

Emaar Properties

Strong growth in property sales and reversal of cost accruals boosted profitability

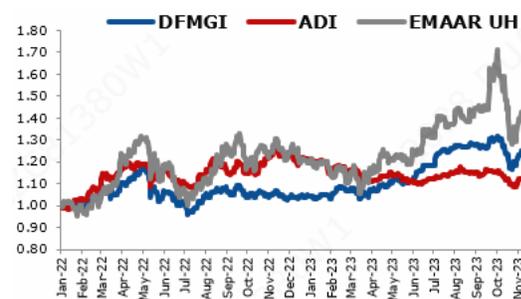
Current Price
AED 7.33

Target Price
AED 9.50

Upside/Downside (%)
+30%

Rating
BUY

- Emaar Property's sales backlog grew to AED 69.5 Bn in 3Q23 as compared to AED 62.8 Bn in 2Q23 whereas Emaar International business recorded strong property sales of AED 2.2 Bn in 9M23
- Emaar Properties UAE operations build-to-sell business launched 20 new projects in 9M23 out of which four were launched in 3Q23
- Emaar's Property's sales backlog grew to AED 69.5 Bn in 9M23 as compared to AED 62.8 Bn in 1H23 providing strong revenue visibility
- Emaar's recurring revenue which represents 37% of total revenue in 9M23 generated revenue of AED 6.8 Bn during 9M23.



3Q23 Net Profit higher than our estimate

Emaar Properties PJSC (Emaar/the company) net profit grew from AED 1,490 Mn in 3Q22 to AED 3,291 Mn in 3Q23, higher than our estimate of AED 1,929 Mn. The growth in net profit is mainly attributable to rise in revenue driven by higher retail sales, lower cost of sales owing to the reversal of cost accruals along with a decline in SG&A expenses and higher finance income partially offset by a rise in depreciation expenses and increase of share to NCI.

P&L Highlights

EMAAR Properties revenue grew 14.6% YOY to AED 6,102 Mn in 3Q23 mainly driven by higher retail sales, strong rise in tourism activity and increasing demand for the real estate demand. Consolidated revenue from Emaar Development and Emaar International business grew 27.6% YOY to AED 4,186 Mn in 3Q23 driven by a growth in sales of residential units partially offset by a decline in sales of commercial units. Revenue from the sale of residential units grew from AED 2,584 Mn in 3Q22 to AED 3,861 Mn in 3Q23. Whereas, revenue from the sale of commercial units fell significantly to AED 325 Mn in 3Q23 as compared to AED 695 Mn in 3Q22. Emaar International business recorded strong property sales of AED 2.2 Bn in 9M23 driven by strong sales in Egypt and India. Moreover, revenue from leasing, retail, and related activities under the Emaar Malls segment declined 11.4% YOY to AED 1,512 Mn in 3Q23. Hospitality business revenue grew 18.6% YOY to AED 404 Mn in 3Q23 owing to strong growth in domestic spending and rise in tourism activity in the region. Emaar's cost of revenue declined 43.0% YOY to AED 1,477 Mn in 3Q23 as the Company recorded reversal of cost accruals during the period. Thus, gross profit grew from AED 2,733 Mn in 3Q22 to AED 4,625 Mn in 3Q23. Other operating income rose from AED 104 Mn in 3Q22 to AED 152 Mn in 3Q23 while other operating expenses grew 23.7% YOY

Stock Information

Market Cap (AED, mm)	64,081.23
Paid Up Capital (mm)	8,838.79
52 Week High	8.45
52 Week Low	5.08
3M Avg. daily value (AED)	118,219,100

3Q23 Result Review (AED, mm)

Total Assets	137,050
Total Liabilities	55,131
Total Equity	81,919
EBITDA	4,138
Net Profit	3,291

Financial Ratios

Dividend Yield (12m)	3.45
Dividend Pay-out (%)	32.34
Price-Earnings Ratio(x)	6.88
Price-to-Book Ratio (x)	0.86
Book Value (AED)	8.42
Return-on Equity (%)	13.30

