

25 November 2011

**Hold**

**Target price**  
Dh1.05 (from Dh1.30)

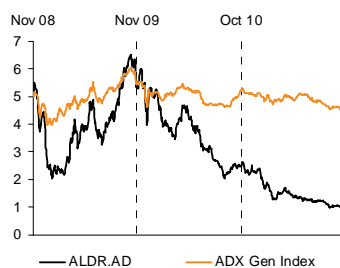
**Price**  
Dh0.99

**Short term (0-60 days)**  
n/a

**Market view**  
No Weighting

**Price performance**

	(1M)	(3M)	(12M)
Price (Dh)	1.00	1.20	2.23
Absolute (%)	-1.0	-17.5	-55.6
Rel market (%)	-0.4	-12.5	-49.7
Rel sector (%)	-1.6	-11.5	-52.9



**Market capitalisation**  
Dh2.85bn (€582.75m)

**Average (12M) daily turnover**  
Dh24.30m (US\$6.72m)

Sector: ADX Bank & Fin Index  
RIC: ALDR.AD, ALDAR UH  
Priced at close of business 24 Nov 2011.  
Source: Bloomberg

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# Aldar Properties

## Debt overhang to remain

**We maintain Hold on Aldar, but lower our TP to Dh1.05 as we cut 2011-13F EPS by 19% mainly on our lower margin and higher SG&A expenses forecasts.**

**Key forecasts**

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (Dhm)	1,979	1,791	7,189	7,932	3,614
Net rental income (Dhm)	200.5	415.5	733.2	910.2	1,067
Normalised PTP (Dhm)	837.4	-12,658	612.0 ▼	540.0 ▼	162.6 ▼
Normalised EPS (Dh)	0.23	-4.39	0.15 ▼	0.13	0.04
Normalised PE (x)	4.30	-0.23	6.63	7.52	24.96
Dividend per share (Dh)	0.05	0.00	0.00	0.00	0.00
Dividend yield (%)	5.05	0.00	0.00	0.00	0.00
Adj NAV per share (Dh)	4.61	1.47	1.72	1.85	2.06
NNNAV per share (Dh)	4.61	1.47	1.72	1.85	2.06
Disc/(prm) to adj NAV (%)	78.50	32.80	42.30	46.40	51.80
Net debt to tot ass (%)	54.30	67.40	56.80	50.90	50.40

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Accounting standard: IFRS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

**Results beat our expectations on asset sales to the government**

Aldar reported total revenue of Dh3,133m, beating our estimate of Dh858m and consensus estimate of Dh957m. The significant jump in revenue was due to recognition of Dh2,600m from land sale to the government. We expected the gain from land sale to be recognised directly below gross profit as in the case of the gain from transfer of Ferrai world assets in 1H11. Revenue ex-land sales of Dh533m was 38% below our estimate of Dh858m as revenue from property sales of Dh247m missed our estimate by 55% and rental income missed our estimate by 6%. SG&A expenses and finance costs were in line with our estimates. Net income of Dh144m was 4% above our estimate of Dh138m as the gross profit miss on revenue ex-land sales was more than offset by a higher-than-expected gain from land sale to the government.

**Cut 2011-13F EPS by an average 19% on lower margins and higher SG&A expenses**

We cut our 2011-2012F revenue by an average 63% as we factor in the gain from land sale to flow through revenues instead of directly being recognised below gross profit. Based on our calculation, the gross margin from sale of Ferrari world assets and land sales to the government was 10.3% during 9M11 compared to management expectation of 13-15%. We cut our gross margin forecast from assets sales to the government by 370bp to 10.3%. We earlier forecast SG&A expenses to fall by an average 20% in 2011-13F. Although Aldar announced that it will cut its workforce by 24%, we expect the fall in SG&A expenses to be more gradual at 13% per year. Our lower gross margin and higher SG&A expenses forecasts lead to a reduction in our 2011-13F EPS by an average 19%.

**Maintain our Hold rating, but reduce our target price to Dh1.05 from Dh1.30**

We lower our target price to Dh1.05 as we cut our 2011-13F EPS by 19% on average. Although we expect topline to gain momentum from deliveries at Al Raha, bottomline will remain under pressure due to the significant interest burden arising from outstanding debt of Dh30bn as of 3Q11. We expect debt repayments of about Dh10bn over the next 15 months to remain an overhang on the stock.

