Transcription

Aldar Properties, 12/11/2020 EV00116425

Thursday, January 14, 2016

Presentation

Operator

Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to Aldar Properties Third Quarter 2020 financial Results Analyst and Investor call. I must advise you that this conference is being recorded today. There will be a question and answer session after the management's presentation. I would now like to hand the conference over to Greg Fewer, Chief Financial and Sustainability Officer at Aldar. Please go ahead.

Greg Fewer

Thank you very much and good afternoon everybody and welcome to Aldar Properties Third Quarter Financial Results call. My name is Greg Fewer and I'm the Chief Financial and Sustainability Officer here at Aldar.

Firstly, I hope you are all keeping safe and well and I appreciate all of you taking the time to join us for today's call. Before we begin, I just want to take a moment to thank our team. COVID-19 has brought unprecedented challenges to both our business and our stakeholders. We're super proud that we've been able to adapt to the uncertain and often very challenging conditions, whilst – what you will hear later – is delivering what we think are exceptional operating and financial results whilst focusing and maintaining health and safety practices to the highest standards possible for our employees, our customers, and the communities in which we serve, so deeply appreciative of all our staff and people who sit behind these results.

I would like to start by providing an overview of our quarterly performance, then we will open up quickly to questions.

So, I'll now run through the headline numbers for the third quarter, which has really been a stellar quarter for us and highlights the strength of our diversified business model. In this period, Aldar achieved very strong business performance driven by record quarterly development sales. In the third quarter, on a consolidated basis, revenue was up 30% year-on-year to AED 2.1 billion, and gross profit was also up 5% year-on-year to AED 696 million. Net profit came in for the quarter at AED 416 million, which is an 8% increase versus the same quarter last year.

Looking at the development and management side of the business, we had a very strong third quarter, delivering record sales of AED 1.2 billion, representing a 7% increase year-on-year, and also a record quarterly revenue for us in the development division of AED 1.3 billion, more than double the level from the same quarter of 2019. As at the end of September 2020, 86% of our development pipeline had been sold, taking into account the launch of an additional 390 units at our Waters Edge development on Yas Island during the quarter. The development and management business has also performed strongly on a cash collection basis, with AED 3.1 billion collected year-to-date from units handed over and projects under development.

Moving onto our asset management business, our recurring income portfolio produced a net operating income of AED 383 million, representing a 3.5% decline versus the same quarter of 2019. The portfolio has held up well on account of high occupancy in our residential and commercial segments of the business, which have offset softness in the retail and hospitality segment. We're also witnessing and expecting improvement in the hospitality and retail segments following the easing of lockdown measures. Sales experience by our retail tenants across our portfolio in the third quarter were in line with last year, and our hospitality assets are expected to benefit from upcoming bubble events, such as the UFC Fight Island and the Formula 1 coming this December. Occupancy remained steady at 87% across the investment property portfolio, which includes residential, retail, and commercial, and benefits from long-term and committed lease contracts. Weighted average lease tenures range from three to five years across our portfolio as at the quarter end.

Our adjacent businesses net operating income was up 5% versus the previous quarter and included strong performances from Aldar Education, which was up 44% versus the third quarter of 2019, as well as Khidmah and Provis. Khidmah is our facility management business, Provis our property management business. Our gross profit collectively between them was up 33% versus the third quarter of 2019.

Aldar maintains a strong cash and liquidity position with AED 4.5 billion of gross cash comprising AED 2.5 billion of free cash, AED 1.1 billion of restricted cash, and just under a billion dirhams of cash in escrow. Our average debt maturity today sits at 4.8 years with no immediate longer payments coming up until August 2021, and an average total cost of debt of under 3% at 2.9%.

So, overall, Aldar's diversified business model with relatively low debt exposure and strong cash position allows us to actively pursue opportunities to invest in both our development pipeline and in expanding our investing portfolio. We think opportunities to earn steady income from our third party development management business, which is set to expand further following the new mandates announced in late October, whereby we're taking over the development and management of a portfolio of over AED 30 billion of projects from the Government of Abu Dhabi. This is in addition to the current portfolio of projects we're managing for the Government amounting to AED 5 billion that we discussed in 2019.

So, that concludes my comments and with that, I'm happy to pass it back to Maryna (the operator) who will coordinate questions. Thank you.

Q&A

Operator

[Operator instructions]

Our first question comes from Taher Safieddine, J.P. Morgan. Please go ahead.

