UAE Construction and Real Estate

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INITIATION

A big build up

We are initiating coverage of three stocks that offer access to the booming construction and real estate sectors in the UAE and the MENA region and are listed on the Dubai Financial Market (DFM).

Arabtec Holding (Outperform, TP AED 25) is our preferred pick and the only listed construction company on the DFM. We view it as both a growth and value story.

Emaar Properties (Neutral, TP AED 15) has sizeable upside potential and significant value, on our estimates, but we doubt the market will recognise this before 2009E, when we expect revenues from property sales in Dubai and international operations to start coming in strongly.

Union Properties (Outperform, TP AED 8.2) looks set to boost its already strong property sales and investment pipeline and leverage on tourism growth in the UAE and the MENA region by developing and operating Formula 1 theme parks, which should provide a steady, recurring revenue stream.

We see the following key sector themes in the UAE's current construction and real estate boom.

1. **Intensive construction and infrastructure spending:** The GCC has announced construction projects worth US$1.3trn, to be undertaken over from 2007 to 2012, with the UAE accounting for the lion's share, reaching US$300bn, concentrated mainly in Dubai and Abu Dhabi.
2. **Political support:** The construction market has the full backing of the UAE government and is the major element in its strategic economic development plans of diversifying the economy away from pure oil dependence.
3. **An undersupplied real estate market** with significant demand for residential properties due to delivery delays during the past two years, which has left supply lagging behind demand. However, we see oversupply risks as a concern post 2010.
4. **The regional and international expansion** of UAE players to reduce geographical risk.
5. **Higher-than-average growth and attractive valuations.**

Figure 1: **Summary ratings (priced 24/06/2008)**

Company	Industry	Action	Rating	Current price	Target price	Upside potential
Arabtec Holding	Construction	Initiation	Outperform	16.00	25.0	56%
Emaar Properties	Real estate	Initiation	Neutral	10.95	15.0	37%
Union Properties	Real estate	Initiation	Outperform	5.08	8.2	61%

Source: The BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS.

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Executive summary

The UAE has been a very good environment for foreign investment in the region on the back of strong economic growth

The UAE's regional commercial and construction boom has been fuelled by soaring oil prices. Oil revenues have been recycled into financing mega infrastructure and development projects, which has boosted growth in construction, financial services and manufacturing sectors. As the economy has become more diversified away from oil, non-oil revenues represented 35% of total GDP in 2007. With real GDP growth averaging over 9% per year since 2003, we believe the UAE has provided a healthy environment for foreign investment. According to Credit Suisse economic estimates, real GDP growth should reach 8.8% yoy in 2008, up from 7.6% yoy in 2007. (For more in-depth economic analysis, please contact Sergi Voloboev, +44 20 7888 3694, sergi.voloboev@credit-suisse.com).

The UAE construction sector is still attractive in our view, despite the very strong growth of the past five years

The construction industry contributed strongly to the UAE's economic boom and accounted for roughly 7.5% of total GDP in 2007, which should grow at a CAGR of 10.8% in 2007–12E, according to BMI estimates. Announced construction projects in the UAE amount to US$300bn in 2007–12. We believe that the UAE construction market is still attractive, with more room for future growth, yet on lower levels. Logically, the construction market in the UAE should follow the typical cyclical scenario of the construction sector; eventually, we would expect a slowdown in the growth of residential construction projects as supply starts catching up. However, we also expect infrastructure, hospitality and commercial projects to enjoy healthy growth, given the government's announced support and the county's evident need for such developments.

Dubai's real estate market remains attractive despite oversupply concerns

Despite oversupply concerns, we still believe that the Dubai real estate market is attractive and backed up by several positive factors: 1) strong population growth at a CAGR of 7% from 1975 to 2007, which should reach a total of 1.9m people by 2010, up from 1.5m in 2007; 2) significant delivery delays during the past two years, which has left supply lagging behind demand, an issue that we expect to continue until 2010; and 3) we expect the government of Dubai to manage supply in order to hedge against a real estate market crash. We think a soft landing in real estate prices is most likely to occur in 2010–12, mainly in the residential segment.

Arabtec is our favourite pick, as we see it as both a growth and value story

Arabtec (Outperform) is the only listed construction company on the Dubai Financial Market and our favourite pick, as it is both a growth and value story. The company has been able to double its backlog YTD to reach US$9.4bn (AED 34.6bn), up from US$4.5bn (AED 16.6bn) in 2007. With a strong track record in the UAE and a growing international backlog, we expect Arabtec's earnings to grow at a three-year CAGR of 31% (2008E–11E). Our target price of AED 25.0 per share represents 56% upside potential to the current market price.

We are Neutral on Emaar as we doubt the market will recognise its value before 2009E

Our SOTP approach values Emaar at AED 21.1 per share. However, we are initiating coverage with a target price of AED 15.0 per share indicating 37% upside potential but a Neutral rating due to our belief that the market may not recognise Emaar's value before 2009E, when we expect revenues from property sales in Dubai and international operations to start coming in strongly. However, we believe that the company has improved its investor communications and if they offer better guidance regarding future growth, the market may start recognising its value and hence we could review our rating.

Union Properties offers direct exposure to the Dubai real estate sector as well as the Formula 1 Theme Parks business

We are initiating coverage of Union Properties (UP) with an Outperform rating and a target price of AED 8.2, representing 61% upside potential to the current market price. UP's growth is derived from: 1) a rental portfolio that should reach 4.2m sq ft by 2009, up from the current 2.7m sq ft, with a historical average occupancy rate of 95%; 2) US$5.7bn worth of projects in the pipeline offered for sale and more projects likely to be announced in 2009; and 3) leveraging on the growth of the tourism sector in the UAE and the MENA region through developing and operating F1 theme parks worldwide, starting with the first one located in Dubai MotorCity and scheduled for completion by 2009, thus offering a steady recurring revenue stream.

Attractive valuations

We believe that these three UAE construction and real estate companies should experience robust earnings growth in the next three years, with an average net income CAGR of 24.2% in 2008E–11E. We expect Arabtec to show the highest earnings growth among the three, with a CAGR of 31.0% during the period.

Figure 2: Growth dynamics: 2008E–11E CAGR

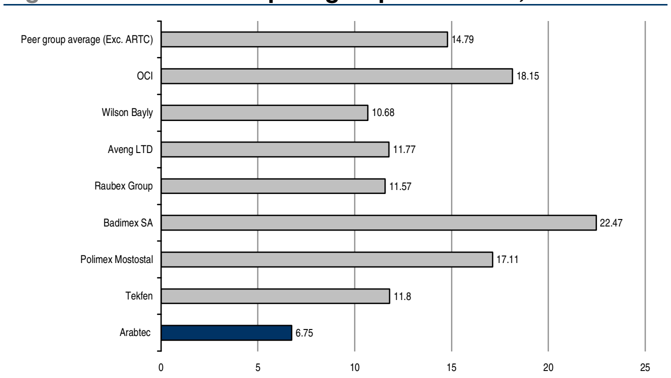
	Arabtec Holding	Emaar Properties	Union Properties	Average
Revenue	37.5%	20.8%	25.5%	27.9%
EBITDA	33.9%	24.0%	43.7%	33.9%
Net income	31.0%	20.8%	20.9%	24.2%

Source: Credit Suisse estimates

Despite their high growth prospects, we believe that Arabtec, Emaar and UP are trading at significantly attractive valuations on our estimates compared to consensus forecasts for their EMEA peer groups.

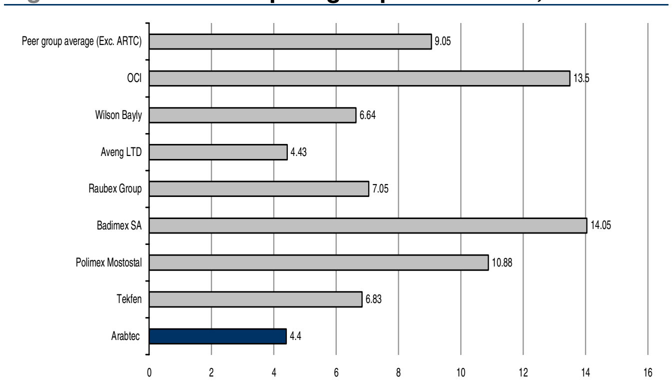
- **Arabtec** is trading at a P/E (2009E) of 6.75x and an EV/EBITDA (2009E) of 4.4x, a 53% and 50% discount to consensus estimates for its EMEA construction peers, respectively.
- **Emaar** is trading at a P/E (2009E) of 6.49x, a 43% discount to the average consensus estimate for its EMEA real estate peers. In terms of our 2009E EV/EBITDA, Emaar is trading at 7.6x, a 42% discount to the consensus average for its EMEA peers.
- **UP** is trading at a P/E (2009E) of 3.61x and an EV/EBITDA (2009E) of 5.28x, on our estimates, a 68% and 59% discount to consensus forecasts for their EMEA real estate peer group, respectively.

Figure 3: Construction peer group: P/E ratios, 2009E



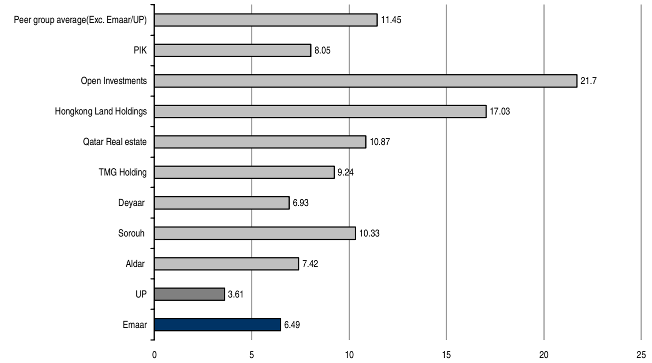
Source: Credit Suisse estimates for Arabtec; for all others, consensus estimates from the BLOOMBERG PROFESSIONAL™ service

Figure 4: Construction peer group: EV/EBITDA, 2009E



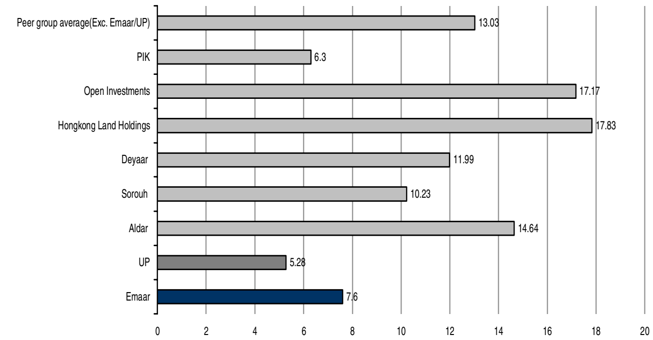
Source: Credit Suisse estimates for Arabtec; for all others, consensus estimates from the BLOOMBERG PROFESSIONAL™ service

Figure 5: Real estate peer group: P/E ratios, 2009E



Source: Credit Suisse estimates for UP and Emaar; for all others, consensus estimates from the BLOOMBERG PROFESSIONAL™ service

Figure 6: Real estate peer group: P/E ratios, 2009E



Source: Credit Suisse estimates for UP and Emaar; for all others, consensus estimates from the BLOOMBERG PROFESSIONAL™ service

The UAE construction sector remains a good play

We believe the outlook for the UAE construction sector in both the short and medium term is still very strong, given political support and the fact that it is a major element in Dubai's and Abu Dhabi's announced strategic economic development plans. The construction sector has been the primary beneficiary from the oil boom, with the government investing petrodollars in infrastructure and construction projects. According to BMI, the construction industry is forecast to grow by 7.1% in 2008, with the main focus on infrastructure. The GCC has announced construction projects worth US$1.3trn, to be undertaken over the period from 2007 until 2012, with the UAE accounting for the lion's share, reaching US$300bn, concentrated mainly in Dubai and Abu Dhabi.

Investments in the UAE's construction sector have been intensifying for the past decade at an extremely rapid pace. The construction industry has contributed strongly to the UAE's economic boom, accounting for roughly 7.5% of total GDP in 2007, with projects under construction worth AED 49.2bn (US$13.4bn).

Figure 7: **UAE construction industry forecasts**

	2006A	2007F	2008F	2009F	2010F	2011F
Population (m)	4.83	5.19	5.57	5.97	6.41	6.88
Population growth	7.3%	7.5%	7.3%	7.2%	7.4%	7.3%
Nominal GDP (US$bn)	156.48	179.64	201.81	221.92	240.43	261.11
GDP per capita, US$	32,382	34,619	36,236	37,149	37,496	37,936
Construction industry value, US$bn	11.25	13.41	15.26	16.98	18.63	20.34
Construction industry growth, % YoY	9.60%	10.50%	7.10%	5.50%	5.00%	5.00%
Construction industry, % of GDP	7.19%	7.46%	7.56%	7.65%	7.75%	7.79%

Source: BMI, IMF, Central Bank of UAE, UAE Ministry of Economy

Abu Dhabi construction market

Abu Dhabi is the centre of the construction boom, with projects worth AED 37.3bn (US$10.2bn) currently under development. We believe Abu Dhabi is still a young construction market with huge potential for growth in the coming five years as the nation's capital is severely underdeveloped and the government has clear intentions to maximise investment in construction as a part of the Abu Dhabi 20–30 Plan. We think that both regional contractors such as Arabtec as well as other international ones should be able to leverage on the Abu Dhabi construction boom.

Figure 8: **Major construction investments in Abu Dhabi**

Investment	Value US$m	Value AED m
Industrial parks	762.0	2,796.5
Shopping centres	482.0	1,768.9
Commercial buildings and offices	310.0	1,137.7
Residential	116.0	425.7
Healthcare	100.0	367.0
Hotels	240.0	880.8
Government offices	45.0	165.2
Sports infrastructure	28.9	105.9

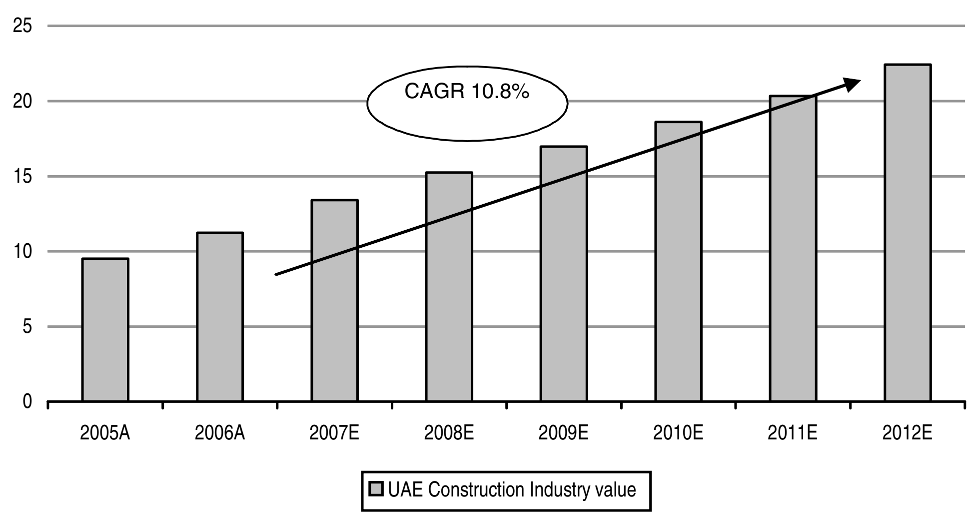
Source: BMI

Dubai construction market

The Dubai construction market has been the most active in the region for the past five years and is still holding, with more projects being announced every year. The Dubai government has announced plans to invest AED 300bn (US$81.7bn) in the development of its aviation sector as part of its Strategic Plan 2015. A common question is whether the growth in Dubai's construction market will maintain its very strong pace or slow down soon. We expect a slowdown in growth to occur, as this tends to be the cyclical nature of the construction industry. We expect the construction market to stabilise by 2010, when most of the mega projects are due to be finished in addition to the completion of old projects that suffered severe delays in the past two years. However, we believe that this slowdown will be mainly in the residential segment (rather than in other segments), where we expect supply to start hitting the market in 2010. On the other hand, contractors should continue to benefit from mega infrastructure projects undertaken by the government in areas such as airport development, road infrastructure, drainage and logistics.

We believe that the logical scenario for companies like Arabtec, whose major focus has been on residential projects for the past five years, will be to increasingly tap into these other segments of the construction market. Arabtec has already started shifting its focus by targeting projects such as the expansion of the Dubai International Airport, Nad Al Shiba Race Course and projects at Sports City; however, we believe this shift is not yet developed enough to act as a hedge against a slowdown in the residential construction market in Dubai. The company's strategy is to focus more on securing projects in Abu Dhabi in order to maximise the benefit from the current construction boom that is taking place in the nation's capital.

Figure 9: **UAE construction industry growth**
in US$bn



Source: BMI forecasts

UAE construction sector growth drivers

The following factors have triggered the overall construction boom in the UAE:

- The significant rise in oil prices, which in turn generated liquidity in the market (oil has increased from around US$20 per barrel in 2002 to hit all-time highs this year).
- The political will to turn Dubai into the region's main trade centre.
- A tax-free economy with relatively low interest rates, providing cheap mortgages.
- Freehold ownership rights in designated areas for GCC and non-GCC nationals.
- A rapid increase in population due to large numbers of expatriates.
- The establishment of commercial 'free zones' such as Dubai International Financial Centre (DIDC), Dubai Internet City and Dubai Media City.

Key risks

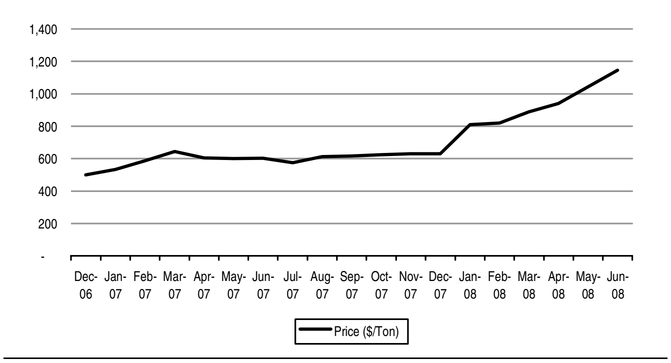
Despite a positive outlook for the UAE construction sector, we expect the industry to face the following key difficulties:

- The rapid hike in the cost of construction materials, with both cement and steel at the top of the list, while wood product prices for the past two to three years have left many contractors struggling. As a result, the majority of contractors and developers tend to enter into long-term agreements with suppliers to ensure cost efficiency and continuity of supply. The UAE Ministry of Economy has recently capped cement prices at AED 340/ton.
- An extremely competitive market that leads some contractors to submit relatively low bids in order to acquire market share, thus squeezing their overall profitability.
- The dependence on an imported workforce, which may result in a shortage of labour going forward.

View

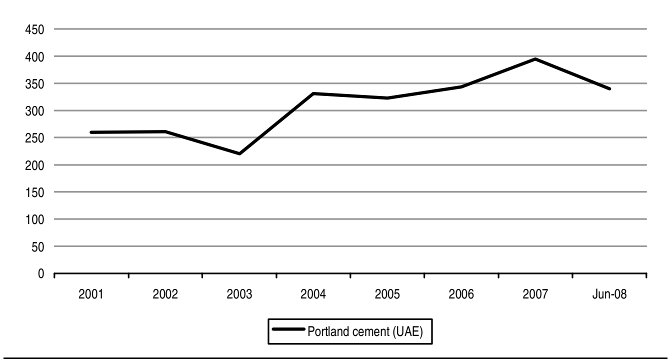
We believe the overall UAE construction market is still attractive with room for future growth but on lower levels. Logically, the construction market in the UAE should follow the typical cyclical scenario of the construction sector; eventually, we would expect a slowdown in residential construction growth as supply starts catching up. However, infrastructure, hospitality and commercial projects should enjoy healthy growth, given government support and the county's evident need for such developments.

Figure 10: Middle East import steel rebar prices
US$ per ton



Source: © Datastream International Limited ALL RIGHTS RESERVED, The BLOOMBERG PROFESSIONAL™ service

Figure 11: UAE Portland cement prices
AED per ton



Source: Dubai Statistical Centre

Is Dubai's real estate market a bubble waiting to burst? Not yet…

Residential property market

Robust demand

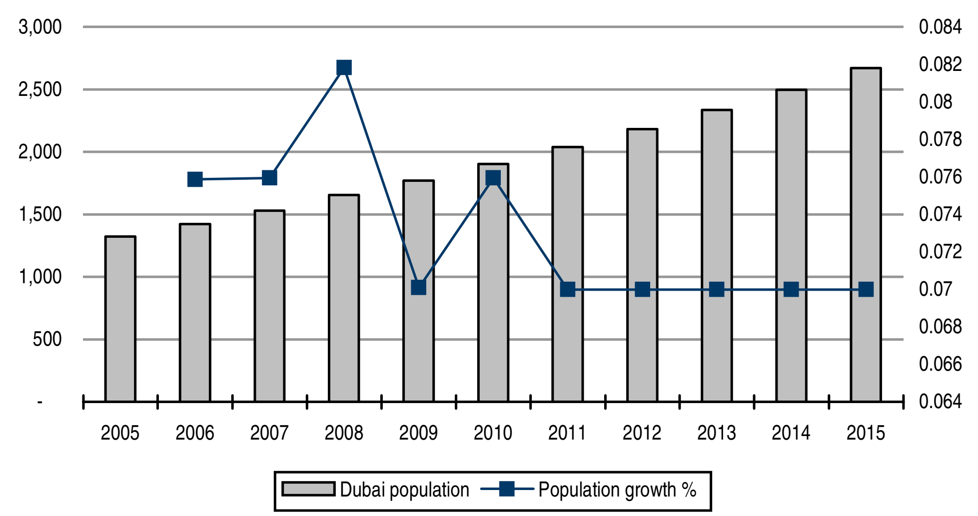
Residential prices in Dubai have more than doubled in the past five years, thanks to high oil prices which generated ample liquidity thus boosting infrastructure and real estate spending, not to mention speculative demand. An undersupplied non-regulated market successfully generated huge demand for residential properties from 2002 to 2006 along with strong economic growth and a low interest rate and tax-free environment. In addition, the Dubai government has been able to successfully boost demand through the establishment of free zones and introducing freehold ownership rights to both GCC and non-GCC nationals in designated areas in Dubai.

Relaxed regulations regarding the inflow of foreign funds into Dubai have assisted in generating demand. For the past five years, Dubai has been a very good environment for foreign investment, thus leading GCC investors to pump substantial amounts into the real estate market, which in turn stimulated more demand for property investment in Dubai.

Population growth

Dubai's population has grown at a CAGR of 7% from 1975 to 2007, mainly on the back of the huge flow of expatriates into the city. According to estimates by the Dubai government, the total population reached 1.5m people at the end of 2007 and is expected to reach 1.9m people by 2010.

Figure 12: **Dubai population growth estimates**
in 000s



Source: Dubai Statistics Centre, Credit Suisse estimates

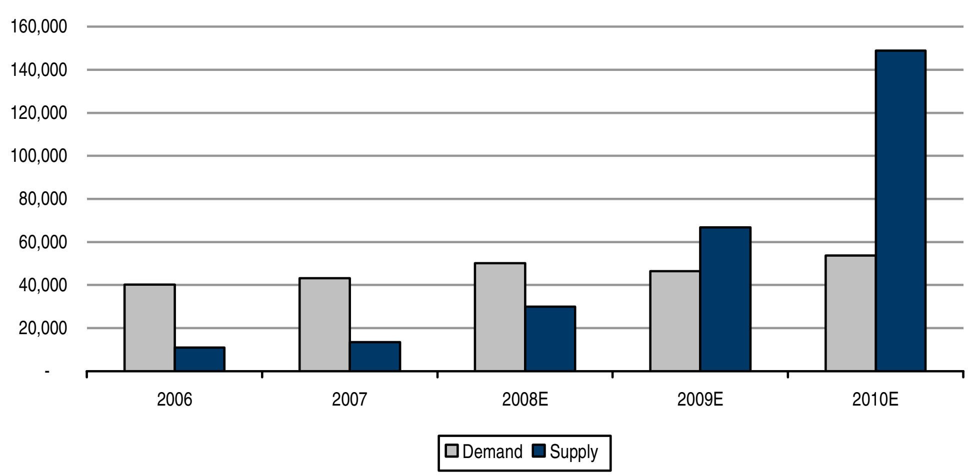
Supply likely to outstrip demand by 2010E, but what about delivery delays?

Dubai's real estate market, especially residential properties, has been growing at a very strong pace since 2002. Concerns about oversupply have been circulating in the market for the past two years, and yet more real estate projects have been announced at significant investment costs. We think supply could outstrip demand if the announced supply flow starts entering the market in 2010. On the other hand, there have been significant delivery delays during the past two years, which have left supply lagging behind demand. Figures suggest that only 10.5k–12k units have been delivered in 2007 from the scheduled 45k–50k units.

As a result of a significantly undersupplied market and a lack of clear regulation in the early years, the real estate market in Dubai shifted from a buyers' market to an investors' one. Our main concern about the quality of current demand is that most of the current buyers are not end-users, but rather investors seeking capital appreciation. This behaviour has resulted in significant price appreciation, high loan-to-value ratios and significant turnover in the secondary market, even before properties are delivered.

It is also worth noting that the three major primary developers (Emaar, Nakheel and Dubai Properties) are controlled by the government and represent a cornerstone in the announced strategic development plans for Dubai. Accordingly, we would expect supply to be managed in order to hedge against a significant correction in the real estate market.

Figure 13: Residential property domestic demand and supply estimates
units



Source: Dubai Chamber of Commerce & Industry, Credit Suisse estimates

Possible correction in 2010–12E

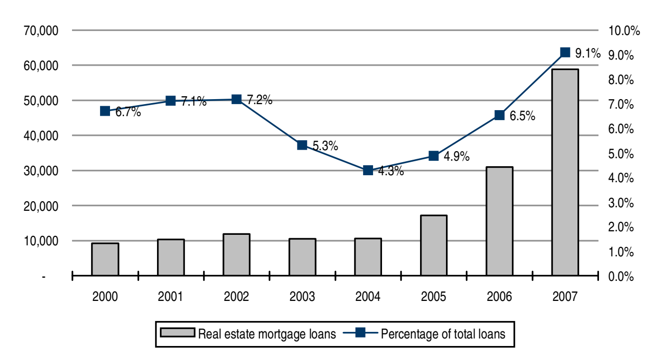
We believe that the Dubai real estate sector will eventually be susceptible to the typical boom-bust cycle. We believe that delivery delays are just a temporary solution that will not offset the risk of oversupply in the residential market. However, we do not expect the announced supply flow to have hit the market in full by 2010; instead, we think it will be smoothed into the period of 2010–12. Accordingly, we expect a soft correction in residential real estate prices between 2010 and 2012 as actual supply begins catching up with demand.

Factors that would ease the correction

We believe that the following factors will ease any possible correction and turn it into a soft landing in prices if oversupply should hit the market post 2010E.

