Kuwait

# ACICO Industries Company (ACICO)

*Restructuring for growth ...*

Reuters Code:
ACIC.KW (Reuters)
ACICO KK (Bloomberg)

**July, 2008**

**BUY**

Listing:
Kuwait Stock Exchange

Price:
KD0.770 (As on 6th July 2008)

## Investment Summary

- **ACICO Industries Co. K.S.C. (ACICO)** was incorporated on June 23, 1990. The main objectives of the Company include the establishment of a factory for the production of all types and sizes of aerated concrete and non-concrete and all its construction requirements, import and export of all building materials. The Company's objectives also include owning, buying and selling real estates, land and lands for development for the benefit of the Company either inside or outside Kuwait, dealing in industrial companies' shares and bonds relating to the main objective of the Company for the benefit of the Company only either inside or outside Kuwait, preparing and submitting the studies and consultancy and also organizing the industrial exhibitions for the Company's projects.

- The company has re-modeled its business structure and it has resulted in following segments: ACICO Industrial, ACICO Real Estate, ACICO Hotels, ACICO Cement, ACICO Construction and GAK ACICO.

- Company's operating income for the year 2007 declined by 22% to KD42.6mn as against KD54.4mn in 2006. The drop was a direct result of 97% decline in the housing development income and an increase of 57% in the adjustments of inter-company transactions. During the year the company's aerated concrete business remained flat and was able to earn KD13.2mn.

- Group share of results from associates also contributed more than KD1mn to the profits. That profit was result of contribution from the company associates in Saudi Arabia, Qatar and Kuwait. Aerated concrete industries company in Saudi Arabia witnessed a loss of KD0.10mn while the Aerated Concrete industries company in Qatar witnessed a gain of KD0.05mn. The major contributor was the Al-Masaken International for Real Estate Development was KD1.09mn.

- Company's exposure to the investment in bourses continued as the investment amounted to KD49.7mn, which is 27% of the total assets. In the investment, major thrust came

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from investment in associates and investment in properties. During the year the parent company subscribed in portion of the capital increase of its unconsolidated subsidiary Al-Masaken International for Real Estate Development which resulted in decreasing the parent company's interest in equity of the unconsolidated subsidiary to 35%. Apart from that company invested in real estate funds and in unquoted shares in which was more than KD6mn.

- Net profit of the company for the period ending 2007 recorded an increase of KD22.1mn from KD13.3mn in 2006. This translated into an earning per share of 114Fils as against 69Fils in 2006. With higher contribution from the other income portion, company's net margins also increased from 23.2% to 51.7%.

- Overall ACICO, would seem to have a sound business model, with diversified, high-growth potential revenue streams, which should, in turn, translate into healthy growth in both revenues and profits in the near-medium term.

- Company share price performance has also remained modest on the bourse. In 2007, the company made a high of KD0.600 and a low of KD0.440. In 2007, the average daily volume traded were 432,336 which were 185% higher than those in 2006. As of current year, the high and low posted by the company is KD0.770 and KD0.540, respectively.

- The value of ACICO's shares derived from the weighted average of the DCF and relative valuation methods is KD0.940 per share.

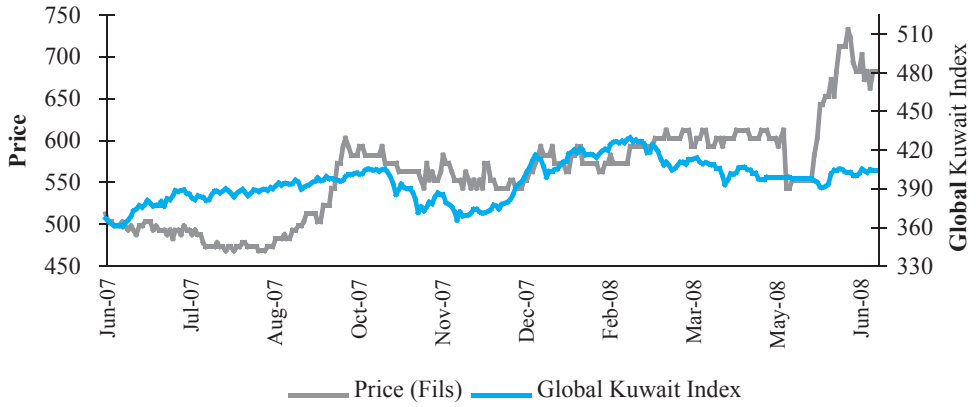
- The stock closed at KD0.770 on the Kuwait Stock Exchange at the end of trading on 6th July, 2008. The value of the stock has a potential upside of 22.0% from its current price level. At current price, ACICO's shares are trading at a P/E multiple of 5.0x and 4.3x for 2008 and 2009 respectively. We, therefore, recommend a '**BUY**' on the stock.

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

| CMP (KD) | | Shares in Issue (mn) | | M-Cap (KDmn) | | 52-Week Hi/Lo (KD) | |
|---|---|---|---|---|---|---|---|
| 0.770 | | 204.68 | | 157.60 | | 0.770/0.443 | |
| **Year** | **Gross Profit (KDs '000)** | **Net Profit (KDs '000)** | **EPS (Fils)** | **BVPS (Fils)** | **ROAE (%)** | **P/E (x)** | **P/BV (x)** |
| 2009 (F) | 28,977 | 36,780 | 179.7 | 617.9 | 32.8 | 4.3 | 1.2 |
| 2008 (F) | 19,946 | 31,510 | 153.9 | 478.2 | 36.2 | 5.0 | 1.6 |
| 2007 (A) | 7,154 | 22,080 | 107.9 | 371.9 | 34.1 | 5.1 | 1.5 |
| 2006 (A) | 10,753 | 13,345 | 65.2 | 261.0 | 27.9 | 6.8 | 1.7 |

*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 July 06, 2008.*

**Chart 1: Price Index Performance**



# Kuwait Economic Overview

The year 2007 was another good year for the Kuwaiti economy that continued its stellar performance for the fifth year in a row since 2002. We estimate Kuwaiti economy would have registered a real GDP growth rate of 6.6% in 2007, on top of 6.3% growth rate registered for 2006. On nominal terms, GDP grew by 21.4% to reach KD28.6bn in 2006 and is estimated to have maintained the same growth pattern in 2007. On CAGR basis, nominal GDP grew by 25.4% during the four year period 2002-06. Consequently, per capita GDP is estimated to have grown by 12.4% by the end of 2007 reaching KD10,111 (US$35,564) up from KD8,999 (US$31,654) in 2006. However, it is important to note that, the high growth rates reported for Kuwaiti economy as well as for other GCC countries have been primarily due to the oil factor. The geopolitical factors, supply disruptions and increasing demand continued to push oil prices to new highs during the year to surpass US$100/b. Kuwait export crude was no difference thus continued to record new highs over US$90/b. The ongoing increased prices are directly reflected as increased revenues for government coffers.

Oil continued to play an increasing role in the Kuwaiti economy with around 50% share in GDP. Similarly, the budget continued to register surplus for the seventh year backed mainly by the increased oil revenues that accounted for more than 90% of government revenues. On the foreign trade front, oil exports continued to account for more than 90% of total exports. Such facts reflect the huge dependence on oil and the urgent need for diversification. Generally, owing to its dependence on oil as the single largest revenue source, the economy of Kuwait can be split into two sectors, Oil sector and Non-oil sector.

Similar to all GCC countries, analyzing GDP by economic activity continued to reveal Oil and gas as the dominant sector within GDP. Its share in GDP has increased from 36.6% in 2002 to 52.4% in 2006. The sector's high growth rates over years have contributed significantly in its role in the Kuwaiti economy. On CAGR basis, the sector has registered 27.7% during the five-year period 2001-06. On annual basis, the sector's output reported the highest growth ever by the end of 2005 registering 56.4% of growth. That was followed by 27.5% growth reported by the end of 2006 when the sector's output stood at a new landmark of KD15.6bn.

On the government budget front, the fiscal year 2007/08 came to end by March 2008 reporting a preliminary huge surplus of KD9.55bn. Such level is a new record and to be compared with budgeted deficits of KD3bn. According to the state's Financial Administration Accounts report for the month of March 2008, actual revenues for the year stood at a new record of KD18.9bn that is 227.6% above budgeted figures. On another hand actual expenditure stood at KD7.5bn, that is merely 66.3% of budgeted figures.

By the end of 2006, Kuwait BOP surplus rebounded from last year trough to report a huge surplus reaching a new landmark of KD1.04bn. This level indicated more than five fold increase over KD164mn of surplus reported during 2005. The reason for the mammoth BOP surplus could be traced to the substantial increase in the current account surplus reaching KD14.8bn up from KD10bn in 2005. It is important to note that such increase in current account surplus was supported by 10.3% increase in capital account surplus.

