Transcript

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Aldar Properties Q1 2021 Earnings Call Monday, 10 May 2021

Mohamad Haidar Hello, everyone, and welcome to the Aldar Properties first quarter 2021 earnings conference call. This is Mohamad Haidar from Arqaam Capital Research, and we are joined today by Mr Greg Fewer, the chief financial and sustainability officer at Aldar Properties. I'll pass on to Greg. Please go ahead.

Greg Fewer Thank you, Mohamad, and thank you, everybody, for dialling in relatively late in the afternoon during Ramadan, on the cusp of Eid, so we'll get right to it. My name is Greg Fewer, and I'm the group chief financial and sustainability officer here at Aldar.

I hope everyone's keeping well, and for those of you celebrating, wishing you a very happy Eid. In terms of an overview, we're very happy to be reporting another solid set of numbers for the first quarter of 2021.

Before delving into the numbers, it's important to view Aldar's performance in the context of Abu Dhabi's effective response to the global pandemic, and the UAE's world-leading vaccination programme. Vaccination rates are at over a hundred doses per 100 people, with almost 70% of eligible citizens and residents immunised. This is enabling a smooth and sustainable recovery, which is already being reflected in improved business conditions and consumer sentiment.

And we expect a bottoming out in our most impacted segments, namely retail and hospitality. Further, the UAE federal government has taken very bold and proactive policy measures to liberalise residency and immigration rules, to stimulate local aggregate demand, such as formalising the route to UAE citizenship for expatriates, expanding eligibility for long-term Golden Visas, and introducing short-term remote working visas.

So, a very solid backdrop against which a demand-led emergence from COVID, that Aldar is very well placed for, is something we're looking forward to. In Q1 2021, Aldar delivered a revenue of AED 2 billion, a 16% year-on-year increase. Another strong performance led by Aldar Development primarily drove this growth, with the business recording development sales of over AED 1 billion for the third consecutive quarter.

Income from project management also increased, with additional income coming from commencement of work under our previously announced ADQ transaction, which was announced at the end of last year.

The group's profit rose 11% year-on-year to AED 675 million. Net profit increased 80% year-on-year to AED 544 million. Adjusting for the one-off gain related to the ADQ transaction, the group's core net profit was up 47% year-on-year.

I'd now like to delve a little deeper into the performance of Aldar Development, where revenues for the business unit increased 47% year-on-year, to AED 1.19 billion, accounting for almost 60% of group revenue.

Breaking down the numbers, revenue from property development sales was up 18% year-on-year to AED 802 million, while revenue from project management more than tripled to AED 384.

Gross profit for Aldar Development was AED 359 million, up 28%. Development sales more than tripled year-on-year to AED 1.09 billion, pointing to a sustained appetite for quality residential units.

We saw robust sales of existing inventory at mid- to high-level destinations, including Water's Edge, West Yas, Mamsha, and Saadiyat Reserve. We're further encouraged by our latest project launch, which was Noya Viva, which sold out post the reporting period end in April, generating on its own a further AED 1 billion in sales. And Aldar therefore intends to bring more products to the market in the coming months, on the back of this clear pent-up demand.

Demand for property on Saadiyat Island and Yas Island is coming from a broad range of end users and investors. Expatriate residents and foreign buyers accounted for 35% of Noya Viva purchases, and we expect this positive trend and further customer diversification of the client base to continue.

Cash collections for handovers and stage payments in Q1 2021 totalled AED 929 million. This was driven by significant progress on projects such as Mayan, Al Ghadeer, and Water's Edge. As of Q1 2021, 90% of launch developments have been sold, and our revenue backlog, as of 31st March, was AED 3.35 billion, which is flat on the fourth quarter of last year.

This is primarily down to the progress made on our developments relative to sales we added in the quarter. And the coming quarter's backlog will be strongly supported by the Noya Viva launch from April, another project that we're planning to bring to the market later in this year.

Increased revenue at project management was driven by strong progress made on our government housing and infrastructure projects, most notably the Al Falah housing project, and the Twofour54 complex on Yas Island. Project management gross profit for the period was AED 90 million.

