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CREDIT OPINION
16 June 2023

Update

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RATINGS

Emaar Properties PJSC

Domicile	Dubai, United Arab Emirates
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Emaar Properties PJSC

Update following upgrade to Baa2; stable outlook

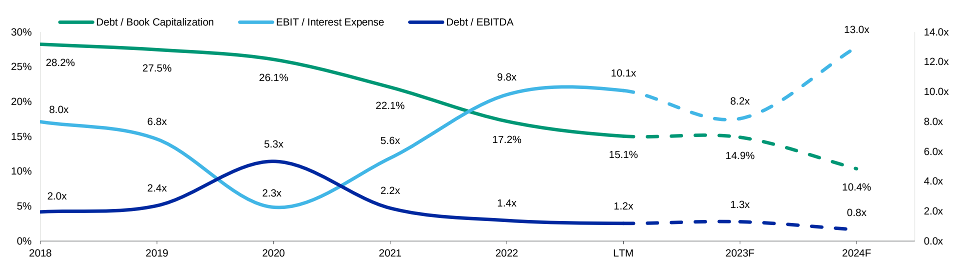
Summary

On 15 June 2023, we upgraded Emaar Properties PJSC's (Emaar or Emaar Properties) issuer rating to Baa2 from Baa3 and maintained the stable outlook on the back of the company's long-standing track record over several real estate cycles and strong operating and financial performance. The rating action was also driven by the robust macro-economic environment for the Emirate of Dubai as well as better operating conditions for the local real estate sector, and the expectation that the supportive environment will be sustained for the next 12-18 months with Emaar already having a backlog of AED55.7 billion as of March 2023.

Emaar Properties' Baa2 issuer rating 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 of AED55.7 billion as of March 2023 which offers revenue visibility; (3) access to a sizeable land bank in Dubai partly through strategic joint-venture (JV) partnerships with government-owned entities; (4) improving financial profile with debt to EBITDA decreasing to 1.2x for the last twelve months (LTM) ending March 2023 from a peak of 5.3x as of December 2020; and (5) 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.

Exhibit 1
Credit metrics will improve through 2023



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM= Last Twelve Months
Source: Moody's Financial Metrics™

Credit strengths

» Mature recurring-revenue assets provide a reliable stream of revenue that cushions the impact of volatility in the real estate development business

» Significant sales backlog provides a degree of cash flow visibility over the next 3-4 years

» Access to sizeable land-bank in Dubai, partly through JV partnerships with government-owned entities

» Good liquidity profile

Credit challenges

» Development and execution risks given the capital intensive nature of the business and sentiment-driven customer base

» Concentration risks stemming from Emaar generating the majority of its cash flows from Dubai

» Exposure to the highly volatile real estate market in Dubai

Rating outlook

The stable outlook reflects the view that the company will maintain adjusted credit metrics in line with the Baa2 rating over the next 12-18 months.

Factors that could lead to an upgrade

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. A rating upgrade would also require a more balanced and mature real estate market in Dubai with lower price volatility.

Factors that could lead to a downgrade

Emaar Properties' ratings could be downgraded in case of a sustained weakness in Dubai's macro-economic environment. A downgrade is also likely if the ratio of adjusted debt to book capitalization increased sustainably above 25%, debt to EBITDA trended above 2.5x and EBIT to interest expense below 7.0x. 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.

Key indicators

Exhibit 2

Key Indicators for Emaar Properties PJSC[1][2][3]

(in USD million)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	LTM Mar-23	2023F	2024F
Revenue	$6,995	$6,693	$4,889	$7,595	$6,786	$6,692	$5,718	$7,008
Gross Margin %	50.5%	47.6%	37.2%	41.7%	50.6%	51.8%	52.5%	53.7%
Debt / Book Capitalization	28.2%	27.5%	26.1%	22.1%	17.2%	15.1%	14.9%	10.4%
EBIT / Interest Expense	8.0x	6.8x	2.3x	5.6x	9.8x	10.1x	8.2x	13.0x
Debt / EBITDA	2.0x	2.4x	5.3x	2.2x	1.4x	1.2x	1.3x	0.8x

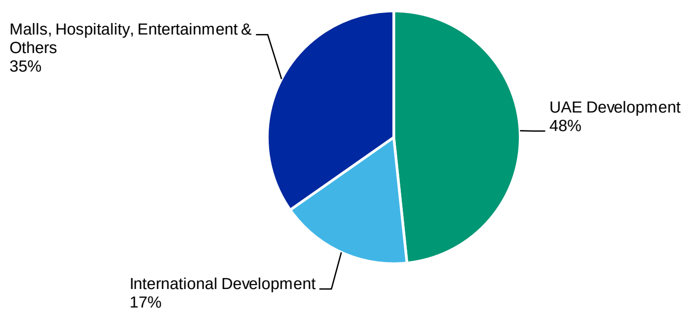
[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

Emaar Properties, based in Dubai, United Arab Emirates, ranks as one of the largest real estate master developers in the Gulf Cooperation Council (GCC) 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.

