

Emaar Properties

Sharp rise in the cost of sales and operating expenses impacted profitability

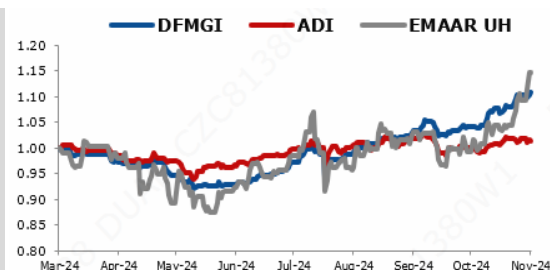
Current Price
AED 9.51

Target Price
AED 11.25

Upside/Downside (%)
+18%

Rating
BUY

- Property sales backlog increased from AED 90.1 Bn in 2Q24 to more than AED 100.0 Bn in 3Q24.
- Total EBITDA rose from AED 4,138 Mn in 3Q23 to AED 4,544 Mn in 3Q24.
- Emaar Malls reported a strong occupancy rate of 99% as of 30 September 2024, with approximately 142 Mn visitors recorded in 9M24.
- Recurring income accounted for 29.0% of total revenue and 41.0% of total EBITDA in 9M24.
- Recorded strong property sales of AED 18.5 Bn in 3Q24 compared to 11.0 Bn in 3Q23.
- Emaar Malls announced the expansion of Dubai Mall adding 240 new shops with a capex of AED 1.5 Bn.



3Q24 Net Profit higher than our estimate

Emaar Properties PJSC (Emaar/the Company) reported a 3.3% YOY decline in net profit to AED 3,183 Mn in 3Q24, surpassing our estimate of AED 2,778 Mn. The decline in net profit is primarily attributable to a substantial rise in the cost of sales and higher operating expenses along with an increase in income tax and NCI partially offset by robust growth in revenue.

P&L Highlights

Emaar Properties recorded a 53.8% YOY increase in revenue to AED 9,385 Mn in 3Q24 mainly driven by strong retail sales, new project launches, increased tourism activity, and robust demand in the real estate sector. Revenue from the sale of residential units surged 79.4% YOY to AED 6,928 Mn in 3Q24, supported by the launch of new projects and strong property sales of AED 50 Bn in 9M24, alongside a revenue backlog exceeding AED 100 Bn. Revenue from the Sale of Commercial units rose 11.5% YOY to AED 363 Mn in 3Q24. Additionally, revenue from leasing, retail, and related activities under the Emaar Malls segment grew 8.2% YOY to AED 1,637 Mn in 3Q24. The occupancy across Emaar malls stood robust at 99% as of 3Q24. The hospitality segment reported a 13.5% YOY growth in revenue to AED 458 Mn in 3Q24, driven by strong domestic spending and rising tourism activity. The hospitality revenue composition included 40% from room revenue, 26% from F&B, and 34% from other sources. Occupancy across Emaar's UAE hotels stood strong at 77% in 9M24. The cost of revenue more than doubled from AED 1,477 Mn in 3Q23 to AED 4,133 Mn in 3Q24 due to higher costs associated with residential units and retail-related activities. As a result, gross profit rose 13.6% YOY to AED 5,253 Mn in 3Q24. Other operating income increased 21.9% YOY to AED 185 Mn in 3Q24, while operating expenses grew 56.5% YOY to AED 95 Mn. SG&A expenses rose 38.3% YOY to AED 799 Mn in 3Q24, reflecting the Company's initiatives to

Stock Information

Market Cap (AED, mn)	85,647.87
Paid Up Capital (mn)	8,838.79
52 Week High	9.95
52 Week Low	7.06
3M Avg. daily value (AED)	100,057,700

3Q24 Result Review (AED, mn)

Total Assets	150,248
Total Liabilities	58,709
Total Equity	91,539
EBITDA	4,544
Net Profit	3,183

Financial Ratios

Dividend Yield (12m)	5.3
Dividend Pay-out (%)	38.00
Price-Earnings Ratio(x)	7.21
Price-to-Book Ratio (x)	1.06
Book Value (AED)	9.11
Return-on Equity (%)	15.38

