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CREDIT OPINION

2 May 2024

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.

Contacts

Paul Feghaly +971.4.237.9531
Analyst
paul.feghaly@moodys.com

Hormazd Motafram +971.4.237.9564
Ratings Associate
hormazd.motafram@moodys.com

Rehan Akbar, CFA +971.4.237.9565
Senior Vice President
rehan.akbar@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
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EMEA	44-20-7772-5454

Arada Developments LLC

Update to credit analysis following ratings affirmation

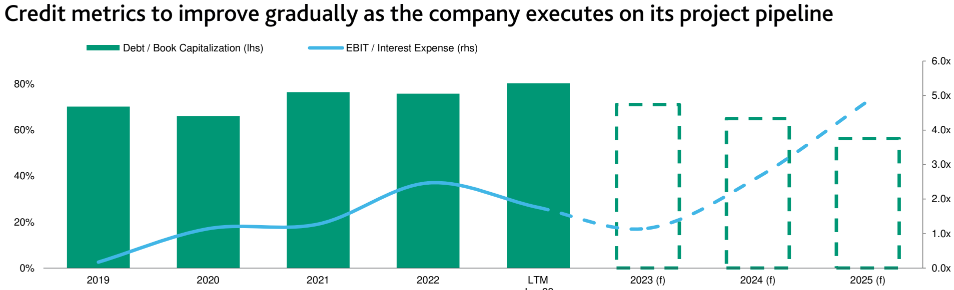
Summary

The affirmation of Arada Developments LLC's (Arada) ratings reflects its (1) unique market position in Sharjah (Ba1 stable), with our expectation that Arada will continue to benefit from 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 in the current market with our expectation that credit metrics will improve gradually in the next 12-18 months such that Moody's adjusted debt to book capitalization will improve below 60%, and Moody's adjusted EBIT/Interest Expense coverage will improve above 3.0x; and (4) adequate liquidity profile with our expectation that Arada is committed to maintaining a predominantly senior unsecured capital structure. We also anticipate that any buildup of material secured short-term debt will be temporary and will be proactively addressed by the company.

The rating also reflects Arada's (1) small scale, exposure to the cyclical property sector, 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 funding policy in Sharjah during the construction phase, albeit improving under the newly launched projects; (4) an ambitious property development pipeline which could delay improvement in the company's balance sheet; and (5) currently weak credit metrics for the rating level, with Moody's adjusted debt to book capitalization forecasted to be around 70% for 2023 and EBIT/Interest expense to be around 1.5x.

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 AED1.1 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. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

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, exposure to the cyclical property sector and limited operating track record

» Operational and geographical concentration in Sharjah, despite ongoing diversification plans in Dubai

» Aggressive funding policy in Sharjah during the construction phase, albeit improving for new projects

» Currently weak credit metrics for the rating level

Rating outlook

The stable outlook reflects our expectation that Arada's operational performance will remain strong over the next 12-18 months, and that the company will continue to maintain adequate liquidity during the current investment cycle, while benefiting from the ongoing supportive market 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 profile, and demonstrate over time a robust operating track record in developing and delivering properties through economic 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

Arada's rating could be downgraded if the company'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.

Key indicators

Exhibit 2

	2019	2020	2021	2022	LTM Jun-23	2023 (f)	2024 (f)	2025 (f)
Revenue (USD million)	$150	$303	$352	$676	$794	$754	$1,305	$2,027
Gross Margin	24.3%	25.1%	27.1%	32.5%	33.6%	35.1%	37.9%	39.9%
EBIT / Interest Expense	0.2x	1.1x	1.3x	2.5x	1.8x	1.2x	2.6x	4.8x
Debt / Book Capitalization	70.2%	66.1%	76.4%	75.8%	80.2%	71.1%	65.0%	56.3%
Debt / EBITDA	29.0x	12.6x	12.7x	5.5x	7.1x	9.9x	3.9x	2.2x

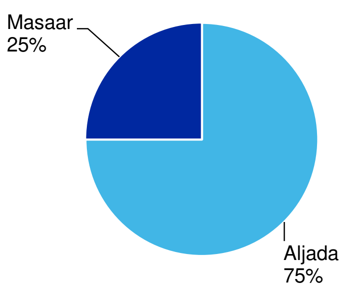
All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's adjusted total debt includes the addition of about AED1.1 billion, representing the present value of Aljada's AED1.6 billion bullet land payment due to the Government of Sharjah in 2029. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

