> *Executive insight*

LEBANESE INVESTMENTS

The case for Solidere

NET ASSET VALUE AND STOCK PRICE LEAVE LITTLE DOWNSIDE RISK *By Ziad Abou Jamra*

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The current stock price of Solidere is hovering in the neighborhood of $13, far below its net asset value (NAV) estimated at $53, providing an interesting investment opportunity. In simple terms, Solidere is a real estate company that owns land, also referred to as a 'land bank' company. Consequently, investors who acquire Solidere shares are indirectly buying a piece of land. Land bank companies worldwide are traditionally valued using the NAV method.

The land of Solidere can be divided into two major categories: the waterfront area and the central district area. Prices of potential buildable square meters (sqm) in the former average around $4,700 sqm and around $3,000 sqm for the latter. Solidere still owns about 1.5 million sqm on the waterfront and about 400,000 sqm in the central district. Adding those to the company's already existing buildings — the Beirut Souks as well as a share in the net equity of Solidere International among other assets — we arrive at a fair value of $53.

ACQUIRING SOLIDERE SHARES TODAY IS AN APPEALING INVESTMENT OPPORTUNITY

So what causes the current market price to be so far below its NAV? Market sentiment on Solidere shares is extremely negative due to the political turbulence both domestically and regionally. Consequently, short-term investors have bailed out of the shares. Further, selling pressure is reduced given that most investors who wanted to sell their shares have likely already done so. Long-term investors who see value in the real estate company are holding on to their shares and have been paid to wait through annual dividend distributions by the company.

Back in 2008, following the Doha agreement whereby Lebanese leaders agreed on steps to end months of political deadlock, positive sentiment soared and investors rushed into acquiring shares of Solidere. Over a short period of time the shares witnessed a rapid rise in price from the neighborhood of $30 to around $40. With market players getting greedy, all those who had wanted to buy had already done so, consequently drying up the demand and eventually turning the buyers into sellers with the shares in an almost steady decline since.

As Warren Buffett said, "When people get greedy I get scared, and when people get scared I get greedy." Given that most of the bad news is already factored into Solidere's share price at the current depressed levels, thereby greatly reducing the downside risk, I am convinced that deploying capital in the shares today could prove to be a good investment opportunity. The upside potential will be significant as the share price eventually gravitates towards its NAV.

What would make me more positive on this investment opportunity is if the board of directors of Solidere initiate a land-for-share sales scheme such as the one they undertook in 2004. This effectively allowed interested buyers of land in Solidere to partially pay the required down payment with shares of Solidere, which the company priced at a premium to the average market share price over a given number of previous trading days.

If reinstated today, a similar, albeit, extended and more significant scheme would serve several purposes. It would have all the benefits of a share buyback program — mainly indicating to the market that management believes the shares are undervalued — while leaving untouched the cash that such programs usually require companies to pay. It would also immediately motivate possibly hesitant land buyers to make a decision while the scheme lasted, thereby directly increasing demand for the shares and the land.

The current undervaluation of the shares should make such a "buyback" scheme a priority at this stage, since we cannot foresee a more appropriate immediate positive catalyst besides a solution to the current political turmoil in neighboring Syria. With or without such a scheme, acquiring Solidere shares today is an appealing investment opportunity.