Aldar Properties Q1 2024 Financial Results Conference Call

Monday, April 29, 2024

Operator Hello, and welcome to the Aldar Properties Q1 2024 financial results conference call. My name is Drew, and I'll be the operator on today's call. After today's presentation, we will begin the Q&A. To register a question, please press star, followed by one, on your telephone keypad. To withdraw your question, please press star, followed by two. If you have joined us on the web, please use the text Q&A button to type your question. At this time, I would like to turn the conference over to Mr Faisal Falaknaz, Group Chief Financial and Sustainability Officer. Please go ahead, when you're ready.

Faisal Falaknaz As-Salaam-Alaikum. Good afternoon, everybody. Thank you all for joining us on this call to discuss Aldar's financial performance for Q1 2024. We generated strong momentum coming into 2024, and the effective implementation of our strategy for accelerated growth is reflected in the headline numbers for the quarter. Aldar's revenue was up at 83% year-on-year to AED 5.6 billion, while EBITDA increased 90% to AED 1.8 billion over the same period. Net profit increased 88% year-on-year to AED 1.6 billion, in the context of robust macroeconomic fundamentals, and consumer confidence in the UAE. Please note, while the UAE introduced corporate income tax on January 1st, 2024, our overall effective tax rate stood at 4.1% in the first quarter.

This strong performance was driven by growth across our core businesses. Aldar Development recorded significant performance growth, driven by ongoing recognition of its sizeable revenue backlog of AED 38.1 billion. The business is now operating at an elevated run rate, as it effectively develops and delivers against the growing development project pipeline of the last few years. The platform is well positioned for sustainable growth, as we continue to extend our market leadership as the UAE's leading destination builder, diversifying our target customer segments and product offerings, and building further scale in our home market, and internationally, through strategic landbank replenishment.

Aldar Investment has also recorded the strong performance, driven by organic growth, complemented by prior years' acquisitions, which are delivering meaningful returns. The business continues to excel as an active asset manager, and benefit from a high quality asset base with strong positioning in the context of a thriving Abu Dhabi market. We remain focused on key growth drivers of executing against Develop-to-Hold strategy, diversifying and expanding our portfolio through disciplined capital deployment across our target markets, and actioning our asset repositioning and optimisation strategy. Turning to slide four.

Aldar Development recorded a very strong performance during the quarter, with robust sales of AED 6.3 billion in Q1, representing an increase of 39% year-on-year, and a revenue backlog reaching an all-time high of AED 38.1 billion. Revenue more than doubled year-on-year to AED 3.9 billion in Q1, driven by the award of Saadiyat Lagoons and significant progress on Sustainable City. EBITDA was up 113% to AED 1.2 billion, as mentioned earlier, positioning the business at an elevated run rate moving forward. UAE sales were up 46% year-on-year at AED 6.1 billion, driven by ongoing sales at Saadiyat Lagoons, as well as additional sales from our Q4 launches in Dubai, Iraq, and Nobu residences, and lastly, supported by three new launches in Q1. The appeal of the UAE, in particular, Abu Dhabi, as a business and lifestyle destination, is coming through clearly in our sales demographic profile. In the first quarter, overseas and resident expatriate buyers accounted for 75% of total sales as AED 4.6 billion.

Beyond our home market, SODIC contributed AED 32 million in EBITDA, with the business continuing to maintain a strong liquidity position, following healthy demand for recent launches and price appreciation for its developments. SODIC's backlog now stands at AED 3.8 billion, providing good earnings visibility over the next two to three years. With London Square, we have been supporting business ramp up since the acquisition at the end of last year. We are progressing well with integration initiatives to maximise synergies of our enlarged sales platform, and have been focused on building up the land bank for new development launches. Since acquisition, London Square has acquired four land plots and zones one, two, and five. Looking ahead, we plan to accelerate development activity across all our existing markets this year, Abu Dhabi, Dubai, Ras Al Khaimah, Egypt, and the UK, to drive further scale. Turning to Aldar Investment, moving on to slide number five.

The strategy to pursue disciplined expansion and diversification of the platform over the last couple of years has translated into strong revenue and adjusted EBITDA growth of 31% and 29% year-on-year respectively. The trajectory will continue throughout a number of initiatives. Firstly, earlier this year, we announced a AED 5 billion plan to invest and develop-to-hold assets in Abu Dhabi, withstand the commercial, retail, and hospitality segments. Secondly, we announced a AED 1 billion investment to expand our logistics footprint. This includes the acquisition of 7 Central and land plots in Dubai, a recent joint venture with Dubai South to develop grade A logistics facilities, and expansion plans for Abu Dhabi Business Hub.

