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Bayan Investment Co. - Final Case
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** Tables attached to this analysis*
** Annual reports, documents, and sheets of the two companies and analysis provided on CD*

Bayan Investment Co. Profile

Bayan Investment Company's vision is to be recognized as a regional leader in the provision of high quality business, and investment services and products.

Its mission is to create value for our customers, shareholders, employees and community. It strives to be among the best providers of financial services and products in Kuwait, delivering a diverse range of established and pioneering products. It is a highly talented workforce, committed to reliability and consistency, and maximizing every investment opportunity. It believes in creating an environment where people want to work, and where personal success is aligned with company success.

Core Value

In pursuing its mission and vision, Bayan Investment Company is guided by four core values:

- Integrity: We will manage our business honestly and ethically. We will always do what is right and take personal responsibility for our actions.
- Performance Leadership: We will build and improve on the investments entrusted to our care. We will manage in a way that earns the trust and respect of all of our investors and enhances our company's reputation.
- Teamwork: We will work together as team using our employee's unique talents and skills in a spirit of cooperation and trust, holding each other responsible for achieving our mission.
- Commitment: We will commit ourselves to the success of our company, to the pursuit of excellence, to the growth of our employees, and to providing industry leading quality service to our investors.

Achievements

Due to some economic and political events Kuwait and the whole region has witnessed during 2006, Kuwait Stock Exchange underwent a general collapse that impacted the performance of stocks of most KSE-listed companies, including Bayan Investment. Chief among events was the demise of His Highness Sheikh Jabir Al Ahmad Al Sabah, Emir of Kuwait, may Allah grant him mercy, as well as the ensuing internal and external political consequences that have influenced the region's markets and were among the stimuli behind a lot of capitals going outside the country. Yet, due to our balanced and flexible investment policy together with our professional management team, we could protect the Company's stock against collapse.

During 2006, Bayan Investment Co. has listed its stocks on Dubai Financial Market within the framework of its pursuit to eliminating barricades along the way of Arab investors so that they can trade their stocks readily in any Arab country; needless to succumb to confinement to certain region. In this respect, we hope to list Bayan Investment stocks on all Gulf and Arab financial markets, culminating in world stock markets, particularly under the economic openness, globalization and internet as the case is in dealing directly with international companies through the internet. Thus, such factors helped opening new vistas of investment and wide horizons of trading which will give rise to fulfillment of the current Gulf economic unity projects whereby the Gulf citizen has the same rights all over Arabian Gulf countries.

Moreover, Bayan Investment Co. continues implementation of its expansion strategy by virtue of focusing on the most growing economic sectors in the region, particularly the real estate and industrial sectors. In this respect, the Company has established an integrated system of subsidiaries and affiliates intended to act as investment arms in such sectors; taking geographical diversity into consideration.

On the real estate sector level, the Company raised the capital of Gulf Holding Company from Kuwaiti Dinar one million to Kuwaiti Dinar seventy million since it has invested in a number of projects chief among which is Bahrain Financial Harbor and Areen Desert Resort. Moreover, in the beginning of 2006, the Company has, through Gulf Holding Company and in cooperation with Gulf Finance House, launched Villamar at Bahrain Financial Harbor at a cost of approximately USD 450 million with the purpose of establishing a housing project of three high towers, residential villas and malls based on the conception that Bahrain is one of the most investment-attracting markets all over the region. It is also expected that Bahrain Financial Harbor will be the center point of the financial sector. During 2005, the Company has also bought a reality in a strategic location on Arabian Gulf Street through Bonyan Real Estate Company, of Bayan Investment subsidiaries, with the purpose of constructing a superb and distinctive tower to be the head office of the Company and its subsidiaries. Moreover, the Company has penetrated the Qatari market by virtue of participating in establishing a Qatari company specialized in real estate development, together with the Company's alliance with a local investment company to market and sell equities valuing KD 23 million in investment lands development project in State of Qatar.

On the industrial sector level, Bayan Investment Co. strives to enhance its presence in this sector through Arkan Holding Company, by completing ferrite production project in Egypt and Concrete block with Polystyrene production project in Kuwait.

In fact, the business strategy adopted by Bayan Investment Co. aims at diversifying sources of income and mitigating risks. On the local level, the Company is working on launching two new investment funds one of which is Sharia-compliant. Regionally, Bayan Investment Co. strives to encourage small projects and that of private equity through joining strategic partnerships with successful investors for the sake of developing such projects and realizing rewarding revenues that far exceed those realized from alternative traditional opportunities. This trend can also exemplified the participating in establishment of Tashkeel Media Company that operates in media field targeting children below 14 years old in the Arab and Islamic world through creating inherent means that represent a significant and fundamental change in child media industry. Moreover, the Company to participated in "Bahri Media Network Company" project which aims at establishing and forming a distinguished media network in Arabic in Kuwait and the region hinging on world class quality in the field of media as well as marine entertainment advertising, informational, educational and investment through three different mass media including a published magazine, a satellite channel and a website.

Internationally, the Company has recently, in cooperation with prominent international investment houses and banks, participated in promising initial public offerings (IPOs) in China to which Bayan looks at promisingly and optimistically, due to the prolificacy of investments available in that region of the world.

Services

Local and Regional Investment

The local investment sector provides a collection of various services and products, and coupled with good planning and follow-up of developing client requirements and the market indicators, which enables the company to develop and expand the quality of investment services to its clients or to the financial data readers, and as follows:

Third Party Asset Management

Clients' portfolio was designed to contain best distribution of capital in order to have high return average and acceptable risks at the same time. It depends on a qualitative distribution that leads to the creation of bigger degree of equilibrium in investment in the various sectors along with continuous attempts to minimize the risks.

