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Majid Al Futtaim Holding LLC

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Majid Al Futtaim Holding LLC

Business Risk: SATISFACTORY

Vulnerable — Excellent

Financial Risk: INTERMEDIATE

Highly leveraged — Minimal

Anchor	Modifiers	Group/Gov't
bbb	bbb	bbb

CORPORATE CREDIT RATING

BBB/Stable/A-2

Gulf Cooperation Council Regional Scale

gcAA/--/gcA-1

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• High quality of assets in the group's real estate portfolio. • Strong management team, with a good track record of building successful green-field developments. • Longstanding and successful regional franchise with international food retailer Carrefour. • Geographic concentration in Dubai, and high exposure to development activity and countries we consider as subject to relatively high country risk.	• High operating cash flow. • Prudent liquidity management. • High capital expenditures, though mostly discretionary.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' expectation that the performance of the Dubai-based real estate and retail operations of Majid Al Futtaim Holding LLC (MAF Group) will remain strong over the next 24 months. Strong cash flow generation for the group as a whole should enable it to continue its growth strategy without weakening its financial leverage metrics, in our view.

Based on the current business mix of over 65% of EBITDA derived from property rental activities, we anticipate that United Arab Emirates (UAE)-based MAF Group will maintain a ratio of debt-to-EBITDA below 4.5x and EBITDA interest cover of above 3.8x in 2016. These ratios are commensurate with a modest financial risk profile, which we adjust downward by one category to intermediate to reflect our expectation of somewhat higher volatility in MAF Group's non-real estate operations. These ratios stood at 3.5x and 5.4x, respectively, on Dec. 31, 2015.

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

Upside scenario

We see limited upside potential at present, given the group's high geographic concentration in Dubai and its relatively significant development exposure compared with the group's property-investment-company peers. We could raise the rating if the group was able to achieve a debt-to-EBITDA ratio of less than 2.5x while maintaining EBITDA interest cover above 4.5x. We could also raise the rating if MAF Group was able to significantly diversify EBITDA geographically.

Downside scenario

We could consider downgrading MAF Group if it was unable to keep its debt-to-EBITDA ratio below 4.5x and EBITDA interest cover ratio above 3.8x.

S&P Global Ratings' Base-Case Scenario

Assumptions

- Capital expenditures of up to UAE dirham (AED) 6.1 billion (US$1.7 billion) in 2016 and AED4.9 billion (US$1.3 billion) in 2017.
- With the opening of Mall of Egypt and the Al Barsha Mall in 2016, and the planned openings of another 20 hypermarkets and 29 supermarkets in 2016 and 2017, we expect group revenues to grow by approximately 10%-11% in 2016 and 2017.
- A modest decrease in gross margins, as new assets take time to season, along with higher staff costs at the corporate headquarter level.

Key Metrics

	2015A	2016E	2017E
Debt/EBITDA* (x)	3.5	<4.5	<4.5
EBITDA interest cover (x)	5.4	3.8-4.5	3.8-4.5

*S&P Global Ratings' adjustments for operating lease commitments, retiree liabilities, accrued interest, and the debt content of the hybrid instrument add AED4.1 billion (US$1.1 billion) to reported consolidated debt as of Dec. 31, 2015. A--Actual. E--Estimate.

Company Description

MAF Group owns 15 shopping malls, including four super regional malls, across the Middle East. Additionally, it owns 10 hotel properties in Dubai and two hotels in Bahrain's capital, Manama. It operates 72 Carrefour hypermarkets across 15 countries through an exclusive franchise agreement with the France-based international food retailer Carrefour S.A., the world's second-largest food retailer. MAF Group's malls enjoy high occupancy rates.

A single shareholder, Mr. Majid Al Futtaim, controls the group. Risks associated with the concentrated shareholder structure have been mitigated by the adoption of a comprehensive set of governance standards, and experienced and reputable board members at both the holding and operating company levels.

