

## Emaar Cashes in on Local Development Biz



### Emaar Properties Market Data as of 24 August 2017

Dubai Financial Market	Emaar
Bloomberg Code	Emaar UH EQUITY
Reuters Instrument Code	Emaar.DU
Sector	Real Estate-diversified
Last Price (AED)	8.53
Year-to-Date Change (%)	19.64
30d Average Daily Volume	4,617,789
52w High Price (AED)	8.59
52w Low Price (AED)	6.37
Market Capitalization (AEDmn)	61,072.60

### Project Backlog Perimeter Overview

Description	Total Project Value (AED mn)	Property sold that is yet to be recognized. (AED mn)
100% Owned Developments	39,814.76	27,721.25
100% Consolidated JVs	16,100.52	12,955.85
JVs/JDA with 50% Share	9,400.36	8,347.30
Land Bank (100% owned)	N/A	N/A
Total-Excluding JVs/JDA	55,915.28	40,677.10
Total-Including 50% share of JVs/JDA	60,615.46	44,850.75

### UAE Development Interim Results: Profit and Loss

(AED mn)	2Q17	2Q16	▲ (%)	1H17	1H16	▲ (%)
Revenue	1,498	1,832	-18%	3,154	3,308	-5%
Gross Profit	720	687	5%	1,314	1,267	4%
Gross Profit Margin	48.0	37.5	28%	41.6	38.3	9%
EBITDA	583	638	-9%	1,057	978	8%
EBITDA Margin (%)	38.9	34.8	12%	33.5	29.6	13%

### The Storyline;

On 23 August 2017, Emaar held an analyst presentation shedding more light on the expected “30% IPO” of its UAE development giant unit. In a nutshell, Emaar Properties’ plan is to monetize its diversified business assets and unlock incremental value across its portfolios. We assign an initial\* value for the UAE development business at AED31.7bn. Further, we continue to believe that Emaar is gradually gaining momentum and the expected dividend play might push the stock higher to the AED10.0 levels-as shown in the chart to the left.

### The Numbers;

- The Company’s current backlog stood at AED40.67bn as of June 2017, including equity accounted projects only. JVs’ order backlog is valued at AED8.34bn of which 50% is Emaar’s share. Total UAE development Backlog is AED44.85bn.
- The latest expected completion of the above backlog is Dec 2020 with the exception of Vida Dubai Mall T1 which is schedule for delivery at the end of 2021.
- Total Projects value for UAE business is AED60.61bn.
- Target blended gross profit margin for the expected delivery is 40%, according to Emaar.
- EBITDA margin\*\* for the UAE business is hovering around 30%. We have applied 20% margin for the future developments expected to be monetized over the next 30 years.
- With the exception of land purchases, the UAE Development’s CAPEX is very minimal, as the Company relies on escrow account to fund constructions.
- We did not account for leverage since the Company’s capital structure is still under consideration. Using a WACC of 10% and assuming 20% margin, we value the projected cash flows from Emaar’s land bank for the next 30 years at AED22.5bn.
- Our Unlevered Free Cash Flow (UFCF) model suggests an initial value\* of AED9.5bn for 30% equity carve-out, implying a 16% dividend yield to Emaar current shareholders.

Unleveraged Discounted CF	AED (bn)
PV of current backlog	9,229
PV of Monetizing current land bank	22,493
Total Value	31,722

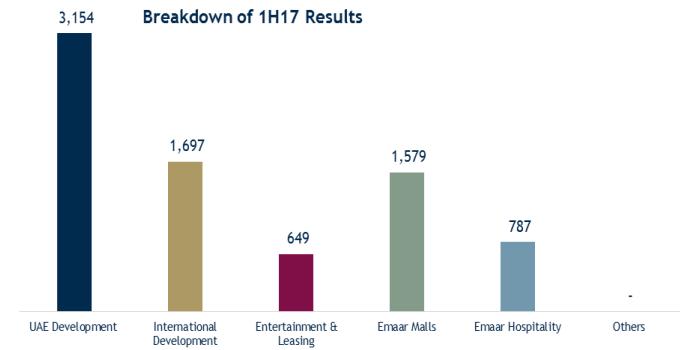
### Going Forward;

