Commercial Facilities Company (FACI.KW)

NEUTRAL

CMP	**KWD 0.305**
Target	**KWD 0.323**
Potential Upside	**6.1%**

MSCI GCC Index	341.06
Kuwait Stock Exchange	7,493.50

Key Stock Data

Sector	Investment
Reuters Code	FACI.KW
Bloomberg Code	FACIL KK Equity
Net outstanding Shares (mn)	519.10
Market Cap (KWD mn)	158.326
Market Cap (USD mn)	542.881
Avg. 12m Vol.	316,317
Volatility (30 day)	64.280
Volatility (180 day)	66.275

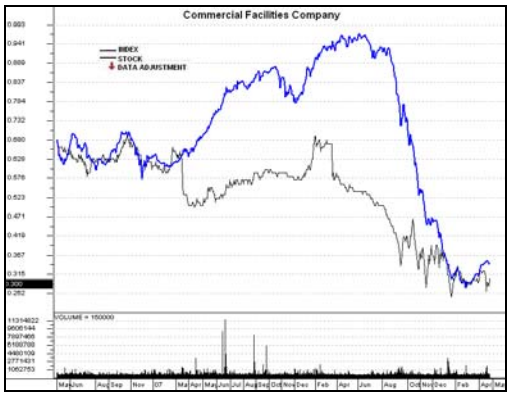
Stock Performance (%)

52 week high / low (KWD) 0.560 / 0.250

	1M	3M	12M
Absolute (%)	1.7	1.7	-43.5
Relative (%)	-8.4	-9.4	9.0

Shareholding Pattern	(%)
Public Institution for Social Security	17.51
Mishari Khaled Zaid Al Khaled	5.36
Public	77.13

CFC and KSE Movement



Executive Summary

Commercial Facilities Company (CFC) was established in 1977 as the first Kuwaiti company specialised in providing instalment credit facilities and commercial loans through four branches. The company holds 4.2% share of the total assets in the conventional investment sector. CFC was the first company to be selected for the Kuwaiti government's privatisation program. The principal activity of the company is granting of consumer instalment credit facilities.

Net profits plunged 58% on loss in fair value and higher provisions

CFC recorded a fall of 42.7% in its operating income to KWD 26.22 million from KWD 45.74 million in 2007, due to the loss in change in fair value of financial assets (KWD 9.52 million); foreign exchange loss; and decline in other income, partially offset by its core operating activities. The company's net interest income increased 5.0% to KWD 31.55 million in 2008, as a 21.9% decline in borrowing costs was far more than the 3.5% drop in income from instalment credit. Meanwhile, due to a 63 bps fall in interest yield, income from instalment credit plummeted to KWD 42.51 million. Borrowing costs fell 21.9% to KWD 10.96 million led by a 238 bps decline in borrowing costs owing to the falling interest rate scenario in 2008 across the globe, as major part of the company's funding mix is contributed by dollar-denominated borrowings (59.2% of total borrowings). Moreover, the slump in the capital markets and global economic slowdown raised serious doubts on the quality of assets and future of investments. As a result, CFC increased its provision for doubtful debts by 55.1% to KWD 5.43 million from KWD 3.50 million in 2007. Consequently, the company's net profits plunged 58.2% to KWD 15.25 million from KWD 36.48 million in 2007. The adjusted EPS fell to KWD 0.029 in 2008 as against an adjusted EPS of KWD 0.070 for 2007.

Outlook and Valuation

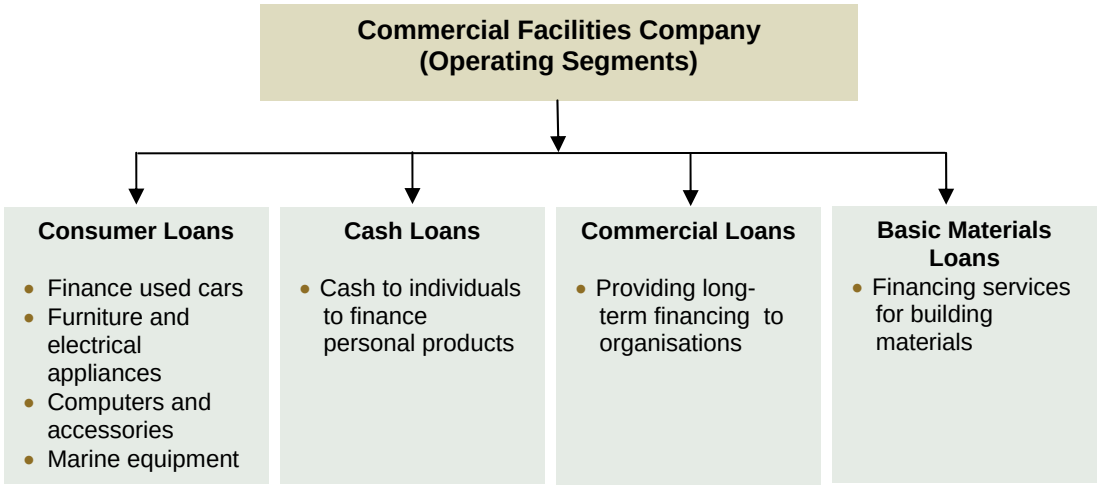
The Kuwait's real economic growth is expected to be limited to 0.7% in 2009 mainly on account of negative impact of the economic downturn, before recovering to 4.3% in 2010. The Central Bank of Kuwait's steps to tighten the consumer loans and asking financial institutions to curb growth of commercial loans is likely to impact the companies' loan growth and thus affect the top and bottom-line. However, the efforts by the central bank and the government by slashing the discount rates and a stimulus package worth KWD 1.50 billion intends to reinstate confidence in the economy. While CFC made a loss during 2008 on account of this economic slowdown, its three decades of experience and focus towards low cost funding would help it to be in competition. Currently, CFC's stock is trading at a P/E multiple of 8.36x and 7.59x on 2009E and 2010E earnings, and at a P/B multiple of 1.00x and 0.99x on 2009E and 2010E BVPS, respectively. Meanwhile, the stock has lost 18.7% since the beginning of this year as against a decline of 3.7% in the Kuwait Stock Exchange. Considering the above factors, we arrive at a Fair Value of KWD 0.323, which exhibits a 6.1% potential upside from its closing price of KWD 0.305 (as on April 27, 2009). **Therefore, we initiate our coverage with a NEUTRAL recommendation on the COMMERCIAL FACILITIES COMPANY.**

KWD Millions	2007A	2008A	2009E	2010E	2011E
Total Operating Income	45.74	26.22	30.24	31.22	32.63
% Change YoY	32.8	-42.7	15.3	3.2	4.5
Net Profit	36.48	15.25	18.94	20.87	22.86
% Change YoY	25.5	-58.2	24.2	10.2	9.6
Net Spread (%)	5.0	6.8	6.2	6.3	6.4
Net Interest Margin (%)	8.6	8.9	7.9	8.1	8.2
Adj. EPS (KWD)	0.070	0.029	0.036	0.040	0.044
RoAE (%)	23.6	9.7	12.2	13.1	14.3

