

2Q19 results review

Real Estate | UAE | 8 August 2019

2Q19 net profit came in at AED470mn, 5% above our estimate and in line with the consensus. Revenue growth was higher (+10% y-o-y), mainly driven by sustained momentum in revenue recognition of development property business. 2Q19 pre-sales remained strong, benefitting from high demand for land plots in Abu Dhabi. Recurring net operating income (NOI) increased 5% y-o-y driven by contribution from new assets and supported by improved performance of hospitality business and Yas Mall. One time fair value gain of AED61mn (on land plot acquired from TDIC last year) lifted bottom line performance. This was partially offset by continued recognition of fair value loss on investment properties (~AED40mn). Management efforts to reconfigure Yas Mall tenants is starting to reflect positively with its occupancy ramping back to 92%, highest level in last six quarters. Other assets continue to witness broadly stable occupancy trends. Etihad Plaza JV consolidation and Al Jimi Mall extension can further support recurring income growth (+AED120mn to annualized NOI), but like for like rental decline is expected to keep a check on recurring income showing strong rebound. The stock is trading at discounted valuation of 0.7x 2019E P/BV, simultaneously offering sustainable dividend payout (yield of 6.1%). Maintain Buy

► **Development property business sustains positive momentum**

Despite lower gross margin, development property business profitability was maintained at high levels driven by strong revenues (+17% y-o-y and 6% above expectations). Its gross margin at 42% remained above guidance. Pre-sales (excl. govt. projects) at AED806mn sustained strength (2.7x y-o-y) driven by high interest seen for land plot sales in Lea and Al Reeman Ph. 2 projects. The company is now on track to exceed our FY2019 pre-sales estimate of AED2.0bn.

► **Recurring income posts mid-single digit growth**

Recurring NOI (excl. Hotels) at AED393mn grew modestly (+2% y-o-y) supported by incremental contribution from Etihad JV assets, Al Jimi Mall extension and to some extent from TDIC assets' acquisition. Occupancy at Yas Mall recovered to 92% (versus 84% at the end of 1Q19). This was expected on the back of leases signed with new tenants but timing was faster than expected. Hotels business also displayed improved performance with gross profit of AED3mn versus loss of AED9mn in 2Q18.

► **Valuation at discount, dividend outlook supportive as well**

Recurring income is expected to grow 8% y-o-y in 2019 after full impact of TDIC assets acquisitions, consolidation of Etihad Plaza JV and Al Jimmi Mall extension. This should provide more sustainable dividends (~80% secured by recurring income). While Aldar share has rebounded strongly this year, it still implies cap rate of 10.5% for recurring income assets on 2019E EBITDA. We see potential for this discount to narrow further as recurring income growth returns while pre-sales rebound adds to the attractiveness of story.

Key Financials	2017	2018	2019E	2020E	2021E
Revenue (AEDm)	6,181	6,287	6,705	7,052	7,510
EBITDA (AEDm)	2,712	2,782	2,433	2,559	2,573
Net profit (AEDm)	1,996	1,856	2,039	2,149	2,185
EPS (AED)	0.3	0.2	0.3	0.3	0.3
EPS (% Change)	(26.6)	(7.0)	7.5	4.6	(0.8)
P/E (x)	9.0	9.7	9.0	8.6	8.7
Dividend Yield (%)	5.3	6.1	6.1	6.6	7.0
Total net debt (AEDm)	(929)	2,041	2,425	2,846	1,781
RoAE (%)	11.6	10.3	8.3	8.4	8.2

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 2.5
Price	AED 2.3
Price 12m High/Low	AED 2.36/1.43
Market Cap.	AED18,084mn
Bloomberg/Reuters	ALDAR.UH / ALDR.AD

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement (AEDmn)	2018	2019E	2020E	2021E
Revenue	6,287	6,705	7,052	7,510
EBITDA	2,782	2,433	2,559	2,573
Depreciation and amortisation	230	234	239	251
EBIT	2,552	2,199	2,319	2,323
Other income	(467)	75	75	75
Net Finance Cost	230	236	247	214
Profit before tax	1,855	2,038	2,148	2,184
Taxes	0	0	0	0
Minority interest	(1)	(1)	(1)	(1)
Net profit	1,856	2,039	2,149	2,185

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Cash and cash equivalents	5,015	4,354	3,933	3,351
Other current assets	11,819	11,579	11,816	11,973
Total non-current asset	5,302	5,302	5,531	5,280
Total assets	38,544	38,120	38,721	38,045
Total current liabilities	6,365	5,282	4,836	4,803
Borrowings	7,056	6,779	6,779	5,132
Other non-current liabilities	887	887	887	887
Total liabilities	14,308	12,947	12,501	10,821
Minority interest	173	172	171	170
Shareholders' equity	24,063	25,001	26,049	27,054
Total net debt	2,041	2,425	2,846	1,781

Source: ADCB Securities Equity Research

Cash flow statement (AEDmn)	2018	2019E	2020E	2021E
Cash flow from operations	(182)	1,640	1,926	2,433
Net capex	1,730	686	1,000	(25)
Free cash flow	(1,912)	954	926	2,458
Net financing	812	(594)	(321)	(1,929)
Change in cash	(1,871)	(660)	(421)	(583)

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	9.7	9.0	8.6	8.7
P/BV (x)	0.7	0.7	0.7	0.7
P/FFO (x)	6.9	7.9	7.5	7.4
FCF yield (%)	(10.7)	5.3	5.2	13.7
Dividend Yield (%)	6.1	6.1	6.6	7.0
EV/EBITDA (x)	7.2	8.4	8.1	7.7
Interest coverage (x)	8.2	6.9	7.2	8.2
Net debt/equity (x)	0.08	0.10	0.11	0.07
Net debt/EBITDA (x)	0.7	1.0	1.1	0.7

