Sector report

MENA real estate & construction

Real estate & construction | MENA
MENA research

Bottom fishing

- **Saudi government initiatives to ease housing pressures immediately positive for Dar Al Arkan through higher land valuations, but likely to take time to materialize into awards for contractors, in our view**
- **We maintain our negative view on Egypt as ongoing political uncertainty and ambiguity related to land allocation may put investors off the sector in the near term**
- **We see deep value in Abu Dhabi property names, particularly Sorouh, which could be unlocked in 1H11 on strong EPS momentum and improving liquidity positions**

Recently announced Saudi government initiatives, including a SAR70bn capital injection into public credit agencies and a SAR250bn plan to develop 500,000 homes, should be positive for Dar Al Arkan if stability is maintained. That said, over the medium term we expect earnings to come under pressure on a weak 1Q11 and potential demand cannibalization in 2012/13. **We adjust our numbers accordingly and cut our TP for Dar Al Arkan to SAR13.2 from SAR17.6 but maintain Overweight rating. We cut our TP for Al Akaria to SAR25.9 from SAR27.8 but maintain Neutral rating.**

New Saudi development plans, while a long-term positive for contractors, are likely to take time to materialize into awards, according to Arabtec and DSI. As such, the near-term story remains unchanged, with Arabtec's asset quality a concern and DSI's multiples looking rich, in our view. Additionally, recapitalization appears necessary for Arabtec to capitalize fully on regional growth. **We cut our TP for Arabtec to AED1.8/share from AED2.1/share, but maintain our Neutral rating. We maintain our TP for DSI at AED1.3/share, but upgrade it to Overweight on recent weakness.**

We believe Abu Dhabi real estate names, particularly Sorouh, offer deep value at current levels, which we feel could be unlocked in 1H10 on strong EPS momentum and improving liquidity positions. We remain Neutral on Emaar as we see the reverse scenario unfolding, with expected weakness in earnings and deterioration in its liquidity position in 2011.

In Egypt, ongoing political uncertainty and ambiguity related to land allocation is likely to put investors off the sector in the near term. We expect the prevailing uncertainty to lead to weakness in property prices, which are likely to be additionally burdened by forthcoming supply and affordability issues. We also expect project launches to be delayed and construction to slow down as developers move to conserve cash. Additionally, an expected rise in inflation may put further pressure on margins. In this scenario, more recently launched developments become more prone to cancellation and in turn to deterioration in land bank valuations. Some comfort could be drawn from the sector's relatively low leverage of 15%–20%. **We maintain our negative view on the sector.**

Top picks

Dar Al Arkan	**OW**
Target price (SAR)	13.2
Potential return	53%
Sorouh Real Estate	**OW**
Target price (AED)	1.6
Potential return	40%
Aldar Properties	**OW**
Target price (AED)	2.7
Potential return	88%
Mabanee	**OW**
Target price (KWd)	1,100
Potential return	57%
Depa	**OW**
Target price (USD)	0.95
Potential return	46%
DSI	**OW**
Target price (AED)	1.3
Potential return	22%

Note: All returns are based on prices as of 22 March 2011

24 March 2011

Majed Azzam
Analyst
+971 4 2935 385
majed.azzam@hc-si.com

Ankur Khetawat
Analyst
+971 4 2935 387
ankur.khetawat@hc-si.com

Sapna Sharma
Analyst
+971 4 2935 382
sapna.sharma@hc-si.com

Nermeen Abdel Gawad
Analyst
+20 2 3535 7362
nermeen.abdelgawad@hc-si.com

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AlembicHC

MENA real estate and construction valuation multiples

Company	BB code	Curr	CMP[1]	Mcap (USDm)	Rec	TP	Upside	P/B			P/NAV			P/E			ROE		
Real estate								**09a**	**10a**	**11e**	**09a**	**10a**	**11e**	**09a**	**10a**	**11e**	**09a**	**10a**	**11e**
KSA																			
Dar Al Arkan	AL ARKAN AB	SAR	8.6	2,477	OW	13.2	53%	0.7x	0.7x	0.6x	0.3x	0.3x	0.3x	4.4x	6.4x	10.6x	15%	10%	6%
Al Akaria	SRECO AB	SAR	22.9	733	N	25.9	13%	0.9x	0.9x	0.8x	0.5x	0.4x	0.4x	28.9x	14.2x	23.7x	3%	6%	4%
Average								**0.8x**	**0.8x**	**0.7x**	**0.4x**	**0.4x**	**0.4x**	**16.7x**	**10.3x**	**17.1x**	**9%**	**8%**	**5%**
UAE																			
Aldar	ALDAR UH	AED	1.4	1,122	OW	2.69	88%	0.2x	1.0x	0.5x	0.1x	0.1x	0.1x	3.7x	0.0x	2.9x	5%	-333%	17%
Emaar	EMAAR UH	AED	3.0	4,975	N	3.3	10%	0.6x	0.6x	0.6x	0.2x	0.2x	0.2x	55.8x	7.5x	15.6x	1%	8%	4%
Sorouh	SOROUH UH	AED	1.1	815	OW	1.6	40%	0.5x	0.5x	0.4x	0.2x	0.2x	0.2x	3.8x	8.3x	5.2x	13%	6%	9%
Average								**0.4x**	**0.5x**	**0.5x**	**0.2x**	**0.2x**	**0.2x**	**21.1x**	**7.9x**	**5.2x**	**6%**	**-49%**	**10%**
Egypt																			
SODIC	OCDI EY	EGP	6.5	2,236	UW	6.2	-5%	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	11.9x	14.7x	7.8x	5%	4%	6%
Heliopolis	HELI EY	EGP	80.6	488	N	95	18%	1.4x	1.3x	1.0x	0.7x	0.6x	86.8x	0.0x	21.4x	5.7x	-7%	6%	18%
MNHD	MNHD EY	EGP	23.8	405	N	26	9%	8.7x	8.2x	6.4x	0.3x	0.3x	0.3x	21.9x	28.9x	28.8x	40%	28%	22%
ODH	ODHN EY	CHF	4.9	868	UW	4.6	-6%	1.6x	1.2x	0.9x	0.5x	0.5x	0.4x	7.2x	9.4x	4.6x	23%	12%	20%
ERC	EGTS EY	EGP	41.1	1,283	N	51	24%	1.3x	1.0x	0.9x	0.4x	0.4x	0.4x	9.0x	11.7x	10.1x	15%	8%	9%
TMG	TMGH EY	EGP	18.3	347	N	21.4	17%	10.6x	5.8x	5.0x	0.2x	0.2x	0.2x	8.6x	12.9x	7.5x	82%	78%	37%
PHD	PHDC EY	EGP	1.5	271	UW	1.49	-2%	1.5x	1.5x	1.5x	0.2x	0.2x	0.2x	0.0x	0.0x	0.0x	0%	0%	-2%
Average								**1.1x**	**0.9x**	**0.7x**	**0.5x**	**0.5x**	**0.4x**	**9.5x**	**12.0x**	**6.2x**	**14%**	**8%**	**13%**
Kuwait																			
Mabanee	MABANEE KK	Kwd	700	1,277	OW	1100	57%	3.2x	2.8x	2.5x	1.0x	1.0x	0.9x	21.0x	19.0x	18.4x	15%	15%	14%
Average								**3.2x**	**2.8x**	**2.5x**	**1.0x**	**1.0x**	**0.9x**	**21.0x**	**19.0x**	**18.4x**	**15%**	**15%**	**14%**
Sector average								**1.4x**	**1.2x**	**1.1x**	**0.5x**	**0.5x**	**0.5x**	**17.1x**	**12.3x**	**11.8x**	**11%**	**-5%**	**10%**
Construction								**P/B**			**EV/EBITDA**			**P/E**			**ROE**		
								09a	**10a**	**11e**	**09a**	**10a**	**11e**	**09a**	**10a**	**11e**	**09a**	**10a**	**11e**
DSI	DSI UH	AED	1.03	607	OW	1.3	22%	0.9x	0.9x	0.8x	9.7x	14.9x	10.4x	6.8x	14.4x	11.5x	13%	6%	7%
DSI (ex-goodwill)	DSI UH	AED	1.03	607	OW	1.3	22%	1.3x	1.6x	1.4x	9.7x	14.9x	10.4x	6.8x	14.4x	11.5x	19%	11%	12%
Depa	DEPA DU	USD	0.65	394	OW	0.95	46%	0.7x	0.8x	0.7x	2.3x	2.4x	1.8x	6.2x	-228x	5.8x	12%	0%	12%
Arabtec	ARTC UH	AED	1.54	501	N	1.8	17%	0.8x	0.7x	0.6x	4.1x	5.8x	4.8x	3.7x	6.0x	6.6x	21%	11%	9%
Sector average								**0.9x**	**1.0x**	**0.9x**	**6.4x**	**9.5x**	**6.9x**	**5.9x**	**-48.4x**	**8.9x**	**16%**	**7%**	**10%**

Source: Bloomberg, AlembicHC

Note: (1) Current market prices as of 22 March 2011 for Saudi Arabia, the UAE, Kuwait, and ODH, and as of 27 January 2011 for Egypt

UAE real estate sector

- **Dubai 2010 agreed prices -5% y-o-y, asking rentals -3% y-o-y, but gross rental yields +100 bps to 6.3%; mortgages +83% y-o-y to AED6.7bn on higher yields**
- **Despite a slowdown in construction activity in 2010, we believe substantial supply on the sidelines poses a threat to future price stability**
- **Remain Neutral on the sector as the recovery is likely to be protracted, in our view**

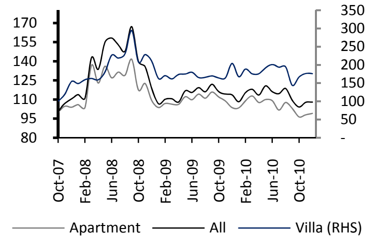
AlembicHC Dubai transaction index points to a 5% y-o-y decline in agreed prices in 2010 (versus a 4% decline in 2009) to an average of AED8,800/sqm. This takes the overall decline to 35% at the end of 2010 from the peak in September 2008. On the other hand, asking prices fell 9% y-o-y (-45% since 2008 peak) to an average of AED12,800/sqm. Accordingly, the bid/ask spread compressed 300 bps to 44% as aspirations continue to adjust downwards. **Abu Dhabi asking prices were down 6% in 2010 (-44% from 2008 peak) to an average of AED13,000/sqm – on par with Dubai.**

Mortgages (ex plots) up 83% y-o-y to AED6.7bn, helped by a 100 bps expansion in gross rental yields to 6.3% versus average mortgage rates of 7%. In 2010 mortgages accounted for 23% of total transactions, up from 11% in 2009. Liquidity appears to be returning to the sector gradually, with central bank data also pointing to an increase of AED22.5bn in mortgages as of November 2010. While deliveries could be a contributing factor to some extent, our data shows a broad based pickup, with established communities exhibiting a similar trend.

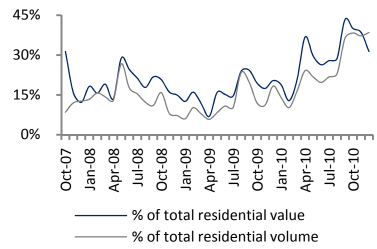
Dubai take-up rate shortened to an average of 3.0 months in 2010 from 5.5 months in 2009 due to a 39% fall in available for sale stock. This was driven largely by a reallocation of stock to the lease market as yields improved. Lease listings in Dubai were up 37% in 2010. Overall listings (sales and lease) were down 20% despite supply coming on stream, which we feel suggests that able investors are holding on to their properties. Listings fell 7% in 2010 in Abu Dhabi. Off plan listings dropped 33% while ready listings rose ninefold, albeit from a very low base. Also, lease listings increased 89%, a clear sign of supply entering the market. **Asking prices in Abu Dhabi fell 6% in 2010 (-44% from 2008 peak) to an average of AED13,000/sqm – on par with Dubai.**

Despite improving liquidity and rental yields, we remain Neutral on the sector as excess supply remains a major concern. Despite a slowdown in construction activity in 2010, substantial supply on the sidelines poses a threat to future price stability, in our view.

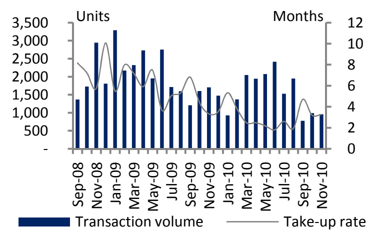
Dubai trans. price index



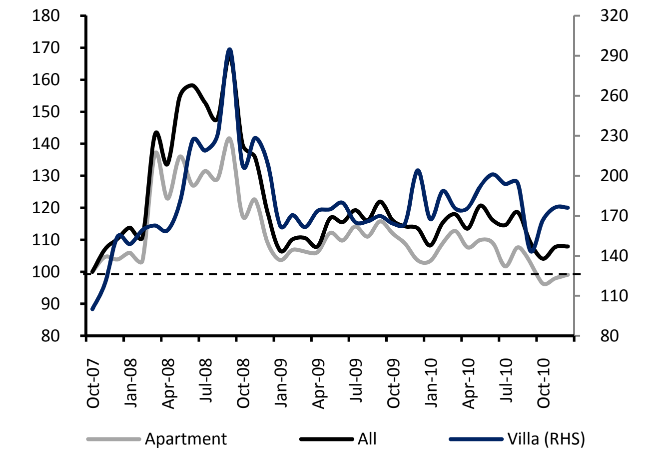
Mortgages as % of total trans.



Take-up rate

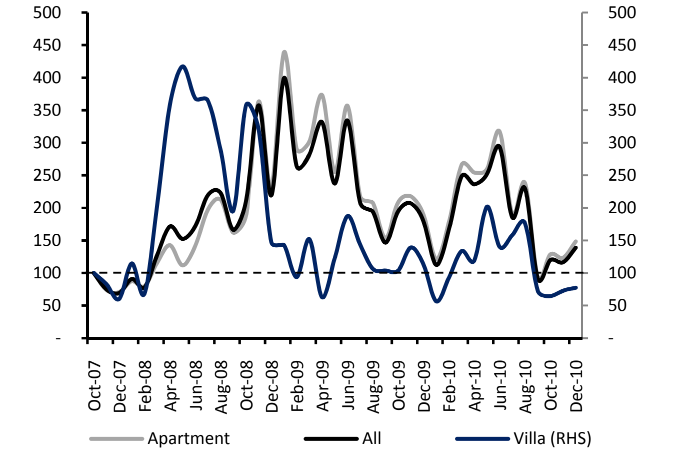


AlembicHC transaction price index: -5% y-o-y in 2010 to an average of AED8,800/sqm



Source: Government of Dubai, AlembicHC

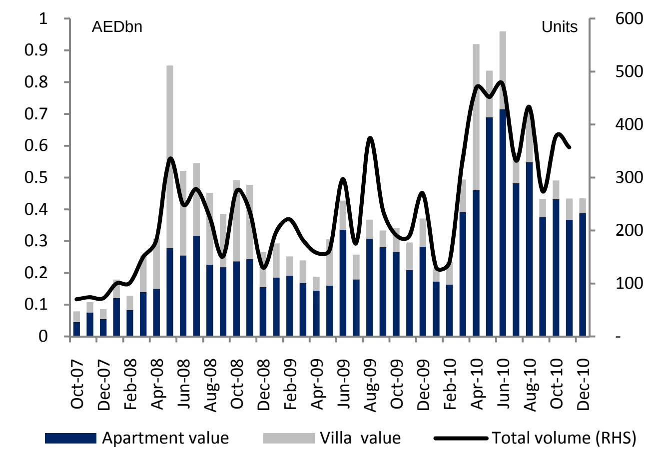
AlembicHC transaction volume index: -27% y-o-y in 2010 to 18,000



Source: Government of Dubai, AlembicHC

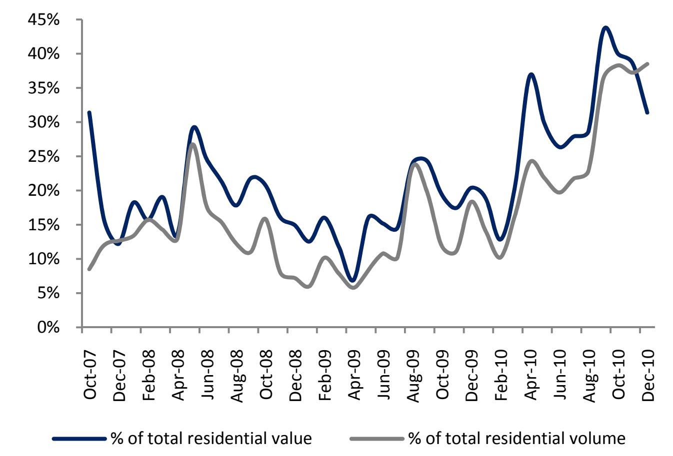
As highlighted in the left chart above, our Dubai transaction price index points to continued weakness in 2010, with agreed prices falling a further 5% during the year to an average of AED8,800/sqm. This takes the overall decline to 35% at the end of 2010 from the peak in September 2008. However, it is important to point out that over the last 2 years volatility appears to have abated, with prices trading within a narrower range. While apartment prices fell a modest 4% in 2010, villas were hit hard, with prices dropping 14%. We believe this is a result of (1) affordability on an absolute basis in light of scarcity of financing, (2) lower rental yields of 5.0% for villas versus 6.3% for apartments, and (3) a greater amount of supply entering the market. Apartments continued to dominate transactions, accounting for 92% of transactions in 2010. During the year, transaction volumes fell 27% to 18,000, which is still a healthy rate. The drop in activity seems to be due partly to a 20% drop in available for sale.

Mortgage values and volumes in freehold areas



Source: Government of Dubai, AlembicHC

Mortgage transactions as percentage of total transactions (ex plots)

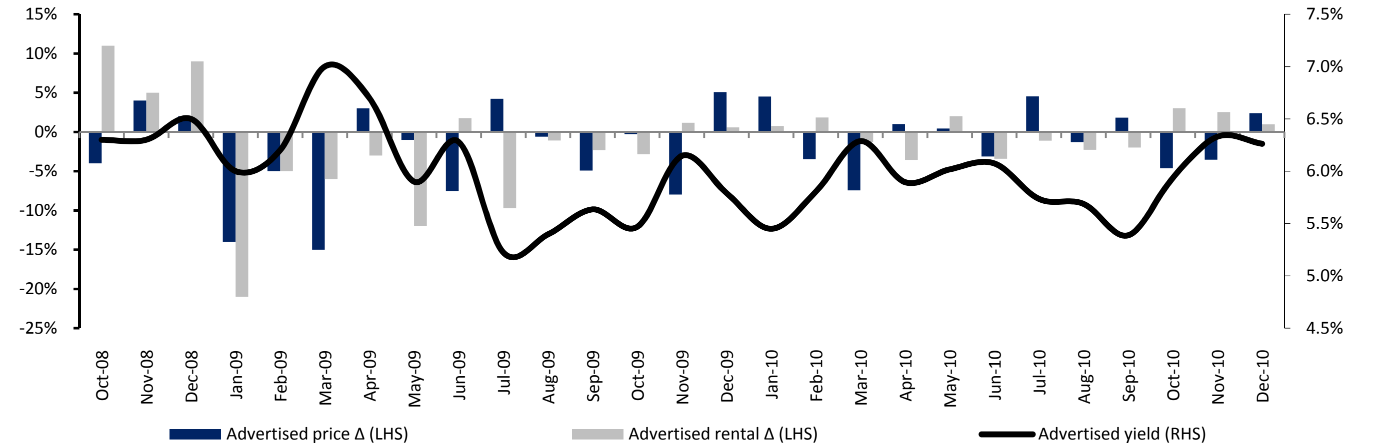


Source: Government of Dubai, AlembicHC

Following the successful Dubai World debt restructuring, liquidity appears to be returning to the sector gradually, with central bank data pointing to a rise of AED21.5bn in mortgages as of September 2010. While more recent data is not available, our transaction survey shows a similar trend (bottom right chart on the previous page), with mortgages (excluding plots) rising 83% y-o-y to AED6.7bn. Mortgages accounted for 23% of total transactions in 2010, up from 11% in 2009. We believe the pickup in mortgages was also helped by a 100 bps expansion in rental yields to 6.3% compared to average mortgage rates of 7% (please refer to the chart below). While deliveries could be a contributing factor to some extent, our data shows a broad based pickup, with established communities exhibiting a similar trend.

The easing liquidity seems to be driven by foreign banks, as local lenders still face funding constraints and continue to follow more conservative policies. That said, since mortgages remained available, albeit more selectively, we believe the recent surge in leveraged transactions also indicates a shift in investor perception, with investors believing the market has bottomed and/or expecting further rental yield expansion, which would compensate for mortgage rates that are still high at an average 7%.

Gross rental yields up 100 bps in 2010 to 6.3% versus average mortgage rates of 7%

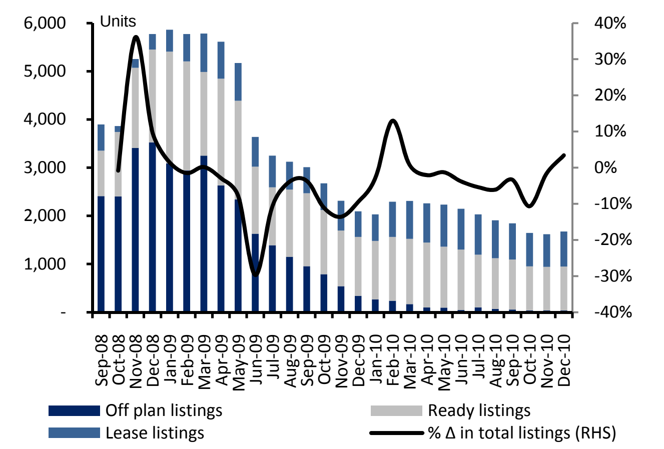


Source: Better Homes, AlembicHC

Although rentals saw high volatility in 2010, they appear to have stabilized, dropping just 3% versus 37% in 2009. Accordingly, as highlighted in the chart above, gross rental yields expanded 100 bps to 6.3%. Since rentals are a pure reflection of demand/supply dynamics, the stabilization suggests that the market is reaching equilibrium despite additional supply coming on. Unlike prices, rentals in Dubai were helped by the population spillover from neighboring emirates, particularly Abu Dhabi. It is reported that 10,000 households commute daily to Abu Dhabi from Dubai.

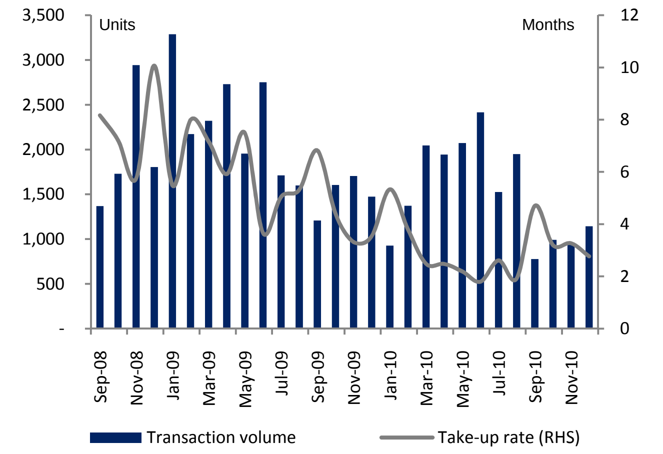
While initial signs of rental stabilization are emerging, forthcoming supply might put pressure on rentals again in the medium term. That said, the restructuring of Nakheel, despite the reinitiation of some projects, is bound to lead to further project delays and cancellations, which supports sector dynamics. We estimate that Nakheel controls 50% of expected supply. Also, there appears to be a further slowdown in construction activity recently due to reported restrictions on the development of raw land. Given tight liquidity, developers continue to consolidate their projects. On the other hand, stronger economic growth in the UAE this year is likely to support demand.

Dubai secondary market listings: A clear reallocation of stock to the lease market



Source: Better Homes, AlembicHC

Take-up rate: Shortened to 3.0 months in 2010 from 5.5 months in 2009 as available for sale stock fell

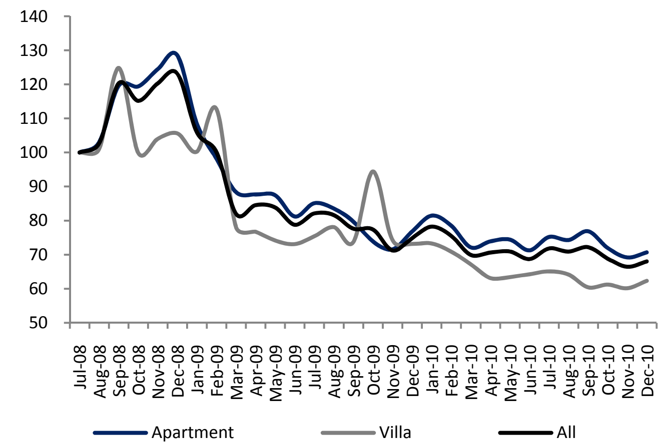


Source: Government of Dubai, Better Homes, AlembicHC

As shown in the right chart above, the Dubai take-up rate shortened to an average of 3.0 months in 2010 from 5.5 months in 2009 due to a 39% fall in available for sale stock. This was driven largely by a reallocation of stock to the lease market as yields improved. Lease listing in Dubai were up 37% in 2010. Overall listings (sales and lease) were down 20% despite supply coming on stream, which we feel suggests that able investors are holding on to their properties. Off plan listings continued to decline, dropping 90% in 2010. Off plan listings now make up only 2% of total listings, compared with 16% in the same period last year. We believe this is partly a reflection of projects put on hold, deliveries taking place during the year, and weaker demand for unready units.

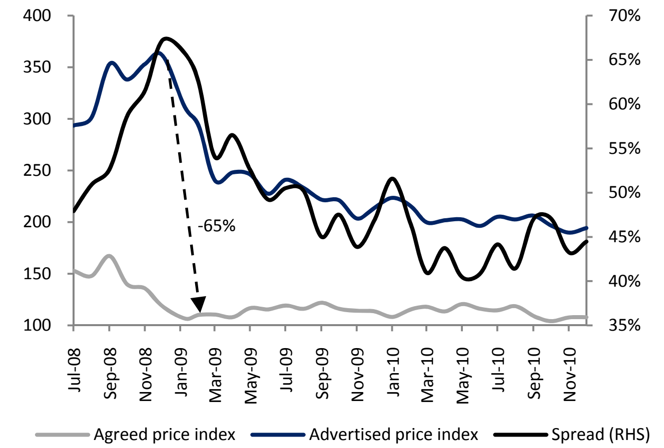
AlembicHC

Dubai asking price index: -9% y-o-y



Source: Better Homes, AlembicHC

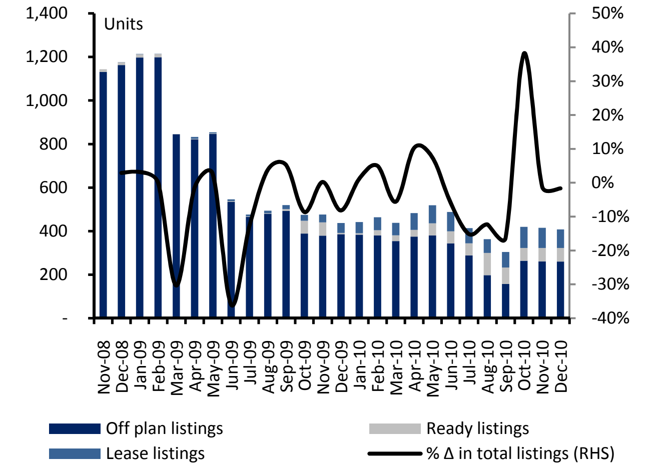
Dubai bid/ask spread narrowing



Source: Better Homes, AlembicHC

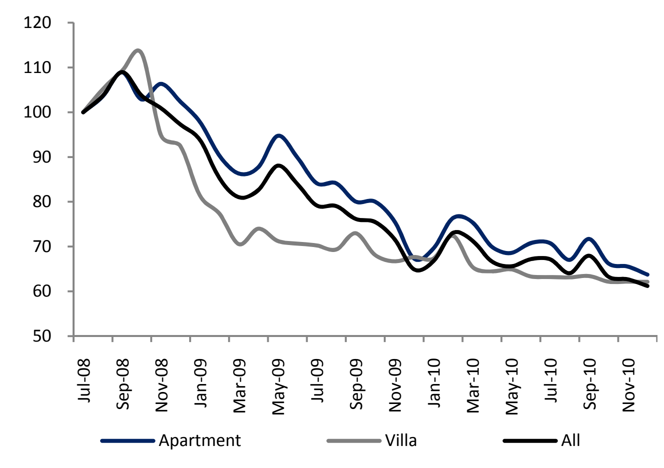
In contrast to agreed prices, asking prices in Dubai fell 9% y-o-y (-45% since 2008 peak) to an average AED12,800/sqm. This comes as no surprise, as transaction prices naturally lead advertised aspirations. Advertised prices tend to be more rigid as they are not updated frequently enough to reflect real-time trends. As highlighted in the right chart above, the bid/ask spread compressed 300 bps to 44% in 2010 —a sign that volatility is abating—after expanding to 51% following the standstill announcement.

Abu Dhabi secondary market listings: Lease/ready ready units up, off plan down on deliveries



Source: Better Homes, AlembicHC

Abu Dhabi asking price index: -6% in 2010 to an average of AED13,000/sqm, on par with Dubai



Source: Better Homes, AlembicHC

Despite a 7% drop in the available for sale stock, asking prices in Abu Dhabi fell 6% in 2010 (-44% from 2008 peak) to an average of AED13,000/sqm – on par with Dubai. While secondary listings remain predominantly off plan (64%), the proportion of ready/lease units has increased steadily. Off plan listings dropped 33% while ready listings rose ninefold, albeit from a very low base. Also, lease listings increased 89%, a clear sign of supply entering the market.

We believe the market is likely to experience further weakness as a pickup in deliveries is expected in 2011. Nonetheless, we believe replacement demand is likely to play a key role in supporting prices in freehold areas. Also, new measures undertaken by some public institutions are likely to limit and eventually partially reverse the spillover trend. These include (1) providing rental allowance for in state residency only, (2) adopting a variable housing allowance based on area of residency, and (3) providing bulk staff accommodations.

