

Emaar Properties

Strong revenue growth and decline in provisions drove profitability

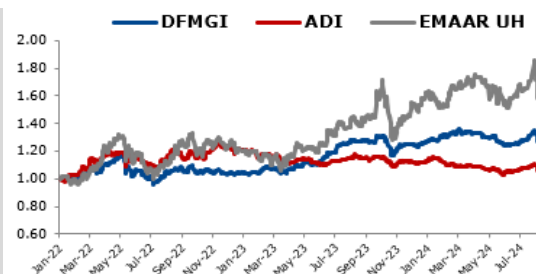
Current Price
AED 8.15

Target Price
AED 9.75

Upside/Downside (%)
+20%

Rating
BUY

- Emaar's property's sales backlog grew from AED 78.3 Bn in 1Q24 to AED 90.1 Bn in 2Q24, indicating strong revenue visibility.
- Emaar's total EBITDA grew from AED 2,713 Mn in 2Q23 to AED 3,657 Mn in 2Q24.
- The Company's recurring revenue, which represents c. 32% of total revenue, generated revenue of AED 4.6 Bn during 1H24.
- The Company boasts strong recurring revenue assets, with c.1.4 Mn sq mt of properties generating leasing revenue and 38 hotels and resorts offering more than 9,200 rooms.
- The Mall and Commercial leasing business benefitted positively due to robust tenant sales, which grew 7% YOY and a strong average occupancy rate of c.99% in 1H24.



2Q24 Net Profit lower than our estimate

Emaar Properties PJSC (Emaar/the Company) net profit rose 39.1% YOY to AED 2,419 Mn in 2Q24, lower than our estimate of AED 3,124 Mn. The increase in net profit is mainly attributable to a strong growth in revenue, higher net finance income and a decline in impairments partially offset by a rise in cost of revenue, operating expenses, income tax charge, and profit to NCI coupled with a significant decrease in other income.

P&L Highlights

Emaar's revenue grew 28.5% YOY to AED 7,684 Mn in 2Q24, driven by higher retail sales, a strong rise in tourism activity, and healthy real estate demand. Revenue from the sale of residential units grew substantially 50.8% YOY to AED 5,273 Mn in 2Q24 mainly driven by the launch of new projects and strong growth in property sales which led to 33% YTD growth in the UAE property sales backlog to AED 82.3 Bn, whereas revenue from the sale of commercial units rose 77.3% YOY to AED 239 Mn in 2Q24. Moreover, revenue from leasing, retail, and related activities under the Emaar Malls segment declined 11.7% YOY to AED 1,741 Mn in 2Q24. Hospitality business revenue grew 14.7% YOY to AED 432 Mn in 2Q24, owing to strong domestic spending and a rise in tourism activity in the region. Emaar's cost of revenue rose 22.6% YOY to AED 3,327 Mn in 2Q24 due to a solid rise in the cost of commercial units, plots of land, hospitality, leased properties, and retail & related activities operating costs. Thus, gross profit grew 33.4% YOY to AED 4,357 Mn in 2Q24. Other operating income declined marginally 1.3% YOY to AED 150 Mn in 2Q24, while other operating expenses grew 3.1% YOY to AED 47 Mn in 2Q24. However, the Company's selling and G&A expenses rose 22.3% YOY to AED 803 Mn in 2Q24 owing to the company's efforts to increase operational efficiencies. Emaar's total EBITDA grew 34.8% YOY to AED 3,657 Mn in 2Q24. EBITDA margins rose 222 bps YOY to 47.6% in

Stock Information

Market Cap (AED, mn)	72,036.14
Paid Up Capital (mn)	8,838.79
52 Week High	9.12
52 Week Low	6.20
3M Avg. daily value (AED)	88,392,660

2Q24 Result Review (AED, mn)

Total Assets	142,563
Total Liabilities	55,263
Total Equity	78,299
EBITDA	3,657
Net Profit	2,419

Financial Ratios

Dividend Yield (12m)	6.13
Dividend Pay-out (%)	38.00
Price-Earnings Ratio(x)	6.01
Price-to-Book Ratio (x)	0.93
Book Value (AED)	8.74
Return-on Equity (%)	16.22

Stock Performance

5 Days	-1.33%
1 Months	-2.40%
3 Months	5.30%
6 Months	-0.61%
1 Year	20.21%
Month to Date (MTD%)	-5.56%
Quarter to Date (QTD%)	-0.61%
Year to Date (YTD%)	2.90%

