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Majid Al Futtaim Holding LLC

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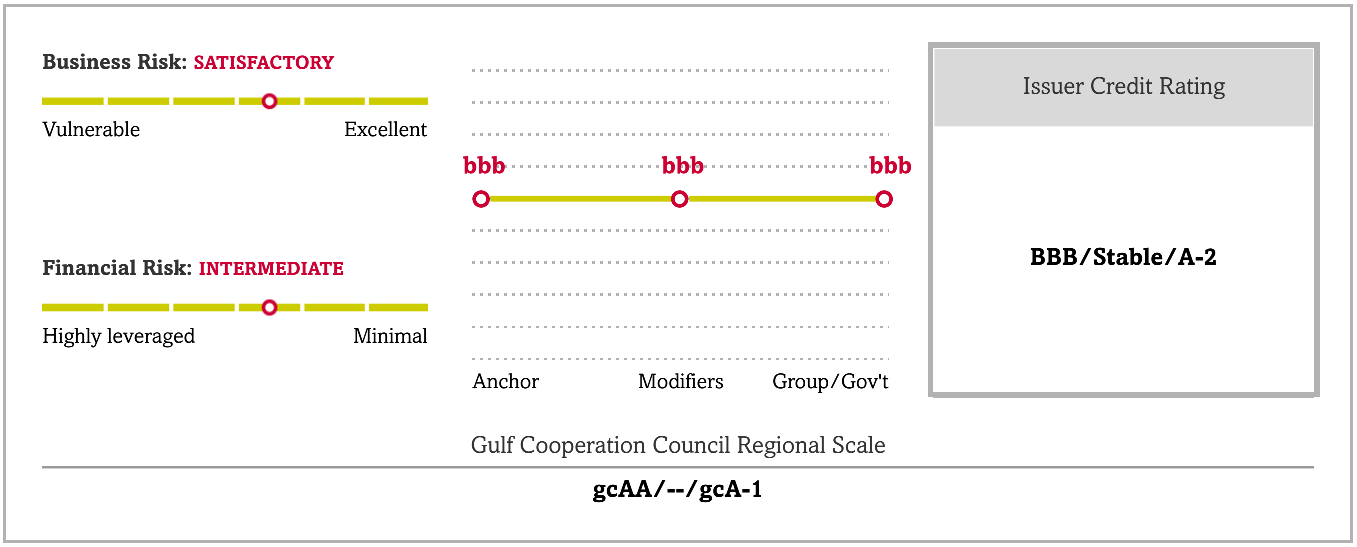
Majid Al Futtaim Holding LLC



Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• High quality of assets in the real estate portfolio. • A strong management team, with a good track record of building successful greenfield developments. • A longstanding and successful regional franchise with international food retailer Carrefour. • Geographic concentration in Dubai, and high exposure to development activity and countries we consider subject to relatively high country risk.	• High operating cash flow. • Prudent liquidity management. • High capital expenditures (capex), although mostly discretionary.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' expectation that the performance of the Dubai-based real estate and retail operations of Majid Al Futtaim Holding LLC (MAF Holding) will remain strong over the next 24 months. Strong cash flow generation for MAF Holding should enable it to continue its growth strategy without weakening its financial leverage metrics, in our view.

Based on the current business mix--65%-70% of EBITDA derived from property rental activities--we anticipate that MAF Holding will maintain a ratio of debt to EBITDA below 4.5x and EBITDA interest cover above 3.8x in 2018-2019. These ratios are commensurate with a modest financial risk profile, which we adjust downward by one category to intermediate to reflect our expectation of somewhat higher volatility in MAF Holding's non-real-estate operations. These ratios stood at 3.7x and 5.6x, respectively, on June 30, 2018. We also believe that credit quality at MAF Holding's parent, MAF Capital LLC, is not a constraint to the rating because we consider it to be similar to that of MAF Holding.

The property rentals business can, in our opinion, tolerate higher financial leverage than food retail and other businesses. We would likely adjust our target ratios in the event that the property rental activities ceased to account for a substantial majority of company EBITDA.

Downside scenario

We could consider a downgrade if MAF Holding was unable to keep its debt-to-EBITDA ratio below 4.5x and EBITDA interest cover ratio above 3.8x, or if the credit profile of its controlling parent was materially weaker.

Upside scenario

We see limited upside rating potential at present, given MAF Holding's high geographic concentration in Dubai and the deteriorating credit conditions there. Additionally, MAF Holding's relatively significant development exposure compared with that of peers in property investment restricts upside.

