

CREDIT OPINION

28 April 2023

Update

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RATINGS

Aldar Properties PJSC

Domicile	Abu Dhabi, United Arab Emirates
Long Term Rating	Baa2
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 Properties PJSC

Update to credit analysis

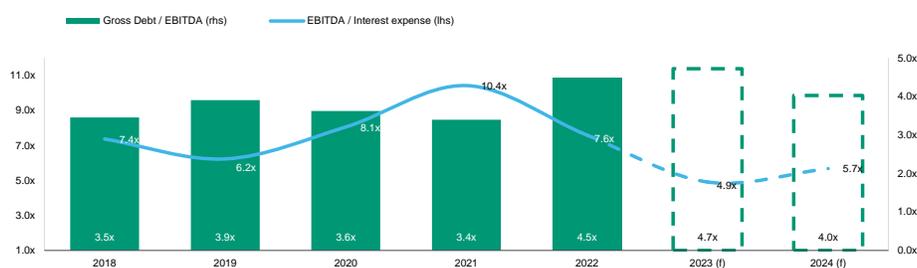
Summary

Aldar Properties' (Aldar) Baa2 issuer rating reflects (1) Aldar's leading position in the less volatile Abu Dhabi real estate market; (2) a growing portfolio of recurring income assets which balances Aldar's real estate development business; (3) a large land bank which allows the company to avail market opportunities, particularly as the demand for quality housing increases in [Abu Dhabi](#) (Aa2 stable) over the medium term; and (4) Aldar's track record of maintaining a conservative financial profile and strong liquidity. In September 2018, [Aldar Investment Properties](#) (Aldar Investments, Baa1 stable) was established as a subsidiary of Aldar to hold and manage its recurring revenue properties. We view recurring income from investment properties to be of lower risk than a property development business given that it is a more stable and visible source of future earnings.

With business operations primarily in Abu Dhabi, the rating is constrained in the Baa category as a result of high geographic concentration and exposure to the higher risk real estate development business.

Exhibit 1

Credit metrics are well positioned for the 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.

Source: Moody's Investors Service

Credit strengths

- » Cash flow stability supported by recurring rental income
- » Strong liquidity profile and clear financial policy
- » Solid credit metrics

Credit challenges

- » Improving real estate market outlook in Abu Dhabi
- » Large expatriate population subject to demographic changes
- » Geographic concentration with majority exposure to the Emirate of Abu Dhabi

Rating outlook

The stable outlook reflects our expectation that Aldar will be able to manage its property development risk while continuing to generate recurring cash flows.

Factors that could lead to an upgrade

Upward rating pressure could develop if the company (1) sustainably maintains adjusted gross debt to EBITDA below 3.0x and maintains EBITDA to interest expense above 8.0x.

Factors that could lead to a downgrade

The ratings could be downgraded if (1) Moody's adjusted gross debt to EBITDA trends towards 4.5x and EBITDA to interest expense falls below 6.0x.

Key indicators

Exhibit 2

	2018	2019	2020	2021	2022	2023 (f)	2024 (f)
Gross Assets (USD Billion)	\$10.5	\$11.2	\$11.0	\$13.5	\$16.7	\$17.5	\$20.6
Unencumbered Assets / Gross Assets		90.9%	89.5%	87.7%	94.4%	97.5%	97.9%
Total Debt + Preferred Stock / Gross Assets	20.6%	21.4%	22.0%	18.6%	24.8%	28.9%	33.0%
Total Debt / Gross Assets	20.6%	21.4%	22.0%	18.6%	23.3%	27.5%	31.8%
Net Debt / EBITDA	2.5x	2.8x	2.3x	1.4x	2.1x	4.1x	3.8x
Gross Debt / EBITDA	3.5x	3.9x	3.6x	3.4x	4.5x	4.7x	4.0x
Secured Debt / Gross Assets	7.9%	6.8%	8.2%	5.3%	3.3%	2.1%	1.8%
Fixed Charge Coverage	7.4x	6.2x	8.1x	10.4x	7.6x	4.9x	5.7x

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.

