

## CREDIT OPINION

1 April 2022

Update



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### RATINGS

#### Aldar Investment Properties LLC

Domicile	Abu Dhabi, United Arab Emirates
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Aldar Investment Properties LLC

Update following rating affirmation

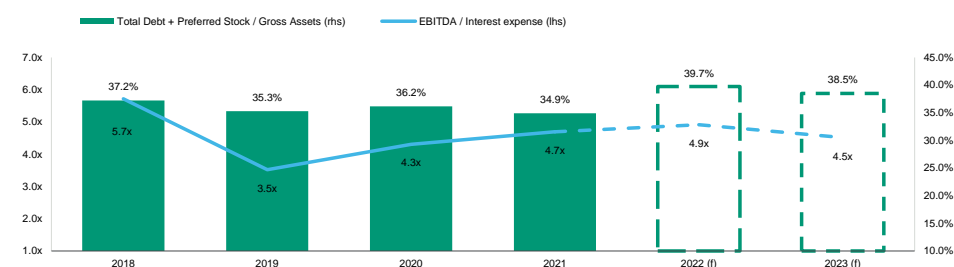
### Summary

Aldar Investment Properties LLC (AIP) was established in 2018 as a subsidiary of Aldar Properties PJSC (Aldar Properties, Baa2 stable) to hold and manage its recurring revenue properties. AIP's Baa1 issuer rating considers the company's (1) strong market position in Abu Dhabi and its recurring income from investment properties; (2) high-quality portfolio diversified across asset classes and diversified tenant base; and (3) strong liquidity and limited development risk.

Conversely, the rating also factors in (1) AIP's geographic concentration, namely its majority exposure to Abu Dhabi; (2) the ongoing recovery of the real estate market outlook in Abu Dhabi; and (3) the exposure to demographic changes due to a large expatriate population. AIP's Baa1 rating is positioned one notch higher than that of its parent, Aldar Properties PJSC, as AIP holds Aldar Properties' lower business risk recurring revenue property assets.

Exhibit 1

### Credit metrics commensurate with a Baa1 rating



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer, and consider the acquisition of income generating assets in Abu Dhabi and the rest of the UAE from April 1, 2022. Periods are financial year-end unless indicated.

Source: Moody's Investors Service

## Credit strengths

- » Strong position in the Abu Dhabi real estate market with recurring income from investment properties
- » High-quality, diversified property portfolio
- » Strong liquidity and limited development risk

## Credit challenges

- » Geographic concentration, mainly exposed to the Emirate of Abu Dhabi
- » Exposure to demographic changes due to a large expatriate population

## Rating outlook

The stable outlook reflects the view that the company will maintain adjusted credit metrics in line with the Baa1 rating over the next 12-18 months.

## Factors that could lead to an upgrade

- » A rating upgrade is unlikely because of the concentration of assets in Abu Dhabi. Although this risk is mitigated by a diversified product mix and tenant base, we view the substantial concentration as a rating constraint
- » Upward pressure on the rating could emerge if AIP maintains gross debt to total assets below 30% as well as EBITDA to interest expense above 6.0x on a sustainable basis and through an investment cycle

## Factors that could lead to a downgrade

- » Downward pressure on the rating could emerge if the operating environment deteriorates, resulting in higher vacancy levels and lower operating cash flow
- » The rating could be downgraded if AIP's liquidity weakens or its credit quality deteriorates such that the gross debt to total assets ratio is above 40% or EBITDA to interest expense drops below 4.0x
- » A change in the rating and/or outlook of Aldar Properties PJSC or a change in financial policies such as an increase in dividends or related party transactions which weaken credit ratios would also put downward pressure on the rating

