

Property Developers - April 2021

Recovery in property prices are noticeable

Sector Weighting: **NEUTRAL**
Preview Note 1Q 2021

Property market outlook

Dubai's property market, which has recently seen an increase in demand from developers and first-time buyers, is expected to remain under pressure during 2021. In 2020, the valuation of properties in Dubai and Abu Dhabi dropped, owing to a drop in demand and excess supply caused by COVID-19. The emirates' population is thought to have shrunk between 4% and 5% in 2020 as expatriates faced with work cuts returned to their countries. While demographic growth is projected to resume in 2021, it is unlikely that population levels will rebound to pre-pandemic levels until at least late 2022. UAE's GDP is expected to grow by 1.1% in 2021 and by 4% in 2022. During this time, GDP growth rates in Abu Dhabi and Dubai are predicted to register 1.6% and 5.4% growth in 2021, and 5.3% and 5% respectively in 2022.

Although there are a variety of policies in place to encourage demand for residential property from both locals and foreign buyers, the UAE's residential sector will continue to face some obstacles in the future mainly due to the surplus in supply. Both Abu Dhabi and Dubai's residential markets are forecast to see record volumes of new supply in 2021; consequently, the market is expected to continue to face pressure. Although employment is projected to increase in 2021, rental prices are not expected to pick up at a significant pace before 2022. If mortgage rates remain at record lows, and loan-to-value ratios remain at current levels, prices are expected to bottom out in the 2H21 or the latest by early 2022 when supply volume starts decreasing. Without question, the pandemic will alter operating habits, and as a result, the structure and purpose of office space will need to shift as well. There will be a need for both traditional office space and space as a facility, where tenants can choose to take extra space. This market for high-quality traditional and serviced office space with a variety of facilities and services is expected to set higher standards in terms of office product and pricing in the future. It is anticipated that corporate occupiers may begin to consolidate their activities for the rest of the year, focusing on seeking a viable office/remote working hybrid model. One of the main sites will be high-quality workplace projects that have accessibility and encourage employee health. Before the onset of the pandemic, the UAE's retail market was under extreme pressure. The demand slowing has been attributed to sluggish economic growth, a substantial increase in regional and community retail supply, and an expanded and market-responsive e-commerce sector. As a result of the pandemic's onset, which prohibited non-essential stores from operating without restrictions for months, many stores are on the brink of going out of business. As a result, COVID-19 has permanently altered the activities of the sector. In Q1 2021, average rental prices in malls fell between 7% and 10% in Dubai and Abu Dhabi. As large developers continue to deliver offers to lure and hold tenants, falling rents continue to benefit retailers. The use of a combination of low base rent and a high turnover percentage to ease retailers and retain them is becoming more popular. Despite the UAE's commendable treatment of the pandemic and the efforts to immunize the global population, tourism is not expected to resume in any significant way until 2022. Expo 2020, which has been rescheduled to October 2021, will continue to boost interest, though attendance is unlikely to reach pre-pandemic levels.

Space consolidation is expected to accelerate on the industrial level with 100% foreign ownership laws now in place. This will increase demand for wider locations, but the unavailability of institutional-grade supply will restrict the scope of the demand. For the next six months, average rentals are expected to soften further.

Stock picks

We anticipate a recovery in property prices and a surge in sales, which is expected to reflect positively on the all the real estate companies. Although, excess supply is not expected to slow-down, we remain positive on most of the UAE stocks under our coverage. We retain our BUY rating on **Emaar Properties**, considering the dominant market position, strong geographical presence, the merger deal with the subsidiary Emaar Malls and the robust balance sheet. We remain positive on **Emaar Developments** with an ACCUMULATE rating as the company's ROE stands at 12.3% in 2020 and is expected to improve. The company has increased its investments in Old Town Views LLC and Emaar Dubai South DWC LLC.

Stock	TP	CMP	Gain	Rating	P/B (2021F)	Div. Yld (%) 2021F
Emaar Properties (AED)	5.00	3.91	27.9%	BUY	0.40	3.8%
Aldar Properties (AED)	3.50	3.54	-1.1%	HOLD	1.04	4.1%
Emaar Malls (AED)	1.85	1.91	-3.1%	HOLD	1.21	NA
Emaar Development (AED)	3.25	2.87	13.2%	ACCUMULATE	0.73	NA
Damac Properties (AED)	1.07	1.23	-13.0%	REDUCE	0.10	NA

FABS Estimate

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Overview

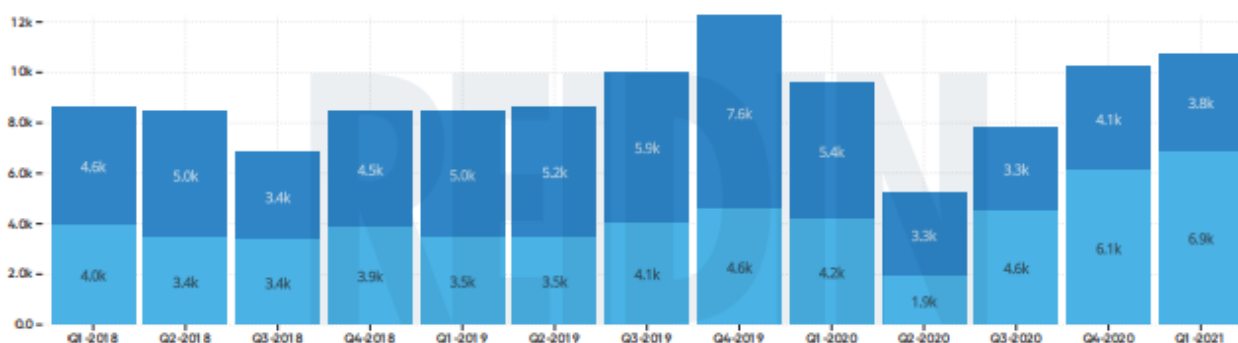
Real Estate Overview

In the 1Q21, the Dubai real estate market reported 11.8k sales transactions worth AED 25.1 billion, up from AED 20.85 billion in the same period last year, representing a 20% growth in value. Approximately 11.5 thousand units (10.5 thousand apartment and serviced apartment units and 1 thousand villa and townhouse units) entered the Dubai real estate sector. While average apartment sales rates in Dubai remained unchanged from the previous quarter, rent prices increased by 1.7%. Villa purchases and rent rates rose by 4.1% and 4.8%. At the end of March 2021, sales rates in Dubai dropped by 33% for apartments and 27.5% for villas when compared to peak prices in 2014. There were no new residential project launches during 1Q21; consequently, demand will stabilize in the coming months with a lower supply.

Average Residential Transaction Price (Sales)

In the first quarter of 2021, both the number and amount of Dubai residential transactions increased by 6% compared to the previous quarter and 15% compared to the same period the previous year. Property investors' confidence has grown, especially in the ready property market, as a result of affordable prices and lower rates, improved LTV rates by the Central Bank of the UAE, and the UAE government's handling of the situation after the spread of COVID-19. Property investors' confidence has grown, especially in the ready property market, as a result of affordable prices and lower rates, improved LTV rates by the Central Bank of the UAE, and the UAE government's handling of the situation after the spread of COVID-19.

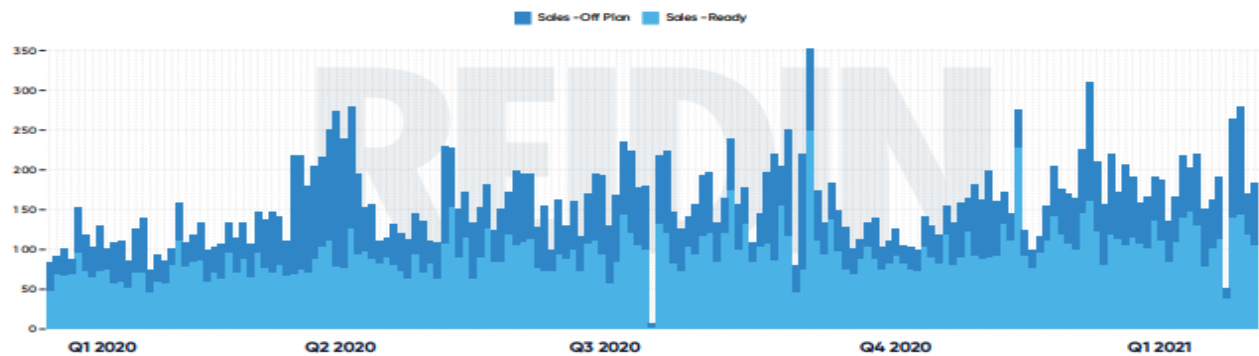
Quarterly Residential Transactions



Source:Reidin

The number of ready property transactions rose by 14% in the 1Q21 compared to the previous quarter and by 62% on YOY basis. Volumes of off-plan purchases have decreased by 7% compared to the 4Q20 and by 29% compared to the same period last year. This is because only a few projects have been launched 2018.

Daily Residential Transactions in the Last One Year

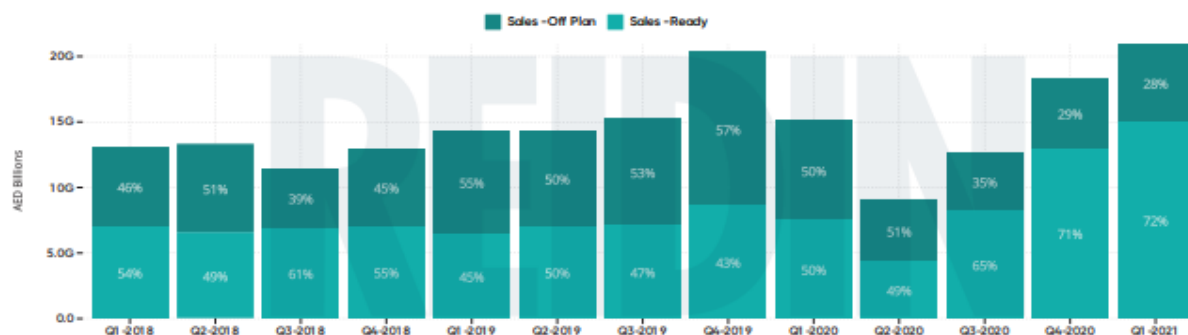


Source:Reidin

Residential Transaction Value (Sales)

During the 1Q21, the Dubai residential property market sold for more than AED 25 billion. The total volume of ready property transactions increased rapidly in the first quarter, surpassing AED 19.2 billion, a 14% increase over the previous quarter and a 44% increase YOY.

Value of Residential Transactions



The total volume of off-plan land transactions in the first quarter was AED 5.9 billion, up 12% from the previous quarter but down 22% from the same period last year. In the 1Q21, the average purchase price in the ready property market remained at AED 1.3 million per transaction, while the average transaction price in the off-plan property market rose marginally to AED 1.1 million.

Average Price of Residential Transactions by Type

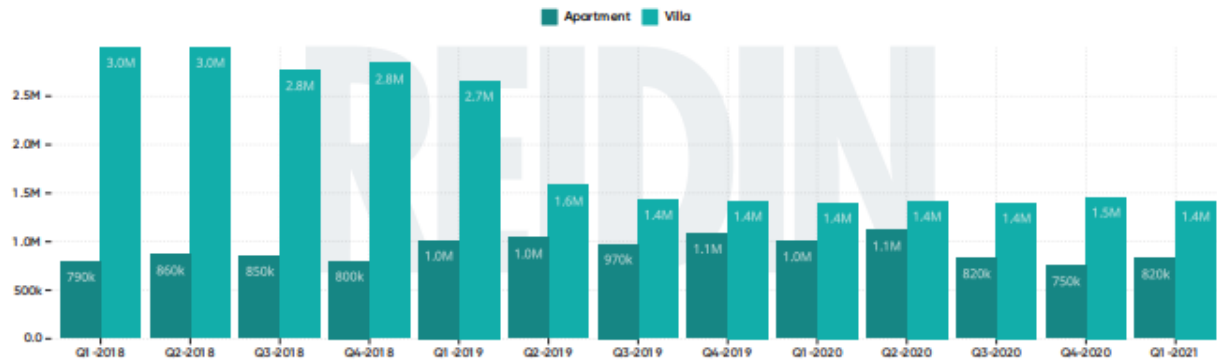


Source:Reidin

Average Residential Transaction Price (Sales)

The average off-plan villa purchase price fell to AED 1.4 million. In the first quarter, the average off-plan apartment sale price rose to \$820,000.

Average Price of Off-plan Transactions by Property Type



Source:Reidin

the average ready villa purchase price rose to AED 2.9 million from AED 2.5 million the previous quarter. The average price of an apartment transaction fell marginally to AED 810 k. The average property investment value is rising as the number of ready transactions increases.