Dubai advertised price survey

	November 2010									December 2010										
	% of total	Avg unit price (USD)	Avg price (USD/sqm)	Avg apt size (sqm)	Down pmt (USD)	Monthly pmt (USD)	Avg monthly rent (USD)	Avg rent (USD/sqm)	Rental yield	% of total	Avg unit price (USD)	Avg price (USD/sqm)	Avg apt size (sqm)	Down pmt (USD)	Monthly pmt (USD)	Avg monthly rent (USD)	Avg rent (USD/sqm)	Rental yield	M-o-m price Δ	M-o-m rental Δ
Apartments																				
DIP	2%	303,101	2,096	145	75,775	1,973	3,051	253	12.1%	2%	340,370	1,963	173	85,093	2,215	3,457	239	12.2%	-6%	-6%
IMPZ	1%	182,425	2,237	82	45,606	1,187	935	138	6.1%	1%	168,470	2,106	80	42,118	1,097	786	118	5.6%	-6%	-14%
DT Jebel Ali	0%	732,274	6,781	108	183,068	4,766	-	-	0.0%	0%	732,274	6,781	108	183,068	4,766	-	-	0.0%	0%	
International City	1%	81,365	1,151	71	20,341	530	817	139	12.0%	1%	76,927	1,128	68	19,232	501	772	136	12.0%	-2%	-2%
Jumeirah Village	1%	223,900	2,351	95	55,975	1,457	902	114	4.8%	1%	228,635	2,280	100	57,159	1,488	1,070	128	5.6%	-3%	13%
Dubailand	2%	376,854	2,390	158	94,213	2,453	1,702	130	5.4%	2%	374,492	2,235	168	93,623	2,437	1,721	123	5.5%	-6%	-5%
Dubai Silicon Oasis	1%	145,057	1,698	85	36,264	944	1,146	161	9.5%	1%	133,076	1,645	81	33,269	866	948	141	8.6%	-3%	-13%
JLT	11%	242,652	2,280	106	60,663	1,579	1,735	196	8.6%	9%	264,120	2,234	118	66,030	1,719	1,923	195	8.7%	-2%	0%
The Greens	3%	322,872	2,862	113	80,718	2,101	2,135	227	7.9%	3%	314,469	2,500	126	78,617	2,047	2,507	239	9.6%	-13%	5%
Emirates Living	8%	378,206	3,209	118	94,552	2,462	2,354	240	7.5%	9%	411,073	3,594	114	102,768	2,676	2,402	252	7.0%	12%	5%
Dubai Marina	40%	553,432	3,449	160	138,358	3,602	3,215	240	7.0%	41%	564,611	3,719	152	141,153	3,675	3,273	259	7.0%	8%	8%
DIFC	2%	671,646	5,642	119	167,911	4,372	2,727	275	4.9%	3%	629,203	5,546	113	157,301	4,095	2,386	252	4.5%	-2%	-8%
Business Bay	2%	376,316	2,948	128	94,079	2,449	1,936	182	6.2%	2%	337,535	2,837	119	84,384	2,197	1,912	193	6.8%	-4%	6%
DT Burj Dubai	14%	778,435	6,660	117	194,609	5,067	3,605	370	5.6%	15%	691,041	6,189	112	172,760	4,498	3,463	372	6.0%	-7%	1%
Palm Jumeirah	8%	772,518	3,684	210	193,130	5,028	4,652	266	7.2%	8%	818,920	3,805	215	204,730	5,330	4,300	240	6.3%	3%	-10%
Weighted avg		**511,770**	**3,624**	**141**	**127,942**	**3,331**	**2,743**	**238**	**6.4%**		**513,178**	**3,702**	**139**	**128,294**	**3,340**	**2,777**	**243**	**6.4%**	**2%**	**2%**
Villas																				
Dubai Marina	2%	723,484	3,765	192	180,871	4,709	3,398	212	5.6%	2%	705,928	3,641	194	176,482	4,595	1,970	122	3.3%	-3%	7%
Jumeirah Village	11%	428,070	1,766	242	107,018	2,786	2,519	125	7.1%	8%	443,229	1,663	267	110,807	2,885	2,419	109	6.5%	-6%	-13%
Al Furjan	0%	881,385	4,010	220	220,346	5,737	-	-	0.0%	0%	881,385	4,010	220	220,346	5,737	-	-	0.0%	0%	
DIP	3%	1,038,840	1,840	564	259,710	6,761	6,206	132	7.2%	4%	1,064,905	1,945	547	266,226	6,931	5,760	126	6.5%	6%	-4%
Jumeirah Park	1%	901,577	2,766	326	225,394	5,868	-	-	0.0%	3%	934,617	2,403	389	233,654	6,083	-	-	0.0%	-13%	
Jumeirah Golf Est	2%	1,939,236	3,325	583	484,809	12,622	-	-	0.0%	2%	2,041,655	2,877	710	510,414	13,288	-	-	0.0%	-13%	
Dubailand	17%	878,391	2,117	415	219,598	5,717	3,802	110	5.2%	16%	861,888	2,046	421	215,472	5,610	3,403	97	4.7%	-3%	-12%
Arabian Ranches	17%	896,667	2,668	336	224,167	5,836	4,630	165	6.2%	17%	900,155	2,699	334	225,039	5,859	4,728	170	6.3%	1%	3%
Emirates Living	38%	838,944	2,803	299	209,736	5,460	4,050	162	5.8%	38%	949,272	3,111	305	237,318	6,179	3,906	154	4.9%	11%	-5%
Palm Jebel Ali	0%	3,407,206	5,788	589	851,802	22,176	-	-	0.0%	0%	3,407,206	5,788	589	851,802	22,176	-	-	0.0%	0%	
Palm Jumeirah	9%	2,136,641	4,858	440	534,160	13,907	7,245	198	4.1%	10%	2,000,383	4,618	433	500,096	13,020	8,349	231	5.0%	-5%	17%
Dubai Waterfront	-	2,941,388	5,011	587	735,347	19,145	-	-	0.0%	0%	2,941,388	5,011	587	735,347	19,145	-	-	0.0%	0%	
Weighted avg		962,408	2,741	351	240,602	6,264	4,571	162	5.2%		1,011,147	2,840	356	252,787	6,581	4,169	152	4.8%	4%	-6%
Total weighted avg		**619,803**	**3,412**	**182**	**154,951**	**4,034**	**2,878**	**232**	**6.3%**		**633,263**	**3,494**	**181**	**158,316**	**4,122**	**2,906**	**235**	**6.3%**	**2%**	**1%**

Source: AlembicHC

Abu Dhabi advertised price survey (USD/sqm)

	Developer	Mar 09	Q-o-q Δ	Jun 09	Q-o-q Δ	Sep 09	Q-o-q Δ	Dec 09	Q-o-q Δ	Mar 10	Q-o-q Δ	Jun 10	Q-o-q Δ	Sep 10	Q-o-q Δ	Dec 10	Q-o-q Δ
Apartments																	
Al Reef	Manazel	3,295	6%	3,407	3%	3,181	-7%	2,612	-18%	2,495	-4%	2,472	-1%	2,374	-4%	2,285	-4%
Al Ghadeer	Sorouh	5,222	0%	5,377	3%	5,377	0%	5,377	0%	5,377	0%	5,377	0%	5,377	0%	5,377	0%
Al Raha Beach	Aldar	5,585	-11%	5,225	-6%	4,893	-6%	4,181	-15%	4,443	6%	4,225	-5%	4,430	5%	3,834	-13%
Al Reem Island	Sorouh/other	5,353	-18%	5,704	7%	5,008	-12%	4,301	-14%	4,770	11%	4,451	-7%	4,485	1%	3,986	-11%
Weighted average		**5,312**	**-16%**	**5,536**	**4%**	**4,928**	**-11%**	**4,143**	**-16%**	**4,643**	**12%**	**4,357**	**-6%**	**4,413**	**1%**	**3,923**	**-11%**
Villas																	
Hydra Village	Hydra	1,422	-42%	2,021	42%	2,021	0%	1,662	-18%	1,613	-3%	1,613	0%	1,612	0%	1,594	-1%
Al Reef	Manazel	2,207	-29%	2,076	-6%	2,225	7%	2,041	-8%	1,909	-6%	1,827	-4%	1,832	0%	1,768	-4%
Al Raha Gardens	Aldar	3,938	-20%	3,723	-5%	3,301	-11%	2,800	-15%	3,395	21%	2,733	-20%	2,705	-1%	2,705	0%
Al Ghadeer	Sorouh	4,638	-2%	4,773	3%	4,733	-1%	4,733	0%	4,733	0%	4,733	0%	4,733	0%	4,733	0%
Weighted average		2,523	-24%	2,527	0%	2,610	3%	2,420	-7%	2,342	-3%	2,265	-3%	2,268	0%	2,222	-2%
Total weighted average		**4,692**	**-17%**	**4,867**	**4%**	**4,413**	**-9%**	**3,760**	**-15%**	**4,132**	**10%**	**3,892**	**-6%**	**3,937**	**1%**	**3,545**	**-10%**

Source: AlembicHC, Better Homes

Emaar

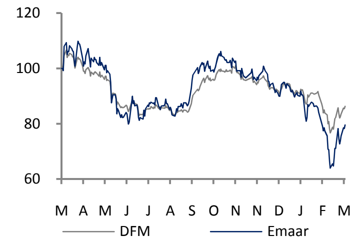
Neutral

- **The idea of buying the rental assets and getting everything else for free no longer holds, in our view, given Emaar's still high cost base (cAED1.5bn in cash SG&A and interest costs) and rising leverage**
- **We forecast a 52% decline in EPS on expected delays in Egypt and the disposal of unsold office inventory in Dubai (c30%)**
- **Maintain Neutral rating and TP at AED3.3/share; at current levels we recommend a shift to Sorouh as we feel that, despite Emaar's more mature profile, its 25% valuation premium is unjustified**

Target price (AED)	**3.3**
Current price (AED)	3.0
Potential return	10%
Bloomberg	EMAAR UH
Reuters	EMAR.DU
Mcap (AEDm)	18,274
Mcap (USDm)	4,979
Free float	69%
Daily volume (USDm)	15.2
Foreign own. limit	49%
Foreign ownership	9.0%

Note: All prices as of 22 March 2011

Price performance



While we like Emaar's prime rental assets, which put a floor under its valuation, we feel they are fully priced in at current levels, with the upside driven largely by MGF and KAEC. We are less bullish than the street for the following reasons: (1) to value the rental portfolio, we use a cap rate of 10% – in line with prevailing yields, independent valuers (Colliers and CBRE), and Emaar's own internal valuation; (2) we include only those properties under development that have achieved significant sales; (3) we exclude MGF given its funding issues, and with the IPO stalled it is likely to remain a drag on Emaar's cash flows; (4) although KAEC has a traded value, we exclude it from our valuation for now as we believe that the project is unlikely to be monetized in the near term; and (5) we assume 40% of loans to associates (mainly Amlak and MGF) are unrecoverable, with the only recourse in the case of MGF being a stake increase.

The idea of buying the rental portfolio and getting everything else for free no longer holds, in our view. The market appears to be focused purely on rental income, ignoring Emaar's high cost base (cAED1.5bn in cash SG&A and interest costs) and rising leverage. While we factor in a gradual deleveraging as deliveries wind down and a reduction in SG&A, expenses remain substantial. In this report, we conduct a detailed cash flow analysis, in which we estimate operating cash flows of cAED6.5bn over 2011–14e and investments of cAED4bn (cAED2.6bn in rental properties in Egypt, the KSA, Syria, and Morocco, with the remaining in PPE and associates).

We forecast a 48% y-o-y drop in the top line on expected delays in Egypt and the disposal of unsold office inventory in Dubai (30%). Earnings are also likely to come under pressure on the back of higher interest costs and weak associate income. Accordingly, we estimate a 52% drop in EPS this year.

Given its status as a proxy for the market, Emaar is likely to continue to benefit from inflows, but we see limited upside potential. We maintain our TP of AED3.3/share and Neutral rating. We recommend a partial shift to Sorouh, which trades at a 20% discount on 2011e P/B.

Emaar financial statements and ratios(AEDm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**10,717**	**8,413**	**12,150**	**6,343**	**7,060**	**5,274**	**4,574**	**4,639**
Total costs	**(5,487)**	**(4,314)**	**(7,604)**	**(3,260)**	**(3,624)**	**(2,230)**	**(1,298)**	**(1,155)**
Gross profit	**5,230**	**4,099**	**4,547**	**3,083**	**3,437**	**3,044**	**3,276**	**3,485**
Margin	*49%*	*49%*	*37%*	*49%*	*49%*	*58%*	*72%*	*75%*
EBIT	**2,614**	**661**	**3,191**	**1,214**	**1,583**	**1,409**	**2,087**	**2,510**
Margin	*24%*	*8%*	*26%*	*19%*	*22%*	*27%*	*46%*	*54%*
Profit before taxes	**121**	**266**	**2,478**	**1,254**	**1,725**	**1,646**	**2,123**	**2,556**
Income taxes	3	24	(1)	(13)	(17)	(16)	(21)	(26)
Minority shareholder interest	(42)	(38)	29	68	98	24	244	269
Net profit (loss)	**166**	**327**	**2,448**	**1,174**	**1,609**	**1,606**	**1,857**	**2,261**
Margin	*2%*	*4%*	*20%*	*19%*	*23%*	*30%*	*41%*	*49%*
Basic EPS	0.0	0.1	0.4	0.2	0.3	0.3	0.3	0.4
EBITDA	**3,734**	**2,503**	**3,191**	**1,855**	**2,231**	**2,066**	**2,744**	**3,158**
Margin	*35%*	*30%*	*26%*	*29%*	*32%*	*39%*	*60%*	*68%*
Balance sheet								
Cash and cash equivalents	5,393	2,267	5,042	4,735	3,129	2,016	1,733	1,264
Development properties	26,799	26,555	21,972	19,682	16,861	14,492	14,282	14,282
Land held for sale	-	4,521	4,521	4,521	4,521	4,521	4,521	4,521
Current assets	**37,629**	**33,951**	**31,464**	**27,423**	**22,243**	**18,010**	**16,766**	**15,546**
Noncurrent assets	**9,950**	**14,387**	**14,345**	**14,097**	**13,934**	**13,840**	**13,996**	**14,100**
Permanent assets	**19,102**	**15,807**	**16,695**	**17,154**	**17,593**	**18,064**	**17,853**	**17,505**
Total assets	**66,680**	**64,145**	**62,504**	**58,675**	**53,771**	**49,914**	**48,614**	**47,151**
Current liabilities	**32,354**	**29,933**	**23,283**	**18,212**	**11,601**	**6,114**	**4,213**	**1,978**
Noncurrent liabilities	**5,726**	**5,333**	**7,921**	**7,921**	**7,921**	**7,921**	**6,421**	**4,663**
Minority interest in subsidiaries	494	202	231	299	397	421	665	934
Shareholder equity	**28,601**	**28,879**	**31,300**	**32,541**	**34,249**	**35,879**	**37,980**	**40,510**
Total liabilities and equity	**66,680**	**64,145**	**62,504**	**58,675**	**53,771**	**49,914**	**48,614**	**47,151**
Cash flow statement								
Net profit	3,068	2,028	2,478	1,241	1,707	1,630	2,101	2,530
CF generated from operating activities	**5,823**	**(1,633)**	**464**	**1,798**	**1,264**	**1,822**	**1,818**	**1,694**
CF generated from investing activities	**(2,807)**	**(2,790)**	**(2,798)**	**(605)**	**(1,370)**	**(1,480)**	**(602)**	**(404)**
CF generated from financing activities	**329**	**1,210**	**2,259**	**(1,500)**	**(1,500)**	**(1,455)**	**(1,500)**	**(1,758)**
Net addition (deduction) in cash	3,346	(3,214)	(75)	(307)	(1,607)	(1,112)	(283)	(468)
Cash at beginning of fiscal year	2,132	5,393	2,267	5,042	4,735	3,129	2,016	1,733
Cash at end of fiscal year	5,393	2,267	5,042	4,735	3,129	2,016	1,733	1,264
Key ratios								
Revenue growth		-21%	44%	-48%	11%	-25%	-13%	1%
Net profit growth		98%	648%	-52%	37%	0%	16%	22%
Debt/equity	32%	30%	36%	30%	24%	19%	14%	9%
Net debt	3,781	6,358	6,127	4,933	5,040	4,698	3,481	2,191
Net debt/equity	13%	22%	20%	15%	15%	13%	9%	5%
Current ratio	1.2	1.1	1.4	1.5	1.9	2.9	4.0	7.9
Average ROE		1%	5%	6%	4%	5%	5%	5%
Average ROIC		13%	14%	16%	10%	11%	12%	16%
P/B	0.5x	0.7x	0.6x	0.6x	0.6x	0.5x	0.5x	0.5x
P/NAV			0.2x	0.2x	0.2x	0.2x		
P/E	110.4x	55.8x	7.5x	15.6x	11.4x	11.4x	9.8x	8.1x

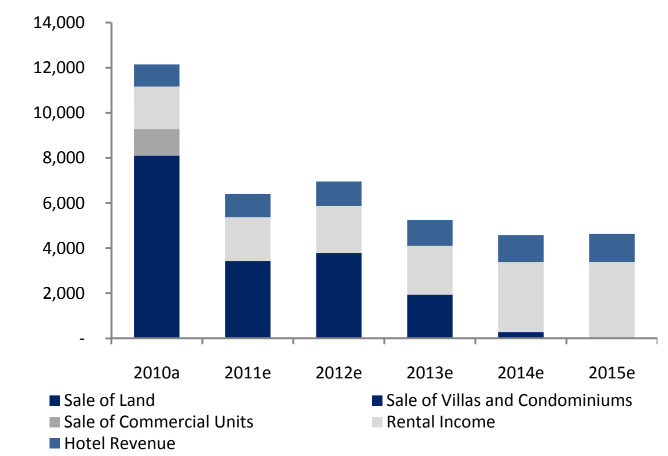
Source: Company data, AlembicHC

Emaar: Rental portfolio fully priced in

- **Emaar's rental properties are fully priced in at current levels, with the upside driven largely by MGF and KAEC, in our view**
- **We forecast a 52% decline in EPS on expected delays in Egypt and the disposal of unsold office inventory in Dubai (c30%) as the market remains weak**
- **Maintain TP at AED3.3/share and Neutral rating; we recommend a partial shift to Sorouh, which trades at a 20% discount on 2011e P/B**

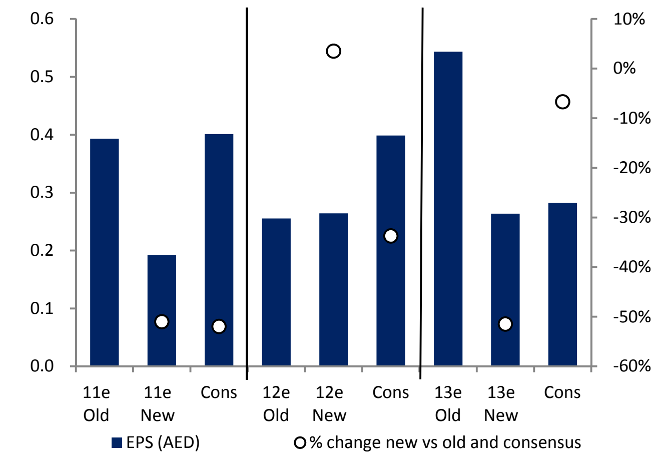
Revising estimates

Emaar revenue breakdown by segment (AEDm)



Source: Company data, AlembicHC

Emaar EPS estimate revisions (AED/share)



Source: AlembicHC, Bloomberg

Delivery schedule of Emaar's properties under development (units)

	Location	2010a	2011e	2012e	2013e
Downtown Dubai	UAE	1,047	320	947	749
Arabian Ranches	UAE	-	71	18	-
Dubai Marina	UAE	1,188	-	-	-
Emirates Living	UAE	604	-	-	-
Downtown Dubai commercial (sqft)	UAE	287,103	1,205,124	-	-
Dubai Marina commercial (sqft)	UAE	10,148	758,237	-	-
Emaar Misr for Development	Egypt	81	655	700	355
Emaar Middle East	KSA	58	211	284	-
Emaar DHA Islamabad Limited	Pakistan	20	128	149	149
Emaar GIGA Karachi Limited	Pakistan	-	-	294	-
Emaar IGO	Syria	282	31	43	36
Emaar Tinja	Morocco	-	-	73	63
Emaar Canada	Canada	18	69	-	52
Emaar Turkey	Turkey	10	26	79	466
Metn Renaissance Holdings	Lebanon	-	87	154	-
Total residential deliveries (units)		3,308	1,598	2,741	1,870
Y-o-y change		8%	-52%	72%	-32%
Total commercial deliveries (sqft)		297,251	1,963,361	-	-
Y-o-y change		-	561%	-	-

Source: Company data, AlembicHC

Emaar property sales revenue breakdown by project (AEDm)

	Location	2010a	2011e	2012e	2013e
Downtown Dubai	UAE		557	1,858	1,486
Arabian Ranches	UAE		176	44	-
Dubai Marina	UAE	8,271	-	-	-
Emirates Living	UAE		-	-	-
Downtown Dubai commercial	UAE		999	250	-
Dubai Marina commercial	UAE		497	127	-
Emaar Misr for Development	Egypt		374	384	177
Emaar Middle East	KSA		357	257	-
Emaar DHA Islamabad Limited	Pakistan		154	184	184
Emaar GIGA Karachi Limited	Pakistan		-	432	-
Emaar IGO	Syria	973	67	79	67
Emaar Tinja	Morocco		-	57	38
Emaar Canada	Canada		68	-	11
Emaar Turkey	Turkey		21	83	-
Metn Renaissance Holdings	Lebanon		82	133	-
Total property sales revenue		9,244	3,352	3,887	1,964
Y-o-y change		52%	-64%	16%	-49%

Source: Company data, AlembicHC

Market appears to be focused purely on rental income, ignoring Emaar's high cost base and rising leverage

The idea of buying the rental portfolio and getting everything else for free no longer holds, in our view. The market appears to be focused purely on rental income, ignoring Emaar's still high cost base (cAED1.5bn in cash SG&A and interest costs) and rising leverage. While we factor in a gradual deleveraging and a reduction in SG&A as deliveries wind down, expenses remain substantial. Below, we conduct a detailed cash flow analysis, in which we estimate operating cash flows of cAED6.5bn over 2011–14e and investments of cAED4.0bn (cAED2.6bn in rental properties in Egypt, Saudi Arabia, Syria, and Morocco, with the remaining in PPE and associates).

Emaar income statement (AEDm)

	2010a	2011e	2012e	2013e	2014e
Sale of land	26	-	-	-	-
Sale of properties	8,079	3,352	3,887	1,965	280
Sale of commercial units	1,166	-	-	-	-
Rental income	1,901	1,951	2,083	2,166	3,096
Hotel revenue	980	1,040	1,090	1,143	1,198
Revenue	**12,150**	**6,343**	**7,060**	**5,274**	**4,574**
Cost of land	(9)	-	-	-	-
Cost of properties	(5,786)	(2,291)	(2,602)	(1,271)	(210)
Cost of commercial units	(776)	-	-	-	-
Direct rental expenses	(405)	(293)	(312)	(217)	(310)
Hotel direct costs	(628)	(676)	(709)	(743)	(779)
Total costs	**(7,604)**	**(3,260)**	**(3,624)**	**(2,230)**	**(1,298)**
Gross profit	**4,547**	**3,083**	**3,437**	**3,044**	**3,276**
Margin	*37%*	*49%*	*49%*	*58%*	*72%*
Operating expenses					
SG&A expenses	(2,028)	(1,995)	(1,995)	(1,846)	(1,372)
Other operating income	346	317	353	369	320
Other income	560	63	71	53	46
Other operating expenses	(233)	(254)	(282)	(211)	(183)
Total operating expenses	**(1,356)**	**(1,868)**	**(1,854)**	**(1,899)**	**(1,189)**
EBIT	**3,191**	**1,214**	**1,583**	**1,145**	**2,087**
Margin	*26%*	*19%*	*22%*	*22%*	*46%*
Net financing cost	(90)	(160)	(141)	(115)	(119)
Associate income	(430)	199	283	353	155
Impairments	(192)	-	-	-	-
Profit before taxes	**2,478**	**1,254**	**1,725**	**1,646**	**2,123**
Income taxes	(1)	(13)	(17)	(16)	(21)
Minority interest	29	68	98	24	244
Net profit	**2,448**	**1,174**	**1,609**	**1,606**	**1,857**
Margin	*20%*	*19%*	*23%*	*30%*	*41%*

Source: Company data, AlembicHC

Emaar working capital (AEDm)

	2010a	2011e	2012e	2013e	2014e
Assets					
Trade receivables	902	722	541	361	180
Collection during the year		*180*	*180*	*180*	*180*
Development properties	21,972	19,682	16,861	14,492	14,282
Change		*2,289*	*2,821*	*2,369*	*210*
Raw land (L'Usally)	4,521	4,521	4,521	4,521	4,521
Change		-	-	-	-
Other receivables, deposits, and prepayments	2,855	2,284	1,713	1,142	571
Collection during the year		*571*	*571*	*571*	*571*
Loans to associates	2,232	1,785	1,339	893	893
Collection during the year		*446*	*446*	*446*	-
Liabilities					
Trade and other payables	8,939	7,686	5,625	3,856	2,235
Payment during the year		*1,253*	*2,061*	*1,769*	*1,621*
Advances from customers	9,889	7,572	4,521	2,258	1,978
Change		*2,318*	*3,050*	*2,263*	*280*
Working capital	9,132	9,215	10,308	10,996	11,936
Changes in working capital	1,813	84	1,092	465	940
Net cash generated from property development	1,268	1,032	1,056	800	0

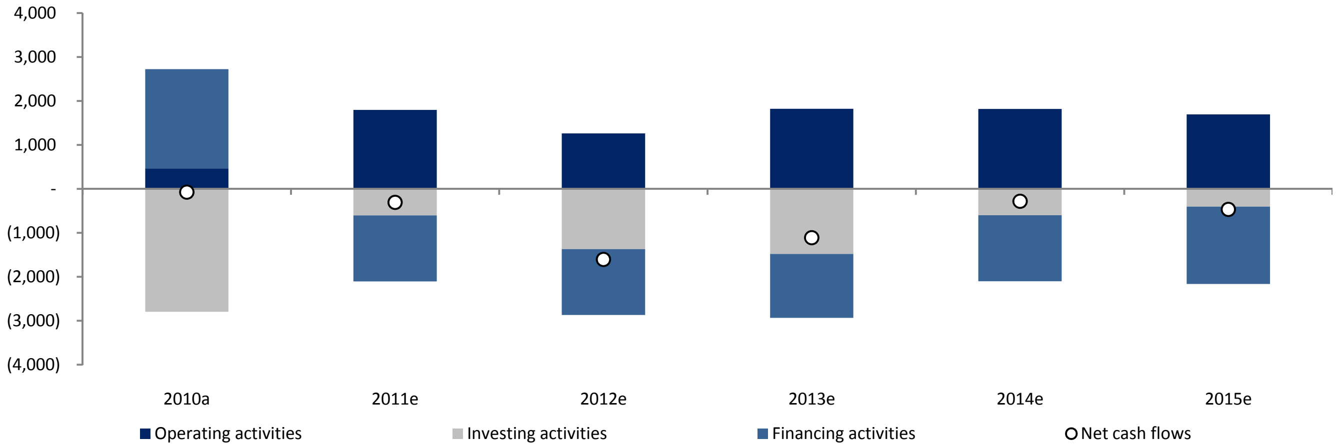
Source: Company data, AlembicHC

Emaar cash flow statement (AEDm)

	2010a	2011e	2012e	2013e	2014e
Net profit before minorities		1,241	1,707	1,630	2,101
Depreciation and amortization		641	649	657	657
Change in working capital		(84)	(1,092)	(465)	(940)
CF generated from operating activities	**464**	**1,798**	**1,264**	**1,822**	**1,818**
Investing activities					
CAPEX		(1,100)	(1,088)	(1,127)	(300)
Associates		(199)	(283)	(353)	(155)
Disposal of held for sale investments		694			
CF generated from investing activities	**(29)**	**(605)**	**(1,370)**	**(1,480)**	**(404)**
Financing activities	-	-	-	-	-
Bank borrowings raised	4,326	-	-	-	-
Borrowings repaid	(2,070)	(1,500)	(1,500)	(1,455)	(1,758)
CF generated from financing activities	**2,259**	**(1,500)**	**(1,500)**	**(1,455)**	**(1,758)**
Net cash flows	2,694	(307)	(1,607)	(1,112)	(283)
Cash at beginning of year	2,348	5,042	4,735	3,129	2,016
Cash at end of year	5,042	4,735	3,129	2,016	1,733

Source: Company data, AlembicHC

Emaar's cash flows to improve due to lower CAPEX (AEDm)



Source: Company data, AlembicHC

Valuation: Maintain Neutral rating

While we like Emaar's prime rental assets, which put a floor under its valuation, we feel that they are fully priced in at current levels, with the upside driven largely by MGF and KAEC. We are less bullish than the street for the following reasons: (1) to value the rental portfolio, we use a cap rate of 10% – in line with prevailing yields, independent valuers (CBRE and Colliers), and Emaar's own internal valuation; (2) we include only those properties under development that have achieved significant sales; (3) we exclude MGF given its funding issues, and with the IPO stalled it is likely to remain a drag on Emaar's cash flows; (4) although KAEC has a traded value, we exclude it from our valuation for now as we believe that the project is unlikely to be monetized in the near term; and (5) we assume 40% of loans to associates (mainly Amlak and MGF) are unrecoverable, with the only recourse in the case of MGF being a stake increase.

Given its status as a proxy for the market, Emaar is likely to continue to benefit from inflows, but we recommend a partial shit to Sorouh, which, according to our estimates, offers greater upside on more conservative assumptions. We maintain our TP of AED3.3/share and Neutral rating. Emaar trades at a 2011e P/B of 0.6x versus 0.48x for Sorouh. While a premium is justified given Emaar's more mature profile, we feel that 25% is excessive.

Emaar valuation breakdown

	Unit	Basis	Valuation (AED/share)	% of total value
UAE	Unit sales	DCF	0.2	6%
UAE	Rental assets	10% cap rate	2.7	82%
UAE	Hotels	P/E 10x	0.6	18%
~~UAE~~	~~Dubai Bank~~	~~Mcap~~	~~0.0~~	~~0%~~
~~UAE~~	~~Amlak Finance~~	~~Mcap~~	~~0.0~~	~~0%~~
~~UAE~~	~~Bawadi~~	~~DCF~~	~~0.0~~	~~0%~~
~~Saudi Arabia~~	~~KAEC~~	~~Mcap~~	~~0.0~~	~~0%~~
Saudi Arabia	Emaar Middle East	DCF	0.0	1%
~~India~~		~~Discount to IPO~~	~~0.0~~	~~0%~~
Egypt		DCF	0.3	9%
Morocco		DCF	0.1	2%
Turkey		DCF	0.0	0%
Syria		DCF	0.2	5%
Libya		Land value		0%
Pakistan		DCF	0.0	0%
US		DCF	0.0	0%
Jordan		DCF	0.1	2%
Indonesia		Not valued		0%
Algeria		Not valued		0%
~~UK~~	~~Hamptons~~		~~0.0~~	~~0%~~
Net debt			-0.8	-25%
Total value			**3.3**	**100%**

Source: AlembicHC

Valuation methodology

We value real estate companies using a combination of DCF analysis and land valuation. Where a final master plan is available, we use a SOTP DCF. Otherwise, we rely on land valuation only. We value all projects where development plans have been completed based on built-up area. For UAE investment properties, which are mostly operational, we use the capitalization method (cap rate of 10%). For associates and subsidiaries, we use market cap if available (i.e. for KAEC) and net asset value otherwise.

Considering the project cancellations, delays, and scale-downs initiated by Emaar in early 2009 in response to the weakening macroeconomic environment, we assume all future UAE sale projects are cancelled and include only those nearing completion. For international sale projects, we include only launched projects with significant achieved sales.

Sorouh

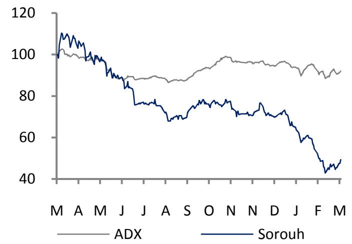
Overweight

- **The UAE is more immune to political unrest given the higher standard of living and expatriate dominated population, presenting good buying opportunities at current levels, in our opinion**
- **While Sorouh's long-term growth story remains weak, at current levels we see deep value that may be unlocked by strong EPS growth in 1H11 driven by deliveries of Sun and Sky Towers**
- **Sorouh is now our top pick within our UAE real estate universe based on valuation, cash flows, and liquidity position; maintain TP at AED1.6/share and Overweight rating**

Target price (AED)	**1.60**
Current price (AED)	1.14
Potential return	40%
Bloomberg	SOROUH UH
Reuters	SOR.AD
Mcap (AEDm)	2,992
Mcap (USDm)	815
Free float	93%
Daily volume (USDm)	3.4
Foreign own. limit	15%
Foreign ownership	8.2%

Note: All prices as of 22 March 2011

Price performance



Of the 3 UAE real estate names under our coverage, Sorouh stands out based on valuation multiples, cash flows, liquidity position, and defensiveness in terms of relatively lower foreign ownership. Also, we prefer Abu Dhabi to Dubai given its underperformance even prior to the current regional political instability and given that it is now likely to benefit from higher oil prices. Sorouh currently looks cheap versus Aldar on P/B, trading at 0.5x 2010 versus Aldar at 1.0x; however, Aldar's asset quality has been addressed and, after the AED2.8bn capital increase to Mubadala, will look more attractive at 2011e 0.6x uninflated book. We believe that, compared to Emaar, Sorouh has a much lower cost base and a stronger liquidity position, and as such we feel it could sustain its operations for a longer period of time in the event of further deterioration of sector fundamentals.

At current levels, Sorouh's market price implies (1) a 100% default rate on land receivables, or a 50% default rate on land receivables and the suspension of the Gate development with all CAPEX written off, (2) full impairment of investments, associates, and goodwill, and (3) no value is attributed to the company's raw land bank – Lulu Island and SAS. We feel the assumption that all receivables are unrecoverable is too extreme considering that collection has been steady with cAED700m collected in 2010 and another AED105m in January 2011. Although Aldar did write down all its land receivables, its average selling price at cAED4,000/sqm was double that of Sorouh at cAED2,000/sqm. We assume a default rate of 50%, which we feel is more realistic. Also, suspension of the Gate development is unlikely, in our opinion, given that 35% has already been sold and significant progress has been achieved. If the sales market remains weak into 2013, when the development is expected to be delivered, unsold inventory could be leased out with a yield on cost of 10%–15% at current rental levels.

We maintain our TP for Sorouh at AED1.6/share and our Overweight rating. While Sorouh's long-term growth story remains weak, at current levels we see deep value that may be unlocked by strong EPS growth in 1Q–2Q11 driven by deliveries of Sun and Sky Towers.

