

Tear Sheet:

Majid Al Futtaim

May 26, 2023

Solid 12% revenue growth in 2022 offset inflationary pressures and weaker margins in its large retail segment. MAF generated 77% of its revenues from its Carrefour retail operations, which saw the reported EBITDA margin drop to 4.4% in 2022 (5.5% in 2021) due to additional costs mainly related to digital platform investment. This cut the group’s consolidated S&P Global Ratings-adjusted EBITDA margin to 14% from 14.6% in 2021. Solid revenue growth in MAF Properties (43%) was primarily driven by over three-fold growth in real estate development Tilal Al Ghaf (248%), as well as a strong rebound in hotels supported by tourism recovery.

We expect MAF to see stronger cash flow generation in 2023-2024 and foresee leverage reduction in the absence of major greenfield projects. Operating cash flow generation in 2022 fell to AED3.1 billion from AED4.7 billion in 2021, primarily due to high working capital intensity of real estate development at Tilal Al Ghaf and the resulting AED990 million of working capital outflow. We expect working capital outflows to reduce in 2023 as the company starts handing over its first units by year-end. Furthermore, Saudi mall project was put on hold and there are no other major investment projects. Hence, we expect that stronger cash flow and growing EBITDA will enable MAF to deleverage.

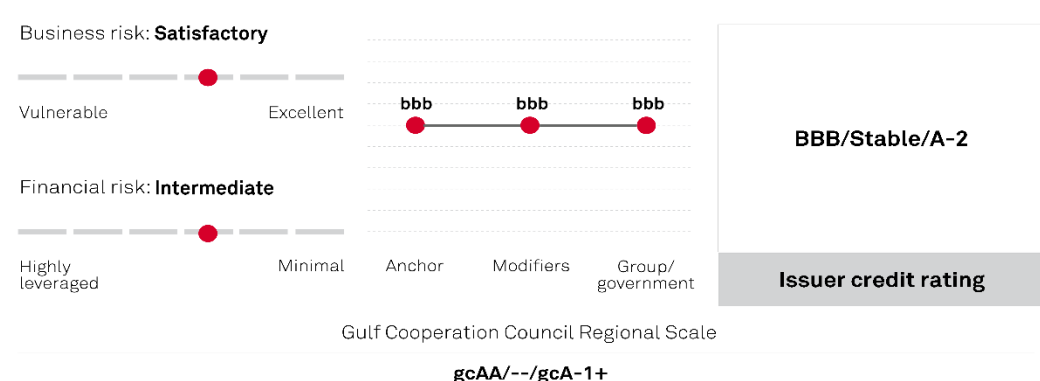
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Ratings Score Snapshot



Recent Research

Majid Al Futtaim Holding LLC, Oct. 13, 2022

MAF's Appointment Of New CEO A Year After Shareholder Change Introduces Potential For Unpredictability, Jan. 18, 2023

Dubai Property Market 2023: Demand Should Hold Up Against Global Economic Pressures, March 10, 2023

Company Description

MAF Holding owns and operates 29 shopping malls across the UAE and four other countries in the Middle East and North Africa, with over 1.8 million square meters of gross leasable area, including eight superregional malls, across the Middle East. Additionally, it owns 11 hotel properties in Dubai and two hotels in Bahrain's capital, Manama. It operates 458 Carrefour hypermarkets and supermarkets across 16 countries in the Middle East through an exclusive franchise agreement covering over 30 countries with France-based international food retailer Carrefour--the world's second-largest food retailer--that runs until 2025.

MAF generates 62% EBITDA from UAE, 13% from Egypt, 6% from Bahrain and the remainder from other Middle East and North African countries. The company operates in four segments: MAF Properties (rental assets, hotels, and development business) generates 74% of EBITDA, MAF Retail (Carrefour) 31%, MAF Lifestyle 1%, and MAF Entertainment 3%.

MAF is owned by nine shareholders, the family of its deceased founder Mr. Majid Al Futtaim. The company's governance is based on the delegation of authority from the shareholders to the board, characterized by experienced and reputable independent members at both the holding and operating company levels.

Outlook

The stable outlook reflects our expectation that MAF Holding's revenue will continue to expand in 2023, despite mounting economic pressures globally. At the same time, we expect the EBITDA margin to remain within 13.5%-14.5% over the next 12-24 months. Temporary pressure on operating cash flows due to rising construction costs as the real estate development business ramps-up its projects will be offset by higher EBITDA contribution. This should keep adjusted debt to EBITDA at 4.0x-4.3x in 2022-2023, within our rating threshold, albeit with limited headroom.

Despite higher interest rates, we anticipate that EBITDA interest coverage will remain at 4.5x-5.0x in 2023-2024. We also believe that the credit quality at MAF Holding's parent, MAF Capital LLC, does not constrain 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 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 the company's EBITDA.

Downside scenario

We could consider a downgrade if:

- MAF Holding's performance deteriorated and if its debt-to-EBITDA ratio exceeded 4.5x (4.2x as of Dec. 31, 2022) without near-term prospects of recovery, and it was unable to maintain EBITDA interest coverage above 3.8x (5.3x as of Dec 31, 2022);
- The credit profile of its controlling parent materially weakened; or

- The company's corporate governance practices changed, leading to a more aggressive financial policy that could weaken its commitment to the current rating level and leverage targets.

