

# THE LEBANON BRIEF

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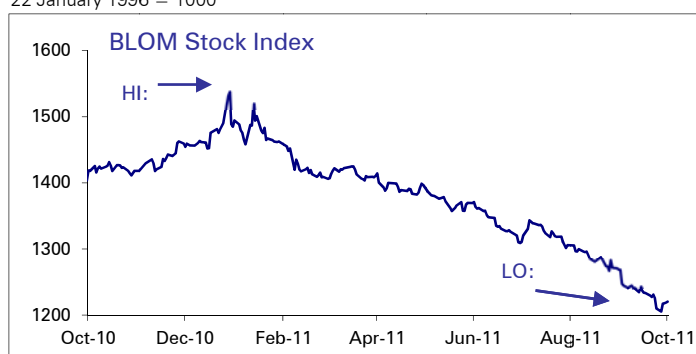
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## FINANCIAL MARKETS

### Equity Market Stock Market

	14/10/11	07/10/11	% Change
BLOM Stock Index*	1220.46	1209.90	0.87%
Avg Traded Volume	65,356	228,360	-71.38%
Avg Traded Value	854,286	1,000,338	-14.60%

\*22 January 1996 = 1000



### Banking Sector

	Mkt	14/10/11	07/10/11	% Change
BLOM (GDR)	BSE	\$7.85	\$8.00	-1.88%
BLOM Listed	BSE	\$7.80	\$7.80	0.00%
BLOM (GDR)	LSE	\$7.63	\$7.98	-4.45%
Audi (GDR)	BSE	\$6.83	\$6.80	0.44%
Audi Listed	BSE	\$5.98	\$5.77	3.64%
Audi (GDR)	LSE	\$6.72	\$6.80	-1.25%
Byblos (C)	BSE	\$1.63	\$1.63	0.00%
Byblos (GDR)	LSE	\$80.00	\$80.00	0.00%
Bank of Beirut (C)	BSE	\$19.50	\$19.50	0.00%
BLC (C)	BSE	\$1.87	\$1.87	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$2.47	\$2.47	0.00%

	Mkt	14/10/11	07/10/11	% Change
Banks' Preferred Shares Index *		\$102.99	\$102.99	0.00%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.10	\$10.10	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 09	BSE	\$100.00	\$100.00	0.00%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.12	\$10.12	0.00%

\* 25 August 2006 = 100

The Lebanese stock market snapped its longest losing streak in two years over the past week, although its gains remained limited due to a relatively small turnover rate amid regional political uncertainties and local policy deliberations. Investors remained cautious anticipating the government to roll out new measures, including a minimum wage increase that could support economic activity but also potentially accelerate inflation. The BLOM stock index thus added 0.87% to close at 1,220.54 on Friday. The daily average volume of trades plunged by 71% to 65,356 shares, whereas the daily average value diminished by only 14.6% to \$854,286 million, as trades were mostly dominated by higher priced Real Estate and Cement manufacturing stocks.

Compared to regional markets, Lebanon's main equity gauge increased at a slower pace than the S&P Pan Arab Composite LargeMidCap Index that gained 1.9% to 106 points capitalizing on improvements in Europe and the US and a boost in the spot price of oil. Arab markets were again led by Saudi Arabia and Qatar, while Egypt's market was characterized by high volatility following reignited violence on the streets of Cairo. The BSI's performance was also marginal compared to the Morgan Stanley (MSCI) Emerging Index that rallied 7.6% to 930 points, after a break from Europe's distressing news boosted risk appetite.

Real Estate stocks that took almost 70% of total value traded during the week recovered some of their losses but remained at more than a two year low. Solidere A climbed 1.1% to \$14.95 whereas its B counterpart added 0.95% to \$14.9. On the London stock exchange (LSE), Solidere GDR fipped 1.69% to \$15.1.

