UAE Real Estate Sector

May 23, 2022

Company	Rating
Emaar Properties (Emaar)	Buy
Aldar Properties (Aldar)	Accumulate

- **Revival in UAE Real Estate market during 2021 due to international demand**
- **UAE region resilient amid Covid-19 and rode economic recovery wave in 2021**
- **Renewed interest in UAE real estate from Russian and Eastern European investors**
- **Likely risk from global recession and rapid rise in interest rates**

We initiate coverage on the UAE Real Estate Sector with two names in focus - Emaar **Properties (Emaar)** and **Aldar Properties (Aldar)**. Our valuations are based on a mix of DCF, Net asset value (NAV), and P/E multiple. These are among the top real estate companies, not only in UAE but in the MENA region as well. With landmark real estate properties developed across segments such as residential, commercial, hospitality and leisure, these companies are not only well known among regional investors but also expanding geographically to attract international investments. With a strong pipeline of development projects, expanding base of investment properties providing recurring revenues and geographical expansion, these two companies stand apart from the rest of the peer set in terms of their business profile.

- **Revival in UAE Real Estate market from international demand during 2021.** With the UAE government creating favorable environment for foreign investments in 2019, the real estate segment benefitted from these changes in 2020 and 2021. During the pandemic, the region attracted foreign investments into real estate along with issuances of golden visas (44,000 issued in 2021). The promotion of UAE as an international business hub with cosmopolitan culture for a global workforce helped attract substantial interest from foreign nationals shifting their base to UAE. This trend accelerated during pandemic due to relatively low incidence of COVID-19 in UAE region, availability of vaccines and quick processing of visas, along with flexible policies such as one-year remote work visa for those wanting to move to UAE.
- **UAE region resilient amid Covid-19 and rode economic recovery wave in 2021.** UAE region has shown relatively high resilience to the pandemic, due to both rise in oil prices as well as shorter duration of economic restrictions compared to developed economies. As such, economic growth has recovered for the region and led to improved consumer and business sentiment. UAE registered a GDP growth of 3.8% in 2021, the highest in GCC region. The regional governments, benefiting from improved fiscal situation due to improved oil and gas prices, have also embarked upon large infrastructure and development projects. These would give the economies government support in terms of fund flows and improved business sentiment.
- **Renewed interest in UAE real estate from Russian and Eastern European investors**. UAE was one the few countries that have taken a neutral stance in the ongoing Russia-Ukraine conflict. Russian entities and nationals can still transact business within UAE, while its increasingly challenging in Western nations. Further, the ongoing conflict has seen increasing number of Russian and Eastern European nationals interested in purchasing properties in UAE region.

We have assumed demand and price momentum to sustain despite issues like Russia-Ukraine war and rising inflation, as the premium segment of the market has historically been relatively resilient to these factors. However, risks to our valuations arise from possibility of global economic recession and rapid rise in interest rates, which could provide investors with relatively more liquid but still higher yielding asset classes.

Name	Last Px (AED)	Target Price (AED)	Upside / (Downside) (%)	Current P/E (x)	P/E'22e, (x)	EV/EBITDA'22e, (x)	ROE'22e, %	Cash Div Yield'22e, (%)
Emaar Prop.	5.9	8.0	35.8%	8.4	14.4	8.9	5.3%	2.3%
Aldar Prop.	5.3	6.0	14.9%	16.9	18.0	12.7	7.9%	2.8%
Average				12.6	16.2	10.8	6.6%	2.5%

Source: Refinitiv, U Capital Research

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Valuation

We have used a mix of DCF, Net asset value (NAV) and P/E to arrive at our target price for each company. We find present value for each year over the forecast period (2022-2026e). This present value is then added to the present value of the terminal year valuation. For terminal value calculation, we use the Weighted Average Cost of Capital (WACC) and terminal growth rate for each entity. NAV based approach is commonly used to value real business where the target price is derived by adding the excess of fair value of different real estate assets over its book value before adding shareholder's equity.

	Emaar properties	Aldar properties
P/E '22 Median Multiple	18.0	17.5
Earnings per share '22e, AED	0.4	0.3
Target Price, AED	**7.3**	**5.1**
Weight	10%	10%
DCF Methodology		
PV of Future Cashflows to the Firm (AED mn)		
2022e	4,851	(755)
2023e	3,325	(742)
2024e	4,150	2,035
2025e	3,477	2,756
2026e	3,384	2,836
Terminal Value	42,601	46,015
Total PV of Future Cashflows (Enterprise Value, AED mn)	61,787	52,144
Weight	45%	45%
Assumptions		
Risk Free Rate, %	4.1%	3.4%
Risk Premium, % (Equity Risk Premium)	5.1%	5.8%
Beta (2 year weekly), x	1.33	0.92
Cost of Equity (COE), %	10.9%	8.7%
Growth Rate, %	1.5%	1.5%
Cost of Debt (COD), %	4.1%	4.3%
WACC, %	9.6%	7.8%
Debt/Equity Ratio, %	22.4%	27.1%
Net Debt, AED mn	6,223	(1,132)
Fair Value of Equity, AED mn	55,565	53,277
Outstanding Shares, mn	8,180	7,863
Target Price, AED	**6.8**	**6.8**
NAV Methodology		
Excess of fair value over book value (AED mn)		
Development Properties	(16,934)	14,818
Investments properties	-	860
Investment in joint venture and associates	(8)	-
Malls and Retail	26,552	-
Hospitality	3,246	-
Total excess of fair value to book value	**12,856**	**15,678**
Book Value of Equity Attributable to Common Shareholders	63,813	27,518
Net Asset Value	**76,669**	**43,196**
Target Price, AED	**9.4**	**5.5**
Weight	45%	45%
Weighted Average Target Price, AED	**8.0**	**6.0**
Current Market Price, AED	5.9	5.3
Upside/(Downside), %	35.8%	14.9%
Recommendation	**Buy**	**Accumulate**

Source: Company Financials, Refinitiv, U Capital Research

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Risks to Valuation

Key downside risks to our valuations include
• A scenario of global recession leading to slump in demand for real estate investments
• Rapid rise in interest rates that would provide investors with relatively more liquid but still higher yielding asset class

Key upside risks to our valuation include
• Stronger than expected demand for UAE real estate that will lead to higher-than-expected price increases
• Continued Russia Ukraine conflict that would attract continued real estate investment from Russian and Eastern European buyers and investors

Sensitivity Analysis

Our TP for Emaar is sensitive to occupancy rate of retail business and capitalization rate. However, between them, the higher sensitivity is towards capitalization rate. Our TP is also sensitive (though relatively lower) to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards the terminal growth rate.

EMAAR

Terminal Growth rate	Cost of Equity 9%	10%	11%	12%	13%
1.00%	8.7	8.2	7.9	7.6	7.3
1.25%	8.8	8.3	7.9	7.6	7.4
1.50%	8.9	8.4	**8.0**	7.7	7.4
1.75%	9.0	8.5	8.1	7.7	7.5
2.00%	9.2	8.6	8.2	7.8	7.5

Occupancy rate (%) retail business	Cap rate (%) Retail business 5%	6%	7%	8%	9%
86%	8.8	8.3	7.9	7.7	7.4
89%	8.8	8.3	8.0	7.7	7.5
92%	8.9	8.4	**8.0**	7.7	7.5
95%	8.9	8.4	8.0	7.8	7.6
98%	9.0	8.5	8.1	7.8	7.6

Our TP for Aldar is sensitive to revenue per sqm of leasable area and capitalization rate. However, between them, the higher sensitivity is towards revenue per sqm of leasable area. Our TP is also sensitive (though relatively lower) to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards the terminal growth rate.

ALDAR

Terminal Growth rate	Cost of Equity 7%	8%	9%	10%	11%
1.00%	6.9	6.3	5.8	5.5	5.2
1.25%	7.0	6.4	5.9	5.5	5.2
1.50%	7.2	6.6	**6.0**	5.6	5.3
1.75%	7.5	6.7	6.1	5.7	5.4
2.00%	7.7	6.9	6.3	5.8	5.4

Revenue per sqm of leasable area (annualized) AED	General cap rate (%) 5%	6%	7%	8%	9%
901	5.6	5.6	5.6	5.6	5.6
1001	5.8	5.8	5.8	5.8	5.8
1101	6.0	6.0	**6.0**	6.0	6.0
1201	6.3	6.3	6.3	6.3	6.3
1301	6.5	6.5	6.5	6.5	6.5

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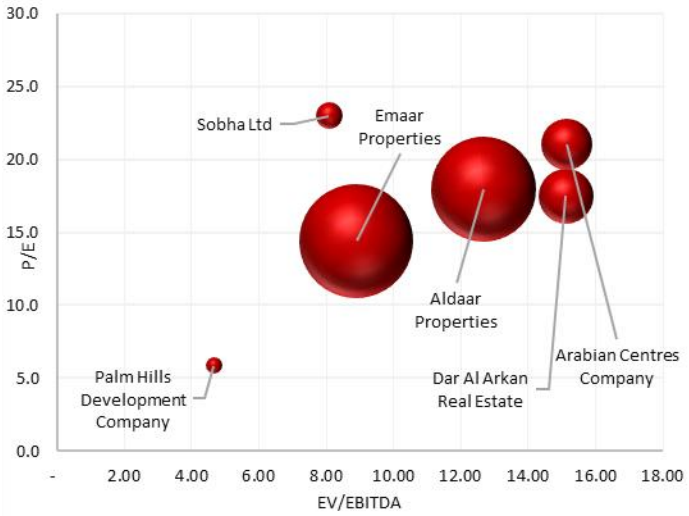
Peer Group Valuation

Peer Group

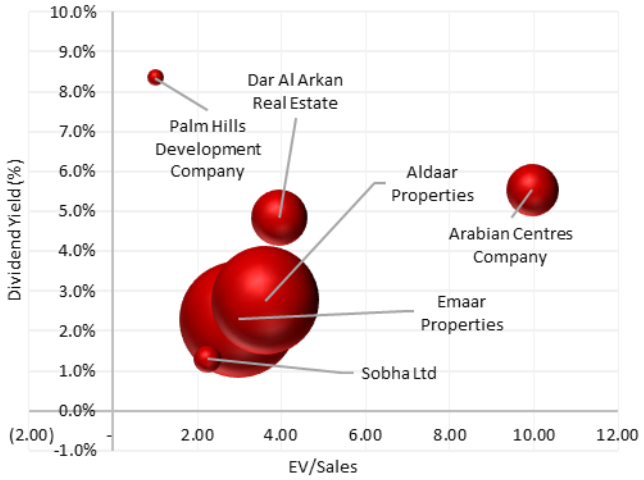
Name	Mkt Cap (USD bn)	Last Px (Local Currency)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	Current EV/EBITDA (x)	EV/EBITDA '22e (x)	P/E '22e (x)	EV/Sales '22e (x)	Div Yield '22e
Emaar Properties	13.1	5.9	-5.4%	15.7%	20.7%	8.6	8.9	14.4	3.0	2.3%
Aldar Properties	11.2	5.3	-0.8%	24.4%	31.6%	15.3	12.7	18.0	3.6	2.8%
Dar Al Arkan Real Estate	3.0	10.3	-4.6%	-1.7%	2.6%	19.1	15.1	17.5	4.0	4.8%
Sobha Ltd	0.7	543.6	-21.6%	-28.3%	-38.7%	9.8	8.1	23.0	2.2	1.3%
Palm Hills Development	0.2	1.5	-2.7%	-9.8%	-26.8%	5.2	4.7	5.8	1.0	8.3%
Arabian Centres	2.6	20.4	-7.6%	-8.4%	-9.7%	15.6	15.2	21.0	10.0	5.5%
Average						**12.2**	**10.8**	**16.6**	**4.0**	**4.2%**
Median						**12.5**	**10.8**	**17.7**	**3.3**	**3.8%**

Peer Group Valuation (2022E)

EV/EBITDA vs P/E



EV/Sales vs Dividend Yield (%)



Source: Refinitiv; valuation as of 20th May 2022; Size of the bubble indicates market capitalization in USD bn

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Local Peer Group Analysis

UAE Real Estate – Listed Companies

The UAE region has several real estate companies operating over few decades. Historically, the region has seen real estate as an important asset class, with the government encouraging development of properties as a means to drive local economy away from reliance on oil and gas, as well as to attract foreign investment. As a means to promote real estate, architecturally challenging projects such as creation of man-made islands and marinas in the gulf region and then constructing properties on them are more common in the UAE region than in most other real estate destinations around the world. Ambitious and challenging projects such as The Palm Jumeriah, built from reclaimed land in a series of artificial archipelagos, symbolize the creativity and ambition of UAE governments. Similarly, there have been several other marquee projects that have made their mark internationally, such as the Burj Khalifa (world's tallest structure) and the Dubai Mall (one of the world's largest shopping malls).

