

## ARABTEC HOLDING PJSC (ARTC)

Arabtec –one of the largest GCC construction players with a robust current-backlog of AED 28.3 bn and a substantial diversification outside Dubai.

### New developments in GCC construction space

- Although demand for construction and property fell in GCC as liquidity constraints tightened, focus of construction industry is shifting from Dubai's luxury Real Estate development towards Government funded infrastructure projects in Abu Dhabi, Qatar & Saudi Arabia with the local governments pumping in money to revive their economies.
- New avenues emerge as Gulf developers start adjusting to the idea of affordable housing
- An amended property law in Dubai paves the way for resolving the backlog of disputes arising from stalled construction projects.

### Q1'09

- Arabtec's Q1'09 performance outlined by a marginal decline in top-line with Net Income shrinking by 30.3%, yoy.

### Outlook

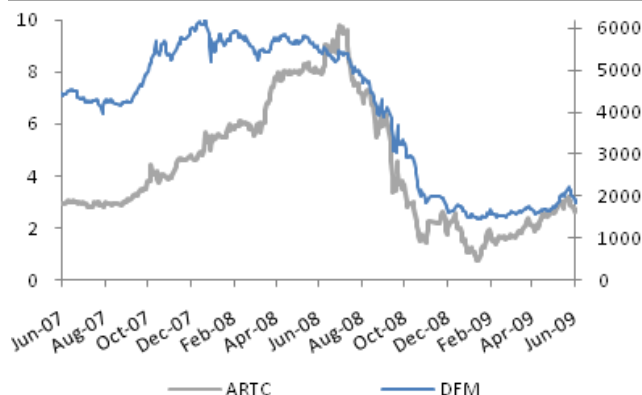
- Although FY2009 is expected to be hard for construction players in UAE, with continuing liquidity constraints, slowing project demand and renegotiation of contracts; the company is well-positioned to combat these economic blues.
- Regional diversification into Saudi, Qatar & Abu Dhabi to be the key for Arabtec to combat the macroeconomic scenario.
- An expected decline in UAE's inflation to 4.5% in FY2009, to relieve Construction earnings.
- Arabtec's time-tested relationship with developers like Emaar & Nakheel and collaborations with global construction giants expected to boost additions to its book

### Rated as BUY

We are initiating coverage with a BUY rating on the stock, with a target price of AED 3.09, an up-side of 28.1% to current prices.

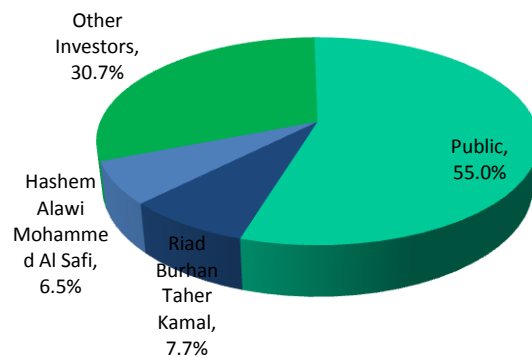
<b>Sector</b>	Construction
<b>Country</b>	UAE
<b>Report</b>	Initiating Coverage
<b>Price Target</b>	AED 3.09
<b>CMP (29/06/09)</b>	AED 2.41
<b>Up/down side</b>	28.1%
<b>52 week H-L</b>	AED 9.95-0.71
<b>Rating</b>	BUY
<b>Date</b>	June 29, 2009

### Stock Performance ARTC vs. DFM



PARTICULARS	AED
Bloomberg Code	ATRC UH
Market Cap (bn)	2.88
Paid Up Cap (bn)	1.20
Diluted EPS**	0.90
BVPS #	1.71
P/E'09	3.9x
P/BV'09	1.0x
**Last Financial Year	#Last Financial Quarter

### Ownership



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### Financial Highlights

AED mn	2008A	2009E	2010E	2011E
Revenues	9,722	7,881	8,889	7,272
Gross Profit	1,492	1,171	1,360	1,213
Gross Margin	15.3%	14.9%	15.3%	16.7%
Net Profit	1,080	743	938	815
Net Margin	11.1%	9.4%	10.6%	11.2%
EPS (AED)	0.90	0.62	0.78	0.68
Total Assets	9,460	9,109	10,071	9,009
Debt	1,255	981	898	623
Equity	2,118	2,861	3,799	4,613
ROE	51.0%	26.0%	24.7%	17.7%
ROA	11.4%	8.2%	9.3%	9.0%
P/E	2.7x	3.9x	3.1x	3.5x
P/BV	1.4x	1.0x	0.8x	0.6x

