



21 August 2008

Africa Properties

Reuters: **AFPR.TA** Bloomberg: **AFPR IT** Exchange: **TLV** Ticker: **AFPR**

Good Q2 results and positive outlook

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Price target lowered to ILS 220 (from ILS 280), over 80% upside potential

We have lowered our price target to reflect higher discount rates given a slowing macroeconomic backdrop and softening in residential demand. Africa Properties trades at just 0.4x NAV while over half of its NAV is from properties already yielding NOI. We maintain a Buy rating as we expect a large NAV and earnings uplift in 2009 as some key projects come to fruition, and investor awareness of the positive NOI impact increases.

Strong Q2 results and positive outlook for remainder of year

Africa Properties reported strong Q2 results with net income at ILS 65m (vs a loss of ILS 22m in 2Q07). Rental income increased 62% to ILS 105m, while sales income more than doubled YoY to ILS 43m, on increases in rental and occupancy rates, completion of Phase 1B of Airport City Serbia, and some first-time consolidations. In addition there was a fair value gain of ILS 58m on completion of Classic 7 Business Park (phase 1) in Prague. During H2, the company is scheduled to complete additional projects in the Czech Republic, Bulgaria and Serbia, all of which are fully pre-leased. We expect these completions to lead to further fair value gains and expect the company to report FY08 net income of ILS 422m.

Cotroceni Mall, Romania as main milestone for 2009

Management noted that its largest project, Cotroceni Mall in Bucharest is on track for completion in H2 2009 and that it is already 80% pre-leased. We expect Cotroceni to generate in excess of €30m in NOI in 2010 and see its value rising to c€400m (ILS 2.1bn) on completion. We see completion of Cotroceni, Phase 1C of Airport City Serbia, and residential projects in Prague as the main drivers behind ILS 1.3bn in net earnings next year. However with residential demand softening in some key markets, as well as construction cost rising, delays are inevitable, in our view, on the residential side of the portfolio.

NAV-based PT of ILS 220; impact of interest rates on financing costs a risk

We value Africa Properties at ILS 220 per share based on a target 30% discount to NAV (page 3-4). Our NAV is based on a bottom-up analysis of the NPV of each development using a DCF methodology. Key risks include the impact of interest rates on financing costs, a cooling off of real estate prices, and execution risk given the scale and geographic spread of the portfolio (page 5).

Forecasts and ratios

Year End Dec 31	2006A	2007A	2008E	2009E	2010E
Revenue (ILSm)	269	999	1,201	4,034	4,772
EBITDA (ILSm)	208	779	830	2,215	1,999
Net Profit(ILSm)	74	360	422	1,274	1,191
EPS (ILS)	5.09	23.83	25.69	76.74	71.03
P/E (DB EPS) (x)	32.5	8.6	4.7	1.6	1.7
EV/EBITDA (x)	16.4	9.3	7.9	3.7	4.5
P/BV (x)	1.9	1.0	0.6	0.5	0.4

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

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Target Price Revision

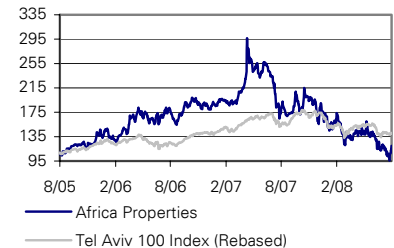
Buy

Price at 20 Aug 2008 (ILS)	120.10
Price Target (ILS)	220.00
52-week range (ILS)	215.00 - 96.00

Key changes

Target Price	280.00 to 220.00	↓	-21.4%
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.3	-13.6	-32.5
Tel Aviv 100 Index	1.7	-8.1	-9.2

Stock data

Market Cap (ILSm)	1,954.6
Market Cap (US\$m)	547.2
Free float (%)	32
Tel Aviv 100 Index	931.6

Key indicators (FY1)

