

KAMCO Research

June 2008

The Commercial Real Estate Co. Equity Research Report



KAMCO **إي كيو كيه**
إدارة الأصول | Asset Management
خدمات مالية | Financial Services

KAMCO Recommendation Scale:

- ***Strong Buy***
- ***Buy***
- ***Hold***
- ***Sell***

Our Recommendation Indicates:

Strong Buy: the stock is undervalued by more than 15% of our Estimated Fair Value.

Buy: the stock is undervalued within the range of 5-15% below our Estimated Fair Value.

Hold: the stock is fairly valued in the market and has a potential to appreciate up to 5%.

Sell: the stock is currently overvalued relative to our Estimated Fair Value.

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The Commercial Real Estate Co.

June 2008

Kuwait Real Estate Sector

Initiating Coverage

Recommendation: Strong Buy

Reuters Codes: CRCK.KW

Current Price: KD 0.230

Fair Value: KD 0.323

Key Financial Facts (KD '000)

	Mar-07	Mar-08		Mar-07	Mar-08
Total Assets	328,165	346,122	Return on Assets *	7.75	12.50
Non-Current Assets	234,880	289,173	Return on Equity*	12.37	18.70
Total Debt	83,747	87,654	Return on Capital*	8.79	13.56
Total Equity	205,739	231,350	Avg. Cost of Debt*	4.95	7.68
Total Operating Income	7,412	5,011	Net Profit Margin*	86.78	93.84
Net Profits	6,672	5,282	Debt/ Equity	40.71	37.89

* Trailing Twelve Months (TTM) up to March of each year

Share Data 22-05-2008

Current Price (KD)	0.230	Fair Value / Share (KD)	0.323
Shares Issued ('000)	1,602	Market Cap. (KD million)	368.6
52-Week High (KD)	0.305	52-Week Low (KD)	0.228
Turnover 52-Week (%)	0.499	TTM (Mar-08) P/E Multiple (x)	7.4

Highlights

- The Commercial Real Estate Co. (CRC) achieved a net profit of KD 44.65 million, higher by 25.3% as of FY-07 compared to the previous year. Net profit as of 1Q-08 stood at KD 5.28 million compared to KD 6.67 million as of 1Q-07.
- Total Assets stood at KD 346 million as of end 1Q-08, a shade higher by 5% compared to KD 328 million as of end 1Q-07.
- Key profitability ratio's; ROE, ROA and ROC are healthy at 12.5%, 18.7% and 13.6% respectively as of 1Q-08.
- We value CRC at KD 0.323 per share. The stock currently trades at a 29% discount to fair value translating into a 'Strong Buy' rating based on KAMCO's recommendation scale.

Valuation Snapshot

Our DCF model indicated a value of KD 0.248 per share, while the relative valuation technique using the peer group average P/E and P/B multiples for the Kuwait real estate sector resulted in a fair value of KD 0.509 and KD 0.360 respectively. We used a weighted average of the above valuation models, giving a 60% weight to the DCF-FCFE method, 20% to each of the P/E and P/B models to arrive at an estimated fair value of **KD 0.323** per share. CRC is now trading at a 29% discount to our fair value estimate indicating a **Strong Buy**.

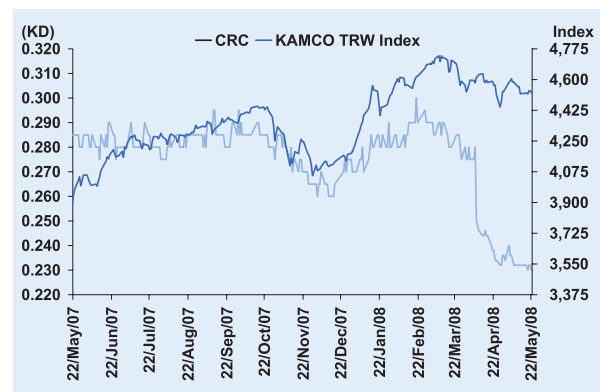


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Investment Highlights

The Commercial Real Estate Co. (CRC) or "Al Tijaria" was established in 1968. CRC is a Sharia-compliant real estate investment, development and management company headquartered in Kuwait with operations spread across Saudi Arabia, Bahrain United Arab Emirates and Morocco.

CRC is a key player in the real estate sector spread across the Gulf region

CRC was listed on the Kuwait Stock Exchange in December 2004. The company's share capital as of end 1Q-08 stands at KD 145.69 million. Subsequent to the 10% stock dividends for 2007, the enhanced share capital will be KD 160.2 million. The current market capitalization of the company stands at KD 369 million. CRC's major shareholders are KIIC (9.18%), Wedyan Real Estate Company (8.41%), Al Sahel Development and Investment Company (7.59%) and Kuwait Financial Center clients (5.29%).

Listed on the KSE since December 2004

CRC has been in business over the last forty years and is one of the oldest institutions with rich experience and tremendous brand equity in the region and lists amongst the top notch real estate companies. The company's core business is in real estate development both residential and commercial properties in Kuwait. Over the years, CRC has also diversified into property management and development including project design through strategic partnerships. In 2006, Euro money bestowed and awarded CRC as the Best Company in Property Development in the Housing Sector in the GCC.

Strong track record, vast experience and powerful brand equity

The company's core business model is fundamentally driven by value creation through development of real estate properties that are capable of producing sustainable income and earnings stream. CRC does this on its own or through joint ventures and associates. Furthermore, this strategy is complemented with the large land bank portfolio it has developed over the last four decades and other strategic financial investments. Apart from real estate activities, CRC has also diversified across business sectors such as education, medicine and healthcare.

A sustainable and diversified business model

CRC generates revenues through multiple ways - (a) Regular rental income and cash flows from properties (b) cash dividends from associate companies and other investments (c) CRC's share of earnings from investment in associate companies (d) Ad-hoc sale of parcels of land (asset disposals) (e) sale of stakes in associate companies and (f) hotel revenues and other operating revenues.

Multiple sources of revenue thereby de-risking the operations

The company has completed projects (reflected as investments properties at fair value in the financial statements) in excess of KD 114 million and projects in progress worth KD 56 million. As of 2007, CRC's completed projects included 23 rental yielding residential complexes and 14 rental yielding commercial complexes. Other completed projects include properties in entertainment sector and Rester Hotel.

Good mix of residential and commercial properties

CRC has four local projects under development which are expected to be complete during the period 2008-2010. Two of the land mark real estate projects include the iconic - Kuwait Trade Centre and The Symphony Hotel Complex (Radisson brand). The total cost of these two projects is estimated at close to KD 70 million. These prestigious projects are expected to be complete by the end of this year and going forward are expected to more than triple the current rental income. The third project - Joman Garden Residential Project with an estimated cost of close to KD 15 million is expected to be complete by mid 2009 and generate an annual income of KD 1 million. The fourth project - Roba Residential Complex with an estimated cost of close to KD 9 million is expected to be complete by the first quarter of 2010 and also expected to generate an annual income of KD 1 million.

Clear visibility of earnings stream from the high yielding projects due for completion in 2008 and beyond

From an macroeconomic perspective, given the robust growth in GDP over the last few years driven by sustained high oil prices, government spending in developing infrastructure and focus on capital formation, abundant liquidity in the banking system, rapid growth in credit, we believe all of these augur extremely well for the real estate sector and we think CRC is ideally positioned to capitalize from these opportunities.

Macroeconomic landscape conducive to real estate sector and CRC's growth prospects

Capital Intelligence, a well known rating agency has rated CRC with BBB+ (Investment grade) based on the company's strong and liquid balance sheet, consistent and sharp improvement in profitability since 2003 and sustained in subsequent years

Investment grade rating

CRC's total operating income increased at a compounded annual growth rate (CAGR) of 15% from KD 27.8 million to KD 48.5 million during 2003-07 while net profit also grew at 16% from KD 24.88 million to KD 44.6 million. During the same period, total assets grew from KD 245 million to KD 337.5 million registering an 8.3% compounded growth annually.

Respectable growth rates in operating income and net profit over the period 2003-07

During 2007, the company's profit from investment properties which mainly comprise net real estate income and change in fair value of investment properties sharply rose to KD 26.8 million, higher by 141% compared to KD 11.1 million in 2006. This huge growth is attributed to a change in fair value from KD 5.9 million (2006) to KD 20.6 million (2007) and a 9% increase in net real estate income from KD 5.23 million to KD 5.7 million. During the same period, profit from land and real estate held for trading more than doubled from KD 6 million to KD 13.99 million. Consequently, total operating income grew from KD 27.2 million to KD 48.5 million, a growth of 78%. Furthermore, CRC's share of associate companies also sharply rose from KD 2.9 million to KD 7.6 million, higher by 162%. General and Administrative expenses and Finance charges represent the two key expense items and they were also significantly higher by 35% and 79% respectively in line with growing operations and higher borrowings. Accordingly, net profit in 2007 reached KD 44.65 million, up by 25% compared to KD 35.6 million in the previous year.

Net profit in 2007 driven by higher net real estate income, change in fair value gains, profit from land and real estate trading, share of associates results and forex income

In line with the growth in earnings over the last few years, CRC's key profitability ratios - Return on Assets (RoA), Return on Equity (RoE) and Return on Capital (RoC) have steadily increased during the period 2003-07. RoA increased from 10.15% to 13.23%, RoE is up from 11.9% to 19.8% while RoC increased from 10.6% to 14.3%.

