Dubai Overview

STEADY MARKETS

Dubai Equity Market

The Dubai Index has been the best performer in the GCC and amongst the best globally +11.2% (total return in 2016). It is trading at reasonable valuations 11.3x trailing earnings compared to MSCI world at 16.2x and GCC markets at 12x. The DFMGI has 36 members with Real Estate (38%) and banks (34%) constituting the majority of the Index.

The DFM Index has a dividend yield of 4.3% which makes it attractive compared to the average global yield of 2.7%.

Dubai companies have high and sustainable cash flows and are among the highest dividend payers globally. For the Dubai corporates there was no cut in dividend payouts in 2015. The market would rally further if the second half of 2016 brings the expected uptick in oil prices. We would use dips in the market to add to positions.

Dubai Parks & Resorts (+48% YTD) is on track to open in October 2016. It raised AED 1.68 bn through a rights issue to finance the Six Flags theme park, which will be in addition to MotionGate, (Hollywood based park), Legoland and Bollywood Parks. Set in 25 million sq ft of land it is also developing La Pita (a resort hotel), and Riverpark, a retail, dining and entertainment district connecting the theme parks and hotel. Dubai Parks forecasts 6.7 million ticketed visitors in 2017. With 3 billion people living within a four hour flight from Dubai there is tremendous untapped potential for a world class theme park to prosper.

Ministry of Economy extends compliance by one year for UAE commercial companies' law

The Ministry of Economy said that it has extended compliance with new commercial companies' law by one year. The new law is expected to boost capital markets in the UAE because it will lower the minimum requirement for companies to sell shares to the public to 30% of company equity instead of 55%. It also includes measures that will boost corporate governance. The extension was made after companies and various authorities, including the Securities and Commodities Authority and departments of economic developments across the country, said that some businesses have had difficulties in getting various approval to comply with the new law. (The National)

VAT

- VAT is likely to be introduced in the UAE on January 1st, 2018,
- Rate will most probably be 5%,
- VAT will apply to the majority of transactions in goods and services, and a limited number of reliefs may be granted.

Rate of 5% is very low compared to international practices e.g. UK: 20%; Singapore (GST): 7%; Switzerland: 8%; India: 13.5%; France: 20%; Germany: 19 %.

Official VAT site:
http://www.mof.gov.ae/en/Budget/Pages/VATQuestions.aspx

Dubai tourism growth (source Government releases)

- Passenger traffic at the Dubai International Airport rose to 78 million in 2015, Boosted by the growth of some 100 airlines that connect Dubai International to more than 240 destinations around the world, most notably Emirates and Flydubai, annual passenger traffic at DXB surged 10.7 per cent
- DXB retains its position as the world's biggest international hub.
- Passenger traffic rose to 34.6 million in Jan-May 2016, up by 7.0% y/y.
- Passenger traffic is expected to exceed 85 million at DXB by the end of 2016, according to Dubai Airports.
- Capacity at DXB is now 90 million after the opening of concourse D
- The number of tourists (international overnight visitors) coming to Dubai rose to 14.2mn in 2015, up by 7.5% y/y. India became Dubai's top source market with over 1.6mn tourists, an increase of 26% y/y.
- Tourism/ hospitality strategy: Target 20mn tourist's p.a. by 2020.
- Dubai is currently 4th globally in tourist visitor arrivals after London, Bangkok and Paris.
- Footfall at Dubai Mall stayed flat at 80 mn in 2015 and 4Q 2015 retail sales were down 6%.
- Expo 2020: Infrastructure spend of at least AED 22bn (official est.)

Hotels

Dubai's hotel occupancy averaged 82.7% in Jan-May 2016, down from 83.2% in the same period of 2015. According to the latest data from STR Global, the supply of hotel rooms in Dubai increased by 6.2% y/y in May 2016 while demand also increased by 8.0% y/y the same month. With the supply of hotels rooms still outpacing demand growth for Jan-May 2016, occupancy rates are likely to remain stable or ease slightly with demand gradually catching up in the run-up to the 2020 Expo.

Average revenue per available room (RevPAR) has fallen sharply y/y since the start of the year. In Jan-May 2016 RevPAR decreased by -11.4% compared to -9.9% the same period last year. RevPAR stood at an average of AED 660 (USD 180) in Jan-May compared to AED 744 (USD 202) in Jan-May last year. With substantial additional supply expected over the next few years, RevPAR is expected to remain under pressure in the near future.

The supply of hotel rooms in Dubai increased by 6.4% y/y in Jan-May 2016 to 83,557 rooms. The Department of Tourism and Commerce Marketing (DTCM) is targeting 140,000 to 160,000 hotel rooms by the end of the decade. Data from STR Global also shows that a further 20,627 hotel rooms are currently under construction in Dubai, of which 10,140 are due to come online by year end.

Credit Card spending

In terms of overall s Card spending in the UAE was 6.8% higher in Jan-May 2016 relative to the same period of 2015, according to data compiled by Network International which covers about 60% of the UAE market for e-commerce and point of sale (POS) transactions. The breakdown of foreign spending growth suggests that Dubai's attractiveness as a shopping destination has declined, with negative growth in visitor spending on hotels, luxury goods and clothing & boutique spending as well as anemic duty free sales. The robust rise in foreign spending on airlines and travel agents highlights Dubai's importance as a global transport hub.