Stock Performance

5 Days	2.55%
1 Months	14.72%
3 Months	5.07%
6 Months	23.09%
1 Year	21.85%
Month to Date (MTD%)	9.57%
Quarter to Date (QTD%)	-8.83%
Year to Date (YTD%)	25.09%

to AED 60 Mn in 3Q23. However, the Company's selling and G&A expenses declined 18.5% YOY to AED 578 Mn in 3Q23. Emaar's total EBITDA grew from AED 2,079 Mn in 3Q22 to AED 4,138 Mn in 3Q23. Depreciation on PPE grew 12.0% YOY to AED 161 Mn in 3Q23 whereas depreciation on investment properties rose 14.8% YOY to AED 202 Mn in 3Q23. As a result, total operating profit grew from AED 1,759 Mn in 3Q22 to AED 3,775 Mn in 3Q23. Operating profit margin grew from 33.0% in 3Q22 to 61.9% in 3Q23. Finance income rose significantly from AED 217 Mn in 3Q22 to AED 424 Mn in 3Q23 while finance cost rose marginally 1.8% YOY to AED 261 Mn in 3Q23. Furthermore, share of associates grew from AED 79 Mn in 3Q22 to AED 113 Mn in 3Q23. Other income rose from AED 58 Mn in 3Q22 to AED 114 Mn in 3Q23 mainly due to a gain of AED 35 Mn from forfeiture income from sales cancellations. Income tax expense declined 25.7% YOY to AED 65 Mn in 3Q23. Additionally, share of profit attributable to non-controlling interest holders grew from AED 279 Mn in 3Q22 to AED 810 Mn in 3Q23 dragging profit.

Balance Sheet Highlights

The Company's unrestricted cash balance stood at AED 12.0 Bn in 3Q23. Emaar's total debt grew from AED 34.4 Bn in 2Q23 to AED 35.8 Bn in 3Q23. Cash flow from operating activities grew from AED 9.5 Bn in 9M22 to AED 16.0 Bn in 9M23.

Target Price and Rating

We maintain our BUY rating on Emaar Properties with a revised target price of AED 9.50. Emaar's stock price grew 13.6% since our last rating. The Company delivered strong growth in profitability in 3Q23 driven by increase in tourism activity, higher retail sales and strong real estate demand. The Company Property sales grew strongly 16% YOY to AED 31.1 Bn in 9M23. Meanwhile, Emaar's Property's sales backlog grew to AED 69.5 Bn in 9M23 as compared to AED 62.8 Bn in 1H23, providing strong revenue visibility. Emaar's UAE operations build-to-sell business recorded strong growth in property sales in Dubai in 3Q23. It launched 20 new projects in 9M23 out of which four were launched in 3Q23. It recorded an 25% YOY growth in property sales of AED 28.9 Bn in 9M23. Recently, 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 within its UAE operations. Furthermore, the Mall and commercial leasing business positively benefitted due to robust tenant sales which grew 25% YOY coupled with strong occupancy rate of 97% in 9M23. Likewise, the average occupancy rate in Emaar's UAE hotels stood strong at 70% in 9M23 due to a strong recovery in the tourism sector and increased domestic spending. EMAAR's international business also recorded a growth in profitability primarily driven by strong sales in Egypt and India. The Company's recurring revenue rose 26% YOY to AED 6.8 Bn in 9M23 owing to the strong tourism activity and increased tenant sales. 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	8.5	8.5	24.9	15.8	9.5	6.2
PB	1.1	1.0	0.9	1.0	1.0	0.8
EV/EBITDA	7.3	9.1	24.2	9.7	8.6	5.7
Dividend yield	2.0%	NM	1.4%	2.0%	3.4%	4.1%

