

28 July 2011

# Sorouh Real Estate

## Mixed-bag results

### Hold

**Target price**  
Dh1.30

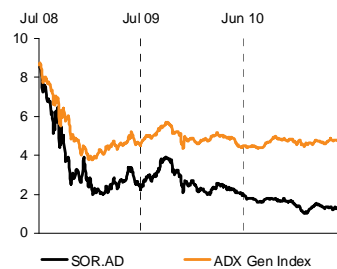
**Price**  
Dh1.23

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

**Market view**  
No Weighting

#### Price performance

	(1M)	(3M)	(12M)
Price (Dh)	1.21	1.42	1.74
Absolute (%)	1.7	-13.4	-29.3
Rel market (%)	4.1	-11.3	-31.5
Rel sector (%)	1.4	-14.2	-40.3


**Market capitalisation**  
Dh3.23bn (€614.28m)

**Average (12M) daily turnover**  
Dh11.75m (US\$3.17m)

 Sector: ADX Bank & Fin Index  
 RIC: SOR.AD, SOROUH UH  
 Priced Dh1.23 at close 28 Jul 2011.  
 Source: Bloomberg

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Sorouh's 2Q11 revenue was much better than we expected, delivering both residential and commercial units at Sun and Sky towers, but lower-than-expected gross margin is a concern. We maintain our Hold recommendation on the stock until management gives further clarity on the gross margin outlook.

#### Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (Dhm)	3,185	1,156	3,367	3,581	3,760
Net rental income (Dhm)	139.4	210.2	215.2	357.8	389.3
Normalised PTP (Dhm)	686.1	383.4	434.4	527.1	563.6
Normalised EPS (Dh)	0.27	0.14	0.15	0.19	0.20
Normalised PE (x)	4.56	8.62	8.01	6.45	6.03
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)	2.41	2.31	2.46	2.65	2.86
NNNAV per share (Dh)	2.41	2.31	2.46	2.65	2.86
Disc/(prm) to adj NAV (%)	49.00	46.70	50.00	53.60	56.90
Net debt to tot ass (%)	3.26	3.72	-1.98	-6.07	-15.4

 Accounting standard: IFRS  
 Source: Company data, Rasmala forecasts

year to Dec, fully diluted

#### Solid revenue, but earnings below our expectations

Sorouh reported solid 2Q11 revenue of Dh1,218m (up 170% qoq), exceeding both our and Bloomberg consensus estimates of Dh870m and Dh897m, respectively. As we expected, revenue was mainly driven by the handover of residential units at Sun and Sky towers and commercial units at Sky tower. However, net profit of Dh110m (up 72% qoq) was below our estimate of Dh117m (Bloomberg consensus: Dh151m), as reported gross margin of 11.9% was much lower than our expectation of 18.2%.

#### Initiation of residential handovers at Sun, Sky towers has improved revenue visibility

The company has begun delivery of residential units at Sun and Sky towers, which it missed during the last quarter. In total, the company handed over roughly 275 residential units at these developments during the quarter. We believe with a further 872 residential units to be delivered at Sun and Sky towers, revenue visibility has improved. The company also continued to deliver commercial units at Sky tower, reaching around 113 units since March.

#### Healthy balance sheet, but low gross margin is a concern

We are comfortable with the current liquidity on Sorouh's balance sheet, with total cash of Dh1.3bn and undrawn bank facilities of Dh500m. However, significantly lower-than-expected gross margin due to revenue mix shift towards property development and sale is a concern. We will revisit our forecasts and target price pending detailed financials and company feedback on its gross margins outlook. Until then, we maintain our Hold rating on the stock, with a target price of Dh1.30 per share.

#### Valuation

Using a SOTP approach, we estimate a one-year target price of Dh1.30. We value the projects for sale at Dh0.56, 43% of our target price; the rental and hospitality portfolio at Dh0.52, 40% of our target price; and other assets at Dh0.22, 17% of our target price.

