

## SOROUH REAL ESTATE PJSC

Sorouh –the second largest Abu Dhabi Real Estate player with a robust Project portfolio covering 79.3 mn sq m

- A fundamentally well-positioned Abu Real Estate market gives Sorouh ample cushion to combat the economic blues, post-global credit crisis.
- Low cost land bank awarded by the government, an unmatched competitive advantage
- Unlike other GCC Real Estate, Sorouh's conservative revenue recognition approach, enhances earnings quality
- An astute industry player with a flexible strategy designed to counter the prevalent economic fundamentals

### H1'09

Revenues in H1'09 fell to AED 1.3 bn, compared to AED 1.69 bn in H1'08 as the company recognized some land sales in Saraya.

### Outlook

- In Abu Dhabi, we expect the residential market to stabilize with the new supply coming from mega projects such as Al Reem Island and Al Raha beach in 2009-10.
- Revenues from Golf Garden I to be recognized in FY2009; other projects in the residential segment to continue as planned though some price cuts are expected unless the economic recovery gains momentum.
- Abu Dhabi government's 2030 plan to present opportunities for local Real Estate players like Sorouh in the long run.

### Rating

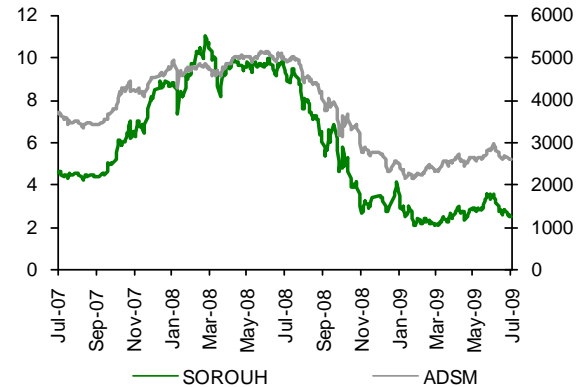
We are initiating coverage with a BUY rating on the stock, with a target price of AED 3.36, an upside of 30.1% to current prices.

### Financial Highlights

AED mn	2008A	2009E	2010E	2011E	2012E
Revenues	3,723	2,746	4,040	1,815	3,119
Gross Profit	2,297	1,167	2,097	1,022	1,612
<i>Gross Margin</i>	<i>61.7%</i>	<i>42.5%</i>	<i>51.9%</i>	<i>56.3%</i>	<i>51.7%</i>
Net Profit	1,784	701	1,525	513	1,030
<i>Net Margin</i>	<i>47.9%</i>	<i>25.5%</i>	<i>37.7%</i>	<i>28.2%</i>	<i>33.0%</i>
EPS (AED)	0.71	0.28	0.61	0.21	0.41
Total Assets	16,939	14,354	16,798	12,573	13,470
Debt	4,106	2,238	2,970	2,700	2,253
Equity	5,958	6,359	7,584	7,797	8,527
<i>ROE</i>	<i>29.9%</i>	<i>11.0%</i>	<i>20.1%</i>	<i>6.6%</i>	<i>12.1%</i>
<i>ROA</i>	<i>10.5%</i>	<i>4.9%</i>	<i>9.1%</i>	<i>4.1%</i>	<i>7.6%</i>
P/E	3.6x	9.2x	4.2x	12.6x	6.3x
P/BV	1.1x	1.0x	0.9x	0.8x	0.8x

Sector	Real Estate
Country	UAE
Report	Initiating Coverage
Price Target	AED 3.36
CMP	AED 2.58
Up/down side	30.1%
52 week H-L	AED 9.67-2.03
Rating	<b>BUY</b>
Date	23-Jul-09

### Stock Performance SOROUH vs. ADSM

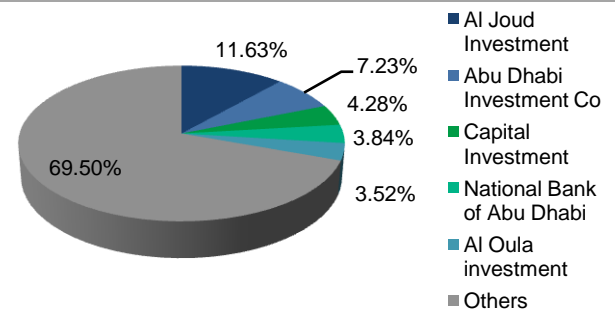


### PARTICULARS

PARTICULARS	AED
Bloomberg Code	SOROUH UH
Market Cap (bn)	6,450.0
Paid Up Cap (bn)	2,500.0
Diluted EPS**	0.71
BVPS #	2.31
P/E'09	9.2x
P/BV'09	1.0x