Thirdly, the AED 1.35 billion investments in our education business will see us complete three greenfield schools within the next two years. Lastly, as a proactive asset manager, we continue to explore avenues to optimise and enhance returns of our assets. To that end, this year, we will also conduct major refurbishment work at Tilal Liwa, Anantara Eastern Mangroves, and Nurai Island, which will ultimately position these hospitality assets to achieve higher future income, in line with our resort destination focus. Moreover, we are exploring further transactions to bolster and diversify our investment properties portfolio in Abu Dhabi. I look forward to making progress on this within this year. On slide six, you will see further detail on each of our segments within Aldar Investments.

The income generating investment properties portfolio continues to perform well, with healthy demand and active leasing strategy, driving high occupancy and rental rates. The commercial portfolio continues to experience strong demand from GREs and international corporates for grade A office space. Adjusted EBITDA increased 49% year-on-year, partly supported by a one-off gain from the strategic disposal of a legacy asset- Motor World. Excluding this one-off gain, the portfolio adjusted EBITDA was up 12%, while the overall investment properties adjusted EBITDA was up 8% year-on-year. Occupancy across the commercial portfolio stands at 93%, with ADGM Towers at 95%.

Al Maryah Tower has been operational since March, and is operating at a 50% occupancy rate, with strong leasing activity expected to raise this to 85% in the near term. In retail, Yas Mall continues to outperform as a premier shopping and entertainment destination in Abu Dhabi, attracting major brands. Occupancy at Yas Mall is now at 94%, with tenant sales up 9% year-on-year in Q1, and footfall, 13% higher. With ongoing redevelopment work at Al Hamra and Al Jimi Malls, we aim to replicate the success, with Al Hamra expected to be fully completed in H2 2024. The hospitality and leisure portfolio experienced a slight decrease in adjusted EBITDA, due to a one-off income recognised the year earlier.

Excluding this, adjusted EBITDA was up 9% year-on-year, with occupancy at 79% during the quarter, and RevPAR up 11%. Aldar Education is also making a meaningful contribution to earnings with adjusted EBITDA up 33% year-on-year. Student enrolments at Aldar owned and operated schools were 27% higher than a year earlier. The growth of the Aldar Estates platform through the last year’s M&A activities has made a strong contribution, with adjusted EBITDA surging 145% year-on-year to AED 71 million in Q1. The integration across the last platform is progressing well, and will lead to increase profitability. Moving to slide seven, you will find our key balance sheet metrics.

Aldar continues to maintain a conservative leverage profile, and benefits from a robust liquidity position, with AED 4 billion in free cash, AED 6 billion in undrawn committed credit facilities, and over AED 7 billion in escrow balances, related to our revenue backlog as at the end of March 24. Looking ahead, we intend to deploy capital further into income generating assets across our core segments, and new growth sectors have focused on maintaining a disciplined approach, to ensure value and full strategic alignment. Turning to sustainability highlights on slide number eight. As you know, Aldar took the strategic decision to commit to achieve net zero by 2050, and we are focused on making steady progress towards this ambition. We believe that the collaboration is critical, and at the recent World Future Energy Summit, Aldar delivered training to suppliers to support them in their decarbonisation transition.

We also announced a partnership with Siemens, to turn Saadiyat Grove into a smart district, promoting sustainable living and operational efficiencies. This partnership will advance energy analytics to reduce emissions. To promote a circular economy, Adlar has entered the partnership with Tadweer, to convert construction waste from landfills to recycling facilities, where they will be transformed into valuable byproducts, and reintroduced into the supply chain. I would like to conclude on slide number nine by providing you with our 2024 guidance, which has been revised, considering the strong start of the year.

For Aldar Group, we have upgraded adjusted EBITDA guidance to a range of AED 6.2 billion to AED 6.5 billion for 2024 from the previous AED 6.0 billion to AED 6.3 billion range. We continue to see positive sentiment in the UAE real estate market, and we are confident in our ability to sustain the current run rate of delivery against the development backlog. Consequently, our guidance for Aldar Development’s full year EBITDA is going to be revised upwards to between AED 4.1 billion to AED 4.3 billion versus the previous AED 3.9 billion to AED 4.1 billion. For Aldar Investment, our guidance remains unchanged at AED 2.3 billion to AED 2.5 billion in adjusted EBITDA for 2024. With that, we would like to conclude the presentation, and open the floor for questions. Thank you very much.