On the monetary policy front, the rising interest rates during last years up to 2006 have not been able to douse liquidity to a great extent. On CAGR basis, the monetary base grew rapidly by 12.8% over the period 2001-07. Entering the year 2007, money supply -as measured by M2- reported 19.26% of growth as compared with the highest annual growth of 21.7% reported for 2006. Entering the year 2008, M2 reported new level of KD20.39bn by the end of 1Q08 expanding rapidly by 19.1% over KD17.1bn recorded in March 2007. On 20 May-2007 the CBK de-pegged the KD from the US$ in a similar way to the policy applied before January 2003. The new exchange regime tied KD to a weighted basket of international currencies according to Kuwaiti trade and financial relations with other countries.

Inflation, as measured by Consumer Price Index (CPI), has gone up to unprecedented level of 7.1% in the 4Q07 standing at 122.2 points. Such inflation level came on top of 3.03% reported by the end of 2006. It is important to note that inflation rates went through an increasing trend over the last four quarters. On a M-o-M basis inflation picked up even much more rapidly to hit new records above 7.54% up to the end of December 2007 to stand at 124.1 points. Entering the year 2008, figures from Central Statistics office revealed inflation picking up even more to unprecedented record levels of 9.53% by the end of January 2008. According to the data CPI hit 126.4 points by the end of January 2008 as compared with 115.4 points a year ago. The increase was driven by the sharp rises in housing services by 16.1% and prices of beverages and tobacco by 15.1%.

Real Estate and construction sector constituted 6% of Kuwait's GDP in 2006. Following the rebound in real estate sales during 2006, the average monthly sale of units continued the upward trend for 2007 as well to record 774 units up from 614 units in 2006. This translates into 26.1% increase that was mainly attributed to both 'residential' and 'apartments and commercial' sales. By the end of 2007, residential units' sales picked up considerably by 23.9% reaching 7,779 units up from 6,280 units sold in 2006. Similarly apartments and commercial units sold increased from 1,085 units in 2006 to 1,510 units in 2007, or 39.2% increase.

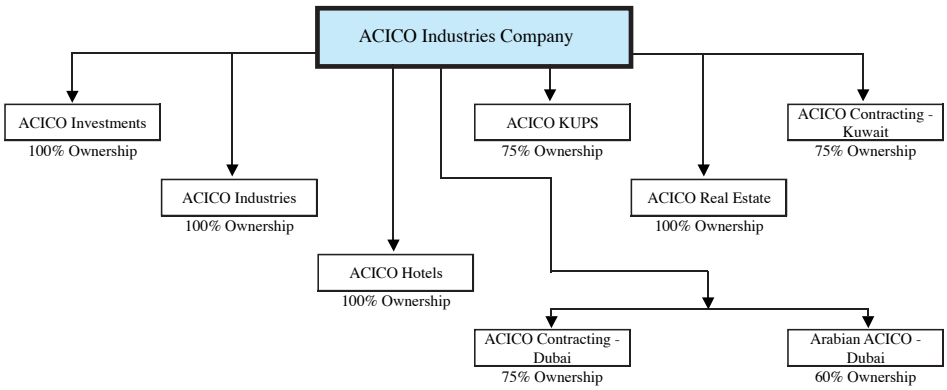
Finally, it is no doubt that major challenges facing the Kuwait economy as well as other GCC members in the future would mainly be economic diversification, employment generation and increasing inflation. This is especially in the current scenarios of tumbling US$ as well as high population growth rates and skewness towards young population.

# ACICO Restructured Segments

ACICO Industries Company (ACICO) was established in June 1990 as a Kuwait Shareholding Closed Company (KSCC) under license from Hebel International Germany. The company is involved in the production of reinforced and non-reinforced Autoclaved Aerated Concrete (AAC) of all types and sizes, and supplementary material for construction. The company is a leading producer and marketer in the GCC region of AAC products, viz., reinforced aerated concrete building units, lintels and stairs, as well as the tongue and groove blocks.

The company started with production and distribution of aerated concrete, diversifying into contracting and housing development. Further more the company is undergoing change in business model and would be adding more divisions which would contribute significantly in the top-line of the company. Company's new restructured business segments are shown below:

**Chart 2: ACICO Industries Company - Restructured Segments**




*Source: Company Reports*

**ACICO Kuwait United Pre-cast Systems**

ACICO has a 75% equity stake in Kuwait United Pre-cast Systems (KUPS), a Kuwaiti Shareholding Company established in 1976. It is a leading company that produces pre-cast concrete in Kuwait. The company is classified by the Central Tender Committee as a second category company whose business includes civil, mechanical and electrical engineering works. Among the projects where the pre-cast units of KUPS have been used are pedestrian bridges, multipurpose buildings for car parking lots, school buildings, housing projects, service buildings, multi purpose convention halls and commercial compounds, etc. in Kuwait. The company is also engaged in the production of cement.

**ACICO Contracting - Kuwait**

ACICO entered construction contracting services basically to promote its AAC products and to be able to better use its AAC capacity, and to diversify its revenue streams. It was also a natural extension to its AAC manufacturing activities. Beginning then, contracting has become the leading revenue earner for ACICO in recent years. In this business segment, the company offers construction services for housing and other public building projects, but not for infrastructure projects. The contribution of this segment to the company's overall revenues has been increasing over the years. From KD48.5mn in 2006, the revenues from

contracting services increased to KD63.04mn in 2007. The contracting activities of ACICO are managed by its subsidiary Ghassan Ahmad Al Khaled & Co. (GAK).

Ghassan Ahmad Al Khaled & Company was founded in 1975. The company entered the field of construction and occupies a privileged position in the market as a result of adopting a new concept in construction which is based upon bearing walls system. The company is classified in the first category of construction companies by the Central Tenders Committee by virtue of which it can assume any construction work in the country.

Following are some of the projects that the company assumed Ghassan Ahmad Al Khaled & Co. and currently in progress or expected to start almost:

**Table 2: GAK Projects**

| Project | Owner | Cost (KD mn) | Date of Completion |
|---|---|---|---|
| School Mantainance | Ministry of Education | 11.0 | Jan-08 |
| Municipality Headquarters | Public Organization of Housing Care | 4.5 | Jul-08 |
| Al Awkaf General Secretariat | Kuwait Autism Centre | 3.0 | Mar-08 |
| Infrastructure of Saad Al Abdallah Area | Public Organization of Housing Care | 33.2 | Mar-10 |

*Source: Company Reports*

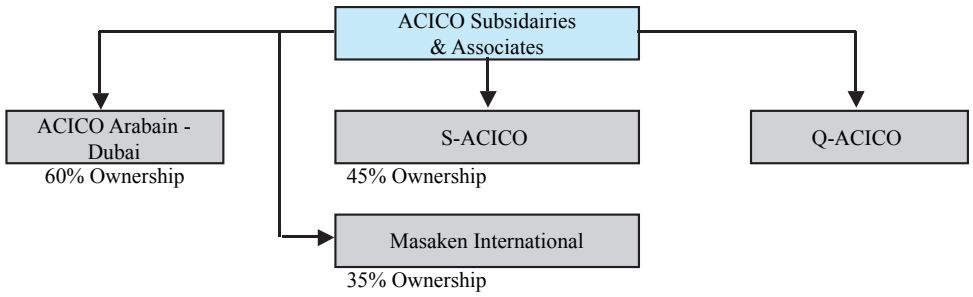
**ACICO Industries**

ACICO is involved in the production of reinforced and non-reinforced Autoclaved Aerated Concrete (AAC) of all types and sizes, and supplementary material for construction. The company occupies a leading position in the GCC in the production of reinforced aerated concrete building units, including ceiling and wall panels, lintels and stairs, as well as tongue and groove blocks. The contribution of this segment to the company's overall revenues has been increasing over the years. From KD13.2mn in 2006, the revenues from AAC gradually increased to KD13.3mn in 2007. Net profit from this business segment increased from KD10.4mn in 2006 to KD22.3mn in 2007.

The company also has a number of associates and subsidiaries.

ACICO Arabian – Dubai - ACICO has set-up Emirates Aerated Concrete Industries Company for the production of AAC in the Jebel Ali Industrial Area of Dubai, United Arab Emirates (UAE). The plant is owned entirely by ACICO and began trial production in April 2005.

**Chart 3: ACICO Subsidiaries & Associates**




*Source: Company Reports*

S-ACICO - ACICO also has a 45% stake in Saudi Aerated Concrete Industries Company (S-ACICO) for the production of insulated blocks and reinforced panels of AAC in Al Jubail, the eastern region of the Kingdom of Saudi Arabia (KSA). S-ACICO is a joint venture of ACICO, Zamil Industrial Investment Company and Hamed A. Al Zamil & Bros. Company in KSA. The company, with a paid-up capital of SR300mn (US$80mn), is headquartered in Dammam. The project is witnessing losses in 2007 and is expected to be profitable by 2010 as per the management.

Q-ACICO - ACICO also has a 49% stake in Qatar Aerated Concrete Industries Company (Q-ACICO) for the production of reinforced and non-reinforced AAC. Q-ACICO is a joint venture with Nasser Bin Khaled Al Thani & Sons Holding Co WLL. Trial production of the plant has already begun and 2008 would be a full year of operation.

