



Company Update

EMAAR Properties

Rating: Under Review

Merger Could be Potentially Dilutive; Suspending Rating

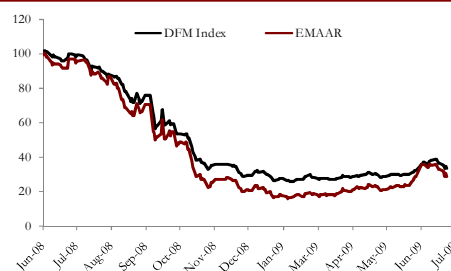
Emaar enters advanced merger talks with Dubai Holdings. According to company disclosures, EMAAR is seeking to merge with three real estate units of Dubai Holdings LLC, consolidating its business with Sama, Tatweer and Dubai Properties. Dubai Holdings is a 100% state controlled entity, while the government of Dubai owns a 32% stake in Emaar. The parties expect to complete the deal valuation by August 2009. The merger is expected to take about four months and could be finalized in October 2009, pending the approval of shareholders and regulators.

Merger could be potentially dilutive for Emaar shareholders; suspending rating until more details become available. (1) We have limited visibility into the income potential of Dubai Holdings' projects. (2) We are skeptical of the potential synergies accruing from this deal, as it is our understanding that Dubai Holdings has already undergone significant restructuring. (3) While we await details about the deal's valuation in August, our view is that not only is it extremely difficult to value the assets/land bank in the current environment, but these real estate entities are already carrying assets at significant premiums to existing market conditions. According to a recent disclosure, Dubai Holdings' held about AED126bn in book value of assets (mostly land, in our view) and total external debt of AED3.4bn as of Dec. 31. Given that Emaar had about AED68bn in book value of assets and AED10bn in external debt (as of March 2009), the combined entity could have AED194bn in assets and AED13.4bn in external debt. However, we note that Emaar is carrying about AED28.4bn in development properties and AED13.2bn in investment properties on its books, both of which could be susceptible to future write-downs. Moreover, the company also has payments due to suppliers and contractors to the tune of AED8.4bn. As for Dubai Holdings, we believe the AED126bn in assets quoted in the press release consists mostly of land, which could be potentially valued much lower given the current market conditions. Moreover, we currently have no idea as to what Dubai Holdings' cash position is and what is owed to its contractors and suppliers. *In light of these uncertainties, we are suspending our rating on Emaar shares. We would reassess our rating when the financial impact of this transaction becomes clear. We do note that if the combined entity receives substantial financial stimulus from the Dubai government, in a form that is not dilutive to existing shareholders, we could see upside in Emaar's stock price.*

Derivative impact: we expect rumors about mergers among other property developers to heighten. Prime candidates for such speculation-driven trading could be Union Properties and Deyaar.

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Equity Data	
Current Price (AED)	3.21
Target Price (AED)	N.A.
Upside/downside	N.A.
12 Mo. Performance	-65.9%
Market Cap. (AED bn.)	19.6
Enterprise Value (AED bn.)	24.92
RIC	EMARDU
Bloomberg	EMAAR UH



(AED Millions)	2007A	2008A	2009E	2010E	2011E
Revenues	17,869	16,015	6,957	7,514	8,265
Gross Margins	39.5%	42.5%	45.0%	43.0%	42.0%
EBIT	5,223	4,703	1,322	1,352	1,653
EBIT Margin	29.2%	29.4%	19.0%	18.0%	20.0%
EBITDA	5,404	5,004	1,704	1,766	2,108
EBITDA Margin	30.2%	31.2%	24.5%	23.5%	25.5%
EPS	1.08	0.50	0.25	0.33	0.39
PE	3.61	7.78	15.33	11.95	10.09
Cash Earnings/Share	1.11	0.55	0.32	0.39	0.46
P/Cash Earnings	3.52	7.08	12.29	9.89	8.46

Note: FY07/FY08 financials based on prior accounting standard and thus not comparable with forecasts.

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