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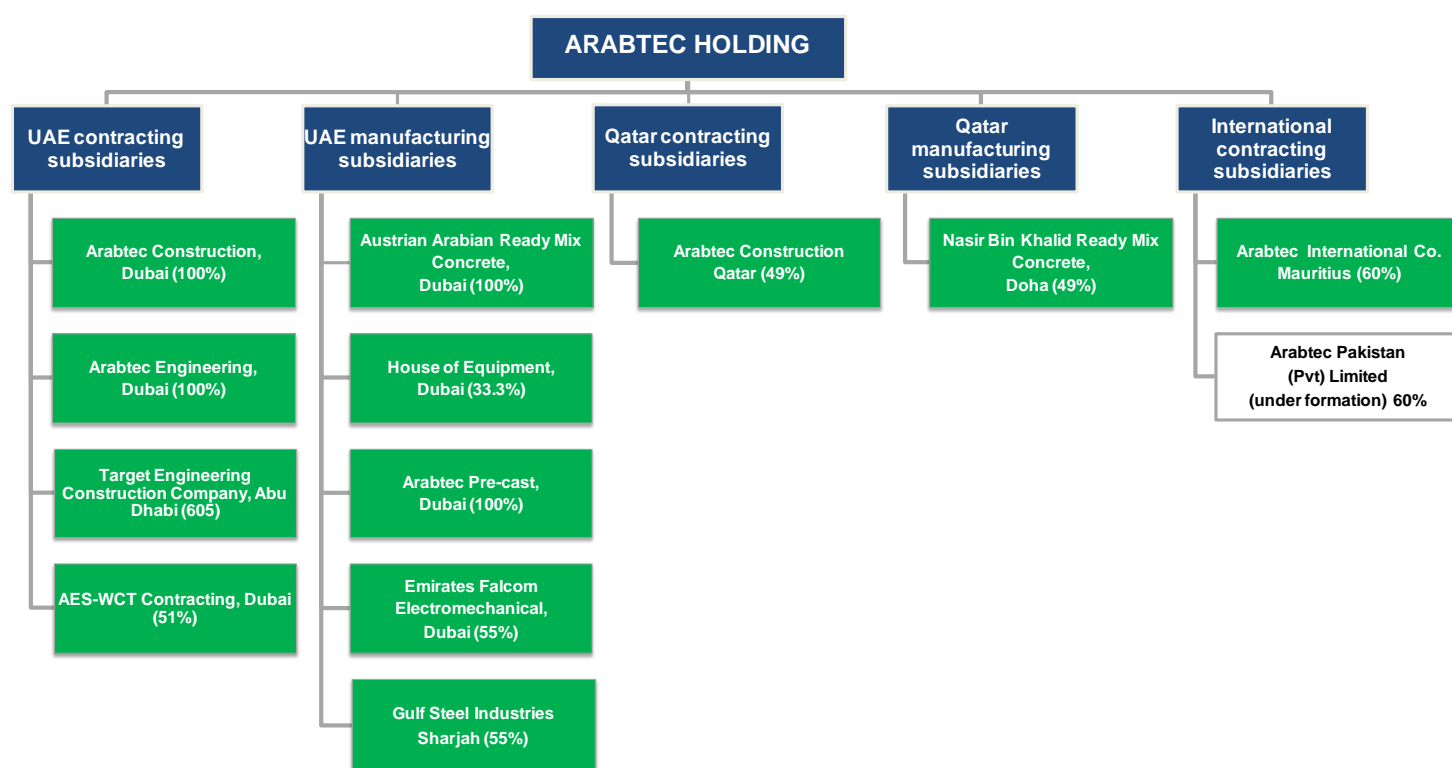
## Background

**One of the largest GCC Construction giant**

Arabtec Holding (ARTC) deals in high rise development, residential complexes, hotel interiors, office blocks, and commercial and industrial projects.

The company carries out its operation along with its subsidiaries and joint ventures. They are Arabtec Precast, L.L.C., Target Engineering Construction Company, W.L.L. (TECC), Austrian Arabian Ready Mix Concrete (AAC), L.L.C., House of Equipment (HOE), L.L.C., Arabtec Engineering Services (AES), L.L.C., Emirates Falcon Electromechanical Co. (EFECO) L.L.C and Arabtec Precast, L.L.C.

### Business Model



Source: Company Filings, Zawya, VIS Research

**Arabtec Precast, L.L.C.** is engaged in the installation and distribution of architectural wall panels and claddings. It is also a provider of structural elements, which includes precast pre-stressed slabs, band beams, and stairs. In addition, it is engaged in providing precast buildings and labor accommodations services.

**Target Engineering Construction Company, W.L.L. (TECC)** deals with electrical, civil, marine construction, mechanical and instrumentation works for both onshore and off shore projects. Besides, it also provides maintenance and servicing facility for its vehicles, machinery and construction plant. The company is operating through its four divisions: Civil & Industrial Building Division (Target CIVIL), Mechanical – Oil & Gas (Target MECHANICAL),

Power, Instrumentation & Control Division (Target ELECTRICAL) and Marine Division (Target MARINE). In addition, the company owns marine transport division, which comprises landing crafts, barges, tugs, and motor boats. It is operating across the U.K., Italy, Qatar, Dubai, Sharjah and the U.S.

**Austrian Arabian Ready Mix Concrete (AAC), L.L.C.** is engaged in the production and distribution of superior ready mix concrete, operating in Al Warqa'a, Dubai Silicon OasisDubai Land, Nad Al Sheba and Umm Al Quwain.

**House of Equipment (HOE), L.L.C.**, deals with trading, servicing, managing and rental of construction equipment. It provides a comprehensive range of Rental Services for stationary concrete pumps, hydraulic breakers, and mobile and crawler cranes; operating across middle east.

**Arabtec Engineering Services (AES), L.L.C.**, is a provider of engineering services to infrastructure works, which include sewerage, storm water and irrigation networks.

**Emirates Falcon Electromechanical Co. (EFECO), L.L.C.** provides a wide range of building services including procurement, installation, design, air conditioning, plumbing, fire-fighting services, testing and commissioning of electrical, sanitary works, instrumentations, and tele-communication systems. In addition, the company offers infrastructure services including paving, sewerage, road works, drainage, irrigation and landscaping.

