



SHUAACAPITAL<sub>PSC</sub>

# Deyaar Development (DEYR.DU)

## Equity Research

## Initial Coverage

September 5th, 2007

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|                           |          |                  |                        |
|---------------------------|----------|------------------|------------------------|
| <b>Current Price:</b>     | AED 1.02 | <b>Country:</b>  | United Arab Emirates   |
| <b>Fair value Target:</b> | AED 2.00 | <b>Sector:</b>   | Real Estate            |
| <b>Recommendation:</b>    | BUY      | <b>Exchange:</b> | Dubai Financial Market |

- Originally the property management unit of Dubai Islamic Bank, Deyaar Development (Deyaar) has evolved to a full-scale property development, leasing and services company. The transformation was achieved in conjunction with major developments in the UAE property market, which drove unprecedented demand for property ownership in the country.
- Deyaar has managed to build a reputation in the market for delivering a high quality product in a timely manner resulting in an ability to sell units at a faster pace, than most of its direct competitors. It is not a master developer, but rather avails from a strong relationship with most master developers in its core markets, allowing more flexibility, a lower initial outlay of investment and a shorter investment period.
- The company is expected to develop a total Net Sellable Area (NSA) of 25.3 mn sq ft in the run-up to 2011, both in its primary market of the UAE, as well as other neighboring markets. We believe that this will sustain the company's high growth going forward, as we expect the company to record a net profit of AED 480 mn in 2007, on revenues of AED 2.22 bn, and to achieve a net profit CAGR of 28% during the projected period.
- We initiate coverage on Deyaar, which will be listing on the Dubai Financial Market today, with a BUY recommendation based on a fair value estimate of AED 2.0 per share, implying an upside of 96% to the IPO plus subscription fee price of AED 1.02 per share. The target value was based on a Discounted Cash Flow (DCF) valuation.

| Year    | Net profit<br>(AED '000) | BV<br>(AED '000) | EPS<br>(AED) | BVPS<br>(AED) | RoAE<br>(%) | P/E<br>(x) | P/BV<br>(x) |
|---------|--------------------------|------------------|--------------|---------------|-------------|------------|-------------|
| Dec-09E | 1,058,172                | 7,694,855        | 0.18         | 1.33          | 15%         | 5.5        | 0.75        |
| Dec-08E | 648,796                  | 6,848,317        | 0.11         | 1.19          | 10%         | 8.9        | 0.8         |
| Dec-07E | 480,245                  | 6,329,280        | 0.08         | 1.10          | 12%         | 12.0       | 0.9         |
| Dec-06  | 412,611                  | 1,636,300        | 0.07         | 0.28          | 35%         | 14.0       | 3.5         |

|                         |           |
|-------------------------|-----------|
| 52-week high (AED)      | N/A       |
| Number of shares ('000) | 5,778,000 |
| Free Float (%)          | 55%       |
| Market cap (AED '000)   | 5,778,000 |
| Market cap (USD '000)   | 1,573,658 |
| Div. Yld. 2006 (%)      | 0.00%     |

Source: Reuters, SHUAA Capital

SC UAE Index



## Contents

|                                                                        |           |
|------------------------------------------------------------------------|-----------|
| <b>INVESTMENT HIGHLIGHTS .....</b>                                     | <b>3</b>  |
| <b>COMPANY OVERVIEW .....</b>                                          | <b>4</b>  |
| CORPORATE STRUCTURE .....                                              | 5         |
| CHAIRMAN AND MANAGEMENT .....                                          | 5         |
| POST-IPO OWNERSHIP STRUCTURE .....                                     | 6         |
| DUBAI ISLAMIC BANK: THE ANCHOR SHAREHOLDER .....                       | 6         |
| USE OF PROCEEDS .....                                                  | 6         |
| <b>STRATEGY .....</b>                                                  | <b>7</b>  |
| <b>BUSINESS LINES .....</b>                                            | <b>9</b>  |
| SELLABLE REAL ESTATE DEVELOPMENTS .....                                | 9         |
| SELLABLE DEVELOPMENTS IN DEYAAR'S PRIMARY TARGET MARKET: THE UAE ..... | 10        |
| DEVELOPMENTS IN DEYAAR'S SECONDARY TARGET MARKETS .....                | 16        |
| LEASABLE PROPERTIES .....                                              | 19        |
| MAP LOCATION OF DEYAAR'S PROPERTY DEVELOPMENTS IN DUBAI .....          | 20        |
| PROPERTY MANAGEMENT .....                                              | 21        |
| BROKERAGE .....                                                        | 21        |
| <b>SWOT ANALYSIS .....</b>                                             | <b>22</b> |
| <b>FINANCIAL ANALYSIS AND FORECASTS .....</b>                          | <b>23</b> |
| REVENUE DRIVERS .....                                                  | 23        |
| GROSS PROFIT MARGIN .....                                              | 23        |
| SELLING, GENERAL AND ADMINISTRATION EXPENSES .....                     | 24        |
| EBITDA .....                                                           | 24        |
| OTHER EXPENSES AND INCOME .....                                        | 25        |
| NET PROFIT .....                                                       | 25        |
| INVESTMENT PROPERTIES .....                                            | 25        |
| DEVELOPMENT PROPERTIES .....                                           | 25        |
| GOODWILL .....                                                         | 25        |
| ISLAMIC FUNDING .....                                                  | 26        |
| <b>VALUATION .....</b>                                                 | <b>27</b> |
| <b>FINANCIALS .....</b>                                                | <b>28</b> |
| <b>APPENDIX .....</b>                                                  | <b>30</b> |
| TARGET MARKET: MACRO ANALYSIS .....                                    | 30        |
| DEYAAR'S PRIMARY TARGET MARKET: UAE MACRO STORY .....                  | 30        |
| DEYAAR'S SECONDARY TARGET MARKETS .....                                | 31        |

## Investment Highlights

- Originally the property management unit of Dubai Islamic Bank (DIB), the world's first Islamic bank and one of the largest Islamic banks in the world by assets to date, Deyaar has evolved to a full-scale property development, investment and services company.
- The company's evolution into a sizable and well recognized developer in the UAE occurred in conjunction with a wider economic reform initiative by the UAE government at the time, which included new legislation on property ownership, allowing foreign ownership of property for the first time in a country where 80% of the resident population is non-national. This, together with the introduction of accessible mortgage financing facilities to the market, drove unprecedented demand for property ownership and gave birth to one of the largest construction sites in world: the UAE.
- Deyaar is today a reputable UAE based real estate development, property investment and services company with operations in the UAE, Lebanon and Turkey. In addition, the company is expected to announce large scale developments in Saudi Arabia, Qatar, Kazakhstan and India this year.
- Unlike most listed real estate development companies in the UAE, Deyaar is not a master developer. The company has opted to leave that aspect to other developers and avail itself the flexibility to pick and choose the developments that match its investment criteria and the size of its participation. Other advantages over master developers include lower initial outlay of investment, and a shorter investment period.
- A focal factor in Deyaar's current and future success is and will remain the solid reputation the company has built in the market for delivering a high quality product in a timely manner. This goodwill has proven to be extremely useful when it comes to selling the company's new developments. This is manifested in Deyaar's ability to sell units at a faster pace, than most of its direct competitors.
- The company is expected to develop a total Net Sellable Area (NSA) of 25.32 mn sq ft in the run-up to 2011. Most of the land required for these developments is currently in the company's land bank.
- Deyaar has initiated the development of its investment property portfolio, which is expected to amount to a Net Leasable Area (NLA) of 0.93 mn sq ft by FY 11.
- Proceeds from the recently conducted IPO will be used primarily to pay the outstanding balance on the cost of land acquired, and to fund new land acquisitions in the company's primary and secondary target markets. In addition, the proceeds will also fund the development of Deyaar's investment property portfolio. The company is expected to engage in over AED 20 bn worth of projects over the next five years, funded by equity, Islamic debt and pre-sales.
- We expect the company to record revenues of AED 2.22 bn in FY 07 up from AED 1.1 bn in FY 06. Revenue is projected to appreciate by a CAGR of 50%, during the projected period, to reach AED 8.3 bn by FY 11. We also expect Deyaar's EBITDA to appreciate from AED 402 mn in FY 06 to AED 470 mn in FY 07, AED 635 mn in FY 08 and up to AED 1.5 bn by FY 11.
- The company has witnessed very strong growth in earnings to-date, with net profits growing from AED 73 mn in FY 04 to AED 413 mn in FY 06. We expect growth to remain strong with net profits of AED 480 mn in FY 07 and AED 649 mn in FY 08. We expect net profits to record a CAGR of 28% from FY 07 to FY 11.
- We initiate coverage on Deyaar, which will be listing on the Dubai Financial Market today, with a BUY recommendation based on a fair value estimate of AED 2.0 per share, implying an upside of 96% to the IPO plus subscription fee price of AED 1.02 per share. The target value was based on a Discounted Cash Flow (DCF) valuation.

## Company overview

***Deyaar is a UAE based  
real estate company***

Deyaar Development (Deyaar) is a UAE-based real estate development company with local and regional operations that include development, lease, acquisition, management and brokerage of property. All of Deyaar's activities are performed in compliance with Islamic Sharia Principles. Deyaar went through an Initial Public Offering (IPO) in May 2007 and will be listed on the Dubai Financial Market (DFM) as a Public Joint Stock Company (PJSC) on September 5th 2007. The company was first established as Dubai Islamic Bank's (DIB) property management unit, and was converted into a 100% DIB-owned company in January 2001. DIB is one of the top five banks in the UAE in terms of assets and in terms of profitability. It is also the largest Islamic bank in the UAE and the oldest Islamic banking institution in the world.

Deyaar's evolution into a sizable and well recognized developer in the UAE occurred in conjunction with a wider economic reform initiative by the UAE government at the time, which included new legislation on property ownership allowing foreign ownership of property for the first time in a country where 80% of the resident population is non-national. In addition, the introduction of accessible mortgage financing facilities to the market, created unprecedented demand for property ownership and gave birth to one of the largest construction sites in world: the UAE.

***Currently developing properties  
in some of the largest master-  
developments in the UAE***

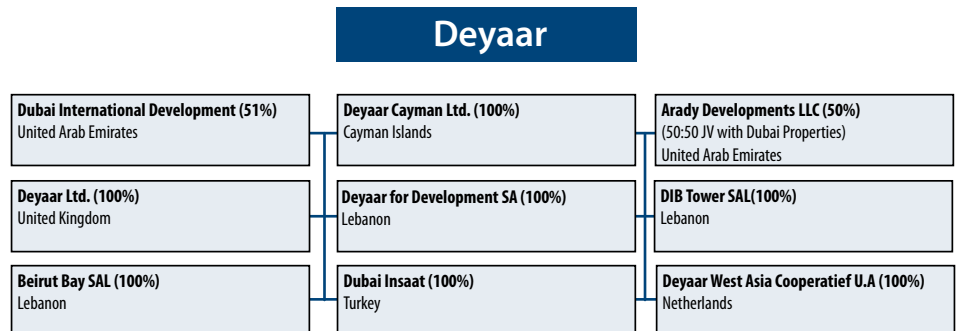
Construction on Deyaar's first real estate development, a 43 storey residential tower in the Dubai Marina master development, began in 2003. Since that first development, the company has moved on to more and larger developments in the UAE, Lebanon and Turkey. The company is currently involved in some of the largest real estate developments in the UAE including: Downtown Jebel Ali, Dubai Waterfront, Business Bay, TECOM and Dubai International Financial Centre (DIFC). The majority of Deyaar's developments comprise of properties intended for sale, though the company is also expanding its investment property portfolio.

Deyaar's core business has evolved from being primarily property management to include property development and investment. However, the company remains a key player in the area of property management, with 900 properties under management comprising of over 16,000 rental units that enjoy 95% occupancy and a renewal rate exceeding 85%.

The company also offers real estate brokerage services, which include buying and selling properties on behalf of retail and institutional clients. Deyaar moreover provides operation and maintenance services to external clients and to its own property portfolio.

### Corporate structure

Deyaar currently wholly owns seven companies, in addition to, two joint-ventures (JV). The wholly-owned companies are all effectively country or project specific special purpose vehicles.



Source: Deyaar

**Joint-Venture with Dubai Properties, which is part of Dubai Holding**

The company has entered into JVs with Dubai Properties and GAP Insaat Dubai. The partnership with Dubai Properties, a master developer and subsidiary of Dubai Holding, was established in 2005 in the form of a new entity by the name of Arady Developments LLC. The purpose of this partnership is the joint development of a property in Dubai International Financial Centre (DIFC). This project is currently under development. Dubai Holding is a massive holding company fully owned by the Dubai Government. The JV with GAP Insaat, through Dubai International Development LLC, currently has no operations.

### Chairman and management

#### *Dr. Mohammed Khalfan Bin Kharbash, Chairman*

Dr. Kharbash is a member of the UAE's federal government, where he has served in the capacity of Minister of Finance and Industry since 1997. He is also the Chairman of Dubai Islamic Bank. Dr. Kharbash is currently the alternative Governor of the UAE at the IMF, the World Bank, the Arab Fund of Economics and Social Development, the Islamic Development Bank, and the OPEC Fund. He holds a PhD in Economics from Exeter University in the UK and was a visiting researcher at Harvard University in 1994.

