Aldar Properties
Second Quarter 2022 Financial Results
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Presenters
Greg Fewer, CFO, Sustainability Officer
Samar Kahn, Head of Investor Relations

Q&A Participants
Steve Bradley - HSBC
Mohamad Haidar - Arqaan Capital
Jag Pusari - NBK Capital
Harsh Mehta - Goldman Sachs
Hamir Halawai - Al Ramz Capital

Operator
Greetings. Welcome to Aldar Properties second quarter 2022 financial results conference call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. If you are joining on the webcast, please type your question into the ask a question box. If anyone should require operator assistance during today's conference, please press *0 on your telephone keypad. Please note that today's conference is being recorded. At this time, I will hand the call over to Mr. Greg Fewer. Mr. Fewer, you may now begin.

Greg Fewer
Thank you. Good afternoon -- good morning, everybody. My name is Greg Fewer and I'm the Group Chief Financial and Sustainability Officer here at Aldar Properties. We appreciate you joining the call today, from wherever you're dialing in from, and we're going to be sharing some of our key, financial operating performance highlights for the second quarter of 2022.

Before running through our financial performance, I just want to highlight Aldar's significant capital deployment during the period, as we continue to pursue our strategy for transformational growth. In the first half of the year, we have deployed and committed over 11 billion Dhs to add scale and diversification to our platform. Notably, just this morning, we announced one of the largest real estate transactions to be completed in the UAE, with the acquisition of four, prime, grade-A commercial office buildings in Abu Dhabi global markets, from Mubadala, for 4.3 billion Dhs.

We've also ramped up our expansion strategy across retail and hospitality assets in Ras Al Khaimah, with the acquisition of Al Hamra, Rixos Bab Al Bahr, and the Nurai Island Resort here in Abu Dhabi. And, we announced, only yesterday, our acquisition of the Doubletree by Hilton Resort and Span on Marjan Island also in Ras Al Khaimah. During the year, thus far, we introduced a new and very important vertical, Aldar Logistics, through the acquisition of the Abu Dhabi business owned.

We've also progressed our plan to diversify Aldar Education's portfolio and widen the choice of quality education for students in Abu Dhabi, with the acquisition of the Al Shohub Private School earlier in the year. All these deals bring Aldar's total capital commitment into recurring income assets, to over 7 billion Dhs, and increased Aldar investments asset under managements to 30 billion Dhs in 2022.

We expect these investment acquisitions to achieve the stabilized yield of approximately 7 to 8 percent, and as a result of the acquisitions, our existing portfolio has been rebalanced towards the commercial segment in Aldar investment properties, which now account for 35 percent of the total investment property portfolio within Aldar Investment Properties, up from the previous 20 percent.

The retail segment represents 37 percent of the portfolio, with the addition of the Al Hamra Mall, while the residential segment represents 26 percent. Aldar Logistics, just starting out, forms 2 percent of the portfolio, and with the addition of the Abu Dhabi business hub. In addition to expansion efforts in our recurring income portfolio, we've also accelerated investments and to bolster our strategic landbank, with the acquisition announced earlier in the year of 6.2 million square meters of prime, prime land on Saadiyat Island.

We've also acquired a land plot adjacent to the to the Doubletree by Hilton in Al Marjan Island Ras Al Khaimah, as well as the development rights to new, new islands associated with the Nurai acquisition in Abu Dhabi. This strong momentum in transaction activity demonstrates Aldar's continued ability to execute on its transformational growth strategy and deploy capital effectively in value-creative acquisitions that not only scale our platform, but also diversity and enhance our platform's potential for future growth, and as we'll discuss later, we're not finished our acquisition strategy yet. We have another 5 billion Dhs of equity capital to deploy over the next 9 to 12 months.

Now with that said, I would now like to walk you through some of Aldar's key financial highlights for the second quarter of 2022. So overall, Aldar delivered an exceptional performance, driven by strong growth in our core development business and solid progress across Aldar Investment's recurring income base. Net income for the quarter jumped 62 percent, to 841 million Dhs. Net income for the first half of the year rose 44 percent, to 1.53 billion Dhs, with revenue increasing 26 percent year-on-year, to 5.35 billion Dhs.

