MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Emaar Properties' Baa3 ratings; changes outlook to stable from negative

07 Jun 2022

Frankfurt am Main, June 07, 2022 -- Moody's Investors Service ("Moody's") has today affirmed Emaar Properties PJSC's (Emaar or Emaar Properties) Baa3 long-term issuer rating. Moody's has also affirmed the Baa3 ratings on the three backed senior unsecured sukuk due in 2026, 2029 and 2031 and the (P)Baa3 rating on the backed senior unsecured MTN programme issued by Emaar Sukuk Limited. The outlook on all ratings has been changed to stable from negative.

"The rating action is on the back of the strong financial performance that Emaar has been reporting over the past several quarters and is a reflection of the improved macro-economic prospects for the Emirate of Dubai as well as better operating conditions for the local real estate sector" says Lahlou Meksaoui, Vice President - Senior Analyst at Moody's.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The decision to change the outlook to stable from negative reflects Emaar's strong operating performance supported by the improving macroeconomic outlook for the Emirate of Dubai. In 2021 and Q1 2022, Emaar's property development business recorded robust revenue growth. This was due to the accelerated pace of construction and unit handover which led to high revenue recognition, as well as off-plan sales stemming from existing development projects and new launches. As of 31 December 2021, Emaar had a total revenue backlog of AED46 billion to be recognized over the next 3-4 years which offers strong revenue visibility. This strong operating performance is supported by a positive market sentiment resulting in solid demand from local and international investors. Successful vaccination campaign, limited travel restrictions and tourist inflows particularly during Expo Dubai 2020 supported international demand. At the same time, local demand increased because more end-users have taken the opportunity to enter the market as it became more affordable in 2020-2021.

As of Q1 2022, residential prices continued to increase with average increases of 11% in Dubai, according to Jones Lang Lassalle, and they are now close to the peak observed in late 2014. However, Moody's believes that rising interest rates and higher residential prices that reflect inflationary pressures are likely to soften local demand in the coming months, particularly in the secondary market, which could lead a stabilization of residential prices. In Moody's view, in the medium to long term, recent government initiatives such as new labor laws or visas options have the potential to strengthen the United Arab Emirates' (Government of United Arab Emirates, Aa2 stable) competitiveness and attractiveness to expatriates. Moody's expects the Dubai economy to continue growing at a robust pace as the Emirate has almost fully reopened because of progress on vaccinations that allowed the authorities to ease coronavirus restrictions. This is positive because it will contribute to balance supply and demand dynamics in the residential market.

In addition, Emaar's strong operating performance is also due to the strong recovery of its recurring businesses. Higher footfall, robust occupancy of 92% and significant growth in tenant sales led to higher rental revenue across Emaar's malls. Going forward, Moody's expects the recovery in tourism as well as local consumption to support healthy consumer spending growth over the next 12-18 months, which will in turn provide a boost to retail sales.

The affirmation of Emaar's ratings recognizes its healthy credit metrics and good liquidity. Moody's also considers Emaar Properties' stated commitment to an investment-grade rating and prudent measures it has taken to reduce cost and boost liquidity during the pandemic. As of 31 December 2021, adjusted EBIT to interest expense was at 5.6x and adjusted debt to EBITDA was at 2.3x. In 2023, Moody's forecasts adjusted EBIT to interest expense of 6.9x, and adjusted debt to EBITDA of 1.3x. These ratios are well within the rating agency's guidance for the Baa3 rating.

Emaar Properties' investment grade credit profile reflects the company's solid business foundation and track record of maintaining a conservative financial profile over several real estate cycles. This is due to (1) its portfolio of mature recurring-revenue assets that contribute about half of Emaar's EBITDA; (2) substantial property sales backlog which offers revenue visibility; (3) access to a sizeable land bank in Dubai primarily through strategic joint-venture (JV) partnerships with government-owned entities; and (4) good liquidity profile.

The rating also takes into account (1) the 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) limited visibility into the joint venture developments and the uncertainty around the timing and access to JV profits.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects the view that the company will maintain adjusted credit metrics in line with the Baa3 rating over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A material increase in cash flow generation from recurring revenues would be supportive of a rating upgrade in addition to a prolonged positive macroeconomic outlook for the Emirate of Dubai.

Emaar Properties' ratings could be downgraded in case of deterioration in Dubai's economic environment and debt burden. A downgrade is also likely if the ratio of adjusted debt to book capitalization increased sustainably above 30%, debt to EBITDA trended above 3.0x and EBIT to interest expense below 6.0x. Weaker liquidity because of an aggressive dividend policy, higher than expected development activities, or a deteriorating trend in recurring cash flow generation, would also exert negative pressure on the ratings.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Emaar Properties PJSC

.... LT Issuer Rating, Affirmed Baa3

..Issuer: Emaar Sukuk Limited

....BACKED Senior Unsecured MTN, Affirmed (P)Baa3

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Actions:

..Issuer: Emaar Properties PJSC

....Outlook, Changed To Stable From Negative

..Issuer: Emaar Sukuk Limited

....Outlook, Changed To Stable From Negative

The principal methodology used in these ratings was Homebuilding And Property Development Industry published in January 2018 and available at https://ratings.moodys.com/api/rmc-documents/66220 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Emaar Properties, based in Dubai, United Arab Emirates, ranks as one of the largest real estate master developers in the Gulf Council Countries by sales and market capitalisation. Emaar Properties' main shareholder is the government of Dubai, with a 29.22% stake held indirectly through Investment Corporation of Dubai (ICD). Emaar Properties' main subsidiaries are Emaar Malls Management LLC and Emaar Development PJSC. The former owns Dubai's largest shopping centre and the latter is the publicly listed development arm of the company.

The local market analyst for these ratings is Lahlou Meksaoui, +971 (423) 795-22.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Oliver Schmitt
VP - Senior Credit Officer
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Rehan Akbar, CFA
Senior Vice President
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456

Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.