October 27, 2008

AL MAL CAPITAL

Research Note

Union Properties 3Q08 Results

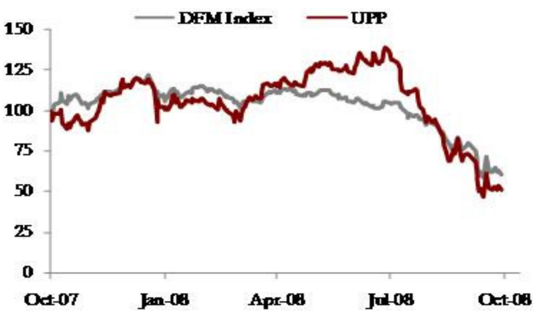
Union Properties

Rating: Outperform

- Union Properties reported third quarter results with net income of AED 245 million (AED 0.08 per share), compared to our estimate of AED 265 million (AED 0.09 per share). Net income increased 38% year over year.
- Gross margins declined to 7%, compared to 24% in 3Q07 and 14% in 2Q08. In our view, the declining gross margins reflect less high margin land sales. We expect this margin pressure to continue in the near term, especially as global uncertainty should limit the prospects for land sales going forward.
- The company recorded a revaluation gain on investment property of AED 225 million in the quarter, which represented over 90% of the net income. Without the non-cash revaluation gain EPS would have come in less than AED 0.01 per share.
- We maintain our year end EPS estimate of AED 0.33 per share, as the reported revaluation gains have offset the weakness in gross margins. Additionally, though much of earnings for 2009 are relatively certain (they relate mainly to already sold properties that will be booked as revenue upon completion), we expect to see some weakness in the contracting business in 2009. Therefore, we have lowered our 2009 EPS estimate to AED 1.20 per share from AED 1.57 per share.
- 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 3.10, a 49% upside from current levels. Looking at the valuation at a 1.7x PE for 2009 may be deceiving owing to the large expected deliveries next year impacting the bottom line. However, the valuation also looks attractive on 2010 and 2011 at 5.6x and 6.0x PE, respectively. We expect that volatility will exist for the stock in the near term, but as we progress next year investors will focus more on the recurring revenue potential of the property management, hospitality, and contracting businesses. Considering the current share price we feel there is significant long term value in these recurring revenue streams that is not reflected in the current valuation.

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Revenues	2,922	3,280	12,304	5,875	5,192
Gross Margins	18.0%	12.3%	26.0%	13.0%	12.5%
EBIT	405	271	3,014	676	571
EBIT Margin	13.9%	8.3%	24.5%	11.5%	11.0%
EBITDA	436	301	3,042	702	595
EBITDA Margin	14.9%	9.2%	24.7%	11.9%	11.5%
P/BV	1.87	2.07	1.33	1.02	0.93
EPS	0.25	0.33	1.20	0.37	0.35
PE	8.5	6.4	1.7	5.6	6.0
Cash Earnings/Share	0.11	0.13	1.13	0.30	0.28
P/Cash Earnings	18.82	15.91	1.84	6.89	7.46

Equity Data	
Current Price (AED)	2.08
Target Price (AED)	3.11
Upside/downside	49%
12 Mo. Performance	-49%
Market Cap. (AED bn.)	6
Enterprise Value (AED bn.)	10
RIC	UPRO.DU



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