



Arabtec Holding Company

Construction Sector

UAE

Initiation of Coverage

August 15, 2006

Building a Nation

- Arabtec Holding PJSC formerly known as Arab Technical Construction Company (ATCC) was established as a special purpose vehicle to facilitate a strategy of investment in the construction sector, and capitalization on an ongoing boom, through acquisition of stakes in existing companies within the U.A.E. Following inauguration in 2004, the decision was taken to acquire Arabtec (ATCC), a leading construction company within the UAE, sporting over 30 years of experience and contacts, for a total consideration of AED400 million.
- The construction sector boom in the UAE commenced in the late 1970s in response primarily to massive population growth. The latter continues to prove a primary growth engine, with the sector kicking off on a new aggressive growth phase in 2003, fuelled by both an oil price driven explosion of liquidity and legislative reform permitting expatriate freehold rights. To date, developmental based projects, officially announced in the UAE, are estimated to be worth ca.US\$340.8 billion of which the construction segment captures a bulk 78%, equivalent to US\$266.7 billion. Arabtec is estimated to enjoy a ca. 3.5% share of this market.
- We have calculated the company's current backlog at an impressive ca. AED6.86 billion spread across 16 projects, all of which are situated in Dubai, with the exception of the Abu Dhabi Investment Authority- ADIA headquarters. Moreover, despite the fact that raw material price hikes have pressured aggregate sector margins over the recent period, a tight market for large contractors with necessary EPC skills has significantly improved bargaining power for these limited few within which Arabtec falls, with the company's financial performance laying testimony to this.
- Arabtec Holding reported impressive FY05 figures, in which the top line and bottom line reported hikes pertaining to 112.2% and 145.8%, to settle at AED2.6 billion and AED165.9 million, respectively. Looking ahead, we estimate EBITDA to expand 49% in 2006, to reach AED276.7 million, accompanied by a 52.6% net income hike. Our forecast bottom line CAGR for the FY07-09 period meanwhile comes in at a more normalized 15%.
- We have concluded a DCF value for Arabtec pertaining to AED5/share. With the company currently trading at AED4/share, this affords investors 25% upside potential. We accordingly initiate coverage with a Strong Buy recommendation.

STRONG BUY

Target Price (AED)	5.0
Recent Price (AED)	4.0
Upside Potential	25%
Investment Grade	Growth
Previous Target (AED)	NA

Share Data

Exchange Rate	AED3.67/US\$
Reuters Code	ARTC.DU
Most Recent Shares (000)	520,000
Par Value/share	AED1
Financial Year	December
Mkt. Cap (AED mn)	2,090.4
Free Float	55%
52 Wk. Low – High (AED)	3.21-6.12

Shareholder Structure

Mr. Riad Kamal	19%
Abraj SPV 6 Limited	10%
Sheikh Butti Bin Maktoum	5%
Others	11%
Free Float	55%

Stock Performance (AED)



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FY Ending December	2004a	2005a	2006e	2007f	2008f
Revenues (AED mn)	1,225.7	2,600.9	2,991.3	4,140.0	4,436.7
Growth	n/a	112.2%	15.0%	38.4%	7.2%
EBITDA margin	7.0%	7.1%	9.3%	9.2%	9.1%
Net Income (AED mn)	67.5	165.9	253.5	350.8	371.0
EPS (AED)	0.1	0.3	0.5	0.7	0.7
EPS Growth	n/a	145.7%	52.6%	38.4%	5.7%
DPS (AED)	0.0	0.0	0.1	0.1	0.2
BVPS (AED)	0.3	1.1	2.0	2.1	2.4
P/E x	30.8	12.5	8.2	5.9	5.6
Dividend Yield	0%	0%	1.2%	3.4%	4.5%
P/BV x	12.4	3.6	2.0	1.9	1.7
EV/Sales x	1.6	0.8	0.6	0.4	0.4
EV/EBITDA x	22.4	10.7	6.5	4.6	4.3

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Construction Sector Overview

A. A transitional economy

The UAE's economic growth over the last decade has been commendable, marked by rapid development of the non-oil sector of the economy, making it one of the most diversified economies in the region. The crux of diversification success lies in numerous market-friendly outwardly-oriented development strategies, including a competitive zero tax business environment, open trade policies with largely unrestricted capital flows, an extremely well-developed physical infrastructure, a skilled labour market, and a high rate of technological progress and growing know-how.

Associated efforts within the UAE have seen drastic results, with non-oil sector growth averaging 7% since 1997, compared to an estimated average of below 5% for other Gulf Cooperation Council (GCC) peers. This shift of the economy

from a pure oil-centric model to incorporate construction, trade, manufacturing, real estate, tourism and financial services as leading growth drivers emphasizes the efficient role of policy makers in effectively deploying financial resources to substantially improve the existing physical and institutional infrastructure. The oil dependency ratio—measured by oil revenues as a share of total government revenue to oil exports as a percentage of total exports—has dropped from well over the 90% level in the 1980s to ca. 57% by 2004. The role of Dubai in this transformation has been instrumental, with associated success triggering other emirates to follow suit. Moreover, the rapid expansion of the services sector in particular has highlighted the active and increasing participation of the private sector, in turn facilitated by the availability of a large talented pool of expatriate workers at competitive wages. The construction sector accounted for 8% of the total country's GDP for years 2000 and 2004, and 10% and 11% of total non-oil GDP for years 2000 and 2004, reflecting the increasing importance the associated industry plays in the UAE's economic expansion.

Construction sector boom commenced in the late 1970s in response primarily to massive population growth

The construction sector boom in the UAE started in the late 1970s in response primarily to massive population growth, pertaining to 210% over the period between 1968 and 1975. Authority focus at the time was on infrastructural development ranging from the building of roads and bridges to water & electricity projects, funded by the government's recycling of petrodollars. The 1990s however saw a shift in domestic construction sector focus, with the entry of a number of large real estate developers, directing efforts toward a range of mega construction projects, including maritime based developments and increasingly so, mixed use projects. The latter occurred both as a natural progression as the UAE economy took off, and as a function of huge increases in the country's population. The government continued to indirectly fuel associated developments and pump significant resources into the sector, through a shift in strategies, which saw the state acquiring substantial, often majority, stakes in real estate companies, and or through the contracting of dominant market players for large mixed use governmental, ministry and municipality based, projects.

Despite the aforementioned, and only heightened as a function of recent price hikes, the UAE's dominant GDP constituent continues to prove energy, recording AED51.3 billion in 2000 and AED123.3 billion in 2004, equivalent to 24% and 33% of total GDP in associated years.

Government initiatives concerning the recycling of petro-dollars back into the economy though expansion of non oil sectors has in turn stimulated significant private sector participation within non hydrocarbon industries. The construction sector has proven a major beneficiary of this.

Petro-dollars recycling

	GDP breakdown figures (2000-2004-AED mn)					
	2000 a	2001 a	2002 a	2003 a	2004a	CAGR 01-04
GDP	214,327	254,236	261,370	321,752	378,761	15%
Growth Y-o-Y	n/a	19%	3%	23%	18%	
Non-oil GDP	163,017	179,246	188,818	229,616	255,500	12%
Growth Y-o-Y	n/a	10%	5%	22%	11%	
Construction	16,170	17,446	17,988	26,072	28,468	15%
Growth Y-o-Y	n/a	8%	3%	45%	9%	
Real Estate	18,618	19,662	20,388	25,355	29,540	12%
Growth Y-o-Y		6%	4%	24%	17%	

Table 1

Source: UAE Central Bank

Population of the UAE (000s)

Year	Pop.
1968	180
1975	558
1980	1,043
1985	1,379
1995	2,411
1996	2,518
1997	2,624
1998	2,776
1999	2,938
2000	3,247
2001	3,488
2002	3,754
2003	4,041
2004	4,320

Table 2

Source: Min. of planning

Construction Sector Overview, cont'd

B. A diversified sector

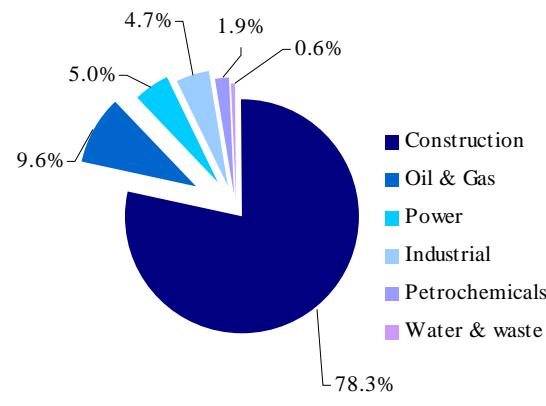
To date developmental based projects, officially announced in the UAE, are estimated to be worth ca.US\$340.8 billion, equivalent to approximately 34% of the associated GCC total. The accompanying visual aid shows a more detailed breakdown, emphasizing the construction segment's captures of a bulk 78% of the associated total, equivalent to US\$266.7 billion. Projects within the Oil & Gas sector follow a distant second, valued at US\$32.8 billion, fuelled by a number of mega projects, including IPIC's new US\$4 billion Fujairah refinery, and the US\$3.5 billion Ruwais refinery expansion project. While recent developments within the power and industrial segments, pertaining to Dubai EPA's new US\$3 billion Lehlab power plant and Dubai's new US\$6 billion aluminum smelter complex flesh out associated weightings, the UAE's dominance with regards to construction is overwhelming, and in stark contrast to GCC neighbors, which having proven less committed to reducing oil dependency, tend to see heavier weightings within hydrocarbon based developments.

