

Rating Action: Moody's changes Emaar's outlook to positive; affirms Ba1 ratings

Global Credit Research - 25 Feb 2015

London, 25 February 2015 -- Moody's Investors Service has today changed to positive from stable the outlook on the Ba1 corporate family rating (CFR) and the Ba1-PD probability of default rating (PDR) of Emaar Properties PJSC. Concurrently, Moody's has affirmed all ratings including the Ba1 ratings on the two sukuk issued under Emaar Sukuk Limited. The outlook on all ratings is positive.

"The change to positive outlook reflects the strengthening of Emaar's real estate development, hospitality and retail operations, its disciplined approach to capital expenditure during the recent market up-cycle, which together with the firm's solid liquidity position and sizeable property sales backlog will insulate the company against an anticipated moderate price correction in the Dubai real estate market," says Rehan Akbar, an Analyst in Moody's Corporate Finance Group and local market analyst for Emaar.

RATINGS RATIONALE

The affirmation of Emaar's Ba1 ratings reflects Moody's expectation that its malls and hospitality operations will remain resilient through a softening market environment, while customer cash collections in the property development business will not be significantly impaired despite the expected market correction.

While strong growth in the Dubai real estate market in 2012-14 indicated the potential for overheating of the housing market, Dubai's property market has reached an inflexion point, with prices remaining broadly flat in the second half of 2014 amid rising supply and tighter regulations.

As regional geopolitical events, low-oil prices and a strengthening dollar have created a more uncertain investment climate, Moody's believes that the demand for Dubai property is likely to weaken further and lead to a moderate market correction in 2015, although in the long run, this adjustment should prove to be positive and ensure market sustainability.

Emaar will likely remain resilient to this correction, as its business and financial profile is significantly stronger than it was during the previous real estate cycle. This is due to its (1) substantial property sales backlog in excess of AED26 billion (USD7.1 billion), of which Moody's estimates about half of the cash has yet to be received in the coming three years; (2) robust liquidity, with a significant cash cushion of AED9.3 billion of unrestricted cash and a termed out debt maturity profile; and (3) ownership of a portfolio of mature recurring-revenue property assets, including its flagship Dubai Mall and The Address brand of hotels.

The rating also takes into account the (1) 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) uncertainty around the timing and quality of investment returns from international operations where core countries such as Turkey, Egypt and Lebanon face economic and political challenges.

LIQUIDITY

Moody's views Emaar's liquidity as being robust as of end-September 2014, with more than adequate cash sources to meet the total amount of AED723 million in short-term debt as well as the next material debt maturity, the \$500 million sukuk due in August 2016. The company also had sizeable cash balances of AED9.3 billion as well as AED7.6 billion of cash in escrow accounts or to be maintained as deposits. Funds from operations are expected to be in excess of AED4.5 billion in 2015, with large working capital inflows helping to fund property development commitments. In addition, Emaar has access to about \$500 million through its Islamic revolving credit facility due in 2020.

Emaar has a significant multi-year capex programme with capex budgeted at AED5.5 billion for 2015, of which it will invest a majority in Dubai to grow its recurring income. Moody's notes that Emaar's budgeted capex for 2014 was similarly high at AED5.0 billion, but only AED950 million was spent in the first nine months of 2014. Although capex in 2015 is anticipated to be significantly higher than in 2014, past behaviour alleviates execution risk concerns and points to the discretionary nature of the capex programme. Moody's anticipates that Emaar will

delay investments should the market outlook remain weak in order to preserve liquidity.

RATIONALE FOR POSITIVE OUTLOOK

The change of outlook to positive reflects the potential upward pressure on the rating owing to the growing diversification of Emaar's business, the increased proportion of revenues that are recurring, its sizeable property sales backlog, strong liquidity and the strengthening of its financial metrics.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating could be upgraded if Emaar's financial performance remains resilient in the currently soft operating environment while continuing to maintain a balanced financial policy. This assumes maintaining stable gross financial debt while deepening its portfolio of recurring income generating assets and making shareholder disbursement in line with historical payouts (excluding the recent special dividend). Furthermore, Emaar's financial profile should translate into debt/capitalisation leverage remaining below 30% and interest coverage (EBIT/Interest Expense + Capitalized Interest) above 6.0x.

Emaar's ratings could come under negative pressure if the company's credit strength were to deteriorate substantially, resulting in debt/capitalisation above 40% and interest coverage below 4.0x. Signs of constrained liquidity (e.g., as a result of an aggressive dividend policy) or a deteriorating trend in recurring cash flow generation would also exert negative pressure on the ratings.

The principal methodology used in these ratings was Global Homebuilding Industry published in March 2009. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Based in Dubai, United Arab Emirates, Emaar Properties PJSC ranks as one of the largest real estate master developers in the GCC by sales and market capitalisation. Emaar's main shareholder is the government of Dubai, with an approximately 29% stake. During the last twelve months ending 30 September 2014, Emaar generated revenues of AED9.8 billion.

The Local Market analyst for this rating is Rehan Akbar, 971.4.237.9565.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Lynn Valkenaar

Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

David Staples
MD - Corporate Finance
Corporate Finance Group
Telephone: 00971 4237 9536

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a)(b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.