Kuwait

# ACICO Industries Company

Tickers:
ACICO.KW (Reuters)
ACICO KK (Bloomberg)

Listing:
Kuwait Stock Exchange

Fair Value:
KD 0.484

CMP:
KD 0.450 (As on September 8th, 2009)

September, 2009

**Hold**

## Investment Summary

- ACICO's net income fell by 70.4% in 2008 to reach KD6.5mn from 2007 levels of KD22.1mn. the fall of profits was due to the fall in the financial and real estate markets, which caused ACICO's non-operating income to fall significantly.

- Operating revenues grew by 58.4% from KD42.7mn in 2007 to reach KD67.6mn in 2008. Revenue growth was mostly driven by the increase in the industrial sector (mostly cement and concrete sale) which grew by 29.6% in 2008 to constitute 32.9% of total operating revenues. Non-operating revenues were mostly compromised by investment activities income, which decreased by 69.8% from KD23.4mn in 2007 to reach KD7.1mn in 2008

- Total operating expenses reached KD64.4mn in 2008, up by 54.7% from 2007 levels of KD41.6mn. the largest operating expense was the operating cost which grew by 64.3% to record KD58.4mn in 2008 from KD35.5mn in 2007.

- Gross profit margin declined slightly in 2008 to reach 13.7%, as compared to 16.8%. On other hand, net profit margin dropped significantly from 51.7% in 2007 to reach 9.7% in 2008. Return on average assets (ROAA) witnessed the same pattern when it fell from 14.9% in 2007 to reach 3.3% in 2008. Return on average equity (ROAE) was 8.9% in 2008, as compared to 34.1% in 2007. Overall, return measures and margins dropped significantly in 2008.

- Total assets grew modestly by 8.2% from KD187.5mn in 2007 to cross the KD200mn mark. 2008 growth in assets followed a substantial increase in assets in 2007 and 2006 by 72.0% and 35.7%, respectively. Cash was the main asset that dropped significantly in 2008. ACICO's cash & equivalents dropped by more than 98% from KD31.4mn to less than one million KD.

Faisal Hasan, CFA
*Head of Research*
fhasan@global.com.kw
Phone No:(965) 22951270

Khalid Alsahli
*Financial Analyst*
kalsahli@global.com.kw
Phone No:(965) 22951294

Hettish Kumar
*Financial Analyst*
hkumar@global.com.kw
Phone No:(965) 22951281

- Liabilities increased by 15.2% from KD111.1mn in 2007 to record KD128.1mn in 2008, constituting 63.1% of total assets. Debt stood at KD102.2mn, while the rest of liabilities were composed of payables and employee's indemnity. 72.5% (KD74.1mn) of the debt was short term, while non-current debt was 27.5% (KD28.1mn). Debt-to-equity ratio (D/E) stood at 1.4x at the end of 2008.

- ACICO's net income in 1H2009 fell by 38.8% to reach KD4.1mn, as compared to KD6.8mn in 1H2008. Assets grew slightly by 2.5% from KD202.8mn in FY2008 to reach KD207.8mn in 1H2009. Cash holding increased to reach KD1.6mn in 1H2009

- The financial crisis has negatively affected ACICO, but the impact was much lesser than other companies in the real estate business. The high earnings that the company has enjoyed over the recent past years are unlikely to occur in the near future, as real estate properties and other investment asset classes will not enjoy the same old lucrative returns. The results of the crisis on ACICO business units are varied depending on the sector in which the unit operates in.

- Based on the current market price of 450 fils per share (as on 8th September 2009), ACICO is trading at a 2009E P/E and P/BV multiple of 10.9x and 1.2x respectively. Derived using DCF and P/E, Our estimated value for ACICO scrip is worked out to be 484 fils per share. According to our fair value the stock offers an upside of 7.6% on the closing price of 450 fils per share; we therefore recommend a "**HOLD**" on the scrip.

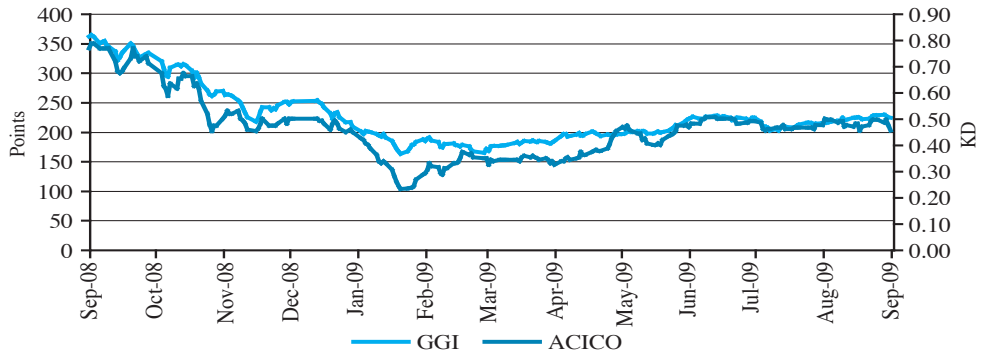
**Table 1: Investment Indicators for ACICO Industries Co.**

| CMP (KD) | Shares in Issue (mn) | M-Cap (KDmn) | 52-Week Hi/Lo (KD) |
|---|---|---|---|
| 0.450 | 214.9 | 96.7 | 0.762/0.227 |

| Year | Gross Profit (KDs '000) | Net Profit (KDs '000) | EPS (Fils) | BVPS (Fils) | ROAE (%) | P/E (x) | P/BV (x) |
|---|---|---|---|---|---|---|---|
| 2010 (F) | 11,313 | 13,868 | 64.5 | 423.2 | 16.3 | 7.0 | 1.1 |
| 2009 (F) | 10,580 | 8,902 | 41.4 | 370.0 | 11.8 | 10.9 | 1.2 |
| 2008 (A) | 9,259 | 6,531 | 30.4 | 331.4 | 8.9 | 14.6 | 1.3 |
| 2007 (A) | 7,154 | 22,080 | 102.7 | 354.2 | 34.1 | 5.4 | 1.6 |

*Source: Company's Annual Reports & **'Global'** Research.*
*Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on price in the Kuwait Stock Exchange as on September 8, 2009.*