Operator Thank you. We will now start today's Q&A session. To register a question please press star, followed by one, on your telephone keypad. To withdraw your question, please press star, followed by two. If you have joined us on the web, please use the text Q&A button type in your question. Our first question today comes from Nikhil Mishra from Al Ramz. Your line is now open, please proceed. Nikhil, your line is now open.

Nikhil Mishra Hello. Congratulations on a good set of numbers, and thank you for this presentation. So, two questions, if I may. First of all, on the gross margins, they have come down, especially for the international segment. So, I just wanted to see, especially going forward, how do you see the gross margins for the International, for both and London, progressing over the next one or two years? And secondly, on the M&A front, you have already announced a significant investments in the recurring income assets over the next two or three years. So, apart from that, what kind of dry powder do you have to perhaps undertake certain M&A activity, if any opportunities arise? Thank you.

Faisal Falaknaz Thank you. On the margins, I think it's very important to look into the breakdown of the gross margin for the development business. The PDS segment, as we've always guided, should easily maintain that 35% margin going forward, and then the international segment, given the way that accounting works for those businesses, those businesses recognise profits at completion. So, what is happening there is that we will continue investing into those platforms, and eventually, you will start seeing accretion, where the gross margins on those business should be north of 20%. And then the other thing that probably also dilutes the overall development margin is PMS business. So, the PMS business has a fixed margin of around the 5% margin, which is 70% to 80%.

But the one that is diluted to the overall margin is the fixed projects, where the revenue is recorded, given the way those contracts are set up. And typically, the margin on that business is somewhere between 8% to 12%, I would say. So, that's on the margin. If you refer to the investor deck, you will find the breakdown per segment. On acquisitions, we've obviously had a very strong momentum, in terms of deployment over the past two years. If you refer to the back of the deck, you will find the track record of investments we've done since 2022. And most of those have exceeded our expectations, in terms of returns. What we have communicated to the market is we still have AED 45 billion earmarked for ready recurring income assets.

Logistics, I would say, remains a very key priority for us going forward. However, we are looking at all the other asset classes, resi, commercial, retail, and bolt-on transactions, when it comes to our education business. As I've always said on those calls, we are quite disciplined, when we put the capital out. It's taken a bit of time, over the past few quarters, however, we remain very optimistic and very confident that we will be able to deploy significant capital very soon.

Nikhil Mishra Okay, thanks. I have a similar question, if I may. I was looking at your recurring income portfolio, and I just wanted to see it at a higher level. Do you think it would make sense for you, given that now there is corporate tax implemented in UAE, do you think that at any time, it would make sense for you to explore creating REITs? I just wanted to see how you see the pros and cons of creating REITs out of recurring income assets going forward.

Faisal Falaknaz We started on the impact assessment last year, and we have gone into implementation, both from a systems point of view and from a structuring point of view, from a commercial point of view, in terms of setting up the business, different tax groups. You see the benefit of that and the numbers today, so our effective tax rate is just over 4%. We have the benefits of the transitional tax rules, when it comes to the development business, and fair valuing the land, when it goes into the COGS, rather than taking it at book value. There are certain deductions that we also get benefit from across the business. When it comes to REITs, yes, we are exploring. However, the legislation is still not entirely clear, in terms of whether that can benefit us or not. However, if it does, then that is absolutely on the table.

Nikhil Mishra Thank you. Very clear. Thank you very much.

Operator Our next question today comes from Mohamad Haidar from Arqaam Capital. Your line is now open, please go ahead.

Mohamad Haidar Hi, Faisal, and congratulations. The first question is on development recognition. Given the solid backlog of 32 billion, specifically in the UAE, would you have the capacity to phase out the recognitions equally over the next ten quarters? Or should we expect the cyclical recognitions, like ups and downs? And where would you see Q1 revenues when it comes to development? Is it skewed towards the higher end of that range? And my second question, I've seen two billion extra debt raised at Aldar Development. Where exactly did you deploy these proceeds? Thank you.

