

Urbi Analyst Update (URBI.MX)

Rating	OUTPERFORM*
Price (29 Aug 07)	3.69 (US\$)
Target price (12M)	(from 6.38) 6.38 (US\$)
52 week high - low	4.75 - 2.63
Market cap. (US\$ m)	3,304.54
Enterprise value (US\$ m)	3,246.43

*Stock ratings are relative to the relevant country index

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COMPANY UPDATE

Growth strategy and guidance maintained

Urbi's management held its 2007 Analyst Update yesterday in Mexico City. They reiterated their financial outlook for the next five years and gave an updated on the progress made in their main growth strategies. Here we highlight details that were not discussed in our Construction and Mortgage Field Trip held last week.

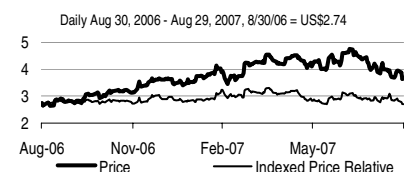
Strategies for tapping unattended markets on track

- **Subsidy program for economic segment in place.** As the largest player in the government's 2006 pilot program for about 10K subsidies, Urbi sees itself as being well prepared to be one of the most active participants going forward. The expectation of 90K subsidies being granted only in 2007 (according to Mr. Carlos Gutierrez, head of the National Housing Commission CONAVI), leaves us comfortable with our forecast of 42K economic unit sales for Urbi in the 2007-2011 period.
- **Bullish on the "rent to own" program for the informal sector.** Urbi's management continues to be very optimistic regarding the Alternativa Urbi product which looks to attend the housing needs of individuals that cannot prove 100% of their income, are not affiliated to INFONAVIT or FOVISSSTE or do not have enough savings for a downpayment. Considering that at least 50% of the 2 million households with basic housing needs is in the informal economy, we believe there is an ample market to attend, which should ensure Urbi's success in the "rent to own" program.

Becoming increasingly confident on 2007-2011 guidance

Following a very strong 2007E year and given the successful start up of the "city licensee manager" and "land owner partner" programs, we believe Urbi's guidance of doubling in size over the 2007-2011 period could prove conservative – It would imply a slowdown from 20-22% revenue growth in 2007 to less than 15% average growth in the next four years. We are thus maintaining our expectation of 20% increase in revenues in 2008 and 16% in average for the next three years.

Share price performance



On 08/29/07 the Mexico IPC Index (USD) index closed at 2,681.14.

Quarterly EPS	Q1	Q2	Q3	Q4
2006A	0.01	0.01	0.01	0.01
2007E	0.03	0.05	0.05	0.06
2008E	0.06	0.06	0.06	0.06

Financial and valuation metrics

Year	12/06A	12/07E	12/08E
EPS (CS adj., US\$)	0.15	0.19	0.24
Prev. EPS (US\$)		0.20	0.24
P/E (x)	24.5	19.1	15.1
P/E rel. (%)	1635.3	1342.5	1369.8
Revenue (US\$ m)	897.4	1,133.5	1,369.5
EBITDA (US\$ m)	239.4	303.1	366.4
OCFPS (US\$)	0.27	0.34	0.41
P/OCF (x)	13.5	10.9	9.0
EV/EBITDA (current)	14.0	10.7	8.8
Net debt (12/06A, US\$ m)	38.3	-58.1	-96.4
ROIC	20.8%	22.4%	25.4%
Number of shares (m)	895.77	IC (12/07E, US\$ m)	1,032.60
BV/share (current, US\$)	0.88	EV/IC (x)	3.2
Net debt (current, US\$ m)	40.5	Dividend (current, US\$)	—
Net debt/Total cap. (current)	4.9%	Dividend yield	—

Source: Company data, Credit Suisse estimates.

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Net/net – no change in view since our Construction & Mortgage Field Trip

We continue to see the company on the right path to achieving its five-year guidance via its innovative growth strategies and solid business model. However, as we mentioned in our report published two days ago, since Urbi’s growth story is more dependent on mortgage lending activity by banks and sofos (50% of revenues is middle-income) we do not see the stock as the safest play in a scenario of continued shortage of liquidity. Therefore, Homex remains our top pick, followed by Urbi.

Companies Mentioned (Price as of 29 Aug 07)
 Urbi (URBI.MX, \$3.69, OUTPERFORM, TP \$6.38, OVERWEIGHT)

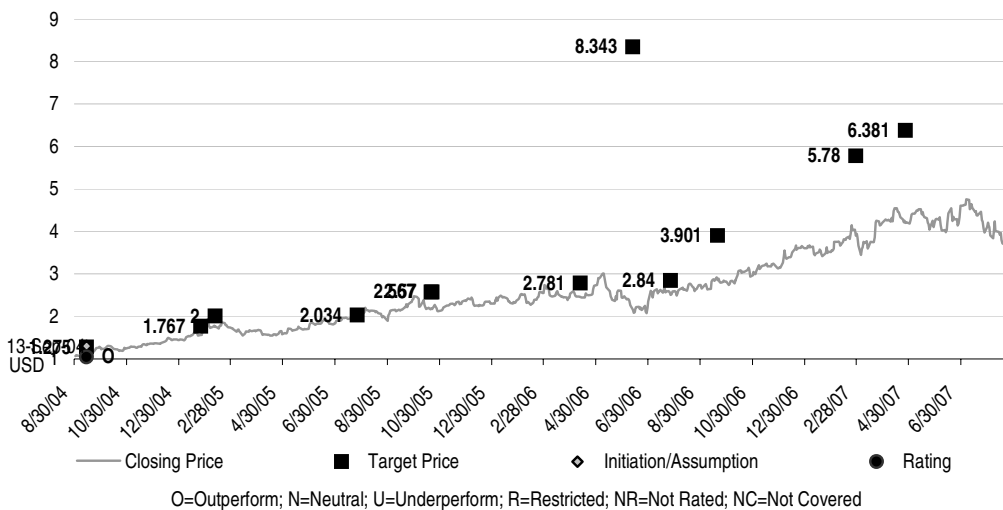
Disclosure Appendix

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for URBI.MX



URBI.MX Date	Closing Price Price (US\$)	Target Price Price (US\$)	Rating	Initiation/ Assumption
9/13/04	1.043	1.275	OUTPERFORM	X
1/24/05	1.557	1.767		
2/10/05	1.75	2		
7/26/05	1.965	2.034		
10/20/05	2.186	2.567		
10/21/05	2.175	2.57		
4/12/06	2.461	2.781		
6/12/06	2.15	8.343		
7/26/06	2.506	2.84		
9/19/06	2.846	3.901		
2/27/07	3.893	5.78		
4/26/07	4.201	6.381		

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Price Target: (12 months) for (URBI.MX)

Method: We base our 2007 P\$73 (US\$6.38) target price for URBI on the discounted cash flow to equity shareholders method, using a cost of equity of 10.8% and assuming a 5.0% perpetuity growth rate. At our target price, Urbi would trade at a 2007E price/earnings multiple of 31.8x and an enterprise value/earnings before interest, taxes, depreciation and amortization multiple of 19.5x, which compares to the Mexican housing sector's 28.4x and 16.1x, respectively.

Risks: The following risks could impede achievement of our P\$73 (US\$6.38) target price for Urbi: (1) sharp increases in interest rates and inflation, and an economic slowdown; (2) lower-than-expected availability of mortgage supply from commercial banks; (3) Infonavit's inability to reach nonperforming loans and securitization targets; (4) a housing oversupply in the Northern region, where Urbi is the leading player; and (5) the ability to grow efficiently in the low-income segment so as to maintain margins at the consolidated level.

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