

27 October 2011

Buy

Target price
Dh3.00

Price
Dh2.60

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	2.77	2.86	3.78
Absolute (%)	-6.1	-9.1	-31.2
Rel market (%)	0.3	1.5	-11.4
Rel sector (%)	-4.9	-0.3	-28.2

Market capitalisation
Dh15.85bn (€3.08bn)

Average (12M) daily turnover
Dh39.80m (US\$10.95m)

Sector: ADX Bank & Fin Index
RIC: EMAR.DU, EMAAR.UH
Priced Dh2.60 at close 27 Oct 2011.
Source: Bloomberg

Analysts

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Emaar Properties

Results roughly in-line

The results were roughly in-line with our expectations, with revenue coming in slightly below and in-line EPS. We maintain our Buy rating on the stock. In our view, the main near-term catalyst for the stock may be debt refinancing.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (Dhm)	8,413	12,150	8,081	7,153	5,285
Net rental income (Dhm)	1,510	1,901	2,133	2,175	2,199
Normalised PTP (Dhm)	2,028	2,478	1,899	2,085	2,037
Normalised EPS (Dh)	0.05	0.40	0.27	0.31	0.30
Normalised PE (x)	48.40	6.47	9.53	8.41	8.63
Dividend per share (Dh)	0.00	0.00	0.10	0.10	0.10
Dividend yield (%)	0.00	0.00	3.85	3.85	3.85
Adj NAV per share (Dh)	4.70	5.10	5.27	5.58	5.88
NNNAV per share (Dh)	4.70	5.10	5.27	5.58	5.88
Disc/(prm) to adj NAV (%)	44.70	49.00	50.60	53.40	55.80
Net debt to tot ass (%)	9.09	13.90	14.70	11.70	7.30

Accounting standard: IFRS
Source: Company data, RBS forecasts

year to Dec, fully diluted

Revenue slightly below our expectations but EPS was in-line

Emaar reported 3Q11 revenue of Dh1,859m (down 8.5% qoq and down 33.2% yoy), missing our estimate of Dh1,917 (Bloomberg consensus was Dh1,912m) by 3%. Revenue from the recurring income portfolio was Dh768m (down 7.8% qoq and up 21.4% yoy), 3% below our estimate of Dh792m. We had forecast it to go down 5% qoq as we expected a seasonally soft quarter. Revenue from property sales of Dh1,091m (down 9% qoq and down 49.2% yoy) was also 3% below our estimate of Dh1,125m. Gross profit of Dh975m missed our Dh903m estimate as gross margin of 52.4% was 530bp better than our estimate. However, SG&A expenses of Dh461m beat our Dh401m estimate by 15%. The company realised loss from its associates of Dh58m. However, the loss declined only 2.8% qoq and 39.1% yoy. Overall EPS ex-impairment at Dh0.067 (down 3.8% qoq and down 33.7% yoy) was in line with our estimate of Dh0.067 (consensus was Dh0.061). No further impairments were taken in 3Q11. (The company took impairments of Dh172m on Dubai Bank in 2Q11.)

Emaar expects its projects in Saudi to be handed over shortly

In total, the company handed over 201 units during the quarter compared to 244 units in 2Q11 and 270 units in 1Q11. Locally, the revenue was driven by delivery of residential and commercial units at Downtown Dubai and commercial units at Dubai Marina. Internationally, Emaar handed over residential units in Samarah Dead Sea Resort Jordan and commercial units in The Eighth Gate Syria. The company expects residential units in Al Khobar Lakes and Jeddah gate in Saudi to be handed over shortly. Also, the first phase of both its Marassi and Uptown Cairo projects in Egypt is near completion.

Maintain Buy with a target price of Dh3.00 per share

In our view, the main catalyst for stock may be debt refinancing, and secondarily any avoidance of impairments would significantly reduce headline risk. We may revisit our forecasts after detailed financials and company feedback on international handovers outlook.

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	2133	2175	2199
Prop development income	6236	9270	4721	3749	1841
Other revenue	667.2	979.6	1226	1230	1245
Total property income	8413	12150	8081	7153	5285
Other costs	-5358	-8715	-5129	-4427	-2818
EBITDA	3056	3436	2952	2726	2467
DDA & Impairment (ex gw)	-635.7	-804.6	-729.6	-702.9	-674.0
EBITA	2420	2631	2223	2024	1793
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	2420	2631	2223	2024	1793
Associates (pre-tax)	-534.5	-430.5	-267.5	-80.0	-20.0
Net interest	139.0	-90.0	-107.2	-165.7	-49.0
Other pre-tax items	3.35	367.8	50.7	306.8	313.5
Reported PTP	2028	2478	1899	2085	2037
Taxation	23.5	-1.44	-30.4	0.00	0.00
Minority interests	37.9	-28.8	-205.2	-200.5	-200.5
Other post-tax items	-1762	0.00	0.00	0.00	-0.00
Reported net profit	327.3	2448	1663	1884	1837
Dividends declared	0.00	0.00	-609.6	-609.6	-609.6
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	3056	3436	2952	2726	2467
Normalised PTP	2028	2478	1899	2085	2037
Normalised net profit	327.3	2448	1663	1884	1837

Source: Company data, RBS forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	2797	2468	1682	1577	2771
Props under dev	31076	26492	25300	24472	24031
Other current assets	1388	4170	3904	3824	3744
Investment prop	8546	8110	7955	7642	7341
Other non-current assets	20338	21264	20963	20394	19801
Total assets	64145	62504	59804	57909	57688
Short term debt (2)	4500	4455	3309	1709	909.4
Long term debt (3)	4125	6714	7171	6671	6071
Other liabilities	26641	21794	18544	16664	15806
Total liabilities	35266	31204	27260	23280	21022
Total equity (incl min)	28879	31300	32544	34629	36666
Total liab & sh equity	64145	62504	59804	57909	57688
Net debt	5828	8701	8799	6803	4209

Source: Company data, RBS forecasts

year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	3056	3436	2952	2726	2467
Change in working capital	-5012	-3320	-1892	-772.0	-137.4
Net interest (pd) / rec	0.00	90.0	107.2	165.7	49.0
Taxes paid	-3.00	3.13	-2.57	0.00	0.00
Other oper cash items	327.4	255.7	120.3	141.2	264.5
Cash flow from ops (1)	-1632	464.3	1285	2261	2643
Capex (2)	-1866	-778.8	-227.6	-100.0	0.00
Disposals/(acquisitions)	6.42	606.5	40.8	0.00	0.00
Other investing cash flow	-930.7	-2626	-30.9	219.3	221.3
Cash flow from invest (3)	-2790	-2798	-217.6	119.3	221.3
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	1196	816.5	-2515	-2100	-1400
Ordinary dividend paid	-3.57	-1.21	-582.3	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	17.2	1444	1351	-385.0	-270.3
Cash flow from fin (5)	1210	2259	-1746	-2485	-1670
Forex & disc ops (6)	-102.2	-11.9	-15.2	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-3315	-86.7	-693.9	-104.4	1194
Equity FCF (1+2+4)	-3498	-314.5	1057	2161	2643

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, RBS 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: Dh2.60, TP: Dh3.00): 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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