Aldar Properties Full Year 2023 Earnings Call

Friday, 09 February 2024

Operator - Bruno Hello, everyone, and welcome to the Aldar Properties full-year 2023 earnings call. My name is Bruno, and I'll be operating your call today. During this presentation, you can register to ask a question by pressing star, followed by one, on your telephone keypad. If you're streaming online, you can also type in your question in the textbox provided. I'll now hand over to your host and CEO, Talal Al Dhiyebi. Please go ahead.

Talal Al Dhiyebi Thank you. I would like to thank you all for joining us today to discuss Aldar's financial and operating performance for the full year 2023. Aldar has continued to make strong progress with the implementation of its growth strategy. And this ongoing transformation is evident in our 2023 financial results. We achieved 40% year-on-year growth in net profit, which reached AED 4.4 billion, with EBITDA rising 39% year-on-year to AED 5.1 billion. This strong performance resonated across all of our core businesses, complemented by our sector and geographical diversification initiatives that have further driven significant value creation. Aldar Development recorded AED 27.9 billion in sales, and a backlog of AED 36.8 billion, which effectively doubled our sales for three consecutive years, from AED 3.6 billion in 2020, to just over AED 7 billion in 2021, AED 14 billion in 2022, and AED 28 billion, as I just mentioned, in 2023.

We had a record 14 launches across the UAE, among them, the debut offering in Dubai, where we formed a JV with Dubai Holding, and launched Haven by Aldar in the same year. We also launched a new luxury product with Nobu branded residence in Saadiyat, Abu Dhabi, and another debut offering in Ras Al Khaimah, all attracting strong demand. Overseas and resident expat buyers accounted for 66% of UAE sales, growing significantly year-on-year, reflecting the strength of Aldar's brand and reputation for creating market-leading lifestyle communities. Aldar Development is now delivering significantly elevated sales run rates. Supported by our backlog, we expect to maintain this momentum, as we scale the platform, and deliver the differentiated and community-focused master plan developments that we are known for.

Aldar Investment continues to excel as an active asset manager and reported 40% year-on-year growth and adjusted EBITDA of AED 2.3 billion. Through disciplined capital deployment and key acquisition over the last two years, we have rapidly expanded the platform, invested significantly in Grade A commercial assets, logistics, Aldar Estates, and Aldar Education. 2022 acquisitions have ramped up, exceeding underwriting expectations, and are meaningfully contributing to the bottom line. Occupancy at the prime ADGM towers in Abu Dhabi's financial district has increased to 96% from 76% since it was acquired in mid-2022. The repositioning of Yas Mall has been a great success, resulting in near-full occupancy and increased footfall. Both assets are contributing meaningfully to fair value gains. Logistics, education, and estates platforms have scaled up, and will continue to grow in the coming years, while complementing and adding value to both our development and investment property portfolios.

More than ever, Aldar is realising its synergies across its platforms. Our teams are collaborating closely to drive growth, create value, and deliver a progressive sustainability agenda.

Turning to slide four, I'd like to touch on the progress we have achieved since embarking on our transformational growth agenda in 2020. This period marked the introduction of our revamped operating model, alongside an ambitious growth and expansion strategy, ushering in a transformative era for Aldar. Over the last three years, we have experienced remarkable growth on a Group and business level. Both Group EBITDA and net profits more than doubled compared to 2020. Our development sales surged nearly eightfold, and our revenue backlog experienced exponential growth, achieving a tenfold increase in the past three years. Meanwhile, our assets under management have more than doubled.

And finally, Aldar’s total market capitalisation has increased by almost 70% to over AED 42 billion. As a UAE-centric real estate company, we see substantial and ongoing commercial opportunities, in our home market of Abu Dhabi, built on its status as an investment work and lifestyle definition. The government is implementing a clear plan to drive capital inflows, provide world-class infrastructure, and invest in renewable and clean energy to achieve net zero emissions by 2050. An increasingly vibrant and diversified economy will fuel further demand for high-quality real estate in the coming years, as a differentiated community-first, and experience-focused developer. Aldar is well positioned to play a central role in the country's socio-economic progress. That's why we are, and have been, very focused on driving scale, and enhancing diversification across our portfolio. Over the last three years, we have made strong progress, adding significant exposure to commercial, logistics, and real estate services in asset classes.

Through our recently AED 5 billion develop-to-hold pipeline, and AED 1 billion investment in logistics, we are also ramping up our commercial retail, hospitality, and logistics portfolios, leveraging our development and asset management expertise, to drive margin expansion and returns. In parallel, we have expanded our platform into Dubai, Ras Al Khaimah, neighbouring GCC, Egypt, and recently into the UK and Europe. We see strategic opportunities beyond the UAE, which will provide us with exposure to low-correlated markets, and asset classes, which are much more prevalent and established in more mature markets. In 2023, we acquired a UK-based developer, London Square, invested in real estate private credit, alongside Mubadala and Ares Management, while also entering into a strategic partnership with Carlyle to invest in direct logistics and self-storage assets. Our international footprint will remain a relatively small, but important part of our increasingly diversified business.

Turning now to slide five, I'd like to highlight our core growth drivers as we look ahead. On Aldar Development, we want to extend our market leadership as the UAE’s leading destination builder that focuses on providing exceptional experiences to the communities we serve. We will do this in our home market and internationally, through strategic land bank replenishment, diversifying our target customer segments, and product offerings. From a customer engagement and perspective, we continue to develop our digital offerings, create new sales channels, and growing our global brokerage network to drive synergies and cross-selling. We also continue to explore key regional markets, such as Saudi Arabia, and our focus remains on finding the right partner to gain a foothold, as we did with Dubai Holding in Dubai.