In the financial sector, stocks' performances diverged while several fluctuations during the week kept some banks' stocks unchanged by Friday's closing. BLOM GDR diminished 1.88% to \$7.85; Audi GDR crawled 0.44% up to \$6.83; and Audi listed stock sprung up by 3.64% to \$5.98. Audi bank listed this week an additional 1 million GDRs on the Beirut stock exchange, which were converted from Audi listed stocks as of September. In London, BLOM and Audi GDRs closed 4.45% and 1.25% down to \$7.63 and \$6.72 respectively, whereas Byblos GDR was unchanged at \$80.

## Real Estate

	Mkt	14/10/11	07/10/11	% Change
Solidere (A)	BSE	\$14.95	\$14.79	1.08%
Solidere (B)	BSE	\$14.90	\$14.76	0.95%
Solidere (GDR)	LSE	\$15.10	\$15.36	-1.69%

## Manufacturing Sector

	Mkt	14/10/11	07/10/11	% Change
HOLCIM Liban	BSE	\$16.99	\$16.50	2.97%
Ciments Blancs (B)	BSE	\$3.25	\$3.25	0.00%
Ciments Blancs (N)	BSE	\$1.72	\$1.72	0.00%

## Funds

	Mkt	14/10/11	07/10/11	% Change
Beirut Preferred Fund	BSE	\$104.19	\$103.50	0.67%
BLOM Cedars Balanced Fund Tranche "A"	-----	\$6,599.59	\$6,595.18	0.07%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,169.02	\$5,165.23	0.07%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,012.48	\$5,009.09	0.07%
BLOM Bond Fund	-----	\$10,066.26	\$10,066.26	0.00%

## Retail Sector

	Mkt	14/10/11	07/10/11	% Change
RYMCO	BSE	\$2.50	\$2.50	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

## Tourism Sector

	Mkt	14/10/11	07/10/11	% Change
Casino Du Liban	OTC	\$515.00	\$515.00	0.00%
SGHL	OTC	\$6.00	\$6.00	0.00%

In the manufacturing sector, Holcim Liban added 2.97% to \$16.99, climbing after the company made public its results for H1 2011, revealing net profits of almost \$20 million, compared to \$18 million in H1 2010.

The focus next week should remain concentrated on local developments with regards to the impact of the government decision to increase wages on public spending and debt, in addition to the outcome of the ongoing bickering concerning this decision between employers, labor unions, and the government.

## Foreign Exchange Market

## Lebanese Forex Market

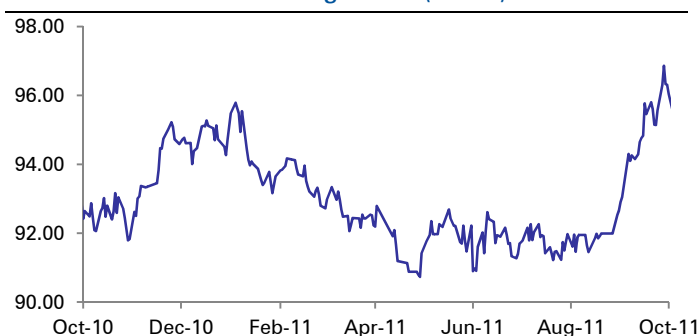
	14/10/11	07/10/11	%Change
Dollar / LP	1502.00	1502.00	0.00%
Euro / LP	2080.00	2024.12	2.76%
Swiss Franc / LP	1681.91	1636.99	2.74%
Yen / LP	19.60	19.66	-0.31%
Sterling / LP	2376.72	2339.19	1.60%
NEER Index**	94.98	96.04	-1.10%

\*Close of GMT 09:00+2

\*\*Nominal Effective Exchange Rate; Base Year Jan 2006=100

\*\*The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

## Nominal Effective Exchange Rate (NEER)



Relatively slow trading this week kept the exchange rate between domestic banks unchanged at the lower end of the trading band at \$/LP 1,500.5-\$/LP 1,503.5 with a mid-price of \$/LP 1,502. The Central Bank's foreign assets (excluding gold) diminished by a monthly 0.06% in September to \$32.11 billion, while the dollarization rate of deposits in commercial banks reached 66.56% in August, down from 66.74% in July.