Masaken International - Masaken International was established in 1998 with ACICO - Kuwait owning 35% of its capital. Masaken was launched with the collaboration of ACICO's engineering team, which had expertise in designing buildings using the aerated concrete load bearing walls system. The primary goal of the company is acquire, own, sell and develop real estate and land, within Kuwait and abroad and organize real estate exhibitions related to the company's projects.

**ACICO Hotels**

ACICO has formed a new business unit in which it operates two hotels which are Al Jal Hotel, Dubai and Fujairah Resort. Al Jal Hotel is a five-star hotel located on Sheikh zayed Road in Dubai. The hotel consists of 54-storey and 486 luxury room, 5 restaurants and other recreation centers. It is expected to start operating actually in 2009, while, Fujairah Resort is one of the other ambitious projects, which is being implemented by the company. The project covers an area of 29,605 square meters and provides a panoramic vision for the Emirate of Fujairah, and consists of 240 luxury room, 5 restaurants and other recreational areas.

**ACICO Real Estate**

The company has also ventured into real estate business in Kuwait and the United Arab Emirates. It has added a number of real estate projects and some of them are:

ACICO Tower Kuwait - ACICO building located in Kuwait at a distinct location in the heart of Kuwait City, the building consists of 16 floors.

ACICO Business Park - Dubai - The project is located in the area of Port Said. The project consisted of three levels, like three basement, ground and nine floors. Has been completed at the end of 2007 and is expected to generate lease in 2008.

Nasima Tower – Dubai - Nasima tower is one of the vital projects undertaken by the company on Sheikh Zayed Road in Dubai, and includes the tower units and commercial offices and residential introduction into account thriving real estate market of the United Arab Emirates. It consists of the 51-storey tower and is expected to be the leasing building for the year of 2009.

**ACICO Contracting – Dubai and ACICO Arabian**

Looking at the booming construction, building materials and contracting business in Dubai, the company would also be undergoing the contracting business under the heads of ACICO

Contracting – Dubai and ACICO Arabian. The company is very keen on projecting it as it would give better return as compared to the same business in Kuwait.

**ACICO Investments**

ACICO has teamed up with Bayan Investment Company in creating Ee'mmar & Estethmar Fund. The Fund invests in real estate inside and outside Kuwait besides stock market and treasury investments. It enables the ACICO Group to have unleveraged exposure to the real estate market.

**Shareholding**

As for shareholding pattern of the company, various members of the Al Khaled family have sizeable holdings in the company. The Board of Directors of the company consists of the Al Khaled family members.

**Table 3: Major Shareholders**

| Name | Type | Country | Holding |
|---|---|---|---|
| Ghassan Ahmad Saud Al Khaled | Private | Kuwait | 12.89% |
| Ahmad Ghassan Ahmad Saud Al Khaled | Private | Kuwait | 9.35% |
| Hamad Abdulaziz Al Hamad Al Saqr | Private | Kuwait | 5.76% |
| Al Ra'id Investment Fund | Corporate | Kuwait | 5.10% |
| Public | | - | 66.90% |

*Source: Zawya*

Ghassan Ahmad Saud Al Khaled is the major shareholder with a stake 12.89% followed by Ahmad Ghassan Ahmad Saud Al Khaled at 9.35%. Hamad Abdulaziz Al Hamad Al Saqr holds 5.76% stake while the only corporate shareholder Al Ra'id Investment Fund has 5.1% stake in the company. The rest amounting to 66.9% is being held by the public. The company has no ownership limit for GCC as well as foreign investors.

**Listing & Trading**

ACICO was listed in the Kuwait Stock Exchange in 1997, under the ticker 'ACICO'. The company's shares have enjoyed healthy liquidity in the past. The average daily volume traded of the stock was 0.43 million shares, during 2005 while the same during 2006 was 0.15mn. However, the stock liquidity has suffered in the current year so far, with the average daily volume traded declining to 0.37mn shares, a 13% drop when compared against the same in the last year. The stock closed at KD0.770 on July 06, 2008, with a 52-week high/low of KD0.770/KD0.443.

**Table 4: ACICO on the Kuwait Stock Exchange**

| Year | Average Volume | Price | | |
|---|---|---|---|---|
| | | Hi | Low | Close |
| 2006 | 151,462 | 680 | 460 | 465 |
| 2007 | 432,336 | 600 | 465 | 550 |
| 2008* | 375,040 | 770 | 540 | 680 |

*Source: Kuwait Stock Exchange*
** Till 6th July 2008*

# Kuwait Real Estate Sector

Kuwait has had a "hot" real estate market for the last few years. Real Estate and construction sector constituted 6 % of Kuwait's GDP in 2006. The rise in house prices has been a great windfall to current owners who have experienced large returns on their housing investments. Under the current economic conditions, the Kuwaiti real estate market has performed exceptionally well, and since the economy continues to rapidly expand, it is the common prediction among experts that for the coming period the buying boom in the domestic real estate market would continue.

As Kuwait's economy has continued to gain strength, the real estate sector has continued to move forward. The strength of the real estate sector has ultimately been derived from the intensity of the overall economic scene in Kuwait. High oil prices, abundant liquidity, political stability and repatriation of funds have all been economic variables carrying the real estate market to unprecedented levels over the last few years. The sector is clearly going through a boom period. The reasons are well documented; the fall of Saddam Hussain has brought a renewed confidence, previously overseas invested money is flooding back, and the economy, boosted by high oil prices, is surging on a wave of liquidity. Local contractors estimate that over the next five years the private sector will invest up to US$8bn in the construction sector, on top of US$3bn to be spent by the government. Moreover, Kuwait real estate sector would benefit from increased trade and contracts with Iraq as a greater number of companies would set up shop in Kuwait targeting Iraqi business. Therefore, demand for both office and apartment space would increase.

**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.

**Outlook**
On the residential front the market is still skewed towards under supply scenario. On the

demand side, the number of new applications for Public Authority for Housing Welfare (PAHW) averaged around 7000 applicants per year over the period 2000-2006. On the supply side, according to Ministry of Housing figures; between 1994 and 2005 only 19,000 state residential units were built. Confirming the same situation of undersupply are PAHW data on total applications and waiting list. According to PAHW, waiting rate has been increasing over years. Waiting rate stood at 16.8% during the late eighties then jumped to 24.6% on average for the whole nineties. However, there was a dramatic increase in waiting rate for the last three years reaching more than 50.0% over the period 2004-06. Such increase in waiting rate is mainly due to the increasing demand for housing that surpasses supply by all means.

On the investment front, vacancies are expected to climb because developers are still erecting new complexes at a breakneck pace. Unless there is further economic activation, there runs the risk that supply may exceed demand. The only way to address the oversupply situation is to change the regulations and allow non-Kuwaitis to own property.

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.

On the office market front, we estimate prices will continue its growth, however at lower rates. This is mainly because there is still unsatisfied demand due to the high ownership occupation rate. Thus, the majority of office towers being constructed in the capital are to the benefit of private sector firms who own and use the building in whole, not adding much in terms of available market space. Moreover, high construction costs may limit development activities in central areas. As well, the tight rental market has begun to encourage renters to become owners, where a new method of pre-selling is being developed in the market. This phenomenon has shown promising potential with some towers developed and sold through this method. Looking forward, among other segments commercial properties will continue its boom because of the scarcity in supply as well the high yields and profitability in that segment. For example, 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.

# UAE Real Estate Sector

UAE real estate and business services sector in nominal terms continues to grow recording a CAGR of 20% during 2003 - 2007. In 2007, real estate and associated business services constituted 8% of UAE's GDP, or AED55.8bn recording a substantial growth of 21% in 2007. This sector was buoyed by the increasing investment in infrastructure, due to the country being positioned as an attractive tourist destination in addition to the increase in the residential and non-residential units. With construction sector, both sectors accounted for 16% of GDP in 2007. Generally, real estate sector is seen by many as a safe haven for investments and UAE is no different. The sector's key drivers include among others; growing influx of expatriate population, ample liquidity, and friendly regulatory environment. Moreover, being a regional hub for investments UAE attracts international companies to establish offices.

Among the GCC countries, UAE stands out as the leading real estate market in the region with US$500bn worth of announced projects expected to be delivered over the next few years. This includes the US$10bn Dubailand theme park and the World and Palm Islands developments. The sector continues to benefit from a large number of announced projects that are currently on in UAE. Much of this activity used to be centered in Dubai which has three main property developers, Nakheel, Emaar, and Dubai Holding collectively accounting for more than half of the emirate's total construction work. However, construction activity in the other emirates, especially Abu Dhabi, is rising quickly. Construction costs are also escalating due to local shortages of materials, in particular steel and cement, and hikes in fees of qualified contractors.

