

February 15, 2012

SOROUH (SOR.AD)

12-Month Fair Value: AED 2.41

Recommendation: Buy – Risk Level: 4

Last Close (15 February, 2012): AED 1

- Sorouh published 4Q2011 results this morning. These look very strong from an operational perspective, although the net profit is affected by write-offs.
- 4Q2011 revenues of AED 1,226 million came in 23% ahead of our forecast of AED 997 million, and 31% ahead of the median consensus estimate of AED 938 million (our estimate topped the consensus range).
- The 4Q2011 gross profit came in at AED 266 million, ahead of our estimate of AED 224 million.
- Gross margin stood at 21.7%, very slightly below our estimate of 22.4%.
- The 4Q2011 results included some land revenues, generated from a land swap deal. Essentially, Sorouh sold a plot of land on Al Reem Island to a sub-developer, in exchange for some cash and another plot of land. Revenues for this amounted to AED 211 million, with a gross profit of AED 60 million. This transaction had not been flagged to the market, and was therefore not included in either our or consensus estimates. **Excluding this, 4Q2011 revenues came in at AED 1,015 million (1.8% ahead of our estimate of AED 997 million, and 8.2% ahead of the median consensus estimate of AED 938 million)**, and gross profit came in at AED 206 million, as against our estimate of AED 224 million. The lower gross profit is due to the revenue mix being slightly different than expected, with less revenue from Sun and Sky (which carry a high gross margin) and more from National Housing contracts, which carry a lower gross margin. Other segment revenues were exactly in line with our estimates.
- SG&A of AED 56 million was ahead of our estimate of AED 45 million, whilst other income and net financials, at AED 9.5 million, were below our estimate of AED 25 million. **The company reported a clean (before write downs) attributable net profit for 4Q2011 of AED 206m, as against our estimate of AED 147 million and a median consensus estimate of AED 111 million** (again, our estimate topped the consensus range). Published 4Q2011 net profit was AED 92.6 million, as the company took another AED 118 million in write offs (including goodwill, fair value of investment properties and project costs). Whilst we had fully expected Sorouh to take further write-offs we had not included any in our estimates as it is almost impossible to forecast a precise figure for these.
- **The balance sheet also made for pleasant reading.** Net debt at YE2011 amounted to AED 816 million, 12.5% below the net debt of AED 931 million at end 3Q2011, and representing a net gearing ratio of 12.8% (compared to Aldar's net gearing of 200%). Sorouh's short term borrowings amount to AED 425 million, whilst cash at hand amounts to AED 1,837 million at YE2011. As we expected, the company has absolutely no financing or solvency issues. There was a rise in non-current receivables from AED 204 million at end 3Q2011 to AED 406 million at YE2011, which was almost entirely due to the above-mentioned land deal.
- **The company also decided to pay a cash dividend of AED 0.05 per share.** We and the consensus had not penciled in any dividends at this point, as the company is still engaged in major development spending. However, in view of its strong financial position, Sorouh can largely afford this relatively modest (AED 131 million) outlay.
- **Outlook for FY2012: our estimates appear to be broadly correct, with only very few corrections to be made.** These will include mainly lower revenues from retail, as the Boutik Shams (the small shopping center situated at the bottom of Sun and Sky Towers) is now slated for an opening in 2Q2012, and not, as we thought, 1Q2012 (this makes a difference of AED 4 million).

Our assumptions for both development revenues and rental revenues are OK, although we may be a bit high on our National Housing contract assumptions (AED 100 million maximally, out of total expected revenues of AED 2.2 billion). In terms of cash flows (and therefore valuation), we will have to make very minor adjustments to capital expenditure (which Sorouh expects to reach AED 1.8 billion, as against our estimate of AED 2 billion), and cash collection on land plots (AED 500 million expected by the company, as against our estimate of AED 650 million). The two will cancel each other out. The company is expecting a net cash outflow for FY2012 of AED 400 million, in line with our estimates, and perfectly affordable given their strong balance sheet;

- **Outlook for FY2013 and beyond: no changes.** The Gate and Al Ghadeer projects will be delivered in FY2013, Gate accounting for the bulk of expected revenues, and Al Ghadeer for our associate revenue. Beyond FY2013, our estimates only include revenue-generating assets, as all major developments will have been delivered. It is probable that Sorouh will launch one or more new developments once the gate and al Ghadeer are completed (YE2012), but nothing has been announced.
- **Overall, this is a strong set of results, even if the figures are slightly flattered by the land deal.** Sorouh has again demonstrated its superior ability to execute in a difficult market. Cash collection has been sterling, and the company's financial position is very strong. Sorouh will continue to execute on its strategy of increasing recurring revenues whilst delivering its last wholly-owned development (the Gate), whilst National Housing contracts will support both revenues and cash flows in FY2012. The share's valuation remains attractive, dragged down by the travails of Aldar and the still morose outlook for the Abu Dhabi real estate market.

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Related Research

- Sorouh Update - 13 November 2011

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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