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CREDIT OPINION

24 May 2021

Update

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RATINGS

Emaar Properties PJSC

Domicile	Dubai, United Arab Emirates
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

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

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Emaar Properties PJSC

Update to credit analysis

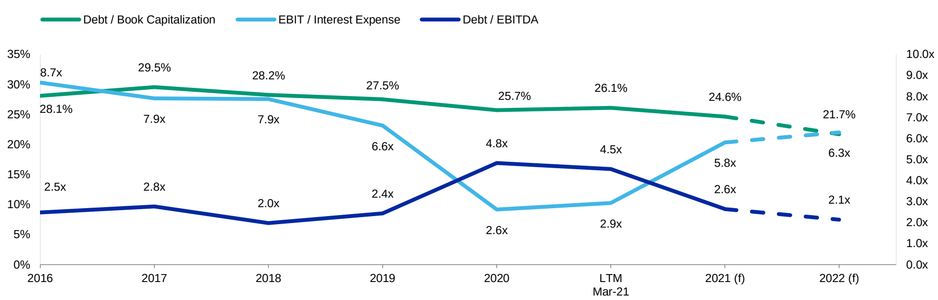
Summary

Emaar Properties' (Emaar) Baa3 ratings reflect our view that the company has built a solid business foundation and maintained a conservative financial profile over the last few years. This is due to its portfolio of mature recurring-revenue assets that contribute about half of Emaar's EBITDA; substantial property sales backlog; access to a sizeable land bank in Dubai primarily through strategic joint-venture (JV) partnerships with government-owned entities; and good liquidity profile.

The rating also takes into account the development and execution risks given the capital intensive nature of the business and sentiment-driven customer base; concentration risks stemming from Emaar generating the majority of its cash flows from Dubai; weak Dubai real estate market outlook; limited visibility into the joint venture developments and the uncertainty around the timing and access to JV profits; uncertainty around the quality of investment returns from international operations where core countries such as Turkey (B2 negative) and Egypt (B2 stable) face economic challenges.

Exhibit 1

Credit metrics will improve in 2021



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Source: Moody's Financial Metrics™

Credit strengths

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

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

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

» Good liquidity profile

Credit challenges

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

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

» Weak Dubai real estate market outlook

» Uncertainty around the timing and quality of investment returns from international operations

Rating outlook

The negative outlook reflects the challenging operating environment that Emaar continues to face, despite the positive operating performance observed in Q4 2020 and Q1 2021.

Factors that could lead to an upgrade

In light of the negative outlook there is limited prospect for a rating upgrade. A stable rating outlook could result from improved macro-economic prospects for the Emirate of Dubai and better operating conditions for the local real estate sector.

Factors that could lead to a downgrade

Emaar Properties' ratings could be downgraded in case of further deterioration in Dubai's economic environment and debt burden. A downgrade is also likely if the ratio of debt/book capitalization increased sustainably above 30%, debt to EBITDA trended above 3.0x and EBIT interest coverage below 6.0x. Weaker liquidity as a result of an aggressive dividend policy, higher than expected development activities, or a deteriorating trend in recurring cash flow generation, would also exert negative pressure on the ratings.

Key indicators

Exhibit 2

(in US millions)	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	LTM Mar-21	2021 (f)	2022 (f)
Revenue	$4,231	$5,105	$6,995	$6,693	$5,366	$5,547	$6,916	$7,119
Gross Margin %	52.7%	50.5%	50.5%	47.0%	35.5%	35.7%	45.0%	47.9%
Debt / Book Capitalization	28.1%	29.5%	28.2%	27.5%	25.7%	26.1%	24.6%	21.7%
EBIT / Interest Expense	8.7x	7.9x	7.9x	6.6x	2.6x	2.9x	5.8x	6.3x
Debt / EBITDA	2.5x	2.8x	2.0x	2.4x	4.8x	4.5x	2.6x	2.1x

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Source: Moody's Financial Metrics™

Corporate profile

Emaar Properties, based in Dubai, United Arab Emirates, ranks as one of the largest real estate master developers in the Gulf Council Countries by sales and market capitalisation. Emaar Properties' main shareholder is the government of Dubai, with an approximately

29.22% stake held indirectly through Investment Corporation of Dubai (ICD). Emaar Properties' main subsidiaries are Emaar Malls (EM) and Emaar Development. The former owns Dubai's largest shopping centre and the latter is the development arm of the company.

