



Solidere releases unaudited H1 2014 Results:

Revenues of \$37 million and no land sales declared yet

Company Loss of \$1.7million and Consolidated Profits of \$628k

Share Price:	USD 11.99
Target Price:	USD 13.31
Bloomberg / Reuters Symbol:	SOLDA.LB/ SOLA.BY

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Solidere' s Year Proves Tough on the Back of Security Complications

The first half of 2014 came with no surprises on Solidere' s financial statements as the company has not sold any land so far in 2014. The deteriorating political and economic environment in Lebanon took its toll on the Real estate sector, weighing down on investment appetite and dwindling both foreign direct investment in the country and foreign participation in real estate transactions.

Solidere' s revenues came in line with our estimates on the level of rental income which totaled \$27million in the first half, and revenues from rendered services which reached \$3million. However, revenues from land sales were limited to \$6million and were the result of additional BUA added to some previously sold lands. While Solidere usually recognizes its sales towards the end of the year, there hasn' t been any sign of concluded sales up until now.

The company recorded a loss of \$1.7 million in the first half of 2014, and gross margins on rents and rendered services slightly deteriorated. Solidere' s SG&A reached \$17million over the 6 months period, and interest expenses amounted to \$16 million. Losses were smoothed by a write back of \$2million of provisions and a higher interest income of \$10 million.

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Liquidity Tightens Further

On the company' s balance sheets, total assets decreased by 0.5% since December 2013 and the change was mainly driven by the decrease of cash from \$165 million to \$148 million by June 30, 2014. On the other side, liabilities decreased by 1.33% on \$10 million on lower bank debts in addition to fewer payable accounts. Equity also decreased by 0.16% to \$1,876 million.

Consolidated Results Post Profits thanks to Solidere International

On the group level, Solidere' s unaudited consolidated results showed profits of \$628k, boosted by Solidere International LTD performance. The latter contributed with \$10.9 million to the group' s profits in the first half of 2014, while the rest of the associates recorded a joint loss of \$2million.

For the record, Solidere' s consolidated results include Solidere Management Services SAL, Solidere Management services (offshore), Solidere international Holdings SAL, and BHC Holding and its subsidiaries.

Our Recommendation

While Solidere' s standing has historically relied on the company' s revenues from land sales, this dependence continues to be costly in these times of uncertainty and threatens the company' s liquidity. However, we believe the company' s considerable portfolio sustains its long-term value, and we expect Solidere' share price to regain investors' confidence once a political improvement is achieved, as a success on this front would partly waive the reigning uncertainty in Lebanon.

To note that the major bulk of Solidere' s remaining inventory is concentrated in the waterfront area, where about 1.42 million sqm are available for sale, while about 38,000 sqm are still available in the traditional area.

Except for land sales, the company' s results are still in line with our estimates which were based on forecasted cash flows from delayed sales. Hence we maintain our target price unchanged at \$13.31, although we believe this price will be difficult to achieve before year end if the current political deadlock persists, especially that the company hasn' t been able to recognize any sales during the first 10 months of 2014.

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Income Statement Summary

	2011	2012	2013	H1 2014
Revenue (USDm)	297	111	155	37
Revenue Growth (%)	-22.3	-62.6	39.6	-77
Gross Profit (USDm)	231	75	112	22
Gross Margin (%)	77.8	67.6	72.3	61.1
Net Profit (USDm)	162	16	40	-1.7
Profit Margin (%)	54.5	14.4	25.8	-2.8
Net Profit Growth (%)	-17.3	-90.1	150.0	-102.5

Balance Sheet Summary

(USDm)	2011	2012	2013	30/6/2014
Cash & Cash Balances	165	149	165	148
Accounts & Notes Receivables	551	546	435	438
Inventory of Land & Real Estate	1,132	1,208	1,143	1,153
Investment Properties	445	437	565	563
Other Assets	392	405	476	468
Total Assets	2,685	2,745	2,784	2,770
Total Liabilities	819	908	905	893
Book Value Per Share (USD)	11.96	11.48	11.74	11.73
Price-to-Book Value	1.07	1.11	1.09	1.02

Source: Solidere

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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,

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