

Emaar Malls

HOLD
TP AED3.0
+7%

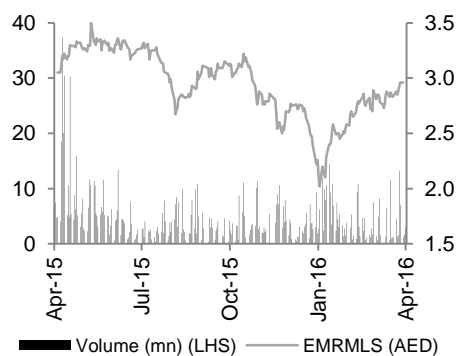
Market Data

Bloomberg Code	EMAARMLS UH
Reuters Code	EMAA.DU
CMP (3 May 2016)	AED2.80
O/S (mn)	13,014
Market Cap (AED mn)	36,440
Market Cap (USD mn)	9,929
52-week High (AED)	3.50
52-week Low (AED)	2.02
3m ADVT (USDmn)	4.19

Price Performance

	1m	3m	12m
Absolute (%)	4.3	38.9	-3.0
Relative (%)	-0.9	3.8	8.4

Price Volume Performance



Source: Bloomberg

Ankur Khetawat
Assistant Vice President
akhetawat@global.com.kw
Tel.: (965) 2295 1285

- Rentals to remain strong but priced-in post current rally
- Dubai retail space oversupplied; mall positioning is key
- Upside limited from current levels; initiate with Hold

A pure Dubai play, offering strong growth in rentals but priced-in at these levels. We initiate with a Hold rating and a TP of AED3.0/share, implying a potential upside of 7%. Assuming a cap rate of 6%, the stock is fairly valued at 2016e P/NAV of 1.0x. Also, the stock is trading at 17e PE of 16.3x, in line with the peer group.

Emaar Malls provides direct exposure to diversified quality retail assets in Dubai. The company owns and manages a retail area of 550k sqm, including its flagship asset The Dubai Mall (two-thirds of the GLA). Emaar Malls enjoys impressive occupancy rates at 95% and a blended rental at AED5.5k/sqm, 50% higher than Dubai average. The group's asset recorded tenant sales of AED18bn (flat y-o-y), which, coupled with footfall of 124mn in 2015 (+8.8% y-o-y), continues to position the mall uniquely.

The Dubai Mall's expansion is value accretive, but already factored-in the price. The Company's ongoing AED1.7bn expansion plan, which is expected to be operational starting 2017, would increase its GLA by 12%. Accordingly, we expect Emaar Malls' revenues to grow at a CAGR of 10% till 2018, aided by new capacity coming online in 2017. While additional upside can be derived from recently announced retail development at Dubai Creek Harbour by Emaar Properties, we have excluded the project from our valuation as it's in the initial stage.

Additional retail supply in Dubai could lead to stagnation in rentals. Emaar Malls offers direct exposure to retail and tourism spending in the UAE. Dubai's target of 20mn tourists by 2020 to directly benefit the company given The Dubai Mall's status as a destination mall. However, we believe a further outperformance in rental growth could be challenging given that an additional 0.4mn sqm of retail supply is estimated in Dubai, which would increase the current stock by 10% by 2018, raising GLA per capita to 1.5 sqm, 50% higher than the global average.

Investment indicators

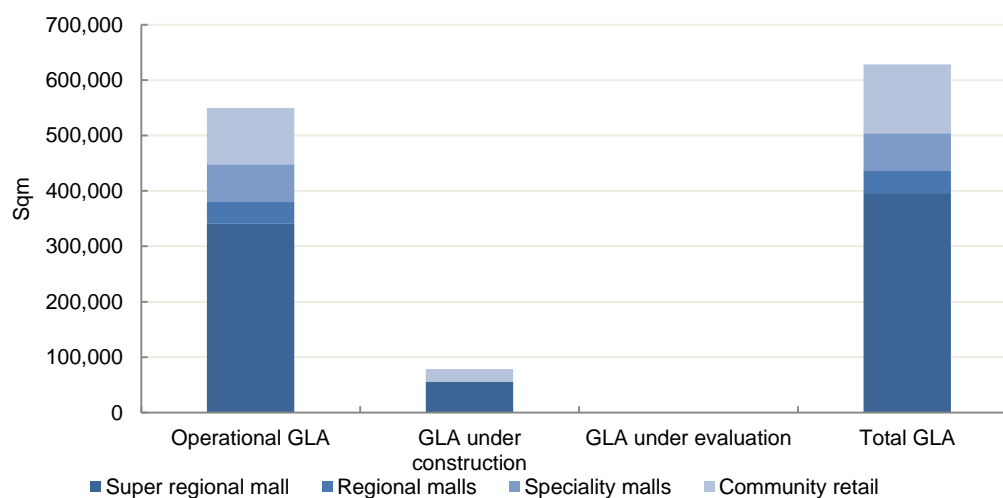
AEDbn	2015	2016e	2017e	2018e	2019e
Revenue	3.0	3.2	3.8	4.2	4.4
NPAT	1.7	1.8	2.2	2.5	2.7
EPS	0.13	0.14	0.17	0.19	0.20
P/E	22.0x	20.1x	16.3x	14.5x	13.7x
P/B	2.4x	2.3x	2.2x	2.0x	1.9x
P/NAV	1.0x	1.0x	0.8x	0.7x	0.6x

Source: Global Research, Emaar Malls

Business model revolves around Emaar projects; The Dubai Mall is key

Emaar Mall's business model is straightforward, given the company owns and operates 537k sqm of the GLA in Dubai. Currently, all assets are self-developed (by parent company Emaar Properties). Emaar Malls' retail portfolio recorded footfall of 124mn (+9% y-o-y) in FY15, led by The Dubai Mall, which secured 80mn footfalls. Currently, Emaar Malls operates its portfolio at a 96% occupancy level (98% based on signed leases), and The Dubai Mall at 99%. Furthermore, Emaar Malls enjoys a waitlist of 4,000 businesses across properties, which allows the company to not only actively manage its waitlist by optimizing the tenant mix but also ensure a minimal vacancy rate.

Emaar Malls' portfolio: A bird's eye view



Source: Emaar Malls, Global Research

Emaar Malls has divided its business segments based on mall size. The assets are divided into four categories: super regional malls, which constitutes The Dubai Mall; regional malls, which includes Dubai Marina Mall; speciality retail; and community integrated retail.

Emaar Malls' portfolio is dominated by The Dubai Mall, which contributes c82% to the rental income in spite of accounting for 62% of the GLA. Currently, the total GLA stands at c340k sqm, which is in addition to another phase under expansion named The Fashion Avenue. This phase, once completed, would take the total GLA to c400k sqm. The Dubai Mall is a gateway to Burj Khalifa, the world's tallest tower, and surrounding developments in the Downtown area, which is its key value proposition and what places it as a destination mall.

In addition, the mall hosts a number of features targeting various demographics, including 28 screen cinemas, SEGA Republic (76,000 sqft indoor park), an indoor aquarium and underwater zoo, an ice rink, and Kidzania (targeted as an entertainment destination for children). The Dubai Mall remains the prime space for rentals, which stand at AED7,200/sqm, 60% higher than the average rentals in the city. According to company estimates, the mall contributed 5% to Dubai's GDP and 50% to luxury sales in the city in 2015. This suggests tenant sales of AED198/footfall and AED47k/GLA. We believe higher rentals in The Dubai Mall can be justified by the mall recording the highest number of footfalls in the region, leading to higher tenant sales, and its status as a landmark and tourist destination. Additionally, The Dubai Mall boasts the presence of stores such as Bloomingdales and Galleries Lafayette, which are exclusive to the mall throughout GCC.

The mall also has a strong waiting list of businesses that wish to rent a space. Moreover, the lack of supermarket anchor tenants ensures sustainability in the rental revenues.

Emaar Malls portfolio: Focused on Dubai, dominated by The Dubai Mall

Asset type	Criterion	Properties	Operational GLA	GLA under construction	GLA under evaluation	Total GLA	% of total
Super regional malls	> 80k sqm	The Dubai Mall	340,521	55,741	-	396,262	63%
Regional malls	40k- 80k sqm	Dubai Marina Mall	39,521	-	-	39,521	6%
Specialty malls	Focusing special retail	Souq Al Bahar, Gold and Diamond Park	68,331	-	-	68,331	11%
Community integrated retail	< 40k sqm	MBR residential retail, Dubai Marina Retail, Other shopping centres in Emaar residential developments	101,264	22,761	-	124,025	20%
Total			549,637	78,502	-	628,139	100%
% of total			88%	12%	-	100%	

Source: Company data

Dubai Marina Mall, which covers an area of c40k sqm, is the third largest property in the Emaar Malls portfolio. The mall is located in the Dubai Marina area and primarily serves the locality. Unlike The Dubai Mall, we do not view the mall's position as that of a destination mall. It attracted 17mn footfalls in 2015, indicating sales of AED51 per footfall and cAED22k per GLA, less than one half compared to The Dubai Mall. A similar trend is reflected in rentals as well, with Dubai Marina Mall's rentals at AED4,166/sqm being around one-third lower than those of The Dubai Mall.

The specialty retail segment includes two assets. One is the Gold and Diamond Park, the second largest property in Emaar Malls' portfolio, which covers an area of c49k sqm. Another is Souq Al Bahar, located near The Dubai Mall in the Downtown area. The company's specialty stores category comprises properties that offer specialty stores for fine and casual dining, commercial offices, or manufacturers' retail outlets. Average rentals for specialty stores stood at AED2,400/sqm, although below the average occupancy of 90% vis-à-vis The Dubai Mall and Dubai Marina Mall. Additionally, these properties attracted 10mn footfalls, indicating sales of AED50/footfall and AED7,347/GLA in 2015.

The community integrated retail segment comprises various community malls, which occupy an area of c101k sqm in Dubai. These are located across existing residential and commercial properties, developed by parent company Emaar. In this segment, the population that resides/works in these communities is the primary source of stable revenue for the tenants. In FY15, the combined footfall in community malls stood at 17mn, recording sales/footfall of AED50 and tenant sales/GLA of AED10k. Community mall rentals stood at AED3,229/sqm in 2015, indicating a small average store size.