In terms of listed companies, there are several real estate companies on regional exchanges such as Dubai Financial Markets, Abu Dhabi Exchange, Boursa Kuwait and Tadawul (KSA). Amongst these, the most prominent listed companies are on Dubai Financial Markets and Abu Dhabi Exchange. The other exchanges have real estate companies that are relatively more local in nature with smaller scale of operations in terms of transactions in land, local properties and leasing business except for few. However, in comparison, the stocks listed on Dubai and Abu Dhabi exchanges compare with some of the large listed real estate companies in the emerging market space.

Amongst the listed companies on Dubai stock exchange (DFM), the most prominent one is **Emaar Properties**, with businesses ranging from development of landmark properties such as the Burj Khalifa to investments in properties across residential, commercial, retail, hospitality, and leisure segments. The other listed companies on DFM include **Damac Properties**, a premier luxury property developer in Dubai. Similar other developers include **Deyaar** and **Union Properties**.

Amongst the listed companies on Adu Dhabi exchange (ADX), the most prominent one is **Aldar Properties**, with prominent landmark real estate projects developed in Abu Dhabi region, and also having investment business spanning across residential, commercial, retail segments, along Hospitality and Leisure and Education business (schools). Other listed companies on ADX include **Eshraq investments** (an investments company with a portfolio of residential, hospitality and other real estate projects) and **RAK Properties** (focused on real estate development in Ral Al Khaimah emirate).

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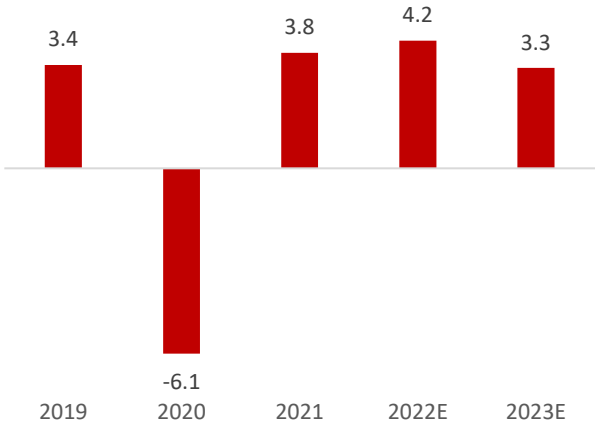
UAE Real Estate Sector Outlook

Improved oil market has improved economic prospects for the GCC region and for UAE Real Estate

The GCC economies include some of the largest oil and gas producers in the world, and economic environment is invariably linked to oil market movements. While in 2020, the COVID-19 pandemic impacted GCC economies, the rebound in 2021 and consequent demand for oil and gas led to increase in their prices. Consequently, the fiscal situation for most GCC economies improved leading to increased consumer and business confidence. During the 2H21, economic activity in the UAE continued its upward trajectory after recovering in 2Q21. UAE headline inflation turned positive in Q321 for the first time since Q418. It reached 2.5% for the year 2021. The UAE shifted from deflation to price growth in August 2021, outlining a recovery in the economy after the effects of the pandemic. During 2021, the UAE economy has registered a growth rate of 3.8%, the highest in GCC region. With lenient restrictions on global travel for 2022, the Central Bank of UAE forecasts real GDP growth at 4.2%, non-oil GDP to 3.9% on the account of continuous increase in public spending, higher employment, and better business activities.

UAE GDP growth trend YoY (%)



DFM Real Estate and Construction Index (DFMRE)

Source: Refinitiv, UAE Central Bank Quarterly Economic Review Q4 2021

The economic recovery in the UAE region has also reflected well in terms of listed real estate developers' financials for 2021, with rebound in both property sales and rental incomes, as well as increase in profitability. Consequently, the DFM Real Estate and Construction Index, representing eight top real estate companies, has also increased substantially from its Q120 lows, reflecting the improved financials of real estate companies in stock market terms.

Government measures in 2019 created conducive environment for foreign investment in UAE real estate

In 2019, the government relaxed foreign investment law in Abu Dhabi. The new law enabled all foreigners to own land and properties in Abu Dhabi. The UAE government also announced 5-year and 10-year golden visa which would allow individuals to work and live in UAE. These visas are renewed automatically. The government also introduced a retirement visa, allowing expat population over the age of 55 to be eligible for a retirement visa if certain eligibility criteria are met. The criteria include ownership of a single property or more one property worth AED 1 mn or a bank deposit of no less than AED 1 mn or an active income of at least AED 180,000 annually. In 2020, as remote work started becoming more popular around the world, the UAE government also approved remote working visa, which would allow individuals from across the globe to live and work in UAE for one year. These reforms were announced to increase and retain the expat population and to increase the attractiveness of UAE as a permanent home. The reforms did lead to increased activities in real estate sector, thereby increasing its contribution to the GDP. Dubai's real estate sector contribution to GDP increased to the highest since 2015, reaching 9.2% in 9M 2021 as compared to 7.8% in 2020.

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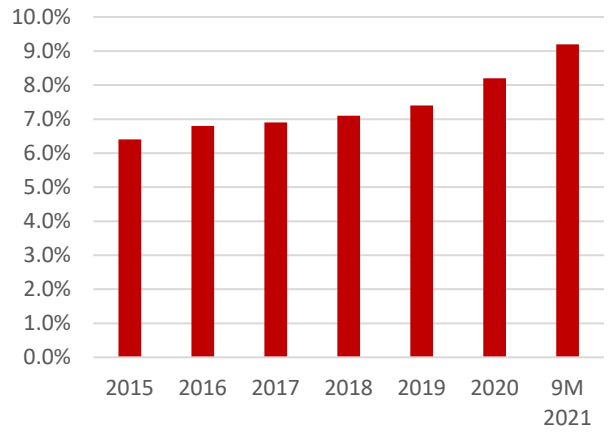
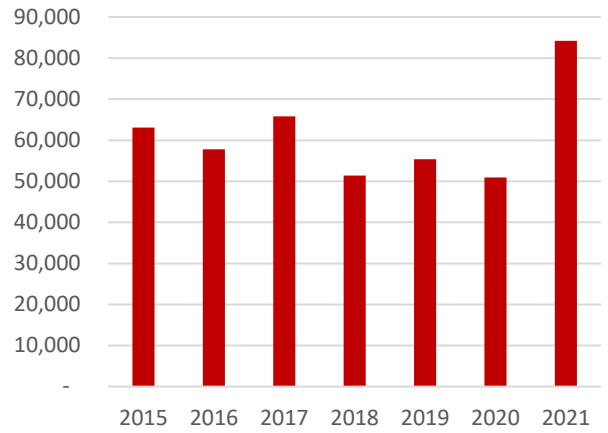
Dubai's Real estate sector contribution to GDP (%)



Number of real estate transactions-Dubai



Source: Dubai real estate sector performance 2021 annual report, Dubai statistics center, Dubai land department, Dubai Statistics center

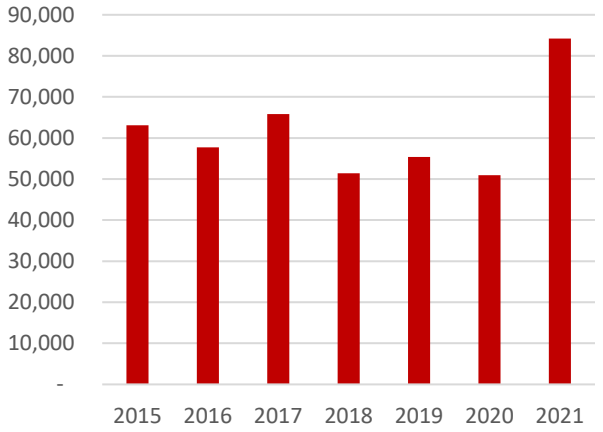
COVID-19 pandemic led to increased enquiries for UAE real estate from foreign buyers

In 2021, when the vaccines for COVID-19 were in short supply, the UAE government was one of the first few to secure large stock of vaccines. In addition to low incidence of infection, the UAE government already had golden visa scheme (5-year and 10-year) in place in 2019. These factors attracted foreign nationals to UAE with additional benefits such as quick and relatively seamless visa process, long term certainty (10-year visa period) which also created possibilities of long-term rental or purchase of property. The biggest incentive was immediate availability of vaccine, whereas in the western nations, there was a waiting period of several weeks to months. In 2021, around 44,000 golden visas were issued. Anecdotal research from media reports indicates large number of western nationals have purchased properties and moved to UAE considering the open culture and cosmopolitan mix of population. These enquiries resulted in a rebound in UAE property market, especially in the residential segment.

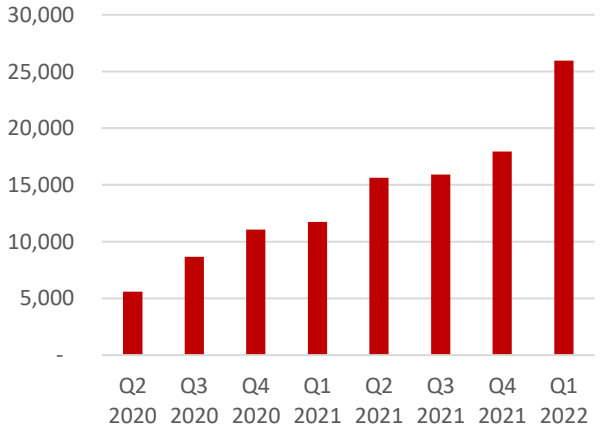
Dubai property market rebounded in 2021

Dubai registered 84,106 real estate transactions in 2021, the highest ever recorded in the history of Dubai. The extent of rebound can be gauged from the fact that the number of transactions were 50,909 during 2020 and 55,406 in 2019. Even though real estate transactions dipped from 2019 to 2020, the government reforms and economic recovery from the pandemic were encouraging signs for recovery in the real estate industry. On a quarterly basis, 2020 provided much needed momentum going into 2022 as number of sales transactions increased from 11,753 in Q1 2021 to 25,972 in Q1 2022, recording the highest number of real estate transactions in a single quarter since 2010.

