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Stock Rating  
**Overweight**

Industry View  
**Attractive**

## Urbi Desarrollos Urbanos

### Shaping the Future of Housing

#### We attended Urbi's analyst day last week in Mexico.

Management reiterated its bullish expansion plan, which aims to double net income over the next five years. Urbi plans to deliver these results with the help of some new initiatives like extending its client base without losing profitability (through subsidies and "Alternativa URBI"), building local partnerships, finding new financing schemes (URBI-Solida), and developing large-scale residential projects. The company also provided guidance for 2007 and 2008, mostly in line with our current estimates.

**To us, it's clear that Urbi is one of the leading companies in the industry today.** We think the company's management is top class, always trying to push innovation further and deliver results ahead of industry average. Management has invested a lot of time and resources to shape its vision and become a smart, process oriented, client centric organization. The company is constantly undertaking a multitude of initiatives aimed at delivering superior growth and profitability. At the same time, working together with Mexican authorities, Urbi is shaping the future of the housing industry in Mexico.

**Reiterate Overweight rating.** Everything we heard during the Urbi day reinforced our view that this company is one of the premier names in the industry. Our year-end '08 target of \$54 offers potential upside of 30%, and assumes Urbi's shares will trade at 19.9x prospective P/E. Urbi's shares now trade at 19.5x '07e P/E and 15.2x '08e P/E.

#### Key Ratios and Statistics

Reuters: URBI.MX Bloomberg: URBI\* MM

Mexican Real Estate / Mexico

<b>Price target</b>	<b>M\$54.00</b>
Shr price, close (Aug 31, 2007)	M\$41.33
Mkt cap, curr (mm)	M\$37,022
52-Week Range	M\$52.52-28.47

Fiscal Year (Dec)	2005	2006	2007e	2008e
<b>ModelWare EPS (M\$)*</b>	<b>1.31</b>	<b>1.69</b>	<b>2.12</b>	<b>2.72</b>
<b>Prior ModelWare EPS (M\$)</b>	-	-	-	-
<b>P/E</b>	<b>18.7</b>	<b>23.1</b>	<b>19.5</b>	<b>15.2</b>
<b>Consensus EPS (M\$)</b>	<b>1.31</b>	<b>1.64</b>	<b>2.12</b>	<b>2.69</b>
Div yld (%)	0.0	0.0	0.8	1.0

\* = Please see explanation of Morgan Stanley ModelWare later in this note.  
e = Morgan Stanley Research estimates

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## Investment Case

### Summary & Conclusions

We attended Urbi's analyst day last week in Mexico. Management reiterated its bullish expansion plan, which aims to double net income over the next five years. Urbi plans to deliver these results with the help of some new initiatives like extending its client base without losing profitability (through subsidies and "Alternativa URBI"), building local partnerships, finding new financing schemes (URBI-Solida), and developing large-scale residential projects. The company also provided guidance for 2007 and 2008, mostly in line with our current estimates.

Urbi also gave an overview of some of the key operating elements of its business model including UrbiNet, the land owner and city manager partnership schemes, its marketing and design processes, the inner workings of its strategic business units, and Universidad Urbi for employee training and career development.

To us, it's clear that Urbi is one of the leading companies in the industry today. We think the company's management is top class, always trying to push innovation further and deliver results ahead of industry average. Management has invested a lot of time and resources to shape its vision and become a smart, process oriented, client centric organization. The company is constantly undertaking a multitude of initiatives aimed at delivering superior growth and profitability. At the same time, working together with Mexican authorities, Urbi is shaping the future of the housing industry in Mexico.

### Reiterate Overweight rating and M\$54 price target.

Everything we heard reinforced our view that Urbi is one of the premier names in the industry. Our year-end '08 target of \$54 offers potential upside of 30%, and assumes Urbi's shares will trade at 19.9x prospective P/E. Urbi's shares now trade at 19.5x '07e P/E and 15.2x '08e P/E.

### 2007 Guidance

Guidance for 2007 remains the same at 22% revenue growth (4% of sales will come from commercial land sales and macro projects). The sales mix should remain stable at 50% affordable, 30% lower middle income and 20% upper middle income. Gross margin should be around 33.9%, EBITDA margin of 26.5% and net margin of 14.7%. Free cash flow should be around M\$195 million this year. Our 2007 estimates are roughly in line with management's guidance.