FABS Estimates & Co Data

Emaar Properties – P&L

AED mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	5,326	5,978	6,102	5,610	8.8%	14.6%	2.1%	24,926	24,948	0.1%
Cost of revenue	-2,593	-2,713	-1,477	-2,566	-42.4%	-43.0%	-45.5%	-12,338	-10,285	-16.6%
Gross profit	2,733	3,265	4,625	3,044	51.9%	69.2%	41.6%	12,587	14,663	16.5%
Other operating income	104	151	152	96	57.4%	46.4%	0.2%	420	462	9.9%
Other operating expenses	-49	-48	-60	-45	34.6%	23.7%	25.6%	-160	-205	27.8%
Selling, G&A expenses	-709	-656	-578	-646	-10.6%	-18.5%	-11.9%	-3,522	-2,620	-25.6%
EBITDA	2,079	2,713	4,138	2,449	69.0%	99.1%	52.6%	9,325	12,300	31.9%
Depreciation of PPE	-144	-144	-161	-148	8.9%	12.0%	11.8%	-577	-590	2.3%
Depreciation of IP	-176	-197	-202	-180	11.9%	14.8%	2.7%	-692	-748	8.1%
EBIT	1,759	2,372	3,775	2,121	78.0%	114.6%	59.2%	8,056	10,962	36.1%
Finance income	217	385	424	309	37.5%	95.4%	10.3%	1,057	1,472	39.2%
Finance cost	-256	-249	-261	-221	18.0%	1.8%	5.0%	-981	-957	-2.5%
Other income	58	708	114	109	4.6%	98.4%	-83.8%	697	2,121	204.4%
Share of assoc. profits/(-loss)	79	58	113	66	70.5%	43.2%	96.0%	214	216	1.0%
Provisions and impairment	0	-1,109	0	0	NM	NM	NM	-566	-1,109	NM
Profit before tax	1,857	2,165	4,166	2,384	74.7%	124.4%	92.5%	8,477	12,704	49.9%
Income tax	-88	-32	-65	-60	9.3%	-25.7%	104.6%	-338	-318	-6.1%
Profit from contd operation	1,769	2,133	4,101	2,325	76.4%	131.8%	92.3%	8,139	12,387	52.2%
Profit for the period	1,769	2,133	4,101	2,325	76.4%	131.8%	92.3%	8,139	12,387	52.2%
Non-controlling interests	-279	-393	-810	-395	NM	NM	NM	-1,307	-2,230	70.6%
Net Profit	1,490	1,740	3,291	1,929	70.6%	120.9%	89.2%	6,832	10,157	48.7%

FABS estimate & Co Data

Emaar Properties - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	51.3%	54.6%	75.8%	2447	2116	50.5%	58.8%	827
EBITDA margin	39.0%	45.4%	67.8%	2879	2244	37.4%	49.3%	1189
Operating margin	33.0%	39.7%	61.9%	2884	2219	32.3%	43.9%	1162
Net profit margin	28.0%	29.1%	53.9%	2596	2483	27.4%	40.7%	1330

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	10.04	70.0%	7.03
Relative Valuation (RV)	8.22	30.0%	2.47
Weighted Average Valuation (AED)			9.50
Current market price (AED)			7.33
Upside/Downside (%)			+30%

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 8.8%. It is arrived after using cost of equity of 9.3% and cost of debt of 6.0%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 1.06 and equity risk premium of 3.4%. 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)	25,746
Terminal value (AED, Mn)	71,066
FV to Common shareholders (AED, Mn)	88,780
No. of share (Mn)	8,839
Current Market Price (AED)	7.33
Fair Value per share (AED)	10.04

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	12,053	10,038	10,877	10,055	9,795
D&A	1,549	1,550	1,601	1,630	1,659
Change in working capital	-3,227	-274	-5,663	-2,476	-3,407
(-) Capex	-1,486	-1,400	-1,476	-1,394	-1,358
Free Cash Flow to Firm (FCFF)	1,482	9,914	5,339	7,815	6,689
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Discounted FCFF	1,470	9,042	4,475	6,021	4,737

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

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Aldar Properties	12,200	10.0	8.8	14.3	13.0
Arabian Centres	2,496	11.6	NA	9.0	8.7
China Overseas Land & Investment	21,520	9.0	7.9	6.3	5.7
China Resources Land Limited	27,690	6.3	6.1	6.8	6.3
Poly Developments and Holdings	18,720	7.9	7.9	6.8	6.4
CK Asset Holding Limited	18,000	6.4	4.3	7.8	7.2
Longfor Group Holdings Limited	12,870	6.3	6.3	3.9	3.9
Average		8.2x	6.9x	7.9x	7.3x
Median		7.9x	7.1x	6.8x	6.4x
Max		9.5x	7.9x	8.4x	8.0x
Min		6.3x	6.1x	6.6x	6.0x

Source: FAB Securities