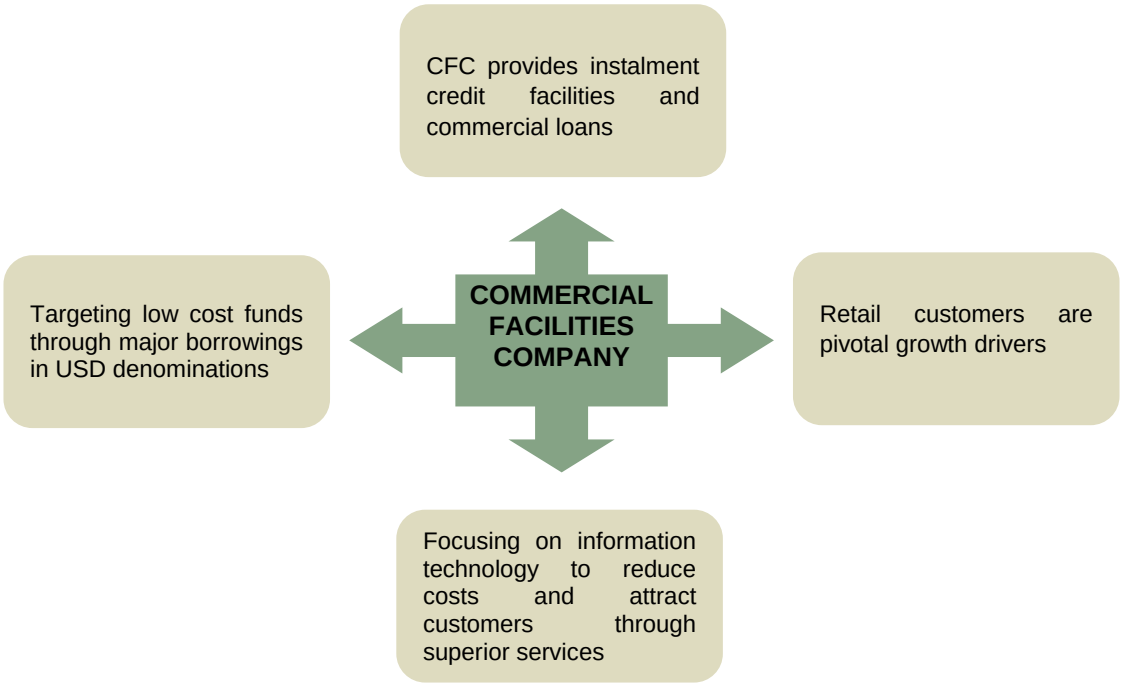
Background

CFC was the first company to be privatized by Kuwait

Commercial Facilities Company (CFC) was established in 1977 as the first Kuwaiti company specialised in providing instalment credit facilities and commercial loans. Listed on the Kuwait Stock Exchange the company holds 4.2% share of the total assets in the conventional investment sector. CFC was the first company to be selected for the Kuwaiti government's privatisation program wherein in September 1994, the Kuwait Investment Authority sold 47% of the issued shares to the private sector. The principal activity of the company is granting of consumer instalment credit facilities. The company is providing these services through four branches in Kuwait.



Business Model



Board of Directors

- ***Chairman & Managing Director - Abdallah Saud Abdulaziz Al-Humaidhi***
- ***Vice Chairman - Nasser Saad Al-Muneefi***
- ***Musaed Bader Al-Sayer***
- ***Abdulla M.H.Al-Sumait***
- ***Mohammed Reda Y.Behbehani***
- ***Ali Ibrahim Marafi***
- ***Alhareth Abdulrazak Khaled***

Source: CFC

Subsidiaries/Affiliates of CFC

CFC has a number of subsidiaries and strategic investments.

SUBSIDIARIES/INVESTMENTS	COUNTRY	% SHARE
Collection Company	Kuwait	100.00
First Financial Real Estate Company	Kuwait	100.00
Priority Automobile Company	Kuwait	37.24
Tasshilat Real Estate Finance Company	Kuwait	25.00
INVESTMENTS		
Credit Information Network Company	Kuwait	7.00
First National Bank	Lebanon	5.37
Financial and General Securities	United Kingdom	-

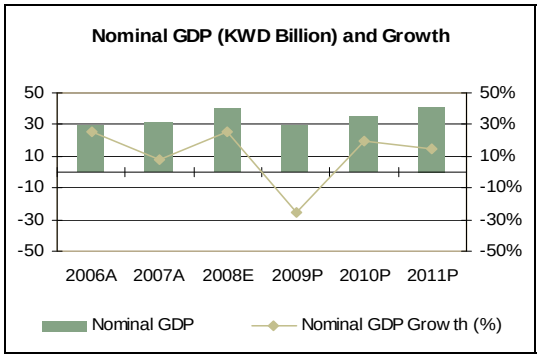
Source: Zawya

Industry Scenario

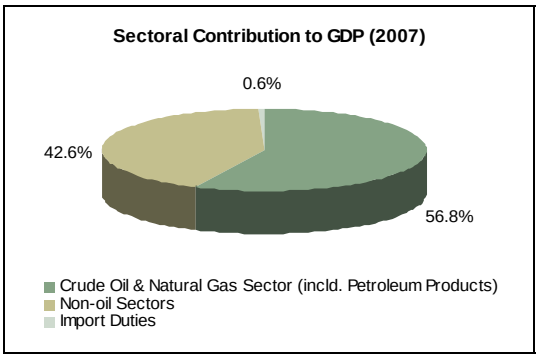
The world economies are witnessing an economic slowdown triggered by the US subprime crisis. As a result, the Middle East region's GDP, which registered healthy real growth rate of 5.7% and 6.3% in 2006 and 2007, is likely to slow from an estimated 5.9% in 2008 to 2.5% in 2009. Within the region, GCC countries are expected to grow at 3.5% in 2009.

Global economic slowdown to drive Kuwait's real GDP to grow at 0.7% in 2009

Driven by the high oil prices and subsequent economic development, Kuwait's real GDP grew at a CAGR of 7.4% during 2004-2007 and is estimated to grow at nearly 8.5% to KWD 20.85 billion in 2008. The country's economy is largely dependent on hydrocarbon-related activities (oil & natural gas sector and refined petroleum products), which accounted for 56.8% of the nominal GDP and 94.9% of total export earnings during 2007. Higher oil revenues for most part of 2008, generated substantial fiscal and external current account surpluses, thereby enabling the country to build up its net foreign assets to as high as KWD 3.10 billion in 2008. However, with the impending global economic crisis and plunging export volumes, the growth in the country's real GDP is expected to be limited to 0.7% in 2009 before recovering to 4.3% in 2010.



Source: Economic Intelligence Unit



Source: Central Bank of Kuwait

Plunging oil prices project a budgetary deficit for Kuwait in 2009/10

Kuwait recorded a budget surplus of USD 21.0 billion for the fiscal 2008/09 led by rising oil prices during the first half of 2008. Oil revenues accounted for nearly 94% of the total revenues of USD 72.3 billion, which beat the projections by 66.7%. Despite expected contraction of oil output and falling oil prices, oil is likely to account for around half of Kuwait's nominal GDP in 2009-10 and remain a significant driver of economic growth through increased government consumption. According to a report from the parliamentary panel for Budgets & Final Audits, during 2009/10 budgetary deficit is likely to be KWD 4.8 billion, which will be covered via state reserves, while state revenues are estimated at KWD 8.1 billion. The budget projects public spending at KWD 12.1 billion, a sharp 19.2% decline from the current year spending of KWD 15.0 billion. It also added that oil will add KWD 6.9 billion to the revenues, another KWD 1.2 billion would be added by other sources. Also, growth in the services sector including financial services, logistics, telecommunications and retail, which account for around 40% of nominal GDP, is expected to be modest in 2009-10.

Investment companies' assets grew at CAGR of 22% over 2003 till 1H08

The investment sector in Kuwait includes 46 conventional investment companies, regulated by the Central Bank of Kuwait. Most investment companies earned their revenue from investments, while a few derive revenues through lending activities. The investment sector in the country witnessed tremendous growth in its credit facilities, investments and asset base given the ample liquidity and rising money inflow owing to the high oil revenues till first half of 2008 and subsequent economic development. Total assets within the sector grew at a CAGR of 21.9% over 2003 till 1H08, while credit facilities to residents and domestic investments rose at a CAGR 14.4% and 32.0%, respectively. However, subsequent to the financial turmoil during 2H08, the total assets, credit facilities to resident and their domestic investments declined 7.7%, 4.5%, and 18.1% to KWD 9.52 billion, KWD 1.01 billion, and KWD 2.67 billion in 2008, respectively.

