Emaar Properties

Flash Note 21 January 2010

Adjusting Deliveries, Maintain Buy

- **Bring forward deliveries in Dubai, and increase retail occupancy in 2010e. Raise 2010e EPS by 51% due to higher revenue, margin expansion, and positive associate contribution.**
- **Bulk of international deliveries now expected in 2012/13e, raise EPS in 2010e by 10% and 2013e by 19%, but cut 2011e EPS by 18%**
- **Emaar remains our preferred play on the sector. We maintain Buy but raise TP to AED6.6/share from AED6.5/share on higher rental income**

Revisit delivery forecasts on latest company guidance. Spread international deliveries, but bring forward deliveries in Dubai. We now assume delivery of 3,900 units in 2009e (3,700 previously), 4,500 units in 2010e (4,800 previously), and 2,200 units in 2011e (9,700 previously, which we now spread over 2012/13e). While we revise downwards deliveries in 2010e by 6%, we raise our revenue number by 12% due to higher contribution from Dubai.

Increase retail occupancy, mainly Dubai Mall's, from a weighted average of c50% in 2009e to 95% in 2010e. We now understand that Dubai Mall is currently operating at 95% capacity and so adjust our numbers from 80% in 2010e previously. Considering an expected improvement in tourism activity in 2010 driven by the global recovery, we feel that both retail and hotel occupancy are likely to show improvement this year. Also, the opening of Burj Khalifa should be supportive of activity in that area.

Raise 2010e EPS estimates by 51%, but cut 2011e by 18%. We increase our 2010e earnings by 51% on the back of (i) higher revenues (+12%), ii) margin expansion (+3 pc) driven by stronger contribution from Dubai deliveries and recurring income (+18%), and (iii) positive associate contribution on deliveries in India in 1H10 ahead of the Common Wealth games. That said, the bulk of international deliveries are now expected in 2012/13e instead of 2011e, accordingly, we cut our 2011e EPS estimates by 18%, but raise our estimates by 10% for 2012e and 19% for 2013e.

Amlak impairments in 4Q09 unlikely. Since we understand that the restructuring process is still underway and hence the outcome is unclear, we feel impairments in 4Q09 might be premature. Total exposure is AED2.1 billion.

Emaar remains our preferred exposure. We maintain our Buy rating but raise our TP to AED6.6/share from AED6.5/share. We remain cautious about the domestic demand story in the UAE as the restructuring process unwinds. Our preferred play is Emaar (Buy, TP 6.6) given its exposure to the tourism sector through its hospitality and retail portfolios as well as its geographic diversification. Also, the company's liquidity position remains comfortable with net debt/equity at 18% and operating cash flows sufficient to meet short-term obligations of AED4.4 billion. Emaar currently trades at 0.3x 2009e NAV (Aldar at 0.3x, Sorouh at 0.5x) and 0.7x 2009e BV (Aldar at 1.2x [ex-reval.], Sorouh at 1.2x).

Table 1: Revised Forecasts

AEDmn	FY2009e				FY2010f			
Estimates	**New**	**Old**	**% Δ**	**Cons.**	**New**	**Old**	**% Δ**	**Cons.**
Revenues	7,543	7,446	1%	9,585	10,283	9,151	12%	12,352
Gross Profit	3699	3439	8%		4,901	4,157	18%	
GPM	*49%*	*46%*			*48%*	*45%*		
NP	43	(282)		2,097	2,801	1,861	51%	3,992
NP ex w/o	1,836	1,511	21%	2,097	2,801	1,861	51%	3,992

Source: HC estimates, Reuters

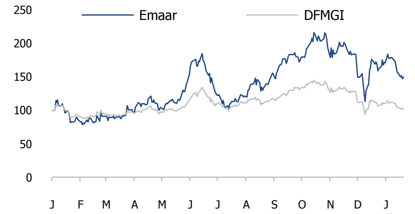
Buy

Target Price (AED)	6.6
Market Price (AED)	3.4
Upside	95%
Listed on	DFM
Bloomberg Code	EMAAR UH
RIC	EMAR.DU
Enterprise Value (AEDmn)	25,910
Net Debt (AEDmn)	5,108
Market Cap. (AEDmn)	20,588
Market Cap. (USDmn)	5,610
Number of Shares (mn)	6,091
Foreign Ownership Level	20.2%
Foreign Ownership Limit	49.0%
Daily Turnover (AEDmn)	241.7
Daily Turnover(USDmn)	65.9

