VTB Capital

Equities

20 November 2013

Stocks featured: recommendations

	Rec	Last price	Tgt price	Upside CU
Emaar Properties PJSC (EMAAR UH; AED)	Hold	6.00	6.70	12%
Aldar Properties PJSC (ALDAR UH; AED)	Hold	2.48	2.40	-3%

Stocks featured: stock data

	MCAP, USD mn	EV, USD mn	# shares, mn	Free float, %
Emaar Properties PJSC	9,950	14,459	6,091	20%
Aldar Properties PJSC	5,309	9,147	7,863	67%

Stocks featured: recent performance

	1M	3M	12M	ADTV, 3M, USD mn
Emaar Properties PJSC	0.5%	-3%	66%	20.4
Aldar Properties PJSC	-5.3%	-11%	92%	33.4

Dividend yield

Fiscal year end	12/12	12/13F	12/14F	12/15F
Emaar Properties PJSC	3.1%	0.2%	0.2%	0.3%
Aldar Properties PJSC	5.1%	2.4%	1.5%	2.6%

Stocks featured: EV/EBITDA

Fiscal year end	12/12	12/13F	12/14F	12/15F
Emaar Properties PJSC	12.0x	15.8x	12.2x	7.6x
Aldar Properties PJSC	9.9x	14.7x	10.5x	8.9x

Stocks featured: P/E

Fiscal year end	12/12	12/13F	12/14F	12/15F
Emaar Properties PJSC	9.2x	14.6x	12.8x	8.1x
Aldar Properties PJSC	3.9x	8.2x	13.2x	7.7x

Source: Bloomberg, company data, VTB Capital Research

Initiation of Coverage

UAE Real Estate

Dubai a premise; Abu Dhabi a promise

United Arab Emirates comprises seven emirates, out of which the two economically stronger are Dubai and Abu Dhabi. While Abu Dhabi is resource rich (c 6% of global oil reserves, 2.9% of natural gas, reserve life of c 80 years), Dubai has positioned itself as a gateway to Asia and beyond as a logistics hub and tourism destination. An unparalleled state of economic, political and social governance has placed Dubai as a safe haven and the best place to do business in a four-hour flying radius. Abu Dhabi is attempting something similar, but lags Dubai.

Emaar (Hold, TP AED 6.7, 12% upside) is structurally better positioned than Aldar (HOLD, TP AED 2.4, 3% downside): The key structural differentiators for Emaar vs. Aldar are **1./ Macroeconomic environment –** Emaar & Aldar are respective plays on Dubai and Abu Dhabi real estate sectors. **2./ Non-resident exposure –** Emaar derives both an outward investment via an international footprint and an inbound investment from non-residents due to Dubai's safe haven status. Aldar derives limited non-resident inbound interest and has a negligible international footprint. Thus, customer risk profile is less concentrated and of a lower risk with Emaar. **3./ Recurring income –** Being ahead of the development cycle, Emaar is now deriving c 40% of its revenues from leasing and recurring income sources, while Aldar languishes at sub 15%. **4./ 2008 crisis proves business model resilience -** The 2008-10 downturn proved the robustness of Emaar's business model, while Aldar struggled with financing and state support. **5./ Planning design & after sales are superior for Emaar –** We believe Emaar's planning design and after sales operations are superior to those at Aldar and its yield expansion in retail is predicated upon its after sales offering.

Brand synergies offer a better growth opportunity for Emaar. Emaar derives a significant part of non-resident demand, which allows for harnessing developments to explore a much wider range of opportunities both domestically and internationally.

Minority investor's risk much higher in Aldar. With the government as a creditor and a customer, the minority shareholding risk in Aldar is potentially significantly higher than in Emaar. The record of state backed and financed developers in the region is generally not stellar.

The bull argument based on Aldar's land bank is flawed. A focus on land bank in a desert environment is inherently flawed, a premise proven during the financial crisis and the earnings derived from land value upgrades. The most pertinent asset is the company brand and customer demand profile, which generally is predicated by quality of life and infrastructure. Thus, all the land bank gained from Sorouh is constrained by the growth in consumer demand. The constraint is consumer demand rather than the land bank.

Valuations leave little upside unless Dubai gets the 2020 Expo. We see limited upside to valuations, with our TPs of AED 6.7 (12% upside) and AED 2.4 (3% downside) for Emaar and Aldar, respectively. However 2020 Expo could offer c AED 30bn in new project pipeline to Emaar and add AED 1.3/share to the valuation.

Digvijay Singh // +971 4 377 0819 // digvijay.singh@vtbcapital.com

Table of contents

Investment Summary

- United Arab Emirates comprises seven emirates, out of which the two economically stronger are Dubai and Abu Dhabi. While Abu Dhabi is a resource-rich emirate (c 6% of global oil reserves, 2.9% of natural gas, reserve life of c 80 years), Dubai has positioned itself as a gateway to Asia and beyond as a logistics hub and tourism destination.
- Emaar (Hold, TP AED 6.7), Aldar (Hold, TP AED 2.4) are the real estate plays on Dubai and Abu Dhabi real estate sector, respectively. We prefer Emaar to Aldar on account of a preference for Dubai on customer diversity, international growth opportunities, income profile and lower degree of government dependence.
- A credible legal and regulatory framework is crucial for UAE real estate to further its appeal to institutional investors. Until then, we believe the assets will and should trade at a significant discount to developed market assets and there is limited upside from current levels. Volatility and risk will abound until then.

Analysis of UAE real estate needs to differentiate between Dubai and Abu Dhabi as macroeconomic backdrops, being the two pre-eminent emirates and with very different underlying dynamics. While Abu Dhabi is a resource-rich emirate (c 9% of global oil reserves, 5% of natural gas, reserve life of c 150 years), Dubai has positioned itself as a gateway to Asia and beyond as a logistics hub and tourism destination. An unparalleled state of economic, political and social governance has placed Dubai as a safe haven and the best place to do business in a four-hour flying radius. Abu Dhabi is making a half-hearted attempt at replicating the Dubai model, but there is no underlying or pressing requirement, except perhaps an upgradation of the dilapidated urban infrastructure and a closing of the gap in the quality of life for its residents; which is also why Aldar is at best a distraction for international investors looking for regional investment exposures.

We believe that the Dubai sceptics misdiagnose the Dubai real estate crisis as the cause of the Dubai macroeconomic issues. Most discussions on the real estate crisis refer to demand supply dynamics, an oversupply situation etc. but the most pertinent factor was the ripple of financial shock, a breakdown in asset vs. financial liability swap, lack of redressal mechanisms and a threat to Dubai's safe haven status post the Dubai standstill announcement. The real estate sector was subjected to a financial shock, with banks freezing loan funding for previously agreed projects, customers facing cash calls, developers unable to secure working capital financing, delayed payment by the government and developers to contractors and more, and a chain of financial transfers was severely disrupted. Furthermore, a lack of bankruptcy law, little oversight of capital adequacy at the developer level, threat of a jail term for bounced cheques all contributed to a complete breakdown in systemic confidence, which did not recover until 4Q11. The recovery in Dubai real estate is scripted in a symmetric inverse shift. A restoration of financial stability, flow through of credit through the system, enactment of new redressal mechanisms and the Arab Spring brought the Dubai model springing back to life. A 50% rally within 24 months from the lows was thus a quick spring back reaction to a temporary shock. We believe Dubai is well and truly back.

We prefer Emaar to Aldar on a structural basis due to our underlying preference for exposure to Dubai over Abu Dhabi. In the long run, the driver of outperformance will be international growth and Emaar's brand positioning is much stronger and its track record more credible purely because investors from most target markets such as Turkey, Saudi Arabia, Egypt, India and Pakistan are already former customers of Emaar in Dubai. In addition, Dubai as a destination is more robust for leasing and hospitality and Emaar's asset yields are always likely to be superior to those of Aldar. A difference of over USD 250 in prime room ADRs illustrates the value gap. Furthermore, while both Emaar and Aldar are essentially sovereign owned, the end demand driver is less overbearingly related to sovereign for Emaar relative to Aldar and we believe this facet of the investment case provides a greater alignment to driving shareholder value.

Detractors of Emaar vs. Aldar often point to the investment zone land bank that Aldar has gained from the Sorouh merger, but we believe that is a false premise. The most pertinent constraint is consumer demand rather than the land bank.

Valuations leave little upside unless Dubai gets the 2020 Expo – We see limited upside to near-term valuations with our TPs of AED 6.7 and AED 2.4 for Emaar and Aldar, respectively. However, 2020 Expo could offer c AED 30bn in new project pipeline to Emaar and very conservatively add AED 1.3 per share to the valuation. In terms of recurring pipeline, we have made a very conservative assumption for Emaar of AED 1bn vs. the very upbeat AED 6.6bn for Aldar. Thus, the risk profile for Emaar's vs. Aldar's valuations is very different. A higher order valuation for Emaar at this point in time would be driven by longer dated bullish sentiment and speculation rather than fundamentals.

VTB Capital

UAE Macroeconomy

- Abu Dhabi and Dubai are the two primary emirates of UAE with very different economic structures and real estate markets, one driven internally via crude exports and another driven externally via trade, logistics and services.
- While the oil and gas sector contributed over 60% to Abu Dhabi's GDP directly, the same for Dubai is sub 2%, and c 40% of Dubai's GDP is logistics driven.
- Dubai's economy has received an uplift from regional conflicts due to its safe haven status and a 2020 expo win could usher in a wave of investment driven growth.

UAE has seven emirates, of which Abu Dhabi could be seen as the oil exporter and Dubai could be seen as a primarily service economy. Abu Dhabi's nominal GDP is estimated at USD 230bn (2012). With some 470,000 nationals and a population of near 2.1mn, Abu Dhabi's per capita GDP is approximately USD 109,000. Dubai is the second largest economy of the UAE emirates, with nominal GDP estimated at USD 97.7bn for 2012, rising to USD 103bn in 2013. The Dubai population is estimated at 2mn, with nationals accounting for fewer than 15%. Dubai's GDP per capita is estimated to be some USD 49,000.

The oil and gas sector's 2012 contribution to GDP is expected at levels closer to those in 2011 at 60%. Abu Dhabi has 6% of proven global reserves of crude, 2.9% of the proven global gas reserves and 4% of the global crude production, alongside 1.6% of global gas production. Reserve life expectation for crude is 80 years at current production levels. Abu Dhabi's hydrocarbon revenues are expected to account for over 90% of revenues in 2012. Abu Dhabi funds services across the country and not just in its own emirate. The federal services portion of spending is expected to be around 23% in 2012 and has arisen as grants for nationals across the seven emirates and development fund budgets across the poorer emirates have been ramped up to quell any signs of dissent. Support for GREs has risen through the crisis, but is expected to stabilize around 12% – though there might be intermittent increases for 2013 and 2014 as stalled projects are revived to accelerate domestic growth. Our fixed income team highlights that publicly-stated figures understate the true inflows to the government and true expenditure, as neither all receipts from levies on hydrocarbon exports nor all the earnings from SWF are included on the revenue side. On the expenditure side, the outlays of state owned enterprises, including the national oil company are not disclosed. Fitch expects a general government deficit of 10% of GDP, but could easily be funded via dividends from the national oil company and hence will not increase the public sector debt at some 5% of GDP. Abu Dhabi revenue and debt dynamics are largely irrelevant from the equity investment strategy perspective for reasons stated earlier, as well as the fact that the ADX exchange does not offer enough liquidity, with limited liquidity in major names.

Dubai is an economy predominantly dependent on services, and its diversification is quite unique in the MENA region. Wholesale and retail trading accounted for 30% of GDP, with real estate and construction accounting for 20%, and 40% from logistics. The oil and gas sector is miniscule, accounting for some 1.5% of GDP. Our expectation for 2013 real GDP growth is 4%, as a leverage on growth in Emerging Asia. From an equity investment strategy perspective, we believe the risks are skewed to the upside. Post-Arab Spring, turmoil in Egypt and Syria, and prior to the withdrawal of NATO forces from Afghanistan, Dubai has come to be seen as a safe haven within the Middle East. The most compelling evidence has been the real estate price recovery from the depths of the 2008 crisis. CBRE shows rents increasing at 24% YoY in prime areas of Dubai. A separate Cluttons survey shows HNWI from GCC see Dubai as the top investment destination and the number of HNWI looking to invest in the emirate has risen 60% from 2011.

The 2013 Dubai budget includes approved expenditures of AED 34.1bn, 6% higher than the previous year. UAE's policy of economic diversification, focused on high-tech industry, logistics, ports, tourism, financial services, health, education and media, has created better opportunities for the construction industry, and the future growth prospects looks upbeat after bottoming out in recent years. Major projects such as the Mohammad Bin Rashid City in Dubai and major infrastructure projects in Abu Dhabi are expected to create a new momentum in the nation's construction sector, and economic indicators are suggesting the emirates' economy is heading towards achieving higher growth rates.

The Dubai Statistics Centre has reported that the number of completed buildings in Dubai rose 6.6% in 1Q13 compared to the previous quarter, and witnessed completion of 736 buildings at a value of AED 3.73bn. Completed private villas stood at 805 in 2Q13, 52% growth QoQ, with a total value of AED 1.05bn.

UAE has three stock exchanges, the Dubai-based DFM, Nasdaq Dubai and the Abu Dhabi-based ADX. Large companies exposed to the economies are private or not open to foreign investors. Emirates airline, an exposure to the aviation and logistics sector that accounts for some 28% of Dubai's 2012 GDP is private; telecom company Etisalat, which has some of the highest EBITDA margins, is largely illiquid and is not open to foreign investors and so on. The national oil companies are unlisted, as in other oil exporting countries.

Anatomy of the 2009-11 crisis – Real Estate a symptom

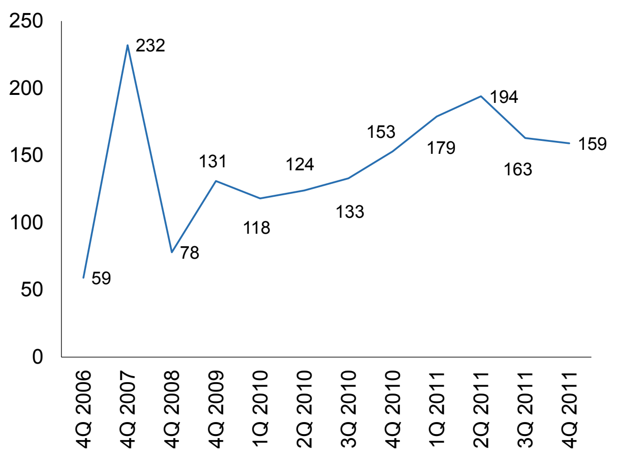
UAE observes a very narrow range of AED USD peg centred on an exchange rate of AED/USD of 3.67. Certificates of deposit in UAE are not driven by monetary policy or financing consideration, but primarily as a function of liquidity storage. These instruments drain off excess liquidity from the banking system and provide them with a sovereign benchmarked risk-free return.

The graph below shows the net deposits with the Central Bank at AED 59bn in 4Q06. Inflation then started breaching double digits, an influx of expatriates and lack of domestic housing created further inflows and discussions around the depegging of GCC countries' currency were de rigueur. Hot money inflows into the system were initially handled well, with excess liquidity being swept aside in AED 232bn of deposits with the Central Bank by 4Q07. Over the next 12 months, these quarantined hot money inflows were deployed in lending to GREs mainly and then corporates and consumers with little oversight of systemic risk, in our view. Once the credit markets froze and the flows reversed, banks were left in a desperate shortage of liquidity with a duration mismatch. The Central Bank stepped in to stabilise the situation and by 4Q08 (ebb of the crisis) the deposits stood at AED 78bn post Central Bank assistance. At the lowest point of the curve, only 5.6% of domestic banking assets were with the Central Bank. Funding banks in the short-term market and via non-resident deposits was another facet of systemic risk laid bare by the crisis. The freezing of interbank markets and later the announcement of the creditor standstill by the Dubai government led to a systemic equity shortfall risk in the banking system. The Central Bank intervened and provided the needed liquidity support to banks, which ensured the stability of the UAE banking system. This was achieved by providing AED 25bn of collateralised loans to the system (2% of banks' total assets). Also, the capital injections (Tier 1 & Tier 2) in local banks by the Departments of Finance of local governments, Ministry of Finance and banks' shareholders were key factors in stabilising the banking sector, which was confirmed by the level of borrowings from the Central Bank (down to less than AED 3bn at the end April 2009). The collateralised liquidity provided by the Central Bank started at AED 24bn in December 2008, varied between AED 5 to 10bn for the larger part of 2009, before gradually receding to the AED 0.5 to 3bn range in 2011.

The real estate sector was subjected to a financial shock, with banks freezing loan funding for previously agreed projects, customers facing cash calls, developers unable to secure working capital financing, delayed payment by the government and developers to contractors and more, and a chain of financial transfers was severely disrupted. Furthermore, a lack of bankruptcy law, little oversight of capital adequacy at the developer level, threat of a jail term for bounced cheques all contributed to a complete breakdown in systemic confidence, which did not recover until 4Q11. Most discussions on the real estate crisis refer to demand supply dynamics, an oversupply situation etc. but the most pertinent factor was the ripple of financial shock, a breakdown in asset vs. financial liability swap, lack of redressal mechanisms and a threat to Dubai's safe haven status post the Dubai standstill announcement. The supply demand mattered in the commercial segment, but excess supply did not cause the 50-70% plunge in real estate prices from their peaks, it was the financial system freeze that did it.

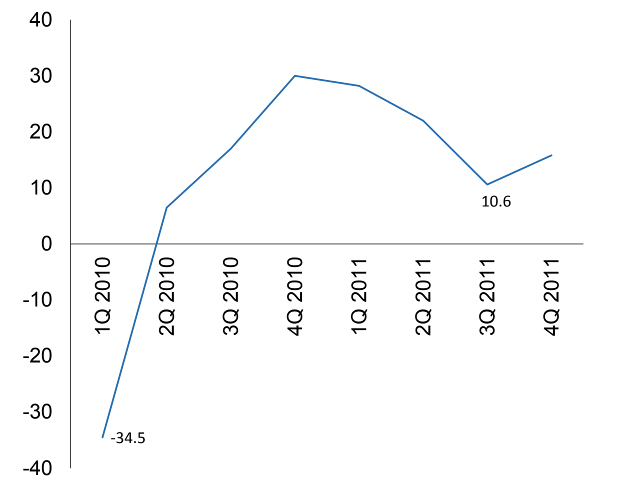
The recovery in Dubai real estate is scripted in a symmetric inverse shift. A restoration of financial stability, flow through of credit through the system, enactment of new redressal mechanisms and the Arab Spring brought the Dubai model springing back to life. A 50% rally within 24 months from the lows was thus a quick spring back reaction to a temporary shock. We believe that the Dubai sceptics misdiagnose the Dubai real estate crisis as the cause of the Dubai macroeconomic issues and doubt the longer term trajectory, while it was a symptom of systemic malaise that built up due to the regulatory failures on differentiating between solvency vs. liquidity risks, which in turn were a result of a high degree of faith (and rightly so) in the strong asset base of Abu Dhabi sovereign. A proof of the liquidity vs. solvency issues in the banking sector is the complete repayment of loans and contingency capital buffers provided by the government. Dubai is well and truly back.

Figure 1: Banks' Net Deposits with CB (AED bn)



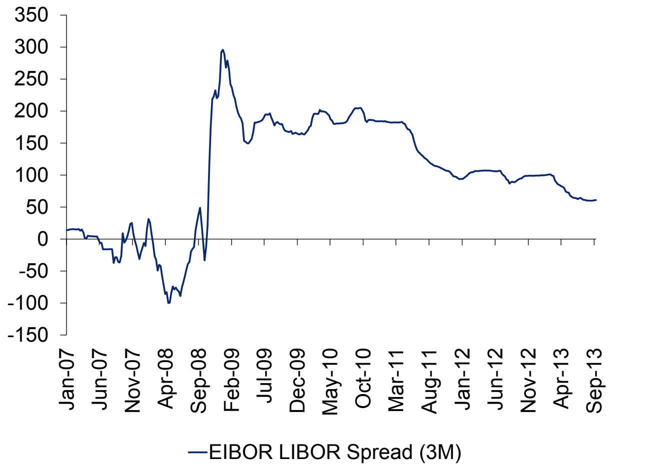
Source: UAE Central Bank, VTB Capital Research

Figure 2: Non-resident interbank assets of local banks (AED bn)



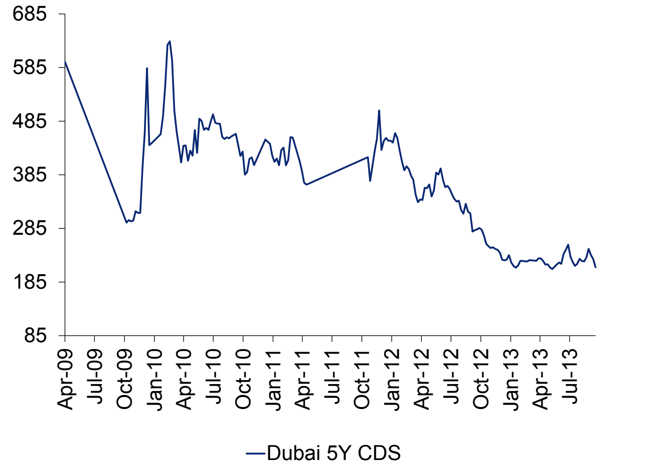
Source: UAE Central Bank, VTB Capital Research

Figure 3: EIBOR LIBOR Spread (3M)



Source: Bloomberg, VTB Capital Research

Figure 4: Dubai Govt. CDS (5Y)



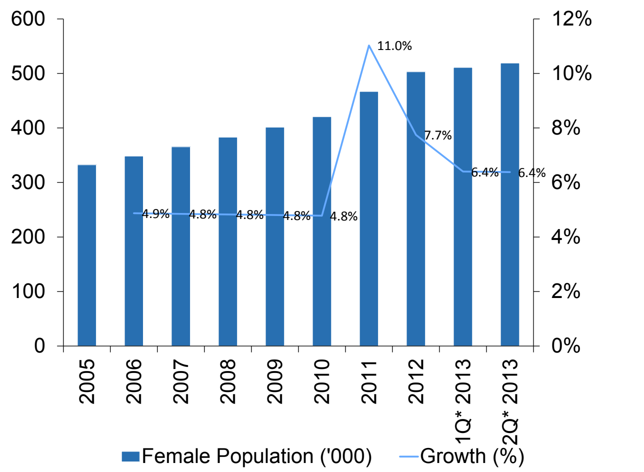
Source: Bloomberg, VTB Capital Research

Dubai Real Estate

- § Dubai enjoys a unique safe haven status coupled with unparalleled infrastructure and quality of life in a four hour flying radius. This region is also home to some of the most concentrated sources of capital in the world.
- § The 2009 shakeup in Dubai real estate is often misread as an excess-supply-led shock. The major drivers were liquidity-led financial shock, immature regulatory mechanisms, Dubai sovereign distress leading to delayed payment cycle and credit freeze. As bank liquidity stabilised by 4Q11, credit guarantees started working again (not actual mortgage/credit flow) and geopolitical turmoil increased, the real estate sector bounced back.
- § Dubai's premium real estate demand is extraneous rather than driven by western expatriate residents and the skew is much higher at the higher end of the luxury market. Luxury residential housing, high-end serviced apartments and hotels are thus a different segment from expatriate real estate dwellings, office space and retail space, which are more domestic-driven and riskier.
- § Front loaded payment schedule and high margins in premium off-plan sales coupled with a lack of financing ensure the highest grade of consumer credit in luxury off-plan developments. A 40% liability ratio (already paid upfront) ensures no loss on a cost basis, given default and the default risk is in the very early stages rather than in later stages, allowing for risk minimisation via scheduling.

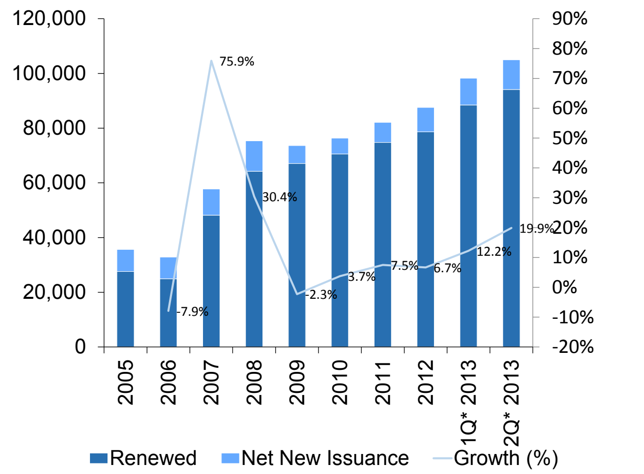
Expatriates comprise over 87% of Dubai's population and a significant number is made up of blue collar temporary workers. Hence, aggregate population numbers' growth and decline might be misleading. A better measure, in our view, is to consider female population numbers as a proxy. These grew at a CAGR of 4.8% over 2005-10 and recorded a sharp increase in 2011. The growth rates declined to 6.4% in the last quarter, but we expect them to remain above the 6% level in the short to medium term. The relatively constant level of the growth rate lends some doubts to the population statistics, but these are official numbers provided by the Dubai Statistics Authority. We also observe the issuance of commercial licences and the net additions to gauge economic activity. These statistics show a marked pick-up to 12.2% growth in 1Q13 (annualised) and imply a strengthening of business confidence. Another indicator that we observe is the waste water treatment and it also indicates a sharp pick-up to 11% growth (annualised) in 2013. Thus, a relatively strong picture of domestic economic strength is assessed from the different indicators.

