

Emaar Developments

Off-plan sales continued to outperform in 3Q21 driven by business recovery

3Q21 profit beats our estimate

Emaar Development (EMAARDEV) recorded a significant increase in Net profit to AED872 Mn in 3Q21, up from AED323 Mn in 3Q20, beating our estimate of AED751 Mn by 16.1%. This was mainly attributed to an exceptional inventory sales.

P&L highlights

Revenue strongly increased by 66.3% YOY to AED3,849 Mn in 3Q21, up from AED2,315 Mn in 3Q20. The Cost of Revenue increased by 53.4% YOY to AED2,421 Mn in 3Q21, as compared to AED1,578 Mn in 3Q20. Therefore, the Gross profit increased by 93.8% YOY to AED1,428 Mn in 3Q21, up from AED737 Mn in 3Q20, with a Gross Margin equal to 37.1% in 3Q20. The Operating Profit surged to AED1,035 Mn in 3Q21. It was despite the 33.7% YOY increase in General & Administrative expenses. However, the increase is justified due to increase in business activity and Revenue levels. As a result, the Operating Profit Margin improved slightly by 777 bps to 26.9% in 3Q21, as compared to 19.1% in 3Q20. The Finance cost strongly increased to AED64 Mn in 3Q21, up from AED29 Mn in 3Q20. The Share of results from associates and Joint ventures improved significantly to AED80 Mn in 3Q21, as compared to AED2 Mn in 3Q20. The Profit for the year rebounded to AED1,075 Mn in 3Q21, as compared to AED431 Mn in 3Q20. The NCI increased to AED204 Mn in 3Q21.

Balance sheet highlights

The Total Assets increased by 16.2% YOY to AED37.82 Bn in 3Q21, as compared to AED32.54 Bn in 3Q20. The Total Liabilities increased by 15.3% YOY to AED22.26 Bn in 3Q21, up from AED19.31 Bn in 3Q20. Whereas the Total Equity increased by 17.7% YOY to AED15.57 Bn in 3Q21, up from AED13.23 Bn in 3Q20.

Target price and rating

We revise our rating on Emaar development to BUY with a target price of AED5.50. Emaar Development PJSC, the top build-to-sell property development business is majorly owned by the parent company Emaar Properties PJSC. The Company performed robustly in 9M21, mainly driven by exceptional sales and supported by recent launches. Emaar Development reported its highest ever Sales of AED20.94 Bn in 9M21 increasing substantially by 382% YOY as compared to sales in 9M20. Throughout these nine months, Emaar Development launched Golf Place Terraces, Palm Hills with Elie Saab and Majestic Vistas inspired by Automobili Lamborghini in Dubai Hills Estate, Palace Beach Residence and Beach Mansion in Emaar Beachfront, Caya and Bliss in Arabian

Rating : BUY

First Look Note – 3Q21

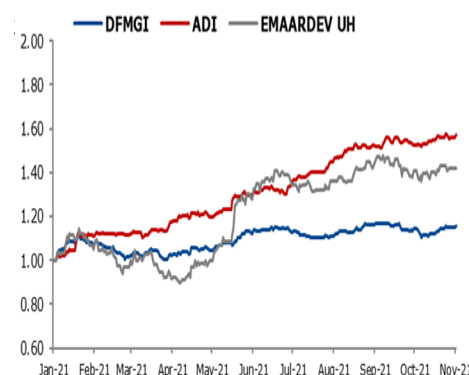
Sector: Properties

Recommendation

Current Price (22-Nov)	4.50
Target Price	5.50
Upside/Downside (%)	+22%

Stock Information

Market Cap (mm)	18,000.00
Paid Up Capital (mm)	4,000.00
52 Week High	4.75
52 Week Low	2.45



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	6.67
Price-to-Book Ratio (x)	1.32
Book Value (AED)	3.41
Return-on Equity (%)	21.82
Earning Per Share (AED)	0.67
Beta	1.19

Stock Performance

5 Days	-3.85%
1 Months	14.21%
3 Months	15.98%
6 Months	28.57%
1 Year	80.00%
Month to Date (MTD)	15.38%
Quarter to Date (QTD)	16.28%
Year to Date (YTD)	63.64%

Ranches III and Nara in the Valley. The Company has also delivered 3,700 residential units in 9M21 in prime locations such as Dubai Hills Estate, Dubai Creek Harbour, Downtown Dubai, Dubai Marina and Emaar South. As of September 2021, the Company has successfully delivered 51,000 residential units and currently have over 25,000 units under development in the UAE. Emaar Development reported an increase in 9M21 by 75% and in 3Q21 by 170% in Net Profit to AED2.38 Bn and AED872 Mn, respectively. This increase was mainly driven by the increase in Revenues to AED 11.6 Bn and AED3.85 Bn in 9M21 and 3Q21, increasing by 63% and 66%, respectively. Despite the increase in Cost of Revenues robustly, in line with the increase in Revenues, the Gross Profit witnessed an increase both in 9M21 by 74% to AED4.38 Bn up from AED2.52 Bn and in 3Q21 by 94% reaching AED1.43 Bn up from AED737 Mn in 3Q20. Gross Profit Margins stood at 37.74% in 9M21 and 37.12% in 3Q21 up from 35.38% in 9M20 and 31.83% in 3Q20.