Taher Safieddine

A couple of questions, if I may. Maybe we will start one by one. Just on the development portfolio. The gross margin on the property development is down to 27% compared to around 35% last quarter and 36% in 2019. So, I just want to get an understanding what's happening there. is it purely a revenue mix sort of change that's dragging the margin down? That's my first question on the development.

The second question, can you give us some color on this cash collection trend. It was very strong year-to-date, you said around 3 billion gross cash collection. As you move into handover phase into Q4 and next year, can we just get some color on what amount of free cash, like gross cash net of CapEx that you're expected to collect. That would be helpful. Then maybe I will go to the other question after that please.

Greg Fewer

So, on the gross profit margin in the development business, a couple of trends to note. The first is on the homebuilding side, the core homebuilding side, not the fee based management side, we saw a combination… there were some slight increased costs that came from one of our projects on Yas, but primarily what's happening is that as we were moving a lot of inventory, we were discounting a bit to move the inventory. That contributed to a slight reduction in the margins from the homebuilding business. The other thing to note is we're rally ramping up that AED 5 billion program that we announced last year. The structure of those contracts are such that we record revenue and cost of goods sold at about, let's say, 10% roughly profit margin on those, as opposed to a 5% fee, we're recording a 10% profit margin but putting the full building, let's say, for twofour54 at Yas Island or the national housing at Al Falah, we're putting the full real estate through the P&L. So, there's a bit of a gross up in revenue and a lower profit margin, but it represents the risk-free nature of that business, but it's shaping the P&L a little bit and that's driving the profit margin changes you're looking at.

With respect to the cash collection trend, look, a couple of things conspired on developments year-to-date. We were able to keep the business of construction moving, that allowed us to complete our projects and our customers are performing. They're making final payments. We've worked very hard with the banks to make sure that there's mortgage products in place. So, we partnered with the local banks here to have some of that ready for handover and that's worked very well for us to enable these collections. As you know, we're still in the handover period where we've got Yas Acres still to be handing over. We're going to be opening to Waters Edge very soon on Yas Island for handover. We're looking at about a billion dirham a quarter, roughly, in the current wave of developments to still handover as we finish collecting at the Bridges, at Reem, which is handed over, and into the Yas Island delivery schedule.

Taher Safieddine

Against that how much is remaining CapEx/SG&A. I just want to think about it from a free cash point of view. Should we expect around, maybe, 2.5-3 billion in terms of free cash from all of these deliveries, handovers?

Greg Fewer

Yes, roughly. Again, I guide you back to our famous chart in the investor pack which really chronicles and puts in, in time sequence, when we're going to hand over the various projects, then we guide the profit margins, roughly, for the various developments. Land tend to be 40% plus, the middle-income stuff is low 20s, and then the villa product is sort of in that 35% profit range. That's your best way to build up the free cash profile that comes from the successful collection of these projects and then the receipt of the final payment.

We're into the point now where there's generally pretty little CapEx. Our overall program now sits at about 3.1 billion of overall CapEx, but we've got a lot of land, Taher, in the near term and that's not as heavy lifting from the CapEx perspective as the big stuff like Yas Acres and Jawaher and Mamsha. So, this cash flow cycle we're in now will be quite cash positive as we've already spent most of the CapEx at places like Yas Acres and we're ready for the final payments due from customers as we hand over Sections G, and D, and H.

Taher Safieddine

Just one final follow-up, sorry, before I give it to others. On the development/management, MOU of 30 billion, that's massive. Clearly, the stock has reacted positively. Can you give us more color, we understand that these are usually fee-based projects? You've had already a couple of experiences from the past in terms of doing such type of businesses, but now it's a big amount, which is 30 billion backlog. If you can give us more color on the structure of these projects. Is it going to be off balance sheet, pre-funded, what nature of margin and how should we think about the development/management gross profit trends moving forward? Assuming this is going to be a massive growth from next year onwards.

Greg Fewer

It will look very much so. It's MOU for now, so I think we're going to conclude the definitive documents this quarter, so we'll be able to be extremely precise once those are done, but it is our full expectation that the model will be the fee based model that we expect at, let's say, West Yas and Kazakhstan on where we just get a low single-digit development fee for managing, and then the Government 100% funds everything, the Government takes the cost overrun risk and they receive the benefits of cost saving. So, it's purely a development and management arrangement.