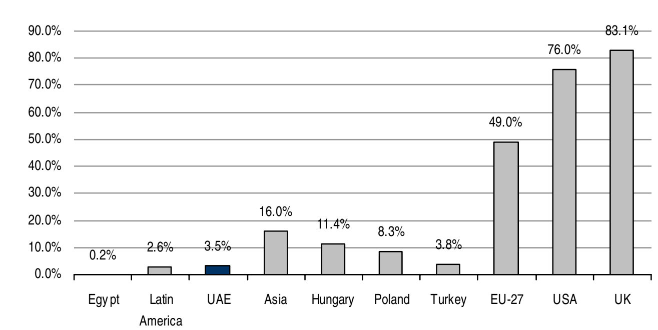
- The Dubai government has a clear vision for the real estate sector, and most of the supply in the primary market is monitored by it.
- The market is becoming more regulated as a number of structural and legal developments were introduced in 2007, thus cooling off the pace of price and rent increases of residential properties: i) the introduction of a 5% rent cap, which we believe to be a healthy start, but not yet effectively implemented as some landlords have still been able to raise prices; ii) the establishment of the escrow law and the brokers' law; and iii) the establishment of the Real Estate Regulatory Authority (RERA).
- Land plots sold by large developers like Emaar, Nakheel and Dubai Properties to private developers involve special conditions, thus granting primary developers the right to influence the nature of the project, size and completion period.
- A new demand cluster will likely be addressed in the market, represented by: middle-income demand, which is currently not properly addressed as most projects target high-end buyers.
- Assuming the dirham remains pegged to the dollar in 2008, we believe that prices will be more attractive to European buyers as a result of a weak US dollar and low interest rates. Dubai's real estate sector has attracted a lot of foreign demand during the past three to five years.
- We believe that as the market becomes more mature, a lot of small-scale developers will exit the market as opportunities become narrower. This may result in cancelling some of the projects which are currently a part of the estimated supply.
- The UAE mortgage market is still young and still has room for growth, standing at 4.7% of GDP in 2007, compared with an emerging markets average of 15%. According to the UAE Central Bank, mortgage loans to residents reached around AED 59bn (US$16.1bn) in 2007.

Figure 14: Real estate mortgage loans in UAE
In AED millions, unless otherwise stated



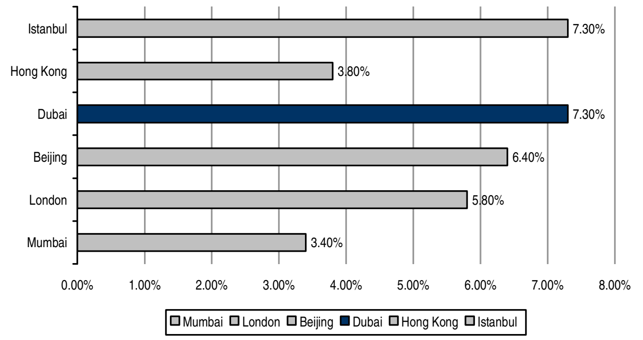
Source: Central Bank of UAE

Figure 15: Mortgage loans to GDP of selected countries in 2006



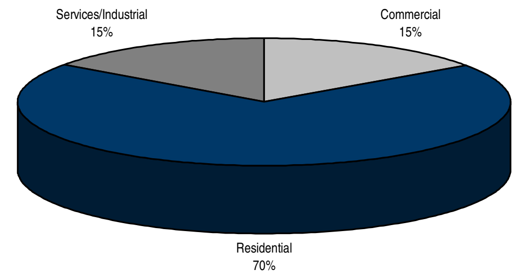
Source: EMF,MFA (Egypt),OECD, MEDIA

Figure 16: Dubai rental yield



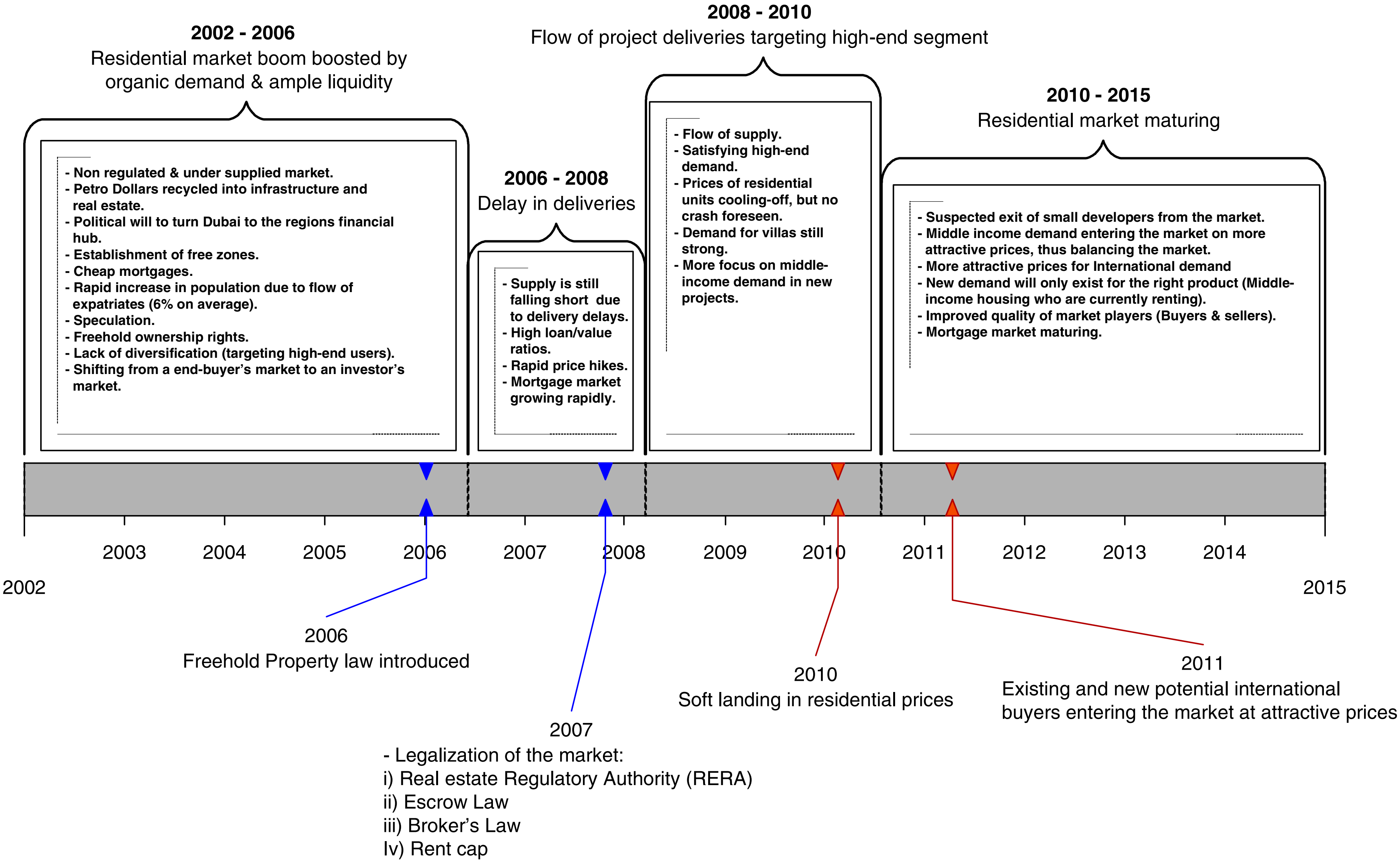
Source: CBRE and Global Property Guide

Figure 17: No. of completed buildings at the end of 2007



Source: Dubai Statistics Centre

Figure 18: Dubai residential property market cycle



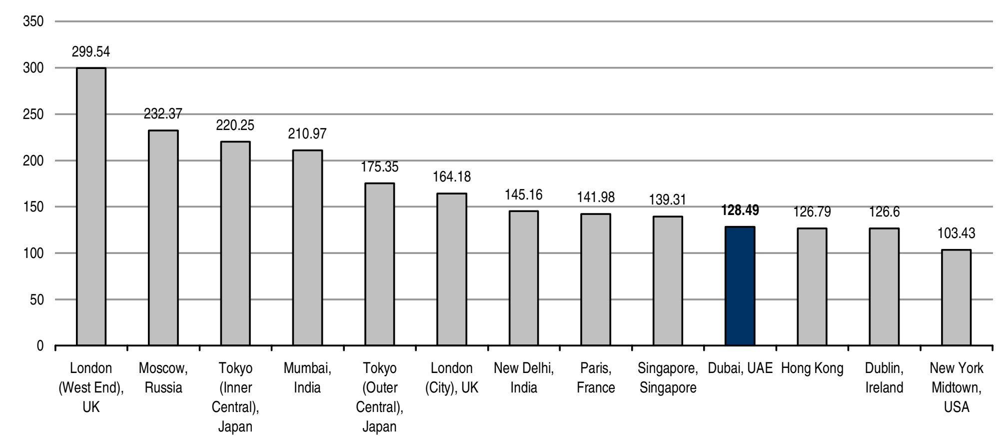
Source: Credit Suisse estimates

Dubai: The world's 10th most expensive office market...

Supply and demand dynamics

Dubai has been the business hub for the MENA region over the past five years as more new businesses and international organisations have established their regional headquarters there. Prices have risen sharply year on year, and Dubai's office rents were ranked the 10th most expensive by CBRE in May 2008.

Figure 19: Most expensive office markets as of May 2008
in US$/Sq Ft/year

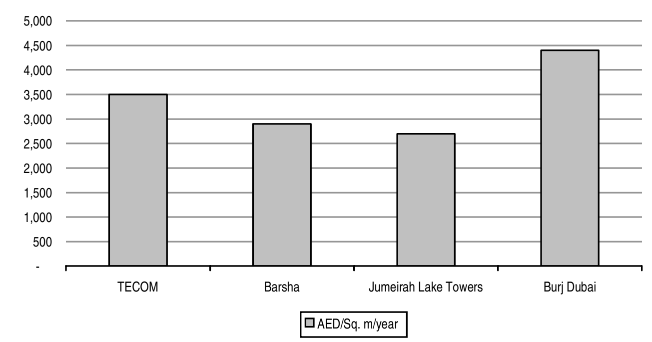


Source: CBRE

With almost no liquidity in the secondary market for office space in Dubai, the shortage in delivery in the past three years has resulted in a significantly undersupplied market and, in turn, sharp increases in both rental rates and sales prices. We believe that accurate data for the forthcoming supply of office space is unavailable in the market due to: 1) the lack of confirmed delivery dates and quantities to be supplied by developers; and 2) the rapid price appreciation of office space has led some developers to hold finished units from delivery for capital appreciation. On the other hand, data from CBRE suggest that the available office space in Dubai has reached around 3.5m square metres (37.7m square feet) as of the end of 1Q08, up 13% from 3.1m square metres at the end of 2007. Recent supply arrivals were located in TECOM, Al Barsha, Jumeirah Lake Towers and Burj Dubai (see Figure 20).

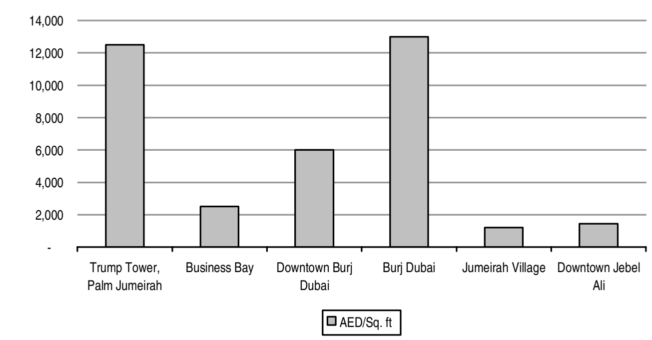
On the other hand, estimates by Colliers International suggest that total office space supply in Dubai will reach 6.5m square metres by 2010. We expect significant delivery delays in office supply in the next three years which in turn will likely keep demand at strong levels. Office occupancy rates are currently around 95%, according to our estimates, which we believe will be sustainable over the short and medium term.

Figure 20: Office rents by location (1Q08)
AED/Sq. ft/ year



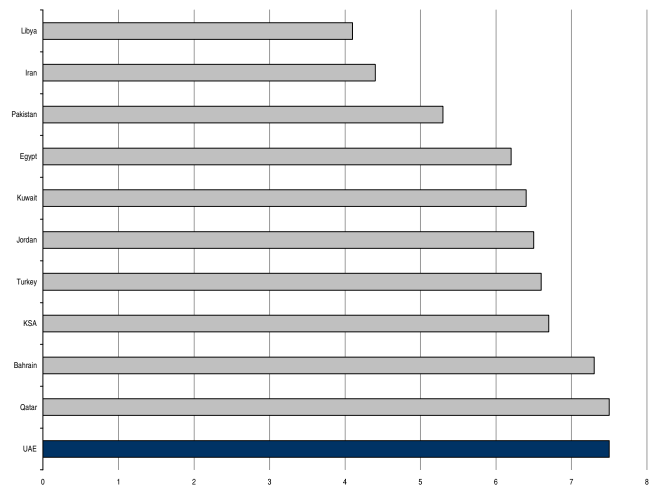
Source: CBRE

Figure 21: Office selling prices by location (1Q08)
AED/Sq. ft.



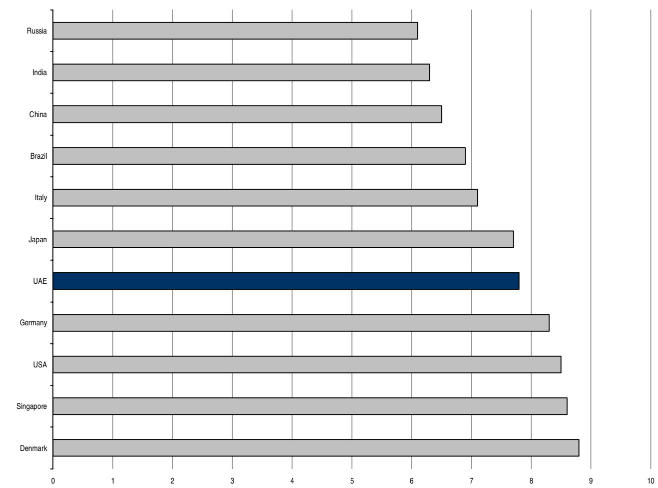
Source: CBRE, Eqarat.com

Figure 22: Regional business environment attractiveness
Score 1-10



Source: Jones Lang LaSalle

Figure 23: Global business environment attractiveness
Score 1-10



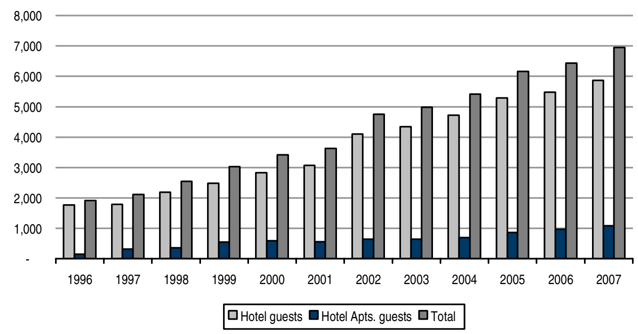
Source: Jones Lang LaSalle

Hospitality and retail

Dubai's hotel and serviced apartment visitors have grown at a CAGR of 11.5% from 2001 until 2007, reaching 6.9m guests, up from 3.6m guests in 2001. The government of Dubai has announced that it is very keen on boosting the tourism sector through its Strategic Plan 2015 and is targeting around 10m to 15m visitors by 2015. Currently, Dubai has around 32,617 rooms with occupancy averaging 84% in the last three years. According to Colliers International estimates, the number of hotel rooms in Dubai is expected to reach 73,356 rooms by the end of 2011.

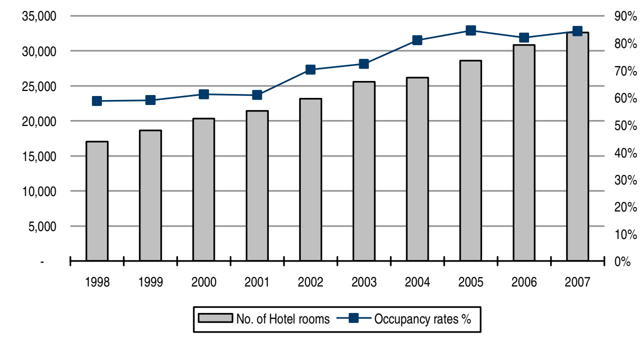
In terms of retail developments, currently the gross leasable area (GLA) per capita stands at 0.5 square metres and is expected to grow to around 2.36 square metres by 2010, according to Colliers International's estimates. We believe that Dubai will remain the main tourist attraction in the region on the back of: 1) its liberal environment relative to other GCC cities; and 2) its shopping, sports and cultural festivals, which have proven to be very successful in attracting first-time tourists to Dubai.

Figure 24: Dubai hotel guests
in 000s



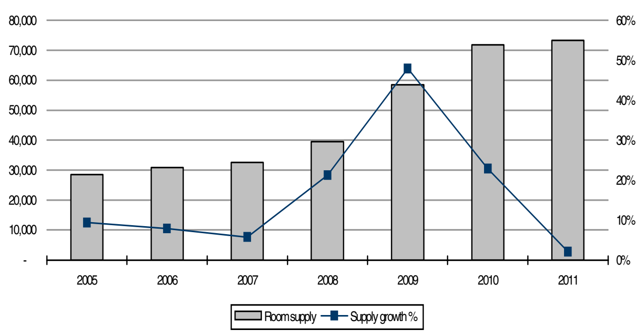
Source: Department of Tourism & Commerce Marketing

Figure 25: No. of hotel rooms and occupancy rates



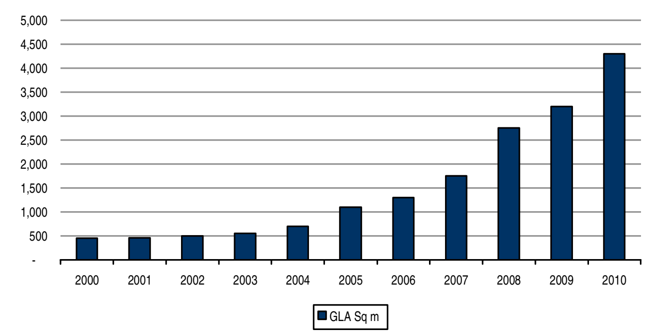
Source: Department of Tourism & Commerce Marketing

Figure 26: Hotel rooms supply forecasts



Source: Colliers International

Figure 27: Dubai shopping mall cumulative supply
in 000 Sq. m



Source: Colliers International

EMEA
Equity Research
Building Materials & Construction

Arabtec Holding (ARTC.DU)

INITIATION

Building value

Rating	**OUTPERFORM***
Price (24 Jun 08, Dhs)	16.00
Target Price (Dhs)	25.00[1]
Market cap. (Dhs m)	9,568.00
Enterprise value (Dhs m)	8,646.1

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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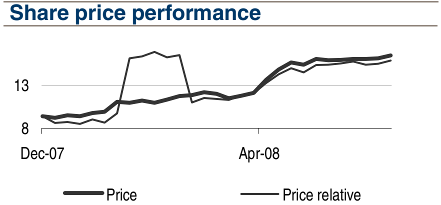
- **Summary:** We are initiating coverage of Arabtec with an Outperform rating and a target price of AED 25 per share. Our target price represents 56% upside potential to the current market price.
- **Investment thesis:** Arabtec is the only listed construction company on the Dubai Financial Market (DFM), one of the largest contractors in the UAE and a pure play on the booming construction sector in the MENA region. Arabtec has a backlog worth US$9.4bn (AED 34.6bn) in the UAE, Qatar, Pakistan, Syria, Jordan and Russia, while it has also said it is eying other markets such as Egypt, Libya and Saudi Arabia. In 2008, the company was awarded new projects worth AED 17.9bn. Arabtec has been able to leverage off the construction boom in Dubai through its involvement in major infrastructure and development projects.
- **Catalyst:** We think these potential catalysts could have a positive effect on the stock's performance: 1) Arabtec securing more projects than we currently expect in Abu Dhabi and other regional markets in 2008; and 2) if GCC nationals were considered as locals in terms of stock ownership in the DFM, this would result in more room for foreign investors to invest in Arabtec, thus boosting the stock's liquidity.
- **Valuation:** Our valuation is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. We have used a WACC of 9.7%, which is derived from a cost of equity of 9.8% and a cost of debt of 6%.

Share price performance



The price relative chart measures performance against the MSCI Arabian markets index which closed at 821.86 on 24/06/08
On 24/06/08 the spot exchange rate was Dhs5.72/Eu 1. - Eu 0.64/US$1

Performance	1M	3M	12M
Absolute (%)	0.3	43.5	—
Relative (%)	-1.3	38.0	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E	12/10E
Revenue (Dhs m)	4,272.9	8,063.4	12,865.8	18,380.3
EBITDA (Dhs m)	664.37	1,160.17	1,807.69	2,500.44
Net Income (Dhs m)	535.4	944.1	1,416.9	1,949.0
CS adj. EPS (Dhs)	0.90	1.58	2.37	3.26
ROIC (%)	61.4	73.6	73.7	64.5
P/E (adj., x)	17.87	10.13	6.75	4.91
P/E rel. (%)	—	—	—	—
EV/EBITDA	13.6	7.5	4.4	2.8

Dividend (2008E, Dhs)	0.50	IC (12/07A, Dhs m)	884.0
Dividend yield (%)	3.1	EV/IC	10.2
Net debt (12/08E, Dhs m)	-1,060.1	Current WACC	9.7
Net debt/equity (12/08E, %)	-55.9	Free float (%)	81.5
BV/share (12/08E, Dhs)	3.2	Number of shares (m)	598.00

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

Investment summary

A pure play on the construction sector in the UAE and the MENA region

Arabtec Holding is the only listed construction company on the Dubai Financial Market and a pure play on the booming construction market of the UAE and the MENA region. The company owns majority stakes in several subsidiaries in the fields of construction and its related works, thus controlling the whole construction loop. Arabtec has a backlog worth AED 34.6bn across the globe, with the bulk concentrated in the UAE and the MENA region. Arabtec currently has projects in Qatar, Pakistan, Syria, Jordan and Russia, and has also said it is eying other markets such as Egypt, Libya and Saudi Arabia. The stock experienced significant foreign interest in 2007, raising its foreign ownership percentage nearly to the maximum allowed level of 49%.

Targeting infrastructure projects in the UAE should support future growth in its home market

Arabtec has been able to leverage on the construction boom in Dubai through its involvement in major infrastructure and development projects. Arabtec's main focus on residential projects in Dubai has raised questions regarding the company's ability to secure more projects going forward. We believe that the logical scenario for Arabtec in its home market is to tap increasingly into infrastructure projects and boost its focus on the booming construction market in Abu Dhabi to hedge against a potential slowdown in the construction market in Dubai. The company is already involved in several infrastructure projects such as the expansion of the Dubai International Airport, Nad Al Shiba Race Course and projects at Sports City.

Access to regional construction markets through joint ventures

Arabtec has an announced target to generate 20–30% of total revenues from international operations in the next three to five years. We expect Arabtec to exceed this target, given its current international backlog worth AED 12.5bn (36% of total backlog). The key challenge in our view is whether Arabtec has the capacity in terms of labour and machinery to undertake such an expansion. We expect Arabtec to secure international projects through joint ventures with strong local contractors as well as subcontracting and acting as a construction manager, rather than bearing all the risk on its own.

Sustainable growth, but at the expense of profitability

Our revenue assumptions are derived from Arabtec's existing backlog as well as our estimates of its ability to add more project mandates going forward in the UAE and international markets. In 2008, the company was awarded new projects worth AED 17.9bn. However, our scenario is more conservative and assumes that Arabtec will be able to add more projects to its backlog but at levels that are lower than in 2008 to account for the risk of a slowdown in the pace of construction growth in the region. Moreover, we believe that growth will come at the expense of profitability due to: (1) increasing prices of cement and steel, which Arabtec was able to hedge against in 2007 by retaining a steel inventory as well as securing long-term contracts with cement suppliers, but eventually we expect the company's margins to be affected by rising prices; (2) lower pricing negotiation power for contractors in the region as we expect the market to naturally shift from a sellers' market to a buyers' one; and (3) lower margins in international markets as the company will probably not have full power to pass inflation on to developers.

Valuation using DCF implies 56% upside potential

We are initiating coverage of Arabtec with an Outperform rating and a target price of AED 25 per share. Our target price represents 56% upside potential to the current market price. Our valuation is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. We used a WACC of 9.7%, which is derived from a cost of equity of 9.8% and a cost of debt of 6% (the company has very little debt).

Arabtec: Corporate structure and strategy

Arabtec Holding was founded in 1975 under the name Arabtec Construction LLC, offering construction services in the United Arab Emirates. The company then turned into a holding company in 2005 with the principal objective of investing in the construction sector through the acquisition of contracting- and construction-related companies in the UAE and the MENA region. With a current market capitalisation of US$2.6bn (AED 9.6bn), Arabtec Holding is the only construction company listed on the Dubai Financial Market and a pure play on the booming construction market of the UAE and the MENA region. Arabtec enjoys a strong relationship with the region's prime developers such as Emaar Properties, Nakheel, Dubai Properties and Damac. The company is involved in prime developments within the UAE such as Burj Dubai, Dubai Airport, Jabal Ali Airport and Abu Dhabi Investment Authority (ADIA) Headquarters.

We believe Arabtec's strategy is clear-cut, covering a wide spectrum of construction activities through its diversified subsidiaries and projects portfolio (Figure 28). The company holds interests in several subsidiaries in the fields of construction and related work, such as the manufacture and transportation of ready-mix concrete, the sale and leasing of construction equipment and electrical mechanical and plumbing contractors, thus bringing the whole construction process under its umbrella.

In order to securely bid for mega construction and infrastructure projects in UAE and the MENA region, Arabtec Holding has established strong joint ventures with local and international contractors to achieve strong alliances, giving the company an edge against its competitors. The company is currently engaged in nine joint ventures with names such as Besix, Max Bogl and WCT Engineering Berhad.