Source:Reidin

Average Price of Ready Property Transactions by Property Type

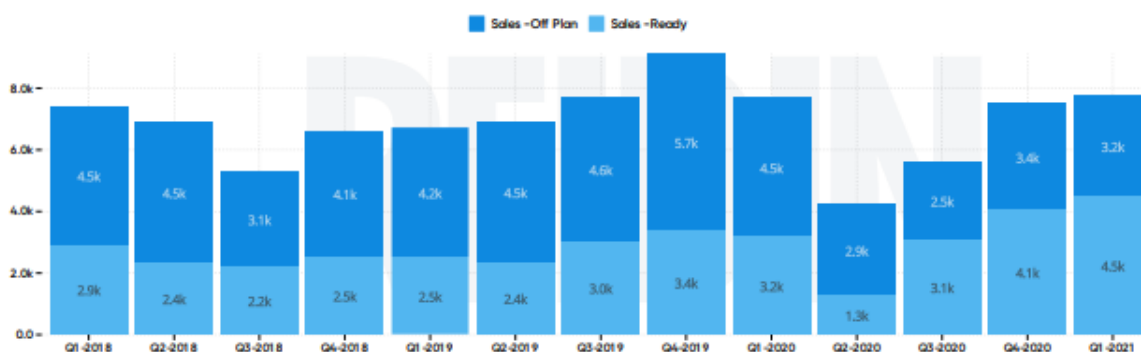


Source:Reidin

Apartment vs. Villa Transactions (Sales)

In the 1Q21, the number of apartment sales increased in the ready property market but declined in the off-plan market. As compared to the previous year, the average apartment transaction rate rose by 3%, with ready property transactions up 10% and off-plan transactions down 6%.

Number of Apartment & Serviced Apartment Transactions



Source:Reidin

The overall villa segment continued to grow in the first quarter, owing to a 14% rise in volume in the secondary sector. The ready villa business transaction value increased by 140% YOY.

Number of Villa & Townhouse Transactions



Source:Reidin

Transaction Analysis by Developer Q1 2021

Number of Ready Property Transactions by Developer

In the top list comes Emaar Properties with 1,268 in a number of ready property transactions, followed by Nakheel with 696 transactions and Damac Properties with 613 Transactions.

Emaar Properties PJSC 1,268	Damac Properties 613	Triplanet Internatio... 202	Union Pr... 137	N/A 109	Meraa... 105	Dubai ... 101
		Majid Al Futtaim Gr... 176	G&Co Real Es... 98	Nati... 66	Jume... 65	MAG... 63
	Dubai Properties 386	Select Group 159	B.N.H PROPERT... 94	Binghatti H... 59	The F... 53	
		Deyaar Developm... 140	Al Habtoor Group 90	Time Prope... 58	Azizi Develo... 55	Al Ma... 50
Nakheel PJSC 696	Nshama 364		Mizin Real Estate 85			

Source:Reidin

Number of Off-plan Property Transactions by Developer

In the top list comes Emaar Properties with 549 in number of Off-plan Property Transactions followed by Seven tides international with 356 transactions and MAG Property Development with 348 Transactions

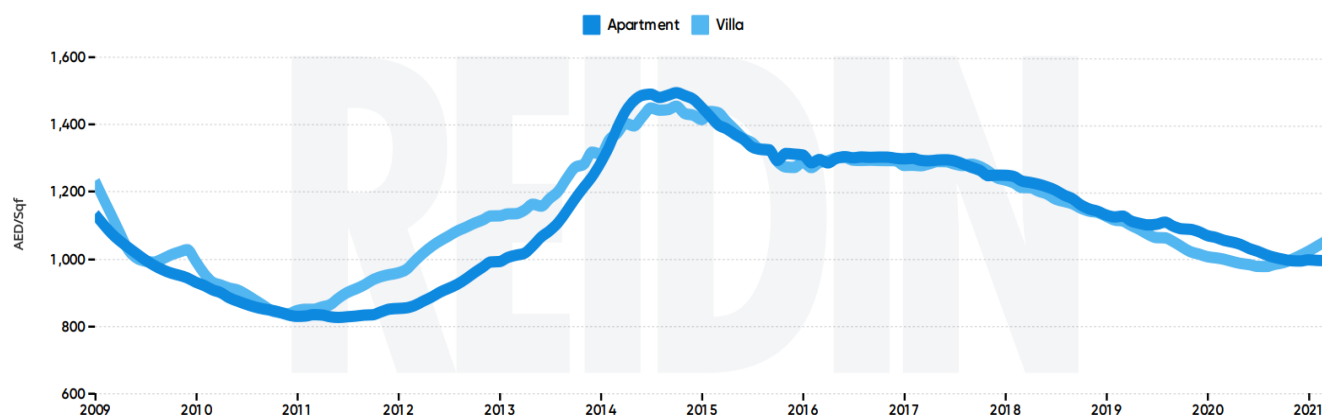
Emaar Properties PJSC 549	MAG Property Development 348	District One 198	Dubai Proper... 139	Damac Pr... 124	Danube ... 110	Bloom... 84
		Al Ain Properties 165	Iman Devel... 72	WOW Inv... 59	Rukan D... 53	Ellingto... 53
	The First Group 269	Meraas Development L.L.C 152	Private Inves... 62	Deyaar ... 59	Green Yar... 47	Grovty R... 46
		Azizi Developments 152	Majid Al Futt... 60	Samana De... 54	Pantheon... 47	Prescott... 34
Seven Tides International 356	Binghatti Holding Limited 234					

Source:Reidin

Dubai Residential Price Trends

In the 1Q21, Dubai's average apartment sales rates remained flat, while apartment rent prices rose 1.7% following years of decline. As compared to the same period last year, apartment purchases and rent rates are down 5.7% and 10.1%.

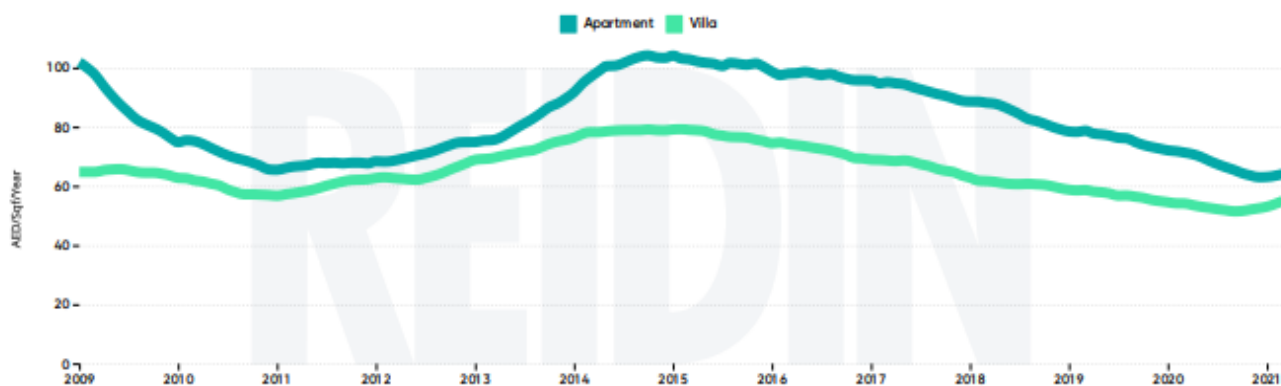
Sales Price Trends



Source:Reidin

the increase in Dubai villa sales and rent prices accelerated. The prices of villas sold and rented rose by 4.1% and 4.8%, respectively. As compared to the same period last year, villa purchases and rent rates are up 5.3% and 1.7%, respectively, indicating that demand for horizontal living space has surged.

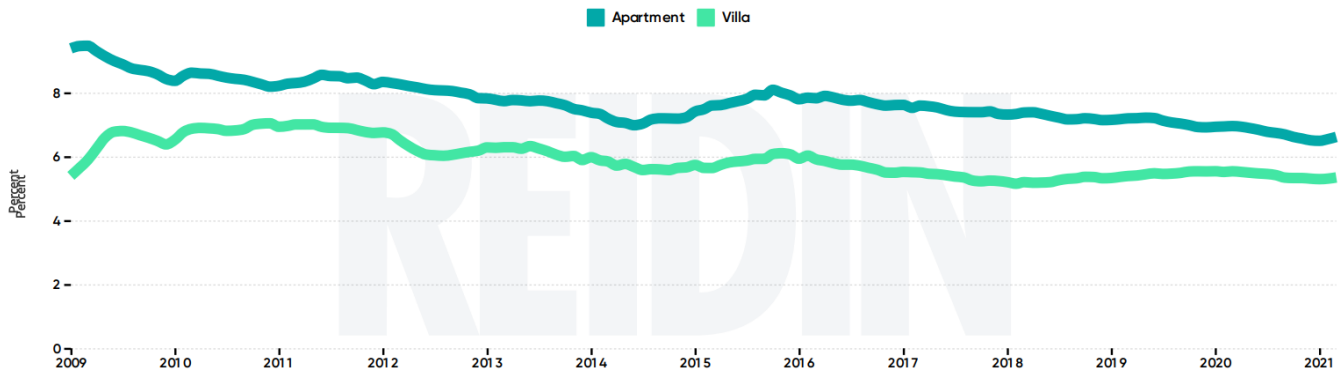
Rent Price Trends



Source:Reidin

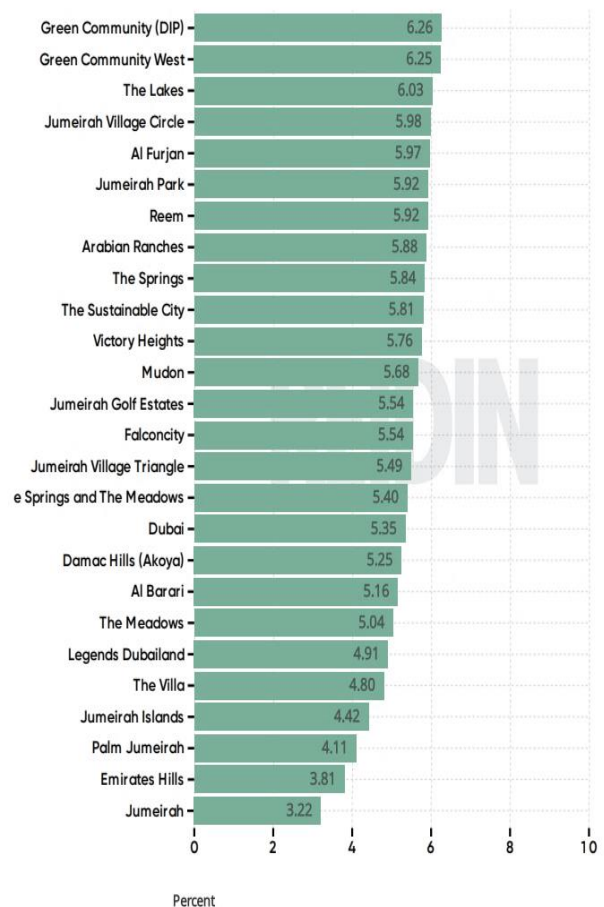
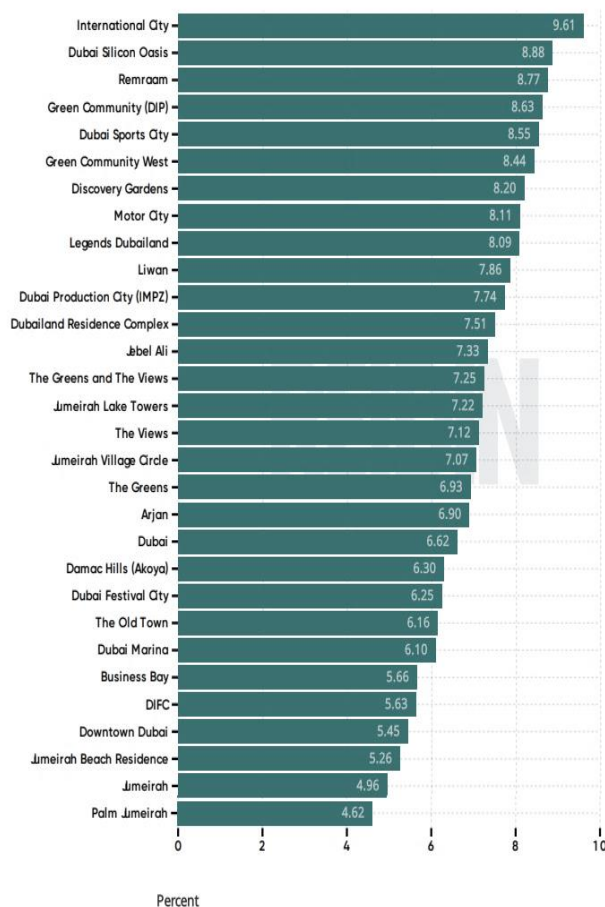
Dubai Residential Gross Rental Yields

Due to rising rent rates, gross rental yields on apartments and villas increased marginally in the first quarter of 2021.



Source:Reidin

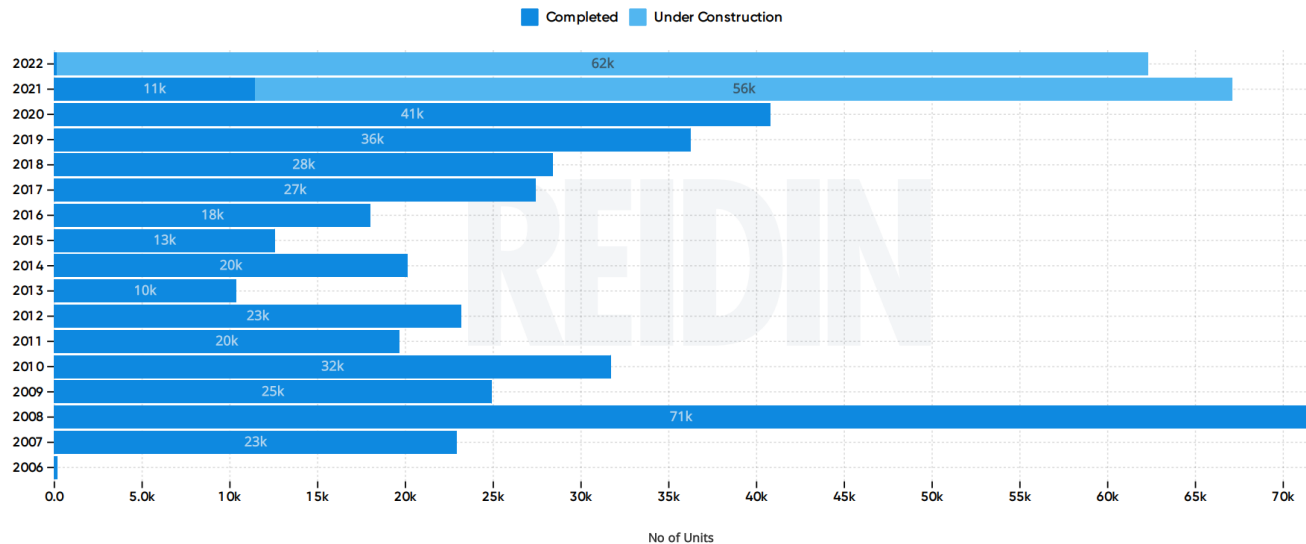
The average gross rental yield for apartments is 6.62 percent, while the average gross rental yield for villas is 5.35 percent.



