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TOURISM DEVELOPMENT AND INVESTMENT CO.

TRADING TIGHT IN THE DOMESTIC CREDIT SPACE

- TDIC debt papers getting expensive after recent rally...
High oil prices and a surging interest for UAE credits perceived as relatively safe havens have led to price surges for GCC GRIs in general and TDIC in particular, with spread differentials between TDIC papers and underlying Abu Dhabi government bonds almost flirting with historical lows: 60 bps for TDIC Sukuk 14s/ADGB 14s (average of 113 bps in last 12 months) and 74 bps for TDIC Finance 14s/ADGB 14s (average of 128 bps in last 12 months), rendering both issues somewhat expensive for a relatively weaker standalone credit.
- ...and trading tight relative to domestic GRIs
TDIC papers now trade rather tight in the domestic credit space, especially when compared to other Abu Dhabi bond issuers who also have strong ties to the sovereign. In the global universe, TDIC Sukuks and bonds are currently trading close to similarly rated peers including emerging and developed market sector bonds with durations nearly matching those of the issuer.
- Revenue base improving across all business lines but cash flow shortfall persists
TDIC remains in its early stages of development and continues to require large funding needs for its various projects. The revenue base did more than treble (3.3x year-on-year) during 1H2010 (latest financial accounts available) from a low base, but this fell short of the growing operating expenses and debt service requirements, and continued payments for property, plant and equipment, thus leading to an overall cash shortfall of US\$ 570 million.
- Short-term liquidity position satisfactory but overshadowed by long-term leverage concerns
While total cash remains sufficient to cover up short term debt dues as at end-June 2010 (cash/short term debt at 1.5x), questions arise about the sustainability of debt service repayment capacities beyond the immediate future. With an increasing portion of financing needs secured through debt issuance, leverage has considerably increased (net debt/equity at 49% as at end-June 2010), and remains tilted to the upside given large investment needs.
- Government affirms "broad and ongoing" support for one of its "crown jewels"...
TDIC, wholly owned by the Abu Dhabi government, definitely has a high profile policy role in diversifying the Emirate's economy through real estate and tourism development activities. Within the context of its focus on high-end cultural tourism through government mandates and close operational proximity to the sovereign, the latter formally announced it would provide broad and ongoing support to TDIC should the need arise.
- ...and would remain key in covering up future liquidity needs
With the TDIC story somewhat different from that of other developers in the broader region, the bulk of the funding -mostly for non-commercially viable projects- would nevertheless continue to stem from the credit-strong Abu Dhabi sovereign. In other words, even as more projects are delivered in the next few years, the sovereign is expected to play a key role in ensuring sufficient liquidity to the company.

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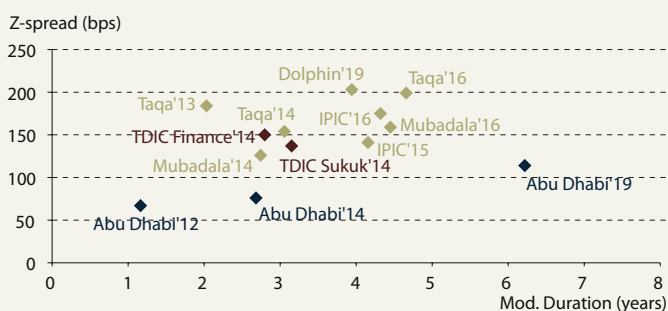
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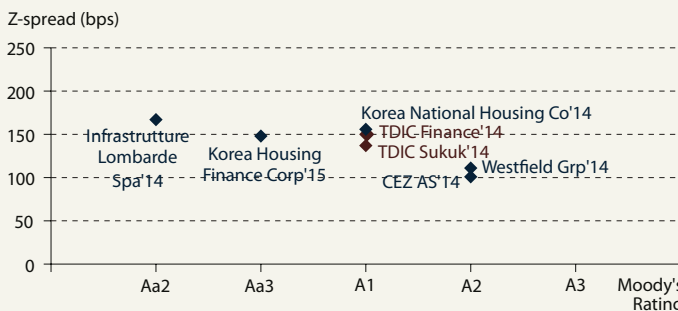
Data cut-off: May 20, 2011

TDIC DEBT PAPERS V/S ABU DHABI SOVEREIGNS & GRIs



Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department

PEER CREDITS RATINGS V/S Z-SPREADS



Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department



ISSUER PROFILE

The Tourism Development and Investment Company (TDIC) was established in October 2005, following a decree issued by the Executive Council of Abu Dhabi that owns 100% of the company through the Abu Dhabi Tourism Authority. TDIC has been assigned a mandate to be the Central Developer of the tourism infrastructure with the aim of increasing tourist and business flows over the next decade.

