

Emaar Properties PJSC

Target Price: AED 9.7/share
Upside: 31.0%

Recommendation

Bloomberg Ticker	EMAAR UH
Current Market Price (AED)	7.420
52wk High / Low (AED)	8.450/5.080
6m Average Vol. (000)	13,783.4
Mkt. Cap. (USD/AED Mn)	17,836/65,584
Shares Outstanding (mn)	8,838.8
Free Float (%)	70%
3m Avg Daily Turnover (AED'000)	121,056.1
6m Avg Daily Turnover (AED'000)	96,914.3
P/E'23e (x)	6.5
EV/EBITDA'23e (x)	4.3
Dividend Yield '23e (%)	4.7%

Price Performance:

1 month (%)	8.64
3 month (%)	4.51
6 month (%)	22.24

Source: Bloomberg, U Capital Research; valued as of 5 Dec 2023

Price-Volume Performance



Source: Bloomberg

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- **Growth in tourism and retail sales, and the rise in real estate demand to drive sustainable performance across Emaar's diversified development portfolio**
- **Robust outlook for revenue recognition with the revenue backlog from property sales at ~AED 70bn, as of Sep 30, 2023**
- **The company has successfully launched 20 new projects in the UAE across all master plans during 9M23**
- **Disciplined SG&A approach and net cash position bodes well for potential increase in dividends distribution into FY23e**

We review our coverage on EMAAR (Emaar Properties PJSC) and maintain our target of Buy rating at AED 9.7, which leaves an upside of 31.0% from the current levels. Currently, the stock is trading at a P/E of 6.5x, based on our 2023e estimates, which is at a discount of 11% compared to its historical average 1-year forward P/E of 7.3x. Positive momentum in Emaar Development's revenue, a strengthening gross margin, and sustained efficiency in SG&A savings coupled with enhanced cash management throughout the first nine months of 2023 have prompted us to adjust our target price for the company.

Investment Thesis

- Thriving in a strong property market of UAE with an ongoing traction in consumption driven sectors such as retail and hospitality.
- A substantial property sales backlog of ~AED 70bn along with a 1.7bn sqft landbank in UAE and other key international markets gives solid visibility on revenue and cash flows over the medium term.
- During 9M23, Emaar demonstrated a noteworthy 26% surge in recurring revenue on YoY basis, excluding impact from the sale of Namshi in February 2023.
- Better seasonality trends into the next 6 months are expected to drive the growth momentum in terms of healthy tenant sales and occupancy prints.
- This in tandem with solid SG&A controls and higher finance income (on the back of better cash management) is expected to help the company to maintain net cash position and in turn higher dividend payout to its shareholders.

Financial and valuation summary:

AED mn	FY21	FY22	FY23e	FY24e	FY25e	FY26e
Revenues	27,896	24,926	24,873	27,098	28,493	29,659
Net income	5,678	8,139	12,111	11,032	11,433	12,508
Gross profit margin	41.6%	50.5%	59.1%	55.2%	55.1%	55.3%
Net profit margin	20.4%	32.7%	48.7%	40.7%	40.1%	42.2%
EBITDA margin	29.7%	38.8%	51.2%	47.5%	47.3%	47.8%
ROE	6.5%	3.6%	13.9%	11.5%	11.1%	11.2%
P/E	9.4x	7.2x	6.5x	7.1x	6.8x	6.2x
EV/EBITDA	7.0x	6.0x	4.3x	4.3x	4.1x	3.9x
EV/Sales	2.1x	2.3x	2.2x	2.0x	1.9x	1.8x
Dividend yield (%)	3.1%	3.4%	4.7%	4.2%	4.4%	4.8%

Source: Company Reports, U-Capital Research *Current prices used for deriving valuation ratios

