

Aldar Properties

Robust revenue recognition drove profitability

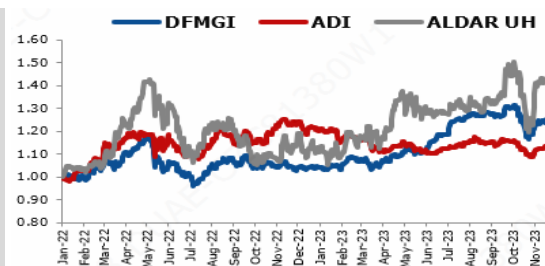
Current Price
AED 5.89

Target Price
AED 6.50

Upside/Downside (%)
+10.4%

Rating
ACCUMULATE

- Aldar Properties total revenue backlog stood at AED 38.1 Bn in 1Q24 out of which UAE backlog stood at AED 32.7 Bn and the remaining AED 5.4 Bn for the International Business.
- The company launched three new developmental projects in 1Q24 and plans to launch its second masterplan in Dubai during May 2024 coupled with a luxury beachfront development on Al Fahid Island coming up in 2H24.
- Aldar Investment aims to grow its recurring income portfolio further through a 'Develop-to-Hold' strategy and strengthen further investments in the industrial and logistics segment.
- Aldar's shareholders approved a cash dividend of 17 fils per share for FY2023 resulting in a dividend yield of 2.9%.



1Q24 Net Profit higher than our estimate

Aldar Properties PJSC (Aldar/the Company) net profit increased significantly 81.4% YOY to AED 1,317 Mn in 1Q24 higher than our estimate of AED 972 Mn. The increase in the net profit is primarily driven by the robust revenue growth recorded across the Development and Investment segments in 1Q24 and partially offset by an increase in direct cost, operating expenses, higher taxes and profits attributable to non-controlling interest holders.

P&L Highlights

Aldar's revenue recorded a sharp rise of 83.2% YOY to AED 5,616 Mn in 1Q24 driven by robust growth in both development as well as investment business. Aldar's development revenue doubled from AED 1,917 Mn in 1Q23 to AED 3,887 Mn in 1Q24 supported by the growth in group sales and healthy contributions from the acquisitions. The growth is primarily driven by the execution of the sales backlog and project completions. Development sales grew on the back three project launches to AED 6,313 Mn in 1Q24 from AED 4,549 Mn in 1Q23 of which AED 6,115 Mn sales came from UAE and the remaining from Egypt and the UK. The company's total revenue backlog stood at AED 38.1 Bn in 1Q24, out of which UAE backlog stood at AED 32.7 Bn, along with the remaining AED 5.4 Bn backlog for the international business. UAE sales are mainly supported by robust growth from overseas and expat buyers for the launch of new properties along with Aldar's strategic expansion in Dubai and, the UK. Moreover, revenue from project management services declined 12.4% YOY to AED 253 in 1Q24 with a revenue backlog of AED 79.4 Bn wherein AED 29.0 Bn is under construction. Aldar Development's sub-segment 'Egypt Subsidiary' is reported as a part of 'International' from 4Q23 which comprises operations in Egypt and England & Wales. In addition, Principal Investments is now recognized as 'Estates' with the exclusion of construction business, and cloud spaces which are now recorded in 'Others' since 4Q23.

Stock Information

Market Cap (AED, mm)	46,310.89
Paid Up Capital (mm)	7,862.63
52 Week High	6.01
52 Week Low	4.76
3M Avg. daily value (AED)	57,021,480

1Q24 Result Review (AED, mm)

Total Assets	73,386
Total Liabilities	35,355
Total Equity	38,031
EBITDA	1,814
Net Profit	1,317

Financial Ratios

Dividend Yield (12m)	2.89
Dividend Pay-out (%)	35.00
Price-Earnings Ratio(x)	10.63
Price-to-Book Ratio (x)	1.42
Book Value (AED)	4.14
Return-on Equity (%)	14.07

Stock Performance

5 Days	9.89%
1 Months	7.48%
3 Months	15.04%
6 Months	4.25%
1 Year	9.07%
Month to Date (MTD%)	7.88%
Quarter to Date (QTD%)	5.56%
Year to Date (YTD%)	10.09%