The new company will focus on the UAE development of residential and commercial building to sell assets in the UAE, including wholly-owned developments, Joint Venture and joint development agreements, as well as fully owned land banks. Development of Emaar malls and hotels will be on a management fee basis. The firm will target an average gross margin of 40% across all projects. Based on the Company’s existing business model as well as management’s guidance, the new entity will become an income attractive stock. The self-funded model allows the development business to have a flexible balance sheet and a payout ratio in the north of 80%. The IPO prospectus should provide a full picture of the UAE development business. Hence, valuation metrics and assumptions are subject to change upon receiving new information. The IPO is scheduled in November 2017.

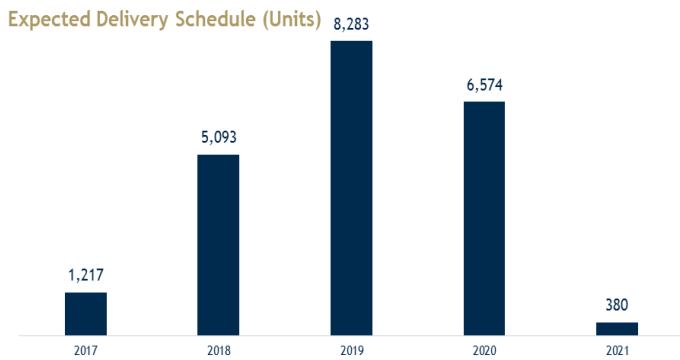
\* Our initial valuation for the UAE development business is based on available data and the most recent analysts’ meeting. This value is subject to change once the IPO prospectus is out.

\*\* EBITDA margin is based on Al Ramz assumption and Emaar UAE development EBITDA historical margin.

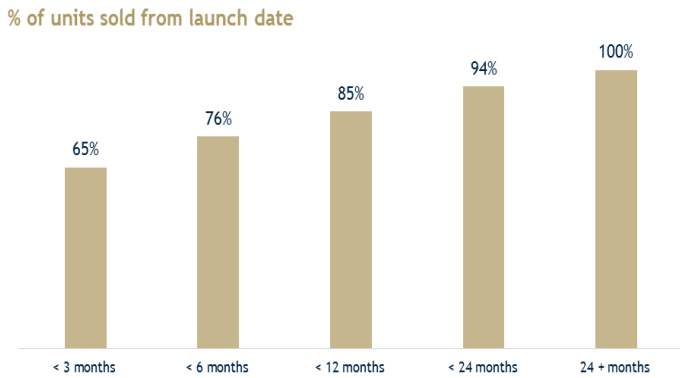
# Overview of Emaar UAE Development Business



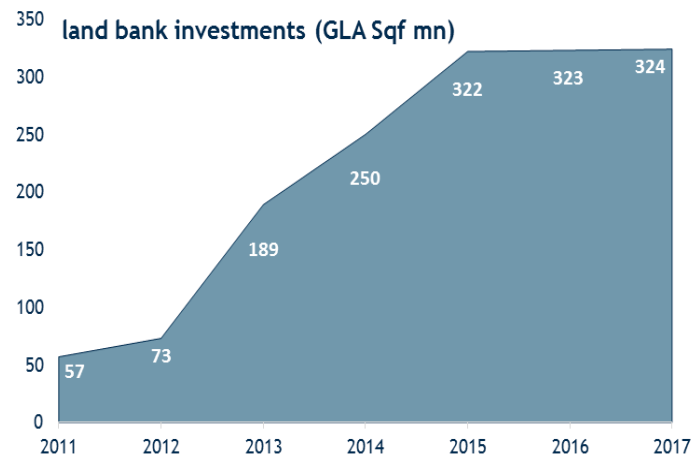
Source: Emaar 1H17 analyst's presentation, Alramz Research.



