FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - London - 21 Nov 2023: 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 on the IDR is Stable. A full list of ratings is below.

The ratings reflect good operational metrics across the business segments of MAF's conglomerate structure. Majid Al Futtaim Properties (MAFP), which anchors the rating, operates a portfolio of retail malls and hotels and generated around two-thirds of 2022 group EBITDA through stable, lease-based revenue. The second key business, MAF Retail (MAFR), provides lower-margin, defensive, cashflows from more than 450 Carrefour stores operated across 15 countries.

MAFP is benefiting from UAE's positive economy and retail market. Footfall and tenants' sales in 2022 exceeded pre-pandemic 2019 levels and continue to grow. Mall occupancy was 95%. Rental renewal rates in 2022 declined around 6% compared with passing rents, mainly due to increased retail space available in wider Dubai.

KEY RATING DRIVERS

High-quality Mall Portfolio: MAFP is the group's primary source of cashflow, generating more than 60% of group EBITDA in 2022. The property portfolio, with 29 malls, was valued at AED34 billion at end-2022 (end-2021: AED33.7 billion) with over 1.8 million square metres (sqm) of gross leasable area (GLA), mainly in UAE, but also four Middle East countries. The portfolio has eight high-quality super-regional malls and includes the 245,000 sqm Mall of the Emirates (MOE), one of the largest malls in the GCC. The portfolio is supported by 13 hotels, mostly adjacent to the malls. Footfall of 212 million in 2022 was around 6% above pre-pandemic 2019, while tenants' sales were 12% ahead.

Lease Renewal Rates Pressured: Rental revenue grew around 6% in 2022, mainly driven by higher occupancy and higher luxury brand tenant sales. However, rental renewal rates fell around 6% compared with previous passing rents (2021: -19%). This largely reflects an increase of over one million sqm of retail GLA across Dubai since 2019.

Another 0.6 million sqm is expected from 2023-2025, with an additional 1.8 sqm announced or on hold. MAFP's weighted average unexpired lease term was a short 2.2 years at end-2022. This provides flexibility to capture rent increases, but can enable tenants to demand lower rents. MAFP's 2022 EBITDA was 16% above end-2021.

Positive Operating Environment Continues: MAF is benefiting from economic and consumer demand growth in Dubai. Following a 6% increase in GDP in UAE in 2022, Fitch forecasts GDP growth of 1.8% in 2023 and 2.7% in 2024. Consumer confidence remains high. Combined with government reforms that liberalised residency regulations, this is allowing investors to gain long-term visas more easily. The Dubai Statistics Centre reported in June that the population had grown 2.4% yoy to 3.6 million, which follows 5.7% growth between 2019 and 2022.

Residential Sales Continue: Launched in 2020, MAFP is developing Tilal Al Ghaf (TAG), a 3-million sqm multi-phased mixed-use residential project in a prime location in south Dubai. In 2022, TAG generated sales of AED4.4 billion (2021: AED5.1 billion), aided by the launch of new villas, which are in high demand in Dubai. Revenue of AED1.8 billion was recognised (2021: AED1.3 billion). TAG is a key focus of MAFP, but it is expected to generate under 10% of future group EBITDA and decline as it approaches completion around 2026.

Retail Growth Through Expansion: MAFP has increased its Carrefour stores to 458 (2021: 425 and 463 by 1H23. The portfolio is split between hyper- (31%), super- (47%) and convenience-stores (22%). Around one-quarter of the stores are in UAE. The increase in stores drove sales growth of 4% in 2022, but like-for-like sales were flat (2021: -8.8%). EBITDA margins fell to 4.3% (2022: 5.3%), reflecting challenging markets affected by high inflation and supply chain disruptions, as well as strong competition across MAFR markets.

In line with the industry, MAFR is focussing on furthering its omnichannel capabilities. Digital sales increased 46% in 2022 to AED1.98 billion (2021: AED1.3 billion).

Asset Redevelopments and Improvements: The development pipeline is focussed on TAG and low-risk redevelopments and enhancements to the real estate portfolio, especially MOE. Total capex for 2023-2025 is projected at more than AED4.6 billion, but only around one-third of this is committed, which equates to around 5% of the portfolio value. MAF had been planning building a 253,000 sqm Mall of Saudi in Riyadh, Saudi Arabia, but this has been put on hold. MAF has a history of delaying or scaling-back capex to preserve liquidity if necessary.

Increased Leverage: Gross debt increased in 2022, mainly because of AED5.8 billion of drawdowns from the group's AED14.2 billion of committed liquidity facilities. These largely funded working capital outflows for TAG. As a result, group net debt/MAFP rental-derived EBITDA (excluding TAG sales revenue) increased to 5.95x at end-2022 (end-2021: 5.3x). We forecast leverage to fall marginally to 5.8x at end-2023 and 5.7x by end-2024, as working capital outflows reduce as TAG progresses.

We expect recurring-income EBITDA interest coverage, which was 3.6x at end-2022 (end-2021: 4.3x), to average 2.3x over the forecast period, reflecting higher interest rates. About 78% of MAF's debt book is fixed or hedged against interest rate fluctuations.