Healthy profitability ratios

CRC's growth in assets is mainly funded by borrowings both short term and long term. Accordingly, the debt to equity has increased from 12.3% (2003) to around 38% in 2007. We think, the debt to equity levels is still moderate and not overleveraged and the company can fund its future projects with additional borrowings.

Debt to equity at comfortable levels

We believe CRC is very shareholder friendly reflected in its consistently increasing cash dividends from 6 Fils per share in 2002 to 14 Fils per share in 2007. Also during the year 2006 and 2007, the company issued stock dividends of 8% and 10% respectively.

Consistent increase in cash dividends since 2002

Going forward, CRC's profitability will be driven mainly by - (a) rental income increasing by more than 3 times the current levels from the four projects discussed above (b) Change in fair value gains once the projects are completed (currently carried at cost) will be transferred to investment properties and reflected at full value (c) profits from sale of parcels of land and real estate held for trading (d) profits from available for sale investments and (e) CRC's share in associate companies results. We forecast net profits at KD 73.8 million in 2008, KD 53 million each during 2009 and 2010 and at around KD 46-48 million during 2011 and 2012.

Our outlook on CRC's growth in profitability remains positive

We value CRC at KD 0.323 per share based on the combination of DCF model and relative valuation techniques. CRC is now trading at a steep discount of 29% to our fair value estimate. Furthermore, CRC is available at a very cheap forward PE multiple of 5x based on the current price of KD 0.230 and forecasted EPS (2008) of KD 0.046. We think an expected earnings growth of 65% in 2008 deserves a much higher PE multiple. Also, the cash dividend yield (based on 2007 dividends) is extremely attractive at 6%. We think the downside to the stock price from these levels is very limited. We recommend a '**Strong Buy**' on CRC.

Attractive valuations, steep discount to fair value - We recommend a 'Strong Buy' on CRC

Company Profile

The Commercial Real Estate Co. (CRC), also known as "Al Tijaria" was established in 1968. CRC is a Sharia-compliant real estate investment, development and management company. Since its inception, CRC has grown as one of the largest and oldest real estate companies in Kuwait with current operations across the Gulf; Saudi Arabia, Bahrain, United Arab of Emirates, and Morocco. The company was listed on the Kuwaiti Stock Exchange (KSE) on 21 December 2004. The share capital of the company stands KD 160.2 million.

CRC was established in 1968...

The company's main objectives are performing various real estate, agricultural, industrial and commercial activities, carrying out contracting, road and construction of buildings, including sale, purchase and lease of land and real estate property, and establishing real estate funds and portfolios including management of its own and for third parties.

...with main objectives of performing various real estate and development activities

Since 2002, CRC has gradually diversified into different sectors, starting with the tourism sector by acquiring Kuwait Resorts Co. which primarily manages the Hilton Kuwait Resort (listed in KSE during June 2007). CRC further acquired the Rester Resort formerly known as Safir Al Dana Hotel and Beach and went on and established the Al Areen Real Estate Co. and Al Mutajara Real Estate Co. as its real estate development and investment arms. It also established Al Shifa Co. a company specialized in the ownership and management of medical clinics, centers and hospitals.

CRC diversified into the tourism, health...

The company has also invested in the educational services sector by joining forces with the International Integrated Educational Services Co. which is licensed for establishing and operating an integral college that implements the Australian educational system. In addition to its real estate activities, CRC also manages a portfolio of funds that focus on the real estate sector. These funds include the Real Estate Center Fund, Al Dar Real Estate Fund, Real Estate investments portfolio of the Kuwait Public Transport, Commercial Islamic Fund, and Al Markaz Real Estate Fund.

...and educational sectors.

Table 1. CRC Subsidiaries and Associates

Investments	Ownership	KD	Ownership	KD	Country
Subsidiaries	2006	2006	2007	2007	
Al Areen Real Estate Co.	100.00%		100.00%		Kuwait
Al Shifa Co. for Medical Care	100.00%		100.00%		Kuwait
Al-Motagarah Real Estate Co.	100.00%		-		
Associates					
Industrial & Financial Investment Co.	18.23%	12,968,327	18.53%	14,270,534	Kuwait
Kuwait Commercial Market Complex	18.36%	10,571,615	18.56%	12,317,263	Kuwait
Kuwait Resort Co.	32.70%	8,737,552	32.71%	9,409,208	Kuwait
Al-Motagarah Real Estate Co.	-	-	44.00%	9,920,533	Kuwait
Al Maqam Tower Co.	40.00%	6,075,545	40.00%	6,181,328	Kuwait
Kuwait Central Laundries	21.00%	105,000	23.55%	471,708	Kuwait
Hajar Tower Co.	-	-	20.00%	3,774,548	Kuwait
Al Tijaria Venture Real Estate Co.	-	-	20.00%	1,487,232	Bahrain
Afkar Holding Co.	-	-	20.00%	3,300,000	Bahrain
Mozon Holding Co.	-	-	25.00%	720,783	Morocco
Arab Ready Mix Concrete Center	49.56%	362,335	49.56%	-	Kuwait
		38,820,374		61,852,511	

Source: KAMCO Research, CRC.

Among associate companies:

- Industrial and Financial Investments Company (IFIC) is also a shareholder in CRC. This cross-holding is recorded as strategic investment in CRC's books providing regular dividend income. IFIC's current market capitalization stands at KD 81 million and is listed on the Kuwait Stock Exchange.
- Kuwait Commercial Market Complex (KCMCC) specializes in renting, leasing, maintaining commercial and residential properties in Kuwait. As a key player in the Build-Operate-Transfer (BOT) projects, KCMCC is a strategic business partner for CRC. KCMCCs current market capitalization stands at KD 92 million and is listed on the Kuwait Stock Exchange.
- Kuwait Resort Company (KRC) operates the Hilton Holiday Resort in Kuwait. Earlier, KRC was a subsidiary of CRC, but was partially divested in 2006 and now is an associate company (32.7% stake). This partial stake sale in KRC resulted in a gain of KD 14 million to CRC in 2006.
- Al-Motagarah owns 20% of the Symphony project. It is an asset and cash rich company with no major liabilities or borrowings.

- Abraj Bait Project (Al Maqam Tower) is a company established as a strategic partnership to construct and lease / sell one of the seven towers of the prestigious Al Bait project in KSA.
- Abraj Bait Project (Al Hajer Tower) is a separate entity established to construct and lease / sell one of the other seven towers of the prestigious Al Bait project.
- Afkar Holding Company and Al Tijaria Venture Estates are located in Bahrain and CRC holds a 20% in each of these entities.
- The other associate companies are created for the operation of specific projects or to achieve strategic diversification of investments. In all project entities and associates, CRC holds a significant share and it has a board representation to steer the success and profitability of these companies.

Projects

By the end of the first quarter of 2008, CRC has completed projects (reflected as investments properties at fair value in the financial statements) in excess of KD 114 million and projects in progress worth KD 56 million. CRC's completed projects included 23 rental yielding residential complexes and 14 rental yielding commercial complexes. Some of these major projects include:

CRC completed projects...

- The Dome entertainment project situated on the costal road in Abu Halifa district and spreads over an area of 9,897.5 square meters.
- Al Shorouq Towers are two commercial office buildings alongside Jaber Al-Mubarak Street in Sharq area.
- Al Bodour Tower is located at Ahmad Al-Jaber street in Sharq on a total plot area of 315 square meters.
- Al-Manar Residential Complex located in Bneid Al-Gar area, overlooking the gulf street (occupation rate is full).
- Hilton Kuwait Resort; is a leisure facility with a five star rating and situated in the coastline of Kuwait.

The company also has ongoing projects in progress worth KD 56 million including:

CRC ongoing projects in progress...

- Kuwait Trade Center (KTC) is at the heart of the city on Al-Sour street with 41 floors overlooking Al-Sour gardens. The project is expected to be complete in December 2008.
- The Symphony Hotel Complex consists of two towers; a 20 floor tourist hotel and a 12 floor office tower located in Salmiya district

covering a total area of 11,749 square meters. The project is expected to be complete in September 2008.

- Juman Garden Residential Complex is located on a 7,950 square meter plot facing the Fahaheel Express Road in Mahboula consisting of two buildings each with 12 floors and is expected to be complete in June 2009.
- Ruba Residential Complex is a residential building located in Mahboula with an area of 5,373 square meter adjacent to the Fahaheel Express Road and is expected to be complete in March 2010.
- X-Zone Project is an entertainment project located in Abu-Halifa district facing the coastal road with a plot area of 5,940 square meter.
- Al Bait Towers Project-Hajer & Al Maqam Towers (Saudi Arabia) located on the sanctuary squares and few steps away from the Kaaba. Hajer Tower is formed of 31 floors, 10 floors of which are occupied by Movenpick Hotel. Maqam Tower comprises 45 floors.
- Kuwait International Tennis Complex a modern project in the Middle East covering an area of up to 70 thousand meter square.
- Ain Athari (Bahrain) carried out through BOT system in Ain Athari Park located in Sheikh Eissa Ben Salman street and has a project area of 17 thousand square meter.