Forward Transaction Service

Bayan Investment Company is market maker No. 59 at the Kuwait Stock Exchange. The company started providing the new Bayan Forward Service in October 2003, whereby it provides forward transaction service on a group of selected shares listed at the Kuwait Stock Exchange so as to be compatible with the anticipations of the dealers.

Proprietary Portfolio Management

Proprietary portfolio management team also posted strong performance during the year, bringing the return on proprietary portfolio up to more than 50% as at the end of 2005.

This team enthusiastically operates in a constant quest for leveraging risks-controlled feasible opportunities, making the proprietary portfolio business as one of the core income-generating activities. This fact has encouraged Bayan's Management to continually grow and develop the capabilities of this team, providing an operating environment conducive to upgrading its performance to the best interest of the Company and its shareholders.

Investment Funds Management

Bayan managed several funds during the past year, most important of which was Ea'mmar & Estethmar Fund. The Company also plans to launch two new investment funds with different objectives and activities. The Management is currently contemplating the possibility of designing one of the two funds to be compliant with the Islamic Shari'a principles.

International Investment

The International Investment Department in Bayan Investment Company is considered to be the link between the company and international financial institutions. The company seeks to achieve a diversified portfolio of international investments that generates attractive returns while maintaining an acceptable level of risk exposure.

The departments′ activities summary:

- Monitor the performance of Bayan′s international investments and provide the upper management with recommendations on its performance.
- Shift money from unrewarding investments to more promising ones.
- Provide the upper management with a monthly report that demonstrates the performance of the international portfolio. The report also includes an asset allocations summary based on currency, country, type and sector allocations.
- Study new investment proposals received and submit recommendations to the investment committee.
- Maintain good and strong relationships with international financial institutions
- Perform studies on different international financial markets and sectors to provide the company with the best investment opportunities available.
- Provide potential investors with the best available products.

Studies and Researches

The Studies and Research Department (SRD) is considered one of the main sources that provides Bayan Investment Company (Bayan) with a comprehensive view of the surrounding economic factors affecting the decision making process in different investment opportunities. The department offers a diverse and comprehensive blend of consultancy services directed to the business community both within and outside the State of Kuwait.

SRD has assigned elite of professional staff specialized in various fields to insure accomplishment of the three main principles within which the department operates:

- Utmost accuracy
- Efficiency
- Consistency

SRD focuses on two main fields:

First – Internal Studies & Reports

SRD provides the various departments at Bayan with a wide range of studies and reports that are specifically designed to meet their different requirements. The internal studies and reports undergo an ongoing development process as SRD continuously strives to increase its efficiency in collecting data and generating information necessary for making different investment decisions.

The studies and reports include financial analysis for listed companies in Kuwait Stock Exchange (KSE), studies of investment proposals, fair value estimation for listed companies and support and resistance levels' report for all listed companies in KSE. In addition, SRD responds to various requests, by Bayan's other departments, to create tailor-made reports that would present the required information with highest possible level of accuracy and at the shortest possible time.

Second – Media Studies & Reports

SRD was able to display Bayan's name among the leading investment companies in the local and regional markets in terms of preparing and providing the market, the private sector and the media (through specialized economic programs) with most recent studies and reports. In addition, Bayan provides a free of charge service to investors through which they receive different studies and reports via email, whether published in local newspapers or not. Furthermore, the department constantly scrutinizes the activities of Bayan's other departments, which rely on SRD's reports, in order to create new effective products that would better support those departments in their operations. The department covers the performance of GCC stock markets on a daily, weekly and monthly basis with highlights on key economic news for each country.

As a result of the reports' accuracy, generated by Bayan, and due to its analysts' exceptional expertise, local and international specialized media agencies increased demand on publishing Bayan's reports through their different channels (newspapers or websites). In addition, TV channels that specialize in business and economy are keen on repeatedly interviewing analysts and dealers from both SRD and the Local Investment Department, whereas Bayan expresses its own views related to markets and companies and new events of relevance.

GCC Private Equity

Bayan's GCC Private Equity Team provides a vast range of quality corporate and investment services and products in Kuwait and the region. Its activities have a wide scope, ranging from direct investment, private equity and joint ventures to business services functions such as business valuation and in-house investment analysis and consulting services as well as coordination with existing investment partners and subsidiaries.

The department is deeply involved in analyzing, assessing, and making recommendations for the exciting GCC investment opportunities that are brought to Bayan Investment Co. on a regular basis. Since Bayan Investment Co. is often viewed and sought after as a strategic partner in private equity investments, the company consistently receives offers and ideas from reputable establishments with novel and intriguing business concepts.

Our Specialties:

- Joint Ventures
- Private Placements
- Business Valuations

Investment Funds

Eamar and Estethmar Funds

Objective: The fund aims to provide good financial and real estate investment opportunities by investing in all real estate activities of various kinds inside and outside the State of Kuwait, and by investing in shares of listed and unlisted companies in financial markets.

Also through the investment in all money market instruments such as Deposits and Sukuks, and as it deems appropriate to the Fund Manager, in order to achieve reasonable returns to Investors with high security and medium to long term periods and in accordance with the Islamic Sharia′ rules and regulations.

The Fund Manager will strive to achieve this objective by allocating the Fund capital to invest in the following sectors:

Real Estate Sector: The Fund Manager intends to invest a portion of the Fund capital in various real estate opportunities known for their considerable return which include for example without limitation housing, commercial, investment and tourist real estate.

Financial Investment sector: The Fund Manager intends to invest the cash portion available in various financial instruments in KSE and other regional money markets and in accordance with the Islamic sharia′ rules and regulations. These include listed and unlisted shares in financial markets, deposits, bonds, future options and other financial investment tools available to realize sizeable returns for the shareholders at a high security both at medium and long terms.