From an execution perspective, it's a big ramp-up, but it's important to note that there's an existing program that we're stepping into, really, to take over. So, there are people, there is an apparatus in place that's already positioned to execute these… the current state of contracts, and we think there will be more added to it. It's very much a public/private partnership and a very unique one, and it scales [audio] and commercial format, where it's not just the first 30, there will be more.

Taher Safieddine

So, just doing some rough numbers, like assuming a 5% margin on 30 billion over four years, which was the MOU, we're talking about gross profit or NOI of somewhere around 350-400 million per year. Do these numbers make sense? Overall, is this what we should expect from next year in the development/management type of businesses?

Greg Fewer

Look, that's the revenue number. There will be a cost of goods sold attached to them in the form of people and technology and things like that, but the margin on that business is typically exceedingly high, and at the scale we're developing at, there will be a lot of platform synergies and technology synergies to maintain a very healthy margin on that.

Operator

[Operator instructions]

Our next question comes from Alok Nawani, Ghobash Trading. Please go ahead.

Alok Nawani

A couple of questions from my side. The first one is on your NOI, specifically the retail component. I'm interested to know what kind of relief measures are there in place for your Yas Mall asset and what kind of conversations you've had with your tenants for this year and perhaps next. Also, your commercial side of the business seems to be doing fairly well with like-for-like around flat, but occupancy is a bit higher. Nonetheless, revenue growth seems to be encouraging, so is it really more of filling up spare inventory. I would just like to understand what's happening there.

Finally, if you could also just comment on the fact that Arabtec no longer seems to be active in the market and I'm not really sure if they were one of your prime contractors, but assuming they were, you would have to find replacements for that contractor, and I'm just wondering what that would imply for your development margins looking ahead on the pipeline that you perhaps might have to replace.

Greg Fewer

So, just in order then, Alok, so the first question was on NOI retail, and that’s down. 120 down to 102 reflecting, to a large part, the relief measures that we've announced, that we came out very early and announced an overall program of 190 million of which we allocated at that time about 90 million to retailers that were almost fully deployed, or fully committed let’s say on that component of our stimulus program that was targeted towards the tenants. We've taken a very case by case approach to it where things were pretty dark at the height of lockdown, as is true with our messaging, we are seeing a couple positive trends in Abu Dhabi with the closed borders with Dubai, we’re seeing a lot more stay at home shopping, and that’s really benefitted our malls. We've got our current trading is roughly flat to where we were pre-COVID right now as we speak.

So, the status of the tenants has commensurably improved with that, and so the team has been all over the tenants and they're being very partner oriented and very commercial in the way that they're dispensing that stimulus. So, good tenants who are the right mix for us, that are just losing a lot of money right now, that’s the kind of person that we’re giving stimulus to, and has been received, generally, very well with the overall – within the retail community.

You really haven't seen the kind of volatility that you’ve seen down the road. In some sense, the Abu Dhabi retail scene, like with our results and everything we’re showing, there is a bit of a safe harbor in terms of relative performance with other retail asserts in the region. So, our tenants are acknowledging that in our discussions, which is really just endearing them further to our assets, which I think helps us.

Commercial. Commercial, the numbers look good. I think there's a few things going on under the sheets there. we have some improved occupancy, so we've got a very strong tier one commercial office portfolio. I would say it’s fully stabilized and operating fairly efficiently at 90% plus, and so the occupancies quarter-on-quarter, 89, 90, 91, they're sort of just reflecting a normal churn of people in and out. We are seeing some softness, though, in rental rates, so I think embedded in those numbers are some sorts of settlements on historical issues we had with some of our tenants who we've just had favorable commercial agreements with. So, I think you are seeing small single-digit declines year-on-year in rent in commercial office. But by and large, it’s a very steady business for us.

On Arabtec, we’re by far – especially with this announcement with ADQ, we are the most important master developer in the Abu Dhabi market and we take that leadership role extremely seriously when it comes to ensuring the health and wealth of our supply chain. So, Arabtec was a very important counterparty here, and we have hardly any exposure to them right now, but yes, when someone that large falls away, it’s incumbent on people like us to take a leadership role and work with contractors who are already in the region, whether they're in Dubai or some of the other Emirates or in Saudi or in other places and are talented and have expertise in the areas that we want to develop. People like us are in a position where we can bring them to Abu Dhabi. People like working with us, we’re very professional, we pay on time, we go out of our way to pay on time. We really make sure that our supply chain is well fed, sitting on the top of that real estate pyramid. We need to make sure that we’re paying on time so that the prime contractor can pay the subcontractors, can pay the sub-subcontractors and so on and so on, and that’s one of our operating philosophies.