## **Sound Project delivery track record with time tested relationships with large construction & real estate players**

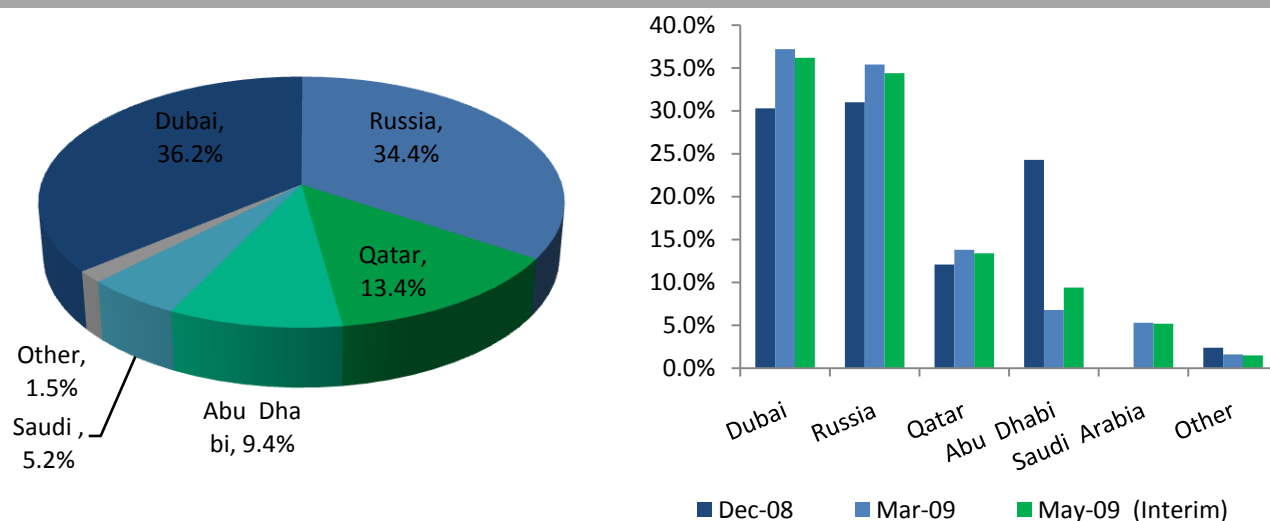
Arabtec with a sound track record in project delivery, has partnered with leading construction magnates including both GCC and other global players. The company, in a consortium with Besix and Samsung Engineering, is engaged in Gulf region's most prestigious urban development to date, Burj Dubai, the tallest tower in the world.

Arabtec's management has a time-tested developer-contractor relationships with Emaar Properties & Nakheel, the largest real estate developers in Dubai.

## **Robust current-backlog with ample diversification**

The company's current backlog estimate is AED 28.3 bn with a large share arising from Dubai followed by Russia & Qatar. Segmenting the backlog by type of project shows 69% mixed projects, 26% residential projects and 5% infrastructure projects.

Break-up of backlog by geography (May '09)



Source: Arabtec

Based on our prudent estimates, the current order backlog is approximately AED 15.6 bn. This has been arrived by excluding Okhta Centre Project in Russia with a backlog of AED 10.6 bn and Al Waab City (AED 3.8 bn backlog) in Qatar owing to high uncertainty surrounding execution of these two projects.

