Emaar Properties

Uncertainties Alleviated

- **Merger abandonment alleviates dilution concerns.**
- **Emaar less exposed to systemic risk given its exposure to tourism (retail and hotel portfolio) and overseas markets.**
- **We reiterate our 'Buy' recommendation and TP of AED6.5/ share.**

Merger call off positive as it alleviates concerns about potential dilution. According to a statement released by the Dubai ruler's office on 9 December 2009, Emaar's board decided to call off the proposed merger with Dubai Holding. We view this development as a potential catalyst for Emaar as it eliminates many uncertainties, most importantly dilution concerns which have weighed down on the stock. It is also a reflection of corporate independence, in our opinion.

Debt restructuring means access to capital markets lost, which may explain merger abandonment. At the time of our initiation (28 October 2009), we felt that the focal rationale behind the merger was to gain access to shut equity markets through a potential rights issue. The merger abandonment, while positive for Emaar, maybe an indication of the seriousness of the situation.

Dubai World potential default raises systemic risk, but Emaar less exposed as investment portfolio is driven by tourism, a play on the global recovery and weakening dollar. Considering that the global slowdown greatly impacted the tourism sector in Dubai in 2009, going forward we feel that the downside is limited given the gradual global recovery as well as continued weakness of the dollar. Accordingly, we believe that Emaar's investment properties (mainly retail and hotel) should prove more resilient and thus provide at the least a floor to the company's valuation at AED3.4bn, on our estimates.

Emaar's overseas exposure further supportive of valuations. We estimate that the overall contribution from the international business has almost doubled from 27% at the beginning of last year to 45% currently. Going forward we expect this trend to persist, in part due to project delays and cancelations in Dubai following the crisis, but mainly because Emaar's Dubai land bank is rapidly depleting. In terms of revenues, we expect international operations to account for 30% in 2010e, but to jump to 55% in 2011e on deliveries in Egypt, Saudi, Morocco, Pakistan, and Syria. Based on the current pipeline, we estimate that international income is likely to surpass that from domestic operations by 2013e.

Liquidity position comfortable with net debt/equity at 18% and operating cash flows sufficient to meet short-term obligations of AED4.1bn. Working backwards from development properties of AED26.4bn at the end of 3Q09 and assuming an average margin of 45%, we estimate potential revenue of AED48bn. Taking into account customer advances of AED17.3bn at the end of 3Q09, we estimate AED30bn of cash is still to be collected based on the current pipeline alone. Also, we estimate recurring net cash flows of cAED1.5bn from the high margin rental business which can also be viewed as a financing option.

We reiterate our Buy recommendation on Emaar and TP of AED6.5 per share. We value real estate companies using a combination of DCF and land valuation. Where the company has a final masterplan, we use a DCF. Otherwise, we use land valuation only. To be conservative, we exclude future projects from our model until further clarity. We value Emaar at a 45% discount to its NAV of AED11.7.

Key Multiples

	Emaar		Aldar		Sorouh	
Year	**2009e**	**2010f**	**2009e**	**2010f**	**2009e**	**2010f**
P/E	10.3x	8.4x	4.4x	3.3x	11.1x	5.5x
P/E Adj	10.3x	8.4x	56.9x	9.5x	11.1x	5.5x
P/NAV	0.2x	0.2x	0.3x	0.3x	0.4x	0.3x
P/BV	0.6x	0.5x	0.5x	0.4x	0.9x	0.8x

Source: HC Estimates/Forecasts

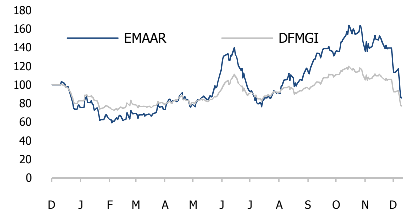
Buy

Target Price(AED)	6.5
Market Price (AED)	2.6
Upside	150%
Listed on	DFM
Bloomberg Code	EMAAR UH
RIC	EMAR.DU
Enterprise Value (AEDmn)	19,583
Net Debt (AEDmn)	3,743
Market Cap. (AEDmn)	15,593
Market Cap. (USDmn)	4,249
Number of Shares (mn)	6,091
Foreign Ownership Level	6.7%
Foreign Ownership Limit	49.0%
Daily Turnover (USDmn)	67.8
Daily Turnover(AEDmn)	248.8

