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Research Update:

Dubai-Based Emaar Properties Affirmed At 'BBB-' On Stable Performance And Strong Liquidity; Outlook Stable

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Overview

- Dubai-based Emaar Properties' liquidity has improved substantially, to strong from adequate, both as a result of strong operating cash generation and lower near-term debt maturities.
- The company's performance remains quite stable, supported by a balance between property developments and real estate leasing activities.
- We are therefore affirming our 'BBB-' long-term corporate credit rating on Emaar Properties.
- Our stable outlook reflects our view that Emaar Properties' credit metrics should withstand a potential softening in residential prices in Dubai over the next 24 months, thanks to its cushion of recurring cash flow from leasing activities and the buildup of a largely presold, high-margin development pipeline in Dubai.

Rating Action

On March 2, 2015, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term corporate credit rating on Dubai-based property company Emaar Properties PJSC. The outlook is stable.

At the same time, we affirmed the 'BBB-' senior unsecured issue rating on Emaar Properties's US$1 billion trust certificates.

Rationale

We consider that Emaar Properties' liquidity has improved, thanks to the strong cash flow generation of the company's high-margin, largely presold, Dubai-based development business and lower near-term debt maturities with liquidity sources comfortably exceeding uses by 1.5x as of Sept. 30, 2014. We have therefore revised our assessment of Emaar Properties' liquidity to "strong" from "adequate" previously. As of Dec. 31, 2014, Emaar Properties had presold properties worth UAE dirham (AED) 24 billion (approximately US$6.5 billion) in Dubai. Furthermore we view positively that most of Emaar Properties' assets are now unencumbered, owing to significant repayments of secured debt in 2014, which provide the company with additional potential sources of liquidity.

We continue to view Emaar Properties' financial risk profile as "modest" with debt to EBITDA at less than 2x, and strong cash flow adequacy, with funds from operations (FFO) to debt higher than 45%, benchmarked against other rated property developers. These ratios stood at 1.3x and 72%, respectively, as of Sept. 30, 2014. However softer market conditions in Dubai, and significant planned capital expenditures to expand the investment property portfolio in 2015 may put some pressure on Emaar Properties' credit ratios in the next 12 months. Total net debt, as adjusted by Standard & Poor's, stood at AED5.7 billion (about US$1.6 billion) on Sept. 30, 2014. The debt figure is net of bank and cash balances available for debt repayment after deducting AED7.6 billion of cash held in escrow accounts and subsequently applying a 25% haircut. We also expect the company to maintain its capacity to generate robust free cash flows, despite its high capital intensity.

Our assessment of the company's business risk profile still incorporates its status as a successful developer and the largest property investment company in Dubai. Emaar Properties has a large portfolio of high-grade assets generating stable and predictable rental income (55% of earnings on Sept. 30, 2014), an attractive land bank, a cautious pre-selling development strategy, and a reputation for high-quality projects. However, Emaar Properties should still derive about one-half of its earnings from development activities, which we view as cyclical and capital intensive, and we foresee a potential softening in real estate prices in Dubai that should limit Emaar Properties' ability to pre-sell more developments in the next 12 months. Therefore we continue to assess the company's business risk profile as "fair."

In our base case, we assume:

- Sales of real estate developments slowing due to softening prices and lower economic growth.
- Significant working capital outflow in 2015 on the back of spending on development properties, despite significant cash collection in the form of milestone payments from customers.
- Marginal growth in the leasing business, thanks to robust and long-term lease structures that are in place with the existing tenants, partly offset by more moderate uplifts on lease renewals. Margins to remain stable.
- Some downward pressures on the hospitality business, mainly owing to anticipated lower tourist arrivals and economic growth in Dubai. Margins to remain stable.
- Capital expenditures of about AED5.5 billion-AED6 billion in 2015.
- Dividend payment of AED0.10 per share, the same as the ordinary dividend paid in 2014.

Based on these assumptions, we arrive at the following credit measures for the next 12 months:

- Debt to EBITDA to be between 1.5x and 2x.
- FFO to debt to be between 45% and 60%.

Although the Dubai government has a 29% stake in Emaar Properties, we continue to view the probability that the government would provide extraordinary government support to Emaar Properties, if needed, as "low." Our 'BBB-' rating on Emaar Properties therefore reflects our assessment of its stand-alone credit profile at 'bbb-', with no uplift for potential extraordinary government support.

Liquidity

We view Emaar Properties' liquidity as "strong," with liquidity sources comfortably exceeding uses by 1.5x as of Sept. 30, 2014. The company has some discretion over the timing of capital expenditures and investments in working capital and in our view maintains solid relationships with its banks.

Principal liquidity sources are:

- Cash and cash equivalents of AED16.9 billion (about US$4.6 billion), of which AED7.6 billion of cash held in escrow accounts with Real Estate Regulatory Agency, Dubai's real estate regulator.
- AED1.7 billion available under US$500 million loan facilities with amortization starting in 2018.
- Our estimate of cash flow from operations of about AED3.0 billion-AED4.0 billion for the next 12 months.

Principal liquidity uses are:

- Short-term debt of AED723 million.
- AED5.5 billion-AED6.0 billion in capital expenditures of investment properties.
- Dividend payment of AED0.10 per share, the same as the ordinary dividend paid in 2014.

Emaar Properties currently has ample headroom under its financial covenants, with net debt to equity and net debt to EBITDA of less than zero, tangible assets of US$21.9 billion, and EBITDA interest coverage of 8.1x.

Outlook

The stable outlook reflects our view that Emaar Properties should withstand a potential softening in residential prices in 2015, thanks to its cushion of recurring cash flow from leasing activities and the buildup of a largely presold, high-margin development pipeline in Dubai. We believe that the company will continue deriving most of its cash flows from development activities over the coming two years. We consider a debt-to-EBITDA ratio of less than 2x and a FFO-to-debt ratio of more than 45% as commensurate with our current 'BBB-' rating on Emaar Properties.

Upside scenario

We could consider upgrading Emaar Properties if we saw a further increase in the company's recurring revenues large enough to fully mitigate fluctuations in operating cash flows and working capital of development-related activities. Credit metric targets will depend on the company's business risk profile (majority developer or property investment company). But we would expect the targets to correspond to at least our "modest" financial risk category, as per our methodology, even under less-favorable market conditions than those prevailing in Dubai in 2014.

Downside scenario

We could consider downgrading Emaar Properties if it failed to maintain our adjusted debt-to-EBITDA ratio at less than 2x, and FFO-to-adjusted debt ratio at more than 45%, or if its cash flow from operations unexpectedly turned negative. This could result from a more sharply weakening demand for real estate in Dubai than we currently anticipate or the company's adoption of a more aggressive financial policy.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Fair
- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: bbb-

Modifiers
- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Liquidity: Strong (No impact)
- Financial policy: Neutral (No impact)
- Management and governance: Satisfactory (No impact)
- Comparable rating analysis: Neutral (No impact)

Stand-alone credit profile: bbb-
- Sovereign rating: Not rated
- Likelihood of government support: Low (+0 notches)

Related Criteria And Research

- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Ratings Affirmed

Emaar Properties PJSC	
Corporate Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Emaar Sukuk Ltd.	
Senior Unsecured	BBB-

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