### Arabtec's current projects ranked by contract value (AED mn)

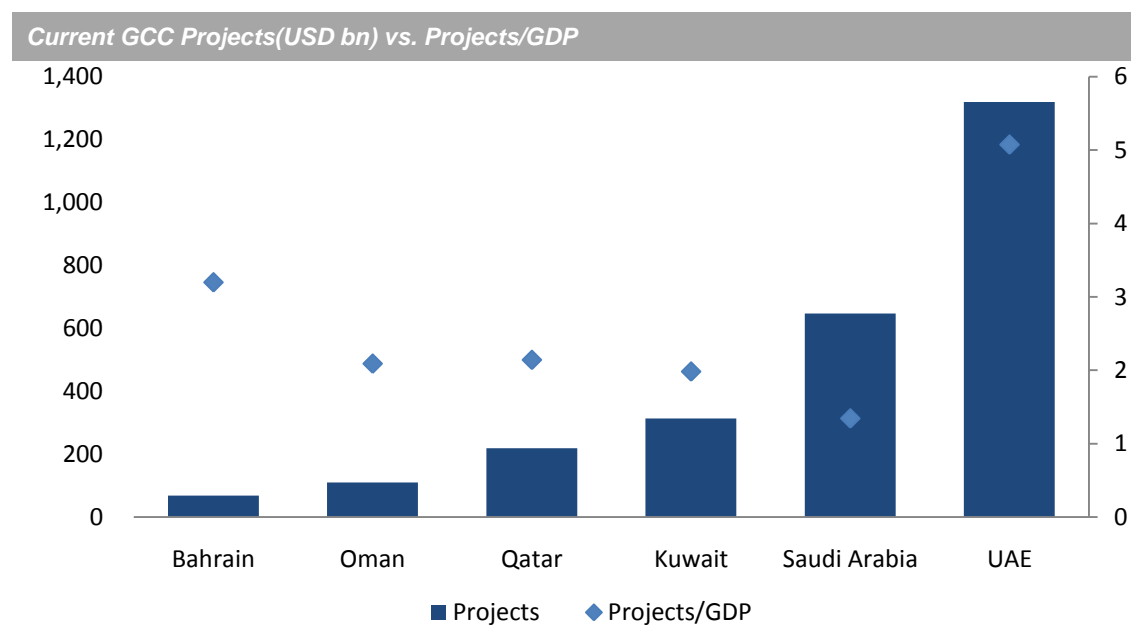
Contract	Client Name	Contract Value (AED mn)	Balance left	Completion
Anantara Palm Jumeirah & Tiara Residences	Zabeel Investments	1,490	11.5%	Jun-09
DIFC - CP08	Dubai Properties	1,358	49.9%	Sep-09
Burj Dubai Tower	Emaar	1,279	35.4%	Sep-09
1116 Villas - Mohd Bin Rashid Development (2290 Villas previously)	Mohd Bin Rashid Housing	1,231	54.2%	Oct-11
1047 Villas at DSO	Dubai Silicon Oasis Authority	1,200	23.4%	Mar-10
Palazzo Versace + D1 (Culture Village)	Emirates Sunland	1,149	75.5%	Oct-09
Zabeel Inv Hotel Tower & United Tiara Towers	Zabeel Investments	1,119	75.8%	Jul-09
JBR - 3	TECOM	1,081	11.3%	Dec-09
523 Villas - Al Furjan	Nakheel	995	83.8%	Aug-11
Lama Towers		979	100.0%	Jan-13
BaniYas Complex Mall	BaniYas Invest & Develop Co.	949	81.9%	Aug-10
Porto	Zabeel Investments	943	91.8%	Aug-10
Misc Small Target Projects (AD)	Various Clients	915	16.2%	Sep-09
Infinity Tower	Cayan Investments	800	82.5%	Jan-11
Nation Towers	International Capital Trading LLC	800	100.0%	Jan-13
ADNEC Expansion - Phase II (Aloft Hotel)	ADNEC	761	17.0%	Aug-09
Princess Noora Abdul Rahman University	Saudi Bin Ladin Group	750	100.0%	Feb-12
Ocean Heights	Damac	654	56.5%	Aug-10
550 Villas Warsan Estate Development	Emaar	599	97.6%	Apr-11
PPM Conrad Hotel	Private Client	565	88.0%	Jan-10
Silverene Towers	Cayan Investments	526	86.9%	Aug-10
Khalidia - Shinning Tower	Al Nahda Investments	517	94.6%	Jan-11
95 Villas- Sanctuary Falls Villas	Sheikh Holdings	414	88.8%	Feb-10
Misc Small Target Projects (DXB)	Various Clients	411	13.1%	Dec-12
Das Compressor -OAG	OAG	406	28.8%	Nov-09
Jumairah Island Cluster	Nakheel	398	17.9%	Nov-09
Others		3,899	64.8%	
<b>Total</b>		<b>26,187</b>		

Source: Arabtec, VIS Research

**GCC projects skewed towards UAE but Saudi & Kuwait remain underpenetrated**

## GCC Construction post global credit crisis

The GCC Projects remain highly skewed towards UAE, largely Dubai, with a Current Projects to GDP exceeding 5x. Based on the above figure, Saudi Arabia still remains an underpenetrated region in terms of Projects/GDP, followed by Kuwait, Oman and Qatar.



Source: VIS Research

## Demand for construction and property falls in GCC as liquidity constraints tighten

The construction industry in the GCC has enjoyed dynamic growth over the past few years but the region has witnessed demand stagnating for the first time in a decade following the global credit crisis. GCC is experiencing a property market slowdown with property demand and prices declining and increasing customer delinquencies. On the financing side, corporate funding options remain limited and residential mortgage lending has become more restricted, resulting in higher funding costs for contractors & developers. Additionally, the master developers are placing projects on hold to focus more on riding out of the current conditions.

All these factors are causing a weakening in construction and property sector profitability and capitalisation, particularly notable in Dubai.

It's expected that construction and property corporates would continue to generate sufficient operational cash flow to support upcoming debt maturities in the short- to medium-term.

**Construction market slowdown with higher funding costs**

## Focus shifting from Dubai's luxury Real Estate towards Government Infrastructure in Abu Dhabi, Qatar & Saudi Arabia

The construction sector in Dubai has stagnated in the current climate, with many projects having been suspended. As a result, companies are looking to markets with strong macroeconomic fundamentals like Saudi Arabia, Qatar & Abu Dhabi to support them through 2009, and act as potential safe-havens in the region in the short-term.

In most cases, GCC countries have opted for a deliberately expansionary fiscal policy in order to counter the impact of the global economic downturn on the non-oil economy.

**GCC governments increase infrastructure development expenditure to combat economic slowdown**

- Saudi Arabia has opted to increase government expenditure by 16%, focusing on infrastructure spending, which will rise in 2009 by some 36%, the largest ever increase in infrastructure spending in that country.
- The construction boom in Qatar is continuing as it remains one of the least affected of all the GCC states, by the global financial crisis. Qatar's construction sector remains robust as the development of non-oil and gas sector remains the key concern of the local Government. The construction of education and sports facilities has been forthcoming, and there has been a recent drive in residential construction.
- Like its other GCC counterparts, Abu Dhabi is also seeking to alleviate the effects of the global financial crisis through increased public spending, manifested by an overhaul of the entire transportation system. It is expected that Abu Dhabi will spend around USD 275 bn in the next five years on infrastructure projects.

All these factors are expected to alleviate the cash flow position of contractors, suppliers and developers, at a time when credit remains tight.

## New avenues emerge as Gulf developers start adjusting to the idea of affordable housing

Saudi Arabia has the greatest demand for affordable housing, with the kingdom's housing shortage expected to double by 2012 to 1 mn units.

