

RAK Properties

Strong recurring revenue and higher property sales supported profitability

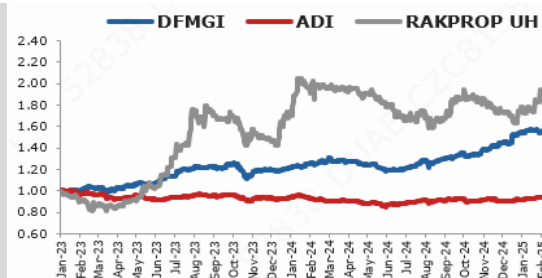
Current Price
AED 1.39

Target Price
AED 1.65

Upside/Downside (%)
+19%

Rating
BUY

- RAKPROP boast a strong revenue backlog of AED 1.9 Bn as of December 2024.
- RAKPROP generated AED 261 Mn in recurring revenue from its hospitality, retail, and leasing assets, reflecting stable demand across its income-generating portfolio.
- The Company announced its Mina masterplan with an AED 5 Bn GDV development pipeline for 2025.
- The Company also announced its partnership with Four Seasons to introduce a luxury beach resort and private residences at Mina.
- The Company's Mirasol, a luxury development featuring studios, apartments, and duplexes, first phase 1, successfully sold -out.



4Q24 Net Profit higher than our estimate

RAK Properties (RAKPROP/the Company) net profit grew significantly from AED 78 Mn in 4Q23 to AED 160 Mn in 4Q24, higher than our estimate of AED 46 Mn. The strong growth in net profit is primarily driven by a higher revenue growth across all the segments particularly in hospitality and property sales along with increased other income partially offset by a sharp rise in the cost of sales, SG&A expenses, and tax charges.

P&L Highlights

RAK Properties revenue grew 61.5% YOY to AED 515 Mn in 4Q24, mainly due to a substantial across the property sales and hospitality segments. Revenue from the sale of properties grew 59.1% YOY to AED 429 Mn in 4Q24. RAKPROP's revenue from the hospitality business grew substantially from AED 36 Mn in 4Q23 to AED 70 Mn in 4Q24 driven by solid contribution from the food and restaurant revenue. The Company's occupancy rate in the intercontinental hotel stood at 68.9%, while at the Antara resort stood at 53.3% during 4Q24. Furthermore, the Company's asset management segment revenue grew 16.5% YOY to AED 16 Mn in 4Q24. RAKPROP's cost of sales rose 63.1% YOY to AED 315 Mn in 4Q24. However, gross profit grew strongly from AED 126 Mn in 4Q23 to AED 200 Mn in 4Q24 due to higher revenue. However, gross margins declined 61 bps YOY to 38.9% in 4Q24. SG&A expenses recorded a sharp rise from AED 41 Mn in 4Q23 to AED 92 Mn in 4Q24. Other income grew strongly from AED 14 Mn in 4Q23 to AED 74 Mn in 4Q24. Thus, the Company's operating profit grew from AED 99 Mn in 4Q23 to AED 182 Mn in 4Q24. RAKPROP's EBITDA grew 25.0% YOY to AED 139 Mn in 4Q24. Furthermore, finance cost declined 12.2% YOY to AED 21 Mn in 4Q24. Finance income grew from AED 4 Mn in 4Q23 to AED 14 Mn in 4Q24. The Company incurred a tax expense of AED 15 Mn in 4Q24, owing to the introduction of UAE corporate tax.

Stock Information

Market Cap (AED, mn)	4,170.00
Paid Up Capital (mn)	3,000.00
52 Week High	1.43
52 Week Low	0.99
3M Avg. daily value (AED)	9,836,488

4Q24 Result Review (AED, mn)

Total Assets	8,012
Total Liabilities	2,485
Total Equity	5,527
EBITDA	139
Net Profit	160

Financial Ratios

Dividend Yield (12m)	1.79
Dividend Pay-out (%)	32.04
Price-Earnings Ratio(x)	5.55
Price-to-Book Ratio (x)	0.75
Book Value (AED)	1.84
Return-on Equity (%)	5.71

Stock Performance

5 Days	1.46%
1 Months	18.80%
3 Months	25.23%
6 Months	32.38%
1 Year	7.88%
Month to Date (MTD%)	14.88%
Quarter to Date (QTD%)	21.93%
Year to Date (YTD%)	21.93%

Balance Sheet Highlights

RAKPROP's total debt declined from AED 1.32 Bn in 3Q24 to AED 1.26 Bn in 4Q24. The Company's total assets grew 24.0% YOY and 3.5% QOQ to AED 8.0 Bn in 4Q24. RAKPROP's investment properties grew from AED 1.5 Bn in 3Q24 to AED 1.6 Bn in 4Q24. The Company's trading properties under development grew from AED 2.35 Bn in 3Q24 to AED 2.40 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on RAK Properties with a revised target price of AED 1.65. The Company's stock price grew 27.3% since our last rating. RAKPROP delivered strong growth in profitability driven by higher revenue across all the segments in 4Q24. RAKPROP continued to progress across its residential, commercial and hospitality portfolios. The Company witnessed high demand and performance across its hospitality and residential portfolio, with AED 1,389 Mn in sales value as of December 2024. RAKPROP generated AED 261 Mn in recurring revenue from its hospitality, retail, and leasing assets, reflecting stable demand across its income-generating portfolio. The Company also announced a partnership with Minor Hotels to introduce Anantara Branded Residences, which is set to launch in 1H25, enhancing its growth potential in the hospitality segment. Furthermore, the Company holds approximately 50 million sq. ft. land bank in Mina Al Arab for residential property sales while it has 1 Mn sq. ft. GLA under asset management. Recently, the Company announced its Mina masterplan with an AED 5 Bn GDV development pipeline for 2025, including diverse luxury residences, waterfront villas and branded apartments. The project is set to include the Mina yacht club, harbour, and Mina Boulevard featuring vibrant retail and dining 137 retail outlets across 23,000 sqm. Additionally, the Company also announced its partnership with Four Seasons to introduce a luxury beach resort and private residences at Mina, which will feature c.150 rooms, suites, and signature villas alongside 130 private residences. The Company's Mirasol, a luxury development featuring studios, apartments, and duplexes first phase 1, successfully sold out underscoring the strong demand for RAK Properties residential offerings. RAKPROP boast a strong revenue backlog of AED 1.9 Bn as of December 2024. The extensive land bank, coupled with robust demand, promises strong revenue visibility. Thus, considering the abovementioned factors, we maintain our BUY rating on the stock.

