Majid Al Futtaim Holding LLC

December 20, 2024

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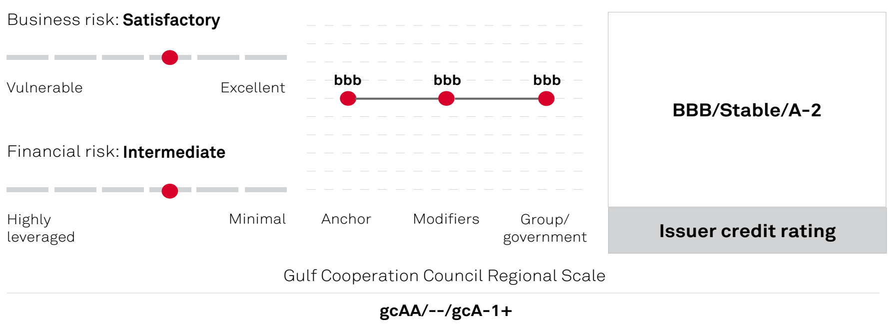
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
One of the largest private companies in the United Arab Emirates (UAE), with a diversified business mix (of mostly real estate) that generated $4.6 billion in revenue and $708.4 million in EBITDA in the first half of 2024.	Concentration on the domestic market in the UAE, where it generates 69% of EBITDA (first half of 2024), and where the retail real estate suffers from oversupply precluding rents upside, and high reliance on expats and tourists induces volatility in demand.
High-quality assets in the real-estate portfolio, including malls and hotels, which benefit from improving footfall, strong tenants' sale, rebound in tourism in Dubai, as well as a supportive economic outlook in the Gulf Cooperation Council (GCC).	Competitive retail segment, exposed to changing consumer behavior and growing share of online sales, accelerated by the pandemic.
Strong demand for residential real estate in Dubai that supported high pre-sales of the Tilal Al Ghaf (TAG) and Ghaf Woods projects.	High capital expenditure (capex) of asset-heavy operations, expected at UAE dirham (AED) 2 billion–AED2.5 billion over the next two-three years.
Long-standing and successful regional franchise with French international food retailer Carrefour S.A., operating 467 stores in 15 countries across the Middle East. Focus on the existing portfolio of assets, their renovation and upgrades, and no greenfield project under development--reducing execution risks.	Rising exposure to the cyclical real estate development with the TAG and Ghaf Woods ramp-up and potential 10%-15% EBITDA contribution in two-to-three years. This has increased Majid Al Futtaim's (MAF) working capital requirements in 2022-2023 but is expected to reduce in 2025-2026. Global economic pressures will weigh on demand and discretionary spending in the region in 2024-2025 as high inflation persists.

We forecast stable profitability for 2024-2026 supported by improvement in MAF Properties and MAF Lifestyle while MAF Retail’s performance will be negatively impacted by weak

macro-economic conditions. We anticipate revenue to decline by 2%-3% in 2024 as the weaker performance of MAF retail is expected to offset growth only partly in properties and lifestyle divisions. Nevertheless, we expect S&P Global Ratings-adjusted EBITDA margin of 15%-16% in 2024 (16.7% for first-half 2024) supported by the ramping-up of residential real estate projects such as Tilal Al Ghaf (TAG) and Ghaf Woods, the resilient mall leasing operations and growth in lifestyle segment on the back of increasing market presence. MAF's retail segment contributes about 70% towards revenue and constitutes about 12% of the reported EBITDA as of June 2024. We expect retail segment's revenue to decline by about 9% in 2024 owing to boycott in Jordan and Oman and currency devaluation in Egypt. Additionally, we also expect revenues to be negatively impacted by increased competition and change in consumer preferences. MAF Group has initialed a turnaround of this segment by rationalizing its portfolio and growing customer focus. Consequently, we conservatively anticipate that retail margins would remain below the five-year average of 5% at around 2%-3% in 2024. Going forward, we expect gradual recovery and ramp-up of online retail business to support a modest revenue growth of 1%-2% and subsequent margin improvement to 3%-4%.