**Chart 01: Performance of ACICO vs Global General Index (GGI)**

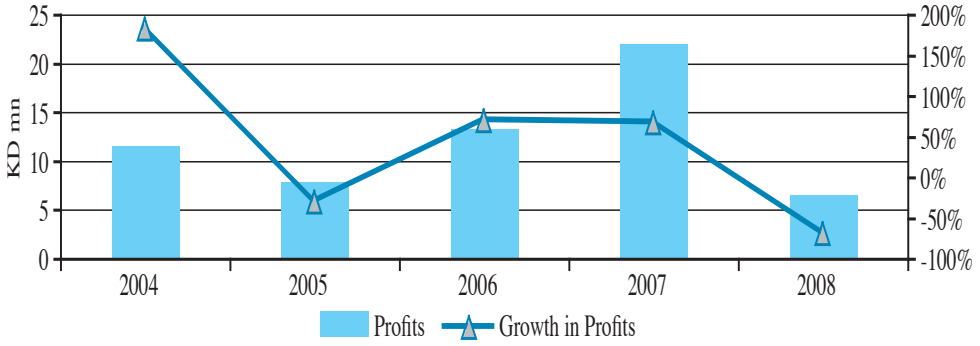



*Source: **Global** Research & KSE*

## 2008 Financial Performance

ACICO's net income fell by 70.4% in 2008 to reach KD6.5mn from 2007 levels of KD22.1mn. The drop in earnings was due to the fall in the financial and real estate markets, which caused ACICO's non-operating income to drop significantly. The change in fair value of investment properties, which fell from KD18.7mn in 2007 to less than one million Kuwaiti Dinars in 2008, was the major non-operating account that caused such a decline in the net income.

**Chart 02: Profits & its Growth**




*Source: **Global** Research & Company's Reports*

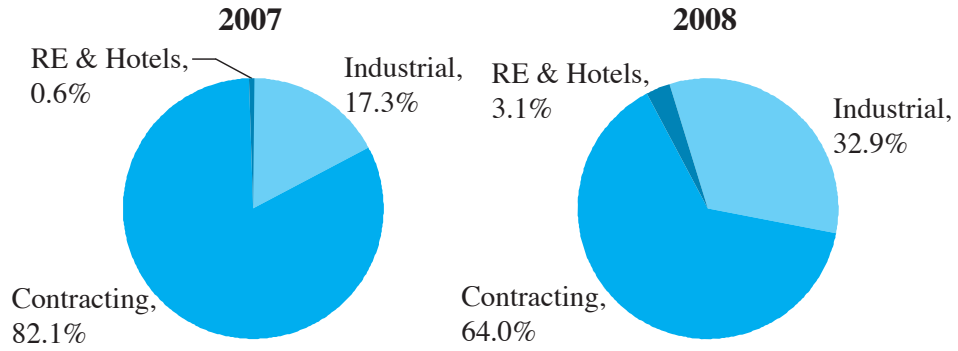
Growth in earnings has been volatile over the years. During 2004-2008, earnings growth reached as high as 181%, and it also reached as low as -70%. The volatility in earnings growth came from the volatility in the operating profits, combined with the fluctuations in investment income.

***Revenues…***

Operating revenues (after elimination of inter-company activities) grew by 58.4% from KD42.7mn in 2007 to reach KD67.6mn in 2008. Revenue growth was mostly driven by the increase in the industrial sector (mostly cement and concrete sale) which grew by 130.8% in 2008 to constitute 32.9% of total operating revenues.

The largest revenue came from the contracting business, which decreased by 5.8% to represent 64.0% of overall operating revenues. The smallest sector, real estate & hotels, experienced the largest increase in operating revenue. It is important to note that all these segmented figures include, inter-company activities and they do not include the rental income generated by ACICO's properties

**Chart 03: Operating Revenue by Sector**




*Source: **Global** Research & Company's Reports*

Non-operating revenues were mostly compromised by investment activities income, which decreased by 69.8% from KD23.4mn in 2007 to reach KD7.1mn in 2008. This decline in was led by the decline in fair value changes from KD18.6mn in 2007 to reach to less than one million Kuwaiti Dinars in 2008.

In contrast, rental income jumped from less than KD0.4mn in 2007 to reach about KD3.0mn in 2008, and it is expected to increase in the future as more properties will commence operations and vacancy rates will drop over the years. For example, Nasima tower is expected to be completed by November 2009, while Sheikh Zayed road hotel is expected to be completed by January 2010. Rental income will be part of the company's recurring-revenue, unless management decides to sell these properties.

***Expenses***

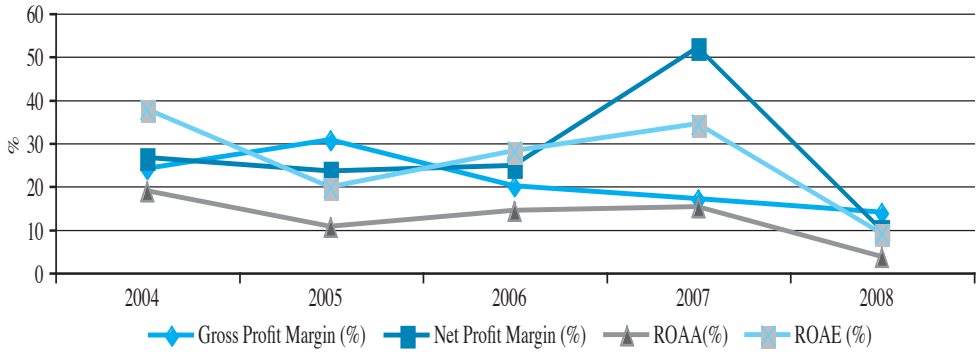
Total operating expenses reached KD64.4mn in 2008, up by 54.7% from 2007 levels of KD41.6mn. The largest expense was "Operating Cost" which grew by 64.3% to record KD58.4mn in 2008 from KD35.5mn in 2007. Selling, general, & administrative expenses declined by 1.1% to reach KD5.5mn in 2008.

***Return Performance & Margin***

Overall, return measures and margins dropped significantly in 2008. Gross profit margin declined slightly in 2008 to reach 13.7%, as compared to 16.8% in 2007. It has been in a decline trend since 2005 when it was 30.5%. On other hand, net profit margin dropped significantly from 51.7% in 2007 to reach 9.7% in 2008. The drop in net profit margin was higher relative to the drop in gross margin, due the decline in non-operating income.

