

Al Khaleej Development Company (TAMEERK.BSE)

March 06, 2008

Key Data

Listing	Bahrain Stock Exchange
CMP (USD)	1.52
YTD Change (%)	4.11
52-week High/Low (USD)	1.73 / 0.85
Mkt. Capitalization (USD millions)	356.44
Basic EPS (USD)	0.23
BVPS	0.81
P/E	7.89
P/BV	1.87
Div. Yield (%)	6.15

Price History



Financial Summary

USD (in millions)	FY07	FY06	% chg
Income from Properties	28.99	28.65	1.2
Income from Investments	15.45	5.92	161.0
Income from advisory services	10.65	2.31	360.0
Total Income	66.09	46.41	42.4
Staff Costs	13.31	8.24	61.5
Net Profit	45.20	32.61	38.6
Share Capital	87.66	52.90	65.7
Shareholders' Equity	184.55	108.23	70.5
Retained Earnings	57.21	38.82	47.4
Total Assets	209.46	130.47	60.5
EPS (USD)	0.19	0.25	-
Return on Equity (%)	24.49	30.13	-
Return on Assets (%)	21.58	25.00	-
Net Profit Margin (%)	68.39	70.27	-

For the year ended 2007, Al Khaleej Development Company (Tameer) recorded a jump of 38.6% in net profits, to USD 45.20 million from USD 32.61 million in 2006. In line with the healthy results, earnings per share rose to USD 0.23 from USD 0.19 in the year ago. While its income from properties and income from sale of lease showed a marginal rise of 1.2% and 5.7% respectively, its other income components posted smart figures - total income from investments soared 161% to USD 15.45 million and income from advisory services escalated nearly five times to USD 10.65 million.

In 2007, Tameer's total expenses recorded an increase of USD 6.53 million or 40.1%, which reached USD 22.80 million as against USD 16.27 million in FY06. Staff costs and general & administrative expenses surged 61.6% and 63.3% respectively, even as Ijara & Murabaha financing costs ascended 34.0% to USD 1.26 million. Consequently, the company's net profit margin declined to 68.4% from 70.3% in the previous year.

On July 27, 2007, Tameer completed the rights issue of 62.5 million shares offered at USD 0.70 per share, which included a premium of USD 0.30 per share. For the year, total shareholders' equity zoomed 70.5% to USD 184.55 million and total assets climbed 60.5% to USD 209.46 million. On February 19, 2008, the company's AGM and EGM approved a 25% cash dividend and a 7% bonus issue for 2007.

Company Profile

Established in June 2002, Al Khaleej Development Company (Tameer) was the first Sharia-compliant real estate development company to be established in the Kingdom of Bahrain. Under the terms of its Articles of Association, the company has been set up for 50 years, renewable for further similar periods, unless terminated earlier by law or as provided in the Articles of Association. In accordance with a resolution passed by shareholders in the Extraordinary General Meeting held on March 3, 2004, Tameer changed its legal status from a closed shareholding company to a public listed company.

The principal activities of the company include buying and selling of properties; management and development of public and private properties; providing property development data and studies; providing consultancy services on local and international property matters; and public auction of properties. Tameer conducts all its business in compliance with Islamic Sharia regulations. It is listed on both the Bahrain and the Kuwait Stock Exchanges.

Industry Overview

The construction boom in the Gulf region has reached new heights. Currently, around 2,837 projects valued in excess of USD 2.4 trillion are underway, with the majority of developments being carried out in Saudi Arabia and the UAE. Bahrain too is in the midst of a construction boom. As of November 2007, the projects under construction in the country were estimated at USD 7 billion, while those in the planning and design stages were valued at a staggering USD 22 billion. Additionally, Bahrain is expected to spend nearly USD 2 trillion on infrastructure and realty projects in the next five years.

A strong economy, increase in liquidity, and privately financed real estate projects have added a further fillip to Bahrain's buoyant real estate sector. Further, the government has enacted several laws to further boost the burgeoning market - while it does not allow nationals from the other GCC countries to own property in the country, also it permits foreigners and foreign investors 100% ownership of land in pre-determined areas.