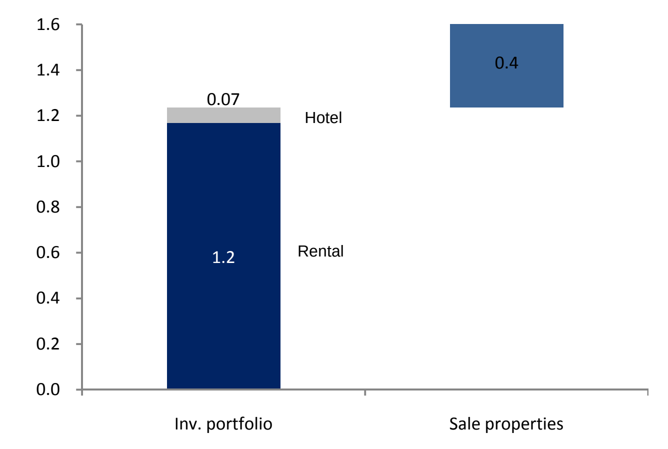
Sorouh financial statements and ratios (AEDm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**3,723**	**3,102**	**1,205**	**3,220**	**5,738**	**3,156**	**1,075**	**1,080**
Total costs	**(1,427)**	**(2,179)**	**(674)**	**(2,313)**	**(4,139)**	**(2,144)**	**(520)**	**(523)**
Gross profit	**2,297**	**923**	**532**	**907**	**1,599**	**1,012**	**555**	**557**
Margin	*62%*	*30%*	*44%*	*28%*	*28%*	*32%*	*52%*	*52%*
EBIT	**1,645**	**706**	**365**	**624**	**1,363**	**789**	**338**	**241**
Margin	*44%*	*23%*	*30%*	*19%*	*24%*	*25%*	*31%*	*22%*
Profit before taxes	**1,784**	**767**	**352**	**575**	**1,365**	**754**	**415**	**334**
Income taxes	-	-	-	-	-	-	-	-
Minority shareholder interest	(74)	12	(9)	-	-	-	-	-
Net profit (loss)	**1,858**	**754**	**360**	**575**	**1,365**	**754**	**415**	**334**
Margin	*50%*	*24%*	*30%*	*18%*	*24%*	*24%*	*39%*	*31%*
Basic EPS	**0.7**	**0.3**	**0.1**	**0.2**	**0.5**	**0.3**	**0.2**	**0.1**
EBITDA	**1,645**	**615**	**414**	**624**	**1,363**	**789**	**338**	**241**
Margin	*44%*	*20%*	*34%*	*19%*	*24%*	*25%*	*31%*	*22%*
DPS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet								
Cash and cash equivalents	6,842	2,763	1,307	2,319	1,418	5,037	5,596	5,796
Long-term receivables	4,331	3,983	3,623	2,974	2,435	1,087	725	725
Development properties	2,475	3,778	5,273	4,970	2,841	(0)	(0)	(0)
Land held for sale	257	639	615	615	615	615	615	615
Current assets	**13,964**	**11,197**	**10,856**	**10,916**	**7,348**	**6,777**	**6,973**	**7,173**
Noncurrent assets	**805**	**475**	**505**	**505**	**505**	**505**	**505**	**505**
Permanent assets	**2,170**	**2,026**	**2,272**	**2,910**	**2,967**	**3,003**	**3,033**	**3,063**
Total assets	**16,939**	**13,698**	**13,634**	**14,330**	**10,820**	**10,285**	**10,511**	**10,742**
Current liabilities	**8,899**	**6,427**	**5,774**	**5,896**	**1,165**	**13**	**13**	**13**
Noncurrent liabilities	**2,082**	**1,146**	**1,682**	**1,682**	**1,682**	**1,682**	**1,682**	**1,682**
Minority interest in subsidiaries	5,958	6,125	6,178	6,753	7,974	8,591	8,817	9,047
Shareholder equity	**5,958**	**6,125**	**6,178**	**6,753**	**7,974**	**8,591**	**8,817**	**9,047**
Total liabilities and equity	**16,939**	**13,698**	**13,634**	**14,330**	**10,820**	**10,285**	**10,511**	**10,742**
Cash flow statement								
Net profit	**1,784**	**495**	**16**	**575**	**1,365**	**754**	**415**	**334**
CF generated from operating activities	**1,784**	**(1,586)**	**(449)**	**1,649**	**(699)**	**3,791**	**777**	**334**
CF generated from investing activities	**(716)**	**(17)**	**582**	**(637)**	**(58)**	**(36)**	**(30)**	**(30)**
CF generated from financing activities	**(245)**	**(2,309)**	**(606)**	**-**	**(144)**	**(136)**	**(188)**	**(104)**
Net addition (deduction) in cash	823	(3,912)	(473)	1,012	(900)	3,619	558	200
Cash at beginning of fiscal year	1,402	5,517	1,606	1,307	2,319	1,418	5,037	5,596
Net forex difference/others	-	-	-	-	-	-	-	-
Cash at end of fiscal year	**2,226**	**2,763**	**1,307**	**2,319**	**1,418**	**5,037**	**5,596**	**5,796**
Key ratios								
Revenue growth		-17%	-61%	167%	78%	-45%	-66%	0%
Net profit growth		-59%	-52%	60%	137%	-45%	-45%	-20%
Debt/equity	0%	34%	27%	24%	21%	19%	19%	18%
Net debt	(2,940)	(691)	336	(676)	224	(3,395)	(3,953)	(4,153)
Net debt/equity	-49%	-11%	5%	-10%	3%	-40%	-45%	-46%
Current ratio	1.6	1.7	1.9	1.9	6.3	N/A	N/A	N/A
Average ROE		22%	9%	7%	13%	13%	7%	4%
Average ROIC		9%	4%	3%	6%	5%	3%	1%
P/B	0.7x	0.5x	0.5x	0.5x	0.4x	0.4x	0.3x	0.3x
P/NAV		0.2x	0.2x	0.2x	0.1x			
P/E	1.5x	3.8x	8.3x	5.2x	2.2x	4.0x	7.2x	9.0x
Dividend yield		10%	0%	0%	5%	5%	6%	3%

Source: Company data, AlembicHC

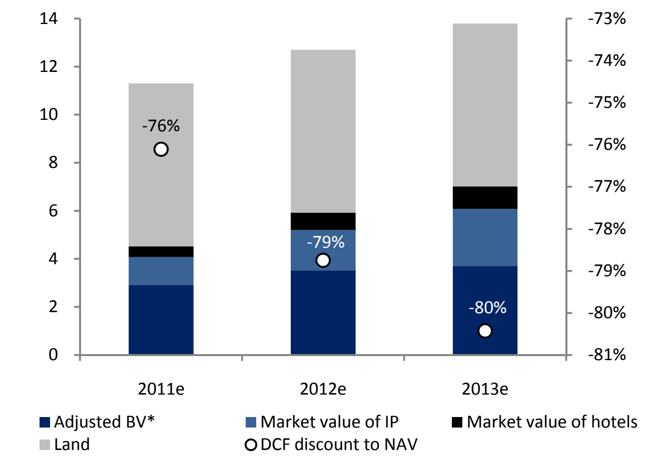
Valuation methodology

Sorouh valuation breakdown (AED/share)



Source: AlembicHC

Sorouh NAV breakdown/share



Source: AlembicHC

We value Sorouh using a SOTP DCF, but to be conservative, at this stage we exclude future projects (Lulu Island and Sheih Al Sedira). We now also exclude Shams plot sales and assume all overdue receivables are unrecoverable (c15%). We also exclude Al Mashtal from our model due to the lack of clarity.

To estimate Sorouh's NAV, since its land bank is not recognized on its book, we value Sheih Al Sedira and Lulu Island using the residual method. We then revalue the company's investment properties, which are recognized at cost using the capitalization method. We use a cap rate of 10%, in line with prevailing commercial yields. To calculate net operating income, we apply a 75% margin to the rental business and 35% to the hotel business.

Aldar

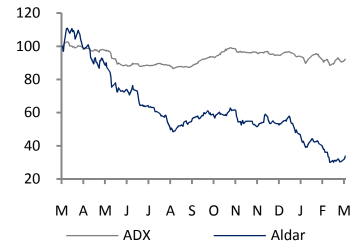
Overweight

- **New lease on life, but significant equity impairment leads to a 2011e BV/share of AED2.1–AED2.3 per share depending on conversion price**
- **Now that asset quality has largely been addressed, focus is likely to shift to EPS, for which we forecast a strong turnaround this year**
- **Maintain TP at AED2.7/share and Overweight rating; while we see deep value in Aldar, it will likely take time to unlock as investors gradually regain confidence in the name**

Target price (AED)	**2.70**
Current price (AED)	1.43
Potential return	88%
Bloomberg	ALDAR UH
Reuters	ALDR.AD
Mcap (AEDm)	4,121
Mcap (USDm)	1,123
Free float	72.3%
Daily volume (USDm)	10.7
Foreign own. limit	40%
Foreign ownership	13%

Note: All prices as of 22 March 2011

Price performance



Ridding the balance sheet of bad assets yields an uninflated 2011e BV of AED2.1–AED2.3 per share depending on the Mubadala CB conversion price. After the AED10.6bn impairment charge, Aldar's equity base fell to AED4.2bn from AED14.8bn. With the addition of the AED2.8bn CB to be issued to Mubadala, total equity would increase to AED7.0bn. We estimate that Aldar would achieve a margin of c15% on both the Yas asset sales (AED10.9bn) and residential/land sales (AED5.6bn). After adjusting for an estimated profit of AED2.5bn on these sales, equity rises to AED9.5bn. **The announced range of AED1.75–AED2.3 per share for the Mubadala CB implies a 2011e P/B of AED2.1–AED2.3 per share.**

With an improved capital structure, the focus is likely to shift to EPS, for which we expect a strong turnaround this year on the back of asset sales to the government. We now focus on DCF as we feel it better captures Aldar's improved cash flow profile. While the impairment (land and land receivables) impacts the company's book significantly, from a DCF perspective the impact is less pronounced, considering that fair value gains/losses are noncash items and the street is not assuming any land sales, in our view. In contrast, the sale of Yas low yielding assets at a c15% profit provides a cash injection, significantly reducing the debt burden and interest costs.

Further significant impairments are unlikely, in our opinion, for the following reasons: (1) company guidance put net rental income at AED1.5bn by 2014e, which implies a 9% yield on cost on AED16bn of investment properties after expected CAPEX of cAED8bn, and (2) advances for sale properties stood at AED2.7bn with AED4bn in further collections on the way. A sale of AED10.6bn has been made to the government and AED2.8bn in impairments have been taken. After the government sale (AED4.8bn at cost), we expect development properties to drop to cAED5bn with roughly 70% sales achieved.

Maintain TP at AED2.7/share and Overweight rating. While we see deep value in Aldar, it will likely take time to unlock as investors gradually regain confidence in the name. In any case, Aldar likely emerged as a leaner company with an improved capital structure following the restructuring, allowing the market to focus on fundamentals, in our view.

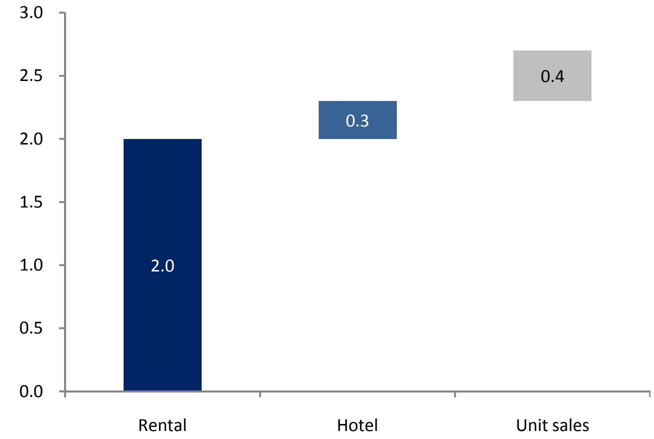
Aldar financial statements and ratios (AEDm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**4,978**	**1,979**	**1,791**	**10,490**	**9,244**	**6,161**	**3,293**	**3,500**
Total costs	**(2,295)**	**(1,537)**	**(1,503)**	**(8,305)**	**(6,980)**	**(4,356)**	**(1,571)**	**(1,680)**
Gross profit	**2,683**	**443**	**288**	**2,184**	**2,264**	**1,804**	**1,722**	**1,821**
Margin	*54%*	*22%*	*16%*	*21%*	*24%*	*29%*	*52%*	*52%*
EBIT	**3,290**	**901**	**(12,176)**	**2,146**	**1,450**	**1,022**	**1,261**	**1,366**
Margin	*66%*	*46%*	*-680%*	*20%*	*16%*	*17%*	*38%*	*39%*
Profit before taxes	**3,447**	**1,007**	**(12,658)**	**1,410**	**1,168**	**838**	**1,115**	**1,170**
Income taxes	-	-	-	-	-	-	-	-
Minority shareholder interest	-	-	-	-	-	-	-	-
Net profit (loss)	**3,447**	**1,007**	**(12,658)**	**1,410**	**1,168**	**838**	**1,115**	**1,170**
Margin	*69%*	*51%*	*-707%*	*13%*	*13%*	*14%*	*34%*	*33%*
Basic EPS	**2.0**	**0.4**	**(4.9)**	**0.5**	**0.3**	**0.2**	**0.2**	**0.3**
EBITDA	**1,758**	**(1,060)**	**(875)**	**2,482**	**1,782**	**1,345**	**1,576**	**1,672**
Margin	*35%*	*-54%*	*-49%*	*24%*	*19%*	*22%*	*48%*	*48%*
DPS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet								
Cash and cash equivalents	12,066	10,313	2,432	3,794	6,166	3,634	549	2,843
Long-term receivables	6,651	7,888	6,563	3,326	2,910	2,494	1,663	831
Receivables on Yas Island	-	-	2,435	2,261	1,913	1,565	1,218	870
Development properties	7,130	10,808	14,300	9,178	5,442	2,145	1,430	-
Assets held for sale	-	-	5,932	-	-	-	-	-
Current assets	**25,848**	**38,146**	**29,227**	**16,298**	**14,517**	**8,273**	**3,641**	**3,674**
Noncurrent assets	**972**	**826**	**3,124**	**2,950**	**2,602**	**2,254**	**1,906**	**1,558**
Permanent assets	**22,947**	**27,252**	**14,994**	**17,345**	**18,557**	**19,029**	**18,864**	**18,707**
Total assets	**49,767**	**66,224**	**47,344**	**36,593**	**35,677**	**29,556**	**24,411**	**23,940**
Current liabilities	**10,147**	**11,252**	**20,982**	**11,156**	**10,518**	**9,879**	**6,687**	**6,048**
Noncurrent liabilities	**19,352**	**34,031**	**22,115**	**16,980**	**13,934**	**7,614**	**4,547**	**3,544**
Minority interest in subsidiaries	-	-	-	-	-	-	-	-
Shareholder equity	**20,268**	**20,941**	**4,247**	**8,457**	**11,225**	**12,063**	**13,178**	**14,348**
Total liabilities and equity	**49,767**	**66,224**	**47,344**	**36,593**	**35,677**	**29,556**	**24,411**	**23,940**
Cash flow statement								
Net profit	**3,447**	**1,007**	**(12,658)**	**1,410**	**1,168**	**838**	**1,115**	**1,170**
CF generated from operating activities	**1,351**	**(1,025)**	**(2,715)**	**9,693**	**4,519**	**2,381**	**13**	**3,448**
CF generated from investing activities	**(17,771)**	**(13,485)**	**1,975**	**3,244**	**(1,544)**	**(795)**	**(150)**	**(150)**
CF generated from financing activities	**16,224**	**13,967**	**(1,275)**	**(11,575)**	**(604)**	**(4,117)**	**(2,948)**	**(1,003)**
Net addition (deduction) in cash	(196)	(543)	(2,015)	1,362	2,372	(2,532)	(3,086)	2,295
Cash at beginning of fiscal year	10,987	12,066	10,313	2,432	3,794	6,166	3,634	549
Net forex difference/others	-	-	-	-	-	-	-	-
Cash at end of fiscal year	**12,066**	**10,313**	**2,432**	**3,794**	**6,166**	**3,634**	**549**	**2,843**
Key ratios								
Revenue growth		-60%	-10%	486%	-12%	-33%	-47%	6%
Net profit growth		-71%	-1357%	-111%	-17%	-28%	33%	5%
Debt/equity	32%	91%	164%	767%	215%	142%	98%	68%
Net debt	(3,226)	6,286	24,094	30,140	14,404	9,828	8,242	8,379
Net debt/equity	-23%	31%	115%	710%	170%	88%	68%	64%
Current ratio	2.5	3.4	1.4	1.5	1.4	0.8	0.5	0.6
Average ROE		11%	-46%	-89%	13%	9%	8%	8%
Average ROIC		7%	-12%	-11%	6%	5%	4%	6%
P/B	0.3x	0.3x	1.0x	0.8x	0.6x	0.5x	0.5x	0.4x
P/NAV	0.3x	0.2x	0.2x	0.3x	0.2x			
P/E	0.7x	3.7x	-0.3x	2.9x	5.5x	7.6x	5.7x	5.5x
Dividend yield	0%	1%	-	-	-	-	-	-

Source: Company data, AlembicHC

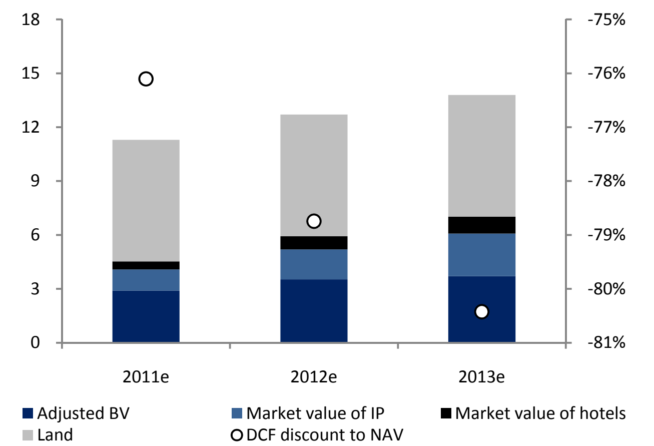
Valuation

Aldar valuation breakdown (AED/share)



Source: AlembicHC

Aldar NAV breakdown (AED/share)



Source: AlembicHC

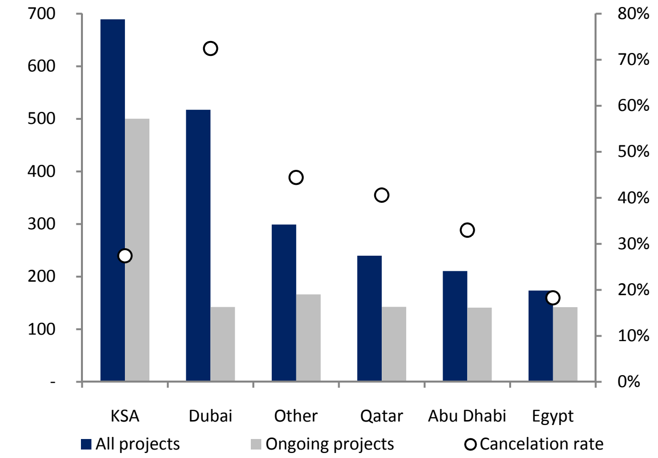
To value Aldar, we use a DCF and land valuation. Where a final master plan is available, we use a sum of the parts DCF. Otherwise, we rely on land valuation only. For UAE names, considering the severity of the downturn, to be conservative we exclude all future projects (i.e. those that are on hold or where construction work has not yet begun) and the raw land bank from our valuation. For Aldar, we exclude parts of Al Raha Beach phase 1 (including Al Dana, Al Khobayrah, and Al Seef), Al Raha Beach phase 2, Yas Island phase 2, and Motor World.

Since Aldar’s land bank is not recognized on its books, we use the latest independent valuation conducted at the end of 2009. We adjust Aldar's book value for fair value gains. We then revalue its investment properties, which are recognized at cost using the capitalization method. We use a cap rate of 10%, in line with prevailing commercial yields. To compute net operating income, we apply a 75% margin to the rental business and 35% to the hotel business.

MENA construction sector

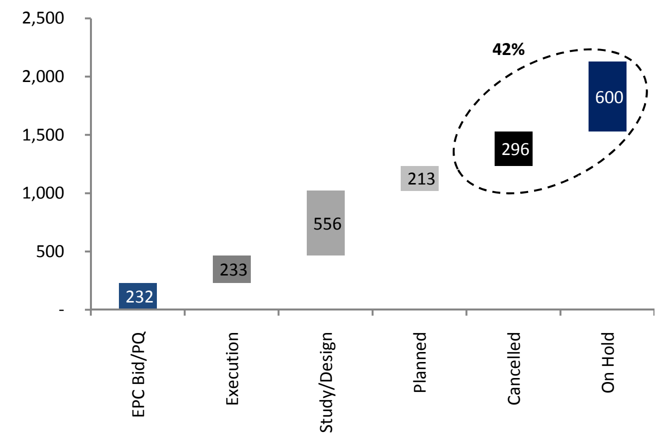
- **Project pipeline remains solid, with cUSD1.2bn worth of projects still ongoing despite 42% cancelled/put on hold**
- **Saudi Arabia emerged as by far the largest market with about USD500bn (42%) worth of projects under development, and was resilient with only 27% of projects cancelled/put on hold**
- **MENA contractors continue to diversify away from Dubai and civil construction, and into more defensive markets and segments such as the KSA and infrastructure**

MENA projects by geography (USDbn)



Source: MEED Projects, AlembicHC

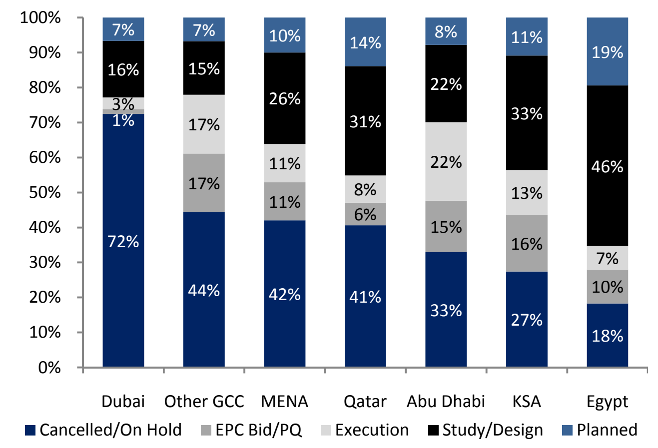
Breakdown of MENA projects by status (USDbn)



Source: MEED Projects, AlembicHC

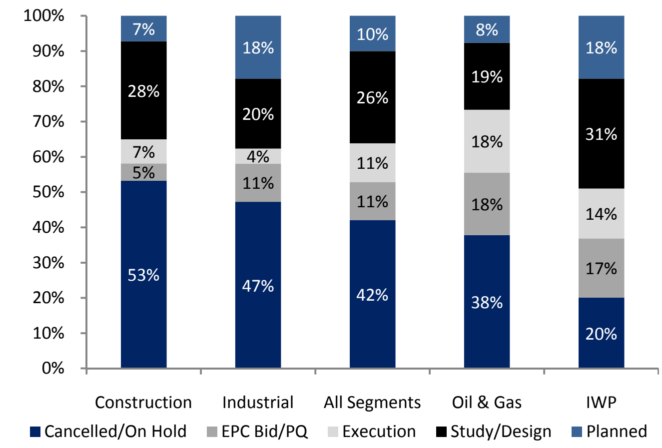
According to MEED data, of the USD2.1trn worth of projects in the MENA region, roughly 42% have either been cancelled or put on hold. Dubai saw the highest cancellation/on hold rate at more than 70%. In our opinion, this has to do with the segment mix in Dubai being highly skewed towards civil construction (84%), which is largely driven by a private sector that is very susceptible to economic conditions. Overall, civil construction witnessed the highest cancellation/on hold rate at 53%, while the infrastructure segment saw the lowest at 20%, helped by continued government fiscal spending. Egypt and Saudi Arabia were the most resilient, with only 18% of projects cancelled or put on hold in Egypt and 27% in Saudi Arabia. This, we believe, is a function of the countries' stronger sector fundamentals, supported by real indigenous demand. It is no surprise then that regional contractors are trying to diversify away from Dubai and civil construction and into more defensive markets and segments such as Saudi Arabia and infrastructure. But we continue to feel that this is unlikely to bear fruit quickly given the high barriers to entry.

Status of MENA projects by geography



Source: MEED Projects, AlembicHC

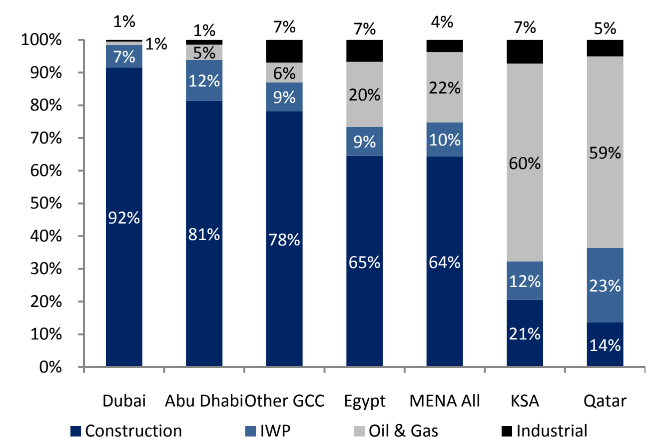
Status of MENA projects by segment



Source: MEED Projects, AlembicHC

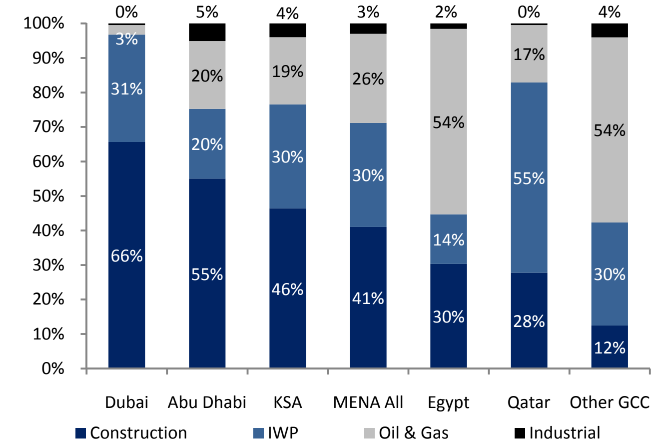
Although there has been clear retrenchment in the MENA construction sector since the start of the crisis, the ongoing project pipeline remains solid with cUSD1.2bn worth of projects still ongoing, according to MEED data. Saudi Arabia emerged as by far the largest market with about USD500bn (42%) worth of projects under development. However, the sector composition, although still tilted towards civil construction (46%) given the acute housing shortage, has large IWP (30%) and oil and gas (19%) components. While Saudi Arabia offers attractive opportunities for regional players, we feel it is a market that is very difficult to break into given the dominance of local players. Dubai remains the most exposed to the civil segment, which still accounts for 66% of ongoing projects. This, we believe, raises concerns about further cancellations and backlog erosion.

Cancelled MENA projects by segment/geography



Source: MEED Projects, AlembicHC

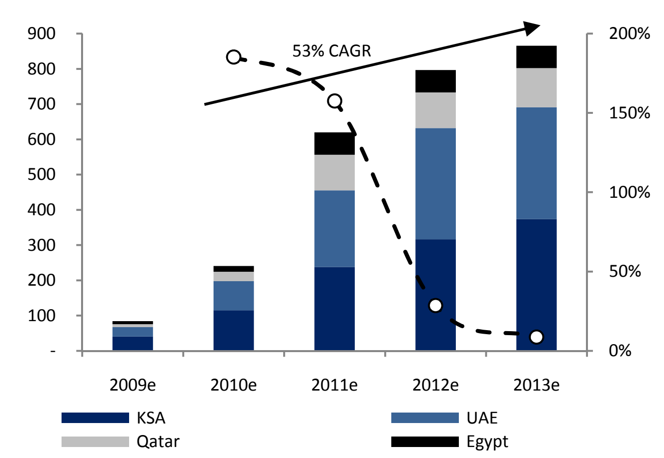
Ongoing MENA projects by segment/geography



Source: MEED Projects, AlembicHC

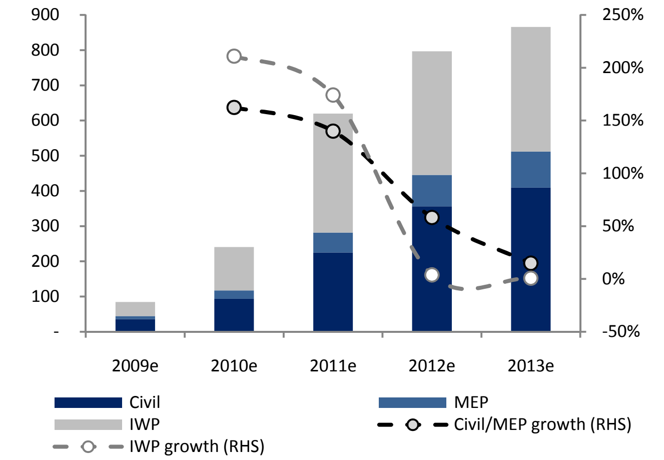
MEED data suggests that civil/MEP and IWP awards are set to grow at a 2010–13e CAGR of 53%. We believe that these estimates are too aggressive, as various projects are likely to be cancelled, put on hold, or scaled down. Also, we believe growing activity should undoubtedly result in increased competition (e.g. in Abu Dhabi), leading to contraction of market shares and margins. Accordingly, we feel that taking these figures at face value may be misleading. Instead, for the companies under our coverage we conservatively assume a flat backlog CAGR between 5% and 10% depending on backlog size and segment focus.

Cumulative civil/infra. awards by country (USDbn)



Source: MEED Projects, AlembicHC

Cumulative MENA awards by segment (USDbn)



Source: MEED Projects, AlembicHC

Depa

- **Capital deployment expedites diversification away from Dubai while improving the sector's growth prospects and earnings visibility…**
- **…but the trend was not reflected in Depa share performance, which remained muted relative to peers (-6% since November) on poor liquidity**
- **Depa is our top pick among UAE contractors, offering strong growth prospects (7% 2010–14e EPS CAGR) at attractive multiples (2011e P/E of 6x), in our view; maintain Overweight rating and TP of USD0.95**

Despite poor liquidity on NASDAQ Dubai, we see value in Depa for longer-term investors as it offers a balanced combination of (1) compelling valuation – 25% discount to UAE peers and 40% to MENA peers, (2) strong growth prospects – 7% 2010–14e EPS CAGR adjusted for Burj Khalifa, (3) an attractive return profile – 15% 2011e ROIC, (4) a high level of geographic and segmental diversification, and (5) a solid liquidity position – 2010e net debt/equity of -4% – all in our view.

Being in the last leg of the construction cycle remains an overhang, but we believe collection risk is subsiding as (1) its construction cycle is shorter than peers' – backlog/sales of 1.1x versus sector average of 2.5x, (2) a shift to milestone payments from percentage of completion ensures timely collection on offsite work, (3) its diversification away from Dubai is expedited by the acquisition of Design Studio – Dubai exposure to drop to 20% in 2010 from 84% in 2006, and (4) its order book well spread out across sectors – 51% hospitality, 26% residential, and 9% infrastructure.

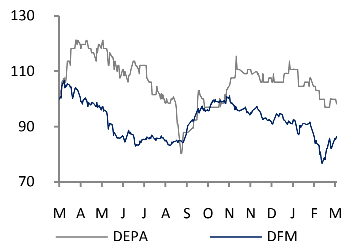
We maintain our Overweight rating and TP of USD0.95/share, implying 46% upside. Depa is our top pick among UAE contractors as it trades at attractive multiples (2011e P/E of 6x) while still offering strong growth prospects. Having said that, the discount to peers appears to be a liquidity discount, which we feel is justified to some extent. Accordingly, we increased Depa's risk premium 200 bps to 7.5% to address share liquidity concerns, implying a cost of equity of 16% and a WACC of 13%.

