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RATING ACTION COMMENTARY

Fitch Upgrades Emaar Properties PJSC's IDR to 'BBB'; Outlook Stable

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Fitch Ratings - London - 03 Jul 2023: Fitch Ratings has upgraded Dubai-based real-estate focused conglomerate Emaar Properties PJSC's (EP) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The Outlook is Stable.

The upgrade reflects EP's reduced cash flow leverage, as well as good operational performance. Fitch-calculated EBITDA mall-derived gross leverage was 3.6x at end-2022 (end-2021: 4.2x) and is forecast to average 2.7x over the next three years. The deleveraging reflects higher EBITDA, as the group continues to benefit from growth in revenue and EBITDA in all business segments, as well as a 20% reduction in gross debt in 2022.

A portfolio of quality assets generating stable recurring revenue and accounting for about half of group EBITDA, helps mitigate the inherent volatility of its residential development business, Emaar Developments (ED). EP typically develops and sells residential properties, but retains ownership in retail, leisure and other assets, which are leased or operated.

As the one of largest real estate companies in the Gulf Council Cooperation (GCC), EP benefits from a strong international brand name.

KEY RATING DRIVERS

Lower Cash Flow Leverage: Increased cash generation across EP has enabled the group to reduce cash-flow leverage. Gross debt at end-2022 was AED14.5 billion, compared with AED17.9 billion in 2021 and AED21.4 billion in 2020. EBITDA grew to AED9.3 billion in 2022 (2021: AED7.7 billion).

In particular, we forecast declining Fitch-calculated gross debt/EBITDA at Emaar Malls Management LLC (EMM) - a wholly-owned subsidiary that owns and operates EP's rental-focused property portfolio and which is the main driver of the group's financial profile. We expect the metric to decline to 3.6x in 2023 (2021: 4.2x) and to average 2.7x during 2023-2025, supported by growth in EBITDA and lower gross debt. We forecast EBITDA interest coverage to average more than 10x during the forecast period.

Analytical Approach: EP uses a central treasury with no ring-fencing across the group. Fitch, therefore, rates EP on a consolidated basis. The structure includes a range of businesses with different risk profiles and debt capacity, but is anchored by the investment portfolio. In its analysis, Fitch allocates group debt to ED in amounts that are consistent with an investment-grade risk profile. The remaining debt is then allocated to EMM, whose recurring revenue can support higher debt. This allows a comparison of the resulting debt/EBITDA metrics with other property companies.

Continued Strong Residential Sales: ED's domestic residential sales surpassed AED30 billion in 2022, up 12% from 2021, and more than double 2019's levels. ED also delivered more than 6,100 units, generating revenue and EBITDA of AED11.5 billion and AED4.2 billion, respectively. ED expects to deliver more than 9,000 units in 2023. The current backlog is around AED41 billion, which will be recognised over the next three to four years. More than 25,000 units are under construction, 98% of which have been sold. Customers are largely cash buyers, mitigating the risk of higher mortgage rates, and around 50% are local residents, with the balance from a range of countries.

Sustainable, Favourable Economic Conditions: The UAE economy grew 7.5% in 2022 (2021: 4%), which Fitch forecasts to slow to 3% in 2023 and 2% in 2024. Structural reforms, including liberalising visa regulations, should support long-term growth. These, and Dubai being viewed positively by investors, are propelling residential real estate prices, which increased more than 10% in 2022. The rate was higher in the prime sector in which EP operates.

Building Costs Pre-funded: Before starting construction, ED generally collects 30% or more of sales, which will substantially meet building costs. Payments are collected in instalments during construction, with 10-20% collected on handover. ED no longer offers post-handover payment plans. Under local regulations, funds sufficient to cover construction costs must be held in an escrow account dedicated to each individual project. Cash is gradually released to meet building costs, usually based on construction milestones. Remaining funds are released to ED following completion. Of more than AED18 billion of reported cash at EP level, around AED13 billion is in escrow and will be released as the backlog of units are delivered.

Community Projects Sustain Growth: Ongoing growth will stem from multi-phase community projects, as well as developing EP's land bank. In 2022, EP fully acquired its JV Dubai Creek Harbour, a 65 million square foot (sqf) community development on the

Dubai waterfront for AED7.5 billion (50:50 cash and shares). EP has nine developments underway in Dubai (seven 100% owned), more than 95% of which have been sold. The land bank comprises around 347 million sqf (252 million sqf fully-owned) in the UAE, providing opportunities for sustainable growth. Historically, EP has benefitted from government land grants, but now buys land outright or sources it through JV partners, limiting upfront land costs.

Strong Performance at EMM: EMM owns and operates 37 malls and other assets with a gross leasable area (GLA) exceeding 9 million sqf. Its 4.2 million sqf Dubai Mall, one of the world's largest malls, dominates the portfolio, generating around 85% of EMM's rents. The Dubai Mall had occupancy of 97% (99% excluding Zabeel and Fountain Views extensions) at end-2022 with a waiting list of tenants. In February 2022, EMM opened its 1.8 million sqf Dubai Hills Mall, part of a larger community development. Occupancy reached 91% within a year of opening.

