

Kuwait

United Real Estate Company

Eyeing new terrain

June 2007

Global Investment House KSCC

Equity Research

Souk Al-Safat Bldg., 2nd Floor

P.O. Box 28807 Safat

13149 Kuwait

Tel: (965) 240 0551

Fax: (965) 240 0661

Email: research@global.com.kw

<http://www.globalinv.net>

Global Investment House stock market indices can be accessed
from the Bloomberg page GLOH
and from Reuters Page GLOB

Omar M. El-Quqa, CFA
Executive Vice President
omar@global.com.kw
Phone No:(965) 2400551 Ext.104

Faisal Hasan, CFA
Head of Research
fhasan@global.com.kw
Phone No:(965) 2400551 Ext.304

Abeer Gouda
Financial Analyst
agouda@global.com.kw
Phone No:(965) 2400551 Ext.501

United Real Estate Company

Reuters Code:

UREK.KW

Listing:

Kuwait Stock Exchange

Current Price

194fils (June 5, 2007)

June, 2007

BUY

Investment Summary

- **United Real Estate Company (UREC)** was incorporated in Kuwait in 1973, and was listed on the Kuwait Stock Exchange in 1984. UREC is dealing in various real estate activities particularly the purchase, sale, leasing and renting of land and buildings; management of third party properties in Kuwait and abroad; establishing, managing and sharing third party properties in real estate funds in Kuwait and abroad.
- UREC is the developer of the Marina Mall project, one of the largest BOT projects in the sector, and is considered as one of Kuwait's favorite shopping destination. With a 100% occupancy rate, Marina Mall contributes over 65% of UREC's rental revenues.
- Geographically, 82% of the company's assets are concentrated in Kuwait, however UREC has a strong presence across countries such as Egypt, Jordan, Lebanon and the UAE through its subsidiaries and affiliates.
- UREC's core operating assets amounted to KD162mn in FY06, forming 84% of the company's total assets. The rental portfolio constituted 56% of total core assets. The company's properties portfolio includes commercial complexes, hotels, resorts, residential buildings, shopping centers, high rise office buildings as well as mixed-use projects with a focus on the retail and hospitality segments.
- UREC's net profit for FY06 amounted to KD13.5mn, increasing by 8% from KD12.5mn reported in FY05. Profits from Kuwait's operations formed 73% of UREC's profits, while Lebanon contributed 19%, Fujeira (6%), and Egypt (2%).
- Revenues from operations consisting of rental income, hotel revenues, and other operating revenues witnessed a modest increase of 1% to reach KD11.8mn, while operating profit declined by 3.3% to reach KD7.7mn.
- Future projects for UREC include the landmark development, "United Towers" (previously "Kuwait Business City"), a mixed use project that will be constructed adjacent to Al-Shahid and Madina buildings in Sharq area, Kuwait City.
- Besides the Kuwait projects, UREC has started projects in Lebanon, Jordan, and Oman, with a focus on the retail and hospitality segments. The company is also negotiating to acquire pieces of land in Sharm el Sheikh, and Cairo in Egypt. Other

upcoming projects include the development of the five star Rawcheh hotel in Lebanon, the Verdun Mall project in Lebanon, a mall and a hotel in Jordan, and a long term lease retail project in Salalah in Oman.

- UREC is also planning to increase its investments in industrial real estate and hospitality sectors through its strategic holdings in “United Warehousing and Refrigeration Company” (UWRC) and “Dhiyafa Holding Company” (DHC) in Kuwait.
- To lessen the strain on the company’s balance sheet, UREC developed a new financing strategy for its future projects whereby most of its future property investments will be carried through its associate companies. Accordingly, we believe that future growth in UREC’s bottom line performance will be driven by income from associate companies upon the delivery of the projects in the pipeline.
- We have assigned an 80% weight to the DCF valuation and 20% to the P/BV valuation. Based on the weighted average valuation approach we have reached a fair value for UREC of 214fils, given a current market price of 194fils on June 5, 2007, the stock is currently trading at 10.4% below the fair value. Therefore, we initiate our coverage on UREC’s stock with a **“BUY”** recommendation.

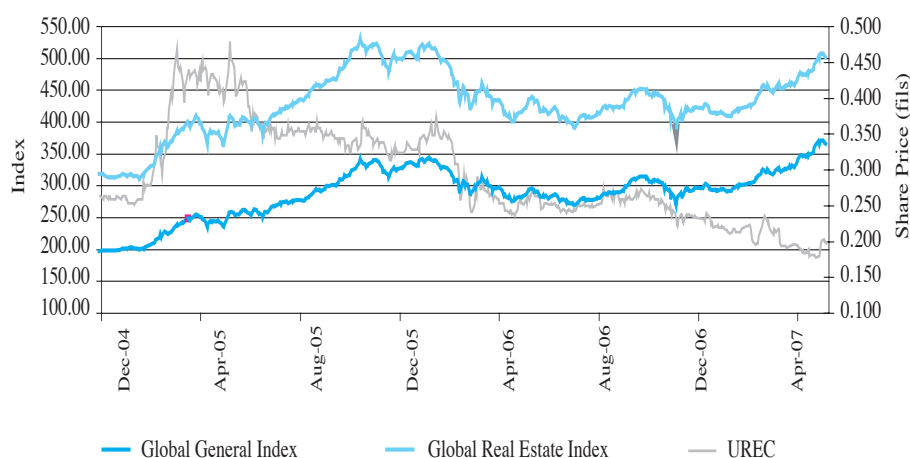
Table 01: Investment Indicators for UREC

CMP (fils)					Shares in issue		Market Cap		52 - week	
194					728,364,093		141.3		Hi/Lo	
Year	Revenues from Operations	Operating Profit	Net Profit	EPS	BVPS	ROAE	P/E	P/BV		
	(KD Mn)	(KD Mn)	(KD Mn)	(Fils)	(Fils)	(%)	(x)	(x)		
2008F	11.84	10.27	14.14	19.4	187.5	10.6	10.0	1.0		
2007F	11.72	8.82	11.20	15.4	178.5	9.6	12.6	1.1		
2006A	11.67	7.67	13.55	25.6	188.8	13.6	9.0	1.2		
2005A	12.56	7.93	12.55	23.7	179.1	12.9	13.6	1.8		

Source: Company Annual Reports, **Global** Estimates.

- Actual P/E and P/BV multiples are based on the respective year end prices, while those for future years are based on current market price on KSE on June 5, 2007.

Chart 01: Performance of UREC vs. Market Indices



Source: Reuters, **Global** Research

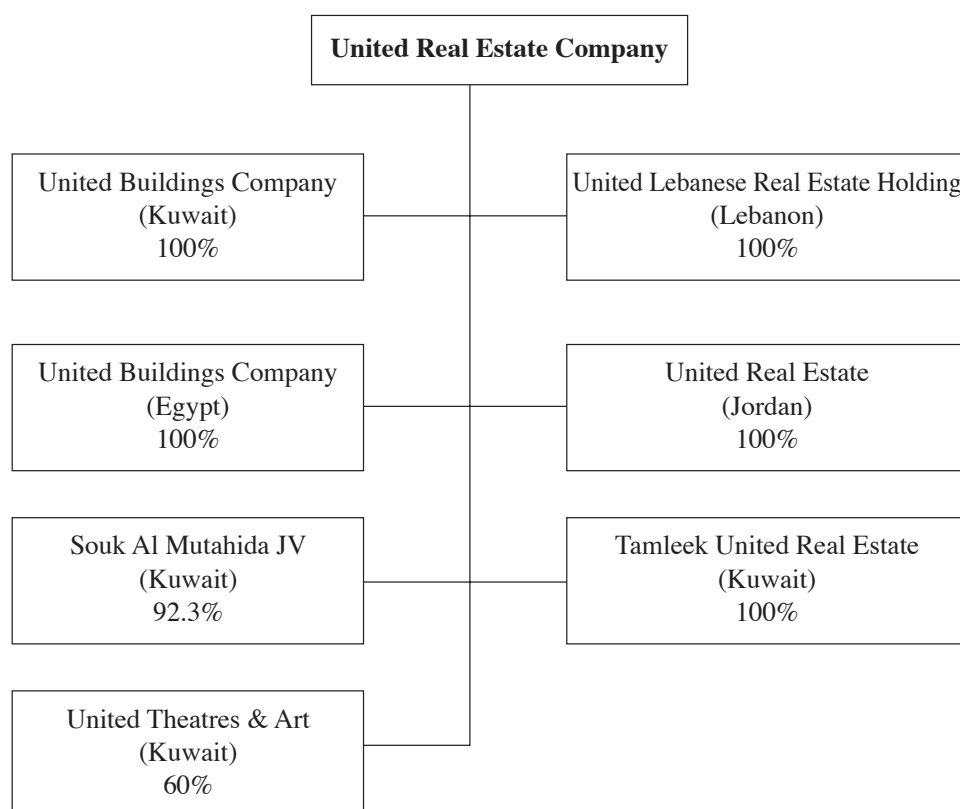
Company Background

United Real Estate Company (UREC) was incorporated in Kuwait in 1973, and was listed on the Kuwait Stock Exchange in 1984. UREC deals in various real estate activities particularly the purchase, sale, leasing and renting of land and buildings; management of third party properties in Kuwait and abroad; establishing, managing and sharing third party properties in real estate funds in Kuwait and abroad.