On the infrastructure front, the current oil boom has led to an increased economic confidence with a surge in investments and government spending. As a result a lot of infrastructure development activities are currently going on in the emirates with Dubai being the centre of much activity. Almost all sectors are undergoing rapid development and expansion as the country seeks to lay solid groundwork for future economic growth. The UAE accounts for most of the ongoing and planned infrastructure projects among the GCC countries, amounting to an estimated over US$680bn in investments over the next few years as per MEED projects.

It is estimated that Abu Dhabi alone will spend upwards of US$200bn over the next five years on infrastructure projects. During 2007, the Abu Dhabi government published a comprehensive urban plan called "Plan Abu Dhabi 2030" that is designed to create a coherent and sustainable blueprint for the emirate's development.

The infrastructure projects being planned in the UAE, many of which are still on the drawing board will see that the construction activity would continue to be brisk for quite some time. Work to improve the country's infrastructure has pressed ahead, with the Dolphin gas pipeline coming on-stream, the first two lines of the new Dubai Metro rail system nearing completion and other major projects well under way, such as work of the new Khalifa Port, north-east of Abu Dhabi, the expansion of Abu Dhabi International Airport and the construction of the world's largest airport, "Al Maktoum International", near Jebel Ali, which is due to open for business during 2008.

**Outlook**

Dubai has been by far the largest emirate in terms of real estate activity, and has also witnessed the highest escalation in rents, and prices. We believe that current prices still guarantee decent margins for developers and investors in Dubai in the residential and the commercial segments, with higher yields in the commercial segment. Currently, demand is huge and supply is not enough to cover this demand in the residential and commercial segments considering the economic boom, the high growth of employment, the regularity at which foreign companies are setting up base in the country, and the huge inflow of expatriates.

Although, the Dubai property market is crowded with several number of mega projects in the pipeline signaling an expected oversupply situation, most of the projects are still under construction. Furthermore, constant delays in the delivery of new property has fuelled the demand for available property, and hence led to more appreciation in rents and prices. However, rents in the residential segment are not expected to appreciate at the same levels witnessed earlier due to the cap on rental increases imposed by the government.

The recently announced property law allowing foreign ownership of property in Dubai has boosted investor confidence in the market, and is expected to sustain the boom in the market. The new property law is also expected to trigger activity in the home financing segment.

The rapid increase in tourist flow has rendered hotels in acute short supply, especially in Dubai. We expect that, hotels would continue to be in short supply in the medium term, and the high current occupancies would be maintained. The situation is pretty much similar in Abu Dhabi too, where tourism is expected to pick up once the major developments in the investment zones are completed. At present, hotels in Abu Dhabi too are facing a supply deficit situation. Similarly, Ras Al Khaimah too is marketed as a tourist destination and would offer plenty of opportunities for more hotel developments.

Activity has also picked up in the northern emirates of the UAE, especially Sharjah and Ras Al Khaimah. Going forward, we expect these emirates to continue to offer good value proposition for investments considering the relatively low entry price. Ras Al Khaimah, Umm Al Qaiwan and Sharjah would be relatively more attractive among these emirates in that order. However, in terms of the scale and the number of developments, opportunities would fade in comparison to that in Dubai and Abu Dhabi. We see a steady evolution of these emirates into higher levels of activity, but there are no signals pointing to a shift of activity from the bigger emirates.

# ACICO – Performance Overview

**New Developments in the Company**

- Aerated Concrete Industries Co., the Kuwait-based building material-maker and property developer, will change its name to ACICO Industries Co.

- ACICO Contracting Company, signed a AED110mn contract with Palm Company, to construct 613 villas in Al Jumaira area (UAE). The project is expected to be finalized in a period of thirteen months.

- ACICO to build three residential buildings developed by Awkaf & Minors Foundation, Governemt of Dubai located in Al Quoz sector IV. The buildings comprise of Ground + 3 floors residential units well designed for a comfortable liveing. The buildings will have a total area of aound 550,000 sqft. The project is valued at AED 105 million. The expected duration of the project is 18 months.

- ACICO International Contracting will design and build 134 town houses at Gardens, Jebel Ali for Nakheel PJSC. The project is valued at AED 96 million and will complete in 12 months time.

**Financial Performance in 2007**

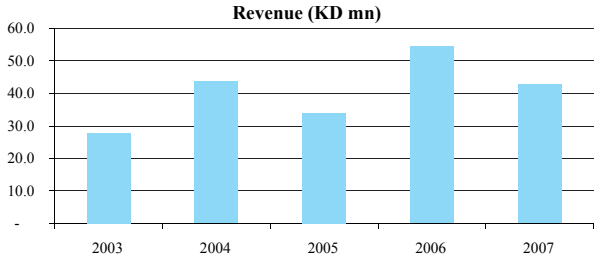
**Operating Income**
Company's operating income for the year 2007 declined by 22% to KD42.6mn as against KD54.4mn in 2006. The drop was a direct result of 97% decline in the housing development income and an increase of 57% in the adjustments of inter-company transactions. During the year the company's aerated concrete business remained flat and was able to earn KD13.2mn. Going forward, company has changed its paradigm from housing development to more of a contracting business, which would be complemented by new businesses such as: ACICO Hotels, ACICO Real Estate, ACICO Investments and ACICO contracting business in Dubai.

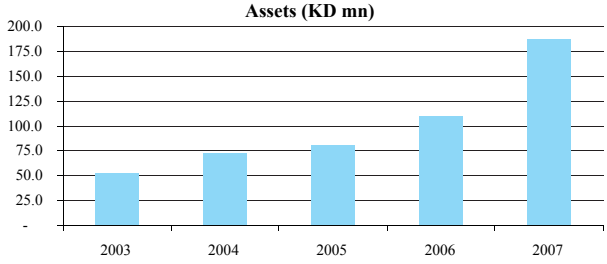
**Operating Cost**
Operating cost of the company also declined in unison to the revenue and ended down by 19% at KD35.5mn in 2007, last year being KD43.7mn. 97% decline in the housing development and 47% increase in the adjustment of intercompany transaction reduced the cost.

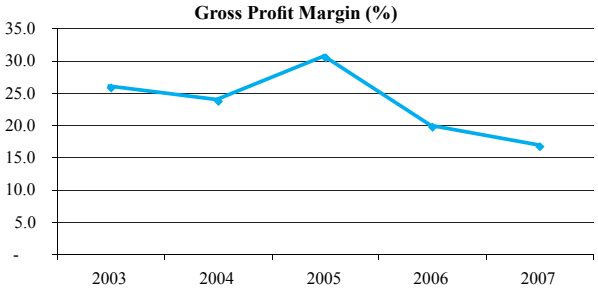
**Gross Margins**
Company's gross margins for the year declined by 3% to 16.8%, while same in the last year stood at 19.7%. Decline in the margins resulted because of decline in the margins of the contracting business from 13% to 10% in 2007. Contracting business was the major revenue earner for the company in the year 2007.

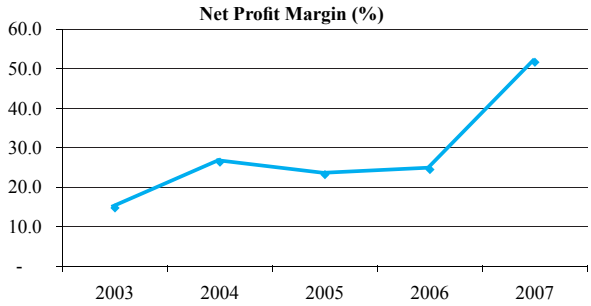
**Operating Expenses**
General and administrative expenses of the company for the year rose by 107% to KD4.7mn as against KD2.2mn in the same period last year. Increase in the expenses was a result of