Shareholders Structure

Dubai Government	31.2 %
Free Float	68.8%

Price Performance Chart



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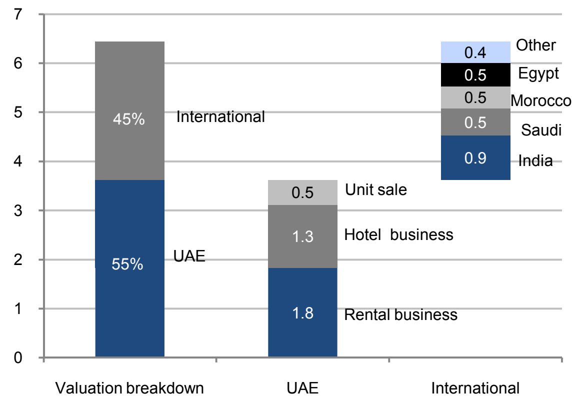
* Disclaimer See Page 5

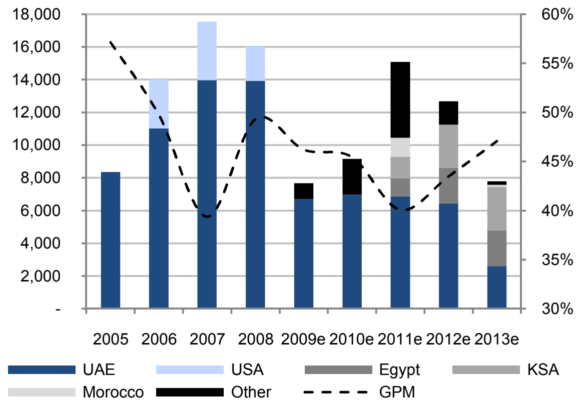
Tourism driven IP and overseas exposure provide a buffer against domestic economic slowdown

Chart 1

Value drivers: international markets gaining significance



Revenue breakdown by geography (AEDmn)



Source: Company Data, HC estimates

Considering that the global slowdown greatly impacted the tourism sector in Dubai in 2009, we feel that the downside is limited going forward given the gradual global recovery as well as continued dollar weakness. Accordingly, we believe that Emaar's operational Dubai investment properties (mainly retail and hotel) should prove more resilient and thus provide at the least a floor to the company's valuation at AED3.1bn, on our estimates.

Also, Emaar's overseas exposure is further supportive of its valuation**.** We estimate that the overall contribution from the international business has almost doubled from 27% at the beginning of last year to 45% currently. Going forward, we expect this trend to persist, in part due project delays and cancelations in Dubai following the crisis, but mainly because Emaar's Dubai land bank is rapidly depleting. In terms of revenues, we expect international operations to account for 30% in 2010e, but to jump to 55% in 2011e on deliveries in Egypt, Saudi, Morocco, Pakistan, and Syria. Based on the current pipeline, we estimate that international income is likely to surpass that from domestic operations by 2013e.

Table 1:Emaar delivery schedule

Project	Location	2009e	2010e	2011e
Downtown Burj Dubai	UAE	1,050	1,400	2,105
Dubai Marina	UAE	890	890	445
Emirates living	UAE	760	505	
Arabian Ranches	UAE	220	117	
Al Khobar Lakes	KSA			495
Jeddah Gate	KSA			900
Uptown Cairo	Egypt			900
Marassi	Egypt			924
Tinja	Morocco			738
The Eights Gate	Syria			1,012
Tuscon Valley	Turkey	277	278	
Canyon Views/Crescent Bay	Pakistan	538	1,616	2,155
Total		**3,485**	**4,806**	**9,674**