Return on average assets (ROAA) experienced the same pattern as return margins, when it fell from 14.9% in 2007 to reach 3.3% in 2008. Besides, return on average equity (ROAE) was 8.9% in 2008, as compared to 34.1% in 2007.

**Chart 04: ACICO's Performance**




*Source: **Global** Research & Company's Reports*

***Assets…***

Total assets grew by 8.2% from KD187.5mn in 2007 to cross the KD200mn mark. This growth followed a substantial increase in assets in 2007 and 2006 by 72.0% and 35.7%, respectively. Cash was the main asset that dropped significantly in 2008. ACICO's cash & equivalents dropped from KD31.4mn in 2007 to less than one million KD.

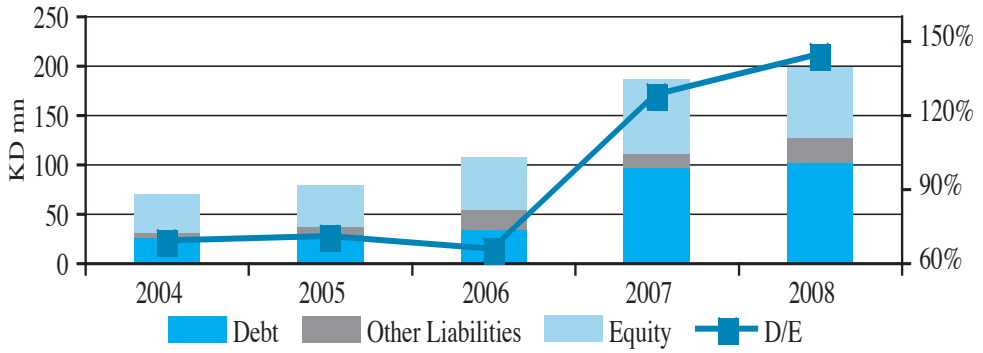
Receivables increased by 25.9% from KD20.8mn in 2007 to KD26.2mn in 2008. In addition, inventories account witnessed the biggest increase among all assets. Inventories increased

from KD3.5mn in 2007 to record KD6.8mn in 2008. Total current assets experienced a fall by 39.6% to record KD33.7mn, due to the fall in cash holding which constituted large portion of current assets in 2007.

On other hand, non-current asset increased by 28.5% from KD131.6mn in 2007 to reach KD169.1mn in 2008. This growth in non-current assets was led by the increase of 58.8% in the net fixed assets to reach KD30.9mn at the end of 2008. Also, projects under constructions increased 17.6% to reach KD69.8mn.

Current Assets constituted 16.6% of total assets, while non-current assets formed 83.4% (KD33.7mn) in 2008. The largest current asset was Receivables which constituted 12.9% (KD26.2mn) of total assets. Project under constructions and investment properties were the biggest non-current asset constituting with 34.4% (KD69.8mn) and 24.2% (KD49mn), respectively.

**Chart 05: Capital Structure & leverage**




*Source: **Global** Research & Company's Reports*

Liabilities increased by 15.2% from KD111.1mn in 2007 to record KD128.1mn in 2008, constituting 63.1% of total assets. Debt stood at KD102.2mn, while the rest of liabilities were composed of payables and employee's indemnity. 72.5% (KD74.1mn) of the debt was short term, while non-current debt was 27.5% (KD28.1mn). Debt-to-equity ratio (D/E) stood at 1.37x at the end of 2008.

Equity decreased by 6.4% to record KD71.2mn, constituting 35.1% of total assets. This decrease can be attributed to the decline in retained in earnings because of distribution of dividends that is higher the profits in 2008.

# 1H2009 Financial Performance

ACICO's net income in the 1H2009 fell by 38.8% to reach KD4.1mn, as compared to KD6.8mn in 1H2008. Even though operating revenues almost doubled from KD15.1mn in 1H2008 to record KD30mn in 1H2009, the decline in bottom line can be attributed to the non-recurring profit from discounted operation made in 1Q2008 amounted to KD1.2mn.The rental income jumped dramatically from KD0.5mn in1H2008 to reach KD2.9mn 1H2009.

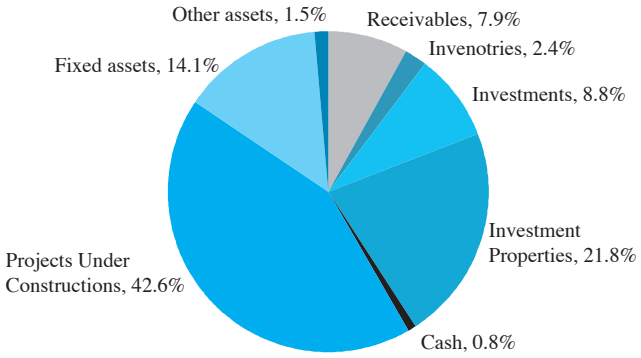
**Table 01: ACICO 1H2009 Results**

| *KD mn* | 1H2009 | 1H2008 | Change (%) |
|---|---|---|---|
| Operating Revenues | 30 | 15.1 | 98.5% |
| Operating Profits | 2.4 | -0.32 | 844.5% |
| Net Profit Attributed to Equity | 4.1 | 6.8 | -38.8% |
| EPS after discontinued operations (fils) | 19.7 | 19.8 | -0.6% |

*Source: Company's Reports*

Assets grew slightly by 2.5% from KD202.8mn in FY2008 to reach KD207.8mn in 1H2009. Cash holding increased to reach KD1.6mn in 1H2009. Most notable increase in assets was the increase in projects under construction by almost KD18.7mn in the first half. The largest asset was projects under constructions constituting 42.6% of total assets, followed by investment properties with 21.8/% (KD45.3mn), and then net fixed assets with 14.1% (KD29.4mn).

**Chart 06: ACICO's assets Composition as on 1H2009.**




*Source: Company's Reports*

Assets were financed with Liabilities (62.6%), and equity (36.2%). Liabilities grew slightly by 1.5% to reach KD130mn in 1H2009, of which KD106.3mn is debt. On the other hand, equity grew by 5.7% to register KD75.3mn at the end of 1Q2009.

# Outlook

The financial crisis has negatively affected ACICO, but the impact was much lesser than other companies. The high earnings that the company has enjoyed over the recent past years are unlikely to occur in the near future, as real estate properties and other investment asset classes will not enjoy the same old lucrative returns.