Having concluded the ADQ transaction in the first quarter, we are now recording fees related to the Abu Dhabi government's projects awarded to Aldar, that we announced in the fourth quarter of last year. These will ramp up in the coming quarters. These projects will provide a consistent income stream for the business, enhancing revenue visibility and providing healthy cashflows.

In the first quarter, we also acted on our intent to enter the promising and strategic Egyptian market. Aldar is leading a consortium of investors that submitted a nonbinding offer to acquire a majority stake in one of Egypt's leading listed real estate companies, SODIC.

At this stage, we're yet to provide more, other than what we said in the announcement. There's a process underway that we will let run its natural course. Turning now to our investment, I would like now to turn and to review the asset management performance. Revenue for Aldar Investments was AED 753 million in the first quarter, just 5% lower than Q1 of 2020, while net operating income came in at AED 403 million, relatively unchanged from last year.

The resilience of the commercial and residential portfolio, and the positive contribution from Provis, our property management subsidiary, and Aldar Education, our education subsidiary, mitigated the continuing impact of the global pandemic on the tourism-oriented assets, such as retail and hotels. We've also focused on generating cost efficiencies across our business over the course of the year.

The commercial and residential investment property portfolio produced a 2% year-on-year increase in net operating income, to AED 224 million. As of 31st March, occupancy was spurred at 91% for the commercial portfolio and 90% for the residential portfolio. That's excluding a new development that we just introduced into the portfolio called The Bridges at Shams, which is just in its lease-up stage right now.

The resilient performance was supported by long-term and bulk-lease arrangements, a strong tenant profile, and a focus on high-quality service and engagement. Our retail business also remains relatively solid, with occupancy rates across the portfolio at 83%, in line with the fourth quarter of last year.

NOI for our retail assets stood at AED 110 million, representing a slight decline of 4% from the year earlier. We are seeing a range of encouraging indicators, including the gradual return of sales density to the pre-COVID levels within our retainable assets.

In Q1, we announced the AED 500 million redevelopment of Yas Mall, which will be delivered in phases over the next 12 to 18 months. The project will repurpose 40% of the gross leasable area and create high-impact experiential retail, as well as F&B spaces, while adding a total of 15,000 square metres of office space.

In hospitality and leisure, occupancy rates and revenues declined year-on-year due to the global travel restrictions. However, the portfolio is benefiting from an increase in domestic tourism, and the implementation of cost-saving measures, that meant that gross profit for the business was flat.

We expect a gradual improvement in marketing conditions as global travel restrictions eventually become eased, with the UAE standing out internationally due to its success in implementing highly effective testing and vaccination programmes.

With the principal investments business, Aldar's property services company Provis, and Aldar Estates, produced an 82% year-on-year rise in revenue to AED 43 million, while facilities management company Khidmah achieved a 90% year-on-year growth in revenue, to AED 81 million.

With Provis's recent acquisition of Asteco in Dubai, and its enhanced market leadership, the business is expected to grow rapidly through new contract announcements in the coming months.

Meanwhile, Aldar Education reported a 24% year-on-year increase in net operating income to AED 39 million, supported by enhanced operating efficiencies and increasing student numbers across the academic school year.

Turning to Aldar's balance sheet, it remains solid. Our liquidity position is strong, with AED 3.3 billion in unrestricted cash on the balance sheet, driven by strong cash collection, as I mentioned earlier, and AED 4.2 million in undrawn committed bank facilities. In Q1, we concluded four new bank revolving credit facilities for a total of AED 5 billion, extending the group's combined debt and available bank committed facility weighted average duration by 1.7 years, to 5.4 years in total. These are refinancings, not new debt.

Dividends from the 2020 financial year of AED 1.14 billion were distributed in April, so just after the reporting period end, reaffirming again the company's commitment to delivering significant shareholder value.

And finally, just a quick update on our progress across ESG and sustainability, which is something we take very seriously here. We're working on a sustainability data management system to enhance our collection reporting of Aldar's vast array of group data on this topic. This allows to better plan and execute our sustainability initiatives, increase our transparency, and make our reporting more efficient and more periodic.

During the first quarter, Aldar launched an important energy management project to significantly reduce energy consumptions across 87 of our existing assets.