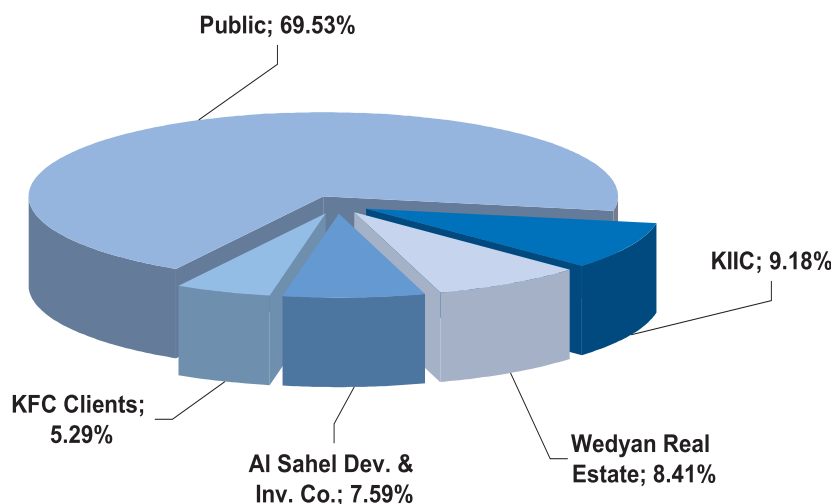
CRC has entered into new future projects locally and internationally which are in the design stage:

CRC future projects...

- The Aranda (Kuwait) a real estate project located 30 km southeast of Kuwait and will be one of the largest projects led by the private sector in the country. The total area is approximately 66 thousand square meter divided into two plots by the southern coastal road.
- Developing the Center for the City of Jeddah (Saudi Arabia): one of the largest city development projects being planned in the country which is still under study.
- Developing the Center for the City of Abha (Saudi Arabia): the board of investment of Aseer has signed an agreement with CRC and strategic partners to provide a study for this project which is suppose to highlight Abha as a tourist destination.

Major Shareholders

Chart 1. CRC Major Shareholders



Source: KAMCO Research, CRC., Kuwait Stock Exchange

According to the management, CRC has currently approximately 600 shareholders where one third is held by four companies who have over a 5% stake. The major shareholders are Kuwait International Investment Co. (KIIC) with a 9.18% share, followed by Wedyan Real Estate Co. (8.41%), Al Sahel Development & Investment Co. (7.59%), and Kuwait Financial Center Clients (5.29%).

One third of CRC is held by four companies with more than 5% stake.

Business Strategy

CRC's strategy is driven by creating value through real estate developments and maintaining a high performing diversified portfolio that provides a steady income for the company. The company has adopted a business strategy for projects and developments by minimizing risks, bringing more investors to provide experience and expertise, in addition to their financial commitment.

CRC's business strategy through diversified portfolio

This strategy is envisaged through focusing on diversified in terms of business sectors and risks:

- Real Estate Joint Ventures: exploring development projects with other land owners, real estate companies and co-investors who seek CRC's management skills and expertise. The company has

also established important strategic alliances in order to create new investment and real estate opportunities.

- Strategic Investments: establishing businesses that add strategic value to the company's operations or that could potentially become future business units.
- Property Development: developing new property concepts for rental income, appreciation and potential future disposals when valuations are at a premium and investing in selected land for value appreciation.
- Property Acquisition: acquiring properties for rental income and value appreciation and potential disposal gains when valuation reaches premium.
- Financial Investments: investing in listed and/or private equities and funds for sole purpose of capital gains and dividends.
- Geographical Diversification: CRC has engaged Booz Allen Hamilton; strategy specialist to advise them on future strategic direction of the company.

Q1 2008 Financial Highlights

CRC's net profit was lower by 21% as of 1Q-08 at KD 5.28 million compared to KD 6.67 million in Q1-07. The key reason for lower profits is attributed to decline in income from investment properties from KD 5.2 million to KD 3.8 million mainly due to lower gains in fair value of investment properties. Furthermore, income from available for sale and investments held for trading also witnessed a decline from KD 1.82 million to KD 0.741 million.

Q108 net profit declined by 21% to KD 5.2 million...

However, the major revenue contributor - income from associates reached KD 2.44 million as of 1Q-08 compared to KD 1.63 million during the same period last year, showing a solid growth of 49.7% and a total revenue contribution of 29.8%.

Meanwhile, profit from land and real estate held for trading witnessed a significant increase of 101.6% during 1Q-08 to reach KD 0.41 million compared to a loss in the same period last year. Other income on the other hand, represented around 10% of total income and reached KD 0.79 million as of 1Q-08 up by 41.8% from KD 0.56 million. Other income mainly included hotel revenues and foreign exchange income/loss.

Table 2. CRC's Total Income Decomposition

(KD '000)	2007		Q1 07		Q1 08	
Income from Inv. Properties	26,868	46.24%	5,226	57.81%	3,804	46.45%
Income from AFS and other investments held for trading	5,865	10.09%	1,829	20.24%	741	9.05%
Profit from Land & Real Estate held for trading	13,993	24.08%	(203)	(2.25%)	410	5.01%
Share in Associate Co's results	7,676	13.21%	1,629	18.02%	2,439	29.79%
Other Income	3,699	6.37%	560	6.19%	794	9.69%
Total Income	58,102	100.00%	9,040	100.00%	8,188	100.00%

Source: CRC Financial Statements, KAMCO Research

The company's total operating expenses as of 1Q-08 showed a 54% increase to KD 1.10 million compared to same period last year mainly due to higher general and administrative expenses which reached KD 1.07 million compared to KD 0.68 million. Finance charges which represents the other major expense head was marginally higher at KD 1.6 million as of 1Q-08 compared to KD 1.42 million as of 1Q-07.

Operating expenses were also sharply higher

The company's shareholders also approved cash dividends of 14 fils per share (for year ending Dec-2007), higher than previous year's 12 fils and bonus shares of 10% (2007), higher than 8% (2006). As a result the company's share capital will increase from KD 145.69 million as of end 1Q-08 to KD 160.2 million.

Shareholders approve higher cash dividends and stock dividends

Historical Financial Performance

CRC generates revenues through multiple ways - (a) Regular rental income and cash flows from properties (b) cash dividends from associate companies and other investments (c) CRC's share of earnings from investment in associate companies (d) Ad-hoc sale of parcels of land (asset disposals) (e) sale of stakes in associate companies and (f) hotel revenues and other operating revenues.

Multiple sources of revenue thereby de-risking the operations

CRC's total operating income increased at a compounded annual growth rate (CAGR) of 15% from KD 27.8 million to KD 48.5 million during 2003-07 while net profit also grew at 16% from KD 24.88 million to KD 44.6 million. During the same period, total assets grew from KD 245 million to KD 337.5 million registering an 8.3% compounded growth annually.

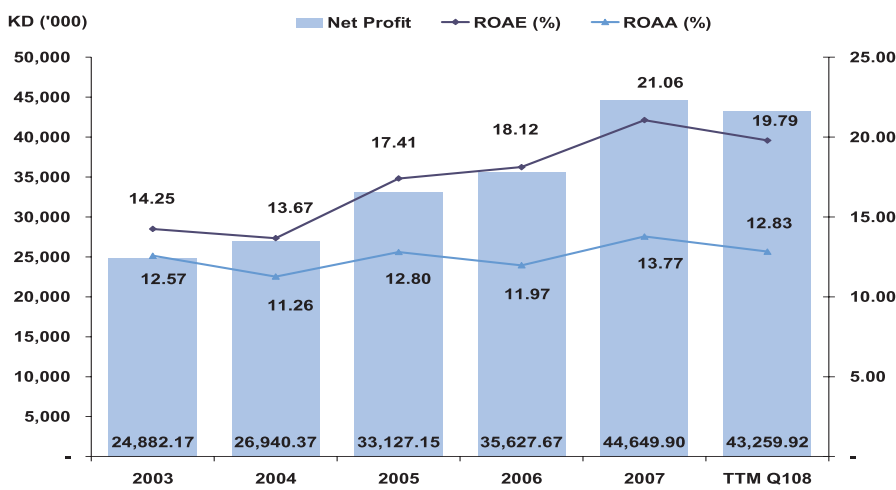
Respectable growth rates in operating income and net profit over the period 2003-07

In line with the growth in earnings over the last few years, CRC's key profitability ratios - Return on Assets (RoA), Return on Equity (RoE) and Return on Capital (RoC) have steadily increased during the period 2003-07. RoA increased from 10.15% to 13.23%, RoE is up from 11.9% to 19.8% while RoC increased from 10.6% to 14.3%.

Healthy profitability ratios

During the same period, Return on Average Assets (RoAA) improved from 12.57% to 13.77% while Return on Average Equity (RoAE) also sharply rose from 14.25% to 21.06%.

Chart 2. CRC Net Profit, ROAE & ROAA comparisons



Source: CRC Financial Statements, KAMCO Research

CRC's majority of the income as classified in the financial statements is derived through (a) profits from investment properties (which include net real estate income and change in fair value of investment properties) (b) income from investment securities (which includes available for sale investments and held for trading) and (c) profit from land and real estate held for trading. Apart from these income streams, the other key component of the income represents CRC's share from associate company's results.

Key income streams include profits from investment properties, investment securities, profits from land and real estate trading and share of associate company results

During the period 2003-07, income from investment properties (which include net real estate income and change in fair value of investment properties) increased by close to 19% (CAGR) from KD 13.6 million to KD 26.8 million. This was driven by a very consistent and steady growth in net real estate income from KD 2.17 million to KD 5.7 million representing a growth of 27%. However, profits from change in fair value of investment properties was volatile during this period reflecting gains of close to KD 10 million (2003), lower gains of KD 5-6 million (2004-06) and a sharp increase to KD 20.6 million (2007).