The results of the crisis on ACICO business units are varied depending on the sector in which the unit operates in. First, the construction unit was impacted more than other business units, as evident by the decline in gross profits made in the first half of 2009. Revenues from contracting business fell by 32.5% in 1H2009 as compared to 1H2008. Construction activities are centered in Dubai and Kuwait, and the most notable project in Kuwait is the infrastructure of Saad Albdullah area worth KD33.2mn which is expected to be completed in September of 2009. ACICO's contracting unit in Kuwait is involved mostly with government projects which have been decreased this year because of lower budgeted spending, especially capital spending. In addition, the political instability left the government paralyzed to carry on new projects. However, early news indicated that the government intends to devote billions of Kuwaiti Dinars for projects in 2010, and the company could snatch few contracts. Nevertheless, no major contract inside Kuwait exists at the moment.

On the other hand, the construction unit in Dubai is involved with one of Nakheel projects which is estimated to be completed in September of 2009. After that, ACICO will not have any construction project in Dubai. The relaxation in Dubai construction operations is a result of the turmoil in the real estate market. Besides, the strict policy regarding the credit quality of the developer would render ACICO unwilling to enter onto new projects. Because of this decline in constructions opportunities in Dubai, the company is attempting to shift its focus from UAE, Dubai in particular, to Saudi Arabia. In fact, ACICO is studying some offers to enter the Saudi market, but nothing concrete is yet established. All in all, the construction unit should witness massive drop in revenue this year, as no big projects is in the company portfolio. 2010 construction revenues will depend on the company's ability to secure safe projects in an un-doubtfully troubled and highly competitive market.

The next major business unit is the manufacturing of building materials, mostly the production of concrete and cement. Despite the turmoil in GCC real estate sector, ACICO building materials unit seems unaffected by the crisis since revenue from the industrial sector was seen higher in 1H2009 as compared to the same period of the previous year. This could be explained by the gap between supply and demand in Kuwait which is the primary market for ACICO's building materials. Thus, we expect that revenue from this unit to remain strong in the coming years. Abroad, the Saudi plants have been completed and they are fully operational. Qatari facilities, on the other hand, are expected to be completed by the end of the fourth quarter of 2009.

Apart from current production, the company is involved in developing new building materials. Actually, ACICO is in the process of developing a new product line. The product is fire-proof concrete blocks that are half the thickness of the standard fire-proof concrete. Currently, it is in the final stages of trial tests, and management expects to receive the certificate of European standards soon. The product's gross margin is expected to be 85%, and the blocks can be

produced by the current existing facilities without significant modification. This product invention is part of the company's ongoing efforts to improve quality and to enhance brand name.

The third business sector is the real estate and hotels which started recently by building properties. The goal is to own a portfolio of real estate properties which can generate a steady periodic rental revenues. Most of these properties are located in Dubai, of which one has been completed, and two will be ready for occupancy in the next six months. Once rented, we expect rental revenues to provide stable periodic cash inflows. Besides, values of these properties are not expected to be affected by the real estate turmoil in Dubai because management follows conservative valuation methodologies of these properties by reporting them as per book value. For instance, one of the properties is reported at discount of one third of its current market value. Therefore, we do not expect massive write-downs the same way many Dubai properties owners are doing.

# Valuation & Recommendation

For arriving at the fair value of ACICO, we have used two valuation methods:

1. Cash flow approach represented by the Discounted Free Cash Flow to the Firm (DCFF).

2. P/E target multiple approach.

***Discounted Free Cash Flow (DCFF)***
The DCF model is based on a 4-year forecast (2009-12) of free cash flows to the firm (FCFF). The FCFF for the forecasted period and the terminal value are then discounted back at the weighted average cost of capital (WACC) to arrive at the total net present value (NPV) of the company. In our calculations, we have made the following assumptions in order to arrive at the equity value of ACICO:

- Cost of Equity derived using Capital Asset Pricing Model (CAPM).

  a. Risk free rate of 6.5%.
  b. Equity risk premium of 6.0%.
  c. Beta of 1.0.

- Terminal growth rate of 3.0%.

- Cost of Debt is assumed at 7.0%.

**Table 02: DCF Valuation**

| *(KD mn)* | **2009 (F)** | | **2010 (F)** | **2011 (F)** | **2012 (F)** |
|---|---|---|---|---|---|
| FCFF | (4.3) | | 13.5 | 11.0 | 15.3 |
| NPV of FCFF | (4.1) | | 11.9 | 8.9 | 11.2 |
| Terminal value at year 2012 (F) | 233.4 | | | | |
| PV of terminal value | 171.1 | | | | |
| Primary value | 27.9 | | | | |
| Investments | 18.3 | *(As at end of 1H2009)* | | | |
| Cash | 1.6 | *(As at end of 1H2009)* | | | |
| Enterprise Value | 218.9 | | | | |
| Debt | 106.3 | *(As at end of 1H2009)* | | | |
| Equity Value | 112.6 | | | | |
| No. of Equity Shares Outstanding (mn) | 214.9 | | | | |
| Per Share Value (KD) | 0.524 | | | | |

*Source: **Global** Research*

Based on our assumptions and FCF forecast, DCF valuation yielded a price of 524 fils per share for ACICO. We have put an 80% weight on DCF valuation method, to derive the share value.

**Sensitivity – DCF**
We have also prepared a sensitivity analysis for the estimated fair price based on various terminal growth rates and WACC.

**Table 03: DCF Sensitivity**

| | | Terminal Growth Rate | | | | |
|---|---|---|---|---|---|---|
| | | **1.0%** | **2.0%** | **3.0%** | **4.0%** | **5.0%** |
| **WACC** | **7.8%** | 0.564 | 0.718 | 0.937 | 1.271 | 1.849 |
| | **8.8%** | 0.432 | 0.544 | 0.694 | 0.908 | 1.236 |
| | **9.8%** | 0.330 | 0.415 | **0.524** | 0.671 | 0.881 |
| | **10.8%** | 0.249 | 0.315 | 0.398 | 0.505 | 0.649 |
| | **11.8%** | 0.184 | 0.236 | 0.300 | 0.381 | 0.486 |

*Source: **Global** Research*

**Peer Group Valuation**

The peer group valuation is performed to compare the intrinsic value of ACICO arrived at using the DCF calculation. In order to value ACICO using this method, we have used the weighted average price-to-earnings (P/E) multiple for a basket of comparable companies, which make up the peer set for ACICO. The price-earnings multiple of a stock is a reflection of various factors, such as the expected profitability of the company, its growth potential as perceived by the market, predictability and sustainability of its revenues, the quality of its earnings and the quality of its management, among others.

