



Company Update

Liquidity Fears Alleviated For Now; Rating Under Review Given Lack of Financial Details

Union Properties

Rating: Under Review

We are placing our rating for UPP under review. Net-net, while 1Q09 results were weak across the board, we are pleased that UPP was able to secure AED1.1bn in additional funding after the close of the quarter. Given that UPP needed around AED1bn in additional liquidity to deliver on projects (excluding the FI theme park, which is on hold) and repay debt due this year, we view this development positively. Overall, we expect UPP's quarterly results to show sequential improvement in 2009 given that the company should handover MotorCity, Limestone House and Index Towers this year. However, UPP remains highly leveraged (+100% debt-to-equity ratio) and in light of the weak Dubai real estate market fundamentals, does not have enough of a liquidity cushion to withstand a high level of buyer defaults, should they occur going forward this year. *Our rating/estimates for Union Properties are Under Review pending disclosure of full financial statements for the quarter.* We provide more color on 1Q09 results below:

Results for 1Q09 were affected due to zero land sales, lower revenue from contracting activities and a lower gain on sale of investment properties. (1) Revenues of AED572mm were down 42% qoq and 39% yoy. As has been the trend, the lion share (69%) came from UPP's contracting business at AED397mm. Property sales and property management contributed 8% of revenues at AED45mm, while other operating and hospitality revenues made up the remaining 23% of revenues. As of FY08, the company's sales mix was split 85/10/5 between contracting/property (land) sales & management/other operating. (2) EPS of AED0.01 declined 87% yoy from AED0.078 reported in 1Q08. No land sales recorded during the quarter likely lowered gross margins for 1Q09 versus 1Q08. UPP also recognized lower gains this quarter on sale of investment properties leading to the weaker profit number. We are unable to provide specifics given the lack of disclosure of 1Q09 financial statements. (3) In terms of its balance sheet metrics disclosed, UPP's investment and development properties declined 3.4% qoq to AED14.6bn. In addition, total assets came in at AED18.5bn (down 3.7% qoq), while total shareholders' equity was AED6bn (flattish sequentially). Total debt came in at AED6.2bn versus AED6.4bn as of FY08. (4) The company also reported in its press release that it has entered into an agreement to refinance AED1.1bn in short-term credit lines after the quarter closed. We view this development favorably given Union Properties' funding needs for 2009, its weak financial position and the possibility of increased defaults as it hands over its projects during the remainder of this year.

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