The company's board of directors consists of seven members headed by Shk. Abdullah Naser Al Sabah as chairman. The day-to-day management of the company is carried out by the management under Mr. Tariq M. Abdul Salam, who is the Chief Executive Officer of the company.

UREC's portfolio includes commercial complexes, hotels, resorts, residential buildings, shopping centers, high rise office buildings as well as mixed-use projects (office, retail, and residential). UREC is the developer of the waterfront project or the Marina World seaside project, one of the largest BOT projects in the real estate sector in Kuwait. Through its subsidiaries, UREC has invested in numerous hotels and tourism projects such as the five-star Fairmont Heliopolis Hotel in Egypt and the four-star Bhamdoun Hotel in Lebanon as well as numerous other projects across the Middle East.

Chart 02: UREC's Subsidiaries



Source: UREC.

Future developments for UREC include the United Towers that is scheduled to be completed in 2010. United Towers is one of the largest commercial and residential complexes in Kuwait consisting of one tower on a 4,852 square meters plot of land. Also to be completed in 2009 is the 22 floor five-star Rawcheh Hotel in Lebanon.

UREC's net profit for FY06 amounted to KD13.5mn, increasing by 8% from KD12.5mn reported in FY05. Profits from Kuwait's operations formed 73% of UREC's profits, while Lebanon contributed 19%, Fujeira (6%), and Egypt (2%).

Shareholding

The company was privatized in 1995 and Kuwait Projects Company (Holding) K.S.C. (KIPCO) became its major shareholder with a controlling stake. In 2001, KIPCO transferred its stake in the company to its subsidiary United Gulf Bank B.S.C. which currently holds 34.32% of UREC's shares. KIPCO is one of the leading holding companies in the MENA region, with more than US\$15bn of assets under management or control, and activities spread over various business segments including financial services, media, telecom, real estate, healthcare, management and advisory.

Liquidity & Market Capitalization

UREC was listed on Kuwait Stock Exchange (KSE) in 1984, under the ticker "UREC". The stock enjoyed the highest liquidity in 2005. During 2005, the total volume of shares traded of the stock was 990.6mn shares. The year 2005 witnessed the highest turnover ratio, standing at 183%. During 2006, the stock was affected by the wave of stock market corrections in the region with a total volume traded of 607.8mn shares, a 39% drop from 2005. Turnover dropped to 112% in 2006. During 2007, the total volume of shares traded YTD was 282mn shares. The stock closed at 194fils at the end of trading on June 5, 2007. During the past 52 weeks, the stock traded within a band of 245-174fils per share.

Table 02: Trading performance on KSE

Year	Volume (mn)	Turnover	Price (In Fils)	Market Cap (KD mn)
2005	990.6	183%	320	173.4
2006	607.8	112%	230	124.6
2007*	282.3	39%	194	141.3

Source: Reuters, *Global Research* * Till June 5 ,2007.

Business Overview

Geographically, 82% of the company's assets are concentrated in Kuwait. However, UREC has a strong presence across countries such as Egypt, Jordan, Lebanon and the UAE through its subsidiaries and affiliates. Core operating assets amounted to KD162mn in FY06, forming 84% of the company's total assets. The rental portfolio constituted 56% of total core assets, while strategic holdings accounted for 36% of total assets. The company's properties portfolio includes commercial complexes, hotels, resorts, residential buildings, shopping centers, high rise office buildings as well as mixed-use projects with a focus on the retail and hospitality segments.

Chart 03: Segment Focus in 2006

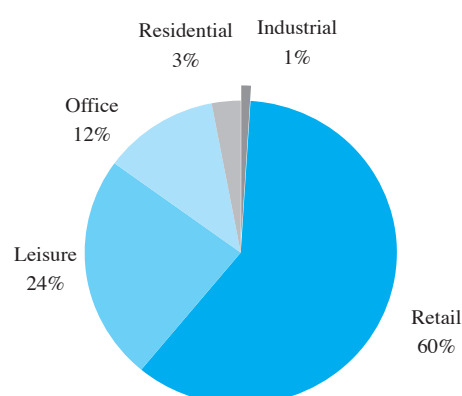
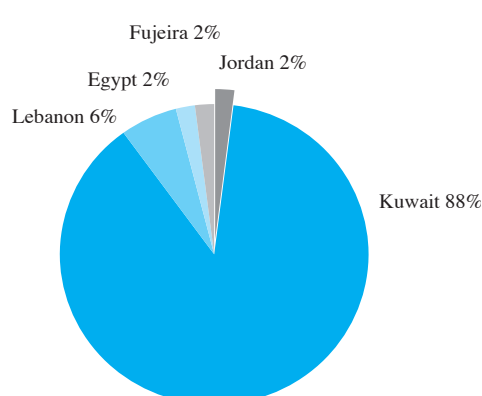


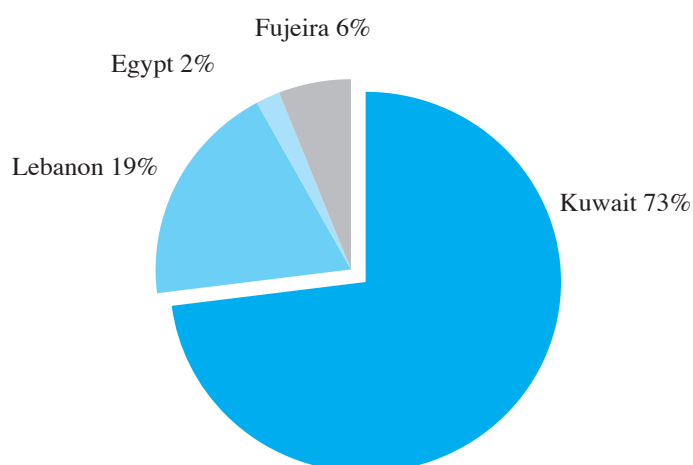
Chart 04: Geographic Focus in 2006



Source: UREC.

UREC's net profit for FY06 amounted to KD13.5mn, increasing by 8% from KD12.5mn reported in FY05. Profits from Kuwait's operations constituted 73% of UREC's profits, 19% from Lebanon, 6% from Fujeira, and 2% from Egypt.

Chart 05: Profit Contribution in 2006



Source: UREC.

UREC is the developer of the famous Marina waterfront BOT Project...

UREC is the developer of the waterfront project or the Marina World seaside project, one of the largest BOT projects in the real estate sector in Kuwait. The waterfront project consists of the famous Marina Mall, Kuwait's most sought after shopping destination, and a 3km multi-featured coastal strip Marina Seaside, which includes the Marina Crescent, Marina Club, and Marina Hotel, which includes 91 rooms and 7 suites overlooking the sea. The project was developed in phases with phase one, the mall component, completed in 2003, and the last phase, the hotel component, concluded in 2005. The total cost of the waterfront project stands at KD54.1mn. Marina Mall spans an area of 41,361sqm divided over retail, food, and entertainment outlets. Marina Mall is considered to be the main revenue earner for UREC. With a 100% occupancy level, the mall accounts for almost 65% of the company's rental revenues. Occupancy rates for the Marina Hotel have ranged between 70 and 72%.

Rental yields for UREC's properties are in the range of 9-12%...

Other BOT projects undertaken by the company in the mid 80's include Souq al Messil, and Souq Al Motaheda which are commercial complexes in Kuwait. Other properties in UREC's portfolio include Al Shahid, and Al Madina office towers in the Sharq Area in Kuwait, Fairmont Heliopolis hotel in Egypt, Bhamdoun hotel in Lebanon, and a number of residential buildings in Al Fujeira, UAE. Rental yields for the company's properties are in the range of 9-12%.

United Towers, the next big step...

Future projects for UREC include the landmark development, "United Towers" (previously "Kuwait Business City"), a mixed use project that will be constructed adjacent to Al-Shahid and Madina buildings at a total cost of KD34.1mn. Construction started in December 2004 and is expected to be completed in 2010. UT will consist of a 58-storey tower containing 37 floors of office space, 11 residential floors, a five level podium inclusive of retail areas on the ground level and four mezzanine floors, along with two floors of basement parking and an existing seven-storey parking complex. The total leasable area is expected to be 50,500sqm. The two towers will be connected to the Shahid and Madina towers, making UT one of the biggest commercial and residential complexes in the heart of Kuwait city.

Regional expansion with a focus on retail and hospitality...

Though Kuwait has been the core market, UREC has been active in seeking attractive opportunities in selected markets. Besides the Kuwait projects, UREC has started projects in Lebanon, Jordan, and Oman, with a focus on the retail and hospitality segments. The company is also negotiating to acquire pieces of land in Sharm el Sheikh, and Cairo in Egypt. Other future projects include the five star Rawcheh hotel in Lebanon, Fairmont Heliopolis hotel in Egypt, Verdun Mall project in Lebanon, a mall and a hotel in Jordan, a long term lease retail project in Salalah in Oman.

