover (x)	2.2	2.3	2.7	3.4	2.3
Net Debt-to-Equity (x)	0.6	0.8	0.6	0.6	0.7
Investment in Associates (% of Total Assets)	30.4%	26.5%	19.9%	21.9%	23.3%
Lands for Development (% of Total Assets)	0.2%	5.8%	25.0%	25.3%	21.0%
Investment Book (% of Total Assets)	6.0%	8.1%	9.1%	6.8%	6.8%
Investment Book (% of Total Equity)	11.3%	17.5%	20.4%	15.4%	14.7%

Sources: Company's financial statements and NBK Capital

Overview

Founded in 1973, United Real Estate Company is one of the premier real estate companies in Kuwait, and is part of KIPCO Group. A real estate developer in Kuwait, the company focuses on hospitality, commercial, and retail properties. The company develops properties and rents and manages third-party properties. United Real Estate studies the location and economic activity of the targeted property, and then outsources the construction. The company has major projects across various business segments and geographic locations.

Shareholder Structure

Name	Type	Country	Holding
United Gulf Bank	Corporate	Bahrain	28.91%
Kuwait Projects Company (via Kuwait United Consultancy Co	Corporate	Kuwait	11.29%
Public		-	59.80%
Foreign Ownership Structure			
Open to GCC Investors			100.00%
Open to Foreign Investors			100.00%

Sources: Zawya and NBK Capital

Company Projects

Existing Projects

Project	Location	Use
Major completed projects - Kuwait		
Al-Shaheed Tower	Sharq, Kuwait City	Office Building
City Tower	Sharq, Kuwait City	Office Building
Al Mutahida Complex	Kuwait City	Offices and Shopping Mall
Al Maseel Complex	Kuwait City	Offices and Shopping Mall
Saleh Shehab Resort	Al Jela'aa	Chalet Resort
Marina World	Salmiya	Shopping Mall and Hotel
Major completed international projects		
Sheraton Helioplis	Egypt	Five-star Hotel
Bhamdoun Hotel and Commercial Center	Bhamdoun, Lebanon	Four-star Hotel and Commercial Center
Rawcheh Hotel	Rawcheh in Beirut, Lebanon	Five-star Hotel

Sources: Company's annual report and NBK Capital

Major Upcoming Projects

United Tower

This office tower is located close to the Al-Shaheed and Madina buildings in the Sharq area of Kuwait City. The tower is designed on a land space of 4,852 square meters, and construction is expected to be completed in 2010.

Latest News

- **June 2010:** United Real Estate announced the successful completion of a KD 40 million (USD 140 million) local bond issuance in which KAMCO and NBK Capital acted as joint lead managers. The bonds have a three-year tenor and were issued in two tranches: a KD 28.5 million fixed-rate tranche paying coupon of 6.75% per annum and a KD 11.5 million floating-rate tranche paying 3.75% over the Central Bank of Kuwait (CBK) Discounted Rate and capped at 7.75% per annum. Proceeds from United Real Estate's new bond issuance, which was rated BBB- by Capital Intelligence, will be used for refinancing existing debt and for general corporate purposes.

Financial Statement Analysis

Income Statement

9M2010

- Real-estate-related income decreased by 22.6% in 9M2010, amounting to KD 17 million, compared to KD 21.9 million in 9M2009. This decline was due to the decrease in sale of properties held for trading.
- Rental income increased slightly by 2.8% to KD 10.9 million in 9M2010, compared to KD 10.6 million in 9M2009. Rental income as a percentage of real-estate-related income stood at 64% in 9M2010.
- The company reported a gain of KD 1 million in non-operating activities in 9M2010, compared to a loss of KD 2.2 million in 9M2009. Losses from non-operating activities in 9M2009 were due to the foreign exchange losses.
- Total expenses decreased by 17.9% to KD 14.5 million in 9M2010, compared to KD 17.7 million in 9M2009.
- The net profit increased significantly to KD 4.6 million in 9M2010, compared to a net profit of KD 1.85 million in 9M2009.

Balance Sheet

- The company holds land that appears at a value of KD 67 million on the balance sheet according to the 9M2010 financial statements. The land for development accounted for almost 21% of the total assets and 42% of the total shareholders' equity as of September 30, 2010. United Real Estate also holds developed properties that appear at a value of KD 98 million on the balance sheet according to the 9M2010 financial statements. Since United Real Estate's current market cap is KD 78 million as of December 13, 2010, we feel this issue is worth highlighting.
- Investment in associates increased significantly from KD 24.8 million in 2005 to KD 74.4 million in 9M2010 (KD 71.5 million in 2009). Thus, the investment in associates as a percentage of total assets increased significantly from 13% in 2005 to 23% in 9M2010. We would like to highlight that, despite the increase, the contribution of the investment in associates to net profit remains minimal.
- The company's net debt-to-equity ratio stood at 0.72x in 9M2010, compared to the last five years' average of 0.68x from 2005 to 2009. United Real Estate's equity and total debt stood at KD 148.5 million and KD 109 million as of September 30, 2010, respectively. A closer look at the debt serviceability shows that the EBITDA interest coverage decreased from 3.4x in 2009 to 2.3x in 9M2010.
- Total debt increased to KD 109 million in 9M2010, compared to KD 99.5 in 2009. This increase is mainly due to the issuance of bonds maturing in 2013 amounting to KD 40 million.
- The company's investment book stood at KD 21.8 million as of September 30, 2010, accounting for 15% of the shareholders' equity and 7% of the total assets.