The revenue from international segment more than doubled to AED 389 Mn in 1Q24 from AED 177 Mn in 1Q23. Moreover, Aldar Investments recorded a robust revenue growth of 50.5% YOY to AED 1,728 Mn in 1Q24 mainly attributable to solid contributions from FY2022 and FY2023 acquisitions, robust growth among all segments as well as strong operational performance across the Estate platform. Occupancy levels across the investment properties stood at 93% across the Commercial, Retail, Logistics, and Residential properties resulting from proactive asset management in 1Q24. Aldar Development's EBITDA more than doubled from AED 551 Mn in 1Q23 to AED 1,174 Mn in 1Q24 mainly driven by the profitability across all segments. In addition, Property Development and Sales EBITDA increased significantly from AED 426 Mn in 1Q23 to AED 1,045 Mn in 1Q24. The Project Management Services EBITDA declined 4% YOY to AED 97 Mn in 1Q24 whereas the International segment EBITDA rose 39% YOY to AED 32 Mn. Aldar Investments EBITDA grew 29% YOY to AED 693 Mn in 1Q24. Investment Properties EBITDA grew 22% YOY to AED 440 Mn in 1Q24 driven by higher occupancy levels across the portfolio. Aldar Hospitality and leisure business segment EBITDA declined 7% YOY to AED 107 Mn in 1Q24 mainly due to one-off income recognized during 1Q23. Moreover, the Aldar Education segment witnessed 33% YOY growth in EBITDA to AED 55 Mn in 1Q24 supported by an increase in the number of student enrolments and schools. Aldar Estate segment EBITDA grew 145% YOY to AED 71 Mn in 1Q24, which is primarily attributed to the significant transformation achieved through strategic mergers and acquisitions. Thus, the Company's consolidated EBITDA almost doubled to AED 1,814 Mn in 1Q24 from AED 955 Mn in 1Q23 with an EBITDA margin of 32% in 1Q24. Moreover, Aldar's total operating profit substantially rose 86.1% YOY to AED 1,571 in 1Q24. The company recorded provisions of AED 9 Mn in 1Q24 compared to AED 15 Mn in 1Q23. Moreover, finance income rose significantly 63.2% YOY to AED 179 Mn in 1Q24 while, finance cost grew 61.5% YOY to AED 209 Mn due to higher interest rates. Total other income grew from AED 34 Mn in 1Q23 to AED 106 Mn in 1Q24. In addition, income tax expense increased 39.2% YOY to AED 66 Mn in 1Q24 mainly due to the introduction of UAE corporate tax. In addition, the share of profit attributable to non-controlling interest holders more than doubled from AED 110 Mn in 4Q22 to AED 254 Mn in 1Q24.

Balance Sheet Highlights

Aldar Properties' liquidity stood strong with free cash of AED 4.0 Bn with an AED 6.0 Bn of undrawn credit facilities as of 1Q24. The project management service segment backlog stood at AED 79.4 Bn in 1Q24 compared to AED 81.9 Bn in 4Q23. Aldar Properties maintained AED 5 Bn of develop-to-hold properties across various assets in core segments. The company's debt stood at AED 12.8 Bn in 1Q24 as against AED 12.1 Bn in 4Q23.

Target Price and Rating

We revise our rating on Aldar Properties from BUY to ACCUMULATE with a revised target price of AED 6.50. The Company's share price rose 17.7% since our previous rating (i.e. 26 April 2024). The Company recorded solid development sales of AED 6.3 Bn in 1Q24 owing to the three new property launches supported by robust demand from foreign and expat buyers. Aldar Development's revenue backlog rose to AED 38.1 Bn in 1Q24 compared to AED 36.8 Bn in 4Q23, with the expectation of realizing revenue over the next two to three years, providing strong revenue visibility. Aldar Developments anticipates property sales of AED 29-31 Bn in FY2024 compared to AED 28 Bn in FY2023, which is supported by the strong demand expected in the UAE and international real estate sector. Aldar sold a penthouse in Nobu Residency at a record price of AED 96,000 per square meter in 1Q24. Aldar's landbank is strategically distributed across significant investment zones in Abu Dhabi, Dubai, and Ras Al Khaimah, with a total owned and controlled land area of 69 Mn Sqm. The Company is activating its landbank for development and plans to launch its second masterplan in Dubai during May 2024, coupled with a luxury beachfront development on Al Fahid Island that is coming up in 2H24. The recent London Square (LSQ) acquisition in the UK contributed AED 101 Mn of sales to Aldar Development while LSQ purchased four plots since the acquisition. Aldar is very close to refinancing the debt at LSQ taking advantage of its credit profile. Aldar's AED 5 Bn develop-to-hold pipeline in the investment segment, AED 1 Bn investment programme in the logistics segment and AED 1.4 Bn investment in Aldar Education are aimed at boosting the Company's recurring income along with capital appreciation. Moreover, the Company is also investing in the redevelopment of Al Jimi and Al Hamra malls to replicate the success of Yas Mall. Similarly, the hospitality segment is going under room renovation and is expected to witness strong demand in 2024. The Company's newly launched Al Maryah Tower is operating at an occupancy rate of 50% and is further expected to reach an occupancy level of

more than 85% in the near term. Following a strong financial performance in 1Q24, the Company revised its 2024 EBITDA guidance to AED 6.2 - 6.5 Bn from the previous AED 6.0 – 6.3 Bn guidance. The company's financials strongly benefited from acquisitions in hospitality, investments, and development business. The company is unveiling strategic expansion initiatives capitalizing on a strong cash inflow due to the growing demand for real estate. A substantial revenue backlog ensures the company's long-term revenue visibility. In addition, the shareholders approved a cash dividend of 17 fils per share for FY2023 resulting in a dividend yield of 2.9%. Thus, considering the abovementioned factors, we assign an ACCUMULATE rating on the stock.

