

## Emaar Development

Solid property sales and reversal of cost accruals drove profitability

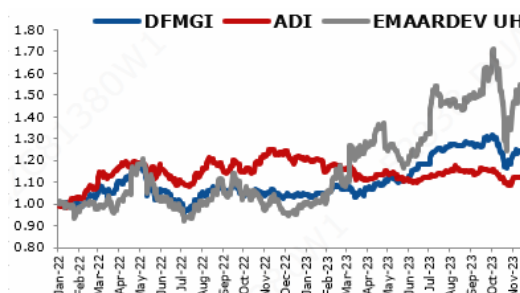
**Current Price**  
AED 6.91

**Target Price**  
AED 8.50

**Upside/Downside (%)**  
+23%

**Rating**  
**BUY**

- Emaar Development recorded property sales of AED 9.9 Bn in 3Q23 as compared to AED 10.4 Bn in 2Q23
- Emaar Development Company launched its new project, 'Palmiera' within 'The Oasis'. Whereas The Oasis covers 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 2,700 residential units in 3Q23 as compared to 3,500 units in 2Q23
- Emaar Development's sales backlog stood at AED 59.6 Bn in 3Q23 as compared to AED 53.2 Bn in 2Q23 providing solid revenue visibility over time.



### 3Q23 Net Profit higher than our estimate

Emaar Development PJSC (EMAARDEV/The Company) net profit grew significantly from AED 648 Mn in 3Q22 to AED 1,882 Mn in 3Q23, higher than our forecast of AED 881 Mn. The growth in net profit is primarily attributable to a strong rise in revenue owing to the successful launches of new projects along with a decline in cost of revenue due to the project accruals on certain projects and written back AED 1.06 Bn and higher finance income partially offset by an increase in S&G expenses and NCI.

### P&L Highlights

Emaar Development revenue grew 41.7% YOY to AED 2,914 Mn in 3Q23 due to an increase in sales of residential units. Revenue from the sale of residential units grew 52.5% YOY to AED 2,588 Mn in 3Q23 whereas revenue from the sale of commercial units declined 9.6% YOY to AED 326 Mn in 3Q23. EMAARDEV's property sales grew 24.5% YOY to AED 9.9 Bn in 3Q23. It recorded property sales of AED 28.9 Bn in 9M23 compared to AED 23.2 Bn in 9M22. Emaar Development's cost of revenue declined 53.5% YOY to AED 534 Mn in 3Q23 as the Company recorded reversal of cost accruals during the period. Thus, gross profit grew substantially from AED 908 Mn in 3Q22 to AED 2,380 Mn in 3Q23. The Company's SG&A expenses grew 13.6% YOY to AED 306 Mn in 3Q23 mainly due to a rise in sales and marketing, payroll, and property management expenses. The Company's operating profit grew from AED 639 Mn in 3Q22 to AED 2,074 Mn in 3Q23. Emaar Development's EBITDA grew from AED 705 Mn in 3Q22 to AED 2,150 Mn in 3Q23. Furthermore, EMAARDEV's finance income increased significantly from AED 151 Mn in 3Q22 to AED 221 Mn in 3Q23 as the group received higher finance income on deposit partially offset by decline in unwinding of long-term receivable. Finance cost rose 3.4% YOY to AED 93 Mn in 3Q23 due to higher unwinding on long-term payables partially offset by lower interest expense.

