S&P Global Ratings

RatingsDirect®

Research Update:

Emaar Malls Management LLC Upgraded To 'BBB' Following The Upgrade Of The Parent Emaar Properties; Outlook Stable

June 27, 2023

PRIMARY CREDIT ANALYST

Sapna Jagtiani
Dubai
+ 97143727122
sapna.jagtiani
@spglobal.com

SECONDARY CONTACT

Tatjana Lescova
Dubai
+ 97143727151
tatjana.lescova
@spglobal.com

Rating Action Overview

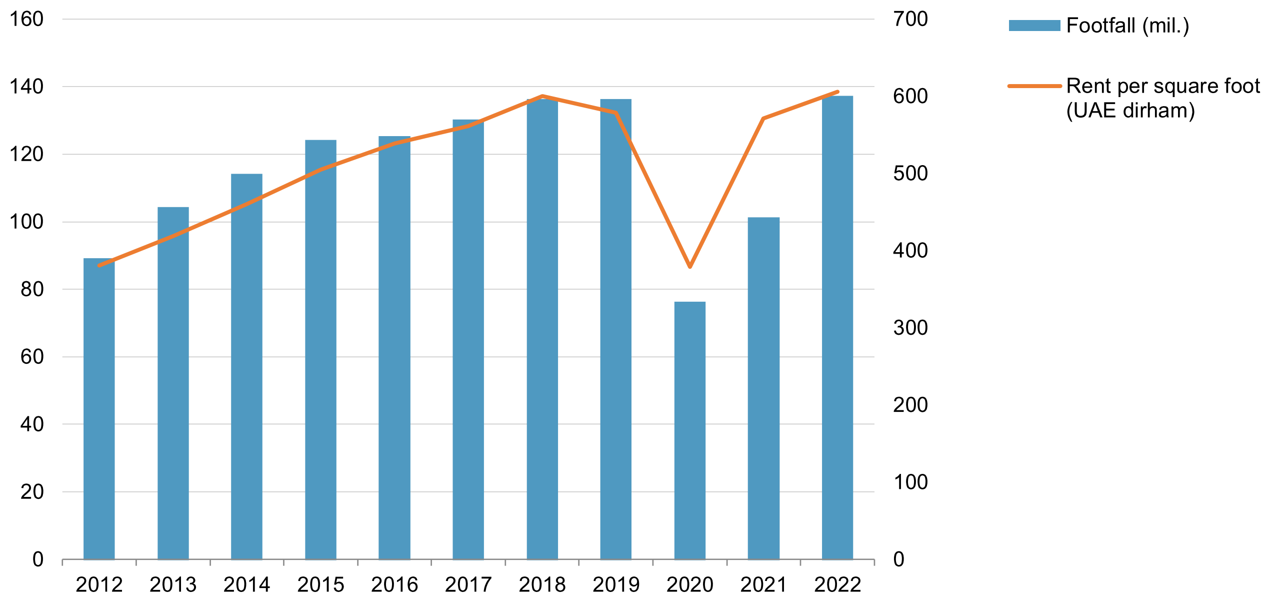
- Emaar Malls Management LLC (Emaar Malls) benefits from a supportive economy in Dubai, with its rising numbers of international visitors, strong retail sector performance, and robust population growth that enabled rental rate recovery above pre-Covid levels in 2022.
- Emaar Malls is a core and fully-owned subsidiary of Emaar Properties and we, therefore, align the rating on Emaar Malls with the rating on its parent, Emaar Properties.
- We upgraded the issuer credit rating on Emaar Malls and the $750 million sukuk maturing in June 2024 to 'BBB'.
- The stable outlook on Emaar Malls reflects that on Emaar Properties and will likely continue to move in tandem with the latter.