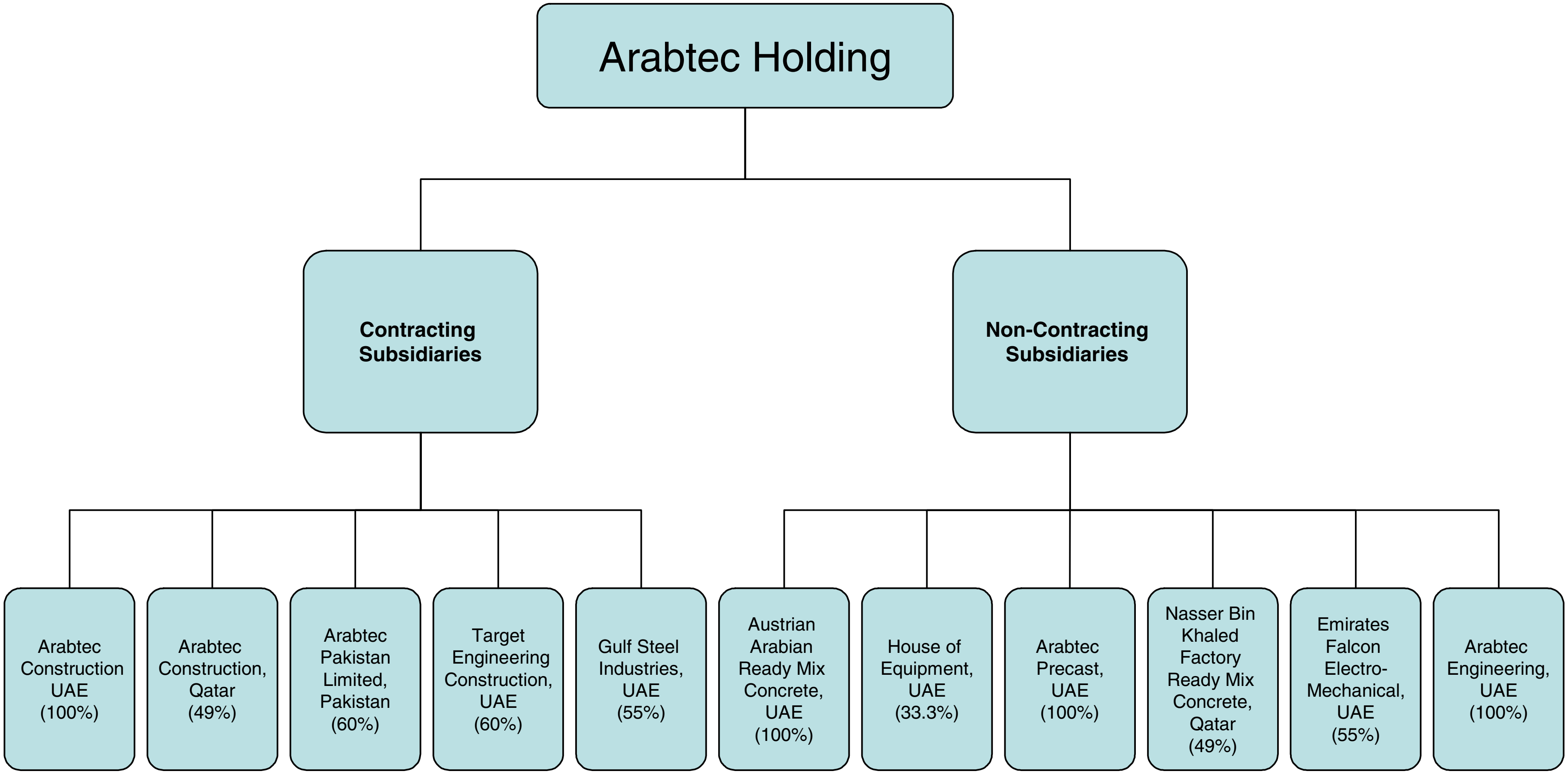
Arabtec is among the three largest construction companies in the UAE in terms of projects mandated in 2007. The company was able to secure new projects worth AED 8.9bn (US$2.4bn) in 2007, compared with AED 2.7bn (US$0.7bn) in 2006. We view 2008 as a turnaround year for Arabtec in terms of new project mandates, as the company has been able to add AED 17.9bn (US$4.9bn) worth of projects from January 2008 to date, with more project awards likely in the next few months. Arabtec's total local and international backlog currently stands at AED 34.6bn (US$9.4bn), including Arabtec's share in joint venture projects, and is due to be completed by 2012 (Figure 29). Our revenue assumptions are mainly based on Arabtec's ability to secure more project mandates going forward.

Recent acquisitions

In November 2007, Arabtec acquired 60.0% of Target Engineering Construction Company LLC for a cash consideration of AED 432m (US$117.7m). Target Engineering Construction specialises in oil and gas and marine projects and is currently executing projects in the UAE and Qatar. The acquisition of Target Engineering has expanded Arabtec's market coverage, as it has given it access to the oil and gas and the marine construction market, which Arabtec had never covered before. Target Engineering had a backlog of AED 2.8bn (US$0.76m) at the date of acquisition and secured new projects worth AED 792.4m in 1Q08.

In January 2008, Arabtec acquired 55.0% of Gulf Steel Industries FZC for a cash consideration of AED 27.5m (US$7.5m). Gulf Steel Industries specialises in structural steel fabrication and currently has a backlog worth AED 90.0m (US$24.5m).

Figure 28: **Arabtec: Corporate structure**



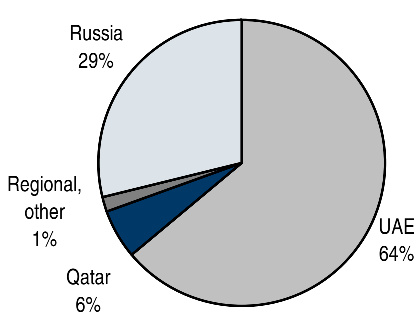
Source: Company data

Figure 29: Arabtec: New project mandates awarded in 2008
In AED millions

Project	Client	Country	Award date	Value (AED m)	Completion Period	Arabtec share (%)	Arabtec value
1500 villas in Al Furjan development	Nakheel	Dubai, UAE	Jun-08	2,900	36 months	100.0%	2,900
Okhta Centre in St. Petersburg	Gazprom/City of St. Petersburg	St. Petersburg, Russia	Apr-08	10,000.0	42 months	100.0%	10,000
2290 villas for Mohamed Bin Rashid Housing Program	Mohamed Bin Rashid Housing Establishment	Dubai, UAE	Apr-08	3,000.0	42 months	100.0%	3,000
Sanctuary Falls villa development	Shaikh Holdings	Dubai, UAE	Mar-08	412.0	24 months	100.0%	412
60 villas at Dubai Polo & Equestrian Club	Emaar Properties	Dubai, UAE	Mar-08	520.0	32 months	100.0%	520
Commercial centre at Khalidiya area	NA	Abu Dhabi, UAE	Mar-08	600.0	26 months	60.0%	360
Quality Control Laboratory Building at Ruwais	Abu Dhabi National Oil Company	Abu Dhabi, UAE	Mar-08	96.0	20 months	60.0%	58
Police Complex at Das Island	Abu Dhabi National Oil Company	Abu Dhabi, UAE	Mar-08	96.4	18 months	60.0%	58
The Heights, The Lofts Courtyard 1 & 2 Buildings at Abdali Development	Damac Investments and Properties Company	Aman, Jordan	Feb-08	277.0	29 months	50.0%	139
Phase 2B at the Abu Dhabi National Exhibition Centre	Abu Dhabi National Exhibitions Company (ADNEC)	Abu Dhabi, UAE	Feb-08	360.0	18 months	100.0%	360
Eighth gate	Emaar IGO	Damascus, Syria	Jan-08	152.0	20 months	50.0%	76
Al Nahda 1 & Al Mamzar area drainage projects	Dubai Municipality	Dubai, UAE	Jan-08	54.5	12 months	100.0%	55
Total project mandates awarded from Jan-08 to date				**18,467.9**	**-**		**17,936.4**

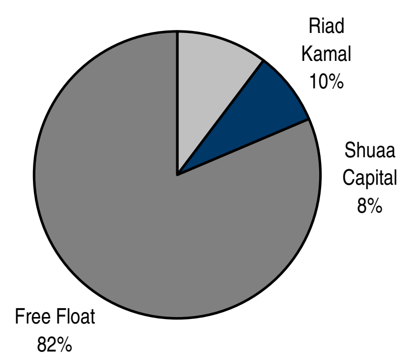
Source: Company data

Figure 30: Arabtec: Backlog contribution by country (current)



Source: Company data

Figure 31: Arabtec: Shareholding structure (24/6/2008)



Source: Company data, DFM

International footprint

Arabtec's strategy has shifted in terms of diversifying its revenue mix to reduce the geographical concentration risk of only operating in the UAE. As the company has a good relationship with Emaar Properties, it has decided to follow Emaar's regional and international expansion in order to secure contracts abroad. The company announced that it has set a target of generating around 20–30% of total revenues from international operations within three to five years, in addition to its sustained growth in the local market. International expansion kicked off in 2007 and 2008 as the company was able to secure contracts in Qatar, Pakistan, Syria, Jordan and Russia through the establishment of new subsidiaries and joint ventures. The company has also said it is also eyeing other markets such as Libya, Egypt and Saudi Arabia.

Qatar

In 2007, Arabtec decided to tap into the booming construction market in Qatar by establishing alliances with strong local partners. Arabtec set up two companies in Qatar with Nasser Bin Khaled Al Thani & Sons Holding Company, with Arabtec holding a 49% stake in both companies. These companies are currently involved in the development of Al Waab City, a new residential and commercial complex. They will handle construction works and the supply of ready-mix. The estimated total value of the project is in excess of AED 4.0bn (US$1.1bn).

We view the Qatari market as a lucrative market offering a significant opportunity for companies like Arabtec, given its experience in its home market, which is not much different than the construction market in Qatar. The Qatari construction sector currently enjoys the government's full support as it is utilising its oil and gas revenues to finance infrastructure and construction projects which, according to BMI estimates, reached 5.4% of GDP in 2006 and is expected to reach 9.8% of GDP in 2011.

We expect revenues from the Qatari operations to start contributing strongly to Arabtec's top line in 2008, reaching 75.7% of total international revenues in 2008.

Figure 32: **Qatar construction industry forecasts**

	2006A	2007F	2008F	2009F	2010F	2011F
Population (m)	0.84	0.85	0.87	0.89	0.91	0.93
Population growth	5.0%	1.2%	2.4%	2.3%	2.2%	2.2%
Nominal GDP (US$bn)	52.70	54.50	58.30	62.50	66.70	71.00
GDP per capita, US$	62,914	63,741	66,816	70,335	73,562	76,722
Construction industry value, US$bn	2.83	3.56	4.40	5.29	6.36	7.65
Construction industry growth, % YoY	1.33%	14.50%	14.50%	14.50%	14.50%	14.50%
Construction industry, % of GDP	5.36%	6.04%	6.45%	7.68%	8.82%	9.79%

Source: BMI, Central Bank of Qatar, IMF

Pakistan

Arabtec has established a 60% joint venture in Pakistan, Arabtec Pakistan Limited, and was recently awarded an AED 500m (US$136.2m) development project to construct Karachi Financial Centre Towers. We expect revenues from Pakistan to account for 7.7% of total international revenue in 2008.

Syria and Jordan

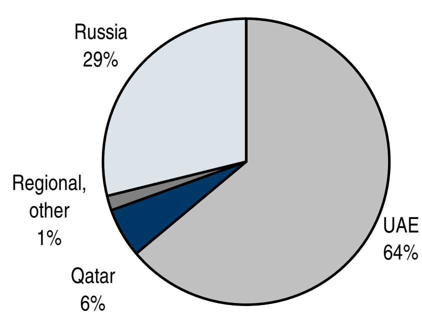
In 1Q08, Arabtec's strong relationships with prime developers Emaar Properties and Damac paid off outside its home country when it was awarded two mandates in Syria and Jordan through joint ventures with local contractors in those countries. Emaar IGO (Syria) has appointed the ACC/Arabtec joint venture to carry out construction works at the Eighth Gate Development in Damascus, Syria, for a total value of AED 152.0m (US$41.4m), of which Arabtec has a 50% share. Moreover, the Arabtec/EEC joint venture in Jordan was awarded a project worth AED 277m (US$75.5m) from Damac Investments and Properties Company, Jordan, to construct The Heights and The Lofts Courtyard 1 & 2 Buildings at the Abdali Development Project in Amman, Jordan. We believe that Arabtec will continue to benefit from regional projects undertaken by UAE developers, as it has already established a good track record with those companies. However, we think that Arabtec will only do this in the form of joint ventures with local partners and based on a construction management model (rather than being the sole contractor) in order to secure the required labour and machinery in the most effective way.

Russia

In April 2008, Arabtec was awarded an AED 10.0bn (US$2.7bn) contract in Russia that marks its first step towards expansion into Europe. The contract is for the construction of the Okhta Centre, which is jointly owned by Gazprom Neft, the oil arm of national gas company Gazprom, and the City of St. Petersburg. This is Arabtec's biggest mandate solely outside the UAE and represents 28.9% of the company's current backlog. Arabtec is now in the process of obtaining the licence and has said it expects to commence work in July 2008.

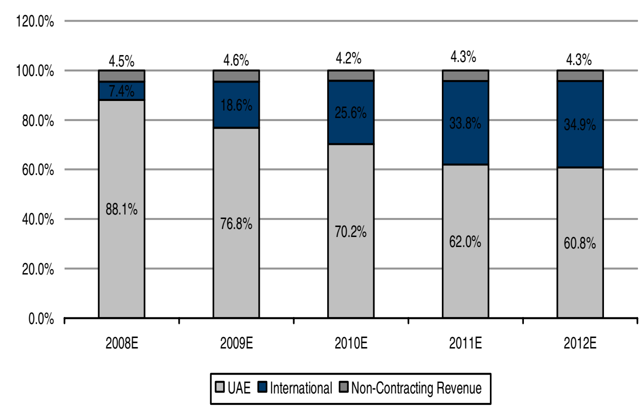
As the typical scenario for Arabtec in international markets is to tie up with local contractors to secure labour and machinery, we think it will be challenging for the company to carry out the Russian project on its own. However, the project is mostly steel structure and does not require much labour. We also expect Arabtec to hire a number of subcontractors for the project and act as the construction manager rather than bear all the risk on its own. We don't expect any revenues from Russia before 2009, when the country should account for 42.8% of Arabtec's international revenues (29% of total revenues).

Figure 33: **Arabtec: Revenue breakdown by country, 2009E**



Source: Credit Suisse estimates

Figure 34: **Arabtec: Revenue forecasts breakdown**



Source: Credit Suisse estimates

Financial performance and forecasts

Revenue and profitability assumptions

We expect Arabtec to achieve solid revenue growth for the next four years on the back of a strong backlog, in addition to potential new project mandates that we expect Arabtec to secure across the region. We believe Arabtec will deliver a three-year revenue CAGR (2008E–11E) of 37.5%, reaching AED 8.1bn and AED 21.0bn in 2008E and 2011E, respectively, up from AED 4.3bn in 2007. The main growth driver will likely be Arabtec's backlog of AED 34.6bn, in addition to its ability to secure new project mandates going forward through further geographical diversification. We believe the UAE will remain the primary market for Arabtec; however, we assume that the company's revenues from international operations will surpass its target of 20–30% by 2012E.

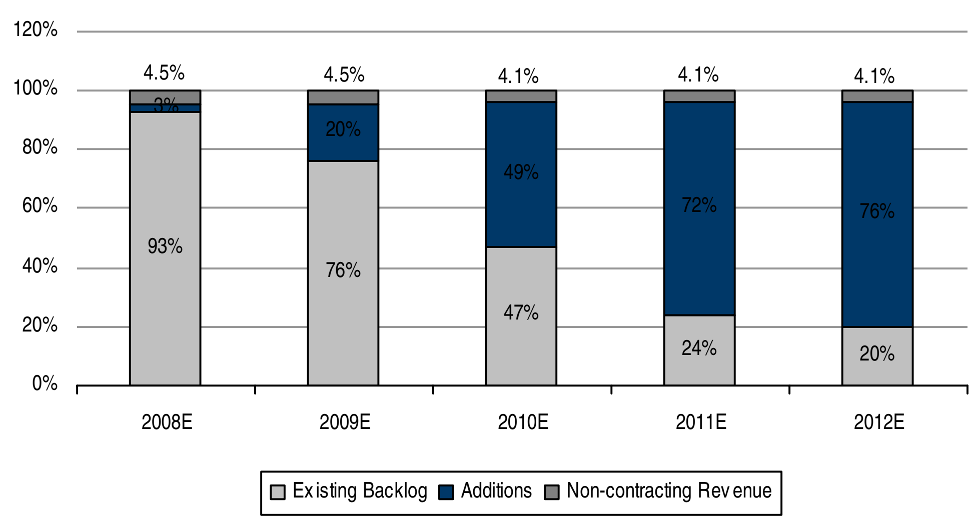
Revenues from the existing backlog represent only 45% of our total contracting revenue estimates to 2012E (see Figure 36). Arabtec has been able to add projects worth AED 17.9bn in 2008 to date, in addition to its existing backlog of AED 16.6bn at the end of 2007. Our backlog assumptions for 2008 forecast an additional AED 5.0bn of new projects being awarded this year, thus assuming total additions of AED 22.9bn in 2008E. We also expect Arabtec to add more projects to its backlog going forward, but at lower levels than in 2008E in order to incorporate the risk of a slowdown in the region's construction sector. Figure 35 illustrates our backlog assumptions.

Figure 35: Arabtec: Backlog forecasts
In AED millions

	2008E	2009E	2010E	2011E	2012E
Backlog-BOY	16,621	31,866	35,732	32,632	26,322
Additions	22,945	16,150	14,535	13,809	14,223
Revenue	(7,700)	(12,285)	(17,635)	(20,119)	(19,386)
Backlog-EOY	31,866	35,732	32,632	26,322	21,158

Source: Credit Suisse estimates

Figure 36: Arabtec: Recognition of existing backlog

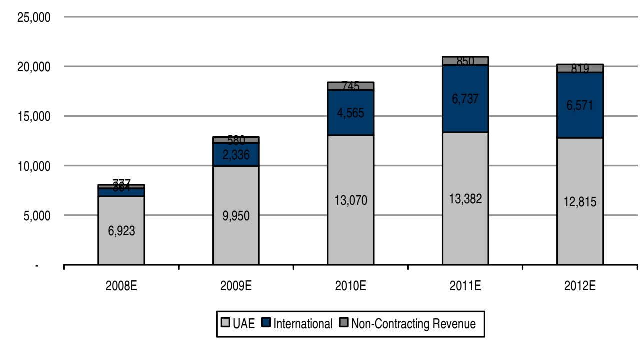


Source: Credit Suisse estimates

Revenue from international operations should reach 32.5% in 2012E

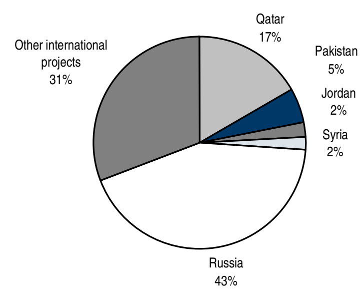
Arabtec has an announced target to generate 20% to 30% of total revenues from international operations. However, we expect Arabtec to exceed that target, given the magnitude of its current international backlog, which is some AED 12.5bn (36% of its total backlog). We expect revenues from international operations to contribute around 18.2% in 2009, rising to 32.5% in 2012. We believe that Arabtec will focus on bidding for more projects across the region in coming years in order to benefit from the current construction boom in the MENA region and to hedge against a slowdown in the UAE construction market. We think that Arabtec is most likely to target countries such as Egypt, Saudi Arabia, Libya and possibly India.

Figure 37: Arabtec: Breakdown of revenue forecasts
In AED millions, unless otherwise stated



Source: Credit Suisse estimates

Figure 38: Arabtec: International revenue contribution by country, 2009E



Source: Credit Suisse estimates

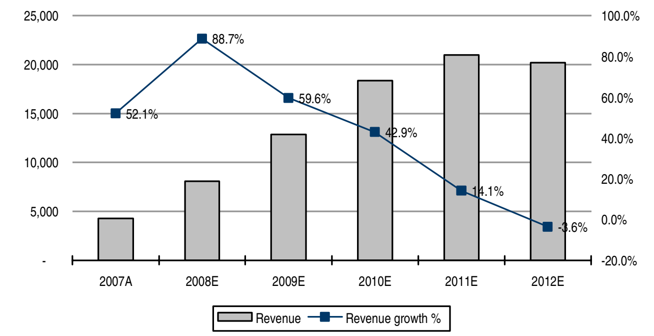
Does Arabtec have the capacity to secure the required workforce and machinery in international markets?

We believe that the most likely scenario for Arabtec is to engage in joint ventures with strong local partners as well as subcontracting in some cases in order to secure the required workforce and machinery. Arabtec has been involved in several iconic developments in the UAE with international names such as Besix in developing the world's tallest structure, Burj Dubai. Arabtec supplied the workforce and machinery, while Besix provided the technological expertise. We believe that Arabtec now has the ability to do the opposite in international markets by acting as the construction manager in order to offset the burden of securing the sufficient workforce and machinery and to eliminate the risk of overcapacity. Arabtec is currently operating at full capacity in terms of labour and machinery but also bids for more projects, supporting our assumption.

Lower profitability going forward

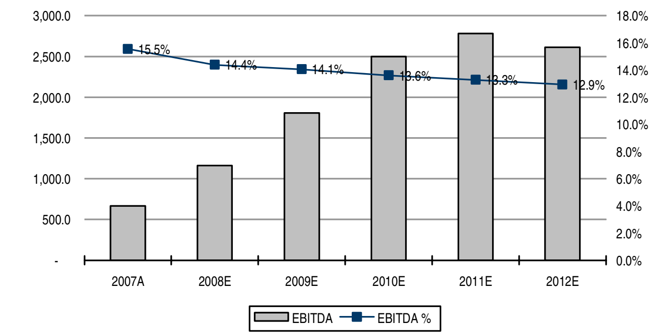
We expect slower growth at the EBITDA level, estimating a three-year CAGR of c.34% as we believe that margins will face downward pressure going forward due to building materials' price hikes and the penetration of new markets. In 2007, Arabtec was able to achieve an EBITDA margin of 15.5%, up from 10.6% in 2006 on the back of a hedging policy against cement and steel price increases. Arabtec managed to secure long-term contracts with cement suppliers as well a large inventory of steel, which in turn provided a hedge against rising costs. We believe that the effect of Arabtec's hedging policy will remain throughout this year as most of the company's projects are still concentrated in the UAE. We estimate an EBITDA margin of 14.4% in 2008, and we estimate a further drop in EBITDA margin for 2009 to arrive at 14.1% on the back of more revenues from international operations which, in our view, will likely come at lower margins.

Figure 39: Arabtec: Revenues
In AED millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Figure 40: Arabtec: EBITDA
In AED millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

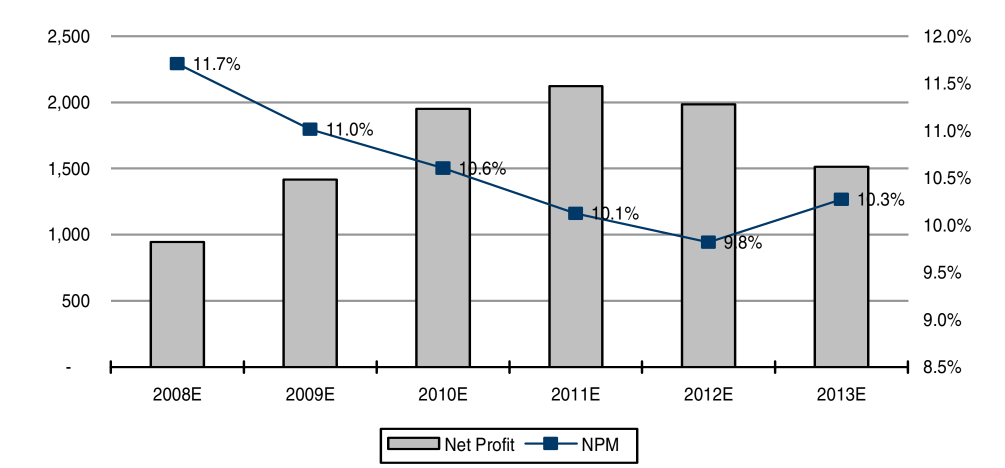
Moreover, we expect net profit to reach AED 944m in 2008, up 76.3% from AED 535.4m in 2007. We estimate net profit of AED 2.1bn in 2011, implying a three-year CAGR of 31%.

Our estimates for Arabtec's declining profitability over our forecast period are mainly derived from the following assumptions.

- The rising cost of building materials, which Arabtec was able to hedge against in 2007 by building steel inventories and securing long-term contracts with cement suppliers in the UAE. We expect this scenario to continue in 2008, as the bulk of revenues will come from the existing local backlog that bears relatively high margins. On the other hand, Arabtec will likely eventually have to engage in new contracts with cement suppliers at higher prices, as well as an increase in steel inventory costs, which should put pressure on the company's margins. Moreover, we don't expect Arabtec to have the same pricing negotiation power as before in the UAE, as the current sellers' market is likely to change in the next three years.

- We estimate 18.2% of total revenues to come from international operations in 2009. We do not believe Arabtec will have the same cost efficiency abroad as in the UAE, based on our assumption that the company will have to engage in joint ventures and hire subcontractors to avoid exceeding its capacity.

Figure 41: Arabtec: Net profit estimates
In AED millions, unless otherwise stated

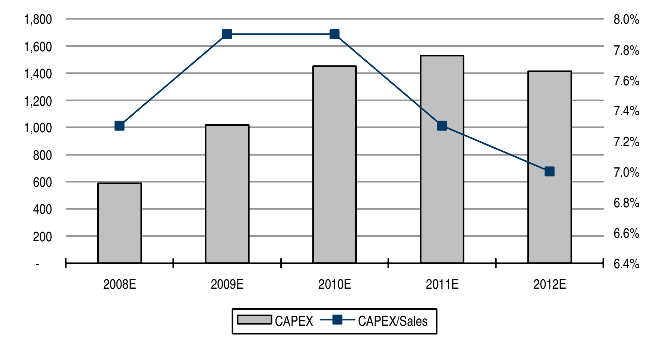


Source: Credit Suisse estimates

Financing

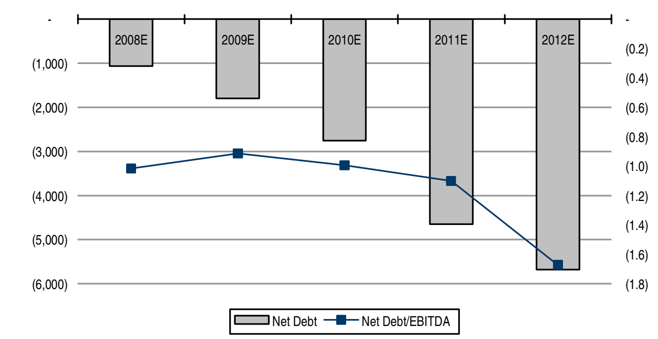
We expect CAPEX in 2008E to stay at the same level as 2007 at 7.3% of sales. We then expect CAPEX to increase in 2009E and 2010E, reaching 7.9% of sales due to more investment in international markets (mainly Russia). In subsequent years, we expect the company's CAPEX levels to fall back to 2007 levels as it establishes more ground in international markets and less investment in machinery and equipment is required. In terms of financing, we believe the company will maintain its self-financing strategy and minimum debt levels going forward as a result of sufficient working capital and positive operating cash flows.

