

RAK Properties (RAKPROP)

Robust growth in property & hospitality portfolio boosted profitability

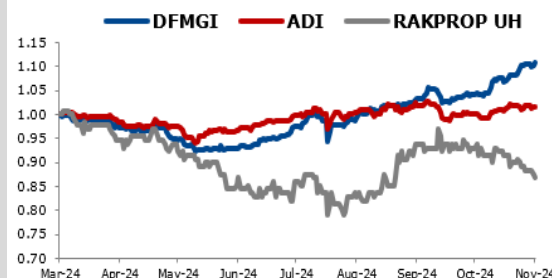
Current Price
AED 1.10

Target Price
AED 1.45

Upside/Downside (%)
+32%

Rating
BUY

- RAK Properties' revenue grew 61.5% YOY to AED 281 Mn in 3Q24
- The Company witnessed high demand and performance across its hospitality and residential portfolio, with AED 925 Mn in sales value as of September 2024.
- The Company's occupancy rate at Intercontinental Hotel reached 68%, while the at Antara Resort at 47% during 3Q24.
- RAKPROP has a strong revenue backlog of AED 1.8 Bn as of September 2024.
- The Company entered into a strategic partnership with the Commercial Bank of Dubai, securing a financing facility of AED 2 Bn to support its ambitious growth initiatives in Mina Al Arab.



3Q24 Net Profit lower than our estimate

RAK Properties (RAKPROP/the Company) net profit grew significantly from AED 17 Mn in 3Q23 to AED 32 Mn in 3Q24, lower than our estimate of AED 52 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 partially offset by a sharp rise in the cost of sales, SG&A expenses, finance cost, and tax charges.

P&L Highlights

RAK Properties' revenue grew 61.5% YOY to AED 281 Mn in 3Q24, mainly due to a substantial across the property sales and hospitality segments. Revenue from the sale of properties grew 68.5% YOY to AED 232 Mn in 3Q24. The Company sold 144 units in 3Q24, compared to 230 units in 2Q24. RAKPROP's revenue from the hospitality business grew substantially 52.7% YOY to AED 33 Mn in 3Q24. The Company's occupancy rate in the intercontinental hotel stood at 68%, while at the Antara resort stood at 47% during 3Q24. Furthermore, the Company's asset management segment revenue grew 9.4% YOY to AED 16 Mn in 3Q24. RAKPROP's cost of sales rose 56.9% YOY to AED 179 Mn in 3Q24. However, gross profit grew strongly from AED 60 Mn in 3Q23 to AED 101 Mn in 3Q24 due to higher revenue. Gross margins grew 188 bps YOY to 36.1% in 3Q24. SG&A expenses recorded a sharp rise of 47.9% YOY to AED 51 Mn in 3Q24. Other income grew 9.0% YOY to AED 3 Mn in 3Q24. Thus, the Company's operating profit grew from AED 28 Mn in 3Q23 to AED 53 Mn in 3Q24. RAKPROP's EBITDA stood AED 65 Mn in 3Q24, compared to AED 92 Mn in 2Q24. Furthermore, finance cost grew 56.8% YOY to AED 22 Mn in 3Q24. Finance income grew 28.7% YOY to AED 5 Mn in 3Q24. The Company incurred a tax expense of AED 3 Mn in 3Q24, owing to the introduction of UAE corporate tax.

Stock Information

| | |
|---------------------------|------------|
| Market Cap (AED, mn) | 3,300.00 |
| Paid Up Capital (mn) | 3,000.00 |
| 52 Week High | 1.38 |
| 52 Week Low | 0.93 |
| 3M Avg. daily value (AED) | 10,400,600 |

3Q24 Result Review (AED, mn)

| | |
|-------------------|-------|
| Total Assets | 7,744 |
| Total Liabilities | 2,401 |
| Total Equity | 5,343 |
| EBITDA | 65 |
| Net Profit | 32 |

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | 2.62 |
| Dividend Pay-out (%) | 29.73 |
| Price-Earnings Ratio(x) | 11.06 |
| Price-to-Book Ratio (x) | 0.62 |
| Book Value (AED) | 1.78 |
| Return-on Equity (%) | 4.56 |

Stock Performance

| | |
|------------------------|--------|
| 5 Days | -3.51% |
| 1 Months | -8.33% |
| 3 Months | 2.80% |
| 6 Months | -5.98% |
| 1 Year | 12.16% |
| Month to Date (MTD%) | -7.56% |
| Quarter to Date (QTD%) | -7.56% |
| Year to Date (YTD%) | -2.22% |

Balance Sheet Highlights

RAKPROP's total debt declined marginally from AED 1.4 Bn in 2Q24 to AED 1.3 Bn in 3Q24. The Company's total assets grew 21.6% YOY and declined marginally 0.5% QOQ to AED 7.7 Bn in 3Q24. RAKPROP's investment properties under development grew from AED 34 Mn in 2Q24 to AED 36 Mn in 3Q24. The Company's trading properties under development grew from AED 2,428 Mn in 2Q24 to AED 2,430 Mn in 3Q24.