The purpose of the company is to participate in the diversification of the Abu Dhabi economy, as part of the government 2030 strategy, to develop a wide range of projects that would draw close to 3 million visitors by 2013 and nearly 5 million visitors by 2020.

While the Abu Dhabi Tourism Authority mainly has an oversight position and fulfills a strategy-oriented role, TDIC is in charge of expanding the tourism and leisure activity business in the Emirate mostly through the development and leasing of investment properties, and the acquisition, development and operation of real estate projects in Abu Dhabi, UAE .

With a total asset base of US\$ 10.0 billion as at end-June 2010, TDIC operates exclusively in the Emirate of Abu Dhabi across three major segments, namely property development and land sales (86.9% of total assets), hospitality (6.8% of total assets) and leisure (1.6% of total assets), and currently has over 60 projects worth more than US\$ 34 billion and planned for completion by 2020 across Abu Dhabi.

TDIC PROJECTS (APRIL 2011)*

Area	Group of projects	Projects	
Saadiyat Island		Zayed National Museum	
	Saadiyat Cultural District		Louvre Abu Dhabi
			Guggenheim Abu Dhabi
	Manarat Al Saadiyat		St. Regis Saadiyat Island Resort, Abu Dhabi
			The Residences at St. Regis Saadiyat Island Resort, Abu Dhabi
	Saadiyat Beach		Park Hyatt Abu Dhabi, Hotel and Villas
			Saadiyat Rotana Resort, Abu Dhabi
			Shangri-La Hotel, Saadiyat
			Mandarin Oriental Hotel and Residences, Abu Dhabi
		Monte-Carlo Beach Club, Saadiyat	
		Saadiyat Beach Golf Club	
		Saadiyat Beach Villas & Apartments	
Desert Islands	Saadiyat Construction Village		
	Arabian Wildlife Park		
	Desert Island Resort & Spa by Anantara		Al Yamm Lodge
			Desert Islands Watersports Center
	Sir Bani Yas Developments		Al Sahel Lodge
		Sir Bani Yas Stables	
		Desert Islands Conference Center	
Other projects	Eastern Mangroves		
	Al Bateen Wharf		Fishermen's Marina
			Yacht Club & Marina
	Abu Dhabi Golf Resort		The Westin Abu Dhabi Golf Resort & Spa
			Abu Dhabi Golf Club
	ADTA/TDIC Headquarters		
	Regent Emirates Pearl Hotel, Abu Dhabi		
	Rocco Forte Hotel Abu Dhabi		
Hili Fun City			
Qasr Al Sarab, Desert Resort by Anantara			

* in addition to joint venture hotels such as Fairmont Bab Al Bahr, Park Rotana Abu Dhabi, Shangri-La Hotel Qaryat Al Beri and Traders Hotel, Qaryat Al Beri in Abu Dhabi