Income from Investment properties were up by 19% during the period 2002-07

Table 3. CRC Major Income Statement Accounts (2003-2007)

(KD '000)	2003	2004	2005	2006	2007
Income from Inv. Properties	13,631	7,514	9,217	11,131	26,868
Y-O-Y % Growth	131.2	(44.9)	22.7	20.8	141.4
Income from Inv. Securities	1,869	16,631	15,528	9,065	5,865
Y-O-Y % Growth	195.2	789.7	(6.6)	(41.6)	(35.3)
Profit from Land & Real Estate held for trading	6,910	3,893	8,190	6,029	13,993
Y-O-Y % Growth	(20.3)	(43.7)	110.4	(26.4)	132.1
Hotel Revenues	5,113	5,911	6,274	466	403
Y-O-Y % Growth	NM	15.6	6.1	(92.6)	(13.5)
Income from Associates/Subs.	3,976	1,723	4,152	17,081	7,676
Y-O-Y % Growth	571.6	(56.7)	141.0	311.4	(55.1)
Other Income	289	40	(10)	548	3,296
Y-O-Y % Growth	195.1	(86.3)	(125.0)	NM	501.2
Total Expenses	6,906	8,771	10,225	8,692	13,452
Y-O-Y % Growth	257.8	27.0	16.6	(15.0)	54.8
Net Profit	24,882	26,940	33,127	35,628	44,650
Y-O-Y % Growth	98.1	8.3	23.0	7.5	25.3

Source: CRC Financial Statements, KAMCO Research

Historically, CRC's securities investment portfolio mainly comprised long term equity holdings or available for sale investments (quoted and unquoted shares) and real estate funds. In 2004, CRC aggressively expanded its investment portfolio as income from available for sale investments skyrocketed to KD 16.6 million compared to KD 1.87 million in the prior year, in line with the local equity boom during the period. However, since 2005, income from investments has witnessed a steady decline to KD 5.87 million in 2007, down by 35% from KD 9.30 million in 2006, on the back of lower cash dividends.

Long term equity holdings dominated CRC's investment portfolio.

By virtue of being in the real estate business for four decades, CRC has acquired substantial land bank at key locations over the years. The company sells parcels of land and real estate whenever the valuations are attractive and opportunistic. Accordingly, profit from land and real estate is an integral part of CRC's income stream.

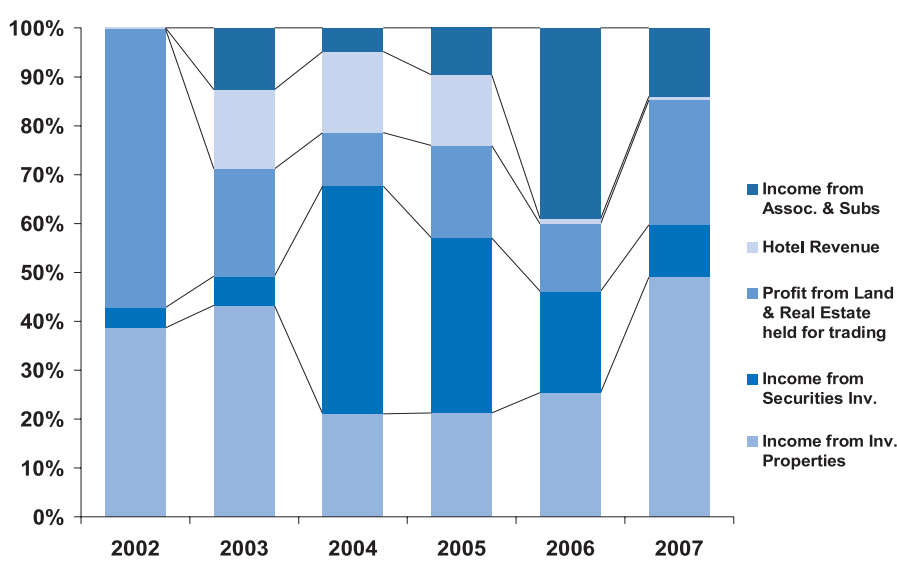
Profit from land and real estate is also an integral part of the income stream

On the other hand, during the period 2003-05, hotel income stood at around KD 5-6 million which represents the group's share in revenue from Kuwait Hilton Resort and Rester Resort (formerly Safir Al Dana Hotel). In 2006, CRC sold a partial stake in Kuwait Resorts Company (which owns Kuwait Hilton). Until then Kuwait Resorts Company was a subsidiary of CRC. Subsequent to the partial stake sale, Kuwait Resorts Company is now an associate company and CRC owns a 32.7% stake. This resulted in a drop in

Hotel revenues drop due to stake sale

hotel revenues for CRC since 2006. Furthermore, the drop in hotel revenues is also attributed to the current renovation at the hotel. CRC's partial stake sale in Kuwait Resorts Company resulted in a gain of KD 14.1 million in 2006 and is included in the KD 17 million shown in table 3 under income from associates / subsidiaries (gains).

Chart 3. CRC Revenue Decomposition (2002-2007)



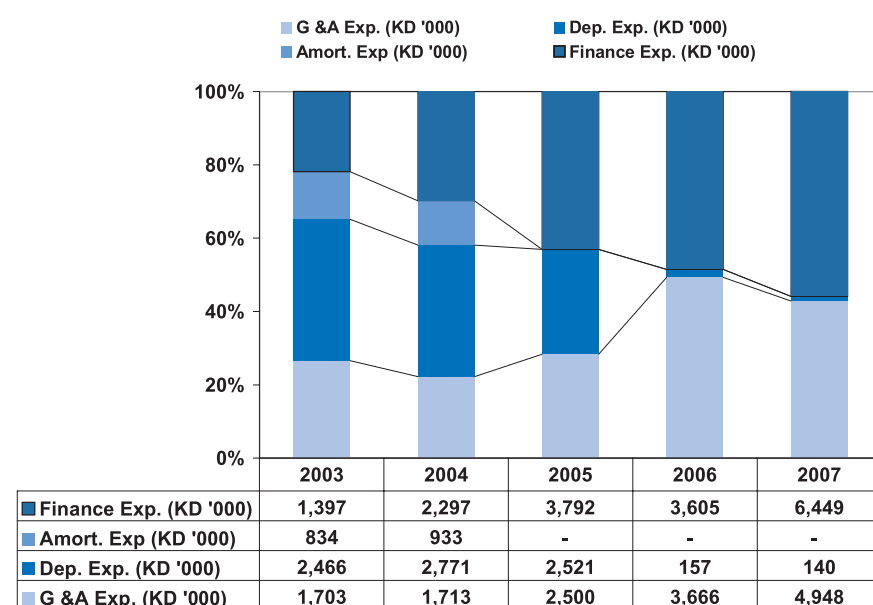
Source: CRC Financial Statements, KAMCO Research

On the expenses side, operating expenses - mainly general and administrative (G&A) expenses has increased in line with the company's growth in operating income. General and administrative expenses increased by 30% (CAGR) from KD 1.7 million to KD 4.95 million. In 2007, G&A expenses rose by 35% to KD 4.95 million compared to KD 3.67 million in 2006.

G&A expenses and Finance charges are the main expense items

Finance charges represent the other major expense item. CRC's borrowings have increased over the years in line with their growing project funding needs. Accordingly, finance charges have increased from KD 1.4 million in 2003 to KD 6.4 million in 2007. In 2007, finance charges sharply rose by 79% to KD 6.50 million compared to KD 3.61 million in 2006. Consequent to the increase in finance charges, the interest coverage ratio (Operating profit / Interest expense) has dropped from 16.9x (2003) to 6.73x (2007).

Chart 4. CRC Expenses Decomposition



Source : CRC Financial Statements, KAMCO Research

Asset Structure & Capital Base

CRC total assets stood at KD 346.12 million as of end 1Q-08, up from KD 328.16 million as of end 1Q-07. Total assets has been growing at a moderate rate for the past three years and showed a CAGR of 17.5% between 2002 and 2007. As of the end of December 2007, CRC's total assets grew by 8.5% to reach KD 337.49 million compared to KD 311 million as of end of December 2006.

Total assets stood at KD 346 million as of 1Q-08

CRC's non-current assets (long-term investments) represent a substantial portion of the total assets. These include investment in real estate, projects in progress, properties and equipment, investment in securities (available for sale), and investment in associates companies and Joint Ventures. These investments stood at KD 226.68 million as of end 1Q-08 representing 65.5% of the total assets. In 2007, total investments stood at KD 228.97 million, higher by 43.8% from 2006's figure of KD 159.24 million. This jump in investments was mainly attributed to the increase in company's investments in real estate, associates and available for sale investments.

Reflecting the company's core business, more than half of CRC's total assets are concentrated in real estate investments and developments. The investment properties portfolio is spread across 37 properties with a mix of residential (23 units) and commercial (14 units), and an average occupancy rate of 97%. Comprising 36.5% of total assets, investment properties grew

Investments in real estate dominates the balance sheet

by 46.4% to reach KD 123.25 million in 2007. The account also showed a CAGR of 24.6% between 2002 and 2007. Meanwhile, projects in progress accounted for 15.6% of total assets at KD 52.61 million in 2007, showing an annual increase of 5.7% from FY 2006 figure of KD 49.78 million.