#### *Mr. Zack Shahin, Chief Executive Officer*

Prior to joining Deyaar, Mr. Shahin was Vice-President of Retail Banking Mashreq Bank covering the UAE and Qatar for over four years. Earlier in his career, he held senior Sales & Marketing positions for more than 13 years with PepsiCo Inc. Mr. Shahin holds post-graduate degrees in Retail Banking from the University of Wisconsin and a degree in Business Management from Ohio State University.

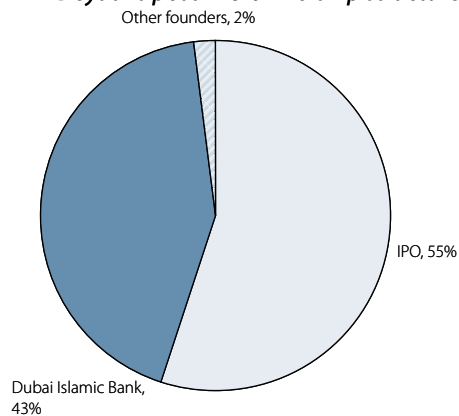
#### *Mr. John D'Cunha, Chief Operating Officer*

Mr. John D'Cunha's primary responsibilities are finance, planning and risk management. He is a graduate in economics from India and a qualified Chartered Accountant. The early years of his career were with American Express, where he was involved in business strategy and planning.

### Post-IPO ownership structure

Deyaar's IPO meant that DIB's share of the company declined from 100% to 43%. The remaining 55% of the company were offered to the public. 2% of the company was allocated to other founders prior to the planned IPO.

#### *Deyaar's post-IPO ownership structure*



Source: Deyaar, SHUAA Capital

### Dubai Islamic Bank: the anchor shareholder

DIB, the original founder and single largest shareholder of the company, was the first Islamic bank in the world, and continues to be among the largest Islamic banks in the world in terms of assets. The government of Dubai owns 30% of the bank's outstanding shares, which is listed on the Dubai Financial Market. The bank's international exposure is increasing, with ongoing forays into Pakistan and Sudan. DIB has also set its eyes on Saudi Arabia, Qatar and Turkey. Moreover, DIB owns a 20% stake in Tamweel, one of the UAE's top two mortgage lenders.

***DIB provides Deyaar with additional scale and reach***

DIB's presence as an anchor shareholder has and will likely continue to be one of the key value drivers at Deyaar, as the bank provides high value-added tangible and intangible support to the firm, and gives it additional scale and reach. Moreover, the bank's strong reputation in the region acts a virtual guarantor of the quality of Deyaar's product in the eyes of its customers.

### Use of Proceeds

***Proceeds will fund developments, land acquisitions and leasable properties***

Deyaar plans to use the proceeds from its recently conducted IPO primarily to (i) acquire more land and fund developments in countries where it is currently active, such as the UAE, Lebanon and Turkey, and (ii) to acquire new land in markets where it is actively seeking presence, including Saudi Arabia, Qatar, Kazakhstan and India. The company will also use the proceeds to develop leasable properties and real estate services across all markets where it is active.

The company is expected to engage in over AED 20 bn worth of projects over the next five years, funded by equity, Islamic debt and pre-sales.

## Strategy

***A key aspect of Deyaar's strategy is not to be a master developer in the UAE***

Unlike most listed real estate development companies in the UAE, Deyaar is not a master developer. This is a key aspect of the company's real estate development strategy in the UAE and beyond, as Deyaar, in effect, is a core client and customer of master developers such as Emaar Properties, Nakheel, Dubai Properties, Aldar and Solidere, and thus participates in the development of properties within the large scale master developments, but without taking exposure to long-term infrastructure investment and development. Deyaar has opted to leave that aspect to other developers and avail itself the flexibility to pick and choose developments that match its investment criteria and the size of its participation. This flexibility may prove to be a major advantage in the UAE going forward, as competition among master developers intensifies and as well funded and proven developers differentiate themselves and gain favor with master developers from one end, and final customers from another. The lower initial outlay of investment, and the shorter investment period, may be other advantages over master developers.

The profile of land acquisition is also different from master developers, as the company typically does not receive free land, although the land that it does acquire usually comes with infrastructure in place, courtesy of the master developers, or the respective government. To gain advantage from this perspective, the company has successfully positioned itself as one of the preferred pre-launch developers, which are typically offered advance project participation through more favorable land transaction terms. Master developers approach reputable and professional developers before launching the master development to insure the success of the launch itself.

***Delivering on time and up to specifications***

A focal factor in Deyaar's current and future success is and will remain the solid reputation the company has built in the market for delivering a high quality product in a timely manner, in a market where many other developers deliver a year late and in many cases with low quality units and poor finishing. This goodwill has proven to be extremely useful when it comes to selling the company's new developments. This is manifest in Deyaar's ability to sell units at a faster pace, than most of its direct competitors.

As part of Deyaar's ongoing expansion effort, the company is currently building a significant investment property portfolio in its core markets, which should continue to provide recurring revenue streams to the company. Deyaar currently has five towers under construction in Dubai earmarked for lease, one of which is in the heart of Dubai International Financial Centre (DIFC). This building is being promoted as the most prestigious address in the DIFC.

***Brokerage gains 'real time' market data and information on market trends***

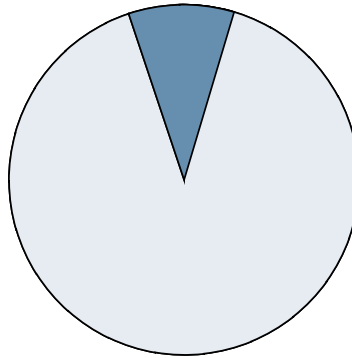
The company combines its real estate development business with one of the largest property brokerages in the UAE, which besides contributing to revenue, gives Deyaar 'real-time' data and market intelligence, demand trends and market prices. With competition in the UAE heating up, this type of information and capability should prove to be a competitive advantage and a driver for strategy evolution going forward.

In addition to its operations in the UAE, the company has expanded its business into Lebanon and Turkey, and the strategy is to extend its geographic diversification beyond these three countries. The company's primary target market is and will remain for sometime the UAE, while its secondary target markets should grow to include Saudi Arabia, Qatar, Kazakhstan and India, in addition to, Lebanon and Turkey.

In its international ventures, the company has stated that it will seek to establish local partnerships with capable, influential and experienced partners so as to facilitate successful entry. The company may consider taking on a master developer role in the above-mentioned countries. Going forward, the company's announced target is to achieve a 60:40 revenue contribution split between operations in the primary and secondary target markets by 2011.

**2006**

Secondary Target Markets, 10%

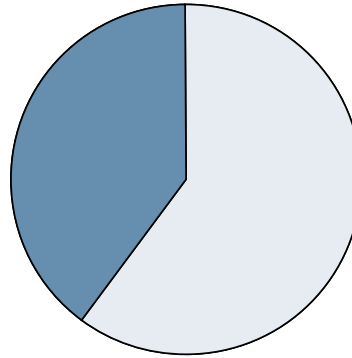


Primary Target Market, 90%

Source: Deyaar, SHUAA Capital

**2011**

Secondary Target Markets, 40%



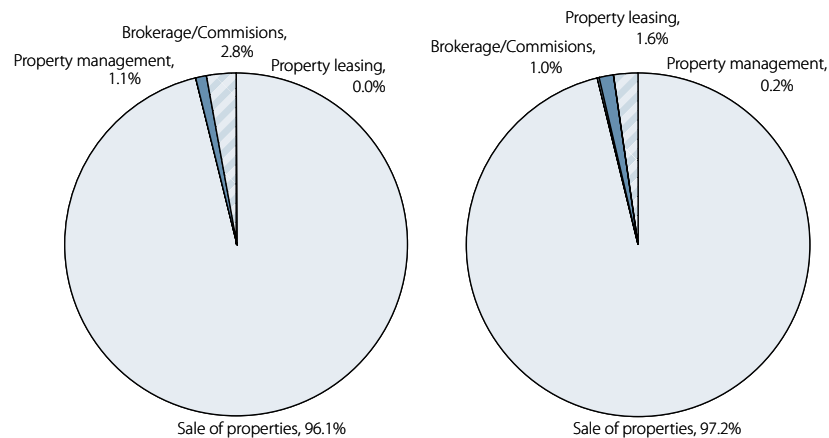
Primary Target Market, 60%

## Business lines

**Property sales is the single largest contributor to revenue**

Deyaar's key business has evolved from being essentially property management to property development and investment. This evolution has gradually altered the proportional contribution of the company's various operating activities, with sale of properties becoming the single largest contributor to both top and bottom line. Going forward, we expect property sales to remain by far the largest contributor to the company's revenues and profitability. With Deyaar's property investment plans taking shape and the investment properties currently under development approaching completion, the significance of leasing income will emerge in 2008 and gradually increase as new additions are completed, to eventually overtake income from both property management and brokerage, the company's two other main activities.

### Revenue Contribution by Business Line 2006 and 2011



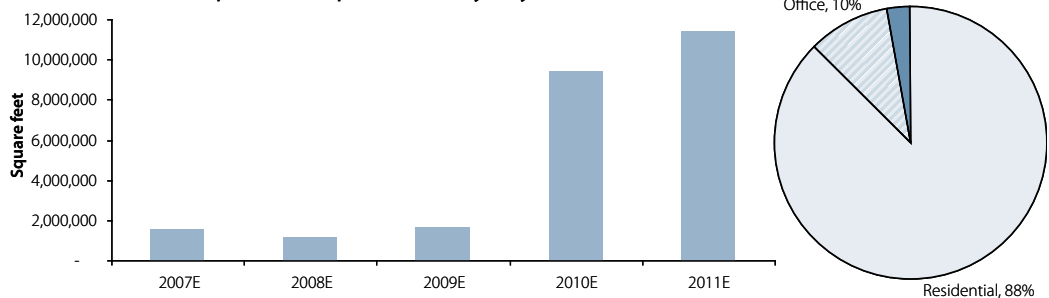
Source: Deyaar, SHUAA Capital

### Sellable real estate developments

**Expected to develop 25.32 mn sq ft of NSA by 2011**

Deyaar's expansion will be driven primarily by its fast growing property development activities in the UAE and its secondary target markets. The company is expected to develop a total Net Sellable Area (NSA) of just under 25.32 mn sq ft in the run-up to 2011. Most of the land required for these developments is currently in the company's land bank. In fact, land in Deyaar's existing land bank slated for sellable developments should generate 19.14 mn sq ft of the above NSA. The remaining NSA will be developed on new land acquisitions, which we expect to be announced starting later this year. The developments currently being developed by the company and those to be developed in the coming years will comprise mostly of residential space. Out of the total planned NSA, 88% is estimated to be in residential units, compared to 10% office space and 3% retail space.

### Total Completed NSA per Annum By Deyaar 2007-2011



Source: Deyaar, SHUAA Capital

Most of this NSA will be developed in the UAE. The company's overseas developments will however increase gradually and peak by 2011. Deyaar has four projects in its secondary target markets, three in Lebanon and one in Turkey.

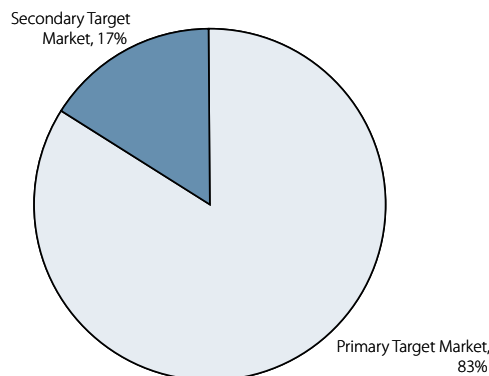
***Expected to announce projects in Saudi Arabia, Qatar, Kazakhstan and India***

Two projects are expected to be delivered in 2007 and one each in 2010 and 2011. The company also plans to launch additional projects in all its secondary target markets soon, including in Kazakhstan, India, Saudi Arabia and Qatar. We expect the company to announce projects in Saudi Arabia, Kazakhstan and India before the end of this year. The developments in India are expected to be the largest of all Deyaar developments outside the UAE. Deyaar is currently negotiating the agreements for projects in both Kazakhstan and India. Moreover, the company recently acquired a waterfront plot in Beirut's central business district, which, once developed, will be Deyaar's largest development in Lebanon.

***Reliance on the UAE market expected to decline gradually***

The growing number and size of developments undertaken by Deyaar in its secondary target markets will increase the proportion of overseas developments and thus gradually reduce the reliance on the UAE market. From the total NSA expected to be developed by Deyaar between 2007 and 2011, 83% is estimated to be in the UAE and 17% in the company's secondary target markets. The largest international projects are expected to be completed in 2011.