I think we have a bit of work to do there. I don’t see any margin issues. The other dynamic that happens is that the contractors that are here at a time like this, they really tend to flock to the quality developers, so we still don’t have issues not getting people bidding for our contracts. I think we do take more of an industry-wide role as leader in the industry saying, look, there's definitely room for some more contractors to come down the road, but we witness that they are in the region, they do like doing business with people like us. Our current pipeline of projects, we don’t have any issues getting contractors to come – because we’re strong, people like doing business with us and they know they can make money from us, because we pay on time and such. We feel good about our portfolio and the margins.

That’s a very longwinded answer to your three questions.

Alok Nawani

Much appreciated, Greg. Thank you. I just had one final question, before I let you go. Just your view on dividends for this year. You've been quite prescriptive on that front in the prior years. I understand it's a slightly different environment, but your results are quite encouraging as well, so I'm just trying to think about how you might be approaching this topic.

Greg Fewer

As I say every time in the exact same slide that we show the investors every time we talk to you guys, it's the exact same slide that goes to our board annually to recommend the dividend, so it's transparent for a reason so you guys are on tune with our thinking and based on the cash that we collect from our two businesses, and… so, what we're seeing to date is strong performance from the development and management business, so I would say we're pretty much on par in terms of expectations thus far. We are late in Q3 in terms of the kind of cash we're collecting from that business, and is it consistent with our guidances from the past? It's looking pretty good.

The asset management side, you can see from our results, we're still losing money in hotels, so year-on-year that hurt. We're down in asset management as well. We're 66% collected on cash in terms of our investment properties against everything billed that we've sent out this far, that's also improving quite a bit, so I think that's an important marker that we're going to look at into the fourth quarter. How do our book of retail, primarily, but the commercial and the residential tenants, how are they performing on the actual agreed rental invoices that we've sent them? So, that's the positive trend. It was under 50% during COVID and at the end of Q3, it was about 66, and as I sit here today it sits well above 70. That also bodes well going in. I think because of the hotel number and because of just lower rents in the retail side, we will watch that space carefully in the fourth quarter.

The only other thing I would add on top of that is I think the ADQ announcement, as a general overlay, as a positive overhang – if there's such a thing as a positive overhang – but heading into 2021, we've got a lot of visibility around some good fee generating income for managing these projects for the Government. I think that also puts the board and management in a certain frame of mind when it comes to the overall dividend recommendation, bearing in mind that we're still in a COVID environment and people are very concerned about jobs still and non-hydrocarbon economic developments. We've got some very idiosyncratic positive things, putting some wind in our sails.

Operator

Our next question comes from Divye Arora, Daman Investments. Please go ahead.

Divye Arora

My first question is linked to the [inaudible] in sales, so what we have seen is that there was a strong pick up in this quarter so we saw that, you said around 1.2 billion in the development sales and you said that the reason for that is also the pent up demand. So, just to understand, given the underlying demand dynamics in Abu Dhabi, over the next two to three years, if you have a look at, still the environment is tough, but if things normalize in the next six months to one year, what is the intrinsic amount of demand that you see for you. Can you do 3 billion in a year, 4 billion in a year and why that is important is that because we have seen that your development revenue has picked up pretty well this year, so you have done already 2.7 billion in the last nine months, which should annualize to around 3.4-3.5 billion for this year, which would mean that you should be doing around 3.5-4 billion in terms of development sales to make sure that this is sustainable, or there might be some inventory which could be used. What is that number that we are looking at two to three years down the line, annually?

Greg Fewer

We've guided pretty consistently this concept of through the cycle. We see ourselves developing about 1,500 households a year. [audio] we've been talking in those terms, really since 2014/2015. I would say we're running a little behind that, not much though, because this year we haven't launched anything new to date, but that's really a statement around the… that's the final answer after some homebuilding calculus gets run, which is the combination of change in population, it's dilapidation rates, and relevant powerful demographic shifts, whether it's a very young Emirati population getting older and [audio] the number of people per household for UAE nationals is reducing over time. That's all stuff that creates demand for new homes. All that calculus works and we see that sometimes dilapidation is a more powerful coefficient than the change in population and the demographic one is a pretty constant and growing one, and everyone spends a lot of time, understandably, on the population one, but they probably spend a little less time than they should on the dilapidation and the demographic one when it comes to the requirement for new homes in our market.

