

4Q18 results review

Real Estate | UAE | 18 February 2019

Emaar Properties reported 4Q18 net profit of AED1.8bn (36% y-o-y and 63% q-o-q). Earnings beat our expectations by 35% and Bloomberg consensus by 63%. Main reason for such outperformance was doubling of revenues from Emaar Development. International development business also saw sequential recovery in revenues. Overall, gross profit margin was in line, though SG&A expenses rose at surprisingly higher rate. 4Q18 pre-sales at AED4.3bn recovered and recorded growth of 63% y-o-y (15% q-o-q). Strong pre-sales in 4Q18 helped to contain pre-sales decline for FY2018 to 20% (after -35% in 9M18). Developers continue to adjust pace of new launches amid weak property market conditions and rather focusing on selling their existing inventory. For Emaar, the key concern of investors has been its high capex cycle, leading to cash flow pressure. Our discussion with the management indicated that the company may delay some of the capex on retail/hotel expansion, thereby easing cash flows. As a result, we may see reinstatement of regular dividend payment this year. This may address some of the market concerns. We see current market implied holding company discount (~38%) as excessive and believe challenging market outlook is more than priced-in at current share price. Maintain Buy.

► **Solid performance delivered by UAE development business**

Total Revenues came in at AED8.3bn (56% y-o-y) and were 47% above our estimates. Robust topline growth was particularly triggered by UAE development business (65% of total revenues). UAE development property business' revenues jumped 129% y-o-y. This outperformance is likely to have come from few projects reaching threshold (>20% completion) to start recognizing revenues. International development business saw revenues recovering 44% q-o-q after weak 9M18 performance.

► **Recurring income business broadly stable**

Overall recurring income posted revenues of AED2.0bn (5% y-o-y), led by Emaar Malls (8% y-o-y). Hotels and other leasing revenues remained flat.

► **4Q18 pre-sales recovery helped to contain FY2018 decline**

4Q18 UAE pre-sales stood at AED4.3bn, increasing 63% y-o-y and 15% q-o-q. This was 20% above our expectation. 4Q rebound in pre-sales helped FY2018 pre-sales to reach AED14.4bn (-20% y-o-y after -35% in 9M18).

► **Strong value in the name, maintain Buy**

Emaar is trading at a P/BV of 0.5x 2019E, 50% below EM peers and 55% below its historical average. At current share price, market is applying 25% discount to all listed entities (at current market cap.), while ignoring value of hotels and entertainment/leisure assets. As company starts to see improved cash flows (on delays in capex), investors' sentiment is likely to improve towards the name, thereby helping to reduce current valuation discount.

Key Financials	2016	2017	2018E	2019E	2020E
Revenue (AEDm)	15,540	18,812	25,694	24,598	24,700
EBITDA (AEDm)	6,257	7,387	9,553	9,741	9,882
Net profit (AEDm)	5,233	5,704	6,108	6,386	6,094
EPS (AED)	0.7	0.8	0.9	0.9	0.9
EPS (% Change)	31.7	9.0	7.1	4.5	(4.6)
P/E (x)	5.3	4.8	4.5	4.3	4.5
Dividend Yield (%)	3.9	14.5	3.9	3.9	3.9
Total net debt (AEDm)	62	466	12,751	12,921	12,947
RoAE (%)	13.2	12.7	12.2	11.9	10.4

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 6.6
Price	AED 4.1
Price 12m High/Low	AED 6.37/3.85
Market Cap.	AED27,564mn
Bloomberg/Reuters	EMAAR UH / EMAR.DU

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement (AEDmn)	2017	2018E	2019E	2020E
Revenue	18,812	25,694	24,598	24,700
EBITDA	7,387	9,553	9,741	9,882
Depreciation and amortisation	1,052	1,195	1,370	1,509
EBIT	6,335	8,358	8,371	8,373
Other income	612	907	1,304	762
Net Finance Cost	95	257	624	637
Profit before tax	6,852	9,008	9,051	8,499
Taxes	74	(12)	(12)	(11)
Minority interest	1,074	2,912	2,677	2,417
Net profit	5,704	6,108	6,386	6,094

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2017	2018E	2019E	2020E
Cash and cash equivalents	21,103	10,062	8,059	7,896
Other current assets	55,751	59,464	58,812	59,217
Total non-current asset	19,302	21,687	21,356	22,557
Total assets	112,752	111,549	110,377	113,520
Total current liabilities	33,429	29,102	22,192	18,667
Borrowings	21,568	22,813	20,980	20,843
Other non-current liabilities	163	163	163	163
Total liabilities	55,161	52,077	43,334	39,673
Minority interest	8,522	8,594	10,853	12,638
Shareholders' equity	49,069	50,817	56,129	61,149
Total net debt	466	12,751	12,921	12,947