Financial Statements

Income Statement (KD' 000)	2008	2009	9M2009	9M2010
Rental Income	13,380	14,374	10,599	10,899
Hotel Operating Income	4,395	4,298	2,961	2,898
Sale of properties held for trading	895	5,432	5,432	-
Other Operating Income	2,852	3,890	2,897	3,168
Share of results of associates	646	472	29	(10)
Real estate related income	22,168	28,466	21,917	16,954
Change in fair value of inv.properties	468	3,243	-	(2,329)
Investment income	3,288	269	854	155
Other non-operating income	782	-	-	-
Foreign exchange (loss) gain	(1,092)	(3,798)	(3,489)	200
Total non-operating Income	3,985	356	(2,230)	965
Total Income	26,153	28,822	19,687	17,920
Total Expenses	18,919	19,773	17,672	14,512
Net Income	6,868	8,758	1,855	4,618

Balance Sheet (KD' 000)	2007	2008	2009	Sep-10
Cash and cash equivalents	13,490	12,336	6,973	2,587
Accounts receivable and prepayments	16,461	9,962	16,664	18,199
Properties held for trading	10,904	10,413	4,935	4,935
Available-for-sale investments	19,628	28,925	22,159	21,795
Investment in associates	64,604	63,335	71,523	74,379
Lands for development	14,035	79,714	82,680	67,236
Projects under construction	498	9,559	15,330	24,095
Investment properties	92,926	94,232	97,243	98,065
Property and equipment	10,911	10,237	9,269	8,586
Total assets	**243,458**	**318,713**	**326,775**	**319,877**
Accounts payable and accruals	14,544	67,927	69,362	49,815
Interest bearing loans and borrow ing	93,429	85,174	99,454	69,023
Bonds	10,250	10,250	-	40,000
Total liabilities	**118,223**	**163,352**	**168,816**	**158,838**
Equity attributable to equity holde	**111,917**	**142,039**	**143,661**	**148,514**
Minority interests	13,318	13,322	14,297	12,526
Equity	125,235	155,361	157,959	161,039
Total Liabilities and Equity	**243,458**	**318,713**	**326,775**	**319,877**

Sources: Company's financial statements and NBK Capital

YIACO MEDICAL COMPANY

Key Data

General		Liquidity	
KSE Code	YIACO	52-week avg. volume	645,455
Reuters Code	YIAC.KW	52-week avg. value	135,449
Price (KD)		**Price Performance**	
Closing Price	0.280	YTD	72.8%
52-week High/Low	0.285 / 0.154	1-Year Period	62.8%
Market Capitalization		**Outstanding Shares**	
Million KD	46.20	Latest (million)	165.00
Ownership Structure			
Closely Held: 17%		Public: 83%	

Price as of close on December 13, 2010 Sources: Zawya and NBK Capital

Stock Performance

Sources: Zawya and NBK Capital

Highlights

- The company released its earnings results for 9M2010; YIACO reported a net profit for the period of KD 3.12 million, an increase of 34% compared to KD 2.32 million in 9M2009.
- YIACO Medical Company's (YIACO) principal activities focus on importing and selling medical, chemical, and dental products and equipment.
- Kuwait Finance House owns 9.89% of YIACO, Al Nakhil United Real Estate Company owns 5.54%, and Al Safwa Investment Fund owns 5.00%; the balance is held by the general public.
- The company has shown consistent growth in its revenue stream; revenue grew at a compound annual growth rate (CAGR) of 17% between 2005 and 2009.
- YIACO's board of directors recommended the distribution of 5% (KD 0.005 per share) cash dividends for the fiscal year ending December 31, 2009. The company did not pay dividends for FY2008.
- Given the nature of YIACO's business, accounts receivable and inventories combined stood at around KD 36.7 million as of September 30, 2010, and accounted for the majority (61%) of total assets.
- As of September 30, 2010, the company continued to maintain a low debt-to-shareholders'-equity ratio, which stood at 0.6x. The company's current ratio increased slightly from 1.25x in December 31, 2009, to 1.34x in September 30, 2010.

Analyst

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Key Ratios

	2006	2007	2008	2009	9M2010
Gross Profit Margin (%)	25.1%	24.9%	27.2%	25.4%	21.2%
Operating Profit Margin (%)	5.1%	4.8%	5.6%	3.6%	5.9%
Net Profit Margin (%)	5.3%	4.7%	1.5%	2.0%	5.0%
ROAA	5.4%	5.1%	1.6%	2.6%	N/A
ROAE	12.2%	10.6%	3.5%	6.1%	N/A
Current Ratio (X)	1.35	1.35	1.32	1.25	1.34
Debt to Assets (X)	0.17	0.18	0.22	0.24	0.24
Debt to Equity (X)	0.37	0.37	0.51	0.60	0.57
Investment to Equity	36%	35%	31%	31%	29%
Receivables Turnover Ratio	3.36	2.97	3.43	3.74	N/A
Inventory Turnover Ratio	3.67	3.61	2.81	3.01	N/A
Payables Turnover Ratio	2.52	2.49	2.69	2.96	N/A

Sources: Company's financial statements and NBK Capital

Overview

YIACO was incorporated in Kuwait in 1952 as the sole marketing agent for numerous multinational, research-focused pharmaceutical manufacturers. The company was known as Yusuf Ibrahim Alghanim and Company until March 2002. YIACO's principal activities are importing and selling medical, chemical, and dental products and equipment.

The company has two key divisions: the pharmaceutical division and the medical, scientific, and dental division.

The pharmaceutical business encompasses four areas: Pharmacies, Skin Care, Animal Health, and Crop Protection Retail Pharmacies.

The medical, scientific, and dental division encompasses the Medical Projects, Scientific, Dental, Imaging, Physiotherapy, Rehabilitation and Home Health Care, Key Accounts, and Medical Furniture divisions.

YIACO currently acts as an envoy for diversified, multinational, research-based companies such as Abbott, Bayer GSK, Intervet, Schering, Pfizer, Merck, Roche, Phillips, and Johnson & Johnson. The company owns and provides health care services through the largest chain of pharmacies in Kuwait; YIACO also owns the Apollo Medical Center, the Canadian Medical Center, and the Adan Diagnostic Center.