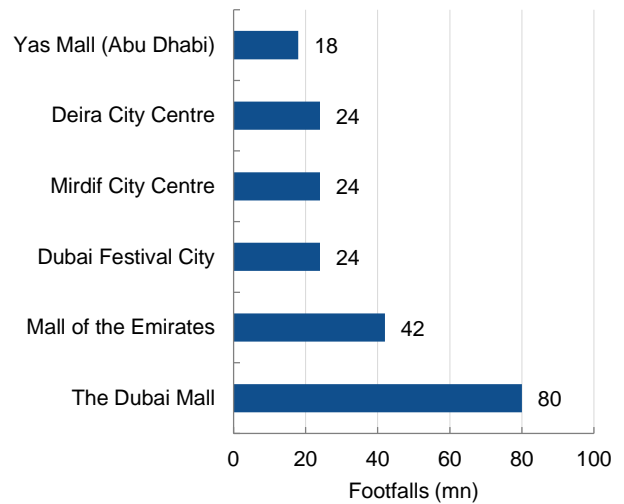
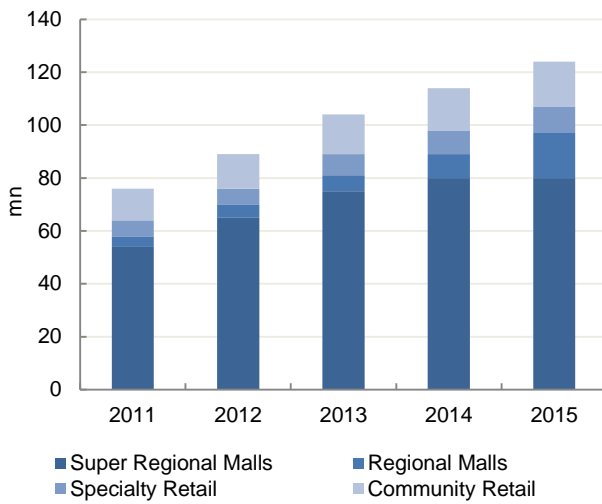
Per-GLA data

FY15	Super Regional Malls	Regional Malls	Specialty Retail	Community Retail	Total Emaar Malls
Rentals (AED/sqm)	6,480	4,166	2,400	3,229	5,436
Footfall	235	430	146	168	226
Tenant sales (AED)	46,399	21,762	7,347	8,406	32,773

Source: Emaar Mall, Global Research

Emaar Malls enjoys strong footfall across portfolio, led by The Dubai Mall

The Dubai Mall leads in footfall (FY15)



Source: Emaar Malls, Global Research, JLL, Various mall websites

Emaar Malls' ownership structure

Shareholders	Shareholding
Emaar Properties	84.63%
Free float	15.37%

Source: DFM

Emaar Malls' retail portfolio spans Dubai, but concentrated solely in Emaar developments



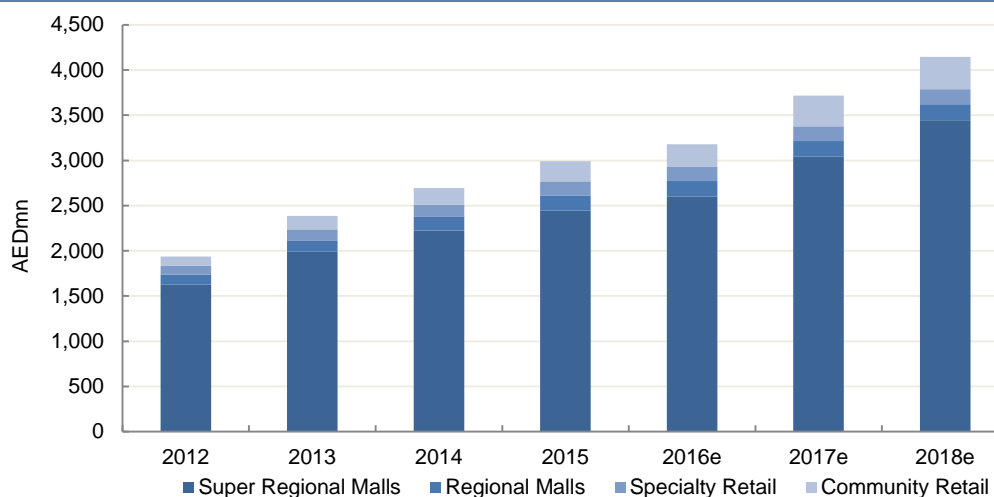
Source: Google Earth, Company data, Global Research, Note: The picture demonstrates c95% of Emaar Malls' portfolio

Lease rentals

Emaar Malls derives 75% of its revenue from rent. This can be classified into base rent and net turnover rent. Base rent remains constant with a typical escalation of 7%, while turnover rent is based on the percentage of tenant sales.

The company diversifies lease payment risk between significant numbers of tenants. Additionally, the mall features key anchors, including large regional and international entities. This comprises several exclusive retail outlets in the UAE/GCC, such as Bloomingdales and Galleries Lafayette. Typically, lease terms for non-anchor tenants extend for up to 3–5 years, whereas anchor tenants are usually involved in 10–20 year agreements. The company collects rentals in advance and security deposits that generally cover three months of rent. Furthermore, a significant waitlist allows the company to command favorable lease terms. For example, an early tenant termination clause is not included in the contract, the renewal option lies with Emaar Malls and not the tenant, the tenant is required to issue post-dated checks to cover the base rent and other service charges, and the company has the freedom to include clauses that ensure no rent-free periods for leading assets in The Dubai Mall and Dubai Marina Mall.

Rental income breakdown



Source: Emaar Malls

The table below summarizes key revenue growth assumptions, which is likely to lead to blended lease rental growth of 7% and 5% in FY16 and FY17, respectively. We forecast 7% and 4% expansion for super regional malls and regional malls, respectively. This is projected to be driven by rental renewals and a strong uptrend in The Dubai Mall. For specialty retail, growth stands at 6%, whereas for community retail, we assume 2% expansion.

Emaar Malls: Breaking down revenue assumptions

Rent type	Description and our assumption
Base rent	Paid in advance for pre-agreed tenure For limited term and not subject to renewal Forecast based on mix of lease expiry schedule and typical lease increase
Turnover rent	On all retail leases as % of turnover Assumed growth of 5%, in line with retail growth in Dubai
Service/Other charges	Shared between Emaar Malls and tenant, part of operating expense Assumed growth of 5%
Other rental income	Includes store design fit-out fee, storage, speciality leasing, and multimedia Assumed 5% growth, driven by rentals and inflation

Source: Global Research

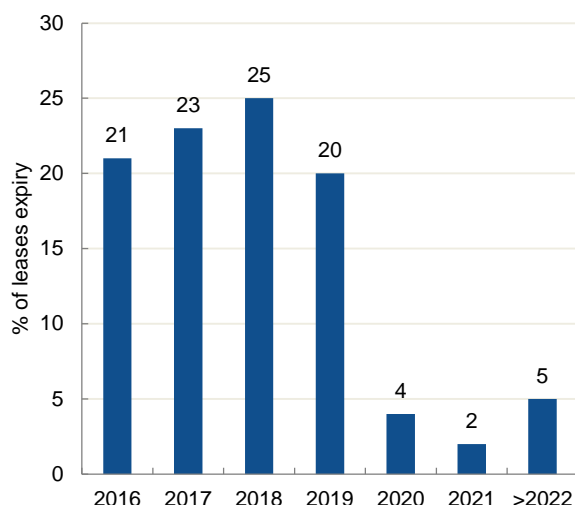
Rental assumptions

Basic rent	% of total rent	2016e	2017e	2018e	2019e
% of leases due for renewal (a)		18%	22%	16%	17%
Expected increase on renewal		20%	10%	5%	3%
% of existing leases (1-a)		82%	78%	84%	83%
% annual increase contractually		5%	4%	3%	3%
Overall increase in base rent	63%	8%	5%	3%	3%
Increase in turnover rent	12%	5%	5%	4%	3%
Service and other charges	11%	5%	5%	5%	5%
Other rental income	14%	5%	5%	5%	5%
Overall rent increase		8%	7%	5%	4%

Source: Global Research

Unlike residential properties in Dubai, there is no index for **base rent**, particularly for shopping malls and retails. On expiry, Emaar Malls reviews lease terms in line with tenant performance and its ability to maintain an appropriate tenant mix. If the performance is satisfactory, leases are renewed for a typical time frame extending up to 3–5 years. Otherwise, Emaar Malls reserves an option to renew the lease for just one year with pre-defined sales targets, on failure of which the company can demand an eviction. On the existing leases, there is no cap and automatic renewal. In FY15, the company secured a 25% increase in the base rent on renewals, which represented a total of 434 stores. We forecast growth in the base rent to decelerate and accordingly assume 8% and 5% growth for FY16 and FY17, respectively. As for the existing rentals, the contract typically allows 7% annual escalation. As the table above reflects, this is based on a 20% rise on renewals (18% of rentals) and a conservative 5% on existing rents.

Lease renewals due each year



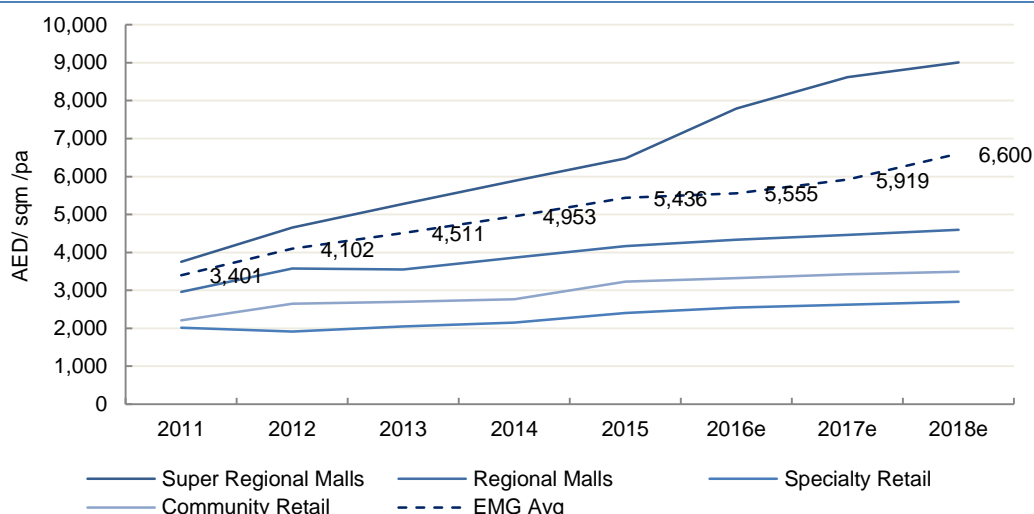
Source: Emaar Malls

Increase in base rent in 2015

Segment	# of leases renewed	Base rent increase y-o-y (%)
Super Regional Malls	168	28
Regional Malls	26	23
Specialty Retail	157	14
Community Retail	83	25
Total Emaar Malls	434	25

Turnover rent: In addition to the base rent, a typical lease includes turnover-based rent, calculated on a certain percentage of tenant sales. The rent is applicable to all the tenants, barring some services such as banks, money exchanges, and service centers. This reflects Emaar Malls' flexible rental strategy which is sensitive to tenant performance. The turnover rent is payable at the end of year. Emaar Malls collects a monthly gross sales report from all its tenants, followed by an annual audited gross sales report as a base of the rent computation. In 2015, Emaar Malls' tenants generated a total turnover of AED18bn. While the turnover rent varies for each tenant, we estimate it involves a typical c130bps of tenant sales.