### Stock Information

Market Cap (AED, mm)	27,640.00
Paid Up Capital (mm)	4,000.00
52 Week High	7.60
52 Week Low	4.12
3M Avg. daily value (AED)	19,903,310

### 3Q23 Result Review (AED, mm)

Total Assets	45,234
Total Liabilities	22,494
Total Equity	22,741
EBITDA	2,150
Net Profit	1,882

### Financial Ratios

Dividend Yield (12m)	7.53
Dividend Pay-out (%)	54.62
Price-Earnings Ratio(x)	5.52
Price-to-Book Ratio (x)	1.36
Book Value (AED)	5.07
Return-on Equity (%)	26.75

### Stock Performance

5 Days	1.32%
1 Months	17.72%
3 Months	6.64%
6 Months	33.66%
1 Year	65.31%
Month to Date (MTD%)	11.29%
Quarter to Date (QTD%)	-1.43%
Year to Date (YTD%)	56.46%

Moreover, the Company's other income increased from AED 21 Mn in 3Q22 to AED 35 Mn in 2Q23. Share of results of JVs declined 17.1% YOY to AED 35 Mn in 3Q23. In addition, the share of profit attributable to non-controlling interest holders grew from AED 116 Mn in 3Q22 to AED 390 Mn in 3Q23.

### Balance Sheet Highlights

Emaar Development's total debt grew to AED 3.7 Mn in 3Q23 as compared to AED 0.6 Mn in 2Q23. Cash and cash equivalents increased from AED 15.2 Bn in 2Q23 to AED 17.5 Bn in 3Q23 out of which AED 14.2 Bn is held against advances received from customers for the sale of development properties into escrow accounts. Furthermore, the Company generated AED 9.3 Bn in net cash flow from operations during 9M23 as compared to AED 5.0 Bn in 9M22.

### Target Price and Rating

We maintain our BUY rating on Emaar Development with a revised target price of AED 8.50. The Company continued to record a strong growth in property sales which stood AED 9.9 Bn in 3Q23 as compared to AED 10.4 Bn in 2Q23. The increase in property sales is mainly driven by the launch of 20 development projects during 9M23 out of which four were launched in 3Q23. Emaar Development's sales backlog stood at AED 59.6 Bn in 3Q23 as compared to AED 53.2 Bn in 3Q22 which indicates strong revenue visibility in the upcoming period. The Company launched a project 'Palmiera' within 'The Oasis' which covers more than 100 Mn square feet of land with more than 7,000 luxury homes, mansions, and villas with scenic water views, spacious plots, canals, lakes, and parks. Emaar Development delivered around 2,700 residential units in 3Q23 as compared to 3,500 units in 2Q23 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 66,000 residential units as of September 2023 since incorporation while currently, 27,000 residential units are under development in UAE. Emaar's exclusive access to a huge land bank enables it to make minimum upfront cash investments for 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 BUY rating on the stock.

#### Emaar Development - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	7.1	10.2	16.7	8.5	7.3	5.3
PB	3.5	2.9	2.5	1.9	1.6	1.3
EV/EBITDA	4.8	8.1	13.0	6.2	4.5	2.2
Dividend yield	7.5%	NM	NM	NM	7.5%	7.5%