To arrive at the peer-set P/E multiple, we have computed the weighted average P/E of five listed companies in Kuwait and UAE in the three main business segments of the company at present – contracting services, real estate development and building materials – based on their current market prices and 2008 earnings.

The weighted trailing P/E of the peer set is 10.67. On the basis of P/E for the peer set and ACICO's 2008 earnings, the company's stock valuation comes to 325 fils per share. However, as the price-earnings multiple varies with time and is dependent on several factors, such as market sentiment and other qualitative factors, we have provided a lower weightage of 20% to the peer valuation method, and 80% weightage to the value arrived at using the DCF method.

**Table 04: ACICO's Valuation**

| | **Value Per Share (KD)** | **Weightage** |
|---|---|---|
| As per DCF method | 0.524 | 80% |
| As per P/E multiple | 0.325 | 20% |
| **Weighted Value** | **0.484** | **100%** |

*Source: **Global** Research*

Based on the current market price of 450 fils per share (as on 8th September 2009), ACICO is trading at a 2009E P/E and P/BV multiple of 10.9x and 1.2x respectively. Our estimated value for ACICO scrip is worked out to be 484 fils per share. According to our fair value the company scrip offers an upside of 7.6% on the closing price of 450 fils per share; we therefore recommend a "**HOLD**" on the scrip.

## BALANCE SHEET

| | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| *(KD)* | **2006** | **2007** | **2008** | **2009 (F)** | **2010 (F)** | **2011 (F)** | **2012 (F)** |
| Bank & Cash Equivalents | 3,168,622 | 31,364,480 | 613,557 | 1,485,331 | 2,691,864 | 2,464,197 | 2,135,678 |
| Account Receivables | 10,595,356 | 15,733,320 | 13,861,338 | 11,781,036 | 9,812,640 | 12,242,788 | 14,024,725 |
| Other Receivables | 10,350,512 | 5,080,831 | 12,336,015 | 7,894,044 | 5,887,584 | 7,345,673 | 8,414,835 |
| Inventories | 2,507,071 | 3,504,196 | 6,758,793 | 4,511,337 | 3,494,444 | 4,493,165 | 5,218,871 |
| Investment Portfolios (Trading) | 3,008,512 | - | - | - | - | - | - |
| Lands under Development | 147,104 | 164,420 | 164,420 | 164,420 | 197,304 | 236,765 | 284,118 |
| **Total Current Assets** | **29,777,177** | **55,847,247** | **33,734,123** | **25,836,168** | **22,083,837** | **26,782,587** | **30,078,227** |
| | | | | | | | |
| Investment available for sale | - | 6,156,803 | 3,035,520 | 3,021,291 | 3,063,977 | 3,106,663 | 3,106,663 |
| Investment in Associates | 1,819,992 | 8,872,958 | 13,283,638 | 14,346,329 | 15,494,035 | 16,733,558 | 18,072,243 |
| Investment in Unconsolidated Subsidiaries | - | - | - | - | - | - | - |
| Investment Properties | 11,626,347 | 34,710,615 | 49,047,640 | 89,779,238 | 136,777,528 | 141,664,144 | 146,711,852 |
| Goodwill | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 |
| Right of Utilization of Leasehold | 895,438 | 837,976 | 780,520 | 729,786 | 682,350 | 637,997 | 596,528 |
| Projects Under Construction | 48,215,882 | 59,315,822 | 69,781,267 | 49,394,072 | 7,006,229 | 11,506,229 | 15,006,229 |
| Gross Fixed Assets | 24,151,968 | 30,422,889 | 43,860,960 | 45,610,960 | 49,110,960 | 52,610,960 | 56,110,960 |
| Less: Accumulated Depreciation | 9,736,696 | 10,967,585 | 12,965,304 | 15,930,016 | 19,122,229 | 22,541,941 | 26,189,154 |
| Net Fixed Assets | 14,415,272 | 19,455,304 | 30,895,656 | 29,680,944 | 29,988,731 | 30,069,019 | 29,921,806 |
| **Total Assets** | **109,000,614** | **187,447,231** | **202,808,870** | **215,038,334** | **217,347,194** | **232,750,704** | **245,744,053** |
| **Liabilities:** | | | | | | | |
| Accounts Payable | 5,887,905 | 12,581,610 | 17,765,192 | 11,600,580 | 8,985,713 | 11,553,854 | 13,419,954 |
| Short-term Loans | 17,323,347 | 67,354,900 | 74,096,136 | 24,451,725 | 43,540,533 | 56,888,673 | 54,044,240 |
| Due to Related Parties | 877,459 | 400,587 | 6,486,562 | 10,499,410 | 10,343,139 | 9,852,105 | 10,369,685 |
| Dividends Payable | 205,347 | 353,680 | 489,372 | 276,923 | 218,577 | 234,103 | 263,604 |
| **Total Current Liabilities** | **24,294,058** | **80,690,777** | **98,837,262** | **46,828,638** | **63,087,961** | **78,528,736** | **78,097,482** |
| | | | | | | | |
| Long-term Loan | 17,267,948 | 29,582,594 | 28,118,646 | 83,690,748 | 57,746,616 | 44,753,627 | 43,634,787 |
| Employees' Indemnity Provision | 722,510 | 871,586 | 1,109,335 | 1,164,802 | 1,223,042 | 1,284,194 | 1,348,404 |
| Due to Shareholders | 12,061,787 | - | - | - | - | - | - |
| **Total Liabilities** | **54,346,303** | **111,144,957** | **128,065,243** | **131,684,188** | **122,057,619** | **124,566,557** | **123,080,672** |
| Minority Interest | 1,228,185 | 190,504 | 3,525,539 | 3,839,579 | 4,328,831 | 4,903,293 | 5,559,216 |
| | | | | | | | |
| **Owner's Equity:** | | | | | | | |
| Paid-up Capital | 14,684,371 | 19,493,213 | 20,467,874 | 21,491,268 | 21,491,268 | 21,491,268 | 21,491,268 |
| Share Premium | 16,245,253 | 24,426,446 | 24,426,446 | 24,426,446 | 24,426,446 | 24,426,446 | 24,426,446 |
| Statutory Reserve | 4,705,127 | 7,001,050 | 7,683,349 | 8,573,520 | 9,960,346 | 10,745,634 | 10,745,634 |
| Treasury Shares | (605,684) | (415,881) | (731,539) | (822,981) | (617,236) | (462,927) | (347,195) |
| Gain on Sale of Treasury Shares | 2,479,912 | 2,583,763 | 2,583,763 | 2,583,763 | 2,583,763 | 2,583,763 | 2,583,763 |
| Retained Earnings | 15,967,691 | 25,570,512 | 19,767,020 | 25,680,605 | 35,491,524 | 46,829,353 | 60,536,932 |
| Cumulative Changes in Fair Value | - | 9,197 | (71,143) | (85,372) | (42,686) | - | - |
| Effect of change in equity of an associate | - | - | (259,149) | (259,149) | (259,149) | (259,149) | (259,149) |
| Foreign Currency Translation Adjustments | (50,544) | (2,556,530) | (2,648,533) | (2,073,533) | (2,073,533) | (2,073,533) | (2,073,533) |
| Total Shareholder's Equity | 53,426,126 | 76,111,770 | 71,218,088 | 79,514,567 | 90,960,743 | 103,280,854 | 117,104,165 |
| **Total Liabilities & Owner's Equity** | **109,000,614** | **187,447,231** | **202,808,870** | **215,038,334** | **217,347,194** | **232,750,704** | **245,744,053** |