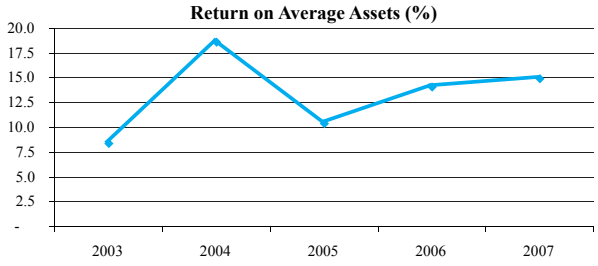
## Chart 04: Chart Gallery

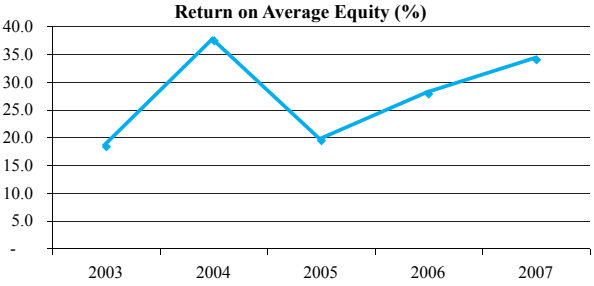


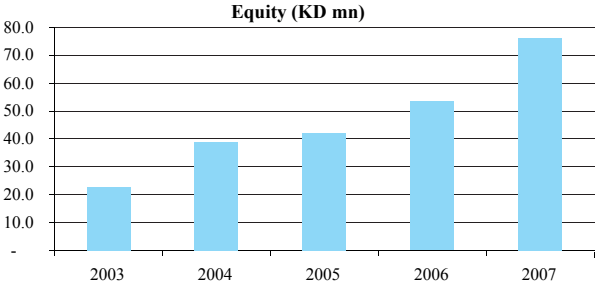



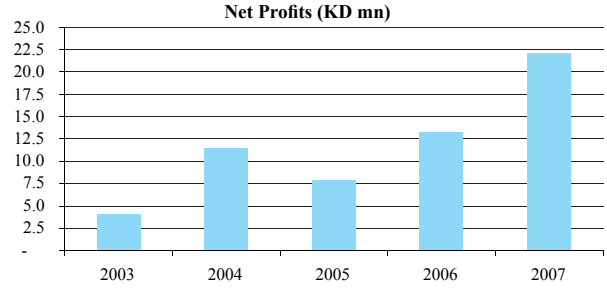



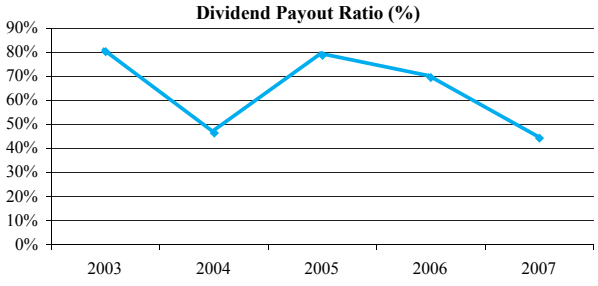



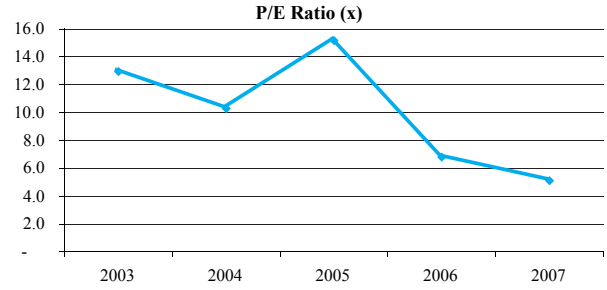




*Source: Company Reports*

increase in the staff cost from KD0.7mn to KD1.3mn along with KD1.2mn for the pre-opening of hotel expenses. On the other hand selling expenses which only account for the business of aerated concrete, rose by 28% to KD0.8mn from KD0.6mn in the previous year. Increase in selling expenses can be attributed to ever rising fuel costs.

**Other Income**

Company's other income comes from rental business, gain on sale of fixed assets, management fees, return on cash deposits and treasury activities. During the year it declined by 26% to KD0.6mn from KD0.8mn in 2006. Decline in the other income was a result of depreciation in the income from management fees and other miscellaneous income. While contribution from gain on sale of fixed assets and rental income was relatively better than that of the last year. During the year the company earned KD1.2mn from the same of investment property while their was no contribution from the sale of projects.

Foreign exchange losses of 2006 were managed with proper hedging techniques and at the end of the year the company was able to make gains of KD1.2mn. On the other hand interest income amounted to KD0.568mn for the year. The major leap in the profits came from the change in fair value of investment property at KD18.65mn, which prompted marginal operational profits into higher net income growth.

**Share of Result from Associates**

Group share of results from associates also contributed more than KD1mn to the profits. That profit was result of contribution from the company associates in Saudi Arabia, Qatar and Kuwait. Aerated concrete industries company in Saudi Arabia witnessed a loss of KD0.10mn while the Aerated Concrete industries company in Qatar witnessed a gain of KD0.05mn. The major contributor was the Al-Masaken International for Real Estate Development was KD1.09mn.

**Financial Charges**

Financial charges of the company declined by 7% to KD1.7mn as against KD1.8mn in the same period last year. The company is well poised towards growth and is not expected to borrow further which will burden it with the rising financial charges.

**Net Profits**

Net profit of the company for the period ending 2007 recorded an increase of KD22.1mn from KD13.3mn in 2006. This translated into an earning per share of 108Fils as against 65Fils in 2006. With higher contribution from the non-core income portion, company's net margins also increased from 23.2% to 51.7%.

**Assets**

The total assets of the company increased by 72% to KD187.5mn at the end of 2007. Current assets rose by 88% at the end of the year to KD55.9mn. The major reason for the increase in current asset can be attributed to increase in cash balances and receivables of the company. Inventories of the company increased by 40% to KD3.5mn. Net fixed assets on the other hand rose by 35% to KD19.5mn. Increase in plant and equipment can be attributed to the up-gradation of the block and cement factory of the company in 2007.

**Investments**

While the company divested its current trading portfolio during the year. Company's exposure to the investment in bourses continued as the investment amounted to KD49.7mn, which is 27% of the total assets. In the investment, major thrust came from investment in associates and investment in properties. During the year the parent company subscribed in portion of the capital increase of its unconsolidated subsidiary Al-Masaken International for Real Estate Development which resulted in decreasing the parent company's interest in equity of the unconsolidated subsidiary to 35%. Apart from that company invested in real estate funds and in unquoted shares in which was more than KD6mn.

**Liability and Equity**

In 2007, the paid up capital of the company was increased to KD19.5mn from KD14.6mn in 2006. In the past year the company had equal contribution from the liability and equity at 51% and 49%, which in the year 2007 was further skewed towards the liabilities at 59%. In the liabilities debt amounted to 87% (KD97mn) while the rest amounted to employee indemnity provisions and minority interests.

**ACICO - Financial Performance in 1Q/2008**

Operational revenue for the quarter ending 2008 was higher by 66.4% to KD13.5mn as against KD8.1mn in the same quarter last year. On the other hand, operating cost increased by 51.4% to KD9.5mn which resulted in a gross profit of KD4.1mn and gross profit margin of 30%.

**Table 5: Interim Results**

| *(KD)* | 1Q/2007 | 1Q/2008 | % Change |
|---|---|---|---|
| Operating Income | 8,149,700 | 13,558,612 | 66.4% |
| Operating Costs | (6,268,873) | (9,490,191) | 51.4% |
| **Gross Profit from Operations** | **1,880,827** | **4,068,421** | **116.3%** |
| Operational Expenses | (852,656) | (888,427) | 4.2% |
| Depreciation & Amortization | (107,181) | (182,479) | 70.3% |
| Provisions | - | (10,000) | - |
| **Operating Profit** | **920,990** | **2,987,515** | **224.4%** |
| Non-Operational Income | 2,211,778 | 2,600,953 | 17.6% |
| Interest Expenses | (205,291) | (965,018) | 370.1% |
| Contribution to KFAS and NLST | (25,796) | (36,703) | 42.3% |
| **Profit before Minority Interest** | **2,901,681** | **4,586,747** | **58.1%** |
| Minority Interest and Zakat | (61,290) | (372,936) | 508.5% |
| **Net Profit** | **2,840,391** | **4,213,811** | **48.4%** |
| | | | |
| Equity | 70,011,717 | 81,597,530 | 16.5% |
| Liability | 57,223,998 | 99,472,446 | 73.8% |
| Assets | 127,235,715 | 181,069,976 | 42.3% |

*Source: Company Reports*

Operational expense increased by 4.2% to KD0.89mn while depreciation and amortization increased by 70% to KD0.18mn.

During the period, the parent company incorporated a wholly owned subsidiary ACICO Arabia for General and Contracting Co with a capital of KD9.5mn. The parent company transferred assets and liabilities of its industrial division from its branch operating in UAE to the newly incorporated subsidiary. Later the company sold 40% of its investment to a related party for an amount AED70mn equivalent to KD5.2mn resulting in a gain of KD1.4mn.

**Growth Outlook**

Since the inception the company has been able to achieve the same standing and reputation in the GCC states as a major construction and building company. Today the activities of the company are diverse and integrated which forms a strong base for continued growth of revenue and income in the years to come.

The company has interests in the AAC, real estate, construction contracting, hotels and does investments which provide it with diversified revenue streams. The company is a leading producer and marketer in the GCC region of AAC products based on technology sourced from Hebel, a world leader in patented AAC technology. It has around 45-50% in the Kuwait AAC market. The Group has also established presence in UAE, and is establishing its presence in other GCC countries, such as Qatar and Saudi Arabia. UAE and Saudi Arabia together have the largest proportion (79%) of civil construction projects among the six GCC countries. The construction sector is benefiting from huge investments in real estate sector all across the GCC, riding on high oil prices-driven liquidity, exacerbated by high population growth rates and resultant housing shortages. This benefits all the business lines of the company.

The company is planning to expand its operation in the Middle-East and investment in the future through ongoing research projects on the development of real estate, manufacture of aerated concrete products and construction system and also increase investments in private equity and endeavor to take the lead in the market.

These moves are aimed at cashing in on the high growth potential in these sectors, moving forward. The Company also plans a string of financial engineering moves in the times ahead, which should see the Group transform itself into a leaner, more efficient and better focused, while unlocking value for its shareholders.

