



Research Update

JLHomes Declares Bankruptcy; Emaar Stock Could Be Weak Near-Term; Rating/Target Price Under Review

- **WL Homes (also known as JL Homes) files for Chapter-11 bankruptcy in the US.** Emaar's 100%-owned US subsidiary JL Homes filed for bankruptcy protection (CH-11) on Feb. 19. JL Homes had \$1.3bn in assets and \$977mm in liabilities (of which secured debt was \$350.6mm) as of Nov. 30. According to court documents, JL Homes blamed its bankruptcy filing on the collapse of the US real estate market – yearly sales until Nov. 2008 fell almost 70% vs. 2007 levels.
- **Our view: while bankruptcy rumors were circulating over the past few weeks, official announcement is likely to be a negative catalyst for Emaar stock.** The financial impact of JL Homes bankruptcy is likely to be less severe than it could have been had Emaar not written off 100% of its goodwill associated with its 2006 purchase of JL Homes. In 2008, Emaar wrote off the entire goodwill associated with US operations (JL Homes) totaling AED2.523bn, including a write-down of AED1.773bn in 4Q08. Emaar has also written off AED1.542bn in inventory of unsold homes in the US over 2007-2008.
- **Our rating and price target for Emaar is under review pending discussions with company management.** We aim to have some key questions answered from management over the next week or so, at which time we will officially adjust our rating and price target for Emaar stock.
- We detail some of our key questions and concerns on the next page.

Bobby Sarkar
T+971 4 360 11 68
bobby.sarkar@almalcapital.com

Downtown Burj Dubai
Emaar Square
Building 4, Office 302
Sheikh Zayed Road
P. O. Box 119930, Dubai, UAE
T +971 4 360 1111
F +971 4 360 1122
www.almalcapital.com



- **Question/concern I: what financial resources does Emaar have to withstand the downturn in the real estate market?** So far, Emaar has not disclosed its cash flow statement/balance sheet for 2008. As such, we have little clarity as to:
 - **What is Emaar's cash position/cash burn rate at the end of 2008?** This is a key question in the mind of investors that is yet to be addressed by the company. With a slowdown in demand for domestic real estate, we wonder how the company will fund its working capital requirements. For perspective, at the end of 3Q08, Emaar had AED2.1bn in cash net of short-term debt and AED4.8bn in long-term debt.
 - **How has the downturn affected Emaar's spending and customer payments?** Emaar's "development properties" account has increased 20.4% since end-2007, growing from AED16.2bn in 2007 to AED19.5bn in 3Q08. With the "development properties" account denoting revenues recognized less cash received from customers, we would like to see a slowdown in this account as the company adjusts to the prevailing downturn. This is because growth in this account is essentially a cash drain on Emaar. We are also concerned about the 27.6% increase in accounts receivables, which has grown from AED3.6b in 2007 to AED4.6bn in 3Q08. With Emaar's revenues actually declining 10.4% to AED16bn in 2008 from AED17.9bn in 2007, we remain concerned about the increase in "development properties"/accounts receivables accounts. We do note that "advances/deposits from customers" account, although a relatively small account grew 35.7% from AED2.9b in 2007 to AED3.9bn in 3Q08. This implies instalment payments from customers have been relatively consistent, at least until 3Q08.
 - **What is the quality of assets held in "development properties" account?** We remain concerned about the potential for future write downs.
- **Question/concern II: How has Emaar modified its strategy to cope with the downturn and grow in the future?** Management, so far, has communicated little in terms of its overall strategy. Emaar's announced incentives such as "plan to own" and "rent to own" have met with little success thus far. Under the first scheme, the buyer would get a 25% down-payment bridge loan in order to secure a mortgage. The "rent to own" incentive allows renters to use 100% of their yearly rent to buy the property if they decide to purchase the property within 10 months of renting it. Both these incentives have not helped in increasing sales, as Emaar has been so far reluctant to reduce property prices to reflect the current market conditions. We understand that Emaar has enjoyed significant margins in Dubai in the past but we would like to see the company respond "innovatively" to the current situation and lower prices to fill their existing unsold projects.
- **In summary, we remain cautious on Emaar shares.** Emaar stock has rebounded despite poor 4Q earnings and announcement about dividend cancellation due to the uptick in the Dubai market driven by the Borse Dubai news. We will be revising our view on the stock over the next week or so after further analysis and conversations with management.



Al Mal Securities Group

Institutional Sales & Trading

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Hassan El Salah +971 4 360 11 09

Kamal Samarrai +971 4 360 11 05

Jalal Faruki +971 4 360 11 03

Portfolio Advisory

Akram Annous +971 4 360 11 12

All Desks Numbers +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

Mala Pancholia +971 4 360 11 54

Disclaimer: This report is not an offer to buy or sell nor a solicitation to buy or sell any of the securities mentioned within. The information and recommendations contained in this report were prepared using information available to the public and sources Al Mal Capital believes to be reliable. Al Mal Capital PSC does not guarantee the accuracy of the information contained within this report and accepts no responsibility or liability for losses or damages incurred as a result of investment decisions taken based on information provided or referred to in this report. Any analysis of historical facts and data is for information purposes only and past performance of any company or security is no guarantee or indication of future results. Al Mal Capital PSC, or its "related group companies" (which may include any of its branches, affiliates and subsidiaries) or any director(s) or employee(s) of the said companies, individually or collectively, may from time to time take positions or effect transactions related to companies mentioned in this report. Al Mal Capital PSC and its related group companies may have performed or seek to perform investment banking or any other financial or advisory services for the companies mentioned in this report.