

CREDIT OPINION

14 August 2024

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 to credit analysis

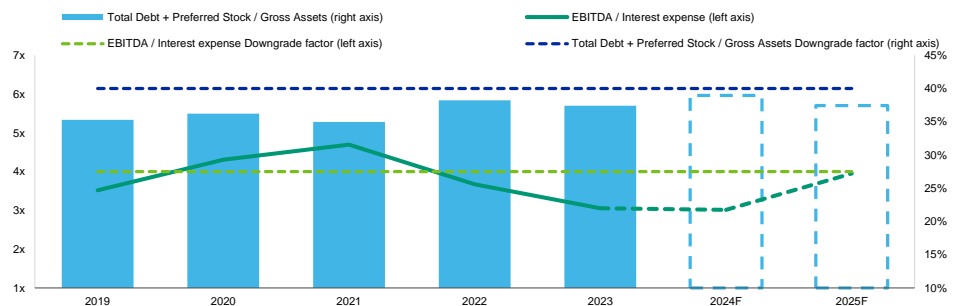
Summary

Aldar Investment Properties LLC's (AIP, Baa1) rating reflects 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) growing share of revenues from the logistics segment; and (4) strong liquidity and limited development risk.

Conversely, the ratings also factors in (1) AIP's geographic concentration, namely its majority exposure to Abu Dhabi market; and (2) 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](#) (Aldar, Baa2 stable), as AIP holds the lower business risk recurring revenue property assets.

Exhibit 1

Credit metrics are expected to weaken in 2024 with announced investments before improving in 2025



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: *Moody's Financial Metrics™ and Moody's Ratings forecasts*

Credit strengths

- » Large owner and operator of investment properties that generate recurring cash flows in Abu Dhabi market
- » High-quality, diversified property portfolio
- » Strong liquidity and limited development risk

Credit challenges

- » High geographic concentration in the Emirate of Abu Dhabi
- » Exposure to demographic changes due to growing expatriate population

Rating outlook

The stable outlook reflects our view that the company will be able to fund its growth strategy while maintaining financial leverage below 40% and interest coverage around 4x through 2025.

Factors that could lead to an upgrade

- » Meaningful geographic diversification away from the Emirate of Abu Dhabi
- » Gross debt + preferred stock to total gross assets sustained below 30%
- » Fixed charge coverage (EBITDA to adjusted fixed charges) sustained above 6.0x
- » Track record of more balanced and mature markets with lower price volatility

Factors that could lead to a downgrade

- » If the operating environment deteriorates, resulting in higher vacancy levels and lower operating cash flow
- » Liquidity weakens
- » Gross debt + preferred stock to total gross assets ratio is above 40%
- » Fixed charge coverage drops below 4.0x
- » More aggressive financial policy including an increase in dividends or related party transactions
- » A change in the rating and/or outlook of the parent Aldar Properties PJSC

Key indicators

Exhibit 2

Aldar Investment Properties LLC

(in \$ billions)	2019	2020	2021	2022	2023	2024F	2025F
Gross Assets	5.7	4.7	5.1	7.2	7.5	8.7	9.0
Unencumbered Assets / Gross Assets	86.1%	81.2%	82.2%	88.9%	96.1%	96.6%	96.7%
Total Debt + Preferred Stock / Gross Assets	35.3%	36.2%	35.0%	38.2%	37.4%	39.0%	37.4%
Net Debt / EBITDA	5.8x	5.0x	5.1x	6.7x	4.9x	6.2x	5.1x
Secured Debt / Gross Assets	9.0%	13.7%	10.1%	5.2%	2.9%	2.5%	2.4%
Fixed Charge Coverage	3.5x	4.3x	4.7x	3.7x	3.1x	3.0x	4.0x

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Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

