FFA Private Bank s.a.l

SOLIDERE - Lebanese Real Estate	Current Price: SOLA USD 13.12; SOLB USD 13.05
Equity Research	Target Price: USD 20.00
June 18, 2012	Recommendation: OVERWEIGHT

We continue to believe that Solidere shares reflect investor sentiment which has recently been impacted by rising political uncertainties and softer market conditions although see significant value for the patient and longer term investor

Slowdown in real estate activity on account of greater political uncertainty in 2011 and into 2012

Sluggishness in real estate activity is being felt in light of a decline in investor and consumer confidence from softer economic conditions and rising political uncertainties in Lebanon and the region. In the first quarter of 2012, real estate activity continued to be soft as the number of transactions dropped by 3% YoY following a drop of 12% YoY in 2011. April month extended the trend with a YoY decline of 6% in the first four months of 2012. The slowdown in demand is particularly being felt in the high end market encompassing large sized apartments.

Phase of relative stagnation in real estate prices without any significant correction

Prices have been on a stagnating trend without witnessing any significant correction despite the deceleration in transaction volumes. Official figures released by the Real Estate Registry show that the average value per real estate transaction have increased by 6% YoY in 2011 and by 12% YoY in Q1/12. In the Beirut Central District (BCD), the most expensive new units are located on the front line of the Waterfront area where the starting price hovers around the 8,000-10,000 USD/sqm range, according to FFA Real Estate compared to 5,000-7,000 USD/sqm in the traditional area including Saifi Village, Wadi Abou Jamil, Mina El Hosn and Martyr Square.

In 2011, Solidere's revenues reflected four land sales in the waterfront area and a drawdown on its sales backlog

In 2011, Solidere's gross revenues declined 23% YoY to USD 296.3 million with the bulk generated from land sales (82%) and the remainder from rental income and property management. Revenues from land sales totaled USD 242 million from four sale contracts signed in the waterfront area totaling USD 222 million (about 50,000 sqm BUA at an average price of USD 4,440) and the drawdown of USD 38 million from the sales backlog. We also note: i) a higher contribution of rental income to gross revenues at 17% vs. 11% in 2010, ii) higher margins on land sales at 84% vs. 77% in 2010, iii) higher net debt levels at USD 390 million vs. USD 309 million in 2010 as Solidere funds the completion of infrastructure and real estate developments. EBITDA, net profits and EPS stood at USD 189 million, USD 163 million and USD 1.05 respectively.

Solidere's strategy remains geared towards the completion of the infrastructure and the development of the real estate portfolio

Solidere will continue to: i) invest in the infrastructure mainly in the waterfront ii) develop the real estate portfolio including the North Souks and several properties in the BCD, aiming to double its contribution from the recurring rental income to USD 100 million in the next several years and iii) seek opportunities for expansion via Solidere International. These initiatives seek to expand revenues away from land sales.

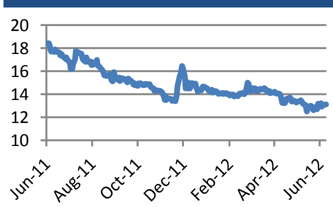
We recognize favorable returns for long-term investors as the market improves and funding requirements subside

We recognize Solidere's position in its domestic market as the prime land owner and master developer in the BCD, its strong track record in developing superior quality properties and infrastructure, and its revenue diversification strategy to counterbalance the depletion of its land bank. We like the firm's high operating margins, relatively low levels of indebtedness, and are encouraged by land signings on the Waterfront area despite softer macroeconomic and real estate conditions. While upcoming investments are expected to strain cash flows in the short term, we expect the cash position to improve starting 2014e as the real estate cycle improves driving land sales and funding requirements subside, translating into favorable returns for long-term investors.

We rate Solidere shares at Overweight with a fair value estimate of USD 20.00 per share down from USD 22.00 previously

Based on our revised forecasts and updated valuation, our fair value estimate is USD 20.00 per share, which implies a P/B of 1.69x, a P/E of 19.0x, and an EV/EBITDA of 19.7x. We accordingly assign an Overweight recommendation given that the current price is at a discount of more than 10% to our fair value estimate.

Share Price Performance (In USD)



Share Price Information

Market cap.	USD 2,164.8 million
Shares out.	165.0 million
Dividend yield	3.0%
Δ 1M	-0.5%
Δ 3M	-8.1%
Δ YTD	-8.8%
Δ 12M	-26.3%
52-Week	USD 12.35-18.00

Key Performance Indicators

In USD millions	2011a	2012e	2013e	2014e
Revenues	296	169	175	304
EBITDA	189	88	92	202
Net income	163	79	80	172
EPS (USD)	1.05	0.50	0.51	1.09
P/E	12.5	26.0	25.8	12.0
P/B	1.16	1.15	1.14	1.08
EV/EBITDA	13.5	31.6	31.5	14.9

Note: Solidere A shares are priced as of market close on June 18th 2012; Source: BSE, Company reports, FFA Private Bank estimates

Contacts:
Head of Research: Nadim Kabbara, CFA
n.kabbara@ffaprivatebank.com +961 1 985 195
Analyst: Raya Freyha
r.freyha@ffaprivatebank.com +961 1 985 195
Sales and Trading, FFA Private Bank (Beirut)
+961 1 985 225
Sales and Trading, FFA Dubai ltd (DIFC)
+971 4 3230300

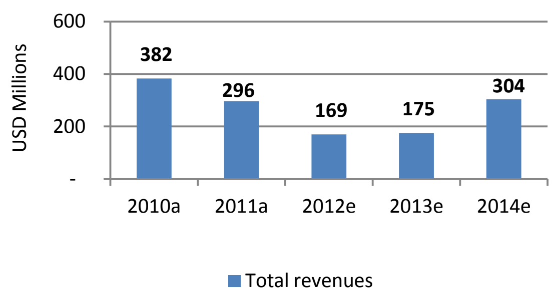
COMPANY HIGHLIGHTS

2011 Consolidated Financial Highlights and Forecasts

- **In 2011 revenues reflect four land sales in the waterfront area and a drawdown on sales backlog**

Gross revenues declined 23% YoY to USD 296.3 million in 2011 with the bulk generated from land sales and the remainder from rental income and property management. Revenues from land sales amounted to USD 242 million from four sale contracts signed in the waterfront area totaling USD 222 million (equivalent to about 50,000 sqm BUA at an average price of USD 4,440, not present valued) and the drawdown of USD 38 million from the sales backlog. Solidere now carries a sales backlog of nearly USD 40 million and an unsold land bank of 1.88 million sqm split nearly 80%/20% between waterfront and traditional areas, respectively.