Source:Reidin

Dubai Residential Supply (Freehold)

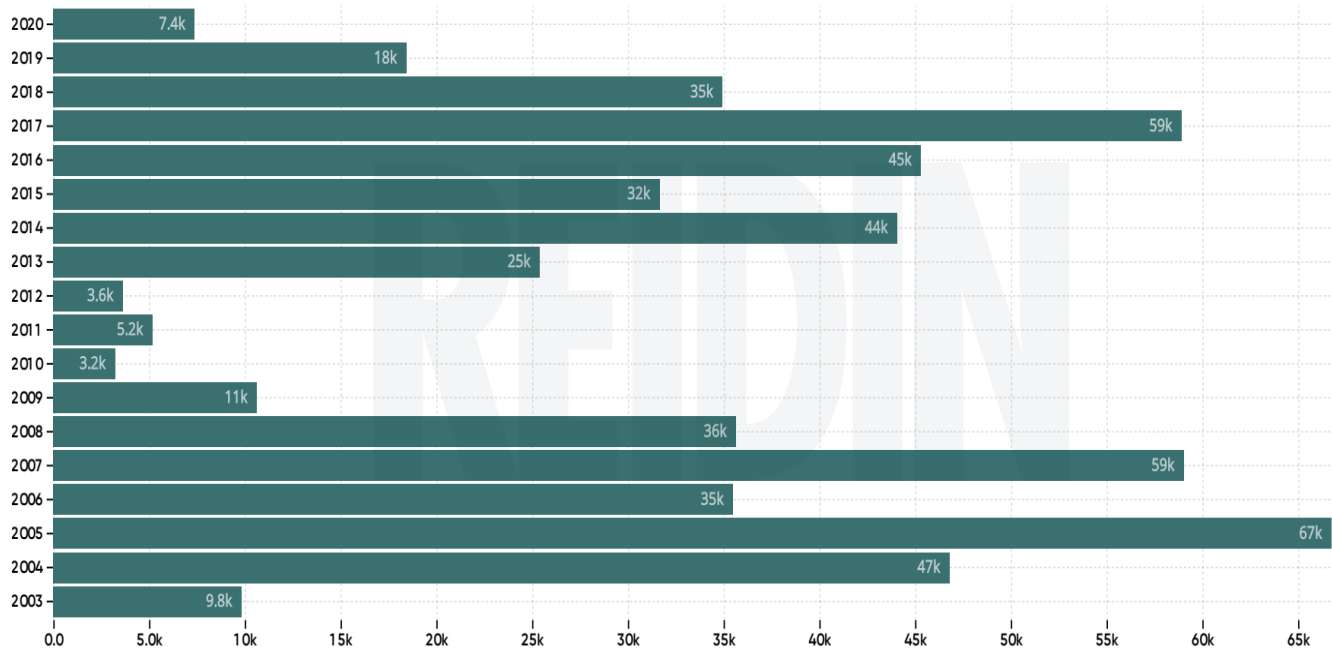
In 2020, approximately 11.5 thousand units (10.5 thousand apartment and serviced apartment units and 1 thousand villa and townhouse units) have entered the Dubai real estate industry. 2021, first quarter Reduced handovers can assist the market in stabilizing faster.



Source:Reidin

Dubai Residential Launches (Freehold)

During the first quarter of 2021, no new residential project launches were observed, which will aid demand stability in the coming quarters. One of the key reasons for the decline in o-plan purchases is a lack of new releases.

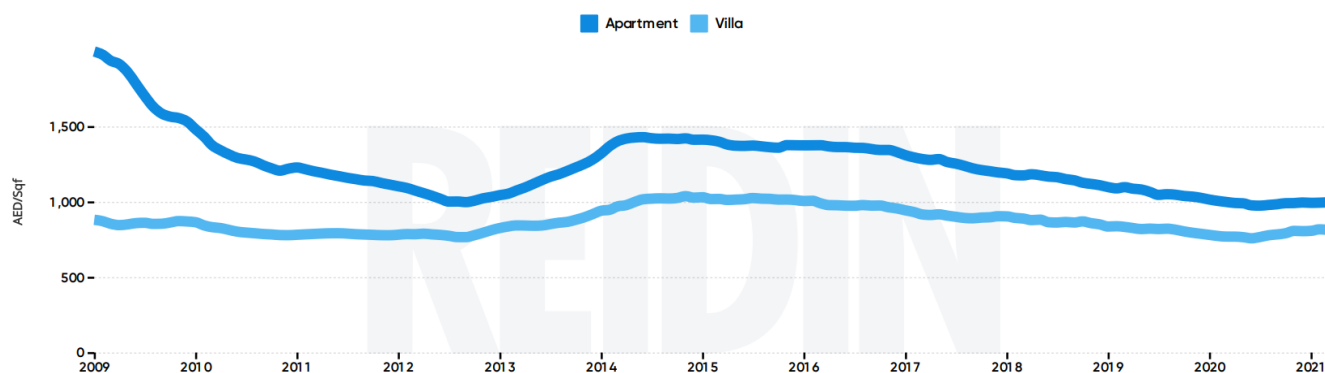


Source:Reidin

Abu Dhabi Residential Price Trends

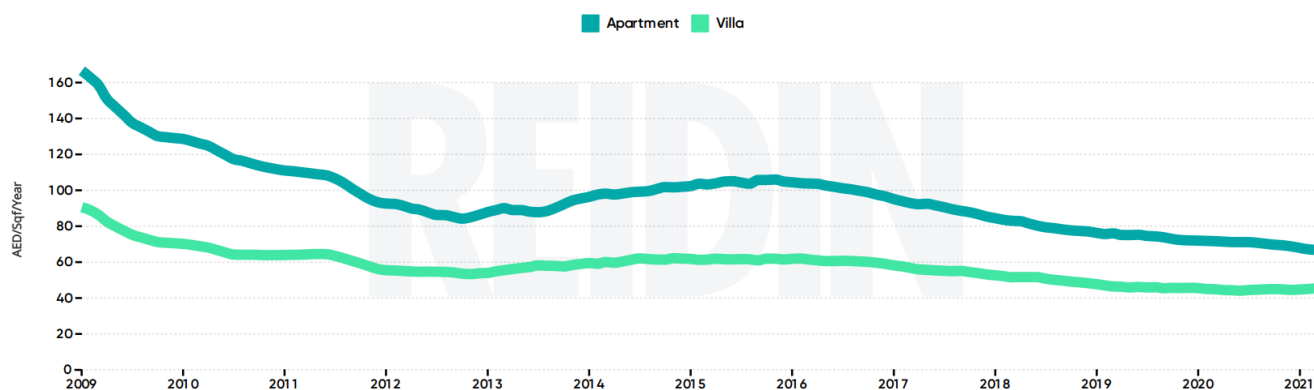
In the 1Q21, apartment sales rates in Abu Dhabi remained unchanged, but rental prices began to soften at a rate of 2%. Overall, villa sales and rental rates in Abu Dhabi rose by 1% and 1.9% in the first quarter, respectively. On an annual basis, the prices of Abu Dhabi apartments and villas are 0.3% and 6.7% lower than the same time in 2020.

Sales Price Trends



Source:Reidin

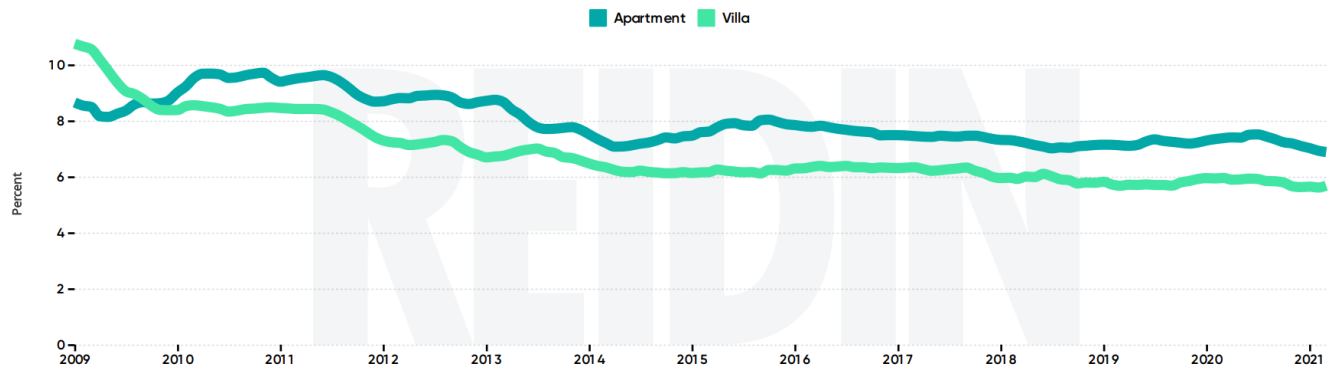
Rent Price Trends



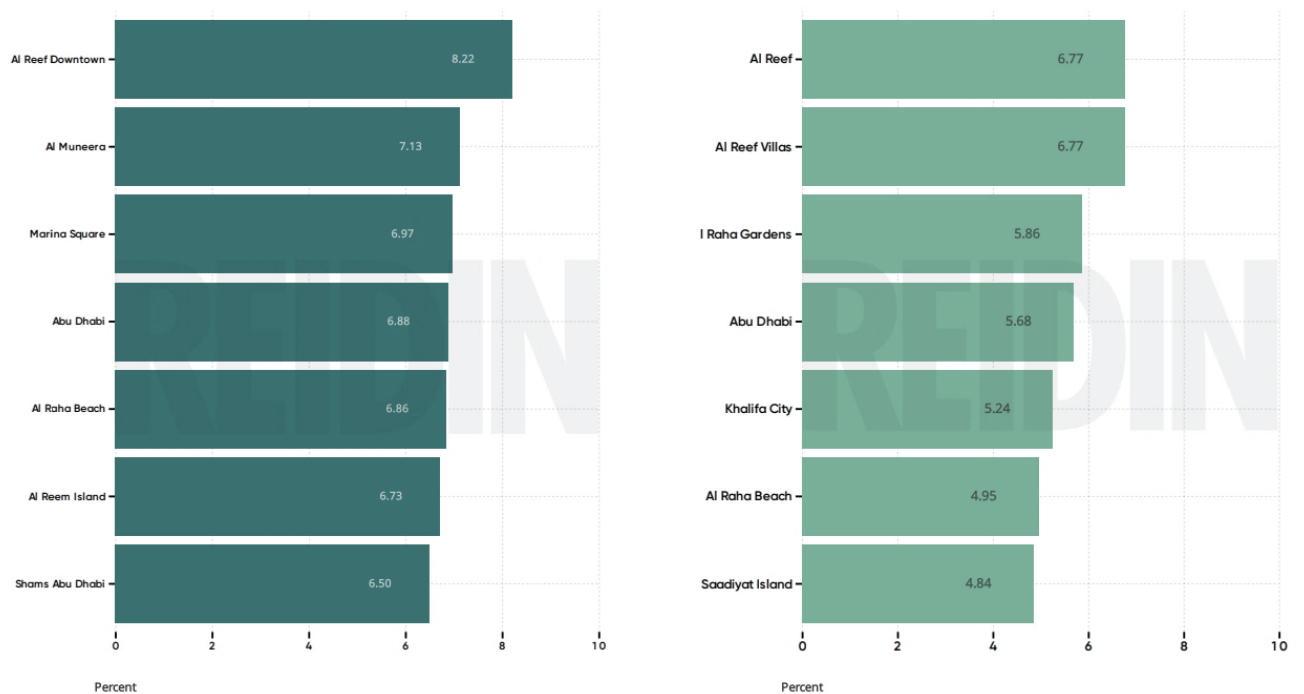
Source:Reidin

Abu Dhabi Residential Gross Rental Yields

The apartment segment has a gross rental yield of 6.88%, while the villa category has a gross rental yield of 5.68%. As compared to the previous quarter, apartment gross yields fell due to a decrease in rental rates, while villa yields remained unchanged.