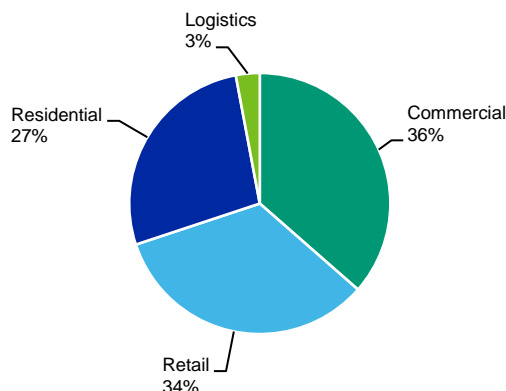
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Profile

Aldar Investment Properties LLC (AIP) owns and manages a diverse portfolio of properties in Abu Dhabi, United Arab Emirates across the residential, commercial, retails and logistics sectors. The company was established in 2018 as a limited liability company (LLC) as a 100%-owned subsidiary of Aldar Properties PJSC (Aldar) to hold and manage its recurring revenue properties. Following the Apollo transaction in 2022, Aldar's ownership currently stands at 88.1%. In 2023, AIP reported AED2.1 billion of revenue and AED27.7 billion of total assets.

Exhibit 3

Revenue breakdown by business segment (2023)



Source: Company filings

Detailed credit considerations

High geographic concentration partially mitigated by diversified tenant mix and markets

AIP has a high geographic concentration risk with the majority of its assets located in a single location, the Emirate of Abu Dhabi. High geographic concentration increases the impact of The Emirate's event risks such as market downturns, price volatility, and demand characteristics throughout the real estate cycle on the company's operations and cash flows. This risk is partially mitigated by AIP's decent portfolio size, diversified tenant profile, sector mix, and strong brand name.

AIP's investment properties portfolio has decent size and high quality assets spread across multiple markets including office, retail, residential, and logistics sectors. The company's assets under management is well spread between retail properties (38%), commercial properties (36%), residential properties (22%), and logistics (4%) as of June 2024. AIP's 36 retail assets host a diverse tenant mix with more than 1400 brands and are split between community retail and destination retail, providing a broad shopping, dining, and entertainment offerings. Yas Mall, the largest mall in the Emirate of Abu Dhabi and third-largest mall in the UAE, is AIP's largest retail asset, representing 42% of the segment's total GLA.

The 14 commercial assets consist of Grade A commercial towers as well as mixed-used space located in prime locations with a total gross leasable area of around 466,000 sqm (June 2024). In the office segment, AIP's assets are predominantly Grade A, principally leased to government and government-related entities.

AIP's remaining assets are relatively a small contributor to revenue and earnings but these assets provide exposure to higher margins logistics sector and relatively less volatile residential sector.

Credit metrics are expected to improve following debt funded investments

We expect AIP's credit metrics to remain mainly flat through 2025 compared to 2023 despite weakening modestly in 2024 following debt funded investments. Financial leverage (Moody's adjusted total debt + preferred stock / gross assets) will likely weaken to about 39% in 2024 compared to 37% in 2023 mainly driven by our forecast of about AED1.3 billion of additional debt to fund ongoing investments and expansion projects. The company announced several expansion projects in commercial, retail, and logistics segments, which will increase its gross leasable area by about 490,000 sqm. These green and expansion projects are expected to be completed

between H2 2024 and 2025. We estimate the company's financial leverage will improve to about 37% in 2025 as these projects are stabilized following the ram up phase. We also expect AIP's fixed charge ratio (Moody's adjusted EBITDA / fixed charges) to remain flat in 2024 at about 3x before improving to around 4x in 2025 with higher earnings. We believe the company has limited headroom under the current rating given the weak interest coverage but expect higher earnings from current investments to improve the fixed coverage through 2025.