Rentals per sqm: Super regional malls to continue to outperform other segments



Source: Emaar Malls, Global Research

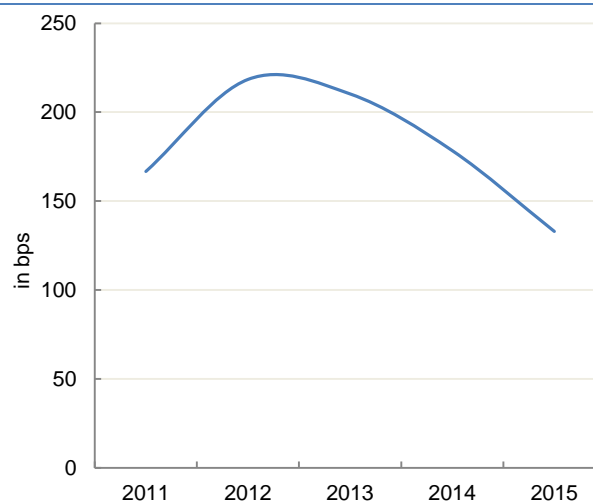
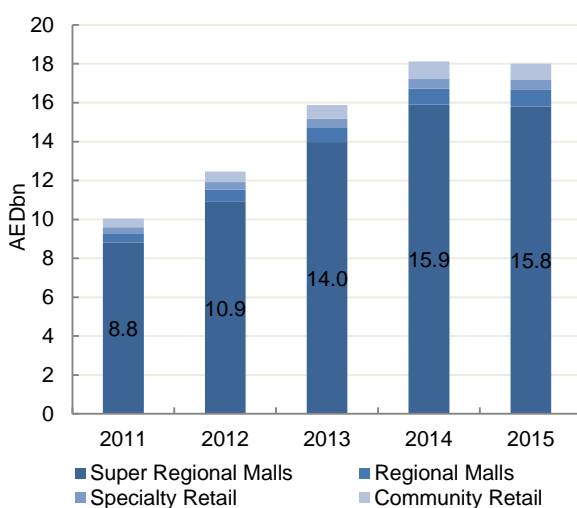
To ensure the timely recovery of the turnover rent, Emaar Malls has implemented a new mechanism since 2013. Under this method, once the turnover rent has been determined (for

the previous year), a fixed percentage (typically 50% or 90%) is added to the following year's base rent. This ensures pre-recovery of the turnover rent for the following year.

Retail and wholesale trade constitutes c30% of Dubai's GDP, and growth has remained positive in spite of financial crises. A T Kearney estimates retail sales in Dubai to expand at a CAGR of 5% over the next 5 years, which would continue to reflect positively in Emaar Malls' shopping center portfolio. In FY15, Emaar Malls' tenant sales remained flat y-o-y, while the turnover rent eased 26%. A fall in the turnover rent can be attributed to the base rent escalation (a typical 7%). Accordingly, a higher base rent and a flat tenant sales means an increase in the base rent but a fall in the turnover rent. Going forward, we forecast a flat increase of 5% in turnover rent, in line with an anticipated increase in retail sales in Dubai.

Emaar Mall's tenant sales stabilize at AED18bn

Turnover rent to tenant turnover, a drop in 2015 can be attributed to a higher base rent



Source: Emaar Malls, Global Research. Note: For 2015 tenant sales, a segmental breakdown is not available, therefore the breakdown is based on 9M15 data.

Other rental income comprises 14% of the company revenue, including payments related to store design, fit-out fees, late payment charges, and related penalties. Our forecasts assume 5% growth in other income, marginally lower than the base and turnover rent income, in line with tenant sale estimates.

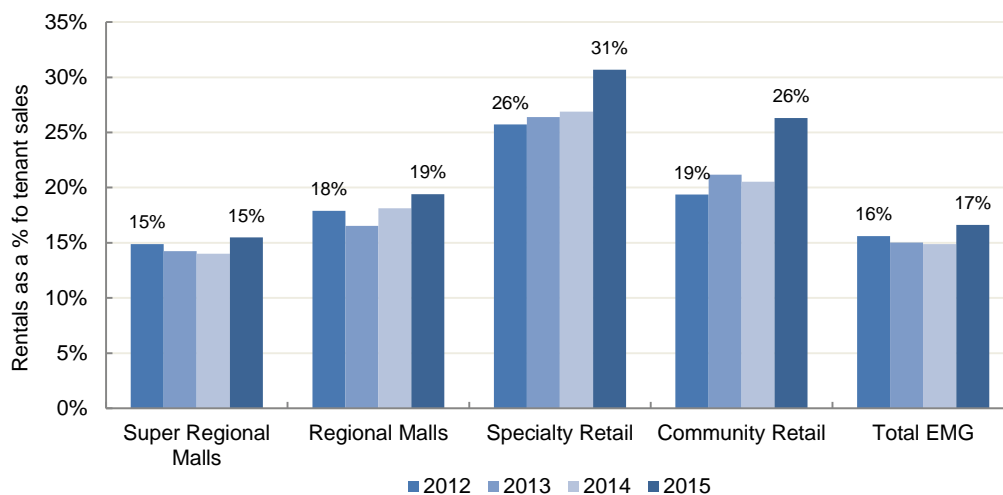
The remaining revenue represents services and other charges, such as electricity and cooling, generally recovered by the tenant. In FY15, the company recovered c60% of these costs, which form part of the operating expenses. To reflect this, we assume 5% growth in other services and, accordingly, estimate 5% escalation in expenses.

According to the company, rent in arrears remains minimal at 1% of the annual rent. Additionally, to minimize the overdue, the company deploys several preventive strategies, including a three-month deposit, post-dated checks, and pre-collection of the turnover rent. To reflect general arrears, we assume a 1% default rate for our model.

As per the chart below, Emaar Malls' average rental expenses as a percentage of the tenant sales stand at 15%, significantly higher than the 9% average in the US and 8–9% in Brazil and South Africa. This can be partially ascribed to high sales per sqm, leading to a low operating leverage for tenants and the absence of taxes, which allows tenants to maintain similar profitability in spite of high rentals. Conversely, for The Dubai Mall, rentals remain at

a reasonable level of 15%. For specialty retail and community retail, they are much higher at 20–25%, which might lead to stagnation in rental growth.

Average rental expenses as percentage of tenant sales spiked in 2015 to 17%

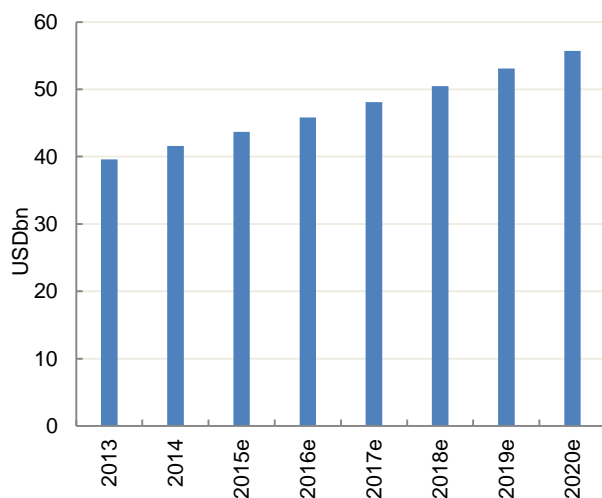


Source: Emaar Malls

Tourism to gain footfall in long term

Tourism continues to play a vital role in economic growth in Dubai. According to the Department of Tourism and Commerce Marketing, the emirate attracted over 14.2mn visitors in 2015, registering 7.5% YoY growth over 2014. This was double the projected 3–4% growth in global travel by the UNWTO. In 2016, Dubai recorded 3.5% YoY expansion in the first two months. With the Expo 2020 in focus, the government targets 20mn visitors by 2020 at a CAGR of 7–8%. We believe Emaar Malls is likely to be a key beneficiary of the rise in tourist footfall, especially given The Dubai Mall’s status as a destination mall.

Dubai retail sales in expected to grow at a CAGR of 7%



Dubai recorded 14.2mn visitors in 2015, targeting 20mn by 2020

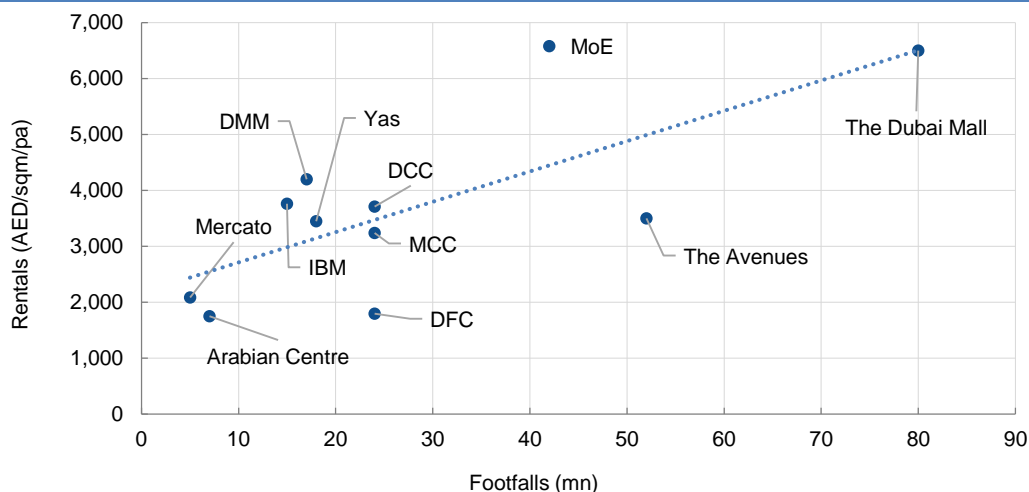


Source: A T Kearney, Emaar Malls, Global Research

Rentals and footfall

As the chart below highlights, we find direct positive correlation between the level of lease rentals and footfall. This is logical, as high footfall should translate into high tenant sales, thus justifying high rentals. The average rentals in comparable malls stand at AED3,500–4000 per sqm, one-third lower of The Dubai Mall, in spite of substantially low levels of footfall. This can be partly explained by The Dubai Mall's positioning as a destination, which attracts visitors who may not necessarily contribute to sales. We expect the high rental levels should be justifiable as long as The Dubai Mall continues to attract footfall.

