

CREDIT OPINION

23 September 2021

Update

✓ Rate this Research

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 to credit analysis

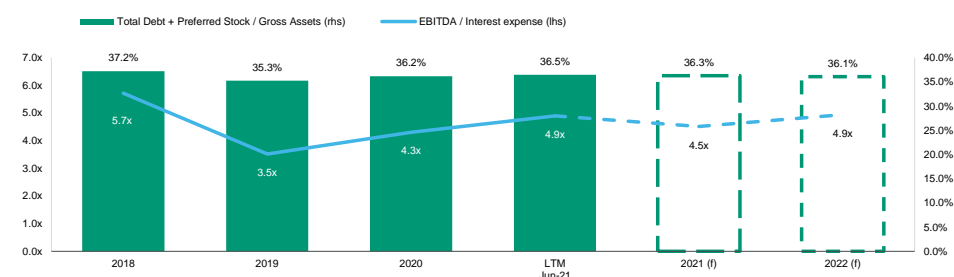
Summary

Aldar Investment Properties (AIP) was established in 2018 as a subsidiary of [Aldar Properties PJSC](#) (Baa2 stable) to hold and manage its recurring revenue properties. AIP's Baa1 issuer rating takes into account 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; (3) and strong liquidity and limited development risk.

Conversely, the rating also factors in (1) AIP's geographic concentration, namely its exposure solely to Abu Dhabi; and (2) soft albeit improving real estate market outlook in Abu Dhabi. 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. Periods are financial year-end unless indicated; LTM = last twelve months. Source: Moody's Financial Metrics™

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; exposed solely to the Emirate of Abu Dhabi
- » Soft albeit improving Abu Dhabi real estate market outlook
- » Exposure to demographic changes due to a large expatriate population

Rating outlook

The stable outlook reflects the view that the company has a strong liquidity to navigate the current difficult operating environment triggered by the outbreak of the coronavirus.

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
- » Furthermore, AIP would need to maintain its track record of adhering to conservative financial policies
- » Upward pressure on the rating could emerge if AIP maintains 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 does not materially improve, 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 debt/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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

	2018	2019	2020	LTM Jun-21	2021 (f)	2022 (f)
Gross Assets (USD Billion)	\$5.2	\$5.7	\$4.7	\$4.8	\$4.8	\$4.9
Unencumbered Assets / Gross Assets	88.1%	86.1%	81.2%	80.8%	81.0%	81.1%
Total Debt + Preferred Stock / Gross Assets	37.2%	35.3%	36.2%	36.5%	36.3%	36.1%
Net Debt / EBITDA	6.5x	5.8x	5.0x	5.1x	5.4x	4.8x
Secured Debt / Gross Assets	11.9%	9.0%	13.7%	14.3%	14.3%	14.2%
Fixed Charge Coverage	5.7x	3.5x	4.3x	4.9x	4.5x	4.9x

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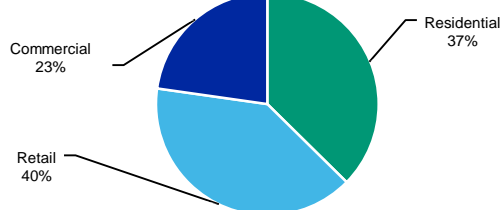
Source: Moody's Financial Metrics™

Profile

Aldar Investment Properties 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

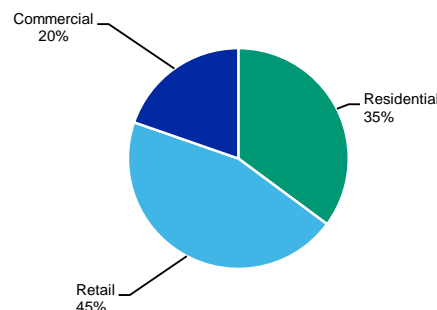
Gross revenue breakdown by business segment



As of 30 June 2021
Source: Company data

Exhibit 4

Total assets breakdown by property type



As of 30 June 2021
Source: Company data

Detailed credit considerations

Mature and diversified asset portfolio

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. The residential segment is composed of residential units, mainly one- and two-bedroom apartments and villas, concentrated between Reem Island and Khalifa City. As of 30 June 2021, the property portfolio had an occupancy of 88% (up from 87% in Q1 2021) and a good weighted average lease tenor of 3.3 years (down from 3.4 in Q1 2021).