We believe management will continue operate AIP's financial profile prudently. Management has set a maximum loan to value (LTV) of 35%-40% and has formalised its dividend policy: a dividend payout of 65%-80% of Adjusted Funds From Operations (AFFO) which is defined by management as net income less/plus Impairments and fair value movements less gains on sale plus loss on sale, depreciation and amortization less maintenance capital expenditure. Higher than anticipated shareholder payouts or weaker credit metrics could result in downward rating pressure.

The real estate market in Abu Dhabi will continue to grow over the next 12-18 months

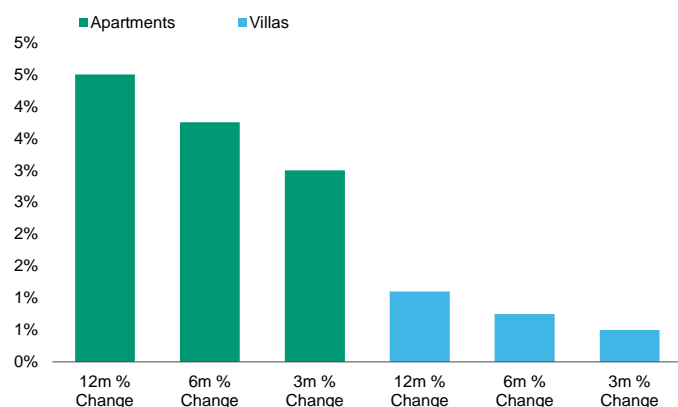
We expect Abu Dhabi's real estate market to benefit from solid economic activity in the Emirate through 2025. The International Monetary Fund estimates the UAE's economy will grow by 3.5% and 4.2% in 2024 and 2025, respectively. Healthy economic activity will support demand for housing and real estate market. According to CBRE, residential rental prices grew low to mid-single digits over the past 12 months with apartment rental prices increasing by about 5% over the same period.

AIP had a solid performance in 2023 across all its segments, driven by its strong position in the market and the acquisitions the company undertook in recent years. Overall, we believe AIP's income generating assets are of good quality which will help the company attract and retain customers once projects in the current pipeline are completed.

AIP's overall commercial portfolio registered a solid performance with strong leasing growth, ending the first half of 2024 at 97% occupancy, with the expectation of an increase as Aldar integrates the building expected to be completed in 2024 and 2025. We believe commercial office space will witness positive demand drivers through 2025. Solid economic activity and limited supply of office space will continue to drive high occupancy rates and support rental prices. Average office space occupancy rates in the Emirate of Abu Dhabi stood at around 94% in Q1 2024, the highest in more than 4 years (Exhibit 5).

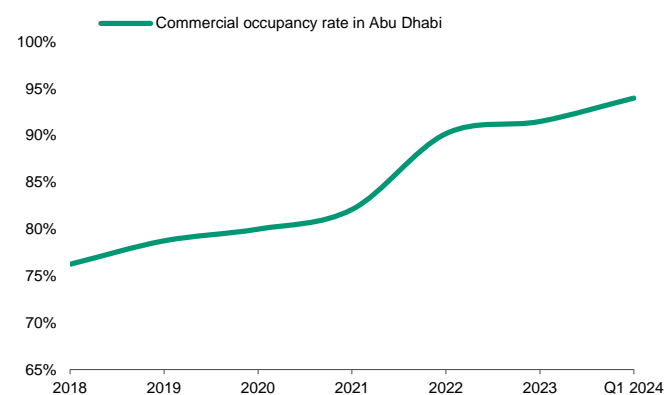
On the retail side, we also expect the sector will continue to benefit from population growth and solid consumer spending in 2024 and 2025. Yas Mall achieved a very strong 95% occupancy rate in first half of 2024. This was primarily driven by a successful redevelopment and repositioning plan during the last couple of years. Although AIP's overall retail occupancy rate stood at 89% in the first half of 2024, we believe this will improve as the company refurbishes older less occupied assets. The residential portfolio also saw a very strong performance during same period with occupancy rates at 96% as of first half of 2024 from 94% in 2023.