Relationship between rentals and footfall



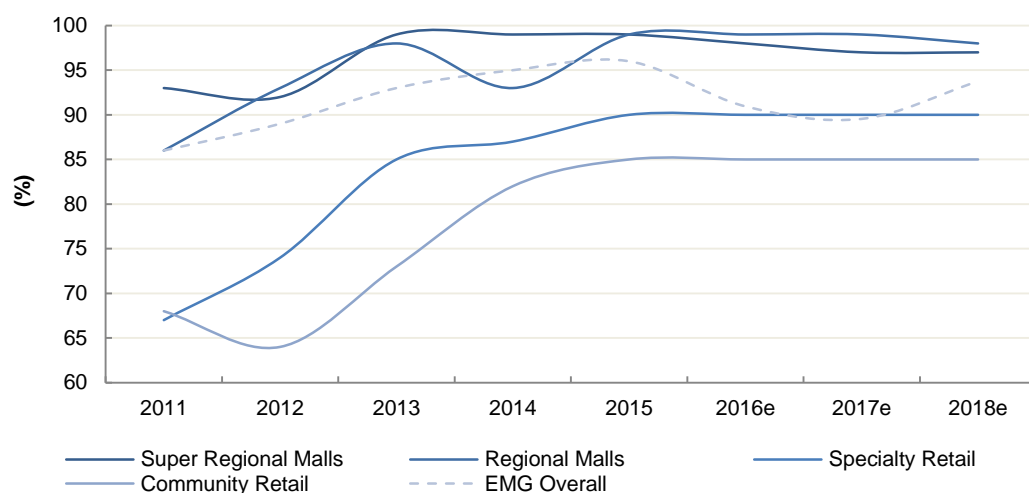
Source: JLL, Various mall websites. Note: For this analysis, data used are approximate.

Occupancies to remain high

As of 2015, Emaar Malls' blended occupancy stood at 96%, rising 100 bps y-o-y. While The Dubai Mall has historically enjoyed 99% occupancy levels, since 2013, it has been operating at full capacity. We expect occupancy to remain robust as the company maintains a strong waiting list. We forecast occupancy for The Dubai Mall and Dubai Marina Mall at 98% and 99%, which indicates the strong level of interest in both properties. For the extension, our occupancy assumptions peak at 95% as, according to the company, 30% of The Dubai Mall's Fashion retail space has already been pre-leased. Moreover, Emaar Malls aims to pre-lease 90% of the property before its opening at the end of 2016. At this stage, for the sake of being conservative, we assume occupancy of 50% in 2017, which is estimated to rise to 95% by the start of 2018.

Occupancy in community malls and specialty retail spaces has expanded significantly since 2012, which can be explained by the strong economic recovery in Dubai. Our forecasts for these segments assume an occupancy rate of 85%, reflecting an average of the cycle.

Occupancies pick up over last three years; trend to continue



Source: Emaar Malls, Global Research

Expansion strategy to remain Dubai focused

As per the table below, Emaar Malls is currently developing c78k sqm of area with an estimated cost of AED1.7bn (c21k/sqm). The company intends to complete construction by the end of 2016, and the extension is destined to primarily house international fashion brands. Of the budget of AED1,5bn allocated for the expansion of The Dubai Mall, Emaar Malls had already spent AED0.6bn as of December 15. The construction of 55k sqm is being carried out at a cost of cAED27k/sqm. Currently, the company has pre-leased 30% of the GLA for a price of AED11k–19k per sqm (2–2.5x higher than current rentals), and aims to pre-lease 90% of the space prior to the opening.

Expansion plans concentrated near The Dubai Mall

Project name	GLA sqm	Est. cost (AEDmn)	Cost (AED/sqm)	Target opening date
TDM Fashion Avenue expansion	55,741	1,500	26,910	End 2016
Springs Village	22,761	207	9,094	2017
Under development	78,502	1,707	21,745	
TDM Boulevard expansion*	n/a	n/a	n/a	n/a
TDM Zabeel expansion*	n/a	n/a	n/a	n/a
Dubai Creek Harbour Retail*	n/a	n/a	n/a	n/a
Under evaluation	n/a	n/a	n/a	n/a

Source: Emaar Malls, Global Research. TDM is an abbreviation of The Dubai Mall. * denotes projects currently being developed by Emaar Properties, and Emaar Malls would have pre-emptive right to acquire these properties- upon satisfaction of certain conditions. Details are not available yet.

High construction cost for super regional malls could be an attributed feature to attract and maintain footfall. Additionally, mall operators tend to integrate the mall parking (either underground or adjacent multi-floor) due to an extended summer period in GCC. This raises the construction cost as, according to our estimates, parking costs AED4–5k per sqm (25% of the construction cost). Moreover, unlike in the western countries, shopping centers in the Gulf are located within city centers. This increases land cost and therefore necessitates

optimum land utilization, resulting in a significant portion of construction ascribed to parking-related cost. Furthermore, The Dubai Mall's high construction cost could be owing to the luxurious Fashion Avenue and other high-end luxury finishes (the extension would be utilized to sell exclusive high-end jewelry and watches). Leases for this extension would be 2–3x higher than the average rental for The Dubai Mall.

Currently, Emaar Malls' projects and planned extensions are confined and integrated to parent company Emaar Properties' portfolio. We expect Emaar Malls to continue to follow the parent company in the planning and expansion of new malls. The company has entered into the Relationship Agreement with Emaar Properties, pursuant with which it has the contractual right, but not obligation, to acquire additional portfolio assets currently part of Emaar Properties' development pipeline. This includes any retail assets developed by Emaar Properties in GCC over the next ten years, as long as Emaar Properties retains 30% or higher stake in Emaar Malls.

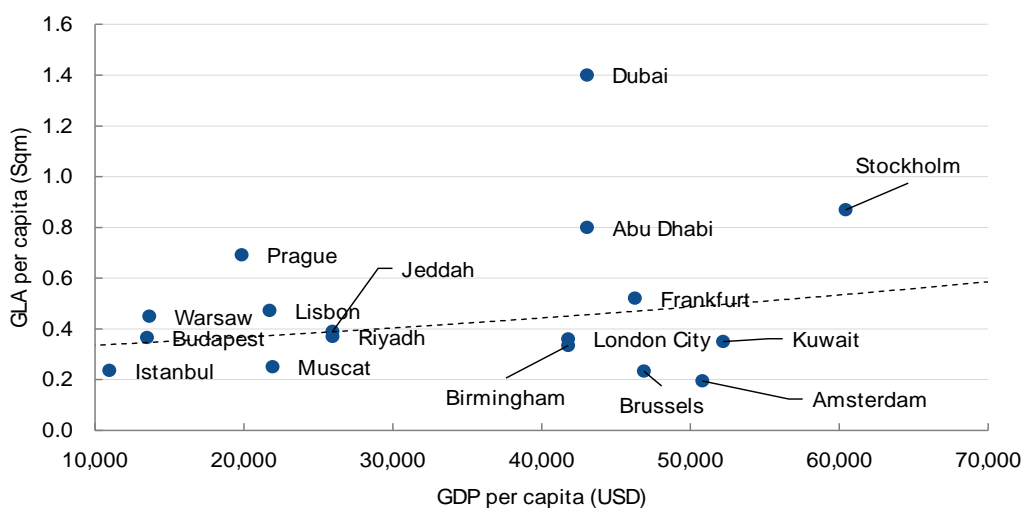
While the company maintains a close relationship with the parent company, land transfers are carried out at arms-length prices. To determine the land value, each company appoints two independent valuers, and the average after approval by the BoD of the respective company is taken as the transaction value.

Dubai retail to structurally remain oversupplied; mall positioning is key to growth

The Dubai market is characterized by the highest GLA per capita of 1.4 sqm in the region and globally. A higher density of retail space can be ascribed to the emirate's aim to establish itself as a regional retail and tourist hub. Dubai remains the trendsetter in the regional retail market, with the city dominated by super regional destination malls. Additionally, malls in Dubai attract higher footfall, which can be attributed to cultural and climatic considerations.

As per the chart below, in comparison with other global cities, the Dubai market remains oversupplied in terms of GDP/capita. Colliers estimates the retail space per capital stands at 1.4 sqm, compared with 0.8 sqm in GCC and 1.0 sqm globally. However, Dubai presents two additional demand sources: tourists (more than 14.2mn in 2015 and expected to reach 20mn by 2020) and population from the neighboring emirates (particularly that of Sharjah and Abu Dhabi, which frequently visits retail destinations in Dubai). In light of this, our GLA per capita number for Dubai assumes a target population of 50% of non-Dubai UAE citizens, to reflect the total tourists who visit the city. Nonetheless, we continue to forecast an oversupply scenario in Dubai given the strong pipeline in retail supply.

Retail GLA/capita vs. GDP/capita; Dubai remains oversupplied



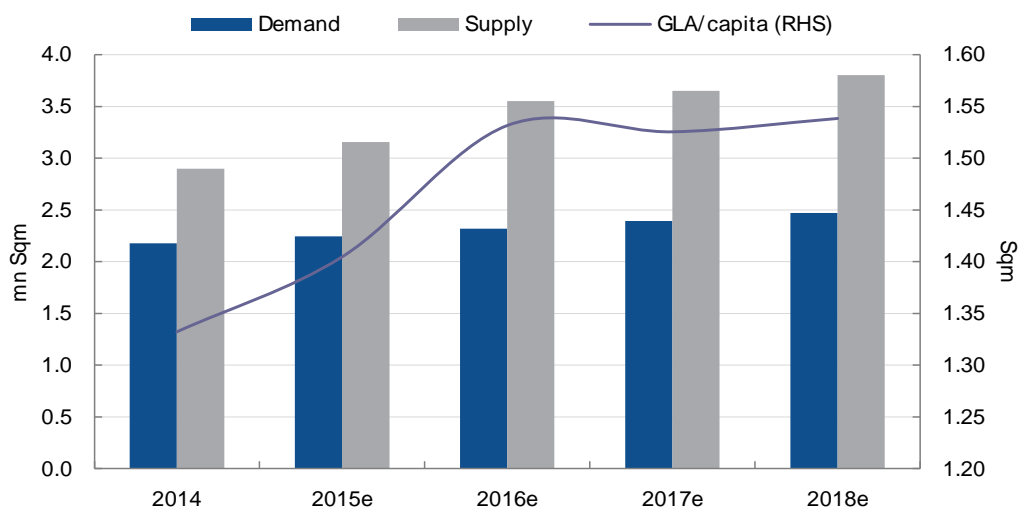
Source: Global Research, Knight Frank, Colliers, JLL, Global Property Guide

We forecast demand for retail spaces based on a GLA per capita of 1 sqm and population growth of 3.5%. Our analysis suggests the Dubai market remains oversupplied, with an additional supply of c0.7mn sqm in 2015, and incremental supply would widen oversupply to 1.3mn sqm by 2018. We note the traditional per capita demand supply model does not reflect the emirate's true position as a regional economic and global tourism hub.