Source: Moody's Investors Service

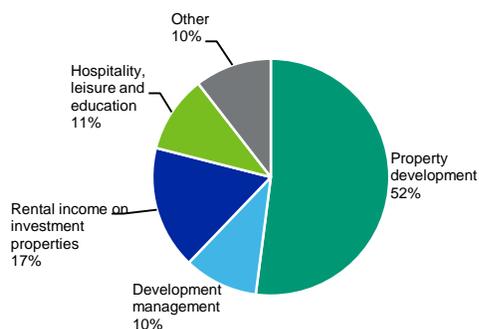
Profile

Aldar Properties PJSC is the leading real estate developer in Abu Dhabi, operator of investment properties and land bank owner. Mamoura Diversified Global Holding PJSC (Aa2 stable) owns 25.12% of the company's share capital and Alpha Dhabi Holding PJSC holds another 26.52%.

For the fiscal-year ending December 2022, Aldar generated AED11.2 billion in revenues and reported AED61.2 billion in gross assets.

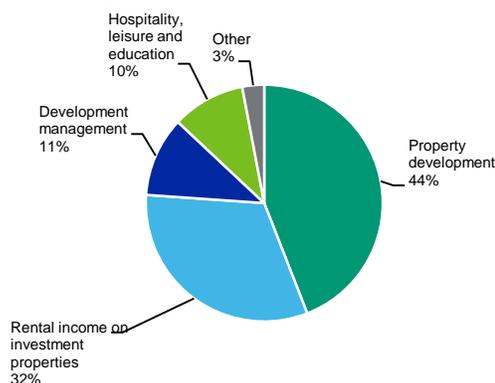
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Exhibit 3
Revenue by segment



As of 31 December 2022
Source: Company data

Exhibit 4
Gross Profit by segment



As of 31 December 2022
Source: Company data

Detailed credit considerations

Business profile underpinned by recurring revenue but high concentration to Abu Dhabi

Aldar 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 product mix, tenant diversification and strong brand name. The recurring revenue portfolio comprises residential, office and retail assets as well as hotels, logistics and schools. Overall, the portfolio is well diversified in terms of asset classes with a high concentration of retail and hotel assets located in Yas Island. However, we also note that Yas Island is a beneficiary of continued government investment into the tourism sector.

In addition, development revenue will continue to be supported by the fee based contracts with the government of Abu Dhabi on key public housing and associated community infrastructure projects. An initial program of projects worth AED40 billion was handed over to Aldar in Q1 2021 for direct management or oversight. This is credit positive for Aldar because the projects are fully funded by the government of Abu Dhabi and there will be limited liability to Aldar for cost and projects overruns. Similarly, there will be no capital outlay or working capital contribution by Aldar. This mandate demonstrates the strong relationship between the government of Abu Dhabi and Aldar which strengthens its position as the leading developer and asset manager in Abu Dhabi. As of December 2022, project management services accounted for 16% of development revenue with a very healthy backlog of AED64.8 billion of project management services.

Development risk to increase on the back of significant upcoming investments in the development and investment businesses

We expect Aldar's development risk to increase over the course of the next few years as the company embarks on a number of projects under its development and investment businesses. During the past 12 months, Aldar has completed a number of transactions and entered into a couple of agreements to grow both its business lines. We do, however, take comfort from Aldar's long track record of executing on time and within the projects' budgets.

In January 2023, Aldar announced the acquisition of Al Fahid Island, a 3.4 million sqm island, situated on the highway that connects Yas Island and Saadiyat Island. The land, which is valued at AED 2.5 billion, has resulted in a significant increase in Aldar's landbank and short term development pipeline. Aldar estimates that the gross development value will be AED26 billion with over 4,000 residential units to be built on the island, in addition to a number of other developments, including community facilities, a school, and retail and hospitality offerings. The acquisition consideration will be paid over 5 years and the products will be launched at the end of 2023.

In addition, Aldar entered into a strategic partnership with Dubai Holding, a Dubai-based diversified global investment company to enter the Dubai market. The joint venture will develop new communities in three centrally-located areas in Dubai and will feature more than 9,000 units consisting of villas, townhouses, and apartments supported by retail and community facilities. This project will also be launched in 2023 through a phased approach.