The sales backlog stood at AED28.47 Bn as of 3Q21, implying that the company is a high generating business, which will be recognized as Revenue for the business in the coming years. The strong performance achieved by Emaar Development and Emaar Group in general reflects the strength of Dubai's property sector mainly driven by the strong economic fundamentals of the UAE. The Company mainly operates in UAE and generates revenue via three segments – Sale of Condominiums, Sale of Villas and Sale of commercial units, plots of land and others. The Revenue generated from Sale of Condominiums contributes around 65.17% to the Total Revenue, followed by Sale of Villas at 21.4% and Commercial units at 13.43%. The Sale of Condominiums increased by 40.31% YOY to AED7.56 Bn in 9M21, as compared to AED5.38 Bn in 9M20, because of several successful launches in 1H21. The Sale of Villas increased robustly by 89% YOY to AED2.48 Bn in 9M21, as compared to AED1.31 Bn in 9M20. It was mainly due to increase in demand for Villa units. The Sale of commercial plots surged by 2.63x YOY to AED1.56 Bn in 9M21, as compared to AED429 Mn in 9M20. The Costs of Revenues of the segments increased in line with Sales as follows: Cost of Sales of Condominiums increased by 40% YOY during 9M21, being the largest portion of the total Costs. Similarly, the Cost of Villas increased by 1.14x YOY to AED1.57 Bn in 9M21, as compared to AED736 Mn in 9M20. Nevertheless, the Costs related to Sale of Commercial plots surged by 2.76x YOY to AED358.43 Mn in 9M21, as compared to AED95.33 Mn in 9M20. The Selling & Administrative Expenses increased significantly to AED1.25 Bn in 9M21, as compared to AED847 Mn in 9M20, mainly attributed to Marketing & Other expenses. The Cash from Operating Activities stood at AED2.61 Bn at the end of September 2021 as compared to losses of AED473 Mn same period last year. The Company paid Dividends amounting to AED1.095 Bn in 3Q21, to the Non-Controlling Interests. Based on our analysis, we assign a BUY rating on the stock.

Emaar Developments - Relative Valuation

	2017	2018	2019	2020	2021F
PE (X)	1.4	4.6	6.6	11.0	5.9
PB (X)	3.5	2.3	1.9	1.6	1.1
Dividend yield (%)	0.0%	11.6%	0.0%	0.0%	0.0%

FABS estimate and Co data

Emaar Development - P&L

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	2,315	3,907	3,849	3,985	-3.4%	66.3%	-1.5%	9,758	15,665	60.5%
Cost of Revenue	-1,578	-2,469	-2,421	-2,511	-3.6%	53.4%	-1.9%	-6,280	-9,779	55.7%
Gross Profit	737	1,438	1,428	1,475	-3.1%	93.8%	-0.7%	3,478	5,886	69.2%
Selling, General & Administrative expense	-294	-411	-393	-410	-4.2%	33.7%	-4.2%	-1,305	-1,632	25.1%
Operating Profit	443	1,028	1,035	1,064	-2.7%	NM	0.7%	2,174	4,254	95.7%
Finance Income	7	10	13	11	23.9%	78.7%	30.1%	57	45	-21.5%
Finance Cost	-29	-88	-64	-91	-29.4%	NM	-27.2%	-300	-264	-12.0%
Other Income	8	12	11	12	-11.4%	38.8%	-8.7%	28	38	38.6%
Share of results of Joint Ventures	2	41	80	42	92.2%	NM	94.1%	98	268	NM
Profit for the year	431	1,003	1,075	1,038	3.6%	NM	7.2%	2,056	4,340	NM
NCI	108	271	204	287	-29.0%	88.8%	-25.0%	398	1,073	NM
Net profit to equity holders	323	732	872	751	16.1%	NM	19.1%	1,657	3,267	97.2%

FABS estimate& Co Data

Emaar Development-Margins

AED mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
GPM	31.8%	36.8%	37.1%	528	29	35.6%	37.6%	193
OPM	19.1%	26.3%	26.9%	777	59	22.3%	27.2%	488
NPM	14.0%	18.7%	22.6%	869	392	17.0%	20.9%	387

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%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2-6161628	shiv.prakash@Bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1	
	+971-2-6161777	
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	Online Trading Link

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