



Company Update

EMAAR Properties

Rating: Market Perform

Analysis of 1Q09 Statements Reveals that Liquidity Remains Tight

1Q09 financial statements shed light on several issues. In our May 3 report, “*Several Questions Remain; Changing Rating to Market Perform*,” we had posed several questions, which were unanswered given the lack of disclosure of 1Q09 balance sheet/cash flow statements. With Emaar now releasing its detailed financial statements for the first quarter, we attempt to get some clarifications on the issues surrounding the company.

(1) Has Emaar received some funds from the \$5bn already doled out by the Dubai government? So far the answer is No. As 1Q09 statements reveal, Emaar did not receive any funds from the government either during the quarter (as that would have been reflected in its financial statements) or between end-march to May 14 (as that would have been stated in a “subsequent events” section in the notes to the financial statements). We continue to believe that Emaar could benefit from such a cash infusion given its weak net-cash position and the fact that it has been stretching out its payables. We note that Nakheel has already received some funding assistance from the Dubai government. Given Emaar’s preeminent position in the Dubai/Middle East property market and the Dubai government’s significant 31% ownership stake in the company, we believe that Emaar would receive government assistance if it were so required.

(2) What is its cash position? Cash position net of short-term debt has worsened. Cash declined 15% qoq to AED4.6bn from AED5.4bn in 2008. As its short-term debt (maturing within 12-months) actually grew 27% qoq to AED5.8bn from AED4.6bn in 4Q08, the company’s cash net of short-term debt is now a *negative* AED1.2bn (i.e., a shortfall) vs. an excess of AED829mm in 2008. Thus, any significant defaults in buyer payments this year (assuming no new financings or funding inflows) could have negative consequences.

(3) Has Emaar slowed its pace of cash burn on development properties? Cash burn remains high on an absolute basis. While the company’s cash outflow on development properties did slow to AED1.6bn in 1Q09 vs. AED2.5bn in 1Q08, it remains high on an absolute basis. In our view, the growth in development properties is essentially a cash drain on Emaar and we would like to see a slowdown in this account as the company adjusts to the prevailing downturn. Given that the quality of assets being booked in this account is suspect, we remain concerned about the potential for future write-downs. We also note that due to the change in accounting methodology to “completed contract,” development properties have ballooned to AED28.4bn as of 1Q09 from AED26.8bn in FY08. For reference, under its prior “percentage of completion” accounting rule, Emaar had AED19.2bn in this account at Dec. 2008. This significant increase is primarily because under the new accounting standard, Emaar has had to reverse any “progress billings” associated with yet-uncompleted properties that it may have previously used to reduce the development properties account.

(Executive Summary Continued on Page 2)

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Equity Data						
Current Price (AED)	2.54					
Target Price (AED)	2.68					
Upside/downside	5.4%					
12 Mo. Performance	-78%					
Market Cap. (AED bn.)	15.5					
Enterprise Value (AED bn.)	20.8					
RIC	EMAR.DU					
Bloomberg	EMAAR.UH					

(AED Millions)	2007A	2008A	2009E	2010E	2011E
Revenues	17,869	16,015	6,957	7,514	8,265
Gross Margins	39.5%	42.5%	45.0%	43.0%	42.0%
EBIT	5,223	4,703	1,322	1,352	1,653
EBIT Margin	29.2%	29.4%	19.0%	18.0%	20.0%
EBITDA	5,404	5,004	1,704	1,766	2,108
EBITDA Margin	30.2%	31.2%	24.5%	23.5%	25.5%
EPS	1.08	0.50	0.25	0.33	0.39
PE	2.35	5.06	9.98	7.78	6.57
Cash Earnings/Share	1.11	0.55	0.32	0.39	0.46
P/Cash Earnings	2.29	4.61	8.01	6.44	5.51

Note: FY07/FY08 financials based on prior accounting standard and thus not comparable with forecasts.



(4) Is Emaar paying its contractors/suppliers? The company continues to push off such payments. Payables to suppliers and contractors fell slightly by 3% qoq to AED8.4bn from AED8.7bn in 2008. However, payables when compared to annualized cost of goods sold still remain very high at 250%. In contrast, advances to contractors/others remain much smaller in absolute terms at AED1.2bn (up 3% qoq).

(5) What is the level of customer defaults? Emaar continues to be silent on this topic. Moreover, the company has so far not announced any pricing decreases in order to ensure prompt payments and/or move unsold Dubai inventory. We do note that Emaar has received significant cash from customers through installment payments on properties that are yet to be handed over. This is denoted in the liabilities section as “advances from customers,” which came in at AED18.4bn, up 2% from AED18.1bn as of FY08. This account has also significantly expanded under the new accounting rule (under the percentage of completion method, it stood at just AED4.1bn in 2008) given that Emaar has had to reverse all recognized revenues on properties that are still being completed. Given this significant amount of cash already received from buyers, which on an average have already probably paid up a significant portion of their final purchase price, we remain hopeful that the level of defaults going forward will be low.

Financial Comparisons

000s AED	2008	1Q09	Change qoq
Cash	5,392,986	4,560,456	-15%
Accounts Receivables	4,569,175	4,663,627	2%
Development Properties	26,799,447	28,360,989	6%
Payables (Project Contract Costs Accruals+Other Payables & Accruals+Trade Payables)	8,690,782	8,438,956	-3%
Advances from Customers	18,109,424	18,395,390	2%
Short-Term Debt	4,563,896	5,799,196	27%
Long-Term Debt	4,610,269	4,132,270	-10%
Total Debt	9,174,165	9,931,466	8%
Cash Net of ST Debt	829,090	(1,238,740)	-249%
Cash Spent on Development Properties		1,561,542	
Days Sales Outstanding		275	
Days Payables Outstanding		912	
Inventory Days (Development Properties)		3064	

Development Properties Details	2008	1Q09	Change qoq
Beginning Balance	22,302,917	26,799,447	20%
Add: Cost Incurred During the Period/Year	11,793,383	2,242,908	-81%
Less: Cost Transferred to Cost of Revenue During the Period/Year	(6,212,836)	(681,366)	-89%
Less: Impairment of Development Properties (WL Homes)	(1,084,017)		
Total Development Properties	26,799,447	28,360,989	6%

Source: Company Reports

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