Research Update:

Emaar Properties Upgraded To 'BBB' On Strong Performance And Healthy Balance Sheet; Stable Outlook

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Rating Action Overview

- Emaar Properties' revenue backlog hit UAE dirham (AED)55.7 billion at the end of March 2023, a record high, spurred by the solid performance of its domestic residential real estate development.
- We expect both strong operating cash flow (CFO) in 2023-2024, supported by healthy demand trend, and a strong balance sheet, but we acknowledge the cyclical nature of real estate development in Dubai.
- We therefore raised to 'BBB' from 'BBB-' our long-term issuer credit rating on Emaar Properties PJSC, as well as our rating on its senior unsecured debt instruments.
- The stable outlook reflects our expectation that Emaar Properties will continue to demonstrate steady operating performance, as well as low leverage, with adjusted debt to EBITDA expected to remain below 1.0x in 2023-2024.

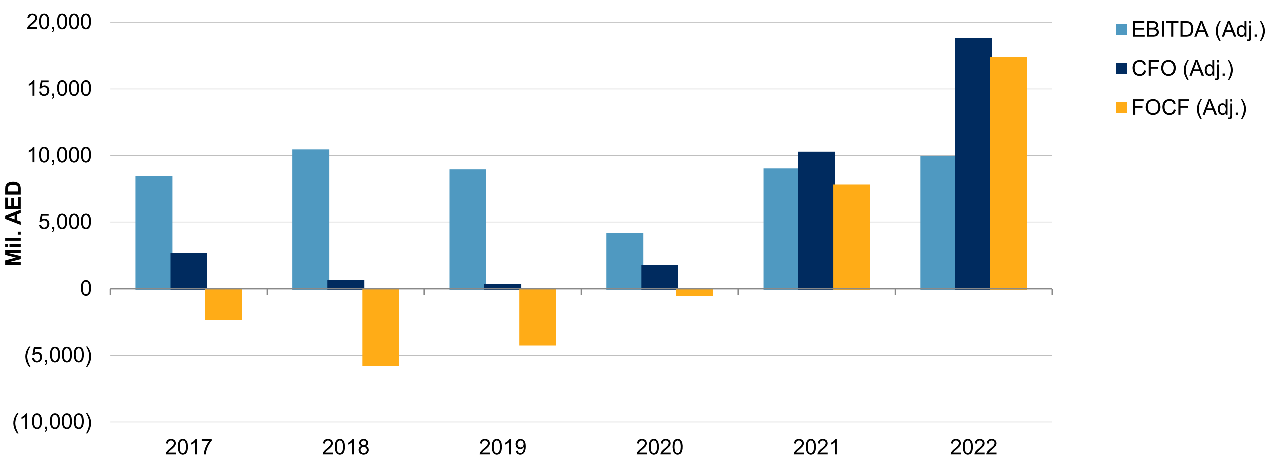
Rating Action Rationale

Dubai's domestic real estate sector is experiencing strong demand and improved pricing, which will help Emaar Properties sustain stronger credit metrics. At the end of March 2023, Emaar Properties' leverage (on a net basis) further dropped to 0.7x, the lowest level achieved since 2017. S&P Global Ratings expects low leverage to be sustained in 2023-2024, with adjusted debt to EBITDA remaining at 0.5x-1.0x. Emaar Properties is benefitting from positive real estate trends in Dubai, where it is by far the largest developer, successfully capitalizing on its solid reputation, having delivered over 60,000 units over its history. With about 28,500 units under development (including in joint ventures), which are already 98% pre-sold, Emaar Properties will sustain its strong market position and capture the bulk of the renewed interest from international buyers in Dubai's real estate. The momentum continued in the first quarter of 2023 as the company reported another 26% jump in pre-sales, further improving future revenue visibility as the revenue backlog rose to AED55.7 billion. Dubai altogether saw record growth in the real estate sector in 2022 with the number of transactions increasing by over 50%. Off-plan properties accounted for roughly half of all deals, and prices continued to increase at double-digit rates, benefitting all developers who have been actively launching new projects.

