

Emaar Properties

Steady performance of recurring business portfolio drove bottom-line

1Q23 Net profit higher than our estimate

Emaar Properties PJSC (Emaar/the company) net profit rose 43.2% YOY to AED 3,206 Mn in 1Q23, higher than our estimate of AED 2,039 Mn. The rise in net profit is mainly attributable to a decline in the cost of revenue, lower operating expenses, significant growth in other income due to the gain on sale of Namshi, and a robust rise in finance income partially offset by a decline in revenue.

P&L Highlights

Emaar Properties' revenue declined 5.2% YOY to AED 6,290 Mn in 1Q23 mainly due to a decline in revenue from the Real estate segment partially offset by a growth in revenue from hospitality, leased properties, retail, and related income. Consolidated revenue from Emaar Development and Emaar International real estate business declined 11.9% YOY to AED 4,037 Mn in 1Q23 mainly driven by a decline in income from the sale of commercial units, plots, and land whereas revenue from the sale of residential units grew 3% YOY to 3,755 Mn in 1Q23. Emaar international segment revenue growth in 1Q23 is owing to a growth in revenue from Egypt. On the other hand, revenue from leasing, retail, and related activities under the Emaar Malls segment rose 10.6% YOY to AED 1,786 Mn in 1Q23 mainly due to the higher occupancy rate of more than 95%, and high level of tenant sales. Hospitality sector revenue rose 7.1% YOY to AED 467 Mn in 1Q23 attributable to recovery in the tourism, increase in domestic spending, and a healthy average occupancy of 75%. Cost of revenue declined 14.0% YOY to AED 2,787 Mn in 1Q23 due to a significant decline in cost of revenue from the real estate segment. As a result, gross profit rose 3.2% YOY to AED 3,503 Mn in 1Q23 with a gross profit margin of 55.7% in 1Q23 as compared to 51.2% in 1Q22. Net other operating income after expenses rose 11.4% YOY to AED 65 Mn in 1Q23. SG&A expenses declined 8.4% YOY to AED 694 Mn in 1Q23. Thus, EBITDA rose 6.6% YOY to AED 2,875 Mn in 1Q23 with a 507 bps YOY rise in EBITDA margin to 45.7%. Depreciation on property plant and equipment declined marginally 1.8% YOY to AED 146 Mn in 1Q23 whereas depreciation on investment properties rose 7.1% YOY to AED 178 Mn in 1Q23. As a result, total operating profit rose 7.1% YOY to AED 2,551 Mn in 1Q23. Finance income more than doubled from AED 107 Mn in 1Q22 to AED 263 Mn in 1Q23 while finance cost declined marginally 0.4% YOY to AED 232 Mn in 1Q23. Furthermore, other income increased significantly from AED 344 Mn in 1Q22 to AED 1,151 Mn in 1Q23 as the Group recorded AED 700 Mn on account of gain on the sale of Namshi. In addition, the group also benefited from gains in foreign currency translation. Income tax expense rose 34.8% YOY to AED 65 Mn in 1Q23. Share of profit attributable to non-controlling interest holders declined marginally 1.6% YOY to AED 408 Mn in 1Q23.

Balance Sheet Highlights

The Company's unrestricted cash balance stood at AED 8.1 Bn in 1Q23 as compared to AED 5.5 Bn in 4Q22. Total debt declined from AED 34.1 Bn in 4Q22 to AED 33.3 Bn in 1Q23. Cash flow generated from operating activities stood at AED 5.5 Bn in 1Q23 as compared to AED 9.4 Bn in 4Q22 owing to a strong growth in profitability.

