

MENA Construction Q3 Preview

Research Analysts

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PRE RESULTS COMMENT

Expecting no surprises; Remain buyers of Arabtec and DSI

- **Buyers of Arabtec and DSI on any weakness:** In general, we are expecting relatively modest Q3 results for the 3 construction companies given the reduced working hours during the month of Ramadan which in turn reduces the amount of construction work being billed by contractors. We are 1.3% ahead of consensus for Arabtec and inline with consensus for DSI. Although we believe that Q3 results shouldn't be a surprise to the market, we would be buyers of Arabtec and DSI on any weakness post results, as we expect Q4 results to be a strong positive catalyst for both companies.
- **We provide our and Bloomberg consensus (ex- Credit Suisse) earnings estimates** for our 3 MENA construction companies under coverage; **Arabtec Holding (UAE), Drake and Scull (UAE) and Galfar Engineering (Oman).** The results are due in the next 2 weeks.
- **We are below consensus for Galfar:** Our Q3 earnings estimates for Galfar are 21% below consensus and we maintain our Underperform rating on the stock and we expect no surprises to consensus in Q3. Although we expect a slight improvement in earnings from Q2, we still believe that profitability margins will remain under pressure. We are expecting a net profit margin (NPM) of 4% for Galfar in Q3, compared to 8.7% and 13.8% for Arabtec and DSI, respectively.

Figure 1: Credit Suisse MENA Construction coverage: 3Q09 earnings preview
in millions of local currency, unless otherwise stated

Company	Currency	Net income				
		1Q09 (Actual)	2Q09 (Actual)	CS (3Q09E)	Consensus (3Q09E)	CS vs. Cons
Arabtec Holding	AED mn	161.2	183.9	165.5	163.3	1.3%
Drake & Scull	AED mn	77.2	86.6	61.4	61.3	0.2%
Galfar Engineering	OMR mn	4.6	3.8	3.9	4.9	-21.4%

Source: Company data, Credit Suisse estimates, The BLOOMBERG PROFESSIONAL™ service

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Companies Mentioned (Price as of 13 Oct 09)

Arabtec Holding (ARTC.DU, Dhs3.56, OUTPERFORM [V], TP Dhs4.00)

Drake & Scull International PJSC (DSI.DU, Dhs1.16, OUTPERFORM [V], TP Dhs1.19)

Galfar Engineering and Contracting Company SAOG (GECS.OM, RO.66, UNDERPERFORM, TP RO.61)

Disclosure Appendix

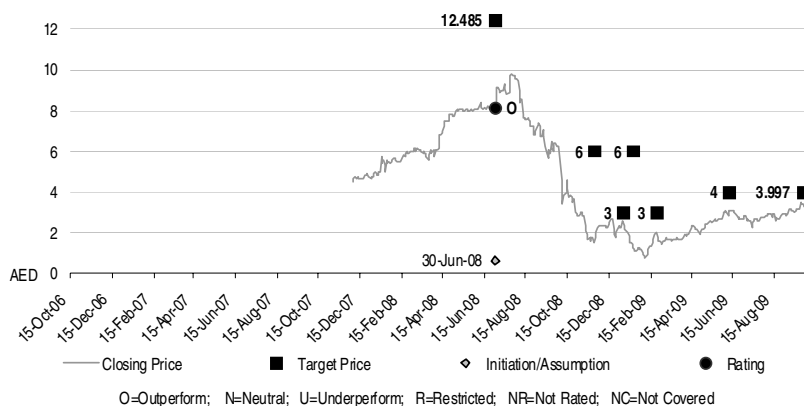
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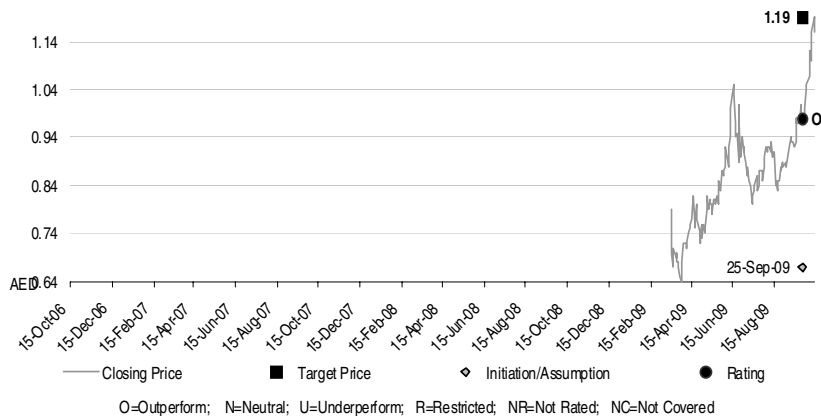
3-Year Price, Target Price and Rating Change History Chart for ARTC.DU