Shareholder Structure

Dubai Government	31.2%
Free Float	68.8%

Price Performance Chart



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* Disclaimer: See page 7

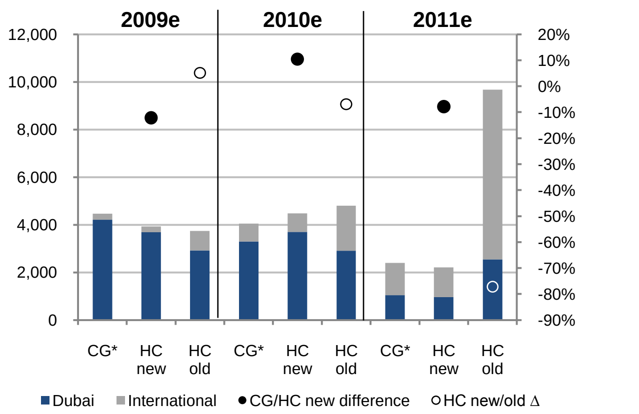
Table 2: Revised Forecasts

AEDmn	FY2009e				FY2010f				FY2011e			
Estimates	**New**	**Old**	**% Δ**	**Cons.**	**New**	**Old**	**% Δ**	**Cons.**	**New**	**Old**	**% Δ**	**Cons.**
Revenues	7,543	7,446	1%	9,585	10,283	9,151	12%	12,352	5,954	15,087	-61%	12,100
Gross profit	3699	3439	8%		4,901	4,157	18%		3,332	6,044	-45%	
GPM	49%	46%			48%	45%			56%	40%		
NP	43	(282)		2,097	2,801	1,861	51%	3,992	3,479	4,225	-18%	3,505
NP ex w/o	1,836	1,511	21%	2,097	2,801	1,861	51%	3,992	3,479	4,225	-18%	3,505

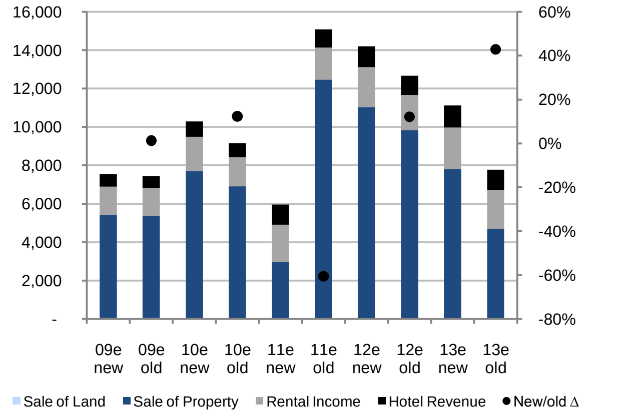
Source: HC estimates, Reuters

Chart 1: Revised Estimates on Updated Delivery Schedule

Emaar International Unit Deliveries Pushed Back (Units)



Revised Revenue Estimates (AEDm)

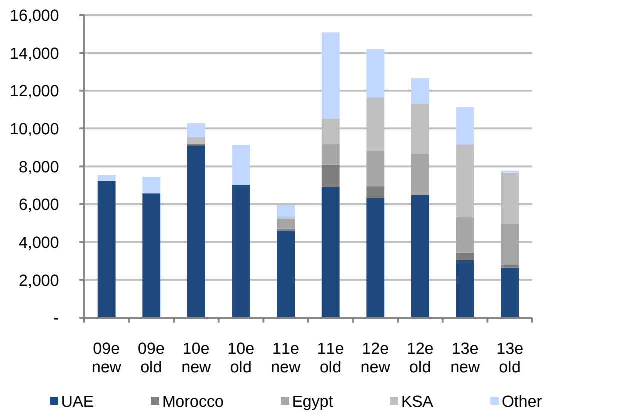


Source: Company Data, HC estimates
*Company guidance

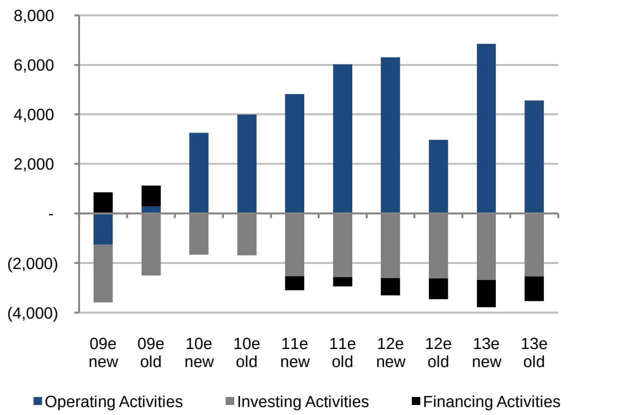
Source: HC estimates

Chart 2

Revenue Breakdown by Geography (AEDm)