Investment Summary

Dubai property market continues its solid performance in 2023

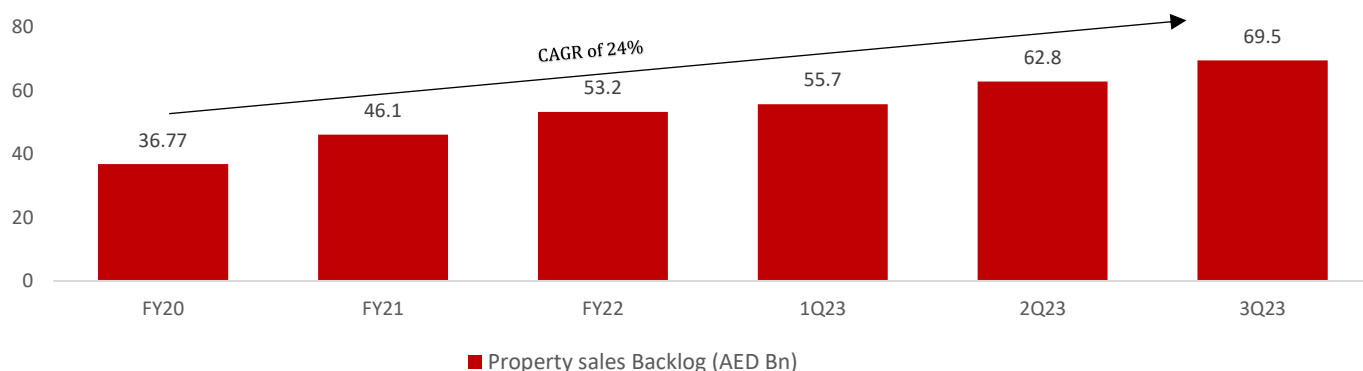
Residential property values in 2023 witnessed a notable surge, with a 22% increase for villas and a 12% rise for apartments. Projections for 2024 suggest continued growth, with anticipated gains ranging between 5-10%, underpinned by a restricted supply, particularly for villas. The demand for off-plan units is forecasted to surpass 50,000 units in 2023, outpacing the incoming supply of 35,000 units (comprising 20% villas and 80% apartments), thereby bolstering capital gains. The market's resilience is attributed to factors such as population expansion, foreign direct investments (FDIs), sophisticated infrastructure catering to high-net-worth individuals (HNWIs), and appealing yields.

Cash transactions dominate property dealings, accounting for over 80%, and remain unaffected by elevated interest rates. In 2023, an estimated 40-45,000 units were introduced in Dubai (with Emaar securing a 28% market share and launching 9,000 units in the first 9 months). Looking ahead to 2024-25, there is a projection that new unit launches could stabilize at 30,000 units annually, aligning with the supply required for Dubai to achieve a projected population of 5.8mn by 2040.

Emaar Properties with property sales backlog at ~AED 70bn riding the tailwind in UAE, further aided by government initiatives

The company maintains a good mix of business with healthy recurring revenue (~37% of 9M23 revenue) and a large land bank in key international markets, which holds value accretive development opportunities. Emaar has a significant presence in Saudi Arabia, Asia, and North Africa with a total land bank of 1.7bn sqft in prime areas and a diversified exposure to residential, retail, and office real estate segments. Solid acceleration in Emaar Development's construction portfolio (property sales backlog of ~AED 70bn including international projects) has been driven by the recently launched projects resulting in healthy revenue generation. We believe that Emaar is effectively implementing its proven expertise in international markets and the revenue backlog of ~AED 9bn for international development (>7,600 units under construction) indicates a growing revenue mix from international markets.

Fig. 1: Property Sales backlog rising consistently



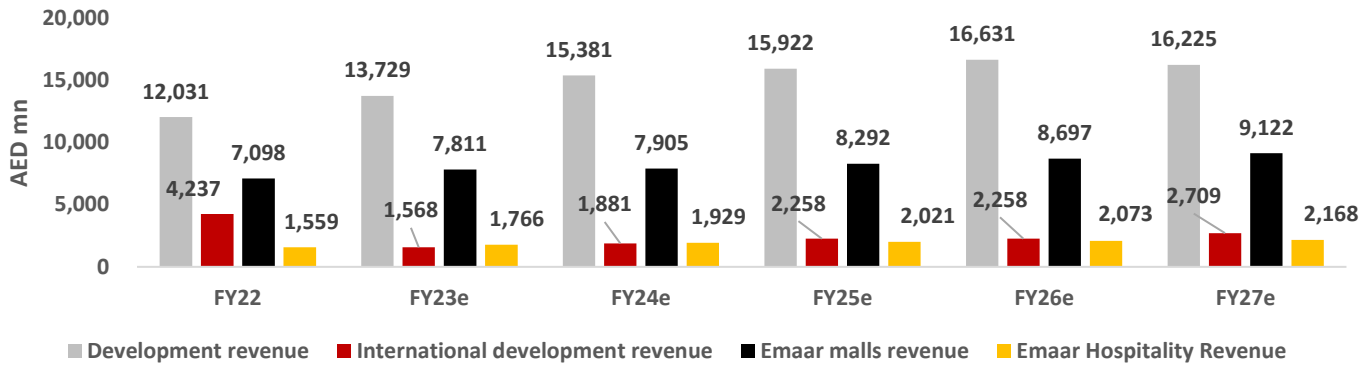
Source: Company Reports, U Capital Research