Number of sales transactions-Dubai (Annual)



Number of sales transactions-Dubai (Quarterly)



Source: Dubai real estate sector performance 2021 annual report and 2021 data from Dubai land department

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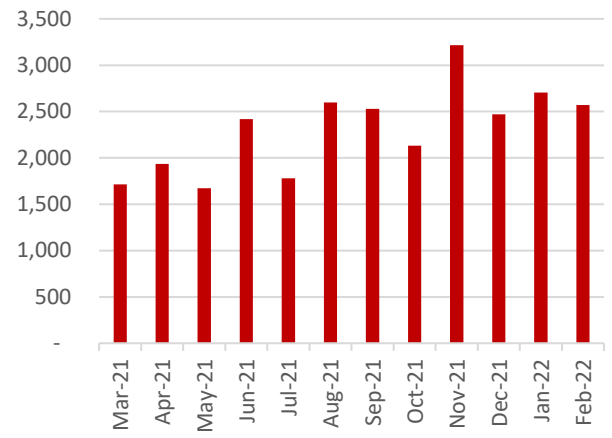
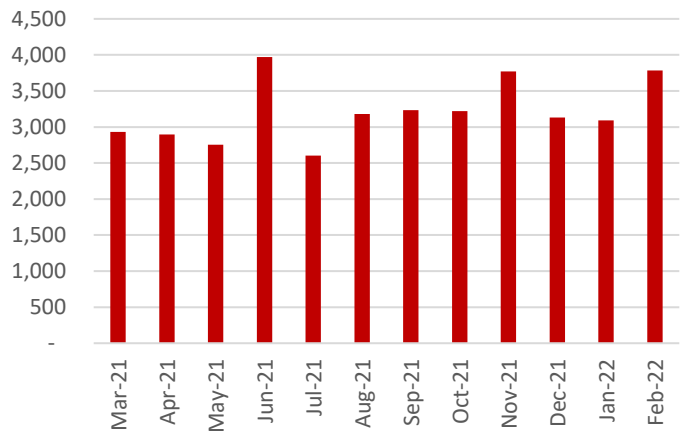
In addition, for the year 2021, the secondary/ready properties recorded sales transactions of 36,480 at a record of AED 105.5bn, the highest since 2008, whereas off-plan sales rebounded to in 2021 and transacted 24,761 properties at a value of AED 45.5bn. Going in to 2022, the month of march recorded the highest number of sales transacted at 8,399 at a value AED 22.58bn.

Off-plan sales transactions (Dubai)



Secondary/Ready properties sales transactions (Dubai)



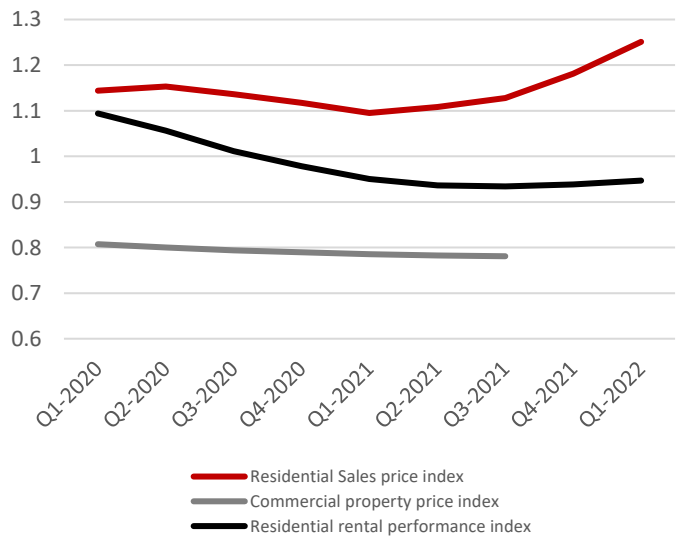
Source: Dubai Land Department (Monthly sales price index)

Residential UAE property market activity and price trends

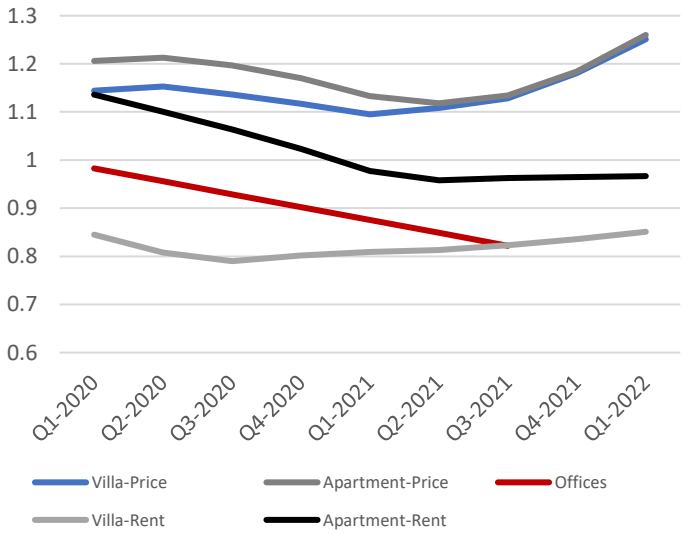
The residential property market in UAE consists of apartments as well as villas. Dubai delivered 37,000 residential units in 2021, of which only 16.0% (5,900 units) were in the villa segment which led to an increase in villa prices. The remaining 84.0% were the apartment units. For March 2022, Dubai's residential market transactions reached 7,865, 83.4% up from a year earlier. Average prices increased 11.3% to March 2022, which included apartment prices which increased by 10% and villa prices increasing by 20.2%.

On the price front, the residential sale price index in Dubai increased to a high of 1.251 in Q122. Due to growth of villa prices and apartment prices, which reached 1.251 and 1.260 respectively Q1-2022. The rents in Dubai also started recovering from Q221. Villa rents grew 5% for Q122 as compared to Q121 while apartment dropped marginally by 1% over the same period.

2020-2022-Overall price index (Dubai)



2020-2022-Property wise price index (Dubai)



Source: Dubai Land Department

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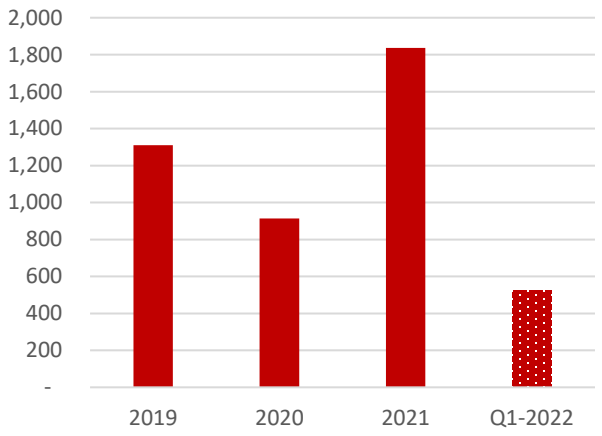
In Abu Dhabi, residential price performance and rental performance have been on a downtrend since 2018. 2019 and 2020 saw a drop as grade A and city-wide rent dropped by 12.25% and 5.00% respectively. But in 2021, it had a total of 265,000 property units with an over-supply of apartments and shortage of villas and townhouses.

UAE Commercial and Retail property market activity and price trends

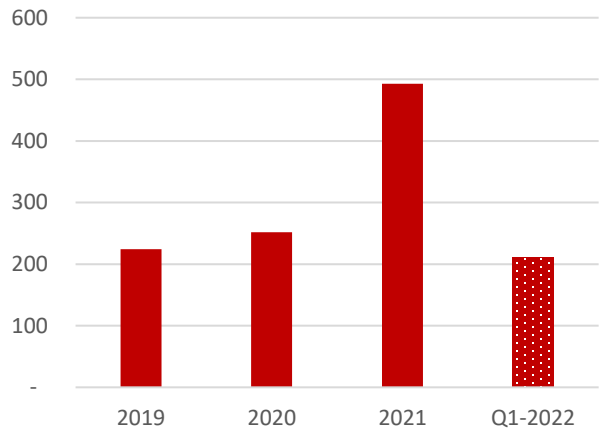
The year 2021 marked a turning point in the Dubai real estate segment. The market almost made a complete recovery to pre pandemic levels and increased confidence amongst business owners regarding the future. The number of total sales transactions were up 19% as compared to 2020 with increase in prices in sales and leasing.

The new laws introduced by the government have encouraged residents to invest in office space. The number of offices sold increased by 101% in 2021, to AED 1.29bn. The rents in Dubai office space have increased after 6 years in 2021. The increase in rents is caused by a controlled supply, which has been on a downtrend since 2019. Real estate sector analysts expect office supply to recover marginally in 2022 to 1.34 mn sq. ft before dropping down to 0.89 mn sq. ft in 2023.

Total office sales transactions-Dubai



Total retail sales transactions-Dubai



Source: CRC Dubai market review 2021 and Q1-2022

Expo 2020, which was postponed to 2021 due to the pandemic and resumption of travel to Dubai, led to Dubai registering 6 mn travelers in 11 months of 2021, higher than those of 2020. This increase has further led to an increase in footfall in retail space. Retail transactions have increased 96% in 2021 as compared to 2020, amounting to AED 690mn. Top communities for office sales include Business Bay and Jumeriah Lakes towers in Dubai. The increase in demand has also led to an increase in rents in grade A commercial spaces since 2014. As per CRC, the average office size for 2021 has increased by 9.0% while, average office deal value has increased by 11%. According to Bayut and Dubizzle, property prices in Abu Dhabi rose 9% for 1H 2021 as compared to same period in 2020 but started to slow down in Q3 2021. But at the end of the year, increase in residential sector assets were 2.2% while rental rates increased by 4.1% to 5.5% for office spaces.

In 2022, private sector occupation remained limited in Abu Dhabi, as more flexible working conditions for employees have led to a reduction in demand for traditional office spaces have remained rather under pressure. Average office rent in Q1 2022 for prime and grade A reduced by 7.9% and 3.9% respectively on a y-o-y basis.

Emergence of new segments like warehousing

The warehouse space in UAE has seen an improved demand due to the surge in the e-commerce sector. This growth in e-commerce has led to an increase in demand for storage and fulfilment centers. Since the conclusion of UAE's lockdown, the activity has steadily increased. Industrial areas such as Dubai Investment Park, National Industries Park have experienced most leasing activities. Rents in industrial warehouses in Dubai remained stable during Q221, providing hopeful signs since the fall in rent since 2015. Rents for warehouses in Dubai increased in Q221 whereas, they remained stable in Abu Dhabi.

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Even though the rents picked momentum in 2021, they remain at record lows as tenants look to lock in long term leases. In Dubai, new space requirements rose to 1.22mn sq. ft in Q221. Trends in 2022 continued as warehousing leases increased continued to recover. Grade A rents experiencing the highest recovery. The pandemic and the UAE government's response has led to a shift in consumer spending habits, leading to an increase in demand for warehousing facilities.

