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Company Update

Aabar Investments PJSC

Rating: ***Outperform***

Bobby Sarkar
T +971 4 360 11 68
Bobby.Sarkar@almalcapital.com

Downtown Burj Dubai
Emaar Square
Building 4, Office 302
Sheikh Zayed Road
P. O. Box 119930
Dubai, United Arab Emirates
T +971 4 360 11 11
F +971 4 360 11 22

www.almalcapital.com

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IPIC Converts Final Bond Tranche; Aabar to Buy 9.1% Stake in Daimler

As we had predicted, IPIC becomes majority 71% equity holder in Aabar post its convertible bond conversion. Aabar announced that IPIC converted its 2nd and final tranche of mandatorily convertible bonds at AED3/share for AED5.184bn in cash. This means that IPIC will now own 71% of Aabar with 2.228bn in total additional shares to be issued and listed post-regulatory approval. The high likelihood of IPIC conversion was the key thesis outlined in our initiation of Aabar (for details see our Feb. 3 report). Since we launched coverage with an *Outperform* rating, Aabar shares have rallied about 50% to AED1.79 currently.

In a long-term strategic move, Aabar to acquire 9.1% equity stake (96.4mm shares) in Daimler for ~ AED9.7bn (EUR1.95bn). This would make Aabar the largest shareholder in Daimler ahead of Kuwait Investment Authority's 6.9% stake in the company. Longer-term, we believe that Aabar expects to reap an attractive return on its investment in Daimler hoping for a recovery in the global auto industry. Considering Daimler's premier brand status and strong position in the luxury car market, Aabar expects its investment to outperform over the long haul. According to the press release, Aabar and Daimler will also focus on joint initiatives such as: 1) electric cars; 2) R&D on new compounds to be used in auto manufacturing; and 3) social projects such as a training center in Abu Dhabi for new positions in the auto sector. While we think this purchase could be a positive strategic investment over the next several years, in the near-term, we believe that this deal raises several questions in the minds of Aabar investors. Clarification on these questions could help investors form a better opinion on Aabar shares, in our view.

Question I: From a timing and pricing perspective, does this deal make sense for Aabar shareholders? Our view is that Aabar could have done better. (1) Assuming that it makes sense to invest in an automaker in the first place, we believe that Aabar could have timed this acquisition better. The global auto industry is facing unprecedented challenges and we do believe that it is too early to call a bottom considering the poor economic outlook in 2009/10 and extremely weak credit market conditions everywhere. (2) From a pricing standpoint, we note that the price of EUR20.27/share is just a 5% discount to Daimler's closing stock price of EUR21.34 (Fri. March 20). We understand that Daimler stock is off 62% from its 52-week high of EUR55.94 but given that the automaker is in a position of financial weakness (EUR10bn plus in 2009 debt maturities vs. EUR6.9bn in cash; FY08 operating cash flow down 76%), we believe that Aabar could have potentially pulled off the deal at more attractive terms. This purchase values Daimler shares somewhat richly at a P/E of 28x for 2009 and a P/E of 11.4x for 2010.

Question II: How will Aabar finance this purchase? We await details from management in this regard, but we suspect a mixture of cash/debt. Per our estimate, Aabar has close to AED8bn in cash presently (AED1.3bn as of end-2008 and AED6.684bn from IPIC convertibles). Given expected cash outlays for previously announced acquisitions, we would expect Aabar to finance a portion or all of its purchase of Daimler shares (for more details, see Figure 1). We await more details from management over the upcoming days in this regard. Our sense is that a mixture of cash and debt could be used to fund this purchase. For reference, IPIC most recently raised a 3-year $700mm bond at 300bp over LIBOR in relation to its purchase of a stake in Oil Search.

Net-net, while we maintain our Outperform rating, we are less optimistic on Aabar shares than we were back on Feb. 3. While the acquisition of the Daimler stake could well turn out to be a longer-term positive, we are somewhat puzzled by the nature, timing and the valuation of the transaction. We rate Aabar an Outperform with a 12-month price target of AED2.10.

Figure 1. Maximum Funding Requirement

	Amount (AED mm)	Comments
Cash At Dec-31st	1301.8	Per FY08 Balance Sheet
IPIC Convertibles	6684.0	Per press announcements of conversions of first tranche of AED1.5bn on Feb. 17 and second tranche of AED5.184bn on March 23
Total Available Cash	**7985.8**	
Expected Outlays		
Purchase of UniCredit "CASHES"	248.6	Announced on March 1. Nominal amount of EUR49.8mm, maturing Dec 15 2050 paying quarterly coupon equal to 3-month EURIBOR plus 4.5% p.a.
Closing of AIG Private Bank, Switzerland	1001.1	Announced Dec 1 2008 but closing expected in 1Q09. Purchase price is CHF307mm (AED1bn) in cash plus assumption of CHF100mm (AED326mm) in loans
Signed a Purchase Agreement for Real Estate Development	5000.0	Announced on Feb. 17 at price/square feet of AED1285. Total cash outlay to be spread over several years depending on development progress. Agreement with Tamouh Investments to acquire 6 land plots within the Al Reem Island development area. Development plans include 4 commercial tower buildings and 8 mixed residential-commercial tower buildings with a net floor area of 361,397 square meters
Total Cash Outlays	**6249.7**	Total cash outlays in the near-term likely to be much lower given longer-term horizon of the real estate project
Net Cash Position	1736.1	
Funding Requirement for Daimler Stake Purchase	9736.1	
Maximum Funding Shortfall	(8000.0)	

Source: Company reports, Al Mal Capital

Al Mal Securities Group

Institutional Sales & Trading

Khamis Shinnawi	+971 4 360 11 10
Hassan El Salah	+971 4 360 11 09
Ashraf Abushakra	+971 4 369 66 01
Kamal Samarrai	+971 4 360 11 05
Carlo Dalafu	+971 4 360 11 04
All Desks Number	+971 4 360 11 00

Al Mal Capital Research

Managing Director

Robert McKinnon	+971 4 360 11 17

Research Analysts

Irfan Ellam	+971 4 360 11 53
Bobby Sarkar	+971 4 360 11 68
Deepak Tolani, CFA	+971 4 360 11 52
Mala Pancholia	+971 4 360 11 54

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