The expansion in the sector has been reinforced by governmental initiatives, including the permission for 100% foreign ownership in more than 1,000 commercial and industrial activities, the implementation of insolvency laws facilitating debt reorganization, and concerted efforts to elevate the nation's competitiveness in terms of ease of doing business. Pioneering programs such as the Golden Residence Visa and Green Residence Visa have been introduced with the aim of attracting both skilled professionals and tourists. As a result, large number of tenants in the region have turned into owners and the trend is expected to continue in the rest of 2023 and 2024 as well. The rise in such trends is anticipated to help property investment and development companies such as Emaar.

We expect Emaar's revenues to grow at a CAGR of 5% over FY23-27e. The robust growth in revenues is anticipated to be sustainable, primarily fueled by a substantial backlog execution. This momentum is poised to drive annual revenues to an impressive range of AED 13-15bn in FY24e and beyond, reflecting a notable increase from ~AED 10bn recorded in FY23. The

augmented backlog is a result of property sales, with substantial contributions from bookings in FY22 (AED 31bn) and the first nine months of FY23 (AED 29bn). These sales have been marked by elevated gross profit margins (ranging from 45% to 50%), attributed to strategic price adjustments of 10-25% implemented over the preceding 12 months.

Fig. 2: Emaar Segment Breakup

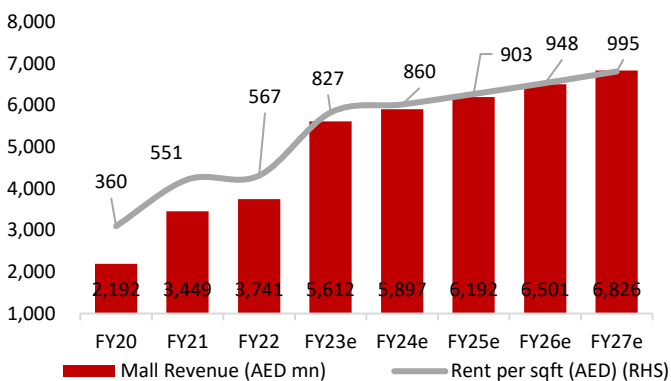


Source: Company Reports, U Capital Research

Retail portfolio continues to be a strong contributor in propelling growth

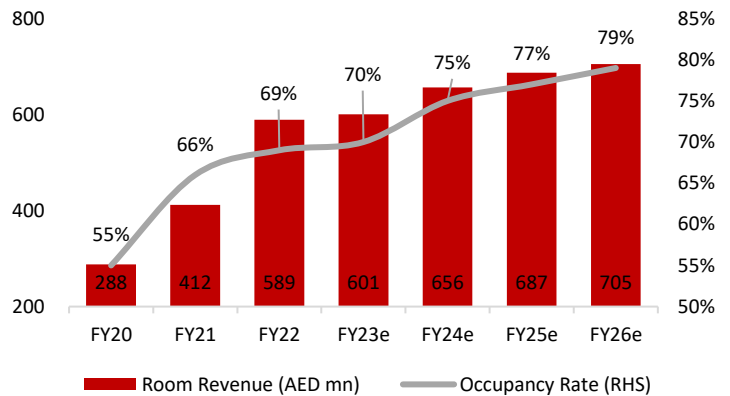
Emaar's hospitality portfolio of 38 hotels primarily in Dubai, with more than 9,000 rooms, benefitted from the increase in travel and leisure spending during 9M23. As a result, the company recorded a 22% YoY increase in Hospitality, leisure and entertainment with a revenue of AED 2.5bn, primarily driven by a higher occupancy (70%) and room revenue. Also, Emaar's shopping malls, retail, and commercial leasing operations reported a revenue of AED 4.3bn with a 36% YoY rise in EBITDA after excluding the gain on sale of Namshi in 1Q23. This growth is driven by YoY rise of 25% in tenant sales with an average occupancy rate of 97%. As the retail segment provides good cash-flow visibility and low maintenance costs, free cash from this segment remains a significant internal source of liquidity for financing growth in the Property and Hospitality segment.