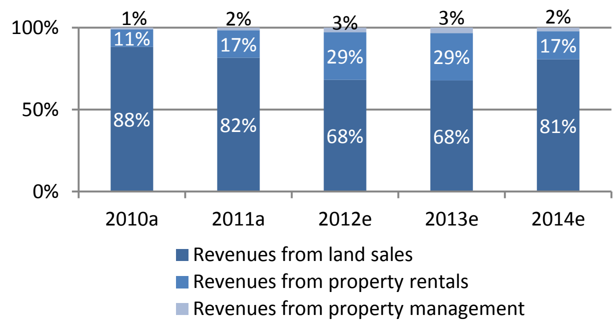
Figure 1: Total revenues



Note: 2011 actuals and 2012-14 forecasts are on a standalone basis

Source: Company reports, FFA Private Bank estimates

Figure 2: Revenues breakdown



Note: 2011 actuals and 2012-14 forecasts are on a standalone basis

Source: Company reports, FFA Private Bank estimates

- **We expect revenues from land sales to remain soft in the next couple of years until market conditions improve, while rental income is expected to increase on gradual completion of the pipeline**

In the short term we expect Solidere's land sales to remain moderate reflecting softer real estate market given more difficult macroeconomic conditions and political uncertainty in Lebanon and the region, including risks of spillover from neighboring Syria.

In this context, we expect Management will intensify efforts regarding land sales negotiation in the waterfront area and will register a couple of land sales in 2012e extending payment terms given no likely downward revisions in selling prices. Moreover the slowdown in the real estate market since late 2010 which steepened in April 2012 as per the Real Estate Registry is compounded by the high ticket transactions that land sales entail given their prime location in the BCD and above average land sizes.

We expect revenues from land sales to reach USD 115 million in 2012e (~50% down from 2011), accounting for the bulk of the USD 169 million forecasted revenues, with no expected drawdown from its remaining sales backlog of USD 40 million as conditions for recognizing sales are not yet met.

Over the medium term, we expect Solidere can ramp up sales in the waterfront at four plots and two plots in the traditional area, regaining some momentum from an expected improvement in market conditions.

In 2012e, we expect rental income to remain almost stable from 2011 at USD 49 million, and property management fees should total USD 5 million. Beyond 2015e, we expect real estate developments in the pipeline to be completed adding to existing rental income. As highlighted in the table below, we have projected an additional

105,500 sqm of BUA to be developed which would add around USD 50 million in revenues, from the completion of the North Souks and additional properties in the BCD.

Table 1: Real estate property portfolio

	Current		Pipeline		Total
Real estate property portfolio	Pre-Souks portfolio	South Souks	North Souks	Residential, mixed-use, office building, boutique hotel	
Completion date	Completed	Completed	Cineplex 2012, Department store 2014	2014-2015	
Leasable space	86,000 sqm	53,500 sqm	41,000 sqm	64,500 sqm	**245,000 sqm**
Recurring rental income	USD 22 m	USD 25 m	USD 20 m	USD 33 m	**USD 100 m**

Source: Company reports

- **Revenue mix shows a rising contribution from rental income but land sales continue to account for the bulk**

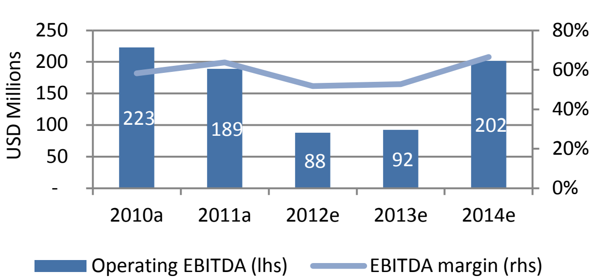
Land bank sales were USD 241.7 million in 2011, down 28% YoY from USD 337.2 million in 2010 and continued to represent the bulk of gross revenues with a contribution at nearly 82% down from 87% in 2010. Rental income stood at USD 49.9 million in 2011, up 21% from 2010, with a rising contribution in gross revenues to 17% from 11% in 2010. Revenues from property management totaled USD 4.8 million in 2011 with a stable share in gross revenues (at ~2%).

We expect contribution from land sales to hover in the 70-80% range between 2012e and 2015e.

- **Margins on land sales improved as average selling prices increased and land costs were unchanged**

Gross profits were USD 229.9 million while our estimated EBITDA was 188.9 million, with margins up about 720bps and 503 bps respectively to 78% and 64%, respectively. Gross margins from land sales also improved to 84% from 77% in 2010 from a higher selling price at USD 3,607 per sqm (approximately 50,000 sqm at USD 4,400 and 15,000 sqm at USD 2,500), while land costs were unchanged at USD 587/sqm. SG&A was lower on account of efficiencies and lower discretionary expenses, although higher as a percent of sales offsetting some of the gross margin gains. Net profits were USD 162.6 million and compared to 196.5 million in 2010. EPS was USD 1.05 from USD 1.28 in 2010 and ROE was down to 9% from 11% in 2010.

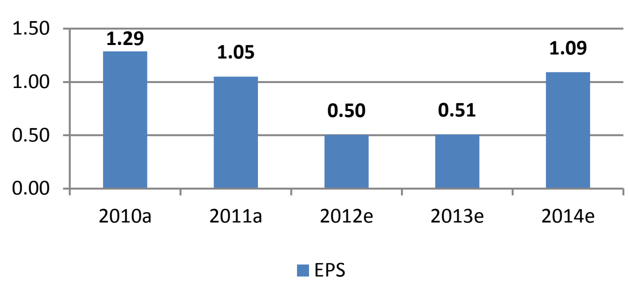
Figure 3: EBITDA and EBITDA margins



Note: 2011 actuals and 2012-14 forecasts are on a standalone basis

Source: Company reports, FFA Private Bank estimates

Figure 4: EPS (in USD)



Note: 2011 actuals and 2012-14 forecasts are on a standalone basis

Source: Company reports, FFA Private Bank estimates

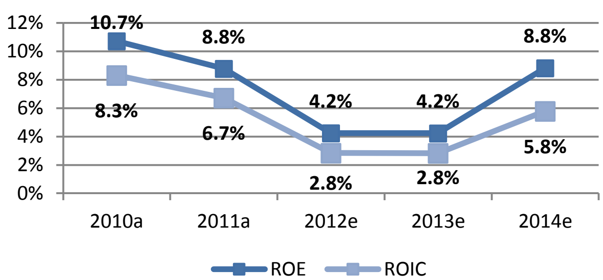
We forecast margin pressure over the next couple of years as Solidere registers less high margin land sales which carry estimated gross margins of 85% as compared to rental income and property management estimated at 65% and 25%, respectively.

We forecast gross profits of USD 129 million in 2012e, representing gross margins of 76% and SG&A costs of USD 36 million (SG&A at 21% of revenues in 2012e). EBITDA is expected to reach 88 million in 2012e, net profits to amount to USD 79 million, and EPS of USD 0.50.

