

CREDIT OPINION

8 September 2023

Update



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RATINGS

Arada Developments LLC

Domicile	United Arab Emirates
Long Term Rating	B1
Type	LT Corporate Family Ratings
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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Arada Developments LLC

Update to credit analysis

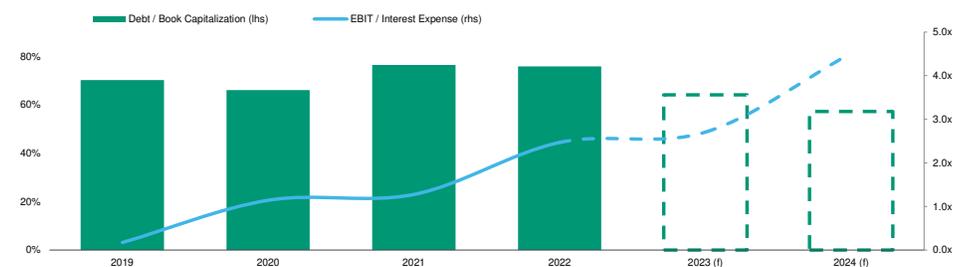
Summary

The B1 ratings assigned to Arada Developments LLC (Arada) incorporates its (1) unique market position in the Emirate of Sharjah ([Sharjah, Ba1 stable](#)), with our expectation that Arada will have long-term access to premium and well-located land plots; (2) strong track record of support from strategic and influential shareholders; (3) good profitability and revenue visibility within Sharjah's property market, as a result of healthy demand for Arada's bespoke and good quality master development projects; and (4) adequate liquidity profile.

The rating also reflects Arada's (1) small scale and limited operating track record in developing and delivering properties through economic cycles; (2) revenue concentration in two projects and the lack of geographic diversification outside Sharjah, despite the company's ongoing expansion plans into the Dubai's property market; (3) relatively aggressive property development's funding policy, albeit improving under the newly launched projects; and (4) exposure to the cyclical property sector.

Exhibit 1

Credit metrics to improve gradually as the company executes on its project pipeline



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's adjusted total debt includes the addition of about AED1.0 billion, representing the present value of Aljada's AED1.6 billion bullet land payment due to the Government of Sharjah in 2029. 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

- » Good quality master development projects and unique market position in Sharjah
- » Our expectation of long-term access to a sizable and well located land-bank in Sharjah
- » Strong track record of support from strategic and influential shareholders
- » Good profitability and revenue visibility for the next 12-18 months

Credit challenges

- » Small scale and limited operating track record
- » Operational and geographical concentration in Sharjah
- » Aggressive property development's funding policy
- » Exposure to the cyclical property sector

Rating outlook

The stable outlook reflects our expectation that Arada's financial performance will remain strong over the next 12-18 months and will continue to benefit from the recent positive trends in the UAE's property sector.

Factors that could lead to an upgrade

Arada's rating could be upgraded should the company significantly increase its scale, strengthen its business and liquidity profile, and demonstrate over time, a robust operating track record in developing and delivering properties through industry cycles. Upward pressure would also require the company exhibiting strong credit metrics such that:

- » Moody's adjusted debt to book capitalization is sustained below 50%; and
- » Moody's adjusted EBIT to interest expense is sustained above 4.0x

Factors that could lead to a downgrade

Conversely, the rating could be downgraded if Arada's liquidity position weakens or the operating environment in Sharjah deteriorates, which could cause revenue and gross margin declines. In addition, the rating could come under pressure if the company's credit metrics do not improve as forecasted by Moody's, such that:

- » Adjusted debt to book capitalization does not trend below 60%; and
- » Adjusted EBIT to interest expense remains sustainably below 3.0x

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.