Sources: Company reports, Bank's Audi Research Department

GOVERNMENT SUPPORT

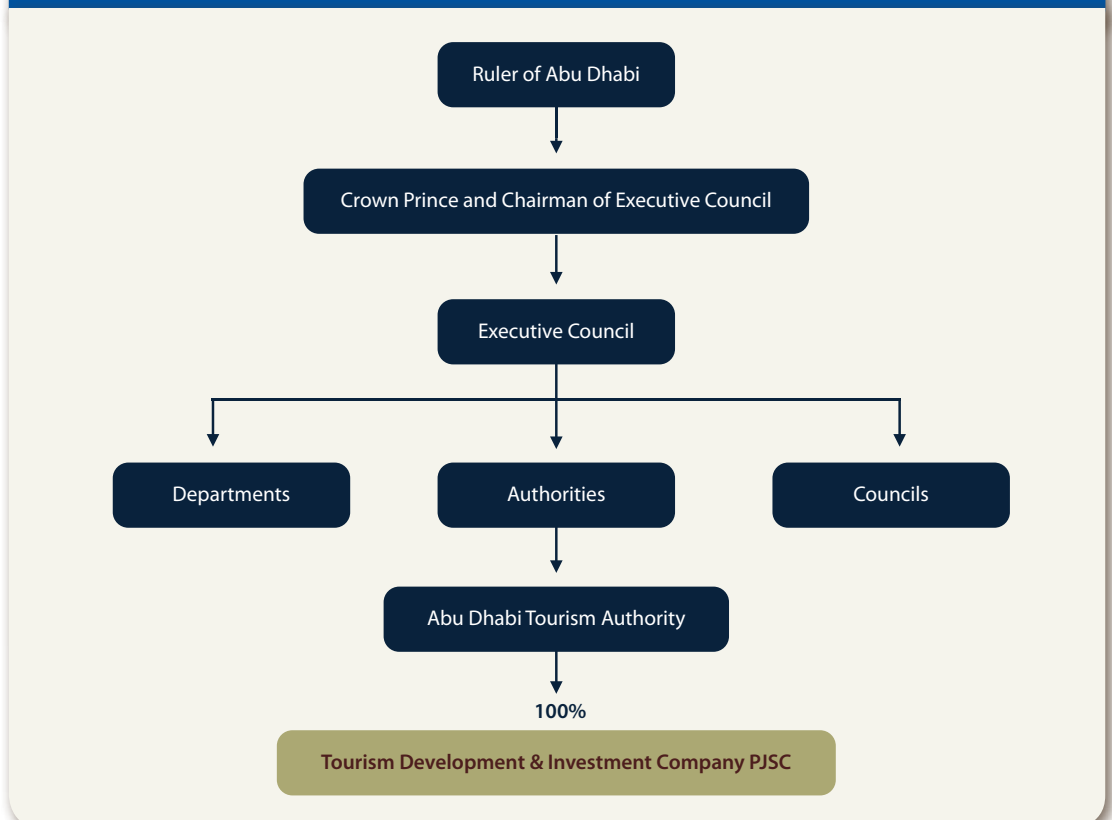
Strong explicit support to one of Abu Dhabi's "crown jewels"

TDIC definitely has a high profile policy role in diversifying the Emirate's economy through its real estate and tourism development activities. The company's focus on high-end cultural tourism through government mandates differentiates it from other developers in the region. This focus is at the heart of the Abu Dhabi Economic Vision 2030, hinging on a distinguished economic diversification. The government's policy agenda envisions Abu Dhabi becoming a regional cultural center that will showcase Abu Dhabi's own cultural heritage. Abu Dhabi aims to diversify away from oil, has the resources to do so, while its tourist sector is somewhat underdeveloped, which makes TDIC of strategic importance to the Emirate.

Further, TDIC, wholly owned by the Abu Dhabi government, has a high level Board of Directors with a direct government representation on TDIC's board. TDIC's chairman is a member of the Abu Dhabi Executive Council and retains high-level positions across several public institutions. Other board members also comprise of high-ranking officials of government and government related entities. With the bulk of TDIC projects being non-commercial, TDIC does not source projects on its own but builds projects on the government's behalf following a government approved mandate.

Such a privileged role, coupled with the company's operational proximity to the wealthy sovereign as a fully-owned subsidiary of the Abu Dhabi Tourism Authority, suggests that the government will be providing, whenever needed, substantial ongoing support to TDIC's operations. It is worth yet noting that there is no explicit guarantee for TDIC bonds as authorities want the company to adopt the Western style, i.e. establish its own identity and business model, that is supported through a 100% government stake. The company is asked to operate on a commercial basis and not as an entity within the government.