Figure 5: Dubai: female population



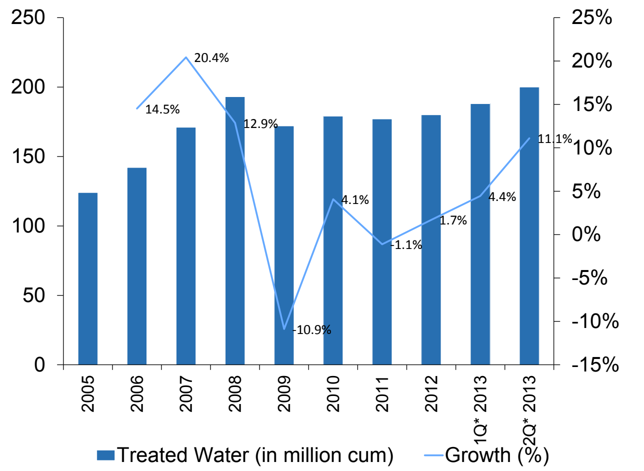
Source: Dubai Statistics Centre, VTB Capital Research

Figure 6: Dubai: commercial licence issuance



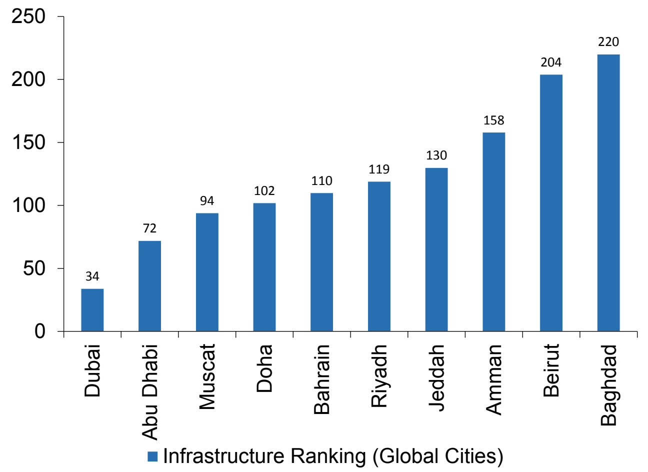
Source: Dubai Statistics Centre, VTB Capital Research

Figure 7: Dubai: waste water treatment



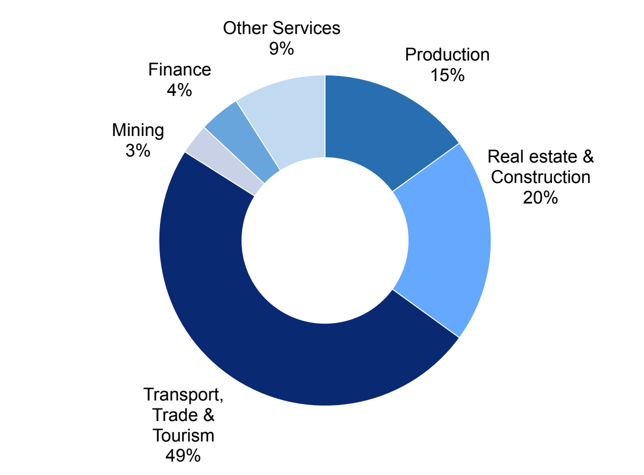
Source: Dubai Statistics Centre, VTB Capital Research

Figure 8: Dubai: global infrastructure ranking



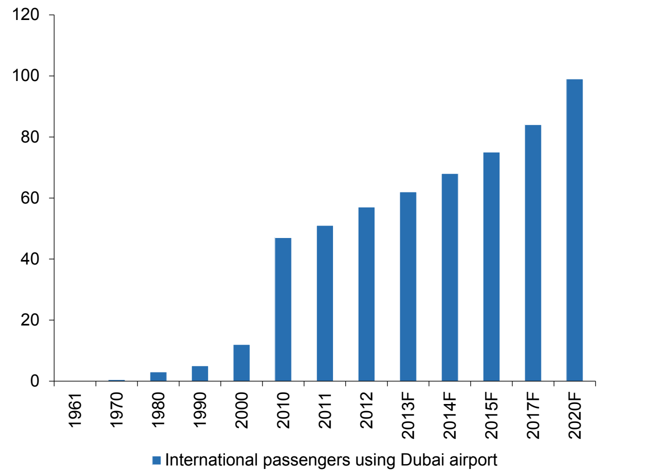
Source: MasterCard Global Cities Index Report, VTB Capital Research

Figure 9: Dubai GDP breakdown (2012)



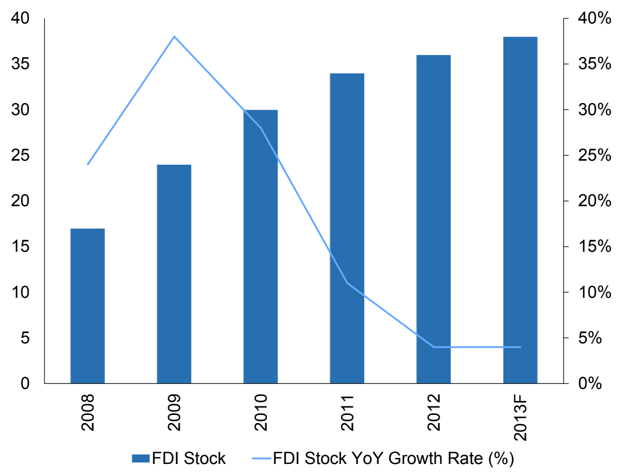
Source: Company data, Dubai Statistics Centre, VTB Capital Research

Figure 10: Dubai: international passenger traffic (mn)



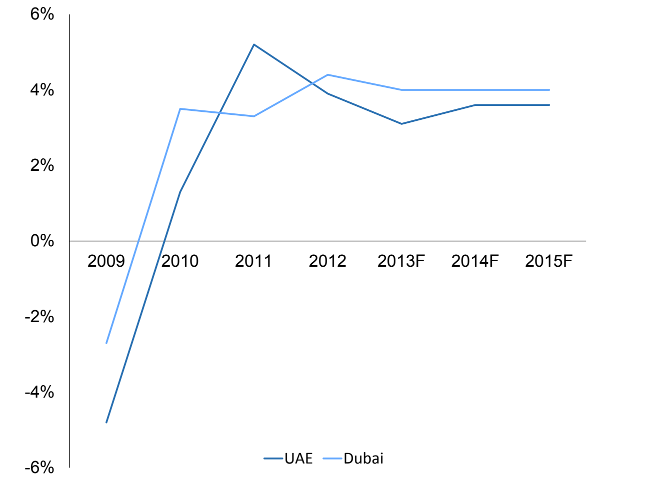
Source: Company data, Dubai Statistics Centre, VTB Capital Research

Figure 11: Dubai: FDI



Source: Company data, Dubai Statistics Centre, VTB Capital Research

Figure 12: real GDP growth rate



Source: Company data, Dubai Statistics Centre, VTB Capital Research

Market Segments

The Dubai residential market has experienced further increases on the back of rising demand and relocations as well as new tenants. Apartment and villa rent rose 3% and 4% compared to 4Q12, whilst year-on-year growth amounted to 19% and 21% in the same categories. The residential market is now experiencing a broad-based recovery, with prices and rental picking up in secondary and more affordable locations.

The commercial market also continues its recovery path, with rental growth recorded mainly in Grade A office space. The ‘flight to quality’ remains a key trend in the market. New commercial districts, such Business Bay and JLT have been seen to be improving. The retail market continues to improve, with robust activity mostly dominated by the best performing super-regional malls (Dubai Mall, Mall of Emirates). With high demand for retail space and supply in super-regional mall almost choked, the near future might see an increase in demand for retail space in secondary and upcoming malls.

The number of tourist arrivals in the city remained high with over 16mn passengers arriving in the first half of the season. This ensured a busy and robust period for the hotel segment with average occupancy levels rising to 85% across Dubai and Average Daily Rates (ADRs) being close to USD 267. We expect the sector to perform well throughout the year.

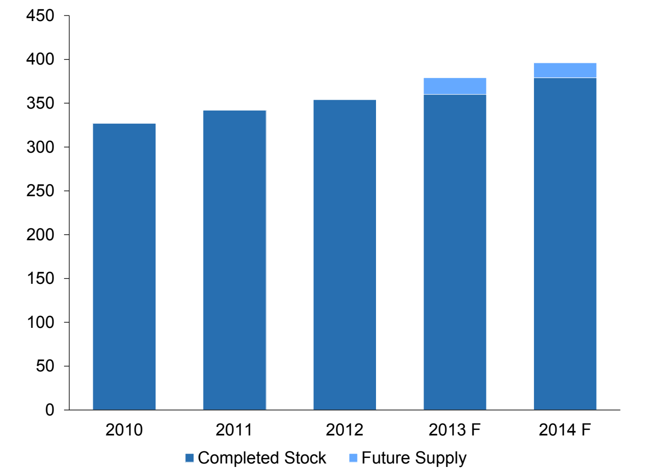
Residential segment

The Dubai market is witnessing an upturn in economic activity and consumer confidence with stable business conditions and real estate recovery boosting sentiment. 2013 Dubai budget spending is 6% higher than the previous year at AED 34.1bn, indicating higher demand and growth. Positive sentiment is also evident in Dubai’s construction pipeline with stalled projects being renewed and newer projects being launched in anticipation of future demand.

The residential market has maintained positive momentum along with steady economic growth backed by rising demand from relocations and new tenants. Apartment rents have experienced a 3% increase QoQ and 19% YoY in 2Q13. Villa rents have gone up 5% compared to last quarter and have successfully recorded six straight quarters of growth, up 21% compared to rents a year ago. Smaller units in prime areas have benefitted substantially more and some two- and three-bedroom properties have recorded growth of 7-9% QoQ. However, we expect growth in prices to be easing due to high levels of future supply, tenants relocating to cheaper locations, limited debt availability and more mature market regulations.

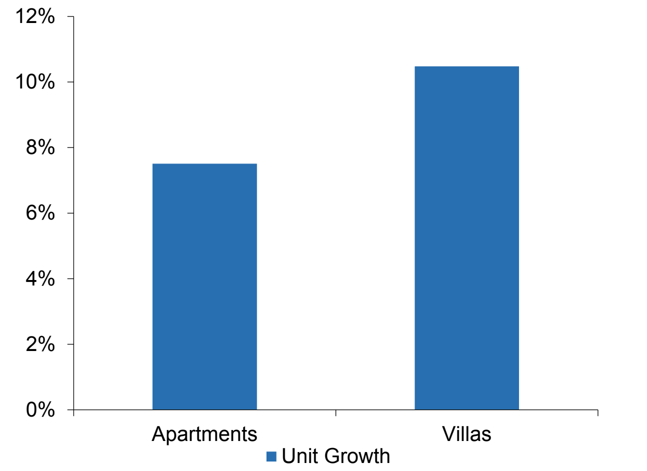
Sales prices have fared even better, with quarterly increases of 12% for apartments and 5% for villas. The blended average rate for residential property in 1Q13 was AED 13,192 per sqm, up 29% compared to its price one year ago. We expect the momentum to continue, with demand and rates expected to continue to grow in the wake of an improved market scenario and companies beginning to hire more talent and expand their headcounts.

Figure 13: Dubai: luxury homes supply ('000)



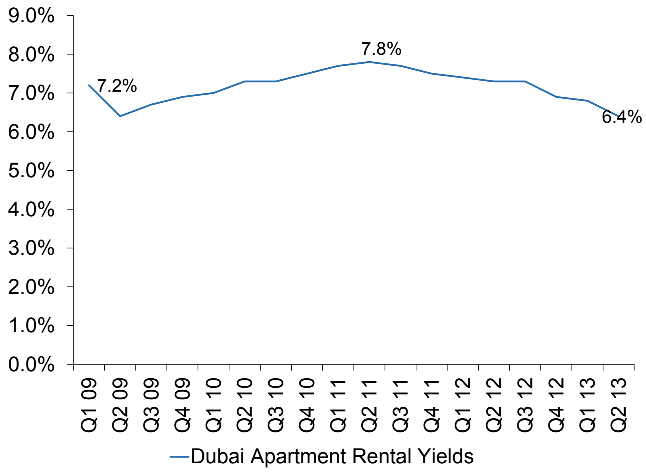
Source: JLL, REIDIN.com, VTB Capital Research

Figure 14: Dubai: growth by units (%)



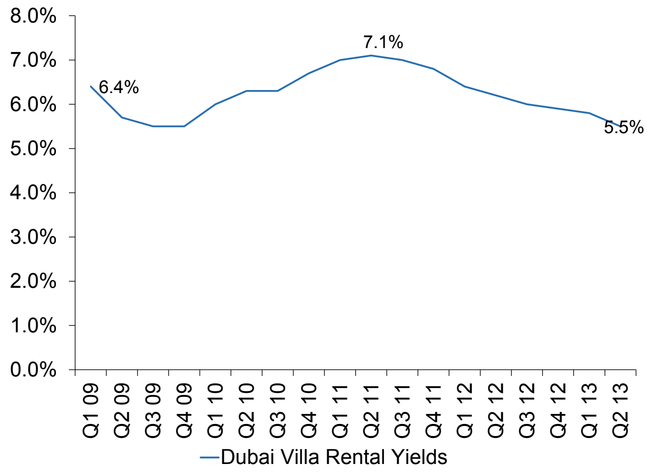
Source: JLL, REIDIN.com, VTB Capital Research

Figure 15: Dubai: apartment rental yields (gross)



Source: Company data, JLL, REIDIN.com, VTB Capital Research, Services charges would lead to a c 100bp drop for net yield

Figure 16: Dubai: villa rental yields (gross)

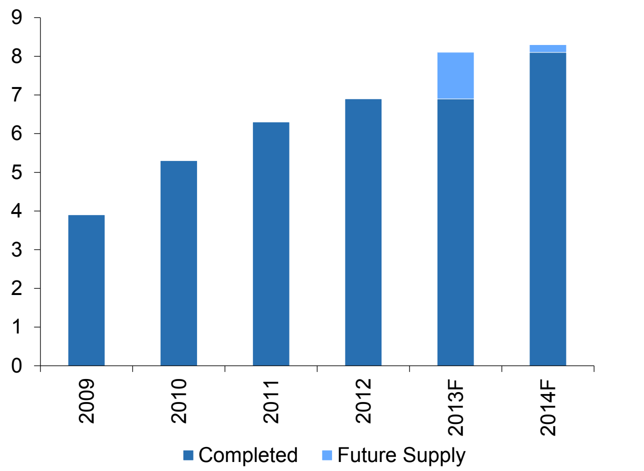


Source: Company data, JLL, REIDIN.com, VTB Capital Research, Service charges would lead to a 20bp drop for net yield

Commercial market

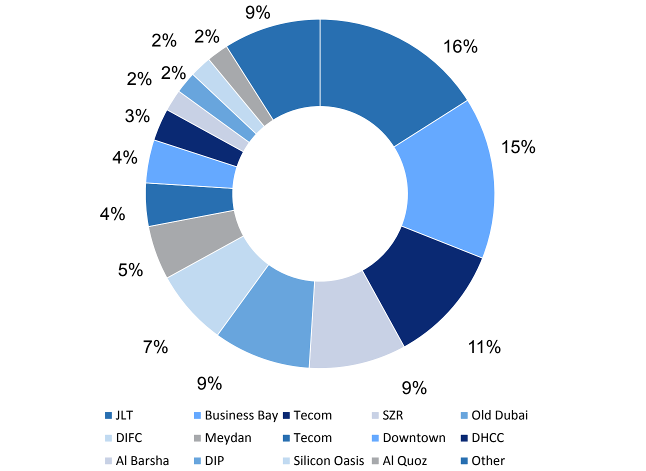
Rents for prime office spaces have started to recover in 2013, with firms seeking expansion/consolidation or upgradation of current facilities. We expect the trend to continue with quality offerings being able to attain a 5-10% increase from current rental rates. However, the situation of oversupply might continue throughout the year. Vacancy rates in certain areas are pretty high; completion and delivery of certain projects throughout the year are going to keep the supply side higher. There is not much evidence that increased supply will be absorbed by the increase on the demand side. Despite a scenario of oversupply, there is strong evidence of rental growth in JLT, Business Bay and Tecom. Prime projects will not be affected by the oversupply and many companies will be interested in them, we believe. Tenants are set to continue to drive the markets, with landlords adopting flexibility in their dealings to entice them. Sales prices are expected to be lower/stable, as there is a lack of firms ready to commit to large capital expenditure.

Figure 17: Dubai: office supply



Source: Company data, JLL, REIDIN.com, VTB Capital Research

Figure 18: Office supply by submarket



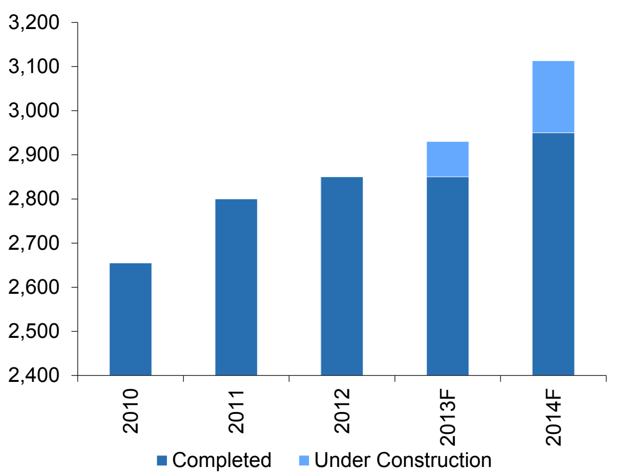
Source: Company data, JLL, REIDIN.com, VTB Capital Research

Retail segment

The total stock of mall-based retail space in Dubai remains unchanged at the end of 2Q13, as no new project was delivered. However, exciting deliveries are due in the later part of the year, including Dragon Mart, Al Ghurair Centre, and Phase 1 of the Avenue. In the second half of the year, we expect delivery of 48,000sqm of retail space, including 35,000sqm of phase 2 of Al Ghurair Centre and 13,000sqm of Phase 1 of the Avenue.

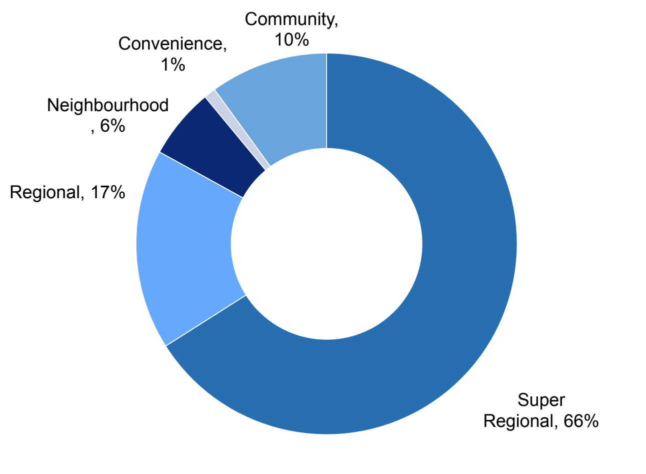
Dubai is going to be significantly ramped up with modern retail spaces, with Dubai Pearl Shopping Mall (112,000 sq. ft.) and the 67,000 sq. ft. Agora Mall in Jumeriah due in 2015. In addition, many recent centres have launched redevelopment and expansion plans, such as Dubai Mall, Ibn Battuta, and Al Ghurair Centre etc. Other projects for large-scale shopping centres have been announced but are not yet under secondary construction. These include the 200,000sqm Phase 2 of the Avenue, the 400,000sqm Phoenix Mall in the International City, Bawadi Mall in Dubailand, and Phase 2 of the Dubai Outlet Mall. The expansion plans of some of the super-regional malls remains a key trend, with Dubai Mall announcing an expansion of 93,000sqm and Al Ghurair Centre announcing an expansion plan of 35,000sqm. Even though a number of smaller community centres have entered the market with a supply of retail space, the sector continues to be dominated by super-regional malls and make up 66% of the mall-based retail space in the city.

Figure 19: Dubai: retail supply (‘000sqm)



Source: Company data, JLL, REIDIN.com, VTB Capital Research

Figure 20: Dubai: existing retail space by mall type



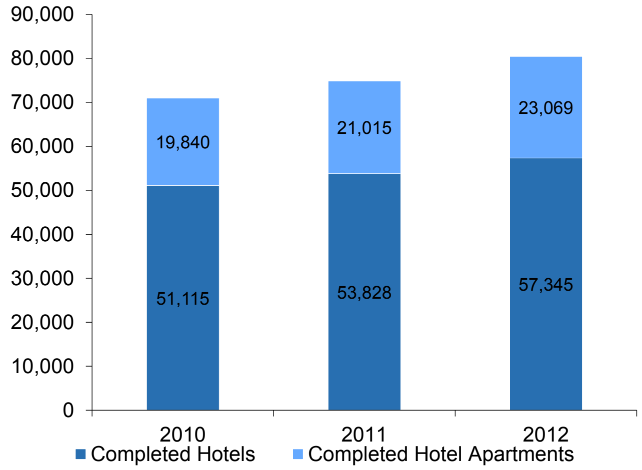
Source: Company data, JLL, REIDIN.com, VTB Capital Research

Hospitality segment

With one major opening in 2Q13, Dubai witnessed The Oberoi Group entering the hotel market in UAE. Other major openings scheduled for the year include Conrad on Sheikh Zayed Road, Sofitel on The Palm, Novotel Al Barsha and Anantara Royal Amwaj on Palm Jumeriah. With tourism reviving and at its highest levels in recent years, the second quarter of 2013 witnessed the announcements of new hotel operators entering the market. Wyndham property in Dubai Marina, Viceroy Resort on Palm Jumeriah, and Taj Arabia in Dubailand were all announced during this quarter. The Dubai Department of Tourism and Commerce Marketing (DTCM) is upbeat with its Vision 2020 tourism plans that it announced during the quarter, with a target of 20 million tourists by 2020. Winning the 2020 Expo bid would definitely provide a boost to the sector and we expect more projects to come around available areas such as Business Bay, Downtown Dubai and Dubai World Central beyond 2015F.

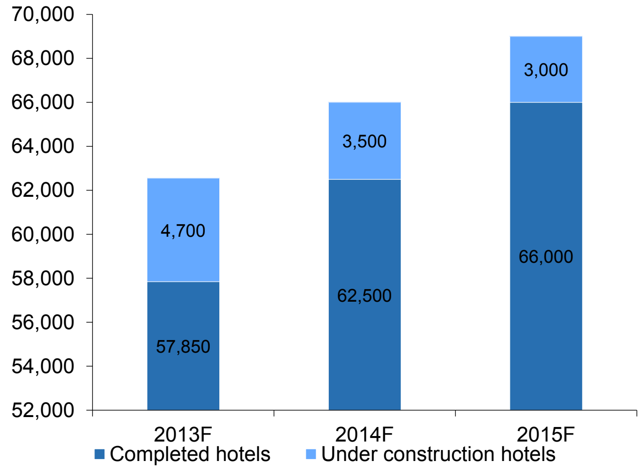
Dubai for the first time witnessed over 10 million tourists in a year in 2012, a record for the Emirate and 9% growth YoY from 2011. The positive trend continued in the first half of 2013 with airport arrivals registering a 16.8% growth in the first half of the year as compared to the same period in 2012. As a result, Dubai airport became the second busiest airport in the world. Hotel occupancy levels in 1H13 ranged around 85%, up from 83% the previous year and Average Daily Rates improved 5% in first half of the year as compared to the same period in the previous year and stood at USD 267. With occupancy and ADRs moving up, Revpar showed impressive growth of 7.5% and was up at USD 228.

Figure 21: Dubai: hotel rooms



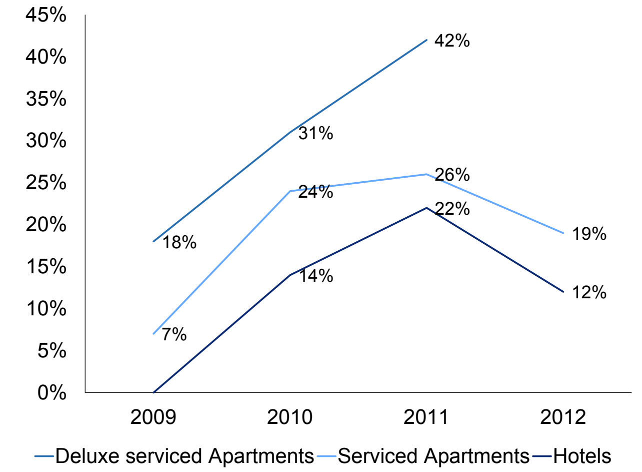
Source: Company data, JLL, REIDIN.com, Dubai Statistics Centre, VTB Capital Research

Figure 22: Dubai: hotel rooms forecast



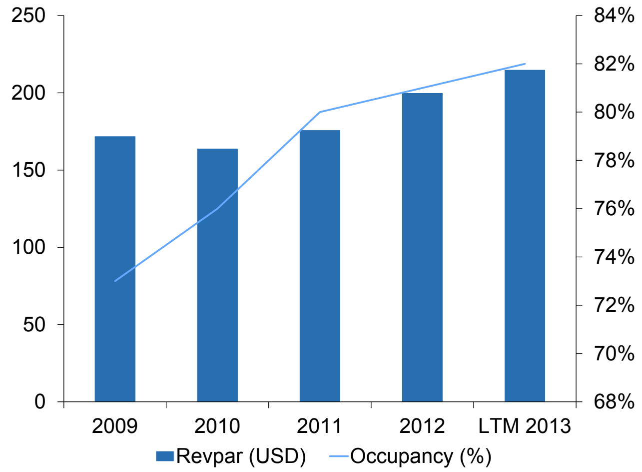
Source: Company data, JLL, REIDIN.com, Dubai Statistics Centre, VTB Capital Research

Figure 23: Dubai: guest nights YoY change (%)



Source: Company data, JLL, REIDIN.com, Dubai Statistics Centre, VTB Capital Research

Figure 24: Dubai: hotel Revpar & occupancy



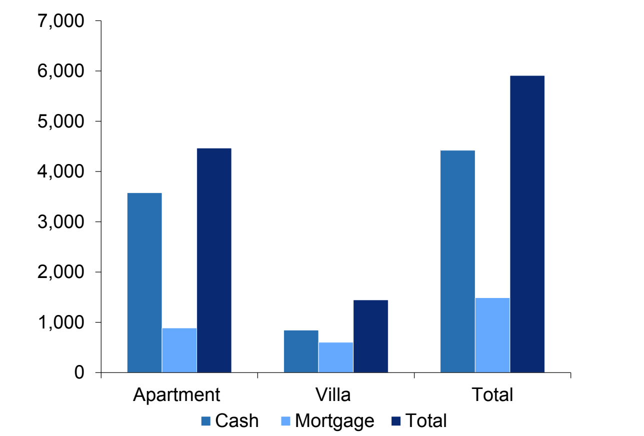
Source: Company data, JLL, REIDIN.com, Dubai Statistics Centre, VTB Capital Research

Transaction update

In 2Q13, total transactions moved up 13% QoQ and 33% YoY. The transaction value was USD 3.4bn, 21% higher QoQ and 55% higher YoY. The transactions were centred on key communities and developments with c 50% of the transactions in Dubai Marina, Business Bay and Palm Jumeirah. The number of cash transactions was 4,421 or 74% of total transactions, with a value of USD 2.4bn, which signified a 70.4% share of the transaction value. Mortgage penetration continued to rise, albeit slowly, driven generally in secondary sales, which saw the mortgage transaction value increasing 24% QoQ. 2Q13 saw 3,400 residential units handed over by developers, which is 57.5% of the total transactions. Supply forecasts suggest an addition of 38,000 units by 2015 but the new supply is largely out of established areas and concentrated in the hinterlands of Dubailand, Sports City & Jumeirah Village. The REIDIN rent index moved up 4.9% QoQ and the sale price index was 4.7% higher QoQ. The lack of compression in rental yields suggest a strong upside risk to sale prices in the medium term, as Dubai rental yields remain attractive on a global basis.

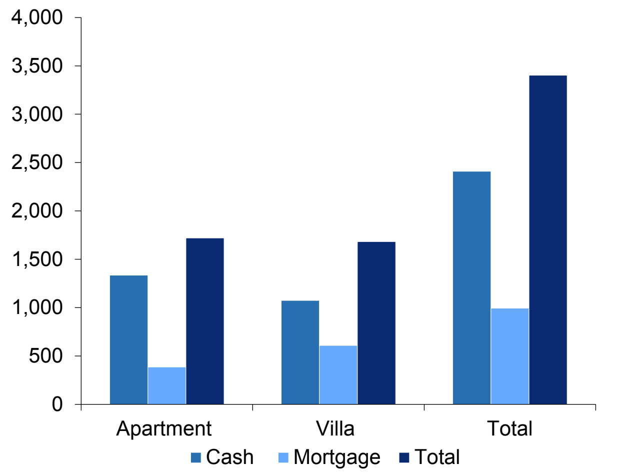
The bank exposure to real estate mortgages stood at USD 42.5bn at the end of 1Q13, a figure that was 2% lower than in the previous quarter.