- **Higher debt levels as Solidere funds the completion of the remaining infrastructure and real estate developments**

Net debt levels increased to USD 389.5 million from USD 308.6 million in 2010 mostly explained by a new USD 50 million bank facility to bridge cash flow requirements. Debt levels are being driven higher as the Company funds the completion of the remaining infrastructure (USD 50 million in 2011), real estate developments (USD 64 million in 2011) and working capital requirements. In parallel to higher net debt levels, net debt to EBITDA reached 2.1x up from 1.4x in 2010, while net debt to total capitalization was 17.3%, up from 14.9% in 2010.

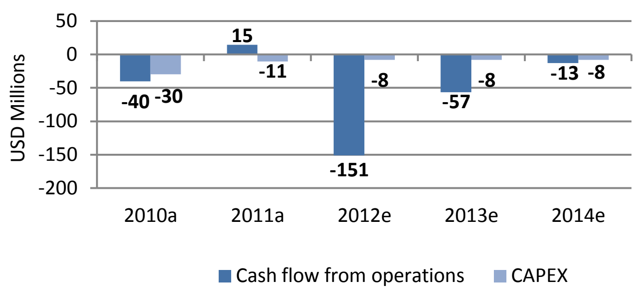
Figure 5: ROE and ROIC



Note: 2011 actuals and 2012-14 forecasts are on a standalone basis

Source: Company reports, FFA Private Bank estimates

Figure 6: Cash from operations and Capex



Note: 2011 actuals and 2012-14 forecasts are on a standalone basis

Source: Company reports, FFA Private Bank estimates

We expect Solidere will increase its borrowings over the medium term as it continues to support its growth strategy, invest in its infrastructure and support its dividend program.

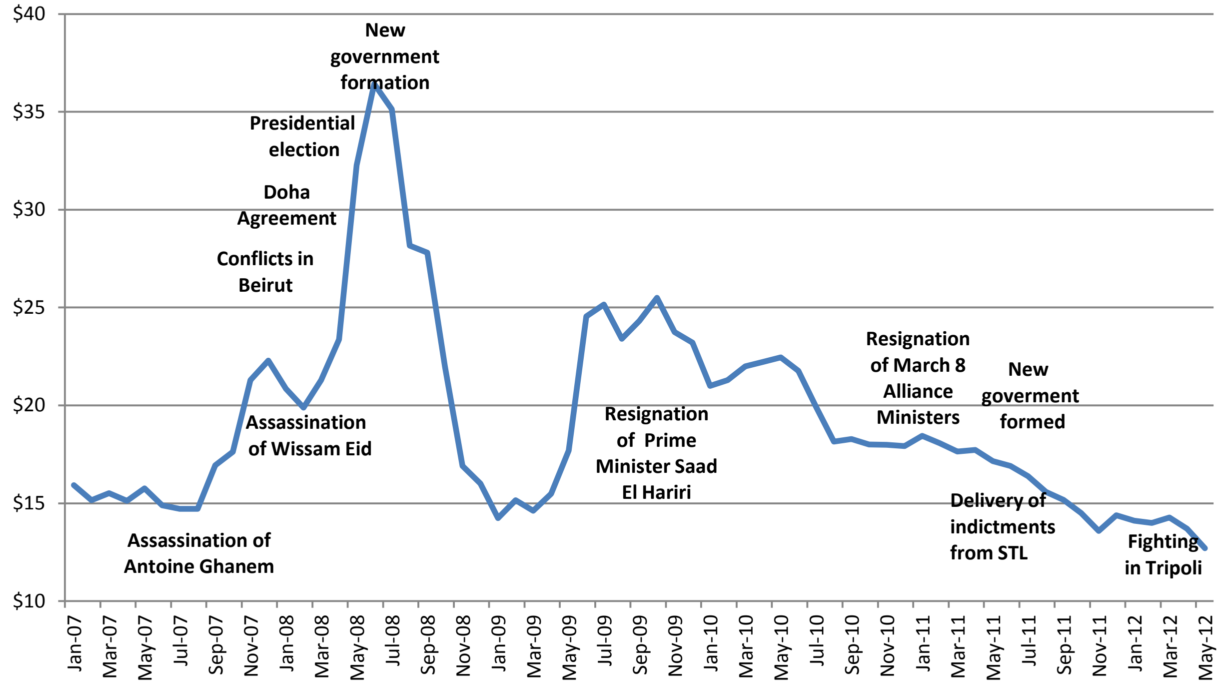
- **General assembly set for June 28th - no indication on any change in dividends**

Solidere provided no indication on any change in dividend policy with the general assembly set for June 28th at 9:30am at BIEL. Solidere shares paid a USD 0.40 dividend and one bonus share for every 30 held last year. With declining earnings per share in 2011 against a challenging real estate and macroeconomic environment, we expect dividend policy to remain unchanged. The Company disbursed five million shares from its treasury leaving over seven million shares left to support a cash and share combination likely repeated this year.

- **We continue to believe that Solidere shares reflect investor sentiment which has recently been impacted by rising political uncertainties and softer market conditions**

We like Solidere's longer term outlook as land sales drive solid margins, profitability and cash flows, however are concerned in the shorter term as Solidere continues its capital intensive program against an uncertain economic and political backdrop influencing the real estate market. We continue to believe that Solidere shares reflect investor sentiment which has recently been impacted by rising political uncertainties and softer economic conditions influencing the real estate market. Ultimately, Solidere shares represent a vote of confidence for investment in Lebanon and as such are subject to swings from the reaction to political developments.

Figure 7: Five year share performance and selected political events



Source: BSE, Media Reports

Table 2: Main assumptions

Main assumptions	Notes
Land sales (in USD/sqm)	Selling prices of USD 2,600 (per sqm of BUA) in the traditional area and 4,300 in the waterfront area, with a weighted average price of USD 3,900; increasing at the rate of inflation.
Land sales (in sqm)	Land sales of 30,000 sqm in 2012e and 2013e and 60,000 sqm onwards.
Rental income	Full year impact of additional rental income in 2016e.
Property management & services	Steady improvement in market share in property management and services.
Margins	Rising gross margins in land sales, stable gross margins across rental and management segments.
Expenses	Higher operating and financial expenses.
Dividend payout	Dividend policy in line with a constant payout on earnings.
Financing	Potential to raise more debt from short-term sources to finance operations, investments, and maturing debt payments at favorable terms.