Currently, the Bahraini government is focusing on infrastructural development to diversify its oil dependent economic base and to reduce the burgeoning unemployment rate in the country. The region's dream project is the USD 1.3 billion Bahrain Financial Harbour (BFH). This project is expected to create 2,500 direct job opportunities, in addition to numerous on-site training opportunities such as engineering, architecture and building designing. Further, two other infrastructural master pieces - Durrat Al Bahrain (also referred to as the Rising Pearl or Pearl of Bahrain) and Abraj Al Lulu (also known as the Pearl Towers). The former is a residential, leisure and tourist resort worth USD 1.2 billion and is expected to be completed in 2009. The latter is a freehold apartment development being built in the Seef district of Bahrain's capital, Manama, worth USD 252 million, and scheduled for completion in May 2008. Additionally, the country has started work on the Middle East's biggest healthcare project. This USD 1.6 billion project, called 'Dilmunia', is aimed at revolutionizing the healthcare industry in the region and turn Bahrain into a regional hub of health tourism.

Meanwhile, the country's booming realty market is facing the threat of rising inflation and a shortage of skilled labor. At 2.7%, for 2007, inflation in Bahrain was much lower than in the rest of the Gulf. However, it is rising fast and is expected to hit 4% in 2008. These inflationary pressures and fluctuations in the region's currency pegs are taking a toll on the growth of the real estate market, resulting in a 15% increase in costs. As Bahrain is heavily reliant on imported raw material such as sand, finished products, or electrical and mechanical equipment, rising costs are affecting the current and planned projects. Further, in early February, a series of strikes hit major companies in the construction industry. Thousands of workers of several companies staged protests for better pay and living conditions, halting all key construction works in progress, including the Durrat Al Bahrain. To combat the situation, the General Federation of Bahrain Trade Unions, which outlined a plan to activate unions in the crisis-prone industry last year, plans to form a union for construction workers, especially expatriates, to get them better deals.

Recent Developments

In February 2008, Tameer's subsidiary Bahrain Investment Wharf signed a contract with BEMC to conduct infrastructure works. Simultaneously, its joint venture with Durrat Al Bahrain - Durrat Khaleej Al-Bahrain Marina - appointed the UK's Scott Wilson Group to develop the master plan for a golf precinct, as part of its USD 6 billion island development.

In December 2007, the company sold its stake in Al Wahat Real Estate Co., recording a 35% rate of return investment, while the internal rate of return was 23.8%. In November 2007, Durrat Al Bahrain signed an agreement with O2 Marketing Communication (O2). According to the agreement, O2 was appointed as the official marketing and PR representative; it will launch an extensive marketing and promotional campaign to market the Durrat Al Bahrain Marina project internationally. In July 2007, Tameer signed an agreement with Muthana Investment Co. in Kuwait for the realization of Wharf Business Center, part of the Bahrain Investment Wharf project. The cost of the project is around USD 115 million.

Outlook

Tameer is recognized as one of the leading real estate developers in the Gulf, having a long list of housing and industrial projects to its credit, comprising the renowned Bahrain Investment Wharf and Tala Island. Further, Tameer's joint venture with Durrat Al Bahrain, in which it holds a 60% stake - Durrat Al Bahrain Marina - is one of the luxury real estate projects in the Gulf.

Tameer posted healthy financial figures in 2007, on the back of the country's flourishing real estate market and an anticipated growth thanks to the open policy being followed by the Government in real estate investment. Additionally, displaying the continued excellence of its management, the company successfully exited its investors from the Al Wahat Real Estate Co., generating returns of 35%.

Finally, the company also plans to invest USD 4 billion in regional and international markets over the next three years. It intends to enter the Turkish, Malaysian and German markets and is all set to take-on a mega real estate project in Malaysia.

Tameer's stock has gained 4.1% from the beginning of this year, compared to a rise of 4.3% in the Bahrain All Share Index, moving in tandem with the index. Currently, the stock is trading at a P/E of 7.89 and P/B of 1.87, making it an attractive investment proposition. We believe that the company's expansion plans will further enhance its prospects for strong bottom-line growth. Therefore, we continue to be positive on Tameer and reiterate our OVERWEIGHT opinion on the stock

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