Al-Themar Securities Fund

Objective: To invest up to 75% of the Fund capital in the 5 biggest companies listed in the financial markets in the State of Kuwait and GCC. the remaining 25% of the Fund capital shall be invested in Islamic companies of minor capitals and projects in addition to proper Islamic financial investment instruments, that is, according to what the Fund Manager deems appropriate, and that in view of realizing good returns for the subscribers, pursuant to the regulations and conditions stated in the Articles of Association and that Sharia' laws followed by the Fund's Legal Advice and Sharia' Supervision panel without contradicting the relative laws, provided that credit grants for others are not incurred by the Fund.

Strategy: The Fund allocates 75% of its investments to the biggest 25 companies complying with the Islamic Shari'a in the Gulf Financial Markets due to the fact that these companies are the biggest, heaviest and with a remarkable influence; whereas the Fund allocates 25% of its capital for the investment in other companies complying with Islamic Shari'a as per the performance of these companies at the operational level and the expected changes in its prices. To this end, all companies constituting the Fund investments are subject to continuous supervision operations from the Fund Shari'a Supervision Panel in order to exclude any company which might perform an activity not complying with the Islamic Shari'a or add any other company complying its activities with the Islamic Shari'a for the list of companies nominated for investment in the Fund.

Main Events, which Might Affected Financial Figures - 2007 to 2009 only

As we found it difficult to retrieve events from 2004 to 2006, the following are the main events occurred in the period starting from 2004 to 2009:

- March 4, 2007 - *Bayan Investment debuts on Dubai Financial Market*
- March 3, 2007 - *Plans for establishment of company in Libya*
- March 6, 2007 - *Stock Exchange Improvement*
- July 2, 2007 - *Bayan Investment signs a deal to buy plots valued K.D 80 million*
- August 27, 2007 - *Bayan launches Al-Themar Securities Fund*
- August 29, 2007 - *Bayan establishes a real estate investment company in AD with 1 million K.D. Capital.*
- November 20, 2007 - *Bayan signs a contract to purchase Al-Reem Island Project*
- June 10, 2008 - *Bayan Investment successfully covered the Private Placement for the capital increase for Dar Al-Dhabi Holding (Associate)*
- Q2 2008 to Q2 2009 - *global financial crisis*

International Investment Group (Benchmark) Profile

International Investment Group (IIG) was incorporated 1993 as a shareholding company, regulated by Central Bank of Kuwait, IIG today is one of the leading Islamic finance organizations in the region. IIG is listed on Kuwait Stock Exchange since 23rd November 1997. IIG and its subsidiaries operate in accordance with Islamic Shari'a principles. IIG Assets under management stood at US$ 722 Million at the end of June 2008.

At IIG, workers firmly believe that Shari'a principles and transparent corporate governance is essential to building and maintaining public trust. They, at IIG, are guided by our values to maintain the highest level of integrity, treat everyone with dignity and respect, focus on our customers and demonstrate excellence in all we do. The corporate policies and business practices are designed to ensure that these values are continuously upheld at all levels of our Company. In this regard, they are implementing industry best practices in our company′s corporate governance and board oversight, and will remain diligent in identifying ways to enhance and strengthen our company′s.

They seek out and join forces with progressive companies and smart investors who want to be part of a dynamic partnership - a partnership that has the power to fuel innovation, to infuse new energy into our communities, and to create new wealth for everyone involved.

Services

Funds Management

IIG's investment funds are ideal vehicles designed to meet the diverse needs of individuals, high net worth individuals & institutional investors. Its understanding of local MENA economies, industries and cultures helps us to develop relationships over time in addition to helping us in its objective of delivering what its customers want most i.e. access to a wide range of Islamic investment opportunities, consistent risk-adjusted performance and solid consistent returns over time.

Portfolio Management

IIG's investment approach begins by working closely with its clients to identify their long-term goals, risk tolerances and to understand the nature of their existing asset base.

IIG then seeks to develop long-term asset allocation strategies (Islamic) and works with each client to implement an appropriate strategy that will help each client meet its objective. Additionally, IIG reviews each client's portfolio on an ongoing basis and evaluates possible adjustments in response to economic changes, market trends or client needs. Assets under management stood at US$ 722 Million at the end of June 2008.

Corporate Finance

(1) Advisory Services

(1-a) Financial Due Diligence

Financial Due Diligence processes ensure that all parties involved in a transaction, as buyers or sellers, are assured that the financial information of the transaction is as accurate as possible, thereby rightly pricing the transaction. In addition its processes identify and focus attention on factors in the transaction/business that will be critical to its future success.

(1-b) Financial Feasibility

It applies its economic skills to provide its clients with clear insights into the markets that they wish to enter, enhancing their ability to execute a successful launch. With access to research databases, it is able to build detailed, quantitative models based on its client's expressed preferences.

(1-c) Valuation Consulting

Valuing all or part of a business requires understanding and analysis of a variety of complex factors. These include both detailed technical knowledge of value drivers and in-depth industry expertise. Its valuation professionals assist to achieve a thorough understanding of the value of each business or asset in a transaction. Its technical expertise combined with our in-depth GCC industry knowledge allows us to understand the specific factors driving each individual transaction.

(2) Investment Banking Services

At IIG, workers continually endeavor to offer our clients & prospects innovative Islamic Shari'a Compliant Investment products. Its offered products could result from mergers, acquisitions, divestitures, issuance of equity or Islamic debt capital, or a combination of these. Its strong GCC relationships, coupled with its unique understanding of GCC economies and industries, help it consistently deliver high quality Islamic products, advice and service time and again.

IIG venture capital professionals assist clients raise funds and diversify capital sources by accessing the local, GCC and MENA markets. They provide assistance in further developing the business case, identifying a strategic partner, if required, incorporating the company, raising capital through equity private placements or debt, procuring the necessary licenses, and finally delivering solutions tailored to maximize returns and minimize risk.