**Location of Deyaar's Total NSA**



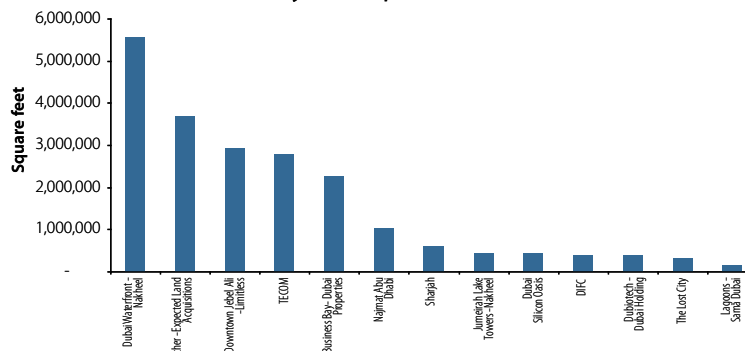
Source: Deyaar, SHUAA Capital

**Sellable developments in Deyaar's primary target market: The UAE**

***Deyaar is expected to develop 21.05 mn sq ft of NSA in the UAE***

Deyaar is expected to develop almost 21.05 mn sq ft of NSA in the UAE over the coming five-year period, with the overwhelming majority of this NSA in Dubai. At this stage, Deyaar has two project being developed outside Dubai in the UAE, namely Al Dana Tower in Sharjah and a property in Abu Dhabi. The Dubai portion of these developments is primarily spread over 11 different projects. The largest projects to be undertaken by Deyaar in Dubai, going forward, are in Dubai Waterfront, TECOM, Downtown Jebel Ali and Business Bay.

**Breakdown of Deyaar's Expected UAE NSA 2007-2011**



Source: Deyaar, SHUAA Capital

**Dubai Waterfront is at least five-times larger than the Island of Manhattan**

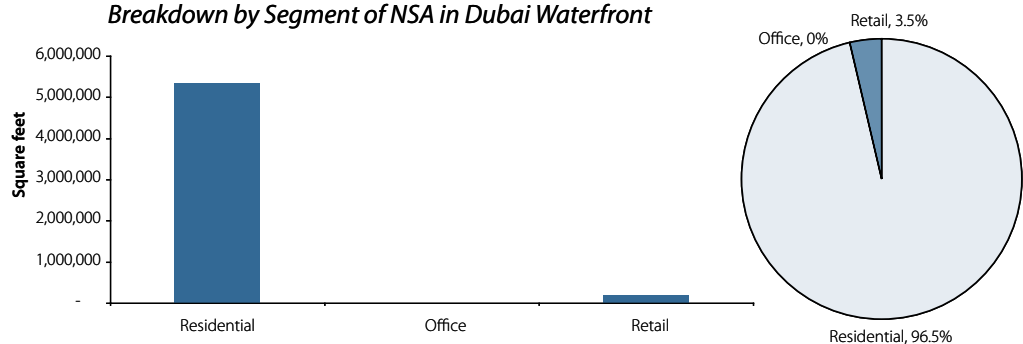
## Delivery in 2010

### Dubai Waterfront

Dubai Waterfront is arguably the largest waterfront development in the world with an estimated 872 mn sq ft of mixed-use developments, covering an area at least five times greater than the size of the Island of Manhattan in New York. The project will feature over 200 master-planned communities, which are expected to have a population of 0.4 mn. This development is located next to the Jebel Ali Free Zone, on the waterfront.

Deyaar has eight plots in the Dubai Waterfront development, with a total estimated NSA of 5.6 mn sq ft. The expected completion date for these properties is in 2010. These properties are almost entirely residential: 96.5% of NSA is estimated to be residential space and the remaining 3.5% retail. No office space is currently in Deyaar's plans for these properties.

### Breakdown by Segment of NSA in Dubai Waterfront

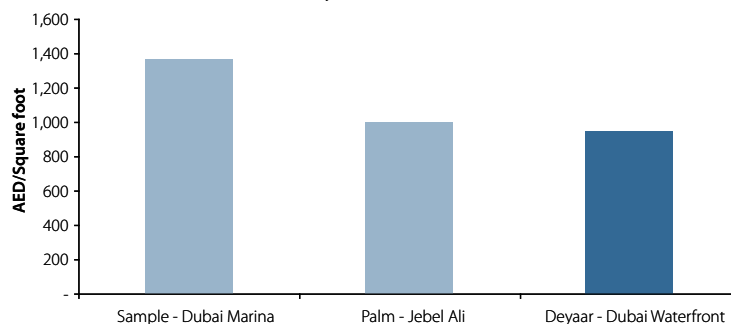


Source: Deyaar, SHUAA Capital

**Deyaar's selling prices are expected to be competitive**

The selling price assumed for Deyaar's apartments in Dubai Waterfront is AED 950 on average, which is lower than prices for similar units on Palm – Jebel Ali and in Dubai Marina. This price places the property in the mid-range segment, which we believe is the segment with the highest demand going forward.

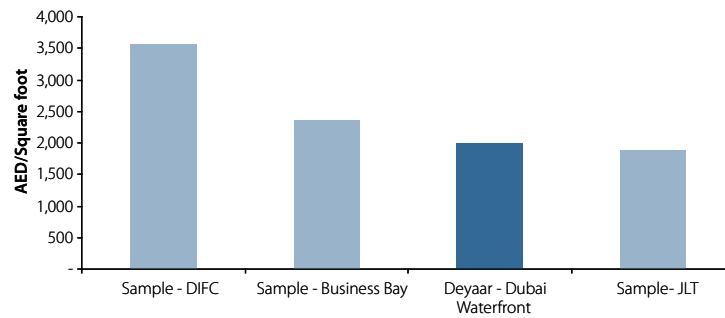
### Comparative Price Analysis of Dubai Waterfront Apartments With 2008/2009 Delivery



Source: Betterhomes, Deyaar, SHUAA Capital

Deyaar's retail space in Dubai Waterfront has an estimated average price tag of AED 2,000 per sq ft, which falls within a reasonable price range, as our comparative price analysis indicates. Deyaar's selling price is lower than similar areas in Business Bay and only slightly higher than Jumeirah Lake Towers.

### Comparative Price Analysis of Dubai Waterfront Retail Space With Delivery in 2009/2010



Source: Betterhomes, Deyaar, SHUAA Capital

#### Developing 2.8 mn sq ft in TECOM

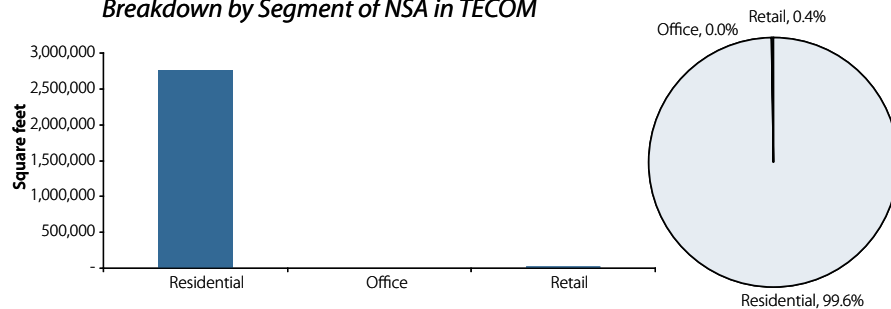
#### TECOM

Deyaar has acquired sufficient land in the Technology, Electronic Commerce and Media (TECOM) free zone along Sheikh Zayed Road (SZR) to build an estimated 2.8 mn sq ft of NSA. Dubai Internet City (DIC) and Dubai Media City (DMC) are both part of the TECOM free zone. This is where the world's largest information technology and media companies have located their regional offices. Both these zones offer 100% foreign ownership of business and full tax exemption.

#### Delivery in 2008, 2009 and 2011

In TECOM, Deyaar is developing properties for delivery in 2008, 2009 and 2011. The Madison Residence, which is located opposite DIC and DMC on SZR, is expected to be completed in 2008. This property constitutes 10% of the total NSA being developed by Deyaar in TECOM and the full 2008 completed NSA. The Madison Residence is already sold out, well before completion. The company will start developing two more projects in TECOM, comprising of a residential tower and around 40 low rise residential properties. The first is expected to be completed in 2010, while the other is scheduled for delivery in 2011. The portion planned for 2011 delivery constitutes 80% of Deyaar's TECOM developments. Over 99% is residential according to current plans.

#### Breakdown by Segment of NSA in TECOM

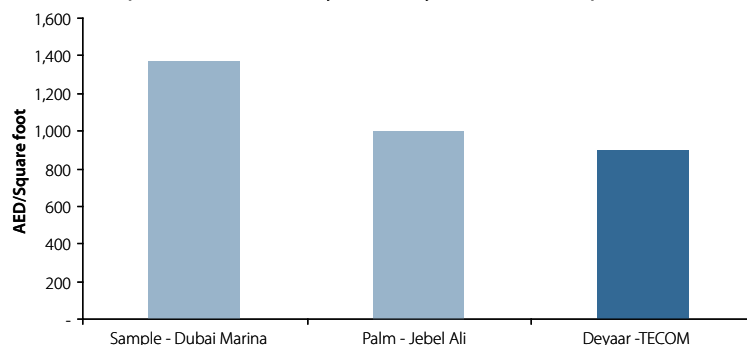


Source: Deyaar, SHUAA Capital

#### Estimated prices appear reasonable

These residential units in TECOM have an estimated average price of AED 900 per sq ft. In comparison to properties in similar locations with comparable announced delivery dates, the price for Deyaar's units appears reasonable and competitive.

### Comparative Price Analysis of Deyaar's TECOM Apartments



Source: Betterhomes, Deyaar, SHUAA Capital

***In direct proximity to one of the world's largest logistics hubs and the new airport***

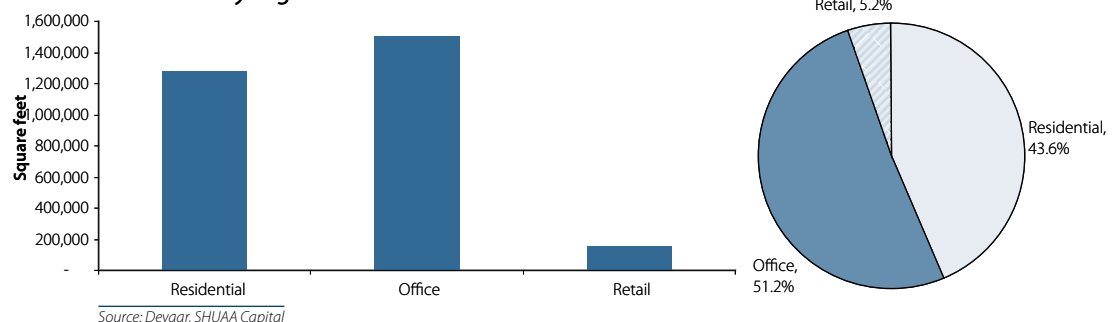
***Deyaar is developing 2.94 mn sq ft of NSA with delivery in 2010 and 2011***

### ***Downtown Jebel Ali***

This project covers over 200 hectares between the Jebel Ali Free Zone Area and Techno Park on SZR. The location offers easy access to the Port of Dubai, the new International Airport and Dubai Waterfront, while also providing access to the UAE capital of Abu Dhabi. The location of this development is in direct proximity to what is currently one of the world's largest logistics hubs, and what is to become one of the largest airports in the world. The port, combined with the infrastructure that links this location to the rest of the UAE, and the fact that Jebel Ali Free Zone allows 100% foreign-owned businesses to establish presence there, has made this area one of Dubai's most important business districts. Yet the area lacks sufficient residential and commercial developments to meet demand from the area's growing work force.

Limitless, a Dubai World company, is the master developer in Downtown Jebel Ali. Dubai World is a holding company fully owned by the Dubai government. Its portfolio includes Nakheel, DP World and Jebel Ali Free Zone Authority (JAFZA). Deyaar is developing 18 properties in Downtown Jebel Ali with a total NSA of 2.94 mn sq ft including residential, office and retail space. The planned completion dates of these properties are 2010 and 2011, with 60% of the total NSA expected to be delivered in 2010 and 40% in 2011. Of these 18 properties, nine are residential with small retail elements, while the remaining nine comprise mostly of office space. The segment breakdown of Deyaar's properties in Downtown Jebel Ali is 43.6% residential, 51.2% office and 5.2% retail.