RAK Properties - Relative valuation

(at CMP)	2020	2021	2,022	2023	2024	2025F
PE	24.7	13.9	91.2	13.9	12.2	20.2
PB	0.7	0.7	0.7	0.6	0.5	0.5
EV/EBITDA	25.4	16.2	36.2	12.9	9.6	9.0
Dividend yield	NA	NA	NA	2.1%	NA	NA

FABS Estimates & Co Data

RAK Properties – P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch.	QOQ Ch.	2023	2024	YOY ch.
Revenue	319	281	515	300	71.5%	61.5%	83.3%	1,005	1,406	39.9%
Cost of sales	-193	-179	-315	-191	64.4%	63.1%	75.3%	-640	-863	35.0%
Gross Profit	126	101	200	109	84.1%	59.0%	97.5%	365	543	48.7%
SG&A Expenses	-41	-51	-92	-46	101.8%	127.1%	80.6%	-139	-249	78.8%
Other income/ (exp)	14	3	74	6	NM	NM	NM	31	80	159.7%
EBITDA	111	66	139	87	59.2%	25.0%	110.5%	278	376	35.2%
EBIT	99	53	182	69	162.3%	82.8%	242.1%	257	373	45.5%
Finance cost	-24	-22	-21	-23	-8.7%	-12.2%	-7.3%	-66	-90	35.5%
Finance income	4	5	14	5	NM	NM	NM	14	28	102.8%
Other non-opera inc/(exp)	-2	0	0	0	NM	NM	NM	-2	-3	47.8%
Profit before tax	78	36	175	51	242.3%	124.6%	392.2%	202	308	52.7%
Tax	0	3	15	5	NM	NM	NM	0	27	NM
Net Profit	78	32	160	46	NM	105.0%	392.9%	202	281	39.2%

FABS estimate & Co Data

RAK Properties - Margins

	4Q23	3Q24	4Q24	YOY Ch.	QOQ Ch.	2023	2024	YOY ch.
Gross Profit	39.5%	36.1%	38.9%	-61	280	36.3%	38.6%	226
EBITDA	34.7%	23.4%	26.9%	-785	348	27.7%	26.7%	-94
Operating Profit	31.2%	18.9%	35.3%	413	NM	25.5%	26.6%	102
Net Profit	24.4%	11.5%	31.0%	658	NM	20.1%	20.0%	-11

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF Method	1.88	70.0%	1.32
Relative Valuation (RV)	1.13	30.0%	0.34
Weighted Average Valuation (AED)			1.65
Current market price (AED)			1.39
Upside/Downside (%)			+19%

1) DCF Method:

RAK Properties is valued using free cash flow to Firm. We have discounted the cash flow using the cost of equity of 8.7%. The cost of equity is calculated by using a 10-year government bond yield of 5.2%, beta of 0.93 and equity risk premium of 3.7%. Government bond yield is calculated after adding UAE's 10-year spread over 10-year US risk-free rate. The cost of debt is calculated using the cost of 6.3% after adjusting a tax rate arriving at after-tax cost of debt of 5.8%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	1,825
Terminal value (AED, Mn)	4,619
FV to Common shareholders (AED, Mn)	5,645
No. of share (Mn)	3,000
Current Market Price (AED)	1.39
Fair Value per share (AED)	1.88

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	254	258	297	316	329	347
(+/-) Depreciation & amortization	44	43	44	46	47	49
(+/-) CAPEX	-70	-70	-70	-70	-70	-70
(+/-) Working Capital	539	10	-39	35	45	35
Free Cash Flow to Firm (FCFF)	767	241	233	327	351	361
Discounting Factor	0.93	0.86	0.80	0.74	0.69	0.64
Discounted FCFE	712	208	187	244	243	232

Source: FAB Securities

2) Relative Valuation:

We have considered the local and international peers to value Rak Properties. It is valued at a 2025 EV/EBITDA multiple of 12.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Arabian Centres	2,681	15.5	13.1	10.8	8.8
TECOM Group	4,342	10.4	10.0	12.5	11.5
Poly Developments and Holdings Group Co., Ltd.	13,579	20.1	17.7	10.0	9.3
Aldar Properties	18,922	8.3	7.5	9.2	8.9
Emaar Properties PJSC	34,409	6.3	5.9	8.8	8.8
Union Properties PJSC	500	5.9	4.2	5.4	3.9
Retal	2,102	22.8	17.5	32.2	22.4
Dar Al Arkan Real Estate Development Co.	5,049	19.7	16.6	30.9	15.6
Average		13.6x	11.5x	15.0x	11.1x
Median		12.9x	11.5x	10.4x	9.1x
Max		19.8x	16.8x	17.1x	12.5x
Min		7.8x	7.1x	9.1x	8.8x

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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