### 2008 Guidance

For 2008, Urbi expects revenues to grow 16% in real terms, with a steady sales mix, flat gross and EBITDA margins relative to 2007, and a net margin of 15.3%, slightly higher than 2007 due to lower financing costs. Free cash flow should be around M\$806 million according to the company. We think guidance for 2008 reflects Urbi's conservative approach. We believe the company can deliver more than 16% growth in revenues next year (our estimate is 19%). Last year, the company initially estimated an increase of 13% in revenues for 2007, only to raise its guidance during the year to the current 22%. Given Urbi's performance in 2007, the positive industry outlook in 2008 (i.e. Infonavit's mortgages increasing by 20%), and the company's new initiatives, we see room for higher growth.

Exhibit 1

### Urbi Guidance vs. Our Estimates

<i>M\$ Million (Nominal)</i>	<b>Urbi Guidance<sup>1</sup></b>	<b>Our Estimate</b>	<b>Diff.</b>
Revenues			
2007e	12.7	12.5	2%
2008e	15.2	15.4	-1%
EBITDA			
2007e	3.4	3.4	0%
2008e	4.0	4.1	-1%
Net Income			
2007e	1.9	1.9	-2%
2008e	2.3	2.4	-4%
5-Yr CAGR ('07-'11)			
Revenue	17%	17%	
EBITDA	16%	17%	
Net Income	20%	20%	

Note (1): Urbi's management provided its guidance in constant 12/06 pesos. The figures presented here were converted to period-end nominal pesos using Morgan Stanley's inflation forecast of 3.6% for 2007 and 3.4% for 2008. Source: Company data, Morgan Stanley Research Estimates

### 2009 and beyond

After 2008, revenues should grow at 15% per year through 2011. In addition to a strong housing market, Urbi plans to increase revenues by generating sales from housing related activities. This includes commercial land sales, land urbanization, furniture and equipment sales, and financial services. These other revenue sources should represent around 4% of sales in 2007 and increase to 12% by 2011. The other revenues are also more profitable than housing sales. Commercial land sales and land urbanization are expected to have gross margins of 40%, while furniture and equipment

sales and financial services are expected to have gross margins of 40%.

The sales mix from housing should remain fairly similar to today. Urbi expects that affordable homes will represent 50% of sales in 2011, lower middle income at 20%, and upper middle income and residential at 30%. Therefore, gross margins should increase around 40 bp, mostly due to the other revenues, which carry higher margins.

Urbi expects EBITDA and net revenue margins to remain at 26.5% and 15.3% by 2011. The company forecasts net revenue to grow at 16% from 2008 to 2011. Debt should increase by no more of M\$500 million by year. Days accounts receivable are expected to remain stable at around 135 days.

### **New initiatives**

Management reiterated a bullish expansion plan, which aims to double net income over the next five years. This plan comes within the context of the government's housing plan to offer six million mortgages in the next six years ending in 2012. Urbi commented on some new initiatives to deliver these results like extending its client base without losing profitability (subsidies and "Alternativa URBI"), building local partnerships, finding new financing schemes (URBI-Solida), and developing large-scale residential projects. We explore the above-mentioned strategies in more detail in this report.

### **Extending its client base without losing profitability**

Mortgages are the engine of growth for the industry, and extending them to low income and informal workers will become very important in the future. Urbi discussed two strategies to do so without losing profitability: (1) using subsidies to supplement mortgage loans to lower income workers with or without Infonavit's benefits, and (2) assisting workers who receive informal wages and without credit history secure a mortgage.

*(1) Using subsidies to supplement mortgage loans to lower income workers with or without Infonavit's benefits.* On August 24, the Mexican government issued new rules to offer subsidies to lower income workers with or without Infonavit's benefits. Using these subsidies, Urbi foresees to expand the number of people that can get a home. For example, a registered worker with Infonavit who earns two times the minimum salary and an unregistered worker with proven remuneration of five times the minimum salary can receive a subsidy up to M\$50,731 from the federal government. This amount will complement the worker's mortgage and, if it is the case, Infonavit's home savings account, increasing his affordability. With this program, clients can acquire a home of

up to M\$227,000 without further authorization, but this amount can increase up to M\$335,122. More than 60% of the market falls into this category, so there is significant potential to increase the number of people that can buy homes this way.

*(2) Assisting workers who receive informal wages and without credit history secure a mortgage.* Given the size of the informal economy in Mexico, a high percentage of workers receives informal wages and therefore does not have proof of income or credit history. In addition, many of these workers also do not have savings for a down payment. "Alternativa Urbi" simplifies the process of getting a mortgage for these workers by renting a house with an option to buy it. If the worker pays six rents on time, he will become subject of a mortgage loan. The payments made, serve as a down payment as well. In a pilot program, only 3% of clients did not pay rent on time and did not qualify for the mortgage. For 2007, Urbi expects to sell houses for M\$2,000 million with this program.

Urbi plans to finance the accounts payable originated by this scheme through securitizations. Therefore, Urbi diversifies the risk of the worker not paying his rent and eventually not getting the mortgage.