Outlook for 2022 looks to continue building on previous year's momentum, though steel supply from Ukraine could be impacted

As per CBRE, Dubai residential property market can face some headwinds in the year 2022 but expects villa and apartment sales to remain strong. Going ahead transaction volumes are expected to grow and demand to sustain. According to real estate consultancy Asteco, the UAE will see a supply of 38,500 apartments and 3,800 villas, of which 80%-90% will be accounted by Dubai. Master communities in Sharjah and Al Khaimah are also likely to see increase in supply. The off-plan segment, which saw record-breaking numbers in 2021 is not expected to cool down and the promising start of 2022 is expected to continue. However, amidst the war between Russia and Ukraine, developers in UAE are facing pricing issues which can have drastic impact on the supply and pricing of real estate. Many developers in UAE source structural steel from Ukraine, reduction in supply will have a prominent impact on price.

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Emaar Properties PJSC (Emaar Properties)

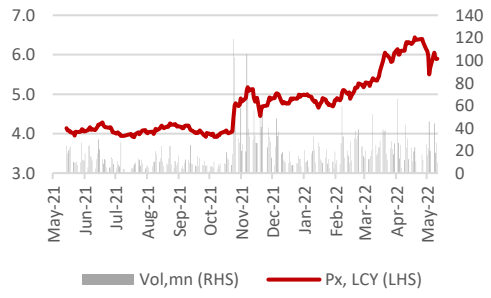
Target Price: AED 8.0

Upside: 35.8%

Recommendation	**Buy**
Bloomberg Ticker	EMAAR UH
Current Market Price (AED)	5.90
52wk High / Low (AED)	6.4 / 3.9
12m Average Vol. (mn)	18.5
Mkt. Cap. (AED bn)	48.3
Shares Outstanding (mn)	8,180
Free Float (%)	75.9%
3m Avg Daily Turnover (AED mn)	135.1
6m Average Daily Turnover (AED mn)	114.0
PE 2022e (x)	14.4x
EV/EBITDA 2022e (x)	8.9x
Dividend Yield '22e (%)	2.3%
Price Performance:	
1 month (%)	-6.2%
3 months (%)	17.8%
12 months (%)	42.5%

Source: Refinitiv, as of 20th May 2022

Price -Volume Performance



Source: Refinitiv

- **Diversified business model helps provide stability to revenues and earnings**
- **One of the largest real estate development companies in the UAE**
- **Rebound in the real estate development to drive earnings growth**
- **Large land bank may provide significant upside potential**

We initiate coverage on Emaar Properties PJSC (Emaar Properties) with a Buy rating and a target price of AED 8.0 per share, implying an upside of 35.8% to the last closing price (20 May 2022). Our target price implies a P/E'22e of 19.6x. The stock has rallied in the recent past, owing to the revival of the overall macroeconomic environment especially that of the real estate sector, significant unit sales, opening of existing malls and commencement of new malls, and increase in hotel revenues.

Investment Thesis

Valuation & Risks: Our valuation is based on a mix of discounted cash flows (45% weight), Net asset value (45% weight) and P/E multiple (10% weight). Key downside risks include a slowdown in the real estate market, especially, in the UAE, rise in the prices of key raw materials such as steel and cement. Key upside risks include faster than expected development and sale of the area in land bank, higher growth in the international segment.

Diversified business model adds stability to revenues and earnings

Emaar Properties has four business segments namely UAE real estate development, international development, malls, and hospitality. The rental, food and beverages and other revenues derived from the malls and hospitality segments are more stable than the revenues derived from the real estate development segments as the development segments are cyclical in nature. Thus, these segments help to provide stability to the business.

Development of Land Bank area to spur growth

As of 2021, Emaar Properties had a total available land bank of 331.3mn square feet (sqft) in the UAE and 1,339.8mn sqft in key international markets such as Egypt, Saudi Arabia and India. The availability of such a vast land bank has two benefits for Emaar Properties. First, the company does not need to invest more in land in the near to medium term. The second benefit is that development of such land will increase revenues and thus add to profits. This provides upside potential to the company.

Key Indicators

Year (In AED mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Sales	24,586	17,959	28,270	19,381	20,389	27,044
Gross profit	11,562	6,533	11,751	9,063	9,353	12,437
EBITDA	8,615	2,772	8,383	6,486	6,659	9,036
Operating profit	7,346	1,328	6,963	4,984	5,092	7,394
Net income	8,209	2,806	5,717	4,781	4,331	6,430
EPS	0.87	0.29	0.52	0.41	0.37	0.55
P/E (x)	4.6	12.4	9.4	14.4	15.9	10.7
EV/EBITDA (x)	6.4	18.3	6.9	8.9	8.7	6.4
Dividend yield (%)	0.0%	2.8%	3.1%	2.3%	2.1%	3.1%

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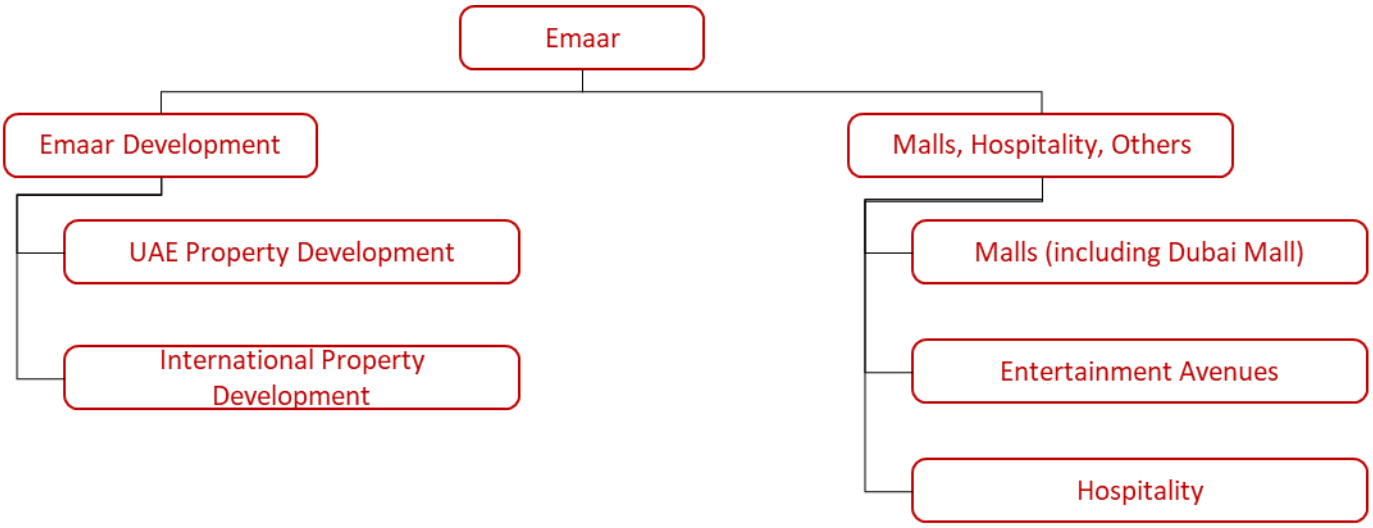
One of the top UAE Real Estate developers with large land bank

Emaar Properties is among the largest real estate developers in the UAE. It has developed popular projects such as the Burj Khalifa and Downtown Dubai. Furthermore, the company has a land bank of 331.3mn sqft in the UAE, and ~1,340 mn sqft outside of UAE in countries such as Saudi Arabia, India, Egypt, Pakistan, and Lebanon. The UAE land bank includes areas such as Emaar Beachfront, Arabian Ranches, and the Valley. The Saudi Arabian developments include 'Emaar The Economic City'. In addition to the development segment, the company has exposures to shopping malls and hospitality segments. The shopping mall portfolio of Emaar Properties includes the Dubai Mall, Dubai Marina, and Souk Al Bahar. These operations provide the company with a diversified exposure to residential, retail and office real estate segments.



Key features

Creation of Masterplans-centered projects
UAE Land bank of 331 mn sq ft
International land bank of 1,340 mn sq ft
Highest ever property sales AED 27bn in 2021
Access to premium land through JV/JDA with Government related entities
Geographical expansion to China, India, Saudi Arabia and other emerging economies

Key features

Over 90% occupancy and strong growth in footfalls in retail properties
H&L segment benefitted from Expo 2020
Pipeline of 28 more hotels under development
Rising occupancy rate and room rentals
Omni-channel retail presence through Namshi app

Strong macroeconomic environment to benefit Emaar Properties

Emaar is benefitting from the post pandemic rebound in the overall macroeconomic environment. In the real estate sector, 2020 was a bad year due to the pandemic, as property prices and sales declined. On the other hand, 2021 witnessed a strong rebound with demand and supply increasing to record highs. The rebound resulted in higher unit prices and strong demand levels which lead to a significant increase in development revenues. We expect growth in this segment to continue albeit at a slower pace owing to petering out of pent-up demand and the overall cooling down of the real estate market.

The reopening of economies has also increased travel and visits to shopping malls. While variants such as Delta did slow the pace of reopening, the harm done was lower than in 2020. The reopening, coupled with the strong real estate market, has led to an increase in rents and occupancy rates. Emaar owns and operates a portfolio of more than 36 retail assets with gross leasable area of 6.8 mn

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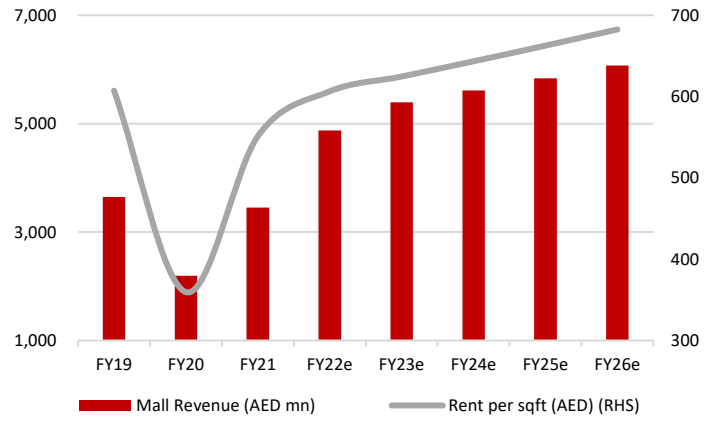
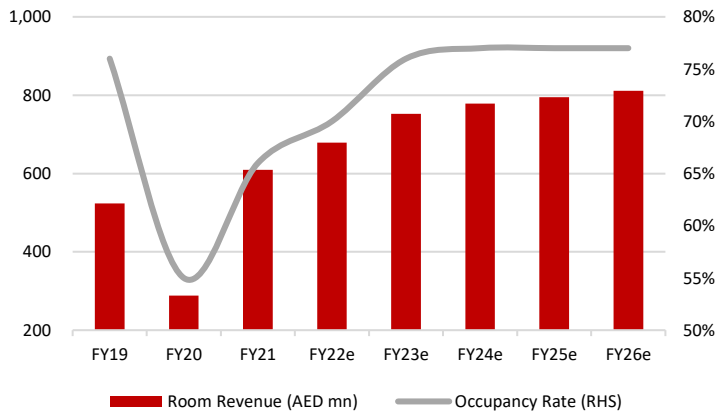
sqft (FY21). The first quarter of 2022 witnessed the launched of 2 mn sqft Dubai Hills mall which is one of the biggest malls in the UAE. Just within two months from its launch date (February 17, 2022), it has attracted over 231 tenants consisting of both international brands and home-grown concepts. Projects under development include ~110 thousand sqft TDM Boulevard Expansion which is expected to open in 2022 and ~385 thousand sqft Dubai Expo mall which is expected to open in 2H22. Emaar currently has 92% occupancy rate. We expect rental income from malls to grow, reaching the levels seen in FY19 in FY22e.