Momentum is currently strong, but the Dubai real estate sector is particularly volatile. Fierce competition, with a few new developers entering Dubai, and a large supply pipeline planned for the next few years, extends the risk of a cyclical trough, with likely softening demand that fails to absorb all new units and leads to pricing pressures at some stage. We think that some price adjustments in Dubai could materialize in the next 12-24 months as the real estate sector approaches previous peak conditions. However, we note a series of supportive factors, which we believe could moderate the market correction, including a new visa regime, bold economic objectives to double Dubai's economy by 2023 (the "D33" economic plan), significantly increase international visitor numbers to 40 million by 2030 (from about 14.4 million in 2022), as well as to increase the population of Dubai to 5.8 million by 2040 from about 3.6 million at the end of first-quarter 2023. We think that Dubai remains an attractive business and residential destination, given that it offers low taxation despite the introduction of a 9% corporate tax starting June 2023 (no personal income tax), it has adopted a series of more liberal social laws and enjoys the reputation as a safe haven in the region. Dubai's GDP rose by an estimated 4.4% in 2022 (compared with 3.6% globally). We expect Dubai's relatively well-diversified and service-oriented economy to expand about 3.0% in 2023, slowing from post-pandemic recovery years and more reflective of regular economic activity. We expect continued strong momentum in the hospitality, real estate, trade, and financial services sectors to support growth. Still, a large expat population and sentiment-driven demand pattern influenced by oil prices and general economic conditions make Dubai's real estate more volatile and therefore less predictable. Compared with other private developers in Dubai, Emaar Properties benefits from a large landbank, which further enhances its competitive position and reduces future cash flow requirements in potentially more challenging market conditions.

Strong sector momentum significantly improved the cash collection cycle for developers across Dubai, underpinning healthy CFO prospects for Emaar Properties. Post-handover payment is no longer a common standard in Dubai. We understand developers have moved to full cash collection during the construction phase and on handover for recent projects. Cash collection now happens faster, with about 70%-80% collected during the construction phase and the remaining 20%-30% on handover. We believe this allows developers to derisk the construction much faster and also alleviates working capital pressure, reducing funding requirements. With close to AED29 billion in CFO generated in 2021-2022 cumulatively, Emaar Properties by far outpaced its historic cash flow generation, with only AED5.1 billion CFO in four years over 2017-2020. This illustrates the strong pre-sale momentum, with the company collecting massive down payments, but also accelerated collections on new projects. In addition, the residual cash collections on older projects are further inflating the CFO, which has expanded much faster than the group's EBITDA. Under our base case, we foresee strong CFO in 2023-2024 amounting to AED8 billion-AED10 billion per year before working capital movements, which may be material and volatile. However, based on the current sector dynamics and factoring in AED2.1 billion of working capital inflow in first-quarter 2023, we don't expect significant funding requirements in 2023 at least.

Emaar Properties PJSC historical EBITDA, CFO, and FOCF



CFO--Operating cash flow. FOCF--Free operating cash flow. All metrics are adjusted by S&P Global Ratings.
Source: S&P Global Ratings.

