

# Navigating the UAE

Time to Buy

25 March 2010



## Removal of Macro Overhang

- **Macro fundamentals in the UAE economy support equity markets in the long term and the UAE should benefit from an asset allocation shift by investors to the GCC**
- **In the near term, the UAE market remains significantly oversold by international investors; clarity on the Dubai debt situation, following the announcement by the Dubai government on 25 March, and strong company fundamentals are a catalyst to equity markets**
- **We reiterate our fundamental view on our top picks in the UAE, which have yet to be fully discounted by the market due to the macro overhang surrounding Dubai's debt; we upgrade our Underweight position on the UAE market to Overweight**

**An asset allocation shift to strong governments and low inflation economies should make the UAE equity market outperform in 2010.** Burgeoning budget deficits and the need to reign in fiscal expansion in some economies pose a threat to investors at one end of the spectrum. At the other end, rapidly expanding domestic economies and the need to tighten monetary policy pose an alternative risk to investors. A reversal of the USD carry trade, which was leveraged in many emerging markets in 2009, is a risk in non-dollar denominated markets. The UAE economy is protected from these factors due to its strong fundamentals, which include ample resources to support fiscal expansion, low inflation rates, and the AED peg to the USD. As such, we believe the UAE economy is a sweet spot for equity investors.

**Equity markets have significantly lagged behind those of developed and emerging markets and offer attractive valuations.** The announcement by Dubai World on 25 November 2009 that it was going to ask its creditors for a standstill and extend debt maturities, sent local and international equity markets into a tail-spin. While international equity markets and some GCC markets have benefited from the fallout (see our report *Navigating Egypt* published on 14 December 2009), the uncertainty that surrounds the UAE situation to-date has left local equity market investors wondering, "What if?" Consequently, international equity investors have sold their stakes in the UAE to levels last seen at the market trough in March 2009. The positive announcement of the Dubai debt situation, which we expected, is a near-term catalyst to markets, but is supported by strong macro fundamentals that have yet to be fully discounted by the market.

**The risk of a W-shaped economic recovery in 2010 is hedged by economies that can maintain extraordinary support for extended periods of time.** The UAE has developed into a regional financial center and trading hub. Its geographical location and trade interconnectedness with Asia will ensure that it benefits from the global recovery. The UAE's strong fiscal balances enable it to invest significantly in its domestic economy and insulate it from any contractions in global economic growth in 2010. Given the fragility of the global economic recovery, governmental support remains essential as high unemployment, high savings, and tight credit limit the private sector's ability to take over the baton of growth.

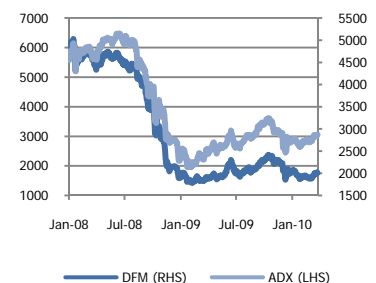
**The UAE equity market offers investors an opportunity to capture near-term upside and long-term macro stability.** The UAE equity market has underperformed the GCC by 30% and is trading at attractive multiples compared to regional peers. The removal of the macro overhang, which was caused by Dubai debt, leads us to reverse our Underweight position on the market and initiate with an Overweight.

## Overweight

Stock	TP (AED)	Upside*
NBAD	16.22	43.9%
FGB	23.3	32.7%
UNB	4.8	47.7%
Aldar	9.7	130%
Emaar	6.6	75%
Dana Gas	1.43	60%
Aramex	2.28	22.6%
DSI	1.22	24.5%

\*calculated based on prices as of 23 March 2010

### Price Performance DFM and ADX



Tudor Allin-Khan, CFA

► +971 4 2935386  
► tudor.allin-khan@af-hc.com

Nadine Weheba

► +202 3332 8644  
► nweheba@hc-si.com

Amr Abdel Khalek

► +202 3332 8638  
► aabdelkhalek@hc-si.com

Janany Vamadeva

► +971 4 293 5384  
► janany.vamadeva@af-hc.com

\* Disclaimer: See page 50

## Table of Contents

Investment Case	3
Stock Picks	4
Budget Surplus	6
Inflation	10
Asset Allocation Shift	17
Foreign Ownership	28
Government Support	29
Local Markets have lagged	30
Sector Allocation	32
NBAD	34
First Gulf Bank	36
Union National Bank	38
Aldar Properties	40
Emaar Properties	42
Dana Gas	44
Aramex	46
Drake and Scull International	48

## Investment Case

- **An asset allocation shift by investors away from non-dollar-denominated assets, which have been a leveraged play on the global economic recovery, and the risk of tightening monetary and fiscal policy in developed and emerging markets will see equity outflows to defensive markets**
- **The removal of uncertainty surrounding Dubai debt after the positive announcement by the Dubai government is a strong near term catalyst; long-term, investors should focus on strong macro economies where governments can maintain high fiscal and monetary support, mitigating downside risk to contracting economic growth in 2010 and 2011**
- **We highlight NBAD, FGB, UNB, Aldar, Emaar, Dana Gas, Aramex, and Drake and Scull as focus stocks**

We believe that in 2010 investors will shift away from the leveraged carry trade that has seen many emerging equity markets with floating currencies relative to the USD outperform, to markets that underperformed in 2009 despite strong fiscal balances. GCC equity markets underperformed MENA markets but are outperforming in 2010. Also, nervousness about the ability and willingness of governments to maintain stimulus measures is apparent. The rise in interest rates by a number of fast-growing economies in Asia (namely China, India, and Australia) was met by a negative equity market reaction. Burgeoning deficits of many developed and emerging markets pressure governments to raise taxes and lower spending. High unemployment and savings rates by consumers and the tight availability on credit pressures the private sector to lead the recovery in 2010.

The equity market has yet to discount the strong macro fundamentals of the UAE. Corporate earnings and news reports that have been delivered by UAE-based companies over the past quarter have been ignored due to the macro overhang of the Dubai debt situation. The strong fiscal balances of the UAE government, which will enable it to drive economic growth in 2010 through increased spending without the risk of fiscal tightening, have not been rewarded by equity investors. The low inflation dynamic of the UAE economy mitigates any risk of monetary tightening to cool the domestic economy, at least until the Fed moves (most likely in November 2010). The dollar-peg of the domestic currency also protects investors from any heightened risk aversion and reversal of USD carry trade as borrowed funds are repatriated to the US market. Despite strong macro fundamentals that are being rewarded in other GCC markets, the UAE equity market has lagged behind international equity markets by approximately 30%. Clarity on the Dubai debt situation will return the market to one of fundamentals and distinguish good from bad companies, along with low risk countries and high risk countries.

We have held an Underweight recommendation on the UAE since October 2009. We favored Abu Dhabi-based equity exposure to investments in Dubai based on the thesis that as Dubai struggles under concerns of debt and a lack of liquidity as banks see an increase in NPLs and a shortage of capital. Abu Dhabi is slightly more stable due to the abundance of natural resources and more stable banking sector given government support. The negative fallout from the Dubai debt crisis and risk of contagion from government-related entities (GREs) on other listed securities strengthened our view and reinforced our Underweight recommendation. In our note *Risk of Dubai Debt Default Overstated* published on 1 December 2009, we highlighted that a positive outcome would be reached by all parties involved. We suggested investors focus on government support, the willingness of creditors to refinance, and long-term benefits to investors. With such macro events, timing is key for investors going back to Dubai. The Dubai government announced on 25 March that it would fully repay creditors and provide fresh capital to Dubai World, which is a near-term positive for local markets and highlights the willingness of the government to support the domestic economy.

We are bullish on the UAE market due to the macro situation in the UAE economy with its cash-rich government, its low inflation and USD-pegged currency, and the removal of the macro overhang. Accordingly, we reverse our Underweight view on the UAE and initiate with an Overweight recommendation on the market, favoring both Dubai and Abu Dhabi-based investments:

- (i) **Clarity on Dubai debt:** There has been much uncertainty surrounding the Dubai debt situation, with the market pricing in significant write-downs. A positive announcement to the situation and removal of the macro overhang presents significant near-term upside to the market.
- (ii) **The market has found a floor:** Despite several market incidents since the 25 November 2009 announcement, the market has failed to reach a new low. With uncertainty surrounding the remaining debt of Dubai, and implementation of the final package, investors should be protected from any sell-off.
- (iii) **Foreign ownership remains low:** The spill-over effects of the Dubai debt crisis have pulled the ownership of stocks down to levels seen at the market's trough in February 2009. Recent announcements should see a return of confidence in local markets and drive foreign participation back to post global financial crisis highs.
- (i) **Macro fundamentals:** We favor economies with strong fiscal surpluses (which lend credibility to government support), low inflation, strong upside potential for growth, and no exchange rate risk to the USD.
- (iv) **Valuation:** The macro overhang has made local equity markets lag behind other GCC and international markets, yielding attractive market valuations for investors to buy companies with strong fundamentals.

## Stock Picks

### NBAD

NBAD is our favorite player in the UAE underpinned by strong sovereign ties, strong funding base, and minimal exposure to the troubled GCC corporates. The recent bond issuance priced at 178 bps over mid-swap rate stands testament to the bank's safe profile. We believe NBAD is a good play on the Abu Dhabi economy and the stock deserves to trade at a higher multiple. Currently, NBAD is trading at a FY10f PB multiple of 1.3x at a 27% discount to its implied PB.

### FGB

We prefer FGB for its resilient earnings performance, despite the crisis, supported by strong margins, loan growth, and cost efficiency. With a strong underlying profitability and robust capital base, the bank is well positioned to absorb any unexpected losses. Along with its royal connections and growth strategy, the bank will benefit from the emirate's long-term economic plan. The stock is trading at a FY10f PB multiple of 1.2x, a 15% discount to its implied PB.

### UNB

Trading at a FY10f PB multiple of 0.7x, a 45%/47% discount to its implied PB/MENA sector average, the stock offers attractive valuations. We like the bank for its safe profile and benign asset quality that helped it ride the crisis out safely. UNB has ample liquidity, and the bank's strategy of cautious expansion will continue to support its defensive profile.

### Aldar

Aldar is a play on the long-term Abu Dhabi diversification story. It is our preferred play on the sector given its strong government ties, improved liquidity position, and attractive valuation. We reiterate our Buy recommendation on Aldar with a TP of AED9.7/share, implying a 32% discount to its 2010e NAV. Aldar currently trades at 0.3x 2010e NAV and 1.0x 2010e BV (ex. revaluation).

### Emaar

We like Emaar as it is less exposed to the domestic demand story given its exposure to overseas markets and its investment portfolio (retail and hospitality). On the back of this, we believe Emaar's fundamental value will likely be unlocked and will outperform its peers when the Dubai debt restructuring process unfolds. We reiterate our Buy recommendation on the stock with a TP of AED 6.6/share, implying a 49% discount to its 2010e NAV. Emaar currently trades at 0.3x 2010e NAV and 0.7x 2010e BV.

### Dana Gas

The current market price is below Egypt's NAV plus investments, nearly ignoring other ventures. The Kurdish operation has strong value potential that we believe is ignored by the market on political concerns. An ease in political tensions between Kurds and Arabs in Baghdad and the resumption of exports by foreign oilfield operators are key drivers for Dana Gas's Kurdish operation.

### Aramex

We like the stock as an insulated play from woes in the UAE and given its leading position as a one-stop-shop for total transportation solutions in the Middle East. The margin story that drove the share price in 2009 is still intact as airlines are still offering lucrative rates with capacity remaining an issue. Aramex will spend up to USD100 million over the next two years for expansions through acquisitions and greenfields, as well as USD60-USD65 million to expand its logistics business.

### Drake and Scull

We like DSI due to its geographical and segmental diversification and intensive growth plans, which we consider key to its business model. We believe significant infrastructure spending in the MENA region in 2010 and private sector investments in 2011 as a result of improving economies are the main drivers for DSI's backlog and revenue growth.

## Macro Outlook

## Budget Surplus

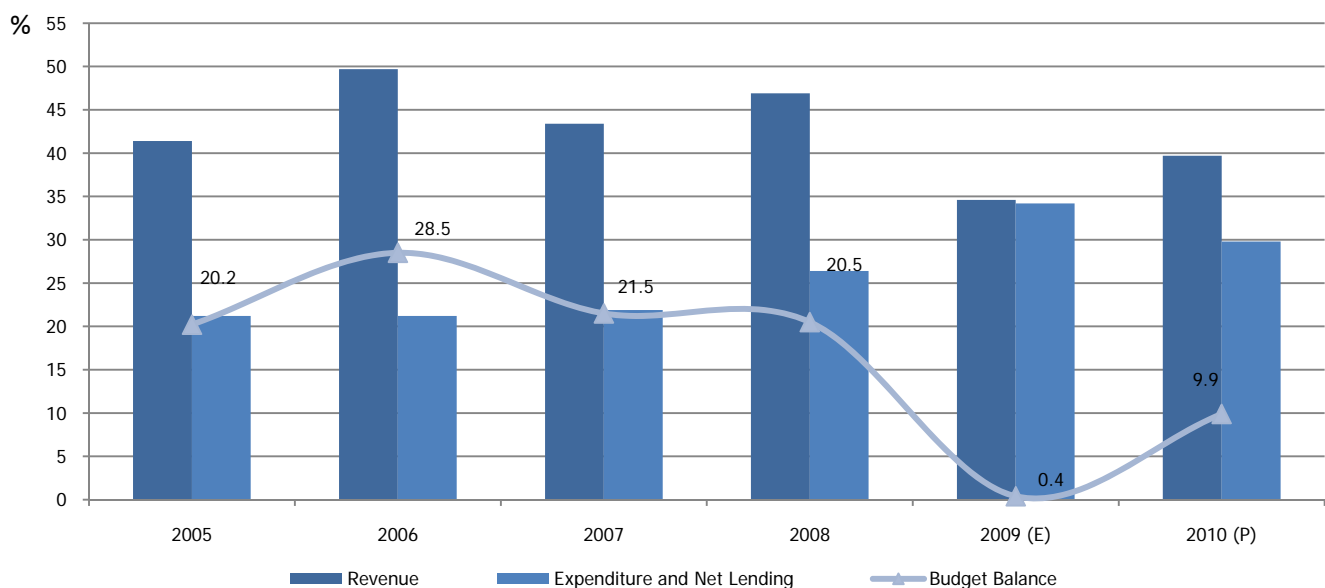
- We expect investors to place money in strong fundamental economies where governments can maintain high fiscal support throughout 2010
- Ample resources and rising oil prices allow the UAE government to continue supporting the domestic economy through increased expenditure, reducing the risk of a W-shaped recovery
- UAE announced its largest budget to date (AED 43.6 billion), which is yet to be fully discounted by the market

### Largest budget in UAE history yet to be discounted

The UAE federal government announced on 27 October 2010 its 2010 budget of AED43.6 billion (USD11.88 billion). This is the largest budget in UAE history and is yet to be discounted by the market. Saudi Arabia announced an impressive budget (USD144 billion) in December 2009 and was greeted with a positive equity market reaction as the Tadawul Index rallied 9% since 1 January 2010. Given the fragile nature of the global economic recovery, this announcement from the UAE highlights the ongoing willingness of the UAE government to support domestic growth. Concerns over a W-shaped global recovery in 2010, with many economies still reliant on ultra loose monetary policy, combined with negative equity market reactions when support measures are removed from the market, highlights the deep-rooted sentiment that 2010 will not be a simple road to recovery. Many economies are vulnerable to a decline in economic activity as their domestic economies have been primarily driven by increased government spending and have yet to see a strong return in private sector activity.

Ricardian equivalence tells us that public spending can be financed either by current taxes or borrowing. If the government reduces taxes today while increasing expenditure—which we have seen from many governments—it effectively borrows today and will have to raise taxes tomorrow. Budgetary pressures in many countries have highlighted the difficult situation governments face to extend their support further to their domestic economies and the pressure they are under to curb spending. The UAE's status as a creditor nation to the rest of the world means there are few concerns over the position of the government's budget or its ability to support the domestic economy. While other, more developed nations such as Greece, the USA, and the UK struggle with large budget deficits, the UAE enjoys an abundance of natural resources and has been able to expand its fiscal support to the domestic economy without threatening its economic stability.

Chart 1: UAE Revenue and Expenditure (% of GDP)



Source: IMF Feb 2010 Country Report

Table 1: Highlights of UAE 2009 and 2010 Fiscal Budget

2009 Budget Highlights	2010 Budget Highlights
Federal 2009 budget of AED42.2 billion up 21% from AED34.9 billion in 2008	Federal 2010 budget of AED43.6 billion up 3.4% from AED42.2 billion in 2009
Infrastructure spending allocation up 24% from 2008 to mitigate effects of global crisis	Some 17.5% (AED7.6 billion) allocated to infrastructure development including roads, transport, medical, housing, and government facilities

Source: HC Research ,Zawya, Emirates 24/7

Government spending continues to be directed towards improving the foundations of the domestic economy. Some 41% of the total budget will be directed towards the social sector to be spent on education, health, and labor. Some 17.5% will be directed toward infrastructure spending. This will support construction and property development activities—major drivers of the UAE economy. Although the budget surplus decreased considerably to 0.4% of GDP in 2009 (IMF estimate) due to reduced oil revenue and increased government expenditure to boost economic activity, the rally in oil prices and expected recovery of global economic activity will boost the budget surplus again in 2010–2011, allowing the government to continue supporting the economy.

### High oil prices provide a significant safety margin

Chart 2: Oil Price (USD/Barrel)



Source: Bloomberg

### Oil and the fiscal budget

The rally in oil prices to USD80/barrel from February 2010 lows and the gradual recovery of global economic activity removes the pressure on fiscal budgets and gives the government additional funds to spend on the domestic economy. The UAE's fiscal spending plans for FY10 are based on a budgeted oil price estimate of USD45 barrel. At current levels, the government could see a 40% drop in the price of oil or boost spending by AED17 billion (USD4.63 billion) without pressuring the fiscal balance.

Table 2: Selected GCC Budget Oil Prices

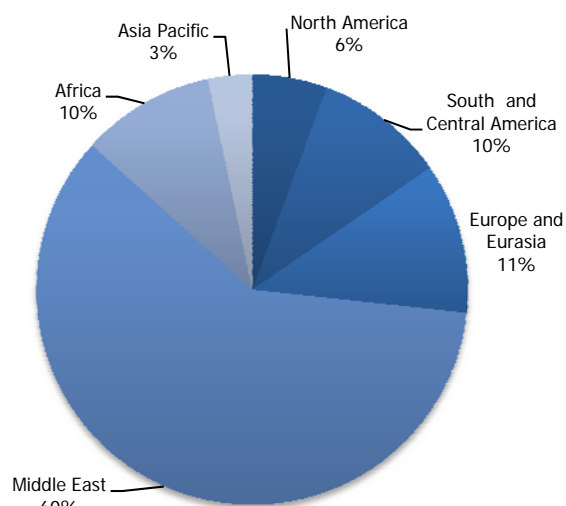
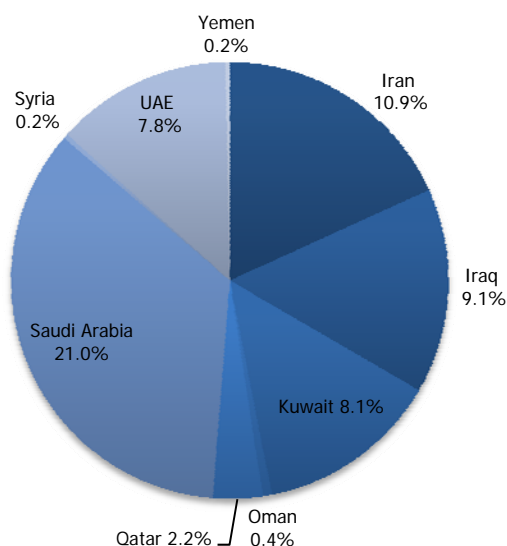
Country	Budget Oil Price for FY10 (USD/bbl)
Bahrain*	45
Kuwait	43
Oman	50
Qatar	45
Saudi Arabia*	45
<b>UAE*</b>	<b>45</b>

Source: News reports , HC Research estimates

**Chart 3: Proven Middle East Oil Reserves in 2008**

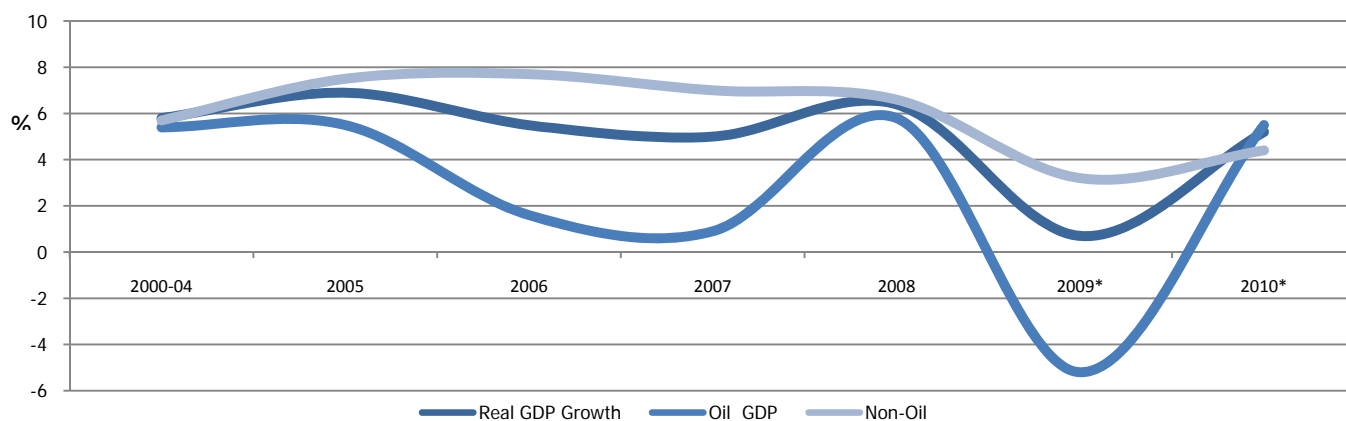
Middle East Oil Reserves by Country

Global Oil Reserves by Region (%)



Source: BP Statistical Review of World Energy 2009

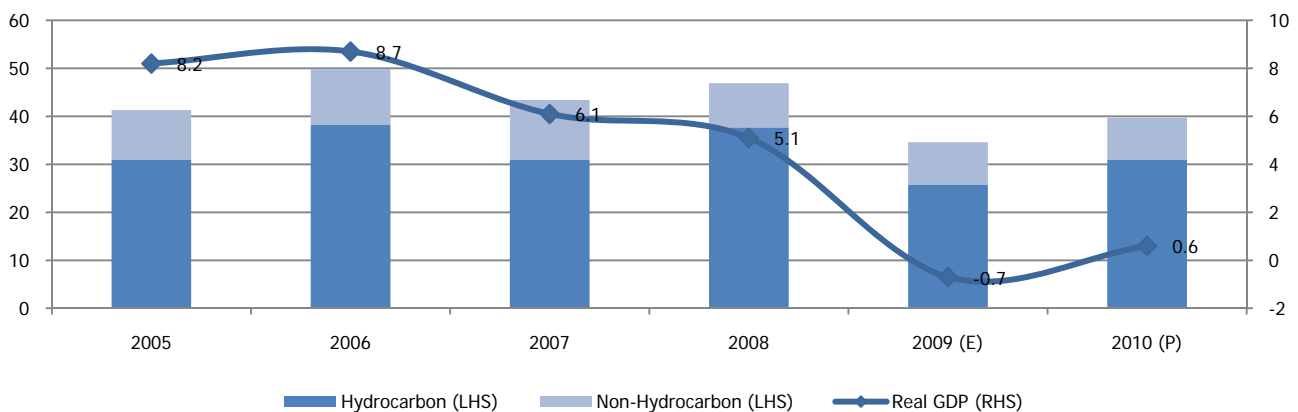
With 60% of proven world oil reserves, the Middle East and GCC are the main beneficiaries of higher oil prices. This valuable source of revenue not only enables governments to comfortably fund expenditure plans, it also provides a crucial support mechanism to fund non-oil GDP growth.

