29 April 2009

AL MAL CAPITAL

## Company Update

# Tepid 1Q09 Results; Downgrading to Market Perform

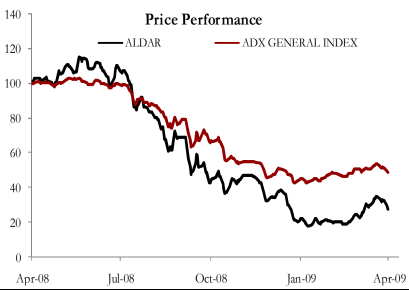
### Aldar Properties

**Rating: Market Perform**

**We are downgrading Aldar to Market Perform.** Our previous rating was Outperform. Despite its recent pullback, Aldar stock has gained 60% from its Feb. 4 low of AED1.96 based on the overall market recovery and expectations about "not too bad" 1Q09 results. With Aldar now releasing lackluster 1Q09 results and guiding for 15-20% gross margins for the remainder of the year from residential property sales (significantly below consensus models), we think the stock could be weak near-term. We continue to envision a difficult 2009 with limited new land/property sales until 4Q09 and increased incidences of buyer defaults. *Thus, we choose to remain on the sidelines for now and are downgrading Aldar from Outperform to Market Perform with a 12-month DCF-derived price target of AED3.57.* Our 12-month rating accounts for the fact that once we move past the possible near-term weakness in the stock, investors could view Aldar positively given: (1) its significant portfolio and sizeable project deliveries over the next 2-3 quarters; and (2) that Aldar remains the most financially stable domestic developer despite its high debt/equity ratio of 185% given its treasure chest of AED15.1bn in cash, AED6.3bn in unused credit facilities and the strong backing it enjoys from the Abu Dhabi government (~26% owner).

**Weak 1Q09 results indicative of the weak and deteriorating fundamentals in the UAE real estate sector, in our view.** While Abu Dhabi real estate fundamentals remain relatively healthier versus Dubai (chiefly a supply shortage amid continued population growth), the paucity of end buyers given still-high prices and limited availability of mortgages continues to plague that emirate as well. This is aptly reflected in Aldar's 1Q09 results (details on page 2).

| Equity Data | |
|---|---|
| Current Price (AED) | 3.14 |
| Target Price (AED) | 3.57 |
| Upside/downside | 14% |
| 12 Mo. Performance | -71% |
| Market Cap. (AED bn.) | 11 |
| Enterprise Value (AED bn.) | 27 |
| RIC | ALDR.AD |




| (AED Millions) | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| Revenues | 1,227 | 4,978 | 4,232 | 7,405 | 11,848 |
| Gross Margins | 45.6% | 53.9% | 22.3% | 30.0% | 30.0% |
| EBIT | 166 | 1,758 | 174 | 1,333 | 2,251 |
| EBIT Margin | 13.5% | 35.3% | 4.1% | 18.0% | 19.0% |
| EBITDA | 185 | 1,782 | 327 | 1,599 | 2,677 |
| EBITDA Margin | 15.1% | 35.8% | 7.7% | 21.6% | 22.6% |
| EPS | 0.78 | 1.03 | 0.35 | 0.42 | 0.62 |
| PE | 4.0 | 3.0 | 9.1 | 7.5 | 5.1 |
| Cash Earnings/Shar | 0.05 | 0.55 | (0.15) | 0.13 | 0.37 |
| P/Cash Earnings | 69.0 | 5.7 | N.M | 24.0 | 8.4 |

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# Tepid 1Q09 Results Highlights Challenges Aldar Faces in 2009

***1Q09 revenues fall-off given zero land sales, while non-cash land revaluation gains boost the bottom-line.***

**(1) Gross revenues of AED528.6mm declined 9% qoq and 76% yoy given no new land sales during the quarter.** For perspective, land sales made up 76% of the gross revenues of AED5.3bn reported in 2008 and around 13% of the gross revenues of AED579.6mm reported in 4Q08. Property sales of AED481mm reflected handover of 189 villas at Al Raha Gardens Phase II, with the remainder of revenues accruing from rental and school income.

**(2) Gross margins fell to 18% vs. 23% in 4Q08 and 62% in 1Q08 as higher-margin land sales vanished.** During the conference call, management stated that gross margins would have been around 28-32% if the company had not recognized around 15% of sales at Al Raha Gardens previously. *Going forward for the rest of the year, management expects gross margins around the 15-20% range from residential property sales, which is significantly below consensus expectations.*

**(3) Net income of AED888.7mm was boosted by a non-cash revaluation gain of AED919.8mm as Aldar shifted some land plots to investment properties.** Management revealed that the company added around 3.5mm square meters of land to investment properties during the quarter. As we have been stressing previously, investors should look beyond such non-cash and somewhat discretionary accounting tools to understand Aldar's true operational profit for the period. Excluding this gain, Aldar actually reported an AED31.1mm *loss* for the quarter.

**(4) Cash balances increased 25% from YE2008 to AED15.1bn with Aldar drawing down AED7.8bn in credit facilities.** The company has now roughly AED6.3bn in available credit facilities having raised an additional AED3.1bn in credit facilities from local and international banks in April. Management continues to employ a strategy of maintaining 12-18 months of liquidity on a rolling basis.

**(5) Aldar spent AED4.81bn on investment/development properties during 1Q09** as it made progress towards delivering Phase 1 of Yas Islands by Nov. and initial handovers of Al Raha Beach by early 2010.

**(6) Total capital commitments (over the next 13 years) fell 18% to AED35.5bn** mainly due to renegotiation of a major contract implying Aldar is benefitting from lower construction costs.

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