Figure 25: Transaction count – 2Q13



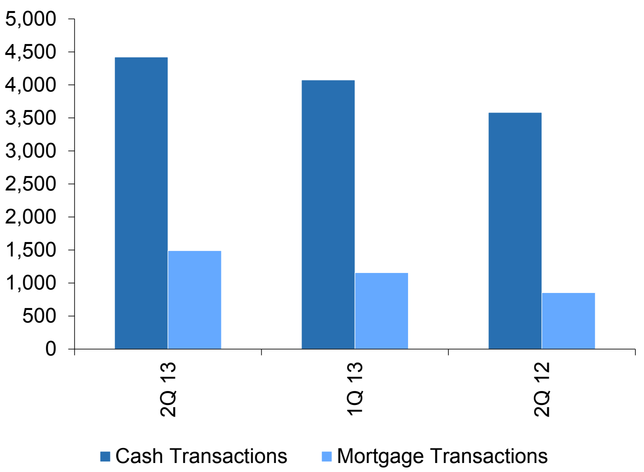
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 26: Transaction value – 2Q13 (USD mn)



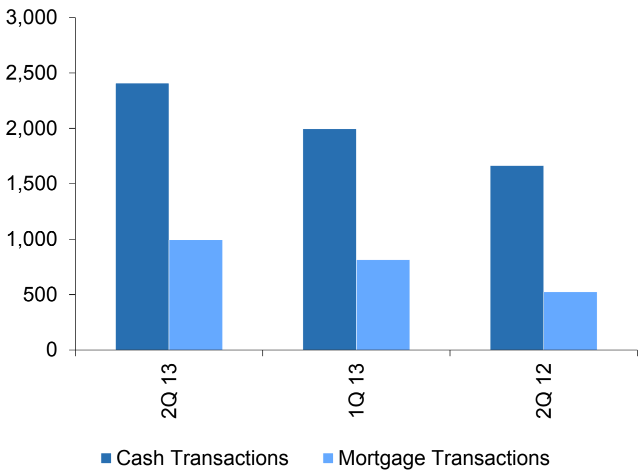
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 27: Transaction count: funding type



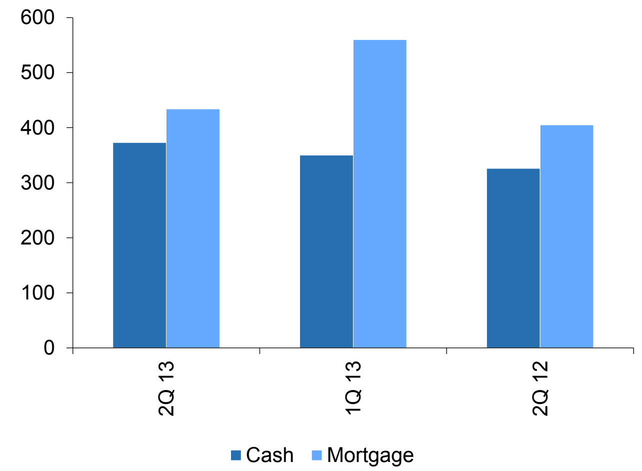
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 28: Transaction count: funding (USD mn)



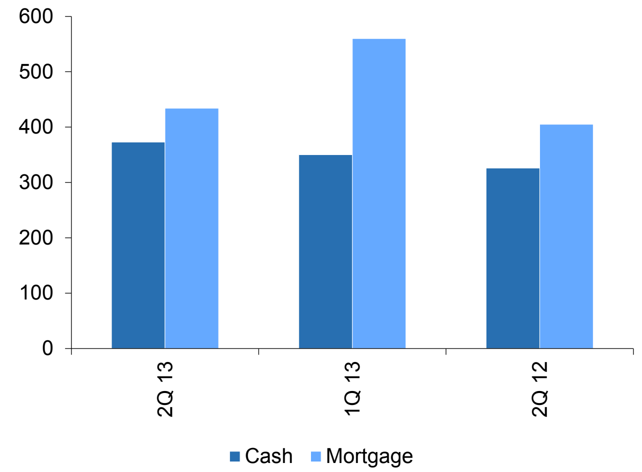
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 29: Average ticket: apartment ('000 USD)



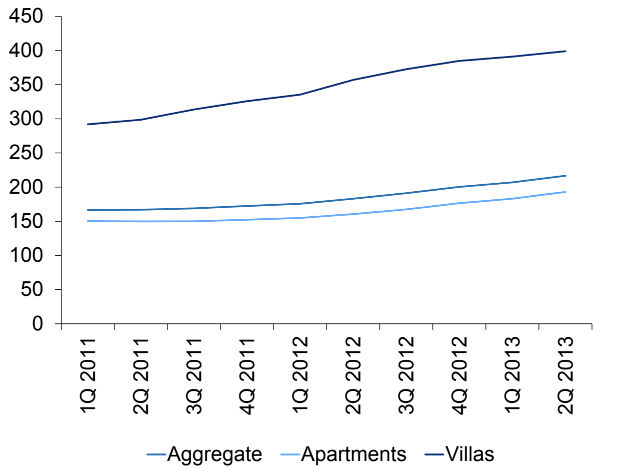
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 30: Average ticket: villa ('000 USD)



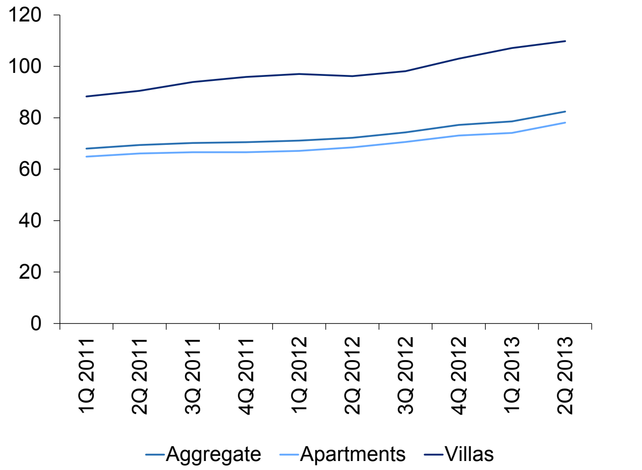
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 31: Sales Price Index



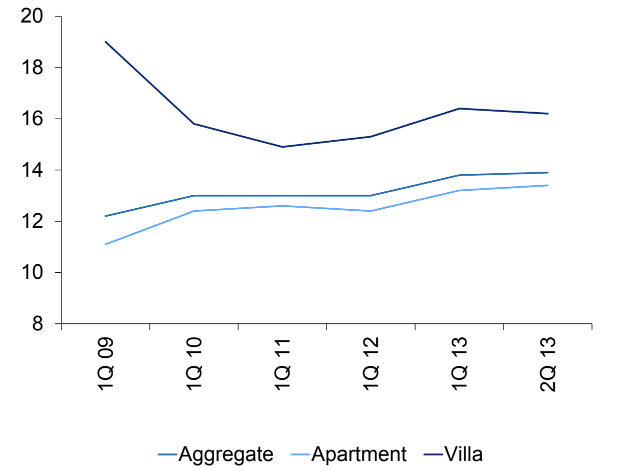
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 32: Rent Price Index



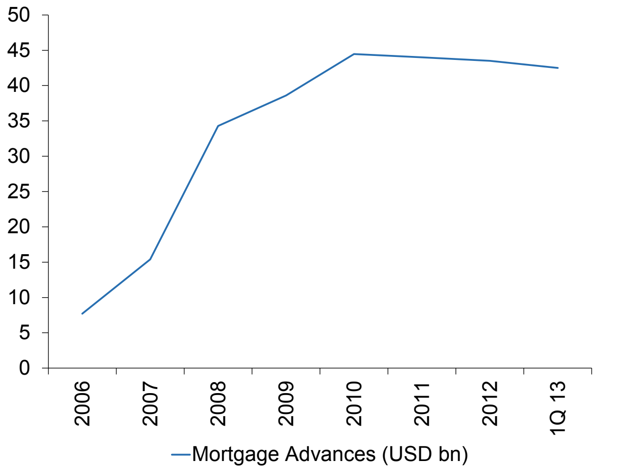
Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 33: Price to rent ratio



Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Figure 34: UAE mortgage loans



Source: Dubai Land Department, REIDIN.com, VTB Capital Research

Abu Dhabi Real Estate

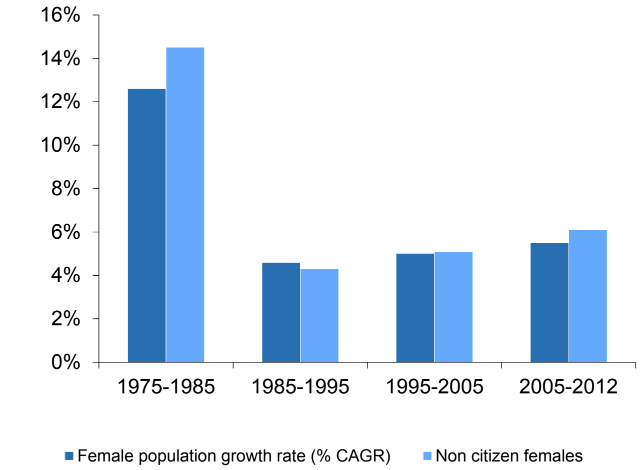
- Abu Dhabi sits at the heart of a resource-intense economy and has always been seen as a cash rich, conservative emirate with quality of lifestyle being a poor second alternative to Dubai, albeit better than Doha or Riyadh, its benchmarks. Dubai's success at transforming itself into a logistics, transportation and tourism hub has led to copycat attempts at realising the same in both Doha and Abu Dhabi, with cultural activities used as a differentiator.
- The tailwind from the Arab Spring and Abu Dhabi's rejuvenation projects has added some impetus to the real estate sector, especially in the residential segment. Residential sale prices rose over 5% in 2Q13, following an 8% increase in Q1. In the commercial segment, while prime office space rentals remained flat, a slump of 3% was observed in rents of secondary office space in Q2. The downward trajectory of rates is expected to continue due to supply surplus as well as high vacancy rates, which were 35% this quarter and might potentially trend higher.
- In the retail segment, strong demand has been seen in pushing forward the rents in Q2 by 5%, and rents averaged in the region of AED 2,887/sqm up from AED 2,750/sqm in Q1. In the hospitality segment, the supply side has more than matched any increase in demand, leading to an average decline of 1.5% in room rates in Q2, even while occupancy levels increased 8%. Occupancy levels observed so far in 2013 have been at 70% and ADR in the region at AED 592.

The real-estate market has witnessed steady progress in the first quarter, following which rents remained stagnant in Q2, but sales prices increased 5% for residential units. Abu Dhabi's real estate sector remains heavily reliant on the government investing revenue surpluses into developing infrastructure and economic development initiatives to generate population growth and facilitate demand. The government continues to progress its previously announced spending plans during 2Q13. AED 30bn is expected to be spent in the next five years to expand infrastructure, create jobs and further increase demand. In Abu Dhabi, a commitment to sustained expenditure is the key driver of the local property market.

Although most asset classes remain over-supplied, there is a shortage of high-quality dwellings in terms of design and construction quality, property management and suitability for the end-user. Thus a bifurcation is appearing in different segments with varying trends.

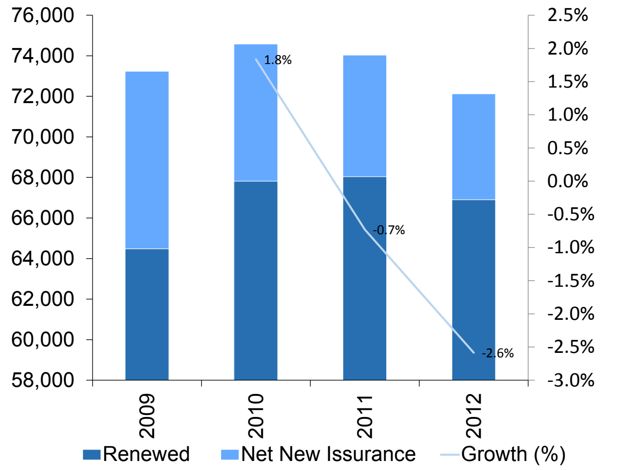
The first half of 2013 witnessed modest signs of recovery, evidenced by growth in primary sectors of residential, retail and commercial markets. However, secondary sectors continued to decline. Long-term growth is dependent on the government's ongoing economic development initiatives to diversify the hydrocarbon economy and generate sustainable demand. With the government progressing on major new projects (Airport expansion, Etihad Rail) the trend points to positive momentum, at least in the short term.

Figure 35: Abu Dhabi: female population growth rates (%)



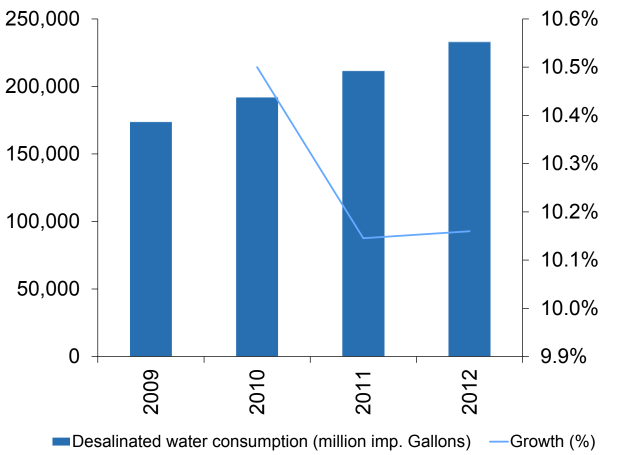
Source: Dubai Statistics Centre, VTB Capital Research

Figure 36: Abu Dhabi: commercial licence issuance



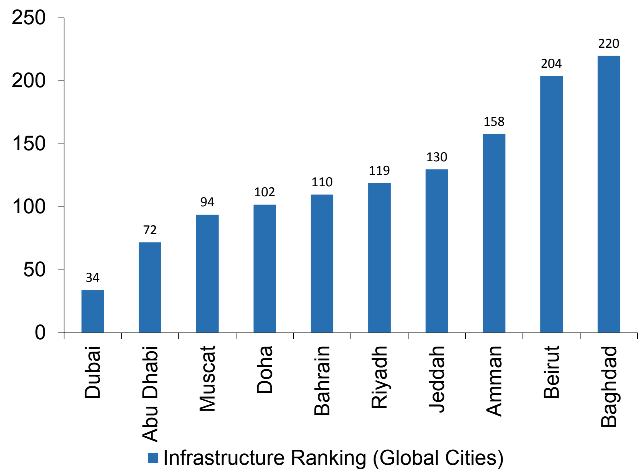
Source: Dubai Statistics Centre, VTB Capital Research

Figure 37: Abu Dhabi: desalinated water treatment



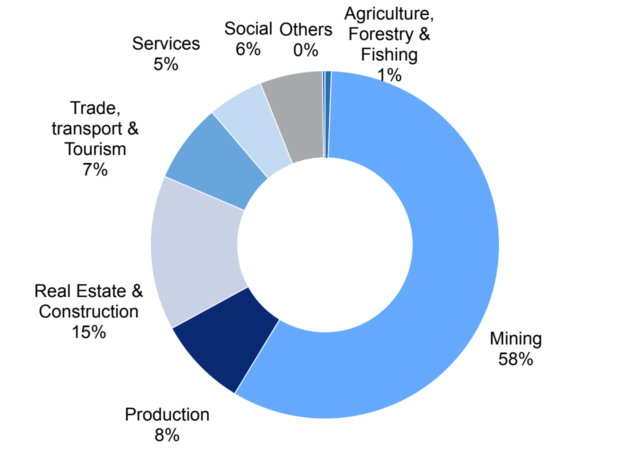
Source: Company data, Abu Dhabi Statistics Centre, VTB Capital Research

Figure 38: Abu Dhabi: global infrastructure ranking



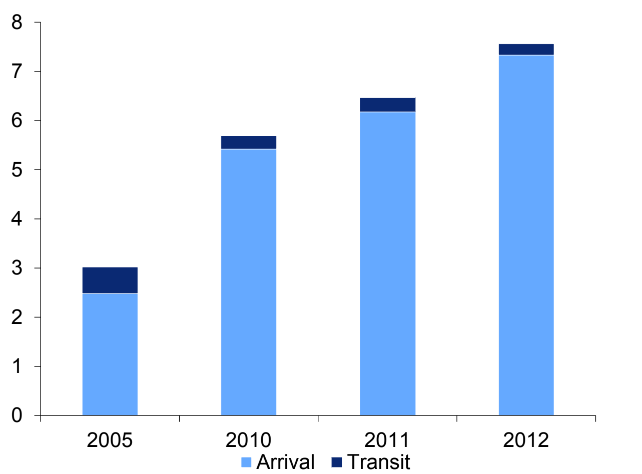
Source: MasterCard Global Cities Index Report, VTB Capital Research

Figure 39: Abu Dhabi: GDP breakdown (2012)



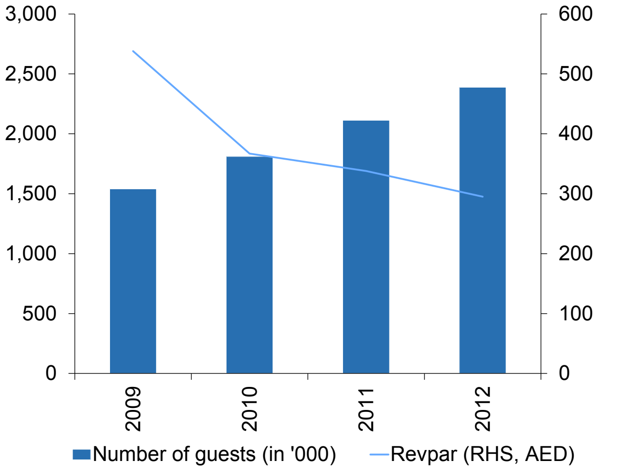
Source: Company data, Abu Dhabi Statistics Centre, VTB Capital Research

Figure 40: Abu Dhabi Airport: passenger traffic (m)



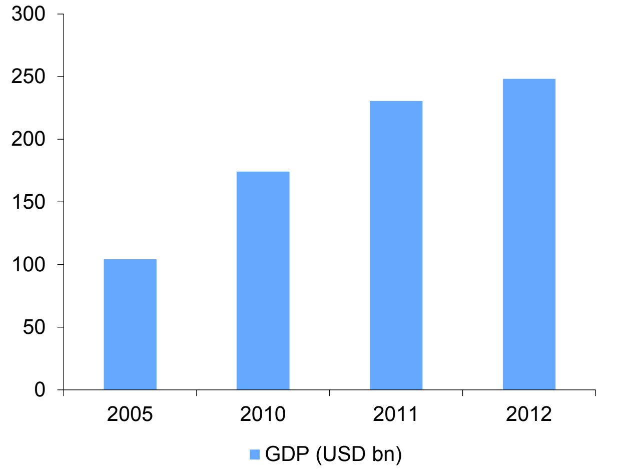
Source: Company data, Abu Dhabi Statistics Centre, VTB Capital Research

Figure 41: Abu Dhabi: Hotel Guests & Revpar



Source: Company data, Abu Dhabi Statistics Centre, VTB Capital Research

Figure 42: Abu Dhabi: GDP (USD bn)



Source: Company data, Abu Dhabi Statistics Centre, VTB Capital Research

Residential segment

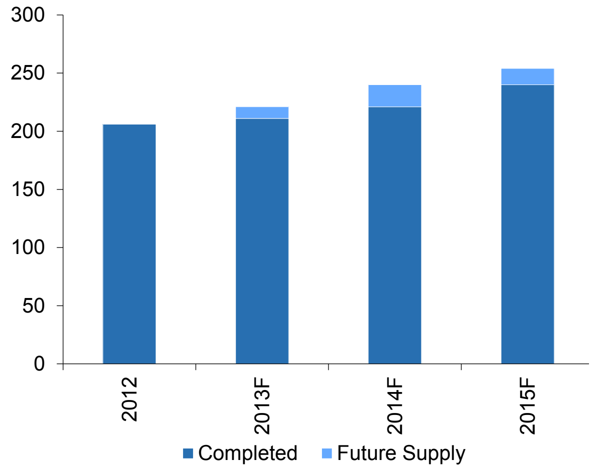
Abu Dhabi saw an addition of approximately 2,300 units in the residential segment in 2Q13. The main contributors of the new supply were the developments of AD One Tower, Eastern Mangrove Promenade Apartments, Saadiyat Beach villas and Apartments, Hydra Village, Al Wifaq Tower and Tala Tower. An additional 10,000 units are expected to be added in the second half of the year with expected handovers from Eastern Mangrove Promenade, Rawdhat and Danet, Al Bustan Complex, Khor Al Raha apartments, Gate Towers and Mangrove Place. With a rejuvenation of projects, such as Louvre, started by the Abu Dhabi government, and new regulations for claiming housing benefits, the sentiment has turned around to one of optimism. Developers are considering reinitiating stalled projects and we anticipate the total stock of residential units might potentially go up to 254,000 units by the end of 2015F.

The leasing market remains strong, with increased demand at the high end of the market, as former Dubai residents return to Abu Dhabi. Average two bedroom rents remained at AED 130,000 per annum. With a surge of new supply, rents are expected to stabilise.

The key drivers of demand have been: 1./ The government's spending initiative on infrastructure and economic development, leading to job opportunities and economic growth. 2./ Government entities requiring Dubai-based employees to relocate to Abu Dhabi in response to the new regulations. 3./ International companies expanding their presence in the Emirate, with newer companies choosing Abu Dhabi over Dubai as it remains cost effective as compared to Dubai. 4./ The rental difference between Abu Dhabi and Dubai is reducing, the quality of residential stock is improving, making Abu Dhabi more competitive than before relative to Dubai. 5./ With the development of master communities and retail destinations, the quality of urban life in Abu Dhabi has improved markedly.

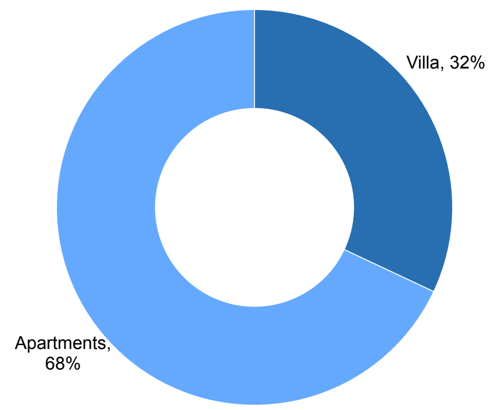
Residential sale prices rose by over 5% in 2Q13, following an 8% increase in 1Q13. Average residential asking prices were close to AED 11,500 per sqm as compared to AED 11,000 per sqm in 1Q13, with prices for apartments close to AD 13,500 per sqm and that of villas being closer to AED 10,000 per sqm. Abu Dhabi witnessed a substantial increase in transactional volumes over the past quarter , in line with Dubai, and these can be attributed to UAE's status of a safe haven following political unrest in the MENA region and tailwind from Dubai's growth.

Figure 43: Abu Dhabi: residential stock ('000 units)



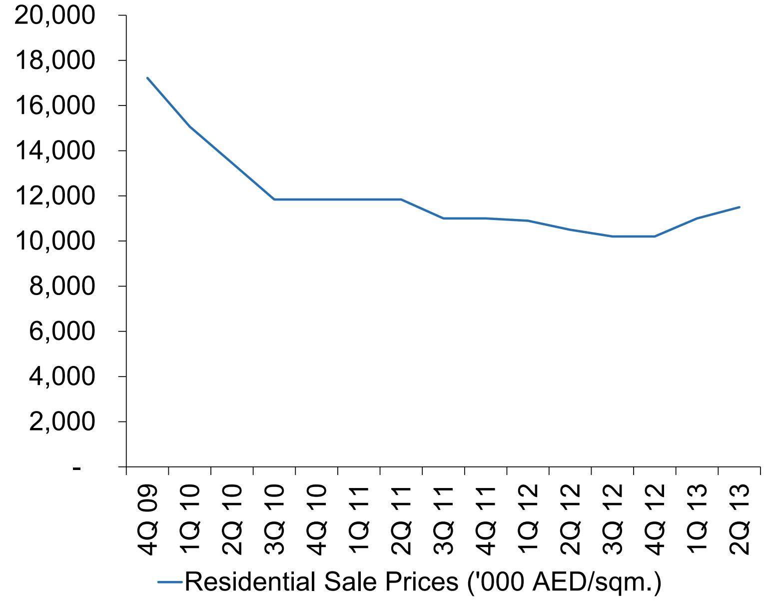
Source: Company data, VTB Capital Research

Figure 44: Abu Dhabi; residential stock type



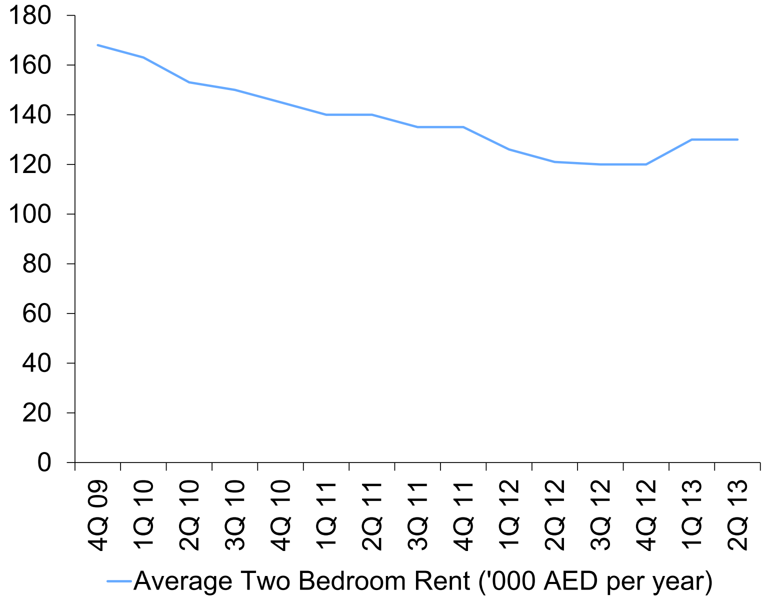
Source: Company data, VTB Capital Research

Figure 45: Abu Dhabi: residential sale prices ('000 AED/sqm)



Source: Company data, VTB Capital Research

Figure 46: Abu Dhabi: two bedroom rent ('000 AED per year)



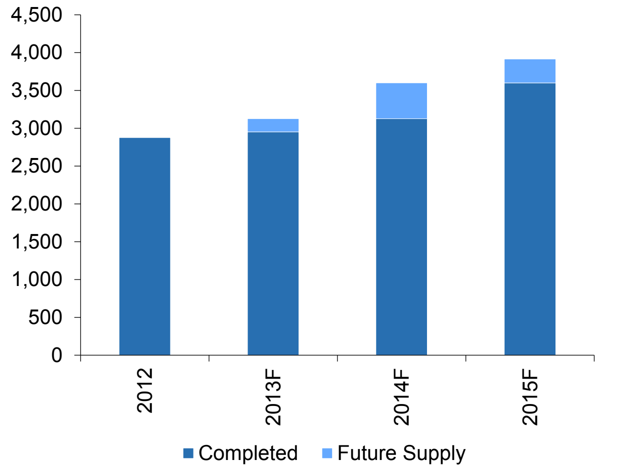
Source: Company data, VTB Capital Research

Commercial segment

The commercial segment typically lags residential by a period of 12-18 months and hence the fledgling recovery in the residential segment coupled with the regulatory barriers in Abu Dhabi has led to a continued sluggish performance in the commercial segment. Supply is expected to increase throughout the year with 2Q13 witnessing the handover of Nation Towers and the office component of Al Bustan Complex, adding 49,000sqm to the already existing stock of 2.95 million sqm. Capital Tower, Finance HQ and Landmark Tower are expected to be handed over in 2H13. Another 960,000sqm is expected to enter the market by the end of 2015, taking the total supply close to 3.9 million sqm. With prime office space rentals being flat, a slump of 3% was observed in rents of secondary office space. The downward trajectory of rates is expected to continue due to supply surplus as well as high vacancy rates, which were 35% this quarter and might potentially trend higher.