**Chart 4: UAE Oil and Non-Oil Growth**


Source: IMF WEO October 2009 (E) 2010 (P)



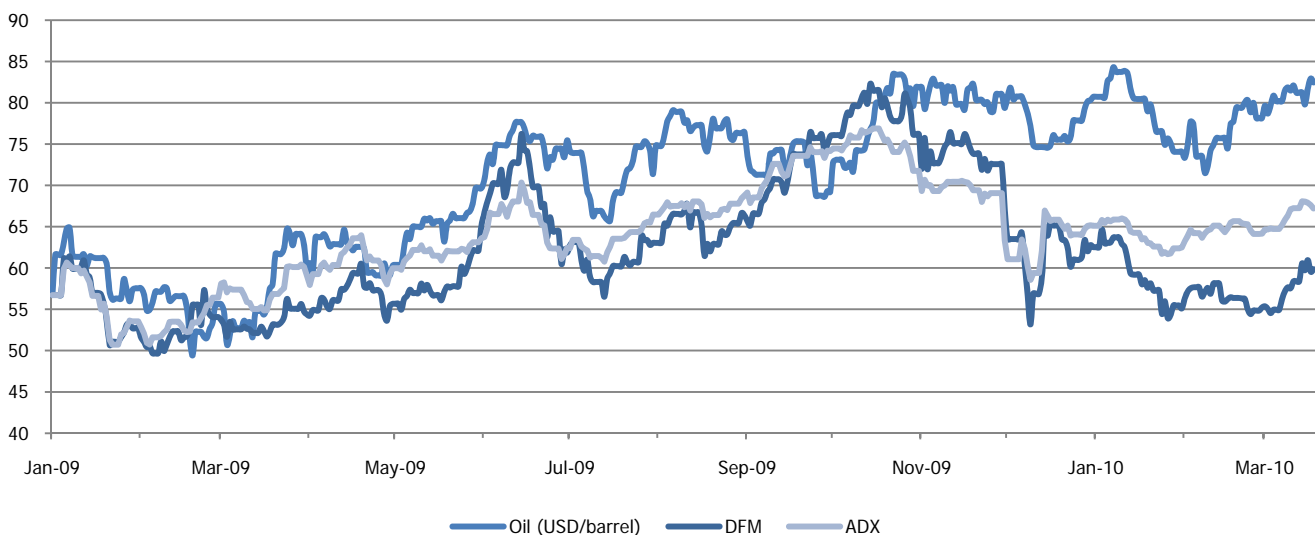
Chart 5: UAE Hydrocarbon and Non-Hydrocarbon Revenue



\*Real GDP (annual percentage change)  
 \*Hydrocarbon and non-hydrocarbon (% of GDP)  
 Source: IMF Feb 2010 Country Report

The UAE economy was not immune to the global economic slowdown in 2009. Real GDP is expected to have contracted in 2009—primarily due to reduced hydrocarbon revenue—as oil prices experienced sharp corrections following the boom. Oil prices declined to USD30 bbl in the beginning of 2009 from highs of USD147 bbl in the summer of 2008. This price correction, coupled with OPEC-mandated production cuts, had negative implications on the domestic economy. Non-hydrocarbon exports faced reduced global demand, and the domestic economy dealt with the bursting of a property bubble and financial crisis. However, 4Q09 saw a modest expansion in economic activity, supported by the recent rise in oil prices, a slow improvement in the financial sector, and the delayed effects of monetary and fiscal policy. Rent prices improved in 1Q10, supported by population growth and increased energy usage. Real GDP is expected to see a sharp 2.3% rebound in 2010 based on consensus estimates.

Chart 6: The rise in oil prices has yet to be discounted in equity markets



DFM and ADX rebased  
 Source: HC Research, Bloomberg

Oil, a key driver of the UAE economy, has historically had a strong positive correlation with the DFM and ADX equity markets. However, since the end of November 2009, there appears to be a disconnect between oil price movements and the UAE equity market. While oil prices rose to USD82 bbl in March 2010, the DFM declined 15.8% and the ADX 1.9%. The disconnect between the equity market (driven predominately by domestic factors) and commodity markets (driven by international factors) is a direct result of the Dubai debt announcement. We now expect equity markets to respond more to fundamentals and rally significantly from current levels as positive news emerges on the resolution of the debt, namely the March 25 announcement. The DFM and ADX started to reverse their declining trend since early March 2010 most likely due to positive reactions from investors as a result of the London negotiations on Dubai World's debt.

## Inflation

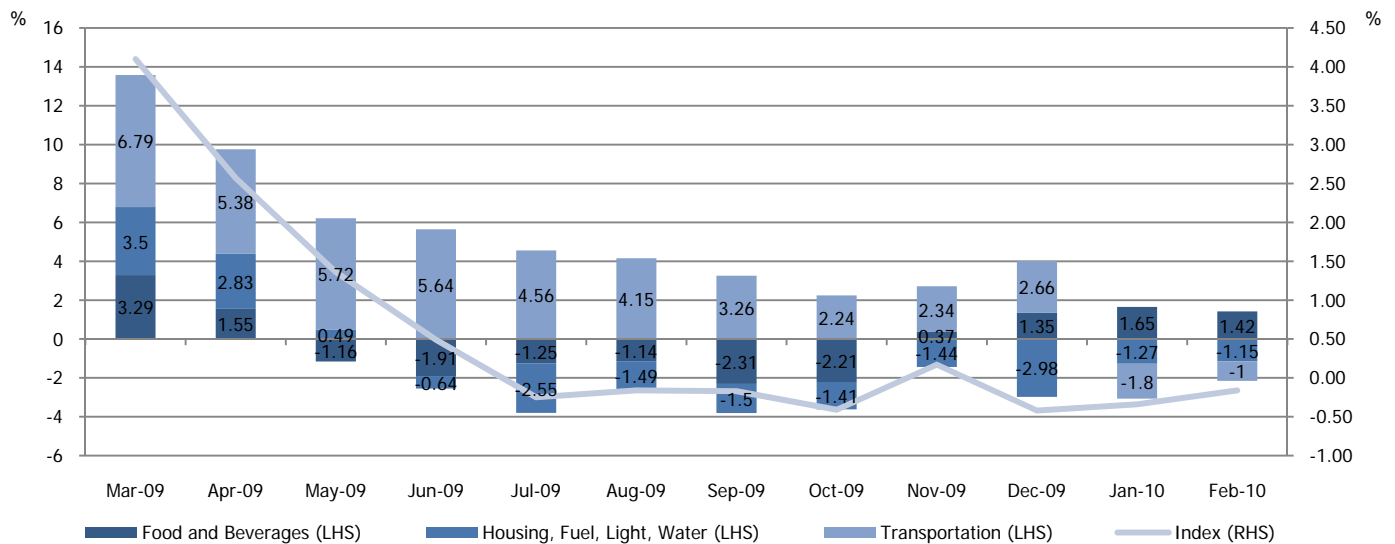
- We do not view deflation as a risk to the UAE economy as the downward effect of the bursting property bubble has come to an end
- Increased government spending and the return of pricing power to producers should see prices rise from here
- Rent, property, and commodity prices are rising with positive feed-through effects to future inflation

### Rebounding from lows

We do not view deflation as a threat to the UAE's economic stability. Inflation declined to 1.56% in 2009 compared to from 12.3% in 2008, driven by a sharp contraction in economic activity. This is a global phenomenon, which is not specific to the UAE.

Chart 7 shows that the decline in prices is bottoming out. Inflation declined 0.17% in February 2010 (YoY) slightly less than 0.33% in January 2010 (YoY). The sharp decline in the headline rate of inflation can be attributed to deflationary forces from the housing and food and beverages components of the index, which account for over 50% of the index combined. We believe declining prices have run their course. The 2010 budget will see spending rise to record highs, bidding up the price of resources within the domestic economy.

Chart 7: UAE Inflation and Major Components (YoY)



Source: Bloomberg, UAE Ministry of Economy, National Statistics Bureau

Table 3: Contribution to Annual Inflation by Component (%)

	Weight %	Mar. 2009	Apr. 2009	May 2009	Jun. 2009	Jul. 2009	Aug. 2009	Sept. 2009	Oct. 2009	Nov. 2009	Dec. 2009	Jan. 2010	Feb. 2010
<b>Food and Beverages</b>	<b>13.91</b>	<b>0.46</b>	<b>0.22</b>	<b>-0.16</b>	<b>-0.27</b>	<b>-0.17</b>	<b>-0.16</b>	<b>-0.32</b>	<b>-0.31</b>	<b>0.05</b>	<b>0.19</b>	<b>0.23</b>	<b>0.20</b>
Alcohol and Beverages	0.22	0.02	0.03	0.03	0.027	0.03	0.02	0.02	0.02	0.02	0.01	0.009	0.01
Clothing and Footwear	7.58	-0.04	-0.24	-0.34	-0.50	-0.52	-0.66	-0.59	-0.69	-0.74	-0.79	-0.38	-0.40
<b>Housing,* Fuel, Light, and Water</b>	<b>39.33</b>	<b>1.38</b>	<b>1.11</b>	<b>0.19</b>	<b>-0.25</b>	<b>-1</b>	<b>-0.59</b>	<b>-0.59</b>	<b>-0.56</b>	<b>-0.57</b>	<b>-1.17</b>	<b>-0.5</b>	<b>-0.45</b>
Furniture and Other Items	4.20	0.20	0.08	0.22	0.09	0.34	0.28	0.27	0.23	0.45	0.37	0.231	0.35
Medical Care and Health Services	1.12	0.01	-0.01	0.004	-0.01	-0.02	0.001	-0.01	-0.06	-0.06	-0.08	-0.04	-0.03
<b>Transportation</b>	<b>9.94</b>	<b>0.68</b>	<b>0.54</b>	<b>0.57</b>	<b>0.56</b>	<b>0.45</b>	<b>0.41</b>	<b>0.32</b>	<b>0.22</b>	<b>0.23</b>	<b>0.26</b>	<b>-0.18</b>	<b>-0.10</b>
Communication	6.93	0.27	0.2	0.19	0.19	0.20	0.20	0.21	0.21	0.21	0.21	-0.29	-0.26
Recreation	3.07	-0.01	-0.08	-0.03	-0.03	-0.02	-0.03	-0.04	-0.02	0.01	0.01	0.088	0.12
Education	4.00	0.40	0.40	0.40	0.31	0.28	0.24	0.46	0.46	0.46	0.46	0.419	0.42
Hotels and Restaurants	4.38	0.28	0.21	0.25	0.25	0.23	0.17	0.17	0.18	0.18	0.16	0.03	0.05
Other Goods and Services	5.3	0.48	0.17	0.12	0.09	0.11	0.06	0.04	0.02	0.07	0.09	0.028	0.03
<b>Index</b>		<b>4.12</b>	<b>2.62</b>	<b>1.45</b>	<b>0.48</b>	<b>-0.11</b>	<b>-0.06</b>	<b>-0.05</b>	<b>-0.30</b>	<b>0.31</b>	<b>-0.29</b>	<b>-0.34</b>	<b>-0.08</b>

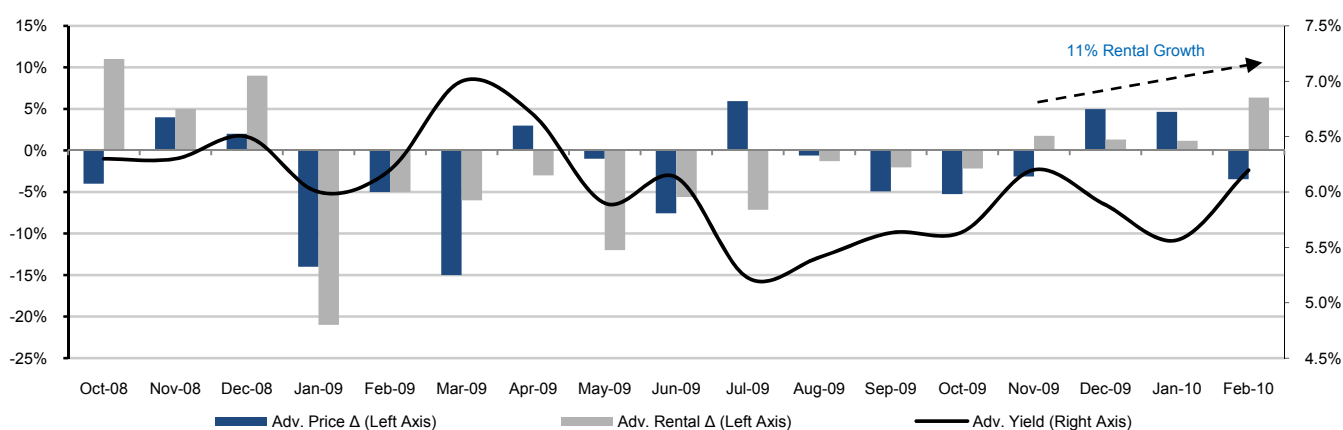
2007=100

\*Of the 39.334%: 33.83% rentals, 0.19% home maintenance, 1.251% water, 3.422% electricity, 0.576% gas)

Source: Bloomberg, UAE Ministry of Economy, National Statistics Bureau

Rent prices are by far the largest component of the consumer price index as they represent 33.8% of the CPI basket. Food costs represent 13.91% and transportation costs 10%. Chart 8 compares advertised rental prices with advertised property prices (for accurate like-on-like comparison) in Dubai. The burst of the property bubble in Q32008 is the main factor behind the sharp contraction in consumer inflation. Advertised rental prices have reversed their declining trend, which has been in place since August 2009, increasing 5% in December 2009 and 4% in January 2010. Food and beverages, driven by the increase in commodity prices, have already started to show signs of inflationary pressure coming back through to consumers. Food and beverage prices in the UAE grew 0.93% in 2009. Clothing and footwear (7.6% of the index) continue to exhibit deflationary pressure. This can be attributed to seasonal discounting by retailers and the need to attract marginal customers as footfall in malls remains depressed with the global economic recovery yet to return tourists to the UAE.

Chart 8: Dubai Advertised Rental Prices



Source: Better Homes, HC Research

## Dubai

The annual headline inflation rate in Dubai came in at 1.03% in February 2010, down from 8.38% in February 2009. Like the greater UAE, the major components of inflation in Dubai are housing and food and beverages, followed by transport costs. Housing costs (43.7% of index) are main driving force behind consumer inflation in the UAE and continue to have a minimal impact on headline inflation as significant rental reductions in the market lower housing costs. Prices of food and beverages have exerted

deflationary pressure on the headline index since August 2009. The aggressive discounting by hoteliers and restaurants should abate as global economic recovery strengthens in 2011.

Table 4: Dubai Annual Inflation Weighted Contribution to Inflation

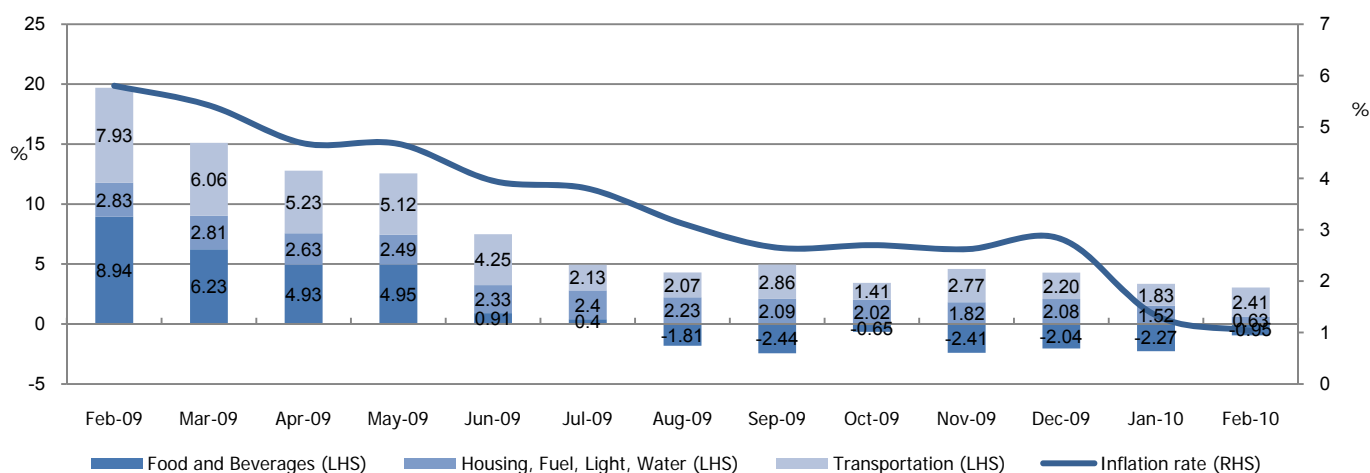
Component	Weight %	2009	Mar. 2009	Apr. 2009	May 2009	Jun. 2009	Jul. 2009	Aug. 2009	Sept. 2009	Oct. 2009	Nov. 2009	Dec. 2009	Jan. 2010	Feb. 2010
<b>Food and Beverages</b>	<b>11.08</b>	<b>0.24</b>	<b>0.69</b>	<b>0.55</b>	<b>0.55</b>	<b>0.10</b>	<b>0.04</b>	<b>-0.20</b>	<b>-0.27</b>	<b>-0.07</b>	<b>-0.27</b>	<b>-0.23</b>	<b>-0.25</b>	<b>-0.11</b>
Alcohol and Beverages	0.24	0.01	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	-0.01
Clothing and Footwear	5.52	0.54	0.72	0.54	0.55	0.50	0.53	0.51	0.53	0.51	0.51	0.44	0.15	0.10
<b>Housing, Fuel, Light, and Water</b>	<b>43.7</b>	<b>1.05</b>	<b>1.23</b>	<b>1.15</b>	<b>1.09</b>	<b>1.02</b>	<b>1.05</b>	<b>0.98</b>	<b>0.91</b>	<b>0.88</b>	<b>0.80</b>	<b>0.91</b>	<b>0.67</b>	<b>0.28</b>
Furniture and Other Items	3.34	0.11	0.17	0.16	0.13	0.13	0.13	0.10	0.10	-0.03	0.04	0.07	0.02	0.03
Medical Care and Health Services	1.08	0.06	0.09	0.08	0.08	0.06	0.04	0.04	0.04	0.04	0.04	0.05	0.06	0.06
<b>Transportation</b>	<b>9.08</b>	<b>0.40</b>	<b>0.55</b>	<b>0.47</b>	<b>0.46</b>	<b>0.39</b>	<b>0.19</b>	<b>0.19</b>	<b>0.26</b>	<b>0.13</b>	<b>0.25</b>	<b>0.20</b>	<b>0.17</b>	<b>0.22</b>
Communication	6	-0.01	-0.02	-0.01	-0.02	-0.01	-0.01	-0.04	-0.01	0.00	0.00	0.00	-0.47	-0.47
Recreation	4.24	0.11	0.09	0.09	0.14	0.14	0.14	0.07	0.12	0.10	0.11	0.11	0.00	0.01
Education	4.09	0.76	0.92	0.92	0.92	0.92	0.92	0.92	0.50	0.50	0.50	0.50	0.50	0.50
Hotels and Restaurants	5.48	0.40	0.46	0.46	0.45	0.45	0.45	0.29	0.28	0.38	0.37	0.37	0.15	0.10
Other Goods and Services	6.15	0.23	0.38	0.15	0.18	0.17	0.24	0.21	0.10	0.14	0.18	0.20	0.21	0.16
<b>Inflation Rate</b>		<b>3.90</b>	<b>5.30</b>	<b>4.58</b>	<b>4.57</b>	<b>3.89</b>	<b>3.74</b>	<b>3.08</b>	<b>2.58</b>	<b>2.59</b>	<b>2.54</b>	<b>2.63</b>	<b>1.20</b>	<b>0.88</b>

Figures may differ from exact released figures due to rounding

2007=100

Source: Dubai Statistics Center

Chart 9: Dubai Annual Inflation Rate and Major Components (YoY)



Source: Dubai Statistics Center

## Abu Dhabi

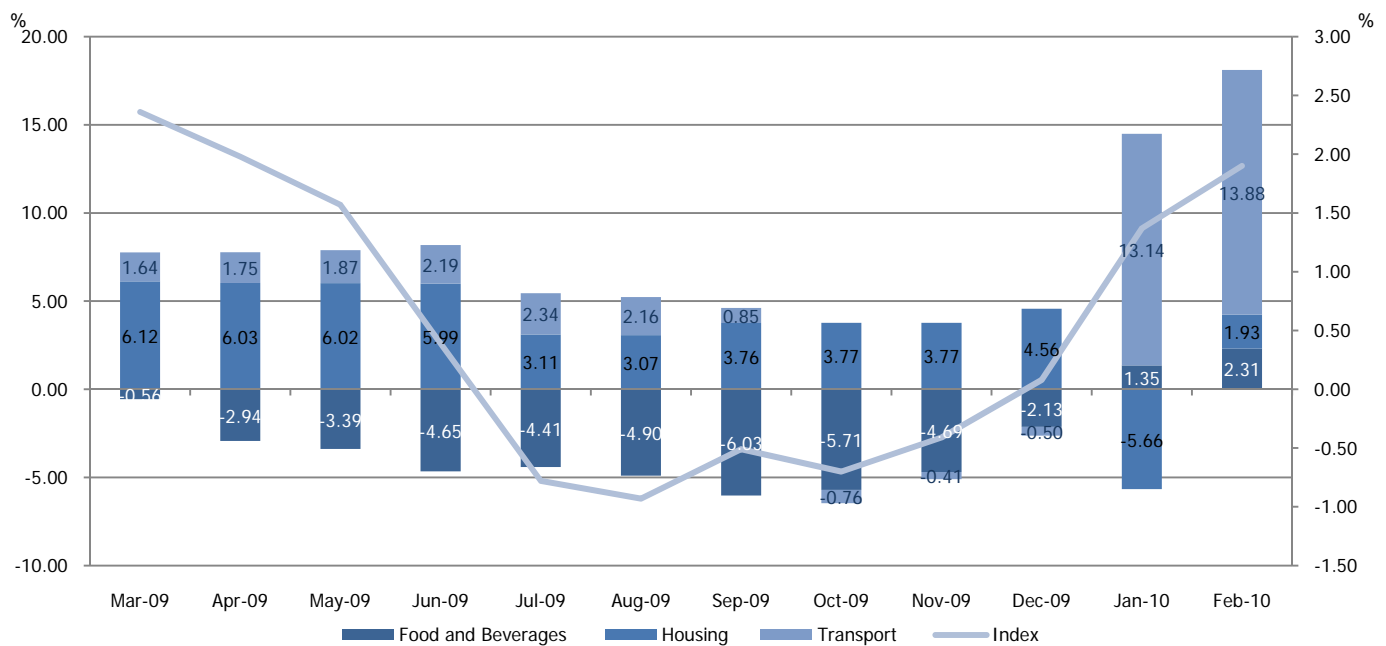
Inflation in Abu Dhabi continued to accelerate, coming in at 1.9% YoY in February 2010, rebounding from lows of -0.41% in November 2009. The main contributors to Abu Dhabi inflation are, like Dubai, housing (37.8%), food and beverages (16%), and transportation (9.7%). Housing prices, which declined 2.14% YoY in January 2010, have started increasing again, rising 0.73% YoY in February 2010. Prices of food and beverages and transportation have risen for the last two months, a positive sign that the disinflationary path of the UAE has come to an end.