Generally, we're not changing that language going forward. 1,500 units a year in new launches, absent of course a pandemic black swan. We see when the market opens up again and we also view our market as relatively imbalanced from a supply and demand perspective to pick that pace up again immediately on the market reopening. As a market leader, we're very close to the pulse on when we think that time is right to bring new product to our market.

Divye Arora

Just to go into your dividend policy, you mentioned for the asset management business, it is 65-80% of the distributable free cash flow. How should we get to this number? Because we see that you give the NOI or the gross profit by the segment, but then the SG&A is at the group level. So, how should we come to this number?

Greg Fewer

So, the rest of the [walk] from the net operating income number, there's interest and pretty much all our interest is attributable to the bonds that we issue out of AIP, so AIP – those financials are a great source to see how much interest that's attributable to that. There's maintenance CapEx of which there is very little, like around 100 million or less annually, and then there's OpEx, which runs between 50 and 70 million in terms of technology, people, investment, platform cost, things like that.

The guys have an update on the investor pack. I don't know if it's been updated. Usually, in the fourth quarter, we update that just so people can see clearly from the accounts which key items to focus on. But the biggest by far, though, is interest, which is mostly attributable to the asset management side of the business.

Divye Arora

Just a last question on the trade receivables, we have seen that they have gone up from 2.3-2.7 billion, and also your revenue has been up. But just to understand this increase in the receivables, is this coming more from the side of the retail side, as you said that you have collected 66% of your rents, or there is also a portion, which is coming from the development side.

Greg Fewer

It's definitely from both. So, the development side, there's a separate line in the financials called "due from customers under sale of property contracts", so that receivable represents this idea that towards the end of the development, if we're 100% complete, we've recorded 100% of the revenue, yet we've only collected between 30 and 50% of the cash from the clients. As we're late in that delivery cycle, you're going to see that receivable grow. The balance that you're referring to, it refers to trade receivables, which is coming, to a large extent, from the asset management portfolio.

Divye Arora

Is it also linked to the post-payment [plans] over here, so that's flowing into the trade receivables part or that's flowing into the gross amount due from the customer on contracts, the post-payment [plans].

Greg Fewer

Can you repeat that?

Divye Arora

I'm talking about the post-payment plans, the receivables which are linked to the post-payment plans, where are they exactly going into this—

Greg Fewer

Correct, so that's true. So, the final units, when they're completed and they move from… so, in accounting terms, when we finish construction onsite, then we change the recognition on the balance sheet. The receivable moves from this gross amounts due from customers on contracts for sale of properties, a bit of a mouthful, but that's the line in the Note 10, it flips to trade receivables, so that's true, and that's even true like sometimes customers take a month or two months or three months to make that final payment. That final receivable reduction will come down from trade receivables because of that reclassification.

But also, just a footnote, we’re not in that business of post-handover payment plan. I think our overall balance sheet exposure is in the order of 200 million, 250 million in post-handover payment plans, we’re extremely selective on when they happen. We announced a rent to own plan, very limited extension of product like that. We really think, as a developer, you need to rely on the banks and other people to finance, and we just want to build and sell.

Divye Arora

But just a thing on receivables itself, so are you comfortable with the current amount of receivables on your books, or do you think there could be a risk of impairments in Q4, or IFRS has taken care of that already.

Greg Fewer

In the subset that belongs to retail, I think once we fully squeeze our way out of the COVID bit and notwithstanding everything I've said about improved conditions, we’re coming off an absolutely atrocious position for a lot of tenants have really taken a body blow, and even trading on par with last year might not be enough. We’re definitely not calling an end to risk in that asset class. We’re well provisioned right now and we study that very closely and very carefully. Could you see some more in the future? Absolutely. Every day is a new day, and the risk horizon expands 24 hours every day of the week. We’re still watching that space very closely, but we’re comfortable with our overall provisioning that we have right now.

Operator

[Operator instructions]

Our next question comes from Anil Dixit from Abu Dhabi National Insurance Company. Please go ahead.

Anil Dixit

Just a question on the fair value decrease in the investment properties. I noticed from the note that the fair value decrease was based on an internal valuation. Now, given how negative the commentary has generally been on the property market this year, do you expect a big delta between the number you have for 30 September and the number you will take at the end of the year. Thanks.