Total Assets of Conventional Investment companies in Kuwait (KWD Millions)

Assets	2003	2004	2005	2006	2007	1H08	2008	Feb.09
Cash	2	2	7	2	5	13	14	16
Balances with CBK	13	13	13	0	2	3	0	1
Balances with Local Banks	121	157	264	403	455	362	360	362
Credit Facilities to Residents	576	686	841	1,030	1,009	1,055	1,008	962
Domestic Investments	936	1,201	2,226	2,462	2,967	3,263	2,671	2,448
Foreign Assets	2,427	2,625	2,859	3,810	4,380	4,556	4,181	4,089
Other Assets	162	187	468	616	570	1,061	1,289	1,562
Grand Total	**4,236**	**4,872**	**6,679**	**8,324**	**9,388**	**10,313**	**9,522**	**9,439**
No. of Companies	28	28	33	40	40	45	46	46

Source: Central Bank of Kuwait

Investment companies are backed by funds of its own

On the liabilities front, these companies are strongly backed by their own funds, which constituted nearly 35% of their total liabilities as of February 2009. Majority funds are borrowed from local financers (23%), while foreign funding accounts for a significant 18%. From 2003 till 1H08, the company-owned funds rose at a CAGR of 29.2%, while this declined 18.2% during 2H08 owing to fall in capital markets that impacted the companies' fair value reserves. On the other hand, domestic financing increased 35.1% along with a 9.8% rise in foreign liabilities over 2H08.

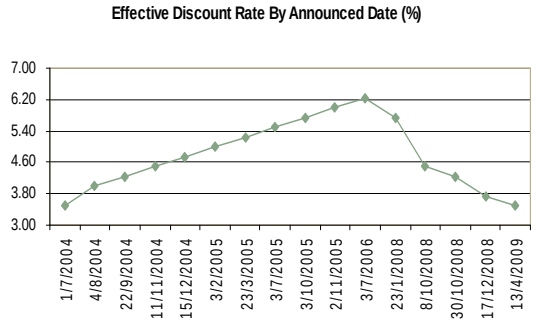
Total Liabilities of Conventional Investment companies in Kuwait (KWD Millions)

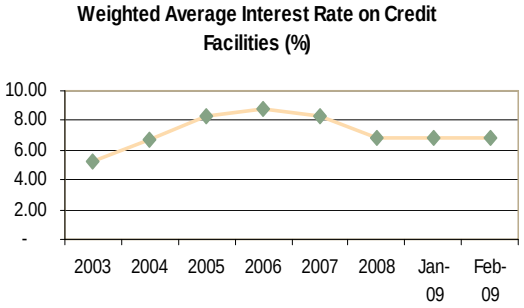
Liabilities	2003	2004	2005	2006	2007	1H08	2008	Feb.09
Financing from Residents	637	730	931	1,263	1,564	1,598	2,162	2,174
Bonds and Debentures	162	350	674	827	720	797	266	849
Foreign Liabilities	1,527	1,578	1,559	2,058	2,486	2,352	2,584	1,704
Own Funds	1,285	1,476	2,398	2,962	3,358	4,072	3,330	3,333
Other Liabilities	625	738	1,117	1,214	1,260	1,494	1,180	1,379
Grand Total	**4,236**	**4,872**	**6,679**	**8,324**	**9,388**	**10,313**	**9,522**	**9,439**

Source: Central Bank of Kuwait

Key discount rates reduced to encourage credit growth

The discount rates set by the central bank is crucial while determining the lending rates. Accordingly, any cut or increase in the discount rates directly impacts the lending rates. In the face of the global economic downturn, the government was forced to bail out the economy through rates cut and economic stimulus packages. In 2008 alone, the key discount rate was reduced by 250 bps to 3.75% from 6.25% in the beginning of the year, which is indicative of the measures taken by the Kuwaiti government to increase liquidity and keep up the growth momentum. On April 13, 2009, the central bank again lowered its discount rate by another 25 bps to 3.50%. In tandem with the decrease in the key discount rates in 2008, the lending rates have also reduced. Consequently, weighted average interest rate on credit facilities to residents and non-residents dropped 146 bps to 6.81% in 2008 from 8.27% in 2007.

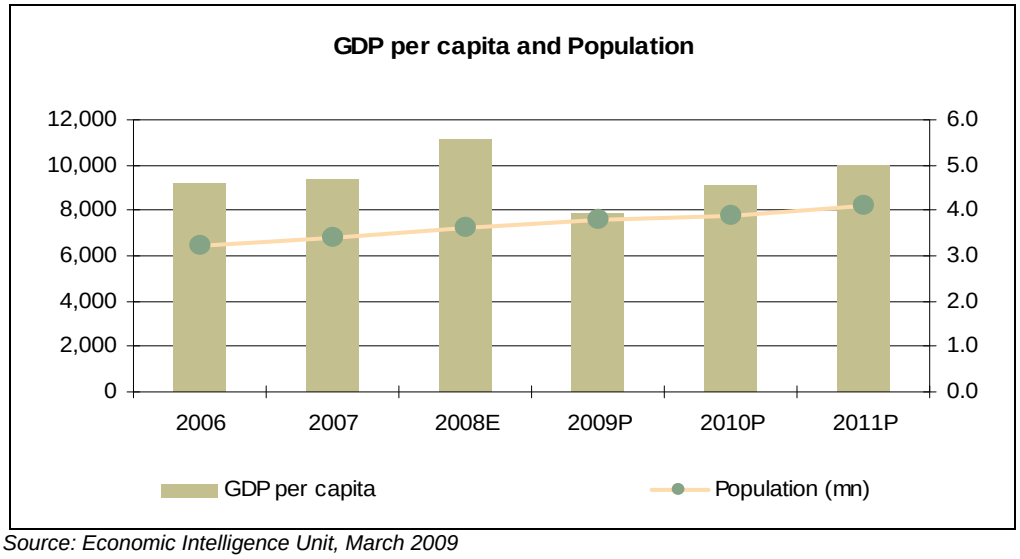




Source: Central Bank of Kuwait

Higher GDP per capita and population is the key for the growth in consumer loans

Over time, the consumer consumption patterns have also changed in Kuwait, with the increase in consumption supported the development of domestic market. The consumer loans in Kuwait are largely driven by rising population, higher car ownership, and an increasing inclination towards car finances. The population grew at a 4-year CAGR of 6.5% to 3.6 million till 2008, while it is expected to grow further at a 4-year CAGR of 4.5% to 4.3 million till 2012. Moreover, the per capita GDP also played an important role in the growth of the consumer finance, as higher per capita income meant that the amount of loan taken would be more. However, the per capita GDP is expected to decline on negative growth forecasts for nominal GDP. This would impact per capita income along with the slowing economy.



Source: Economic Intelligence Unit, March 2009

In March 2008, the central bank tightened the consumer loans policy by limiting the monthly interest to 3% above the discount rate (earlier 4%) and repayment instalments equivalent to no more than 40% of their salaries, compared with 50% before. Though the step was taken to curb rising inflation, it negatively impacted lenders and may further reduce total loans disbursed. Moreover, in an effort to stabilise the financial environment, the central bank had asked financial institutions to curb growth of commercial loans which exceeded average levels of previous years. The value of commercial loans rose to KWD 1.95 billion at the end of February 2009 from KWD 1.69 billion a year earlier.

Investment companies lost nearly USD 32 billion in the six months to January2009

The value of assets held by the 99 Kuwaiti investment companies shed almost USD 32 billion in the six months to January 2009 as a result of the financial turmoil and global economic meltdown. This plunge reflects a 45% or USD 26 billion decline in their holdings of companies listed on the Kuwaiti bourse, as well as fall in local mutual funds and investments abroad. Consequently, a number of local investment firms have defaulted on loans estimated at USD 18 billion, including USD 8 billion owed to foreign banks. Furthermore, the effect has extended over the first two months of 2009, when the total assets and credit to residents fell further 0.9% and 4.6%.

There is a pending draft bill that suggests purchasing and rescheduling consumer loans. Once cleared by the committee, this bill would bring great relief to the investment companies as it will lower the high provisions on these companies' books. In March 2009, the Kuwaiti Banking Association extended support of local banks to investment firms coping with losses and funding gaps as a result of the global crisis. In turn, Gulf Arab state's sovereign wealth fund would provide long-term deposits to local banks.