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

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## Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	139.4	210.2	215.2	357.8	389.3
Prop development income	1177	526.8	2003	2029	2335
Other revenue	1869	418.8	1149	1194	1036
<b>Total property income</b>	<b>3185</b>	<b>1156</b>	<b>3367</b>	<b>3581</b>	<b>3760</b>
Other costs	-2443	-838.0	-2921	-3098	-3226
EBITDA	742.5	317.8	446.2	482.5	534.1
DDA & Impairment (ex gw)	-278.4	-196.5	-41.3	-41.6	-43.1
EBITA	464.1	121.3	404.9	440.9	491.0
Goodwill (amort/impaird)	-29.8	-162.9	0.00	0.00	0.00
<b>EBIT</b>	<b>434.3</b>	<b>-41.5</b>	<b>404.9</b>	<b>440.9</b>	<b>491.0</b>
Associates (pre-tax)	-50.5	48.7	5.70	12.0	12.0
Net interest	-42.1	-43.6	-51.2	-45.9	-37.4
Other pre-tax items	153.3	52.7	73.9	120.0	98.0
<b>Reported PTP</b>	<b>495.0</b>	<b>16.2</b>	<b>433.4</b>	<b>527.1</b>	<b>563.6</b>
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	-12.2	-8.74	-31.2	-26.4	-28.2
Other post-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>482.8</b>	<b>7.44</b>	<b>402.2</b>	<b>500.7</b>	<b>535.5</b>
Dividends declared	0.00	0.00	0.00	0.00	0.00
Tot normalised items	-191.1	-367.2	-0.99	0.00	0.00
Normalised EBITDA	659.7	367.1	447.2	482.5	534.1
Normalised PTP	686.1	383.4	434.4	527.1	563.6
Normalised net profit	673.9	374.6	403.2	500.7	535.5

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	1626	1135	1913	2439	3543
Props under dev	3778	5273	5032	3981	2293
Other current assets	4669	3942	3777	3657	3537
Investment prop	1240	1675	1525	1606	1531
Other non-current assets	2383	1609	1444	1459	1471
<b>Total assets</b>	<b>13698</b>	<b>13634</b>	<b>13691</b>	<b>13142</b>	<b>12376</b>
Short term debt (2)	989.9	12.5	6.03	6.03	6.03
Long term debt (3)	1083	1630	1635	1635	1635
Other liabilities	5500	5813	5441	4364	3035
<b>Total liabilities</b>	<b>7573</b>	<b>7456</b>	<b>7082</b>	<b>6005</b>	<b>4676</b>
Total equity (incl min)	6125	6178	6609	7136	7700
<b>Total liab &amp; sh equity</b>	<b>13698</b>	<b>13634</b>	<b>13691</b>	<b>13142</b>	<b>12376</b>
Net debt	446.7	507.5	-271.6	-797.4	-1902

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	742.5	317.8	446.2	482.5	534.1
Change in working capital	-3215	-965.9	14.8	94.7	478.3
Net interest (pd) / rec	42.1	43.6	51.2	45.9	37.4
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	844.1	155.3	22.8	74.1	60.6
<b>Cash flow from ops (1)</b>	<b>-1586</b>	<b>-449.2</b>	<b>534.9</b>	<b>697.2</b>	<b>1110</b>
Capex (2)	-397.6	-497.1	314.5	-125.5	31.5
Disposals/(acquisitions)	0.33	4.40	0.14	0.00	0.00
Other investing cash flow	380.3	1075	27.8	39.5	47.9
<b>Cash flow from invest (3)</b>	<b>-17.0</b>	<b>582.2</b>	<b>342.4</b>	<b>-86.1</b>	<b>79.4</b>
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-91.7	1592	-6.51	0.00	0.00
Ordinary dividend paid	-330.1	-5.71	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-1887	-2192	-93.0	-85.3	-85.3
<b>Cash flow from fin (5)</b>	<b>-2309</b>	<b>-606.0</b>	<b>-99.5</b>	<b>-85.3</b>	<b>-85.3</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>-3912</b>	<b>-473.0</b>	<b>777.8</b>	<b>525.8</b>	<b>1105</b>
Equity FCF (1+2+4)	-1984	-946.2	849.4	571.7	1142

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

**Sorouh Real Estate (RIC: SOR.AD, Rec: Hold, CP: Dh1.23, TP: Dh1.30):** We value Sorouh Real Estate using a sum-of-the-parts methodology, from which we derive our target price. Key risks to our target price include further project delays that could create headline risk and prompt consensus downgrades.

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