EMM's EBITDA in 2022 grew 8%, driven by higher occupancy, increased turnover rent and a 5%-7% uplift on renewal rents. Footfall in 2022 already exceeded pre-pandemic 2019 levels and tenant sales were 40% higher. The average lease length is fairly short at 3.3 years, which allows EP to increase rents in the growing market and to re-zone tenants, but also exposes the group in a downturn.

International Development Mitigates Geographic Concentration: EP generates more than 80% of revenue in Dubai, but operates in 10 other countries, including Egypt, India, Pakistan and Turkey, through locally managed subsidiaries focused on residential sales. Despite some of EP's markets facing significant economic volatility, sales continued to grow in some countries, especially in Egypt, EP's largest international market. In 2022, the international property businesses recorded sales of AED4.3 billion (2021: AED6.2 billion) with a backlog of AED11.8 billion.

Although the international subsidiaries are intended to be self-funding, EP is not fully ring-fenced from them.

DERIVATION SUMMARY

As a conglomerate, EP differs from most rated EMEA real estate companies. With its wide range of businesses, the structure adds revenue diversification, albeit with some correlation given the primary focus on real estate and home building.

EP's conglomerate structure is not unusual in the GCC and is akin to Dubai-based Majid Al Futtaim Holding LLC (MAF; BBB/Stable), as well as Abu Dhabi-based Aldar Properties (Aldar). Majid Al Futtaim Properties (MAFP) owns and operates a portfolio of 29 shopping centres and 13 hotels, which generate more than 60% of MAF's EBITDA, while

Majid Al Futtaim Retail's (MAFR) 423 Carrefour franchises across 17 countries generates most of the remaining EBITDA. Aldar, the largest real estate group in Abu Dhabi, comprises two primary business segments: Aldar Development, a residential build-to-sell business that generates around one-third of group EBITDA, as well as Aldar Investments, which owns and operates more than 50 assets across retail, office and residential sectors and generates another third of group EBITDA.

All three companies generate recurring revenue from a portfolio of high-quality shopping malls and hotels in prime locations with good market positions. All have single-asset concentration: EP owns Dubai Mall, which generates about 85% of EMM's recurring EBITDA, MAF has the 2.6 million sqf Mall of the Emirates, which generates more than half of MAF's EBITDA, and Aldar owns the 2.5 million sqf Yas Mall, the third-largest mall in UAE.

EP's and Aldar's focus on home building, which is an inherently volatile sector, sets them apart from MAF, which has only a small development business. With about two-thirds of EBITDA generated by recurring rents, MAF's cash flow is generally less volatile than EP's and Aldar's, especially given MAF's Carrefour business generates stable, but low-margin, EBITDA.

EP's and Aldar's home building businesses operate as master builders locally and internationally, with a focus on large community projects, which means they operate different business models to EMEA homebuilder peers, such as UK-based Miller Homes Group (Finco) PLC (B+/Stable) , Spain-based Neinor Homes, S.A. (BB-/Stable) and London-focused Berkeley Group Holdings plc (BBB-/Stable).

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

-Flat revenue growth in 2023, followed by strong growth in 2024 and 2025, mainly from ED deliveries

-Steady growth in EBITDA from EMM, excluding the effects of the sale of on-line retailer Namshi in 2023

-EBITDA margin at 38% for 2023-2026

-Capex averaging 20% of revenue to 2026

-Dividend of around AED3.1 billion per year during 2023-2026

-Repayment of EMM sukuk due in 2024

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-Material decrease in geographic and asset concentration contributions to group EBITDA

-Maintaining prudent development with pre-sale rates of at least 60%

-Significant proportion of rental-derived EBITDA rather than profits from development activity

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-A deterioration in the domestic property real estate market, materially affecting ED's working capital and business profile

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

-Fitch-adjusted mall rental-derived EBITDA/remaining gross leverage greater than 8x

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

-Material decrease in occupancy rates at EMM 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

Healthy Liquidity: EP's reported cash at end-2022 was AED18.3 billion (end-2021: AED8.6 billion). The significant increase was largely due to AED15.6 billion of cash deposits in escrow accounts, which reflects a significant increase in advances received from customers against property sales. We have restricted this cash as it will remain in escrow and until released over time to fund construction. The remaining cash will be released to ED after handover is achieved.

EP has been streamlining its capital structure over the past two years, which now comprises four fully drawn sukuks totaling AED9 billion. In addition, EP has three committed revolving credit facilities totaling around AED12.9 billion. The outstanding availability at 1Q23 was AED9.1 billion.

Limited Short-term Debt: EP has a smooth debt maturity profile. It has about AED1 billion of debt due from 1Q23 to end-2023 and AED3.2 billion in 2024, which is mainly the sukuk held at EMM that is expected to be repaid. With a low amount of debt maturing in within the next 24 months and the majority of debt being fixed-rate, rising interest rates will have a minimal effect on cash flows. Cash, positive free cash flow and undrawn facilities comfortably cover short-term debt. EP's liquidity score is forecast at more than 10x in 2023 and 8x in 2024.

ISSUER PROFILE

EP is a Dubai-based real estate company operating principally through two entities: the parent EP and the subsidiary Emaar Development, a build-to-sell property business in UAE. After the delisting of EMM in November 2021, the lease-based retail assets now sit with the 100%-owned EP subsidiary.

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

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 12 May 2023)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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