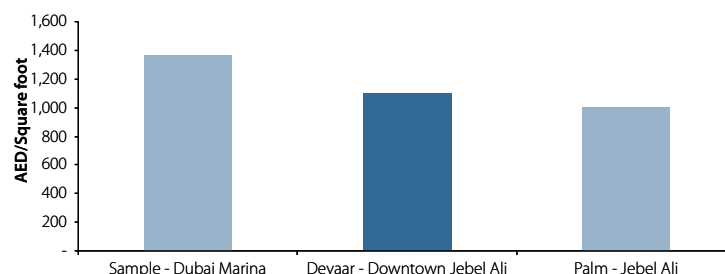
### ***Breakdown by Segment of NSA in Downtown Jebel Ali***



***Assumed pricing seems competitive***

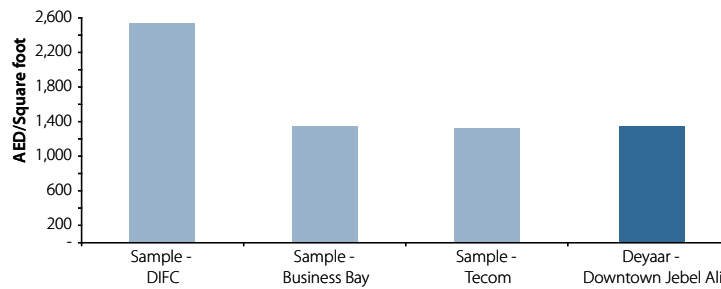
The assumed selling price for residential space in Deyaar's Downtown Jebel Ali developments is around AED 1,100 per sq ft, which, according to our analysis, is not aggressive. Our comparative price analysis of apartment space indicates that Deyaar's planned selling price is 10% higher than apartments on the Palm – Jebel Ali, while they are lower than developments in the Dubai Marina area, which is relatively close to the Jebel Ali area.

### ***Comparative Price Analysis of Downtown Jebel Ali Apartments With 2009/2010 Delivery***



Office space developed in Downtown Jebel Ali by Deyaar, is expected to sell for an estimated average price of AED 1,300 per sq ft. This is very much inline with the price for office space in the Tecom and Business Bay areas. In comparison, developments located in the heart of Dubai's new business district command a significantly higher price, which reflects the location premium. Furthermore, when Deyaar's estimated selling price is considered in light of Downtown Jebel Ali's proximity to the port, new airport and the Jebel Ali Free Zone, it appears even more reasonable.

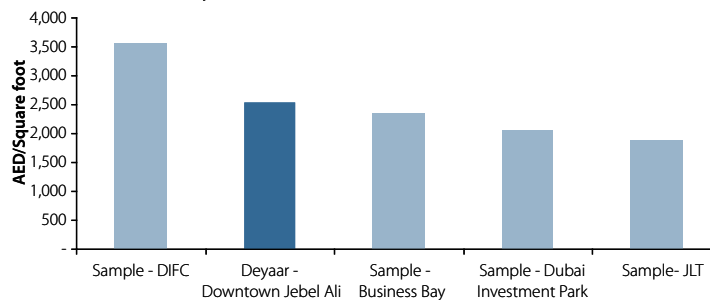
**Comparative Price Analysis of Downtown Jebel Ali Office Space With Delivery in 2009**



Source: Betterhomes, Deyaar, SHUAA Capital

The retail component, accounts for only 5.2% of Deyaar's total NSA in Downtown Jebel Ali, is estimated to sell at an average price of AED 2,500 per sq ft, which is comparative to retail space in Business Bay. However, it is much lower than the price for retail space located in the DIFC.

**Comparative Price Analysis of Downtown Jebel Ali Retail Space With Delivery in 2009**



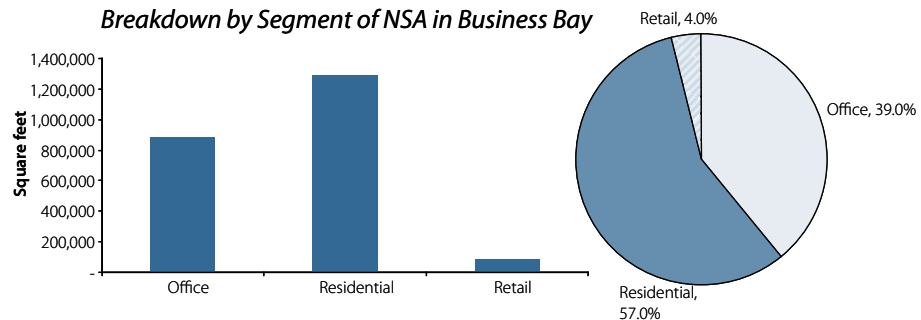
Source: Betterhomes, Deyaar, SHUAA Capital

**Commercial and residential district covering an estimated 64 mn sq ft**

**Business Bay**

The Business Bay development will be a free zone business, commercial and residential district that will cover an area of 64 mn sq ft. It will be located next to Downtown Dubai, where the world's tallest tower is currently being constructed, between the second and third interchange on SZR. The master developer is Dubai Properties, which is a subsidiary of the Dubai government-owned company Dubai Holding. The master developer's objective is to make Business Bay Dubai's answer to New York's Manhattan, or to Tokyo's Ginza business district. It is intended to be a modern business district with advanced infrastructure encouraging businesses from around the world to set up their local, regional and international headquarters there. Deyaar is developing an estimated 2.3 mn sq ft of NSA in Business Bay, with completion expected to be in 2008, 2009 and 2010. Around 60% of this NSA is expected to be delivered in 2008, 29% in 2009 and the remaining 11% is slated for delivery in 2010. Deyaar's total NSA under development in Business Bay is made up of 39% office space, 57% residential space and 4% retail space.

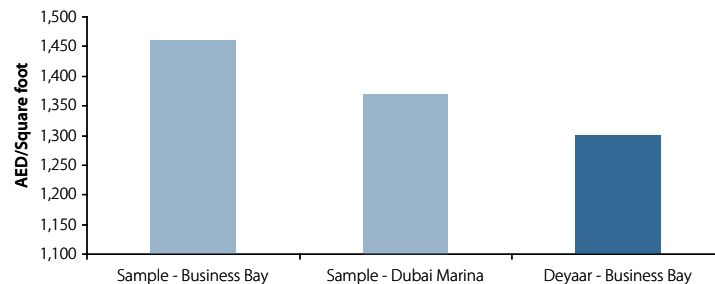
**Breakdown by Segment of NSA in Business Bay**



Source: Deyaar, SHUAA Capital

Deyaar's apartment space in Business Bay is expected to sell at an average price of AED 1,300 per sq ft. In contrast, units in other Business Bay properties and Dubai Marina are selling at prices well above those of Deyaar. In our view, this will likely support a higher pace of sales.

#### **Comparative Price Analysis of Business Bay Apartments With 2009/2010 Delivery**

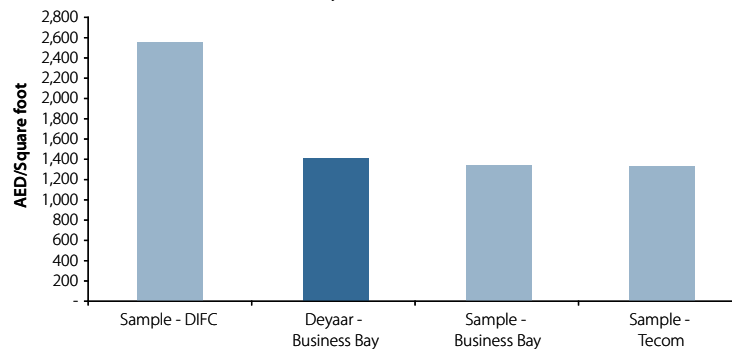


Source: Betterhomes, Deyaar, SHUAA Capital

**Assumed prices in  
line with what is  
on the market**

Office space developed by Deyaar in Business Bay is estimated to have an average price per sq ft of AED 1,500, which is very much in line with other properties in the Business Bay area. In comparison, office space in the DIFC area sells at prices well in excess of those in Business Bay. Although the DIFC and Business Bay are not far from one another, they are distinct. DIFC targets primarily financial institutions, whereas Business Bay office space has a wider target market.

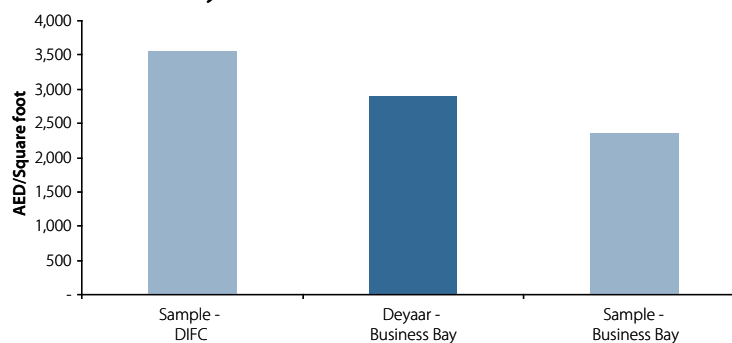
#### **Comparative Price Analysis of Business Bay Office Space With 2009/2010 Delivery**



Source: Betterhomes, Deyaar, SHUAA Capital

Retail space in the same area is expected to go for around AED 3,000 in Deyaar's developments, whereas retail space is selling at a lower price in another tower in Business Bay. In the DIFC, retail space is selling for a substantially higher price. This comparison indicates that Deyaar's price on retail space in Business Bay is within the market range.

#### **Comparative Price Analysis of Business Bay Retail Space With Delivery in 2009/2010**



Source: Betterhomes, Deyaar, SHUAA Capital

**An additional 7.5 mn sq ft of NSA is expected to be developed in more than seven other UAE locations**

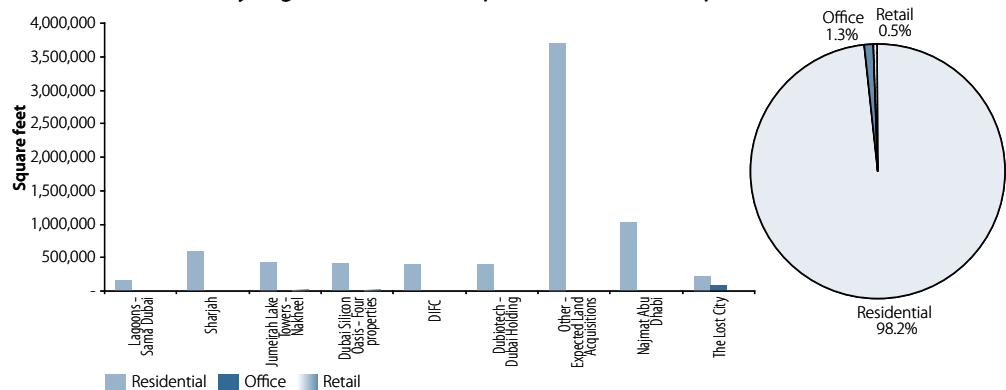
## Other sellable developments in the UAE

Deyaar has further developments, which are spread out over at least nine areas in Dubai, Abu Dhabi and Sharjah. The total NSA of these developments is estimated to be 7.51 mn sq ft, scheduled for delivery between 2007 and 2011. The bulk of this NSA is expected to be delivered in 2011. These properties largely comprise of residential space with a small retail component and barely any offices. Two of these developments are fully sold. Most of the other properties have not yet been launched, hence no sales have been recorded.

| Development                           | Residential      | Office        | Retail        | % Sold | Completion | Total            |
|---------------------------------------|------------------|---------------|---------------|--------|------------|------------------|
| Lagoons - Sama Dubai                  | 163,017          | -             | -             | 0%     | 2011       | 163,017          |
| Sharjah                               | 599,950          | 5,740         | -             | 100%   | 2007       | 605,690          |
| Jumeirah Lake Towers - Nakheel        | 431,691          | -             | 20,200        | 100%   | 2007       | 451,891          |
| Dubai Silicon Oasis - Four properties | 425,622          | -             | 15,572        | 0%     | 2010       | 441,193          |
| DIFC                                  | 403,918          | -             | -             | 0%     | 2010       | 403,918          |
| Dubitech - Dubai Holding              | 396,408          | -             | -             | 0%     | 2010       | 396,408          |
| Other - Expected Land Acquisitions    | 3,705,000        | -             | -             | 0%     | 2011       | 3,705,000        |
| Najmat Abu Dhabi                      | 1,025,477        | -             | -             | 0%     | 2011       | 1,025,477        |
| The Lost City                         | 230,010          | 90,579        | -             | 0%     | 2009       | 320,589          |
| <b>Total</b>                          | <b>7,381,093</b> | <b>96,319</b> | <b>35,772</b> |        |            | <b>7,513,183</b> |

Source: Deyaar, SHUAA Capital

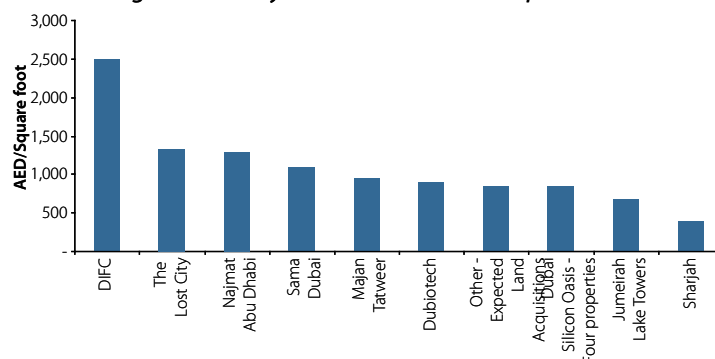
## Breakdown by Segment of Other Properties Under Development



Source: Deyaar, SHUAA Capital

All properties below have prices that are reasonable in our opinion, based on what is on the market in the same or similar areas. Deyaar's DIFC project is the only one that is selling at prices well above the rest of the company's portfolio, though it is in-line with other developments in the same area.