Table 4. CRC Asset Base

(KD '000)	2003	2004	2005	2006	2007	Q1 08*
Cash & Equivalents	3,094	5,759	5,185	38,589	535	13,573
<i>Y-O-Y % Growth</i>	<i>(20.0)</i>	<i>86.1</i>	<i>(10.0)</i>	<i>644.3</i>	<i>(98.6)</i>	<i>(49.3)</i>
Account Receivables	6,138	6,530	14,217	27,417	25,429	20,350
<i>Y-O-Y % Growth</i>	<i>664.5</i>	<i>6.4</i>	<i>117.7</i>	<i>92.8</i>	<i>(7.3)</i>	<i>(45.6)</i>
Land & Real Estate held for trading	36,957	36,444	35,411	29,082	23,103	22,942
<i>Y-O-Y % Growth</i>	<i>(29.6)</i>	<i>(1.4)</i>	<i>(2.8)</i>	<i>(17.9)</i>	<i>(20.6)</i>	<i>(21.0)</i>
Investment in Securities	90,054	47,372	48,081	27,533	41,441	46,065
<i>Y-O-Y % Growth</i>	<i>204.9</i>	<i>(47.4)</i>	<i>1.5</i>	<i>(42.7)</i>	<i>50.5</i>	<i>60.4</i>
Investment in Real Estate	46,182	45,436	77,598	84,173	123,248	114,100
<i>Y-O-Y % Growth</i>	<i>12.5</i>	<i>(1.6)</i>	<i>70.8</i>	<i>8.5</i>	<i>46.4</i>	<i>14.1</i>
Investment in Assoc & JV	10,715	25,436	33,839	47,533	64,278	66,519
<i>Y-O-Y % Growth</i>	<i>NM</i>	<i>137.4</i>	<i>33.0</i>	<i>40.5</i>	<i>35.2</i>	<i>16.0</i>
Projects in Progress	19,156	32,270	34,328	49,778	52,612	55,762
<i>Y-O-Y % Growth</i>	<i>885.9</i>	<i>68.5</i>	<i>6.4</i>	<i>45.0</i>	<i>5.7</i>	<i>33.0</i>
Fixed Assets & Other Assets	32,754	34,409	35,335	6,971	6,846	6,812
<i>Y-O-Y % Growth</i>	<i>54.6</i>	<i>5.1</i>	<i>2.7</i>	<i>(80.3)</i>	<i>(1.8)</i>	<i>(1.9)</i>
Total Assets	245,049	233,657	283,993	311,077	337,493	346,122
Y-O-Y % Growth	62.3	(4.6)	21.5	9.5	8.5	5.5

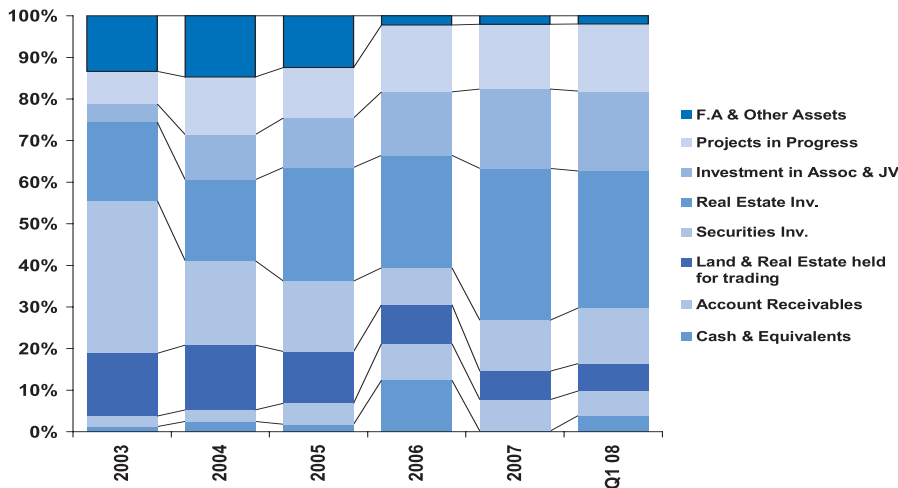
*Growth compared to Q1 2007 figures

Source : CRC Financial Statements, KAMCO Research

Investment in associates and JV's represented around 19% of total assets at the end of December 2007. Investment in associates (excluding JV) increased by 59% to KD 61.85 million as of end 2007 compared to KD 38.82 in 2006. The sharp increase in investment in associates is mainly attributed to the fresh investments made during 2007. CRC's investment in associates during 2007 is detailed in table1. Furthermore, in 2007, Al-Motagarah Real Estate (now classified as associate company) ownership stake was reduced to 44% from 100% due to the increase of the company's capital and entrance of new shareholders. Also during 2007, the company acquired a 20% stake in Hajar Tower as a result of transfer of the company from a joint venture to an associate company.

Investments in associates and JV's represented around 19% of total assets.

Chart 5. CRC Asset Base Decomposition



Source : CRC Financial Statements, KAMCO Research

Investment securities which predominantly includes available for sale investments and held for trading investments account for about 12% of the total assets in 2007. These investments stood at around KD 41 million as of end 2007. CRC's strategy has been to invest in strategic long-term equity holdings or available for sale investments whenever appropriate opportunities have risen. CRC's strategic investment portfolio include quoted and unquoted equities and funds.

Investment securities dominated by available for sale investments

Land and real estate held for trading which constitutes an average of 15.7% contribution to total assets since 2002 has been following a downward trend. The account fell by 17.9% and 20.6% in 2006 and 2007 respectively registering KD 29.08 million and KD 23.10 million respectively. It also continued to decline during Q1 2008 by 21.0% from Q1 2007 to record KD 22.94 million.

Land and real estate held for trading has been gradually declining

CRC has been funding its growth in assets predominately through debt which is mainly in the form of Estisna, Murabaha, Ijara, Tawaroq contracts and Islamic bonds or Sukuk, considering the company's adherence to Islamic Sharia principles. Borrowings (short and long term total debt) dominated the company's total liabilities (excluding shareholders equity) and accounted for around 73% of the total liabilities between 2003 and 2007. During this period, borrowings (total debt) have increased from KD 25.7 million to KD 85.2 million. Accordingly, the debt to equity ratio has increased from 12.3% (2003) to around 38% in 2007. We think, the debt to equity levels is still moderate and not overleveraged and the company can fund its future projects with additional borrowings.

Liabilities dominated by short-term and long-term debt.

Debt to equity ratio at comfortable levels

Table 5. CRC Capital Base Decomposition

(KD '000)	2003	2004	2005	2006	2007	Q1 08*
Accounts payable & Other liabilities	9,175	11,513	19,598	38,605	25,979	26,219
Y-O-Y % Growth	188.3	25.5	70.2	97.0	(32.7)	(30.8)
% of Total Capital Base	3.7	4.9	6.9	12.4	7.7	7.6
Short-term Loans	18,239	20,371	23,508	23,146	29,727	31,688
Y-O-Y % Growth	NM	11.7	15.4	(1.5)	28.4	8.6
% of Total Capital Base	7.4	8.7	8.3	7.4	8.8	9.2
Long-term Loans	7,460	14,287	43,403	50,019	55,489	55,965
Y-O-Y % Growth	31.7	91.5	203.8	15.2	10.9	2.5
% of Total Capital Base	3.0	6.1	15.3	16.1	16.4	16.2
Staff indemnity	382	484	649	785	843	898
Y-O-Y % Growth	57.0	26.6	34.1	20.9	7.5	13.6
% of Total Capital Base	0.2	0.2	0.2	0.3	0.2	0.3
Total Equity	208,539	185,677	194,793	198,521	225,455	231,350
Y-O-Y % Growth	48.4	(11.0)	4.9	1.9	13.6	12.4
% of Total Capital Base	85.1	79.5	68.6	63.8	66.8	66.8
Total Capital Base	245,049	233,657	283,993	311,077	337,493	346,122
Y-O-Y % Growth	62.3	(4.6)	21.5	9.5	8.5	5.5
% of Total Capital Base	100.0	100.0	100.0	100.0	100.0	100.0

Source : CRC Financial Statements, KAMCO Research

Supported by consistent growth in net profits, total shareholders' equity grew by close to 10% (CAGR) between 2002 and 2007 to reach KD 225.45 million as of December 2007, representing 66.8% of total capital base.

Shareholders equity grew by 10% between 2002 and 2007...

CRC's share capital currently stands at KD 145.69 million as of end 1Q-08. Subsequent to the 10% stock dividends for 2007 approved by the shareholders, the enhanced share capital will be KD 160.2 million.

Industry Overview

During the past few years and specifically since the easing of political tensions in Iraq, the Kuwaiti real estate sector grew at unprecedented levels, proving to be the pillar of strength for the local economy, after the oil sector. The local economic boom and the abundance in liquidity have played a major role in moving the real estate sector forward.

Kuwait real estate sector buoyant.

Kuwait's Gross Domestic Product (GDP) has been experiencing remarkable growth in the past four years. In 2006, GDP stood at KD 28.64 billion compared to KD 23.59 billion in 2006, equivalent to an annual growth of 21.4% and a four-year CAGR of 25.4% since 2002. Oil and Gas continued to surpass other sectors and comprise 58.64% of total GDP with a total contribution of KD 16.80 billion in 2006. The Kuwait Blend Spot Price FOB continued to hit record highs with an average of USD 55.18 per barrel for year ending 2006 up from USD 50.16 in 2005. It continued to soar in 2007 reaching USD 86.16 while, Brent and OPEC prices averaged USD 93.25 and USD 90.99 for the same period respectively. Oil prices continued to skyrocket in 2008, surpassing the USD 100 per barrel. Recently, Kuwait posted record revenues of KWD 17 billion (USD 63.6 billion) in the first 11 months of the current fiscal year, showing the highest revenues ever while sitting on 10% of global crude reserves. On the other hand the non-oil component of GDP followed a steady growth trend during the past few years. In 2006, the non-oil sector posted impressive growth of 14.37% at KD 11.85 billion and a GDP share of 41.36%..

