



Abu Dhabi Stock Exchange The Real Estate Sector – end of Q3

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Contact Information

Analyst- Real Estate Unit: Jad Cherri
jad.cherri@blominvestbank.com

Head of Equity Research: Maya Mantach, CFA
maya.mantach@blominvestbank.com

Key Highlights

ADSMI made positive returns during the year
ADRE performance is stabilizing after years of volatility
The real estate sector produced high returns
The sector was the top performing among regional bourses

ADSMI and ADRE YTD Performance



- The Abu Dhabi Stock Market Index (ADSMI) decreased 0.16% YTD return as of the 31st of October 2016 due to the negative performance of the financial sector, the largest sector within the index based on market cap (54.9%), even though the telecom, real estate and utilities sectors posted exceptional returns.
- The Abu Dhabi Real Estate (ADRE) Index gained 17.95% YTD return up to October 31st, 2016, mainly due to projected investment by Abu Dhabi's real estate firms and favorable financials.
- The ADRE index showed signs of stability after a highly volatile 8 years since the financial crisis in 2008. The stability is driven by investment plans in the public and private sector, as well as good financial results that have reassured investors on the sector's profitability.
- Aldar Properties, the largest real estate publicly traded firm, announced a USD 817 Million acquisition plan to drive growth within its recurring revenue business.
- The ADRE top performer was Eshraq Properties with a 43.63% YTD return, while Sharjah Group recorded 11.11% YTD, and Aldar Properties and RAK Properties had good returns with 13.79% and 12.72% YTD respectively as of the 31st of October 2016.

Market Drivers

- At the moment, the government has a large infrastructure expansion plan in place (Etihad Rail, The Midfield Terminal, Etihad Airways, the Louvre, and Guggenheim, etc) called the 2030 Plan, which is bringing people to the UAE by creating jobs.
- Property prices and returns in Abu Dhabi are linked to population and supply. Population is set to increase year on year and according to the Urban Planning Council will hit 2.5 million in 2030 (from 1.5 million now). Since there is very little property supply in the pipeline, only another 18,000 units are due to come online in 2015 and 2016 (an increase of just 2.8% per year) according to JLL, and Colliers International, a commercial real estate services organization, believes there is a current housing shortfall of over 50,000 units.

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I- Abu Dhabi Stock Market Index (ADSMI): Sectors' performance and Market Multiples

The Abu Dhabi Stock Market Index (ADSMI) is constituted of 62 listed companies, belonging to 10 different sectors, according to GICS classification, of which the real estate sector is comprised of 5 companies with an aggregate market capitalization of \$6,560M as of October 31st, 2016. This is equivalent to 8.50% of index's total market cap as of that date.

| Industry | Number of Companies | Market Cap (\$M) | YTD Return (%) | Beta | EV/ EBITDA T12M | P/E | P/B | P/S |
|------------------------|---------------------|------------------|----------------|-------------|-----------------|--------------|-------------|--------------|
| <i>median</i> | | 1,460 | 4.26 | 0.66 | 10.38 | 12.50 | 1.12 | 2.17 |
| Financials | 32 | 54,930 | -6.88 | 1.21 | 141.52 | 9.19 | 1.35 | 3.62 |
| Telecom | 1 | 44,630 | 17.07 | 0.69 | 9.23 | 17.84 | 3.84 | 3.15 |
| Real Estate | 5 | 6,560 | 16.74 | 1.14 | 14.12 | 23.59 | 0.96 | 12.46 |
| Industrials | 4 | 1,460 | -13.62 | 0.51 | 8.31 | 8.52 | 0.75 | 0.73 |
| Consumer Discretionary | 3 | 1,550 | 10.85 | 0.52 | 9.22 | 12.50 | 1.07 | 2.37 |
| Energy | 1 | 1,010 | 3.92 | 0.93 | 13.50 | 7.26 | 0.35 | 4.25 |
| Consumer Staples | 4 | 1,380 | -13.14 | 0.64 | 10.48 | 13.70 | 2.00 | 1.97 |
| Health Care | 2 | 1,130 | -6.44 | 0.31 | 10.05 | 10.48 | 1.17 | 1.82 |
| Materials | 9 | 1,460 | -2.40 | 0.56 | 10.86 | 20.40 | 0.73 | 1.62 |
| Utilities | 1 | 974 | 25.53 | 0.82 | 10.29 | - | 3.13 | 0.21 |