Our Base-Case Scenario

Assumptions	Key Metrics

Assumptions

- A moderate growth environment in the region, despite recovering oil prices and GDP growth of about 3% over the next two years. These are balanced by tax increases, lower consumer confidence due to job losses and reduction in real disposable incomes, and only modest population growth, leading to pressure on retail sales.
- We expect MAF Holding's revenues will increase by 10%-13% in 2018 and 8%-10% in 2019 with the opening of My City Center Sur (Oman) in March 2018, Al Dhait (United Arab Emirates; UAE) in January 2018, City Centre Sohar (Oman) by December 2018, one hotel (Aloft in Dubai in 2018), 22 hypermarkets, and 45 supermarkets in 2018-2019.
- Capex of up to UAE dirham (AED) 4.8 billion ($1.3 billion) in 2018 and AED5.4 billion ($1.5 billion) in 2019.
- An EBITDA margin of 13%-15%.

Key Metrics

	2018A*	2018E	2019E
Debt/EBITDA (x)±*	3.7	4.1-4.5	4.1-4.5
EBITDA interest cover (x)	5.6	4.3-4.6	3.8-4.2
Debt/EBITDA (x)±*	3.7	4.1-4.5	4.1-4.5

*Rolling 12 months until June 30, 2018. ±S&P Global Ratings' adjustments for operating lease commitments, pension liabilities, accrued interest, and the debt content of the hybrid instrument add AED5.9 billion ($1.6 billion) to reported consolidated debt as of June 30, 2018. A--Actual. E--Estimate.

Company Description

MAF Holding owns 17 shopping malls, including five superregional malls, across the Middle East. The list includes Mall of Egypt, which opened in March 2017. Additionally, it owns 10 hotel properties in Dubai and two hotels in Bahrain's capital, Manama. It operates 97 Carrefour hypermarkets across 14 countries through an exclusive franchise agreement with the France-based international food retailer Carrefour S.A., the world's second-largest food retailer. MAF Holding's malls enjoy high occupancy rates.

A single shareholder, Mr. Majid Al Futtaim, controls MAF Holding. Risks associated with the concentrated shareholder structure have been mitigated by comprehensive governance standards and the participation of experienced and reputable board members at both the holding and operating company levels.

Business Risk : Satisfactory

MAF Holding's business strengths include its very good asset quality, with high occupancy rates of 94% on average for the portfolio and strong footfall of 186 million visitors for all of its shopping malls. MAF Holding is a leading food retailer in the Middle East, operating under a longstanding and successful regional franchise agreement with international food retailer Carrefour. These strengths are mitigated by high geographic concentration, with about 68%

of MAF Holding's first-half 2018 EBITDA derived from assets in the UAE (mainly Dubai). The rapid expansion of Carrefour hypermarkets and opening of new malls across the region may help reduce the concentration somewhat. MAF Holding is looking to increase the number of its hypermarkets to about 142 over the coming four years in the region, including in politically unstable countries such as Egypt, Bahrain, and a few African nations.

Moderate growth expectations for the region, fueled by lower consumer confidence due to job losses and lower real disposable incomes, and only modest population growth could reduce retail sales. We don't expect a significant impact on MAF Holding's performance however, thanks to long retail-lease structures, very good asset quality, and diversification of assets. Because of the rapid increase in supply, Dubai's and Bahrain's hospitality markets struggled in 2017 with falling average daily rates and lower occupancy. But MAF Holding's hotel portfolio (contributes 6% to EBITDA) achieved flat revenue per room and occupancy owing to its good asset quality and location.

