08 July 2009

Company Update

Aabar Investments PJSC

Rating: Outperform

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

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

Research@almalcapital.com
www.almalcapital.com

AL MAL CAPITAL

Reiterate Outperform on Compelling Valuation

We are reiterating our rating on Aabar as a "special situation" Outperform. After we told investors to buy the stock on Feb. 3, Aabar shares initially doubled to AED2.63 by early June before giving up some of their gains and are now currently trading at AED1.88. At current levels, we once again believe that Aabar represents a compelling investment opportunity with the shares trading at an 8% discount to even our "bear-case" Net Asset Value (NAV) value of AED2.04.

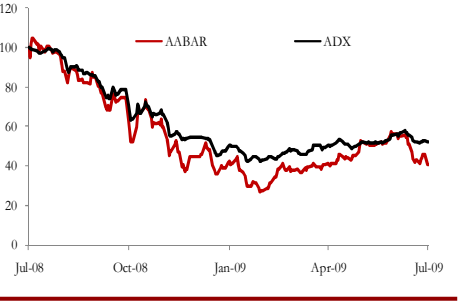
Buying AABAR makes sense, in our view. (1) Our **"bear-case"** scenario yields a fair value/share of AED2.04, which ascribes *no value* for Aabar's AED5.2bn (book value) in real estate investments since Nov. 2008 and applies a 50% haircut to its AED1.1bn acquisition of AIG Private Bank. Since 1Q09, Aabar has enjoyed significant unrealized market value gains on its investments in the listed equities of Daimler and Atlantia, a fact that we account for in our valuation. (2) Indeed, even if we consider the company's real estate investments at very heavy discounts (70% impairment) to their book values as we do in our **"base-case,"** we could envision AABAR trading up to AED2.54 or a 35% upside. For more details on our NAV valuation, please see Pages 2-6.

Aabar, as the majority-controlled non-energy investment vehicle for IPIC, should continue to benefit. The International Petroleum Investment Co. (100% owned by the Abu Dhabi government) is a majority 71% shareholder in Aabar. So far, IPIC has shown strong support as evidenced by its recent grant of an AED1.5bn interest-free and unsecured loan to Aabar in order to help fund the Daimler purchase. Going forward, we believe that IPIC will continue to treat Aabar as its spearhead investment vehicle into diversified non-energy assets and should continue to provide the company with access to cheap (or even free) funds in order to fuel further investments. This, in our view, is a "win-win" situation for Aabar's minority (public) shareholders. As per recent news reports, IPIC continues to look for non-energy related assets through Aabar and such deals, when announced, could act as a positive catalyst for Aabar stock.

Risks to the AABAR story remain, but are overstated. (1) We continue to remain perplexed with Aabar's real estate transactions, given our view that the UAE property markets are unlikely to see a bottom until 1H10. However, we note that even if we assume that all of Aabar's real estate assets are worth *zero* (as we do in our "bear-case,") the company's shares still remain undervalued. (2) Given IPIC's majority stake, it is possible that Aabar could end up raising funds in the future in a manner that dilutes minority shareholders. However, as we mentioned above, so far the IPIC relationship has been favorable to the public shareholders, with that company even willing to fund Aabar through zero-interest/unsecured financing. We also remain impressed with Aabar's strategy to lever up and buy assets (such as stakes in Daimler/Atlantia) at the right time (Nov. 2008-April 2009), in order to take advantage of an improving market for globally listed equities.

Net-net, we reiterate our Outperform rating on AABAR shares. *We recommend investors buy AABAR below AED2.04 and sell it above AED2.54.*

Equity Data, *AED per share data*		
Current Price	1.88	
NAV	Target Price	Upside
Bear Case	**2.04**	**8.45%**
Base Case	**2.54**	**34.96%**
Bull Case	**2.87**	**52.64%**
Recommendation		***Outperform***
Hi - Lo		4.97 - 1.20
1 Yr Return		-59.39%
Performance YTD		4.49%
Appreciation since the low of Feb 2, 09		51.2%



