



## Research Note

## UPP 2Q08 Earnings

## Union Properties

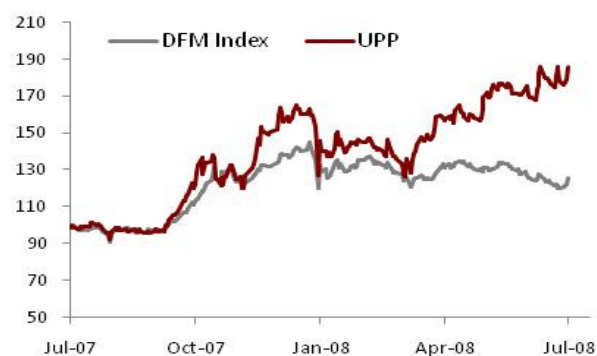
Rating: Outperform

- Union Properties reported second quarter earnings of AED 317 million, compared to consensus of AED 163 million and our estimated of AED 178 million. The outperformance of net income was driven mainly by the recognition of AED 231 million for revaluation gains related to the company's investment portfolio. We had projected an AED 56 million revaluation gain.
- Operationally, top line growth remains strong with revenues improving roughly 60% over the same period last year. There was a seasonal decline of 2.5% in revenues relative to 1Q08. Revenues for the quarter came in at AED 919 million relative to our expectation of AED 881 million.
- Contracting revenues continue to be the main driver of in the short term for the company's results accounting for roughly AED 300 million in revenue growth compared to the same period last year.
- There was a nearly 17% increase in administration and general expenses relative to 1Q08. However, this was more than offset by the exceptional growth along all the business lines.
- Union Properties remains our top pick in the UAE real estate sector. In our view, the company offers investors exposure to both a well managed/high growth contracting business (at a significant discount to other contractors in the UAE) and a premium real estate development company with a proven track record. The stock currently trades at a 2009E PE of 3.6x. The combination of the recurring cash generation from the contracting segment and the strong impact that property development will have on earnings next year should offer a significant catalyst for the stock price over the next 12 months.

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Revenues	2,922	3,280	12,304	7,953	8,197
Gross Margins	18.0%	21.5%	37.4%	28.1%	27.6%
EBIT	405	573	4,113	1,915	1,935
EBIT Margin	13.9%	17.5%	33.4%	24.1%	23.6%
EBITDA	436	606	4,145	1,945	1,964
EBITDA Margin	14.9%	18.5%	33.7%	24.5%	24.0%
P/BV	4.14	4.03	2.28	1.74	1.47
EPS	0.25	0.33	1.57	0.80	0.81
PE	22.7	17.0	3.6	7.0	6.9
Cash Earnings/Share	0.11	0.17	1.46	0.70	0.73
P/Cash Earnings	50.48	32.16	3.83	8.01	7.64

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Equity Data	
Current Price (AED)	5.58
Target Price (AED)	6.88
Upside/downside	23%
12 Mo. Performance	89%
Market Cap. (AED bn.)	16
Enterprise Value (AED bn.)	19
RIC	UPRO.DU



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