\*\*Last Financial Year #Last Financial Quarter

### Ownership



### Research Team

**Raj Shekhar**  
+96824708088

[raj.shekhar@investvis.com](mailto:raj.shekhar@investvis.com)  
Extn: 122

**Adnan Bagasrawala**

[adnan.b@investvis.com](mailto:adnan.b@investvis.com)  
Extn: 216

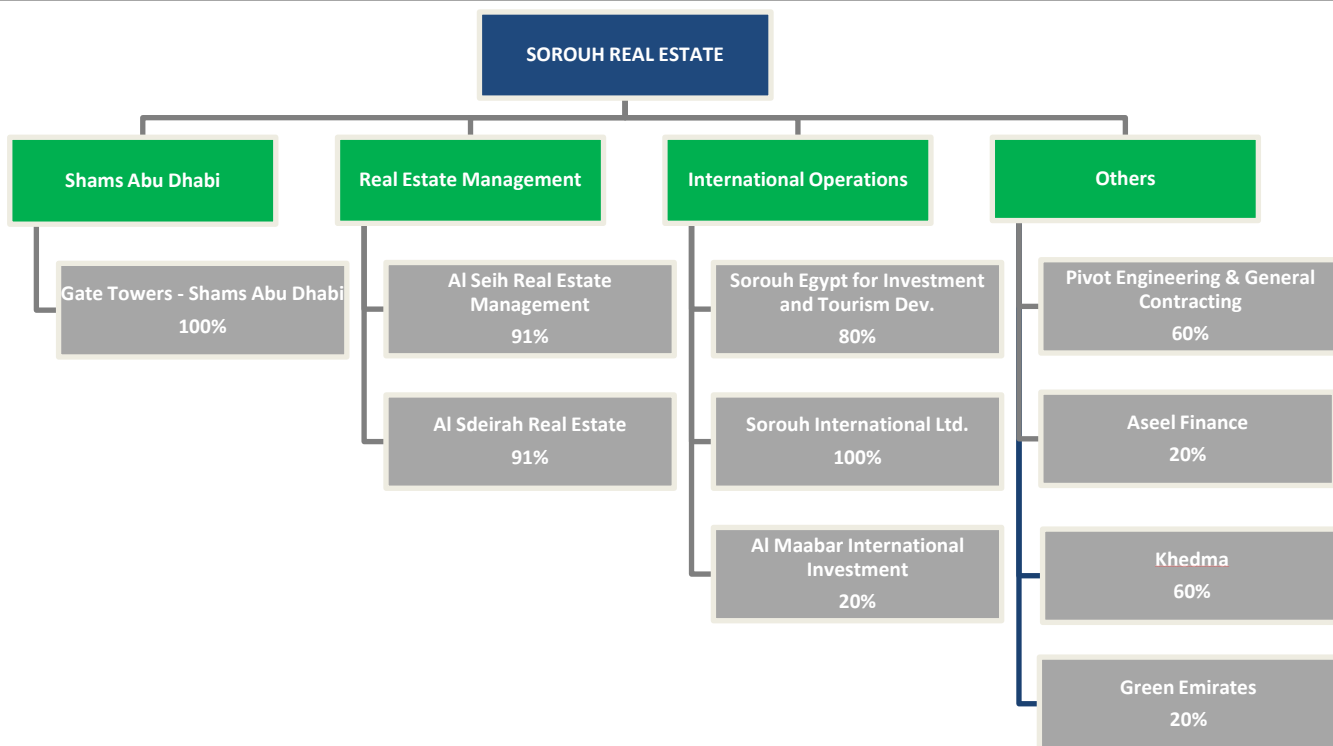
## Background

*One of the largest UAE Real Estate players with a Project portfolio covering 79.3 mn sq meters*

Abu Dhabi-based Sorouh Real Estate PJSC is one of the largest UAE property companies, with more than AED 70 bn worth of projects under development in the UAE and international locations. Established in June 2005 with a capital of AED 2.5 bn, Sorouh is now one of the largest real estate developers listed on the Abu Dhabi Securities Exchange.

It is engaged in master-planning, master-development and property related fields. It has some of the region’s most important developments underway, including Abu Dhabi’s Lulu Island, SHAMS Abu Dhabi on Reem Island including the Gate District and Alghadeer on the border of Abu Dhabi and Dubai, all developed in close cooperation with the Abu Dhabi Government and its Abu Dhabi 2030 Plan.

### Business Model



Source: Company Filings, Zawya, VIS Research

**Sorouh International Limited**, an Offshore Company in Jebel Ali, Dubai for acquiring companies outside the UAE.

**Gate Towers- Shams Abu Dhabi L.L.C.** –Sorouh has 100% ownership interest in this subsidiary, which is formed mainly for the development of Gate Towers.

**Pivot Engineering & General Contracting Co.** –The company is engaged in building construction industry in UAE, The Company has grown into one of the largest general contractors in UAE & has completed some of the most challenging projects in UAE. Sorouh has 60% stake in the company.

**Al Seih Real Estate Management L.L.C.** –The company is engaged in management & leasing of real estate; real estate project investments.

