Majid Al Futtaim Holding LLC

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 29 November 2018
Short-Term IDR	F3		Affirmed 29 November 2018

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Financial Summary

(AEDm)	Dec 2015	Dec 2016	Dec 2017	Dec 2018F
Gross Revenue	27,343	29,851	32,274	36,168
Operating EBITDAR Margin (%)	15.6	16.0	14.9	14.4
FFO Margin (%)	11.9	12.0	11.4	10.8
FFO Fixed-Charge Coverage (x)	4.6	4.1	3.8	3.8
FFO Adjusted Leverage (x)	3.8	3.5	3.8	4.1

Source: Fitch Ratings, Fitch Solutions

Fitch Ratings has affirmed UAE-based Majid Al Futtaim Holding LLC's (MAF) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The Outlook is Stable.

The affirmation reflects Majid Al Futtaim Properties' (MAFP) stable recurring income-generating property portfolio in good locations in the UAE, supported by a strong tenant base and low vacancy rates. The ratings are driven by MAFP and further supported by Majid Al Futtaim Retail (MAFR) and ventures businesses, which attract footfall to the shopping malls.

Key Rating Drivers

Prime and Secondary Assets: MAFP remains the main contributor to the group and delivered broadly flat EBITDA generation for 2017 of AED2.9 billion. The group's top five shopping malls generated the majority of MAFP's EBITDA in 2017, with the Mall of the Emirates being the main contributor. We forecast the same for 2018 and 2019 despite a greater contribution from Mall of Egypt. MAFP's shopping malls are a mix of prime and secondary assets in prime and secondary locations in the Gulf Cooperation Council (GCC) countries and Egypt.

Concentration Risk: MAFP has significant asset and geographical concentration despite an increasing footprint in the region. MAFP has a high exposure to the UAE with 10 shopping malls with an aggregate of 750 million square metres, contributing more than half of MAFP's 2017 EBITDA and projected to remain high until 2021.

Weaker UAE Retail Environment: Retail market developments in the UAE in 2018, together with forecast new supply until 2020, are putting pressure on occupancy ratios and rental income for major retailers in the country, and this could trigger a possible change in tenant lease formulae in the near future. However, average vacancy rates are forecast to remain low at below 5% for MAFP's top five shopping malls.

Resilient Portfolio Qualities: The share of e-commerce is growing but its impact remains small compared with western markets. The region's reliance on malls as entertainment destinations helps to maintain their attractiveness to consumers. The prime positioning of MAF's retail malls means they are somewhat shielded from retail-market stresses, with tenant defaults remaining low and tenant retention rates remaining high at 95% with low double-digit growth in rent in 2017.

Increasing Retail Footprint: The growing footprint of MAF's retail operations in the region supports the group's market-leading position in the UAE where MAFR has the highest number of stores, generating the majority of its 2017 EBITDA of AED1.2 billion. We forecast further growth for 2018 and a broadly stable EBITDA margin. In 2017, 29 supermarkets and hypermarkets were opened while 29 stores were acquired. Expected growth in 2018 earnings is mainly attributable to further Carrefour store openings in countries where MAFR has existing operations.

Non-Food Sale Pressured: Carrefour remains a cash-generative business with low balance-sheet debt. Changing consumer preferences towards food-based items contributed two-thirds of MAFR's revenue in 2017 (slightly higher than the previous year) with consumer goods and fresh food growing in importance. We expect the non-food segment increasingly to be affected by competition from online retailers.

Debt-Funded Capex: Shopping mall development activity was high for 2018 and is likely to remain so in 2019, with a dozen projects under construction over the next four years, notably City Centre Al Zahia and Mall of Oman, which are expected to be completed between 2020 and 2021. Capex plans will be funded from free cash flow (FCF) and from increased borrowings. MAF has a strong record of shopping mall development and pre-gross leasable area (GLA) booking ahead of project initiation.