Looking at Aldar Investment, we benefit from a strong pipeline of potential deals across our target market, and through our developed-to-hold pipeline, we aim to enhance our disciplined expansion across core UAE markets. We will lean into sectors, such as logistics, where we are still underweight, while exploring diversification into new products and alternative asset classes. Across our strategic investment platforms, such as Aldar Education and Aldar Estates, we continue to pursue further growth, drive value, and broaden the respective offerings through bolt-on acquisitions. We have benefitted from a high-quality asset base with strong positioning. Leveraging our asset management capabilities, we are further optimising retail assets, and transforming certain hospitality assets in line with our resort-destination focus. As we scale the Aldar Investment platform, enhance earnings growth and diversification, we maintain readiness and crystallise value through corporate action or monetisation.

Turning to slide six, I will elaborate further on how we are approaching the international expansion to enable and support our sector diversification strategy. We see a number of long-term trends in mature markets that will also shape the UAE in coming years. And we want to ensure that Aldar is prepared and capitalising on emerging opportunities, by leveraging our market leadership and strong brand recognition. These trends include winning cities, digitalised economy, and the rise of e-commerce, ageing populations, and sustainability. This approach enables us to hone our international market focus, and deploy capital into key areas, whilst homebuilding, real estate credit, and alternative real estate opportunities. In practical terms, on top of what we have announced to date, we are exploring the expansion into a number of alternative growth real estate asset classes.

One important point to make is that exposure to these sectors and markets would remain ancillary at around 20% of our capital deployed, our home markets and core segments will firmly remain our focus and predominant destination for capital deployment. The key element of our approach is to bring benefits back to Aldar's UAE business and support our future growth -- through an enlarged network and leveraging client synergies, through economies of scale from an increasingly integrated platform, through strong strategic collaborations and partnerships, and building expertise and bringing back know-how in trends shaping global markets. With that, I'll hand over to my colleague, Faisal, to talk you through the details on capital deployment, financial, operational performance, sustainability, and our guidance for 2024.

Faisal Falaknaz Thank you, Talal. Moving on to slide seven, we will take a look at our 2023 capital deployment. We have been fully committed to deploying capital and investing in our growth. We have always chosen to remain highly disciplined in how and where we deploy capital, despite benefiting from a strong investment pipeline. On development plans, we transacted on AED 5.9 billion of capital, bolstering our landbank through the acquisition of Al Fahid Island, and we look forward to breaking ground and delivering a unique destination and offering to the market later this year. We also executed on our Dubai acquisition through our JV with Dubai Holding in an accelerated timeframe. Internationally, we acquired London Square, and I look forward to more through land acquisitions, where we have already made some progress in that regard.

On Aldar Investment, we deployed almost AED 1.9 billion of capital, with an additional AED 1.3 billion committed for the coming years. We expanded our platform in Dubai with the acquisition of 7 Central and Kent College, further into Ras Al Khaimah with staff accommodation, and further into the MENA region with Aldar Estates' merger with Eltizam. We also committed first-time capital and private real estate credit, and a direct investment into logistics and self-storage assets, alongside key partners. Looking ahead, the vast majority of deployment will be on income-generating assets across our core segments, and new growth, in terms of focus. But there will also be some development and development to hold investments, as we increasingly leverage our integrated platform to drive returns, diversification, and scale, while introducing offerings that bridge the existing gaps in the market.

Turning to slide number eight for more detail on Aldar Development.

Ahead of diving into the details, just a brief mention on the reassessment of our operating segments in our financial statement going forward. In line with management reporting, London Square and SODIC will be presented together as an international subsegment, replacing Egypt's subsidiaries.

Moving on, we continue to operate at a significantly elevated level of sustainable scale. Development sales have been doubling every year since 2020, reaching AED 27.9 billion in 2023. Additionally, our development revenue reached an all-time high of AED 36.6 billion, providing strong visibility of future earnings. Overseas residents and expat buyers played a crucial role in our success, collectively accounting for 66% or a record AED 16 billion of UAE development sales. This contributed to our impressive full-year UAE sales of AED 24.3 billion, and UAE development revenue backlog of AED 29.1 billion, increasing 141% year-on-year.

Notably, UAE sales to overseas buyers tripled to AED 6.8 billion, from AED 1.8 billion in the previous year, underscoring Abu Dhabi's growing appeal as a global investment and lifestyle destination. SODIC maintained its momentum in Egypt with healthy demand for recent launches, which witnessed price appreciation. SODIC's sales increased 42% year-on-year in Egyptian pounds, driven by demand across its key markets. We remain committed to expanding our SODIC platform in Egypt, with SODIC acquiring two new land plots, and partnering with Nobu for two new projects. We also took significant steps towards geographic diversification in 2023. As Talal mentioned, we entered the Dubai and Ras Al Khaimah markets, with successful project launches, and acquired London Square, a UK-based mixed-use developer, marking our first international expansion beyond the MENA region.

These initiatives position us for further growth and value creation in the years to come. Our development platform continues to demonstrate strength and potential, and we are confident in our ability to sustain earnings growth by executing on our plans for enhanced scale.

Turning to the Aldar Investment platform, starting on slide number nine. Ahead of going into the detail, a brief note on the changes to the operating statement, as a result of the formation of Aldar. Consequently, Aldar Investment's previous segment called Principal Investments is replaced by Aldar Estates with Pivot and Lifestyle Cloud being presented with Other sub-segment alongside other unallocated items.