During the period, we achieved a healthy gross profit margin of 43 percent. Aldar Development, which is the business that develops Aldar's projects and manages government housing and infrastructure projects, continues to deliver strong performance, driven by solid development and land sales. We achieved our record, half year group sales of 5.33 billion Dhs, driven by strong local and international demand for existing inventory and new property launches in the UAE as well as a robust sales performance from SODIC in Egypt.

Eighty-eighty percent of our launch pipeline is sold and this robust demand reflects the positive sentiment and healthy real estate market dynamics in our core markets as well as Aldar's diversified offering and ability to satisfy a strong level of demand for quality developments in desirable locations. Furthermore, we have sold three, significant commercial land plots for about 756 million Dhs during the first half of the year. I also want to highlight that our group revenue backlog of 11.3 billion Dhs and our Aldar projects backlog of 58 billion Dhs provides strong visibility on future revenue and profit across our UAE and Egyptian development operations.

Meanwhile, Aldar Investment, the largest diversified real estate asset management platform in the region continues to be an important engine for growth and investment activity. The robust performance during the period was driven by high occupancy rates across our diversified portfolio of investments, significant growth in the retail and hospitality business, and increased contributions around our education and principal investments. Likewise, the value of creative additions of Rixos Bab Al Bahr luxury resort, the Al Hamra mall, and the Abu Dhabi business hub positively contributed to the overall performance of the business.

In addition to our financial operational performance, I would also like to give you a quick update on our suitability progress. Through Aldar's in-country value program, we reinvested almost 2 billion Dhs into the local economy. We also invested 4 million Dhs in two social projects by the Authority for Social Contribution, Ma'an. In addition, we installed solar, hybrid power plants in the Al Gurm phase II project and we plan to implement the same in all of our site offices that are off-grid by 2023.

In conclusion, our well-diversified business continues to grow, from strength to strength. We expect the strong momentum to be carried forward through the rest of the year and we remain focused on investing in organic growth opportunities as well as pursuing acquisitions that build scale and enhance our offering. Our strong liquidity position of 6 billion Dhs of free cash and 4.9 billion Dhs of undrawn, committed facilities, as well as the strategic capital injection from Apollo Global Management provides a significant firepower and enables us to be agile in executing further acquisitions in the high-growth value and yield-accretive opportunities.

Over the next 12 to 18 months, we plan to deploy a further 5 billion Dhs of equity into our growth agenda. The focus of this deployment will be both into new geographies, particularly Dubai, Saudi Arabia, and Egypt but also across different segments, including development, education, logistics, and traditional real estate. On Aldar Development, we will focus on delivering Aldar's solid pipeline of development launches, particularly in prime locations, such as Saadiyat Island and Yas Island, as well as focusing on the sale of existing inventory.

As such, we expect our 2022 group sales to reach around 10 to 11 billion Dhs, comprising 7 to 8 billion Dhs in the UAE and 14 billion Egyptian E£, or 2.7 billion Dhs equivalent in SODIC in Egypt.

We also expect to continue the ramp up of our project management services, Aldar Projects, with our growth profit guidance remaining around 400 to 500 million Dhs for the year. We aim to sustain a robust growth momentum within Aldar Investments and expect EBITDA to grow to 1.9 billion Dhs for the full year of 2022, on the back of the acquisitions that we've made.

We remain confident that our focused growth strategy, combined our expertise and well-diversified business and our strong balance sheet will enable us to maintain and build on our market-leading position as we continue to drive long-term value across our platform for our shareholders. That concludes my comments and I'd be happy to open the call up to questions now.

Operator
Thank you. We will now be conducting the question-and-answer session. If you'd like to ask a question today, over the phone, please press *1 from your telephone keypad and a conformation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the * keys.

To ask a question over the webcast today, please type your question in the ask a question box located on your screen. If you're not seeing the ask a question box, please refresh your browser and then type in your question. One moment please, while we poll for questions. And once again, as a remainder, you may press *1 from your telephone keypad to ask a question over the phone or use the ask a question box on your web browser.

Our first question comes from the line of Steven Bradley with HSBC. Please proceed with your questions.