Source: Bloomberg, October 31st, 2016

- ADSMI shows a disproportionate concentration of companies in the financial sector, considering that it not only has the largest amount of member firms, but also accounts for the majority of the index's total market cap.
- The real estate sector earned the third highest return in the index, outperforming the index as a whole, which proved that it is an attractive asset class in Abu Dhabi, outperformed only by the Telecom and Utilities industry. The below market median P/B of the real estate sector suggests undervaluation of the sector.
- The biggest company in the real estate sector based on market cap, Aldar Properties, announced a USD 817 Million investment plan, and the company already committed USD 245 million, almost 30% of the plan, in the purchase of Daman House, a 23,000 sqm of Grade A commercial space, fully leased on a long term contract to a single Government Related Entity (GRE). The acquisition marks a shift of Abu Dhabi's real estate companies that intend to invest more in recurring revenue segment.
- Regarding other sectors in the index, the only listed telecom company, Etisalat Telecommunications, produced exceptional returns led by a good financial performance as well as talks of a possible sale of a unit in Etisalat. However, high P/E and P/B of the telecom sector suggests overvaluation of Etisalat.
- The Utilities sector also posted high returns thanks to its single company TAQA. TAQA management recently replaced its CFO and raised \$750 Million in bonds which had a positive effect in the market.

II- ADSMI and Comparable Stock Exchange Indices

Compared to other stock exchanges in the region, the Abu Dhabi Stock Market Index (ADSMI) fared better than the Saudi, Qatari and most Levant indices but lagged behind Lebanon's, Dubai's and Egypt's indices.

Performance of Regional Stock Exchanges

| Stock Exchange | Closing Price | y-t-d % Price change | Trading Volume (In Millions of shares) | Market Cap (In Millions of USD) |
|----------------|---------------|----------------------|--|---------------------------------|
| EGX 30 | 8,386.03 | 19.70% | 37,785 | 11,268 |
| DFMGI | 3,332.41 | 5.76% | 57,724 | 35,323 |
| BSI | 1,225.32 | 4.77% | 94 | 9,273 |
| ADSMI | 4,300.18 | -0.16% | 19,621 | 54,898 |
| DSMI | 10,172.95 | -2.46% | 1,110 | 89,419 |
| ASE | 3,918.10 | -7.37% | 1,002 | 8,862 |
| TASI | 6,012.22 | -13.01% | 48,065 | 157,213 |

Source: Bloomberg, as of October 31st, 2016

The EGX 30 recognized the highest return, gaining 19.70% since the index's close at end-2015. The major driver behind this upturn was the devaluation of the currency in March and the recurrent talks about the intention of monetary officials to float the Egyptian Pound. The index was also boosted by the government entering loan agreement talks with the IMF and a number of GCC economies, although their participation is less than certain as a result of expected budget cuts.

The Dubai Financial Market General Index (DFMGI) gained 5.76% y-t-d while the Abu Dhabi Securities Market Index (ADSMI) lost 0.16% y-t-d. These indices experienced intense fluctuations throughout the development of the oil crisis, but the Emirati economy possesses the greatest chances of achieving a faster recovery as a result of the diversification of its investments and weaker dependence on oil than other Arab oil-producing states.

The Amman Stock Exchange (ASE) and the BLOM Stock Index (BSI), which are rather illiquid stock markets demonstrated the least long-term fluctuations in level. The two indices are also similar in the economic environment of the countries in which they are located. Both the Hashemite Kingdom and Lebanon currently suffer from deficits in most balances, such as trade, and are burdened with the excessive presence of refugees, however, the BSI y-t-d recently increased because of the Lebanese political breakthrough and the election of a new president after two and a half years of void.