Moving on, our ongoing pursuit of diversification and expansion has not only resulted in outstanding performance throughout our portfolio but has also solidified our position as the prominent real estate investor and asset manager in the region.

Full year revenue and adjusted EBITDA both rose 40% year-on-year, reaching AED 5.8 billion and AED 2.3 billion respectively. This was driven by strong operational performance across the business, and positive contribution from acquisitions made in 2022 and 2023. We took substantial strides to expand the platform to pave the way for new growth opportunities and synergies. This strategic approach not only increased our assets under management to AED 37 billion, but also, further diversified our portfolio across asset classes and geographies. This year, we ventured into high growth alternative investments, including private real estate credit, and self-storage alongside Carlyle, while simultaneously bolstering our Aldar Logistics, Aldar Estates, and Aldar Education businesses. As Talal mentioned, we also recently announced an overall combined AED 6 billion of investment in development of the D-hold pipeline across a range of commercial, retail, and hospitality assets, as well as logistics assets, in Abu Dhabi and Dubai.

Once these assets are completed, they will be part of the Aldar Investment Properties portfolio and will bolster long-term capital appreciation.

Staying with Aldar Investment on slide number ten.

Our income-generating investment portfolio continued to perform exceptionally well, driven by active leasing strategies, increasing rental rates, and higher occupancy levels across the portfolio. Within our commercial property segment, we have seen continued strong demand for prime Grade A office space from GREs and international corporates. This is evidenced by the near full occupancy across our ADGM, HQ and International Tower, and strong pre-leasing activity for the upcoming Al Maryah Tower, scheduled to open in Q1 2024, with a 65% pre-lease rate.

Meanwhile, our retail portfolio continued to benefit from robust consumer confidence, which has supported high occupancy and solid leasing activity. As Talal mentioned earlier, the repositioning of Yas Mall had great success, resulting in 97% occupancy, a 30% increase in footfall, and a 22% rise in tenant sales. We aim to replicate this achievement with the redevelopment of Al Jimi and Al Hamra malls. Aldar Education continues to perform well, marked by a 25% year-on-year increase in student enrolment in our operated schools, bringing our total student count to over 38,000 students, driven by the acquisition of new schools. This is expected to further expand with the completion of three greenfield schools this year, including the Yasmina British Academy, Noya British Academy, Cranleigh Bahrain, and an additional new school in Saadiyat Island in the following academic year.

Meanwhile, Aldar Estates has undergone a tremendous transformation over the past year, driven by the strategic merger with Eltizam Asset Management, and a series of key acquisitions scaling our real estate services offering. This culminated in doubling the size of the portfolio, firmly establishing the business as the largest integrated property and facilities management platform in the region.

Turning to slide number 11, if you look at our balance sheet, we remain in a strong financial position with AED 2.9 billion of free cash and AED 7.5 billion of committed undrawn facilities. We remained active on the treasury front during the year and successfully raised $500 million through an inaugural green sukuk, which forms part of our $2 billion programme, aligned with Aldar's Green Finance Framework. Additionally, we secured AED 4.8 billion in debt funding, including AED 2.5 billion in sustainability-linked loans with leading financial institutions, further strengthening Adlar's financial strength, while promoting greener development. This has extended the weighted average of the life of debt for the Group to 5.1 years, with no material debt maturities until 2025.

Our robust balance sheet, financial strength, and liquidity places Aldar in a strong position to continue pursuing its growth agenda and expansion strategy in its core UAE markets.

The next slide provides an update on Aldar's sustainability progress. We remained incredibly active across our sustainability efforts and initiatives during 2023, collaborating with a large number of partners, to support our aims and drive a lasting and positive impact across the communities we serve. Our strong commitment to ESG is reflected in the industry leading ratings. We achieved an EGG risk rating of "low risk" for Sustainalytics with a score of 15.9 and maintained the top spot in the GCC and top quartile globally on the Dow Jones Sustainability Index. We also retained a BBB rating from MSCI, further demonstrating financial strength and responsible governance.

From an operational perspective, we continue to upgrade our existing portfolio, and have expanded on the successful energy retrofit initiative, while continuing to certify assets in line with LEED Gold and Platinum standards. We actively participated at COP28, unveiling strategic partnerships to support our 2050 net zero plan. To eliminate landfill and food waste, Ecoloop was launched, a joint venture with Tadweer and Polygreen. In the provision of solar energy to our assets, we partnered with Yellow Door Energy, and to manage cooling, we joined forces with Johnson Controls. Participation at COP also saw the launch of the 'Built Environment Sustainability Blueprint', led by Her Excellency Razan Al Mubarak, UN High-Level Champion for COP28, and supported by Aldar and other UAE's top developers to guide the industry in their net zero transition.

These initiatives, along with our ongoing commitment to innovation and partnerships, solidify our position as a leader in sustainable real estate, creating long term value for our stakeholders.

I would like to conclude by providing you with our 2024 guidance. You will notice we are slightly modifying our guidance metrics, in order to provide more visibility and clarity. As a Group, we are targeting between AED 6 billion and AED 6.3 billion in Adjusted EBITDA, which equates to an uplift of about 40% from 2023 levels.

We continue to see positive sentiment in the UAE real estate market and remain bullish in sustaining elevated sales run rates, and therefore, we are guiding between AED 29 billion and AED 31 billion in Group development sales. Accordingly, the development business is targeting an EBITDA AED 3.9 billion to AED 4.1 billion.

