

**29 April 2011**

## Hold

**Target price**  
 Dh1.30 (from Dh1.15)

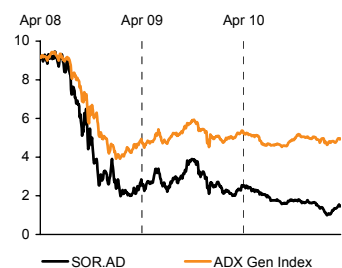
**Price**  
 Dh1.42

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

**Market view**  
 No Weighting

### Price performance

	(1M)	(3M)	(12M)
Price (Dh)	1.23	1.44	2.24
Absolute (%)	15.4	-1.4	-36.6
Rel market (%)	12.4	-3.0	-34.3
Rel sector (%)	6.3	-6.3	-39.9


**Market capitalisation**  
 Dh3.73bn (€683.93m)

**Average (12M) daily turnover**  
 Dh12.97m (US\$3.53m)

 Sector: ADX Bank & Fin Index  
 RIC: SOR.AD, SOROUH UH  
 Priced Dh1.42 at close 28 Apr 2011.  
 Source: Bloomberg

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# Sorouh Real Estate

## Soft results; outlook stabilising

**1Q results were below our expectations, mainly due to a delay in residential handovers. However, we believe recently awarded new contracts are likely incremental to Sorouh's outlook, so we raise our price target to account for new contracts but retain our Hold rating.**

### Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (Dhm)	3,185	1,156	3,729 ▲	3,885 ▲	4,093 ▲
Net rental income (Dhm)	139.4	210.2	198.1	357.8	389.3
Normalised PTP (Dhm)	686.1	383.4	462.0 ▲	564.2 ▲	601.4 ▲
Normalised EPS (Dh)	0.27	0.14	0.17 ▲	0.21 ▲	0.22 ▲
Normalised PE (x)	5.27	9.95	8.32	6.81	6.39
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	2.48	2.69	2.91
NNNAV per share (Dh)	2.41	2.31	2.48	2.69	2.91
Disc/(prm) to adj NAV (%)	41.10	38.50	42.70	47.20	51.20
Net debt to tot ass (%)	3.26	3.72	3.85	0.16	-9.19

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

### Weaker-than-expected results due to delay in residential handovers

Sorouh reported 1Q11 revenue of Dh452m (up 5% yoy), below our estimates of Dh709m and Bloomberg consensus of Dh742m. Net profit was also below expectations at Dh64m (down 51% yoy), missing both our and consensus estimates by 28% and 66%, respectively. The results were below expectations mainly due to delay in residential handovers at Sun and Sky towers, which are now expected by the company to begin in May 2011.

### New contracts incremental to outlook

Sorouh has recently been awarded two new contracts, Al Ghuraibah (Al Ain) and Al Sila'a (Western Region), worth Dh2.89bn in total by the Urban Planning Council (UPC) of Abu Dhabi to develop 1,470 high-quality residential units for the UAE nationals. Al Ghuraibah is valued at Dh1.85bn and will comprise 1,022 villas. Al Sila'a is valued at Dh1.05bn and will comprise 448 villas. Both projects are scheduled for completion by 3Q12.

### We increase our price target to Dh1.30, but maintain our Hold rating

While government awards enhance Sorouh's visibility beyond handovers at the three towers, these contracts entail relatively low margin structure. Assuming 7% margins and a project life cycle of three years, we estimate these two projects may add an incremental Dh0.08 per share to the EPS over the next three years. Assuming 30% project completion during 2011, our incremental addition to 2011E EPS works out to Dh0.024 per share. Overall, including these two contracts in our forecasts adds Dh0.15 per share to our previous price target, raising it to Dh 1.30 per share.