Rating : BUY

First Look Note – 1Q23

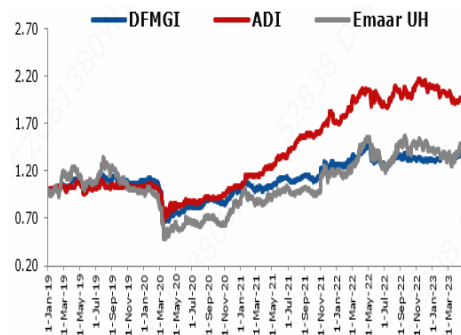
Sector: Real Estate

Recommendation

Current Price (7-Jun-23)	6.14
Target Price (AED)	7.30
Upside/Downside (%)	+19%

Stock Information

Market Cap (mm)	54,270.17
Paid Up Capital (mm)	8,838.79
52 Week High	6.60
52 Week Low	4.87
3M Avg. daily value (AED)	76,957,910



Financial Ratios

Dividend Yield (12m)	4.07
Dividend Pay-out (%)	32.34
Price-Earnings Ratio (x)	6.71
Price-to-Book Ratio (x)	0.76
Book Value (AED)	8.08
Return-on Equity (%)	11.58
Earning Per Share (AED)	0.91
Beta	1.39

Stock Performance

5 Days	-0.16%
1 Months	2.33%
3 Months	9.64%
6 Months	-1.76%
1 Year	7.34%
Month to Date (MTD)	-0.16%
Quarter to Date (QTD)	9.64%
Year to Date (YTD)	4.78%

Target price and recommendation

We maintain our BUY rating on Emaar Properties with an unchanged target price of AED 7.30. Emaar properties recorded strong growth in net profit driven by an 11% YOY growth in recurring revenue during 1Q23 attributable to higher tenant sales and recovery in the tourism sector. Emaar Property's sales backlog reached AED 55.7 Bn in 1Q23 as compared to AED 54.2 Bn in 1Q22 providing a strong revenue visibility in the forthcoming period. The Company completed the sale of Namshi to Noon for consideration of AED 1.2 Bn in 1Q23 and earned a gain of AED 700 Mn. The Company owns 1.7 Bn square feet of land bank across UAE and international business which is a strong source of cash flow that can help the Company internally fund its projects and repay the debt. Emaar handed over more than 94,000 residential units in UAE and international markets since 2002. Emaar group owns strong cash flow generating assets which include 1.3 Mn square meters of leasing revenue-generating assets along with 37 hotels with 8,134 rooms. The Company is positively geared with a diversified business portfolio coupled with strong recurring revenues. We expect the increasing tourism activity in the region coupled with favourable economics will drive the Company's financials in 2023. Thus, based on our analysis, we maintain our BUY rating on the stock.

Emaar Properties - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	7.1	7.0	20.6	13.1	7.9	6.8
P/B	0.9	0.8	0.8	0.8	0.8	0.7
EV/EBITDA	6.4	8.0	21.3	8.3	6.7	6.0
Dividend Yield	2.5%	NM	1.6%	2.5%	4.1%	4.1%

