June 1, 2008

Research Note

AL MAL CAPITAL

Real Estate Monthly

- Al Mal Dubai real estate price index indicates a year over year price appreciation of 39.6% in the residential segment, while prices in the commercial segment appreciated by 40.3% for the same period.
- Rental yields declined again in May to a median rental yield of 6.9% compared to 7.1% in April. The decline in rental yields has been driven mainly by higher prices as the median rent has not declined.
- Thus far we have yet to see any indication of a seasonal slowing in price appreciation for the Dubai real estate market. The numerous launches, combined with the seemingly free "leverage" from developer payment plans have extended the momentum in the market.
- We continue to notice a divide forming between off plan valuations and those of completed projects. At the moment, the main explanation for this phenomenon is that investors are prefer properties with payment plans or less mature payment plans, compared to more advanced payment plans or completed projects. Anecdotal evidence from visits to various project launches indicates investors are willing to pay 20% up to 40% premiums to secondary market valuations to capture the leverage embedded in the developer payment plans.

Equity Data	Emaar	UP	Aldar	Sorouh	RAK	Deyaar
Current Price (AED)	11.45	5.24	12.25	9.54	2.39	2.25
Target Price (AED)	17.29	6.88	12.97	11.92	2.54	3.53
Upside/downside	51.0%	31.3%	5.9%	25.0%	6.4%	56.7%
12 Mo. Performance	-8.0%	71.8%	68.0%	113.4%	52.2%	NA
Market Cap. (AED bn.)	69.8	14.6	23.1	23.9	4.8	13.0
Ent. Value (AED bn.)	74.2	18.5	26.0	22.6	3.7	13.7
RIC	EMAR.DU	UPRO.DU	ALDR.AD	SOR.AD	RPRO.AD	DEYR.DU
2008E Estimates						
Revenues (AED mln.)	20,025	3,280	5,521	3,777	438	2,160
Gross Margins	38.2%	21.5%	45.1%	52.3%	43.0%	44.0%
EBIT (AED mln.)	5,336	573	1,275	1,587	149	774
EBIT Margin	26.6%	17.5%	23.1%	42.0%	34.0%	35.8%
EBITDA (AED mln.)	5,551	606	1,360	1,659	150	781
EBITDA Margin	27.7%	18.5%	24.6%	43.9%	34.4%	36.2%
EPS	1.13	0.33	1.28	0.88	0.28	0.15
Cash Earnings/Share	0.98	0.17	0.70	0.75	0.16	0.13
Valuation Multiples						
PE '08E	10.1	15.9	9.6	10.9	8.4	15.1
PE '09E	6.6	3.3	6.8	8.8	6.6	10.5
EV/EBITDA '08E	13.4	30.5	19.1	13.6	24.3	17.6
EV/EBITDA '09E	8.8	4.5	14.2	9.9	14.1	11.6
P/Cash Earnings '08E	11.7	30.2	17.4	12.7	15.1	17.8
P/Cash Earnings '09E	7.3	3.6	13.5	9.3	11.0	11.5
P/BV	1.6	4.0	2.1	3.8	1.5	4.1

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Al Mal Dubai Real Estate Price Index

Al Mal Dubai real estate price index indicates a year over year price appreciation of 39.6% in the residential segment, while prices in the commercial segment appreciated by 40.3% for the same period.

Rental yields declined again in May to a median rental yield of 6.9% compared to 7.1% in April. The decline in rental yields has been driven mainly by higher prices as the median rent has not declined.

For commercial properties, the median rental yield also declined slightly to 12.8% in May from 13% in April.

Thus far we have yet to see any indication of a seasonal slowing in price appreciation for the Dubai real estate market. The numerous launches, combined with the seemingly free "leverage" from developer payment plans have extended the momentum in the market.

We continue to notice a divide forming between off plan valuations and those of completed projects. At the moment, the main explanation for this phenomenon is that investors prefer properties with payment plans or less mature payment plans, compared to more advanced payment plans or completed projects. Anecdotal evidence from visits to various project launches indicates investors are willing to pay 20% up to 40% premiums compared to secondary market valuations to capture the leverage embedded in the developer payment plans.

We are somewhat concerned about the speculative nature implied by the divide in valuations of property direct from the developer and the secondary market. Although the recent trend has been to drive up secondary prices to eventually match recent launches, we feel the phenomenon implies a growing speculative environment.

In our view, purchasers that are willing to pay a 20% to 40% premium for the leverage offered in a developer's payment plan are less likely to be purchasing with the plan to be an end-user. With mortgage rates in the range of 7% to 8%, paying a 20% premium for end-users would seem illogical. Essentially, we would expect end-users to buy at the lowest price and value point and finance with a mortgage if needed.