Key indicators

Exhibit 2

	2018	2019	2020	2021	2022	2023 (f)	2024 (f)
Revenue (USD million)	\$43	\$150	\$303	\$352	\$676	\$916	\$1,630
Gross Margin	29.9%	24.3%	25.1%	27.1%	32.5%	33.4%	35.9%
EBIT / Interest Expense	-1.7x	0.2x	1.1x	1.3x	2.5x	2.7x	4.5x
Debt / Book Capitalization	92.3%	70.2%	66.1%	76.4%	75.8%	64.1%	57.2%
Debt / EBITDA	-15.7x	29.0x	12.6x	12.7x	5.5x	5.6x	2.7x

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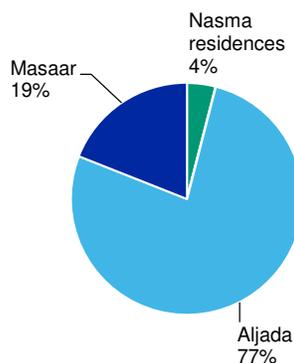
Source: Moody's Investors Service

Profile

Arada was established in 2017 and in a short period of time has built a strong market position in developing and selling off-plan properties in the Emirate of Sharjah, United Arab Emirates (UAE). During 2022, Arada delivered close to 4,000 units generating AED2.5 billion of revenue and AED0.5 billion of Moody's adjusted EBIT. Arada's off-plan sales were over 2,200 units in 2022 representing a total property value of AED3.4 billion, while total off-plan sales backlog stood at AED4.2 billion as of 31 December 2022. The company is owned 60% by CORP KBW Investments LLC where HRH Khalid Bin Alwaleed Bin Talal is the ultimate beneficiary while the remaining 40% is owned by Basma Group LLC which is chaired by HH Sultan bin Ahmed Al Qasimi, the deputy ruler of Sharjah.

Exhibit 3

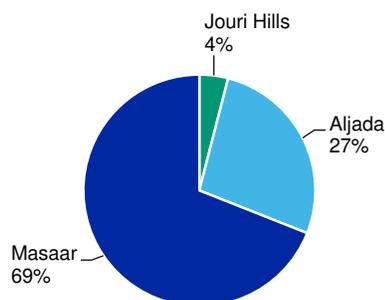
Revenue breakdown by project in 2022
Total revenue of AED2.4 billion



Source: Company reports

Exhibit 4

Sales-backlog by project as of 31 December 2022
Total sales backlog of AED4.2 billion



Source: Company reports

Detailed credit considerations

Unique market position in Sharjah underpinned by good revenue visibility despite a relatively modest track record in developing and delivering properties through industry cycles

Arada has a unique market position in the Emirate of Sharjah. According to the company, its projects accounted for a substantial amount of the total off-plan residential sales transactions in Sharjah since 2020. Arada benefits from (1) early entrant advantage, as the Aljada development is one of the very few integrated master community developments in Sharjah; and similarly Masaar upscale forested community is a bespoke offering in Sharjah; (2) increased demand for its bespoke designs and good quality projects; (3) historical and ongoing support provided by the government of Sharjah; (4) prudent construction cost management policies; and (5) good profitability, with a reported gross margin of around 34% in 2022.

Arada sales backlog of around AED8.0 billion as of 30 June 2023 provides good revenue visibility, however this is offset by the company's limited track record in developing properties through industry cycles. The company's revenue realization is susceptible to its ability to achieve the required construction milestones on time. Arada is exposed to development and executions risk, which

could derail revenue realization and negatively impact the company's financial metrics and liquidity. Since inception and until 30 June 2023, Arada has delivered over 7,400 units, with around 4,000 units delivered at Aljada during 2022. During H1-2023, Arada completed around 1,300 units at Aljada. During the same period, Arada increased its sales backlog by around AED4.0 billion, following strong demand across all of its projects, including its newly launched project Jouri Hills that is located in Dubai. The company sold (1) at Masaar 813 homes valued at AED2.3 billion; (2) at Aljada 634 homes valued at AED0.6 billion; and (3) at Jouri Hills 169 luxury villas valued at AED1.3 billion. Arada plans to deliver around 5,000 units by 2024. This will be mainly across its Sharjah's property development projects, with around 3,000 units that are expected to be delivered for the first time at Masaar.