Given the increase in travel and leisure spending in 2021, the hospitality segment has performed well with RevPar (revenue per available room) higher than pre-pandemic levels in FY21. We expect occupancy rates to rise reaching close to pre-pandemic levels by FY23e. This rise will significantly contribute to revenue growth in this segment. Furthermore, development of hotels and service apartments on the Ras Al Khaimah plot can increase revenues and provide upside potential.

Rental Revenues from Mall Segment



Hospitality Revenues and Occupancy Rates



Strong dividend payout visibility on back of improved business performance

Emaar Properties is seen to maintain a dividend payout ratio of approximately 33% since FY20. The company did not pay any dividend in 2020 (for the previous year 2019) in order to maintain sufficient reserves to provide for the losses casued by the pandemic. The company paid a dividend of 10 fils per share for 2020 and plans to pay 15 fils per share for 2021 after getting approval from shareholders. We expect dividend payments to continue at the payout ratio of 33% of net profits for shareholders. This level of dividend payouts allow the company to retain cash for organic growth in the form of capex and property development, and inorganic growth in the form of acquisitions, if any.

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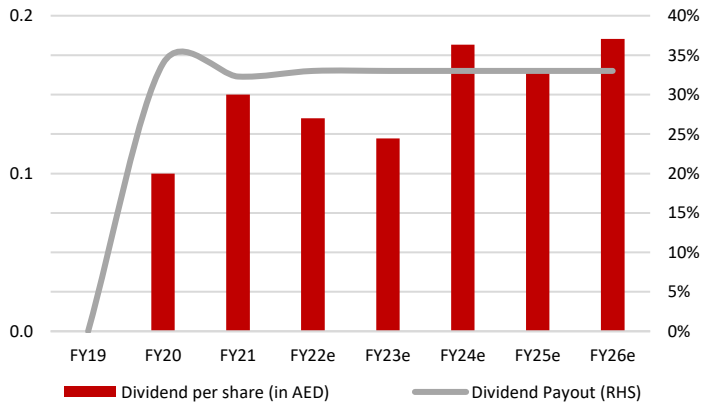
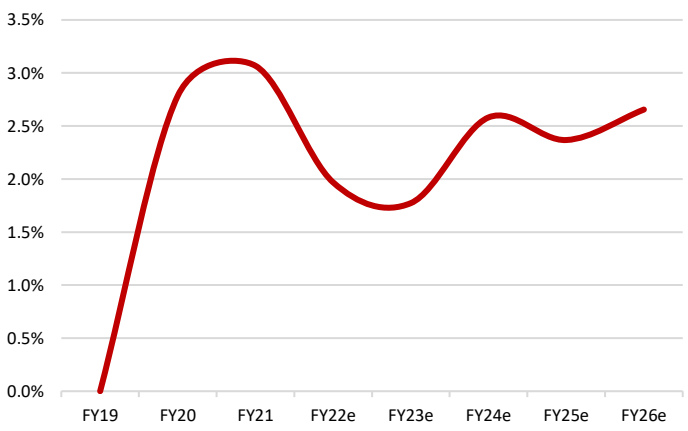
Dividend per share and Dividend Pay-out Ratio



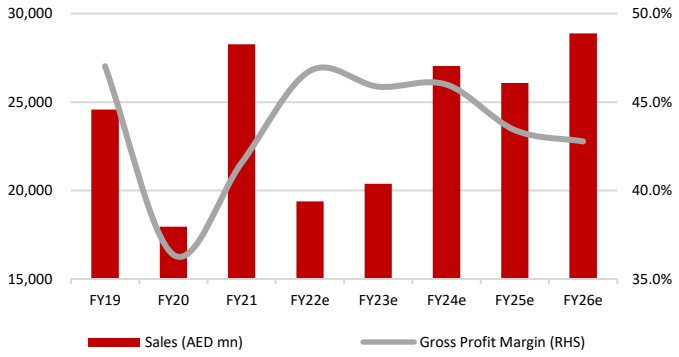
Movement in Dividend Yield



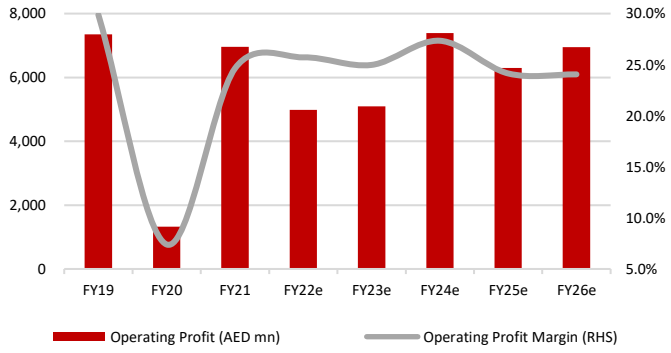
Inflation may cause margin pressure

Inflation has been rising across the globe. The post-pandemic recovery was closely followed by rise in prices of several commodities such as timber, steel, cement and so on. Rising inflation may increase pressure on margins and reduce profits. This may factor may be the cause some downside potential. Additionally, margins are expected to decline as the company sells units of higher margin projects and the projects with lower margins remain. We expect margins to increase in FY22 in the proximity of FY19 levels and then start declining in future years. The company may start new projects with higher margins which may support margins in the medium term. This may support further upside in the stock price and increase profits. Due to these factors we expect margins to decline in the future.

Sales and Gross Profit Margin



Operating Profit and Operating Profit Margin



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Relative valuation

We have given a weightage of 10% to the P/E multiple. The peer set includes the companies globally. At median peer P/E multiple of 18.0x, we arrive at target price of AED 7.3 per share.

Discounted Cash Flow

	FY22	FY23	FY24	FY25	FY26	Terminal Value
Pegged on May 20, 2022						
Time period index	0.62	1.62	2.62	3.62	4.62	4.62
Free cash flow						
PAT	3,346	3,032	4,501	4,087	4,594	
Interest (1-tax rate)	670	958	987	866	899	
Depreciation	1,502	1,566	1,642	1,716	1,793	
Changes in Working Capital	1,494	276	629	569	530	
Less: Capex	(1,880)	(1,978)	(2,488)	(2,400)	(2,657)	
Free cash flow to firm (FCFF)	5,132	3,854	5,271	4,838	5,159	64,954
Discounted FCFF	4,851	3,325	4,150	3,477	3,384	42,601

All figures in AED mn unless otherwise stated

Enterprise Value	61,787
Less: Net debt (Includes lease liabilities)	6,223
Equity Value	55,565
Shares O/S	8,180
Equity Value per share (in AED)	6.79
Current share price (AED)	5.9
% upside/downside	15.1%

Assumptions	
WACC	9.6%
Tax Rate	8.0%
Cost of debt / Lease Liabilities	4.1%
Cost of Equity	10.9%
Terminal growth rate	1.5%
Cost of equity calculation	
Risk Free Rate	4.1%
Beta	1.3
Equity Risk Premium	5.1%
Weights	
Debt	18.3%
Equity	81.7%

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Net Asset Value

	Carrying Book Value, AED mn	Fair Value, AED mn	Adj. to Book Value, AED mn	% of Adjusted NAV
Development Properties				
UAE	11,594	12,648	1,054	1%
International	5,925	10,952	5,027	7%
Development Assets	**40,534**	**23,600**	**(16,934)**	-22%
Investment in Associates				
Emaar, The Economic City	1,593	2,814	1,221	2%
Downtown DCP LLC	515	463	(51)	0%
DWTC Emaar LLC	496	447	(50)	0%
Turner International Middle East	266	239	(27)	0%
Zabeel Square LLC	256	230	(26)	0%
Eko Temali Parklar Turizm Işletmeleri Anonim Şirketi	200	180	(20)	0%
Emaar Industries and Investment (Pvt) JSC	143	129	(14)	0%
Amlak Finance PJSC	566	506	(60)	0%
Dead Sea Company for Tourist and Real Estate Investment	58	58	0	0%
Other associates and joint ventures	981	-	(981)	-1%
Associates	**5,075**	**5,067**	**(8)**	0%
Malls and Retail				
Operating Profit				
Emaar Malls excl. Namshi		41,049		
Namshi		5,763		
Mall Assets	**20,260**	**46,812**	**26,552**	35%
Hospitality				
Hospitality Assets	**4,491**	**7,736**	**3,246**	4%
Fair Value Adjustment to NAV	**70,359**	**83,215**	**12,856**	
Book Value of Equity Attributable to Common Shareholders			63,813	
Net Asset Value			**76,669**	
No. of shares			8,180	
Fair value of NAV per share			1.57	
Book Value of Equity Attributable to Common Shareholders per share			7.80	
Net asset value per share			**9.37**	
CMP			5.90	
Upside/downside			58.9%	

All figures in AED mn unless otherwise stated

We have arrived at the weighted average target price of AED 8.0 per share using discounted cash flows (45% weight), Net asset value (45% weight) and P/E multiple (10% weight).

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About Emaar Properties

Emaar Properties PJSC is based in Dubai, United Arab Emirates. The company is in the business of global property and development. It has various domestic and international real estate, malls, hospitality centers, community management centers, leisure, entertainment and other properties. Emaar is one of the largest and most prestigious real estate companies in the world having developed properties such as the Burj Khalifa, the Dubai Mall and many other large entertainment and real estate properties. The company also has a large presence outside UAE.

Operations/Segments

The company has three main business units, which are explained below.

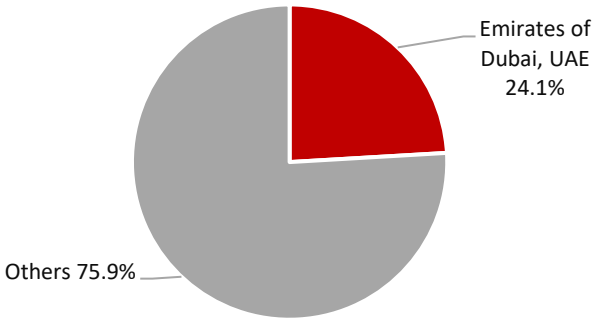
- Residential and real estate properties: This segment involves development and sale of real estate units in the UAE and foreign markets such as Egypt, India, Pakistan and Saudi Arabia.
- Malls: This segment includes providing leases to retail units in shopping malls. This segment also includes Namshi, an online shopping business which sells clothing through its website and app.
- Hospitality: The hospitality segment involves management of hotels under an asset-light model. The segment also includes the food and beverage business.

Geography

Emaar has a large presence in the UAE with projects such as Burj Crown, Downtown Dubai, Burj Khalifa, Arabian Ranches, golf estates, and beach estates. in the country. The company has also developed malls and mall assets in UAE. Internationally, the company has a presence in countries such as Egypt, India, Turkey, Pakistan, Saudi Arabia, Morocco, Lebanon and China, with projects of resorts, restaurants, golf resorts, hotels, beach properties, entertainment houses and many residential properties.

Ownership

The shareholding pattern of the company is given below



Source: Bloomberg

Recent M&A

In November 2021, Emaar Properties and Emaar Malls completed a merger with the mall operator delisting during the period. This resulted in the share capital of Emaar Properties in Emaar malls reaching USD 2.2 bn.