2Q24. Depreciation on PPE grew 12.2% YOY to AED 161 Mn in 2Q24, whereas depreciation on investment properties fell 7.5% YOY to AED 182 Mn in 2Q24. Moreover, the Company's total operating profit grew significantly from AED 1,263 Mn in 2Q23 to AED 3,314 Mn in 2Q24. Operating profit margin grew from 21.1% in 2Q23 to 43.1% in 2Q24. Finance income rose 38.2% YOY to AED 532 Mn in 2Q24 due to an increase in income from bank deposits and securities. Finance cost grew 3.9% YOY to AED 258 Mn in 2Q24. Furthermore, the Company recorded a loss from the share of associates of AED 61 Mn in 2Q24 compared to a profit of AED 58 Mn in 2Q23. Besides, Emaar recorded other income of AED 708 Mn in 2Q23 compared to a loss of AED 38 Mn in 2Q24. The Company recorded provisions of AED 1,109 Mn in 2Q23 compared to nil in 2Q24. Income tax expense increased from AED 32 Mn in 2Q23 to AED 354 Mn in 2Q24 owing to the introduction of corporate tax in the UAE and higher profitability. Additionally, the share of profit attributable to non-controlling interest holders grew from AED 393 Mn in 2Q23 to AED 716 Mn in 2Q24.

Balance Sheet Highlights

The Company's cash and bank balance stood at AED 35.6 Bn in 2Q24 compared to AED 36.1 Bn in 1Q24. Emaar's total debt, including customer advances, grew from AED 36.8 Bn in 1Q24 to AED 37.6 Bn in 2Q24. Furthermore, the Company generated AED 6.9 Bn in cash flow from operations in 2Q24 compared to AED 2.7 Bn in 2Q24.

Target Price and Rating

We maintain our BUY rating on Emaar Properties with an unchanged target price of AED 9.75. The Company reported strong growth in profitability in 2Q24, driven by an increase in tourism activity, higher retail sales and strong real estate demand. Emaar's property sales doubled from AED 11.0 Bn in 2Q23 to AED 22.0 Bn in 2Q24. In addition, the property's sales backlog grew from AED 62.8 Bn in 2Q23 to AED 90.1 Bn in 2Q24, indicating strong revenue visibility. Emaar's diverse recurring revenue portfolio consisting of malls, hospitality, leisure, entertainment, and commercial leasing stood at AED 2.3 Bn in 2Q24 and 4.6 Bn in 1H24, representing c.32% of the group's total revenue in 1H24 owing to the strong rise in tourism and increased retail sales. Furthermore, the Mall and Commercial leasing business positively benefitted due to robust tenant sales, which grew 7% YOY in 1H24, coupled with a strong average occupancy rate of c.99% in 2Q24. Likewise, the average occupancy rate in Emaar's UAE hotels stood strong at 78% in 1H24. Emaar's international business also recorded a growth in profitability, primarily driven by strong sales in Egypt and India. International sales rose 50% YOY to AED 1.8 Bn in 1H24. The Company's subsidiary Emaar Developments successfully launched 25 new projects in 1H24 and recorded the highest ever property sales of AED 29.7 Bn in 1H24. The Company is expected to benefit from the strong demand in the UAE's real estate sector, a robust influx of tourists and a high occupancy rate. Furthermore, the Company boasts strong recurring revenue assets, with c.1.4 Mn sq mt of properties generating leasing revenue and 38 hotels and resorts offering more than 9,200 rooms. Thus, based on our analysis, we maintain our BUY rating on the stock.

Emaar Properties - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.4	27.5	17.5	10.5	6.2	6.5
PB	1.1	1.0	1.1	1.1	0.9	0.8
EV/EBITDA	9.7	25.9	10.5	9.3	5.4	5.5
Dividend yield	NM	1.1%	1.7%	3.0%	6.1%	6.1%