### Valuation

Using a SOTP approach, we estimate a one-year target price of Dh1.30 per share for Sorouh. We value the portfolio of projects for sale at Dh0.61 per share, 47% of our target price, the rental and hospitality portfolio at Dh0.46 per share, 36% of our target price and other assets at Dh0.22 per share, 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	198.1	357.8	389.3
Prop development income	1177	526.8	3164	3146	3315
Other revenue	1869	418.8	367.6	381.9	388.5
<b>Total property income</b>	<b>3185</b>	<b>1156</b>	<b>3729</b>	<b>3885</b>	<b>4093</b>
Other costs	-2443	-838.0	-3265	-3361	-3541
EBITDA	742.5	317.8	464.2	524.5	552.3
DDA & Impairment (ex gw)	-278.4	-196.5	-41.5	-43.0	-44.2
EBITA	464.1	121.3	422.7	481.6	508.2
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>422.7</b>	<b>481.6</b>	<b>508.2</b>
Associates (pre-tax)	-50.5	48.7	12.0	12.0	12.0
Net interest	-42.1	-43.6	-64.7	-61.3	-50.8
Other pre-tax items	153.3	52.7	92.0	132.0	132.0
<b>Reported PTP</b>	<b>495.0</b>	<b>16.2</b>	<b>462.0</b>	<b>564.2</b>	<b>601.4</b>
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	-12.2	-8.74	-13.9	-16.9	-18.0
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>448.2</b>	<b>547.3</b>	<b>583.3</b>
Dividends declared	0.00	0.00	0.00	0.00	0.00
Tot normalised items	-191.1	-367.2	0.00	0.00	0.00
Normalised EBITDA	659.7	367.1	464.2	524.5	552.3
Normalised PTP	686.1	383.4	462.0	564.2	601.4
Normalised net profit	673.9	374.6	448.2	547.3	583.3

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	1626	1135	1143	1623	2723
Props under dev	3778	5273	4124	3079	1486
Other current assets	4669	3942	3822	3702	3582
Investment prop	1240	1675	2264	2288	2306
Other non-current assets	2383	1609	1623	1636	1648
<b>Total assets</b>	<b>13698</b>	<b>13634</b>	<b>12977</b>	<b>12328</b>	<b>11745</b>
Short term debt (2)	989.9	12.5	12.5	12.5	12.5
Long term debt (3)	1083	1630	1630	1630	1630
Other liabilities	5500	5813	4694	3481	2297
<b>Total liabilities</b>	<b>7573</b>	<b>7456</b>	<b>6337</b>	<b>5124</b>	<b>3940</b>
Total equity (incl min)	6125	6178	6640	7204	7806
<b>Total liab &amp; sh equity</b>	<b>13698</b>	<b>13634</b>	<b>12977</b>	<b>12328</b>	<b>11745</b>
Net debt	446.7	507.5	499.9	19.5	-1080

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	742.5	317.8	464.2	524.5	552.3
Change in working capital	-3215	-965.9	150.0	-47.3	528.2
Net interest (pd) / rec	42.1	43.6	64.7	61.3	50.8
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	844.1	155.3	27.3	70.7	81.2
<b>Cash flow from ops (1)</b>	<b>-1586</b>	<b>-449.2</b>	<b>706.2</b>	<b>609.2</b>	<b>1213</b>
Capex (2)	-397.6	-497.1	-633.8	-67.6	-62.3
Disposals/(acquisitions)	0.33	4.40	0.00	0.00	0.00
Other investing cash flow	380.3	1075	20.7	24.1	34.6
<b>Cash flow from invest (3)</b>	<b>-17.0</b>	<b>582.2</b>	<b>-613.1</b>	<b>-43.5</b>	<b>-27.7</b>
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-91.7	1592	0.00	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	-85.4	-85.4	-85.4
<b>Cash flow from fin (5)</b>	<b>-2309</b>	<b>-606.0</b>	<b>-85.4</b>	<b>-85.4</b>	<b>-85.4</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>7.65</b>	<b>480.3</b>	<b>1099</b>
Equity FCF (1+2+4)	-1984	-946.2	72.3	541.7	1150