Revised Cash Flows (AEDm)



Source: HC estimates

Source: HC estimates

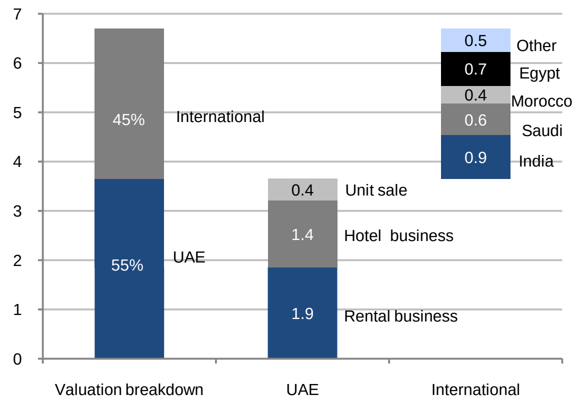
We maintain our view on Emaar and adjust our TP to AED6.6/share from AED6.5/share

We value real estate companies using a combination of DCF analysis and land valuation. Where a final master-plan is available, we use a sum of the parts DCF. Otherwise, we rely on land valuation only. We value all projects where development plans have been completed based on built up area (BUA). Hence, projects such as Algeria and Libya, where the company owns a substantial land bank, are excluded. For the UAE investment properties, which are mostly operational, we use the capitalization method (cap rate of 10%). For associates and subsidiaries, we use market cap if available (KAEC, Amlak) or net asset value (Dubai Bank). Regarding MGF India, we apply a 25% discount to the offering lower range.

Considering the project cancelations, delays, and scale backs initiated by Emaar in early 2009 in response to the weakening macro environment, for UAE sale projects we assume that all future projects are canceled and only include those that are nearing completion. For international sale projects we apply a 50% probability.

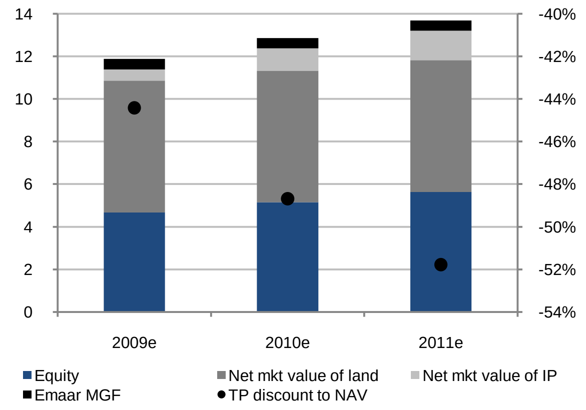
Chart 3: Maintain our Buy recommendation and adjust our TP to AED6.6 from AED6.5/share

Emaar Valuation Breakdown (AED/share)



Source: HC estimates

Emaar NAV Breakdown (AED/share)



Source: HC estimates

We value Emaar at a 44% discount to its 2009e NAV of AED11.9

Since Emaar's land is not recognized on its books, we use the latest independent fair valuation conducted at the end of 2008. We also mark-to-market the value of associate and subsidiaries. Additionally, we revalue the company's investment properties, which are recognized at cost using the capitalization method. We use a cap rate of 10% in line with prevailing commercial yields. To compute net operating income, we apply a 85% margin for retail and office and 60% for the hotel. We then mark up the BV of the Indian business by AED6 billion based on the latest listing guidance.

Company-specific risks

- **Oversupply:** A potential oversupply in Dubai would have a negative implication on future sales, thus forcing Emaar to abandon some projects.
- **Currency Revaluation:** Any currency revaluation would lead to translation losses, since contribution from foreign subsidiaries as well as value of foreign investments would decline.
- **Governance:** Emaar still operates in an underdeveloped regulatory environment, where minority interests can be overlooked (e.g. the share for land swap in 2007).
- **Execution:** The sheer scale and geographic spread of developments might stretch management and operational capacity, introducing the risk of delays and conception.