Construction projects ongoing, and under execution, are categorized under what is termed the "main contract award" phase, currently resembling 19.5% of total construction projects, equivalent to US\$52 billion, while the bulk of the UAE's announced construction projects fall under the "Planned and Initial Tender Bid-ITB" phases, representing a cumulative 71% of the associated total in terms of value. In short this equates to projects which have been designed, and primarily approved, and are out to tender.

The aforementioned skewed nature of the UAE's construction projects, as evident in figure 2, toward "Planned" and "ITB phases", combined with the fact that average end dates for the most part range between 2010 and 2012, suggest a continuation of the current construction boom over the coming 5-6 years.

All types of projects

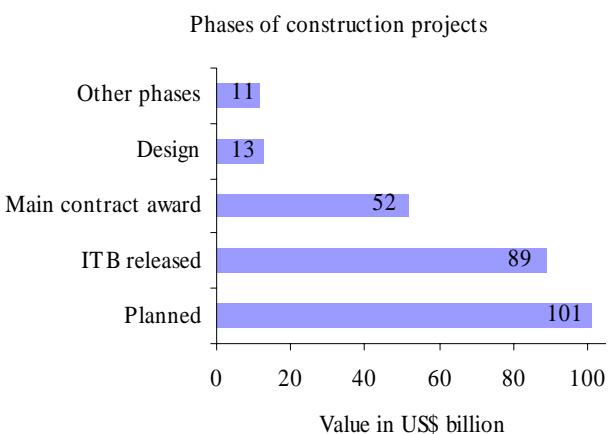
3 main construction phases



UAE projects' breakdown

Figure 1

Source: Meed projects



Value in US\$ billion

Figure 2

Source: Meed projects

Construction Sector Overview, cont'd

2003: massive growth

The "Main Contract Award" phase is the most significant within the sector cycle, illustrating the value of projects currently undergoing construction. In 2001 and 2002 associated values stood at a combined US\$1 billion, with the sector essentially taking flight effective 2003 in conjunction with a boom in real estate activities subsequent to the passing of freehold legislation for expatriates within Dubai. The year 2003 accordingly saw construction project values leap an annual 11x settling at US\$7.6 billion, attributed in a large part to the kick off of the infrastructural work on various mega projects including Nakheel's renowned "The World". This construction activity hike continued into 2004 and 2005, with contract award start date values registering US\$9.9 billion and US\$16.5 billion, respectively, while to date the associated figure for 2006 comes in at US\$11.8 billion. On the contingency of sustained momentum, looking increasingly likely as activities in Abu Dhabi hit the forefront, we anticipate a year end figure possibly a good 40-50% higher on an annual basis.

Projects' average timeline: 3 to 4 years

Main contract award end dates provides insight into delivery deadlines and schedules for the currently running projects. As shown by the visual aid, the bulk of end date activity is set to occur between 2006, and 2008, with projects set for completion over the associated 3 years estimated to be valued at US\$7.3 billion, US\$11 billion, and US\$11.5 billion, respectively, contributing 17%, 25%, and 26% of total completions. Effective 2009, project completions begin to decelerate, with the expected number of projects to be completed totaling 14, versus 42 projects slated for completion in 2008. That said, there are 2 major projects, Dubai Marina and Dubai Metro system, valued at US\$4.3 billion and US\$4.6 billion, respectively scheduled for delivery in 2010 and 2011. Noteworthy; the majority of construction projects sport a 3 to 4 year average timeline, with the bulk of project starting date activity, reflected in the visual aid at the top of the page, occurring throughout the years 2003-2005 reflected in corresponding end date activity between 2006-2008. Additionally, all new projects which join the main contract award phase will boost completion numbers, effective 2009 onwards.

Main contract award start dates

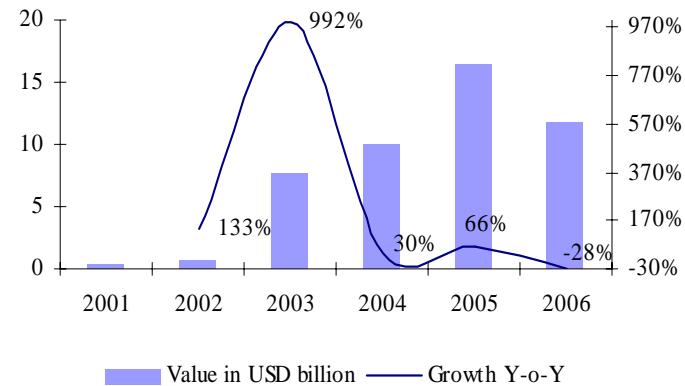


Figure 3

Source: Meed projects

Main contract award end date

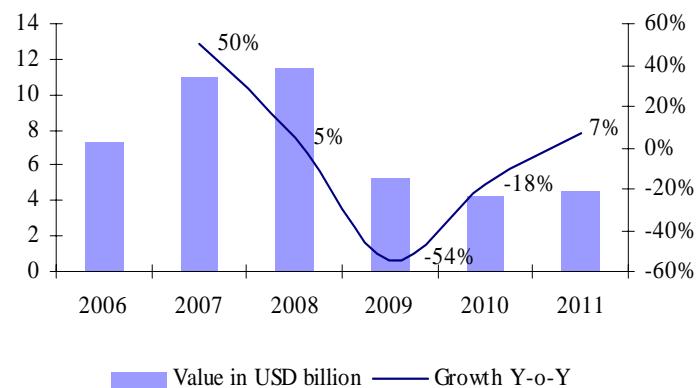


Figure 4

Source: Meed projects

Construction Sector Overview, cont'd

The "ITB" released phase, essentially those projects which are approaching their kick off, are estimated at a current ca. US\$89 billion, with the table below reflecting the 10 largest projects in this respect, constituting US\$68.4 billion, or 76.9% of the total announced to date. Dubai, unsurprisingly, lays claim to 6 of the associated top 10, valued at US\$37 billion, or 54.1%. While impressive in itself, it is worth noting that in context this is relative to Dubai's 70% capture of main contract award projects, essentially those currently under construction, illustrating an upcoming gradual but nonetheless noteworthy shift in ex-Dubai emirate construction activity going forward. In particular, Abu Dhabi's top ITB released projects, valued at US\$23.2 billion, pertains to 33.9% of the top 10 ITB released projects, while a number of mega projects in the ITB pipeline, including Al Raha Beach, Al Saadiyat Island, and the Abu Dhabi Airport expansion, pointing strongly to the country's capital hosting the next construction and real estate boom. A number of the smaller Northern emirates have also recently gained ground in this respect, with Umm Al Qaiwain having placed its US\$8.2 billion Madinaat Al Salam project out to tender.

ITB released phase: 10 biggest projects (USD billion)

Project name	Client	Emirate	Value	Start	End	Description
Al Raha Beach	Al Dar	Abu Dhabi	14.43	Q4 2005	Q4 2011	Aldar Properties is planning to develop the Raha Beach area, comprising residential, commercial and entertainment developments.
Culture Village (Arabian bays)	Dubai Properties	Dubai	13.50	Q4 2005	Q4 2011	The development will include the construction of a harbor, cultural centre, wharf development, hotel and other facilities.
Jebel Ali Airport	Dubai Civil Aviation	Dubai	10.00	Q1 2006	Q1 2007	Initially the airport will cater only to cargo, logistics, budget flights & charter flights.
Madinaat Al Salam	Al Rajhi Group	Umm Al Qaiwain	8.20	Q3 2006	Q4 2014	The complex, known as Madinat Al Salaam (Peace City) to be developed in 3 phases. In addition to residential units, the complex will include shopping malls, towers and other associated facilities.
Abu Dhabi Airport expansion	Abu Dhabi Airports Company	Abu Dhabi	6.80	Q1 2006	Q4 2009	The Abu Dhabi Government is to set up a new airport near the existing airport, while other plans also include expansion of the existing airport.
DWTC redevelopment	DWTC L.L.C	Dubai	4.35	Q1 2006	Q1 2016	To redevelop the Dubai World Trade Centre (DWTC) complex.
Dubai Festival City	Al Futtaim Group	Dubai	3.90	Q2 2003	Q1 2012	To set up a major tourism and commercial complex in Dubai, within the Al Rashidiya area.
M.B.R Housing programme	Dubai Government	Dubai	2.70	Q1 2006	Q1 2008	The Dubai Municipality plans 10,000 residential units for its UAE nationals.
Dubai Sports City	Dubai Tourism Projects & Development Company (DTPDC)	Dubai	2.50	Q3 2005	Q1 2009	Phase I will involve construction of sports stadiums & sports related facilities, while Phase II will cover the golf course & the balance infrastructure.
Saadiyat Island	Tourism Development and Investment Company (TDIC)	Abu Dhabi	2.00	Q4 2006	Q4 2018	TDIC to develop the Saadiyat Island in 3 phases to include the following clusters: Cultural district, Al Marina, Saadiyat Beach, South Beach, Saadiyat Park, and the Wetlands.