Overweight

Target price (USD)	**0.95**
Current price (USD)	0.65
Potential return	46%
Bloomberg	DEPA DU
Reuters	DEPA.DU
Mcap (USDm)	398
Daily volume (USDm)	0.53
Foreign own. limit	49%
Foreign ownership	48%

Note: All prices as of 22 March 2011

Price performance



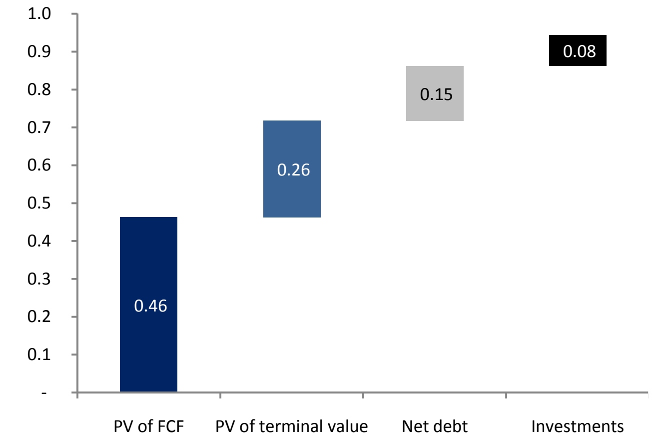
Depa financial statements and ratios (AEDm)

	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**1,693**	**2,689**	**2,246**	**2,787**	**3,390**	**3,414**	**3,374**	**3,388**
Total costs	**(1,342)**	**(2,259)**	**(2,040)**	**(2,285)**	**(2,822)**	**(2,840)**	**(2,822)**	**(2,833)**
Gross profit	**350**	**430**	**206**	**502**	**568**	**574**	**552**	**555**
Margin	**21%**	**16%**	**9%**	**18%**	**17%**	**17%**	**16%**	**16%**
EBIT	**201**	**231**	**1**	**295**	**313**	**307**	**275**	**264**
Margin	*12%*	*9%*	*0%*	*11%*	*9%*	*9%*	*8%*	*8%*
Profit before taxes	**226**	**270**	**20**	**304**	**332**	**346**	**334**	**342**
Income taxes	**(7)**	**16**	**(8)**	**(30)**	**(34)**	**(32)**	**(32)**	**(32)**
Minority shareholder interest	**(29)**	**(50)**	**(18)**	**(21)**	**(22)**	**(22)**	**(22)**	**(22)**
Net profit (loss)	**189**	**236**	**(6)**	**253**	**276**	**291**	**280**	**288**
Margin	*11%*	*9%*	*0%*	*9%*	*8%*	*9%*	*8%*	*8%*
Basic EPS	**0.30**	**0.38**	**(0.01)**	**0.41**	**0.45**	**0.47**	**0.46**	**0.47**
DPS	-	-	-	-	-	-	-	-
Balance sheet								
Cash and cash equivalents	739	543	400	664	896	1,229	1,555	1,872
Long-term receivables	1,176	1,318	1,437	1,482	1,700	1,789	1,779	1,757
Work in progress	16	29	41	41	41	41	41	41
Inventories	59	133	-	-	-	-	-	1
Current assets	**2,350**	**2,272**	**2,191**	**2,400**	**2,748**	**3,102**	**3,386**	**3,671**
Noncurrent assets	945	1,100	1,162	1,162	1,172	1,186	1,205	1,222
Total assets	**3,295**	**3,372**	**3,353**	**3,562**	**3,921**	**4,288**	**4,591**	**4,893**
Current liabilities	**1,265**	**1,261**	**1,222**	**1,155**	**1,180**	**1,232**	**1,228**	**1,217**
Noncurrent liabilities	**212**	**136**	**236**	**238**	**241**	**244**	**247**	**251**
Minority interest in subsidiaries	73	106	103	124	146	168	190	212
Shareholder equity	1,818	1,974	1,895	2,169	2,499	2,813	3,115	3,425
Total liabilities and equity	3,295	3,372	3,353	3,562	3,921	4,288	4,591	4,893
Cash flow statement								
Net profit	**189**	**234**	**12**	**273**	**330**	**314**	**303**	**310**
CF generated from operating activities	**56**	**108**	**84**	**359**	**342**	**422**	**392**	**366**
CF generated from investing activities	**(254)**	**(132)**	**(50)**	**(96)**	**(110)**	**(89)**	**(67)**	**(49)**
CF generated from financing activities	**946**	**(281)**	**(7)**	-	-	-	-	-
Net addition (deduction) in cash	**748**	**(306)**	**27**	**264**	**233**	**333**	**325**	**317**
Cash at beginning of fiscal year	-	**748**	**402**	**400**	**664**	**896**	**1,229**	**1,555**
Net forex difference/others								
Cash at end of fiscal year	**748**	**442**	**400**	**664**	**896**	**1,229**	**1,555**	**1,872**
Key ratios								
Revenue growth		59%	-16%	24%	22%	1%	-1%	0%
Net profit growth		25%	N/A	N/A	9%	6%	-4%	3%
Debt/equity	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Net debt/equity	(0.2)	(0.2)	(0.0)	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)
Current ratio	1.9	1.8	1.8	2.1	2.3	2.5	2.8	3.0
ROE		11%	6%	6%	11%	11%	10%	9%
ROIC		10%	5%	6%	11%	10%	9%	7%
Backlog/sales	1.60	0.78	1.10	1.01	0.83	0.83	0.84	0.83
P/B	0.8x	0.7x	0.8x	0.7x	0.6x	0.5x	0.5x	0.4x
P/E	7.9x	6.3x	N/A	5.8x	5.4x	5.1x	5.3x	5.1x

Source: AlembicHC

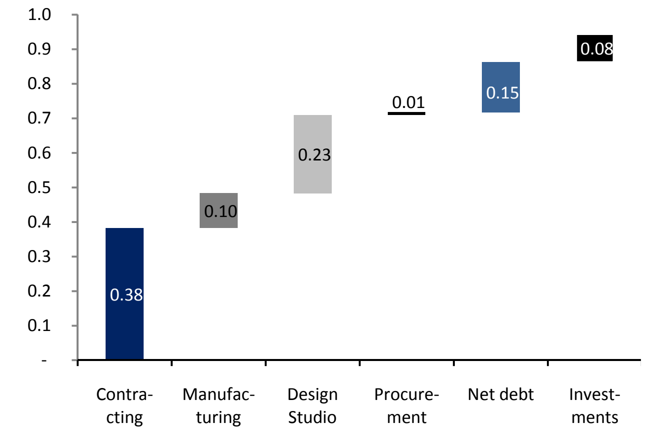
Valuation: Maintain TP at USD0.95 and Overweight rating

Depa valuation breakdown (USD/share)



Source: AlembicHC

Depa valuation breakdown by segment (USD/share)



Source: AlembicHC

To value construction companies we use a SOTP DCF model. We then add net cash and investments, which we do not liquidate in our model. To address share liquidity risk, we increased the risk premium for Depa 200 bps to 7.5%. We use a beta of 1.5 and a risk free rate of 4.5% to derive a cost of equity of 16%. We use a cost of debt of 7% and assume a target debt/equity ratio of 30/70 to arrive at a WACC of 13%. Finally, we assume a perpetual growth rate of 2%, in line with long-term inflation. Accordingly, we derive a TP of USD0.95/share, implying 46% upside.

The PV of implicit period plus net cash and investments accounts for 73% of our valuation (99% of market cap), while the remaining is derived from the terminal value. When broken down by segment, we estimate that interior contracting will continue to dominate, making up 40% of our valuation, compared to 23% for Design Studio and 11% for other manufacturing and procurement.

DSI

- **Superior growth profile (21% 2010–14e EPS CAGR) justifies 74% valuation premium over Arabtec (11.5x 2011e P/E versus 6.6x for Arabtec), in our view**
- **We update our numbers and decrease our EPS forecast 16% for 2011e and 10% for 2012e on margin compression, higher interest costs, and minority interest**
- **DSI's acquisition of a Saudi civil contractor should put it in a better position it to capitalize on the increased government spending on housing; maintain TP at AED1.3/share but upgrade to Overweight**

While DSI trades at a 74% premium to Arabtec on 2011e P/E, we feel this is justified given the company's superior growth prospects. In 2010, DSI utilized its strong capital base to expedite the move away from Dubai through acquisitions. The company grew its backlog c50% to AED4.9bn from AED3.3bn in 2009. Going forward, we forecast a 2010–14e backlog CAGR of 25%, translating to a revenue CAGR of 25% and an EPS CAGR of 21% over the same period.

Increased Saudi government spending on housing is likely to benefit civil/MEP contractors, but may take some time to translate to award wins. DSI's acquisition of a Saudi civil contractor (to be concluded in 1Q11) is expected to increase its backlog AED800m and better position it to take advantage of the SAR250bn planned government investment to construct 500,000 homes. It is relevant to note that the 2 largest awards for both DSI (SAR2bn) and Arabtec (SAR5bn) in Saudi Arabia were civil. The low income nature of these government sponsored developments will likely put further pressure on margins, but this may be offset by stronger growth.

We now factor in no growth in Egypt and decrease our revenue estimates 4% for 2011e and 2% for 2012e, but increase our estimate 10% for 2013e. We assume GPM compression of 150 bps by 2013e, and we increase minorities on faster growth from DSI Saudi Arabia, in which the company holds a 65% stake. We also increase interest costs as a result of higher debt. Accordingly, we cut our EPS estimates 16% for 2011e and 10% for 2012e.

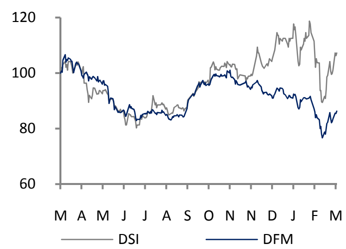
We maintain our TP at AED1.3/share but upgrade our rating to Overweight from Neutral. To value construction companies, we use a SOTP DCF model. We then add net cash and investments, which we do not liquidate in our model. For DSI, we use a 13% cost of equity based on a beta of 1.6, a risk free rate of 4.5%, and a country risk premium of 5.5%. We use a cost of debt of 7% and assume a target debt/equity ratio of 30/70 to arrive at a WACC of 11.3%. Finally, we assume a perpetual growth rate of 2%, in line with long-term inflation.

Overweight

Target price (AED)	**1.30**
Current price (AED)	1.03
Potential return	22%
Bloomberg	DSI UH
Reuters	DSI.DU
Mcap (AEDm)	2,243
Mcap (USDm)	611
Free float	68%
Daily volume (USDm)	3.3
Foreign own. limit	49%
Foreign ownership	19%

Note: All prices as of 20 March 2011

Price performance



DSI financial statements and ratios (AEDm)

	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**1,425**	**2,212**	**1,855**	**2,525**	**3,109**	**3,533**	**4,550**	**5,053**
Total costs	**(1,136)**	**(1,776)**	**(1,510)**	**(2,082)**	**(2,577)**	**(2,969)**	**(3,845)**	**(4,280)**
Gross profit	**289**	**436**	**344**	**443**	**532**	**564**	**705**	**772**
Margin	**20%**	**20%**	**19%**	**18%**	**17%**	**16%**	**15%**	**15%**
EBIT	**127**	**219**	**142**	**203**	**251**	**253**	**320**	**346**
Margin	*9%*	*10%*	*8%*	*8%*	*8%*	*7%*	*7%*	*7%*
Profit before taxes	**122**	**337**	**156**	**219**	**275**	**280**	**365**	**396**
Income taxes	**-**	**(8)**	**5**	**(5)**	**(6)**	**(7)**	**(9)**	**(9)**
Minority shareholder interest	**(6)**	**(2)**	**(7)**	**(20)**	**(26)**	**(17)**	**(20)**	**(24)**
Net profit (loss)	**116**	**327**	**155**	**193**	**243**	**256**	**336**	**362**
Margin	*8%*	*15%*	*8%*	*8%*	*8%*	*7%*	*7%*	*7%*
Basic EPS	**7.72**	**0.15**	**0.07**	**0.09**	**0.11**	**0.12**	**0.16**	**0.17**
DPS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet								
Cash and cash equivalents	162	1,160	705	925	1,167	1,285	1,422	1,526
Long-term receivables	635	1,230	1,429	2,118	2,398	2,753	3,400	3,888
Work in progress	226	405	622	-	-	-	-	-
Inventories	2	13	25	25	25	25	25	25
Current assets	**1,119**	**3,118**	**3,356**	**3,643**	**4,165**	**4,638**	**5,422**	**6,014**
Noncurrent assets	331	1,282	1,514	1,496	1,484	1,476	1,480	1,487
Total assets	**1,450**	**4,401**	**4,871**	**5,139**	**5,649**	**6,114**	**6,902**	**7,501**
Current liabilities	**1,102**	**1,661**	**2,275**	**2,330**	**2,572**	**2,763**	**3,195**	**3,408**
Noncurrent liabilities	**37**	**224**	**53**	**53**	**53**	**53**	**53**	**53**
Minority interest in subsidiaries	14	39	72	92	118	135	155	179
Shareholder equity	311	2,515	2,542	2,755	3,024	3,297	3,654	4,040
Total liabilities and equity	1,450	4,401	4,871	5,139	5,649	6,114	6,902	7,501
Cash flow statement								
Net profit	**158**	**337**	**156**	**213**	**269**	**273**	**356**	**387**
CF generated from operating activities	**(11)**	**(195)**	**(131)**	**235**	**255**	**133**	**147**	**115**
CF generated from investing activities	**(98)**	**(343)**	**(219)**	**13**	**15**	**13**	**18**	**17**
CF generated from financing activities	**161**	**1,284**	**(266)**	**(28)**	**(28)**	**(28)**	**(28)**	**(28)**
Net addition (deduction) in cash	**52**	**746**	**(616)**	**220**	**242**	**118**	**137**	**104**
Cash at beginning of fiscal year	**32**	**1,160**	**743**	**705**	**925**	**1,167**	**1,285**	**1,422**
Net forex difference/others	**-**	**(3)**	**(4)**	**-**	**-**	**-**	**-**	**-**
Cash at end of fiscal year	**162**	**1,160**	**705**	**925**	**1,167**	**1,285**	**1,422**	**1,526**
Key ratios								
Revenue growth		55%	-16%	36%	23%	14%	29%	11%
Net profit growth		183%	-53%	25%	25%	6%	31%	8%
Debt/equity	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Net debt	100	(497)	84	(136)	(378)	(495)	(632)	(736)
Net debt/equity	0.3	(0.2)	0.0	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)
Current ratio	1.0	1.9	1.5	1.6	1.6	1.7	1.7	1.8
ROE		16%	10%	7%	8%	8%	9%	9%
ROIC		10%	6%	5%	7%	7%	7%	8%
Backlog/sales	2.17	1.49	2.66	3.15	2.93	2.95	2.64	2.46
P/B	7.2x	0.9x	0.9x	0.8x	0.7x	0.7x	0.6x	0.6x
P/E	0.1x	6.8x	14.4x	11.5x	9.2x	8.7x	6.6x	6.2x

Source: AlembicHC

Revising forecasts

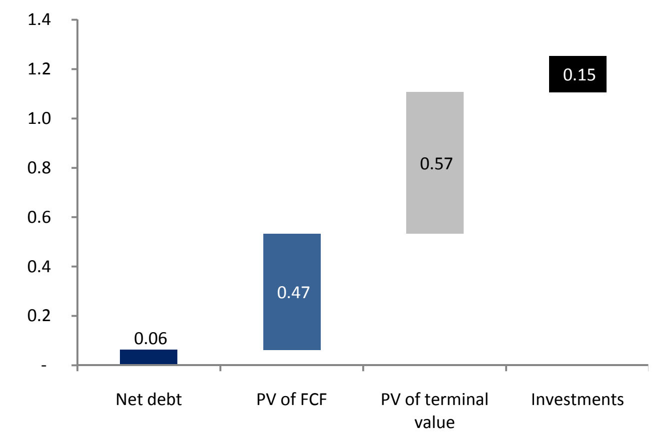
DSI estimate revisions (AEDm)

	2011e				2012e				2013e			
	New	Old	% Δ	Cons.	New	Old	% Δ	Cons.	New	Old	% Δ	Cons.
Revenue	2,525	2,640	-4%	2,515	3,109	3,181	-2%	2,919	3,533	3,219	10%	2,853
Gross profit	443	485	-9%		532	574	-7%		564	558	1%	
GPM	18%	18%			17%	18%			16%	17%		
Net profit	193	230	-16%	211	243	269	-10%	245	256	257	0%	248

Source: AlembicHC, Bloomberg consensus

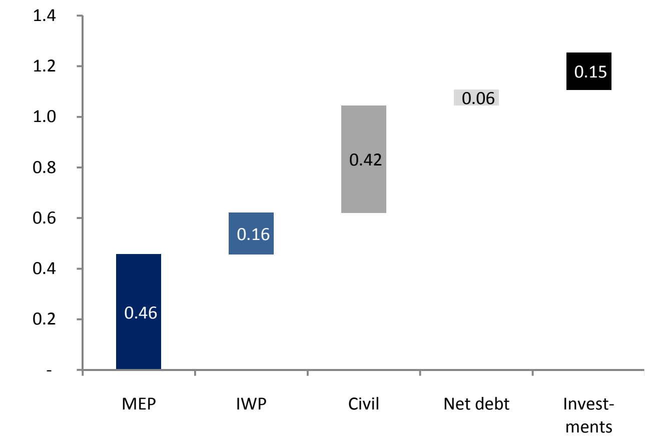
Valuation: Maintain TP at AED1.3 but upgrade to Overweight

DSI valuation breakdown (AED/share)



Source: AlembicHC

DSI valuation breakdown by segment (AED/share)



Source: AlembicHC

To value construction companies we use a SOTP DCF model. We then add net cash and investments, which we do not liquidate in our model. For DSI, we use a 13% cost of equity based on a beta of 1.6, a risk free rate of 4.5%, and a country risk premium of 5.5%. We use a cost of debt of 7% and assume a target debt/equity ratio of 30/70 to arrive at a WACC of 11.3%. Finally, we assume a perpetual growth rate of 2%, in line with long-term inflation.

Arabtec

- **Asset quality remains a major concern against a backdrop of continued softening in the UAE property market, its area of highest exposure, in our view**
- **Regional political unrest likely to lead to construction interruptions; accordingly, we decrease our EPS estimates 40% for 2011e, 23% for 2012e, and 26% for 2013e**
- **USD67bn plan by Saudi Arabia to develop 500,000 homes is positive for Arabtec given tight capacity, but is likely to take time to translate to backlog growth; cut TP to AED1.8 but maintain Neutral**

Arabtec's poor asset quality and relatively weak growth outlook (5% 2010–14e EPS CAGR) are reflected in lower multiples (6.6x 2011e P/E). At the end of 2010, impaired receivables more than 180 days overdue increased to AED1.3bn, more than double the 2009 level of AED587m. Also, the AED650m Meydan receivable remains in arbitration, but media reports suggest that the claim amount has been reduced from AED1.4bn to only a couple of million. That said, Arabtec remains confident that the outcome will be positive. In any case, in our model we assume that the entire amount is unrecoverable. While the company recorded a net reversal in provisions of AED32m in 2010, further provision impairments cannot be ruled out going forward.

AED950m recapitalization plan put on hold until market conditions improve, but remains necessary to capture regional growth opportunities, in our view. We estimate an average historic backlog/IC of 5x for the sector, which means that a capital increase of AED1bn should translate to AED5bn in backlog growth.

The recently announced USD67bn plan by the Saudi government to develop 500,000 homes is likely to benefit civil/MEP contractors, but may take time to translate to awards. Arabtec's superior return profile positions it well to benefit from regional growth opportunities, but we feel that a capital increase is needed to take full advantage of them. That said, we still assume an annual backlog growth rate of 10% in the KSA.

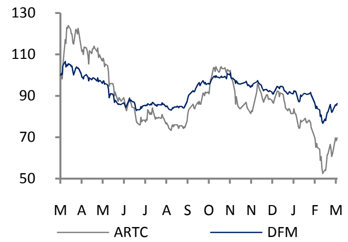
We cut our TP to AED1.8/share from AED2.1 but maintain our Neutral rating. We now assume no growth in Egypt, but increase our revenue estimates 5% for 2011e and 18% for 2012e on expectations of faster growth in the KSA. However, margins are likely to come under further pressure given the low income nature of the government sponsored projects. We expect further contraction of 100 bps in gross margins until 2012e, and assume an increase of 150 bps in SG&A expenses. We also increase minorities on faster growth, and factor in higher taxes as Arabtec diversifies operations out of the UAE. As such, we decrease our EPS estimates 40% for 2011e, 23% for 2012e, and 26% for 2013e.

Neutral

Target price (AED)	**1.80**
Current price (AED)	1.54
Potential return	17%
Bloomberg	ARTC UH
Reuters	ARTC.DU
Mcap (AEDm)	1,842
Mcap (USDm)	502
Free float	95%
Daily volume (USDm)	10
Foreign own. limit	49%
Foreign ownership	19%

Note: All prices as of 22 March 2011

Price performance



Arabtec financial statements and ratios (AEDm)

	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**9,722**	**7,665**	**5,464**	**6,249**	**7,674**	**7,744**	**7,093**	**7,322**
Total costs	**(8,230)**	**(6,338)**	**(4,637)**	**(5,285)**	**(6,542)**	**(6,602)**	**(6,031)**	**(6,215)**
Gross profit	**1,492**	**1,327**	**827**	**965**	**1,131**	**1,142**	**1,062**	**1,107**
Margin	**15%**	**17%**	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**
EBIT	**1,063**	**609**	**427**	**515**	**591**	**596**	**556**	**584**
Margin	*11%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
Profit before taxes	**1,118**	**631**	**438**	**567**	**667**	**676**	**651**	**690**
Income taxes	**(16)**	**(39)**	**(6)**	**(33)**	**(41)**	**(44)**	**(43)**	**(46)**
Minority shareholder interest	**(122)**	**(97)**	**(124)**	**(256)**	**(270)**	**(259)**	**(236)**	**(263)**
Net profit (loss)	**980**	**495**	**307**	**278**	**355**	**373**	**373**	**382**
Margin	*10%*	*6%*	*6%*	*4%*	*5%*	*5%*	*5%*	*5%*
Basic EPS	**0.82**	**0.41**	**0.26**	**0.23**	**0.30**	**0.31**	**0.31**	**0.32**
DPS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet								
Cash and cash equivalents	757	634	588	703	1,323	1,928	2,524	3,145
Long-term receivables	4,983	4,678	3,523	4,323	5,325	5,376	4,920	5,083
Work in progress	-	-	-	-	-	-	-	-
Inventories	1,017	648	369	500	614	620	567	586
Current assets	**7,286**	**7,016**	**6,185**	**7,230**	**8,966**	**9,629**	**9,716**	**10,519**
Noncurrent assets	2,173	2,094	2,495	2,521	2,563	2,605	2,638	2,672
Total assets	**9,460**	**9,110**	**8,680**	**9,751**	**11,529**	**12,234**	**12,354**	**13,191**
Current liabilities	**7,010**	**6,001**	**5,135**	**5,656**	**6,790**	**6,843**	**6,332**	**6,499**
Noncurrent liabilities	**332**	**382**	**442**	**459**	**477**	**497**	**520**	**546**
Minority interest in subsidiaries	225	336	404	660	931	1,190	1,425	1,688
Shareholder equity	**1,893**	**2,392**	**2,698**	**2,976**	**3,331**	**3,704**	**4,077**	**4,458**
Total liabilities and equity	**9,460**	**9,110**	**8,680**	**9,751**	**11,529**	**12,234**	**12,354**	**13,191**
Cash flow statement								
Net profit	**1,096**	**631**	**438**	**534**	**626**	**631**	**609**	**644**
CF generated from operating activities	**129**	**509**	**446**	**216**	**732**	**716**	**673**	**692**
CF generated from investing activities	**(903)**	**(236)**	**(135)**	**(78)**	**(96)**	**(97)**	**(89)**	**(92)**
CF generated from financing activities	**687**	**(284)**	**(272)**	-	-	-	-	-
Net addition (deduction) in cash	(147)	(123)	(46)	114	620	606	595	622
Cash at beginning of fiscal year	904	757	634	588	703	1,323	1,928	2,524
Net forex difference/others	-	-	-	-	-	-	-	-
Cash at end of fiscal year	757	634	588	703	1,323	1,928	2,524	3,145
Key ratios								
Revenue growth		-21%	-29%	14%	23%	1%	-8%	3%
Net profit growth		-49%	-38%	-9%	28%	5%	0%	2%
Debt/equity	0.6	0.4	0.2	0.2	0.2	0.2	0.1	0.1
Net debt	498	323	149	35	(586)	(1,191)	(1,787)	(2,408)
Net debt/equity	0.2	0.1	0.0	0.0	(0.1)	(0.2)	(0.3)	(0.4)
Current ratio	1.0	1.2	1.2	1.3	1.3	1.4	1.5	1.6
ROE		0.3	0.2	0.1	0.1	0.1	0.1	0.1
ROIC		51%	11%	12%	12%	11%	9%	8%
Backlog/sales	2.93	1.74	3.06	2.90	2.50	2.62	2.95	2.86
P/B	1.0x	0.8x	0.7x	0.6x	0.4x	0.4x	0.3x	0.3x
P/E	1.9x	3.7x	6.0x	6.6x	5.2x	4.9x	4.9x	4.8x

Source: AlembicHC

Revising forecasts

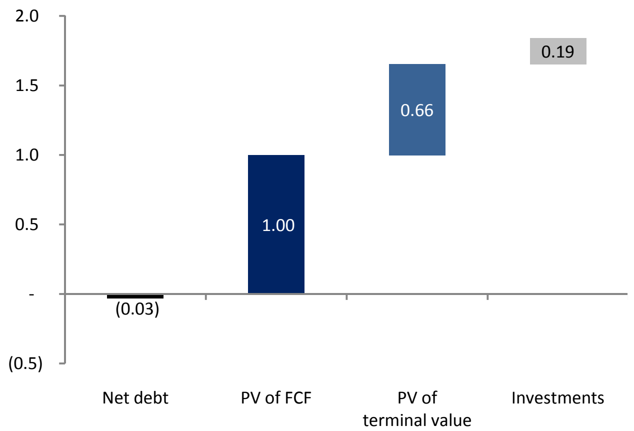
Arabtec estimate revisions (AEDm)

	2011e				2012e				2013e			
	New	**Old**	**% Δ**	**Cons.**	**New**	**Old**	**% Δ**	**Cons.**	**New**	**Old**	**% Δ**	**Cons.**
Revenue	6,249	5,935	5%	6,217	7,674	6,524	18%	6,999	7,744	7,735	0%	7,207
Gross profit	965	904	7%		1,131	986	15%		1,142	1,129	1%	
GPM	15%	15%			15%	15%			15%			
Net profit	278	462	-40%	341	355	462	-23%	375	373	504	-26%	433

Source: AlembicHC, Bloomberg consensus

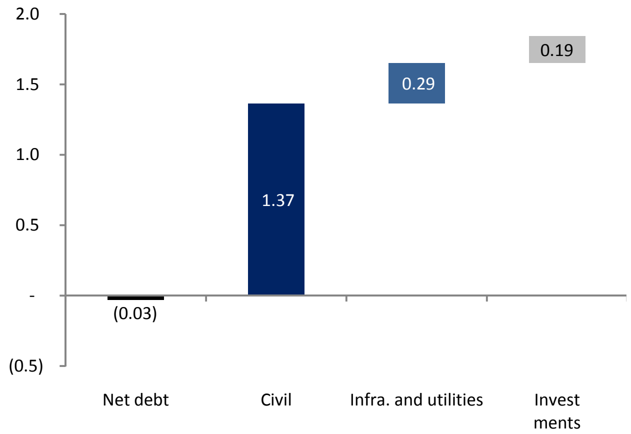
Valuation: Cut TP to AED1.8 but maintain Neutral

Arabtec valuation breakdown (AED/share)



Source: AlembicHC

Arabtec valuation breakdown by segment (AED/share)



Source: AlembicHC

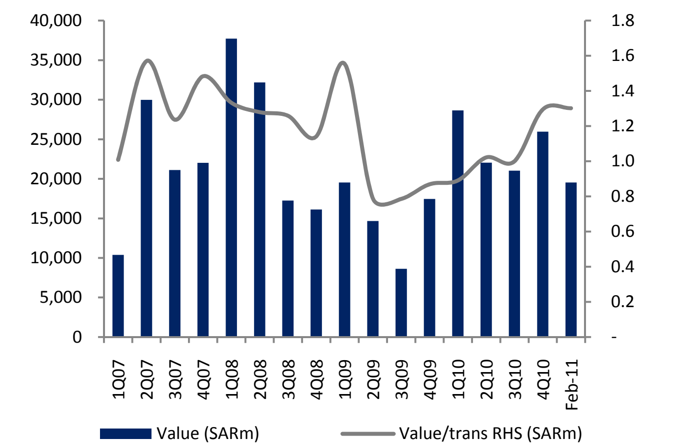
To value construction companies we use a SOTP DCF model. We then add net cash and investments, which we do not liquidate in our model. We use a 13.3% cost of equity based on a beta of 1.6, a risk free rate of 4.5%, and a country risk premium of 5.5%. We use a cost of debt of 7% and assume a target debt/equity ratio of 30/70 to arrive at a WACC of 11.3%. Finally, we assume a perpetual growth rate of 2%, in line with long-term inflation.

Saudi real estate sector

- **Land values up 60% since trough in 2Q09 and volumes up 50% y-o-y in 2010**
- **Villa and apartment prices up 15% and 6% respectively in 2010**
- **Average rental yields flat at 7%**

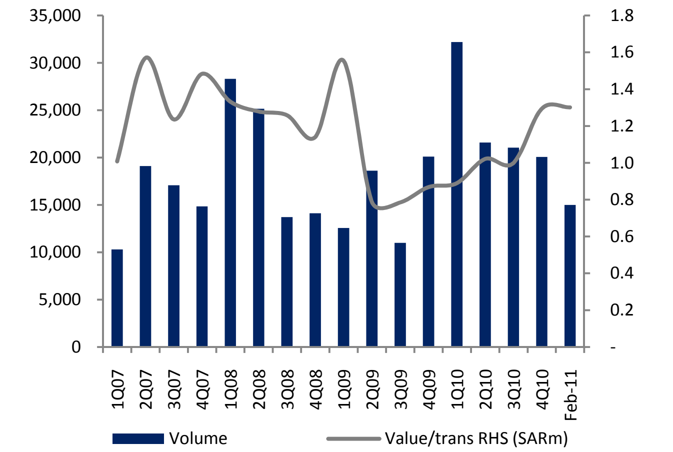
*We are grateful to Banque Saudi Fransi for providing the industry data for our analysis.
For further details, please contact Dr. John Sfakianakis, Chief Economist
(email johns@alfransi.com.sa, phone +966 12891797).*

Land value/trans. up 60% since trough in 2Q09



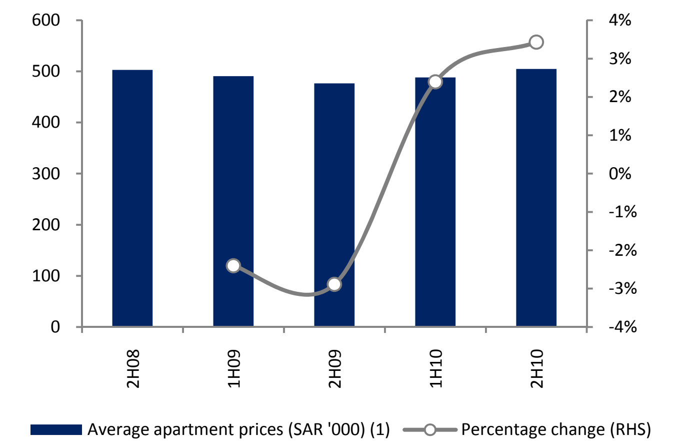
Source: AlembicHC, Riyadh Chamber of Commerce

Volumes up 50% y-o-y in 2010



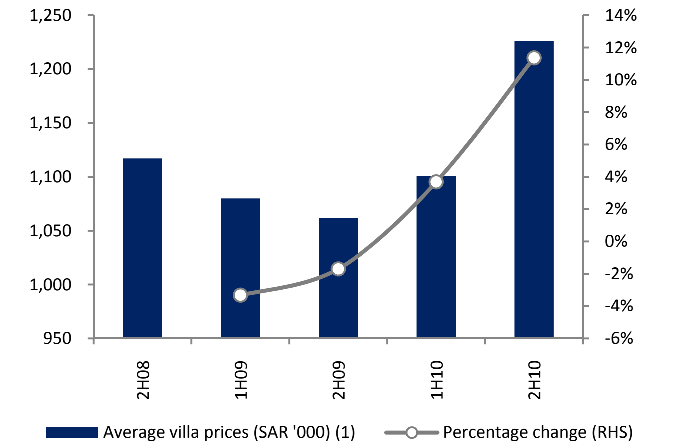
Source: AlembicHC, Riyadh Chamber of Commerce

Apartment prices up 6% in 2010



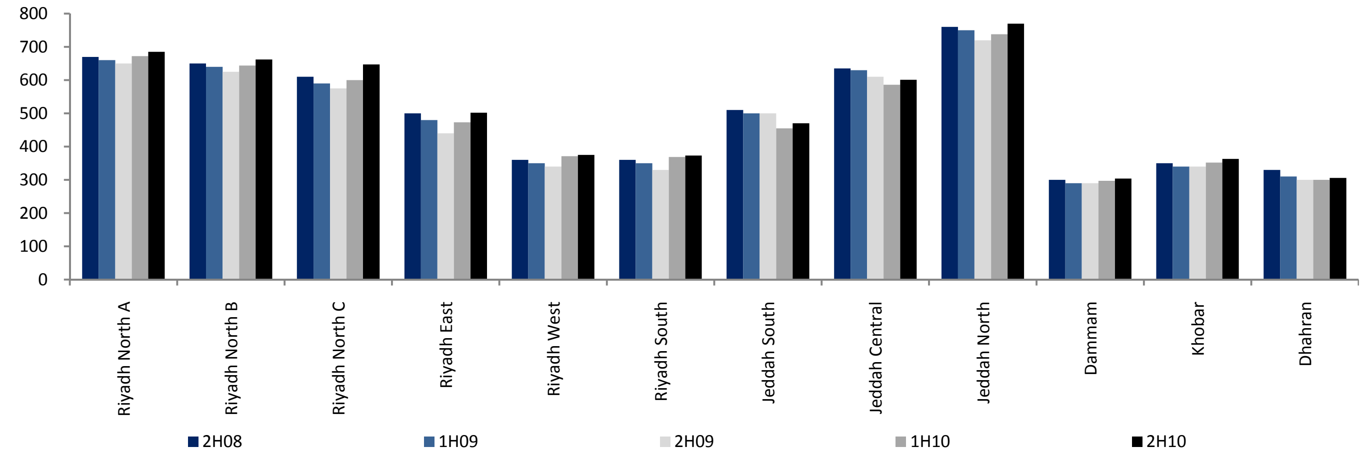
Source: Banque Saudi Fransi
Note: (1) Average size of 135–190 sqm

Villa prices up 15% in 2010



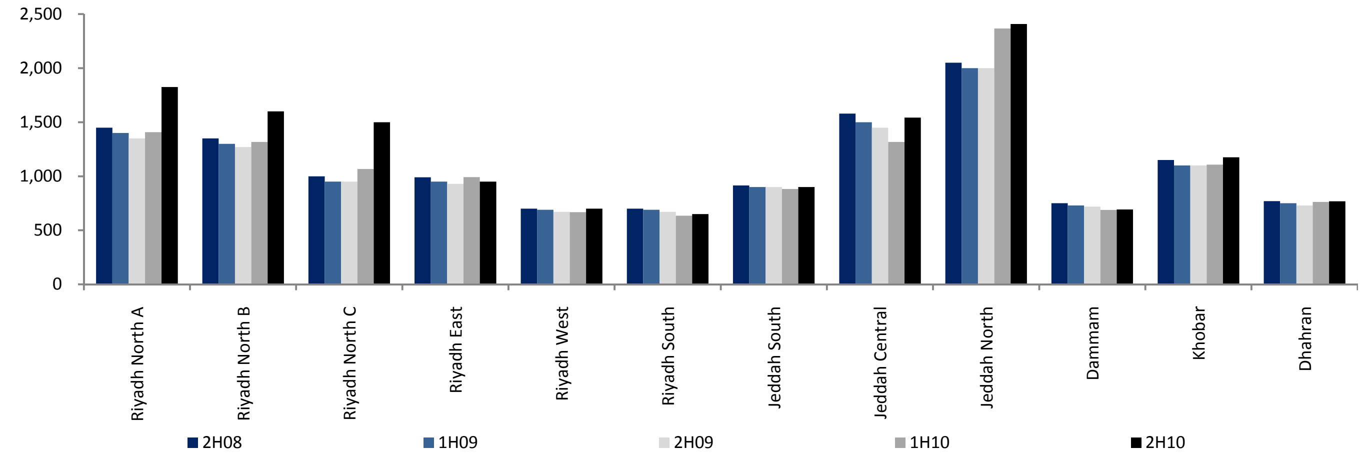
Source: Banque Saudi Fransi
Note: (1) Average size of 300–400 sqm