Source: ADCB Securities Equity Research

Cash flow statement (AEDmn)	2017	2018E	2019E	2020E
Cash flow from operations	2,567	(418)	3,901	6,371
Net capex	645	7,335	2,080	4,179
Free cash flow	1,922	(7,754)	1,821	2,192
Net financing	3,416	177	(2,939)	(1,192)
Change in cash	3,814	(11,041)	(2,003)	(163)

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2017	2018E	2019E	2020E
P/E (x)	4.8	4.5	4.3	4.5
P/BV (x)	0.6	0.5	0.5	0.5
P/FFO (x)	4.1	3.8	3.6	3.6
FCF yield (%)	7.0	(28.1)	6.6	8.0
Dividend Yield (%)	14.5	3.9	3.9	3.9
EV/EBITDA (x)	3.8	4.2	4.2	4.1
Interest coverage (x)	8.6	7.8	7.6	7.9
Net debt/equity (x)	0.01	0.21	0.19	0.18
Net debt/EBITDA (x)	0.1	1.3	1.3	1.3

Source: ADCB Securities Equity Research

Key Ratios (%)	2017	2018E	2019E	2020E
ROAIC	14.0	16.9	16.0	14.0
RoAE	12.7	12.2	11.9	10.4
Revenue growth	21.1	36.6	(4.3)	0.4
EBITDA growth	18.1	29.3	2.0	1.4
EPS growth	9.0	7.1	4.5	(4.6)
EBITDA margin	39.3	37.2	39.6	40.0

Source: ADCB Securities Equity Research

Per-share data (AED)	2017	2018E	2019E	2020E
EPS	0.80	0.85	0.89	0.85
DPS	0.56	0.15	0.15	0.15
BVPS	6.85	7.10	7.84	8.54
Total no. of outstanding shares (mn)	7,160	7,160	7,160	7,160

Source: ADCB Securities Equity Research, * Company did not publish 2018 full financials so 2018 numbers are our estimates

Investment case

Emaar Properties offers exposure to mix of stable recurring income and high earnings growth. Its Dubai development property business is embarking on a next phase of growth with solid pipeline. Emaar Malls and hotels, the other key businesses, are also on high growth trajectory driven by expansions. After crystalizing value of UAE development business, we see continued value unlocking potential by listing of other businesses, as aimed by management.

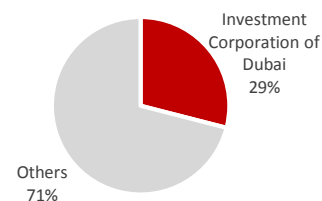
Upside case AED7.3

Better than envisaged consumer and tourist spending to lift growth in retail sales and thus rents. Emaar could see pre-sales momentum back to last year level in such a scenario. Emaar would trade at 2019E P/NAV of 0.5x under such scenario.

Downside case AED3.9

Decline in oil prices and strong momentum in US\$ strengthening will further constraint spending from tourists and population. This could restrict ability to increase retail base rents and also slowdown its pre-sales. Investors are likely to apply higher discount to value Emaar Malls, other retail and hotels, as well as take higher holding company discount. Emaar would trade at 2018E P/NAV of 0.3x under such scenario.

Fig. 1. Shareholding pattern



Source: DFM, ADCB Securities Equity Research

Results summary - 4Q2018

Fig. 1. 4Q18 results review

AEDmn	4Q18	4Q17	y-o-y	3Q18	q-o-q	4Q18E
Revenues	8,304	5,336	56%	5,325	56%	5,645
Gross Profit	4,072	2,473	65%	2,571	58%	2,800
Margin	49%	46%		48%		50%
Net Profit	1,791	1,319	36%	1,100	63%	1,331
Margin	22%	25%		21%		24%
Segmental Revenues						
Development property	6,311	3,429	84%	3,675	72%	3,653
UAE	5,400	2,355	129%	3,043	77%	2,989
International	911	1,074	-15%	633	44%	664
Recurring income	1,993	1,907	5%	1,650	21%	2,011
Emaar Malls	1,214	1,129	8%	1,128	8%	1,259
Other recurring	779	778	0%	522	49%	752
Pre-sales						
UAE development	4,361	2,669	63%	3,803	15%	3,632

Source: Company, ADCB Securities Equity Research

Recommendation history

EMAAR PROPERTIES (EMAAR UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
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Rating Distribution

Rating	Coverage Universe %
Buy	75%
Hold	25%
Sell	0%

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