Rating Action Rationale

Emaar Malls' recovery from the pandemic trough continues, leading to stronger cash flow generation. We expect that Emaar Malls will achieve revenue growth of about 3%-4% and further EBITDA margin improvement close to 84%-86% over 2023-2024. The company demonstrated solid performance in 2022, with annual footfall slightly exceeding pre-COVID-19 levels at 137 million and occupancy improving to 96% at the end of March 2023, compared to 93% in March 2022. Emaar Malls was able to gradually recover from its COVID trough and increased its rental revenue by consistently increasing its average rent per square foot, which, by the end of 2022, exceeded the 2019 level by close to 5%. We think that the company will be able to pass on further rental increases in 2023. This is due to the high quality of Emaar Malls' assets and the strong economy in Dubai, with its continually increasing inflow of international tourists and relatively limited inflation (expected at about 3% in 2023-2024), which is not prohibitive for consumer spending and sustains a healthy retail sector. The oversupply of retail space is, nevertheless, a lingering issue, which we expect will cap the upside potential on rental increases.

Chart 1

Emaar Malls--Historical footfall and rent per square foot



Source: S&P Global Ratings.

Emaar Malls remains a core subsidiary of Emaar Properties, which we upgraded to 'BBB', providing stability to the parent's otherwise cyclical sector exposure. We align the rating on Emaar Malls with the rating on the parent. We consider that Emaar Malls provides significant brand visibility to the entire group, notably thanks to its flagship Dubai Mall, a famous attraction for international visitors and residents of Dubai. Emaar Malls provides a favorable, resilient business mix, since it offsets the cyclical performance of its parent's real estate development operations in Dubai and internationally. Emaar Malls' strong free operating cash flow (FOCF) generation capacity conveniently compensates for material and volatile working capital swings in the building sector. Given Emaar Malls' successful business performance and its significant contribution to the group, we consider it as a core subsidiary of Emaar Properties, particularly now that Emaar Properties owns 100% of Emaar Malls, following the delisting of Emaar Malls at the end of 2021. Emaar Malls' stand-alone credit profile (SACP) is 'bbb-', one notch below the issuer rating. This reflects its concentrated business operations, with a high reliance on a single asset, Dubai Mall, which accounts for over 90% of profits. It also reflects its narrow geographic focus on Dubai, which is characterized by volatile population trends given the large number of expats (over 90%). We include one notch of uplift above the SACP in our ratings on Emaar Malls to reflect the extremely high likelihood of group support in case of need.

In the absence of meaningful capital expenditure (capex) or strategic acquisition plans, we expect Emaar Malls will be debt-free from 2024. The company's $750 million sukuk matures in June 2024 and we expect Emaar Malls will use its sizable cash generation to repay this instrument. As a result, Emaar Malls will likely operate debt-free after repayment. Under our base case, we do not assume any material greenfield development projects or debt-funded acquisitions. We understand that the parent, Emaar Properties, will undertake any future mall developments. However, if Emaar Malls changed its strategy, we would reconsider our forecasts and assess the likely impact on its leverage.

Outlook

The stable outlook on Emaar Malls reflects that on Emaar Properties. We expect stable operating performance and, therefore, stable S&P Global Ratings-adjusted debt to EBITDA well below 1.0x in 2023 and debt-free thereafter.

Downside scenario

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. This could happen if Emaar Properties is no longer the 100% owner of Emaar Malls, which we believe is unlikely, or if Emaar Malls substantially underperforms, compared to the rest of the group.

Upside scenario

A positive rating action would depend on the parent company's rating upgrade.

Company Description

Emaar Malls is a fully-owned subsidiary of Emaar Properties, a Dubai-based real estate developer and operator. It was incorporated in 2021 to take over the assets and liabilities previously owned by Emaar Malls PJSC, following the latter's delisting from the Dubai stock exchange and the merger with its parent.

Emaar Malls develops and manages shopping malls and retail centers in Dubai. On Dec. 31, 2022, the company owned and operated two large shopping malls, Dubai Mall and Dubai Marina Mall; two specialized retail outlets, Souk Al Bahar and Gold & Diamond Park; 30 community centers; and other retail properties, with a total gross leasable income of approximately 6.8 million square feet. In 2022, the company generated UAE dirham (AED) 3.7 billion in revenue and AED3 billion in EBITDA.