OWNERSHIP FLOWCHART



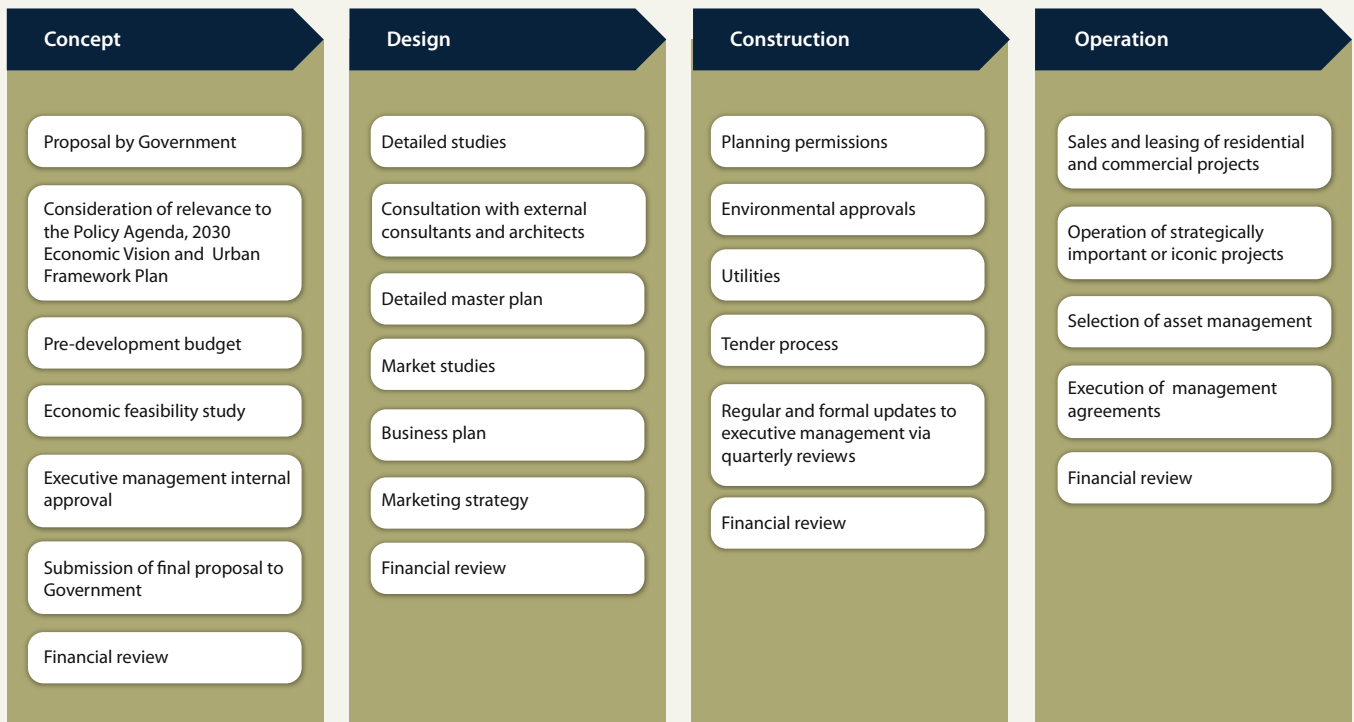
Sources: Company reports, Bank's Audi Research Department



While it is also true that a potential stoppage of TDIC's operations would not pose a systemic threat to the domestic economy, the fact that TDIC plays a key role in promoting investments in the non-hydrocarbons sector and creates job opportunities domestically somewhat justifies strong support assumptions for this high profile government related issuer. This has actually been echoed by recent statements from Abu Dhabi officials asserting that the government's policy remains that "broad and ongoing support will be offered exclusively" to TDIC, along with three other Abu Dhabi GRIs.

The government has actually extended important support to TDIC over the past few years. TDIC's projects have been primarily funded through capital contributions and monetary grants from the government, in addition to a substantial land bank granted free of charge (valued at historic cost of circa US\$ 4.9 billion) and which could be monetized at a tangible premium. Further, the government's intention is to retain full ownership of TDIC, as evidenced by the change-of-control clause in the bond and Sukuk documentation, whereby the debt holders have a put option if the direct or indirect government ownership of TDIC falls below 100%.

OPERATING FRAMEWORK



Sources: Company reports, Bank Audi's Research Department



CASH FLOW AND LIQUIDITY

Persistent cash flow shortfall given company's start-up nature

TDIC remains in its early stages of development, with no significant operating assets, and continues to require large funding needs for its various projects underway. In other words, the company has not yet generated a sufficient cash flow stream or displayed positive profitability metrics since inception half a decade ago.

The revenue base did more than treble (3.3x year-on-year) during the first half of 2010 (as per latest financial accounts available) from a low base, 53% of which was accounted for by new property development and land sales, 33% by hospitality revenue growth, and 13% by rising leisure revenues. But this all fell short of the growing operating expenses and debt service requirements (especially following the two bond issues during the second half of 2009), and yielded a negative bottom line figure of US\$ 145.3 million (against a lower US\$ 45.9 million in the first half of the previous year).