The company has a diversified base of contractors. To minimize financial and execution risks, we understand that it signs turnkey construction contracts, at pre-agreed fixed cost, which helps to mitigate cost overruns. Although construction work is contracted to external parties, Arada maintains oversight over cost management and ensures quality standards are adhered to across the various construction phases.

Geographic concentration in Sharjah exposes the company to event risks but entry into the competitive Dubai's real estate market provides some diversification benefits

Geographic concentration in Sharjah exposes the company to event risks, as currently its only two revenue generating projects are both based in Sharjah. Arada plans to mitigate this risk by actively exploring other geographies to diversify its revenue base. In the last 18 months, Arada has launched 3 projects in the Emirate of Dubai and continues to explore other geographies. During 2022, the company acquired a land plot on Dubai's Palm Jumeirah for AED240 million, and in 2023 it [announced](#) a partnership with the Armani group and the Japanese architect Tadao Ando to launch Armani beach residences. The project will consist of a limited number of branded luxury residential units and is valued at around AED3.0 billion. The sales launch is planned for H2-2023 with the first handover expected by H2-2026. During Q4-2022, the company also [announced](#) a partnership in Dubai with [Jumeirah Golf Estates LLC](#). As part of the partnership Arada will develop 294 luxury villas that will be adjacent to the existing residential community at Jumeirah Golf Estate, that already consist of two golf courses and more than 1,500 units. The project value is expected to be around AED2.0 billion and the units will be handed over from 2025 onwards. Additionally in 2023, Arada entered into a joint venture to develop more than 1,000 units at Dubai Harbour, a newly developed waterfront area adjacent to Dubai Marina and Jumeirah Beach residences (JBR). The project is valued at around AED3.5 billion, while the launch date is yet to be confirmed.

Sharjah real estate market is relatively more stable in terms of new supply and property price fluctuations compared to Dubai. Historically the real estate regulatory framework in Sharjah has not been as investor friendly as in Dubai. During 2022, a new decree was passed in Sharjah allowing freehold property ownership for all nationalities. Previously non-GCC nationals did not have the right to own freehold property in the emirate. This is expected to improve demand for property in Sharjah and attract new investments into the sector. However, to continue to attract additional investors additional reforms in the sector are required, such as the introduction of an escrow law for off-plan projects, requiring developers to establish project specific escrow accounts where investor payments are deposited and restricted until certain construction milestones are reached.

Strong relationship with the government and influential shareholders

Arada's B1 CFR incorporates the historical and ongoing support provided from strategic and influential shareholders, and in particular support provided by the Government of Sharjah through (1) selling on account to Arada the Aljada's project land plots in 2017; (2) guaranteeing Arada's bank debt of AED1.0 billion in 2017; (3) replacing during 2019 the initial 3 years short-term land payable agreement for the Aljada's development, with a 16 years long-term land payable agreement, to provide Arada with the financial flexibility it requires to achieve its growth plans; (4) transferring back to Arada during 2019 a total amount of AED1.6 billion representing the initial land proceeds that the Government had received from Arada in 2017 and 2018, which Arada used to repay its outstanding bank debt of AED1.6 billion; and (5) the various exemptions provided to Arada from certain property development's related cost, in order to support the company's growth.

The revised land payable agreement amounting to AED3.2 billion, provides the company with substantial financial flexibility, as the company is no longer required to pay in a short period of time the large amount of money for the land purchase. This improves the company liquidity profile as it reduces its short-term obligations and frees up some of its capital to fund its current and future projects.