Upside scenario

We see limited upside rating potential at present, given a relatively uncertain global economic outlook, which we think precludes significant deleveraging in the next 24 months. We would consider rating upside if the company's debt to EBITDA sustainably reduced below 2.5x.

Key Metrics

MAF--Key Metrics*

Mil. \$	2021a	2022a	2023e	2024f	2025f
Revenue growth (%)	(0.9)	12.5	3-6	2-4	1-3
EBITDA margin (%)	14.6	14.0	14.0-14.5	14.0-14.5	14.0-14.5
Debt to EBITDA (x)	4.0	4.2	3.8-4.0	3.7-4.0	3.6-3.9
EBITDA interest coverage (x)	5.3	5.3	4.5-5.0	4.5-5.0	4.5-5.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Financial Summary

Majid Al Futtaim Holding LLC--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	AED	AED	AED	AED	AED	AED
Revenues	32,274	34,655	35,156	32,575	32,291	36,319
EBITDA	4,801	5,339	5,363	4,623	4,700	5,091
Funds from operations (FFO)	3,738	4,235	4,506	3,841	3,860	4,170
Interest expense	994	1,064	1,131	998	886	959
Cash interest paid	978	1,034	776	689	698	795
Operating cash flow (OCF)	4,312	4,533	5,675	3,914	4,652	3,064
Capital expenditure	4,255	4,759	3,924	2,092	2,438	2,472
Free operating cash flow (FOCF)	57	(226)	1,751	1,822	2,214	592
Discretionary cash flow (DCF)	(416)	(1,710)	734	1,071	1,441	(173)
Cash and short-term investments	1,131	1,516	1,406	3,699	1,601	1,728
Gross available cash	1,131	1,516	1,406	3,699	1,601	1,728

Majid Al Futtaim Holding LLC--Financial Summary

Debt	17,611	19,275	20,269	19,331	18,761	21,245
Common equity	35,142	33,594	30,428	25,533	27,404	29,154
Adjusted ratios						
EBITDA margin (%)	14.9	15.4	15.3	14.2	14.6	14.0
Return on capital (%)	6.4	6.8	6.3	5.1	5.2	6.1
EBITDA interest coverage (x)	4.8	5.0	4.7	4.6	5.3	5.3
FFO cash interest coverage (x)	4.8	5.1	6.8	6.6	6.5	6.2
Debt/EBITDA (x)	3.7	3.6	3.8	4.2	4.0	4.2
FFO/debt (%)	21.2	22.0	22.2	19.9	20.6	19.6
OCF/debt (%)	24.5	23.5	28.0	20.2	24.8	14.4
FOCF/debt (%)	0.3	(1.2)	8.6	9.4	11.8	2.8
DCF/debt (%)	(2.4)	(8.9)	3.6	5.5	7.7	(0.8)

Peer Comparison

Majid Al Futtaim Holding LLC--Peer Comparisons

	Majid Al Futtaim Holding LLC	Unibail-Rodamco-Westfield SE	Mercialys	Klepierre S.A.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2021-12-31	2022-12-31
Mil.	AED	AED	AED	AED
Revenue	36,319	10,023	680	4,892
EBITDA	5,091	7,898	607	3,841
Funds from operations (FFO)	4,170	4,486	415	3,501
Interest	959	2,138	133	520
Cash interest paid	795	3,159	190	469
Operating cash flow (OCF)	3,064	7,431	445	3,200
Capital expenditure	2,472	3,385	66	724
Free operating cash flow (FOCF)	592	4,046	379	2,476
Discretionary cash flow (DCF)	(173)	3,841	248	227
Cash and short-term investments	1,728	13,068	1,074	1,105
Gross available cash	1,728	13,068	1,074	1,105
Debt	21,245	90,601	4,760	30,675
Equity	29,154	86,180	8,023	41,057
EBITDA margin (%)	14.0	78.8	89.2	78.5

Majid Al Futtaim Holding LLC--Peer Comparisons

Return on capital (%)	6.1	3.6	3.4	5.6
EBITDA interest coverage (x)	5.3	3.7	4.6	7.4
FFO cash interest coverage (x)	6.2	2.4	3.2	8.5
Debt/EBITDA (x)	4.2	11.5	7.8	8.0
FFO/debt (%)	19.6	5.0	8.7	11.4
OCF/debt (%)	14.4	8.2	9.4	10.4
FOCF/debt (%)	2.8	4.5	8.0	8.1
DCF/debt (%)	(0.8)	4.2	5.2	0.7

Environmental, Social, And Governance

E-2, S-2, G-1

Governance factors are a moderately positive consideration in our analysis of MAF. Ambitious sustainability targets, above-average transparency, clear and comprehensive investment strategies, and financial policies enhance our view of governance principles, which we continue to monitor in the light of recent evolutions. The company saw significant changes in its ownership at the end of 2021, and in its management following the unexpected appointment of a new CEO in January 2023. This raises some uncertainty about the company strategy. Still, we understand that the governance framework is broadly unchanged, as the company remains governed by the same comprehensive set of enterprise risk policies, which we understand the new shareholders do not wish to change, at least at this point. The board's composition is unchanged (with the exception of the new CEO) and gives the group the necessary independent oversight from reputable board members., and the new CEO had previously occupied senior positions within the group. S&P Global Ratings will be closely monitoring how MAF's management and governance, currently assessed as strong, evolves over the coming months, although this is unlikely to, in isolation, affect the ratings.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency 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
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)
Stand-alone credit profile	bbb

Related Criteria

- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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