With another cash deficit from operating activities, continued payments for property, plant and equipment, and debt repayment net outflows during 1H2010, TDIC has displayed an overall cash shortfall of US\$ 570 million from its first half 2010 activities. Drawing on its positive cash balances as of the beginning of the year leaves the company with a small positive net cash surplus of US\$ 64 million as at end-June 2010. Yet, taking into account term deposits with a maturity exceeding three months (but less than one year) and placed with local banks of US\$ 510 million, TDIC's total cash at hand and at banks amounts to US\$ 574 million as at end-June 2010.

While this is sufficient to cover up short term debt dues estimated at around US\$ 388 million as at end-June, questions arise about the sustainability of TDIC's debt service repayment capacities beyond the immediate future. On the upside, TDIC lately said that this year would be the biggest delivery year to date, with plans to hand over 344 villas on Saadiyat Island, a St. Regis Resort, a Park Hyatt Hotel and the Monte Carlo Beach Club. TDIC also revealed that two-thirds of the villas in the first phase of the Saadiyat Beach currently under construction have already been sold, and that the developer has not had to lower its prices due to the financial crisis.

Still, with an increasing portion of financing needs secured through debt issuance, whether bank loans or as of 2009 through debt capital markets, the company's leverage has considerably increased, with a total net debt/equity ratio of 49% as at end-June 2010 as per company figures. TDIC's investment needs are likely to warrant an increase in leverage in the foreseeable future, all the more so current overall gearing (total debt/equity) remains under the ceiling set at 100% by the company.

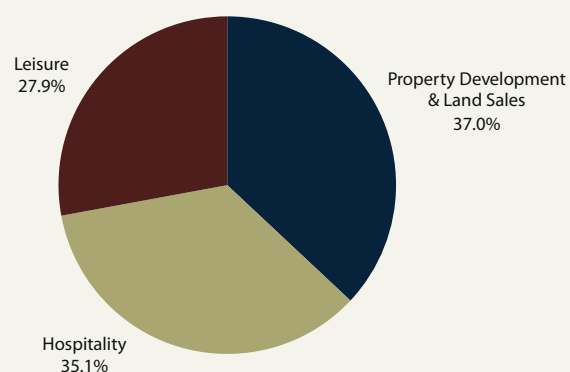
KEY FINANCIAL HIGHLIGHTS

US\$ million	2006*	2007	2008	2009	6M09	6M10
<i>Financial aggregates</i>						
Total assets	2,568	5,553	7,181	10,079	7,962	9,974
Total debt	0.7	524	780	3,007	867	2,875
Total equity	2,489	4,791	4,979	4,853	4,934	4,708
Revenues	0.5	7.3	118.6	64.0	8.6	27.8
Net profits	-1.4	0.3	-100.4	-150.0	-45.9	-145.3
<i>Financial ratios</i>						
Gross profit margin	85.4%	61.3%	-	13.5%	37.4%	42.7%
Net debt/ Equity	-	3.9%	10.6%	37.4%	13.0%	48.9%
Assets/Equity	1.0x	1.2x	1.4x	2.1x	1.6x	2.1x
Cash/Short-term debt	68.1x	12.0x	0.9x	2.3x	0.4x	1.5x
Capex/Revenues	68.8x	7.5x	5.6x	20.3x	73.9x	16.3x

* Period from 25 October 2005 (inception) to 31 December 2006

Sources: Company reports, Bank's Audi Research Department

BREAKDOWN OF REVENUES BY OPERATING SEGMENT (1H2010)



Sources: Company reports, Bank Audi's Research Department

Sovereign key in filling liquidity gap

The company has a massive investment program but with limited diversification, both geographically (all projects are situated in and around the UAE's capital city) and sector wise (the company is exposed to single tourism/hospitality sector risks). More importantly, TDIC is exposed to non-negligible execution risks notwithstanding a track record in the delivery of some projects so far, bearing in mind its large current project pipeline worth more than US\$ 30 billion, with close to 20 projects due in the next three years alone.

Still, the TDIC story is somewhat different from that of other developers in the broader region. The company's main purpose is to ensure a strong contribution to the development of the Abu Dhabi tourism/hospitality industry within broader domestic economy diversification targets, rather than being a purely revenue-oriented developer with a profitability focus.