GDP has seen remarkable growth driven by oil and gas sector

Among the solid growths seen in all the non-oil sectors, the real estate and construction segments continued to rapidly expand. Both sectors managed to improve during the past four years with a CAGR of 7.5% and 11.3% for the real estate and construction segment respectively. The real estate component grew by 7.2% in 2006 to record KD 1.30 billion, representing 4.5% of total GDP. Meanwhile, the construction component followed the same uptrend, rising by 9.7% in 2006 at KD 479 million and showing a GDP contribution of 1.7%. Combined, the sectors accounted for 6.20% of Kuwait's GDP in 2006 compared to 6.97% and 8.57% in 2005 and 2004 respectively. Even though this can be regarded as a diminishing trend for both sectors, however the key reason behind this downtrend is the surge in oil and gas component.

Non-oil sector rapidly expanded due to real estate and construction segments

Table 6. Real Estate and Construction Growth and Contribution to GDP at Current Prices (2002-2006)

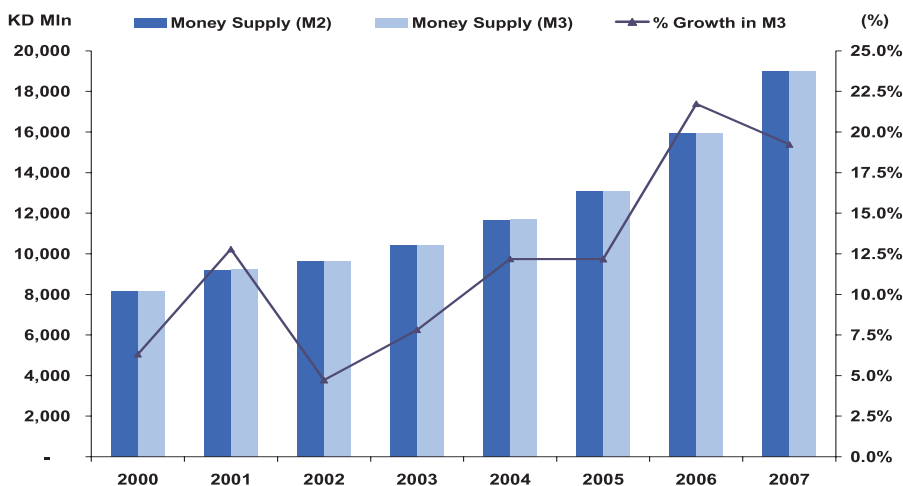
(Million KD)	2002	2003	2004	2005	2006	CAGR
Real Estate Component of GDP	970	1,062	1,095	1,208	1,296	7.5%
Y-O-Y % Growth	11.0	9.5	3.1	10.3	7.2	
% of total GDP	8.4	7.5	6.3	5.1	4.5	
Construction Component of GDP	312	349	402	437	479	11.3%
Y-O-Y % Growth	23.5	12.0	15.1	8.8	9.7	
% of total GDP	2.7	2.5	2.3	1.9	1.7	
Total Nominal GDP	11,585	14,254	17,466	23,593	28,644	25.4%
Y-O-Y % Growth	8.3	23.0	22.5	35.1	21.4	

Source : Central Bank of Kuwait, KAMCO Research

Substantial increases in oil prices led to higher government revenues which in turn had a direct impact on liquidity levels in Kuwait which had been surging since 2003 with the broadest measure of money supply growing by an average of 16.33% between 2004 and 2007 compared to an average of around 7.91% between 2000 and 2003. A measure of the market's liquidity the M2 and M3 measure of money supply rose by around 19% in 2007 compared to the soaring growth of 22% in 2006 due to inflationary pressures and currency speculations.

Local liquidity levels has been surging since 2003.

Chart 6. Kuwait M2 and M3 Measures of Money Supply (2000-2007)



Source : Central Bank of Kuwait, KAMCO Research

Central Bank of Kuwait (CBK) made six consecutive increments to its discount rate between the period 2004 and 2006, to stand at 6.25%. These increments were mainly following the United States Federal Reserve rate changes over the same period, which reflected the extent of the local currency peg to the US dollar. In May 2007, the dollar peg on the Kuwaiti

CBK interest rates changes followed the US Federal Reserve rates.

dinar was dropped in favor of a basket of currencies while maintaining the discount rate at 6.25%. The US Fed has been slashing its interest rates since last year in an attempt boost the slowing US economy. Following the US Fed rate cuts, the CBK cut its discount rate to 5.75% on the January 23, 2008.

Due to the accelerating pace in economic activity in Kuwait and surge in demand for real estate, the monthly average price for a residential unit shot up to KD 201.6 thousand in 2007 from KD 173 thousand in 2006. Consequently after the KD's de-peg to the US dollar, declining interest rates had a positive impact on the real estate and construction sector especially as the KD appreciated in comparison with other major currencies which made imported construction material cheaper.

Robust credit growth was witnessed during the past few years, despite the increase of interest rates as the increased liquidity in the market was supplying excess funds to the banks, thus mitigating the interest rate effect. Loans extended to the real estate sector which includes the construction and installment loans increased significantly in 2006 by 30.51% and in 2007 by 36.6% respectively. Real estate's share of total credit facilities has also increased to 51% as of 2007 compared to the sector's share of 46% in 2002. Total credit facilities to the real estate sector amounted to KD 10.26 billion in 2007 up from KD 3.1 billion in 2002.

Credit to real estate sector is rapidly growing

Table 7. Credit Facilities to the Real Estate and Construction Sectors (2002-2007)

(Million KD)	2002	2003	2004	2005	2006	2007
Real estate	1,298	1,434	2,030	2,539	3,288	5,002
Y-O-Y % Growth	11.4	10.5	41.5	25.1	29.5	52.1
% of total	41.2	39.6	43.2	44.1	43.8	44.8
Construction	454	633	592	770	1,070	1,367
Y-O-Y % Growth	27.4	39.3	(6.5)	30.1	38.9	27.8
% of total	14.4	17.4	12.6	13.4	14.2	13.3
Installment Loans	1,397	1,558	2,075	2,448	3,154	3,891
Y-O-Y % Growth	32.1	11.5	33.1	18.0	28.9	23.4
% of total	44.4	43.0	44.2	42.5	42.0	37.9
Total Real Estate Related Facilities	3,150	3,625	4,696	5,756	7,512	10,260
Y-O-Y % Growth	22.1	15.1	29.5	22.6	30.5	36.6
% of total credit facilities	46.0	43.1	47.6	48.7	50.3	50.95
Total Credit Facilities	6,854	8,419	9,867	11,827	14,934	20,139
Y-O-Y % Growth	13.7	22.8	17.2	19.9	26.3	34.9

Source : Central Bank of Kuwait, KAMCO Research

Demand for real estate in Kuwait tends to be more directly related to growth in population. New households require housing can be distinguished into two different categories, one from locals getting married and seeking housing and the other from expatriate workers providing their labor services to the country. The timing for both categories is closely depended on job opportunities available. As a result of the economy's boom and liberalization and the opening up of Iraq, new office space either through establishing new companies or expansion of existing companies, resulted in job creation and thus demand for housing.

Real estate demand is directly related to population growth.

According to the Public Authority for Civil Information (PACI) annual statistics, the total population in Kuwait grew by 11.40% in 2007 reaching 3.40 million compared to an average growth rate of 7.10% for the previous three years. The Non-Kuwaiti population contributed the most with a 14.74% growth at 2.35 million as of the end of 2007. The Kuwaiti population on the other hand, ended the year at 1.05 million, up by 4.62% from last year's 1.00 million. The total population continued to be driven by growth in the 20 to 34 age group which contributed the most to the total population. Also in 2007, the total number of employed workers increased 8.08% to reach 2.09 million distributed among Kuwaiti and Non-Kuwaiti workers.

Table 8. Kuwait's Population (2000-2007)

(In Thousands)	Kuwaiti	Non-Kuwaiti	Total
2000	841,790	1,375,468	2,217,258
2001	870,283	1,438,819	2,309,102
2002	884,550	1,478,775	2,363,325
2003	913,500	1,570,834	2,484,334
2004	942,892	1,701,850	2,644,742
2005	973,286	1,893,602	2,866,888
2006	1,008,000	2,043,700	3,051,700
2007	1,054,598	2,345,039	3,399,637

Source : PACI, KAMCO Research

Apart from the economic conditions and the population which have a direct impact on the real estate sector, government policies can also have an impact on the real estate sector activity. Looking back, many times the government took initiatives to drive the real estate sector forward such as transferring several investment areas to commercial ones leading to an increased activity in these areas and rising prices. Moreover, changes in the government laws also can affect the real estate market, for example allowing the Municipal Council to monitor laws and regulations on project and have the right to approve or reject them. Another case is changing the required maximum height for buildings in the country as skyscrapers started to emerge.

Government policies also key to real estate activity.

Apart from these factors and more recently the rising prices of building materials has also negatively impacted the market as it had led to the rising of construction costs by more than 50%. As this was seen as a global problem, the government played a role by raising subsidies for building materials, especially with cement and steel. In addition, the Ministry of Commerce and Industry issued a decision imposing a ban on the export of cement and steel which are in short supply and have seen hike in prices in the international markets. Both decisions have formed some kind of price stability for the real estate market, however shortages of equipment and higher plant costs and leaping labor force wages still remain concerns for the real estate sector..