Target Price and Rating

We maintain our BUY rating on RAK Properties with a target price of AED 1.45. The Company demonstrated strong profitability growth driven by higher revenue across all the segments in 3Q24. 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 925 Mn in sales value as of September 2024. It continued to expand its hospitality segment by capitalizing on the strong tourism growth. The Company's occupancy rate at Intercontinental Hotel reached 68%, while the newly opened Antara Resort, which commenced operations in 2024, achieved an occupancy rate of 47% during 3Q24. Additionally, RAKPROP launched two key projects, Staybridge Suites and Nikki Beach Resort & Spa in Mina Al Arab, with estimated completion by 2027, further enhancing revenue 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. RAKPROP acquired an additional 2 Mn sq. ft. of land along with the completion of two residential projects in Abu Dhabi. It has multiple residential projects in the pipeline, such as Gateway 2, Bayviews, Bay Residence, Marbella Extension, etc. The Company also has a strong revenue backlog of AED 1.8 Bn as of September 2024. The extensive land bank, coupled with robust demand, promises revenue visibility. Moreover, the demand for real estate is surpassing supply, leading to a growth in real estate prices. The number of real estate transactions in Ras Al Khaimah also reached AED 5,174 Mn as of September 2024. RAKPROP is poised to benefit from the robust demand and rising prices. The Company caters to a wider market by developing branded as well as affordable properties. Recently the Company also entered into a strategic partnership with the Commercial Bank of Dubai, securing a financing facility of AED 2 Bn to support its ambitious growth initiatives in Mina Al Arab. The government of Ras Al Khaimah also increased its stake in RAK Properties to 34%, reflecting the investor confidence in the various development projects. Thus, considering the abovementioned factors, we maintain our BUY rating on the stock.

RAK Properties - Relative valuation

| (at CMP) | 2019 | 2020 | 2021 | 2,022 | 2023 | 2024F |
|----------------|-------|-------|-------|-------|-------|-------|
| PE | 26.58 | 21.80 | 12.29 | 80.39 | 12.26 | 15.69 |
| PB | 0.63 | 0.63 | 0.60 | 0.60 | 0.57 | 0.46 |
| EV/EBITDA | 26.02 | 22.98 | 14.69 | 32.94 | 11.66 | 10.00 |
| Dividend yield | 3.6% | 0.0% | 0.0% | 0.0% | 2.6% | 2.8% |

FABS Estimates & Co Data

RAK Properties – P&L

| AED mn | 3Q23 | 2Q24 | 3Q24A | 3Q24F | VAR | YOY Ch. | QOQ Ch. | 2023 | 2024F | YOY ch. |
|----------------------------|-----------|------------|------------|------------|---------------|---------------|---------------|------------|------------|---------------|
| Revenue | 174 | 321 | 281 | 326 | -13.9% | 61.5% | -12.4% | 1,005 | 1,320 | 31.3% |
| Cost of sales | -114 | -199 | -179 | -204 | -12.1% | 56.9% | -9.7% | -658 | -832 | 26.4% |
| Gross Profit | 60 | 122 | 101 | 122 | -17.0% | 70.4% | -16.7% | 346 | 487 | 40.7% |
| SG&A Expenses | -35 | -56 | -51 | -55 | -7.7% | 47.9% | -8.0% | -139 | -224 | 60.9% |
| Other income/ (exp) | 3 | 8 | 3 | 9 | -67.6% | 9.0% | -64.3% | 50 | 25 | -50.2% |
| EBITDA | 0 | 92 | 65 | 88 | -25.6% | NM | -28.7% | 278 | 346 | 24.3% |
| EBIT | 28 | 74 | 53 | 76 | -29.7% | 92.9% | -28.3% | 257 | 288 | 12.1% |
| Finance cost | -14 | -23 | -22 | -23 | -0.8% | 56.8% | -3.7% | -66 | -92 | 38.5% |
| Finance income | 4 | 5 | 5 | 5 | 3.0% | 28.7% | 2.2% | 14 | 18 | 34.5% |
| Other non-opera inc/(exp) | 0 | -3 | 0 | 0 | NM | NM | NM | -2 | -3 | 47.8% |
| Profit before tax | 17 | 52 | 36 | 58 | -38.4% | 109.2% | -32.1% | 202 | 211 | 4.6% |
| Tax | 0 | 5 | 3 | 5 | -39.2% | NM | -32.8% | 0 | 19 | NM |
| Net Profit | 17 | 48 | 32 | 52 | -38.4% | 90.6% | -32.0% | 202 | 192 | -4.8% |