**Seih Sdeirah Real Estate L.L.C.** –This is a UAE based company engaged in property rentals and property management.

**Sorouh Abu Dhabi Real Estate L.L.C.** –Sorouh has a 100% stake in this company, which acts as a mudareb in accordance with the sukuk issue structure.

## Presence in relatively less-exposed Abu Dhabi Real Estate space

*Abu Dhabi to spend around USD 275 bn on infrastructure in the next five years*

A fundamentally well-positioned Abu Dhabi Real Estate market gives Sorouh ample cushion to combat the economic credit crisis. Unlike Dubai, the property market in Abu Dhabi and other emirates are expected to be more resilient to the downturn. Although demand in the Middle East for real estate has dampened since the fourth quarter of 2008, largely driven by falling prices and tightened lending standards –the government of Abu Dhabi is poised to support the local economy by increasing infrastructure spending. It is expected that Abu Dhabi will spend around USD 275 bn in the next five years on infrastructure projects. It has also awarded a significant number of new projects to the local developers in 2009.

## Low cost land provided by the government, an unmatched competitive advantage

The Government of Abu Dhabi has granted a large portion of Sorouh's land bank, including Seih Sedeira, Lulu Island and Al Mashtal, free of cost. This provides Sorouh, a competitive advantage in terms of cost structure over its global peers resulting in larger margins on property development.

## Conservative accounting measures enhancing earnings quality

*Sorouh's revenues considerably understated to its peers with its current revenue recognition approach*

Unlike other GCC Real Estate players like Aldar, Sorouh follows a conservative revenue recognition approach. The revenues from sale of land or properties are recorded only after possession has been granted to the investor, whereas in Aldar's case, revenues are recognized on percentage of completion basis. This considerably understates Sorouh's financial strength compared to its peers. Additionally, this also understates Sorouh's asset-base as the Developed Properties are recorded at cost till the time actual transfer occurs.

## An astute industry player with a flexible strategy to counter the prevalent economic fundamentals

*Focus shifting towards affordable housing*

Following the global credit crisis, with the drying up of liquidity, Real Estate demand in Abu Dhabi for luxurious projects, particularly targeted to high-income bracket, declined rapidly. As demand for these projects declined in the short-term, Sorouh redesigned its existing project portfolio towards affordability by resizing of units on one end, while reducing prices on the other to cater to a larger strata of the society –the middle income customer segment.

The usage mix of existing project portfolio was changed with scaling down of Retail & commercial space, while focusing on the residential demand taking into account the huge gap in residential supply in Abu Dhabi.

### A strong Real Estate project build-up

*GFA of 4.44 mn sq m with 83% exposure to residential sector*

Sorouh’s Project portfolio comprises land sales, property development for resale and property development for its investment property portfolio. Most of the company’s projects lie within Abu Dhabi, but there are some smaller projects in Al Ain. The current projects of Sorouh span an area of 72.4 mn sq mn in Abu Dhabi. Apart from this, Sorouh is also active in cross border projects in Morocco & Egypt with a land area of 6.9 mn sq m. It has a total Gross Fixed Area (GFA) under development of 4.44 mn sq m out of which 83% is being developed for residential use and remaining 17% for retail & commercial activities.

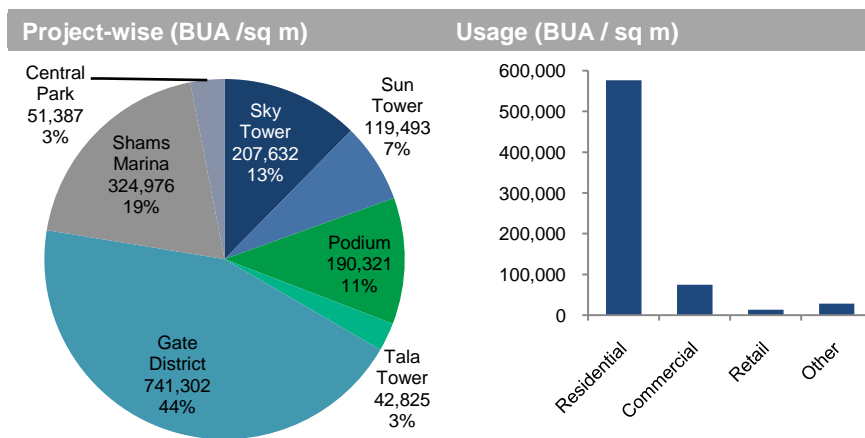


Source: Sorouh

### Key Project Matrix

	Completion	Property sq m (Retained & sold)
Al Ghadeer	2012E	209,104
Al Mashtal	2011E	143,954
Al Ain Mall	2011E	47,422
Golf Garden I	2009E	140,000
Golf Garden II	2011E	216,000
Danat Abu Dhabi	2010E	33,323
Sorouh Office Building	2010E	5,394
Sky Tower	2010E	141,171
Sun Tower	2010E	84,866
Podium	2010E	25,913
Tala Tower	2010E	42,825
The Gate: Residential Tower 3 (T I)	2012E	88,628