Source: FFA Private Bank estimates

Table 3: Financial highlights and forecasts

INCOME STATEMENT	2010a	2011a	2012e	2013e	2014e
Revenues from land sales	**337**	**242**	**115**	**119**	**245**
as % of total revenues	*88%*	*82%*	*68%*	*68%*	*81%*
Revenues from property rentals	**41**	**50**	**49**	**51**	**52**
as % of total revenues	*11%*	*17%*	*29%*	*29%*	*17%*
Revenues from property management	**4**	**5**	**5**	**6**	**7**
as % of total revenues	*1%*	*2%*	*3%*	*3%*	*2%*
Total revenues	**382**	**296**	**169**	**175**	**304**
Gross profits	**273**	**231**	**129**	**135**	**246**
Gross profit margin	*71.3%*	*77.8%*	*76.4%*	*77.1%*	*81.0%*
SG&A	**(43)**	**(35)**	**(36)**	**(37)**	**(38)**
EBITDA	**223**	**189**	**88**	**92**	**202**
EBITDA margin	*58.3%*	*63.7%*	*51.9%*	*52.7%*	*0.0%*
Net profits	**196**	**163**	**79**	**80**	**172**
Net profit margin	*51.1%*	*54.9%*	*46.9%*	*45.6%*	*56.6%*
EPS (Basic and Diluted)	**1.29**	**1.05**	**0.50**	**0.51**	**1.09**
EPS growth	*4%*	*-18%*	*-52%*	*1%*	*115%*
Return on Equity (ROE)	*10.7%*	*8.8%*	*4.2%*	*4.2%*	*8.8%*
Return on Invested Capital (ROIC)	*8.3%*	*6.7%*	*2.8%*	*2.8%*	*5.8%*

Source: Company reports, FFA Private Bank estimates

BALANCE SHEET	2010a	2011a	2012e	2013e	2014e
Cash and balances	170	165	165	165	165
Accounts and notes receivables	487	551	593	615	709
Inventory of land and projects	1,084	1,132	1,258	1,383	1,509
Investment properties	443	445	441	438	434
Other assets	417	391	391	392	392
Total assets	**2,600**	**2,684**	**2,848**	**2,993**	**3,210**
Total liabilities excluding debt	281	263	189	189	213
Total debt	481	555	777	908	998
Shareholders' equity	1,838	1,866	1,883	1,897	1,999
Total liabilities and shareholders' equity	**2,600**	**2,684**	**2,848**	**2,993**	**3,210**
Current ratio	*0.99*	*1.07*	*0.93*	*0.83*	*0.83*
Net debt/EBITDA	*1.4*	*2.1*	*7.0*	*8.0*	*4.1*
Net debt/total capitalization	*13.4%*	*16.1%*	*23.0%*	*26.5%*	*27.8%*

Source: Company reports, FFA Private Bank estimates

CASH FLOW	2010a	2011a	2012e	2013e	2014e
Cash flow from operations	**(40)**	**15**	**(151)**	**(57)**	**(13)**
CAPEX	(30)	(11)	(8)	(8)	(8)
Free cash flow	**(70)**	**4**	**(159)**	**(65)**	**(21)**
Dividends paid	159	63	63	66	69

Source: Company reports, FFA Private Bank estimates

Strategy Update

Strategy remains geared towards the completion of the infrastructure and the development of the real estate portfolio in view of increasing the recurring income stream

The Company's main focus in the long term, in light of its depleting land bank is to diversify its revenue mix and lower its dependence on land sales by developing additional streams:

- Solidere will continue to focus its strategy on the development of a real estate portfolio including the North Souks and several properties in the BCD in view of increasing its rental income. In fact Solidere seeks to double its contribution from rental income and other income to USD 100 million in the next several years (refer to table 1) and we expect land sales to stabilize in the low to mid 80 percent range of total revenues in the longer term.

- Solidere will continue to seek opportunities for expansion via Solidere International in an effort to expand urban planning and real estate developments outside the BCD district.

Additionally, Solidere plans to invest in the completion of its infrastructure mainly those related to the waterfront area.

Recent News

May 2012 - Announcement of the Annual General Assembly (AGM): Solidere recently announced that the AGM will be held on the 28th of June 2012 to vote on dividends among other resolutions. For the 2010 financial year, Solidere paid a cash dividend amounting to USD 0.40 per share and a bonus share for every 30 held by existing shareholders.

May 2012 – Financial Results: Solidere recently published its stand-alone financial results for the year 2011 which highlights that the Company recognized revenues of USD 296.3 million resulting mainly from land sales along with a rising contribution of rental income. The Company realized revenues from land sales from the four plots which were sold in the Waterfront area in 2011 and from a drawdown of USD 38 million on its sales backlog. Solidere's EBITDA and net profits for 2011 totaled USD 188.9 million and USD 162.6 million, respectively. EPS was USD 1.05 in 2011.

2011 - Land sales: Solidere signed four land sales were in the Waterfront area valued at USD 222 million the equivalent of 50,000 sqm of BUA at an average price of USD 4,440/sqm. One land sale was sold in Q2, one in Q3 and two in Q4 of 2011.

Update on Solidere International

Current international projects encompass: Al Zorah project in UAE, the Westown project in Egypt, Golden tower in KSA as well as a residential community in Lebanon (Hazmieh). Below is a follow up on those projects:

- **Al Zorah (Ajman, UAE):** a touristic project of which infrastructure works are in progress. The connecting roads as well as two marinas (out of 3) were completed.
- **Westown (Cairo, Egypt)**: the project is in the design phase. The concept is currently under review.
- **Golden Tower (Jeddah, KSA):** a high end residential tower located on the Jeddah Corniche which is in the phase of geotechnical investigations and execution of drawings.
- **Hazmieh (Lebanon):** an urban development project which is currently under design.

Valuation and Recommendation

We value Solidere shares at USD 20.00 (down from USD 22.00 previously) per share using a sum of the parts approach under the following:

- We value the land bank of 1.9 million square meters of BUA with a selling price of USD 3,900.
- We value the investment properties and property management services income using a discounted cash flow approach with a weighted average cost of capital of 14% and a terminal growth rate of 5%.
- We value Solidere International based on the value of its liquid assets, in light of the early stages of the underlying projects.

We derived an USD 8,100 average selling price per sqm for the land bank, using the midpoint of the range of FFA Real Estate's estimates of end user prices in the downtown area, split between the traditional sector at USD 6,000 and the waterfront at USD 9,000 per sqm BUA. We also assumed a developer margin of 30% and construction costs of USD 2,000 per sqm BUA, arriving at a weighted average selling price of USD 3,900 to Solidere. We applied a discount of 55% (up from 50% previously) to our estimated land bank NPV to reflect the uncertainty regarding the macro-political environment in Lebanon, the cyclical and sensitive nature of the real estate sector, and its inherent risks including operational, credit, and liquidity risks. Our fair value derivation when including the investment properties and the investment in Solidere International in addition to the land bank and adjusted for certain assets and liabilities results in a fair value estimate of USD 20.00. We estimate every 5% change in the discount to our land bank NPV impacts our value per share estimate by USD 2.00. This USD 20.00 estimate implies a P/E and P/B of 19.0x and 1.69x on 2011 EPS and BVPS, ahead of Solidere's three year historical trading range of 13.7xand 1.21x.