Faisal Falaknaz Let's start with the recognition. The reason for the big jump was attributed to two very big projects. The first is Lagoons, which is a project where we sold probably north of AED 11 billion, AED 12 billion to date. The award of the contract happened during the quarter, however, what was happening is that over the past year, we've made significant progress, when it comes to enablement works. So, there was a big recognition that came into Q1 due to that. The second thing was also the progress that was recognised on Sustainable City, where we have also made significant progress over the past year. That project is north of AED 3.5 billion of sales. And it's part of a JV agreement with Diamond Developers, and we've recently concluded on the shareholders' agreement, pending a few CPs.

Now, I think this is a very pivotal moment for Aldar Development. This is the first time that this business exceeds AED 1 billion, in terms of EBITDA, so we closed at AED 1.2 billion. And in terms of the phasing, we are very confident that we will be able to maintain AED 1 billion going forward. Now, Dubai, for example, is not in those numbers, because we have not awarded Dubai yet. Ras Al Khaimah is not in those numbers, because we haven't awarded those projects yet. A large number of projects across Saadiyat and Yas are not in those numbers, because we haven't awarded those projects yet. So, we recognise, as we award, so you will not see that significant choppiness in the earnings. It will start normalising at some point.

Other than those two big projects, obviously, Q1 last year was just as the business was starting to ramp up, in terms of the development business. So, you also had lower baseline at the time. Moving on to the debt. Aldar Development's debt was going up, as we've been funding a number of equity requirements on the projects that we have. However, we have very good news, where Abu Dhabi today has followed very similar rules to Dubai, when it comes to escrow releases. So, a lot of those commitments were done before the legislation came out for us to be able to release funds prior to hitting the 20% construction milestones on projects. So, we will be going forward, taking advantage of that, which will significantly reduce our capital requirements on our elevated backlog.

And then the last point I'd like to make is that our debt remains significantly below our guardrail level. You see the LCDs per segment, and our gross debt to EBITDA remains to be below two times, whereas companies, such as ourselves, probably trade at three and a half and higher. So, we have ample room for additional debt capacity.

Mohamad Haidar Thank you, Faisal, very clear. And my final question, you mentioned that AED 4 billion to AED 5 billion and more capital, are to be deployed, when opportunities arise. Is this on top of the AED 5 billion developed to hold assets that Aldar committed to?

Faisal Falaknaz By the way, I need to stop saying 4 to 5, because apparently, everybody quotes me for AED 45 billion of capital deployment. So, the AED 4.5 billion is purely allocated to recurring income assets. The AED 5 billion that you quoted, in terms of D hold is a separate capital commitment. The way we do capital allocation is probably split into three buckets. One is develop-to-hold, which takes three to four years to develop, and has a higher IRR. However, the con is that it takes time until those assets are income producing. The second one, which we use to complement that, is immediately income generating real estate and operating assets. And this is what the AED 4.5 billion refers to. And then the third bucket is strategic land replenishment, which is something we've been doing both in Abu Dhabi, Dubai, and in Ras Al Khaimah over the past three years.

Mohamad Haidar Very clear. Thank you very much.

Operator Our next question comes from Taher Safieddine from JP Morgan. Your line is now open, please go ahead.

Taher Safieddine Hi, Faisal. Again, congrats on a solid set of numbers. Maybe just two major questions from my side. The first one is on the development. I see, on the balance sheet, these blocks are held for resale of around AED 7 billion. Is this outside the current backlog that we're talking about? I mean, is this a more opportunistic type of land that you can actually sell and generate income on? So, that's my first part of the question on development. And the second part, should we see more launches in Dubai over the course of the year, after a successful launch, in terms of Haven? Maybe if you can provide some clarity there, please. Then I'll follow up with my second question on the recurring portfolio.

Faisal Falaknaz The AED 7 billion, Taher, is the book value of our land bank. That is at least twice what it is worth on the books. If you refer to our EPRA reporting, you can probably get a sneak peek of what the fair value of that land is, which we also think is worth significantly more. So, yes, to answer your question, that is all additional land for monetisation going forward. Dubai, I don't know if you've seen, we have the Aldar Experts event happening on 1st May, which is a big, big event to bring all our broker networks together. And then a week or two following that, we will be launching our second master plan in Dubai, which is larger than the Haven master plan. I think it's around 1,400 villas, whereas the Haven has 1,200 villas. And then probably, a similar number of apartments, as well.