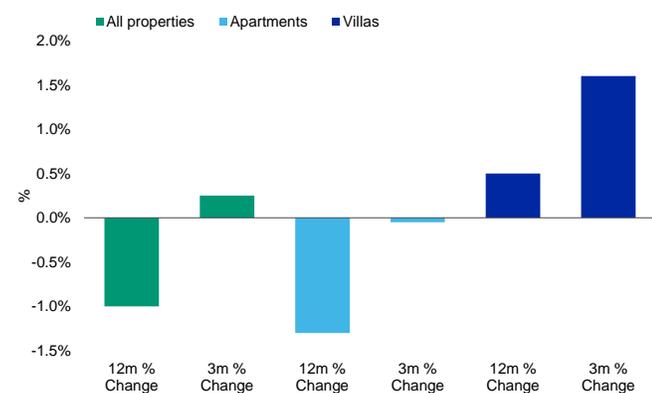
On the investment properties side, in 2022 Aldar acquired four prime Grade A commercial towers from Mubadala Investment Company (MIC) with a net leasable area of 180,000 sqm. The towers are located in Al Marayah Island in Abu Dhabi and were valued at AED4.3 billion at the time of the transaction. The company has also entered into a 60%-40% joint-venture with MIC to develop an office tower in Al Marayah Island. The office tower will have 37 floors and a total net leasable area of 63,000 sqm and aims to be LEED Gold certified. The addition of the new tower will bring Aldar Investment's total net leasable area of commercial office space to over 400,000 sqm.

In addition, Aldar has also grown its hospitality and leisure portfolio by adding another 1,500 keys to its portfolio in 2022 bringing the total keys under Aldar's hospitality and leisure portfolio to over 4,250. This was mainly driven by the acquisition of the beachfront resort, DoubleTree by Hilton Resort & Spa Marjan Island, and an adjacent beachfront development plot for a total consideration of AED810 million.

Improving real estate market outlook in Abu Dhabi

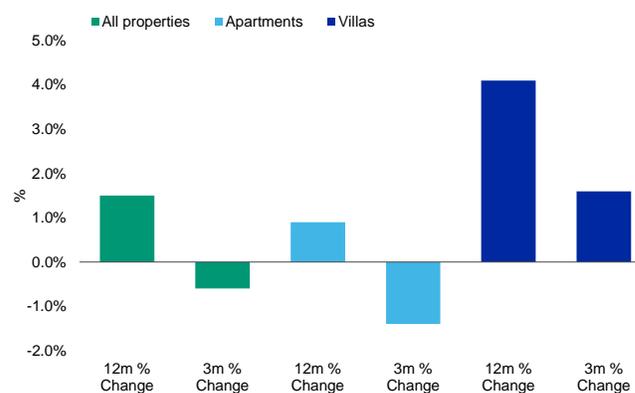
We expect Abu Dhabi's real estate market to remain stable in 2023, in line with 2022, driven by the improving macro conditions in the emirate following the full removal of all COVID-related restrictions in the later half of 2022. We estimate Abu Dhabi's economy will grow by 1.1% in 2023 and 3.3% in 2024. Abu Dhabi was initially measured in removing vaccination and testing requirements compared to the other emirates in the UAE, which limited the rebound in services sector activity, including the real estate sector. According to CBRE, Abu Dhabi average sale prices have increased by 1.5% in 2022 with successful launches of villa projects, whilst rentals remained under pressure, declining by -1% compared to 2021, as per the below exhibit.

Exhibit 5
Abu Dhabi's rental performance has remained fairly stable..



% change as of December 2022
Source: CBRE

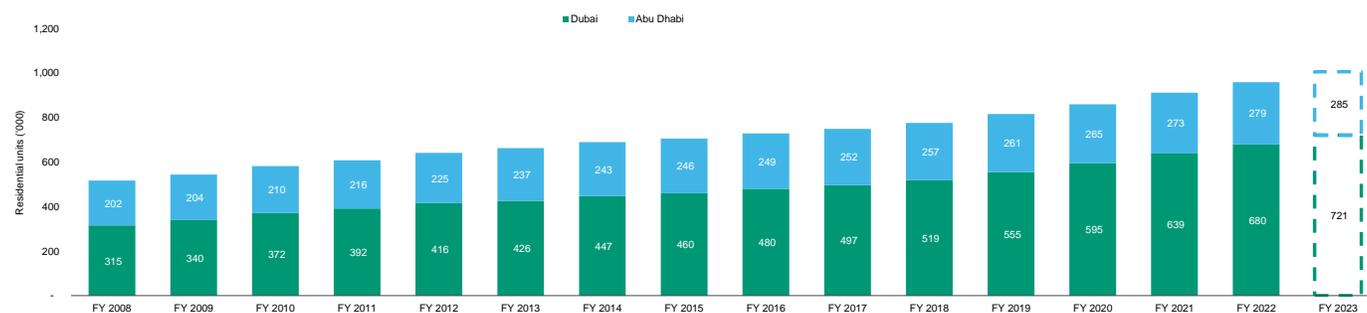
Exhibit 6
..with improvements seen in the residential prices.