Though we are concerned by the growing speculative characteristics of the market, we do feel that the fundamental support for the market still exists. However, we will be looking for more evidence of end-user buying in the coming months to support the recent spike in prices.

Al Mal Dubai Real Estate Price Index

Residential	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
Median Price/sq.ft. (AED)	1,283	1,291	1,298	1,309	1,336	1,362	1,383	1,410	1,495	1,612	1,656	1,729	1,790
Change (yoy)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	18.8%	25.9%	33.3%	33.5%	35.1%	39.6%
Change (mom)	0.2%	0.6%	0.5%	0.8%	2.1%	1.9%	1.5%	2.0%	6.0%	7.9%	2.7%	4.4%	3.6%
Rental Yield	7.8%	7.8%	7.8%	7.8%	7.8%	7.7%	7.7%	7.7%	7.7%	7.6%	7.3%	7.1%	6.9%
Commercial	**May-07**	**Jun-07**	**Jul-07**	**Aug-07**	**Sep-07**	**Oct-07**	**Nov-07**	**Dec-07**	**Jan-08**	**Feb-08**	**Mar-08**	**Apr-08**	**May-08**
Median Price/sq.ft. (AED)	1,422	1,444	1,469	1,521	1,562	1,598	1,651	1,699	1,751	1,821	1,854	1,921	1,996
Change (yoy)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	29.4%	29.2%	31.0%	36.8%	38.2%	40.3%
Change (mom)	2.3%	1.5%	1.8%	3.5%	2.7%	2.3%	3.3%	2.9%	3.1%	4.0%	1.8%	3.6%	3.9%
Rental Yield	16.1%	16.0%	15.9%	15.5%	15.3%	15.1%	14.7%	14.4%	14.1%	13.7%	13.5%	13.0%	12.8%

Source: Al Mal Capital Research

Sector Ratings & Price performance

	Current Rating	Since Init.	1 Month	3 Month	1 year
Emaar Properties	Outperform	-5.0%	-0.4%	-8.0%	-8.0%
Union Properties	Outperform	12.7%	10.3%	19.6%	71.8%
Aldar Properties	Market Perform	9.9%	6.1%	5.2%	68.0%
Sorouh Properties	Outperform	-13.3%	-0.1%	-8.7%	113.4%
RAK Properties	Market Perform	-9.8%	6.2%	-11.8%	52.2%
Deyaar Development	Outperform	-12.1%	-1.3%	-15.7%	NA

Source: Bloomberg and Al Mal Capital Research

Estimates and Valuation Summary

	Current	Target	EPS			Cash EPS			EBITDA		
	Price	Price	2007A	2008E	2009E	2007A	2008E	2009E	2007A	2008E	2009E
Emaar Properties	11.45	17.29	1.08	1.13	1.74	0.98	0.98	1.57	4,697	5,551	8,420
Union Properties	5.24	6.88	0.25	0.33	1.57	0.11	0.17	1.46	436	606	4,145
Aldar Properties	12.25	12.97	1.04	1.28	1.80	0.08	0.70	0.90	185	1,360	1,837
Sorouh Properties	9.54	11.92	0.50	0.88	1.08	0.53	0.75	1.03	1,112	1,659	2,284
RAK Properties	2.39	2.54	0.25	0.28	0.36	0.06	0.16	0.22	(40)	150	259
Deyaar Development	2.25	3.53	0.09	0.15	0.21	0.07	0.13	0.20	418	781	1,183
			PE			P/Cash Earnings			EV/EBITDA		
	Rating		2007A	2008E	2009E	2007A	2008E	2009E	2007A	2008E	2009E
Emaar Properties	Outperform		10.62	10.09	6.57	11.65	11.70	7.27	15.8	13.4	8.8
Union Properties	Outperform		21.29	15.92	3.34	47.41	30.20	3.59	42.4	30.5	4.5
Aldar Properties	Market Perform		11.78	9.55	6.80	146.16	17.44	13.54	140.6	19.1	14.2
Sorouh Properties	Outperform		18.97	10.89	8.82	18.15	12.66	9.25	20.4	13.6	9.9
RAK Properties	Market Perform		9.63	8.43	6.59	39.25	15.09	11.01	NA	24.3	14.1
Deyaar Development	Outperform		24.30	15.12	10.52	30.76	17.83	11.53	32.9	17.6	11.6