In international markets, the Euro rebounded this week after German and French leaders Angela Merkel and Nicolas Sarkozy announced that they are on the verge of resolving the region's crisis, and will manage to shield banks that are highly exposed to Greece's debt. Accordingly, the euro increased by 2.76% to close at \$/€1.3798 compared to \$/€1.3427 recorded last week. The US dollar-pegged Lebanese currency depreciated to LP/€2,080 from LP/€2,024.12. The Nominal Effective Exchange Rate (NEER) dropped by 1.1% to 94.98 from 96.04 a week earlier.

## Money &amp; Treasury Bills Markets

## Money Market Rates

	14/10/11	07/10/11	Change bps
Overnight Interbank	2.75	2.75%	0
B L 45-day CD	3.57%	3.57%	0
B L 60-day CD	3.85%	3.85%	0

## Treasury Yields

	14/10/11	07/10/11	Change bps
3-M TB yield	3.89%	3.89%	0
6-M TB yield	4.40%	4.40%	0
12-M TB yield	4.59%	4.59%	0
24-M TB coupon	5.34%	5.34%	0
36-M TB coupon	5.94%	5.94%	0
60-M TB coupon	6.18%	6.18%	0

Broad money M3 increased by LP731B (\$484M) during the week ending September 29 to reach LP 145,598B (\$96.58B), rising by 7.29% from the previous year and by 4.72% from the end of December 2010. M1 rose by LP317B (\$210.8M) as money in circulation fell by LP5B (\$3.3M) whereas demand deposits rose LP322B (\$213.6M). Total deposits (excluding demand deposits), were up by \$274M on a \$215M rise in deposits denominated in foreign currencies and a \$9M increase in term and saving deposits in LP. The dollarization rate of broad money decreased 8 basis points during the week to 60.22%, while the Central Bank kept the overnight interbank rate at 2.75% according to the Association of Lebanese Banks.

During the auction held on October 6, the Ministry of Finance raised LP251.79B (\$167B) through the issuance of Treasury Bills, less than the LP529.4B (\$351M) required to finance the maturing TBs. Demand was mainly observed on the 36M paper that captured 84.74% of total subscriptions, while the 24M and 12M papers took 11.75% and 3.51% of subscriptions respectively. During the auction, yields across the maturity curve remained unchanged as the average discount rate for the 12M paper and the average coupon rates for the 24M and 36M papers maintained their rates from the previous auction at 4.59%, 5.34% and 5.94% respectively. It is worth mentioning that the MoF continued to undertake all accepted bids.

## Eurobond Market

## Eurobonds Index and Yield

	14/10/11	07/10/11	Change	Year to Date
BLOM Bond Index (BBI)*	111.070	111.040	0.03%	-0.89%
Weighted Yield**	4.77%	4.81%	-4	21
Weighted Spread***	388	400	-12	99