Business Risk : Satisfactory

MAF Group's business strengths include its high asset quality, with high occupancy rates of 98% average for the portfolio and strong footfall of 171 million visitors for all of its shopping malls. MAF Group is a leading food retailer in the Middle East, operating under a longstanding and successful regional franchise agreement with international food retailer Carrefour. These strengths are mitigated by its high geographic concentration, with about 73% of 2015 EBITDA derived from assets located in the UAE (mainly in the Emirate of Dubai). The rapid expansion of Carrefour hypermarkets across the region may help reduce the concentration somewhat. MAF Group is looking to increase its number of hypermarkets to more than 100 over the coming four years in the region, including in politically unstable countries, such as the Arab Republic of Egypt, the Kingdom of Bahrain, and few African nations. It has high exposure to development activity, with a very large mall under development (Mall of Egypt), and plans to build further malls in the Egyptian capital Cairo, Oman's capital Muscat, the Emirate of Abu Dhabi, Emirate of Sharjah, and the Saudi Arabian capital of Riyadh.

S&P Global Ratings' Base-Case Operating Scenario

We foresee low double-digit revenue growth on the back of ambitious expansion of both the retail and rental businesses over the next two years. We expect modest decrease in operating margins over the same period, based on oil-related macroeconomic pressures in the regions where MAF Group operates.

Peer comparison

MAF Group's EBITDA margin is lower than that of its property investment company peers, due to the lower margins of its retail operations. However, MAF Group's interest coverage and cash flow-to-debt ratios are stronger than those of similarly rated property company peers, since we consider retail operations more volatile. We consequently expect stronger leverage ratios for MAF Group than for pure property investment company peers. Europe-based peers also benefit from lower country risk.

Table 1

Majid Al Futtaim Holding LLC -- Peer Comparison

Industry Sector: Real Estate Investments

	Majid Al Futtaim Holding LLC	Emaar Malls Group PJSC	Mercialys	Klepierre S.A.	Unibail-Rodamco
Rating as of June 6, 2016	BBB/Stable/A-2	BBB-/Stable/--	BBB/Stable/A-2	A-/Stable/A-2	A/Stable/A-1
	--Fiscal year ended Dec. 31, 2015--				
(Mil. US$)					
Revenues	7,445	815	176	1,422	2,149
EBITDA	1,150	613	154	1,040	1,556
Funds from operations (FFO)	933	551	120	741	1,180
Net income from cont. oper.	893	451	86	(543)	2,535
Cash flow from operations	973	639	119	630	1,164
Capital expenditures	1,152	147	541	316	1,353
Free operating cash flow	(179)	491	(422)	314	(189)
Discretionary cash flow	(313)	491	(585)	(107)	(1,261)
Cash and short-term investments	380	863	14	449	372
Debt	4,046	1,361	1,515	9,890	15,014
Equity	8,390	4,205	2,173	12,740	20,903
Adjusted ratios					
EBITDA margin (%)	15.5	75.2	87.6	73.1	72.4
Return on capital (%)	9.4	9.5	3.8	(1.1)	5.1
EBITDA interest coverage (x)	5.4	8.7	5.0	3.7	4.5
FFO cash int. cov. (X)	8.5	8.8	5.9	2.7	3.3
Debt/EBITDA (x)	3.5	2.2	9.9	9.5	9.6
FFO/debt (%)	23.1	40.5	7.9	7.5	7.9
Cash flow from operations/debt (%)	24.0	46.9	7.9	6.4	7.8
Free operating cash flow/debt (%)	(4.4)	36.1	(27.8)	3.2	(1.3)

Table 1

Majid Al Futtaim Holding LLC -- Peer Comparison (cont.)					
Discretionary cash flow/debt (%)	(7.7)	36.1	(38.6)	(1.1)	(8.4)
Loan to value (%)	35.8	10.1	42.0	45.9	38.3

Financial Risk : Intermediate

Our view of MAF Group's financial risk profile as intermediate incorporates our weighted average projection of debt-to-EBITDA below 4.5x and strong EBITDA interest cover of above 3.8x. High capital expenditures will likely put its free operating cash flow generation under pressure in 2016-2017. However, its ability to curtail capital expenditures at short notice (one month) and at a manageable cost (reimbursement of contractors' demobilization costs), combined with its prudent liquidity management, provides additional support, in our opinion.