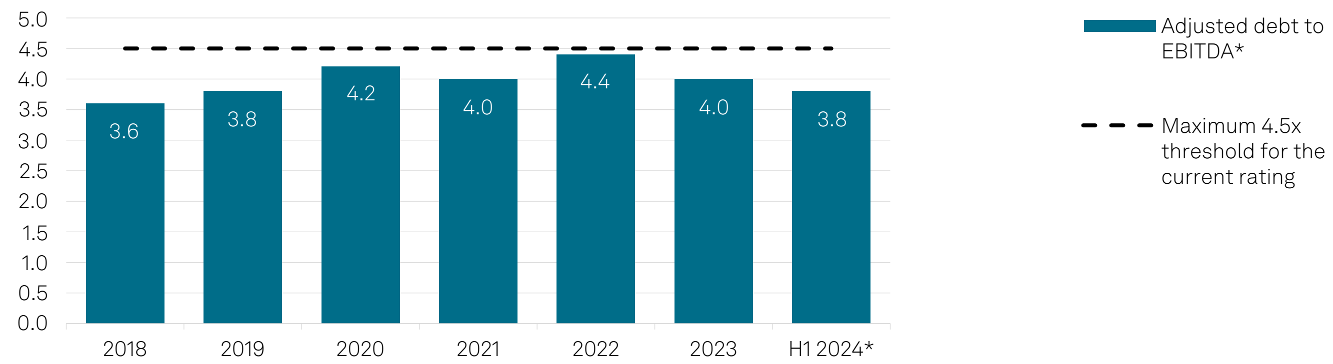
Higher working capital requirements and elevated capital spending will limit free operating cashflows (FOCF) in 2024, with significant improvement in 2025-2026, in our view. We believe that 2024 is the peak working capital requirement year as we anticipate substantial outflow of about AED1.5 billion due to the real estate development project TAG undergoing construction. Furthermore, we expect about 20% increase in capex to AED2 billion-AED2.3 billion mainly towards properties, retail segment, development of assets, store upgrades, and new concepts. Consequently, we expect S&P Global Ratings-adjusted FOCF of AED150 million – AED200 million in 2024, a significant decrease from AED601 million in 2023. We forecast cash flows to grow to about AED4 billion-AED5 billion from 2025 supported by incremental EBITDA generation and significant working capital reduction. EBITDA growth is expected to recover in some segments such as lifestyle, entertainment, and retail. In the following couple of years, we anticipate neutral working capital needs as handover of units in TAG will release cash in escrow, while sale and construction of newly launched Ghaf Woods will lead to cash outflows. Furthermore, we expect capex to be around AED2 billion – AED2.5 billion annually, no sizeable greenfield projects are included in our forecast. MAF is focused on maximizing the utilization of its existing assets and upgrading and modernizing the existing malls, while also optimizing its footprint. FOCF is therefore expected to improve to AED 1.1 billion -AED 1.5 billion in 2025-2026.

Continued substantial cashflow is expected from operations to support reduction in leverage in 2025-2026. MAF has increased its ratings headroom by reducing leverage; its S&P Global Ratings-adjusted debt to EBITDA lowered to 3.8x at the end of June 2024, from 4.0x at the end of 2023. We expect adjusted debt to EBITDA to remain at 4.0x-4.5x in 2024-2025 and drop below 4.0x in 2026. In addition, we view liquidity as strong, given that MAF has manageable refinancing needs of about $500 million per year in 2024-2025, and ample availability under its revolving credit facilities.

Chart 1

MAF Holding -- Adjusted debt to EBITDA evolution

As of June 30, 2024



*Rolling 12 months. Source: All figures adjusted by S&P Global Ratings.

Outlook

The stable outlook indicates that we expect MAF's revenue from its retail and entertainment divisions to contract in 2024, resulting in annual revenue declining by 2%-3% year on year. Revenue is expected to grow by 2%-3% in 2025- 2026. That said, EBITDA margins are expected to remain 15%-16% over the next 12-24 months. As the residential real estate development projects progress toward completion in 2025-2026, improved cash flow generation and higher EBITDA will accelerate the reduction in leverage, so that adjusted debt to EBITDA improves to below 4.0x by 2026 and remains at 4.0x-4.5x in 2024-2025.