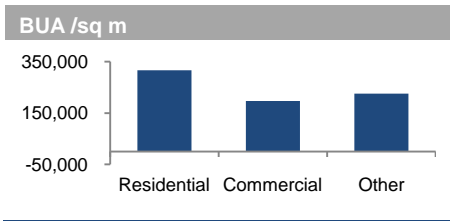
### Shams Abu Dhabi



Source: Sorouh

Sham's Abu Dhabi is Sorouh's largest project being developed on Reem Island in Abu Dhabi, which is expected to span approximately 25% of this island. The estimated AED 25 bn (US\$ 6.9 bn) project will occupy approximately 14.2 mn square feet (1.32 mn square meters) and is expected to house around 55,000 residents. Sorouh is one of three mega developers on Reem Island, with the other two being Reem Investments and Tamouh Investments. It will have residential units constituting 83% to the total BUA (built-up-area), while the remaining 17% will be used for commercial and recreational areas. It will contain around skyscrapers, residential units, and a mn square meter park, including Sky Tower, Sun Tower, Gate District, Central Park and Tala Tower. It will be developed in numerous phases and the first phase is expected to be completed by 2010 and the whole project by 2013.

*In a recent development, average price of the Gate Towers development was reduced from AED 2,005/sq ft to AED 1,600/sq ft. This reflects the current economic condition and Sorouh's proactive approach to deal with it.*



Source: Sorouh

### Saraya Abu Dhabi

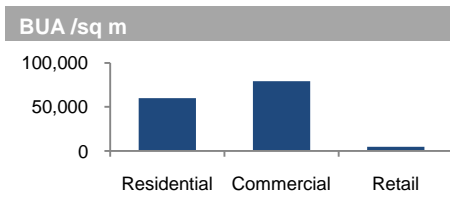
Saraya Abu Dhabi is a 30-tower residential and commercial project located on the eastern part of the Corniche road towards Mina, next to the Corniche Hospital, overlooking the Lulu Island and the Gulf. This will include residential and commercial buildings ranging from 10 to 40 stories, serviced apartments and a hotel, spread over an area of 126,378 square meters. After land-development work, construction of towers is expected to commence which will be completed in two phases, in 2010 and 2013.

Based on informed sources, Sorouh has sold this land to sub-developers and it is expected to engage in infrastructure development work in this project.

### Golf Gardens

Golf Gardens is the first residential development in Abu Dhabi to combine golf and real estate. It offers luxurious, town houses and villas located adjacent to the Abu Dhabi Golf Club with recreational and sport facilities along with a well-equipped Gardens Club. This includes 391 villas offered exclusively to UAE nationals.

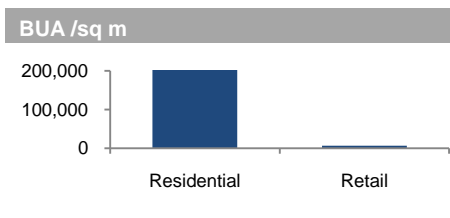
The first phase of the project was completed in 2009 and after its initial success; Sorouh launched Golf Garden II, which is expected to be leased as residential units to investors. This is expected to span an area of 124,505 sq m with 1,537 residential units to be completed by 2011.



Source: Sorouh

### Masthal

Masthal is a mixed-use development located in central Abu Dhabi. This is expected to span an area of 47,667 sq m with a planned addition to Sorouh's Investment Property portfolio by 84,119 sq m of Retail & commercial space while 59,835 residential space to be sold at completion in 2011.



Source: Sorouh

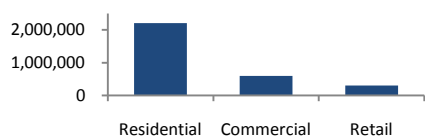
### Al Ghadeer

Al Ghadeer is a mixed-use development, located on the Dubai – Abu Dhabi border. It is a modern community providing a convenient and easy life to its residents. Al Ghadeer offers a range of homes including villas, townhouses and apartments. It is open to investment from all nationalities.

This project lies in Sieh Siderah, a 172-mn square foot plot of land granted to Sorouh by the government. Al Ghadeer is a 643,246 sq m development consisting of 2,132 residential units, with some retail space.

*Earlier in the year, the average price for this project was reduced to AED 995 sq ft from AED 1,600 sq ft.*

BUA /sq m



Source: Sorouh

### Lulu Island

Sorouh is responsible for developing the master plan for Lulu Island, expected to become the city's landmark development. The master plan was publicly unveiled at Cityscape Abu Dhabi 2008 to reveal attractive residential, resort and retail areas, relaxing canals, lively marinas and a public beach. This project, with an area of 5.6 mn sq m, is expected to involve a profit-sharing contractual arrangement with the other players/government.