Whether executing IPO's or private placements, it offers clients' advice and sophisticated solutions on valuation, legal and financial restructuring and documentation. It originates, structures, and executes public and private placement of equities. With distribution capabilities in every MENA market, it works to help clients get the most value from the transaction.

(3) GCC Listing Advisory Services

Liquidity, transparency, and access to capital are few of the drivers that are driving private companies in the GCC region to obtain listing of their company shares. With its extensive experience and strategic partners operating in the GCC region, IIG offers listing advisory services on any of the GCC exchanges. It advises the management of companies seeking to list their companies, its opinion on the opportune timing of listing, prevalent listing regulations, documentation requirements and submission deadlines.

Why IIG is Bayan's Benchmark in This Analysis

International Investment Group was selected to be Bayan Investment Company's according to the following criteria:

(1) Period of Establishment: *In order to get better results in acknowledging and understanding a company's performance through a benchmark, this benchmark has to be established in a similar period to the establishment date of our company. Companies improve as it experiences more events where we should not select a benchmark with longer experience than our company.*

(2) Total Assets: *Both companies have to have similar total assets amount. Zain cannot be compared to Wataniya due to the incomparable amount of assets. If Wataniya was the benchmark of Zain, either Zain will be underestimated since Wataniya is smaller and appears to have better liquidity, profitability, and activity ratios, or Zain will be overestimated because Wataniya does not have, for example, more intangible assets.*

(3) Field and Country: *Benchmark must be within the same field and country of business so no other location and field advantages can affect the analysis. If there were some, they should be based on the performance of the company and could be gained by the other company if, and only if, the management of this company worked on achieving this advantage. Other than this, the benchmark cannot be a good one to measure the company's performance.*

(4) Islamic vs. Non-Islamic: *As this analysis requires visualizing the implications of financial crisis on Islamic and non-Islamic; the benchmark should be an Islamic company.*

(5) Availability of Data: *This analysis requires the existence of annual reports from 2004 to 2008, Q2 of 2007, Q2 of 2008, and Q2 2009 a plus. Without these documents, the financial analysis and "benchmarking" process cannot effectively complete.*

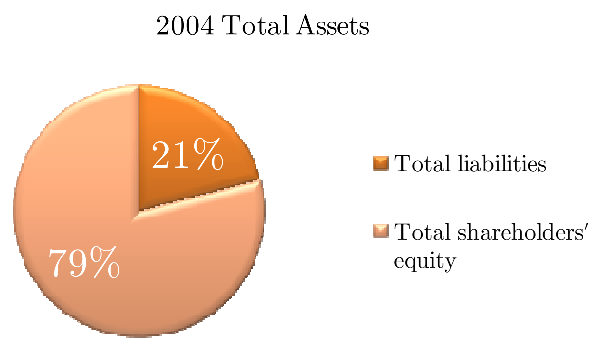
Bayan Investment Co.'s Financial Analysis

This financial analysis is an overview on Bayan Investment Company's financial figures in the years 2004, 2005, 2006, 2007 and 2008 to measure the company's liquidity, activity, profitability, and debt management compared to International Investment Group – IIG.

Bayan Investment Co. Financial Overview

2004 Overview – Base-Year of the Analysis

As appears on Table(1) of Bayan and Table(2) of the benchmark, we see that the company's 21% of its total assets came from liabilities, which was less than the benchmark, and the remaining 79% from shareholders' equity, which was, indeed, more than the benchmark.



To Total Assets

Receivables and cash are approximately 1% and 1% respectively, which was less than the benchmark's total receivables of Murabaha and accounts or notes, where investments available for sale are around the 36%, which was more than the benchmark's. Investment in unconsolidated subsidiaries seems to be only 2% of the company's total assets, which was much less than the benchmark's. The main value of the total assets came from investments that are held for trading which valued as high as 60% of the total assets, which was more than the benchmark's, compared to the other assets that appear in the financial statement of 2004.

To Total Revenue

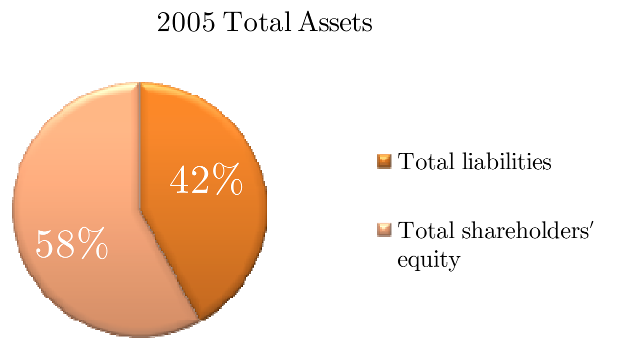
The company's expenses percentage was 14%, which was much less than the benchmark considering it had 35% provisions, where the net profit was 86%, which was much more than the benchmark. This 14% of the expenses consist of 6% administrative expense, 4% are finance charges and the remaining were taxes.

To Operating Cash-Flow

The net profit was around 740%, which was more than the benchmark, where the investing cash-flow was 134%, which was close to the benchmark. Dividends to the operating cash-flow were 202%, which was more than the benchmark as it did not pay dividends, and the financing cash-flow increased -234% to operating cash-flow, which was less than the benchmark.

2005 Overview

As of Table(1) of Bayan and Table(2) of the Benchmark, compared to 2004, we see the increase in liabilities to 42% of the total assets, which was greater than the benchmark's. As a result, the shareholders' equity decreased to 58%, which was less than our benchmark's.