YIACO was listed on the Kuwait Stock Exchange (KSE) in November 2007. During that year, as part of the company's expansion plans, YIACO acquired Al Raya Health Care Company and City Medical. YIACO operates mainly in Kuwait and Egypt. During 2008, YIACO significantly increased its representation on Al Salam Hospital's board of directors and, as a result, transferred its investment in that hospital from available for sale (AFS) to investment in associate.

Kuwait Finance House owns 9.89% of YIACO's shares, Al Nakhil United Real Estate Company owns 5.54%, and the general public holds the remaining shares.

Financial Statement Analysis

Income Statement

- In 9M2010, YIACO's revenue increased by 19% on a year-on-year (YoY) basis to KD 62.6 million. Pharmaceutical supplies, the major contributor to revenues (66%), grew by 23% YoY and stood at KD 41.3 million in 9M2010. The second-largest component, medical, scientific, and dental services, increased by 19% to reach KD 11.8 million in 9M2010. Furthermore, revenue from pharmacies and medical centers increased by 4% and 6%, respectively, to reach KD 5.1 million and KD 4.4 million, respectively.
- At 71%, administrative expenses constituted the largest component of total operational expenditures (OPEX) in 9M2010. This expense accounted for about 74% of OPEX in 9M2009.
- Operating income increased significantly (by 24%), from KD 2.96 million in 9M2009 to KD 3.68 million in 9M2010. Accordingly, the operating margin improved from 5.6% in 9M2009 to 5.9% in 9M2010. Results from associates also increased for the period, from KD 175 thousand in 9M2009 to KD 303 thousand in 9M2010, representing an increase of 74%.
- Both finance charges and management fees increased for the period; finance charges stood at KD 591 thousand compared to KD 529 thousand in 9M2009, while management fees increased by 51% from KD 150 thousand in 9M2009 to KD 227 in 9M2010. For FY2009, finance costs decreased by 10% following a 63% increase in 2008.
- Net profit attributable to equity holders stood at KD 3.1 million in 9M2010, an increase of 35% compared to KD 2.3 million in 9M2009.
- The company carries its investments at fair value through the income statement, and these include an equity securities fund. During 9M2010, the company recorded a KD 122 thousand gain versus a gain of KD 35 thousand in 9M2009. During FY2009, these investments dropped in value, resulting in an unrealized loss of KD 290,445 versus a larger unrealized loss of KD 735,718 in FY2008.

Balance Sheet

- Given the nature of YIACO's business, accounts receivable and inventories combined stood at around KD 36.7 million as of September 30, 2010, and accounted for the majority (61%) of the total assets.
- Cash and cash balances stood at KD 8.1 million as of September 30, 2010, significantly higher than the KD 3.9 million on June 30, 2010.
- Investments in associates and investments carried at fair value through the income statement together stood at around KD 7.2 million as of September 30, 2010, and accounted for the majority (98%) of YIACO's investments.
- As of September 30, 2010, current liabilities totaled KD 33.4 million, a marginal decrease from KD 33.6 on June 30, 2010. Accounts payable and accruals increased by a slight 1% since June 2010; however, short-term borrowing remained at the zero level.
- As of September 30, 2010, the company continued to maintain a low debt-to-shareholders'-equity ratio, which stood at 0.6x. The company's current ratio increased slightly from 1.25x in December 31, 2009, to 1.34x in September 30, 2010.

Financial Statements

Income Statement (KD '000)	2008	2009	9M2009	9M2010
Revenue	54,080	69,742	52,648	62,596
Cost of Sales	(39,348)	(52,059)	40,604	49,352
Gross Profit	**14,732**	**17,684**	**93,252**	**111,948**
Selling/Distribution/Admin. Exp.	(11,711)	(15,202)	9,373	10,072
Other operating income			292	512
Operating Income	**3,020**	**2,482**	**102,918**	**122,533**
Other Income	867	575	22	25
Share of results of associates	236	305	175	303
Realized Gain on Inv.	-	-	-	-
Unrealized loss/gain on inv.	(736)	(290)	35	122
Finance Cost	(767)	(693)	(529)	(591)
Management Fees	(44)	(92)	(150)	(227)
Impairment	(1,663)	(721)	-	-
Profit from discontinued operations	-	-	-	-
Profit before Tax	**913**	**1,566**	**102,470**	**122,165**
Income Taxes	(83)	(80)	(76)	(40)
Other Expenses	(38)	(79)	(119)	(159)
Profit for the Period	**792**	**1,408**	**102,275**	**121,967**
Minority Interest	(13)	(15)	(15)	(15)
Net Income	**779**	**1,392**	**102,260**	**121,952**

Balance Sheet (KD '000)	2007	2008	2009	Sep-10
Bank balances and cash	1,442	1,562	2,455	8,097
Accounts receivable and others	15,568	15,970	21,370	21,494
Inventories	11,701	16,264	18,351	15,251
Current Assets	**28,711**	**33,796**	**42,176**	**44,842**
Fixed-assets-PP&E	7,933	8,486	8,612	7,694
Intangible Assets	87	-	-	-
Other Non-Current Assets	823	431	360	246
Goodwill	135	-	-	-
Investment in associates	13	5,374	5,599	5,773
Investments carried at fair value	2,355	1,619	1,328	1,449
AFS investments	5,256	118	118	118
Total Non-Current Assets	**16,601**	**16,027**	**16,018**	**15,280**
Total Assets	**45,313**	**49,823**	**58,194**	**60,122**
Share Capital	15,000	16,500	16,500	16,500
Statutory reserve	1,954	2,035	2,182	2,182
Voluntary reserve	121	121	121	121
General Reserve	637	637	637	637
F/X Translation Reserve	109	80	174	119
Retained Earnings	4,083	3,280	3,307	5,458
Equity attributable to owners of the parent	**21,904**	**22,654**	**22,922**	**25,017**
Non-Controlling Interest	104	89	86	206
Total Equity	**22,008**	**22,743**	**23,008**	**25,223**
Borrowings	550	2,255	1	-
Accounts payable and accruals	14,225	15,068	20,150	19,260
Murabaha payable	5,706	2,516	13,512	14,102
Bank overdraft	865	5,695	-	-
Current Liabilities	**21,346**	**25,534**	**33,663**	**33,362**
Borrowings	-	-	-	3
Employees end-of-service benefits	932	510	1,176	1,238
Murabaha payable	1,027	1,036	346	299
Non-Current Liabilities	**1,959**	**1,546**	**1,522**	**1,537**
Total Liabilities	**23,305**	**27,080**	**35,186**	**34,899**
Total Liabilities and Equity	**45,313**	**49,823**	**58,194**	**60,122**