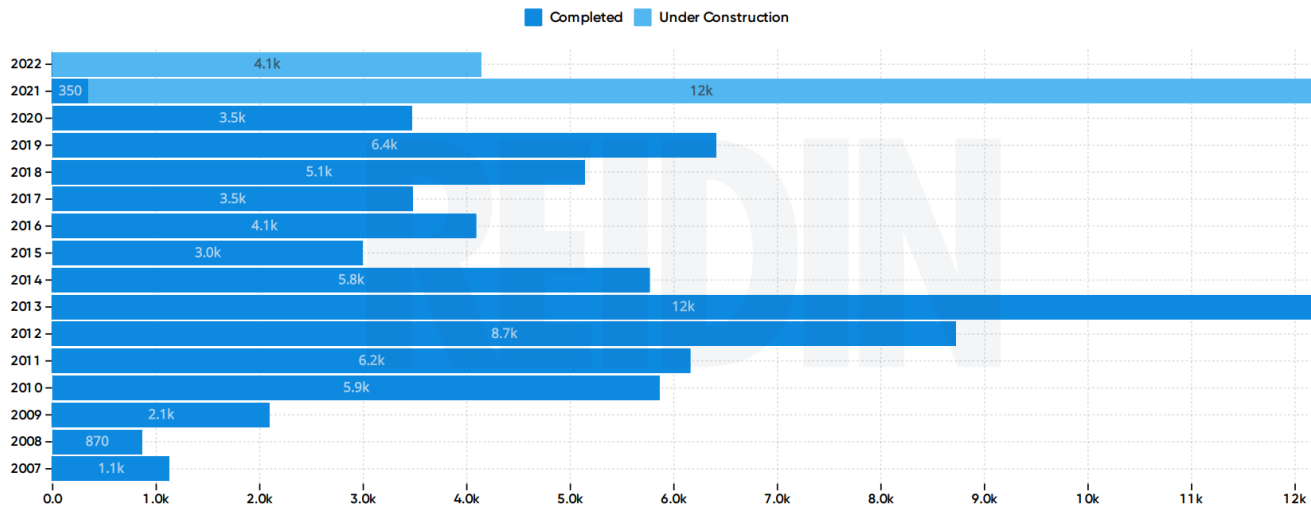
Source:Reidin



Source:Reidin

Abu Dhabi Residential Supply (Freehold)

Three ventures in Al Reem Island were finished in the first quarter of 2021, and about 16k units are expected to be completed in the next two years. Al Raha Beach and Al Reem Island are expected to receive most of the forthcoming supply.



Source:Reidin

Macro backdrop in the UAE

Real estate and UAE macroeconomic outlook

Demand for Housing Set to Increase with Dubai 2040 Urban Plan

Over the next 20 years, Dubai's new urban plan announced last month aims to increase the population by more than 70%, through expanding Open spaces, beaches, and other leisure areas. According to the CEO of UAE developer Deyaar Development, which announced a net profit rise of 15.1 million dirhams for the 1Q21, confirmed that this ambitious plan will increase demand for housing in the emirate by attracting foreign workers as well as local and international investors.

Dubai's Affordable Apartments to be Considered as Profitable Investments

When you first consider investing in Dubai's real estate sector, luxury villas, townhouses, and penthouse apartments first come to mind. Meanwhile, the most profitable investments in Dubai are currently affordable apartments yielding the highest returns. In general, a 4% yield can be considered acceptable for a prime location property and 6% for a non-prime location. Apartments in Al Khail Heights, Discovery Gardens, and Remraam for example, all offered over 8% average gross investment yields, according to Morgan's International Realty's Dubai Real Estate Market Report Q1 2021. Meanwhile, villas generated a lower yield, with Dubai Sports City offering the highest yield at 6.23%, and luxury development Jumeirah Islands the lowest yield at 3.93%.

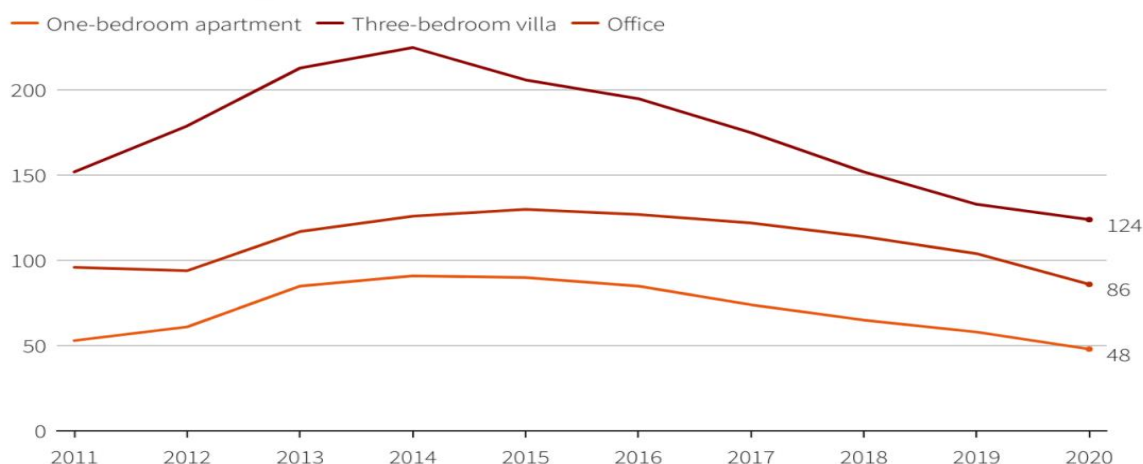
UAE Real Estate Market Recovery Lead by Dubai's Prime Locations

Recovery in the emirates real estate sector is taking place through prime locations in Dubai such as Downtown, Dubai Hills, and the Palm where project value has increased between 15% to 30%. Followed by mid-segment areas displayed through the Property Monitor Dynamic Price Index increased by 1.1% in January, whereby investors are benefiting from lower prices, vaccination roll-out, lower interest rates, and improvements of major economic indicators.

Dubai Real Estate Looks to Have a Long Road to Recovery Despite Demand Increase

The real estate investors have started tapping the property market in Dubai, benefiting from low cost, and interest rates; however, with rents still dropping and oversupply weighing on the economy even before the pandemic, the path to recovery will be lengthy. The real estate sector was hit hard by COVID-19 as companies in the UAE started to cut jobs. This affected the real estate sector, contributing around 7.2% of GDP, as the workers required to support the demand were left jobless. However, in the last six months, after the lockdowns and curfews were relaxed, industry demand has increased, and the price stabilized especially for family villas and high-end beach and golf course properties; meanwhile, apartment prices were mostly still falling in February, as per ValuStrat price index, and not expected to recover until mid-2022.

Dubai average rental rates



Note: Apartment and villa data in thousands of AED per unit per year, office data in AED per square foot per year

Source: Asteco

UAE Property Market Develops as it Adapts to the Changing Demands

One of the main emphases this year in the real estate market is space re-visualizing as clients are looking for appealing facilities within communities. Real estate providers must switch to more practical properties to reflect the current change in lifestyle and efficient space usage. The strengths and limitations of multi-purpose concepts can give insight into how the modern-day occupant has changed and how his needs have been considered. UAE property market is expected to rebound in 2021 with a

sign of improvement already visible, backed by Expo 2020 festivities, vaccine roll-out, and opening of the market to foreign investors. The office market was heavily hit by the COVID-19 pandemic last year as firms closed and were obliged to reduce cost by cutting jobs. However, following the relaxation of prohibitions relating to the pandemic, office sales began to improve in the third quarter of 2020 with well-managed, single-owned, quality space offices being requested. In Dubai and Abu Dhabi, villa and townhouses selling prices rose by 3.5% and 2%, in the residential market. The buyer taking advantage of competitive payment options, and low interest have fueled strong demand for high-quality villas and townhouses with major increases ranging from 15% to 30%. The UAE's retail market was already under severe strain before the outbreak of the pandemic. Sluggish economic growth, a significant rise in regional and neighbourhood retail supply, and an increased and market-responsive e-commerce industry have contributed to the demand slowdown. As a result, the pandemic's onset, which prevented non-essential shops from running without prohibitions for months, has brought many retailers to the verge of bankruptcy. Therefore, COVID-19 has permanently altered the sector operations. Some retail categories, such as food and beverage, have changed by implementing digital technologies and moving to more street and neighbourhood sites. Other divisions within existing malls, such as fashion, luxury, and entertainment, have lagged due to customer shopping patterns and low tourism changes. Despite global performance declines in the hospitality industry, the UAE market did better than others even though occupancy numbers are still below their 2020 levels, owing to its robust screening processing and the fact that it is one of the few countries that remained open to tourism.

As Buyers Return, Dubai Property Market Register First Annual Increase Since 2015

Even before COVID-19, the property market in Dubai was distressed due to excess supply. With lockdown imposed in 2020, the market witnessed additional declines. Yet, Buyers have been rushing to Dubai in recent months buying ready-to-move-in homes, such as villas, townhouses, and flats, taking advantage of decade-low rates, fast borrowing, and an economy that is open for business amid the pandemic. As a result, prices rose by 1.3 percent in March, marking the first annual rise since 2015, confirming the clear turnaround of the recent downward trend. The Sales not only increased in March but also hit a ten-year peak following the market growth trend. The market recovery in Dubai is well underway, but it is not evenly distributed across Dubai with some areas even witnessing a slight decrease, offset by the overall sales level. For example, townhouse and villa communities have developed as hotspots, with rates predicted to rise much further in the coming months. Meanwhile, mid-segment properties are still showing some resistance.

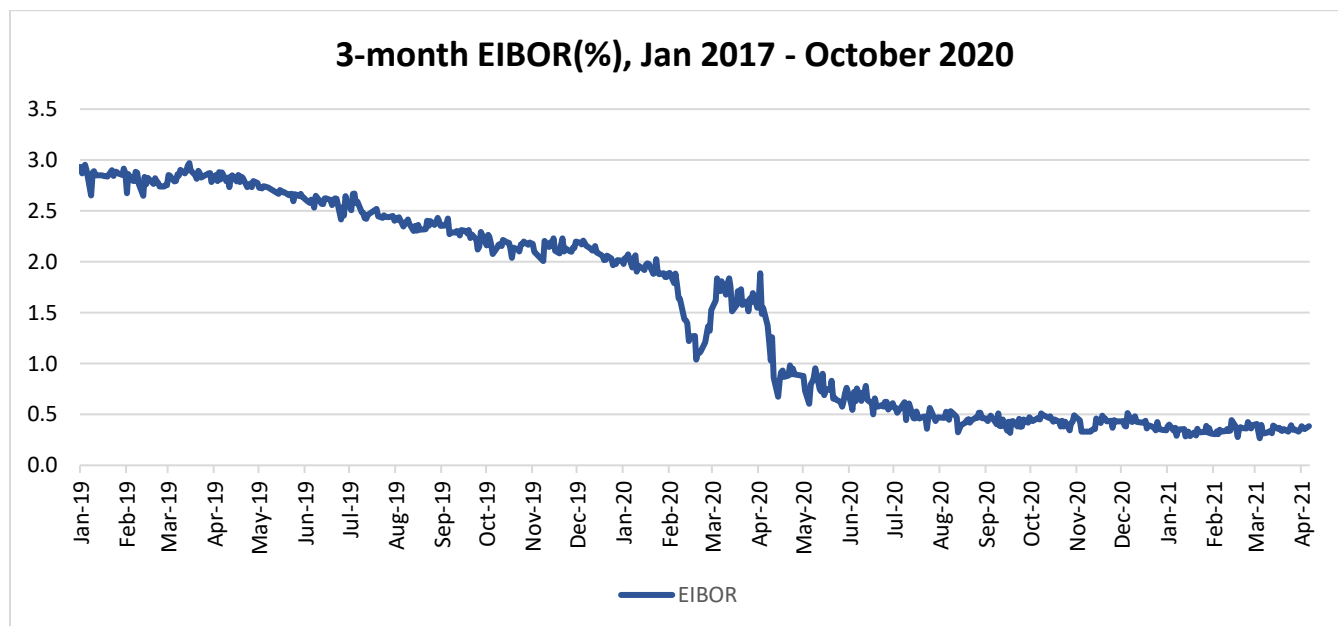
Dubai Real Estate Market, Land for Foreign Investors

Property prices have been increasing since the first quarter of 2021, confirming the strong reversal of the downward trend since 2015. Yet, what are the main factors for this strong comeback? No doubt that a strong Covid-19 vaccination drive, new visa residency laws, and the upcoming Expo 2020 Dubai event all contributed to this recent booming, however, decade-low interest rates, fast borrowing, and cheaper properties are the main incentive behind this reversal as the current market conditions are attractive for foreign investors. Emirate authorities' investment incentives and government programs to promote

population growth also fuelled direct demand for real estate. Being in line with Dubai 2040 Urban Master Plan launched in March 2021, aiming to improve people's satisfaction and quality of life Over the next 20 years and strengthen Dubai's attractiveness as a global destination by offering a diverse range of lifestyles and investment opportunities for residents and tourists. Demand for rent in the emirates is also expected to increase during 2021 as Dubai Expo 2020 taking place later this year will increase investments in infrastructure projects. Besides awarding foreigners' golden citizenship for 10 years would also help the real estate market, as the targeted groups will be settling in the emirates, increasing the buying power of real estate, and increasing the value of foreign investment inflows and assist in the creation of new jobs. Dubai also amended the Commercial Companies Law, allowing foreigners 100% ownership in certain commercial operations, attracting local, Arab, and international investors. Which is expected to increase foreign direct investment in the UAE and the real estate sector in particular.