# Valuation & Recommendation

**DCF Method**

In order to compute the cost of equity for the Discounted Cash Flow (DCF) method, we have used the Capital Asset Pricing Model (CAPM).

The following assumptions have been made in order to arrive at the DCF value of ACICO.

- A risk-free rate of 5.75%, equal to the current CBK discount rate, has been assumed.
- A market risk premium of 7.0% has been assumed, to factor in the increased riskiness of the real estate and construction markets going forward.
- Beta has been assumed at 1.0.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model (CAPM) is 12.75%.
- The cost of debt has been assumed at 6.5%.
- Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 12.13%.
- Terminal growth rate of 3.0% has been assumed, as it is expected to follow the long-term GDP growth in the region.
- Based on our future earnings projections and the above assumptions for DCF computations, the DCF value of ACICO comes out to be KD0.873 per share.

**Table 06: DCF Valuation of ACICO Industries Company**

| *(KD)* | | **2008 (F)** | **2009 (F)** | **2010 (F)** | **2011 (F)** |
|---|---|---|---|---|---|
| Free Cash Flow | | (19.4) | 6.4 | 20.5 | 24.0 |
| Discounted Cash Flow | | (18.3) | 5.4 | 15.4 | 16.1 |
| WACC | 12.1% | | | | |
| Terminal Growth rate | 3.0% | | | | |
| Primary Value | 18.6 | | | | |
| Terminal Value | 181.6 | | | | |
| Investments | 29.1 | *(As at end of 1Q2008)* | | | |
| Cash | 15.2 | *(As at end of 1Q2008)* | | | |
| Enterprise Value | 85.7 | | | | |
| Debt | 264.7 | *(As at end of 1Q2008)* | | | |
| Equity Value | 178.7 | | | | |
| No. of Equity Shares Outstanding | 204.7 | | | | |
| **Per Share Value (KD)** | **0.873** | | | | |

*Source: **Global** Research*

**Sensitivity Analysis**

A sensitivity analysis for different estimated long-run future growth rates and weighted cost of capital is shown in table below. The table provides estimated fair values for ACICO's shares based on a range of varying inputs. The shaded area at the center shows the most probable range of alternatives.

**Table 7: Sensitivity Analysis of ACICO Industries Co.**

| | | Terminal Growth Rate | | | | |
|---|---|---|---|---|---|---|
| | | **1.0%** | **2.0%** | **3.0%** | **4.0%** | **5.0%** |
| **WACC** | **10.1%** | 0.921 | 1.045 | 1.204 | 1.416 | 1.709 |
| | **11.1%** | 0.799 | 0.897 | 1.018 | 1.174 | 1.380 |
| | **12.1%** | 0.700 | 0.778 | **0.873** | 0.992 | 1.144 |
| | **13.1%** | 0.617 | 0.681 | 0.757 | 0.850 | 0.967 |
| | **14.1%** | 0.547 | 0.600 | 0.662 | 0.737 | 0.828 |

*Source: **Global** Research*

**Relative Valuation Method**

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 the four listed companies in Kuwait 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 (Projected) earnings.

The weighted average forward P/E for the peer set, thus arrived at, is 7.83x. On the basis of the weighted average forward P/E for the peer set and ACICO's projected 2008 earnings, the company's stock valuation comes to KD1.205 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.

**Outlook**

The value of ACICO's shares derived from the weighted average of the DCF and relative valuation methods is KD0.940 per share. The stock closed at KD0.770 on the KSE at the end of trading on 6th July 2008, which implies that the weighted average value of ACICO's shares is at a premium of 22% to the share's current market price.

**Table 8 : Weighted Average Share Value of ACICO**

| | Weightage | Fair Value |
|---|---|---|
| As per DCF Method | 80% | 0.873 |
| As per P/E Multiple | 20% | 1.205 |
| **Weighted Average Share Value** | | **0.940** |

*Source: **Global** Research*

At their current price, ACICO's shares have a P/E multiple of 5.0x and 4.3x for 2008 and 2009 respectively. We, therefore, recommend a '**BUY**' on the ACICO stock at its prevailing price levels.

**Balance Sheet**

| (KD) | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) |
| Bank & Cash Equivalents | 498,051 | 3,168,622 | 31,364,480 | 16,603,706 | 12,505,004 | 7,492,789 | 5,400,108 |
| Account Receivables | 10,051,973 | 10,595,356 | 15,733,320 | 16,221,430 | 19,743,956 | 23,198,651 | 24,593,032 |
| Other Receivables | 3,213,684 | 10,350,512 | 5,080,831 | 7,096,876 | 9,871,978 | 10,149,410 | 12,896,346 |
| Inventories | 2,629,170 | 2,507,071 | 3,504,196 | 5,332,047 | 6,194,240 | 7,618,172 | 7,993,009 |
| Investment Portfolios (Trading) | 1,561,376 | 3,008,512 | - | - | - | - | - |
| Lands under Development | 9,394,807 | 147,104 | 164,420 | 197,304 | 236,765 | 284,118 | 340,941 |
| **Total Current Assets** | **27,349,061** | **29,777,177** | **55,847,247** | **45,451,362** | **48,551,942** | **48,743,139** | **51,223,437** |
| Investment Available for Sale | 2,460,598 | - | 6,156,803 | 6,158,642 | 6,160,850 | 6,163,498 | 6,166,677 |
| Investment in Associates | 644,658 | 644,658 | 8,872,958 | 10,170,131 | 11,791,596 | 13,818,428 | 16,351,968 |
| Investment in Unconsolidated Subsidiaries | 11,215,260 | 1,175,334 | - | - | - | - | - |
| Investment Properties | 4,000,000 | 11,626,347 | 34,710,615 | 54,295,846 | 72,412,185 | 89,169,798 | 104,251,650 |
| Goodwill | 3,158,661 | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 | 2,250,506 |
| Right of Utilization of Leasehold | 1,574,074 | 895,438 | 837,976 | 783,508 | 732,580 | 684,962 | 640,439 |
| Projects Under Construction | 14,138,870 | 48,215,882 | 59,315,822 | 78,615,822 | 86,015,822 | 87,515,822 | 89,015,822 |
| Gross Fixed Assets | 24,352,528 | 24,151,968 | 30,422,889 | 39,922,889 | 44,422,889 | 48,922,889 | 51,422,889 |
| Less: Accumulated Depreciation | 8,576,807 | 9,736,696 | 10,967,585 | 12,926,518 | 15,521,505 | 18,408,993 | 21,588,981 |
| Net Fixed Assets | 15,775,721 | 14,415,272 | 19,455,304 | 26,996,371 | 28,901,384 | 30,513,896 | 29,833,908 |
| **Total Assets** | **80,316,903** | **109,000,614** | **187,447,231** | **224,722,188** | **256,816,864** | **278,860,050** | **299,734,408** |
| Liabilities: | | | | | | | |
| Accounts Payable | 6,700,036 | 5,887,905 | 12,581,610 | 10,368,512 | 11,718,832 | 14,650,331 | 15,986,018 |
| Short-term Loans | 21,997,484 | 17,323,347 | 67,354,900 | 84,193,625 | 85,877,498 | 72,995,873 | 58,396,698 |
| Due to Related Parties | 169,726 | 877,459 | 400,587 | 440,646 | 484,710 | 533,181 | 586,499 |
| Dividends Payable | 225,556 | 205,347 | 353,680 | 469,238 | 480,234 | 485,731 | 488,480 |
| **Total Current Liabilities** | **29,092,802** | **24,294,058** | **80,690,777** | **95,472,021** | **98,561,273** | **88,665,117** | **75,457,696** |
| Long-term Loan | 7,495,441 | 17,267,948 | 29,582,594 | 28,582,594 | 27,082,594 | 25,082,594 | 24,007,594 |
| Employees' Indemnity Provision | 547,920 | 722,510 | 871,586 | 1,002,324 | 1,052,440 | 1,105,062 | 1,160,315 |
| Minority Interest | 959,312 | 1,228,185 | 190,504 | 1,788,434 | 3,648,381 | 5,661,185 | 7,709,730 |
| **Owner's Equity:** | | | | | | | |
| Paid-up Capital | 12,497,337 | 14,684,371 | 19,493,213 | 20,467,874 | 20,467,874 | 20,467,874 | 20,467,874 |
| Share Premium | 11,558,752 | 16,245,253 | 24,426,446 | 24,426,446 | 24,426,446 | 24,426,446 | 24,426,446 |
| Statutory Reserve | 3,313,780 | 4,705,127 | 7,001,050 | 10,152,031 | 10,233,937 | 10,233,937 | 10,233,937 |
| Treasury Shares | (96,169) | (605,684) | (415,881) | (415,881) | (415,881) | (415,881) | (415,881) |
| Gain on Sale of Treasury Shares | 2,458,046 | 2,479,912 | 2,583,763 | 2,583,763 | 2,583,763 | 2,583,763 | 2,583,763 |
| Retained Earnings | 12,029,084 | 15,967,691 | 25,570,512 | 43,208,077 | 71,719,323 | 103,590,591 | 136,640,394 |
| Cumulative Changes in Fair Value | 460,598 | - | 9,197 | 11,036 | 13,244 | 15,892 | 19,071 |
| Foreign Currency Translation Adjustments | - | (50,544) | (2,556,530) | (2,556,530) | (2,556,530) | (2,556,530) | (2,556,530) |
| **Total Shareholder's Equity** | **42,221,428** | **53,426,126** | **76,111,770** | **97,876,816** | **126,472,175** | **158,346,092** | **191,399,073** |
| **Total Liabilities & Owner's Equity** | **80,316,903** | **109,000,614** | **187,447,231** | **224,722,188** | **256,816,864** | **278,860,050** | **299,734,408** |