Table 3

Source: Meed projects

Construction sector overview, cont'd

Supporting our previous premise is data on "Planned" projects, with Abu Dhabi reflecting solid growth indicators. 3 projects representing 42.9% of the top 10 planned projects are to occur in the country's capital, versus the 30% which are pegged for Dubai, lending further weight to an emirate based shift in the real estate construction frenzy, the latter has built its fortunes on. The planned project phase, positioned cyclically prior to the ITB phase, better reflects a pick up in activities within the smaller northern emirates, with Sharjah, Ras Al Khaimah, Umm Al Qaiwain, and Ajman enjoying combined planned projects' value of US\$18 billion, constituting 27.1% of the top 10 planned projects in the country.

Planned projects' phase: 10 biggest projects (USD billion)

Project name	Client	Emirate	Value	Start	End	Description
Mina Zayed Port	Al Dar	Abu Dhabi	15.00	Q3 2007	Q1 2010	Aldar Properties plans to redevelop the Mina Zayed port area by constructing hotels, residential, commercial and retail centres.
Dubai Land-Bawadi	Tatweer	Dubai	10.90	Q4 2006	Q2 2016	Tatweer, a unit of Dubai Holding, is planning a tourist and leisure resort, Bawadi, that will feature a cluster of 31 hotels, including the world's biggest, and some 100 theatres presenting live cultural shows.
Najmat Abu Dhabi	Reem Investments	Abu Dhabi	8.00	Q4 2006	Q4 2012	Plans to develop one section of Abu Shuoom island into a residential complex comprising 20000 residential units.
Shams Abu Dhabi	Sorouh	Abu Dhabi	5.50	Q2 2006	Q4 2009	Plans to develop a portion of Reem Island at Abu Dhabi into a residential-cum-commercial district.
Business Bay	Dubai Porpeties	Dubai	5.50	Q4 2005	Q4 2012	Plans to develop the Ras Al Khor area, which is located at the head of the Dubai creek, into a business hub.
Nujoom Islands	Al Hanoo Holding	Sharjah	5.00	Q2 2006	Q4 2008	The Al-Hanoo Holding Company will develop Al Nujoom Islands near the Hamriyah Free Zone in Sharjah. The project will consist of 13 land sectors - three on-shore and 10 offshore islands interconnected via channels.
Port of Arabia	RAK Properties	Ras Al Khaimah	5.00	Q1 2006	Q4 2016	RAK Properties will construct themed residential districts, 20 hotels, entertainment facilities on a free land between Al-Muzehami and Al-Jazeera Al-Hamra at Khor Qurm.
Al Murjan development	Al Murjan	Umm Al Qaiwain	4.00	Q1 2007	Q4 2011	The development will include hotels, high- rise buildings and medium-rise development villas and townhouses, a commercial and retail precinct around a man-made harbour, with two islands and a golf course.
Emirates City	R Holdings	Ajman	4.00	Q2 2007	Q2 2011	This mixed use development is taking place in Ajman, and will be constructed in phases by R Holdings.
Oqyana	Investment Dar	Dubai	3.50	Q1 2009	Q4 2013	Investment Dar and Efad Holding are planning to develop "Oqyana" on the Australasia portion of The World, being promoted by Nakheel.

Table 4

Source: Meed projects

Construction Sector Overview, cont'd

C. Main growth drivers

1) Population:

Strong population concentration in Abu Dhabi and Dubai

The UAE's population grew at a CAGR of 7.4% over the period 2001-2004, to settle at 4.32 million according to most recent CBUAE data. The influx of expatriates is the dominant growth driver for the construction sector, with population increase providing the primary demand for construction sector activities. 69.07% of the UAE's population reside in Abu Dhabi and Dubai, down marginally from 69.17% in 2003. 2 of the smaller northern emirates, Ajman and Umm Al Qaiwain, meanwhile recorded the highest growth rates in associated available data, expanding 9.79% and 9.68% respectively over 2004. Population demographics further support the construction potential, with people positioned in the above 15 and under 40 year age bracket representing 54.73% of the associated total, with a young population and society traditions which encourage young and often multiple marriages. This critical segment of the population witnessed 6.9% growth in 2004.

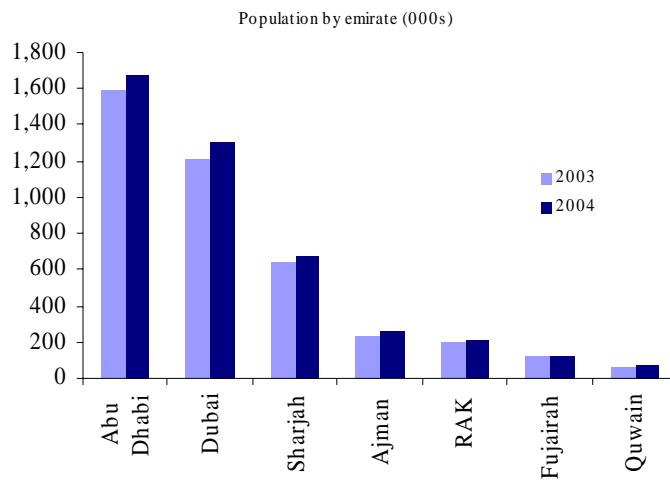


Figure 5

Source: Ministry of Planning

Population by gender & age group (000s)									
	2002 a			2003 a			2004 a		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Less than 15	499.132	456.679	955.811	535.414	487.560	1,022.974	571.862	522.163	1,094.025
Growth Y-o-Y	n/a	n/a	n/a	7.27%	6.76%	7.03%	6.81%	7.10%	6.95%
% of total pop.	19.63%	37.71%	25.46%	19.51%	37.62%	25.31%	19.52%	37.54%	25.32%
15 to less than 40	1,454.816	594.729	2,049.545	1,572.762	637.758	2,210.520	1,678.448	685.696	2,364.144
Growth Y-o-Y	n/a	n/a	n/a	8.11%	7.24%	7.85%	6.72%	7.52%	6.95%
% of total pop.	57.21%	49.11%	54.60%	57.30%	49.21%	54.70%	57.30%	49.30%	54.73%
40 to less than 60	522.802	135.181	687.983	598.155	144.798	742.953	637.440	155.573	793.013
Growth Y-o-Y	n/a	n/a	n/a	14.41%	7.11%	7.99%	6.57%	7.44%	6.74%
% of total pop.	20.56%	11.16%	18.33%	21.79%	11.17%	18.39%	21.76%	11.18%	18.36%
60 and above	36.250	24.411	60.661	38.669	25.884	64.553	41.250	27.568	68.818
Growth Y-o-Y	n/a	n/a	n/a	6.67%	6.03%	6.42%	6.67%	6.51%	6.61%
% of total pop.	1.43%	2.02%	1.62%	1.41%	2.00%	1.60%	1.41%	1.98%	1.59%
TOTAL POP.	2,543	1,211	3,754	2,745	1,296	4,041	2,929	1,391	4,320

Table 5

Source: Ministry of Planning

High hopes for tourism

Construction Sector Overview, cont'd

2) Tourism: In 2004, passengers passing through the Abu Dhabi Airport and Dubai Airport numbered 3.25 million and 21.7 million, respectively, reflecting the UAE's growing attraction as both a prime tourist destination and flourishing regional business hub. The direct effect of the UAE's positioning in this respect on construction activities, is reflected in both ongoing and future airport expansion projects, estimated in excess of US\$20 billion, with the Abu Dhabi Airport expansion slated to raise capacity to 50 million passenger per year. In addition, the current Dubai airport is set to undergo US\$4.1 billion worth of expansions, while the planned Jebel Ali International Airport is expected to become one of the largest airports in the world. Redevelopment and expansion activity at a number of the northern emirates airports' is also ongoing, although admittedly on a much smaller scale. The indirect impact of a growing tourism sector on domestic construction activities meanwhile occurs in the form of a continuous flow of new hotel projects across the UAE led by the new announced AED100 billion Bawadi project which will feature a cluster of 31 hotels including the world's biggest. In addition, expansion and renovation works at existing facilities in the UAE is also taking place. We estimate tourists into the UAE totaled ca 7.2 million in 2005, with this number, according to government targets, expected to grow to 10 million by 2010, and with current occupancy rates pegged as among the highest in the world, this provides construction companies significant potential to tap this lucrative profit margin segment.