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 2023, Arada delivered close to 2,600 units generating an expected revenue of around AED2.9 billion and expected Moody's adjusted EBIT of AED0.5 billion. Arada's off-plan sales were over 2,800 units in 2023 representing an estimated total property value of around AED7.0 billion, while total off-plan sales backlog stood at AED7.9 billion as of 31 December 2023. 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

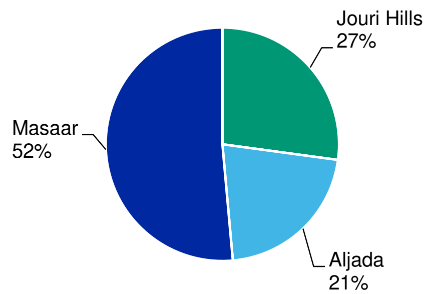
Revenue breakdown by project in 2023
Total expected revenue of AED2.9 billion



Source: Company reports and Moody's Ratings forecasts

Exhibit 4

Sales-backlog by project as of 31 December 2023
Total expected sales backlog of AED7.9 billion



Source: Company reports and Moody's Ratings forecasts

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% during the last 12 months ending 30 June 2023.

Arada sales backlog of around AED7.9 billion as of 31 December 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 31 December 2023, Arada has delivered over 8,700 units with a value of around AED5.8 billion. During 2023 Arada increased its sales backlog by around AED3.7 billion, following strong demand across all of its projects, including its newly launched project Jouri Hills that is located in Dubai. Arada, in 2023, sold (1) at Masaar around 1,100 homes valued at around AED3.5 billion; (2) at Aljada around 1,300 homes valued at around AED1.5 billion; and (3) at Jouri Hills 294 luxury villas valued at around AED2.0 billion. Arada plans to deliver around 1,300 units during 2024 along with a target of new sales of around AED10 billion.

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 two out of four acquired projects in 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 started in Q1-2024, with the first handover expected in 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 during H1-2023, Arada entered into a management agreement with a related party to develop a project at Dubai Harbour, a newly premium developed waterfront area in Dubai. The project is valued at around AED3.5 billion, while the launch date is yet to be confirmed. During Q4-2023, Arada signed another management agreement with a third party to develop a newly acquired land plot at Dubai International Financial Centre (DIFC), both the project value and launch date are yet to be announced by the company. Under both management contracts for Dubai Harbour and DIFC, the company has entered into profit sharing agreements with the related parties, whereby Arada is responsible for developing each project. In return the company will receive a specific profit rate, subject to Arada meeting the required projects' milestones and key performance measures. Arada does not expect to consolidate both projects under its books. We understand from the company that if any debt is to be raised at the level of those projects, it will be of a non-recourse nature to Arada.

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 do 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 which requires 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 because the company is no longer required to pay in a short period of time a substantial lump sum for the land purchase. This improves the company's 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 AED1.1 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 Tilal 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 as the company executes on its expanded project pipeline

Given the company's short operating history, Arada's credit metrics have historically been weak with Moody's adjusted debt to book capitalization of around 70% and Moody's adjusted EBIT to interest expense of around 1.5x expected for 2023. We expect these metrics to improve gradually in the next 12-18 months, and trend below 60% and above 3.0x by 2025 as the company executes on its expanded project pipeline.

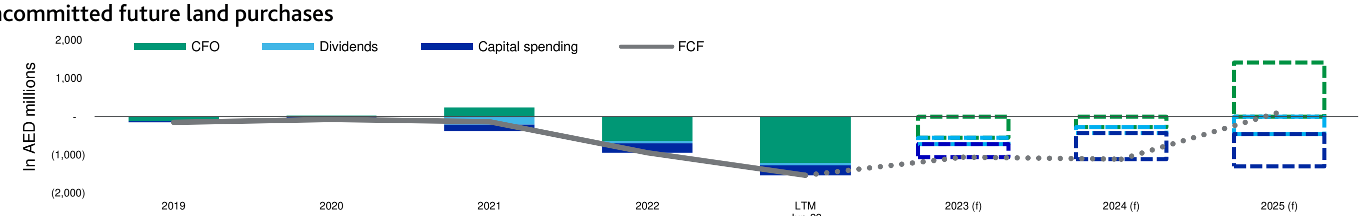
During 2023, Arada faced administrative constraints in the handover phase at Aljada, which led to delays in the issuance of title deeds to its customers. In the absence of escrow law in Sharjah and without the title deeds, Arada could not collect the final settlements that were due post-handover. In addition, the final settlements are sizable and represent around 60%-70% of the total property's sale value at Aljada. Given the administrative bottlenecks and for the company to expedite its collection process and avoid any material slowdown in its current investment cycle, Arada signed a factoring of trade receivables agreement with a related party. The company sold a total of AED808 million of trade receivable on a non-recourse basis, for a total consideration of AED775 million, with the difference of AED33 million recorded as finance cost. Under our Moody's financial statements adjustment methodology we classify both recourse and non-recourse sale of receivables as debt. We understand from the company that the factoring of its Aljada trade receivables is a one-off transaction and was entered on a short-term basis. Accordingly, we assess the impact on the 2023 credit metrics as temporary and we expect that Arada will unwind the agreement in the near term.