Table 03: UREC's upcoming projects

Project	Segment	Country	Cost (KDmn)	Delivery date
Verdun Mall	Retail	Lebanon	49.8	2009
Fairmont Heliopolis	Hospitality	Egypt	23.0	2007
Rawcheh Hotel	Hospitality	Lebanon	25.1	2009
Oman/Salalah	Retail	Oman	20.0	2010
Jordan Mall	Retail	Jordan	58.0	2010
Jordan Boulevard	Hospitality	Jordan	23.0	2010
Total			198.9	

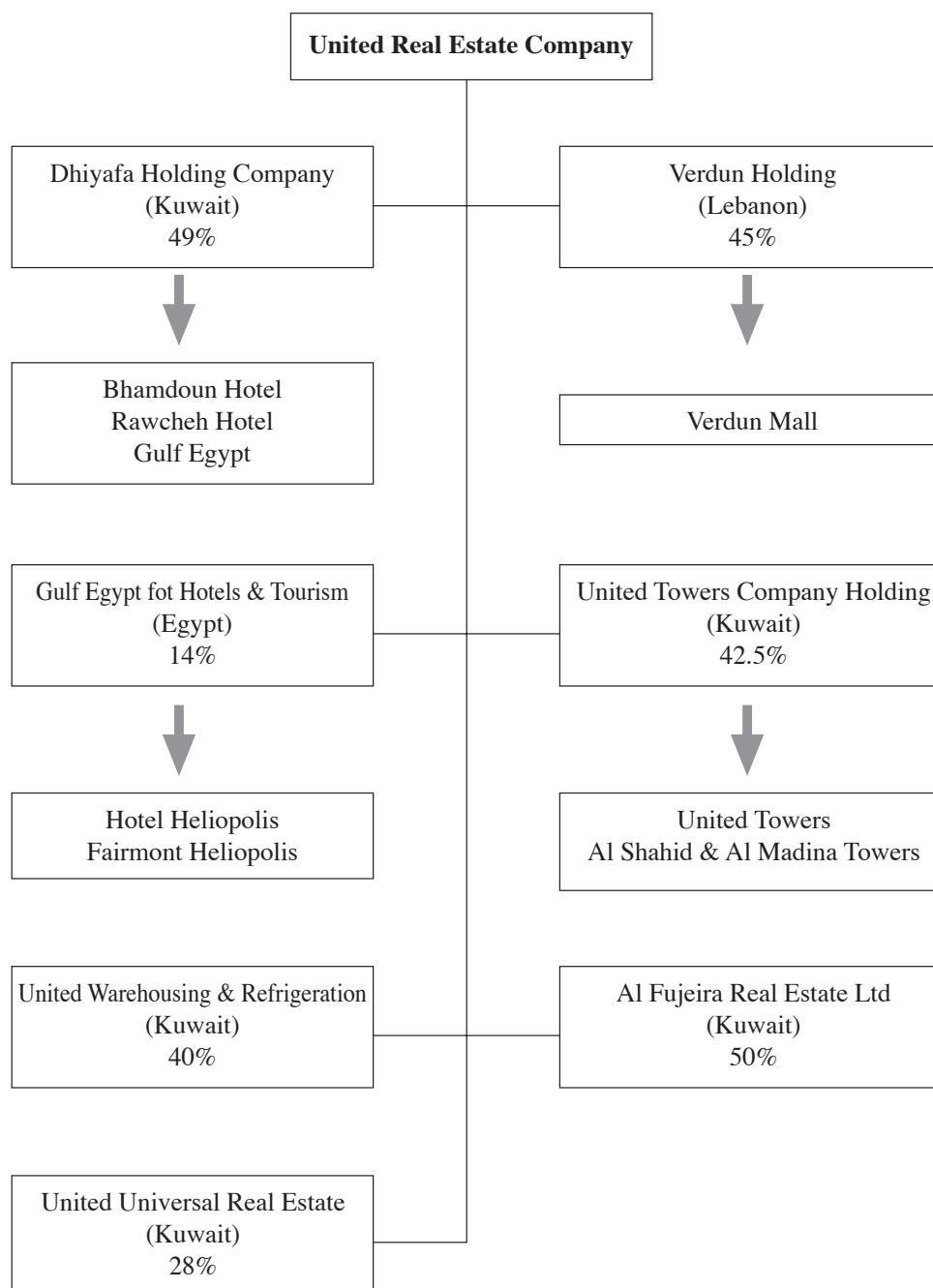
Source: UREC, Global Research.

Strategy

Recently, UREC adopted new strategies which mainly focus on expanding and diversifying the geographic base of its operations. The company has started the development of projects in other potential markets such as Jordan and Oman. The company will also continue to leverage on its expertise in the commercial segment through focusing on the development of distinctive retail and offices properties.

UREC is also planning to increase its investments in industrial real estate and hospitality sectors through its strategic holdings in “United Warehousing and Refrigeration Company” (UWRC) and “Dhiyafa Holding Company” (DHC) respectively.

UREC has also developed a new financing strategy for its future projects which relies on the use of strategic partnerships and the creation of new real estate companies. For this purpose, the “United Towers Company Holding” (previously “Al Ufoq United Management Company”) was established mainly for the development of “United Towers”, and has recently bought the two adjacent office towers Al Shahid, and Al Madina office towers in Sharq area, Kuwait City.

Chart 06: UREC's Associates

Source: UREC.

Industry Overview

GCC real estate sector grew at unprecedented levels over the past few years fuelled by high oil revenues and abundant levels of liquidity in the region. Construction projects planned or under development in GCC have crossed the US\$1trillion mark. Other factors that have contributed to the trend include high government capital spending, easy availability of credit and the establishment of real estate funds investing in the region.

Key drivers of the real estate sector in Kuwait

- The economic growth and abundant liquidity of Kuwait continues its good run, thanks to high oil prices. We estimate the real GDP growth rate in 2006 to be in the range of 6.5%-7.0%. The real GDP growth rate in 2005 was 8.1%, which followed a growth rate of 6.2% in 2004.
- Rapid population growth. The latest available data for September 2006 revealed a rise in total Kuwait population to 3.117mn, registering a growth of 4.22% over the end of 2005.
- Increase in employment opportunities and inflow of expatriates which accounted for 67% of Kuwait's total population in 2005 and grew by 11% on a year on year basis.
- Favorable demographics with around 29% of total population in the age group of 15-30.
- Higher purchasing power with a per capita GDP of US\$28,100 compared to an average per capita GDP of US\$17,425 for the entire GCC region.
- Salaries increased by 8% in 2006, while inflation is estimated at 3.5% in 2006.
- Variety of home financing products such as Ijara and increase in housing finance companies.

Industry Structure

Real estate in Kuwait is broadly divided into three main segments; Residential, Investment and Commercial.

Residential – The residential segment has been the most important segment of the real estate sector in Kuwait, and is comprised of the freehold market. In the absence of regulations allowing foreign ownership of real estate in Kuwait, the freehold market is only targeting Kuwaitis while expatriates dominate the rental market.

Investment – This segment represents investments in land and construction of either villas or apartment buildings for the purpose of rent. The construction usually takes the form of high-rise apartment buildings. Although not substantially different from the residential segment, the possible difference that may be cited is the final user not being the investor and is unlikely to become the owner of the property.

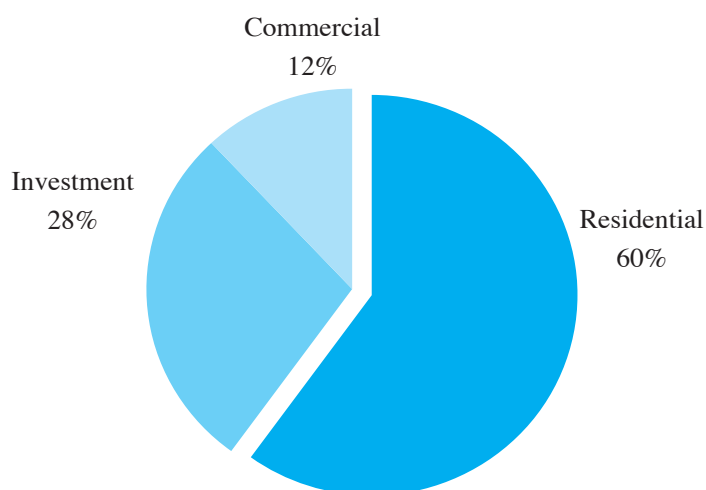
Commercial – This segment represents the construction of commercial complexes and sale or rent of spaces in commercial complexes either for office use or for retail use. The main commercial areas in Kuwait are Kuwait City, Sharq, Farwaniya, Hawally and parts of Salmiya. While commercial space in Kuwait City comprises largely of offices, Salmiya, Hawally and Farwaniya mostly have retail commercial space.

Industry Performance-2006

The number of real estate transactions traded in 2006 among residential, commercial, warehousing and industrial segments amounted to 10,370 transactions for total value of KD2.7bn increasing by 22% on y-o-y basis compared to KD2.2bn in 2005.