\*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

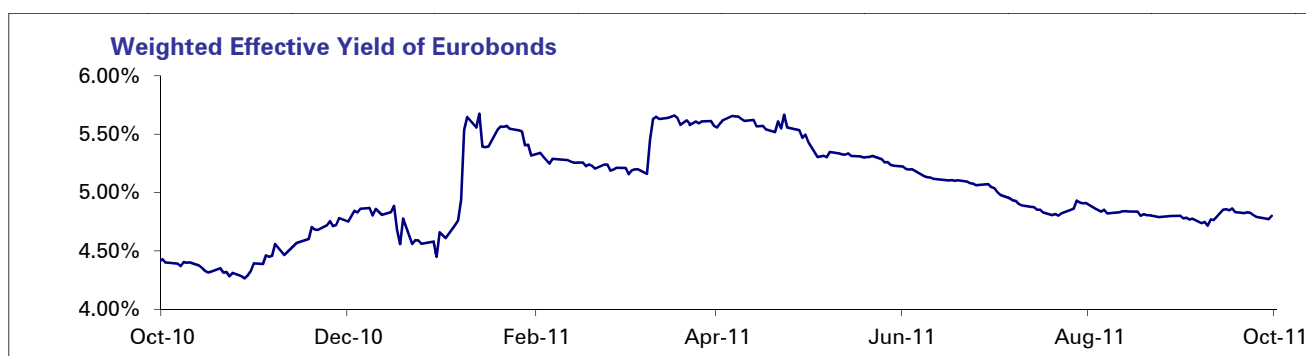
\*\* The change is in basis points

\*\*\*Against US Treasuries (in basis points)

## Lebanese Government Eurobonds

Maturity - Coupon	14/10/11 Price*	07/10/11 Price*	Weekly Change%	14/10/11 Yield	07/10/11 Yield	Weekly Change bps
2012, Mar - 7.500%	102.75	102.61	0.14%	1.34%	1.54%	-20
2012, Sep - 7.750%	104.30	104.60	-0.29%	2.79%	2.58%	21
2013, Mar - 9.125%	108.38	108.28	0.09%	2.96%	3.11%	-15
2013, Jun - 8.625%	109.25	109.14	0.10%	2.92%	3.04%	-12
2014, Apr - 7.375%	108.50	108.50	0.00%	3.76%	3.79%	-3
2014, May - 9.000%	112.25	112.88	-0.56%	3.88%	3.68%	20
2015, Jan - 5.875%	105.25	105.50	-0.24%	4.13%	4.06%	7
2015, Aug - 8.500%	114.75	115.38	-0.55%	4.25%	4.11%	14
2016, Jan - 8.500%	115.50	115.75	-0.22%	4.46%	4.41%	5
2016, May - 11.625%	128.50	127.00	1.18%	4.62%	4.96%	-34
2017, Mar - 9.000%	118.75	118.25	0.42%	5.01%	5.07%	-6
2018, Nov - 5.150%	98.73	98.88	-0.16%	5.37%	5.34%	3
2020, Mar - 6.375%	105.40	105.60	-0.19%	5.56%	5.53%	3
2021, Apr - 8.250%	117.75	117.70	0.04%	5.79%	5.80%	-1
2022, Oct - 6.100%	101.48	100.94	0.53%	5.92%	5.98%	-6
2024, Dec - 7.000%	106.50	106.50	0.00%	6.27%	6.27%	0

- Mid Prices ; BLOMINVEST bank



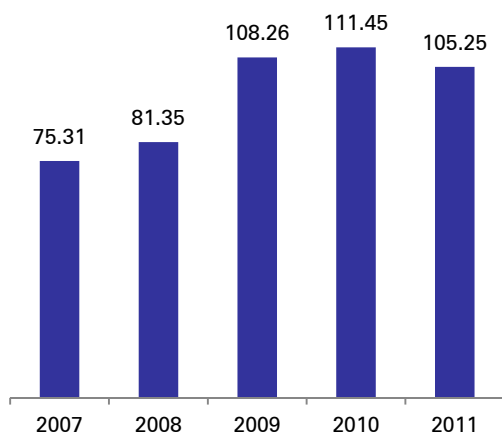
Activity on the Eurobond market was characterized by small fluctuations this week as investors mostly held their positions in anticipation of major policy changes being deliberated by the government; noting that the increase in the minimum wage could increase public spending by several hundred billions of LP, which could impact government debt and inflation. The BLOM bond index (BBI) ended the week 0.03% higher at 111.07 points, reducing the portfolio's weighted yield by 4 basis points (bps) to 4.77%. As for the spread against the US benchmark yield, it narrowed 12 bps to 388 bps. In comparison, the BBI lagged behind the JP Morgan emerging markets' bond index that rose by a weekly 1.85% after EU fears subsided.