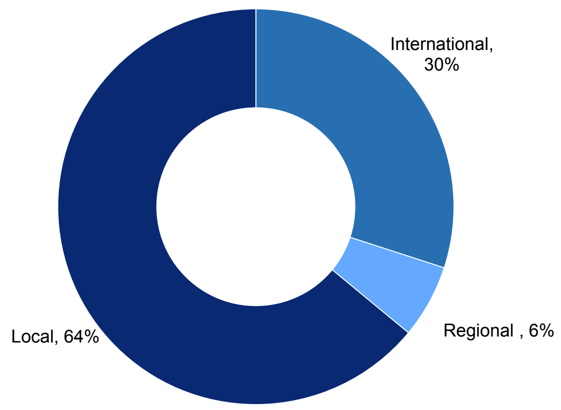
The outlook in the short term indicates average rental rates of commercial properties are likely to remain soft. However, an improvement in macroeconomic environment might lead to a pick-up in the segment in the next 12-18 months and interest in flagship commercial zones, especially for financial firms. Government-backed entities remain the principal source of demand for Grade A office Space. We see a bifurcation between the Grade A and the Grade B space similar to the flight to quality seen in the Dubai commercial segment. This situation is expected to place further pressure on Grade B and secondary office spaces that are already dipping or going through a period of stagnation. Average Grade A office rents remained mostly unchanged at 1,540 per sqm, while that of Grade B office rents dipped slightly from AED 1,250 per sqm in Q1 to AED 1,200 per sqm in Q2. With supply increasing 49,000sqm, vacancy rates increased slightly from 37% in 1Q13 to 38% in 2Q13.

Figure 47: Abu Dhabi: office supply (GLA, '000 sqm)



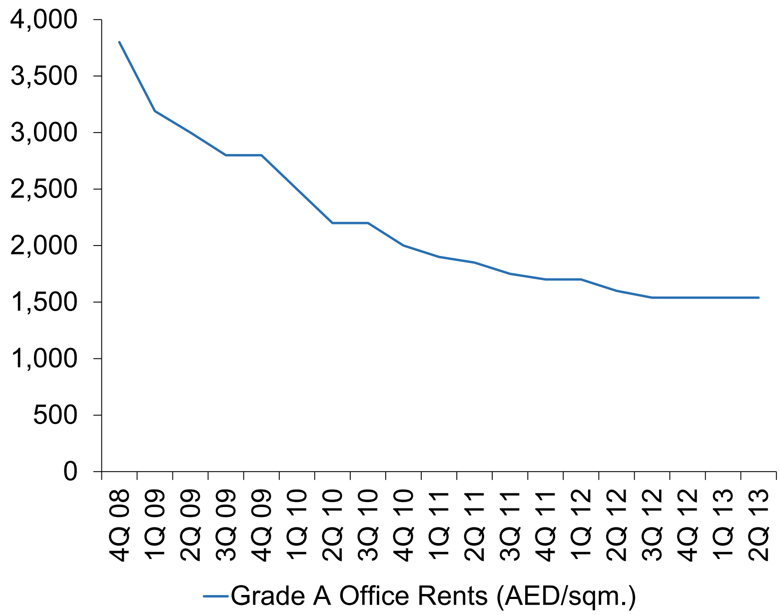
Source: Company data, VTB Capital Research

Figure 48: Abu Dhabi: sources of demand



Source: Company data, VTB Capital Research

Figure 49: Abu Dhabi: Grade A Office Rents (AED/sqm)



Source: Company data, VTB Capital Research

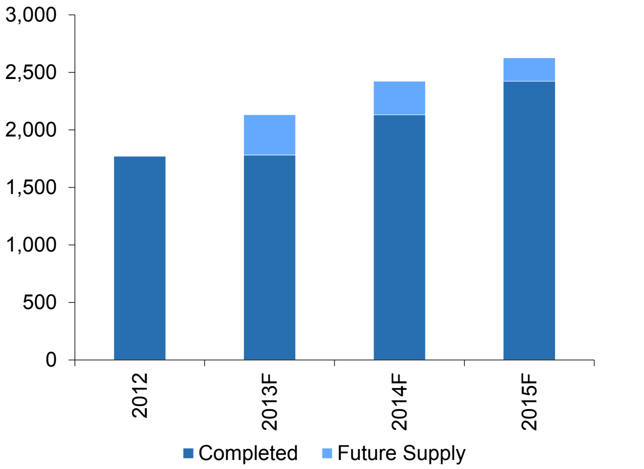
Retail segment

The retail stock in Abu Dhabi remained largely stagnant in 2Q13 with no major additions and the supply for retail space stood at 1.78 million sqm. A number of new malls are expected to mature/commission post 2Q13, including the Deerfields Town Square, Emporium Mall at Central Market and Capital Mall in Building Materials City. If these projects are completed on time as scheduled, we would witness Abu Dhabi's retail stock expand by 349,000sqm of GLA by the year-end itself. The retail market segment supply in Abu Dhabi is robust with a number of other projects expected to enter the market. Some of those expected to be commissioned by 2014-15 are Nation Towers, The Collection at St. Regis and The Galleria at Sowwah Square. One of the flagship projects to be commissioned in the Abu Dhabi retail segment is Yas Mall by Aldar Properties situated in Yas Islands. Construction of the mall is more than 75% complete and the inauguration is expected to ramp up the retail stock of the emirate by 232,835sqm. It will be the largest mall in Abu Dhabi and the second largest in UAE (after Dubai Mall, on a GLA basis).

By the end of 2015, retail space in Abu Dhabi is expected to reach c 2.6 million sqm. With enough projects in the pipeline and retail stock in the Emirate being ramped up, we could witness Abu Dhabi offering some competition to Dubai as a lifestyle destination post 2015.

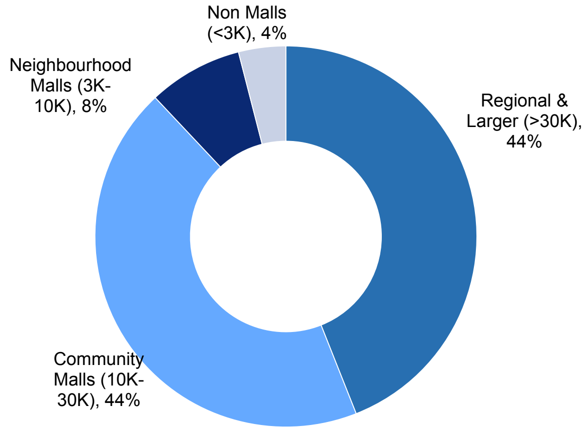
With no major completions in 2Q13, supply remained largely unchanged. The Abu Dhabi market seems to be dominated by regional and super-regional malls, with both occupying 44% of the total retail composition. Upcoming supply is only going to increase their proportion, as multiple community and regional malls are released in the market in the coming few years. The retail landscape is expected to undergo a major quality upgrade. There remains substantial demand for regional and super regional space across the Emirate. This is due to increased spending power from the resident population as well as increase in tourist footfalls. The strong demand has been seen in pushing forward the rents in 2Q13 by 5% and rents averaged in the region of AED 2,887/sqm, up from AED 2,750/sqm in 1Q13. Although Abu Dhabi is geared to deal with a lot of retail supply, it is not expected to have an effect on asking rents as demand remains strong and vacancy levels are low at 2% for regional and super-regional malls. However, rents are expected to soften in the medium term.

Figure 50: Abu Dhabi: retail supply (GLA, '000 sqm)



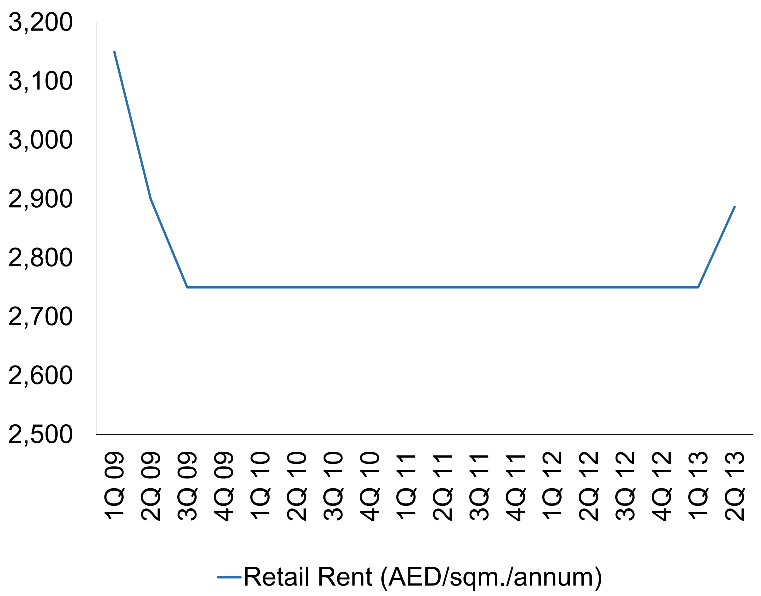
Source: Company data, VTB Capital Research

Figure 51: Abu Dhabi: existing stock (by GLA)



Source: Company data, VTB Capital Research

Figure 52: Abu Dhabi: Retail Rents (AED/sqm/annum)



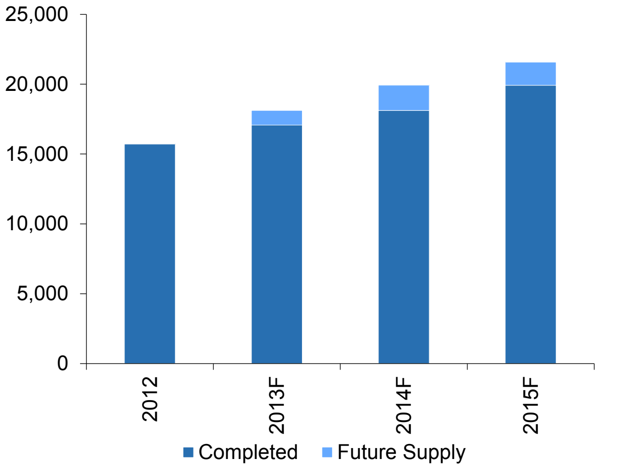
Source: Company data, VTB Capital Research

Hospitality segment

The hospitality segment saw an increase in inventory of 700 rooms in the first quarter of 2013 with the inauguration of The Ritz Carlton Grand Canal and Premier Inn Capital Centre. Increase in supply continued in the second quarter, with a further addition of 600 rooms comprising the Dusit Thani on Muroor Street and Rosewood at Sowwah Square. With over 1,300 rooms already added to supply in the first half of 2013, there remain a number of projects scheduled to open in 2H13. St. Regis Nation Towers, Novotel and Adagio Al Bustan are expected to be delivered by the year-end. The hotel supply pipeline is robust for the next 5-7 years, with Abu Dhabi expected to add over 4,000 rooms by the end of 2015. However, the oversupply is dampening any appetite for new launches.

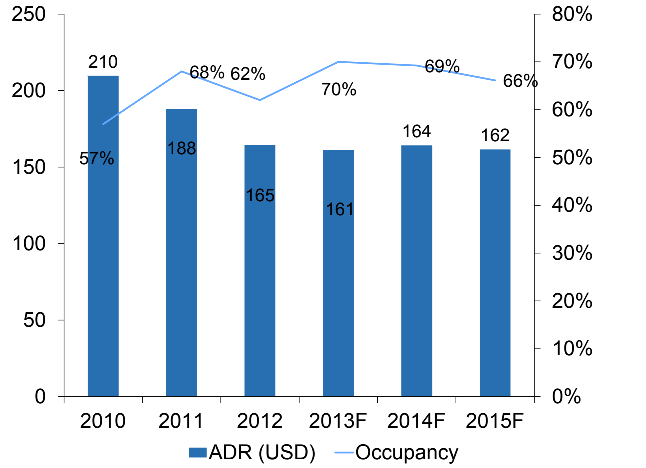
Abu Dhabi received 2.3 million guests in 2012 and 1.2 million guests in the first half of 2013, with a relatively dilapidated infrastructure, so it may potentially be able to grow arrivals from a lower base in 2014-15. The supply side has, however, more than matched any increase in demand, leading to an average decline of 1.5% in room rates in 2Q13 even while occupancy levels increased by 8%. Occupancy levels observed so far in 2013 have been at 70% and ADR in the region of AED 592.

Figure 53:Abu Dhabi: hotel rooms



Source: Company data, VTB Capital Research

Figure 54: Abu Dhabi: ADR & occupancy



Source: Company data, VTB Capital Research

Initiation of Coverage

Aldar Properties PJSC

Abu Dhabi is as good as it gets

HOLD

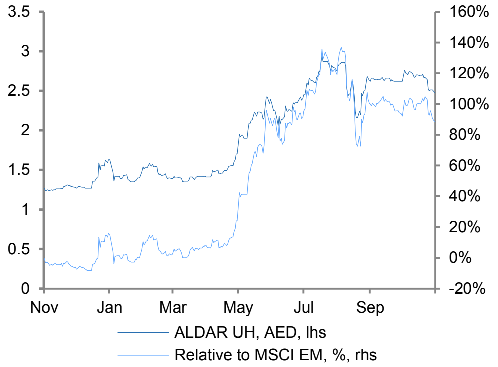
Primary ticker: ALDAR UH

Currency: AED

Stock Data

Last price	2.48
Last price date	17 Nov 2013
Target price	2.40
Target price established	20 Nov 2013
Upside/(downside), %	-3%
52 week price range	1.24 - 2.95
Market cap, USD / AED mn	5,309 / 19,499
EV, USD / AED mn	9,147 / 33,597
# shares outstanding, mn	7,863
Free float	67%
Benchmark Index (MXEF)	991.77

Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-5.3%	-11%	92%	7%
Price relative	-5%	-15%	88%	19%
ADTV (USD mn)	22.70	33.44	23.82	11.64

Key financial highlights

Fiscal year end	12/12	12/13F	12/14F	12/15F
P/E, x	3.9x	8.2x	13.2x	7.7x
EV/EBITDA, x	9.9x	14.7x	10.5x	8.9x
P/B, x	0.6x	1.1x	1.1x	1.0x
FCF yield, %	8.6%	2.9%	3.0%	2.8%
DY (ords), %	5.1%	2.4%	1.5%	2.6%
Net sales, AED mn	11,404	8,807	8,708	9,583
EBITDA, AED mn	1,992	2,283	2,363	2,653
Net income, AED mn	1,341	2,381	1,482	2,545
Net sales, chg	69%	-23%	-1%	10%
EBITDA, chg	-258%	15%	4%	12%
Net income, chg	109%	78%	-38%	72%
EPS, AED	0.30	0.30	0.19	0.32
DPS (ord.), AED	0.06	0.06	0.04	0.06
BPS, AED	1.83	2.16	2.31	2.57
EBITDA margin, %	17.5%	25.9%	27.1%	27.7%
ROE, %	16%	14%	8%	13%
Net Debt, AED mn	14,591	14,097	5,248	4,057
ND/EBITDA, x	7.3x	6.2x	2.2x	1.5x
Net int. cover, x	1.9x	1.5x	1.7x	5.3x

Source: Bloomberg, Company data, VTB Capital Research

Initiate with a Hold recommendation; DCF based 12-month TP of AED 2.4. Aldar is the pre-eminent property developer in Abu Dhabi and has gained access to a large development land bank post the merger with Sorouh in June 2013. Post-merger, Aldar Properties provides a unique exposure to Abu Dhabi real estate, albeit we believe Abu Dhabi is a distinctly more challenging real estate environment relative to Dubai and the scope of growth opportunity is relatively restrained vis-à-vis Dubai.

Overbearing reliance on government; little external demand. Aldar has an overbearing reliance on the federal government for its flagship developments and we believe that the unique position of the government as both a creditor and the holder of receivables poses a potentially material risk for minority investors. With an expatriate population constantly in flux due to immigration rules and little cross-border interest, alongside a dominant counterparty for flagship projects i.e. for pricing, we believe the underlying long-term investment case for equity investors in an Abu Dhabi real estate developer are less than robust, discounting valuations.

Merger with Sorouh a positive, execution in little doubt. We view the merger with Sorouh as a positive, as it helped delever the balance sheet, added an attractive land bank (77 million sqm, mostly in investment zones) to the portfolio and conferred the pole position to Aldar in Abu Dhabi. We also believe that the merger provides synergies in construction and SG&A.

Lack of visibility on ownership vs. leasing of flagship developments. Unlike Emaar, there is a distinct lack of crystal clear visibility on whether the construction projects for several hotels and retail developments are eventually going to be owned by Aldar and provide recurring income sources or whether Aldar is only allowed to derive contractual revenue while beneficial ownership will reside with the government. Abu Dhabi's ambitious investments into infrastructure and lifestyle developments were frozen post the 2008 crisis and have recently been revived. Yas Island accounts for a sizeable portion of the company's recurring income portfolio. Sorouh had always in the past emphasised on creating a strong rental income and predictable cash flow, yet revenues from the recurring income portfolio stood at 12.6% for Aldar in 2012 and is expected to go up to 19% by 2015F with Yas Mall expected to be operational by 2Q14 and adding 232,835sqm to their investment properties portfolio. However, this pales in comparison to Emaar's 40% contribution from recurring income. Furthermore, a continuous shift between leasing vs. owning emphasises the fragile customer demand and the associated risks.

Valuation. We use a DCF-based valuation methodology to arrive at a 12-month TP of AED 2.4. Aldar trades at a 2013F P/E of 11.6x, against regionals at 11.6x, EM peers at 17x and developer market peers at 16.9x .

Risks. A continued lack of infrastructure development might potentially impact end-user demand. Corporate governance risks are a potential possibility.

Digvijay Singh // +971 4 377 0819 // digvijay.singh@vtbcapital.com

VTB Capital Facts & Forecasts

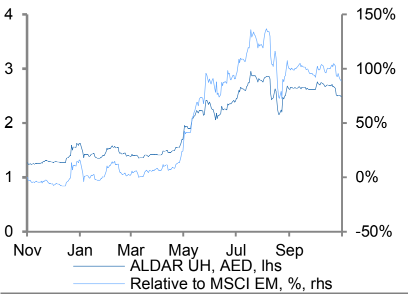
United Arab Emirates
Financials / Real Estate

Aldar Properties PJSC

Prices as of: 17 November 2013

Ticker	CCY	Current	12mo TP	Rating
ALDAR UH	AED	2.48	2.40	Hold

Share price performance, 12-mo



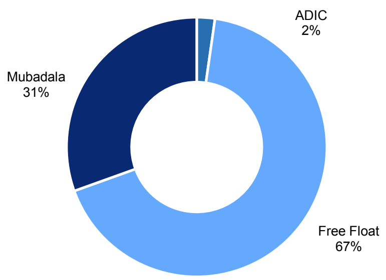
Company description

Aldar Properties is a real estate developer based out of Abu Dhabi, UAE.

Company website

http://www.aldar.com

Shareholder structure



Source: Company data, VTB Capital Research

Research team

Digvijay Singh / +971 4 377 0819

Last model update on: 20 November 2013

IFRS	2011	2012	2013F	2014F	2015F	2016F
Company data						
Weighted avg # shares, mn	4,210	4,482	7,863	7,863	7,863	7,863
Avg market cap, AED mn	5,718	5,223	19,499	19,499	19,499	19,499
EV, AED mn	24,602	19,814	33,597	24,747	23,557	22,738
Ratios & analysis						
P/E, x	8.9x	3.9x	8.2x	13.2x	7.7x	7.1x
EV/EBITDA, x	neg	9.9x	14.7x	10.5x	8.9x	9.3x
P/B, x	0.8x	0.6x	1.1x	1.1x	1.0x	0.9x
Dividend yield (ords), %	3.7%	5.1%	2.4%	1.5%	2.6%	2.8%
EPS, AED	0.15	0.30	0.30	0.19	0.32	0.35
CFPS, AED	1.02	1.00	0.073	0.59	0.41	0.35
Free CFPS, AED	0.16	0.10	0.073	0.073	0.069	0.069
DPS (ords), AED	0.050	0.060	0.061	0.038	0.065	0.069
Payout ratio (ords), %	32.8%	20.1%	20.0%	20.0%	20.0%	20.0%
BPS, AED	1.68	1.83	2.16	2.31	2.57	2.85
Revenues growth, %	n/m	69%	-23%	-1%	10%	-16%
EPS growth, %	n/m	96%	1%	-38%	72%	7%
EBITDA margin, %	-18.7%	17.5%	25.9%	27.1%	27.7%	30.1%
Net margin, %	9.5%	11.8%	27.0%	17.0%	26.6%	33.7%
ROE, %	9.1%	16.4%	14.2%	8.3%	12.7%	12.3%
ROIC, %	-6.3%	6.8%	5.5%	8.2%	9.3%	9.1%
Capex/Revenues, %	29%	9%	1%	1%	1%	1%
Capex/Depreciation, x	(3.3x)	(2.3x)	(0.1x)	(0.1x)	(0.2x)	(0.3x)
Net debt/Equity, %	266%	178%	83%	29%	20%	14%
Net debt/EBITDA, x	(15.0x)	7.3x	6.2x	2.2x	1.5x	1.3x
Net interest cover, x	(1.7x)	1.9x	1.5x	1.7x	5.3x	25.3x
Income statement summary, AED mn						
Revenues	6,743	11,404	8,807	8,708	9,583	8,086
Cost of sales	(5,097)	(8,166)	(5,951)	(5,806)	(6,379)	(5,294)
SG&A and other opexp.	(2,075)	(626)	463	428	441	248
EBITDA	(1,259)	1,992	2,283	2,363	2,653	2,435
Depreciation & amortization	590	435	545	497	432	381
Operating profit	(1,849)	1,557	1,738	1,866	2,221	2,054
Non-operating gains /(exp.)	3,951	446	-	426	430	435
EBIT	(1,849)	1,557	1,738	1,866	2,221	2,054
Net interest income/(exp.)	122	223	210	221	232	243
Profit before tax	642	1,341	2,417	1,505	2,583	2,770
Income tax	-	-	-	-	-	-
Minority interests	-	-	(36)	(23)	(39)	(42)
VTBC Net income	642	1,341	2,381	1,482	2,545	2,729
Cash flow statement summary, AED mn						
Cash flow from operations	4,300	4,472	577	4,659	3,200	2,727
Working capital changes	1,982	1,479	(2,349)	2,679	224	(383)
Capex	(1,939)	(983)	(60)	(58)	(96)	(106)
Other investing activities	9,235	(416)	-	(500)	(496)	(402)
Free cash flow	666	450	573	577	541	541
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(1)	(200)	(476)	(296)	(509)	(546)
Net change in borrowings	(5,095)	(5,037)	-	-	-	-
Other financing cash flow	(3,777)	(198)	10	5,988	-	-
Movement in cash	2,723	(2,362)	51	8,849	1,191	818
Balance sheet summary, AED mn						
Cash and equivalents	4,158	2,260	3,650	12,500	13,690	14,509
PP&E	4,866	3,632	3,316	2,877	2,541	2,266
Goodwill	8	3	290	290	290	290
Investments	6,818	6,947	11,367	12,311	13,220	14,076
Other assets	24,267	19,199	28,239	19,943	21,356	20,187
Total assets	40,118	32,041	46,863	47,919	51,097	51,326
Interest bearing debt	925	590	410	260	195	156
Other liabilities	19,834	15,677	20,777	20,647	21,790	19,836
Total liabilities	33,024	23,861	29,857	29,728	30,870	28,916
Total shareholder's equity	7,094	8,180	16,771	17,956	19,992	22,175
Minority interest	-	-	235	235	235	235
Net working capital	13,393	10,156	4,848	3,055	3,741	4,679
Net Debt	18,884	14,591	14,097	5,248	4,057	3,239
Capital	8,019	8,770	17,181	18,216	20,187	22,331
FCF yield, %	11.7%	8.6%	2.9%	3.0%	2.8%	2.8%
Net sales, chg	n/a	69%	-23%	-1%	10%	-16%
EBITDA, chg	n/a	-258%	15%	4%	12%	-8%
Net income, chg	n/a	109%	78%	-38%	72%	7%
EBIT margin, %	-27%	14%	20%	21%	23%	25%

Aldar Properties Investment Company

- Aldar provides exposure to Abu Dhabi real estate sector. Due to a relatively inadequate infrastructure compared to Dubai, international demand has largely been concentrated in neighbouring Dubai, and thus Aldar is heavily dependent on government projects and resident demand.
- The recent merger with Sorouh provides Aldar with a potential opportunity in terms of the land bank in investment zones (77msqm), yet the development is predicated on customer demand, whose growth trajectory is less than stellar.
- We initiate with a Hold recommendation and a DCF-based Target Price of AED 2.4/share. We believe that post the development of Abu Dhabi's infrastructure, Aldar might be a better investment prospect than Emaar, yet like for like, it is hard to foresee that in the short term.

Aldar Properties offers direct exposure to the Abu Dhabi real estate and construction sector. Aldar Properties PJSC was established in the year 2000 as a real estate development and management company headquartered in Abu Dhabi and prior to the opening of freehold development, acting thus as an appendage of the government in residential and commercial construction. Post the listing in 2004, Aldar has supported Abu Dhabi's development through the creation of high-quality, attractive and sustainable communities equipped with residential, commercial, retail, leisure, hospitality, education and medical facilities.

