



October 21th, 2007

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• **Lower than expected profits:** Emaar achieved a 48% growth in revenues and a 4% growth in net profits in 9M 2007 compared to 9M 2006. While net income fell by almost 3% from AED 1.61 bn in Q3 2006 to AED 1.56 bn in Q3 2007, revenues reached AED 4.46 bn up 32% compared to the same quarter in 2006. Q3 2007 net profits came in below our estimate and the consensus estimate. Quarter-on-quarter, Emaar recorded a 7% growth in revenues with almost no change in net profits.

• **Lower land sales and higher expenses led to decline in profits:** We anticipated that Emaar's change of land strategy, which means almost no land sales in favor of more property developments and higher long-term profitability, would lead to a short-term drop in profits. Land sales are recognized faster than property sales and enjoy significantly higher margins. However, Emaar's gross profits dropped more than expected due to what appears to be lower margins on property sales. This drop could be partly due to lower profitability of US operations, especially given that Emaar claims increasing profitability of the Dubai operation in 9M 2007 versus 9M 2006. The company has not yet provided full financials.

• **International expansion increased indirect costs:** Emaar's growing expansion into emerging markets and new project launches, which have yet to make any significant revenue contributions, are fuelling indirect costs. Employed methods for revenue recognition mean that a time lag exists between recognition of indirect costs and revenue. The result is once again a drop in short-term profitability in favor of establishing platforms in new markets to achieve a long-term growth in profitability.

• **Awaited joint-venture with Dubai Holding materializes:** Emaar announced a 50/50 JV with a subsidiary of Tatweer, which is part of Dubai Holding. Tatweer through Bawadi is the company behind the planned Bawadi leisure and hotel development with 51 hotels and over 60,000 rooms in Dubai. While Bawadi will contribute 70 mn sq.ft of land to a value of AED 3.85 bn, Emaar will inject the equivalent in cash throughout the construction period. Phased cash contribution from Emaar means lower immediate cash requirements. Emaar expects an estimated 15% compounded return p.a., starting 2009. Through this JV Emaar's Dubai land bank will increase by around 38%.

• **Emaar and Bawadi:** The companies plan a separate master development within the overall Bawadi project, which will include six hotels with 6,350 keys, 18,000 residential units, a 15 mn sq.ft theme park, 3.2 mn sq.ft of retail and 2.7 mn sq.ft of commercial space.

• **Positive long-term view:** Despite the relatively weak Q3 results, we remain positive on the stock, especially in light of the long-term profitability implications of these results. We will likely revise downwards our projections for 2007 and 2008, based on the new strategy and developments, while longer term projections are expected to receive a boost from the same developments.

Current Price (AED)	11.95
52-week range (AED)	9.75-14.3
Number of shares ('000)	6,096,325
Free Float	68%
Market Cap (AED '000)	72,851,084
Market Cap (USD '000)	19,847,727
Dividend Yield 2006	4.2%

AED (billion)	Q3 2006	Q2 2007	Q3 2007	9M 2006	9M 2007
Revenues	3.38	4.17	4.46	8.46	12.54
Gross Profit	1.71	1.53	1.67	4.87	5.12
Total G&A Expenses	0.29	0.49	0.57	0.80	1.54
Net Income	1.61	1.56	1.56	4.66	4.84

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