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Key financials

(AED mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Sales	24,586	17,959	28,270	19,381	20,389	27,044
COGS	(13,024)	(11,427)	(16,518)	(10,318)	(11,036)	(14,608)
Gross profit	**11,562**	**6,533**	**11,751**	**9,063**	**9,353**	**12,437**
SG&A expenses	(3,303)	(3,529)	(4,072)	(2,911)	(3,045)	(3,826)
Operating profit	**7,346**	**1,328**	**6,963**	**4,984**	**5,092**	**7,394**
Share of results of investments in associates and JVs	(128)	(582)	315	0	0	0
Other income – net	1,068	2,447	216	291	306	406
Finance charges	(1,163)	(1,096)	(1,295)	(728)	(1,041)	(1,073)
Income before tax	**7,904**	**2,614**	**6,124**	**5,196**	**4,922**	**7,307**
Income tax	306	192	(407)	(416)	(591)	(877)
Net income for the period	**8,209**	**2,806**	**5,717**	**4,781**	**4,331**	**6,430**
Balance Sheet						
Cash and bank balances	6,796	6,211	8,539	6,608	6,829	11,224
Prepayments and other current assets	7,826	6,821	6,041	6,041	6,041	6,041
Trade and other receivables	7,356	4,611	6,859	5,310	5,586	7,389
Inventories	0	0	0	0	0	0
Property, plant and equipment	10,900	8,785	9,157	10,725	10,832	11,175
Investments in joint ventures	4,923	5,290	5,550	5,075	5,075	5,075
Right of use assets	823	1,269	1,067	1,132	1,200	1,192
Total assets	**118,145**	**116,641**	**120,614**	**116,950**	**121,432**	**131,081**
Trade and other payables	16,129	16,275	17,369	12,366	13,166	17,221
Long-term borrowings	10,746	3,633	2,391	5,743	5,917	5,193
Lease liabilities	747	1,080	1,152	1,368	1,592	1,902
Share capital	7,160	7,160	8,180	8,180	8,180	8,180
Statutory reserve	15,220	15,220	17,318	17,318	17,318	17,318
Retained earnings	28,737	30,840	33,490	35,253	36,878	39,928
Total stockholders' equity	**53,449**	**55,539**	**61,715**	**63,813**	**65,740**	**69,241**
Total liabilities & stockholders' equity	**118,145**	**116,641**	**120,614**	**116,950**	**121,432**	**131,081**
Cash Flow Statement						
Cash from operating activities	618	2,137	10,759	1,357	3,887	11,827
Cash from investing activities	(1,254)	997	(2,786)	(1,230)	(1,413)	(1,908)
Cash from financing activities	(3,293)	(2,533)	(6,151)	(1,471)	(2,253)	(5,525)
Net changes in cash	(3,929)	601	1,822	(1,344)	221	4,394
Cash at the end of the period	5,158	5,764	7,583	5,533	5,754	10,149
Key Ratios						
Current ratio	1.1	1.5	1.7	1.1	1.1	1.6
Inventory turnover ratio	NA	NA	NA	NA	NA	NA
Debtors' turnover ratio	3.3	3.0	4.9	3.2	3.7	4.2
Creditors turnover ratio	0.8	0.7	1.0	0.7	0.9	1.0
Gross profit margin	47.0%	36.4%	41.6%	46.8%	45.9%	46.0%
Operating margin	29.9%	7.4%	24.6%	25.7%	25.0%	27.3%
Net profit margin	33.4%	15.6%	20.2%	24.7%	21.2%	23.8%
EBITDA margin	35.0%	15.4%	29.7%	33.5%	32.7%	33.4%
Average return on equity	11.6%	3.9%	6.5%	5.3%	4.7%	6.7%
Average return on assets	6.2%	1.1%	5.8%	4.3%	4.2%	5.6%
Debt/Equity (x)	0.4x	0.3x	0.3x	0.3x	0.3x	0.2x
Interest coverage ratio (x)	6.3x	1.2x	5.4x	6.8x	4.9x	6.9x
P/E	4.6x	12.4x	9.4x	14.4x	15.9x	10.7x
EV/EBITDA	6.4x	18.3x	6.9x	8.9x	8.7x	6.4x
EV/Sales	2.2x	2.8x	2.0x	3.0x	2.8x	2.1x
EPS (AED)	0.9	0.3	0.5	0.4	0.4	0.6
Dividend payout ratio	0.0%	33.9%	32.3%	33.0%	33.0%	33.0%
Dividend yield (%)	0.0%	2.8%	3.1%	2.3%	2.1%	3.1%
Net debt	17,053	15,427	10,485	13,904	14,485	7,989
Net debt/ EBITDA	1.98	5.57	1.25	2.14	2.18	0.88
ROCE	7.7%	1.4%	7.1%	5.1%	5.0%	7.0%

Source: Company Financials, U Capital Research

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Aldar Properties (Aldar Properties)

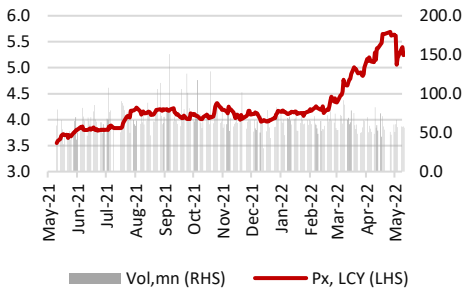
Target Price: AED 6.0

Upside: 14.9%

Recommendation	Accumulate
Bloomberg Ticker	ALDAR:UH
Current Market Price (AED)	5.3
52wk High / Low (AED)	5.7 / 3.6
12m Average Vol. (mn)	66.2
Mkt.Cap. (AED bn)	41.3
Shares Outstanding (mn)	7862.6
Free Float (%)	45.1%
3m Avg Daily Turnover (AED mn)	302.2
6m Average Daily Turnover (AED mn)	280.8
PE 2022e (x)	18.0x
EV/EBITDA 2022e (x)	12.7x
Dividend Yield '22e (%)	2.8%
Price Performance:	
1 month (%)	-2.2%
3 months (%)	23.2%
12 months (%)	44.6%

Source: Refinitiv, as of May 20, 2022

Price -Volume Performance



Source: Refinitiv

- **One of the largest real estate developers in UAE region**
- **Diversified business spanning development of land bank and income from investments**
- **Well capitalized for aggressive future growth plans, with recent USD 1.4bn investment by Apollo group**
- **Expanding geographical presence through foray into Egypt through SODIC**

We initiate coverage on Aldar Properties (Aldar) with a Accumulate rating and a target price of AED 6.0 per share, implying an upside of 14.9% to the last closing price (20 May 2022). Our target price implies a P/E'22e of 20.6x, and we believe that it is justified as the stock has rallied in the recent past, due to a strong revival in demand for real estate in the UAE region, diversified business model, recent funding from Apollo group and string of attractive acquisitions.

Investment Thesis

Valuation & Risks: Our valuation is based on a mix of discounted cash flows (45% weight), Net asset value (45% weight) and P/E multiple (10% weight). Key downside risks include a fall in real estate demand due to rising interest rates and price rises. Key upside risks include sustenance of high demand and higher interest from Russian clients due to ongoing geopolitical conflict.

Strong momentum in UAE real estate

Aldar has benefitted from renewed interest in UAE real estate from overseas investors and purchasers in the past two years, especially as a second home due to high incidence of COVID-19 in Europe. UAE government, with its focus on developing the region as an international business destination, has maintained a high profile of the region, thereby attracting continued interest from global companies and movement of expats to UAE.

Diversified business structure to provide long term stability

Aldar's business is divided into development of properties (one-time income) and earning income from leasing/services (recurring income). While development business is the core, Aldar has been steadily growing its recurring income businesses, thereby providing long term stability to revenues, apart from diversifying revenue base.

Well-funded for growth

Aldar recently received commitments from Apollo group of US for USD 1.4 bn investment. In combination with untapped credit facilities, and AED 9.1bn cash on books and 0.3x D/E ratio, Aldar appears well capitalized for future growth.

Key Indicators

Year (in AED mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Sales	7,148	8,392	8,576	11,270	12,270	13,339
Gross profit	2,770	2,983	3,600	4,488	4,813	5,182
EBITDA	2,459	2,443	2,801	3,215	3,475	3,764
Operating profit	2,191	2,168	2,547	2,913	3,079	3,309
Net income	1,925	1,932	2,333	2,315	2,516	2,787
EPS	0.25	0.25	0.29	0.29	0.32	0.35
P/E (x)	8.3	13.1	13.9	18.0	16.5	14.9
EV/EBITDA (x)	8.1	11.3	11.4	12.7	11.7	10.8
Dividend yield	7.0%	4.5%	3.7%	2.8%	2.8%	2.8%

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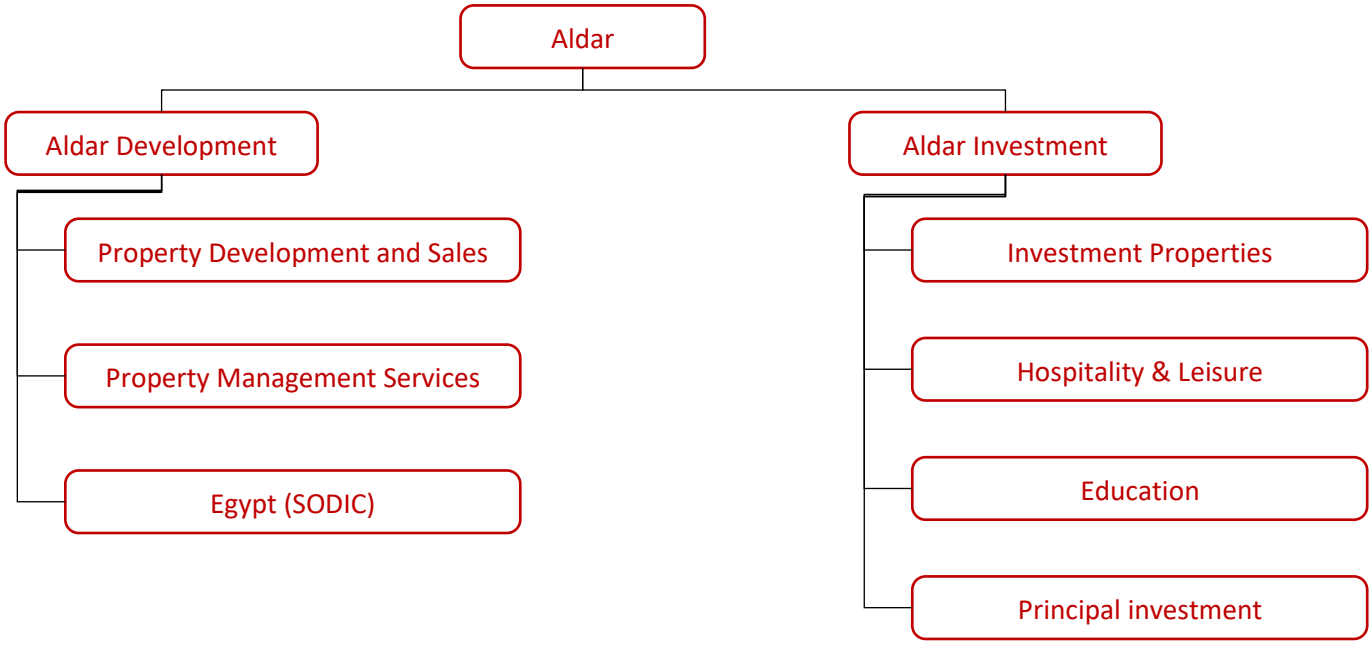
Strong business model diversified across multiple real estate business segments

Aldar is a leading real estate developer and investor in UAE, with a sprawling portfolio of projects, properties and businesses. The group is structured into Aldar Development (traditional real estate construction and sales business) and Aldar Investment (diversified set of properties and businesses including education). Within development business too, Aldar is diversifying through projects business (government fee-based business) and geographical expansion (SODIC of Egypt). In the investment business, Aldar has set up a group of properties across Retail, Hospitality, Leisure, Education and Principal Investment business (property management services and facility management services). Aldar is also on the lookout for setting up new verticals and has forayed into warehousing and logistics space through acquisitions. These wide set of businesses accord diversity in revenue base and provide opportunities for growth.