Fig. 3: Mall revenue increasing with the rise in rent revenue



Source: Company Reports, U Capital Research

Fig. 4: Occupancy expected to rise for hotels



Source: Company Reports, U Capital Research

We are positive about the malls and hospitality revenue growth in future with the recent addition of projects such as 'Dubai Mall Chinatown' and 'Address Jabal Omar Makkah' featuring ~1,500 keys. The development of hotels and service apartments on the Ras Al Khaimah plot also offers upside potential. Moreover, Emaar's overseas expansion plan for Hospitality & Entertainment business primarily in Saudi Arabia and Bahrain is likely to aid new recurring revenue streams.

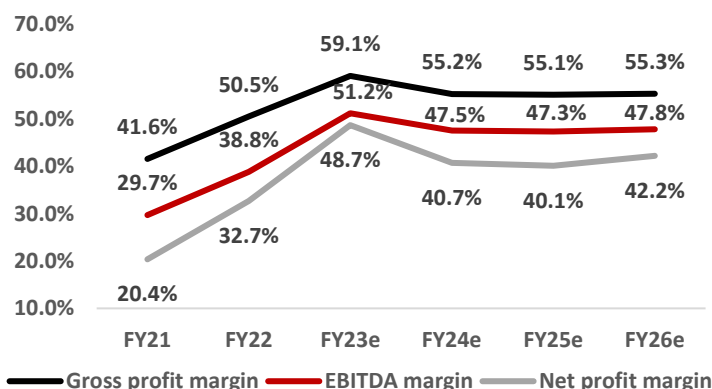
Margins are expected to remain stable after reaching pick in FY23e

Margins: The divestiture of Namshi contributed significantly to EMAAR's financial performance, yielding a gain of AED 0.7bn in 1Q23. Additionally, the reversal of contingency costs in 3Q23 added another AED 1bn to gross profit. This combined effect resulted in an impressive 49% YoY growth in earnings per share (EPS) for FY23e. The positive bottom line was further reinforced by the inclusion of DCH through consolidation, higher recurring income, diminished asset impairments, and reduced interest charges stemming from lower levels of debt.

Notably, the gross margin surged to 62% in 9M23, exhibiting an increment of 11%-points YoY basis. This upswing in profitability was widespread across all business segments, attributable to heightened selling prices for developments, increased average daily rates for hotels, elevated rents for malls, and one-off gains. Importantly, this enhanced gross margin is perceived as sustainable over the forecasted years. Considering the strong performance to continue in 4Q as well, we estimate gross margin to come at 59.1% in FY23e against 50.5% recorded in FY22. The EBITDA margin for FY23e is also expected to grow to 51.2% against 38.8% in FY22 with the solid EBITDA of 53.6% already registered by the company during 9M23. Accordingly, net profit margin comes at around 48.7% for FY23e. However, all the profit margins are expected to decline from FY24e onwards on lower one-off gains.