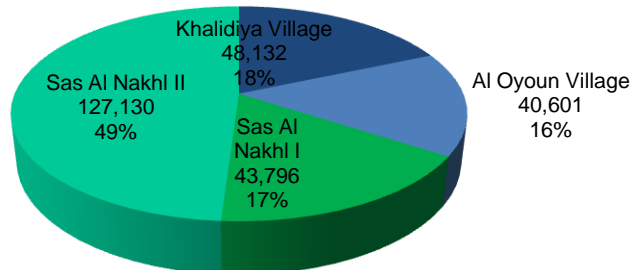
## Sustainable income from the company's focus to Residential Investment properties

AL Oyoun Village		Khalidiya Village	
<b>Unit type</b>	Townhouses, Villas	<b>Unit type</b>	Villas
<b>Lifestyle</b>	Family Lifestyle	<b>Lifestyle</b>	City lifestyle
<b>Property Usage</b>	Community, Residential	<b>Property Usage</b>	Community, Residential
<b>Location</b>	Outskirts of Al-Ain - Abu Dhabi's, between Al-Ain Sports & Cultural Club and the main Etisalat building near the intersection of Al-Ain Street and Khaled Bin Sultan Street.	<b>Location</b>	In the center of Abu Dhabi, 15 minute walk from the Corniche.
Total # of Units	148	Total # of Units	150
Area sq m	39,536	Area sq m	47,208
Sas Al Nakhl I		Sas Al Nakhl II	
<b>Unit type</b>	Townhouses, Villas	<b>Unit type</b>	Townhouses, Villas
<b>Lifestyle</b>	Family Lifestyle	<b>Lifestyle</b>	Family Lifestyle
<b>Property Usage</b>	Community, Residential	<b>Property Usage</b>	Community, Residential
<b>Location</b>	Outskirts of Abu Dhabi	<b>Location</b>	Outskirts of Abu Dhabi
Total # of Units	104	Total # of Units	484
Area sq m	43,796	Area sq m	123,830

Source: Sorouh

The land/property-sales model of Sorouh is shifting towards more recurring income streams from rents, property management and servicing. As part of the initial strategy, Sorouh has developed lease income earning residential units in Khalidiya Village, Al Oyoun Village, Sas Al Nakhl I & Sas Al Nakhl II. These units are expected to provide a sustainable income to the company relatively hedging it from the cyclicity of Real Estate Industry.

Investment Property mix



Source: Sorouh

## Liquidity, slightly affected by a lower foreign ownership limit

*Foreign ownership slashed to 15%*

In Nov-08, Sorouh's foreign ownership limit was slashed to 15% from 20%. This is much lower than Aldar's foreign ownership limit of 40%, which was raised by their management in 2007. This is expected to result in lower valuations for the company's stock, particularly when the liquidity constraints still prevail in the GCC markets.

## Financial Analysis SOROUH

### Land sales model shifting towards sustainable income from Residential Investment Properties

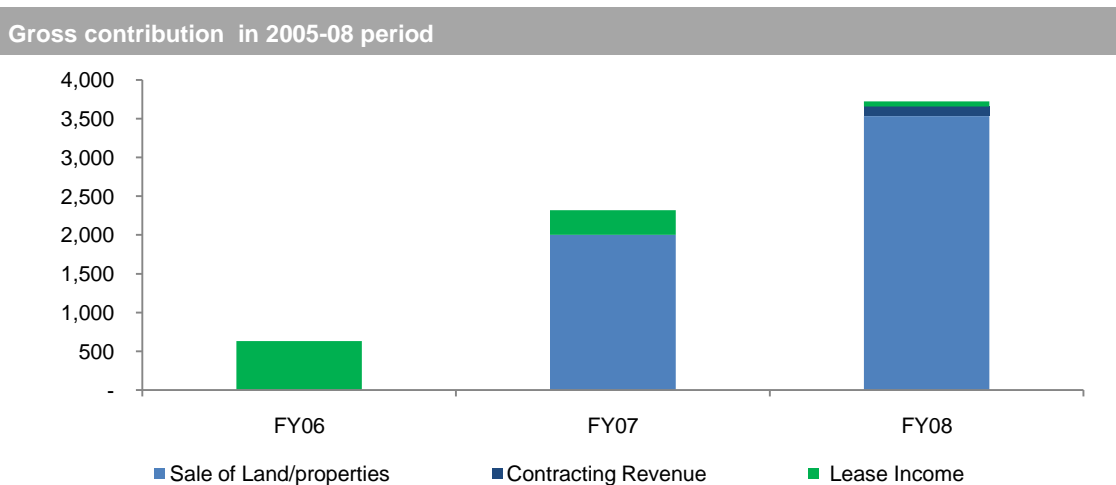
#### -H1'09 Performance

**Revenue & Net profit of AED 1.3 bn & AED 281.42 mn, respectively in H1'09**

- Revenues in H1'09 fell to AED 1.3 bn, compared to AED 1.69 bn in H1'08 as the company recognized some land sales in Saraya. This reflects a decrease in land sales owing the company's plans to increase the recurring income by focusing on long-term profit earning assets.
- The company posted a net profit of AED 281.42 mn in H1'09, compared with AED 977.61 mn in H1'08. There was a 76% decline in Net Profit, yoy, but an increase of 16%, qoq.
- Developments work in progress increased by 21% to AED 4.2 bn.

