05 August 2009

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

Research@almalcapital.com
www.almalcapital.com

AL MAL CAPITAL

Still a Compelling Buy; Reiterate Outperform Rating

We once again reiterate our rating on Aabar as a "special situation" Outperform. We are updating our Net Asset Value (NAV) on Aabar given the significant gains in the company's investments in listed equities (especially its stake in Daimler) since our last research report on July 8. Our current NAV calculations also account for Aabar's: (1) investment in Tesla Motors (July 13); (2) JV with Berndorf (July 20); and (3) investment in Virgin Galactic (July 28). **Our updated "bear-case" NAV of AED2.99 implies a potential upside of 14%.** *We would like to point out to investors that we have been successful in our previous calls on Aabar shares. Since our last research report (Reiterate Outperform on Compelling Valuation, July 8), Aabar has appreciated ~40% from AED1.88 to AED2.62. Previously, in our initial coverage research report (A "No-Brainer," Initiating Coverage With Outperform, Feb. 3), we had recommended investors buy Aabar at AED1.31, leading to more than 100% gains as the stock traded up to AED2.63 in early June.*

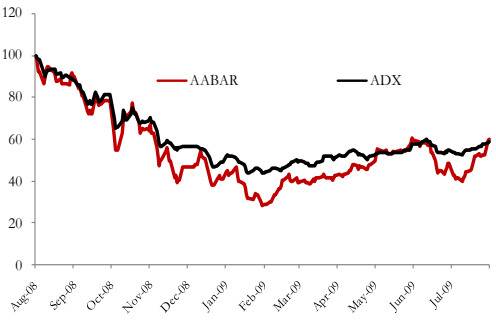
Buying AABAR still makes sense, in our view. (1) Our **"bear-case"** scenario yields a fair value/share of AED2.99, which ascribes ***no value*** for Aabar's AED5.2bn (book value) in real estate investments since Nov. 2008 and applies a 50% haircut to its AED1.1bn acquisition of AIG Private Bank. We also ascribe ***zero value*** to investments in Tesla, Virgin Galactic, UniCredit "CASHES" convertible bonds and other derivative financial assets. Since our last research report (July 8), Aabar has enjoyed significant unrealized market value gains on its investments in the listed equities of Daimler and Atlantia, a fact that we account for in our valuation. (2) Indeed, even if we consider the company's real estate investments at very heavy discounts (80% haircut or discount) to their book values as we do in our **"base-case,"** we could envision AABAR trading up to AED3.34or a 28% upside. (3) Our **"bull-case"** yields a value of AED3.87. *We believe that we have been very conservative in our estimate of Aabar's adjusted NAV under all three preceding scenarios. This is because we have completely/significantly discounted value accretion from all non-listed investments, while reducing Aabar's NAV by the debt (or our assumption of debt) from these non-listed investments. Thus, we believe that our adjusted NAV estimates for Aabar remain very conservative.*

Aabar, as the majority-controlled non-energy investment vehicle for IPIC, should continue to benefit. So far, IPIC has shown strong support as evidenced by its recent grant of an AED1.5bn interest-free and unsecured loan to Aabar in order to help fund the Daimler purchase. Going forward, we believe that IPIC will continue to treat Aabar as its spearhead investment vehicle into diversified non-energy assets and should continue to provide the company with access to cheap (or even free) funds in order to fuel further investments.

Risks to the AABAR story remain, but are overstated. We continue to remain perplexed with Aabar's real estate transactions, given our view that the UAE property markets are unlikely to see a bottom until 1H10. However, we note that even if we assume that all of Aabar's real estate assets are worth ***zero*** (as we do in our "bear-case,") the company's shares remain undervalued.

Net-net, we reiterate our Outperform rating on AABAR shares.

Equity Data, *AED per share data*		
Current Price	2.62	
NAV	Target Price	Upside
Bear Case	**2.99**	**14.13%**
Base Case	**3.34**	**27.60%**
Bull Case	**3.87**	**47.80%**
Recommendation		***Outperform***
Hi - Lo		4.44 - 1.20
1 Yr Return		-39.77%
Performance YTD		47.19%
Appreciation since the low of Feb 2, 09		113.0%



Valuation Remains Attractive

Our analysis reveals AABAR could generate 28% returns in the near-term.