The government recently announced a stimulus package of KWD 1.50 billion

Recent financial turmoil and subsequent economic slowdown led to a severe liquidity crunch across sectors, especially in the financial sector. The liquidity crunch in the economy has raised concerns over the asset quality, thus forcing these companies to create higher provisions. The long awaited economic stimulus package of KWD 1.50 billion was implemented on April 13, 2009. Under this package, the government would guarantee up to 50% of an estimated KWD 4 billion of new credit facilities extended by banks to local companies over the next two years. Further, the government through its investment arm, the Kuwait Investment Authority (KIA) also intends to buy the unsubscribed shares to raise capital, if need be, by listed companies and banks, thereby helping them regain momentum. This along with the cut in key discount rates supports the financial institutions in these difficult times.

Financial Performance – FY08

Operating income

CFC's operating income plunged 43% on decline in fair value of financial assets

CFC's operating income decreased 42.7% to KWD 26.22 million from KWD 45.74 million in 2007. This fall was largely on account of a negative change in the fair value of financial assets; foreign exchange loss; and decline in other income, partially offset by income from its core operating activities. The company's net interest income increased 5.0% to KWD 31.55 million from KWD 30.05 million last year, as the decline in borrowing costs (21.9%) was far more than the 3.5% drop in income from instalment credit. Furthermore, due to a 63 bps fall in interest yield, income from instalment credit plummeted to KWD 42.51 million from KWD 44.07 million. On the other hand, led by the falling interest rate scenario in 2008 across the globe, borrowing rate decreased 238 bps, thus reducing the borrowing costs to KWD 10.96 million from KWD 14.03 million in 2007, as major part of the company's funding mix is contributed by the dollar borrowings (59.2% of total borrowings). The average weighted value interest rate on USD denominated loans was 4.6% per annum, while on KWD denominated loans was 5.6% per annum.

On the flip side, the company's non-interest income turned negative to a loss of KWD 5.33 million as against a profit of KWD 15.69 million in 2007. The decline was mainly due to a loss of KWD 9.52 million related to change in fair value of financial assets as compared to a gain of KWD 2.75 million last year, on account of fall in capital markets subsequent to the financial crisis. Moreover, CFC also registered a foreign exchange loss of KWD 0.91 million as compared to a profit of KWD 7.29 million. However, these declines were partially offset by a gain on sale of financial assets to the tune of KWD 2.73 million compared to KWD 0.85 million last year.

Expenses

The company's operating expenses rose a marginal 1.4% to KWD 4.35 million

CFC's total operating expenses increased a marginal 1.4% to KWD 4.35 million in 2008, on account of higher general & administrative expenses that were partially offset by decline in staff costs and related expenses. Its general and administrative expenses rose 28.2% YoY to KWD 1.27 million, whereas staff and related expenses reduced 6.8% to KWD 3.00 million in 2008. Depreciation remained constant at KWD 0.07 million in 2008. Subsequently, the cost-to-income ratio increased 720 bps to 16.6% compared to 9.4% last year due to a fall in operating income.

Provisions and Impairments

The fall in capital markets and global economic slowdown has raised serious doubts on the quality of assets and future of investments. This has forced the companies to create higher provision on its assets for the future contingencies and to recognise impairment losses. In line with this, CFC increased its provision for doubtful debts by 55.1% to KWD 5.43 million from KWD 3.50 million in 2007. Furthermore, its non performing loans (NPL) increased to KWD 23.25 million from KWD 15.45 million in the previous year. As a result, NPL to gross instalment debtors' ratio rose to 6.5% YoY from 4.4%. The company has also incurred an impairment loss on available for sale investment of KWD 0.38 million in 2008.

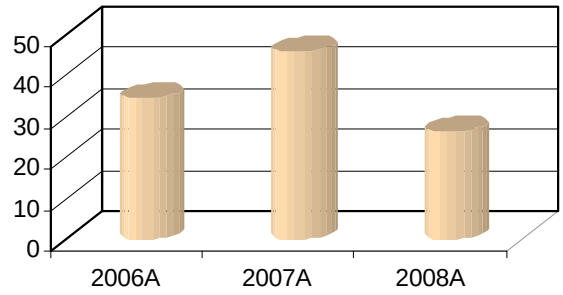
Net Profit

Adjusted EPS declined to KWD 0.029 from KWD 0.070

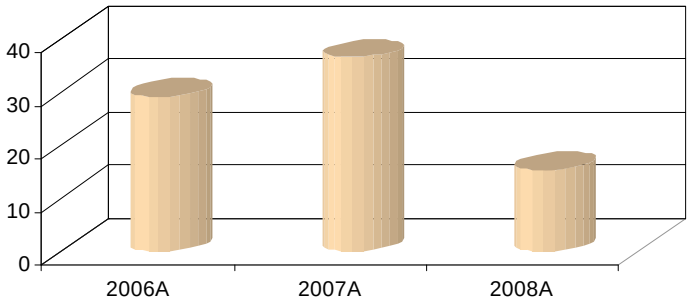
The company's net profits plunged 58.2% to KWD 15.25 million from KWD 36.48 million in 2007 due to a decline in operating income and rising operating expenses. Net profits were also hurt by higher provisions and impairment losses. Consequently, the adjusted EPS fell to KWD 0.029 in 2008 as against adjusted EPS of KWD 0.070 for 2007.

Chart Gallery

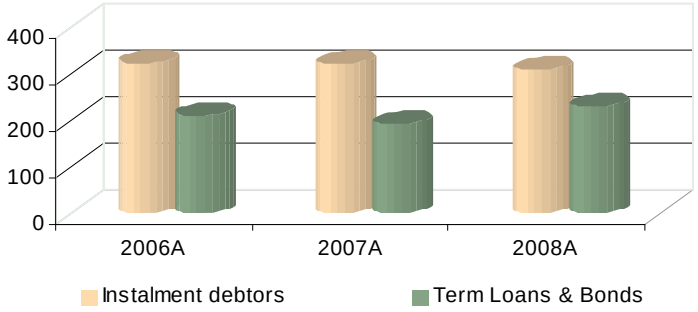
Total Operating Income (KWD Millions)



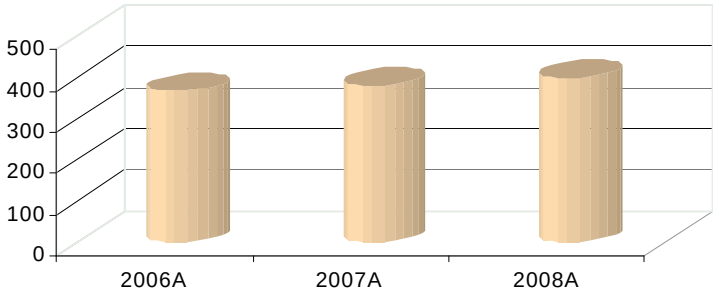
Net Profit (KWD Millions)



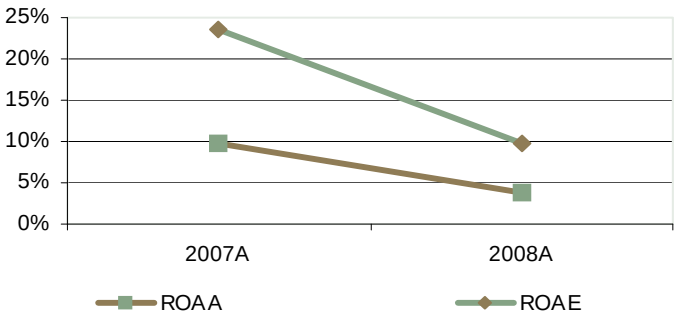
Overall Business Volume (KWD Millions)



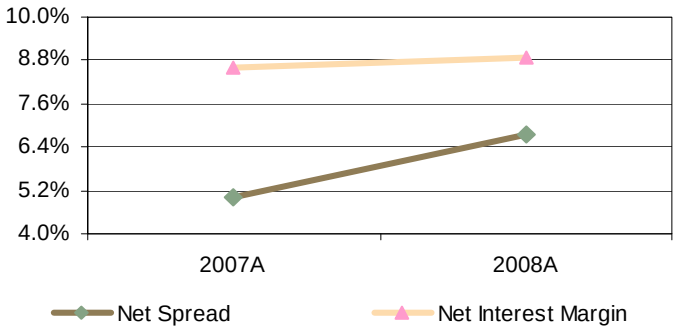
Total Assets (KWD Millions)



Return on Investment Ratios



Interest Margins



Size of the Company

The salient features of the balance sheet are as follows:

- Total assets increased 4.8% to KWD 400.02 million from KWD 381.70 million in 2007 on account of increase in all assets save instalment debtors and financial assets. The company's cash and bank balance increased manifold to KWD 24.72 million from KWD 2.10 million in 2007 as a result of short term deposits of KWD 21.63 million during 2008. However, given the staggering fall in capital markets during the 2H08, the company's value of financial assets fell 60.2% YoY to KWD 10.30 million. CFC's other receivables and prepayments soared a little over four-fold to KWD 10.89 million from KWD 2.65 million in 2007.