Figure 42: Arabtec: CAPEX
In AED millions, unless otherwise stated



Source: Credit Suisse estimates

Figure 43: Arabtec: Net debt estimates
In AED millions, unless otherwise stated



Source: Credit Suisse estimates

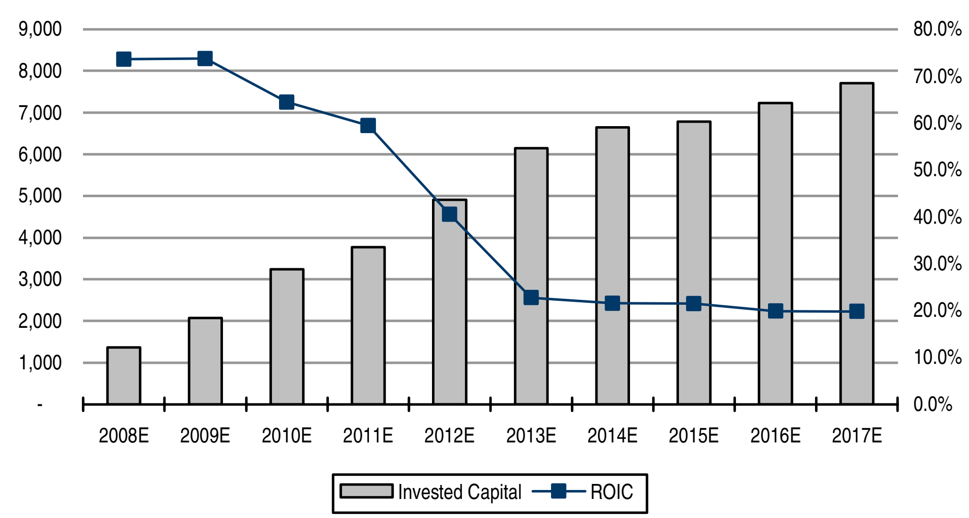
Valuation

We are initiating coverage of Arabtec with an Outperform rating and a target price of AED 25 per share. Our target price represents 56% upside potential to the current market price. Our valuation is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. We have used a WACC of 9.7%, which is derived from a cost of equity of 9.8% and a cost of debt of 6% (the company has very little debt). The cost of equity is based on a risk free rate of 4.25%, an emerging markets risk premium of 5.5% and a beta of 1.0. The main assumptions in our DCF are as follows.

(1) Lower EBITDA margins starting in 2008E, thus reaching their lowest level at 12.9% in 2012E compared to 15.5% in 2007. This decrease is a result of: i) rising inputs costs and lower pricing negotiation power; and ii) the increased contribution from international operations, which we expect to come at lower margins.

(2) Higher ROIC in 2008E and 2009E due to the significant increase in revenues from the recognition of the existing backlog. A decreasing ROIC starting in 2010E as NOPAT grows at a slower rate than invested capital, reflecting earnings fluctuations due to a slowdown in the rate of additions to the backlog going forward.

Figure 44: Arabtec: ROIC
In AED millions, unless otherwise stated



Source: Credit Suisse estimates

Figure 45: Arabtec: TP calculation summary
In AED millions, unless otherwise stated

PV Value of FCF	6,957
PV of TV	7,439
EV	14,672
Cash	904
Equity investments	0
Outstanding debt (2007)	(229)
Minority interest (2007)	(138)
Equity value	14,933
Number of shares (m)	598
Target price (AED)	**25**

Source: Credit Suisse estimates

Figure 46: Arabtec: WACC calculation

Risk free rate	4.3%
Market risk premium	5.5%
Beta	1.0
Cost of equity	9.8%
Cost of debt	6.0%
Tax rate	0.2%
Equity	97.7%
Debt	2.3%
WACC	9.7%

Source: Credit Suisse estimates

Figure 47: Arabtec: DCF valuation summary
In AED millions

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	1,160	1,808	2,500	2,783	2,614	2,060	2,135	2,204	2,224	2,355
D&A	(148)	(264)	(384)	(500)	(593)	(638)	(680)	(720)	(760)	(799)
EBIT	1,012	1,544	2,116	2,283	2,020	1,422	1,455	1,483	1,464	1,556
Taxes	(8)	(16)	(27)	(37)	(34)	(25)	(26)	(27)	(27)	(29)
NOPAT	1,003	1,527	2,089	2,246	1,987	1,397	1,429	1,457	1,437	1,527
NOPAT growth %	85%	52%	37%	7%	-12%	-30%	2%	2%	-1%	6%
Free cash flow	920	947	1,102	1,885	998	223	991	1,372	1,050	1,104
Net investment	(84)	(581)	(987)	(361)	(989)	(1,174)	(438)	(84)	(387)	(423)

Source: Credit Suisse estimates

Figure 48: **Arabtec: Invested capital calculation**

In AED millions

Year end 31 December	**2007A**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
(+) Fixed assets	749,539	1,479,349	2,246,170	3,328,395	4,373,203	5,208,794	5,615,786	5,988,735	6,352,424	6,708,622	7,058,943
(+) Intangible assets	513,536	499,054	484,572	470,090	455,608	441,126	426,644	412,162	397,680	383,198	368,716
(+) Working capital	(992,387)	(1,643,961)	(2,248,099)	(2,818,803)	(3,769,380)	(3,605,175)	(2,405,606)	(2,409,248)	(2,803,636)	(2,872,234)	(2,904,542)
(+) Other	613,346	1,029,445	1,589,423	2,260,240	2,716,056	2,858,504	2,506,501	2,650,646	2,839,458	3,011,546	3,188,102
Invested capital (asset side)	884,034	1,363,886	2,072,066	3,239,922	3,775,488	4,903,249	6,143,325	6,642,294	6,785,926	7,231,133	7,711,219
(+) Equity	1,249,830	1,894,887	2,953,037	4,543,246	6,367,217	8,052,122	9,266,200	10,530,831	11,983,396	13,465,448	15,075,775
(+) Net debt	(674,842)	(1,060,134)	(1,797,364)	(2,753,613)	(4,654,466)	(5,677,771)	(5,892,485)	(6,906,901)	(8,475,459)	(9,776,620)	(11,191,584)
(+) Other net liabilities	309,047	529,133	916,393	1,450,289	2,062,736	2,528,898	2,769,610	3,018,364	3,277,989	3,542,305	3,827,028
(-) Investments											
Invested capital (liabilities side)	884,034	1,363,886	2,072,066	3,239,922	3,775,488	4,903,249	6,143,325	6,642,294	6,785,926	7,231,133	7,711,219

Source: Credit Suisse estimates

Financial statements summary

Figure 49: Arabtec: Income statement
In AED millions, unless otherwise stated

	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Revenues	2,810	4,273	8,063	12,866	18,380	20,969	20,205
Revenue growth %	9.5%	52.1%	88.7%	59.6%	42.9%	14.1%	-3.6%
EBITDA	299	664	1,160	1,808	2,500	2,783	2,614
EBITDA margin %	10.6%	15.5%	14.4%	14.1%	13.6%	13.3%	12.9%
D & A	92	121	148	264	384	500	593
EBIT	207.3	543.7	1,011.9	1,543.6	2,116.1	2,282.7	2,020.5
Interest income (expense)	3.7	22.3	30.4	50.0	79.6	129.6	180.8
Other non-operating income (expense)	7.8	12.8	16.1	25.7	36.8	41.9	40.4
Pre-tax profit	218.8	578.8	1,058.4	1,619.4	2,232.5	2,454.3	2,241.7
Taxes	-	1.2	8.5	16.2	26.8	36.8	33.6
Effective tax rate	0.0%	0.2%	0.8%	1.0%	1.2%	1.5%	1.5%
Minority interest	(1.9)	(42.2)	(105.8)	(186.2)	(256.7)	(294.5)	(224.2)
Net income	216.9	535.4	944.1	1,416.9	1,949.0	2,123.0	1,983.9
NPM	7.7%	12.5%	11.7%	11.0%	10.6%	10.1%	9.8%
Net income growth %	30.8%	146.8%	76.3%	50.1%	37.5%	8.9%	-6.6%
EPS	0.4	0.9	1.6	2.4	3.3	3.6	3.3

Source: Company data, Credit Suisse estimates

Figure 50: Arabtec: Cash-flow statement
In AED millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E
Net income	944.1	1,416.9	1,949.0	2,123.0	1,983.9
D & A	148.3	264.1	384.3	500.4	593.2
Change in working capital	356.7	171.6	80.8	669.3	(167.5)
Net change in other assets & liabilities	(6.9)	73.6	96.2	143.4	102.9
Cash provided (used) by opr. actv.	**1,442.1**	**1,926.2**	**2,510.4**	**3,436.1**	**2,512.5**
CAPEX	(588.6)	(1,016.4)	(1,452.0)	(1,530.7)	(1,414.3)
Acquisitions	(275.0)	-	-	-	-
Other					
Cash provided (used) by inv. actv.	**(863.6)**	**(1,016.4)**	**(1,452.0)**	**(1,530.7)**	**(1,414.3)**
Change in interest bearing debt	-	-	-	-	-
Distributions for the year	(299.0)	(358.8)	(358.8)	(299.0)	(299.0)
Stock issuance					
Treasury stock					
Other	105.8	186.2	256.7	294.5	224.2
Cash provided (used) by fin. actv.	**(193.2)**	**(172.6)**	**(102.1)**	**(4.5)**	**(74.8)**
Net cash flow	**385.3**	**737.2**	**956.2**	**1,900.9**	**1,023.3**

Source: Credit Suisse estimates

Figure 51: Arabtec: Balance sheet
In AED millions, unless otherwise stated

	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Current assets							
Bank balances and cash	101.0	904.1	1,289.4	2,026.6	2,982.8	4,883.7	5,907.0
Trade and other receivables (net)	1,197.5	1,932.8	3,650.9	6,182.7	8,832.8	9,494.2	9,148.4
Due from related parties	25.0	126.4	238.5	380.5	543.6	620.2	597.6
Inventories	215.1	183.8	352.0	560.5	802.1	913.2	878.2
Other current assets	72.6	215.6	342.3	566.3	814.5	984.7	1,023.1
Total current assets	1,611.2	3,362.5	5,873.0	9,716.6	13,975.9	16,896.0	17,554.2
Non-current assets							
Property, plant & equip. (net)	415.9	749.5	1,479.3	2,246.2	3,328.4	4,373.2	5,208.8
Goodwill & other intangibles	178.7	513.5	499.1	484.6	470.1	455.6	441.1
Other long-term assets	129.2	214.0	335.2	462.7	643.6	818.1	957.3
Total non-current assets	**723.9**	**1,477.1**	**2,313.6**	**3,193.4**	**4,442.1**	**5,647.0**	**6,607.2**
Total assets	**2,335.1**	**4,839.6**	**8,186.6**	**12,910.0**	**18,418.0**	**22,542.9**	**24,161.4**
Liabilities and shareholders' equity							
Current liabilities							
Trade & other payables	1,226.4	2,923.5	5,288.1	8,420.8	11,636.2	13,247.4	12,739.2
Due to related parties	8.0	128.1	245.3	390.6	559.0	636.4	611.9
Short-term debt	156.8	209.3	209.3	209.3	209.3	209.3	209.3
Other working capital items							
Total current liabilities	1,391.3	3,260.8	5,742.6	9,020.6	12,404.5	14,093.0	13,560.4
Non-current liabilities							
Long-term debt	0.8	19.9	19.9	19.9	19.9	19.9	19.9
Other long-term liabilities	133.0	170.8	285.0	486.1	763.2	1,081.1	1,323.1
Minority interest	26.4	138.3	244.1	430.3	687.1	981.6	1,205.8
Total non-current liabilities	160.1	329.0	549.1	936.3	1,470.2	2,082.7	2,548.8
Total liabilities	1,551.4	3,589.8	6,291.7	9,957.0	13,874.7	16,175.7	16,109.2
Shareholders' equity	783.7	1,249.8	1,894.9	2,953.0	4,543.2	6,367.2	8,052.1
Total liabilities & shareholders' equity	**2,335.1**	**4,839.6**	**8,186.6**	**12,910.0**	**18,418.0**	**22,542.9**	**24,161.4**

Source: Company data, Credit Suisse estimates

EMEA
Equity Research
Real Estate

Emaar Properties (EMAR.DU)

INITIATION

Unrecognised value

Rating	NEUTRAL*
Price (24 Jun 08, Dhs)	10.95
Target Price (Dhs)	15.00[1]
Market cap. (Dhs m)	66,527.30
Enterprise value (Dhs m)	72,033.3

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

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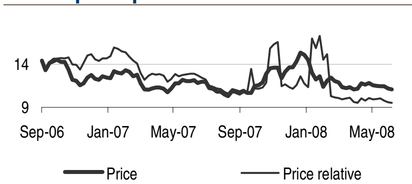
- **Summary:** We initiate coverage of Emaar Properties with a Neutral rating and a target price of AED 15.0 per share, suggesting 37% upside potential to the current market price. Although our SOTP values Emaar at AED 21.1 per share, the stock has been trading at a 28.9% discount to announced NAV of AED 16.89 per share for the past 12 months on average. Accordingly, we expect it to trade at the same discount to our valuation in 2008.
- **Investment thesis:** We believe Emaar is significantly undervalued, but we do not expect the market to recognise its value in 2008 due to: 1) its 2007 earnings growth of 3.2%, which was significantly below market consensus, while dividends paid were also lower than expected; 2) the company has issued guidance that earnings growth in 2008E will likely be flat; and 3) we do not expect revenues from international projects and the bulk of revenues from Dubai property sales to start contributing strongly to overall revenues until 2009.
- **Catalyst:** Given the company's guidance about earnings growth, we think the stock lacks catalysts for 2008E. However, there could be upside potential if the company recorded higher-than-expected earnings growth in 3Q08 due to the early recognition of revenues from international operations or if it were to offer more detailed guidance regarding future operations.
- **Valuation:** Our valuation in based on a SOTP approach. We have used DCF analysis for all of Emaar's local and international projects where the master plans have been finalised and sufficient data has been provided by the company. We have applied a suitable cost of capital for each country of operation.

Share price performance



The price relative chart measures performance against the MSCI Arabian markets index which closed at 821.86 on 24/06/08
On 24/06/08 the spot exchange rate was Dhs5.72/Eu 1. - Eu 0.64/US$1

Performance	1M	3M	12M
Absolute (%)	-4.8	-2.7	-9.9
Relative (%)	-6.3	-6.4	-27.6

Financial and valuation metrics

Year	12/07A	12/08E	12/09E	12/10E
Revenue (Dhs m)	17,565.9	19,868.4	28,951.5	33,893.0
EBITDA (Dhs m)	5,403.50	6,237.38	9,234.96	10,813.11
Net Income (Dhs m)	6,575.3	7,127.0	10,276.4	11,829.8
CS adj. EPS (Dhs)	1.08	1.17	1.69	1.94
ROIC (%)	16.6	15.2	19.5	19.8
P/E (adj., x)	10.14	9.36	6.49	5.64
P/E rel. (%)	—	—	—	—
EV/EBITDA	13.0	11.5	7.6	6.3

Dividend (2008E, Dhs)	0.25	IC (12/07A, Dhs m)	31,620.0
Dividend yield (%)	2.3	EV/IC	2.2
Net debt (12/08E, Dhs m)	4,853.7	Current WACC	9.4
Net debt/equity (12/08E, %)	11.4	Free float (%)	68.0
BV/share (12/08E, Dhs)	7.0	Number of shares (m)	6,075.55

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

Investment summary

A unique opportunity offering access to the region's real estate sector

We view Emaar Properties as a unique opportunity offering access to the booming real estate sector in the MENA region. It is the largest real estate company listed in the UAE with a current market cap of US$18.2bn and a land bank of 519m square metres in the UAE and across the region, including land owned through its subsidiaries and associates. Originally established by the government of Dubai, Emaar has been the primary developer for most of the city's key residential, commercial and retail areas. Emaar has evolved through a series of acquisitions and joint ventures to become a diversified mass property developer as well as an associated services provider in the fields of education, healthcare and hospitality. Emaar has established an international footprint in 17 markets in order to minimise the geographical risk of only operating in the UAE. We believe that Emaar's value creation is derived from its ability to acquire land in international markets at competitive prices through establishing government alliances and joint ventures with reputable local partners and replicating its Dubai track record in other international markets.

Initiating with a TP of AED 15.0 per share, a 28.9% discount to our SOTP valuation of AED 21.1 per share

Our SOTP approach values Emaar at AED 21.1 per share. However, we initiate coverage with a Neutral rating and a target price of AED 15.0, suggesting 37% upside potential to the current market price. We have arrived at our target price by applying a 28.9% discount to our SOTP valuation of AED 21.1 per share, as the stock has been trading at the same discount to its announced NAV of AED 16.89 per share for the past 12 months on average. Although we believe Emaar is significantly undervalued, we do not expect the market to recognise Emaar's value before 2009 due to several factors: 1) its 2007 earnings growth of 3.2%, which was significantly below market consensus, while dividends paid were also lower than expected; 2) the company has issued guidance that earnings growth in 2008E will likely be flat; and 3) we do not expect revenues from international projects and the bulk of revenues from Dubai property sales to start contributing strongly to overall revenues until 2009.

The stock lacks catalysts for 2008E; however, upside potential still exists

Despite a lack of catalysts to boost the stock's current performance, we believe the company has improved its investor communications in the past six months, and if Emaar were to offer more detailed guidance regarding future growth, the market may start recognising its value. Moreover, we see upside risks if the company were able to exceed its flat earnings growth guidance for 2008E by recording more revenues from property sales in Dubai and international operations.

Trading at a 16% discount to the value of the UAE operations alone

According to our SOTP valuation, Emaar's UAE operations, including the Bawadi JV and Umm Al Quwain Marina project, represent 62% (AED 13.0 per share) of the total group's equity value. This implies that the market hasn't accounted for the value of international operations, as the stock is trading at a 16% discount to the value of UAE operations alone.

Limited exposure to oversupply risks in the real estate market in Dubai

In terms of risk, we believe that Emaar has minimum exposure to the risk of a downturn in the real estate market in Dubai, even though most of its value comes from its local operations. Our view is based on the following factors: 1) Emaar is a primary developer in Dubai and has the power to control its own supply flow, while it also enjoys full support of the Dubai government; 2) Emaar's main local projects are concentrated in the centre of the city and host the world's tallest tower, Burj Dubai. We believe that should a downturn occur in the real estate market in Dubai, such an iconic area will still enjoy special demand and buyers will have to pay a premium in order to live in the heart of the city. 3) Profitability from international projects should offset somewhat the risk of a downturn in real estate prices in Dubai post 2010E.

Company profile and corporate strategy

Emaar Properties in brief

Emaar Properties was established in June 1997 by the government of Dubai as a mass-market property developer operating in Dubai. The government currently owns a 32% stake in the company. Emaar has evolved from selling serviced land and residential units into becoming a diversified mass property developer as well as an associated services provider in the fields of education, healthcare and hospitality. With a market cap of around AED 66.5bn (US$18.2bn), Emaar is becoming one of the largest real estate developers regionally, with multibillion-dollar projects across the MENA region and globally. The group holds a land bank of 519m square metres, including land owned by associates. Emaar has delivered over 22,202 units since 2001 and has major property development projects in Dubai at different stages of development, including one of Dubai's iconic structures, Burj Dubai, the world's tallest tower scheduled for completion in September 2009.

Figure 52: **Emaar: Corporate structure**

Subsidiary/Associate	Country	% Owned
Consolidated		
Emaar Properties	UAE	100%
John Laing Homes	USA	100%
Emaar Morocco	Morocco	100%
Emaar Misr	Egypt	100%
Emaar Syria	Syria	100%
Emaar Pakistan	Pakistan	67%
Emaar Turkey	Turkey	65%
Emaar Middle East	KSA	61%
Hamptons International	UK	100%
Emaar Hotels & Resorts	International	100%
Emaar Hospitality Group	International	100%
Emaar Malls	International	100%
Emaar Education/Healthcare	International	100%
Equity		
Turner International ME	MENA	50%
JV with ONA Group	Morocco	50%
Emaar MGF	India	42%
Dead Sea Company	Jordan	37%
Emaar Economic City	KSA	31%
Amlak Finance	UAE	48%
Dubai Bank	UAE	30%
Emaar Financial Services	UAE	38%
Emaar Industries & Invest.	MENA	40%
Golden Ace Pte Ltd	Singapore	30%
Emrill Services LLC	UAE	33%

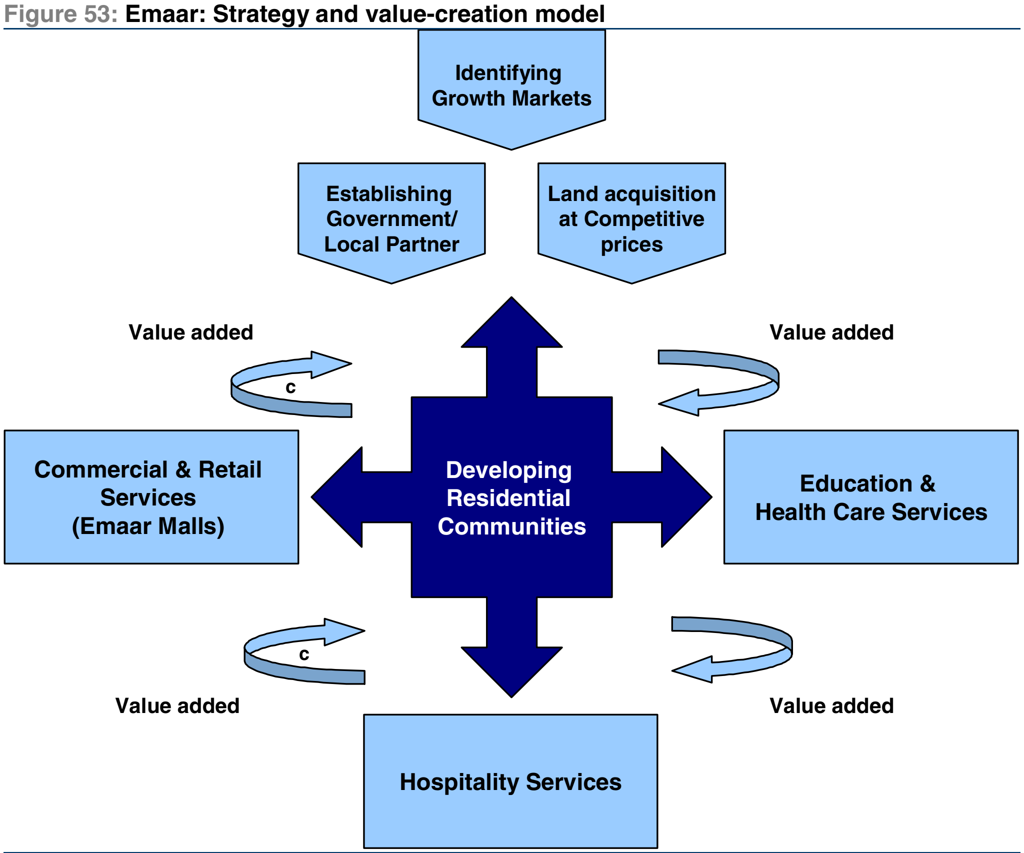
Source: Company data

Strategy and business model

To achieve its stated goal of becoming one of the world's most valuable companies by 2010, Emaar seeks to replicate its success in Dubai in other regional and international markets by establishing government alliances and joint ventures with reputable local partners, enabling it to acquire large land banks at competitive prices. Emaar's value creation is derived from its business strategy, which involves developing residential communities and integrating education, healthcare, commercial and hospitality services within them to ensure a recurring revenue stream after a project's delivery.

Emaar's management has said it seeks to generate 60–70% of revenues from international operations by 2010, up from 20% in 2007. Moreover, it plans to generate 15% of net profit from hotels and malls and further expand into education and healthcare in the MENA and the Indian subcontinent regions.

Figure 53: **Emaar: Strategy and value-creation model**

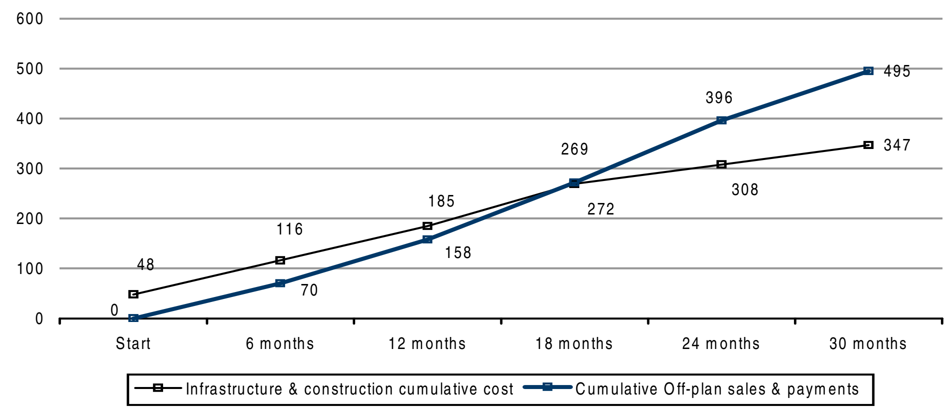


Source: Company data, Credit Suisse research

Limited funding by parent company

Emaar limits its financing to land acquisition and initial infrastructure costs. Going forward, financing at project level comes from off-plan sales, project-based debt financing and IPOs for subsidiaries and associates. The group's cash commitment for 2008 is around AED 7.7bn (US$2.1bn).

Figure 54: Example of a typical development project financing
AED in millions, unless otherwise stated



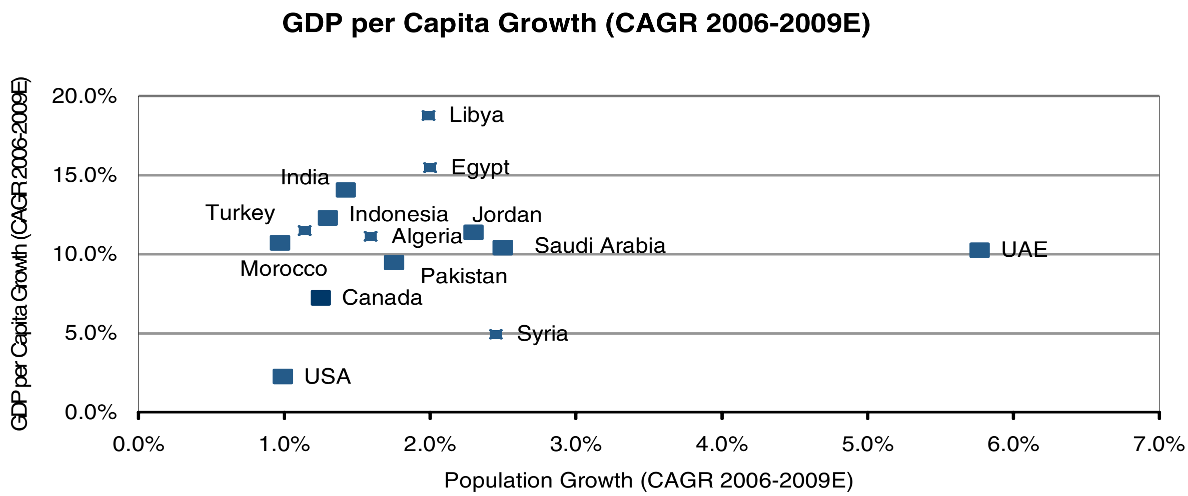
Source: Company data

International operations: Replicating the Dubai success story

Emaar has been able to establish a strong brand name in Dubai and is currently extending its business model and practices to international markets. Through a series of acquisitions and strategic partnerships with governments and strong local partners, Emaar has been able to expand internationally and is currently operating in 17 countries. Emaar is targeting countries with high population and GDP per capita growth in order to achieve strong absorption rates for its high-class developments.