Interest rates

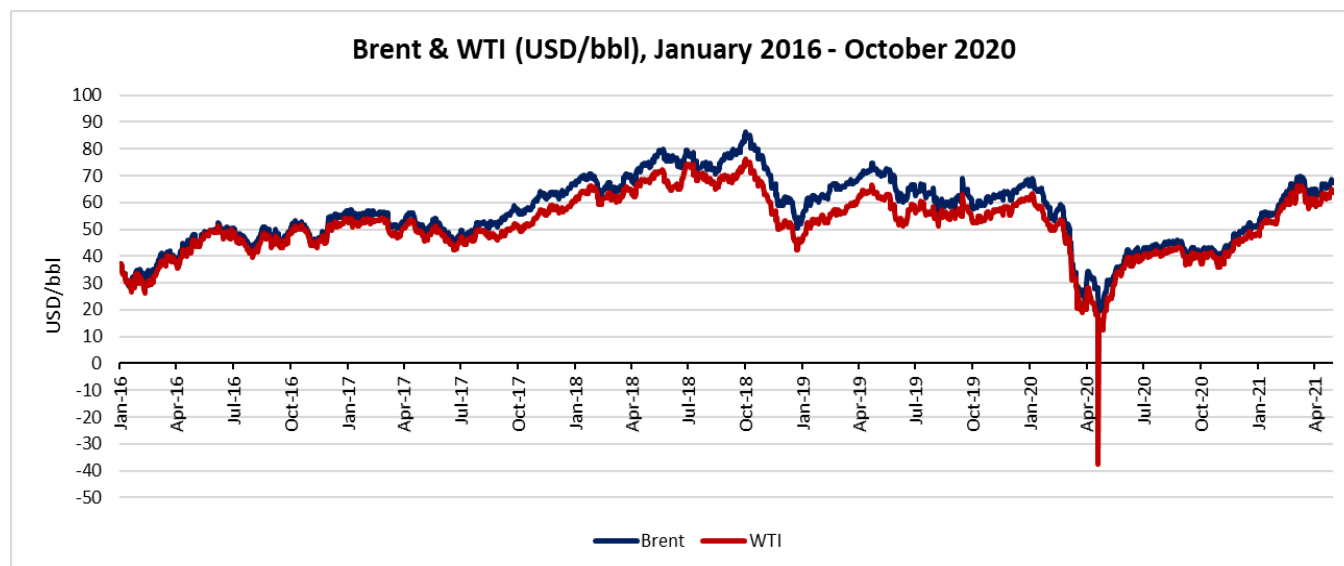
The Interbank lending rate (EIBOR) has increased, with the 6-month rate increasing significantly to 0.681% as of April 1, 2021. As per the Central Bank of UAE, this significant surge in the 6-month rate has exceeded the increase in the one-year EIBOR, which increased to 0.506%. The increase in the rate will now allow the investors to gain profits in a limited time and encourage them to take advantage of the investment tool. Due to the hike, the investors obtained AED23 bn in 3-6-month deposits from November 2020 to January 2021. The deposits provided the highest yield as compared to other term deposits available.



Source: FABS from Bloomberg data

Oil Demand expected to recover in U.S.A, China, and the U.K

The oil output increased in the month of April 2021 mainly due to an increase in supply by Iran. The other members of OPEC resorted to production cuts and limited their supply. The output has consistently increased from June 2020 till April 2021, except for in February. All the countries in OPEC recorded output of 25.17 million barrels per day (bpd) in April, almost 100,000 (bpd) more than the previous month. As per the recent developments regarding the subject of the nuclear deal with Iran, Tehran's exports are expected to recover in 2021. As of May 2021, Saudi Arabia is expected to revert from the voluntary cuts it made in February, March, and April. Countries like Iran, Venezuela and Libya are exempted from output cuts.



Source: FABS from Bloomberg data

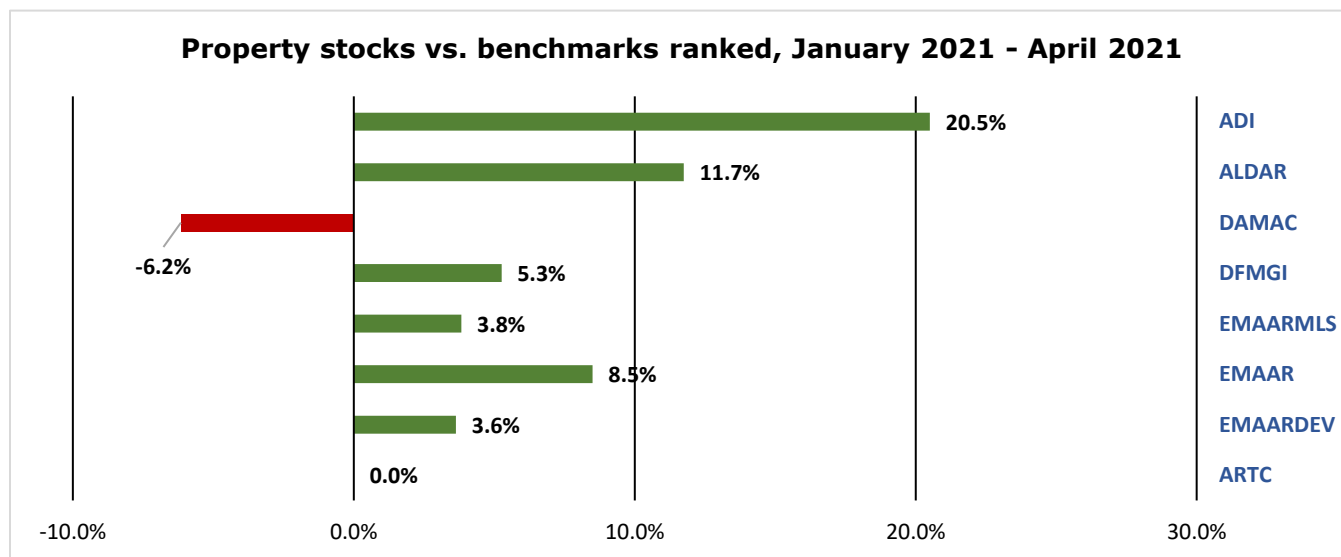
Futures in New York increased to 7.5% in the last week of April. Countries such as USA, China, and the U.K are forecasted to increase their fuel consumption. The demand recovery will be led by the USA, as refinery operating rates have increased. Resultantly, the refining activity increased further supporting the forecasts. As per the OPEC, the total consumption is expected to stand at 6 million barrels per day. The fuel demand can further increase as the vaccine rollouts are carried across the developed nations. The nine-week slump in dollar also supported the oil prices.

The Brent Crude prices dropped to \$67.25 per barrel, down by 1.9% and the West Texas Intermediate (WTI) to \$63.58 per barrel, down by 2.2%. This was mainly due to weak Japanese import data and doubts over the fuel demand in India. U.S crude and Brent gained by 6% and 8% monthly. The reports from the India relating to the virus and the outcome have added uncertainty in the market. India the world's third-largest importer of oil is currently in crisis. The imports from Japan fell by 25% to 2.34 million barrels per day as compared to the previous year. However, the country managed to increase factory activity at an optimistic pace.

Sector stock performance

Most of the stocks traded in positive territory

On a YTD basis, 1 out of 7 stocks under our coverage traded in the negative territory. ADI, Aldar, Emaar Malls, Emaar Properties, Emaar Development, gained a positive figure in January 2021 to April 2021. ADI amongst the all gained the highest at 20.5% YTD basis. Lastly, DAMAC was the only stock that traded at a negative 6.2% YTD.



Source: FABS from Bloomberg data

Relative valuation and rating

We maintain MARKET WEIGHT for the developers under our coverage led by 1x BUYs, 1x ACCUMULATE, 2xHOLD and 1xREDUCE. The 2021 P/B multiples for the below stocks ranges between DAMAC (0.1x) and EMAARMLS (1.21x). Most of the stocks, excluding Emaar Malls (1.21x) and Aldar Properties (1.04x) are trading at a 2021 PB multiple lower than one. ALDAR's 2020F dividend yield is the highest at 4.1%. Despite EMAAR Properties distributed AED 0.10 in 2020 its dividend yield is below of Aldar Properties.

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Emaar Properties (AED)	5.00	3.91	27.9%	BUY	0.40	3.8%
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Emaar Malls (AED)	1.85	1.91	-3.1%	HOLD	1.21	NA
Emaar Development (AED)	3.25	2.87	13.2%	ACCUMULATE	0.73	NA
Damac Properties (AED)	1.07	1.23	-13.0%	REDUCE	0.10	NA

FABS Estimate

1Q21 preview: Emaar Properties

lower direct cost compared to previous quarter could support the profits

CMP (AED): 3.91

Potential upside (%): +27.9%

12-m target price:
AED 5.00

Stock rating:
BUY

1Q21 Estimate

Emaar Properties is expected to report a slight increase in Net profit to AED810.2 mm in 1Q21 compared to a Net profit of AED809 mm in 1Q20. Revenue is expected to decrease by 10% YOY to AED5260 mm in 1Q21 from AED5,827 mm in 1Q20. The cost of revenue is expected to decrease by 4% YOY to AED3,134 mm in 1Q21 from AED3,252 mm in 1Q20. As a result, the Gross profit is expected to decrease by 17% YOY to AED2,125 mm in 1Q21 from AED2,575 mm in 1Q20 and the GPM is expected to decline by 379 bps to 40% from 44% in 1Q20. Selling, general and admin expenses is expected to increase by 4% YOY to AED764 mm in 1Q21 from AED736 mm in 1Q20. Net Other operating income is expected to decrease by 42% YOY to AED391mm in 1Q21 from AED68 mm in 1Q20. EBIT is expected to decrease by 27% YOY to AED1,400 mm in 1Q21 from AED1,907 mm in 1Q20 and the EBIT margin is estimated to fall by 610 bps to 27% from 33% in 1Q20. Finance income is expected to decrease by 0.3% YOY to AED131 mm in 1Q21. Finance cost is expected to decrease by 3% YOY to AED249 mm in 1Q21 from AED257 mm in 1Q20. Other income is expected to increase significantly to AED233 mm in 1Q21 from negative AED126 mm in 1Q20. Income tax is expected to increase to AED36 mm in 1Q21 from AED12 mm in 1Q20. Non-controlling interest is expected to decrease to AED262 mm in 1Q21 from AED343 mm in 1Q20.

2021 Forecast

Emaar Properties is expected to report a 74% YOY increase in Net profit of AED4,562 mm in 2021 from AED2,617 mm in 2020. Revenue is expected to increase by 21% YOY to AED23,909 mm in 2021 from AED19,710 mm in 2020. Cost of revenue is expected to increase by 7% YOY to AED13,628 mm in 2021 from AED12,710 mm in 2020. Resultantly, the Gross profit is expected to increase by 47% YOY to AED10,281 mm in 2021 from AED7,000 mm in 2020. Selling, general and admin expenses is expected to decrease slightly by 0.1% YOY to AED3,323 mm in 2021. Net operating income is expected to increase by 3% YOY to AED170 mm in 2021 from AED165 mm in 2020. EBIT is expected to increase by 86% YOY to AED7,127 mm in 2021 from AED3,838 mm in 2020. Finance income is expected to increase by 18% YOY to AED570 mm in 2021 from AED485 mm in 2020. Finance cost is expected to decrease by 1% YOY to AED1,084 mm in 2021 from AED1,096 mm in 2020. Other income is expected to decrease by 59% to AED1,014 mm in 2021 from AED2,457 mm in 2020. Income tax is expected to increase by 70% YOY to AED155 mm in 2021 from AED91 mm in 2020.

4Q20 Outturn

Emaar Properties reported a decline of 89.7% YOY in Net profit to AED181 mm in 4Q20 from AED1,758 mm in 4Q19. This was primarily due to increased impairments/write-offs and decline in Revenue. Revenue decreased by 8.7% YOY to AED6,336 mm in 4Q20 from AED6,942 mm in 4Q19. This is mainly due to a decline in the sale of condominiums and villas. Revenue from hospitality also declined. Cost of revenue increased by 7.2% YOY to AED4,089 mm in 4Q20 from AED3,815 mm in 4Q19. This is due to the increased cost of commercial units, plots of land and others. As a result, the Gross profit decreased by 28.1% YOY to AED2,247 mm in 4Q20 from AED3,127 mm in 4Q19. Selling, general and admin expenses increased by 26.4% YOY to AED1,217 mm in 4Q20 from AED963 mm in 4Q19.

in 4Q19 mainly due to a rise in donations, provisions for doubtful debts and write-offs. Other operating income decreased by 67.4% YOY to AED46 mm in 4Q20 from AED141 mm in 4Q19. Therefore, EBIT decreased by 53.0% YOY to AED1,060 mm in 4Q20 from AED2,254 mm in 4Q19. Finance income decreased by 42.6% YOY to AED101 mm in 4Q20 from AED176 mm in 4Q19 and the Finance cost increased by 9.3% YOY to AED351 mm in 4Q20 from AED321 mm in 4Q19. Other income decreased by 12.1% YOY to AED232 mm in 4Q20 from AED264 mm in 4Q19. Income tax decreased to a negative AED106 mm in 4Q20 from AED373 mm in 4Q19. Total assets decreased slightly by 0.37% to AED116.4 bn. Total liabilities declined by 5.43% YOY to AED50.5 bn in 2020 from AED53.4 bn in 2019. Total equity increased by 3.94% YOY to AED65.9 bn from AED63.4 bn due to a rise in retained earnings.