The residential segment accounted for 83% of the total number of real estate transactions and accounted for 60% of the total value of transactions. Next was the investment segment, which accounted for 15% of the total number of real estate transactions and accounted for 28% of the total value of transactions. Finally, the commercial segment formed 2% of the total number of transactions and 12% of the total value of transactions.

Chart 07: Value of Real Estate Transactions



Source: Mazaya Quarterly News Bulletin

Major Upcoming Projects

A number of new projects are currently in the pipeline, which includes Failaka Island Project, Kuwait University Project, the Ring-road Project, the Bubiyan Island Project and Project Kuwait. Mega Projects Agency (MPA), a division of the Ministry of Public Works, is charged with overseeing the development of the state's two most important infrastructure projects, Failaka and Bubiyan. Such projects are bound to affect the real estate market in Kuwait. Moreover, it is stated that the Public Authority for Housing Welfare is executing 27 housing projects at a value of KD153mn. Out of these projects is the establishment of housing plots, residential units and public facilities and services in the Fahad Al-Ahmad housing project, East Sulaibikhat, Jaber Al-Ahmad city, and Saed Al-Abdullah area.

Silk City project – The Silk City Project at the Subiyah peninsula is considered as one of the largest additions to real estate development in Kuwait. It will comprise residential and commercial areas, schools, and hospitals. The city will be built on 250 square kilometres, and is expected to house 500,000 residents. The project will be built on a BOT model, by Tamdeen Real Estate and Ajiyal Real Estate companies. The completion date of the first phase will be within a period of 5-7 years.

Jabr Al-Ahmad Township and Sabbeya projects – Jabr Al-Ahmad project is already under construction and due for completion in two years. It will have 1220 housing units to accommodate 78,000 residents. Sabbeya project located at the north of Kuwait city is to construct 50,000 residential units in the area. The project will also require developing a new 75 km motorway and 36 km causeway from Kuwait city.

Liberation City project – The project is a KD50bn investment to be built gradually within 25 years. It involves the construction one of the highest skyscrapers in the world, Kuwait Tower, with 1.1km height over 250 floors. The tower will be the center of the Silk City. The project will contain commercial, tourist and entertainment establishments in addition to residential units to accommodate 700,000 residents.

Arefijan and the Khairan projects - Two major residential projects are also slated for execution, being offered to the private sector on a BOT basis over a 20-year period, namely; the Arefijan and the Khairan Residential Projects. The Arefijan project costing \$1.87bn is to be a comprehensive residential area with associated facilities to house more than 100,000 people. It is a new city with estimated area of 40 square kilometers and comprises more than 11,000 residential units. The Khairan Residential Project is a massive 40 square kilometers project, which would add 26,000 residential units, at a cost of more than US\$20bn.

Failaka Island Project - The estimated US\$5bn project is to be developed on a 20-50 year BOT basis and calls for the construction of tourism infrastructure on the 43-square-kilometer island, including hotels, chalets, leisure and entertainment facilities. The Ministry of Public Works has received tenders from nine local companies for executing the project. Moreover, the Mega Projects Authority is said to float a BOT investment project for the construction of a water station and a 165-megawatt electricity plant in addition to a water distillation station at an estimated cost of US\$25mn.

Bubiyan Island Project – The estimated US\$6bn development of Bubiyan involve the construction of a new port, container terminal and residential and commercial infrastructure on the island. The Bubiyan seaport project is a US\$6bn investment with the aim of opening (2.5mn ton a year) port by 2008. Nineteen companies were pre-qualified for the first phase tender covering the construction of road and bridge access to island, plus railway option at a cost of US\$200-300mn. The second stage will cover the dredging of 40KM long, 260m wide, 14m deep approach channel at a cost of US\$500mn.

Kuwait University Project – The project has an estimated KD1bn value, aiming to bring all the current university faculties, currently spread across the capital, under one roof. The new educational facility will be co-educational and accommodate up to 40,000 students. Local consultants are doing the designs for the dormitories, sports facilities and auditoriums as well as all the individual faculties.

The International Hospital and South Surra Hospital Projects– the International Hospital project is a KD8mn investment to construct a private hospital in Salmiya. The hospital is a 52-bed facility with a built-up area of 6000 square meter. The South Surra Hospital is a 1050-bed facility with estimated investment of KD50-60mn; it is expected to be the largest general-purpose hospital in Kuwait.

The First Ring Road project– The US\$100mn first ring road project involves the upgrade of 2.5km of carriage way, 10 bridges and a division of existing underground utilities. The project also involves the construction of an 800 meter long stretch of single-lane overpass and a 1.5km section below ground.

Project Kuwait & 4th Refinery Project– Project Kuwait entails US\$8.5bn development of the strategically vital Northern Oilfields, to achieve production levels of 5mn b/d by 2020 from about 2.8mn b/d today. The 4th refinery project is expected to be the world's largest Greenfield refinery project. It would raise the country's refining capacity to 1.5mn b/d with estimated overall investment of US\$6.3bn.

Table 04: Landmark Projects in Kuwait

Project	Type	Expected Delivery Date	Estimated Cost (US\$ bn)	Developer
City of Silk	Mixed use	-	86	Tamdeen Real Estate Co. / Ajial Real Estate Co.
Khairan Residential City	Residential	-	27	Public Authority for Housing Welfare
Project Kuwait	Industrial	2010	8.5	Kuwait Petroleum Corporation (KPC)
Bubiyan Island	Tourism	2016	6.0	Mega Projects Agency (MPA)
Failaka Island	Tourism	2014	5.0	Mega Projects Agency (MPA)

Source: **Global Research**.

Outlook

- Looking forward vacancies in apartment buildings are expected to widen because developers are still erecting new complexes at a breakneck pace. Unless there is further economic activation, an oversupply situation will persist.
- The only way to address the oversupply situation is to change the regulations and allow non-Kuwaitis to own property, which is not a possible scenario.
- The story is quite different for the supply of housing of Kuwaiti nationals which is witnessing a clear shortage.
- Demand for commercial real estate space is on the rise and is expected to increase further in the course of the coming years as the steaming economy and booming consumer spending persist in triggering business expansion, contributing to an increase in the net absorption of commercial space, in both retail as well as the office segments. To benefit from this latent demand, several real estate companies launched projects in the commercial segment. However, most of these projects in the segment are of high-end nature. This is a natural consequence of land prices being extremely high.
- It is estimated that the total supply of commercial space coming into the market by 2007-09 would reach 750,000sq.m. Among the main projects coming up in the commercial segment is the US\$250mn Kuwait Business Town (KBT) project which will transform downtown Kuwait into a central business district. KBT will consist of nine office towers, shopping malls, and a hotel.

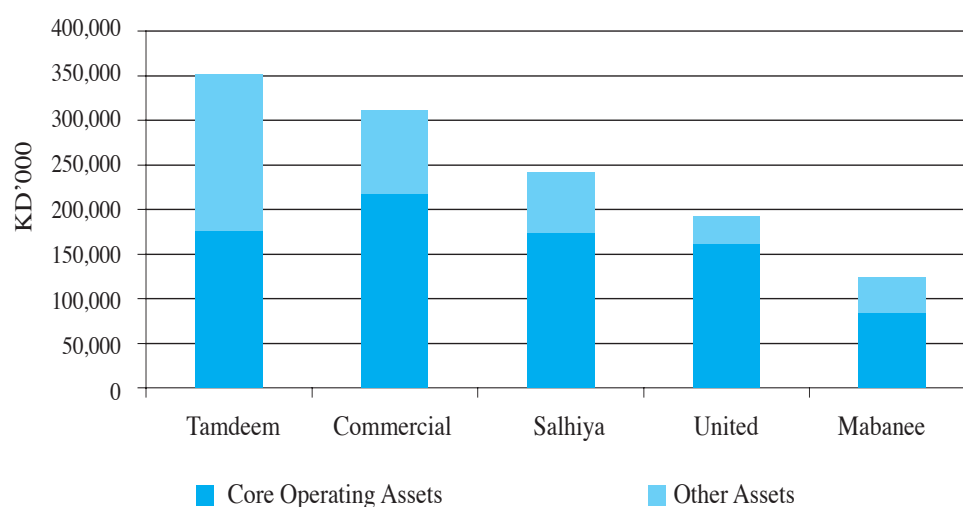
Peer Group Overview

Our peer group consists of five companies including UREC, Salhia Real Estate Company, Commercial Real Estate Company, Tamdeen Real Estate Company, and Mabanee Real Estate Company. The following criteria were used to select the Peer Group: 1) Assets size; 2) Revenues from real estate operations; and 3) Market capitalization. In addition, most of our peer group companies operate in the retail and commercial segments.

Asset Structure

During 2005 and before the recent stock market downturn, most of the real estate companies increased their investment portfolios at the expense of their core operating assets. Stock market investments might have been a favorable situation in 2005, however, the situation has now reversed. Therefore, we believe that companies with the highest percentage of core operating assets have more potential for sustainable growth. Although, Tamdeen ranked the first in terms of asset size in 2006, United Real Estate company ranked the first in terms of the contribution of core operating assets with core operating assets forming 84% of total assets, followed by Salhia with core operating assets contributing 72% to total assets in 2006.

