RESEARCH

GCC FIRST REACTION REPORT

Mabanee Company SAK (MAKB.KW)

July 02, 2009

Key Data

Listing	Kuwait Stock Exchange
CMP (KWD)	0.730
YTD Change (%)	36.19
52-week High/Low (KWD)	1.655 / 0.364
Mkt. Capitalization (KWD million)	333.78
Basic EPS (in fils)	11.49
Adj. BV (KWD)	0.22
P/E	17.47
P/BV	3.27
Div. Yield (%)	-

Source: Zawya

Price History

Financial Summary

(KWD million)	1Q09	1Q08	*% chg*
Investment Properties Revenue	8.85	8.85	*0.0*
Investment Properties Expenses	1.59	0.89	*78.9*
Finance Costs	1.78	1.25	*42.1*
Net (Loss)/ Gain from Financial Investments	-0.44	5.62	-
General & Administrative Expenses	-0.39	-0.31	*25.4*
Net Profit	4.78	11.22	*-57.4*
Share Capital	41.75	41.75	*0.0*
Retained Earnings	41.40	42.93	*-3.6*
Shareholders' Equity	102.15	104.87	*-2.6*
Cash and Bank balance	19.92	4.65	*328.5*
Property, Plant and Equipment	15.93	40.08	*-60.2*
Total Assets	226.21	218.93	*3.3*
Adj EPS (KWD)*	0.042	0.098	-
ROE (%)*	18.70	42.80	-
ROA (%)*	8.45	20.50	-
NPM (%)	53.94	126.74	-

*Annualised

For the first quarter ended March 31, 2009, Mabanee Company (Mabanee) registered a sharp decline of 57.4% in profits that reached KWD 4.78 million from KWD 11.22 million in the same quarter a year ago, as its revenues remained stagnant, it recorded losses from financial investments and expenses increased. Hurt by a massive slump in regional realty market, the company's investment properties revenues remained flat at KWD 8.85 million, while its investment properties expenses soared 78.9% to KWD 1.59 million from KWD 0.89 million in 1Q09. As a result, gross profit declined 8.8% to KWD 7.26 million from KWD 7.96 million in 1Q08. Meanwhile, the depreciation and finance costs increased 49.6% and 42.1% to KWD 0.75 million and KWD 1.78 million in 1Q09, denting the company's profit from operations by 23.7% to KWD 4.74 million from KWD 6.21 million in 1Q08. Its bottom-line was pressured by KWD 0.44 million loss from financing activities (against a gain of KWD 5.62 million in 1Q08) and a 25.4% rise in general & administrative expenses. Consequently, margins shrank considerably with gross profit margin and net profit margin plunging 792 bps and 7,280 bps to 82.0% and 53.9%, respectively.

During the period under review, the property, plant and equipment value fell 60.2% to KWD 15.93 million from KWD 40.08 million in 1Q08 due to which total asset-base registered a sluggish growth of 3.3% to KWD 226.21 million. On the other hand, its investment properties increased 44.5% to KWD 144.70 million and cash and bank balance multiplied over four-fold to KWD 19.92 million from KWD 4.65 million in the same period a year ago. During 1Q09, shareholders' equity declined 2.6% to KWD 102.15 million hurt by a 3.6% decline in retained earnings (KWD 41.40 million) and fair value reserves of negative KWD 0.35 million. Therefore, during 1Q09, the company's annualized RoE and RoA plummeted 2,410 bps and 1,206 bps to 18.7% and 8.5%, respectively.

Company Profile

Mabanee Company (S.A.K. Closed) formerly known as Kuwait Building & Construction Co. (KBCC) was established in 1964 and is headquartered in Safat. It has three main business lines: Real Estate, Investment and Construction. On November 17, 1999, the firm was listed on the Kuwait Stock Exchange (KSE) and presently is the largest real estate company by market capitalization on the bourse. The company and its subsidiaries (together referred to as 'the Group') specializes in construction using pre-cast concrete systems, fabrication and erection of steel items and construction of buildings, show rooms, markets and commercial complexes. The company also own, sells, manages and invests in real estate activities and surplus funds are invested in portfolios managed by specialized firms.