In terms of supply, the city is estimated to acquire 0.35mn sqm of additional retail GLA by 2018. This does not include large projects such as the Mall of the World and Palm Mall. Given the current pipeline, retail supply in Dubai is expected to increase 10% to 3.8mn sqm by 2018, suggesting continued oversupply.

Oversupply is not likely to impact all the malls equally. A number of malls categorized as destination malls, including The Dubai Mall and the Mall of the Emirates, would be impacted lesser than traditional malls such as Burjuman. Nonetheless, we continue to believe as the new supply comes on ground, the bargaining power would shift from the mall operators, resulting in stagnating rentals.

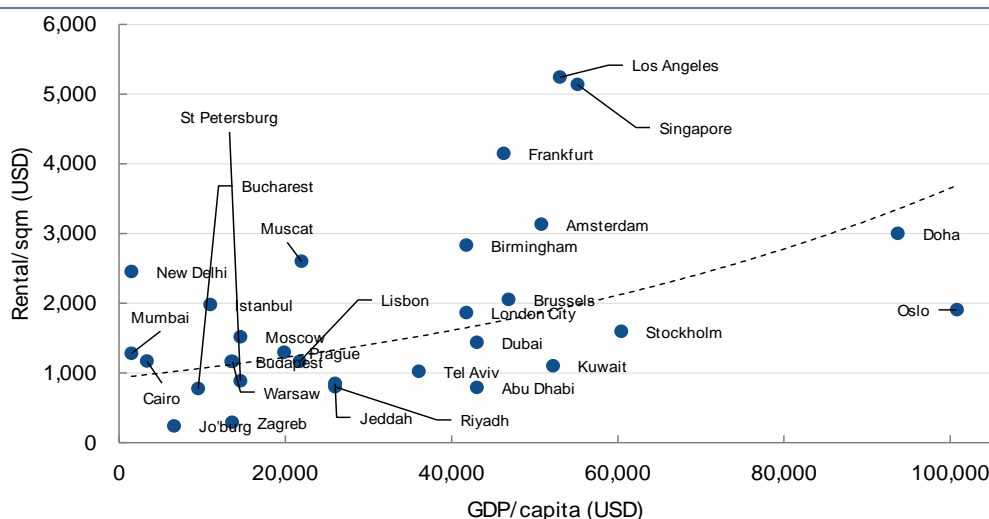
Dubai market remains oversupplied compared with international standards



Source: Global Research

As per the following chart, given the GDP/capita levels, average rentals currently appear lower than the best-fit level. However, rentals at The Dubai Mall fit more appropriately given their high level compared with other malls in Dubai. To reflect this, we assume modest growth in Emaar Malls’ rental portfolio.

Rentals vs. GDP/capita

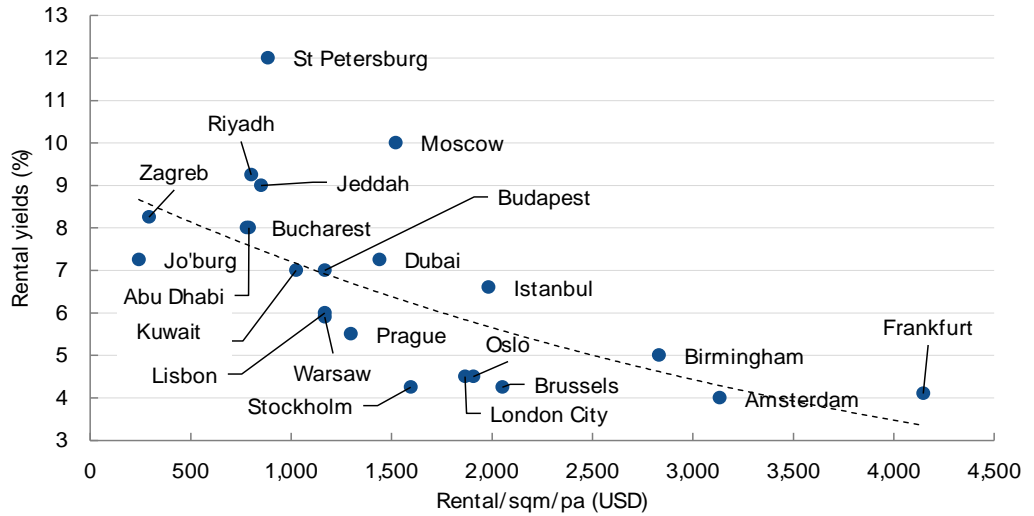


Source: Global Research, Knight Frank, Colliers, JLL, Global Property Guide

As highlighted in the following chart, rental yields appear to be high, coming in at c7%. This indicates the potential for compression by 50bps to 6.5%. Yields remain higher than those in the developed market despite similar GDP/capita levels. This can be justified as other asset

classes in GCC, such as residential and commercial, also have a higher yield. This means the possibility of capital appreciation driven by margin compression remains limited in the retail sector too.

Rental yields vs. property prices



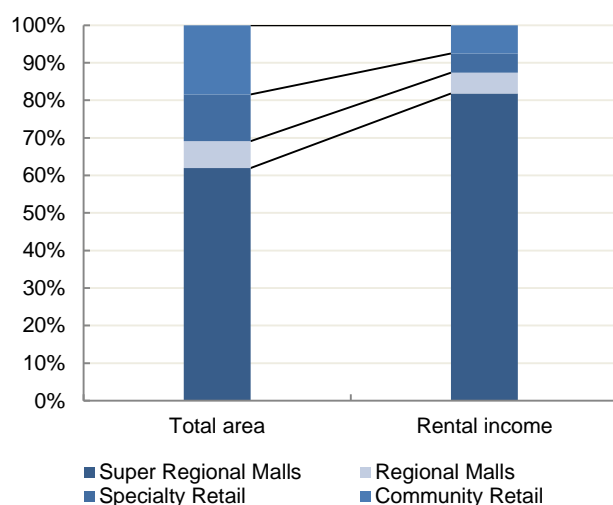
Source: Global Research, Knight Frank, Colliers, JLL, Global Property Guide

Financials

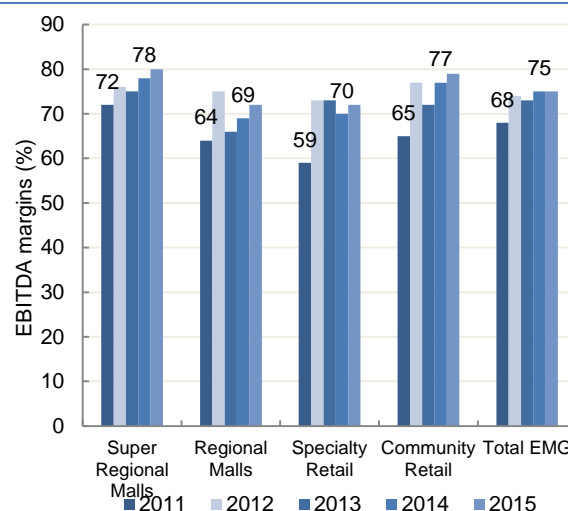
The Dubai Mall dominates Emaar Malls' rental income by contributing 82% to the total despite accounting for 62% of the GLA. As discussed in the previous section, we expect the overall rental income to rise at a CAGR of 10% over the next three years. We forecast 14% growth in 2017 as The Dubai Mall's extension becomes operational in 2016, reaching full occupancy by 2017.

We estimate gross margins to remain stable at c82–84%, reflecting the historical and general industry trend. As per the chart below, Emaar Malls enjoys fairly similar EBITDA margins across the portfolio, with blended EBITDA margins at c75%. Our forecast horizon also indicates a similar trend. Reflecting this, we expect net income to grow at a CAGR of 14% over next three years. A strong pick-up in net income can be attributed to The Dubai Mall expansion, which is expected to fully reflect in the earnings by 2018.

The Dubai Mall continues to hold lion's share



Blended EBITDA margins remain at 75% level



Source: Emaar Malls and Global Research

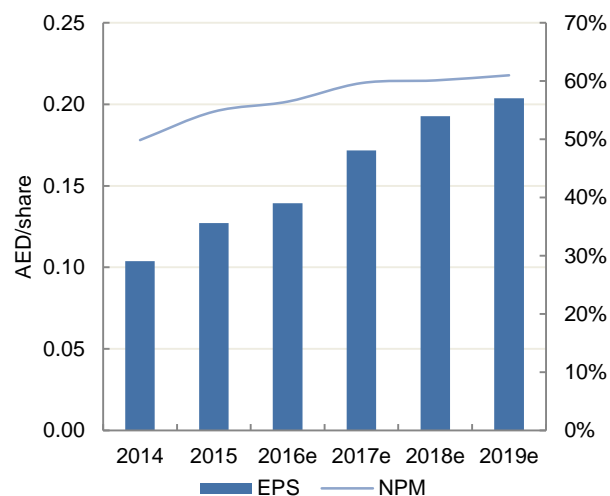
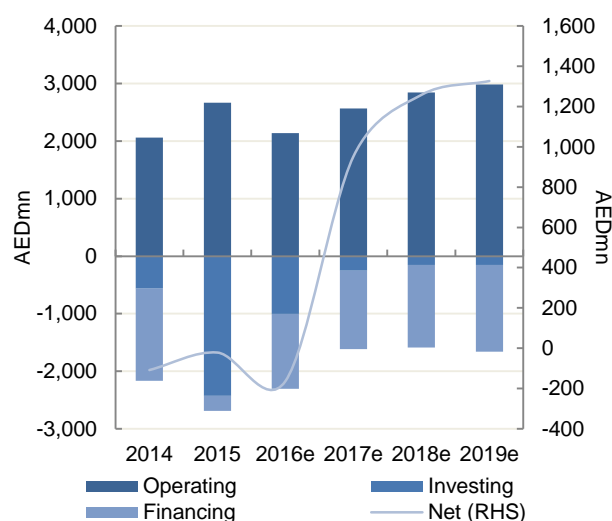
Emaar Malls' investment property portfolio stood at AED20.8bn as of FY15, reflecting the various assets across Dubai. This, however, does not reflect the cost of construction as the values were restated in FY13 by an independent valuer based on the fair value of the land. At this value, the parent company Emaar transferred the legal titles of the plots of land related to certain investment properties to Emaar Malls. Going forward, the company intends to carry its IP portfolio at cost. Based on a report from JLL, independent valuer appointed by Emaar Malls, these properties were valued at AED37bn. This implies a 1.75x book value, and in the case of The Dubai Mall, it equals five times the construction cost at AED6.4bn. We expect the company to incur an annual maintenance capex of AED150mn.