While all the homebuilders work with clients to secure a mortgage, Urbi has been the first to come up with a strategy to capitalize on it. When we initiated coverage, we mentioned that partnerships between homebuilders and financial institutions open the door for the builders to capitalize on the value of their distribution networks. We think this places Urbi on the leading edge of executing this strategy.

### **Local partnerships**

Urbi is looking at different ways of growing its business. It looks to incorporate local firms as licensees and real estate partners. Licensees will use Urbi's brand, IT platform, and expertise; and have access to strategic alliances (i.e. suppliers). Urbi will benefit from its partner's know how of a local market, network, and managerial talent. Urbi aims licensees to become strategic business units in their regions. Real estate partners give Urbi access to more land, and a network of relationships to facilitate operations. Urbi launched these two initiatives in October 2006. Of 683 firms registered, the company interviewed the most interesting 77 prospects.

However, we reiterate these initiatives present challenges, such as managing a diverse and fragmented business. There are fewer opportunities for economies of scale and quality assurance when your business is spread out among many small business units. Nonetheless, we think UrbiNet gives Urbi an advantage in being able to maintain operating control.

## **New financing schemes (URBI-Solida)**

In order to achieve its expansion plan, Urbis has advocated to find more attractive financing schemes. The company is trying to secure financing for individual urbanization or real estate development projects. In this regard, in July 2007, Urbi and Solida, from Grupo Financiero Banorte, signed an agreement for two projects comprising 6,558 units in 50 hectares. Solida will constitute a trust to finance the project, and Urbi will develop it in a three-year period. Urbi will not be part of the trust.

Again, Urbi sets itself in the leading edge of industry by finding innovative ways to finance its growth. These kinds of programs let the company concentrate on its core competencies as a real estate developer, securing attractive finance schemes that limit debt financing. Urbi plans to replicate this scheme in other projects.

## **Valle Las Palmas**

A key element for Urbi to achieve its expansion plans is developing large-scale residential projects or "macro-projects". In 2007, the company started "Valle Las Palmas" outside Tijuana, a city close to the U.S. border. Given the economic expansion in the region, Tijuana housing needs will not only grow, but also require a more sustainable approach. "Valle Las Palmas" covers both needs. The project will not only provide environmentally friendly housing, but also infrastructure, and industrial facilities to create a development cluster in the region. The project is installed within the national, state, and local urban development plans; and it coordinates the efforts of federal and local governments and Urbi.

Urbi expects that one million people will live in "Valle Las Palmas" by 2030. The project will have two sections comprising 5,859 hectares of land, and the company is currently working on section two where it plans to build 10,000 houses for lower income families. Urbi will help these families securing a mortgage through "Alternativa Urbi" or subsidies schemes. Around 200 hectares of land in section 2 will be devoted to industrial facilities, aiming to create 8,000 jobs. Given its size, complexity, and attributes, "Valle Las Palmas" will set a new benchmark for urban development in Mexico, hence, securing Urbi's leading role in shaping the real estate industry.

## **Conavi**

Carlos Gutierrez, the Director of the Conavi spoke about the housing industry in Mexico and the plans and actions for the years to come. Specifically, Mr. Gutierrez spoke about: (1) housing within the national development plan; (2) the use of subsidies to supplement the availability of mortgages.

*(1) Housing within the national development plan.* The Mexican government reiterated its commitment to make housing a priority. The national development plan issued by Felipe Calderon's administration has given special importance to the sector. Of note, the government will invest M\$28,000 million in services and infrastructure projects to increase the usable land for housing by at least 1 million houses. At the same time, the government will focus on lower income segments of the population (i.e. earning less than 3 times the minimum salary, comprising about 15 million of families in Mexico) to provide them with housing.

In addition, the National Information and Indicators System for Housing is about to be launched. It will work along with the national institute for statistics as a tool for defining terms of housing, financing, loans, subsidies and savings. As well as maintaining statistics on the housing sector. We think this is a key development for developing the housing sector, given the limited information available today.

*(2) The expansion of the mortgage market.* Facilitating access to a mortgage to a growing number of families is one of the most important challenges for the housing sector in Mexico. Fovissste will continue offering co-financing products to government workers. This year, Fovissste signed agreements with Banamex and Scotiabank for this purpose. At the same time, Infonavit is making efforts to offer products to non-affiliated workers, employees with high rotation, and in cyclical industries who cannot make regular payments.