Table 5: Abu Dhabi Annual Inflation—Weighted Contribution to Inflation

Component	Weight %	Mar. 2009	Apr. 2009	May 2009	Jun. 2009	Jul. 2009	Aug. 2009	Sep. 2009	Oct. 2009	Nov. 2009	Dec. 2009	Jan. 2010	Feb. 2010
<b>Food and Beverages</b>	<b>16.05</b>	<b>-0.09</b>	<b>-0.47</b>	<b>-0.54</b>	<b>-0.75</b>	<b>-0.71</b>	<b>-0.79</b>	<b>-0.97</b>	<b>-0.92</b>	<b>-0.75</b>	<b>-0.34</b>	<b>0.22</b>	<b>0.37</b>
Alcohol and Beverages	0.25	0.01	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Clothing and Footwear	9.76	-0.05	0.01	-0.21	-0.84	-0.99	-1.00	-1.03	-1.08	-1.09	-1.22	-0.56	-0.90
<b>Housing, Fuel, Light, and Water</b>	<b>37.86</b>	<b>2.32</b>	<b>2.28</b>	<b>2.28</b>	<b>2.27</b>	<b>1.18</b>	<b>1.16</b>	<b>1.42</b>	<b>1.43</b>	<b>1.43</b>	<b>1.73</b>	<b>-2.14</b>	<b>0.73</b>
Furniture and Other Items	4.83	-0.12	-0.11	-0.15	-0.13	-0.18	-0.17	-0.19	-0.20	-0.18	-0.09	0.75	0.78
Medical Care and Health Services	0.85	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.00	0.00	-0.02	-0.01
<b>Transportation</b>	<b>9.67</b>	<b>0.16</b>	<b>0.17</b>	<b>0.18</b>	<b>0.21</b>	<b>0.23</b>	<b>0.21</b>	<b>0.08</b>	<b>-0.07</b>	<b>-0.04</b>	<b>-0.05</b>	<b>1.27</b>	<b>1.34</b>
Communication	7.72	0.00	0.00	0.00	-0.01	0.00	0.01	0.00	0.00	0.00	0.01	1.74	1.79
Recreation	2.42	-0.13	-0.15	-0.15	-0.15	-0.15	-0.14	-0.14	-0.13	-0.12	-0.14	0.06	-0.05
Education	2.59	0.29	0.29	0.29	0.00	0.00	0.00	0.52	0.52	0.52	0.52	1.20	1.21
Hotels and Restaurants	3.37	0.00	0.00	0.00	0.00	0.00	-0.04	0.03	0.04	0.04	-0.12	0.15	0.39
Other Goods and Services	4.62	0.05	-0.01	-0.05	0.00	-0.01	-0.02	-0.10	-0.14	-0.07	-0.07	-0.26	-0.28
<b>Inflation Rate</b>		<b>2.36</b>	<b>1.98</b>	<b>1.57</b>	<b>0.39</b>	<b>-0.78</b>	<b>-0.93</b>	<b>-0.51</b>	<b>-0.70</b>	<b>-0.41</b>	<b>0.08</b>	<b>1.37</b>	<b>1.90</b>

Source: Abu Dhabi Statistics Center

Chart 10: Abu Dhabi Annual Inflation Rate and Major Components (YoY)



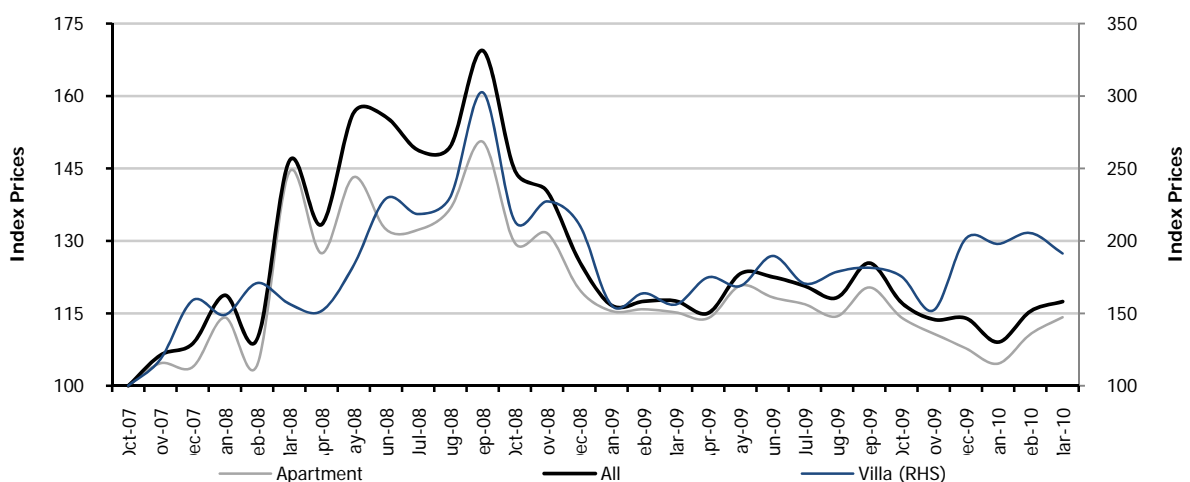
Source: Abu Dhabi Statistics Center

### Rise in economic activity supported at grass roots

Against the consensus view, the population of Dubai rose 7.6% in 2009, according to a Dubai government announcement on 15 March. Dubai's population rose to 1.77 million in 2009 from 1.65 million in 2008, according to the government. The National Human Resources Development and Employment Authority (Tanmia) announced in January 2010 that the UAE's population reached 5.65 million in 2009 from 4.77 million in 2008 (up 18%).

We believe the population of Dubai has increased as individuals in other emirates moved to Dubai (particularly from Abu Dhabi and Sharjah) to take advantage of lower property prices—filling the vacuum of expats who left the country.

Chart 11: Dubai Transaction Price Index (up 6% in February)



Source: Government of Dubai, HC Research

Population figures are supported by industry demand numbers. DEWA reported a 14% YoY growth in the number of power connections in 2009, whereas du recorded a 40% YoY growth in mobile subscribers and a 17% YoY growth in fixed-line subscribers in 2009. Etisalat also recorded a 6% YoY growth in mobile subscribers, but saw a 4% YoY decline in fixed lines, in line with global trends.

Table 6: GCC Selected Indicators

	UAE		Bahrain		Kuwait		Oman		Qatar		Saudi Arabia	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
GDP Growth (%)	-0.17	2.36	3.04	3.67	-1.51	3.31	4.07	3.80	11.47	18.52	-0.88	4.04
Inflation (%)	2.55	3.32	3.00	2.50	4.65	4.413	3.32	2.97	0.00	3.97	4.50	4.00
Current Account Balance (USD billion)	-3.58	13.38	0.724	1.344	33.74	47.83	-0.24	2.88	9.99	32.44	15.39	50.69
Fiscal Budget*	-0.5**	1.8	-	-	11.5	17.1	0.7	2.5	8.6	12.6	-3.2	1.7
Equity Market Performance (%)	DFM:10.2 ADX: 14.8	DFM: -4.28 ADX: 3.21	-19.2	4.97	-10	5.83	17	4.16	1.1	5.11	27.5	9.03

2009, 2010 IMF estimates, actual figures may vary

\*Fiscal budget 2009 EIU estimate 2010 EIU forecast, IMF estimates unavailable for 2010

\*\*IMF estimates 2009: 0.4% 2010: 9.9%

Source: IMF WEO 2009, EIU

Despite the improved macro outlook for the UAE economy, the equity market has lagged behind those of other GCC countries. The UAE equity market has performed the worst among its GCC peers in 2010 so far, reflecting the unwillingness of investors to allocate their funds to the UAE until they receive clarity on the debt situation. We expect this trend to reverse on the back of positive announcements made on 25 March.

## Equity Outlook



## Asset Allocation Shift

- An asset allocation shift by investors away from non-dollar-denominated assets, which have been a leveraged play on the global economic recovery, and the risk of tightening monetary and fiscal policy in developed and emerging markets will see equity outflows to defensive markets
- In the near term, the UAE market remains significantly oversold by international investors; clarity on the Dubai debt situation and positive announcements to investors relative to market expectations, and strong company fundamentals are a catalyst to equity markets
- We reiterate our fundamental view on our top picks in the UAE, which have yet to be fully discounted by the market due to the macro overhang surrounding Dubai's debt; we upgrade our Underweight position on the UAE market to Overweight and highlight NBAD, FGB, UNB, Aldar, Emaar, Dana Gas, Aramex, and Drake and Scull as focus stocks

The UAE equity market has lagged behind international equity markets by approximately 30%. Dubai World announced on 25 November 2009 that it was going to ask its creditors for a standstill and an extension of debt maturities, which sent local and international equity markets into a tail-spin. While international equity markets and some GCC markets have benefited from the fallout (see our report *Navigating Egypt* published on 14 December 2009), the uncertainty that surrounded the UAE situation has left local equity market investors wondering, "what if". Consequently, international equity investors have sold their stake in UAE to an all-time low and the equity market has significantly lagged behind those of developed and emerging markets. Even Iceland, with all its debt problems and uncertainty about its ability to repay creditors, has outperformed the Dubai and Abu Dhabi equity markets.

We have held an Underweight recommendation on the UAE since October 2009. We favored Abu Dhabi-based equity exposure to investments in Dubai based on the thesis that Dubai struggles under concerns of debt and a lack of liquidity as banks see an increase in NPLs and a shortage of capital. Abu Dhabi, is slightly more stable due to the abundance of natural resources and more stable banking sector given government support. The negative fallout from the Dubai debt crisis and risk of contagion from GREs on other listed securities strengthened our view and reinforced our Underweight recommendation.

The Dubai government's decision on 25 March 2010 to inject more capital into Dubai world and fully repay creditors, over an extended period, is a positive to equity markets, which had priced in significant impairments to assets exposed to Dubai World. We reverse our Underweight position and place an Overweight recommendation on the market.

We highlight the following reasons investors should once again look at the UAE market as a long-term buy:

- (ii) **Clarity on Dubai debt:** With the market pricing in significant write-downs to assets, news reports indicating a full repayment of assets and fresh capital for Dubai World provide a significant upside to the broader equity market.
- (iii) **The market has found a floor:** Despite several market incidents since the 25 November 2009 announcement, the market has failed to reach a new low. Investors are protected from any near term sell-off and uncertainty surrounding the timing and repayment of outstanding debt obligations
- (iv) **Foreign ownership remains low:** The spill-over effects of the Dubai debt crisis have pulled the ownership of stocks down to levels seen at the market's trough in February 2009. A return of confidence, following the governments announcement, should drive foreign participation back to post global financial crisis highs.
- (v) **Macro fundamentals:** We favor economies with strong fiscal surpluses (which lend credibility to government support), low inflation, strong upside potential for growth, and no exchange rate risk to the USD.
- (vi) **Valuation:** The macro overhang has made local equity markets lag behind other GCC and international markets, yielding attractive market valuations for investors to buy companies with strong fundamentals.

## Clarity is key

- **A significant write-down to assets exposed to the Dubai debt situation has been priced into the market**
- **The positive announcement regarding the debt situation provides significant upside to the market**
- **Removal of the macro overhang of the Dubai debt situation is a positive catalyst to increase confidence in the local market**

The announcement that Dubai World, Dubai's flagship holding company, was going to ask all its creditors (and those of its large-scale developer Nakheel) to stand still and extend debt maturities as the company undergoes restructuring was taken very negatively by the equity market. The USD25 billion Dubai Financial Support Fund, mainly contributed to by the Abu Dhabi government was created to support Dubai with its debt. The Abu Dhabi government agreed on 14 December 2009 to provide Dubai with USD10 billion to meet upcoming obligations. An additional USD10 billion in Dubai bonds sold to the national central bank and a USD5 billion loan fully subscribed to by two Abu Dhabi-owned commercial banks on 25 November helped alleviate market concerns. The available funds meant that Dubai was able to pay the Nakheel sukuk of USD4.1 billion on 14 December 2009—an outcome that we fully expected.

Despite this positive action, international equity investors headed for the door as confusion surrounded the amount of support the federal government would give and at what cost this would be to the Dubai government. Equity markets reversed their December 2009 gains and have spent most of 2010 on a downward path—significantly underperforming regional and global equity markets. The moribund equity market has been attributed to (i) a lack of clarity on how much Dubai owed international creditors, with street estimates of USD100 billion, (ii) a lack of transparency about how much investors would be paid back, with some extreme reports suggesting a significant haircut and no interest payments, and (iii) uncertainty about when it would repay creditors. With all these questions and no comment from the Dubai government, equity investors absconded.

The announcement by the Dubai government on 25 March that creditors will recover 100% of their assets and inject fresh capital into Dubai World shortly are positives for the market. The repayment of capital over an extended period of time will incur a modest write down of assets held on banks' balance sheets, but is nowhere near the 40% impairment that had been priced into the market. Table 7 highlights the debt outstanding and scheduled payments due over the coming two years. Questions still remain on how Dubai will repay its remaining debt, which street estimates put close to circa USD100billion, but the action by the government is a positive signal that it will not allow a major bankruptcy to occur.

Nakheel announced a comprehensive recapitalization plan of its debt and liabilities, Bloomberg reported on 25 March. The plan will enable Nakheel to offer 100% of its debt. Through the DSFF, the government of Dubai will commit USD8 billion of new money directly to Nakheel to fund operations and settle liabilities. The DSF also proposed converting its existing USD1.2 billion debt claim in Nakheel into equity. The support from the government is conditional to this agreement.

### Proposal for customers

Nakheel will continue to offer customers invested in longer-term projects the option to receive credit equivalent to 100% of their installment payments at no interest and swap into projects nearing completion at today's market value.

### On proposals for contractors and suppliers

Trade creditors will be offered 100% recovery of their agreed claims with 40% through a cash payment based on agreed claims and 60% in the form of a publicly tradable security based on current claim estimate amounts at a commercial rate.

### On proposals for financial creditors

Secured lenders under syndicated, club, and bilateral facilities will receive 100% of principal and accrued interest or profits through a rollover and maturity extension on existing facilities, based on EIBOR/LIBOR.

If agreed, this plan will provide Nakheel with a stable, financial footing, enabling it to meet its outstanding obligations to customers and to continue its role in the ongoing development of the UAE real estate market.

Table 7: Debt Redemption Schedule

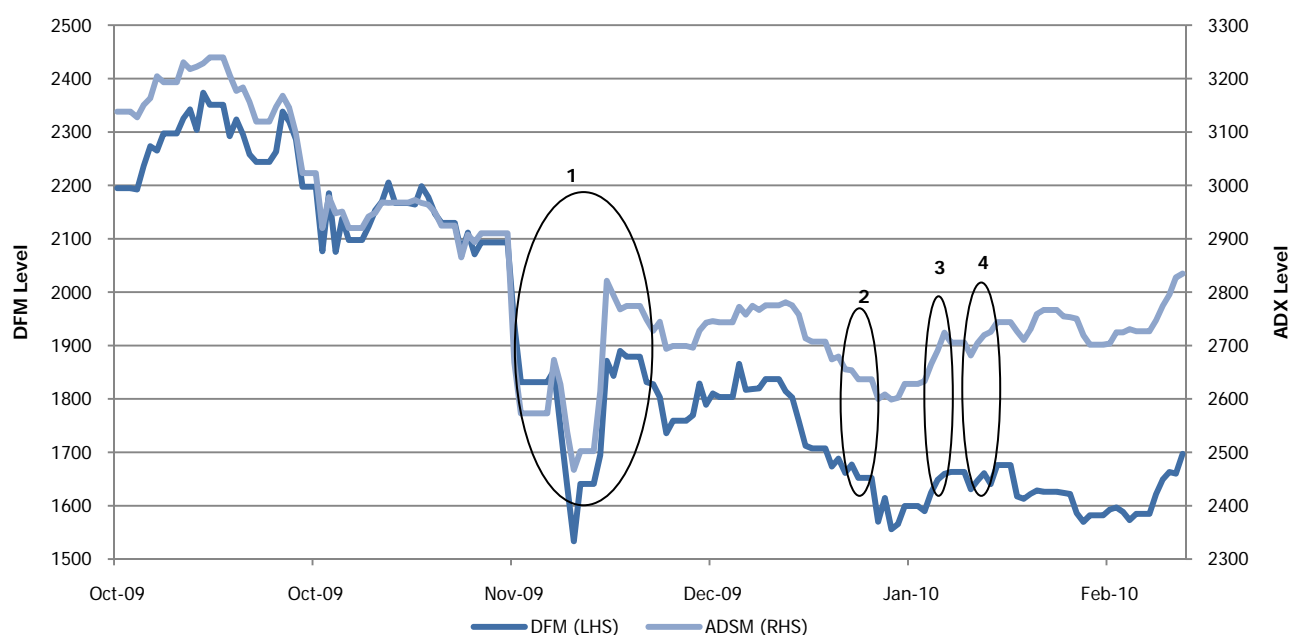
Issuer	Loan Type	Amount (USD mn)	Issue Date	Maturity	Interest Rate	
					Base Rate	Margin
Borse Dubai Ltd.	Wakala	827	19 Feb. 2009	18 Feb. 2010	Special Rate 5	325 bps
Limitless LLC	Murabaha	1,200	6 Mar. 2008	31 Mar 2010	Special Rate 5	125 bps
DMCC- Dubai World	Sukuk	200	27 April 2005	6 May 2010	US LIBOR	60 bps
Nakheel	Sukuk	3,600 (AED)	13 May 2008	13 May 2010	-	4.41%
Dubai World Corp.	Term Loan	2,100	20 Jun. 2008	19 Jun. 2010	LIBOR	135 bps
Dubai Holding	Bond	250 (CHF)	-	14 Jul. 2010		5.25%
Amlak- ICD	Sukuk	n/a	10 Jul. 2005	18 Jul. 2010	-	-
Nakheel	Murabaha	-	27 Aug. 2008	7 Jan. 2011	-	-
Nakheel	Term Loan	1,198	27 Aug. 2008	11 Jan. 2011	LIBOR	325 bps
Nakheel	Sukuk	750 (AED)	16 Jan. 2008	16 Jan. 2011		2.75%
Dubai World Corp.	Term Loan	1,950	20 Jun. 2008	19 Jun. 2011	LIBOR	160 bps
Dubai World Corp.	Revolver/Line>= 0 Yr.	450	20 Jun. 2008	19 Jun. 2011	LIBOR	160 bps
Emirates Integrated Telecom Co.	Term Loan	817	28 Jul. 2008	30 Jun. 2011	LIBOR	125 bps
Aldar Properties	Murabaha	1,267	24 Jul. 2007	23 Jul. 2011	-	-
Aldar Properties	Term Loan	833	24 Jul. 2007	23 Jul. 2011	-	-
Abu Dhabi Energy Co.	Revolver/Line>= 1 Yr.	2,455	7 Aug. 2008	6 Aug. 2011	LIBOR	65 bps
Abu Dhabi Energy Co.	Revolver/Line>= 1 Yr.	695	7 Aug. 2008	6 Aug. 2011	LIBOR	65 bps
Dubai Holding	Term Loan	840	19 Aug. 2008	18 Aug. 2011	LIBOR	150 bps
Dubai Holding	Murabaha	300	19 Aug. 2008	18 Aug. 2011	Special Rate 5	150 bps
Dubai Financial LLC	Murabaha	1,500	27 Aug. 2008	26 Aug. 2011	Special Rate 5	200 bps
Port and Free Zone World	Term Loan	853	30 Sep. 2008	29 Sep. 2011	LIBOR	175 bps
Investment Corp. of Dubai	Term Loan	2,500	6 Nov. 2008	5 Nov. 2011	LIBOR	125 bps
Investment Corp. of Dubai	Murabaha	1,500	6 Nov. 2008	5 Nov. 2011	Special Rate 5	125 bps
Dubai Drydocks World LLC	Term Loan	1,700	13 Nov. 2008	12 Nov. 2011	LIBOR	170 bps
Dubai Aerospace Enterprise Ltd.	Revolver/Line>= 1 Yr.	500	27 Nov. 2008	26 Nov. 2011	LIBOR	195 bps
Emaar Properties	Murabaha	1,000	12 Feb. 2007	11 Feb. 2012	LIBOR	60 bps
International Petroleum Inv. Co.	Term Loan	600	27 Feb. 2009	27 Feb. 2012	LIBOR	300 bps
ADCB	Term Loan	1,500	29 Mar. 2007	28 Mar. 2012	LIBOR	25 bps
Abu Dhabi National Oil Co.	Term Loan	600	22 Jul. 2007	21 Jul. 2012	LIBOR	17 bps
Mashreqbank	Term Loan	500	23 Jul. 2007	22 Jul. 2012	-	-
Emirates Bank International	Term Loan	1,500	9 Oct. 2007	8 Oct. 2012	Euribor	25 bps
DP World Ltd.	Revolver/Line>= 1 Yr.	3,000	18 Oct. 2007	17 Oct. 2012	LIBOR	45 bps
FGB	Term Loan	825	29 Nov. 2007	28 Nov. 2012	LIBOR	27.5 bps

Only Debt greater than USD 500 million is shown  
 Data maybe inaccurate as there is no official disclosure of all GRE debt  
 Source: Reuters, Zawya, and Bloomberg

## The market has found a floor

Speculation surrounding a positive resolution to the Dubai Debt crisis, and the announcement by the government on 25 March have made equity markets rally. Rather than focusing on how much investors will be paid back and when, the question becomes is the rally a short-term phenomenon and is there a risk of sell-off as investors question the ability Dubai to repay all its debt? Consequently, we look at what the equity market has done since the onset of the crisis. There has been a number of local and international events since November 2009 that have had limited impact on UAE equity markets despite the opportunity to be sold down further. We believe the bigger question of “what if”, i.e. what will be the outcome of the Dubai Debt crisis, has meant markets have neither responded to macro news nor company fundamentals despite strong earnings and other major corporate news. The macro overhang of the Dubai debt crisis left the market isolated, with international investors waiting on the sidelines.

Chart 12: DFM and ADX Performance



1. 25 Nov. 2009 – Dubai debt standstill  
 2. 21st Jan. 2010 – Proposed US regulatory policy on banks  
 3. 4 Feb. 2010 – Increased concern of Greek default  
 4. 14 Feb. 2010 – Increased market concern on Dubai debt  
 Source: Bloomberg, HC Research

When taking a detailed look at the local equity market since the sharp correction on 25 November 2009, we see that the market did not revisit all-time lows despite several market bouts of selling pressure. We believe the market has found a floor and provides an entry point for investors to position themselves for a positive resolution to the Dubai debt situation. Uncertainty surrounding the crisis was extreme between December 2009 and February 2010, but the equity market moved sideways with little to no volume. Table 8 highlights a number of key events and subsequent equity market reactions in local and international markets.