Strong cash flows from matured portfolio

Emaar Malls' debts comprise long-term financing, carrying weighted average cost of c3.5%, which can be divided into two parts. The first is a syndicated Islamic finance facility worth AED5.5bn (USD1.5bn), of which AED4.6bn (USD1.25bn) has been utilized. This facility has an interest of LIBOR plus 1.75% and is due in a single installment in 2021. Another debt consists of sukuk worth AED2.7bn (USD0.75bn), which has a distribution rate (interest) of 4.564%, with repayment due in 2024.

Cash flows to remain strong, allowing for a higher payout

EPS to grow at a CAGR of 15%, driven by expansions and rental growth



Source: Emaar Malls and Global Research

As discussed in the previous section, Emaar Malls’ remaining capex commitment stands at AED0.9bn (0.4x of the FY16 EBITDA). In addition, FCF over the next three years (average of cAED2.2bn) reflects a comfortable cash position.

As per UAE regulations, the company would need to set aside 10% of its annual profits for statutory reserves until the reserves amount to 50% of the capital. This means 90% of the profit would remain distributable. The company has indicated that it intends to distribute 50–70% of the fund from operations (defined as EBITDA minus the capex). Considering this, we assume a pay-out ratio over the next three years, resulting in a DPS of AED0.1/share, which implies a yield of 3.3% for FY16, increasing at 5% over our forecast horizon.

Valuation

We initiate on Emaar Malls with a Hold rating and TP of AED3.0/share. Based on May 3 2016 prices, it results in a 7% upside, which falls under the Hold rating as per Global Research's rating band for GCC stocks.

We value real estate companies using a combination of the DCF and land valuation, and cross-check our valuation against the NAV. Where a final master plan is available, we use DCF analysis. Otherwise, we rely solely on the land valuation. For Emaar Malls, we valued the shopping centers using the DCF analysis. We have included the extension for The Dubai Mall and Springs Community Center project to our valuation as their construction is already underway. We have excluded projects in the design phase (including Dubai Mall Zabeel and Boulevard Extension) at this stage given the initial stage of the projects and uncertainty regarding land cost and project concept.

WACC calculation

Beta	1.0
Risk-free rate	4.5%
Country risk premium	5.5%
Cost of equity	10.0%
Cost of debt	5.5%
After-tax cost of debt	5.5%
Weights (amount in AEDmn)	
Equity market capitalization	36,440
Debt	7,287
Total	43,727
Tax rate	0.0%
WACC	8.7%

Source: Global Research

For DCF, we use a 12-year explicit forecast horizon to absorb all the real estate project expansions. Thereafter, in line with the sustainable rental growth, we apply a terminal growth rate of 2%. For DCF, we use a WACC of 8.7%, derived from using the cost of equity of 10%. We applied a risk-free rate of 4.5% (in line with the 10-year US treasury and inflation differential) and equity risk premium of 5.5%, in line with other GCC stocks. We also use a beta of 1 to calculate the WACC. Finally, for the cost of debt, we assume a post-tax rate of 5.5%, in line with the cost of borrowing to the company. Additionally, in line with the company's capital structure, the ratio of debt and equity stands at 84:16.

DCF valuation

AEDmn	
NPV: FCF	44,473
Net debt '15 (post dividend)	5,419
Equity	39,043
Outstanding shares	13,014
DCF value per share	3.00

Source: Global Research

DCF sensitivity

Terminal growth rate →	1.0%	2.0%	3.0%	4.0%	5.0%
WACC					
6.7%	3.99	4.56	5.44	6.98	10.38
7.7%	3.28	3.64	4.15	4.94	6.33
8.7%	2.76	3.00	3.32	3.79	4.50
9.7%	2.36	2.53	2.74	3.04	3.45
10.7%	2.05	2.17	2.32	2.51	2.78

Source: Global Research

Our valuation of Emaar Malls is at par with the independent valuation (by JLL) of AED39.8bn, conducted in 2014. This indicates a value 2.5x higher than the book value. As per the following table, in FY15, the management's estimation of the fair value stands at AED49.3bn, which implies a cap rate of 4.63%, hitting the floor in our opinion. Additionally, this is 137bps lower than our target cap rate of 6%.

Cap rate, as implied by the company's own valuation, has been compressing

	2011	2012	2013	2014	2015
Company valuation (AEDbn)	13.5	15.2	22.6	42.7	49.3
NOI (AEDbn)	1.0	1.5	1.7	2.0	2.3
Cap rates (%)	7.71	9.53	7.69	4.76	4.63

Source: Global Research

We cross-check our valuation with the NAV. To compute the NAV, we mark-up investment properties to the market value as it's denominated at cost. To value the company's investment properties, we use a capitalization rate of 6% based on historical yield trends. To compute the net operating income (NOI), we use our forecasted numbers. Additionally, for under construction, non-operational projects, given their initial stage, we conservatively use book value. We value Emaar Malls at a 5% premium to our 2016e NAV of AED2.83/share; however, given expansion plans are expected to fully reflect in the financials over next two years, our TP stands at 0.7x 2018 P/NAV. A convergence of the NAV and DCF in FY16 reflects Emaar Malls' matured portfolio. For NAV calculation, we do not include proposed extensions in our valuation and value the construction properties at cost.

NAV calculation

	2016e	2017e	2018e	2019e
Equity	15,958	16,833	17,916	19,070
Mkt IP	40,997	48,232	53,473	55,331
BV IP	(21,488)	(21,414)	(21,241)	(21,072)
Dividend	1,301	2,668	4,103	5,609
NAV	36,768	46,320	54,250	58,939
NAV/share	2.83	3.56	4.17	4.53
P/NAV	1.0	0.8	0.7	0.6
P/NAV (implied)	1.1	0.8	0.7	0.7
Upside	1%	27%	49%	62%
Total operational GLA (year-end)	572,401	628,142	628,142	628,142
NAV AED/m ²	64,235	73,741	86,365	93,831
NAV USD/m ²	17,474	20,060	23,494	25,525

Source: Global Research

The table below reflects the NAV sensitivity to key inputs, i.e., the cap and growth rates. An analysis of Emaar Malls' market implied valuation suggests a GLA EV/sqm of USD20.5k.

NAV (FY16e) sensitivity to cap rate vs. growth rate

Cap rate → Growth rate	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%
1.0%	3.42	3.08	2.79	2.55	2.35	2.17
1.5%	3.44	3.09	2.81	2.57	2.36	2.18
2.0%	3.46	3.11	2.83	2.58	2.38	2.20
2.5%	3.47	3.13	2.84	2.60	2.39	2.21
3.0%	3.49	3.15	2.86	2.61	2.40	2.22
3.5%	3.51	3.16	2.87	2.63	2.41	2.23
4.0%	3.53	3.18	2.89	2.64	2.43	2.24

Source: Global Research

FFO yields and cap rates

Computation of FFO yields	2016e	2017e	2018e	2019e
Adj FFO (AEDmn)	1,138	2,318	2,693	2,833
Adj FFO per share	0.09	0.18	0.21	0.22
Adj FFO yields (current)	3.1%	6.4%	7.4%	7.8%
Adj FFO yields (implied)	2.9%	5.9%	6.9%	7.3%
	2016e	2017e	2018e	2019e
Implied EV	43,335	42,383	41,125	39,799
Net operating income	2,412	2,837	3,145	3,255
Cap rate	5.6%	6.7%	7.6%	8.2%
	2016e	2017e	2018e	2019e
Current EV	40,721	39,769	38,511	37,185
Net operating income	2,412	2,837	3,145	3,255
Cap rate	5.9%	7.1%	8.2%	8.8%

Source: Global Research

Finally, the stock is currently trading at a 2016 PE of 21.5x, compared with a peer group median of 19.1x. Additionally, the stock is currently trading at an EV/EBITDA of 18x, whereas the peer group EV/EBITDA stands at 16.3x.

Global retail comparables

RIC	Company name	Curr	Price close	Company market cap (USDmn)	Enterprise value (USDmn)	EV/EBITDA, TTM	EV/EBITDA, NTM	P/Ex	Fwd P/E	P/Bx
EMAA.DU	Emaar Malls Group	AED	2.8	9,929	11,051	17.8	16.9	22.0	20.1	2.4
MABK.KW	Mabane Co SAK	KWf	860.0	2,423	3,036	14.4	16.5	15.0	15.3	2.3
MULT3.SA	Multiplan Empreendimentos Imobiliarios SA	BRL	59.0	3,011	3,336	14.9	15.3	30.6	28.4	2.5
IGTA3.SA	Iguatemi Empresa de Shopping Centers SA	BRL	26.7	1,352	1,770	12.8	12.5	24.7	33.9	1.7
BRML3.SA	BR Malls Participacoes SA	BRL	16.9	2,267	3,737	12.4	11.1	NA	20.5	0.8
LH.BK	Land and Houses PCL	THB	8.5	2,843	3,792	21.3	17.5	12.7	13.5	2.1
CPN.BK	Central Pattana PCL	THB	52.8	6,766	7,338	19.6	16.2	30.2	25.6	4.5
1972.HK	Swire Properties Ltd	HKD	20.2	15,234	19,836	15.6	14.6	8.4	16.1	0.5
0823.HK	Link Real Estate Investment Trust	HKD	47.2	13,635	17,011	22.2	21.0	5.9	22.4	0.9
0014.HK	Hysan Development Co	HKD	34.4	4,640	5,264	14.6	13.3	12.6	15.5	0.5
0101.HK	Hang Lung Properties Ltd	HKD	15.5	8,975	9,928	12.7	11.4	13.7	14.3	NA
0004.HK	Wharf Holdings Ltd	HKD	42.1	16,451	23,757	11.1	9.8	8.0	10.5	0.4
0683.HK	Kerry Properties Ltd	HKD	21.2	3,935	8,983	16.7	12.4	5.5	7.9	0.4
0083.HK	Sino Land Co Ltd	HKD	12.2	9,714	7,311	13.0	12.1	7.8	14.3	0.6
CATL.SI	CapitaLand Limited	SGD	3.1	9,884	23,349	17.5	15.5	12.9	17.3	0.7
CTDM.SI	City Developments Ltd	SGD	8.3	5,644	9,990	11.4	8.9	10.3	12.9	0.8
CACT.SI	CapitaCommercial Trust	SGD	1.4	3,143	4,039	27.8	27.2	13.0	16.4	0.8
CMLT.SI	CapitaMall Trust	SGD	2.1	5,452	7,375	23.4	21.7	12.6	17.7	1.1
AEMN.SI	Ascendas Real Estate Investment Trust	SGD	2.5	4,875	7,343	20.7	17.9	14.9	15.8	1.1
GLPL.SI	Global Logistic Properties	SGD	1.9	6,897	14,483	31.4	19.1	10.9	33.4	0.7
SUNT.SI	Suntec REIT	SGD	1.7	3,173	5,336	32.0	32.0	13.0	20.1	NA
GRTJ.J	Growthpoint Properties Ltd	ZAc	2,515.0	4,913	7,374	15.6	14.4	9.5	14.6	0.9
HYPJ.J	Hyprop Investments Ltd	ZAc	12,287.0	2,096	2,608	21.2	19.1	6.8	21.2	NA
RDI.L	Redefine International PLC	GBp	47.2	1,217	2,022	20.9	19.9	16.4	15.3	NA
RESJ.J	Resilient Property Income Fund Ltd	ZAc	13,590.0	3,673	3,987	34.9	27.0	8.1	30.3	NA
ATTJ.J	Attacq Ltd	ZAc	2,083.0	1,092	1,666	18.0	19.6	9.1	30.7	1.0
HKLD.SI	Hongkong Land Holdings	USD	6.4	14,940	17,394	17.7	17.6	7.4	16.7	0.5
			Avg	6,242	8,605	19.0	17.0	13.1	19.3	1.3
			Median	4,875	7,338	17.7	16.3	12.6	16.7	0.9

Source: Reuters, Global Research. Data as of May 2, 2016. Emaar Malls and Mabane data are based on Global estimates.