Dubai tourism figures (2001-2005)				
	2001a	2002a	2003a	2004a
Dubai hotel apartments guests (000s)	561.9	649.0	637.8	696.1
Average length of stay	3.43	3.09	3.36	4.16
Number of available flats	7,113	8,185	7,509	7,278
Flat occupancy rate	63.01%	69.10%	69.20%	75.25%
Total revenues (000s)	417,831	418,995	512,856	608,161
Dubai hotel guests (000s)	3,064.7	4,107.2	4,342.3	4,724.5
Average length of stay	2.34	2.18	2.37	2.60
Number of available rooms	21,428	23,170	25,571	26,155
Room occupancy rate	60.90%	70.19%	72.36%	81.01%
Total revenues (000s)	2,792,096	3,409,726	4,016,075	5,597,588
				7,912,492

Table 6 Source: Department of tourism and commerce marketing

A lot of free zones, high government expenditures

3) Government Participation: As aforementioned, the UAE government has significant direct and indirect influence on the local construction sector. Its role ranges from the granting of huge sums of land to domestic real estate developers, often for free or at extremely subsidized rates, (with the 100% Dubai government owned Nakheel reported to enjoy a land bank reserve sufficient for the coming 10 years) to the holding of major stakes in leading private real estate developers, including Emaar and Aldar. Alternatively, the state's continual launch of mega infrastructural based projects, including the Dubai Metro System and aforementioned airport developments translate into significant government business for large contracting players. On a broader note, the UAE government's zero tax status and intensive focus on attracting FDIs into the country has positioned the UAE as the premier regional business hub, in turn facilitating construction activity, in the form of the establishment of numerous free zones and commercial areas. This is especially true of Dubai and numerous other smaller northern emirates, with the entirety of these facilities allowing 100% ownership by non-nationals. In testimony to this, the Jebel Ali Free Zone in particular has evolved into a world renowned facility, pegged as the 3rd largest container terminal in the world. More recently, the Abu Dhabi Establishment of the Higher Corporation for Specialized Economic Zones (HCSEZ) is considered a major step in a series of measures to promote the capital's industrial, financial and business clusters. These free zones are a primary revenue driver for construction companies, with associated projects by nature characterized as large scale entailing substantial engineering and construction activity and effort. Significant commercial facility projects are also boosting construction activities in the UAE, with Dubai World Trade Center redevelopment project valued at US\$4.35 billion, and the new US\$5.5 billion Business Bay project, just a couple of examples of ongoing activities to address heightened under supply of office space in Dubai.

UAE main free zones
Jebel Ali free zone
Dubai Airport free zone
Hamriyah free zone
Sharjah Airport international free zone
Ajman free zone
Ahmed Bin Rashed free zone
RAK free trade zone
Fujairah free zone

Table 7

Source: UAE year book

Construction Sector Overview, cont'd

Promising for the sector

Huge market shares

4) Foreign Ownership Laws: A change in legislation permitting expatriate freehold rights in 2002, in developments undertaken specifically by Emaar, Nakheel, and Dubai Properties, is arguably the most significant demand dynamic to have effected the real estate sector in the UAE to date. This premise is supported by construction sector value growth of 992% in 2003. In February 2006, His Highness Sheikh Mohamed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai issued law no. 7 that legalizes freehold ownership of land and property for UAE and GCC citizens, while allowing the same rights to non-GCC expatriates in select pre-designated area of Dubai. This latest legislative development essentially allows foreigners to register their properties, inclusive of title deeds, with Dubai Land and Properties Department, and is expected to lend further support to the sector, which has already been successful in attracting significant foreign interest. To consolidate this previous fact, the marketing department of the Palm Jumeirah project announced 27.6% of its units were sold to buyers from the UK, 9.3% to buyers from India, 5.5% to Iranians and 26% to UAE nationals. The capital Abu Dhabi, in 2005 opened up its property market to foreigners the form of 99-year leases.

5) Real Estate Developers: The construction sector is directly related to the real estate sector, with the latter providing the supply side dynamic for the former. The numerous, and often world renowned, mega projects launched by the UAE's dominant real estate developers, specifically in Dubai to date but increasingly shifting toward Abu Dhabi, represents the bulk of ongoing and upcoming contracting activity. Emaar and Nakheel are cumulatively estimated to be developing projects valued at a respective US\$40 billion and US\$45 billion. Looking further, the establishment of a number of new mega scale real estate developers outside of Dubai, in the form of Sorouh, AlDar, and RAK Properties, is set to catalyze the next wave of construction projects, within Abu Dhabi and Ras Al Khaimah.

D. Major market players

Large construction companies within the UAE tend to be prominent family business types, which penetrated the market in the mid 70's and have accordingly clocked up 30 to 40 years of both experience and network contacts in the local market. International players meanwhile customarily provide consultancy and supervisory roles, while large scale, extremely sophisticated projects like the Burj Dubai, set to become the tallest building in the world, often enjoy an international partner, with Samsung having been awarded main contractor in this case, due to specific EPC requirements they can bring to the table. In aggregate, approximately 9,493 construction companies are licensed in Abu Dhabi and Dubai only, of which 63% operate out of Dubai. Despite this extremely fragmented market, however it is worth noting that only a handful, we estimate well below 3 digit figures, have the ability, in terms of industry know how and scale particularly with regards to labour, to qualify for the nation's seemingly endless mega projects. This situation results in an extremely tight construction market in the UAE for the associated niche, and is often the reason behind significant project completion delays.

Emaar Properties main UAE projects

Dubai Marina
Burj Dubai Downtown
Arabian Ranches
Emirates Living
Emaar Golf Homes

Nakheel main UAE projects

The Palms
Dubai Waterfront
The World
Ibn Batuta Mall
International City
Jumeirah Islands
Jumeirah Village
Jumeirah Lake Towers
Jumeirah Golf Estates
The Gardens
Discovery Gardens

Table 8

Source: Company websites

Main construction companies

Arabtec
Al Habtoor
Arabian Construction Company (ACC)
Belhsa Six Construct L.L.C (BESIX)
Al Hamed Development & Construction L.L.C (Al Hamed)
Al Naboodah Contracting Company L.L.C

Table 9

Source: Industry sources

Construction Sector Overview, cont'd

E. Labor

The largest sector in terms of labor

The construction sector is the dominant employer in the UAE, accounting for ca. 0.5 million workers in 2004, representing 20% of the total labor force in the country. The accompanying visual aid reflects the 38% hike in associated immigrant worker numbers into the UAE in 2002, in conjunction with the onset of the construction boom. In context, associated employees have witnessed a CAGR of 18% over the period 2002-2004, versus 9% employed within the wholesale, retail trade and repairing services sector for example. Interestingly, employee compensation within the construction witnessed only a 16% CAGR over the period under question, with unrest/ mini demonstrations increasingly gaining ground as disgruntled laborers protest against poor living standards and pay. This issue while relatively contained at present has the potential to further affect completion delays, if the practice of associated strikes gains ground.

Approaching saturation?

To further explain the growth of construction based labor in the UAE, consider the accompanying visual aid, which shows that the total labor figures for the UAE recorded a CAGR of 8% over the period 2002-2004, compared to the previously mentioned 18% recorded by the construction sector over the same period. An important observation however is the slow down in annual UAE construction labor growth in most recent data, pertaining to 5.2% in 2004 versus 5.3% in aggregate labor expansions over the year, down from 12.5% and 7.3%, respectively in 2003.