Emaar holds a large land bank in the UAE and internationally that reached 519m square metres by end-2007 and was valued by Emaar at AED 118.3bn (US$32.2bn), including land owned by associated companies. The UAE comprises only 4.3% of Emaar's total land bank, with Saudi Arabia, India, Libya, Algeria and Tunisia accounting for the bulk of the land.

Figure 55: Emaar: Target markets (population growth vs. GDP per capita growth)



Source: Company data, IMF estimates

Figure 56: **Emaar: Major international projects breakdown**

Country	Emaar ownership	Units for sale	Units for rent	Total project cost (AED m)	Total project cost (US$m)	Completion date	Remarks
Saudi Arabia	61%	9,300	212	10,400	2,834	2007–14	Includes Al Khobar Lakes & Jeddah Gate projects only
Egypt	100%	14,774	-	14,093	3,840	2008–15	Includes Uptown Cairo & Marassi projects only
Morocco	50-100%	22,930	8,140	25,201	6,867	2005–16	Includes Emaar's 100% owned projects and 50/50 JV with ONA Group projects
Jordan	37%	1,229	405	1,835	500	2007–11	Dead Sea Development project
Syria	60%	1,390	1,338	4,037	1,100	2007–11	Eighth Gate project
Turkey	60%	555		2,570	700	2006–10	Tuscan Valley project
Pakistan	67%	8,524		8,800	2,398	2006–15	Includes projects in Karachi and Islamabad
Total		**58,702**	**10,095**	**66,936**	**18,239**		

Source: Company data

Figure 57: **Emaar: Land bank fair value as of 2007**

Country	Land (m sqm)	% of total land bank	Fair value (AED m)	Fair value (US$m)
UAE (including Bawadi JV)	22.3	4.3%	34,312	9,349
India	52.8	10.2%	58,713	15,998
Saudi Arabia	172.8	33.3%	5,321	1,450
Morocco	18.9	3.6%	821	224
Pakistan	6.5	1.3%	2,963	807
Syria	0.3	0.1%	431	117
Turkey	1.8	0.3%	480	131
Egypt	14.7	2.8%	12,671	3,453
USA & Canada	2.9	0.6%	2,402	654
Jordan	1.8	0.3%	149	41
Libya, Algeria, Tunisia & Indonesia	224.4	43.2%		
Total	**519.1**	**100.0%**	**118,263**	**32,224**

Source: Company data

Figure 58: **Emaar: Fair value of landed included in development properties as of 31 December 2007**

In AED millions, unless otherwise stated

Country	Fair value of land	Emaar's share in FV of land	Emaar's share in BV of land	Emaar's share of FV in excess of BV of land
UAE	21,601	21,237	1,895	19,342
Egypt	12,671	12,671	2,691	9,980
Pakistan	2,963	1,694	86	1,608
USA	2,281	2,281	2,281	-
KSA	1,619	987	706	281
India	1,192	882	56	826
Turkey	480	288	202	86
Other (Canada / Syria / Morocco)	868	690	148	542
Total land included in development properties	**43,675**	**40,730**	**8,065**	**32,665**

Source: Company data

Other business segments

Emaar Hospitality Group

Emaar Hospitality Group owns and operates a diversified portfolio of hotels and leisure facilities across Emaar's community development projects, with a total development value of AED 3.67bn (US$1bn). Hospitality assets in its portfolio are either self-managed or through third-party agreements.

We expect revenues from Emaar's hospitality division to contribute 3.5% to total revenues in 2008.

Figure 59: **Emaar Hospitality Group's portfolio**

Current Projects	Management company	Category	No. of hotel rooms	No. of serviced apts	Operational
Dubai					
Burj Dubai Lake Hotel	Emaar Hospitality	5 star	198	626	2008
Al Manzil	Southern Sun	4 star	197		2006
Qamardeen	Southern Sun	4 star	186		2006
The Palace	Sofitel	5 star	242		2007
Dubai Mall Hotel	Emaar Hospitality	5 star	244	449	2008
Dubai Marina Mall Hotel	Emaar Hospitality	5 star	200	442	2008
Nuran Al Majara Residences	Emaar Hospitality			90	2005
Nuran Greens Residences	Emaar Hospitality			228	2005
International					
Hyderabad International Hotel	AAPC-Thailand	5 star	287		2006

Source: Company data

Emaar Hotels and Resorts

This division is exclusively dedicated to Armani-branded hotels in major international projects. Emaar Hotels and Resorts has said it plans to develop seven luxury hotels and three resorts over the next 10 years at an estimated value of AED 5bn (US$1.4bn). Current projects include Burj Dubai Armani Hotel scheduled for operation in 2009 and another hotel in Milan opening 2010.

Education and Healthcare

According to the group's strategy, Emaar has tapped into both education and healthcare sectors through the establishment of schools, clinics and medical centres around its community developments.

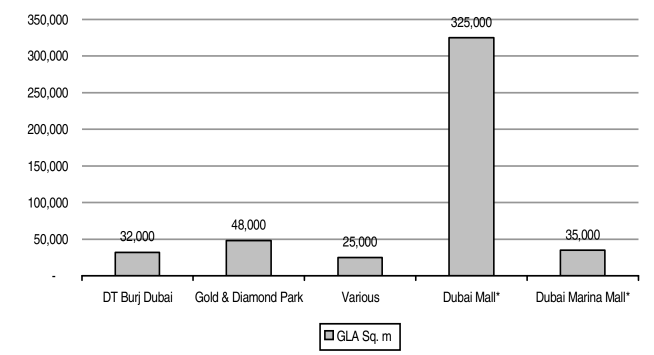
In 2006, Emaar acquired Raffles Campus (Singapore) in order to import educational expertise to complement its strategy. Emaar Education currently owns and operates two schools and four pre-schools in Dubai and Singapore and is planning to launch more schools in Egypt, Morocco, Saudi Arabia, Turkey and India.

Emaar Healthcare owns four medical facilities in Dubai, which are scheduled for operation in 2009. Emaar Healthcare's investment plan calls for the establishment of 100 world-class medical facilities around Emaar's regional and international developments in the next 10 years.

Emaar Malls

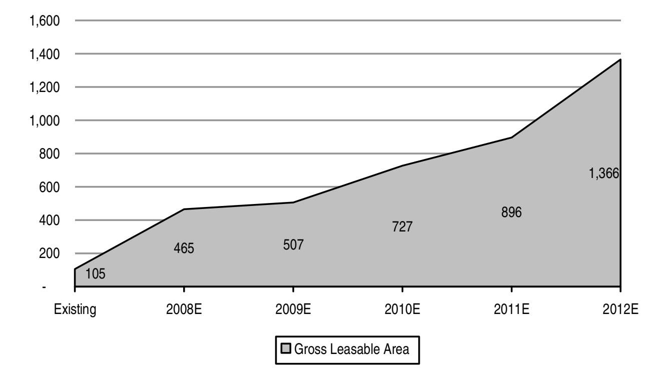
As part of Emaar's diversified strategy, the company targets the retail property segment through its 100% owned subsidiary, Emaar Malls. The current gross leasable area (GLA) is around 105,000 square metres and is expected to grow to around 1.4m square metres by 2012, according to Emaar's guidance. Revenues from Emaar Malls contribute to the group's other operating income and are expected to strengthen in 2009 as Dubai Mall and Dubai Marina Mall become operational.

Figure 60: Emaar: Current and upcoming retail space
in Sq. m



**Opening late 2008*
Source: Company data

Figure 61: Emaar: Target GLA (Dubai & International)
in 000 Sq. m



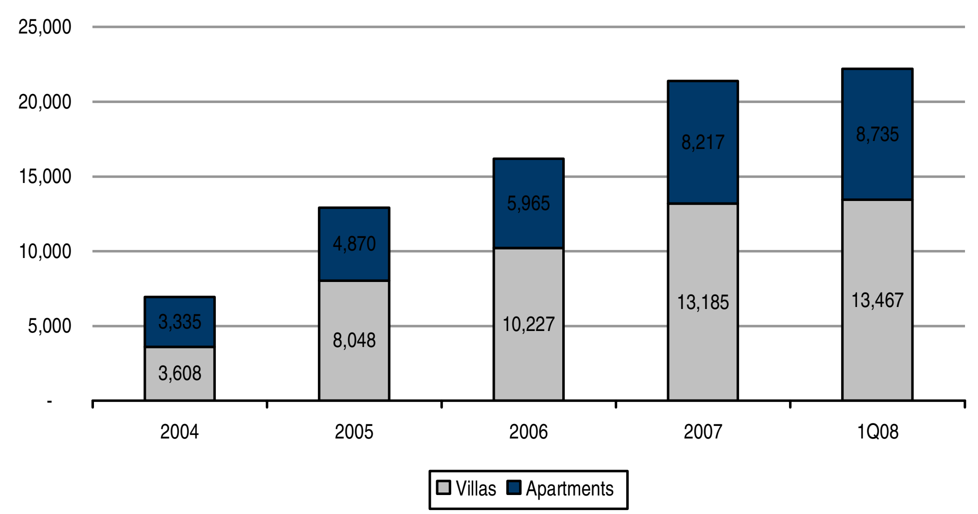
Source: Company data

Dubai: still the backbone for Emaar…

Property sales in Dubai form the backbone of Emaar's revenues—the company was originally established by the Dubai government to develop residential communities in Dubai and received land grants for all its domestic projects. Emaar has established a strong brand name in Dubai over the years through its involvement in most of Dubai's high-end residential communities. It has evolved from selling serviced land, which bore high margins (in excess of 80%), towards developing the granted land and creating more value going forward. Emaar's land bank in the UAE reached 22.3m square metres by the end of 2007, boosted by an additional 6.5m square metres from its recently announced joint venture with Bawadi.

Emaar announced seven major mixed use developments in the UAE that comprise around 108,430 freehold residential units, of which 35,781 are currently developed or under development. The company's total development cost in the UAE is AED 39bn (US$10.6bn) for the next four years.

Figure 62: **Emaar: Track record of cumulative units delivery**

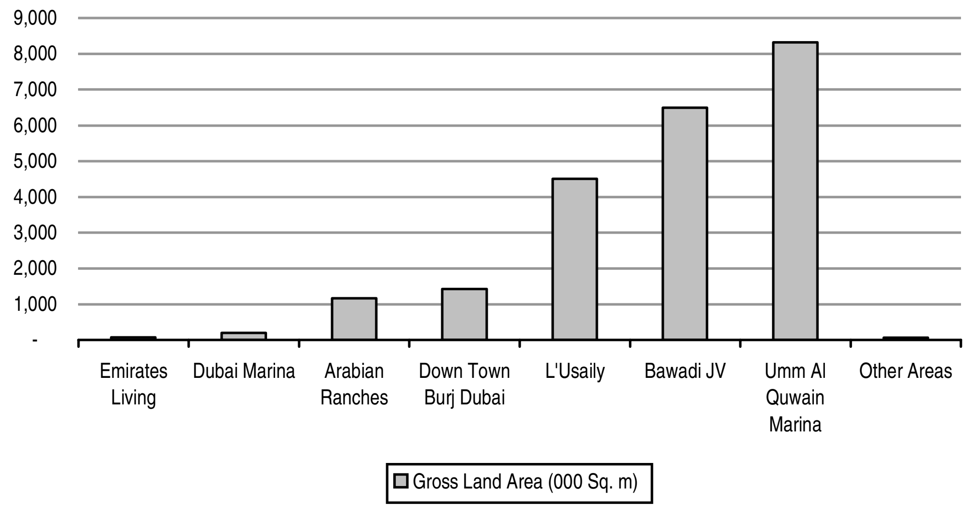


Source: Company data, Credit Suisse research

Bawadi JV

The Bawadi project is a joint venture between Emaar and Bawadi, a member of Tatweer (owned by the government of Dubai). Under the terms of the joint venture, Bawadi will contribute 6.5m square metres of land valued at AED 3.85bn (US$1.05m), while Emaar will contribute the same value in cash to be paid over the construction period to finance the development. The 6.5m square metres of land in Bawadi increased Emaar's land bank in Dubai by 76%. The total estimated project cost is around AED 90bn with scheduled completion in 10 years. The project will comprise 19,000 residential units, 370,000 sq. m of commercial space, 500,000 sq. m of retail space, 5,150 hotel rooms and 5,362 serviced apartments. Emaar expects income from Bawadi to start contributing to the group's earnings by 2009. Emaar accounts for Bawadi using the equity method, and it will contribute to income from associates.

Figure 63: Emaar: UAE land bank breakdown by area (22.3m sq. m)



Source: Company data

Figure 64: Emaar: UAE development projects breakdown

Project	Total freehold units	% Developed	% Underdevelopment	Construction start date	Scheduled completion date	% Sold	% recognised in revenues as of 1Q08
Down Town Burj Dubai	28,064	14%	31%	2003	2014	75%	18%
Arabian Ranches	4,212	92%	7%	2002	2010	98%	74%
Dubai Marina	5,029	56%	44%	1998	2009	86%	59%
Emirates Living	14,020	86%	14%	1998	2009	99%	89%
Emaar Towers	168	100%		2001	2003	100%	100%
L'Ussaily	29,583	0%		2009	2018	0%	0%
Umm Al Quwain Marina	8,354	0%	3%	2007	2013	88%	1%
Bawadi JV	19,000	0%		2008	2017	0%	0%
Total	**108,430**	**21%**	**12%**			**89%**	

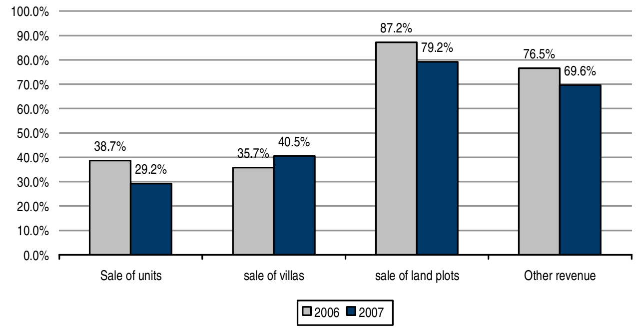
Source: Company data

Revenues and profitability

Revenues from the UAE operations have been the main contributor to Emaar's total revenues, at 80% in 2007. We believe Emaar has yet to record the bulk of revenues from UAE operations in 2008 and 2009 when projects that are already sold start to be recognised. It is worth noting that Emaar follows the percentage of completion recognition method, which does not allow it to record revenues unless 20% of the construction works is already done. This is clear in projects such as Downtown Burj Dubai, which is currently 75% sold (of units launched for sale), but only 18% was recorded as revenues. We expect revenues from Downtown Burj Dubai, Arabian ranches and Dubai Marina to represent the bulk of property sales revenues in 2008E.

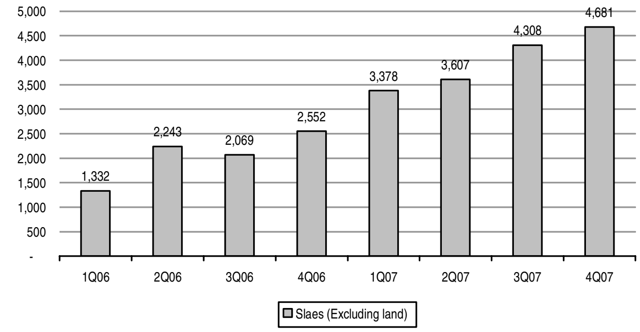
Emaar's strategy has shifted in 2007 to involve developing the available land bank rather than selling land plots. Historically, Emaar's margins have been extremely high due to the high contribution of land sales to revenues, which have borne gross margins in excess of 80%. Emaar's overall gross margins were lower in 2007 compared with 2006 and we expect them to remain at a similar level in 2008.

Figure 65: Emaar: Gross profit margin dynamics



Source: Company data

Figure 66: Emaar: QoQ sales (excluding land)
In AED millions



Source: Company data

Egypt—Emaar Misr

Emaar Misr is a 100%-owned subsidiary of Emaar Properties. It is developing four ‘master communities’ in Cairo and the North for a total value of EGP31.7bn (US$5.6bn), making it one of the largest foreign direct investors in Egypt. Emaar Misr has a total land bank of 14.7m square metres, valued at US$3.5bn at the end of 2007.

We believe that Egyptian real estate is a very lucrative market that is significantly undersupplied in both middle- and high-income segments. Egypt is characterised by a high population (73.6m people in 2007) and high population density, especially in Cairo, which is home to in excess of 16m people. As population density is rapidly increasing in Cairo, the middle- and high-income demand segments are beginning to relocate to suburban areas, which are now subject to a number of residential development projects, including projects undertaken by Emaar.

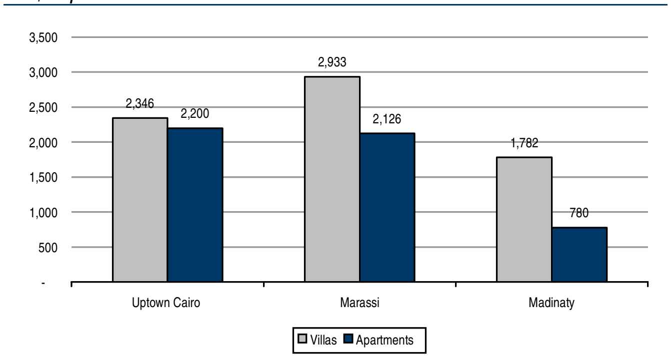
Figure 67: **Significant real estate projects in Egypt**

Project	Developer	Value US$m	Scheduled completion period
Madinaty	TMG Holding	9,100	2006–23
Cairo Festival City	Al Futtaim Group	3,400	N/A
Uptown Cairo	Emaar Properties	2,100	2008–14
Marassi	Emaar Properties	1,740	2008–15
New Cairo City	Emaar Properties	1,000	N/A
Cairo Gate	Emaar Properties	700	N/A
Hyde Park	Damac	5,500	N/A
Gamsha Bay	Damac	16,300	N/A

Source: Companies’ data

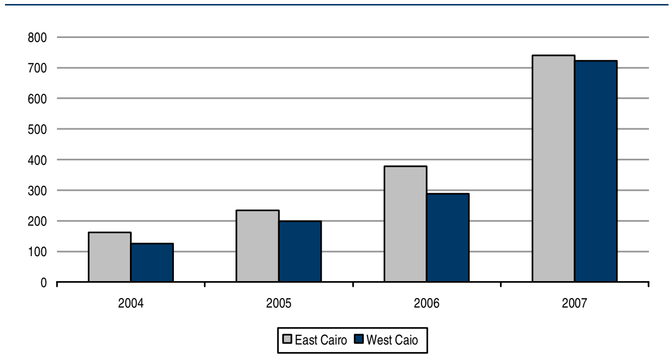
Emaar Misr launched 1,483 units for sale in Uptown Cairo and Marassi, of which 892 units have been sold to date. Emaar’s prices are higher than its peers in Egypt. Prices per square metre for villas in Uptown Cairo are at a 32% premium to TMG Holding’s prices in Madinaty, which is a very similar project.

Figure 68: **Emaar’s average prices compared to TMG Holding**
US$/sq m



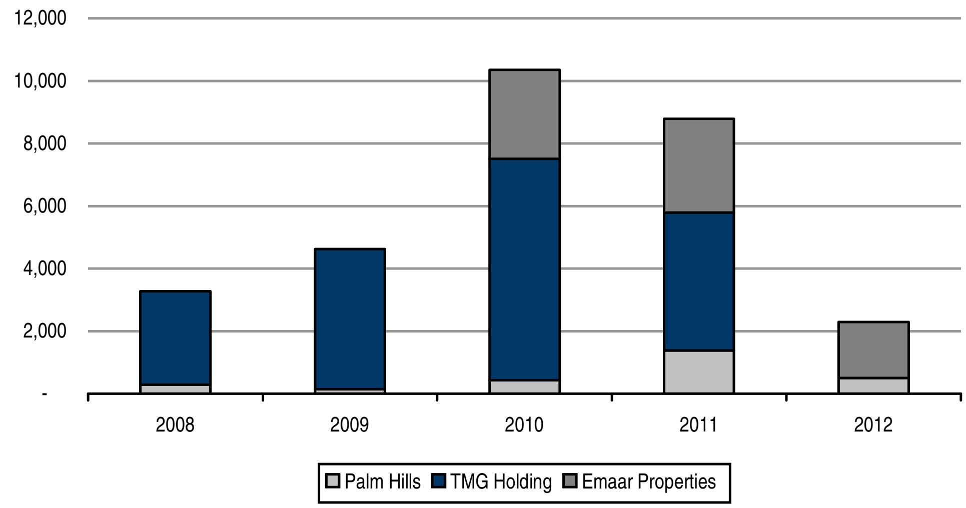
Source: Emaar Properties and TMG Holding

Figure 69: **Residential prices evolution in Cairo**
US$/sq m



Source: Egyptian Ministry of Information, Palm Hills Prospectus

Figure 70: Prime residential supply by selected developers in Egypt
Number of units



Source: Company data, Credit Suisse research

Emaar expects to deliver around 14,774 units in Uptown Cairo and Marassi projects by 2015, in addition to units in New Cairo City and Cairo Gate projects, which are currently under master planning. We have taken a conservative approach in our revenue estimates from Emaar Misr—we have only accounted for revenues from property sales in Uptown Cairo and Marassi as the master plans are finalised and construction work has already started We estimate revenues from Emaar Misr to contribute 1.5% and 4.0% of revenues in 2008 and 2009, respectively.

Valuation

Emaar Misr is one of the main value contributors to the group. We use a DCF valuation for the Egyptian subsidiary, arriving at a value of AED 1.54 per share. Our DCF approach is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate.

Kingdom of Saudi Arabia

Emaar the Economic City

Emaar the Economic City (EEC) is a Tadawul listed company 31%-owned by Emaar Properties. EEC contributes to the group's income from associates and is one of the largest investments in Emaar's investment portfolio. EEC is developing King Abdullah Economic City, which is one of the largest projects in the region with a value of AED 100bn (US$27.2bn) and is spread over an area of 168m square metres. The company offered a 30% stake to the public in an IPO in 2006 and raised SAR 2.55bn.

King Abdullah Economic City project will feature a 63.5m square metre Industrial Zone, a 13.8m square metre Sea Port and a 3.3m square metres Central Business District. Moreover, the project will include 275,000 residential units and 25,000 hotel rooms. According to the latest data announced by Emaar; 433 units were sold in 2007 out of 540 units released for sale.

Valuation

We value Emaar the Economic City (EEC) at its market price as of 24 June 2008 of AED 20.8bn. EEC adds AED 0.99 per share to our valuation for Emaar.

JV with Al Oula Group (Emaar Middle East)

Emaar is also developing two master planned projects in Saudi Arabia through its 61% stake in a joint venture with Al Oula Group, a Saudi real estate company. The two projects currently under development are Al Khobar Lakes and Jedda Gate, due for completion in 2014 with an estimated total development cost of US$2.9bn. The company sold 124 residential units in Jedda Gate out of 208 units launched to date. Sales in Al Khobar Lakes commenced in May 2008.

Figure 71: **Emaar: Breakdown of projects in Saudi Arabia**

Project	Emaar ownership	Completion period	No. of units for sale	No. of units for rent	No. of units launched for sale	No. of units sold
Al Khobar Lakes	61%	2008-2014	3,300		-	-
Jeddah Gate	61%	2007-2014	6,000	212	208	124
Jeddah Hills	61%	Under master planning review stage				

Source: Company data

Valuation

We value Emaar's 61% joint venture with Al Oula Group in Saudi Arabia using a DCF approach, thus adding AED 0.24 per share to our valuation for Emaar.

Morocco

Emaar is developing urban beachfront resorts, golfing residential communities and mountain residences in Morocco with a total value of AED 25.3bn (US$6.9bn) through strategic partnerships with the Moroccan government and ONA Group. Emaar Morocco has signed an MOU with the Moroccan government to undertake developments for a total value of US$5.34bn. The company also has three projects through its 50/50 joint venture with ONA Group with a total estimated value of US$1.5bn. Project delivery dates span from 2008 to 2016 and mainly target high-end buyers and tourists visiting the country.

Figure 72: **Emaar: Breakdown of projects in Morocco**

Project	Emaar ownership %	Completion period	No. of units for sale	No. of units for rental	No. of units launched for sale	No. of units sold
Amelkis II	50%	2005-2008	310	-	307	235
Amelkis III	50%	2006-2009	440	-	-	-
Bahia Bay	50%	2007-2014	2,730	-	-	-
Saphira	100%	2008-2013	16,500	7,300	-	-
Oukaeimeden	100%	2008-2016	Under master planning review stage		-	-
Tinja	100%	2007-2013	2,950	840	158	140
Total			**26,430**	**9,390**	**465**	**375**

Source: Company data

According to Emaar, 465 units were launched for sale, of which 375 units have been sold to date. Selling prices per square metre ranged from AED 7,500 to AED 8,000 for villas and townhouses. We expect revenues from Morocco to contribute 1.8% in 2009E, mainly from unit sales in Tinja.

Valuation

We value Emaar's projects in Morocco using a DCF approach. Emaar's projects in Morocco add AED 2.33 (including ONA JV value of AED 0.03) per share to our valuation for Emaar.

Emaar MGF-India

Emaar MGF is a 42%-owned associate of Emaar Properties and does not contribute to the group's overall revenues. The company has land reserves across India amounting to 52.7m square metres (13,024 acres) of which 48.7m square metres are developable. Emaar MGF more or less follows Emaar's business model in terms of developing residential communities and integrating commercial, hospitality, education and healthcare services within these communities.

Figure 73: **Emaar MGF: Land reserves by City**

City	Area (m Sq. m)	Area acre
Gurgaon	11.36	2,808
Mohali	11.23	2,775
Delhi	5.31	1,313
Dehradun	4.61	1,139
Pune	2.10	520
Hyderabad	2.06	510
Other	16.02	3,959
Total	**52.71**	**13,024**

Source: Company data, Emaar MGF prospectus

Figure 74: **Emaar MGF: Land reserves by category**

Land reserves by category	Area acre	% of total acreage	Proposed developable area (sq. Ft. m)	% of proposed developable area	Proposed saleable area (Sq. Ft. m)	% of proposed saleable area
Land owned	6,744	52%	381	65%	381	67%
Land over which Emaar MGF has sole development rights	4,711	36%	147	25%	131	23%
MOUs/agreements to sell and purchase	1,557	12%	59	10%	53	9%
Joint development agreements	11	0%	1	0%	1	0%
Total	**13,024**	**100%**	**588**	**100%**	**566**	**100%**

Source: Emaar MGF prospectus

Focused on residential projects

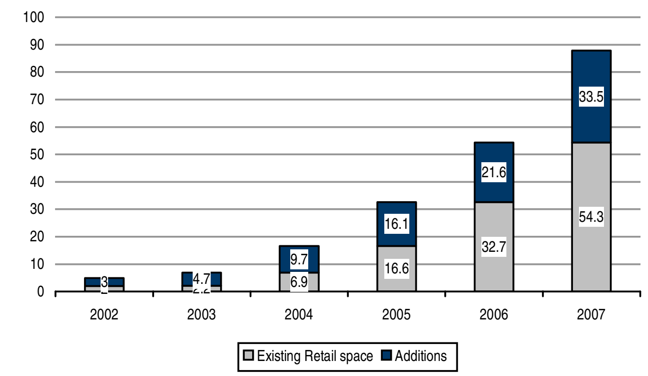
Emaar MGF primarily focuses on residential property development. The company is now developing 17.9m square feet in 6,640 residential units. Emaar MGF launched 4,099 residential units for sale, of which 3,341 were sold (81.5%). In addition, the company currently has 438.3m square metres of proposed saleable area for planned residential projects.

