FitchRatings

Fitch Affirms Majid Al Futtaim LLC at 'BBB'; Outlook Stable

Fitch Ratings - Dubai - 29 November 2018: 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.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Majid Al Futtaim Holding LLC	LT IDR BBB Affirmed		BBB
	ST IDR F3 Affirmed		F3
senior unsecured	LT BBB Affirmed		BBB
MAF Global Securities Limited			
senior unsecured	LT BBB Affirmed		BBB
subordinated	LT BB+ Affirmed		BB+
MAF Sukuk Ltd.			
senior unsecured	LT BBB Affirmed		BBB

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 top 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 GCC and Egypt.

Concentration Risk: MAFP has significant asset and geographical concentration despite increasing footprint in the region. MAFP has a high exposure to the UAE with 10 shopping malls with an aggregate of 750m sqm, 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 forecasted new supply until 2020, are putting pressure on occupancy ratios and rental income for major retailers in the country, triggering a possible change in tenant lease formulae in the near future. However, average vacancy rates are forecasted 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 and the region's reliance on malls as entertainment destinations also helps maintain malls' 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 rate 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 leadership position in the UAE where MAFR has the highest number of stores, generating the majority of its EBITDA of AED1.2 billion in 2017. We forecast further growth in 2018 and a broadly stable EBITDA margin. In 2017, 38 new supermarkets and 20 new hypermarkets were opened. Expected growth in 2018 earnings is mainly attributable to further Carrefour store openings in countries where MAF retail has existing operations.

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

Debt-funded Capex: Shopping mall development activity is high for 2018 and 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 both from free cash flow (FCF) and from increased borrowings. MAF has a strong track 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 forecasted 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 the back of 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 forecasted period of 2018-2021.

DERIVATION SUMMARY

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 REIT are Unibail-Rodamco SE (A/Stable) and British Land Company plc (BBB+/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 than 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.

KEY ASSUMPTIONS

- 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

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 mainly 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.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (/site/re/10023785)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (/site/re/10024585)
Sukuk Rating Criteria (pub. 25 Jul 2018) (/site/re/10039109)
Corporate Hybrids Treatment and Notching Criteria (pub. 09 Nov 2018) (/site/re/10051058)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (/site/dodd-frank-disclosure/10053380)
Solicitation Status
Endorsement Policy (/site/regulatory)

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