In the UAE, Abu Dhabi developer Aldar Properties has now switched the strategy for its Al-Raha beach development, now focussed on low-cost housing for the middle and lower-middle income classes.

In Bahrain, the Diyar al-Muharraaq project is expected to cater to a wider demographic, with affordable housing accounting for 20-25% of the accommodation.

## The UAE

The global recession is hitting the UAE hard, leading to a sharp reduction in construction activity, especially in Dubai. This comes in addition to OPEC cuts in oil production, which are affecting Abu Dhabi's output, weak or no

**Global recession hitting UAE hard leading to sharp reduction in Construction activity**

investment growth and almost no expansion in services. With this, the UAE's economy is expected to contract by 1.7% in 2009. A return to previous levels of oil output and the coming on stream of several large projects will lead to growth of 4.4% in 2010.

### **Favourable property law in Dubai for resolving backlog disputes**

According to EIU, an amended property law in Dubai paves the way for resolving the backlog of disputes arising from stalled construction projects. This was recently passed in Dubai, regulated by the emirate's Real Estate Regulatory Agency, under which developers can only keep 100% of the selling price of the property from investors if 80% of the construction is completed. They can only keep 40% if 60-79% of the construction is completed. If less than 60% is completed, they can keep only 25%. If the project is officially cancelled, investors are entitled to get all of their money back. The law is expected to add an extra incentive for developers to get payments flowing to their contractors so that buildings can be completed in time.

### **New Industry structures evolving as contractors gear up to combat the economic blues**

The UAE construction market is highly fragmented due to the number of small players, with very few large players having a strong industry position. In an effort to respond to the plethora of challenges in the construction sector that have compounded recently in the UAE's and the wider Gulf's construction sector, the developers and contractors are entering into long-term partnerships, in an effort to share risks and costs. The partnership between Al Habtoor Leighton Group, Tameer Holdings and Murray, Roberts and Al Rajhi is among the first partnerships of its kind in the UAE.

## Financial Analysis ARTC

### Meydan issue continues.....

In January 2009, Meydan, a UAE state-owned developer, cancelled a racecourse construction deal that had been awarded to a joint venture (50:50) between Arabtec and Malaysia's WCT Engineering in September 2007, with a total value of USD 1.29 bn. Post cancellation, Meydan called the performance bond worth AED 461.3 mn (Arabtec's share AED 230.65 mn) for the project and Advance Payment amounting to AED 77.3 mn (Arabtec's share AED 38.6 mn). The case has now gone into arbitration, with the JV seeking claims worth USD 460 mn.

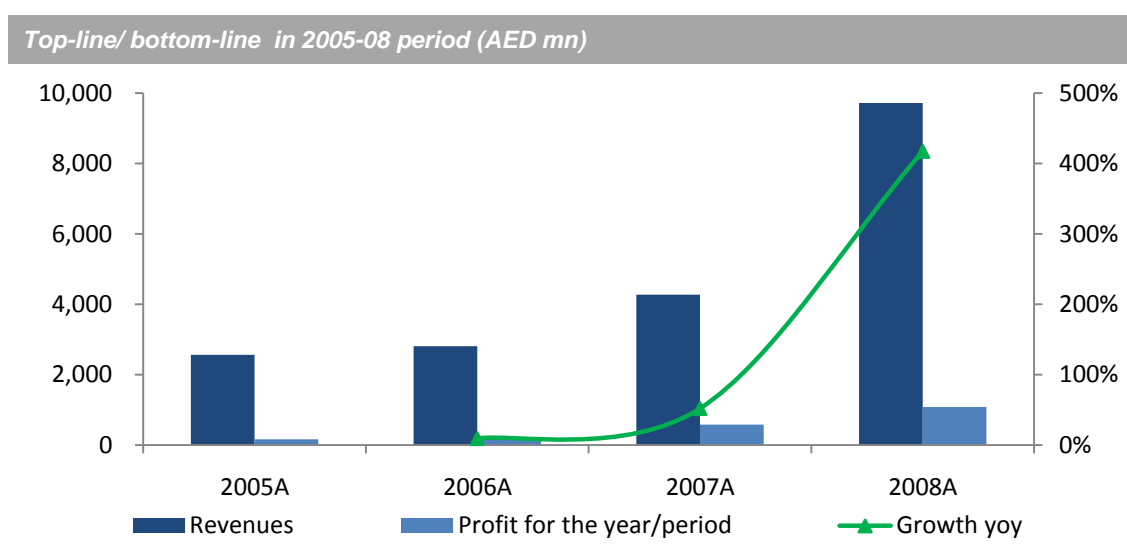
### -Q1 '09 Performance

*Marginal decline in top-line with Net Income shrinking by 30.3%, yoy, in Q1'09*

- For the three months ended 31 March 2009, Arabtec Holding PJSC's total revenue decreased marginally by 0.8% to AED 1.865 bn from AED 1.879 bn in Q1'08. Total revenue reflects a decrease in demand for the Company's products and services.
- Net income decreased by 30.3%, yoy, to reach AED 161.2 mn in Q1'09. It suffered from an increase in general and administrative expenses, as well as finance costs and provision for income taxes.
- Net income also suffered from a decrease in other income.
- Total Assets of the company declined by 1.25%, qoq, to AED 9.34 bn with a steep 13.29 % decline, qoq, in inventories reaching AED 881.5 mn in Q1'09.
- Current receivables also declined by 6.11%, qoq, to reach AED 4.68 bn in Q1'09, as payments by customers started pouring in.

