



Alert on 2013 Financials and 2014 Outlook

Sector: Real Estate
Country: Lebanon
Date: August 19, 2014
Recommendation: HOLD

Share Price (USD): 12.79
Target Price (USD): 13.31
Upside: 4.1%
Fair Value (USD): 15.87
Risk: Medium

Maintaining a Hold on Solidere with a fair value of USD 15.87 but a lower 6-month target price of USD 13.31 due to company's struggle amidst the deteriorating investment climate

Revenues Improve on Last Minute Deals in 2013

Solidere's revenues came in at \$155 million in 2013, 40% above 2012 revenues and above our estimates of \$116 million. Land sales particularly drove the surge generating proceeds of \$95 million against \$50 million in the previous year. Solidere managed to sell 3 plots, one in the waterfront area and 2 in the traditional areas at the regular price ranges of \$3000-4500/sqm. Revenues from rented properties stood at \$52 million, posting a 5% decrease compared to 2012, following the company's preferential deals offered to rentees. As for revenues from services, they reached \$8 million compared to \$7 million a year earlier.

Net Income Boosted by Slashed SG&A

Net income reached \$40 million in 2013 thanks to the company's control of its general and administrative expenses. Provisions against doubtful debt have however squeezed around \$23 million of net income.

Rental Expected to Lift Revenues in 2014

As political uncertainty persists in Lebanon, we don't expect land sales' revenues in 2014 to beat last year's results. In addition, no negotiations were made public yet despite being well in the second half of the year. Meanwhile, we expect rental revenues to be slightly boosted by the Cineplex operations. The latter is run by Solidere through a joint venture with 2 other operators, against a minimum rent and a 40% share of profits. We welcome the company repositioning itself to hedge against the volatility of land sales by diversifying its rental income and controlling expenses. However, profits will continue to depend in the short term on a revived investment sentiment, and might benefit from fewer operational expenses and provisions.

Medium and Long Term Plans Postponed until Situation Clears

The company postponed some investments and new projects (such as the Office Block) until further notice, thereby relieving their associated expenses. Solidere is now following a cash preservation policy, focusing on infrastructure works in the traditional area and the department stores.

Land Bank remains deeply undervalued

Solidere's land bank remains its strongest asset, worth around \$7.5 billion based on the recent transactions prices. The company's share is currently trading above its book value of USD11.74. However, at the current share price, investors would be valuing Solidere's land bank at around USD1000/sqm, which is a deep discount to the land's current market value. We believe that if the tense security situation in Lebanon and the region subsides, the company's share price will quickly regain territory.

Maintaining a HOLD Rating on Continuing Uncertainty in Lebanon

For the time being, Solidere's repositioning to focus on immediate priorities and postpone investment-demanding projects was necessary in light of the penalized investment sentiment in the MENA. This has narrowed future cash flows and foregone additional income that were included in our previous forecasts, leading the share's fair value to decrease from USD 16.10 to USD 15.87. As for the 6-month target price, we used a discount rate of 18% to reflect the weight of reigning uncertainty in the country. As such, the 6-month target price would be USD 13.31. We believe that if the uncertainty regarding the political status of Lebanon unfolds, Solidere's share price will rise back to its fair value as the unknown risks' premium would be waived. On a side note, and in line with its current cash preservation policy, the company will abstain from paying dividends in 2013, similar to 2012, in order to retain profits.

Share Data

Bloomberg Symbol	SOLDA.LB
Reuters Symbol	SOLA.BY
Market Cap	2,046,400,000
Number of Shares	165,000,000
Free Float	97%
Price-to-Earnings 2013	51.16
Price-to-Book 2013	1.10

Share Performance



1 Month Return	5.18%
3 Month Return	-0.76%
6 Month Return	3.01%
12 Month Return	15.68%
52 Week Range	10.53 - 14.14

Performance and Forecasts

Contact Information:

Head of Equities: Maya Mantach
maya.mantach@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Year	2011	2012	2013	2014e	2015f	2016f
Revenues (USD millions)	297	111	155	135	175	236
Net Income (USD millions)	162	16	40	24	60	103
EPS (USD)	1.04	0.10	0.25	0.15	0.37	0.63
BVPS (USD)	11.96	11.48	11.74	11.10	10.29	9.93
ROA	5.2%	0.5%	1.2%	0.7%	2.0%	3.5%
ROE	8.7%	0.9%	2.2%	1.2%	3.5%	6.3%