Target price and rating

We maintain our BUY rating on Emaar properties with a target price of AED5. Emaar Properties is one of the leading groups operating in the Real estate and Hospitality sector. However, due to the economic slowdown, the group faced lower revenue and major impairments that drastically lowered their Net Profit. The group's Revenue decreased by 19.8% in 2020. Lower Condominiums and Villa sales has resulted in a decrease of Revenue. However, the sale of commercial units and plots of land had increased in 2020. Due to travel restrictions and strict lockdown, the Hospitality sector is affected drastically as well with a decrease in revenue by 64.55% in 2020. However, the sale of Commercial properties has risen since there has been a cap on residential property supply by the government. The group's gross profit margin stands at 35.5% in 2020 compared to 47% in 2019. Primarily lower due to Revenue. However, since vaccine rollout is expected globally, the hospitality division is expected to recover in 2021 as the tourism sector is likely to recover. The Net profit margin for the company is 13.3% in 2020 compared to 25.2% in 2019. The company faced significant Impairments in the year 2020. Trade receivable for the year decreased by 15.08% in 2020. However due to unbilled receivables the Total receivables have risen by 13.98% in 2020. Unbilled receivables after 12 months have increased by 40.49% in 2020. This could potentially affect the company's liquidity position and increase the chances of higher write-offs if COVID-19 situation persists. The ROA for the group stands at 2.25% in 2020 compared to 5.31% in 2019. The ROE for the group stands at 9.77% in 2020 compared to 3.97% in 2019. This is primarily due to lower net profit in the year 2020. In 2020, Emaar properties provided Old Town views LLC, its subsidiary, loan that is unsecured, repayable on demand and does not carry any interest. Additions in investment properties has been significantly lower in 2020 at AED1.4 bn as compared to AED2.8 bn in 2019. This is primarily due to the uncertainty and economic slowdown. Further during the year, one of the real estate segments of the group has recognized initial leased Liabilities of AED580 mm. The noncallable period of the lease is 10-year period, extendable at the end of term. In 2020, Tabreed bought 80% stake in Downtown DCP LLC for AED2.48 bn and the remaining 20% is accounted as an investment in associates under Emaar properties. The BOD for Emaar Properties proposed AED0.1 per share cash dividends for 2020. The stock currently trades at a P/B ratio of 0.45x and therefore, we maintain our BUY rating on the stock.

Emaar Properties – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
PE (X)	5.0	4.5	4.5	10.6	6.1
PB (X)	0.6	0.6	0.5	0.5	0.4
Dividend yield (%)	3.6%	3.8%	0.0%	2.6%	3.8%

FABS estimate & Co Data

Emaar Properties - P&L

AED (MM)	1Q20	4Q20	1Q21F	YoY Ch	QoQ Ch	2020	2021F	YoY Ch
Revenue	5,827	6,336	5,260	-10%	-17%	19,710	23,909	21%
Cost of revenue	-3,252	-4,089	-3,134	-4%	-23%	-12,710	-13,628	7%
Gross profit	2,575	2,247	2,125	-17%	-5%	7,000	10,281	47%
General and admin expenses	-736	-1217	-764	4%	-37%	-3,328	-3,323	-0.1%
Net other operating	68	29	39	-42%	35%	165	170	3%
EBIT	1,907	1,060	1,400	-27%	32%	3,838	7,127	86%
Share of assoc. profits/(-loss)	-219	-205	-25	-89%	-88%	-582	-109	-81%
Provisions and impairment	0	0	-101	NA	0%	-551	-441	-20%
Finance income	132	101	131	-0.30%	30%	485	570	18%
Finance cost	-257	-351	-249	-3%	-29%	-1,096	-1,084	-1%
Other income	-126	232	233	NM	1%	2,457	1,014	-59%
Depreciation	-296	-326	-352	19%	8%	-1,259	-1,530	22%
Profit before tax	1,140	510	1,037	-9%	NM	3,293	5,548	68%
Income tax	12	-106	36	NM	-134%	91	155	70%
Profit for the period	1,152	404	1,073	-7%	NM	3,384	5,703	69%
NCI	-343	-223	-262	-24%	18%	-767	-1,141	49%
Net Profit	809	181	810	0.17%	NM	2,617	4,562	74%

FABS estimate & Co Data

Emaar Prop - Margins

AED (MM)	1Q20	4Q20	1Q21F	YoY	QoQ	2020	2021F	YoY
GPM	44%	35%	40%	-379	494	36%	43%	748
OPM	33%	17%	27%	-610	989	19%	30%	1034
NPM	14%	3%	15%	152	1255	13%	19%	580

FABS estimate & Co Data

1Q21 preview: Emaar Development

Lower costs could promote the growth

CMP (AED): 2.87

Potential upside (%): **+13.2%**

12-m target price:
AED 3.25

Stock rating:
ACCUMULATE

1Q21 Estimate

Emaar Development's Net profit to owners is expected to decrease by 25% YOY to AED488 mm in 1Q21 from AED649 mm in 1Q20. The decrease is due to a decline in the Revenue. Gross profit is expected to decrease by 17% YOY to AED933 mm in 1Q21 from AED1,129 mm in 1Q20. The decrease is mainly due to an expected decrease in Revenue by 18.0% YOY to AED2,488 mm in 1Q21 from AED3,045 mm in 1Q20, despite an expected decrease in Cost of Revenue by 19% YOY to AED1,555 mm in 1Q21 from AED1,916 mm in 1Q20. The GPM is expected to improve by 44 bps to 38% in 1Q21 from 37%. Selling, General and Administrative expenses are expected to decrease by 13% YOY to AED311 mm in 1Q21. The OPM is forecasted to decrease by 30 bps to 25% in 1Q21. Other income is expected to decrease by 32% YOY to AED6 mm in 1Q21 from AED9 mm in 1Q20. Finance income is expected to decrease by 40% YOY to AED13 mm in 1Q21 from AED22 mm in 1Q20, while Finance costs is expected to increase by 20% YOY to AED66 mm in 1Q21 from AED55 mm in 1Q20.

2021 Forecast

Net profit is expected to increase by 39% YOY to AED2,304 mm in 2021 from AED1,657 mm in 2020. The increase is because of increase in Gross Profit and Finance Income. Gross profit is expected to increase by 26% YOY to AED4,375 mm in 2021 from AED3,478 mm in 2020. The increase is mainly due to an expected increase in Revenue by 19% YOY to AED11,573 mm in 2021 from AED9,758 mm in 2020, despite an expected increase in Cost of Revenue by 15% YOY to AED7,199 mm in 2021 from AED6,280 mm in 2020. Selling, General and Administrative expenses are forecasted to increase by 11% to AED1,447 mm in 2021 from AED1,305 in 2020. Other income is expected to increase by 3% YOY to AED29 mm in 2021 from AED28 mm in 2020. Finance income is expected to increase by 10% YOY to AED62 mm in 2021 from AED57 mm in 2020. Finance costs is expected to decrease slightly by 2% YOY to SAR305 mm in 2021 from SAR300 mm in 2020.

4Q20 Outturn

Emaar Development (EMAARDEV) recorded a significant decrease of 52.6% YOY in Net profit to AED299 mm in 4Q20 from AED630 mm in 4Q19, missing our estimate by 36.5%. This was mainly attributed to a decrease in Revenue, Finance income and an increase in Finance costs. Revenues decreased by 16% YOY to AED2,625 mm in 4Q20 from AED3,121 mm in 4Q19. This is mainly due to a decline in sale of villas and sale of condominiums. Cost of Revenue decreased by 12% YOY to AED1,671 mm in 4Q20 from AED1,899 mm in 4Q19 primarily due to a reduction in cost of villas. Resultantly, the Gross profit decreased by 22% YOY to AED955 mm in 4Q20 from AED1,222 mm in 4Q19. Operating profit decreased by 40.2% YOY to AED497 mm in 4Q20 from AED831 mm in 4Q19. Finance income decreased by 53.3% YOY to AED20 mm in 4Q20 from AED42 mm in 4Q19 due to a decline on fixed and call deposits with banks. Finance costs has increased by 90% to AED174 mm in 4Q20 from AED92 mm in 4Q19. Moreover, Operating expenses climbed by 17.2% YOY to AED458 mm from AED391 mm in 4Q19. GPM decreased by 278 bps to 36.4% in 4Q20 from 39.1% in 4Q19 and Net margin also decreased by 883 bps to 11.4% in 4Q20 from 20.2% in 4Q19. Share of results of JVs increased to AED84 mm from AED18 mm in 4Q19 due to an increased investment in Old Town Views LLC and Emaar Dubai South DWC LLC.

Target price and recommendation

We revise our rating on Emaar Development to ACCUMULATE rating with a revised target price of AED3.25. Emaar Development is a subsidiary of Emaar Properties with ownership of approximately 80% ownership stake. Due to COVID-19 economic slowdown, Emaar group has been affected tremendously. Total revenue for the company decreased by 23.4% in 2020. This is primarily due to the lower sale of condominiums and Villas. However, similar to Emaar Properties, Emaar development has also seen an increase in sale of Commercial Units, plots of Land and development service by 123%. This is primarily due to government restrictions on decreasing supply of residential property in UAE. Finance income on deposits with bank has decreased by 62.5% in 2020, primarily due to lower interest rate environment. The Gross Profit Margin for the company stands at 35.6% in 2020 compared to 39.7% in 2019. The net profit margin for the company is 17% in 2020 as compared to 21.2% in 2019. Trade and unbilled receivables have increased, with Unbilled receivables increasing by 49% in 2020. The ROA for the company stands at 4.92% in 2020 compared to 8.06% in 2019. The ROE for Emaar developments was 12.28% in 2020 compared to 21.86% in 2019. The BOD has proposed not to issue any dividends for the year 2020. In 2020, Emaar developments had a commitment of AED 6.4bn. This represents the value of the contract entered for purchase of plots of land. Further, in accordance with the agreements interest with Mina Rashid, the group has ensured it will pay 30% of Mina Rashid profits in the near future. The provisions for doubtful debt for the company has increased as well to AED 10 mm in 2020 primarily due to uncertainty in the market. Trade payables has increased which are non-interest bearing, in order to mitigate liquidity risk of the company. The company is currently trading at a P/B ratio of 0.7x, therefore we assign a ACCUMULATE rating to the stock.

Emaar Development – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
PE (X)	0.9	2.9	4.2	7.0	5.0
PB (X)	2.3	1.4	1.2	1.0	0.7
Dividend yield (%)	0.0%	18.1%	0.0%	0.0%	0.0%

FABS estimate & Co Data

Emaar Development - P&L

AED (MM)	1Q20	4Q20	1Q21F	YoY	QoQ	2020	2021F	YoY
Revenue	3,045	2,625	2,488	-18%	-5%	9,758	11,573	19%
Cost of Revenue	-1,916	-1,671	-1,555	-19%	-7%	-6,280	-7,199	15%
Gross Profit	1,129	955	933	-17%	-2%	3,478	4,375	26%
Selling, General & Administrative exp.	-358	-458	-311	-13%	-32%	-1,305	-1,447	11%
Operating Profit	771	497	622	-19%	25%	2,174	2,928	35%
Finance Income	22	20	13	-40%	-32%	57	62	10%
Finance Cost	-55	-174	-66	20%	-62%	-300	-305	2%
Other Income	9	9	6	-32%	-31%	28	29	3%
Share of results of Joint Ventures	12	84	17	46%	-80%	98	78	-20%
Profit of the year	759	435	593	-22%	36%	2,056	2,792	36%
NCI	110	136	105	-5%	-23%	398	489	23%
Net Profit	649	299	488	-25%	63%	1,657	2,304	39%

FABS estimate & Co Data

Emaar Development - Margins

AED (MM)	1Q20	4Q20	1Q21F	YoY	QoQ	2020	2021F	YoY
GPM	37%	36%	38%	44	114	36%	38%	215
OPM	25%	19%	25%	-30	610	22%	25%	303
NPM	21%	11%	20%	-170	824	17%	20%	292

FABS estimate & Co Data

1Q21 preview: Emaar Malls

Lower Rental income to impact the bottom-line

CMP (AED): 1.91

Potential upside (%): -3.1%

12-m target price:
AED 1.85

Stock rating:
HOLD

1Q21 Estimate

EMAAR MALLS is expected to report a 23.7% YOY decline in Net profit of AED289 mm in 1Q21, compared to a Net profit of AED378 mm in 1Q20. This is mainly due to the decline in Revenue. Revenue is expected to decrease by 8.8% YOY to AED911 mm in 1Q21 from AED999 mm in 1Q20. Cost of Revenue is expected to increase by 14.3% YOY to AED342 mm in 1Q21 from AED299 mm in 1Q20. Resultantly, the Gross profit is expected to decrease by 18.6% YOY to AED570 mm in 1Q21 from AED700 mm in 1Q20, with GPM 62.5% from 70.1% in 1Q20. Selling and marketing expenses is expected to decrease by 3.4% YOY to AED58 mm in 1Q21 from AED60 mm in 1Q20, as the expected decrease by 22.2% YOY in General & admin expenses to AED81 mm in 1Q21 from AED104 mm in 1Q20. Thus, Operating profit is expected to decrease by 22.1% YOY to AED328 mm in 1Q21 compared to AED421 mm in 1Q20. Net finance cost is expected to decrease by 2.1% YOY to AED43 mm in 1Q21 from AED44 mm in 1Q20. While the Net Finance income is estimated to significantly increased to AED4 mm from AED1 mm in 1Q20.

