Transcription

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Presentation

Operator

Good afternoon ladies and gentlemen, thank you for standing by. Welcome to today's Aldar Q3 Results Investor conference call. I must advise you that this conference is being recorded today, Tuesday November 12, 2019, 3 p.m.

I would like now to hand the call over to our speaker for today, CFO Greg Fewer. Thank you, please go ahead.

Greg Fewer

Thank you and before we start, apologies to everybody for some of the technical problems we had commencing this. Of course, this call will be transcribed and will be available to anyone who wants to have the full audio and transcription post the call.

Good afternoon and welcome to Aldar's Q3 2019 Results call. As mentioned, I'm Greg Fewer, the Chief Financial Officer of Aldar. Before we open the floor to some Q&A, I'll just give you some brief remarks about our performance during the quarter and year-to-date, at which point we'll break for questions.

Kicking off with our financial performance, in the third quarter of 2019 we've reported a 7% increase in revenue to AED 1.6 billion, and a 14% increase in gross profit to AED 662 million for the quarter. These increases were mainly driven by the development business, which recorded a 20% increase in development revenues year-on-year. We saw higher revenue recognition on key development projects under construction, including a revenue catch-up on the sale of inventory units, and growth in our development management fees.

In the third quarter, off-plan development sales were up 272% to AED 1.1 billion, and year-to-date they were up 128% to AED 3 billion on the back of strong demand for recent launches and inventory sales across the projects under construction.

Our third quarter 2019 asset management net operating income was up 4% to AED 397 million. This was mainly driven by new asset additions from earlier in the year, most notably the Etihad assets and our extension of the Al Jimi Mall in Al Ain, as well as strong growth from our adjacent business sectors, which include Aldar Academies, Khidmah, and Provis. This growth was partly offset by the sale of our Al Murjan Tower and some softer like-for-like performance across the existing portfolio, including Yas Mall where it's still ongoing with the final renewals in its five-year lease up from the opening in November of 2014.

Net profit for the third quarter for AED 387 million, reflecting lower other income recorded this quarter relative to last quarter following the completion of the government infrastructure handovers that have largely completed to date.

Our balance sheet remains robust and debt levels are well within our established debt policies, with a 37.5% loan-to-value across our asset management portfolio, and 10% loan-to-value across the development management portfolio.

In the third quarter, we saw an uptick in our development management loan-to-value, which is very much in line with our previous guidances. As expected, there is additional working capital required currently, as new projects launched still access escrow after 20% completion, and our other projects, notably Mamsha, Jawaher, and Yas Acres start to approach handover.

Our development revenue backlog grew marginally quarter-on-quarter to AED 4.6 billion, giving clear visibility on future committed revenues and earnings. Across our development pipeline, we sit at 80% sold. However, it's worth noting that the hugely successfully Perfect 10 promotion we ran in September will feature predominantly in our fourth quarter development sales.

Q3 2019 asset management net operating income was supported by resilient portfolio occupancy, which remained at 90% across our investment properties. That includes retail, residential, and commercial properties. Hospitality also saw strong performance with year-to-date occupancy at 75% versus 71% in the same period last year. We also outperformed the occupancy of the wider Abu Dhabi market, which also was 71% for the first nine months of 2019. Following significant changes over recent years, Aldar Academies, and Khidmah and Provis, are now meaningfully contributing to the asset management performance, and over the coming period we'll be enhancing our disclosures to reflect this.

As we head into the final quarter of 2019, we remain on track to deliver on our ambitious guidance of AED 4 billion in off-plan development sales for 2019, and AED 1.7 billion in asset management net operating income.

Thank you very much for your time and I'm very pleased now to open the floor for questions.

Q&A

Operator
[Operator instructions]

Our first question comes from Stephen Bramley-Jackson from HSBC. Please go ahead.

Stephen Bramley-Jackson
I've got a couple of questions really just around your development pipeline. So when we took a look back at your Q2 numbers from the point of view of units sold, and therefore sales value, it looks as if the numbers in the Q3 on several schemes are lower than they were in Q2, so Nareel I think is one that stands out the most, but there are several of your schemes where the Q3 sales numbers have reduced. Can you just explain what's happening here? Are these cancellations? Is this normal? Is it abnormal?

