Research Update:

Emaar Properties PJSC And Emaar Malls Management LLC Upgraded To 'BBB-' On Strong Performance; Outlook Stable

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Rating Action Overview

- Dubai-based developer Emaar Properties PJSC reported record high United Arab Emirates (UAE) property presales of UAE dirham (AED) 27.4 billion ($7.5 billion) in 2021 amid a rebound in demand for residential real estate.
- Leverage metrics also improved faster than we expected in 2021 and will likely continue to in 2022-2023, because the group is using excess cash to repay its debt.
- We view Emaar Malls Management LLC (Emaar Malls) as material and core to parent Emaar Properties, which would provide all necessary financial and operational support in case of need after increasing ownership to 100%, leading us to view the credit quality of both companies as equal.
- We therefore raised our long-term issuer credit and issue ratings on Emaar Properties and Emaar Malls , as well as their respective debt instruments, to 'BBB-' from 'BB+'.
- The stable outlook on Emaar Properties reflects our expectation that the company will sustain funds from operations (FFO) to debt above 45% and debt to EBITDA below 2x. Our stable outlook on Emaar Malls mirrors that on Emaar Properties.

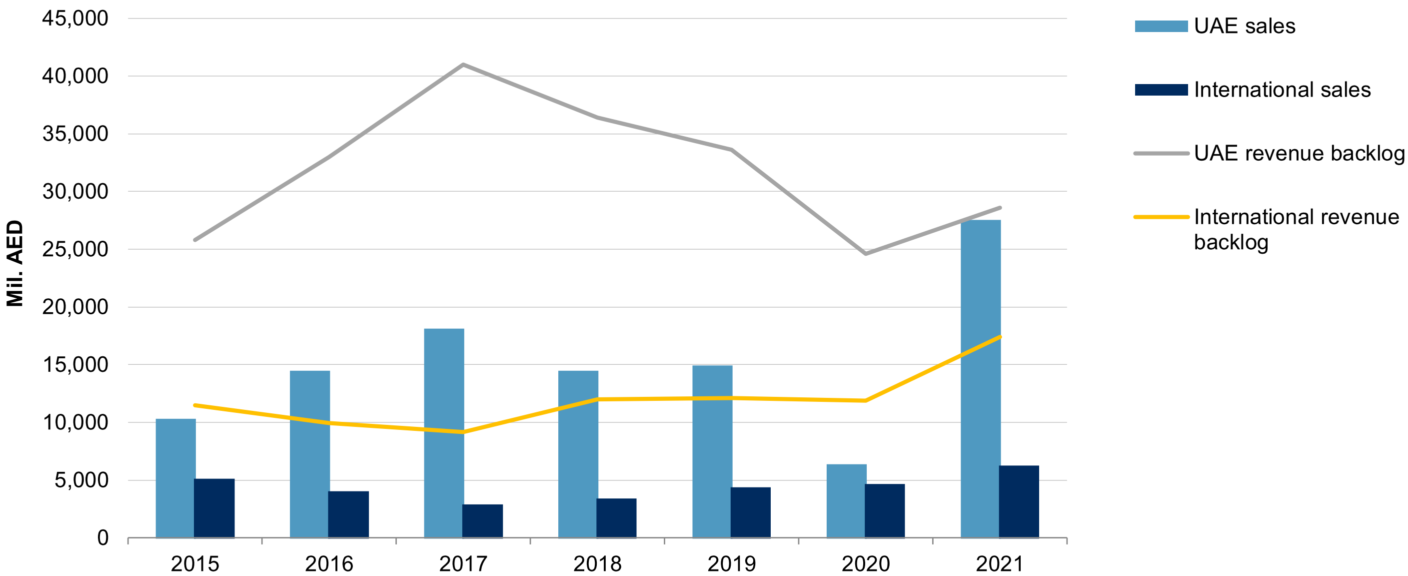
Rating Action Rationale

Expected robust demand for Dubai residential real estate in 2022-2023 will sustain stronger credit metrics for Emaar Properties (the group). Emaar Properties' presales exceeded our expectations in 2021 and we expect they will remain very strong in 2022, with high collections continuing to provide uplift to operating cash flow. Notably, as one of the UAE's prime developers, the group stands to benefit from the promising forecast for Dubai residential real estate over 2022-2023. This follows positive momentum that began at year-end 2020 and continued into first-quarter 2022, with double-digit year-on-year price increases for apartments and villas. The villa market has continued to outperform apartments with residents opting for larger and outdoor spaces during the pandemic. In addition, Dubai remains an attractive safe haven for visitors and residents. We expect continued population growth of about 2% per year in the medium term supported by various government measures intended to simplify visa processes and corporate ownership rules for expats, as well as liberalization of social laws. We don't anticipate the introduction of corporate tax (cash impact for corporates from 2024) will deter international businesses given the expected low rate. In combination, 2.0%-2.5% GDP growth per year, high oil prices, population growth, and still attractive real estate prices compared with other international cities should sustain positive market momentum.

