KAMCO INVEST

Investment Strategy & Research

Emaar Development PJSC

Initiation of Coverage **Sector – Real Estate**

Cashing in on 'RE'al sustained Resi momentum; Initiate with Outperform

Extended Dubai residential cycle led by UAE's largest masterplan developer

We initiate coverage on Emaar Development (ED) with an Outperform rating as we expect the company to continue to monetize market trends with sustained project launches and achieve significant sell-through of its build-to-sell (BTS) new launches on attractive pricing, dominant brand equity, product mix, and market sensitive payment plans. Further, the company's masterplan developer operating model provides portfolio optionality along with a progressive pricing feedback loop that helps the company to achieve higher pricing for its products. The backdrop for our positive outlook stems from the continued momentum of the current residential real estate cycle in Dubai as prices have risen for over 3+ years since Sept-2020. As we expect this momentum to carry on well into 2024E & 2025E, this should add to ED's revenue backlog and provide revenue visibility over the medium term.

Emaar Dev to thrive with higher margin BTS launches & sales momentum

We forecast ED's new launches to sustain its momentum from 2022 (8.6k) and average c9.9k units over 2023E-25E, as the company: 1) Maintains its market share of ~20% of total launches in the market; 2) Realizes an off-plan sales ratio run-rate of 95%-98% on superior brand equity and diversified single-family and multi-family product offering. Further, we expect the revenue backlog for its fully owned and JV partnerships to increase from AED 59.6 Bn at the 9M-2023 to AED 79.6 Bn at the end of 2025E (based on 100% completion effect on cashflows), providing significant visibility for revenues over the medium term. We forecast 2023E GP margins of 65% for ED vs 44.9% in 2022, driven mainly by the release of contingencies of AED 1.06 Bn (9M-2023) to hedge against contractor default. Our forecasts also estimate higher GP margins averaging +49% over 2024E-2025E on higher pricing, management's guidance of 3%-4% construction costs inflation, lower percentage of post-handover plans and more stringent cost controls.

Future BTL portfolio to pave way for counter-cyclical aspirations

ED's management is looking to unlock recurring revenues from ED on a standalone basis. We believe that average gross yields of above 6% should encourage the company to exploit the BTL market and provide optionality for capex allocation. We look for management guidance in early 2024 on potential execution to add this key catalyst to our thesis, as we remain positive on additional revenue streams such as the BTL portfolio and potentially other ancillary non-core assets such as district cooling (DC). These revenues come at high margins and add counter-cyclical stability to the overall CFs of ED's core development business. A recurring revenue base will also have implications for dividends beyond 2025E in our view and can contribute to our average DPS estimate of ~51 fils/share over 2023E-25E sustaining beyond our explicit forecast period until further BTS launch visibility is attained.

Valuation & Risks –TP of AED 8.20/share

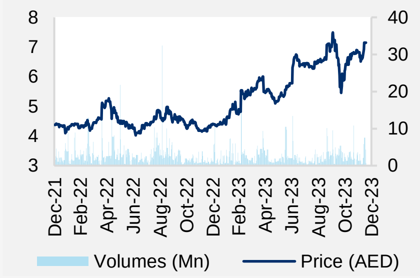
Our TP represents a 14.7% upside to the current share price of Emaar Development and is based on DCF based on handover + completion (%) of units. Key downside risks: 1) Weaker off-plan demand and lower pricing for ED's build-to-sell units; 2) Increasing working capital needs of contractors, causing disruptions in execution.

Key Financials	2021	2022	2023E	2024E	2025E
Revenue (AED Bn)	15.6	11.5	10.2	13.1	16.0
Adjusted EBITDA (AED Bn)	4.39	4.22	6.14	5.23	6.40
Adjusted EPS (AED)	0.81	0.95	1.41	1.07	1.33
P/E (x)	6.0	6.2	5.1	6.7	5.4
EV/EBITDA (x)	3.8	3.3	1.7	1.5	1.1
Div. yield (%)	0.0%	8.9%	7.3%	6.3%	7.8%

Source: Kamco Invest Research, and Emaar Development

Outperform

CMP 19-Dec-23:	**AED 7.15**
Target Price:	**AED 8.20**
Upside:	**+14.7%**



Price Perf.	1M	3M	12M
Absolute	5.3%	6.7%	66.7%
Relative	5.2%	8.6%	47.0%

Stock Data	
Bloomberg Ticker	EMAARDEV UH
Last Price (AED)	7.15
MCap (AED Mn)	28,600
MCap (USD Mn)	7,793
EV (AED Mn)	10,357
Stock Performance - YTD (%)	62.1%
PE - 2023E (x)	5.1
EV/EBITDA - 2023E (x)	1.7
Dividend yield - 2023E (%)	7.3%
52-Week Range (AED)	4.29/7.49

Sources: KAMCO Invest Research & Bloomberg

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Valuation and Risks

Initiate with a TP of AED 8.20/share and an 'Outperform' rating

We initiate coverage on Emaar Development (ED) with an Outperform rating and target price (TP) of AED 8.20/share. We expect ED to continue to monetize market trends with sustained project launches and achieve majority sell-through of its new launches build-to-sell (BTS) portfolio on attractive pricing, dominant brand equity, product mix, and market sensitive payment plans. Further, the company's masterplan developer operating model provides portfolio optionality along with a progressive pricing feedback loop that helps the company achieve higher pricing for its products. The backdrop for our positive outlook stems from the continued momentum of the current residential real estate cycle in Dubai as prices have risen for over 3+ years since Sept-2020. As we expect this momentum to carry on well into 2024E & 2025E, this should add to ED's revenue backlog and provide revenue visibility over the medium term.

Emaar Development Valuation

Valuation	AED Mn
PV of CFs (DCF based on handover + completion (%) of units)	**33,510.4**
Net cash (excluding cash in escrow)	3,312.2
Other net liabilities	-4,027.8
Equity value	**32,794.8**
Equity value per share (AED)	**8.20**
Current market price -19 Dec 2023 (AED)	7.15
Upside (%)	***14.7%***

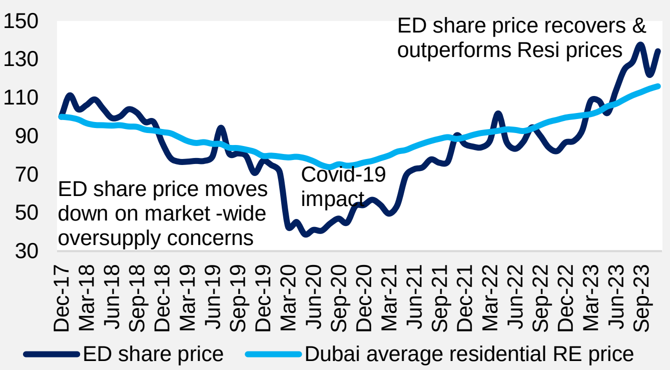
Source: Kamco Invest Research

Our TP represents a 14.7% upside to the current share price of Emaar Development and is based on DCF based on handover + completion (%) of units and incorporate net cash collections from sales of remaining inventory. A WACC of 11.5% was utilized for our 10-year DCF, which includes an additional risk premium of 100 bps for the cyclicality of the real estate development business. Fair values of the land bank were not included, as we capture its monetization achieved through completion (%) of sold units over 10 years for the relevant masterplans. We model cash collections of ED's under development projects and completed projects, based on 100% owned and JV/JDAs participations, and adjust for construction capex, master-plan infrastructure capex and SG&A.

ED's share price outperformance can endure into 2024 on fundamentals

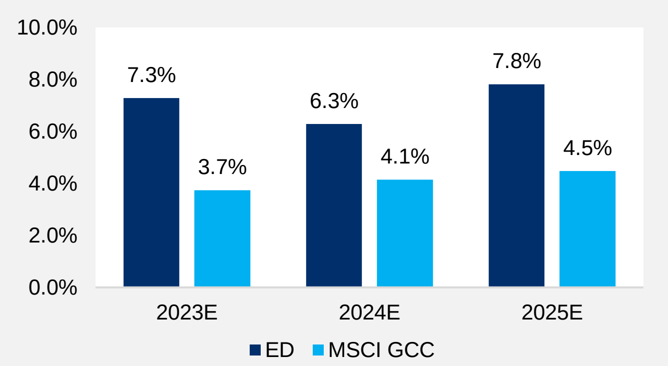
ED's share price rose by 62.1% YTD in 2023, and outperformed the DFM index which was up over 19.9% over the same period. Fundamentally, we believe that this outperformance can continue well into 2024E, as the company should witness strong project launch activity and achieve significant sell-through of its new launches of build-to-sell (BTS) products. The company's ability to calibrate product mix being introduced to the market and its strong focus on pricing and market sensitive plans for its single and muti-family homes should keep demand for ED's products high in 2024 as well, in our view.