Greg Fewer
So what we experienced this quarter were a few cancellations on sales in existing projects, so what happened for those, for example at Nareel, where we would've under IFRS 15 recorded the revenue, and on completion we had a receivable outstanding, and we had a customer who didn't complete the transaction, and the accounting that unwinds is that you take a receivable and you move it into inventory for sale again, and [audio] adjusted those numbers to reflect that.

Stephen Bramley-Jackson
Right, but is this the first quarter you've seen this happen? Is this an evolving trend? We haven't looked back at the other numbers yet, but it was the first time we'd hit on it.

Greg Fewer
Yes, I mean, it did hit this quarter. I think the majority of it came from one project, which was Nareel, which is such a special project, which is a little bit different from all our others; it involves large house plots and a very important [client], so not really broadly representative of the broader market.

Stephen Bramley-Jackson
Do you have any insight into why the cancellation has occurred? Do you get any insight into that, or they just [cease] and they just come through?

Greg Fewer
Yes, they just come through, especially in particular with Nareel [audio] it is a different market.

Stephen Bramley-Jackson
OK and then one thing, again, I noticed isn't included on slide 10 of your Q3, but you've put it on slide 11 in your Q2, was the value of completed stock inventory. Can you update us on where that stands at the end of Q3, please?

Greg Fewer
The value of updated stocks inventory on completed would be – I'm just getting the number out now. It's about AED 800 million.

Stephen Bramley-Jackson
800, OK.

Greg Fewer
So that would have been augmented by these cancellations that I've referred to.

Operator
Our next question comes from Taher Safieddine from Citi Group. Please go ahead.

Taher Safieddine
A couple of questions from my end, first just on the development business. I mean, clearly off-plan sales momentum has been very solid, congratulations on that. I want to get some color on the general dynamics in Abu Dhabi. What's your market share? Is there anyone else? Are you seeing any major competition in terms of new launches within Abu Dhabi? Number two, within the 9M number, can we get some color on how much of that was inventory sales, meaning unsold units with previously launched projects? That's my second question within the development business. And then just on the asset management portfolio, can we get an idea on how much of the like-for-like drop in the first nine months or Q3, and just any update on the uptake within Al Jimi Mall expansion in terms of rental rates would be helpful. Thank you.

Greg Fewer
OK, so four questions there. So the first one just on the general market and market share, I mean, look, we remain the dominant player here. I don't think the extent of our dominance really has changed that much since the beginning of the year. We have seen a couple of sub-developers launch in areas like Saadiyat, but not at a level that would really impinge on our dominance. So we've always kind of said we feel like we're about 80% plus of the off-plan market in Abu Dhabi right now. I don't think that number or that sentiment, or that general position has changed.

In terms of inventory for the quarter, so we recorded for this quarter just over 1 billion in overall sales, with about… let's say about half and half was inventory versus new launches.

In terms of asset management then, so you talked about – and, sorry, just on inventory, what I meant is including [inaudible] for some projects just under handover. On asset management, like-for-like we're still seeing that mid-single-digit like-for-like declines, so I would be factoring out of that number things like our resi portfolio where we have upward only leases on half the portfolio, which remains one of our most important attributes, but on the resi portfolio exposed to one-year renewals in our prime destinations, we're still seeing some single-digit year-on-year price declines.

You asked about the uptick at Al Jimi Mall, which has been very positive. So Al Jimi Mall is operating now at 95% occupancy and we've got great, established tier one rates in the new extension, like shops and large space users, and F&B all in the main category ranges that we'd be expecting to see, 1,700 a square meter for the large space users and slightly more for the line shops. For the large anchors, obviously slightly less than that, but we're very happy with the way Al Jimi Mall has opened, and with the kind of footfall that we're seeing in that location. We've always thought it was a great location and probably a precinct that's underappreciated. It's a very interesting and very affluent consumer.

Taher Safieddine
Just a follow-up, you're stressing more and more on the adjacencies, especially the facilities management, Provis, and now the schools. You talked about enhancing disclosure. Clearly, this has been a very strong performer within the asset management portfolio. Is there any idea or color about maybe spinning off this business or looking into certain capital allocation? Clearly, it's a high cash generative business, especially the schools are looked at as lucrative and very sizeable size. This puts you as one of the bigger players in Abu Dhabi and the UAE with 22,000 students. Is there anything you can share with us in terms of how you're thinking about this adjacency segment?