Greg Fewer

The internal valuation for Q3 is really coming off the back of a Q2 set of valuations, where we had lots of third parties come in. So, we literally had every asset valued twice, it really had a lot of third party input into our second quarter valuations, and so I think that coupled with nothing but positive trading since we had that intense work done in the second quarter, I think made us comfortable to – we’re in a position as management to show the balance sheet numbers that we’re showing. Fourth quarter we will revisit again with the third parties, but… and I think the same comment applies to the fair values that I just made to the trade receivables, which is every day of the week the risk horizon moves out and the assumptions you have programmed into your current values get retested based on new states of the world and we will see then. There's risk in the real estate business, there's no doubt about it. We feel great about our assets. Our performance stands for itself. Our overall yields as a percent of our book values, I think, are extremely reasonable. And at times when you value these assets and there's times like when we talk to this peer group that we’re reminded that we’re a dollar based currency real estate business with free flows of capital in and out of our country, no tax, and your real estate is yielding 7% plus and it’s a very positive asset from a valuation perspective. There's a lot of reasons to feel good about valuation. There's COVID risk out there, the vaccines may or may not work. There's a lot of reasons to feel nervous about it. We bring all that to the table in the fourth quarter with our valuers.

Operator

Our next question comes from Mohamad Haidar, Arqaam Capital. Please go ahead.

Mohamad Haidar

So, given that retail discounts are being amortized over remaining WAULTs, is the recurring DPS going to be linked to the amortized NOI or rather to real cash NOI, which should be a bit lower than what's being reported?

Greg Fewer
Yes, correct. The policy is very clear about cash, so thats… then that straight lining, it has an impact, obviously, the difference between NOI and overall cash received. That you make back, of course, later on in the tenure of the overall contracts. Generally, other than our long anchors in Yas Mall, those WAULTs are relatively short enough, I don't think there's a massive delta really between cash and accrual, other than the 11 million from last quarter, and I think the number is up to about 24 million now in terms of overall delta between accrual. So, the straight lining impact of some of the stimulus that we've given out, but it's in that order of magnitude.

Mohamad Haidar
Understood, very clear. One more question on development proceeds, given at the current pace of revenues and given that backlog is at 3.1 billion, I see backlog is depleting fast and for next year if you continue at these recognitions, nothing will be left for 2022 to be recognized. Is Aldar planning to continue launching the off-plan sales market to increase backlog.

Greg Fewer
Definitely. I think that's on the top 10 list of management priorities, new launches is items one, two, and three. As I mentioned earlier on the call, as market leaders here, we're in great shape to ascertain our customers and what supply/demand looks like and more importantly, what investor sentiment looks like. I just point to Q3 sales to show you what investors think of our market. Whilst we haven't launched new projects, we launched and opened up for sale a 390-unit tranche of Waters Edge at Yas Island during the quarter and it sold very, very well. Of course, we had a record quarter overall for sales this quarter.

We're feeling pretty good about our prime customer's ability to recognize value and put capital to work. All that's being programmed into our launch calendar right now and you should definitely expect to see us launching new product very soon.

Operator
[Operator instructions]

Our next question comes from Admire Mavolwane from Terra Partners. Please go ahead.

Admire Mavolwane
I have two quick questions. One of them is that given the liquidation of Arabtec construction, were you guys exposed in terms of deposits or were they working on any of your projects. As well, has there been any movement on the transaction with the sovereign fund. Thank you.

Greg Fewer
So, on Arabtec, no, we have de minimis exposure to Arabtec. They're a contractor on one of our fee based contracts that we manage on behalf of the Government, but economic risk, counterparty risk and those ones reside with the project owner (the Government) that we manage on their behalf.

Your second question, which is on the sovereign fund, so I presume you're talking about the announcement with ADQ. So, that was an MOU we announced in the quarter. We will conclude definitive documents in the fourth quarter, and we will assume management of the existing portfolio of currently under execution projects from the first quarter we expect next year.

Admire Mavolwane
I was asking about the… some of the press reports that came out in July that Mubadala was looking to sell some of their malls and retail assets to Aldar.