Source: Solidere, Blominvest

FINANCIALS & VALUATION

Year	2011	2012	2013	2014e	2015f	2016f
Profit & Loss Summary						
Revenue (USDm)	297	111	155	135	175	236
Revenue Growth (%)	-22.3	-62.6	39.6	-12.9	29.3	35.0
Gross Profit (USDm)	231	75	112	89	118	166
Gross Margin (%)	77.8	67.6	72.3	65.7	67.4	70.3
Net Profit (USDm)	162	16	40	24	60	103
Profit Margin (%)	54.5	14.4	25.8	18.1	34.4	43.6
Net Profit Growth (%)	-17.3	-90.1	150.0	-39.0	146.4	71.0
Earnings Per Share (USD)	1.04	0.10	0.25	0.15	0.37	0.63
Price-to-Earnings (Forward P/E)	12.54	130.20	52.08	85.37	34.86	20.63
Balance Sheet Summary (USDm)						
Cash & Cash Balances	165	149	165	140	141	166
Accounts & Notes Receivables	551	546	435	412	349	330
Inventory of Land & Real Estate	1,132	1,208	1,143	1,079	985	868
Investment Properties	445	437	565	605	667	729
Other Assets	392	405	476	448	428	444
Total Assets	2,685	2,745	2,784	2,683	2,569	2,537
Total Liabilities	819	908	905	907	912	919
Book Value Per Share (USD)	11.96	11.48	11.74	11.10	10.29	9.93
Price-to-book Value	1.09	1.13	1.11	1.17	1.26	1.31
Profitability						
ROA (%)	5.2	0.5	1.2	0.8	1.9	3.4
ROE (%)	8.7	0.9	2.2	1.3	3.5	6.3
Liquidity						
Cash / Current Liabilities	0.21	0.17	0.21	0.18	0.17	0.20
Current Assets / Current Liabilities	0.99	0.86	0.94	0.86	0.76	0.76
Net Working Capital / Current Assets	(0.01)	(0.16)	(0.06)	(0.16)	(0.31)	(0.31)
Comparables (using FY 2013)						
	Valuation		Management Effectiveness (%)			
	P/E	P/BV		ROA.	ROE	
Solidere	51.2	1.1		1.2	2.2	
Average of Peers	40.1	3.5		7.4	13.1	
Valuation						
	USDm		USD/shr			
Value from Sales of Traditional Land	408		2.6			
Value from Sales of Reclaimed Land	1,764		11.0			
Value from Rentals	250		1.6			
Book Value of Solidere International	287		1.8			
Book Value of Non-Operating Assets	789		4.9			
Total Liabilities	(905)		(5.7)			
Value Loss from General & Admin.	(203)		(1.3)			
Tax Effect	(261)		(1.6)			
Target Price	2,130		13.3			

2013 Financial Review

2013 Revenues Improve on New Sales, Backlog Unchanged

During 2013, three deals were sealed and immediately recognized as revenues on Solidere's balance sheets. No other contracts were reported as backlog leaving the latter unchanged for the second year at around \$39 million. The three lands sold generated proceeds of \$95 million, a good advance over 2012's sole sale of \$55 million. Although this improvement can be attributed to marginally improved investor's sentiment, it is less likely to be sustained during 2014, with no deals closed despite being well into the 7th month of the year.