DERIVATION SUMMARY

MAF differs from most EMEA rated real estate companies owing to its conglomerate structure, which mainly includes real estate and retail operations, as well as supportive subsidiaries. MAFP generates stable, lease-generated revenue and high margin EBITDA, while MAFR produces lower-margin, defensive cashflows, which were particularly important during the pandemic when malls were temporarily closed or operational hours reduced.

MAF's closest Fitch-rated peer is Emaar Properties PJSC (BBB/Stable), a Dubai-based conglomerate with a portfolio of 37 retail assets, mainly in Dubai, as well as a large build-to-sell property business that generates around 50% of group EBITDA, depending on building phases and deliveries. Emaar also has a variety of other supportive businesses. Both companies are concentrated in Dubai, but have increasingly large international operations.

Their property portfolios include single-asset concentration: Emaar owns the Dubai Mall, which generates about 85% of recurring EBITDA and is one of the largest malls globally, while MAF's MOE generates 42%% of MAFP's EBITDA. However, Emaar's homebuilding business is inherently more volatile and capital-intensive than MAFR's Carrefour operations.

A key difference between MAF and other rated EMEA real estate companies is the operating environment. The UAE economy and real estate market can be far more volatile than other EMEA markets due to a high reliance on oil, trade and tourism. In addition, with around 90% of the population being expatriates, the population has been volatile in the past, although this should be more stable following recent visa reforms.

MAF maintains lower leverage compared with most investment-grade EMEA retail real estate peers such as UK-based Hammerson plc (BBB/Stable), which has a retail portfolio valued at GBP3.1 billion and has expected net leverage of 9.2x by end-2023, compared with 2022 recurring net debt/EBITDA of 5.6x for MAF. NEPI Rockcastle N.V. (BBB+/Stable), which owns and operates a retail portfolio valued at EUR6.4 billion across nine CEE countries, had moderate net debt/EBITDA of 6.4x at end-2022

KEY ASSUMPTIONS

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

- MAF group EBITDA increasing by more than 3% in 2023, driven by TAG residential sales, growth in new MAFR stores and some rental growth.

- MAF group EBITDA margins averaging around 12% for the next three years. We expect MAFP's margins to be lower than historical levels owing to the higher contribution of TAG development, which has a projected EBITDA margin of around 23%. We expect MAFR's EBITDA margins to be around 4% owing to cost pressures.

- Negative free cash flow of more than AED1 billion in 2023, but breakeven in 2024 as working capital outflows fall to around AED610 million as TAG increases deliveries, releasing cash from escrow accounts.

- Dividends broadly in line with historical levels.

- Capex of around AED7.2 billion over the next three years, mainly for TAG and redevelopments of existing malls.

- Restricted cash of more than AED2.5 billion in 2023 to reflect escrow holdings for TAG development.

RATING SENSITIVITIES

Factors that Could, Individually Or Collectively, Lead to Positive Rating Action/Upgrade:

Meaningful geographical diversification or reduced asset concentration within MAFP.

MAFP's recurring income-derived EBITDA interest cover sustained above 3.0x.

MAFP's derived Fitch-adjusted LTV below 40%.

Factors that Could, Individually Or Collectively, Lead to Negative Rating Action/Downgrade:

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 2.0x over a sustained period.

Group net debt (excluding MAFR capitalised leases) to MAFP recurring EBITDA higher than 8.0x.

LIQUIDITY AND DEBT STRUCTURE

Ample Liquidity: At 1H23, MAF had AED1.8 billion of unrestricted cash and AED7 billion available from AED14.3 billion of committed revolving facilities. This compares with only AED58 million of amortisations due in 2023. The company's USD800 million (AED2.9 billion) unsecured notes mature in May 2024. MAF has bought back USD516.4 million (AED1.9 billion) of the notes during 2023, leaving a balance of USD1 billion. We forecast negative free cash flow of AED1 billion by end-2023, generated by working capital outflows of around AED1.2 billion for the TAG development, as well as expected group dividends. Available liquidity comfortably covers these cash outflows.

We expect liquidity to remain healthy during the forecast period with a liquidity score well over 2.0x, particularly as working capital outflows will reduce as TAG approaches completion. The company's policy is to maintain at least 18 months' liquidity coverage, but this was more than 2.5 years at 1H23.

MAF has a diverse capital structure comprising conventional bonds, bank lending, green sukuk and hybrid capital. The company has no secured debt. In June 2022, MAF issued USD500 million of hybrid notes to replace its hybrid notes issued in 2017, which were redeemed during the year. MAF has a second hybrid issuance with a call date of September 2027.

ISSUER PROFILE

MAFH is a Dubai-based conglomerate, owning and operating a portfolio of 29 shopping malls, 13 adjacent hotels across the Middle East, 458 Carrefour hypermarkets and supermarkets operated through franchise agreements, as well as entertainment and leisure assets.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Sukuk Rating Criteria (pub. 13 Jun 2022)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 14 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 04 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 04 Nov 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

MAF Global Securities Limited	UK Issued, EU Endorsed
MAF Sukuk Ltd.	UK Issued, EU Endorsed
Majid Al Futtaim Holding LLC	UK Issued, EU Endorsed

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