MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Emaar's outlook to positive; affirms Ba1 ratings

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London, 25 February 2015 -- Moody's Investors Service has today changed to positive from stable the outlook on the Ba1 corporate family rating (CFR) and the Ba1-PD probability of default rating (PDR) of Emaar Properties PJSC. Concurrently, Moody's has affirmed all ratings including the Ba1 ratings on the two sukuk issued under Emaar Sukuk Limited. The outlook on all ratings is positive.

"The change to positive outlook reflects the strengthening of Emaar's real estate development, hospitality and retail operations, its disciplined approach to capital expenditure during the recent market up-cycle, which together with the firm's solid liquidity position and sizeable property sales backlog will insulate the company against an anticipated moderate price correction in the Dubai real estate market," says Rehan Akbar, an Analyst in Moody's Corporate Finance Group and local market analyst for Emaar.

RATINGS RATIONALE

The affirmation of Emaar's Ba1 ratings reflects Moody's expectation that its malls and hospitality operations will remain resilient through a softening market environment, while customer cash collections in the property development business will not be significantly impaired despite the expected market correction.

While strong growth in the Dubai real estate market in 2012-14 indicated the potential for overheating of the housing market, Dubai's property market has reached an inflexion point, with prices remaining broadly flat in the second half of 2014 amid rising supply and tighter regulations.

As regional geopolitical events, low-oil prices and a strengthening dollar have created a more uncertain investment climate, Moody's believes that the demand for Dubai property is likely to weaken further and lead to a moderate market correction in 2015, although in the long run, this adjustment should prove to be positive and ensure market sustainability.

Emaar will likely remain resilient to this correction, as its business and financial profile is significantly stronger than it was during the previous real estate cycle. This is due to its (1) substantial property sales backlog in excess of AED26 billion (USD7.1 billion), of which Moody's estimates about half of the cash has yet to be received in the coming three years; (2) robust liquidity, with a significant cash cushion of AED9.3 billion of unrestricted cash and a termed out debt maturity profile; and (3) ownership of a portfolio of mature recurring-revenue property assets, including its flagship Dubai Mall and The Address brand of hotels.

The rating also takes into account the (1) development and execution risks given the capital intensive nature of the business and sentiment-driven customer base; (2) concentration risks stemming from Emaar generating the majority of its cash flows from Dubai; and (3) uncertainty around the timing and quality of investment returns from international operations where core countries such as Turkey, Egypt and Lebanon face economic and political challenges.

LIQUIDITY

Moody's views Emaar's liquidity as being robust as of end-September 2014, with more than adequate cash sources to meet the total amount of AED723 million in short-term debt as well as the next material debt maturity, the $500 million sukuk due in August 2016. The company also had sizeable cash balances of AED9.3 billion as well as AED7.6 billion of cash in escrow accounts or to be maintained as deposits. Funds from operations are expected to be in excess of AED4.5 billion in 2015, with large working capital inflows helping to fund property development commitments. In addition, Emaar has access to about $500 million through its Islamic revolving credit facility due in 2020.

Emaar has a significant multi-year capex programme with capex budgeted at AED5.5 billion for 2015, of which it will invest a majority in Dubai to grow its recurring income. Moody's notes that Emaar's budgeted capex for 2014 was similarly high at AED5.0 billion, but only AED950 million was spent in the first nine months of 2014. Although capex in 2015 is anticipated to be significantly higher than in 2014, past behaviour alleviates execution risk concerns and points to the discretionary nature of the capex programme. Moody's anticipates that Emaar will delay investments should the market outlook remain weak in order to preserve liquidity.

RATIONALE FOR POSITIVE OUTLOOK

The change of outlook to positive reflects the potential upward pressure on the rating owing to the growing diversification of Emaar's business, the increased proportion of revenues that are recurring, its sizeable property sales backlog, strong liquidity and the strengthening of its financial metrics.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating could be upgraded if Emaar's financial performance remains resilient in the currently soft operating environment while continuing to maintain a balanced financial policy. This assumes maintaining stable gross financial debt while deepening its portfolio of recurring income generating assets and making shareholder disbursement in line with historical payouts (excluding the recent special dividend). Furthermore, Emaar's financial profile should translate into debt/capitalisation leverage remaining below 30% and interest coverage (EBIT/Interest Expense + Capitalized Interest) above 6.0x.

Emaar's ratings could come under negative pressure if the company's credit strength were to deteriorate substantially, resulting in debt/capitalisation above 40% and interest coverage below 4.0x. Signs of constrained liquidity (e.g., as a result of an aggressive dividend policy) or a deteriorating trend in recurring cash flow generation would also exert negative pressure on the ratings.

The principal methodology used in these ratings was Global Homebuilding Industry published in March 2009. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Based in Dubai, United Arab Emirates, Emaar Properties PJSC ranks as one of the largest real estate master developers in the GCC by sales and market capitalisation. Emaar's main shareholder is the government of Dubai, with an approximately 29% stake. During the last twelve months ending 30 September 2014, Emaar generated revenues of AED9.8 billion.

The Local Market analyst for this rating is Rehan Akbar, 971.4.237.9565.

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