For our project management services platform, we are targeting an EBITDA of AED 500 million to AED 550 million. Aldar Investment continues to deliver strong operational performance and will pursue further value accretive acquisitions to drive growth. Consequently, we are guiding AED 2.3 billion to AED 2.5 billion in adjusted EBITDA for 2024. While we remain cognisant of the uncertain global macroeconomic and geopolitical environment, Aldar is well positioned to benefit from the UAE's strong fundamentals. And with that, I would like to conclude the presentation, and open the floor for questions. Thank you.

Operator – Bruno Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star, one on your telephone keypad. That's star, one, on your telephone keypad. To withdraw your question, star, followed by two. And please also remember to unmute your microphone, when it's your turn to speak. Alternatively, if you're streaming online, you can text your question in the chat box provided. We will now pause momentarily to gather any questions. We do have our first question coming through. It comes from Mohamad Haidar from Arqaam Capital. Mohamad, your line is now open.

Mohamad Haidar Hello, everyone. Congrats on the strong results. We are looking at the capital deployment of AED 9 billion, announced in 2023, another AED 6 billion on develop-to-hold. Quite a big part of this is still not deployed. So, what's your guidance on Capex for the next three years, if possible, per annum, 2024, 2025, and 2026? And how will this Capex be funded, given that the available cash is AED 2.9 billion? Will you be abiding by the existing LTVs for each segment? That's one. Two. What is the target NOI from these investments? Especially on the international investment, given that there are many counterparties involved, and the ownership is not full, and the tax regime is different. So, what NOI should we expect for Aldar parent shareholders from these investments, other than the guidance provided for 2024. Thank you.

Faisal Falaknaz Thank you, Mohamad. To answer your first question on capital deployment, the AED 9 billion is fixed, the AED 5.7 billion is the development. And then the AED 3.1 is the investment. The largest part of development is the acquisition of Al Fahid and Dubai Holding, all of which are paid through a payment plan over the next five years. And then on the investment side, AED 1.9 billion was put up front, while the rest are commitments that are going to be deployed over the next few years, as they get called. In terms of Capex, this is not something that we want for future projects, but on the current projects, so you take the AED 6 billion, which the develop-to-hold pipeline that we announced, this typically gets developed over a three to four year period. So, you get an escrow over that development.

In terms of how they will be funded, they will follow our debt policy, which on the investment side is 40% SPV, in line with our financial guardrails. Moving on to ROI on the international investments, it depends on the asset class. You look at home building or development, which is London Square, we're looking at least at high teen equity returns. We look at something, such as logistics or credit, then we're looking at something between low to mid-teens, in terms of equity returns. And then on the tax side, yes, you're right, those markets do have taxes, but obviously, there are ways to structure around minimising the taxes as much as possible, as optimally as possible.

Mohamad Haidar Thank you. Faisal. And any update on the CIT for the UAE? Is this is going to be 9% across the business, or are you also looking for alternatives on that one?

Faisal Falaknaz It is 9%, on the face of it. We've done a detailed impact assessment, getting ourselves ready, internally, for its implementation. There's been a number of legislations announced by the UAE government, including the transitional tax rules, when it comes to development. So, just to reiterate, what will happen is our land bank will be assessed as of the end of 2023. And then that fair value will be used, in terms of the COGS, when those lands are monetised. And so we are, effectively, not going to be paying taxes on the historical fair value gains, recognised on those plots and unit sales. There was a legislation on REITS, which we are also closely following. We're still waiting for further clarity on that. Otherwise, on the global minimum tax, that hasn't yet been announced by the UAE, in terms of signing, so we're still waiting for further information.

Mohamad Haidar Amazing. Thank you very much.

Operator – Bruno Our next question comes from Taher Safieddine from JP Morgan. Taher, you may proceed to your question.

Taher Safieddine Good afternoon, gents. It's Taher from JP Morgan. Again, congrats on a solid set of results, and an ambitious 2024 guidance. If I can just start from the guidance, and just break it down into Aldar Development and Investments. Effectively, what you're telling the market is, you're going to do another record after a very solid 2023, in terms of the sales. So, if I can just stop there. Is this sales number including Al Fahid Island, including also further launches in Dubai? And maybe if you can share how much of that will be in the UAE, that will be very helpful. And I think the second question on Aldar Development. If we look at the massive growth in the backlog, and how the P&L is transforming on the development, is it fair to assume that now we are moving into a very high growth phase for revenues and EBITDA on the development side, just given the size of the backlog, at least in the UAE, which is AED 29 billion, and the average standard of 29 months?

I'm just doing a calculation, and we could easily see a revenue run rate north of AED 10 billion per annum. So, maybe if you can share some colour there on Aldar Development KPIs. And then I have another question following on the recurring portfolio, please.

Talal Al Dhiyebi Taher, thank you very much, it's Talal. Yes, it's been a record sales year of just shy of AED 30 billion. We're looking to maintain that run rate going into 2024. There's been good momentum since the start of the year. We have been active in the market and had a couple of launches so far on Yas and Saadiyat. What's interesting is what I mentioned earlier, in terms of the profile of the buyers that are different. There's been a steady price increase, including places like Nobu on Saadiyat, it's a boutique development, but prices that have never been hit across the Abu Dhabi market. Sama Yas on Yas is the highest price point per square foot that Yas has ever seen, and we've been selling in Yas already for a number of years, and that's not even a waterfront product, albeit park-side luxury living. So, new products, new price points, new profile of buyers. It's part of a calculated diversified strategy on how we are maximising the value of our destination, playing in each one of those segments, some of which we did not penetrate in the past. Some of those segments, predominantly in luxury and the ultra-luxury segments, like Nobu, with higher margins, obviously, a lower percentage of overall sales compared to the overall portfolio. But as a blend, we continue to maintain the guidance, in terms of margins, at least for our UAE-based developments. And we will continue to be launching projects in both Yas and Saadiyat. We will plan to bring products on Fahid Island this year, as we are progressing with the master plan approval, and then the product, so we're hoping to bring products to Fahid in the second half of this year. In Dubai, as part of the partnership with Dubai Holding, we have three sites. We launched Haven, which is predominantly sold out. We still have a number of units on hold that are pending final approval, so there's a small phase left on Haven, but you can consider that to be 80% sold. We'll be launching our second development in the first half of this year, as well, so that will contribute towards our sales launches this year, as well, from the Dubai market. And Ras Al Khaimah, we launched Nikki and Rosso, which is a phased release. It is a brand new and hot market, with a lot that's been going on, and probably, the third most attractive Emirates, after Dubai and Abu

