

Emaar Development

Robust growth in sales driven by the launch of new projects drove the top-line

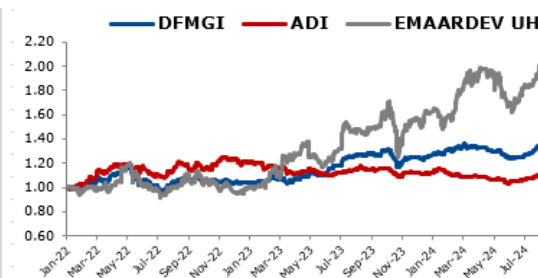
Current Price
AED 8.15

Target Price
AED 9.50

Upside/Downside (%)
+17%

Rating
BUY

- EMAARDEV recorded property sales of AED 16.8 Bn in 2Q24 compared to AED 10.4 Bn in 2Q23.
- The Company's sales backlog stood at AED 74.2 Bn in 2Q24, indicating strong revenue visibility in the upcoming period.
- EMAARDEV launched the second phase of its masterplan "The Valley" in 2Q24.
- The Company launched two new projects in 1Q24, 'The Heights Country Club' & 'Wellness and the Grand Polo Club & Resort' with combined development worth AED 96 Bn.



2Q24 Net Profit lower than our estimate

Emaar Development PJSC (EMAARDEV/The Company) net profit grew 8.0% YOY to AED 1,208 Mn in 2Q24, lower than our estimate of AED 1,555 Mn. The growth in net profit is primarily driven by a strong rise in revenue owing to an increase in property sales coupled with higher finance income partially offset by a sharp rise in the cost of revenue, S&G expenses, finance cost, NCI, and tax charges.

P&L Highlights

Emaar Development's revenue grew 84.2% YOY to AED 3,831 Mn in 2Q24, mainly due to a substantial rise in the sale of residential units driven by successful launches of new properties. Revenue from the sale of residential units almost doubled from AED 1,876 Mn in 2Q23 to AED 3,595 Mn in 2Q24, whereas revenue from the sale of commercial units grew 15.3% YOY to AED 236 Mn in 2Q24. EMAARDEV's property sales grew 61.4% YOY to AED 16.8 Bn in 2Q24. The Company's cost of revenue rose 63.7% YOY to AED 1,812 Mn in 2Q24. Gross profit more than doubled from AED 974 Mn in 2Q23 to AED 2,019 Mn in 2Q24 and gross margins grew 590 bps YOY to 52.7%. SG&A expenses sharply rose 77.4% YOY to AED 372 Mn in 2Q24. Moreover, the Company's operating profit grew significantly from AED 764 Mn in 2Q23 to AED 1,648 Mn in 2Q24. EMAARDEV's EBITDA increased 45.5% YOY to AED 1,692 Mn in 2Q24. However, EBITDA margin fell 1,175 bps YOY to 44.2% in 2Q24. Furthermore, finance income increased 33.4% YOY to AED 270 Mn in 2Q24. Finance cost rose 62.1% YOY to AED 150 Mn in 2Q24. Moreover, other income recorded a significant decline from AED 372 Mn in 2Q23 to AED 26 Mn in 2Q24. The share of JVs' results fell 31.0% YOY to AED 17 Mn in 2Q24. However, the share of profit attributable to non-controlling interest holders grew from AED 151 Mn in 2Q23 to AED 440 Mn in 2Q24. The Company incurred a tax expense of AED 162 Mn in 2Q24 due to the UAE corporate tax introduction.

Stock Information

Market Cap (AED, mn)	33,240.00
Paid Up Capital (mn)	4,000.00
52 Week High	8.83
52 Week Low	5.45
3M Avg. daily value (AED)	16,448,990

2Q24 Result Review (AED, mn)

Total Assets	58,181
Total Liabilities	30,454
Total Equity	27,727
EBITDA	1,692
Net Profit	1,208

Financial Ratios

Dividend Yield (12m)	6.40
Dividend Pay-out (%)	31.38
Price-Earnings Ratio(x)	4.79
Price-to-Book Ratio (x)	1.43
Book Value (AED)	5.81
Return-on Equity (%)	33.39

Stock Performance

5 Days	1.96%
1 Months	0.85%
3 Months	6.68%
6 Months	8.20%
1 Year	32.54%
Month to Date (MTD%)	-2.12%
Quarter to Date (QTD%)	3.88%
Year to Date (YTD%)	16.22%

Balance Sheet Highlights

Emaar Development's total debt remained stable at AED 3.7 Mn in 2Q24 as compared to 1Q24. Cash and cash equivalents increased from AED 20.4 Bn in 1Q24 to AED 23.7 Bn in 2Q24, out of which AED 18.9 Bn is held against advances received from customers for the sale of development properties into escrow accounts. The value of development properties remained stable at AED 16.5 Bn in 2Q24 compared to 1Q24.