Soft albeit improving real estate market outlook

In Q3 and Q4 of 2020, the United Arab Emirates started reopening the economy in gradual phases with additional measures around social distancing, use of masks, increased Covid-19 testing, which allowed signs of recovery in several business activities. The UAE's progress in vaccinating its population against the coronavirus is a source of potential upside for the economic outlook, particularly for the tourism sector. However, the extent to which coronavirus vaccinations will permit the removal of other coronavirus related restrictions in areas such as capacity reductions at restaurants and retail venues and other social distancing measures is still uncertain, and will depend on the vaccines' ability to reduce transmission rates, as well as the authorities' risk tolerance. We note the UAE's

successful vaccine campaign which has amongst the highest vaccination rate in the world. However, new coronavirus variants and the unknown efficacy of vaccines against them will remain a downside risk.

According to Jones Lang Lasalle, average rental rates in primary and secondary malls have declined around 12% in Abu Dhabi in Q2 2021 versus Q2 2020. Similarly, in the office sector, rental rates in Abu Dhabi decreased by 2%. As a result, the market remains in favor of tenants, with landlords continuing to provide incentives such as rent-free periods and are more open to negotiating deals. In the residential sector, we believe the market will continue to face pressure in 2021-2022 but we see some positive signs of recovery. This is because supply and demand dynamics in the residential segment are balanced in Abu Dhabi and as a result the market will see less price volatility through a cycle. Abu Dhabi sale prices have marginally improved by 1% with successful launches of villa projects, whilst rentals remain under pressure, declining by -1.5% compared to the same period last year.

Solid operating performance despite coronavirus outbreak

For the first six months ended in 30 June 2021, revenues increased by 7% driven by recovering retail and stable residential segments. We expect rental income will continue to recover in the next 12-18 months but downside risks exist if the spread of the virus is not contained. The resilience of the residential and office portfolio will support rental income in the next 12-18 months. In the office segment, assets are predominantly Grade A, 69% of GLA is leased to government and government-related entities. Overall, we believe that income generating assets are of good quality which will help the company attract and retain customers.

Geographic and asset concentration risks are a rating constraint

AIP has a high concentration risk with all 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. It is uncertain whether suitable opportunities exist for AIP to invest significantly in assets outside of Abu Dhabi. In our view, it is more likely the company will 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.

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 H1 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. At the same time, revenue backlog remains healthy at AED4.25 billion compared to AED3.3 billion in H1 2020. Overall, adjusted 2020 credit metrics remain strong for Aldar Properties PJSC with net debt to EBITDA of 2.3x and EBITDA to interest expense of 8.0x.

Environmental, social and governance 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 coronavirus outbreak and the pandemic's indirect impact on global growth and trade posed a significant shock to economic growth in the United Arab Emirates. 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 25.13% of Aldar Properties PJSC is owned by Mubadala Investment Company (Aa2 stable), one of Abu Dhabi's key sovereign wealth fund.

Liquidity analysis

AIP's liquidity is strong. As of 30 June 2021, the company had cash and cash equivalents of AED616 million as well as AED3.0 billion of committed undrawn intercompany facility agreement with Aldar Properties PJSC maturing in 2025 and AED2.4 billion of committed undrawn revolving credit facilities with local UAE banks maturing in 2026. This coupled with funds from operations of around AED0.93 billion for the next 12 month is sufficient to pay dividends, capital spending and AED500 million of debt maturing during August 2021. As of 30 June 2021, AIP's capital structure is composed of AED3.7 billion of sukuk maturing in 2025 and 2029 and AED2.5 billion of bank term loans with maturities between 2021 and 2026.