The company's free cash flow generation (FCF) is expected to turn positive in 2025 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) AED750 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 70% to 80% 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 2025 because of stronger operating performance despite increased capital outflows including uncommitted future land purchases



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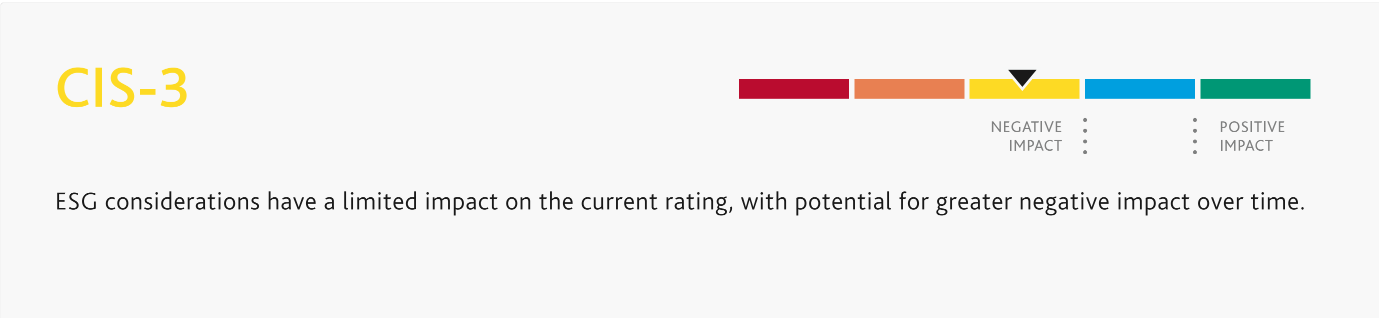
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

ESG considerations

Arada Developments LLC's ESG credit impact score is CIS-3

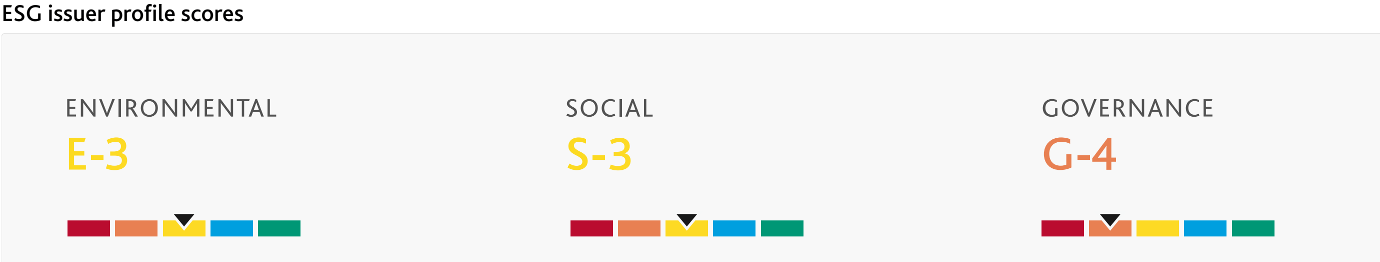
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Arada credit impact score of **CIS-3** indicates that ESG considerations have a moderate impact on its current rating. Governance risks are a key consideration, reflecting mainly the company's newly established financial policy, its concentrated ownership structure and lack of board independence. These risks are partially offset by a strong track record of support from the company's strategic and influential shareholders combined with a very good relationship with the government and the company gradually developing a track record of adhering to its financial policies since its inaugural public debt issuance in 2022. Arada is also 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.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

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-4** reflects its elevated ownership concentration risk, as the two major shareholders can directly influence its strategy and financial policies, which could materially affect its credit profile. In addition, other key governance risks include the lack of independent members on Arada's board of directors; and the company's limited track record of adhering to its defined financial policies through different economic cycles. These risks are partially offset by a strong track record of support from the company's strategic and influential shareholders combined with a strong relationship with the government. This is primarily evident in the flexible long-term land payment agreements currently in place for both the Masaar and Alajda developments. In addition, the shareholders have also supported the company's expansion plans by providing sizable equity injection, while maintaining a limited dividend distribution policy. Despite the company limited track record of adhering to its defined financial policies. However, since its inaugural public debt issuance in 2022, the company has gradually managed to meet its internal financial policy targets of maintaining (1) net debt/EBITDA below 3.0x; (2) fixed charge coverage above 1.5x; and (3) an adequate liquidity profile with our expectation that Arada is committed to maintaining a predominantly senior unsecured capital structure.