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	Sorouh					Aldar Properties			Emaar Properties		
Performance	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Rental income growth (%)	117.4	44.1	-1.43	80.6	8.81	-16.5	55.6	13.9	-6.82	-6.00	0.00
Normalised EPS growth (%)	-63.0	-47.1	19.6	22.1	6.58	n/a	-40.4	-71.9	-5.84	-3.79	-9.91
EBITDA margin (%)	20.7	31.8	12.4	13.5	13.5	31.5	23.9	25.7	32.9	33.6	37.1
EBIT margin (%)	19.6	28.2	11.3	12.4	12.4	28.7	20.6	19.6	24.2	23.9	24.9
Pretax margin (%)	15.5	1.40	12.4	14.5	14.7	17.5	12.5	6.99	27.8	30.8	36.7
Net profit margin (%)	21.2	32.4	12.0	14.1	14.3	17.5	12.5	6.99	27.8	30.8	36.7
Return on avg assets (%)	4.68	3.38	3.96	4.94	5.42	4.69	3.30	1.79	4.25	4.00	3.51
Return on avg equity (%)	11.3	6.20	7.13	8.07	7.94	24.9	12.4	3.22	7.15	6.43	5.46
Return on cap empl (%)	11.6	4.91	6.12	6.71	7.29	6.31	5.00	2.62	5.01	4.38	3.55
ROIC (%)	14.7	4.96	6.32	6.74	7.03	5.47	4.47	2.71	5.00	4.32	3.50
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)	7.35	501.1	8.32	6.81	6.39	5.30	8.89	31.7	8.75	9.10	10.1
Normalised PE (x)	5.27	9.95	8.32	6.81	6.39	5.30	8.89	31.7	8.75	9.10	10.1
Norm PE @ tgt price (x)	4.82	9.11	7.61	6.24	5.85	4.76	7.98	28.4	8.20	8.52	9.46
Dividend yield (%)	0.00	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 (%)	41.1	38.5	42.7	47.2	51.2	-17.3	-3.61	-0.33	39.5	43.3	46.3
Disc/(prm) to NNNAV (%)	41.1	38.5	42.7	47.2	51.2	-17.3	-3.61	-0.33	39.5	43.3	46.3
PEG 3yr (%)	n/a	n/a	0.03	n/a	n/a	-0.05	n/a	n/a	-1.34	n/a	n/a
EV/EBITDA (x)	6.33	11.5	9.11	7.14	4.79	11.8	13.9	27.5	9.70	9.52	9.87
EV/invested capital (x)	0.64	0.63	0.59	0.52	0.39	0.96	0.92	0.92	0.66	0.60	0.53
Equity FCF yield (%)	-55.9	-25.4	1.94	14.5	30.9	158.5	126.4	5.46	13.6	17.6	15.3
				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)	2500	2625	2625	2625	2625	Net debt to equity (%)	7.29	8.21	7.53	0.27	-13.8
Reported EPS (AED)	0.19	0.00	0.17	0.21	0.22	Net debt to tot ass (%)	3.26	3.72	3.85	0.16	-9.19
Normalised EPS (AED)	0.27	0.14	0.17	0.21	0.22	Net debt to EBITDA	0.68	1.38	1.08	0.04	-1.96
Dividend per share (AED)	0.00	0.00	0.00	0.00	0.00	Current ratio (x)	1.57	1.79	1.95	2.44	3.45
Adj NAV per share (AED)	2.41	2.31	2.48	2.69	2.91	Operating CF int cov (x)	38.7	11.3	-9.92	-8.93	-22.9
NNNAV per share (AED)	2.41	2.31	2.48	2.69	2.91	Dividend cover (x)	0.00	0.00	0.00	0.00	0.00
				year to Dec						year to Dec	