Dubai Retail

UAE's total retail sales reached USD 69bn in 2015, down by -2.7% y/y, according to the latest Global Retail Development Index by A.T. Kearney. As Dubai accounts for 60% of the UAE's gross leased area (GLA), we estimate Dubai's retail sales at USD 41.4bn for 2015. By conservatively assuming an average 3.5% annual GDP growth rate and inflation at 2.5% up to 2020, we estimate that Dubai's retail sales turnover will reach USD 55.4bn over the next five years.

The net number of wholesale and retail trade licenses issued in Dubai also increased by roughly 3% y/y in Q1 2016, accounting for 75.9% of total business licenses. According to the Department of Economic Development (DED), between Q1 2011 and Q1 2016 the net number of trade licenses issued increased at an average of 7.5% annually indicating an improvement in the business environment.

Separately, gross leasing area (GLA) for Dubai's retail malls rose in 2015, up by 6.6% y/y, according to Jones Lang LaSalle. Between 2011 and 2015, GLA grew at an average of roughly 3.5% per year. Over the next two years, around 597,000 sq. meters (+20%) of new retail space is expected to enter the Dubai market, reaching 3.5mn sq. meters of retail GLA.

The UAE has retained its position as one of the most important international retail destination globally for

2015, according to CBRE consulting. Specifically, the UAE ranked 3rd with 56.3% of the retailers surveyed present in the market according to the 2016 “How Global is the Business of Retail” report. The report identifies the most active international retailers and their top target markets at country and city level. CBRE examines retailers’ presence and expansion by surveying 334 major international retailers across 191 cities and 61 countries. At the city level, Dubai is the second most popular destination with 57% of retailers present, followed by Shanghai with 54.4% while London came top with 57.9% of retailers present.

Dubai Construction sector

The value of Dubai’s construction projects in execution and planning stages is expected to reach a record high USD 390.7bn this year with 13.7% of this (USD 53.5bn) being projects under progress, according to Deloitte’s ‘Construction Pulse – Dubai 2016’ report. In 2016, Dubai is expected to award an additional USD36.5bn worth of projects, down by just -3.0% compared to 2015.

In terms of new contracts awarded, UAE accounted for nearly 60% of the USD 15bn of construction contract awards made in the GCC with Dubai accounting for 73% of UAE awards. That is, USD 6.6bn of new contracts were awarded in Dubai in Q1 2016, the second highest figure since 2008. The all-time high was recorded in Q4 2006, with USD 9.3bn of contract awards. Despite the recent drop in oil prices, the prospects for Dubai’s construction projects for this year remain positive, mainly targeted on tourism, manufacturing, logistics, transport, and ICT related projects.

Lending to the construction and real estate sector expanded 14.8% y/y in Q1 2016, up from 5.2% y/y in Q1 2015, with loans to this sector accounting for 17.2% of total bank loans. Demand growth for loans in construction strengthened in Q1 2016 compared with the previous quarter and is expected to further improve in the June quarter, according to the Q1 2016 Credit Sentiment Survey by the UAE Central Bank. The survey revealed that lower oil prices had a negative impact on loan demand across different types of firms with lenders tightening the credit standards. Survey respondents expect marginal tightening in credit standards in Q2 2016 while the appetite for overall business lending would increase further.

In Q1 2016, bank credit to the construction and real estate sector reached AED 242bn compared with AED 211bn in Q1 2015

Dubai Residential prices

Residential property prices, as measured by Phidar Advisory’s Dubai 9/5 House Price Index, which is based on DLD data but includes only nine apartment communities and five villa communities in investor zones in Dubai, have continued to ease in May 2016 with apartment prices down -11.9% y/y and villa prices down -9.3% y/y. It should be noted however that price declines have somewhat softened compared to Sep 2015 while they are occurring on sharply lower volumes, suggesting that the market is more stable than the headline figures suggest. Apartments account for about 90% of residential real estate transactions in Dubai.

With the middle (standard plus) and luxury (premium) segments being hit the hardest, the low-range (or standard) segment in the villas sector was slightly more resilient (-2.4% y/y) than low-range apartments (-11.4% y/y) in May 2016. With the summer months typically quieter in terms of real estate activity, we would be unsurprised to see some softness in the monthly transaction and price data over the next quarter. The strength of the USD is a further constraint on demand, particularly for foreign investors.

We have noted in previous reports that the decline in residential real estate prices over the last year has been accompanied by lower transaction volumes. This has been particularly evident in the villa sector. However, data for the whole of Dubai shows an increase in transaction volumes for apartments in May compared with April. Overall, total transaction volumes rose for a fourth consecutive month, up 6.9% m/m in May. On an annual basis however, the total number of sales was down -13.0% y/y in May due to lower villa transactions. The number of apartment sales recorded in May was also down by -13.0% y/y.

Rents in the Dubai 9/5 Index areas have declined on an annual basis in May, more or less aligned with the annual fall in sales prices. Apartment rents were down -1.3% m/m (-5.0% y/y) in May while villa rents were also down -1.3% m/m (-10.3% y/y) last month. The recent deceleration in Dubai’s residential rents is a sign that further weakness in residential rents and prices is still ahead.

Yields on apartments remain unchanged at 7.8% while yields on villas were slightly lower at and 4.6% in May compared to April. Nevertheless, rental yields are still relatively high while the tightening of the rental market should keep putting downward pressure on sales prices.

Source: ENBD Research

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