**Important disclosures can be found in the Disclosures Appendix.**

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**Table 1 : Revised forecasts overview**

(Dhm)	2011F			2012F			2013F		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	3,838	7,189	87%	5,755	7,932	38%	3,614	3,614	0%
Net profit	1,020	612	-40%	611	540	-12%	173	163	-6%

Source: Rasmala forecasts

We use an SOTP approach to derive our target price. The methodology is bottom up and evaluates the potential value of each project and segment through DCF, generating a collective value for the company's portfolio against its outstanding liabilities. Our DCF assumptions are highlighted below, with higher-risk projects receiving a 50-100bp increase in project WACC, with lower-risk or more stable revenue streams, including rental portfolios, getting a 50-100bp discount below base-case WACC.

We use a WACC of 8.9% and our WACC estimate is based on a cost of debt of 6.0% and a cost of equity of 14.2%. We derive our cost of equity value using a risk-free rate of 4.0%, an equity market risk premium of 6% and a beta of 1.7. We use a terminal growth rate of 2% for our recurring income portfolio.

Key downside risks to our target price relate to debt-repayment risk and Aldar's ability to fund near-term projects. Better-than-expected execution of development and investment properties will lead to upside risks.

## Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	200.5	415.5	733.2	910.2	1067
Prop development income	1663	908.7	5927	6437	1913
Other revenue	115.6	466.9	529.4	585.7	633.8
<b>Total property income</b>	<b>1979</b>	<b>1791</b>	<b>7189</b>	<b>7932</b>	<b>3614</b>
Other costs	-2741	-2773	-5931	-6295	-2743
EBITDA	-761.4	-981.9	1258	1637	870.9
DDA & Impairment (ex gw)	-418.2	-514.1	-575.1	-529.9	-338.4
EBITA	-1180	-1496	683.2	1107	532.5
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>-1180</b>	<b>-1496</b>	<b>683.2</b>	<b>1107</b>	<b>532.5</b>
Associates (pre-tax)	-88.4	-27.6	-12.1	0.00	0.00
Net interest	193.9	-455.0	-855.6	-659.0	-493.9
Other pre-tax items	1911	-10680	796.5	92.0	124.0
<b>Reported PTP</b>	<b>837.4</b>	<b>-12658</b>	<b>612.0</b>	<b>540.0</b>	<b>162.6</b>
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>837.4</b>	<b>-12658</b>	<b>612.0</b>	<b>540.0</b>	<b>162.6</b>
Dividends declared	-144.4	0.00	0.00	0.00	0.00
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	-761.4	-981.9	1258	1637	870.9
Normalised PTP	837.4	-12658	612.0	540.0	162.6
Normalised net profit	837.4	-12658	612.0	540.0	162.6

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	2663	648.2	700.9	1275	1690
Props under dev	10909	13878	12008	7288	6027
Other current assets	22349	13590	9428	6627	5827
Investment prop	14741	8294	9569	11614	13391
Other non-current assets	15683	10935	10013	8812	8834
<b>Total assets</b>	<b>66345</b>	<b>47344</b>	<b>41718</b>	<b>35616</b>	<b>35768</b>
Short term debt (2)	4696	14811	6244	1244	993.9
Long term debt (3)	34001	17761	18162	18162	18718
Other liabilities	10847	10525	10281	8638	7628
<b>Total liabilities</b>	<b>49544</b>	<b>43097</b>	<b>34687</b>	<b>28044</b>	<b>27340</b>
Total equity (incl min)	16801	4247	7031	7571	8428
<b>Total liab &amp; sh equity</b>	<b>66345</b>	<b>47344</b>	<b>41718</b>	<b>35616</b>	<b>35768</b>
Net debt	36034	31924	23705	18131	18023

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	-761.4	-981.9	1258	1637	870.9
Change in working capital	-698.5	-2361	4046	5878	1051
Net interest (pd) / rec	0.00	0.00	0.00	0.00	0.00
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	403.3	627.8	-3028	633.0	-369.9
<b>Cash flow from ops (1)</b>	<b>-1056</b>	<b>-2715</b>	<b>2276</b>	<b>8148</b>	<b>1552</b>
Capex (2)	0.00	0.00	0.00	0.00	0.00
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-13485	1975	5141	-2574	-2137
<b>Cash flow from invest (3)</b>	<b>-13485</b>	<b>1975</b>	<b>5141</b>	<b>-2574</b>	<b>-2137</b>
Incr / (decr) in equity	0.00	4795	2142	0.00	694.0
Incr / (decr) in debt	15653	502.5	-8265	-5000	306.1
Ordinary dividend paid	-322.2	0.00	-0.73	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-1352	-6573	-1241	0.00	0.00
<b>Cash flow from fin (5)</b>	<b>13978</b>	<b>-1275</b>	<b>-7364</b>	<b>-5000</b>	<b>1000</b>
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>-562.7</b>	<b>-2015</b>	<b>52.7</b>	<b>573.7</b>	<b>414.9</b>
Equity FCF (1+2+4)	-1056	-2715	2276	8148	1552