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAIC	9.0	7.4	7.6	7.5
RoAE	10.3	8.3	8.4	8.2
Revenue growth	1.7	6.7	5.2	6.5
EBITDA growth	2.6	(12.6)	5.2	0.6
EPS growth	(7.0)	7.5	4.6	(0.8)
EBITDA margin	44.3	36.3	36.3	34.3

Source: ADCB Securities Equity Research

Per-share data (AED)	2018	2019E	2020E	2021E
EPS	0.24	0.25	0.27	0.26
DPS	0.14	0.14	0.15	0.16
BVPS	3.06	3.17	3.30	3.41
Total no. of outstanding shares (mn)	7,863	7,863	7,863	7,863

Source: ADCB Securities Equity Research

Investment case

Aldar Properties is the largest developer in Abu Dhabi with significant land bank. Its recurring income assets (~65% of gross profit) offer stability in income and consistent cash flows. After being stable in 2018, we expect its recurring income to return to growth in 2019E, helped by contribution of expansion assets.

Meanwhile, its development property business could see boost in pre-sales starting 2019E owing to successful launch of new projects and addition of prime land bank in Abu Dhabi and Dubai (in JV with Emaar Properties).

Upside case AED2.8

Earlier than expected property market recovery would lift Aldar's recurring income growth prospects and presales outlook. In such a scenario, organic rental CAGR over 2018-22E could increase to 5% vs. 2% estimated by us. Aldar would trade at 2019E P/BV of 0.9 in this case

Downside case AED1.7

Decline in oil prices could dampen fiscal stimulus measures and thus prolong downward trend in property market. In such a scenario, Aldar's rental decline could continue at 2% p.a. and market implied EBITDA yield for recurring income assets and higher discount for development property business are likely to sustain at high levels. Aldar would trade at 2019E P/BV of 0.5x in this case

Results summary – 2Q2019

Fig. 1. 2Q19 results review

AEDmn	2Q19	2Q18	y-o-y	1Q19	q-o-q	2Q19E	Variance
Revenues	1,656	1,511	10%	1,765	-6%	1,610	3%
Gross Profit	669	649	3%	723	-7%	656	2%
Margin	40%	43%		41%		41%	
Net Profit	470	447	5%	553	-15%	447	5%
Margin	28%	30%		31%		28%	
Exceptional items	(20)	(57)		(22)		-	
Adjusted net profit	490	504	-3%	575	-15%	447	10%

Source: Company, ADCB Securities Equity Research

Fig. 2. Segmental performance

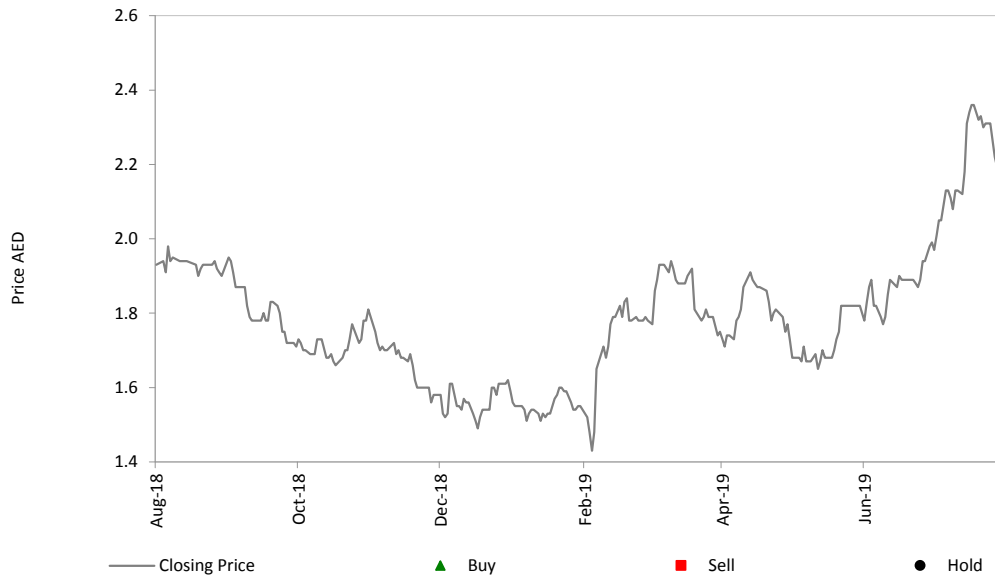
AEDmn	2Q19	2Q18	y-o-y	1Q19	q-o-q	2Q19E	Variance
Revenues							
Development properties	692	593	17%	718	-4%	650	6%
Recurring assets (Res., Retail, Office, Others)	672	643	4%	648	4%	660	2%
Hospitality	135	118	14%	210	-36%	120	12%
Construction (Pivot)	158	157	0%	188	-16%	180	-12%
Gross Profit							
Development properties	290	278	4%	311	-7%	280	4%
Recurring assets (Res., Retail, Office, Others)	393	386	2%	375	5%	383	3%
Hospitality	3	(9)	-135%	56	NM	2	27%
Construction (Pivot)	(17)	(6)	NM	(20)	NM	(9)	NM
Gross Profit Margin							
Development properties	42%	47%		43%		43%	
Recurring assets (Res., Retail, Office, Others)	58%	60%		58%		58%	
Hospitality	2%	-7%		27%		2%	
Construction (Pivot)	-11%	-4%		-10%		-5%	

* Others include Schools, Operating Villages, Facilities management (Khidmah)

Source: Company, ADCB Securities Equity Research

Recommendation history

ALDAR PROPERTIES (ALDAR UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
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Rating Distribution

Rating	Coverage Universe %
Buy	75%
Hold	25%
Sell	0%

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