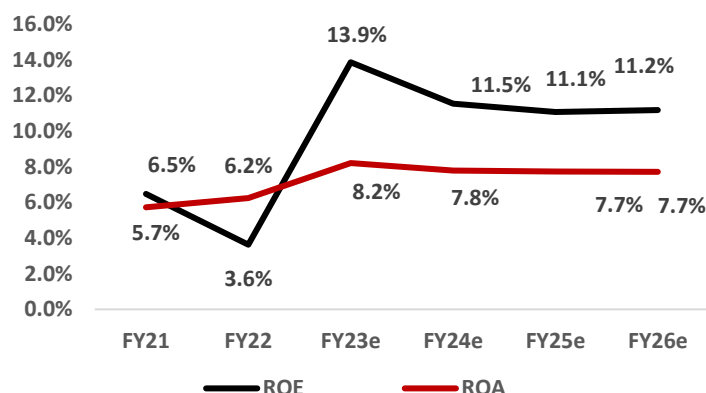
ROE & ROA: The company's ROE is expected to rebound to 13.9% in FY23e driven by solid performance in 9M23. It is then expected to stabilize at around 11% in the following years, suggesting improved efficiency in using shareholders' equity to generate profits. In terms of ROA, the figures remain relatively consistent, with an increase from 5.7% in FY21 to 6.2% in FY22 followed by a slight uptick to 8.2% in FY23e. Thereafter, it remains fairly stable around 7.5% mark, indicating consistent effectiveness in asset utilization to generate profits. Overall, Emaar seems to be maintaining a stable performance in terms of its profitability ratios.

Fig. 5: Margins in stable trend from 2024



Source: Company Reports, U Capital Research

Fig. 6: ROE and ROA to remain largely stable



Source: Company Reports, U Capital Research

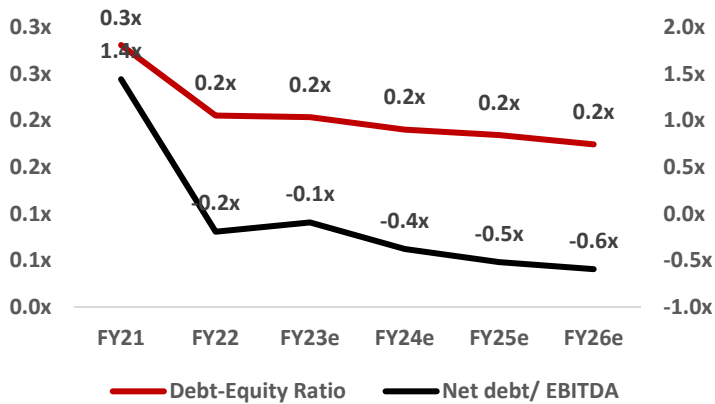
Financial position attractive with stable dividend payout

Leverage ratio: Emaar demonstrates a conservative capital structure with a consistently low Debt-Equity Ratio (D/E) of 0.2x. This indicates a prudent approach to debt financing and suggests a lower risk profile. Moreover, Emaar's Net Debt/EBITDA Ratio remains negative consistently, highlighting the company's ability to generate ample operating earnings to cover its debt obligations, which also indicates Emaar's strong financial position and improved solvency.

Moreover, anticipated enhancements in EMAAR's cash flows for FY24e are underpinned by a continued stream of residential handovers, averaging 6-7 thousand units annually. This improvement is expected to be further propelled by augmented profit margins and an upswing in recurring income, primarily stemming from the flourishing Dubai Hills Mall and the inauguration of new hotels across Dubai.

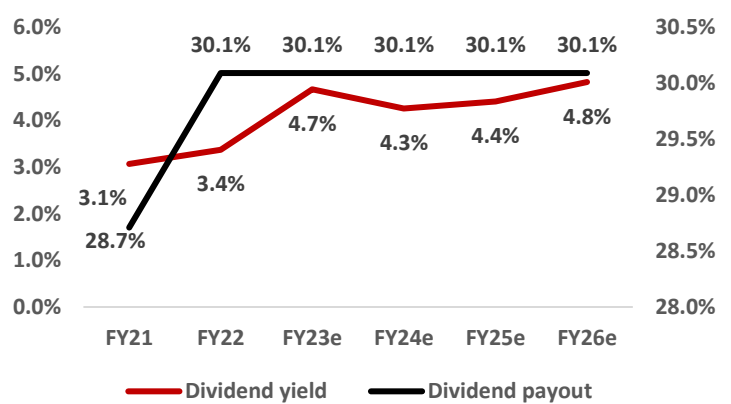
Dividend: We expect Emaar to maintain a stable dividend yield ranging from 3.4% to 4.9% over the FY22-26e period. With a consistent dividend payout ratio at around 30.1%, Emaar demonstrates its commitment to distributing stable earnings to shareholders.