Source: Company data, Rasmala forecasts

year to Dec

<b>Standard ratios</b>	<b>Al Dar</b>					<b>Sorouh Real Estate</b>			<b>Arabtec Holding</b>		
<b>Performance</b>	<b>FY09A</b>	<b>FY10A</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Rental income growth (%)	112.5	107.2	68.2	24.1	17.2	14.3	50.6	10.6	n/a	n/a	n/a
Normalised EPS growth (%)	-77.7	n/a	n/a	-11.8	-69.9	7.03	4.63	25.2	-56.2	72.3	22.4
EBITDA margin (%)	-38.5	-54.8	17.5	20.6	24.1	12.4	15.1	13.7	10.5	10.3	10.2
EBIT margin (%)	-59.6	-83.5	9.50	14.0	14.7	11.2	13.9	12.7	3.89	5.17	5.50
Pretax margin (%)	42.3	-706.7	8.51	6.81	4.50	11.4	13.2	12.9	4.47	6.29	6.95
Net profit margin (%)	42.3	-706.7	8.51	6.81	4.50	10.8	11.1	10.9	2.84	4.39	4.74
Return on avg assets (%)	1.11	-21.5	3.30	3.10	1.84	2.86	3.30	4.35	2.80	4.26	5.14
Return on avg equity (%)	5.10	-120.3	10.9	7.40	2.03	5.61	5.56	6.56	4.87	7.86	8.85
Return on cap empl (%)	-2.67	-3.36	2.04	3.92	2.04	4.97	5.65	6.51	6.09	9.13	11.0
ROIC (%)	-3.33	-2.83	1.89	3.60	2.07	5.38	5.88	6.35	5.64	8.99	10.3
WACC (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
				year to Dec				year to Dec			year to Dec
<b>Valuation</b>											
Reported PE (x)	4.30	-0.23	6.63	7.52	25.0	7.76	6.63	5.29	15.6	9.03	7.38
Normalised PE (x)	4.30	-0.23	6.63	7.52	24.96	6.94	6.63	5.29	15.56	9.03	7.38
Norm PE @ tgt price (x)	4.57	-0.24	7.03	7.97	26.5	7.54	7.21	5.75	13.8	8.00	6.53
Dividend yield (%)	5.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disc/(prm) to adj NAV (%)	78.5	32.8	42.3	46.4	51.8	62.1	64.1	66.4	n/a	n/a	n/a
Disc/(prm) to NNNAV (%)	78.5	32.8	42.3	46.4	51.8	62.1	64.1	66.4	n/a	n/a	n/a
PEG 3yr (%)	n/a	n/a	-0.07	n/a	n/a	0.03	n/a	n/a	-5.98	n/a	n/a
EV/EBITDA (x)	-51.1	-35.4	21.1	12.8	24.0	9.13	7.78	5.05	3.73	2.80	1.84
EV/invested capital (x)	0.74	0.96	0.86	0.82	0.79	0.47	0.46	0.36	0.62	0.51	0.37
Equity FCF yield (%)	-29.3	-95.1	56.1	200.8	38.2	-25.2	-8.00	39.2	14.1	16.0	18.8
				year to Dec				year to Dec			year to Dec
<b>Per share data</b>	<b>FY09A</b>	<b>FY10A</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>Solvency</b>	<b>FY09A</b>	<b>FY10A</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Tot adj dil sh, ave (m)	3641	2883	4099	4099	4099	Net debt to equity (%)	214.5	751.7	337.1	239.5	213.8
Reported EPS (AED)	0.23	-4.39	0.15	0.13	0.04	Net debt to tot ass (%)	54.3	67.4	56.8	50.9	50.4
Normalised EPS (AED)	0.23	-4.39	0.15	0.13	0.04	Net debt to EBITDA	-47.3	-32.5	18.8	11.1	20.7
Dividend per share (AED)	0.05	0.00	0.00	0.00	0.00	Current ratio (x)	2.63	1.18	1.47	1.81	1.90
Adj NAV per share (AED)	4.61	1.47	1.72	1.85	2.06	Operating CF int cov (x)	0.00	0.00	0.00	0.00	0.00
NNNAV per share (AED)	4.61	1.47	1.72	1.85	2.06	Dividend cover (x)	5.80	0.00	0.00	0.00	0.00
				year to Dec							year to Dec