## Selling Price for Deyaar's Other UAE Developments



Source: Deyaar, SHUAA Capital

## Developments in Deyaar's secondary target markets

**Currently developing two properties in Lebanon and one in Turkey**

Deyaar is currently developing three properties outside the UAE, two of them in Lebanon and one in Turkey. In addition, the company acquired a large plot of land on the waterfront of Beirut's central business district, which once completed in 2011 is expected

to be Deyaar's second largest development in Lebanon. Deyaar is currently developing Al Saifi II and Block 18 in Lebanon and Gurpinar in Turkey. Deyaar's strong presence in Lebanon can be traced to traditionally high demand from the Gulf on Lebanese high-end properties, both in Beirut and in the mountains of Lebanon.

**Demand for properties in Lebanon is expected to come primarily from Gulf nationals and the Lebanese diasporas**

Lebanon is one of the favorite destinations for the region's tourists and business travelers, especially the affluent. Lebanon continues to draw scores of people from around the region and the world, attracted by the country's relative religious and political freedom, beautiful environment and scenery, the ancient Phoenician and roman history, and Beirut's vibrancy. The above factors have always attracted large numbers of Arabs from the Gulf region to buy property in Lebanon in general, and in Beirut in particular. In addition, the Lebanese diaspora, which amounts to over 10 mn people around the world, compared to 3.6 mn in Lebanon, is another key source of demand. These two groups have time and again demonstrated their resilience to the turbulence so often generated by the peculiar Lebanese political dynamics. The company is expected to generate most of its sales in Lebanon from demand in the UAE, including from existing customers for its developments in the UAE.

**Expected to announce large projects in secondary target markets this year**

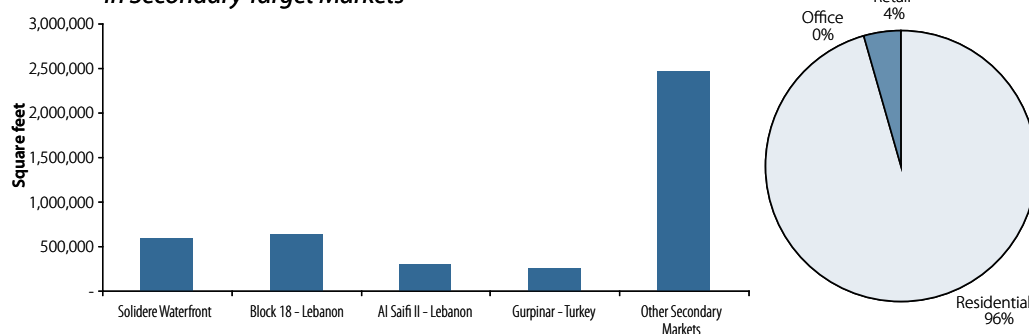
Beyond these developments, we expect the company to announce, this year and the next, large developments in other countries that also form part of Deyaar's secondary target markets. Specifically, we expect the company to announce projects in Saudi Arabia, Kazakhstan and India this year. The current developments with those expected to be announced are expected to exceed 4.26 mn sq ft of NSA.

**Secondary Target Markets Breakdown**

| Development             | Residential      | Office   | Retail         | % Sold | Completion | Total            |
|-------------------------|------------------|----------|----------------|--------|------------|------------------|
| Solidere Waterfront     | 475,778          | -        | 118,944        | 0%     | 2011       | 594,722          |
| Block 18 - Lebanon      | 609,575          | -        | 33,637         | 0%     | 2010       | 643,212          |
| Al Saifi II - Lebanon   | 262,381          | -        | 38,213         | 40%    | 2007       | 300,594          |
| Gurpinar - Turkey       | 257,921          | -        | -              | 0%     | 2007       | 257,921          |
| Other Secondary Markets | 2,470,000        | -        | -              | 0%     | 2011       | 2,470,000        |
| <b>Total</b>            | <b>4,075,655</b> | <b>-</b> | <b>190,795</b> |        |            | <b>4,266,449</b> |

Source: Deyaar, SHUAA Capital

**Breakdown of Deyaar's Expected Developments in Secondary Target Markets**



Source: Deyaar, SHUAA Capital

**Solidere is the master developer of Beirut's central business district**

### Solidere Waterfront

Deyaar recently acquired a plot in Solidere Waterfront that overlooks the Mediterranean Sea from Beirut's central business district. The master developer of the entire Beirut city center is the Lebanese developer Solidere, which ensured that most of the city center was rebuilt or renovated after the end of the Lebanese civil war in 1991, in line with the original designs. Today, the Solidere, as the area is sometimes referred to, has evolved to become one of the most modern city centers in the world without losing its Lebanese, French and Ottoman architectural heritage. As the master developer, Solidere developed several aspects of the area, especially the renovation of buildings with

**Deyaar's Solidere Waterfront plot generates 0.6 mn sq ft of NSA**

historical significance that could be saved and the reconstruction of infrastructure, while encouraging other property developers to invest in this area by making serviced land plots available to them to invest in and develop, in accordance with the master plan.

The Solidere Waterfront plot is expected to generate an estimated total NSA of 595,000 sq ft of mainly residential space. Out of the total NSA, 80% is estimated to be residential and 20% retail. The development will commence once the land plot is ready, the plot is located on an area currently being reclaimed. Completion of this property is scheduled for 2011. The estimated average selling price for residential space is AED 2,800 per sq ft and AED 3,000 per sq ft for retail.

**Block 18 is expected to be completed in 2010**

**Block 18, Lebanon**

This primarily residential property, which is located in the Mina Al Hosn area of the Beirut city centre within Solidere's master development, is expected to be completed in 2010. Construction was initiated in November 2006. The total NSA of this project is estimated to be 643,000 sq ft, with 95% allocated to residential space and the remaining 5% to retail. Deyaar's estimated average price for Block 18 apartments is the equivalent of AED 1,500 per sq ft, while for retail space it is AED 2,050 per sq ft.

**Al Saifi II, with its 0.3 mn sq ft of NSA, is due for completion in 2007**

**Al Saifi II, Lebanon**

Al Saifi II is a luxurious residential development in the heart of the Lebanese capital's central business district. Saifi Village II overlooks Martyr's square to the north, Debbas Piazza to the south, Saifi Village I to the east and Damascus road to the west. Sales of units in Al Saifi II have been strictly by invitation. The company has so far sold an estimated 36% of the total NSA. The total estimated NSA is 300,000 sq ft, with 87% slated for apartments and a further 13% for retail space. This development is expected to be completed by the end of 2007. The company is selling residential space for the equivalent of AED 1,100 per sq ft on average.

**Gurpinar in Turkey offers 110 villas outside Istanbul with delivery in 2007**

**Gurpinar, Turkey**

Deyaar completed the development of a villa community comprising of 110 villas located 40 kilometers outside Istanbul, a 20 minute drive from the International Airport. The Gurpinar Villas are expected to be delivered in late 2007. The total estimated NSA of this project is 258,000 sq ft and 100% residential. Turkish regulations do not allow sales to commence before completion of construction, hence no sales or revenue has been recognized to date from this development. The estimated average selling price is AED 420 per sq ft.

**Other secondary markets**

We expect the company to come out with new projects in Saudi Arabia, Kazakhstan and India, followed up with projects in Qatar. New developments in Lebanon and Turkey are also likely to be announced further down the road.

**We estimate a conservative additional NSA of 2.47 mn sq ft in other secondary target markets**

At this stage we are estimating a conservative additional NSA of 2.47 mn sq ft to be developed by Deyaar in the run up to 2011, with major development work commencing late 2008. Completion of these projects is estimated to be 2011. We anticipate that the company will announce further developments of significantly larger size than 2.47 mn sq ft. However, we anticipate that the bulk of these projects will begin to have an impact beyond 2011.

**Number of Sellable Projects Completed per annum by Master Development or Country**

|                                                                                                                                                      |                                                                                                                         |                                                                                                                                                 |                                                                                                                                                                                                                                                         |                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>1 Sharjah</li> <li>1 JLT</li> <li>1 Lebanon</li> <li>1 Turkey</li> </ul> <p><b>Total NSA: 1.6 mn sqft</b></p> | <ul style="list-style-type: none"> <li>2 Business Bay</li> <li>1 TECOM</li> </ul> <p><b>Total NSA: 1.97 mn sqft</b></p> | <ul style="list-style-type: none"> <li>6 Business Bay</li> <li>1 TECOM</li> <li>3 The Lost City</li> </ul> <p><b>Total NSA: 1.7 mn sqft</b></p> | <ul style="list-style-type: none"> <li>1 DIFC</li> <li>5 Dubai Waterfront</li> <li>4 Dubai Silicon Valley</li> <li>8 Downtown Jebel Ali</li> <li>1 Dubiotech</li> <li>1 Lebanon</li> <li>2 Business Bay</li> </ul> <p><b>Total NSA: 9.4 mn sqft</b></p> | <ul style="list-style-type: none"> <li>1 Lebanon</li> <li>1 TECOM</li> <li>1 Sama Dubai</li> <li>2 Downtown Jebel Ali</li> <li>2 Other</li> <li>1 Abu Dhabi</li> </ul> <p><b>Total NSA: 11.4 mn sqft</b></p> |
| <b>2007</b>                                                                                                                                          | <b>2008</b>                                                                                                             | <b>2009</b>                                                                                                                                     | <b>2010</b>                                                                                                                                                                                                                                             | <b>2011</b>                                                                                                                                                                                                  |

Source: Deyaar, SHUAA Capital

## Leasable properties

The company has a long and successful background in property management. As of today, it manages one of the largest property portfolios in the region, which includes more than 900 properties and 16,000 units. Deyaar has historically been providing its management expertise only to third parties, though this is now changing.

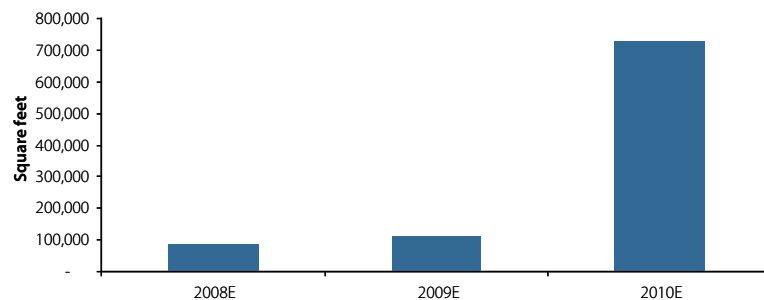
### *Deyaar is building its investment property portfolio*

Deyaar is currently building up its proprietary investment property portfolio, while continuing to manage third-party properties, with additions underway in three Dubai areas: DIFC, Deira and Barsha. Five properties are currently being built, one in each of DIFC and Deira and three in Barsha. These properties will effectively establish Deyaar's proprietary investment property portfolio, which, through these developments, will include 0.93 mn sq ft of leasable space. At this stage all investment properties under development are located in the UAE, though the company would consider exploring opportunities internationally.

### *Estimated yield of 10-12%*

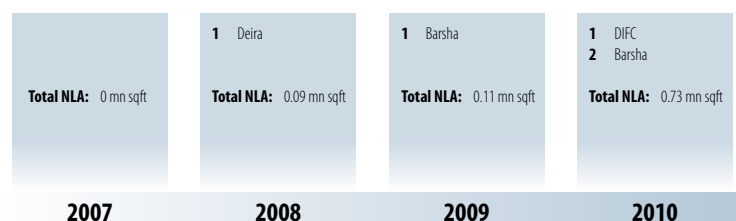
The estimated yield on Deyaar's investment property portfolio is expected to be in the range of 10-12%. The DIFC property will make the greatest contribution to this revenue line for some time. The DIFC property will be the largest leasing property in Deyaar's portfolio, once completed. In addition, its location and uniqueness, in terms of design, should allow a significant premium to be charged to tenants. Our understanding is that there is substantial market interest in booking space in this specific property.

