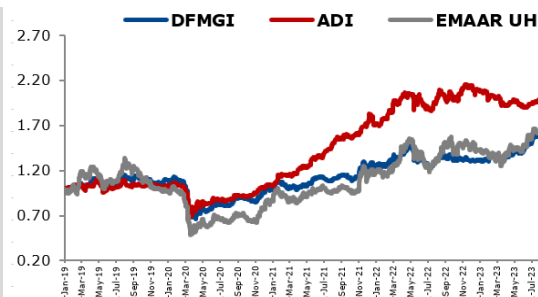


Emaar Properties

Healthy growth in the recurring income more than offset a delay in recognition of development sales impacted profit

Current Price	Target Price	Upside/Downside (%)	Rating
AED 6.92	AED 8.00	+16%	BUY

- Emaar Property's sales backlog grew to AED 62.8 Bn in 2Q23 as compared to AED 55.7 Bn in 1Q23, whereas Emaar International business recorded strong property sales of AED 1.2 Bn in 1H23.
- Emaar Properties UAE operations build-to-sell business launched 16 new projects in 1H23, whereas Emaar Development announced its new development 'The Oasis'.
- Emaar Properties revalued international investment property due to elevated inflation and devaluation of the currency as a result, the asset value declined, leading to a record impairment expense of AED 1,109 Mn in 2Q23, which impacted the profitability for the quarter.
- Emaar also announced a new hotel, Address Jabal Omar Makkah with 1,500 keys located at the heart of the holy city.



Stock Information

Market Cap (AED, mm)	61,164.43
Paid Up Capital (mm)	8,838.79
52 Week High	7.15
52 Week Low	5.08
3M Avg. daily value (AED)	77,141,530

2Q23 Result Review (AED, mm)

Total Assets	133,332
Total Liabilities	55,620
Total Equity	77,712
EBITDA	2,713
Net Profit	1,740

Financial Ratios

Dividend Yield (12m)	3.61
Dividend Pay-out (%)	32.34
Price-Earnings Ratio(x)	8.03
Price-to-Book Ratio (x)	0.86
Book Value (AED)	8.03
Return-on Equity (%)	11.10

Stock Performance

5 Days	2.06%
1 Months	3.28%
3 Months	18.29%
6 Months	28.39%
1 Year	11.43%
Month to Date (MTD%)	2.51%
Quarter to Date (QTD%)	8.11%
Year to Date (YTD%)	18.26%

2Q23 Net Profit lower than our estimate

Emaar Properties PJSC (Emaar/the company) net profit declined 15.6% YOY to AED 1,740 Mn in 2Q23, missing our estimate of AED 2,014 Mn. The decline in net profit is mainly attributable to a fall in revenue due to softness in revenue generation in UAE, lower income from associates and impairment loss on international investment property due to inflation and currency devaluation partially offset by a decline in the cost of revenue, operating expenses and significant growth in other operating income due to gain in forfeiture income from sales cancellations. Excluding the effect of impairment and gain from forfeiture income net income stood at AED 2,141 Mn in 2Q23.

P&L Highlights

EMAAR Properties revenue fell 13.9% YOY to AED 5,978 Mn in 2Q23 mainly due to a decline in revenue from the real estate segment partially offset by a rise in revenue from hospitality and recurring business. Consolidated revenue from Emaar Development and Emaar International business declined 24.8% YOY to AED 3,631 Mn in 2Q23 driven by a decline in sales of residential as well as commercial units. Revenue from the sale of residential units declined 14.6% YOY to AED 3,496 Mn in 2Q23. On the other hand, revenue from the sale of commercial units fell significantly to AED 135 Mn in 2Q23 as compared to AED 731 Mn in 2Q22. Emaar International business recorded strong property sales of AED 1.2 Bn in 1H23 driven by strong sales in Egypt and India. Moreover, revenue from leasing, retail, and related activities under the Emaar Malls segment rose 10.6% YOY to AED 1,971 Mn in 2Q23 driven by a higher occupancy rate. Hospitality business revenue increased 13.2% YOY to AED 376 Mn in 2Q23 owing to strong growth in travel and tourism activity in the region. Emaar's cost of revenue declined 22.6% YOY to AED 2,713 Mn in 2Q23 higher than the decline in revenue due to a decline in sales of residential