Our Base-Case Scenario

Assumptions

- We expect that Dubai's GDP will continue to grow at about 3% in 2023-2024.
- We also expect that inflation will remain contained at about 3% in 2023-2024 and, therefore,

believe that Dubai's retail sector will remain resilient and, despite global economic challenges, will benefit from the continueing rise in the number of international visitors to Dubai.

- Under our base, we expect that the footfall in malls will continue to expand, and the company will be able to further increase rental rates, given the high quality of its assets, high occupancy rates, and the relatively moderate occupancy cost ratio for its tenants at about 13%. Therefore, we expect revenue will grow at 3%-4% in 2023-2024.
- Capex of about AED0.7 billion per year in 2023-2024, of which AED200 million–AED250 million will be used for maintenance and the rest for potential other projects, albeit there are no committed amounts at this stage.
- We assume that all FOCF will be upstreamed to the parent and, therefore, do not assume cash build-up on balance sheet despite our expectation of about AED2.5 billion–AED3 billion of FOCF generation per year in 2023-2024.

Key metrics

Emaar Malls Management LLC--Key metrics*

	--Fiscal year ended Dec. 31--					
Mil. AED	2020a§	2021a	2022a†	2023f	2024f	2025f
Revenue	3,508	4,988	3,740	3,800-4,000	4,000-4,100	4,100-4,200
EBITDA margin (%)	39.0	50.9	80.7	84-86	85-87	85-87
Free operating cash flow	610	1,798	3,422	2,500-3,000	2,500-3,000	2,500-3,000
Debt to EBITDA (x)	2	1.4	1.2	0.6-1.0	--	--
FFO to debt (%)	43.6	63.2	75.4	over 100	--	--
EBITDA interest coverage (x)	6.8	11.6	15	15-18	--	--

a--Actual. f--Forecast. AED--UAE dirham. *All figures adjusted by S&P Global Ratings. §Prior to 2021, the previous legal entity was Emaar Malls PJSC. †Excluding Namshi starting from 2022.

Liquidity

We view Emaar Malls' liquidity as exceptional, because we expect liquidity sources will exceed uses over the next 24 months by more than 2.0x as of March 31, 2022. This is supported by our view of exceptional liquidity at Emaar Properties. Liquidity sources for the next 24 months include:

- Minimal cash balances of about AED135 million, given Emaar Malls' cash is upstreamed to the parent for cash pooling at the group level;
- Full availability under the $3.673 billion revolving credit facility (RCF) available until May 2025, with the final repayment date in 2028; and
- Cash flow from operations of AED3 billion-AED3.5 billion per year for the next 24 months.

Liquidity uses for the same period include:

- No material short-term debt, with the company's $750 million sukuk maturing in June 2024;
- About AED0.7 billion in capex investments per year, of which AED200 million–AED250 million

will be used for maintenance and the rest for potential other projects, albeit there are no committed amounts at this stage;

- Neutral working capital requirements; and
- Regular dividend payments to Emaar Properties, equal to Emaar Malls' FOCF.

Covenants

Emaar Malls is subject to incurrence covenants under its sukuk. These are net debt to equity of less than 1.5x and EBITDA net interest coverage of more than 1.5x. Emaar Malls is not subject to any maintenance financial covenants. The company had ample headroom under its incurrence covenants on Dec. 31, 2022.

Issue Ratings - Subordination Risk Analysis

Capital structure

Emaar Malls' capital structure comprises a $750 million sukuk due in June 2024, and a $1 billion renewed RCF, which remains fully available for drawing until May 2025 (repayment in 2028).

Analytical conclusions

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

Ratings Score Snapshot

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	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)

Issuer credit rating	BBB/Stable/--
Stand-alone credit profile	bbb-
Group credit profile	bbb
Entity status within the group	Core (+1 notch)

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
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Methodology: Industry Risk , 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

Upgraded

	To	From
Emaar Malls Management LLC		
Issuer Credit Rating	BBB/Stable/--	BBB-/Stable/--
EMG Sukuk Ltd.		
Senior Unsecured	BBB	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914