

4Q18 results review

Real Estate | UAE | 17 February 2019

Emaar Malls reported 4Q18 net profit at AED591mn (2% y-o-y), in line with our and consensus expectations. Core rental income witnessed growth of 6% y-o-y, largely on the back of fashion avenue expansion. Adjusted growth would have been even higher if we exclude impact of unfavorable base. EBITDA margin at 62% was broadly as expected. Portfolio occupancy remained stable at 93%, while footfall across mall portfolio increased 5% y-o-y to reach 136 million in 2018. The Dubai Mall also saw pick up in footfall to 83 million (after being stable at 80 million since 2014). Expansion led growth has already started to materialize, aiding total rental income amid muted growth from existing assets. We have not yet incorporated planned expansions (8% of GLA likely to be completed by 2019) and new malls (~50% of GLA assuming 50% stake in new master planned communities, likely completion post 2020) in our estimates. This represents strong long term growth potential in addition to expected net profit CAGR of 5% over 2018-20E. Emaar Malls is currently trading at discounted valuation (2019E EBITDA yield of 12%), which we view as attractive in light of high quality assets and its growth prospects. We maintain our Buy.

► **Growing rental income despite challenging market conditions**

Total revenues at AED1.2bn increased 8% y-o-y, driven by 13% growth in Namshi and 6% growth in rental income. Adjusting for unfavorable base (higher turnover rent in 4Q17 ahead of VAT implementation), we calculate normalized rental income growth would have been solid at ~14% (similar to 3Q18) driven by Fashion Avenue expansion. Over coming quarters, we expect growth to sustain as full impact of expansion kicks in.

► **Core business margins stable**

The company delivered in line EBITDA margin at 62%. Split of profitability between physical and online retail is not yet disclosed (full financials expected in 1 week). However, assuming Namshi maintained marginal EBITDA losses, we calculate physical retail EBITDA margin of 79% in 4Q18 (similar to 3Q18).

► **Attractive valuation + high dividend yield + near term growth catalyst**

The stock is trading at 1 yr. fwd. P/NAV of 0.4x, discount of 60% to global peers and ~45% to its historical average. 2019E implied EBITDA yield is at 12.4%, more than double the global peers of 5.5%. We believe such discount for high quality asset portfolio (~90% of EBITDA comes from The Dubai Mall incl. expansion) and amid superior earnings outlook is unwarranted. Lastly, we see dividends increasing by 6% CAGR over 2018-21E (yielding 6.4% in 2018E / 6.8% in 2019E) on higher EBITDA generation post expansion. Alternatively, the company may choose to maintain dividend at current level (and still offer above 6% yield) and deploy surplus cash in acquiring assets from parent Emaar Properties to accelerate growth in long term.

Key Financials	2016	2017	2018E	2019E	2020E
Revenue (AEDm)	3,228	3,629	4,446	4,782	5,033
EBITDA (AEDm)	2,444	2,670	2,841	3,002	3,117
Net profit (AEDm)	1,874	2,086	2,229	2,345	2,464
EPS (AED)	0.1	0.2	0.2	0.2	0.2
EPS (% Change)	13.2	11.3	6.9	5.2	5.1
P/E (x)	10.4	9.4	8.8	8.3	7.9
Dividend Yield (%)	6.7	6.7	6.4	6.8	7.1
Total net debt (AEDm)	3,746	4,096	3,633	2,648	1,567
RoAE (%)	11.9	12.9	13.3	13.2	13.1

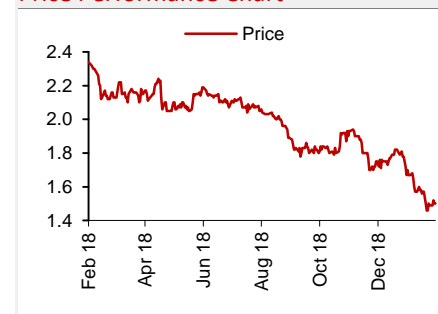
Source: ADCB Securities Equity Research

*2018 full financials not yet disclosed and reflect our estimates

Fundamentals

Recommendation	Buy
Target Price	AED 2.5
Price	AED 1.59
Price 12m High/Low	AED 2.34/1.46
Market Cap.	AED19,521mn
Bloomberg/Reuters	EMAARMLS UH / EMAA.DU

Price Performance Chart



Source: Bloomberg

Equity Research Team

Yugesh Suneja (+971 2 305 0838)

yugesh.suneja@adcb.com

Abdullah Sahli (+971 2 305 4942)

abdulla.a4@adcb.com

Financials

Income Statement (AEDmn)	2017	2018E	2019E	2020E
Revenue	3,629	4,446	4,782	5,033
EBITDA	2,670	2,841	3,002	3,117
Depreciation and amortisation	380	456	460	467
EBIT	2,290	2,385	2,542	2,650
Other income	0	49	0	0
Net Finance Cost	210	235	223	208
Profit before tax	2,080	2,199	2,319	2,442
Taxes	0	0	0	0
Minority interest	(6)	(30)	(26)	(22)
Net profit	2,086	2,229	2,345	2,464