Average asking price of apartments[1] (SAR '000)



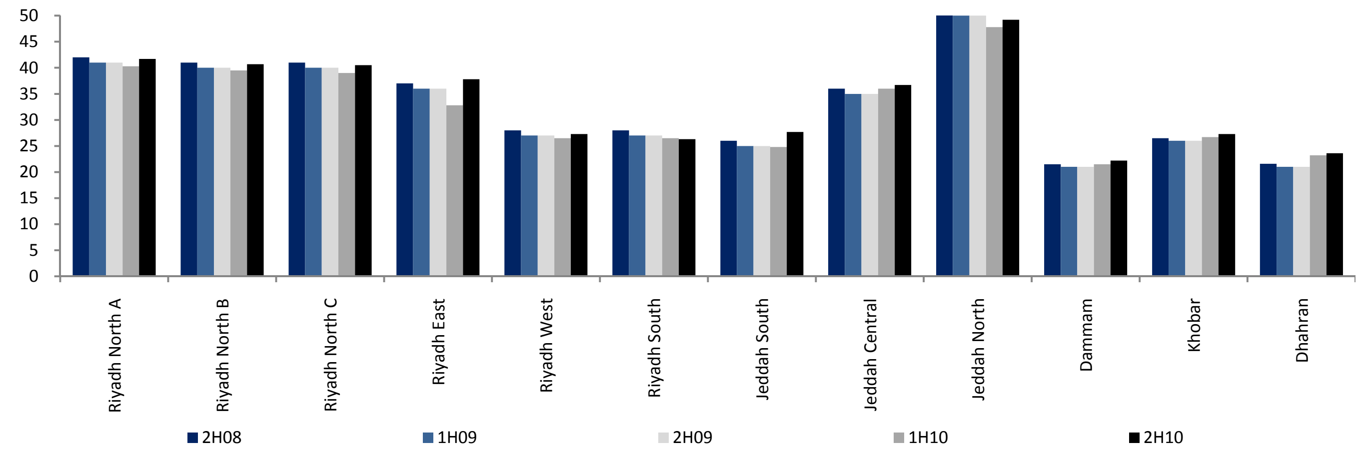
Source: Banque Saudi Fransi
Note: (1) Average size of 135–190 sqm

Average asking price of villas[1] (SAR '000)



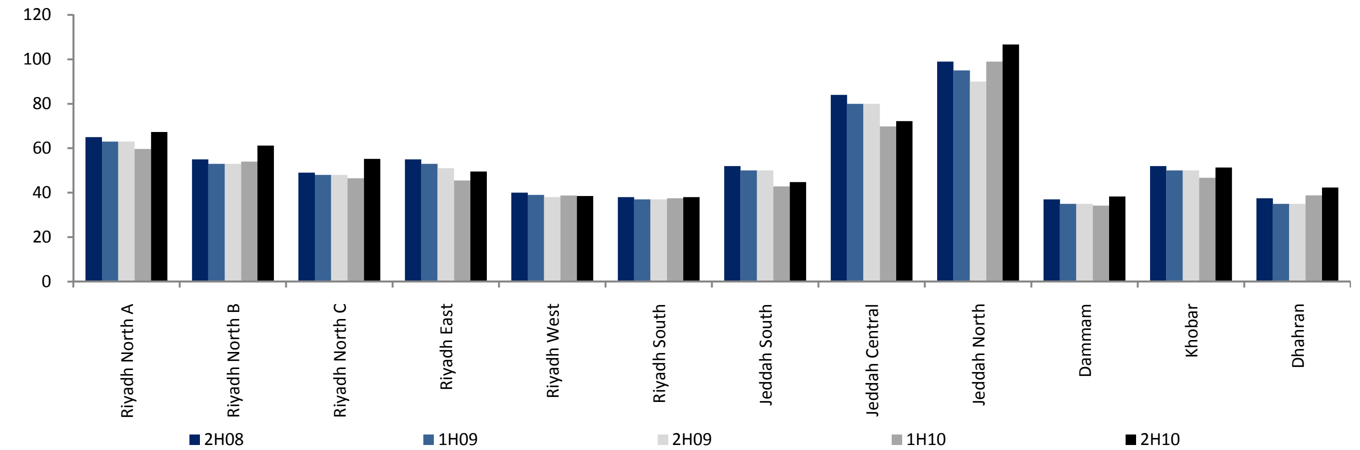
Source: Banque Saudi Fransi
Note: (1) Average size of 300–400 sqm

Average annual apartment rents[1] (SAR '000)



Source: Banque Saudi Fransi
Note: (1) Average size of 135–190 sqm

Average annual villa rents[1] (SAR '000)



Source: Banque Saudi Fransi
Note: (1) Average size of 300–400 sqm

Dar Al Arkan

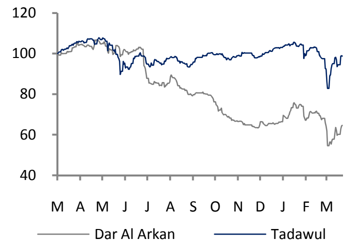
Overweight

- **The recently announced cUSD100bn government initiatives to ease housing pressures is positive for Dar al Arkan as increased liquidity is likely benefit land valuations, in our view**
- **However, over the medium term we expect earnings to come under pressure on a weak 1Q11 and potential demand cannibalization; we cut our EPS 45% for 2011e, 36% for 2012e, and 35% for 2013e**
- **We cut our TP to SAR13.2/share from SAR17.6 but maintain our Overweight rating; we see deep value in Dar Al Arkan, which could be unlocked in 2011/12e as the company continues to deleverage**

Target price (SAR)	**13.2**
Current price (SAR)	8.6
Potential return	53%
Bloomberg	Al Arkan AB
Reuters	4300.SE
Mcap (SARm)	9,288
Mcap (USDm)	2,477
Free float	30%
Daily volume (USDm)	9.3
Foreign own. limit	N/A
Foreign ownership	N/A

Note: All prices as of 22 March 2011

Price performance



Dar Al Arkan's land sale model is a pure play on the sector and is therefore highly correlated to the political situation. Accordingly, we cut our revenue estimates 31% for 2011e, 37% for 2012e, and 31% for 2013e. Also, to be conservative we no longer include raw land in our model, but add it on top of our DCF at cost. Additionally, expected weaker land sales are likely to force the company to slow down construction work to be able to meet its debt obligations (cSAR5bn by 2012e). For that reason, we exclude Shams Al Riyadh phases 2 and 3 from our numbers. **We cut our EPS estimates 45% for 2011e, 36% for 2012e, and 35% for 2013e.**

New government initiatives to address the acute housing shortage should be positive for Dar Al Arkan if stability is maintained. The recently announced SAR70bn capital injection into the REDF and the Saudi Credit & Savings Bank is positive for the sector as it is likely to stimulate demand. It also is expected to expedite the loan approval process, which previously had an average waiting period of 18 years due to pent-up demand. Additionally, the raising of the loan ceiling to SAR500,000 from SAR300,000 should enhance affordability. We estimate that the funds could conservatively finance c140,000 homes, not factoring in the redistribution of loan payments. Given that REDF loans are typically used for plot purchases, Dar Al Arkan stands to benefit significantly if political stability is maintained, in our view. Also, the SAR250bn budget to build an additional 500,000 homes is likely to boost land demand/valuations further.

We cut our TP to SAR13.2 from SAR17.6 but maintain our Overweight rating. Despite the strong underlying fundamentals, we expect earnings to come under pressure in the medium term on a weak 1Q11 and potential demand cannibalization. Also, to address the political uncertainty in Saudi Arabia, we increase our country risk premium 100 bps to 7.5%. To value Dar Al Arkan, we use a SOTP DCF for projects under development, on top of which we add raw land at cost. In line with our approach for all real estate companies under our coverage, we exclude all future projects from our valuation. For Dar Al Arkan, we also exclude associates due to the lack of details.

Dar Al Arkan financial statements and ratios (SARm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**5,611**	**5,464**	**4,142**	**3,084**	**3,979**	**5,931**	**4,373**	**1,359**
Costs	**(2,766)**	**(2,957)**	**(2,378)**	**(1,839)**	**(2,283)**	**(3,497)**	**(2,508)**	**(707)**
Gross profit	**2,845**	**2,507**	**1,764**	**1,245**	**1,696**	**2,434**	**1,864**	**653**
Margin	*51%*	*46%*	*43%*	*40%*	*43%*	*41%*	*43%*	*48%*
SG&A expenses	(150)	(146)	(106)	(93)	(119)	(178)	(131)	(41)
Depreciation and amortization	(50)	(41)	(40)	(54)	(58)	(57)	(56)	(55)
Operating expenses	**(201)**	**(186)**	**(147)**	**(147)**	**(178)**	**(235)**	**(187)**	**(96)**
EBIT	**2,644**	**2,321**	**1,618**	**1,099**	**1,519**	**2,199**	**1,677**	**557**
Margin	*47%*	*42%*	*39%*	*36%*	*38%*	*37%*	*38%*	*41%*
Profit before taxes	**2,417**	**2,173**	**1,483**	**902**	**1,396**	**2,164**	**1,731**	**744**
Zakat provision	(60)	(54)	(27)	(23)	(35)	(54)	(43)	(19)
Net income	**2,356**	**2,118**	**1,456**	**879**	**1,361**	**2,110**	**1,688**	**725**
Margin	*42%*	*39%*	*35%*	*29%*	*34%*	*36%*	*39%*	*53%*
Basic EPS	**3.3**	**2.0**	**1.3**	**0.8**	**1.3**	**2.0**	**1.6**	**0.7**
DPS	2.3	0.0	1.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**2,696**	**2,321**	**1,641**	**1,153**	**1,577**	**2,256**	**1,733**	**612**
Margin	*48%*	*42%*	*40%*	*37%*	*40%*	*38%*	*40%*	*45%*
Balance sheet								
Cash and cash equivalents	716	2,223	1,189	1,407	1,790	9,023	14,099	13,783
Developed land	3,099	4,458	3,201	1,600	-	-	-	-
Current assets	**18,206**	**20,715**	**20,179**	**20,055**	**17,224**	**19,197**	**19,990**	**19,072**
Long-term assets	**1,958**	**2,882**	**3,170**	**3,510**	**3,462**	**3,415**	**3,369**	**3,324**
Total assets	**20,164**	**23,597**	**23,349**	**23,565**	**20,686**	**22,611**	**23,359**	**22,396**
Current liabilities	**2,420**	**3,806**	**2,158**	**2,094**	**2,009**	**1,924**	**1,734**	**734**
Noncurrent liabilities	**6,008**	**5,667**	**6,692**	**6,092**	**1,937**	**1,837**	**1,087**	**399**
Minority interest in subsidiaries	**-**	**265**	**265**	**265**	**265**	**265**	**265**	**265**
Shareholder equity	**11,736**	**14,124**	**14,500**	**15,379**	**16,740**	**18,850**	**20,538**	**21,263**
Total liabilities and equity	**20,164**	**23,597**	**23,349**	**23,565**	**20,686**	**22,611**	**23,359**	**22,396**
Cash flow statement								
Net profit before minorities	2,417	2,173	1,483	879	1,361	2,110	1,688	725
CF generated from operating activities	**2,766**	**4,455**	**1,211**	**1,213**	**4,548**	**7,343**	**5,836**	**1,382**
CF generated from investing activities	**(4,971)**	**(3,942)**	**(561)**	**(395)**	**(10)**	**(10)**	**(10)**	**(10)**
CF generated from financing activities	**(426)**	**990**	**(1,685)**	**(600)**	**(4,155)**	**(100)**	**(750)**	**(1,688)**
Net addition (deduction) in cash	(2,630)	1,507	(1,035)	218	383	7,233	5,076	(316)
Cash at beginning of fiscal year	3,347	717	2,223	1,189	1,407	1,790	9,023	14,099
Cash at end of fiscal year	717	2,224	1,189	1,407	1,790	9,023	14,099	13,783
Key ratios								
Revenue growth		-3%	-24%	-26%	29%	49%	-26%	-69%
Net profit growth		-10%	-31%	-40%	55%	55%	-20%	-57%
Debt/equity	65%	59%	53%	46%	17%	15%	10%	2%
Net debt	6,919	6,131	6,491	5,672	1,134	(6,199)	(12,025)	(13,397)
Net debt/equity	59%	43%	45%	37%	7%	-33%	-59%	-63%
Current ratio	7.5	5.4	9.4	9.6	8.6	10.0	11.5	26.0
Average ROE		16%	10%	6%	8%	12%	9%	3%
Average ROIC		11%	7%	4%	7%	11%	8%	3%
P/B		0.7x	0.7x	0.6x	0.6x	0.5x	0.5x	0.4x
P/NAV			0.3x	0.3x	0.3x			
P/E		4.4x	6.4x	10.6x	6.8x	4.4x	5.5x	12.8x
Dividend yield		0%	12%	0%	0%	0%	0%	0%

Source: AlembicHC

Revising forecasts

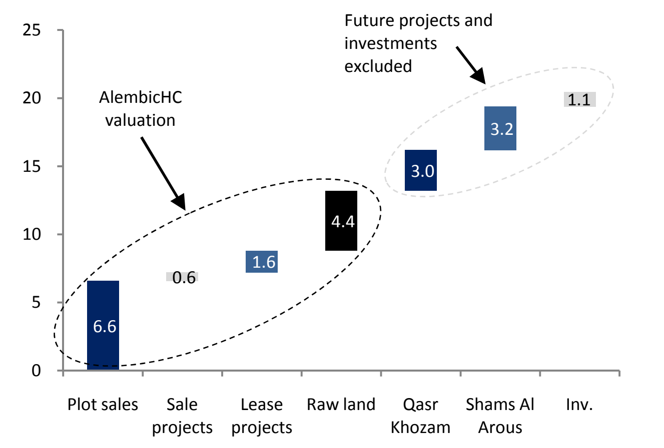
Dar Al Arkan estimate revisions (SARm)

	2011e				2012e				2013e			
	New	Old	% Δ	Cons.	New	Old	% Δ	Cons.	New	Old	% Δ	Cons.
Revenue	3,084	4,449	-31%	5,522	3,979	6,328	-37%	7,767	5,931	8,565	-31%	9,568
Gross profit	1,245	2,021	-38%		1,696	2,821	-40%		2,434	3,654	-33%	
GPM	40%	45%			43%	45%			41%	43%		
Net profit	879	1,598	-45%	1,988	1,361	2,118	-36%	2,636	2,110	3,242	-35%	3,506

Source: AlembicHC, Bloomberg consensus

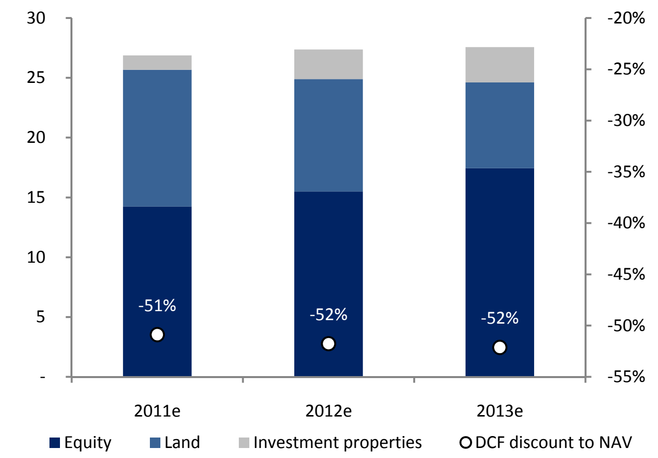
Valuation: Cut TP to SAR13.2 but maintain OW

Dar Al Arkan valuation breakdown (SAR/share)



Source: AlembicHC

Dar Al Arkan NAV breakdown (SAR/share)



Source: AlembicHC

To value real estate companies, we use a combination of DCF analysis and land valuation. Where a final master plan is available, we use a sum of the parts DCF. Otherwise, we rely on land valuation only. For Dar Al Arkan, we value all current projects under development using a DCF. Also, to be conservative we no longer include raw land in our model, but add it on top of our DCF at cost. Additionally, expected weaker land sales are likely to force the company to slow down construction work to be able to meet its debt obligations (cSAR5bn by 2012e). For that reason, we exclude Shams Al Riyadh phases 2 and 3 from our numbers. We also exclude investments and future projects (Qasr Khozam and Shams Al Arous). Additionally, to address the higher political uncertainty in Saudi Arabia, we raise our country risk premium 100 bps to 7.5%.

Since Dar Al Arkan's land is recognized at cost on its book, we value it at fair value using the residual method. We assume a developer margin of 20% of revenue and work backwards to the value of the land based on prevailing property market prices and costs. We also revalue the company's rental business, which is recognized at cost. To value investment properties, we use a normalized capitalization rate of 7%. To calculate net operating income, we apply a 70% blended margin for residential, retail, and office.

AlembicHC

Al Akaria

Neutral

- **Rentals unlikely to be impacted materially by the prevailing political uncertainty; however, recent yield compression implies that capital appreciation is outpacing rental growth**
- **If stability is maintained, DAAR is better positioned to benefit from the recently announced SAR70bn recapitalization of credit agencies and the SAR250bn budget to build 500,000 homes, in our view**
- **We raise our country risk premium for Saudi Arabia 100 bps to 7.5% and cut our TP for Al Akaria to SAR25.9/share from SAR27.8/share but maintain our Neutral rating**

Al Akaria is a defensive play on the underlying demand story in Saudi Arabia, but at current levels the rental portfolio appears fully priced in. While we continue to like Al Akaria's REIT-like business model and its exposure to the rental market through largely operational assets with stable occupancy levels and hence recurring income streams, we estimate that this is already being discounted by the market. At these levels, the upside lies in the company's raw land bank, which has been sitting idle on the company's book for years. As such, we feel that without a coherent plan to monetize this land, the market is unlikely to give it any value.

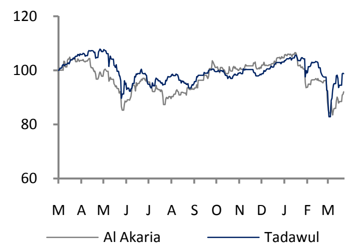
If stability is maintained, Dar Al Arkan is better positioned to benefit from the recently announced government initiatives to stimulate the sector, in our view. The recently announced SAR70bn capital injection into the REDF and the Saudi Credit & Savings Bank is positive for the sector as it is likely to stimulate demand. It also is expected to expedite the loan approval process, which previously had an average waiting period of 18 years due to pent-up demand. Additionally, the raising of the loan ceiling to SAR500,000 from SAR300,000 should enhance affordability. We estimate that the funds could conservatively finance c140,000 homes, not factoring in the redistribution of loan payments. Given that REDF loans are typically used for plot purchases, Dar Al Arkan stands to benefit significantly if political stability is maintained, in our view. Also, the SAR250bn budget to build an additional 500,000 homes is likely to boost land demand/valuations further.

We cut our TP to SAR25.9 from SAR27.8 but maintain our Neutral rating. Since the rental market in Saudi Arabia is unlikely to be impacted materially by the prevailing political uncertainty, we maintain our forecasts for Al Akaria. We raise our country risk premium for Saudi Arabia 100 bps to 7.5%, however, to reflect higher political risk. We use a DCF to value Al Akaria's rental portfolio and sale projects. To be conservative, we exclude the company's investments and raw land bank as we believe they are unlikely to be monetized in the medium term.

Target price (SAR)	**13.2**
Current price (SAR)	8.6
Potential return	53%
Bloomberg	SRECO AB
Reuters	4020.SE
Mcap (SARm)	2,748
Mcap (USDm)	733
Free float	35.5%
Daily volume (USDm)	1.4
Foreign own. limit	N/A
Foreign ownership	N/A

Note: All prices as of 22 March 2011

Price performance



AlembicHC

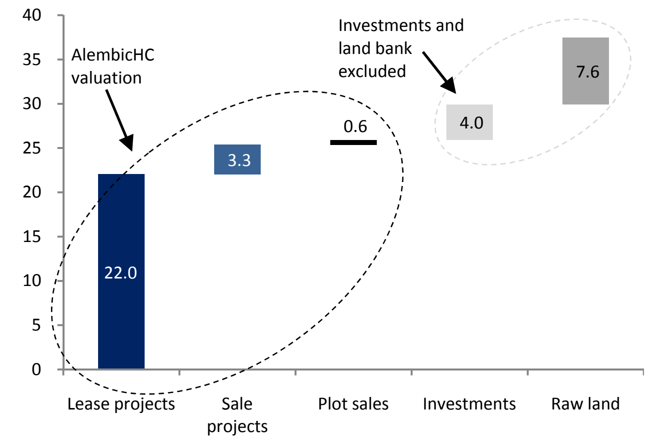
Al Akaria financial statements and ratios (SARm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**225**	**171**	**432**	**250**	**294**	**922**	**1,922**	**3,356**
Costs	**(80)**	**(43)**	**(144)**	**(75)**	**(88)**	**(453)**	**(1,064)**	**(1,968)**
Gross profit	**145**	**128**	**288**	**175**	**206**	**469**	**858**	**1,389**
Margin	*64%*	*75%*	*67%*	*70%*	*70%*	*51%*	*45%*	*41%*
Operating expenses	**(34)**	**(36)**	**(52)**	**(63)**	**(72)**	**(147)**	**(267)**	**(439)**
EBIT	**110**	**92**	**236**	**112**	**134**	**322**	**591**	**950**
Margin	*49%*	*54%*	*55%*	*45%*	*45%*	*35%*	*31%*	*28%*
Profit before taxes	**137**	**115**	**210**	**132**	**126**	**296**	**557**	**926**
Income tax	(20)	(20)	(17)	(16)	(16)	(19)	(25)	(37)
Net profit (loss)	**117**	**95**	**194**	**116**	**109**	**277**	**532**	**889**
Margin	*52%*	*56%*	*45%*	*46%*	*37%*	*30%*	*28%*	*26%*
Basic EPS	**1.0**	**0.8**	**1.6**	**1.0**	**0.9**	**2.3**	**4.4**	**7.4**
DPS	0.7	0.7	1.5	0.2	0.2	0.6	1.1	1.9
Payout ratio	71%	87%	92%	25%	25%	25%	25%	25%
EBITDA	**124**	**101**	**236**	**145**	**170**	**358**	**627**	**986**
Margin	*55%*	*59%*	*55%*	*58%*	*58%*	*39%*	*33%*	*29%*
Balance sheet								
Cash and cash equivalents	749	644	822	512	167	72	845	3,447
Current assets	**986**	**887**	**1,056**	**969**	**1,603**	**2,253**	**2,716**	**3,458**
Land	750	785	907	907	907	907	907	907
Investment properties	663	641	1,021	1,145	1,211	1,175	1,140	1,106
Noncurrent assets	**2,205**	**2,275**	**2,413**	**2,540**	**2,610**	**2,587**	**2,580**	**2,594**
Total assets	**3,191**	**3,163**	**3,469**	**3,509**	**4,214**	**4,841**	**5,296**	**6,052**
Current liabilities	**105**	**93**	**266**	**136**	**60**	**37**	**29**	**29**
Noncurrent liabilities	**11**	**12**	**11**	**111**	**811**	**1,211**	**1,211**	**1,211**
Shareholder equity	**3,074**	**3,058**	**3,192**	**3,263**	**3,343**	**3,593**	**4,056**	**4,812**
Total liabilities and equity	**3,191**	**3,163**	**3,469**	**3,509**	**4,214**	**4,841**	**5,296**	**6,052**
Cash flow statement								
Net profit before minorities	137	60	180	116	109	277	532	889
CF generated from operating activities	**119**	**66**	**343**	**(205)**	**(909)**	**(454)**	**871**	**2,786**
CF generated from investing activities	**(554)**	**647**	**21**	**(160)**	**(107)**	**(14)**	**(29)**	**(50)**
CF generated from financing activities	**(122)**	**(122)**	**(86)**	**55**	**671**	**373**	**(69)**	**(133)**
Net addition (deduction) in cash	**(558)**	**591**	**178**	**(310)**	**(345)**	**(95)**	**773**	**2,603**
Cash at beginning of fiscal year	619	61	644	822	512	167	72	845
Cash at end of fiscal year	61	652	822	512	167	72	845	3,447
Key ratios								
Revenue growth		-24%	152%	-42%	17%	214%	109%	75%
Net profit growth		-19%	104%	-40%	-6%	154%	92%	67%
Debt/equity	0%	0%	0%	3%	24%	33%	30%	25%
Net debt	(749)	(644)	(822)	(412)	633	1,128	355	(2,247)
Net debt/equity	-24%	-21%	-26%	-13%	19%	31%	9%	-47%
Current ratio	9.35	9.57	3.97	7.15	26.93	61.60	94.02	119.70
Average ROE		4%	3%	6%	4%	3%	7%	12%
Average ROIC		4%	3%	6%	3%	2%	6%	9%
P/B		0.9x	0.9x	0.9x	0.8x	0.8x	0.8x	0.7x
P/NAV			0.4x	0.4x	0.4x			
P/E		28.9x	14.2x	23.7x	25.2x	9.9x	5.2x	3.1x
Dividend yield		3%	6%	1%	1%	3%	5%	8%

Source: AlembicHC

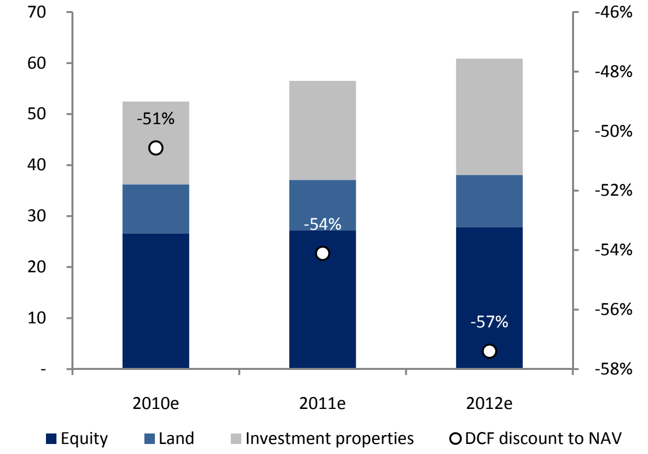
Valuation: Cut TP to SAR25.9 but maintain Neutral rating

Al Akaria valuation breakdown (SAR/share)



Source: AlembicHC

Al Akaria NAV breakdown (SAR/share)



Source: AlembicHC

To value real estate companies, we use a combination of DCF analysis and land valuation. Where a final master plan is available, we use a sum of the parts DCF. Otherwise, we rely on land valuation only. For Al Akaria, we value all current projects under development using a DCF. To be conservative, we exclude raw land and investments from our model. Additionally, to address the higher political uncertainty in Saudi Arabia, we increase our country risk premium 100 bps to 7.5%.

Since Al Akaria's land is recognized at cost on its book, we value it at fair value using the residual method. We assume a developer margin of 20% of revenue and work backwards to the value of the land based on prevailing property market prices and costs. We also revalue the company's rental business, which is recognized at cost. To value investment properties, we use a normalized capitalization rate of 7%. To calculate net operating income, we apply a 70% blended margin for residential, retail, and office.

Mabanee

- **Footfall up 14% y-o-y and phase 3 seeing overwhelming interest of 5 times available space; phase 4 municipal approval a near-term catalyst**
- **Given the higher standard of living and relatively more democratic institutions in Kuwait, we feel the probability of political unrest is low**
- **Recent weakness provides buying opportunity; maintain TP at KWd1,100/share and Overweight rating**

While further political unrest in Kuwait is possible, we think it unlikely to be serious given the higher standard of living and relatively more democratic institutions. On top of this, taking into account the shortage of quality retail space in Kuwait and the long-term nature of the lease contract, we feel the market is overstating the risk in the case of Mabanee. As such, Mabanee is among our preferred picks in the current environment.

The Avenues phase 3 is progressing ahead of schedule with c45% completion achieved so far. According to the company, this is likely to result in cost savings of c6%–8%. The company now expects a portion of phase 3 to be handed over in 2011 and the rest in 1Q12. We understand that 3,000 expressions of interest have been received for 600 store spaces in phase 3, underscoring the appeal of The Avenues. Footfall continues to record strong growth, rising 14% y-o-y, which is likely to help maintain similarly high occupancy levels (c95%) in phase 3. We assume an 85% normalized level.

Phase 4 municipal approval, expected in 1Q10, likely to act as a catalyst. To be conservative, for the time being we exclude phase 4 from our valuation as it is still in the design phase, in line with our approach for MENA real estate. As such, the approval and commencement of construction on phase 4 could act as a catalyst, adding KWd290/share to our valuation, on our estimates.

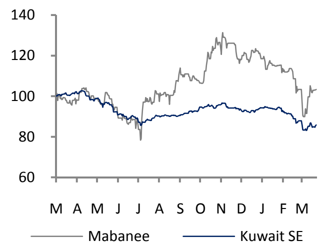
We view recent weakness as a buying opportunity; we maintain our TP at KWd1,100/share and our Overweight rating. We value Mabanee at a 5% discount to our KWd1,150/share NAV for 2013e, the year we expect occupancy levels to normalize. Our NAV implies a per sqm price of USD7,500 for The Avenues versus our USD10,000/sqm valuation of Emaar's Dubai Mall, despite comparable footfall/sqm. **Unlike other Kuwaiti corporates, Mabanee, with a limited investment portfolio, offers a pure play on core operations, rather than indirect exposure to the KSE.**

Overweight

Target price (KWd)	**1,100**
Current price (KWd)	700
Potential return	57%
Bloomberg	MABANEE KK
Reuters	MABK.KW
Mcap (KWdm)	353
Mcap (USDm)	1,277
Free float	37.5%
Daily value (USDm)	1.6
Foreign own. limit	100%

Note: All prices as of 22 March 2011

Price performance



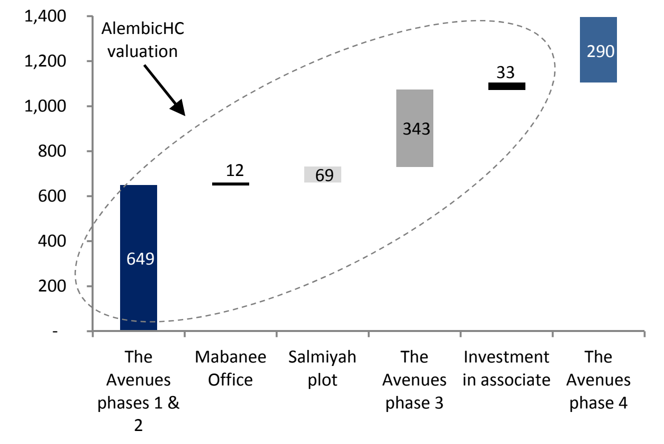
Mabanee financial statements and ratios (KWD '000)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**36,312**	**34,489**	**35,604**	**35,901**	**70,359**	**64,457**	**67,634**	**67,634**
Gross profit	**30,724**	**27,547**	**28,167**	**28,855**	**60,476**	**51,806**	**54,360**	**54,360**
Percent of sales	*85%*	*80%*	*79%*	*80%*	*86%*	*80%*	*80%*	*80%*
EBIT	**12,310**	**21,480**	**21,912**	**22,130**	**49,314**	**41,294**	**43,590**	**43,648**
Percent of sales	*34%*	*62%*	*62%*	*62%*	*70%*	*64%*	*64%*	*65%*
Profit before taxes	**6,467**	**16,074**	**19,522**	**20,159**	**47,254**	**39,952**	**42,936**	**43,781**
Net income before minorities	6,225	15,310	18,670	19,201	45,008	38,054	40,896	41,701
Net income	**6,225**	**15,310**	**18,670**	**19,201**	**45,008**	**38,054**	**40,896**	**41,701**
EBITDA	**25,794**	**21,967**	**24,216**	**24,156**	**51,295**	**43,233**	**45,486**	**45,503**
Margin	*71%*	*64%*	*68%*	*67%*	*73%*	*67%*	*67%*	*67%*
EPS (KWd)	**14.9**	**33.3**	**37.0**	**38.0**	**89.1**	**75.4**	**81.0**	**82.6**
DPS (KWd)	0.0	0.0	0.0	10.0	10.0	10.0	10.0	0.0
Balance sheet								
Cash	24,017	10,172	5,107	10,234	52,447	89,421	129,172	174,721
Accounts receivable	6,489	4,258	6,738	3,640	-	-	-	-
Current assets	**31,268**	**14,430**	**11,845**	**13,874**	**52,447**	**89,421**	**129,172**	**174,721**
Investment properties	157,122	169,797	211,328	274,776	270,670	266,625	262,641	258,716
Noncurrent assets	**199,550**	**206,183**	**244,576**	**298,380**	**288,638**	**284,669**	**280,763**	**276,915**
Total assets	**230,819**	**220,613**	**256,421**	**312,255**	**341,086**	**374,089**	**409,935**	**451,636**
Current liabilities	**83,036**	**79,179**	**33,918**	**25,127**	**14,000**	**14,000**	**14,000**	**14,000**
Noncurrent liabilities	**50,175**	**30,039**	**95,520**	**140,520**	**140,520**	**140,520**	**140,520**	**140,520**
Shareholder equity	**97,608**	**111,394**	**126,983**	**141,134**	**181,093**	**214,096**	**249,942**	**291,643**
Liabilities and equity	**230,819**	**220,613**	**256,421**	**306,781**	**335,612**	**368,616**	**404,462**	**446,163**
Cash flow statement								
Net profit before minorities	6,519	16,144	19,592	19,201	45,008	38,054	40,896	41,701
CF generated from operating activities	**15,577**	**21,957**	**23,657**	**26,988**	**47,532**	**42,120**	**44,903**	**45,650**
CF generated from investing activities	**(29,379)**	**(10,186)**	**(37,307)**	**(67,284)**	**(268)**	**(97)**	**(101)**	**(101)**
CF generated from financing activities	**36,970**	**(27,189)**	**13,628**	**39,950**	**(5,050)**	**(5,050)**	**(5,050)**	**-**
Net addition (deduction) in cash	23,169	(15,418)	(21)	(347)	42,213	36,973	39,752	45,548
Cash at beginning of fiscal year	(2,623)	20,547	10,172	5,107	4,760	46,974	83,947	123,699
Cash at end of fiscal year	20,547	10,172	5,107	4,760	46,974	83,947	123,699	169,247
Key ratios								
Revenue growth		-5%	3%	1%	96%	-8%	5%	0%
Net profit growth		146%	22%	3%	134%	-15%	7%	2%
Debt/equity	110%	74%	79%	103%	80%	68%	58%	50%
Net debt	82,946	71,737	94,876	134,749	92,536	55,562	15,811	(29,738)
Net debt/equity	85%	64%	75%	95%	51%	26%	6%	-10%
Current ratio	0.38	0.18	0.35	0.55	3.75	6.39	9.23	12.48
Average ROE		15%	16%	14%	28%	19%	18%	15%
Average ROIC		11%	11%	8%	15%	12%	11%	10%
P/B		3.2x	2.9x	2.5x	2.0x	1.7x	1.4x	1.2x
P/NAV			1.0x	0.9x	0.7x	0.6x		
P/E		21.0x	18.9x	18.4x	7.9x	9.3x	8.6x	8.5x
Dividend yield		0%	0%	1%	1%	1%	1%	0%

Source: AlembicHC

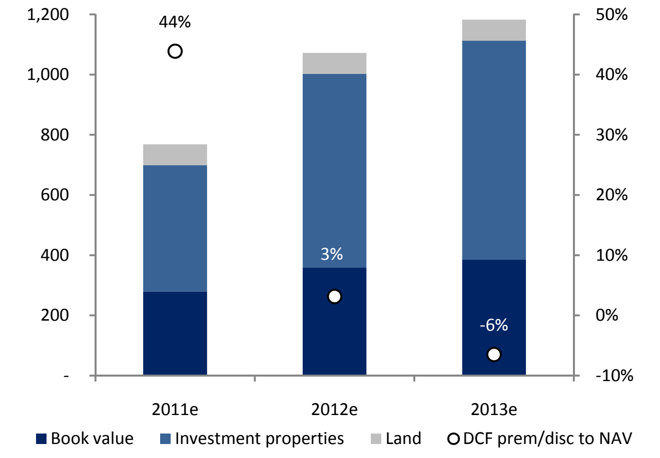
Valuation: Maintain TP at KWd1,100/share and Overweight rating

Mabanee DCF breakdown (KWd/share)



Source: AlembicHC

Mabanee NAV breakdown (KWd/share)



Source: AlembicHC

We value real estate companies using a combination of DCF and land valuation, and cross check against NAV. Where a final master plan is available, we use a SOTP DCF. Otherwise, we rely on land valuation only. We value Mabanee using a DCF, its raw land at fair value, and investment in associates at cost added on top. For the time being, we exclude The Avenues phase 4 until further details are available and construction breaks ground.