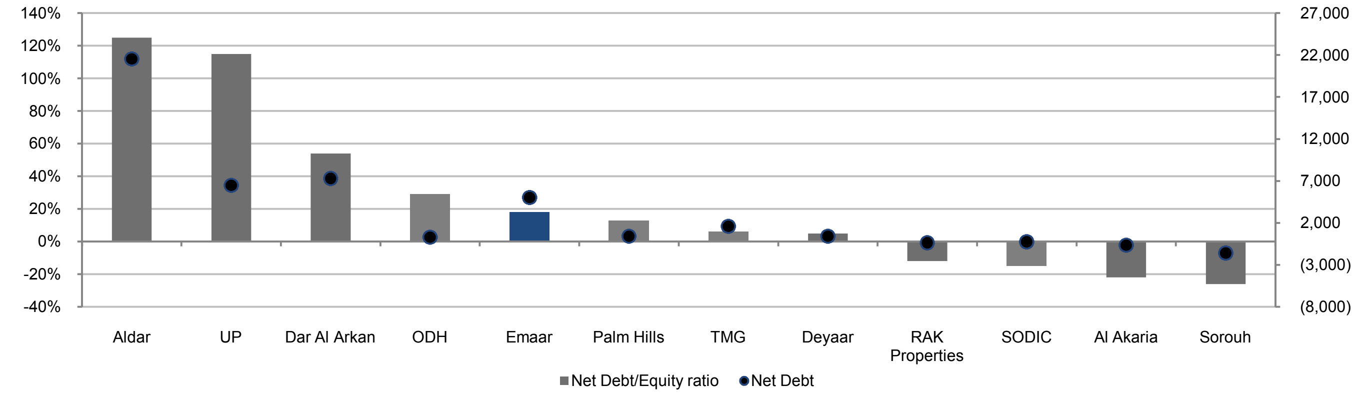
Source: Company Data, HC estimates

Liquidity position comfortable, recurring cash flows another source of funding

Despite raising AED1.1bn of debt in 2Q09, Emaar's liquidity position remains strong with a net debt/equity at 18% (includes cash equivalents held for sale securities of AED1.1bn). That said, however, the company has AED4.1bn of short term obligations which we believe are likely to be refinanced. Even if the company opts not to refinance or is unable to do so, we feel that operating cash flows are sufficient to cover debt repayments. Working backwards from development properties of AED26.4bn at the end of 3Q09 and assuming an average margin of 45%, we estimate potential revenue of AED48bn. Taking into account customer advances of AED17.3bn at the end of 3Q09, based on the current pipeline alone, we estimate AED30bn of cash is still to be collected. Also, we estimate recurring net cash flows of cAED1.5bn from the high margin rental business which can also be viewed as a financing option.

Chart 2

Liquidity position remain comfortable relative to Gulf peers (3Q09)



Source: Company Data

Valuation

We reiterate our Buy recommendation and TP of AED6.5 per 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.

Table 2: Valuation Breakdown

	Unit	Basis	Valuation AED	% of Total value
UAE	Unit Sales	DCF	0.6	9%
UAE	Retail and Office	Cap rate	2.0	25%
UAE	Hotels	DCF	1.4	24%
UAE	Dubai Bank	M Cap	0.0	0%
UAE	Amlak Finance	M Cap	0.0	0%
UAE	Bawadi	DCF	0.0	0%
Saudi Arabia	KAEC	M Cap	0.5	9%
Saudi Arabia	Emaar Middle East	DCF	0.1	1%
India		Discount to IPO	1.0	17%
Egypt		DCF	0.5	9%
Morocco		DCF	0.5	8%
Turkey		DCF	0.0	0%
Syria		DCF	0.1	2%
Libya		Land Value		0%
Pakistan		DCF	0.1	2%
US		DCF	0.0	0%
Jordan		DCF	0.2	3%
Indonesia		Not valued		0%
Algeria		Land Value		0%
UK	Hampston		0.1	2%
Net Debt			-0.6	-10%
Total value			**6.5**	100%

Source: HC estimates

Our TP of AED6.5 per share implies a 45% discount to 2009e NAV

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 AED6bn based on the latest listing guidance. Please refer to table 3.

Table 3: NAV calculation

(AEDbn)	2009e
Equity	28.2
BV of IP	(13.4)
BV of Land	(10.1)
Market Value of IP	12.3
Market Value of Hotel	3.7
Market value of land	47.8
Emaar MGF	2.9
NAV	71.3
NAV per share (AED)	11.7

Source: HC estimates

Company specific risks

- **Oversupply**: a potential oversupply in Dubai would have a negative implication on future sale, 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.

Rating Scale

Recommendation	Upside
Buy	Greater than 25%
Hold	0-25%
Sell	Less than 0%

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