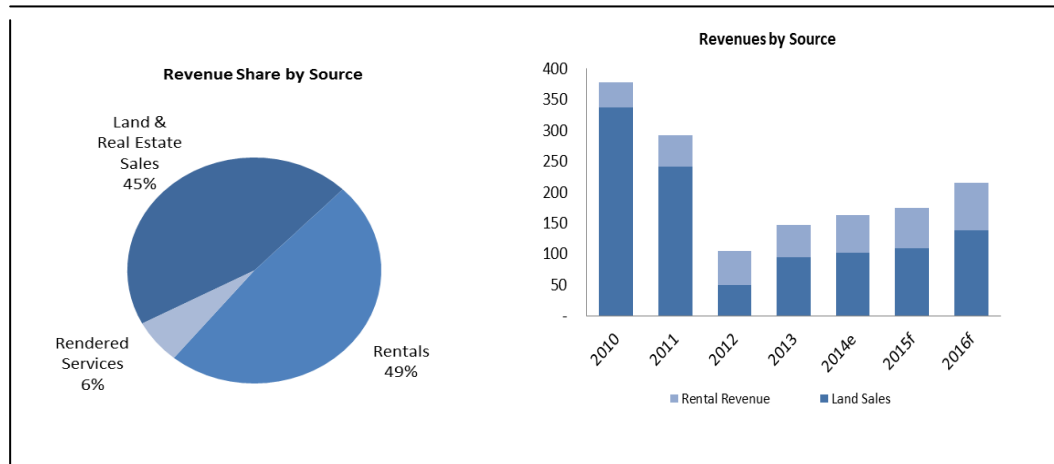
The reported transactions in 2013 involved 2 lands in the traditional area, equivalent to about 20,200 sqm BUA at an average selling price of \$3000-3100, and one land in the waterfront area, equivalent to 9,500 sqm of BUA at the price of \$4500/sqm. These sales confirm land prices remaining near last years' range, and the management communicated with us that the company will uphold its selling prices for the time being at their current levels, although flexible payment and terms are being offered.

	2012 (in USDm)	2013 (in USDm)
Revenues from Land Sales	50	95
Rental Revenues	54	52
Rendered Services	7	8
Total Revenues	111	155

Source: Solidere

2014 Revenues to Remain Pressured by Deteriorating Security Climate in the Region

For 2014, despite a marginally revived interest from investors and a noted urgency to finalize deals according to Solidere's management, we expect revenues from land sales to be in line with the previous year if not lower. Revenues will continue to be pressured by the scarcity of deals pulling through as the region's attractiveness continues to be compromised by the proliferating internal wars in many bordering countries to Lebanon. The rule of uncertainty is especially hurting the real estate investors, as unknown risks are hard to mitigate.



Source: Solidere, Blominvest

Valuable Land Bank Retains Promising Prospects

Solidere still holds a very attractive land bank. The waterfront area dominates Solidere's remaining land bank with a built up area of 1.42 million sqm, while the remaining part of the traditional area is equivalent to 0.38 million sqm. The value of the unsold area therefore stands near \$7.6 billion. To note that the FFA independently valued the company's assets at \$8.9 billion in 2013, the two main components being the above lands at \$7.2 billion and the leased spaces at \$1.5 billion.

Type of Land	Size (million sqm)	Remaining (million sqm)	Estimated Price/sqm in USD	Estimated Value In billion USD
Traditional	2.3	0.38	3,000	1.14
Reclaimed	1.7	1.42	4,500	6.39
Total	4.0	1.8		7.53

Source: Solidere, Blominvest

2013 Rental Portfolio Accommodates Flexible Terms

Solidere revenues from rented spaces totaled \$52 million in 2013, down from \$54 million in the previous year, and below our estimates of \$55 million. This was the result of flexible terms offered by the company to its rentees to endure the current circumstances and support their businesses. The company's strategy still aims at enhancing its portfolio of rental to hedge against its dependency on volatile land sales, as well as to maintain a steady income stream.

2014 Rental Income to Jump Back on Cineplex Revenues

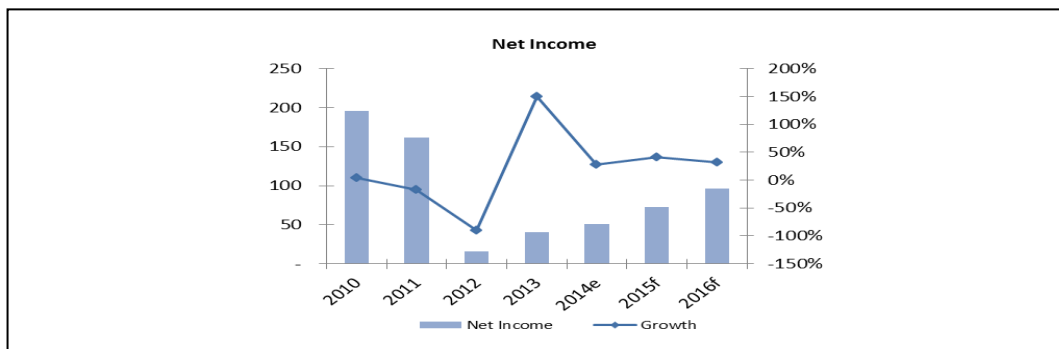
For 2014, we expect rental revenues to improve to around \$55 million, backed by revenues from the Cineplex which was fully operational by December 2013. Meanwhile, the status-quo will keep the need for flexible rental terms pressuring the company's gross margins. To note that Solidere is also acting as an operating manager for the Cineplex, alongside 2 other major operators.