To Last Year

Compared to 2004, we see that receivables decreased causing cash balance to increase. We can see that investment income increased by 15% and the total revenue by 24%. Also, it appears that total expenses increased by 100% due to the increase in finance charges by 139%. Net profit increased by 12%, which was less than the benchmark, due to the combination of the amounts of both expenses and revenue. The operating generated cash increased by 75%, which was less than the benchmark. The Property and Equipment increase gives the impression of expansion.

To Total Assets

Cash increased to 4%, which is greater than the benchmark's, where receivables decreased to 0%, which was less than the benchmark's receivables including Murabaha's. Investments available for sale decreased to 28%, which was more than the benchmark's. Investment in unconsolidated subsidiaries remained 2% of the company's total assets, which became much more than the benchmark's. The main value of the total assets came from investments that are held for trading which value decreased to 49% of the total assets, which was more the benchmark's, compared to the other assets that appear in the financial statement of 2005.

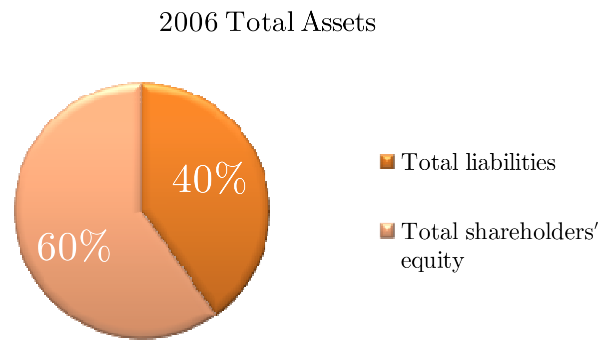
To Total Revenue

The company's expenses percentage increased to 22%, which became more than the benchmark, where the net profit decreased to 78%, which became less than the benchmark. This 22% of the expenses consist of 6% administrative expense, finance charges as increased to 7%, losses of reduced real estate value as 6%, and the remaining were taxes.

To Operating Cash-Flow

The net profit became 476%, which was less than the benchmark, where the investing cash-flow decreased to -574%, which was less than the benchmark. Dividends to the operating cash-flow decreased to 177%, which was more than the benchmark as it did not pay dividends, and the financing cash-flow increased 544% to operating cash-flow, which was more than the benchmark.

2006 Overview



As of Table(1) of Bayan and Table(2) of the Benchmark, compared to 2005, we see the decrease in liabilities to 40% of the total assets, which was less than the benchmark's. As a result, the shareholders' equity increased to 60%, which was more than our benchmark's. Liabilities increased and equity decreased compared to 2004.

To Last Year

Compared to 2005, we see that receivables increased causing the cash balance to decrease by 69%. We can see that investment income decreased by 140% and the total revenue by 103%. Also, it appears that total expenses decreased by 28% due to the decrease in increase range of finance charges by. Net profit decreased by 123%, which was less than the benchmark's change. The operating generated cash decreased by 135%, which was less than the benchmark. We see that Property and Equipment decreased by 35%.

To Base-Year (2004)

Compared to 2004, we see that both receivables cash balances increased. It appears that available for sale investments increased by 55%. We can see that investment income decreased by 146% and the total revenue decreased by 103%. Also, it appears that total expenses increased by 44% due to the increase in finance charges by 245%. Net profit decreased by 126%, which was less than the benchmark. The operating generated cash decreased by 161%, which was less than the benchmark too.

To Total Assets

Cash decreased to 1%, which is less than the benchmark's and became similar to the percentage of 2004 figure, where receivables increased to 2%, which was less than the benchmark's receivables including Murabaha's and more than the percentage of 2004 figure. Investments available for sale increased to 38%, which was more than the benchmark's and 2004 figure. Investment in unconsolidated subsidiaries remained 2% of the company's total assets, which became less than the benchmark's and as 2004 figure. The main value of the total assets came from investments that are held for trading which value decreased to 43% of the total assets, which was more the benchmark's and 2004 figure, compared to the other assets that appear in the financial statement of 2006.

To Total Revenue

The company's expenses percentage increased to 631%, which became more than the benchmark and 2004 figure, accordingly, the net profit increased to 731%, which became more than the benchmark.

We note that Bayan Investment Co. had large negative figures in its investment income causing these figures to be unrealistic. These negative figures might be caused due to unmanaged trade.

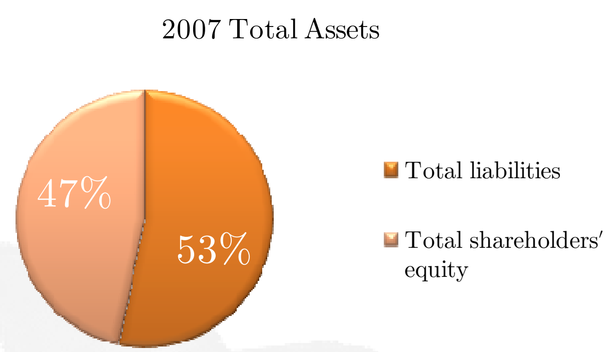
To Operating Cash-Flow

As Bayan had a negative operating cash-flow and net profit, the net profit decreased to 320%, which was more than the benchmark's, where the investing cash-flow decreased to -882%, which was less than the benchmark's. Although Bayan had negative net profit, dividends to the operating cash-flow decreased to 339%, which was more than the benchmark as it did not pay dividends, and the financing cash-flow increased 961% to operating cash-flow, which was more than the benchmark.

We note that Bayan Investment Co. had a negative operating cash-flow and paid dividends relatively close to 2004 paid dividends.

2007 Overview

As of Table(1) of Bayan and Table(2) of the Benchmark, compared to 2006, we see the increase in liabilities to 53% of the total assets, which was greater than the benchmark's. As a result, the shareholders' equity decreased to 47%, which was less than our benchmark's. Liabilities increased and equity decreased compared to 2004.