FABS Estimates & Co Data

Emaar Properties - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	6,635	6,025	6,290	5,963	5.5%	-5.2%	4.4%	24,926	25,416	2.0%
Cost of revenue	-3,241	-3,002	-2,787	-2,647	5.3%	-14.0%	-7.2%	-12,338	-12,718	3.1%
Gross profit	3,395	3,023	3,503	3,316	5.7%	3.2%	15.9%	12,587	12,697	0.9%
Other operating income	92	110	95	133	-28.6%	3.2%	-13.8%	420	483	15.0%
Other operating expenses	-33	-46	-29	-30	-1.8%	-11.4%	-35.8%	-160	-165	3.2%
Selling, General & admin exp.	-757	-1,309	-694	-763	-9.1%	-8.4%	-47.0%	-3,522	-3,558	1.0%
EBITDA	2,696	1,778	2,875	2,655	8.3%	6.6%	61.7%	9,325	9,457	1.4%
Depreciation of PPE	-148	-142	-146	-151	-3.7%	-1.8%	2.5%	-577	-590	2.3%
Depreciation of IP	-166	-168	-178	-195	-8.9%	7.1%	6.0%	-692	-762	10.2%
EBIT	2,382	1,468	2,551	2,309	10.5%	7.1%	73.8%	8,056	8,104	0.6%
Finance income	107	527	263	119	120.4%	146.4%	-50.1%	1,057	762	-27.9%
Finance cost	-233	-244	-232	-174	33.6%	-0.4%	-4.8%	-981	-1,116	13.7%
Other income	344	297	1,151	125	NM	NM	NM	697	1,487	113.4%
Share of assoc. profits/(-loss)	38	-33	-53	0	NM	NM	64.1%	214	216	NM
Provisions and impairment	64	-630	0	0	NM	NM	NM	-566	0	NM
Profit before tax	2,702	1,385	3,679	2,379	54.6%	36.2%	165.6%	8,477	9,454	11.5%
Income tax	-48	-122	-65	-119	-45.6%	34.8%	-47.0%	-338	-312	-7.7%
Profit from continuing operations	2,654	1,263	3,614	2,260	59.9%	36.2%	186.2%	8,139	9,142	12.3%
Profit for the period	2,654	1,263	3,614	2,260	59.9%	36.2%	186.2%	8,139	9,142	12.3%
Non-controlling interests	-415	-221	-408	-221	84.5%	-1.6%	84.5%	-1,307	-1,280	-2.1%
Net Profit	2,239	1,042	3,206	2,039	57.2%	43.2%	207.8%	6,832	7,862	15.1%

FABS estimate & Co Data

Emaar Properties - Margins

Margins	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	51.2%	50.2%	55.7%	453	552	50.5%	50.0%	-54
EBITDA	40.6%	29.5%	45.7%	507	1619	37.4%	37.2%	-20
Operating Profit	35.9%	24.4%	40.6%	466	1619	32.3%	31.9%	-44
Net Profit	33.7%	17.3%	51.0%	1723	3368	27.4%	30.9%	352

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Emaar Properties. We have assigned 70% weight to DCF and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF	7.83	70.0%	5.48
Relative Valuation	6.06	30.0%	1.82
Weighted Average Valuation (AED)			7.30
Current market price (AED)			6.14
Upside/Downside (%)			+19%

1) DCF Method:

Emaar Properties is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 9.0%. It is arrived after using cost of equity of 9.7% and cost of debt of 6.0% with an equity weight of 80.8% and debt of 19.2%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.10 and equity risk premium of 4.5%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 6.0% after adjusting a tax rate of 4.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	20,393
Terminal value (AED, Mn)	58,047
FV to Common shareholders (AED, Mn)	69,244
No. of share (Mn)	8,839
Current Market Price (AED)	6.14
Fair Value per share (AED)	7.83

DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	9,274	9,230	9,459	8,841	9,382
D&A	1,550	1,551	1,602	1,631	1,659
Changes in Working Capital	-5,484	-2,772	-4,933	-4,646	-3,829
Capex	-1,500	-1,416	-1,482	-1,368	-1,330
Free Cash Flow to Firm (FCFF)	3,840	6,594	4,646	4,457	5,882
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Discounted FCFF	3,656	5,761	3,725	3,279	3,971

2) Relative Valuation:

We have used local as well as international peers to value Emaar Properties and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 6.6x.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Aldar Properties	9,633	9.3	8.0	11.6	11.4
Arabian Centres	2,388	10.6	9.2	10.6	8.7
China Overseas Land & Investment	28,857	6.6	6.2	5.4	5.0
China Resources Land Limited	28,843	6.1	5.8	6.8	6.1
Poly Developments and Holdings	22,956	7.9	6.9	8.0	7.3
CK Aasset Holding Limited	19,957	4.8	4.2	8.2	7.2
Longfor Group Holdings Limited	13,756	5.2	5.4	4.1	3.9
Average		7.2x	6.5x	7.8x	7.1x
Median		6.6x	6.2x	8.0x	7.2x
Max		8.6x	7.4x	9.4x	8.0x
Min		5.7x	5.6x	6.1x	5.5x

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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