**Income Statement**

| | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| *(KD)* | **2005** | **2006** | **2007** | **2008 (F)** | **2009 (F)** | **2010 (F)** | **2011 (F)** |
| **Operating Income** | **34,028,533** | **54,491,602** | **42,684,785** | **74,010,275** | **90,081,798** | **105,843,843** | **109,468,986** |
| Operating Cost | (23,655,505) | (43,738,769) | (35,530,860) | (54,064,385) | (61,105,338) | (71,298,280) | (72,936,206) |
| **Gross Profit** | **10,373,028** | **10,752,833** | **7,153,925** | **19,945,890** | **28,976,460** | **34,545,563** | **36,532,780** |
| General & Administrative Expenses | (1,653,236) | (2,292,938) | (4,750,148) | (5,920,822) | (7,206,544) | (8,467,507) | (8,757,519) |
| Selling Expenses | (972,053) | (660,190) | (848,061) | (1,480,206) | (1,801,636) | (2,116,877) | (2,189,380) |
| Provisions | (63,133) | (87,446) | 77,219 | (148,021) | (180,164) | (211,688) | (218,938) |
| Depreciation and Amortization | (529,369) | (461,564) | (488,328) | (633,112) | (759,112) | (840,112) | (903,112) |
| **Operating Profit** | **7,155,237** | **7,250,695** | **1,144,607** | **11,763,730** | **19,029,005** | **22,909,379** | **24,463,831** |
| Other Income | 897,149 | 831,313 | 613,087 | 1,110,154 | 1,351,227 | 1,587,658 | 1,642,035 |
| Gain on Sale of Investment Property | 1,171,508 | - | 1,211,275 | 1,392,966 | 1,532,263 | 1,685,489 | 1,854,038 |
| Gain on Sale of Projects Under Construction | - | 5,023,116 | - | - | - | - | - |
| Share of Result from Associates | - | - | 1,037,738 | 1,297,173 | 1,621,466 | 2,026,832 | 2,533,540 |
| Unrealized Gain from Investments | 486,000 | - | - | - | - | - | - |
| Dividend Income | 500,000 | 164,800 | 53,966 | 156,793 | 171,406 | 189,672 | 212,503 |
| Interest Expenses | (1,785,094) | (1,823,861) | (1,694,004) | (2,621,421) | (3,386,045) | (3,165,578) | (2,707,241) |
| Profit/(Loss) on Disposal of Investments | - | 61,564 | 61,373 | 123,155 | 123,195 | 123,244 | 123,302 |
| Interest Income | - | 63,321 | 568,100 | 624,910 | 687,401 | 756,141 | 831,755 |
| Forex Gain / (Loss) | (7,410) | (21,046) | 1,232,020 | 924,015 | 831,614 | 748,452 | 823,297 |
| Change in Fair Value of Investment Property | 300,000 | 3,106,545 | 18,652,601 | 19,585,231 | 18,116,339 | 16,757,613 | 15,081,852 |
| Board of Directors Remuneration | (85,000) | (95,000) | (95,000) | (95,000) | (95,000) | (95,000) | (95,000) |
| Contribution to KFAS | (74,231) | (125,221) | (195,722) | (332,076) | (386,366) | (418,038) | (425,443) |
| NLST | (181,597) | (347,837) | (573,981) | (821,887) | (956,255) | (1,034,643) | (1,052,972) |
| **Profit Before Minority Interest** | **8,376,562** | **14,088,389** | **22,016,060** | **33,107,743** | **38,640,249** | **42,071,221** | **43,285,497** |
| Minority Interest | (469,508) | (742,974) | 78,466 | (1,597,930) | (1,859,947) | (2,012,804) | (2,048,545) |
| Zakat | - | - | (14,117) | - | - | - | - |
| **Net Profit** | **7,907,054** | **13,345,415** | **22,080,409** | **31,509,813** | **36,780,302** | **40,058,417** | **41,236,952** |
| | | | | | | | |
| **P&L Appropriation Account:** | | | | | | | |
| Opening Balance of Retained Earnings | 10,541,241 | 12,029,084 | 15,967,691 | 25,570,512 | 43,208,077 | 71,719,323 | 103,590,591 |
| Adjustments | 339,911 | - | - | - | - | - | - |
| Net Profit for the Year | 7,907,054 | 13,345,415 | 22,080,409 | 31,509,813 | 36,780,302 | 40,058,417 | 41,236,952 |
| Transfer to Statutory Reserve | (824,788) | (1,391,347) | (2,295,923) | (3,150,981) | (81,906) | - | - |
| Cash Dividend | (5,339,223) | (6,219,086) | (9,253,417) | (9,746,607) | (8,187,150) | (8,187,150) | (8,187,150) |
| Stock Dividend | (595,111) | (624,867) | (928,248) | (974,661) | - | - | - |
| Due to a Company Under Liquidation | - | (1,171,508) | - | - | - | - | - |
| **Closing Balance of Retained Earnings** | **12,029,084** | **15,967,691** | **25,570,512** | **43,208,077** | **71,719,323** | **103,590,591** | **136,640,394** |

