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Presentation

###### Operator

Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to today’s Aldar’s Fourth Quarter Results Investor conference call. I must advise you that this conference is being recorded today, Wednesday 12th February 2020 3 p.m. And I would now like to hand the conference over to your speaker today, CFO, Greg Fewer. Thank you. Sir, please go ahead.

###### Greg Fewer

Thank you very much and good afternoon and welcome to Aldar Properties Full Year 2019 Results call. My name is Greg Fewer. I'm actually the Chief Finance and Sustainability Officer of Aldar, which is a new title we've taken on in the last month, we’re very proud of.

Before we open the floor to Q&A, I would like to give you a brief overview of our performance during the year.

In 2019, we reported a 14% increase in revenue to AED 7.1 billion, and a 5% increase in gross profit to AED 2.8 billion. These increases were driven by growth across both our asset management and developed management businesses. Specifically, segmental development revenues and gross profits were up 27% and 4% respectively, driven by progress made across projects under construction and the commencement of the recently awarded AED 5 billion portfolio of Government projects that kicked off in earnest in the fourth quarter.

Margins were down in the segment, reflecting a rotation in product mix from high margin land plots, for example, Al Nareel or Al Merief in the past, to more middle income product, as well as the impact of these new fixed price Government contracts awarded as part of the 5 billion portfolio that carry lower profit margins.

Our recurring revenue business witnessed 6% growth in net operating income to AED 1.7 billion. This was mainly driven by new asset additions during the year, notably Etihad assets and the Al Jimi Mall extension. There was also a strong hospitality performance on the back of an active Abu Dhabi events calendar that took place over 2019, which drove an 8% increase in RevPAR. We also witnessed profit growth across our key adjacent businesses, Aldar Academies, Khidmah and Provis. This growth was partly offset by the sale of the Al Murjan Tower during 2019, and softer like-for-like investment properties performance, albeit resilient occupancy as set out in slide eight of the attached presentation.

Reported net profit for the year was up 4% to AED 1.9 billion, supported by higher gross profit and a net gain realized on the recent exchange of land with the Government of Abu Dhabi, that was partially offset by write-downs on some other land plots.

Other key below-the-line items included fair value adjustments booked in the fourth quarter for our investment properties portfolio, following our usual annual independent valuations of our investment properties. Whilst we saw fair value losses, the pace of decline was down year-on-year, suggesting stabilization across the asset base.

With regards to the dividend, the board recommended a 4% increase to the dividend of 14.5 fils per share for 2019. This is the eighth consecutive year of growth in our dividend, and is supported by our clear dividend policy that provides transparency on future shareholder returns.

Our balance sheet remains strong. Gross debt remains well within our established and public debt policies, with a 38% loan-to-value across our asset management portfolio, and a 13.3% loan-to-value across the development portfolio. Following the 10-year Sukuk issuance in the fourth quarter of 2019, our average debt maturity today stands at 5.2 years and our average cost of debt is at 3.8%, reflecting Aldar’s platform for cost efficient real estate ownership.

2019 development sales were up 53% to AED 4 billion, marking our highest ever recorded off-plan sales to date. This was achieved on the back of strong demand for our new launches during the year, as well as inventory sales across projects under construction. Our development revenue backlog stood at AED 4.4 billion as at the end of December, giving clear visibility on future committed revenues and earnings. Across our development pipeline, we sit at 82% sold.

As of close of books on 2019 and look-ahead to 2020, we remain focused on delivering on our 2020 guidance of AED 4 billion in development sales once again, and target marginal net operating income growth across our recurring revenue business to AED 1.8 billion during 2020.

And thank you for your time, and I'm very happy now to open the floor to questions.

Q&A

###### Operator

*[Operator instructions]*

The first question comes from Steve Bramley-Jackson from HSBC.

###### Steve Bramley-Jackson

Firstly, congratulations on the new title, Greg. I've just got a couple of questions, really. One is around the write-down on your land value, this 525 million of write-down that you’ve taken on land held [in the cycle]. Can you just give us a little bit of color as to why that write-down has come through?

###### Greg Fewer

Sure, so I think when the strategic land swap happened, it was very significant. We’re talking about sort of re-writing the development map of Abu Dhabi. So having exchanged Raha Beach, Lulu Island, massive precincts and really doubled down at Saadiyat and new and important and adjacent precincts at Mina Zayed, it really causes you to revisit your development strategies more broadly, and so that’s what we did looking at our core destinations.