Sources: Company's financial statements and NBK Capital

Economic Statistics

- Credit slightly up in September but y/y growth remains weak
- Real estate off in Ramadan but should be back on trend
- Implementation of new budget and plan still awaited
- Inflation: temporary uptick in food inflation

National Bank of Kuwait

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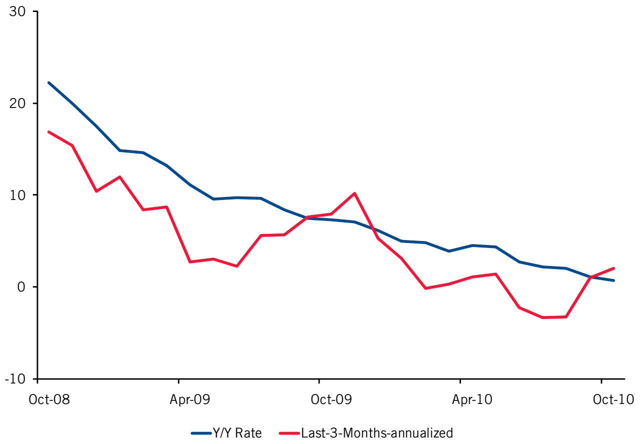
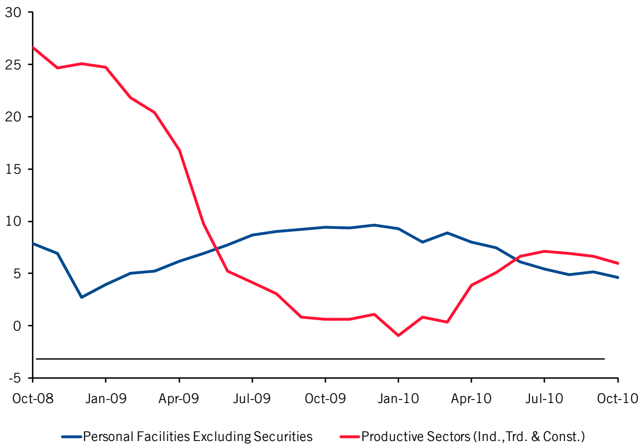
Total Bank Credit (%)



Credit: Credit growth seems to be stabilizing.

Consumer Credit vs Productive Sectors Credit (YoY%)

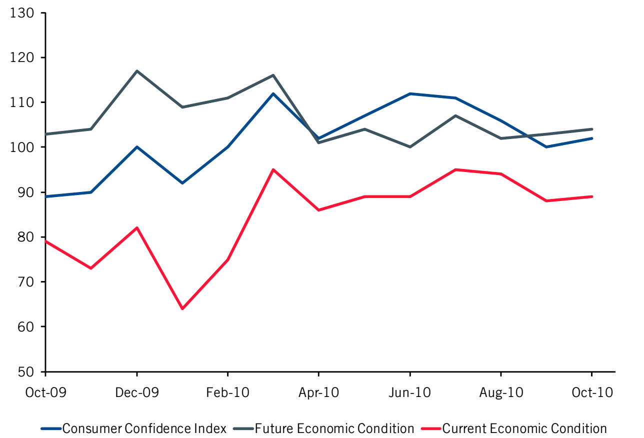


Credit: Household/consumer sector steady and rising. Loans to the industrial and trade sector record decent growth in past months

Total Deposits and M2 (YoY%)

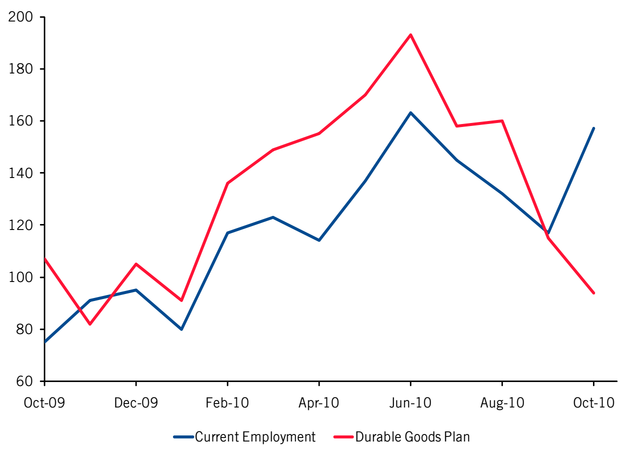
Deposits growth slows in line with weak credit growth

Consumer Confidence Index (ARA)