According to estimates by CRIS INFAC, the total outstanding residential supply in India was around 129m units by the end of 2007 and is likely to grow at a CAGR of 3.4% until 2012, thus adding an average of 4.6m units annually until 2011. We believe there is a growing demand for middle to high residential developments due to the following factors: i) Favourable economic conditions and rising income levels, which are resulting in rapid growth in the middle class population; ii) Low mortgage rates—according to Jones Lang LaSalle, mortgages in India are likely to grow at a CAGR of 17% from US$16bn in 2006 to US$30bn in 2009. Moreover, mortgage rates have declined from around 14% to 7.5% over the past five years; and iii) India's housing shortage increased from 19.4m units in 2004 to 22.4m units in 2006 and is likely to increase further.

Retail developments

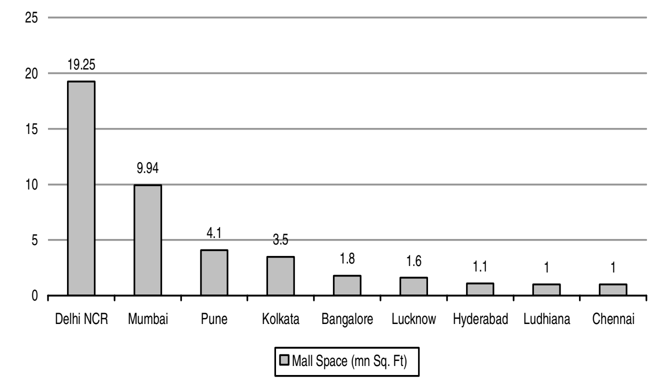
Around 73.8m square feet of retail space is required in India over the next five years, according to CRIS INFAC. Emaar MGF is developing around 88.6m square feet of retail space, mainly in Hyderabad, Gurgaon, Mohali, and Pune. The company has developed and sold units at Central Plaza, located in Mohali Hills development. The project had an area of 0.5m square feet and comprises 280 retail units. The company has around 17.5m square feet of saleable area planned for retail developments and scheduled to be launched for sale in 2008.

Figure 75: Growth in India's retail space
in million sq. ft



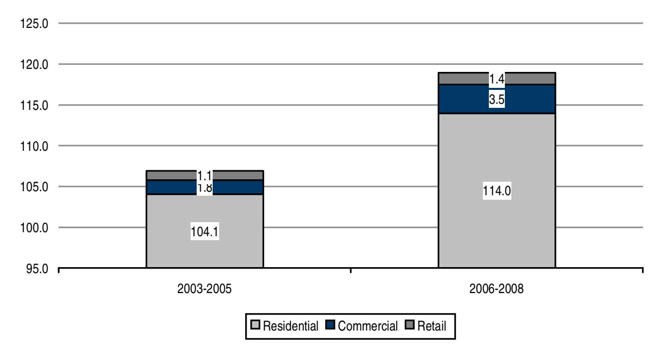
Source: CRIS INFAC, Emaar MGF Prospectus

Figure 76: Retail space in key cities
in million sq. ft



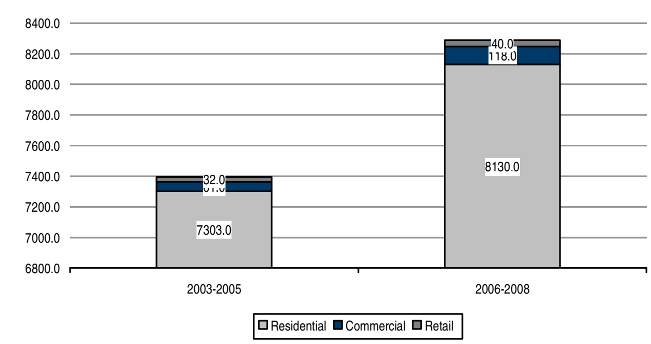
Source: CRIS INFAC, Emaar MGF Prospectus

Figure 77: Real estate investments
in US$ millions



Source: Emaar MGF prospectus, Construction Annual Review 2006

Figure 78: Real estate market size
in million sq. ft

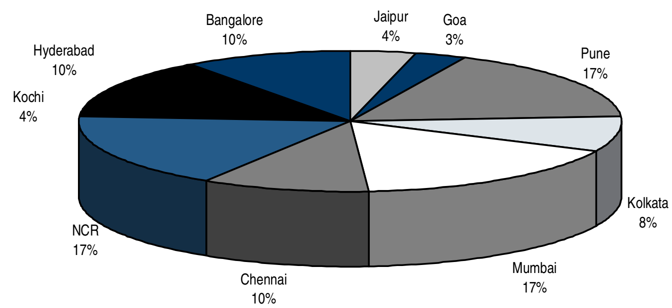


Source: Emaar MGF prospectus, Construction Annual Review 2006

Hospitality

Emaar MGF develops hotels in the luxury, middle and budget segments as well as developing hotels to complement its integrated master planned community developments. The company is also engaged in strategic partnerships with names such as Accor, Premier Travel Inn, Intercontinental Hotels, Marriot and Four Seasons with the main focus on metro destinations such as Delhi, Kolkata and Hyderabad. The company is now developing five hotels offering 1,135 rooms, scheduled for completion between 2010 and 2011. 22 more hotels offering 3,825 rooms are in the process of planning and construction is due to start this year for some projects.

Figure 79: **New supply of 30,000 hotel rooms(2008–09)**



Source: Knight Frank

Valuation

We have taken a conservative approach regarding Emaar MGF's valuation due to the negative effect resulting from the IPO withdrawal last February due to a lack of investor interest. The Indian market has been hurt over the past six months by the slowdown in global equity and real estate markets. On 20 May 2008, Emaar MGF converted RS 922m invested through preferred shares by a foreign partner into equity at a conversion rate of RS 300 per share, thus valuing the company at US$6.0bn. The conversion price was at a 43% discount to RS 530 per share, the bottom of the announced IPO range, which was originally cut from RS 610 per share. We value Emaar MGF at the latest conversion price of RS 300 per share or US$6bn, resulting in an equity share for Emaar of US$2.5bn (AED 9.1bn). Emaar MGF adds AED 1.40 per share to our valuation for Emaar.

John Laing Homes-USA

On 1 June 2006, Emaar Properties acquired 100% of John Laing Homes LLC, an unlisted limited-liability company based in Newport Beach, California, US. John Laing Homes is a residential home builder with operations in California and Colorado. Emaar Properties acquired John Laing Homes for AED 3.9bn (US$1.1bn), which resulted in AED 2.5bn of goodwill. The main downsides of this deal were the timing and the high acquisition cost. We believe that Emaar entered the US property market at the peak and since then has been subjected to the downturn that has hit the market. Revenues from US operations contributed around 20% of total revenues in 2007 and we expect them to decrease going forward, reaching 17.5% in 2009E.

Valuation

In terms of valuation, we have assumed a worst case scenario for the US operations due to the current market conditions, thus resulting in a negative EBITDA from 2008 until 2011, on our estimates. According to our SOTP valuation, John Laing Homes adds only AED 0.13 per share to Emaar's overall EV.

Syria, Jordan, Turkey and Pakistan

Emaar has established strong government alliances and local partnerships across the region in Syria, Jordan, Turkey and Pakistan. Only revenues from Syria, Turkey and Pakistan contribute to the group's total revenues. Revenues from the Dead Sea Development project in Jordan contribute to the company's income from associates. In terms of valuation: Syria, Jordan, Turkey and Pakistan operations combined add only AED 0.82 per share to our SOTP valuation of AED 21.1 per share.

Figure 80: Emaar: Breakdown of other international projects

Project	Emaar ownership	Completion period	No. of units for sale	No. of units for rent	No. of units launched for sale	No. of units sold
Syria - Eighth Gate	60%	2007-2011	1,390	1,338	406	284
Turkey - Tuscan Valley	60%	2006-2010	555	N/A	160	68
Jordan - Dead Sea Development	37%	2007-2011	1,229	405	N/A	N/A
Pakistan - Cresent Bay (Karachi)	67%	2008-2013	4,825	N/A	N/A	N/A
Pakistan - Canyon Views (Islamabad)	67%	2007-2012	1,747	N/A	252	252
Pakistan - The Highlands (Islamabad)	67%	2009-2013	1,952	N/A	N/A	N/A

Source: Company data

Other international operations

Indonesia

In March 2008, Emaar signed a JV agreement with The Bali Tourism Development Corporation (BTDC), a key partner assisting the Indonesian Government in infrastructure building. The JV will develop the Lombok project; a world-class residential and resort community covering 1,175 hectares, to include a 7km natural waterfront, marina, luxury residences, golf course and resorts. The project's total value is likely to reach AED 2.2bn (US$600m). Master planning for the development started in April 2008.

Emaar's projects in Indonesia are not included in our SOTP valuation as it is still under master planning and no sufficient data are available.

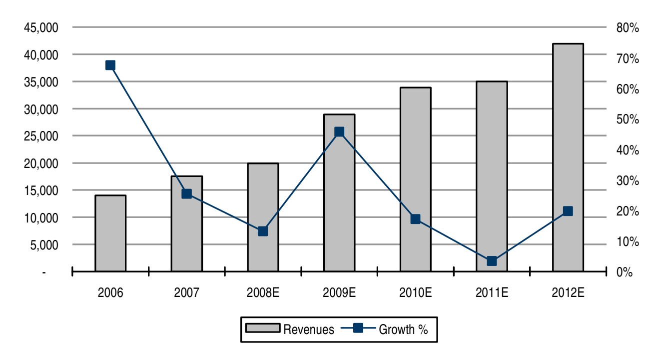
Financial performance and forecasts

Revenues and profitability assumptions

We expect Emaar to experience a minor slowdown in revenue growth in 2008E, reaching AED 19.9bn, up 13.1% from AED 17.6bn in 2007. This will in our view result from Emaar's revenue recognition method, which calls for a minimum of 20% completion of the construction works for property sales to be recognised as revenues. We believe that the bulk of revenues will start to be booked in 2009E on the back of the following: i) Revenues from residential property sales in Downtown Burj Dubai will start contributing strongly as the development reaches the more mature stages of completion. We estimate a total property sales value of AED85.5bn, to be recorded between 2008E and 2012E from local operations; and ii) more international revenues should start contributing to Emaar's overall revenues, particularly from Egypt, Morocco, Turkey and the US.

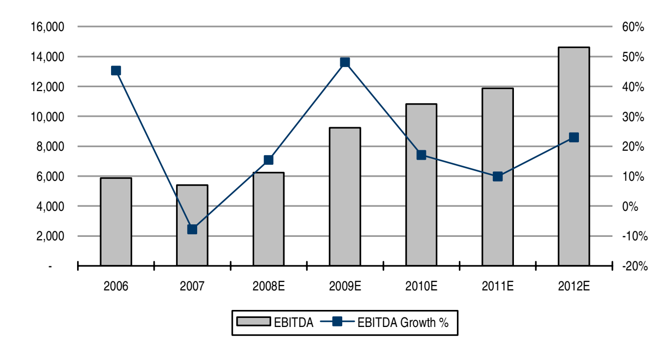
We believe that Emaar will deliver a three-year revenue CAGR (2008E–11E) of 20.8%, reaching AED 35bn in 2011E. We expect Dubai to remain the main source of revenues for the next five years. Moreover, we believe that Emaar will be able to generate only 54% of revenues from international operations by 2011E, which is less than the company's target of 60–70% of total revenues by 2010 due to the flow of revenues from previous years' sales in Dubai.

Figure 81: Emaar: Revenue estimates
In AED millions, unless otherwise stated



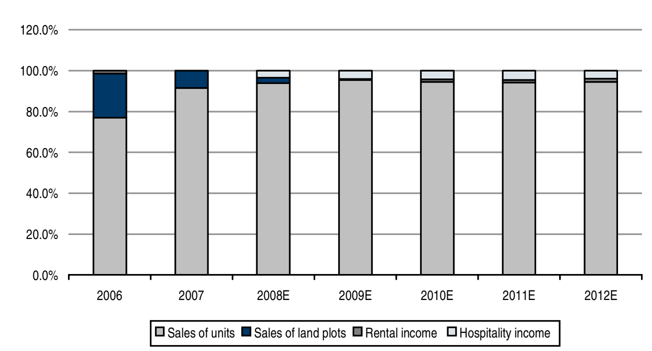
Source: Company data, Credit Suisse estimates

Figure 82: Emaar: EBITDA estimates
In AED millions, unless otherwise stated



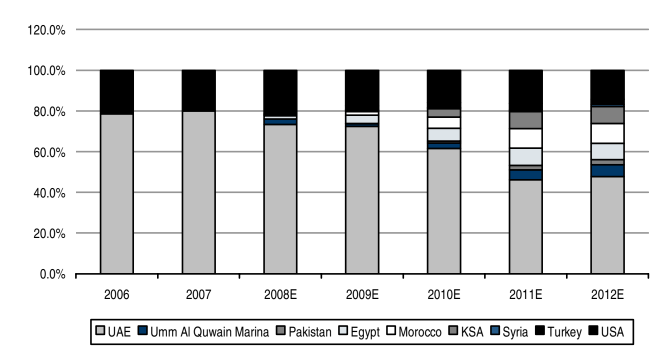
Source: Company data, Credit Suisse estimates

Figure 83: Emaar: Breakdown of revenue sources



Source: Company data, Credit Suisse estimates

Figure 84: Emaar: Revenue contribution by country



Source: Company data, Credit Suisse estimates

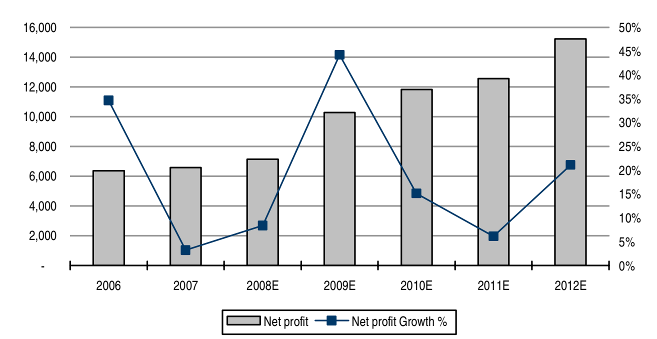
Gross profit margin (GPM) and EBITDA margin recovery in 2008E

In terms of profitability, Emaar's overall gross margins reached their lowest level in 2007, of 38.4%, due the shift in revenue mix resulting in significantly lower land sales, which had previously borne gross margins in excess of 80%. We believe the company will achieve a slightly higher overall gross margin in 2008 due to the following factors: i) Higher GPM from sales of residential apartments and villas as the company gets to record revenues from sales in 2007 and before; and ii) Increase in revenues from hospitality in 2008, for which we assume operating margins of around 60% as new hotels become operational in 3Q08. Moreover, this should be partially offset by our assumption of lower margins from international operations in early years based on the nature of the industry, as margins are relatively low at the beginning of the development process and then increase gradually.

On the EBITDA level, we expect slightly higher EBITDA margins going forward, reaching 31.4% in 2008E, then up to 34.8% in 2012E, compared with 30.8% in 2007. The main reason behind the minor growth in EBITDA in 2008E is higher SG & A expenses resulting from launching new projects in international markets, as well as high pre-operating expenses from Emaar Malls as Dubai Mall and Dubai Marina Mall start operations in 4Q08. Going forward, we expect higher growth in EBITDA and we estimate a three-year CAGR of 23.9% (2008E–11E), as operating expenses for Hospitality, Malls, Education and healthcare decrease gradually.

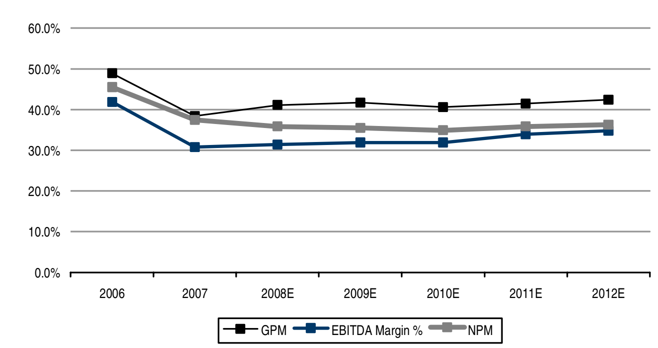
Emaar's guidance for 2008E is for net profit to grow in line with 2007 levels. We believe this makes sense as revenues from property sales in Dubai will not contribute strongly to the company's overall revenues before 2009E in our view. However, we are slightly optimistic for 2008E and expect Emaar to record 8.4% growth in net profit, reaching AED7.1bn, up from AED6.6bn in 2007, on the back of the increasing contribution of income from hospitality, higher gross and EBITDA margins in 2008E, as well as minor land sales. Moreover, we expect net profit to reach AED 12.6bn in 2011E, implying a three-year CAGR of 20.8%.

Figure 85: **Emaar: Net profit estimates**
In AED millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Figure 86: **Emaar: Profitability estimates**



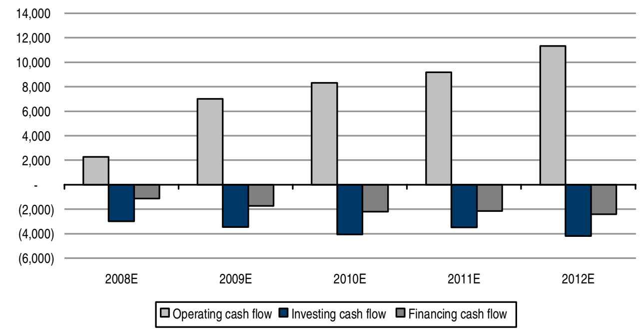
Source: Company data, Credit Suisse estimates

Self financing going forward

We believe the company will continue with its self financing strategy, thus maintaining minimum debt requirement. According to our model, Emaar should generate sufficient operating cash flows in order to finance investment properties under development. Moreover, development properties should remain self financing through off-plan sales—as has been the case in the past.

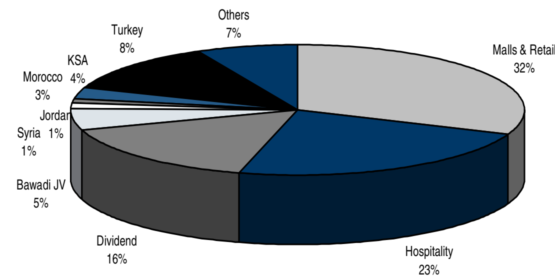
Figure 87: Emaar: Cash flow (2008E–12E)

In AED millions



Source: Credit Suisse estimates

Figure 88: Emaar: Group cash commitment for 2008



Source: Company data

Figure 89: Emaar: Revenue and EBITDA contribution by country

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
UAE	73.3%	72.4%	61.5%	46.1%	47.7%	51.9%	58.2%	56.6%	48.9%	42.3%
Umm Al Quwain Marina	2.8%	1.2%	2.7%	5.0%	5.9%	8.1%	4.6%	5.0%	4.8%	3.3%
Pakistan	0.0%	0.3%	1.1%	2.1%	2.5%	2.8%	3.9%	5.5%	7.9%	9.5%
Egypt	1.5%	4.0%	6.2%	8.6%	8.0%	7.0%	6.6%	7.2%	9.5%	11.4%
Morocco	0.3%	1.8%	5.4%	9.5%	9.6%	8.8%	8.4%	9.3%	12.4%	14.8%
KSA	0.0%	0.9%	4.2%	8.3%	8.3%	8.0%	7.1%	4.6%	0.8%	0.0%
Syria	0.1%	0.3%	0.6%	1.0%	1.2%	0.9%	0.2%	0.2%	0.2%	0.3%
Turkey	0.7%	1.7%	2.3%	3.3%	2.5%	0.6%	0.0%	0.0%	0.0%	0.0%
USA	21.2%	17.5%	16.0%	16.2%	14.2%	12.0%	10.8%	11.7%	15.5%	18.5%
Total revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Country contribution to total EBITDA										
UAE	93.4%	90.8%	77.1%	57.1%	56.1%	55.8%	62.1%	60.4%	50.6%	45.4%
Umm Al Quwain Marina	2.9%	1.3%	2.8%	4.9%	5.6%	7.6%	4.5%	4.9%	4.9%	3.6%
Pakistan	0.0%	0.3%	0.9%	1.7%	2.1%	2.5%	3.8%	5.4%	8.2%	10.3%
Egypt	1.6%	4.1%	6.5%	8.6%	8.0%	6.9%	6.9%	7.7%	10.7%	13.5%
Morocco	0.2%	1.6%	4.8%	7.3%	7.3%	6.8%	6.6%	7.3%	10.4%	13.1%
KSA	0.0%	0.5%	2.7%	5.4%	5.3%	5.2%	4.8%	3.1%	0.6%	0.0%
Syria	0.1%	0.2%	0.6%	0.9%	1.0%	0.8%	0.4%	0.4%	0.6%	0.7%
Turkey	0.5%	1.2%	1.8%	2.5%	1.9%	0.4%	0.0%	0.0%	0.0%	0.0%
USA	-3.4%	-2.7%	-1.5%	-0.5%	1.0%	1.0%	1.3%	1.7%	2.4%	3.1%
Malls/Education/Healthcare	4.6%	2.8%	4.3%	12.1%	11.7%	12.9%	9.6%	9.1%	11.6%	10.3%
Total EBITDA	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Credit Suisse estimates

Valuation

We value Emaar using a SOTP approach, yielding a fair value of AED 21.1 per share and implying 93% upside potential to the current market price. However, Emaar has been trading at a 28.9% discount to announced NAV of AED 16.89 per share for the past 12 months on average and we believe the market will not start recognising Emaar's value before 2009E, which we expect to be a turnaround year in terms of earnings growth. Accordingly we estimate that the stock would be trading at the same discount to our SOTP valuation and we initiate on Emaar with a target price of AED 15.0 per share and a Neutral rating. Our target price offers 37% upside potential to the current market price.

According to our SOTP valuation, the value of Emaar's projects in the UAE (including Emaar's share in Bawadi JV and Umm Al Quwain Marina) represent 62% of the group's fair value, at AED 13.0 per share. This implies the stock is trading at a 16% discount to the value of the UAE operations alone. The top international value contributors are Morocco, Egypt, Emaar MGF (India) and Emaar the Economic City (KSA). (Figure 91 provides a breakdown of our SOTP valuation.)

The following are the main assumptions for our SOTP valuation:

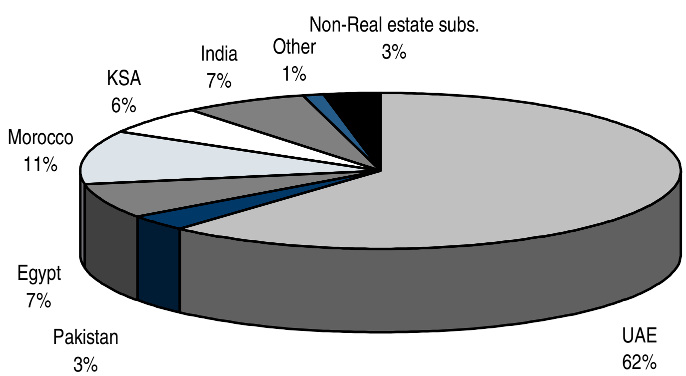
(1) We use DCF to value all local and international projects whose master plans have been finalised and sufficient data have been provided by the company.

(2) We apply a suitable WACC for each country of operation to account for the different countries' risk levels.

(3) We assume a 3% perpetual growth for subsidiaries and a 0% perpetual growth for Joint venture projects.

(4) We value the group's investments in EEC and Amlak Finance at market price and in Emaar MGF at the latest announced preferred shares conversion price.