Aldar went public in 2004, raising AED 1.5bn through an IPO, which represented AED 675mn or 45% of equity subscribed by its founding members and AED 835mn allocated to the public with an offer price of AED 1/share. The issue opened to become the largest in the history of UAE financial markets during that time. Aldar has gained access to a large development land bank post the merger with Sorouh in June 2013. Post-merger, Aldar Properties provides a unique exposure to Abu Dhabi real estate, even though we view Abu Dhabi as a distinctly more challenging real estate environment relative to Dubai and the scope of growth opportunity is relatively restrained

Aldar is uniquely dependent on the Abu Dhabi government as a customer and thus its liquidity management is primarily exposed to the payment schedule dispensed by the government. Furthermore, the expectation of sovereign support also increases the attractiveness of the debt/credit profile of the company. Post 2008, Aldar has enjoyed a steady line of credit at lower interest rates, with the effective interest rate being 5.85% in 2011 and 5.73% in 2012. Aldar had retired some of its 2008 borrowing of USD 1.25bn in 2012 and is due to retire the remaining part in 2013. Aldar's close relationship with the government in project planning and the rising portion of investment property in the company's overall property portfolio along with the large land bank of Sorouh and Aldar combined is expected to strengthen Aldar's dominant position in Abu Dhabi further. The investment case for Aldar is thus crucially dependent on two fundamental factors viz. a./ the prospects for real estate demand in Abu Dhabi and b./ the treatment of minority investors.

With an expatriate population constantly in flux due to immigration rules and little cross-border interest, alongside a dominant counterparty for flagship projects i.e. for pricing, we believe the underlying long-term investment case for equity investors in an Abu Dhabi real estate developer are less than robust, discounting valuations. This also leads to Aldar having an overbearing reliance on the federal government for its flagship developments and we believe that the unique position of the government as both a creditor and the holder of receivables poses a potentially material risk for minority investors.

Valuation: We use a DCF-based valuation methodology to arrive at a 12-month Target Price of AED 2.4.

DCF Valuation

We initiate coverage of Aldar with a Hold recommendation and a twelve-month Target Price of AED 2.4. Our Target Price is derived from the DCF valuation, based on an 11-year forecast period and a growing perpetuity thereafter. We use a WACC of 9.3%, driven by a cost of equity of 10.5% and a cost of debt of 6%. We conservatively assumed the tax rate to be 2.5% rather than zero and the target capital structure assumes a 25% debt component. The risk 2.4free rate comprises the premium of the spread on US risk and the element of market volatility is captured in the markets' risk premium of 5%.The long-term growth rate is kept at 3% for a conservative bias.

Figure 55: Aldar: WACC

WACC	
Risk free rate	5.5%
Market risk premium	5.0%
Beta	1.0
Cost of equity	10.5%
Cost of debt	6.0%
Tax Rate	2.5%
Debt	25%
WACC	9.3%
Terminal growth rate	3.0%

Source: VTB Capital Research

Figure 56: Aldar: TP Computation

Fair Value Computation	
PV of TV (m, LC)	11,108.0
PV of FCFF (m, LC)	7,450.4
EV (m, LC)	18,558.4
Less: Net Debt (m, LC)	(14,097.3)
Less: Minorities (m, LC)	(66.9)
Investments (m, LC)	13,435.0
Equity Value (m, LC)	17,829.1
Number of shares (mn)	7,862.6
Equity Value/Share (LC)	2.3
Dividend/share (LC)	0.1
Cost of equity	10.8%
Target Price (LC)	2.4
Current Price (LC)	2.5
Currency depreciation (to USD)	-
Upside (in USD terms)	-2%

Source: Company data, VTB Capital Research

Figure 57: Aldar: Peer Comps

Company	BBG ticker	Mcap USD mn	Net Debt 2013F	Price USD	P/E 2013F	P/E 2014F	EV/EBITDA 2013F	EV/EBITDA 2014F	P/CF 2013F	P/CF 2014F	Div yield, % 2013F	Div yield, % 2014F	P/BV 2013	Net Debt/EBITDA 2013F	Net Debt/EBITDA 2014F
Regional Plays															
Middle East															
Emaar	EMAAR UH	9,951	1,598	1.63	16.0	15.0	12.6	12.0	10.7	21.2	1.7	1.8	1.1	1.7	1.5
Aldar	ALDAR UH	5,309	1,760	0.68	11.6	16.1	21.8	14.4	neg	3.8	2.1	2.1	1.3	5.4	1.8
Mabanee	MABANEE KK	2,834	390	4.03	15.1	15.6	14.2	13.8	15.4	13.7	1.3	2.6	4.2	1.7	1.3
Dar Al Arkan	ALARKAN AB	2,894	904	2.68	11.1	9.3	11.3	10.2	11.2	11.9	-	0.8	0.7	2.7	2.5
Douja Prom Addoh	ADH MC	2,120	1,264	6.57	8.8	8.2	10.2	9.7	n/a	n/a	4.0	4.9	1.5	3.8	3.6
Median					**11.6**	**15.0**	**12.6**	**12.0**	**11.2**	**12.8**	**1.7**	**2.1**	**1.3**	**2.7**	**1.8**
Emerging Market Peers															
Growthpoint Properties	GRT SJ	4,699	2,157	2.40	17.0	15.1	16.2	14.8	neg	neg	6.1	6.5	1.2	5.1	4.5
DLF	DLFU IN	4,104	3,650	2.30	22.4	31.1	14.1	13.8	12.3	17.7	1.7	1.5	0.8	6.6	5.9
Cyrela	CYRE3 BZ	2,865	890	6.88	8.7	7.5	7.4	6.3	31.0	7.4	3.5	6.6	1.1	1.8	1.1
LSR Group	LSRG RX	1,773	917	17.20	8.6	5.9	5.8	4.4	6.6	5.2	3.8	4.8	1.0	2.0	1.4
Bumi Serpong	BSDE IJ	2,158	(237)	0.12	11.2	12.3	8.2	8.1	10.3	15.4	1.6	1.6	1.9	(1.0)	(1.6)
Robinsons Land	RLC PM	2,210	208	0.54	20.0	16.9	12.5	11.1	14.2	12.9	1.7	2.0	2.0	1.1	1.3
Central Pattana	PTTGC TB	6,571	716	1.46	34.0	28.2	22.2	18.9	19.3	17.2	1.3	1.6	7.7	2.2	1.8
Median					**17.0**	**15.1**	**12.5**	**11.1**	**13.3**	**14.1**	**1.7**	**2.0**	**1.2**	**2.0**	**1.4**
Developed Market Peers															
Sun Hung Kai	16 HK	35,490	34,964	7,971	13.09	13.6	12.6	14.6	12.6	13.0	18.4	3.3	3.4	0.8	2.7
Annington Inmobilien	ANN GR	5,796	5,736	7,238	25.58	10.8	13.4	21.8	21.1	14.4	13.4	3.6	4.4	1.6	12.2
Mitsubishi Realty	8802 JP	39,159	40,449	18,948	29.09	78.2	64.6	28.6	24.9	36.3	22.4	0.4	0.4	2.6	9.1
Swire Properties	1972 HK	15,961	15,995	3,981	2.73	20.1	19.3	18.3	17.1	19.7	18.1	2.4	2.6	0.7	3.7
Cheung Kong	1 HK	37,110	36,174	2,639	15.62	10.1	9.2	18.7	16.9	15.5	15.0	2.7	2.8	0.8	1.3
Derwent	DLN LN	4,080	4,097	1,485	39.98	46.4	42.4	35.8	33.5	38.2	37.8	1.5	1.5	1.4	9.5
Median						**16.9**	**16.3**	**20.3**	**19.1**	**17.6**	**18.2**	**2.5**	**2.7**	**1.1**	**6.4**
MEDIAN, ALL PEERS					**13.4**	**15.0**	**12.5**	**11.6**	**12.3**	**13.3**	**1.7**	**2.1**	**1.2**	**2.1**	**1.6**

Source: Bloomberg Consensus (as of 17/11/2013)

Figure 58: Aldar Estimates

	2013F VTBC	2013F Consensus*	2013F Difference	2014F VTBC	2014F Consensus*	2014F Difference	2015F VTBC	2015F Consensus*	2015F Difference
Sales (AED bn)	8.8	8.8	-0.2%	8.7	6.0	44.6%	9.6	5.122	87.1%
EBITDA (AED bn)	2.3	1.2	91.5%	2.4	1.6	52.1%	2.7	1.365	94.3%
Net Income (AED bn)	2.4	1.8	29.0%	1.5	1.2	23.7%	2.5	1.169	117.7%

*Source: VTB Capital Research, *Consensus provided by Bloomberg (as of 17/11/2013)*

Business Model

Aldar has a sizeable land bank of approximately 19 million sqm and is a leading owner, operator and developer of real estate assets in Abu Dhabi. Aldar was incorporated to undertake strategic and large-scale real estate development projects on behalf of the emirate's government. Aldar's business includes sourcing land, carrying out feasibility studies, preparing a master plan in relation to each development, developing land, selling completed properties, selling development land besides holding investment properties in its portfolio. Among ancillary services, Aldar also provides asset management and property management services. In the recurring revenue segment, the company owns and oversees the management of hotels, golf courses and marinas. The company's developments include residential units, retail sites, hotels, tourist attractions, leisure facilities, resorts, hospitals and schools. In addition to the aforementioned projects, Aldar also undertakes infrastructure projects for the government such as the Shahama Sadiyaat Freeway which connects the Abu Dhabi International Airport with Yas Island, Saadiyat Island and Mina Zayed.

Aldar's operations can be broadly classified into three segments:

- Real estate asset management: As a part of its business strategy, Aldar holds and manages select assets within its portfolio, enabling it to secure longer term revenue streams and to maximise long-term asset value. The investment portfolio contains a mix of residential, commercial, retail, hospitality and infrastructure assets. The recurring revenues from Aldar's investment and management properties portfolio was AED 1,438mn in 2012; up from AED 1,307.4mn in 2011, up 10% YoY.
- Real estate development: Aldar undertakes large-scale development projects on an ownership or sub-contractual basis and developments include residential, commercial, retail, hotels/hospitality facilities, infrastructure projects, luxury resorts or schools. This segment has always been the major contributor to revenues, and revenues from this segment stood at AED 9,965.9mn in 2012, up from AED 5,435.2mn a year ago, an increase of 83% YoY, and contributing 87% to the actual revenues. A sub-segment in this category is land sales, which introduces a considerable degree of volatility and uncertainty to the earnings mix.
- Investment in operational business, subsidiaries and JVs: The company makes direct investments in operational businesses that complement its core activities through a range of wholly-owned subsidiaries or strategic partnerships. In addition, Aldar also owns minority stakes in real estate mortgage companies in Abu Dhabi.

Property Developments

Aldar's residential portfolio consists of six projects. The first residential project delivered by Aldar was Al Bandar which was completed and sold in 2010. Al Gurm Villas, a 73-villa project was also completed in that year and units were handed over in 1Q11. The construction of Al Munnera (1,445 residential units) and Al Zeina (1,221 residential units including apartments, villas and townhouses) was completed in 2011 and both projects were sold in excess of 80%, in our estimates. Al Raha Gardens is a project comprising 1,379 residential villas located across the highway from Al Raha Beach and is a fully sold-out project with 1,368 units handed over to purchasers. Phase 4 of Al Raha Gardens, comprising 28 villas of five bedrooms each, is also 100% sold. Al Bateen Park is a residential development comprising 359 units of which 352 have been sold and 16 have been handed over. The construction of the project was completed in 1Q13. These developments do not include Sorouh's portfolio, which is discussed separately.

Investment Properties

Aldar is in the process of developing a portfolio of flagship properties, especially in the retail segment. Currently, Aldar has 123,841sqm of GLA of retail outlets, including the IKEA store on Yas Island, which is also the largest in the MENA region and was delivered in 1Q11. Aldar is expected to increase its holding by adding 232,835sqm of GLA by the end of 1Q14 as Yas Mall commences operations. Yas Mall is designed to accommodate 450 retail stores, a hypermarket and a cinema upon completion. All of Aldar's current properties are 100% leased, indicating a shortage in supply of Grade A retail space in the Abu Dhabi market.

In the commercial segment, Aldar is currently operating 204,736sqm of GLA in various commercial complexes, including its headquarters, which were completed in 2010 and encompass 44,748sqm of premium Grade A office space and have been leased out to leading domestic and international firms. Aldar's commercial project pipeline is relatively minor.

Apart from retail and commercial properties, Aldar also has a small unit of Imperial College London Diabetes Centre, which was completed in 2006 and has a GLA of 7,500sqm. It has been leased out on a long-term contract for 15 years. The Yas Links Golf Course is another property operated and maintained by Aldar and comprises an 18 hole championship links golf course, a 9-hole floodlit par 3 course, a golf academy, practice facility and clubhouse and has a total land area of 917,466sqm.

Hospitality

Aldar owns eight hotels, which comprise an operating inventory of 2,245 rooms and the earliest commenced operations in 2009. Seven of these hotels are on Yas Island and serve both leisure and corporate visitors and are managed by various international brands. Aldar has seen an improvement in occupancy across all hotels in the portfolio at 77% in 4Q12 vs. 68% in 4Q11. Average annual occupancy levels are also up from 61% in 2011 to 65% in 2012.

Schools

Aldar Academics LLC, a wholly owned subsidiary of Aldar is responsible for investment and the management of schools. The company currently operates six schools with a capacity of 2,950 students. The first school that came up was Pearl Primary School in 2007, and three out of the six schools have come up recently in 2011. Average revenue contributed by each student in 2012 was AED 32,000.

Reimbursable Projects

Aldar provides development and management services for third parties, including government and government-related entities. Services provided are end-to-end project management ones, ranging from design, procurement, site preparation and construction to fit-outs. The fees for these projects are generally in the range of 2-7% of the total project value. Funding for the project is provided by a third party, generally related to the government.

Sorouh

Established in July 2005, with capital of AED 2.5bn, Sorouh Real Estate PJSC was a major real estate developer in Abu Dhabi, specialising in master-planned communities and is now a part of Aldar Properties. The company had been awarded the contract to master-plan three investment zones in Abu Dhabi – Shams Abu Dhabi on Al Reem Island, Seih Sdeirah – Alghadeer development in the Eastern region and Lulu Island. Sorouh went public in December 2004 and has developed a few of Abu Dhabi's prominent modern residential and mixed-use projects, including Shams Abu Dhabi with its distinctive Sun and Sky Towers and The Gate Development.

Business Segments

Sorouh was one of the leading real estate developers in Abu Dhabi. The company also invested, leased, rented and managed various properties. In addition, the company also undertook engineering and general construction works. The main purpose of incorporating the company was to provide modern residential, commercial and retail properties for the residential segment of Abu Dhabi's population. Sorouh had a huge land bank of approximately 58,124,318sqm and all of it is in the investment zone. The company was also engaged in the hospitality sector via the ownership and management of hotels and resorts as well as providing financing solution services.

Sorouh's massive land bank was acquired by the company at a very low cost from the government of Abu Dhabi, and the company in its initial years relied heavily on its land sales as the largest source of revenue. The strategy was to generate enough cash from land sales and utilise the sale proceeds in mass-market property developments. Revenues from land sales had peaked in 2008 and stood at AED 3.5bn or 95% of the total revenues and had since then followed a declining trend, falling to a mere 31% in 2010 and 0% in 2012. The shift in the source of revenues in recent years can be explained as per the company's indication to depart from its core functions of selling land initially to become a full-blown real estate developer having a diversified and recurring cash flow stream through rental, leasing and hospitality services. Furthermore, speculative demand for land and the wipe-out of smaller developers reduced demand for undeveloped land.

Project Profile

Residential

The company expected to deliver over 7,000 residential units from various projects during the year. The sales from these flats are expected to strengthen the cash flow for the company in 2013F. The majority of development is coming up in Shams Abu Dhabi and the only other major contributing development is the Alghadeer development, comprising 2,132 units.

Commercial

Sorouh's commercial portfolio comprises of 75,300sqm of GLA in Sky Towers, 70% of which has been sold and North Park which is a small project coming up in Khalifa Park.

Investment properties

Sorouh had a higher focus on developing and creating investment properties for recurring income than Aldar. We expect that the current market scenario of stable rental yields will benefit the company in the short term. With the twin factors of a rise in living costs in Dubai and the Abu Dhabi government requirement for Abu Dhabi residence for housing allowance claims, Abu Dhabi is likely to benefit from a one off short term increase in population.

Operating Businesses:

- Pivot: Established in 1987, Pivot is a fully integrated provider of construction engineering and general contracting services. Sorouh owns 60% of the company. Pivot recorded a net profit of AED 126mn and revenues of AED 1.05bn in 2011.
- Khidmah: Khidmah is a real-estate property management service, providing servicing and management for all assets. Khidmah recorded a net profit of AED 125mn in 2011 and has 16 properties, including retail malls under management. Sorouh's ownership stake in Khidmah is 60%.
- Galaxy: Established in 2009, Galaxy engages in sourcing building materials for major development projects in the UAE and the provision of fit-out contracting, design and supplies. Sorouh owns 45% of Galaxy.

Aldar Sorouh Merger

On 21 January 2013, Abu Dhabi-listed companies, Aldar Properties PJSC and Sorouh Real Estate PJSC, officially announced that their boards of directors had unanimously voted to recommend a merger to their shareholders. Every Sorouh shareholder received 1.288 shares of the enlarged Aldar for each Sorouh Share held.

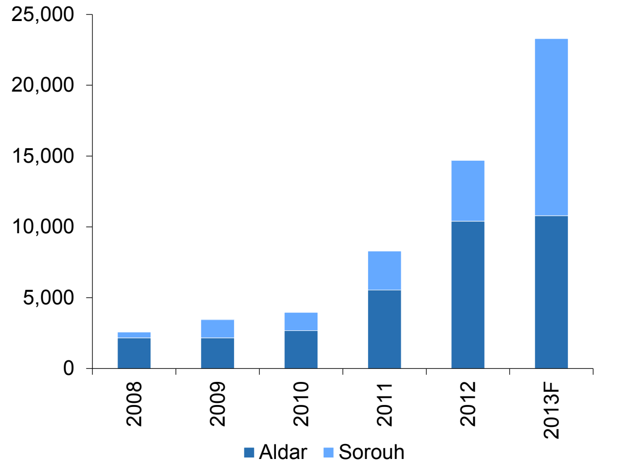
The merger became effective on 27 June 2013, when approvals from all concerned regulators and authorities were received. With the merger, 3,381 million new Aldar shares were issued to the shareholders of Sorouh. The number of ordinary shares outstanding on Aldar's balance sheet went up to 7,862,629,603. Sorouh was dissolved and delisted from the exchange once the markets closed and all its assets and liabilities were transferred to Aldar and the merged entity will operate under the name Aldar Properties PJSC.

Following the merger, Aldar properties is one of the largest listed real-estate companies in the Middle East and North Africa region, with over AED 46bn in combined total assets as of 31 March and a market capitalisation of approximately AED 16.7bn based on the closing prices of Aldar Properties and Sorouh Real Estate at the end of trading on 27 June 2013.

Management rationale for merger

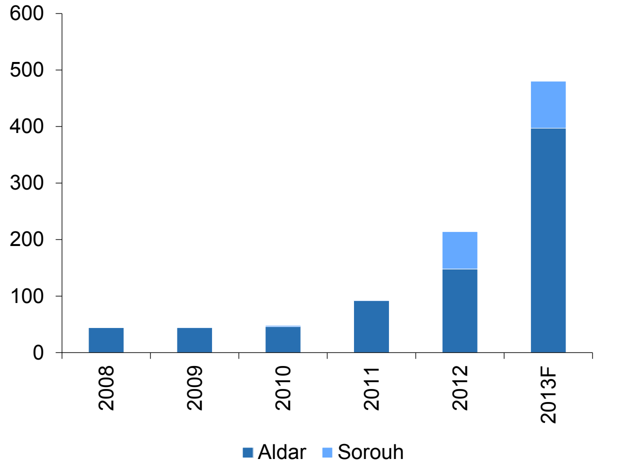
Market leader with strategic land bank: The management rationale for the merger was to create a market leader in Abu Dhabi across the different segments of the local real estate industry including the retail, residential, commercial and hospitality segments. Sorouh provided a much needed infusion of land bank into the merged entity and the new land bank is one of the largest (over 77 million sqm) in the Middle East, with 90% of the area in investment zones. Management believed that strategically located land reserves would facilitate future growth.

Figure 59: Residential delivery track record (units)



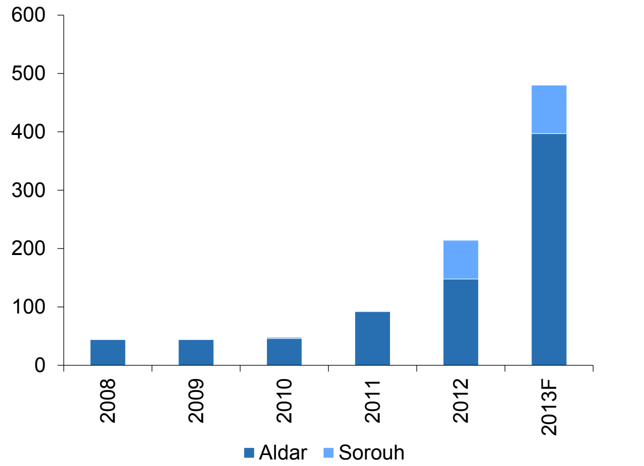
Source: Company data, VTB Capital Research

Figure 60: Office GLA under mgmt. ('000 sqm)



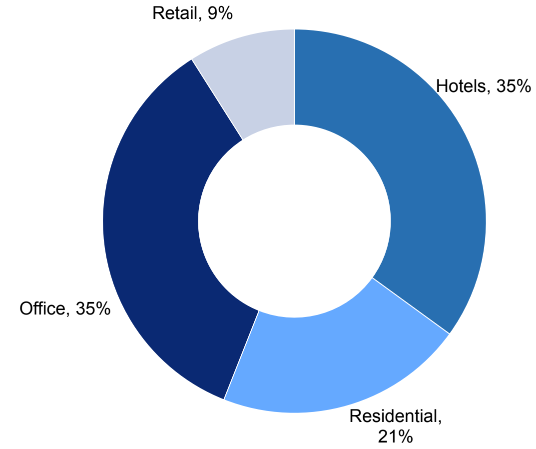
Source: Company data, VTB Capital Research

Figure 61: Retail space under mgmt. ('000 sqm)



Source: Company data, VTB Capital Research

Figure 62: Revenue segments



Source: Company data, VTB Capital Research

Prime positioning for government projects: Aldar Properties also became a developer of choice for the government in Abu Dhabi, with a strong track-record of delivering diverse large-scale projects. There was a potential to monetise the huge land bank and recycle capital into growth opportunities with an enhanced ability to prioritise and select value adding projects post the combination of the management teams. The income generating properties totalled c 1.3 million sqm, and these would increase to 1.9 million sqm once Yas Mall and The Gate become operational.

Synergy: Management also believed that the rationalisation of duplicate central functions and corporate expenses alongside the consolidation of office space, procurement savings from economies of scale, procurement savings in property related facility management services would be a beneficial outcome of the merger. The integration of IT platforms with a capex synergy in future developments from leveraging the scale and expertise in design, procurement and management would result in optimised management of resources and efficient operations by leveraging each company's expertise to drive revenue growth.

In addition, besides the operational advantages on the financial side, reduced interest expense and improved credit terms with a higher borrowing and capital raising capacity served by Sorouh's balance sheet could be utilised by the merged entity.

The company expects to save AED 90-110mn annually by 2015 as a result of synergies from the merger. However, there is a one-off cost of AED 60mn for these synergies to materialise.

Development Properties Sales

The project pipeline over a 24-36 month timeframe is busy with several projects that are expected to be delivered. One of the key projects of the company at completion is the final phase of Al Raha Gardens, which is a mixed-use master development property and is set to be ready by 2H13. The iconic Gate Towers, which was being constructed by Sorouh and has now been transferred to the joint portfolio of Aldar, has also been completed and adds 3,533 units to their inventory, out of which 60% will be retained in their Investment Properties Portfolio and the rest have already been sold, with revenues being recognised upon sale. Ghuraibah Phase 1, which offers 600 units for sale, and Watani Phases 1 and 2, which offer 733 units for sale, are also due to be completed this year. Aldar is also set to deliver Al Falah by the last quarter this year and projects like Cleavland Clinic, Sheibat Al Watah, Saraya and Ghuraibah are expected to be completed in the next two years by 2015. We have assumed residential property prices in the region of AED 8,500-13,500 per square meter.

These prices are 30-45% below the peak levels of 2008, although we believe Abu Dhabi has a long way to go to realise those rates again. We have accounted for modest inflation in our estimates, in line with macroeconomic data provided by the government. There is limited data available on land prices and industry guidance is somewhere in the range of AED 1,500-2,000 per square metre for prime locations, which is currently at a 33-50% discount from peak levels in 2008. Gross profit margins on projects sold are assumed to be in the range of 20-35%.

Investment Properties: Increasing recurring income portfolio

Aldar historically managed a small portfolio of commercial, retail, residential and hospitality investment properties, but with the Sorouh merger, portfolio size has been boosted significantly. Revenues from the recurring income portfolio had contributed only 2% to the total revenues of the company in 2008, but that has become a more prominent feature of the company's operating model since the seven hotels on Yas Islands have come into operation. Aldar's hotels are managed by the company's 100% owned subsidiary and are run by reputable hospitality brands and operators contracted by the subsidiary. Average room rates in Abu Dhabi range from AED 850 for a three star to AED 1,350 for a 5-Star or deluxe apartments for all Aldar's hotels. Average occupancy rates have been in the range of 60-65%, with operating margins in the region of 40% as guided by the company. However, we anticipate an increase in occupancy rates with Yas Islands emerging as one of the key tourist destinations in the Emirate and we expect hotel room rates to increase in line with broader inflationary trends as there are enough rooms to sustain demand at the moment. We expect the hospitality revenues to rise to 7% of revenues by 2015F from 5% in 2012.

Retail revenues are also derived from merged portfolio companies such as Al Jimmi Mall, IKEA Store, ACE Hardware, Motor World, Boutik Sun & Sky, Boutik Gate, and Garden Plaza. A major addition to the portfolio will be Yas Mall with a revised completion date of 1Q14, which would add 232,835 square meters of premium retail space to the company's portfolio. Average rentals are around AED 3,000-3,500 per square meter per annum. However, Yas Mall is set to be a top line retail destination and is expected to mature to AED 4,500 per square metre per annum in two to three years. Office segment retail includes Al Mamoura Towers, Al Noor Towers (which is largely leased to Ethiad Airlines), Baniyas Tower, Injazat (which has been completely rented out on a 15 year long lease), and the company's signature project HQ Towers. Average Grade A office space rentals in Abu Dhabi average in the range of AED 1,500-1,600 and the same has been used in our estimates.

Land bank: 90% in investment zones

Although Aldar had significant land reserves prior to the merger, it was relatively minor in comparison to Sorouh's land bank. Post-merger, Aldar now has approximately a little over 79 million square metres of land, with 90% of that being in investment zones. This gives the company a pole position in terms of attractive Abu Dhabi real estate exposure.