### -2008 Performance

Bottom-line expansion subdued by rising costs and customer delinquencies



Source: Company Filings, VIS Research

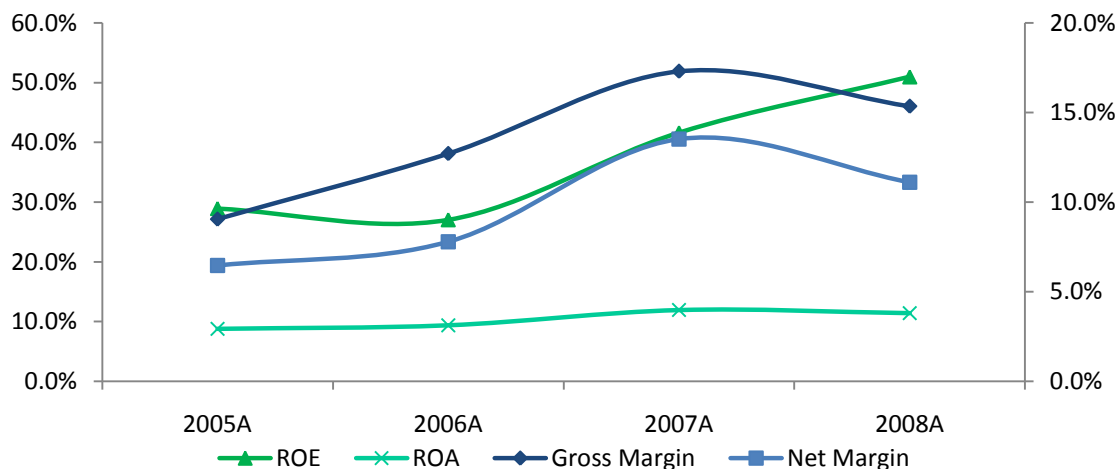


**High sales growth of 127.5% in FY2008, but profits subdued due to high material costs & Meydan exposure**

In 2008, the revenues increased 127.5%, yoy, to AED 9.7 bn from AED 4.3 bn in FY2007. This resulted in an increase in overall variable costs as Arabtec pursued its rapid expansion into new markets.

The Net Income was subdued in FY2008 due to high direct costs during the year. Material costs rose throughout FY2008, in particular the last quarter. Additionally, income of AED 89.5 mn from Meydan was not recorded. This led to subdued Net Income of AED 1.1 bn, an increase of 86.9%, yoy, from AED 578 mn in FY2007.

#### Profitability

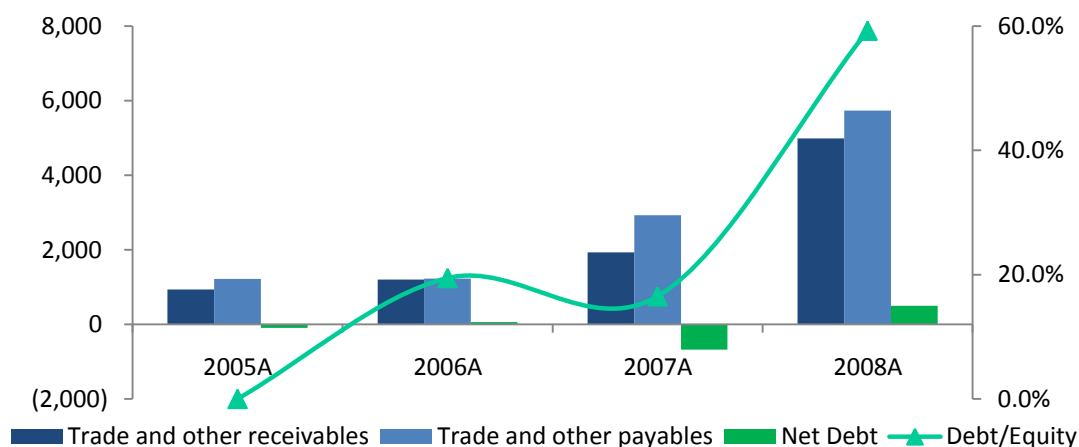


Source: Company Filings, VIS Research

Increased cost pressures resulted in lower margins for the company with Gross Margins and Net margins falling from 17.3% & 13.5% in FY2007 to 15.3% & 11.1%, respectively in FY2008.

In FY2008, Arabtec's ROE & ROA at 51.0% & 11.4%, remained high compared to similar players in GCC (median ROE & ROA of 38.1% & 12.7%, respectively of the peers).