*(3) The use of subsidies to supplement the availability of mortgages.* As of today, 1.5 million families covered by Infonavit and Fovissste cannot afford a mortgage. Furthermore, there are six million families not covered by either Infonavit or Fovissste. An upfront subsidy for these segments aims to increase the number of households that can access a mortgage. The subsidies will amount to M\$3,892 million. This will allow lower income workers to acquire a small loan plus a subsidy that will be large enough to be economically feasible for the homebuilders to construct. Sociedad Hipotecaria Federal will manage these subsidies. Adding the subsidy to previous family savings, and the mortgage loan, more than M\$19,000 will become available to acquire new houses.

Finally, Carlos Gutierrez mentioned that the goal of providing 790,000 houses in 2007 is on track, and 90,000 of this total will be for lower income families. The goal for 2008 is expected to be higher.

September 3, 2007  
Urbi Desarrollos Urbanos

Exhibit 2

**URBI — Consolidated Income Statement**

<b>M\$ Million</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>
<b>Revenues</b>	<b>3,534</b>	<b>4,109</b>	<b>5,233</b>	<b>6,576</b>	<b>8,194</b>	<b>10,056</b>	<b>12,468</b>	<b>15,399</b>
Cost of Goods Sold	2,307	2,773	3,536	4,395	5,432	6,643	8,213	10,155
<b>Gross Profit</b>	<b>1,227</b>	<b>1,336</b>	<b>1,697</b>	<b>2,180</b>	<b>2,762</b>	<b>3,413</b>	<b>4,255</b>	<b>5,243</b>
Operating Expenses before D&A	363	414	530	615	712	864	1,059	1,328
Capitalized Interest	45	34	64	83	91	134	178	181
<b>EBITDA</b>	<b>909</b>	<b>956</b>	<b>1,232</b>	<b>1,648</b>	<b>2,141</b>	<b>2,683</b>	<b>3,374</b>	<b>4,096</b>
Depreciation	25	29	36	40	45	99	161	171
<b>Operating Profit</b>	<b>839</b>	<b>893</b>	<b>1,132</b>	<b>1,525</b>	<b>2,005</b>	<b>2,450</b>	<b>3,035</b>	<b>3,744</b>
<b>Integral Cost of Financing</b>	<b>218</b>	<b>132</b>	<b>168</b>	<b>152</b>	<b>341</b>	<b>342</b>	<b>380</b>	<b>280</b>
Interest Paid	292	201	211	249	372	370	501	423
Interest Earned	17	15	11	47	48	104	113	115
FX Gain / (Loss)	3	(15)	(15)	3	1	(15)	10	23
Monetary Gain / (Loss)	54	69	48	47	(18)	(60)	(3)	5
Other income / (expenses)	2	8	(6)	16	28	13	35	15
<b>Pre-tax Profit</b>	<b>623</b>	<b>769</b>	<b>958</b>	<b>1,389</b>	<b>1,691</b>	<b>2,121</b>	<b>2,689</b>	<b>3,480</b>
Taxes	268	306	345	368	517	609	793	1,044
<b>Net Income</b>	<b>355</b>	<b>463</b>	<b>612</b>	<b>1,021</b>	<b>1,175</b>	<b>1,512</b>	<b>1,896</b>	<b>2,436</b>
Shares Outstanding (million)	895	895	873	896	896	896	896	896
<b>EPS (M\$)</b>	<b>0.40</b>	<b>0.52</b>	<b>0.69</b>	<b>1.19</b>	<b>1.31</b>	<b>1.69</b>	<b>2.12</b>	<b>2.72</b>
EPS (US\$)	0.04	0.05	0.06	0.10	0.12	0.15	0.19	0.24
<b>Profitability</b>								
Gross Margin	34.7%	32.5%	32.4%	33.2%	33.7%	33.9%	34.1%	34.1%
Gross Margin (adjusted)	36.0%	33.4%	33.7%	34.4%	34.8%	35.3%	35.6%	35.2%
EBITDA Margin	25.7%	23.3%	23.5%	25.1%	26.1%	26.7%	27.1%	26.6%
Operating Margin	23.8%	21.7%	21.6%	23.2%	24.5%	24.4%	24.3%	24.3%
Operating Margin (adjusted)	25.0%	22.6%	22.9%	24.5%	25.6%	25.7%	25.8%	25.5%
Net Margin	10.0%	11.3%	11.7%	15.5%	14.3%	15.0%	15.2%	15.8%
ROE	26.6%	26.7%	27.2%	25.3%	19.0%	19.5%	20.0%	21.0%
ROA	8.9%	9.7%	9.7%	11.4%	10.4%	10.2%	10.1%	10.9%
ROIC	22.9%	18.8%	21.9%	20.0%	21.4%	20.1%	20.9%	19.9%

Note: Gross margin adjusted is for capitalized interest. Source: Company data, Morgan Stanley Research Estimates