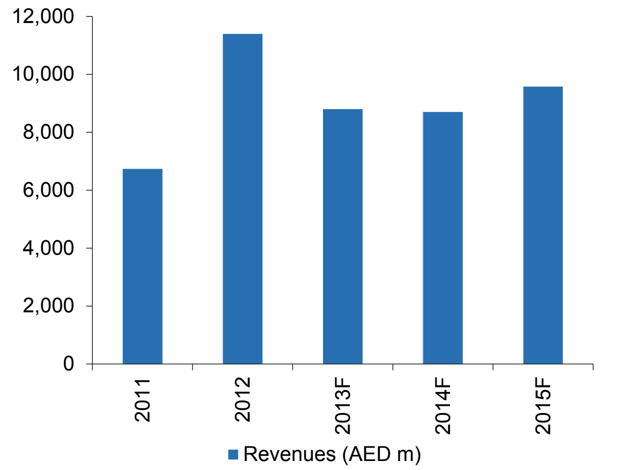
Financial Analysis

- The most critical element of information in the income statement is the gross margin, as it indicates the change of mix in portfolio elements. Our assumptions are of stable gross margins at 32% for 2013 and rising to 33% by 2015F. A larger than anticipated improvement in Abu Dhabi real estate sentiment presents an upside risk.
- We see net debt reducing from AED 14.1bn in 2013 to a net AED 4.1bn by 2015.
- Our operating cash flow forecast is AED 577mn in 2013, rising to AED 3.2bn by 2015; however, it is heavily exposed to receivables risk.

Revenue

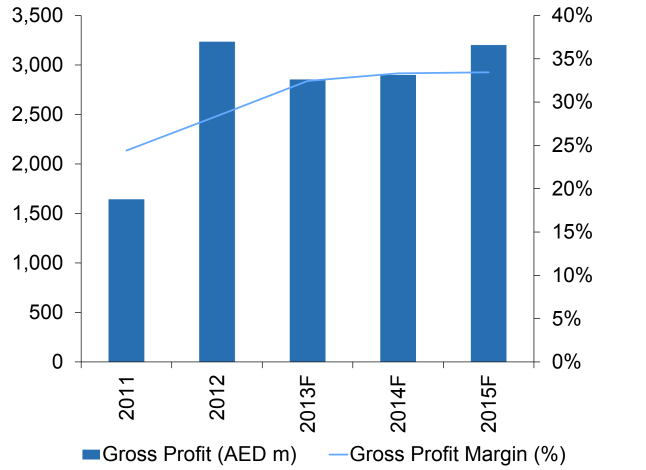
We forecast AED 8.8bn of revenues for Aldar in 2013 and expect the company to achieve a revenues figure of AED 9.6bn by 2015 based on the current delivery schedule. Property sales are likely to continue to be the predominant driver of revenues in the short term, with an AED 6.8bn contribution in 2013 and AED 6.5bn contribution in 2015. We forecast a gross profit of AED 2.9bn for 2013 and expect the company to achieve a gross profit of AED 3.2bn by 2015F. The gross profit margins are likely to trend from 32% in 2013F to 33% in 2015.

Figure 63: Revenues (AED mn)



Source: Company data, VTB Capital Research

Figure 64: Gross profit (AED mn)



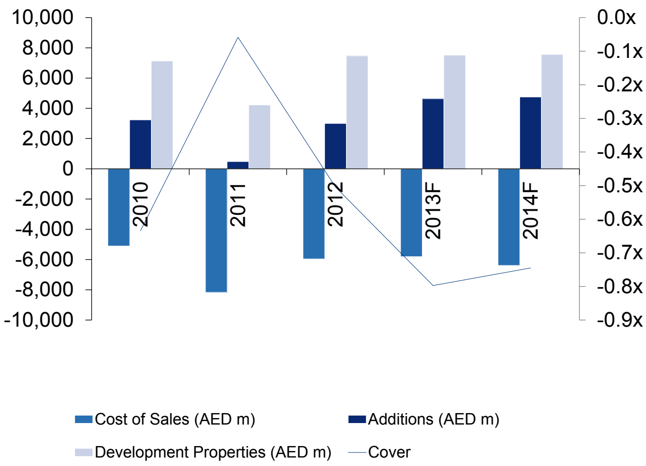
Source: Company data, VTB Capital Research

EBITDA and cash flows

The SG&A expenses for a real estate company heavily reliant on property sales rather than recurring rental income tend to have volatility associated with the project schedules, with several expenses being frontloaded. However, we have taken an upbeat view of low SG&A costs from the dominant market position in Abu Dhabi that Aldar enjoys. Yet there is a distinct downside risk from higher than expected SG&A costs to lower EBITDA margins.

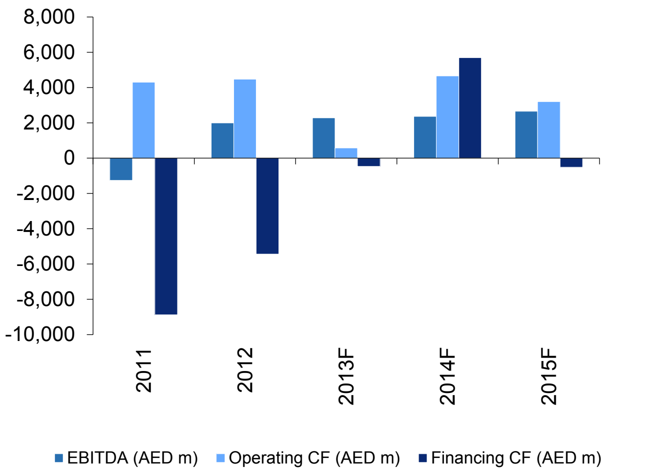
We forecast SG&A at AED 0.5bn in 2013 and remaining relatively stagnant until 2015. Our EBITDA forecast for 2013 is at AED 2.3bn and at AED 2.7bn by 2015. The EBITDA margin is likely to trend from 26% of sales in 2013 to 28% by 2015 due to our upbeat SG&A assumptions. The operating cash flow is forecast at AED 577mn in 2013 and rising to AED 3.2bn by 2015; however it is heavily exposed to receivables risk. The financing cash flows are forecast at an AED 60mn outflow in 2013 to a AED 1.5bn outflow in 2015.

Figure 65: Development properties (USD mn)



Source: Company data, VTB Capital Research

Figure 66: EBITDA & cash flows (USD mn)

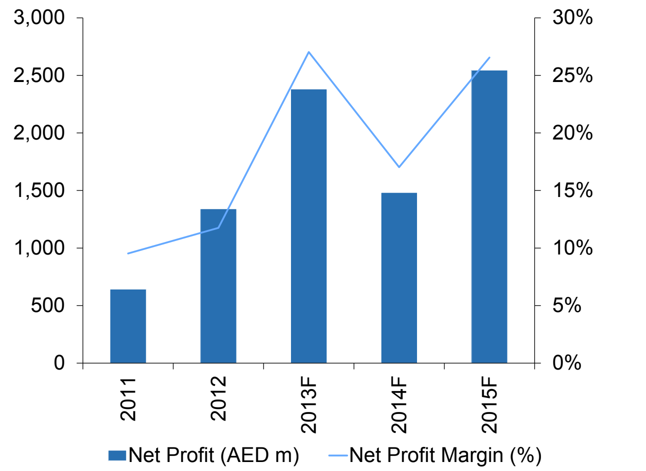


Source: Company data, VTB Capital Research

Net debt

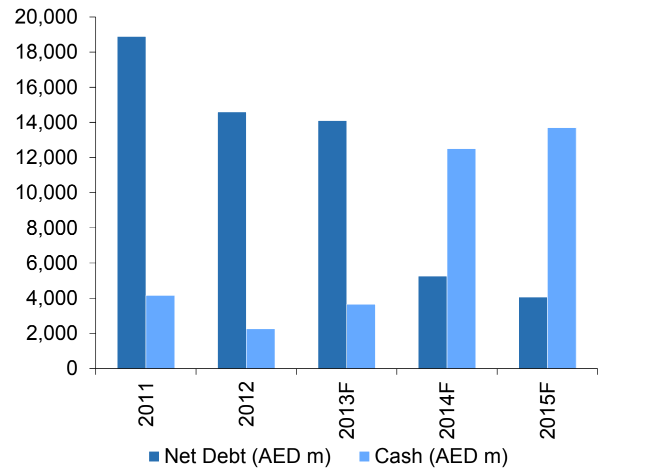
Aldar's business model involved frontloaded off-plan developments like most developers in the region and the cash flows are thus lumpy and frontloaded unlike revenue recognition. We see net debt reducing from AED 14.1bn in 2013 to a net AED 4.1bn by 2015. The assumption is predicated upon a robust cash collection cycle, which might be a case of misplaced optimism.

Figure 67: Net profit (AED mn)



Source: Company data, VTB Capital Research

Figure 68: Net debt & cash (USD mn)



Source: Company data, VTB Capital Research

Financial Statements

Figure 69: Income Statement

Income Statement (YE Dec)	2011	2012	2013F	2014F	2015F	2016F	2017F
Total Revenue	6,743	11,404	8,807	8,708	9,583	8,086	8,681
Total Costs	(5,097)	(8,166)	(5,951)	(5,806)	(6,379)	(5,294)	(5,761)
Gross Profit	1,646	3,238	2,856	2,901	3,204	2,793	2,920
Selling & marketing expenses	(35)	(11)	(44)	(41)	(42)	(26)	(26)
General & administrative expenses	(379)	(298)	(473)	(442)	(453)	(277)	(282)
Impairments	(1,822)	(1,171)					
Provisions	(667)	235	(55)	(55)	(55)	(55)	(55)
EBITDA	(1,259)	1,992	2,283	2,363	2,653	2,435	2,556
D&A	(590)	(435)	(545)	(497)	(432)	(381)	(340)
Operating Income	(1,849)	1,557	1,738	1,866	2,221	2,054	2,216
Share of profit from Associates & JV's	102	121	120	120	120	120	120
FVIS gains/(losses)	(541)	(170)	-	-	-	-	-
Financial asset impairments	(39)	(2)	1,516	-	-	-	-
Finance income	122	223	210	221	232	243	255
Finance costs	(1,104)	(835)	(1,167)	(1,128)	(420)	(81)	(65)
Other income	3,951	446		426	430	435	439
Taxes	-	-	-	-	-	-	-
Profit After Tax	642	1,341	2,417	1,505	2,583	2,770	2,966
Minorities	-	-	(36)	(23)	(39)	(42)	(44)
Net Inc Avail to Common Shareholders	642	1,341	2,381	1,482	2,545	2,729	2,921
Abnormal Losses (Gains)	(2,363)	(1,341)	1,516	-	-	-	-
Normalized Income	3,006	2,682	865	1,482	2,545	2,729	2,921
Basic EPS	0.15	0.30	0.30	0.19	0.32	0.35	0.37
Dividends per Share	0.05	0.06	0.06	0.04	0.06	0.07	0.07

Source: Company data, VTB Capital Research. Figures in AED mn unless per otherwise stated or per share data

Figure 70: Balance Sheet

Balance Sheet (YE Dec)	2011	2012	2013F	2014F	2015F	2016F	2017F
PP&E	4,866.3	3,632.2	3,316.1	2,876.7	2,540.9	2,265.6	2,069.8
Intangibles	8.0	3.0	289.6	289.6	289.6	289.6	289.6
Investments	6,818.5	6,945.6	11,365.3	12,307.6	13,216.0	14,070.7	14,851.5
Other	-	-	639.4	639.4	639.4	639.4	639.4
Total non-current assets	11,692.8	10,580.9	15,610.3	16,113.3	16,685.9	17,265.3	17,850.3
Cash	4,157.7	2,259.8	3,650.1	12,499.6	13,690.3	14,508.5	16,023.9
Accounts receivable	12,413.9	13,337.0	11,951.5	9,143.3	10,061.7	8,490.7	9,114.7
% of Sales	184.1%	117.0%	105.0%	105.0%	105.0%	105.0%	105.0%
Inventories	4,719.7	1,640.3	2,199.1	2,642.1	3,096.9	3,374.6	3,666.3
% of COGS	92.6%	20.1%	35.6%	35.6%	35.6%	35.6%	35.6%
Development Properties	7,133.9	4,222.7	7,463.9	7,520.8	7,562.3	7,686.9	7,784.1
Other	-	-	5,987.6	-	-	-	-
Total current assets	28,425.2	21,459.8	31,252.2	31,805.8	34,411.2	34,060.7	36,588.9
TOTAL ASSETS	40,117.9	32,040.7	46,862.6	47,919.1	51,097.1	51,326.0	54,439.2
Debt	-	-	-	-	-	-	-
Accounts payable	8,460.2	6,461.8	11,501.7	11,372.4	12,514.8	10,560.8	11,336.9
% of Sales	125.5%	56.7%	130.6%	130.6%	130.6%	130.6%	130.6%
Other	9,851.3	8,667.0	8,667.0	8,667.0	8,667.0	8,667.0	8,667.0
Total current liabilities	18,311.5	15,128.8	20,168.7	20,039.5	21,181.9	19,227.8	20,003.9
Debt	13,190.1	8,184.1	9,080.5	9,080.5	9,080.5	9,080.5	9,080.5
Other	1,522.7	548.3	607.9	607.9	607.9	607.9	607.9
Total non-current liabilities	14,712.8	8,732.4	9,688.4	9,688.4	9,688.4	9,688.4	9,688.4
Minorities	-	-	271.2	293.8	332.6	374.1	418.6
Shareholders' Equity	7,093.6	8,179.5	16,770.5	17,956.3	19,991.9	22,174.8	24,511.9
Preferred Equity/Other	-	-	(36.3)	(58.8)	(97.6)	(139.1)	(183.6)
Total liabilities and shareholders' equity	40,117.9	32,040.7	46,862.6	47,919.1	51,097.1	51,326.0	54,439.2

Source: Company data, VTB Capital Research. Figures in AED mn unless per otherwise stated or per share data

Figure 71: Cash flow statement

Cash Flow Statement (YE Dec)	2011	2012	2013F	2014F	2015F	2016F	2017F
Net Income	642.5	1,340.7	2,380.7	1,482.2	2,544.5	2,728.7	2,921.3
Depreciation & Amortization	2,445.7	1,641.1	544.8	497.4	431.5	381.1	339.8
Other Non-Cash Adjustments	(1,037.0)	383.4	-	-	-	-	-
Changes in Non-Cash Capital	3,019.4	1,095.1	(2,348.7)	2,679.0	223.9	(383.0)	152.1
Cash From Operations	4,300.3	4,471.9	576.8	4,658.6	3,200.0	2,726.8	3,413.3
Cash From Investing Activities							
Disposal of Fixed Assets	-	-	-	-	-	-	-
Capital Expenditures	(1,938.8)	(982.6)	(59.5)	(58.1)	(95.7)	(105.9)	(144.0)
Increase in Investments	-	-	-	(942.3)	(908.4)	(854.7)	(780.8)
Decrease in Investments	8,394.9	(10.5)	-	-	-	-	-
Other Investing Activities	840.0	(405.8)	-	(500.0)	(496.2)	(402.3)	(388.9)
Cash From Investing Activities	7,296.0	(1,398.9)	(59.5)	(1,500.3)	(1,500.4)	(1,362.8)	(1,313.7)
Cash from Financing Activities							
Dividends Paid	(0.8)	(199.7)	(476.1)	(296.4)	(508.9)	(545.7)	(584.3)
Change in Short-Term Borrowings	-	-	-	-	-	-	-
Increase in Long-Term Borrowings	2,800.0	-	-	-	-	-	-
Decrease in Long-term Borrowings	(7,895.5)	(5,037.4)	-	-	-	-	-
Increase in Capital Stocks	-	-	-	-	-	-	-
Decrease in Capital Stocks	-	-	-	-	-	-	-
Other Financing Activities	(3,777.1)	(197.8)	10.0	5,987.6	-	-	-
Cash from Financing Activities	(8,873.4)	(5,434.9)	(466.1)	5,691.2	(508.9)	(545.7)	(584.3)
Net Changes in Cash	2,722.9	(2,361.9)	51.2	8,849.5	1,190.7	818.2	1,515.4

Source: Company data, VTB Capital Research. Figures in AED mn unless per otherwise stated or per share data

HOLD

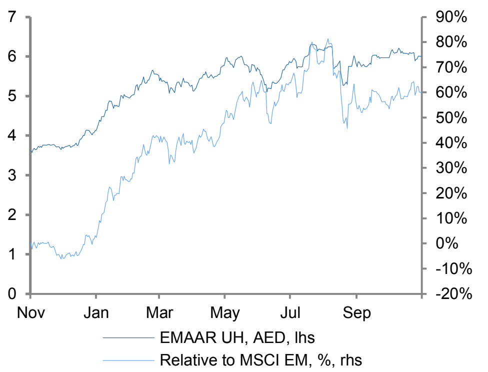
Primary ticker: EMAAR UH

Currency: AED

Stock Data

Last price	6.00
Last price date	17 Nov 2013
Target price	6.70
Target price established	20 Nov 2013
Upside/(downside), %	12%
52 week price range	3.57 - 6.30
Market cap, USD / AED mn	9,950 / 36,547
EV, USD / AED mn	14,459 / 53,107
# shares outstanding, mn	6,091
Free float	20%
Benchmark Index (MXEF)	991.77

Share price performance, 12-mo



	1M	3M	12M	3Y
Price	0.5%	-3%	66%	65%
Price relative	1%	-7%	62%	84%
ADTV (USD mn)	20.95	20.35	21.32	14.33

Key financial highlights

Fiscal year end	12/12	12/13F	12/14F	12/15F
P/E, x	9.2x	14.6x	12.8x	8.1x
EV/EBITDA, x	12.0x	15.8x	12.2x	7.6x
P/B, x	0.6x	1.0x	1.0x	0.9x
FCF yield, %	2.3%	1.6%	1.6%	1.5%
DY (ords), %	3.1%	0.2%	0.2%	0.3%
Net sales, AED mn	8,240	8,530	10,914	15,147
EBITDA, AED mn	2,978	3,368	3,730	4,741
Net income, AED mn	2,119	2,503	2,851	4,536
Net sales, chg	2%	4%	28%	39%
EBITDA, chg	-3%	13%	11%	27%
Net income, chg	18%	18%	14%	59%
EPS, AED	0.35	0.41	0.47	0.74
DPS (ord.), AED	0.10	0.01	0.01	0.02
BPS, AED	5.39	5.79	6.24	6.97
EBITDA margin, %	36.1%	39.5%	34.2%	31.3%
ROE, %	7%	7%	8%	11%
Net Debt, AED mn	16,266	16,559	8,898	(384)
ND/EBITDA, x	5.5x	4.9x	2.4x	(0.1x)
Net int. cover, x	(3.3x)	(4.1x)	(4.5x)	(11.9x)

Source: Bloomberg, Company data, VTB Capital Research

Initiation of Coverage

Emaar Properties PJSC

A focus on execution

Initiate with a Hold; DCF based 12-month TP of AED 6.7: Emaar Properties is a Dubai based real estate developer with a portfolio of development properties, retail and hospitality projects. The company has a presence spanning India, Turkey, Egypt and Saudi Arabia among others, even while UAE remains the core market. We initiate on Emaar Properties with a Hold recommendation and a DCF based 12-month TP of AED 6.7.

A play on Dubai, international expansion minor: With 77% of 2014F revenues arising from Dubai coupled with execution issues in most overseas projects viz. Egypt, India and Morocco, we believe that the company has ample scope to grow in Dubai in the short to medium term, while international expansions are relatively small part of pipeline in short term.

Retail & Hospitality are an attractive diversification: Unlike frontloaded cash collection, backdated revenue recognition and customer credit risk, which are the key characteristics of off-plan development, the leasing income is a frontloaded cash expense and a three-year maturity schedule for a stable yield and optimal utilisation efficiency attainment. Macro risk concerns are front dated in real estate development and back dated in leasing developments. We foresee revenues from investment properties surging over 54% of total revenues by 2015F and providing an attractive diversification.

2015, a pivotal year, 2020 Expo, a wildcard: We see the current launches and development pipeline as stacked until 2015, beyond which the 2020 Expo related launches could kick in, with tail winds all the way into 2019. We have an annually recurring development pipeline beyond 2017 at a very conservative AED 1.1bn, 2020 Expo could introduce another AED 30bn of pipeline, in our estimates, with a valuation uplift of AED 1.3 per share.

Regulatory pressures might affect short-term investor demand: The recent increase in transaction fees to 4% and expected new rules on mortgages and resale in the construction phase might temper investor demand in the short run. While the move curbs systemic risks, end-user demand and affordability with new development launches might pose challenges.

Sentiment would likely trump fundamentals in short to medium term: Due to the lack of listed plays (with significant liquidity) on Dubai's real estate and retail sector, we see the potential for a crowded trade developing in 2015 with significant upside and sentiment trumping fundamentals.

Valuation: We use a DCF-based valuation methodology to arrive at a 12-month TP of AED 6.7. Aldar trades at a 2013F P/E of 16x, against regionals at 11.6x, EM peers at 17x and developer market peers at 16.9x.

Risks: Dubai's status as a safe haven, both economically and geopolitically, is crucial for new project launches and the retail and hospitality income stream.

Digvijay Singh // +971 4 377 0819 // digvijay.singh@vtbcapital.com

VTB Capital Facts & Forecasts

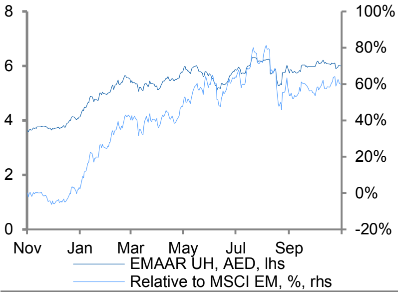
United Arab Emirates
Financials / Real Estate

Emaar Properties PJSC

Prices as of: 17 November 2013

Ticker	CCY	Current	12mo TP	Rating
EMAAR UH	AED	6.00	6.70	Hold

Share price performance, 12-mo



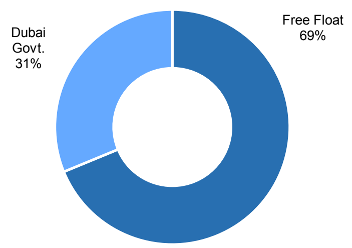
Company description

Emaar Properties is a real estate developer based out of Dubai, UAE.

Company website

http://www.emaar.com

Shareholder structure



Source: Company data, VTB Capital Research

Research team

Digvijay Singh / +971 4 377 0819

Last model update on: 20 November 2013

IFRS	2011	2012	2013F	2014F	2015F	2016F
Company data						
Weighted avg # shares, mn	6,091	6,091	6,091	6,091	6,091	6,091
Avg market cap, AED mn	18,016	19,563	36,547	36,547	36,547	36,547
EV, AED mn	35,232	35,829	53,107	45,445	36,163	40,075
Ratios & analysis						
P/E, x	10.0x	9.2x	14.6x	12.8x	8.1x	11.0x
EV/EBITDA, x	11.5x	12.0x	15.8x	12.2x	7.6x	14.1x
P/B, x	0.6x	0.6x	1.0x	1.0x	0.9x	0.8x
Dividend yield (ords), %	3.4%	3.1%	0.2%	0.2%	0.3%	0.3%
EPS, AED	0.29	0.35	0.41	0.47	0.74	0.54
CFPS, AED	0.12	0.35	0.53	0.60	0.85	0.62
Free CFPS, AED	0.11	0.074	0.094	0.095	0.089	0.089
DPS (ords), AED	0.100	0.100	0.011	0.013	0.021	0.015
Payout ratio (ords), %	34.0%	28.7%	2.8%	2.8%	2.8%	2.8%
BPS, AED	5.19	5.39	5.79	6.24	6.97	7.49
Revenues growth, %	-33%	2%	4%	28%	39%	-39%
EPS growth, %	-27%	18%	18%	14%	59%	-27%
EBITDA margin, %	37.9%	36.1%	39.5%	34.2%	31.3%	30.4%
Net margin, %	22.1%	25.7%	29.3%	26.1%	29.9%	35.6%
ROE, %	5.7%	6.5%	7.2%	7.6%	10.8%	7.3%
ROIC, %	6.1%	5.9%	6.5%	7.7%	11.0%	6.1%
Capex/Revenues, %	35%	38%	55%	0%	14%	71%
Capex/Depreciation, x	(3.7x)	(4.1x)	(6.4x)	0.0x	(3.4x)	(13.7x)
Net debt/Equity, %	54%	50%	47%	23%	-1%	8%
Net debt/EBITDA, x	5.6x	5.5x	4.9x	2.4x	(0.1x)	1.2x
Net interest cover, x	(4.2x)	(3.3x)	(4.1x)	(4.5x)	(11.9x)	157.8x
Income statement summary, AED mn						
Revenues	8,112	8,240	8,530	10,914	15,147	9,304
Cost of sales	(3,877)	(4,061)	(3,768)	(5,283)	(7,247)	(4,628)
SG&A and other opexp.	1,982	2,011	2,201	2,816	3,909	2,401
EBITDA	3,073	2,978	3,368	3,730	4,741	2,833
Depreciation & amortization	762	767	739	827	627	483
Operating profit	2,368	2,294	2,698	2,991	4,235	2,425
Non-operating gains /(exp.)	160	275	220	220	220	220
EBIT	2,368	2,294	2,698	2,991	4,235	2,425
Net interest income/(exp.)	392	344	355	423	556	769
Profit before tax	1,954	2,111	2,513	2,861	4,546	3,319
Income tax	(36)	(4)	(10)	(10)	(10)	(10)
Minority interests	124	(12)	-	-	-	-
VTBC Net income	1,794	2,119	2,503	2,851	4,536	3,309
Cash flow statement summary, AED mn						
Cash flow from operations	759	2,135	3,241	3,678	5,163	3,792
Working capital changes	(522)	(447)	(1,689)	2,721	3,336	(5,371)
Capex	(2,859)	(3,140)	(4,724)	(26)	(2,121)	(6,632)
Other investing activities	323	135	(1,740)	1,360	948	(2,172)
Free cash flow	666	450	573	577	541	541
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(588)	(594)	(70)	(79)	(126)	(92)
Net change in borrowings	(45)	520	12	1,322	2,347	(3,241)
Other financing cash flow	(659)	(626)	5,000	6,000	11,000	6,000
Movement in cash	(653)	1,326	4,707	13,662	20,282	2,088
Balance sheet summary, AED mn						
Cash and equivalents	2,865	3,711	8,417	22,079	42,361	44,449
PP&E	8,300	8,209	9,187	6,968	5,369	7,048
Goodwill	46	46	46	46	46	46
Investments	18,697	18,628	18,687	18,738	18,801	18,879
Other assets	30,146	30,557	32,538	32,212	33,129	32,630
Total assets	60,054	61,151	68,876	80,043	99,705	103,052
Interest bearing debt	925	590	410	260	195	156
Other liabilities	8,384	8,355	8,647	11,042	15,294	9,424
Total liabilities	28,465	28,332	33,624	42,019	57,271	57,401
Total shareholder's equity	31,589	32,534	34,967	37,739	42,149	45,366
Minority interest	-	285	285	285	285	285
Net working capital	21,832	22,279	23,969	21,248	17,912	23,283
Net Debt	17,216	16,266	16,559	8,898	(384)	3,528
Capital	32,514	33,124	35,377	37,999	42,344	45,522
FCF yield, %	3.7%	2.3%	1.6%	1.6%	1.5%	1.5%
Net sales, chg	-33%	2%	4%	28%	39%	-39%
EBITDA, chg	-8%	-3%	13%	11%	27%	-40%
Net income, chg	-27%	18%	18%	14%	59%	-27%
EBIT margin, %	29%	28%	32%	27%	28%	26%

Emaar Properties

- Emaar is and is likely to continue as predominantly a Dubai play, as the domestic opportunities are more attractive and have a better risk profile than overseas opportunities.
- Recurring income from retail and leasing ventures accounts for c 40% of current revenues and thus the risk profile is lower compared to pure play real estate developers.
- We initiate with a Hold and a DCF-based Target Price of AED 6.7 per share. 2020 Expo could provide a material upside risk to both the development pipeline in the medium term and the valuations

Corporate Profile

Emaar was incorporated by the government of Dubai in 1997 with a core operating focus of acting as the government's developer for real estate development and with a paid up capital of AED 1bn. Since then, post the steps taken at freehold law and the liberalisation of ownership for foreigners, Emaar has expanded its offering from selling serviced land and residential units to becoming a diversified property developer as well as an associated service provider in the education, healthcare and hospitality sectors, with 40% of its revenues arising from its leasing activities and the hospitality sector. Post its nascent foray into the real estate and construction industry, Emaar went public and currently has a market cap in excess of AED 37bn, with 31% of ownership interests vested with the government of Dubai.