ARTC.DU	Closing Price	Target Price	Initiation/
Date	(AED)	(AED)	Rating Assumption
30-Jun-08	8.1	12.485	O X
24-Nov-08	1.47	6	
05-Jan-09	2.59	3	
20-Jan-09	1.26	6	
23-Feb-09	1.95	3	
10-Jun-09	3.08	4	
25-Sep-09	3.37	3.997	

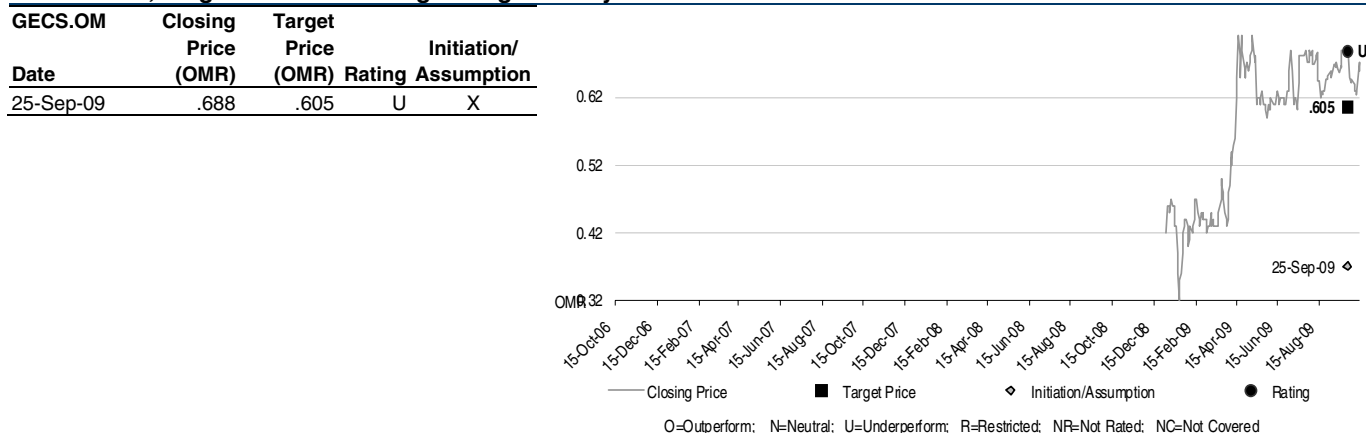


3-Year Price, Target Price and Rating Change History Chart for DSI.DU

DSI.DU	Closing Price	Target Price	Initiation/
Date	(AED)	(AED)	Rating Assumption
25-Sep-09	.98	1.19	O X



3-Year Price, Target Price and Rating Change History Chart for GECS.OM



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Price Target: (12 months) for (ARTC.DU)

Method: Our TP of AED4 per share is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 2% growth rate. We have used a WACC of 10.6%, which is derived from a cost of equity of 11.7% and a cost of debt of 7%.

Risks: Geopolitical risk, building materials cost inflation risk, and a slowdown in the growth of the construction sector in the MENA region which may lead to project delays and cancellation.

Price Target: (12 months) for (DSI.DU)

Method: Our TP of AED 1.19 per share is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 2% growth rate. We have used a WACC of 10.2%, which is derived from a cost of equity of 10.5% and a cost of debt of 7%.

Risks: Geopolitical risk, building materials cost inflation risk, and a slowdown in the growth of the construction sector in the MENA region which may lead to project delays and cancellation.

Price Target: (12 months) for (GECS.OM)

Method: Our TP of AED 0.61 per share is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 2% growth rate. We have used a WACC of 10.5%, which is derived from a cost of equity of 13.3% and a cost of debt of 6.5%.

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