

Emaar Development

Robust property sales provide solid visibility over the medium-term

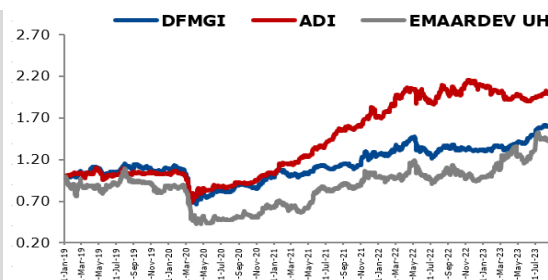
Current Price
AED 6.43

Target Price
AED 7.20

Upside/Downside (%)
+12%

Rating
ACCUMULATE

- Property sales of AED 10.4 Bn in 2Q23 as compared to AED 8.4 Bn in 2Q22.
- Emaar Development Company launched its new project, The Oasis, covering more than 100 Mn square feet of land. The project is expected to offer more than 7,000 residential units with a development value of c. USD 20 Bn featuring exceptional architectural design.
- Emaar Development delivered around 3,500 residential units during 2Q23 as compared to 1,600 units in 1Q23
- The Company sales backlog stood at AED 53.2 Bn in 1H2023, providing revenue visibility over time.



Stock Information

Market Cap (AED, mm)	25,720.00
Paid Up Capital (mm)	4,000.00
52 Week High	6.78
52 Week Low	4.12
3M Avg. daily value (AED)	12,915,720

2Q23 Net Profit higher than our estimate

Emaar Development PJSC (EMAARDEV/The Company) net profit marginally declined 1.9% YOY to AED 1,119 Mn in 2Q23, higher than our expectation of AED 859 Mn. The Company's net profit mainly declined due to a delay in the recognition of new launches partially offset by a decline in expense, higher finance income and forfeiture income from sales cancellation.

P&L Highlights

Emaar Development revenue declined 44.0% YOY to AED 2,080 Mn in 2Q23 due to a delay in the recognition of new launches. Revenue from the sale of residential units fell 44.4% YOY to AED 1,876 Mn in 2Q23 whereas revenue from the sale of commercial units reduced 40.1% YOY to AED 205 Mn in 2Q23. However, the Company's off-plan property sales rose 24.2% YOY to AED 10.4 Bn in 2Q23. It recorded property sales of AED 19 Bn in 1H2023 as compared to AED 15 Bn in 1H2022. Emaar development launched 16 properties in 1H23 out of which seven properties were launched in 1Q23. The Company's cost of revenue declined 47.8% YOY to AED 1,107 Mn in 2Q23. Thus, gross profit fell 38.9% YOY to AED 974 Mn in 2Q23. The Company's SG&A expenses reduced 37.0% YOY to AED 210 Mn in 2Q23 mainly due to a decline in sales and marketing expenses and other expenses. As a result, the Company's operating profit declined 39.4% YOY to AED 764 Mn in 2Q23 while the operating profit margin improved 281 bps YOY to 36.7% in 2Q23. The Company's EBITDA declined 10.9% YOY to AED 1,163 Mn in 2Q23. However, the EBITDA margin improved significantly from 35.1% in 2Q22 to 55.9% in 2Q23 due to higher income from forfeiture income from sales cancellations. Furthermore, EMAARDEV's finance income increased significantly from AED 43 Mn in 2Q22 to AED 202 Mn in 2Q23 as the group received AED 79 Mn on unwinding of long-term receivable. Finance cost rose 42.2% YOY to AED 93 Mn in 2Q23 due to higher interest rates.

2Q23 Result Review (AED, mm)

Total Assets	44,341
Total Liabilities	23,872
Total Equity	20,469
EBITDA	1,163
Net Profit	1,119

Financial Ratios

Dividend Yield (12m)	8.09
Dividend Pay-out (%)	54.62
Price-Earnings Ratio(x)	6.83
Price-to-Book Ratio (x)	1.40
Book Value (AED)	4.60
Return-on Equity (%)	21.64

Stock Performance

5 Days	2.55%
1 Months	0.63%
3 Months	25.59%
6 Months	35.37%
1 Year	32.30%
Month to Date (MTD%)	1.42%
Quarter to Date (QTD%)	11.25%
Year to Date (YTD%)	45.81%

Moreover, the Company's other income increased significantly from AED 18 Mn in 2Q22 to AED 372 Mn in 2Q23 as the Company received forfeiture income from sales cancellation in 2Q23. Share of results of JVs marginally declined 1.9% YOY to AED 24 Mn in 2Q23. In addition, the share of profit attributable to non-controlling interest holders rose 7.3% YOY to AED 151 Mn in 2Q23.

Balance Sheet Highlights

Emaar Development's total debt stood at AED 0.6 Mn in 2Q23 as compared to AED 0.2 Mn in 1Q23. Cash and cash equivalents increased from AED 12.9 Bn in 1Q23 to AED 15.2 Bn in 2Q23 out of which AED 12.5 Bn is held against advances received from customers for the sale of development properties into escrow accounts. Furthermore, the Company generated AED 3.7 Bn in cash flow from operations during 2Q23 as against AED 3.2 Bn in 1Q23.