### Completed Leasable Properties 2008-2010



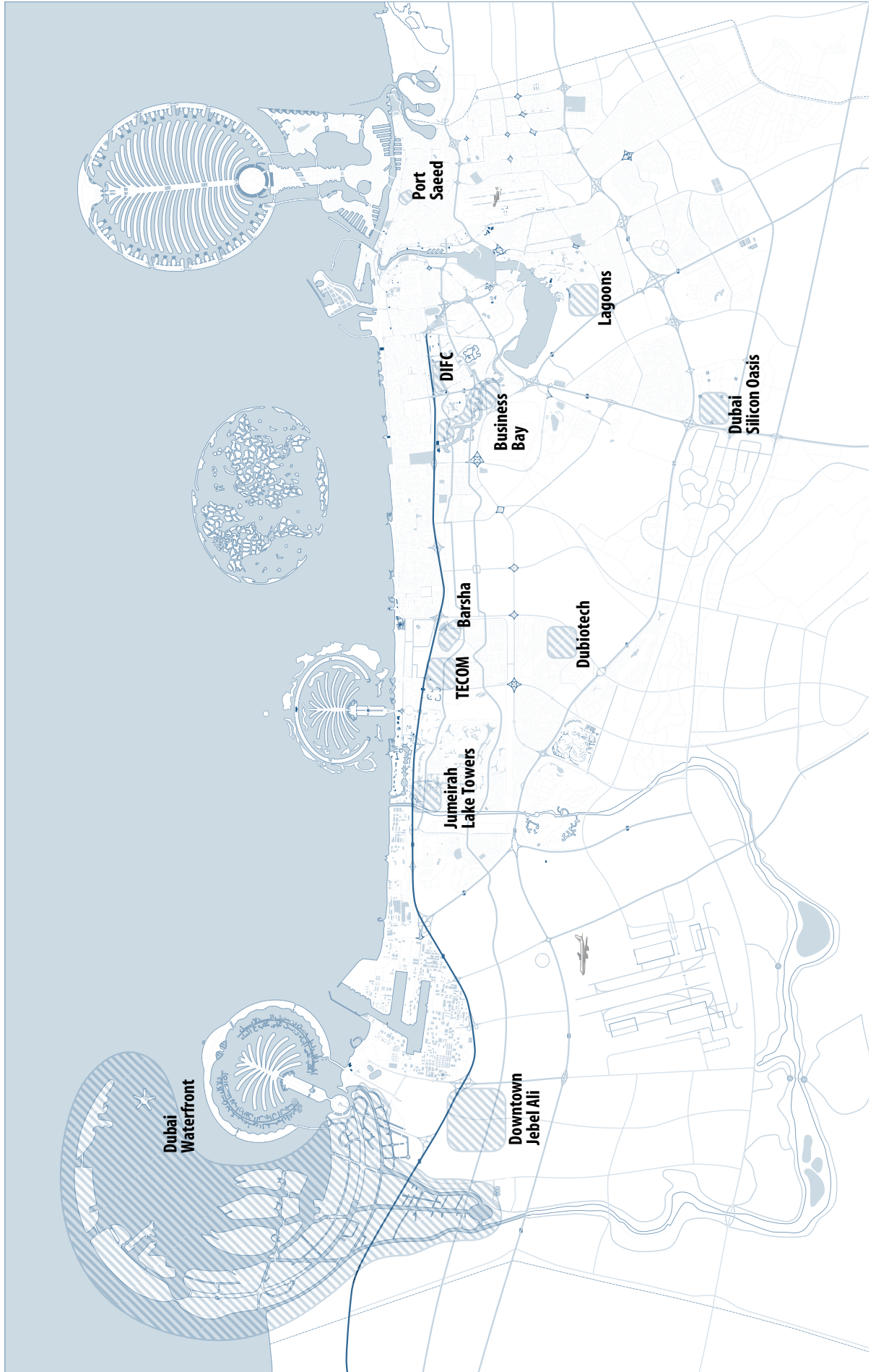
Source: Deyaar, SHUAA Capital

### Number of Leasable Projects Completed per annum by Area or Country



Source: Deyaar, SHUAA Capital

Map location of Deyaar's property developments in Dubai



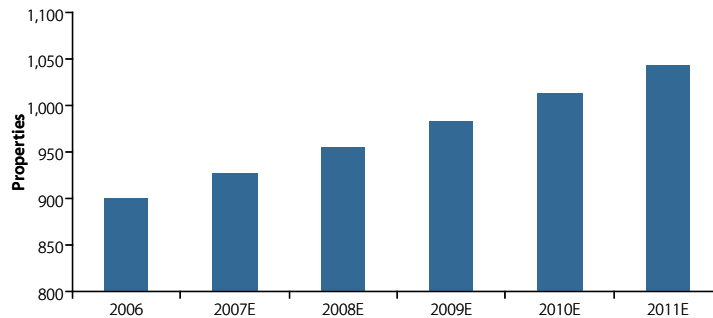
**Currently manages 900 properties with 16,000 units**

## Property Management

Deyaar currently manages an estimated 900 properties on behalf of third-parties with a total of 16,000 rental units, an average occupancy rate of 95%, and an estimated renewal rate above 80%. Revenue is generated through property management fees and commissions on rental income.

The number of properties under management is projected to expand from 900 in FY 06 to 930 in FY 08. By FY 11, it is projected that Deyaar will have over 1,050 properties under management.

**Number of Properties Under Deyaar's Management 2006 - 2011**



Source: Deyaar, SHUAA Capital

## Brokerage

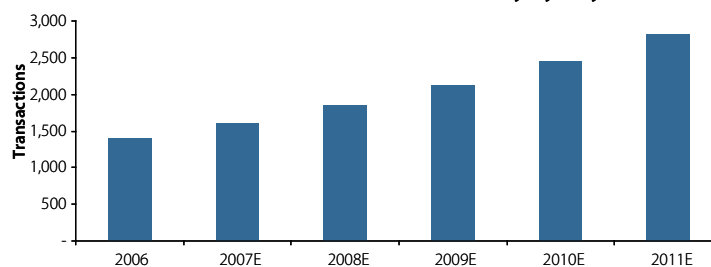
**A leading real estate broker in the UAE**

In the UAE's rapidly expanding property market, Deyaar has emerged as a one of the larger property brokers. As a business line, brokerage is expected to continue growing at a fast pace, on the back of continued growth in the number of transactions on the UAE property market, especially those originating from Dubai and eventually Abu Dhabi.

The brokerage business will continue to complement Deyaar's core business, property development, by facilitating the company's sale, lease and property management activities.

Based on the growing property market in UAE and Deyaar's expanding real estate development business, we anticipate that the number of transactions brokered annually will appreciate from 1,400 in FY 06 to 2,800 in FY 11.

**Number of Transactions Brokered Annually by Deyaar 2006-2011**



Source: Deyaar, SHUAA Capital

## SWOT analysis

### Strengths

- The company's relationship to one of the largest Islamic financial institutions in the world, DIB, which will hold on to a 43% stake post-IPO.
- Influential board members, two of whom are members of the UAE's federal government.
- Recognized as a high quality and timely developer.
- Strong relationships with master developers in the UAE, which is reflected in the company's status as one of the favored customers at the pre-launch stage.
- Extensive brokerage operations keep the company up to date as to changes in investor and client appetite and requirements.
- Long and successful experience in managing investment property in the UAE market- although this has largely been on behalf of third-parties, we believe it will contribute to how the company will identify investment property opportunities and how it will manage its growing investment property portfolio.
- Islamic Sharia compliant.

### Weaknesses

- The company has almost no operational experience in Kazakhstan, India, Saudi-Arabia and Qatar, its next markets.
- Low brand awareness in these new markets.
- Currently, the company has no investment property portfolio, although properties are presently being developed to serve as lease-income generators in the near future.

### Opportunities

- A more extensive participation in the Abu Dhabi market, which is on the verge of experiencing a construction boom of the scale and magnitude comparable to what Dubai has been witnessing over the last few years.
- More international projects across the region and in the Asian sub-continent.
- Development of a high quality investment property portfolio.

### Threats

- A correction in Dubai's property market could potentially hamper the appetite for new developments, in the short-term.
- Continued rise in construction material prices.
- Armed conflict between the USA and Iran could have negative repercussions on the regional economy, including the UAE, with which Iran is a major trading partner.
- Deterioration in the Lebanese domestic political situation would have a substantial impact on the largest component of the company's international property development portfolio.

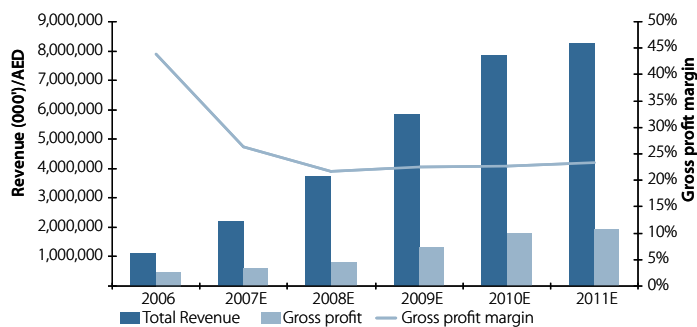
Source: SHUAA Capital

## Financial analysis and forecasts

**Revenue tripled in FY 05  
and doubled in FY 06**

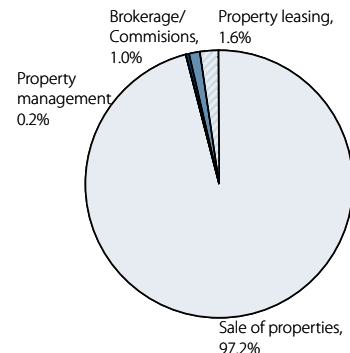
Deyaar has witnessed strong growth over the last couple of years, as is clear from the company's income statement: revenue tripled between FY 04 and FY 05, and doubled in the subsequent year, from AED 481.6 mn to AED 1,097 mn in FY 06. Going forward, we project continued strong growth in revenues, especially up to FY 08. Our projections indicate revenue of AED 2.22 bn in FY 07 and AED 3.7 bn in FY 08. Revenue is projected to maintain a CAGR of 39% during the projected period.

**Deyaar's Revenue and Gross Profit 2006-2011**



Source: Deyaar, SHUAA Capital

**Sources of Revenue in 2011**



### Revenue drivers

**Continued revenue domination  
by property sales**

The main driver behind this growth was and is expected to remain Deyaar's increasing activities in both the local and international markets of real estate development, and thus also property sales. The contribution of property sales to the company's top line expanded from lows of AED 169 mn in FY 04 to AED 978 mn in FY 06. In terms of percentage, this growth translates into 479%. From FY 07 onwards, our projections indicate continued revenue domination by property sales. This revenue line is expected to contribute 97% of revenue in FY 07 and FY 11. Property sales are projected to amount to AED 2.14 bn in FY 07 and AED 3.6 bn in FY 08 and up to AED 8.03 bn by FY 11. FY 07 is projected to include AED 663 mn worth of land sales. No land sales are assumed beyond FY07. The average selling price per sq ft of NSA for the entire projected period is just over AED 1,000.

We have revised our revenue projections for the entire projected period compared to our, pre-IPO report, due to a change in Deyaar's method of revenue recognition with regards to property sales. The company could previously include land cost as part of the percent of completion. This meant that a larger part of the project was regarded as completed in the first year due to the fact that land cost typically constitutes 15-25% of total development cost. Now, revenue recognition will be only based on percent of construction completed. The result is a delay in revenue recognition.

Other revenue lines, which include property management, brokerage and eventually also property lease, have historically contributed between 6% and 11% annually to revenue. However, this will change due to the faster pace of growth in revenue from property sales and their comparatively small contribution. The second most significant contribution to revenue is projected to remain brokerage, until FY 09. From FY 10 and onwards, this will change in favor of property leasing. By FY 11, property leasing is projected to generate AED 130 mn in revenues. In comparison, brokerage and property management are expected to generate AED 84 mn and AED 20 mn by that same year, respectively.

### Gross profit margin

**Gross profit margin  
expected to stabilize  
at 23% by FY 11**

The company's gross profit margin (GPM) dropped from a record high of 44% in FY 06 to 26% in FY 07 and it is expected to stabilize at 23% by FY 11. The primary reason behind the high profit margin of FY 06 was sale of land, as land sales typically have significantly

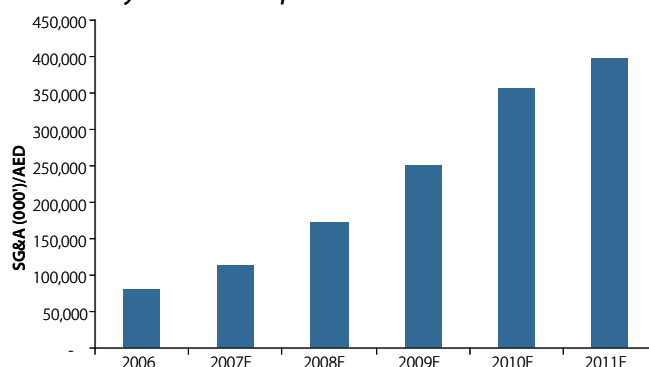
higher margin than property sales. We do not expect land sales to have regular appearances on the income statement, as the company does not buy land for trading per se, though the company will not necessarily always refuse an offer to exit early with a premium. In addition, we projected a drop in margins due to increasing competition between various properties coming online, rising construction material costs, and increasing contractor power.

### Selling, general and administration expenses

***Selling and marketing expenses are expected to be the highest SG&A expenses by FY 11***

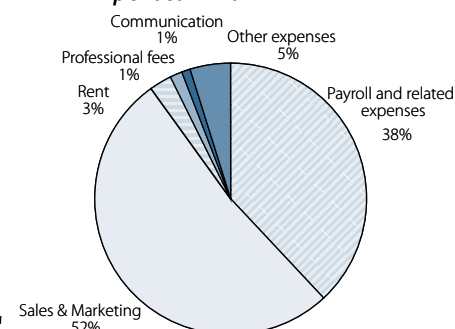
We expect selling, general and administration expenses (SG&A) to rise with increasing revenue and international expansion. However, in our view, not all component expenses of SG&A will be directly linked to revenue growth. For instance, we project salary increases based on growth in salaries and a moderate increase in staff. In our view, the fact that the company is not a master developer reduces the staff growth requirements, as a significant proportion of the work is being performed by the master developer, which Deyaar pays for in direct costs. We expect that the fastest growth in SG&A expenses by FY 08 will be selling and marketing. We see this as an expense that is directly linked to the amount of revenue expected at an increasing rate, based on rising competition in the UAE and the need to increase awareness of the Deyaar brand in a number of new countries during the projected period. By FY 11, 52% of Deyaar's SG&A is projected to be selling and marketing expenses and 38% payroll related.