Net Income Rises on Improved Sales and Slashed SG&A

Solidere's net income of \$40 million was well above our expectations of \$22 million and 2012's level of \$16 million. The company managed a welcomed slash in its administrative expenses during 2013, bringing them down to 2009's levels at \$28 million, and therefore saving \$6 million compared to 2012. The company intends to further lower its expenses especially as related expenses to delayed projects will be cancelled.

However, 2013's net income was squeezed by provisions of \$23 million. A provision of \$15 million was allocated against the company's investment in a hospitality company operating several restaurants in Beirut, and \$8 million was taken against doubtful receivables from previous sales.

We forecast earnings in 2014 to be slightly lower than 2013 at \$24 million, with a noticeable improvement in later years, unless land sales advance in the coming months.



Source: Solidere, Blominvest

Future Plans Postponed

Solidere reconsidered its future plans in light of the deteriorating investment climate. The department stores which were expected to start mid-2014 were delayed till end of 2015. As for the Grand Theater and the Mixed-Use office Block, previously scheduled to open in 2015, they were postponed until further notice, foregoing expectations of \$12 million in rental income.

The company's priorities for the time being are to finish the infrastructure in the reclaimed area (the waterfront) as well as the souks. With plans rethought and revenues down to land sales and current rentals, we share the company's vision to sustain its selling prices, although the negotiable leeway has widened.

2014 Forecasts

Going forward and based on the management's guidance, we expect sales to remain near their historic lows, although they are less likely to return to 2012's low point of \$111 million, until the uncertain environment concludes with a defined scenario, and investor sentiment is revived. Therefore, we estimate 2014 revenues to be around \$135 million.

As for rentals, our forecasts are based on the Cineplex entry into operation while accounting for the delayed launching of the department stores.

We also expect earnings to be positive at \$24 million, although slightly lower than 2013's, based on fewer land sales but boosted by additional rental income and fewer operational expenses and provisions.

VALUATION

Fair value declines over our 2013 valuation on postponed medium and long term projects

We estimate the fair value of Solidere's share at USD 15.87 valuing the company's operating assets at market value using a discounted cash flow model (DCF) and the non-operating assets at Book Value. This results in a 1.4% decline over our valuation last year of USD 16.10 after revising sale forecasts for an extended down short-term period and postponed medium and long-term projects. We note that the discount rate used for this valuation remains at 15% which represents a fair required return for investing in a Lebanese stock under normal circumstances.

Key assumptions used in our valuation are as follows:

- Solidere's entire land bank is depleted over a 10 year period
- Sale prices at both the traditional and reclaimed areas remain are priced at the most recent transaction (USD 3,000 per sqm in the traditional area and USD 4,500 per sqm in the reclaimed land)
- Sale prices following 2015 grow at a constant rate of 2%.
- Rental prices grow at a constant rate of 3% annually with gross margins estimated at 65%.

Target price reflects additional risk premium associated with political void and regional spillovers

We estimate Solidere's 6-month target price at USD 13.31, which represents a 4.1% premium over the recent closing price of USD 12.79 per share. The latter has positively leaped on Prime Minister hariri's comeback to Lebanon last week. All the valuation assumptions are the same as those used in determining the stock's fair value with the exception of the discount rate. We used a discount rate of 18% to account for the additional risk premium required by investors for gaining exposure to a Lebanese stock especially during the current political void and the continuing spillovers from Syria. While the fair value represents an extremely attractive opportunity, we only expect the stock to reach it when a positive advance is achieved on the political front in Lebanon or when the situation in Syria finds a closure. We therefore issue a HOLD recommendation based on the more realistic 6-month target price of USD 13.31.