Exhibit 4
Abu Dhabi's apartment rents have increased in the last one year... Q1 2024



Source: CBRE

Exhibit 5
...and occupancy rates for commercial office space has improved.



Source: CBRE

We view growing international investors base in Abu Dhabi real estate market as potential risk given the uncertainties it adds to demand characteristics. Changes to population demographics with relatively higher proportionate of non UAE citizens exposes the company to uncertain demand characteristics because international and expatriate population fluctuate throughout the economic cycle. Nonetheless, we believe solid economic activity over the next 24 months will continue to support demand for AIP's business segments.

AIP's rating is one notch above that of Aldar's given the relatively less volatile investment business

AIP's Baa1 rating is positioned one notch higher than that of Aldar because the company owns and operate a large asset base of high quality assets that generate sustainable recurring cash flows. We view AIP's business profile as relatively more resilient compared to that of Aldar given the cyclical development business.

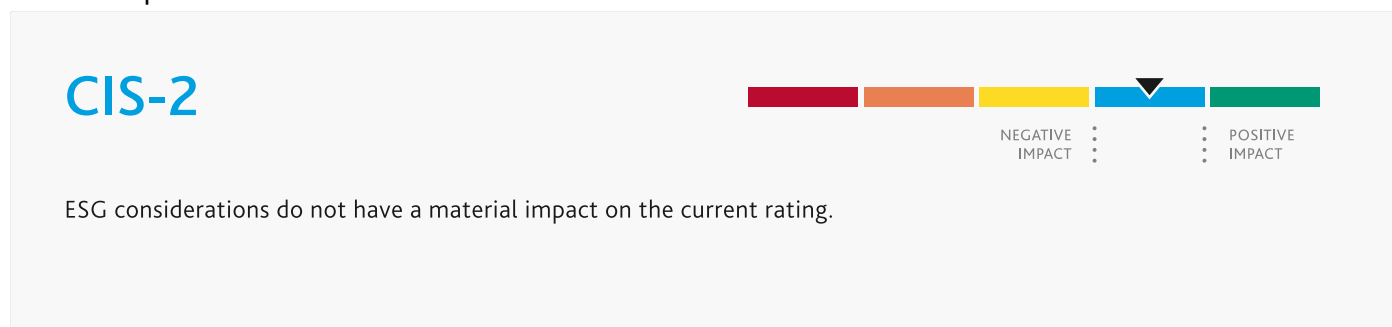
Aldar, being the controlling shareholder of AIP, possesses the capability to draw higher levels of cash from AIP, such as through shareholder returns, particularly during times of market downturns or financial distress to bolster its own liquidity and operations. However, we believe this risk is significantly mitigated by several factors. Firstly, the historical track record of Aldar and AIP operating at arm's length demonstrates a consistent practice of independence and fairness in their transactions, suggesting that Aldar's influence does not unduly impact AIP's financial decisions. Secondly, Aldar's substantial land bank acts as a financial cushion, diminishing its need to depend on cash distributions from AIP. In cases where Aldar encounters financial stress, we would consider the extent to which AIP's operations and financial health could be impacted by Aldar's difficulties. Nevertheless, Aldar's limited reliance on substantial shareholder distributions, coupled with AIP's resilient and mature business profile, supports our view that AIP's credit rating deserves to be one notch above Aldar's.

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. In 2023, 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

Aldar Investment Properties LLC's ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score