*Source: **Global** Research & Company's filings.*

## INCOME STATEMENT

| | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| *(KD)* | **2006** | **2007** | **2008** | **2009 (F)** | **2010 (F)** | **2011 (F)** | **2012 (F)** |
| **Operating Income** | **54,491,602** | **42,684,785** | **67,631,529** | **57,626,523** | **47,754,850** | **59,581,567** | **68,253,662** |
| Operating Cost | (43,738,769) | (35,530,860) | (58,372,823) | (47,046,797) | (36,442,058) | (46,857,297) | (54,425,368) |
| **Gross Profit** | **10,752,833** | **7,153,925** | **9,258,706** | **10,579,726** | **11,312,793** | **12,724,270** | **13,828,293** |
| General & Administrative Expenses | (2,292,938) | (4,750,148) | (3,915,922) | (4,610,122) | (3,820,388) | (4,766,525) | (5,460,293) |
| Selling Expenses | (660,190) | (848,061) | (1,623,398) | (1,218,121) | (1,432,646) | (1,489,539) | (1,440,152) |
| Provisions | (87,446) | 77,219 | (10,009) | (60,031) | (78,501) | (79,578) | (77,136) |
| Depreciation and Amortization | (461,564) | (488,328) | (467,672) | (559,200) | (592,012) | (635,762) | (679,512) |
| **Operating Profit** | **7,250,695** | **1,144,607** | **3,241,705** | **4,132,252** | **5,389,246** | **5,752,865** | **6,171,200** |
| Other Income | 493,124 | 243,466 | 647,270 | 730,250 | 605,155 | 755,025 | 864,919 |
| Rental Income | 338,189 | 369,621 | 2,936,357 | 6,831,728 | 10,751,721 | 12,691,683 | 13,714,602 |
| Gain on Sale of Investment Property | - | 1,211,275 | 523,972 | (450,000) | - | - | - |
| Gain on sale of a portion in a subsidiary | - | - | 1,405,148 | - | - | - | - |
| Impairment Loss of available for sale investments | - | - | (379,678) | - | - | - | - |
| Gain on Sale of Projects Under Construction | 5,023,116 | - | - | - | - | - | - |
| Share of Result from Associates | - | 1,037,738 | 436,292 | 445,018 | 934,537 | 1,074,718 | 1,773,285 |
| Dividends Income | 164,800 | 53,966 | 133,676 | 42,108 | 89,814 | 143,993 | 205,096 |
| Interest Expenses | (1,823,861) | (1,694,004) | (3,421,496) | (2,208,751) | (3,350,874) | (3,551,265) | (3,488,123) |
| Profit/(Loss) on Disposal of Available for sale Investments | 61,564 | 61,373 | - | 60,568 | 60,853 | 61,706 | 62,133 |
| Interest Income | 63,321 | 568,100 | 538,858 | 20,247 | 503,590 | 678,714 | 811,682 |
| Forex Gain / (Loss) | (21,046) | 1,232,020 | 702,875 | - | - | - | - |
| Change in Fair Value of Investment Property | 3,106,545 | 18,652,601 | 129,084 | 119,403 | 110,447 | 99,403 | 89,462 |
| Board of Directors Remuneration | (95,000) | (95,000) | - | (95,000) | (95,000) | (95,000) | (95,000) |
| Contribution to KFAS | (125,221) | (195,722) | (54,763) | (79,911) | (124,496) | (146,178) | (166,907) |
| NLST | (347,837) | (573,981) | (167,236) | (235,882) | (367,488) | (431,490) | (492,677) |
| Zakat | - | (14,117) | (70,367) | (96,278) | (149,995) | (176,118) | (201,093) |
| **Profit Before Minority Interest** | **14,088,389** | **22,001,943** | **6,601,697** | **9,215,753** | **14,357,512** | **16,858,056** | **19,248,580** |
| Minority Interest | (742,974) | 78,466 | (71,075) | (314,040) | (489,252) | (574,462) | (655,923) |
| **Net Profit Attributable to Shareholders** | **13,345,415** | **22,080,409** | **6,530,622** | **8,901,713** | **13,868,259** | **16,283,594** | **18,592,658** |
| **P&L Appropriation Account:** | | | | | | | |
| **Opening Balance of Retained Earnings** | **12,029,084** | **15,967,691** | **25,570,512** | **19,767,020** | **25,680,605** | **35,491,524** | **46,829,353** |
| Adjustments | - | - | - | - | - | - | - |
| Net Profit for the Year | 13,345,415 | 22,080,409 | 6,530,622 | 8,901,713 | 13,868,259 | 16,283,594 | 18,592,658 |
| Transfer to Statutory Reserve | (1,391,347) | (2,295,923) | (682,299) | (890,171) | (1,386,826) | (785,288) | - |
| Cash Dividend | (6,219,086) | (9,253,417) | (10,677,154) | (1,074,563) | (2,670,514) | (4,160,478) | (4,885,078) |
| Stock Dividend | (624,867) | (928,248) | (974,661) | (1,023,394) | - | - | - |
| Due to a Company Under Liquidation | (1,171,508) | - | - | - | - | - | - |
| **Closing Balance of Retained Earnings** | **15,967,691** | **25,570,512** | **19,767,020** | **25,680,605** | **35,491,524** | **46,829,353** | **60,536,932** |