To have a better understanding of TDIC's business model specificities, one must take a closer look at its large project portfolio, which can actually be divided into two types. First, non-commercially viable projects for which funding would be ensured by the government of Abu Dhabi through direct or deferred monetary grants and/or soft loans. These assets consist of various infrastructure projects, in addition to cultural projects such as the Louvre Abu Dhabi and Guggenheim Abu Dhabi museums.

Second, cash-generating projects for which funding would be ensured through banks and debt market instruments. Cash inflows would be ensured through land and property sales to third-party private sector developers and individuals, and recurrent revenues from hospitality units to be managed by the company. Such inflows would likely ensure debt service requirements in the next few years.

Given that a large chunk of company projects fall in the former group of projects, and hence are not likely to generate a strong cash flow stream, the bulk of the funding would continue to stem from the wealthy Abu Dhabi sovereign, notwithstanding recently tapped market and bank borrowing sources. In other words, even as more and more projects are delivered in the next few years, TDIC's sole shareholder will probably play a key role in ensuring sufficient liquidity to TDIC. The latter would however remain keen to ensure a timely delivery of projects in line with the expected expansion of the UAE's capital city as a tourism destination.

Having said that, should TDIC fail to meet its ambitious targets of enticing a large number of tourists towards the UAE's Abu Dhabi and rendering the sector a pillar to the broader domestic economy, the government's commitment to tourism as a means of economic diversification might weaken, which could have adverse spillovers on TDIC's business, although this appears quite unlikely at this point in time.

CASH FLOW POSITION SUMMARY

US\$ billion	2006*	2007	2008	2009	6M09	6M10
Net cash from (used in) operating activities	0.05	-0.28	-0.13	-0.77	-0.25	-0.15
Net cash from (used in) investing activities	-0.03	0.01	-0.69	-1.84	-0.63	-0.38
Net cash from (used in) financing activities	0.03	0.54	0.75	3.00	0.76	-0.04
Net variation in cash and cash equivalents	0.05	0.26	-0.07	0.39	-0.11	-0.57
Cash and cash equivalents beginning of period	-	0.05	0.31	0.24	0.24	0.63
Cash and cash equivalents end of period	0.05	0.31	0.24	0.63	0.12	0.06

* Period from 25 October 2005 (inception) to 31 December 2006

Sources: Company reports, Bank's Audi Research Department



MARKET CONSIDERATIONS

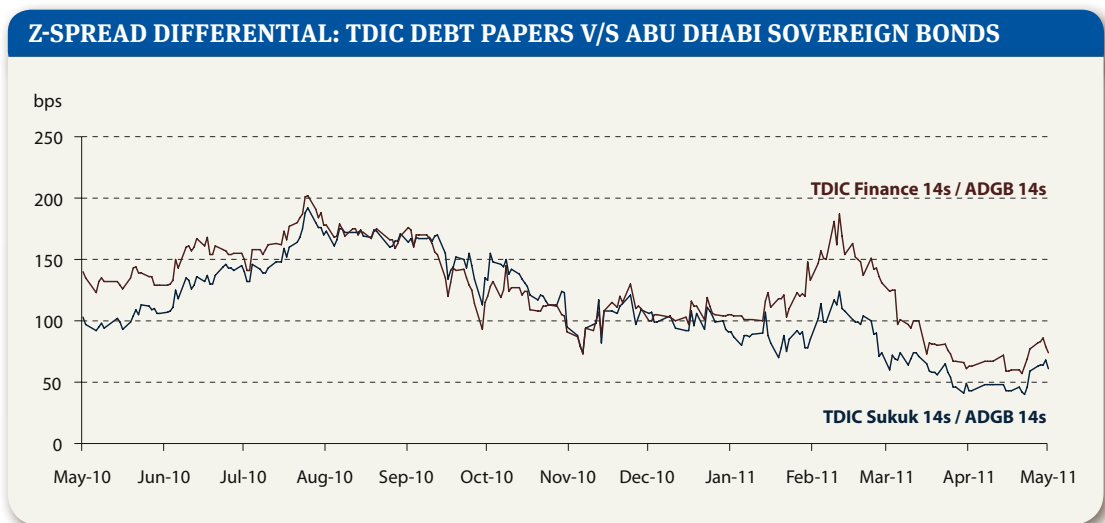
Spreads narrowing to historical lows

TDIC so far accessed debt capital markets in the year 2009 through two issuances, namely a bond issue and a Sukuk issue. The company launched in July 2009 a US\$ 1 billion five-year non-convertible bond representing its inaugural issuance under the US\$ 3 billion Global Medium Term Notes Program. TDIC said the proceeds of the program would be used for general corporate funding purposes for its strategic and/or commercial projects. This was followed by another issue in October 2009 of US\$ 1 billion five-year non-convertible Sukuks. Although the company would remain solely in the hands of the Abu Dhabi government, as evidenced by the change-of-control clause in the debt documentation, the dual debt market issuances definitely enhance financial discipline in the government-linked but privately managed real estate/tourism development company.

