FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Majid Al Futtaim LLC at 'BBB'; Outlook Stable

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Fitch Ratings - London - 20 Nov 2024: Fitch Ratings has affirmed UAE-based Majid Al Futtaim Holding LLC's (MAF) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The Outlook on the IDR is Stable. A full list of ratings is below.

The rating affirmations reflect MAF's continuing strong operations, with significant growth in consolidated revenues and EBITDA across shopping malls and community development. Majid Al Futtaim Properties (MAFP), which cross-guarantees MAF's obligations, anchors the IDR. MAFP is expected to constitute around 90% of MAF's consolidated 2024 EBITDA, supported by healthy occupancy ratios.

KEY RATING DRIVERS

Resilient Shopping Mall Portfolio: MAFP is the main cash flow driver for the group, accounting for over 90% of 2024's Fitch-estimated group EBITDA. Its end-2023 property portfolio, valued at AED36 billion, includes 29 malls with over 1.8 million square meters (sqm) of gross leasable area (GLA), primarily in the UAE plus four other Middle Eastern countries. It features eight high-quality super-regional malls, such as the 254,000 sqm Mall of the Emirates (MOE). Supported by seven hotels, the portfolio saw footfall of 232 million in 2023 (8% higher than in 2022) with retail tenants' sales up 5% yoy.

Rebound of Lease Renewal Rates: Rental income grew 5% in 2023, supported by a UAE portfolio lease renewal that achieved uplifts of 5%. However, this was offset by a nearly 16% rent drop in Oman. Overall, higher occupancy and increased sales from luxury brand tenants are the main drivers of rental growth. MAFP's average remaining lease term was 2.3 years at end-2023, offering flexibility to capture rent increases but also allowing tenants to negotiate lower rents. MAF's super regional assets are well-placed to offset pressure from a market-wide pipeline of GLA of 2.4 million sqm until 2028.

Residential Construction Pre-Funded: Revenues from community development are expected to grow 49% in 2024 and 7% in 2025, driven by positive momentum in the

Dubai residential market targeting end-users and investors. In September 2024, MAF launched Ghaf Woods, a green community with nearly 7,000 units to be added over four years. By 1Q25, MAF will have delivered over 2,400 units in Tilal Al Ghaf (TAG) since 2023. MAF offers a payment plan of 60% during construction and 40% on handover, easing pressure on the group's working capital.

Pressure on Retail EBITDA: We expect a drop in the retail division's (Carrefour franchises) revenues in 2024, due to geopolitical conflicts, FX losses, and competition in Egypt and Jordan. MAF closed a number of non-performing stores during 2023 and 2024, reducing revenue by 1.3% and 1.6% in those years. EBITDA margins are expected to drop to 3.6% on average for 2024-2026, from 4.3% in 2023. MAF plans to increase its store portfolio by 50% by 2026, adding 236 new stores.

Capex to Enhance Mall Offering: We expect a capex intensity ratio (capex/group revenue less property development) of 7% on average over the forecast period, amounting to nearly AED2 billion per year to be deployed over the asset management business. This would include shopping mall improvements, maintenance capex and hospitality renovations. Enhancements to the flagship asset MOE may take place over the next 24 months. The majority of capex is committed with low execution risk, given MAF's record in developing assets.

Stable Leverage Headroom: Group net debt/MAFP rental-derived EBITDA (excluding development activities) marginally improved to 5.4x in 2023 (2022: 5.95x). We forecast this to rise to 5.9x by end-2026. We expect both internal cash flow and external debt to be used for development capex and improvements of existing assets. We expect recurring-income EBITDA interest coverage (2023: 3x) to average 2.6x over the forecast period, reflecting low cost of funding. As of end-9M24, the average debt maturity was above four years with limited interest-rate risk as the majority of debt has fixed rates.

DERIVATION SUMMARY

MAF's closest Fitch-rated peer is Emaar Properties PJSC (BBB/Stable), a Dubai-based conglomerate with a portfolio of 37 retail assets, mainly in Dubai, as well as a large build-to-sell property business that generates around 50% of group EBITDA, depending on building phases and deliveries. Both companies are concentrated in Dubai, but have increasingly large international operations.

Their property portfolios include single-asset concentration: Emaar owns the Dubai Mall, which generates about 90% of recurring EBITDA, while MAF's MOE generates 44% of MAFP's EBITDA. However, Emaar is the largest master residential developer in Dubai and is inherently more capital- intensive than MAFP's community development activities.