Steve Bradley
Lovely. Thank you very much. Good afternoon, Greg, and just firstly, just before I am asking my questions, congratulations on the results and a very good set of numbers of clearly, you've got a lot of moving parts now. I've got a few questions. Do you want me to ask them all at once, or one at a time?

Greg Fewer
Hi, Steve. Why don't we go one at a time -- save my memory cells.

Steve Bradley
Okay. The first thing is, you made mention in the results pack that you were intending to IPO the Aldar Investment Properties Business in the next, I think it was 12 to 24 months. And, I just want to get a sense as to how the board, you and the board, think about the trade-off, as it were, or the balance between free-float and value creation.

And the reason I ask the question is that free-floats in the region, like many emerging markets, tends to be a minority float and there would be a 15 to 20 percent free-float and the track record has not been that good. So, if you're thinking of doing this, which it seems like you are, you know, where would you think you can create value to this process, where others haven't?

Greg Fewer
Well, so I guess the first -- the first premise driving all of this, is that we see the Aldar Investment Properties platform as, you know, operating independently from other businesses within the group. And this is an assortation we've made for some time and it's driven through the legal and the business model reorganization that we've executed over the last, you know, 24 months. So, this company, it doesn't rely, you know, on capital from others. It cycles capital independently, as independent debt and dividend policies.

And it can be owned on its own. Now, I think -- so that's just premise one. Premise two is we think that it's a -- we're in the early innings of an important trend, which is more in-bound investment coming into the UAE from real estate investors. That is undeniably on the increase now, both on the retail side, which we're seeing deeper penetration rates from foreign investors buying retail properties, but also institutional investors, and the investment Apollo made into us is, you know, a very early first, but very credible and very real indication that, you know, the value that -- that, on offer, in UAE institutional real estate is -- is there and people are going to start moving more into it.

So, you know, we've -- we've organized AIP for a flotation. You know, recognizing, really, that it is a -- it does operate independently and we will do so when we think we can generate value for investors. Clearly, liquidity is an important driver of that and we think international institutional investor interest is also a critical driver in that. And when those stars all align, we think that's, you know, the time you should expect to see a, you know, some sort of a monetization coming.

So, I recognize your comment, but I think, you know, I think we're in the early innings of more money coming into the market that will help underpin, you know, more successful flotations that will help.

Steve Bradley
Okay. All right. Thank you. And my second question is, you've deployed, or in the process of deploying, 11 billion of capital, and are, year to date, 2022, I think 7 billion is probably in the recurring space. If you drew a line under it now, and looked at the first full year of annualized earnings accretion, which is an exercise that you've probably done, can you give us a sense as to what the earnings uplift would be from this capital that's deployed?

And the reason I ask, again, is that within the region, you know, you -- and rightly so, in my mind, you know, you are a more highly rated real estate company than, perhaps, a number of your peers, so clearly if you're buildings earnings with that capital deployment, what's the sort of uplift you would get simply if you had just looked at what you have done, year to date, please?

Greg Fewer

So we -- we deliberately included in our disclosure pack this quarter, a re-guidance of an investments EBITDA for the year 2020, which is now set at 1.9 billion Dhs. So, the comparable number for 2021 would have been around 1.55. And so, that -- that is both as a result of the acquisitions that we've made, but also, you know, just some -- both -- year-on-year growth we're seeing across our existing portfolio, especially in the hotels business. So that would be -- that would help you, sort of, fill out a 2022 number.

And then, you know importantly, with our acquisition of the Abu Dhabi Global Markets building -- buildings -- that we announced this morning, these buildings are still on a ramp-up. They're about 75 percent occupied right now and still on a, you know, a lease-up scenario. So these buildings would be considered under-rented, you know, from a real estate perspective. Two of the buildings have not been, you know, entered into the market for years and just came onto the market in the last couple of years.

And under our stewardship and asset management, we are -- we will accelerate the full occupancy of those buildings, coming up. So the regular run rate that you should expect, you know, we've underwritten these buildings in sort of the 7, you know, the mid-7s, in terms of yield on acquisition cost and we expect that to be realized, you know, within the next 24 months.