#### Liquidity profile(AED mn)



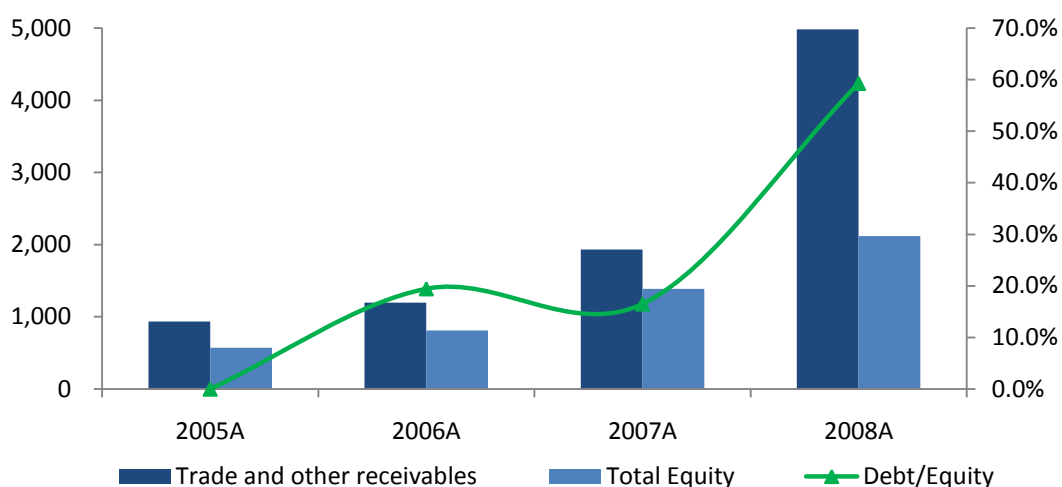
Source: Company Filings, VIS Research

**Credit crunch resulting in increase in receivables by 157.8%, yoy, in FY2008; funded by debt**

The last Quarter of FY2008 witnessed extreme liquidity constraints in the UAE construction market. This led to increase in receivables by 157.8%, yoy, to reach AED 4.98 bn in the year end. The Payables increased by 96.1%, yoy, to AED 5.73 bn , largely owing to a hike in trade payables and amounts due to customers.

This funding gap between the Receivables & Payables made the company resort to large amount of short-term debt in the form of bank borrowings during Q4'08 amounting to AED 414 mn. In-line with this, the Net Debt of the company rose to AED 498 mn from a negative AED 675 mn in FY2007, placing additional risk to asset-side of the company.

**Risk (AED mn)**



Source: Company Filings, VIS Research

**Receivables equal to 235.3% of Arabtec's Equity in FY2008**

As the credit profile of Arabtec remains under scrutiny, post global slowdown, it is prudent to understand the asset-side risk to the company. Trade & other receivables' risk remained high in FY2008, representing 235.3% of the book value of the company compared to 139.2% in FY2007. A debt/equity of 59.3% in FY2008 compared to 16.5% in FY2007 also increased the funding risk of the company.

It should be noted that although receivables' risk remained high in FY2008, a decline in Current receivables by 6.11%, qoq, to reach AED 4.68bn in Q1'09, shows that customer payments are increasing.

## Key Financials (2005A-11E)

AED mn	2005A	2006A	2007A	2008A	2009E	2010E	2011E
<b>Income Statement</b>							
Revenues	2,566	2,810	4,273	9,722	7,881	8,889	7,272
<i>Growth yoy</i>		9.5%	52.1%	127.5%	-18.9%	12.8%	-18.2%
Direct costs	(2,333)	(2,453)	(3,534)	(8,230)	(6,710)	(7,528)	(6,059)
Gross profit	232	357	739	1,492	1,171	1,360	1,213
<i>Gross Margin</i>	9.0%	12.7%	17.3%	15.3%	14.9%	15.3%	16.7%
Other operating income	12	26	98	167	184	207	238
SG&A	(101)	(176)	(293)	(586)	(598)	(627)	(659)
Profit from operations	144	207	544	1,073	757	940	792
Other Income/expenses	28	13	39	47	30	45	64
Finance costs	(6)	(1)	(4)	(24)	(37)	(32)	(24)
Profit before tax	166	219	579	1,096	750	952	831
Income tax expense	0	0	(1)	(16)	(8)	(14)	(17)
<b>Profit for the year/period</b>	<b>166</b>	<b>219</b>	<b>578</b>	<b>1,080</b>	<b>743</b>	<b>938</b>	<b>815</b>
<i>Net Margin</i>	6.5%	7.8%	13.5%	11.1%	9.4%	10.6%	11.2%
Diluted EPS	0.14	0.18	0.48	0.90	0.62	0.78	0.68
<b>Balance Sheet</b>							
<b>Assets</b>							
Cash and cash equivalents	94	101	904	757	939	1,215	1,490
Trade and other receivables	936	1,198	1,933	4,983	4,318	4,627	3,586
Due from related parties	30	25	126	278	259	244	159
Inventories	95	215	184	1,017	873	928	706
Other Current Assets	60	73	216	251	237	256	231
Total current assets	1,215	1,611	3,363	7,286	6,627	7,270	6,172
Property, plant and equipment	331	416	750	1,381	1,742	2,060	2,168
Intangibles	190	179	514	495	447	418	394
Other non-current assets	153	129	214	298	293	323	275
Total non-current assets	675	724	1,477	2,173	2,482	2,801	2,837
Total Assets	1,890	2,335	4,840	9,460	9,109	10,071	9,009
<b>Liabilities and Equity</b>							
Bank borrowings	0	157	209	1,102	874	880	623
Trade and other payables	1,218	1,226	2,923	5,732	4,780	4,847	3,320
Other Current Liabilities	9	8	128	176	224	230	169
Total current liabilities	1,227	1,391	3,261	7,010	5,877	5,957	4,112
Bank borrowings	0	1	20	154	107	17	0
Other long-term liabilities	89	133	171	178	264	298	283
Total non-current liabilities	89	134	191	332	371	315	283
Total Liabilities	1,316	1,525	3,452	7,342	6,248	6,273	4,396
<b>Capital and reserves</b>							
Share capital	400	520	598	1,196	1,196	1,196	1,196
Other Equity	174	290	790	922	1,665	2,603	3,417
Total Equity	574	810	1,388	2,118	2,861	3,799	4,613
Total Liabilities and Equity	1,890	2,335	4,840	9,460	9,109	10,071	9,009

Source: Company Filings, VIS Research

These figures have been arrived after taking into account the cyclical nature of this industry and the visibility on current projects of Arabtec.