We classify MAF Group as volatile under our cash flow criteria because we think its cash flow and leverage ratios will likely weaken by one or two categories during periods of stress. We therefore apply a one-category downward adjustment to our initial financial risk score for MAF Group, which results in our assessment of its financial risk profile as intermediate rather than modest.

S&P Global Ratings' Base-Case Cash Flow And Capital Structure Scenario

In our base-case assessment, we anticipate that MAF Group will generate about AED3 billion of operating cash flow in 2016, but may incur capital expenditures of up to AED6.1 billion, depending on new opportunities in Cairo and Riyadh in particular, which could result in negative free cash flow. However, we expect MAF Group will likely maintain its debt-to-EBITDA ratio below 4.5x and EBITDA interest coverage ratio above 3.8x in 2016 and 2017, despite its sizable capital expenditures. These ratios were 3.5x and 5.4x, respectively, on Dec. 31, 2015.

We view positively MAF Group's loan-to-value ratio at less than 45%, compared with 36% on Dec. 31, 2015. Our calculation is based on our adjusted consolidated debt divided by tangible fixed assets.

Financial summary

Table 2

Majid Al Futtaim Holding LLC -- Financial Summary					
Industry Sector: Real Estate Investments					
	--Fiscal year ended Dec. 31--				
	2015	**2014**	**2013**	**2012**	**2011**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
(Mil. AED)					
Revenues	27,343.3	25,223.6	22,886.8	20,824.3	19,589.8
EBITDA	4,224.8	4,067.6	3,662.1	3,329.8	3,052.3
Funds from operations (FFO)	3,428.1	3,219.4	2,790.5	2,488.5	2,269.0
Net income from continuing operations	3,279.2	2,548.8	1,865.2	1,792.6	572.2
Cash flow from operations	3,573.6	3,258.8	2,719.9	2,730.8	2,542.8
Capital expenditures	4,231.7	3,876.7	2,196.7	1,516.3	1,499.2

Table 2

Majid Al Futtaim Holding LLC -- Financial Summary (cont.)					
Free operating cash flow	(658.2)	(617.8)	523.2	1,214.5	1,043.6
Discretionary cash flow	(1,148.7)	(898.3)	190.6	1,120.9	925.5
Cash and short-term investments	1,394.3	1,049.9	1,300.1	2,719.4	2,395.3
Debt	14,859.0	12,632.8	12,091.6	11,465.6	11,504.4
Equity	30,813.3	27,005.3	23,245.4	21,942.7	19,987.9
Adjusted ratios					
EBITDA margin (%)	15.5	16.1	16.0	16.0	15.6
Return on capital (%)	9.4	9.0	8.3	8.8	5.4
EBITDA interest coverage (x)	5.4	5.0	4.3	4.0	3.9
FFO cash int. cov. (x)	8.5	6.5	6.5	7.5	5.0
Debt/EBITDA (x)	3.5	3.1	3.3	3.4	3.8
FFO/debt (%)	23.1	25.5	23.1	21.7	19.7
Cash flow from operations/debt (%)	24.0	25.8	22.5	23.8	22.1
Free operating cash flow/debt (%)	(4.4)	(4.9)	4.3	10.6	9.1
Discretionary cash flow/debt (%)	(7.7)	(7.1)	1.6	9.8	8.0
Loan to value (%)	35.8	35.3	38.1	39.1	40.6

AED--UAE dirham.

Liquidity : Strong

We consider MAF Group's liquidity position to be strong and 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 Dec. 31, 2015, this ratio was over 2x.