units. Thus, gross profit moderated 5.0% YOY to AED 3,265 Mn in 2Q23. Other operating income rose 32.0% YOY to AED 151 Mn in 2Q23 while other operating expenses grew 47.6% YOY to AED 48 Mn. However, the Company's selling and G&A expenses declined 12.1% YOY to AED 656 Mn in 2Q23. Emaar's total EBITDA fell 2.2% YOY to AED 2,713 Mn in 2Q23 with a 542 bps YOY rise in EBITDA margin to 45.4% in 2Q23. Depreciation on PPE increase marginally 0.7% YOY to AED 144 Mn in 2Q23 whereas depreciation on investment properties rose 7.9% YOY to AED 197 Mn. As a result, total operating profit declined 3.1% YOY to AED 2,372 Mn in 2Q23. Operating profit margin increase 441 bps YOY to 39.7% in 2Q23. Finance income rose significantly 86.1% YOY to AED 385 Mn in 2Q23 while finance cost rose marginally 0.1% YOY to AED 249 Mn in 2Q23. Furthermore, provisions on impairment stood at AED 1,109 Mn in 2Q23 as compared to Nil in 2Q22 mainly due to a decline in the value of the Company's international investment property owing to inflation and currency devaluation. Other income rose from a loss of AED 2 Mn in 2Q22 to a profit of AED 708 Mn in 2Q23 due to a gain of AED 600 Mn from forfeiture income from sales cancellations and lower loss from foreign exchange translations. Income tax expense declined 60.3% YOY to AED 32 Mn in 2Q23 due to a decline in profitability. Additionally, share of profit attributable to non-controlling interest holders marginally increased 0.5% YOY to AED 393 Mn in 2Q23 dragging profit.

Balance Sheet Highlights

The Company's unrestricted cash balance stood at AED 10.3 Bn in 2Q23 as compared to AED 8.1 Bn in 1Q23. Emaar's total debt increased from AED 33.3 Bn in 1Q23 to AED 34.5 Bn in 2Q23. Cash flow from operating activities stood at AED 5.8 Bn in 2Q23 as compared to AED 5.5 Bn in 1Q23.

Target Price and Rating

We maintain our BUY rating on Emaar Properties with a revised target price of AED 8.00. The Company's revenue was impacted due to a decline in real estate sales supported by strong growth in travel and tourism activity during 2Q23. Emaar Property's sales backlog grew to AED 62.8 Bn in 2Q23 as compared to AED 55.7 Bn in 1Q23 providing strong revenue visibility. Due to elevated inflation and devaluation of currency, the company revalued investment property whose value declined leading to recording an impairment expense of AED 1,109 Mn in 2Q23 which impacted the profitability in 2Q23. The Company's UAE operations build-to-sell business launched 16 new projects in 1H23 whereas Emaar Development announced its new development 'The Oasis'. The Mall and commercial leasing business benefitted positively due to robust tenant sales and a strong % occupancy rate of 96% in 1H23. Likewise, the average occupancy rate in Emaar's UAE hotels stood strong at 70% in 1H23 due to a strong recovery in the tourism sector and increased domestic spending. The Company also announced a new hotel, Address Jabal Omar Makkah with 1,500 keys. Emaar's solid portfolio of leasing revenue-generating assets along with robust hotel business and healthy tourist flow provides strong revenue visibility in the forthcoming period. Thus, based on our analysis, we maintain our BUY rating on the stock.

Emaar Properties - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	8.1	8.0	23.5	14.9	9.0	8.2
PB	1.0	0.9	0.9	0.9	0.9	0.8
EV/EBITDA	7.0	8.7	23.3	9.2	8.2	7.5
Dividend yield	2.2%	NM	1.4%	2.2%	3.6%	3.6%