The other exciting development we are looking forward to is Al Fahid. So, Al Fahid is going to be Abu Dhabi's most exclusive beachfront destination. We're gearing up for a launch in the second half. It is going to have more than AED 25 billion worth of sales potential over the next few years. More than 5 km of beachfront real estate, and shy of 7,000 units, 1,500 hotel keys. So, again, we have a number of very exciting launches coming up. The last thing I'd like to say is while our sales this quarter were up 40%, we didn't have major launches. We only had three launches, which were Manarat, Nouran, Sama Yas. And so, we are very confident with the busy calendar of launches that are going to be happening over the next few quarters. We will be delivering on our sales guidance of north of AED 29 billion for 2024.

Taher Safieddine Okay, very clear. And the second question is really on Aldar Investment. Just looking at the guidance, do you feel that your full year guidance, in terms of EBITDA, is a bit on the conservative side? Given there is like-for-like growth, as you've mentioned before, in terms of the underlying portfolio, and also, the acquisitions that you've done, which are contributing more and more. So, maybe just your thoughts there. How should we think about this EBITDA guidance, in terms of maybe breakup? Because I do see that there is a lot of growth in education. Aldar is safe, logistics is growing, commercial is also growing at a very nice rate. So, how can you comment on the recurring EBITDA for the full year, in terms of maybe like-for-like vs acquisitions, if you can, please?

Faisal Falaknaz So, I say we've maintained the guidance on the current portfolio. However, if we deploy, then all that deployment is upside to that guidance. And the reason we haven't included it in the guidance is obviously, timing those acquisitions is not very easy. The portfolio, also, is undergoing a number of transformations, which is affecting the growth. Our hospitality business has been undergoing a number of room renovations. The market is very conducive today to make those types of Capex investments. So, despite the renovations happening, and if you adjust for the one-offs, which we mentioned in the deck, last year, we had a one-off from some insurance proceeds, due to COVID, the portfolio was still up 89%. ADRs were up, occupancies were up.

But with the transformations happening over the next year or so, there will be some disruption to that portfolio. However, long term, we see this portfolio doing significantly better, especially with how the hospitality market is doing in Abu Dhabi. And then we have our usual retail repositioning that's been happening. As soon as Al Jimi comes online, and Al Hamra comes online by the second half, we expect the retail portfolio to also significantly pick up. And I agree with you, education is also on a very strong growth trajectory, especially with the number of schools, Brook and Noya opening up in the next academic year, we should see that business continue to reach new levels.

Taher Safieddine Just a final follow-up on this point. Do you see a risk? You have done a lot of acquisitions. There are a lot of moving parts within Aldar Investments, like different segments, commercial, residential, retail, logistics, hospitality. So, I just want to understand, do you see a risk that maybe the market is not properly valuing this business? And again, along this point, you mentioned value extraction in your presentation. Does this mean, you're open to certain value unlocking events, in terms of sale, IPO, getting new partners, like Apollo? Maybe your thoughts on that. Because the portfolio is growing to a considerable size, and I think some feedback we've heard from investors is, could Aldar be risking having a bigger holding discount within the Group, because of the different moving parts across the portfolio? Is that fair, or do you think this is too harsh?

Faisal Falaknaz I don't think there's a risk of the market mispricing us. I think the market is significantly mispricing us, and I've been saying that for the past year, since I took over this role. And I keep telling you guys that the backlog will come, growth will come, we are our growing recurring income segments. Yet, for some reason, the analyst community keeps asking me to revise guidance, yet if you look at the analyst reports, they don't even reflect our guidance, even though we're sticking our necks out, as the only company, probably, in the UAE that gives the detailed guidance. In terms of unlocking value, I don't think, as Aldar, we will go and IPO a business just to unlock the sum of the parts. The only reason we will do anything, is if it creates value to our investors, in terms of taking money, for example, off the table.

So, from a cost of capital perspective, if I don't need money, and I'm not getting the right value for a certain business, then I will not IPO that business, just to unlock businesses at the top. I would IPO that business, if I'm getting absolutely smack on the right value for my investors. I think that should be the premise at the start, and then the unlocking value of the sum of the parts should be the second thing. We will continue delivering. We've been delivering on our promises for the past three years. We remain very confident, very optimistic, and the market will have to follow eventually.

Taher Safieddine Okay, thank you. Maybe I'll come back in the future. Thank you very much very clear.

Operator Our next question comes from Nida Iqbal from Morgan Stanley. Your line is now open, please proceed.