*Source: **Global** Research & Company's filings.*

## CASH FLOW STATEMENT

| | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| *(KD)* | **2006** | **2007** | **2008** | **2009 (F)** | **2010 (F)** | **2011 (F)** | **2012 (F)** |
| **Operating Activities** | **9,646,564** | **5,538,583** | **10,778,138** | **14,388,281** | **19,391,814** | **21,937,353** | **23,608,577** |
| Profit before KFAS & NLST | 14,656,447 | 22,880,763 | 6,894,063 | 9,722,824 | 15,094,490 | 17,706,843 | 20,204,256 |
| Depreciation and Amortization | 1,634,712 | 1,757,040 | 2,454,363 | 2,964,712 | 3,192,212 | 3,419,712 | 3,647,212 |
| (Gain) Loss on Sale of Investment Property | - | (1,211,275) | (523,972) | 450,000 | - | - | - |
| Dividend Income | (164,800) | (53,966) | (133,676) | (42,108) | (89,814) | (143,993) | (205,096) |
| Change in Fair Value of Investment Property | (3,106,545) | (18,652,601) | (129,084) | (119,403) | (110,447) | (99,403) | (89,462) |
| Gain on Sale of Property, Plant and Equipment | (31,426) | (48,680) | (455,181) | - | - | - | - |
| Provision for Slow-Moving Inventory | 82,679 | 50,000 | - | - | - | - | - |
| Gain on Sale of Lands Under Development | (717,702) | - | - | - | - | - | - |
| Gain / loss from Investments in available for sale | (61,564) | (61,373) | - | (60,568) | (60,853) | (61,706) | (62,133) |
| Fixed Assets Written Off | 532,192 | - | - | - | - | - | - |
| Provision for Doubtful Debts | 4,767 | 157,075 | 10,009 | 60,031 | 78,501 | 79,578 | 77,136 |
| Increase in Indemnity Provisions | 235,227 | 269,343 | 588,460 | 55,467 | 58,240 | 61,152 | 64,210 |
| Payment for Staff Indemnity | (60,637) | (116,244) | (350,711) | - | - | - | - |
| Interest Expenses | 1,823,861 | 1,694,004 | 3,421,496 | 2,208,751 | 3,350,874 | 3,551,265 | 3,488,123 |
| Interest Income Received | (63,321) | (568,100) | (538,858) | (20,247) | (503,590) | (678,714) | (811,682) |
| Gain on Sale of Projects Under Construction | (5,023,116) | - | - | - | - | - | - |
| Foreign Currency Translation Adjustments | 27,094 | 1,344,718 | (167,819) | - | - | - | - |
| Payment for KFAS | (17,536) | (74,231) | (125,221) | (79,911) | (124,496) | (146,178) | (166,907) |
| Payment of Board of Directors Fees | (85,000) | (95,000) | (95,000) | - | (95,000) | (95,000) | (95,000) |
| NLST | (18,768) | (695,152) | - | (235,882) | (367,488) | (431,490) | (492,677) |
| Payment of Zakat | - | - | (14,117) | (70,367) | (96,278) | (149,995) | (176,118) |
| Share of Result from Associates | - | (1,037,738) | (436,292) | (445,018) | (934,537) | (1,074,718) | (1,773,285) |
| Impairment Loss of Available for Sale Investments | - | - | 379,678 | - | - | - | - |
| **Working Capital Changes** | **(7,726,716)** | **5,603,969** | **3,869,113** | **6,437,024** | **2,088,391** | **(2,915,551)** | **(1,295,236)** |
| Dec/(inc.) in Receivables | (5,928,273) | 463,788 | (5,393,211) | 6,462,242 | 3,896,354 | (3,967,814) | (2,928,236) |
| Dec / (inc) in Inventories | 39,420 | (1,047,125) | (3,106,058) | 2,247,456 | 1,016,893 | (998,722) | (725,705) |
| Inc/(dec) in Accounts Payable | (1,837,863) | 6,187,306 | 12,368,382 | (2,272,675) | (2,824,856) | 2,050,984 | 2,358,705 |
| **Total Operating** | **1,919,848** | **11,142,552** | **14,647,251** | **20,825,305** | **21,480,206** | **19,021,802** | **22,313,341** |
| **Investing** | | | | | | | |
| Purchase of Fixed Assets | (930,085) | (2,165,850) | (7,327,536) | (1,750,000) | (3,500,000) | (3,500,000) | (3,500,000) |
| Proceeds from Sale of Fixed Assets | 129,797 | 155,219 | 833,590 | - | - | - | - |
| Purchase of Land | (3,750,265) | - | - | - | - | - | - |
| Proceeds from Sale of Land | 13,715,670 | - | - | - | - | - | - |
| Projects under Construction | (18,421,347) | (32,555,509) | (34,147,406) | (23,350,000) | (4,500,000) | (4,500,000) | (3,500,000) |
| Purchase of Investment Property | (2,202,347) | (739,677) | (11,567) | 3,700,000 | - | (4,787,213) | (4,958,245) |
| Gain (Loss) of Investment Property | - | 10,410,835 | - | (450,000) | - | - | - |
| Proceeds from Sale of Projects | 10,371,007 | - | - | - | - | - | - |
| Gain / loss from Sale of Investments | 16,500 | - | - | 60,568 | 60,853 | 61,706 | 62,133 |
| Unrealized Gain from Investments | - | 2,118,791 | - | - | - | - | - |
| Right of Utilization of Leasehold | 578,038 | - | - | 50,734 | 47,436 | 44,353 | 41,470 |
| Changes in Lands Under Development | - | - | - | - | (32,884) | (39,461) | (47,353) |
| Paid for Purchase of Investment in Associates | - | (6,190,562) | - | (617,673) | (213,169) | (164,805) | 434,600 |
| Subscription in Unconsolidated Subsidiaries | (1,175,344) | - | - | - | - | - | - |
| Interest Income Received | 43,538 | 250,669 | 538,858 | 20,247 | 503,590 | 678,714 | 811,682 |
| Dividend Income Received | 164,800 | 53,966 | 133,676 | 42,108 | 89,814 | 143,993 | 205,096 |
| Goodwill | 908,155 | - | - | - | - | - | - |
| Purchase of Investments | (1,651,724) | (5,215,809) | - | 0 | 0 | 0 | - |
| **Total Investing** | **(2,203,607)** | **(33,877,927)** | **(39,980,385)** | **(22,294,015)** | **(7,544,360)** | **(12,062,713)** | **(10,450,617)** |
| **Financing** | | | | | | | |
| Changes in Loan | 2,549,963 | 62,346,199 | 5,277,288 | 5,927,691 | (6,855,324) | 355,152 | (3,963,274) |
| Dividend Paid | (6,239,295) | (9,105,084) | (10,541,462) | (1,287,012) | (2,728,860) | (4,144,952) | (4,855,577) |
| Cash Dividend to Subsidiary | (468,524) | (1,178,152) | (554,694) | - | - | - | - |
| Decrease in Minority Interest | (5,577) | 268,620 | 3,839,466 | - | - | - | - |
| Proceeds from Treasury Shares | (295,547) | 293,654 | (16,891) | (91,442) | 205,745 | 154,309 | 115,732 |
| Increase in Capital & Premium | 6,248,668 | - | - | (0) | - | - | - |
| Interest Expense | (1,823,861) | (1,694,004) | (3,421,496) | (2,208,751) | (3,350,874) | (3,551,265) | (3,488,123) |
| **Total Financing** | **(34,173)** | **50,931,233** | **(5,417,789)** | **2,340,485** | **(12,729,313)** | **(7,186,756)** | **(12,191,243)** |
| Net Change in Cash | (317,932) | 28,195,858 | (30,750,923) | 871,774 | 1,206,533 | (227,667) | (328,519) |
| Cash Attributable to a Company Under Liquidation | 2,988,503 | - | - | - | - | - | - |
| Net Cash at Beginning | 498,051 | 3,168,622 | 31,364,480 | 613,557 | 1,485,331 | 2,691,864 | 2,464,197 |
| **Net Cash at End** | **3,168,622** | **31,364,480** | **613,557** | **1,485,331** | **2,691,864** | **2,464,197** | **2,135,678** |