#### -Earlier Performance

### Robust annual growth in top-line with Sorouh's initial Land sales model



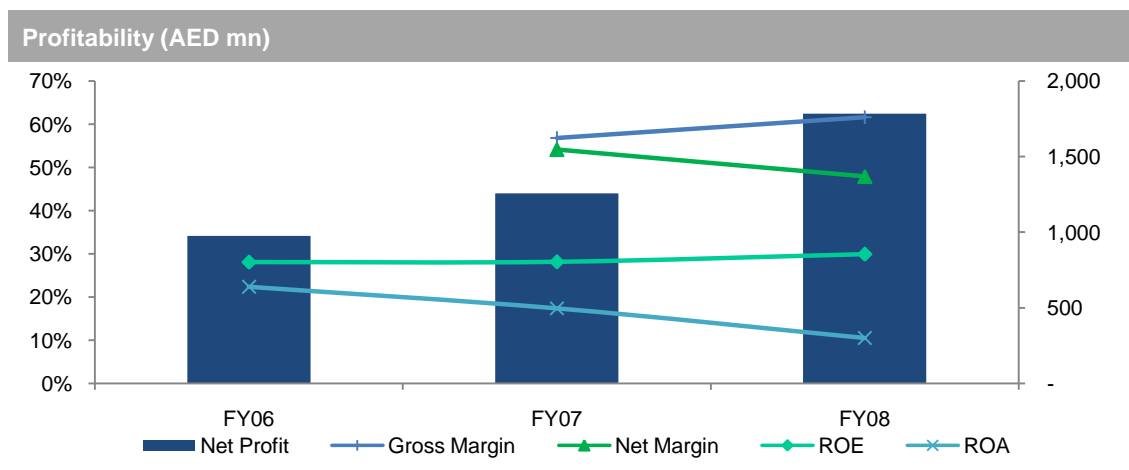
Source: Company Filings, VIS Research

Sorouh's revenue increased from AED 2.3 bn in 2007 to AED 3.7 bn in 2008. In addition, revenue of AED 127 mn was also recognized from Pivot Engineering and General Contracting LLC, a newly acquired 60% subsidiary of the company.

A large contribution to increase in revenues originated from an increase in sales of land by 76.5%, yoy, especially in the Shams Abu Dhabi and Saraya projects.

Lease Income declined by 80.0%, yoy, to reach 64.1 mn in 2008.

## Substantial increase in earnings without asset revaluations

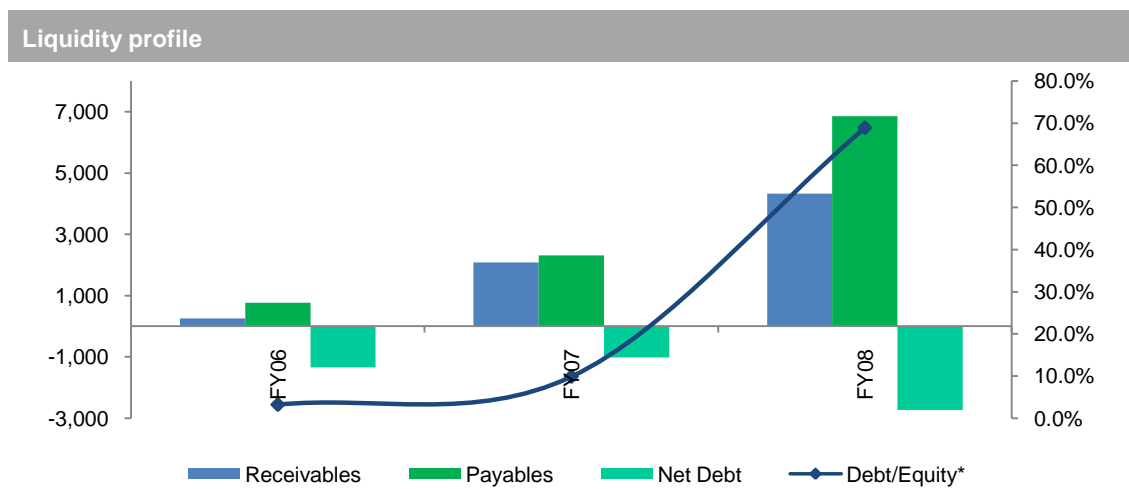


Source: Company Filings, VIS Research

In 2008, Sorouh earned profits of AED 1.78 mn, compared to 1.26 mn in 2007 up by 42%, yoy. The entire profit rise was generated from operating activities, with no asset revaluations.