Figure 90: **Emaar: Value contributors to target price**



Source: Credit Suisse estimates

Figure 91: Emaar: SOTP valuation summary

In AED millions, unless otherwise stated

Country/Project	Valuation method	Total value	Emaar ownership %	Value for Emaar	% of Group Equity	Contribution to target price
Dubai (consolidated operations)	DCF	80,305	100%	80,305	58.9%	12.44
Bawadi JV	DCF	5,074	50%	2,537	1.9%	0.39
Umm Al Quwain Marina	DCF	3,039	42%	1,276	0.9%	0.20
Total UAE						**13.03**
Pakistan	DCF	6,628	67%	4,441	3.3%	0.69
Egypt	DCF	9,930	100%	9,930	7.3%	1.54
Morocco	DCF	14,859	100%	14,859	10.9%	2.30
KSA	DCF	2,580	61%	1,574	1.2%	0.24
Syria	DCF	836	60%	501	0.4%	0.08
Turkey	DCF	350	60%	210	0.2%	0.03
USA	DCF	864	100%	864	0.6%	0.13
Jordan	DCF	304	37%	113	0.1%	0.02
ONA Group JV (Morocco)	DCF	390	50%	195	0.1%	0.03
EEC	Market capitalisation	20,816	31%	6,368	4.7%	0.99
Emaar MGF	Announced preferred shares conversion price	22,020	41%	9,055	6.6%	1.4
Amlak Finance	Market capitalisation	6,765	48%	3,253	2.4%	0.50
Dubai Bank	Investment cost		30%	764	0.6%	0.12
Group equity value				136,244		
Less: debt (2007)				(7,704)		
Equity value				128,5403		
No of shares (m)				6,091		
Value per share (AED)				**21.10**		

Source: Credit Suisse estimates

Figure 92: Emaar: Country WACC for SOTP

Country	WACC
UAE	9.4%
Pakistan	15.8%
Egypt	14.3%
Morocco	10.9%
KSA	8.9%
Syria	13.1%
Turkey	16.1%
USA	9.0%
Jordan	13.2%

Source: Credit Suisse estimates

Financial statements summary

Figure 93: Emaar: Income statement summary
In AED millions, unless otherwise stated

	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Revenues	14,006	17,566	19,868	28,952	33,893	35,033	41,953
Revenue growth %	67.5%	25.4%	13.1%	45.7%	17.1%	3.4%	19.8%
EBITDA	5,860	5,404	6,237	9,235	10,813	11,882	14,609
EBITDA margin %	41.8%	30.8%	31.4%	31.9%	31.9%	33.9%	34.8%
D & A	118.0	181.0	260.3	340.7	433.8	510.6	602.7
EBIT	5,742.1	5,222.5	5,977.0	8,894.3	10,379.3	11,371.2	14,006.1
Interest income (expense)	274.4	242.0	215.3	217.3	111.5	(40.8)	(266.9)
Associate income	128.1	402.3	457.0	665.9	1,016.8	1,051.0	1,258.6
Other non-operating income (expense)	258.2	683.9	576.2	723.8	847.3	875.8	1048.8
Pre-tax profit	6,402.8	6,550.8	7,225.6	10,501.3	12,354.9	13,257.2	16,046.5
Taxes	(47.1)	(14.5)	(26.3)	(119.8)	(278.0)	(436.8)	(516.0)
Effective tax rate	0.7%	0.2%	0.4%	1.1%	2.2%	3.3%	3.2%
Minority interest	15.4	39.0	(72.3)	(105.0)	(247.1)	(265.1)	(320.9)
Net income	6,371.1	6,575.3	7,127.0	10,276.4	11,829.8	12,555.2	15,209.6
NPM	45.5%	37.4%	35.9%	35.5%	34.9%	35.8%	36.3%
Net income growth %	34.7%	3.2%	8.4%	44.2%	15.1%	6.1%	21.1%
EPS (AED)	1.0	1.1	1.2	1.7	1.9	2.1	2.5

Source: Company data, Credit Suisse estimates

Figure 94: Emaar: Cash flow statement summary
In AED millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E
Net Income	7,127.0	10,276.4	11,829.8	12,555.2	15,209.6
D & A	260.3	340.7	433.8	510.6	602.7
Change in working capital	(373.3)	189.5	443.8	(264.2)	(121.0)
Net change in other assets & liabilities	(4,754.7)	(3,805.2)	(4,408.5)	(3,629.6)	(4,350.6)
Cash provided (used) by opr. actv.	**2,259.4**	**7,001.3**	**8,299.0**	**9,172.0**	**11,340.6**
CAPEX	(2,980.3)	(3,474.2)	(4,067.2)	(3,503.3)	(4,195.3)
Other	(9.8)	-	-	-	-
Cash provided (used) by inv. actv.	**(2,990.0)**	**(3,474.2)**	**(4,067.2)**	**(3,503.3)**	**(4,195.3)**
Change in interest bearing debt	-	-	-	-	-
Distributions for the year	(1,218.2)	(1,827.4)	(2,436.5)	(2,436.5)	(2,741.1)
Other	72.3	105.0	247.1	265.1	320.9
Cash provided (used) by fin. actv.	**(1,146.0)**	**(1,722.4)**	**(2,189.4)**	**(2,171.4)**	**(2,420.1)**
Net cash flow	**(1,876.6)**	**1,804.8**	**2,042.4**	**3,497.4**	**4,725.3**

Source: Credit Suisse estimates

Figure 95: Emaar: Balance sheet

In AED millions, unless otherwise stated

	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Current Assets							
Bank balances and cash	2,329.3	4,726.6	2,850.0	4,654.8	6,697.2	10,194.6	14,919.9
Trade and other receivables (Net)	2,690.1	3,633.7	4,110.0	5,989.0	7,011.2	7,246.9	8,678.4
Other current assets	2,517.0	4,560.6	5,158.4	7,516.7	8,799.7	9,095.5	10,892.2
Total Current Assets	**7,536.4**	**12,921.0**	**12,118.4**	**18,160.4**	**22,508.0**	**26,537.0**	**34,490.4**
Non-current assets							
Property, plant & Equip. (Net)	4,184.6	7,433.2	10,153.1	13,286.6	16,920.0	19,912.6	23,505.2
Goodwill & other intangibles	2,962.0	2,962.0	2,962.0	2,962.0	2,962.0	2,962.0	2,962.0
Development properties	11,121.4	16,194.0	19,092.0	21,782.9	24,903.0	27,473.0	30,558.1
Investment properties	6,970.5	5,635.6	7,404.4	8,448.0	9,658.1	10,654.8	11,851.3
Other long-term assets	8,915.3	9,645.1	9,751.1	9,840.5	9,944.1	10,029.5	10,131.9
Total Non-current Assets	34,153.7	41,869.9	49,362.6	56,320.0	64,387.1	71,031.9	79,008.5
Total Assets	**41,690.1**	**54,790.9**	**61,481.1**	**74,480.4**	**86,895.2**	**97,568.9**	**113,498.9**
Liabilities and Shareholders' Equity							
Current Liabilities							
Trade & other payables	6,265.4	8,825.9	9,493.8	13,713.0	16,333.0	16,587.9	19,549.3
Short-term debt	2,933.0	1,563.5	1,563.5	1,563.5	1,563.5	1,563.5	1,563.5
Other working capital items	455.591	511.111	543.97067	751.53217	880.42896	892.96811	1038.6552
Total current liabilities	9,654.1	10,900.5	11,601.3	16,028.0	18,776.9	19,044.4	22,151.4
Non-current Liabilities							
Long-term debt	1,059.2	6,140.3	6,140.3	6,140.3	6,140.3	6,140.3	6,140.3
Other long-term liabilities	432.2	561.8	570.2	588.9	614.2	636.6	670.0
Minority interest	565.9	652.2	724.5	829.5	1,076.6	1,341.7	1,662.7
Total non-current liabilities	2,057.3	7,354.4	7,435.0	7,558.6	7,831.0	8,118.6	8,473.0
Total liabilities	11,711.4	18,254.8	19,036.3	23,586.6	26,608.0	27,163.0	30,624.4
Shareholders' Equity	29,978.7	36,536.0	42,444.8	50,893.8	60,287.2	70,405.9	82,874.5
Total liabilities & Shareholders' Equity	**41,690.1**	**54,790.9**	**61,481.1**	**74,480.4**	**86,895.2**	**97,568.9**	**113,498.9**

Source: Company data, Credit Suisse estimates

Union Properties (UPRO.DU)

INITIATION

Building a brand name

Rating	**OUTPERFORM***
Price (24 Jun 08, Dhs)	5.08
Target Price (Dhs)	8.20[1]
Market cap. (Dhs m)	15,548.76
Enterprise value (Dhs m)	20,286.7

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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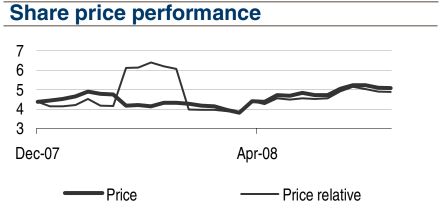
- **Summary:** We initiate coverage of Union Properties (UP) with an Outperform rating, and a target price of AED 8.2 per share. Our target price represents 61% upside potential.
- **Investment thesis:** We view Union Properties as an attractive growth story on the back of: 1) a strong investment properties portfolio that enjoyed an average occupancy rate of 95% and is set to reach 4.2m square feet by 2009, thus providing a steady stream of rental revenue; 2) US$5.7bn worth of projects in the pipeline offered for sale and due for delivery between 2008 and 2010; and 3) leveraging on the growth of the tourism sector in the UAE and the MENA region through developing and operating F1 theme parks worldwide, the first one being located in Dubai MotorCity and scheduled for completion by 2009.
- **Catalyst:** We see two potential catalysts that could have a positive effect on the stock's performance: 1) An increase in the foreign ownership limit from the current 15%, which we think would boost the stock's liquidity; and 2) early delivery of properties in projects due for completion in 2008, which would result in higher than expected revenues from property sales in 2008.
- **Valuation:** Our target price is derived from a DCF valuation. The main assumptions in our DCF model are: 1) Improving profitability starting 2009E as a result of more revenues from property sales, which bear high margins; and 2) assuming new development projects are offered for sale, which we expect to impact revenues in 2011E and 2012E as the company has announced its intention to acquire land for further development; and 3) assuming an additional 2m square feet of NLA, equally divided between 2011E and 2012.

Share price performance



The price relative chart measures performance against the MSCI Arabian markets index which closed at 821.86 on 24/06/08
On 24/06/08 the spot exchange rate was Dhs5.72/Eu 1. - Eu 0.64/US$1

Performance	1M	3M	12M
Absolute (%)	0.8	33.4	—
Relative (%)	-0.8	28.2	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E	12/10E
Revenue (Dhs m)	2,921.9	3,925.7	12,980.4	14,624.9
EBITDA (Dhs m)	442.88	537.39	3,997.62	4,864.43
Net Income (Dhs m)	684.4	937.0	4,303.5	4,819.6
CS adj. EPS (Dhs)	0.25	0.31	1.41	1.57
ROIC (%)	4.8	4.7	26.0	26.9
P/E (adj., x)	20.65	16.59	3.61	3.23
P/E rel. (%)	—	—	—	—
EV/EBITDA	42.5	37.8	5.3	4.1

Dividend (2008E, Dhs)	0.09	IC (12/07A, Dhs m)	8,456.5
Dividend yield (%)	1.8	EV/IC	2.2
Net debt (12/08E, Dhs m)	4,738.0	Current WACC	9.1
Net debt/equity (12/08E, %)	52.0	Free float (%)	47.3
BV/share (12/08E, Dhs)	1.9	Number of shares (m)	3,060.78

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

Investment summary

A reflection of the real estate boom in Dubai

UP offers direct exposure to the Dubai real estate sector as well as the Formula 1 Theme Parks business. UP operates in the Dubai real estate sector through a large rental portfolio (4.2m square feet planned by 2009 with a historical average occupancy rate of 95%) as well as US$5.7bn worth of projects in the pipeline offered for sale. We believe the evolution of the property market in Dubai over the past five years is perfectly reflected in UP's strategy and performance—the company was primarily focusing on building a rental property portfolio in order to benefit from an undersupplied market, which was driven mainly by the flow of expatriates seeking to rent residential properties. More recently, with the introduction of freehold property rights in Dubai, UP has naturally evolved to leverage off the residential property boom and shift its strategy towards property sales.

Achieving buyer awareness through developing branded communities

We see UP as a differentiated player in the real estate market in Dubai as the majority of its projects target the middle- to high-income demand segment rather than just the high-end segment, which is the primary focus of most UAE developers. UP offers high-quality products at relatively lower prices in order to attract buyers. In addition, the company adopts a differentiation strategy through building high-quality branded communities and then replicating these communities in other areas in Dubai after they have achieved buyer awareness and quality recognition. Moreover, these branded developments will allow UP to enjoy lower planning and design costs, lower selling and marketing expenses and should speed up the sales process.

F1 franchise is value creative in our view

UP has recently tapped into a new business segment, which is the development of motor sports theme parks. The company has secured the Formula One (F1) franchise to be the sole developer and operator of F1 theme parks worldwide, starting with the first one in Dubai MotorCity, which is scheduled for completion by 2009. We believe that the introduction of this business segment is value creative for UP in two ways: 1) it provides a steady recurring revenue stream and would leverage off the growth of the tourism sector in region; and 2) it further diversifies the company's scope of operations away from being almost a pure residential property developer, which in turn minimises the company's exposure to a risk of a slow down in the residential property market in Dubai. We estimate around 1.3m visitors to the F1 Theme Park in 2011, which would generate around AED 171.2m of revenue.

Geographical diversification remains a concern

The main concern for UP in our view is its lack of geographical diversification as a hedge against a slowdown in the real estate market in Dubai. Despite the company having no clear plans for international expansion, we would see this as the logical scenario, with UP moving to regional markets soon through 1) exporting its branded communities to regional markets, and 2) developing F1 Theme Parks across the region, as UP has franchise rights worldwide.

Valuation using DCF implies 61% upside potential

We initiate coverage of UP with an Outperform rating and a target price of AED 8.2 per share. Our target price represents 61% upside potential to the current market price. We used a Discounted Cash Flow approach based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. We used a WACC of 9.1%, which is derived from a cost of equity of 9.8% and a cost of debt of 6%. Our main valuation assumptions are: 1) that new development projects will be added to the company's existing sales and investment portfolio in 2009E and will start generating revenues by 2011E; and 2) improving profitability starting 2009E as a result of more revenues from property sales that bear high margins.

We see two potential catalysts

We see two potential catalysts that would have a positive effect on the stock's performance: 1) increasing the foreign ownership limit from the current 15%, which would boost the stock's liquidity in our view; and 2) early delivery of properties in projects due for completion in 2008, which would result in higher than expected revenues from property sales in 2008E.

Union Properties: profile and strategy

Union Properties (UP) was established in Dubai in 1987 by Emirates Bank Group (EBI) and is currently one of Dubai's pioneer real estate developers. The company was listed on the Dubai Financial Market (DFM) in October 1993. UP's activities cover a wide range of aspects of the real estate field including property investment, development, valuation, management and maintenance and the company also operates in project management, interior design, district cooling and fit-out through its subsidiaries and associates. Union Properties manages a rental portfolio which consists of 22 properties around Dubai with a total net leasable area of c254,000 square metres, most of which are residential. The company has around AED 20.2bn (US$5.5bn) worth of projects in the pipeline that are scheduled for delivery in 2009 and 2010.

Figure 96: **UP: Corporate structure**

Subsidiaries	Location	% of Ownership	Principal activities
Thermo LLC	UAE	100%	Contracting of electrical, mechanical and plumbing works, facilities management services, manufacturing of air conditioning ducts, fire dampers and attenuators.
Serve U LLC	UAE	100%	Facilities management, security, MEP and energy services
Edara LLC	UAE	100%	Project management and property services
Dubai Autodrome LLC	UAE	100%	Building, management and consultancy for all types of race tracks and related developments for all types of motor racing.
OITC Thermo WLL	Qatar	85%	Contracting of electrical, mechanical and plumbing works, facilities management services, manufacturing of air conditioning ducts, fire dampers and attenuators.
Joint ventures & associates			
Properties Investment LLC	UAE	50%	Property investment and development activities
Emirates District Cooling (Emicool)	UAE	50%	Constructing, installing and operating cooling and conditioning systems

Source: Company data

A "differentiation strategy"

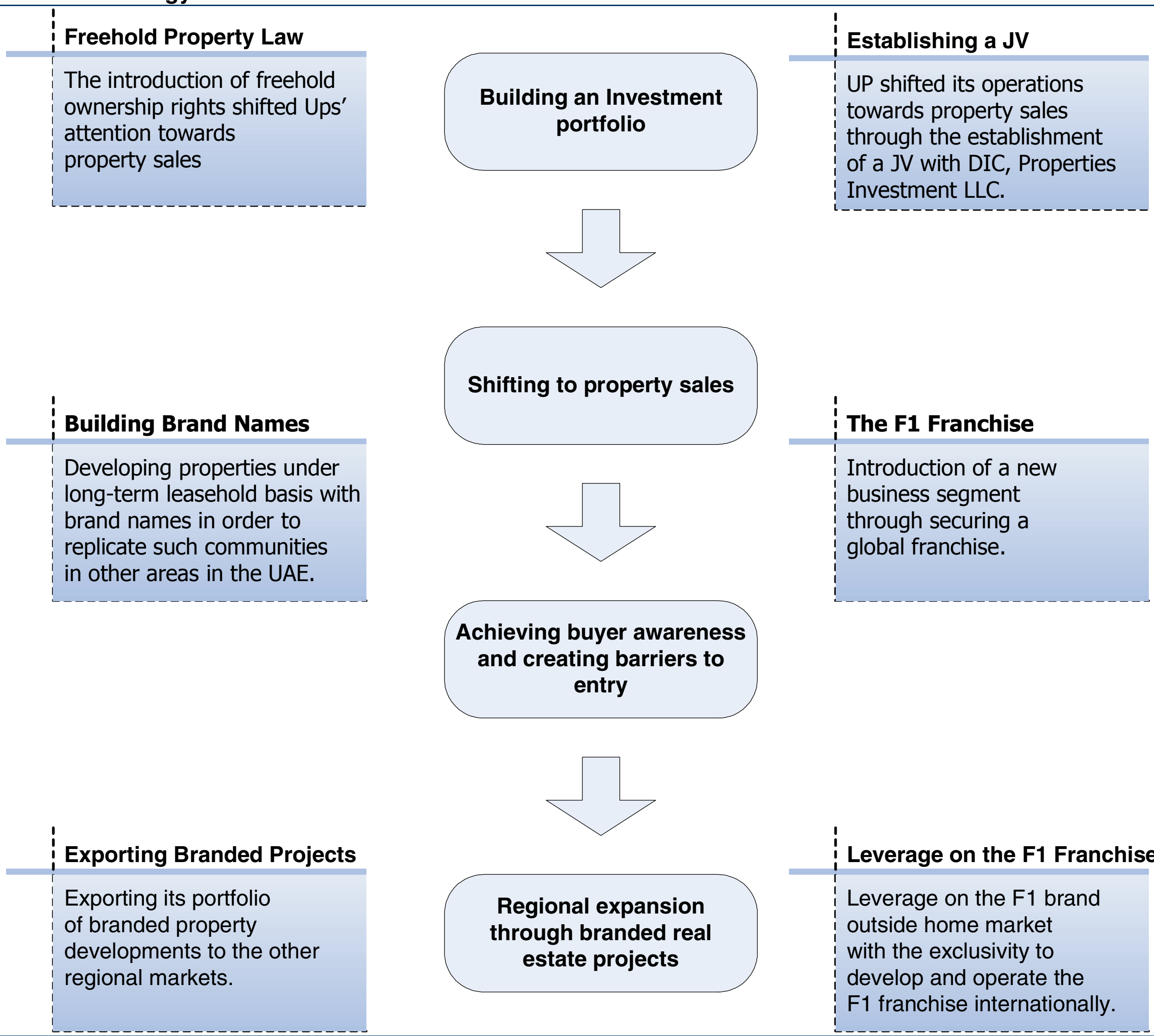
UP is currently adopting a new business strategy to become an integrated and diversified property development, management and investment group. UP has gradually evolved and refined its strategy since its inception. It follows a "differentiation strategy" in order to attain a competitive advantage for its products and services and to achieve customer awareness through:

(1) **Developing branded real estate projects:** UP succeeded in developing branded real estate mixed use projects such as Uptown Mirdiff, The Green Community and The Green Community West, with the idea of using such brands in future developments as they achieve customer awareness. Branded developments will allow UP to enjoy lower planning and design costs, as well as lower selling and marketing expenses. In addition, UP has secured the Formula One (F1) franchise for developing F1 theme parks around the globe starting with the first one in Dubai MotorCity and scheduled for completion by 2009.

(2) **Enhance customer loyalty to the UP brand:** UP adopted its strategy by replicating the same brands in its new projects such as UpTown Motor City and Green Community Motor City in order to leverage off established customer awareness.

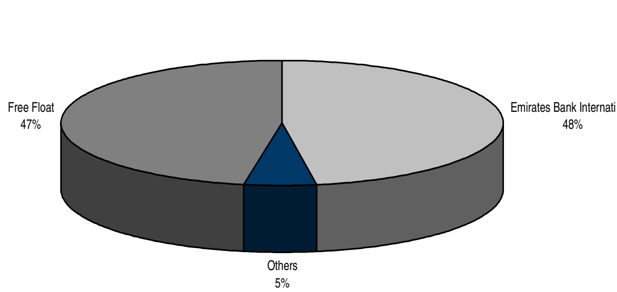
(3) **Increase buyer willingness to pay a premium price:** As UP's community developments becomes recognised in the market, buyers should be willing to pay a premium for a product of a known quality resulting in higher profit margins and creation of barriers to entry.

Figure 97: **UP: Strategy evolution**



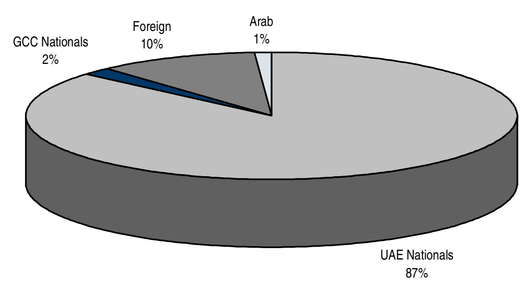
Source: Company data, Credit Suisse research

Figure 98: **UP: Shareholder structure (24/06/2008)**



Source: Company data

Figure 99: **Foreign ownership (24/06/2008)**



Source: Company data, DFM

Investment portfolio

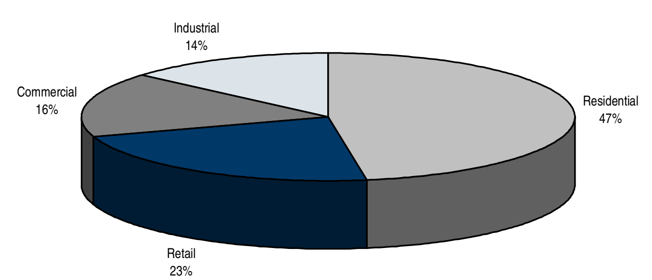
UP's strategy involved building a diversified rental portfolio in various areas in Dubai with the focus on residential properties. UP's NLA currently stands at 254,000 square metres (2.7m square feet), of which around 47.0% is residential, with the balance comprising commercial, industrial and retail space. UP is currently developing the retail area on the main street in its Motor City project, which it will hold as investment properties for future rental income. The retail area in Motor City should add 1.5m square feet to UP's investment portfolio in 2009. As a result, Retail properties will represent 49% of UP's investment properties in 2009, up from 23% currently.

Figure 100: **UP: Existing investment properties portfolio**

Property	NLA (sqf)	% Residential	% Retail	% Commercial	% Industrial	Occupancy Rate
Al Loze Villas	94,470	100%	0%	0%	0%	99%
Al Mussallah Towers	364,928	30%	17%	53%	0%	99%
Al Quoz Workshop	52,517	0%	0%	0%	100%	99%
Al Rolla Building	53,077	96%	4%	0%	0%	99%
Al Satwa Villas	45,140	100%	0%	0%	0%	99%
Al Wasl Villas	34,830	100%	0%	0%	0%	99%
Dubai Autodrome Retail	25,678	0%	100%	0%	0%	11%
Labour accommodation	25,000	0%	0%	0%	100%	99%
Labour accommodation	28,000	0%	0%	0%	100%	99%
ColdStores & Dry Warehouses	263,671	0%	0%	0%	100%	99%
Creekside Residences	173,593	92%	8%	0%	0%	99%
Office space – Green Community	32,361	0%	0%	100%	0%	99%
Jumeirah Park Villas	43,630	100%	0%	0%	0%	99%
Nad Rashid Villas	29,919	100%	0%	0%	0%	99%
Net.Com Building	172,489	87%	13%	0%	0%	99%
Opal Building	78,713	100%	0%	0%	0%	99%
Radio Tower Villas	20,010	100%	0%	0%	0%	99%
Spinney's Centre Jumeirah	72,812	0%	100%	0%	0%	99%
The Tower Building	314,352	99%	1%	0%	0%	99%
Union House Building	93,510	0%	4%	96%	0%	99%
Union Tower Building	215,450	78%	4%	18%	0%	99%
Uptown Mirdiff Retail	493,763	0%	81%	19%	0%	78%
Total	**2,727,913**					

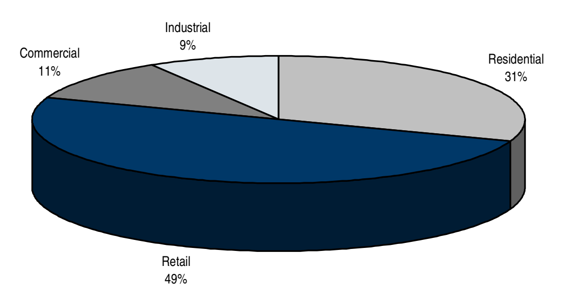
Source: Company data

Figure 101: **UP: Actual rental portfolio (2007)**



Source: Company data

Figure 102: **UP: Estimated rental portfolio (2009E)**



Source: Company data, Credit Suisse estimates

Property sales portfolio: leveraging off the UP brand name

With the introduction of the new property law in Dubai granting freehold property rights to expatriates and non-residents, UP started targeting property sales through establishing a JV with Dubai Investment Company (DIC), Properties Investment LLC. UP leveraged on the huge demand during the early years of Dubai's property market boom through its strong market presence as well as access to cheap financing from EBI, being its major shareholder.

UP is currently developing a net saleable area (NSA) of 12.9m square feet in the DIFC area, Motor City and Dubai Investment Park (DIP). The two most appealing projects are Index Tower and Limestone House (LSH) in the DIFC area, given that this is the most prestigious and expensive area of Dubai. These projects experienced overwhelming demand at launch, as we believe all units launched for sale were fully sold, based on our research. UP expects to deliver 5,148 residential units between 2008 and 2010. Our estimates suggest that residential selling prices in Index Tower and LSH increased by 68% and 35%, respectively from the initial sales launch in 2007 to the end of 1Q08, reflecting the sizable demand for these two developments (see Figure 106).

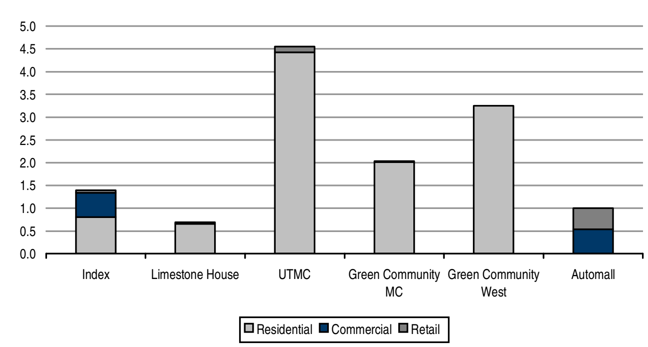
We believe that UP's differentiation and branding strategy will be fully utilised in its projects in Motor City and Green Community West (GCW) as they are not located in prime areas such as the DIFC, but rather in suburban areas. In addition, these projects are a replication of UP's brands and thus enjoy lower prices than those located in the heart of the city, not to mention that Motor City will host the F1 Theme Park, likely to be one of the major tourists attraction in Dubai upon operation in 2009.