Table 8: Equity Market Performance (%) After Major Market Events

Market	Dubai Debt (25 Nov.2009)	Obama Announcement on Banking Reforms (21 Jan. 2010)	Greek Budget Crisis (4 Feb. 2010)	Dubai Debt Reborn (14 Feb. 2010)
<b>UAE</b>				
Dubai	-25.9	-3.2	0.2	-3.5
Abu Dhabi	-14.8	-0.3	-0.7	-0.6
<b>GCC and MENA</b>				
Bahrain	-2.4	-0.3	0	-0.4
Egypt	-2.9	-2.4	0	1.1
Kuwait	-1.8	-0.4	0	1.8
Lebanon	-3.0	-3.3	1.6	0
Oman	-6.7	1.7	0.5	1
Qatar	-4.3	-2.7	1.4	-0.4
Saudi Arabia	-5.5	-2.5	-1	0.2
<b>Europe</b>				
UK FTSE 100	-2.3	-2.7	-3.7	-
German DAX	-2.1	-2.4	-4.2	-
French CAC	-0.7	-3.2	-6.1	-
Spain IBEX	-3.1	-4.3	-7.2	-
Switzerland SMI	-0.7	-2.1	-4.4	-
Italy	-2.1	-4.3	-6.1	-
Portugal	-4.2	-3.6	-6.3	-
Ireland	-1	-2.3	-4.5	-
Iceland	-1.8	-2.4	-0.9	-
Greece	-13.3	1.7	-6.9	-
<b>United States</b>				
S&P 500	-0.9	-3.8	-2.8	-
Dow Jones Industrial	-0.9	-3.1	-2.5	-
<b>Asia</b>				
Japan	6.4	-6.2	-3.3	-
HK	-3	-3.6	-5.1	-
Singapore	-0.3	-3.7	-2.9	-

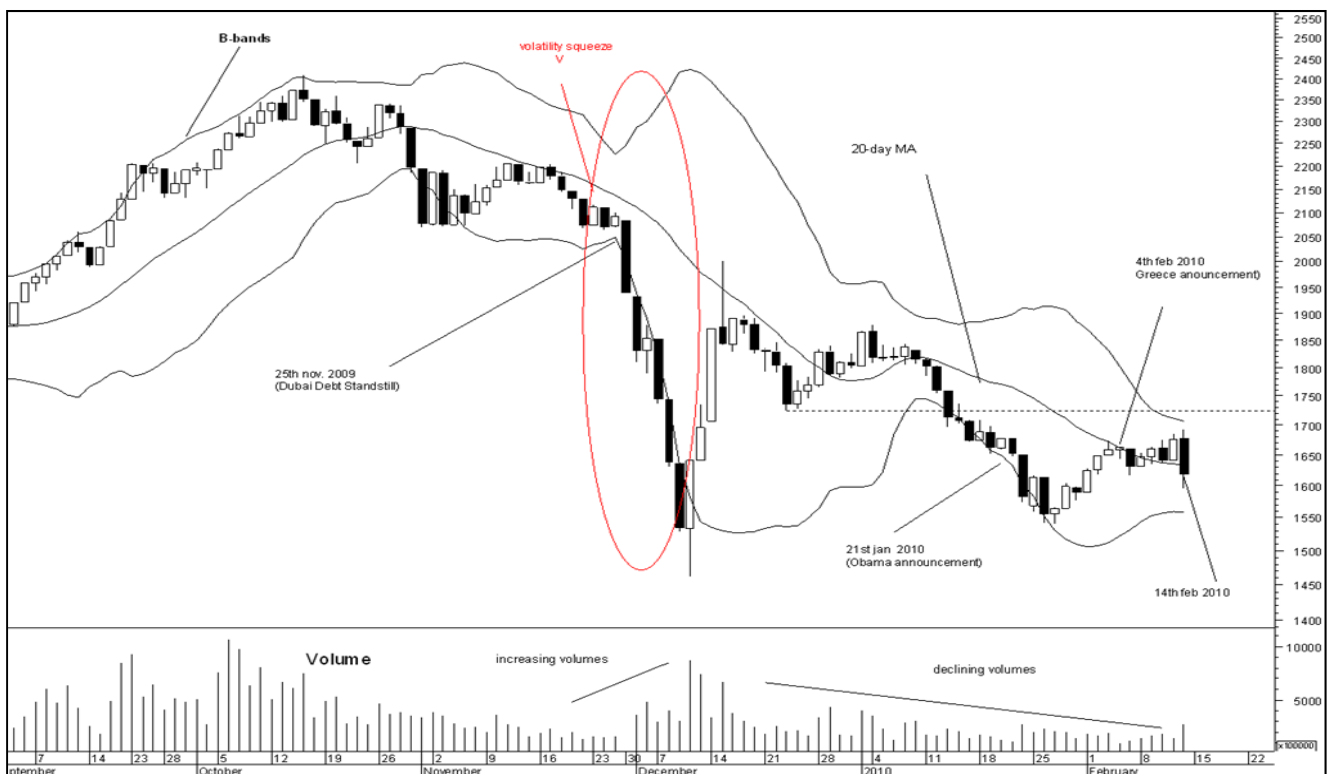
Source: Bloomberg, Reuters, and HC Research

## A Technical Perspective

- Despite several bouts of selling pressure, the market has not visited the lows of 25 November 2009
- Bouts of selling pressure in foreign markets following key macro events have had limited local market effect
- Positive comments from the government bolstered investor confidence with a marked increase in market volume

### A series of four unfortunate events

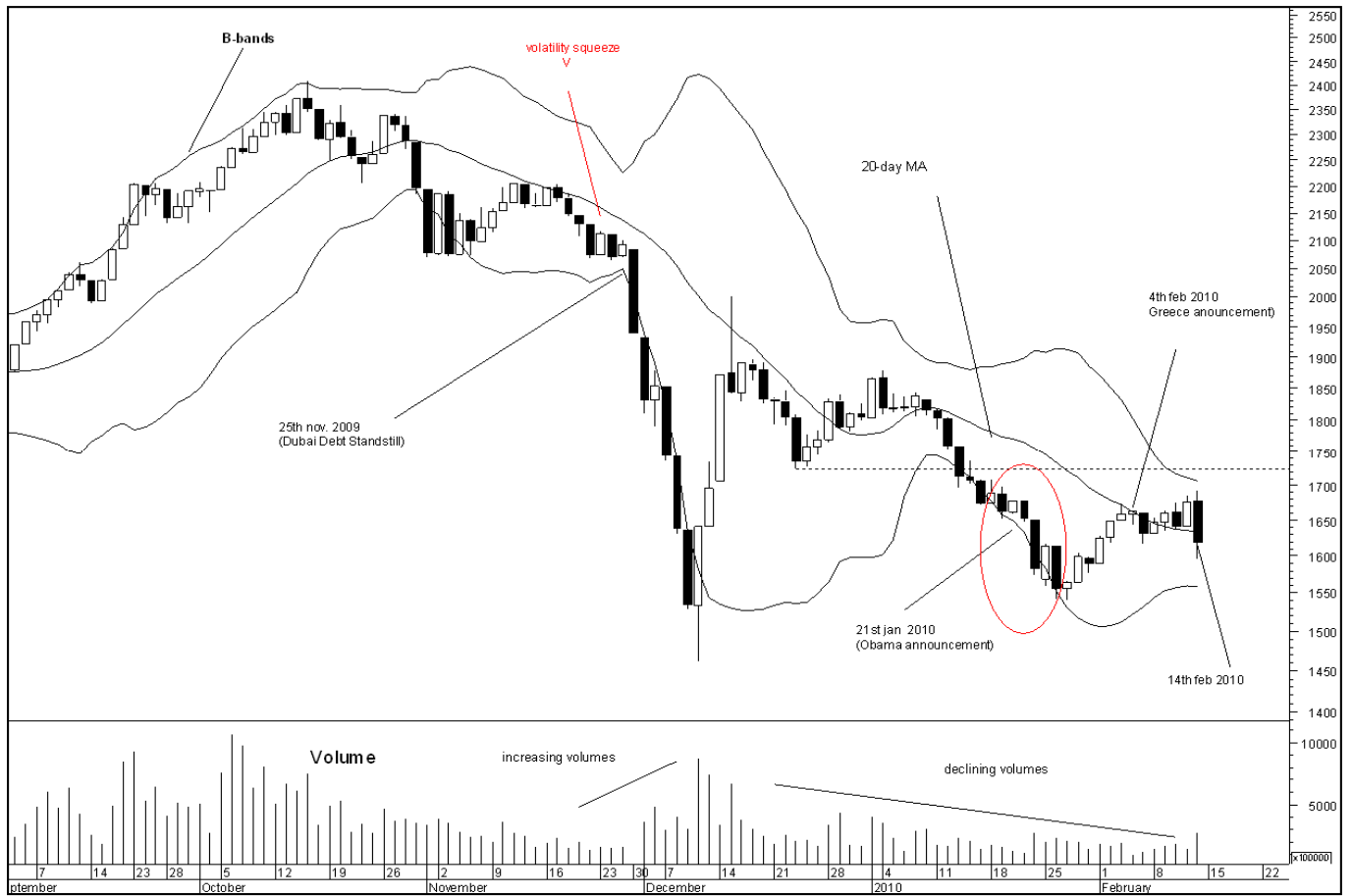
Chart 13: Event 1—Onset of Dubai Debt Crisis on 25 November 2009



Source: HC Research

### Event 1

The Dubai government asked for a standstill on outstanding debt on 25 November 2009. The index fell sharply on 30 November 2009 due to public holidays. The breakout of trading beyond the Bollinger bands (that capture 95% of data) highlights the extreme selling pressure in the market at this date. The DFM fell to 1460 from 2100 on 10 December 2009, losing 21.0% in one trading week and closed limit-down on five trading days. The index was left testing the all time low of 1430.

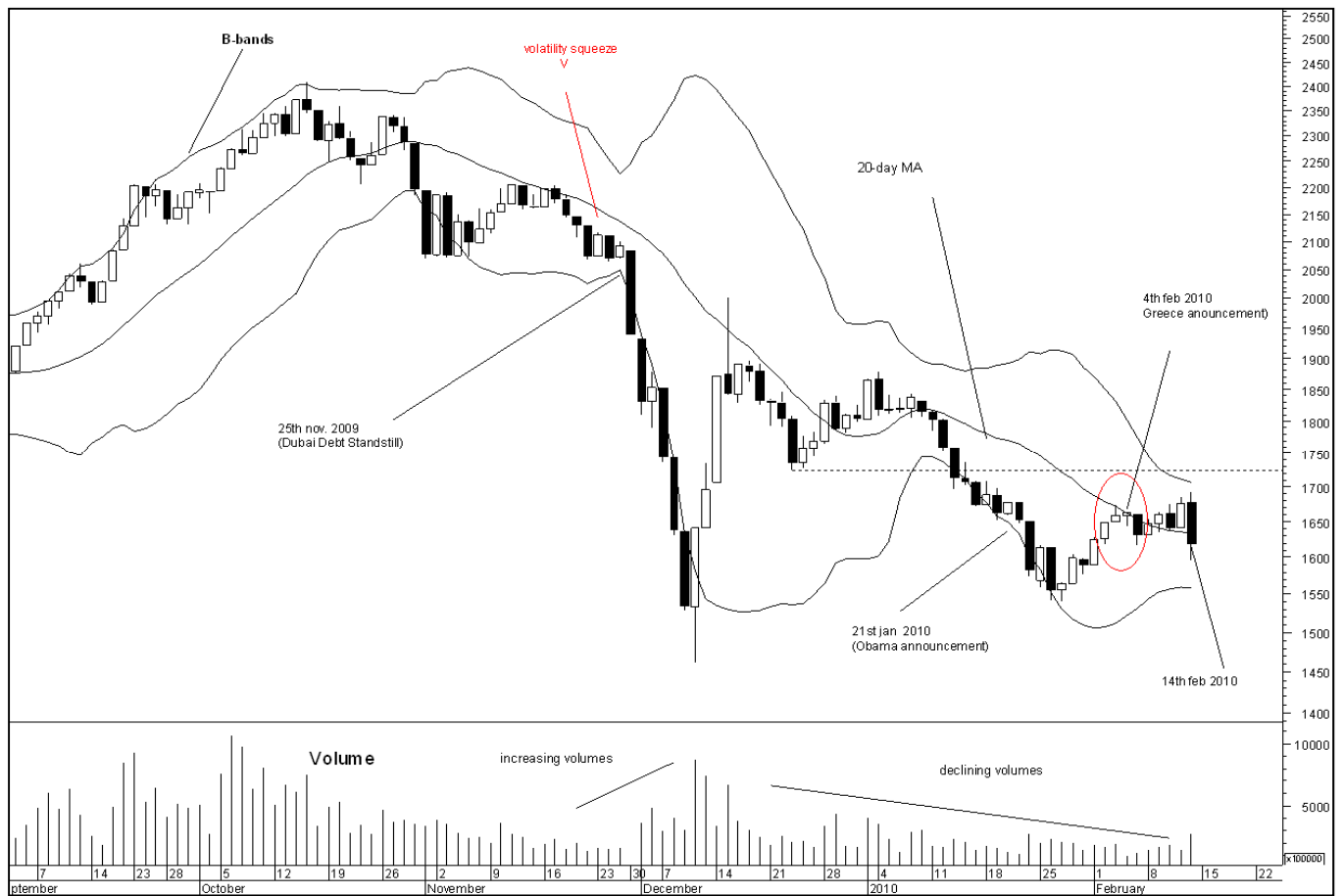
**Chart 14: Event 2—Announcement of Proposed US Banking Reforms on 21 January 2010**


Source: HC Research

### Event 2

US President Barak Obama proposed new banking reforms on 21 January 2010. The market witnessed selling pressure and closed limit-down on 24 January 2010. However, the index managed to form a higher low at 1540, rather than test the all-time low of 1430. This could be interpreted as sellers losing momentum or a completion of selling pressure. Alternatively, buyers found prices too attractive to wait for the index to reach the bottom.

Chart 15: Event 3—Greek Debt Crisis Breaks on 4 February 2010

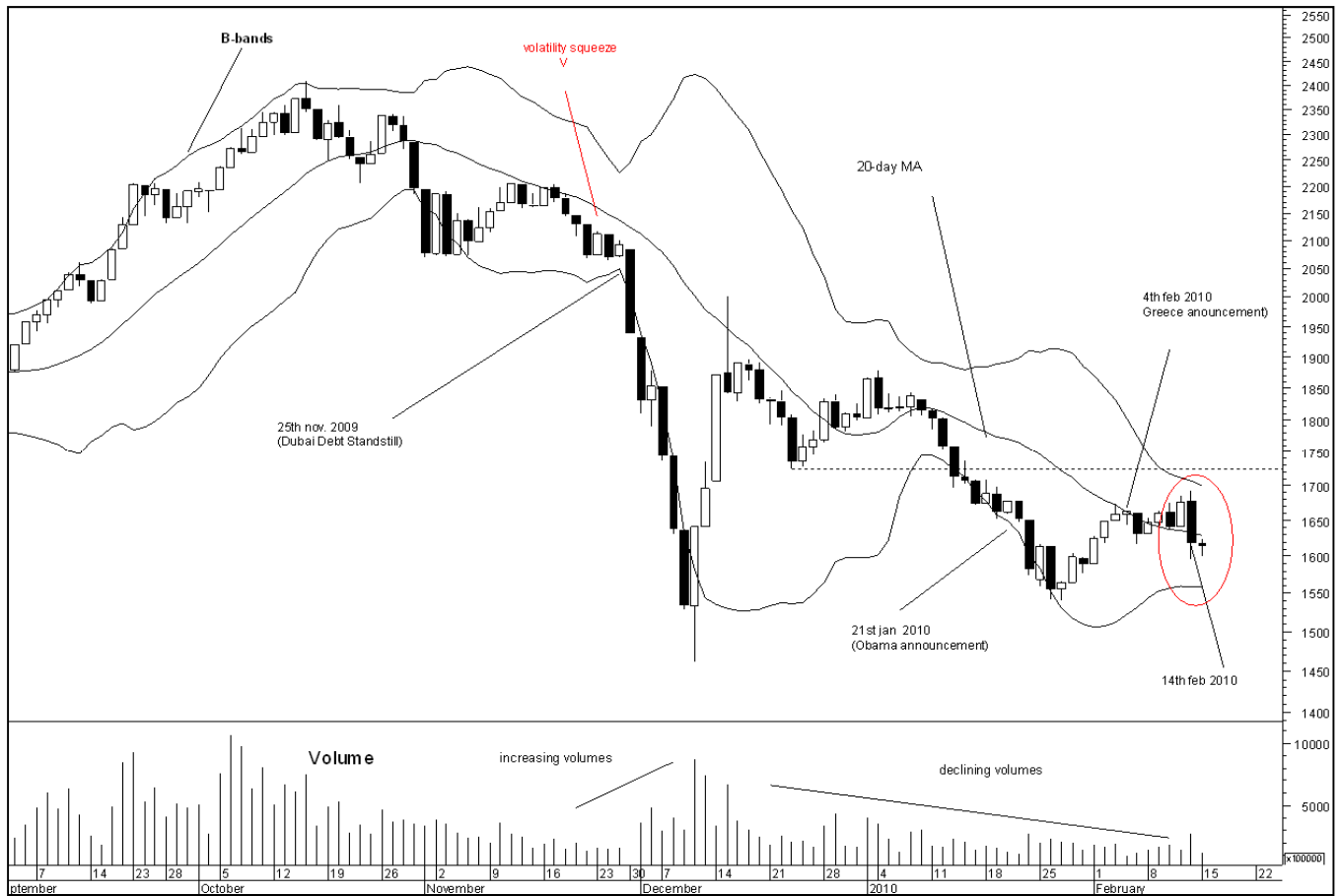


Source: HC Research

### Event 3

International equity markets refocused attention over the possibility of a Greek debt default on 4 February, 2010. Global equity markets witnessed pronounced selling, however, the DFM experienced a one-day negative reaction as the index found resistance at the 20-day moving average (MA). The index was able to recover all losses in the following trading sessions to break above the MA and test the upper Bollinger bands.

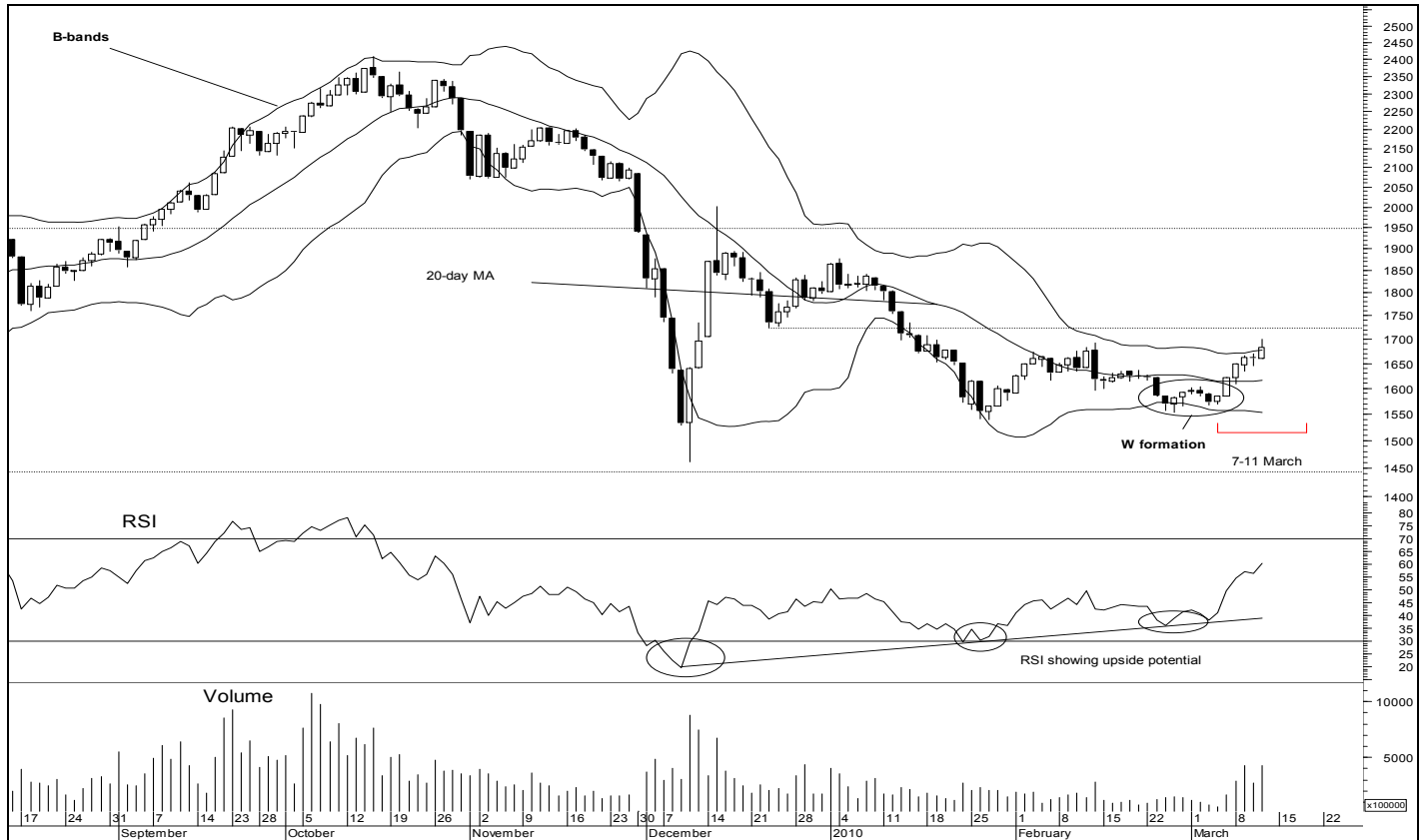


**Chart 16: Event 4—Renewed Speculation Over Dubai Debt Crisis on 14 February 2010**


Source: HC Research

#### Event 4

There was renewed speculation of Dubai debt payments on 14 February 2010 as a result of market rumors of proposed options for creditors of Dubai World. Rumors circulated about two possible outcomes to the debt rescheduling. One rumor spoke of offering creditors 60 cents on the dollar, guaranteed by the government but paid over seven years. The other spoke of a full repayment but with no government guarantee and on a condition that part of the repayment would be made in the form of assets in Nakheel, many of which are undeveloped. Despite this new extreme outcome, which was much worse than previously expected as a worst case scenario, the market did not make a new low. When examining the technical movement of the market at the time, the index was testing the upper Bollinger bands at 1700. The index witnessed selling pressure to pull the index towards the 1620 support level. The market did not close limit-down unlike on 25 November 2009 and 21 January 2010. Volume was significantly lower than in November 2009 without breaking the lower Bollinger band. We conclude that sellers are losing momentum. Also, the index has registered higher lows, indicating a gradual increase in buying scenarios.

**Chart 17: Event 5—Potential Positive News from London Negotiations from 7-11 March 2010**


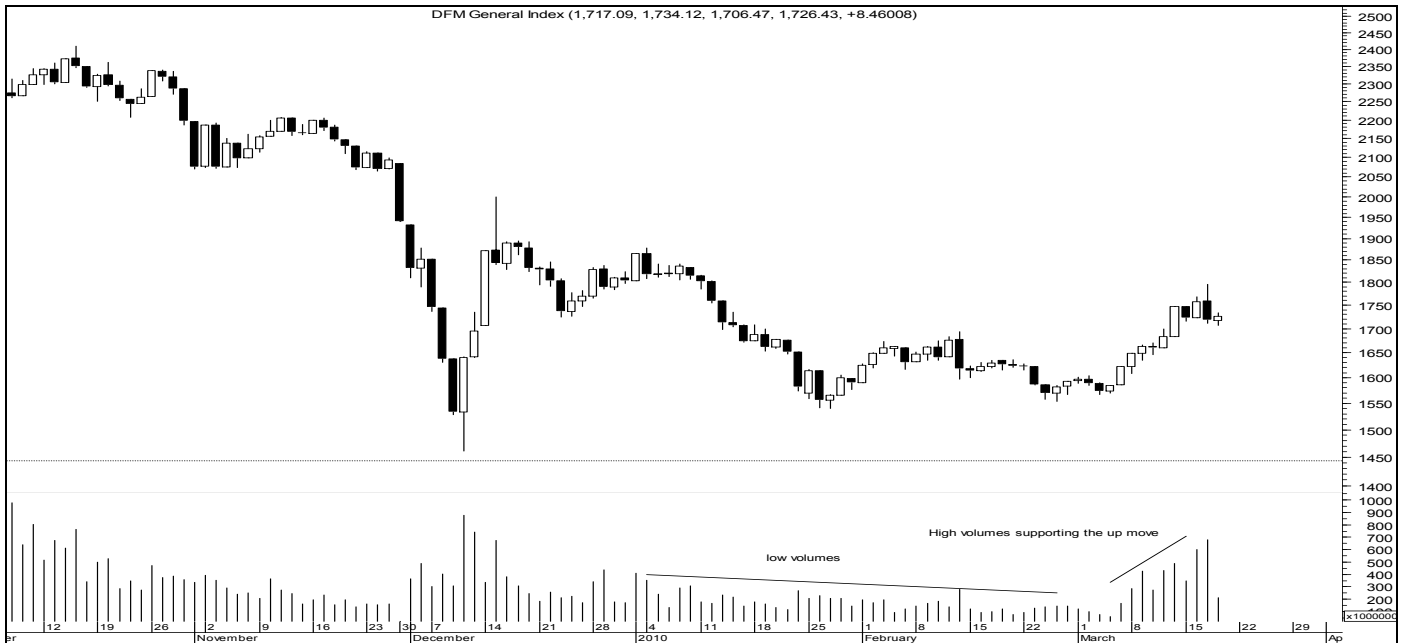
Source: HC Research

### Event 5

Dubai World is negotiating a debt repayment schedule with its creditors in London. News reports surrounding ongoing negotiations have already had a positive impact on the market. The DFM started off the week on a positive note, registering a W formation on the Bollinger bands, indicating an upcoming move to the upside. With the RSI supporting the W formation, the index rallied towards the 1700 level. Accordingly, should the index succeed in breaking above the 1725 resistance, we can expect a move towards the 1800–1840 range.