A huge decline was registered in ROA of the company as the asset base increased by 134.6%, yoy, due to the Sukuk issued by the company to securitize its receivables. This was accentuated by the fact that the receivables were securitized at their fair value whereas prior to securitization, they were reported on cost basis in the balance sheet. However, ROE increased from 28.2% in 2007 to 30.0% in 2008 due to increase in net profits.

## Manageable Risks associated with Leverage



Source: Company Filings, VIS Research \*including sukuk

Up until Q3'08 Sorouh employed a low level of leverage to its equity. Historically debts to equity levels have ranged from 10% to 13%. As the model followed by the company was focused largely on the sale of land until 2009, Sorouh was able to fund its activities with the cash generated from these sales.

***An AED 4.9 bn cash surplus to undermine the risks associated with leverage***

As the liquidity constraints widened, post-global credit crisis, the company successfully securitized its receivables by its maiden Islamic Sukuk of AED 4.0 bn in September 2008. This has put Sorouh on sound footing with the necessary liquidity required for its projects under development just before it starts recognizing revenues from property sales in 2009.

Although liquidity constraints have been a global phenomenon recently, particularly for Real Estate in GCC, Sorouh's leverage risks appear manageable owing to an excess Cash of AED 4.9 bn (including deposits), as on 30<sup>th</sup> Jun-09. This can cover a sizeable portion of its development outflows at least until the end of 2009 even if the receivable collection period drops drastically.

## Key Financials (2006A-12E)

AED mn	2006A	2007A	2008A	2009E	2010E	2011E	2012E
<b>Income Statement</b>							
Revenues	630	2,321	3,723	2,746	4,040	1,815	3,119
<i>Growth yoy</i>		268.3%	60.4%	-26.2%	47.1%	-55.1%	71.9%
Direct costs	(643)	(1,001)	(1,427)	(1,579)	(1,943)	(793)	(1,507)
Gross profit	(13)	1,320	2,297	1,167	2,097	1,022	1,612
<i>Gross Margin</i>	-2.0%	56.9%	61.7%	42.5%	51.9%	56.3%	51.7%
SG&A	(118)	(265)	(652)	(539)	(667)	(528)	(667)
Profit from operations	(131)	1,055	1,645	628	1,429	494	945
Other Income/expenses	1,106	203	140	73	96	18	85
Profit before tax	976	1,257	1,784	701	1,525	513	1,030
<b>Profit for the year/period</b>	<b>976</b>	<b>1,257</b>	<b>1,784</b>	<b>701</b>	<b>1,525</b>	<b>513</b>	<b>1,030</b>
<i>Net Margin</i>	154.8%	54.2%	47.9%	25.5%	37.7%	28.2%	33.0%
Diluted EPS	0.39	0.50	0.71	0.28	0.61	0.21	0.41
<b>Balance Sheet</b>							
<b>Assets</b>							
Cash and cash equivalents	1,454	1,458	6,839	2,377	3,921	897	2,271
Trade and other receivables	252	2,080	2,393	2,257	3,044	1,243	2,051
Inventories	0	0	30	23	32	14	24
Other Current Assets	838	1,824	2,761	3,745	2,003	2,203	29
Total Current Assets	2,544	5,362	12,023	8,402	9,000	4,357	4,374
Property, plant and equipment	6	18	88	90	94	99	100
Investments	139	213	760	820	861	904	949
Other non-current assets	1,662	1,627	4,069	5,042	6,843	7,213	8,047
Total non-current assets	1,807	1,859	4,917	5,952	7,797	8,216	9,095
Total Assets	4,351	7,221	16,939	14,354	16,798	12,573	13,470
<b>Liabilities and Equity</b>							
ST borrowings	83	251	2,116	1,019	1,022	694	253
Trade and other payables	744	2,177	6,727	5,643	6,087	1,989	2,564
Total current liabilities	827	2,428	8,844	6,661	7,109	2,683	2,816
LT borrowings	29	190	1,989	1,219	1,949	2,006	2,000
Other long-term liabilities	25	139	148	114	156	87	127
Total non-current liabilities	54	329	2,137	1,333	2,105	2,093	2,127
Total Liabilities	881	2,758	10,981	7,995	9,213	4,776	4,943
<b>Capital and reserves</b>							
Share capital	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Other Equity	970	1,963	3,458	3,859	5,084	5,297	6,027
Total Equity	3,470	4,463	5,958	6,359	7,584	7,797	8,527
Total Liabilities and Equity	4,351	7,221	16,939	14,354	16,798	12,573	13,470

Source: Company Filings, VIS Research

## Outlook

In Abu Dhabi, we expect the residential market to stabilize with the new supply coming from mega projects such as Al Reem Island and Al Raha beach in 2009.

Although FY2009 is expected to be hard for Real Estate players in UAE, with continuing liquidity constraints, slow-down in lending to the housing sector, the Abu Dhabi Real Estate players like Sorouh are positioned to combat these economic blues.