The Tadawul All Shares Index (TASI) which tracks the Saudi Arabian Stock Exchange posted the worst y-t-d decline of 13.01% as of October 31st, 2016, as the Kingdom continues to bear the brunt of the oil crisis, which has made it crucial for the government to take on courageous economic reform projects. Saudi Arabia's first ever bond offering was a success for the Kingdom since there were four times as many buyers as needed for their USD 17.5 Billion bond issuance which reflected investor confidence in the market's long term perspective. However, stocks failed to build on KSA's fixed income momentum.

The Doha Stock Market Index (DSMI) lost 2.46% during the year. The index declined mainly because of low oil prices which affected the performance of the financial stocks due to a perceived liquidity squeeze; however, the Qatari government is mitigating the decline by taking measures to cut expenditures and supporting the private sector to ease the pressure on the fiscal budget.

III- Abu Dhabi Real Estate Index and Regional Comparable Indices

Market Multiples and Profitability Metrics ¹

| Index | YTD | ROA | ROE | P/E | P/B | Div. Yield (%) |
|----------------------------|--------|------|-------|-------|------|----------------|
| <i>Median</i> | 1.88 | 4.48 | 6.31 | 20.14 | 1.34 | 2.2 |
| ADSMI- real estate sector | 16.74 | 6.46 | 11.73 | 23.59 | 0.96 | 4.66 |
| BSI - real estate sector | 13.55 | 4.48 | 6.31 | 15.70 | 1.02 | 2.20 |
| DFMGI- real estate sector | 11.81 | 7.12 | 14.87 | 11.01 | 1.34 | 2.75 |
| TASI – real estate sector | 1.88 | 0.85 | 0.42 | 71.84 | 3.91 | 1.06 |
| ASE –real estate sector | -2.98 | 0.82 | 0.89 | 68.92 | 1.42 | 1.19 |
| DSMI – real estate sector | -5.45 | 3.52 | 5.64 | 20.14 | 1.16 | 4.09 |
| EGX 30- real estate sector | -11.23 | 5.11 | 19.12 | 16.10 | 3.01 | 0.63 |

Source: Bloomberg, October 31st, 2016

- The real estate sectors in Abu Dhabi and Dubai were top performers in the region due to planned infrastructure projects by the UAE government as well as investment plans made by publicly listed companies. An above median ROE in Abu Dhabi and Dubai real estate sectors coupled with high YTD performance may prove attractive to potential investors.
- Using market multiples, the real estate sector of Abu Dhabi appears to have a high P/E compared to the median which suggests these stocks could be overvalued, or investors are anticipating high growth in this sector in the future. However, according to the more relevant price to book metric the Abu Dhabi real estate sector is in fact undervalued and will continue to grow.
- Real estate companies listed on the ADRE also have a high dividend yield, ROA and ROE.
- The Gulf exchanges display attractive returns on equity and slight room for upward potential when considering P/E and P/B metrics.
- The only real estate company on the BSI, Solidere, rallied this year and was the second best performing sector in the region after the Lebanese parliament managed to elect a president after 2.5 years of political deadlock. The below median P/B and P/E suggests that the sector may be undervalued.

¹ The metrics mentioned in the relative valuation table, except for the median, are calculated as the weighted average of each metric by market cap.

IV- Listed Real Estate Companies on ADRE

a. Performance and Market Multiples

| Name | Market Cap (\$M) | YTD Return (%) | Beta 1-Year | P/E | P/B | P/S | Div Yield (%) |
|---------------------------|------------------|----------------|-------------|--------|------|-------|---------------|
| <i>median</i> | 6,521 | 16.16 | 1.04 | 7.43 | 0.86 | 6.00 | 7.41 |
| Aldar Properties PJSC | 5,651 | 13.97 | 1.17 | 7.73 | 1.02 | 3.97 | 4.31 |
| Eshraq Properties Co PJSC | 500 | 43.63 | 1.00 | 156.59 | 0.93 | 84.01 | - |
| RAK Properties PJSC | 338 | 12.72 | 1.07 | 7.13 | 0.33 | 2.91 | 9.09 |
| Sharjah Group | 32 | 11.11 | 0.39 | 6.95 | 0.78 | 8.03 | 7.41 |