Aldar - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	23.34	23.97	20.00	16.01	12.13	10.47
PB	1.86	1.81	1.72	1.63	1.49	1.35
EV/EBITDA	21.29	19.84	16.62	13.64	10.52	9.74
Dividend yield	2.5%	2.5%	2.5%	2.7%	2.9%	3.7%

FABS Estimates & Co Data

Aldar - P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	3,066	4,398	5,616	4,317	30.1%	83.2%	27.7%	14,161	19,254	36.0%
Direct costs	-1,811	-2,818	-3,590	-2,657	35.1%	98.2%	27.4%	-8,588	-12,067	40.5%
Gross profit	1,254	1,580	2,026	1,660	22.0%	61.5%	28.2%	5,573	7,187	28.9%
General expenses	-368	-439	-431	-475	-9.2%	17.3%	-1.9%	-1,482	-1,925	29.9%
Selling & Marketing exp.	-43	-33	-24	-35	-31.9%	-45.1%	-28.7%	-115	-289	151.4%
EBITDA	955	1,620	1,814	1,620	12.0%	89.9%	12.0%	5,113	5,580	9.1%
EBIT	844	1,107	1,571	1,151	36.5%	86.1%	41.9%	3,977	4,973	25.0%
Share of assoc.	-1	-2	-1	0	NM	NM	NM	-7	0	NM
Provision/(reversal)	-15	-57	-9	-52	-82.9%	NM	-84.5%	-226	-289	27.8%
Finance income	110	152	179	151	18.8%	63.2%	18.0%	499	481	-3.5%
Finance cost	-129	-189	-209	-166	26.0%	61.5%	10.8%	-621	-664	6.9%
Total other income	34	437	106	130	-18.5%	NM	-75.8%	907	963	6.1%
Profit before Income tax	842	1,449	1,637	1,214	34.9%	94.4%	13.0%	4,528	5,464	20.7%
Income tax	-7	-37	-66	-109	-39.2%	NM	NM	-112	-492	339.2%
Profit after tax	836	1,412	1,571	1,104	42.2%	87.9%	11.2%	4,416	4,972	12.6%
Non-controlling interest	110	208	254	133	91.7%	NM	NM	494	547	10.7%
Net Profit	726	1,204	1,317	972	35.5%	81.4%	9.3%	3,922	4,425	12.8%

FABS estimate & Co Data

Aldar - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	40.9%	35.9%	36.1%	-485	15	39.4%	37.3%	-203
EBITDA margin	31.2%	36.8%	32.3%	115	-453	36.1%	29.0%	-713
Operating margin	27.5%	25.2%	28.0%	44	279	28.1%	25.8%	-226
Net profit margin	23.7%	27.4%	23.4%	-23	-394	27.7%	23.0%	-471

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Aldar. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	6.73	70.0%	4.71
Relative Valuation (RV)	5.96	30.0%	1.79
Weighted Average Valuation (AED)			6.50
Current market price (AED)			5.89
Upside/Downside (%)			+10.4%

1) DCF Method:

Aldar is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.0%. It is arrived after using the cost of equity of 8.8% and after-tax cost of debt of 5.4% with a debt-to-equity ratio of 31.6%. The cost of equity is calculated by using a 10-year government bond yield of 5.3%, beta of 1.00 and equity risk premium of 3.5%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over a 10-year US risk-free rate. The cost of debt is calculated using the cost of 5.5% after adjusting a tax rate arriving at after-tax cost of debt of 5.4%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	16,509
Terminal value (AED, Mn)	51,836
FV to Common shareholders (AED, Mn)	52,922
No. of share (Mn)	7,863
Current Market Price (AED)	5.89
Fair Value per share (AED)	6.73

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	4,481	4,430	4,800	5,287	5,499
D&A	607	653	698	749	803
Change in working capital	411	1,711	1,541	277	-95
(-) Capex	-2,102	-1,968	-1,590	-1,820	-1,887
Free Cash Flow to Firm (FCFF)	2,228	4,826	5,450	4,492	4,320
Discounting Factor	0.95	0.88	0.82	0.76	0.70
Discounted FCFF	1,389	4,252	4,448	3,396	3,025

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value Aldar and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 11.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Emaar Properties	18,770	3.1	2.3	6.2	6.1	0.8	0.7
Dar Al Arkan Real Estate	3,770	16.5	13.9	16.6	12.7	0.7	0.6
Sobha Ltd	2,110	36.4	21.9	77.0	37.5	6.4	5.4
Arabian Centres	3,190	12.6	10.5	13.9	11.9	0.8	0.8
Deyaar Development	877	8.2	6.7	8.2	6.7	NA	NA
TECOM Group	3,740	9.7	9.2	12.0	11.1	2.1	2.0
Average		14.4x	10.7x	22.3x	14.3x	2.2x	1.9x
Median		11.2x	9.8x	13.0x	11.5x	0.8x	0.8x
Max		15.5x	13.1x	15.9x	12.5x	2.1x	2.0x
Min		8.6x	7.3x	9.1x	7.8x	0.8x	0.7x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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