For LTM ending March 2023, Emaar generated AED24.5 billion ($6.7 billion) in revenue and AED7.6 billion ($2.1 billion) in net profit.

Exhibit 3
Revenue Breakdown for the year 2022



Source: Company Presentation

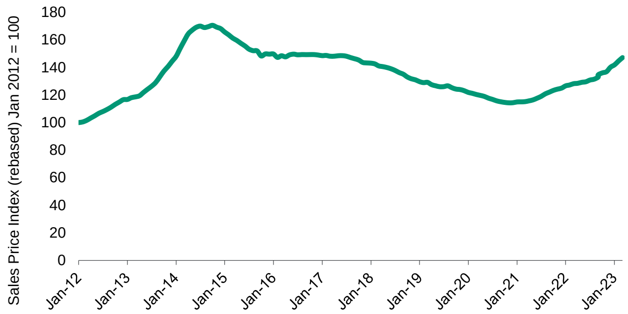
Detailed credit considerations

Improving macroeconomic prospects and real estate conditions in Dubai

We expect the real estate market in Dubai to remain strong over the course of the next 12-18 months, in line with 2022 and Q1 2023, benefitting from the robust macro environment in Dubai. This is driven by (1) the inflow of expatriates and remote workers into the Emirate of Dubai, benefitting from enhancements to the United Arab Emirates' visa regime, the swift reopening of Dubai's economy after the COVID-19 pandemic and Russia's invasion of Ukraine; (2) a positive market sentiment resulting in solid demand from local and international investors; (3) the recovery of the tourism sector as travel restrictions were removed in 2022; and (4) recovery of local consumption driven partly by the supportive oil prices. This in turn resulted in 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.

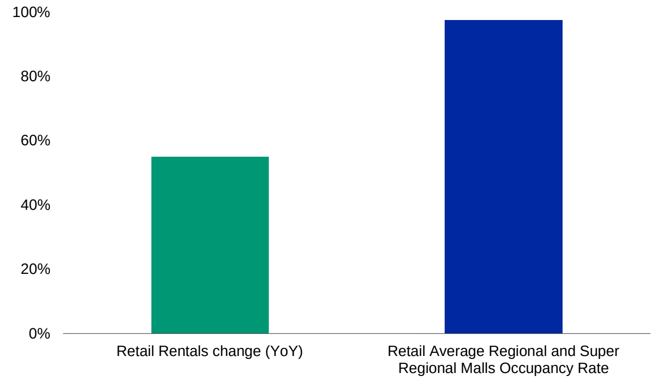
According to REIDIN, Dubai residential average sale prices have increased by more than 9.5% in 2022 (see Exhibit 4) with villas performing much better than apartments. At the same time, according to CBRE, retail rents increased by more than 50% and the occupancy rates for regional and super regional malls averaged more than 97% over the same period (see Exhibit 5).

Exhibit 4
Dubai residential prices have steadily increased since the end of 2020, however below the 2014 peak



Source: REIDIN

Exhibit 5
Dubai retail real estate rents increased in 2022 and occupancy rates were at 97%