At the values that we brought these prime destinations on our book at, we look at a thing like Shams in terms of our land bank carrying values, in terms of the middle income product that we’re really focused on there, and we took that as an opportunity to reassess the overall valuations with these development priorities in mind. So that’s really what you're seeing there, you're seeing a fair valuation of the land coming in for Saadiyat and Mina, and you're seeing an adjustment to Shams to reflect the future potential as we see that being developed going forward.

###### Steve Bramley-Jackson

Just out of interest, how would you put the split? Would you say that more of that adjustment is forward-looking or does more of it reflect what prices have done to date?

###### Greg Fewer

The prices you have to date inform your future valuations, so ultimately these valuations are an aggregate of all your feasibilities for all the land plots that you have in that destination. By programming more middle income into that, by pacing that introduction of middle income product relative to what you're going to be doing at Saadiyat and these other destinations, that’s the result that you saw.

###### Steve Bramley-Jackson

Thank you and then just a couple of other things really. Firstly, just on the guidance that you’ve given for 2020, so you’ve got, what, +6% for NOI growth from the asset management business. Is this going to be driven, once again, almost entirely by the adjacencies businesses or is there a different mix this time?

###### Greg Fewer

Well, there are a couple of things. There's definitely adjacencies, so we like the growth we’re seeing in schools, and we like the event calendar that we see in 2020 in respect of its impact on our hospitality portfolio. We’ll have full 12 months NOI impact coming from assets like the Al Jimi extension and from the Etihad buildings that we've brought online. And we've also got some develop-to-hold investments that we expect to come into the portfolio at the tail end of the year. So at Bridges, which is on Shams, we've got over 600 units that are going to come into our portfolio sort of in the fourth quarter, 636 units. That can come around November/December, so sort of the NOI impact will really depend on when exactly they come in.

I think, together, those will be offsetting some like-for-like softness that might still accrue across the retail and resi portfolio, but overall… not dissimilar to the sentiment that we had 12 months ago on this date when we were communicating and using very similar words. There are some headwinds in the broader market, but because of our large diverse portfolio and our market leadership, we saw some green shoots and that came through in 2019.

The management team, actually, was in the room the other day and we all kind of said, we do feel the same way, and there is visible real stimulus effort that’s creating opportunity for us to make money. And our managers are, thankfully, proactive enough to be taking advantage of those, so that’s really behind this guidance of 1.8.

###### Steve Bramley-Jackson

And then sorry, just lastly, and then I’ll hand over of course, but clearly there was a shift in your gross margin in Q4. You’ve talked at the opening of your presentation today about the shift in business mix, a move perhaps to more middle income or middle price bracket development. What should we be thinking about the year-on-year shift in your gross margin for your business, presumably down, but by how much?

###### Greg Fewer

There's going to be a couple of things. So I think the first point to mention is that when we revised our guidance for our fee-based business, for our development management business up to AED 150 million a year of fee income, a big part of those are called “fixed price contracts”, which we run through the P&L as revenue, cost of goods sold, and a resulting 10% profit margin, just by nature of the contracts. They're not fee-per-service these ones, we actually take date and price risk, which we’re very happy to do for high single-digit gross profit margin. So that’s probably the biggest impact you're going to see in terms of driving margins.

But as we start to develop more into 2020, you're going to see some of our land projects at Reeman, Lea, Saadiyat Reserve start to feature more, and those are more in the 40-50% profit margin range. So I think Q1/Q2 you’ll see similar margins to what you're seeing now, and I think that will be offset in the third and fourth quarters as some of the land projects progress.

So if you look at our slide 16 in our investor pack, you see these announced projects for land at zero percent complete. As we start to progress on those, those carry slightly better profit margins.

###### Operator

The next question comes from Taher Safieddine from Citi. Please go ahead.

###### Taher Safieddine

Good afternoon gentlemen. A couple of questions, if I may. First, just on the Q4, something more in the financials. Just running through the numbers, it seems that provision impairments and write-downs have increased significantly during the quarter. I'm calculating something closer to the 100 million-plus. If you can just comment on the reason behind this increase, is this more of a cleanup towards the end of the year and if you can share some numbers on the amounts on a quarterly basis. That’s my first question.

My second question is – first, congratulations on the level of disclosure, this is definitely much more interesting and beneficial – but on slide number nine when you highlight the bridge in terms of the NOI growth and you mention the like-for-like, can we get just more color on how these like-for-like have been trending through the year? Is it fair to assume that the trend is actually improving within the residential and the retail and we’re coming closer to, I would say, maybe easier comps as we move into 2020.