FABS Estimates & Co Data

Emaar Properties – P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	5,978	6,723	7,684	7,001	9.8%	28.5%	14.3%	26,750	30,258	13.1%
Cost of revenue	-2,713	-2,702	-3,327	-2,828	17.6%	22.6%	23.1%	-9,884	-12,134	22.8%
Gross profit	3,265	4,021	4,357	4,173	4.4%	33.4%	8.4%	16,865	18,125	7.5%
Other operating income	151	131	150	147	1.7%	-1.3%	13.7%	553	605	9.4%
Other operating expenses	-48	-35	-47	-63	-26.1%	-3.1%	33.5%	-228	-272	19.4%
Selling, G&A expenses	-656	-652	-803	-770	4.2%	22.3%	23.2%	-2,786	-3,177	14.0%
EBITDA	2,713	3,466	3,657	3,487	4.9%	34.8%	5.5%	14,405	15,280	6.1%
EBIT	1,263	3,127	3,314	2,927	13.2%	162.4%	6.0%	11,752	13,849	17.8%
Depreciation of PPE	-144	-151	-161	-161	0.1%	12.2%	6.9%	-616	-645	4.6%
Depreciation of IP	-197	-188	-182	-246	-25.9%	-7.5%	-3.3%	-780	-787	0.8%
Finance income	385	495	532	525	1.3%	38.2%	7.5%	1,604	1,967	22.7%
Finance cost	-249	-233	-258	-217	19.1%	3.9%	10.7%	-1,039	-868	-16.5%
Other income	708	840	-38	840	NM	NM	NM	2,508	1,059	-57.8%
Share of assoc. profits/(-loss)	58	36	-61	41	NM	NM	NM	237	201	-15.0%
Provisions and impairment	-1,109	0	0	-153	NM	NM	NM	-1,255	-605	-51.8%
Profit before tax	2,165	4,265	3,489	4,117	-15.2%	61.2%	-18.2%	15,062	15,604	3.6%
Income tax	-32	-566	-354	-371	-4.6%	NM	-37.5%	-232	-1,716	NM
Profit from contd operation	2,133	3,699	3,136	3,746	-16.3%	47.0%	-15.2%	14,829	13,887	-6.4%
Profit for the period	2,133	3,699	3,136	3,746	-16.3%	47.0%	-15.2%	14,829	13,887	-6.4%
Non-controlling interests	-393	-778	-716	-622	15.2%	82.1%	-7.9%	-3,200	-2,777	-13.2%
Net Profit	1,740	2,921	2,419	3,124	-22.6%	39.1%	-17.2%	11,629	11,110	-4.5%

FABS estimate & Co Data

Emaar Properties - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	54.6%	59.8%	56.7%	208	-311	63.0%	59.9%	-315
EBITDA margin	45.4%	51.6%	47.6%	222	-396	53.8%	50.5%	-335
Operating margin	21.1%	46.5%	43.1%	2,200	-338	43.9%	45.8%	184
Net profit margin	29.1%	43.4%	31.5%	239	-1,196	43.5%	36.7%	-676

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 Method	9.58	70.0%	6.71
Relative Valuation (RV)	10.15	30.0%	3.05
Weighted Average Valuation (AED)			9.75
Current market price (AED)			8.15
Upside/Downside (%)			+20%

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 9.4%. It is arrived after using cost of equity of 9.7% and cost of debt of 7.7%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.00 and equity risk premium of 4.3%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 7.7% is calculated after adjusting a tax rate of 11.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	29,299
Terminal value (AED, Mn)	67,566
FV to Common shareholders (AED, Mn)	84,690
No. of share (Mn)	8,839
Current Market Price (AED)	8.15
Fair Value per share (AED)	9.58

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	11,787	9,718	10,227	10,472	10,940
D&A	1,615	1,698	1,736	1,811	1,861
Change in working capital	-8,121	121	-2,943	-3,019	-3,886
(-) Capex	-1,325	-1,561	-1,540	-1,577	-1,599
Free Cash Flow to Firm (FCFF)	3,956	9,977	7,481	7,687	7,316
Discounting Factor	0.97	0.88	0.81	0.74	0.67
Discounted FCFF	3,828	8,821	6,043	5,673	4,934

Source: FAB Securities

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 2024 EV/EBITDA multiple of 6.7x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
China Overseas Land & Investment	17,790	8.1	8.0	5.3	5.0
China Resources Land Limited	20,730	5.2	5.0	5.1	4.9
Aldar Properties	15,260	7.8	6.8	10.1	9.4
Deyaar Development	794	5.8	4.4	NA	6.7
CK Asset Holding Limited	14,090	6.7	6.2	7.6	7.2
Average		6.7x	6.1x	7.0x	6.6x
Median		6.7x	6.2x	6.4x	6.7x
Max		7.8x	6.8x	8.2x	7.2x
Min		5.8x	5.0x	5.2x	5.0x

Source: FAB Securities

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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