Nida Iqbal Hi. Thank you for the presentation, and congratulations on the great set of results. I have a few questions. So, firstly, on your net cash from operating activities, it feels a bit low this quarter, due to movements in the working capital. I just wanted to check, is this a timing issue, or just volatility, in terms of cash inflows and outflows? So, that's the first question. The second question is around new sales in the UAE, which of course, remain very resilient. Can you just shed some light on the spread of nationalities that's driving the first quarter sales, and if there's any change versus last year? And on that topic, do you see any risk of any speculative activity in the UAE property market? And if not, what do you think are the mitigating factors that are limiting this? Thank you.

Faisal Falaknaz So, you're right on the cash flow, it’s the timing issue. We remain extremely cashflow positive, in terms of operations, both on the recurring income business. And on the development business, this quarter, we collected AED 2 billion, and we expect to maintain a very similar momentum going forward. Last year, we reported a cash flow of AED 3.5 billion, I believe, and we expect to hopefully exceed that for this year. So, that on the cash flow, again, it's a timing issue. On the sales demographics, 75% of our sales this quarter came from overseas investors, and resident experts have been highlighting this point every quarter that this trend is a trend that we expect to continue going forward. On the resident expert side, people are becoming first homebuyers.

We are providing the best quality real estate in the market. The population is growing, the demand is real. We see it all across the business, whether it is in our education business, where enrolments are up, whether it’s in our commercial office portfolio, where we see significant demand, not only from GREs, but international tenants. Al Maryah Tower, as I mentioned, we have just opened, more than 50% occupied with preleasing, which is going to take it up to more than 85% occupancy. So, the demand is absolutely real. And the demand from overseas investors, as

Abu Dhabi, or the other Emirates for a destination for their capital, is something we see continuing going forward. The UAE has proven to be a safe haven, despite all the challenges that happened regionally.

The ruler of Dubai, yesterday, mentioned Dubai's plans to obviously make a Al Maktoum Airport one of the largest airports globally. And the UAE will continue to surprise everybody, in terms of its ambitions. We are capitalising on that ambition, and we are the strategic partner of the government of Abu Dhabi here, who is also very committed to investing into infrastructure. And we are the builders of that infrastructure, part of it. We have the AED 80 billion backlog that we Aldar Projects, so again, we remain very optimistic. And as a developer, and a real estate player that has a very prudent debt policy, and as a developer, who has been pushing, in terms of payment plans, I go back to your points about speculative activity.

The way this is minimised, you will always have speculators in such a market, and yes, there are speculators in the market, but we've been pushing out payment plans, which means we get more equity upfront, which means if something goes wrong, then the buyers are more invested into those properties. We add mechanisms that minimise speculative activity, where if somebody wants to sell in the secondary market, they have to pay 30%, 40% of the property, before they can do that. And then lastly, obviously, we are sitting on an ample cash position. We have ample committed untapped liquidity. AED 6 billion today. The banks are knocking our doors to give us more credit lines, because we are the credit that is demanded by those banks. And so, again, we remain very optimistic.

Nida Iqbal Thank you very much, very clear. I have a follow-up question. We've also heard the UAE announce a large investment into Egypt, including the development of the north coast. Do you see Aldar participating in it directly or to SODIC? Any thoughts there would be much appreciated.

Faisal Falaknaz So, that was led by ADQ, which is our partner in SODIC. So, officially today, no, we are not part of it. I think it's a very positive sign for the market overall. And if there is an opportunity for us to collaborate on it, then we would absolutely look into it.

Nida Iqbal Thank you very much.

Operator As a reminder, if you would like to ask a question on today's call, please press star, followed by one, on your telephone keypad. To withdraw your question, please press star, followed by two. We now have a follow up from Mohamad Haidar from Arqaam Capital. Your line is now open, please go ahead.

Mohamad Haidar Thank you. Faisal, looking at the residential rentals, specifically on NOI, it's a bit down compared to last year. What's your view on that one, given that occupancy is still more or less steady. Are we seeing lower rentals across the board?

Faisal Falaknaz Mohamad, if you refer to the notes, two things. We've been selling strata units, that's probably the second most impactful thing to the numbers, strategically selling those strata units, and hopefully, recycling them into what we deem to be more aligned assets with our strategy. The second thing is, if you remember last year, we had a termination fee that hit the P&L from a bulk lease that was terminated. And so, we are now ramping up the occupancy of that bulk lease, and therefore, Q1, compared to Q1 last year, would have the impact of that bulk lease termination. But that should stabilise very soon. We have not seen a drop, in terms of rents.