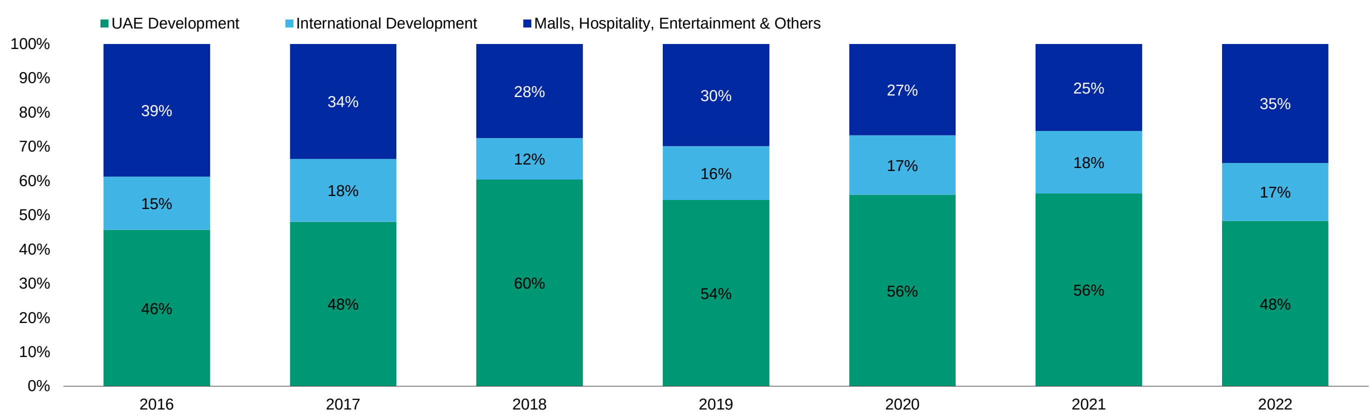
Source: CBRE - UAE Real Estate Market Review Q4 2022

However, rising interest rates and higher residential prices could soften demand in the short term, particularly in the secondary market, which could lead a stabilization of residential prices over the course of the next 12-18 months. In the medium to long term, initiatives by the federal government of the UAE such as new labor laws or the ability to obtain visas more easily or for longer terms have the potential to strengthen the Dubai's competitiveness and attractiveness to expatriates and digital nomads, and therefore benefit Emaar.

Strong business position and significant sales backlog mitigate concentration risks and exposure to the volatile real estate development sector

Emaar benefits from the cash flow diversification achieved through both international real estate development business and recurring revenue assets. However, Emaar remains heavily exposed to the Dubai market, where it is prominently active in several real estate activities including selling residential and serviced apartments, villas and office space; managing and leasing retail space; and operating hotels. As the below exhibit shows, Emaar's revenue from its international development has ranged between 12% and 18% of total revenues for the period between 2016 and 2022, while EBITDA, and therefore cash flows, were mainly generated from its Dubai based operations.

Exhibit 6
More than 80% of Emaar's revenue is generated in Dubai



Source: Company Presentation

As a master developer, Emaar subcontracts the construction of buildings through a tender process, and tends to retain hotel and retail spaces to add into its hotel and investment properties portfolio while selling residential and office space. Launched projects tend to have front-loaded cash receipts with cash inflows linked to construction after initially receiving 30%-40% of the sales price over a 12-18 months period. As of 31 March 2023, Emaar had a total revenue backlog of AED55.7 billion to be recognized over the next 3-4 years which offers strong revenue visibility. The current percentage of cash collection across Emaar Properties' property development projects in Dubai is on average at 38% and around 98% of units have been sold. This leads to the conclusion that a significant portion of construction costs will be covered by cash already collected.

Mature recurring revenue assets

All of Emaar Malls Management's (EMM, Baa1 stable) assets are located in Dubai. EMM has a well-established position in the retail leasing business with high quality assets. The company's flagship asset is Dubai Mall, a prime shopping and entertainment destination. Other assets include two regional malls (Dubai Marina Mall and Dubai Hills Mall, which opened recently adding a gross leasable area of 2 million square feet), two outdoor retail strips (in Downtown Dubai and Dubai Marina), specialty retail (Gold and Diamond Park) and Souk Al Bahar, as well as several neighborhood retail developments. Occupancy levels across Emaar Malls' assets remained resilient throughout Q1 2023 at 96%. We view the recurring revenues component from EMM as positive as they provide a financial cushion during volatility in the property development business.

In 2022, higher footfall, robust occupancy rate and significant growth in tenant sales led to higher rental revenue across Emaar's malls. Going forward, we expect the operating environment to remain supportive on the back of the improving macro conditions in Dubai. This will lead to an increase of revenues and cash flows of Emaar's recurring-revenue business.

Asset-light land bank strategy and customer-financed project developments reduce balance sheet risk

Emaar established strategic joint venture (JV) partnerships with three Dubai government owned entities, namely Meraas, Dubai World Central and DP World Limited (Baa2 stable) through which it has been able to secure a sizeable land bank. This asset-light land bank strategy is positive because it would have been expensive for Emaar to acquire such large parcels of prime land; through the JVs Emaar did not have to pay any cash up front. We believe that the incentives of the government-owned JV partners are aligned with Emaar's as they plan and develop projects together. However, real estate projects with JV partners have their own execution risks and there is uncertainty around the full extent of funding needs for these projects.