## Key indicators

Exhibit 2

	2018	2019	2020	2021	2022 (f)	2023 (f)
Gross Assets (USD Billion)	\$5.2	\$5.7	\$4.7	\$5.1	\$9.3	\$11.2
Unencumbered Assets / Gross Assets	88.1%	86.1%	81.2%	82.2%	90.1%	91.8%
Total Debt + Preferred Stock / Gross Assets	37.2%	35.3%	36.2%	34.9%	39.7%	38.5%
Net Debt / EBITDA	6.5x	5.8x	5.0x	5.1x	6.9x	6.2x
Secured Debt / Gross Assets	11.9%	9.0%	13.7%	10.1%	7.4%	6.2%
Fixed Charge Coverage	5.7x	3.5x	4.3x	4.7x	4.9x	4.5x

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Source: Moody's Investors Service

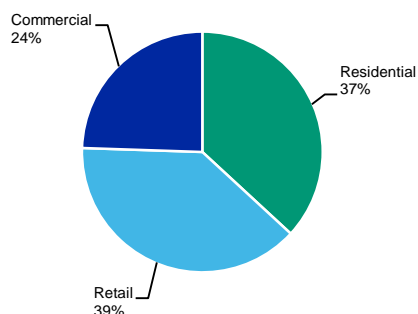
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## Profile

AIP owns and manages a diverse portfolio of properties in Abu Dhabi, United Arab Emirates. Aldar Investment Properties was established in 2018 as a limited liability company (LLC) and is 100% owned by Aldar Properties PJSC.

Exhibit 3

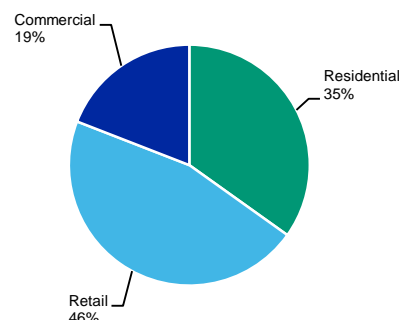
### Gross revenue breakdown by business segment



As of 31 December 2021  
Source: Company data

Exhibit 4

### Total assets breakdown by property type



As of 31 December 2021  
Source: Company data

## Detailed credit considerations

### Mature and diversified asset portfolio, but geographic concentration is a rating constraint

AIP's Baa1 rating is underpinned by the good size and high quality of its investment property portfolio which is diversified across office, retail, residential. In the office segment, AIP's assets are predominantly Grade A, principally leased to government and government-related entities. AIP's retail assets are split between community retail and destination retail, providing a broad retail and entertainment offering. Yas Mall, the third-largest mall in the UAE, is AIP's largest retail asset, representing 47% of the segment's total GLA.

AIP has a high concentration risk with majority of its assets located in the Emirate of Abu Dhabi. This risk is mitigated by the company's diversified tenant profile and product mix, and strong brand name. AIP is more likely to invest in Abu Dhabi-based projects that have been sponsored by its parent company. AIP may choose to purchase assets developed by its parent should they complement its existing investment property portfolio.

### Improving real estate market outlook in Abu Dhabi

The rapid progress in vaccination – the UAE's successful vaccine campaign has amongst the highest vaccination rate in the world – has allowed the authorities to remove several coronavirus-related restrictions that were in place, in turn driving the rebound in economic activity. In our view, Abu Dhabi's real GDP growth is likely to accelerate to around 6% in 2022.

We expect rental income to increase in the next 12-18 months but downside risks exist if the spread of the virus is not contained. According to Jones Lang Lasalle, average rental rates in primary and secondary malls have declined around 5% in Abu Dhabi in 2021. However, in 2021, Yas Mall achieved 97% occupancy, up 17% from a year earlier. This was primarily driven by a successful redevelopment and repositioning plan. In the office sector, rental rates in Abu Dhabi increased by 5%. Following several months of muted activity, the office market in Abu Dhabi displayed signs of a recovery in Q4 2021. Indeed, AIP's commercial portfolio registered solid performance with strong leasing growth, ending the year 2021 at 93% occupancy. This was mainly driven by strong leasing in both International Towers and Aldar's HQ building. In the residential sector, we believe the market will continue its recovery in 2022. In 2021, AIP's residential portfolio like for like occupancy was up 5% year-on-year to 93% but net operating income decreased 2%. Abu Dhabi average sale prices have improved by 6% with successful launches of villa projects, whilst rentals remain under pressure, declining by -3% compared to the same period last year. Overall, we believe that income generating assets are of good quality which will help the company attract and retain customers.

