

27 July 2011

Emaar Properties

2Q11 results update

Buy

Target price
Dh3.50

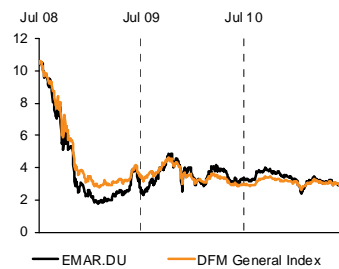
Price
Dh2.86

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	3.03	3.31	3.21
Absolute (%)	-5.6	-13.6	-10.9
Rel market (%)	-4.0	-6.6	-11.0
Rel sector (%)	-5.4	-15.5	-24.8



Market capitalisation
Dh17.44bn (€3.28bn)

Average (12M) daily turnover
Dh50.93m (US\$13.65m)

Sector: ADX Bank & Fin Index
RIC: EMAR.DU, EMAAR.UH
Priced Dh2.86 at close 27 Jul 2011.
Source: Bloomberg

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The 2Q11 performance was largely in line with our expectations, although Dubai Bank's Dh172m provision carries headline risk. Our constrictive view on Emaar's stock remains unchanged as recurring revenue momentum remains relatively robust and exceeded our expectations.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (Dhm)	8,413	12,150	8,546	7,560	5,673
Net rental income (Dhm)	1,510	1,901	1,996	1,997	2,002
Normalised PTP (Dhm)	2,028	2,478	2,244	2,306	2,287
Normalised EPS (Dh)	0.05	0.40	0.33	0.35	0.34
Normalised PE (x)	53.30	7.12	8.56	8.28	8.36
Dividend per share (Dh)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Adj NAV per share (Dh)	4.70	5.10	5.33	5.68	6.02
NNNAV per share (Dh)	4.70	5.10	5.33	5.68	6.02
Disc/(prm) to adj NAV (%)	39.20	43.90	46.40	49.60	52.50
Net debt to tot ass (%)	9.09	13.90	12.30	7.05	1.64

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Solid 2Q pro forma results

Emaar reported 2Q11 revenue of Dh2,032m (up 2.5% qoq and down 23.4% yoy), exceeding our forecast of Dh1,925m and consensus of Dh1,971m. Net profit before the write-off related to Dubai Bank was Dh422m (up 0.3% qoq and down 47.4% yoy), exceeding our forecast of Dh397m. Although the gross margin was 220bp below our expectation of 49.8%, the EPS beat was mainly due to higher-than-expected revenue and SG&A expense as a percentage of sales being 140bp lower than our forecast of 21%. The company also recognised impairment of Dh172m during the quarter as it completely wrote off its investment in its associate Dubai Bank.

Recurring income portfolio continued to outperform

Although we expected a slight qoq decline in Emaar's recurring revenue due to seasonality in tourism, it maintained its strong recurring income portfolio performance, reporting revenue of roughly Dh833m, in line with 1Q11. However, revenue from property for sale was almost in line with our expectations, driven by handovers of residential units in Burj Khalifa and Umm Al Quwain Marina and commercial space in downtown Dubai. In total, Emaar delivered about 244 units during the quarter, vs 270 in 1Q11 and 612 in 2Q10. It expects to commence handovers in its Jeddah gate and Al Khobar Lakes projects in Saudi in 2H11.

Story remains unchanged

We remain constructive on the name with a Buy rating and a Dh3.50 per share target price. We believe current price levels offer an attractive entry point because we expect the stock to maintain its strong recurring income portfolio performance and to trade at a premium to its peers backed by relatively better fundamentals.

Valuation

Using an SOTP approach, we value the recurring income portfolio at Dh2.64 per share (75% of TP), projects for sale at Dh0.82 (24% of TP) and other assets at Dh0.04 (1% of TP).

Important disclosures can be found in the Disclosures Appendix.

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Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	1510	1901	1996	1997	2002
Prop development income	6236	9270	5327	4352	2453
Other revenue	667.2	979.6	1222	1211	1218
Total property income	8413	12150	8546	7560	5673
Other costs	-5358	-8715	-5429	-4735	-3255
EBITDA	3056	3436	3117	2825	2418
DDA & Impairment (ex gw)	-635.7	-804.6	-724.6	-700.3	-671.4
EBITA	2420	2631	2392	2125	1747
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	2420	2631	2392	2125	1747
Associates (pre-tax)	-534.5	-430.5	-367.4	-250.0	-90.0
Net interest	139.0	-90.0	-50.1	86.3	260.6
Other pre-tax items	3.35	367.8	268.9	344.7	369.3
Reported PTP	2028	2478	2244	2306	2287
Taxation	23.5	-1.44	-6.74	0.00	0.00
Minority interests	37.9	-28.8	-200.5	-200.5	-200.5
Other post-tax items	-1762	0.00	0.00	0.00	0.00
Reported net profit	327.3	2448	2037	2106	2086
Dividends declared	0.00	0.00	0.00	0.00	0.00
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	3056	3436	3117	2825	2418
Normalised PTP	2028	2478	2244	2306	2287
Normalised net profit	327.3	2448	2037	2106	2086

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	2797	2468	2299	2655	4630
Props under dev	31076	26492	25171	23820	23130
Other current assets	1388	4170	5061	4981	4901
Investment prop	8546	8110	7905	7594	7294
Other non-current assets	20338	21264	20452	19713	19051
Total assets	64145	62504	60888	58763	59006
Short term debt (2)	4500	4455	5003	2503	1903
Long term debt (3)	4125	6714	4796	4296	3696
Other liabilities	26641	21794	19915	18484	17641
Total liabilities	35266	31204	27953	23522	21478
Total equity (incl min)	28879	31300	32935	35241	37528
Total liab & sh equity	64145	62504	60888	58763	59006
Net debt	5828	8701	7500	4144	969.1

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	3056	3436	3117	2825	2418
Change in working capital	-5012	-3320	-954.2	199.5	127.1
Net interest (pd) / rec	0.00	90.0	50.1	-86.3	-260.6
Taxes paid	-3.00	3.13	0.64	0.00	0.00
Other oper cash items	327.4	255.7	219.9	431.0	629.9
Cash flow from ops (1)	-1632	464.3	2433	3370	2915
Capex (2)	-1866	-778.8	-172.2	-100.0	0.00
Disposals/(acquisitions)	6.42	606.5	21.3	0.00	0.00
Other investing cash flow	-930.7	-2626	-578.5	371.4	417.6
Cash flow from invest (3)	-2790	-2798	-729.4	271.4	417.6
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	1196	816.5	-3194	-3000	-1200
Ordinary dividend paid	-3.57	-1.21	-0.08	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	17.2	1444	1376	-285.1	-157.0
Cash flow from fin (5)	1210	2259	-1817	-3285	-1357
Forex & disc ops (6)	-102.2	-11.9	-9.30	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-3315	-86.7	-122.8	355.9	1975
Equity FCF (1+2+4)	-3498	-314.5	2261	3270	2915

Source: Company data, Rasmala forecasts

year to Dec

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

Emaar Properties (RIC: EMAR.DU, Rec: Buy, CP: Dh2.86, TP: Dh3.50): We value Emaar Properties using a sum-of-the-parts methodology, from which we derive our target price. Key risks to our target price include potential delays in raising domestic and international capital as core market stresses still prevail and we expect a continued decline in house prices. Should handover materialise beyond our estimates and population surpass our conservative estimates, we would likely see better fundamentals, liquidity and property demand, providing upside risk.

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