Steve Bradley

Okay. Okay. Thank you. Question number 3, just on Egypt, actually. What's the purpose or what's the value in keeping the quote? It's not really, to my mind, perpetual capital, or an opportunity of perpetual capital at the sort of level that Saudi is trading at. So, what's the sense or what's the reason or rationale that you would keep the quote? Why don't you just privatize the whole thing?

Greg Fewer

Sorry. Can you repeat that, Steve? Do you mean the listings in Egypt?

Steve Bradley

Yeah. Correct. Yeah. I was just wondering, you know, what the value is in -- because it's way below what you paid. It's way below what the independent value, I thought, that the, sort of acquisition was worth. Just bearing in mind the way that Egyptian-listed equity trades, it doesn't strike me as a sort of -- you know, you keep -- you keep quotes from perpetual capital opportunities, and I get that -- that, but not at that sort of discount. So, I just wondered, is it -- you know, what's the purpose of keeping the quote? Is there some regulatory reason or some other reason why you have to keep the thing listed?

Greg Fewer

Yeah, I mean, there's -- there's nothing deeply scientific about that. It was administratively problematic to execute, squeeze out, optically delisting, you know, also created, you know, some unwanted or unnecessary noise. We don't think having the minority floatation out there is at all problematic. We don't really focus on that share price. I mean, the universe of buyers for, you know, for that rump is, you know, I'd say not as deep as if it was a more-freely or more-widely-held, more-widely-traded stock.

Not -- it's not an accurate reflection of the true value of the entity. We know that and we think the market knows that. It's not really driving, we know, we consolidate all of -- all of SODIC, so it's not -- there's not a mark -- to-market issue for us. So we -- it doesn't really get it the way of the running of the business at the same time. So I think, when ran all of that calculus, we decided to keep -- just to keep it there.

Steve Bradley
Okay. So, I've got just two others, because I ran over, obviously, and realize other people have questions. But, question number 4, consolidation, I think on slide 7 of your results pack, you make the point that there's opportunistic consolidation opportunities in the UAE across the existing asset profit (ph). Are you able to elaborate a little bit on that, please, and what these opportunities are?

Greg Fewer
Yeah. So, look, we've called out some specific geographies that we're looking at. So, Egypt's the -- you know, further consolidation within the UAE and even Abu Dhabi, so Dubai in particular, and Saudi. So, that's where the remaining 5 billion Dhs of equity will be deployed. And, really, all, you know, the -- the nice thing about our platform is that we really are, you know, strong managers and capable buyers and adjudicators and managers of risk across all the main food groups in real estate.

So we have an ability to execute across all of them. So notably, you know, logistics was one gap that was missing. We thought we were underweight in commercial office, as well. So we've taken care of that, as of this morning. We certainly want to target more logistics. Data centers would be the other, you know, missing asset class, let's say from the group. So, those would be targeted areas, but, you know, there are very great opportunities that do come up, you know, in the more traditional asset classes, like commercial office, retail, and hospitality, as we've seen with some of our -- you know the Nurai and the Ras Al Khaimah acquisitions.

Steve Bradley
Okay. And then -- thank you, thank you. And then I pose this lastly, just on Apollo. You know, a fantastic deal. (inaudible) shareholder and investor is now on board. You are spending money and investing money, but should we expect to sort of point, I don't know, in the next, I don't know, there's no arbitrary timeline, but 6 to 12 months when you say like this is us putting the investment capital that's been put into the business by Apollo to work? You know, will you attach something in the next 12 months that, as it were, justifies a quality investment in the business? Or does it not come out eventually like that, because it's just part of the amalgamated capital?

Greg Fewer
Yeah, I mean, look. I think this morning's announcement is a great example of the kind of stuff we're using. I mean, our acquisition program has been, in part, funded by the surplus capital built over in the business in the last three years and also from the, you know, the growth capital raised by SODIC. So, the 11 billion we've done, thus far, the 5 billion we've guided for the next 12 months, and all the sources of that expansionary capital is internally generated an Apollo together.

So, the Mubadala acquisition announced this morning will go into Aldar Investment Properties and that's the Apollo investment -- the entity that we're sharing the equity stack with. You know, so -- but the cash is fungible, as we see it. We see group-wide sources of capital that are available for group-wide deployment and when they're deployed into the recurring revenue portfolio as investment properties, then that vehicle is Aldar Investment Properties and Apollo is a minority investor -- equity investor in that, as part of the capital program that we -- that we agreed with them.