% change as of December 2022
Source: CBRE

In our view, 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. This partially reflects Aldar's strong position in the market with less competition compared to the market in Dubai. According to JLL, the number of residential units in Abu Dhabi will increase by 2% in 2023 to reach 285,000 units compared to an increase of 6% in Dubai as the below exhibit shows. In addition, foreign investors comprise a much smaller share of the Abu Dhabi market. Aldar earns most of its property sales from UAE residents. By contrast Dubai-based [Emaar Properties](#) (Baa3 stable) generates more than 40% of its property sales from nonresident buyers. This lower exposure to foreign investment partly reflects Abu Dhabi's historically more conservative foreign investment laws. For example, until 2019, nonresidents were only allowed to purchase 99-year leases and were not permitted to own freeholds.

Exhibit 7

Residential units supplied in the UAE market have almost doubled since 2008

FY 2023 represents forecasted units

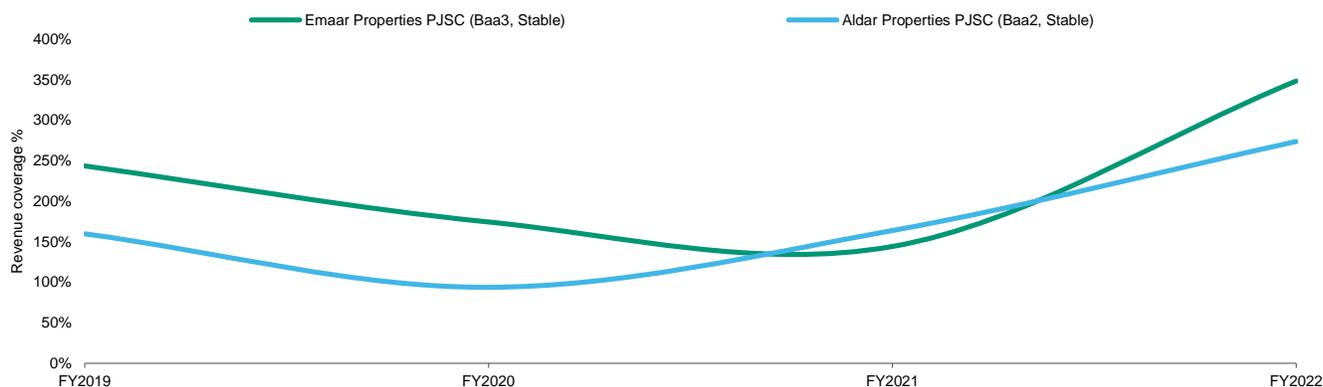
Source: REIDIN, JLL

Despite the subdued performance of Abu Dhabi's real estate market in 2022, Aldar's investment properties (AIP) business had a solid performance in 2022 across all its segments, driven by its strong position in the market and the acquisitions the company undertook during the year. Overall, we believe AIP's income generating assets are of good quality which will help the company attract and retain customers. On the retail side, Yas Mall achieved a very strong 98% occupancy rate in 2022. This was primarily driven by a successful redevelopment and repositioning plan during the last couple of years. The retail business also benefitted from the addition of Al Hamra Mall in Ras Al Khaimah. AIP's commercial portfolio registered a solid performance with strong leasing growth, ending the year 2022 at 88% occupancy, with the expectation of an increase in 2023 as Aldar integrates the four assets it bought from MIC and increases their occupancy. The residential portfolio also saw a very strong performance during the year with occupancy rates increasing to 97% as of December 2022 from 93% a year earlier, with EBITDA increasing by 4% during the year.