ROE (%)	14.2
ROA (%)	-
Net debt/equity (x)	145.4
Book value/share (ILS)	195.4
Price/book (x)	0.6
Net interest cover (x)	4.1
EBIT margin (%)	68.5

Model updated: 29 January 2008

Running the numbers**Emerging Europe****Israel****Property****Africa Properties**

Reuters: AFPR.TA

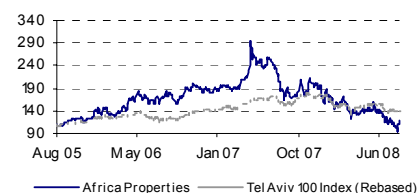
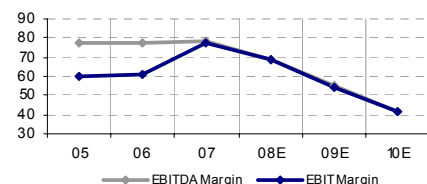
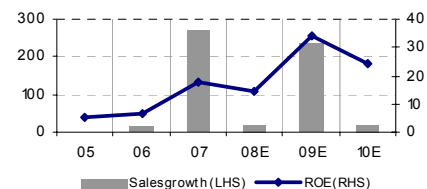
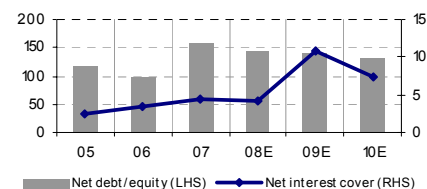
Bloomberg: AFPR IT

Buy

Price (20 Aug 08)	ILS 120.10
Target price	ILS 220.00
52-week Range	ILS 96.00 - 215.00
Market Cap (m)	ILSm 1,955 USDm 547

Company Profile

Africa Properties is a 68%-held subsidiary of Africa Israel that focuses on development of income-yielding properties in Israel and development of both income-yielding and residential properties in CEE. The company originally incorporated all of Africa Israel's development of income-yielding properties in Israel. It is now also active in Romania, Czech, Serbia, Bulgaria, Poland, Hungary and Latvia.

Price Performance**Margin Trends****Growth & Profitability****Solvency****Dan Harverd**

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Fiscal year end 31-Dec

	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (ILS)	3.93	5.09	23.83	25.69	76.74	71.03
Reported EPS (ILS)	3.93	5.09	23.83	25.69	76.74	71.03
DPS (ILS)	9.58	3.73	0.00	6.66	5.49	7.03
BVPS (ILS)	83.9	96.6	187.1	195.4	264.3	327.9
Weighted average shares (m)	12	13	15	16	16	17
Average market cap (ILSm)	1,410	2,214	3,027	1,955	1,974	1,994
Enterprise value (ILSm)	2,798	3,401	7,248	6,597	8,176	9,097
Valuation Metrics						
P/E (DB) (x)	29.9	32.5	8.6	4.7	1.6	1.7
P/E (Reported) (x)	29.9	32.5	8.6	4.7	1.6	1.7
P/BV (x)	1.63	1.86	1.01	0.61	0.45	0.37
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	8.2	2.3	0.0	5.5	4.6	5.8
EV/Sales (x)	11.9	12.6	7.3	5.5	2.0	1.9
EV/EBITDA (x)	15.4	16.4	9.3	7.9	3.7	4.5
EV/EBIT (x)	20.0	20.6	9.3	8.0	3.7	4.6

Income Statement (ILSm)

	2005	2006	2007	2008E	2009E	2010E
Sales revenue	234	269	999	1,201	4,034	4,772
Gross profit	197	231	845	903	2,292	2,080
EBITDA	182	208	779	830	2,215	1,999
Depreciation	42	43	2	7	12	12
Amortisation	0	0	0	0	0	0
EBIT	140	165	777	823	2,203	1,987
Net interest income(expense)	-58	-47	-175	-199	-205	-266
Associates/affiliates	-14	-4	9	10	11	12
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	23	49	15	15	16	16
Profit before tax	104	168	618	639	2,013	1,737
Income tax expense	19	57	128	192	604	521
Minorities	18	33	139	35	146	36
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	53	74	360	422	1,274	1,191
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	53	74	360	422	1,274	1,191

