

Hold

TP Dh1.00

RBS Refiner

Price (close 16 Feb)	Dh0.99
3M high/low	Dh1.04/0.65
Market cap	Dh2.60bn
Av (12M) turnover	Dh9.13m
Freefloat	93.07%
Reuters	SOR.AD
Bloomberg	SOROUH UH
Net debt (cash) FY10	Dh507.51m
3yr EPS CAGR 11-13F	11.9%
Income (2012F div yield)	(0.0)%

Source: Bloomberg, Rasmala forecasts

RBS vs consensus

EPS (Dh)	Rasmala	Cons	% diff
2012F	0.31	0.31	0%
2013F	0.30	0.30	0%
2014F	0.33	NA	NA

Source: Rasmala forecasts, Reuters

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	0.67	0.98	1.26
Absolute (%)	47.8	1.0	-21.4
Rel to mkt*(%)	40.2	0.7	-14.2

*ADX Gen Index

Source: Bloomberg

Key events

Date	Event
Apr-12	1Q12 results

Source: Bloomberg

Analysts**Saud Masud**

+971 55 725 8596

saud.masud@rasmala.com

Divya Arora

+971 4 424 2784

divya.arora@rasmala.com

Sorouh Real Estate

4Q11 results review

Sorouh reported better-than-expected results on land swap transaction and seemingly higher-than-expected construction revenues. Although the company's liquidity position doesn't look stretched, demand generation for the upcoming investment and development properties appears difficult, in our view.

Event: 4Q11 results above expectations on land swap transaction and construction income

Sorouh reported 4Q11 revenue of Dh1,227m (up 38% qoq), significantly above our estimate of Dh665m and Bloomberg consensus estimate of Dh884m. Although revenue from handover of residential units at Sun and Sky towers was mainly in line with our estimates, we believe revenue beat was mainly due to recognition of Dh211m from land swap transaction and construction income being much higher than our expectation (we do not have the detailed breakdown available). We expect the company to have handed over about 188 residential units at Sun and Sky Towers during the quarter. We expected construction work at national housing projects in Al Ghuraiba and Al Sila'a to pick up pace starting 1Q12. However, it appears that the company has started to recognise significant revenues from them in 4Q11. Due to higher revenues, net profit at Dh93m (up 37% qoq) was also ahead of our estimate of Dh69m by 34% (consensus estimate was Dh108m). Gross margin of about 22% and SG&A expense of Dh52m were almost in line with our expectation. The company recognised impairments on investment properties and goodwill of Dh134m versus our estimate of Dh50m during the quarter. Net profit ex-impairments was Dh227m compared to our estimate of Dh119m.

Forecasts: No change for now

Sorouh closed the year with total revenue of Dh3.79bn (Dh1.21bn in 2010) and net profit of Dh335m (Dh7m in 2010). Strong yearly results were mainly tied to handover of about 918 units at Sun and Sky Towers amounting to 58% of total revenue. The company's board proposed a dividend of AED0.05 per share translating into a 5% dividend yield. In 2012-13, we estimate a total capex requirement of AED1.5bn on the on-going development and investment properties and total debt repayment of about AED840m. Considering year ending cash & cash equivalents of AED1.8bn, internal cash flow generation from rental income and handover of sold units at Gate towers, and undrawn facility of AED500m, Sorouh's liquidity position does not appear stretched.

Valuation: We maintain our Hold rating and a target price of Dh1.00

The main challenge facing Sorouh is to generate demand for its unsold units at Gate Towers and attracting tenants to occupy space at Al Rayyana, which is expected to be completed this year. Gate Towers in total has about 3,533 residential units, and a majority of these units are still unsold. Al Rayyana has 1,435 residential units out of which only 20% have been leased. Abu Dhabi residential market is going through a soft patch with prices and rentals falling and demand remaining soft. In 2012, we expect about 15,000 residential units, equivalent to 7% of the existing supply, to enter the market which will put further pressure on occupancy, prices and rentals.

Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Gross rental income (Dhm)	139.4	210.2	240.3	361.8	400.0
Normalised PTP (Dhm)	768.9	334.0	404.5	433.7	543.2
Norm fully diluted EPS (Dh)	0.30	0.12	0.13	0.14	0.17
Dividend per share (Dh)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Adj NAV per share (Dh)	2.41	2.31	2.42	2.56	2.74
Disc/(prm) to adj NAV (%)	58.90	57.10	59.20	61.40	63.80

Accounting standard: IFRS

Source: Company data, RBS forecasts

Important disclosures can be found in the Disclosures Appendix.

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RBS Equities Forecasts: Sorouh Real Estate

Income statement

Dhm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	139.4	210.2	240.3	361.8	400.0
Prop development income	1177	526.8	2082	1586	2614
Other revenue	1786	468.2	903.5	1339	1180
Total property income	3103	1205	3226	3287	4195
Other costs	-2443	-838.0	-2826	-2791	-3620
EBITDA	659.7	367.1	400.0	495.0	574.7
DDA & Impairment (ex gw)	-278.4	-196.5	-40.3	-37.8	-40.0
EBITA	381.3	170.6	359.7	457.3	534.7
Goodwill (amort/impaired)	-29.8	-162.9	-36.9	0.00	0.00
EBIT	351.5	7.79	322.8	457.3	534.7
Associates (pre-tax)	-50.5	48.7	5.73	12.0	11.7
Net interest	-42.1	-43.6	10.2	-5.58	-1.98
Other pre-tax items	236.1	3.38	28.8	-30.0	-1.20
Reported PTP	495.0	16.2	367.5	433.7	543.2
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	-12.2	-8.74	-56.3	-69.4	-86.9
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	482.8	7.44	311.2	364.3	456.3
Dividends declared	0.00	0.00	0.00	0.00	0.00
Tot normalised items	-273.9	-317.9	-36.9	0.00	0.00
Normalised EBITDA	659.7	367.1	400.0	495.0	574.7
Normalised PTP	768.9	334.0	404.5	433.7	543.2
Normalised net profit	756.7	325.3	348.2	364.3	456.3

Balance sheet

Dhm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	1626	1135	917.7	718.9	1665
Props under dev	3778	5273	4709	4034	2063
Other current assets	4669	3942	3727	3607	3487
Investment prop	1240	1675	2876	3336	3383
Other non-current assets	2383	1609	1351	1369	1385
Total assets	13698	13634	13581	13066	11982
Short term debt (2)	989.9	12.5	5.86	5.86	5.86
Long term debt (3)	1083	1630	2148	2148	2148
Other liabilities	5500	5813	4881	3932	2305
Total liabilities	7573	7456	7035	6085	4459
Total equity (incl min)	6125	6178	6547	6980	7524
Total liab & sh equity	13698	13634	13581	13066	11982
Net debt	446.7	507.5	1236	1435	489.1

Cash flow statement

Dhm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	659.7	367.1	400.0	495.0	574.7
Change in working capital	-3215	-965.9	-316.8	-154.8	465.0
Net interest (pd) / rec	42.1	43.6	-10.2	5.58	1.98
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	926.8	106.0	2.09	-35.6	-3.18
Cash flow from ops (1)	-1586	-449.2	75.1	310.2	1039
Capex (2)	-397.6	-497.1	-682.9	-503.4	-90.9
Disposals/(acquisitions)	0.33	4.40	0.14	0.00	0.00
Other investing cash flow	380.3	1075	5.36	33.2	49.7
Cash flow from invest (3)	-17.0	582.2	-677.3	-470.2	-41.1
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-91.7	1592	511.1	0.00	0.00
Ordinary dividend paid	-330.1	-5.71	-6.63	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-1887	-2192	-119.8	-38.8	-51.7
Cash flow from fin (5)	-2309	-606.0	384.7	-38.8	-51.7
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-3912	-473.0	-217.6	-198.8	945.7
Equity FCF (1+2+4)	-1984	-946.2	-607.8	-193.2	947.7

Source: Company data, RBS forecasts

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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