Chart 1

MAF Holding EBITDA By Country As Of June 30, 2018

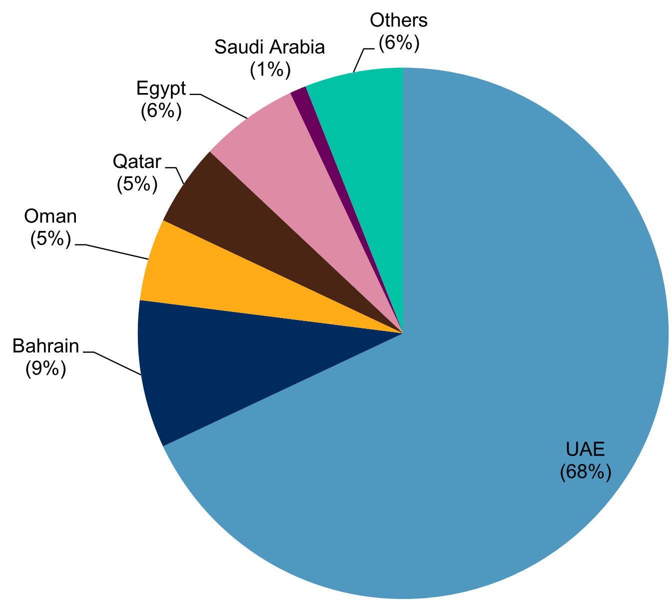
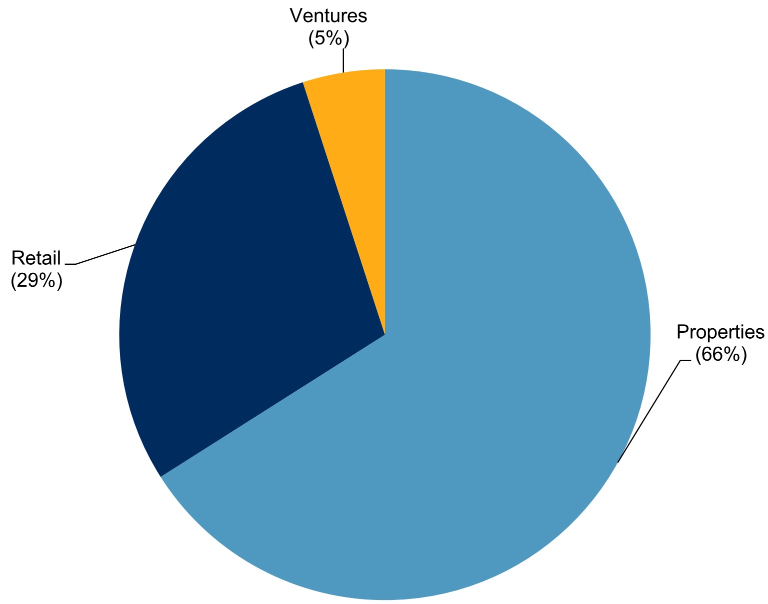


Chart 2

MAF Holding EBITDA By Segment As Of June 30, 2018



Due to the Egyptian pound's depreciation (depegged in November 2016), MAF Holding estimates that its EBITDA declined by AED71 million in 2017 due to the foreign exchange impact. This is even though revenues from the Egyptian business increased 25% on a constant basis after delivery of Mall of Egypt, suggesting some vulnerabilities. MAF Holding also has high exposure to development activity (AED13.2 billion planned over the next four years), with four large malls under development (City Centre Al Maza in Cairo, City Centre Al Zahia in Sharjah, Mall of Oman in Muscat, and City Centre Al Jazira in Abu Dhabi) and plans to build malls in the Saudi capital Riyadh.

Peer comparison

Table 1

Majid Al Futtaim Holding LLC--Peer Comparison

Industry Sector: Real Estate Investment Trust or Company

	Majid Al Futtaim Holding LLC	Emaar Malls PJSC	Unibail-Rodamco Westfield	Mercialys	Klepierre S.A.
Rating as of Sept. 10, 2018	BBB/Stable/A-2	BBB-/Stable/--	A/Stable/A-1	BBB/Stable/A-2	A-/Stable/A-2
(Mil. $)	**--Rolling 12 months ended June 30, 2018--**		**--Fiscal year ended Dec. 31, 2017--**		
Revenues	9,350	1,119	2,496	212	1,600
EBITDA	1,371	748	1,869	179	1,230

Table 1

Majid Al Futtaim Holding LLC--Peer Comparison (cont.)					
Funds from operations (FFO)	1,134	691	1,577	142	991
Interest Expense	244	78	272	36	224
Net income from cont. oper.	374	590	2,930	104	1,475
Cash flow from operations	1,107	596	1,495	167	976
Capital expenditures	1,364	214	1,621	123	345
Free operating cash flow	(257)	382	(126)	44	631
Discretionary cash flow	(299)	27	(1,428)	(85)	(101)
Cash and short-term investments	383	762	690	236	678
Debt	5,034	1,496	17,690	1,756	10,912
Equity	9,624	4,444	27,252	2,564	15,564
Adjusted ratios					
EBITDA margin (%)	14.7	66.8	74.9	84.3	76.9
Return on capital (%)	6.4	11.4	4.4	3.1	4.6
EBITDA interest coverage (x)	5.6	9.6	6.9	4.9	5.5
FFO cash int. cov. (X)	7.7	9.9	4.6	2.7	4.6
Debt/EBITDA (x)	3.7	2.0	9.5	9.8	8.9
FFO/debt (%)	22.5	46.2	8.9	8.1	9.1
Cash flow from operations/debt (%)	22.0	39.8	8.5	9.5	8.9
Free operating cash flow/debt (%)	(5.1)	25.5	(0.7)	2.5	5.8
Discretionary cash flow/debt (%)	(5.9)	1.8	(8.1)	(4.8)	(0.9)
Total debt/debt plus equity (%)	34.3	25.2	39.4	40.6	41.2

