

Emaar Development

Higher sales and the launch of new projects drove the top-line

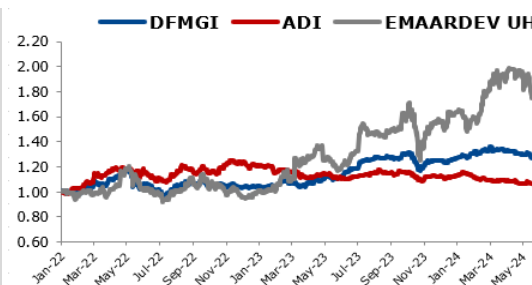
Current Price
AED 7.32

Target Price
AED 9.50

Upside/Downside (%)
+30%

Rating
BUY

- EMAARDEV recorded property sales of AED 12.9 Bn in 1Q24 as compared to AED 8.6 Bn in 1Q23.
- The Company's sales backlog stood at AED 65.7 Bn in 1Q24, indicating strong revenue visibility in the upcoming period.
- During 1Q24, EMARDEV launched the mix-use development project Zabeer Square in a joint venture with Maraas near Zabeer Park in Dubai with 1,684 units valued at AED 5.4 Bn.
- The Company launched two new expansive projects, 'The Heights Country Club' & 'Wellness and the Grand Polo Club & Resort' with combined development worth AED 96 Bn.



Stock Information

Market Cap (AED, mn)	29,280.00
Paid Up Capital (mn)	4,000.00
52 Week High	8.69
52 Week Low	5.30
3M Avg. daily value (AED)	26,009,570

1Q24 Result Review (AED, mn)

Total Assets	54,639
Total Liabilities	26,474
Total Equity	28,165
EBITDA	1,693
Net Profit	1,293

Financial Ratios

Dividend Yield (12m)	7.10
Dividend Pay-out (%)	31.38
Price-Earnings Ratio(x)	4.27
Price-to-Book Ratio (x)	1.21
Book Value (AED)	6.03
Return-on Equity (%)	31.57

Stock Performance

5 Days	0.55%
1 Months	-9.63%
3 Months	-11.70%
6 Months	7.33%
1 Year	37.59%
Month to Date (MTD%)	-1.35%
Quarter to Date (QTD%)	-12.23%
Year to Date (YTD%)	2.38%

1Q24 Net Profit lower than our estimate

Emaar Development PJSC (EMAARDEV/The Company) net profit grew 22.2% YOY to AED 1,293 Mn in 1Q24, lower than our estimate of AED 1,598 Mn. The growth in net profit is primarily driven by a strong rise in revenue owing to the successful launch of new projects coupled with the increase in finance and other income partially offset by an increase in S&G expenses, a higher share to NCI, and the introduction of corporate income tax in the UAE.

P&L Highlights

Emaar Development revenue grew strongly 47.7% YOY to AED 3,507 Mn in 1Q24, mainly due to an increase in sales of residential units driven by successful launches of new properties. Revenue from the sale of residential units grew from AED 1,985 Mn in 1Q23 to AED 3,181 Mn in 1Q24, whereas revenue from the sale of commercial units declined 16.3% YOY to AED 326 Mn in 1Q24. EMAARDEV's property sales grew 50.2% YOY to AED 12.9 Bn in 1Q24. The Company's cost of revenue rose 54.7% YOY to AED 1,619 Mn in 1Q24. Gross profit grew strongly 42.1% YOY to AED 1,888 Mn in 1Q24. However, gross margins declined 211 bps YOY to 53.8% in 1Q24. SG&A expenses rose 25.4% YOY to AED 311 Mn in 1Q24. Resultantly, the Company's operating profit grew from AED 1,081 Mn in 1Q23 to AED 1,578 Mn in 1Q24. EMAARDEV's EBITDA increased 48.4% YOY to AED 1,693 Mn in 1Q24. EBITDA margins grew 23 bps YOY to 48.3% in 1Q24. Furthermore, finance income increased from AED 150 Mn in 1Q23 to AED 259 Mn in 1Q24. Finance cost rose 20.1% YOY to AED 91 Mn in 1Q24. Moreover, other income more than doubled from AED 39 Mn in 1Q23 to AED 88 Mn in 1Q24. Share of results of JVs increased 32.0% YOY to AED 25 Mn in 1Q24. However, the share of profit attributable to non-controlling interest holders grew from AED 154 Mn in 1Q23 to AED 400 Mn in 1Q24. The Company incurred a tax expense of AED 165 Mn in 1Q24 owing to the introduction of UAE corporate tax.

