

Arabtec Holding 2009 Results and Highlights



Earnings Flash Note

Wednesday March 3, 2010

Arabtec 2009 Annual Filing

Highlights

- Arabtec filed its 2009 annual reports yesterday afternoon local time. While headline numbers fell below expectations, a closer look at the annual report reveals a few interesting trends.
- 2009 net income fell to AED 494.5 million compared to AED 958.0 million last year. The company took a AED 293 million provision against past due receivables in 2009.
- The good news for investors is that Arabtec's consolidated gross margins improved 200 basis points to reach 17.3% for the year compared to 15.3% last year.
- Segmented data shows that "Construction Contract" gross margin improved 410 basis points to 17.3% up from last year's 13.2%. It is interesting to note that the improvement came despite a 20% decline in construction revenues. This implies a structural change to the business or mix shift change towards high margin infrastructure contracts. At this point it is too soon to determine how this was achieved but we suspect it came from a growth in infrastructure contracts.
- Selling, General and Administrative expenses (SG&A) jumped to 10.2% of revenue from last year's 6.0%. However this increase was related to the AED 293 million provision previously highlighted. Excluding the provision SG&A would have been 6.4%.
- The company's trade and other receivables account remained almost flat at AED 4.7 billion for 2009 compared to 4.9 billion in 2008. Further disclosure shows that total past due receivables increased to AED 2.5 billion compared to AED 380 million in 2008. Days sales outstanding (DSOs) was 222 days in 2009 compared to 187 days in 2008.
- Trade and other payables ended the year at AED 4.8 billion compared to AED 5.7 billion last year. Days payable outstanding (DPOs) was 280 days in 2009 compared to 254 days in 2008.

What is next?

- Given the uncertainty surrounding the company's trade receivable balance, the economic case for issuing a convertible bond to Aabar Investments appears to be an attractive proposition.
- If 25% of the past due balance becomes permanently impaired the company would be left with a receivable to payable short fall of AED 800 million.
- Strengthening the balance sheet at this stage should be a top priority for the company.
- As disclosed by the company, Aabar has requested additional time to carry out due diligence on the business prior to making an investment in the business. AED 6.4 billion is a substantial amount and if the deal is finalized, both companies will benefit.
- Aabar has a good track record with its investments. Using Daimler as an example, Aabar became its largest shareholder around multi-year lows and the stock has since doubled.
- We think dilution concerns are very valid, however given the deteriorating receivable quality seen this year, the alternative scenario might not be as attractive.

Recommendation

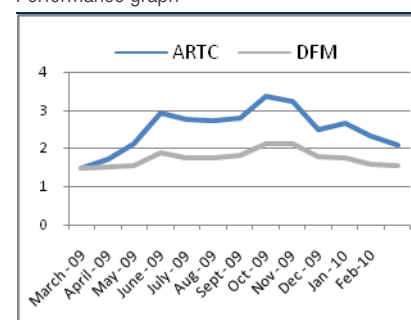
Not Rated

Stock Data

Price (as of March 2, 2010) (AED)	2.1
Target Price (AED)	N/A
Upside / Downside	N/A
Market Cap (AED mn)	2,511.6
Market Cap (USD mn)	683.9
Number of Shares (mn)	1,196.0
52 Wk Av. value traded (AED mn)	105.0
Reuters / Bloomberg	ARTC.DU / ARTC.UH
Exchange Rate (AED/ USD)	3.7

Source: Reuters, Rasmala Research

Performance graph



Source: Reuters, Rasmala Research

12m High / Low (AED) 3.71/1.38

	1M	3M	12M
ARTC	-9.9%	-16.0%	40.9%
DFM Index	-3.6%	-13.3%	3.7%

Source: Reuters, Rasmala Research

Major Shareholders

	(%)
Private Investors	45.0
Free Float	55.0

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