2021 Forecast

We estimate Emaar Malls' Net profit to significantly increase YOY to AED1,426 mm in 2021 mainly ascribed to rise in Gross profit. Revenue is forecasted to grow up by 23.2% YOY to AED3,962 mm in 2021. Gross profit would increase by 23.5% to AED2,595 mm, resulting in GPM rising by 559 bps to 65.5%. S&M and G&A expenses are assumed to decrease by 3.1% and 30.2%, respectively, leading to a rise by 77.1% YOY in the Operating profit to AED1,589 mm in 2021 compared to AED897 mm in 2020, with OPM of 40.1% from 25.6% in 2020. D&A expense is expected to decline by 9.4% YOY to AED428 mm in 2021. Net Financial cost is projected to decrease by 14.2% to AED179 mm in 2021 from AED208 mm in 2020. While the Net Finance income would rise by 3.9% YOY to AED16 mm from AED15 mm in 2020.

4Q20 Outturn

Emaar Mall's Net profit decreased by 78.8% in 4Q20 to AED118 mm from AED554 mm in 4Q19. Revenue decreased by 19.5% YOY to AED1,015 mm in 4Q20 from AED1,261 mm in 4Q19 as the company was affected majorly by COVID-19. Operating expenses increased by 4.5% YOY to AED417 mm in 4Q20 from AED399 mm in 4Q19. As a result, the Gross profit decreased by 30.6% YOY to AED598 mm in 4Q20 from AED862 mm in 4Q19. Sales & marketing & GA exp. increased significantly by 98.6% YOY to AED294 mm in 4Q20 from AED148 mm in 4Q19. EBITDA decreased by 57.4% YOY to AED304 mm in 4Q20 from AED714 mm in 4Q19. Depreciation & write-off increased by 20.3% YOY to AED136 mm in 4Q20 from AED113 mm in 4Q19. EBIT decreased by 71.7% YOY to AED168 mm in 4Q20 from AED601 mm in 4Q19. Net finance cost increased by 8.2% YOY to AED51 mm in 4Q20 from AED47 mm in 4Q19. For the whole year 2020, Emaar malls' cost of revenue rose by 13.2% YOY to AED1,406 mm in 2020 compared to AED1,241 mm in 2019, primarily due to a rise in the cost of online retail revenue (NAMSHI) of AED1,066 mm in 2020 from AED820 mm in 2019. The significant rise in G&A expenses is largely due to the inclusion of doubtful debts of AED203 mm from AED116 mm in 2019 that has increased YOY due to company's expectations on rising write offs soon if the current economic situation persists. Under finance costs, an increase in lease liabilities resulted in an increase

in interest expense to AED27 mm from AED0.48 mm in 2019. Total assets increased by 3.1% YOY to AED24.9 bn in 2020 from AED24.3 bn in 2019. Total equity increased by 3.8% YOY to AED19 bn in 2020 from AED18.3 bn in 2019. The Group's transfer to reserves have increased which restricts any kind of distribution unless stipulated by the law.

Target price and recommendation

We maintain our HOLD rating on Emaar malls with a target price of AED1.85. Emaar Malls is a developer of premium shopping malls in the region. One of the famous malls being the Dubai Mall, located at the centre of Downtown, Dubai. It also owns Namshi, an online shopping platform. Due to COVID-19 and strict lockdown, malls worldwide were affected rigorously and Emaar Malls being no exception. Its total revenue decreased by 25% in 2020. Its gross profit margin (GPM) was 60% in 2020 compared to 73% in 2019. Its revenues are primarily driven by Base rent, which decreased by 42% in 2020. This is due to the closure of businesses cause by COVID-19 economic slowdown. However, online retail, which is essentially from Namshi, has increased by 28% as customers are unable to access retail outlets. Further, with 283 new brands added to the platform, the company has attracted many new customers. Turnover Rents, revenue from promotion and marketing have also been affected tremendously. Due to the pandemic, the group supported its tenants by offering a rent relief program. Thus, the unit can expect lower or delayed rental revenue soon. The operating margin (OPM) for the unit stands at 26% in 2020 compared to 53% in 2019. The Net Profit Margin (NPM) for the company stands at 20% compared to 49% in 2019. The company's ROA ratio stands at 2.82% in 2020 compared to 9.40% in 2019. Lease liability of the company has increased drastically. The company's right of use assets in relation to the lease agreement have increased by 56.6% in 2020 at a borrowing rate of 5%. Hence, the interest expense for the year has increased. Net Trade receivables have decreased by 79.04%. Lower receivables due to economic slowdown, complimented with increasing allowance for doubtful debts has lowered total receivables. Further, Unbilled revenue has increased in 2020, primarily due to the rent relief program initiated by the Emaar group. The company's current ratio is 0.606x in 2020 compared to 0.56x in 2019. The Cash and Cash equivalent account has increase dramatically, specifically deposits maturing within three months. Deposits are made on varying period depending on the

Under liabilities, the provisions during the year for the End-of-service benefits have decreased by 55%. The company has increased its interest-bearing loans and borrowing this year. The group has availed Revolving Islamic Finance facility of AED7.3 mm. Debt to EBITDA ratio for 2020 is 2x compared to 1.21x in 2019. Emaar Properties recently announced that it will be buying minority shareholders of its shopping centre. The deal was initiated with poor performance in 2020 as profits dropped. Initially Emaar Properties owned 85% of Emaar Malls; it will now swap 0.51 of its own shares with shareholders of Emaar. Emaar Malls will operate as a wholly-owned subsidiary of Emaar Properties and will continue to operate its shopping centre and its retail assets. The company bond rating is BB+ by S&P with a negative outlook. The company did not pay any dividends for 2019 and will not be paying any for 2020.

The Total revenue of the parent company Emaar Properties is AED 19.71 bn in 2020. The Group holds 84.63% of Emaar Malls and it will be reconstituted in a wholly-owned subsidiary of the Company. The total revenue of the subsidiary company Emaar Malls is AED 3.50 bn in 2020. The share of profit from the subsidiary stands at AED 595.46 mn in 2020. Similarly, the Emaar Group holds around 80% interest in Emaar Developments. The total revenue of the subsidiary for the year 2020 is AED 7.80 bn. The share of profit from the subsidiary amounts to AED 1.3 bn. The stock is currently trading at a P/B multiple of 1.2x. Therefore, based on our valuation methods, we maintain our HOLD rating on the stock.

Additional Information with regards to Emaar Malls

The proposal of Emaar properties to purchase around 15.4% of Emaar malls total outstanding shares by swapping 0.51 of its own shares with shareholders of Emaar malls can give Emaar malls some benefit, however, the current instance can be slightly sensitive to Emaar malls's minority investors as Emaar malls's financial health last year was quite challenging due to the economic situation caused by COVID-19. Net profit was lower by 70% YOY and revenues declined by 25% YOY. The proposal came along with Emaar Malls poor performance in 2020. Furthermore, as Emaar malls has reduced its CAPEX which essentially reduces any cost reoccurrence through assets in the near future. Their free cash flow can render a higher return as lower expenses associated with these assets occur. However, any commitments associated with the Debt of Emaar Malls will now be expensed at the cost of Emaar Properties. Moreover, Namshi being a star performer in the portfolio, and also Emaar Malls' e-commerce website reported growth in revenues of 40% last year. Emaar Malls did not post a dividend for the second year consecutively, which essentially would pressurize Emaar properties from a corporate governance viewpoint along with lower dividends proposed by properties in 2020. Since Emaar Properties was downgraded in 2020 to BB+ junk, any additional debt it acquires will be at a higher cost. The expectation was that Emaar Properties would suffer a 30-40% plunge in earnings. A complete acquisition would enable Emaar Properties to leverage of Namshi and any Cashflows from Emaar Malls, as well as revive its rating from a down-grade last year. Briefly, this merger will boost Emaar Properties' financial and operational performance through full consolidation of Emaar Malls' earnings and cash flow generation. With regard to the Capital structure, the merger Emaar Properties' issued share Capital would amount to 8.2 bn shares from AED7.159 bn, with Emaar malls shareholders holding approximately 12.5% of Emaar Properties' share capital. Emaar Properties will hold the remaining.

Emaar Malls - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
PE (x)	11.9	11.2	10.6	38.2	17.4
P/B (x)	1.5	1.4	1.4	1.3	1.2
Dividend yield	5.2%	5.2%	0.0%	0.0%	0.0%

FABS estimate & Co Data

Emaar Malls - P&L

AED (MM)	1Q20	4Q20	1Q21F	YoY	QoQ	2020	2021F	YoY
Revenue	999	1,015	911	-8.8%	-10.2%	3,508	3,962	13.0%
Cost of Revenue	-299	-417	-342	14.3%	-18.0%	-1,406	-1,367	-2.8%
Gross Profit	700	598	570	-18.6%	-4.8%	2,102	2,595	23.5%
Sales and marketing expenses	-60	-66	-58	-3.4%	-12.3%	-250	-242	-3.1%
General and administrative expenses	-104	-228	-81	-22.2%	-64.6%	-482	-337	-30.2%
Depreciation and amortization	-115	-136	-103	-10.8%	-24.3%	-472	-428	-9.4%
Operating Profit	421	168	328	-22.1%	95.1%	897	1,589	77.1%
Finance income	1	0	4	NM	NM	15	16	3.9%
Finance costs	-44	-51	-43	-2.1%	-15.9%	-208	-179	-14.2%
Profit for the year	378	118	289	-23.7%	NM	704	1,426	NM

FABS estimate & Co Data

Emaar Malls- Margins

AED MM	1Q20	4Q20	1Q21F	YoY Chn	QoQ Chn	2020	2021F	YoY Chn
GPM	70.1%	58.9%	62.5%	-758	356	59.9%	65.5%	559
OPM	42.2%	16.6%	36.0%	-616	1942	25.6%	40.1%	1,453
Net margin	37.9%	11.6%	31.7%	-620	2,009	20.1%	36.0%	1,592

FABS estimate& Co Data

1Q21 preview: Aldar Properties

Higher revenue could support the profitability

CMP (AED): 3.54

Potential upside (%): -1.1%

12-m target price:
AED 3.50

Stock rating:
HOLD

1Q21 Estimate

Aldar properties is expected to report a 47.4% YOY rise in Net profit to AED442 mm in 1Q21 from AED300 mm in 1Q20. This is mainly due to an expected increase in Revenue and a significant increase in Other income. Revenue is expected to increase by 20.2% YOY to AED2,111 mm in 1Q21 from AED1,757 mm in 1Q20. Direct costs are expected to increase by 27.1% YOY to AED1,345 mm in 1Q21 from AED1,058 mm in 1Q20. Resultantly, Gross profit is expected to increase by 9.7% YOY to AED766 mm in 1Q21 from AED699 mm in 1Q20, with GPM 36.3% from 39.8% in 1Q20. General expenses are expected to slightly increase by 2.9% YOY to AED150 mm in 1Q21 from AED145 mm in 1Q20. EBIT is expected to increase by 9.8% YOY to AED587 mm in 1Q21 from AED535 mm in 1Q20. Finance income is expected to decrease by 28.2% YOY to AED16 mm in 1Q21 from AED22 mm in 1Q20. Finance cost is expected to decline by 27.8% YOY to AED66 mm in 1Q21 from AED91 mm in 1Q20. Other income is expected to significantly increase to AED44 mm in 1Q21 from AED2 mm in 1Q20, supporting the profit.

2021 Forecast

Aldar properties is expected to report a Net profit of AED2,010 mm in 2021, which is a 4% YOY rise compared to AED1,932 mm in 2020. This is mainly due to a rise in Revenue and a decline in Finance cost and Provisions. Revenue is expected to increase by 14.4% YOY to AED9,597 mm in 2021 from AED8,392 mm in 2020. Direct costs are expected to increase by 13% YOY to AED6,113 mm in 2021 from AED5,409 mm in 2020. Thus, Gross profit is expected to increase by 16.8% YOY to AED3,484 mm in 2021 from AED2,983 mm in 2020, with a GPM at 36.3% from 35.5% in 2020. General expenses are expected to slightly increase by 2.8% YOY to AED680 mm in 2021 from AED662 mm in 2020. EBIT is expected to increase by 21.6% YOY to AED2,669 mm in 2021 from AED2,196 mm in 2020. Finance income is expected to increase by 5% YOY to AED71 mm in 2021 compared to AED67 mm in 2020. While the Finance cost is expected to decrease by 3.8% YOY to AED299 mm from AED311 mm in 2020. Other income is expected to increase by 6% YOY to AED201 mm in 2021 from AED190 mm in 2020. Provision is expected to decrease by 12.4% YOY to AED259 mm in 2021 from AED296 mm in 2020, helping profit to advance.

4Q20 Outturn

Aldar Properties reported a net profit of AED723 mm in 4Q20, which is a 25.2% YOY increase from a Net profit of AED577.17 mm in 4Q19. This was primarily due to higher revenue. The revenue in 4Q20 increased by 19.4% to AED2.5 bn compared to AED2.1 bn in 4Q19. Gross Profit increased to AED873 bn in 4Q20 compared to AED716 bn in 4Q19, an increase by 21.9%. EBIT in 4Q20 increased by 33.1% to AED681 mm compared to AED 512 mm in 4Q19. Provision charges in 4Q20 increased by 93.7% compared to AED 153 mm 4Q19. The profit for the year was AED 1.932 bn in 2020 compared to AED1.984 bn in 2019, a decrease by 2.6%. The Total assets decreased by 2.51% YOY to AED40.2 bn in 2020 from AED41.3 bn in 2019. Total equity increased by 3.01% YOY to AED25.7 bn in 2020 from AED24.95 bn in 2019. Total liabilities decreased from AED16.3 bn in 2019 to AED14.53 bn in 2020.