Emaar Financials

Table 3: Emaar Income Statement (AEDmn)

Year to 31 December	2007a	2008a	2009e	2010f	2011f	2012f	2013f
Sale of Land	1,358	1,997	51	-	-	-	-
Sale of Villas and Condominiums	16,189	10,539	5,361	7,688	2,963	11,037	7,809
Sale of Commercial Units	-	2,403	-	-	-	-	-
Rental Income	-	499	1,487	1,809	1,951	2,083	2,166
Hotel Revenue	-	577	644	786	1,040	1,090	1,143
Revenue	**17,546**	**16,015**	**7,543**	**10,283**	**5,954**	**14,211**	**11,118**
Cost of Land	(164)	(76)	(3)	-	-	-	-
Cost of Villas and Condominiums	(10,477)	(6,652)	(3,210)	(4,639)	(1,705)	(6,823)	(5,207)
Cost of Commercial Units	-	(848)	-	-	-	-	-
Direct Rental Expenses	-	(178)	(249)	(271)	(293)	(312)	(217)
Hotel Direct Costs	-	(367)	(382)	(472)	(624)	(654)	(686)
Total Cost	**(10,641)**	**(8,120)**	**(3,844)**	**(5,382)**	**(2,622)**	**(7,790)**	**(6,110)**
% of sales	*61%*	*51%*	*51%*	*52%*	*44%*	*55%*	*55%*
Gross Profit	**6,906**	**7,895**	**3,699**	**4,901**	**3,332**	**6,421**	**5,008**
Margin	*39%*	*49%*	*49%*	*48%*	*56%*	*45%*	*45%*
Operating Expenses:							
SGA Expenses	(2,119)	(2,283)	(1,897)	(2,083)	(595)	(1,421)	(1,112)
Other Operating Income	382	175	419	514	298	711	556
W/off Development Properties	-	(1,084)	(1,793)	-	-	-	-
Other Income	-	292	79	103	60	142	111
Other Operating Expenses	-	-	(294)	(411)	(238)	(568)	(445)
Operating Expenses	**(1,737)**	**(2,900)**	**(3,486)**	**(1,878)**	**(476)**	**(1,137)**	**(889)**
EBIT (Incl. Revaluation Gain)	**5,169**	**4,995**	**213**	**3,024**	**2,856**	**5,284**	**4,119**
Margin	*29%*	*31%*	*3%*	*29%*	*48%*	*37%*	*37%*
Net Financing Cost	148	341	176	(6)	(86)	(19)	49
Other Fin. Income/charges	812	-	-	-	-	-	-
Associate Income	402	265	(336)	48	951	1,029	1,060
W/Off of US Business Goodwill	-	(2,948)	-	-	-	-	-
Profit before Taxes	**6,530**	**2,653**	**54**	**3,065**	**3,721**	**6,294**	**5,228**
Income Taxes	(14)	3	(17)	(153)	(186)	(315)	(261)
	0%	0%	-32%	-5%	-5%	-5%	-5%
Minority Shareholders' Interest	(39)	25	(6)	110	56	544	599
Net Profit (Loss)	**6,478**	**2,630**	**43**	**2,801**	**3,479**	**5,436**	**4,368**
Margin	*37%*	*16%*	*1%*	*27%*	*58%*	*38%*	*39%*
EPS	**1.1**	**0.4**	**0.0**	**0.5**	**0.6**	**0.9**	**0.7**

Source: Company Data, HC Estimates

Table 4: Emaar Balance Sheet (AEDmn)

Year to 31 December	2007a	2008a	2009e	2010f	2011f	2012f	2013f
Assets							
Cash and Cash Equivalents	6,799	5,393	3,170	4,765	6,497	9,498	12,575
Trade and Other Receivables	826	1,058	815	635	423	212	-
Development Properties	18,269	26,799	25,483	21,457	18,478	9,522	524
Short-Term Investment	1,753	867	977	977	977	977	977
Other Current Assets	2,623	3,511	3,617	3,617	3,617	3,617	3,617
Current Assets	**30,270**	**37,629**	**34,062**	**31,451**	**29,992**	**23,827**	**17,693**
Investments in Associates	8,893	8,314	7,692	7,740	8,691	9,720	10,781
Long-Term Investments	184	-	-	-	-	-	-
Loans to Associates	416	1,636	2,235	2,235	2,235	2,235	2,235
Non Current Assets	**9,492**	**9,950**	**9,928**	**9,976**	**10,927**	**11,956**	**13,016**
Intangible asset	2,962	439	439	439	439	439	439
Hotels	-	-	163	365	347	329	313
Property, Plant, and Equipment	7,109	5,414	5,829	6,085	6,329	6,561	6,782
Investment Properties	4,918	13,248	13,227	13,720	14,382	15,027	15,705
Permanent Assets	**14,990**	**19,102**	**19,658**	**20,610**	**21,497**	**22,357**	**23,239**
Total Assets	**54,752**	**66,680**	**63,648**	**62,036**	**62,417**	**58,139**	**53,948**
LIABILITIES							
Trade and Other Payables	8,747	9,680	13,164	12,151	13,178	7,239	980
Borrowings-short term	-	4,564	4,386	4,386	4,386	4,386	4,386
Advances from Customers	1,005	18,109	12,564	9,055	5,433	1,811	-
Current Liabilities	**9,753**	**32,354**	**30,114**	**25,591**	**22,997**	**13,435**	**5,365**
Borrowing and Long-Term Debt	8,396	4,610	3,893	3,893	3,893	3,893	3,893
Retentions	-	1,079	1,150	1,150	1,150	1,150	1,150
Provision for Employee Services	16	37	37	37	37	37	37
Non Current Liabilities	**8,412**	**5,726**	**5,081**	**5,081**	**5,081**	**5,081**	**5,081**
Minority Interest in Subsidiaries	**703**	**494**	**213**	**323**	**379**	**923**	**1,522**
Paid-Up Capital	6,091	6,091	6,091	6,091	6,091	6,091	6,091
Statutory and Other Reserves	15,198	14,431	14,521	14,521	14,521	14,521	14,521
Retained Earnings	14,597	7,586	7,629	10,430	13,349	18,089	21,369
Employee Performance Share Program	(1.5)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Shareholder's Equity	**36,587**	**28,601**	**28,453**	**31,365**	**34,339**	**39,623**	**43,503**
Total Liabilities and Equity	**54,752**	**66,680**	**63,648**	**62,036**	**62,417**	**58,139**	**53,948**