Fig. 7: Strong financial position and conservative cap structure



Source: Company Reports, U Capital Research

Fig. 8: Dividend stable with 30% payout ratio



Source: Company Reports, U Capital Research

Despite healthy growth, Emaar remains undervalued

Emaar has reported a remarkable 43% surge in net profit to reach AED 9.8bn in 9M23, driven by record sales and solid demand during the period. The company boasts a robust liquidity position with AED 31.0bn in cash and cash equivalents. Going forward we expect cash flows to grow from its organic and inorganic growth.

The Core NAV for EMAAR exhibited expansion in 9M23 as ongoing cleanup efforts persisted. The core assets in the UAE saw a notable increase, constituting 81% of the book NAV in 9M23, (vs. 77% in FY22). This shift primarily resulted from the earnings growth observed in the UAE and the impairments on international assets, which led to a reduction of AED 1.8bn in the offshore NAV during 9M23. The Net Asset Value of EMAAR's UAE assets currently stands at AED 60.4bn, translating to a P/B ratio of 1.05x (0.88x including international assets) which is discounted to its local peer Aldar Properties (1.39x P/B).

Valuation

EMAAR

DCF (50% weight)

PV of Free Cash Flow (AED mn)

Year 1	5,025
Year 2	8,578
Year 3	6,256
Year 4	5,397
Year 5	4,754
Terminal Value	73,184
PV Terminal Value	47,733
Equity value (AED mn)	78,949
Outstanding shares (mn)	8,906
Target Price (AED)	8.9

Assumptions

Risk Free Rate (%)	4.5%
Adjusted Beta	1.40
Risk Premium (%)	5%
Cost of Equity (COE) (%)	11.5%
WACC (%)	11.1%

P/E based Relative Valuation (20% weight)

Target P/E multiple for 2023e	8.28
EPS 2023e (AED)	1.14
Target Price (AED)	9.5

NAV Methodology (30% weight)

Excess of fair value over order book value (AED mn)

Development Properties	0
Investments in Associates	-1,935
Malls and Retail	25,797
Hospitality	5,927
Total excess of fair value to book value	29,788
Book value of equity attributable to common shareholders	70,985
Net Asset Value	100,773
Target Price (AED)	11.3

Weighted Average Target Price (AED)