Valuation

Our analysis reveals AABAR could generate around 35% returns in the near-term. (1) Our "bear-case" scenario yields a fair value/share of AED2.04, which ascribes *no value* for Aabar's AED5.2bn (book value) in real estate investments since Nov. 2008 and applies a 50% haircut to its AED1.1bn acquisition of AIG Private Bank. Since 1Q09, Aabar has enjoyed significant unrealized market value gains on its investments in the listed equities of Daimler and Atlantia, a fact that we account for in our valuation. (2) Indeed, even if we consider the company's real estate investments at very heavy discounts (70% impairment) to their book values as we do in our "base-case," we could envision AABAR trading up to AED2.54 or a 35% upside. (3) We have also included a "bull-case" which provides investors with a flavor of how much AABAR shares could be worth (AED2.87). We note that even here, we apply a somewhat substantial 50% haircut to Aabar's real estate portfolio. We detail our valuation analysis below.

Figure 1. Our Valuation Analysis Implies a 35% Upside Under the "Base-Case" Scenario

Current Price per share (in AED)	1.88	Upside
NAV PER SHARE (in AED)		
Book Value (BV) NAV -- 1Q09	2.94	56.52%
Adjusted NAV -- Bear Case	2.04	8.45%
Adjusted NAV -- Base Case	2.54	34.96%
Adjusted NAV -- Bull Case	2.87	52.64%

Source: Company reports, Al Mal Capital

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

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

Source: Company reports, Al Mal Capital

Figure 3. Our Bear-Case Valuation Reveals a Fair Price of AED2.04 for AABAR Shares

ADJUSTED NAV -- BEAR CASE	Current
BV NAV, EX CASH	**7,243.1**
Assets, ex cash	
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	0.0
Impairment	100.0%
Advance for purchase of investment properties (for majority stake in development project in NY)	0.0
Impairment	100.0%
AFS investments (Atlantia S.p.A) FV gains since 1Q09	281.6
Gain since 1Q09	26.7%
AFS investments (Daimler AG) FV gains since 1Q09	2,722.3
Gain since 1Q09	31.5%
Investment properties (May 21 acquisition of 14 plots in AUH from Green Emirates for AED2.7bn)	0.0
Impairment	100.0%
Closing of AIG Private Bank acquisition (April 16 dose; total consideration of $308mm made up of $253mm in cash plus assumed loans of $55mm)	566.0
Impairment	50.0%
Liabilities	
Loan of AED2.7bn to finance land transaction on May 21 (assuming AED2.7bn is initial cost of purchase and not the total outlay expected, induding development)	2,700.0
Loan of $55mm assumed in AIG Private Bank purchase	202.1
Cash	
Balance as of 1Q09	1,961.4
Cash used for AIG Private Bank deal	929.8
Interest expense net of interest income	67.6
Current Balance	964.0
ADJUSTED NAV	**6,377.4**
ADJUSTED NAV/SHARE	**2.04**

Source: Company reports, Al Mal Capital

Figure 4. Our Base-Case Valuation Reveals a Fair Price of AED2.54 for AABAR Shares

ADJUSTED NAV -- BASE CASE	Current
BV NAV, EX CASH	**7,243.1**
Assets, ex cash	
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	713.8
Impairment	70.0%
Advance for purchase of investment properties (for majority stake in development project in NY)	35.5
Impairment	70.0%
AFS investments (Atlantia S.p.A) FV gains since 1Q09	281.6
Gain since 1Q09	26.7%
AFS investments (Daimler AG) FV gains since 1Q09	2,722.3
Gain since 1Q09	31.5%
Investment properties (May 21 acquisition of 14 plots in AUH from Green Emirates for AED2.7bn)	810.0
Impairment	70.0%
Closing of AIG Private Bank acquisition (April 16 dose; total consideration of $308mm made up of $253mm in cash plus assumed loans of $55mm)	566.0
Impairment	50.0%
Liabilities	
Loan of AED2.7bn to finance land transaction on May 21 (assuming AED2.7bn is initial cost of purchase and not the total outlay expected, induding development)	2,700.0
Loan of $55mm assumed in AIG Private Bank purchase	202.1
Cash	
Balance as of 1Q09	1,961.4
Cash used for AIG Private Bank deal	929.8
Interest expense net of interest income	67.6
Current Balance	964.0
ADJUSTED NAV	**7,936.6**
ADJUSTED NAV/SHARE	**2.54**