In addition, about half of the land payment amount has a variable component that helps mitigate Arada's development and execution risks. The variable land payment component of AED1.6 billion is stretched over an extended period (2020 to 2035 / 16 years). This reduces the company's cash outflows and is based on Arada's achievement of agreed off-plan sales targets.

The fixed land payment component consists of a single bullet payment of AED1.6 billion due in 2029. Given the supportive nature of the Government of Sharjah, we believe that the Government will show flexibility on this payment should Arada face liquidity stress closer to the maturity. We have taken the view that the fixed component has debt-like features, and as such the present value amount of AED1.0 billion is reclassified to debt in our credit metrics.

Arada's B1 CFR also incorporates the ongoing support provided from the shareholder, in the form of deferred land payment agreement for the Masaar development project, which provides Arada with further financial flexibility. In 2021, Arada established a long-term 10 years deferred land payable agreement with Tital Properties LLC (50% owned by Basma Group). The agreement is similar to the variable component of the Aljada land payable agreement, with the Masaar's land payable obligation linked to the achievement of agreed off-plan sales targets. We understand that the company's shareholders are committed to supporting its expansion plans and are expected to partially fund those through intermittent equity injections if needed.

Credit metrics to improve over time despite increased capital spending and dividend distributions

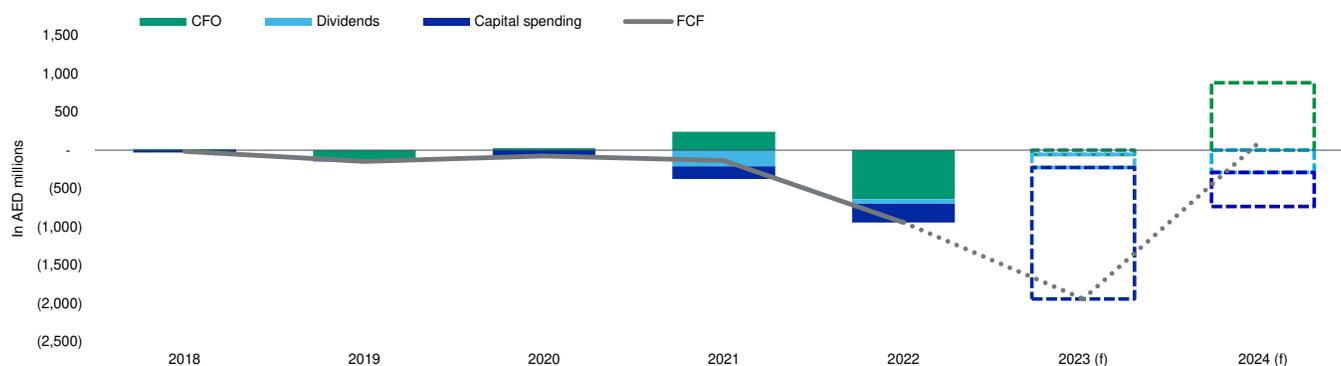
Given the company's short operating history, Arada's credit metrics have historically been weak with Moody's adjusted debt to book capitalization of 76% and Moody's adjusted EBIT to interest expense of 2.5x in 2022. We expect these metrics to improve gradually and trend towards 60% and 4.5x by 2024 as the company executes on its project pipeline.

The company's free cash flow generation (FCF) is expected to turn positive in 2024 because of stronger operating performance and improved profitability, despite increased capital outflows in the form of negative working capital changes, higher capital spending (including new land acquisitions) and dividend distributions. The company's dividend policy is linked to (1) 50% of prior year net profit; or (2) AED500 million, whichever is lower.

Arada's current property development funding policy can cause working capital swings that negatively impact its ability to generate FCF. Although the company targets a minimum pre-selling of 60% - 70% of the project before construction begins, construction linked payments are low with typically between 25% - 30% of the total property value collected. The remaining funding requirements to cover for the construction cost is sourced by Arada until the construction is completed. Once the property is handed over to the customer, Arada will collect the remaining 65% -70% of the property value. We understand that the pre-handover payments terms for the projects in Dubai are expected to be between 60% to 70% during construction. This is expected to have a positive impact on the company overall funding requirements. The company currently does not provide post-handover payment plan options to customers.