Despite higher interest rates, we anticipate that EBITDA interest coverage will remain healthy at 4.5x-5.5x in 2024-2025 and above 5.5x in 2026. We do not consider the rating to be constrained by the credit quality of MAF Holding's parent, MAF Capital LLC, because we consider it to be similar to that of MAF Holding.

The property rentals business can tolerate higher financial leverage than retail and other businesses, in our opinion. We would likely adjust our target ratios if the property rental activities ceased to account for a substantial majority of the group's EBITDA.

Downside scenario

We could consider a downgrade if:

- MAF Holding's performance deteriorates and if its debt-to-EBITDA ratio exceeds 4.5x (3.8x as of June 30, 2024) without near-term prospects of recovery, and it was unable to maintain EBITDA interest coverage above 3.8x (4.2x as of June 30, 2024);
- The credit profile of its controlling parent materially weakens; or
- The group's corporate governance practices change, leading to a more aggressive financial policy that could weaken its commitment to the current rating level and leverage targets.

Upside scenario

We see limited upside potential in the next 24 months, given the expected pace of deleveraging. We could consider raising the rating if the group's debt to EBITDA sustainably reduced below 2.5x.

Our Base-Case Scenario

Assumptions

- Under our base case, we expect real GDP growth in the UAE to be 2.6%-5% 2024-2027 given softening of oil prices and stabilization of real estate sector. We forecast GDP growth to be about 1.4% in 2024 and 5.3% in 2025 in the Saudi Arabia; 1.8% and 2.4% in Qatar; 2.4% in 2024 and 3.8% in 2025 in Egypt; and 1.4% and 2.3% in Oman.
- In our view, persistent inflation--although not quite as prohibitive in the GCC region--will affect consumer spending in some of the group's markets. We expect the UAE's consumer price index (CPI) to average 2.5%-3.0% in 2024-2025; CPI will be much higher in Egypt at 32% in 2024 and 22% in 2025.
- We expect MAF's consolidated revenue to decrease by 2%-3% in 2024 later recovering by around 2%-3% in 2025-2026. We anticipate MAF's retail segment's revenue to decline by 8%-9% in 2024 owing to heavy competition and boycott in Middle east. We believe this would only partially be offset by the rising contribution from the real estate development projects TAG and Ghaf Woods. However, we also expect positive dynamics in mall leasing operations on the back of organic growth, resilient occupancy levels of about 96%. We forecast revenues to grow by 2%-3% in 2025 -2026 supported by growth in mall leasing operations, recovery in segments such as retail, lifestyle, entertainment, and further sales in its residential projects.
- We forecast EBITDA margins to be broadly stable at 15%-16% in 2024-2026.
- Capex of AED2.0 billion-AED2.3 billion in 2024 and AED2.3 billion-AED2.6 billion annually in 2025-2026 to be spent mainly on development properties and enhancement and replacement for shopping malls.
- Dividend payments to the parent MAF Capital and hybrid note holders of AED100 million-AED150 million in 2024 and AED700 million-AED800 million per year in 2025-2026.

Key metrics

Majid Al Futtaim Holding LLC--Key metrics

	2021a	2022a	2023a	RTM H1 2024a	2024e	2025f	2026f
Revenue growth (%)	(0.9)	12.5	(5.0)	(13.0)	(2.0)-(4.0)	3.0-4.0	2.0-3.0
EBITDA margin (%)	14.6	13.4	15.5	16.7	14.0-15.0	14.0-15.0	16.0-17.0
Adjusted ratios							
Debt/EBITDA (x)	4.0	4.4	4.0	4.2	4.0-4.5	3.5-4.0	3.0-3.5
EBITDA interest coverage (x)	5.3	5.1	4.2	3.8	4.8-5.2	6.0-6.5	6.5-7.0

a--Actual. e--Estimate. f--Forecast. RTM--Rolling 12 months.