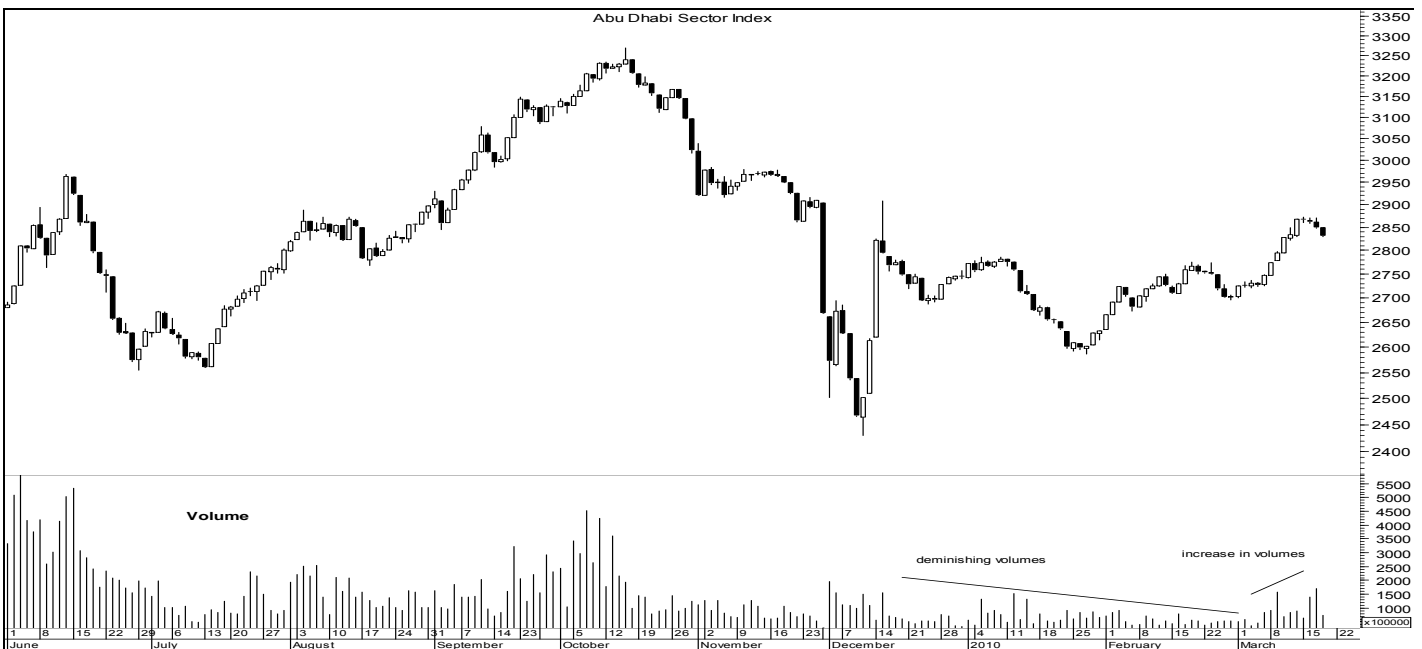
The market has found a floor, volumes are picking up

Chart 18: DFMGI Volume November 2009 to March 2010



Source: HC Research

Chart 19: ADX Volume November 2009 to March 2010



Source: HC Research

We believe the equity market in the UAE has found a floor and the recent increase in volume supports of a long-term rally. Trading volumes for the ADX and DFM shown on the charts above represent increasing activity since early March 2010, arguably as a result of positive sentiment from the London negotiations. Volumes had been decreasing since December 2009 on the back of negative sentiment from the Dubai debt announcement followed by concerns over Greek default and renewed concerns over Dubai debt in February 2010. Increased clarity and positive news on the debt situation makes us expect a return of long-term money to the market.

## Foreign Ownership

- Current ownership levels, although above the trough levels seen in February 2009, remain below those seen at the peak in October 2009
- The recent market rally has focused on key names, while other good stocks have yet to see an upside
- Our macro view supports the notion that clarity should bring back long-term investors to the UAE

### Foreigners wait on the sidelines

The decline in local equity markets and rise in uncertainty pulled the level of foreign ownership down to record lows. Clarity on the Dubai debt situation will remove the short-term speculative nature of hedge funds and return more stable and long-term buying power of institutional money. We would that current ownerships levels remain significantly below permissible levels and provide ample upside for foreigners to return to the local market. Given the floor in the equity market and positive announcements regarding the Dubai debt crisis, we believe now is an ideal time for investors to put money back into the market.

Table 9: Foreign Ownership Levels

Company	Current Price (15 Mar. 2010)	Market Cap. (AED mn)	HC Rating	TP (AED)	Upside (%)	% Allowed For Expatriates	5 Feb. 2009 (Trough)	14 Oct. 2009 (Peak)	23 Mar. 2010
Aabar Investments	2.28	7,131.8	NR			40%	16.72%	3.24%	3.35%
ADCB	1.97	9,187.1	Hold	2.5	30.9	25%	2.09%	2.96%	2.88%
Agthia	1.86	1,062.0	NR			25%	2.97%	5.96%	5.65%
Aldar	<b>4.11</b>	<b>10,363.1</b>	<b>Buy</b>	<b>9.7</b>	<b>141.3</b>	<b>40%</b>	<b>23.02%</b>	<b>28.37%</b>	<b>29.25%</b>
Dana Gas*	0.89	5,220.0	Buy	1.43	64.4	49%	29.67%	32.53%	31.45%
FGB	<b>18.00</b>	<b>24,750.0</b>	<b>Buy</b>	<b>23.3</b>	<b>29.4</b>	<b>15%</b>	<b>14.42%</b>	<b>14.28%</b>	<b>13.4%</b>
NBAD	12.50	25,873.9	Buy	17.9	50.4	25%	1.30%	1.90%	2.06%
Rak Cement	0.96	464.6	NR			49%	12.80%	17.05%	18.92%
Rak Properties	0.53	1,060.0	NR			49%	25.08%	27.54%	28.42%
Sorouh	<b>2.48</b>	<b>5,975.0</b>	<b>NR</b>	<b>3.1</b>	<b>29.7</b>	<b>15%</b>	<b>8.81%</b>	<b>12.94%</b>	<b>11.1%</b>
UNB	3.34	6,538.1	Buy	4.8	51.4	40%	5.58%	5.11%	5.59%
Wahaa Capital	0.92	1,449.0	NR	1.26	22.3	49%	3.62%	5.18%	4.58%
Air Arabia	1.04	4,806.7	Buy	2.28	26.7	49%	33.65%	37.47%	34.29%
Aramex*	1.88	2,395.8	Buy	<b>3.94</b>	<b>75.9</b>	49%	39.19%	48.44%	48.92%
Arabtec	<b>2.32</b>	<b>2,679.0</b>	<b>Buy</b>			<b>49%</b>	<b>42.80%</b>	<b>48.23%</b>	<b>43.71%</b>
DFM	1.87	13,280.0	Hold			49%	3.93%	5.30%	4.44%
Dubai Islamic Bank	2.51	8,827.1	NR			15%	9.01%	10.29%	9.13%
Dubai Investments	0.99	3,554.8	NR	<b>1.22</b>	<b>38.6</b>	20%	9.12%	11.09%	10.93%
DSI	<b>0.94</b>	<b>1,916.4</b>	<b>Buy</b>	3.36	18.7	<b>49%</b>	-	<b>48.50%</b>	<b>47.1%</b>
du	2.85	11,320.0	Hold	<b>6.6</b>	<b>89.1</b>	22%	1.17%	1.12%	1.4%
Emaar	<b>3.81</b>	<b>21,258.4</b>	<b>Buy</b>	5.2	107.2	<b>49%</b>	<b>18.08%</b>	<b>20.94%</b>	<b>20.16%</b>
ENBD	2.62	13,950.0	Buy			5%	3.06%	3.28%	3.57%
Gulf General Investments	0.90	1,355.9	NR			49%	11.40%	11.00%	10.76%
Gulf Navigation*	0.60	1,026.1	NR			20%	4.71%	8.21%	6.72%
Islamic Arab Insurance	0.88	968.0	NR			25%	9.83%	14.07%	15.01%
Shuaa Capital	1.32	1,299.3	NR			49%	35.82%	20.20%	19.24%
Tabreed	0.47	582.4	NR			49%	26.76%	28.71%	31.1%
Union Properties	0.47	1,548.8	NR			15%	7.07%	9.57%	9.42%

Expatriate = GCC + Arabs + Foreigners except for \*Expatriate = Arabs + Foreigners  
Source: ADX, DFM, Bloomberg, HC Research

## Government Support

- Strong fiscal balances support the domestic economy
- Key events such as the Aldar-Arabtec deal exemplify government support to businesses
- Declining risk aversion, shown by shrinking CDS spreads, should see equity markets rally

### Support at federal level limits contagion

Equity market performance and movements in CDS spreads have shown that the financial markets of Dubai and Abu Dhabi are closely linked. As such, it is correct to believe that the UAE has everything to lose if at any point it allows a major bankruptcy to take place in Dubai. Abu Dhabi's support also reassured investors and global equity markets that the UAE government supports the private sector in times of trouble. The degree of cooperation between the emirates was made clear when Dubai showed its appreciation of Abu Dhabi's support by naming the tallest building in the world Burj Khalifa (previously Burj Dubai) to honor UAE President and emir of Abu Dhabi Sheikh Khalifa bin Zayed. Further signs of strong government support and unity between the emirates came on March 9 when the UAE Finance Minister reaffirmed that the federal government pledges its support to Dubai. The emirate is yet to ask for federal help.

Aldar Properties offloaded on 14 February 2010 the Yas Race Track, Yas Marina, and other property on Yas Island to the Abu Dhabi government. The assets were sold for AED9.1 billion. This provided the company with much needed liquidity and leverage relief. It is still unclear whether the government will pay this amount in cash or whether it will be used to pay off a portion of Aldar's debt. However, the market did not react to the positive company news. Moody's recently downgraded the company's 2014 sukuk to Ba1 from Baa2, which increased interest payments, due to a clause in the loan of any downgrade. However, the sukuk jump USD3.0 to USD106.5 from USD103.5, clearly showing investor confidence in Aldar and Abu Dhabi's support.

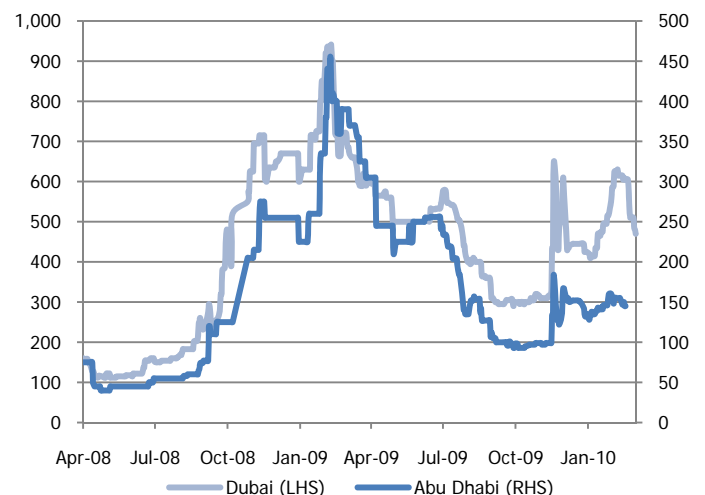
We see further opportunities for such positive government action and consolidation within the equity market, especially real estate, banking, and construction. There are already signs that this trend is underway. Arabtec agreed on 7 January 2010 to Aabar's offer to acquire a 70% stake in the company worth AED6.4 billion. This removes liquidity concerns from Arabtec's balance sheet and will allow it to further expand into the UAE and GCC.

Chart 20: Dubai and Abu Dhabi Equity and Credit Markets Move in Tandem

DFM and ADX Performance



CDS Performance



Source: Bloomberg

## Local Markets Lag Behind

The overhang of the Dubai Debt “what if” scenario has caused local markets to be significantly ignored by international investors despite strong fundamental data in terms of earnings and the return of cash to investors through dividends.

**Table 10: Company Earnings and Dividends Payout**

Name	Dividends* (AED mn)	Earnings (FY09, AED mn)			Rating and Recommendation		Foreign Own. Level (11 Mar. 2010)	Market Cap. (AED mn) (22 Mar. 2010)
		Actual	Estimate	Surprise	Rating	TP (AED)		
Abu Dhabi								
Emirates Telecom Corporation	5,031	8,836	8,866	-0.34%			NA	89483
FGB	687	3,310	2,955	11.99%	Buy	23.3	13.4%	24750
NBAD	434	3,020	3,176	-4.93%	Buy	17.85	2.06%	25873
Sorouh	250	495	578	-14.36%	Buy	3.1	11.1%	5975
AD National Energy Co.		182	725	-74.83%			NA	7656
UNB	206	1,157	1,123	3.06%	Buy	4.8	5.59	6538
Waha Capital	196	216					4.58%	1449
Dubai								
Air Arabia	466	452	415	8.88%	Buy	1.26	34.29%	4806
Dubai Islamic Bank	723	1,200	1,351	-11.19%	Hold	3.32	9.13%	8827
Emirates NBD	1,111	3,343	3,516	-4.93%	Buy	5.2	3.57%	13950
Gulf Navigation Holding	49	26.55	7	279.29%			55.57%	1026
Aramex		184	181	1.58%	Buy	2.28	48.92%	2395
Dubai Financial Market		346	338	2.43%			4.44%	13280
Islamic Arab Insurance		116	114	1.73%			15.01%	968

\*Includes cash and stock dividends

Source: Bloomberg

Local equity markets have lagged behind international equity markets by as much as 30% over the last 12 months. We believe local equity markets have found a floor (which despite several opportunities has failed to fall through) and along with the positive news from the Dubai debt talks will lead to further local market equity gains. The significant underperformance of local equity markets has left them trading at a significant discount to international and regional markets. We view a resolution to Dubai debt as highly likely. It will be a positive catalyst that will cause local markets to catch up with international equity markets.

## Equity markets one year on

Table 11: Global Equity Markets Performance

Country	YoY Performance (March 2009–March 2010)	PB	PS	DY
<b>MENA</b>				
<b>Dubai</b>	<b>8.65%</b>	<b>0.73</b>	<b>1.67</b>	<b>3.88</b>
<b>Abu Dhabi</b>	<b>15.75%</b>	<b>1.12</b>	<b>2.23</b>	<b>4.12</b>
Bahrain	-5.57%	1.08	3.08	4.62
Egypt	87.25%	2.03	2.10	2.57
Kuwait	16.17%	1.13	1.65	2.34
Lebanon	45.18%	2.64	7.81	2.66
Oman	36.75%	1.92	1.90	3.80
Qatar	57.16%	1.77	5.33	5.40
Saudi Arabia	48.73%	2.08	3.42	2.79
<b>Europe</b>				
UK FTSE 100	46.94%	1.88	1.15	3.35
German DAX	54.26%	1.54	0.66	3.47
French CAC	45.35%	1.38	0.81	3.63
Spain IBEX	44.96%	1.63	1.24	4.84
Switzerland SMI	46.47%	2.49	1.71	2.65
Italy	47.96%	0.99	0.75	3.25
Portugal	36.73%	1.54	0.94	3.37
Ireland	45.73%	0.99	0.58	1.68
Iceland	16.45%	0.91	0.29	0.06
Greece	40%	1.07	0.82	2.88
<b>USA</b>				
S&P 500	55.85%	2.21	1.27	1.88
Dow Jones Industrial	49.62%	2.59	1.35	2.56
<b>Asia</b>				
Japan	40.91%	24.87	0.7	1.52
HK	65.7%	17.76	2.87	2.54
Singapore	80.2%	14.23	1.49	2.90

Source: Bloomberg

## Sector Allocation

Recent developments regarding the Dubai debt situation and the strong macro fundamentals of the UAE make us more confident in the UAE equity market. Along with our strategic Buy recommendation on the UAE equity market, Table 16 outlines our sector allocation recommendations.

Table 12: Sector Allocation

Sector	HC Rating	Focus Stocks		
		Company	Recommendation	TP (AED)
Resources	Overweight	Dana Gas	Buy	1.43
Basic Industries	Overweight	DSI	Buy	1.22
Industrials	Neutral	Aramex	Buy	2.38
Consumer–Cyclical	Underweight			
Consumer–Staples	Underweight			
Telecoms	Underweight			
Financials:	Overweight			
Banks	Overweight	NBAD	Buy	17.85
		FGB	Buy	23.3
		UNB	Buy	4.8
Real Estate	Overweight	Aldar	Buy	9.7
		Emaar	Buy	6.6
Other	Underweight			

Source: HC Research

### Resources

The bullish rally in oil prices to over USD80 bbl and the strong company fundamentals that have yet to be fully discounted by the market lead us to remain Overweight on this sector. Continued government support, the risk of higher inflation in developed nations, and a return of stronger global demand in 2011 are all positive for the sector.

### Basic Industries

We maintain an Overweight on this sector due to the federal government's decision to allocate AED7.6 billion (17.5% of the 2010 budget) on infrastructure and the announced expansionary fiscal policy measures taken by GCC governments to support their economies.

### Industrials

We are Neutral on this sector as it is a later cyclical play on the recovery in the GCC region and there are more attractive opportunities in the UAE market.

### Consumer Cyclical

With limited investment opportunities in this sector in the local market, we remain Underweight.

### Consumer Staples

We are Underweight on the defensive characteristics of this market segment and look to target high beta stocks as we expect the local market to recover and want to be aggressive with our portfolio.

### Telecoms

The defensive and yield story of the telecom sector has been fully priced into the market, thus we are Underweight on the sector at this stage.

### Financials

#### Banks

As a significant casualty of the Dubai debt crisis, banks exposed to the corporate sector (in particular Dubai World) and those with limited exposure have been equally sold-off. With significant impairments of assets priced in by the market, we see the banks as a major winner of a positive resolution to current debt talks with creditors.

#### Real Estate

Similar to banks, international investors have sold off real estate stocks as they are concerned about liquidity, supply and demand dynamics, and leverage. Recent corporate news, which we view as positive, have not been discounted by the market, and strong macro data, combined with the lifting of the macro overhang surrounding Dubai debt, is a strong catalyst for stocks.



## Stock Picks

## National Bank of Abu Dhabi (NBAD)

- Our favorite player in the UAE with strong sovereign ties, strong funding base, and lowest exposure to troubled GCC corporates
- Best in terms of asset quality, which remains intact with NPLs at 1.25% in FY09 vs. sector average of 4%
- Reiterate our Buy with a TP of AED16.22/share and 43.9% upside

We still view NBAD as the safest play among peer UAE banks, with huge provisions sufficient to cushion any possible deterioration in its portfolio and possible substantial recoveries in case of a surprise turnaround in the sector. The bank has the best asset quality with NPLs reaching 1.25% in FY09 compared to our UAE coverage universe of 4% and the highest coverage at 158% versus 103% for the sector. NBAD was one of few banks that prudentially and proactively built up collective provisions of AED1.6 billion, representing 1.25% of credit risk weighted assets, amid expectations that the central bank will oblige banks to set aside 1.25% of their loan book as general provisions.

NBAD also recently sold a USD750 million five-year benchmark bond priced at 178 basis points over mid swaps, lower than the bank had anticipated. The issuance was the first for the UAE since the Dubai World debt problem surfaced last November. The successful launch may set a new benchmark for quality UAE corporates to tap international markets for debt financing.

Despite sacrificing a chunk of earnings to account for general provisions in FY09, NBAD still managed to record flat earnings YoY in a time when others suffered an average 20% decline in profit. The bank outperformed the sector in terms of lending as loans grew 18% versus a sluggish 7% for peers. We expect higher corporate default this year and hence higher NPLs, which are expected to reach 2.25% for 2010. This is still much lower than the expected 5.5% in NPLs for UAE banks. NBAD's total credit exposure to Dubai World represents a mere 0.5% of its LB while exposure to the two Saudi groups is insignificant at AED32 million. We expect the bank's net income in 2010 to grow 6%, while dropping an 19% average for the sector as many banks are yet to account for general provisions this year.

We reiterate our Buy recommendation on NBAD with a TP of AED16.22. The bank is currently trading at a FY10f PB of 1.28x, a 26.6% discount to its implied PB, but at a 51% premium to the UAE sector average. We believe this is justified in NBAD's case given its defensive nature. Having strong sovereign ties, key catalysts would be higher sustainable oil prices and an improved macro outlook. The downside risk would be a higher-than-expected slowdown in the economy.