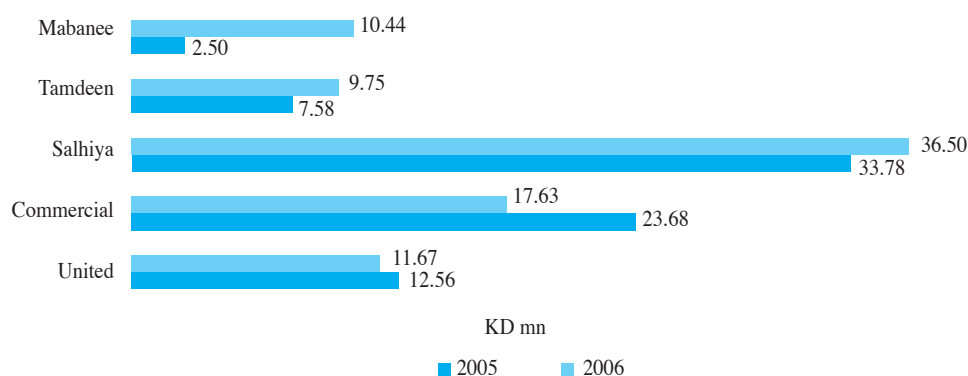
Chart 08: Asset Structure in 2006



Source: Annual Reports, **Global Research**.

Core Revenues

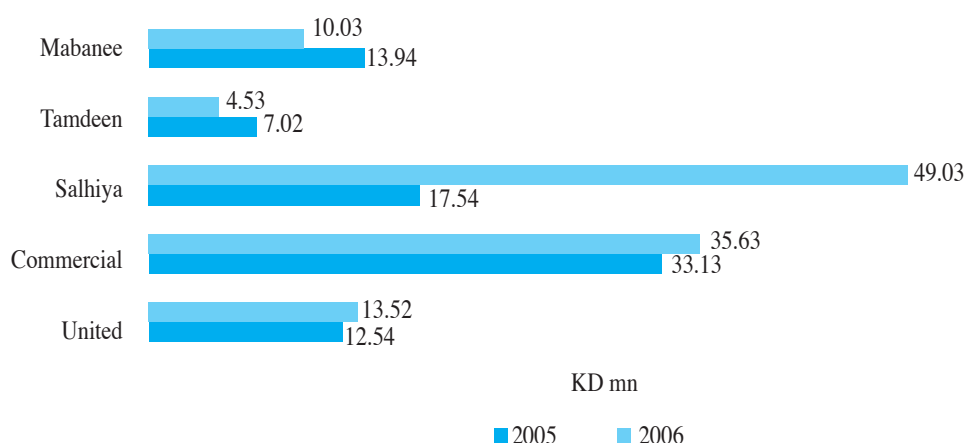
In selecting our peer group, we focused on companies with the highest share of revenues from real estate operations. In absolute numbers, Salhia recorded the highest core revenues in 2006, with core revenues amounting to KD36.5mn. In terms of the growth in core revenues in 2006, Mabanee recorded the highest y-o-y growth in 2006, growing by a remarkable 318%. Following Mabanee were Tamdeen, and Salhia, growing by 29%, and 8% respectively on a y-o-y basis, while Commercial Real Estate and United Real Estate recorded negative growth in 2006.

Chart 09: Core Revenues

Source: Annual Reports, **Global Research**.

Net Profit

Consolidated net profit of listed real estate companies took a plunge in 2006, decreasing by 70% from KD442mn in 2005 to KD132.5mn in 2006. The reason for this significant decline was the huge investment gains recorded by real estate companies in 2005. Owing to the surge in stock prices in 2005, net profit for most of listed real estate companies benefited from the investment portfolio in their assets and not from real estate operations. Consolidated net profit for our peer group on the other hand increased by 34% from KD84.16mn in 2005 to KD112.74mn in 2006, and constituted 85% of the consolidated net profit of listed real estate companies in 2006. Among our peer group, Salhia ranked the first in terms of both the size and the y-o-y growth in net profit. The company recorded a net profit of KD49mn, which is 180% over 2005 net profit of KD17.5mn. Following Salhia were United Real Estate, and Commercial Real Estate, recording a y-o-y growth of 8%, and 7% in net profit respectively, while Tamdeen and Mabaneer recorded negative growth in 2006.

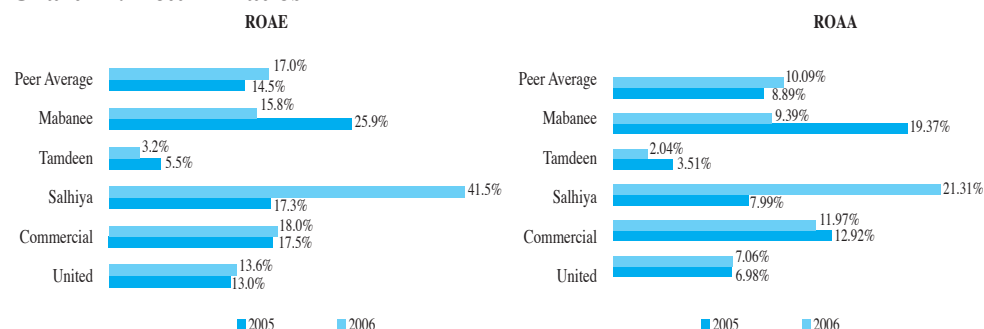
Chart 10: Net Profit

Source: Annual Reports, **Global Research**.

Profitability

Salhia ranked the first in terms of both ROAE and ROAA in 2006, recording a ROAE and ROAA of 41.5%, and 21.3% respectively in 2006 outperforming the peer group average ROAE and ROAA of 17.0%, and 10.1% respectively. Most of our peer group companies recorded improvement in their ROAE and ROAA in 2006 except for Tamdeen and Mabanee companies.

Chart 11: Return Ratios



Source: Annual Reports, **Global Research**.

Trading Comparables

There are currently 29 listed real companies on Kuwait Stock Exchange (KSE) with a total market cap of KD3.4bn on June 5, 2007 forming 6.4% of the total market cap of KSE. Our selected peer group formed 37% of the total market cap of listed real estate companies on KSE on June 5, 2007. UREC's P/E ratio stood at 7.6x 2006 earnings compared to a peer group average of 10.9x and a sector weighted average of 12.6x, while P/BV stood 1.4x compared to a peer group average of 1.7x and a sector weighted average of 1.6x.

Table 05: Trading Comparables

	Market Cap (KD '000)	Price (KD)	2006 EPS(Fils)	2006 BVPS(Fils)	P/E	P/BV
UNITED	141,232	0.194	25.6	140.5	7.6	1.4
COMMERCIAL	405,430	0.280	27.2	137.2	10.3	2.0
SALHIA	175,649	0.485	163.2	370.3	3.0	1.3
TAMDEEN	144,160	0.425	13.4	626.3	31.7	0.7
MABANEE	377,520	1.040	30.7	188.7	33.8	5.5
Peer Group Average	1,243,990	-	-	-	10.9	1.7
Sector Average	3,367,949	-	-	-	12.6	1.6

Source: Annual Reports, **Global Research**.

-Market Cap, P/E and P/BV are calculated based on closing market prices on KSE as of June 5, 2007.

Financial Overview

Revenues from Marina Mall accounts for 65% of UREC's rental revenues...

Revenues from operations consisting of rental income, hotel revenues, and other operating revenues witnessed a modest increase of 1% to reach KD11.8mn. UREC's operating revenues are mainly generated from its rental portfolio. Marina Mall revenues accounts for almost 65% of the company's rental revenues, while the remaining rental revenues comes from residential, and commercial rentals.

Disposal of properties affects rental income...

Rental income witnessed a declining trend in FY05, and FY06. During 2005, UREC sold the main residential component of its residential asset base, "Al Rihab residential and commercial complex", and during 2006, it sold another two investment properties leading to a y-o-y decline of 3.25% in rental revenues from KD13mn in FY04 to reach KD12.6mn in FY05, and a y-o-y decline of 7% to reach KD11.7mn in FY06. Other operating income witnessed a 26.6% increase in FY06 to reach KD1.56mn, which represents short term contracts for small shops located in the Marina Mall.

Office towers and Kuwait Business City sold to "United Towers"...

In March 2006, the company sold two investment properties, Al Shahid, and Al Madina office towers and a plot of land for development related to the Kuwait Business City project to the newly formed company "United Towers Company Holding" (previously "Al Ufoq United Management Company"). The sale of investment properties was at their fair value on December 2005 and therefore did not result in any gain or loss. The sale of land for development on the other hand resulted in a gain of KD3.6mn. UREC acquired 42.5% in "United Towers Company Holding".

This transaction reduced the value of land for development on the balance sheet to KD0.35mn in FY06 compared to KD15.46mn in FY05. The transfer of KBC properties has also reduced projects under construction from KD2.9mn in FY05 to nil in FY06. Following the disposal of the two investment properties to "United Towers Company Holding", investment properties were reduced from KD112.3mn in FY05 to KD90.8mn in FY06.