Diversified Funding/Stable Financial Metrics: MAF maintains diverse sources of funding composed of sukuk, conventional bonds, bank lending, and hybrid capital. In 2018, MAF issued USD400 million (perp-NC8) at 6.375% to refinance its 2018 USD500 million notes. The company has also increased its revolver limits by USD0.7 billion and extended its liquidity cover to June 2022. The next scheduled maturity is the July 2019 bond, which is covered by unutilised corporate revolvers.

MAF has strong leverage metrics for the rating with Fitch-adjusted loan-to-value forecast to remain below 50% in 2018 and we forecast similar levels for 2019-2021. Coupled with this, Fitch-adjusted rental income-derived net leverage is expected to slightly increase above 5x from 2018 onwards on higher capex-driven debt that is mitigated by stable rental income. Rental-derived net interest cover is also stable at between 3x and 4x over the forecast period of 2018-2021.

Rating Derivation Relative to Peers

Rating Derivation versus Peers

Peer Comparison	MAF has a portfolio of income-generating assets in the UAE and the Middle East. The company is a leading mall operator in the region and an established food retailer through its Carrefour stores in over 14 countries. MAF's portfolio exhibits high occupancy ratios at above 95%, increasing base rent y-o-y and a high tenant-retention ratio of 95%. The company has solid financial metrics and dynamic capital structure compared with European investment-grade peers in the property/real estate sector, such as Hammerson Plc (BBB+/Stable), which demonstrates similar KPIs of high occupancy ratio of 98%, a moderate LTV of 44% and yet significantly more leveraged on a net basis than MAF at 10.5x. Similar major EMEA REITs are Unibail-Rodamco SE (A-/Stable) and British Land Company plc (A-Stable), which have materially larger asset portfolios with meaningful diversification compared with MAF, which has exposure to developed markets in Europe. MAF demonstrates lower Fitch-adjusted rental-derived leverage compared to Unibail and British Land despite significant development programmes. Similar to European REITs, its portfolio benefits from well-spread debt maturity of more than four years and an average long-term lease life of 7.2 years. However, significant asset and geographical concentration drives the notch differential between MAF and peers, such Unibail and Hammerson.
Parent/Subsidiary Linkage	No parent/subsidiary linkage is applicable
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	None

Source: Fitch Ratings

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Meaningful geographical diversification and/or reduced asset concentration
- MAFP's recurring income-derived EBITDA interest cover sustained above 3.0x and MAFP's derived Fitch-adjusted leverage below 40%

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Significant downturn in the markets in which MAF operates
- Higher-than-expected capex, leading to material falls in MAFP's recurring income-derived EBITDA interest cover below 1.5x over a sustained period

Liquidity and Debt Structure

Comfortable Liquidity: MAF has refinanced scheduled maturities up to 2022 except for its 2019 bond maturity of USD500 million, which is covered by existing liquidity at the company level. MAF has also extended the maturity of two of the large revolvers to 2023 and 2024. The average debt-maturity profile is now beyond four years with a mix of bank funding, bonds, sukuk and hybrid notes.

As of end-1Q18, the majority of debt (76% of drawn debt) was raised at the holding level, benefitting from cross guarantees of MAFP. The overall debt structure had limited secured debt (below 10%) as of end-2017. The company has good liquidity coverage with available cash balances mainly in hard currencies predominantly in the UAE and at MAF retail levels. The liquidity buffer is supported by ample headroom under the available committed lines.

The sukuk documentation, structure, terms and conditions were reviewed and there has been no change since the last update in May 2018.

