

Flash Note

18 June 2009

Solidere FY 08 Earnings Results
Sector: Real Estate

Country: Lebanon

Revenues resilience despite instability

Revenues from operations decreased by 8% y-o-y in 2008. This is the result of the political deadlock and events which paralyzed Downtown Beirut during the first half of the year. Nonetheless, activity was substantial with revenues totaling USD 285.7 mn with 90% derived from land sales. Our expectations were 7% ahead of total revenues from operations results and 11% ahead of bottom line results for 2008.

A highly liquid asset structure

The Company is maintaining high levels of liquidity, effectively shielding it from any destabilization factor even though the company has little operational risk at this stage (most of the infrastructure being completed). Cash & Bank Balances have decreased by 12% to USD 291.7 mn but liquidity remains significant with cash & receivables accounting for 24% of total assets in line with our projections.

Margins maintained

Gross profit and net income margins recorded a notable 72% and 64% for 2008 which are slightly below our expectations of 77% and 66% respectively but the sound growth is in line with our estimated increase in margins on the back of a fully incurred cost of land set at a constant of USD 505 per sqm of BUA.

Negative contribution of Solidere International, in light of a severe regional real estate downturn

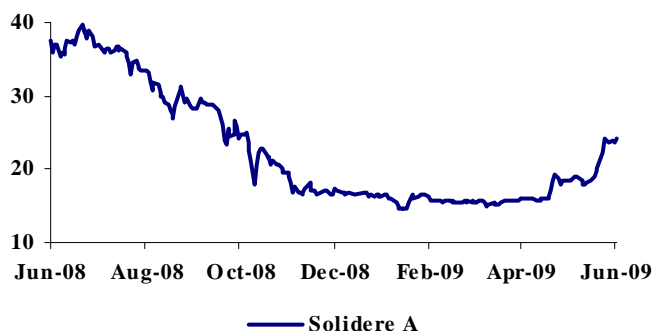
Our conservative stance on the results from associate has proven correct with consolidated figures showing a loss of USD 1.7mn versus our expectations of zero income for Solidere international operations in 2009. Going forward, we forecast this item to remain close to null in the coming years due to the regional real estate downturn.

Stable dividend distribution policy

As expected, a dividend distribution of USD 1 per share is to be voted at the General Assembly in July 13, 2009 (tentative date), representing a payout ratio of 85% given that accumulated profits have reached USD 272.3mn in 2008.

We reiterate our recommendation with a target of USD 29 per share

We believe that the results are healthy given the 2008 market conditions and should be viewed positively by the market. We, therefore, reiterate our recommendation with a target of USD 29 per share as we perceive 2008 results to have little impact on forecasted years. Furthermore, should the perceived stability materialize, demand for properties and land in BCD could surge and fair value expectations could be revised upwards.

Solidere A share performance


* Solidere A closing as of 18 June 2009 is USD 23.79

Key performance indicators:

	2007a	2008a	2009f	2010f	2011f	2012f
Total Revenues (mn USD)	310	286	353	511	567	630
EBITDA (mn USD)	227	184	246	400	451	497
EBITDA margin	73%	64%	70%	78%	80%	79%
Net Income (mn USD)	224	183	237	378	435	487
ROaA	10%	7.3%	9%	14%	15%	16%
ROaE	12%	9.9%	12%	18%	19%	20%
BVPS (USD)	11.81	11.99	12.95	13.92	15.04	16.30
EPS (USD)	1.45	1.18	1.53	2.44	2.81	3.14
P/E*	16.46	20.19	15.59	9.75	8.48	7.58
P/BV*	2.01	1.98	1.84	1.71	1.58	1.46

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