

## Emaar Development

New property launches and strong sales to drive profitability

### 3Q22 net profit lower than our estimate

Emaar Development PJSC (EMAARDEV/The Company) net profit decreased 25.7% YOY to AED 648 Mn in 3Q22, significantly lower than our estimate of AED 1,120 Mn. The decline in performance was primarily due to a decrease in revenue led by lower sales of residential units and also due to a decline in sales from commercial plots and other units

### P&L Highlights

Total revenue declined 46.6% YOY to AED 2,057 Mn in 3Q22 mainly due to the lower sale of residential units and commercial plots and other units. Revenue from the sale of residential units decreased significantly from AED 3,413 Mn in 3Q21 to 1,697 Mn in 3Q22. The revenue from the sale of commercial units, plots of land, and development services declined 17.5% YOY to AED 360 Mn in 3Q22. Cost of revenue also decreased from AED 2,421 Mn in 3Q21 to AED 1,149 Mn in 3Q22. As a result, gross profit declined 36.4% YOY to AED 908 Mn in 3Q22, with an increase in gross profit margin from 37.1% in 3Q21 to 44.2% in 3Q22 supported by increase in gross margin of residential unit partially offset by decline in margin of Commercial Units, plots of land and development services. Selling and general expenses declined 31.5% YOY to AED 269 Mn in 3Q22 mainly due to the reduction in the sales and marketing expenses and a decrease in property management expenses. Resultantly, operating profit fell 38.2% YOY to AED 639 Mn in 3Q22 with an increase in operating profit margin from 26.9% in 3Q21 to 31.1% in 3Q22. EBITDA fell 37.6% YOY to AED 705 Mn in 3Q22. Finance income rose from AED 13 Mn in 3Q21 to AED 151 Mn in 3Q22 mainly due to increased income from fixed and call deposits with banks. While finance cost rose 40.3% YOY to AED 90 Mn in 3Q22. Other income rose from AED 11 Mn in 3Q21 to AED 21 Mn in 3Q22. While the share of result of the joint venture decreased to AED 43 Mn in 3Q22 from AED 80 Mn in 3Q21. As a result, profit before NCI declined 28.9% YOY to AED 764 Mn in 3Q22. Share to non-controlling interest reduced from AED 204 Mn in 3Q21 to AED 116 Mn in 3Q22.

### Balance Sheet Highlights

The Company's total debt rose from AED 2.9 Bn in 2Q22 to AED 3.3 Bn in 3Q22. Debt to EBITDA of the company rose from 0.62x in 2Q22 to 0.78x in 3Q22. Cash and cash equivalents stood at AED 10 Bn in 3Q22. During 9M22, the Company generated AED 4.95 Bn cash from operations as compared to AED 2.61 Bn in 9M21. Thus, free cash flow increased from AED 2.60 Bn in 9M21 to AED 4.9 Bn in 9M22.

### Target price and recommendation

We maintain our BUY rating on Emaar Development with an unchanged target price of AED 5.50. Emaar Development's recorded property sales of AED 23.1 Bn in 9M22 as compared to AED 20.9 Bn in 9M21. In addition, the Company launched twenty projects in various master developments during 9M22. EMAARDEV posted a record sales backlog of AED 37.2 Bn, which will translate into revenue over the next 3-4 years providing strong visibility. Emaar Development delivered over 4,700 residential units in 9M22 across

**Rating : BUY**

### First Look Note – 3Q22

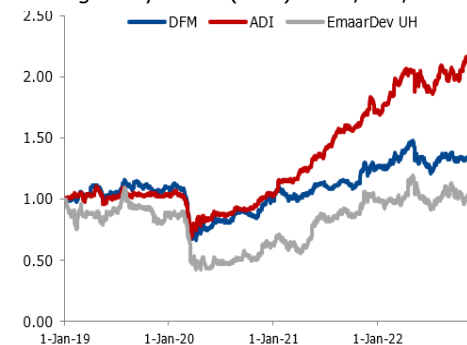
**Sector: Real Estate**

#### Recommendation

Current Price (24-Nov-22)	4.29
Target Price (AED)	5.50
Upside/Downside (%)	+28.2%

#### Stock Information

Market Cap (mm)	17,160.00
Paid Up Capital (mm)	4,000.00
52 Week High	5.32
52 Week Low	4.02
3M Avg. daily value (AED)	15,166,970



#### Financial Ratios

Dividend Yield (12m)	0.00
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	4.64
Price-to-Book Ratio (x)	0.99
Book Value (AED)	4.33
Return-on Equity (%)	23.89
Earning Per Share (AED)	0.93
Beta	1.05