The "United Towers Company Holding" transaction also increased accounts receivables with an amount of KD4.39mn representing dues from the associate company representing the cost incurred by the parent company for the "United Towers" project being constructed on the land for development that was sold to United Towers. This amount is expected to be reimbursed by the associate company during 2007.

Hotels transferred to Dhiyafa Holding Company...

The company has also increased its equity interest in "Dhiyafa Holding Company" from 30% in FY05 to 49% in FY06. It sold its holdings in Bhamdoun Company, and Al Rawcheh Company in Lebanon and a stake in its associate company, "Gulf Egypt for Hotels and Tourism" to "Dhiyafa Holding Company", which resulted in a gain of KD3.26mn on sale of subsidiaries, and a gain of KD2.73mn on sale of share in associate companies.

Hotel income on the rise...

Following the launch of the Marina Hotel in 2005, the company recorded a net hotel operating revenue of KD0.43mn in FY05, which witnessed a significant increase of 139% in FY06 to reach KD0.95mn. Revenues from overseas hotels operations that are coming from the Sheraton Heliopolis hotel in Egypt, and Bhamdoun hotel in Lebanon are recognized in share of income of associate companies.

Stable Gross Profit Margin...

Direct operating costs/rental income ratio increased slightly from 19.7% in FY05 to 20.1% in FY06. Gross profit margin stood at 79.9% in FY06 compared to 80.3% in FY05.

Expansions coupled with an increase in compensations drives G&A expenses up...

General and administrative expenses as a percentage of operating income increased from 21% in FY05 to 23% in FY06 on the back increasing compensations in the job market as well the expansion in the employees' base. The company has been expanding its employees base, which currently consists of 129 employees, and is expected to reach 140 employee by the end of 2007.

Higher financing costs on the back of rising debt levels ...

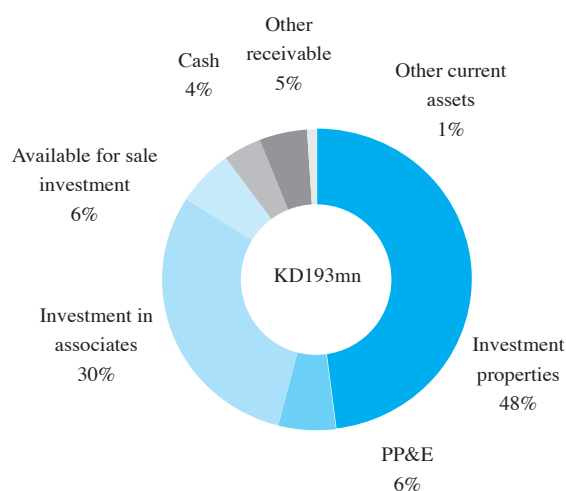
Financing costs witnessed a significant increase of 128% in FY06 to reach KD5.4mn compared to KD2.4mn in FY05 on the back of the increase in the size as well as the cost of the company's debt which stood at KD68mn, up from KD54.3mn in FY05. During FY06, UREC repaid a secured bond of KD15mn, and signed up an agreement on April 24, 2006 for a US\$100mn loan (KD28.9mn) with BNP Paribas and West LB as lead banks. The company's average cost of debt was 6.43% in FY06.

One-off gains drive profitability in FY06 ...

Net profit for FY06 amounted to KD13.5mn, increasing by 8% from KD12.5mn reported in FY05. The increase in net profit came mainly on the back of one-off gains of KD9.6mn from the sale of subsidiaries, associates, land for development and investment properties. Excluding the one-off gains, UREC's net profit for FY06 would be KD3.9mn.

Core assets form 84% of total assets...

Total assets witnessed marginal growth of 1% in FY06. Despite, the significant increase in investment in associate companies which increased by KD33.6mn in FY06 to reach KD58.5mn, that increase was offset by the decline in investment properties, and land for development which declined by KD21.4mn, and KD15mn in FY06 to reach KD90.8mn, and KD0.3mn respectively. Investment in associates contribution to total assets increased to 30% in FY06 from 13% in FY05.

Chart 12: 2006 Asset Structure

Source: UREC, **Global Research**.

Investments in associates witness significant growth...

Investment in associates jumped from KD24.8mn in FY05 to KD58.5mn in FY06 on the back of United Towers Company and Dhiyafa Holding transactions. UREC's equity interest in Dhiyafa Holding Company increased to 49%, while the investment in "United Towers" stood at 42.5% in FY06. UREC also acquired a 28% stake in "United Universal Real Estate Company".

During the year, the parent re-classified its investment in Kuwait Syrian Holding Company amounting to KD1.6mn (15%) into investments available for sale. In addition, it sold a portion of its holding in "Gulf Egypt" to Al Dhiyafa Holding" decreasing its equity interest in "Gulf Egypt" to 14% compared to 46% in FY05.

Minimal exposure to stock market investments...

UREC has minimal exposure to stock market investments, making the company immune to stock markets volatility. Investment available for sale stood at KD11.5mn in FY06, of which around 50% were invested in the stock market, while the remaining consisted of private equity investments, and investments in real estate portfolios.

Declining project expenditures ...

Following the completion of the last phase of the Marina waterfront project in FY05, projects under construction declined from KD33.4mn in FY04 to KD2.9mn in FY05. Other project expenditure transfers included an amount of KD4.4mn representing the costs related to the Bhamdoun hotel in Lebanon which were transferred to property and equipment. Projects expenditures stood at KD2.9m in FY05 which represented expenditures on the KBC project and the Rawcheh hotel project in Lebanon, and accordingly were sold to associated companies during 2006.

Debt/Equity ratio stood at 0.7 in FY06 up from a ratio of 0.5, which is considered quite high compared to an average debt to equity ratio of 0.51 for the peer group. In order to mitigate against interest rate risks, the company's debt carries a mixture of fixed and floating rates with an average cost of debt was 6.43% in FY06.

Total debt including, Loans, and bonds witnessed a 26% increase in FY06 to reach KD68mn. In FY05, bonds outstanding had a total value of KD45.25mn. A KD15mn bond matured in FY06, another two bonds of KD15mn, and KD5mn will be repaid in FY07, while the remaining KD10.25mn will mature in FY09.

In addition, UREC signed a US\$100mn loan with BNP Paribas and West LB as lead banks on April 24, 2006.

Rights issue...

UREC's capital stood at KD54.1mn in FY06, which increased to KD72.8mn through the issuance of bonus shares of 10%, and a 25% rights issue.

Cash dividend ...

The company distributed a cash dividend of 15Fils per share for FY04, and FY05, FY06 with a dividend pay-out ratio of 61%, 65% and 58% respectively.

SWOT Analysis

Strengths	Weaknesses
- UREC is one of the oldest players in the market - High occupancy rates, around 100%. - Strong and stable cash flows from the rental portfolio. - Diversified portfolio, stretched over various business segments and regions. - High quality of earnings, relying on core revenue operations. - Limited exposure to stock market investments. - Stable dividend policy.	- The increase in the price of building materials might impact the company's margins. - Lack of clarity and transparency in the sector.

Opportunities	Threats
- The company has shifted its focus to the retail and hospitality sectors segments which are heavily undersupplied in the region. - Rise of various forms of home financing such as Ijara. - High liquidity levels in the region. - The recent stock market downturn has shifted the focus to safer havens of investment such as real estate. - Allowing foreign ownership of properties in Kuwait.	- Increase in competition. - Economic slowdown. - Real estate market corrections.

Key Assumptions

- Rental revenues are not expected to witness significant growth since no major projects are expected to kick in the near term. Only a slight increase was assumed in rental revenues from Marina Mall since the first cycle of renewals is expected by 2007.
- Revenues from upcoming projects are expected to kick in starting from 2010.
- Revenues from associates are expected to increase according to the completion of the company's future projects via its investment in associate companies.
- Operating costs as a percentage of operating income are expected to decline on the back of maintaining good rates on facility management.
- Depreciation was assumed based on the average useful life of fixed assets.
- G&A expenses as a percentage of operating income are expected to increase going forward as UREC is planning to add two new departments in 2007, a Business Development department and a Marketing department.
- Paid up capital and share premium were adjusted according to the 10% bonus shares for FY06, and the 25% rights issue.

Valuation and Recommendation

Two valuation methods have been used to arrive at the fair value of UREC, the Discounted Cash Flow (DCF) – discounting the company Free Cash Flow to Firm (FCFF)- along with the Price to Book Value (P/BV) relative valuation method. We have assigned an 80% weight to the DCF valuation and 20% to the P/BV valuation.

DCF Valuation

The DCF model is based on a 4-year (FY2007-FY2010) explicit forecast period for the Free Cash Flow to Firm (FCFF). The terminal value is estimated using the constant growth Gordon Growth Model (GGM). The forecasted cash flow and the terminal value is then discounted at the company Weighted Average Cost of Capital (WACC). In our DCF valuation, we have used the following assumptions:

1. Risk Free Rate (RFR) of 6.25%.
2. Equity risk premium of 6%.
3. Beta of 1.58.
4. A terminal growth rate of 4%.
5. A target cost of debt of 6.5%.

Using the above assumptions, we have derived a cost of equity for the company under the Capital Assets Pricing Model of 15.73%, and a WACC of 12.04%. Given the methodology and assumption discussed above, we estimated the fair value of 196fils.