Greg Fewer
That sovereign fund, that's a different sovereign fund. So, we don't, as a matter of policy, speculate on rumors and things like that and you're referring to a news report that came out during the summer. I'll repeat the comment I made earlier this morning to some of the media, which was in times of dislocation in markets where you tend to see corporate action and other things, and it's

the strong that not only survive but that thrive in these markets. We truly believe that the asset management platform, in particular, that the team has built up over the years is, in our view, the most efficient platform for property ownership in our region. We carry the highest corporate credit rating in the entire Middle East at BAA1, there is no one higher. There are sovereigns higher, there are banks that are regulated that are higher, there are state-owned enterprises that are higher but no corporates, and we're multi-asset class and at scale, and that's a very unique and valuable and important platform. When dislocation takes place in the real estate business, landlords who need to look around or who are motivated to look around see an efficient actor, and efficient actors in these kinds of markets tend to benefit. We're having the kinds of discussions you would expect efficient actors to have in times of market dislocation, and when there's stuff to update the market on, we will certainly do that, but we're doing exactly what you would expect us to be doing.

Operator

[Operator instructions]

Our next question comes from Steve Bramley-Jackson from HSBC. Please go ahead.

Steve Bramley-Jackson

I just had a question on ADQ, to get a sense as to how rich a vein this is. At the moment, the 30 billion [audio] opportunity that you've bitten off, I don't know, out of an existing 50 billion opportunity. Is it 30 billion out of 30 billion opportunity? Are or is Aldar likely to, I don't know, announce six months or 12 months down the road another significant revenue opportunity from the likes of ADQ. Thank you.

Greg Fewer

I think the 30 billion definitely represents just the initial portfolio of projects. The MOU is contemplating a broad and diverse public/private partnership where Aldar really will be the preferred delivery and development platform for the Government. There definitely will be more that will come from the 30. I think we'll be in a much better position to guide more definitively when the definitive talks and the final perimeter is agreed. But just in relation to the management contracts, I think there's reason to think that there could be a lot more coming from that partnership.

And then more broadly, Steve, I think what you're seeing in that is really a transaction founded in deep trust. The Government sees Aldar, has observed Aldar for a decade-plus, it has curated, it has been a shareholder, it has been a regulator, and in the current embodiment of things, it's a part-owner, but what they like most about us is that we're just good at executing and that's what they need. They're in fiscal stimulus mode, they're in CapEx mode, and they want this stuff delivered quickly and on time and on budget, so it achieves what it's supposed to for them, which is fulfilling welfare and social programs to improve the livelihood of their citizens and that's immeasurably valuable to them. That's what really is happening, and I think the opportunity set that might further emerge from that, is it possible? Yes, absolutely. I think we're really riding a wave of trust within our market right now.

Operator

We have a follow-up question Mohamad Haidar, Arqaam Capital. Please go ahead.

Mohamad Haidar

So, when the CEO said we shouldn't expect surprises in the dividend, does that mean it's going to be flat with last year?

Greg Fewer

I think what he meant was – there shouldn't be surprises, there's not going to be a different slide that we take to the board to recommend the dividend. We take the exact same slide that you all see every day of the week on our website. That same slide will go in. The same thinking, the same mentality will go into that discussion. I think that's what he was referring to. I think it would be a bit premature – I don't want to get our board down a certain path or anything, so I think…we're just very transparent about how we think and the calculus and the philosophies that we take into those dividend recommendation discussions.

Operator

[Operator instructions]

Our next question comes from Harshjit Oza from SHUAA Securities. Please go ahead.

Harshjit Oza

I have two questions. The first question is on the inventory. You have mentioned in your presentation that the development revenue, off-plan sales have been driven by inventory sales and when I'm looking at the balance sheet, the inventory has been flat. So, can you just give some clarity on that?

My second question is, again, on the off-plan sales and the outlook. Given that you have a successful quarter in terms of new sales, and you haven't launched any new projects during this year, would you be looking to launch something this year, by end of this year, or you will continue to sell from the existing projects. Thank you.

Greg Fewer

So, just on the second question, on new project launches, you should definitely expect us to be looking at launching new projects for sure. I think, as a developer, you're always very careful about when you do that, you want to launch a project when you see demand, comfortable supply, and I think off the back of, certainly, this quarter – as I said earlier on the call, we're liking what our investors and our customers are demonstrating to us in terms of their ability and willingness to put money to work, and we also observe that our market hasn't launched any new projects at the same time. The population is going to change a bit, investor sentiment is generally OK, dilapidation rates are still high, and the demographics are still going forwards and, generally, Abu Dhabi is in a constructive supply/demand scenario. So, I think all that is boding very well for looking to launch new projects, so I would not be surprised to see us come to the market to launch, and our goal and certainly the business model is about keeping the revenue backlog, the machine moving forward.