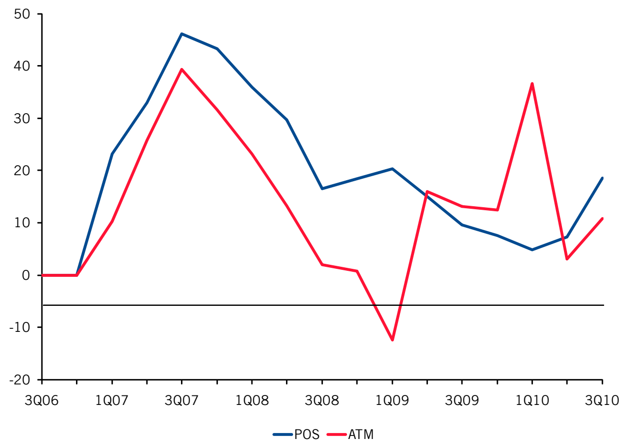
Consumer: Sentiment steady

Current Employment and Durable Goods Consumer Sentiment ARA



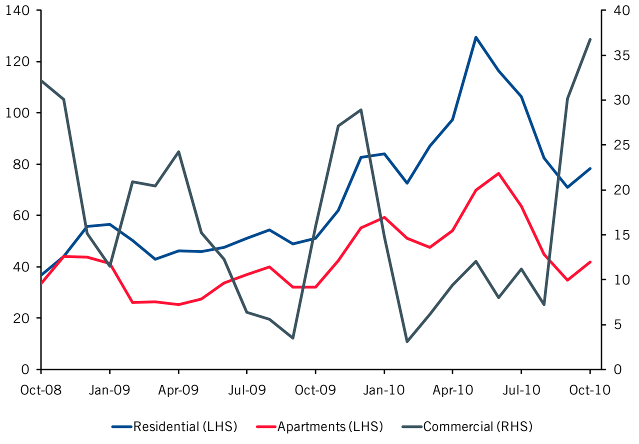
Consumer: Sentiment better on jobs

Value of Transactions (YoY%)



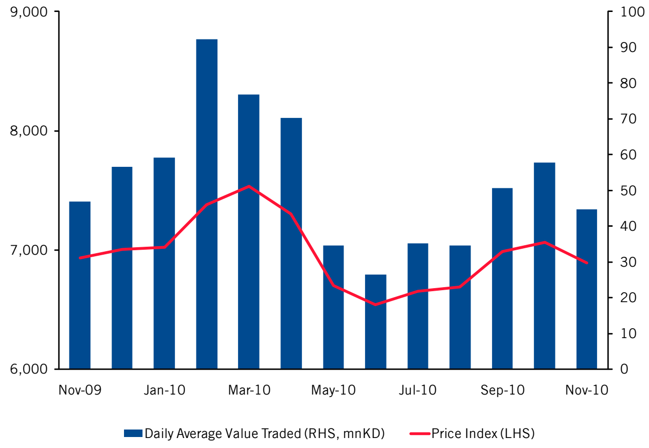
Consumer: Spending on track and steady

Real Estate Sales (3-mth average, KD million)



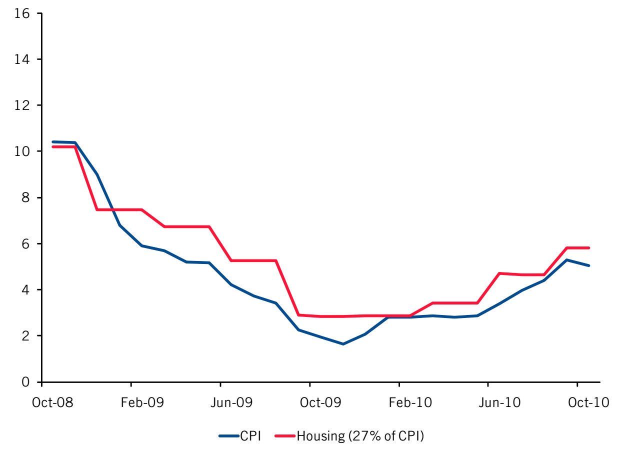
Real Estate: bounce in October less than expected, commercial strong in Sept/Oct.

Kuwait Stock Exchange



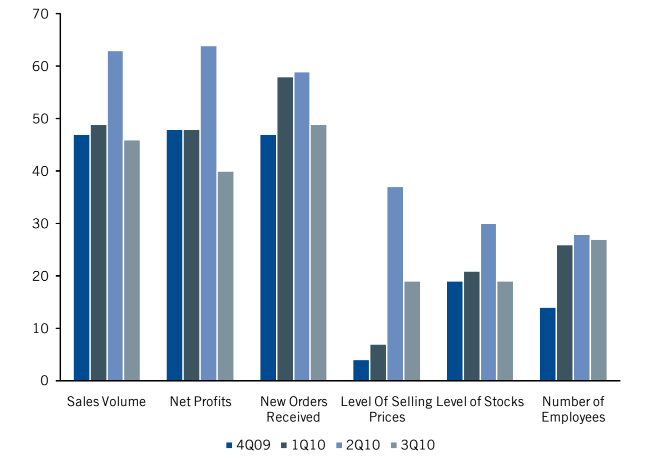
KSE: price index was down 2.4% in November

Consumer Price Index (YoY%)



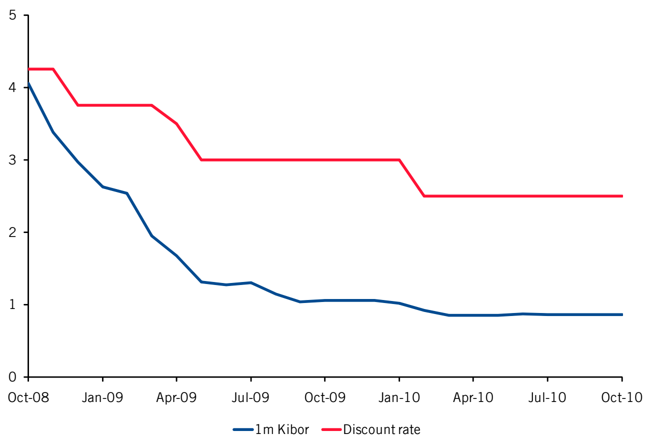
Inflation: CPI pressured by food inflation

Business Confidence Index (Dunn & Bradstreet)



