



Company Update

Sorouh Real Estate

Rating: Market Perform

Lacking Catalysts; Downgrading to Market Perform

We are downgrading Sorouh to Market Perform. Our previous rating was Outperform. Sorouh stock has already rallied 23% off its 52-week low of AED2.03 (Feb 5). However, considering Sorouh's somewhat weak 1Q09 results, still-optimistic consensus estimates and the lack of meaningful catalysts for the rest of this year, we expect the stock to trade in line with the rest of the market. *Hence, we are downgrading Sorouh from Outperform to Market Perform with a 12-month DCF derived price target of AED2.81.* We do note that we view positively Sorouh's proactive efforts to cope with the downturn in the real estate market by actively reducing prices (Al Ghadeer prices to be lowered on Sunday May 3 for previous and new buyers) and deemphasizing land sales in favor of higher-value added development projects for sale or rental income.

Lower land sales impact 1Q09 results. (1) Sorouh's 1Q09 revenues of AED335.6mm declined 37% qoq and 46% yoy. Land sales (81% of total revenues) fell 55% yoy with management actively deciding to lower focus on new land sales given current market prices. Going forward, for the remainder of 2009, besides previously contracted land sales, Sorouh expects to realize revenues on property sales on handover of Golf Gardens 1 and recurring rental revenues from Sas Al Nakhil, Khalidiya Village and Al Oyoun Village. (2) Net income of AED130.4mm increased 184% qoq, but was down 46% yoy. We note that Sorouh's earnings quality remains high given the company's increasing focus on recurring income streams such as rental income and the fact that the Sorouh does not record gains from discretionary items such as revaluation gains on land.

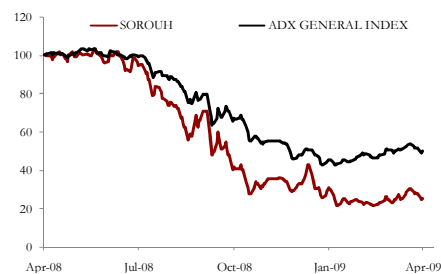
Balance sheet remains strong. (1) The company retains close to AED6bn in cash with total bank borrowings of just AED160.5mm (debt to equity of about 2.8%). We note that the AED4bn (current carrying value AED3.1b) non-convertible Sukuk raised in 3Q08 is non-recourse to Sorouh as it is securitized by AED5.7bn in receivables from Shams/Saraya. (4) Cash collections remained strong at AED732mm during the quarter versus AED893mm in 1Q08. Management noted during the conference call that there were no defaults on receivables thus far.

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Equity Data	
Current Price (AED)	2.50
Target Price (AED)	2.81
Upside/downside	12.4%
12 Mo. Performance	-73.6%
Market Cap. (AED bn.)	6.25
Enterprise Value (AED bn.)	3.55
RIC	SOR.AD



(AED Millions)	2007 A	2008A	2009E	2010E	2011E
Revenues	2,321	3,723	2,596	3,764	4,441
Gross Margins	56.9%	61.7%	51.9%	47.0%	42.0%
EBIT	1,055	1,665	967	1,217	1,215
EBIT Margin	45.4%	44.7%	37.3%	32.3%	27.3%
EBITDA	1,112	1,683	986	1,234	1,239
EBITDA Margin	47.9%	45.2%	38.0%	32.8%	27.9%
EPS	0.50	0.74	0.46	0.59	0.61
PE	5.0	3.4	5.4	4.3	4.1
Cash Earnings/Share	0.53	0.75	0.47	0.59	0.62
P/Cash Earnings	4.8	3.3	5.3	4.2	4.0

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