This project is expected to save more than 90 gigawatts of electrical consumption per year, which is the equivalent of reducing CO2 emissions by approximately 75,000 tons each year. In our efforts to further enhance disclosure and the quality of our reporting, we've also adopted EPRA's Best Practice Disclosure Guidelines this quarter in our annual report, and we are the first real estate company in the GCC to do so.

So, just to conclude, our results certainly reflect that Aldar continues to be in excellent financial and operational shape, and are positioned extremely well to benefit from what we believe will be a strong demand-led growth, as the UAE economy continues to open up post-pandemic.

And to take advantage of the very strong management of the health file here, and some of the very proactive reforms that the government is doing to increase foreign direct investment, to increase population, and to elongate the average stay of expatriates in this country, all for the benefit of the domestic economy. And with that, I will open the floor to questions.

Operator Of course, ladies and gentlemen, if you wish to submit a question, it's star followed by one on your telephone keypad, and if you're joining us online, please click the request to speak flag icon. As a reminder, it's star followed by one to submit a question. And our first question comes from Taher Saffiedine from JP Morgan. Taher, your line is now open.

Taher Saffiedine Hi, Greg. Good afternoon. Thank you very much, and congrats on a good set of numbers. A couple of questions, if I may. The first one is on the recurring portfolio. Is there any possibility just to give us some guidance, how should we think about the NOI into 2021? And my second question is on the retail portfolio. We continue to see like-for-like rates going down, occupancy remains relatively lower than last year and the year before, so maybe just some updates.

Organically, how should we think about the retail portfolio within Aldar Investments? And my third question is on the development portfolio, the development sales. Are you seeing any change in the buyer mix? Is it more locals? More expats? First-time buyers? If you can just give us some updates there, especially after your successful launch in April, that would be very helpful. Thank you.

Greg Fewer Sure. Thanks, Taher. In turn, the NOI guidance, we guided flat, and I think we're pretty much headed towards that, so no reason to I think materially revisit or rechange or re-guide the overall NOI guidance for the portfolio.

Following on that, on the retail side of things, 83% occupancy, I think the important thing to note there on the retail side is we now see what we've been calling the Yas Mall Redevelopment Plan. So, if anyone's been to Yas Mall recently, you'll see quite a bit of boardings up, which is reflective of an AED 0.5 billion development programme into Yas Mall. Like any landlord of retail mall space, you need to really be thoughtful and proactive in your asset management of these assets.

So, we announced that in Q1, but in reality, we'd set the seeds for that already in terms of managing with our tenants, managing their renewals and replacements into what we anticipated would be this redevelopment plan moving forward. So, those low numbers you're seeing need to be looked at in the context of a significant repurposing of a number of the spaces there.

As we transition from the old mall configuration into the new mall configuration, you'll be in the choppy period that we see for the next quarter or so. But we're very encouraged by the leasing programme that the team is executing now, in terms of the retail community's response to our announcement for Yas Mall, and really its view of the Abu Dhabi market.

And I think one of the things that COVID's shown us is some of the strengths of the Abu Dhabi, being its strong, wealthy, affluent resident base. And when that's more internally focused, we see that the basket sizes increase as we get to retain more and more of the residents here.

So, I think that was a good reminder to everyone that there is a very healthy customer here. And with thoughtfully asset-managed assets, like we're doing with Yas Mall with this programme, our target is to capture more of them here, before they either leak to Dubai or leak elsewhere, to manage out their discretionary spend. Basically, we see that 83% trending up, the lease occupancy rate, as we continue to execute the leasing programme in conjunction with the Yas Mall Redevelopment Plan.

And then, your final question was on DM sales and buyer mix. For Noya, it was around a 35% number, which was pretty much on par with what we're seeing in the Yas in terms of expatriate purchasing. But the inquiries certainly are a lot higher, and you're going to see more launches on Yas. The amount of noise, let's say, and the degree to which the government residency programmes are starting to really drive sentiment change and really drive some behavioural change amongst the way expats think about life here, that's really starting to set in.

And so, we see that number increasing, in particular as we start to launch more on Saadiyat, so we've flagged that the Grove is a major development of ours. Saadiyat is our most internationally marketable destination in the portfolio right now, and we're going to be bringing products steered towards that market, launched later in 2021.