Detailed credit considerations

Improving macroeconomic conditions in Dubai

In Q3 and Q4 of 2020, the United Arab Emirates (Aa2 stable) started reopening the economy in gradual phases with additional measures around social distancing, use of masks, increased Covid-19 testing, which allowed signs of recovery in several business activities. The UAE’s progress in vaccinating its population against the coronavirus is a source of potential upside for the economic outlook, particularly for the tourism sector. However, the extent to which coronavirus vaccinations will permit the removal of other coronavirus related restrictions in areas such as capacity reductions at restaurants and retail venues and other social distancing measures is still uncertain, and will depend on the vaccines’ ability to reduce transmission rates, as well as the authorities’ risk tolerance. We note the UAE’s successful vaccine campaign which has amongst the highest vaccination rate in the world. However, new coronavirus variants and the unknown efficacy of vaccines against them will remain a downside risk.

Dubai real estate market continues to face pressure

We believe that Dubai's real estate market will continue to face pressure in 2021. There is an imbalance between supply and demand in the residential segment in Dubai, particularly since future capacity additions in 2021 is around 9% of existing residential stock in Dubai, according to Jones Lang Lasalle data. The market reached an inflection point in late-2014, after displaying a strong performance since the beginning of 2012. As of 31 December 2020, residential real estate prices in Dubai have fallen about 8% compared to 2019, according to Jones Lang Lasalle data. In perspective, Dubai sale prices are still 20% above the market low of 2010/2011, whereas rental rates are 4% below those averages. In Q1 2021, Dubai’s general sale and rental rates continued to register declines of 5% and 10% respectively. However, on a positive note, lower sales prices have yielded a 15% increase in sales volume for Dubai compared to the same period last year. As a result of the market being more affordable, more end-users have taken the opportunity to enter the market. Investors closing on attractive villa/townhouse deals have led to marginal recoveries in villa sale prices of 2% to 3% compared to the previous quarter.

As a consequence of travel restrictions and less appetite among consumers for foreign holidays, total visitors to Dubai dropped from 16.7 million in 2019 to 5.5 million in 2020. Nonetheless, despite the sharp decline in foreign arrivals to the UAE, local hotels benefitted from greater demand from residents within the country. Hotel occupancy rates in Dubai were able to stabilize around the 65-70% range in 2020, which while still marking a decline from pre-pandemic levels, was not as severe as the drop in inbound visitors to the UAE. The rapid rollout of the coronavirus vaccine in the UAE supports a more rapid recovery in domestic tourism and providing a boost to the hospitality and retail sectors. Organisers have rescheduled the World Expo to October 2021 which may help boost tourist numbers again and could increase hotel occupancy rates during the last quarter of 2021.

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

Emaar benefits from the cash flow diversification achieved through both international real estate development business and recurring revenue assets. However, Emaar remains heavily exposed to the Dubai market, where it is prominently active in several real estate activities including selling residential and serviced apartments, villas and office space; managing and leasing retail space; and operating hotels. As a master developer, Emaar subcontracts the construction of buildings through a tender process, and tends to retain hotel and retail spaces to add into its hotel and investment properties portfolio while selling residential and office space. Launched projects tend to have front-loaded cash receipts with cash inflows linked to construction after initially receiving 30%-40% of the sales price over a 12-18 months period.

Although demand for off-plan properties in Dubai has remained weak since mid-2014, Emaar has successfully launched a number of residential projects since then in Dubai, thanks to its market leading position and strong brand reputation. As of 31 December 2020, international buyers represented around 45% of Emaar Properties' investor base. Whilst travel restrictions weakened international demand for new residential properties in Dubai in 2020, we note that a recovery is underway with property development revenue increasing by 26% Q1 2021 compared to Q1 2020. The property development revenue is even higher than Q1 2019 by 6%. This strong performance was also supported by lower interest rates as well as lower loan to value mortgage requirements for first time buyers.

Emaar has also substantial revenue visibility over the next 18-24 months with total sales backlog of AED36.7 billion as at 31 December 2020, of which around AED24.7 billion is from Dubai. This sales backlog is to be recognized as revenue over the coming 3-4 years in Emaar's financials. We understand that the current percentage of cash collection across Emaar Properties' property development projects in Dubai is on average at 40% and that around 85% of units have been sold. This leads to the conclusion that a significant portion of construction costs will be covered by cash already collected.

