



## Company Update

### EMAAR Properties

Rating: Under Review

## 2Q09 Liquidity Position Remains Tight, But We Expect Sequential Improvement

While 2Q09 liquidity position remains tight, we continue to project sequential improvement in Emaar's balance sheet as property handovers accelerate from 3Q09. As we have undertaken previously (during 4Q08/1Q09), we once again attempt to dig into Emaar's latest (2Q09) balance sheet/cash flow statements in order to answer several questions concerning the company's financial position (more details below). Our analysis reveals that although Emaar's current liquidity situation remains stretched, its balance sheet strength should improve from 3Q09 onwards given our expectation of accelerating property handovers going forward. **Despite our expectation about Emaar's improving balance sheet strength, 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.**

**(1) Has Emaar received some funds from the Dubai government?** So far the answer remains **No**. As 2Q09 statements reveal, Emaar did not receive any funds from the government either during the quarter (as that would have been reflected in its financial statements) or between end-June to August 13 (as that would have been stated in a "subsequent events" section in the notes to the financial statements). We continue to believe that while Emaar could benefit from such a cash infusion (given its weak net-cash/high level of payables), it does not need assistance unless fundamentals deteriorate significantly (which we do not believe is likely to happen). We note that Nakheel has already received some funding assistance from the Dubai government. Given Emaar's preminent position in the Dubai/Middle East property market and the Dubai government's significant 31% ownership stake in the company, we continue to believe that Emaar would receive government assistance if it were so required.

**(2) What is its cash position?** Cash position net of short-term debt has worsened. Cash declined 39% Q/Q to AED2.8bn from AED4.6bn in 1Q09. However, Emaar did pay down some short-term debt (which fell 24% Q/Q to AED4.4bn vs. AED5.8bn in 1Q09). Thus, the company's cash net of short-term debt currently stands at a *negative* AED1.6bn (i.e., a shortfall) vs. a shortfall of AED1.2bn in 1Q09. Thus, any significant defaults in buyer payments this year (assuming no new financings or funding inflows) could have negative consequences.

*(Executive Summary Continued on Page 2)*

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Equity Data						
Current Price (AED)	3.30					
Target Price (AED)	N.A.					
Upside/downside	N.A.					
12 Mo. Performance	-65.94%					
Market Cap. (AED bn.)	20.1					
Enterprise Value (AED bn.)	25.60					
RIC	EMAR.DU					
Bloomberg	EMAAR UH					
(AED Millions)	2007A	2008A	2009E	2010E	2011E	
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	3.06	6.58	71.41	7.99	6.75	
Cash Earnings/Share	1.11	0.55	0.10	0.47	0.55	
P/Cash Earnings	2.98	5.99	34.51	7.08	6.03	

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 inventories in 2009.



**(3) Has Emaar slowed its pace of cash burn on development properties? Cash burn did come down significantly on a sequential basis.** The company's cash outflow on development properties did slow considerably to AED152mm vs. AED1.6bn in 1Q09. In our view, the growth in development properties is essentially a cash drain on Emaar. Thus, we are pleased to see a slowdown in cash outflows on development properties as the company starts handing over existing projects and adjusts to the prevailing downturn. For 2Q09, the 11% Q/Q decline in development properties to AED25.3bn from AED28.4bn is mostly explained by the AED3.3bn write-down related to JL Homes during the quarter.

**(4) Is Emaar paying its contractors/suppliers? Payments did improve in 2Q09 but payables still remain high on an absolute basis.** Payables to suppliers and contractors fell by 11% Q/Q to AED7.5bn from AED8.4bn in 1Q09. However, payables when compared to annualized cost of goods sold still remain very high at 173%. In contrast, advances to contractors/others remain much smaller in absolute terms at AED1.3bn (up 4% Q/Q).

**(5) What is the level of customer defaults? Emaar continues to be silent on this topic.** Moreover, the company has so far not announced any significant pricing decreases in order to ensure prompt payments and/or move unsold Dubai inventory. We do note that Emaar has received significant cash from customers through installment payments on properties that are yet to be handed over. This is denoted in the liabilities section as "advances from customers," which came in at AED17.9bn, down 2% from AED18.4bn as of 1Q09. Given this significant amount of cash already received from buyers, which on an average have already probably paid up a significant portion of their final purchase price, we remain hopeful that the level of defaults going forward will be low.

#### Financial Comparisons

000s AED	1Q09	2Q09	Change Q/Q
Revenues	1,540,367	1,940,488	26%
COGS	816,385	1,084,835	33%
Cash	4,560,456	2,777,557	-39%
Accounts Receivables	4,663,627	4,635,897	-1%
Development Properties	28,360,989	25,291,797	-11%
Payables (Project Contract Costs Accruals+Other Payables & Accruals+Trade Payables)	8,438,956	7,491,710	-11%
Advances from Customers	18,395,390	17,948,960	-2%
Short-Term Debt	5,799,196	4,385,548	-24%
Long-Term Debt	4,132,270	3,892,750	-6%
Total Debt	9,931,466	8,278,298	-17%
Cash Net of ST Debt	(1,238,740)	(1,607,991)	30%
Cash Spent on Development Properties	1,561,542	152,344	-90%
Days Sales Outstanding	276	218	
Days Payables Outstanding	943	630	
Inventory Days (Development Properties)	3170	2127	
Cash Conversion	2503	1715	

Source: Company Reports

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