



Results Review

EMAAR Properties

Rating: Under Review

2Q Results Beat Estimates; Concerns About Impending Merger Remain

Solid 2Q09 preliminary results; our 12-month rating on Emaar shares remains under review pending financial details about the company's impending merger. Emaar's 2Q09 results could fuel a near-term bounce in the stock given: (1) 2Q09 operating profit of AED442mm beat our expectation of AED324mm and consensus estimates easily; and (2) the company chose to conservatively write-down the entire remaining book value (consisting of the remaining inventory) of AED1.7bn related to its US subsidiary JL Homes (in ch-7 liquidation). Note that Emaar had already written off the entire goodwill of AED2.5bn in FY08 and AED1.5bn in inventory associated with JL Homes over FY07-FY08 (including AED919mm in 4Q08). **In the very near-term, we believe that Emaar shares could react positively given its better-than-expected 2Q09 operating profits and the fact that it choose to write-off the entire remaining balance of its exposure to JL Homes.** However, over the intermediate-term, we would advise long-term investors to avoid the stock until we obtain more financial clarity on Emaar's impending merger with Dubai Holdings' three real estate entities (Dubai Properties, Tatweer and Sama Dubai). We continue to believe that this merger is likely to be dilutive to Emaar's public shareholders. *Our 12-month rating on Emaar remains under review until we receive financial details about this impending merger.*

We await release of full financials (balance sheet and cash flow statement) to ascertain Emaar's liquidity position /balance sheet strength as of 2Q09. We were expecting a significant Q/Q increase in 2Q09 revenues, which is exactly what Emaar delivered. The company recorded revenues of AED1.94bn, which was up 25% Q/Q (vs. revenues of AED1.55bn in 1Q09, which was down 16% sequentially). Given the sequential increase in 2Q09 revenues we would expect: (1) Emaar's short-term liquidity position to improve in 2Q09 (vs. an AED1.2bn shortfall in 1Q09 given cash of AED4.6bn and short-term debt of AED5.8bn); and/or (2) a reduction in Emaar's payables due to suppliers and contractors (which stood at AED8.4bn or 250% of annualized COGS in 1Q09). In terms of other balance sheet/cash flow metrics, we also remain concerned about Emaar's cash burn on development properties (AED1.6bn burned in 1Q09, with total development properties recorded at AED28.4bn in the balance sheet). We will update investors about over view on Emaar's balance sheet/liquidity after the company discloses its full financials for 2Q09. We discuss its 2Q09 income statement metrics on Page 2.

Bobby Sarkar
T +971 4 360 11 68
Bobby.Sarkar@almalcapital.com

Downtown Burj Dubai
Emaar Square
Building 4, Office 302
Sheikh Zayed Road
P. O. Box 119930, Dubai, UAE
T +971 4 360 1111
F +971 4 360 1122
www.almalcapital.com

Equity Data						
Current Price (AED)	2.74					
Target Price (AED)	N.A.					
52 Week Hi-Lo	10.70-1.74					
12 Mo. Performance	-73.9%					
Market Cap. (AED bn.)	16.7					
Enterprise Value (AED bn.)	22.06					
RIC	EMARDU					
Bloomberg	EMAAR UH					
(A E D M illions)	2007 A	2008 A	2009 E	2010 E	2011 E	
Revenues	17,869	16,015	8,695	9,390	10,329	
Gross Margins	39.5%	42.5%	45.8%	44.0%	43.0%	
EBIT	5,223	4,703	1,818	1,784	2,169	
EBIT Margin	29.2%	29.4%	20.9%	19.0%	21.0%	
EBITDA	5,404	5,004	2,119	2,109	2,527	
EBITDA Margin	30.2%	31.2%	24.4%	22.5%	24.5%	
EPS	1.08	0.50	0.05	0.41	0.49	
PE	2.54	5.46	59.30	6.63	5.61	
Cash Earnings / Share	1.11	0.55	0.10	0.47	0.55	
P / C ash Earnings	2.47	4.97	28.65	5.88	5.01	

Notes: (1) FY07/FY08 financials are based on prior accounting standard and thus not comparable with forecasts. (2) FY07, FY08, and FY09E EPS include an AED458mm charge to COGS in 2007, an AED1.1bn charge to COGS and an AED2.5bn write-down to goodwill in 2008, and an AED1.7bn charge for inventory in 2009.

2Q09 Results Improve Sequentially; Emaar Chooses to Write-Off its Remaining Exposure to JL Homes

2Q09 revenues reflect higher sequential deliveries; Operating profit for 2Q09 surpasses expectations.

- **Revenues of AED1.94bn increased 25% qoq vs. AED1.55bn in 1Q09 as handovers grew sequentially.** Management stated in the press release that Emaar had higher unit deliveries and increased sales of completed units during the second quarter of this year in comparison to 1Q09. Emaar delivered Burj Views in Downtown Burj Dubai, Fairways in The Views, and Alma in Arabian Ranches. On the international front, the company also delivered its initial units in Tuscan Valley in Turkey. As expected, Emaar's 2Q09 revenues fell 65% Y/Y vs. AED5.6bn in 2Q08. This is because the company had significant project deliveries in 2Q08, including Alvorada villas in Arabian Ranches, South Ridge and Old Town B residences in Downtown Burj Dubai, and Marina Promenade in Dubai Marina. We do point out that the company recorded an 180% Y/Y increase in rental and hospitality income, a positive indicator given the recurring nature of these revenue streams.
- **Gross margins fell slightly sequentially, but were up marginally on a Y/Y basis.** Emaar reported GMs of 44.07% in 2Q09 vs. 45.34% for 1Q09 and 43.81% in 2Q08.
- **While operating profit exceeded expectations, net profit declined significantly, as Emaar chose to write-down its entire remaining exposure to JL Homes.** 2Q09 operating profit of AED442mm beat our expectation of AED324mm and consensus estimates easily. However, net profit fell 64% Q/Q and 161% Y/Y given that Emaar decided to write-down AED1.7bn, which was its remaining exposure to JL Homes.

**Al Mal Securities Group****Managing Director**

Robert McKinnon +971 4 360 11 17

Institutional Sales & Trading

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Kamal Samarrai +971 4 360 11 05

Jalal Faruki +971 4 360 11 03

Carlo Dalafu +971 4 360 11 04

All Desks Numbers +971 4 360 11 00**Al Mal Capital Research****Equity Research Analysts**

Irfan Ellam +971 4 360 11 53

Bobby Sarkar +971 4 360 11 68

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

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