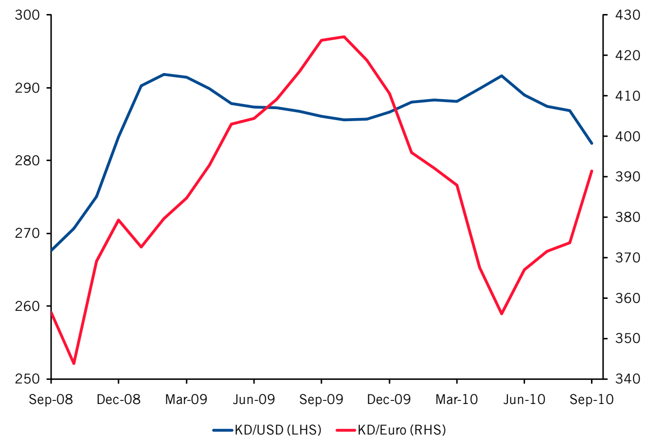
Business: Confidence dips a bit for 3Q10

Interest Rates (%)



Rates unchanged

FX Rates (fils)



KD: Dinar gains on Euro following European sovereign debt worries

Key Indicators	2007	2008	2009	2010F
Nominal GDP (KD billion)	32.6	39.8	31.1	35.0
Nominal GDP (growth, %)	10.6	22.1	-21.8	12.5
Oil (KD billion)	18.3	25.0	15.4	18.0
Oil (growth, %)	5.7	36.3	-38.4	17.2
Non-oil (KD billion)	14.3	14.8	15.7	17.0
Non-Oil (growth, %)	17.5	3.8	6.0	8.0
Real GDP at 2000 Prices (KD billion)	18.77	19.34	18.71	19.27
Real GDP (growth, %)	4.4	3.0	-3.3	3.0
Oil (KD billion)	7.78	7.91	7.12	7.22
Oil (growth, %)	-2.3	1.7	-10.0	1.4
Non-oil (KD billion)	10.98	11.42	11.58	12.05
Non-Oil (growth, %)	9.7	4.0	1.4	4.0
Consumer prices (Change, %)	5.5	10.6	4.0	4.2
Government balance (KD billion)	9.3	7.8	5.8	4.4
Government revenue (KD billion)	19.0	21.0	13.7	18.6
Oil revenue (KD billion)	17.7	19.7	12.5	17.9
Government expenditure (KD billion)	9.7	13.2	11.3	14.2
Population (million)	3.40	3.44	3.48	3.58
Population (growth, %)	6.8	1.2	1.3	2.7
Expatriates	2.35	2.35	2.37	2.41
Expatriates (growth, %)	14.7	0.4	0.5	2.0
Labor force (million)	2.09	2.09	2.09	2.18
Labor force (growth, %)	6.6	-0.2	0.2	4.0

Kuwait Market Statistics

- November Market Statistics

NBK Capital

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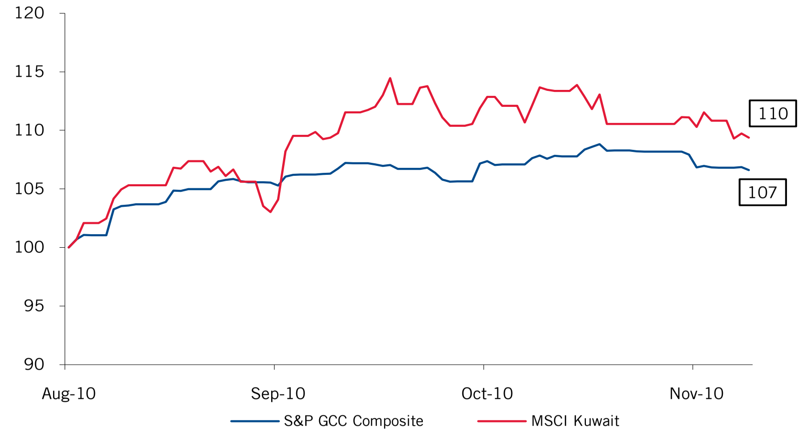
Rebased Performance



Summary

MSCI Kuwait (% Chg.)	693 (-1.2%)
% of stocks trading above 1yr avg. price*	23%
Advance/Decline Ratio*	0.09
52 week High / Low	715 / 516
KSE General Index (% Chg.)	6,891 (-2.4%)
KSE General Index 52 week High / Low	8,371 / 6,651
Market Cap. (KWD '000)	29,160,863

Best Performers

Best Performers	Close	% Chg.
United Real Estate Co.	0.108	30.1%
Alafco Aviation Lease and Fin. Co.	0.240	17.6%
Ahli United Bank - Kuwait	0.720	12.5%
Kuwait Medical Services Co.	0.120	9.1%
Commercial Facilities Co.	0.385	8.5%

Highest Turnover

Highest Turnover	Turnover (KWD)
Mobile Telecommunications Co.	6,191,656
National Bank of Kuwait	4,791,678
National Investments Company	2,219,167
Kuwait Invest Holding Co.	2,108,000
Kuwait Finance House	2,103,183

Worst Performers

Worst Performers	Close	% Chg.
Tamdeen Investment Co.	0.248	-29.1%
IFA Hotels & Resorts	0.450	-23.7%
Kuwait Invest Holding Co.	0.214	-2.7%
National Investments Company	0.420	-17.6%
Mena Holding	0.148	-15.9%

