

## Emaar Development

Decline in residential & commercial sales dragged bottom line

### 1Q23 Net profit higher than our estimate

Emaar Development PJSC (EMAARDEV/The Company) net profit marginally rose 0.8% YOY to AED1,058 Mn in 1Q23, higher than our estimate of AED 828 Mn. The Company's net profit was mainly driven by a decrease in revenue attributable to lower sales of residential and commercial units more than offset by a decline in the cost of revenue and operating expenses.

### P&L Highlights

Emaar Development recorded a significant decline in revenue of 33.4% YOY to AED 2,375 Mn in 1Q23. The decline in total revenue is mainly attributable to a fall in revenue from sale of residential and commercial units. Revenue from sale of residential units declined 37.3% YOY to AED 1,985 Mn in 1Q23 whereas revenue from sale of commercial units, plots of land, and development services declined 2.9% YOY to AED 389 Mn in 1Q23. While property sales rose 26% YOY to AED 8.6 Bn in 1Q23 driven by successful property launches. The Company launched seven projects during 1Q23. Cost of revenue fell significantly from AED 2,051 Mn in 1Q22 to AED 1,046 Mn in 1Q23. Thus, gross profit declined 12.4% YOY to AED 1,329 Mn in 1Q23 while gross profit margin rose 1,345 bps YOY to 56.0% driven by lower cost of revenue. SG&A expenses declined 26.2% YOY to AED 248 Mn in 1Q23 owing to a significant decline in selling and marketing expenses and other expenses partially offset by a hike in property management and payroll-related expenses. As a result, the Company's operating profit declined 8.5% YOY to AED 1,081 Mn in 1Q23. EBITDA fell 9.2% YOY to AED 1,144 Mn in 1Q23 with an EBITDA margin of AED 48.2% in 1Q23 as compared to 35.3% in 1Q22. Moreover, finance income more than doubled to AED 150 Mn in 1Q23 from AED 41 Mn in 1Q22 driven by a significant growth in income from fixed and call deposits with banks while finance cost rose 6.3% YOY to AED 76 Mn. Furthermore, other income increased significantly from AED 20 Mn in 1Q22 to AED 39 Mn in 1Q23. Share of results of JVs stood at AED 19 Mn in 1Q23 as compared to AED 56 Mn in 1Q22. In addition, share of profit attributable to non-controlling interest holders declined 12.4% YOY to AED 154 Mn in 1Q23.

### Balance Sheet Highlights

The Company's total debt declined significantly to AED 0.2 Mn in 1Q23 as compared to AED 829 Mn in 4Q22. Cash and cash equivalents stood at AED 12.9 Bn in 1Q23, out of which AED 11.8 Bn is held against advances received from customers on sales development properties deposited into escrow accounts. During 1Q23, the Company generated AED 3.2 Bn cash from operations.

### Target price and recommendation

We maintain our BUY rating on Emaar development with a target price of AED 6.75. Emaar Development recorded property sales of AED 8,603 Mn in 1Q23 as compared to AED 6,843 Mn in 1Q22. The Company successfully launched seven projects in 1Q22 across prime locations of Dubai Creek Harbour, Emaar Beachfront, Dubai Hills Estate, Arabian Ranches, Downtown Dubai, and Emaar South. The company delivered around 1,600 residential units in prime locations across UAE during 1Q23. Furthermore, Emaar Development

**Rating : BUY**

### First Look Note – 1Q23

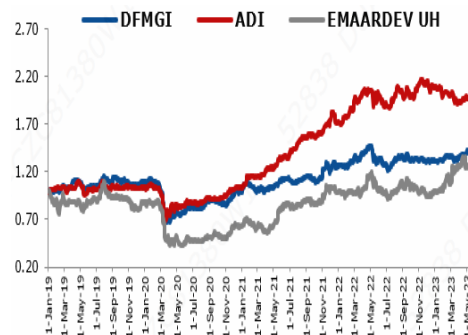
**Sector: Real Estate**

#### Recommendation

Current Price (5-June-23)	5.34
Target Price (AED)	6.75
Upside/Downside (%)	+26%

#### Stock Information

Market Cap (mm)	21,360.00
Paid Up Capital (mm)	4,000.00
52 Week High	6.04
52 Week Low	4.02
3M Avg. daily value (AED)	15,236,820



#### Financial Ratios

Dividend Yield (12m)	9.74
Dividend Pay-out (%)	54.62
Price-Earnings Ratio (x)	5.61
Price-to-Book Ratio (x)	1.10
Book Value (AED)	4.84
Return-on Equity (%)	21.87
Earning Per Share (AED)	0.95
Beta	0.93

#### Stock Performance

5 Days	3.49%
1 Months	-4.13%
3 Months	-3.61%
6 Months	28.67%
1 Year	18.67%
Month to Date (MTD)	2.89%
Quarter to Date (QTD)	-3.09%
Year to Date (YTD)	21.09%

handed over 59,500 residential units as of 1Q23 since incorporation, and currently, 28,500 units are under development in UAE. The Company's sales backlog stood at AED 45.7 Bn during 1Q23 ensuring strong revenue visibility in the forthcoming period. Emaar also holds exclusive access to 347 Mn square feet (sq ft) land bank in UAE through partnerships with GREs, government, and large owners of the land bank. This partnership enables Emaar Development to make a minimum upfront cash investment in land acquisition reducing the capital requirement. The Company maintained strong liquidity position with a net cash balance of AED 1.1 Bn during 1Q23. Emaar Development further strengthens its financial position repaying AED 1.7 Bn debt in 1Q23 and currently owes a negligible debt of AED 0.2 Bn owing to the repayment of debt due to strong cash flow generation driven by the robust performance of the real estate sector in UAE. 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 assign a BUY rating on the stock.