Valuation Component	6-month Target Price		Fair Value	
	USD million	USD per share	USD million	USD per share
Market Value of Operating Assets in Beirut				
Value from Sales of Traditional Land	408	2.6	462	2.9
Value from Sales of Reclaimed Land	1,764	11.0	2,141	13.4
Value from Rental	250	1.6	324	2.0
Book Value of Solidere International				
Investment in Associates	287	1.8	287	1.8
Book Value of Non Operating Assets				
Cash & Cash Balances	165	1.0	165	1.0
Prepayments & Other Debit Balances	56	0.4	56	0.4
Accounts & Notes Receivables	435	2.7	435	2.7
Investments in Securities	81	0.5	81	0.5
Fixed Assets	52	0.3	52	0.3
Total Liabilities	(905)	(5.7)	(905)	(5.7)
General & Administrative Value Loss	(203)	(1.3)	(244)	(1.5)
Tax Effect	(261)	(1.6)	(315)	(2)
Fair Value	2,130	13.31	2,540	15.87

Source: Blominvest

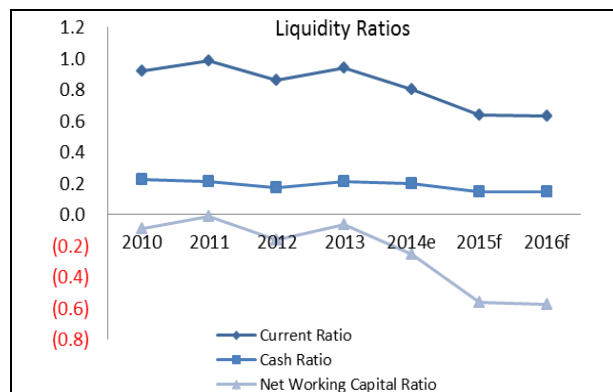
A 15% discount rate is used in determining Solidere's fair value

A 18% discount rate is used in determining Solidere's 6-month target price

BALANCE SHEET HIGHLIGHTS

Securitization to Relax operating Cash Flows

The company's liquidity remains good with a cash balance of \$165 million by the end of 2013. The securitization deal of \$185 million worth of receivables during the year has also enhanced the company's standing. Solidere's receivables are considerable at \$435 million, but the company is considering further securitization to release cash and invest in CAPEX. The securitization will relax the company's operating cycle especially the receivables turnover which has deteriorated since 2012 as well as compensate for its expected low operating cash flows.

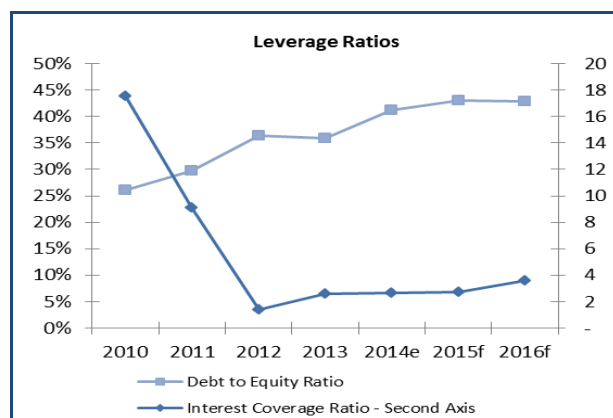


Source: Solidere, Blominvest

Leverage Unchanged

As the securitization deal ensured the company with cash, bank debt levels were maintained almost unchanged ending 2013 at \$673 million compared to \$668 in December 2012, i.e at a leverage ratio of 36%. Worth mentioning that the company only intends to continue its infrastructure plans in the waterfront area and the souks. This should reduce its need for cash flow to support its investments. Meanwhile, as Solidere is not considering increasing its debt levels further, we expect recourse to cash or further securitization to support its investments.

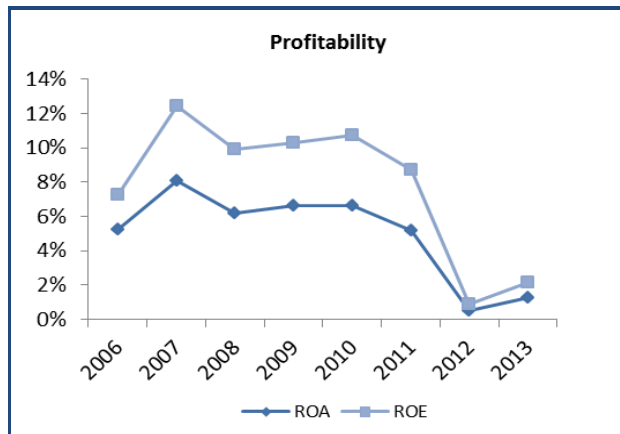
As for interest coverage, the company's interest expenses surged to \$31 million in 2013 from \$26 million in the previous year, indicating the increase of interest rates charged by banks on Solidere's accounts. The company operating income of \$80 million was amply enough to cover for its expenses, although in the previous year, it barely exceeded its dues by \$6 million. On the other hand, Solidere's cash base continues to generate good interest income, although the latter decreased during 2013 from \$29 million to \$19 million. If the company proceeds with its securitization plans, this source is expected to further decline.