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## Emaar Properties as it stands now:

Emaar Properties operates through four (4) main business units. Development, Emaar Malls (15% sold on IPO in 2014), Emaar Hospitality, and Entertainment and Leasing. Of those units, UAE development alone contributes, 29% EBITDA of Emaar and 40% of Emaar's total revenues during the first half of 2017. The development giant recorded a huge Backlog of AED40bn and 237.6mn SQFT of land bank in key areas in the UAE.

## Rationale:

- \* The UAE development business is a major unrecognized contributor to the overall profitability of Emaar. It contributes 29% of total EBITDA as of 2017.
- \* The carve-out of this business unlocks the true value of the business line.
- \* Emaar Properties will still maintain exposure to the UAE development segment retaining a minimum of 70% controlling stake in the unit.
- \* The proceeds of the sale will result in a special dividend to the shareholders of Emaar Properties.

## Emaar Development Business Model:

Emaar development model runs on four major steps.

- \* The company first acquires land. For that, Emaar has prime land banks in strategic areas around the UAE.
- \* A design is set based on the goal and purpose of the property.
- \* Emaar begins the marketing and sales of the property based on off-plan sales.
- \* Development: The project is awarded to a contractor to build only after 60% of the units are sold. According to Emaar this usually occurs within 3-6 months from the launch date.

UAE Available Land Bank	Gross Land Area SQFT (mn)
Emaar Dubai	49.83
Lusailly	45.98
Ras Al Khaima	0.84
Others (Downtown, Arabian Ranches etc.)	3.01
Dubai Hills	63.58
Dubai Creek	57.01
Dubai World Trade Centre (DWTC)	10.18
Dubai World Central (DWC)	56.76
Zabeel Square	0.3
<b>Total UAE Available Land Bank</b>	<b>237.66</b>

Source: Emaar 1H17 analyst's presentation, Alramz Research.