ED share price vs Dubai Resi RE prices (rebased -Dec 2017)



Source: Kamco Invest Research, Bloomberg, Property Monitor, data until Nov-2023

Div yield – ED vs MSCI GCC



Source: Kamco Invest Research, Bloomberg

We believe that ED can repeat its 2022 dividend payout, and therefore forecast a dividend payout of 52 fils/share in 2023E, as strong revenue visibility and solid demand was reiterated by the company's management in the 9M-2023E. For 2024E & 2025E, we remain conservative and forecast dividend payout of 45 fils and 56 fils, which we believe could be revised higher depending on the confirmation we receive for our higher revenue backlog forecasts at the end of 2025E, and guidance on ED's BTL portfolio on a standalone basis. Despite the outperformance in YTD-2023, ED trades at an attractive 2023E dividend yield of 7.3% based on our DPS forecast. Further, ED trades at an average dividend yield of 7.1% over 2023E-25E which is significantly higher than the average dividend yield of the MSCI GCC consensus estimate of 4.1% which is an additional reason that should keep investors interested in the company's investment case going forward.

Downside risks to our valuation & forecasts include:

- Declines in Dubai's non-oil GDP growth and/or global macro slowdown delaying implementation of Dubai 2040 Urban Master Plan and D33 agenda initiatives.
- Lower residential real estate demand in Dubai from slower population growth failing to keep pace with supply additions.
- Weaker off-plan demand and lower pricing for ED's build-to-sell units.
- Higher speculative activity in Dubai's residential market combined with increasing leverage and debt servicing needs from high interest rates.
- Increasing working capital needs of contractors, causing disruptions in execution.

Investment Thesis

We chose to embed UAE's residential real estate sector analysis within our Emaar Development investment thesis for more contextual relevance to our outlook for the company. We believe that this enables the operating environment to be better understood, and further showcases how the company derives pricing power through its corporate strategies.

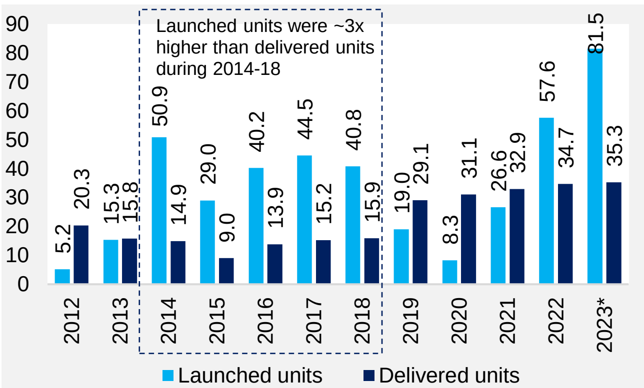
ED judiciously playing extended cyclical uptrend to its strengths

Our positive investment thesis on Emaar Development (ED) is primarily derived from superior pricing power and advantageous flexibility that the company achieves by maneuvering through Dubai's current real estate cycle as a master developer.

The backdrop for our positive outlook begins with the continued momentum of the current residential real estate cycle in Dubai which has seen prices rise for over 3 years since Sept-2020. Other than seasonality driven drops in transactions, we expect this momentum to persist well into 2024. This compares with the previous cycle which lasted for only 24 months and peaked in Sept-2014. ED is the key beneficiary of Dubai's current cyclical uptrend of residential transaction activity momentum and the strong pricing environment. We expect the company to monetize market trends with sustained project launches and achieve majority sell-through of its new launches build-to-sell (BTS) portfolio on attractive pricing, dominant brand equity, product mix, and market-sensitive payment plans. Further, the company's masterplan developer operating model provides portfolio optionality along with a progressive pricing feedback loop that helps the company achieve higher pricing for its products. This should drive strong revenue growth, higher GP margins and solid free cash generation going forward, in our view.

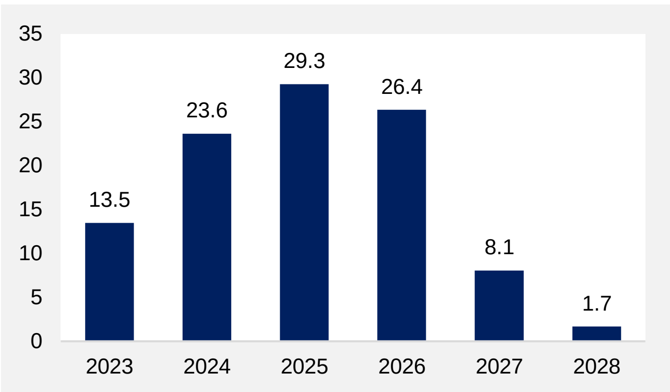
Building blocks of the current uptrend differ from cycles that peaked in 2008 or 2014: Dubai's current real estate uptrend represents the third cycle on record in the last 20 years, with previous cycles peaking in 2008 and 2014. While the recalibration as a response to the downturn in both previous cycles involved typical supply-side adjustments in terms of launches and deliveries along with erosion of sentiment via market-wide price and rental transmission, demand fundamentals differed for both cycles. In 2008, speculators were unable to service their mortgage obligations as property prices came under pressure, which led banks to take possession of properties that were eventually valued less than their outstanding loans. Banks reduced lending to new borrowers impacting liquidity to the sector, while developers were unable to sell projects off-plan, all of which increased developer cost and scarcity of capital, thereby leading to delays and cancellation of several existing and new projects.

Dubai's RE unit launches vs. unit deliveries ('000)



*Source: DXBinteract.com, * until Nov-2023*

Dubai's future supply of RE launched units – estimates of only announced units by developers ('000)



Source: DXBinteract.com, data as on 12 Dec 2023

In the second cycle, the UAE central bank in late 2013 imposed limits on mortgage loans and the government of Dubai doubled its transaction fees to 4% to discourage quick flips of properties, on fears of a repeat of excessive speculation in the market. This coincided with oil prices plunging by over 70% initially from mid-2014 to early 2015, driven by supply-side factors such booming U.S shale oil production, and later slower demand prospects driving oil prices lower from mid-2015 to early 2016. These events led demand and investor sentiment towards real estate to deteriorate in Dubai after Sept-2014, as prices continued to decline until the end of 2019.

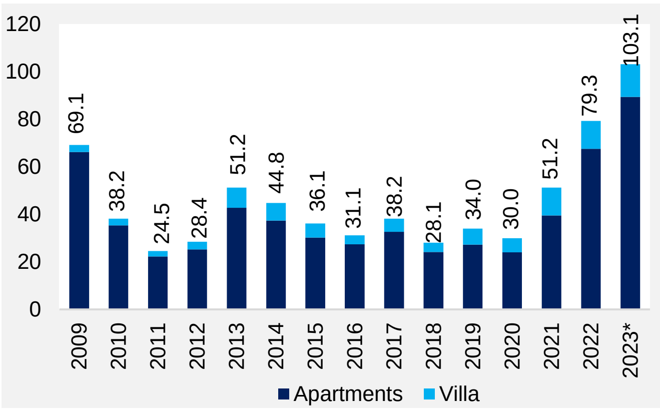
The next uptrend and Dubai's third real estate cycle started in Q3-2020 and should continue well into 2024 in our view. _However, we find stark dissimilarities in the current operating environment, real estate demand and developer strategies in this cycle as compared to the previous two editions:_

1) _Covid-19 provides non-typical unwinding of inventory units & start of the new RE cycle:_ After witnessing a glut in inventory caused by a 3x higher number of launched units when compared to delivered units over 2014-18 (based on data from DXBinteract.com), developers in Dubai stalled project launches in 2020 with the onset of Covid-19. The deliveries which had picked up in 2019 continued to outpace launches in 2020 & 2021, absorbing significant completed inventory of developers, that would have otherwise taken years of annual demand in a normal cycle. This cautious stance by developers in 2020 inadvertently led to the onset of the start of the third real estate cycle and secular uptrend in Dubai's apartment and villa market.