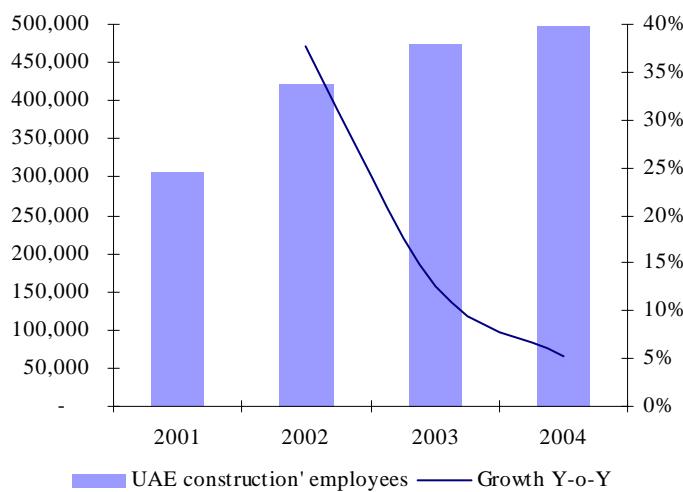


Figure 6

Source: Ministry of planning

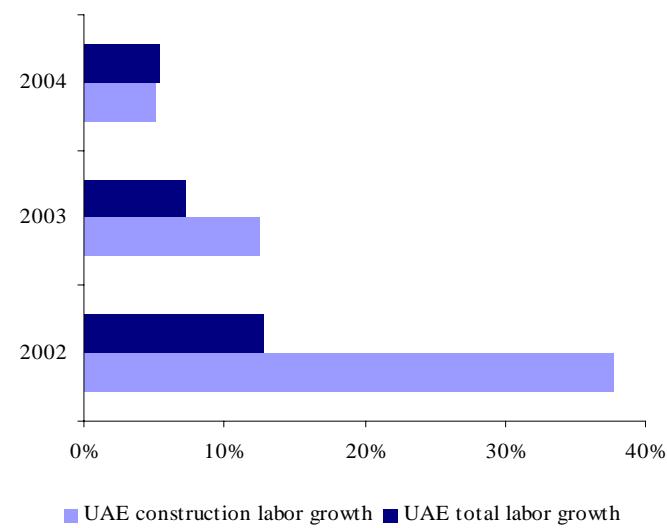


Figure 7

Source: Ministry of planning

Construction Sector Overview, cont'd

F. Raw materials

The construction sector boom within the UAE, in conjunction with a flourishing sector across both the GCC and Asia over the past couple of years has resulted in significant raw material shortages in the local market, and accompanying price hikes. The ability to pass these costs on has varied significantly from contractor to contractor, and project to project, dependant on scale and sophistication, but has for the most part led to tighter margins across the board.

Tight market

1) Steel: A major raw material for all construction projects, steel represents the reinforcement of the building. From the adjacent visual aid, we conclude the majority of Middle Eastern countries are reliant on steel imports to satisfy increasing demand, specially in the GCC countries, where construction activity is at heightened levels. This point is further illustrated when observing the UAE's 2004 steel imports, which settled at 4.6 million tons, positioning the country as the 20th highest importing nation of steel worldwide. On a more aggregate level, a global shortage of iron ore, coke and scrap metal, necessary for the production of steel rebar's, through to late 2004, resulted in global rebar price hikes, which proved exacerbated across the GCC due to excessive demand, evident in a 44.4% leap in steel rebar prices in the UAE, which settled at US\$534.25 per ton in 2004. A significant increase in production by major steel producers in 2005 improved the situation somewhat, with associated prices up only a marginal 2%, at US\$545 per ton last year. Looking further forward, significant investment in the steel industry ongoing across the Middle East, are expected to ease pressure on prices effective 2007 end as associated capacities are rolled out. In testimony to this, 10 major GCC steel projects with a combined value of AED14.3 billion were announced at the beginning of 2006, set to boost steel production in the GCC by 113.35 million tonnes a year (t/y) by mid 2009, with the first plants scheduled to come on line by 3Q 2006.

	ME steel figures 2000-2004 (million tons)				
	2000 a	2001 a	2002 a	2003 a	2004 a
Production	10.8	11.7	12.4	13.4	14.2
Growth Y-o-Y	n/a	8.33%	5.98%	8.06%	5.97%
Consumption	19.9	22.8	23.5	24.4	25.3
Growth Y-o-Y	n/a	14.57%	3.07%	3.83%	3.69%
Shortage	9.1	11.1	11.1	11.0	11.1

Table 10

Source: DCCI report

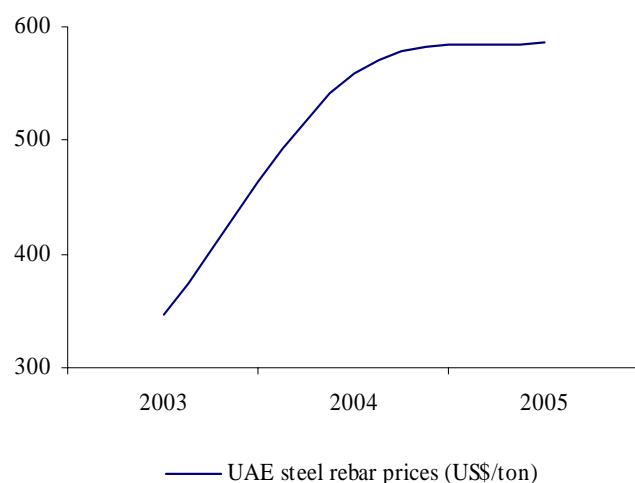


Figure 8

Source: Meed report

Construction Sector Overview, cont'd

Apparent price hikes

2) Cement: Cement consumption in the Gulf is the highest in the world, outpacing that in China, the European Union and the United States, while the region's share in world cement production hovers at ca. 5%. The UAE, Saudi Arabia, Qatar, and Oman have all witnessed double digit growth in their cement consumption during 2005, illustrating the strength of the construction boom in the region driven by the available liquidity generated from soaring oil prices since 2003. The associated hike in consumption figures has resulted in a severe shortage for cement in the domestic market, coupled by only moderate local production, translating into substantial price jumps, pertaining to 53.7% and 20.5% in 2004 and 2005 respectively to settle at AED14.6 and AED17.6 per bag. The cement shortage has further resulted in a knock on effect with regards to the price of ready mix concrete, with cement accounting for approximately 50% of ready mix formula. The latter accordingly also witnessed price surges of 22% in 2004, and 25.4% in 2005, directly negatively affecting contracting margins, with concrete constituting on average 40% of total raw materials utilized in construction of a building. Noteworthy, an investment cycle timeframe of approximately 18 months for development of a cement plant meant factories struggled to respond to demand calls in 2005, with the Dubai government legislating in 2004, to remove all import duties on cement coming through the Jebel Ali port in an attempt to control the situation. Looking ahead, with the introduction of large international cement players to the UAE market, in addition to expansions taking place by various local factories, we expect supply and demand to converge in 2007, with the UAE projected to be running a cement surplus effective 2009, as construction activity growth moderates, allowing for the export of associated excesses.

World cement figures 2000-2004 (million tons)					
	2000 a	2001 a	2002 a	2003 a	2004 a
Production	1,665	1,714	1,846	2,028	2,186
Growth Y-o-Y	n/a	2.94%	7.70%	9.86%	7.79%
Consumption	1,640	1,698	1,822	2,004	2,159
Growth Y-o-Y	n/a	3.52%	7.32%	9.97%	7.77%
Balance	25	16	24	24	27

Table 11

Source: GOIC report

UAE cement figures 2000-2004 (million tons)					
	2000 a	2001 a	2002 a	2003 a	2004 a
Production	6.9	7.5	7.3	7.3	8.0
Growth Y-o-Y	n/a	8.70%	-2.67%	0.00%	9.59%
Consumption	6.9	7.5	7.3	7.4	8.2
Growth Y-o-Y	n/a	8.70%	-2.67%	1.37%	10.81%
Balance	0.0	0.0	0.0	-0.1	-0.2

Table 12

Source: GOIC report

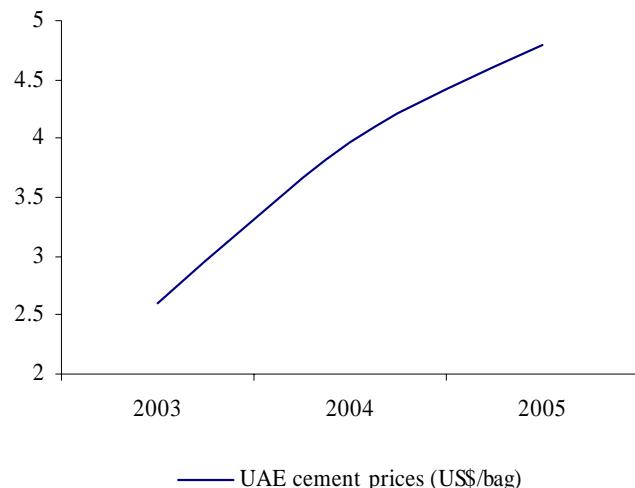


Figure 9

Source: Meed report

Dubai is not enough

Construction Sector Overview, cont'd

3) Aluminum: Following a similar trend to steel, aluminum has also experienced a global shortage over the past few years, fueled by increasing demand on this raw material due to its various applications in fields like construction, packaging, consumer products and utilities, and the transportation industries. In addition, 5% production growth in 2004, was outpaced by consumption increasing 8.4% over the associated period, resulting in a production deficit attributed to high energy costs and an escalation of alumina material prices, the main component in the aluminum production process, (2 tons of alumina required to produce 1 ton of aluminum). Global prices accordingly increased 16.14% and 25.09% in 2004 and 2005, respectively settling at US\$1,662/ton and US\$2,079/ton.