Company Description

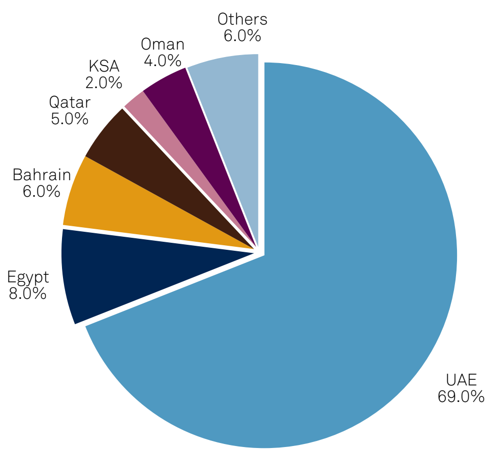
MAF owns and operates 29 shopping malls across the UAE and four other countries in the Middle East and North Africa, with over 1.8 million square meters of gross leasable area--including eight superregional malls, across the Middle East. Additionally, it owns seven hotel properties in the UAE and Bahrain. The group operates 467 hypermarkets and supermarkets across the Middle East through an exclusive franchise agreement with France-based international food retailer Carrefour (the world's second-largest food retailer) that runs until 2025.

MAF is owned by nine shareholders, the family members of the founder Majid Al Futtaim. The group's governance is based on the delegation of authority from the shareholders to the board, characterized by experienced and reputable independent members at both the holding and operating levels of the group.

Chart 2

MAF Holding -- Reported EBITDA by segment

As of 30th June 2024 (H1-2024)

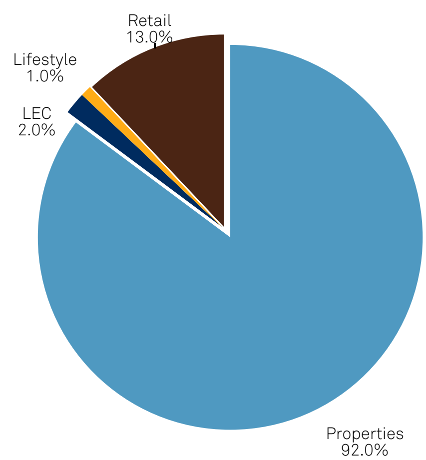


1H--First half. Source: Company disclosures.

Chart 3

MAF Holding -- Reported EBITDA by segment

As of 30th June 2024 (H1-2024)



1H--First half. Source: Company disclosures.

Peer Comparison

Majid Al Futtaim Holding LLC--Peer Comparisons

	Majid Al Futtaim Holding LLC	Unibail-Rodamco-Westfield SE	Mercialys	Klepierre S.A.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Positive/A-2
Local currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	AED	AED	AED	AED

Majid Al Futtaim Holding LLC--Peer Comparisons

Revenue	34,497	10,707	706	5,002
EBITDA	5,356	8,345	615	4,029
Funds from operations (FFO)	4,129	3,383	495	3,177
Interest	1,271	2,713	134	546
Cash interest paid	1,067	4,664	118	625
Operating cash flow (OCF)	2,462	5,830	440	3,294
Capital expenditure	1,861	4,505	91	855
Free operating cash flow (FOCF)	601	1,325	349	2,440
Discretionary cash flow (DCF)	133	398	(58)	279
Cash and short-term investments	2,041	22,340	480	1,456
Gross available cash	2,041	22,340	480	1,456
Debt	21,454	90,426	4,374	31,287
Equity	31,717	80,417	6,987	40,680
EBITDA margin (%)	15.5	77.9	87.1	80.6
Return on capital (%)	4.2	3.7	3.1	5.2
EBITDA interest coverage (x)	4.2	3.1	4.6	7.4
FFO cash interest coverage (x)	4.9	1.7	5.2	6.1
Debt/EBITDA (x)	4.0	10.8	7.1	7.8
FFO/debt (%)	19.2	3.7	11.3	10.2
OCF/debt (%)	11.5	6.4	10.1	10.5
FOCF/debt (%)	2.8	1.5	8.0	7.8
DCF/debt (%)	0.6	0.4	(1.3)	0.9