Quotes

Company Name	Close*	Monthly					52-Week		% Change			Market Cap. (KWD '000)	Trailing	
		% Chg.	High	Low	Avg. Turnover ('000)	Avg. volume ('000)	High	Low	on high	YTD	12 mths		PE*	PB*
ACICO Industries Company	0.355	-5.3%	0.375	0.350	23,362	65	0.471	0.319	-16.1%	6.5%	-11.8%	89,135	20.9	1.1
Advanced Technology Company	0.790	0.0%	0.790	0.790			0.760	0.417	0.0%	75.5%	44.8%	91,200	17.5	3.3
Agility	0.495	-8.3%	0.560	0.490	635,289	1,220	1.300	0.275	-66.5%	-23.7%	-62.5%	455,374	3.3	0.5
Ahli United Bank - Kuwait	0.720	12.5%	0.750	0.640	260,956	376	0.580	0.427	-6.9%	16.4%	21.3%	579,542	nmf	2.6
Al Ahleia Insurance Co.	0.480	-9.4%	0.530	0.480	27,275	56	0.485	0.400	-11.3%	-10.8%	-9.1%	73,922	9.1	1.0
Al Ahli Bank of Kuwait	0.660	0.0%	0.670	0.650	46,113	70	0.530	0.426	-3.8%	4.7%	11.1%	735,002	16.2	1.7
Al Safat Inv. Co.	0.070	-5.4%	0.078	0.066	571,470	7,764	0.160	0.072	-42.5%	-16.4%	-37.0%	71,114	nmf	0.6
Al Soor Fuel Marketing Co.	0.335	-4.3%	0.350	0.335	30,118	87	0.380	0.270	-14.5%	-7.1%	12.1%	97,445	17.4	2.5
Al Themar Intl. Holding Co.	0.102	-3.8%	0.106	0.102	9,350	180	0.130	0.100	-16.9%	-16.9%	0.0%	109,350	nmf	1.1
Alafco Aviation Lease and Fin. Co.	0.240	17.6%	0.244	0.204	1,474,411	6,431	0.214	0.158	-10.3%	-3.0%	1.6%	142,587	16.1	1.4
AREF Energy Holding Co.	0.176	2.3%	0.180	0.168	23,714	134	0.300	0.174	-42.0%	-25.6%	-30.4%	130,500	nmf	1.7
Boubyan Bank	0.630	1.6%	0.640	0.610	732,072	1,170	0.580	0.361	-10.3%	23.8%	26.2%	909,122	nmf	4.3
Boubyan Petrochemical Co.	0.530	-3.6%	0.560	0.530	650,511	1,197	0.570	0.380	-7.0%	29.3%	21.8%	257,103	23.1	1.2
Burgan Bank	0.530	1.9%	0.540	0.520	739,106	1,404	0.388	0.294	-11.1%	8.5%	2.4%	483,459	nmf	1.5
Burgan Co. for Well Drilling	0.490	0.0%	0.490	0.490	24,500	50	0.620	0.450	-27.4%	-22.4%	-18.0%	94,331	17.0	1.8
City Group Company	0.530	-11.7%	0.600	0.530	3,700	7	0.670	0.522	0.0%	10.0%	10.0%	75,715	nmf	2.9
Coast Inv. and Dev. Co.	0.118	-11.9%	0.146	0.118	670,411	5,018	0.194	0.095	-34.0%	10.3%	10.3%	80,038	17.7	1.4
Combined Grp Contracting Co.	1.960	6.5%	2.000	1.840	72,981	38	1.800	1.018	-2.2%	44.5%	51.2%	154,609	20.1	4.5
Commercial Bank of Kuwait	0.910	2.2%	0.920	0.890	97,794	108	1.000	0.710	-10.0%	-3.2%	-10.0%	1,144,820	nmf	2.6
Commercial Facilities Co.	0.385	8.5%	0.390	0.355	175,488	468	0.345	0.285	-10.1%	-7.5%	3.3%	166,397	7.1	1.1
Contracting and Marine Services Co.	0.390	-18.8%	0.480	0.390	31,275	73	0.518	0.364	-21.8%	-5.2%	18.8%	80,175	26.6	1.9