Lebanon's credit default swap for 5 years (CDS) was last quoted at 402-432 bps, easing from 411-449 bps last week. In regional economies, CDS quotes in Dubai and Saudi Arabia narrowed considerably to 453-464 bps and 111-118 bps respectively. JP Morgan had issued a note this week maintaining that Dubai will have no problem rolling over its \$12 billion papers maturing in 2012. In emerging countries, CDS quotes in Brazil and Turkey dropped by an average 30 bps each to 157-159 bps and 246-251 bps respectively.

# ECONOMIC STATISTICS & INDICATORS

## Port of Beirut Receipts

Up Until September, \$M



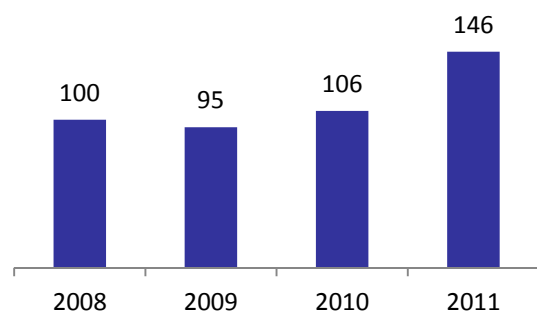
Source: Port of Beirut

## Port of Beirut Total Container Activity Improves in September

Total container activity at Port of Beirut (PoB) increased by 5.57% up until September 2011 to reach 768,382 twenty-foot equivalent units (TEU) compared to 727,854 TEU during the same period a year earlier. Transshipment activity leaped 22.04% y-o-y to 329,162 TEU, with Lebanon's main port gaining business on the back of rerouting from regional ports amid their current political troubles. In contrast, the number of containers (excluding transshipment) freighted through the PoB diminished by 4.12% y-o-y to 439,220 TEU, and the number of cars transported through the port dropped by as much as 34.2% y-o-y to 48,369. In the month of September alone, the total number of containers to pass through the port jumped 13.13% to 89,938 TEU, after having increased by 6.94% in August. Transshipment activity surged almost 40% to 41,406 TEU while containers (excluding transshipment) diminished by 2.75% to 48,532, easing from a 5.9% decrease a month earlier. Moreover, the number of imported cars during the month was 4,280, plunging by 40.4% from the cars imported in September 2010. PoB receipts had reached \$105.2 million up until August, 5.6% lower than the same period a year earlier.

## Number of Guaranteed Loans

In September



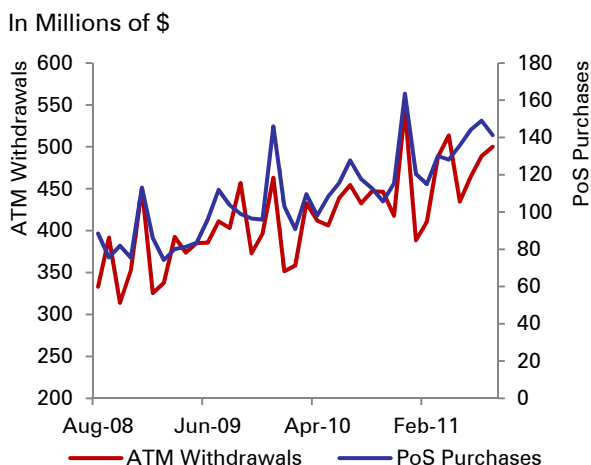
Source: Kafalat

## Kafalat Guarantees Reach 45-month High

The number of loans guaranteed by Kafalat reached 146 in September this year, the highest recorded figure since January 2008, data released by the company showed this week. The value of guaranteed loans increased more than 42% from September 2010 to \$17.83 million, while the average loan value climbed by 3.4% y-o-y to \$122,140. Despite this clear improvement in demand for business credit in September, the number of loans guaranteed during the first three quarters of the year remained 8.4% lower than in the same period a year earlier at 989 loans, as the regional political shocks in 2011 dampened appetite for business development and willingness to take on credit. In September, the largest share of loans went to the agricultural sector, taking 44.5% of total guarantees. The industrial and tourism sectors followed with 47 and 26 guarantees respectively or 32.2% and 17.8% of the total. As for the geographical allocation of loans, Mount Lebanon accounted for 41.1% of loans in September, followed by Bekaa with 17.81% and the North with 15.75%.