Exhibit 5

FCF generation is expected to turn positive in 2024 because of stronger operating performance despite increased capital outflows including land purchases



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Source: Moody's Investors Service

ESG considerations

Arada Developments LLC's ESG Credit Impact Score is CIS-3

Exhibit 6

ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

Arada credit impact score of CIS-3 indicates that ESG considerations have a moderate impact on Arada's current rating. Arada is exposed to environmental risks such as physical climate, as it operates in the UAE where water scarcity and heat waves could increase construction costs for homebuilders. The company is also exposed to social risks, reflected mainly by (1) the risk of demographic changes and societal trends in the UAE, as part of its customer base includes expats and non-residents; and (2) human capital risks given the labor-intensive nature of the property development sector, however this is partly mitigated by the company subcontracting its construction activities to third parties. Governance risk is also a key consideration, reflecting mainly Arada's newly established financial policy, its concentrated ownership structure and lack of board independence.

Exhibit 7

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-3

Moderately Negative



Source: Moody's Investors Service

Environmental

Arada's E-3 reflects its moderate exposure to physical climate risk and natural capital risk. The company's operations are all based in the UAE, where climate risks such as water scarcity and heat waves could raise Arada's construction costs. The need to exploit land resources exposes Arada to natural capital risks.

Social

Arada's S-3 reflects its moderate exposure to demographic and societal trends, as the company is exposed to demographic changes due to the contribution of expats and non-residents to its customer base. Demographic changes and affordability are important factors driving demand, and fluctuation in these areas could affect the risks that property developers face. Homebuilders face elevated human capital risks, given the labor-intensive nature of the construction process and the reliance on skilled labor, however in Arada's country of operation, labor costs are low, the workforce pool is substantial and the company subcontracts its construction activities to third parties. Property developers are also exposed to customer relations risk, which could impact brand reputation given customer satisfaction is closely linked to the quality and timeliness of properties delivered. 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

Arada's G-3 reflects its elevated ownership concentration risk, as the two major shareholders can directly influence its strategy and financial policies. This includes investments decisions and shareholder returns, which can materially affect the company's credit profile. In addition, the lack of independent members on its board of directors is a key governance risk. Arada's financial strategy and risk management has evolved since its inception but remains a key governance risk, while it has some defined financial policies including the aim to maintain net debt/EBITDA below 3.0x and a good liquidity profile, the company is relatively new and therefore does not have an established track record of adhering to its leverage target. Arada is a closely held private company and the frequency, timeliness and granularity of its financial reporting is less stringent than that of a public company. This is mitigated by Arada establishing an investor relations function and actively communicating the company's material events to its stakeholders through public announcements.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.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

Arada's liquidity is adequate. The company primary sources of liquidity consisting of (1) AED798 million of unrestricted cash and cash equivalents as of 31 December 2022; (2) AED200 million of available committed credit facilities as of 31 December 2022; and (3) expected funds from operations over the next 18 months of around AED2.2 billion are sufficient to cover the company's basic obligations over the next 18 months, which include (1) AED100 million of short-term debt maturities; (2) around AED200 million of dividends; and (3) a combined outflow of AED1.3 billion consisting of working capital and capital investment. We expect Arada to fund any additional land acquisitions with a combination of debt and equity; or delay those acquisitions in case of any liquidity shortfalls.

Structural considerations

The senior unsecured sukuk has been assigned a B1 rating. The alignment of the sukuk's rating with that of Arada's B1 CFR is because certificate holders are effectively exposed to the creditworthiness of Arada for the periodic distributions (akin to coupon payments) and principal repayment of the sukuk. Certificate holders only have rights against Arada as defined under the sukuk transaction documents, and these rights rank pari passu with other senior unsecured obligations of Arada. Sukuk holders are not exposed to the performance risk of the investment portfolio related to the certificates and do not have any preferential claim or recourse over the relevant trust assets.