While outstanding TDIC bond and Sukuk papers mature in the second half of 2014, company management recently announced they may return to capital markets in the second half of 2011 or during the first quarter of 2012 to sell new debt. The bonds would have a tenor of between 7 and 10 years, and the proceeds would be allocated for the financing of construction on Saadiyat Island and some other projects (including hotels). TDIC top officials said that the current cash position is "strong", and that liquidity is totally adequate for plans the company has already announced. Company management also said that despite land sales to secondary developers being affected by market conditions, its ability to service various financing requirements remains unaffected. While the company certainly has room to put further emphasis on debt in its capital structure, bearing in mind it remains quite far from reaching the total debt/equity ceiling of 100%, additional indebtedness would put further pressure on its standalone credit profile.

Within the context of high oil prices and a surging interest for the region's debt capital markets translating into a bond rally (mostly benefiting UAE names perceived as relatively safe havens), TDIC spreads lately narrowed to reach historically low levels. Indeed, after TDIC Sukuk 14s and TDIC Finance 14s respectively lost 2.25 pts and 3.875 pts in the five weeks that followed the outbreak of MENA protests, they rallied to gain 3.75 pts and 4.75 pts respectively until the closing date of this note.

Spread differentials between both issues and underlying Abu Dhabi government bonds are also practically flirting with historical lows. The current z-spread differential between TDIC Sukuk 14s and ADGB 14s is 60 bps (against 124 bps at the peak of the sell-offs post-MENA turmoil outbreak and an average of 113 bps in the last 12 months). Similarly, the z-spread differential between TDIC Finance 14s and ADGB 14s is 74 bps (against 187 bps at sell-off peak and an average of 128 bps in the last 12 months).



Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department

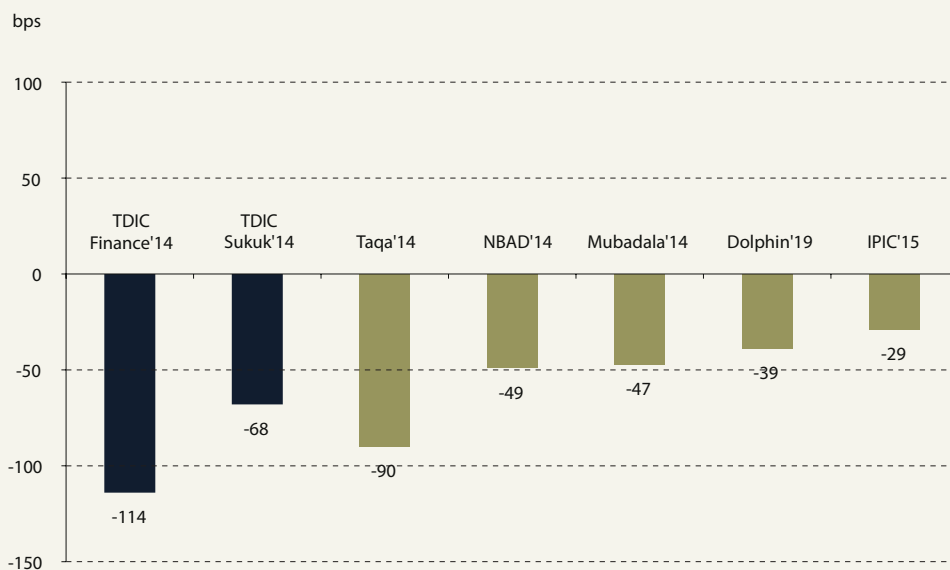
As such, at current z-spreads (137 bps for TDIC Sukuk 14s and 150 bps for TDIC Finance 14s) and cash prices (bid prices at US\$ 107.25 and US\$ 111.25 respectively), both issues somewhat look expensive for a relatively weaker standalone credit. They now trade rather tight in the domestic credit space, especially when compared to other Abu Dhabi bond issuers with strong ties to the sovereign (current z-spread of 126 bps for Mubadala 14s, 141 bps for IPIC 15s, and 133 bps for NBAD 14s).