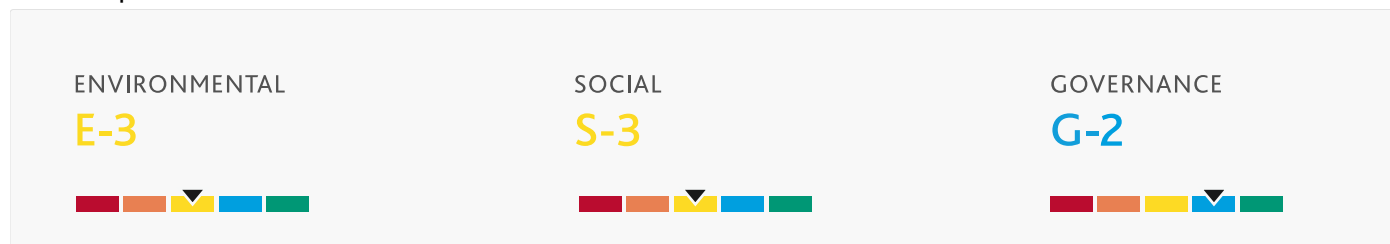


Source: Moody's Ratings

Aldar Investment Properties' (AIP) ESG credit impact score of **CIS-2** indicates that ESG considerations have limited to no impact on the company's current rating reflecting its exposure to environmental, social, and governance risks. Governance risk exposure reflects AIP's prudent financial policy and demonstrated track record of organic and inorganic growth.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3. AIP's environmental risk exposure reflects physical climate risks and carbon transition. AIP has a diversified portfolio of assets and continually invests in the assets to mitigate event and operational risks. Nevertheless, the company's exposure to physical risk is based on our expectations of more frequent and severe climate events and a steady increase in surface temperatures, and its physical asset-intensive business models. Exposure to carbon regulation is growing as more jurisdictions establish emission and energy-efficiency guidelines.

Social

S-3. AIP has exposure to social risks primarily related to demographic and societal trends. These risks reflect demographic changes due to a large expatriate population. Demographic changes and affordability are important factors driving demand, and changes in these areas could moderately affect the risks that the company faces.

Governance

G-2. AIP's governance risks reflect its conservative financial policy and demonstrated track record of growth. AIP is 88.1% owned by Aldar Properties PJSC (Aldar). As such, its parent has control of the board and can 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 may influence AIP's decision to acquire properties from its parent. 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 Adjusted Funds From Operations (AFFO) which is defined by management as net income less/plus Impairments and fair value movements less gains on sale plus loss on sale, depreciation and amortization less maintenance capital expenditure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

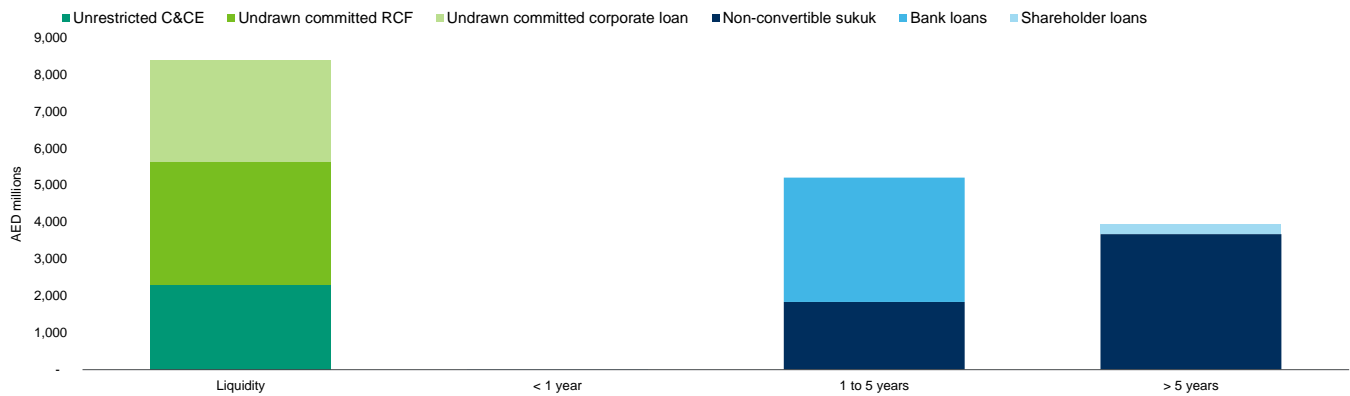
Liquidity analysis

AIP has strong liquidity. The company had cash and cash equivalents of AED2.3 billion as well as AED3.3 billion of committed undrawn credit facilities maturing between 2025 and 2026. This coupled with our expectation for funds from operations of about AED1.1 billion for the next 12 months is sufficient to pay dividends of about AED0.8 billion, capital investments of about AED4.2 billion and no near term maturities.