**Deyaar's SG&A Expenses**



Source: Deyaar, SHUAA Capital

**Breakdown of Deyaar's SG&A Expenses in 2011**

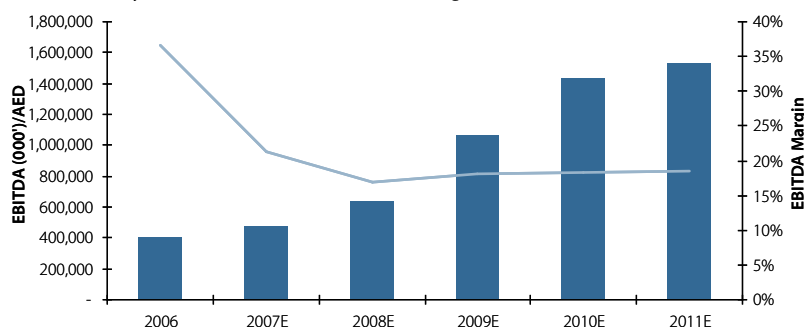


### EBITDA

***EBITDA margin is expected to stabilize at 19% by FY 11***

We expect Deyaar's EBITDA to appreciate from AED 402 mn in FY 06 to AED 470 mn in FY 07 and AED 635 mn in FY 08. Based on the same projection, the company's EBITDA is estimated to reach AED 1.53 bn in FY 11. Meanwhile, Deyaar's EBITDA margin is expected to drop from 37% in FY 06 to 21% in FY 07 and almost 19% by FY 11. Once again, just like the GPM, the EBITDA margin drops in FY 07 compared to FY 06 due land sales with higher margin taking place in FY 06. Land sales are expected in FY 07, however, they are expected to enjoy significantly lower margins.

**Deyaar' EBITDA and EBITDA Margin 2006-2011**



Source: Deyaar, SHUAA Capital

## Rise of depreciation expenses post-completion of investment properties

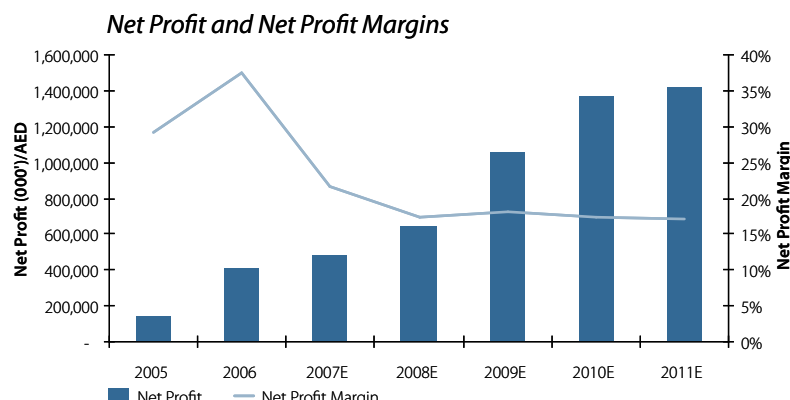
### Other expenses and income

Beyond the expenses mentioned above, going forward, the company will see its depreciation expenses rise as a direct consequence of expansion and the creation of an investment property portfolio. More importantly, the international expansion will mean increasing exposure to corporate taxes. We project that Deyaar's tax expenses will rise from AED 3 mn in FY 06 to AED 24.5 mn in FY 09 and AED 132 mn in FY 11. Meanwhile, cost of Islamic funds is expected to rise once the investment properties are completed. Prior to completion, the cost of funds for development of investment properties would be capitalized. Post completion, the company pays a profit-rate, in compliance with Islamic Sharia Principles, on the remaining balance.

## Net profit margin is expected to settle at 17% by FY 11

### Net profit

We expect the company's net profit to rise from AED 412.6 mn in FY 06 to AED 480 mn in FY 07 and AED 649 mn in FY 08. By FY 11, Deyaar's net profit is projected to reach AED 1.42 bn. The net profit margin is projected to drop, due to rising development costs and increasing competition in the UAE and the secondary target markets, increasing sales and marketing expenses, and taxes as a proportion of revenue. Deyaar's net profit margin is expected to stabilize at 17% by FY 11. CAGR is expected to be 28% throughout the projection period.



Source: Deyaar, SHUAA Capital

## Expected to add investment properties for AED 1.55 bn

### Investment properties

Deyaar currently has no investment properties portfolio. However, it is expected to add AED 1.55 bn worth of investment properties over the coming years. The total value of income generating Investment properties, that is those completed, is expected to increase from AED 198 mn in FY 08 to AED 1.45 bn in FY 11.

### Development properties

With the company taking on more projects and buying additional land throughout the projected period, development properties are projected to increase from AED 2.16 bn in FY 06 to AED 2.88 bn in FY 07 and AED 5.52 bn in FY 09.

## AED 1.04 bn recorded as goodwill

### Goodwill

The goodwill in Deyaar's balance sheet was based on the valuation of the company prior to IPO, which was AED 2.6 bn. The AED 1.04 bn difference between the share capital and the valuation was recorded as goodwill in FY 07.

***Rising debt-to-equity ratio*****Islamic Funding**

Industry norms indicate that the majority of regional companies typically have low debt-to-equity ratios, in most cases below 20%. In Deyaar's case the situation has been very much the same, however, this is expected to change with the expansion in the UAE, the increasingly competitive environment locally, and the international expansions. We expect this expansion to be coupled with a normal pace of sale, unlike the abnormally fast pace of sales most UAE developers have been experiencing to date. The combination of the above factors will require Islamic debt financing, especially in FY 08 and FY 09. Deyaar's debt-to-equity ratio is expected to appreciate from 15% in FY 06 to 31% in FY 09 and then drop to 22% in FY 11, based on current projects.

## Valuation

We initiate coverage on Deyaar, which will be listing on the Dubai Financial Market today, with a BUY recommendation based on a fair value estimate of AED 2.0 per share, implying an upside of 96% to the IPO plus subscription fee price of AED 1.02 per share. The target value was based on a Discounted Cash Flow (DCF) valuation.

The DCF of Deyaar Development's core business was based on a five year forecast period and a terminal value. The weighted average cost of capital (WACC) used is 10.47% and was based on a cost of equity of 11% and a cost of debt of 7%. The cost of equity was based on a risk free rate of 5.80% derived from the yield on a simulated 10-year Qatar sovereign, an equity risk premium of 5.0% and an industry beta of 1.03 To calculate the terminal value we used a terminal growth rate of 3%.

| Terminal growth rate/WACC | 9.47% | 10.47% | 11.47% |
|---------------------------|-------|--------|--------|
| 2.00%                     | 2.11  | 1.79   | 1.53   |
| 3.00%                     | 2.40  | 2.00   | 1.69   |
| 4.00%                     | 2.80  | 2.28   | 1.89   |

## Financials

### Consolidated Balance Sheet (AED '000)

| Year to December                      | 2006             | 2007E            | 2008E             | 2009E             | 2010E             | 2011E             |
|---------------------------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                         |                  |                  |                   |                   |                   |                   |
| Current Assets                        |                  |                  |                   |                   |                   |                   |
| Bank balances and cash                | 389,546          | 2,264,200        | 1,734,878         | 2,249,423         | 2,791,201         | 7,373,587         |
| Prepayments and other assets          | 472,799          | 1,123,664        | 1,891,348         | 2,962,881         | 3,975,869         | 4,188,311         |
| <b>Total Current Assets</b>           | <b>862,345</b>   | <b>3,387,864</b> | <b>3,626,226</b>  | <b>5,212,304</b>  | <b>6,767,070</b>  | <b>11,561,898</b> |
| Non Current Assets                    |                  |                  |                   |                   |                   |                   |
| Fixed Assets                          | 12,033           | 19,965           | 27,645            | 37,744            | 47,419            | 56,587            |
| Investment properties                 | -                | -                | 88,223            | 277,407           | 1,263,958         | 1,218,462         |
| Development of Investment Properties  | -                | 554,494          | 815,904           | 920,920           | -                 | -                 |
| Development properties                | 2,159,771        | 2,884,060        | 4,494,676         | 5,523,130         | 4,160,158         | 572,604           |
| Goodwill and other non current assets | -                | 1,040,000        | 1,040,000         | 1,040,000         | 1,040,000         | 1,040,000         |
| <b>Total Non Current Assets</b>       | <b>2,171,804</b> | <b>4,498,519</b> | <b>6,466,448</b>  | <b>7,799,201</b>  | <b>6,511,535</b>  | <b>2,887,653</b>  |
| <b>TOTAL ASSETS</b>                   | <b>3,034,148</b> | <b>7,886,383</b> | <b>10,092,673</b> | <b>13,011,505</b> | <b>13,278,605</b> | <b>14,449,550</b> |
| <b>LIABILITIES &amp; EQUITY</b>       |                  |                  |                   |                   |                   |                   |
| Current Liabilities                   |                  |                  |                   |                   |                   |                   |
| Accounts payable and accruals         | 1,121,605        | 536,575          | 1,180,350         | 2,736,412         | 1,869,962         | 2,148,277         |
| Current portion of long term loan     | 337              | -                | -                 | -                 | -                 | -                 |
| <b>Total Current Liabilities</b>      | <b>1,121,942</b> | <b>536,575</b>   | <b>1,180,350</b>  | <b>2,736,412</b>  | <b>1,869,962</b>  | <b>2,148,277</b>  |
| Non Current Liabilities               |                  |                  |                   |                   |                   |                   |
| Employees' end of service benefits    | 4,401            | 6,297            | 8,307             | 10,435            | 12,689            | 15,073            |
| Retentions payable                    | 35,467           | 53,658           | 96,155            | 148,994           | 199,186           | 208,132           |
| Islamic finance obligations           | 235,333          | 878,462          | 1,788,283         | 2,176,771         | 2,173,287         | 1,953,456         |
| Non current portion of term loan      | 704              | 82,111           | 171,261           | 244,039           | 236,678           | 201,994           |
| <b>Total Non Current Liabilities</b>  | <b>275,906</b>   | <b>1,020,528</b> | <b>2,064,006</b>  | <b>2,580,238</b>  | <b>2,621,840</b>  | <b>2,378,655</b>  |
| <b>TOTAL LIABILITIES</b>              | <b>1,397,848</b> | <b>1,557,103</b> | <b>3,244,356</b>  | <b>5,316,650</b>  | <b>4,491,801</b>  | <b>4,526,932</b>  |
| <b>EQUITY</b>                         |                  |                  |                   |                   |                   |                   |
| Share capital                         | 1,000,000        | 5,778,000        | 5,778,000         | 5,778,000         | 5,778,000         | 5,778,000         |
| Proposed increase in share capital    | -                | -                | -                 | -                 | -                 | -                 |
| Proposed Dividend (bonus shares)      | 560,000          | -                | -                 | -                 | -                 | -                 |
| Statutory reserve                     | 63,248           | 111,273          | 176,152           | 281,970           | 418,463           | 560,440           |
| Retained earnings                     | 7,788            | 440,008          | 894,165           | 1,634,885         | 2,590,340         | 3,584,178         |
| Minority interest                     | 5,264            | -                | -                 | -                 | -                 | -                 |
| <b>TOTAL EQUITY</b>                   | <b>1,636,300</b> | <b>6,329,280</b> | <b>6,848,317</b>  | <b>7,694,855</b>  | <b>8,786,804</b>  | <b>9,922,618</b>  |
| <b>TOTAL LIABILITIES &amp; EQUITY</b> | <b>3,034,148</b> | <b>7,886,383</b> | <b>10,092,673</b> | <b>13,011,505</b> | <b>13,278,605</b> | <b>14,449,550</b> |

**Income statement (AED '000)**

| Year to December                             | 2006             | 2007E            | 2008E            | 2009E            | 2010E            | 2011E            |
|----------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Revenue</b>                               | <b>1,097,128</b> | <b>2,216,958</b> | <b>3,731,579</b> | <b>5,845,684</b> | <b>7,844,283</b> | <b>8,263,423</b> |
| Cost of Sales                                | (629,874)        | (1,632,105)      | (2,924,723)      | (4,531,886)      | (6,058,574)      | (6,330,671)      |
| <b>Gross profit</b>                          | <b>481,912</b>   | <b>584,853</b>   | <b>806,856</b>   | <b>1,313,798</b> | <b>1,785,709</b> | <b>1,932,752</b> |
| SG&A                                         | (79,927)         | (114,384)        | (171,987)        | (249,933)        | (355,730)        | (398,133)        |
| <b>EBITDA</b>                                | <b>401,985</b>   | <b>470,470</b>   | <b>634,869</b>   | <b>1,063,865</b> | <b>1,429,979</b> | <b>1,534,619</b> |
| Depreciation                                 | (3,192)          | (4,664)          | (9,007)          | (17,632)         | (43,505)         | (66,802)         |
| EBIT                                         | 398,793          | 465,805          | 625,862          | 1,046,233        | 1,386,474        | 1,467,817        |
| Net financing profit/(loss) on Islamic Loans | 16,871           | 26,275           | 38,276           | 36,390           | 31,687           | 84,184           |
| Taxes                                        | (3,053)          | (11,835)         | (15,342)         | (24,451)         | (53,225)         | (132,233)        |
| <b>Net profit</b>                            | <b>412,611</b>   | <b>480,245</b>   | <b>648,796</b>   | <b>1,058,172</b> | <b>1,364,936</b> | <b>1,419,768</b> |