Balance Sheet Highlights

Emaar Development's total debt remained stable at AED 3.7 Mn in 1Q24 as compared to 4Q23. Cash and cash equivalents increased from AED 18.4 Bn in 4Q23 to AED 20.4 Bn in 1Q24, out of which AED 15.6 Bn is held against advances received from customers for the sale of development properties into escrow accounts. The value of development properties increased to AED 16.5 Bn in 1Q24, driven by the addition of AED 5.7 Bn during 1Q24 including the land acquisition cost.

Target Price and Rating

We revise our rating on Emaar Development from ACCUMULATE to BUY with a target price of AED 9.50. The Company's share price declined 13.7% since our last rating (April 2024). EMAARDEV reported a strong rise in profitability driven by solid double-digit growth in revenue and EBITDA. EMAARDEV's property sales grew from AED 8.6 Bn in 1Q23 to AED 12.9 Bn in 1Q24. The increase in property sales is mainly driven by the launch of 10 development projects across various master plans during 1Q24. The Company's sales backlog stood at AED 65.7 Bn in 1Q24, which indicates strong revenue recognition in the upcoming period due to robust performance. During 1Q24, EMARDEV launched 'Farm Gardens 2' and 'Lillia' in 'The Valley' project. Farm Gardens 2 contains 256 units with an estimated project value of AED 2,286 Mn and Lillia hosts 406 units with a projected value of AED 958 Mn. The Valley is a township project with c.3,532 residential units valued at AED 10.9 Bn and offers shimmering sands and open-plan living. In addition, the Company launched 'Parkside Hills', 'Park Lane', and 'Vida DHE' within 'Dubai Hills Estate', a joint venture between EMAARDEV and Meraas Holdings with neighbourhoods around the Golf course. EMAARDEV also launched 'Ocean Point' within 'Rashid Yachts & Marina' with 217 sea-facing residential units valued at AED 525 Mn in 1Q24. The Company launched an additional 868 units in 'The Dubai Creek Harbor' project and 72 villas in the project 'Emaar South'. EMAARDEV launched a new joint venture project 'Zabeel Square' with Meraas Holdings situated near Zabeel Park in Dubai to build a mix-use development property. Zabeel Square offers nearly 1,684 units valued at AED 5.4 Bn in 1Q24. Additionally, the Company handed c.71,000 residential units since incorporation, while currently c.30,000 residential units are under development in UAE, with c.4,061 expected to be delivered in 2024. EMAARDEV introduced two expansive projects, 'The Heights Country Club' & 'Wellness and the Grand Polo Club & Resort'. The ventures encompass a vast area totaling 141 Mn sq ft, boasting a combined development worth of AED 96 Bn. The Company also acquired a 60 Mn sq ft land plot near 'The Oasis masterplan', with a development value of AED 41 Bn in 1Q24. Moreover, EMAARDEV approved a cash dividend of AED 0.52 per share, generating a dividend yield of 7.0% in 2023. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

Emaar Development - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	11.0	17.9	9.1	7.8	4.5	4.2
PB	3.1	2.6	2.0	1.7	1.3	1.1
EV/EBITDA	8.7	13.9	6.6	5.0	1.9	1.7
Dividend yield	NM	NM	NM	7.1%	7.1%	7.1%