To Last Year

Compared to 2006, we see that receivables decreased causing the cash balance to increase by 328%. We can see that investment income increased by 197% and the total revenue by 1641% covering last year's losses. Also, it appears that total expenses increased by 25%. Net profit increased by 203% covering last year losses, which was more than the benchmark's change and the balance in Property and Equipment increased by 3%. The operating generated cash decreased by 325%, which was more than the benchmark.

To Base-Year (2004)

Compared to 2004, we see that both receivables cash balances increased. It appears that available for sale investments increased by 35%. We can see that investment income decreased by 56% and the total revenue decreased by 52%. Also, it appears that total expenses increased by 80% due to the increase in finance charges by 303%. Net profit decreased by 73%, which was less than the benchmark. The operating generated cash increased by 38%, which was more than the benchmark too.

To Total Assets

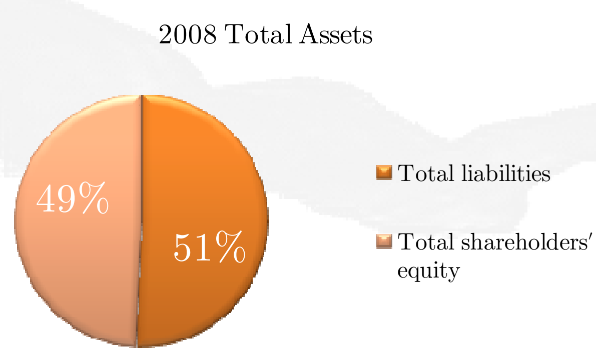
Cash increased to 5%, which is greater than the benchmark's and 2004 figure, where receivables increased to 1%, which was less than the benchmark's receivables including Murabaha's and similar to 2004 figure. Investments available for sale decreased to 26%, which was more than the benchmark's and less than 2004 figure. Investment in unconsolidated subsidiaries decreased to 0% of the company's total assets, which became similar to the benchmark's and less than 2004 figure. The main value of the total assets came from investments that are held for trading which value decreased to 33% of the total assets, which was more the benchmark's and less than 2004 figure, compared to the other assets that appear in the financial statement of 2007.

To Total Revenue

The company's expenses percentage decreased to 51%, which became more than the benchmark and more than 2004 figure, where the net profit decreased to 49%, which became less than the benchmark and 2004 figure. We see that finance cost increased to 32% of the total revenue which was more than the benchmark and 2004 figure.

To Operating Cash-Flow

The net profit decreased to 147%, which was more than the benchmark and less than 2004 figure, where the investing cash-flow increased to -586% due to negative investing cash-flow, which was less than the benchmark and 2004 figure. Dividends to the operating cash-flow became normal to 65%, which was more than the benchmark's and less than 2004 figure, and the financing cash-flow decreased back to 544% to operating cash-flow, which was more than the benchmark's and 2004 figure.



2008 Overview

As of Table(1) of Bayan and Table(2) of the Benchmark, compared to 2007, we see the decrease in liabilities to 51% of the total assets, which was less than the benchmark's. As a result, the shareholders' equity increased to 49%, which was more than our benchmark's. Liabilities increased and equity decreased compared to 2004.

To Last Year

Compared to 2007, we see that receivables increased causing the cash balance to decrease by 62%. We can see that investment income increased by 91% and the total revenue by 131% due to the increase in consultancy income, interest income, and portfolio management fees. Also, it appears that total expenses increased by 107%. Net profit increased by 49%, which was much better than the benchmark's change and the balance in Property and Equipment decreased by 10%. The operating generated cash decreased by 323%, which was more than the benchmark.

To Base-Year (2004)

Compared to 2004, we see that both receivables cash balances increased. It appears that available for sale investments increased by 77%. We can see that investment income decreased by 96% and the total revenue increased by 2%. Also, it appears that total expenses increased by 395% due to the increase in finance charges by 363%. Net profit decreased by 60%, which was more than the benchmark. The operating generated cash decreased by 406%, which was worse than the benchmark too.

To Total Assets

Cash decreased to 2%, which is greater than the benchmark's and 2004 figure, where receivables increased to 2%, which was less than the benchmark's receivables including Murabaha's and greater than 2004 figure. Investments available for sale increased to 48%, which was more than the benchmark's and less than 2004 figure. Investment in unconsolidated subsidiaries remains 0% of the company's total assets, which remains similar to the benchmark's and less than 2004 figure. The main value of the total assets came from investments available for sale.

To Total Revenue

The company's expenses percentage increased to 66%, which became less than the benchmark and more than 2004 figure, where the net profit decreased to 34%, which was less than the benchmark and 2004 figure. We see that finance cost decreased to 17% of the total revenue which was less than the benchmark and more than 2004 figure.

To Operating Cash-Flow

The net profit decreased to -98%, which was more than the benchmark and less than 2004 figure, where the investing cash-flow increased to -446% due to negative operating cash-flow, which was more than the benchmark and less than 2004 figure. Bayan Investment Company did not pay dividends as the benchmark did, and the financing cash-flow decreased back to 391% to operating cash-flow, which was more than the benchmark's and 2004 figure.

Bayan Investment Co. Financial Ratio Analysis - *See Table(Ratios)*

Before getting into details, the available for sale investment can be classified as a current or non-current asset upon the way it is going to be used. Since AFS investment is currently expected to be sold within the current year, we considered it as current. We would've been more conservative in selecting the account as current or non-current in other cases since, in this case, both companies have approximately similar change and are within close range of figures. Accordingly, we have decided to include the AFS investment account to be current.