2) _Launches & unit deliveries to keep new cadence into the medium term:_ The delivery of residential units averaged over 31k over 2020-2022, while deliveries should approach close to 39k-40k, which is almost 2.4x the average of the previous two cycles. For 2024E, we expect unit deliveries to rise y-o-y and further the sustained launch momentum in 2021& 2022 should start becoming fully visible in the unit deliveries estimate of 29.3k for 2025 from DXBinteract.com. Moreover, the residential market should start witnessing a translation of strong sales conversion of project launches in late 2022 and 2023E into supply estimates for 2026E-2028E going forward, in our view.

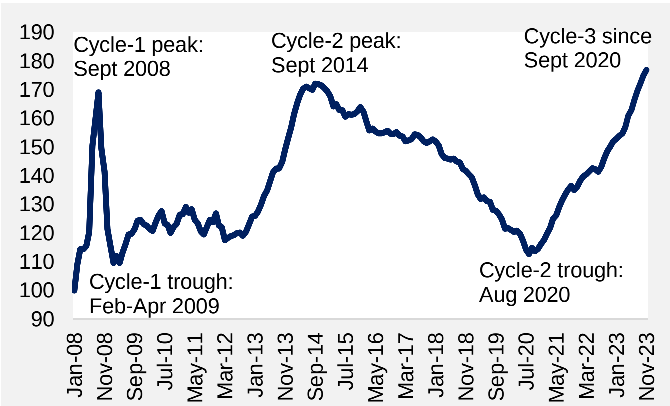
3) _Transactions have new catalysts, while developers gear up for low duration backlog:_ The turnaround in residential transactions was driven by opportunistic buying of bargain-priced properties post the onset of Covid-19, which has sustained. Further, UAE government initiatives such as issuances of golden visas, coupled with real estate investors availing access to such visas drove an increase in investors and end-users. Villa and apartment transactions combined jumped over 84% y-o-y in 2021 to 55.4k transactions as a result. In 2022, Russian investors drove Dubai's real estate transactions after the onset of the Russia–Ukraine war, leading residential transactions to rise over 43% y-o-y to 79.4k transactions. Going forward, we believe that the pick-up in unit deliveries and healthy balance sheets of developers should enable them to realize backlogs quicker to capitalize on future demand, keeping transaction activity strong.

Dubai villa and apartment transactions ('000)



Source: DXBinteract.com, * until Nov-2023

Price index of Dubai's real estate cycles to date



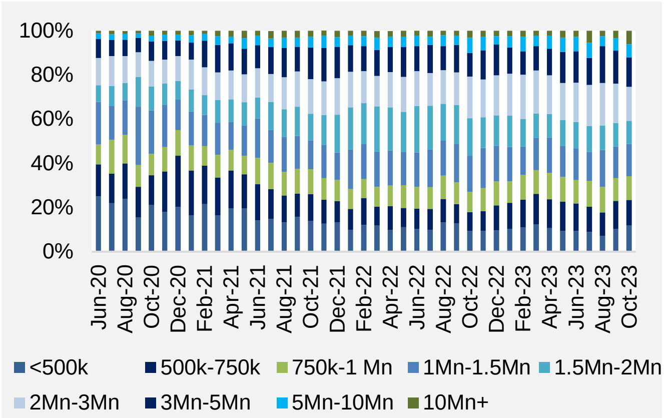
Source: Property Monitor Dynamic Price Index

4) _Slowest rate of change in pricing compared to previous cycles:_ Despite strong transaction trends, the rise in average residential prices in the current cycle has been the slowest amongst all three cycles on record. Moreover, based on Property Monitor's Dynamic Price Index shows that average prices as of Nov-2023 have marginally (~2.9%) surpassed than the previous peaks from Sept-2014 and Sept-2008. Investors remain interested in buying properties, as rents jumped by 20-22% y-o-y in Q3-2023 (Source: Asteco, JLL), and that has kept gross yields at 6.6%-6.7%.

5) _Villas/townhouses and luxury properties most in demand:_ The migration of high net-worth individuals, new longer term visa options for residents and hybrid workplace strategies

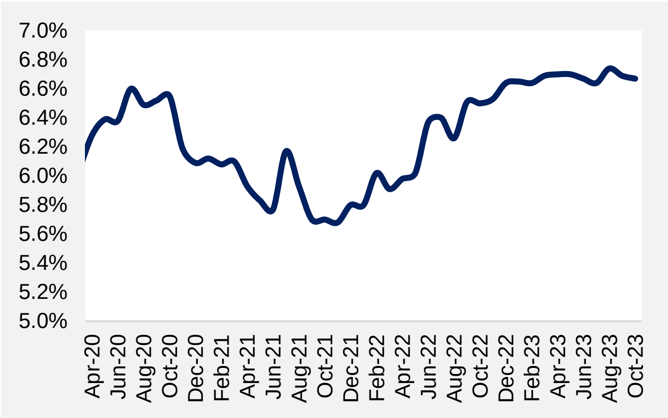
created exceptional demand for single-family homes such as villas and townhouses, especially in 2021 and 2022, while supply remained limited. Villa transactions reached 11.7k units in 2022 due to limited supply, and YTD Nov-2023 figures (DXBinteract.com: 13.7k) have surpassed previous all-time highs in transactions. Separately, luxury properties also witnessed similar trends of strong demand and limited supply, as the contribution of transaction price tiers of AED +10 Mn and AED 5 Mn -10 Mn in 2023 is significantly more than at the start of the current cycle.

Dubai Resi RE transaction price tiers



Source: Property Monitor

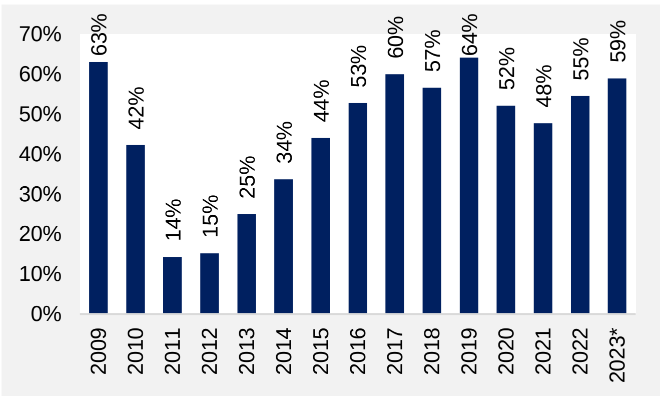
Dubai Resi RE gross yields



Source: Property Monitor

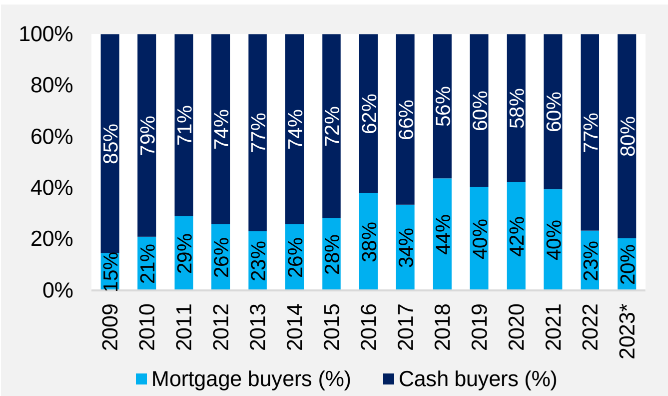
6) *__Master developers are likely winners with flexibility of supply and preference for D&B contracts:__* Demand evolution continues to be dynamic with demand drivers and supply preference changing from the start of the current cycle in late-2020 to now. Master developers have an advantage over standalone developers in our view, as they can adjust their phasing, product portfolios and pricing to achieve sales momentum within the long-term overarching vision for their master plans. Therefore, supply estimates of 2026E-28E (see chart on page 5) will depend on how master developers capitalize on market demand for their launches beyond 2023. Further, master developers are attempting to shift towards Design & Build (D&B) contracts with construction contractors as compared to the traditional FIDIC Redbook based contracts for faster execution. D&B contracts allow for more delineated control for design and quality for the contractor to execute efficiently, and contractors are likely to perform better for bagging future contracts within the master plan.