Cash Flow (ILSm)

	2005	2006	2007	2008E	2009E	2010E
Cash flow from operations	60	52	-280	323	1,095	912
Net Capex	-83	-102	-1,700	-738	-2,538	-1,716
Free cash flow	-23	-50	-1,980	-415	-1,444	-804
Equity raised/(bought back)	79	1	125	0	0	0
Dividends paid	-127	-78	-67	0	-109	-91
Net inc/(dec) in borrowings	-81	230	3,136	310	1,521	920
Other investing/financing cash flows	124	-243	4,049	52	-13	-13
Net cash flow	-29	-139	5,263	-54	-45	11
Change in working capital	-39	-20	99	86	323	410

Balance Sheet (ILSm)

	2005	2006	2007	2008E	2009E	2010E
Cash and other liquid assets	218	79	216	162	117	129
Tangible fixed assets	2,136	2,377	7,402	8,168	10,577	12,176
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	148	995	836	811	791
Other assets	500	361	991	1,115	1,466	1,905
Total assets	2,854	2,965	9,603	10,281	12,971	15,000
Interest bearing debt	1,510	1,384	5,090	5,292	6,775	7,660
Other liabilities	240	257	1,414	1,461	1,497	1,533
Total liabilities	1,750	1,640	6,504	6,753	8,272	9,194
Shareholders' equity	1,008	1,295	2,758	3,180	4,344	5,444
Minorities	97	30	341	348	355	362
Total shareholders' equity	1,104	1,325	3,099	3,528	4,699	5,807
Net debt	1,292	1,305	4,875	5,130	6,657	7,532

Key Company Metrics

	2005	2006	2007	2008E	2009E	2010E
Sales growth (%)	0.9	14.9	271.2	20.3	235.7	18.3
DB EPS growth (%)	-67.7	29.5	368.2	7.8	198.7	-7.4
EBITDA Margin (%)	77.7	77.2	78.0	69.1	54.9	41.9
EBIT Margin (%)	59.6	61.4	77.8	68.5	54.6	41.6
Payout ratio (%)	215.7	67.2	0.0	25.7	7.1	9.8
ROE (%)	5.3	6.5	17.8	14.2	33.9	24.3
Capex/sales (%)	35.6	38.0	170.3	61.5	62.9	36.0
Capex/depreciation (x)	2.0	2.4	983.3	103.0	208.1	140.7
Net debt/equity (%)	117.0	98.5	157.3	145.4	141.7	129.7
Net interest cover (x)	2.4	3.5	4.4	4.1	10.7	7.5

Source: Company data, Deutsche Bank estimates

Valuation

We value Africa Properties using a net asset value model that assesses the aggregate value of its yielding portfolio and developments. We use DCF for a bottom-up analysis of the NPV of each development, using country-specific discount rates for each project depending on its location to account for the different risk profiles of the countries in which Africa Properties operates. The rate is determined by the country risk-free rate, risk premium and a 2.5% terminal growth rate. Our ILS 220 price target is based on a 30% discount to NAV, which is in line with the peer discount.

Figure 1 shows the NAV divided according to income-yielding properties in Israel and Europe, followed by income-yielding properties in development and residential projects in development. We note that Israel currently accounts for 38% of asset value, while yielding properties in Europe account for 15%. We expect the weight of the latter category to increase substantially in the next two years as projects in development reach completion. Residential projects, that we believe are the highest risk, account for 23% of asset value.

Figures 2-4 show a breakdown of the valuation on a project-by-project basis.