Financial Risk

Majid Al Futtaim Holding LLC--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	AED	AED	AED	AED	AED	AED
Revenues	34,655	35,156	32,575	32,291	36,319	34,497
EBITDA	5,339	5,363	4,623	4,700	4,860	5,356
Funds from operations (FFO)	4,235	4,506	3,841	3,860	3,939	4,129
Interest expense	1,064	1,131	998	885	959	1,271
Cash interest paid	1,034	776	689	698	795	1,067
Operating cash flow (OCF)	4,533	5,675	3,914	4,652	3,064	2,462
Capital expenditure	4,759	3,924	2,092	2,438	2,472	1,861
Free operating cash flow (FOCF)	(226)	1,751	1,822	2,214	592	601
Discretionary cash flow (DCF)	(1,710)	734	1,071	1,441	(173)	133
Cash and short-term investments	1,516	1,406	3,699	1,601	1,728	2,041

Majid Al Futtaim Holding LLC--Financial Summary

Gross available cash	1,516	1,406	3,699	1,601	1,728	2,041
Debt	19,275	20,269	19,331	18,761	21,245	21,454
Common equity	33,594	30,428	25,533	27,404	29,154	31,717
Adjusted ratios						
EBITDA margin (%)	15.4	15.3	14.2	14.6	13.4	15.5
Return on capital (%)	6.8	6.3	5.1	5.2	5.6	4.2
EBITDA interest coverage (x)	5.0	4.7	4.6	5.3	5.1	4.2
FFO cash interest coverage (x)	5.1	6.8	6.6	6.5	6.0	4.9
Debt/EBITDA (x)	3.6	3.8	4.2	4.0	4.4	4.0
FFO/debt (%)	22.0	22.2	19.9	20.6	18.5	19.2
OCF/debt (%)	23.5	28.0	20.2	24.8	14.4	11.5
FOCF/debt (%)	(1.2)	8.6	9.4	11.8	2.8	2.8
DCF/debt (%)	(8.9)	3.6	5.5	7.7	(0.8)	0.6

Reconciliation Of Majid Al Futtaim Holding LLC Reported Amounts With S&P Global Adjusted Amounts (Mil. AED)

		Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023										
Company reported amounts		16,886	33,065	34,497	5,304	3,790	1,252	5,356	3,349	287	1,864
Cash taxes paid		-	-	-	-	-	-	(160)	-	-	-
Cash interest paid		-	-	-	-	-	-	(945)	-	-	-
Lease liabilities		3,851	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)		1,642	(1,642)	-	-	-	119	(119)	(119)	(119)	-
Postretirement benefit obligations/ deferred compensation		788	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments		(1,791)	-	-	-	-	-	-	-	-	-
Capitalized interest		-	-	-	-	-	3	(3)	(3)	-	(3)
Dividends from equity investments		-	-	-	52	-	-	-	-	-	-
Nonoperating income (expense)		-	-	-	-	233	-	-	-	-	-
Reclassification of interest and dividend cash flows		-	-	-	-	-	-	-	(765)	-	-

Reconciliation Of Majid Al Futtaim Holding LLC Reported Amounts With S&P Global Adjusted Amounts (Mil. AED)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Noncontrolling/ minority interest	-	293	-	-	-	-	-	-	-	-
Debt: Fair value adjustments	78	-	-	-	-	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(1,848)	-	-	-	-	-
Interest: Derivatives	-	-	-	-	-	(103)	-	-	-	-
Dividends: other	-	-	-	-	-	-	-	-	300	-
Total adjustments	4,568	(1,349)	-	52	(1,615)	19	(1,227)	(887)	181	(3)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	21,454	31,717	34,497	5,356	2,175	1,271	4,129	2,462	468	1,861

Liquidity

We consider the MAF Group's liquidity position as strong, and we calculate that the group's liquidity sources should exceed liquidity needs by more than 1.5x over the next 12 months and more than 1.0x over the following 12 months. As of Sept. 30, 2024, the ratio for the next 12 months was about 3.2x. In our view, MAF Holding's current liquidity profile provides a sufficient buffer to face rising interest rate risk and growing funding needs for real estate development business. Liquidity position as on Sept 30, 2024, is as below:

Principal liquidity sources

- Cash and deposits of AED5.1 billion as of Sept. 30, 2024 including AED4 billion of cash held in escrow, but that we consider available to fund construction based on advancement;
- Committed unused credit lines of about AED7 billion, with the earliest maturity in 2027; and
- Expected group operating cash flow of AED3.3 billion-AED3.8 billion in the next 12 months.