Since Mabanee recognizes its investment properties and land at cost on its book, we revalue them to reflect market value. For the fair value of the land, we rely on the latest independent valuation, which the company indicated was KWD38m at the end of 2009 (versus carrying cost of KWD3m). We understand the plot is located at a very prime location in Salmiyah opposite the American University in Kuwait City. To value the company's investment properties, we use a capitalization rate of 8% based on historic yield trends. To compute net operating income, we assume a margin of 80%, in line with historic trends.

AlembicHC

Egyptian real estate sector

- **Uncertain political environment along with ambiguous land allocation procedures to prolong uncertainty**
- **We recently increased our land bank discounts to reflect lower visibility given pending investigations, which are likely to result in a longer land monetization horizon as well as a weaker price outlook**
- **We maintain our TPs and recommendations across the sector**

SODIC	**Neutral**
Target price (EGP)	94.7
Potential return	18%
Heliopolis Housing	**Neutral**
Target price (EGP)	21.4
Potential return	17%
Nasr City Housing	**Neutral**
Target price (EGP)	26.4
Potential return	11%
ODH	**Neutral**
Target price (CHF)	50.8
Target price (EGP)	16
Potential return	20%
ERC	**Underweight**
Target price (EGP)	1.49
Potential return	-2%
TMG	**Underweight**
Target price (EGP)	6.2
Potential return	-4%
PHD	**Underweight**
Target price (EGP)	4.6
Potential return	-5%

Note: Returns are based on prices as of 27 January 2011

Recent events have highlighted the real estate sector's firm links to the political environment in Egypt. Following the regime change, previous land deals are likely to come under scrutiny to essentially examine 2 aspects: monetary terms and, more importantly, the basis of allocation, in our view. In any case, the ongoing investigations and the current legal framework, as interpreted in the TMG land dispute case last year, remain ambiguous, making the overall regulatory environment of the sector uncertain.

Prevailing uncertainty to lead to weakness in property prices, which are likely to be additionally burdened by forthcoming supply and affordability issues, as highlighted in our note *Look Both Ways*, published 22 November 2010. While the companies' sales backlogs, which peaked in 2007–08, are unlikely to be impacted materially given their maturity profiles, we expect the momentum of new sales and deliveries to slow down. We understand that developers, including Nasr City Housing and PHD, are in the process of seeking approval for project launches/construction from the authorities, which is likely to be further delayed. Additionally, continued inflation might result in higher costs, eroding profit margins. Also, protracted political instability is bound to adversely impact property prices. In this scenario, more recently launched developments become more prone to cancellation and in turn to deterioration in land bank valuations. **Some comfort could be drawn from the sector's relatively low leverage of 15%–20%, which should shield it from falling into a debt trap in the near term.**

We recently downgraded the sector and cut our TPs 33% on average. Considering the favorable demographic dynamics and the housing shortage, we continue to believe in the long-term demand story, but given the heightened uncertainty, especially for companies with visible links to the old regime and pending legal disputes, we expect valuations to remain depressed. Our recent TP cuts reflect an average increase of 250 bps in the cost of equity, a 20–30 pp increase in our land discounts, and cancellation of future projects. Our recent estimate revisions reflect lower hotel revenues, further delays in land sales, and lower margins due to higher inflation. Consequently, we maintain our Underweight recommendations for TMG, PHD, and ERC, and maintain our Neutral ratings for SODIC, Nasr City Housing, ODH, and Heliopolis Housing.

Analyzing the moving parts

- **Land bank valuation, the biggest valuation driver for Egypt real estate companies, is now exposed to several risks**

- **Slow presales and cancellations might have ripple effects and impact liquidity positions if current situation continues**

- **We maintain our recommendations across the sector**

The continuation of the uncertain regulatory environment is clouding the real estate outlook in Egypt. We analyze 3 key aspects in the sector: (1) expected uncertainty regarding land bank values, (2) the impact of existing presales/future sales, and (3) the overall impact on cash flows. As summarized in the table on the following page, while we expect all the companies to be affected by higher discounts to the land bank, the impacts on revenues and earnings are unique to each company. While lower sector leverage should ensure the companies' liquidity positions, higher than expected presales cancellations or additional land payouts could result in tight liquidity for the sector.

Unlike other players in the region, prior to the latest events the Egyptian real estate companies enjoyed relatively higher valuations, which implied that the market was assigning value to the developers' land banks, on our estimates. Going forward, the sector valuation is likely to become subject to a new policy framework, in our opinion. Given the advanced stages of many projects, complete reversal of earlier land allocations might not be a feasible solution; however, the possibility of additional payments or repossession of undeveloped land banks cannot be ruled out.

Second home players, like ODH and ERC, are likely be impacted by a weaker tourism outlook, lower appetite for second homes, and, if the situation remains fragile, cancellations of presales. Notably, Palm Hills' impressive performance in the second home market with presales of EGP1.5bn in 2010 (13% of current presales) is likely to leave it more exposed to cancellations, reminiscent of the 2009 crisis, in our view. ODH, which targets non-Egyptians for its flagship El Gouna project, is also likely to see demand weaken for its resort and hotels.

A bird's eye view

Company	Representation in the previous government	Land bank allocation and pricing issues	Impact on existing presales and new sales	Hotel and tourism exposure	Impact on cash flow
TMG	**Yes**, the ex-chairman was a senior ruling party member and the present chairman is a member of the National Democratic Party	Land was allocated directly and consideration was paid in kind; increase land discount to 85%	Most of the Madinaty sales achieved by 2008 should be safe; some cancellations are expected in later years' sales	Hotels make up c30% of valuation; expect a drop in occupancy	Cancellations, defaults, and additional payments could stretch cash flow position
SODIC	**Yes**, the current nonexecutive chairman (linked to the ex-president's family) owns only 649 shares, 0.0017% of the company	Has received direct allocations but they appear to have been paid for at prevailing market prices; increase land discount 20 pp to 70%	Overall, existing presales should be immune; new projects likely to be delayed	No direct exposure to tourism	No impact expected with net cash position of EGP0.5bn
PHD	**Yes**, through MMID, the holding company	Direct allocations and acquisitions of companies; increase land discount to 85%	Second home sales and Botanica remain exposed; new launches to be stopped until land disputes are settled	Little exposure to hotels through Macor; high exposure to second homes	Land liabilities remain a crucial obligation; cancellations, defaults, and additional payments could stretch cash flow position
ODH	**No**, but some transactions are under review	Yes, direct allocations; foreign exposure to dilute the Egypt effect; increase discount to 70%	El Gouna might face sluggish sales and some cancellations	Yes, hotel and property businesses are linked	Hotel weakness might affect project funding, but significant impact is not expected
Heliopolis Housing	**No**, except that the company is majority owned by the government	No effect as it is a government owned company; increase land discount 20 pp to 70%	No material impact expected	No direct exposure to tourism	No material impact expected
Nasr City Housing	**No**, government owns 15% of the company	No effect as it was previously owned by the government; increase land discount 20 pp to 70%	Nasr Garden project is likely to be delayed further	No direct exposure to tourism	Some delays, but not likely to threaten liquidity
ERC	**Yes**, the ex-chairman is a member of the National Democratic Party	Yes, direct allocations; increase land discount to 85%	Marina sales might slow down and face some cancellations	Indirect exposure to tourism through land sales for resorts	Adequate liquidity available; any additional payment would affect liquidity position

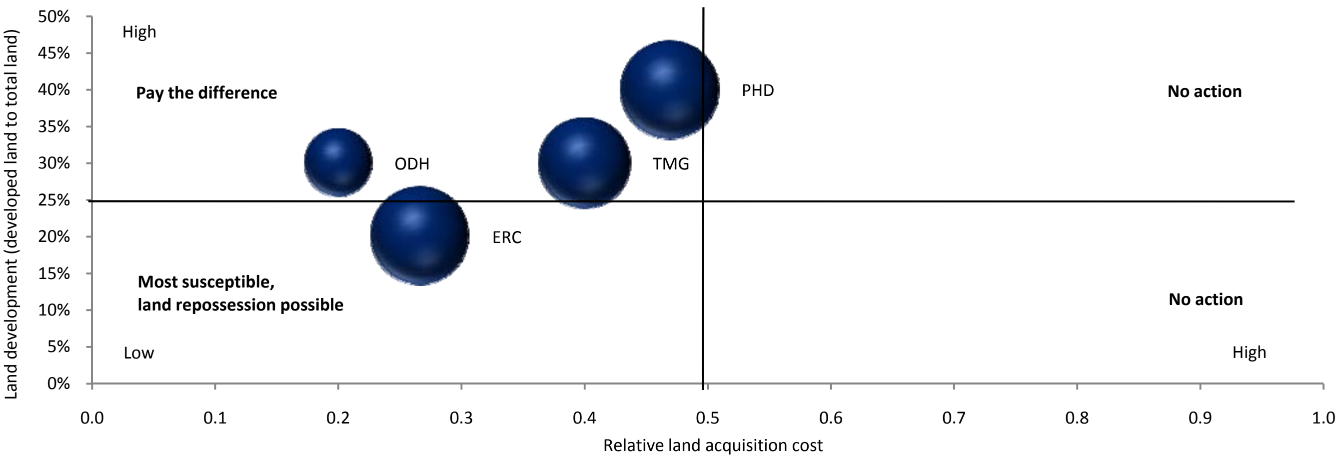
Source: AlembicHC, company data

Land valuations to deteriorate

Considering the new econo-political environment in Egypt, the risk related to the companies' land banks cannot be ignored in cases where the basis of allocation is likely to come into question. With many projects in advanced stages of development, the probability of a total reversal remains remote. However, additional payments or partial repossession of undeveloped land cannot be ruled out, in our view. As the chart below highlights, we expect largely undeveloped land acquired at preferential prices to remain most exposed to possible repossession, whereas for developed land the preferred solution could be additional payments considering the public interest involved. Land secured at prevailing prices is likely to be unaffected.

As shown in the table on pages 63 and 64, our land bank acquisition analysis indicates that although most of the Cairo based land banks were acquired at prices close to those prevailing in the market, the acquisition of second home land on the North Coast and the Red Sea occurred at nominal prices. However, it is important to note that land bank risk still remains, as our table captures only the latest transactions due to limited information, ignoring previous ones, the allocations of which might have taken place at substantial discounts. Our biggest concern, however, is the grounds of land allocation, especially given that the land disputes related to previous allocations have yet to be settled. Having said that, this does not apply to all developers. For example, public sector developers like Heliopolis Housing and Nasr City are unlikely to be affected by land disputes, given the roots of the companies as public sector enterprises. Also, land acquisition that occurred in accordance with the law mandating allocations at prevailing prices and through an auction should be safe, we believe.

Land bank overview[1]



Source: AlembicHC
Note: (1) Size of bubble represents ratio of disputed land to total land

We recently increased our land discount 10–35 pp

We previously used a land discount of 50% to broadly factor in liquidity risk. However, following the recent developments, we increased the discount 10–35 pp on a case by case basis, considering various parameters as highlighted in the table below. However, we capped the discount at 85% for ERC and Heliopolis, since we were already applying a 75% discount to fair value. Our additional discount framework covers multiple risk factors including price risk and operations risk. Based on this framework, we increased the discounts 35 pp for TMG and PHD (the biggest increase) but only 15 pp for Heliopolis and Nasr City as their risks remain limited to price and liquidity.

We recently increased discounts to land bank valuations based on the profile of each company

Discount factor	TMG	SODIC	PHD	ODH	Nasr City Housing	Heliopolis Housing	ERC
Impact on land valuation of prices and costs (price risk)	15%	10%	15%	10%	10%	10%	10%
Prolonged land bank unlocking/cash flows (liquidity risk)	5%	5%	10%	5%	5%	5%	5%
Direct land allocation (legal risk)	5%	-	5%	5%	-	-	5%
Consideration paid in kind (legal risk)	5%	-	-	-	-	-	-
Management/promoter links (operations risk)	5%	5%	5%	-	-	-	5%
Overall increase in discount factor	**35%**	**20%**	**35%**	**20%**	**15%**	**15%**	**25%**

Source: AlembicHC

Our higher discount for price risk (10 pp) is due to the fact that to value the land bank, we use residual land valuation, which determines land values as a function of property prices, construction costs, and an assumed developer's margin. Since land prices are geared to property prices and development costs, a decline in property prices and/or cost inflation would have an amplified impact on land valuations. Also, current uncertainty and higher yields are likely to push the developers' margins even higher, having negative implications for land values. As shown in the tables below and on the next page, a 5% increase in construction costs and a 5% fall in property prices would reduce land bank valuations for the mid-high segment (the target segment for our coverage) 18%.

Land value: Impact of a 5% increase in construction costs and a 5% fall in property prices (EGP)

	High		Mid-high		Mid		Budget	
Property price/sqm	10,000	9,500	6,000	5,700	3,500	3,325	2,000	1,900
Development cost (finished)	(5,000)	(5,250)	(2,500)	(2,625)	(1,750)	(1,838)	(1,000)	(1,050)
Profit margin	5,000	4,250	3,500	3,075	1,750	1,488	1,000	850
Developer's margin @ 25%	(2,500)	(2,375)	(1,500)	(1,425)	(875)	(831)	(500)	(475)
Land valuation/sqm @ FAR of 100%	**2,500**	**1,875**	**2,000**	**1,650**	**875**	**656**	**500**	**375**
Change in land valuation		**-25%**		**-18%**		**-25%**		**-25%**

Source: AlembicHC

Sensitivity of land bank valuations to property prices and construction costs

		Δ land bank valuation				
		-5%	Base	+5%	+10%	+15%
Δ property prices	-15%	-28%	-34%	-40%	-46%	-53%
	-10%	-16%	-23%	-29%	-35%	-41%
	-5%	-5%	-11%	-18%	-24%	-30%
	Base	6%	0%	-6%	-13%	-19%
	+5%	18%	11%	5%	-1%	-8%

Source: AlembicHC

Impact on each company's valuation

Company	Land value/share (new)(1)	Land value/share (old)(1)	% change	Land discount (new)	Land discount (old)	Change
TMG	1.1	3.4	-68%	85%	50%	35%
SODIC	24.2	42.5	-43%	70%	50%	20%
PHD	1.6	4.3	-63%	85%	50%	35%
ODH	21	36	-42%	70%	50%	20%
ERC	1.1	1.9	-42%	85%	75%	10%
Nasr City Housing	22	34	-35%	72%	57%	15%
Heliopolis Housing	18	23	-22%	85%	75%	10%

Source: AlembicHC
Note: (1) Per share data in EGP, except ODH data in CHF

What if additional land payments are to be made?

As we discussed earlier, considering the advanced stage of development of many projects, the probability of a total reversal of land allocations remains remote. However, we do not rule out additional payments or partial repossession of undeveloped land. To analyze the potential cash payments, we divide each developer's land bank into 2 categories: land susceptible to additional payments and safe land. We base our analysis on each company's current land bank, as it is the only land that could be subject to additional payments. On the positive side, additional payments would provide a floor to land bank valuations as far as value unlocking is concerned, and would lower discounts.

Due to a lack of disclosures, land allocation in Cairo remains unclear to a certain extent. While most of the companies appear to have acquired their land at fair prices, the deals are still subject to major risks if they involved (1) direct allocation by the government or (2) land acquisition from an intermediary company, as it might have secured the land at preferential terms. Considering the risks, we compute the additional payments based on the current and original prices.

Most of the land bank on the Red Sea was granted at USD1/sqm during the 1990s, but the latest auction data point to a price of USD5/sqm. The fact that land values have significantly underperformed inflation might strengthen the developers' stand points regarding fair pricing of the land. However, to be conservative, we base our additional payments on the difference between the current and original acquisition prices. While land on the North Coast has not been subject to any litigation so far, we assume additional payments of 15%.

As shown in the table below, if we conservatively benchmark additional land payment prices as amounting to the difference between current land prices and the prices paid, then TMG and PHD remain most exposed to the possibility of additional payments. For the analysis, we assume current base prices of EGP750/sqm for Cairo land, EGP100/sqm for Red Sea land, and EGP80/sqm for North Coast land.

Potential additional land payments and valuation impacts

	Total land bank (m sqm)			Disputed land bank (m sqm)			Prices paid (EGP/sqm)		Current prices (EGP/sqm)		Maximum liability/share (EGP/share)		
Company	**Cairo**	**Outside Cairo**	**Total**	**Cairo**	**Outside Cairo**	**Total**	**Cairo**	**Outside Cairo**	**Cairo**	**Outside Cairo**	**Cairo**	**Outside Cairo**	**Total**
TMG	39.1	-	39.1	33.6	-	33.6	300.0	-	750.0	-	7.6	-	7.6
SODIC	3.6	-	3.6	-	-	-	315.5	-	750.0		-	-	-
PHD	14.7	20.0	34.7	14.7	20.0	34.7	351.9	80.8	750.0	100.0	5.6	0.4	6.0
ODH	10.5	67.5	78.0		36.8	36.8		0.9		4.5	-	4.7	4.7
ERC	-	41.0	41.0	-	41.0	41.0		8.0		30.0	-	0.9	0.9
Nasr City Housing	10.0	-	10.0	-	-	-	70.0				-	-	-
Heliopolis Housing	29.0	-	29.0		-	-	100.0	-			-	-	-
Total	**106.9**	**128.5**	**235.4**	**48.3**	**97.8**	**146.1**	**227.5**	**14.9**	**750.0**	**33.6**			

Source: AlembicHC

Market implied land valuations have decreased significantly

We recently cut our land valuations considering the uncertainty regarding the outcome of the land issues. This puts TMG land at a 25% premium to its market implied land valuation, PHD land at a 15% premium, and ERC land at a 3% premium, leading to their Underweight ratings.

To calculate the market implied land bank valuations, we use a relative approach called the Sister Land Approach and then apply a discount to derive our target prices. Our Sister Land Approach allows us to evaluate the market implied land valuation's deviation from its fair value, identifying the most undervalued land portfolios. We calculate the deviation by assuming that the market first values cash, then receivables (i.e. backlog), and then recurring income, which is captured by our DCF. As such, when we deduct the DCF value (including net cash) from the current market share price what remains is the market implied land value.

We then compare the market implied valuation to our fair land valuation to derive the discount applied by the market to each company's land bank. This analysis suggests that the higher the discount, the more undervalued the land. The impact on TP, however, is varied, depending on the proportion of the land component. Accordingly, the lower the land component, the less significant the impact of the discount on the TP.

We approach our recommendation in 2 stages. First we identify existing disparities in discount levels to the fair value of the land bank, and then we assess the overall rerating potential based on land gearing. The first stage identifies underperformers based on the current market environment (i.e. market discount to our fair value), while the second is based on changes in overall sector dynamics.

Market implied land valuations (EGP)

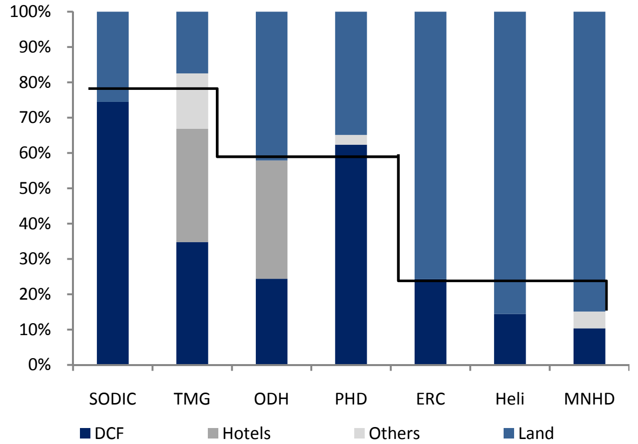
	TMG	SODIC	ODH	ERC	MNHD	PHD	Heliopolis
Current stock price (A)	6.5	80.6	14.1	1.5	24	4.9	18.3
Less: Backlog and hotel valuation/share (as per DCF) (B)	(5.2)	(70.6)	9.1	(0.4)	(3)	(3.0)	3.0
Market implied land valuation/share (A−B)	1.4	10.1	5.0	1.2	21	1.9	15.3
AlembicHC land valuation/share (C)	1.1	24.2	6.6	1.1	22	1.6	17.9
Market (discount) premium to AlembicHC	25%	(58%)	(24%)	3%	(6%)	15%	(14%)
AlembicHC premium (discount) to the market	(20%)	140%	31%	(3%)	6%	(13%)	16%
Outstanding shares (m) (D)	2,013	36	174	1,050	100	1,048	111
Total AlembicHC land value (EGPm) (C∗D)	2,195	2,922	3,726	1,217	2,241	1,949	1,986
Undeveloped land area (m sqm) (E)	27	3	80	29	10	30	29
Market implied land valuation/sqm (A−B)∗D/E	103	122	35	41	213	65	60
AlembicHC land valuation/sqm	82	294	47	40	226	56	69
Market (discount) premium to AlembicHC	25%	(58%)	(24%)	3%	(6%)	15%	(14%)
AlembicHC (discount) premium to market	(20%)	140%	31%	(3%)	6%	(13%)	16%
Undeveloped BUA (m sqm)	14.1	2.3	26.2	17.7	8.0	14.5	14.3
Market implied BUA valuation/sqm	195	158	108	69	264	135	119
AlembicHC BUA valuation/sqm	155	380	142	67	281	117	139
Market (discount) premium to AlembicHC	25%	(58%)	(24%)	3%	(6%)	15%	(14%)

Source: AlembicHC

Our land valuation model: The Sister Land Approach

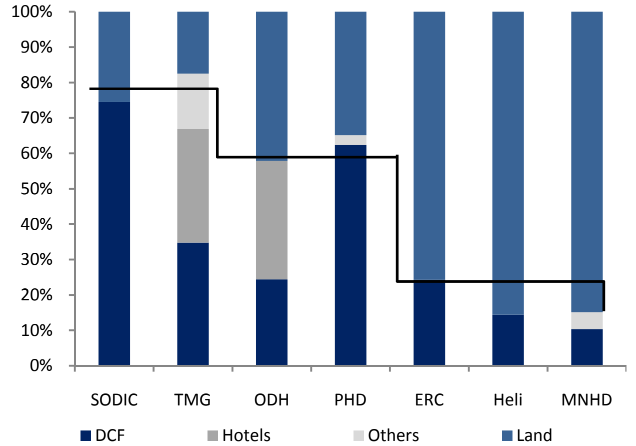
As highlighted in the ‘Land bank analysis’ table on page 59, we place the best land plots associated with existing, operating projects at the top of the pyramid at a base valuation of EGP750/sqm. In this first category, we include TMG’s El Rehab (which we use as the base for our comparative analysis) and Palm Hills’ 6th of October and New Cairo land. In the second category, we include master planned urban land. In this group, we place SODIC’s Westown and Eastown land. To value this land, we apply a discount of up to 20% to the base price to factor in liquidity considerations. The third category reflects urban land/mega land plots under master planning such as TMG’s Madinaty. For this category, we assume discounts of up to 50% to the base valuation. In the fourth category, we include raw urban land, which is generally pending a master plan or remains unutilized. While in some cases this land may be more prime and central relative to the land in the first and second categories, uncertainties relating to design may delay potential rerating. As such, to value land in this category, we broadly assume a 50%–60% discount to the base price. The fifth category consists of master planned land allocated for second home projects. Here we apply a 60%–75% discount to the base valuation to reflect our cautious view on second home demand. Finally, our sixth and least preferred category includes raw land assigned predominately for second homes across various locations in Egypt outside of Cairo including tourist destinations like the Red Sea and North Coast. To value this category of land we apply the highest discount of over 75%.

Valuation breakdown: Mature developers are less land dependent



Source: AlembicHC

TPs imply higher discounts to 2011e NAV for land dependent players



Source: AlembicHC

Land bank analysis

Land	Pyramid preference	Developer	Project	Location	Land bank (m sqm)	Density/ FAR (A)	AlembicHC land valuation (EGP/sqm) (B)	AlembicHC BUA valuation (EGP/sqm) (B)	Land bank discount	Discount range	Discount to TP (C)	Effective land valuation (EGP/sqm) (B∗C)	Density adj valuation (EGP/sqm)	Discount to base price of EGP750/sqm	Discount range
Primary home land, master planned, completed/under construction	1	TMG[1]	El Rehab II	Cairo	4.7	61%	1,500	1,500	0%	Base	80%	300	300	0%	Base
	1	PHD	6th of October	Cairo	5.8	64%	1,000	1,563	4%		75%	250	391	30%	
	1	TMG[1]	Al Rabwa	Cairo	0.8	14%	1,500	1,500	0%		80%	300	300	0%	
	1	PHD	New Cairo	Cairo	2.1	79%	1,200	1,510	1%		75%	300	377	26%	
	1	Heliopolis	Heliopolis	Cairo	2.5	50%	750	1,500	0%		65%	263	525	75%	
Primary home land, master planned, mostly raw land	2	MNHD	Teegan	Cairo	3.8	110%	1,500	1,364	-9%	0%–20%	65%	525	477	59%	0%–20%
	2	SODIC	Westown	Cairo	0.8	160%	2,000	1,250	-17%		70%	600	375	25%	
	2	SODIC	Eastown	Cairo	0.8	120%	1,500	1,250	-17%		70%	450	375	25%	
Primary home land, under master planning, or mega sized	3	TMG[1]	Madinaty	Cairo	33.6	53%	1,000	1,000	-33%	20%–50%	80%	200	200	-33%	20%–50%
	3	Heliopolis	Obour City	Cairo	0.1	50%	500	1,000	-33%		65%	175	350	17%	
	3	SODIC	Kattameya Plaza	Cairo	0.1	120%	1,000	833	-44%		70%	300	250	-17%	
	4	SODIC	Cairo-Alex Road	Cairo	1.3	15%	100	667	-56%		70%	30	200	-33%	
Primary home land, no master plan	4	PHD	Cairo-Alex Rd	Cairo	7.4	80%	500	628	-58%	>50%	75%	125	157	-48%	>50%
	4	MNHD	Km 45	Cairo	5.5	60%	375	625	-58%		90%	38	63	-79%	
	4	Heliopolis	New Cairo land	Cairo	7.1	50%	250	500	-67%		80%	50	100	-67%	
	4	Heliopolis	New Heliopolis City	Cairo	18.8	50%	250	500	-67%		80%	50	100	-67%	
	4	MNHD	6th October	Cairo	0.6	100%	200	200	-87%		65%	70	70	-77%	
Second home land, master planned	5	PHD	Red Sea	Egypt	10.9	50%	300	596	-60%	60%–75%	75%	75	149	-50%	>75%
	5	ODH	Al Gouna	Egypt	25.9	50%	308	615	-59%		70%	92	185	-39%	
	5	ODH	Taba Heights	Egypt	1.5	50%	308	615	-59%		70%	92	185	-39%	
	5	ODH	Amoun Island	Egypt	0.0	50%	308	615	-59%		70%	92	185	-39%	
	5	PHD	North Coast	Egypt	14.7	74%	400	537	-64%		75%	100	134	-55%	
	5	ERC	Sahl Hasheesh	Egypt	29.5	60%	275	458	-69%		75%	69	115	-62%	
Second home land, no master plan	6	PHD	Alexandria	Egypt	0.0	100%	400	400	-73%	>75%	75%	100	100	-67%	>75%
	6	ODH	Ras Benas	Egypt	25.0	50%	62	123	-92%		70%	18	37	-88%	

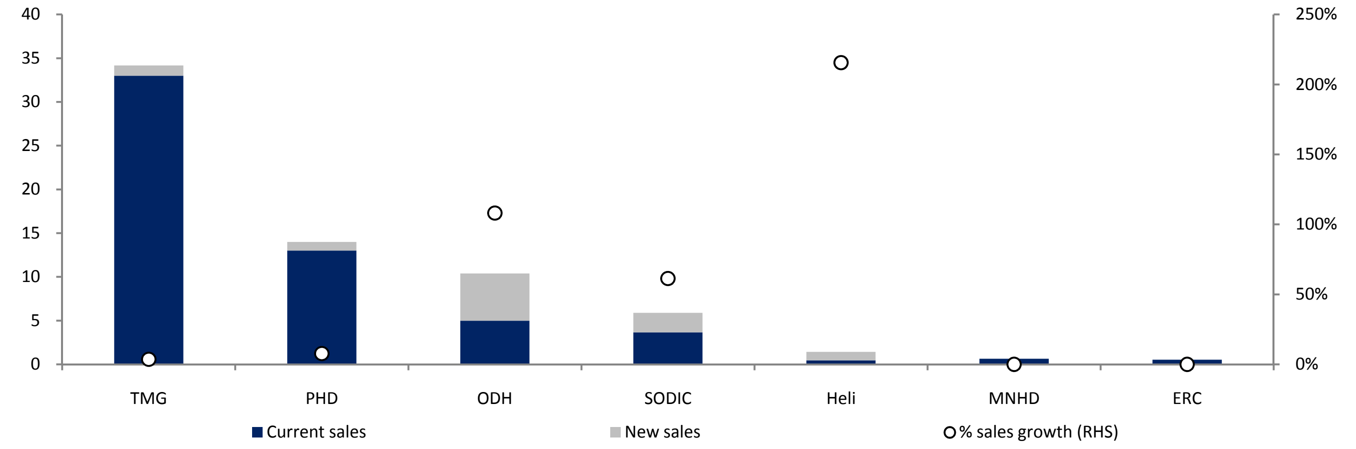
Source: AlembicHC
Note: (1) For TMG, prices are BUA adjusted

New sales to be affected until situation stabilizes

Given our conservative stance on the sector, our estimates do not include any forecasted new sales. Instead, for future projects we adopt a land valuation approach. In the new scenario, it is likely that the market will now rate real estate players on sustainability rather than growth. In our previous note, *Look Both Ways*, published 22 November 2010, we highlighted our concerns about property pricing and sustainability of demand at current levels. In the current environment we expect sales to slow down materially as buyers become conscious of price outlook and developers' exposure to the new political setup.