Figure 103: **UP: Property sales portfolio breakdown**

Development	NSA (Sq. Ft)	No. of residential units	Commercial NSA (Sq. Ft)	Retail NSA (Sq. Ft)	Expected completion
Index	1,393,717	520	538,195	50,590	2009
Limestone House	693,481	323	-	38,696	2009
UTMC	4,552,409	3,023	-	128,145	2009/2010
Green Community MC	2,033,878	446	21,528	-	2009/2010
Green Community West	3,254,305	836	-	-	2008
Automall	1,000,366	-	533,356	467,010	2009/2010
Total	**12,928,156**	**5,148**	**1,093,079**	**684,442**	

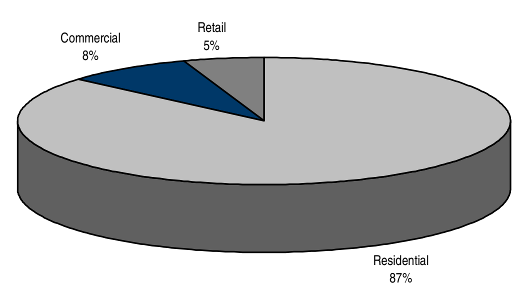
Source: Company data

Figure 104: **UP: Breakdown of NSA by project**
in millions Sq. Ft



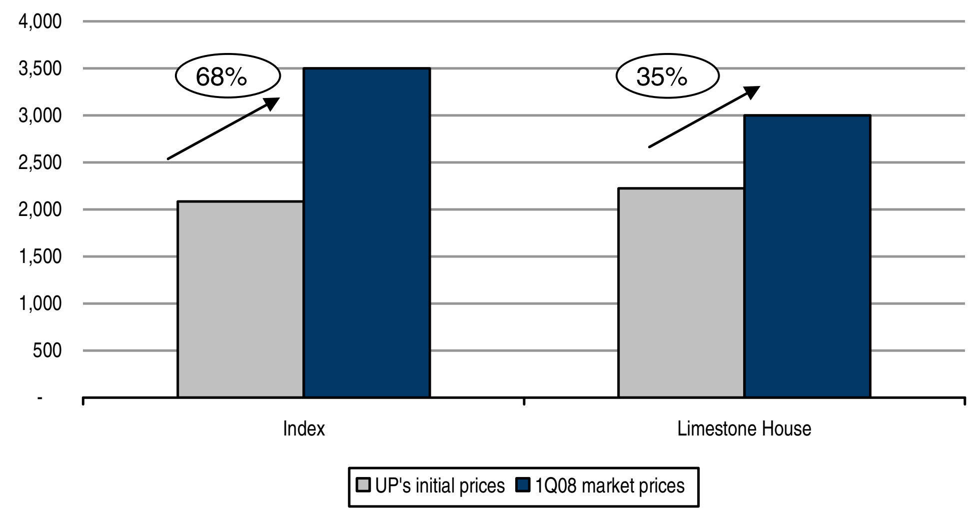
Source: Company data

Figure 105: **UP: Breakdown of NSA by type**



Source: Company data

Figure 106: UP: Initial prices vs. 1Q08 market prices in UP's projects in DIFC area
in AED per Sq. Ft



Source: Company data, Better Homes, Credit Suisse research

Financial performance and forecasts

Revenue and profitability assumptions

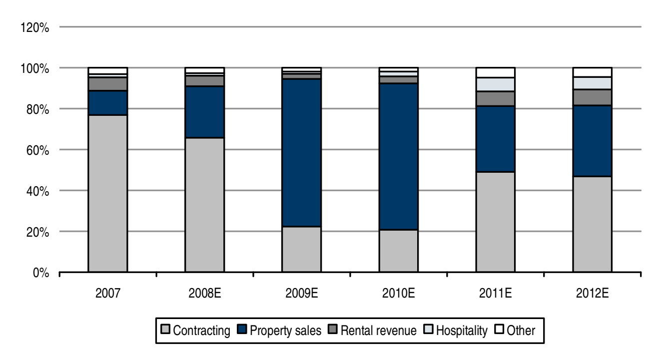
We expect significant fluctuations in UP's revenues in the next five years due to the flow of property deliveries between 2008E and 2010E. We expect revenue to increase by 34.4% reaching AED 3.9bn in 2008E.. Moreover, we estimate revenues to reach AED 13.0bn and AED 14.6bn in 2009E and 2010E, respectively as a result of a flow of property deliveries in both years. Figure 107 provides a breakdown of our estimates of UP's revenue components.

Our revenue assumptions from 2008E to 2010E are derived from UP's existing property sales and investment portfolio. Moreover, we apply a scenario of land acquisition in 2009E whereby we assume that new development projects will be added to the company's existing portfolio as it has recently announced that it intends to acquire around 40m to 60m square feet of land in Dubai for further development projects.

The following are our main revenue assumptions:

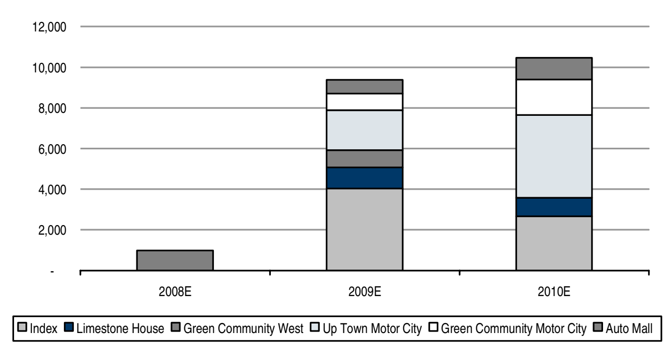
- New projects resulting in a NSA of 6.6m square feet, which is equal to the total NSA in Green Community MC and Uptown MC projects combined, thus generating cumulative revenues of AED 9.5bn from 2011E to 2013E. We assume an additional NSA of 3.5m square feet generating cumulative revenues of AED 4.5bn in the period 2014E–17E.
- Additional NLA of 2m square feet in 2012E and 2013E, which we expect to generate cumulative revenues of AED 2.0bn in the period 2012E–17E.
- We expect contracting revenues contribution to decrease, reaching 66% (AED 2.6bn) of total revenues in 2008E and then shrink further to 22% (AED 2.9bn) in 2009E as the bulk of revenues from property sales should be booked starting 2009E. We expect contracting revenues to grow at a three-year CAGR (2008E–11E) of 13.7%, reaching AED 3.8bn in 2011E.
- We expect other revenue to grow at a three-year CAGR (2008E–11E) of 79.6%, reaching AED895.0m in 2011E (11.5% of total revenues), up from AED 136.8m in 2007 (4.7% of total revenue). The key drivers are: i) Hospitality revenue increasing significantly by 2011E, reaching AED 514.5m, up from AED 42.1m in 2007, as three new hotels would be fully operational; and ii) we estimate around 1.3m visitors to F1 Theme Park in 2011E, generating around AED 171.2m of revenue.

Figure 107: UP: Estimated revenue breakdown



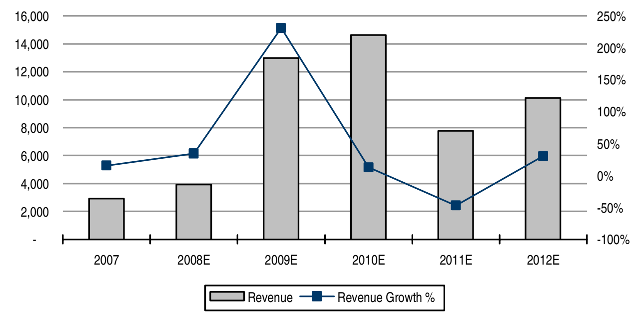
Source: Company data, Credit Suisse estimates

Figure 108: UP: Property sales contribution by project



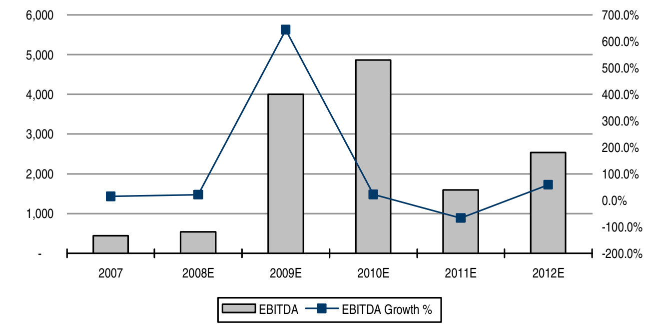
Source: Credit Suisse estimates

Figure 109: UP: Revenue estimates
In AED millions



Source: Company data, Credit Suisse estimates

Figure 110: UP: EBITDA estimates
In AED millions



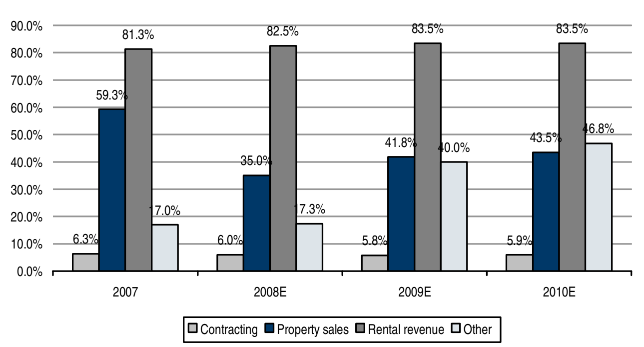
Source: Company data, Credit Suisse estimates

Revenue mix determines profitability levels

UP's profitability margins are very sensitive to changes in the revenue mix. As a result of UP's accounting policy for revenues from property sales, we expect margins to experience fluctuations going forward.

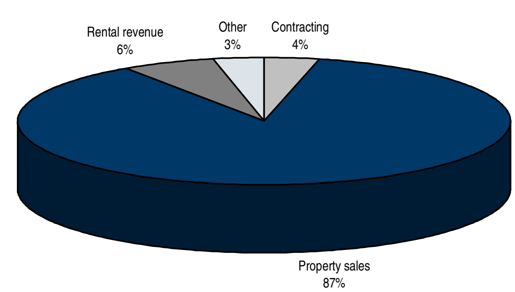
We believe that the company will record lower GPM and EBITDA margin in 2008E due to the following factors: i) Lower margins from property sales due to the recognition of old sales, which bore lower margins; ii) Slightly lower margins from contracting activities due to a recent increase in raw materials costs; and iii) Relatively flat margins from other activities in 2008E as new hotels and F1 Theme Park commence operations in 2009E. We expect GPM and EBITDA margins to reach 17.6% and 13.7% in 2008E, respectively, compared with 19.1% and 15.2% in 2007. On the other hand, we estimate GPM and EBITDA margin to reach 34.7% and 30.8% in 2009E, respectively, as a result of flow of property deliveries.

Figure 111: UP: GPM breakdown (2007–10E)



Source: Company data, Credit Suisse estimates

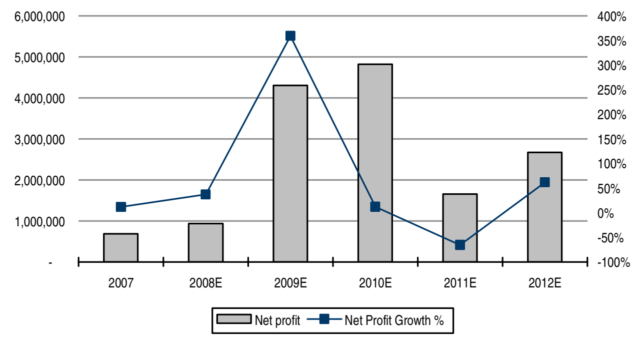
Figure 112: UP: Contribution to 2009E gross profit



Source: Credit Suisse estimates

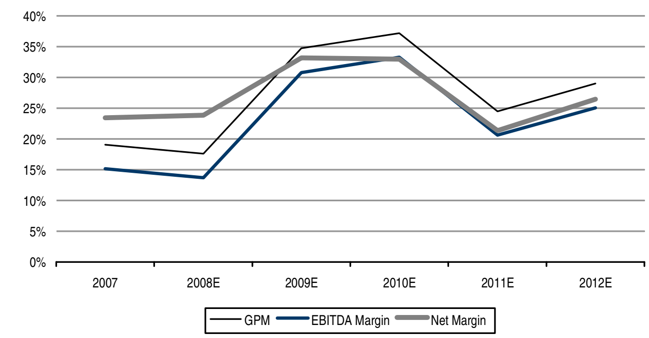
We expect UP's net income to grow to AED 937m in 2008E, up 37% from AED 684.4m in 2007. In 2010, we estimate profitability to reach its highest levels at AED 4.8bn on the back of higher margins from property sales and other operating revenue.

Figure 113: **UP: Net profit estimates**
In AED millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Figure 114: **UP: Profitability margins estimates**



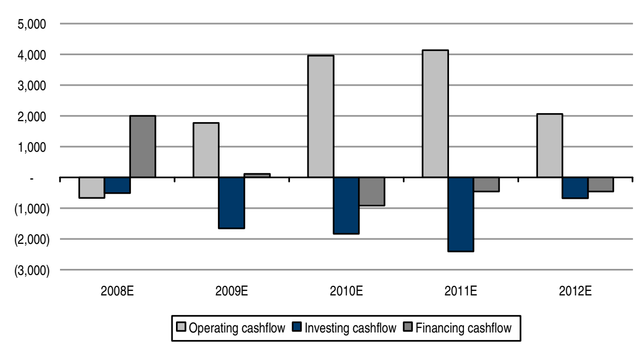
Source: Company data, Credit Suisse estimates

Cash flow and gearing

We expect the company to start generating positive operating cash flow starting 2009E as a result of the flow of revenues from property sales. UP has also announced its plan to raise around AED 4.0bn of debt in 2008E and 2009E to finance its projects at Motor City and acquire more land. We expect these funds will be utilised in further development and investment properties, starting in 2009E.

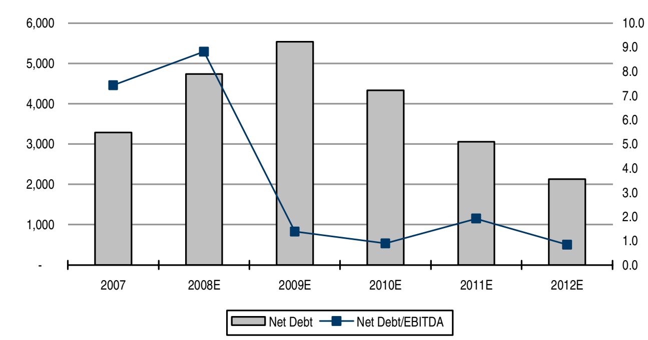
We assume Net debt/EBITDA to reach 8.8x in 2008E, with net debt reaching AED 4.7bn, up from 7.4x in 2007. This should then decrease gradually to reach 0.8x in 2012, on our estimates.

Figure 115: **UP: Cash flow estimates**
In AED millions



Source: Credit Suisse estimates

Figure 116: **UP: Net debt estimates**
In AED millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Valuation

We are initiating coverage of UP with an Outperform rating and a target price of AED 8.2 per share. Our target price represents 61% upside potential to the current market price. Our valuation is based on a Discounted Cash Flow approach, using a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. Our main assumptions in our DCF valuation are:

(1) We assume new development projects will be added to the company's existing sales and investment portfolio in 2009E and will start generating revenues by 2011E.

(2) Higher EBITDA margins starting 2009E, reaching the highest level at 33.3% in 2010E, compared to 15.2% in 2007, thus resulting in significantly higher ROIC in 2009E and 2010E. The estimated increase in EBITDA margin is a result of: i) Increasing contribution from property sales revenue as the bulk of property deliveries is due in 2009E and 2010E; and ii) Higher operating margins from Hospitality and F1 Theme Park operations.

(3) A WACC of 9.1%, which is derived from a cost of equity of 9.8% and a cost of debt of 6%. The cost of equity is based on a risk free rate of 4.25%, an emerging markets risk premium of 5.5%, and a beta of 1.0.

Figure 117: **UP: TP calculation summary**

AED in millions, unless otherwise stated

PV Value of FCF	12,776
PV of TV	15,285
EV	28,061
Cash	88
Equity investments	221.905
Outstanding debt (2007)	(3,379)
Minority interest	-
Equity value	24,993
Number of shares (m)	3,061
Target price (AED)	**8.2**

Source: Credit Suisse estimates

Figure 118: **UP: WAAC calculation**

Risk free rate	4.3%
Market risk premium	5.5%
Beta	1.0
Cost of equity	9.8%
Cost of debt	6.0%
Tax Rate	0.0%
Equity	82.6%
Debt	17.4%
WACC	9.1%

Source: Credit Suisse estimates

Figure 119: UP: DCF valuation summary
In AED millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	537.4	3,997.6	4,864.4	1,596.1	2,537.1	2,741.0	2,139.6	2,077.3	2,195.0	2,608.1
D&A	(41.5)	(43.9)	(46.8)	(49.9)	(55.0)	(60.5)	(64.1)	(67.5)	(71.4)	(75.8)
EBIT	495.9	3,953.8	4,817.7	1,546.2	2,482.1	2,680.5	2,075.5	2,009.8	2,123.6	2,532.3
Taxes	-	-	-	-	-	-	-	-	-	-
NOPAT	495.9	3,953.8	4,817.7	1,546.2	2,482.1	2,680.5	2,075.5	2,009.8	2,123.6	2,532.3
NOPAT growth %	22.5%	697.3%	21.8%	-67.9%	60.5%	8.0%	-22.6%	-3.2%	5.7%	19.2%
Free cash flow	324.6	1,494.5	2,535.8	2,386.9	1,715.5	2,733.9	2,245.9	1,222.2	2,463.2	1,974.0
Net investment	(171.3)	(2,459.2)	(2,281.9)	840.7	(766.7)	53.4	170.4	(787.6)	339.5	(558.4)
Invested capital	10,661.7	15,178.1	17,927.8	17,619.7	18,991.3	19,586.1	19,838.1	21,031.4	21,151.8	22,228.0

Source: Credit Suisse estimates

Financial statements summary

Figure 120: UP: Income statement summary
In AED millions, unless otherwise stated

	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Revenues	2,525.0	2,921.9	3,925.7	12,980.4	14,624.9	7,753.3	10,115.0
Revenue growth %	81.9%	15.7%	34.4%	230.7%	12.7%	-47.0%	30.5%
EBITDA	385.7	442.9	537.4	3,997.6	4,864.4	1,596.1	2,537.1
EBITDA margin %	15.3%	15.2%	13.7%	30.8%	33.3%	20.6%	25.1%
D & A	33.6	38.1	41.5	43.9	46.8	49.9	55.0
EBIT	352.1	404.8	495.9	3,953.8	4,817.7	1,546.2	2,482.1
Interest income (expense)	(21.6)	(74.1)	(90.3)	(115.6)	(111.1)	(83.1)	(58.3)
Other non-operating income (expense)	5.0	8.0	10.7	35.4	39.9	77.5	101.2
Associate income	48.8	38.2	39.3	64.9	73.1	116.3	151.7
Gain on sale of fixed assets	-	-	153.9	-	-	-	-
Gain on revaluation of investment properties	229.7	307.5	327.6	365.1	-	-	-
Pre-tax profit	614.0	684.4	937.0	4,303.5	4,819.6	1,657.0	2,676.7
Taxes	-	-	-	-	-	-	-
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minority interest							
Net income	614.0	684.4	937.0	4,303.5	4,819.6	1,657.0	2,676.7
NPM	24.3%	23.4%	23.9%	33.2%	33.0%	21.4%	26.5%
Net income growth %	5.0%	11.5%	36.9%	359.3%	12.0%	-65.6%	61.5%
EPS (AED)	0.3	0.2	0.3	1.4	1.6	0.5	0.9

Source: Company data, Credit Suisse estimates

Figure 121: UP: Cash flow statement
In AED millions

	2008E	2009E	2010E	2011E	2012E
Net income	937.0	4,303.5	4,819.6	1,657.0	2,676.7
D & A	41.5	43.9	46.8	49.9	55.0
Change in working capital	292.6	(846.7)	(497.9)	3,194.5	(143.1)
Net change in other assets & liabilities	(1,935.2)	(1,728.1)	(413.8)	(758.3)	(527.4)
Cash provided (used) by opr. actv.	**(664.0)**	**1,772.6**	**3,954.7**	**4,143.0**	**2,061.2**
CAPEX	(501.1)	(1,656.4)	(1,830.8)	(2,403.7)	(678.5)
Other	(4.3)	-	-	-	-
Cash provided (used) by inv. actv.	**(505.4)**	**(1,656.4)**	**(1,830.8)**	**(2,403.7)**	**(678.5)**
Change in interest bearing debt	2,280.6	1,030.6	-	-	-
Distributions for the year	(278.3)	(918.2)	(918.2)	(459.1)	(459.1)
Cash provided (used) by fin. actv.	**2,002.4**	**112.4**	**(918.2)**	**(459.1)**	**(459.1)**
Net cash flow	**832.9**	**228.5**	**1,205.7**	**1,280.2**	**923.5**

Source: Credit Suisse estimates

Figure 122: UP: Balance sheet
In AED millions

	2006A	2007A	2008E	2009E	2010E	2011E	2012E
Current assets							
Bank balances and cash	51.3	88.3	921.2	1,149.8	2,355.5	3,635.7	4,559.2
Trade and other receivables (net)	1,779.0	2,936.4	3,380.5	8,653.6	9,749.9	5,168.9	6,743.3
Due from related parties	20.5	7.1	9.5	31.5	35.4	18.8	24.5
Inventories	55.4	101.2	138.4	362.6	393.1	250.5	307.3
Other current assets	561.2	230.4	314.9	837.2	910.1	692.8	862.0
Total current assets	**2,467.3**	**3,363.4**	**4,764.5**	**11,034.6**	**13,444.0**	**9,766.6**	**12,496.4**
Non-current assets							
Property, plant & equip. (net)	366.9	375.9	373.6	394.7	421.0	448.7	494.9
Goodwill & other intangibles	40.8	40.8	40.8	40.8	40.8	40.8	40.8
Development properties	1,774.7	3,992.9	5,937.5	7,857.4	8,240.9	8,665.5	9,224.5
Investment properties	2,629.0	2,814.0	3,275.9	4,867.4	6,625.0	8,951.2	9,528.6
Other long-term assets	271.5	511.3	609.3	746.6	830.9	938.9	984.9
Total non-current assets	5,082.9	7,734.9	10,237.1	13,906.9	16,158.6	19,045.0	20,273.5
Total assets	**7,550.2**	**11,098.3**	**15,001.7**	**24,941.5**	**29,602.7**	**28,811.6**	**32,769.9**
Liabilities and shareholders' equity							
Current Liabilities							
Trade & other payables	1,271.6	1,304.8	1,787.8	4,707.4	5,103.6	4,064.5	4,986.7
Advances & deposits	199.6	1,021.2	1,397.0	3,659.9	3,967.9	3,251.6	3,989.4
Due to related parties	3.0	5.6	7.6	20.0	21.7	13.8	17.0
Short-term debt	776.4	1,184.9	1,184.9	1,184.9	1,184.9	1,184.9	1,184.9
Other							
Total current liabilities	**2,250.6**	**3,516.5**	**4,377.4**	**9,572.2**	**10,278.1**	**8,514.9**	**10,178.0**
Non-current liabilities							
Long-term debt	606.6	2,193.7	4,474.3	5,504.9	5,504.9	5,504.9	5,504.9
Other long-term liabilities	140.0	163.4	266.4	595.5	649.5	423.8	501.3
Minority interest							
Total non-current liabilities	746.6	2,357.0	4,740.7	6,100.4	6,154.4	5,928.7	6,006.3
Total liabilities	2,997.2	5,873.5	9,118.1	15,672.6	16,432.5	14,443.6	16,184.3
Shareholders' equity	4,553.1	5,224.8	5,883.6	9,268.8	13,170.2	14,368.0	16,585.6
Total liabilities & shareholders' equity	**7,550.2**	**11,098.3**	**15,001.7**	**24,941.5**	**29,602.7**	**28,811.6**	**32,769.9**

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 24 Jun 08)*
Arabtec Holding (ARTC.DU, AED 16.00, OUTPERFORM, TP AED 25.00)
Emaar Properties (EMAR.DU, AED 10.95, NEUTRAL, TP AED 15.00)
Union Properties (UPRO.DU, AED 5.08, OUTPERFORM, TP AED 8.20)

Disclosure Appendix

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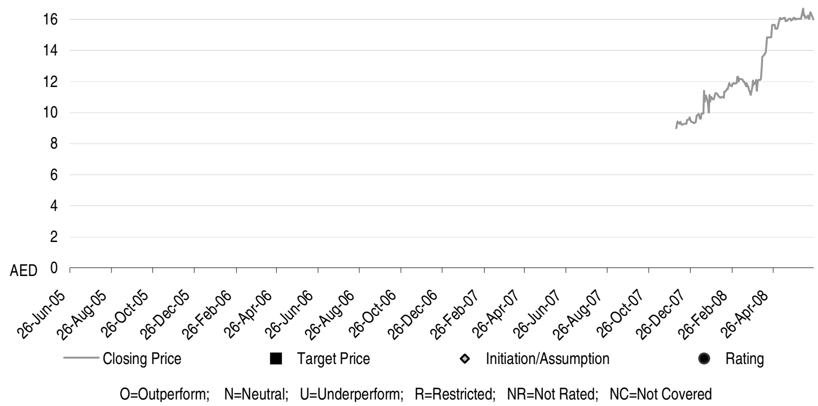
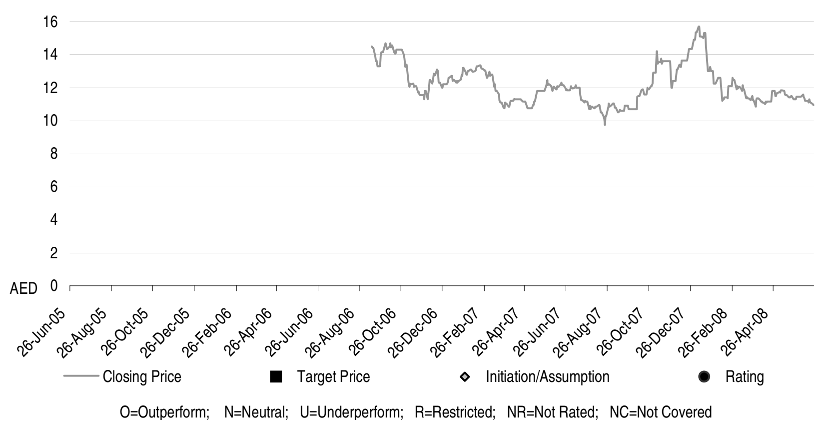
3-Year Price, Target Price and Rating Change History Chart for ARTC.DU

Closing Price	Target Price	Initiation/



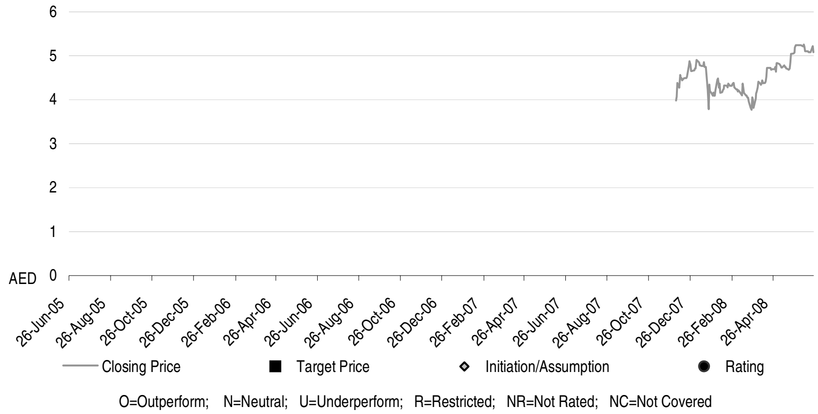
3-Year Price, Target Price and Rating Change History Chart for EMAR.DU

Closing Price	Target Price	Initiation/



3-Year Price, Target Price and Rating Change History Chart for UPRO.DU

Closing Price	Target Price	Initiation/



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***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Underperform/Sell*	12%	(49% banking clients)
Restricted	2%	

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Price Target: (12 months) for (ARTC.DU)

Method: Our TP is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. We have used a WACC of 9.7%, which is derived from a cost of equity of 9.8% and a cost of debt of 6%.

Risks: Geopolitical risk, building materials cost inflation risk, and a slowdown in the growth of the construction sector in the MENA region.

Price Target: (12 months) for (EMAR.DU)

Method: Our TP is calculated by applying a 28.9% discount to our SOTP valuation approach. This represents the discount that the stock was trading at compared to announced NAV for the past 12 months on average.

Risks: Geopolitical risk, oversupply risk in the real estate market in Dubai, execution risk, and the risk of not operating with the same efficiency in international markets. We see upside risk if the company were able to record higher than expected earnings growth in 3Q08.

Price Target: (12 months) for (UPRO.DU)

Method: Our TP is based on a Discounted Cash Flow approach, using a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 3% growth rate. A WACC of 9.1%, which is derived from a cost of equity of 9.8% and a cost of debt of 6%. The cost of equity is based on a risk free rate of 4.25%, an emerging markets risk premium of 5.5%, and a beta of 1.0.

Risks: Geopolitical risk, oversupply risk in the real estate market in Dubai, and geographical risk as a result of only operating in the UAE.

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