

Emaar Properties PJSC

Equity Research Update

Sector – Real Estate

Reaping leadership gains of an extended cycle

Strong demand & solid medium-term visibility; retain Outperform

Demand across core segments that Emaar Properties (EP) operates in have come in stronger than our earlier expectations. We reiterate our Outperform rating on EP as: 1) The company's UAE development business continues to achieve higher pricing for its products, while maintaining market share and advantageous flexibility for its launches achieved by maneuvering through Dubai's current real estate cycle as a master developer; 2) EP's core recurring portfolio maintains strong occupancy rates for its assets, keeping recurring EBITDA contribution stable despite higher development revenues; 3) We see potential for discretionary dividends beyond EP's 20% cap of share capital over the medium term from stronger visibility for its build-to-sale (BTS) operations and higher recurring revenues to be unlocked from masterplans. As a result, EP should strengthen its leadership position during the current cycle and remain resilient against future market-wide downturns in our view.

ED stays ahead of BTS market with launch mix & ASP tweaks

Post Q3-2023E, we raise our forecast for ED's new project launches over 2023E-25E to an average of ~9.4k units per annum (Previous: c8.5k units) on stronger demand, while maintaining market share (~20%), and off-plan sales ratio run-rate of +95%. ED's flexibility in product mix and ability to raise ASPs of its product portfolio continues to be evident with 100% sell through achieved for the launch of Palmeira at The Oasis in Q3-2023E, which consists of 223 villas at a starting price of AED 8.5 Mn. Further, the company should be able to achieve GP margins of 45%-50% and average EBITDA margins of ~40% for its BTS products in our view, driven by strong pricing power which is apparent from shorter payment plans rolled out to customers, and broker sales commissions remaining stable at ~3%. Moreover, the release of contingencies of AED 1.49 Bn to hedge against contractor default and the management's guidance of 3%-4% construction costs inflation showcases execution capabilities of ED. Launch momentum of units should continue to be higher than Emaar's deliveries guidance over 2024E-26E which should further increase sales backlog from AED 59.6 Bn reported at the end of Q3-2023. Separately, we remain positive on the management's ability to build ED's recurring revenue streams from prospective BTL portfolios over the medium term.

Retail & hospitality catalysts to sustain higher recurring revenues

Emaar Malls Management (EMM) should grow rental revenues over the medium term as 53% of retail portfolio's tenancy contracts are guided to be up for renewal over 2024E-26E, where rates are expected to be revised higher by 5%-7%. Further mall extensions like the recent Chinatown addition at Dubai Mall, the addition of new community centers in EP's master developments, and superior monitoring of tenant KPIs such as tenant sales and footfalls should keep mall portfolio occupancy rates at 96%-97% and drive medium term EBITDA margins of 83%-85% in our view. For the Hospitality segment, Emaar will continue to drive leaner scale through its brands with 2/3rd of pipeline of ~3,000 keys are under management agreements. Further, we expect 9M-2023 occupancy rates of 70% to sustain over the medium term supported by strong visitor influx, as the officials target 400 annual global economic events for the emirate by 2025. As a result, EP's core recurring businesses should benefit from strong discretionary spending, complementary footfalls and utilize superior asset quality to derive a recurring EBITDA that should contribute to ~52% of group EBITDA over the medium term, as per our forecasts.

Valuation & Risks –TP raised to AED 8.65 (Previous: AED 7.85)

Our revised TP represents a 17.2% upside to the current share price of Emaar Properties and is based on SotP valuation. Key downside risks: 1) Weaker demand and lower pricing for ED's build-to-sell units 2) Lower discretionary consumer spending impacting EMM rents, Hospitality ADRs and occupancy rates.

Outperform

CMP 8-Dec-23: AED 7.38

Target Price: AED 8.65

Upside: +17.2%



Price Perf.	1M	3M	12M
Absolute	3.9%	5.4%	20.4%
Relative	4.4%	8.3%	1.6%

Stock Data

Bloomberg Ticker	EMAAR UH
Tadawul Ticker	EMAAR
Last Price (AED)	7.38
MCap (AED Mn)	65,230
MCap (USD Mn)	17,774
EV (AED Mn)	55,073
Stock Performance - YTD (%)	25.9%
PE - 2023E (x)	6.6
EV/EBITDA - 2023E (x)	4.4
Dividend yield - 2023E (%)	3.4%
52-Week Range (AED)	5.16/8.38

Sources: KAMCO Invest Research & Bloomberg

EP Financials	2022	2023E	2024E
Revenue (AED Bn)	24.9	24.5	28.4
Adjusted EBITDA (AED Bn)	9.33	12.45	12.17
Adjusted EPS (AED)	0.77	1.12	0.91
P/E (x)	7.6	6.6	8.1
EV/EBITDA (x)	5.6	4.4	4.0
Div. yield (%)	4.3%	3.4%	3.4%