As shown in the chart below, we remain conservative in our new sales assumptions and do not assume any significant additional sales except for Heliopolis and ODH. For ODH the majority of the new sales are outside Egypt, at projects in Oman and Switzerland.

Our sales forecasts take into account current projects only, limiting TP cuts to land bank valuations (EGPbn)

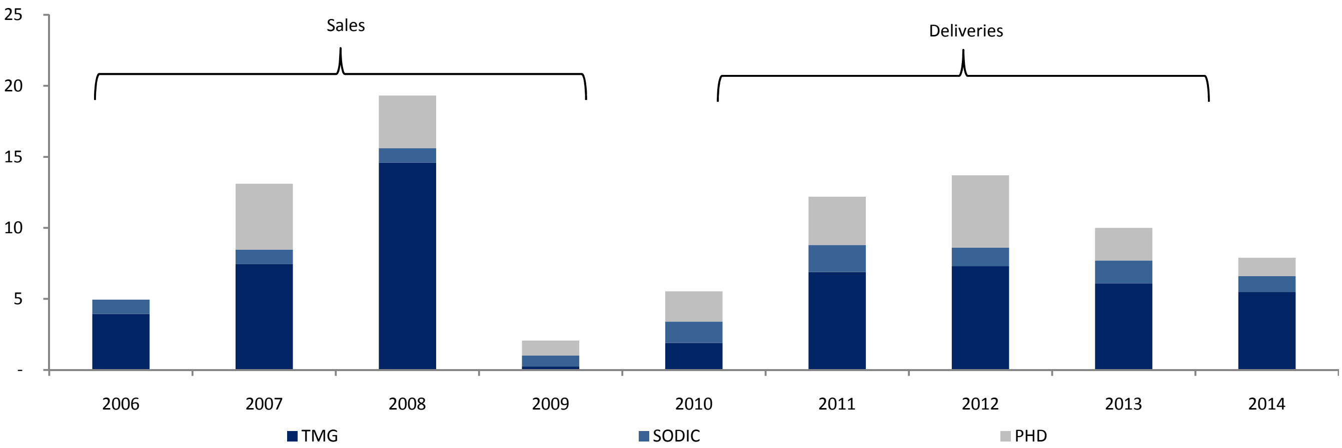


Source: Company data, AlembicHC

Presales made before 2009 should hold up

As shown in the chart on the following page, the sector witnessed huge sales volumes concentrated in 2006–08 (peaking in 2008) with deliveries expected starting in 2011e. Considering that prices have since almost tripled and significant collections have been achieved, we feel that default risk is likely to be limited. Sales of Cairo projects are likely to hold up better than those of second home projects. The impact on second home projects is likely to be twofold, relating to higher land bank uncertainty and higher default/cancellation risk given that they began more recently. Notably Palm Hills, with its impressive performance in the second home market with presales of EGP1.5bn in 2010 (13% of current presales), is likely to be more exposed to cancellations, reminiscent of the 2009 crisis. ODH, which targets non-Egyptians for its flagship El Gouna project, is also likely to see demand weakness for its resort. For SODIC we expect limited cancellations as the company is likely to have lower land bank risk, while in case of TMG, the advanced stage of construction will limit the overall presales cancellations.

Majority of presales to be delivered in near term, restricting cancellation risk (EGPbn)

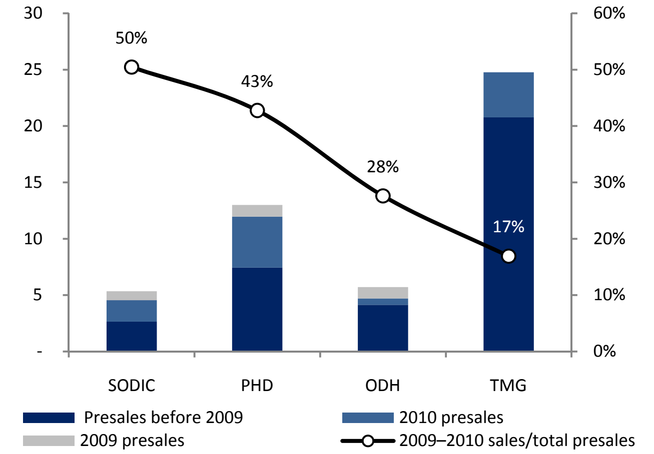


Source: Company data, AlembicHC

Cash flows remain subject to cancellations and additional land payouts

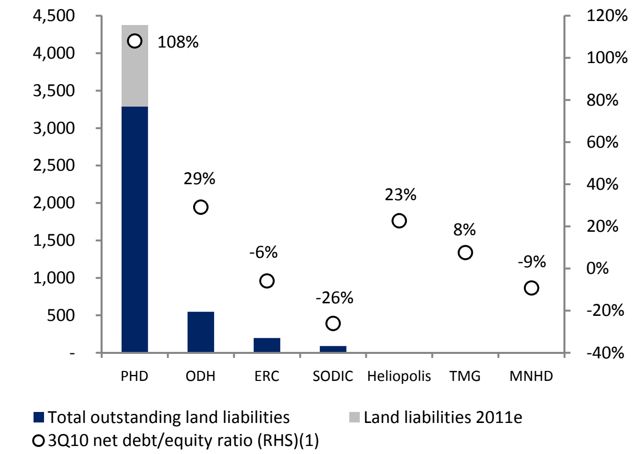
Considering the low leverage of the sector, with debt/equity ratios of 15%–20%, the liquidity positions of most of the developers appear comfortable. However, the continued uncertainty leading to lower sales and higher project cancellations, as well as real estate development commitments, could stretch liquidity positions, especially for TMG and PHD, in our view. For instance, PHD has more than EGP1bn to be paid in 2011 against land liabilities. Furthermore, unlike other developers, the company has simultaneous projects in progress at multiple locations. While this strategy has helped to achieve quicker sales, unless projects are fully sold it might strain the cash flow of the company or delay the projects. The situation could be affected further by cancellations, resulting in refunds and lower collections. For TMG, cash flows are concentrated in Madinaty. The company expects the overall funding requirement of EGP5bn, against a cash balance of EGP1.2bn, to be funded by collections. While the company has a 3Q10 presales/total presales ratio of 17%, implying a matured construction portfolio, some cancellations could tighten the liquidity position of the company and further delay the projects.

SODIC and PHD have the highest presales levels of recent years… (EGPm)



Source: Company data, AlembicHC

…but PHD remains most stretched in terms of liquidity (EGPm)



Source: Company data, AlembicHC
Note: (1) Includes land liabilities

Inflation to squeeze margins

After widespread protests, demands have been raised for higher wages. The government previously recommended a threefold increase in the minimum wage, which has not yet been implemented. Considering the significance of labor costs for a developer, the proposed wage increases would put pressure on margins. Also, rising inflation and yields are likely to add to the cost base, leading to margin compression. We expect hotel margins to compress significantly as RevPARs fall. We assume an overall drop of 50% in hotel occupancy levels in Egypt in 2011. While earnings are likely to be impacted by margin compression, land banks are likely to drive sector valuations in the near term.

We increase our cost of equity

We recently changed our valuation methodology to reflect a higher cost of equity for Egypt due to both higher bond yields and a higher equity risk premium. We increased our risk free rate to 9.3% and our equity risk premium to 8%, resulting in an increase of 300 bps in the cost of equity. While the impact of this increase remains limited for pure land players such as MNHD, ERC, and Heliopolis, other developers with advanced maturity profiles, more presales, and hotel portfolios like ODH, TMG, and SODIC are relatively more impacted.

AlembicHC

Land acquisition

Company	Land	Location	Date	Area (sqm)	Land cost (EGPm)	Cost (EGP/sqm)	Sale type	Seller
Amer Group	Porto Marina	North Coast	2004/2005	68,000	137	2009	Tender/direct order	Ministry of Housing
	Golf Porto Marina	North Coast	2006–10	3,831,000	75	20	Allocation	Government of Matrouh
	Porto Sokhna	Red Sea	2005	151,244	9	59	Allocation	General Authority of Allocation
	Golf Porto Sokhna	Red Sea	2007	2,174,969	13	6	Allocation	General Authority of Allocation
	Porto Cairo	New Cairo	2007	100,000	110	1100	Sale contract	El Nakhil
	Porto Cairo	New Cairo	2006	37,800	70	1849	Sale contract	El Nakhil
	Meeting Point	New Cairo	2006	7,186	7	1002	Allocation notice	NUCA(1)
	Porto South Beach	Red Sea	2009	247,000	-	-	Partnership with GREI	TDA
	Porto Residence	North Coast	2005	18,000	2	85	Allocation	NUCA(1)
	Porto Matrouh	Matrouh	2010	338,985	32	95	Allocation	Government of Matrouh
	Porto Pyramids	Giza	2010	105,000	Profit sharing	Profit sharing	Agri. land to resi. land	Pyramid Seller
	Al Alamein University	Matrouh	2010	445,670	9	20	Allocation	Government of Matrouh
TMG	Madinaty	New Cairo	2005	33,600,000	In-kind	In-kind	Direct allocation	NUCA(1)
	Al Rehab II	New Cairo	2005	3,800,000	In-kind	In-kind	Direct allocation	NUCA(1)
SODIC	East Cairo	East Cairo	2007	983,000	590	600	Sale contract	Acquisition of a company
	Sheikh Zayed Ext.	West Cairo	2007	340,000	187	550	Auction	NUCA(1)
	Al Yusr	Cairo-Alex Road	2008	1,260,000	290	230	Sale contract	Acquisition of a company
	Allegria	West Cairo	1996	973,620	51	52		
	Mansoura land	Mansoura	2010	63,000	JV	JV	Auction – 50 year lease	ITA Authority
PHD	Golf Extension	Sixth of October	2008	1,302,257	1,057	812	Auction	NUCA(1)
	Golf Views	Sixth of October	2007	2,020,000	636	315	Allocation	NUCA(1)
	Katameya	New Cairo	2006	928,439	242	260	Allocation	NUCA(1)
	Cascade, Bamboo, etc.	Sixth of October	2005	520,395	132	254	Allocation	NUCA(1)
	North Coast land	North Coast	2007	2,306,333	65	28	Allocation	Government of Matrouh
		North Coast	2007	582,816	18	30	Allocation	Government of Matrouh
		North Coast	2007	206,909	2	8	Allocation	Government of Matrouh
		North Coast	2007	1,215,395	30	25	Allocation	Government of Matrouh
	Palm Parks	Sixth of October	2007	474,600	118	249	97% acquisition of Rakeen Egypt	Akhbar Al Youm
	Forty Nine	Cairo-Alex Road	2007	5,859,000	209	36	Agreement with Al Etihadia	European Reef
	Alexandria land	Alexandria	2007	13,452	188	13,998	Sales contract (Nile Palm)	United Bank
	CASA	Cairo-Alex Road	2006	294,000	176	600	Sales agreement (Royal Gardens)	SODIC

PHD	Village Extension, Ellamy, Downtown	New Cairo/Sixth of October	2007	404,421	185	457	51% stake in Saudi Urban Development Company	Ellamy
MNHD	Teegan	Cairo-Suez Road		3,800,000	-	-	Allocation	Government
	Km 45	New Cairo	2003	5,500,000	-	-	Allocation	Government
	6th October Housing	Sixth of October	2008	718,200	50	70	Auction	NUCA(1)
ODH	El Gouna	Red Sea	1990	36,800,000	217	5.9	Allocation	TDA
Heliopolis	New Heliopolis City	Cairo-Suez Road	1995	23,500,000	-	-	Allocation	Government
	Helio Park	New Cairo		7,100,000	-	-	Allocation	Government
	Obour City	Cairo-Ismailia Road	1997	153,094	15	100	Auction	NUCA(1)
	Heliopolis	Heliopolis	1906	79,000,000	-	-	Allocation	Government
ERC	Sahl Hasheesh	Red Sea	1995	41,000,000	319	8	Allocation	TDA

Source: Company data, AlembicHC
Note: (1) NUCA stands for New Urban Communities Authority

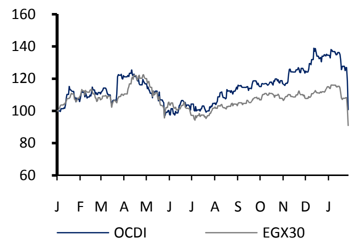
SODIC

Neutral

Target price (EGP)	**95**
Current price (EGP)	80.63
Potential return	18%
Bloomberg	OCDI EY
Reuters	OCDI.CA
Mcap (EGPm)	2,925
Mcap (USDm)	497
Free float	60.1%
Daily volume (USDm)	1.2

Note: All prices as of 27 January 2011

Price performance



- **Land risk appears limited as most of the land was acquired at prevailing market prices, in our view**
- **Given the sales backlog's maturity profile, it should remain largely unaffected, but the company's tilt towards the high-end segment might affect future sales**
- **We maintain our TP of EGP95 and our Neutral recommendation**

The company's connection to the old regime is limited to its nonexecutive chairman (who owns 0.0017%), and it appears that SODIC paid for its land bank in line with prevailing prices in 2006. Although the Allegria land was acquired in 1996 at EGP50/sqm, the Eastown plot was acquired at EGP600/sqm and the Westown plot at EGP550/sqm. Based on prevailing market conditions, we believe that the prices paid were in line with prevailing prices. However, given the limited disclosures and uncertainty surrounding the land contracts, we increase the discount for SODIC 20 pp to reflect political and liquidity risk. In terms of presales, given the maturity profile of the company's backlog, we do not expect to see major cancellations. However, going forward, the company's high-end segment exposure may lead to project launches being deferred as demand in the target market remains weak. Having said that, we expect SODIC to maintain a comfortable liquidity position going forward considering its current position with net cash of cEGP0.5bn. We do not assume any future projects in our forecasts; however, we defer some revenue and earnings to 2012, increasing 2012e revenue 26% and 2012e earnings 28% while decreasing 2011e revenue 31% and 2011e earnings 40%.

SODIC's 2010 presales amounted to EGP2bn, a 250% increase over 2009. Also, starting in 2010, the company delivered EGP266m worth of its Allegria project. Furthermore, SODIC continues to stand out among its competitors in terms of liquidity, with a net cash position of c812m for FY2010. Additional, SODIC's BOD has proposed a DPS of EGP4, implying a yield of c5%. While the payout differentiates the company from its peers, signaling SODIC's comfortable liquidity position, it also indicates slower than expected project launches.

We maintain our Neutral recommendation and TP of EGP95/share, implying a potential upside of 18%. We value the company using DCF and residual land methods. To be conservative, we do not include future projects in our DCF. Instead, we apply a 70% discount to the land bank, recently increased 20 pp. We also increased the WACC 250 bps to 17%. Our TP implies a 29% discount to SODIC's 2011e NAV of EGP133/share.

SODIC financial statements and ratios (EGPm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**232**	**31**	**520**	**1,313**	**1,616**	**1,633**	**1,274**	**281**
Total costs	**(109)**	**(33)**	**(266)**	**(744)**	**(906)**	**(925)**	**(640)**	**(53)**
Gross profit	**123**	**(2)**	**253**	**569**	**709**	**708**	**635**	**229**
Margin	*53%*	*-7%*	*49%*	*43%*	*44%*	*43%*	*50%*	*81%*
Operating expenses	**(98)**	**(135)**	**(121)**	**(140)**	**(133)**	**(125)**	**(118)**	**(111)**
EBIT	**25**	**(137)**	**132**	**429**	**577**	**583**	**517**	**117**
Margin	*11%*	*-447%*	*25%*	*33%*	*36%*	*36%*	*41%*	*42%*
Profit before taxes	**37**	**(138)**	**190**	**499**	**664**	**716**	**720**	**368**
Income taxes	(10)	25	(55)	-	-	-	-	-
Minorities	0	2	1	-	-	-	-	-
Net profit (loss)	**26**	**(114)**	**135**	**499**	**664**	**716**	**720**	**368**
Margin	*11%*	*-373%*	*26%*	*38%*	*41%*	*44%*	*57%*	*131%*
Basic EPS	**0.9**	**(4.0)**	**3.7**	**13.8**	**18.3**	**19.7**	**19.9**	**10.2**
DPS	-	-	-	-	-	-	-	-
EBITDA	**26**	**(114)**	**149**	**458**	**614**	**629**	**564**	**165**
Margin	*11%*	*-372%*	*29%*	*35%*	*38%*	*39%*	*44%*	*59%*
Balance sheet								
Cash and cash equivalents	238	482	853	1,171	1,598	2,407	3,170	3,586
Trade and other receivables (current and noncurrent)	1,895	306	297	154	110	66	22	-
Allegria development properties	0	920	1,306	1,730	1,299	609	-	-
WIP (Eastown and Westown land)	1,310	795	1,093	1,159	1,097	974	913	913
Current assets	**3,863**	**4,568**	**6,329**	**6,335**	**6,128**	**5,984**	**5,935**	**6,280**
Noncurrent assets	**4**	**30**	**5**	**162**	**162**	**162**	**162**	**162**
Permanent assets	**375**	**418**	**567**	**657**	**947**	**1,086**	**1,075**	**1,064**
Total assets	**4,242**	**5,016**	**6,901**	**7,154**	**7,236**	**7,232**	**7,172**	**7,506**
Current liabilities	**2,277**	**3,112**	**4,308**	**4,047**	**3,466**	**2,745**	**1,965**	**1,930**
Noncurrent liabilities	**183**	**146**	**186**	**119**	119	**119**	**119**	**119**
Minority interest in subsidiaries	25	26	96	71	71	71	71	71
Shareholder equity	**1,782**	**1,758**	**2,408**	**2,988**	**3,652**	**4,368**	**5,088**	**5,456**
Total liabilities and equity	**4,242**	**5,016**	**6,902**	**7,154**	**7,236**	**7,232**	**7,172**	**7,506**
Cash flow statement								
Net profit before minorities	**37**	**(138)**	**190**	**499**	**664**	**716**	**720**	**368**
CF generated from operating activities	**29**	**160**	**279**	**357**	**729**	**969**	**773**	**425**
CF generated from investment activities	**(229)**	**(164)**	**(360)**	**(149)**	**(302)**	**(160)**	**(10)**	**(10)**
CF generated from financing activities	**(17)**	**178**	**545**	**-**	**-**	**-**	**-**	**-**
Net addition (deduction) in cash	(217)	174	464	208	427	810	763	415
Cash at beginning of fiscal year	6,799	238	412	1,014	1,222	1,649	2,459	3,222
Cash at end of fiscal year	**238**	**412**	**876**	**1,222**	**1,649**	**2,459**	**3,222**	**3,637**
Key ratios								
Revenue growth		-87%	1593%	181%	23%	1%	-22%	-78%
Net profit growth		-533%	-218%	101%	33%	8%	1%	-49%
Debt/equity	9%	12%	15%	8%	5%	3%	1%	1%
Net debt	(77)	(385)	(719.85)	(1,043)	(1,470)	(2,280)	(3,043)	(3,458)
Net debt/equity	-4%	-22%	-30%	-35%	-40%	-52%	-60%	-63%
Current ratio	1.7	1.5	1.5	1.6	1.8	2.2	3.0	3.3
Average ROE		-6%	6%	18%	20%	18%	15%	7%
Average ROIC		-6%	6%	18%	20%	18%	15%	7%
P/B		1.4x	1.3x	1.0x	0.8x	0.7x	0.6x	0.5x
P/NAV		0.0x	0.7x	0.6x	0.5x			
P/E		(20.0)	21.7x	5.9	4.4	4.1	4.1	7.9
Dividend yield		0%	0%	0%	0%	0%	0%	0%

Source: Company data, AlembicHC

Heliopolis Housing

- **Land bank remains shielded from disputes as the company is a government enterprise**
- **To witness slowdown in sales, but no change in business model or strategy expected in the near term**
- **We increase our TP to EGP21.4/share on restoration of 280 feddans of litigated land but maintain our Neutral rating**

Given the public enterprise status of Heliopolis Housing and the fact that the majority of its land bank was officially granted to the company for housing development, it does not face the land related risks that other real estate players do. That said, some legalities related to trespassing remain pending on its New Heliopolis City land bank.

The post-transition phase might prove positive for the company if the new government keeps housing high on its agenda, as this could expedite the land bank value unlocking process. Also, given the uncertainties surrounding private developers, customers might resort to safer options like Heliopolis, pushing the demand for its product. However, we do not see any catalysts in the near term for these positive drivers.

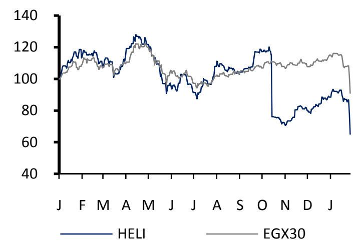
To be conservative, we had excluded litigated land from our valuation. A recent court ruling in favor of Heliopolis Housing now restores the company's title to 1.1m sqm in New Heliopolis City. We now include the said land bank in our valuation, which increases our TP 2% to EGP21.4/share from EGP20.9/share. We value Heliopolis Housing using a combination of DCF and land valuation. To be conservative, at this stage we exclude future projects from our valuation, and apply a 65%–80% discount to the land valuations derived using our Sister Land Approach. We believe the higher discount relative to its peers is warranted given its lower sales velocity. We value Heliopolis Housing at a 74% discount to its 2011e NAV of EGP80/share. The higher discount to NAV reflects the company's higher dependence on plot sales and slower sales velocity.

Neutral

Target price (EGP)	**21.4**
Current price (EGP)	18.3
Potential return	17%
Bloomberg	HELI EY
Reuters	HELI.CA
Mcap (EGPm)	2,039
Mcap (USDm)	347
Free float	28%
Daily volume (USDm)	0.7

Note: All prices as of 27 January 2011

Price performance



Heliopolis Housing financial statements and ratios (EGPm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**280**	**143**	**321**	**292**	**332**	**285**	**104**	**109**
Total costs	**(95)**	**(29)**	**(105)**	**(77)**	**(69)**	**(80)**	**-**	**-**
Gross profit	**185**	**115**	**216**	**215**	**263**	**205**	**104**	**109**
Margin	*66%*	*80%*	*67%*	*74%*	*79%*	*72%*	*100%*	*100%*
EBIT (including revaluation gain)	**164**	**92**	**190**	**186**	**236**	**179**	**79**	**86**
Margin	*59%*	*64%*	*59%*	*64%*	*71%*	*63%*	*76%*	*78%*
Profit before taxes	**199**	**132**	**228**	**181**	**237**	**185**	**98**	**107**
Income taxes	(40)	(27)	(47)	(27)	(36)	(28)	(15)	(16)
Minority shareholder interest	-	-	-	-	-	-	-	-
Net profit (loss)	**159**	**105**	**182**	**154**	**201**	**157**	**83**	**91**
Margin	*57%*	*73%*	*57%*	*53%*	*61%*	*55%*	*80%*	*83%*
Basic EPS	**2.1**	**1.4**	**2.4**	**1.4**	**1.8**	**1.4**	**0.7**	**0.8**
DPS	1.9	2.5	3.4	0.7	0.8	1.3	0.8	0.9
EBITDA	164	92	190	186	236	179	80	86
Margin	*59%*	*64%*	*59%*	*64%*	*71%*	*63%*	*76%*	*79%*
Balance sheet								
Cash and cash equivalents	49	12	12	29	145	216	320	519
Customer receivables	917	899	1,069	1,068	983	817	512	152
Current assets	**1,204**	**1,232**	**1,438**	**1,301**	**1,212**	**1,078**	**870**	**671**
Noncurrent assets	**4**	**5**	**5**	**5**	**5**	**5**	**5**	**5**
Permanent assets	**14**	**16**	**17**	**21**	**25**	**29**	**32**	**36**
Total assets	**1,222**	**1,254**	**1,460**	**1,327**	**1,242**	**1,112**	**908**	**712**
Current liabilities	**907**	**913**	**982**	**814**	**646**	**477**	**309**	**141**
Noncurrent liabilities	**80**	**149**	**128**	**103**	**78**	**53**	**28**	**3**
Minority interest in subsidiaries	-	-	-	-	-	-	-	-
Shareholder equity	**235**	**193**	**350**	**411**	**518**	**582**	**571**	**569**
Total liabilities and equity	**1,222**	**1,254**	**1,460**	**1,327**	**1,242**	**1,112**	**908**	**712**
Cash flow								
Net profit before minorities	133	99	152	154	201	157	83	91
CF generated from operating activities	**116**	**6**	**82**	**115**	**214**	**169**	**201**	**297**
CF generated from investment activities	**(2)**	**(4)**	**(2)**	**(4)**	**(4)**	**(4)**	**(4)**	**(4)**
CF generated from financing activities	**(80)**	**(39)**	**(80)**	**(47)**	**(47)**	**(47)**	**(47)**	**(47)**
Net addition (deduction) in cash	34	(37)	0	64	163	118	150	246
Cash at beginning of fiscal year	6,799	49	12	12	76	239	357	507
Cash at end of fiscal year	**49**	**12**	**12**	**76**	**239**	**357**	**507**	**753**
Key ratios								
Revenue growth		-49%	124%	-9%	14%	-14%	-63%	5%
Net profit growth		-34%	73%	-15%	31%	-22%	-47%	10%
Debt/equity	1%	30%	41%	20%	16%	14%	14%	14%
Net debt	(46)	47	68	51	(65)	(136)	(239)	(438)
Net debt/equity	-20%	25%	20%	12%	-12%	-23%	-42%	-77%
Current ratio	1.3	1.4	1.5	1.6	1.9	2.3	2.8	4.8
Average ROE		49%	67%	40%	43%	29%	14%	16%
Average ROIC		49%	66%	40%	43%	28%	14%	16%
P/B		10.6x	5.8x	5.0x	3.9x	3.5x	3.6x	3.6x
P/NAV		0.2x	0.2x	0.2x	0.0x	0.0x	0.0x	0.0x
P/E		12.9x	7.5x	13.3x	10.1x	13.0x	24.6x	22.4x
Dividend yield		14%	19%	4%	4%	7%	5%	5%

Source: Company data, AlembicHC

Nasr City Housing

Neutral

- **Teegan, a flagship project and key valuation driver, is likely to be delayed further amid increasing uncertainty**
- **Given the company's roots as a public sector enterprise, we do not expect any land ownership disputes**
- **We maintain our TP of EGP26/share and our Neutral rating**

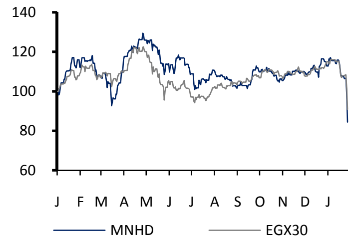
While other real estate names might be facing land related legal challenges, Nasr City Housing managed to clear up all of its land bank issues in 2010. The company has been waiting for final government approval of the master plan for its flagship project located on the Cairo-Suez Road, now named Teegan. Given the current political uncertainty, we believe that the necessary approvals and the launch of Teegan are likely to be delayed. In terms of sales, we believe the sector will witness a slowdown, including Nasr City's launched project Waha and its budget housing project in Sixth of October City. Nonetheless, given its clean land bank, if the company manages to launch Teegan the sales response could be compelling, in our view. However, we feel this is unlikely at this stage.

We maintain our TP of EGP26/share and our Neutral rating. In line with our new valuation assumptions, we recently increased both the cost of equity (up 280 bps) and the land discount (up 15 pp) for Nasr City. The increase in the land discount reflects delays in value unlocking and expected weakness in land prices. We value Nasr City Housing using DCF and land valuation, then add the value of its subsidiaries. To be conservative, we exclude future projects from our valuation at this stage and apply a 65%–90% discount to the land value. We value Nasr city Housing at a 68% discount to its 2011e NAV of EGP82/share. The higher discount to NAV reflects the company's maturity profile, with a larger portion of its value coming from land. Quicker approval and launch of the Teegan project remains an upside risk to our valuation, while higher than forecasted value erosion to the land bank and changes in the regulatory framework affecting the land bank are downside risks.

Target price (EGP)	**26.0**
Current price (EGP)	23.8
Potential return	11%
Bloomberg	MNHD EY
Reuters	MNHD.CA
Mcap (EGPm)	2,381
Mcap (USDm)	405
Free float	42%
Daily volume (USDm)	0.7

Note: All prices as of 27 January 2011

Price performance



Nasr City Housing financial statements and ratios (EGPm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**139**	**139**	**125**	**166**	**360**	**322**	**22**	**24**
Total costs	**(15)**	**(5)**	**(9)**	**(54)**	**(127)**	**(109)**	**-**	**-**
Gross profit	**124**	**135**	**116**	**112**	**233**	**213**	**22**	**24**
Margin	*89%*	*97%*	*93%*	*67%*	*65%*	*66%*	*100%*	*100%*
EBIT (including revaluation gain)	**108**	**119**	**92**	**89**	**211**	**192**	**2**	**3**
Margin	*78%*	*86%*	*74%*	*54%*	*59%*	*60%*	*7%*	*13%*
Profit before taxes	**101**	**133**	**102**	**97**	**221**	**204**	**23**	**33**
Income taxes	-	(25)	(19)	(15)	(33)	(31)	(3)	(5)
Minority shareholder interest	-	-	-	-	-	-	-	-
Net profit (loss)	**101**	**108**	**82**	**83**	**187**	**173**	**20**	**28**
Margin	*73%*	*78%*	*66%*	*50%*	*52%*	*54%*	*88%*	*119%*
Basic EPS	**1.1**	**1.1**	**0.8**	**0.8**	**1.9**	**1.7**	**0.2**	**0.3**
DPS	0.8	-	0.9	-	-	-	-	-
EBITDA	**111**	**122**	**99**	**97**	**219**	**200**	**10**	**12**
Margin	*80%*	*88%*	*80%*	*58%*	*61%*	*62%*	*44%*	*50%*
Balance sheet								
Cash and cash equivalents	88	63	36	61	116	306	566	646
Land receivables and property receivables	496	453	454	471	542	462	184	71
Development properties (land)	70	69	56	22	22	23	-	-
Development properties under construction	40	65	74	59	44	30	15	-
Current assets	**817**	**754**	**729**	**702**	**793**	**871**	**795**	**727**
Noncurrent assets	**91**	**97**	**101**	**107**	**114**	**120**	**126**	**133**
Permanent assets	**14**	**14**	**16**	**19**	**23**	**26**	**30**	**33**
Total assets	**922**	**865**	**845**	**829**	**930**	**1,017**	**951**	**893**
Current liabilities	**589**	**560**	**543**	**444**	**358**	**272**	**186**	**99**
Noncurrent liabilities	**38**	**33**	**11**	**11**	**11**	**11**	**11**	**11**
Minority interest in subsidiaries	-	-	-	-	-	-	-	-
Shareholder equity	**295**	**272**	**291**	**373**	**561**	**734**	**754**	**782**
Total liabilities and equity	**922**	**865**	**845**	**829**	**930**	**1,017**	**951**	**893**
Cash flow								
Net profit before minorities	121	128	98	83	187	173	20	28
CF generated from operating activities	**51**	**71**	**20**	**35**	**65**	**201**	**270**	**90**
CF generated from investment activities	**(8)**	**(3)**	**(1)**	**(10)**	**(10)**	**(10)**	**(11)**	**(11)**
CF generated from financing activities	**(73)**	**(126)**	**(90)**	**-**	**-**	**-**	**-**	**-**
Net addition (deduction) in cash	(29)	(58)	(71)	25	55	190	260	80
Cash at beginning of fiscal year	6,799	88	30	(41)	(16)	39	229	489
Cash at end of fiscal year	**88**	**30**	**(41)**	**(16)**	**39**	**229**	**489**	**569**
Key ratios								
Revenue growth		0%	-11%	34%	117%	-11%	-93%	5%
Net profit growth		7%	-24%	0%	127%	-7%	-89%	42%
Debt/equity	38%	33%	36%	17%	9%	5%	2%	1%
Net debt	(13)	(55)	(27)	(57)	(112)	(302)	(562)	(642)
Net debt/equity	-5%	-20%	-9%	-15%	-20%	-41%	-75%	-82%
Current ratio	1.4	1.3	1.3	1.6	2.2	3.2	4.3	7.3
Average ROE		38%	29%	25%	40%	27%	3%	4%
Average ROIC		38%	29%	25%	40%	27%	3%	4%
P/B		8.7x	8.2x	6.4x	4.2x	3.2x	3.2x	3.0x
P/NAV			0.3x	0.3x	-	-	-	-
P/E		21.9	28.9	28.8	12.7	13.7	120.3	84.8
Dividend yield		0%	4%	0%	0%	0%	0%	0%

Source: Company data, AlembicHC

AlembicHC

Orascom Development Holding

Neutral

- **Hotels' profitability and property sales in Egypt to be affected due to dependence on the tourism sector**
- **Increasing foreign contribution to provide some hedge, but Egypt land risk cannot be ruled out**
- **Currency translations to weaken earnings; maintain Neutral rating and TP of CHF51 (EGP16)**

ODH, being the largest hotel operator under our coverage in Egypt, is the most exposed to the tourism sector. In addition to its hotel business, the company also relies on property sales to non-Egyptians, a target market in which we believe demand is likely to be depressed. While in the medium term currency weakness could help foreign demand for property and tourism recover, continued weakness could result in translation losses for the company. We expect ODH's non-Egypt exposure to increase going forward; however, in the near term, any weakness in Egypt is likely to affect the overseas business's funding. Additionally, ODH's investment portfolio, including a 4.5% stake in ERC and a 7% stake in Nasr City Housing, is likely to underperform, and value unlocking from ODM, its 100% owned construction management arm, is likely to be further delayed. We recently cut our EPS estimates 13% for 2010e and 27% for 2011e, representing mainly a drop in hotel TRevPARs. We maintain our revenue forecasts for property sales as they are driven primarily by sales outside of Egypt, namely in Oman and Switzerland.