Sensitivity Analysis

We provide below a sensitivity analysis table, which shows the probable value given different growth rate assumption and WACC. The shaded area represents the most probable outcomes.

Table 06: Sensitivity Analysis

		Terminal Growth rate				
		2%	3%	4%	5%	6%
WACC	10.0%	205	230	264	311	381
	11.0%	182	201	225	258	304
	12.0%	163	177	196	220	251
	13.0%	148	160	175	193	216
	14.0%	135	145	157	171	189

Source: **Global Research.**

Relative Valuation Method

We arrived at UREC's share fair value via the relative valuation method using the following assumptions:

1. Forward P/BV of 1.6x for peer group, and market prices on June 5, 2007.
2. UREC's projected BVPS for 2007.

Based on the assumption discussed above, we arrived at a fair value for UREC of 287 fils per share.

We have assigned an 80% probability to the DCF technique and 20% to the P/BV technique, since the relative valuation approach is very volatile and subject to the market sentiment and other qualitative factors.

Table 07: Weighted average valuation

	Fair Value per share (fils)	Weight	Weighted Value (fils)
As per FCF Method	196	80%	157
As per P / BV multiple	287	20%	57
Weighted Price(fils)			214

Source: *Global Research*.

Based on the weighted average valuation approach provided below we have reached a fair value for UREC of 214 fils, given a current market price of 194 fils on June 5 2007, the stock is currently trading at 10.4% below the fair value. Therefore, we initiate our coverage on UREC's stock with a **"BUY"** recommendation.

Balance Sheet

Amount in KD '000	United Real Estate Company					
	2004A	2005A	2006A	2007F	2008F	2009F
Cash on hands and at banks	2,178	690	7,633	3,730	9,437	4,915
Deposit blocked against bond issued	-	5,731	-	-	-	-
Accounts receivables	755	3,891	9,721	4,746	4,489	4,230
Advances to contractors	584	360	-	-	-	-
Accrued revenue and prepaid expenses	1,372	1,352	1,589	1,595	1,612	1,629
Property held for sale	127	127	127	127	127	127
Investments held for trading	350	-	-	-	-	-
Current assets	5,367	12,151	19,070	10,197	15,666	10,901
Investments available for sale	2,569	3,494	11,547	12,124	12,730	13,367
Investment in associated companies	12,802	24,840	58,520	64,372	67,591	70,970
Investment properties	97,671	112,364	90,880	92,244	93,628	95,032
Land for development	15,560	15,468	350	350	350	350
Projects under construction	33,430	2,929	-	4,749	9,498	14,247
Property and equipment	1,131	19,758	12,377	11,595	10,814	10,136
Total assets	168,530	191,005	192,744	195,631	210,276	215,004
Rental income received in advance	1,256	1,162	1,278	1,271	1,142	1,147
Accrued expenses and other credit balances	6,518	4,262	6,523	6,818	6,176	5,599
Accounts payables	7,035	7,438	6,466	6,307	5,666	5,010
Kuwait foundation for the Advancement of science	125	118	126	116	146	162
National Labor support tax	308	288	344	232	293	324
Provisions	603	631	526	1,627	2,731	3,838
Dividends Payables	598	851	972	972	972	972
Due to banks	71	14,863	5,643	-	-	5,000
Current portion of loans	647	6,793	-	-	8,285	8,285
Current liabilities	17,161	36,406	21,879	17,343	25,411	30,338
Loans	9,434	9,068	37,943	37,653	37,653	29,368
Bonds	45,250	45,250	30,250	10,250	10,250	10,250
Total liabilities	71,846	90,723	90,072	65,246	73,314	69,957
Share capital	54,191	54,191	54,191	72,836	72,836	72,836
Share premium	3,770	3,770	3,770	14,321	14,321	14,321
Treasury shares	(334)	(4,946)	(4,096)	(3,400)	(2,822)	(2,342)
Statutory reserves	7,588	8,888	10,293	11,413	12,827	14,395
Voluntary reserve	2,583	2,583	2,583	2,583	2,583	2,583
Treasury share reserve	1,095	1,095	980	980	980	980
Cummulative changes in fair value	348	1,252	536	526	342	222
Employees' share option reserve	-	-	26	-	-	-
Foreign currency translation reserve	(68)	(127)	(478)	(491)	(540)	(595)
Retained earning	27,213	30,324	34,533	31,249	36,031	42,202
Shareholders equity	96,387	97,031	102,338	130,017	136,558	144,603
Minority interest	297	3,251	334	367	404	445
Liabilities and shareholders equity	168,530	191,005	192,744	195,631	210,276	215,004
						218,314

Income Statement

<i>Amount in KD'000</i>	United Real Estate Company						
	2004A	2005A	2006A	2007F	2008F	2009F	2010F
Rental income	13,059	12,564	11,670	11,716	11,839	11,965	12,927
Properties operating costs	(2,354)	(2,487)	(2,349)	(2,109)	(1,894)	(1,675)	(1,810)
Gross Profit	10,705	10,077	9,321	9,607	9,945	10,290	11,117
Net hotel operating revenue	-	395	945	1,417	2,126	2,338	2,572
Other operating income	1,105	1,229	1,556	2,100	2,520	2,898	3,333
General and administrative expenses	(2,429)	(2,622)	(2,647)	(2,460)	(2,368)	(2,273)	(2,456)
Depreciation	(649)	(1,145)	(1,507)	(1,846)	(1,952)	(2,077)	(2,226)
Share of income of associated companies	837	659	2,905	4,264	7,007	7,315	10,777
Provisions for doubtful debts	(170)	(144)	(358)	(321)	(324)	(328)	(354)
Provisions for rental expenses on property leased from government*	(780)	(780)	(780)	(780)	(780)	(780)	(780)
Other provisions	-	148	(1,022)	-	-	-	-
Investment income	208	188	862	733	784	823	864
Financing costs	(1,581)	(2,384)	(5,438)	(3,196)	(3,712)	(3,392)	(2,642)
Income tax expenses	3	-	-	-	-	-	-
Unrealized gain on investment held for trading	16	-	-	-	-	-	-
Gain (loss) on sale of investment available for sale	305	-	-	-	-	-	-
Change in fair value of investment properties	6,269	5,093	1,686	1,364	1,384	1,405	1,426
Gain on sale of investment properties	-	1,300	-	-	-	-	-
Gain on sale of subsidiary	-	916	3,266	-	-	-	-
Gain on sale of land for development	-	-	3,600	717	-	-	-
Gain on sale of share in associates	-	-	2,734	-	-	-	-
Gain on sale of leasehold right	14	-	-	-	-	-	-
Gain on exchange	-	-	251	-	-	-	-
Project related costs written off	-	-	(720)	-	-	-	-
Tax expenses	-	(24)	(575)	-	-	-	-
Profits before contribution to KFAS, NLST & BoD	13,853	12,907	14,078	11,598	14,630	16,220	21,632
Contribution to KFAS	(125)	(118)	(126)	(116)	(146)	(162)	(216)
NLST	(308)	(288)	(344)	(232)	(293)	(324)	(433)
BoD remuneration	(52)	(52)	(52)	(52)	(52)	(52)	(52)
Net Profit from ordinary activities	13,368	12,449	13,556	11,198	14,139	15,681	20,931
Extraordinary items	-	101	(4)	-	-	-	-
Net Profit for the year	13,368	12,550	13,553	11,198	14,139	15,681	20,931
P&L Appropriation Statement	2004A	2005A	2006A	2007F	2008F	2009F	2010F
Beginning Balance	18,495	27,213	30,324	34,533	31,249	36,031	42,202
Net profit for the year	13,405	12,540	13,525	11,198	14,139	15,681	20,931
Stock dividends	(3,299)	-	-	(5,419)	-	-	-
Cash dividends	-	(8,129)	(7,912)	(7,943)	(7,943)	(7,943)	(7,943)
Transfer to statutory reserves	(1,389)	(1,300)	(1,405)	(1,120)	(1,414)	(1,568)	(2,093)
Ending Balance	27,213	30,324	34,533	31,249	36,031	42,202	53,097