Figure 1: Africa Properties valuation model		
Portfolio	Value to AFPR (ILS m)	% of total asset value
Income-yielding properties in Israel	3,529	38%
Income-yielding properties in Europe	1,373	15%
Income-yielding properties in development	2,308	25%
Residential projects in development	2,157	23%
Total asset value	9,367	100%
Net debt (end 2Q08)	(4,449)	
Net asset value	4,918	
Market cap	1,894	
No. shares (m)	15.6	
NAV/share	314	
Share price	121	
Discount to NAV	-61%	
Target discount to NAV	30%	
Target price	220	

Source: Deutsche Bank estimates

Figure 2: Valuation of income-yielding properties

Project	Location	Segment	GLA (sqm)	2009e NOI (ILS m)	Cap rate	Property value (ILS m)	AFPR's share	Value to AFPR (ILS m)	% of total asset value
Israel									
Ramat Aviv Mall complex	Tel Aviv	Retail, office	17,849	107	6.5%	1,641	73%	1,205	13%
Kiryat Tower	Tel Aviv	Office	22,981	76	7.8%	1,011	100%	1,011	11%
Ness Ziona Science Park	Ness Ziona	Office	76,902	37	8.0%	466	100%	466	5%
Hebrew University Dorms	Jerusalem	Student dorms	1600 beds	18	7.5%	233	100%	233	2%
Savyonim mall complex	Yehud	Retail, office	6,340	17	8.0%	213	100%	213	2%
Global Park	Lod	Office	21,393	13	10.0%	129	100%	129	1%
Africa Israel Tower	Tel Aviv	Office	8,669	11	7.0%	158	67%	105	1%
Other investment properties	Israel	Retail, office	35,016	19	9%-10%	198	84%	166	2%
Israel total				297				3,529	38%
Europe									
Palac Flora	Prague, Czech	Retail	38,000	61	5.9%	1,027	50%	513	5%
Classic 7 (Phase 1)	Prague, Czech	Office	16,227	12	7.5%	154	100%	154	2%
Other investment properties	Prague, Czech	Retail, office	13,853	9	7.3%	128	64%	81	1%
German portfolio	Germany	Mixed	159,020	36	7.0%	517	49%	254	3%
Airport City (Phase I)	Belgrade, Serbia	Office	33,500	36	8.5%	421	50%	211	2%
Varna Business Park (Phase 1)	Varna, Bulgaria	Office	28,000	14	8.5%	160	100%	160	2%
Europe total				167				1,373	15%
Total income yielding				464				4,902	52%

Source: Deutsche Bank estimates

Figure 3: Valuation of income-yielding projects in development

	Location	Segment	GLA (sqm)	Project completion	ODC, ILS m	Property value (ILS m)	AFPR's share	Value to AFPR (ILS m)	% of total asset value
Cotroceni Shopping Mall	Bucharest, Romania	Retail	76,000	2009	845	625	99%	615	7%
Ploiesti Palace	Ploiesti, Romania	Retail	41,240	2011	475	155	100%	155	2%
Cotroceni Business Park	Bucharest, Romania	Office	60,000	2013	685	144	99%	142	2%
Arad Palace	Arad, Romania	Retail	44,000	2010	464	135	100%	135	1%
Palac Pardubice	Pardubice, Czech	Retail	18,000	2010	300	323	100%	323	3%
Classic 7 (Phase 2)	Prague, Czech	Office	22,497	2011	120	165	100%	165	2%
D8	Prague, Czech	Logistics	91,000	2009	180	48	50%	24	0%
Varna Business Park (Phases 2-5)	Varna, Bulgaria	Office	175,100	2017	907	335	100%	335	4%
Plovdiv Logistic Center	Plovdiv, Bulgaria	Logistics	148,500	2013	317	149	75%	112	1%
Airport City (Phases 2-8)	Belgrade, Serbia	Office	152,000	2012	588	604	50%	302	3%
Total income-yielding in development					4,881			2,308	25%