Debt Maturities and Liquidity at FYE 2018e

Liquidity Sources	2018F	2019F
Beginning Cash Balance	894	1,476
Base Case FCF	-1,734	-1,770
Total Liquidity Sources (A)	**-840**	**-294**
Liquidity Uses		
Debt Maturities	0	-1,970
Total Liquidity Uses (B)	**0**	**-1,850**
Liquidity Calculation		
Ending Cash Balance (A+B)	-840	1,556
Revolver Availability	5,371	5,371
Available Liquidity	**6,847**	**6,927**
Liquidity Score	**3.6**	**1.8**

Source: Fitch Ratings

Full Debt Maturity Schedule	Original
Statement Date	**30 November 2018**
2018	0
2019	1,970
2020	2,960
2021	0
2022	1,460
Thereafter	9,850
Total	13,328

Source: Fitch Ratings, Company

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Stable EBITDA margin at 12% at the holding level for 2018-2021
- Revenue growth projected at CAGR 11% for the same period
- Low vacancy rates on average at 5% for shopping malls
- Capex-to-sales below 15% for the next four years
- Leverage to remain commensurate with existing rating level
- Ample headroom under committed available revolvers
- Flexible dividend policy

Financial Data

	Historical		
(AEDm)	**Dec 2015**	**Dec 2016**	**Dec 2017**
Summary Income Statement			
Gross Revenue	27,343	29,851	32,274
Revenue Growth (%)	8.2	9.2	8.1
Operating EBITDA (Before Income from Associates)	3,795	4,163	4,140
Operating EBITDA Margin (%)	13.9	13.9	12.8
Operating EBITDAR	4,260	4,768	4,811
Operating EBITDAR Margin (%)	15.6	16.0	14.9
Operating EBIT	2,680	2,974	2,763
Operating EBIT Margin (%)	9.8	10.0	8.6
Gross Interest Expense	-448	-509	-569
Pretax Income (Including Associate Income/Loss)	3,321	2,833	2,254
Summary Balance Sheet			
Readily Available Cash and Equivalents	1,209	631	894
Total Debt with Equity Credit	11,644	11,863	13,130
Total Adjusted Debt with Equity Credit	15,364	16,703	18,498
Net Debt	10,435	11,232	12,236
Summary Cash Flow Statement			
Operating EBITDA	3,795	4,163	4,140
Cash Interest Paid	-428	-555	-595
Cash Tax	-87	-65	-85
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	7	4	10
Other Items Before FFO	-89	16	123
Funds Flow from Operations	3,245	3,594	3,681
FFO Margin (%)	11.9	12.0	11.4
Change in Working Capital	138	-388	363
Cash Flow from Operations (Fitch Defined)	3,383	3,206	4,044
Total Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital Expenditure	-4,231	-3,677	-4,255
Capital Intensity (Capex/Revenue) (%)	15.5	12.3	13.2
Common Dividends	-415	-210	-370
Free Cash Flow	-1,263	-681	-581
Net Acquisitions and Divestitures	50	-127	-1,632
Other Investing and Financing Cash Flow Items	-29	-85	45
Net Debt Proceeds	1,234	59	414
Net Equity Proceeds	-131	-131	1,647
Total Change in Cash	-139	-965	-107
Calculations for Forecast Publication			
Capex, Dividends, Acquisitions and Other Items Before FCF	-4,596	-4,014	-6,257
Free Cash Flow After Acquisitions and Divestitures	-1,213	-808	-2,213
Free Cash Flow Margin (After Net Acquisitions) (%)	-4.4	-2.7	-6.9
Coverage Ratios			
FFO Interest Coverage (x)	8.5	7.4	7.0