FABS Estimates & Co Data

Emaar Properties – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	6,940	6,290	5,978	6,091	-1.9%	-13.9%	-5.0%	24,926	24,864	-0.2%
Cost of revenue	-3,503	-2,787	-2,713	-2,813	-3.6%	-22.6%	-2.7%	-12,338	-12,527	1.5%
Gross profit	3,437	3,503	3,265	3,278	-0.4%	-5.0%	-6.8%	12,587	12,337	-2.0%
Other operating income	115	95	151	96	57.1%	32.0%	60.0%	420	398	-5.3%
Other operating expenses	-33	-29	-48	-30	57.9%	47.6%	64.3%	-160	-162	1.0%
Selling, G&A expenses	-746	-694	-656	-793	-17.3%	-12.1%	-5.5%	-3,522	-3,232	-8.2%
EBITDA	2,773	2,875	2,713	2,551	6.3%	-2.2%	-5.6%	9,325	9,341	0.2%
Depreciation of PPE	-143	-146	-144	-148	-2.6%	0.7%	-1.3%	-577	-590	2.3%
Depreciation of IP	-182	-178	-197	-190	3.7%	7.9%	10.6%	-692	-746	7.8%
EBIT	2,448	2,551	2,372	2,214	7.2%	-3.1%	-7.0%	8,056	8,005	-0.6%
Finance income	206	263	385	274	40.4%	86.4%	46.4%	1,057	1,243	17.6%
Finance cost	-248	-232	-249	-227	9.7%	0.1%	7.1%	-981	-957	-2.5%
Other income	-2	1,151	708	195	263.3%	NM	-38.5%	697	2,113	203.4%
Share of assoc. profits/(-loss)	130	-53	58	80	-28.0%	-55.5%	NM	214	216	1.0%
Provisions and impairment	0	0	-1,109	0	NM	NM	NM	-566	-1,109	NM
Profit before tax	2,533	3,679	2,165	2,536	-14.6%	-14.5%	-41.2%	8,477	9,512	12.2%
Income tax	-80	-65	-32	-114	-72.1%	-60.3%	-50.8%	-338	-238	-29.7%
Profit from contd. operat.	2,453	3,614	2,133	2,422	-11.9%	-13.0%	-41.0%	8,139	9,274	13.9%
Profit for the period	2,453	3,614	2,133	2,422	-11.9%	-13.0%	-41.0%	8,139	9,274	13.9%
Non-controlling interests	-392	-408	-393	-408	-3.6%	0.5%	-3.6%	-1,307	-1,762	34.8%
Net Profit	2,061	3,206	1,740	2,014	-13.6%	-15.6%	-45.7%	6,832	7,512	9.9%

FABS estimate & Co Data

Emaar Properties - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	49.5%	55.7%	54.6%	510	-107	50.5%	49.6%	-88
EBITDA margin	40.0%	45.7%	45.4%	542	-32	37.4%	37.6%	16
Operating margin	35.3%	40.6%	39.7%	441	-88	32.3%	32.2%	-13
Net profit margin	29.7%	51.0%	29.1%	-60	-2187	27.4%	30.2%	280

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF Method	7.96	70.0%	5.58
Relative Valuation (RV)	8.08	30.0%	2.42
Weighted Average Valuation (AED)			8.00
Current market price (AED)			6.92
Upside/Downside (%)			+16%

1) DCF Method:

Emaar Properties is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 9.1%. It is arrived after using cost of equity of 9.7% and cost of debt of 6.0% with an equity weight of 83.0% and debt of 17.0%. The Cost of equity is calculated using 10-year government bond yield of 5.1a %, beta of 1.06 and equity risk premium of 4.3%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 6.0% after adjusting a tax rate of 4.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	19,774
Terminal value (AED, Mn)	59,603
FV to Common shareholders (AED, Mn)	70,352
No. of share (Mn)	8,839
Current Market Price (AED)	6.92
Fair Value per share (AED)	7.96

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	8,784	9,039	9,280	8,804	9,364
D&A	1,549	1,550	1,600	1,629	1,657
Change in working capital	-5,550	-2,996	-5,009	-4,591	-3,673
(-) Capex	-1,483	-1,400	-1,469	-1,370	-1,320
Free Cash Flow to Firm (FCFF)	3,300	6,194	4,403	4,472	6,028
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Discounted FCFF	3,201	5,509	3,590	3,343	4,132

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Emaar Properties and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 8.6x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Aldar Properties	10,940	9.6	7.9	12.5	11.7
Arabian Centres	2,941	12.7	11.5	10.6	10.3
China Overseas Land & Investment	22,471	8.6	7.2	6.1	5.5
China Resources Land Limited	28,953	6.3	6.0	6.9	6.3
Poly Developments and Holdings	23,272	8.9	7.6	8.4	7.7
CK Aasset Holding Limited	19,289	6.4	4.4	8.1	7.4
Longfor Group Holdings Limited	13,410	5.3	5.4	4.3	4.2
Average		8.3x	7.1x	8.1x	7.6x
Median		8.6x	7.2x	8.1x	7.4x
Max		9.2x	7.7x	9.5x	9.0x
Min		6.4x	5.7x	6.5x	5.9x

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%

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.