



Research Note

Emaar 3Q08 Earnings

Emaar Properties

Rating: Outperform

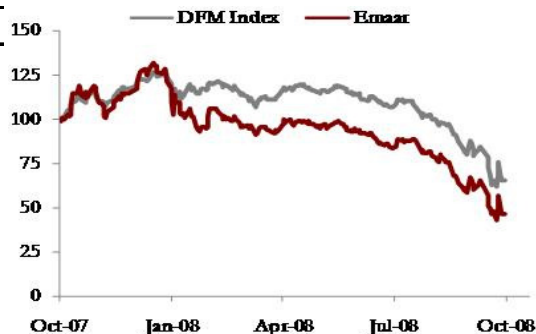
- Emaar reported third quarter results with net income of AED 1.5 billion (AED 0.25 per share), compared to our estimate of AED 1.69 billion (AED 0.28 per share). Net income declined 3% year over year.
- Gross margins improved to 60%, compared to 37% in 3Q07 and 45% in 2Q08. In our view, the improved gross margins are a positive indication that Emaar has been effectively focusing efforts on cost cutting. However, it is unclear how much of the impact has to do with the composition of revenues.
- The company recorded a goodwill charge related to its US operations. The company recognized an AED750 million charge. This charge represents an AED 0.12 negative impact to earnings per share.
- As a result of the strong margin improvement, we are increasing our year end estimate for EPS to AED 1.19 from AED 1.13. However, in light of the difficult operating environment for real estate globally we have reduced our 2009 and 2010 EPS estimates from AED 1.74 and AED2.27, respectively, to AED 1.33 and AED 1.61.
- Additionally, we have reduced our revenue projections to reflect a more difficult operating environment. We now expect revenue growth in 2009 of roughly 7% year over year and 11% in 2010.
- We view the results to be a positive in the near term. While profitability has been enhanced significantly, we do see signs that top line growth is starting to stall. However, we feel the slower pace of growth is fully reflected in the current valuation. Emaar now trades at a 2009E PE of 4.2x. To reflect our lowered expectations and a higher cost of capital (reflecting a nearly 130 basis point increase in our regional risk free rate) We have adjusted our target price down to AED 11.22 102% upside from current levels.

(AED Millions)	2006A	2007A	2008E	2009E	2010E
Revenues	14,006	17,566	17,264	18,473	20,505
Gross Margins	49.7%	37.8%	51.6%	47.0%	50.0%
EBIT	5,742	4,516	6,872	6,840	8,419
EBIT Margin	41.0%	25.7%	39.8%	37.0%	41.1%
EBITDA	5,860	4,697	7,087	7,075	8,673
EBITDA Margin	41.8%	26.7%	41.1%	38.3%	42.3%
P/BV	1.09	0.91	0.77	0.67	0.57
EPS	1.07	1.08	1.19	1.33	1.61
PE	5.22	5.16	4.66	4.18	3.45
Cash Earnings/Share	1.02	0.98	1.04	1.24	1.52
P/Cash Earnings	5.43	5.66	5.36	4.48	3.67

Robert McKinnon  
 T+971 4 360 11 17  
 robert.mckinnon@almalcapital.com

Downtown Burj Dubai  
 Emaar Square  
 Building 4, Office # 302  
 P. O. Box 119930  
 Dubai, United Arab Emirates  
 T +971 4 360 1111  
 F +971 4 360 1122  
 www.almalcapital.com

Equity Data	
Current Price (AED)	5.56
Target Price (AED)	11.22
Upside/downside	102%
12 Mo. Performance	11%
Market Cap. (AED bn.)	33.9
Enterprise Value (AED bn.)	38.3
RIC	EMAR.DU
Bloomberg	EMAAR UH





### Al Mal Securities Group

#### Managing Director

Tamim Refai +971 4 360 11 30

#### Institutional Sales & Trading

Khamis Shinnawi +971 4 360 11 10

Tareq Hamdan +971 4 360 11 06

Homam Maghalseh +971 4 360 11 07

Hassan El Salah +971 4 360 11 09

Reza Kiani +971 4 360 11 13

#### Portfolio Advisory

Akram Annous +971 4 360 11 12

All Desks Number +971 4 360 11 00

### Al Mal Capital Research

#### Managing Director

Robert McKinnon +971 4 360 11 17

#### Equity Research Analysts

Irfan Ellam +971 4 360 11 53

Bobby Sarkar +971 4 360 11 68

Deepak Tolani, CFA +971 4 360 11 52

Katherine Lynn +971 4 360 11 66

Mala Pancholia +971 4 360 11 54

Prerna Sharma +971 4 360 11 56

Arun Ramachandra +971 4 360 11 57

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