In particular, it is worth noting that TDIC Sukuk 14s saw a relatively more contained downward price movement in the midst of the MENA turmoil, mostly on account of a general lack of supply in the Sukuk market, leading to a widening of spread differentials between both issues to a 40-70 bps range. While such a differential was difficult to justify, the recent rally allowed TDIC Finance 14s to catch up gradually, with its z-spread differential narrowing to 14 bps currently, i.e. a level more in line with what should logically be relatively flattish trading between two issues practically carrying the same maturity and risk.

For investors looking at TDIC debt issues from a global sector perspective, TDIC papers also trade at narrower spreads vis-à-vis closely rated global peers, including emerging and developed market sector bonds with durations nearly matching those of the issuer. For instance, TDIC Sukuk 14s and TDIC Finance 14s are currently trading respectively in line with and circa 15 bps wide to similarly rated peers (although it is actually difficult to find exact matches for this real estate/tourism development company closely linked to its government).

Going forward, any growing gap between financing needs and actual cash generation apt to put further pressure on leverage metrics, or a potential deterioration in regional political conditions, are likely to act as negative headwinds for TDIC bond prices. Still, and notwithstanding rather tight current trading levels, a continuous show of government support materialized in liquidity provision whenever needed for one of its "crown jewels", coupled with a successful delivery of various projects in conformity with the announced company schedule, are likely to provide some support to TDIC bond and Sukuk performances ahead.

Z-SPREAD VARIATION SINCE RECENT RALLY START



Sources: Bloomberg, Thomson Reuters, Bank Audi's Research Department

APPENDIX 1: FINANCIALS SUMMARY

KEY FINANCIAL AGGREGATES

US\$ million	2006*	2007	2008	2009	6M09	6M10
Income Statement						
Revenues	0.5	7.3	118.6	64.0	8.6	27.8
Direct costs	0.1	2.8	127.5	55.4	5.4	15.9
Gross profit	0.4	4.5	-8.9	8.6	3.2	11.9
Abu Dhabi government contribution	13.6	20.4	20.4	20.4	10.2	10.2
Deferred government grant amortization	-	-	0.4	6.1	-	8.6
Share of profits/(losses) of associates	-	-	-	-2.1	-	-0.4
Administrative expenses	18.0	37.3	92.3	183.3	64.2	141.1
Management fees	0.03	0.3	0.4	0.6	0.3	0.5
(Loss)/gain on revaluation of derivative instruments	-	-	-21.0	4.8	5.8	-7.5
Finance costs	0.005	0.7	4.9	34.7	5.0	47.2
Finance income	1.5	4.6	6.2	29.3	5.9	14.9
Loss on sale of property, plant and equipment	-	-	0.1	0.2	-	-0.01
Other income/(expenses)	0.0	0.1	0.2	1.6	-1.4	5.8
Profit from discontinued operations	1.2	2.5	-	-	-	-
Gain on sale of discontinued operations	-	6.4	-	-	-	-
Net profits	-1.4	0.3	-100.4	-150.0	-45.9	-145.3
Balance Sheet						
Total assets	2,568	5,553	7,181	10,079	7,962	9,974
Non-current assets	92	1,202	2,175	3,241	2,798	3,668
o.w. Property, plant and equipment	83	641	1,366	2,729	1,989	3,157
o.w. Investment properties	2	404	625	357	625	357
Current assets	2,476	4,351	5,006	6,837	5,164	6,305
o.w. Development work-in-progress	2,392	3,936	4,584	5,083	4,677	5,242
o.w. Trade and other receivables	32	76	164	521	223	452
o.w. Bank balances and cash	50	336	251	1,190	223	574
Total debt	0.7	524	780	3,007	867	2,875
o.w. Long-term debt	-	496	496	2,483	288	2,487
o.w. Short-term debt	0.7	28	283	524	579	388
Net debt	-50	189	529	1,817	644	2,300
Total equity	2,489	4,791	4,979	4,853	4,934	4,708

* Period from 25 October 2005 (inception) to 31 December 2006

Sources: Company reports, Bank Audi's Research Department



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