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RATING ACTION COMMENTARY

Fitch Publishes Emaar Properties' 'BBB-' IDR; Outlook Stable

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Fitch Ratings - London - 01 Feb 2022: Fitch Ratings has published Dubai-based real estate company Emaar Properties PJSC's (EP) 'BBB-' Long-Term Issuer Default Rating (IDR). The Outlook is Stable.

EP benefits from diverse revenue generated through its conglomerate structure, despite some correlation between activities. Its portfolio of high-quality shopping centres and retail assets generates stable, recurring revenue and typically accounts for around half of group EBITDA. This helps mitigate inherently volatile cash flow from subsidiary Emaar Development PJSC (ED), which primarily stems from residential asset sales. Both divisions have shown good recovery through 3Q21 with sales significantly increasing. Emaar benefits from its strong brand name in the GCC, due to its role as one of the key master developers in the UAE.

The Stable Outlook reflects the recovery in the operating environment, which has benefited from a government vaccination programme and stimulus packages and higher oil prices, and has significantly boosted ED's residential sales and retail sales and footfall.

KEY RATING DRIVERS

Conglomerate Structure: EP benefits from a diverse range of revenue sources, including recurring rents from malls, development sales, entertainment and hospitality assets and international operations. Recurring revenue typically generates about half of group

EBITDA (depending on the amount of ED sales and revenue), which mitigates some of the volatility and working capital-intensiveness of ED's development business.

EP is one of the largest real estate companies in the UAE and has a strong international brand. Emaar typically sells the residential properties, but retains other assets, such as shopping centres, to lease or own and operate.

Strong Recovery in UAE: The improved operating environment was evident in 2021. ED's residential sales through 3Q21 surpassed AED21 billion (3Q20: AED4.4 billion), generating revenue of AED11.6 billion (3Q20: AED7.1 billion) and delivering 3,700 units (3Q20: 2,500). Sales of villas and beachfront properties were especially strong as buyers sought outdoor space. The retail portfolio also showed strong recovery with rental income (base, plus turnover rents) growing around 40% through 3Q21 compared with 9M20, while cost-cutting meant EBITDA grew by more than 50%.

Milestone Achievement Frees Restricted Cash: ED mostly develops master plan communities comprising residential, office, retail, hospitality and leisure assets. ED sells the residential properties, but is paid a fee by EP to develop build-to-lease and build-to-own assets. At 3Q21, ED's backlog was around AED28.5 billion, which will be recognised over the next three to four years.

ED is developing nine large projects, including Downtown Dubai, Dubai Creek and Emaar Beachfront, totalling more than 25,000 residential units. By value, 90% have been sold. Achieving building milestones allows restricted cash to be released from escrow accounts, which then fund ongoing projects and related working capital, limiting debt needs.

Land Bank: The land bank includes 335 million sq. ft in UAE and 1.3 billion sq. ft abroad (mainly in Saudi Arabia for King Abdullah Economic City, scheduled to complete in 2046). Historically, the UAE government as part of its development strategy granted land to Emaar, but the company has completed developments on this land. EP now opportunistically purchases land with extended payment plans, or sources it through joint venture partners, which minimises Emaar's upfront cash.

High-quality Retail Portfolio: EP owns and operates a portfolio of more than 36 retail assets with a gross leasable area of 6.8 million sq. ft. The 4.3 million sq. ft Dubai Mall, one the world's largest malls, with 2019 footfall exceeding 80 million, generates more than 80% of total rent. The Dubai Mall is reliant on tourism and consequently suffered from the pandemic when international borders shut. Rental income in 2020 dropped by around 40%, owing to rental waivers during lockdowns and assistance to vulnerable tenants. Tenant assistance ended by 1H21, but helped maintain occupancy of 96% for the Dubai Mall and 91% for the portfolio.

The average lease length is a relatively short 3.6 years, which allows rental increases in a buoyant market, but can mean decreasing rents if the oversupplied Dubai market weakens again.

Limited Mall Development Exposure: The key asset under development is the 2 million sq. ft Dubai Hills Mall, which is being undertaken by a joint-venture of EP and Meraas. Following pandemic-related delays, it is scheduled to open in 1Q22. EP is also developing the relatively small Expo Mall, scheduled to open in 2023 in south Dubai. The total capex programme is expected to remain largely unchanged, at around 11% of revenues per year on a consolidated basis for 2022 to 2025.

International Development Reducing Concentration: EP generates about 85% of revenue in Dubai, but operates in 10 other countries. The subsidiaries are locally managed, mainly self-funding, but not ring-fenced from EP. Revenue is largely generated from property sales, with a backlog of AED18.4 billion (30 September 2021), but recurring revenue is generated through Emaar Square Mall in Turkey and the company is developing Uptown Cairo Mall, which will be Egypt's largest shopping centre.

While growing international operations are reducing revenue concentration on UAE, the operational dynamics in countries such as India, Pakistan, Turkey and Egypt vary considerably and can complicate replicating Emaar's business model internationally.

Fitch's Analytical Approach: EP operates a central treasury with no ring-fencing within the group, apart from ED and Egypt, which are carved out and managed on an arm's-length basis. Fitch therefore rates the group on a consolidated basis. Given Emaar's range of business activities, in its analysis Fitch redistributes group debt relative to each division's EBITDA, assigning debt capacity consistent with an investment grade financial profile for their respective business activities. Remaining group debt is then applied to the rental portfolio, which generates recurring rents that can support higher levels of debt than the group's development or hospitality companies.