Rating methodology and scorecard factors

We have applied the [Homebuilding and Property Development rating methodology](#) published in October 2022, in assessing the ratings for Arada.

Exhibit 8

Homebuilding And Property Development Industry Scorecard	Current FY 12/31/2022		Moody's 12-18 Month Forward View	
	Measure	Score	Measure	Score
Factor 1 : Scale (10%)				
a) Revenue (USD Billion)	\$0.7	Caa	\$0.9 - \$1.6	Caa
Factor 2 : Business Profile (30%)				
a) Market Position and Diversification	B	B	B	B
b) Business Strategy	B	B	B	B
c) Market Conditions	B	B	B	B
Factor 3 : Profitability and Efficiency (10%)				
a) Gross Margin	32.5%	Ba	33% - 36%	Ba
Factor 4 : Leverage and Coverage (30%)				
a) EBIT / Interest Expense	2.5x	B	2.7x - 4.5x	Ba
b) Debt / Book Capitalization	75.8%	Caa	57% - 64%	B
c) Debt / EBITDA	5.5x	B	2.7x - 5.6x	Ba
Factor 5 : Financial Policy (20%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		B2		B1
b) Actual Rating Assigned				B1

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Source: Moody's Investors Service

Appendix

Exhibit 9

Peer comparison

	Arada Developments LLC			PNC Investments LLC			Brookfield Residential Properties Inc.		
	B1 - STA			Ba3 - STA			B1 - STA		
	2020	2021	2022	2020	2021	2022	2020	2021	LTM Sept-22
Revenue (USD million)	\$303	\$352	\$676	\$276	\$862	\$1,511	\$1,700	\$2,000	\$1,900
Gross Margin	25.1%	27.1%	32.5%	44.5%	35.7%	40.1%	23.9%	26.2%	28.1%
EBIT / Interest Expense	1.1x	1.3x	2.5x	1.4x	4.6x	9.1x	2.6x	4.0x	4.2x
Debt / Book Capitalization	66.1%	76.4%	75.8%	33.0%	26.0%	20.5%	40.3%	42.6%	49.1%
Debt / EBITDA	12.6x	12.7x	5.5x	9.4x	3.3x	1.4x	7.7x	4.7x	5.2x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's adjusted total debt includes the addition of about AED1.0 billion, representing the present value of Aljada's AED1.6 billion bullet land payment due to the Government of Sharjah in 2029. Periods are financial year-end unless indicated; LTM = last twelve months.

Source: Moody's Investors Service

Exhibit 10

Moody's-adjusted debt breakdown

(In AED millions)	2018	2019	2020	2021	2022
As Reported Debt	1,600	221	389	964	1,812
Pension adjustments	1	3	5	7	11
Non-Standard Adjustments	-	926	994	1,061	1,023
Moody's-Adjusted Debt	1,601	1,149	1,388	2,032	2,846

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Source: Moody's Investors Service

Exhibit 11

Moody's-adjusted EBITDA breakdown

(In AED millions)	2018	2019	2020	2021	2022
As Reported EBITDA	54	493	254	172	485
Unusual adjustments	(155)	(518)	(190)	(77)	(42)
Pension adjustments	(1)	(2)	(3)	(2)	(5)
Non-Standard Adjustments	0	67	49	67	82
Moody's-Adjusted EBITDA	(102)	40	110	160	520

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Source: Moody's Investors Service

Ratings

Exhibit 12

Category	Moody's Rating
ARADA DEVELOPMENTS LLC	
Outlook	Stable
Corporate Family Rating	B1
ARADA SUKUK LIMITED	
Outlook	Stable
Senior Unsecured	B1/LGD4

Source: Moody's Investors Service

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