### Strategic partnership with Apollo Global Management will strengthen business profile

On 14 February 2022, Aldar Properties and Apollo Global Management (Apollo), one of the world's largest alternative investment managers, signed a commitment that will see Apollo invest a total of USD1.4 billion in capital to drive the company's growth initiatives. The following market transactions will occur with Apollo: (1) USD500 million of investment into a land joint venture with Aldar Properties; (2) USD300 million of mandatory convertible preferred equity investment in AIP; (3) USD100 million of common equity investment in AIP; and (4) USD500 million of hybrid notes in AIP.

These proceeds will primarily be used for the acquisition of income generating assets in Abu Dhabi and the rest of the UAE in 2022. In our view, this will strengthen AIP's business profile by increasing its size and diversification. As a result, in 2022, pro forma for these transactions, we estimate AIP adjusted gross debt to total assets ratio to be at 39.7% and fixed charge coverage ratio to be at 5.3x. Whilst there will be less headroom under the current rating position because AIP adjusted gross debt to total assets ratio would be at the higher end of our downward rating threshold, we estimate both ratios to remain within our guidance for a Baa1 rating. In our view, it will also strengthen Aldar Properties business risk profile because it would increase the percentage of recurring revenue and decrease the percentage of property development revenue which is more cyclical.

### Linkage to Aldar Properties PJSC

AIP's Baa1 rating is positioned one notch higher than that of Aldar Properties PJSC. Although the parent remains the controlling shareholder and we cannot entirely de-link the credit risk of the two companies, we believe that the two companies will operate on an arms-length basis and that a weakening credit profile at Aldar Properties PJSC would not necessarily correlate to comparable stresses developing at AIP given their different business profiles. Aldar Properties PJSC's lower rating reflects the higher business risk inherent to its cyclical real estate development activities compared to the more mature, recurring revenue nature of AIP.

In the event of financial stress developing at Aldar Properties PJSC, we would need to assess the scope for contagion to develop with respect to AIP. In 2021, Aldar Properties's property development business posted strong revenue growth driven by strong property development revenue with unit handovers and inventory sales, illustrating its market leadership position in Abu Dhabi and a resilient buyer profile.

### ESG considerations

Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. The company has publicly articulated a set of financial policies which include a maximum loan to value (LTV) of 35%-40% and a dividend payout of 65%-80% of distributable free cash flow.

AIP is 100% owned by Aldar Properties PJSC. As such, its parent has full control of the board and has the ability to influence AIP in all its activities. The parent company also provides a sizeable revolving credit facility of AED3 billion which is a key source of liquidity for the company and it performs all asset management activities such as the maintenance of the properties. There is a risk of related party transactions and the risk that Aldar Properties PJSC may influence AIP's decision to acquire properties from its parent. We note that 25.12% of Aldar Properties PJSC is owned by Mubadala Investment Company, one of Abu Dhabi's key sovereign wealth fund.

### Structural considerations

The Baa3 rating assigned to the hybrid is two notches below AIP's Baa1 issuer rating. This is consistent with the notching differential Moody's applies to hybrids for investment grade companies. The hybrid will be subordinated to AIP's payments obligations and rank senior only to common shares. The notes also provide AIP with the option to defer coupons on a cumulative basis. The coupon steps up by 25 basis points 15 years after the issuance date and by a further 75 basis points 20 years after issuance. In our view, the notes have equity-like features which allow them to receive basket "C" treatment (i.e. 50% equity and 50% debt) for the calculation of credit metrics.

### Liquidity analysis

AIP's liquidity is strong. As of 31 December 2021, the company had cash and cash equivalents of AED1.0 billion as well as AED3.0 billion of committed undrawn intercompany facility agreement with Aldar Properties PJSC maturing in 2025 and AED1.7 billion of committed undrawn revolving credit facilities with local UAE banks maturing in 2026. This coupled with funds from operations of around AED1.4 billion for the next 12 month is sufficient to pay dividends of AED0.9 billion, and outstanding bank debt of AED1.4 billion that is due in August 2023.