Emaar's biggest project with a JV partner was the Dubai Creek Harbor. However, in August 2022, Emaar announced that it bought the share of its partners - Dubai Holding Asset Management LLC and DH Shareholder FZ LLC - in the project for a total consideration of AED7.5 billion. The acquisition was paid 50% in shares and 50% in cash, including a deferred payment of AED1.25 billion payable over the course of the next 3 years. This allows Emaar to take full control of the project, which has a potential to be developed over the long term and generate cash flows for Emaar.

Emaar has also taken a disciplined approach to funding developments in existing master communities, for the most part, through construction-linked customer payments and therefore has not needed to use long term debt funding for its development-related working capital needs. JV development projects are expected to be financed through customer payments but because they are greenfield projects, they also require additional upfront investments for infrastructure development and hence likely to access debt funding. Investment properties to be built in these locations, such as malls and hotels will also need additional funding.

International operations are less mature but have long-term potential

Emaar's international operations support some geographical diversification. Although these operations are self-funding entities that have not required ongoing financial support from Emaar, international projects entail higher execution risks as compared to the domestic business because of the economic challenges that the core countries face. This creates uncertainty around the timing and quality of investment returns and partially offsets the geographic diversification benefits. As of 31 March 2023, Emaar international operations had a backlog of AED9.9 billion, with the bulk of units being built in Egypt. The real estate market fundamentals in Egypt are markedly different from that of Dubai, with a large growing indigenous population driving strong need for housing, but which is also exposed to macroeconomic challenges and currency depreciation.

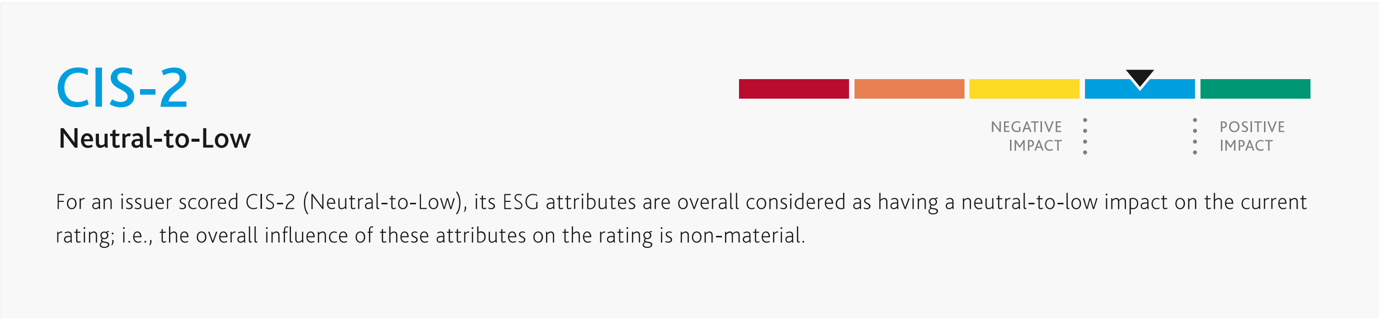
Credit metrics will improve in the next 12-18 months

We expect Emaar's credit metrics to remain very strong over the course of the next couple of years as the company recognizes the revenue and EBITDA of the projects it has been launching over the course of the last 18 months. We expect Emaar's gross debt to EBITDA (as adjusted by Moody's) to remain around 1.2x-1.3x in 2023 in line with the LTM ending March 2023 and to decrease to below 1.0x in 2024. We also expect Emaar's EBIT to interest expense to remain very solid at around 8.2x in 2023 and to increase to around 13.0x in 2024 as the company repays some of its outstanding debt.