#### Stock Performance

5 Days	-3.38%
1 Months	-5.09%
3 Months	-10.63%
6 Months	-6.74%
1 Year	-3.81%
Month to Date (MTD)	0.23%
Quarter to Date (QTD)	-6.54%
Year to Date (YTD)	-1.83%

prime locations in the UAE. The Company also holds exclusive access to 268 Mn square feet (sq ft) land bank in UAE through partnerships with GREs, government, and large owners of the land bank. This partnership enables Emaar Development to make a minimum upfront cash investment in land acquisition. Even, the construction cost of the project is self-funded since 60-70% of the projects are pre-sold and 20-30% cash is collected upfront by the time project starts construction. This helps the Company in achieving robust financial performance. EMAARDEV also maintained healthy liquidity with a cash balance (including cash in escrow) of AED 10 Bn with a debt of AED 3.3 Bn in 3Q22. The company also has a high-cash-flow-generating business, underlining its strong fundamentals with approximately 26,200 residential units under construction and scheduled to be delivered. Furthermore, we expect the company to perform better owing to the huge demand from investors to invest in Dubai's real estate. Considering all these factors, we assign a BUY rating on the stock.

#### Emaar Development - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E	4.40	6.36	10.35	5.29	4.68
P/B	2.16	1.79	1.53	1.18	0.94
EV/EBITDA	3.00	5.26	8.53	3.79	3.32
Dividend Yield	6.1%	NM	NM	NM	4.7%

FABS Estimates & Co Data

#### Emaar Development - P&L

AED mm	3Q21	2Q22	3Q22	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	3,849	3,714	2,057	3,719	-44.7%	-46.6%	-44.6%	15,602	12,299	-21.2%
Cost of revenue	-2,421	-2,122	-1,149	-2,138	-46.3%	-52.6%	-45.9%	-9,867	-6,980	-29.3%
<b>Gross profit</b>	<b>1,428</b>	<b>1,592</b>	<b>908</b>	<b>1,581</b>	<b>-42.5%</b>	<b>-36.4%</b>	<b>-42.9%</b>	<b>5,735</b>	<b>5,320</b>	<b>-7.2%</b>
SG&A Expenses	-393	-332	-269	-336	-19.9%	-31.5%	-19.1%	-1,654	-1,233	-25.4%
<b>Operating Profit</b>	<b>1,035</b>	<b>1,260</b>	<b>639</b>	<b>1,245</b>	<b>-48.6%</b>	<b>-38.2%</b>	<b>-49.3%</b>	<b>4,081</b>	<b>4,086</b>	<b>0.1%</b>
<b>EBITDA</b>	<b>1,129</b>	<b>1,305</b>	<b>705</b>	<b>1,290</b>	<b>-45.4%</b>	<b>-37.6%</b>	<b>-46.0%</b>	<b>4,389</b>	<b>3,665</b>	<b>-16.5%</b>
Finance income	13	43	151	45	234.6%	1061.8%	248.9%	124	275	121.8%
Finance cost	-64	-65	-90	-58	54.4%	40.3%	38.2%	-268	-306	14.1%
Other income	11	18	21	19	13.5%	94.3%	14.7%	61	80	31.3%
Share of assoc & JV's	80	25	43	25	72.5%	-47.0%	72.5%	235	166	-29.4%
<b>Profit for the year</b>	<b>1,075</b>	<b>1,281</b>	<b>764</b>	<b>1,275</b>	<b>-40.1%</b>	<b>-28.9%</b>	<b>-40.4%</b>	<b>4,233</b>	<b>4,300</b>	<b>1.6%</b>
NCI	204	141	116	155	-25.3%	-43.0%	-17.7%	988	554	-43.9%
<b>Net Profit</b>	<b>872</b>	<b>1,140</b>	<b>648</b>	<b>1,120</b>	<b>-42.1%</b>	<b>-25.7%</b>	<b>-43.2%</b>	<b>3,244</b>	<b>3,746</b>	<b>15.5%</b>

FABS estimate & Co Data

#### Emaar Development - Margins

Margins	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross Profit	37.1%	42.9%	44.2%	705	130	36.8%	43.3%	650
EBITDA	29.3%	35.1%	34.3%	494	-86	28.1%	29.8%	167
Operating Profit	26.9%	33.9%	31.1%	418	-284	26.2%	33.2%	706
Net Profit	22.6%	30.7%	31.5%	886	81	20.8%	30.5%	967

FABS estimate & Co Data

**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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