

Flash Note

July 13, 2012

Solidere Analyst Day 2012
Sector: Real Estate

Country: Lebanon

Solidere holds analyst day to provide an update on its strategy and recent developments

We attended Solidere's analyst day yesterday, which included a corporate presentation, tour of the Beirut Central District, and ended with lunch with management. The presentation began with an overview of the Company, which provided a snapshot of various milestones, outlined its growth strategy, and gave an update on recent land sale negotiations.

No material change in strategy as it remains geared towards the diversification of its revenue mix

Solidere expects the depletion of its 1.9 million sqm BUA land bank in the next 15 to 18 years and will continue to develop its strategy around revenue diversification in order to expand revenues away from land sales. Solidere has adopted a focus on developing various income streams by increasing i) revenues from its rental portfolio, ii) revenues from rendered services to third parties, iii) revenues from hospitality and iv) income from Solidere International. Solidere generated around USD 50 million in rental income in 2011 from the South Souks as well as key properties including the UN house, embassy complex, the CDR building, and residential and mixed use units in Saifi and Zokak el Blat. Rental income is expected to reach USD 65 million after completion of the North Souks (Cinema complex by late 2012 and department store in 2015). On the longer term the rental income stream should near the USD 100 million upon completion of other projects including a residential project in Saifi Village which is currently in the execution phase, an office block and a mixed used development both located in Mina el Hosn and currently in the design phase. The boutique hotel* is the last element in the pipeline.

Table 1: Solidere Real Estate Property Portfolio

Real estate property portfolio	Current		Pipeline		Total
	Pre-Souks rental portfolio	South Souks	North Souks	Residential, mixed use, office block, boutique hotel*	
Completion date	Completed	Completed	Cineplex 2012, Department store 2015	2014-2015	
Built Up Area (BUA)	110,000 sqm	71,900 sqm	45,000 sqm	64,500 sqm	291,400 sqm
Estimated recurring rental income	USD 22 million	USD 25 million	USD 20 million	USD 33 million	USD 100 million

Source: Solidere reports

While strategy remains geared towards diversification of income into developing properties thereby generating rental income, we note Solidere has recently sold some property in Saifi which was previously part of the real estate property portfolio.

Completion of the infrastructure in the waterfront area will require around USD 250 million in capex over the next three years

With key waterfront milestones completed, including land reclamation, sea defense installation, sea promenade, and road network, the capital expenditures required to complete the infrastructure in the area are estimated at USD 250 million, and are expected to be disbursed over the next three years. This will include the funding of i) the eastern marina where the design has been approved by the CDR and work is expected to start by the end of 2012 ii) the landscaping of the waterfront area which will include a large park iii) the landscaping of the sea promenade and iv) the construction of underground utility networks.

BWD expects to deliver residential units in Zaitunay Bay by year end following the completion of the quayside strip

Beirut Waterfront Development (BWD) a 50/50 joint venture between Solidere and Stow Waterfront was established in 2004 for the purpose of developing a yacht club and a by-the-marina retail strip in the waterfront district (currently known as Zaitunay Bay). The project includes i) the western marina, ii) a residential building to be delivered end of 2012 including 53 furnished and services apartments ranging between 85 and 300 sqm each for a total of 10,041 sqm, iii) a yacht club which will be managed by the joint venture as well as iv) a quayside retail strip which was launched in December 2011 and encompasses 17 restaurants and 5 retail outlets. It should be noted that Solidere has no strategic preference towards establishing joint ventures outside Solidere International and that this project represents its only joint venture among operations in the BCD.

Solidere is currently negotiating land deals despite sluggishness in market conditions

Regarding land sales, which are the main revenue driver for Solidere, Management expressed optimism due to the possibly imminent nature of deals under negotiations, reflecting significantly higher lot sizes and values than last year. The Company expects to sell these in coming weeks or month as terms are generally agreed between parties. The Company is targeting selling prices of USD 4,500 per sqm bua in waterfront and USD 3,000 per sqm bua in traditional. However we remain cautious in our assumptions regarding land deals until they are formally closed and announced by Solidere.

It should be noted that revenues from land sales in 2011 totaled USD 242 million from four sale contracts signed in the waterfront during the last quarter totaling USD 222 million (about 50,000 sqm BUA at an average price of USD 4,400) and the drawdown of USD 38 million from the sales backlog to reach USD 40 million at the end of 2011. Solidere does not expect to draw down on this remaining backlog this year.

While Solidere was recently comforted by the heightened level of negotiations, the conditions of the market into 2012 highlight a continued sluggishness in real estate activity in light of a decline in investor and consumer sentiment from softer economic conditions and rising political uncertainties in Lebanon and the region. Based on real estate sector data from the Real Estate Registry, number of property sales has seen a 6% decline in the first four months of 2012 to 22,141 as compared to the same period 2011.

Management provided an update on Solidere International and its ongoing projects

- Al Zorah (Ajman, UAE): Solidere has a 39% partnership with the Government of Ajman and local developers. The project is a touristic destination located 30 minutes of the Dubai Airport and covers an area of about 10 million sqm of bua.
- Westtown (Cairo, Egypt): The project covers a surface area of 250,000 sqm of land purchased in SODIC's westtown project. The development plans are underway.
- Golden Tower (Jeddah, KSA): The project is a joint venture with a local partner. It is a high end residential tower located on the Jeddah Corniche.
- Qortoba Oasis (Riyadh, KSA): A fully owned project, residential compound for expatriates to the north east of Riyadh.
- Beirut Village (Hazmieh, Lebanon): a residential development with a 170,000 sqm gross bua with a 35% equity stake.

Proposed dividend of 0.25 in cash and bonus 1 for 50 shares proposed this year at the general assembly on July 30th

A cash dividend payment of USD 0.25 per share and a bonus share for every 50 shares held by existing shareholders was proposed this year at the recent shareholder assembly although no quorum was reached. Solidere will hold its next general assembly on July 30th at 9:30 am at Biel Center to approve the resolutions put forth by the Board including the dividend for the 2011 year. 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.

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 last year's land signings and current heightened level of negotiations 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.

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