#### Emaar Development - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	5.37	7.76	12.65	6.46	5.50	5.62
P/B	2.64	2.18	1.86	1.45	1.21	1.01
EV/EBITDA	3.67	6.29	10.17	4.66	3.78	2.47
Dividend Yield	9.9%	NM	NM	NM	9.7%	9.7%

FABS Estimates & Co Data

#### Emaar Development - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,568	2,201	2,375	3,014	-21.2%	-33.4%	7.9%	11,541	12,233	6.0%
Cost of revenue	-2,051	-1,035	-1,046	-1,899	-44.9%	-49.0%	1.1%	-6,357	-7,095	11.6%
<b>Gross profit</b>	<b>1,517</b>	<b>1,166</b>	<b>1,329</b>	<b>1,115</b>	<b>19.2%</b>	<b>-12.4%</b>	<b>13.9%</b>	<b>5,184</b>	<b>5,138</b>	<b>-0.9%</b>
SG&A Expenses	-336	-292	-248	-211	17.4%	-26.2%	-15.1%	-1,229	-1,309	6.5%
<b>Operating Profit</b>	<b>1,181</b>	<b>874</b>	<b>1,081</b>	<b>904</b>	<b>19.6%</b>	<b>-8.5%</b>	<b>23.6%</b>	<b>3,954</b>	<b>3,829</b>	<b>-3.2%</b>
<b>EBITDA</b>	<b>1,259</b>	<b>954</b>	<b>1,144</b>	<b>969</b>	<b>18.1%</b>	<b>-9.2%</b>	<b>19.8%</b>	<b>4,224</b>	<b>4,065</b>	<b>-3.8%</b>
Finance income	41	146	150	121	24.2%	NM	2.6%	381	228	-40.2%
Finance cost	-71	-103	-76	-98	-22.8%	6.3%	-26.7%	-330	-138	-58.2%
Other income	20	26	39	15	NM	94.9%	51.1%	85	49	-42.4%
Share of assoc & JV's	56	51	19	44	-57.3%	NM	-63.7%	174	174	0.0%
<b>Profit for the year</b>	<b>1,226</b>	<b>994</b>	<b>1,212</b>	<b>985</b>	<b>23.1%</b>	<b>-1.1%</b>	<b>22.0%</b>	<b>4,265</b>	<b>4,143</b>	<b>-2.9%</b>
NCI	176	24	154	158	-2.3%	-12.4%	537.6%	457	414	-9.3%
<b>Net Profit</b>	<b>1,050</b>	<b>970</b>	<b>1,058</b>	<b>828</b>	<b>27.9%</b>	<b>0.8%</b>	<b>9.1%</b>	<b>3,808</b>	<b>3,729</b>	<b>-2.1%</b>

FABS estimate & Co Data

#### Emaar Development - Margins

Margins	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	42.5%	53.0%	56.0%	1,345	297	44.9%	42.0%	-292
EBITDA	35.3%	43.3%	48.2%	1,286	481	36.6%	33.2%	-337
Operating Profit	33.1%	39.7%	45.5%	1,242	580	34.3%	31.3%	-296
Net Profit	29.4%	44.1%	44.6%	1,513	51	33.0%	30.5%	-252

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	6.76	70.0%	4.73
Relative Valuation	6.74	30.0%	2.02
<b>Weighted Average Valuation (AED)</b>			<b>6.75</b>
<b>Current market price (AED)</b>			<b>5.34</b>
<b>Upside/Downside (%)</b>			<b>28.82%</b>

### 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 9.4%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.03 and equity risk premium of 4.5%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	10,424
Terminal value (AED, Mn)	17,520
<b>FV to Common shareholders (AED, Mn)</b>	<b>27,049</b>
No. of share (Mn)	4,000
Current Market Price (AED)	5.34
<b>Fair Value per share (AED)</b>	<b>6.76</b>

### DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Cash Flow from Operation (CFO)	2,683	3,327	2,399	2,566	1,947
(-) Capex	0	-16	-16	-15	-15
<b>Free Cash Flow to Equity (FCFE)</b>	<b>2,683</b>	<b>3,312</b>	<b>2,383</b>	<b>2,551</b>	<b>1,931</b>
Discounting Factor	0.95	0.87	0.79	0.72	0.66
<b>Discounted FCFE</b>	<b>2,545</b>	<b>2,870</b>	<b>1,887</b>	<b>1,846</b>	<b>1,277</b>

## 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 6.0x.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
MADINET NASR FOR HOUSING & DEVELOPMENT S.A.E.	224	4.9	5.4	NM	NM
CHINA OVERSEAS LAND & INVESTMENT LTD.	183,000	6.7	6.3	5.4	5.0
LONGFOR GROUP HOLDINGS LIMITED	12,725	5.6	5.6	5.3	4.8
COUNTRY GARDEN HOLDINGS CO. LTD.	5,202	5.9	5.8	4.0	3.3
CHINA RESOURCES LAND LIMITED	27,626	5.7	5.3	7.0	6.4
POLY DEVELOPMENTS AND HOLDINGS GROUP CO., LTD.	22,193	6.2	5.9	0.8	0.7
CHINA VANKE CO., LTD.	22,373	6.2	5.4	8.5	7.9
ALDAR PROPERTIES	11,005	10.7	9.4	13.0	12.3
<b>Average</b>		6.0x	5.7x	5.2x	4.7x
<b>Median</b>		6.0x	5.6x	5.4x	4.9x
<b>Max</b>		6.2x	5.8x	6.6x	6.0x
<b>Min</b>		5.7x	5.4x	4.3x	3.7x

**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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