



## Research Update

## Revised

**REVISED: Emaar FY08 Results***Company Continues to Burn Cash on Development Properties and Stretch Out Payments to Contractors*

- **Cash position remains weak.** Cash net of short-term debt ended up at roughly AED829mm, a decline of 74% from 2007 levels. Given that Emaar spent around AED2.3bn in 2008 on SG&A expenses, this net cash position implies a significant shortfall in funding operating expenses in 2009.
- **Emaar continues to burn through cash by spending on development properties.** Despite the fact that revenues declined 10% yoy to AED16bn versus AED17.9bn in 2007, Emaar's development properties account grew 18% to AED19.2bn in 2008 from AED16.2bn in 2007. Analysis of the cash flow statement reveals that Emaar spent AED4.3bn in cash on constructing development properties. As the growth in development properties is essentially a cash drain on Emaar, we would like to see a slowdown in this account as the company adjusts to the prevailing downturn. Given that the quality of assets being booked in this account is suspect, we remain concerned about the potential for future writedowns.
- **Growth in accounts receivables remain a concern.** Accounts receivables grew to AED5.7bn in 2008, up 57% from AED3.6bn in 2007. As a result, days sales outstanding also grew to 130 days from 74 days in 2007. The growth in this account is worrisome especially in the context of declining revenues and could imply that Emaar is having problems receiving payments from its customers.
- **Accounts payables rise significantly implying Emaar has been slow in making payments to its contractors.** Accounts payables stand at AED13.8bn currently, a 57% yoy increase from AED8.8bn in 2007. At the current level, accounts payables are 150% of Emaar's annual cost of goods sold. Emaar actually saved AED5.3bn in cash in 2008 by stretching out its payables days to 549 days versus 298 days in 2007. We are concerned how long this situation can continue without Emaar risking longer-term reputational damage as contractors shy away from doing business with the company.
- **In our view, given its limited financial flexibility, Emaar's business could benefit from a government injection.** Considering the company's weak cash position and escalating payables situation, we expect a government injection into Emaar could be a long-term positive for the company's business prospects. In the near-term, however, we adopt a cautious view as there is a lot of uncertainty surrounding the potential beneficiaries of the \$10bn relief package. If the liquidity flows to real estate industry first (as announced by Director of Dubai Department of Finance), it is possible that Emaar could benefit as well. Implications for the stock price, however, remain uncertain given that an equity infusion by the government could be potentially dilutive for existing shareholders, while a debt financing could dilute EPS. Thus, we suggest investors adopt a "wait-and-see" strategy on Emaar shares.

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### Comparative Analysis of Financials

000s AED	2008	2007	Change Y/Y
Revenues	16,015,133	17,868,672	-10%
COGS	9,203,775	10,814,907	-15%
Cash	5,392,986	4,726,616	14%
Total Accounts Receivables	5,713,410	3,633,708	57%
Development Properties	19,177,852	16,194,020	18%
Payables	13,838,638	8,825,902	57%
Short-Term Debt	4,563,896	1,563,471	192%
Long-Term Debt	4,610,269	6,140,282	-25%
Total Debt	9,174,165	7,703,753	19%
Cash Net of ST Debt	829,090	3,163,145	-74%
Cash Spent on Development Properties	4,256,825	733,469	480%
Cash Saved from Stretching Payables	5,254,239	1,437,362	266%
Days Sales Outstanding	130	74	75%
Days Payables Outstanding	549	298	84%
Inventory Days (Development Properties)	761	547	39%
Cash Conversion	342	323	6%
Advances/Deposits from Customers	4,072,537	2,907,003	40%
<b>Development Properties Details</b>			
Cost to Date	25,830,387	18,375,549	41%
Add Attributable Profit	8,342,867	4,008,364	108%
Less Progress Billings	14,995,402	6,189,893	142%
Total Development Properties	19,177,852	16,194,020	18%

Source: Al Mal Capital Research, Company Reports



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