Exhibit 3

## URBI — Consolidated Balance Sheet

MS\$ Million	2001	2002	2003	2004	2005	2006	2007e	2008e
<b>Total Assets</b>	<b>4,364</b>	<b>4,947</b>	<b>7,544</b>	<b>10,010</b>	<b>12,167</b>	<b>17,119</b>	<b>19,986</b>	<b>23,893</b>
<b>Current Assets</b>	<b>4,205</b>	<b>4,716</b>	<b>7,198</b>	<b>9,620</b>	<b>11,728</b>	<b>16,351</b>	<b>19,269</b>	<b>23,074</b>
Cash & Investments	325	401	403	1,058	1,817	2,352	2,579	2,447
Accounts Receivable	901	1,034	1,445	2,713	2,998	4,974	6,559	8,100
Other Accounts Receivable	86	111	115	130	374	264	-	-
Inventories	2,747	2,995	5,024	5,512	6,327	8,573	9,901	12,242
Due from Related Parties	147	175	211	207	211	188	230	285
<b>Long Term Assets</b>	<b>159</b>	<b>231</b>	<b>346</b>	<b>390</b>	<b>440</b>	<b>768</b>	<b>717</b>	<b>818</b>
Accounts Receivable	31	56	66	68	41	75	-	-
Buildings and Equipment	125	171	269	313	372	514	547	625
Other Assets	2	4	11	9	26	179	170	194
<b>Total Liabilities</b>	<b>2,888</b>	<b>3,037</b>	<b>5,025</b>	<b>4,605</b>	<b>5,409</b>	<b>8,629</b>	<b>9,795</b>	<b>11,281</b>
<b>Short-term Liabilities</b>	<b>1,628</b>	<b>1,222</b>	<b>2,189</b>	<b>1,912</b>	<b>1,645</b>	<b>3,661</b>	<b>4,770</b>	<b>5,680</b>
Accounts Payable	545	590	1,098	749	1,004	2,712	3,150	3,951
Bank Loans	893	438	830	459	303	581	1,049	1,085
Current Portion of Long-Term Bank Loans	74	52	92	437	159	124	253	262
Taxes and Other Accounts Payable	106	136	168	267	178	244	318	382
Due to Related Parties	9	5	1	-	-	-	-	-
<b>Long-term Liabilities</b>	<b>1,260</b>	<b>1,816</b>	<b>2,837</b>	<b>2,693</b>	<b>3,764</b>	<b>4,968</b>	<b>5,025</b>	<b>5,601</b>
Bank Loans	149	511	1,169	751	1,460	2,061	1,923	1,990
Deferred Taxes	966	1,140	1,467	1,764	2,201	2,549	3,101	3,610
Other Liabilities	-	-	1	1	1	75	1	1
Accounts Payable	145	165	200	177	102	283	-	-
<b>Stockholders' Equity</b>	<b>1,476</b>	<b>1,910</b>	<b>2,519</b>	<b>5,406</b>	<b>6,758</b>	<b>8,490</b>	<b>10,191</b>	<b>12,612</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>4,364</b>	<b>4,947</b>	<b>7,544</b>	<b>10,010</b>	<b>12,167</b>	<b>17,119</b>	<b>19,986</b>	<b>23,893</b>

Source: Company data, Morgan Stanley Research Estimates

Exhibit 4

## URBI — Consolidated Cash Flow Statement

<b>MS\$ Million</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>
<b>Operating Activities:</b>								
Consolidated Net Income	355	463	613	1,104	1,175	1,512	1,896	2,436
Items that did not require resources:	285	293	363	308	423	432	544	574
Depreciation	25	29	36	40	45	99	161	171
Deferred taxes	260	264	328	268	378	259	460	403
Other obligations	-	-	0	0	(0)	74	(77)	(0)
Changes in current assets and liabilities	(508)	(430)	(1,868)	(1,947)	(1,061)	(2,006)	(2,072)	(2,635)
Accounts receivable	(206)	(127)	(384)	(1,210)	(423)	(1,913)	(1,037)	(1,334)
Inventories and land held for future constructi	(546)	(261)	(1,979)	(304)	(693)	(2,027)	(1,110)	(2,000)
Accounts payable	109	27	502	(353)	150	1,844	47	692
Other current assets and liabilities	(24)	(2)	(21)	14	3	32	(36)	(46)
Taxes and Other Accounts Payable	158	(67)	15	(94)	(97)	59	65	53
<b>Total</b>	<b>131</b>	<b>326</b>	<b>(892)</b>	<b>(535)</b>	<b>537</b>	<b>(62)</b>	<b>368</b>	<b>375</b>
<b>Investing Activities:</b>								
Investment in property and equipment	(35)	(67)	(127)	(62)	(94)	(225)	(176)	(230)
<b>Total</b>	<b>(35)</b>	<b>(67)</b>	<b>(127)</b>	<b>(62)</b>	<b>(94)</b>	<b>(225)</b>	<b>(176)</b>	<b>(230)</b>
<b>Free Cash Flow</b>	<b>96</b>	<b>260</b>	<b>(1,019)</b>	<b>(596)</b>	<b>444</b>	<b>(287)</b>	<b>192</b>	<b>145</b>
<b>Financing Activities:</b>								
Notes payable to financial institutions	0	(202)	1,038	(531)	221	765	359	-
Repurchase/Sales of own stock/Dividends	-	-	(33)	1,762	59	(17)	(410)	(365)
<b>Total</b>	<b>0</b>	<b>(202)</b>	<b>1,005</b>	<b>1,231</b>	<b>279</b>	<b>748</b>	<b>(51)</b>	<b>(365)</b>
<b>Total Change in Cash &amp; Equivalents</b>	<b>97</b>	<b>57</b>	<b>(14)</b>	<b>634</b>	<b>723</b>	<b>462</b>	<b>142</b>	<b>(221)</b>