Financial Risk : Intermediate

Our assessment of MAF Holding's financial risk profile reflects our view that the five-year (historical and projected) weighted average debt-to-EBITDA ratio will remain below 4.5x and EBITDA interest cover above 3.8x. High capex and discretionary acquisitions will likely put free operating cash flow generation under pressure in 2018-2019. However, MAF Holding's ability to curtail capex at short notice (two months) and at a manageable cost (reimbursement of contractors' demobilization costs), combined with prudent liquidity management, provides additional ratings support, in our opinion.

We classify MAF Holding's cash flow as volatile relative to that of other real estate rental companies, because about 30%-35% of EBITDA stems from the less predictable retail business. We therefore adjust our initial financial risk assessment of modest downward to intermediate.

Financial summary

Table 2

Majid Al Futtaim Holding LLC--Financial Summary

Industry Sector: Real Estate Investment Trust or Company

	Rolling 12 months	--Fiscal year ended Dec. 31--				
(Mil. AED)	**As of June 30, 2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Revenues	34,344	32,274	29,909	27,343	25,224	22,887
EBITDA	5,035	4,801	4,656	4,225	4,068	3,662
Funds from operations (FFO)	4,166	3,818	3,696	3,428	3,219	2,790
Net income from continuing operations	1,372	2,160	2,751	3,279	2,549	1,865
Cash flow from operations	4,065	4,217	3,352	3,574	3,259	2,720
Capital expenditures	5,011	4,255	3,677	4,232	3,877	2,197
Free operating cash flow	(946)	(38)	(325)	(658)	(618)	523
Discretionary cash flow	(1,098)	(141)	(613)	(1,149)	(898)	191
Cash and short-term investments	1,407	1,131	1,262	1,394	1,050	1,300
Debt	18,488	17,622	15,336	14,859	12,633	12,092
Equity	35,348	35,142	32,188	30,813	27,005	23,245
Adjusted ratios						
EBITDA margin (%)	14.7	14.9	15.6	15.5	16.1	16.0
Return on capital (%)	6.4	6.4	7.6	9.4	9.0	8.3
EBITDA interest coverage (x)	5.6	4.8	5.0	5.4	5.0	4.3
FFO cash int. cov. (x)	7.7	7.0	7.6	8.5	6.5	6.5
Debt/EBITDA (x)	3.7	3.7	3.3	3.5	3.1	3.3
FFO/debt (%)	22.5	21.7	24.1	23.1	25.5	23.1
Cash flow from operations/debt (%)	22.0	23.9	21.9	24.0	25.8	22.5
Free operating cash flow/debt (%)	(5.1)	(0.2)	(2.1)	(4.4)	(4.9)	4.3
Discretionary cash flow/debt (%)	(5.9)	(0.8)	(4.0)	(7.7)	(7.1)	1.6

AED--UAE dirham.

Liquidity: Strong

We consider MAF Holding's liquidity position to be strong and calculate that its liquidity sources should exceed liquidity needs by more than 1.5x over the next 12 months and by more than 1.0x over the next 24 months. As of Jun. 30, 2018, this ratio was 2.3x. MAF Holding has to comply with three covenants, stipulating a minimum net worth of $4.1 billion, minimum interest coverage of 2.5x, and maximum debt to equity of 0.7x. Headroom under the covenants is adequate, with MAF Holding's net worth at $10.2 billion, interest coverage at 10x, and net debt to equity at 0.3x on Dec. 31, 2017.

Furthermore, we view as positive that 14 of MAF Holding's 17 fully owned and operational malls are currently unencumbered and could be used as collateral for new debt in a stress scenario, subject to the negative pledge cap of 49% (compared with 4% as of Dec. 31, 2017). Additionally, secured debt comprised only 2% of undepreciated assets as of Dec. 31, 2017.