Off-plan volumes contribution for villa & apartments



Source: DXBinteract.com, * until Nov-2023

Cash & mortgage buyer trends in Dubai Resi RE



Source: DXBinteract.com, * until Nov-2023, Kamco Invest Research

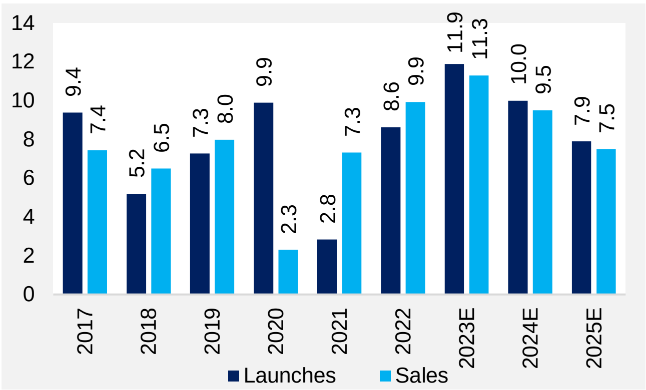
7) *__Off-plan and cash transactions continue to dominate, but RERA oversight is stronger:__* Off-plan transactions should continue to contribute significantly to overall transactions over the medium term, on the back of the launch momentum, as witnessed in in 2022 (55% contribution) and YTD-2023 (59%). Cash buyers will remain major participants in the transactions market dominating mortgage buyers, as investment demand still exceeds end-

user demand. While a higher concentration of off-plan transactions could create more risk in the operating environment, RERA oversight and legislation progressively continue to be tighter. RERA continues to monitor construction initiation, progress and cancellation with the tools required to streamline the process for dealing with distressed projects.

ED to maintain market share of launches & sales momentum into 2024 & 2025

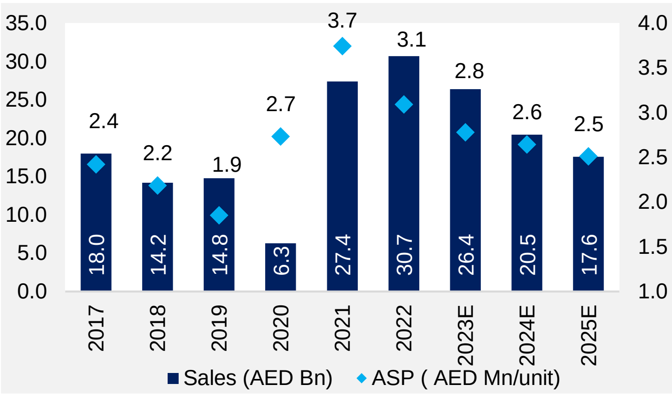
We see Emaar development (ED) as the key beneficiary of Dubai's current cyclical uptrend of strong transaction activity and higher pricing environment. The company should capitalize with sustained project launches and achieve significant sell-through of the new launches of its build-to-sell (BTS) portfolio ascribed to attractive pricing, product mix, and market sensitive payment plans in our view. We forecast ED's new launches to sustain its momentum from 2022 (8.6k) and average c9.9k units over 2023E-25E, as the company: 1) Maintains its market share of ~20% of total launches in the market; 2) Realizes an off-plan sales ratio run-rate of 95%-98% on superior brand equity and diversified single-family and multi-family product offering.

ED launches and sales forecasts ('000 units)



Source: Kamco Invest Research, Company data

ED sales and ASP/unit forecasts



Source: Kamco Invest Research, Company data

Monetized inventory provides clear compass for underwriting future demand

Unit sales exceeded launches over 2018-20 with the company launching only 823 units in 2020, in-line with the muted supply from overall market, as Dubai developers stalled project launches with the onset of Covid-19. Nevertheless, while overall supply picked up in 2021, ED continued to remain conservative with project launches, and preferred to execute inventory sales until the company was able to ascertain the stability of the market.

The company continued to unwind their inventory downwards in 2022 and achieve sales of 9.9k units while launches remained lower at 8.6k units. This moved overall inventory down from AED 4.15 Bn in 2020, to below ~AED 1 Bn by early 2023. With low inventory levels, we forecast unit sales to largely consist of new project launches over 2023E-25E and expect ED to achieve sales of c9.4k units average over the period. Further, we believe that the lower inventory along with ED's more cautious underwriting of project demand by commencing construction when 60%-70% of units are pre-sold and after 20%-30% cash collection is achieved, enables the company to judge the future trajectory of demand more precisely.

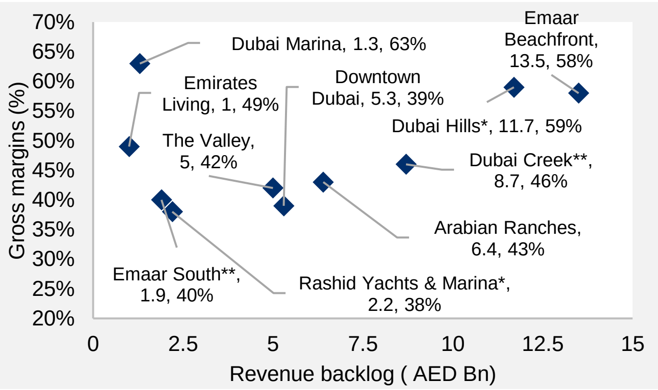
Emaar possesses multiple levers in our view to respond to market demand based on our primary research with RE consultants, brokers, project management consultants and contractors. These include revealed payment plans, product phasing etc., and a robust agent network that helps with ascertaining product market fit, buyer profiles and allows them to be opportunistic. During 2020 & 2021, Emaar sold products with higher post-handover plans that pushed their total under development portfolio's post-handover payment contribution to 25% and 27%, which helped in attracting strong investor appetite. As structural market demand was evident, the company lowered its post-handover payments % for its project launches, which drove total under development portfolio's post-handover payment contribution to 17% in 2022. The company's strong broker network relationships enable it to keep a pulse of the type of products the market needs – single family or multi-family homes, and price points for product-types specific to masterplan locations. As a result, we expect average selling prices (ASPs) of AED units to rise by 6.1% from AED 3.1 Mn/unit in 2022 to AED 3.28 Mn/unit in 2023E. We forecast ASPs to normalize to ~AED 2.9 Mn/ unit in 2025E, as sales activity should be dominated by off-plan sales of new launches and multi-family homes. Based on our forecasts of unit sales and ASPs, off-plan sales should reach AED 35.2 Bn & AED 27.5 Bn respectively in 2023E & 2024E respectively, and further normalize to AED 20.6 Bn by 2025E. Buyer mix would continue to remain predominantly cash buyers (85%-90% average) as new launches typically have lower LTV of ~50% from banks.

Masterplan development model renders progressive pricing feedback loop & portfolio optionality

We believe Emaar's master developer operating model and strong brand equity allows the company to capitalize on the current market dynamics through two main catalysts:

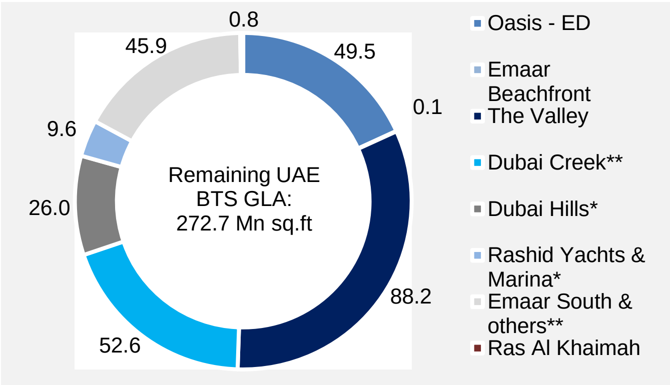
1. *Multi-layered pricing feedback loop:* The masterplan model will allow Emaar to increase product prices for its portfolio by at least 15% going forward, which is the lower end of the range they have been able to achieve over 2021-22 and YTD-2023. This is realized as Emaar progressively improves the attractiveness of the masterplan by continuously investing in infrastructure upgrades and introducing a range of community facilities for recreation, retail etc. Early buyers of units into a masterplan therefore realize significant appreciation on handover, which are captured in broker feedback to the company as well. Emaar also allows homeowners in mature master plans (10+ years) to modify internal villa layout changes, internal upgrades, and refurbishments as long they comply with Emaar Community Management and on approval from regulatory authorities enabling higher price discovery for otherwise older units.

ED masterplans profile (revenue backlog, GP margins)



Source: Kamco Invest Research, Company data, * consolidated JVs, **JVs/JDA with 50% share

ED UAE remaining build-to-sell GFA



Source: Company data, * consolidated JVs,**JVs/JDA with 50% share

This multi-layered pricing feedback from appreciation achieved from early buyers into the masterplan, upgraded homes of older communities in the masterplan and broker feedback allow Emaar to dynamically price their products to capture market share of project launches.