FABS Estimates & Co Data

Emaar Development – P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	VAR.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	2,375	4,552	3,507	3,445	1.8%	47.7%	-23.0%	11,921	15,407	29.2%
Cost of Revenue	-1,046	-826	-1,619	-1,481	9.3%	54.7%	95.9%	-3,513	-6,471	84.2%
Gross Profit	1,329	3,726	1,888	1,964	-3.8%	42.1%	-49.3%	8,408	8,936	6.3%
S&G Expenses	-248	-420	-311	-317	-2.0%	25.4%	-26.1%	-1,183	-1,387	17.2%
Operating Profit	1,081	3,306	1,578	1,647	-4.2%	45.9%	-52.3%	7,225	7,550	4.5%
EBITDA	1,141	3,533	1,693	1,852	-8.6%	48.4%	-52.1%	7,987	8,035	0.6%
Finance Income	150	270	259	210	23.7%	73.3%	-3.8%	843	1,308	55.2%
Finance Cost	-76	-71	-91	-37	148.9%	20.1%	27.7%	-333	-285	-14.4%
Other Income	39	180	88	172	-48.7%	126.8%	-51.0%	626	354	-43.4%
Share of results of JVs	19	46	25	31	-20.6%	32.0%	-46.1%	124	124	0.0%
Profit for the year	1,212	3,730	1,859	2,023	-8.1%	53.3%	-50.2%	8,484	9,051	6.7%
Tax			-165	-182	-9.4%	NM	NM	0	-815	NM
NCI	154	1,160	400	243	65.0%	159.9%	-65.5%	1,855	1,086	-41.5%
Net Profit	1,058	2,570	1,293	1,598	-19.1%	22.2%	-49.7%	6,629	7,150	7.9%

FABS estimate & Co Data

Emaar Development – Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	56.0%	81.9%	53.8%	-211	-2,801	70.5%	58.0%	-1,253
EBITDA	48.0%	77.6%	48.3%	23	-2,935	67.0%	52.2%	-1,484
Operating Profit	45.5%	72.6%	45.0%	-53	-2,763	60.6%	49.0%	-1,160
Net Profit	44.6%	56.4%	36.9%	-768	-1,956	55.6%	46.4%	-920

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF Method	9.12	70.0%	6.39
Relative Valuation (RV)	10.38	30.0%	3.11
Weighted Average Valuation (AED)			9.50
Current market price (AED)			7.32
Upside/Downside (%)			+30%

1) DCF Method:

Emaar Development is valued using free cash flow to Equity since there is negligible debt in the company. We have discounted the cash flow using the cost of equity of 9.7%. The cost of equity is calculated by using a 10-year government bond yield of 5.7%, beta of 1.00 and equity risk premium of 3.9%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	15,557
Terminal value (AED, Mn)	26,051
FV to Common shareholders (AED, Mn)	36,487
No. of share (Mn)	4,000
Current Market Price (AED)	7.32
Fair Value per share (AED)	9.12

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash flow from operations	6,085	3,429	2,747	3,811	3,003
(-) Capex	-9	-10	-11	-12	-14
Free Cash Flow to Equity (FCFE)	6,076	3,419	2,735	3,798	2,990
Discounting Factor	0.95	0.86	0.79	0.72	0.66
Discounted FCFE	5,759	2,954	2,156	2,729	1,959

Source: FAB Securities

2) Relative Valuation:

We have considered the local peers to value Emaar Development and excluded the regional peers. The regional peers trade at a higher EV/EBITDA valuation compared to the local peers. Hence, it is valued at a 2024 EV/EBITDA multiple of 5.8x, in line with the local peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2024F	2025F	2024F	2025F
<u>Local peers</u>					
Deyaar Development	834	5.8	5.1	8.8	7.8
Aldar Properties	11,880	7.8	6.7	9.1	7.5
Emaar Properties	18,192	3.9	3.4	6.4	5.9
Average		5.8x	5.1x	8.1x	7.1x
Median		5.8x	5.1x	8.8x	7.5x
Max		6.8x	5.9x	8.9x	7.6x
Min		4.8x	4.3x	7.6x	6.7x

Source: FAB Securities

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2024F	2025F	2024F	2025F
Regional Peers					
Arabian Centres Co	2,710	13.9	11.1	8.4	8.0
Saudi Real Estate Company	2,000	17.6	15.8	29.0	23.8
MIVNE Real Estate KD Ltd	1,760	17.4	16.2	NA	NA
Average		16.3x	14.4x	18.7x	15.9x
Median		17.4x	15.8x	18.7x	15.9x
Max		17.5x	16.0x	23.8x	19.8x
Min		15.6x	13.5x	13.6x	11.9x

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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