Source: Company reports, Al Mal Capital

Figure 5. Our Bull-Case Valuation Reveals a Fair Price of AED2.87 for AABAR Shares

ADJUSTED NAV -- BULL CASE	Current
BV NAV, EX CASH	**7,243.1**
Assets, ex cash	
Investment properties (3 land plots in AUH for AED761mm, 6 plots to be used for 12 towers in AUH for AED1.6bn)	1,189.6
Impairment	50.0%
Advance for purchase of investment properties (for majority stake in development project in NY)	59.1
Impairment	50.0%
AFS investments (Atlantia S.p.A) FV gains since 1Q09	281.6
Gain since 1Q09	26.7%
AFS investments (Daimler AG) FV gains since 1Q09	2,722.3
Gain since 1Q09	31.5%
Investment properties (May 21 acquisition of 14 plots in AUH from Green Emirates for AED2.7bn)	1,350.0
Impairment	50.0%
Closing of AIG Private Bank acquisition (April 16 dose; total consideration of $308mm made up of $253mm in cash plus assumed loans of $55mm)	566.0
Impairment	50.0%
Liabilities	
Loan of AED2.7bn to finance land transaction on May 21 (assuming AED2.7bn is initial cost of purchase and not the total outlay expected, induding development)	2,700.0
Loan of $55mm assumed in AIG Private Bank purchase	202.1
Cash	
Balance as of 1Q09	1,961.4
Cash used for AIG Private Bank deal	929.8
Interest expense net of interest income	67.6
Current Balance	964.0
ADJUSTED NAV	**8,976.1**
ADJUSTED NAV/SHARE	**2.87**

Source: Company reports, Al Mal Capital

Appendix: Supporting Calculations

Figure 6. Interest Income/Expense Calculations

Interest Income Accrued Since 1Q09 Details	Amount (AEDmm)
Cash (3/31/2009)	1961.39
Cash Used for Acquisitions (AIG Private Bank)	929.78
Net Cash	1031.62
Interest Earned on Cash (4/1/2009-7/7/2009) @ 6% pa	16.85
Interest Earned on CASHES Convertible Bond (4/1/2009-7/7/2009) @ EURIBOR +4.5%	3.86
Total Interest Income	**20.71**

Interest Expense Accrued Since 1Q09 Details	Amount (AEDmm)	Comments
Interest Expense on EUR891mm Loan for Purchase of Daimler (4/1/2009-7/7/2009)	57.11	EURIBOR +3.9%; Although this Loan Was Fully Repaid on April 16, We Are Assuming AABAR Had to Refinance the Facility at Similar Terms
Interest Expense on AIG Debt (4/1/2009-7/7/2009)	2.77	Assuming EURIBOR +4%
Interest Expense on AED2.7bn in Assumed Debt for Funding Land Purchase (5/21/2009-7/7/2009)	18.13	Assuming EURIBOR +4%
Interest Expense on Atlantia Debt (4/1/2009-7/7/2009)	10.34	EURIBOR +3.5%
Total Interest Expense	**88.35**	

Source: Company reports, Al Mal Capital

Al Mal Securities Group

Managing Director

Robert McKinnon	+971 4 360 11 17

Institutional Sales & Trading

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

Al Mal Capital Research

Equity Research Analysts

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

Disclaimer: This report is not an offer to buy or sell nor a solicitation to buy or sell any of the securities mentioned within. The information and recommendations contained in this report were prepared using information available to the public and sources Al Mal Capital believes to be reliable. Al Mal Capital PSC does not guarantee the accuracy of the information contained within this report and accepts no responsibility or liability for losses or damages incurred as a result of investment decisions taken based on information provided or referred to in this report. Any analysis of historical facts and data is for information purposes only and past performance of any company or security is no guarantee or indication of future results. Al Mal Capital PSC, or its "related group companies" (which may include any of its branches, affiliates and subsidiaries) or any director(s) or employee(s) of the said companies, individually or collectively, may from time to time take positions or effect transactions related to companies mentioned in this report. Al Mal Capital PSC and its related group companies may have performed or seek to perform investment banking or any other financial or advisory services for the companies mentioned in this report.