**Key ratios (AED '000)**

| Year to December                   | 2006 | 2007E     | 2008E     | 2009E     | 2010E     | 2011E     |
|------------------------------------|------|-----------|-----------|-----------|-----------|-----------|
| <b>Growth</b>                      |      |           |           |           |           |           |
| Revenues                           | 128% | 102%      | 68%       | 57%       | 34%       | 5%        |
| EBITDA                             | 203% | 17%       | 35%       | 68%       | 34%       | 7%        |
| Net Income                         | 193% | 16%       | 35%       | 63%       | 29%       | 4%        |
| Shareholders equity                | 127% | 287%      | 8%        | 12%       | 14%       | 13%       |
| Assets                             | 203% | 160%      | 28%       | 29%       | 2%        | 9%        |
| <b>Margins &amp; Profitability</b> |      |           |           |           |           |           |
| EBITDA Margin                      | 37%  | 21%       | 17%       | 18%       | 18%       | 19%       |
| Net Margin                         | 38%  | 22%       | 17%       | 18%       | 17%       | 17%       |
| RoAE                               | 35%  | 12%       | 10%       | 15%       | 17%       | 15%       |
| RoAA                               | 20%  | 9%        | 7%        | 9%        | 10%       | 10%       |
| <b>Valuation</b>                   |      |           |           |           |           |           |
| Number of ordinary shares ('000)   |      | 5,778,000 | 5,778,000 | 5,778,000 | 5,778,000 | 5,778,000 |
| EPS                                |      | 0.08      | 0.11      | 0.18      | 0.24      | 0.25      |
| BVPS                               |      | 1.10      | 1.19      | 1.33      | 1.52      | 1.72      |
| P/E                                |      | 12.03     | 8.91      | 5.46      | 4.23      | 4.07      |
| <b>Other</b>                       |      |           |           |           |           |           |
| Dividend yield                     |      | 0%        | 2%        | 4%        | 5%        | 5%        |
| Debt to equity                     | 14%  | 15%       | 29%       | 31%       | 27%       | 22%       |

## Appendix

### Target market: Macro analysis

***The UAE is expected to remain Deyaar's primary market***

In addition to the UAE, Deyaar has, expanded its operations into two more markets, including Lebanon, and Turkey. However, based on the total ongoing and planned real estate developments in the UAE by Deyaar, this country remains the primary market for the company. In addition to these markets, the company plans to enter the Kazakhstan, Indian, Saudi Arabian and Qatari markets. However, no projects have yet been announced in those countries. Hence Deyaar's target markets can be categorized as follows:

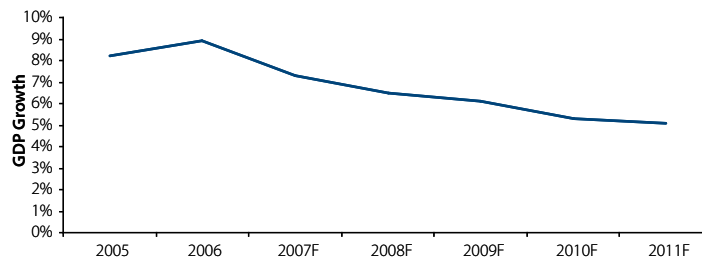
- Primary target market: UAE
- Secondary target markets: Lebanon, Turkey, Kazakhstan India, Saudi Arabia and Qatar

### Deyaar's primary target market: UAE macro story

***Real GDP growth in the UAE was 8.9% in 2006***

The UAE economy recorded strong real GDP growth between 2003 and 2006, and this is expected to continue over the next five-year period. The economy expanded by 8.2% and 8.9% in 2005 and 2006, respectively. Going forward, the economy is projected to grow by 7.3% in 2007 and an additional 6.5% in 2008. Beyond 2008 all the way up to 2011, growth is expected to remain above 5% per annum.

**UAE Real GDP Growth 2005-2011**

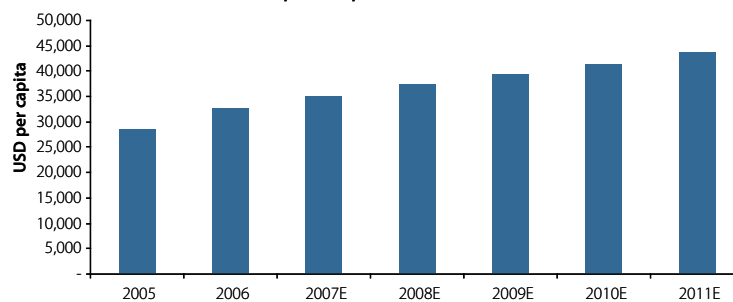


Source: EIU, SHUAA Capital

***GDP per capita is expected to reach USD 43,800 by 2011***

The nominal GDP per capita in the UAE increased from USD 28,600 in 2005 to USD 32,710 in 2006. By 2011, it is expected to reach an estimated USD 43,800.

**UAE Nominal GDP per Capita 2005-2011**

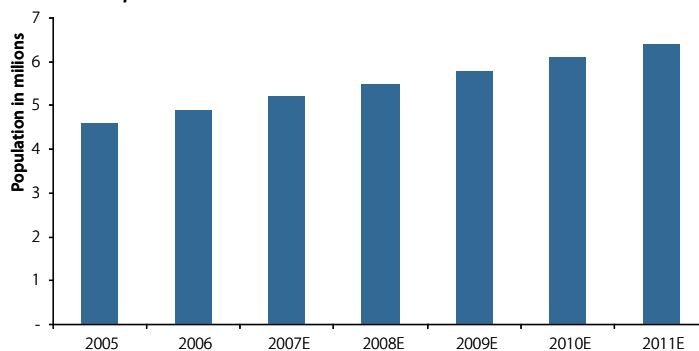


Source: EIU, SHUAA Capital

**Population expected to increase from an estimated 4.9 mn in 2006 to 6.4 mn in 2011**

Meanwhile, the UAE population witnessed record growth to reach an estimated 4.9 mn in 2006 and it is expected to reach 6.4 mn by 2011. In comparison, the country had a total population of 1 mn in 1980. An estimated 85% of the population resides in three of the country's emirates, namely Abu Dhabi, Dubai and Sharjah. Dubai and Abu Dhabi are by far the two most populous emirates. The remaining 15% are spread over the Emirates of Ras Al-Khaimah, Ajman, Fujairah and Umm Al-Quwain.

**UAE Population 2005-2011**

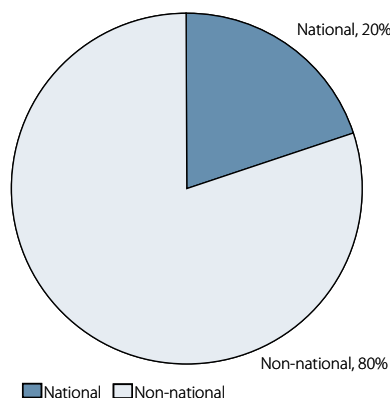


Source: EIU, SHUAA Capital

**It is estimated that 80% of the population is non-national**

Out of the total population in the UAE, 80% are estimated to be expatriates. They form the majority of the labor force in this country. The largest groups among the expatriate population include Asians, Arabs, Iranians and Europeans.

**Composition of UAE Population 2006**



Source: SHUAA Capital

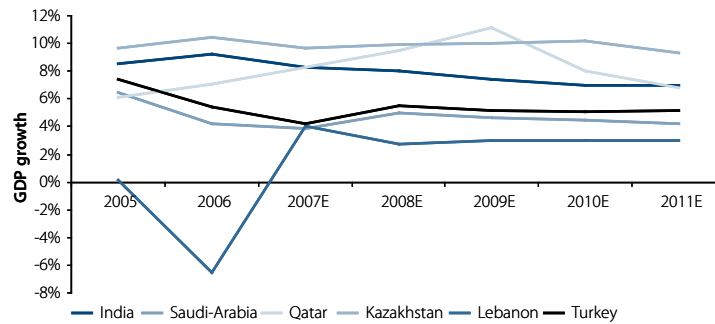
### **Deyaar's secondary target markets**

**Secondary target markets include Saudi Arabia, Qatar, Kazakhstan and India, in addition to, Lebanon and Turkey**

Deyaar's secondary target market is comprised of Saudi Arabia, Qatar, Kazakhstan and India, in addition to, Lebanon and Turkey. The company has been active for a couple of years in both Lebanon and Turkey now, where it expects to deliver properties this year. Deyaar, is expected to announce projects in the other countries this year.

All six countries in the secondary target market recorded strong real GDP growth in both 2005 and 2006, with the exception of Lebanon. This performance is expected to continue well beyond 2006, all the way to 2011. The average annual real GDP growth is expected to be 9.8% in Kazakhstan, 8.7% in Qatar, 7.5% in India, 5% in Turkey, 4.4% in Saudi Arabia and 3.1% in Lebanon. The flat and negative Lebanese GDP growth in 2005 and 2006, was due to the devastating effect on the economy of the assassination of ex-Prime Minister Rafik Hariri in 2005 and the Israeli war on Lebanon in 2006.

## Real GDP Growth in Deyaar's Secondary Target Markets

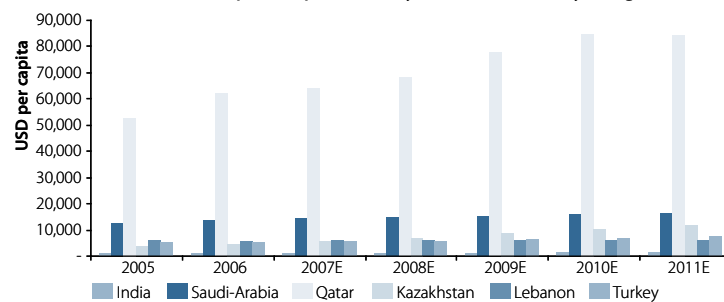


Source: EIU, SHUAA Capital

**Qatar and Saudi Arabia had the highest GDP per capita in 2006 among secondary target markets**

Out of Deyaar's secondary target markets, Qatar and Saudi Arabia had the highest nominal GDP per capita in 2005 and 2006. These two countries are expected to continue recording higher per capita GDP figures than the other countries currently targeted by Deyaar. Qatar has one of the highest nominal GDPs per capita in the world and by far the highest among Deyaar's secondary markets. The country recorded a GDP per capita of USD 61,900 in 2006. By 2011 Qatar's GDP per capita is expected to hit USD 84,300. While the same for Saudi Arabia is expected to appreciate from USD 13,750 in 2006 all the way up to USD 16,400 by 2011. During the same period, Kazakhstan is projected to see its GDP per capita rise to USD 11,700 from USD 4,700. The equivalent figures for Turkey and Lebanon are expected to climb up to USD 7,500 and USD 6,250 respectively. Meanwhile in India, the comparable is forecasted to ascend from the USD 830 it recorded in 2006 to reach USD 1,400 in 2011.

## Nominal GDP per Capita in Deyaar's Secondary Target Markets



Source: EIU, SHUAA Capital

**Combined population of 1.2 bn in secondary target markets**

The combined population of all secondary target markets was 1.2 bn in 2006, with India topping the table. The second most populous country is and will remain to be Turkey, which has a population of more than 70 mn. Saudi Arabia being a distant third followed by Kazakhstan and Lebanon. Qatar has the smallest population among the group.

## Population of Secondary Target Markets 2006-2011

| Population   | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E |
|--------------|-------|-------|-------|-------|-------|-------|
| India        | 1,095 | 1,110 | 1,125 | 1,140 | 1,155 | 1,170 |
| Saudi Arabia | 25.3  | 25.9  | 26.6  | 27.4  | 28.1  | 28.9  |
| Qatar        | 0.9   | 0.9   | 1.0   | 1.0   | 1.1   | 1.2   |
| Kazakhstan   | 15.3  | 15.4  | 15.5  | 15.6  | 15.7  | 15.9  |
| Lebanon      | 3.6   | 3.7   | 3.7   | 3.8   | 3.8   | 3.8   |
| Turkey       | 74.3  | 75.2  | 76.2  | 77.2  | 78.1  | 79.1  |
| Total        | 1,214 | 1,231 | 1,248 | 1,265 | 1,282 | 1,299 |

Source: EIU, SHUAA Capital

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