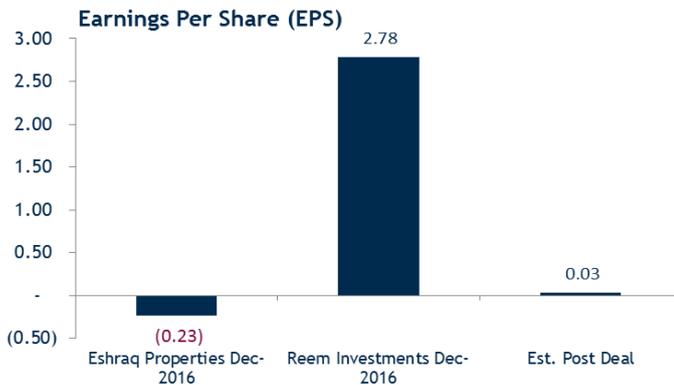


## Eshraq Jumping into a Deal with Reem Investments



We believe that Eshraq's current shareholders look to be on the winning side of the deal. The Company's reported EPS at the end of 2016 was a loss of AED0.23. Given our assumptions, the new entity's EPS might initially be in the range of an AED0.02-0.04. While ownership dilution could be severe, the exchange ratio<sup>1</sup> will determine the EPS upside and the book value dilution.

Minority shareholders might find the stock appealing, based on: 1) Eshraq's unfavorable outlook, 2) Reem Investments robust earnings and resilient balance sheet, 3) EPS enhancement and possible dividend distributions in the mid-term.

Since public data for the private company are very limited, we built our assumptions based on Eshraq's 1H17 financials and Reem Investments' Media Center. Once more information become available, we will reengineer our calculations and adjust the numbers accordingly.

### Pre-Deal Post-Deal

	Est. Eshraq-pre capital restructuring	Est. Eshraq-post capital restructuring	Est. Reem Investment end of year	Combined Entity
Equity	1,186	1,186	5,521	6,707
Share Capital	2,325	1,186	77.7	6,707
Statutory reserve	134	-	-	-
Retained earnings and Other reser	(1,266)	-	5,443	5,443
Cumulative changes in fair value.	(7)	-	-	-
Owners of the company	1,186	1,186	5,521	6,707
BVPS	0.51	1.00	71.09	1.00
Net income	(251)	-	221.12	221.12
EPS	(0.11)	-	2.85	0.033
Payout ratio	irregular	-	51%	51%
DVPS	-	-	1.44	0.02

Note 1: Est. Eshraq-pre capital restructuring equity account is based on our estimated net loss for 2017.

Note 2: Est. Eshraq-post capital restructuring is based on our capital reduction assumptions.

Note 3: Est. Reem Investments end of year is based on the Company's FY16 net book value plus our estimated FY17 net profit.

Note 4: The Combined Entity's equity account is based on above mentioned assumptions as well as an exchange ratio of 1:1.

### The Deal

On 30 August 2017, Eshraq Properties announced having advanced discussions with Reem Investments PwJSC over a proposed acquisition of a strategic stake in Eshraq. The proposed transaction involves Eshraq to issue new shares in consideration for the acquisition of Reem Investments' group business and assets, effectively-combining the two entities.

### Eshraq Stand-Alone

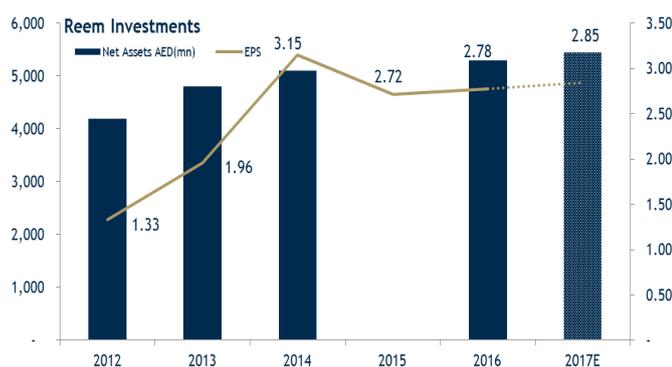
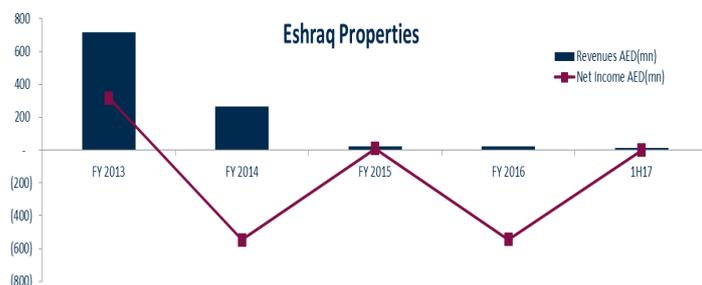
Ever since its public incorporation in 2011, Eshraq Properties never really had any major developments. Its revenue stream mainly relied on sale of land, which was completely depleted by 2014. Hence, dropping the company's revenues at a 4y CAGR of negative 58%, reaching a mere AED24mn in 2016. The company carries accumulated losses amounting to 40% of its share capital or AED1bn as of 2016. If Reem Investments is to consider such a transaction, we believe Eshraq must first, reduce its capital to wipe out its accumulated losses.