Emaar Properties' AED28.6 billion revenue backlog for the UAE (up 16% year-on-year) and AED17.4 billion for international operations (up 46%) provide visibility on property development revenue in the next two-to-three years. The group's consolidated revenue soared 43% in 2021 to AED28.3 billion, with notable improvements across all business segments. UAE development operations accounted for the bulk of the increase (about 70%) and further benefitted from a 37% rise in value per unit sold, with the group able to sell at higher prices. We therefore think that Emaar Properties' profitability may rise slightly in 2022-2023 after a strong 2021, despite higher raw material prices and general cost inflation, helped by advantageous construction outsourcing terms that are fixed and don't allow for pass though of higher costs. With a pipeline of close to 25,000 new units under development in the UAE (including joint ventures and joint development agreements), and more than 8,000 units per year scheduled for handover in 2022-2023, we expect the group's UAE development business to report AED10 billion–AED11 billion of average annual revenue. In our view, the bulk of this will be recorded on the back of new sales, as inventories reduced over 2020-2021 due to limited new launches. Emaar Properties' international operations also reported a 30% revenue increase in 2021 led by Egypt, India, and Turkey. However, profits were hit by development property write-downs in India and other countries. We expect international revenue growth to continue at double-digit rates and account for 20%-30% of the group's consolidated revenue over the next two-to-three years.

Chart 1

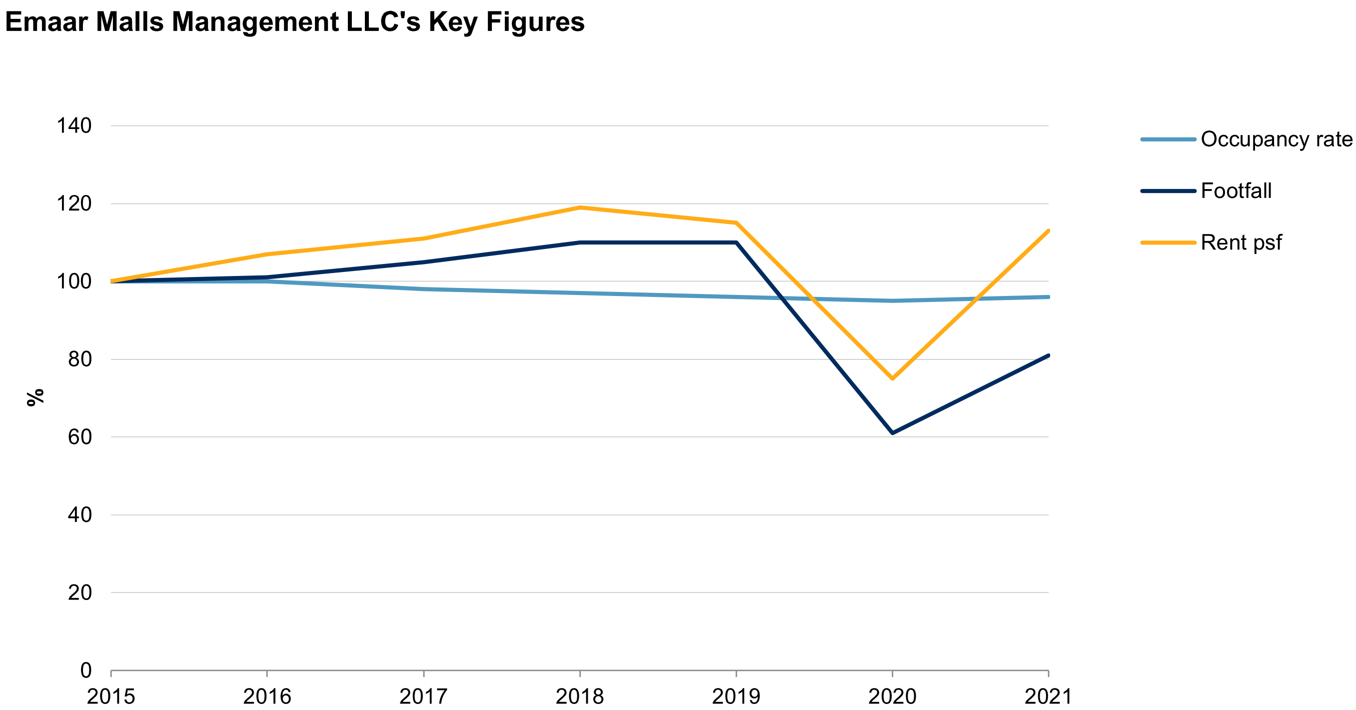
Emaar Properties PJSC's Development Operations
UAE and international