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Valuation and Risks

Revised TP of AED 8.65/share; retain 'Outperform' rating

We raise our model forecasts and revise our TP for Emaar Properties (EP) to AED 8.65/share (Previous: AED 7.85), as demand across core operating segments have come in stronger than our previous expectations ([Emaar Properties: Hedonic pricing prowess; Initiate with Outperform](#)). We reiterate our Outperform rating on EP as: 1) The company's UAE development business continues to achieve higher pricing for its products, while maintaining market share and advantageous flexibility for its launches achieved by maneuvering through Dubai's current real estate cycle as a master developer; 2) EP's core recurring portfolio maintains strong occupancy rates for its assets keeping recurring EBITDA contribution stable despite higher development revenues; 3) We see potential for discretionary dividends beyond EP's 20% cap of share capital over the medium term from stronger visibility for its build-to-sale (BTS) business and higher recurring revenues to be unlocked from masterplans.

Emaar Properties PJSC SotP Valuation

Valuation Entity	Valuation (AED Mn)	EP's share	EP Value (AED Mn)	Contribution to EV (%)	Methodology
Development	37,411.3		30,152.3	34%	
UAE Development	34,575.0	80.2%	27,715.3	31%	DCF based on handover + completion (%) of units
International Development	2,836.3		2,436.9	3%	
<i>Emaar Misr</i>	2,154.0	88.7%	1,911.5	2%	50% discount to BV
<i>Emaar India</i>	682.3	77.0%	525.4	1%	50% discount to BV
Emaar Malls		100.0%	37,056.6	41%	DCF with exit yield
Entertainment & Leasing		100.0%	12,535.2	14%	DCF with exit yield
Hospitality		100.0%	9,608.8	11%	DCF with exit yield
Total EV of consolidated operations			89,353.0		
IA's & JVs			3,902.5		
<i>Emaar, The Economic City</i>			1,495.3		Reported BV
<i>Amlak Finance</i>			770.2		Reported BV
<i>Other associates & joint ventures</i>			1,637.1		50% discount to BV
Loans to associates			826.4		Reported BV
Investment in securities			2,084.4		Reported BV
Unallocated SG&A			(4,700.9)		DCF
Net debt (excluding cash in escrow & including lease liabilities)			(1,487.6)		Reported BV
Equity value prior to holding discount			89,977.8		
Holding discount			15%		
Emaar Properties equity value (AED Mn)			76,481.1		
Emaar Properties equity value per share (AED)			8.65		
Current Price (as on 08 Dec 2023)			7.38		
Upside (%)			17.2%		

Source: Kamco Invest Research

Our revised TP represents a 17.2% upside to EP's current share price and is based on sum-of-the-parts (SotP) valuation. We apply a 15% holding discount to the aggregate equity value, as EP operates its businesses as distinct entities within its overall portfolio. Our valuation methodology and inputs for each segment include:

- **Emaar Development (ED):** We value Emaar Development using a DCF based on handover and percentage completion of units in the under-development portfolio 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 150 bps for the cyclicity 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 each of the 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.

- Emaar Malls Management (EMM): For Emaar Malls, we model GLA increases and tenant contract renewals at 5%-7% higher lease rates based on the percentage of expiring leases. We assume average occupancy rates of 95%-96% over our 10-year DCF and apply an average WACC of 10.25% along with an exit yield of 10%.
- Emaar Hospitality: In our cashflow forecasts, the upcoming pipeline of 3,000 keys with 2/3rd of the supply to be under management contracts are captured. We apply an average WACC of 10.75% and an exit yield of 11.5% to remain on the conservative side.
- Entertainment & Leasing: The segment's cashflows were based on a full normalization of footfalls, and an increase in footprint from newer malls such as Dubai Hills Mall, Dubai Expo Mall, and normalized Reel Cinema revenues. We utilize a WACC of 10.5% and an exit yield of 11.5%.
- International Development: We apply a 50% discount to book values of Emaar Misr and Emaar India until we gain better visibility of FX stability and normalized operations, and we exclude all other geographies until operational scalability is more evident.
- Associates & JVs: For EP's listed associates Emaar, The Economic City and Amlak Finance we utilize latest book values and apply a 50% discount to all other associates & JVs.
- Others: The unallocated SG&A expenses were valued by a DCF, while operational EV was further fine-tuned by adjusting for loans to associates, investment in securities and net debt (excluding cash in escrow & including lease liabilities).

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 real estate demand from slower population growth and lower number of tourists impacting EP's segments, and failing to keep pace with supply additions
- Higher speculative activity in Dubai's residential market combined with increasing leverage and debt servicing needs from high interest rates
- Weaker off-plan demand and lower pricing for ED's build-to-sell units
- Lower discretionary consumer spending impacting footfalls, tenant sales, and tenants OCRs, contributing to lower rental lease renewals in Emaar Malls
- Entertainment business being impacted by general slowdown in leisure and entertainment spending allocation from tourists and residents
- Lower tourist activity impacting occupancy rates, ADRs, and impacting lower management agreement fees for Emaar Hospitality
- Continued devaluation of local currencies in EP's most active international markets (Egypt and India) contributing to FX translation reserve losses in OCI
- Higher working capital and capex needs driving debt issuance or unplanned refinancing of debt at unfavorable market interest rates.