## Rating methodology and scorecard factors

In determining AIPs' rating, we have applied our methodology for [REITs and Other Commercial Real Estate Firms](#) published in July 2021.

Exhibit 5

REITs and Other Commercial Real Estate Firms Industry Scorecard			Current FY 12/31/2021		Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score		
a) Gross Assets (USD Billion)	\$5.1	Baa	\$9 - \$10.5	Baa		
Factor 2 : Business Profile (25%)						
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa		
b) Operating Environment	Baa	Baa	Baa	Baa		
Factor 3 : Liquidity and Access To Capital (25%)						
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa		
b) Unencumbered Assets / Gross Assets	82.2%	A	85% - 90%	A		
Factor 4 : Leverage and Coverage (45%)						
a) Total Debt + Preferred Stock / Gross Assets	34.9%	Baa	38% - 40%	Baa		
b) Net Debt / EBITDA	5.1x	Baa	6x - 7x	Ba		
c) Secured Debt / Gross Assets	10.1%	Baa	7% - 10%	A		
d) Fixed Charge Coverage	4.7x	A	4.5x - 5x	A		
Rating:						
a) Scorecard-Indicated Outcome		Baa1		Baa1		
b) Actual Rating Assigned				Baa1		

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Source: Moody's Investors Service

## Appendix

Exhibit 6

### Peer comparison

	Aldar Investment Properties LLC			Entra ASA			Emaar Malls Management LLC		
	Baa1 Stable			Baa1 Stable			Baa2 Negative		
(in USD millions)	2019	2020	2021	2019	2020	LTM Sep-21	2018	2019	2020
Gross Assets	\$5,710	\$4,746	\$5,141	\$5,817	\$6,903	\$7,664	\$6,578	\$6,599	\$6,804
Unencumbered Assets / Gross Assets	86.1%	81.2%	82.2%	89.5%	88.3%	91.8%	100.0%	100.0%	100.0%
Total Debt + Preferred Stock / Gross Assets	35.3%	36.2%	34.9%	39.6%	36.3%	39.0%	18.5%	14.7%	13.2%
Net Debt / EBITDA	5.8x	5.0x	5.1x	10.0x	10.7x	12.6x	1.5x	1.2x	2.0x
Secured Debt / Gross Assets	9.0%	13.7%	10.1%	5.0%	4.3%	0.0%	0.0%	0.0%	0.0%
Fixed Charge Coverage	3.5x	4.3x	4.7x	3.4x	3.6x	3.7x	10.3x	14.2x	6.8x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 7

### Moody's-adjusted debt breakdown

(In USD millions)	2018	2019	2020	2021
As Reported Debt	1,952	2,015	1,717	1,795
Adjustment	0	0	0	0
Moody's-Adjusted Debt	1,952	2,015	1,717	1,795

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 8

### Moody's-adjusted EBITDA breakdown

(In USD millions)	2018	2019	2020	2021
As Reported EBITDA	108	271	234	357
Unusual	182	39	70	-57
Public	0	-13	0	0
Moody's-Adjusted EBITDA	290	297	304	300

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 9

Category	Moody's Rating
<b>ALDAR INVESTMENT PROPERTIES LLC</b>	
Outlook	Stable
Issuer Rating	Baa1
<b>PARENT: ALDAR PROPERTIES PJSC</b>	
Outlook	Stable
Issuer Rating	Baa2
<b>ALDAR INVESTMENTS HYBRID LIMITED</b>	
Outlook	Stable
Bkd Subordinate	Baa3
<b>ALDAR SUKUK (NO. 2) LTD.</b>	
Outlook	Stable
Bkd Senior Unsecured	Baa1
<b>ALDAR SUKUK LTD.</b>	
Outlook	Stable
Bkd Senior Unsecured	Baa1

Source: Moody's Investors Service

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