MAF's structure differs from most EMEA rated real estate companies', owing to its conglomerate structure, which mainly includes real estate and retail operations, as well as adjacent investments in various lifestyle and entertainment businesses. MAFP generates stable, lease income and high EBITDA margins, while MAFR produces lower margins, positive cash flows and a larger regional footprint.

MAF maintains lower leverage than most investment-grade EMEA real estate peers with retail assets such as NewRiver REIT plc (BBB/Stable), which has a portfolio of non-prime convenience-led higher yielding shopping centres. Another comparable peer is UK-based Hammerson plc (BBB/Positive), which has a retail portfolio valued at GBP2.8 billion and net leverage of 7.4x at end-2023, compared with MAF's recurring net debt/rental-derived EBITDA of 5.4x in 2023. NEPI Rockcastle N.V. (BBB+/Stable), which owns and operates a retail portfolio valued at EUR6.4 billion, had low net debt/EBITDA of 4.9x at end-2023.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Low single-digit revenue growth until 2026 on a consolidated basis. MAFP has reported healthy steady rental growth of 13% per year on average

- Consolidated EBITDA margin at 13.5% for 2024-2027; EBITDA margin for MAFP at 40%

- Negative FCF of more than AED1.1 billion in 2024, but break-even in 2025 as working capital outflows ease due to cash inflows from development activities

- Dividends broadly in line with historical levels

- Capex of around AED7 billion over the next three years, mainly for TAG development and redevelopments of existing malls

- Restricted cash of more than AED3.6 billion in 2024 to reflect escrow holdings for TAG development

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-Meaningful geographical diversification or reduced asset concentration within MAFP

-MAFP's recurring income-derived EBITDA interest cover consistently above 3.0x

-MAFP's derived Fitch-adjusted loan-to-value below 40%

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-Significant downturn in the markets in which MAF operates

-Higher-than-expected capex, leading to material falls in MAFP's recurring income-derived EBITDA interest cover below 2.0x over a sustained period

-Group net debt (excluding MAFR capitalised leases)/MAFP's recurring EBITDA higher than 8.0x

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Abundant Liquidity: MAF's liquidity at end-1H24 comprised AED1.8 billion cash (excluding AED3.9 billion held in escrow accounts) and AED6.6 billion committed undrawn revolving credit facilities (RCFs). Fitch restricts cash deposited in escrow accounts, which represent advances from customers for the purchase of properties under development. The next upcoming debt maturity is AED1.8 billion in November 2025, which we expect to be refinanced.

We forecast negative FCF of AED1.1 billion by end-2024 and AED0.2 billion by end-2025, as a result of working-capital outflows of around AED1.4 billion for the TAG development, and expected group dividends. The group enjoys a net liquidity position.

We expect the group's liquidity score to remain healthy, exceeding 2x for 2024 and 2025, supported by a smooth debt maturity profile and ample RCF limits. Its policy is to maintain at least 18 months' liquidity coverage, but this was more than 2.5 years at end-1H24. MAF has a diverse capital structure comprising conventional bonds, bank lending, green sukuk and hybrid capital. It has no secured debt. In 2024, MAF repaid a maturing USD282 million conventional bond by drawing down on existing bank debt.

ISSUER PROFILE

MAF is a Dubai-based conglomerate, owning and operating a portfolio of 29 shopping malls, seven adjacent hotels across the Middle East, 464 Carrefour stores under franchise agreements, as well as entertainment and leisure assets.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Majid Al Futtaim Holding LLC	LT IDR Affirmed	BBB Rating Outlook Stable	BBB Rating Outlook Stable

	ST IDR	F3	Affirmed	F3
senior unsecured	LT	BBB	Affirmed	BBB
MAF Global Securities Limited				
senior unsecured	LT	BBB	Affirmed	BBB
subordinated	LT	BB+	Affirmed	BB+
MAF Sukuk Ltd.				
senior unsecured	LT	BBB	Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Sukuk Rating Criteria (pub. 13 Jun 2022)

Corporate Rating Criteria (pub. 04 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 22 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 03 Aug 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

MAF Global Securities Limited	UK Issued, EU Endorsed
MAF Sukuk Ltd.	UK Issued, EU Endorsed
Majid Al Futtaim Holding LLC	UK Issued, EU Endorsed

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