Target price and rating

We maintain our HOLD rating on Aldar with a target price of AED3.50. Aldar has shown strong performance in the year 2020, despite distressed economic conditions last year. It has also implemented a new operating model to achieve growth and sustainability target. It also aims to enhance customer experience as well as foster digital transformation. Its performance is driven by increase in revenue and rental income as well as increased income from managing Abu Dhabi government infrastructure contracts. Revenue increased by 17.4% also due to new successful project launch of 'Noya' as well as solid performance in its portfolio of investment properties. However, due to COVID-19, revenue from hospitality and leisure facilities and construction contracts have decreased drastically as these were the most affected sectors. However, Aldar owned hotels partnered with the Department of Culture and Tourism to host events like UFC and Formula 1. The Gross Profit Margin for 2020 is at 35.54% compared to 38.75%. Like other companies, Aldar also experience high impairment, provisions, and write-offs. One of the reasons for this impairment being high is due to the company's investment in Abu Dhabi Finance (ADF). Other provisions and write-offs were primarily due to receivables. The company has also recognized gains on disposal of its cooling entities. The net profit margin stands at 23.0% compared to 27.8% in 2019. The ROA for 2020 stands at 0.048 compared to 0.046 in 2019. The primary reason being an increase in revenue. Total assets decreased in 2020 from 2019. ROE decreased to 0.075 in 2020 compared 0.077 in 2019. PPE has been lower due to significant impact of lesser transaction and liquidity, especially in the leisure and hospitality sector. This has resulted to lower fair value, especially with cheaper property price environment in UAE. Debt to EBITDA ratio remains stable at 0.31. The company has revolving credit facilities involved in borrowing that is collateralized against deposits in the same banks. The debt to asset ratio also remains stable at 0.21 in both the years as well. Aldar is also very liquid when assessing its liquidity position. Its current asset remains at 3.2:1 in 2020 compared to 2.69:1 in 2019. Aldar's trade receivables are higher in 2020; however, inventory is lower. Receivables may be written off and cash balances are lower from last year. If current economic distress remains, solely judging on the company's performance, growth is likely to be slower in the next few years because contract assets have decreased to half; this essentially are contracts for certain businesses to occur as recognized as revenues soon. The company board expects to issue dividend of 14.5 fils per share, supported by solid performance in Aldar development, maintaining the same level as last year. One of the subsidiaries, Aldar Investment Properties has a credit rating of Baa1 stable by Moody's, highest rated non-GRE/ corporate rating in MENA. The stock is currently trading at a P/B multiple of 1.0x. Therefore, based on our valuation methods, we maintain our HOLD rating on the stock.

Aldar – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
PE (X)	13.9	15.0	14.0	14.4	13.8
PB (X)	1.2	1.2	1.1	1.1	1.0
Dividend yield (%)	3.4%	4.0%	4.1%	4.1%	4.1%

FABS estimate and Co data

Aldar - P&L

AED (MM)	1Q20	4Q20	1Q21F	YOY	QOQ	2020	2021F	YOY
Revenue	1,757	2,534	2,111	20.2%	-16.7%	8,392	9,597	14.4%
Direct costs	-1,058	-1,662	-1,345	27.1%	-19.1%	-5,409	-6,113	13.0%
Gross profit	699	873	766	9.7%	-12.2%	2,983	3,484	16.8%
General expenses	-145	-234	-150	2.9%	-36.0%	-662	-680	2.8%
Selling & Marketing exp.	-18	-57	-30	62.1%	-47.9%	-125	-134	7.1%
EBIT	535	582	587	9.8%	0.8%	2,196	2,669	21.6%
Share of assoc.	-1	-3	-2	NM	-12.1%	-10	-10	5.0%
Provision/(reversal)	-33	-197	-57	71.6%	-71.0%	-296	-259	-12.4%
Finance income	22	10	16	-28.2%	49.3%	67	71	5.0%
Finance cost	-91	-67	-66	-27.8%	-1.2%	-311	-299	-3.8%
Other income	2	101	44	NM	-56.1%	190	201	6.0%
Profit for the period	302	729	442	46.3%	-39.4%	1,932	2,010	4.0%
Non-controlling interest	-2	-7	0	NM	NM	0	0	0.0%
Net profit	300	723	442	47.4%	-38.8%	1,932	2,010	4.0%

FABS estimate & Co Data

Aldar-Margins

AED mm	1Q20	4Q20	1Q21F	YOY	QOQ	2020	2021F	YOY
GPM	39.8%	34.4%	36.3%	-346	186	35.5%	36.3%	76
OPM	30.5%	23.0%	27.8%	-264	483	26.2%	27.8%	165
Net margin	17.1%	28.5%	20.9%	387	-756	23.0%	20.9%	-207

FABS estimate & Co Data

1Q21 preview: Damac Properties

Cost efficiency to help the bottom-line

CMP (AED): 1.23

Potential upside (%): -13.0%

12-m target price:
AED 1.07

Stock rating:
Reduce

1Q21 Estimate

Net loss is expected to decrease to SAR16 mm in 1Q21 from SAR120 mm in 1Q20. Mainly due to the decrease in SG&A and a decline in Provisions. Gross profit is expected to decline by 5.6% YOY to SAR295 mm in 1Q21 from SAR312 mm in 1Q20. The decrease is due to an expected decline in Revenue by 7.8% YOY to SAR1,133 mm in 1Q21 from SAR1,229 mm in 1Q20, despite a decline in Cost of Revenue by 8.5% YOY to SAR839 mm in 1Q21 from SAR917 mm in 1Q20. Operating profit is expected to rise by 68.5% YOY to SAR154 mm in 1Q21 from SAR92 mm in 1Q20. The increase in Operating profit is taking place due to an anticipated decline in SG&A expenses by 26% YOY to SAR164 mm in 1Q21 from SAR222 mm in 1Q20 and an expected increase in Other operating income to SAR37 mm in 1Q21 from SAR17 mm in 1Q20. While the Depreciation & Amortization is expected to decrease by 15.6% YOY to SAR13 mm in 1Q21 from SAR16 mm in 1Q20. Other income is forecasted to decrease by 30.6% YOY to SAR18 mm in 1Q21 from SAR26 mm in 1Q20. Provisions are expected to decline to SAR148 mm in 1Q21 from SAR183 mm in 1Q20. The financial charges are estimated to decrease slightly by 2.1% YOY to AED40 mm compared to AED41 mm in 1Q20.

2021 Forecast

Net loss is expected to significantly decrease by 93.8% YOY to SAR67 mm in 2021 from SAR1,083 mm in 2020. The decrease is mainly due to an increase in both Gross profit and Operating profit. Gross profit is expected to increase by 19.6% YOY to SAR1,281 mm in 2021 from SAR1,071 mm in 2020, led by an expected increase in Revenue by 5.5% YOY to SAR4,927 mm in 2021 from SAR4,671 mm in 2020. While Cost of revenue is expected to slightly increase by 1.3% YOY to SAR3,646 mm from SAR3,599 mm in 2020. Operating profit is expected to significantly increase by 79.4% YOY to SAR672 mm in 2021 from SAR374 mm in 2020. This is due to an expected decline in SG&A expenses by 10% YOY to SAR714 mm in 2021 from SAR794 mm in 2020, and an expected rise in Other operating income by 2% YOY to SAR162 mm in 2021 from SAR159 mm in 2020. Depreciation & Amortization is expected to decline by 7.2% YOY to SAR57 mm in 2021 compared to SAR62 mm in 2020. Other income is expected to advance by 2% YOY to SAR77 mm in 2021 from SAR76 mm in 2020. Provisions are expected to decline by 57.8% YOY to SAR642 mm in 2021 from SAR1,522 mm in 2020. Whereas Financial charges decline by 8.3% YOY to SAR174 mm compared to SAR190 mm in 2020.

4Q20 Outturn

Damac properties recorded an increase in Net loss of AED108 mm in 4Q20 in comparison to Net loss of AED37 mm in 4Q19. This was primarily due to a significant decrease in both Gross profit and Operating profit as well as the high increase in Provisions. Gross profit decreased by 81.1% to AED243 mm due to a 76.8% YOY decrease in Revenue to AED1,019 mm in 4Q20 from AED4,399 mm in 4Q19. Cost of Revenue has also decreased to AED776 mm in 4Q20. The GPM decreased by 546 bps YOY to 23.9% in 4Q20 from 29.3% in 4Q19. The SG&A has significantly decreased by 74.1% to AED253 mm in 4Q20 from AED976 mm in 4Q19, whereas the Other Operating income have declined by 17.5% to AED113 mm in 4Q20 from AED137 mm in 4Q19. Depreciation and amortization have significantly decreased to AED15 mm in 4Q20 from AED64 mm in 4Q19. EBITDA declined to

AED103 mm in 4Q20 from AED452 mm in 4Q19 with an EBITDA margin of 10.1% in 4Q20 from 10.3% in 4Q19. The Total provisions have increased significantly by 99.1% YOY to AED330 mm in 4Q20 compared to AED166 mm in 4Q19, reducing the profitability. The Total Assets have declined by 11.3% YOY to AED21.1 bn from AED23.8 bn in 2019. Whereas the Total of Liabilities have also decreased by 16.5% YOY to AED8.1 bn in 2020. Total Equity has also decrease by 7.7% YOY to AED12.9 bn compared to AED14 bn in 2019.

Target price and recommendation

We maintain our rating on Damac to REDUCE with a revised target price of AED1.07. DAMAC existing in 7 countries, being UAE, Saudi Arabia, Qatar, Jordan, Lebanon, Oman, and the United Kingdom, booked sales of AED2.3 bn in 2020 decreasing from AED 3.1bn in the previous year, meanwhile, revenue increased from AED4.4bn in 2019 to AED4.7 bn. Gross debt including Sukuk Certificates stood at AED3.2bn and AED4.2bn for cash and bank balance, as of December 2020. However, it is important to mention that operating cash flow turned from negative AED327 mm in 2019 to AED889m revealing the improving ability of the company to generate cash out of operational activities. Non-cash products such as provisions for impairment on construction assets and provisions for impairment on trade receivables depending on current business trends affected financial results in FY 2020. DAMAC completed 31,994 units up to 2020 out of which 91% in Dubai, meanwhile around 34,000 units consisting of more than 42 million sq ft area in progress and planning (96% in Dubai). Historically, the company has a strong delivery track record as before the 2008 subprime mortgage crisis DAMAC was able to deliver 2,074 units, during the crisis extending from 2009 till 2011 the number increased to 3,251 units, meanwhile after 2012 the number of delivered units increased considerably to reach 26,671. During 2020, the 2,945 units delivered in Dubai were mainly located in Akoya master development and Business Bay. In terms of value as of December 2020, DAMAC holds AED2,689mn in lands for future development, AED2,000mn as completed properties, and AED3,095mn properties under development.

Damac Properties - Relative Value

AED mm	2017	2018	2019	2020	2021
P/E	2.7	6.5	-201.6	-7.2	-123.0
P/B (x)	0.5	0.5	0.5	0.6	0.6
Dividend yield	12.2%	0.0%	0.0%	0.0%	0.0%

FABS estimate and Co data

Damac Properties - P&L

AED (MM)	1Q20	4Q20	1Q21F	YOY Ch	QOQ Ch	2020	2021F	YOY Ch
Revenue	1,229	1,019	1,133	-7.8%	11.2%	4,671	4,927	5.5%
Cost of sales	-917	-776	-839	-8.5%	8.1%	-3,599	-3,646	1.3%
Gross Profit	312	243	295	-5.6%	21.1%	1,071	1,281	19.6%
SG&A expenses	-222	-253	-164	-26.0%	-35.0%	-794	-714	-10.0%
Other op. (exp). / inc.	17	113	37	NM	-66.9%	159	162	2.0%
EBITDA	107	103	168	56.2%	62.6%	436	729	67.1%
D & A	-16	-15	-13	-15.6%	-13.3%	-62	-57	-7.2%
Operating profit	92	88	154	68.5%	75.8%	374	672	79.4%
Other income	26	21	18	-30.6%	-15.0%	76	77	2.0%
Provision	-183	-330	-148	-19.1%	-55.2%	-1,522	-642	-57.8%
Financial charges	-41	-50	-40	-2.1%	-19.7%	-190	-174	-8.3%
Prov for value added tax	0	73	0	NA	NM	73	0	NM
Profit from continuing operations	-106	-198	-16	-85.4%	-92.2%	-1,189	-67	-94.3%
G/L on sale of financial investments at FVTPL	0	54	0	NA	NM	116	0	NM
Loss on fair value of financial Inv. at FVTPL	0	36	0	NA	NM	34	0	NM
Comprehensive Inc/Loss	-14	0	0	NM	NA	-43	0	NM
Profit attributable	-120	-108	-16	-87.1%	-85.6%	-1,083	-67	-93.8%

FABS estimate & Co Data

Damac - Margins

AED mm	1Q20	4Q20	1Q21F	YOY Ch	QOQ Ch	2020	2021F	YOY Ch
GPM	25.4%	23.9%	26.0%	60	211	22.9%	26.0%	306
OPM	7.5%	8.6%	13.6%	617	501	8.0%	13.6%	561
Net margin	-9.8%	-10.6%	-1.4%	839	925	-23.2%	-1.4%	2182

FABS estimate & Co Data

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