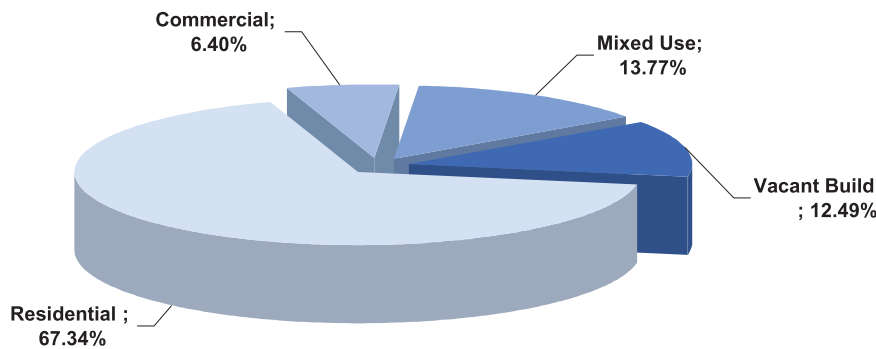
In terms of the real estate structure, the industry is broadly divided into three main categories; residential, investment, and commercial. The residential segment has been the most important segment and is comprised of the freehold market in form of villas and houses dominated by nationals and rental market in form of apartments targeting expatriates. The housing or residential segment mainly deals with housing for Kuwaiti nationals. Meanwhile, the investment segment represents investments in land and construction either villas or buildings for the purpose of rent. The difference between the latter segments is that in the investment segment the final user is unlikely to be the owner of the property. Finally, the commercial segment, represents the construction and commercial complexes and sale or rent of spaces in commercial complexes either for office or retail use. Obviously, the location aspect for this segment is crucial.

Real estate sector broadly divided into three segments...

Historically, the residential sector represented the bulk of activity within the real estate sector accounting for an average of 71.7% of total sales value between 1998 and 2005. However, activities in the other two segments have been steadily following an uptrend with the inflow of expatriates in the country. The real estate market as a whole grew significantly during 2007, with registered real estate transactions sales values during the year totaling KD 2.8 billion, up by 55% from 2006. Growth was strongest in investment and commercial property segments with the value of number of unit sales rising by 72% and 39% from a year before, respectively. Meanwhile, the residential sector saw growth of 42% in sales and 24% in the number of units sold. Average price per unit sold in all sectors rose by 23% in 2007, which is the biggest increase witnessed in the past five years, with the average price unit sold for investments and commercial property rising by 24% while residential property prices increased by 15%.

...with the residential sector representing the bulk.

So far in 2008, the real estate activity has been following a declining trend and falling to its lowest level in eleven months. The residential sector was largely responsible for the drop in overall sales of the sector as a result of a greater number of transactions involving low-valued properties. It may be also linked to the implementation of the amendment on law number 8 forbidding commercial companies from trading in residential properties.

Chart 7. Buildings Mix (2007)

Source : PACI, KAMCO Research

Projections

Subsequent to the discussions with the management and their inputs and based on our assessment of the company and the real estate sector we forecasted CRC's financial statements for the period 2008-12 keeping in mind its current projects and up-coming new projects that are likely to be completed over the next few years.

Going forward, CRC's profitability will driven mainly by;

- Rental income increasing by more than 3 times the current levels from the four projects - Kuwait Trade Center, Symphony Hotel Complex, Joman Garden Residential Project and Roba Residential Complex
- Change in fair value gains once the projects are completed (currently carried at cost) will be transferred to investment properties and reflected at full value
- Profits from sale of parcels of land and real estate held for trading
- Profits from available for sale investments and
- CRC's share in associate companies results.

On the expenses side, we have made the following assumptions;

- General and administrative expenses to increase 10% annually over the forecast period
- Depreciation expenses at 10% of the property and equipment for each of years
- Finance charges at 6.5% of the total borrowings for each of the years

We forecast net profits at KD 73.8 million in 2008, KD 53 million each during 2009 and 2010 and at around KD 46-48 million during 2011 and 2012.

Table 9. CRC Key Projected Revenue & Income Figures

(KD '000)	2008F	2009F	2010F	2011F	2012F
Income from Investment Properties	72,114	54,071	57,044	50,248	52,773
Profit - land & real estate held for trading	6,500	5,500	4,500	4,500	4,500
Hotel revenues	415	428	441	454	467
Profit from investments available for sale	2,900	2,900	2,900	2,900	2,900
Other operating income	226	226	226	226	226
Total Operating Income	82,155	63,124	65,110	58,328	60,866
Total Operating Expenses	(6,437)	(7,000)	(7,627)	(8,321)	(9,085)
Profit from operations	75,718	56,125	57,483	50,007	51,781
Company's share in associate co's results	7,742	7,897	8,055	8,216	8,381
Forex gains / (loss)	737	-	-	-	-
Finance Charges	(6,686)	(8,307)	(9,432)	(10,082)	(10,082)
Net Profit	73,864	53,084	53,422	45,815	47,667
EPS (KD)	0.046	0.033	0.033	0.029	0.030

F: KAMCO Forecast,

Source: KAMCO Research

Valuation

To estimate the fair value for CRC, we used a combination of two valuation models: Discounted Cash Flow Method and Relative Valuation technique.

We used a combination of DCF and relative valuation methods

Discounted Cash Flows Valuation Method (DCF)

Following the DCF method, we followed a top-down approach taking into account all relevant company specific and sector specific factors to estimate CRC's primary revenue sources. These estimates coupled with estimates of CRC's operating expenses were then used to forecast the company's net profits over the projection horizon. Capital expenditures, non-cash expenses, working capital requirements, and incremental debt issued were also estimated to project the stream of free cash flows.

Table 10. DCF Valuation Assumptions & Calculation

Perpetual Growth Rate	5.00%				
CRC Beta	1.01				
Risk Free Rate [^]	6.625%				
Equity Risk Premium [#]	5.54%				
Cost of Equity^{##}	12.22%				
('000 KD)	2008F@	2009F	2010F	2011F	2012F
Net Income	68,582	53,048	53,422	45,815	47,667
Add: Depreciation	636	661	654	651	648
Less: CAPEX	(21,127)	(14,264)	(11,263)	(22,664)	(24,138)
Add: Chg. in Net Working Cap.	56,699	(75,660)	146,874	969	1,349
Less: Net Debt Issued	(36,753)	(14,600)	(20,000)	-	-
FCFE	68,037	(50,815)	169,687	24,771	25,527
Terminal Value	371,213				
PV of FCFE^{**}	63,612	(42,336)	125,979	16,388	15,049
Total PV of FCFE	178,691				
PV of Terminal Value	218,840				
Total Equity Value	397,531				
Shares Outstanding ('000)	1,602,598				
Fair Share Value (KD)	0.248				

[^] Average yield on long-term treasury bonds

[#] Aswath Damodaran interpretation of Kuwait's Equity Risk Premium

^{##}: Calculated using the Capital Asset Pricing Model

@ Figures for 2008 are estimates excluding the actual figures as of 1Q-2008

^{**} Discounted as of end of May 2008

Source: KAMCO Research

In line with the DCF valuation model, the company's free cash flows between 2008 and 2012 were forecasted. The year 5 (2012) free cash flow was used with an assumed perpetual growth of 5.00% to estimate the terminal value of the company's equity at the end of the projection horizon. The stream of free cash flows were then discounted using the cost of equity to estimate the fair value of CRC. We estimate the CRC's fair value at KD 0.248 per share based on the DFC model.

DCF Model resulted in a fair value of KD 0.248 per share

Table 11. Sensitivity Analysis of CRC'S DCF Value Per Share

Perpetual	Cost of Equity						
Growth Rate	11.00%	11.50%	12.00%	12.22%	13.00%	13.50%	14.00%
3.00%	0.242	0.230	0.220	0.216	0.203	0.196	0.189
3.50%	0.251	0.238	0.227	0.223	0.209	0.201	0.194
4.00%	0.261	0.247	0.235	0.230	0.215	0.206	0.198
4.50%	0.273	0.258	0.244	0.239	0.222	0.212	0.204
5.00%	0.287	0.269	0.254	0.248	0.229	0.219	0.209
5.50%	0.304	0.283	0.266	0.259	0.238	0.226	0.216
6.00%	0.324	0.300	0.279	0.272	0.247	0.235	0.223
6.50%	0.348	0.319	0.295	0.286	0.259	0.244	0.232
7.00%	0.379	0.343	0.315	0.304	0.272	0.255	0.241

Source: KAMCO Research

The above table presents a sensitivity analysis on CRC's DCF value per share based on changes in the underlying cost of equity and in the assumed terminal growth rate.

Relative Valuation

Following the Relative Valuation approach, we ranked the top twenty real estate companies by market capitalization listed on the KSE as of May 22, 2008 and calculated average Price to Earnings (PE) multiple and Price to Book Value (P/BV) multiples for the sector. We arrived at an average PE multiple of 11.04x and an average P/BV multiple of 1.97x for the real estate sector.

CRC fair value using the real estate sector's P/E and P/B methods was KD 0.509 and KD 0.360 respectively...

Based on CRC's expected EPS (2008) of 0.046 Fils and estimated book value per share of 0.183 (2008) and capitalizing these per share figures to the real estate sector average P/E and P/B multiples, resulted in CRC's fair value per share at KD 0.509 and KD 0.360 respectively.