Emaar extended its expertise in developing master-planned communities internationally, and today has a significant presence in several regional and international markets including India, Turkey, Saudi Arabia and most recently Iraq. It is one of the largest regional real-estate developers, having delivered over 35,300 residential units and 2.3 million sq. ft. of commercial space and has a multi-billion dollar property development pipeline. However, Emaar continues to be essentially a Dubai play with over 77% of 2014F revenues arising from Dubai. Furthermore, the award of 2020 Expo to Dubai would boost the development of a Dubai construction and project pipeline at the cost of international expansion.

Emaar's income sources are recurring and thus its quality of revenues is higher and has lower volatility. Hence it deserves to trade at a significant premium to pure property developers. In a typical pure property development business, the revenue recognition is backdated, developers carry customer credit risk in off-payment plans and cash collection is sporadic and discontinuous. In the Retail and Hospitality segment, the leasing income is a frontloaded cash expense and a three-year maturity schedule for a stable yield and optimal utilisation efficiency attainment. Macro risk concerns are front dated in real estate development and backdated in leasing developments. We foresee revenues from investment properties surging over 54% of total revenues by 2015F and providing an attractive and unique diversification.

We see a busy development schedule for Emaar until 2015 on the back of a spate of recent launches, beyond which the 2020 Expo related launches could kick in, with tail winds all the way into 2019. We have an annually recurring development pipeline beyond 2017 at a very conservative AED 1.1bn. 2020 Expo could introduce another AED 30bn of pipeline in our estimates with a valuation uplift of AED 1.3 per share.

The recent spate of regulatory changes involving increases in transaction costs must be considered alongside the zero capital gains tax backdrop and an uncertain regulatory environment. How these two offsetting factors play out is yet to be seen, but we might see tempered investor demand in the short run. While the move curbs systemic risks, end-user demand and affordability with new development launches might pose challenges.

We value Emaar via a DCF-valuation at a 12-month TP of AED 6.7 on relatively conservative estimates, but believe that an award of 2020 Expo to Dubai could lead to a further upside in fundamentals.

Risks: Various risks could prevent our Target Price and recommendation from being achieved, and the key risk that Emaar and other property developers in the region face is the macroeconomic scenario. Although the market seems to be recovering following the 2008/09 financial downturn, prices and rentals are at a discount to the 2008 levels and are close to pre-launch levels in early 2007. Demand supply imbalance is a medium-term risk. Another risk that we feel is important from Emaar's valuation perspective is the oil price. The investor segment of Dubai property has a strong bearing to the oil price and a negative trend in oil prices could cause reduced demand from regional investors, a key driver.

DCF Valuation & NAV Computation

We initiate coverage of Emaar with a Hold recommendation and a twelve-month Target Price of AED 6.7. Our Target Price is derived from the DCF valuation, based on an 11-year forecast period and a growing perpetuity thereafter. We use a WACC of 9.3%, driven by a cost of equity of 10.5% and a cost of debt of 6%. We conservatively assumed the tax rate to be 2.5% rather than zero and the target capital structure assumes a 25% debt component. The risk free rate comprises the premium of the spread on US risk and the element of market volatility is captured in the markets' risk premium of 5%.The long-term growth rate is kept at 3% for a conservative bias.

We also provide a NAV computation based on the company's declared data and our estimates. It is imperative to note that even developed market developers might trade at a discount to NAV that is as large as 30%. The NAV does not incorporate the risk associated with projects and the staggered nature of cash flows that the DCF does. Furthermore the higher the asset opacity, the greater the reliance on company's stated NAV, which is a very risky proposition.

Figure 72: EMAAR: WACC

WACC	
Risk free rate	5.5%
Market risk premium	5.0%
Beta	1.0
Cost of equity	10.5%
Cost of debt	6.0%
Tax Rate	2.5%
Debt	25%
WACC	9.3%
Terminal growth rate	3.0%

Source: VTB Capital Research

Figure 73: Emaar: TP computation

Fair Value Computation	
PV of TV (m, LC)	18,656.9
PV of FCFF (m, LC)	14,881.3
Operating EV (m, LC)	33,538.3
Less: Net Debt (m, LC)	(16,559.2)
Less: Minorities (m, LC)	(509.4)
Investments (m, LC)	21,449.5
Equity Value (m, LC)	37,919.3
Number of shares (mn)	6,091.2
Equity Value/Share (LC)	6.2
Dividend/share (LC)	0.0
Cost of equity	10.8%
Target Price (LC)	6.7
Current Price (LC)	6.0
Currency depreciation (to USD)	-
Upside (in USD terms)	12%

Source: Company data, VTB Capital Research

Figure 74: NAV Computation

	Book Value (2012)	Fair Value (2012)	Our Estimate (2013)
Cash	3,711	3,711	6,579
Receivables	3,559	3,559	2,501
Development Properties	26,998	43,181	40,341
Investments	6,428	6,351	4,010
Loans	4,369	4,369	3,943
Properties	7,831	16,112	19,299
Fixed Assets	8,209	10,519	9,653
Goodwill	46	46	-
Total Assets	61,151	87,848	86,325
Total Liabilities	(28,617)	(29,220)	(28,733)
Net Asset Value	32,534	58,628	57,592
NAV per share	5.3	9.6	9.5

Source: Company data, VTB Capital Research

Figure 75: Fair Value of Development Properties

	Book Value (2012)	Fair Value (2012)	Our Estimate (2013)
UAE	13,653	19,195	23,034
Egypt	5,700	13,553	8,132
India	77	77	-
Turkey	3,160	3,848	3,463
KSA	1,574	2,527	2,780
Pakistan	757	1,341	939
North America	898	898	898
Lebanon	407	712	570
Syria	280	280	-
Morocco	492	751	526
Total	26,998	43,182	40,341

Source: Company data, VTB Capital Research

Figure 76: Fair Value of Investment Properties

	Book Value (2012)	Fair Value (2012)	Our Estimate (2013)
Dubai Mall & Marina Mall	6,399	13,429	16,115
Burj Dubai (Souq Al Bahar & other)	478	817	980
Burj Dubai Business Square	153	349	419
Gold & Diamond Park	173	337	404
Dubai Marina (Retail)	98	292	350
Tuscan Valley (Turkey)	25	67	67
Other (plots/clinics/schools)	408	585	702
Other retail locations	98	237	261
Total Value	7,832	16,112	19,299

Source: Company data, VTB Capital Research

Figure 77: Emaar: Peer Comps

Company	BBG	Mcap	Net Debt	Price	P/E		EV/EBITDA		P/CF		Div yield, %		P/BV	Net Debt/EBITDA	
	ticker	USD mn	2013F	USD	2013F	2014F	2013F	2014F	2013F	2014F	2013F	2014F	2013	2013F	2014F
Regional Plays															
Middle East															
Emaar	EMAAR UH	9,951	1,598	1.63	16.0	15.0	12.6	12.0	10.7	21.2	1.7	1.8	1.1	1.7	1.5
Aldar	ALDAR UH	5,309	1,760	0.68	11.6	16.1	21.8	14.4	neg	3.8	2.1	2.1	1.3	5.4	1.8
Mabanee	MABANEE KK	2,834	390	4.03	15.1	15.6	14.2	13.8	15.4	13.7	1.3	2.6	4.2	1.7	1.3
Dar Al Arkan	ALARKAN AB	2,894	904	2.68	11.1	9.3	11.3	10.2	11.2	11.9	-	0.8	0.7	2.7	2.5
Douja Prom Addoh	ADH MC	2,120	1,264	6.57	8.8	8.2	10.2	9.7	n/a	n/a	4.0	4.9	1.5	3.8	3.6
Median					**11.6**	**15.0**	**12.6**	**12.0**	**11.2**	**12.8**	**1.7**	**2.1**	**1.3**	**2.7**	**1.8**
Emerging Market Peers															
Growthpoint Properties	GRT SJ	4,699	2,157	2.40	17.0	15.1	16.2	14.8	neg	neg	6.1	6.5	1.2	5.1	4.5
DLF	DLFU IN	4,104	3,650	2.30	22.4	31.1	14.1	13.8	12.3	17.7	1.7	1.5	0.8	6.6	5.9
Cyrela	CYRE3 BZ	2,865	890	6.88	8.7	7.5	7.4	6.3	31.0	7.4	3.5	6.6	1.1	1.8	1.1
LSR Group	LSRG RX	1,773	917	17.20	8.6	5.9	5.8	4.4	6.6	5.2	3.8	4.8	1.0	2.0	1.4
Bumi Serpong	BSDE IJ	2,158	(237)	0.12	11.2	12.3	8.2	8.1	10.3	15.4	1.6	1.6	1.9	(1.0)	(1.6)
Robinsons Land	RLC PM	2,210	208	0.54	20.0	16.9	12.5	11.1	14.2	12.9	1.7	2.0	2.0	1.1	1.3
Central Pattana	PTTGC TB	6,571	716	1.46	34.0	28.2	22.2	18.9	19.3	17.2	1.3	1.6	7.7	2.2	1.8
Median					**17.0**	**15.1**	**12.5**	**11.1**	**13.3**	**14.1**	**1.7**	**2.0**	**1.2**	**2.0**	**1.4**
Developed Market Peers															
Sun Hung Kai	16 HK	35,490	34,964	7,971	13.09	13.6	12.6	14.6	12.6	13.0	18.4	3.3	3.4	0.8	2.7
Annington Inmobilien	ANN GR	5,796	5,736	7,238	25.58	10.8	13.4	21.8	21.1	14.4	13.4	3.6	4.4	1.6	12.2
Mitsubishi Realty	8802 JP	39,159	40,449	18,948	29.09	78.2	64.6	28.6	24.9	36.3	22.4	0.4	0.4	2.6	9.1
Swire Properties	1972 HK	15,961	15,995	3,981	2.73	20.1	19.3	18.3	17.1	19.7	18.1	2.4	2.6	0.7	3.7
Cheung Kong	1 HK	37,110	36,174	2,639	15.62	10.1	9.2	18.7	16.9	15.5	15.0	2.7	2.8	0.8	1.3
Derwent	DLN LN	4,080	4,097	1,485	39.98	46.4	42.4	35.8	33.5	38.2	37.8	1.5	1.5	1.4	9.5
Median						**16.9**	**16.3**	**20.3**	**19.1**	**17.6**	**18.2**	**2.5**	**2.7**	**1.1**	**6.4**
MEDIAN, ALL PEERS					**13.4**	**15.0**	**12.5**	**11.6**	**12.3**	**13.3**	**1.7**	**2.1**	**1.2**	**2.1**	**1.6**

Source: Bloomberg Consensus [as of 17/11/2013)]

Where we stand vis-à-vis consensus

Figure 78: Emaar: Our estimates vs. consensus*

	2013F			2014F			2015F		
	VTBC	Consensus	Difference	VTBC	Consensus	Difference	VTBC	Consensus	Difference
Sales	8.5	9.0	-5.7%	10.9	9.0	21.0%	15.1	11.641	30.1%
EBITDA	3.4	3.4	0.2%	3.7	3.4	8.2%	4.7	4.122	15.0%
Net Income	2.5	2.3	9.3%	2.9	2.5	15.9%	4.5	3.283	38.2%

*Source: VTB Capital Research, *Consensus provided by Bloomberg (as of 17/11/2013)*

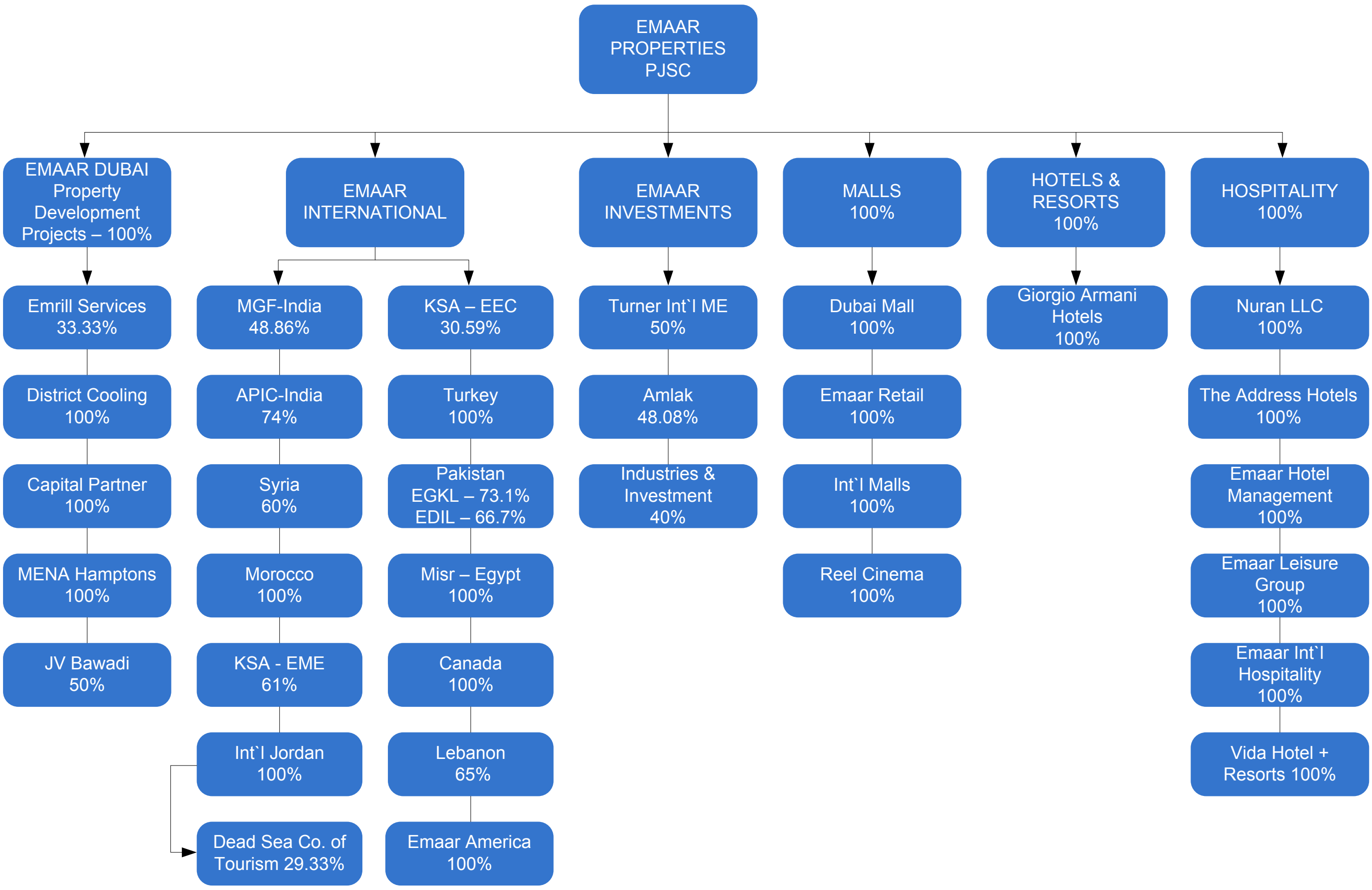
Strategy and Business Model

Emaar has been in the property development business for over 15 years and its growth is a function of both the regulatory and macroeconomic environment of Dubai and the chasm between Dubai and regional cities in a four-hour flight radius with respect to political stability, infrastructure, quality of life and governance. Emaar's expertise and proven track record in developing master-planned communities alongside the planning and execution of mega projects has placed it in the leading position for urban regeneration projects across the Middle East and Africa. Emaar has adopted the strategy of replicating its domestic success in key international markets by route of joint ventures or alliances with quasi sovereign or leading private players abroad. While most of these projects have suffered from political, economic and regulatory turbulence, the factors are extrinsic to Emaar. Emaar's current business strategy of running an integrated development platform and leasing infrastructure for education, healthcare, and hospitality services helps maintain a high degree of exposure optionality into the most robust growth segments across different consumer consumption segments in high growth markets.

Emaar's global diversification strategy of entering different markets worldwide is also indicative of its keen desire to reduce its dependency on the local and regional markets and getting exposure to higher growth markets; yet the unique macroeconomic and governance backdrop of Dubai is amiss in these markets, leading to severe challenges. Emaar's international revenue was approximately 18% of its total revenues in 2012, with management indicating a keen desire to generate in excess of 50% of its revenues from international operations by 2017. However, Dubai's 2020 Expo win would lead to a large range of easier options within Dubai and we thus believe that Dubai is likely to remain a strong contributor to Emaar's revenues for the next decade, a concentration that we believe is a positive.

The real estate development model of off-plan development pursued by Emaar Is critically dependent on brand recognition and positioning as customers pre-fund development costs. With its strong track record and after sales service and development quality, Emaar has been able to generate strong brand awareness in Dubai. With a material proportion of its buyers comprised of foreigners, the brand synergies in launching developments in the property owner's home markets are immense. Most of the land acquired internationally by Emaar (JVs or solely) have already been paid for, and the company has recently been successful in concluding a number of development launches. The book value of Emaar's development projects and land bank internationally, including Dubai, is approximately AED 27bn while the fair value of the same is close to AED 40.3bn, in our estimates.

Figure 79: Emaar: Group Structure



Source: Company data, VTB Capital Research

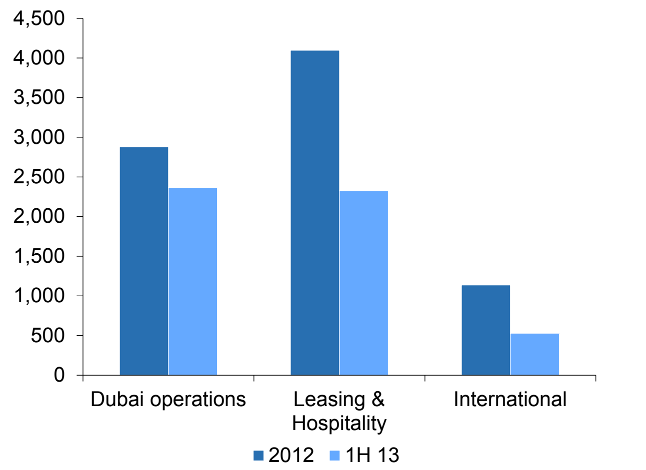
Business Segments

Emaar operates six business segments as per the company, but we believe that a better classification is to look at the following segments viz. property development business, the commercial leasing and retail segment and hospitality segment.

Property development

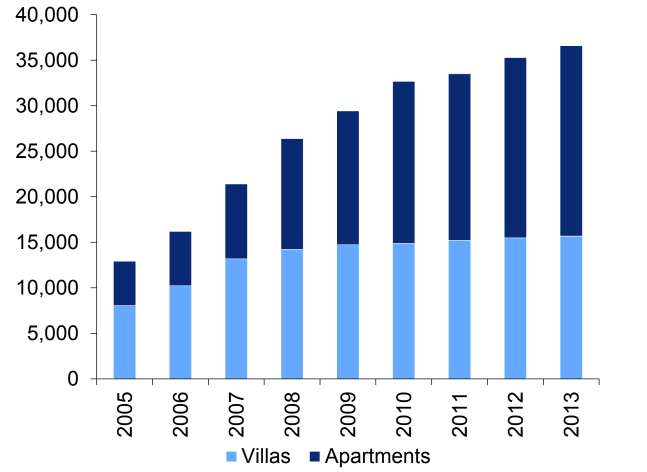
We would argue that property development is the company's core segment. This has also been historically the most important segment contributing a major share towards the company's total revenues. However, the focus of Emaar has been shifting lately towards increasing investment in their recurring income portfolio, which provides a more predictable and stable cash flow stream, its importance highlighted in the wake of the financial crisis and the demand downturn experienced in 2008-10. Revenues from property development and sale of land contributed towards 58% of revenues in 2011 and 50% in 2012. We believe land sales are unlikely to be a major revenue contributor in future as Emaar is likely to seek to capture a large portion of the value add by launching its own developments. We estimate revenues from the leasing and recurring portfolio segment to reduce and fall to approximately 33% by 2016F as Dubai Mall expansion is completed and the property development pipeline is rejuvenated.

Figure 80: Revenue segments as per company



Source: Company data, VTB Capital Research

Figure 81: Development Track Record



Source: Company data, VTB Capital Research

Key domestic projects - Key development projects currently underway in Dubai are the new launches in the Downtown Dubai project, which has 1,283 units under development and is expected to be completed by 2015. Arabian Ranches and Emirates Living is 98% complete and the entire project is expected to be completed by the first quarter of 2014. Recently announced projects of The Hills, The Address Fountain and Sky Views, and Burj Vista are currently under construction and are expected to be completed by 2015-16. These three projects will add 800 residential units to Emaar's inventory.

Figure 82: Regional Business

Projects	Completed	Units under development	2011 (cumulative)	Deliveries 2012	Deliveries 2013	Deliveries 2014	Deliveries 2015	Deliveries 2016
Downtown Development	9,880	2,263	7,853	1,278	749	-	533	1,730
Downtown Commercial spaces (sq. ft.)	2,860,476	-	2,560,476	300,000	-	-	-	-
Dubai Marina	4,450	-	4,450	-	-	-	-	-
Dubai Marina Commercial spaces (sq. ft.)	768,385	-	768,385	-	-	-	-	-
Arabian Ranches	4,210	62	4,192	18	-	62	-	-
Arabian Ranches II	-	253	-	-	-	253	-	-
Emirates Living (exc. Land)	14,146	650	14,146	-	-	224	-	-
Emaar Towers	168	-	168	-	-	-	-	-
Umm Al Quwain	277	-	277	-	-	-	-	-
Total (Excluding comm. Units)	33,131	3,228	31,086	1,296	749	539	533	2,156
Grand Total (Commercial spaces -sq. ft.)	3,628,861	-	3,328,861	300,000	-	-	-	-

Source: Company data, VTB Capital Research

Key international projects - Emaar is also coming up with major developments in various international locations. In Egypt, the three large projects are Uptown Cairo, Mivida and Marassi, which will add a total of 5,150 residential units to their inventory upon completion. Emaar has already sold 3,250 units in these three projects and demand characteristics appear to be robust. A high inflationary environment coupled with currency controls and political instability is leading to a high domestic demand for brick and mortar investments among the Egyptian population. In Turkey, the real estate market remains robust, especially in central Istanbul where Emaar has undertaken a major mixed-use development. The Tuscan Valley and New Istanbul Development would together add 1,200 residential units with an average size per unit close to 385 square metres, and Emaar has already received bookings on more than 85% of stock that has been launched this year. In Saudi Arabia, Emaar is involved in Apartments and villas with iconic projects coming up at Jeddah Gate and Al Khobar lakes. In Syria, the company launched Eight Gate and has already sold 737 out of 1,855 units, as construction is still moving ahead, albeit impacted severely by the political instability. Emaar's BeitMisk project in Beirut, Lebanon, will also add 693 residential units to the company's inventory and deliveries are expected to begin this year. Average prices of residential units have varied between AED 1,600-2,200 per square feet in Dubai, at a discount of about 30% from peak levels before the crisis. Real estate property prices in the neighbouring region of Saudi Arabia are in the range of AED 450-600 per square feet, while the same in Egypt is much cheaper at AED 340-365 per square feet. Emaar enjoys gross operating margins of 30-40% in its international operations. However margins at home in Dubai range between 20% and 25% due to a larger range of developments.

Figure 83: Key international markets

Country	Entity	Units Completed	Units under development	To be developed (2013-15)	Deliveries until 2011	Deliveries 2012	Deliveries 2013	Deliveries 2014	Deliveries 2015
Subsidiaries									
Egypt	Emaar Misr For Development SAE	857	1,987	3,923	319	284	797	718	929
KSA	Emaar Middle East	374	489	541	84	178	146	88	984
Syria	Emaar IGO	444	461	784	414	5	2	146	80
Turkey	Emaar Turkey	232	756	351	106	23	53	52	764
Lebanon	Meth Renaissance Holding	147	268	506	-	133	159	106	128
	Total	**2,054**	**3,961**	**6,105**	**923**	**623**	**1,157**	**1,110**	**2,885**
Associates									
India	EMGF	2,915	14,151	2,331	441	540	3,804	5,519	2,563
Total		4,969	18,112	8,436	1,364	1,163	4,961	6,629	5,448

Source: Company data (as of 30 June 2013), VTB Capital Research

Figure 84: Emaar: land bank

Country	Gross land area in mn sq.m.
KSA	171.7
India	43
Egypt	14.6
Jordan	0.6
Turkey	1.2
Lebanon	0.5
Syria	0.2
Total Key markets	231.8

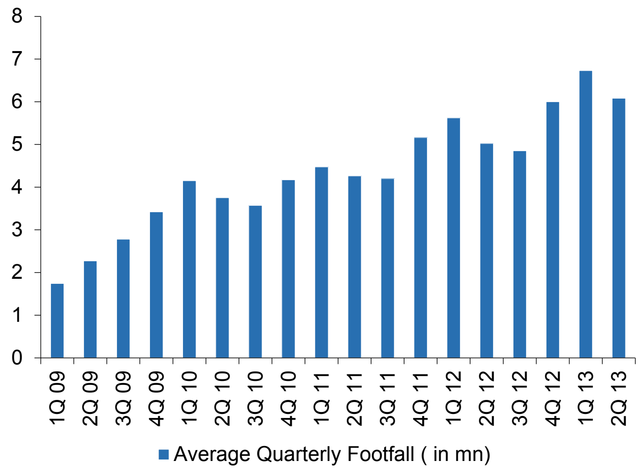
Source: Company data, VTB Capital Research

Commercial leasing and retail

Within this group we would consider the company's Emaar Malls segment. Emaar Group has diversified into the retail sector via its 100% owned subsidiary Emaar Malls Group LLC, which mainly focuses on servicing the lifestyle requirements of the particular residential community it serves. The highlight of this segment is the flagship Dubai Mall, one of the largest malls in the world and an integral component of the region's most prestigious urban development, Downtown Dubai. The GLA is expected to grow to 1.4 million sqm by 2020.