KPIs	2009a	2010e	2010c	2011e	2011c
Net Interest	4,441.5	5,142.6	-	5,569.4	-
Total Income	6,399.1	7,226.2	6,905.9	8,650.3	7,622.3
Net Income	3,019.9	3,198.3	3,341.3	4,289.4	3,990.6
Net Interest	2.54%	2.53%	-	2.48%	-
Gross Loans (bn)	134.9	148.5	-	166.3	-
Cost/Income	29.7%	30.1%	-	30.1%	-
Gross LD	111.0%	111.0%	-	110.0%	-
EPS	1.39	1.47	-	1.97	-
DPS	0.14	0.22	-	0.39	-
Dividend Yield	1.12%	1.94%	-	3.46%	-
P/E (x)	8.93	8.43	-	6.29	-
P/B (x)	1.32	1.28	-	0.92	-
ROAE	17.4%	14.6%	-	17.1%	-
ROAA	1.7%	1.6%	-	1.9%	-

a = actual; e/f=HC's estimates/forecasts; c=consensus estimates

## Buy

Target Price (AED)	16.22
Market Price (AED)*	11.27
Upside	43.9%

Listed On	ADX
Bloomberg	NBAD UH
RIC	NBAD.AD

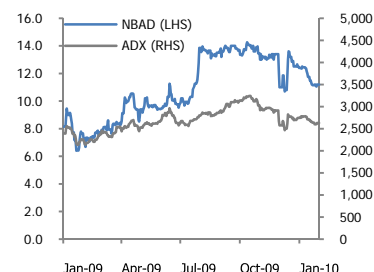
Market Cap. (AED mn)	26,957.7
Market Cap. (USD mn)	7,345.3

Number of Shares (mn)	2,391
Foreign Ownership Limit	25.0%
Foreign Ownership Level	2.0%

### Shareholders Structure

Free Float	29.5%
Government	70.5%

### Price Performance Chart



\*Based on prices as of 23 March 2010

### Germaine Benyamin

- +971 4 293 5382
- germaine.benyamin@af-hc.com

### Janany Vamadeva

- +971 4 293 5384
- janany.vamadeva@af-hc.com

## NBAD Financial Statements

AED million	2009	2010f	2011f	2012f	2013f	2014f
<b>Income Statement</b>						
Interest Income	6,697.5	7,721.2	8,997.0	10,645.9	11,950.3	12,529.4
Interest Expense	2,255.9	2,578.6	3,427.6	4,270.6	4,883.2	5,311.7
<b>Net Interest Income</b>	<b>4,441.5</b>	<b>5,142.6</b>	<b>5,569.4</b>	<b>6,375.3</b>	<b>7,067.2</b>	<b>7,217.7</b>
Fees and Commissions	1,135.7	1,192.5	1,311.7	1,442.9	1,587.2	1,745.9
FX Income	426.1	447.4	492.2	541.4	595.5	655.1
Investment Income	160.6	196.8	1,013.8	1,082.7	1,122.8	2,398.9
Other Income	235.1	246.9	263.3	276.5	290.3	304.9
<b>Non-interest Income</b>	<b>1,957.5</b>	<b>2,083.5</b>	<b>3,080.9</b>	<b>3,343.5</b>	<b>3,595.8</b>	<b>5,104.7</b>
<b>Total Income</b>	<b>6,399.1</b>	<b>7,226.2</b>	<b>8,650.3</b>	<b>9,718.8</b>	<b>10,663.0</b>	<b>12,322.4</b>
Total Operating Expenses	1,898.4	2,177.8	2,606.1	2,755.2	2,924.8	3,102.1
Pre-provision Income	4,500.7	5,048.4	6,044.2	6,963.5	7,738.1	9,220.3
Provisions	1,407.8	1,781.5	1,662.7	931.1	521.4	584.0
Associate and Other Income	-	-	-	-	-	-
<b>Pre-tax Income</b>	<b>3,092.9</b>	<b>3,266.9</b>	<b>4,381.5</b>	<b>6,032.4</b>	<b>7,216.7</b>	<b>8,636.3</b>
Income Taxes	72.9	68.6	92.0	126.7	151.6	181.4
<b>Net Income After Tax</b>	<b>3,019.9</b>	<b>3,198.3</b>	<b>4,289.4</b>	<b>5,905.7</b>	<b>7,065.1</b>	<b>8,455.0</b>
Minority Interest	-	-	-	-	-	-
<b>Net Income</b>	<b>3,019.9</b>	<b>3,198.3</b>	<b>4,289.4</b>	<b>5,905.7</b>	<b>7,065.1</b>	<b>8,455.0</b>
<b>Balance Sheet</b>						
<b>Assets</b>						
Cash Due from Central Bank	18,056.8	24,570.9	24,942.9	32,635.5	35,546.7	34,960.5
Due from Banks	19,520.7	21,456.1	23,601.7	18,173.3	17,134.8	18,848.3
Investments	20,048.7	19,310.4	21,241.5	22,067.6	22,846.4	25,131.0
<b>Gross Loans</b>	<b>134,960.0</b>	<b>148,456.0</b>	<b>166,270.7</b>	<b>186,223.2</b>	<b>208,570.0</b>	<b>233,598.4</b>
NPL Provisions	2,701.7	7,779.7	9,427.6	9,826.6	9,744.7	10,591.5
<b>Net Loans</b>	<b>132,258.3</b>	<b>140,676.3</b>	<b>156,843.1</b>	<b>176,396.6</b>	<b>198,825.3</b>	<b>223,006.9</b>
Other Assets	4,874.6	6,436.8	7,080.5	7,788.5	8,567.4	9,424.1
Net Fixed Assets	2,085.3	2,110.0	2,306.9	2,556.8	2,659.4	2,767.2
<b>Total Assets</b>	<b>196,844.5</b>	<b>214,560.5</b>	<b>236,016.6</b>	<b>259,618.2</b>	<b>285,580.1</b>	<b>314,138.1</b>
<b>Liabilities</b>						
<b>Total Deposits</b>	<b>121,205.1</b>	<b>133,744.1</b>	<b>151,155.2</b>	<b>186,223.2</b>	<b>208,570.0</b>	<b>233,598.4</b>
Due to Banks	33,347.0	42,358.1	42,040.1	24,871.8	22,292.6	18,303.9
Borrowings	16,264.3	11,215.8	11,215.8	11,553.7	11,553.7	11,553.7
Other Liabilities	5,587.6	4,004.2	4,557.5	4,873.7	5,183.9	5,660.3
<b>Total Liabilities</b>	<b>176,404.0</b>	<b>191,322.2</b>	<b>208,968.6</b>	<b>227,522.4</b>	<b>247,600.2</b>	<b>269,116.3</b>
<b>Shareholder Equity</b>	<b>20,440.6</b>	<b>23,238.3</b>	<b>27,048.0</b>	<b>32,095.8</b>	<b>37,979.8</b>	<b>45,021.8</b>

## First Gulf Bank (FGB)

- Consistently beat street and our earnings estimates on resilient core operating performance
- FGB will likely report profit this year even if it writes off its entire exposure to Dubai World
- Reiterate Buy rating and TP of AED23.3/share with a 33% upside

FGB reported better-than-expected earnings since our initiation last February, with net income up 10% YoY in 2009 and a return of 19% compared to the 20% drop in profit in the UAE sector and ROE of 13.6%. Despite concerns on its real estate exposure, the bank managed to ride out the crisis due to its strong margins and strong loan growth. Margins improved to 3.6% last year compared to the sector's 3.1% and loan book grew 14% versus the sector's 7%, indicating FGB's solid underlying trend.

Cost/income ratio of 18% is the lowest in our coverage versus the UAE sector's 32% and MENA's 36%, further supporting FGB's profitability. With Abu Dhabi banks' growth supported by the emirate's long-term economic plan, we believe the bank will continue to benefit from its ruling family connections, cross selling benefits from its national housing program for UAE nationals, strong margins, and the best cost efficiency.

We take comfort in the fact that FGB has taken general provisioning of 1.25% of its loan book. However, the NPL ratio will rise to 3.4% versus the reported 1.6% in 2009 when factoring in the expected 90 day cut-off period for NPLs. Nonetheless, FGB has the highest coverage of its peers at 174%, which we believe was taken in light of the new NPL regulations.

We estimate the NPL ratio to increase to 5.3% this year if we include our estimated Dubai World exposure to the bad loans, which is still lower than the central bank governor's NPL expectation of 6.4% in the UAE end 2010. Our analysis suggests that even if FGB writes off its entire Dubai World exposure (loans and sukuk), it will only halve our 2010f earnings, supporting our view of its underlying profitability. Dubai World exposure is based on our estimates as FGB has not disclosed any details so far.

FGB has a strong capital adequacy ratio of 22.6%, the highest of our coverage in the region, helping it absorb unexpected losses.

The stock continues to offer attractive valuations, trading at a FY10f PB multiple of 1.2x, a 15% discount to its implied PB. We prefer the stock for its resilient earnings despite the ongoing financial crisis.

KPIs (AED mn)	2009a	2010e	2010c	2011f	2011c
Net Interest Income	3,833.7	4,310.4	-	4,653.2	-
Total Income	6,135.0	6,582.5	-	6,996.2	-
Net Income	3,310.3	3,518.6	3,238.3	4,757.6	3,924.9
Net Interest Margin	3.63%	3.60%	-	3.53%	-
Gross Loans (AEDbn)	92.9	104.1	-	116.6	-
Cost-to-Income	17.6%	17.9%	-	18.0%	-
Gross L/D	107.5%	107.0%	-	110.0%	-
EPS	2.21	2.35	-	3.17	-
DPS	0.45	0.35	-	0.48	-
Dividend Yield	2.57%	2.00%	-	2.71%	-
P/E (x)	8.0	7.48	-	5.53	-
P/B (x)	1.4	1.23	-	1.03	-
ROAA	2.8%	2.7%	-	3.3%	-
ROAE	19%	17.6%	-	20.3%	-

a = actual; e/f=HC's estimates/forecasts; c=consensus estimates

## Buy

Target Price (AED)	23.30
Market Price (AED)*	17.55
Upside	32.8%

Listed On	ADX
Bloomberg	FGB UH
RIC	FGB.AD

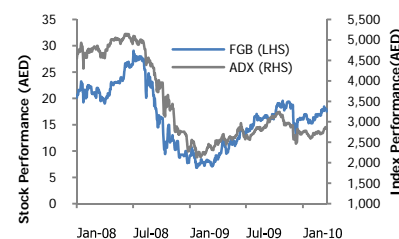
Market Cap. (AED mn)	24,131
Market Cap. (USD mn)	6,575

Number of Shares (mn)	1,375
Foreign Ownership Limit	15.00%
Foreign Ownership Level	13.37%

### Shareholder Structure

Free Float	33.8%
Abu Dhabi Ruling Family	66.2%

### Price Performance Chart



\*Based on prices as of 23 March 2010

Janany Vamadeva

► +971 4 293 5384

► janany.vamadeva@af-hc.com

Germaine Benyamin

► +971 4 293 5382

► germaine.benyamin@af-hc.com

## FGB Financial Statements

AED million	2009a	2010f	2011f	2012f	2013f	2014f
<b>Income Statement</b>	6,490.0	7,313.5	8,048.3	9,013.4	9,932.2	10,920.8
Interest Income	2,656.2	3,003.1	3,395.1	3,931.5	4,255.9	4,612.4
Interest Expense	<b>3,833.7</b>	<b>4,310.4</b>	<b>4,653.2</b>	<b>5,081.9</b>	<b>5,676.3</b>	<b>6,308.4</b>
<b>Net Interest Income</b>	1,207.4	1,267.8	1,331.2	1,397.7	1,467.6	1,541.0
Fees and Commissions	343.7	352.3	361.1	364.7	368.4	372.1
FX Income	56.2	68.2	68.7	71.7	78.9	86.8
Investment Income	693.9	583.8	582.0	701.2	749.7	800.0
Other Income	<b>2,301.2</b>	<b>2,272.1</b>	<b>2,343.0</b>	<b>2,535.4</b>	<b>2,664.6</b>	<b>2,799.9</b>
<b>Non-Interest Income</b>	<b>6,135.0</b>	<b>6,582.5</b>	<b>6,996.2</b>	<b>7,617.3</b>	<b>8,341.0</b>	<b>9,108.3</b>
<b>Total Income</b>	1,080.6	1,176.8	1,262.0	1,388.2	1,527.0	1,679.7
Total Operating Expenses	5,054.4	5,405.7	5,734.2	6,229.2	6,814.0	7,428.7
Pre-provision Income	1,770.5	1,914.6	1,010.8	671.1	597.2	656.9
Provisions	29.0	31.1	38.0	41.8	45.9	50.5
Associate and Other Income	<b>3,313.0</b>	<b>3,522.2</b>	<b>4,761.4</b>	<b>5,599.8</b>	<b>6,262.7</b>	<b>6,822.3</b>
<b>Pre-Tax Income</b>	-	-	-	-	-	-
Income Taxes	<b>3,313.0</b>	<b>3,522.2</b>	<b>4,761.4</b>	<b>5,599.8</b>	<b>6,262.7</b>	<b>6,822.3</b>
<b>Net Income After Tax</b>	2.6	3.5	3.8	4.5	5.0	5.5
Minority Interest	<b>3,310.3</b>	<b>3,518.6</b>	<b>4,757.6</b>	<b>5,595.3</b>	<b>6,257.7</b>	<b>6,816.8</b>
<b>Net Income</b>						
<b>Balance Sheet</b>						
<b>Assets</b>	5,547.0	6,759.6	7,121.8	10,287.6	11,183.3	12,230.5
Cash Due from Central Bank	4,626.5	5,520.8	6,072.9	5,010.1	5,511.1	6,062.2
Due from Banks	13,482.0	13,802.0	13,664.0	15,030.4	16,533.4	18,186.7
Investments	<b>92,915.7</b>	<b>104,065.5</b>	<b>116,553.4</b>	<b>128,208.8</b>	<b>141,029.6</b>	<b>155,132.6</b>
<b>Gross Loans</b>	2,529.8	4,403.0	5,277.1	5,918.2	6,482.3	7,102.8
NPL Provisions	<b>90,385.9</b>	<b>99,662.6</b>	<b>111,276.3</b>	<b>122,290.6</b>	<b>134,547.4</b>	<b>148,029.8</b>
<b>Net Loans</b>	10,792.4	11,679.5	13,095.9	13,799.0	15,348.2	16,990.3
Other Assets	638.7	595.3	591.0	586.2	581.0	575.2
Net Fixed Assets	<b>125,472.5</b>	<b>138,019.8</b>	<b>151,821.8</b>	<b>167,004.0</b>	<b>183,704.4</b>	<b>202,074.8</b>
<b>Total Assets</b>						
<b>Liabilities</b>	<b>86,421.9</b>	<b>97,257.5</b>	<b>105,957.6</b>	<b>116,553.4</b>	<b>131,803.4</b>	<b>143,641.3</b>
<b>Total Deposits</b>	1,940.6	1,249.4	2,040.3	2,002.9	2,433.1	2,674.7
Due to Banks	13,820.0	13,820.0	13,820.0	13,269.0	8,510.1	8,510.1
Borrowings	4,387.3	3,919.4	3,959.2	4,206.6	4,517.3	4,874.9
Other Liabilities	<b>106,569.8</b>	<b>116,246.3</b>	<b>125,777.0</b>	<b>136,032.0</b>	<b>147,263.9</b>	<b>159,701.0</b>
<b>Total Liabilities</b>	<b>18,902.8</b>	<b>21,773.5</b>	<b>26,044.7</b>	<b>30,972.0</b>	<b>36,440.5</b>	<b>42,373.8</b>
<b>Shareholder Equity</b>	6,490.0	7,313.5	8,048.3	9,013.4	9,932.2	10,920.8



## Union National Bank (UNB)

- Exhibits safe profile with ample liquidity and benign asset quality
- We believe UNB's Dubai World exposure is unlikely to be as significant as banks making up the credit committee
- Reiterate our Buy rating and TP of AED4.8/share, trading at an attractive multiple of 0.7x FY10f PB—a 50% discount to its two-year average

**Cautious credit expansion has helped UNB continue to maintain its liquidity**, with the lowest loan-to-deposit ratio of 100%, leaving Islamic banks out. The bank holds 10% of its assets in cash and balances with the central bank and remains a net bank lender. We acknowledge that credit expansion has been soft compared with Abu Dhabi peers. We attribute this to its size, which inhibits the bank from participating in big-ticket deals. Given the current economic environment, we view the cautious expansion a positive as it helps asset quality.

**NPL ratio adjusted for the 90 day cut-off period stood at 2.0% in 2009** (versus the reported 1.5%), still comparing favorably relative to its peers with the sector average (based on our coverage) at 3.5%. We expect the NPL ratio to reach 3% this year given the current economic environment. Currently, general provisioning amounts to only 0.6% of total loan book and hence translates to an extra provisioning of AED332 million this year based on FY10f loan portfolio, well within its profitability.

**UNB's exposure to Dubai World cannot be as significant as some large local banks in the UAE, in our view.** The bank is not part of the core creditor panel (made up of seven banks with high exposure to Dubai World). Given that ICD has a stake in UNB and the bank has exposure to Dubai in its loan book, we believe it has slight exposure to Dubai World. Based on our FY10f earnings estimates, the bank will still report profits even if it writes off 2% of its total loan book.

**UNB has a robust capital base with total capital adequacy ratio at 20.7% and a Tier I ratio of 15.5%**, providing protection against any unexpected losses.

**The stock offers attractive valuations, trading at a FY10f PB multiple of 0.7x (a 45% discount to its implied PB)** and at a 47% discount to the MENA sector average. The stock rallied 58% last year after falling 71% in 2008 and currently trades at a more than 50% discount to its two-year historical average PB multiple. Given its safe profile we believe it deserves to trade at a higher multiple.

KPIs (AED mn)	2009a	2010e	2010c	2011e	2011c
Net Interest Income	1,648.1	1,800.9	-	1,940.9	-
Total Income	2,118.3	2,254.7	-	2,544.9	-
Net Income	1,160.1	1,146.4	1,085.1	1,467.1	1,381.9
Net Interest Margin	2.46%	2.45%	-	2.53%	-
Gross Loans (AED bn)	51.6	52.6	-	55.2	-
Cost to Income	30.6%	30.1%	-	27.9%	-
Gross L/D	100.6%	100.0%	-	96.0%	-
EPS	0.56	0.56	-	0.71	-
DPS	0.10	0.06	-	0.07	-
Dividend Yield	3.08%	1.71%	-	2.19%	-
P/E (x)	5.8	5.8	-	4.6	-
P/B (x)	0.8	0.7	-	0.6	-
ROAA	1.6%	1.5%	-	1.8%	-
ROAE	14.5%	12.6%	-	14.2%	-

a = actual; e/f=HC's estimates/forecasts; c=consensus estimates

## Buy

Target Price (AED)	4.80
Market Price (AED)*	3.25
Upside	47.7%

Listed On	ADX
Bloomberg	UNB UH
RIC	UNB.AD

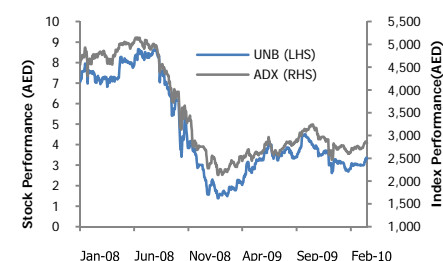
Market Cap. (AED mn)	6,703
Market Cap. (USD mn)	1,826

Number of Shares (mn)	2,062
Foreign Ownership Limit	40.0%
Foreign Ownership Level	5.6%

### Shareholder Structure

Free Float	40.0%
Abu Dhabi Inv. Council	50.0%
ICD	10.0%

### Price Performance Chart



1. \*Based on prices as of 23 March 2010

Janany Vamadeva

► +971 4 293 5384  
► janany.vamadeva@af-hc.com

Germaine Benyamin

► +971 4 293 5382  
► germaine.benyamin@af-hc.com



## UNB Financial Statements

AED million	2009a	2010f	2011f	2012f	2013f	2014f
<b>Income Statement</b>						
Interest Income	3,780.8	4,127.8	4,299.4	4,506.0	4,728.0	4,964.0
Interest Expense	2,132.7	2,326.8	2,358.5	2,471.5	2,579.9	2,672.1
<b>Net Interest Income</b>	<b>1,648.1</b>	<b>1,800.9</b>	<b>1,940.9</b>	<b>2,034.5</b>	<b>2,148.1</b>	<b>2,291.9</b>
Fees and Commissions	444.6	435.7	457.5	503.2	553.6	608.9
FX Income	40.9	40.1	42.1	46.3	51.0	56.1
Investment Income	29.9	21.4	22.4	44.9	44.9	47.2
Other Income	(45.3)	(43.4)	82.0	86.1	105.7	111.1
<b>Non-Interest Income</b>	<b>470.2</b>	<b>453.8</b>	<b>604.0</b>	<b>680.5</b>	<b>755.2</b>	<b>823.2</b>
<b>Total Income</b>	<b>2,118.3</b>	<b>2,254.7</b>	<b>2,544.9</b>	<b>2,715.1</b>	<b>2,903.4</b>	<b>3,115.1</b>
Total Operating Expenses	648.6	678.5	709.0	762.0	814.1	875.7
Pre-provision Income	1,469.6	1,576.2	1,835.9	1,953.1	2,089.3	2,239.4
Provisions	288.5	394.6	331.5	118.2	63.2	67.7
Associate and Other Income	-	-	-	-	-	-
<b>Pre-Tax Income</b>	<b>1,181.1</b>	<b>1,181.6</b>	<b>1,504.5</b>	<b>1,834.9</b>	<b>2,026.1</b>	<b>2,171.7</b>
Income Taxes	23.6	23.6	22.6	22.0	24.3	26.1
<b>Net Income After Tax</b>	<b>1,157.6</b>	<b>1,158.0</b>	<b>1,481.9</b>	<b>1,812.9</b>	<b>2,001.7</b>	<b>2,145.6</b>
Minority Interest	(2.6)	11.6	14.8	18.1	16.0	16.1
<b>Net Income</b>	<b>1,160.1</b>	<b>1,146.4</b>	<b>1,467.1</b>	<b>1,794.7</b>	<b>1,985.7</b>	<b>2,129.5</b>
<b>Balance Sheet</b>						
<b>Assets</b>						
Cash Due from Central Bank	7,878.4	9,684.2	11,900.1	14,409.7	13,901.6	13,323.9
Due from Banks	9,335.7	9,541.4	8,348.7	6,136.3	6,443.1	6,765.3
Investments	4,170.2	4,373.2	4,591.8	4,383.1	4,602.2	4,832.4
<b>Gross Loans</b>	<b>51,580.1</b>	<b>52,611.7</b>	<b>55,242.3</b>	<b>59,109.3</b>	<b>63,247.0</b>	<b>67,674.2</b>
NPL Provisions	811.6	1,206.1	1,537.6	1,655.8	1,719.1	1,786.7
<b>Net Loans</b>	<b>50,768.6</b>	<b>51,405.6</b>	<b>53,704.7</b>	<b>57,453.5</b>	<b>61,527.9</b>	<b>65,887.5</b>
Other Assets	3,199.9	4,088.1	4,504.9	4,817.6	5,071.0	5,292.1
Net Fixed Assets	372.9	419.4	437.2	461.6	499.0	546.1
<b>Total Assets</b>	<b>75,725.6</b>	<b>79,511.9</b>	<b>83,487.5</b>	<b>87,661.9</b>	<b>92,045.0</b>	<b>96,647.2</b>
<b>Liabilities</b>						
<b>Total Deposits</b>	<b>51,279.4</b>	<b>52,611.7</b>	<b>57,544.1</b>	<b>61,572.2</b>	<b>65,882.2</b>	<b>69,055.3</b>
Due to Banks	3,196.6	4,581.5	5,889.1	5,749.2	3,745.2	3,535.9
Borrowings	10,510.9	8,909.1	5,236.1	5,236.1	5,236.1	5,236.1
Other Liabilities	2,071.1	3,599.7	3,647.9	2,277.8	2,539.8	2,436.7
<b>Total Liabilities</b>	<b>67,058.0</b>	<b>69,702.1</b>	<b>72,317.3</b>	<b>74,835.3</b>	<b>77,403.4</b>	<b>80,264.0</b>
<b>Shareholder Equity</b>	<b>8,667.6</b>	<b>9,809.8</b>	<b>11,170.2</b>	<b>12,826.6</b>	<b>14,641.6</b>	<b>16,383.2</b>



## Aldar Properties

- A play on the long-term Abu Dhabi diversifications story
- Aldar is our preferred play on the sector given its strong government ties, improved liquidity position, and attractive valuation
- Reiterate Buy recommendation and TP of AED9.7/share

**Aldar is our preferred play on the sector.** With a potential favorable resolution of the Dubai debt issue, the macro overhang is likely to be lifted, allowing investors to focus on bottom-up fundamentals. In that scenario, we believe Aldar is likely to outperform as we feel the AED9.1 billion asset sale has not been fully discounted by the market. The cash injection will provide the company with much-needed liquidity over the medium-term and improve its liquidity profile. After receiving the payment, we estimate Aldar's net debt/equity ratio will drop to 72% from 115%.

**We value Aldar at AED9.7/share, implying a 32% discount to its 2010e NAV.** We value real estate companies using a combination of DCF analysis and land valuation. Where a final master plan is available, we use a sum-of-the-parts DCF. Otherwise, we rely on land valuation only. For UAE names, to be conservative, we exclude all future projects (i.e. those that are on hold or where construction work is yet to commence) and the raw land bank from our valuation. For Aldar, we exclude parts of Al Raha Beach phase 1 (including Al Dana, Al Khobayrah and Al Seef), Al Raha Beach phase 2, Yas Island phase 2, and Motor World. We value Aldar at a 32% discount to 2010e NAV of AED14.3/share. Aldar currently trades at 0.3x 2010e NAV and 1.0x 2010e BV (ex. revaluation).

**Downside risks to our valuation** include: (i) Execution risks: the sheer scale of development at Aldar will stretch management and operational capacity, introducing the risk of delays and/or even project cancellation; (ii) Unprecedented cost inflation: because of the extraordinary amount of construction activity in the region, supply bottlenecks are bound to occur, ranging from salary hikes to raw material cost appreciation. This would have a negative impact on Aldar's margins and, hence, its valuation; (iii) Governance: Aldar is operating in an underdeveloped regulatory environment where minority interests can be overlooked.