Key risks

Downside risks

1. Supply of additional retail space in Dubai could challenge the dominant position of the company's flagship property- The Dubai Mall- thus pressurizing the revenue growth.
2. While local spending remains critical for regional and community malls, for The Dubai Mall, which depends on tourism to maintain its footfall, a plunge in tourism would have a negative impact.
3. Concentration risk: Emaar Malls' operations remain Dubai-centric and lack geographic diversification.
4. A sooner than expected shift in customer preference toward online shopping.

Upside risks

1. New projects, including recently announced Dubai Creek Harbour retail could be the next growth driver of the company provided the land/ property is negotiated at attractive prices with its parent Emaar Properties.
2. A stronger than expected recovery in oil prices would be a main catalyst for consumer spending in the region and thus would directly benefit Emaar Malls.

Annexure

Emaar Malls: Property portfolio

Property details		GLA sqm			Occupancy
No.	Name	Total	Main units	Others	
1	The Dubai Mall (incl. Fashion Ave ext)	340,521	326,925	13,596	99%
2	Gold and Diamond Park	48,878	48,878	-	89%
3	Dubai Marina Mall and Pier 7	39,521	37,265	2,256	96%
4	The Springs Community Centre	20,220	20,220	-	n/a
5	Souk Al Bahar	19,453	17,057	2,396	90%
6	Arabian Ranches 2	12,074	12,074	-	n/a
7	Marina Walk	9,827	6,371	3,456	81%
8	The Meadows Town Centre	6,125	5,759	365	99%
9	Boulevard Plaza Retail	6,112	4,235	1,877	90%
10	The Address Boulevard Retail	4,595	3,036	1,558	67%
11	Arabian Ranches 1	4,414	3,955	459	99%
12	Marina Promenade aka 7WX Retail	4,334	3,363	971	97%
13	Residences 1 Retail	4,145	3,105	1,040	82%
14	The Greens Community Centre	3,808	3,016	793	97%
15	Claren 1 Retail	3,788	2,403	1,385	84%
16	Residences 3 Retail -South Ridge	3,089	2,790	299	72%
17	Park Island Retail	2,989	2,036	954	83%
18	Dukkan Al Manzil	2,966	2,753	213	99%
19	Residences 2 Retail	2,824	1,675	1,149	98%
20	Emaar Square Buildings 1 and 4	2,817	1,887	930	87%
21	Boulevard Specialty	2,677	1,904	772	89%
22	Marina Quays Retail	2,574	1,473	1,101	82%
23	29 Boulevard Retail	2,559	1,863	697	89%
24	Stand Point Retail	2,294	1,562	732	100%
25	Dukkan Qamardeen	2,274	2,274	-	9%
26	The Lofts Retail	2,197	1,766	431	96%
27	Burj Views Retail	1,880	1,542	338	91%
28	Dukkan Tamerhind	1,876	1,616	260	94%
29	Boulevard Central Retail	1,830	1,058	772	90%
30	The Meadows City Centre	1,709	1,401	308	100%
31	Emaar Towers Retail	1,224	1,079	145	65%
32	8 Boulevard Walk Retail	1,105	1,105	-	63%
33	Marina Plaza Retail	1,071	917	154	78%
34	Al Majarah and Al Sahab Retail	1,067	840	227	68%
35	Building 789 Retail	1,020	775	245	87%
		569,856	529,976	39,880	85%

Source: Emaar Malls, Highlighted rows indicate under construction properties. Under construction part of The Dubai Mall extension, is included in The Dubai Mall area.

Key valuation assumptions

Lease properties	2013	2014	2015	2016e	2017e	2018e	2019e
Super regional malls							
Rent in AED/m2	5,860	6,563	7,219	7,796	8,342	8,759	9,197
Growth rate	14%	12%	10%	8%	7%	5%	5%
Total construction cost (AEDmn)							
Occupancy rates	95%	99%	99%	98%	97%	97%	97%
Total leasable GLA	340,521	340,521	340,521	340,521	340,521	340,521	340,521
Super regional malls (extn)							
Rent in AED/m2	10,000	10,000	10,000	10,000	10,200	10,404	10,612
Growth rate	0%	0%	0%	0%	2%	2%	2%
Total construction cost (AEDmn)		276	336	900	-	-	-
Occupancy rates	0%	0%	0%	0%	50%	95%	95%
Total leasable GLA					55,741	55,741	55,741
Regional malls							
Rent in AED/m2	3,553	3,865	4,166	4,332	4,462	4,596	4,688
Growth rate	-1%	9%	8%	4%	3%	3%	2%
Total construction cost (AEDmn)							
Occupancy rates	90%	93%	99%	99%	99%	98%	98%
Total leasable GLA	39,521	39,521	39,521	39,521	39,521	39,521	39,521
Speciality retail							
Rent in AED/m2	2,046	2,153	2,400	2,544	2,621	2,699	2,753
Growth rate	7%	5%	11%	6%	3%	3%	2%
Total construction cost (AEDmn)							
Occupancy rates	85%	87%	90%	90%	90%	90%	90%
Total leasable GLA	68,331	68,331	68,331	68,331	68,331	68,331	68,331
Community retail							
Rent in AED/m2	2,703	2,767	3,229	3,326	3,426	3,494	3,564
Growth rate	2%	2%	17%	3%	3%	2%	2%
Total construction cost (AEDmn)							
Occupancy rates	73%	82%	85%	85%	85%	85%	85%
Total leasable GLA	89,190	89,190	89,190	89,190	89,190	89,190	89,190
Community retail (extn)							
Rent in AED/m2	-	-	2,700	2,835	2,977	3,126	3,282
Growth rate				5%	5%	5%	5%
Total construction cost (AEDmn)	-	100	100	100	-	-	-
Occupancy rates	0%	0%	20%	30%	80%	85%	85%
Total leasable GLA			34,838	34,838	34,838	34,838	34,838

Source: Emaar Malls, Global Research

Financial Statements

Income statement (AEDmn)

Year to December 31	2012	2013	2014	2015	2016e	2017e	2018e	2019e
Rental income	1,944	2,386	2,694	2,993	3,180	3,718	4,146	4,318
Other income	5	10	14	32	34	35	37	39
Revenue	1,950	2,395	2,708	3,025	3,214	3,754	4,183	4,357
Operating expenses	(362)	(437)	(442)	(461)	(493)	(576)	(663)	(691)
Gross profit	1,588	1,958	2,266	2,563	2,721	3,177	3,520	3,666
<i>% of sales</i>	<i>81%</i>	<i>82%</i>	<i>84%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>84%</i>	<i>84%</i>
Depreciation	(314)	(307)	(329)	(348)	(323)	(328)	(326)	(323)
SG&A expenses (excl depreciation)	(142)	(219)	(234)	(281)	(309)	(340)	(374)	(412)
EBIT	1,132	1,432	1,703	1,934	2,088	2,509	2,820	2,932
<i>% of sales</i>	<i>58%</i>	<i>60%</i>	<i>63%</i>	<i>64%</i>	<i>65%</i>	<i>67%</i>	<i>67%</i>	<i>67%</i>
Net financing cost	(401)	(333)	(353)	(268)	(268)	(268)	(302)	(270)
Profit before taxes	731	1,099	1,351	1,656	1,816	2,242	2,518	2,661
Income taxes/zakat	-	-	-	-	-	-	-	-
Net income before minority interest	731	1,099	1,351	1,656	1,816	2,242	2,518	2,661
Minority interest	-	-	-	-	-	-	-	-
Net income attributable to shareholders	731	1,099	1,351	1,656	1,816	2,242	2,518	2,661
EBITDA	1,446	1,739	2,032	2,282	2,412	2,837	3,145	3,255
EPS	2,436.1	3,664.8	0.10	0.13	0.14	0.17	0.19	0.20
DPS (AED)	0.0	0.0	-	0.10	0.10	0.11	0.11	0.12
<i>Pay-out ratio</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>79%</i>	<i>72%</i>	<i>61%</i>	<i>57%</i>	<i>57%</i>

Source: Global Research, Emaar Malls

Balance sheet (AEDmn)

Year to December 31	2012	2013	2014	2015	2016e	2017e	2018e	2019e
Assets								
Cash and cash equivalents	670	1,363	1,364	3,170	3,006	3,958	5,216	6,542
Accounts receivable	238	194	107	133	133	133	133	133
Other current assets	165	207	287	194	194	194	194	194
Inventories	9	15	14	14	14	14	14	14
Current assets	1,083	1,778	1,772	3,511	3,348	4,299	5,557	6,884
Investment in associates	0	0	-	-	-	-	-	-
Property, plant, and equipment	424	303	321	242	240	237	234	232
Investment properties	7,255	7,330	20,465	20,807	21,488	21,414	21,241	21,072
Non-current assets	7,680	7,633	20,785	21,050	21,727	21,651	21,476	21,304
Total assets	8,763	9,412	22,558	24,561	25,075	25,950	27,033	28,188
Liabilities								
Trade & other payables	277	336	363	477	477	477	477	477
Short-term borrowings	90	180	-	-	-	-	-	-
Advances from customers	395	445	522	789	789	789	789	789
Other current Liability	371	380	563	523	523	523	523	523
Current liabilities	1,132	1,341	1,448	1,790	1,790	1,790	1,790	1,790
Borrowing & long term debt	3,443	3,275	7,278	7,287	7,287	7,287	7,287	7,287
Other non-current liabilities	-	-	17	24	24	24	24	24
Provision for employee services	8	11	15	17	17	17	17	17
Due to related party	2,330	1,826	-	-	-	-	-	-
Non-current liabilities	5,781	5,112	7,309	7,327	7,327	7,327	7,327	7,327
Minority interest in subsidiaries	-	-	-	-	-	-	-	-
Paid-up capital	0	0	13,014	13,014	13,014	13,014	13,014	13,014
Statutory & other reserves	0	0	132	491	491	491	491	491
Retained earnings	1,894	2,993	654	1,938	2,452	3,327	4,410	5,565
Hedging reserve	(45)	(35)	-	-	-	-	-	-
Shareholders' equity	1,849	2,959	13,801	15,444	15,958	16,833	17,916	19,070
Total liabilities and equity	8,763	9,412	22,558	24,561	25,075	25,950	27,033	28,188