AED--UAE dirham. Source: S&P Global Ratings

Healthy retail sales supported a rental rate recovery to close to pre-COVID-19 levels for subsidiary Emaar Malls and a 57% revenue rebound (excluding Namshi). The retail sector has emerged from the contraction in 2020, with tenant sales exceeding 2019 levels and particularly strong demand for luxury products in 2021. This supported growth in rental rates broadly in line with pre-COVID-19 levels. Combined with cost efficiencies implemented during the pandemic, these factors resulted in a reported margin of 76% at Emaar Malls, close to historical levels. The expanding contribution from e-commerce arm Namshi (AED1.6 billion in revenue), was still dilutive for Emaar Mall's consolidated margin since it posted negative EBITDA of AED73 million. We expect Namshi to expand faster than mall activities going forward (at about 5%-10% per year), and therefore remain margin dilutive, with overall consolidated EBITDA margin expected at about 50% in 2022-2023. We believe that Emaar Malls' asset quality will continue to attract tenants (93% occupancy at March 31, 2022) and alleviate pressure on rental rates that we expect due to continued new supply. Emaar Properties itself delivered Dubai Hills Mall in February 2022, which has a gross leasable area of about 2 million square foot (sqf) compared with its biggest mall Dubai Mall's 3.8 million sqf. We expect that with limited capital expenditure (capex) of about AED120 million-AED150 million per year, Emaar Malls will generate about AED2.2 billion–AED 2.4 billion in free operating cash flow (FOCF) annually. In our view, this will be upstreamed to the parent, which now controls 100% of the company following the delisting at year-end 2021. We also forecast a stable adjusted debt to EBITDA ratio for Emaar Malls of 1.4x in the next two years.

Chart 2



AED--UAE dirham. Psf--per square foot. Source: S&P Global Ratings.

Our view on the rating is supported by debt reduction and sustainable deleveraging on the back of expected positive discretionary cash flow (DCF). Emaar Properties repaid about AED2.8 billion of gross debt at year-end 2021, and another AED3 billion by March 31, 2022. This is substantial and relevant for our view of the group's financial profile, since it exceeded our previous expectations. The company benefitted from strong operating cash flow in 2021, reported at AED10.8 billion. This was higher than AED8.2 billion for the previous five years combined (2016-2020) and mainly spurred by a working capital reversal with a close to AED1 billion inflow. The group's working capital requirements have historically been very material (AED32 billion in 2016-2020) but reversed in 2021 after it sold and handed-over a large share of its inventory while also collecting prepayments on newly presold properties. We expect working capital outflows to increase to about AED2 billion per year in 2022-2023, lower than historically due to our view that construction costs on new units will be partly offset by completed unit handovers and collections on new off-plan sales. We think that Emaar Properties will generate about AED7.5 billion–AED8.0 billion of EBITDA per year and AED1.5 billion–AED2.5 billion in DCF in 2022-2023, leading to gradual S&P Global Rating-adjusted debt reduction. Consequently, we think that the group's FFO to debt will remain sustainably above 45% and adjusted debt to EBITDA will not exceed 2.0.

Outlook

The stable outlook on Emaar Properties reflects our expectation that the company will sustain stronger credit metrics in 2022-2023 on the back of the market rebound and debt reduction efforts completed in 2021, which we expect to continue, such that FFO to debt remains above 45% and debt to adjusted EBITDA does not exceed 2x.

The stable outlook on Emaar Malls mirrors that on its parent, Emaar Properties. We expect stable operating performance and therefore stable adjusted debt to EBITDA of about 1.4x in 2022-2023 for Emaar Malls.

Downside scenario

We could lower the rating on Emaar Properties if its credit metrics weaken without near-term prospects of recovery. This could be triggered, in our view, by:

- A sharp fall in residential real estate demand leading to low presales, or pricing pressure that could come from a change in sentiment or increased supply.
- A slower-than-expected tourism recovery in the UAE affecting retail and hospitality players.

We could lower the rating on Emaar Malls if we lower the rating on Emaar Properties, or if we no longer consider it a core subsidiary of the group.

Upside scenario

We view the probability of a positive rating action as remote given the cyclical nature of real estate development and particularly demand volatility in Dubai. Upside could come from improving financial ratios, such as debt to EBITDA of less than 1.5x and FFO to debt of more than 60% on a sustainable basis. This could happen if the UAE real estate market remains very dynamic in the coming years and the group continues to use excess cash to reduce gross debt, therefore smoothing the inherent credit metric volatility seen over past real estate cycles.