Table 4: Sum of the parts valuation

Sum of the Parts Valuation	in USD millions	Per share	Notes
Land Bank:			
Average selling price in BUA	USD 3,900		Estimated on end-user selling less 30% margin and USD 2,000/sqm construction costs
Land bank in sqm BUA	1.9 m		Remaining land bank split 1.5 million in waterfront, 0.4 million in traditional
Revenues	7,410.0		
Infrastructure	200.0		Remaining infrastructure to complete land bank, mainly utilities, marina, landscaping
Contingencies	741.0		10% of revenues
EBIT	6,469.0		
Taxes 15%	970.4		
Net Asset Value (NAV)	5,498.7		
Premium (discount)	(55.0%)		Reflect liquidity, credit, cyclicality, market and political risks
Land Bank	**2,474.4**	**15.72**	Book value adjusted to estimated end user prices
Investment Properties	**519.6**	**3.30**	DCF on current properties and those in pipeline, property management at 14% WACC
Investment in Associate	**126.7**	**0.81**	Solidere share of liquid assets (cash and investments)*
Add:			
Cash	165.3	1.05	100% book value
Prepayments & other debit	49.1	0.31	100% book value
Accounts and notes receivables	551.3	3.50	100% book value
Fixed assets	49.0	0.31	100% book value
Total Other Assets	**814.8**	**5.18**	100% book value
Less:			
Total Liabilities	**(818.0)**	**(5.20)**	100% book value
Value	**3,117.5**	**19.81**	
# of shares (net of treasury)	157.4 m		
Value per share	USD 19.81		
Value Per Share (rounded)	**USD 20.00**	**20.00**	

Source: Company reports, FFA Private Bank estimates *Note: *Reflects 2010 financials*

Table 5: Comparable valuation

Name	Ticker	Market Cap (USD million)	Dividend Yield %	Sales Growth %	EPS Growth %	EBITDA Margin %	Debt/ Cap	ROA %	5 yr ROE %	EV/ EBITDA	P/E	P/B
Solidere A*	SOLA LB	2,164.8	3.0	-22.5	-18.3	63.7	22.9	6.2	10.4	13.5	12.5	1.2
Emaar Properties PJSC	EMAAR UH	4,774.8	3.5	-31.2	-27.5	40	22.8	2.9	7.1	6.8	9	0.5
Dar Al Arkan Real Estate	ALARKAN AB	2,835.5	n/a	-20	-32.7	38.6	32.2	4.6	14.7	11.8	9.6	0.7
Emaar Economic City	EMAAR AB	2,220.3	n/a	386.7	n/a	41.9	40.7	0.7	n/a	47.1	98	1.1
Aldar Propeties PJSC	ALDAR UH	1,245.3	4.5	243.8	n/a	16.7	72	1.5	-7.9	11.2	5.1	0.6
Sorouh Real Estate	SOROUH UH	735.9	4.9	196.4	4133.3	13.8	28.8	2.4	16.2	8.1	7.4	0.4
Deyaar Dev. PJSC	DEYAAR UH	481.2	n/a	-64.3	n/a	19.3	19.2	0.5	n/a	1.5	86.3	0.5
Union Properties PJSC	UPP UH	357.4	n/a	70	-4.4	12	62	-13	-12.6	12	n/a	0.5
Palm Hills Dev. SAE	PHDC EY	255.6	n/a	-68.1	n/a	-70.3	43.7	-2.2	n/a	n/a	n/a	0.4
Six Of October Dev.	OCDI EY	206.4	n/a	-6.4	n/a	-15.5	17.2	-2.8	2.8	n/a	n/a	0.7

*Note: *Solidere shares A are priced as of market close on June 18th 2012*
Source: Bloomberg priced as of market close on June 18th 2012, Company reports

Investment Opinion

We like Solidere's longer term outlook as land sales drive solid margins, profitability and cash flows, however are concerned in the shorter term as Solidere continues its capital intensive program against an uncertain economic and political backdrop influencing the real estate market

We recognize Solidere's position in its domestic market as the prime land owner and master developer in the Beirut Central District (BCD), its strong track record in developing superior quality properties and infrastructure, and its revenue diversification strategy to counterbalance the depletion of its land bank. We like the firm's high operating margins, relatively low levels of indebtedness, and are encouraged by recent land signings on the Waterfront area despite softer macroeconomic and real estate conditions. While upcoming investments are expected to strain cash flows in the short term, we expect the cash position to improve starting 2014e as the real estate cycle improves driving land sales and funding requirements subside, translating into favorable returns for long-term investors.

Recommendation

We rate Solidere shares at Overweight with a fair value estimate of USD 20.00 per share

Based on our revised forecasts and updated valuation, our fair value estimate is USD 20.00 per share (down from USD 22.00 previously), which implies a P/B of 1.69x, a P/E of 19.0x, and an EV/EBITDA of 19.7x. We accordingly assign an Overweight recommendation given that the current price is at a discount of more than 10% to our fair value estimate.

REAL ESTATE SECTOR HIGHLIGHTS

Sector Performance - Demand Levels

- **Slowdown in the number of real estate transactions in 2011 and into 2012**

In the first quarter of 2012, real estate activity continued to be soft as the number of transactions dropped by 3% in Q1/12 YoY, while their total value amounted to USD 1,953 million higher than USD 1,808 in Q1/11. April month aggravated the decline in number of transactions as they were down 6% in the first four months of 2012 compared to the corresponding period of previous year, while the values of property transaction rose 4% highlighting a higher average selling price. (refer to table 6)

The slowdown in demand is particularly felt in the high end market encompassing large sized apartments in affluent neighborhoods where fewer transactions are taking place as buyers and sellers are likely not finding agreement on price. Additionally buyer budgets are capped by property loans that can be obtained from commercial banks, the Public Corporation for Housing, and the Housing Bank.

According to a survey by Infopro Research covering 1,186 projects and 22,562 apartments, apartments in Beirut over 300 sqm are not selling and those under USD 2,000/sqm are hard to come by, evidencing the trend towards less expensive and smaller units.