# Emaar UAE Development Projects Breakdown. Q2 2017 Results Presentation

Location	Project Value (AED mn)	Completion date	% Unit Sold	% Collected of sold units	% Completion	% Gross Margin	% Collected of total value	Recognized Value (AED mn)	Value to be recognized (AED mn)
<b>Downtown</b>									
Fountain Views	1,061.5	1Q18	99%	81%	74%	28%	80%	785	276
Fountain Views 2	1,101.4	2Q18	99%	71%	70%	30%	70%	771	330
Fountain Views 3	1,142.2	2Q18	98%	72%	63%	37%	71%	720	423
The Address Sky View	2,884.1	4Q18	95%	67%	56%	30%	64%	1,615	1,269
Burj Vista	1,923.7	1Q18	99%	81%	71%	47%	80%	1,366	558
Blvd Crescent	1,097.3	2Q18	84%	42%	30%	51%	35%	329	768
Blvd Heights	1,769.4	2Q18	78%	42%	16%	51%	33%	283	1,486
Vida Downtown	1,325.3	2Q18	94%	40%	21%	44%	38%	278	1,047
Boulevard Point	1,240.7	4Q18	98%	47%	27%	25%	46%	335	906
Opera Grand Residential Tower	2,051.3	1Q19	83%	51%	26%	60%	42%	533	1,518
The Downtown Views	1,231.0	2Q19	97%	43%	6%	46%	42%	74	1,157
FORTE	2,413.0	4Q19	80%	34%	8%	40%	27%	193	2,220
Address Opera	3,833.2	2Q20	95%	23%	4%	53%	22%	153	3,680
IL PRIMO	2,729.1	3Q20	38%	12%	4%	46%	5%	109	2,620
Act One Act Two	1,660.7	4Q20	60%	16%	2%	38%	10%	33	1,627
Downtown Views 2	3,034.1	4Q20	73%	7%	1%	31%	5%	30	3,004
Vida Dubai Mall T1	1,064.1	4Q21	77%	5%	2%	52%	4%	21	1,043
<b>Emirates Hills</b>									
The Hills-Residence	892.8	4Q17	100%	76%	63%	32%	76%	562	330
Vida Residence - The Hills	417.1	2Q18	97%	72%	57%	29%	70%	238	179
<b>Dubai Marina</b>									
52-42	1,084.8	3Q20	95%	26%	8%	39%	25%	87	998
Vida Hotel & Serv Apts	836.6	4Q20	94%	8%	0%	36%	8%	-	837
<b>Arabian Ranches</b>									
Aseel	396.9	1Q18	31%	55%	62%	64%	17%	246	151
ROSA	787.5	3Q17	94%	82%	91%	47%	77%	717	71
LILA	871.9	3Q17	91%	81%	91%	43%	74%	793	78
RASHA	762.2	4Q17	91%	76%	89%	45%	69%	678	84
YASMIN	553.9	4Q17	86%	79%	89%	54%	68%	493	61
Samara	730.0	4Q19	69%	66%	77%	48%	46%	562	168
AZALEA	414.2	4Q18	58%	27%	21%	46%	16%	87	327
Reem Community	505.2	4Q19	80%	10%	0%	0%	8%	-	505
<b>Total 100% owned project</b>	<b>39,814.8</b>							<b>12,093.5</b>	<b>27,721.2</b>
<b>Dubai Hills Estates</b>	<b>16,100.5</b>								
Views and Grove	2,051.8	4Q17	96%	71%	92%	62%	68%	1,888	164
Mulberry Park Heights	1,247.9	3Q18	88%	54%	23%	31%	48%	287	961
Acacia Park Heights	1,043.4	1Q19	70%	34%	14%	34%	24%	146	897
MAPLE	1,745.0	2Q19	93%	39%	15%	50%	36%	262	1,483
MAPLE 2	1,732.4	3Q19	97%	30%	14%	48%	29%	243	1,490
SIDRA	2,006.4	1Q19	100%	27%	11%	46%	27%	221	1,786
Fairway Vista	985.4	2Q19	100%	18%	0.30%	59%	18%	3	982
Parkway Vistas	696.1	2Q19	98%	18%	0.10%	59%	18%	1	695
Park Point	459.2	1Q19	50%	15%	17%	35%	8%	78	381
SIDRA 2	1,735.2	3Q19	99%	17%	0.50%	46%	17%	9	1,727
Park Heights I	313.0	1Q20	87%	11%	0.00%	33%	10%	-	313
Park Heights II	638.1	1Q20	49%	10%	0.20%	42%	5%	1	637
Maple 3	1,446.6	4Q19	37%	9%	0.50%	46%	3%	7	1,439
<b>Total Consolidated Projects</b>	<b>16,100.5</b>							<b>3,144.7</b>	<b>12,955.9</b>
<b>Dubai Creek Harbour</b>									
Dubai Creek Residences	2,233.8	4Q18	90%	41%	36%	26%	37%	804	1,430
Harbour Views & Creekside 18	2,220.7	4Q19	86%	25%	6.00%	25%	22%	133	2,087
Creek Horizon	960.5	4Q20	61%	14%	3.00%	29%	9%	29	932
The Cove	131.2	4Q20	1%	19%	1.00%	32%	0%	1	130
Creek Gate	639.6	4Q20	78%	8%	1.00%	31%	6%	6	633
Harbour Gate	870.0	4Q20	63%	6%	2.00%	31%	4%	17	853
The Cove Building 2	198.7	4Q20	60%	8%	1.00%	32%	5%	2	197
Creek Rise	857.6	4Q20	34%	4%	2.00%	31%	1%	17	840
<b>Emaar South</b>									
URBANA I, II, III	990.3	4Q19	63%	15%	4.00%	32%	9%	40	951
Golf Views	297.9	4Q19	64%	16%	1.00%	12%	10%	3	295
<b>Total JVs/JDs</b>	<b>9,400.4</b>							<b>1,053.1</b>	<b>8,347.3</b>



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<b>Neutral</b>	The target price in the next 12 months is between -10% and 10% of the current price.
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<b>Not Rated</b>	No investment rating has been assigned yet.

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