Company Description

Emaar Properties is the largest listed property developer in the UAE. It reported revenue of AED28.3 billion in 2021, with close to 80% from domestic activities. In addition, the group has activities in Egypt, Turkey, Saudi Arabia, and India. Emaar Properties develops masterplan communities, including residential and commercial property, such as shopping centers, offices, recreational facilities, and hotels. Residential properties are typically divested, whereas the group has retained a significant portfolio of high-end retail developments and hotels in Dubai as rental and operating assets. Established in 1997, Emaar Properties has been listed on the Dubai Financial Market since 2000. Key operating subsidiaries Emaar Malls and Emaar Development were listed in 2014 and 2017, respectively. Emaar Malls was delisted at year-end 2021.

In early June 2022, the group's market capitalization was close to AED45 billion ($12 billion).

Our Base-Case Scenario

Assumptions (group level)

- Dubai's GDP expands about 2.5% in 2022, followed by 2.0% in 2023.
- Strong demand for residential real estate in Dubai will continue to support strong presales in 2022, while price increases gradually slow.
- About a 10% revenue contraction for the group in 2022, resulting mainly from lower revenue recognition for UAE development operations, given a large share of projects under construction are nearing completion. We expect to see growth in other business segments, with the exception of hospitality after the end of Expo 2020 in March and amid new supply that will pressure occupancy levels and average daily rates. We expect 2%-4% revenue growth in 2023 on the back of international revenue growth and rising contributions from Namshi and Dubai Hills Mall.
- Working capital outflows of AED2 billion to account for the construction of new units, and lower sales from inventory in 2022-2023.
- Capex of AED2.2 billion in 2022 and AED1.2 billion–AED1.5 billion in 2023.
- Dividend payments of about AED1.9 billion-AED 2.1 billion per year.

Key metrics (group level)

- S&P Global Ratings-adjusted FFO to debt of about 45% in 2022 and 50%-55% in 2023.
- Debt to EBITDA of about 1.5x-1.9x in 2022-2023.

Liquidity

We view Emaar Properties' liquidity as exceptional because we see liquidity sources exceeding uses by more than 2.0x over the next 24 months from March 31, 2022. The group had ample availability under revolving credit facilities (RCFs) at Emaar Properties and Emaar Malls maturing in more than 12 months from March 31, 2022. It also had $390 million undrawn and available under the $1 billion RCF at its subsidiary Emaar Development. However, since the availability period ends in less than 12 months (December 2022), we don't include it in our liquidity calculations (final repayment maturity is in 2025). We expect the group to renew this RCF in due course.

Liquidity sources for the next 12 months include:

- Cash of AED9.4 billion, of which AED6.6 billion is cash held in escrow accounts with the Real Estate Regulatory Agency, Dubai's real estate regulator.
- Short-term liquid investments of AED2.9 billion, of which AED1.4 billion is treasury bills in Egypt.
- Emaar Properties' undrawn revolving credit lines totaling $1.5 billion and available until December 2024 (final maturity for repayment in 2027) and Emaar Malls' $1 billion renewed RCF, which remains fully available for drawing until May 2025 (repayment in 2028).

- Cash flow from operations of AED7.5 billion-AED8.0 billion.

Liquidity uses for the same period include:

- Short-term debt of AED4.5 billion.
- About AED1.5 billion-AED2.0 billion in capex on investment properties including joint ventures.
- Significant working capital outflows of about AED2 billion per year, albeit subject to presales levels and related cash collections.
- Dividends of AED1.9 billion-AED2.1 billion per year.

Covenants

We understand that Emaar Properties is not subject to maintenance covenants. Emaar Properties is subject to incurrence covenants under its sukuks and RCFs, which become activated if the rating on the company is speculative grade. At year-end 2021, there was ample headroom under these covenants, and we expect it to remain comfortable in 2022-2023.

Issue Ratings - Subordination Risk Analysis

Capital structure

At Dec. 31, 2021, Emaar Properties' capital structure comprised $2.5 billion (AED9.2 billion) of senior unsecured sukuk certificates, AED6.6 billion of unsecured bank loans, and AED2.8 billion of secured bank loans.

Analytical conclusions

We rate debt issued by Emaar Properties 'BBB-', the same as the foreign currency issuer credit rating on the company. This reflects the absence of significant subordination risk.

Ratings Score Snapshot

Emaar Properties PJSC

Issuer 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)
- Financial policy: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

ESG credit indicators: E-3, S-3, G-2

Emaar Malls Management LLC

Issuer Credit Rating: BBB-/Stable/--

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Low
- Competitive position: Fair

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

- Group credit profile: bbb-
- Entity status within group: Core (no impact)

ESG credit indicators: E-2, S-3, G-2 Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

************* Emaar Properties PJSC *************		
Upgraded		
	To	**From**
Emaar Malls Management LLC		
Emaar Properties PJSC		
Issuer Credit Rating	BBB-/Stable/--	BB+/Stable/--
EMG Sukuk Ltd.		
Emaar Sukuk Ltd.		
Senior Unsecured	BBB-	BB+