Starting with the current ratio; it appears that it was decreasing from 4.7 to 3.3 in 2007 and 2008 respectively. This indicates that Bayan's debt-paying ability was decreasing. When comparing this with the benchmark which had it as 0.96 in 2007 and 0.65 in 2008, we see that the Bayan's debt-paying was much higher. Since Bayan's inventory was immaterial and IIG had no inventory the quick ratio should have given similar results. Considering the case of having AFS investment is non-current asset, still we should have had the current ratio decreased from 2.8 in 2007 and 0.85 in 2008 where the benchmark's current ratio decreased from 0.77 in 2007 to 0.65 in 2008, which was still not much affecting our visualization.

Cash-flow from operations to current liability was 0.5 in 2007 and decreased to -15% in 2008 where our benchmark's ratio was -25% in 2007 and increased to 0.1 in 2008. This indicates that Bayan's ability to cover currently maturing obligations from recurring operations was less than the benchmark.

According to the receivables turnover, which Bayan had it 8.8 in 2007 and 20.8 in 2008; Bayan was not as efficient as the benchmark in collecting receivables since the benchmark had it 2.3 in 2007 and -0.3 in 2008.

By using the Altman distress model, it appears that both companies might face financial issues during this year or the within the next three years. Accordingly, the Altman distress model will be excluded. When it comes to the quality of liquidity, we see that operating cash-flow ratio was 0.07 in 2007 and decreased to -0.05 in 2008 where our benchmark had it -0.08 in 2007 and improved to 0.04 in 2008. This indicates that both companies are within the same range of quality of liquidity but increasing or decreasing upon events.

The average collection period in 2007 was 27.8 and decreased to 21.4 in 2008 which were both better than the benchmark since our benchmark. The NWC turnover was 0.17 in 2007 and became 0.58 in 2008 where the benchmark's was -10.9 in 2007 and 0.22 in 2008. This indicates that Bayan is much better than the benchmark in having percentage of sales to net working capital. The total assets turnover ratio was 0.9 in 2007 and 0.26 in 2008 where the benchmark's 0.19 and -0.04 in 2007 and 2008 respectively, which indicates to the improvement of Bayan in having higher percentage of sales to total assets which is in the safe side compared to our benchmark.

When looking at the quality of earnings ratios, we see that cash-flow return on assets was 0.03 in 2007 and decreased to -0.09 in 2008 where the benchmark's was -0.11 and increased to 0.01 in 2007 and 2008 respectively.

The net profit margin in 2007 was 0.49 in 2007 and decreased to 0.34 in 2008 where the benchmark's had it 0.65 in 2007 and 3.24 in 2008. This shows that Bayan's profits are below the benchmark.

ROA decreased from 0.09 in 2007 to 0.4 in 2008 where the benchmark is improving as 0.07 in 2007 to 0.08 in 2008. ROE increased from 0.09 in 2007 to 0.15 in 2008 where the benchmark's decreased from 0.24 in 2007 to -0.27 in 2008.

Earnings per share (in Kuwaiti Dinar) increased from 0.02 in 2007 to 0.03 in 2008 where the benchmark's EPS decreased from 0.05 in 2007 to -0.05 in 2008. Price-earnings ratio decreased from 2007 to 2008 as well as it is still much better than the benchmark's. Price to book decreased but still greater than the benchmark, which indicates that Bayan Investment Company is less underestimated by the market than IIG.

Bayan's debt ratio decreased from 0.53 in 2007 to 0.51 where the benchmark's increased from 0.47 in 2007 to 0.57 in 2008. The debt to equity ratio decreased from 1.14 in 2007 to 1.03 in 2008 in which the benchmark had it increasing from 0.88 in 2007 to 1.31 in 2008. Based on times interest earned due to the finance cost, Bayan seemed to have it less than our benchmark.

Considering the financial crisis in the second quarter of 2008, it appeared that, liquidity-wise, Bayan Investment Company's liquidity is meeting the benchmark as its current ratio and Cash-flow from operations to current liability much exceeded the benchmark, however, the receivables collection much below the benchmark.

Since the collection period was better than the benchmark although it was decreasing, it was much better than the benchmark in having percentage of sales to net working capital, and was having higher percentage of sales to total assets than IIG, Bayan, activity-wise, was better than our benchmark.

As per the decrease in net profit margin and ROA, the increase in ROE and EPS, and the figures of the benchmark, profitability-wise, Bayan Investment Company was meeting the benchmark.

Based on the increase in debt ratio, debt to equity, TIE, and on the figures of the benchmark's increase in all of the previous ratios, it seemed that, debt-management-wise, Bayan was above the benchmark.

In short, compared to the benchmark, Bayan Investment Company's liquidity was within the range, its activity was improved, the profitability was within the range too, and debt-management was improved too.

Forecasting

(1) Expected Stock Price as of December 31, 2009: *See Table(5) through Table(8)*

1) The Expected Stock Price of Bayan: **K.D. 0.02833**
2) The Expected Stock Price of IIG: **K.D. 0.2367**

The results above were using the forecasted EPS using its growth on historical data from 2004 to 2008. The Stock Price of Bayan had **negative excess earnings** discounted; therefore, we used another financial method that depends upon dividends paid growth on historical data gave us different results as the following:

1) The Expected Stock Price (Using Dividends Growth) of Bayan: **K.D. 0.01464**
2) The Expected Stock Price (Using Dividends Growth) of IIG: **K.D. 0.00116**

The results of this dividends method was unrealistic since it was affected by the financial crisis starting from the third quarter of 2008 to date which caused the company not to pay dividends. Since the growth of dividends paid was already decreasing, a zero dividends paid results in less growth rate. However, we considered the assumption of dividends paid in Q2 of 2009 which was still low.

In short, the EPS method gave better and more realistic results compared to the other used method.

(2) Expected Free Cash-Flow as of December 31, 2009: *See Table(9) and Table(10)*

It is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a company to pursue opportunities that enhance shareholder value. Without cash, it's tough to develop new products, make acquisitions, pay dividends and reduce debt.