# ECONOMIC AND FINANCIAL NEWS

## PoS Purchases and ATM Withdrawals



Source: BdL

## Payment Cards Increase 7.4% y-o-y in August

The number of outstanding payment cards issued in Lebanon reached 1.758 million in August, up by 0.47% from the previous month, data released by the Central Bank (BdL) showed this week. Outstanding debit cards grew by 0.51% from July to 1.16 million, accounting for 72% of the increase in the total number of cards. The number of credit cards climbed by 0.6% or 2,576 to 420,454, easing from an average increase of 1% during the first seven months of the year. The number of outstanding Prepaid and Charge cards, which represent around 10% of total plastics, diminished by 0.15% to 177,796. On an annual basis, total payment cards increased by 7.36% from August 2010, marking the highest annual growth rate in two years. This accelerated annual expansion was mostly due to a spike in demand for credit cards and more relaxed issuance policies by Lebanese lenders, boosting their number up by 13% from the previous year. Points of Sale (PoS) purchases inside Lebanon declined 5.16% from July to \$141.27 million, while ATM withdrawals rose increased by 2.6% to \$500 million.

## Aid Highlights in September

Donating Agent	Project
Kuwait Fund for Arab Economic Development	Equipment for two Public Hospitals
European Union	Cash Rental Subsidies for Nahr al Bared Camp
UNRWA	Inauguration of Package 1 in NBC Reconstruction

Source: Ministry of Finance

## Aid to Lebanon in September Targets Reconstruction, Health, and Education

Lebanon was recipient to humanitarian aid during the month of September, aimed at improving public services and alleviating the standards of living, according to the latest Aid Coordination newsletter from the Ministry of Finance. First, the Kuwait Fund for Arab Economic Development said it will fund equipment for two public hospitals in Lebanon, as part of a project to establish thirteen public hospitals in different Lebanese regions. Separately, the European Union announced that it will back the UN Relief and Works Agency for Palestinian Refugees (UNRWA) with 12 million Euros to provide shelter for residents of Nahr al Bared Camp, by providing cash rental subsidies until the camp's reconstruction is finalized. Later during the month, UNRWA inaugurated package 1 in Nahr al Bared reconstruction, which includes residential and commercial units as well as three educational facilities. During the inauguration ceremony, new donations for reconstructing the camp were announced, including a \$10 million donation from the Saudi Fund for Development, \$2 million from the Palestinian Liberation Organization, and \$13 million from the United States Government.

## CORPORATE DEVELOPMENTS

### Holcim Financial Highlights (\$M)

	H1 2011	H1 2010
<b>Assets</b>	287.7	282.2*
<b>Capital</b>	206.7	217.1*
<b>Sales</b>	97.1	92.7
<b>Profits</b>	19.9	18

\*end 2010

Source: Company Data

### Holcim Liban and Ciment Blancs H1 Unconsolidated Results

Holcim Liban released its unconsolidated results for the interim period ending June 30, 2011 showing net profits of LP 30 billion (\$20M), on sales of LP 146 billion (\$96.85M). The company's total assets increased by 1.95% from end 2010 to \$433 billion (\$287.7M). On the previous release featuring the 2010 full year results, Holcim Liban posted earnings at LP 50.8 billion (\$33.7M) on revenues of LP 279 billion (\$185.07M). Societe Libanaise des Ciment Blancs (SLCB), the subsidiary of Holcim Liban which mostly produces white cement, also released its H1 2011 results revealing profits of LP 2.2 billion (\$1.46M). SLCB's profits for 2010 were LP 4.7 billion (\$3.12M). Sales at SLCB reached LL 10B for the period, versus LL 21B in the previous reporting period.