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's primary sources of liquidity as of 30 June 2023 consists of around AED800 million of cash, AED655 million of fixed deposits under lien and expected funds from operations over the next 18 months of around AED1.3 billion. These sources are sufficient to cover the company's basic obligations over the next 18 months, which include (1) AED500 million of short-term debt maturities; (2) around AED200 million of dividends; and (3) a combined outflow of AED2.0 billion consisting mainly of working capital and uncommitted capital investment.

We expect Arada to fund any additional land acquisitions or new projects with a combination of additional debt and equity injection from its shareholders; or delay those capital expenditures 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. We understand that Arada is committed to maintaining a predominantly senior unsecured capital structure. We also anticipate that any buildup of material secured short-term debt will be temporary and will be proactively addressed by the company.

Rating methodology and scorecard factors

We have applied the Homebuilding and Property Development rating methodology in assessing the ratings for Arada.

Exhibit 8

Homebuilding And Property Development Industry Scorecard	Current FY 06/30/2023		Moody's 12-18 Month Forward View	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$0.8	Caa	1.6$ - 2.0$	B
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	33.6%	Ba	35% - 40%	Baa
Factor 4 : Leverage and Coverage (30%)				
a) EBIT / Interest Expense	1.8x	B	2.6x - 4.9x	Ba
b) Debt / Book Capitalization	80.2%	Ca	56% - 65%	B
c) Debt / EBITDA	7.1x	Caa	2.5x - 3.9x	Ba
Factor 5 : Financial Policy (20%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		B3		B2
b) Actual Rating Assigned				B1

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Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 9

Peer comparison

	Arada Developments LLC			Brookfield Residential Properties Inc.			PNC Investments LLC			Damac Real Estate Development Limited, DIFC		
	B1 - STA			B1 - STA			Ba3 - STA			Ba2 - STA		
	2021	2022	LTM Jun-23	2021	2022	LTM Sept-23	2020	2021	2022	2021	2022	2023
Revenue (USD million)	$352	$676	$794	$2,000	$1,800	$1,800	$276	$862	$1,511	$808	$817	$2,408
Gross Margin	27.1%	32.5%	33.6%	26.2%	28.2%	25.9%	44.5%	35.7%	40.1%	27.4%	37.4%	56.5%
EBIT / Interest Expense	1.3x	2.5x	1.8x	2.9x	5.0x	3.9x	1.4x	4.6x	9.1x	-3.3x	-2.3x	11.9x
Debt / Book Capitalization	76.4%	75.8%	80.2%	42.6%	45.5%	47.6%	33.0%	26.0%	20.5%	17.5%	12.6%	24.4%
Debt / EBITDA	12.7x	5.5x	7.1x	4.9x	2.9x	3.9x	9.4x	3.3x	1.4x	-4.6x	-6.0x	1.2x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's adjusted total debt includes the addition of about AED1.1 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 Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

(In AED millions)	2019	2020	2021	2022	LTM Jun-23
As Reported Debt	**221**	**389**	**964**	**1,812**	**2,399**
Pension adjustments	3	5	7	11	11
Securitization Adjustments	0	0	0	0	808
Non-Standard Adjustments	926	994	1,061	1,023	1,113
Moody's-Adjusted Debt	**1,149**	**1,388**	**2,032**	**2,846**	**4,331**

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Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA breakdown

(In AED millions)	2019	2020	2021	2022	LTM Jun-23
As Reported EBITDA	**493**	**254**	**172**	**485**	**613**
Unusual adjustments	(518)	(190)	(77)	(42)	(63)
Pension adjustments	(2)	(3)	(2)	(5)	(5)
Non-Standard Adjustments	67	49	67	82	69
Moody's-Adjusted EBITDA	**40**	**110**	**160**	**520**	**614**

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Source: Moody's Financial Metrics™

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

REPORT NUMBER 1400104

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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