Dhabi, in terms of real estate and tourism performance. We've seen much higher than we had expected sales, but other than the performance of our hospitality assets and the transformation of our retail assets in that market.

But back to your question on sales perspective, that will be another contributing factor. And then obviously, we will have the contributions from SODIC in Egypt, as well as London Square in the UK. Overall, the UAE, we expect to remain within that overall AED 30 billion sales number, as I would say that 70% to 80% of those sales will predominantly be from the UAE, albeit in SODIC has phased up and down significantly over the last two years. But over the next two years, we would see a significant ramp up of London Square, as we want to ramp up that platform and extract more value and enter a new space in the London market, so we will provide further guidance on future costs. I hope I have answered your question, when it comes to development. On your run rate, to answer the question, we announced, a week ago, or a few days ago, a large award between our own projects and government projects.

So, a lot of what we have launched, with the exception of the last three or four projects, including Gardenia and Nobu, have all now been awarded. So, there will be a significant ramp-up of development work on their progress, and IFRS revenues, when it comes to the development revenue. So, on a steady state, we are very close to the numbers that you mentioned, in terms of how you would model that going forward. I hope I have answered your question on the development. I think you have one more.

Taher Safieddine Yes, this is very clear. Just maybe one more on Aldar Investment. If I look at the adjusted EBITDA in 2023, it is around 2.25, which is, again, above your guidance. But I'm just looking at the guidance for 2024. 2.3 to 2.5. I just want to understand the build-up of this number, because I just feel it's a bit more on the conservative side, given the deployment that you've done in 2023, in terms of the acquisition. So, maybe you can just help us understand if this is more like-for-like. Does it exclude the acquisitions that you've done? I'm assuming the development-to-hold are not in this number, but maybe if you can just also help us understand Aldar Investment, in terms of EBITDA guidance in 2024.

Faisal Falaknaz There are two things happening, Taher. So, on the residential portfolio in, we had a corporate tenant terminate, so there was a one-off termination fee recognised this year, or 23, sorry. So, in 24, you can see the ramp-up of that coming back again. The other thing happening on the retail portfolio, obviously, the transformation of Al Hamrah and Al Jimi, which will also start picking up, as those projects are completed. And then lastly, the hospitality portfolio, which has done extremely well. We are planning a major transformation, repositioning of those assets, so we will have some disruption to income on the hospitality portfolio. Otherwise, it's business as usual, and the portfolio continues to perform extremely well. We have the leasing cycle kicking in on a number of those assets, where rates continue to go up. This guidance does include some capital deployment.

But you will notice that we took out the number from the guidance, itself, in terms of equity deployment, because it’s very subjective in terms of when we will deploy that capital. We want to make sure that whenever we put that capital out, we put it into the right assets for the right price. So, we don't want to be pressured just to put money out. However, on the call, I'm very happy to tell you that we are committed to deploy at least AED 4 billion to AED 5 billion, in terms of equity this year into specifically recurring income assets. When those will happen, I cannot say early in the year, or whatnot, but we do have a significant pipeline, various deals across asset classes, across geographies, who are quite well advanced. So, we are very confident, again, that we will be able to deploy.

Talal Al Dhiyebi And on the D-hold question, again, the announcements were very clear that the completion of that portfolio, which is at various stages, is between 25 and 27. So, there's no contribution of the D-hold pipeline that we announced, other than, obviously, the repositioning and extracting value from the existing portfolio. But the D-hold income will start to ramp up predominantly very later 25, second half of 25, and then roll into 26 and 27, and a different profile, based on the different assets that are mentioned in that press release.

Taher Safieddine Okay, thank you. Just to follow up, you said you are committed to how much, in terms of deployment in 2024?

Faisal Falaknaz AED 4 billion to AED 5 billion of equities.

Taher Safieddine Okay. So, the further deployment of and the returning portfolio?

Talal Al Dhiyebi Yes. Of income producing assets, so assets that are income generating.

Taher Safieddine Perfect. Thank you very much.

Operator – Bruno As a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. That's star, one on your telephone keypad. If you're streaming online, please type your question in the textbox provided. Our next question comes from Steve Bramley from HSBC. Steve, your line is now open.

Steve Bramley Lovely. Thank you very much, and congratulations on the results. Clearly, very impressive. I have a couple of questions, if I may. The first, just on your development, the gross margins in the fourth quarter came in, we think, at around 33%, just looking at the materials that you provided. Last year, fourth quarter, was low, compared to the previous three quarters, as well. Can you just give us a little bit of detail, a little bit of insight into why that gross margin dropped?

Faisal Falaknaz Sorry, Steve, we couldn't hear you. What did you say, the margin dropped?