In order to get the expected FCF of December 31, 2009, we had to forecast the investments cash-outflow based on the growth of historical data from 2004 to 2008 and get their NPV. Once we have the net present value, we deduct it from the OCF after tax and interest of 2008.

It is important to note that negative free cash flow is not bad in itself. If free cash flow is negative, it could be a sign that a company is making large investments. If these investments earn a high return, the strategy has the potential to pay off in the long run.

1) The EFCF of Bayan: **K.D. -477,948,114**
2) The EFCF of IIG: **K.D. -127,473,902**.

S.W.O.T Analysis

(1) Strengths

- *Debt-paying ability*
- *Interest reduction*

(2) Weaknesses

- *Covering currently maturing obligations from recurring operations ability*
- *Generating cash from operating*
- *Increase in Debts*
- *Receivables' collection*

(3) Opportunities *(No available Data)*

(4) Threats

- *Covering currently maturing obligations from recurring operations*
- *Generating Cash from Operations*
- *Decrease in revenue*
- *Increase in receivables*
- *Decrease in stock price*

Conclusion and Suggestions

Bayan Investment Company's liquidity, compared to the benchmark, was within the acceptable range. To improve its liquidity, management should work effectively on collecting receivables work harder on cutting its increasing line by setting up new policies. Its activity, compared to IIG as a benchmark, was above the average. To have its activity improved, the management should improve collection period of receivables as it affects Bayan's both activity and liquidity. The Company's profitability was within the acceptable range to, however, its profitability weakness lie under the operating income and profit. The management should consider the income from operating activities and work effectively to gain more profit from these activities and others. Bayan debt management is above the acceptable range as it is much able to pay its liabilities. In order get improved, liabilities should be less even if ability to pay is high.

Suggestions highlighted

(1) Improve O.I and Net Profit:

- Using alternatives of expenses to get the most desired expense with less price
- Ensure the quality of earnings, which results in better operating income and profit
- Use cash than increasing debts, which results more finance cost

(1) Improve Receivables Collection

- Concentrate collection effort on your largest 25-50 accounts
- Attempt to make as many collection telephone calls as possible
- Reduce or eliminate extended payment or special-terms agreements. Approvals should only be made at the senior management level
- Identify and resolve customer disputes quickly so they will not be used to delay payment
- Set up realistic credit lines to avoid holding orders so that more time can be spent on collections
- Establish a customer contact to ease the way for payments
- Develop an aging report of major delinquent accounts (i.e. K.D. 20,000 and over) and distribute it to senior management and sales management to alert them of past-due customers and request their assistance
- Work closely with the sales people as a team to obtain greater and faster payments
- Join a credit interchange group, if available, where collection techniques are exchanged on problem accounts
- Make joint sales/credit customer calls, meeting with the customer's financial people to ensure prompt payments and the receipt of financial information
- Review new customer bank and trade-credit references to minimize any undesirable customers
- Educate customer service and sales personnel to alert the credit department of any material change (good or bad) in the customer's business
- Encourage telegraphic bank transfers on high-volume accounts
- Participate at various sales and marketing meetings educating all on the importance of cash flow
- Make certain that the individual contacting the customer has the proper training and technique. The professional should handle the high-volume, high-risk accounts; the routine accounts can be handled by clerical staff
- Set up realistic collection goals for each quarter and year
- Accelerate the follow-up dates (i.e. from monthly to twice per month)
- To be open to suggestions from any department on how collections can be improved

(3) Decrease Debts

- Use available cash instead of liabilities
- If cash available, pay debts earlier to cut interest
- For large projects, increase capital instead of increase of debts, upon cost of both

Islamic Vs. Non-Islamic Investment Companies and FC

This part of our analysis is to analyze the performance of both Bayan Investment Company (as non-Islamic) and International Investment Group (as Islamic) during the current financial crisis starting from Q2 2008 to date.

The analysis is based on *Table(11)* and *Table(12)* of both companies which have figures of ROA, ROE, EPS, DPS, TA, TCA, STI, LTI, TL, TCL, NP, MV, BV, OE, and OCF. The last two rows were used for calculations. Note that each quarter used its year number of shares to be more conservative and get more accurate results.

Starting with ROA, we see that Bayan was more efficient that the benchmark and being more stable since IIG had some negative figures. ROE of Bayan was not much affected by the financial crisis but IIG was. EPS of Bayan was in the decreasing range although it increased in the second quarter of 2008, but decreased back to 0.03 at the end of the year and became negative in Q2 of 2009 where IIG was decreasing to but tried to improve in Q2 of 2009. The DPS of Bayan was much affected by the financial crisis from its beginning period, however, IIG paid usual dividends but it appears to be zero in Q2 of 2009.

The total assets figures of both companies were within the same range as the financial crisis implications. However, IIG decrease in current assets was less than Bayan's. ST investments of IIG were more efficient and less affected by the financial crisis than Bayan, however, Bayan LT investments were less affected by the FC than IIG.

Liabilities of both companies decreased; however, IIG's performance in decreasing debts was greater. The net profit of both companies decreased to, however, Bayan is doing a better effort having its net profit positive although it was very low compared to previous quarters.

The market value of IIG was more affected by the financial crisis than Bayan as IIG increased its shares where we see Bayan's number of shares remains within the same range. We see that the BV of Bayan is decreasing where IIG's BV in Q2 of 2009 was more than Q2 of 2007.

Bayan and IIG had approximately similar results or amount of negative operating cash-flow where we see both companies within the same range in terms of OCF.

In short, both companies were affected by the financial crisis. And Bayan, as a non-Islamic company, seems to be efficient in facing financial problems as if it was benefiting from the advantage of being Islamic.