Tightening consumer loan regulations to affect company's personal loan growth

- In March 2008, the Central Bank of Kuwait tightened its consumer loans regulation. Subsequently, CFC's gross personal loan fell 2.7% YoY to KWD 394.76 million, thus impacting the company's net instalment debtors that decreased a marginal 0.5% to KWD 322.20 million from KWD 323.92 million last year supported by a 16.5% YoY rise in commercial loans to KWD 14.71 million in 2008. However, its investments in associates and available for sale investments spiked 45.8% and 9.0% to KWD 9.39 million and KWD 18.81 million, respectively.

- Term loans accounted for 92.5% of the company's total liabilities, up from 88.8% last year. Term loans advanced 19.4% to KWD 230.46 million from KWD 192.95 million in 2007, reflecting the increase in local borrowings. With a focus on low-cost borrowings, the company has largely borrowed USD denominated funds, which contributed nearly 59% of term loans, a decline from 71% last year due to the global liquidity.

- Trade creditors and accrued liabilities increased 32.3% YoY to KWD 15.45 million, while it created a higher provision for staff indemnity to the tune of KWD 3.25 million as against KWD 2.78 million in 2007. Subsequently, total liabilities swelled 14.6% to KWD 249.16 million from KWD 217.36 million.

Shareholders' equity to total assets ratio fell 534 bps to 38%

- Shareholders' equity decreased 8.2% to KWD 150.87 million from KWD 164.34 million in 2007 due to lower retained earning on decrease in net profit and higher buying of treasury shares. However, increased share capital and reserves partly restricted the decline. Retained earnings plummeted 38.0% to KWD 27.29 million from KWD 43.98 million in 2007. However, the company's share capital advanced 5.0% to KWD 53.68 million on bonus issue, while legal and voluntary reserves went up by 4.6% and 8.0% to KWD 36.66 million and KWD 37.86 million, respectively. As a result, shareholders' equity to total assets ratio fell 534 bps to 37.7%.

Peer Comparison

In order to do a peer comparison for CFC, we have taken conventional credit and finance sector's comparable companies including Finance House (FH) of UAE, Kuwait Finance & Investment Company (KFIC) of Kuwait and Commercial Facilities Company (CFC) of Kuwait.

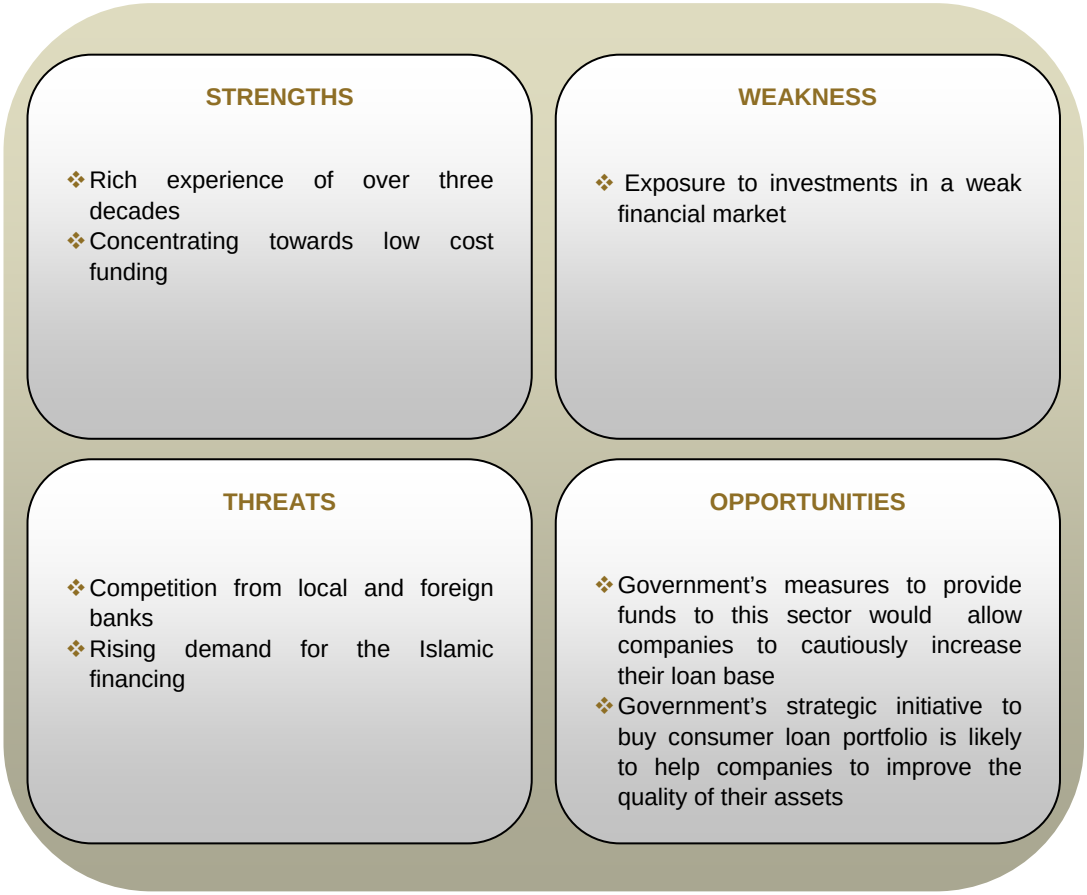
Peer Analysis						
(in USD '000)	FH		KFIC		CFC	
	2007	2008	2007	2008	2007	2008
Net Interest Income	10,677	24,671	8,061	4,045	109,653	115,153
% YoY Growth	16.0	131.1	-41.2	-49.8	-3.8	5.0
Total Operating Income	80,265	129,505	105,533	-59,102	166,920	95,693
% YoY Growth	36.6	61.3	-17.4	N/M	32.8	-42.7
Net Profit/ (Loss)	55,216	67,751	79,521	-91,584	133,139	55,646
% YoY Growth	26.3	22.7	-23.4	N/M	25.5	-58.2
Loans and Advances (Net)	192,801	314,016	344,336	320,875	1,166,704	1,182,179
% YoY Growth	103.4	62.9	9.0	-6.8	1.3	-0.5
Total Assets	587,983	659,876	815,848	737,603	1,393,066	1,459,927
% YoY Growth	64.4	12.2	33.1	-9.6	3.6	4.8
Loans/Deposits	192,601	292,825	374,911	516,617	704,212	841,080
% YoY Growth	74.9	52.0	21.3	37.8	8.2	19.4
Shareholders' Equity	258,499	213,274	284,711	109,023	599,774	550,602
% YoY Growth	31.1	-17.5	9.2	-61.7	13.9	-8.2
Net Interest Income /Average Interest Earning Assets	5.6%	7.4%	10.3%	11.8%	12.6%	11.9%
Interest Expense/ Average Interest Bearing Liabilities	3.4%	3.2%	10.0%	8.1%	7.6%	5.2%
Net Spread	2.2%	4.3%	0.3%	3.7%	5.0%	6.8%
Net Interest Margin	2.8%	5.0%	2.0%	1.1%	8.6%	8.9%
Operating expenses to income ratio	23.0%	23.0%	17.0%	N/M	9.4%	16.6%
Credit-to-Loan Ratio	106.0%	120.0%	106.4%	70.4%	183.6%	155.1%
Loan Loss Reserve to Gross Loans & Advances Ratio	6.0%	11.0%	13.7%	11.8%	8.6%	9.8%
Equity to Total Assets Ratio	44.0%	32.3%	34.9%	14.8%	43.1%	37.7%
RoAA	11.7%	10.9%	11.1%	N/M	9.7%	3.9%
RoAE	24.2%	28.7%	29.2%	N/M	23.6%	9.7%

Sources: Zawya, CFC
#N/M – Not Meaningful

New Projects and Strategies

In January 2008, CFC acquired 37.2% stake in Priority Leasing Company from Al Masar Leasing & Investment Company for KWD 2.0 million.