Table 6: Real estate transactions

	2006	2007	2008	2009	2010	2011	4M/2011	4M/2012
Value of real estate transactions (USD million)	3,139	4,198	6,481	6,955	9,479	8,840	2,449	2,546
YoY growth rates	*-5%*	*+34%*	*+54%*	*+7%*	*+36%*	*-7%*	-	*+4%*
Number of real estate transactions	50,140	67,107	80,709	83,622	94,320	82,984	23,563	22,141
YoY growth rates	*-3%*	*+34%*	*+20%*	*+4%*	*13%*	*-12%*	-	*-6%*
Average value per transaction (USD)	62,605	62,557	80,301	83,172	100,498	106,527	103,934	114,990
YoY growth rates	-	*0%*	*+28%*	*+4%*	*+21%*	*+6%*	-	*+11%*

Source: Real Estate Registry

This softness in real estate activity started to be felt since late 2010, in light of a decline in investor and consumer confidence stemming from softer economic conditions and rising political uncertainties in Lebanon and the region. Last year the market started to witness a disagreement between buyers and sellers, resulting in a 7% YoY drop in value of property transactions to USD 8,840 million. A drop in the number of transactions (at 12%) seemed to explain the decrease in the value of transactions as investors have adopted a wait and see attitude in the wake of domestic and regional developments.

It should be noted that the current sluggishness in the real estate market contrast with a solid performance between 2006 and 2010 which was driven by favorable macro factors including robust economic conditions and strong capital inflows into Lebanon. This real estate boom was particularly felt in prime areas of the capital including the residential segment of the Beirut Central District where prices witnessed a drastic increase fueled by Arab and expatriate demand for large and luxurious high-end apartments. Based on data from the Real Estate Registry, the value of property transactions grew at a 32% CAGR between 2006 and 2010 (and peaked in 2010 at USD 9,479 million) while the number of property transactions grew at a 17% CAGR over the same period.

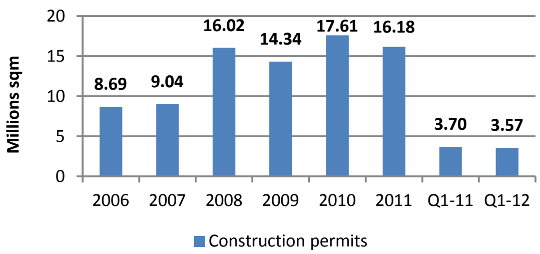
Sector Performance – Supply Levels

▪ Gradual adjustment of supply levels to demand sluggishness and emerging trends

Reflecting a depleted developers' sentiment and an adjustment of supply levels to lower demand, the latest statistics from the Central Bank evidenced that cement deliveries, the coincident indicator of construction levels, declined 4% YoY in the first quarter of 2012 while the area of newly issued construction permits, the main indicator of oncoming supply, decreased by 3% YoY in the same period.

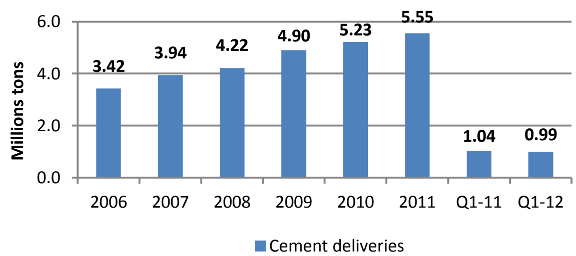
This adjustment of supply levels to demand pressures started to be felt in 2011 as witnessed by softer growth rates of supply indicators compared to the 2006-2010 period: in fact the area of issued construction permits was down 6% in 2011 while cement deliveries edged up 6% after both indicators grew at a CAGR of 19% and 11% respectively between 2006 and 2010.

Figure 8: Construction permits



Source: Banque Du Liban

Figure 9: Cement deliveries

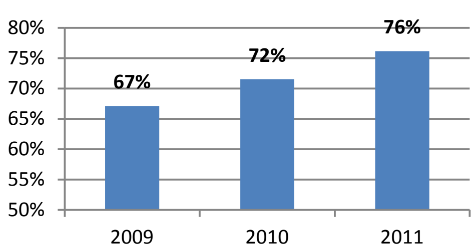


Source: Banque Du Liban

In parallel, some new supply trends are emerging as developers are catering their residential projects to a shift in demand's needs and preferences. Consequently supply is shifting towards i) smaller sized apartments, ii) areas located in Beirut's periphery as well as iii) the concept of community living.

On the one hand, the existing real estate activity is characterized by a rising demand for smaller sized apartments ranging between 100 sqm and 200 sqm which developers are catering to with a possibility for fewer buyers in search of larger apartments to buy more than one unit (refer to figure 10).

Figure 10: Share of under 200 sqm residential apartments in new licensed residential units



Source: Order of Engineers in Beirut

Table 7: Breakdown by area in sqm of issued construction permits by region in the first four months of 2011 and 2012

	4M/11	4M/12	YoY growth	Share in total
Beirut	453,393	361,369	-20%	9%
Mount Lebanon	2,524,672	2,519,380	0%	63%
North Lebanon*	43,578	32,429	-26%	1%
Bekaa	410,288	373,943	-9%	9%
South Lebanon	559,111	455,690	-18%	11%
Nabatiyyeh	375,853	251,965	-33%	6%
Total	**4,366,895**	**3,994,776**	**-9%**	

*Note: * figures for the North do not include permits issued by the Order of Engineers of Tripoli*

Source: Order of Engineers in Beirut

On the other hand, buyers appetite for residential areas located on Beirut's key suburbs is becoming a predominant trend which led developers to cater to this demand in areas such as Aramoun, Broumana, Damour, Dbayeh, Debbiyeh, Hazmieh, Horsh Tabet, Jamhour, Monteverde, and Yarze. The figures released by the Order of Engineers in Beirut for 4M/12 evidence this new trend as the breakdown per region highlights that the area of newly issued construction permits was significantly down in almost all regions compared to 4M/11 and stagnated in Mount Lebanon, which accounted for the lion share (at 63%). (refer to table 7)

Moreover, community projects are underway as people are starting to show interest in community living with projects including Beit Misk, Bella Casa, Tilal Bhersaf, Waterfront City, among others.

Property Prices

- **Phase of relative stagnation in property prices**

After years of a rapid surge in prices the property market entered a phase of relative consolidation in late 2010, which became even more evident in 2011 and into 2012 considering the contraction in property sales.

Prices have been on a stagnating trend without witnessing any significant correction despite the deceleration in transaction volumes. Official data released by the Real Estate Registry show that the average value per real estate transaction have increased by 6% YoY in 2011, 12% YoY in Q1/12 and 11% YoY in 4M/12 (refer to table 6)

This resilience of prices to the downside could be attributed to the fact that developers are not ceding to demand pressures by selling new units below market rates in view of protecting margins following acquisition of lands at record highs. Furthermore, projects are somewhat financed through equity rather than debt, which we believe limits distressed sales during difficult times to satisfy loan obligations. Moreover, developers are still optimistic for the longer term and view the downturn on the market as temporary and expect a pick up in the market as visibility on the political situation improves.