*Regional diversification, declining inflation & time-tested relationships to steer Arabtec from the current crisis*

## Outlook

Although FY2009 is expected to be hard for construction players in UAE, in particular Arabtec, with continuing liquidity constraints, slowing project demand and renegotiation of contracts; the company is well-positioned to combat these economic blues.

Regional diversification to be the key for Arabtec to combat the macroeconomic scenario. Unlike Dubai, other GCC markets of Saudi, Qatar & Abu Dhabi are expected to provide a safe-haven to the company.

Arabtec's time-tested relationship with developers like Emaar & Nakheel and collaborations with global construction giants are expected to boost additions to its book in future.

An expected decline in UAE's inflation to 4.5% in FY2009, to relieve Construction earnings. This is expected to reduce costs for construction activity, thereby providing at least some respite to the contractors & developers in the region.

## Valuation & Recommendation

Valuation of ARTC has been performed by applying the following:

- Discounted Cash Flow (DCF) Valuation
- Relative Valuation

### DCF Valuation

The following assumptions have been taken in the DCF model to arrive at the equity value of ARTC:

DCF assumptions	
Risk free rate	4.0%
Equity risk premium	9.3%
Beta	1.35
Cost of Equity (Ke)	16.5%
WACC	13.5%
Perpetual growth rate	0.5%

The Valuation is based on a 3-year forecast (2009E-11E) of Free Cash Flows for the company.

(mn AED)	Free Cash Flow (FCF)	PV FCF
2009E	501	470
2010E	406	336
2011E	590	430
Sum of PV of FCF		1,235
Terminal Value est.		4,563
Discounted Terminal Value		3,322
<b>Enterprise Value</b>		<b>4,557</b>
Debt		(1,508)
Cash		928
Investments		142
Pension Liabilities		(119)
Minority Interest		(238)
Meydan exposure		(269)
<b>Implied Equity Value</b>		<b>3,493</b>
Shares Outstanding (mn)		1,196
<b>Fair Value per share (AED)</b>		<b>2.92</b>

*\*All figures in mn AED except per share data*

Based on our cashflow projections and the above assumptions, the target value of ARTC is AED 2.92 per share.

### Sensitivity Analysis

A sensitivity analysis has been performed to assess the impact of changes in the long-term growth rates & WACC on the valuation. The table provides estimated fair values for Arabtec's shares (in AED) based on a range of varying inputs.

Equity Value: Sensitivity Analysis				Step	0.25%	
WACC	Growth rate					
		0.00%	0.25%	0.50%	0.75%	1.00%
	10.5%	3.84	3.94	4.05	4.16	4.27
	11.5%	3.44	3.52	3.60	3.69	3.78
	12.5%	3.10	3.16	3.23	3.31	3.38
	13.5%	2.80	2.86	2.92	2.98	3.05
	14.5%	2.55	2.60	2.65	2.70	2.76
	15.5%	2.34	2.38	2.42	2.47	2.51
	16.5%	2.14	2.18	2.22	2.26	2.30
Step		1.00%				

### Relative Valuation

Relative valuation is performed to compare the intrinsic value of Arabtec arrived at employing the DCF approach. Peer's EV/Sales multiple has been computed based on their current market prices and projected sales for 2009.

Based on the peer average 2009E EV/Sales of 0.68x, the target value of Arabtec Holding is AED 3.59 per share.

## Recommendation

Taking the current macroeconomic scenario in GCC into account, particularly in UAE, the weighted average share price has been calculated by assigning 75% weight to the DCF value and 25% to ARTC's Relative valuation.

	Weightage	Target Value (AED per share)
DCF Valuation	75.0%	3.09
Relative valuation	25.0%	
CMP (AED)		2.41
Up/down-side		28.1%

**RECOMMENDATION: BUY**

**ARTC Target Value: AED 3.09**

*Based on the above, the fair value of ARTC per share is expected to be AED 3.09 which is a 28.1% upside to the current market price (June 29, 2009).*

**We recommend a BUY on ARTC at the current market price.**

## Risks to the Fair value of Arabtec

Despite our conservative projections, there may be some forecast risk largely arising from the following:

### Upside Risks to the stock's fair value

- Execution of projects excluded by us from Arabtec's current backlog, including the AED 10 bn Okhta Center project, may occur in future.
- Meydan issue may get settled in favour of the Company
- Forecasted backlog additions may increase as the GCC economies start recovering in the FY2009E-11 period.

### Downside Risks to the stock's fair value

- Project delays or/and cancellations beyond our assumptions will lead to downside from stock's fair value.
- Projected Revenues & Profits can have huge impact with renegotiation of current contracts of the company.
- Margins for Arabtec may decrease further with an increase in collection period for receivables, resulting in higher funding requirements.

## Important Disclaimer

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## Ratings\*

- **Buy:** Based on a current 12- month view of total shareholder return (percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.
- **Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
- **Hold:** A neutral view on the stock based on a current 12-month view, we do not recommend either a Buy or Sell.

## Rating\* Scale

Expected total return (including dividends)	
<b>Buy</b>	10% or more over a 12-month period
<b>Hold</b>	between -10% and 10% over a 12-month period
<b>Sell</b>	-10% or lower over a 12-month period

*\*Newly issued research recommendations and target prices always supersede previously published research*