Stever Bramley Let me pick the phone up. Can you hear me now? is that any better? Sorry about that. I just started off by saying, congratulations on the results, but I've just got a couple of questions. Firstly, just on your development margins, looking at the material that you've provided, we note that your quarter gross profit margin, the property development sales business was down to about 33%. Which, looking at the yearly run rate, on a quarterly basis, looks meaningfully lower. Can you just give us a little bit of an insight, a little bit of detail, as to why that's coming in the low 30s?

Faisal Falaknaz I think, this year, we had a bit of delay, when it came to the awarding of some projects, so that sometimes adds a little bit of volatility to the quarter. I wouldn't focus too much on the quarter, I would focus on the yearly results. You will notice that our overall volumes are in the high 30s. And usually, that margin generation is determined by land sales, which have a high margin. And our development of the land bank in Abu Dhabi is basically sitting at a low cost basis, which is also driving that higher margin. But we have started paying for land now, both in Abu Dhabi, in Ras Al Khaimah, which is why we are guiding for 30% to 35% gross profit margins on average over the long term.

Steve Bramley Okay. Thank you for that. You also had your alternative investments, which I think all sounds interesting, when real estate companies start talking about deploying capital into alternative investments. And I realise that for your business, it's quite a small percentage. But having covered UK and European self-storage companies, and there are some big companies out there in those markets, one of which is tied up with Carlyle, I don't know why you're bothering, because it's a highly fragmented market. It's very difficult to deploy capital. IT systems are complicated, expensive, and mandatory within the self-storage space. So, what's your thinking? Are you actually thinking about being a bit more aggressive from an M&A perspective? Because from a ground-up perspective, I think it would take you quite some time to build a meaningful platform. So, can you just give us a sense as to why you're going down that route?

Faisal Falaknaz Steve, just on the strategy, it's not financing capital allocations, is not faster, the way we're doing it, like London Square, either by acquiring a platform, or doing it with a JV partner who's an expert in this space. On self-storage, we found it interesting, because part of the strategy is bringing that know-how. So, we want to build certain asset classes here, in the UAE. Self-storage is one of them, obviously, with the strong macroeconomic backdrop that we have in the UAE, we see that this is something that can have a lot of potential here. Senior living, for example, with the change in regulations we've seen on the visa front, is also starting to become extremely interesting. Going back to what Talal said, our strategy will always be focused, the majority, on the UAE.

But this was the time to go out internationally, allocate some capital there, where, to be honest, we did struggle somewhat deploying alternative asset classes here. It's a function of the market, itself, that the market is maturing. We think this strategy, given where the market is today in Europe, will pay off over the long term.

Steve Bramley Thanks, Faisal. Is the thinking, as well, similar for logistics? Because again, pan-European markets are much more mature, in terms of yield structures, than you've got here. So, what's your thinking there with logistics, or have I misunderstood? Is your logistics focused more in the Middle East, or also looking to deploy capital in pan-European markets?

Talal Al Dhiyebi Hi, Steve. It's Talal, and thank you for your question. When we looked, overall, at the logistics sector, so we're looking at alternative asset classes, it's logistics, warehousing, self-storage, purpose-built facilities, there are labs, there's lots of things that are happening in the space in different markets. We think globally, and historically, the way it is in many markets, you're absolutely right, it has been a very, very fragmented market. There's been a lot of focus on it lately with some big purpose-built facilities, but the majority of the market has been very, very either fragmented, and where it's not fragmented, it's non-transactable. So, it is not easy, and it does take time. That started over here, in the UAE, and I'll come back to the UK and how it works, but in the UAE, we started by buying acquisition of Abu Dhabi Business Hub.

We went into a number of partnerships with key port operators that had a lot of existing clients and needed a development partner to come and build purpose-built facilities for them. But also, more speculatively, building warehouse and storage facilities in key areas that we can underwrite, as Abu Dhabi and Dubai are growing, so predominantly, in that corridor between Abu Dhabi and Dubai that are only an hour away. But in fact, the Abu Dhabi ports, the KIZAD and Jebel Ali Free Zone, are only 20 minutes away. We own a lot of land within that corridor that we are focusing on. Obviously, the opportunities over there, with a partner and in that particular case, is Carlyle. Having seen happening on the ground, in terms of, underwriting, coupled with our expertise, in terms of what we can do. Some of those sites, warehouse and logistics, have some greenfield opportunities to go and expand close by, as well, and there are some we are actively looking at.

But also, when we talk to a lot of the clients that we currently have, or that we're targeting, this concept of becoming a regional landlord of logistics is, we think, quite a compelling one. So, we talked about Saudi, and even other emerging markets, where some of their currencies may have been under pressure. A lot of these international players do not mind contracting in more stable currencies, being dollars or euros. I'm talking about outside Europe in emerging markets, you see this in India, Turkey, you see it, and in Egypt. But this concept of maybe in the past, we saw retailers from the region coming and building up capabilities, and becoming regional shopping mall landlords, not an aspiration that we necessarily have, but we have that aspiration, bottom up thinking, when it comes to the logistics space. And we think we could generate a lot out of it, given our win, win approach with customers.

So, it's still an area that we have not deployed as much capital as we would have liked to. It's a sector that we significantly believe in. And we would really like to grow significantly, so that it has a proportional weight and distribution, alongside conventionally already commercial and retail portfolio. I hope that answers more at the macro level, but I'm happy to have any follow-on questions on that.

Steve Bramley That was very helpful. Thank you very much, Talal. Just a closing question on that, then. From the point of view of management time, what is the incremental impact, in order for you to run these what will start off as fairly disparate businesses and alternative assets? Do you have to spend much management time doing this, or is it relatively little?

