



## Company Update

### Union Properties

Rating: Underperform

## Downgrading to Underperform

We are downgrading UPP to Underperform with a price target of AED0.81. Our previous rating was Market Perform with a price target of AED1.09. UPP reported weak 2Q09 results with revenues of AED1.3bn (vs. our estimate of AED2bn) as property handovers in MotorCity fell significantly below our estimates. Moreover, the company's liquidity position is precarious with cash of AED79.4mm and short-term (due in 12 months or less) debt of AED3.6bn (excluding AED956mm refinanced as long-term bank loan post 2Q09). We do point out that the company's largest lender, EBI, is also its primary shareholder (47.6% stake). Thus, we are somewhat optimistic about future new loans or refinancings of existing short-term facilities should the need arise.

**2Q09 results came in well below our estimates.** Overall, the lower-than-expected handovers in MotorCity hurt results: (1) Revenues of AED1.3bn fell significantly below our estimate of AED2bn; and (2) Net income of AED75.9mm (excluding the fair value revaluation loss of investment properties of AED303.8mm), again significantly came in below our 2Q09 net income estimate of AED682mm. We also believe that the fair value revaluation loss of AED303.8mm remains well below what one would expect given the fall in rental values in Dubai since FY08 and that a true revaluation of investment properties would have served to lower UPP's 2Q09 net income further. Net-net, overall revenues and quality of earnings remained very poor in 2Q09.

**UPP's equity value continues to be propped up by its beneficial parent (Emirates Bank), but we wonder for how much longer.** Without its parent's willingness to convert around AED2bn in current portion of long term loans/short-term bank loans into long-term bank loans in 1H09, UPP shareholders' would have been left with a very dire scenario. If Emirates Bank (and other lenders) had decided to convert AED6.3bn in total debt into equity (UPP's current market cap is AED3.9bn), UPP's minority shareholders' would have faced very significant dilution. Even if we include the potential impact of divestitures of its Thermo/Emicool businesses, UPP's equity should be worth significantly less than what the stock is trading currently. However, we continue to believe that give our expectation of ~AED4bn in cash inflows until end-2010 (handovers, rental income, contracting income, etc.), UPP should remain as a viable going concern unless fundamentals deteriorate significantly.

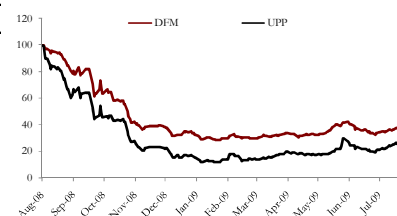
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#### Equity Data

Current Price (AED)	1.15
Target Price (AED)	0.81
Upside/downside	-29.6%
12 Mo. Performance	-72.4%
Market Cap. (AED bn.)	3.9
Enterprise Value (AED bn.)	10.1
RIC	UPRO.DU



(AED Millions)	2007A	2008A	2009E	2010E	2011E
Revenues	2,922	3,637	6,214	4,349	3,045
Gross Margins	18.4%	11.6%	25.3%	22.5%	25.5%
EBIT	405	257	1,120	900	722
EBIT Margin	13.9%	7.1%	18.0%	20.7%	23.7%
EBITDA	443	311	1,152	936	761
EBITDA Margin	15.2%	8.6%	18.5%	21.5%	25.0%
EPS	0.22	0.25	0.34	0.26	0.21
PE	5.1	4.6	3.4	4.4	5.4
Cash Earnings/Share	0.12	(0.10)	0.33	0.26	0.20



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