2. *Increased portfolio optionality by doubling down on exposure + executing opportunistic land bank additions as baton moves from older masterplans like Downtown Dubai, Dubai Marina etc:* ED added to its landbank with the purchase of 47 Mn sq.ft of Oasis-ED (formerly Lusaily extension) taking overall master plan BTS GLA to ~100 Mn sq.ft for Emaar Properties (EP). Separately, ED is participating in a joint development agreement (JDA) with EP as the parent company acquired the remaining 50% of its JV in Dubai Creek Harbour from Dubai Holding for AED 7.5 Bn via 50% payment in cash which included an AED 2.5 Bn outflow on deal closing, AED 1.25 Bn of deferred cash consideration over 3 years, and 50% in a convertible bond that was converted into shares of EP. The acquisition enables EP to expedite development of the masterplan without JV accounting and decision-making delays, while enabling ED to recognize 50% profit of the BTS projects as management fee in revenue, and 50% profit of the BTL/BTO projects based on equity method (base case). The masterplan currently has 5,469 units under development as 9M-2023, with a revenue backlog of AED 8.7 Bn. Both transactions executed by Emaar are quite opportunistic in our view, since older master plans such as Downtown Dubai, Dubai Marina are mostly monetized and at the tail end of development post their current backlog with no significant remaining GLA left in their

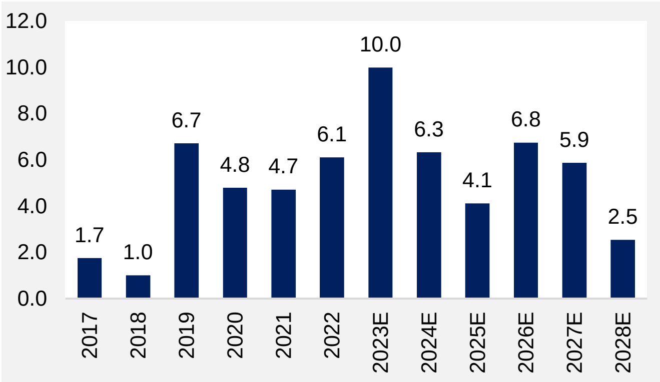
BTS portfolio. Dubai Creek and Lusaily represent the next masterplans with sizeable GLA left to develop which should provide a runway for Emaar's upcoming project launches and locationally we feel projects from Dubai Creek and Oasis (close to Tilal Al Ghaf area) could enable Emaar to push diversified product offerings to the market and provide optionality for launches in the future.

Higher pricing and construction commencement of 2022-23 sales units to be visible in ED revenues & GP margins (%) from 2024 onwards

ED expects to deliver 10k units in 2023E after which it forecasts significant deliveries only in 2026E, as lower project launches during Covid-19 come to the market in 2024E and 2025E. The company hopes to deliver 6.8k units in 2026E, most of which should be project launches from 2022 which go into construction by Q4-2023/Q1-2024, given the typical cycle of 15-18 months from project launch to commencement of construction and around 36 months to start delivering units. We forecast ED revenues of AED 10.2 Bn in 2023E (2022: AED 11.5 Bn) and expect revenues to grow to AED 13.1 Bn, AED 16.0 Bn in 2024E and 2025E respectively. Key drivers for our forecasts are higher sales momentum, the commencement of construction from Q4-2023/Q1-2024E and higher pricing Emaar was able to achieve for its project launches.

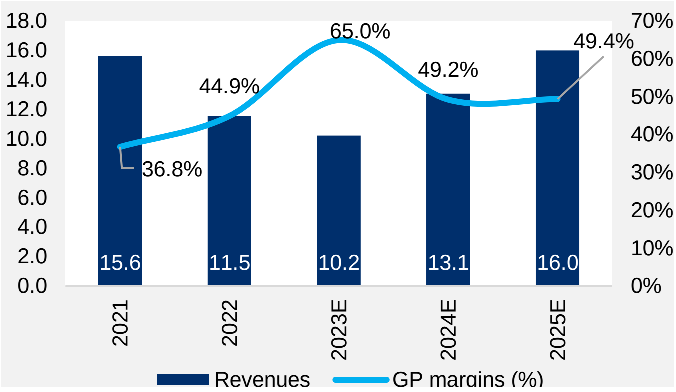
We forecast 2023E GP margins of 65% for ED vs 44.9% in 2022, driven mainly by the release of contingencies of AED 1.06 Bn (9M-2023) to hedge against contractor default. Our forecasts also estimate higher GP margins averaging +49% over 2024E-2025E on higher pricing, management's guidance of 3%-4% construction costs inflation, lower percentage of post-handover plans apportioning revenues more evenly over the construction period, and more stringent cost controls. Cost rationalization should also contribute to EBITDA margins of ~40% for its BTS products in our view from shorter payment plans rolled out to customers and lower sales commissions which have come down from ~5% pre-Covid to ~3% currently.

ED unit deliveries forecasts ('000)



Source: Company data

ED revenues (AED Bn) and GP margins (%)

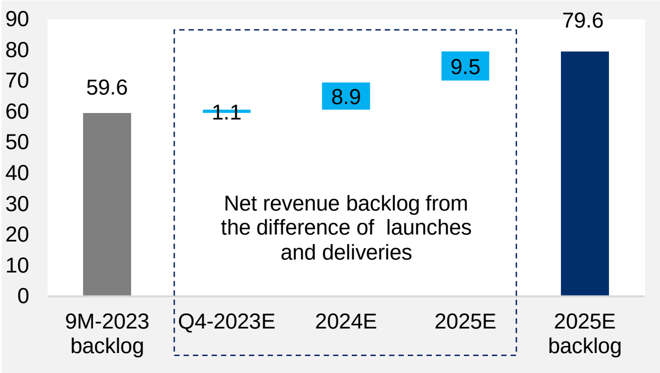


Source: Kamco Invest Research, Company data

Revenue backlog set to increase; potential recurring revenues unlocking

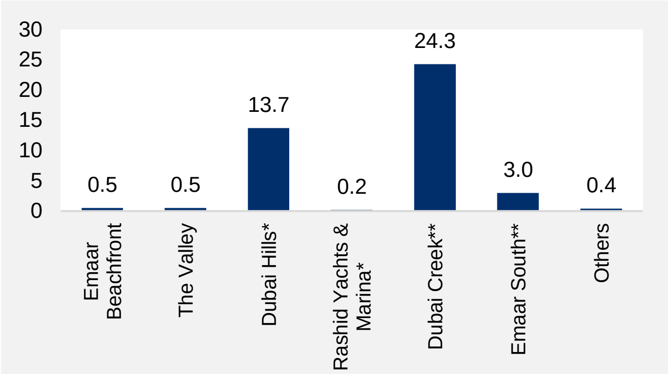
Recurring revenues is an area which Emaar wants to focus on both at EP and ED levels. A total of 42.6 Mn sq. ft of GFA has been designated to be developed by ED for build-to-lease (BTL)/build-to-operate (BTO) purposes on behalf of EP for a management fee. In the 9M-2023 earnings call, the management mentioned its focus to try and unlock recurring revenues from EP and separately from ED on a standalone basis. We believe that this would have several positive implications: 1) Average gross yields of around ~6% average should encourage the company to exploit the BTL market and provide optionality for capex allocation to capitalize on income generating opportunities; 2) A recurring revenues base at the ED level helps visibility for ED specific shareholders, especially in terms of potential dividends; 3) Ancillary revenues from a portfolio of district cooling (DC) assets like Emaar has across Dubai Creek, Dubai Hills, Emaar Beachfront, Nshama and Bahrain can be grown with potentially lucrative exit opportunities. As masterplans increase their GFA, DC connected capacity and total can be increased to achieve higher recurring revenues, project IRRs until these developments become more mature. We look for management guidance on execution in early 2024 to add this key catalyst in our thesis and valuation, and believe that additional revenue streams and cashflows from its DC assets and BTL portfolio should provide inherent high margins, and add an important de-risking element to the overall development business of ED.

ED backlog by 2025E (AED Bn) *



*Source: Kamco Invest Research, Company data, * based of 100% completion and deliveries and includes consolidated JVs/JDA*

BTL/ BTO to be developed by ED on behalf of EP for a management fee – GFA (Mn sq.ft)



*Source: Company data, * consolidated JVs,**JVs/JDA with 50% share*

In ED's core development business, we expect the revenue backlog for its fully owned and JV activities to increase over the medium term. Our forecasts for launches, sales and the delivery guidance from ED translate into revenue backlog increasing from AED 59.6 Bn at the 9M-2023 to AED 79.6 Bn at the end of 2025E (based on 100% completion effect on cashflows). While the actual cashflows could vary based on percentage of completion rates, we do believe that this would not alter the improving trajectory of revenue backlog until 2025E, which should provide significant visibility for revenues over the medium term. Further, this should negate any fears of lack of sustainability of potential dividends from ED over the medium term, and we do see the potential for a similar payout in absolute terms over 2023E-2025E on average when compared to 2022, which should keep dividend investors interested in the company.