KPIs (AED mn)	FY09a	FY10e	FY10c	FY11e	FY11c
Revenue	1,980	4,889	4,649	7,490	7,243
Gross Profit	443	1,711		3,525	
GPM	22%	35%		47%	
NP	1,007	3,122	2,276	5,297	2,957
NPM	51%	64%		71%	
NP Ex. Excep/reval.	(428)	1,122	1,969	3,297	2,888
P/BV ex. reval	1.1x	1.0x	0.6x	0.8x	0.6x
P/NAV	0.3x	0.3x		0.3x	
P/E	15.4x	5.0x	5.8x	2.9x	5.0x

a = actual; e/f=HC's estimates/forecasts; c=consensus estimates

## Buy

Target Price (AED)	9.7
Market Price (AED)*	4.2
Upside	130%

Listed on	ADX
Bloomberg Code	ALDAR UH
RIC	ALDR.AD

Enterprise Value (AEDmn)	24,805
Net Debt (AEDmn)	13,926
Market Cap. (AEDmn)	10,879
Market Cap. (USDmn)	2,964
Number of Shares (mn)	2,578

Foreign Ownership Level	29.3%
Foreign Ownership Limit	40%

Daily Turnover (AEDmn)	66.8
Daily Turnover(USDmn)	18.2

### Shareholders Structure

Mubadallah	18.99%
ADIC	7.15%
NBAD	5.19%
Free Float	68.67%

### Price Performance Chart



\*Based on prices as of 23 March 2010

#### Majed Azzam

- ▶ +971 4 2935385
- ▶ majed.azzam@af-hc.com

#### Ankur Khetawat

- ▶ +971 4 2935387
- ▶ ankur.khetawat@af-hc.com

#### Nermeen Abdel Gawad

- ▶ +202 3332 8628
- ▶ ngawad@hc-si.com



## Aldar Financial Statements (AEDmn)

Year to December	2008a	2009a	2010f	2011f	2012f	2013f
<b>Income Statement</b>						
<b>Total Revenue</b>	<b>4,978</b>	<b>1,979</b>	<b>4,889</b>	<b>7,490</b>	<b>11,677</b>	<b>7,781</b>
<b>Total Costs</b>	<b>(2295)</b>	<b>(1,537)</b>	<b>(3,178)</b>	<b>(3,965)</b>	<b>(6,261)</b>	<b>(3,096)</b>
<i>% of sales</i>	<i>46%</i>	<i>78%</i>	<i>65%</i>	<i>53%</i>	<i>54%</i>	<i>40%</i>
<b>Gross Profit</b>	<b>2,683</b>	<b>443</b>	<b>1,711</b>	<b>3,525</b>	<b>5,416</b>	<b>4,685</b>
<i>Margin</i>	<i>54%</i>	<i>22%</i>	<i>35%</i>	<i>47%</i>	<i>46%</i>	<i>60%</i>
Selling and Marketing Expenses	(926)	(1,617)	(880)	(899)	(1,401)	(934)
Fair Value gain on Inv. Properties	1,533	1,961	2,000	2,000	2,000	-
Other Income	-	114	147	225	350	233
<b>Operating Expenses</b>	<b>607</b>	<b>459</b>	<b>1,267</b>	<b>1,326</b>	<b>949</b>	<b>(700)</b>
<b>EBIT (Incl. Revaluation Gain)</b>	<b>3,290</b>	<b>901</b>	<b>2,977</b>	<b>4,851</b>	<b>6,365</b>	<b>3,985</b>
<i>Margin</i>	<i>66%</i>	<i>46%</i>	<i>61%</i>	<i>65%</i>	<i>55%</i>	<i>51%</i>
Net Financing cost	(371)	(262)	145	446	611	883
Other Fin. Income/Charges	480	456	-	-	-	-
Associate Income	47	(88)	-	-	-	-
<b>Profit before Taxes</b>	<b>3,447</b>	<b>1,007</b>	<b>3,122</b>	<b>5,297</b>	<b>6,976</b>	<b>4,868</b>
Income Taxes	-	-	-	-	-	-
Minority Shareholder Interest	-	-	-	-	-	-
<b>Net Profit (Loss)</b>	<b>3,447</b>	<b>1,007</b>	<b>3,122</b>	<b>5,297</b>	<b>6,976</b>	<b>4,868</b>
<i>Margin</i>	<i>69%</i>	<i>51%</i>	<i>64%</i>	<i>71%</i>	<i>60%</i>	<i>63%</i>
<b>Basic EPS</b>	<b>1.3</b>	<b>0.4</b>	<b>1.1</b>	<b>1.4</b>	<b>1.9</b>	<b>1.3</b>
<b>Balance Sheet</b>						
Cash and Cash Equivalents	12,066	10,313	20,481	22,628	29,139	35,310
Receivables on Yas Island Asset Sale	-	9,138	-	-	-	-
Trade and Other Receivables	6,651	7,888	5,522	3,155	789	-
Receivable from Project Finance	-	-	-	-	-	-
Development Properties	7,130	10,808	6,818	5,246	1,479	609
<b>Current Assets</b>	<b>25,848</b>	<b>38,146</b>	<b>32,820</b>	<b>31,029</b>	<b>31,408</b>	<b>35,919</b>
Investments in Associates	875	627	627	627	627	627
Other Financial Assets	97	199	199	199	199	199
<b>Total Non-current Assets</b>	<b>972</b>	<b>826</b>	<b>826</b>	<b>826</b>	<b>826</b>	<b>826</b>
Intangible Assets	163	40	40	40	40	40
Hotels	-	-	545	931	916	881
Property, Plant, and Equipment	1,831	12,400	11,934	11,491	11,070	10,670
Investment Properties	20,953	14,812	21,254	26,499	29,759	30,058
<b>Permanent Assets</b>	<b>22,947</b>	<b>27,252</b>	<b>33,773</b>	<b>38,961</b>	<b>41,785</b>	<b>41,649</b>
<b>Total Assets</b>	<b>49,767</b>	<b>66,224</b>	<b>67,419</b>	<b>70,816</b>	<b>74,019</b>	<b>78,394</b>
<b>Total Current Liabilities</b>	<b>10,147</b>	<b>11,252</b>	<b>9,635</b>	<b>8,084</b>	<b>4,749</b>	<b>4,696</b>
<b>Total Non Current Liabilities</b>	<b>19,352</b>	<b>34,031</b>	<b>34,031</b>	<b>34,031</b>	<b>34,031</b>	<b>34,031</b>
<b>Shareholder Equity</b>	<b>20,268</b>	<b>20,941</b>	<b>23,753</b>	<b>28,702</b>	<b>35,238</b>	<b>39,667</b>
<b>Cash Flow Statement</b>						
<b>Net profit</b>	<b>3,447</b>	<b>1,007</b>	<b>3,122</b>	<b>5,297</b>	<b>6,976</b>	<b>4,868</b>
Change in Working Capital	-	(693)	13,877	2,387	2,799	1,606
Other Operating Activities	(2,097)	(1,338)	(1,370)	(1,369)	(1,382)	596
<b>Net Cash Generated from Operating Activities</b>	<b>1,351</b>	<b>(1,025)</b>	<b>15,629</b>	<b>6,315</b>	<b>8,393</b>	<b>7,070</b>
Capex (Excl. Hotel Properties)	(1,485)	(837)	(4,592)	(3,396)	(1,410)	(449)
Additions to Hotels Properties	-	-	(559)	(424)	(32)	(11)
Additions to Investment Properties	(11,762)	(14,537)	-	-	-	-
Other Investments	(4,523)	1,888	-	-	-	-
<b>Net Cash Generated from Investment Activities</b>	<b>(17,771)</b>	<b>(13,485)</b>	<b>(5,151)</b>	<b>(3,820)</b>	<b>(1,442)</b>	<b>(460)</b>
<b>Net Cash Generated from Financing Activities</b>	<b>16,224</b>	<b>13,967</b>	<b>(309)</b>	<b>(349)</b>	<b>(440)</b>	<b>(440)</b>
<b>Net addition (Deduction) in Cash</b>	<b>(196)</b>	<b>(543)</b>	<b>10,168</b>	<b>2,147</b>	<b>6,511</b>	<b>6,170</b>
Cash at Beginning of Fiscal Year	6,799	12,066	11,523	21,691	23,839	30,350
<b>Cash at End of Fiscal Year</b>	<b>12,066</b>	<b>11,523</b>	<b>21,691</b>	<b>23,839</b>	<b>30,350</b>	<b>36,520</b>

## Emaar Properties

- **A play on global recovery through exposure to overseas markets and investment portfolio (retail and hospitality)**
- **Overhang on price performance mainly due to Dubai debt issue; Emaar's fundamentals remain strong**
- **Reiterate Buy recommendation and TP of AED6.6/share**

**A play on global recovery given its exposure to overseas markets and its investment portfolio (retail and hospitality).** We estimate that the overall contribution from the international business has almost doubled to 45% from 27% at the beginning of last year. Going forward we expect this trend to persist, in part due to project delays and cancellations in Dubai following the crisis, but mainly because Emaar's Dubai land bank is rapidly depleting. We also feel retail (c95%) and hotel occupancy (c85%) will continue showing improvement in 2010 on the back of improved tourism activity, driven by global recovery.

**We believe Emaar's fundamental value is likely to be unlocked.** When the Dubai debt restructuring process unfolds, we believe Emaar is less exposed to systematic risk and will most likely outperform its peers mainly on strong fundamentals once a favorable outcome to the debt issue is reached. Also, the company's liquidity position remains comfortable with net debt/equity of 18% and operating cash flows sufficient to meet short-term obligations of AED4.4 billion. Emaar currently trades at 0.3x 2010e NAV (Aldar at 0.3x, Sorouh at 0.4x) and 0.7x 20010e BV (Aldar at 1.0x [ex-reval.], Sorouh at 0.9x).

**We reiterate our Buy recommendation on Emaar with a TP of AED6.6/share and a 49% discount to its 2010e NAV of AED12.9/share.** We value real estate companies using a combination of DCF analysis and land valuation. Where a final master-plan is available, we use a sum of the parts DCF. Otherwise, we rely on land valuation only. For UAE sale projects, considering the severity of the downturn, we assume all future projects are canceled and only include those that are nearing completion. For international sale projects, we apply a 50% probability. We value Emaar at a 49% discount to its 2010 NAV of AED12.9/share.

**Downside risks to our valuation** include: (i) Oversupply: a potential oversupply in Dubai would have a negative implication on future sales, thus forcing Emaar to abandon some projects; (ii) Currency revaluation: any currency revaluation would lead to translation losses, since contribution from foreign subsidiaries and the value of foreign investments would decline; (iii) Governance: Emaar still operates in an underdeveloped regulatory environment, where minority interests can be overlooked (e.g. the share for land swap in 2007); (iv) Execution: the sheer scale and geographic spread of developments might stretch management and operational capacity, introducing the risk of delays and conception.

KPIs (AED mn)	2009a	2010e	2010c	2011f	2011c
Revenue	8,413	10,283	11,656	5,954	9,675
Gross Profit	4,100	4,901		3,332	
GPM	49%	48%		56%	
NP	327	2,801	3,768	3,479	2,935
NPM	4%	27%	32%	58%	30%
NP ex. w/o	2,324				
P/BV	0.8x	0.7x	0.7x	0.7x	0.6x
P/NAV	0.3x	0.3x		0.3x	
P/E	70.2x	8.2x	6.5x	6.6x	7.9x

a = actual; e/f=HC's estimates/forecasts; c=consensus estimates

## Buy

Target Price (AED)	6.6
Market Price (AED)*	3.8
Upside	75%

Listed on	DFM
Bloomberg Code	EMAAR UH
RIC	EMAR.DU

Enterprise Value (AEDmn)	28,394
Net Debt (AEDmn)	5,108
Market Cap. (AEDmn)	22,963
Market Cap. (USDmn)	6,257
Number of Shares (mn)	6,091

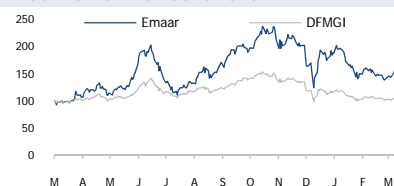
Foreign Ownership Level	20.2%
Foreign Ownership Limit	49.0%

Daily Turnover (AEDmn)	247.4
Daily Turnover(USDmn)	67.4

### Shareholder Structure

Dubai Government	31.2%
Free Float	68.8%

### Price Performance Chart



\*Based on prices as of 23 March 2010

### Majed Azzam

- +971 4 2935385
- majed.azzam@af-hc.com

### Ankur Khetawat

- +971 4 2935387
- ankur.khetawat@af-hc.com

### Nermeen Abdel Gawad

- +202 3332 8628
- ngawad@hc-si.com

## Emaar Financial Statements

Year to December (AED million)	2008a	2009e*	2010f	2011f	2012f	2013f
<b>Income Statement</b>						
<b>Total Revenue</b>	<b>16,015</b>	<b>7,543</b>	<b>10,283</b>	<b>5,954</b>	<b>14,211</b>	<b>11,118</b>
<b>Total Cost</b>	<b>(8,120)</b>	<b>(3,844)</b>	<b>(5,382)</b>	<b>(2,622)</b>	<b>(7,790)</b>	<b>(6,110)</b>
<i>% of sales</i>	<i>51%</i>		<i>52%</i>	<i>44%</i>	<i>55%</i>	<i>55%</i>
<b>Gross Profit</b>	<b>7,895</b>	<b>3,699</b>	<b>4,901</b>	<b>3,332</b>	<b>6,421</b>	<b>5,008</b>
<i>Margin</i>	<i>49%</i>	<i>49%</i>	<i>48%</i>	<i>56%</i>	<i>45%</i>	<i>45%</i>
SGA Expenses	(2,283)	(1,897)	(2,083)	(595)	(1,421)	(1,112)
W/O Development Properties	(1,084)	(1,793)	-	-	-	-
Other Operating Expenses	467	204	206	120	285	222
<b>Total Operating Expenses</b>	<b>(2,900)</b>	<b>(3,486)</b>	<b>(1,878)</b>	<b>(476)</b>	<b>(1,137)</b>	<b>(889)</b>
<b>EBIT (incl Revaluation Gain)</b>	<b>4,995</b>	<b>213</b>	<b>3,024</b>	<b>2,856</b>	<b>5,284</b>	<b>4,119</b>
<i>Margin</i>	<i>31%</i>	<i>3%</i>	<i>29%</i>	<i>48%</i>	<i>37%</i>	<i>37%</i>
Net Financing Cost	341	176	(6)	(86)	(19)	49
Other Fin. Income/charges	-	-	-	-	-	-
Associate Income	265	(336)	48	951	1,029	1,060
W/Off of US Business Goodwill	(2,948)	(-1,997)	-	-	-	-
<b>Profit before Taxes</b>	<b>2,653</b>	<b>54</b>	<b>3,065</b>	<b>3,721</b>	<b>6,294</b>	<b>5,228</b>
Income Taxes	3	(17)	(153)	(186)	(315)	(261)
Minority Shareholders	25	(6)	110	56	544	599
<b>Net Profit (Loss)</b>	<b>2,630</b>	<b>43</b>	<b>2,801</b>	<b>3,479</b>	<b>5,436</b>	<b>4,368</b>
<i>Margin</i>	<i>16%</i>	<i>4%</i>	<i>27%</i>	<i>58%</i>	<i>38%</i>	<i>39%</i>
<b>EPS</b>	<b>0.4</b>	<b>0.0</b>	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>0.7</b>
<b>Balance Sheet</b>						
Cash and Cash Equivalents	5,393	3,170	4,765	6,497	9,498	12,575
Trade and Other Receivables	1,058	815	635	423	212	-
Development Properties	26,799	25,483	21,457	18,478	9,522	524
Short-Term Investment	867	977	977	977	977	977
Other Current Assets	3,511	3,617	3,617	3,617	3,617	3,617
<b>Total Current Assets</b>	<b>37,629</b>	<b>34,062</b>	<b>31,451</b>	<b>29,992</b>	<b>23,827</b>	<b>17,693</b>
Investments in Associates	8,314	7,692	7,740	8,691	9,720	10,781
Loans to Associates	1,636	2,235	2,235	2,235	2,235	2,235
<b>Total Non Current Assets</b>	<b>9,950</b>	<b>9,928</b>	<b>9,976</b>	<b>10,927</b>	<b>11,956</b>	<b>13,016</b>
Intangible asset	439	439	439	439	439	439
Hotels	-	163	365	347	329	313
Property, Plant, and Equipment	5,414	5,829	6,085	6,329	6,561	6,782
Investment Properties	13,248	13,227	13,720	14,382	15,027	15,705
<b>Permanent Assets</b>	<b>19,102</b>	<b>19,658</b>	<b>20,610</b>	<b>21,497</b>	<b>22,357</b>	<b>23,239</b>
<b>Total Assets</b>	<b>66,680</b>	<b>63,648</b>	<b>62,036</b>	<b>62,417</b>	<b>58,139</b>	<b>53,948</b>
<b>Total Current Liabilities</b>	<b>32,354</b>	<b>30,114</b>	<b>25,591</b>	<b>22,997</b>	<b>13,435</b>	<b>5,365</b>
<b>Total Non Current Liabilities</b>	<b>5,726</b>	<b>5,081</b>	<b>5,081</b>	<b>5,081</b>	<b>5,081</b>	<b>5,081</b>
<b>Shareholder's Equity</b>	<b>28,601</b>	<b>28,453</b>	<b>31,365</b>	<b>34,339</b>	<b>39,623</b>	<b>43,503</b>
<b>Cash Flow Statement</b>						
<b>Net profit</b>	<b>3,068</b>	<b>36</b>	<b>2,911</b>	<b>3,535</b>	<b>5,979</b>	<b>4,967</b>
Change in Working Capital	(1,152)	(3,888)	(317)	597	(394)	1,140
Other Operating Activities	4,173	2596	660	692	719	746
<b>Net Cash Generated from Operating Activities</b>	<b>6,088</b>	<b>(1,256)</b>	<b>3,255</b>	<b>4,822</b>	<b>6,303</b>	<b>6,852</b>
Capex (Excl. Hotel Properties)	(5,845)	(1,000)	(1,395)	(1,579)	(1,577)	(1,628)
Additions to Hotels Properties	-	(165)	(217)	-	-	-
Additions to Investment Properties	(149)	-	-	-	-	-
Other Investments	3,188	(1,168)	(48)	(951)	(1,029)	(1,060)
<b>Net Cash Generated from Investment Activities</b>	<b>(2,807)</b>	<b>(2,332)</b>	<b>(1,660)</b>	<b>(2,530)</b>	<b>(2,606)</b>	<b>(2,688)</b>
<b>Net Cash Generated from Financing Activities</b>	<b>329</b>	<b>850</b>	<b>-</b>	<b>(560)</b>	<b>(696)</b>	<b>(1,087)</b>
<b>Net addition (Deduction) in Cash</b>	<b>3,610</b>	<b>(2,739)</b>	<b>1,595</b>	<b>1,732</b>	<b>3,001</b>	<b>3,076</b>
Cash at Beginning of Fiscal Year	6,799	10,410	7,671	9,266	10,998	13,999
<b>Cash at End of Fiscal Year</b>	<b>10,410</b>	<b>7,671</b>	<b>9,266</b>	<b>10,998</b>	<b>13,999</b>	<b>17,075</b>

\* HC estimates as full financials not out yet

## Dana Gas

- **Kurdish operation has large potential but remains an overhang given political concerns**
- **We believe Egyptian operation may be partially or fully divested to fund new upstream ventures; alternatively, Dana Gas could implement a capacity increase, incentivizing bidding for new concessions**
- **Reiterate Buy and TP of AED1.43/share with a 58.9% upside**

**Kurdish operation is a core value driver that is being heavily underpriced by the market mainly due to political concerns.** Kurdish subsidiary Pearl Petroleum has strong reserve potential and good economics, supported by the implied valuation from the acquisition of a 20% stake by MOL and OMV. An ease in political tensions between Kurds and Arabs in Baghdad and the resumption of exports by foreign oilfield operators are key drivers for the Kurdish operation. Imminent drivers would be the announcement of the result of field appraisals, the receipt of payment for already commenced condensate sales by Pearl Petroleum and securing sales to local users (Phase II). We conservatively value the Kurdish operation at a 20% discount to the OMV-MOL deal-implied valuation and a 40% discount to value potential, yielding AED0.69/share.

**Dana Gas Egypt is the company's only relatively mature asset and could be considered for divestment in the medium term to fund other ventures.** Given recent successes on exploration and production, which the market has somewhat exaggeratedly reacted to, the company could get a decent price for its Egyptian operation to finance current and potential investments. Dana Gas is looking to expand and diversify its upstream assets, recently bidding (and losing) as part of a consortium in Algeria's recent oilfield rounds. We value the Egyptian operation using a combination of NAV and scenario-weighted DCF, yielding AED0.75/share.

**We expect the UAE Gas Project to eventually come to fruition despite numerous delays** since most CAPEX related to the project has been spent by the UAE and Iranian sides. Dana Gas's main shareholder Crescent Petroleum is in arbitration proceedings with the National Iranian Oil Company (NIOC), which could be a lengthy process. With limited visibility on a start date, we value the project at cost, yielding AED0.18/share. Assuming the project kicks off in 2011f, it would add AED0.22–AED0.30/share to our valuation.

**We reiterate our Buy recommendation on Dana Gas and a sum-of-the-parts (SOTP) TP of AED1.43/share (59% upside).** Current price levels value the company at less than the Egyptian operation's NAV plus investments, nearly ignoring all other ventures. Potential catalysts not reflected in our share price could add AED0.89/share to our valuation. These include (i) the realization of the full value potential of Kurdistan (conditional upon successful reserve exploitation and an improved political climate), (ii) the commencement of the UAE Gas Project, and (iii) the possible divestment of or any other value-accretive development for the Egyptian operation (such as processing capacity expansion).

KPIs (USD mn)	2009a	2010e	2010c	2011e	2011c
Net Revenue	238	354	511	519	714
EBITDAX	178	271	433	415	538
EBITDAX Margin	74.8%	76.4%	84.7%	80.0%	75.4%
Net Income	24	83	104	192	300
P/E	-	18.25x	14.29x	7.65x	4.90x
EV/EBITDA	10.32x	5.98x	4.61x	3.26x	3.12x

a = actual; e/f = HC's estimates/forecasts; c = consensus estimates

## Buy

Target Price (AED)	1.43
Market Price (AED)*	0.90
Upside	58.9%

Listed On	DFM
Bloomberg	DANA UH
RIC	DANA.DU

Enterprise Value (AED mn)	5,943
Net Debt (AED mn)	2,173
Market Cap. (AED mn)	5,400
Market Cap. (USD mn)	1,784

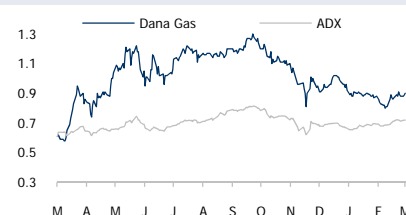
Number of Shares (mn)	6,000
Foreign Ownership Limit	49.0%
Foreign Ownership Level	27.9%

Daily Turnover (AED mn)	22.8
Daily Turnover (USD mn)	6.2

### Shareholder Structure

Free Float	34.3%
Crescent Petroleum	20.4%
Other Investors	5.6%

### Price Performance Chart



\*Based on prices as of 23 March 2010

### Hatem Alaa

► +202 233328 614  
► halaa@hc-si.com

### Mai Nehad

► +202 233328 626  
► mnehad@hc-si.com

## Dana Gas Financial Statements

USD million	2009a	2010e	2011f	2012f	2013f	2014f
<b>Income Statement</b>						
Gross Revenue	349	495	660	557	454	414
Royalties	(111)	(141)	(141)	(141)	(125)	(112)
<b>Net Revenue</b>	<b>238</b>	<b>354</b>	<b>519</b>	<b>416</b>	<b>329</b>	<b>303</b>
Cost of Sales	(33)	(59)	(77)	(78)	(74)	(72)
<b>Gross Profit (Ex-Depreciation)</b>	<b>205</b>	<b>296</b>	<b>442</b>	<b>339</b>	<b>254</b>	<b>231</b>
<i>Gross Margin</i>	<i>86.1%</i>	<i>83.4%</i>	<i>85.2%</i>	<i>81.4%</i>	<i>77.4%</i>	<i>76.3%</i>
G&A Expenses	(27)	(25)	(27)	(29)	(31)	(33)
<b>EBITDAX</b>	<b>178</b>	<b>271</b>	<b>415</b>	<b>310</b>	<b>224</b>	<b>198</b>
<i>EBITDAX Margin</i>	<i>74.8%</i>	<i>76.4%</i>	<i>80.0%</i>	<i>74.5%</i>	<i>68.1%</i>	<i>65.47%</i>
Exploration Expenses	(119)	(6)	(6)	(6)	(5)	(5)
<b>EBITDA</b>	<b>59</b>	<b>265</b>	<b>409</b>	<b>304</b>	<b>219</b>	<b>194</b>
Depreciation & Depletion	(86)	(85)	(103)	(103)	(103)	(103)
<b>EBIT</b>	<b>(27)</b>	<b>180</b>	<b>306</b>	<b>201</b>	<b>115</b>	<b>91</b>
Net Interest Income (Expense)	(46)	(29)	(44)	(46)	15	22
Revaluation Gains (Losses)	(70)	-	-	-	-	-
Other Income (Expenses)	215	6	6	154	6	6
<b>Pre-Tax Income</b>	<b>72</b>	<b>157</b>	<b>268</b>	<b>309</b>	<b>137</b>	<b>119</b>
Taxes	(48)	(76)	(76)	(76)	(68)	(60)
<b>Net Income</b>	<b>24</b>	<b>81</b>	<b>192</b>	<b>233</b>	<b>69</b>	<b>59</b>
<i>Net Margin</i>	<i>10.1%</i>	<i>22.7%</i>	<i>37.1%</i>	<i>56.0%</i>	<i>21.0%</i>	<i>19.4%</i>
<b>Balance Sheet</b>						
Cash and Equivalents	213	381	647	299	471	634
Trade Receivables	199	184	226	261	290	316
Trading Investments	9	8	8	-	-	-
Other Current Assets	48	69	77	83	88	92
<b>Total Current Assets</b>	<b>469</b>	<b>641</b>	<b>958</b>	<b>643</b>	<b>848</b>	<b>1,043</b>
Net Fixed Assets	941	865	801	714	622	527
Intangible Assets	1,379	1,435	1,422	1,409	1,396	1,383
Investments	283	330	330	-	-	0
Investment Property	39	55	55	55	55	55
<b>Total Non-Current Assets</b>	<b>2,642</b>	<b>2,685</b>	<b>2,608</b>	<b>2,178</b>	<b>2,073</b>	<b>1,965</b>
<b>Total Assets</b>	<b>3,111</b>	<b>3,326</b>	<b>3,565</b>	<b>2,822</b>	<b>2,921</b>	<b>3,008</b>
Trade Payables	63	93	127	153	175	194
Other Current Liabilities	64	73	87	98	107	116
<b>Total Current Liabilities</b>	<b>127</b>	<b>166</b>	<b>213</b>	<b>251</b>	<b>282</b>	<b>310</b>
Convertible Sukuk	871	867	867	-	-	0
Other Non-Current Liabilities	14	10	10	10	10	10
<b>Total Non-Current Liabilities</b>	<b>885</b>	<b>877</b>	<b>877</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total Shareholder Equity</b>	<b>2,099</b>	<b>2,283</b>	<b>2,475</b>	<b>2,560</b>	<b>2,629</b>	<b>2,688</b>



## Aramex

- **Signs of volume recovery and continued margin strength are positive for 2010e outlook**
- **Around USD100 million could be spent over next two years on acquisitions and greenfield investments, in addition to USD60–USD65 million on resumed logistics spending**
- **Reiterate Buy with a TP of AED2.28/share (23% upside)**

**We remain positive on Aramex as it is a relatively insulated play from current woes in the UAE.** The company enjoys a leading position in the Middle East as a one-stop-shop for transportation and logistics solutions. Express services are modestly affected by economic slowdowns and are mostly price inelastic.