Mohamad Haidar Understood. Thank you.

Operator Our next question is from Basma AlGhonaim Hassana Investment Company, asking, can you give a breakdown of the AED 5 billion built to hold investment? Which asset is the biggest investment? And what are your expectations on return and EBITDA contribution? And is the AED 5 billion the final part of the capital deployment, other than the AED 2.3 billion earmarked for logistics and EDU? What drove the revision and EBITDA guidance for development? Do you believe that revision is still conservative, given the strong pricing environment, especially the shift into higher value luxury brackets.

Faisal Falaknaz Guidance and the AED 5 billion. So, if we refer to slide number five, I'd say the two biggest ones are the grade A towers that we have with Mubadala and Al Maryah. Square metre wise, 3,000 square metres, so that's a big… And then you have Saadiyat Grove Retail, which is also going to be a major luxury destination for that district, it's going to be the first retail asset, which is going to have north of 60,000, 70,000 square metres of leasable area, then followed by the rest. In terms of guidance, I think the question was whether we think we're still conservative. I'd say there is a number of things that need to happen for us to meet that guidance, which is awarding on time, and progressing on time.

So, I wouldn't say we're being conservative, but we're being cautious, in terms of just not overestimating what we can deliver. And the reason we updated the guidance in this quarter is obviously, we've had a lot more clarity now, in terms of how that award and progress timeline looks going forward for the rest of the year. And so, as that clarity becomes better, if we need to revise the guidance again, then we're more than happy to do so.

Operator Our next question is, is the UAE development revenue rate in 1Q 24 a sustainable figure for the rest of 2024? Two, what was the driver behind the decline in UAE development gross margin to 35% in 1Q 24 versus 37.6% in full year 23? Is this sustainable gross margin moving forward? And three, is the effective tax rate of 4% seen in 1Q 24 sustainable moving forward? How is it that this tax rate is below UAE's 9% CIT rate?

Faisal Falaknaz I assume the revenue number is on the development business. So, let's focus on the EBITDA. Again, the development reported a 1.2 billion EBITDA. We are very confident that going forward, the development segment will report a billion plus going forward, or around that, which puts us almost in line with the guidance that we have provided. On the margins, I always tell the analyst community, don't look at one quarter, look at the full year. It depends on a quarter by quarter basis, whether you have land sales, recognitions on certain developments that have almost no land costs, versus developments that have land costs, so it all averages out. But again, the guidance we generally give is we expect this margin to be somewhere between 30% to 35% going forward.

The reason for that is, obviously, we've started paying for land. We've seen some cost inflation, however, it's been offset by price escalation. Now, we don't expect price escalations to be as deep as they were over the past few years. We expect a much steadier state growth, which is again, why we maintain that margin guidance. On the tax point, I think I have answered that question already. We're benefiting from a number of tax transition rules from the government, both on the development side and the investment side, that gives you that effective tax rate. It's a very typical thing to have across markets, where your financial statement is different to your tax statement. So, your tax statement is not reflective of your IFRS P&L statement.

Operator Our next question comes from Steve Bramley from HSBC. Development activity levels in Ras Al Khaimah are picking up considerably. Is Algar looking to put more investment into strategic land holdings in the Emirates?

Faisal Falaknaz We're always opportunistic, Steve, whether it is Ras Al Khaimah, or elsewhere, Dubai and Abu Dhabi. I think that's something that stands anywhere we operate. Ras Al Khaimah, in terms of sales, is going to play a bigger role than it did last year, given we launched that development in Q4, and it's selling quite well so far, at very good pricing. But we will keep our eyes open, and if it makes sense, at the right point, to strategically replenish land there, then we would consider it.

Operator As a reminder, if you would like to ask a question today, please press star, followed by one, on your telephone keypad. To withdraw your question, please press star, followed by two. And if you have joined us on the web, please use the text Q&A button to type in your question. Our next question comes from Indar Preet Singh from CICO. Could you please share investment made towards the towards the four land parts in in London Square? Also, do you foresee additional land acquisition requirements in the UAE in the near term?