FABS Estimates & Co Data

**Emaar Development – P&L**

AED mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	2,057	2,080	2,914	2,270	28.4%	41.7%	40.1%	11,541	10,198	-11.6%
Cost of Revenue	-1,149	-1,107	-534	-1,180	-54.7%	-53.5%	-51.7%	-6,357	-4,079	-35.8%
<b>Gross Profit</b>	<b>908</b>	<b>974</b>	<b>2,380</b>	<b>1,090</b>	<b>118.4%</b>	<b>162.0%</b>	<b>144.5%</b>	<b>5,184</b>	<b>6,119</b>	<b>18.0%</b>
S&G Expenses	-269	-210	-306	-227	34.7%	13.6%	46.0%	-1,229	-1,071	-12.9%
<b>Operating Profit</b>	<b>639</b>	<b>764</b>	<b>2,074</b>	<b>863</b>	<b>140.5%</b>	<b>224.4%</b>	<b>171.5%</b>	<b>3,954</b>	<b>5,048</b>	<b>27.7%</b>
<b>EBITDA</b>	<b>705</b>	<b>1,163</b>	<b>2,150</b>	<b>925</b>	<b>132.4%</b>	<b>204.9%</b>	<b>84.8%</b>	<b>4,224</b>	<b>5,653</b>	<b>33.8%</b>
Finance Income	151	202	221	182	21.7%	46.1%	9.2%	381	793	107.9%
Finance Cost	-90	-93	-93	-89	4.5%	3.4%	0.5%	-330	-354	7.3%
Other Income	21	372	35	23	53.5%	65.5%	-90.6%	85	490	NM
Share of results of JVs	43	24	35	35	1.1%	-17.1%	45.7%	174	100	-42.7%
<b>Profit for the year</b>	<b>764</b>	<b>1,270</b>	<b>2,272</b>	<b>1,012</b>	<b>124.4%</b>	<b>197.4%</b>	<b>78.9%</b>	<b>4,265</b>	<b>6,076</b>	<b>42.5%</b>
NCI	116	151	390	132	196.1%	236.0%	158.0%	457	851	86.2%
<b>Net Profit</b>	<b>648</b>	<b>1,119</b>	<b>1,882</b>	<b>881</b>	<b>113.7%</b>	<b>190.5%</b>	<b>68.3%</b>	<b>3,808</b>	<b>5,225</b>	<b>37.2%</b>

FABS estimate & Co Data

**Emaar Development - Margins**

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	44.2%	46.8%	81.7%	3,751	3487	44.9%	60.0%	1508
EBITDA	34.3%	55.9%	73.8%	3,949	1784	36.6%	55.4%	1883
Operating Profit	31.1%	36.7%	71.2%	4,010	3445	34.3%	49.5%	1524
Net Profit	31.5%	53.8%	64.6%	3,309	1082	33.0%	51.2%	1824

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	8.83	70.0%	6.18
Relative Valuation (RV)	7.75	30.0%	2.32
<b>Weighted Average Valuation (AED)</b>			<b>8.50</b>
Current market price (AED)			6.91
Upside/Downside (%)			+23.0%

### 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 9.3%. 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 3.6%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	12,357
Terminal value (AED, Mn)	22,105
<b>FV to Common shareholders (AED, Mn)</b>	<b>35,305</b>
No. of share (Mn)	4,000
Current Market Price (AED)	6.91
<b>Fair Value per share (AED)</b>	<b>8.83</b>

### DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Cash flow from operations	3,447	7,129	2,732	2,353	2,321
(-) Capex	-20	-24	-27	-29	-31
<b>Free Cash Flow to Equity (FCFE)</b>	<b>319</b>	<b>7,105</b>	<b>2,705</b>	<b>2,325</b>	<b>2,291</b>
Discounting Factor	0.99	0.91	0.83	0.76	0.69
<b>Discounted FCFE</b>	<b>316</b>	<b>6,443</b>	<b>2,244</b>	<b>1,764</b>	<b>1,590</b>

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 2024 EV/EBITDA multiple of 7.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
China overseas land & investment ltd.	21,870	9.1	8.0	6.4	5.8
Longfor group holdings limited	13,180	6.3	6.4	4.0	4.0
China resources land limited	28,490	6.5	6.2	7.0	6.4
Poly developments and holdings group co., ltd.	18,750	7.9	7.9	6.8	6.4
China Vanke co., ltd.	18,910	5.7	6.0	7.2	7.3
Aldar Properties	12,200	10.0	8.8	14.3	13.0
<b>Average</b>		<b>7.6x</b>	<b>7.2x</b>	<b>7.6x</b>	<b>7.2x</b>
<b>Median</b>		<b>7.2x</b>	<b>7.1x</b>	<b>6.9x</b>	<b>6.4x</b>
<b>Max</b>		<b>8.8x</b>	<b>8.0x</b>	<b>7.2x</b>	<b>7.1x</b>
<b>Min</b>		<b>6.4x</b>	<b>6.2x</b>	<b>6.5x</b>	<b>5.9x</b>

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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