Principal liquidity uses

- Short -term debt maturities of AED182 million;
- Material working capital outflows of AED300 million-AED400 million in next 12 months;
- Capex between AED2.0 billion-AED2.5 billion; and
- AED500 million-AED600 million dividends and hybrid-related payments (we consider 50% of hybrid coupons to be dividends).

Covenant Analysis

Requirements

Headroom under the covenants is adequate, with MAF Holding's net worth in excess of $8 billion, interest coverage at 4.2x, and net debt to equity at 0.4x as of Jun. 30, 2024.

Compliance expectations

MAF Holding must comply with three covenants, stipulating a minimum net worth of $4.1 billion, minimum interest coverage of 2.0x, and maximum debt to equity of 0.7x.

Environmental, Social, And Governance

Governance factors are a moderately positive consideration in our analysis of MAF. Ambitious sustainability targets, above-average transparency, clear and comprehensive investment strategies, and financial policies enhance our view of governance principles--which we continue to monitor in the light of recent evolutions. The group saw significant changes in its ownership at the end of 2021 (increasing from one shareholder to nine). It also saw changes in its management following the unexpected appointment of a new CEO in January 2023. We also understand that the service contracts of the current non-executive directors of the board of directors shall expire on Feb. 8, 2025 and that a general assembly is scheduled for Feb. 6, 2025, whereby the election of new directors of the company will be on the agenda. These changes raise some uncertainty about the group's strategy. However, we understand that the governance framework should remain broadly unchanged, because the group remains governed by the same comprehensive set of enterprise risk policies--which we understand the new shareholders do not currently wish to change. The CEO had previously occupied senior positions within the group. We will closely monitor how MAF's management and governance, currently assessed as strong, evolves over the coming months. This development, in isolation, is unlikely t^{2}o affect the ratings.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2024, MAF's capital structure comprises a $500 million sukuk due in November 2025; a $600 million sukuk due in May 2029; a $600 million sukuk due in February 2030; a $100 million sukuk maturing in November 2028; and a $500 million sukuk due in June 2033.

The capital structure also includes two hybrid capital securities totaling $900 million.

Analytical conclusions

We rate MAF's senior unsecured instruments 'BBB', in line with the issuer credit rating (ICR). This is because the proportion of the group's priority debt at subsidiaries that could create structural subordination for the senior unsecured debtholders is 44%, while our threshold for notching issue ratings downward from ICRs is 50%.

We consider the hybrid capital securities to have intermediate equity content until the first call dates in 2026 ($400 million) and 2027 ($500 million), because they meet our hybrid capital criteria in terms of their subordination, permanence, and optional deferability during this period.

We arrive at our 'BB+' issue rating on the hybrid capital securities by notching down from our 'BBB' long-term ICR on MAF Holding. The notching reflects our view that there is a relatively low likelihood that MAF Holding would defer interest payment on the hybrid capital securities. If our view changes, however, we could significantly increase the number of notches deducted from the ICR to derive the issue rating. In addition, we would apply a one-notch deduction for subordination if we lowered the ICR on MAF Holding to 'BB+' or below.

Rating Component Scores	
Foreign currency issuer credit rating	**BBB/Stable/A-2**
Local currency issuer credit rating	**BBB/Stable/A-2**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

Ratings Detail (as of December 20, 2024)*		
Majid Al Futtaim Holding LLC		
Issuer Credit Rating		BBB/Stable/A-2
Gulf Cooperation Council Regional Scale		gcAA/--/gcA-1+
Issuer Credit Ratings History		
05-Apr-2011		BBB/Stable/A-2
24-Dec-2018	*Gulf Cooperation Council Regional Scale*	gcAA/--/gcA-1+
30-Sep-2014		gcAA/--/gcA-1
05-Apr-2011		gcA+/--/gcA-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.