Key features

Land bank 69M SQM
Development Projects Revenue backlog of AED 5.6bn

Management Services Projects back-log of AED 41.2bn

Egypt revenue backlog of AED 4.9bn

Key features

60 Investment Properties
H&L consists of marquee 3-to-5-star hotels, golf courses, marina/beach clubs and facilities
Education segment consists of 20 schools with over 26,000 students
Principal Investment consists of Khidmah and Provis (facilities/property management businesses)

Strategy to pursue both geographic and segment diversification through organic as well as inorganic route

Aldar has pursued a strategy of inorganic growth through a series of transactions

- **Abu Dhabi Business Hub**: In April 2022, Aldar acquired a 70% in Abu Dhabi Business Hub, which owns a warehousing, industrial and office complex in the emirate. The deal was valued at more than AED 500 mn (USD 136m). Abu Dhabi Business Hub's complex has a total net lettable area of 166,000 square metres and comprises three office buildings, 132,000 square metres of warehouses and undeveloped industrial land plots for future expansion. With this acquisition, Aldar Investment has setup a separate logistics vertical as it seeks to increase its allocation across the sector. Based on current

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prevailing rentals for warehouses and office space in the region, we estimate Abu Dhabi Business Hub to have annual revenue in the range of AED 55-60mn. Compared to Aldar's current revenue base of AED 8.5bn in 2021, Abu Dhabi Business Hub is relatively small contributor, but given the growth in warehousing industry in the region, it provides Aldar with an entry into a fast-growing segment.

- **Rixos Bab Al Bahr**: During March of 2022, Aldar Properties acquired 'Rixos Bab Al Bahr', a beach property in Ras Al Khaimah at a value of USD 210 mn, with additional development rights for 250,000 sq. ft of gross floor area.
- **Al Hamra Mall**: In February 2022, Aldar Properties acquired Al Hamra Mall in Ras Al Khaimah for a total consideration of AED 410 mn.
- **TDIC Assets**: In May 2018, Aldar Properties AED 3.7 bn worth of assets from Tourism Development & Investment Company (TDIC). The acquired asset portfolio comprised of 14 operating assets within various sectors ranging from hospitality, retail, residential, education and infrastructure, in addition to a selection of prime strategic land plots and projects under development on Saadiyat Island (location of Louvre Abu Dhabi).
- **International Towers**: In 2017, the company acquired an office building, International Towers, located in Abu Dhabi, for USD 179 mn.
- **Sorouh Real Estate**: In 2013, Aldar Properties and Sorouh Real Estate entered a merger.

The above are only select transactions, and the company regularly engages in transactions related to expanding land bank, acquiring properties and investments into operating businesses in Hospitality, Leisure, Schools, Property management services, among other businesses in the real estate sector.

Acquisition of SODIC of Egypt marks first geographical expansion outside of UAE

In December 2021, Aldar acquired a majority stake in one of Egypt's leading real estate companies, SODIC, through a consortium (including ADQ) to acquire 85.52% of SODIC (deal was valued at USD 387 mn). Aldar's ownership in SODIC is 59.9%. The acquisition marked Aldar's first entry into an international market outside of UAE.

SODIC is one of Egypt's leading real estate companies with over 25 years of developing large-scale, mixed-use communities in West Cairo, East Cairo, and the North Coast. The business model comprises of developing residential, retail, and commercial properties. In 2021, SODIC delivered 1,163 units across its projects, with gross contracted sales recorded at EGP 11.36 bn (AED 2.66 bn). In September 2021, SODIC acquired a 123-acre land plot directly adjacent to West Cairo project "The Estates" that will serve as an extension to the existing project. Also, in September 2021, SODIC signed a partnership agreement for a 280-acre plot on the North Coast and launched "June" project on the plot. Overall, the company has a sales backlog of AED 5.3 bn and 4.85 mn square meters of unlaunched land, indicating potential for future growth. The company is headquartered in Cairo and listed on the Egyptian stock exchange (EGX).

Increasing revenue and profit of investment properties business

The investment properties segment of Aldar provides recurring revenues through investments across businesses ranging from leased properties (commercial, retail, residential), hospitality (hotels, golf courses, beach clubs), education (schools) and facilities management/property management services (Khidmah and Provis). Although investment properties segment contributes close of 30% of Aldar revenues (based on Q122 results), this is a higher margin business line (44% EBITDA margin vs 27% EBITDA margin of Aldar Development business, based on Q122 results). Aldar has been growing the investment properties business steadily, thereby providing steady cashflow visibility into the near to medium term future.

Each of the four lines of investment properties business is performing well. The leased properties portfolio consists of 60 properties across commercial, residential, and retail segment. Key properties include landmarks such as International Tower, The Bridges, and Yas Mall. The occupancy ratio of the properties range between 91% to 95%, and the weighted average unexpired lease term (WAULT) ranges between 3.3 to 4 years, indicating stability in revenue over the next three to four years. The hospitality segment consists of marquee assets such as Radisson Blu hotel, Yas Links Golf club, and Saadityat Beach club, among many others. The education segment consists of 4 ADNOC schools, 7 charter schools, in addition to 8 Aldar Academies schools (incl. Cranleigh)

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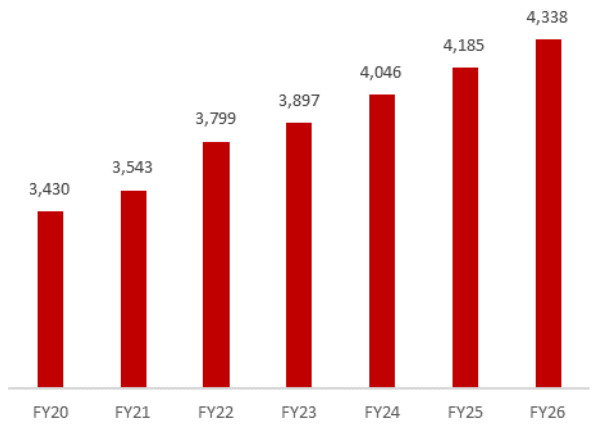
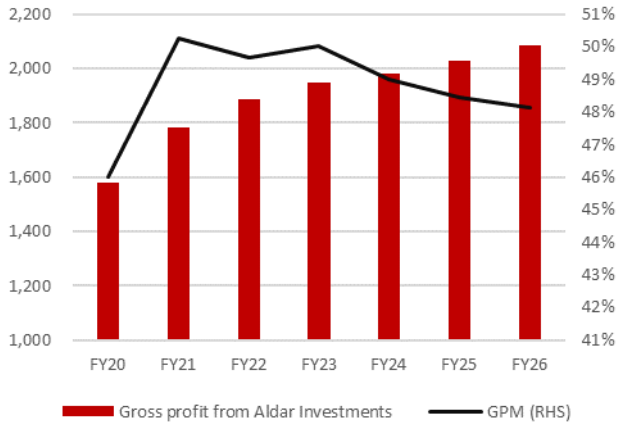
and a nursery, having existing enrollment of around 26,000 students with the aim to increase enrollments to 40,000 students by 2024-25 academic year. As a natural extension of the core property development and investment business, the Khidmah (facility management solutions focused on domestic, commercial and retail) and Provis (sales and leasing, property management, consultancy services and valuation advisory) units provide opportunity for Aldar for continuing to build on its strengths as a leading developer and investor in real estate.

Revenue from investment properties (AED mn)



Gross Profit from investment properties (AED mn)



Source: Company Data

Development Sales business poised for strong growth on back of land bank and projects pipeline

The property development/sales business is the core business of Aldar, contributing over 70% of total sales (based on Q122 results). Over the years, Aldar has developed several landmark projects and successfully delivered them (over 91% of developed units sold). Aldar has access to a large land bank of around 69m sqm which is being monetized through master planning/development and ongoing investment. During FY21, the company benefitted from overseas and resident expat customer segment showing increasing interest in UAE region for real estate, enabling the company to book a record high AED 7.2bn in sales for the year. In terms of future project developments, the company is focused on Yas Island among others. Yas Island is a popular leisure island and one of the top tourism projects in Abu Dhabi. It holds the Yas Marina Circuit, which has hosted the Formula One Abu Dhabi Grand Prix since 2009, thus attracting international client interest and a premium real estate destination.

The company has also diversified the development segment partly by taking up development of projects on a fee basis under the project management services sub-segment. These are fixed-price contracts taken up on fee basis. The company has current backlog of AED 41.2 bn, or ~30x 2021 project management services revenue of AED 1.39bn.

Aldar is well funded for future growth

Aldar plans to deploy over AED 9-10 bn of capital in its investment portfolio over next 12 to 18 months. However, the company is well funded to meet its aggressive investment and development plans. As of March 2022, the company has AED 9.1 bn cash and AED 4.9 bn of unutilized credit facility.

In February 2022, the company raised USD1.4bn from Apollo group of US through multiple avenues, thereby becoming the recipient of one of the largest foreign direct investments into Abu Dhabi's private sector. The total commitment was divided into three components as follows

- Apollo to take direct minority stake in Aldar Investment Properties with a USD 400 mn equity investment. The investment is a combination of USD 300 mn Mandatory Convertible Preferred Equity investment and USD 100 mn Common Equity investment. The deployment of USD 100 mn in the common equity is immediate while USD 300 mn preferred equity will be

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mandatory convertible into fixed number of shares at the third anniversary the closing date and will carry a fixed rate of interest.

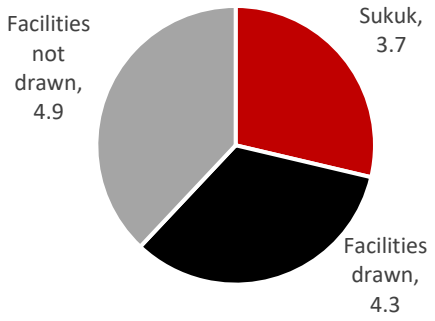
- USD 500 mn investment into a new land joint venture with Aldar for a portion of Aldar's 65 mn sqm landbank
- USD 500 mn invested in Perpetual Subordinated Notes issued by Aldar Investment Properties. The notes will not have a defined maturity date and will carry a fixed rate of interest of 5.625% for the first 15 years (non-call period) thereafter being reset every 5 years.

Apart from Aldar, even its recent Egyptian acquisition SODIC appears well capitalized. In July 2021, SODIC successfully closed its first securitization bond issuance for a gross receivables' portfolio of some EGP 384 mn (AED 89.8 mn). Shortly afterwards, in October 2021, SODIC signed EGP 1.57 bn (AED 367 mn) Long Term Syndicated Facility to finance its flagship development, SODIC West.