Source: Bloomberg, October 31st, 2016

- Real Estate Companies in Abu Dhabi showed good performance during the year with a weighted average median return of 16.16% across the sector. Only four companies are listed on the ADRE, as opposed to 5 real estate companies in the ADSMI since Al Khaleej Investment is considered an investment company by the ADRE.
- The four listed real estate companies account for a total market cap of \$6,521.38M. The largest of these companies is Aldar Properties, with a market cap of \$5,651.48 as of the 31st of October 2016.
- Eshraq Properties displayed the best y-t-d performance, with a 43.63% y-t-d return by the 31st of October 2016, the exceptional return was driven by a better than expected financial performance. However, Eshraq properties' high P/E, P/B and P/S suggests that the stock is overvalued and could face a downward price correction.
- Aldar Properties recorded the second highest y-t-d at 13.97% backed by its USD 817 Million acquisition plan to drive growth within its recurring revenue business segment as well as its new dividend policy that will increase dividend payouts. Aldar Properties' proposed shift to increase its holdings in recurring revenue assets and increased dividend payouts will make the stock more attractive to dividend seeking investors.
- RAK Properties' posted a respectable 12.72% y-t-d and has the highest dividend yield within the index (9.09%), its low P/E, P/B and P/S suggests that it is undervalued and could witness a price increase.
- Sharjah Group, a thinly traded stock, was the worst performing stock but still posted a good 11.11% y-t-d and had the second highest dividend yield among its peers at 7.41%.

b. Comparison of Fundamentals – Balance Sheet Elements

| Name | Net Income y-o-y growth | Total Assets y-o-y growth | Debt to Assets | D/A y-o-y growth | Debt to Equity |
|---------------------------|-------------------------|---------------------------|----------------|------------------|----------------|
| <i>median</i> | 2.80% | 0.69% | 13.94% | -2.52% | 10.33% |
| Aldar Properties PJSC | 13.5% | -6.25% | 16.45% | -30.82% | 28.86% |
| Eshraq Properties Co PJSC | 100.18% | 0.63% | 0.66% | -1.65% | 0.00% |
| RAK Properties PJSC | 2.8% | 0.74% | 13.94% | -2.52% | 20.65% |
| Sharjah Group | -43.72% | 5.44% | - | - | 0.00% |

Source: Bloomberg, October 6th 2016

- In general, the real estate sector in Abu Dhabi has a low debt to equity ratio, and recorded a median Debt to Equity of 10.33%; and as witnessed by the debt to assets y-o-y growth, the amount of debt held by real estate companies is also decreasing.
- Aldar Properties registered a 13.5% increase in net income, since the company is focusing on growing its recurring revenue business segment, it is expected that its net income continues to increase in the near future. The company also decreased its debt significantly and is relying on its cash reserve in its USD 817 Million investment plan, which can grow investors' confidence.
- Eshraq Properties' y-o-y net income grew by 100.18%, the most in the index, and the company has the lowest debt to asset ratio which puts it in good condition to seize expected growth opportunities in the sector.
- RAK Properties' net income increased by a mere 2.8%, while it has decreased its debt to assets ratio by 2.52% and its total assets grew by 0.74% reflecting the good financial performance the sector achieved during the year.
- Sharjah Group, an illiquid stock, registered a 43.72% drop in net income; however, its assets grew by 5.44%.

V- Macroeconomic Backdrop

a. UAE Summary

The Chinese economic slowdown, the drop in commodity prices, and the receding investment and trade had a negative effect on UAE's economic growth during the last couple of years. As a result, the International Monetary Fund (IMF) has cut UAE's growth forecast from 4.0% to 2.3% in 2016. This was mainly due to 2 reasons: the emergence of geopolitical risks and the deterioration of international oil prices. These factors have resulted in the following:

- **Strain on Public Finances:** 57% of UAE's GDP is sourced from the Hydrocarbon industry; the drop in oil prices has pushed authorities to adopt restrictive measures.
- **Fiscal Deficit:** The UAE registered a fiscal deficit of \$13.6 Billion in 2015 for the first time since 2009.
- **Investment Uncertainty:** The lack of a clear multi-year plan adopted by UAE authorities has casted doubt on the reliability of their long term objectives.