We maintain our Neutral rating for ODH and our TP of CHF51/share (EGP16/share), with 11% upside. The reasons behind our recent TP cut are an expected fall in hotel TRevPARs, a higher cost of equity, and an increased discount to the company's land bank. Our TP implies a 54% discount to 2011e NAV of CHF111/share. We value ODH using a combination of DCF and land valuation. For real estate and construction, we do not assume any new project launches. We use a DCF method to value project backlog at CHF15/share, and we also derive CHF15/share from existing projects and hotels, contributing c29% each to our valuation, while land contributes CHF21/share, or 42% of our valuation.

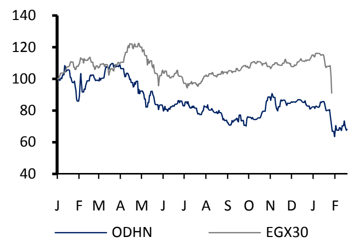
Target price (CHF)	**50.8**
Current price (CHF)(1)	42
Potential return	20%
Target price (EGP)	**16**
Current price (EGP)(2)	13.8

Bloomberg	ODHN SW
Reuters	ODHN.CA

Mcap (CHFm)	1,159
Mcap (USDm)	1,283
Free float	10%
Daily volume (USDm)	0.9

Note: (1) Price as of 22 March 2011
(2) Price as of 27 January 2011

Price performance



Orascom Development Holding financial statements and ratios (CHFm)

Year to December	2008a	2009a	2010e	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**568**	**586**	**587**	**617**	**650**	**673**	**660**	**536**
Total costs	**(371)**	**(360)**	**(396)**	**(394)**	**(418)**	**(424)**	**(402)**	**(340)**
Gross profit	**197**	**226**	**191**	**223**	**233**	**249**	**258**	**196**
Margin	*35%*	*39%*	*33%*	*36%*	*36%*	*37%*	*39%*	*37%*
EBIT	**133**	**174**	**181**	**185**	**193**	**208**	**215**	**150**
Margin	*23%*	*30%*	*31%*	*30%*	*30%*	*31%*	*33%*	*28%*
Profit before taxes	**126**	**153**	**152**	**183**	**210**	**233**	**246**	**185**
Income taxes	(10)	(14)	(22)	(27)	(31)	(35)	(37)	(28)
Minority shareholder interest	19	33	30	40	36	22	21	13
Net profit (loss)	**96**	**106**	**99**	**115**	**143**	**176**	**188**	**144**
Margin	*17%*	*18%*	*17%*	*19%*	*22%*	*26%*	*29%*	*27%*
Basic EPS	**4**	**5**	**4**	**4**	**5**	**6**	**7**	**5**
DPS	-	-	-	-	-	-	-	-
EBITDA	**167**	**174**	**167**	**214**	**222**	**236**	**244**	**178**
Margin	29%	30%	28%	35%	34%	35%	37%	33%
Balance sheet								
Cash and cash equivalents	177	78	420	875	1,047	1,189	1,271	1,395
Trade and other receivables (current and noncurrent)	182	266	105	68	30	0	0	0
Development properties	-	-	763	575	371	178	55	19
Current assets	**688**	**713**	**1,770**	**1,999**	**1,930**	**1,848**	**1,807**	**1,895**
Noncurrent assets	**82**	**110**	**284**	**284**	**284**	**284**	**284**	**284**
Permanent assets	**890**	**1,041**	**999**	**990**	**981**	**972**	**964**	**956**
Total assets	**1,660**	**1,864**	**3,052**	**3,272**	**3,194**	**3,104**	**3,054**	**3,135**
Current liabilities	**537**	**625**	**1,375**	**1,439**	**1,183**	**895**	**636**	**558**
Noncurrent liabilities	**175**	**189**	**284**	**284**	**284**	**284**	**284**	**284**
Minority interest in subsidiaries	144	183	215	255	291	313	334	347
Shareholder equity	**947**	**1,050**	**1,394**	**1,549**	**1,727**	**1,925**	**2,135**	**2,292**
Total liabilities and equity	**1,660**	**1,864**	**3,052**	**3,272**	**3,194**	**3,104**	**3,054**	**3,135**
Cash flow								
Net profit before minorities	120	129	143	156	178	198	209	158
CF generated from operating activities	**57**	**115**	**181**	**475**	**192**	**162**	**102**	**144**
CF generated from investment activities	**(266)**	**0**	**(985)**	**(20)**	**(20)**	**(20)**	**(20)**	**(20)**
CF generated from financing activities	**305**	**13**	**258**	**-**	**-**	**-**	**-**	**-**
Net addition (deduction) in cash	96	128	(546)	455	172	142	82	124
Cash at beginning of fiscal year	6,799	177	305	(241)	214	386	528	610
Cash at end of fiscal year	**177**	**305**	**(241)**	**214**	**386**	**528**	**610**	**734**
Key ratios								
Revenue growth		3%	0%	5%	5%	3%	-2%	-19%
Net profit growth		10%	-6%	16%	24%	23%	7%	-23%
Debt/equity	47%	45%	39%	36%	32%	29%	26%	24%
Net debt	198	310	41	(414)	(586)	(727)	(810)	(933)
Net debt/equity	21%	30%	3%	-27%	-34%	-38%	-38%	-41%
Current ratio	1.3	1.1	1.3	1.4	1.6	2.1	2.8	3.4
Average ROE		10%	9%	7%	7%	8%	9%	9%
Average ROIC		8%	7%	6%	6%	7%	8%	8%
P/B		1.5x	1.1x	1.0x	0.9x	0.0x	0.0x	0.0x
P/NAV		-	0.4x	0.4x	0.4x	-	-	-
P/E		10.0x	13.0x	11.2x	9.0x	7.3x	6.8x	8.9x
Dividend yield		0%	0%	0%	0%	0%	0%	0%

Source: Company data, AlembicHC

Egyptian Resorts Company

Underweight

- **Considering the pending law suit, uncertainty remains regarding land allocation**
- **Marina launch is likely to be impacted by continued uncertainty, further delaying long awaited land bank monetization**
- **Maintain TP of EGP1.49/share and Underweight rating**

ERC is among the companies with pending land related law suits; its suit pertains to the legality of its acquisition of the Sahl Hasheesh land bank. While the law suit could now be further exacerbated, as has been the case with other real estate players' law suits, we understand that the company's land contracts were signed by the Tourism Development Authority in early 1990. That said, while the land bank acquisition cost of USD1.32 (EGP8) per square meter was not preferential back in 1995, the land was allocated through a direct contract rather than a bidding process, so an adverse outcome cannot be ruled out and the regulation risk remains.

Given ERC's exposure to the tourism industry, an expected slowdown in visitor numbers is likely to impact sales prospects negatively. As for the Marina, which was prelaunched in 4Q10, we estimate that sales will remain weak and some cancellations will occur, as second home demand is expected to weaken. Continued uncertainty could also threaten receivables. We understand that management has been focusing strongly on receivables collection, with roughly EGP112m collected in 3Q10. However, given the slowdown in the industry, ERC might face some collection delays. Having said that, the company's liquidity position remains healthy with a net cash position of EGP264m.

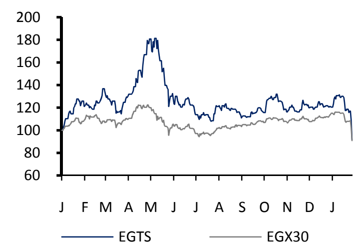
Regarding ERC's pending Sahl Hasheesh law suit, the company has clarified that TDA's allocation of the land was in accordance with the law as it was directed towards tourism development. Additionally, the auctioning law was enacted in 1998, 3 years after the land was allocated to the company, and is not expected to be retroactively applicable. Our Underweight rating captures the uncertainties surrounding the land issue.

We maintain our TP of EGP1.49/share and our Underweight recommendation. We recently revised the cost of equity to 17.3% and increased the land discount to 85%. We value the company using a combination of DCF and land valuation and, to be conservative, at this stage we exclude future projects from our valuation. Our valuation puts ERC at a 74% discount to its 2011e NAV of EGP8.1/share.

Target price (EGP)	**1.49**
Current price (EGP)	1.5
Potential return	-2%
Bloomberg	EGTS EY
Reuters	EGTS.CA
Mcap (EGPm)	1,596
Mcap (USDm)	271
Free float	38.5%
Daily volume (USDm)	2.9

Note: All prices as of 27 January 2011

Price performance



Egyptian Resorts Company financial statements and ratios (EGPm)

Year to December	2008a	2009a	2010e	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**348**	**26**	**11**	**11**	**12**	**12**	**13**	**14**
Total costs	**(22)**	**(10)**	**(7)**	**(6)**	**(6)**	**(6)**	**(6)**	**(7)**
Gross profit	**326**	**16**	**3**	**6**	**6**	**6**	**6**	**7**
Margin	*94%*	*61%*	*32%*	*50%*	*50%*	*50%*	*50%*	*50%*
EBIT	**318**	**(14)**	**(31)**	**(30)**	**(30)**	**(30)**	**(29)**	**(29)**
Margin	*92%*	*-53%*	*-291%*	*-269%*	*-253%*	*-239%*	*-226%*	*-214%*
Profit before taxes	**346**	**8**	**(6)**	**(17)**	**(14)**	**(11)**	**(8)**	**(5)**
Income taxes	(80)	(11)	(0)	-	-	-	-	-
Minority shareholder interest	1	1	(3)	-	-	-	-	-
Net profit (loss)	**265**	**(4)**	**(4)**	**(17)**	**(14)**	**(11)**	**(8)**	**(5)**
Margin	*76%*	*-15%*	*-36%*	*-154%*	*-122%*	*-92%*	*-65%*	*-39%*
Basic EPS	**0.3**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**
DPS	-	-	-	-	-	-	-	-
EBITDA	**316**	**(19)**	**(46)**	**(46)**	**(47)**	**(47)**	**(48)**	**(49)**
Margin	91%	-75%	-430%	-410%	-396%	-383%	-371%	-362%
Balance sheet								
Cash and cash equivalents	371	309	308	369	435	504	576	610
Trade and other receivables (current and noncurrent)	534	467	407	317	226	136	45	-
Work in progress	351	373	388	388	388	388	388	388
Current assets	**1,282**	**1,165**	**1,116**	**1,084**	**1,056**	**1,032**	**1,011**	**998**
Noncurrent assets	-	-	-	-	-	-	-	-
Permanent assets	**268**	**332**	**359**	**367**	**375**	**383**	**391**	**399**
Total assets	**1,550**	**1,497**	**1,475**	**1,451**	**1,431**	**1,415**	**1,402**	**1,396**
Current liabilities	**234**	**143**	**122**	**115**	**110**	**106**	**101**	**101**
Noncurrent liabilities	**197**	**200**	**208**	**208**	**208**	**208**	**208**	**208**
Minority interest in subsidiaries	78	78	76	76	76	76	76	76
Shareholder equity	**1,119**	**1,154**	**1,145**	**1,128**	**1,113**	**1,102**	**1,093**	**1,088**
Total liabilities and equity	**1,550**	**1,497**	**1,475**	**1,451**	**1,431**	**1,415**	**1,402**	**1,396**
Cash flow								
Net profit before minorities	346	8	(8)	(17)	(14)	(11)	(8)	(5)
CF generated from operating activities	**281**	**(50)**	**34**	**71**	**76**	**79**	**82**	**43**
CF generated from investment activities	**(150)**	**(70)**	**(35)**	**(10)**	**(10)**	**(10)**	**(10)**	**(10)**
CF generated from financing activities	**(222)**	**58**	-	-	-	-	-	-
Net addition (deduction) in cash	(91)	(62)	(1)	61	66	69	72	33
Cash at beginning of fiscal year	6,799	371	309	308	369	435	504	577
Cash at end of fiscal year	**371**	**309**	**308**	**369**	**435**	**504**	**577**	**610**
Key ratios								
Revenue growth		-93%	-59%	5%	5%	5%	5%	5%
Net profit growth		-101%	-3%	352%	-17%	-21%	-26%	-36%
Debt/equity	0%	0%	0%	0%	0%	0%	0%	0%
Net debt	(335)	(309)	(307)	(368)	(434)	(504)	(576)	(609)
Net debt/equity	-30%	-27%	-27%	-33%	-39%	-46%	-53%	-56%
Current ratio	5.5	8.1	9.1	9.4	9.6	9.8	10.0	9.9
Average ROE		-0.3%	-0.3%	-1.5%	-1.3%	-1.0%	-0.8%	-0.5%
Average ROIC		-0.3%	-0.3%	-1.5%	-1.3%	-1.0%	-0.8%	-0.5%
P/B		1.5x	1.5x	1.5x	1.5x	1.6x	1.6x	1.6x
P/NAV		0.2x	0.2x	0.2x	-	-	-	-
P/E		-	-	-	-	-	-	-
Dividend yield		0%	0%	0%	0%	0%	0%	0%

Source: Company data, AlembicHC

TMG Holding

- **We expect new sales to slow down and focus to shift to deliveries**
- **Direct land allocation with in-kind consideration likely to come under scrutiny again**
- **We maintain our TP of EGP6.2 and our Underweight rating**

As the legal framework around land allocation still remains uncertain, in our view the biggest risk to TMG relates to the Madinaty and El Rehab land, which was allocated directly and on a profit sharing basis. For Madinaty, the existing contract was revoked in compliance with the court order. But, given that the continuation of the project is in the public's best interest, the previous government moved quickly to regrant the land directly to TMG, stipulating that the overall sales realized by the government through the BUA sharing agreement should not fall short of EGP9.9bn (cEGP3,700/sqm). The land valuation is based on implied sales proceeds (EGP442/sqm) instead of on construction costs (EGP201/sqm), and is comparable to 2005 auctions prices of EGP300/sqm. However, any changes in the legal framework are likely to affect the Madinaty land bank as the allocation was done against an in-kind consideration and through a direct contract. To capture this risk, we increase the land discount 35 pp to 85%. Also, the company's hotel portfolio is likely to experience lower occupancy and daily rates.

We recently cut our 2011e revenue estimate 14% and our net profit estimate 25% to reflect the combined effect of an expected drop in hotel occupancies and the exclusion of any land sales in the company's mega plot sales program. Instead, we now add that land directly to TMG's land bank.

TMG managed to close the year with EGP4bn worth of presales, in line with company guidance. After the case was thought to be settled with the new contract signed under the old regime, the case has now been reopened. Additionally, in 2010, TMG recorded a drop in gross margins, due to a shift to lower margin apartments from high margin land sales recognition. Also, a marketing push after the Madinaty case resulted in higher than expected marketing expenses. Going forward, while we expect a gradual improvement in earnings backed by deliveries, land issues and TMG's exposure to the political transition in Egypt should drive the stock in the near term.

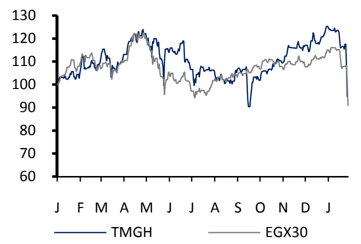
We maintain our Underweight rating for TMG and our TP of EGP6.2/share. The recent reduction in our TP was driven by a combination of a higher COE and land discount. Our TP implies a 56% discount to our 2011e NAV of EGP15.3/share. We value TMG using a combination of DCF and land valuation. We derive EGP2.2/share from existing projects under construction, EGP2/share from hotels, EGP1.1/share from land, and EGP0.9/share from investments including the Saudi venture.

Underweight

Target price (EGP)	**6.2**
Current price (EGP)	6.5
Potential return	-4%
Bloomberg	TMGH EY
Reuters	TMGH.CA
Mcap (EGPm)	13,145
Mcap (USDm)	2,236
Free float	24.5%
Daily volume (USDm)	5.1

Note: All prices as of 27 January 2011

Price performance



TMG Holding financial statements and ratios (EGPm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**3,977**	**4,822**	**5,339**	**6,508**	**7,323**	**6,267**	**6,158**	**2,159**
Total costs	**(2,728)**	**(3,336)**	**(3,817)**	**(3,871)**	**(4,079)**	**(3,393)**	**(3,249)**	**(1,018)**
Gross profit	**1,249**	**1,486**	**1,522**	**2,637**	**3,244**	**2,874**	**2,909**	**1,140**
Margin	*31%*	*31%*	*29%*	*41%*	*44%*	*46%*	*47%*	*53%*
EBIT	**1,082**	**1,202**	**1,234**	**2,156**	**2,679**	**2,260**	**2,441**	**699**
Margin	*27%*	*25%*	*23%*	*33%*	*37%*	*36%*	*40%*	*32%*
Profit before taxes	**560**	**1,313**	**1,156**	**2,365**	**3,114**	**2,835**	**3,239**	**1,587**
Income taxes	(151)	(113)	(199)	(355)	(467)	(425)	(486)	(238)
Minority shareholder interest	(182)	(93)	64	36	67	75	79	83
Net profit (loss)	**591**	**1,106**	**893**	**1,974**	**2,580**	**2,334**	**2,674**	**1,266**
Margin	*15%*	*23%*	*17%*	*30%*	*35%*	*37%*	*43%*	*59%*
Basic EPS	**0.3**	**0.5**	**0.4**	**1.0**	**1.3**	**1.2**	**1.3**	**0.6**
EBITDA	**1,082**	**1,202**	**1,100**	**2,312**	**2,864**	**2,472**	**2,669**	**929**
Margin	*27%*	*25%*	*21%*	*36%*	*39%*	*39%*	*43%*	*43%*
DPS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet								
Cash and cash equivalents	1,425	399	577	6,549	7,812	11,117	11,593	13,234
Long-term receivables	14,856	16,851	15,353	16,604	16,604	16,604	16,604	16,604
Development properties	-	-	-	4,971	3,529	1,847	-	-
Development work in progress	10,306	11,718	13,800	4,381	3,129	1,878	626	-
Current assets	**34,320**	**34,053**	**33,988**	**36,424**	**34,335**	**34,049**	**30,769**	**31,456**
Noncurrent assets	**380**	**388**	**542**	**398**	**403**	**409**	**414**	**420**
Permanent assets	**19,101**	**19,447**	**20,344**	**21,892**	**23,141**	**24,026**	**24,314**	**24,257**
Total assets	**53,800**	**53,889**	**54,873**	**58,714**	**57,880**	**58,484**	**55,497**	**56,133**
Current liabilities	**24,333**	**23,621**	**22,963**	**25,601**	**22,955**	**21,985**	**17,081**	**16,786**
Noncurrent liabilities	**5,518**	**5,439**	**6,225**	**5,184**	**4,349**	**3,513**	**2,678**	**2,260**
Minority interest in subsidiaries	1,994	1,685	1,328	1,774	1,841	1,916	1,995	2,078
Shareholder equity	**23,949**	**24,829**	**25,685**	**27,929**	**30,576**	**32,985**	**35,739**	**37,087**
Total liabilities and equity	**53,800**	**53,889**	**54,873**	**58,714**	**57,880**	**58,484**	**55,497**	**56,133**
Cash flow statement								
Net profit	**2,017**	**1,313**	**1,203**	**2,010**	**2,647**	**2,409**	**2,753**	**1,349**
CF generated from operating activities	**(743)**	**(301)**	**730**	**3,877**	**2,702**	**4,408**	**997**	**1,821**
CF generated from investing activities	**(6,449)**	**(202)**	**(1,316)**	**(1,240)**	**(1,439)**	**(1,103)**	**(522)**	**(179)**
CF generated from financing activities	**8,506**	**(466)**	**791**	**-**	**-**	**-**	**-**	**-**
Net addition (deduction) in cash	1,314	(968)	206	2,637	1,263	3,305	475	1,642
Cash at beginning of fiscal year	-	1,314	399	3,936	6,572	7,835	11,141	11,616
Net forex difference/others	-	4	-	-	-	-	-	-
Cash at end of fiscal year	**1,425**	**399**	**604**	**6,572**	**7,835**	**11,141**	**11,616**	**13,258**
Key ratios								
Revenue growth		21%	11%	14%	13%	-14%	-2%	-65%
Net profit growth		87%	-19%	87%	31%	-10%	15%	-53%
Debt/equity	8%	9%	12%	12%	11%	10%	9%	9%
Net debt	385	1,708	2,227	(3,525)	(4,788)	(8,094)	(8,569)	(10,211)
Net debt/equity	2%	7%	9%	-13%	-16%	-25%	-24%	-28%
Current ratio	2.0	1.4	1.4	1.4	1.4	1.5	1.5	1.8
Average ROE		5%	4%	7%	9%	7%	8%	3%
Average ROIC		4%	3%	7%	8%	7%	7%	3%
P/B		0.6x	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x
P/NAV		0.5x	0.5x	0.4x	0.4x	0.0x	0.0x	0.0x
P/E		12.0x	14.7x	6.7x	5.1x	5.6x	4.9x	10.4x
Dividend yield		0%	0%	0%	0%	0%	0%	0%

Source: Company data, AlembicHC

Palm Hills Developments

- **Robust second home sales in 2010 might turn into cancellations, stretching liquidity; we recently cut future sales particularly in the Cairo based Botanica project**
- **Continued investigations regarding land allocation result in uncertain visibility for the company's land bank, in our view**
- **We maintain our Underweight rating and TP of EGP4.6/share**

In 2010 PHD achieved EGP1.5bn in sales in its second home portfolio on the North Coast, notably at Hacienda Bay. This, we feel, is likely to leave it more exposed to cancellations, reminiscent of the 2009 crisis. Additionally, in our previous forecasts we had assumed complete sale of the company's largest Cairo land bank, particularly in Botanica. We understand that the project is still awaiting the necessary regulatory approvals, which are likely to be delayed further during the transition. To reflect this risk, we recently cut our presales estimates for the company, which were largely based on a range of launched projects in both East and West Cairo, including Botanica. Consequently, we lowered our revenue forecasts 6% for 2011e and 7% for 2012e, and cut our EPS forecasts 4% for 2011e and 6% for 2012e. However, based on the typical 4 year delivery cycle, the major cuts came in 2014e (70%) and 2015e (80%). Also, the company's liquidity position, which is particularly stretched by its land liabilities, is likely to be stretched further by sales cancellations, having an adverse impact on the company's cash flows.

While 2010 results are unprecedented for PHD, with total presales of EGP4.6bn (cumulative presales of EGP14bn), we remain cautious and conservative in our stance towards the company given its connections with the previous regime, high level of land liabilities, tight liquidity position, and execution of a diversified range of projects. Now, uncertainties are further exacerbated due to the company's land related issues and the market slowdown. PHD faces a pending law suit regarding its Palm Hills Katameya land (930,000 sqm) in East Cairo; a state body has already declared the transaction void. In light of current events, 2011 is likely to be a muted year for the company and we expect more presales cancellations.

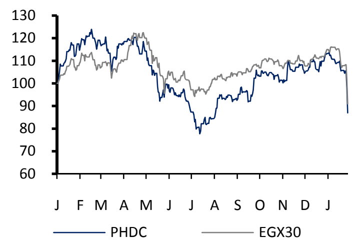
We maintain our TP of EGP4.6/share and our Underweight rating. We value PHD using a combination of DCF and land valuation methods, deriving EGP2.9/share from projects and EGP1.6/share from land. For launched projects and projects under construction, we use a DCF valuation considering the high development visibility and low turnaround time. Our TP implies a 63% discount to PHD's 2011e NAV of EGP12.4/share.

Underweight

Target price (EGP)	**4.6**
Current price (EGP)	4.9
Potential return	-5%
Bloomberg	PHDC EY
Reuters	PHDC.CA
Mcap (EGPm)	5,105
Mcap (USDm)	868
Free float	36%
Daily volume (USDm)	1.4

Note: All prices as of 27 January 2011

Price performance



AlembicHC

Palm Hills Developments financial statements and ratios (EGPm)

Year to December	2008a	2009a	2010a	2011e	2012e	2013e	2014e	2015e
Income statement								
Revenue	**1,235**	**1,146**	**1,831**	**3,312**	**4,878**	**2,044**	**506**	**292**
Total costs	**(293)**	**(455)**	**(820)**	**(1,938)**	**(2,997)**	**(1,282)**	**(439)**	**(227)**
Gross profit	**941**	**691**	**1,011**	**1,374**	**1,881**	**762**	**67**	**65**
Margin	*76%*	*60%*	*55%*	*41%*	*39%*	*37%*	*13%*	*22%*
EBIT	**755**	**503**	**606**	**1,210**	**1,709**	**590**	**(19)**	**1**
Margin	*61%*	*44%*	*33%*	*37%*	*35%*	*29%*	*-4%*	*0%*
Profit before taxes	**762**	**560**	**636**	**1,294**	**1,868**	**845**	**329**	**398**
Income taxes	(12)	(40)	(91)	(194)	(280)	(127)	(49)	(60)
Minority shareholder interest	**(6)**	**(45)**	-	-	-	-	-	-
Net profit (loss)	**744**	**476**	**545**	**1,100**	**1,588**	**718**	**280**	**338**
Margin	*60%*	*42%*	*30%*	*33%*	*33%*	*35%*	*55%*	*116%*
Basic EPS	**1.7**	**0.7**	**0.5**	**1.0**	**1.5**	**0.7**	**0.3**	**0.3**
DPS	-	-	-	-	-	-	-	-
EBITDA	**755**	**527**	**664**	**1,254**	**1,751**	**630**	**20**	**39**
Margin	*61%*	*46%*	*36%*	*38%*	*36%*	*31%*	*4%*	*13%*
Balance sheet								
Cash and cash equivalents	280	135	148	2,393	3,163	4,568	5,102	5,838
Notes receivable (PDC)	683	967	1,585	825	589	354	118	-
Development properties	4,940	5,474	5,354	4,162	3,538	3,007	2,556	2,173
Development WIP	-	-	-	2,475	1,740	448	317	72
Current assets	**6,425**	**7,250**	**8,456**	**11,144**	**10,084**	**9,195**	**8,675**	**8,547**
Noncurrent assets	**2,129**	**2,666**	**3,681**	**2,138**	**1,590**	**1,042**	**494**	**220**
Permanent assets	**591**	**615**	**1,073**	**819**	**803**	**789**	**777**	**765**
Total assets	**9,145**	**10,531**	**13,209**	**14,101**	**12,477**	**11,026**	**9,946**	**9,532**
Current liabilities	**2,681**	**3,692**	**5,061**	**7,415**	**4,313**	**2,254**	**1,004**	**308**
Noncurrent liabilities	**3,633**	**3,429**	**3,283**	**809**	**699**	**589**	**478**	**423**
Minority interest in subsidiaries	145	248	481	432	432	432	432	432
Shareholder equity	**2,832**	**3,410**	**4,868**	**5,877**	**7,465**	**8,183**	**8,463**	**8,801**
Total liabilities and equity	**9,145**	**10,531**	**13,212**	**14,101**	**12,477**	**11,026**	**9,946**	**9,532**
Cash flow								
Net profit	**719**	**560**	**636**	**1,100**	**1,588**	**718**	**280**	**338**
CF generated from operating activities	**(572)**	**(29)**	**(769)**	**881**	**800**	**1,435**	**564**	**766**
CF generated from investing activities	**(518)**	**(249)**	**(168)**	**(30)**	**(30)**	**(30)**	**(30)**	**(30)**
CF generated from financing activities	**1,359**	**99**	**950**	-	-	-	-	-
Net addition (deduction) in cash	268	(180)	13	851	770	1,405	534	736
Cash at beginning of fiscal year	-	-	(180)	1,061	1,912	2,682	4,087	4,621
Cash at end of fiscal year	**-**	**(180)**	**(166)**	**1,912**	**2,682**	**4,087**	**4,621**	**5,357**
Key ratios								
Revenue growth		-7%	60%	139%	47%	-58%	-75%	-42%
Net profit growth		-36%	15%	129%	44%	-55%	-61%	21%
Debt/equity	29%	19%	21%	16%	12%	11%	11%	10%
Net debt	236	455	438	(2,010)	(2,780)	(4,185)	(4,719)	(5,455)
Net debt/equity	8%	13%	9%	-34%	-37%	-51%	-56%	-62%
Current ratio	2.4	2.0	1.7	1.5	2.3	4.1	8.6	27.8
Average ROE		15%	13%	21%	24%	9%	3%	4%
Average ROIC		14%	12%	19%	22%	9%	3%	4%
P/B		1.1x	1.2x	0.9x	0.7x	0.7x	0.6x	0.6x
P/NAV		-	0.5x	0.4x	-	-	-	-
P/E	2.9	7.2	9.4	4.6	3.2	7.1	18.2	15.1
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%

Source: Company data, AlembicHC

Rating scale

Recommendation	Potential return
Overweight	Greater than 20%
Neutral	0% to 20%
Underweight	Less than 0%

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Issuer of report:

HC Brokerage
Building F15-B224, Smart Village
KM28 Cairo-Alexandria Desert Road
6 October 12577, Egypt
Telephone: +202 3535 7666
Fax: +202 3535 7665
Website: www.hc-si.com

Alembic Global Advisors
780 Third Avenue, 8th Floor
New York, NY 10017
Telephone: +1 212 359 8292
Website: www.alembicglobal.com

US distributor of report:

Pulse Trading
2 Liberty Square, 2nd Floor
Boston, MA 02109
Telephone: +1 617 316 5620
Website: www.pulsetrading.com

AlembicHC

Research		**research@hc-si.com**	
Karim Khadr	Head of Research (ME)/Telecoms	karim.khadr@hc-si.com	+971 4 293 5381
Sarah Shabayek	Telecoms	sarah.shabayek@hc-si.com	+20 2 3535 7366
Hassan Ahmed Registered with US-based broker dealer Pulse Trading Inc.	Head of Research (US)/Chemicals	hassan.ahmed@alembicglobal.com	+1 212 359 8291
Lovetesh Singh	Chemicals	lovetesh.singh@hc-si.com	+91 9772 755 777
Jaap Meijer, CFA	Financials	jaap.meijer@hc-si.com	+971 4 293 5383
Janany Vamadeva	Financials	janany.vamadeva@hc-si.com	+971 4 293 5384
Saumya Agarwal	Financials	saumya.agarwal@hc-si.com	+971 4 293 5380
Majed Azzam	Real Estate & Construction	majed.azzam@hc-si.com	+971 4 293 5385
Ankur Khetawat	Real Estate & Construction	ankur.khetawat@hc-si.com	+971 4 293 5387
Nermeen Abdel Gawad	Real Estate & Construction	nermeen.abdelgawad@hc-si.com	+20 2 3535 7362
Sapna Sharma	Real Estate & Construction	sapna.sharma@hc-si.com	+971 4 293 5382
Hatem Alaa, CFA	Diversified	hatem.alaa@hc-si.com	+20 2 3535 7354
Mennatallah El Hefnawy	Diversified	menna.elhefnawy@hc-si.com	+20 2 3535 7360
Mai Nehad	Diversified	mai.nehad@hc-si.com	+20 2 3535 7356
Tudor Allin-Khan, CFA	Chief Economist	tudor.allin-khan@hc-si.com	+971 4 293 5386
Amr Abdel Khalek	Economist	amr.abdelkhalek@hc-si.com	+20 2 3535 7368
Danielle Bouchard	Editor	danielle.bouchard@hc-si.com	+20 2 3535 7370
Mohamed El Saiid, MFTA	Head of TA Research	melsaiid@hc-si.com	+20 2 3535 7390
Sameh Khalil, CFTe	Technical Analyst	skhalil@hc-si.com	+20 2 3535 7392

Sales and Trading – Cairo, Egypt		**salesandtrading@hc-si.com**	
Shawkat El-Maraghy	Managing Director	selmaraghy@hc-si.com	+20 2 3535 7500
Aboubakr Shaaban	Sales	aboubakr.shaaban@hc-si.com	+20 2 3535 7518
Hossam Wahid	Sales Trading	hwahid@hc-si.com	+20 2 3535 7522
Hassan Kenawi	Sales Trading	hkenawi@hc-si.com	+20 2 3535 7528
Nihal Hany	Sales Trading	nhany@hc-si.com	+20 2 3535 7532
Ahmed Nabil	Sales Trading	anabil@hc-si.com	+20 2 3535 7516

Sales and Trading – Dubai, UAE			
Hassan Aly Choucri	Managing Director/Sales Trading	hassan.choucri@hc-si.com	+971 4 293 5305
Nadia Kabbani	Sales	nadia.kabbani@hc-si.com	+971 4 293 5365
Samer Azzam	Sales	samer.azzam@hc-si.com	+971 4 293 5302
Anne Marie Browne	Sales Trading	annemarie.browne@hc-si.com	+971 4 293 5301
Mohamed Galal	Sales Trading	mohammed.galal@af-hc.com	+971 4 293 5309
Wael Atta	Sales Trading	wael.atta@hc-si.com	+971 4 293 5388

Sales and Trading – New York, US			
Stephen Matthews Registered with US-based broker dealer Pulse Trading Inc.	Sales	stephen.matthews@alembicglobal.com	+1 212 359 8292