Source: Bloomberg and Al Mal Capital Research

Target Price Summary

	Current	Target			Target PE		Targ. EV/EBITDA	
	Price	Price	Upside	Ke	2008	2009	2008	2009
Emaar Properties	11.45	17.29	51.0%	11.7%	15.2	9.9	19.8	13.0
Union Properties	5.24	6.88	31.3%	10.9%	20.9	4.4	38.0	5.6
Aldar Properties	12.25	12.97	5.9%	11.1%	10.1	7.2	20.1	14.9
Sorouh Properties	9.54	11.92	25.0%	11.1%	13.6	11.0	17.2	12.5
RAK Properties	2.39	2.54	6.4%	10.9%	9.0	7.0	26.3	15.3
Deyaar Development	2.25	3.53	56.7%	9.8%	23.7	16.5	27.0	17.8

Source: Bloomberg and Al Mal Capital Research

Recent Real Estate News

Emaar Properties expects 70% revenues from international operations

Emaar Properties reiterated its expectations of 60-70% of its revenue to come from international operations by 2010. For the current year, the company expects 30-35% of its revenue to be driven by projects abroad.

Demand for cement and steel to double next year

It is expected that demand for concrete and reinforcing steel in gulf, will double next year with $1.8 trillion worth of projects underway. Demand across the gulf for ready-mix concrete is projected to hit $8.6 billion in 2008, doubling to $18.7 billion in 2009, at current price. Similarly demand forecast for reinforcing steel is to hit $7.5 billion in 2008, doubling to $16 billion in 2009.

Al Salam City, Umm Al Quwain (UAE) - put on hold

Tameer Holding's Dh30 billion project, Al Salam City, in Umm Al Quwain (UAQ) has been put on hold due to water and electricity shortages. There is no clear indication of when the utilities issues will be resolved. Hence, investors are being informed of the hold status of the project, and allowed to withdraw their money or roll over into other projects at specified discounts.

Outraged JBR residents write to developer demanding explanation

Jumeirah Beach Residence (JBR) residents are furious that certain facilities like gyms and a Beach Park are being scaled back or replaced with car parks. Dubai properties, the developer, deny any wrongdoing, maintain that the steps have been taken with a view to improve health and safety concerns and as a measure to reduce traffic woes. RERA has stepped in to resolve the complaints.

Sorouh to sell Ghadeer residential project in Q2 08

Sorouh Real Estate will offer Al Ghadeer residential project at Seih Al Sdeira on the Abu Dhabi-Dubai border for sale during the Q2 08. Approximately 6,800 units are to be offered in the complete Al Ghadeer project, and the sales impact of this project is expected to be from year 2008-2016.

UAE mortgage assets set to touch AED 64b by 2011

Leading mortgage providers in the UAE expect the country's mortgage assets to double to AED 64 billion by 2011. Damac Capital International cites the strong performance of the real estate sector as the key driver in addition to the negative real interest rates.

Aldar signs MoU with Arkan to link their supply chains

Aldar signed a MoU with Arkan to be their major supplier of building materials.

Emaar Properties unveils luxury golf homes in Arabian Ranches

Emaar Properties auctioned 18 villas – ultra luxury style golf homes- in Arabian Ranches, on 24 May 08.

Sharjah and Ajman real estate projects on long wait-list for utilities

Shortage of water, electricity and sewerage services in Sharjah and Ajman has resulted in hundreds of residential and commercial units, in atleast 30 towers, lying empty following a wait of up to five years.

UP plans to buy large chunk of land

Union Properties has indicated its future strategy once the Motorcity project is delivered in 2009 / 2010. The company is actively pursuing talks with government and private institutions to acquire 40-60 million square feet of land in Dubai, which it will utilize to construct and deliver new projects in 2011.

Emaar Plans low-cost housing for the region's poor

Emaar Properties indicated a shift in its strategy of offering luxury homes. The developer plans to acquire a company specializing in social housing, in order to launch a low-cost housing unit in Morocco, India, Pakistan, Egypt and the Palestinian territories.

Sorouh acquires stake in Pivot Engineering & General Contracting Co. and LLJ Property

Sorouh announced two acquisitions in Abu Dhabi based companies, in the last month for undisclosed value. The company acquired a 60% stake in Pivot Engineering and General Contracting Company LLC, to strengthen its supply chain and a strategic stake in LLJ Property LLC to be the sales agent for Sorouh projects.

Aldar to issue Islamic bonds worth up to US$1.36billion to fund growth

Aldar Properties announced that it has hired eight banks for its debut dirham-denominated Islamic bond sale. The issue is intended to fund Aldar's projects in the UAE and other countries. Though the company did not specify the value of the planned sukuk, banks indicate it would be one of its biggest bond issues, worth up to AED5billion (US$1.36 billion).

Emaar Bawadi launches its first project – Asmaran

Asmaran, an Emaar Bawadi project, will be home to more than 55,000 people. It will feature a family-oriented theme park, 4 million sq ft of commercial space, 3.2 million sq ft of retailing space, 5,300 serviced apartments, and 19,000 residences.

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