9.7

Current Market Price (AED)	7.4
Upside/(Downside), %	31.0%

Recommendation

Buy

Source: Company Financials, Bloomberg, U Capital Research

(AED mn)	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e
Income Statement								
Sales	17,959	27,896	24,926	24,873	27,098	28,493	29,659	30,225
COGS	(11,427)	(16,304)	(12,338)	(10,177)	(12,128)	(12,791)	(13,251)	(13,463)
Gross profit	6,533	11,592	12,587	14,696	14,969	15,701	16,408	16,761
SG&A expenses	(3,529)	(4,052)	(3,522)	(2,544)	(2,764)	(2,906)	(3,025)	(3,083)
Operating profit	1,328	6,907	8,270	11,219	11,334	11,840	12,356	12,541
Share of results of investments in associates and joint ventures	(582)	354	214	245	249	253	258	262
Other income – net	2,447	219	697	2,095	813	855	890	907
Finance charges	(1,096)	(1,280)	(981)	(1,174)	(1,311)	(1,331)	(1,410)	(1,465)
Income before tax	2,614	6,085	8,477	12,295	11,492	11,909	13,030	13,269
Income tax	192	(407)	(338)	(184)	(460)	(476)	(521)	(663)
Net income for the period	2,806	5,678	8,139	12,111	11,032	11,433	12,508	12,606
Balance Sheet								
Cash and bank balances	6,211	8,539	18,289	18,314	22,142	25,111	26,979	27,658
Prepayments and other current assets	6,821	6,041	5,201	5,201	5,201	5,201	5,201	5,201
Trade and other receivables	4,611	6,859	10,071	12,122	13,170	13,886	14,454	14,730
Inventories	0	0	0	0	0	0	0	0
Property, plant and equipment	8,785	9,157	9,884	10,305	10,844	11,467	12,165	12,909
Investments in joint ventures	5,290	5,550	5,801	5,899	5,998	6,099	6,202	6,306
Right of use assets	1,269	1,067	955	853	767	690	623	564
Total assets	116,641	120,614	132,364	136,665	145,600	153,151	160,253	166,488
Trade and other payables	16,275	17,369	18,679	14,570	16,157	15,685	14,615	14,017
Long-term borrowings	3,633	2,391	3,874	4,329	4,374	4,403	4,065	3,609
Lease liabilities	1,080	1,152	981	910	849	792	741	694
Share capital	7,160	8,180	8,839	8,839	8,839	8,839	8,839	8,839
Statutory reserve	15,220	17,318	20,409	20,409	20,409	20,409	20,409	20,409
Retained earnings	30,840	33,490	38,162	46,256	52,441	59,236	66,831	74,238
Total stockholders' equity	55,539	61,715	68,998	77,092	83,278	90,072	97,668	105,074
Total liabilities & stockholders' equity	116,641	120,614	132,364	136,665	145,600	153,151	160,253	166,488
Cash Flow Statement								
Cash from operating activities	2,137	10,561	18,942	3,871	10,468	9,050	9,252	8,930
Cash from investing activities	997	(2,756)	(2,532)	(861)	(1,169)	(1,483)	(2,084)	(2,433)
Cash from financing activities	(2,533)	(6,041)	(5,970)	(2,986)	(5,471)	(4,597)	(5,300)	(5,818)
Net changes in cash	601	1,763	10,440	25	3,828	2,969	1,868	678
Cash at the end of the period	5,764	7,464	17,545	17,570	21,398	24,367	26,235	26,914
Key Ratios								
Current ratio	1.5	1.7	2.3	2.3	2.5	2.6	2.7	2.7
Debtors' turnover ratio	3.0	4.9	1.4	2.3	2.1	2.1	2.1	2.1
Creditors turnover ratio	0.7	1.0	0.7	0.6	0.8	0.8	0.9	0.9
Gross profit margin	36.4%	41.6%	50.5%	59.1%	55.2%	55.1%	55.3%	55.5%
Operating margin	7.4%	24.8%	33.2%	45.1%	41.8%	41.6%	41.7%	41.5%
Net profit margin	15.6%	20.4%	32.7%	48.7%	40.7%	40.1%	42.2%	41.7%
EBITDA margin	15.4%	29.7%	38.8%	51.2%	47.5%	47.3%	47.8%	41.5%
Average return on equity	3.9%	6.5%	3.6%	13.9%	11.5%	11.1%	11.2%	10.4%
Average return on assets	1.1%	5.7%	6.2%	8.2%	7.8%	7.7%	7.7%	7.5%
Debt/Equity (x)	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Interest coverage ratio (x)	1.2x	5.4x	8.4x	9.6x	8.6x	8.9x	8.8x	8.6x
P/E	12.4x	9.4x	7.2x	6.5x	7.1x	6.8x	6.2x	6.2x
EV/EBITDA	18.3x	7.0x	6.0x	4.3x	4.3x	4.1x	3.9x	4.4x
EV/Sales	2.8x	2.1x	2.3x	2.2x	2.0x	1.9x	1.8x	1.8x
EPS (AED)	0.3	0.5	0.8	1.1	1.0	1.1	1.2	1.2
Dividend payout ratio	33.9%	28.7%	30.1%	30.1%	30.1%	30.1%	30.1%	30.1%
Dividend yield (%)	2.8%	3.1%	3.4%	4.7%	4.2%	4.4%	4.8%	4.9%
Net debt	16,733	11,947	(1,872)	(1,206)	(4,865)	(7,002)	(8,437)	(8,863)
Net debt/ EBITDA	6.04	1.44	-0.19	-0.09	-0.38	-0.52	-0.59	-0.71
ROCE	1.4%	7.1%	8.5%	11.2%	10.9%	11.0%	11.0%	10.6%

Source: Company Financials, Bloomberg, U Capital Research

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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