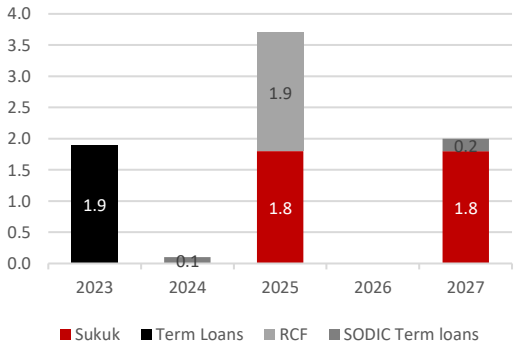
Debt maturity timetable manageable with current capitalization

Aldar's overall outstanding debt of AED 7.9 bn is due for repayment over a medium to longer term period and is well spread out. With cash on books of AED 9.1 bn and undrawn credit facility of AED 4.9 bn, and strong cashflow generation from existing businesses, Aldar is expected to be able to handle not only debt repayments well, but also have sufficient ready to deploy cash for potential future acquisitions of properties and businesses. Further, existing debt to equity ratio of 0.3x, Aldar has scope to further leverage its strong portfolio of assets and alleviate any concerns on availability of funding for growth.

Aldar Debt and Facilities Breakdown (AED bn)



Debt repayment schedule of existing outstanding (AED bn)



Source: Company Reports

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Relative valuation

We have given a weightage of 10% to the P/E multiple. The peer set includes the companies globally. At median peer P/E multiple of 17.5x, we arrive at target price of AED 5.1 per share.

Discounted Cash Flow

	FY22e	FY23e	FY24e	FY25e	FY26e	Terminal Value
Pegged on	May 20, 2022					
Time period index	0.62	1.62	2.62	3.62	4.62	4.62
Free cash flow						
PAT	2,298	2,497	2,766	3,113	3,513	
Interest (1-tax rate)	312	282	232	181	132	
D&A	302	395	454	470	476	
Changes in Working Capital	319	11	48	74	112	
Capex	(4,022)	(4,023)	(1,025)	(227)	(229)	
Free cash flow to firm (FCFF)	(790)	(837)	2,475	3,611	4,004	64,973
Discounted FCFF	(755)	(742)	2,035	2,756	2,836	46,015

All figures in AED mn unless otherwise stated

Enterprise Value	52,144
Less: Net debt	(1,132)
Equity Value	53,277
Shares O/S	7,863
Equity Value per share	6.8
Current share price (AED)	5.3
% upside/downside	29.1%

Assumptions	
WACC	7.8%
Tax rate	3.1%
Cost of debt / Lease Liabilities (A-T)	4.3%
Cost of Equity	8.7%
Terminal growth rate	1.5%
Cost of equity calculation	
Risk-Free Rate	3.4%
Beta	0.9
Equity Risk Premium	5.8%
Weights	
Debt	21.3%
Equity	78.7%

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Net Asset Value

	Carrying Book Value, AED mn	Fair Value, AED mn	Adj. to Book Value, AED mn.	% of Adjusted NAV
Development Properties				
UAE	8,933	24,260	15,327	35%
International (SODIC)	997	489	(508)	-1%
Total Value	**9,930**	**24,748**	**14,818**	34%
Fee based development	**3,759**	**3,759**	**-**	0%
Key assumptions				
Cap rate	5%			
Yield	5%			
Investments properties (total assets value)				
Investment properties	19,497	19,032	(465)	-1%
Hospitality & leisure	2,073	1,402	(671)	-2%
Education	757	2,459	1,702	4%
Principal investments	933	1,227	294	1%
Total value of investment properties	**23,261**	**24,120**	**859.6**	2%
Cap Rates				
US All types	5.5%			
US Residential	5.2%			
US Retail	6.0%			
US Hospitality	8.4%			
5-year UAE CDS Spread	1.2%			
UAE All types	6.7%			
UAE Residential	6.3%			
UAE Retail	7.1%			
UAE Hospitality	9.6%			
Total value of investment in JV and associates	**109**	**109**	**-**	0%
Fair Value Adjustment to NAV			**15,678**	
Book Value of Equity Attributable to Common Shareholders, 1Q'22			27,518	
Net Asset Value			**43,196**	
No. of shares			7,863	
Fair value of NAV per share			1.99	
Book Value of Equity to common shareholders per share			3.50	
Net asset value per share			**5.49**	
CMP			5.25	
Upside/(downside)			4.6%	

All figures in AED mn unless otherwise stated

We have arrived at the weighted average target price of AED 6.0 per share using discounted cash flows (45% weight), Net asset value (45% weight) and P/E multiple (10% weight).

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About Aldar Properties

Headquartered in Abu Dhabi, UAE, Aldar is a real estate development, construction, management and investment company. It was formed in 2004 and is listed on the Abu Dhabi Securities Exchange. The company is the largest property developer in Abu Dhabi and one of the largest in the UAE. The company deals in various markets such as residential, retail, commercial, hotels, education and Khidmah.

Operations/Segments

The development business of Aldar Properties (Aldar Developments) has two main divisions: Property development and Sales. The divisions are responsible for project development and marketing activities.

The company has so far developed more than 31,000 residential properties. It has many retail and commercial properties such as shopping malls, business parks, etc. Aldar owns many hotels on Yas Island in Abu Dhabi for the leisure business.

The company has a wholly owned subsidiary, Aldar Education which operates its own schools and manages schools owned by the state government. The real estate services of the company comprise Khidmah, a facility management business that undertakes, property management, leasing and sales, consultancy services and valuation advisory services.

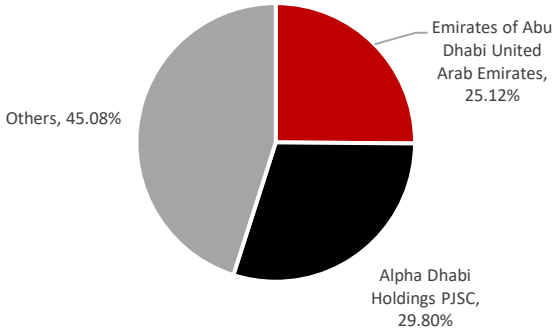
Another business unit of Aldar Properties is Aldar Investments. The business unit owns and manages a diverse real estate portfolio located in Abu Dhabi.

Geography

Aldar Properties PJSC has operations mainly in the United Arab Emirates. In 2021, the company expanded in Egypt in the business of developing large-scale and mixed-use communities.

Ownership

The shareholding pattern of the company is given below



Source: Bloomberg

Recent M&A

During March of 2022, Aldar Properties acquired 'Rixos Bab Al Bahr', a beach property at a value of USD 210 mn.

In 2021, Aldar Properties PJSC acquired SODIC, an Egypt based focused on the development of mixed-use and large-scale communities in West Cairo, East Cairo and the North Coast. The deal was valued at USD 387 mn for a shareholding of 85.52%.

In 2013, Aldar Properties and Sorouh Real Estate entered into a merger.

In 2017, the company acquired an office building, International Towers, located in Abu Dhabi, for USD 179 mn.

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Key financials

(AED mn)

Income Statement	FY19	FY20	FY21	FY22e	FY23e	FY24e
Sales	7,148	8,392	8,576	11,270	12,270	13,339
COGS	(4,378)	(5,409)	(4,976)	(6,781)	(7,457)	(8,156)
Gross profit	**2,770**	**2,983**	**3,600**	**4,488**	**4,813**	**5,182**
SG&A expenses	(895)	(1,083)	(1,363)	(1,581)	(1,737)	(1,877)
Finance charges	(350)	(311)	(266)	(551)	(519)	(469)
Finance income	84	67	48	32	36	36
Income before tax	**1,925**	**1,932**	**2,333**	**2,390**	**2,591**	**2,872**
Zakat and Income tax	0	0	0	(75)	(75)	(85)
Net income for the period	**1,925**	**1,932**	**2,333**	**2,315**	**2,516**	**2,787**
Balance Sheet						
Cash and bank balances	5,686	5,498	8,857	7,851	3,511	4,333
Plots of land held for sale	4,797	4,789	5,138	5,138	5,138	5,138
Inventories	1,053	892	1,029	1,191	1,297	1,410
Property, plant and equipment	3,505	2,962	3,557	7,285	10,921	11,501
Investment properties	16,782	16,463	18,026	18,242	18,461	18,683
Intangible assets and goodwill	192	28	293	285	276	268
Total assets	**41,267**	**40,233**	**49,543**	**53,546**	**53,817**	**56,229**
Trade and other payables	5,774	4,483	7,549	8,843	9,548	10,319
Bank borrowings	4,483	4,334	4,699	4,299	2,399	2,299
Lease liabilities	352	340	333	328	323	318
Share capital	7,863	7,863	7,863	7,863	7,863	7,863
Statutory reserve	3,931	3,931	3,931	3,931	3,931	3,931
Retained earnings	13,058	13,850	15,045	16,202	17,560	19,186
Total stockholders' equity	**24,838**	**25,631**	**26,922**	**28,079**	**29,437**	**31,063**
Hybrid equity instrument	0	0	0	1,821	1,821	1,821
Total liabilities & stockholders' equity	**41,267**	**40,233**	**49,543**	**53,546**	**53,817**	**56,229**
Cash Flow Statement						
Cash from operating activities	1,303	1,400	5,800	2,985	2,973	3,340
Cash from investing activities	566	505	(1,359)	(4,238)	(4,242)	(1,247)
Cash from financing activities	(973)	(1,609)	(1,643)	246	(3,071)	(1,271)
Net changes in cash	896	296	2,797	(1,006)	(4,340)	822
Cash at the end of the period	2,290	2,586	8,857	7,851	3,511	4,333
Key Ratios						
Current ratio	2.69	3.20	2.38	2.13	1.76	1.77
Inventory turnover ratio	5.75	5.56	5.18	6.11	5.99	6.03
Debtors' turnover ratio	1.55	1.74	1.37	1.50	1.48	1.49
Trade payables ratio	0.78	1.05	0.83	0.83	0.81	0.82
Gross profit margin	38.7%	35.5%	42.0%	39.8%	39.2%	38.9%
Net profit margin	26.9%	23.0%	27.2%	20.5%	20.5%	20.9%
EBITDA margin	34.4%	29.2%	32.7%	28.5%	28.3%	28.2%
Average return on equity	7.8%	7.6%	8.7%	7.9%	8.0%	8.5%
Average return on assets	4.8%	4.7%	5.2%	4.5%	4.7%	5.1%
Debt/Equity (x)	0.33	0.31	0.30	0.26	0.19	0.18
P/E	8.3	13.1	13.9	18.0	16.5	14.9
EV/EBITDA	8.1	11.3	11.4	12.7	11.7	10.8
EV/Sales	2.8	3.3	3.7	3.6	3.3	3.1
EPS (AED)	0.25	0.25	0.29	0.29	0.32	0.35
Dividend payout ratio	57.5%	59.0%	50.9%	49.6%	45.7%	41.2%
Dividend yield (%)	7.0%	4.5%	3.7%	2.8%	2.8%	2.8%
Net debt	2,461	2,507	(480)	133	2,584	1,672
Net debt/ EBITDA	1.0	1.0	-0.2	0.0	0.7	0.4

Source: Company Financials, U Capital Research

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BUY	Greater than 20%
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