SWOT Analysis



Risks and Concerns

- Further tightening of rules for commercial lending.
- Over exposure to investment in securities and financial instruments in a weak financial market pose credit risks.
- Continuation of regulatory control over the consumer loan facilities.
- Any higher currency fluctuation would impact the company's term loan.

Valuation Methodology:

We have used two valuation methods for arriving at the fair value of CFC, as explained below:

I. Target P/BV approach based on the Gordon Growth Model (GGM), and
II. TTM P/E valuation approach.

Target P/BV Multiple Approach using the Gordon Growth Model (GGM)

The model uses the sustainable return on average equity (RoAE), cost of equity (Ke) and expected growth in earnings (g) to arrive at the target P/BV of the bank under review using the formula:

Target P/BV = (RoAE - g) / (Ke - g)

Subsequently, we have multiplied the target P/BV multiple for 2009E with the 2009E BVPS to arrive at the fair value of the bank over a medium-term investment horizon.

We have made the following assumptions to arrive at the target P/B multiple for 2009E of the bank:

i. For sustainable RoAE, we have considered the 5-year average RoAE of the bank over 2009E-2013E.

Cost of Equity: 10.67%

ii. We have estimated the cost of equity using Capital Asset Pricing Model (CAPM):
   a. Risk free rate of return (Rf) of 3.39%, which is 12-months average yield on 10-year US T-bill.
   b. Cost of Equity – 10.67%

iii. We have assumed a terminal growth rate (g) of 2.00%.

GGM Valuation Summary	
Sustainable RoAE (%)	14.08
Cost of Equity (Ke) (%)	10.67
Perpetual Growth Rate (%)	2.00
Target P/BV Multiple for 2009E (x)	**1.39**
2009E BVPS (KWD)	0.306
Fair Value per Share using Target P/BV (KWD)	**0.427**
CMP (KWD)	0.305
Upside/(Downside)	**40.1%**

Sensitivity Analysis

The tables below exhibits the sensitivity analysis for the estimated fair value per share based on various terminal growth rates, cost of equity and RoAE. The shaded area represents the most probable outcomes.

Sensitivity Analysis - GGM (Ke vs. g)						
		Terminal/Perpetual Growth Rate (g)				
Cost of Equity (Ke)		1.00%	1.50%	**2.00%**	2.50%	3.00%
	8.67%	0.523	0.538	0.556	0.576	0.600
	9.67%	0.463	0.472	0.483	0.495	0.510
	10.67%	0.415	0.421	**0.427**	0.435	0.443
	11.67%	0.376	0.379	0.383	0.387	0.392
	12.67%	0.344	0.345	0.347	0.349	0.351

Sensitivity Analysis - GGM (Ke vs. RoAE)						
		Return on Average Equity (RoAE)				
Cost of Equity (Ke)		12.08%	13.08%	**14.08%**	15.08%	16.08%
	8.67%	0.464	0.510	0.556	0.602	0.648
	9.67%	0.403	0.443	0.483	0.523	0.563
	10.67%	0.357	0.392	**0.427**	0.463	0.498
	11.67%	0.320	0.351	0.383	0.415	0.447
	12.67%	0.290	0.318	0.347	0.376	0.405

Sensitivity Analysis - GGM (RoAE vs. g)						
		Terminal Growth Rate (g)				
Return on Average Equity (RoAE)		1.00%	1.50%	**2.00%**	2.50%	3.00%
	12.08%	0.351	0.354	0.357	0.360	0.363
	13.08%	0.383	0.387	0.392	0.397	0.403
	14.08%	0.415	0.421	**0.427**	0.435	0.443
	15.08%	0.447	0.454	0.463	0.472	0.483
	16.08%	0.478	0.488	0.498	0.510	0.523

TTM P/E Multiple Based Valuation

TTM P/E Multiple Based Valuation Summary	
CFC's 2009E EPS (KWD)	0.036
Target P/E (x)	6.02
Fair Value per Share using Target P/E (KWD)	0.220
CMP (KWD)	0.305
Upside/(Downside)	-28.0%

Investment Companies	Outstanding Shares (Millions)	CMP# (USD)	Market Cap. # (USD Millions)	EPS TTM (USD)	P/E TTM (x)
Commercial Facilities Company	519.1	1.046	543	0.10	10.74
Finance House	220.0	1.320	290	0.31	4.29
A'ayan Leasing & Investment Company	638.8	0.411	263	0.14	2.97
Amlak Finance	1,500.0	0.278	417	0.05	5.49
Housing Finance Company	294.7	0.631	186	0.10	6.62
Average TTM P/E					**6.02**

Sources: Zawya,
 # as on April 27, 2009

Weighted Average Fair Value

On an equal weight basis (GGM – 50% and P/BV – 50%), we have arrived at a final fair value or target price of KWD 0.323, which provides a potential upside of 6.1% from its current market price of KWD 0.305 (as on April 27, 2009).

Weighted Average Fair Value			
Valuation Method	**Fair Value per Share (KWD)**	**Weight**	**Weighted Value per Share (KWD)**
Target P/BV Multiple Method	0.427	50%	0.214
TTM P/E Multiple Method	0.220	50%	0.110
Target Price			**0.323**
CMP			0.305
Upside/(Downside)			**6.1%**

Investment Opinion

Kuwait's real GDP grew at a CAGR of 7.4% during 2004-2007 and is estimated to grow at nearly 8.5% to KWD 20.85 billion in 2008 mainly on account of high oil prices and subsequent economic development. Higher oil revenues for most part of 2008, generated substantial fiscal and external current account surpluses, thereby enabling the country to build up its net foreign assets to as high as KWD 3.10 billion in 2008. However, the recent financial crisis and subsequent economic downturn put the break on enjoyable period by the world economies, in particular the Middle East countries. With the impending global economic crisis and plunging export volumes, the growth in the country's real GDP is expected to be limited to 0.7% in 2009 before recovering to 4.3% in 2010.

Fair Value: KWD 0.323

Investment Opinion: NEUTRAL

The investment sector in Kuwait includes the companies that earn their revenues from investments, lending activities and by providing various financial services. The country's investment sector witnessed tremendous growth in its credit facilities, investments and asset base given the ample liquidity and rising money inflow owing to the high oil revenues till first half of 2008 and subsequent economic development. Total assets within the sector grew at a CAGR of 21.9% over 2003 till 1H08, while credit facilities to residents and domestic investments rose at a CAGR 14.4% and 32.0%, respectively. However, the sector has seen a turnaround with the change in the economic environment across the globe subsequent to the financial turmoil. Thus, the total assets, credit facilities to resident and their domestic investments declined 7.7%, 4.5%, and 18.1% to KWD 9.52 billion, KWD 1.01 billion, and KWD 2.67 billion in 2H08, respectively. On the negative side, the Central Bank of Kuwait tightened the consumer loans policy and asking financial institutions to curb growth of commercial loans which exceeded average levels of previous years would impact the companies' top and bottom-line in the short-term. At the same time the efforts by the central bank and the government's initiatives to bail out the economy from the financial turmoil remains noteworthy. Recently, the government slashed the key discount by another 25 bps to 3.50%, which follows the 250 bps cut announced in 2008 in order to boost liquidity in the economy. Further, the economic stimulus package worth KWD 1.50 billion aimed at encouraging lending is being implemented and is expected to boost recovery and contribute significantly to the economic revival.

