



Research Note

Emaar Properties

Rating: Outperform

Emaar 2Q08 Earnings

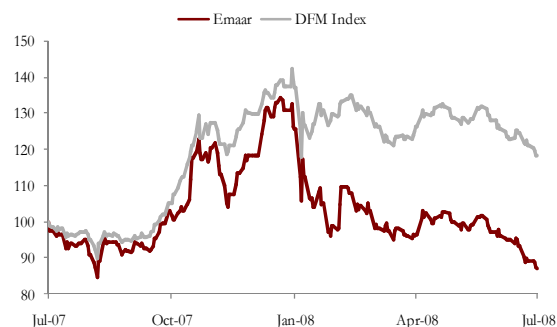
- Emaar reported second quarter earnings Thursday after the close of trading. The company reported net income of AED 1.66 billion (AED 0.27 per share), compared to our estimate of AED 1.71 billion (AED 0.28 per share). Net income increased 6.5% year over year.
- Gross margins improved to 45.3%, compared to 36.7% in 2Q07. However, the gross margin declined from the 48.7% level seen in 1Q08. We expect that the margin improvement is largely owing to the declining revenues from the unprofitable US operations.
- The company booked very strong sales in the UAE, mainly driven by the Asmaran and Bawadi developments. Emaar reported record sales of AED 8.9 billion in UAE sales for 2Q08, compared to AED 5.6 billion in 1Q08.
- The company did not record any goodwill charges related to its US operations as we had expected. We estimate over AED 2 billion in goodwill related to the purchase of John Lange Homes. We feel that at some point the company will have to take charges related to this investment.
- Given the strong sales of the new developments in the last few quarters (essentially revenue to be booked in future periods), we continue to expect earnings to ramp up later in the year and into 2009.
- Though, we do not expect these results to offer a significant near term catalyst for the stock price, we expect any ramp up to earnings into 2009 should offer a new catalyst. Therefore, with the stock trading at a 8.8x 2008E PE and 5.7x 2009E PE, we believe current levels should be a good entry point for long term investors.

(AED Millions)	2006A	2007A	2008E	2009E	2010E
Revenues	14,006	17,566	20,025	28,836	37,775
Gross Margins	49.7%	37.8%	38.2%	37.9%	37.2%
EBIT	5,742	4,516	5,336	8,161	10,858
EBIT Margin	41.0%	25.7%	26.6%	28.3%	28.7%
EBITDA	5,860	4,697	5,551	8,420	11,144
EBITDA Margin	41.8%	26.7%	27.7%	29.2%	29.5%
P/BV	1.97	1.65	1.41	1.16	0.94
EPS	1.07	1.08	1.13	1.74	2.27
PE	9.44	9.32	8.86	5.76	4.44
Cash Earnings/Share	1.02	0.98	0.98	1.57	2.09
P/Cash Earnings	9.82	10.23	10.27	6.38	4.82

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Equity Data

Current Price (AED)	10.05
Target Price (AED)	17.29
Upside/downside	72%
12 Mo. Performance	11%
Market Cap. (AED bn.)	61
Enterprise Value (AED bn.)	66
RIC	EMAR.DU
Bloomberg	EMAAR UH



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