Priced as follows: SOR.AD - Dh1.42; ALDR.AD - Dh1.53; EMAR.DU - Dh3.29  
Source: Company data, Rasmala forecasts

## Valuation methodology

	Value (Dhm)	Value per share (Dh)
Properties for sale	2,188	0.83
Investment properties	1,496	0.57
Hospitality	147	0.06
Total value of the properties	3,831	1.46
Other assets	781	0.30
Total value of the assets except cash	4,612	1.76
Net debt	-677	-0.26
Other liabilities	-952	-0.36
Total equity value	2,984	1.14
One-year price target		1.30

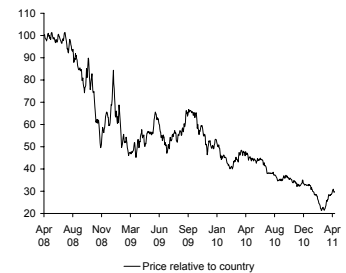
Source: Company data, Rasmala estimates

## Company description

Sorouh Real Estate PJSC (Sorouh) is the second-largest public real estate developer in Abu Dhabi by market cap. The company was listed on the Abu Dhabi Securities Exchange through its IPO in 2005. Sorouh is engaged in property investment and development and property management, and in providing retail and hospitality services in Abu Dhabi. While Sorouh currently operates predominantly in the state of Abu Dhabi in the United Arab Emirates (UAE), it has diversified geographically with its Agora Madinat & Resort project in Morocco and a project in Egypt (still in the pre-development phase). Sorouh enjoys a close relationship with the Abu Dhabi government, which indirectly owns 7% of its shares. Government backing comes in the form of close to zero-cost land grants, development approvals, and financial backing.

Hold

Price relative to country



## Strategic analysis

Average SWOT company score:

3

Revenue breakdown, 2011F

### Strengths

Refinancing risk mitigated via early payment of sukuk, cash inflows and outflows right-aligned at least in the near term, engaged on key government projects that may cushion revenue volatility.

4

### Weaknesses

Similar to Aldar and other developers in Abu Dhabi, funding needs could escalate beyond a 12-month horizon or shortfalls may be pulled in earlier if economic conditions continue to deteriorate.

3

### Opportunities

Diversifying into the commercial sector away from residential and land sales may strengthen business model and enhance valuation.

3

### Threats

Uncertainty on handovers, rolling receivables and other provisions risks may have an impact on headline results.

2

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



Source: Rasmala forecasts

## Market data

### Headquarters

Abu Dhabi Mall, East Tower, 5th floor, Tourist Area, Abu Dhabi - UAE

### Website

www.sorouh.com

### Shares in issue

2625.0m

### Freefloat

93%

### Majority shareholders

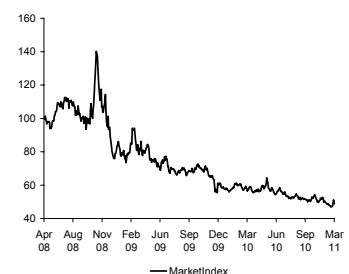
Al Joud Investment (12%), Abu Dhabi Investment Company (7%), 0 (0%)

## 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.

2-

### Barriers to entry

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

4+

### Customer power

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

3-

### Substitute products

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

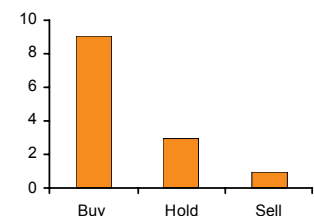
2-

### Rivalry

Low - We believe Sorouh is a smaller niche player compared to the larger developer Aldar, with relatively little competitive risk.

2-

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



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

**Sorouh Real Estate (RIC: SOR.AD, Rec: Hold, CP: Dh1.42, TP: Dh1.30):** We value Sorouh Real Estate using a sum-of-the-parts method implying a fair value of Dh1.30 per share. Main risks include further project delays that could create headline risk and prompt consensus downgrades.

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