Rating methodology and scorecard factors

In determining Aldar Investment Properties' 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 LTM 6/30/2021	Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	Measure	Score		Measure	Score
a) Gross Assets (USD Billion)	\$4.8	Baa		\$4.8 - \$5	Baa
Factor 2 : Business Profile (25%)					
a) Market Positioning and Asset Quality	Baa	Baa		Baa	Baa
b) Operating Environment	Ba	Ba		Ba	Ba
Factor 3 : Liquidity and Access To Capital (25%)					
a) Liquidity and Access to Capital	Baa	Baa		Baa	Baa
b) Unencumbered Assets / Gross Assets	80.8%	A		81.1%	A
Factor 4 : Leverage and Coverage (45%)					
a) Total Debt + Preferred Stock / Gross Assets	36.5%	Baa		36.1%	Baa
b) Net Debt / EBITDA	5.1x	Baa		4.8x	Baa
c) Secured Debt / Gross Assets	14.3%	Baa		14.2%	Baa
d) Fixed Charge Coverage	4.9x	A		4.9x	A
Rating:					
a) Scorecard-Indicated Outcome		Baa2			Baa2
b) Actual Rating Assigned					Baa1

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Source: Moody's Financial Metrics™

Appendix

Exhibit 6

Peer comparison

	Aldar Investment Properties LLC			Entra ASA			Emaar Malls PJSC		
	Baa1 Stable			Baa1 Stable			Baa2 Negative		
(in US millions)	2019	2020	LTM Jun-21	2019	2020	LTM Jun-21	2018	2019	2020
Gross Assets	\$5,710	\$4,746	\$4,797	\$5,817	\$6,903	\$7,532	\$6,578	\$6,599	\$6,804
Unencumbered Assets / Gross Assets	86.1%	81.2%	80.8%	89.5%	88.3%	88.0%	100.0%	100.0%	100.0%
Total Debt + Preferred Stock / Gross Assets	35.3%	36.2%	36.5%	39.6%	36.3%	38.9%	18.5%	14.7%	13.2%
Net Debt / EBITDA	5.8x	5.0x	5.1x	10.0x	10.7x	12.3x	1.5x	1.2x	2.0x
Secured Debt / Gross Assets	9.0%	13.7%	14.3%	5.0%	4.3%	0.0%	0.0%	0.0%	0.0%
Fixed Charge Coverage	3.5x	4.3x	4.9x	3.4x	3.6x	3.8x	10.3x	14.2x	6.8x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end (31 December) unless indicated; LTM = last twelve month.

Source: Moody's Financial Metrics™

Exhibit 7

Moody's-adjusted debt breakdown

(In USD millions)	2018	2019	2020	LTM Jun-21
As Reported Debt	1,952	2,015	1,717	1,751
Pensions	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	1,952	2,015	1,717	1,751

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end (31 December) unless indicated; LTM = last twelve month.

Source: Moody's Financial Metrics™

Exhibit 8

Moody's-adjusted EBITDA breakdown

(In USD millions)	2018	2019	2020	LTM Jun-21
As Reported EBITDA	108	271	234	261
Unusual	182	39	70	52
Public	0	-13	0	0
Moody's-Adjusted EBITDA	290	297	304	313

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.

Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
ALDAR INVESTMENT PROPERTIES LLC	
Outlook	Stable
Issuer Rating	Baa1
PARENT: ALDAR PROPERTIES PJSC	
Outlook	Stable
Issuer Rating	Baa2
ALDAR SUKUK (NO. 2) LTD.	
Outlook	Stable
Bkd Senior Unsecured	Baa1
ALDAR SUKUK LTD.	
Outlook	Stable
Bkd Senior Unsecured	Baa1

Source: Moody's Investors Service

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