Exhibit 8

Debt maturity profile

As of December 2023 (based on reported debt values excluding lease liabilities)



Source: Company reports

Structural considerations

The Baa3 rating assigned to the hybrid notes 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 notes are 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 50% equity credit for the calculation of credit metrics.

Rating methodology and scorecard factors

In determining AIPs' rating, we have applied our methodology for REITs and Other Commercial Real Estate Firms.

Exhibit 9

Rating factors Aldar Investment Properties LLC

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current FY Dec-23		Moody's 12-18 month forward view	
	Measure	Score	Measure	Score
Factor 1 : Scale (5%)				
a) Gross Assets (\$ billions)	\$7.5	Baa	\$8.5 - \$9.0	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	96.1%	A	96% - 97%	A
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	37.4%	Baa	37.0% - 39.0%	Baa
b) Net Debt / EBITDA	4.9x	Baa	5.0x - 6.2x	Ba
c) Secured Debt / Gross Assets	2.9%	Aa	2.4% - 2.5%	Aa
d) Fixed Charge Coverage	3.1x	Baa	3.0x - 4.0x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				Baa1

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 10

Peer Comparison

Aldar Investment Properties LLC

(in \$ millions)	Aldar Investment Properties LLC			Atrium Ljungberg AB			Entra ASA			LTM
	Baa1 Stable			Baa2 negative			Baa3 Stable			
	FY Dec-21	FY Dec-22	FY Dec-23	FY Dec-22	FY Dec-23	FY Jun-24	FY Dec-22	FY Dec-23		
Gross Assets	5,141	7,169	7,541	6,125	6,121	5,714	8,334	7,215	6,541	
Unencumbered Assets / Gross Assets	82.2%	88.9%	96.1%	57.5%	57.5%	58.7%	82.8%	80.4%	83.2%	
Total Debt + Preferred Stock / Gross Assets	35.0%	38.2%	37.4%	41.8%	42.6%	41.0%	49.8%	53.9%	53.9%	
Net Debt / EBITDA	5.1x	6.7x	4.9x	15.7x	13.5x	12.5x	14.7x	13.6x	13.1x	
Secured Debt / Gross Assets	10.1%	5.2%	2.9%	12.3%	11.9%	12.1%	8.2%	10.5%	0.0%	
EBITDA / Fixed Charges (YTD)	4.7x	3.7x	3.1x	3.1x	2.9x	3.0x	2.5x	1.8x	1.5x	

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted debt breakdown

Aldar Investment Properties LLC

(in \$ millions)	2019	2020	2021	2022	2023
As reported debt	2,015.3	1,718.6	1,797.7	2,490.4	2,570.9
Pensions	-	-	-	2.6	2.7
Hybrid Securities	-	-	-	247.2	247.2
Moody's-adjusted debt	2,015.3	1,718.6	1,797.7	2,740.2	2,820.8

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted EBITDA breakdown

Aldar Investment Properties LLC

(in millions)	2019	2020	2021	2022	2023
As reported EBITDA	270.8	234.3	357.5	441.4	591.3
Unusual Items - Income Statement	38.6	69.6	(57.8)	(99.8)	(147.1)
Pensions	-	-	-	(0.5)	(0.3)
Non-Standard Adjustments	(12.7)	-	-	-	-
Moody's-adjusted EBITDA	296.6	303.9	299.7	341.1	443.9

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Ratings

Exhibit 13

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

Source: Moody's Ratings

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