Source: Company data, Morgan Stanley Research Estimates

Exhibit 5

## URBI — Key Projection Ratios (1)

	2000	2001	2002	2003	2004	2005	2006	2007e	2008e
<b>Summary Financials (M\$ MM)</b>									
Revenues	2,791	3,534	4,109	5,233	6,576	8,194	10,056	12,468	15,399
Gross Profit	962	1,227	1,336	1,697	2,180	2,762	3,413	4,255	5,243
EBITDA	719	909	956	1,232	1,648	2,141	2,683	3,374	4,096
Operating Profit	653	839	893	1,132	1,525	2,005	2,450	3,035	3,744
NOPLAT	537	688	663	1,035	1,371	1,826	2,098	2,702	3,131
Net Income	273	355	463	612	1,021	1,175	1,512	1,896	2,436
EPS (M\$)	0.31	0.40	0.52	0.69	1.19	1.31	1.69	2.12	2.72
CEPS (M\$)	0.40	0.56	0.61	0.99	1.44	1.80	2.16	2.81	3.35
Assets	3,438	4,364	4,947	7,544	10,010	12,167	17,119	19,986	23,893
Net Debt	773	791	600	1,688	589	106	414	646	889
Shareholders' Equity	1,142	1,476	1,910	2,519	5,406	6,758	8,490	10,191	12,612
Invested Capital	2,669	3,234	3,649	5,673	7,758	9,065	11,453	13,938	17,112
<b>Real Growth Rates</b>									
Revenues	25%	21%	10%	22%	19%	21%	18%	20%	19%
EBITDA	20%	21%	0%	24%	27%	26%	20%	21%	17%
NOPLAT	12%	23%	-9%	50%	26%	29%	10%	24%	12%
Net Income	-13%	24%	23%	27%	58%	11%	24%	21%	24%
EPS	-15%	24%	23%	28%	64%	7%	24%	21%	24%
CEPS	12%	34%	1%	57%	38%	21%	15%	26%	15%
<b>Profitability</b>									
Gross Margin	34.5%	34.7%	32.5%	32.4%	33.2%	33.7%	33.9%	34.1%	34.1%
Gross Margin (ajdusted)	36.1%	36.0%	33.4%	33.7%	34.4%	34.8%	35.3%	35.6%	35.2%
EBITDA Margin	25.8%	25.7%	23.3%	23.5%	25.1%	26.1%	26.7%	27.1%	26.6%
Operating Margin	23.4%	23.8%	21.7%	21.6%	23.2%	24.5%	24.4%	24.3%	24.3%
Operating Margin (adjusted)	25.1%	25.0%	22.6%	22.9%	24.5%	25.6%	25.7%	25.8%	25.5%
NOPLAT Margin	19.2%	19.5%	16.1%	19.8%	20.8%	22.3%	20.9%	21.7%	20.3%
Net Margin	9.8%	10.0%	11.3%	11.7%	15.5%	14.3%	15.0%	15.2%	15.8%
ROE	19.8%	26.6%	26.7%	27.2%	25.3%	19.0%	19.5%	20.0%	21.0%
ROA	8.6%	8.9%	9.7%	9.7%	11.4%	10.4%	10.2%	10.1%	10.9%
ROIC	21.2%	22.9%	18.8%	21.9%	20.0%	21.4%	20.1%	20.9%	19.9%
<b>Working Capital</b>									
Days Accounts Receivable	102	105	115	113	123	145	152	170	177
Days Inventory	441	434	382	410	448	402	402	428	406
Days Accounts Payable	97	109	90	105	101	72	80	128	131
Cash Cycle Days	446	431	406	418	471	475	473	470	452
Working Capital as % of Sales	87%	84%	90%	92%	100%	101%	100%	101%	98%
Changes in WC as % of Sales	11%	15%	4%	34%	26%	11%	19%	14%	17%