Target Price and Rating

We maintain our BUY rating on Emaar Development an unchanged target price of AED 9.50. EMAARDEV reported a strong rise in profitability driven by robust growth in property sales owing to strong demand in UAE's real estate sector. EMAARDEV's property sales grew from AED 10.4 Bn in 2Q23 to AED 16.8 Bn in 2Q24 driven by new project launches in existing masterplans. The increase in property sales is mainly driven by the launch of 25 development projects during 1H24. The Company's sales backlog increased to AED 74.2 Bn in 2Q24, 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. The Company further launched the second phase of its master plan "The Valley" in 2Q24. Additionally, the Company has handed over c.72,000 residential units since incorporation, while currently, c.33,500 residential units are under development. EMAARDEV introduced two new projects in 1Q24, 'The Heights Country Club' & 'Wellness and the Grand Polo Club & Resort' spanning over 141 Mn sq ft, boasting a combined development worth of AED 96 Bn. Continuous project launches and a strong revenue backlog will ensure revenue stability for the company in the upcoming years. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

Emaar Development - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	12.1	19.7	10.0	8.6	4.9	6.2
PB	3.4	2.9	2.2	1.9	1.4	1.25
EV/EBITDA	9.4	15.2	7.3	5.7	2.2	4.6
Dividend yield	NM	NM	NM	6.4%	6.4%	6.4%

FABS Estimates & Co Data

Emaar Development - P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	2,080	3,507	3,831	3,688	3.9%	84.2%	9.3%	11,921	14,796	24.1%
Cost of Revenue	-1,107	-1,619	-1,812	-1,715	5.7%	63.7%	12.0%	-3,513	-6,806	93.7%
Gross Profit	974	1,888	2,019	1,973	2.3%	107.4%	6.9%	8,408	7,990	-5.0%
S&G Expenses	-210	-311	-372	-302	22.9%	77.4%	19.7%	-1,183	-1,376	16.3%
Operating Profit	764	1,578	1,648	1,671	-1.4%	115.6%	4.4%	7,225	6,614	-8.5%
EBITDA	1,163	1,693	1,692	1,780	-4.9%	45.5%	0.0%	7,987	6,974	-12.7%
Finance Income	202	259	270	330	-18.2%	33.4%	4.1%	843	1,100	30.5%
Finance Cost	-93	-91	-150	-97	54.7%	62.1%	65.1%	-333	-462	38.6%
Other Income	372	88	26	85	-69.3%	-93.0%	-70.6%	626	266	-57.5%
Share of results of JVs	24	25	17	22	-24.4%	-31.0%	-32.0%	124	87	-30.0%
Profit for the year	1,270	1,859	1,810	2,010	-10.0%	42.5%	-2.6%	8,484	7,605	-10.4%
Tax	0	-165	-162	-181	-10.4%	NM	-1.8%	0	-684	NM
NCI	151	400	440	274	60.4%	191.3%	9.9%	1,855	1,673	-9.8%
Net Profit	1,119	1,293	1,208	1,555	-22.3%	8.0%	-6.6%	6,629	5,248	-20.8%

FABS estimate & Co Data

Emaar Development - Margins

	2Q23	1Q24	2Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	46.8%	53.8%	52.7%	590	-114	70.5%	54.0%	-1,653
EBITDA	55.9%	48.3%	44.2%	-1,175	-410	67.0%	47.1%	-1,986
Operating Profit	36.7%	45.0%	43.0%	628	-198	60.6%	44.7%	-1,590
Net Profit	53.8%	36.9%	31.5%	-2,225	-536	55.6%	35.5%	-2,014

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	9.56	70.0%	6.97
Relative Valuation (RV)	8.44	30.0%	2.53
Weighted Average Valuation (AED)			9.50
Current market price (AED)			8.15
Upside/Downside (%)			+17%

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 5.9%, 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)	14,816
Terminal value (AED, Mn)	31,357
FV to Common shareholders (AED, Mn)	39,833
No. of share (Mn)	4,000
Current Market Price (AED)	8.15
Fair Value per share (AED)	9.56

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash flow from operations	6,148	3,013	2,403	2,668	3,560
(-) Capex	-9	-10	-11	-13	-15
Free Cash Flow to Equity (FCFE)	6,140	3,003	2,391	2,655	3,546
Discounting Factor	0.97	0.88	0.80	0.73	0.67
Discounted FCFE	5,936	2,647	1,921	1,945	2,367

Source: FAB Securities

2) Relative Valuation:

We have considered the local peers to value Emaar Development. We have excluded the regional peers as the regional peers exhibit significantly higher EV/EBITDA multiple 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
Local peers					
Deyaar Development	794	5.8	4.4	NA	6.7
Aldar Properties	15,260	7.8	6.8	10.1	9.4
Emaar Properties	19,520	2.6	2.1	6.3	5.8
Average		5.4x	4.4x	8.2x	7.3x
Median		5.8x	4.4x	8.2x	6.7x
Max		6.8x	5.6x	9.1x	8.1x
Min		4.2x	3.2x	7.2x	6.2x

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<u>Regional Peers</u>					
Arabian Centres Co	2,690	13.3	10.9	9.7	8.7
Saudi Real Estate Company	2,170	17.6	15.8	42.6	26.7
MIVNE Real Estate KD Ltd	2,190	17.4	16.2	NA	NA
Average		16.1x	14.3x	26.2x	17.7x
Median		17.4x	15.8x	26.2x	17.7x
Max		17.5x	16.0x	34.4x	22.2x
Min		15.3x	13.4x	17.9x	13.2x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.