Price as of close on November 30, 2010. Sources: Reuters, Zawya, and NBK Capital

Company Name	Close*	Monthly					52-Week		% Change			Market Cap. (KWD '000)	Trailing	
		% Chg.	High	Low	Avg. Turnover ('000)	Avg. volume ('000)	High	Low	on high	YTD	12 mths		PE*	PB*
Credit Rating and Collection Co.	0.345	-13.8%	0.400	0.345	5,400	15	0.400	0.400	0.0%	-4.8%	-4.8%	66,000	nmf	3.3
Global Investment House	0.051	-12.1%	0.062	0.051	233,994	3,944	0.128	0.048	-46.9%	-31.3%	-47.7%	89,245	nmf	0.6
Gulf Bank	0.520	-3.7%	0.540	0.510	789,794	1,503	0.450	0.270	-2.2%	46.7%	41.9%	1,103,389	nmf	2.8
Gulf Cable and Electrical Industries Co.	1.980	-2.0%	2.240	1.940	284,639	137	1.980	1.260	-5.1%	16.0%	44.6%	394,671	nmf	1.8
Gulf Insurance Co.	0.610	-1.6%	0.620	0.610	32,740	53	0.475	0.385	-11.6%	-5.6%	-11.6%	71,253	16.4	1.0
Heavy Eng. Industries & Shipbuilding Co.	0.340	-10.5%	0.380	0.340	8,529	23	0.555	0.364	-22.5%	-5.5%	19.8%	70,298	16.7	2.9
IFA Hotels & Resorts	0.450	-23.7%	0.590	0.450	787,155	1,523	0.770	0.430	-37.7%	-22.6%	-30.5%	217,863	nmf	3.3
Ikarus Petroleum Industries Co.	0.140	0.0%	0.146	0.134	95,800	670	0.170	0.104	-20.0%	15.3%	13.3%	102,000	18.6	0.8
Independent Petroleum Grp.	0.440	-2.2%	0.455	0.440	14,733	33	0.465	0.415	-4.3%	3.5%	1.1%	67,751	11.1	1.0
International Finance Co.	0.265	-1.9%	0.270	0.265	25,800	100	0.285	0.242	-1.8%	5.7%	12.9%	130,400	nmf	1.6
Jazeera Airways	0.061	-14.1%	0.072	0.061	890,456	12,776	0.285	0.104	-60.7%	-41.1%	-46.7%	24,640	nmf	1.6
KIPCO Asset Management Co.	0.325	-15.6%	0.385	0.305	43,555	132	0.500	0.315	-34.0%	-18.5%	-32.7%	86,890	12.6	1.0
Kuwait Cement Co.	0.700	-1.4%	0.710	0.660	42,541	62	0.733	0.476	-7.2%	27.6%	32.3%	412,958	15.4	2.6
Kuwait Finance House	1.180	-1.7%	1.220	1.180	2,103,183	1,766	1.241	0.930	-16.2%	2.1%	-9.4%	2,589,447	23.5	2.2
Kuwait Food Co.	1.560	-7.1%	1.700	1.520	291,620	178	1.840	1.200	-13.0%	9.6%	21.2%	643,203	13.7	2.1
Kuwait Foundry Co.	0.750	-1.3%	0.770	0.740	9,940	13	1.109	0.655	-29.7%	14.4%	-3.6%	94,474	12.9	1.7
Kuwait International Bank	0.330	3.1%	0.345	0.310	1,841,289	5,689	0.265	0.170	-10.2%	30.8%	-4.8%	246,884	nmf	1.4
Kuwait Invest Holding Co.	0.214	-2.7%	0.220	0.214	2,108,000	9,820	0.290	0.180	-37.9%	-26.8%	-22.4%	58,889	nmf	1.3
Kuwait Medical Services Co.	0.120	9.1%	0.120	0.110	2,400	20	0.375	0.076	-77.3%	-43.3%	0.0%	64,875	nmf	5.4
Kuwait National Cinema Co.	0.830	-1.2%	0.840	0.790	26,250	33	0.910	0.660	-22.0%	-17.4%	-11.3%	71,754	17.9	1.6
Kuwait Pipe Industries & Oil Services Co.	0.280	-6.7%	0.320	0.260	504,500	1,721	0.390	0.160	-19.2%	75.0%	87.5%	70,979	17.4	2.0
Kuwait Portland Cement Co.	1.700	4.9%	1.760	1.620	436,611	254	1.560	0.600	-7.7%	82.3%	140.0%	119,002	7.2	1.7
Kuwait Projects Co. (Holding)	0.455	-7.1%	0.490	0.450	283,306	598	0.514	0.300	-34.8%	-27.5%	-33.7%	406,124	9.7	0.8
Livestock Transport & Trading Co.	0.295	-6.3%	0.315	0.295	23,700	80	0.375	0.270	-13.3%	-1.5%	-12.2%	70,392	20.0	1.4
Mabanee Co.	0.810	-3.6%	0.890	0.790	895,365	1,071	0.710	0.540	-4.2%	6.9%	2.4%	343,478	21.8	3.0
Mena Holding	0.148	-15.9%	0.176	0.142	539,039	3,427	0.491	0.156	-58.5%	-34.0%	-45.9%	134,640	19.7	0.9
Mobile Telecommunications Co.	1.420	4.4%	1.500	1.360	6,191,656	4,305	1.560	0.880	-23.1%	17.6%	-4.8%	5,130,220	28.0	2.2
National Bank of Kuwait	1.280	-5.9%	1.400	1.280	4,791,678	3,612	1.260	0.891	-3.2%	19.8%	10.0%	3,990,434	14.0	2.1
National Industries Co.	0.385	0.0%	0.385	0.375	6,367	17	0.420	0.285	-27.4%	-27.4%	3.4%	105,541	16.6	1.4
National Industries Grp. Holding	0.340	-10.5%	0.385	0.340	432,283	1,178	0.495	0.226	-40.4%	-3.3%	-36.6%	382,054	21.1	0.9
National Investments Company	0.420	-17.6%	0.560	0.405	2,219,167	4,541	0.690	0.260	-50.0%	-5.5%	16.9%	302,294	nmf	1.5
Wataniya	1.860	0.0%	1.960	1.860	136,256	72	1.880	1.380	-2.1%	19.5%	9.5%	927,420	8.5	2.0
National Real Estate Co.	0.168	0.0%	0.174	0.164	61,994	364	0.345	0.114	-51.9%	-16.2%	-43.7%	135,156	4.6	0.5
Oula Fuel Marketing Co.	0.345	-2.8%	0.355	0.345	17,769	51	0.540	0.280	-38.0%	-22.1%	15.5%	100,408	28.4	2.5
Qurain Petrochemicals Industries Co.	0.202	-15.1%	0.238	0.200	221,494	1,031	0.214	0.156	-10.3%	4.3%	5.5%	211,200	nmf	1.1
Salhia Real Estate Co.	0.265	6.9%	0.270	0.248	38,950	149	0.270	0.194	-12.6%	7.3%	21.6%	95,015	9.8	0.8
Sultan Center Food Products Co.	0.190	-3.1%	0.196	0.190	13,715	71	0.285	0.140	-31.2%	-7.5%	-23.1%	92,613	26.5	0.9
Tamdeen Investment Co.	0.248	-29.1%	0.350	0.248	405,167	1,344	0.435	0.120	-20.7%	146.4%	153.7%	95,114	30.7	1.1
Tamdeen Real Estate Co.	0.265	-10.2%	0.295	0.265	248,367	876	0.370	0.250	-16.2%	3.3%	8.8%	115,667	31.6	1.1
The Commercial Real Estate Co.	0.079	-3.7%	0.082	0.079	108,778	1,351	0.131	0.071	-30.5%	-18.8%	-26.0%	166,968	11.3	0.7
The Investment Dar Co.	0.000	0.0%	0.000	0.000	-	-	-	-	0.0%	0.0%	0.0%	70,607	0.5	0.2
The Securities House	0.130	0.0%	0.130	0.130	-	-	0.180	0.100	-27.8%	-16.7%	-24.4%	88,400	nmf	1.4
United Real Estate Co.	0.108	30.1%	0.108	0.083	580,689	5,942	0.089	0.070	-12.4%	-2.5%	-7.1%	61,462	16.2	0.4

Price as of close on November 30, 2010. Sources: Reuters, Zawya, and NBK Capital

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