And number three. The third question is just on the NOI guidance, does this assume any inorganic M&A activity, or this is purely what you already have in the portfolio? Thank you.

###### Greg Fewer

Thanks, Taher. So first on provisions, so as part of our full review and valuations of yearend numbers, there's definitely a couple of isolated cleanups. We've got construction subsidiary, Pivot, we’re reviewing their contact closures. There are some provisions that we've taken there to reflect increased costs in a challenging contracting environment. We have a joint venture with a partner, just some loans into some real estate assets, not that large. We've just conditioned those to reflect some recoverability issues with some of those – to some of those loans, and then the usual bits and bobs. And together those do comprise into that 100 million level that you were describing. So that’s on provisions.

In terms of the like-for-like in slide nine in the pack, so we definitely need to credit Chris Wilson with inventing this, which we’re all together absorbing as we speak. It’s a great reflection and very accurate, I must say, a great way to think about like-for-like performance. I'm just thinking about your question across the various segments and what drives that.

So the first comment would be on retail and like-for-like rates are really defined by Yas Mall, and because we've got these November renewal dates, so again this was year five and all the renewals really happen at the same time in November, whilst we stagger them… the guys are being very good at staggering the new renewals on an annual basis, so two, three, four, five-year clusters, they generally are around that November number, so it’s like you reset in November. So how does that trend over Q1, Q2, Q3, Q4? That’s kind of hard to peg. So I’d look at the annual number on that. I think that’s the best way to think about retail.

In terms of commercial, very sticky. Government and business enterprises who generally aren’t as sensitive to price as your retail tenant or your residential consumer, so there would not be any intra-year trend worth mentioning there.

And on residential, much more active and I’d say we’re stabilizing. I think we saw pretty steady quarterly performance across the portfolio, and I'm just thinking amongst the destinations – I mean, yes, I think that commentary is pretty consistent between Shams and our off-island developments like Rayyana and Sas. So I think stability, to make a long… or “consistency”, I should say, would be a better word.

And then your third question was about NOI guidance, and sorry, could you elaborate on that again?

###### Taher Safieddine

Is this purely organic or is there an M&A component attached to it?

###### Greg Fewer

Purely organic. The only, you can call, inorganic would be the Bridges assets that we’re investing into, so the develop-to-hold that should come on in the mid or tail end of the fourth quarter. So that would represent inorganic in that sense. There's nothing in the acquisition bucket under that 1.8 guidance.

###### Taher Safieddine

Just one follow-up, again, on one of the new slides, which is the key adjacent businesses. Just looking at this business, it has been doing extremely well on an annual basis in terms of growth, especially on an NOI level. Just within this, how to think about the adjacent businesses, these are more non-core assets, clearly they're doing well. Looking at, for example, just Aldar Education in terms of the numbers, is this a key focus area for you in terms of maybe more growth, adding more schools or M&A, or potentially, I don’t know, like a divestment would make sense given it’s becoming much more lucrative in the mix versus where it was a couple of years ago.

###### Greg Fewer

I remember the way we answered these questions even three, four years ago, which was with the line, these are highly valuable but non-core. And the academy side, the messaging back then was highly valuable, non-core, but there's so much low hanging fruit that we want to improve before we entertain some sort of a monetization or an exit or something like that.

I look back over 48 months, that’s exactly what's been going on, and I think you're really starting to see now the fruits of the work that the management team down there has been doing, and it’s significant. They're creating a ton of value. They are absolutely embedding themselves within a highly privatization-oriented Government as the number one provider of education in Abu Dhabi and, indeed, that’s what's driving a lot of that growth there.

We’re very happy to continue working with the existing team and riding this kind of growth going forward. Clearly, I think it’s past fixing low hanging fruit and we’re into valuation on optimization now, and other exit opportunities in this, which is probably, by everyone’s admission, probably the most well-followed sector in our country in terms of foreign direct investment and other things to explore combination or monetization opportunities for what is and what remains a valuable, but non-core business. But that is just run by an excellent team who continues to dominate the market here.

And I think that same theme, highly valuable, non-core absolutely applies to Khidmah Provis and the cooling assets. The only sub-comment I would make, we have recently split Khidmah and Provis. We used to just call it Khidmah, which was our facilities management and property management – it was under one entity called Khidmah, we split them now. Provis is the property management entity, and Khidmah is the facility management entity.

Property management we definitely view as, let’s say, slightly more core. They manage our residential portfolios and they manage our commercial office portfolios very ably, and they're the best in the market at it. But PM is an integral part of the alpha we create by the professional managing of our properties, so it’s core to us in that sense.