Note: Gross margin adjusted is for capitalized interest. Source: Company data, Morgan Stanley Research Estimates

Exhibit 6

## URBI — Key Projection Ratios (2)

	2000	2001	2002	2003	2004	2005	2006	2007e	2008e
<b>Liquidity, Debt &amp; Capital</b>									
Current Ratio	2.6	2.6	3.9	3.3	5.0	7.1	4.5	4.0	4.1
Quick Ratio	0.8	0.8	1.3	0.9	2.0	3.2	2.1	1.9	1.9
Debt / Equity	86.8%	75.6%	52.4%	83.0%	30.5%	28.5%	32.6%	31.7%	26.5%
Net Debt / Equity	67.6%	53.6%	31.4%	67.0%	10.9%	1.6%	4.9%	6.3%	7.0%
Interest Coverage	2.3	2.7	4.1	4.5	5.0	4.6	5.3	5.0	6.8
Assets / Equity	3.0	3.0	2.6	3.0	1.9	1.8	2.0	2.0	1.9
Sales / Equity	2.4	2.4	2.3	2.2	1.5	1.3	1.3	1.3	1.3
<b>Units Sold</b>									
Affordable Entry Level	13,750	14,292	15,127	15,463	15,614	17,272	20,345	18,545	28,590
Lower Middle Income	785	1,580	2,190	3,052	3,236	4,510	5,597	6,008	7,901
Middle Income and Residential	101	186	394	1,556	2,941	3,087	3,338	3,152	4,313
TOTAL	14,636	16,058	17,711	20,071	21,791	24,869	29,280	27,705	40,804
Yr/Yr Growth	19%	10%	10%	13%	9%	14%	18%	-5%	47%
<b>Average Selling Prices</b>									
Affordable Entry Level	181	201	201	202	217	237	250	266	277
Lower Middle Income	310	328	367	368	395	432	453	473	501
Middle Income and Residential	634	691	664	636	651	695	730	764	811
TOTAL (unweighted)	191	219	232	261	302	329	343	370	377
Yr/Yr Real Growth (unweighted)	5%	10%	0%	8%	10%	6%	0%	4%	-1%
Yr/Yr Real Growth (weighted average)	3%	6%	-4%	-4%	1%	6%	1%	2%	1%
<b>Other</b>									
Effective Tax Rate	44%	43%	40%	36%	26%	31%	29%	30%	30%
Cash Tax Rate	13%	14%	24%	7%	11%	8%	16%	12%	18%
Operating Expenses as % of Sales	11.1%	11.0%	10.8%	10.8%	10.0%	9.2%	9.6%	9.8%	9.7%
Operating Expenses ex-D&A as % of Sales	10.4%	10.3%	10.1%	10.1%	9.4%	8.7%	8.6%	8.5%	8.6%
Operating Expenses Per Unit Sold (M\$ 000s)	21.11	24.14	25.01	28.17	30.06	30.45	32.89	44.04	36.75
Deferred Taxes as % of Inv + AR	27%	28%	27%	23%	22%	23%	20%	19%	18%
Deferred Taxes as % of Invested Capital	28%	30%	31%	26%	23%	24%	22%	22%	21%
<b>Macro Assumptions</b>									
Inflation - CPI (EoP)	9.0%	4.4%	5.7%	4.0%	5.2%	3.3%	4.1%	3.6%	3.4%
Interest Rates - TIIE Rate (EoP)	18.4%	7.9%	8.5%	6.3%	9.0%	8.6%	7.4%	7.3%	6.5%
Exchange Rate (EoP)	9.61	9.16	10.46	11.24	11.15	10.64	10.83	11.00	11.10
GDP Real Growth (Year-End)	6.9%	-0.3%	0.7%	1.3%	4.4%	3.0%	4.8%	3.3%	3.6%


Source: Company data, Morgan Stanley Research Estimates

**Valuation.** Our valuation work for the homebuilders is based on discounted cash flow analysis and economic profit models. Our target prices are based on the average fair value implied by our discounted cash flow and economic profit valuation models. In our analysis, we use weighted average cost of capital of 10.2% for Urbi and a long-term growth rate of 3%.

**Risks.** Among other, the risks we see for this company and the industry are that Mortgage flow for low-income housing depends almost entirely on three government-sponsored/mandated housing entities — Infonavit, Sociedad Hipotecaria Federal, and Fovissste — which supply 80–90% of the total mortgages in Mexico every year. Given that the key driver of housing volumes is the flow of mortgages, delays or shortfalls in any of these agencies' mortgage programs normally result in lower revenues and profitability for the homebuilders.