Source: Solidere, Blominvest

Profitability Indicators Remain Low

Both ROA and ROE plunged to 1% in 2013 following the low earnings levels. A recovery in land sales remains critical to bring these ratios in line with regional developers.



Source: Solidere, Blominvest

PROJECTED INCOME STATEMENT

<i>In USD million</i>	2011	2012	2013	2014e	2015f	2016f
Revenues from Land & Real Estate Sales	242	50	95	72	109	157
Revenues from Rented Properties	50	54	52	56	58	71
Revenues from Rendered Services	5	7	8	8	8	8
Cost of Land & Real Estate Sales	(39)	(7)	(19)	(15)	(24)	(32)
Charges on Rented Properties	(22)	(25)	(21)	(25)	(26)	(31)
Cost of Rendered Services	(6)	(8)	(7)	(7)	(7)	(7)
Gain/(Loss) on Sale of Invest. Properties	1	4	4	-	-	-
Net Revenues from Operations	231	75	112	89	118	166
Share Result from an Associate	-	-	-	-	-	1
General & Admin. Expenses	(35)	(34)	(28)	(29)	(29)	(30)
Depreciation of Fixed Assets	(5)	(5)	(4)	(6)	(6)	(6)
Provision for Impairment		(10)	(15)	(10)		
Provision for Doubtful Receivables	-	(8)	(2)	(3)	-	-
Other Income (Expense)	(4)	1	(5)	(2)	-	-
Interest Income	24	29	19	21	20	20
Interest Expense	(21)	(26)	(31)	(32)	(33)	(33)
Profit Before Tax	187	18	46	28	69	118
Income Tax Expense	(25)	(2)	(6)	(4)	(9)	(15)
Profit for the Year	162	16	40	24	60	103

Source: Solidere Financials, Blominvest Estimates

PROJECTED BALANCE SHEET

<i>In USD million</i>	2011	2012	2013	2014e	2015f	2016f
Assets						
Cash & Cash Balances	165	149	165	140	142	167
Prepayments & Other Debit	44	56	56	57	58	60
Accounts & Notes Receivables	551	546	435	419	354	333
Investment in Securities	0	0	81	70	71	84
Inventory of Land & Projects	1,132	1,208	1,143	1,079	985	868
Investment Properties	445	437	565	605	667	729
Investments in Associates	299	295	287	265	240	240
Fixed Assets	49	54	52	57	60	62
Total Assets	2,685	2,745	2,784	2,692	2,577	2,544
Liabilities						
Bank Overdraft & Short Term	505	630	550	554	557	543
Accounts Payable	130	102	111	115	128	149
Dividends Payable	84	79	66	70	68	65
Deferred Revenue & Credit Balances	50	59	55	48	62	83
Bank Loans	50	38	123	123	100	80
Total Liabilities	819	908	905	910	915	921
Total Equity	1,866	1,837	1,879	1,782	1,662	1,623
Total Liabilities & Equity	2,685	2,745	2,784	2,802	2,577	2,513

Source: Solidere Financials, Blominvest Estimates

BLOMINVEST BANK s.a.l

Research Department
 Verdun, Rachid Karamah Street
 POBOX 11-1540 Riad El Soloh
 Beirut 1107 2080 Lebanon

Tel: +961 1 747 802
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
 +961 1 743 300 Ext: 1234

Maya Mantach, Head of Equities
maya.mantach@blominvestbank.com
 +961 1 743 300 Ext: 1240

Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%

Accumulate: Fair Value higher than Market Price by 10% to 20%

Hold: Fair Value ranges between -5% to +10% in relation to Market Price

Reduce: Fair Value lower than Market Price by 5% to 15%

Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

IMPORTANT DISCLAIMER

This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

Blom Bank SAL or Blom Invest SAL can have investment banking and other business relationships with the companies covered by our research. We may seek investment banking or other business from the covered companies referred to in this research.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice. The price and value of the investments referred to in this research and the income from them may fluctuate.

Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Copyright 2013 BLOM Invest SAL.

No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of Blom Invest SAL.