Talal Al Dhiyebi Steve, that's a great question, and this has evolved significantly from 2020, we announced our operating model change. Which, if you look at the impact of that change, compared to our peers on the development business, on the investment, business, education, estates, more recently, with logistics, both domestically and internationally, education business, moving into Dubai, into Ras Al Khaimah, acquiring new schools, repositioning them, that operating model is, and again, when we talk about management, the way it's driven, so myself, Faisal, our capital allocation functions, as the Group looks at capital allocation across the businesses, whether they are 100% owned, like Aldar Development, or education, or hospitality, or the majority owned, like Aldar Investment Properties, a few years ago, are all fighting for capital.

And we want to have that right risk reward, and that right capital allocation on where we believe the market is going. And to some degree, we're also a market maker. So, other than in a very disciplined way, allocating capital to the businesses that suit our transformation agenda, it is then putting in the right management team, with the right incentives and clear direction on what they need to do. So, if I take any one of our businesses, even if I take SODIC in Egypt, and we look at the impact from this business, where we started, from a sales perspective, when we bought that for £7 billion or £8 billion, EGP 28 billion a few years ago, we came in, we made management changes, we restarted the business, we established the right governance, we sit on the boards, but we don't manage the day-to-day, even though we control 65% of that listed company.

On Aldar Logistics, we bought 70% of that platform from the previous owners, we kept them, they have some management capability, growth in our financial engineering, to restructure some of the debt over there, and to accelerate their growth, optimise their facility management costs, or platform. At London Square, we're going to be doing the same from incentivising the management team, through long-term incentives to go out and acquire land that we think is in the right areas, because there were capital constraints in the past, putting our discipline roles that we have. But also, flexing our muscles and our balance sheet, compared to many peers in the UK or elsewhere, where we're able to significantly drive synergies when it comes to even the debt side.

So, we're really about value creation. This is a big transformation from what Aldar was, but in each one of these businesses, we want to have the right competence, incentive, and management team that works together. And then what we do at the Group level, as well, and you see a lot coming across and everything that we say, is making sure that they are then revenue, and cost synergies, and cross-selling across the Group in everything that we do. Whether we are handing over a unit, or launching, or doing sales campaign with a major social global influencer, and leveraging all of the brands together. And that's how we think we're able to extract more value out of each one of those, and that applies to every part of our business.

So, that's where, I would say, the executive management team is focused. But it is very much having a competent Chief Executive of each one of these, half a dozen key business units, that are very, not only P&L focused, but P&L, customer, trainability, operationally focused to drive value creation in their respective businesses. That's what allowed us to be where we are today, and that's what's going to be the key ethos of how we grow sustainably in the future.

Steve Bramley Okay, Talal, thanks. That's very, very clear. Thank you very much.

Operator – Bruno Our next question comes from Mohamad Haidar Arqaam Capital. Mohamad, your line is now open.

Mohamad Haidar Thank you. Normally, when you acquire an income generating asset, which is full or complete, the target yield used to be 7% to 8%, you enhance it 6.5%. Given that you're developing the assets today, on the AED 5 billion or AED 6 billion in the coming few years, should we expect a gross yield in the range of 10% to 11%. And eventually, gross profit above AED 500 million from these assets?

Faisal Falaknaz I'd say 9% to 10%, rather than 11%, is what we generally guide across that, for the ones that we are developing on a stabilised basis. And then obviously, there's significant cap rate compression, based on the quality of those assets, the quality of the tenants, and how fast we can ramp it up, and so on. And then really driving yield compression. So, what we still think is a significant value creation, this applies to the D-hold, but it also applies to our wider investment portfolio, because we still see opportunities for significant further sustainable yield compression, given how attractive the market has been from foreign buyers. We still need more institutional buyers, and that will help drive value in that developed role, but also, in our existing portfolio. So, I hope that answers.

Mohamad Haidar Excellent. And, Talal, given that this will be developed on existing land, which was residual, and now it will be developed, will that trigger, immediately, a revaluation of assets or gains on the P&L?

Faisal Falaknaz Yes, so it links to our IP. We go from land for sale into IP, and becomes IP once the asset is operational. So, yes, once the asset stabilises, yes, because we fair value our IP, you will see a fair value gain kick in.

Talal Al Dhiyebi One thing I'd like to add on this, connecting also some of the things that you guys are saying. The majority of this D-hold portfolio is on Yas and Saadiyat. At the same time, where we are going through our largest wave of handovers at Yas, and soon, at Saadiyat. That drives the population, as well as the incremental benefit and the attraction of having retail, hospitality, and office assets in both Yas and Saadiyat, also creates value for our existing destinations in general, our existing assets, like Yas Mall, our existing hospitality assets on the island that will benefit from the increased office. We have always talked about in the past, we had leisure and residential, we added the office, when we built the Media Zone. We don't own that, we earn development fees. But that changed the dynamic by adding, thinking we've seen a significant increase in S&B.

We're now going to benefit from, for example, the Yas office building or the Saadiyat business park, but that will also have an added incremental impact on Yas or Saadiyat growth in the future. Which is part of the value creation story, we always talk about being a destination and a lifestyle integrated development. The same applies to our schools.

Mohamad Haidar Excellent. So, Talal, this will be reflected in higher price points for your residential component in these islands?

Talal Al Dhiyebi We can see that today. It's whether it's in price points, based on the products that we're doing, but also, in terms of the attractiveness of what we give. The lifestyle offering on Yas Island or on Saadiyat Island today, from an administrative perspective, from an infrastructure perspective, from a safety and security perspective, I say this with all humbleness, is second to none globally. You may get a beautiful view or beautiful weather elsewhere in the world, but it may not be safe. Or it may be safe, but you may have significant traffic. Or if you don't have the traffic, you will not have the high quality of assets and activations that you've seen, where you have a Hamilton show and Mariah Carey, at the same time, 3 km away from each other. So, yes, that's why people from around the world and coming and wanting to live here.