In our view, MAF Holding's current liquidity profile is sufficiently robust to withstand deteriorating credit conditions in Dubai, which allows us to rate it in line with its stand-alone credit profile despite such deteriorating credit conditions.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and deposits of AED1.4 billion as of June 30, 2018. • Committed unused credit lines totalling AED8.8 billion, the first of which is due in September 2020. • We expect MAF Holding's operating cash flow will total AED3.5 billion-AED3.8 billion annually over the next two years.	• Short-term debt maturities of AED818 million as of June 30, 2018. • Capex of AED4.5 billion-AED5.0 billion, according to our forecast, over half of which we consider discretionary and consequently could be delayed or canceled at short notice (two months). • AED1.1 billion-AED1.2 billion of dividend and hybrid-related payments (We consider 50% of hybrid coupons to be dividends).

Debt maturities

- Next 12 months: AED818 million
- Thereafter: AED11.7 billion

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Moderately high
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)

- **Comparable rating analysis:** Neutral (no impact)

Issue Ratings--Subordination Risk Analysis

Capital structure

We rate MAF Holding's subordinated perpetual notes 'BB+'. In March 2018, it issued a $400 million hybrid instrument, due 2046, to partly refinance $500 million of hybrid notes due 2038, issued in 2013 with the first call date on Oct. 29, 2018.

Analytical conclusions

We consider these hybrid capital securities to have intermediate equity content until the first call dates in October 2018 ($100 million), 2022 ($500 million), and 2026 ($400 million) because they meet our hybrid capital criteria in terms of their subordination, permanence, and optional deferability during this period. We maintain the intermediate equity content on $100 million of the notes from 2013 because we understand MAF Holding remains committed to having stable hybrid capital as a permanent part of its capital structure.

We arrive at our 'BB+' issue rating on the hybrid capital securities by notching down from our 'BBB' long-term issuer credit rating (ICR) on MAF Holding. The notching reflects our view that there is a relatively low likelihood that MAF Holding would defer interest payment on the hybrid capital securities. If our view changes, however, we could significantly increase the number of notches deducted from the ICR to derive the issue rating. In addition, we would apply a two-notch deduction for subordination if we lowered the ICR on MAF Holding to speculative grade ('BB+' or below).

Reconciliation

Table 3

Reconciliation Of Majid Al Futtaim Holding LLC Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. AED)

	--Rolling 12 months ended June 30, 2018--									
Majid Al Futtaim Holding LLC reported amounts.										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	12,551	36,655	34,344	4,376	1,870	403	4,376	4,358	262	5,011
S&P Global Ratings adjustments										
Interest expense (reported)	--	--	--	--	--	--	(403)	--	--	--
Interest income (reported)	--	--	--	--	--	--	76	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(50)	--	--	--
Operating leases	4,474	--	--	638	292	292	346	346	--	--
Intermediate hybrids reported as equity	1,832	(1,832)	--	--	--	110	(110)	(110)	(110)	--

Table 3

Reconciliation Of Majid Al Futtaim Holding LLC Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. AED) (cont.)										
Postretirement benefit obligations/deferred compensation	676	--	--	--	--	--	--	(95)	--	--
Surplus cash	(1,055)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	93	(93)	--	--	--
Dividends received from equity investments	--	--	--	22	--	--	22	--	--	--
Non-operating income (expense)	--	--	--	--	132	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(434)	--	--
Non-controlling Interest/Minority interest	--	525	--	--	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	11	--	--	--	--	--	--	--	--	--
D&A - Asset Valuation gains/(losses)	--	--	--	--	235	--	--	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	--	801	--	--	--	--	--
Interest expense - Derivatives	--	--	--	--	--	(3)	3	--	--	--
Total adjustments	5,937	(1,307)	0	660	1,460	493	(210)	(293)	(110)	0
S&P Global Ratings adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	18,488	35,348	34,344	5,035	3,330	896	4,166	4,065	152	5,011

AED--UAE dirham.

Related Criteria

- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of September 10, 2018)

Majid Al Futtaim Holding LLC		
Issuer Credit Rating		BBB/Stable/A-2
Gulf Cooperation Council Regional Scale		gcAA/--/gcA-1
Issuer Credit Ratings History		
05-Apr-2011		BBB/Stable/A-2
30-Sep-2014	*Gulf Cooperation Council Regional Scale*	gcAA/--/gcA-1
05-Apr-2011		gcA+/--/gcA-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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