Emaar Properties benefits from a significant contribution from the more stable real estate leasing business, which we think will continue to expand. We estimate that Emaar Properties generated about 53% of its gross profit from real estate development, both in the UAE and internationally, mainly in Egypt, India, Turkey, and Pakistan. However, its mall leasing operations (operated by fully owned subsidiary Emaar Malls) have strongly rebounded from the pandemic-induced slowdown and we expect Emaar Malls to further improve its EBITDA margin to about 84%-86% in 2023, up from 80.7% in 2022-2024 (excluding e-commerce portal Namhsi, which was sold for AED1.2 billion in first-quarter 2023). With the opening of Dubai Hills mall in 2022 and the future opening of Dubai Expo mall in 2024 (managed by Emaar Malls, but not reported on its books), we think the revenue and profit contribution from stable mall leasing will further expand. In addition, Emaar Properties intends to build a residential rental portfolio with an expectation of reaching 3,000 units over the next five years. This will further lift the more stable revenue generation, albeit its relative contribution will depend on the strength of the development business. These investments, as well as the resumption of other projects, will lift overall capital expenditure (capex) to about AED5 billion per year in 2023-2024, consistent with the pre-pandemic trend. Still, considering strong CFO expected over the same period, the company will have enough internal cash flow generation to self-fund its capex. Emaar Malls alone will generate AED2.5 billion-AED3 billion in free operating cash flow per year.

Outlook

The stable outlook on Emaar Properties reflects our expectation that the company will sustain strong credit metrics in 2023-2024 on the back of the market rebound and debt reduction efforts completed pre-pandemic in 2019, which we expect to continue as we expect to see healthy demand albeit with rising downside pressures as the real estate cycle in Dubai nears previous peak conditions. For the current rating, we expect that funds from operations (FFO) to debt will remain at about 60%, or above, and debt to EBITDA will stay below 1.5x (both metrics include our adjustments).

Downside scenario

We could lower the rating on Emaar Properties if its credit metrics weakened without near-term prospects of recovery, such that adjusted FFO to debt durably fell well below 60% and debt to EBITDA exceeded 1.5x, while EBITDA interest coverage weakened well below 10x. We think this could happen if the economic prospects including for the real estate cycle in Dubai showed signs of a significant slowdown. In our view, this could be triggered by:

- A sharp fall in residential real estate demand leading to low presales, significant pricing pressure, exacerbated by a high level of supply.
- A slower-than-expected tourism recovery in the UAE or population decline affecting retail and hospitality segments.

A change in financial policy that signaled higher debt tolerance and potentially a higher appetite for debt-funded expansion could also lead to a lower rating.

Upside scenario

We view the probability of a positive rating action as remote, given the cyclical nature of real estate development and particularly demand volatility in Dubai. Upside could come from a further improving business mix at Emaar Properties, such that the relative share of EBITDA from more stable rental businesses continues to grow, mitigating the cyclicality of real estate development. Furthermore, for a higher rating, we would also expect a more supportive financial policy with an even more pronounced focus on leverage reduction.

Company Description

Emaar Properties is the largest listed property developer in the UAE. It reported revenue of AED24.9 billion in 2022, with over 80% from domestic activities. In addition, the group has real estate development activities in Egypt, Turkey, Pakistan, Saudi Arabia, and India. Emaar Properties develops masterplan communities, including residential and commercial property, such as shopping centers, offices, recreational facilities, and hotels. Emaar Properties builds to sell the residential units and operates malls and hotels.

Established in 1997, Emaar Properties has been listed on the Dubai Financial Market since 2000. Key operating subsidiaries Emaar Malls and Emaar Development were listed in 2014 and 2017, respectively. Emaar Malls was delisted at year-end 2021.

In early June 2022, the group's market capitalization was close to AED55 billion ($15 billion).

Our Base-Case Scenario

Assumptions (group level)

- Dubai's GDP expands about 3% in 2023-2024.

- Healthy presales supported by resilient albeit stabilizing demand and slowing price increases as the new supply keeps coming while economic pressures globally may soften the economic outlook.
- Stable revenue in 2023 and 5%-10% growth in 2024, supported by a large project pipeline in UAE and international development. We note downside risks from currency depreciation in Egypt and Pakistan, where the company generates more than half of its international revenue. We expect steady expansion in mall leasing and hospitality, supported by tourism recovery, population growth, and retail growth in Dubai.
- Conservatively we assume neutral working capital, but note a positive AED2.1 billion inflow reported in the first quarter of 2023.
- Capex of AED5 billion-AED 5.5 billion in 2023-2024.
- Dividend payments of over AED3 billion per year, including to minorities of partly owned subsidiaries.