Target Price and Rating

We maintain our ACCUMULATE rating on Emaar development with a revised target price of AED 7.20. Emaar Development continued to record property sales of AED 10.4 Bn in 2Q23 as compared to AED 8.4 Bn in 2Q22. The increase in property sales is mainly driven by the launch of 16 development projects during 1H23 out of which seven were launched in 1Q23. Emaar Development's sales backlog stood at AED 53.2 Bn in 2Q23 as against AED 45.7 Bn during 1Q23, indicating strong revenue visibility in the upcoming period. In June 2023, the Company launched its new project "The Oasis" by Emaar, covering more than 100 Mn square feet of land. The development value of the project is USD 20 Bn which features exceptional architectural design. The Oasis will offer more than 7,000 luxury homes, mansions, and villas with scenic water views, spacious plots, canals, lakes, and parks. Emaar Development delivered around 3,500 residential units around during 2Q23 as compared to 1,600 units in 1Q23 in prime locations like Dubai Creek Harbour, Downtown Dubai, Dubai Hills Estate, Emaar South, Dubai Marina, Emaar Beachfront, and Arabian Ranches. In addition, the Company handed over around 63,000 residential units as of June 2023 since incorporation whereas currently, 28,000 residential units are under development in UAE. Emaar's exclusive access to a huge land bank enables it to make minimum upfront cash investment for the land acquisition, reducing the capital requirement. High cash flow generation coupled with negligible debt puts the company in a strong sustainable position to expand and carry out its business. Thus, considering the above-mentioned factors, we maintain our ACCUMULATE rating on the stock.

Emaar Development - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	6.66	9.63	15.69	8.01	6.83	6.43
PB	3.27	2.71	2.31	1.79	1.50	1.28
EV/EBITDA	4.56	7.65	12.34	5.81	4.10	2.94
Dividend yield	8.0%	NM	NM	NM	8.0%	8.0%

FABS Estimates & Co Data

Emaar Development – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,714	2,375	2,080	2,478	-16.0%	-44.0%	-12.4%	11,541	9,193	-20.3%
Cost of Revenue	-2,122	-1,046	-1,107	-1,313	-15.7%	-47.8%	5.8%	-6,357	-4,597	-27.7%
Gross Profit	1,592	1,329	974	1,165	-16.4%	-38.9%	-26.7%	5,184	4,597	-11.3%
S&G Expenses	-332	-248	-210	-248	-15.5%	-37.0%	-15.4%	-1,229	-938	-23.7%
Operating Profit	1,260	1,081	764	917	-16.7%	-39.4%	-29.3%	3,954	3,659	-7.5%
EBITDA	1,305	1,141	1,163	979	18.8%	-10.9%	2.0%	4,224	4,378	3.6%
Finance Income	43	150	202	99	104.2%	NM	35.2%	381	572	50.0%
Finance Cost	-65	-76	-93	-77	20.1%	42.2%	22.3%	-330	-347	5.1%
Other Income	18	39	372	25	NM	NM	NM	85	570	NM
Share of results of JVs	25	19	24	35	-30.6%	-1.9%	30.1%	174	139	-20.0%
Profit for the year	1,281	1,212	1,270	998	27.2%	-0.9%	4.7%	4,265	4,593	7.7%
NCI	141	154	151	140	8.1%	7.3%	-1.9%	457	551	20.7%
Net Profit	1,140	1,058	1,119	859	30.3%	-1.9%	5.7%	3,808	4,042	6.1%

FABS estimate & Co Data

Emaar Development - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	42.9%	56.0%	46.8%	393	-916	44.9%	50.0%	508
EBITDA margin	35.1%	48.0%	55.9%	2,078	788	36.6%	47.6%	1,102
Operating margin	33.9%	45.5%	36.7%	281	-879	34.3%	39.8%	554
Net profit margin	30.7%	44.6%	53.8%	2,308	921	33.0%	44.0%	1,097

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 RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	6.85	70.0%	4.79
Relative Valuation (RV)	8.01	30.0%	2.40
Weighted Average Valuation (AED)			7.20
Current market price (AED)			6.43
Upside/Downside (%)			+12%

1) DCF Method:

Emaar Development is valued using free cash flow to Equity since the company has negligible debt. 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 5.1%, beta of 1.06 and equity risk premium of 4.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,950
Terminal value (AED, Mn)	18,817
FV to Common shareholders (AED, Mn)	27,398
No. of share (Mn)	4,000
Current Market Price (AED)	6.43
Fair Value per share (AED)	6.85

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Cash flow from operations	264	2,197	2,099	3,664	2,145
(-) Capex	0	-14	-17	-16	-16
Free Cash Flow to Equity (FCFE)	264	2,183	2,082	3,648	2,129
Discounting Factor	0.97	0.88	0.80	0.73	0.67
Discounted FCFE	256	1,925	1,674	2,673	1,422

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Emaar Development and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 7.5x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
CHINA OVERSEAS LAND & INVESTMENT LTD.	22,471	8.6	7.2	6.1	5.5
LONGFOR GROUP HOLDINGS LIMITED	13,410	5.3	5.4	4.3	4.2
CHINA RESOURCES LAND LIMITED	28,953	6.3	6.0	6.9	6.3
POLY DEVELOPMENTS & HOLDINGS GROUP CO., LTD.	23,272	8.9	7.6	8.4	7.7
CHINA VANKE CO., LTD.	21,617	5.5	5.5	7.8	7.6
ALDAR PROPERTIES	10,940	9.6	7.9	12.5	11.7
Average		7.4x	6.6x	7.7x	7.2x
Median		7.5x	6.6x	7.4x	6.9x
Max		8.8x	7.5x	8.2x	7.7x
Min		5.7x	5.7x	6.3x	5.7x

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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