Greg Fewer
Yes, look, the narrative there for a long time has been they're very valuable businesses non-core. We had a lot of low-hanging fruit that we wanted to fix up as management, and I think we're very much slightly past the 50% stage in terms of achieving those operational things that we wanted to achieve, and so we've got new management teams in both those entities and they're producing exceptionally good results at just over 50% through the initiative, let's say, program to achieve and to monetize some of those low-hanging fruits, so I think that… I would say there's nothing in the immediate pipeline to be talking to you guys about in terms of monetization events. I would characterize these as having very identifiable growth opportunities within the gross profit line that the new management teams there have shown a strong track record at achieving. Of course, if someone comes in and says, "Look, I'm willing to pay for all that right now and then some", every asset has a sale price, but we're very happy and I have great confidence in what the management teams there are doing, and would love to see them continue to see those optimization programs come to fruition.

Operator

Our next question comes from Marc Hammoud from J.P. Morgan. Please go ahead.

Marc Hammoud

Two follow-ups on my colleagues' questions. One is on the development sales for the nine months, so I can't reconcile to the 3 billion, so I'm wondering how much of Alreeman I, which was split between Q4 and Q1, did you book in nine months, and how much ad hoc land sales did you have in nine months? The second question is on the asset management business. How much contribution did we have from the acquisitions and from Al Jimi Mall in terms of absolute amount in wide terms, please?

Greg Fewer

OK, so the first question was on Alreeman, so we had about – from Q4 last year there was about 800 million of that project that straddled the year-end, which would mean we have about 650 million in the 2019 numbers. In terms of overall land sales, we'd be looking at about 100 for 2019, so hopefully that would reconcile with the 3 billion.

Your second question was on asset management and just looking at the overall contributions from, first, Negan. So, look, for the first comment on Negan is we're definitely operating well above our initial NOI underwriting case, let's say, for the TDIC assets that we acquired. I think when we first bought those we were underwriting 121 million of annualized net income, and we're on pace for annualized net income of around, I would say, in the 140 range, which kind of puts the overall yield on that accreting from 7.5, 7.6 that we bought it at, to about 8.5. So we're really happy with the stuff there; the thesis was really about a commercial entity acquiring and management assets that were run by the government, and that thesis has proven out quite a lot.

In terms of Al Jimi, I mean, that's 95% leased. It's just getting those entities up and running. On an annualized basis we're going to be looking at about 90 million.

Marc Hammoud

90, nine-zero?

Greg Fewer

Mm-hm.

Marc Hammoud

What about the Etihad? If you can remind also when the acquisitions actually start with Etihad, which month?

Greg Fewer

Yes, we had Etihad coming in from March and on an annualized basis that's just over AED 100 million of incremental NOI.

Marc Hammoud

All right, thank you.

Greg Fewer

Sorry, just to clarify on Al Jimi, we bought about 19 that you're seeing in the numbers right now year-to-date. On an annualized basis that's going to be more like 38-40

Operator

[Operator instructions]

Our next question comes from Taher Safieddine from Citi Group. Please go ahead.

Taher Safieddine

Just a follow-up question, as we're getting closer to Q4 and looking at how the business is doing, I mean, clearly the development business has been growing and the assets management business, again, is also in a stabilization, more growth mode. Is it safe to assume that the dividend should be higher than last year, just doing the calculation and looking at your dividend policy without just any speculation, but is it wise to assume that we are on an upward trend in terms of dividend distributions?

Greg Fewer

Well, look, so I will reemphasize your very helpful comment about not speculating, and so I will definitely not speculate and preempt the board, other than we've got a pretty transparent policy on the basis on which we pay that dividend, and we're seeing steady progress in the majority of that cash generation coming from the asset management business, and as you said, that's a pretty steady business. So, look, I think we will stand by that transparency. We stand by the quality of the numbers that we show you, guys and ladies, around how to make your predictions for that dividend. Of course, it's not only the formula. The formula has ranges in it, so there's sentiment and there's signaling, and other things that go into that dividend recommendation. So, again, I really don't want to preempt a lot of that very important input that goes into that, other than we value the stability in the business, we see good stability in the development management business too. That's a good barometer for how we look at the health of our businesses, the revenue backlog; are we adding sales at the same pace that we're recording those revenues, just to give a barometer for the predictability and help of that, and you hear us talk a lot about fiscal stimulus in our market. That generally gives us more reasons to feel position than not. So, look, that's about as precise and as vague as I can be at the same time, but I hope that helps answer your question somewhat.