Industry Overview and Recent Developments

Global crisis stalled economic boom across the GCC. As the oil prices dropped, the real estate market began to feel the pinch and the trend worsened over the past year. The real estate markets in the Gulf region are under severe pressure, given the tight liquidity, lesser demand, and loss of consumer confidence. In addition, the demand for residential properties in the region was hit hard due to layoffs by majority of the companies in the Gulf, which created an over-supply. However, according to Moody's Investors Service, Saudi Arabia will survive the prevailing tough real estate market this year, due to the high demand for residential property.

On the other hand, the Dubai and Doha property markets remain the most affected as it has recorded steep declines in property prices, and has in turn slowed down the pace of construction activities. Meanwhile, industry experts believe that further real estate regulations, tighter controls on developers and a more conversant investor is improving market conditions and a full recovery is expected by 2011. Qatar, Abu Dhabi and Kuwait are leading this recovery.

Restriction on ownership of land by foreign investors in Kuwait is acting as a hindrance for an expanding economy and reducing competitiveness. Experts believe that lack of availability of land in Kuwait is mainly due to the fact that majority of it is held under concession by state oil company, Kuwait Petroleum Corporation (KPC). Furthermore, as per the World Investment Report 2008 by the United Nations, despite its oil wealth and strategic location, Kuwait attracted only USD 123 million as foreign direct investments, one of the lowest in the Middle East. Interestingly, in the country's existing environment, where everything is taken care by the government which rides on oil wealth amassed over the years, reduces the dependence on foreign capital for development. However, in October 2008, the Kuwaiti Cabinet proposed to open its property sector to GCC nationals, which is awaiting approval from the Parliament. Apart from the impact of the global financial meltdown, the country's real estate sector was largely affected by the Laws 8 and 9 for the year 2008, which prevent companies from doing business in the residential sector and also bars banks from offering finance for residential real estate market. The country's real estate sales slumped by more than 35% in February 2009, declining continuously for eleven consecutive months.

However, the market is expected to bounce back strongly with the signs of recovery in oil prices and a turnaround in the stock market. Also, courts exempting Islamic banks from constrictions of Law 8 and 9, enabling them to resume funding for residential real estate market again, is a trigger for recovery in the local property sector. According to the National Bank of Kuwait, in April 2009, domestic real estate transactions totaled KWD 96.7 million, up 8% over the previous month. The commercial sector soared 51% and sales of apartments rose 13%, while residential sales dropped by 8%.

Amidst all this, in May 2009, Mabanee revealed plans to implement the third phase of its 'The Avenues' project with a total cost of KWD 250 million. Presently, the company is in the process of obtaining permits for the project that will be executed in two stages. The project is scheduled for completion in 2011.

Concerns

Due to the on-going global and regional economic slow down and the resultant contraction in demand and lending constrains, the developers are finding it hard to arrange for financing options to complete its scheduled projects. This would lead to a fall in development and sale of properties hitting hard on their bottom-line in the future. In addition, the huge margins that the developers were earning from land sales will also come under pressure mainly on account of fall in demand.

Outlook

Hurt by the ongoing global economic chaos, Mabanee's core income growth remained subdued in the first quarter of this year. Also, its investment income that forms a major income stream booked a loss of KWD 0.44 million, which depressed the bottom-line significantly in 1Q09. Meanwhile, the company's recent reliance on short-term debt funds to finance its projects, have substantially increased the financial leverage and has pressured margins. Total borrowings increased 24.1% to KWD 97.23 million, of these short-term borrowings accounted KWD 81.51 million registering a growth of 94.5%. This theme of rising operating costs and higher finance costs is expected to continue at least in the medium-term, as Mabanee plans to develop the last phase of the Avenues project, billed at KWD 250 million.

On the other hand, the current situation across regional markets is improving with the Kuwait Stock Exchange registering a return of 3.5% since the beginning of this year. During 1Q08, Mabanee's available for sale investments accounted for nearly 10% of total balance sheet size. Therefore, supported by turnaround in the regional markets, the company may witness improvement in this income segment in the near future. In addition, Moody's Investor Services rated Kuwait's economic strength as 'Very High'. The agency affirmed the country's 'Aa2' local and foreign currency government bond ratings in June 2009 but with a 'Negative' outlook.

Presently, Mabanee's stock is trading at a P/E multiple of 17.47x and a P/B of 3.27x. The company's price climbed 36.2% this year, while the KSE Index rose 3.5% from the beginning of this year. Considering the above factors and the uninspiring first quarter figures, we maintain our cautious outlook on the stock and therefore reiterate our NEUTRAL opinion on the stock.

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