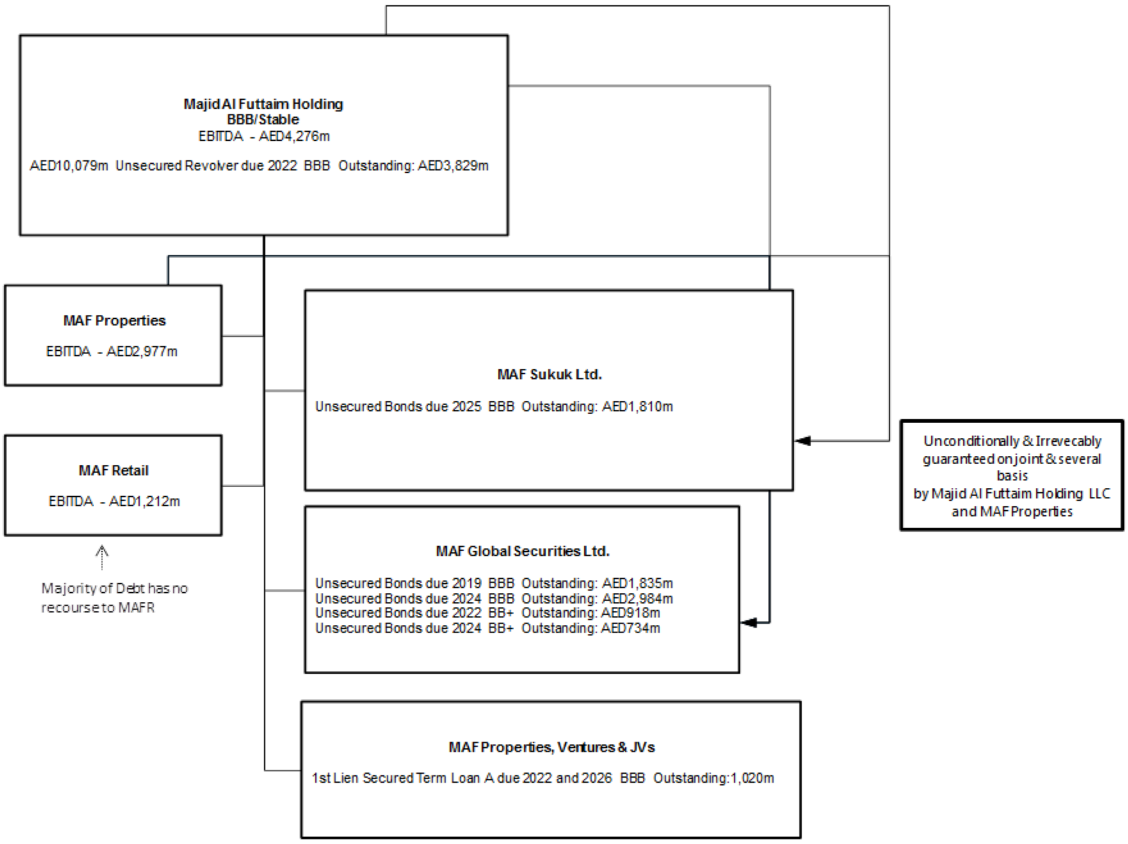
FFO Fixed-Charge Coverage (x)	4.6	4.1	3.8
Operating EBITDAR/Interest Paid + Rents (x)	4.8	4.1	3.8
Operating EBITDA/Interest Paid (x)	8.9	7.5	7.0
Leverage Ratios			
Total Adjusted Debt/Operating EBITDAR (x)	3.6	3.5	3.8
Total Adjusted Net Debt/Operating EBITDAR (x)	3.3	3.4	3.7
Total Debt with Equity Credit/Operating EBITDA (x)	3.1	2.8	3.2
FFO Adjusted Leverage (x)	3.8	3.5	3.8
FFO Adjusted Net Leverage (x)	3.5	3.4	3.6

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Company, as at December 2017

Peer Financial Summary

Company	Date	Rating	Gross Revenue (local currency)	FFO Adjusted Leverage (x)	Operating EBITDA Margin (%)	Total Adjusted Net Debt/ Operating EBITDAR (x)	Operating EBITDAR/ Interest Paid + Rents (x)
Majid Al Futtaim Holding LLC	BBB						
	BBB	2017	32,274	3.8	12.8	3.7	3.8
	BBB	2016	29,851	3.5	13.9	3.4	4.1
Emirates REIT	BB+						
	BB+	2017	61	12.7	50.3	10.6	1.8
		2016	51	14.7	40.6	11.9	2.4
Hammerson plc	BBB+						
	BBB+	2017	249	9.7	70.8	9.2	2.8
	BBB+	2016	251	12.3	71.1	12.4	2.2
SEGRO PLC	BBB+						
	BBB+	2017	273	9.0	75.9	8.4	2.9
	BBB+	2016	226	9.2	75.8	8.3	2.7
Unibail-Rodamco SE	A-						
	A	2017	1,822	10.7	80.6	10.2	4.3
	A	2016	1,770	9.7	85.3	9.3	4.2
PSP Swiss Property AG	BBB+						
	BBB+	2017	273	11.8	81.6	9.8	7.7
	BBB+	2016	276	10.8	82.2	9.4	7.7