Beirut remains the benchmark in terms of real estate demand with the most expensive new units on the Waterfront (Front line) where the starting price is in the USD 8,000/sqm- USD 10,000/sqm range according to FFA Real Estate, while the range of starting prices for new apartments in the traditional area of the BCD varies between USD 5,000/sqm and USD 7,000/sqm encompassing areas as Saifi Village, Wadi Abou Jmil, Mina El Hosn and Martyr Square.

Table 8: Range of starting prices in the BCD key areas

BCD key areas	USD per sqm	BCD key areas	USD per sqm
Waterfront (Front line)	8,000-10,000	**Martyr Square**	6,000-7,000
Mina El Hosn	6,000-7,000	**Saifi**	5,000-5,800
Wadi Abu Jamil	6,000-6,300		

Source: FFA Real Estate

Outlook

- **Real estate activity expected to remain lackluster over the short term**

Signs of pick up in the real estate market started to be felt in April 2012. However recent security events and rising fears of spillover effects of the Syrian turmoil into Lebanon brought activity to a halt. The current situation on the market can best be described as stagnating with few transactions of new units taking place in the high end residential segment whereas developers keep on executing existing big projects in the pipeline with supply to enter the market in a few years from now.

Table 9: Key projects in the pipeline in the BCD

Property Name	Location	Delivery	Starting price/sqm	Developer
3 Beirut	Omar Daouk	2015	8,000	S.V Properties
45 Park Avenue	Park Avenue	2014	6,000	City Developers
Allenby Gate	Harbour & Allenby	2015	6,500	Berit Lebanon
Beb Beirut	Martyrs' Square	2014	6,250	MAF Holding & Investment
Beirut Gardens	Nejmeh	2014	6,000	Star Properties
Beirut Square Project	Wadi Abou Jmil	2014	6,200	Beirut Trade 2
Beirut Terraces	Mina El Hosn	2015	7,200	Benchmark
City Hill	Mouawad Museum	2014	6,500	Chekerdjian
District //S	Saifi	2015	7,250	Estates Property
New Zone 1477	Bab Idriss	2012	6,000	New Zone Real Estate
Noor Gardens	Omar Daouk	2012	6,000	DBA
Omnia	Starco	2013	6,800	CIBCO
One Oak Residences	Foch & Harbour	2014	6,800	Premium Projects
Park Palace	Park Avenue	2012	6,500	Park Palace sal
Plus Tower 1-2	Martyrs' Square	2012-2013	6,950	Plus Properties
Saifi Gardens 1-2	Saifi	2015	6,500	Saifi Square
Saifi Rise	Saifi	2015	5,000	Amara sal
Stone Gardens	Harbour	2014	3,700	A&H Construction & Development
The Courtyard	Wadi Abou Jmil	2012	6,350	Estates Developers
Versace Tower	Mina El Hosn	2013	8,000	Damac Properties

Source: FFA Real Estate

In the short term we expect real estate activity to remain lackluster and the number of transactions to remain on a downward trend as sellers will be unwilling to lower prices in an effort to protect margins while buyers remain on the sidelines particularly in the residential luxury segment until visibility on economic and political conditions improves.

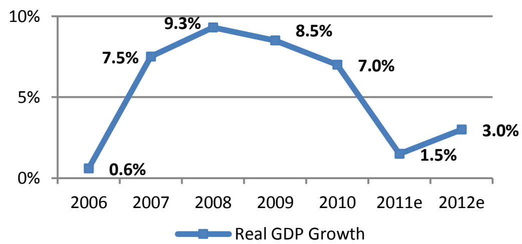
Over the medium to long term, however, we believe favorable fundamentals will continue to support the real estate market in Lebanon.

MACROECONOMIC HIGHLIGHTS

- **Slowdown in economic growth started in 2011 in light of rising uncertainties…**

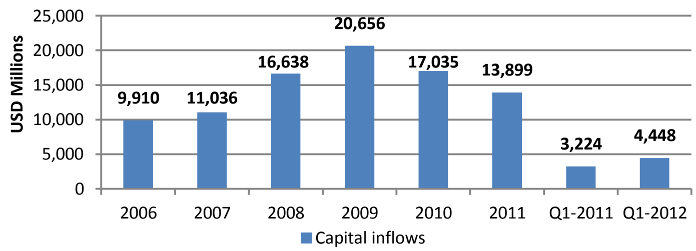
Lebanon's economy was on a tear averaging growth of 8% between 2007 and 2010, sidestepping the global economic slowdown and financial crisis which inflicted damage to other emerging market countries, as the country ran balance of payment surpluses, attracted record capital inflows and grew the foreign currency reserves held at the Central Bank. In 2011, economic developments have been soft in light of a decline in confidence due to the local political impasse in the first half of the year, while the rise of regional political and security turmoil have slowed capital flows into Lebanon, a usual driving force for the Lebanese economy. In fact, economic growth slowed down with a real GDP growth rate at 1.5% down from 7% in 2010 according to the IMF. Capital inflows into Lebanon decreased from USD 17 billion for 2010 to USD 13.9 billion for 2011 which did not offset the large trade deficit at nearly USD 15.9 billion (compared to USD 13.7 billion in 2010), thus translating into a deterioration in the external position as the balance of payment registered a deficit at USD 2 billion following nine consecutive years of surpluses. It should be noted that the YoY increase in trade deficit is partly due to the rise in the dollar value of imports due to higher global oil prices. Following a sustainable upward trend over the past years, FDI inflows are estimated to have reached USD 3.96 billion representing a near 20% decrease compared to 2010 according to the figures released by the UNCTAD and the World Bank, with FDI inflows accounting for nearly 10 % of GDP for 2011, down from 13% for 2010.

Figure 11: Real GDP growth



Source: IMF

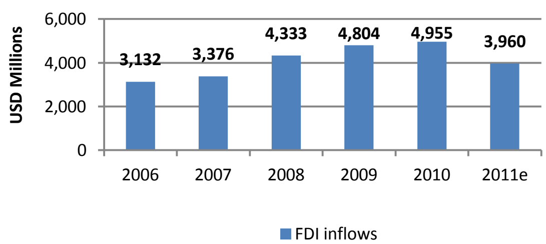
Figure 12: Capital inflows



Source: BDL

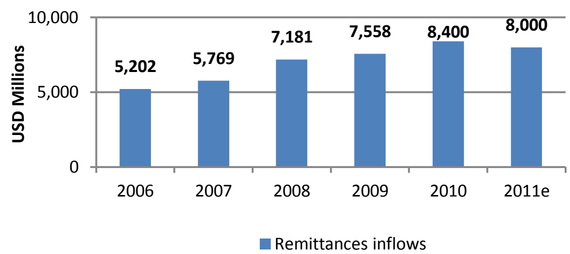
In parallel, remittances from the Lebanese Diaspora, considered to be one of the largest in terms of proportion to the resident population, are estimated by the World Bank to have reached USD 8 billion in 2011 (around 20% of GDP), down from USD 8.4 billion yet maintaining Lebanon's ranking among top recipients of remittances in developing countries.