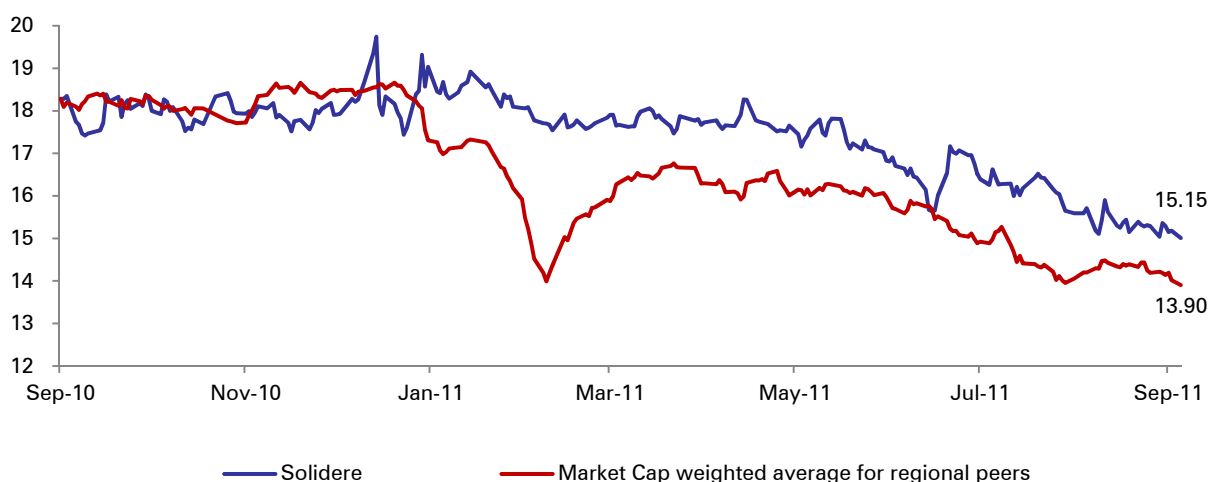
## FOCUS IN BRIEF

Solidere fares well against regional peers as its value proposition remains unshaken

### YTD and 12-month Performance of Leading Real Estate Company Stocks in the Middle East

Company	Market	Market Cap (USDm)	YTD Return	12 month return	Market Cap weighted YTD return
Emaar Properties	Dubai	4,379	-26.8%	-30.9%	-7.0%
Barwa Real Estate Co	Qatar	3,111	-19.1%	-10.7%	-3.5%
Jabal Omar Development	Saudi Arabia	2,937	-22.8%	-26.4%	-4.0%
Dar Al Arkan RE Dev.	Saudi Arabia	1,771	-34.6%	-38.8%	-3.6%
Mabane Co	Kuwait	1,627	11.4%	23.7%	1.1%
Talaat Moustafa Group	Egypt	1,299	-55.5%	-46.7%	-4.3%
Aldar Properties	Abu Dhabi	895	-51.9%	-54.3%	-2.8%
United Development Co	Qatar	841	-18.6%	-14.3%	-0.9%
Regional Peer Average		2,108	-27.2%	-24.8%	-25.0%
Solidere	Lebanon	2,557	-17.9%	-18.2%	

### Solidere versus Regional Peer Average



While a stock's absolute performance is sufficient to explain the risks and opportunities a company encounters, studying it against that of peers may offer further insight on what truly drives and differentiates this stock. In this week's study, we take a closer look at the year-to-date (YTD) performance of Solidere's stock (SOLA.BY) against eight leading real estate companies in the region. Selection of these companies simply consisted of finding the largest real estate company(s) from different Middle Eastern countries with a market cap between USD 4,400 million and USD 800 million. This resulted in a peer average of USD 2,108 million compared to a market cap of USD 2,557 million for Solidere at the time of this study.