*Source: **Global** Research & Company's filings.*

| | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) |
| **Liquidity Ratios** | | | | | | | |
| Current Ratio (x) | 1.2 | 0.7 | 0.3 | 0.6 | 0.4 | 0.3 | 0.4 |
| Quick Ratio (x) | 1.1 | 0.6 | 0.3 | 0.5 | 0.3 | 0.3 | 0.3 |
| Inventory Stock (days) | 21.4 | 30.9 | 32.1 | 43.7 | 40.1 | 31.1 | 32.6 |
| Receivables Outstanding (days) | 69.2 | 112.6 | 79.9 | 81.2 | 82.5 | 67.6 | 70.2 |
| **Profitability Ratios** | | | | | | | |
| Total Assets Turnover (x) | 0.6 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 |
| Equity Turnover (x) | 1.1 | 0.7 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 |
| Gross Profit Margin (%) | 19.7 | 16.8 | 13.7 | 18.4 | 23.7 | 21.4 | 20.3 |
| Operating Margin (%) | 13.3 | 2.7 | 4.8 | 7.2 | 11.3 | 9.7 | 9.0 |
| Net Profit Margin (%) | 24.5 | 51.7 | 9.7 | 15.4 | 29.0 | 27.3 | 27.2 |
| Return on Average Assets (%) | 14.1 | 14.9 | 3.3 | 4.3 | 6.4 | 7.2 | 7.8 |
| Return on Average Equity (%) | 27.9 | 34.1 | 8.9 | 11.8 | 16.3 | 16.8 | 16.9 |
| **Activity Ratios** | | | | | | | |
| Inventory Turnover Ratio (x) | 17.0 | 11.8 | 11.4 | 8.3 | 9.1 | 11.7 | 11.2 |
| Debtor turnover Ratio (x) | 5.3 | 3.2 | 4.6 | 4.5 | 4.4 | 5.4 | 5.2 |
| Creditors Turnover Ratio (x) | 6.9 | 3.8 | 3.8 | 3.2 | 3.5 | 4.6 | 4.4 |
| **Leverage Ratios** | | | | | | | |
| Current Liability / Equity (x) | 0.5 | 1.1 | 1.4 | 0.6 | 0.7 | 0.8 | 0.7 |
| Debt / Equity (x) | 0.6 | 1.3 | 1.4 | 1.4 | 1.1 | 1.0 | 0.8 |
| **Ratios Used for Valuation** | | | | | | | |
| EPS (Fils) | 62.1 | 102.7 | 30.4 | 41.4 | 64.5 | 75.8 | 86.5 |
| Book Value Per Share (Fils) | 248.6 | 354.2 | 331.4 | 370.0 | 423.2 | 480.6 | 544.9 |
| Market Price (KD) | 0.443 | 0.550 | 0.443 | 0.450 | 0.450 | 0.450 | 0.450 |
| P/E Ratio (x) | 7.1 | 5.4 | 14.6 | 10.9 | 7.0 | 5.9 | 5.2 |
| P/BV (x) | 1.8 | 1.6 | 1.3 | 1.2 | 1.1 | 0.9 | 0.8 |
| Dividend Yield (%) | 9.7% | 9.0% | 1.1% | 1.1% | 2.8% | 4.3% | 5.1% |

*Source: **Global** Research & Company's filings.*

*Historical P/E & P/B multiples pertain to respective year-end prices, while those for future years are based on closing price as at September 8, 2009.*

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

| Disclosure Checklist | | | | |
|---|---|---|---|---|
| Company | Recommendation | Ticker | Price | Disclosure |
| ACICO Industries Company | Hold | ACICO.KW (Reuters)<br>ACICO KK (Bloomberg) | KW0.450 | 1, 10 |

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|---|---|
| Global Rating | Definition |
| Buy | Fair value of the stock is >10% from the current market price |
| Hold | Fair value of the stock is between +10% and -10% from the current market price |
| Reduce | Fair value of the stock is between -10% and -20% from the current market price |
| Sell | Fair value of the stock is < -20% from the current market price |

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