Source: Deutsche Bank estimates

Figure 4: Valuation of residential projects in development

Project	Location	Segment	No. units	Project completion	ODC, ILS m	Property value (ILS m)	AFPR's share	Value to AFPR (ILS m)	% of total asset value
Golden City Laromet	Bucharest	Residential	5,304	2017	3,137	451	100%	451	5%
Tulip Towers	Bucharest	Residential	1,089	2012	374	133	100%	133	1%
Tulip Noir (AFI Gardens)	Bucharest	Residential	2,240	2015	1,484	94	100%	94	1%
Tulip City (AFI City)	Prague	Residential	2,156	2012	1,738	185	100%	185	2%
Tulip Gardens (AFI Village)	Bucharest	Residential	585	2015	465	64	100%	64	1%
Tulipa Modranska	Prague	Residential	240	2012	180	44	100%	44	0%
Tulipa Rokytká	Prague	Residential	178	2010	61	32	100%	32	0%
Tulipa Karlin	Prague	Residential	340	2010	266	79	100%	79	1%
Vitoshá Tulip	Sofia	Residential	144	2008	38	26	100%	26	0%
Malina Tulip	Sofia	Residential	469	2012	157	31	100%	31	0%
Lagera Tulip	Sofia	Residential	557	2010	148	48	100%	48	1%
Soleville	Riga	Residential	1,914	2014	1,451	209	100%	209	2%
Metropolia	Riga	Residential	550	2009	162	72	100%	72	1%
Club Aliga	Budapest	Residential	2,000	2011	907	153	50%	77	1%
Nepiget	Budapest	Residential	557	2010	142	62	100%	62	1%
Europski	Krakow	Residential	983	2012	492	354	100%	354	4%
Wilanow	Warsaw	Residential	2,100	2013	1,002	663	30%	199	2%
Total residential developments					12,204			2,157	23%

Source: Deutsche Bank estimates

Risks

- Projects under development are financed by loans of up to 80% of development cost. The credit crunch and rising interest rates may increase financing costs and lower the portfolio's value.
- Real estate prices in most of the countries that the company operates in have appreciated considerably in recent years and may cool off, harming development margins and profitability. We would highlight the residential market in Poland as presenting particular risk to the company, as prices there began to soften in 2007.
- There is considerable execution risk given the scale of the development portfolio (>3.0m sqm versus an existing portfolio of <0.5m sqm), and the geographic spread of operations. The company operates under multiple systems governing property, development and legal rights, and uses different sub-contractors in each country adding to execution complexity. This is somewhat mitigated by having several country offices.
- Some of the countries in which the company operates have external imbalances that may impact their currencies and lower Africa's profitability. We would highlight Romania given the company's strong presence and a gross financing requirement of 17% GDP.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Africa Properties	AFPR.TA	120.10 (ILS) 20 Aug 08	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: Africa Properties (AFPR.TA)

(as of 8/20/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	29/1/2008:	Buy, Target Price Change ILS280.00
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Equity rating key

Equity rating dispersion and banking relationships

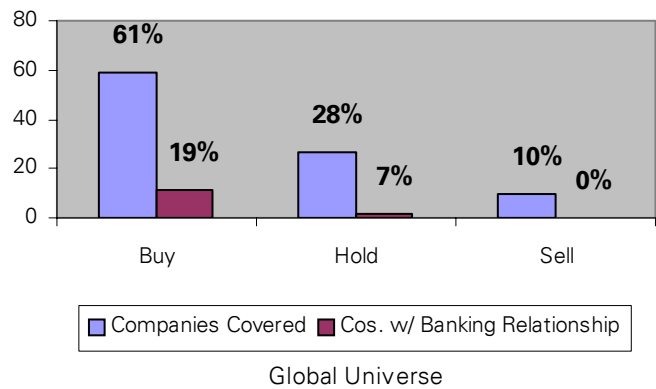
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