### Reem Investments

Reem Investments is a dynamic investment company based in Abu Dhabi with strategic interests in the UAE, the Gulf Cooperative Council (GCC) region and the world. Backed by over 40 prominent UAE-based institutions and private investors, Reem's net profit grew at CAGR of 20% during the last four (4) years to reach AED216mn at the end of 2016. The Company's net assets value stood at AED5.3bn at the end 2016.

### A Clean Slate Scenario

Our estimated accumulated losses of Eshraq Properties are the current losses of AED1.02bn plus AED250mn loss we assumed on investment properties based on the latest auditor's report. Therefore, a close to 50% capital reduction might take place to clean up its books. If this scenario materialized, Eshraq's AED2.325bn capital is going to be sliced by half. This would result in a price adjustment at double the closing price. Assuming Reem Investments is valued at its net assets of ca. AED5bn, Eshraq needs to issue shares equivalent to that value. Since details on the exchange ratio are unavailable, we assume new shares to be issued at 1:1 exchange ratio—or at AED1 per newly issued share. Thus, the newly formed entity will have a capital of ca. AED6.7bn after both the capital reduction and the acquisition of Reem Investments' assets. The result is a definite EPS enhancement.





WE LIVE BY OUR WORD

كلمتنا عهد

## Research and Advisory

Majd Dola  
Senior Analyst  
majd.dola@alramz.ae

Talal Touqan, CFA  
Head of Research  
talalt@alramz.ae

22F Sky Tower | Al Reem Island |  
Abu Dhabi | United Arab Emirates

Phone: +971 2 6262626  
Fax: +971 2 6262444  
E-mail: research@alramz.ae  
Website: www.alramz.ae

## Investment Ratings Guide

Al Ramz Research's fundamental views and ratings are Medium-term calls within a 12-month investment horizon. Meanwhile, Al Ramz Research's technical comments and recommendations are Short-term and Trading-oriented.

<b>Overweight</b>	The target price for the next 12 months is 10% above the current price.
<b>Neutral</b>	The target price in the next 12 months is between -10% and 10% of the current price.
<b>Underweight</b>	The target price for the next 12 months is 10% below the current price.
<b>Not Rated</b>	No investment rating has been assigned yet.

## Important Notice and Disclaimer

**Disclaimer:** The information provided in this report has been prepared without taking account of your objectives, financial situation or needs. You should, therefore before acting on the advice, consider the appropriateness of the advice having regards to these matters and, if appropriate, seek professional financial and investment advice. All observations, conclusions and opinions expressed in this report reflect the personal views of the Al Ramz Capital analyst and are subject to change without notice. The information in this report has been obtained from sources Al Ramz Capital believes to be reliable. However, Al Ramz Capital does not warrant the accuracy, completeness or currency of, and will not be liable for any inaccuracies, omissions or errors in, or for any loss or damage (including any consequential loss) arising from reliance on the information in this report. Al Ramz Capital does not guarantee the performance of any investment discussed or recommended in this report. Any information in this report relating to the distribution history or performance history of any investment, should not be taken as indication of the future performance of the relevant investment. In this report, Al Ramz Capital may express an expectation or belief as to future events, results or returns generally or in respect of particular investments. Al Ramz Capital makes such statement in good faith and believes them to be have a reasonable basis. However, such forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from such forward-looking statements. No guarantee of future returns is given or implied by Al Ramz Capital.