So, we see a lot of encouragement around steering that number more towards expatriates, and complementing the already very strong, very liquid, very good appetite UAE national buyer base that has been our bedrock for so long.

Taher Saffiedine We're still at 60%, 70% in terms of locals, and the rest is mainly expats?

Greg Fewer Correct.

Taher Saffiedine And just, sorry, one follow up before I give it so someone else. In terms of the fee-based project, what we're seeing today is mainly work being done, revenue being recognised primarily on the older backlog, the projects that have been awarded in 18 and 19.

But the ADQ projects are still in very early stages. Is this a safe assumption?

Greg Fewer Correct. We onboarded those assets, and the revenue recognition started mid-quarter, so you're not even seeing a full first quarter run rate. And those projects are nascent, they have growth to come.

So, our overall guidance around revenue recognition isn't changing on that, and I think we're very encouraged with what we're seeing thus far. In terms of the scale of the portfolio, the substance in there, our engagement with government, and the professionalism that's attaching to our engagement with them, are all very encouraging and very much in keeping with what we've guided you guys on previously.

Taher Saffiedine Okay, perfect. Thank you very much.

Greg Fewer Thank you, Taher.

Operator Ladies and gentlemen, as a reminder, it's star followed by one on your telephone keypad to submit a question, and if you're joining us online, please click the request to speak flag icon. That's star followed by one to submit a question. Our next question comes from Rakesh Tripathi of Franklin Templeton Investments. Rakesh, your line is now open.

Rakesh Tripathi Hi. Thank you very much for the presentation. I just have one question. Could you remind us as to which particular assets out of the recurring revenue-generating assets are part currently of the debt obligates? The debt-servicing entity, that is.

Greg Fewer Listen, Rakesh, you're cutting out, but I think I got the gist of your question. So, you're asking, of the recurring revenue assets, which ones are in Aldar Investment Properties, which is the obligor under our secure programme, and which ones are inside and which ones are outside.

Rakesh Tripathi Yes.

Greg Fewer So, basically the most important asset that's outside that group, we have one commercial building called Al Mamoura, and that's just because it's on a short lease. The schools' portfolio is outside, and some of our finance leases are outside, of which we only got maybe AED 100 million. So, other than those specific assets I mentioned, everything else in the residential, the commercial, and the retail portfolio, other than those isolated assets I mentioned, are in the Aldar Group.

Rakesh Tripathi So, here when we talk about the recurring revenue business, the Aldar Investment business in the presentation, this service, you already mentioned that the schools are outside, so Aldar education is not part of it, nor are Provis and Khidmah, right?

Greg Fewer I'll make one more further distinction for you.

When we refer to Aldar Investments, that refers to the entire recurring revenue asset group. I know it's a little confusing, the nomenclature. So, a reference in this presentation to Aldar Investments is a reference to all the assets of Aldar Investment properties, as well as schools and property management and all the recurring revenue assets.

A reference to Aldar Investment Properties, which was what your question specifically was, is everything in Aldar Investment, less those three assets I've described, and the schools business.

Rakesh Tripathi Thank you, that's very clear.

Operator Lades and gentlemen, as another reminder, it's star followed by one on your telephone keypad to submit a question. That's star followed by one on your telephone keypad. And our next question comes from Francis Ames of Ajeej Capital. Francis, your line is now open.

Francis Ames Hi, guys. Thanks, and congratulations on the good results. I actually just have a slight technical question on the new segmental information breakdown. I just want to make sure I understand exactly within the revenue what's recognised as over a period of time, and what's recognised as point in time, specifically in the property development, and the hospitality and leisure. If you can just very quickly outline how that's separated, that would be great. Thank you.

Greg Fewer In the property development space, almost exclusively 100% of the revenue there is reported under IFRS 15, but under IFRS 15 and its over-time interpretation. It used to be the case we recorded revenue when we handed over a villa with the keys when it was completed. Now we record that revenue as progress on site and construction progresses. So, unit sales of completed inventory, though, are point in time, and the hotels and hospitality business is a point-in-time revenue recognition as well.