ESG considerations

Emaar Properties PJSC's ESG Credit Impact Score is CIS-2

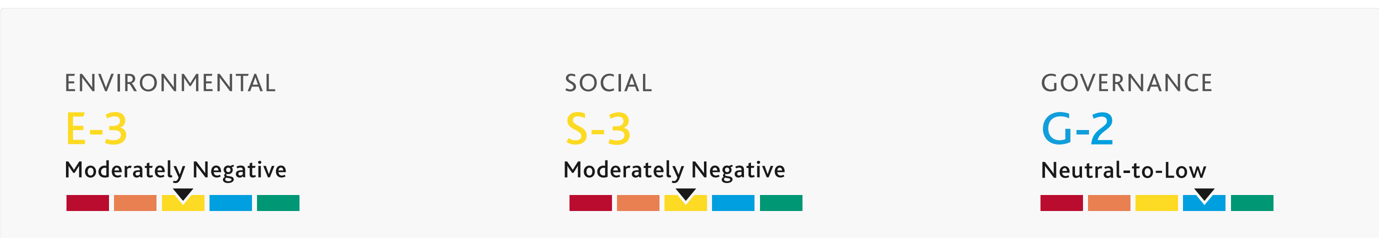
Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

Emaar's ESG credit impact score of CIS-2 indicates that ESG considerations have limited to no impact on Emaar's current rating. Emaar has a moderate exposure to environmental and social risks while governance risks have a neutral impact on the rating, reflecting its conservative financial policy and good liquidity risk management, particularly during the coronavirus pandemic.

Exhibit 8
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Emaar's E-3 mostly relates to physical climate and natural capital. Emaar has a relatively diversified portfolio of assets and continually invests in the assets to mitigate event and operational risks. Nevertheless, real estate companies' exposure to physical risk is material given our expectations of more frequent and severe climate events and a steady increase in surface temperatures, and their physical asset-intensive business models. In our view, these property assets are at greater risk of impairment due to extreme weather events, which expose property developers to increased construction and repair costs. Physical climate risk and more stringent regulation will raise construction costs. However, associated environmental regulations have primarily been stable, and increases in costs can be largely passed to consumers. The need to exploit land resources exposes builders to natural capital risks and associated compliance costs related to land preservation.

Social

Emaar's S-3 is driven by demographic and societal trends because Emaar is exposed to demographic changes due to a large expatriate population. Demographic changes and affordability are important factors driving demand, and changes in these areas could moderately affect the risks that property developers face. Human capital is generally not a major risk in Emaar's countries of operations, where labor costs are low and the labor pool is large. Property developers are also exposed to customer relations risk, which could impact brand reputation given customer satisfaction is closely linked to the quality of delivered property units. Cyber security risk associated with the collection of sensitive customer data is a key concern as well as the associated cost to ensure an appropriate protection process is in place.

Governance

Emaar's G-2 is driven by the company's stated commitment to an investment-grade rating and the prudence and track record that the management have in running the business and liquidity.

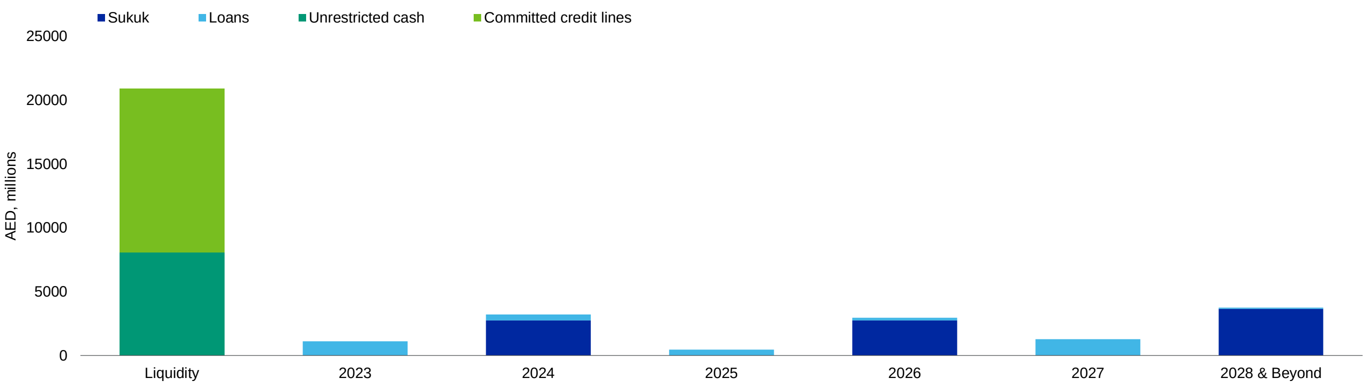
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Emaar Properties' liquidity is good with cash balance of AED8.0 billion as of 31 March 2023 and undrawn revolving credit facilities of AED12.8 billion. We expect funds from operations of around AED8.8 billion in the next 12 months. This is sufficient to cover debt maturities of AED1.2 billion over the next twelve months. Emaar will also pay AED3.6 billion of dividends in 2023. A material portion of Emaar Properties' cash is restricted as a regulatory requirement to deposit customer installments linked to development projects in escrow accounts (AED14.7 billion out of the AED22.8 billion as of March 2023). Nevertheless, as contractors get paid through the escrow accounts and projects get delivered, Emaar's cash profit is released from these accounts.