Solidere's share price declined 18% during 2011 while the market cap weighted average shed 25% of its value so far. To calculate the average peer performance, we used a market cap weighted index with an initial value of USD 18.28, the same as that of Solidere's share price at the start of the year. The graph that resulted clearly shows a decoupling between the

performance of Solidere and the peer average during the period starting January 20 and ending March 05 in which a wave of uprisings overtook the region. Solidere showed a unique resilience to these geopolitical conflicts, mostly because it has limited investments outside of Lebanon. Investor sentiment in the region as a whole was dwindling and is reflected in the performance of all index participants with the exception of Mabanee in Kuwait. This offers a valuable piece of insight in which investors view Solidere as an independent entity with its own analytical framework. A position in Solidere can therefore possibly provide a form of diversification from regional peers while still presenting exposure to real estate in the Middle East. Note that even though both Qatar and UAE didn't experience any political turmoil, stocks of real estate companies in these countries declined considerably during that period. This same scenario in which Solidere refuses to shed value during turbulent times was evident throughout the global financial crisis where only a handful of stocks didn't decline; Solidere was among them.

While a YTD decline of 18% hardly presents any bragging rights, out of the nine stocks we considered, Solidere's performance came second following the only profit yielding investment, Mabanee Co in Kuwait. Six out of the nine stocks yielded anywhere between -18% and -35% while the remaining three are treated as outliers; Mabanee had a positive return of 11.4% while Talaat Moustafa in Egypt and Aldar Properties in Abu Dhabi dropped by more than 50%. It's clear that the additional risk premium and loss of business due to the political turmoil in the region caused the general real estate stock index to lose around 26% of its value. As for Solidere, we can see that its recent decline only started in May after the major political shocks in the region had passed. We attribute this to the company's shrinking backlog during the year along with the local political climate associated with the Special Tribunal for Lebanon, which applied further downward pressure on the stock. As for the outliers, these stocks had specific circumstances that eclipsed the political turbulence in the region. Mabanee's exceptional performance can be attributed to generating almost all of its revenues from stable Kuwait, with 92% of its revenues generated from rentals. Additionally, demand at its key projects has been exceeding expectations due to its strong relations with major retailers, which are its biggest customers. On the other hand, Talaat Moustafa's legal disputes surrounding land ownership at its largest project, Madinaty, caused the stock to plummet. As for Aldar Properties, a dire need for cash forced the company to destroy shareholder value through dilution and impairment of its assets, reflecting poorly on the stock.

Having shown that Solidere's stock performance relies mostly on its operation and political climate in Lebanon, it's fair to pose the question "what will it take to break or reverse this downward trend?" In addition to the idea that Solidere's stock is affected by the local political climate, we believe a key factor is the company's ability to revitalize its backlog that was last reported at USD 77.5 million, almost the same as that of 2004 reported at USD 78.5 million. Solidere's backlog has declined annually since 2006 from an all-time high of USD 1.2 billion with the last signed contract that got recognized as backlog reported in early 2010. Recently however, the company has broken this dry spell with a new signing estimated at USD 100 million and has confirmed several contracts undergoing negotiations that may be completed before year-end. This renewed interest should limit the downside on the stock as we expect these earnings to be most probably reported during 2011 or 2012.

Of course, local politics should be treated as a factor in Solidere's ability to grow its backlog and earnings. As the company's business model revolves around selling large plots of land, its customers are investors who are interested in the long term returns through developing these plots and in turn selling them to the end-consumer. With the hope that political factions remain in relative harmony, these investors can expect a high interest from the end-consumer and in turn, charge higher prices which would yield a better return on their investment. This will increase their appetite to acquire land from Solidere and therefore would have a direct impact on the company's ability to grow its earnings.

Analyzing the stock movement over the past nine months shouldn't change the fact that Solidere should be looked upon as a long term investment. The company owns the most valuable piece of land in the Middle East and has been developing commercial centers that, when completed, would yield a recurring rental income of USD 100 million.

**Disclosure:** *Blominvest downgraded Solidere's stock from Buy to Hold in June with a fair value of USD 18.77 (USD 19.36 before share dividend).*



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