



Research Note

Union Properties 1Q08 Results

Union Properties

Rating: Outperform

- Union Properties reported stronger than expected results both from the revenue line and the net income line. Revenues increased 60% yoy, while net income improved 70%, to AED 944 million and AED238 million, respectively. We had projected revenues of AED875 and net income of AED181 for the quarter.
- However, EBIT was weaker than expected owing to a shortfall in the gross margin, which declined to 12.4% in 1Q08 compared to 18% in 4Q07. Much of the shortfall in the gross margin can be attributed to a combination of a higher than expected contribution from the lower margin contracting business (AED763 million vs. our estimate of AED636 million) and start up costs at several new projects.
- We projected an EBIT of AED145 million, compared to AED84 million reported for the quarter.
- The margin weakness in the quarter was offset by a gain on the sale of investment properties, which added AED154 million to the bottom line.
- In our view, the margin weakness in the quarter does not change our long term investment recommendation, as it appears to be more attributable to the composition of revenues than any fundamental shift in the pricing power or business model of the company. In fact, better than expected contribution from the contracting segment should further enhance future results, as the recognition of revenue from the higher margin property sales segment begins to ramp up in late 2008 and 2009.
- We maintain our Outperform rating on the stock and our 12 month target price of AED6.88 per share.

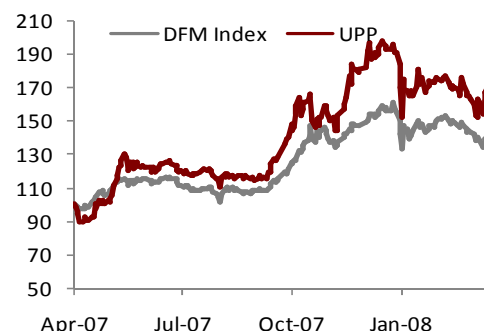
(AED Millions)	2007A	2008E	2009E	2010E	2011E
Revenues	2,922	3,280	12,304	7,953	8,197
Gross Margins	18.0%	21.5%	37.4%	28.1%	27.6%
EBIT	405	573	4,113	1,915	1,935
EBIT Margin	13.9%	17.5%	33.4%	24.1%	23.6%
EBITDA	436	606	4,145	1,945	1,964
EBITDA Margin	14.9%	18.5%	33.7%	24.5%	24.0%
P/BV	4.1	4.0	2.3	1.7	1.5
EPS	0.25	0.33	1.57	0.80	0.81
PE	21.1	15.8	3.3	6.5	6.4
Cash Earnings/Share	0.11	0.17	1.46	0.70	0.73
P/Cash Earnings	47.0	30.0	3.6	7.5	7.1

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Equity Data	
Current Price (AED)	5.20
Target Price (AED)	6.88
Upside/downside	32%
12 Mo. Performance	90%
Market Cap. (AED bn.)	14
Enterprise Value (AED bn.)	18
RIC	UPRO.DU
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