Healthy, albeit slightly weakening, financial profile

We expect Aldar's credit metrics to weaken in 2023, in line with 2022, before starting to improve in 2024. This weakening is on the back of a number of transactions the company completed and the expectation of higher investments and capital spending during the year, the majority of which will be debt-funded. We expect Aldar's Moody's adjusted gross debt to EBITDA to weaken in 2023 to 4.7x from 4.5x in 2022 and 3.4x in 2021 and to improve in 2024 to 4.0x as Aldar starts recognizing revenue and EBITDA from the projects it launched. Revenue backlog in the UAE increased to AED12.1 billion as of December 2022 from AED6.0 billion a year earlier with an additional AED5.5 billion revenue backlog in Egypt.

Exhibit 8

Strong development backlog seen within UAE homebuilders amid ongoing higher demand

Revenue coverage: latest reported revenue divided by backlog representing each Company's UAE operations excluding unconsolidated JVs.

Source: Company reports

We also expect Aldar's adjusted fixed charge coverage ratio to decrease to 4.9x in 2023 from 7.6x in 2022 before improving to 5.7x in 2024. This is a result of the increase in debt as well as the increase in interest rates as almost half of Aldar's debt has a floating interest rate.

Entry into the Egyptian market raises business risks but offers long term growth opportunities

In 2021, Aldar acquired a majority stake in [Egyptian property development company Sixth of October for Development and Investment Company S.A.E. \(SODIC\)](#). SODIC targets the upper middle-income market with residential projects primarily located in West and East Cairo. We believe that this acquisition is still relatively small for Aldar although it may lead to greater business risk if exposure to [Egypt](#) (B3 stable) were to grow in future. We consider SODIC as a strategic investment for Aldar because it is its first-time acquisition outside of the [United Arab Emirates](#) (Aa2 stable). In 2022, Aldar generated AED1.4 billion of revenue from the Egyptian market with another AED5.5 billion of backlog.

Strategic partnership with Apollo Global Management has strengthened Aldar's 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 saw Apollo invest a total of USD1.4 billion in capital to drive the company's growth initiatives. The following market transactions have occurred 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 Aldar Investments; (3) USD100 million of common equity investment in Aldar Investments; and (4) USD500 million of hybrid notes in Aldar Investments.

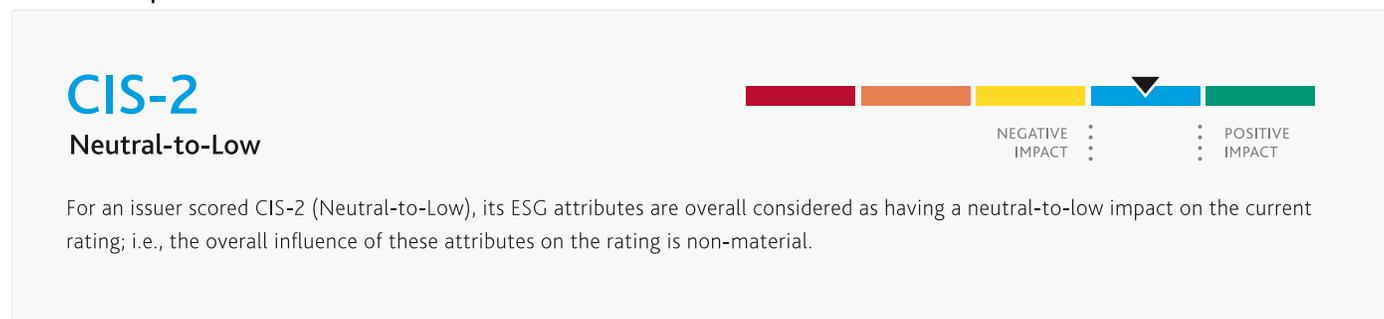
These proceeds have been being primarily used for the acquisition of income generating assets in Abu Dhabi and the rest of the UAE starting 2022. In our view, this has strengthened AIP's business profile by increasing its size and diversification. This transaction also strengthened Aldar Properties business risk profile because it would increase the percentage of recurring revenue and decrease the percentage of property development revenue which is more cyclical.

ESG considerations

Aldar Properties PJSC's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9

ESG Credit Impact Score



Source: Moody's Investors Service

Aldar's ESG credit impact score is neutral to low (**CIS-2**). Aldar has moderately negative environmental (E-3) and social risks (S-3) while it has a neutral to low governance risk (G-2) reflecting its conservative financial policy and good liquidity risk management, particularly during the coronavirus pandemic.