Mature recurring revenue assets

All of Emaar Malls' assets are located in Dubai. Emaar Malls has a well-established position in the retail leasing business, with high quality assets. The company's flagship asset is The Dubai Mall, a prime shopping and entertainment destination. Other assets include a regional mall (Dubai Marina Mall), two outdoor retail strips (in Downtown Dubai and Dubai Marina), specialty retail (Gold and Diamond Park) and Souk Al Bahar, as well as several neighborhood retail developments. Occupancy levels across Emaar Malls' assets remained resilient throughout Q1 2021 at 91%. We view the recurring revenues component from Emaar Malls as positive as they provide a financial cushion during volatility in the property development business.

We expect rental income will recover in 2021. Indeed, we understand that Emaar Malls has stopped providing rental relief from 31 March 2021 onwards. This is because tenant sales have recovered with overall sales recording 14% growth in Q1 2021 compared to Q1 2020, and 6% growth compared to Q4 2020. Retail destinations are witnessing guests returning for shopping, dining and leisure experiences, the higher average spend by customers resulted in increased tenant sales. In addition, The Dubai Mall Village expansion in February 2021 saw new sports and lifestyle stores added to its portfolio of retailers with an additional gross leasable area of 79,000 square feet. Scheduled to open in the second half of 2021, The Dubai Hills Mall will add a gross leasable area of 2 million square feet.

Overall, we believe that EM remains well-positioned to withstand the weakened business conditions thanks to its solid market position underpinned by dominant shopping centers whose retail space is likely to be in demand from retailers reducing the number of retail outlets in Dubai.

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

Emaar established strategic joint venture (JV) partnerships with three Dubai government owned entities, namely Meraas, Dubai Holding, Dubai World Central and DP World Limited (Baa3 stable) through which it has been able to secure a sizeable land bank.

This asset-light land bank strategy is positive because it would have been expensive for Emaar to acquire such large parcels of prime land; through the JVs Emaar did not have to pay any cash up front. However, real estate projects with JV partners have their own execution risks and there is uncertainty around the full extent of funding needs for these projects. We believe that the incentives of the government-owned JV partners are aligned with Emaar's as they plan and develop projects together ahead of the Dubai World Expo 2020.

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

International operations are less mature but have long-term potential

Emaar's international operations support some geographical diversification. Although these operations are self-funding entities that have not required ongoing financial support from Emaar, international projects entail higher execution risks as compared to the domestic business because of the economic challenges that the core countries face. This creates uncertainty around the timing and quality of investment returns and partially offsets the geographic diversification benefits. As of 31 December 2020, Emaar's international operations had AED12 billion of backlog, with the bulk of units being built in Egypt. The real estate market fundamentals in Egypt are markedly different from that of Dubai, with large growing indigenous populations driving strong need for housing, but which are also exposed to emerging market risks such as regulatory uncertainty and currency volatility.

Credit metrics will improve in 2021

We estimate adjusted debt to EBITDA will decrease towards 2.6x in 2021, benefitting from higher rental income and property development revenue in Dubai. We estimate adjusted debt to book capitalization of 25% in 2021, stable compared to 2020.

Environmental, social and governance considerations

The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. As a result, the degree of uncertainty around our forecasts is unusually high. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We take into account Emaar Properties' stated commitment to an investment-grade rating and prudent measures management has taken to reduce cost and boost liquidity in 2020. For example, on 6 April 2020 Emaar Properties sold to National Central Cooling (Tabreed) an 80% stake in its Downtown Dubai district cooling business for AED2.48 billion (USD675 million). Proceeds from the transaction were be used by Emaar Properties to settle debt.

We note that some of the joint venture agreements are complex. For example, despite the company's effectively managing the development of Dubai Creek, this is not consolidated in the company's accounts. However, we note that there is not debt in this joint venture at present.