Source: Emaar Malls, Global Research

Cash flow (AEDmn)

Year to December 31	2012	2013	2014	2015	2016e	2017e	2018e	2019e
Net profit before minorities	731	1,099	1,351	1,656	1,816	2,242	2,518	2,661
Depreciation & amortization	314	307	329	348	323	328	326	323
Change in working capital	(130)	141	83	412	-	-	-	-
Change in provisions	(9)	2	(1)	1	-	-	-	-
Net financing cost	401	333	353	268	-	-	-	-
Others	(4)	(7)	(56)	(20)	-	-	-	-
Net cash generated from operating activities	1,303	1,876	2,058	2,666	2,139	2,569	2,844	2,984
Investments activities:								
CAPEX (PPE)	(332)	(157)	(94)	(28)	(1)	(1)	(1)	(1)
CAPEX (investment properties)	(74)	(105)	(376)	(594)	(1,000)	(250)	(150)	(150)
Other	(244)	(929)	(94)	(1,806)	-	-	-	-
Net cash generated from investment activities	(651)	(1,191)	(564)	(2,428)	(1,001)	(251)	(151)	(151)
Financing activities:								
Dividends paid	-	-	(3,555)	-	(1,301)	(1,367)	(1,435)	(1,507)
Finance cost paid	(161)	(173)	(300)	(259)	-	-	-	-
Bank borrowings raised	2,810	(90)	3,836	-	-	-	-	-
Others	(2,913)	(664)	(1,583)	-	-	-	-	-
Net cash generated from financing activities	(264)	(928)	(1,603)	(259)	(1,301)	(1,367)	(1,435)	(1,507)
Net addition (deduction) in cash	388	(242)	(108)	(21)	(164)	952	1,258	1,327
Cash at beginning	10	399	1,363	1,364	3,170	3,006	3,958	5,216
Cash at end of fiscal year	399	157	1,364	3,170	3,006	3,958	5,216	6,542

Source: Emaar Malls, Global estimates

Financial Statements

	(AED mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Income Statement	Revenue	2,395	2,708	3,025	3,214	3,754	4,183	4,357	4,537
	Operating Expenses	437	442	461	493	576	663	691	742
	Gross Profit	1,958	2,266	2,563	2,721	3,177	3,520	3,666	3,795
	Selling, Gen. & Administrative Expense	219	234	281	309	340	374	412	453
	EBITDA	1,739	2,032	2,282	2,412	2,837	3,145	3,255	3,342
	Depreciation	307	329	348	323	328	326	323	321
	EBIT	1,432	1,703	1,934	2,088	2,509	2,820	2,932	3,022
	Finance cost	333	353	268	268	268	302	270	237
	Write-offs	-	-	(10)	(5)	-	-	-	-
	Profit After Tax	1,099	1,351	1,656	1,816	2,242	2,518	2,661	2,784
Balance Sheet	Cash and cash equivalents	1,363	1,364	3,170	3,006	3,958	5,216	6,542	7,914
	Accounts receivable	194	107	133	133	133	133	133	133
	Other current assets	207	287	194	194	194	194	194	194
	Inventories	15	14	14	14	14	14	14	14
	Investment in associates	0	-	-	-	-	-	-	-
	Property, plant and equipment	303	321	242	240	237	234	232	230
	Investment properties	7,330	20,465	20,807	21,488	21,414	21,241	21,072	20,904
	Total Assets	9,412	22,558	24,561	25,075	25,950	27,033	28,188	29,390
	Trade & other payables	336	363	477	477	477	477	477	477
	Short term borrowings	180	-	-	-	-	-	-	-
	Advances from customers	445	522	789	789	789	789	789	789
	Other current Liability	380	563	523	523	523	523	523	523
	Borrowing & long term debt	3,275	7,278	7,287	7,287	7,287	7,287	7,287	7,287
	Other Non Current Liability	-	17	24	24	24	24	24	24
	Paid - up capital	0	13,014	13,014	13,014	13,014	13,014	13,014	13,014
	Statutory & other reserves	0	132	491	491	491	491	491	491
	Retained earnings	2,993	654	1,938	2,452	3,327	4,410	5,565	6,767
Total Equity & Liabilities	9,412	22,558	24,561	25,075	25,950	27,033	28,188	29,390	
Cash Flow	Cash Flow from Operating Activities	1,876	2,058	2,666	2,139	2,569	2,844	2,984	3,105
	Cash Flow from Investing Activities	(1,191)	(564)	(2,428)	(1,001)	(251)	(151)	(151)	(151)
	Cash Flow from Financing Activities	(928)	(1,603)	(259)	(1,301)	(1,367)	(1,435)	(1,507)	(1,582)
	Change in Cash	(242)	(108)	(21)	(164)	952	1,258	1,327	1,372
	Net Cash at End	157	1,364	3,170	3,006	3,958	5,216	6,542	7,914
Ratio Analysis	P/E Ratio (x)	0.0	27.0	22.0	20.1	16.3	14.5	13.7	13.1
	P/BV Ratio (x)	0.0	2.6	2.4	2.3	2.2	2.0	1.9	1.8
	Free Cash Flow Yield (%)	1.9%	3.6%	0.0%	3.9%	7.1%	8.2%	8.5%	8.8%
	EV/ Revenue	16.1	15.6	13.4	12.7	10.6	9.2	8.5	7.9
	EV/ EBITDA	22.2	20.8	17.8	16.9	14.0	12.2	11.4	10.7
	Revenue Growth (%)	23%	13%	12%	6%	17%	11%	4%	4%
	EBITDA Growth (%)	20%	17%	12%	6%	18%	11%	3%	3%
	Net Profit Growth (%)	50%	23%	23%	10%	23%	12%	6%	5%
	Return on Average Assets	12%	8%	7%	7%	9%	10%	10%	10%
	Return on Average Equity	46%	16%	11%	12%	14%	14%	14%	14%
	Gross Profit Margin	82%	84%	85%	85%	85%	84%	84%	84%
	Operating Margin	60%	63%	64%	65%	67%	67%	67%	67%
	Net Profit Margin	46%	50%	55%	56%	60%	60%	61%	61%
	Current Ratio (x)	1.3	1.2	2.0	1.9	2.4	3.1	3.8	4.6
Debt / Equity (x)	1.2	0.5	0.5	0.5	0.4	0.4	0.4	0.4	
Debt / Assets (x)	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	

Source: Emaar Malls, Global Research

Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Emaar Malls Group	HOLD	EMAARMLS UH	EMAA.DU	AED2.80	1,10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
2. The company being researched holds more than 5% stake in Global Investment House.
3. Global Investment House makes a market in securities issued by this company.
4. Global Investment House acts as a corporate broker or sponsor to this company.
5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.
6. An employee of Global Investment House serves on the board of directors of this company.
7. Within the past year, Global Investment House has managed or co-managed a public offering for this company, for which it received fees.
8. Global Investment House has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three month.
10. Please see special footnote below for other relevant disclosures.

Global Research: Equity Ratings Definitions

Global Rating	Definition
STRONG BUY	Fair value of the stock is >20% from the current market price
BUY	Fair value of the stock is between +10% and +20% from the current market price
HOLD	Fair value of the stock is between +10% and -10% from the current market price
SELL	Fair value of the stock is < -10% from the current market price

Disclaimer

This material was produced by Global Investment House KPSC ("Global"), a firm regulated by the Central Bank of Kuwait and the Capital Markets Authority (Kuwait). This document is not to be used or considered as an offer to sell or a solicitation of an offer to buy any securities. Global may, from time to time to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities ("securities"), perform services for or solicit business from such issuer, and/or have a position or effect transactions in the securities or options thereof. Global may, to the extent permitted by applicable Kuwaiti law or other applicable laws or regulations, effect transactions in the securities before this material is published to recipients. Information and opinions contained herein have been compiled or arrived by Global from sources believed to be reliable, but Global has not independently verified the contents of this document. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Global accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith. This document is not to be relied upon or used in substitution for the exercise of independent judgment. Global shall have no responsibility or liability whatsoever in respect of any inaccuracy in or omission from this or any other document prepared by Global for, or sent by Global to any person and any such person shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Opinions and estimates constitute our judgment and are subject to change without prior notice. Past performance is not indicative of future results. This document does not constitute an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Neither this report nor any copy hereof may be distributed in any jurisdiction outside Kuwait where its distribution may be restricted by law. Persons who receive this report should make themselves aware of and adhere to any such restrictions. By accepting this report you agree to be bound by the foregoing limitations.



Global Investment House

Website: www.globalinv.net

Global Tower

Sharq, Al-Shuhada Str.

Tel. + (965) 2 295 1000

P.O. Box: 28807 Safat, 13149 Kuwait

Research

Naveed Ahmed, CFA
(965) 2295-1280
nahmed@global.com.kw

Wealth Management

Rasha Al-Qenaei
(965) 2295-1380
alqenaei@global.com.kw

Global Kuwait

Tel: (965) 2 295 1000
P.O.Box 28807 Safat, 13149
Kuwait

Global Bahrain

Tel: (973) 17 210011
P.O.Box 855 Manama, Bahrain

Global UAE

Tel: (971) 4 4477066
P.O.Box 121227 Dubai,
UAE

Global Egypt

Tel: (202) 24189705/06
24 Cleopatra St., Heliopolis,
Cairo

Global Saudi Arabia

Tel: (966) 1 2994100
P.O. Box 66930 Riyadh 11586,
Kingdom of Saudi Arabia

Global Jordan

Tel: (962) 6 5005060
P.O.Box 3268 Amman 11180,
Jordan

Global Wealth Manager

E-mail: global@global.com.kw
Tel: (965) 1-804-242