Emaar Development PJSC – Company Overview

Dubai's iconic residential master developer & built communities pioneer

Formerly known as Emaar Development LLC, Emaar Development PJSC (ED) was subsequently listed on the DFM in 2017. ED is a property-development business that operates on a build-to-sell basis and is primarily owned by Emaar Properties PJSC (EP) which is one of GCC's largest real estate companies established in 1997 and is the master developer credited for transforming Dubai's built environment landscape into a hub for commerce, trading, tourism, and entertainment. As of 2022, ED generated total revenues of AED 11.54 Bn, and an EBITDA of AED 4.22 Bn. Over 9M-2023, revenues came in at AED 7.37 Bn while the company posted an EBITDA of AED 4.45 Bn.

ED at a glance

Creator of World-Renowned Architectures

- Burj Khalifa – Tallest Building in the World
- Dubai Marina – Largest Man-Made Marina[1] (3.5 sq.km.) development of its kind
- Dubai Fountain – World's largest choreographed musical fountain

Strong Financial Performance in 9M 2023

- Revenue ~AED 7.4 Bn
- EBITDA ~AED 4.5 Bn
- Net Profit ~AED 4.1 Bn

EMAAR DEVELOPMENT

Proven Execution Track Record[2]

- 66,000+ Residential Units delivered as of September 2023
- ~273 Mn sq. ft. remaining land bank (GLA) in UAE

Strong Revenue Visibility[2]

- c. 27,000 Residential Units under construction
- c. AED 59.6 Bn Revenue Backlog to be recognized over next 3-4 years
- Property sales of c. AED 28.9 Bn in 9M 2023

Source: Emaar Development, 1) ArabianBusiness.com, 3 June 2015, "Dubai Marina, the region's largest marina development of its kind", 2) Numbers are inclusive of JVs/JDAs and projects being developed for Emaar Properties

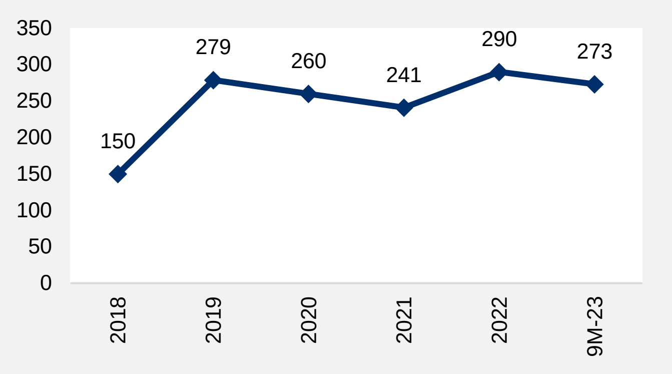
Emaar is the largest master developer of integrated communities in Dubai such as Downtown Dubai, Dubai Marina, Arabian Ranches and Emirates Living amongst others. ED has delivered 66,000+ residential units as of Sept-2023, with close to c.27,500 residential units under construction. Property sales of AED 30.7 Bn was reported in 2022 and reached c.AED 28.9 Bn in 9M-2023, while revenue backlog reached c.AED 59.6 Bn by 9M-2023.

Dubai 2040 Urban Master Plan + D33 agenda should drive ED's BTS portfolio

We believe that the ED's residential developments going forward should be supported by the strategic roadmaps set by the Government Dubai through initiatives such as the Dubai 2040 Urban Master Plan and D33 agenda.

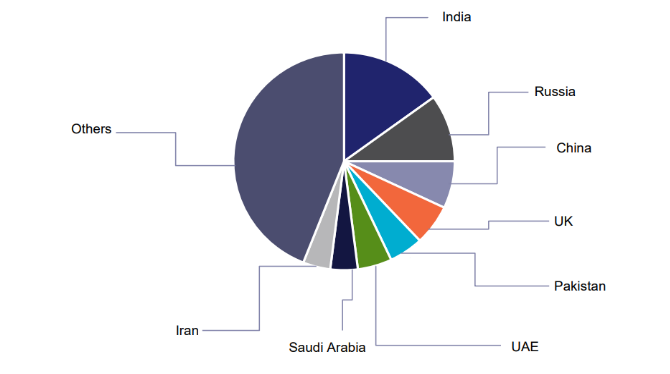
Specific to real estate and infrastructure, the original Dubai 2040 Urban Master Plan aims to drive population growth from 3.3 Mn to 7.8 Mn by 2040. Further the updated plan involves modernizing infrastructure amongst major urban centers designated for residential, business & financial activities, tourism and entertainment, logistics & exhibitions, along with technology and knowledge. The emphasis on residential developments should also contribute to ED's parent – Emaar Properties for its other business segments such as the initiative for designated land area for hotels and tourist areas which is targeted to increase by 134% to 168 sq. km, while the length of public beaches is slated to jump by 400%. Further, the Dubai Land Department launched its new strategic plan for 2026 under five main pillars and aims to enhance the contributions of the real estate sector to Dubai's GDP. In 2023, The Dubai Economic Agenda D33 was approved that includes 100 transformative projects, with economic targets of AED 32 trillion, doubling foreign trade to reach AED25.6 trillion and adding 400 cities as key trading partners over the next period.

ED land bank availability – GLA (Mn sq.ft)



Source: Company data

Emaar's master developments customer mix -9M 2023 (%)



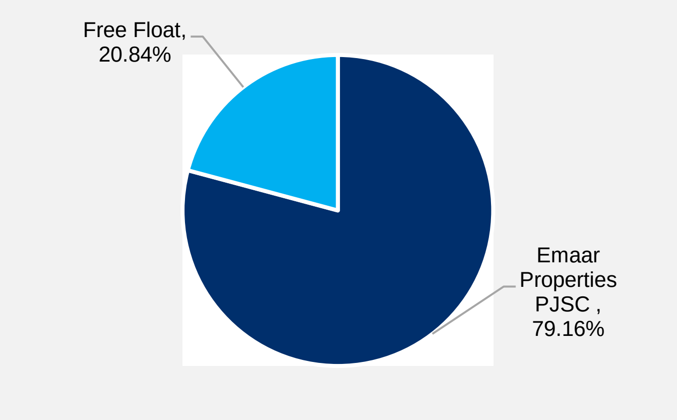
Source: Company data

UAE residents contributed 59% of ED's build-to-sell (BTS) business while international residents added up to 41% over 9M-2023. In terms of customer mix based on nationality, Indians contributed to 15% of the sales, followed by Russians (10%) and Chinese (7%) over 9M-2023. ED conducts its build-to-sell business with access to prime land banks that are either owned by ED and totals ~273 Mn sq.ft of GLA, or via partnership (JVs/JDAs) with its parent – EP, GREs, government and large owners of land banks. These aggregate land bank across master development locations are acquired and grown to allow ED to stay opportunistic and ahead of other developers in exploiting demand for location preferences and residence types.

Emaar Properties is ideal majority shareholder

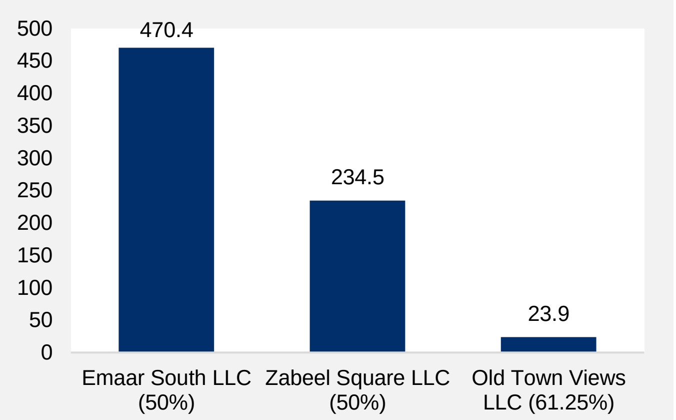
Emaar Properties (EP) is the majority shareholder in ED with a holding of 79.16%. There are obvious benefits to having EP as the parent company' ascribed to the latter's real estate expertise across segments that could be beneficial for shareholders who need either specialized or more diversified exposures. Further the inclusion of other segments of EP such as retail, hospitality and entertainment have and will continue to further improve the value proposition of the BTS residences and its demand.