Faisal Falaknaz We thought we would tease you this quarter a little bit, in terms of the strategy that we've been implementing with London Square. It's been just over four or five months. To date, the integration plan is going extremely well. We are integrating that business and management team into the ecosystem and DNA of Aldar. And through that, we hope to realise a lot of revenue synergies and cost synergies. Revenue synergies, in terms of cross selling together. And a major pillar of the London Square acquisition was that would be the platform that we would have to grow our presence in the London market. It's been a very positive response to Aldar, coming into that from a number of fronts. We’ve taken advantage of land opportunities, where we have a competitive advantage, in terms of our cost of capital.

We are very close to refinancing the debt facilities at London Square, where we are achieving a very cost competitive rate on the back of the credit profile of Aldar. Those land acquisitions are going to fuel the growth for London Square going forward, and we will continue exploring more opportunities there. However, again, I would like to emphasise that the UAE will continue making 90% of our business going forward, both from a profitability point of view, and probably, from a capital allocation point of view. But that business, surely, has significant potential going forward, and at the right time, hopefully, by the next quarter, we will give you more details into those land acquisitions, when we are ready.

Operator As a final reminder, if you would like to ask a question, please press star, followed by one, on your telephone keypad. If you have joined in the web, please use the text Q&A button to type in your question. We now have a further follow-up question from Taher Safieddine from JP Morgan. Your line is now open, please proceed.

Taher Safieddine Hi, Faisal, Taher again. Maybe a follow-up question on education and estates. These two businesses seem to be maybe overlooked by many people, but the growth momentum has been very strong. I am just looking at education peers in the region, and Saudi, or even the UAE, these tend to trade at punchy multiples. So, maybe hearing your thoughts on given the critical size of the portfolio and the growth momentum. How should we look at it, in terms of maybe valuation, or potential run rate of EBITDA? And the other one is Aldar Estates. You don’t have many direct peers listed, but how should we look at Aldar Estates? What kinds of multiples or maybe valuations do you see in the market for similar businesses? And also, what would be a normalised run rate, when it comes to EBITDA for this business, which has been growing at almost 100% plus rate in the last couple of quarters, if I'm not mistaken?

Faisal Falaknaz So, let's start with the education. In my view, steady state education probably should be somewhere around 13 times. That’s steady state. But this is not steady state, so therefore, in my view, is deserves a higher multiple, if you're taking the current EBITDA. The benefit we have, versus the other players, whether the one that is almost the same size, or the one that is much bigger than us, is we have significant land bank, where, as we activate our masterplans, we automatically have those greenfield opportunities as a first right of choice. And that's, again, what's been driving a lot of that growth. Steady state, it's very difficult to say, because that business continues to grow. However, I will say that this business should continue growing at very high double digit growth going forward. Aldar Estates, if you look at slide number six, splits between excluding acquisitions and acquisitions.

So, part of that growth, obviously, is due to the merger with an Eltizam, so there's a consolidation impact, given that in Q1, that merger was not there. But the business is growing organically, and the nice thing about that business is as Aldar grows, that business will continue to grow, whether on the property management side, whether on the facility management side, whether on the owner association side, whether on the district management side, whether on the gardening side, whether on the security side, that business has a lot of captive business that will help it grow significantly. At the same time, that scale is allowing it to compete, when it comes to third party clients, especially with our relationships. There's a lot of business that comes into our sight, especially with the shareholders that we have as part of that JV, we're also getting a lot of business there. In terms of, again, steady state numbers, very difficult to give, but that business, we expect, will continue to grow at double digits.

Taher Safieddine Thank you.

Operator That concludes the Q&A portion of today's call. I'll now hand back over to Mr Faisal Falaknaz for any closing remarks today. Thank you.

Faisal Falaknaz Thank you, everybody. Again, very exciting times to come. We look forward. There is a lot on our plate, and we have a very strong management team and a very strong culture, with very talented people that we're very confident will be able to deliver. There's a number of priorities we're looking at across the Group. Digital is something that I want to focus on. We want to be become the first digital company, when it comes to our back end systems, to help us scale up. And when it comes to our front end system, dealing with our customers across all facets, we've been investing heavily on that front. And again, like I said, we believe that this quarterly release is a rerating moment for us, a message that we've been constantly iterating that we will start recognising significant revenue and profits from the backlog that we have.

And that backlog is expected to grow even further with the sales that we plan to deliver this year. And on the recurring income side, we have one of the most diversified and defensive portfolios out in the market. And with that, I thank you all for your support and for being on the call. Thank you very much.

Operator That concludes today's call. Thank you for your participation. You may now disconnect your line.