Aluminum prices, in contrast to steel prices however continued to increase significantly in 2005 due to the materials' aforementioned multi usage status. Although the UAE is a major exporter of aluminum, with Dubai Aluminum Company (Dubal), sporting a production capacity of 540,000 tons per year, expected to increase by a further 100,000 tons by year end, alumina material necessary for the production is imported prior to associated processing, thus rendering local prices sensitive to global trends. The UAE does however sport a low energy cost advantage, due to the abundance of natural gas, and its price competitiveness should prove a major factor behind the stabilization of aluminum prices over the coming period. Moreover, a number of aluminum expansion projects are planned or under way in most of the GCC states, which is expected to increase aluminum production capacity from ca.1.6 million t/ pa to ca. 1.7 million t/ pa by the 2006 end, and double that figure by 2015, thus exerting downward price pressures.

Global aluminum figures 2000-2004 (000s metric tons)					
	2000 a	2001 a	2002 a	2003 a	2004 a
Production	20,230	24,466	26,090	27,999	29,400
Growth Y-o-Y	n/a	20.94%	6.64%	7.32%	5.00%
Consumption	20,659	23,745	25,354	27,482	29,800
Growth Y-o-Y	n/a	14.94%	6.78%	8.39%	8.43%
Balance	-429	721	736	517	-400

Table 13

Source: DCCI report

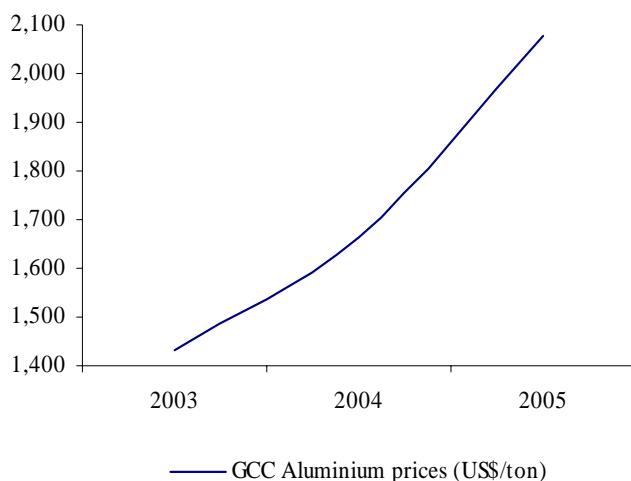


Figure 10

Source: Meed report

Company Profile & Operational Analysis

A. Overview

Arabtec Holding PJSC formerly known as Arab Technical Construction Company (ATCC) was established as a special purpose vehicle to facilitate a strategy of investment in the construction sector, and capitalization on an ongoing boom, through acquisition of stakes in existing companies within the U.A.E. In August 2004, 220 million shares, representing 55% of the company, was subsequently sold through an IPO which proved 74 times oversubscribed. The remaining 180 million shares that constitute the 45% capital balance is held by the founders of the company. The public offering occurred at AED1 per share, in addition to an offering cost of AED0.01 per share, and was open to both UAE and non-UAE individuals, in addition to institutional entities. The stock was listed and commenced trading on the Dubai Financial Market (DFM) effective January 4, 2005.

Overwhelming IPO response

Shareholders	% Ownership
Mr. Riad Burhan Kaman	19%
Abraaj SPV 6 Limited	10%
Sheikh Butti Bin Maktoum Al Maktoum	5%
Mr. Hussein Jassim Al Nuwais	2.5%
Mr. Thomas Patrick Barry	2.5%
Mr. Ahmed Ali Khalfan Al Dhahiri	1.25%
Al Mazroui Holding Company L.L.C	1.25%
Sheikh Sultan Bin Saqr Al Qassimi	1.25%
Sheikh Nawaf Bin Nasser Al Thani	1.25%
Mr. Raja Hani Ghanma	0.5%
Mr. Grigoris C. Christofides	0.5%
IPO Subscribers	55%
TOTAL	100%

Table 14

Source: *Arabtec prospectus*

B. Ownership structure

Arabtec Holding PJSC was founded by Mr. Riad Burhan Kamal, who is also one of the founders of Arabtec (ATCC). Mr. Riad holds the position of Managing Director and major stakeholder in Arabtec Holding PJSC. Sheikh Butti Bin Maktoum Al Maktoum is the company Chairman, and a founding member, while Abraaj SPV 6 Limited holds 10% of the company through one of its real estate funds.

C. Arabtec's (ATCC) acquisition

Following Arabtec's incorporation in 2004, it had several potential acquisition opportunities, with Arabtec (ATCC) positioned as a primary, but not obligatory target. An independent third party valuation study was conducted, according to the provisions of the commercial companies' law no. 8 of 1984, which valued Arabtec (ATCC) at between AED393 million and AED407 million. The decision was ultimately taken to acquire Arabtec (ATCC) for a total consideration of AED400 million, positioning it as Arabtec's leading subsidiary, in terms of size and revenue generation.

An AED400 million acquisition

Arabtec construction activities	
Architectural modeling	Civil engineering & building
Construction & project management	Business development
Quantity surveying	High rise developments
Commercial & industrial projects	Residential projects
Luxurious villas	Hotel interiors
Cinema complexes	Hypermarket fit outs
Food courts	Major airport developments
Fuel tank farms	Drainage
Electrical HV & LV	Aircraft maintenance hangars
Passenger terminals	Departure lounges
Offshore and onshore oil & gas installations	

Table 15

Source: *Arabtec*

D. Subsidiaries

Arabtec enjoys holdings in a number of other companies operating across various construction sector activities. As aforementioned, its major subsidiary remains Arabtec (ATCC), one of the oldest and largest construction companies within the country, operational in the UAE for over 30 years. The following section will shed some light on Arabtec's other subsidiaries and associated activities.

Company Profile & Operational Analysis, cont'd

A strategic acquisition

Arabtec underwent vertical integration in Q4 2005, with its 100% acquisition of Austrian Arabian Ready Mix Concrete. The plant, which enjoys a daily production capacity of approximately 3,000 cubic meters is sufficient to supply 33% of Arabtec's annual requirements of ready mix concrete. Reports have surfaced recently concerning a possible plant expansion, although solid details are as of yet unavailable.

A diversified ARABTEC

The company also recently acquired a 20% stake in Steel Building Company, a Jordanian based entity which was established in 1964, with core activities focused on the construction of pre-engineered steel buildings, structural steel and multi-storey buildings, tanks and soils, fixed and portable prefabricated buildings, space frames, steel weighing bridges and guard-rails. Jamco Group holds the remaining 80% balance of the company.

Depa United Group is one of the leading companies in the field of interior contracting services in the GCC and the middle east. It was established in January 2006 as a holding company for a number of subsidiaries and associates in the field of interior contracting services, however, its main subsidiary, DEPA interiors, is a company specializing in fit-outs and furnishing of luxurious facilities.

Arabtec Precast was established in June 2006, to undergo the manufacturing of prefabricated construction components, buildings, beams, and columns, while Arabtec's most recent subsidiary addition is that of House of Equipment Company, a joint venture specializing in the trading and leasing of construction equipment, in which it holds a 33.3% stake and exercises effective control.

E. Arabtec's (ATCC) major milestones

- Established in 1975, commencing with the construction of their own company premises in 1977 in Sharjah, where they continued to be based through to 1997.
- 1976-1st "big" project: Executed the Pearl Building, a 17 storey high rise building, the tallest in the UAE at the time.
- 1979-1st ex-UAE project: The construction of 3 cold stores in Dubai, Abu Dhabi and Muscat.
- 1980-1st fast track project: Executed Al Ain students accommodation, involving the construction of 6 accommodation blocks with their facilities in just 7 months, determined by industry experts as record time.
- 1982-1st turnkey project: Executed Abu Ghazaleh building in Shajah, which was the company's first design and construction project.
- 1983: Arabtec (ATCC) developed a strong relationship with the prominent Al Futtaim family in Dubai. The has since executed the majority of the Al Futtaim family's mega projects to date. These include Ajman City Centre Complex and the expansion of Deira City Centre.
- DEPA: Arabtec's (ATCC) hotel interiors division, which was established in 1996, confining to the interior contracting services provided by Arabtec (ATCC) , starting from the late 1970's.
- 1983-1st oil & gas project: This essentially set the tone for Arabtec's (ATCC) execution of numerous projects within this sector ranging from accommodation buildings and offices to laboratories and control centers to processing plants, clinics and sewage treatment plants.
- 1992: Penetration of the villa market: Arabtec (ATCC) was successfully awarded numerous projects within this lucrative margin sector, including Al Garhood residential complex, 118 villas at Jebel Ali in 1995, and 223 villas in Al Barsha.
- Emaar's favorite contractor: Following Arabtec's (ATCC) successful villa works, Emaar the UAE's leading private real estate developer, in May 2001, awarded them the contract for the construction of 108 luxurious villas. The relationship which has developed between both parties has proven a major achievement for Arabtec (ATCC) , which is now positioned as Emaar's main contractor for the majority of villa based projects. Figures suggest Arabtec (ATCC) has executed approximately 1,749 villas for Emaar over the past few years.
- High rise developments: Arabtec (ATCC) also enjoys a proven track record in the construction of towers and high rise projects. Achievements in this respect include a number of Dubai's most renowned residential addresses and hotels, namely the Lagoon tower- a 22 storey high rise building, Al Mansoori Tower, the Fairmont Hotel, Lexus Tower and 21st Century Tower, positioned at the time as one of the world's highest residential towers, standing 55 floors high.

