

Emirates REIT

CMP: USD0.724

MCap: USD219.3m

ADD

Target Price: USD1.14

Free Float: 62.7%

Company Update

Upside: 57%

Bloomberg: REIT DU

12-Jun-2019

Emirates REIT IQ19 Results: Earnings turn green but dampened by unrealised losses and higher financing costs. IQ19 FFO at USD3.3mn and dividend maintained at USD0.08 per share for FY18, bridged by debt. Maintain ADD.

- Emirates REIT IQ19 FFO clocked in at USD3.3mn compared to USD3.5mn in IQ18 and USD3.1mn in 4Q18. IQ19 NAV per share stands at USD1.70 compared to USD1.73 in IQ18 and USD1.74 in 4Q18. Occupancy at 76% (ex BCCS impact at 82%) compared to 84% in IQ18 and 75% in 4Q18
 - Emirates REIT posted IQ19 net profit of USD1.6mn compared to USD10.1mn in IQ18 and net loss of USD8.7mn in 4Q18. YoY decline was due to unrealised loss of USD0.7mn (unrealized gain of USD6.6mn in IQ18) and 22.9% YoY hike in finance costs
 - Emirates REIT proposed USD0.04 per share dividend for 2H18, taking FY18 dividend to USD0.08 per share, flat compared to FY17
 - We maintain ADD recommendation (TP USD 1.14 per share, upside 57%) as we view the recent correction (21.5% YTD) to have priced in BCCS operators default and unrealised losses. More so, we expect the company to maintain absolute payout (USD0.08/share – dividend yield of 11.1%), providing further cushion against capital losses
 - Having said that, we flag sustained non occupancy of BCCS and below estimated occupancy of Index Tower as key risk to financial performance of the company and our estimates
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Emirates REIT IQ19 earnings turn green but YoY growth dampened by unrealised losses and higher financing costs: Emirates REIT reported IQ19 net profit of USD1.6mn compared to USD10.1mn in IQ18 and net loss of USD8.7mn in 4Q18. Though, the profit turned green in IQ19 but YoY growth (down 84%) was due to unrealised loss of USD0.7mn (gain of USD6.6mn in IQ18) and 22.9% YoY hike in finance costs to USD6.3mn. Occupancy at 76% is negatively affected by school operators default (excluding school at 82%, 84% in IQ18, 75% in 4Q18), negating improvement occupancy of Index Tower to 52% (34% in IQ19, 50% in 4Q18). As per expectation, Emirates REIT maintained their absolute payout, proposing USD0.04 per share dividend for 2H18, taking FY18 dividend to USD0.08 per share (FY17 DPS USD0.08).

FFO up QoQ, but remains subpar on higher financing costs and school operator's default: IQ19 FFO at USD3.3mn (IQ18 USD3.5mn, 4Q18 USD3.1mn), remains below par on the back of negative impact of higher financing costs and school operator's default offsetting 8.4% YoY improvement in revenue coming from higher occupancy at Index Tower and additions. Management updating on British Columbia Canadian School (BCCS) disclosed that they are in talks with various operators. However, nothing has been finalised yet. BCCS operational contract remains key for the company's financial performance and our estimates, going forward.

B/S remains unchanged QoQ, LTV at 46%: During IQ19, finance costs have increased by 22.9% YoY, while remaining flat QoQ. The YoY increase is attributable to drawdown of Islamic facility of 65.9mn (total available facility USD121.7mn). IQ19 LTV at 46% against DFSA limit of 65% and sukuk covenant limit of 60% allows further room for raising funding. The balance sheet remains relatively stable QoQ, where net asset value stand at USD510mn as of IQ19 compared to USD520mn as of 4Q18. Emirate REIT has unexpired lease term (WAULT) stands at healthy 7.5 years (IQ19 at 8.0 years, 4Q18 at 7.8 years).

Our take on the results: The IQ19 earnings remain below our expectation in the absence of non-cash gains. However, the company maintained its absolute dividend. We believe, 21.5% YTD correction of the stock has priced in the school operator's default and unrealised losses. We maintain our ADD recommendation and expect the schools operations to commence soon. Additionally, we expect the company to maintain its absolute dividend payment for 2019 bridged by debt, translating into an attractive dividend yield of 11.1%. Having said that, we flag failure to secure school operating contract for longer period and below expectation occupancy of Index Tower as key risk to company performance and our estimates.

Source: Company Data, SHUAA Research

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SHUAA Capital Rating Methodology

Buy / Add/ Overweight: The stock is expected to outperform relative to the benchmark index.

Hold/ Neutral/ Equalweight: The stock is expected to perform in-line relative to the benchmark index.

Reduce/ Sell/ Underweight: The stock is expected to underperform relative to the benchmark index.

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Date Published	Stock Price (USD)	Recommendation	Target Price (AED)
14-Jun-2018	1.03	ADD	1.31
29-Aug-2018	1.01	ADD	1.31
07-Nov 2018	0.95	ADD	1.31
29- Apr 2019	0.74	ADD	1.14

Disclosure: SHUAA Capital psc is regulated by the United Arab Emirates Securities and Commodities Authority under license number 703036. SHUAA Capital International Limited, a wholly owned subsidiary by SHUAA Capital psc, is providing Liquidity Provision activities to the entity mentioned in this report.

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