Francis Ames That's just what I'm confused with. Just so we're clear, if I look at the Q1 numbers, it's AED 800 million in gross revenue for property development and sales. AED 650 million is over a period of time, this is the revenue recognition as you move through construction. AED 142 million is point in time, so those are sales of completed units. Is that the right way to read that?

Greg Fewer Yes, other than the unit sales, which are the completed inventory, so those would be point in time. When something's done, then we record the revenue 100% when it's sold.

Francis Ames And then, just in hospitality and leisure, that's where I'm confused because it's about half and half between over a period of time, and point in time, and that's where I'm trying to understand which is which.

Greg Fewer When someone comes and stays at a hotel, that business is point in time.

Francis Ames But then, you've got AED 49 million that's over a period of time in hospitality.

Greg Fewer It's longer term.

Francis Ames I don't want to belabour the point. Sorry?

Greg Fewer We have some longer stays.

Francis Ames That's quite a significant figure for longer stays. I guess that's why I was curious about it, just to understand the definition.

Greg Fewer We can follow up with you after on that, just to show you the details.

Francis Ames No problem at all, and thank you for that. Otherwise, just one question on education. In terms of the outlook, obviously the aggregate revenue is basically flat year-on-year, and I just want to understand that compared with the trajectory of more students. And then, just on the outlook in terms of what you're planning to add over the course of this year, in terms of capacity and education.

Greg Fewer On education, the growth we generally see there now is not so much inventing new schools, it's filling up capacity in our existing schools. We've got just over 9,000 in capacity, and we're just hitting 8,000 in student numbers, so as Grade 12 becomes Grade 13 from our old cohort of schools, that's where you're seeing growth in student numbers coming.

And what's great is that growth is still the dominant trend there, which is trumping people that are leaving the Emirates, or trading in and out of different price points. We've seen our schools very stiffly retain the students.

Francis Ames Okay, thanks. And in terms of additional capacity expansion and CapEx there?

Greg Fewer Very limited. At this point, we're not amassing a lot of new greenfield schools. The growth there is going to be coming from the privatisation programme that the government has announced, and we're seeing growth in fee revenue.

So, the charter schools programmes, and the government just announced a PCC initiative, where there're some VOT schools that are going to be operated on the mass of schools. The ADNOC Schools that we added 18 months ago now, that's all fee-based revenue that we're seeing good growth in, and there's more of that to come as the government continues the privatisation programme.

Francis Ames Okay, thank you.

Operator Ladies and gentlemen, as another reminder, it's star followed by one on your telephone keypad to submit a question, and if you're joining us online, please click the request to speak flag icon. Our next question comes from Admire Mavolwane of Terra Partners. Admire, your line is now open.

Admire Mavolwane Good afternoon and good morning. Thank you for the call. I have a quick question. We saw a slight change in the shareholding, where a new shareholder purchased about 12%. I just wanted to find out, will that new shareholder change the strategy of the group? Will they be seeking a purchase? And also, in the aftermath of that acquisition, the share price weakened.

Do you know of any reason why that was the case?

Greg Fewer It's very public that an investor called Alpha Dhabi acquired 12% of our shares, and we think it's a very strong ringing endorsement of the Aldar business model and our overall growth trajectory, where we've seen some very sophisticated local investors mobilising significant cash in the secondary market, into our shares.

Look, we're management. We put our noses down and we execute a business plan, we work with our board, and it's up to the shareholders to buy and sell our shares, and vote with their feet, as it were.

So, this is not a shareholder who's engaged with us, and we read about that transaction in the paper when everyone else did. And the media that followed, and the storylines that we picked up locally here are, this is an investor who's purchased shares because they like the growth prospects. And we have no formal engagement with that investor.

Francis Ames Okay, fair enough.

Greg Fewer In light of when they announced who they were in the press release, we will undertake a normal analysis around related parties, and have a very transparent and clear disclosure. If we do commercially transact in a normal course with people in that group, then that will form part of our related party disclosures.

But that's it. That's the only thing that's really happened since that announcement. So, this is not someone who's swooped in and made statements to the management around board expectations. We have no information like that.