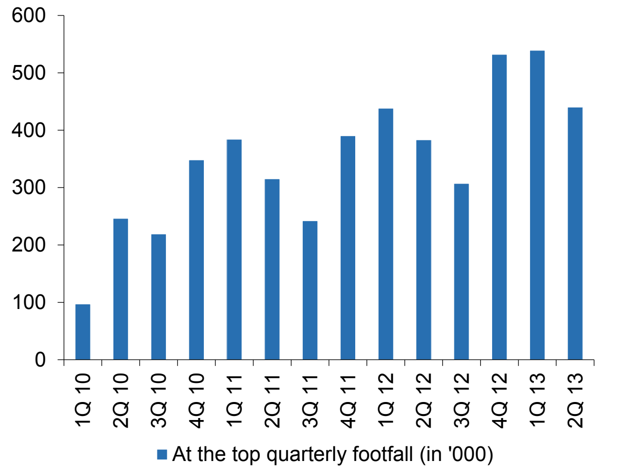
Key strengths are that a significant proportion of the 91% of GLA was occupied in 2012 and is expected to go up to 94% by 2015. Emaar has a policy of collecting rentals in advance (PDCs) of the lease year along with additional security deposits and lease durations are generally long term, giving them a steady forecast of cash flow in the future. Dubai has been transforming into a shopper's paradise and footfalls in the malls have been constantly increasing, with 2012 achieving a record breaking 65 million visitors in Dubai Mall alone. Also, Emaar enjoys several exclusive tenants in the UAE/GCC region, such as Bloomingdales and Galleries Lafayette, who do not rent out any retail outlets except from Emaar properties. Average rentals in 2012 were in the region of AED 300-480 per square feet per annum, with the lower bound generally associated with various retail outlets such as Gold and Diamond Park. The upper bound rents remain for premium retail malls such as Dubai Mall and Marina Mall in Burj Dubai. Revenues from the mall and retail exceeded AED 2.3bn, which constitute a significant 26% of total revenues and were up by 29% YoY; however, EBITDA improved by 44% in comparison to 2011 and stood at AED 1.6bn, which indicates efficiency in operations and declining maintenance and capex costs.

Figure 85: Dubai Mall: Quarterly Footfall (mn)



Source: Company data, VTB Capital Research

Figure 86: At the Top: Quarterly Footfall (in '000)



Source: Company data, VTB Capital Research

Hospitality

In the hospitality segment, we would consider the following subsidiaries, of which Emaar Hotels & Resorts is a special purpose vehicle for a JV to own and operate Armani hotels. The Hospitality group is predominantly responsible for the other hotels and resorts owned and operated by Emaar.

Emaar Hospitality Group - Emaar Hospitality Group LLC is the wholly owned subsidiary of the Dubai based property developer Emaar Properties PJSC and is responsible for managing Emaar's growing portfolio of hospitality and leisure projects. The diversification into the hospitality segment is in line with the company's attempt at business segment expansion to capitalise on the tourism generated opportunities in both the retail and residential segment by Dubai visitors. The hospitality group owns and operates a diversified portfolio of hospitality assets and leisure facilities across Emaar's community development projects, including Dubai Polo and Equestrian Club, Dubai Marina and associated yacht club, golf courses, hotels and other recreational clubs. It currently holds over AED 3.67bn worth of assets in its portfolio. Average Daily Rates for 5 star properties ranged between AED 900-1,500 and are expected to increase further as demand is set to rise. Occupancy rates were high and range between 80-91% for various properties throughout the year. Total revenues contributed by the Hospitality segment stood at AED 1.377bn in 2012, growth of 12.5% YoY and 16.7% of total revenues in the year.

Figure 87: Emaar Hospitality Group: Performance

	The Address Downtown	The Palace Downtown	The Address Dubai Mall	The Address Dubai Marina	Al Manzil	VIDA Downtown
Available room nights	35,476	43,802	44,164	36,200	35,657	2,340
Occupancy	91%	89%	89%	89%	91%	45%
ADR (AED)	1,784	1,442	1,555	988	901	730
REVPAR (AED)	1,628	1,278	1,377	883	822	326
Room Revenues ('000 AED)	57,739	55,972	60,799	31,973	29,309	763

Source: Company data, VTB Capital Research

Emaar Hotels and Resorts - Emaar Hotels and Resorts LLC is a subsidiary of Emaar Properties PJSC and was formed in 2005 after an agreement between Giorgio Armani S.p.A and Emaar Properties, with the objective to develop, own and operate an exclusive collection of hotels, resorts and residences in the most important cities in the world. The company has stated that it has plans to develop seven hotels and three resorts in the coming years with an estimated value of AED 5bn, of which two hotels are already operational, including a 160-room property of Armani Hotels in Burj Khalifa that was opened in 2010 and a 95-room property in Milan that became operational in 2011. The Armani Hotel at Burj Khalifa averaged a daily rate of AED 4,000 per day and had an average occupancy of 90% throughout the year in 2012.

Figure 88: Emaar Hospitality Group: current projects

	Management Company	Category	Rooms	Operational
Milan				
Armani Hotel Milan at Via Manzoni	AHM	5 Star	95	2011
Dubai				
Armani Hotel Dubai at Burj Khalifa	AHM	5 Star	160	2010
The Address Downtown Dubai	TAH&R	5 Star	196	2008
Al Manzil Hotel	Emaar Hospitality	4 Star	197	2007
VIDA Downtown Dubai	Emaar Hospitality	4 Star	156	2007
The Palace Downtown Dubai	TAH&R	5 Star	242	2007
The Address Dubai Mall	TAH&R	5 Star	244	2009
The Address Dubai Marina	TAH&R	5 Star	200	2009
The Address Montgomerie Dubai	TAH&R	Standard	21	2006
Arabian Ranches Golf Club	TAH&R	Standard	11	2007
Nuran Marina Residences	Nuran	Standard	90	2006
Nuran Greens Residences	Nuran	Standard	110	2006

Source: Company data, VTB Capital Research

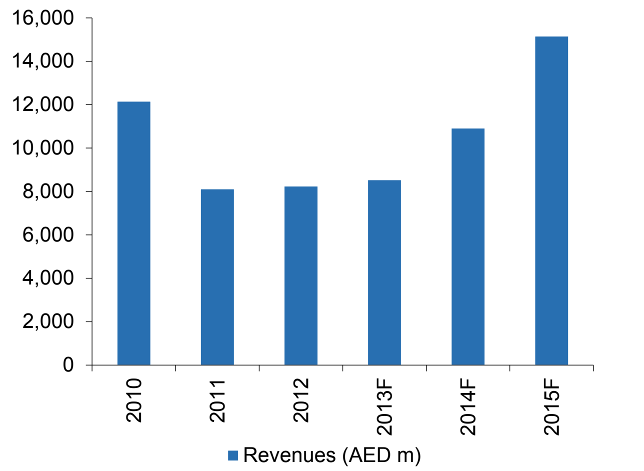
Financial Analysis

- Our assumptions of gross margins at 56% for 2013 and falling to 52% by 2015F might be conservative as the Mira portfolio gets delivered.
- Net debt reduces from AED 16.6bn in 2013 to a net cash of AED 384mn by 2015.
- The operating cash flow is likely to trend from AED 3.2bn in 2013 to AED 5.2bn by 2015, but it is exposed to payment schedule risks.

Revenue

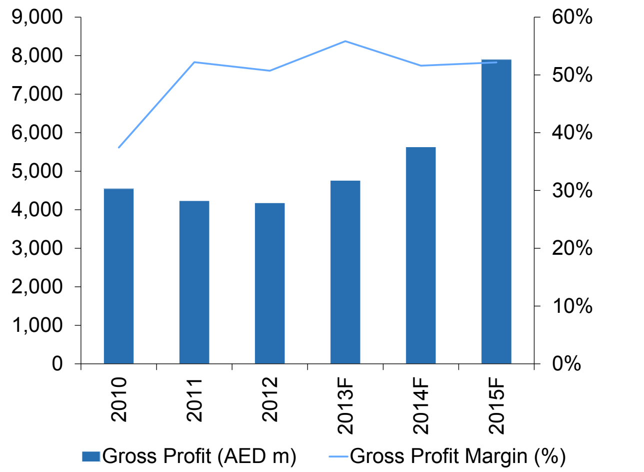
We forecast revenues of AED 8.5bn for 2013 and rising to AED 15.1bn by 2015, driven largely by delivery of Mira and downtown Dubai projects. We forecast a gross profit of AED 4.7bn for 2013 and rising to AED 7.9bn by 2015F. The gross profit margins are likely to trend from 56% in 2013F to 52% on a conservative higher cost assumption. We see an upside risk to our margin estimates driven by higher utilisation in leasing portfolio and less than anticipated inflation in operating costs.

Figure 89: Revenues (AED mn)



Source: Company data, VTB Capital Research

Figure 90: Gross Profit (AED mn)



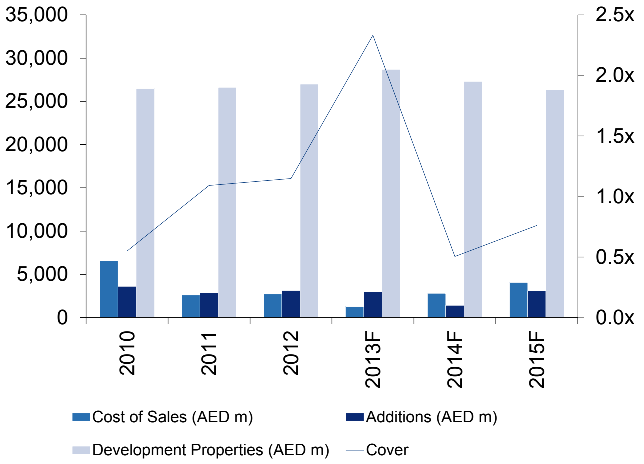
Source: Company data, VTB Capital Research

EBITDA and cash flows

The SG&A expenses comprise a wide variety of core to ancillary expenditure from staff costs, advertising to legal and professional fees. We believe these are essentially fixed costs as the inventory driven functions are largely outsourced by Emaar. They should also be compared hence to cost of sales for benchmarking purpose rather than revenues, as the real estate price index does not have as much bearing on these items as the general cost of sales measure. However, even this measure bears the fallacy of matching recurring expenditure against lumpy delivery schedule based recognition of costs.

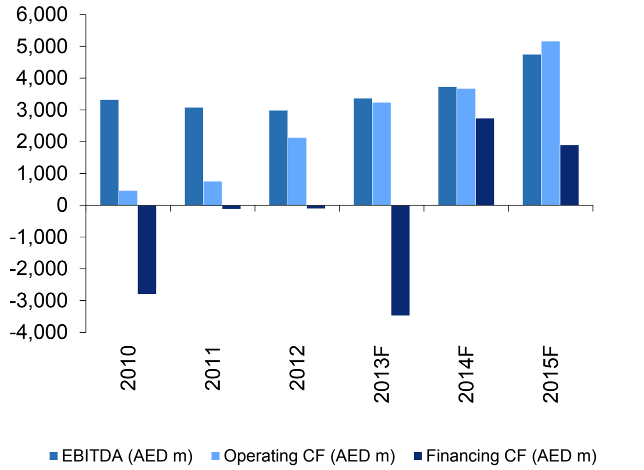
We see SG&A rising from AED 2.1bn in 2013 to AED 3.8bn by 2015. EBITDA is likely to rise from AED 3.4bn in 2013 to AED 4.7bn by 2015. However, the EBITDA margin is likely to drop from 39.5% of sales in 2013 to 31.3% by 2015 due to our conservative cost assumptions and relatively conservative SG&A assumptions. The operating cash flow is likely to trend from AED 3.2bn in 2013 to AED 5.2bn by 2015, but it is exposed to the receivables and payment schedule risks. The financing cash flows are likely to hover at an outflow of AED 3.5bn in 2013 to an inflow via a debt raise of AED 1.9bn by 2015.

Figure 91: Development properties (USD mn)



Source: Company data, VTB Capital Research

Figure 92: EBITDA & cash flows (USD mn)

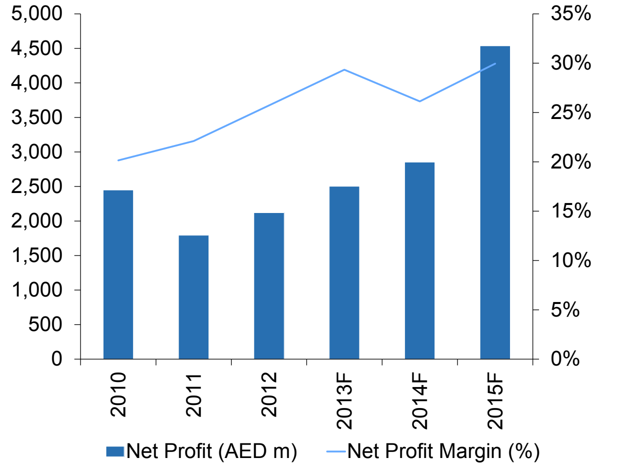


Source: Company data, VTB Capital Research

Net Debt

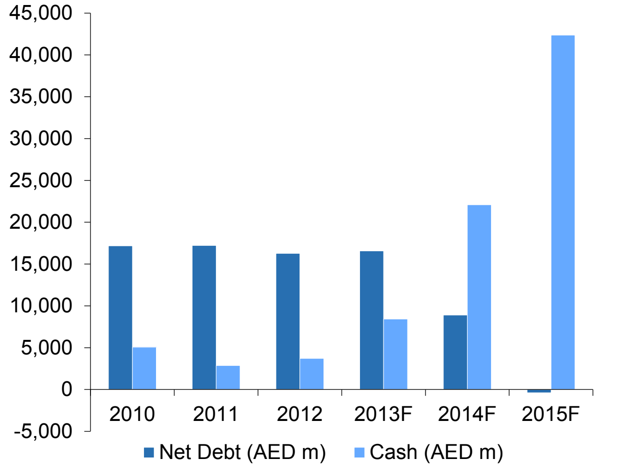
The business model of the company involves a significant amount of upfront cash collections from customers in off-plan properties' developments on a pre-determined payment schedule and with the continued progress through the projects and increasing collections we see net debt reducing from AED 16.6bn in 2013F to a net cash of AED 384mn by 2015. The assumption is predicated upon a less than aggressive new development schedule, which would hence provide an upside risk to forecasts and subdue balance sheet strength in the construction phase.

Figure 93: Net profit (AED mn)



Source: Company data, VTB Capital Research

Figure 94: Net debt & Cash (USD mn)



Source: Company data, VTB Capital Research

Financial Statements

Figure 95: Emaar: Income Statement

Income Statement (YE Dec)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Sub-total Property Sales	9,270	4,751	4,144	2,407	4,505	7,372	3,038	2,463
Revenue from Hospitality	980	1,224	1,377	1,386	1,398	1,477	1,606	1,656
Rental income from leased properties and related income	1,901	2,137	2,719	2,738	3,209	3,350	3,446	3,542
Other Revenue								
Total Revenues	12,150	8,112	8,240	8,530	10,914	15,147	9,304	8,645
Cost of Revenue from property sales	6,571	2,620	2,733	1,289	2,811	4,063	2,308	1,818
Operating Cost of hospitality	628	734	795	831	839	886	964	994
Operating Cost of leased properties	405	522	533	548	642	675	689	686
Cost of other revenue								
Total Cost	7,604	3,877	4,061	3,768	5,283	7,247	4,628	4,040
Gross Profit	4,547	4,236	4,179	4,762	5,632	7,900	4,676	4,606
Selling, General and Administrative Expenses	2,028	1,925	1,948	2,133	2,729	3,787	2,326	2,161
EBITDA	3,323	3,073	2,978	3,368	3,730	4,741	2,833	3,079
Other Operating Income	346	173	182	196	251	348	214	199
Other operating expenses	233	116	119	128	163	226	139	129
EBIT	2,631	2,368	2,294	2,698	2,991	4,235	2,425	2,514
Finance Income	265	392	344	355	423	556	769	785
Finance Costs	355	562	705	651	662	356	-15	141
Other Income	612	160	275	220	220	220	220	220
Share of results of associates and JV's	-430	-231	-97	-110	-110	-110	-110	-110
Loss/(gain) on sale of subsidiaries	53	0	0	0	0	0	0	0
Impairment of Goodwill	0	0	0	0	0	0	0	0
Impairment of Assets	192	174	0	0	0	0	0	0
Profit Before Tax	2,478	1,954	2,111	2,513	2,861	4,546	3,319	3,268
Income Tax Expense	(1.4)	(35.8)	(4.2)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Profit After Tax	2,477	1,918	2,107	2,503	2,851	4,536	3,309	3,258
Extraordinary loss/(gains)	-	-	-					
Minorities	28.78	124.41	(12.2)					
Net Income	2,448	1,794	2,119	2,503	2,851	4,536	3,309	3,258
Normalized Income	2,448	1,794	2,119	2,503	2,851	4,536	3,309	3,258
Basic EPS	3.21	1.64	3.60	0.41	0.47	0.74	0.54	0.53
Dividends per Share	-	0.10	0.10	0.01	0.01	0.02	0.02	0.01

Source: Company data, VTB Capital Research, All figures in AED mn unless per share data or stated otherwise

Figure 96: Emaar: Balance Sheet

Balance Sheet (YE Dec)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
PP&E	8,539.3	8,300.4	8,209.1	9,187.3	6,967.9	5,369.4	7,048.5	7,134.2
Intangibles	46.1	46.1	46.1	46.1	46.1	46.1	46.1	46.1
Investments	17,933.9	17,799.7	17,363.1	17,383.8	17,395.9	17,418.4	17,455.3	17,470.5
Other	-	-	-	-	-	-	-	-
Total non-current assets	26,519.2	26,146.2	25,618.3	26,617.2	24,409.9	22,833.9	24,549.8	24,650.7
Cash	5,041.7	2,865.3	3,710.6	8,417.4	22,079.1	42,360.7	44,448.9	51,396.6
Accounts receivable	3,756.7	3,534.5	3,559.2	3,838.6	4,911.5	6,816.2	4,186.9	3,890.5
Inventories	26,492.5	26,611.3	26,998.2	28,699.9	27,301.0	26,312.4	28,443.1	29,153.6
Other	694.2	896.9	1,264.9	1,302.9	1,342.0	1,382.2	1,423.7	1,466.4
Total current assets	35,985.1	33,907.9	35,532.9	42,258.8	55,633.5	76,871.5	78,502.5	85,907.0
TOTAL ASSETS	62,504.3	60,054.1	61,151.2	68,876.1	80,043.4	99,705.4	103,052.3	110,557.7
Debt	10,329.0	8,791.8	8,252.9	8,252.9	8,252.9	8,252.9	8,252.9	8,252.9
Accounts payable	8,939.0	8,313.8	8,278.0	8,569.7	10,964.9	15,217.0	9,347.2	8,685.4
Other	-	-	-	-	-	-	-	-
Total current liabilities	19,268.0	17,105.6	16,530.9	16,822.6	19,217.8	23,470.0	17,600.1	16,938.4
Debt	11,877.8	11,289.1	11,723.7	16,723.7	22,723.7	33,723.7	39,723.7	44,723.7
Other	58.5	70.5	77.3	77.3	77.3	77.3	77.3	77.3
Total non-current liabilities	11,936.3	11,359.6	11,800.9	16,800.9	22,800.9	33,800.9	39,800.9	44,800.9
Minorities	-	-	285.4	285.4	285.4	285.4	285.4	285.4
Shareholders' Equity	31,300.0	31,588.9	32,533.9	34,967.1	37,739.3	42,149.1	45,365.9	48,533.0
Other Equity	-	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	62,504.3	60,054.1	61,151.2	68,876.1	80,043.4	99,705.4	103,052.3	110,557.7

Source: Company data, VTB Capital Research

Figure 97: Emaar: Cash Flow Statement

Cash Flow Statement (YE Dec)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Net income (loss)	2,448.23	1,793.54	2,119.12	2,502.67	2,851.37	4,535.86	3,308.65	3,257.67
Depreciation & Amortization	804.62	762.48	767.22	738.82	826.86	627.12	483.25	634.36
Provision for Doubtful Accounts	308.39	264.19	23.42					
Other Non-Cash Adjustments	3,559.45	184.63	(58.33)					
Changes in Non-Cash Capital	(6,262)	(2,245)	(727)					
Other cash adjustments	(395)	(1)	10	-	-	-	-	-
Cash From Operating Activities	464.33	758.68	2,134.91	3,241.49	3,678.23	5,162.98	3,791.90	3,892.03
Cash From Investing Activities								
Disposal of Fixed Assets	557.97	-	-	-	-	-	-	-
Property Additions	(8.82)	(17.98)	(14.27)	(1,717.03)	1,392.52	971.40	(2,162.29)	(720.08)
Property Improvements	-	-	-	-	-	-	-	-
Change in Investments	3	(424)	(230)	(21)	(12)	(23)	(37)	(15)
Change in Notes	-	-	-	-	-	-	-	-
Change in Mortgages	-	-	-	-	-	-	-	-
Change in Real Estate Interest	-	-	-	-	-	-	-	-
Other Investing Activities	(3,350)	323	135	(1,740)	1,360	948	(2,172)	(753)
Cash from Investing Activities	(2,798)	(119)	(110)	(3,477)	2,740	1,897	(4,371)	(1,488)
Cash from Financing Activities								
Dividends Paid	(1)	(588)	(594)	(70)	(79)	(126)	(92)	(90)
Preferred Dividends Other Distributions	-	-	-	-	-	-	-	-
Change in Short-Term Borrowings	-	-	-	-	-	-	-	-
Change in Unsecured Debt	2,489	2,720	7,804	12	1,322	2,347	(3,241)	(365)
Change in Secured Debt	(1,672)	(2,765)	(7,283)	-	-	-	-	-
Increase in Capital Stocks	1	-	-					
Decrease in Capital Stocks	-	-	-					
Other Financing Activities	1,443	(659)	(626)	5,000	6,000	11,000	6,000	5,000
Cash from Financing Activities	2,259	(1,293)	(699)	4,943	7,243	13,221	2,668	4,544
Net Changes in Cash	(75)	(653)	1,326	4,707	13,662	20,282	2,088	6,948

Source: Company data, VTB Capital Research

Disclosures

Important Disclosures

The information and opinions contained within VTB Capital Research are prepared by CJSC VTB Capital. As used in this disclosure section, "VTB Capital" includes CJSC VTB Capital, VTB Capital Plc and their affiliates as necessary.

VTB Capital and/or any of its worldwide affiliates which operates outside of the USA (collectively, the "VTB Group") do and seek to do business with companies covered in their research reports. Thus, investors should be aware that the VTB Group may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this research report as only a single factor in making their investment decision.

Where an issuer referred to in this report is not included in the disclosure table, the issuer is either considered not to be covered by VTB Capital Research, or the reference is considered to be incidental and therefore the issuer is not a subject company within this report.

Issuer Specific Disclosures

Disclosure checklist

Company	Ticker	Recent price	Disclosure
Aldar Properties PJSC	ALDAR UH	2.48 (AED)	4
Emaar Properties PJSC	EMAAR UH	6.00 (AED)	4

4. VTB Capital is a provider of liquidity and/or a market maker in the securities of the relevant issuer at the time this research report was published. VTB Capital will buy and sell securities of the relevant issuer on a principal basis.

Analysts Certification

The research analysts whose names appear on research reports prepared by VTB Capital certify that: i) all of the views expressed in the research report accurately reflect their personal views about the subject security or issuer, and ii) no part of the research analysts' compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analysts in research reports that are prepared by VTB Capital.

The research analysts whose names appears on research reports prepared by VTB Capital received compensation that is based upon various factors including VTB Capital's total revenues, a portion of which are generated by VTB Capital's investment banking activities.

Investment Ratings

VTB Capital uses a three-tier recommendation system for stocks under coverage: Buy, Hold, or Sell.

BUY: 12-month target price exceeds the market price by 20% or more (as of the publishing date)

HOLD: 12-month target price is no less than the market price but does not exceed it by more than 20% (as of the publishing date)

SELL: 12-month target price is below the market price (as of the publishing date)

RESTRICTED: In certain circumstances, VTB Capital is not able to communicate issuer ratings due to internal policy and/or law and regulations.

UNDER REVIEW: In the event that significant information about an issuer is due to be announced or is expected to become public in the foreseeable future, an analyst might place the relevant issuer Under Review. This means that the analyst is reviewing, but not currently altering, the previously published rating while waiting for the impending information.

VTB Capital's distribution of stock ratings (and rating for banking clients) is as follows:

VTB Capital Ratings Distribution

Investment Rating Distribution		
Buy	82	38%
Hold	88	41%
Sell	38	18%
Restricted	2	1%
Not Rated	0	0%
Under Review	6	3%
	216	**100%**

Ratings Distribution for Investment Banking Relationships		
Buy	8	28%
Hold	13	45%
Sell	5	17%
Restricted	1	3%
Not Rated	0	0%
Under Review	2	7%
	28	**100%**

Source: VTB Capital Research as at 31 October 2013

Price Targets

VTB Capital Research employs a Discounted Cash Flow (DCF) model as its principal valuation framework for estimating the fair and target prices of stocks. The central metric is fair current Enterprise Value (EV), which is obtained on the basis of Free Cash Flow to Firm (FCFF) discounted at a constant company-specific Weighted Average Cost of Capital (WACC).

Conflicts Management Arrangements

VTB Capital Research has been published in accordance with our conflict management arrangements, which are available at http://research.vtbcapital.com/ServicePages/Files/CoI+Arrangements+Research.pdf.

VTB Capital Research

Moscow Research	London Research
Phone: +7 495 660 4253 research@vtbcapital.com	Phone: +44 (20) 3334 8557 research@vtbcapital.com

VTB Capital Offices

CJSC VTB Capital	VTB Capital plc	VTB Capital plc
Federation Tower West 12, Presnenskaya emb. Moscow, 123100, Russia Phone: +7 495 960 9999 www.vtbcapital.com	14 Cornhill London EC3V 3ND Phone: +44 (0) 20 3334 8000 Fax: +44 (0) 20 3334 8900 www.vtbcapital.com	9 Battery Road #27-01 Straits Trading Building Singapore 049910 Phone: +65 6220 9422 Fax: +65 6225 0140 www.vtbcapital.com

VTB Capital Hong Kong Limited	VTB Capital plc	VTB Capital Inc.
Unit 2301, 23/F Cheung Kong Center 2 Queen's Road Central Hong Kong Phone: +852 3195 3688 Fax: +852 3195 3699 www.vtbcapital.com	Office 403 Currency House, Tower 2 DIFC P.O. Box 482088 Dubai, UAE Phone.: +971 (4) 377 0777 www.vtbcapital.com	452 Fifth Avenue, 23rd Floor New York, NY 10018 Phone: +646-527-6300 Fax: +646-527-6301 www.vtbcapital.com