Steve Bradley
Okay. Okay. Thanks very much, Greg.

Greg Fewer
Thanks, Steve. And thank you. I'm glad I took those, in sequence, not all at once.

Operator
Thank you. The next question is from the line is of Mohamad Haidar with Arqaam Capital. Please proceed with your questions.

Mohamad Haidar
Hi, Greg. This is Mohamad Haidar from Arqaam Capital. I also have a number of questions, starting the Mubadala acquisition. The price you paid for 1 square meter of GLA is higher than the existing value of your commercial assets. Is it because the quality of the new assets is better, or have you paid above market rates for these assets?

Greg Fewer
Yeah, we -- well, we think they're -- they're very fairly valued, with the pointing out that, you know, as it goes into our investment property portfolio, we do fair-value these assets, from third-party, independent appraisers. So we're very much coming in at a fair-value price. I think what we like about the acquisition is that, you know, the buildings are still in the introduction stage, in terms of coming into the market. Mubadala, having developed Maryah Island and taken the buildings to 75 percent leased, it's a great opportunity for us to come in now and, you know, exercise our platform strength and synergies, in terms of leasing and property management capabilities, to take the asset to the next level.

So -- and then the other point to make is that the quality of the assets are exceptional. They're truly unreplicable. I mean, Maryah Island was designed as an urban CBD, so premium, premium asset quality, just excellent sustainability ratings, high-quality assets. And globally, if you look at the price at -- for a city like Abu Dhabi, to be acquiring CBD-quality assets at, let's say $6,500 per square foot, per square meter, I mean, these are comparably very, very favorable rates for premium, commercial office buildings, that are principally let to government of Abu Dhabi, you know, state-owned enterprises and departments and top-tier businesses doing business in Abu Dhabi.

Mohamad Haidar
Okay. That's understood. And, on the development management backlog, we've seen a very big expansion this quarter, to 57 billion Dhs in projects and execution. Where did the increase come from -- from which specific projects, if possible?

Greg Fewer
Yeah, so look. I think, so this is the Aldar Projects backlog, not to be confused with our developed-to-cell backlog. This is our government franchise. And we saw significant growth, fifty, sorry, 41.5 billion last quarter and it's gone up to almost 58 billion Dhs this quarter. And it's really come from a whole portfolio of projects -- some large, some small -- and I think what it really -- we want it to showcase to the investors, is that this is a franchise.

You know, the entirety of the government of Abu Dhabi's civil infrastructure work, when it comes to civil infrastructure, roads, national housings, are going through this program to us. So sometimes there are large, you know, championship projects, like Riyadh City, Baniyas, I mean, we publicized these large, national housing projects in the past. But this cohort of projects are multiple -- dozens. Some large ones, 1 billion Dhs for some infrastructure, and then some small ones at the same time.

But I think, like I said, but we wanted to showcase to everyone is that this is a durable, long-term, very sticky partnership and a very successful one, thus far. I think this -- this increase projects given to us is really demonstrating that the government is seeing value in what Aldar is bringing to the table, in terms of a disciplined, organized institutionalized approach to project supervision and delivery and execution excellence and this government here is going to be in CapEx mode for a long time.

And they see the value in that platform, delivering projects on time, on budget, and in fact, engineering savings for the government with our oversight. And now that we've had this program in operating for about a year now, the government has had time to actually see some of these benefits. And then, the awards that we received this quarter are a strong, strong validation of the value we're bringing and the stickiness and franchise value and annuity and perpetuity that investors should be attaching to this business line for us.

Mohamad Haidar

And are you happy keeping the guidance at 400 to 450 million Dhs, despite the increase in the backlog?

Greg Fewer
Well, yeah, we haven't changed that, as of yet. And I think, what we're seeing is that, especially with this new increase, the projects are very early stage and these ones will take a little bit of time to get going. And when I say a little bit of time, I only mean matters of months. So, we didn't want to revise any of the guidance for 2022 or even early 2023 yet, until some of these projects start to ramp up a bit more and we can be more deliberate, you know, with a growth in that, commensurate with the kind of growth that we saw in the overall backlog book.