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2017	2018E	2019E	2020E
Cash and cash equivalents	3,210	3,672	4,657	5,738
Other current assets	702	663	700	729
Total non-current asset	181	157	138	120
Total assets	25,833	26,633	27,705	28,781
Total current liabilities	2,092	2,020	2,065	2,085
Borrowings	7,306	7,306	7,306	7,306
Other non-current liabilities	36	36	36	36
Total liabilities	9,433	9,361	9,407	9,427
Minority interest	177	147	121	99
Shareholders' equity	16,349	17,277	18,307	19,364
Total net debt	4,096	3,633	2,648	1,567

Source: ADCB Securities Equity Research

Cash flow statement (AEDmn)	2017	2018E	2019E	2020E
Cash flow from operations	2,464	2,808	3,010	3,109
Net capex	1,306	809	488	413
Free cash flow	1,158	1,999	2,522	2,696
Net financing	(276)	(326)	(326)	(326)
Change in cash	(341)	463	985	1,081

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2017	2018E	2019E	2020E
P/E (x)	9.4	8.8	8.3	7.9
P/BV (x)	1.2	1.1	1.1	1.0
P/FFO (x)	7.9	7.3	7.0	6.7
FCF yield (%)	5.9	10.2	12.9	13.8
Dividend Yield (%)	6.7	6.4	6.8	7.1
EV/EBITDA (x)	8.8	8.2	7.4	6.8
Interest coverage (x)	8.0	7.3	7.8	8.1
Net debt/equity (x)	0.25	0.21	0.14	0.08
Net debt/EBITDA (x)	1.5	1.3	0.9	0.5

Source: ADCB Securities Equity Research

Key Ratios (%)	2017	2018E	2019E	2020E
ROAIC	9.9	10.0	10.3	10.4
RoAE	12.9	13.3	13.2	13.1
Revenue growth	12.4	22.5	7.6	5.3
EBITDA growth	9.3	6.4	5.7	3.8
EPS growth	11.3	6.9	5.2	5.1
EBITDA margin	73.6	63.9	62.8	61.9

Source: ADCB Securities Equity Research

Per-share data (AED)	2017	2018E	2019E	2020E
EPS	0.16	0.17	0.18	0.19
DPS	0.10	0.10	0.11	0.11
BVPS	1.26	1.33	1.41	1.49
Total no. of outstanding shares (mn)	13,014	13,014	13,014	13,014

Source: ADCB Securities Equity Research

Investment case

Emaar Malls is a pure play on Dubai's retail story, which is driven by Dubai's attractive tourism proposition and population growth. Easing of visa restrictions/visa reforms should support tourism sector in Dubai. Steady oil prices should gradually boost sentiment of GCC tourists while lower rate hike expectations should limit further US\$ strengthening and thus supporting international inbound tourism to Dubai. The Dubai Mall should also be more resilient to rising supply and e-commerce risks, underpinned by its prime location, strong footfall and high trading density.

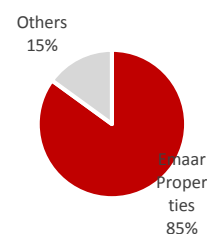
Upside case AED2.85

Improvement in tourist and domestic spending driven by firm oil prices and weakness in US\$. In such a scenario, Emaar Malls could see higher tenant sales and rise in turnover rent, leading to better earnings growth than currently envisaged. The stock would trade at 2019E EBITDA yield of 7.25% in this case.

Downside case AED1.46

US\$ strengthening and lower oil prices will further constraint spending from tourists and population, denting prospects of recovery or stabilization in tenant sales. This would restrict its ability to increase base rents or could even push base rents lower. In such a scenario, market implied discount to cap rate is likely to sustain. The stock would trade at 2019E EBITDA yield of 11% in this case.

Fig. 1. Shareholding pattern



Source: DFM, ADCB Securities Equity Research

Results summary- 4Q2018

Fig. 1. Results review - 4Q18

AEDmn	4Q18	4Q17	y-o-y	3Q18	q-o-q	4Q18E	Variance
Revenues	1,214	1,129	8%	1,128	8%	1,259	-4%
Gross Profit	910	851	7%	840	8%	956	-5%
Margin	75%	75%		74%		76%	
EBITDA	755	731	3%	710	6%	795	-5%
Margin	63%	72%		63%		62%	
Net Profit	591	579	2%	537	10%	600	-2%
Margin	48%	55%		52%		46%	

Source: Company, ADCB Securities Equity Research

Recommendation history

EMAAR MALLS (EMAARMLS 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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SALES CONTACTS**Call Center**

600 50 3325 (within UAE)
+971 2 621 1608 (outside UAE)
adcbsecurities@adcb.com

Institutional Desk

Wael Atta
+971 2 408 2306
Wael.Atta@adcb.com