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(AED Millions, As reported)	31 Dec 2017
Income Statement Summary	
Operating EBITDA	4,140
+ Recurring Dividends Paid to Non-controlling Interest	-13
+ Recurring Dividends Received from Associates	23
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**4,150**
+ Operating Lease Expense Treated as Capitalised (h)	**671**
= Operating EBITDAR after Associates and Minorities (j)	**4,821**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**13,130**
+ Lease-Equivalent Debt	5,368
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**18,498**
Readily Available Cash [Fitch-Defined]	894
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**894**
Total Adjusted Net Debt (b)	**17,604**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	88
+ Interest (Paid) (d)	**-595**
= Net Finance Charge (e)	**-507**
Funds From Operations [FFO] (c)	**3,681**
+ Change in Working Capital [Fitch-Defined]	363
= Cash Flow from Operations [CFO] (n)	**4,044**
Capital Expenditures (m)	**-4,255**
Multiple applied to Capitalised Leases	**8.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**3.8**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.8**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**3.2**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**3.7**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**3.6**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**-58.0**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**3.8**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**7.0**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**3.8**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**7.0**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, Company

Fitch Adjustment Reconciliation

(AEDm)	Reported Values 31 Dec 17	Sum of Fitch Adjustments	Adjusted Values
Income Statement Summary			
Revenue	32,274	0	32,274
Operating EBITDAR	4,140	671	4,811
Operating EBITDAR after Associates and Minorities	4,140	681	4,821
Operating Lease Expense	0	671	671
Operating EBITDA	4,140	0	4,140
Operating EBITDA after Associates and Minorities	4,140	10	4,150
Operating EBIT	2,763	0	2,763
Debt & Cash Summary			
Total Debt With Equity Credit	13,130	0	13,130
Total Adjusted Debt With Equity Credit	13,130	5,368	18,498
Lease-Equivalent Debt	0	5,368	5,368
Other Off-Balance Sheet Debt	0	0	0
Readily Available Cash & Equivalents	894	0	894
Not Readily Available Cash & Equivalents	0	237	237
Cash-Flow Summary			
Preferred Dividends (Paid)	0	0	0
Interest Received	88	0	88
Interest (Paid)	-595	0	-595
Funds From Operations [FFO]	3,671	10	3,681
Change in Working Capital [Fitch-Defined]	363	0	363
Cash Flow from Operations [CFO]	4,034	10	4,044
Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital (Expenditures)	-4,255	0	-4,255
Common Dividends (Paid)	-370	0	-370
Free Cash Flow [FCF]	-591	10	-581
Gross Leverage			
Total Adjusted Debt / Op. EBITDAR* [x]	3.2		3.8
FFO Adjusted Leverage [x]	3.1		3.8
Total Debt With Equity Credit / Op. EBITDA* [x]	3.2		3.2
Net Leverage			
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.0		3.7
FFO Adjusted Net Leverage [x]	2.9		3.6
Total Net Debt / (CFO - Capex) [x]	-55.4		-58.0
Coverage			
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	7.0		3.8
Op. EBITDA / Interest Paid* [x]	7.0		7.0
FFO Fixed Charge Coverage [x]	7.0		3.8
FFO Interest Coverage [x]	7.0		7.0

*EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions. Company

Covenant Summary

Not material

Related Research & Criteria

Fitch Ratings 2019 Outlook: GCC Corporates (December 2018)
Corporate Rating Criteria (March 2018)
Sukuk Rating Criteria (July 2018)
Corporate Hybrids Treatment and Notching Criteria (November 2018)
Corporates Notching and Recovery Ratings Criteria (March 2018)

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