Priced as follows: ALDR.AD - Dh0.99; SOR.AD - Dh0.92; ARTC.DU - Dh1.40  
Source: Company data, Rasmala forecasts

## Sum-of-the-parts valuation breakdown

	<b>Value (Dhm)</b>	<b>Value per share (Dh)</b>
Asset to be sold to the government	5807	1.42
Properties for sale	4,363	1.06
Investment properties	10,323	2.52
Hospitality	2,801	0.68
Other properties	930	0.23
Total value of the properties	24224	5.91
Other assets	13,001	3.17
Total value of the assets except cash	37,226	9.08
Net debt	-25,319	-6.18
Other liabilities	-8,133	-1.98
Total equity value	3,773	0.92
One year price target		1.05

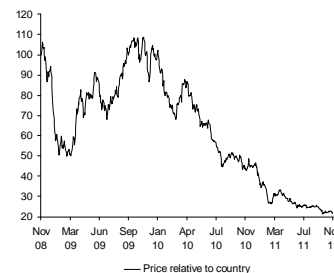
Source: Company data, Rasmala forecasts

## Company description

Aldar Properties is an Abu Dhabi-based integrated real estate company with diversified activities across the value chain; it is engaged in master planning, constructing projects, managing investment properties, and asset management. In terms of land bank, projects and market capitalisation, Aldar is the largest real estate developer in the emirate of Abu Dhabi. The company was listed on the Abu Dhabi Securities Exchange in 2005. Aldar was established by the government of Abu Dhabi in 2005 with the objective of developing infrastructure in the emirate, and supporting the region's infrastructure through the creation of high-quality, sustainable communities equipped with residential, commercial, retail, leisure, hospitality, education, and medical facilities. The government of Abu Dhabi has an indirect shareholding of c. 38% in Aldar.

Hold

Price relative to country



## Strategic analysis

Average SWOT company score:

3

Revenue breakdown, 2011F

### Strengths

Govt. ownership at 38% implying strong sovereign support.

### Weaknesses

Debt servicing, liquidity challenges and market liquidity hurdles have driven up investor risk aversion, especially in last 12 months.

### Opportunities

The mid-range of the market remains underserved in Abu Dhabi and may provide for near-to-medium-term cash flows.

### Threats

Facing continued pricing pressures across residential and commercial segments.

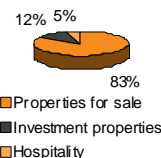
Scoring range is 1-5 (high score is good)

4

2

3

2



Source: Rasmala estimates

## Market data

### Headquarters

Emirates Post Building, Al Najda Street, Abu Dhabi UAE

### Website

www.aldar.com

### Shares in issue

2881.6m

### Freefloat

55%

### Majority shareholders

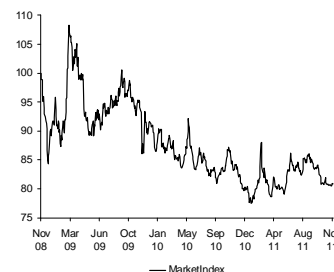
Mubadala Development Company (19%), Abu Dhabi Investment Company (6%), 0 (0%)

## Country view: United Arab Emirates

## Country rel to M East & Africa

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



## Competitive position

Average competitive score:

3-

Broker recommendations

### Supplier power

Low - New residential project activity in the UAE is sharply down as most projects are on hold, delayed or cancelled, thereby putting pressure on contractors.

### Barriers to entry

High - In the domestic market, which is already oversupplied, there remains very little appetite to fund new developments.

### Customer power

Medium - transaction activity is low as market sentiment remains soft.

### Substitute products

Low - Aldar is engaged in government-supported projects and mid-range housings schemes in addition to its core focus of high-end property.

### Rivalry

Low - Aldar is the largest master developer in Abu Dhabi with little competitive risk.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

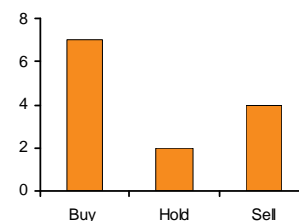
2-

4+

3-

2-

2-



Source: Bloomberg

## Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Valuation and risks to target price

**Aldar Properties (RIC: ALDR.AD, Rec: Hold, CP: Dh0.99, TP: Dh1.05):** We value Aldar Properties using a sum-of-the-parts methodology, from which we derive our target price. Key risks to our target price relate to refinancing risk and Aldar's ability to fund near-term projects. Should the population surpass our conservative estimates we would likely witness better fundamentals, liquidity and property demand, providing upside risk.

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