Key metrics (group level)

Emaar Properties PJSC--Key Metrics*

Mil. AED	2020a	2021a	2022f	2023f	2024f	2025f
Revenue	19,711	28,270	24,926	24,500-25,000	26,000-27,000	28,000-30,000
EBITDA margin (%)	20.8	31.7	39.7	35-38	35-37	34-36
Free operating cash flow	(465)	7,755	17,319	3	3-4	0-2
Debt to EBITDA (x)	4.4	1.8	1.0	0.8-1.0	0.4-0.6	0.5-0.7
FFO to debt (%)	16	49.2	87.5	over 100	over 100	over 100
EBITDA interest coverage (x)	3.3	10.9	13.3	10-12	11-13	12-14

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view Emaar Properties' liquidity as exceptional because we see liquidity sources exceeding uses by more than 2.0x over the 24 months from March 31, 2023. The group had ample availability under revolving credit facilities (RCFs) at Emaar Properties, Emaar Development, and Emaar Malls, maturing in more than 12 months from March 31, 2023.

Liquidity sources for the next 12 months include:

- Cash and equivalents of AED21.8billion, of which AED14.7 billion is cash held in escrow accounts with the Real Estate Regulatory Agency, Dubai's real estate regulator.
- Short-term liquid investments of AED1.8 billion, of which AED0.9 billion is treasury bills in Egypt.
- AED5.5 billion availability under Emaar Properties' revolving credit lines totaling until December 2024 (final maturity for repayment in 2027), full availability under Emaar Malls' AED3.67 billion RCF available for drawing until May 2025 (repayment in 2028), as well as AED3.7 billion availability under Emaar Development's RCF.

- Cash flow from operations of AED8.5 billion-AED9.5 billion.

Liquidity uses for the same period include:

- Short-term debt of AED1.2 billion.
- About AED5 billion-AED 5.5 billion in capex on investment properties including joint ventures.
- Dividends of AED3 billion-AED3.5 billion per year, including to minorities of partly owned subsidiaries.
- We don't assume any working capital outflows, but note that they may be volatile and may swing significantly depending on the pre-sales.

Covenants

We understand that Emaar Properties is not subject to maintenance covenants. Emaar Properties is subject to incurrence covenants under its sukuks and RCFs, which become activated if the rating on the company is speculative grade. At year-end 2022, there was ample headroom under these covenants, and we expect it to remain comfortable in 2023-2024.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2023, Emaar Properties' capital structure comprised $2.5 billion (AED9.2 billion) of senior unsecured sukuk certificates, AED3.5billion of unsecured bank loans, and AED33 million of secured bank loans.

Analytical conclusions

We rate debt issued by Emaar Properties in line with the long-term foreign currency issuer credit rating on the company. This reflects the absence of significant subordination risk as the secured debt ratio and priority debt ratio is less than 50% of the total consolidated debt and with no further mitigants.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/--
Business risk:	Fair
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Fair
Financial risk:	Modest
Cash flow/leverage	Modest
Anchor	bbb-

Issuer Credit Rating	**BBB/Stable/--**
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Exceptional (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bbb

ESG credit indicators: E-3, S-3, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings , March 28, 2018
- General Criteria: Methodology For Rating Sukuk , Jan. 19, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry , Feb. 3, 2014
- Criteria | Corporates | General: Corporate Methodology , Nov. 19, 2013
- General Criteria: Methodology: Industry Risk , Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities , Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings List

Upgraded

	To	**From**
Emaar Properties PJSC		
Issuer Credit Rating	BBB/Stable/--	BBB-/Stable/--

Upgraded

	To	From
Emaar Sukuk Ltd.		
Senior Unsecured	BBB	BBB-

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