Conservative Financial Position: The group's EBITDA gross leverage grew to around 6x at end-2020 (2019: 3.0x), owing to the drop in EBITDA, but we expect it to have returned to 3.0x by end-2021. Similarly, interest coverage fell to 4x at end-2020, but is forecast to have grown to 8x by end-2021. Under Fitch's analytical approach, the remaining debt/recurring EBITDA is forecast to be 7.3x at end-2021 (2020: 8.5x) as EBITDA recovers, falling to 6.3x in 2022.

DERIVATION SUMMARY

Emaar has a conglomerate structure, akin to Dubai-based Majid Al Futaim (MAF; BBB/Stable). Two of MAF's companies generate nearly all cash flows. Majid Al Futtaim Properties (MAFP), which owns and operates a portfolio of 29 shopping centres and 13 hotels that generates more than 60% of group EBITDA. Majid Al Futtaim Retail (MAFR) operates 378 Carrefour franchises in 17 countries and generates around 40% of EBITDA.

Both companies generate stable recurring revenue from a portfolio of shopping mall and hotels. Like Emaar, MAF's shopping malls are mainly high-quality assets in prime locations, but include some smaller assets in secondary locations. Both companies have single asset concentration. Emaar owns the 4.3 million sq. ft Dubai Mall, one of the largest shopping centres in the world, which generates around 80% of rental-derived EBITDA, while MAF owns and operates the 2.6 million sqft Mall of the Emirates, which generates more than half of MAF's EBITDA.

Emaar's focus on homebuilding sets it apart from MAF. Through ED, Emaar mainly develops high-end master plan communities, typically selling the residential assets and retaining the assets to lease or to own and operate. Assets sales typically generate about 50% of group EBITDA. With about two-thirds of EBITDA generated by recurring rents, MAF's cashflow are generally less volatile than Emaar's, which are exposed to volatile residential development.

Emaar's position as a master-builder in Dubai, and its conglomerate structure, means it operates a different business model than peer homebuilders. With 2020 revenue of around USD2.7 billion (2019: USD3.5 billion), ED is comparable with Russia's PJSC PIK Group (BB-/Stable), the largest developer in Russia and much larger than UK-based Miller Homes Group Holdings plc (BB-/RWN), Spain-based Neinor Homes, S.A. (BB-/Stable) and London-focussed Berkeley Group Holdings plc (BBB-/Stable).

KEY ASSUMPTIONS

Recurring Property Portfolio:

Average occupancy ratios above 95% for super regional and regional malls

A recovery in rental income as pandemic-related abatements are no longer granted, and footfall recovery for tenants.

Under Fitch's analytical approach to debt capacity, remaining group debt/rental-income derived EBITDA below 9x over the forecast period

Emaar Development

100% owned projects under development that amount to AED40 billion, completing through 2025 with a 40% average collection during construction, 35% at handover and 25% post-handover payments plans

Under Fitch's analytical approach to debt capacity, leverage on a standalone basis is expected to remain at 1x over the forecast period

International Development

Gradual recovery in Emaar's key markets such as Egypt and India

International development contributing on average 15% of Emaar's consolidated EBITDA in 2021 and 2022

Consolidated Profile

Low capex intensity ratio at 11% over the forecast period

FCF outflow due to increased dividend payments of AED2 billion per year in 2021 and 2022

Gradual recovery in the consolidated leverage profile by end-2021 to 3.1x

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Overall improvement in domestic property real estate, lowering the oversupply of units and reducing Emaar's business risk.

With the current mix of group activities, consolidated EBITDA gross leverage consistently below 3.5x.

Decrease in existing asset concentration contributions to group EBITDA.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Under Fitch's analytical approach, the group's remaining gross debt/recurring rental income-derived EBITDA leverage increasing above 9.0x.

With the current mix of group activities, consolidated EBITDA gross leverage increasing beyond 4.5x

Liquidity Score below 1x.

Material deterioration in property market adversely impacting ED's working capital and business profile.

Volatility in international property development causing EP to increase borrowings to finance international projects.

Material decrease in occupancy rates at Emaar Malls leading to a material reduction in profits.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Emaar had reported cash of AED10 billion at H121, but AED5 billion is deposited in escrow accounts for unclaimed dividends and advances received from customers against property sales. We have restricted this cash, along with AED126 million under lien. The company had about AED10.6 billion available under long-term committed liquidity lines.

The company has a smooth debt maturity profile, with about AED2.2 billion of debt due in 2021, although there is more than AED7.2 billion due in 2022, mainly short- to medium-term working capital facilities that are typically rolled over. Short-term debt and undrawn facilities comfortably cover short-term debt. Despite significant working capital outflows from development, and planned capital expenditures and dividends push, we expect liquidity coverage to remain above 2.0x.

ISSUER PROFILE

EP is a Dubai-based real estate company operating principally through two entities: the parent EP and ED, a build-to-sell property business in UAE. In November 2021, Emaar Malls was delisted and, as a wholly-owned entity, transferred to another 100% owned subsidiary of EP called Emaar Mall Management LLC.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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ENTITY / DEBT	RATING		
Emaar Properties PJSC	LT IDR	BBB- Rating Outlook Stable	Publish

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 15 Oct 2021)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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Dodd-Frank Rating Information Disclosure Form

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