Stock Performance

5 Days	-0.21%
1 Months	13.60%
3 Months	14.40%
6 Months	23.91%
1 Year	36.86%
Month to Date (MTD%)	11.51%
Quarter to Date (QTD%)	11.12%
Year to Date (YTD%)	22.35%

enhance operational efficiencies. Emaar's total EBITDA grew 9.8% YOY to AED 4,544 Mn in 3Q24, with EBITDA margins contracting by 1,940 bps YOY to 48.4%. Depreciation on PPE decreased 7.1% YOY to AED 149 Mn in 3Q24 while depreciation on investment properties fell 3.9% YOY to AED 194 Mn. The total operating profit increased 11.3% YOY to AED 4,201 Mn in 3Q24, though the operating profit margin declined from 61.9% in 3Q23 to 44.8% in 3Q24. Moreover, finance income grew 30.3% YOY to AED 553 Mn in 3Q24 due to higher returns from bank deposits and securities whereas finance costs decreased 31.5% YOY to AED 179 Mn due to lower other finance costs. Furthermore, the Company reported a loss from associates of AED 13 Mn in 3Q24 compared to a profit of AED 113 Mn in 3Q23. Other slightly declined 3.3% YOY to AED 111 Mn in 3Q24. Income tax expenses substantially rose from AED 65 Mn in 3Q23 to AED 461 Mn in 3Q24 due to the introduction of corporate tax in the UAE and increased profitability. Additionally, the share of profit attributable to non-controlling interest holders increased from 27.0% YOY to AED 1,029 Mn in 3Q24.

Balance Sheet Highlights

The Company's cash and bank balance increased to AED 42.9 Bn in 3Q24, up from AED 35.6 Bn in 2Q24. Emaar's total debt, including advances from customers, rose from AED 37.6 Bn in 2Q24 to AED 40.5 Bn in 3Q24. Additionally, the Company generated AED 7.6 Bn in cash flow from operations in 3Q24, compared to AED 6.9 Bn in 2Q24. Meanwhile, receivable days fell from 186 days in 2Q24 to 148 days in 3Q24.

Target Price and Rating

We maintain our BUY rating on Emaar Properties with a target price of AED 11.25. The Company witnessed robust growth in revenue driven by strong demand in Dubai's real estate market, consistent project execution, and sustained investor confidence. Besides, the continued expansion of Dubai's tourism sector also supported Emaar's top line. The Company's property sales surged from AED 11.0 Bn in 3Q23 to AED 18.5 Bn in 3Q24 owing to the launch of 50 projects across various masterclasses. Additionally, the property sales backlog increased to more than AED 100.0 Bn in 3Q24, providing strong revenue visibility that is expected to be recognized over the next 4-5 years. Emaar's diverse recurring revenue portfolio, which includes malls, hospitality, leisure, entertainment, and commercial leasing, reached AED 6.8 Bn in 9M24, accounting for approximately 29% of the group's total revenue in 9M24. The average occupancy rate in Emaar's UAE hotels stood strong at 77% in 9M24. Additionally, Emaar's international operations, particularly in Egypt and India, saw strong profitability growth, with international property sales reaching AED 1.9 Bn in 9M24. The Company's subsidiary, Emaar Developments, recorded property sales of AED 48.0 Bn in 9M24, with a revenue backlog of AED 93.8 Bn and a very low customer default rate c. 0.5% of sales value. Furthermore, Emaar Malls announced the expansion of Dubai Mall adding 240 new shops with a capex of AED 1.5 Bn. Post expansion, the mall will attract more visitors and various domestic and international luxury retail and F&B brands. Emaar is poised to benefit from sustained demand in the UAE's real estate market, an influx of tourists, and improved occupancy rates. 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	10.98	32.28	20.47	12.30	7.23	7.06
PB	1.27	1.23	1.26	1.29	1.08	1.04
EV/EBITDA	10.86	29.11	11.95	10.66	6.30	5.53
Dividend yield	NM	1.1%	1.6%	2.6%	5.3%	5.3%