Your first question was about inventory. We did announce a fair bit of inventory sales this quarter, and they're flat year-to-date. But there's two things happening there, so when we finish an unsold unit, it moves from DWIP and goes into inventory, so there's a natural, say, populating element to the inventory account, which comes from finishing the DWIP. DWIP being unsold units at the time under construction.

So, then at the same time, that's building up over the course of the year, we're also selling out of it, which is really what you saw this quarter, and that's why you're seeing a net-net, sort of a flattish kind of number.

Operator

We have a follow-up question from Taher Safieddine from J.P. Morgan. please go ahead.

Taher Safieddine

Just a follow-up. On the recurring portfolio, I'm just looking at the NOI, it has been proven to be resilient and Q4, ideally, is expected to be better than the trend in the nine months, especially within the hospitality. So, my question here is how can we think about NOI within the recurring portfolio, especially on the retail side. This exercise of revision has been ongoing for a while, like-for-like rents are still down significantly and there is some discounts this year, so I just want to get an understanding of how do you look at the NOI into next year on a like-for-like, especially in the retail portfolio.

The second question is just a follow-up from the CEO's statement on Bloomberg this morning talking about logistics as a key segment. This has been coming up quite often over the last couple of quarters. Should we expect something relatively soon? Is this the M&A that you're talking about in terms of growing the recurring portfolio. Is that what we should expect, and if you can give us some color, maybe sale leaseback type of deal that you're looking at when you mention logistics. That would be helpful.

Greg Fewer

So, when we go into the fourth quarter, I think the first like-for-like thing that would come to mind is hospitality, but I think you need to bear in mind that Q1 and Q4 is when every hotelier makes all their money in this region, and so whilst things are improving, we're just not going to have… like F1 is going on in Abu Dhabi, but there's no fans. there's not going to be the capital F1 that we have historically. And the event calendar just won't be comparing to what it has been in the past. So, I wouldn't be guiding or expecting hospitality revenues and profits [inaudible] quarter that you saw in previous fourth quarters, and that's probably going to be your biggest look-forward comparison on a like-for-like basis, which was your question.

In terms of retail, November is a big renewal cycle for us, so a lot of our leases renew in the fourth quarter, and so that renewal time this year is coming at the same time as a lot of the stimulus discussions are ongoing with the tenants, so it's a slightly complicated… a tenant might come and say I want some lower rents, but we're talking about a stimulus short-term measure to help through at the same time, if they're going to sign up to some longer leases with some higher turnover provisions or something else in them. So, there's good commercial discussions ongoing, and I think all that's been [inaudible] a little bit with the positive sentiment that's happening in the retail environment right now. With the Abu Dhabi stores trading right now, there are certain elements of them on par with the way they were pre-COVID. There's still some softness there, but I think reasons to be optimistic.

And then commercial and resi, the occupancies are strong, especially in resi. People were talking, oh my god, there's going to be massive job cuts and expat exoduses and stuff like that. I think net, there have been some people leaving, but I think the quality of our portfolio has just been holding up and people are trading down into our portfolio from other places and we definitely saw kids in schools – a lot of our schools are in that upper/mid, so people trading their kids from schools, like premium schools to upper/mid schools and that's benefited our academies portfolio, which has helped.

I think there's a couple of variables to point to when it comes to fourth quarter NOI. We'll certainly update everyone once we finish with those works. I reiterate it's the same slide you guys look at, are the ones that we sit down with to do our recommendation.

On logistics M&A, yes, I heard Talal mention. I guess all my comments just stand, I really don't have much else to add to that. I think when you own a portfolio the size of ours, you're really smart at the stuff that you manage and you're great at looking at adjudicating M&A within your existing asset perimeter, but then there's assets that you're missing and that you're longing for and certainly logistics is that one. We've talked about that lot. Originating large-scale transactions is just hard to do. It's relatively illiquid market and you've got to be really ready to be bold when senior principals and Government and large trading families or state-owned enterprises, when they're ready to transact, you've got to be there and it doesn't happen once, two, three times a year, it happens once a cycle. We're having those once-in-a-cycle discussions as we're in a period of dislocation right now, so we'll see where they all go.

Operator

We have no further questions. Dear speakers, back to you for the conclusion.

Conclusion

Greg Fewer

Thank you, Maryna, for moderating that and thank you everyone for dialing in and we look forward to speaking to you in our fourth quarter call. Thank you.