Exhibit 9

Emaar Properties maturity profile



Cash balance is as of 31 March 2023 is net of restricted cash
Source: Company's financials

Rating methodology and scorecard factors

In determining Emaar's ratings, we have applied our rating methodology for Homebuilding and Property Development published in October 2022. The scorecard-indicated outcome for Emaar is Baa1 while the actual assigned rating is a Baa2. The one notch in difference relates to the high geographic concentration of revenues and cash flows in the Emirate of Dubai.

Exhibit 10

Emaar Properties PJSC Homebuilding And Property Development Industry Scorecard [1][2]	Current LTM 3/31/2023		Moody's 12-18 Month Forward View As of 6/16/2023 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$6.7	Ba	$6 - $7	Ba
Factor 2 : Business Profile (30%)				
a) Market Position and Diversification	Baa	Baa	Baa	Baa
b) Business Strategy	Baa	Baa	Baa	Baa
c) Market Conditions	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (10%)				
a) Gross Margin	51.8%	A	53% - 54%	A
Factor 4 : Leverage and Coverage (30%)				
a) EBIT / Interest Expense	10.1x	Baa	9x - 13x	Baa
b) Debt / Book Capitalization	15.1%	Aaa	11% - 14%	Aaa
c) Debt / EBITDA	1.2x	Baa	0.8x - 1.3x	Baa
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2023(L); Source: Moody's Financial Metrics™
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Financial Metrics™ and Moody's Investors Service™

Ratings

Exhibit 11

Category	Moody's Rating
EMAAR PROPERTIES PJSC	
Outlook	Stable
Issuer Rating	Baa2
EMAAR SUKUK LIMITED	
Outlook	Stable
Bkd Senior Unsecured	Baa2
EMG SUKUK LIMITED	
Outlook	Stable
Bkd Senior Unsecured	Baa1
EMAAR MALLS MANAGEMENT LLC	
Outlook	Stable
Issuer Rating	Baa1

Source: Moody's Investors Service

Appendix

Exhibit 12

Moody's-Adjusted Debt Reconciliation for Emaar Properties PJSC[1][2]

(in USD million)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Mar-23
As Reported Total Debt	5,826	6,493	6,153	5,179	4,215	3,722
Pensions	44	48	46	47	48	48
Leases	95	0	0	0	0	0
Non-Standard Adjustments	101	0	0	0	0	0
Moody's Adjusted Total Debt	6,066	6,541	6,198	5,227	4,263	3,771

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Exhibit 13

Moody's-Adjusted EBITDA Reconciliation for Emaar Properties PJSC[1][2]

(in USD million)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Mar-23
As Reported EBITDA	3,079	2,809	1,553	2,432	3,111	3,395
Unusual Items - Income Statement	(28)	(161)	(613)	0	0	(191)
Leases	32	0	0	0	0	0
Non-Standard Adjustments	26	111	222	(61)	(16)	(16)
Moody's Adjusted EBITDA	3,108	2,759	1,161	2,370	3,094	3,188

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source:Moody's Financial Metrics TM

Exhibit 14

Peer Comparison[1][2]

	Emaar Properties PJSC Baa2 Stable			Toll Brothers, Inc. Baa3 Stable			Lendlease Group Baa3 Stable		
(in USD million)	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Oct-21	FYE Oct-22	LTM Jan-23	FYE Jun-21	FYE Jun-22	LTM Dec-22
Revenue	7,595	6,786	6,693	8,790	10,276	10,265	6,829	6,505	6,887
Gross Margin %	41.7%	50.6%	51.8%	24.8%	26.1%	26.4%	7.9%	9.5%	8.5%
EBIT / Interest Expense	5.6x	9.8x	10.1x	8.4x	12.3x	12.1x	2.9x	2.9x	3.6x
Debt / Book Capitalization	22.1%	17.2%	15.1%	39.8%	35.5%	34.6%	27.8%	27.7%	33.7%
Debt / EBITDA	2.2x	1.4x	1.2x	2.5x	1.8x	1.7x	4.6x	5.1x	5.6x

[1] All figures & ratios calculated using Moody's estimates & standard adjustments.
[2] FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial MetricsTM

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