Figure 13: FDI inflows



Source: UNCTAD, World Bank

Figure 14: Remittances



Source: World Bank

A slight increase in the gross public debt (from USD 52.6 billion in 2010 to USD 53.2 billion in 2011), along with a 1.5% GDP growth led to a further improvement in the debt-to-GDP ratio in 2011 which reached an estimated 136% by year-end compared to an estimated 142% in 2010. Yet, this ratio continues to be among the highest in the world, suggesting required efforts to improve the country's fiscal imbalances.

- **….Amid decelerating performance in key sectors**

It should be noted that the Lebanese economy is primarily based on services which accounts for approximately 67% of GDP (including trade, tourism, as well as banking and financial services) while the construction sector accounts for around 13% of the country's GDP, leaving agriculture and the industrial sector with a small share in the GDP contribution (5% and 8% respectively). Government sector accounts for largely the remainder.

While Lebanon's imports maintained the same growth rate in 2011 (12% vs. 11% in 2010), exports nudged up by a merely 1% in 2011 below the 22% growth rate witnessed in 2010. Tourism, financial services, and real estate which are viewed as the backbone of the Lebanese economy saw weaker conditions following strong growth in recent years.

Incoming tourists sharply declined in 2011 reaching 1.6 million, the equivalent of a 23% decrease compared to 2.1 million tourists in 2010. Aside from this decline in tourism, real estate activity also weakened over 2011: demand for real estate declined as the number of real estate transactions and the value of real estate transactions retreated while supply indicators were softer as highlighted by construction permits and cement deliveries.

Moreover, the banking sector activity was slower yet Lebanese banks continued to report decent balance sheet activity as highlighted by a respective 9%, 8% and 13% increase in assets, deposits and loans of commercial banks (down from 12%, 12% and 23% respectively in 2010), evidencing the ability of Lebanese banks in weathering softer economic conditions and heightened risks in the region. In terms of profitability, banks earnings lulled due to higher provisions facing increased political risks in key regional countries of operation and pressured margins on declining asset yields. After a deposit de-dollarization record of 63% in 2010, the dollarization rate of deposits reached 66% by year-end 2011 evidencing a weaker confidence in Lebanese pound and the Lebanese economy on a broader level.

- **Some comforting signs into 2012 judging by some macroeconomic and banking data…**

In the first months of 2012, some economic indicators show comforting signs highlighting the Lebanese economy ability to weather an overall uncertain political climate: in fact the most recently published Central Bank's monthly Coincident Indicator, a measure of the overall macro environment, increased by 4.7% YoY in March 2012. Moreover, capital inflows into Lebanon were USD 4.4 billion in the first quarter of 2012 up 38% from USD 3.2 billion in the corresponding period of previous year; while imports grew by 31% over the period to reach USD 6.0 billion in Q1/12.

In addition, banking activity seemed to hold up well onto Q1/12 as suggested by its key activity growth indicators. Assets of commercial banks reached USD 144.7 billion at the end of March 2012, up 3% from end-2011 (higher than the 1% increase over the corresponding period of previous year). Deposits reached USD 118 billion at the end of March 2012, up 2% from end-2011 (higher than the 1% increase over the corresponding period of previous year and without any major fluctuation in the deposits interest rates), in line with the Central Bank Governor expectation of a deposits growth rate at 8% for the full year 2012. The dollarization rate of deposits stood at 65.4% at the end of Q1/12 relatively unchanged from year-end 2011 suggesting no major fluctuation in depositors' appetite for holdings in local currency. Loans to the private sector totaled USD 41 billion at end March 2012, 4.1% up from end 2011 and almost equivalent to the 4.3% increase in the corresponding period of previous year.

More generally, the IMF's GDP growth estimates stands at 3% for 2012e up from 1.5% in 2011e despite their recent revision downwards from 3.5% previously, highlighting an expected regain of momentum compared to the previous year.

- **…Although mitigated by challenges and an outlook that remains highly tied to political uncertainties**

Overall, the economic situation remains fragile amid rising concerns from the Syrian turmoil spillover effects following the recent clashes in May. Moreover some key economic indicators continued to witness sluggishness in the first quarter of 2012. On one hand, tourism continued to decline in 2012 as the official released figures showed that Lebanon saw an approximate 8 percent drop in tourist arrivals during the first quarter of 2012, compared to the first quarter of 2011. However, it should be noted that over the same period number of passengers arrivals at the Beirut Airport picked up 21% YoY to 594,869.

On another hand, the real estate market pursued its slowdown as witnessed by cement deliveries (the coincident indicator of building activity) decreasing YoY 4% in the first quarter of 2012 while construction permits issued, an indicator of oncoming real estate supply, was down 3% YoY. On the real estate demand side, property sales in number terms were 3% lower in the first quarter of 2012 compared to the corresponding period of the previous year, and 6% lower when taking into account the month of April 2012 reflecting decreasing demand levels.

In sum, 2012 is not shaping to look much different than last year. The health of the Lebanese economy, including its capacity to attract capital and tourists, will remain closely linked to political uncertainties. The overall economic sentiment is expected to remain on a wait and see mode due to the fact that the country is still facing considerable challenges ahead as the prospects for a near term resolution in Syria are low, the fears regarding the Syrian's unrest spilling over into Lebanon are rising, the Special Tribunal for Lebanon carries on its investigation into the assassination of the former Prime Minister Rafik Hariri into the next years, and the country is heading towards parliamentary elections in 2013e. In this context, Standard and Poor's recently revised the outlook on Lebanon from stable to negative to reflect the increasing vulnerability of the country's stability to events in Syria and the potential repercussions on the economic situation although reaffirming its B rating level stating their view of Lebanon's banking system and external position as key rating strengths.

SOLIDERE - SWOT Analysis

Strengths	Weaknesses
• Strong domestic franchise with a prime land bank • Favorable real estate prices for land and properties • High operating margins and relatively clean balance sheet • Positive track record despite relatively challenging macroeconomic and political conditions	• Business model based on a finite land bank • High dependence on land sales in a limited geographic area • Significant client concentration
Opportunities	**Threats**
• Attractive long-term fundamentals in the real estate sector • Demand from Gulf nationals and Lebanese expatriates from oil exporting nations • Potential to reduce dependence on land sales by increasing rental and other income from current levels	• High sensitivity of the real estate sector to macroeconomic conditions • Uncertainty from domestic political instability and regional turmoil hurting investor sentiment

Source: FFA Private Bank

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