

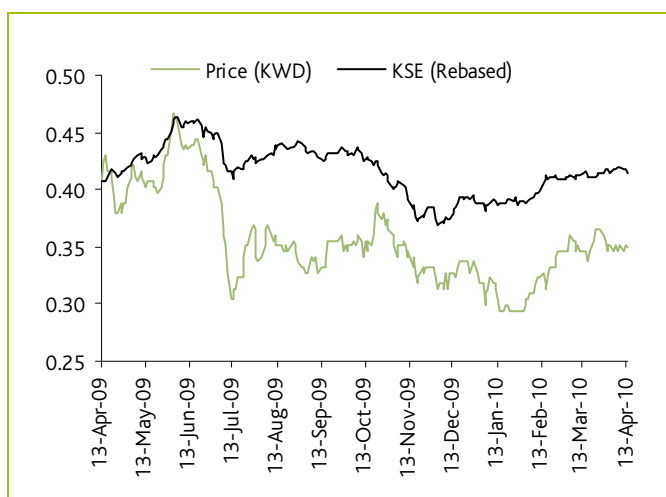
Current Price* : KWD 0.35

Rating: Buy

Fair Value (FV): KWD 0.53

- Adjusting Fair Value for KWD100.8 million Rights Issue:** We adjust our fair value (FV) for Burgan Bank to KWD0.53 (from KWD0.62) to account for Burgan's KWD100.8 million rights issue, for which the ex-dividend date was today, 13 April. Burgan is offering 360 million new shares to existing shareholders at a subscription price of KWD0.28 per share (paid-in capital of KWD0.10 per share and an issue premium of KWD0.18 per share). The subscription ratio is one new share for every 2.893 shares held. If the rights issue is fully subscribed, Burgan's number of shares will increase from 1,041.3 million to 1,401.3 million. Our new FV still offers considerable upside potential, and we maintain our Buy rating on the stock.
- Subscription Period:** The subscription period began today, 13 April 2010, and will close on 27 April 2010. The subscription period to the public for the portion of shares not subscribed to by existing shareholders will start on 2 May 2010 and close on 15 June 2010.
- Rationale of Rights Issue:** The new capital will allow Burgan to expand its recently acquired regional entities. During 2008 and 2009, Burgan bought United Gulf Bank's (also a KIPCO subsidiary) commercial banking assets in Jordan, Algeria and Iraq. It consolidated Jordan Kuwait Bank in 2008 and Algeria Gulf Bank in 2009, while Bank of Baghdad will be fully consolidated in Burgan's accounts in early 2010. We estimate that after taking into consideration the impact of Bank of Baghdad's consolidation, Burgan's Tier-1 ratio will improve by around 200bps to 14%, with its total CAR expected to rise from 16.86% in December 2009 to 18.86%, well above the minimum 12% CAR required by the Central Bank.
- Management Expects NPLs to Fall in 2010:** Burgan's credit quality deteriorated significantly during 2009. Its NPL ratio rose from 1.4% in 2008 to 10% in 2009, and its NPL coverage (ex-collateral) plunged from 245% in 2008 to 57% in 2009. The rise in NPLs reflects poor credit quality conditions in Kuwait, as well as the conservative NPL rules followed by Kuwaiti banks. Management expects NPLs to fall in 2010, thanks to settlements and recoveries.
- Maintaining Buy Rating, Burgan Continues to Trade at a Large Valuation Discount to Peers:** Burgan Bank has consistently traded at a significant discount to its larger Kuwaiti peers (NBK and KFH) and also to medium-sized player CBK for at least the past 15 months. While we believe a valuation discount for Burgan relative to the market leaders could be justified, we continue to believe that, at 1.1x 2010e P/B, Burgan's shares are fundamentally undervalued. With our FV implying 51% upside potential (and implying a 2010e P/B multiple of 1.7x), we continue to rate the stock as a Buy. We believe that management's positive guidance on NPLs, together with the improved core capital position following the ongoing rights issue, will help to dispel the two main investment concerns regarding Burgan Bank.

FLASH NOTE



	2010e	2011e	2012e
EPS	0.048	0.072	0.082
P/E* (x)	7.3	4.9	4.3
DPS	0.010	0.021	0.025
Div Yield (x)	2.7%	6.0%	7.2%
BVPS	0.321	0.346	0.375
P/BV* (x)	1.1	1.0	0.9
In KWD, unless otherwise stated			

Stock Data

Last Dividend Date	KWD0.06 on 25 Mar 08
Mkt. Cap / Shares (mn)	KWD 365 / 1,041
Av. Mthly Liqdy (mn)	KWD15
52-Week High / Low	KWD0.46 / KWD0.29
Bloomberg / Reuters	BURG KK / BURG.KW
Est. Free Float	48%

EGYPT SALES TEAM

Local call center 16900
 Int'l call center +20 2 33 33 94 00
 cc-hsb@efg-hermes.com

Head of Western Institutional Sales

Mohamed Ebeid
 +20 2 33 32 1054
 mebeid@efg-hermes.com

Local Institutional Sales

Amr El Khamissy
 +20 2 33 32 1045
 amrk@efg-hermes.com

UAE SALES TEAM

call center
 +971 4 306 9333
 uaerequests@efg-hermes.com

Western Institutional Sales

Julian Bruce
 +971 4 363 4092
 jbruce@efg-hermes.com

Head of GCC Institutional Sales

Amro Diab
 +971 4 363 4086
 adiab@efg-hermes.com

Gulf HNW Sales

Chahir Hosni
 +971 4 363 4090
 chosni@efg-hermes.com

UAE Retail Sales

Reham Tawfik
 +971 4 306 9418
 rtawfik@efg-hermes.com

KSA SALES TEAM

call center
 +800 123 4566
 RiyadhCallCenter@efg-hermes.com
 RiyadhTraders@efg-hermes.com

Deputy Head of Gulf Sales

Ahmed Sharawy
 +9661 279 8677
 asharawy@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 33 38 8864
 UAE General + 971 4 363 4000
 efgresearch@efg-hermes.com

Head of Research

Wael Ziada
 +20 2 33 32 1154
 wziada@efg-hermes.com

Head of Publ. and Distribution

Rasha Samir
 +20 2 33 32 1142
 rsamir@efg-hermes.com

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Rating	Potential Upside (Downside)%
Buy	Above 15%
Neutral	(10%) and 15%
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CONTACTS AND STATEMENTS

Background research prepared by EFG Hermes Holding SAE. Report prepared by EFG Hermes Holding SAE (main office), 58 Tahrir Street, Dokki, Egypt 12311, Tel +20 2 33 32 1140 | Fax +20 2 33 36 1536 which has an issued capital of EGP 1,939,320,000.

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