FABS estimate & Co Data

RAK Properties - Margins

| | 3Q23 | 2Q24 | 3Q24 | YOY Ch. | QOQ Ch. | 2023 | 2024F | YOY ch. |
|------------------|-------|-------|-------|---------|---------|-------|-------|---------|
| Gross Profit | 34.2% | 38.0% | 36.1% | 188 | -187 | 34.5% | 36.9% | 245.4 |
| EBITDA | 0.0% | 28.6% | 23.3% | NM | -532 | 27.7% | 26.2% | -147.6 |
| Operating Profit | 15.8% | 23.1% | 18.9% | 307 | -422 | 25.5% | 21.8% | -373.5 |
| Net Profit | 9.8% | 14.9% | 11.5% | 175 | -333 | 20.1% | 14.6% | -552.8 |

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 | 1.43 | 70.0% | 1.00 |
| Relative Valuation (RV) | 1.51 | 30.0% | 0.45 |
| Weighted Average Valuation (AED) | | | 1.45 |
| Current market price (AED) | | | 1.10 |
| Upside/Downside (%) | | | +32% |

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 9.5%. The cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 0.93 and equity risk premium of 5.0%. 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 2.0%.

| | |
|--|--------------|
| Sum of PV (AED, Mn) | 1,411 |
| Terminal value (AED, Mn) | 3,769 |
| FV to Common shareholders (AED, Mn) | 4,294 |
| No. of share (Mn) | 3,000 |
| Current Market Price (AED) | 1.10 |
| Fair Value per share (AED) | 1.43 |

DCF Method

| (All Figures in AED Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E | FY 2030E |
|--------------------------------------|-----------|------------|------------|------------|------------|------------|------------|
| NOPAT | 269 | 307 | 306 | 339 | 338 | 348 | 366 |
| (+/-) Depreciation & amortization | 58 | 45 | 45 | 46 | 47 | 49 | 50 |
| (+/-) CAPEX | -100 | -70 | -70 | -70 | -70 | -70 | -70 |
| (+/-) Working Capital | -232 | -50 | 39 | -48 | 80 | 45 | 27 |
| Free Cash Flow to Firm (FCFF) | -6 | 233 | 319 | 267 | 395 | 372 | 373 |
| Discounting Factor | 0.96 | 0.89 | 0.82 | 0.76 | 0.70 | 0.65 | 0.60 |
| Discounted FCFF | -6 | 207 | 263 | 203 | 278 | 242 | 225 |

Source: FAB Securities

2) Relative Valuation:

We have considered the local and international peers to value Rak Properties. It is valued at a 2024 EV/EBITDA multiple of 15.6x in line with peers.

| Company | Market (USD Mn) | EV/EBITDA (x) | | P/E (x) | |
|--|--------------------|---------------|--------------|--------------|--------------|
| | | 2024F | 2025F | 2024F | 2025F |
| Arabian Centres | 2,530 | 14.8 | 12.6 | 9.9 | 8.3 |
| TECOM Group | 4,260 | 10.4 | 10.1 | 12.5 | 12.3 |
| Poly Developments and Holdings Group Co., Ltd. | 16,690 | 16.5 | 17.4 | 11.0 | 10.6 |
| Aldar Properties | 16,610 | 10.1 | 8.8 | 11.7 | 9.7 |
| Emaar Properties PJSC | 22,691 | 6.0 | 5.4 | 7.2 | 6.8 |
| Union Properties PJSC | 419 | 27.2 | 12.2 | 18.0 | 9.0 |
| Retal | 2,056 | 22.4 | 17.2 | 31.5 | 21.9 |
| Dar Al Arkan Real Estate Development Co. | 4,954 | 21.9 | 21.8 | 28.1 | 17.3 |
| Average | | 16.2x | 13.2x | 16.2x | 12.0x |
| Median | | 15.6x | 12.4x | 12.1x | 10.2x |
| Max | | 22.0x | 17.2x | 20.5x | 13.6x |
| Min | | 10.3x | 9.8x | 10.7x | 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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