CFC is the first Kuwaiti company specialised in providing instalment credit facilities and commercial loans. The principal activity of the company includes granting of consumer instalment credit facilities. The company holds 4.2% share of the total assets in the conventional investment sector. Focusing only on its core operations, CFC's net interest income increased 5.0% to KWD 31.55 million in 2008. Although the company's net instalment debtors decreased a marginal 0.5% to KWD 322.20 million in 2008, its gross personal loan segment fell 2.7% YoY to KWD 394.76 million owing to stricter consumer loans regulation. At the same time, CFC's focus on low-cost borrowings, the company has largely borrowed USD denominated funds, which contributed nearly 59% of term loans would help it to be in competition during this hard time. Moreover, the government regulatory measures and likely improvement in capital markets with the progress in the economic scenario would support the company to maintain and to achieve growth in future.

Currently, CFC's stock is trading at a P/E multiple of 8.36x and 7.59x on 2009E and 2010E earnings, and at a P/B multiple of 1.00x and 0.99x on 2009E and 2010E BVPS, respectively. Meanwhile, the stock has lost 18.7% since the beginning of this year as against a decline of 3.7% in the Kuwait Stock Exchange. Considering the above factors, we arrive at a Fair Value of KWD 0.323, which exhibits a 6.1% upside from its closing price of KWD 0.305 (as on April 27, 2009). **Therefore, we initiate our coverage with a NEUTRAL recommendation on the COMMERCIAL FACILITIES COMPANY.**

Financial Statements

CONSOLIDATED BALANCE SHEET					
(in KWD '000)	**2007A**	**2008A**	**2009E**	**2010E**	**2011E**
ASSETS					
Cash and bank balances	2,102	24,715	31,156	30,571	30,435
Other receivables and prepayments	2,650	10,887	15,951	17,117	18,484
Instalment debtors	323,917	322,204	310,131	316,965	326,720
Financial assets held at fair value through profit or loss	25,887	10,299	9,969	10,189	10,923
Available for sale investments	17,258	18,811	18,742	19,766	20,375
Investment in associates	6,438	9,385	9,172	9,374	9,662
Property and Equipment	3,448	3,719	3,645	3,571	3,497
Total assets	**381,700**	**400,020**	**398,766**	**407,553**	**420,096**
LIABILITIES AND EQUITY					
Liabilities					
Due to banks	9,949	0	0	0	0
Trade creditors and accrued liabilities	11,682	15,453	14,239	15,476	16,038
Term loans	192,954	230,456	222,069	228,537	240,092
Provision for staff indemnity	2,777	3,246	3,390	3,464	3,571
Total liabilities	**217,362**	**249,155**	**239,698**	**247,477**	**259,701**
Equity					
Share capital	51,120	53,676	53,676	53,676	53,676
Share premium	1,433	1,433	1,433	1,433	1,433
Legal reserve	35,055	36,662	36,662	36,662	36,662
Voluntary reserve	35,055	37,856	37,856	37,856	37,856
Fair value reserve	1,628	109	109	109	109
Foreign currency translation reserve	34	-86	-86	-86	-86
Revaluation reserve	2,042	2,042	2,042	2,042	2,042
Treasury shares	-6,058	-8,162	-8,162	-8,162	-8,162
Gain on sale of treasury shares	47	47	47	47	47
Retained earnings	43,982	27,288	35,490	36,499	36,819
Total Equity	**164,338**	**150,865**	**159,067**	**160,076**	**160,396**
Total Liabilities and Equity	**381,700**	**400,020**	**398,766**	**407,553**	**420,096**

CONSOLIDATED INCOME STATEMENT					
(in KWD '000)	**2007A**	**2008A**	**2009E**	**2010E**	**2011E**
Income from instalment credit	44,072	42,508	38,951	40,112	42,065
Borrowing costs	(14,027)	(10,956)	(10,861)	(11,153)	(11,833)
Net Interest Income	**30,045**	**31,552**	**28,090**	**28,959**	**30,232**
Net change in fair value of financial assets at fair value through profit & loss	2,751	(9,520)	-	-	-
Net gain/(loss) on sale of available for investments	2,231	(82)	-	-	-
Ne gain/(loss) on sale of financial assets at fair value through profit & loss	847	2,732	-	-	-
Other income	2,590	1,495	1,371	1,412	1,481
Net foreign exchange gain/(loss)	7,290	(905)	-	-	-
Share of profit/(loss) from associates	(18)	948	780	844	918
Total Income	**45,736**	**26,220**	**30,241**	**31,215**	**32,630**
Staff costs and related expenses	(3,220)	(3,000)	(3,309)	(3,337)	(3,407)
General and administrative expenses	(992)	(1,272)	(1,316)	(1,327)	(1,355)
Provision for doubtful debts, net of released amount	(3,497)	(5,425)	(5,614)	(4,528)	(3,757)
Depreciation	(74)	(74)	(74)	(74)	(74)
Impairment losses on available for sale investment	-	(383)	-	-	-
Total Expenses	**(7,783)**	**(10,154)**	**(10,313)**	**(9,266)**	**(8,593)**
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax, Zakat and Directors' remuneration	**37,953**	**16,066**	**19,928**	**21,949**	**24,037**
Contribution to KFAS	(380)	(161)	(200)	(220)	(241)
National Labour Support Tax and Zakat	(967)	(553)	(686)	(755)	(827)
Directors' remuneration	(126)	(105)	(105)	(105)	(105)
Profit for the year	**36,480**	**15,247**	**18,938**	**20,868**	**22,864**

Consolidated Cash Flow Statement					
(in KWD '000)	**2007A**	**2008A**	**2009E**	**2010E**	**2011E**
OPERATING ACTIVITIES					
Profit before contribution to KFAS, National Labour Support Tax, Zakat and Directors' remuneration	**37,953**	**16,066**	**19,928**	**21,949**	**24,037**
Adjustments for:					
Depreciation	74	74	74	74	74
(Increase) / decrease in fair value of financial assets at fair value through profit or loss	(2,751)	9,520	-	-	-
Gain on sale of financial assets at fair value through profit or loss	(847)	(2,732)	-	-	-
Loss/(Gain) on sale of available for sale investments	(2,231)	82	-	-	-
Impairment loss on available for sale investment	-	383	-	-	-
Interest income	(225)	(199)	-	-	-
Dividend income	(1,405)	(969)	-	-	-
Share of results in associates	18	(948)	(780)	(844)	(918)
Provision for staff indemnity	552	615	-	-	-
Provision for doubtful debts	3,497	5,425	5,614	4,528	3,757
Gain on disposal of property and equipment	-	(6)	-	-	-
	34,635	**27,311**	**24,837**	**25,707**	**26,951**
Movements in working capital:					
(Increase) / decrease in instalment debtors	(7,737)	(3,712)	6,459	(11,362)	(13,513)
Increase in other receivables and prepayments	(288)	(8,237)	(5,064)	(1,167)	(1,367)
(Increase) / decrease in trade creditors and accrued liabilities	749	2,846	(1,214)	1,236	562
Cash generated from operations	**27,359**	**18,208**	**25,018**	**14,415**	**12,633**
Staff indemnity paid	(59)	(146)	-	-	-
Interest received	225	199	-	-	-
Dividends received	1,405	969	-	-	-
Net cash generated by operating activities	**28,930**	**19,230**	**25,018**	**14,415**	**12,633**
INVESTING ACTIVITIES					
Net proceeds from (purchase)/sale of investment in associate	(6,242)	(1,999)	213	(202)	(289)
Net proceeds from sale/(purchase) of financial assets at fair value through profit or loss	(6,132)	8,800	330	(220)	(734)
Net proceeds from sale/(purchase) of available for sale investments	6,543	(3,609)	69	(1,024)	(608)
Net proceeds from disposal/(purchase) of property and equipment	(49)	(339)	-	-	-
Net cash generated by/ (used in) investing activities	**(5,880)**	**2,853**	**612**	**(1,446)**	**(1,631)**
FINANCING ACTIVITIES					
Dividends paid	(21,456)	(24,919)	(10,735)	(19,860)	(22,544)
Redemption of bonds	(34,000)	0	-	-	-
Net proceeds from sale/(purchase) of treasury shares	3,296	(2,104)	-	-	-
Change in term loans	14,648	37,502	(8,454)	6,306	11,407
Net cash generated / (used in) financing activities	**(37,512)**	**10,479**	**(19,189)**	**(13,555)**	**(11,137)**
Net (decrease) / increase in cash and cash equivalents	**(14,462)**	**32,562**	**6,441**	**(586)**	**(135)**
Cash and cash equivalents at beginning of the year	6,615	(7,847)	24,715	31,156	30,571
Cash and cash equivalents at end of the year	**(7,847)**	**24,715**	**31,156**	**30,571**	**30,435**