Furthermore, we view positively that 13 out of 15 malls are currently unencumbered and could be used as collateral for new debt in a stress scenario, subject to the negative pledge cap of 49% (compared with 3% as of Dec. 31, 2015). Additionally secured debt as ratio of gross debt was only 14% as of Dec. 31, 2015.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and deposits of AED1.4 billion, as of Dec. 31, 2015. • Committed unused credit lines of AED7.7 billion, most of which are not due until September 2018 and beyond. • We expect the group's operating cash flow will be between AED2.8 billion-AED3.2 billion annually over the next two years. • New Syndicate with banks placed in March 2016 for AED1 billion (Egyptian pound 2.5 billion) to finance a new shopping mall in Egypt.	• Short-term debt maturities of AED2.2 billion. (AED100 million after adjustment for short-term draw down under the long-term committed facilities). • Capital expenditures and acquisitions of up to AED6.1 billion, according to our forecast, over half of which we consider discretionary and consequently could be delayed or cancelled at short notice (one month) and at a manageable cost (reimbursement of contractors' demobilization costs). • AED500 million-AED550 million of dividend and hybrid-related payments (with 50% of hybrid coupons considered as dividends under S&P Global Ratings' criteria).

Debt maturities
As of Dec. 31, 2015: • 2016: AED2.2 billion. • 2017 and thereafter: AED8.5 billion.

Covenant Analysis

Covenant headroom is adequate, with net worth of AED31.7 billion, interest coverage of 13.4x, and net debt to equity of 0.3x on Dec. 31, 2015.

Compliance Expectations
• Minimum net worth of AED15 billion. • Minimum interest coverage of 2.5x. • Maximum debt to equity of 0.7x.

Other Credit Considerations

No modifiers have any impact on the rating. We assess the group's management and governance as strong. The score primarily reflects our view of MAF Group's strong senior management team for both the real estate and retail businesses, with vast experience and good track records in their respective areas.

We rate MAF Group's subordinated perpetual notes at 'BB+'. We consider these hybrid capital securities to have intermediate equity content until their first call dates in 2018, 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 corporate credit rating (CCR) on MAF Group. The notching of the hybrid capital securities reflects our view that there is a relatively low likelihood that MAF Group will defer interest payment. If our view changes, however, we could significantly increase the number of downward notches to our issue rating. In addition, we would apply a two-notch deduction for subordination if we downgraded the CCR on MAF Group to a speculative-grade rating of 'BB+' or below.

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2015--							
Majid Al Futtaim Holding LLC reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**
Reported	10,732	31,363	3,795	3,813	425	3,795	3,885	556
S&P Global Ratings' adjustments								
Interest expense (reported)	--	--	--	--	--	(425)	--	--
Interest income (reported)	--	--	--	--	--	66	--	--
Current tax expense (reported)	--	--	--	--	--	(88)	--	--
Operating leases	3,743	--	413	232	232	182	182	--
Intermediate hybrids reported as equity	918	(918)	--	--	65	(65)	(65)	(65)
Postretirement benefit obligations/deferred compensation	481	--	--	--	--	--	(63)	--
Surplus cash	(1,046)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	129	(129)	--	--
Dividends received from equity investments	--	--	17	--	--	17	--	--
Non-operating income (expense)	--	--	--	(41)	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(365)	--
Non-controlling Interest/Minority interest	--	368	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	31	--	--	--	--	--	--	--

Table 3

Reconciliation Of Majid Al Futtaim Holding LLC Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. AED) (cont.)								
Interest expense - Derivatives	--	--	--	--	(77)	77	--	--
Total adjustments	4,127	(550)	430	191	350	(366)	(312)	(65)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**
Adjusted	14,859	30,813	4,225	4,005	775	3,428	3,574	491

AED--UAE dirham.

Ratings Score Snapshot

Corporate 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

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria And Research

Related Criteria

- Standard & Poor's National And Regional Scale Mapping Tables, Jan. 19, 2016
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec 16, 2014

- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 6, 2016)

Majid Al Futtaim Holding LLC		
Corporate Credit Rating		BBB/Stable/A-2
Gulf Cooperation Council Regional Scale		gcAA/--/gcA-1
Junior Subordinated		BB+
Senior Unsecured		BBB
Corporate Credit Ratings History		
05-Apr-2011		BBB/Stable/A-2
30-Sep-2014	*Gulf Cooperation Council Regional Scale*	gcAA/--/gcA-1
05-Apr-2011		gcA+/--/gcA-1
Related Entities		
Majid Al Futtaim Properties LLC		
Senior Unsecured		BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.

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