FABS Estimates & Co Data

Emaar Properties – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	6,102	7,684	9,385	7,744	21.2%	53.8%	22.1%	26,750	33,508	25.3%
Cost of revenue	-1,477	-3,327	-4,133	-3,234	27.8%	179.7%	24.2%	-9,884	-14,229	44.0%
Gross profit	4,625	4,357	5,253	4,510	16.5%	13.6%	20.6%	16,865	19,278	14.3%
Other operating income	152	150	185	155	19.4%	21.9%	23.7%	553	653	18.1%
Other operating expenses	-60	-47	-95	-54	74.4%	56.5%	102.9%	-228	-278	21.9%
Selling, G&A expenses	-578	-803	-799	-774	3.2%	38.3%	-0.5%	-2,786	-3,099	11.3%
EBITDA	4,138	3,657	4,544	3,836	18.5%	9.8%	24.2%	14,405	16,554	14.9%
EBIT	3,775	3,314	4,201	3,486	20.5%	11.3%	26.8%	11,752	15,168	29.1%
Depreciation of PPE	-161	-161	-149	-161	-7.3%	-7.1%	-7.4%	-616	-616	-0.1%
Depreciation of IP	-202	-182	-194	-189	2.5%	-3.9%	6.7%	-780	-771	-1.2%
Finance income	424	532	553	534	3.5%	30.3%	4.0%	1,604	2,144	33.7%
Finance cost	-261	-258	-179	-255	-29.9%	-31.5%	-30.8%	-1,039	-868	-16.5%
Other income	114	-38	111	155	-28.5%	-3.3%	NM	2,508	1,089	-56.6%
Share of assoc. profits/(-loss)	113	-61	-13	-67	-81.1%	NM	-79.2%	237	12	-95.0%
Profit before tax	4,166	3,489	4,673	3,853	21.3%	12.2%	33.9%	15,062	17,110	13.6%
Income tax	-65	-354	-461	-347	33.0%	NM	30.5%	-232	-1,848	NM
Profit for the period	4,101	3,136	4,212	3,506	20.1%	2.7%	34.3%	14,829	15,262	2.9%
Non-controlling interests	-810	-716	-1,029	-728	41.3%	27.0%	43.7%	-3,200	-3,358	4.9%
Net Profit	3,291	2,419	3,183	2,778	14.6%	-3.3%	31.5%	11,629	11,904	2.4%

FABS estimate & Co Data

Emaar Properties - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	75.8%	56.7%	56.0%	-1,982	-74	63.0%	57.5%	-551
EBITDA margin	67.8%	47.6%	48.4%	-1,940	82	53.8%	49.4%	-444
Operating margin	61.9%	43.1%	44.8%	-1,711	163	43.9%	45.3%	133
Net profit margin	53.9%	31.5%	33.9%	-2,002	242	43.5%	35.5%	-795

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	11.84	70.0%	8.29
Relative Valuation (RV)	9.89	30.0%	2.97
Weighted Average Valuation (AED)			11.25
Current market price (AED)			9.51
Upside/Downside (%)			+18%

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 9.3%. It is arrived after using cost of equity of 9.5% and cost of debt of 7.8%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.00 and equity risk premium of 4.1%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 7.8% is calculated after adjusting a tax rate of 10.8%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	33,823
Terminal value (AED, Mn)	78,228
FV to Common shareholders (AED, Mn)	104,625
No. of share (Mn)	8,839
Current Market Price (AED)	9.51
Fair Value per share (AED)	11.84

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	13,141	11,887	12,290	10,852	10,959
D&A	1,586	1,699	1,740	1,817	1,871
Change in working capital	4,787	-1,287	-1,212	-1,247	-3,090
(-) Capex	-1,309	-1,662	-1,626	-1,563	-1,648
Free Cash Flow to Firm (FCFF)	18,204	10,636	11,192	9,859	8,092
Discounting Factor	0.99	0.91	0.83	0.76	0.69
Discounted FCFF	1,804¹	9,643	9,282	7,479	5,615

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local as well as international peers to value Emaar Properties and it is valued using the PB multiple. It is valued at 2024 PB multiple of 1.1x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/B (x)	
		2024F	2025F	2024F	2025F
Aldar Properties	16,119	9.8	8.6	1.5	1.4
Tecom	4,261	10.4	10.1	2.3	2.1
China Resources Land Limited	20,518	9.4	9.1	0.5	0.5
Arabian Centers	2,522	14.8	12.7	0.7	0.6
Mitsubishi Estate	17,352	14.8	14.2	1.1	1.0
Average		11.9x	10.9x	1.2x	1.1x
Median		10.4x	10.1x	1.1x	1.0x
Max		14.8x	12.7x	1.5x	1.4x
Min		9.8x	9.1x	0.7x	0.6x

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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