Cash Flow Statement

	United Real Estate Company						
	2004A	2005A	2006A	2007F	2008F	2009F	2010F
OPERATING ACTIVITIES							
Profit before KFAS ,NLST & BoD	13,853	12,907	14,078	11,598	14,630	16,220	21,632
Adjustments							
Depreciation	649	1,145	1,507	1,846	1,952	2,077	2,226
Share of results of associated companies	(837)	(659)	(2,905)	(4,264)	(7,007)	(7,315)	(10,777)
Provisions	950	776	2,160	1,101	1,104	1,107	1,134
Net investment income	(529)	(188)	(862)	(733)	(784)	(823)	(864)
Change in fair value of investment properties	(6,269)	(5,093)	(1,686)	(1,364)	(1,384)	(1,405)	(1,426)
Gain on sale of investment properties	-	(1,300)	-	-	-	-	-
Gain on sale of subsidiary	-	(916)	(3,266)	-	-	-	-
Gain on sale of land for development	-	-	(3,600)	(717)	-	-	-
Gain on sale of share in associates	-	-	(2,734)	-	-	-	-
Gain on sale of leasehold right	(14)	-	-	-	-	-	-
Finance cost	1,581	2,384	5,438	3,196	3,712	3,392	2,642
Gain on exchange	-	-	(251)	-	-	-	-
Loss(profit) from discontinued operations	-	(101)	4	-	-	-	-
Operating profit before change in operating assets & liabilities	9,384	8,954	7,883	10,664	12,223	13,253	14,566
Accounts receivable and prepayments	776	(3,255)	(1,558)	4,969	240	242	(304)
Accounts payable and accruals	(1,318)	(1,918)	(1,992)	129	(1,413)	(1,227)	945
Cash from operations	8,842	3,781	4,332	15,762	11,050	12,268	15,207
Paid to KFAS	(122)	(125)	(118)	(126)	(116)	(146)	(162)
NLST	(293)	-	(631)	(344)	(232)	(293)	(324)
BoD	(52)	(52)	(52)	(52)	(52)	(52)	(52)
Cash flow before extraordinary items	8,375	3,604	3,531	15,240	10,650	11,777	14,669
Extraordinary items	-	-	-	-	-	-	-
Net cash from operating activities	8,375	3,604	3,531	15,240	10,650	11,777	14,669
INVESTING ACTIVITIES							
Net proceed from sale of investments available for sale	3,733	(55)	(6,157)	(577)	(606)	(637)	(668)
Net Proceeds from sale of investment held for trading	(334)	350	-	-	-	-	-
Proceeds from sale of subsidiaries	-	-	16,406	-	-	-	-
Proceeds from land sales	-	-	-	717	-	-	-
Proceeds from sale of lease hold right	14	-	-	-	-	-	-

Cash Flow Statement - Continued

<i>Amount in KD'000</i>	United Real Estate Company						
	2004A	2005A	2006A	2007F	2008F	2009F	2010F
Proceeds from associated companies	-	-	10,845	4,264	7,007	7,315	10,777
Investment in unconsolidated companies	-	-	-	-	-	-	-
Sale of investments in joint venture	-	-	-	-	-	-	-
Purchase of investments properties	-	-	23,660	-	(0)	-	(14,247)
Purchase of property and equipments	(640)	(1,109)	(825)	(1,064)	(1,171)	(1,399)	(1,674)
Proceeds from sale of investments properties	-	16,500	-	-	-	-	-
Payments for land for developments	(574)	-	16,000	-	-	-	-
Payments for projects under construction	(15,161)	(11,833)	(1,263)	(4,749)	(4,749)	(4,749)	14,247
Investment income received	67	36	390	-	-	-	-
Increase in blocked funds	-	(5,731)	5,731	-	-	-	-
Dividends received	139	255	-	733	784	823	864
Net cash from investing activities	(14,706)	(10,512)	18,053.549	(6,529)	(1,954)	(2,026)	5,752
FINANCING ACTIVITIES							
Bonds issuance/(repayment)	10,250	-	(15,000)	(20,000)	-	-	(10,250)
(Decrease) increase in loans	(8,589)	20,571	13,114	(290)	8,285	(8,285)	(16,974)
(Decrease) increase in due to banks	-	-	-	(5,643)	-	5,000	15,000
Proceeds from share capital	7,472	-	-	23,778	-	-	-
Purchase of treasury shares	-	(4,612)	(343)	696	578	480	398
Proceeds from sale treasury shares	493	-	1,078	-	-	-	-
Foreign currency translation adjustments	(389)	(279)	(260)	(14)	(49)	(54)	(59)
Investment revaluation reserve	-	-	-	(11)	(184)	(120)	(78)
Payments to minority	(442)	-	-	33	37	40	44
Dividends	(28)	(7,875)	(7,791)	(7,943)	(7,943)	(7,943)	(7,943)
Finance cost paid	(1,587)	(2,384)	(5,438)	(3,196)	(3,712)	(3,392)	(2,642)
Employees' share option reserve	-	-	-	(26)	-	-	-
Net cash from financing activities	7,180	5,421	(14,641)	(12,614)	(2,989)	(14,273)	(22,504)
Change in cash							
Beginning cash	849	(1,488)	6,943	(3,903)	5,708	(4,522)	(2,084)
Deposit blocked against bond issued	1,329	2,178	690	7,633	3,730	9,437	4,915
Ending cash & cash balances	2,178	690	7,633	3,730	9,437	4,915	2,831

Ratios	United Real Estate Company						
	2004A	2005A	2006A	2007F	2008F	2009F	2010F
Profitability Ratios							
Gross Profit Margin	%	82.0	80.2	79.9	82.0	84.0	86.0
Direct operating costs / Sales	%	18.0	19.8	20.1	18.0	16.0	14.0
Net Profit Margin	%	102.4	99.9	116.1	95.6	119.4	131.1
Return on Equity (ROAE)	%	15.6	12.9	13.6	9.6	10.6	11.2
Return on Assets (ROAA)	%	8.5	6.9	7.1	5.8	7.0	7.4
Efficiency Ratios							
Net Fixed Asset Turnover (average)	X	11.5	1.2	0.7	1.0	1.1	1.1
Net Fixed Asset Turnover, incl investment prop's (average)	X	0.14	0.11	0.10	0.11	0.11	0.11
Total Assets Turnover (average)	X	0.08	0.07	0.06	0.06	0.06	0.06
Equity Turnover (average)	X	0.15	0.13	0.12	0.10	0.09	0.09
Financial Risk							
Long term Debt to Equity	%	56.7	56.0	66.6	36.8	35.1	27.4
Total Debt Ratio (TD/CE)	%	74.5	93.5	88.0	50.2	53.7	48.4
Long term Debt to Assets	%	42.6	47.5	46.7	33.4	34.9	32.5
Interest Coverage Ratio	X	9.5	6.3	3.5	4.5	4.8	5.6
Operating Cash Flow Coverage Ratio	X	5.3	1.5	0.6	4.8	2.9	3.5
Operating Cash Flow /Long-term debts	%	15.3	6.6	5.2	31.8	22.2	29.7
Valuation Ratios							
EPS from ordinary activity	fil	26.1	23.7	25.6	15.4	19.4	21.5
Book value per share - BV/PS (in fil)	fil	177.9	179.1	188.8	178.5	187.5	198.5
No. of Shares Outstanding	in'000	541,912	541,912	541,912	728,364	728,364	728,364
Price Per Share	fil	260	320	230	194	194	194
P/E multiple	X	10.0	13.6	9.0	12.6	10.0	9.0
P/BV multiple	X	1.46	1.79	1.22	1.09	1.03	0.98
DPS	fil	15	15	15	15	15	15
Dividend yield	%	6%	5%	6%	8%	8%	8%
Dividend Payout Ratio	%	0%	65%	58%	71%	56%	51%
Historical P / E & P / BV multiples pertain to respective year -and prices, while those for future years are based on closing prices on the KSE as of June 5 2007.							

Historical P / E & P / BV multiples pertain to respective year -end prices, while those for future years are based on closing prices on the KSE as of June 5 2007.

This page is left blank intentionally

This page is left blank intentionally

This page is left blank intentionally

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
United Real Estate Co.	Buy	UREK.KW	194fils	1,10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
2. The company being researched holds more than 5% stake in Global Investment House.
3. Global Investment House makes a market in securities issued by this company.
4. Global Investment House acts as a corporate broker or sponsor to this company.
5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.
6. An employee of Global Investment House serves on the board of directors of this company.
7. Within the past year, Global Investment House has managed or co-managed a public offering for this company, for which it received fees.
8. Global Investment House has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three months.
10. Please see special footnote below for other relevant disclosures.

Global Research: Equity Ratings Definitions

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

This material was produced by Global Investment House KSCC ("Global"), a firm regulated by the Central Bank of Kuwait. This document is not to be used or considered as an offer to sell or a solicitation of an offer to buy any securities. Global may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities ("securities"), perform services for or solicit business from such issuer, and/or have a position or effect transactions in the securities or options thereof. Global may, to the extent permitted by applicable Kuwaiti law or other applicable laws or regulations, effect transactions in the securities before this material is published to recipients.

Information and opinions contained herein have been compiled or arrived by Global from sources believed to be reliable, but Global has not independently verified the contents of this document. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Global accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith. This document is not to be relied upon or used in substitution for the exercise of independent judgement. Global shall have no responsibility or liability whatsoever in respect of any inaccuracy in or omission from this or any other document prepared by Global for, or sent by Global to any person and any such person shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document.

Opinions and estimates constitute our judgment and are subject to change without prior notice. Past performance is not indicative of future results. This document does not constitute an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment what so ever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person.

Neither this report nor any copy hereof may be distributed in any jurisdiction outside Kuwait where its distribution may be restricted by law. Persons who receive this report should make themselves aware of and adhere to any such restrictions. By accepting this report you agree to be bound by the foregoing limitations.

Global Research

Global Investment House
Tel: (965) 2400551, ext 132 - Fax: (965) 2400661
research@global.com.kw
www.globalinv.net