**Margin story that catalyzed the share price in 2009 is likely to remain intact in 2010e.** Despite a 6% YoY drop in revenue in 2009, the company posted strong net income growth of 25% driven by significant margin improvement (661 bps for gross margin and 229 bps for EBITDA margin) as Aramex benefited from cheap transportation costs and low operating leverage thanks to its asset-light structure. Volumes are starting to recover as 4Q09 revenue rebounded 5% YoY with strong margins likely to remain intact in 2010e as airlines are still plagued with excess capacity. Numbers in 2010e would be further supported by price increases in select markets, mirroring competition.

**The company will spend up to USD100 million over the next two years for expansions through acquisitions and greenfields.** After a year of very strong results, we believe the company is well poised for acquisitions and joint ventures with main countries of interest being in Africa, Southeast Asia, and the CIS. The company will start a slew of expansions in 2010e, capitalizing on its AED502 million cash balance (over 40% of tangible assets) and negligible debt. Aramex is in talks to sign a joint venture in 1H10 with a Chinese firm to benefit from the country's strong economic prospects. On top of planned expansions in Asia (including India), the company hopes to achieve a presence in at least 10 new markets in Africa (such as Tanzania, Uganda, and Kenya) and the CIS over the next two years.

**Further catalysts include resumption of logistics investments.** The company will resume investments in warehouses with around USD60–USD65 million earmarked for the next 18 months. Aramex will establish a logistics center in Oman as a joint venture with Oman's Zubair Corporation and resume work at its large facility at Dubai Logistics City.

**We reiterate our Buy recommendation on Aramex and TP of AED2.28/share,** which offers an upside of 23% to the current market price. The stock is currently trading at a P/E (10e) of 12.85x, which represents a decent discount to its historical 1-year leading P/E that ranged between 14–16x.

KPIs (AED mn)	2009a	2010e	2010c	2011e	2011c
Revenue	1,961	2,100	2,080	2,390	2,331
EBITDA	251	276	278	309	306
EBITDA Margin	12.8%	13.1%	13.4%	12.9%	13.1%
Net Income	184	193	192	220	209
EPS Growth	25%	5%	4%	14%	9%
DPS	-	0.04	0.08	0.05	0.09
P/E	13.44x	12.85x	12.90x	11.24x	11.83x
EV/EBITDA	8.08x	7.25x	7.42x	6.26x	6.49x
Dividend Yield	-	2.3%	4.3%	2.7%	4.7%

a = actual; e/f=HC's estimates/forecasts; c=consensus estimates

## Buy

Target Price (AED)	2.28
Market Price (AED)*	1.86
Upside	22.6%

Listed On	DFM
Bloomberg	ARMX.UH
RIC	ARMX.DU

Enterprise Value (AED mn)	2,033
Net Debt (AED mn)	(533)
Market Cap. (AED mn)	2,476
Market Cap. (USD mn)	675

Number of Shares (mn)	1,331
Foreign Ownership Limit	49.0%
Foreign Ownership Level	34.1%

Daily Turnover (AEDm)	20.9
Daily Turnover (USDm)	3.0

### Shareholder Structure

Free Float	55.0%
Levant Logistics	9.9%
Mashreq Capital Ltd.	5.6%
Others	29.5%

### Price Performance Chart



\*Based on prices as of 23 March 2010

Hatem Alaa

► +202 233328 614  
► halaa@hc-si.com

## Aramex Financial Statements

AED million	2009a	2010f	2011f	2012f	2013f	2014f
<b>Income Statement</b>						
Domestic Express	302	333	391	453	512	571
International Express	627	669	769	879	997	1,122
Freight Forwarding	759	798	889	1,033	1,199	1,386
Logistics	124	144	171	211	268	347
Others	149	156	171	187	205	223
<b>Revenue</b>	<b>1,961</b>	<b>2,100</b>	<b>2,390</b>	<b>2,763</b>	<b>3,181</b>	<b>3,650</b>
<i>Revenue Growth</i>	<i>-5.7%</i>	<i>7.1%</i>	<i>13.8%</i>	<i>15.6%</i>	<i>15.1%</i>	<i>14.7%</i>
<b>Cost of Service</b>	<b>(853)</b>	<b>(930)</b>	<b>(1,081)</b>	<b>(1,292)</b>	<b>(1,523)</b>	<b>(1,785)</b>
<b>Gross Profit</b>	<b>1,108</b>	<b>1,170</b>	<b>1,309</b>	<b>1,471</b>	<b>1,658</b>	<b>1,864</b>
<i>Gross Margin</i>	<i>56.5%</i>	<i>55.7%</i>	<i>54.8%</i>	<i>53.2%</i>	<i>52.1%</i>	<i>51.1%</i>
SG&A Expenses	(458)	(475)	(537)	(605)	(683)	(770)
Other Operating Expenses	(399)	(419)	(463)	(517)	(578)	(646)
<b>EBITDA</b>	<b>251</b>	<b>276</b>	<b>309</b>	<b>349</b>	<b>397</b>	<b>448</b>
<i>EBITDA Margin</i>	<i>12.8%</i>	<i>13.1%</i>	<i>12.9%</i>	<i>12.6%</i>	<i>12.5%</i>	<i>12.3%</i>
<i>EBITDA Growth</i>	<i>14.8%</i>	<i>10.0%</i>	<i>11.9%</i>	<i>12.8%</i>	<i>14.0%</i>	<i>12.7%</i>
Depreciation	(45)	(52)	(54)	(61)	(66)	(67)
Net Interest Expense	12	13	18	21	25	30
Other Income	(0)	2	2	2	2	2
<b>Pre-tax Income</b>	<b>218</b>	<b>239</b>	<b>275</b>	<b>311</b>	<b>359</b>	<b>413</b>
Taxes	(11)	(16)	(19)	(22)	(25)	(29)
<b>Pre-Minority Net Income</b>	<b>207</b>	<b>224</b>	<b>256</b>	<b>289</b>	<b>334</b>	<b>385</b>
Minority Interest	(22)	(31)	(35)	(40)	(46)	(53)
<b>Net Income Before Appropriations</b>	<b>184</b>	<b>193</b>	<b>220</b>	<b>249</b>	<b>288</b>	<b>332</b>
<i>Net Margin</i>	<i>9.4%</i>	<i>9.2%</i>	<i>9.2%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>9.1%</i>
<i>Net Income Growth</i>	<i>25.0%</i>	<i>4.8%</i>	<i>14.3%</i>	<i>13.0%</i>	<i>15.6%</i>	<i>15.3%</i>
Appropriations	(2)	(2)	(2)	(2)	(3)	(3)
<b>Net Income After Appropriations</b>	<b>183</b>	<b>191</b>	<b>218</b>	<b>246</b>	<b>285</b>	<b>328</b>
<b>Balance Sheet</b>						
Cash	502	543	648	802	1,033	1,296
Receivables	349	390	447	499	576	652
Other Current Assets	87	109	110	111	111	112
<b>Total Current Assets</b>	<b>938</b>	<b>1,043</b>	<b>1,205</b>	<b>1,412</b>	<b>1,720</b>	<b>2,060</b>
Property Plant and Equipment	247	315	361	384	372	363
Goodwill and Other Intangibles	859	859	859	859	859	859
Other Non-current Assets	14	16	17	17	18	19
<b>Total Non-current Assets</b>	<b>1,120</b>	<b>1,190</b>	<b>1,237</b>	<b>1,261</b>	<b>1,250</b>	<b>1,241</b>
<b>Total Assets</b>	<b>2,058</b>	<b>2,233</b>	<b>2,442</b>	<b>2,673</b>	<b>2,970</b>	<b>3,301</b>
Short-Term Debt	16	10	10	10	11	12
Payables	118	132	139	142	174	199
Distributions Payable	-	60	68	77	89	103
Other Current Liabilities	232	240	246	253	261	270
<b>Total Current Liabilities</b>	<b>367</b>	<b>441</b>	<b>463</b>	<b>482</b>	<b>535</b>	<b>583</b>
Long-Term Debt	6	-	-	-	-	-
Other Long-Term Liabilities	61	59	59	59	59	59
<b>Total Long-Term Liabilities</b>	<b>67</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>59</b>
<b>Shareholder Equity</b>	<b>1,624</b>	<b>1,733</b>	<b>1,920</b>	<b>2,132</b>	<b>2,376</b>	<b>2,659</b>

## Drake and Scull International (DSI)

- **Unique contractor specialized in high-tech infrastructure projects that yield attractive margins**
- **Key beneficiary of significant infrastructure spending in the MENA region in 2010 and private sector investments in 2011 as a result of improving economies**
- **Reiterate Buy with a fair value of AED1.22/share (upside of 24.5%)**

**DSI's business model makes it the highest margin generator among select peers as it relies more on IWP and MEP projects that are at a higher margin compared to ordinary civil construction contracts.** We believe DSI's key advantage lies in its segmental and geographical diversification, the high technology it provides, and its brand name. The company operates in the GCC, Germany, and Thailand, among others.

**With 45% of its market cap as net cash on its books, DSI plans intensive acquisitions across the region.** It has already acquired two companies in Kuwait and Germany and established a strategic alliance with a Spanish company in 4Q09. DSI mainly targets countries with developing infrastructure and high planned public expenditures. We believe Saudi Arabia, Qatar, Algeria, Libya, and Kuwait will be key markets for DSI in 2010/11. Assuming DSI makes acquisitions worth AED1.5 billion by 2012f, revenue would be 77% higher than our base estimates, EBITDA 36% higher, and net income 30% higher. This yields a fair value 11% higher than our base case valuation.

**Intensive infrastructure spending in the MENA region in 2010 and private sector investments in 2011 are key drivers for DSI's backlog and revenue growth.** Assuming DSI captures a 5% market share of GCC infrastructure contracts, it will add to its backlog AED2.2 billion per year until 2015, which is in line with our estimated average yearly awards. However, this assumption excludes other regional markets such as Libya and Algeria and sectors such as real estate. The company was awarded contracts worth AED1 billion in 1Q10 versus our estimate of AED1.4 billion for 2010e, reaffirming our positive view on the regional construction sector.

**We reiterate our Buy recommendation based on a DCF valuation that yielded a fair value of AED1.22/share (23.3% upside).** The company has announced a DPS of AED0.07 for 2009, offering a dividend yield of 7%. We believe further infrastructure expenditures, higher economic growth, additional investments by the private sector, and DSI's expansions are the main stock catalysts.

KPIs (AED mn)	2009a*	2010e	2010c	2011f	2011c
Revenue (AED mn)	2,212	2,040	1,909	2,180	1,977
EBITDA (AED mn)	280	278	212	304	213
EBITDA Margin	12.6%	13.6%	11.1%	13.9%	10.8%
Net Income (AED m)	334	280	227	303	221
EPS Growth	-	-16%	-32%	8.5%	-3%
DPS	0.070	-	-	0.03	-
P/E	6.38x	7.64x	9.39x	7.04x	9.66x
EV/EBITDA	6.00x	4.34x	-	3.30x	-
Dividend Yield	7.1%	-	-	2.8%	-

\*Fiscal year from 17 November 2008 to 31 December 2009

a = actual; e/f = HC's estimates/forecasts; c = consensus estimates

## Buy

Target Price (AED)	1.22
Market Price (AED)*	0.98
Upside	24.5%

Listed On	DFM
Bloomberg Code	DSI.UH
RIC	DSI.DU

Enterprise Value (AED mn)	1,208
Net Debt (AED mn)	(955)
Market Cap. (AED mn)	2,134
Market Cap. (USD mn)	581

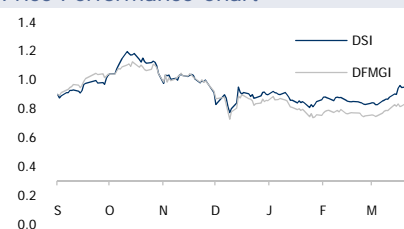
Number of Shares (mn)	2,177.8
Foreign Ownership Limit	49%
Foreign Ownership Level	38.6%

Avg. Daily Turnover (AEDm)	27.7
Avg. Daily Turnover (USDm)	7.5

### Shareholder Structure

Free Float	55.0%
CEO	26.1%
DS Group	5.2%
Others	13.7%

### Price Performance Chart



\*Based on prices as of 23 March 2010

Menna El Hefnawy

► +202 233328 632

► melhefnawy@hc-si.com





## DSI Financial Statements

AED million	2009a*	2010f	2011f	2012f	2013f	2014f
<b>Income Statement</b>						
<b>Revenues</b>	<b>2,212</b>	<b>2,040</b>	<b>2,180</b>	<b>2,330</b>	<b>2,448</b>	<b>2,520</b>
<i>Revenue Growth</i>	<i>28.6%</i>	<i>10.3%</i>	<i>6.9%</i>	<i>6.9%</i>	<i>5.0%</i>	<i>3.0%</i>
Direct Costs	(1,749)	(1,663)	(1,772)	(1,897)	(1,995)	(2,054)
<b>Gross Profit</b>	<b>462</b>	<b>376</b>	<b>408</b>	<b>433</b>	<b>453</b>	<b>466</b>
<i>GPM</i>	<i>20.9%</i>	<i>18.4%</i>	<i>18.7%</i>	<i>18.6%</i>	<i>18.5%</i>	<i>18.5%</i>
SG&A	(183)	(98)	(105)	(116)	(122)	(126)
<b>EBITDA</b>	<b>280</b>	<b>278</b>	<b>304</b>	<b>317</b>	<b>330</b>	<b>340</b>
<i>EBITDA Margin</i>	<i>12.6%</i>	<i>13.6%</i>	<i>13.9%</i>	<i>13.6%</i>	<i>13.5%</i>	<i>13.5%</i>
Depreciation	(26)	(27)	(32)	(37)	(39)	(43)
Net Interest Income (Expense)	(17)	31	39	48	57	61
Other Non Operation Income (Expense)	139	2	3	2	2	2
<b>Pre-tax Net Profit</b>	<b>337</b>	<b>284</b>	<b>313</b>	<b>330</b>	<b>350</b>	<b>361</b>
Income Tax	(0.9)	(1.4)	(6.8)	(7.2)	(7.6)	(7.8)
<b>Pre-minority Net Income</b>	<b>337</b>	<b>283</b>	<b>307</b>	<b>323</b>	<b>343</b>	<b>353</b>
Minority Interest	(2.1)	(3.1)	(3.4)	(3.6)	(3.8)	(3.9)
<b>Net Income</b>	<b>334</b>	<b>280</b>	<b>303</b>	<b>319</b>	<b>339</b>	<b>349</b>
<i>NPM</i>	<i>15.1%</i>	<i>13.7%</i>	<i>13.9%</i>	<i>13.7%</i>	<i>13.8%</i>	<i>13.8%</i>
<b>Balance Sheet</b>						
Cash, Excess, and Marketable Securities	1,160	1,325	1,526	1,686	1,861	2,044
Net Accounts Receivables	1,230	1,101	1,188	1,258	1,346	1,431
Other Current Assets	541	322	344	368	387	398
<b>Total Current Assets</b>	<b>2,944</b>	<b>2,759</b>	<b>3,069</b>	<b>3,324</b>	<b>3,606</b>	<b>3,886</b>
Long-Term Investments	219	36	37	38	38	39
Goodwill	822	830	830	830	830	830
Other Non-Current Assets	204	275	294	315	330	340
Net Fixed Assets	212	295	366	439	516	592
<b>Total Long-Term Assets</b>	<b>1,457</b>	<b>1,436</b>	<b>1,527</b>	<b>1,622</b>	<b>1,715</b>	<b>1,802</b>
<b>Total Assets</b>	<b>4,401</b>	<b>4,195</b>	<b>4,596</b>	<b>4,945</b>	<b>5,321</b>	<b>5,688</b>
Short-Term Debt and CPLTD	503	135	174	180	185	188
Accounts Payable	786	571	610	652	685	706
Other Current Liabilities	372	405	439	433	444	449
<b>Total Current Liabilities</b>	<b>1,661</b>	<b>1,111</b>	<b>1,224</b>	<b>1,266</b>	<b>1,314</b>	<b>1,343</b>
Total Long-Term Debt	160	235	191	147	104	60
Other Non-Current Liabilities	64	30	32	34	35	37
Minority Interest	39	28	32	35	39	43
<b>Total Long-Term Liability</b>	<b>263</b>	<b>293</b>	<b>254</b>	<b>216</b>	<b>178</b>	<b>140</b>
<b>Total Liabilities</b>	<b>1,924</b>	<b>1,404</b>	<b>1,478</b>	<b>1,482</b>	<b>1,492</b>	<b>1,482</b>
<b>Shareholder Equity</b>	<b>2,477</b>	<b>2,791</b>	<b>3,118</b>	<b>3,463</b>	<b>3,829</b>	<b>4,206</b>
<b>Total Liabilities and Shareholder Equity</b>	<b>4,401</b>	<b>4,195</b>	<b>4,596</b>	<b>4,945</b>	<b>5,321</b>	<b>5,688</b>

\*Fiscal year from 17 November 2008 to 31 December 2009

**Rating Scale**

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

**Disclaimer**

This memorandum is based on information available to the public. This memorandum is not an offer to buy or sell, or a solicitation of an offer to buy or sell the securities mentioned. The information and opinions in this memorandum were prepared by HC Brokerage from sources it believes to be reliable and from information available to the public. HC Brokerage makes no guarantee or warranty to the accuracy and thoroughness of the information mentioned in this memorandum, and accepts no responsibility or liability for losses or damages incurred as a result of opinions formed and decisions made based on information presented in this memorandum. HC Brokerage does not undertake to advise you of changes in its opinion or information. HC Brokerage and its affiliates and/or its directors and employees may own or have positions in, and effect transactions of companies mentioned in this memorandum. HC Brokerage and its affiliates may also seek to perform or have performed investment-banking services for companies mentioned in this memorandum.

## HC Research

research@hc-si.com

Karim Khadr	Regional Head of Research	karim.khadr@af-hc.com	+971 4 2935381
Tudor Allin-Khan, CFA	Chief Economist/Strategist	tudor.allin-khan@af-hc.com	+971 4 2935386
Amr Abdel Khalek	Economist	aabdelkhalek@hc-si.com	+202 3332 8638
Nadine Weheba	Economist	nweheba@hc-si.com	+202 3332 8644
NematAllah Choucri	Telecoms	nchoucri@hc-si.com	+202 3332 8610
Sarah Shabayek	Telecoms	sshabayek@hc-si.com	+202 3332 8640
Germaine Benyamin	Banks & Financials	germaine.benyamin@af-hc.com	+971 4 2935382
Janany Vamadeva	Banks & Financials	janany.vamadeva@af-hc.com	+971 4 2935384
Hatem Alaa	Industrials	halaa@hc-si.com	+202 3332 8614
Mennatallah El Hefnawy	Industrials	melhefnawy@hc-si.com	+202 3332 8632
Mai Nehad	Industrials	mnehad@hc-si.com	+202 3332 8626
Majed Azzam	Real Estate	majed.azzam@af-hc.com	+971 4 2935385
Ankur Khetawat	Real Estate	ankur.khetawat@af-hc.com	+971 4 2935387
Nermeen Abdel Gawad	Real Estate	ngawad@hc-si.com	+202 3332 8628
Lovetesh Singh	Petrochemicals & Fertilizers	lovetesh.singh@af-hc.com	+91 9772 755 777
Rehaam Romero	Editor	rromero@hc-si.com	+202 3332 8634
Mohamed El Saiid, MFTA	Head of TA Research	msaeed@hc-si.com	+202 37496008 (Ext. 175)
Wael Atta, CFTe	Senior Technical Analyst	wael.atta@af-hc.com	+971 4 2935388
Sameh Khalil, CFTe	Technical Analyst	skhalil@hc-si.com	+202 37496008 (Ext. 361)

## HC Brokerage – Cairo, Egypt

salesandtrading@hc-si.com

Shawkat El-Maraghy	Managing Director	selmaraghy@hc-si.com	Ext. 200
Mostafa Saad	Local & Gulf Sales	msaad@hc-si.com	Ext. 213
Yasser Mansour	Local & Gulf Sales	ymansour@hc-si.com	Ext. 217
Hossam Wahid	Local & Gulf Sales	hwahid@hc-si.com	Ext. 206
Hassan Kenawi	Local & Gulf Sales	hkenawi@hc-si.com	Ext. 300
Abou Bakr Shaaban	Local & Gulf Sales	ashaaban@hc-si.com	Ext. 238
Nihal Hany	Local & Gulf Sales	nhany@hc-si.com	Ext. 219
Mohamed Helmy	Foreign Sales	mhelmy@hc-si.com	Ext. 207
Ahmed Nabil	Fixed Income Trader	anabil@hc-si.com	Ext. 218

## HC Brokerage – Dubai, UAE

Hassan Aly Choucri	General Manager	hassan.choucri@af-hc.com	+971 4 293 5305
Mohamed Hegazy	Head of Sales	mohamed.hegazy@af-hc.com	+971 4 293 5365
Mohamed Galal	Head of Sales Trading	mohammed.galal@af-hc.com	+971 4 293 5309
Anne Marie Browne	Foreign Institutional Sales	annemarie.browne@af-hc.com	+971 4 293 5301
Richard Frost	Foreign Institutional Sales	richard.frost@af-hc.com	+971 4 293 5302