Mohamad Haidar
And my last question on Apollo, please. What's the progress on the remaining proceeds? When should we expect these to come in?

Greg Fewer
They'll come in, in the second half of the year. So, there will be two more tranches, they'll be a sale of a minority stake in the platform AIP and that will close, you know, in the coming, you know, days and weeks, and then we have a land JV that's also just in the final throes of conclusion. That might be some time in August or September. But the -- both tranches are close to closing and will conclude before the end of the year.

Mohamad Haidar
Amazing. Thank you very much again.

Greg Fewer
Thank you, Mohamad

Operator
Our next question is from the line of Jag Pusari (ph) with NBK Capital. Please proceed with your question.

Jag Pusari
Hey, can you hear me?

Greg Fewer
Yes, Jag. Go ahead.

Jag Pusari
Hey, thanks for taking my questions and congratulations on the good set of results and then the recent acquisitions. Can you please let me know your leverage levels once, you know, this whole this EDGM acquisition goes on -- the ones that you have announced today and yesterday?

Greg Fewer
Yeah. So our leverage levels will stay identical to what they are today. So the policy in Aldar Investment Properties is 37.5 to 40 percent gross debt as a percent of the fair value of the assets that we acquire and that leverage policy, then, is applied to, you know, to the acquisitions that we've announced. So, they'll be just over 1.5 billion Dhs of debt that will go into support the EDGM acquisition, on closing, the Abu Dhabi Business Center, and the Doubletree and the Rixos and Al Hamra Mall -- these all have the same policy that we'll apply to them.

The treasury team is sort of -- because we have so much cash, some of the debt won't go in exactly on closing, just to be efficient with our -- with our capital and our treasury operations. But, certainly by the end of the year and normalized state, you can expect to see the 37.5 percent maintained as we layer on these acquisitions.

Jag Pusari
Okay. And if I may ask you, like, so far you have announced 7 billion Dhs of acquisitions. How much remaining your target?

Greg Fewer
So, the remaining guidance for acquisitions is a deployment of 5 billion Dhs of equity. So, to use the example that we just -- we just went through, if we were to buy a building for 100 Dhs, then we would be funding it with 37.5 Dhs of debt and with the balance in equity. So that 5 billion Dhs is that balance, in equity, and we will be complimenting and augmenting that equity base with, depending on what we purchase. If we purchase, let's say, a development platform in Egypt, for example, then, you know, that would be an equity investment, unlevered. If we did a building in Abu Dhabi or Dubai, then we would apply 37.5 percent gross debt to that.

Jag Pusari
Okay. Okay. Okay, thank you.

Greg Fewer
Okay, Jag.

Operator
Thank you. As a reminder, to as a question over the phone, you may press *1 from your telephone keypad or you may use the ask a question box to submit your question.

I see we have a question coming in from the web. It's from Admari Mavowine (ph). "Congratulations on the new acquisitions in such a short space of time. How much of the Apollo funds have been used? How is the 11 billion raised to fund the acquisitions?"

Greg Fewer
Okay. So as I mentioned, I guess on the -- I'd defer my earlier answer on sources of capital for our acquisition program, which is both internally-generated capital and the 5 billion that we've

raised -- Dhs we raised from Apollo. So together, those comprised the overall program, of which 11 has been committed, to date, and there's an additional 5 billion of capital to be deployed over the next 9 to 12 months.

Operator
Thank you. We do have a question coming from the phone from Steve Bradley with HSBC.

Steve Bradley
Thank you. Sorry, I just had a couple of -- well, one or two quick follow-up ones. Slide 16, the 5 billion in equity, Greg, that you are looking to deploy over the next 12 months into new geographies KSA in Dubai, are you able to give us any insight into how you might enter the KSA market. I don't think you are there at the moment. I -- would you look at the listed entity if that -- a bit like you went into Egypt? And from a Dubai perspective, bearing in mind you recent enlisted a Dubai, I think it was a Dubai landowner, into Saadiyat, are you likely to go into Dubai to a land purchase? Thank you.