Company profile & operational analysis, cont'd

F. Arabtec backlog

The company's current backlog totals AED6.86 billion divided across 16 projects, all of which are situated in Dubai, with the exception of the Abu Dhabi Investment Authority- ADIA Headquarters. We have omitted 2 new projects from our backlog calculations, 2 Asteco towers and the MBR program pertaining to 544 villas, due to the fact that work has yet to commence on either.

Project name	Client	Emirate	Value-AED m	Start	End
La Reve Intl	Emaar Properties	Dubai	13.46	Q3 2003	Q3 2006
Al Fattan towers	Al Fattan Properties	Dubai	89.44	Q2 2004	Q4 2006
Jumeirah Beach Residence	Estithmar Realty	Dubai	366.6	Q4 2004	Q4 2006
Various villas	Emaar Properties	Dubai	406.64	Q1 2003	Q2 2007
Emaar - Burj Dubai - Tower	Emaar Properties	Dubai	618.75	Q4 2004	Q3 2008
DPD - Dubai Pearl Hotel	Dubai Pearl Development (DPD)	Dubai	125	Q1 2005	Q4 2006
DPD - Dubai Pearl Towers	Dubai Pearl Development (DPD)	Dubai	493.52	Q1 2005	Q2 2008
Adia Headquarters	ADIA	Abu Dhabi	366.63	Q2 2005	Q1 2009
Merdiff Sewerage	Dubai Municipality	Dubai	56	Q2 2005	Q2 2007
DIFC - Gate Village	Dubai International Financial Centre (DIFC)	Dubai	123.2	Q3 2005	Q4 2006
First Dubai Holding Company - DIFC Skygardens	First Dubai Holding Company	Dubai	276	Q3 2005	Q4 2007
Emaar - Burj Dubai - Lake Hotel	Emaar Properties	Dubai	508.5	Q3 2005	Q3 2008
DIFC - Truck Tunnel	Dubai International Financial Centre (DIFC)	Dubai	250	Q4 2005	Q3 2007
Infra structure works	Dubai Municipality	Dubai	64	Q2 2006	Q2 2008
Tiara residence	Zabeel Investments	Dubai	2,100	Q2 2006	Q4 2007
Emirates Sunland Group - Palazzo Versace Dubai Hotel	Emirates Sunland Group	Dubai	1,000	Q2 2006	Q4 2008

Table 16

Source: Arabtec and other sources

Major reliance on the contracting division

Financial Assessment & Growth Drivers

A. Full Year Financial Highlights

FY05 financial results reflected solid operational growth. The top line hiked up a massive 112.2% increase to record AED2.6 billion, with contract revenue contributing AED2.5 billion of the total, representing 96.2%. The bulk of the balance meanwhile stemmed from the company's drainage division, which reported revenues pertaining to AED50.2 million in FY05, equivalent to 1.9% of the aggregate.

The COGS item saw an annual expansion pertaining to 109.1% in FY05, settling at AED2.3 billion up from AED1.1 billion reported in the previous year, while the COGS/Revenue ratio increased a relatively moderate 100 basis points to 89.7%, attributed to region wide raw material price hikes and increased labor costs, which were covered in detail in our industry section of the report. Noteworthy, industry experts have quoted a normalized Gross Profit Margin-GPM range of between 7% to 13%, in which Arabtech slots nicely.

Continuing with profitability margins determinants, SG&A saw the largest annual jump over 2005, pertaining to 1.6x to settle at AED81.9 million up from a comparable AED52.6 million in 2004. That said, SG&A/Revenues actually witnessed a 110 basis point improvement to 3.2%, due to a 2.6x leap in the "other revenue" item, which boosted the overall annual top line for the period. EBITDA accordingly grew 115.2% to settle at AED185.7 million in FY05, up from AED86.3 million achieved in the previous year, pertaining to an EBITDA margin of 7.1% up a marginal 10 basis points year on year. Finally, Arabtec saw impressive growth in its bottom line figure, one that exceeded its top line surge. In FY05 it recorded net income of AED165.9 million versus a figure of AED67.5 million in FY04, illustrating a 145.8% increase.

B. Interim Financial Highlights

A. Revenues

Revenue growth drivers

1H FY06 revenues expanded 27.3% to record AED1.4 billion, up from AED1.1 billion achieved in the comparable period last year, while we are expecting 2H revenue generation to come in slightly higher than the January to June period, with our FY06 estimate pertaining to just shy of AED3 billion, illustrating an annual 15% increase. Going forward, our revenues have been determined by Arabtecs current backlog value and completion schedule with regards to "main contract award" projects, while we have assumed a sustained company market share for publicized "planned and ITB" projects phases, which total US\$190 billion. Indeed,

we are of the opinion that assumptions of a stable market share leans toward conservatism, due to a continually tightening market for qualified UAE based contractors, evident in project delays and industry reports on a declining number of bidders for contracts put out to tender, as major players with sufficient capacities shrink in number and or become increasingly fastidious on the back of heightened bargaining power. We are expecting further 38.4% top line growth in FY07, to AED4,140 million as the company delivers a bulk of its currently running projects in the associated year. 2008 and 2009 see more moderate, single digit, revenue growth, which will almost definitely be revised upwards once new projects are announced, which in turn would lend a boost to our 16% 2006-09 forecast period CAGR.

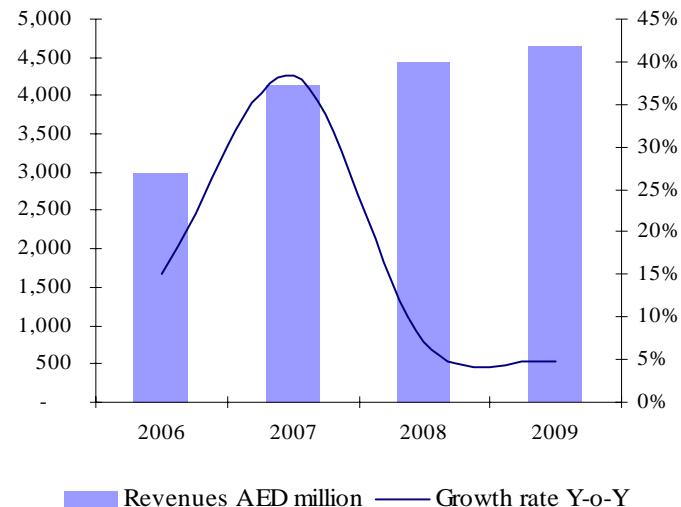


Figure 11

Source: Prime estimates

Financial Assessment & Growth Drivers

B. Cost of goods sold

Stable raw materials prices in the upcoming period

1H FY06 COGS expanded a further 19.2% with our year end estimate pertaining to AED2,620.4 million equivalent to a COGS/Revenue ratio of 87.6% in line with to date figures for the January to June period. We have sustained this item at associated levels going forward due to limited company guidance and our assumptions on a decline in the majority of major raw material prices over our forecast horizon, as covered in our industry section of the report, specifically with regards to steel, cement and aluminum.