## Cash Flow Statement

| (KD) | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) |
| **Operating Activities** | **8,643,287** | **9,646,564** | **5,538,640** | **15,935,780** | **24,040,794** | **28,664,750** | **31,124,529** |
| Profit before KFAS & NLST | 8,717,390 | 14,656,447 | 22,880,763 | 32,758,775 | 38,217,922 | 41,606,098 | 42,810,367 |
| Depreciation and Amortization | 1,661,249 | 1,634,712 | 1,757,040 | 1,958,933 | 2,594,988 | 2,887,488 | 3,179,988 |
| Gain on Sale of Investment Property | (1,171,508) | - | (1,211,275) | (1,392,966) | (1,532,263) | (1,685,489) | (1,854,038) |
| Unrealized Gain from Investments | (486,000) | - | - | - | - | - | - |
| | (500,000) | (164,800) | (53,966) | (156,793) | (171,406) | (189,672) | (212,503) |
| Change in Fair Value of Investment Property | (300,000) | (3,106,545) | (18,652,601) | (19,585,231) | (18,116,339) | (16,757,613) | (15,081,852) |
| Gain on Sale of Property, Plant and Equipment | (4,020) | (31,426) | (48,680) | - | - | - | - |
| Provision for Slow-Moving Inventory | 60,000 | 82,679 | 50,000 | - | - | - | - |
| Gain on Sale of Lands Under Development | (791,031) | (717,702) | - | - | - | - | - |
| Gain / loss from Investments | - | (61,564) | (61,373) | (123,155) | (123,195) | (123,244) | (123,302) |
| Provision for Doubtful Debts | 3,133 | 4,767 | 157,075 | - | - | - | - |
| Increase in Indemnity Provisions | 164,403 | 235,227 | 269,343 | 130,738 | 50,116 | 52,622 | 55,253 |
| Payment for Staff Indemnity | (38,425) | (60,637) | (116,244) | - | - | - | - |
| Interest Expenses | 1,785,094 | 1,823,861 | 1,694,004 | 2,621,421 | 3,386,045 | 3,165,578 | 2,707,241 |
| Interest Income Received | - | (63,321) | (568,100) | (624,910) | (687,401) | (756,141) | (831,755) |
| Foreign Currency Translation Adjustments | - | 27,094 | 1,344,718 | - | - | - | - |
| Payment for KFAS | (168,626) | (17,536) | (74,231) | (332,076) | (386,366) | (418,038) | (425,443) |
| Payment of Board of Directors Fees | (85,000) | (85,000) | (95,000) | (95,000) | (95,000) | (95,000) | (95,000) |
| NLST | (203,372) | (18,768) | (695,152) | (821,887) | (956,255) | (1,034,643) | (1,052,972) |
| Change in Minority Interest | - | - | (1,037,681) | 1,597,930 | 1,859,947 | 2,012,804 | 2,048,545 |
| **Working Capital Changes** | **531,337** | **(7,726,716)** | **5,603,969** | **(6,505,045)** | **(5,765,437)** | **(2,176,089)** | **(3,127,151)** |
| Dec/(inc.) in Receivables | (916,401) | (5,928,273) | 463,788 | (2,504,155) | (6,297,628) | (3,732,127) | (4,141,319) |
| Dec / (inc) in Inventories | (617,410) | 39,420 | (1,047,125) | (1,827,851) | (862,193) | (1,423,933) | (374,837) |
| Inc/(dec) in Accounts Payable | 2,065,148 | (1,837,863) | 6,187,306 | (2,213,098) | 1,350,320 | 2,931,500 | 1,335,686 |
| Change in Other Current Liabilities | - | - | - | 40,059 | 44,065 | 48,471 | 53,318 |
| **Total Operating** | **9,174,624** | **1,919,848** | **11,142,609** | **9,430,735** | **18,275,358** | **26,488,662** | **27,997,379** |
| **Investing** | | | | | | | |
| Purchase of Fixed Assets | (3,096,642) | (930,085) | (2,165,850) | (9,500,000) | (4,500,000) | (4,500,000) | (2,500,000) |
| Proceeds from Sale of Fixed Assets | 63,258 | 129,797 | 155,219 | - | - | - | - |
| Purchase of Land | (3,769,984) | (3,750,265) | - | - | - | - | - |
| Proceeds from Sale of Land | 8,701,343 | 13,715,670 | - | - | - | - | - |
| Projects under Construction | (4,255,850) | (18,421,347) | (32,555,509) | (19,300,000) | (7,400,000) | (1,500,000) | (1,500,000) |
| Purchase of Investment Property | (4,920,548) | (2,202,347) | (739,677) | - | - | - | - |
| Proceeds from Sale of Investment Property | 16,387,425 | - | 10,410,835 | (18,192,265) | (16,584,076) | (15,072,124) | (13,227,814) |
| Gain / loss from Sale of Investments | - | 16,500 | - | 123,155 | 123,195 | 123,244 | 123,302 |
| Unrealized Gain from Investments | - | 0 | 2,118,791 | - | - | - | - |
| Right of Utilization of Leasehold | - | 578,038 | - | 54,468 | 50,928 | 47,618 | 44,523 |
| Changes in Lands Under Development | - | - | - | (32,884) | (39,461) | (47,353) | (56,824) |
| Paid for Purchase of Investment in Associates | (160,748) | - | (6,190,562) | (1,297,173) | (1,621,466) | (2,026,832) | (2,533,540) |
| Subscription in Unconsolidated Subsidiaries | (12,361,000) | (1,175,344) | - | - | - | - | - |
| Interest Income Received | 0 | 43,538 | 250,612 | 624,910 | 687,401 | 756,141 | 831,755 |
| Dividend Income Received | 160,000 | 164,800 | 53,966 | 156,793 | 171,406 | 189,672 | 212,503 |
| Change in Fair Value of Investment Property | - | - | - | 19,585,231 | 18,116,339 | 16,757,613 | 15,081,852 |
| Goodwill | | 908,155 | - | - | - | - | - |
| Purchase of Investments | (1,029,421) | (1,651,724) | (5,215,809) | - | - | - | - |
| **Total Investing** | **(4,282,167)** | **(2,203,607)** | **(33,877,984)** | **(27,777,765)** | **(10,995,734)** | **(5,272,022)** | **(3,524,243)** |
| Changes in Loan | 3,040,618 | 2,549,963 | 62,346,199 | 15,838,725 | 183,873 | (14,881,625) | (15,674,175) |
| Dividend Paid | (5,203,870) | (6,239,295) | (9,105,084) | (9,631,048) | (8,176,154) | (8,181,652) | (8,184,401) |
| Cash Dividend to Subsidiary | (647,127) | (468,524) | (1,178,152) | - | - | - | - |
| Decrease in Minority Interest | - | (5,577) | 268,620 | - | - | - | - |
| Proceeds from Treasury Shares | - | (295,547) | 293,654 | - | - | - | - |
| Increase in Capital & Premium | - | 6,248,668 | - | - | - | - | - |
| Interest Expense | (1,785,094) | (1,823,861) | (1,694,004) | (2,621,421) | (3,386,045) | (3,165,578) | (2,707,241) |
| **Total Financing** | **(4,595,473)** | **(34,173)** | **50,931,233** | **3,586,255** | **(11,378,326)** | **(26,228,855)** | **(26,565,817)** |
| Net Change in Cash | 296,984 | (317,932) | 28,195,858 | (14,760,774) | (4,098,702) | (5,012,215) | (2,092,681) |
| Net Cash at Beginning | 201,067 | 498,051 | 3,168,622 | 31,364,480 | 16,603,706 | 12,505,004 | 7,492,789 |
| **Net Cash at End** | **498,051** | **3,168,622** | **31,364,480** | **16,603,706** | **12,505,004** | **7,492,789** | **5,400,108** |

## Fact Sheet

| | ACICO Industries Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) |
| **Liquidity Ratios** | | | | | | | |
| Current Ratio (x) | 0.9 | 1.2 | 0.7 | 0.5 | 0.5 | 0.6 | 0.7 |
| Quick Ratio (x) | 0.9 | 1.1 | 0.6 | 0.4 | 0.4 | 0.5 | 0.6 |
| Inventory Stock (days) | 36 | 21 | 31 | 30 | 34 | 35 | 39 |
| Receivables Outstanding (days) | 94 | 69 | 113 | 79 | 73 | 74 | 80 |
| Length of Operating Cycle (days) | 130 | 91 | 143 | 109 | 107 | 109 | 119 |
| Payables Outstanding (days) | 90 | 53 | 95 | 78 | 66 | 68 | 77 |
| Length of Cash Cycle (days) | 41 | 38 | 49 | 31 | 41 | 42 | 42 |
| **Profitability Ratios** | | | | | | | |
| Total Assets Turnover (x) | 0.4 | 0.6 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total Net Fixed Assets Turnover (x) | 2.6 | 3.6 | 2.5 | 3.2 | 3.2 | 3.6 | 3.6 |
| Equity Turnover (x) | 0.8 | 1.1 | 0.7 | 0.9 | 0.8 | 0.7 | 0.6 |
| Gross Profit Margin (%) | 30.5 | 19.7 | 16.8 | 27.0 | 32.2 | 32.6 | 33.4 |
| Operating Margin (%) | 21.0 | 13.3 | 2.7 | 15.9 | 21.1 | 21.6 | 22.3 |
| Net Profit Margin (%) | 23.2 | 24.5 | 51.7 | 42.6 | 40.8 | 37.8 | 37.7 |
| Return on Average Assets (%) | 10.4 | 14.1 | 14.9 | 15.3 | 15.3 | 15.0 | 14.3 |
| Return on Average Equity (%) | 19.5 | 27.9 | 34.1 | 36.2 | 32.8 | 28.1 | 23.6 |
| Return on Common Capital (%) | 64.8 | 98.2 | 129.2 | 157.7 | 179.7 | 195.7 | 201.5 |
| **Activity Ratios** | | | | | | | |
| Inventory Turnover Ratio (x) | 10.1 | 17.0 | 11.8 | 12.2 | 10.6 | 10.3 | 9.3 |
| Debtor turnover Ratio (x) | 3.9 | 5.3 | 3.2 | 4.6 | 5.0 | 4.9 | 4.6 |
| Creditors Turnover Ratio (x) | 4.1 | 7.0 | 3.8 | 4.7 | 5.5 | 5.4 | 4.8 |
| **Leverage Ratios** | | | | | | | |
| Current Liability / Equity (x) | 0.7 | 0.5 | 1.1 | 1.0 | 0.8 | 0.6 | 0.4 |
| Debt / Equity (x) | 0.7 | 0.6 | 1.3 | 1.2 | 0.9 | 0.6 | 0.4 |
| **Ratios Used for Valuation** | | | | | | | |
| EPS (Fils) | 39 | 65 | 108 | 154 | 180 | 196 | 202 |
| Book Value Per Share (Fils) | 206.3 | 261.0 | 371.9 | 478.2 | 617.9 | 773.6 | 935.1 |
| Dividend Payout Ratio (%) | 78.7% | 69.3% | 44.1% | 26.0% | 22.3% | 20.4% | 19.9% |
| Market Price (KD) * | 0.586 | 0.443 | 0.550 | 0.770 | 0.770 | 0.770 | 0.770 |
| P/E Ratio (x) | 15.2 | 6.8 | 5.1 | 5.0 | 4.3 | 3.9 | 3.8 |
| P/BV (x) | 2.8 | 1.7 | 1.5 | 1.6 | 1.2 | 1.0 | 0.8 |
| Dividend Yield (%) | 5.2% | 10.2% | 8.7% | 5.2% | 5.2% | 5.2% | 5.2% |

** Market price for 2008 and subsequent years as on July 06, 2008.*

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## Disclosure Checklist

| Company | Recommendation | Ticker | Price | Disclosure |
|---|---|---|---|---|
| ACICO Industries Company (ACICO) | BUY | ACIC.KW (Reuters)<br>ACICO KK (Bloomberg) | KD0.770 | 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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