Also, we consider the uncertainty in the region's economic climate as the key long-term investment concern related to Latin American homebuilders. In the past, economic instability has resulted in great share price volatility. A scenario of economic contraction, inflation, and currency devaluation could have a significant negative impact on our outlook for the homebuilders.

**Industry View: Attractive.** Growth stories are difficult to find today, and we think homebuilding and mortgage lending are the most powerful secular growth stories in Mexico today.

	<p><b>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.</b> For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of August 31, 2007)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>934</b>	<b>41%</b>	<b>321</b>	<b>43%</b>	<b>34%</b>
<b>Equal-weight/Hold</b>	<b>1015</b>	<b>44%</b>	<b>328</b>	<b>44%</b>	<b>32%</b>
<b>Underweight/Sell</b>	<b>333</b>	<b>15%</b>	<b>92</b>	<b>12%</b>	<b>28%</b>
<b>Total</b>	<b>2,282</b>		<b>741</b>		

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**Overweight (O or Over)** - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

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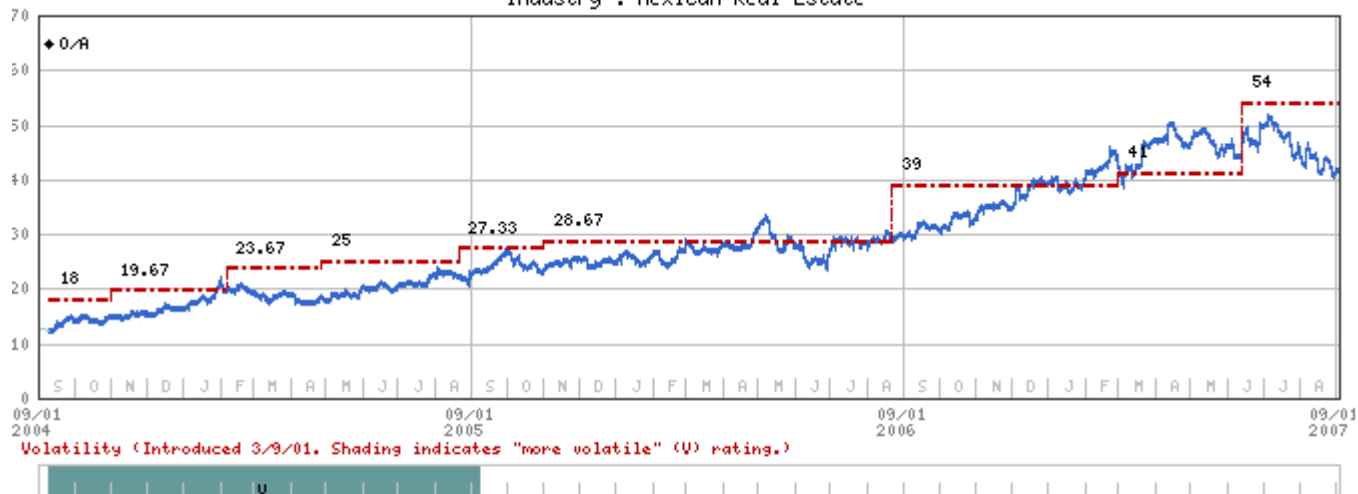
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## Stock Price, Price Target and Rating History (See Rating Definitions)

Urbi Desarrollos Urbanos (URBI.MX) - As of 9/2/07 in MXN  
Industry : Mexican Real Estate



Stock Rating History: 9/10/04 : 0/A

Price Target History: 9/10/04 : 18; 10/31/04 : 19.67; 2/6/05 : 23.67; 4/27/05 : 25; 8/21/05 : 27.33; 11/1/05 : 28.67; 8/21/06 : 39; 2/28/07 : 41; 6/13/07 : 54

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) —      Stock Price (Covered by Current Analyst) ■  
 Stock Ratings abbreviated as below ( Effective 3/18/02, ratings appear as Stock Ratings/Industry View ) ♦  
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)  
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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**Industry Coverage: Mexican Real Estate**

Company (Ticker)	Rating (as of)	Price (09/03/2007)
<b>Jorge Kuri</b>		
Consortio ARA (ARA.MX)	E (05/17/2006)	M\$16.81
Corporacion GEO (GEOB.MX)	O (09/10/2004)	M\$57.99
Desarrolladora Homex (HXM.N)	O (08/30/2005)	US\$55.1
Urbi Desarrollos Urbanos (URBI.MX)	O (09/10/2004)	M\$42.26

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