Facilities management, a little bit more of a commodity. We benefit from our scale, but indeed even across our project, Provis tenders, FM contracts to the whole market when we want to attract and contract at our various properties, and we don’t always use Khidmah. We will use whoever the best FM provider is at the time, so that might put some context around how we think about those two businesses.

###### Operator

*[Operator instructions]*

The next question comes from Jonathan Milan from Waha Capital. Please go ahead.

###### Jonathan Milan

Good afternoon, Greg, thank you very much for taking the time for the call. Just a few questions on my side. Could you comment on the extent of the decline in average rents in Yas Mall in the latest round of renewals and what percentage of the units have been renewed? Do you think that you may have to reprice units that were repriced, say, three years ago or two years ago down further next year and the year after that?

Also, what percentage of your office portfolio, which was put on long-term leases with the Government is expiring in 2020/2021/2022 and how much of a premium is it to current market rates and how much of a decline can we see.

And a third question is, what is the current capacity utilization at the schools? In a sense, once they reach peak capacity, given the massive growth, would you consider acquiring more schools or building more schools.

###### Greg Fewer

Jonathan, thank you. So the first question was the extent of decline in like-for-like in retail. The first thing to point out is that 2019 was year five of our renewal cycle, which means we signed leases in 2014 that then got renewed in 2015. So we've had some correcting going on in that market, the most aggressive of which are going to be recorded in this, the fifth year as we remedy the over-renting. We were highly successful opening this mall in 2014, and the market kind of had VAT and the other structural shifts that reduced… we've had five years of cumulative market declines wrapped up in this. But notwithstanding that, we’re still just seeing 9% overall like-for-like declines in overall lease rates in Yas Mall.

Your second question was on what percent of the office portfolio is renewing the next few years. Our weighted average lease tenure across that particular portfolio is 4.8 years, so that should give you a good flavor for what would be coming out in 2021/2022 and 2023. Just proportionally, I would be saying less than 25% in that sense.

Your third question was on schools, and so across… so the 22,000 student base is split. It’s between schools that we own, which is about 8,000 students in our network of schools that we own and operate, and the balance coming from schools that we manage on behalf of third parties, whether it’s ADNOC or the Government of Abu Dhabi increasingly.

And so across our own network, we’re over 80%, which is based on seats. And I must say that there is a pretty reliable growth rate that comes from those, so we’re 80% of capacity, but because some of our schools are very new, growth comes almost automatically as… the rate now, let’s say, senior cohorts are non-existent in some of the schools since they opened, and as a current Grade 9 class moves into Grade 10 next year, and another school, a current Grade 10 class moves into – for the first time into Grade 11, so on and so on, you have an automatic growth uptake, and that’s exactly the kind of predictable growth that we've been seeing in our own school portfolio over the last three or four years.

###### Jonathan Milan

A couple more questions just on Yas and office. So Yas Mall, do you think you must reprice a bit further in November 2020 and November 2021, because contracts that were renewed in, say, ’17 for example or ’18, were renewed at higher rates than the current ones, so do you think you will see another like-for-like decline mid-single-digits, say, this year. On the office side, how much of a like-for-like decline do you think you should see, because some of these – I understand its 4.5 years – but some of these are quite old, seven, eight, nine or 10 years old and I think they are at a 20% premium to current market rates, so how much of a like-for-like decline do you expect to incur on the office side.

###### Greg Fewer

On the retail side first, yes, we are expecting like-for-like declines to be coming in our retail portfolio for the reasons you mentioned and just for the market. So we would be forecasting mid-single-digit declines coming from that portfolio reflecting those sort of topics, just to give you a flavor.

And then you asked about the commercial office portfolio, just in terms of over-renting. Again, it’s pretty sticky. I think people that want to stay in their locations… generally, the commercial decision that these tenants make is they want to be in a building, they want to be in a precinct, they invest heavily in the facilities and there's a stickiness that comes from that, so our ability to renew, dare I say, even at a higher rate, I hope none of my tenants are on the call right now, but you're effectively saying, ‘are you going to switch? Are you going to burn all your investment and move?’ and you trade on that. That’s kind of how that works.

I think the year of 2019 that we had reflected that dynamic, and we saw sort of that low single-digit rerating and I would expect a similar balance in the future.

###### Operator

*[Operator instructions]*

Ladies and gentlemen, there are no further questions in the conference call. I will now give back the floor to the company. Thank you.

Conclusion

###### Greg Fewer

Thank you everybody for dialing in and we look forward to speaking to you in the next quarter. Thanks a lot.