Exhibit 10

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Aldar's environmental issuer profile score (IPS) is moderately negative (**E-3**). Aldar's environmental risks are moderate and mostly relate to physical climate and carbon transition. Aldar has a diversified portfolio of assets and continually invests in the assets to mitigate event and operational risks. Nevertheless, real estate companies' exposure to physical risk is material given our expectations of more frequent and severe climate events and a steady increase in surface temperatures, and their physical asset-intensive business models. In our view, these property assets are at greater risk of impairment due to extreme weather events, which expose property developers to increased construction and repairment costs. Physical climate risk and more stringent regulation will raise construction costs. However, associated environmental regulations have primarily been stable, and increases in costs can be largely passed to consumers. The need to exploit land resources exposes builders to natural capital risks and associated compliance costs related to land preservation. Exposure to carbon regulation is growing as more jurisdictions establish emission and energy-efficiency guidelines. A property's environmental footprint (parameters such as energy efficiency, water usage, waste management and indoor environment quality) could influence leasing outcomes because tenants are becoming more sensitive to the green attributes of their leased spaces.

Social

Aldar's social issuer profile score is moderately negative (**E-3**). Demographic and societal trends are moderately negative because Aldar is exposed to 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 real estate companies face. Human capital is generally not a major risk in the UAE, where labor costs are low and the labor pool is large. Property developers are also exposed to customer relations risk, which could impact brand reputation given customer satisfaction is closely linked to the quality of delivered property units. Cyber security risk associated with the collection of sensitive customer data is a key concern as well as the associated cost to ensure an appropriate protection process is in place.

Governance

Aldar's governance issuer profile score is neutral to low (**G-2**). Aldar has a good track record of maintaining conservative financial policies through various real estate cycles. Aldar has clearly formalized the separation between the asset management and property development businesses which provides a degree of clarity on how the company would like to manage risk levels of each business segment. Management has set a maximum loan to value (LTV) of 35-40% for the asset management business and below 25% LTV for the development business. In addition, dividend policy has two components: (1) 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 from the recurring revenue business; and (2) a dividend payout of 20%-40% of the realized profit of real estate development projects after completion.

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.

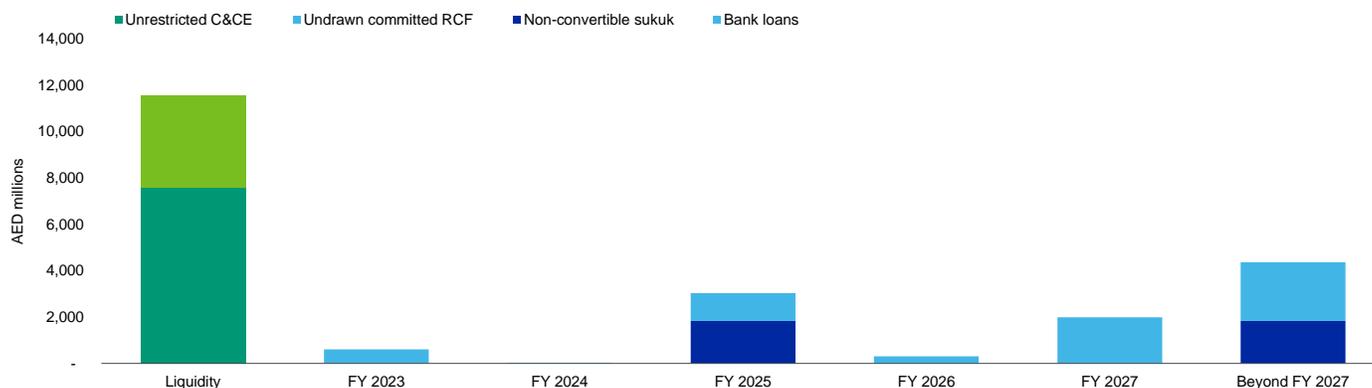
Liquidity analysis

Aldar has a strong liquidity profile given its unrestricted cash balances of about AED7.6 billion as of year-end 2022 and AED4.0 billion of committed revolving credit facility lines maturing 2025 and 2027. This, along with expected funds from operations of AED3.0 billion are sufficient to cover the AED0.6 million of bank borrowings maturing over the next 12 months, capital spending of AED4.7 billion and

dividends of AED1.3 billion. Restricted cash is used for launched off-plan property developments and has been received as installment payments from customers. Abu Dhabi introduced such restrictions in 2016.