Valuation Conclusion

We used a weighted average of the above valuation models, assigning a 60% weight to the DCF - FCFE method, and 20% each to the P/E and P/B methods to arrive at an estimated fair value of KD 0.323 per share. CRC is now trading at a steep discount of 29% to our fair value estimate. Furthermore, CRC is available at a very cheap forward PE multiple of 5x based on the current price of KD 0.230 and forecasted EPS (2008) of KD 0.046. We think an expected earnings growth of 65% in 2008 deserves a much higher PE multiple. Also, the cash dividend yield (based on 2007 dividends) is extremely attractive at 6%. We think the downside to the stock price from these levels is very limited. We recommend a **'Strong Buy'** on CRC.

We estimate the weighted fair value of CRC at KD 0.323 per share

Attractive valuations, steep discount to fair value - We recommend a 'Strong Buy' on CRC

Table 12. CRC's Weighted Average Value per Share

Method	Weight (%)	Value/Share (KD)	Contribution to Fair Value (KD)
DCF - FCFE Model	60%	0.248	0.149
Sector P/E	20%	0.509	0.102
Sector P/B	20%	0.360	0.072
CRC's Weighted Average Value per Share			0.323

Trading & Share Data

Table 13. CRC Historical Share Data

	2004	2005	2006	2007	YTD-08
Market Capitalization ('000 KD)	420,495	390,024	382,102	390,950	368,597
Closing Share Price (KD)	0.345	0.320	0.285	0.270	0.230
High (KD)	0.460	0.435	0.380	0.360	0.305
Low (KD)	0.335	0.234	0.265	0.255	0.228
Volume ('000 Shares)	85,985	1,181,990	773,070	910,920	313,110
Value ('000 KD)	32,339	381,109	244,654	274,302	86,762
No. of Deals	1,240	22,959	16,304	11,739	3,317
EPS (KD)	0.023	0.025	0.025	0.032	0.031*
Book Value Per Share (KD)	0.158	0.167	0.152	0.161	0.164#
Dividend Per Share (KD)	0.009	0.011	0.012	0.014	NA
Price to Earnings Multiple (X)*	10.0	9.2	9.2	7.2	7.4**
Price to Book Value Multiple (X)*	1.4	1.3	1.5	1.4	1.4§
Dividend Yield (%)*	3.7%	4.8%	5.2%	6%	6%
Pay-out Ratio (%)	37.4%	43.8%	47.6%	44.2%	NA

*: Trailing twelve month (TTM) earnings ending 31 March 2008

: Based on equity figures as of 31 March 2008

§ : Based on Q1 08 equity & market price as of 22 May 2008

** : Based on TTM earnings & market price as of 22 May 2008

N/A: not applicable

Source: KAMCO Research

Ratio Analysis

	2003	2004	2005	2006	2007
Growth					
Operating Revenues	81.4%	22.2%	15.7%	-30.7%	78.0%
Operating Profit	65.4%	24.8%	16.2%	-31.7%	85.3%
Net Profit	98.1%	8.3%	23.0%	7.5%	25.3%
Total Assets	62.3%	-4.6%	21.5%	9.5%	8.5%
Shareholders Equity	48.4%	-11.0%	4.9%	1.9%	13.6%
Asset Structure Ratios					
Total Liabilities / Total Assets	14.4%	20.0%	30.7%	36.2%	33.2%
Total Liabilities / Equity	16.9%	25.1%	44.7%	56.7%	49.7%
Total Debt / Total Assets	10.5%	14.8%	23.6%	23.5%	25.2%
Total Debt / Total Equity	12.32%	18.67%	34.35%	36.86%	37.80%
Investment in Real Estate / Total Assets	18.8%	19.4%	27.3%	27.1%	36.5%
Shareholders Equity / Total Assets	85.1%	79.5%	68.6%	63.8%	66.8%
Profitability and other key Ratios					
Return on Assets (ROA)	10.15%	11.53%	11.66%	11.45%	13.23%
Return on Equity (ROE)	11.93%	14.51%	17.01%	17.95%	19.80%
Return on Capital (ROIC)	10.62%	12.23%	12.66%	13.11%	14.37%
Return on Average Assets (ROAA)	12.57%	11.26%	12.80%	11.97%	13.77%
Return on Average Equity (ROAE)	14.25%	13.67%	17.41%	18.12%	21.06%
Operating Profit Margin	85.01%	86.81%	87.23%	85.97%	89.51%
Net Profit Margin	89.46%	79.26%	84.25%	130.74%	92.06%
Average Cost of Debt	8.55%	7.61%	7.47%	5.15%	8.14%
Interest Coverage Ratio (x)	16.93	12.84	9.04	6.50	6.73

Source: KAMCO Research

Financial Statements

Balance Sheet

('000 KD)	2003	2004	2005	2006	2007	Q1 08
Assets:						
Cash & Equivalents	3,094	5,759	5,185	38,589	535	13,573
Account Receivables	6,138	6,530	14,217	27,417	25,429	20,350
Inventories	111	110	97	-	-	-
Held for Trading securities	7,252	851	1,739	80	68	85
Land/Real Estate Held for Trading	36,957	36,444	35,411	29,082	23,103	22,942
Investment Properties	46,182	45,436	77,598	84,173	123,248	114,100
Available for Sale Investments	82,801	46,521	46,342	27,453	41,373	45,980
Investment in Joint Venture	-	-	7,894	8,713	2,426	2,426
Investment in Associates	10,715	25,436	25,946	38,820	61,853	64,093
Projects in Progress	19,156	32,270	34,328	49,778	52,612	55,762
Fixed Assets & Other assets	32,643	34,300	35,238	6,971	6,846	6,812
Total Assets	245,049	233,657	283,993	311,077	337,493	346,122
Liabilities:						
Accounts Payables	9,175	11,513	19,598	38,605	25,979	26,219
Short-term Loan	18,239	20,371	23,508	23,146	29,727	31,688
Long-term Loan	7,460	14,287	43,403	50,019	55,489	55,965
Staff indemnity	382	484	649	785	843	898
Total Liabilities	35,256	46,656	87,158	112,556	112,039	114,771
Minority Interest	1,254	1,325	2,042	-	-	-
Shareholders' Equity:						
Share Capital	121,883	121,883	121,883	134,071	144,796	145,691
Share Premium	-	-	-	-	-	671
Treasury Shares	(5,556)	(9,135)	(12,446)	(11,834)	(12,264)	(12,529)
Gain from selling Treasury Shares	13	13	13	-	166	166
Statutory reserve	5,817	8,598	11,987	15,676	20,296	20,296
Voluntary reserves	2,995	5,777	9,166	12,855	17,475	17,475
Fair Value Reserves	55,345	21,988	22,735	3,957	1,850	1,842
Group share in associate reserve	-	3,562	5,289	5,068	4,650	3,789
Stock option reserve	-	-	-	-	740	922
Retained Earnings	28,043	32,822	36,168	38,729	47,745	53,027
Total Shareholders' Equity	208,539	185,677	194,793	198,521	225,455	231,350
Total Liabilities & Equity	245,049	233,657	283,993	311,077	337,493	346,122

Source: CRC Financial Statements, KAMCO Research

Income Statement

('000 KD)	2005	2006	2007	2008F	2009F	2010F	2011F	2012F
Profit from Investment Properties	9,217	11,131	26,868	72,114	54,071	57,044	50,248	52,773
Profit - Land/ Real Est. for trading	8,190	6,029	13,993	6,500	5,500	4,500	4,500	4,500
Hotel Income	6,274	466	403	415	428	441	454	467
Profit - Investments AFS	14,185	9,305	5,874	2,900	2,900	2,900	2,900	2,900
Profit - Held for trading inv.	1,343	(240)	(9)	-	-	-	-	-
Other Operating Income	109	560	1,372	226	226	226	226	226
Total Operating Income	39,319	27,251	48,502	82,155	63,124	65,110	58,328	60,866
General and administrative	2,500	3,666	4,948	5,762	6,339	6,973	7,670	8,437
Depreciation	2,521	157	140	674	661	654	651	648
Total Operating Expenses	5,021	3,822	5,087	6,437	7,000	7,627	8,321	9,085
Profit from Operations	34,297	23,429	43,415	75,718	56,125	57,483	50,007	51,781
Other income/Loss:								
FX Revaluation loss	(119)	(12)	1,924	737	-	-	-	-
Share in assoc. co's results	2,299	2,917	7,591	7,742	7,897	8,055	8,216	8,381
Inc. (loss) - Selling inv. in associat	1,853	25	86	-	-	-	-	-
Profit From Selling Subsidiary	-	14,139	-	-	-	-	-	-
Provision of impairment	-	-	(362)	-	-	-	-	-
Financing cost	(3,792)	(3,605)	(6,449)	(6,686)	(8,307)	(9,432)	(10,082)	(10,082)
Income before Minority & Taxes	34,538	36,892	46,203	77,512	55,715	56,107	48,142	50,081
Minority interest	312	-	-	-	-	-	-	-
KFAS	291	301	348	775	557	561	481	501
NLS tax	685	843	1,021	1,938	1,393	1,403	1,204	1,252
Zakat	-	-	25	775	557	561	481	501
Directors' remuneration	123	120	160	160	160	160	160	160
Net Profit	33,127	35,628	44,650	73,864	53,048	53,422	45,815	47,667
EPS (KD)	0.025	0.025	0.028	0.046	0.033	0.033	0.029	0.030

F: KAMCO Forecast

Source: CRC Financial Statements, KAMCO Research

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