Taher Safieddine

Yes, that's fine. Just a follow-up question again, maybe it's the same question every time, but Aldar Investments, I mean, is there any visibility, change in terms of how you're thinking about the business, in terms of changing in the capital structure and so on. I mean, is there any update from last quarter, or still looking at the challenging, maybe, market for IPOs or whatnot, just in terms of some color on that?

Greg Fewer

Yes, I mean, look, I think that's again a common narrative around how we think about that, so even to repeat words I've used before and that are still relevant and important to be updated today, any time you look at – so we make the point, premise one in our communication on this, it's always been the asset management business operates independent from the development management business and vice versa, so lots of corporate action opportunities would be relevant for us to look at in the right markets. There are some markets that are better for those sorts of opportunities to make sense, and I wouldn't personally characterize this market as necessarily one of those, hence not a lot of updates from us on that topic to your good selves. So I don't think management's position on that has changed a lot. I think we just continue to stick to the knitting, focus on people, focus on strategy, focus on execution, focus on technology, focus on really doubling down on the strategy of becoming the most efficient and professional platform for property ownership in our region, and that's what the team is working with at AIP to do. And then obviously update as and when we start to see anything different in our market that would be relevant to update you guys on.

Operator

[Operator instructions]

Our next question comes from Zohaib Naseer from Al Rayan Investment. Please go ahead.

Zohaib Naseer

One of my questions is that recently after the third quarter you did a Sukuk, so what will be the LTV after you incorporate this Sukuk? Secondly, this Sukuk was done at, what, 3.875 and then the debt was repaid, so this was done – please correct me if I'm wrong, but the difference in the core profit rate is not different, because you get the debt borrowing at IBOR plus 1% and you've got it at 3.875, so it's because you wanted to lengthen the maturity of your debt or are you getting more benefit on the cost? My third question is that 20-40% of the development business, or the completed projects, you've given the dividends, correct? That's as per the policy. So last year which projects in your list, which is on page 10, were used for the dividend and which one will be relevant for this year?

Greg Fewer

OK, so the first question on the Sukuk. So, yes, we issued a $500 Sukuk. 100% of the proceeds of that Sukuk were used to repay debt, so the debt numbers that I referred to earlier on the call, 37.5% at AIP, which is the issuer of that Sukuk, remains that is the position post – and will be the position post the issuance of that Sukuk.

In terms of the interest cost, there's actually very little interest differential between the two. I mean, we have a portfolio of loans, so we wouldn't repaid some of the most expensive facilities, the floating rate facilities, which weren't all at IBOR plus 1%, which is probably our best and our cheapest facility. But given where IBOR is at and where some of the higher margins are, like closer to 1.5 on some of the other loans, so the interest differential was minimal, but of course the main benefit we got was extending the duration of our liabilities. So with the 10-year space opening up in the Sukuk market, we view all our investment properties as really long-term assets that deserve long-term liabilities. So the bank markets are usually always tapped out at around five years in duration. We issued a seven-year Sukuk a year ago and to complement that with a 10-year Sukuk now just made a tremendous amount of sense.

Zohaib Naseer

OK, and…

Greg Fewer

Oh, sorry, your final question was on dividend. So our 2018 dividend – so we have projects such as Nareel, Merief, and Meera, these are the projects to be thinking about, and then 2019, you know, Mamsha, Jawaher, and then Yas Acres, and so we've got our famous list of developments that charts that overall sequence over time. The only thing I'd add to that as well is that these are lumpy sometimes when they fall over year-end, so one of the… it's not 100% formulaic in how its… and then there's phased handovers that happen as well. The thing I'd point to is that this dividend formula is guidance, it allocates bad capital. We have a progressive policy. We're very keen in attaching for the markets that we're progressive into our overall dividend policy, so there's handovers straddling year-ends and straddling Marchs and Aprils, and things like that, we make sure that we're sensible and progressive in the way that we allocate that capital between the years to achieve our dividend objectives.

Conclusion

Greg Fewer

Thank you everyone for dialing in, apologies again for the technical difficulties getting started. As I said, our teams are very happy to send transcripts to anyone who'd like it after the call, just email us, and we look forward to speaking to you at our year-end. Thank you.