Greg Fewer
Yeah, so, on Saudi, most of the focus, to date, has been on -- and I think we've mentioned this in the past -- has been on the recurring revenue side -- so buildings, malls, things like that -- and education. So this has been our focus in Saudi, to date. In Dubai -- excuse me -- in Dubai, we have lots of opportunities to enter. You know, we did discuss with Emaar a JV; that's one entering method. Another is land purchase. And we have an ability to execute on all of them, and whether it's just buying buildings on the recurring side, doing partnerships with master planners, you know, all those options are available to us.

We've got great relationships and deep networks into Dubai. It's really just finding that right opportunity, where you have a willing -- it's true of all real estate in our region for that fact, is -- have a willing seller, a willing partner -- you just have to find that right opportunity to do it. So, the nice thing is, is we're flexible and we have the ability to execute across a number of different formats. It's really just waiting for that right opportunity. And we've been very, very disciplined, you know, being careful when choosing the right moment.

Steve Bradley
Thank you, thank you. Did the -- the JV with Emaar is dead, isn't it? Or is it not?

Greg Fewer
Yeah. That joint venture has not concluded.

Steve Bradley
Okay. All right. Thank you very much.

Greg Fewer
Thanks, Steve.

Operator
Once again, we remind you, if you'd like to ask a question over the phone, you may press *1 or you may use the ask a question box to type if your question through the webcast. We'll pause a few moments while we assemble a queue. And once again, that's *1 from your telephone keypad or you may type a question in the ask a question box on the webcast. Thank you.

We have a question on the phone from Mohamad Haidar with Arqaam Capital. Please proceed with your question.

Mohamad Haidar
Greg, I'm not sure if it's early to ask but should we expect a similar distribution growth when it comes to dividends, that's aligned with earning's growth for 2022?

Greg Fewer
Mohamad, look. I think it's early to -- to be predicting about dividend. I mean, I would just harken back to our, you now, strong track record of progressive dividend growth and very public policies and how we think about dividends. So, like every year we go into that final board meeting to approve the year-end numbers, we see which way the wind is blowing, we apply our policy blindly, so that's, you know, the most important constraint or premise that goes into that meet and, you know, I don't think the -- that value set has changed at all.

We remain in the growth mode so I think, you know, I can think that's the only other thing I'd overlay on top of that and that was an active of sentiment last year. We remain in growth mode as we speak. So, what I expect -- all those stars to swim around when we, you know, get together in February to make that recommendation.

Mohamad Haidar
Understood. Thank you, very much.

Operator
Thank you. We have a question from the web. "In the Q1 presentation, the cost of the notes is around 5.625 percent and the assumption was that assets yielding around 8 percent will be acquired. The latest ADGM transaction had a higher acquisition yield. Is that because of the new market dynamics?"

Greg Fewer
Can you repeat the question, please? I just want to make sure I understood the first reference to 5.625. I think it was to the Apollo transaction. But could you repeat it?

Operator

Yes. It says, "In the Q1 presentation, the cost of the notes is around 5.625 percent, and the assumption was that assets yielding around 8 percent will be acquired. The latest ADGM transaction had a higher acquisition yield. Is that because of the new market dynamics?"

Greg Fewer
Yeah. I think, if I understand the question correctly, and I'm just reading it again. In the Q1 presentation, the cost of notes is around 5.265. The assumption was that assets yielding around 8 percent will be acquired. The latest ADGM transaction had a higher acquisition yield. I mean, the ADGM acquisition, you know, because it's only 75 percent let, you know, we underwrite these to -- on stabilization to be in that mid-7s, you know, overall yield.

The 5.625, I think, is a reference to the Apollo sources of capital and so, far Apollo -- what was nice about what we did with them, is that to be extremely flexible, long-term, permanent capital and that is, in our view, what we use as growth. So that's equity to drive the further growth. So, and important to note that we raised all this capital, even the notes at 5.625 -- they all main -- the group maintained its BAA1 credit ratings through all of that.

So, everything we do is accretive, especially when we layer in senior debt on top of that. So, we expect the ADGM, as I said, to hit, eventually, our underwriting case yields in that mid-7s range by year 2.

Operator
Thank you. We have a question over the phone from Harsh Metah with Goldman Sachs. Please proceed with your question.