ED shareholding pattern



Source: DFM as on 14 Dec 2023

ED JVs carrying value (AED Mn)



Source: Company data - 9M-2023 financials

ED's JV portfolio largely includes exposures in land, residential and mixed-use developments across Dubai. The company's JV investments include Emaar South LLC (50%), and Zabeel Square LLC (65%) where management fee is recognized by ED. For the BTS projects, 50% of the profits from these investments is recognized as share of results of JVs by ED.

Board of Directors & Management Team

Board of Directors	Title
Mr. Adnan Kazim	Chairman
Dr. Ayesha Binlootah	Vice-Chairman
Mr. Mohamed Ali Alabbar	Executive Board Member
Mr. Jamal Bin Theniyah	Board Member
Mr. Ahmed Jawa	Board Member
Mr. Mohammad Al Muallem	Board Member
Mr. Ali Ibrahim	Board Member
Management	**Title**
Mr. Amit Jain	Group CEO
Ms. Rama W. Husamddine	Director, Design
Ms. Jacqueline Shaddock	Director, Interior Design
Mr. Dhiraj Chhabra	Head of Sales
Mr. Sunil Grover	Chief Financial Officer
Mr. Richard Nigel Shirley	Head of Projects

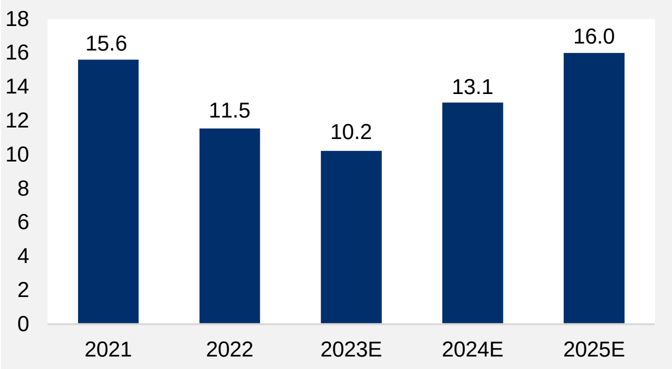
Source: ED Investor Relations, Management team as per ED's Integrated Report -2022

Running the numbers – ED financial forecasts

Revenues and GP

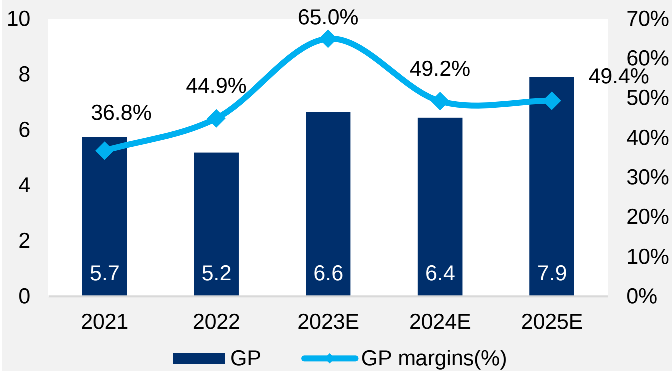
We forecast ED revenues of AED 10.2 Bn in 2023E, down 11% y-o-y from AED 15.6 Bn in 2022E, ascribed to lower sales activity in 2020 as revenue recognition is based on percentage of competition of units sold over the past 3-4 years. Nevertheless, we expect revenues to grow at CAGR of 25.1% over 2023E-25E on revenue recognition of construction of the strong sales achieved in 2021 & 2022.

Revenues (AED Bn)



Source: Kamco Invest Research, Company data

GP (AED Bn) and GP Margins (%)



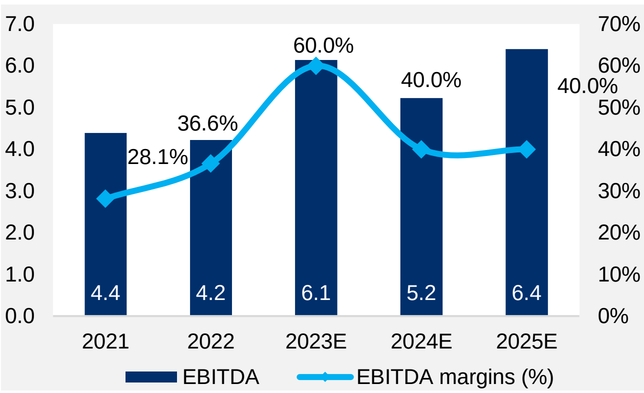
Source: Kamco Invest Research, Company data

Gross profit (GP) for 2023E should however come in higher by 28% y-o-y at AED 6.6 Bn, as per our model forecasts, driven mainly by the release of contingencies of AED 1.06 Bn (9M-2023) to hedge against contractor default. In 2024E and 2025E, we expect normalized GP margins of +49%, and forecast 2025E GP to reach AED 7.9 BN, ascribed to revenue recognition of higher number of units sold in 2022 & 2023, and on higher pricing. Our forecasts also include the management's guidance of 3%-4% construction costs inflation and are based on a lower percentage of post-handover plans apportioning revenues more evenly over the construction period.

EBITDA & net income

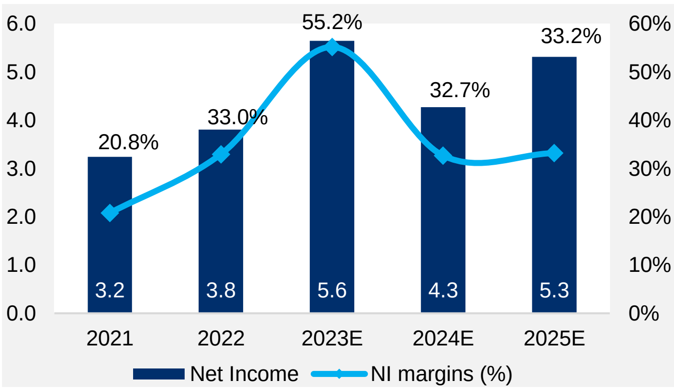
Normalized EBITDA margins should improve by ~340bps each over 2024E and 2025E on revenue mix tilt towards higher priced units, cost rationalization, shorter payment plans rolled out to customers and lower sales commissions which have come down from ~5% pre-Covid to ~3% currently.

EBITDA (AED Bn) & EBIDTA margins (%)



Source: Kamco Invest Research, Company data

Net Income (AED Bn) & net income margins (%)



Source: Kamco Invest Research, Company data

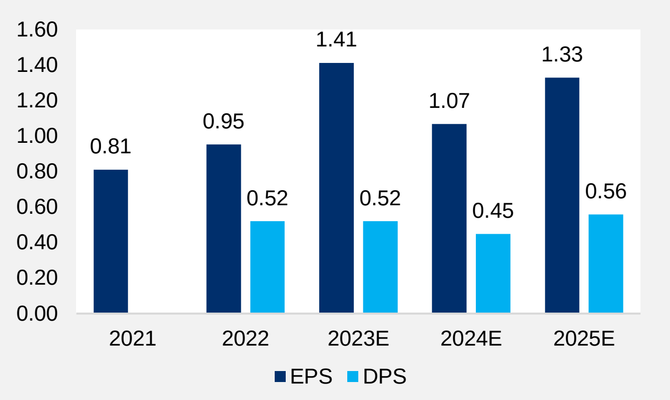
For our net income and EPS related forecasts, higher EBITDA conversion and financial income from cash balances should keep normalized net margins at ~33% over 2024E and 2025E (2023E includes the non-recurring contingencies release). This is despite the introduction of corporate tax by the UAE which is scheduled to come into effect starting 2024E. Based on our assumptions, we therefore forecast

ED's EPS to come in at AED 1.41/share, AED 1.07/share and AED 1.33/share for 2023E, 2024E and 2025E respectively.

Dividends and net cash position

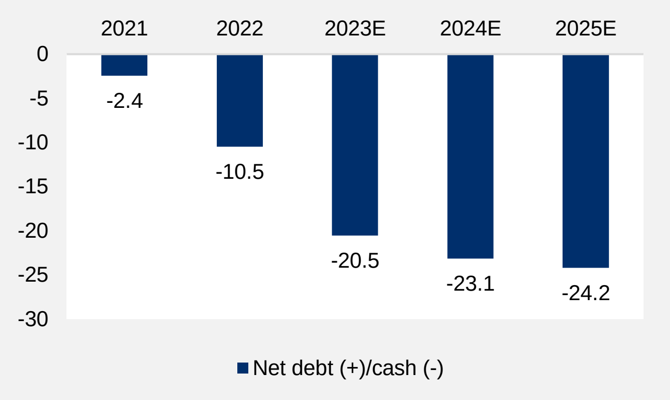
We believe that ED can repeat its 2022 dividend payout in absolute terms, and therefore forecast a dividend payout of 52 fils/share in 2023E, as strong revenue visibility and solid demand was reiterated by the company's management in the 9M-2023 earnings call. For 2024E & 2025E, we remain conservative and forecast dividend payout of 45 fils and 56 fils, which we believe could be revised higher depending on the confirmation of higher revenue backlog forecasts at the end of 2025E, and guidance on ED's BTL portfolio on a standalone basis.