(1) Our **"bear-case"** scenario yields a fair value/share of AED2.99, which ascribes ***no value*** for Aabar's AED5.2bn (book value) in real estate investments since Nov. 2008 and applies a 50% haircut to its AED1.1bn acquisition of AIG Private Bank. We also ascribe ***zero value*** to investments in Tesla, Virgin Galactic, UniCredit "CASHES" convertible bonds and other derivative financial assets. Since our last research report (July 8), Aabar has enjoyed significant unrealized market value gains on its investments in the listed equities of Daimler and Atlantia, a fact that we account for in our valuation.

(2) Indeed, even if we consider the company's real estate investments at very heavy discounts (80% haircut or discount) to their book values as we do in our **"base-case,"** we could envision AABAR trading up to AED3.34 or a 28% upside. We continue to discount fully Aabar's recent investments in Tesla and Virgin Galactic.

(3) We have also included a **"bull-case"** which provides investors with a flavor of how much AABAR shares could be worth (AED3.87). We note that even here, we apply a somewhat substantial 50% haircut to Aabar's real estate portfolio/"CASHES" convertible bonds, etc. We continue to discount fully Aabar's recent investments in Tesla and Virgin Galactic.

We believe that we have been very conservative in our estimate of Aabar's adjusted NAV under all three preceding scenarios. This is because we have completely/significantly discounted value accretion from all non-listed investments, while reducing Aabar's NAV by the debt (or our assumption of debt) from these non-listed investments. Thus, we believe that our adjusted NAV estimates for Aabar remain very conservative.

We detail our valuation analysis below.

Figure 1. Our Valuation Analysis Implies a 28% Upside Under the "Base-Case" Scenario

Current Price per share (in AED)	2.62	Upside
NAV PER SHARE (in AED)		
Book Value (BV) NAV -- 1Q09	**2.94**	12.31%
Adjusted NAV -- Bear Case	**2.99**	14.13%
Adjusted NAV -- Base Case	**3.34**	27.60%
Adjusted NAV -- Bull Case	**3.87**	47.80%

Source: Company reports, Al Mal Capital

Figure 2. As of 1Q09, Aabar Had a BV/Share of AED2.94

BOOK VALUE (BV) NAV -- 1Q09 (in AED mln)	1Q09
Bank balances and cash	1,961.4
Accounts receivables and prepayments	13.6
BV CURRENT ASSETS	**1,975.0**
PP&E	0.3
BV PP&E	**0.3**
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	2,379.2
Advance for purchase of investment properties (for majority stake in development project in NY)	118.2
BV INVESTMENT PROPERTIES	**2,497.4**
AFS investments (Atlantia S.p.A)	1,054.4
AFS investments (Daimler AG)	8,645.1
Fair value through profit or loss investments	241.7
BV INVESTMENTS	**9,941.2**
Derivative financial assets	80.1
OTHER ASSETS	**80.1**
BV TOTAL ASSETS	**14,494.0**
Accounts payables and accruals	189.6
Derivative financial liabilities	11.4
Employees' end of service benefits	0.8
BV OTHER LIABILITIES	**201.8**
Debt maturing within 12 months (EUR891mm loan for Daimler stake purchase; EURIBOR +3.9%; fully repaid on 4/16/2009)	4,250.1
Debt maturing after 12 months (loan from Uni-Credit for purchase of Atlantia stake; EURIBOR +3.5%)	837.7
BV EXTERNAL LIABILITIES	**5,087.8**
BV TOTAL LIABILITIES	**5,289.6**
BV NAV	**9,204.5**
Outstanding shares	3,128.0
BV NAV/SHARE	**2.94**

Source: Company reports, Al Mal Capital

Figure 3. Our Bear-Case Valuation Reveals a Fair Price of AED2.99 for AABAR Shares