We're just running the company, and this has been someone who likes what they see, and they're putting their money to work in us. And we feel privileged and honoured and humbled by such significant votes of confidence in us, and we just continue to execute our strategy.

Francis Ames Okay, thank you.

Operator Ladies and gentlemen, as another reminder, it's star followed by one on your telephone keypad to submit a question, and if you're joining us online, please click the request to speak flag icon. That's star followed by one on your telephone keypad, and if you're joining us online, please click the request to speak flag icon. And our next question comes from Zohaib Pervez of Al Rayan Investment. Your line is now open.

Zohaib Pervez Thank you for taking my question. Actually, I just joined in. I was on another call, so probably I missed the entire presentation, but I've got one question. If you have already addressed it, I apologise for it. Could you give us the update on your investment in Egypt, and where do we stand on that?

And the second thing is, in the recent past we'd seen the Egyptian pound went through a significant decline. How do you plan on taking on this risk? Do you plan on doing some derivatives, some hedging, or do you want to keep this as a risk, as open? Thank you.

Greg Fewer On the first part, the update on the SODIC transaction, there's a due diligence period that is underway right now, so we have 60 days from the announcement of the filing of the offer to conclude due diligence. It's ongoing, and we're in the midst of that process right now, so there's really not much to advise, other than that process is taking its time. The company's been very welcoming and forthcoming in terms of providing information, and we're in that process with them right now.

Any update to that would be shared simultaneously with yourselves and with SODEC's shareholders. In terms of the overall Egypt pound exposure, I think that's a level that we're currently looking at in terms of capital deployment into Egypt. We are not seeking to hedge.

It's been our experience to date, reviewing this, that those hedges can be quite expensive. And we think that by announcing Egypt as the core element in our new operating model that we did in January, we view that as part of core Aldar's raison d'etre, and part of our strategic footprint.

And the exposure to the immense growth that we see in Egypt also comes with that macro impact that it has on its currency. So, I guess the management's view on that is that we see it as a core attribute to what is Aldar now.

There's a minority piece of capital that will be exposed to Egyptian pound currency, and will be exposed to the Egyptian pound real estate development market on a non-hedged basis.

Now, if the exposure started to go up significantly, that would be a reason why we would revisit that, let's call it policy stance. But we feel strong enough about the fundamentals there that we think it's smart and good business for us, and we think our shareholders should carry that exposure in our share price.

Zohaib Pervez All right, sounds good. Thank you.

Greg Fewer And sorry, Operator, I'll just have a follow up on Francis's question on revenue recognition in the hotel business. Just a further point of clarification. I said it was long-stay revenue recognition was over time. It's actually any stay of a length of time is considered over-time revenue recognition.

And hence, even a one- or a two-night stay is considered over-time revenue recognition. The point-in-time element is really down to the F&B business, which is quite significant that we have at the hotels. So, that brings that proportionality more into context. Apologies for that, and that's a clarification. Go ahead with the next question please, operator.

Operator Ladies and gentlemen, as another reminder, it's star followed by one on your telephone keypad to submit a question, and if you happen to join us online, please click the request to speak flag icon.

That's star followed by one on your telephone keypad to submit a question, and if you're joining us online, please click the request to speak flag icon. We have no further questions, so I'll hand back over to Mohamed for closing remarks.

Mohamad Haidar Thank you, Charlie. Greg, do you have any final remarks?

Greg Fewer No. Thank you, everyone, for dialling in late in the afternoon, in the cusp of Eid. So, have a great holiday, everybody, and we look forward to speaking to you in Q2.

Mohamad Haidar We have a question from Taher, if you have time to take it.

Greg Fewer Yes, of course.

Operator Perfect. So, our next question comes from Taher of JP Morgan. Taher, your line is now open.

Taher Saffiedine Sorry, Greg. Just one final follow up. Can you give us just some updates? Lots of things are happening in Abu Dhabi. ADQ, ADNOC, it feels like things are moving.

So, I just want to get maybe an update from your point of view about M&A within Aldar Investments. Is there any update there? How should we think about corporate actions? You have some additions coming into the residential portfolio, you have the repurposing of Yas Mall, but maybe can you give us some colour on timeline in terms of what are we thinking about, in terms of M&A, given that you've allocated a decent amount of capital for that in your FY20 results?