Common-Size Financial Statements

COMMON-SIZE CONSOLIDATED BALANCE SHEET					
	2007A	2008A	2009E	2010E	2011E
ASSETS					
Cash and bank balances	0.6%	6.2%	7.8%	7.5%	7.2%
Other receivables and prepayments	0.7%	2.7%	4.0%	4.2%	4.4%
Instalment debtors	84.9%	80.5%	77.8%	77.8%	77.8%
Financial assets held at fair value through profit or loss	6.8%	2.6%	2.5%	2.5%	2.6%
Available for sale investments	4.5%	4.7%	4.7%	4.9%	4.9%
Investment in associates	1.7%	2.3%	2.3%	2.3%	2.3%
Property and Equipment	0.9%	0.9%	0.9%	0.9%	0.8%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
LIABILITIES AND EQUITY					
Liabilities					
Due to banks	2.6%	0.0%	0.0%	0.0%	0.0%
Trade creditors and accrued liabilities	3.1%	3.9%	3.6%	3.8%	3.8%
Term loans	50.6%	57.6%	55.7%	56.1%	57.2%
Provision for staff indemnity	0.7%	0.8%	0.9%	0.9%	0.9%
Total liabilities	**56.9%**	**62.3%**	**60.1%**	**60.7%**	**61.8%**
Equity					
Share capital	13.4%	13.4%	13.5%	13.2%	12.8%
Share premium	0.4%	0.4%	0.4%	0.4%	0.3%
Legal reserve	9.2%	9.2%	9.2%	9.0%	8.7%
Voluntary reserve	9.2%	9.5%	9.5%	9.3%	9.0%
Fair value reserve	0.4%	0.0%	0.0%	0.0%	0.0%
Foreign currency translation reserve	0.0%	0.0%	0.0%	0.0%	0.0%
Revaluation reserve	0.5%	0.5%	0.5%	0.5%	0.5%
Treasury shares	-1.6%	-2.0%	-2.0%	-2.0%	-1.9%
Gain on sale of treasury shares	0.0%	0.0%	0.0%	0.0%	0.0%
Retained earnings	11.5%	6.8%	8.9%	9.0%	8.8%
Total Equity	**43.1%**	**37.7%**	**39.9%**	**39.3%**	**38.2%**
Total Liabilities and Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

COMMON-SIZE CONSOLIDATED INCOME STATEMENT					
	2007A	**2008A**	**2009E**	**2010E**	**2011E**
Income from instalment credit	96.4%	162.1%	128.8%	128.5%	128.9%
Borrowing costs	-30.7%	-41.8%	-35.9%	-35.7%	-36.3%
Net Interest Income	**65.7%**	**120.3%**	**92.9%**	**92.8%**	**92.6%**
Net change in fair value of financial assets at fair value through profit & loss	6.0%	-36.3%	0.0%	0.0%	0.0%
Net gain/(loss) on sale of available for investments	4.9%	-0.3%	0.0%	0.0%	0.0%
Ne gain/(loss) on sale of financial assets at fair value through profit & loss	1.9%	10.4%	0.0%	0.0%	0.0%
Other income	5.7%	5.7%	4.5%	4.5%	4.5%
Net foreign exchange gain/(loss)	15.9%	-3.5%	0.0%	0.0%	0.0%
Share of profit/(loss) from associates	0.0%	3.6%	2.6%	2.7%	2.8%
Total Income	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Staff costs and related expenses	-7.0%	-11.4%	-10.9%	-10.7%	-10.4%
General and administrative expenses	-2.2%	-4.9%	-4.4%	-4.3%	-4.2%
Provision for doubtful debts, net of released amount	-7.6%	-20.7%	-18.6%	-14.5%	-11.5%
Depreciation	-0.2%	-0.3%	-0.2%	-0.2%	-0.2%
Impairment losses on available for sale investment	0.0%	-1.5%	0.0%	0.0%	0.0%
Total Expenses	**-17.0%**	**-38.7%**	**-34.1%**	**-29.7%**	**-26.3%**
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax, Zakat and Directors' remuneration	**83.0%**	**61.3%**	**65.9%**	**70.3%**	**73.7%**
Contribution to KFAS	-0.8%	-0.6%	-0.7%	-0.7%	-0.7%
National Labour Support Tax and Zakat	-2.1%	-2.1%	-2.3%	-2.4%	-2.5%
Directors' remuneration	-0.3%	-0.4%	-0.3%	-0.3%	-0.3%
Profit for the year	**79.8%**	**58.2%**	**62.6%**	**66.9%**	**70.1%**

Financial Ratios

	2007A	2008A	2009E	2010E	2011E
Profitability					
Return on Average Assets (ROAA)	9.7%	3.9%	4.7%	5.2%	5.5%
Return on Average Equity (ROAE)	23.6%	9.7%	12.2%	13.1%	14.3%
Interest Income / Total Income	96.4%	162.1%	128.8%	128.5%	128.9%
Non-Interest Income / Total Income	34.3%	-20.3%	7.1%	7.2%	7.4%
Margins					
Interest Expense / Interest Income	31.8%	25.8%	27.9%	27.8%	28.1%
Interest Income / Average Instalment debtors	12.6%	11.9%	11.0%	11.3%	11.4%
Interest Expense/ Average term loans	7.6%	5.2%	4.8%	5.0%	5.1%
Net Spread	5.0%	6.8%	6.2%	6.3%	6.4%
Net Interest Margin	8.6%	8.9%	7.9%	8.1%	8.2%
Total Operating Expenses to Total Income Ratio	-9.4%	-16.6%	-15.5%	-15.2%	-14.8%
Liquidity & Assets Quality					
Credit to Loan Ratio	183.6%	155.1%	158.0%	158.5%	156.5%
Term Loan to Shareholders' Equity	117.4%	152.8%	139.6%	142.8%	149.7%
Receivables and prepayments / Trade creditors and other liabilities	22.7%	70.5%	112.0%	110.6%	115.3%
Provisions / Gross Instalment debtors	8.6%	9.8%	11.6%	12.5%	13.0%
Capital Adequacy					
Shareholders' Equity to Total Assets	43.1%	37.7%	39.9%	39.3%	38.2%
Shareholders' Equity to Gross Instalment debtors	46.4%	42.2%	45.3%	44.2%	42.7%
Operating Performance					
% Change in Net-Interest Income	-3.8	5.0	-11.0	3.1	4.4
% Change in Non-interest Income	391.9	-134.0	-140.3	4.9	6.3
% Change in Total Income	32.8	-42.7	15.3	3.2	4.5
% Change in Net Profit	25.5	-58.2	24.2	10.2	9.6
Valuation Ratios					
Adj. EPS (KWD)	0.070	0.029	0.036	0.040	0.044
Adj. BVPS (KWD)	0.317	0.291	0.306	0.308	0.309
P/E (x)	4.34	10.38	8.36	7.59	6.92
P/BV (x)	0.96	1.05	1.00	0.99	0.99
CMP (KWD)*	0.305	0.305	0.305	0.305	0.305

**as on April 27, 2009*

Call us on +973 17549499 or email us at research@taib.com

DISCLAIMER:
All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication, but we make no representation as to its accuracy or completeness. All information is for the private use of the person to whom it is provided without any liability whatsoever on the part of TAIB Securities WLL, any associated company or the employees thereof. Nothing contained herein should be construed as an offer to buy or sell or a solicitation of an offer to buy or sell. The value of any investment may fall as well as rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Consequently, investors may not get back the full value of their original investment