ADJUSTED NAV -- BEAR CASE (in AED mm)	Current
BV NAV, EX CASH	**7,243.1**
Assets, ex cash	
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	0.0
Haircut Applied	100.0%
Advance for purchase of investment properties (for majority stake in development project in NY)	0.0
Haircut Applied	100.0%
CASHES convertible bond & derivative financial assets	0.0
Haircut Applied	100.0%
AFS investments (Atlantia S.p.A) FV gains since 1Q09	425.2
Gain since 1Q09	40.3%
AFS investments (Daimler AG) FV gains since 1Q09	7,450.5
Gain since 1Q09	86.2%
Investment properties (May 21 acquisition of 14 plots in AUH from Green Emirates for AED2.7bn)	0.0
Haircut Applied	100.0%
Closing of AIG Private Bank acquisition (April 16 dose; total consideration of $308mm made up of $253mm in cash plus assumed loans of $55mm)	565.7
Haircut Applied	50.0%
Purchase of 4% stake in Tesla Motors (announced July 13; purchase of 40% of Daimler's ~10% stake of $99mm)	0.0
Haircut Applied	100.0%
Purchase of 32% stake in Virgin Atlantic (announced July 28 for $280mm plus $100mm commitment)	0.0
Haircut Applied	100.0%
Liabilities	
Loan of AED2.7bn to finance land transaction on May 21 (assuming AED2.7bn is initial cost of purchase and not the total outlay expected, induding development)	2,700.0
Loan of $55mm assumed in AIG Private Bank purchase	202.0
Loan assumed to complete Virgin Galactic acquisition	1,395.9
Cash	
Balance as of 1Q09	1,961.4
Cash used for AIG Private Bank deal	929.4
Cash used for 4% stake (40% of Daimler's ~10% stake) in Tesla Motors	145.5
Interest expense net of interest income	100.6
Current Balance	785.9
ADJUSTED NAV	**9,353.2**
ADJUSTED NAV/SHARE	**2.99**

Note: We are not assuming any impact from Berndorf AG JV (announced July 20) where AABAR's contribution is EUR100mm as this is equivalent to cash currently

Source: Company reports, Al Mal Capital

Figure 4. Our Base-Case Valuation Reveals a Fair Price of AED3.34 for AABAR Shares

ADJUSTED NAV -- BASE CASE (in AED mm)	Current
BV NAV, EX CASH	**7,243.1**
Assets, ex cash	
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	475.8
Haircut Applied	80.0%
Advance for purchase of investment properties (for majority stake in development project in NY)	23.6
Haircut Applied	80.0%
CASHES convertible bond & derivative financial assets	64.4
Haircut Applied	80.0%
AFS investments (Atlantia S.p.A) FV gains since 1Q09	425.2
Gain since 1Q09	40.3%
AFS investments (Daimler AG) FV gains since 1Q09	7,450.5
Gain since 1Q09	86.2%
Investment properties (May 21 acquisition of 14 plots in AUH from Green Emirates for AED2.7bn)	540.0
Haircut Applied	80.0%
Closing of AIG Private Bank acquisition (April 16 dose; total consideration of $308mm made up of $253mm in cash plus assumed loans of $55mm)	565.7
Haircut Applied	50.0%
Purchase of 4% stake in Tesla Motors (announced July 13; purchase of 40% of Daimler's ~10% stake of $99mm)	0.0
Haircut Applied	100.0%
Purchase of 32% stake in Virgin Atlantic (announced July 28 for $280mm plus $100mm commitment)	0.0
Haircut Applied	100.0%
Liabilities	
Loan of AED2.7bn to finance land transaction on May 21 (assuming AED2.7bn is initial cost of purchase and not the total outlay expected, induding development)	2,700.0
Loan of $55mm assumed in AIG Private Bank purchase	202.0
Loan assumed to complete Virgin Galactic acquisition	1,395.9
Cash	
Balance as of 1Q09	1,961.4
Cash used for AIG Private Bank deal	929.4
Cash used for 4% stake (40% of Daimler's ~10% stake) in Tesla Motors	145.5
Interest expense net of interest income	100.6
Current Balance	785.9
ADJUSTED NAV	**10,457.1**
ADJUSTED NAV/SHARE	**3.34**

Note: We are not assuming any impact from Berndorf AG JV (announced July 20) where AABAR's contribution is EUR100mm as this is equivalent to cash currently

Source: Company reports, Al Mal Capital

Figure 5. Our Bull-Case Valuation Reveals a Fair Price of AED3.87 for AABAR Shares