Greg Fewer Yes, we did. And look, we still feel good about deploying that, and there's definitely a lot going on here. Everyone who spends time thinking about Abu Dhabi and about investing into Abu Dhabi, it is a frenetic pace of policy change and leadership within government.

And government state-owned enterprises are super energised around growth, around attracting FDI, around policies. As I said at the beginning in my earlier remarks, about elongating the amount of time expats stay here, making us feel more like home, making capital, intellectual and economic capital more sticky, and showing companies of greater size and strength into the capital markets.

And so, that's the attitude here. It's real. It's active. You're seeing a bit of that in us already with our ADQ transaction announcement. We'll be ramping up our fee-based revenues upwards of AED 0.5 billion, so we are seeing the benefit of that frenetic pace, and I think that frenetic pace of activity will extend into corporate action opportunity for us.

So, there're definitely dialogues ongoing. We were deliberate in setting a guidance for it, because of that sentiment. There're a lot of extensions into real estate based on that sentiment I'm describing, and one of our big jobs is to make sure that we position the Aldar Properties portfolio to be the beneficiaries of some of those real estate transactions when they come up. It's an important source of value creation for our shareholders.

So, look, it's real, leadership is extremely engaged down here, and we're positioning Aldar really well to benefit from that. That guidance remains, and we hope to report in some activity on that later in the year.

Taher Saffiedine Okay, perfect. Thank you very much.

Operator Our next questions comes from Harshjit Oza of Internal Securities. Harshjit, your line is now open.

Harshjit Oza Hi. Thanks for taking my question. Just one question I have remaining. I am referring to the additional disclosure for the provision and sensitivity analysis in your financials, where you have given different scenarios of changing the cap rates by 50 basis points, and how it will impact your valuation. Are these cap rates linked to any interest rates? In which situation are these cap rates likely to change? Are these cap rates linked to the interest rates?

Greg Fewer The cap rates, the best way to think about those if you're in the real estate investment business, the cap rate is the rate that next year's rent for a building is divided by that cap rate, and that gives you your valuation. So, a number of factors go into that, and as a reminder, we don't make those cap rates, we take them.

We get independent third-party valuers to come in and look at all our properties. So, if I had a JLL on the call right now, or a CBR, who do our valuations for us, the discussion around what drives those cap rates, it includes things like scarcity value, it includes things like growth and foreign direct investment coming into the country.

It includes things like long-term ten-year swap rates in terms of just the macro interest rate variable to it. It includes what global cap rates are doing in the peer group around the region. So, there's a number of different things that comprise the calculus that makes that cap rate. It's definitely much more than just what are ten-year swaps doing.

The macro issue or the macro trend that you should be considering is that in Abu Dhabi, the spread between, let's say, ten-year dollar swap rates and your overall commercial real estate cap rates here, are super high. We have one of the largest spreads.

And again, it's the real estate investor KPI or value metric we look at, which is that spread between sovereign and commercial real estate, and here it's amongst the highest on the planet. So, I think that also gives those valuers a lot of comfort, knowing that there's value in these cap rates here, as there's so much liquidity on the planet searching for yield.

Abu Dhabi has doubled its economy, zero taxation, free flow of capital in and out, double-A rated, and 7%, 8% real estate yields. Just from the supply and demand for capital around the planet, it's one thing. Even if global ten-year swap rates will start to go up, as people search for more yield, they're attracted to these areas where there's this strong spread to sovereign.

Anyway, sorry, it's a long-winded answer. I'm just describing the very nuanced debate that is what affects the cap rates going up and down. We talk about cap rate compression a lot. That's the debate with these valuers. There's a lot of value here, and as more people start to bring capital into Abu Dhabi, that'll chip away at these cap rates, bring cap rates down, raise values of properties, raise the value of our shares.

Harshjit Oza Understood. Thanks.

Operator Perfect. And that concludes today's Q&A, so I'll now hand back to Mohamed for closing.

Mohamad Haidar Thank you, Greg, for your time today. Thanks, everyone. I with you all happy Eid and happy holidays.