Source: Company Data, HC Estimates

Table 5: Emaar Cash Flow (AEDmn)

Year to 31 December	2007a	2008a	2009e	2010f	2011f	2012f	2013f
Net Profit before Minorities	**3,267**	**3,068**	**36**	**2,911**	**3,535**	**5,979**	**4,967**
Depreciation and Amortization	77	413	617	660	691	718	745
Change in Working Capital	(1,397)	(1,152)	(3,888)	(317)	597	(394)	1,140
Share of Associates	(50)	(265)	186	-	-	-	-
Interest Income & Exp.	-	341	(64)	6	86	19	(49)
Interest Recd.	-	(341)	188	242	163	230	298
Interest Paid	-	-	(124)	(248)	(248)	(248)	(248)
Fair value gain on investment property	-	1,084	-	-	-	-	-
Impairment of Goodwill	-	2,948	1,793	-	-	-	-
Provision for Employee End of Service Benefits	3	19	0	-	-	-	-
Others (net)	(314)	(26)	(0)	-	-	-	-
CF Generated from Operating Activities	**1,587**	**6,088**	**(1,256)**	**3,255**	**4,822**	**6,303**	**6,852**
Investments Activities:							
Capex (Excl. Hotel Properties)	(2,055)	(5,845)	(1,000)	(1,395)	(1,579)	(1,577)	(1,628)
Additions to Hotels Properties	-	-	(165)	(217)	-	-	-
Additions to Investment Properties	-	(149)	-	-	-	-	-
Associates	(649)	(1,530)	(509)	(48)	(951)	(1,029)	(1,060)
Subsidiary	(249)	-	-	-	-	-	-
Acquisition/ Sale of Financial Assets	623	2,342	(13)	-	-	-	-
Movement in > Three Months Bank Deposits	(836)	2,377	(650)	-	-	-	-
Others	-	(1)	4	-	-	-	-
CF Generated from Investment Activities	**(3,167)**	**(2,807)**	**(2,332)**	**(1,660)**	**(2,530)**	**(2,606)**	**(2,688)**
Financing Activities:							
Dividends Paid	(1,189)	(1,199)	-	-	(560)	(696)	(1,087)
Share Issue	80	-	-	-	-	-	-
Bank Borrowings Raised	5,299	3,448	1,089	-	-	-	-
Net Share Issuance Fee	-	-	-	-	-	-	-
Borrowings Repaid	(1,626)	(1,978)	(240)	-	-	-	-
Others	4	58	1	-	-	-	-
CF Generated from Financing Activities	**2,568**	**329**	**850**	**-**	**(560)**	**(696)**	**(1,087)**
Net Addition (Deduction) in Cash	**988**	**3,610**	**(2,739)**	**1,595**	**1,732**	**3,001**	**3,076**
Cash at Beginning of Fiscal Year	6,799	6,799	10,410	7,671	9,266	10,998	13,999
Net Forex Difference/ Others	7						
Cash at End of Fiscal Year	**7,795**	**10,410**	**7,671**	**9,266**	**10,998**	**13,999**	**17,075**

Source: Company Data, HC Estimates

Rating Scale

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

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