Liquidity analysis

Emaar Properties' liquidity is good with cash balance of AED7.1 billion as of 31 March 2021 and undrawn revolving credit facilities of AED10.3 billion maturing in September and December 2021. We expect funds from operations of around AED7.1 billion in the next 12 months. This is sufficient to cover debt maturities of AED4.5 billion over the next twelve months. We expect negative working capital outflows on the back of delays in collecting payments for properties sold. Emaar Properties anticipates this negative trend to gradually reverse in the next three years as it will hand over units whilst collecting cash at and post-handover. Emaar will also pay AED1.9 billion of dividends in 2021.

A material portion of Emaar Properties' cash is restricted as a regulatory requirement to deposit customer installments linked to development projects in escrow accounts (AED3.8 billion out of the AED7.1 billion). Nevertheless, as contractors get paid through the escrow accounts and projects get delivered, Emaar's cash profit is released from these accounts.

Rating methodology and scorecard factors

We rate Emaar according to our Homebuilding And Property Development Industry rating methodology published in 26 January 2018.

Exhibit 3

Homebuilding And Property Development Industry	Current FY 12/31/2020		Moody's 12-18 Month Forward View	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$5.4	Baa	$6.9 - $7.2	Baa
Factor 2 : Business Profile (25%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (10%)				
a) Cost Structure (Pre-Impairment Gross Margin)	35.7%	Baa	40% - 45%	A
Factor 4 : Leverage and Coverage (30%)				
a) EBIT Coverage of Interest	2.9x	B	5.8x - 6.3x	Baa
b) HB and PD Debt to Total Capitalization	26.1%	A	23% - 25%	Aa
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned				Baa3

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Source: Moody's Financial Metrics™

Appendix

Exhibit 4

Peer comparison table

	Emaar Properties PJSC			Aldar Properties PJSC			Growthpoint Properties Limited			Redefine Properties Limited		
	Baa3 Negative			Baa2 Stable			Ba2 Negative			Ba2 Negative		
(in USD million)	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Jun-19	FYE Jun-20	LTM Dec-20	FYE Aug-18	FYE Aug-19	FYE Aug-20
Revenue	$6,693	$5,366	$5,547	$1,712	$1,946	$2,285	$804	$773	$786	$611	$597	$524
Gross Margin %	47.0%	35.5%	35.7%	42.1%	38.9%	35.6%	79.3%	76.9%	74.4%	na	na	na
Debt / Book Capitalization	27.5%	25.7%	26.1%	24.9%	26.3%	25.9%	36.2%	45.5%	43.1%	38.9%	42.7%	50.0%
EBIT / Interest Expense	6.6x	2.6x	2.9x	6.4x	5.5x	7.1x	3.3x	2.9x	2.8x	2.7x	2.7x	2.0x
Debt / EBITDA	2.4x	4.8x	4.5x	3.5x	3.9x	3.6x	5.2x	7.7x	6.7x	5.3x	6.2x	7.0x

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Source: Moody's Financial Metrics™

Exhibit 5

Moody's - adjusted debt breakdown

(in USD million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Mar-21
As Reported Total Debt	**4,724**	**6,000**	**5,826**	**6,493**	**6,153**	**6,202**
Pensions	40	44	44	48	46	46
Leases	159	181	95	0	0	0
Non-Standard Public Adjustments	105	109	101	0	0	0
Moody's Adjusted Total Debt	**5,028**	**6,334**	**6,066**	**6,541**	**6,198**	**6,248**

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Source: Moody's Financial Metrics™

Exhibit 6

Moody's - adjusted EBITDA breakdown

(in USD million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Mar-21
As Reported EBITDA	**2,078**	**2,289**	**3,079**	**2,809**	**1,588**	**1,681**
Unusual Items - Income Statement	2	2	(28)	(161)	(463)	(463)
Leases	32	35	32	0	0	0
Non-Standard Public Adjustments	(82)	(37)	(14)	35	158	158
Moody's Adjusted EBITDA	**2,031**	**2,289**	**3,069**	**2,683**	**1,283**	**1,376**

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Source: Moody's Financial Metrics™

Ratings

Exhibit 7

Category	Moody's Rating
EMAAR PROPERTIES PJSC	
Outlook	Negative
Issuer Rating	Baa3
EMAAR MALLS PJSC	
Outlook	Negative
Issuer Rating	Baa2
EMAAR SUKUK LIMITED	
Outlook	Negative
Bkd Senior Unsecured	Baa3
EMG SUKUK LIMITED	
Outlook	Negative
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

REPORT NUMBER 1260997

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