Harsh Metah
Hi, Greg. Thank you very much for the presentation. Congratulations on the record (ph). Just two questions. One is, on the SG&A cost, that's kind of now trending at around 8 percent of revenues for the first quarter and the second quarter. It used to be under 5 percent earlier, so is this the new norm that we should kind of expect, going forward, as you acquire more assets and you kind of spend more into move marketing and leasing them out?

And the second question is on the interest cost. So, again, when I look at interest costs for the first quarter and the second quarter, they're very similar. I would have generally expected an increase over there, given the hybrid, perpetual debt that was taken up at -- towards the end of the first quarter. So, is this something which will be accrued later on, or is it -- (inaudible) to the financials? If you just can help us understand that. Thank you.

Greg Fewer
Yeah, so, SG&A -- this would be the new norm. And a couple things happened in 2022, Harsh, when you compare it to 2021. There was a small reclassification that we did, mostly from our subsidiaries, that we implemented after we exec -- you know, we put our new business model in

place. So, some costs, annualized, may be just over 100 - 150 million DHs move from above the line to below the line. So that's the first point.

The second point is we consolidated SODIC, who has a slightly different cost base to ours. So those are two sort of changes in 2022, versus the comparative that you're looking at. But the run rate that you're looking at now, for Q1 and Q2, we would see it increasing marginally as we scale and grow and we are investing a bit now to, you know, to grow the platform further. But, you know, Q1 and Q2 is a good basing to focus on, as opposed to 2021 numbers.

And then, the second question, on interest rates -- I guess the first thing to point out, on the hybrid, is that those coupon payments don't go through the P&O. They go directly to equity, which is, you know, in accordance with the hybrid accounting standards, for security of the qualified for it. So you won't -- you'll see in the cash-flow statement, but you won't see it in the P&O.

We are exposed to floating rate debts. Just under half of our debt stack is floating rates, as EBOR evolves, you know, you should expect to see of our interest costs go up. But at the same time, you know, we've had such strong cash balances, and then the team does a good job getting decent deposit rates, you know, our interest income has been pretty high for the last few quarters, as well. And that'll start to go down a bit as we deploy the cash into more accretive investments.

Harsh Mehta
Understood. Thank you very much. And just one follow-up question. So, in the press release, it was mentioned that one of the towers, Al Mamoura Tower, that kind of saw an expiry of the -- of least contract. So, again should we assume there's going to be a renewal very soon, or it will probably take time because it's an entire tower that needs to be leased out?

Greg Fewer
Yeah, so these are our short leases. So, we've got a number of properties in the portfolio, Mamoura is by far the most significant, that we didn't have the freehold for. We have a short, leasehold for. So that's what it refers to. So actually, the building, you know, drops out of the portfolio entirely and reverts back to the freeholders. So that's the reference there.

So, you'll see we talk every quarter, Harsh, about what we call the forced march fair value losses. Every quarter, we have the same sort of fair (inaudible). So, when these buildings fall away, those amortizations also fall away at the same time. So the income will go, but those costs will go, as well. So from an EBITDA perspective, it doesn't really, you know, the -- it won't really change that much.

Harsh Mehta
Understood, very clear. Thank you very much. Thank you.

Greg Fewer
Thanks, Harsh.

Operator
We have a question coming from the webcast from Hamir Halawai (ph) with Al Ramz Capital. "Good afternoon and congratulations on the good set of results. Would you please update us on the Madinet Nasir? Is this acquisition still potentially on the map? Thank you."

Greg Fewer
Yeah, so look. That process is very much ongoing. You know, we put in an offer that we wanted -- or seeking due diligence. Due diligence has not been offered yet and we remain in discussion with them -- with our counterparty there and we will update the market when have something new to share.

Operator
Thank you. As reminder, we you may press *1 to ask a question over the phone or use the ask a question box to submit a webcast question. Thank you.

Thank you. Mr. Fewer, we're showing no additional questions at this time. Would you like to make some further remarks?

Greg Fewer
Thank you, everyone, for dialing in. Enjoy your summer break and we look forward to connecting, again, for Q3. Thank you.

Operator
Thank you. This will conclude today's conference. Thank you for your participation and have a wonderful day.