EPS & DPS – AED/share



Source: Kamco Invest Research, Company data

Net cash forecasts (AED Bn)



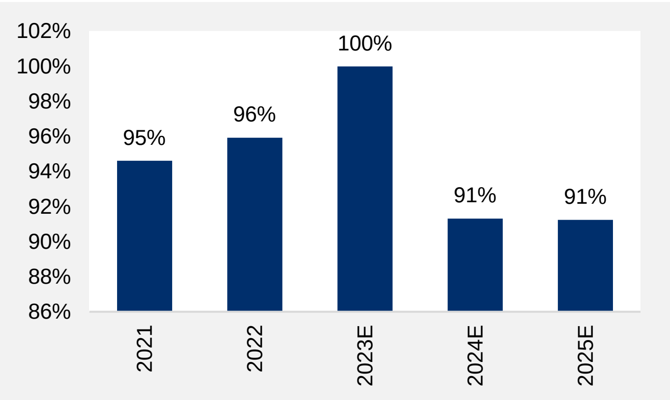
*Source: Kamco Invest Research, Company data, * before escrow cash adjustments*

Strong cashflows from ED's development business should translate into higher cash generation for the company, further strengthening the net cash position from 2022 (AED 10.5 Bn prior to escrow adjustments) and should reach AED 24.2 Mn of net cash by 2025E, as per our forecasts.

OCF/EBITDA conversion and ROE

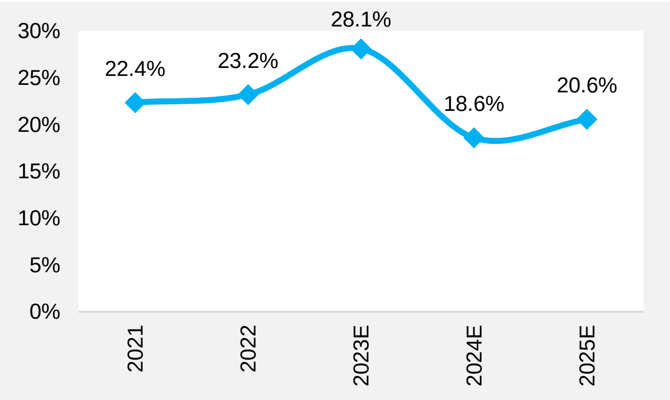
We forecast OCF (excluding NWC adjustments) / EBITDA conversion to be extremely strong at ~91% average over 2024E & 25E on normalized operations without non-recurring items and reflecting better revenue visibility and cost recognition for ED's development business from the onset of the current real estate cycle.

OCF/EBITDA conversion



Source: Kamco Invest Research, Company data

ROE* (%)



*Source: Kamco Invest Research, Company data, *excluding minority interest*

In terms of returns on capital, ED's ROE (excluding minority interests) is expected to average around 19%-20% despite the introduction of corporate income tax from 2024E onwards, as operational revenues stabilize and achieve the benefits of higher pricing of products and organic growth.

Emaar Development Financials

Balance Sheet (AED Mn)	2021	2022	2023E	2024E	2025E
Assets					
Cash & cash equivalents	5,689	11,363	20,521	23,140	24,174
Receivables	14,596	15,446	12,298	13,102	15,241
Other assets	2,943	2,957	2,761	2,875	2,960
Total current assets	**23,227**	**29,765**	**35,581**	**39,117**	**42,376**
Net property, plant and equipment	27	20	17	17	18
Other assets	12,911	12,689	12,237	12,978	13,869
Total assets	**36,165**	**42,474**	**47,835**	**52,112**	**56,262**
Liabilities					
Liabilities	16,491	21,511	23,692	25,529	25,911
Total debt	3,259	892	4	4	4
Total liabilities	**19,749**	**22,403**	**23,696**	**25,533**	**25,914**
Shareholders' Equity					
Share capital	4,000	4,000	4,000	4,000	4,000
Retained earnings	9,313	12,737	16,303	18,495	22,013
Minority Interest	1,923	1,774	2,274	2,524	2,774
Other Equity	1,180	1,561	1,561	1,561	1,561
Total Equity	**16,415**	**20,072**	**24,138**	**26,580**	**30,348**
Total liabilities and equity	**36,165**	**42,474**	**47,835**	**52,112**	**56,262**

Income Statement (AED Mn)	2021	2022	2023E	2024E	2025E
Revenue	15,602	11,541	10,227	13,069	16,001
Cost of goods sold	-9,867	-6,357	-3,581	-6,633	-8,098
Gross profit	**5,735**	**5,184**	**6,646**	**6,436**	**7,903**
SG&A	-1,654	-1,229	-1,105	-1,411	-1,728
Other operating income & adjustments	308	269	595	203	226
EBITDA	**4,389**	**4,224**	**6,136**	**5,228**	**6,401**
Depreciation and amortization	-12	-10	-13	-13	-13
EBIT	**4,377**	**4,214**	**6,123**	**5,215**	**6,388**
Finance costs	-268	-330	-341	-303	-265
Finance income	124	381	821	810	786
Net income before taxes	**4,233**	**4,265**	**6,603**	**5,721**	**6,908**
Provision for Income Taxes	0	0	0	-515	-622
Net income after taxes	**4,233**	**4,265**	**6,603**	**5,206**	**6,286**
Minority interest	-988	-457	-955	-934	-971
Net income attributable to parent	**3,244**	**3,808**	**5,648**	**4,272**	**5,315**
Adjusted EPS (AED)	**0.81**	**0.95**	**1.41**	**1.07**	**1.33**

Source: Kamco Invest Research and Emaar Development PJSC

Cash Flow (AED Mn)	2021	2022	2023E	2024E	2025E
Net cash from operating activities	4,197	8,616	11,631	5,684	3,988
Net cash (used in) from investing activities	52	232	1,293	(34)	(202)
Net cash from (used in) financing activities	(1,952)	(3,133)	(3,766)	(3,032)	(2,752)
Change in cash and cash equivalents	2,297	5,715	9,158	2,619	1,034
FX and other adjustments	83	42			
Cash and cash equivalents at the end of the year	**5,689**	**11,363**	**20,521**	**23,140**	**24,174**

Valuation & Financial Ratios	2021	2022	2023E	2024E	2025E
Asset Structure and Leverage Ratios					
Total Debt / Total Assets (x)	0.09	0.02	0.00	0.00	0.00
Total Debt / Equity (x)	0.20	0.04	0.00	0.00	0.00
Total Liabilities/Equity (x)	1.20	1.12	0.98	0.96	0.85
Profitability Ratios					
Return on Average Equity (%)	22.4%	23.2%	28.1%	18.6%	20.6%
ROIC (%)	22.2%	20.1%	25.4%	17.7%	19.0%
Margins					
Gross profit margin (%)	36.8%	44.9%	65.0%	49.2%	49.4%
EBITDA margin (%)	28.1%	36.6%	60.0%	40.0%	40.0%
EBIT margin (%)	28.1%	36.5%	59.9%	39.9%	39.9%
Net profit margin (%)	20.8%	33.0%	55.2%	32.7%	33.2%
Per Share Data and Valuation Ratios					
Earnings Per Share (AED)	0.81	0.95	1.41	1.07	1.33
Book Value Per Share (AED)	4.1	5.0	6.0	6.6	7.6
Dividend Per Share (AED)	0.00	0.52	0.52	0.45	0.56
PE (x)	6.0	6.2	5.1	6.7	5.4
EV/EBITDA (x)	3.8	3.3	1.7	1.5	1.1
PB (x)	1.2	1.2	1.2	1.1	0.9
Dividend Yield (%)	0.0%	8.9%	7.3%	6.3%	7.8%

Source: Kamco Invest Research and Emaar Development PJSC

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- ***Neutral:** Target Price represents expected returns between -10% and +10% in the next 12 months*
- ***Underperform:** Target Price represents an expected return of <-10% in the next 12 months*

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