

Abu Dhabi property stocks to turn attractive, says report

By

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Notwithstanding the recent volatility on the bourses, Abu Dhabi's property sector still holds the key for further gains, with analysts upbeat about the strong fundamentals of realty stocks on the Abu Dhabi Securities Exchange (ADX).

Brushing aside liquidity concerns, HC Brokerage forecasts an upward movement in realty majors such as Aldar and Sorouh.

"Liquidity concerns are overstated, particularly in the case of Abu Dhabi, given its strong government support and solid fundamentals. We view the recent sell off as a bargain buying opportunity," said a research report on Abu Dhabi real estate-2009 by HC Brokerage.

Aldar and Sorouh were the most active stocks on the ADX yesterday. While Aldar gained 0.32 per cent to close at Dh5.09, Sorouh added 0.07 per cent to close at Dh2.75.

The report highlights the book value (BV) – total assets excluding intangible assets and liabilities – as attractive for Aldar largely on valuation. The stock is trading at 0.75 times BV and 0.3 times NAV, while Sorouh is hovering at BV and 0.45 times NAV, despite the net debt/equity geared at a high 125 per cent considering its strong government ties.

Price to BV ratio is used to compare a stock's current price to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. A lower price to BV ratio means the stock is undervalued.

"We initiate on Aldar and Sorouh with a 'buy' recommendation and target prices of Dh6.2 and Dh3.2 per share respectively," said the report.

"Liquidity concerns triggered the recent unjustified sell-off, particularly in the case of Abu Dhabi, given its strong fundamentals and government backing. The sector fundamentals in Abu Dhabi remain solid, with exceptionally high rental yields of about 10 per cent and an acute shortage in all segments, expected to persist until 2013.

Also, the AD government is well placed to provide support, given its large reserves estimated at \$800 billion (Dh2.936 trillion)," the report added.

"Given their proximity, the two property markets of Abu Dhabi and Dubai are highly correlated, with excess demand in Abu Dhabi being absorbed by vacancies in Dubai. The spillover has weighed down on prices in Abu Dhabi forcing developers to delay/consolidate projects and offer discounts, which raised questions about the viability of its future projects. Since Nakheel controls 50 per cent of forthcoming supply in Dubai, we feel that its restructuring is likely to be supportive of pricing in both emirates going forward," said the report.