We expect Sorouh to recognize revenues from Golf Garden I in FY2009; other projects in the residential segment would continue as planned and some further price cuts can be expected unless the economic recovery gains momentum. Retail & other commercial projects may be scaled down to meet the current demand in the Abu Dhabi economy.

An expected decline in UAE's inflation to 4.5% in FY2009, would relieve earnings of local Real Estate players. This would result in reduced costs for construction activity, thereby providing some respite to the contractors & developers in the region.

Abu Dhabi government's continued support to the local economy is likely to continue. The local government's 2030 plan will present opportunities for Real Estate players like Sorouh in the long run.

## Valuation & Recommendation

Valuation of SOROUH has been performed by applying the following:

- Discounted Cash Flow (DCF) Valuation
- Relative Valuation

### *DCF Valuation*

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

DCF assumptions	
Risk free rate	5.0%
Equity risk premium	8.8%
Beta	1.44
Cost of Equity (Ke)	17.6%
WACC	13.7%
Perpetual growth rate	0.5%

The Valuation is based on a 3-year forecast (2009E-12E) of Free Cash Flows for the company.

*Golf Garden I revenues to be recognized in FY2009*

*Expected scaling down of Retail & other commercial projects*

(mn AED)	Free Cash Flow (FCF)	PV FCF
2009E	(1,927)	(1,821)
2010E	1,411	1,172
2011E	(648)	(474)
2012E	2,159	1,387
	Sum of PV of FCF	264
	Terminal Value est.	16,410
	Discounted Terminal Value	10,538
	Sum of PV cash flows	10,802
<b>Lulu Island</b>		
	AREA BUA (mn sq m)	3.73
	Price Sq m	2,889
	Selling Price	10,785
	Cost	10,000
	Net Value	785
<b>Enterprise Value</b>		<b>11,587</b>
	Debt	(3,238)
	Cash	4,938
	Investments & other financial assets	574
	Pension Liabilities	(25)
	Minority Interest	(93)
<b>Implied Equity Value</b>		<b>13,743</b>
	Shares Outs. (mn)	2,500
<b>Long-term Fair Value per share (AED)</b>		<b>5.50</b>

\*All figures in mn AED except per share data

Based on our cash flow projections and the above assumptions, the long-term fair value of SOROUH is AED 5.50 per share.

### Sensitivity Analysis

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

Equity Value: Sensitivity Analysis		Step 0.25%				
		Growth rate				
		0.00%	0.25%	0.50%	0.75%	1.00%
WACC	10.7%	7.00	7.15	7.31	7.48	7.65
	11.7%	6.34	6.47	6.59	6.73	6.87
	12.7%	5.79	5.89	6.00	6.11	6.22
	13.7%	5.32	5.41	5.50	5.59	5.68
	14.7%	4.92	4.99	5.07	5.15	5.23
	15.7%	4.57	4.64	4.70	4.77	4.83
	16.7%	4.27	4.32	4.38	4.44	4.49
Step 1.00%						

### Relative Valuation

Relative valuation is performed to compare the intrinsic value of Sorouh arrived at employing the Peer's multiples has been computed based on their current market prices and projected figures.

	Peer Average	Sorouh's target price
PE'09	5.82x	AED 1.52
EV/EBITDA'09	7.57x	AED 4.03
P/B'09	0.53x	AED 3.95
EV/Sales'09	1.74x	AED 1.78
<b>Average Price</b>		<b>AED 2.82</b>

Based on the peer valuation, the target value of Sorouh Holding is AED 2.82 per share.

## Recommendation

Taking the current macroeconomic scenario in GCC into account, particularly in UAE, the weighted average share price has been calculated by assigning 20% weight to the DCF value and 80% to Sorouh's Relative valuation.

	Weightage	Fair Value (AED per share)
DCF Valuation	20.0%	<b>3.36</b>
Relative valuation	80.0%	
<b>CMP (AED)</b>		<b>2.58</b>
<b>Up/down-side</b>		<b>30.1%</b>

**RECOMMENDATION: BUY**

Target Value: AED 3.36

*Based on the above, the fair value of SOROUH per share is expected to be AED 3.36, which is a 30.1% upside to the current market, price (July 24, 2009).*

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

## Risks to the Fair value of Sorouh

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

- Execution of projects excluded by us from Sorouh's current backlog, including the Nagfa Hotel, may occur in future.
- New development projects may come on-stream as the GCC economies start recovering in the FY2009E-11 period.

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

- Project delays or/and cancellations beyond our assumptions will lead to downside from stock's fair value.
- As a large proportion of Sorouh's projects are located in Abu Dhabi, their exposure to any downturn in the local property market or changes in regulatory environment is very high, which can have huge impact on the Projected Revenues & Profits.
- Margins for Sorouh may decrease further with an increase in collection period for receivables, resulting in higher funding requirements.
- Significant price cuts by Sorouh for the upcoming projects may affect the fair value.

## Important Disclaimer

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## Ratings\*

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

## Rating\* Scale

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

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