That's why we went into Dubai, Ras Al Khaimah, as our debut. People respect what the Aldar brand is. It is customer centric. So, we are a people focused business, and that's what we thrive on, and people that are connected to their customers. So, we went to Dubai, and we're not on the most prime and high-end strip in Dubai, yet we achieved price points on that corridor in Dubai, Mohammad bin Zayed Road and Emirates Road, that our competitors in that segment have not had before. And we hope to do that again in our next two launches. So, it's the product, but it's also what we bring, and that lifestyle offering, even in the more competitive markets.

Mohamad Haidar Very clear. Thank you very much.

Operator – Bruno Our next question comes from the Taher Safeiddine from JP Morgan. Taher, your line is now open.

Taher Safieddine Thanks, gents. I don't mean to hijack the call, but maybe just a follow-up from my side. I guess it's two phase, the question. The first one is more of a ask. If I look at the business, how it has transformed over the last couple of years, a huge amount of capital deployment, is there any possibility that we can get a better disclosure on these different assets? Clearly, you're expanding investment property, education, estates now stepping up to be the next big business, there's the international alternative assets and funds, and so on. So, would it be possible maybe to get, not today, but in the future, further clarity on an NOI or EBITDA, or any kind of metrics that also help us, or the markets, to really price these acquisitions and capital deployment? Because I think the problem today is that you have a very full plate, and you seem to be continuing to push on these opportunities. So, maybe if we can get an improved level of disclosure on that, this would be very helpful.

Talal Al Dhiyebi Taher, we work on something, we always look, we listen, and we will respond, and see how we can help you understand this area better, in terms of the assets, and also, the sectors, and any other comparables around it, anything that will make you extract further value is reflected in our. So, I’m happy to go and take it up with the team and come back to you.

Taher Safieddine Perfect. Thank you. Much appreciated. The second one is more of a question. On the core business growth driver, you mentioned value extraction. So, I just want to get a bit more detail. Is this something that you are really talking… Because I remember, in the previous calls, you said you're not super stretched on monetisation, you have a different view on that. We know that Apollo came in, you put a price tag on maybe Aldar Investment Properties. You've deployed capital, but today, when I read recycled, non-core, and mature assets, and also, ensure relevance for monetisation, are you opening the door, so that potentially, we could be looking at some kind of corporate action within Aldar Investment Properties, or Aldar Education, or Aldar Estates?

Because along the same lines, maybe, if I look at the education business today, almost at 200 million EBITDA, and you have further runway, in terms of opening new schools, clearly, the private education market in the UAE has shown very strong results, and then you have a listed peer, which is maybe trading at 14 times EBITDA, 26 times PE. So, your education business could maybe be worth $1 billion, or something like that. But within this holding, maybe this is masked, because we don't give it the proper airtime. So, I just really want to hear your thoughts on that angle, please.

Talal Al Dhiyebi Taher, thank you. Everything that we do is about value creation. But what you need to understand is that yes, there has been an IPO frenzy, and a lot of activity that's happening in the market. And everyone has their reasons for what they do. We're in a very privileged position, where we don't have to IPO to be a shareholder, or for any particular reason, except our number one thing is how we can extract value for our shareholders. On education, as an example, that business is worth $1 billion today. The growth rate that they've had over the last ten years, five years, three years, one year, shows that if I went out today and IPO'd it on last year's multiple, I wouldn't be leaving money on the table. Because we know how long it takes to ramp up schools, or schools that we have bought that need to be revamped and optimised in the portfolio of growth.

In Aldar Estates, we see significant growth in this, and also, as part of the overall creation story of what we are doing all around, post the completion of the merger of Eltizam with our estates business, a property and facility management, we will be realising some serious cost synergies, and then in the future, revenue synergies. But more importantly, building up capability in what traditionally the market has not really picked up in both Abu Dhabi and Dubai, in terms of key active horses, when it comes to this space, which is very, very important as the real estate market matures. We have not been very active in the past. We sold a lot of assets, including, I can't remember the name of the residential building, it will come back to me, and the Western Hotel, the golf course, and a few other assets, the district cooling assets, both ones that we owned, and some that we acquired as part of the TDIC transaction in 2018, the residential building was in Murjan.

At the time, we started at 6.6% cap rate, and the market was valuing us at 80% for our blended resi portfolio, but we don't have enough of those. Today, we think for them to monetise total assets that we pick, you know what? They are there. We have seen the real bank creation. Where it makes sense to sell something entirely, we will. Where it makes sense to sell something partially, we will look at that. Whether there's M&A and corporate activity at some of those businesses, we're always open, I'm not ruling it out. But we don't have a plan to IPO two businesses every year for the sake of doing. It has to make sense. We are seeing value get closer to where they need to be, but we still see significant upside and extraction of value, to some extent, what you said at the start, in a very disciplined way, as we have promised you, and as this management team has continued to demonstrate for quite a few years now.

Taher Safieddine Clear. Thank you.

Operator – Bruno We currently have no further questions, so I'd like to hand the call back to the management team for closing remarks. Over to you.

Talal Al Dhiyebi I want to thank you all for dialling in. I have not done this for a while, so good to connect with all of you. I thank you for your time, and for your coverage and commitment, as always, with Aldar. And we promise you the same level of discipline, governance, and transparency as embedded in our DNA. So, thank you very much. Stay well, and see you guys soon.

Operator – Bruno Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines. Thank you.