Emaar Properties Financials

Balance Sheet (AED Mn)	2021	2022	2023E	2024E	2025E
Assets					
Cash & cash equivalents	8,539	18,289	30,002	36,118	44,183
Receivables	16,586	22,218	22,218	22,218	22,218
Other assets	17,431	8,003	8,387	9,537	10,379
Total current assets	42,556	48,511	60,607	67,873	76,780
Net property, plant and equipment	9,157	9,884	9,687	9,858	9,981
Intangibles	745	212	216	221	227
Other assets	68,156	73,757	71,234	71,302	71,641
Total assets	120,614	132,364	141,744	149,254	158,629
Liabilities					
Liabilities	35,000	42,440	45,006	46,694	49,670
Total debt	17,872	14,498	12,399	12,167	11,747
Total liabilities	52,872	56,938	57,405	58,861	61,417
Shareholders' Equity					
Share capital	8,180	8,839	8,839	8,839	8,839
Retained earnings	33,490	38,162	45,825	51,629	58,198
Minority Interest	6,027	6,428	7,678	7,928	8,178
Other Equity	20,045	21,998	21,998	21,998	21,998
Total Equity	67,742	75,426	84,339	90,394	97,212
Total liabilities and equity	120,614	132,364	141,744	149,254	158,629
Income Statement (AED Mn)					
Revenue	27,896	24,926	24,525	28,358	31,164
Cost of goods sold	-16,304	-12,338	-9,728	-13,413	-14,855
Gross profit	11,592	12,587	14,797	14,944	16,309
SG&A	-4,052	-3,522	-2,636	-3,119	-3,428
Other operating adjustments	253	260	294	340	374
Adjusted EBITDA	7,792	9,325	12,455	12,165	13,255
Depreciation and amortization	-1,239	-1,269	-1,311	-1,343	-1,378
Adjusted EBIT	6,554	8,056	11,144	10,823	11,877
Finance costs	-1,280	-981	-1,043	-999	-917
Finance income	430	1,057	1,455	1,374	1,130
Share associates and other income	382	345	1,006	397	433
Adjusted net income before taxes	6,085	8,477	12,562	11,594	12,522
Provision for Income Taxes	-407	-338	-232	-1,043	-1,127
Adjusted net income after taxes	5,678	8,139	12,330	10,551	11,395
Minority interest	-1,877	-1,307	-2,457	-2,537	-2,617
Adjusted net income attributable to parent	3,801	6,832	9,873	8,014	8,778
Adjusted EPS (AED)	0.46	0.77	1.12	0.91	0.99

Source: Kamco Invest Research and Emaar Properties PJSC

Cash Flow (AED Mn)	2021	2022	2023E	2024E	2025E
Net cash from operating activities	10,561	18,942	15,950	11,757	14,342
Net cash (used in) from investing activities	(2,756)	(2,532)	2,297	(43)	(480)
Net cash from (used in) financing activities	(6,041)	(5,970)	(6,534)	(5,598)	(5,796)
Change in cash and cash equivalents	1,763	10,440	11,713	6,116	8,065
FX and other adjustments	1,072	(689)			
Cash and cash equivalents at the end of the year	8,539	18,289	30,002	36,118	44,183

Valuation & Financial Ratios	2021	2022	2023E	2024E	2025E
Asset Structure and Leverage Ratios					
Total Debt / Total Assets (x)	0.15	0.11	0.09	0.08	0.07
Total Debt / Equity (x)	0.26	0.19	0.15	0.13	0.12
Total Liabilities/Equity (x)	0.78	0.75	0.68	0.65	0.63
Profitability Ratios					
Return on Average Equity (%)	5.6%	9.5%	12.4%	9.2%	9.4%
ROIC (%)	7.2%	8.6%	11.3%	9.5%	9.9%
Margins					
Gross profit margin (%)	41.6%	50.5%	60.3%	52.7%	52.3%
EBITDA margin (%)	27.9%	37.4%	50.8%	42.9%	42.5%
EBIT margin (%)	23.5%	32.3%	45.4%	38.2%	38.1%
Net profit margin (%)	13.6%	27.4%	40.3%	28.3%	28.2%
Per Share Data and Valuation Ratios					
Earnings Per Share (AED)	0.46	0.77	1.12	0.91	0.99
Book Value Per Share (AED)	8.3	8.5	9.5	10.2	11.0
Dividend Per Share (AED)	0.15	0.25	0.25	0.25	0.25
PE (x)	10.5	7.6	6.6	8.1	7.4
EV/EBITDA (x)	6.7	5.6	4.4	4.0	3.1
PB (x)	0.6	0.7	0.8	0.7	0.7
Dividend Yield (%)	3.1%	4.3%	3.4%	3.4%	3.4%

Source: Kamco Invest Research and Emaar Properties PJSC

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