As for Abu Dhabi, the Emirate with the highest dependency on oil, authorities raised \$5 Billion in April from international bond markets, for the first time since 2009 in order to partly offset the repercussions of these exogenous factors.

The Emirate also decided to reduce capital transfers to government related entities to ease strains on its public finances.

However, the UAE's sovereign wealth funds, and the central bank's reserves could act as buffers to the economic slowdown.

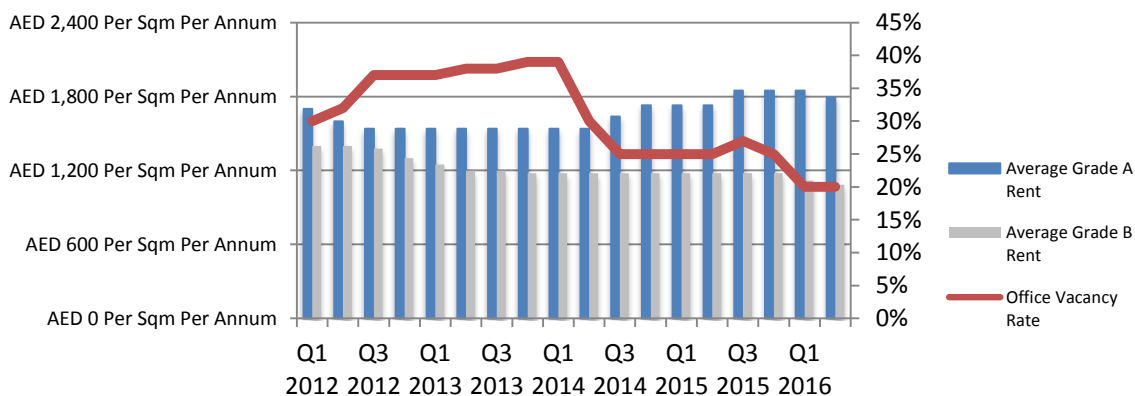
Because of planned infrastructure plans made by the UAE government, and a shift of real estate companies to the recurring revenue segment, Abu Dhabi witnessed high growth in the first half of 2016.

For further readings on UAE's economy, follow this link: <http://blog.blominvestbank.com/18280-2/>

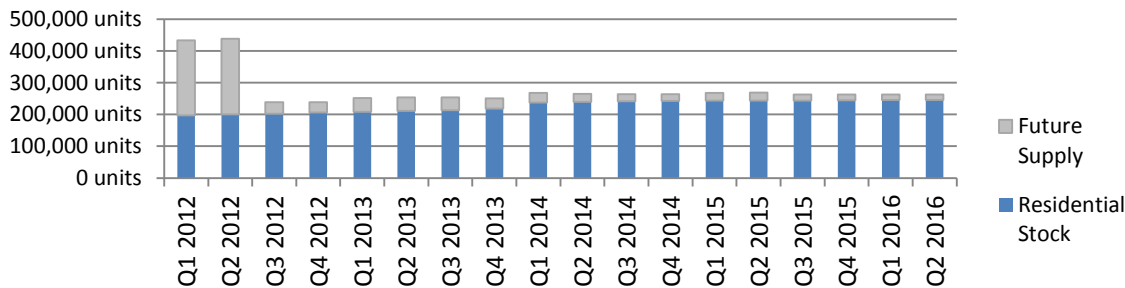
b. UAE's Real Estate Sector

Below is a brief overview on the performance of the following key real estate sectors:

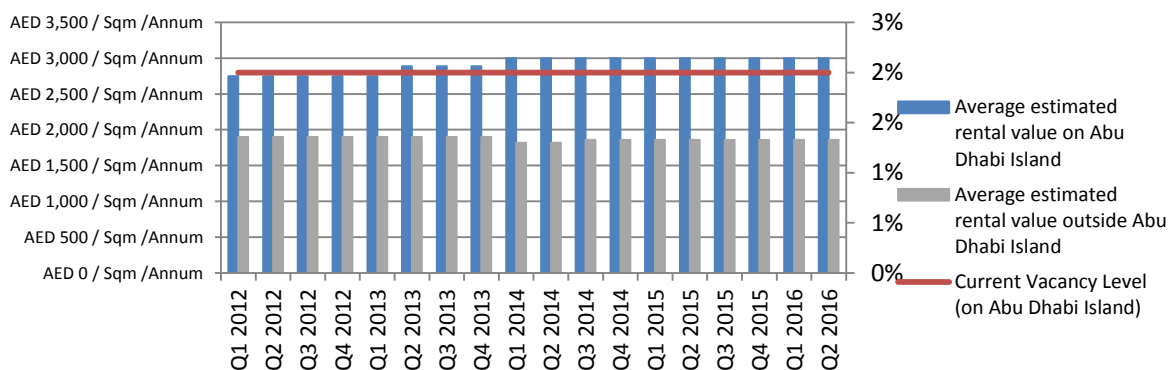
Office Market: since the largest occupiers of office space in Abu Dhabi are Government Related Entities and Oil & Gas companies, the office market continues to struggle in 2016 with a q-o-q drop of 3% in Grade A rents. Deliveries this year included Al Maryah Tower on Al Maryah island, Bloom central apartment on airport road, Nalaya villas on Reem Island, and residential building within Danat and Rawdhat.



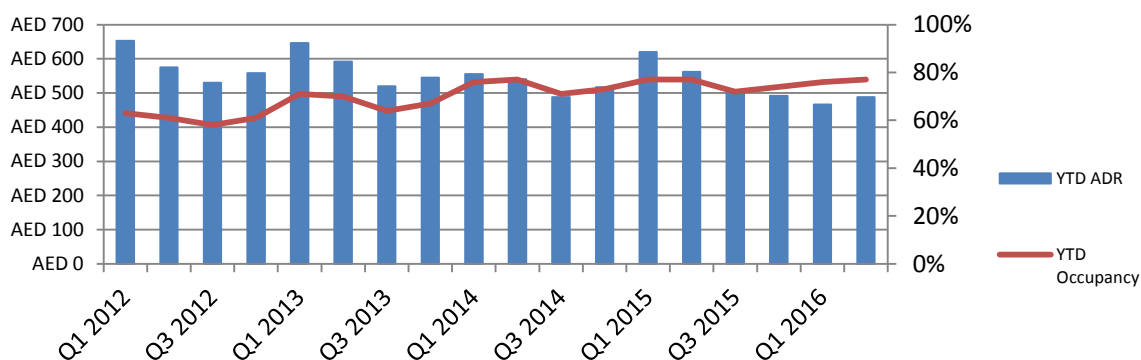
Residential Market: overall demand for residential properties declined after job cuts and decrease in government spending. However, the lack of quality supply is expected to stabilize the downturn in property rents. Almost 4,000 units will enter the market by 2016 within Al Reem Island, Rawdhat and Saraya.



Retail Market: a strong US Dollar coupled with a slowdown in the Chinese economy were the main reasons behind the stagnant performance of the retail market. Accordingly, vacancy rates remained stable at 2%. Large malls are expected to be completed within 2018, such as Al Maryah Central Mall and Reem Mall.



Hospitality Market: occupancy rates remained stable in 2016 at 77%; however, given the market's dependence on corporate demand, the y-o-y Average Daily Rate (ADR) dropped by 13.2%. Almost 2,200 rooms are expected to be added to the market by end 2016 mainly from Bab Al Kasr, while Grand Hyatt, Fairmont Marina, Gloria Downtown and Marriot Hotels are expected to be completed.



End of Report