Exhibit 11

Debt maturity profile



As of December 2022 (based on reported debt values excluding lease liabilities).

Source: Company reports

Rating methodology and scorecard factors

In determining Aldar Properties' rating, we have applied our methodology for [REITs and Other Commercial Real Estate Firms](#) published in September 2022.

Exhibit 12

REITs and Other Commercial Real Estate Firms Industry Scorecard ^{[1][2]}			Current FY December 2022		Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score	Measure	Score
a) Gross Assets (USD Billion)	\$16.7	A	\$17.5 - \$20.6	A		
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	94.4%	A	97.5% - 98.0%	Aa		
Factor 4 : Leverage and Coverage (45%)						
a) Total Debt + Preferred Stock / Gross Assets	24.8%	A	29.0% - 33.0%	Baa		
b) Net Debt / EBITDA	2.1x	Aa	3.8x - 4.1x	A		
c) Secured Debt / Gross Assets	3.3%	A	1.8% - 2.1%	Aa		
d) Fixed Charge Coverage	7.6x	Aa	4.9x - 5.7x	A		
Rating:						
a) Scorecard-Indicated Outcome		A2		A3		
b) Actual Rating Assigned				Baa2		

[1] All 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.

[2] Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.

Source: Moody's Investors Service

Appendix

Exhibit 13

Peer Comparison

(in USD billion)	Aldar Properties PJSC			Emaar Properties PJSC			Emirates Strategic Investments Company			Entra ASA		
	Baa2 Stable			Baa3 Stable			Baa3 Stable			Baa1 Negative		
	2020	2021	2022	2020	2021	2022	2020	2021	LTM June 2022	2020	2021	2022
Gross Assets	\$11.0	\$13.5	\$16.7	\$32.12	\$32.84	\$36.04	\$2.7	\$3.1	\$3.3	\$6.90	\$7.97	\$8.33
Unencumbered Assets / Gross Assets	89.5%	87.7%	94.4%	97.0%	97.7%	99.9%	94.0%	94.8%	95.1%	88.3%	95.7%	81.9%
Total Debt + Preferred Stock / Gross Assets	22.0%	18.6%	24.8%	19.3%	15.9%	11.8%	23.0%	20.1%	19.2%	36.3%	38.4%	49.8%
Net Debt / EBITDA	2.3x	1.4x	2.1x	4.8x	1.9x	0.9x	2.1x	2.1x	2.1x	10.7x	12.1x	14.7x
Secured Debt / Gross Assets	8.2%	5.3%	3.3%	3.0%	2.4%	0.1%	1.3%	1.0%	0.9%	4.3%	4.0%	8.2%
Fixed Charge Coverage	8.1x	10.4x	7.6x	3.4x	6.6x	11.2x	6.0x	7.4x	7.3x	3.6x	4.0x	2.6x

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 Investors Service

Exhibit 14

Moody's-Adjusted debt breakdown

(in USD millions)	2017	2018	2019	2020	2021	2022
As Reported Debt	1,771	2,061	2,311	2,270	2,371	2,936
Pensions	39	40	42	42	48	65
Hybrid adjustment	0	0	0	0	0	250
Non-Standard Adjustments	63	66	57	100	94	632
Moody's-Adjusted Debt	1,872	2,166	2,410	2,412	2,512	3,883

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

Source: Moody's Investors Service

Exhibit 15

Moody's-Adjusted EBITDA breakdown

(in USD millions)	2017	2018	2019	2020	2021	2022
As Reported EBITDA	656	649	698	683	783	1,070
Unusual	40	-21	-80	-17	-42	-202
Moody's-Adjusted EBITDA	696	627	617	666	740	868

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

Source: Moody's Investors Service

Ratings

Exhibit 16

Category	Moody's Rating
ALDAR PROPERTIES PJSC	
Outlook	Stable
Issuer Rating	Baa2
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
ALDAR INVESTMENT PROPERTIES LLC	
Outlook	Stable
Issuer Rating	Baa1

Source: Moody's Investors Service

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