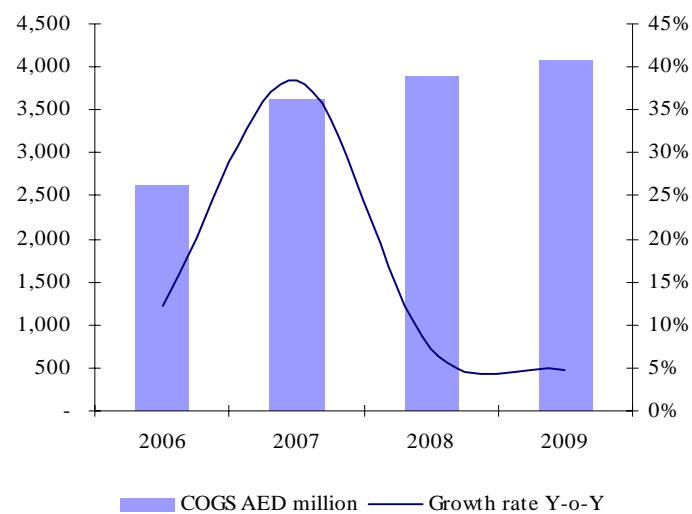


Figure 12

Source: Prime estimates

C. EBITDA, net profit, and payout ratio

EBITDA margin to stabilize after 2006

We foresee EBITDA to expand 49% in 2006, to reach AED276.7 million, up from AED185.7 million, with the EBITDA margin expected to improve to 9.3%, reflecting positive implications of our assumptions on COGS, in addition to the fact that significant labor recruitment which was ongoing over the 18 month period ending June 2006, is expected to significantly subside. We have forecast a further 37% EBITDA expansion in FY07 to settle at AED379.1 million, with the EBITDA margin declining a marginal 30 bps to 9% through to FY09.

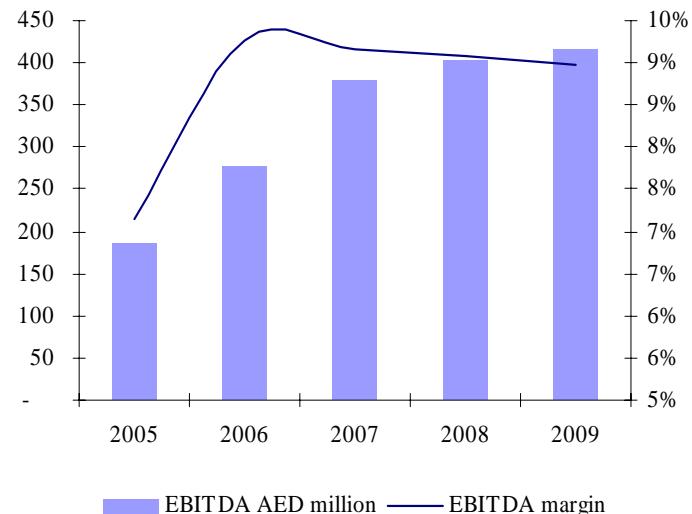


Figure 13

Source: Prime estimates

We foresee net income culminating at AED253.5 million in 2006, implying 52.9% y-o-y growth, while our FY07-09 bottom line CAGR forecast comes in at a more normalized 15%.

Company expected to pay cash dividends in 2006.

Arabtech adopted a zero cash distribution policy in 2005, however we are expecting a reversal of this trend effective this year having assumed a conservative 10% payout, increasing gradually going forward to settle at 30% FY09.

Valuation

Applying the DCF model

We used the discounted cash flow model as our preferred valuation technique for Arabtec, and from which we have derived our fair value for the company.

In short the net present value of Arabtec's future cash flows have been determined through informed assumption building, and subsequently discounted by a WACC of 12.08%.

12.08% WACC and perpetual growth of 4.5%.

The cost of equity has been calculated by utilizing the capital asset pricing model, and based on a risk free rate of 6.1%, which is the current yield on the 10 year US Treasury benchmark bonds, inclusive of a UAE country risk premium of 110 bps, in line with the premium present on the 30 year Qatar sovereign bond over its US equivalent. In the absence of UAE denominated sovereign bonds as a benchmark, and the popularity of US sovereign debt as a haven investment in times of uncertainty across the GCC as a whole, we believe this to be a fair proxy for a UAE risk free investment alternative. Moreover, we have assigned an equity risk premium of 7%. Finally we have utilized a beta of 0.86 and a perpetual growth rate of 4.5%.

We have concluded a **DCF value for Arabtec of AED5/share**. With the company currently trading at AED4/share, this affords investors 25% upside potential. We accordingly initiate coverage with a **Strong Buy investment recommendation**.

FINANCIAL SUMMARY
Figures in AED million
Fiscal year ending December

Income Statement	2004a	2005a	2006e	2007f	2008f
Revenues	1,225.7	2,600.9	2,991.3	4,140.0	4,436.7
<i>Growth</i>		112.2%	15.0%	38.4%	7.2%
COGS	1,086.8	2,333.3	2,620.4	3,626.7	3,886.6
S.G & Admin. Expenses	52.6	81.9	94.2	134.3	147.5
EBITDA	86.3	185.7	276.7	379.1	402.7
<i>Growth</i>		115.2%	49.0%	37.0%	6.2%
EBITDA Margin	7.0%	7.1%	9.3%	9.2%	9.1%
Depreciation & Amortization	8.0	19.0	20.9	23.0	25.9
Other Provisions	0	0	0	0	0
Operating EBIT	68.3	166.7	255.8	356.1	376.8
Interest Income	0	5.9	6.2	6.5	6.8
Interest Expense	0.8	5.8	6.7	9.3	9.9
Pre Tax Income	67.5	165.2	253.5	350.8	371.0
Pre Tax Income Growth		144.7%	53.5%	38.4%	5.7%
Income Tax	0	0	0	0	0
Effective Tax Rate	0%	0%	0.0%	0.0%	0.0%
NPAT	67.5	165.2	253.5	350.8	371.0
<i>Growth</i>		144.7%	53.5%	38.4%	5.7%
Extraordinary Items	0	0.7	0	0	0
Net Income	67.5	165.9	253.5	350.8	371.0
Minority Interest	0	0	0.3	0.5	0.5
Non-Appropriation items	0	0			
Net Attributable Income - NAI	67.5	165.9	253.2	350.4	370.5
<i>Growth</i>		145.7%	52.6%	38.4%	5.7%
ROS	5.5%	6.4%	8.5%	8.5%	8.4%
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Balance Sheet	2004a	2005a	2006e	2007f	2008f
Cash & Marketable Securities	189.8	121.7	322.9	381.4	383.3
Trade Receivables-Net	365.4	936.2	1,286.2	1,362.2	1,459.9
Inventory	121.2	95.4	109.7	151.9	162.7
Other Current Asset	163.2	61.6	69.4	86.7	94.0
Total Current Asset	839.6	1,214.9	1,788.2	1,982.3	2,099.9
Net Fixed Assets	171.5	331.5	414.3	530.1	652.6
Other Assets	117.1	343.4	347.7	353.6	361.2
Total Assets	1,128.1	1,889.8	2,550.3	2,866.0	3,113.7
Short Term Debt	39.4	0	6.0	6.0	6.0
CPLTD	0	0	0	0	0
Accounts Payable	358.7	1,217.6	1,400.4	1,574.8	1,687.6
Dividend Payable	0	0	25.4	70.2	92.8
Other Current Liabilities	518.7	9.1	9.1	9.1	9.1
Total Current Liabilities	916.8	1,226.7	1,440.8	1,660.0	1,795.5
Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Other provisions	19.6	32.0	32.0	32.0	32.0
Other non-current liabilities	23.6	57.1	57.1	57.1	57.1
Minority Interest			4.9	5.4	5.9
Total Shareholders' Equity	168.2	574.0	1,015.5	1,111.6	1,223.4
Total Liab.& Shareholders' Equity	1,128.1	1,889.8	2,550.3	2,866.0	3,113.7
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Free Cash Flow Statement	2004a	2005a	2006e	2007f	2008f
NOPLAT	68.3	166.7	255.8	356.1	376.8
Non-Cash Items	18.0	19.0	20.9	23.0	25.9
Gross Cash Flow	86.30	185.69	276.74	379.11	402.7
Gross Investments	93.4	435.0	135.8	144.3	166.2
Operating Free Cash Flow	-7.1	-249.3	140.9	234.8	236.5
Non -Operating Cash Flow	0	-0.9	-1.8	-2.5	-2.7
Free Cash Flow	-7.1	-250.2	139.1	232.3	233.8
Financing Flow					
Interest Income After-Tax	0	-5.9	-6.2	-6.5	-6.8
Investment Income After-Tax	0	0	0	0	0
Change in Excess Cash & Mkt. Sec	151.8	-48.9	122.8	22.8	-7.4-
Change in Sub. And LT investments	0	11.7	1.2	1.3	1.4
After-Tax Interest Expense	0.8	5.8	6.7	9.3	9.9
Change in Debt & Bonds	-39.4	39.4	-6.0	0	0
Provisions Used	-19.6	-12.4	0	0	0
Dividends Paid & Minority Interest	0	0	0.3	25.8	70.6
Non-Appropriation Items	0	0	0	0	0
Change in Shareholder's Equity	-100.7	-239.9	15.8	184.2	166.1
Total Financing Flow	-7.1	-250.2	139.1	232.3	233.8

Source: Arabtec financials & Prime projections

Stock Recommendation Guidelines

Recommendation	Target to Market price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < 5\%$
Sell	$x < -25\%$
Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Company Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

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