ADJUSTED NAV -- BULL CASE (in AED mm)	Current
BV NAV, EX CASH	**7,243.1**
Assets, ex cash	
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	1,189.6
Haircut Applied	50.0%
Advance for purchase of investment properties (for majority stake in development project in NY)	59.1
Haircut Applied	50.0%
CASHES convertible bond & derivative financial assets	160.9
Haircut Applied	50.0%
AFS investments (Atlantia S.p.A) FV gains since 1Q09	425.2
Gain since 1Q09	40.3%
AFS investments (Daimler AG) FV gains since 1Q09	7,450.5
Gain since 1Q09	86.2%
Investment properties (May 21 acquisition of 14 plots in AUH from Green Emirates for AED2.7bn)	1,350.0
Haircut Applied	50.0%
Closing of AIG Private Bank acquisition (April 16 dose; total consideration of $308mm made up of $253mm in cash plus assumed loans of $55mm)	565.7
Haircut Applied	50.0%
Purchase of 4% stake in Tesla Motors (announced July 13; purchase of 40% of Daimler's ~10% stake of $99mm)	0.0
Haircut Applied	100.0%
Purchase of 32% stake in Virgin Atlantic (announced July 28 for $280mm plus $100mm commitment)	0.0
Haircut Applied	100.0%
Liabilities	
Loan of AED2.7bn to finance land transaction on May 21 (assuming AED2.7bn is initial cost of purchase and not the total outlay expected, induding development)	2,700.0
Loan of $55mm assumed in AIG Private Bank purchase	202.0
Loan assumed to complete Virgin Galactic acquisition	1,395.9
Cash	
Balance as of 1Q09	1,961.4
Cash used for AIG Private Bank deal	929.4
Cash used for 4% stake (40% of Daimler's ~10% stake) in Tesla Motors	145.5
Interest expense net of interest income	100.6
Current Balance	785.9
ADJUSTED NAV	**12,112.8**
ADJUSTED NAV/SHARE	**3.87**

Note: We are not assuming any impact from Berndorf AG JV (announced July 20) where AABAR's contribution is EUR100mm as this is equivalent to cash currently

Source: Company reports, Al Mal Capital

Appendix: Supporting Calculations

Figure 6. Interest Income/Expense Calculations

Interest Income Accrued Since 1Q09 Details	Amount (AEDmm)
Cash (3/31/2009)	1961.39
Cash Used for Acquisition of AIG Private Bank	929.37
Cash Used for 4% Stake (40% of Daimler's ~10% Stake) in Tesla Motors	145.47
Net Cash	886.55
Interest Earned on Cash (4/1/2009-8/4/2009) @ 6% pa	18.62
Interest Earned on CASHES Convertible Bond (4/1/2009-8/4/2009) @ EURIBOR +4.5%	5.22
Total Interest Income	**23.84**

Interest Expense Accrued Since 1Q09 Details	Amount (AEDmm)	Comments
Interest Expense on EUR891mm Loan for Purchase of Daimler (4/1/2009-8/4/2009)	76.07	EURIBOR +3.9%; Although this Loan Was Fully Repaid on April 16, We Are Assuming AABAR Had to Refinance the Facility at Similar Terms
Interest Expense on AIG Debt (4/16/2009-8/4/2009)	3.25	Assuming EURIBOR +4%
Interest Expense on AED2.7bn in Assumed Debt for Funding Land Purchase (5/21/2009-8/4/2009)	29.72	Assuming EURIBOR +4%
Interest Expense on Atlantia Debt (4/1/2009-8/4/2009)	13.82	EURIBOR +3.5%
Interest Expense on Loan Assumed to Have Been Taken for Virgin Galactic Investment (7/28/2009-8/4/2009)	1.62	Assuming EURIBOR +4%
Total Interest Expense	**124.48**	

Source: Company reports, Al Mal Capital

Al Mal Securities Group

Managing Director

Robert McKinnon	+971 4 360 11 17

Institutional Sales & Trading

Ashraf Abu Shakra	+971 4 369 66 01
Khamis Shennawi	+971 4 360 11 10
Kamal Samarrai	+971 4 360 11 05
Jalal Faruki	+971 4 360 11 03
Carlo Dalafu	+971 4 360 11 04
All Desks Numbers	+971 4 360 11 00

Al Mal Capital Research

Equity 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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