

4Q18 results review

Real Estate | UAE | 17 February 2019

Aldar Properties reported 4Q18 net profit at AED319mn, 27% below our estimate. Earnings missed our estimates despite better than expected operating performance. Miss was largely driven by fair value (FV) loss on investment property in declining rent environment. Higher government grant income (coming to an end of recognition cycle) to some extent offset the FV losses. Total recurring net operating income (NOI) remained flat as hotels witnessed strong growth (19% y-o-y). Development property business maintained strong performance on both revenues as well as pre-sales fronts. 4Q18 pre-sales rebounded strongly led by bulk bookings on pre-launch phase of recent project 'Al Reeman'. The key highlight of the results was proposal to increase dividend to AED0.14/share (vs. AED0.12/share in 2017), implying dividend yield of 8.5%. Our discussion with the management revealed that bulk of this dividend (~AED0.11/share) is backed by recurring income, which is expected to grow 6% in 2019E. Rest of the dividend is supported by release of cash profits from completion of development projects and thus should be sustainable on the back of expected completions this year. The stock is trading at attractive valuation (2019E P/BV of 0.5x), simultaneously offering high dividend yield. Maintain Buy.

► **Pre-sales rebounded; management expects sustained momentum**

Development property business revenues at AED715mn were maintained at high levels (27% above expectations), supported by recognition of revenues from new projects. Development property margin was down y-o-y (GPM: 39%), but it was expected as base was unfavorable (higher plot recognition). Pre-sales at AED1.1bn rebounded strongly (87% y-o-y, 5.3x q-o-q). Al Reeman project saw pre-bookings of AED795mn driving up pre-sales. Management expects to launch two similar developments (plot sales) in 1H19 and also expect to see positive impact of government's stimulus program on pre-sales.

► **Recurring income stable against our expectations of modest growth**

Recurring NOI (excl. Hotels) at AED365mn remained broadly stable (-2% y-o-y). However, post contribution of new assets, we expected it to grow by 6%, especially after 7% growth in 3Q18. While recurring income revenues were up 8% y-o-y, but GPM came lower (55% versus 58%e). Hotels business performance was surprisingly positive with gross profit growing 19% y-o-y.

► **More sustainable dividend outlook, offering above 8% yield**

Recurring income is expected to grow in mid-single digit as full impact of acquisitions kicks in and as expansion assets are completed. This should provide more sustainable dividends (~80% secured by recurring income cash flows), unlike downside risks posed by peers (Damac/Emaar). Aldar's current share price implies cap rate of 11% on 2019E recurring EBITDA with no value ascribed to development property business. This discount appears harsh to us.

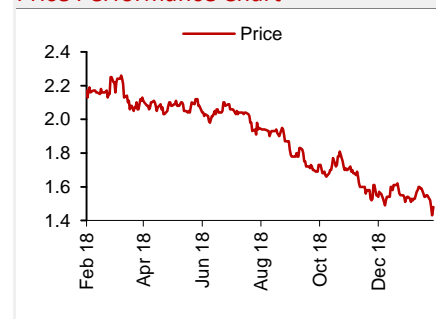
Key Financials	2017	2018	2019E	2020E	2021E
Revenue (AEDm)	6,181	6,287	6,337	6,346	6,190
EBITDA (AEDm)	2,712	2,782	2,354	2,462	2,424
Net profit (AEDm)	1,996	1,856	1,995	2,087	2,070
EPS (AED)	0.3	0.2	0.3	0.3	0.3
EPS (% Change)	(26.6)	(7.0)	7.5	4.6	(0.8)
P/E (x)	5.8	6.3	5.8	5.6	5.6
Dividend Yield (%)	8.1	8.5	8.5	9.1	9.7
Total net debt (AEDm)	(929)	2,041	2,269	2,552	1,402
RoAE (%)	11.6	10.3	8.1	8.2	7.8

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 2.5
Price	AED 1.65
Price 12m High/Low	AED 2.26/1.43
Market Cap.	AED11,636mn
Bloomberg/Reuters	ALDAR.UH / ALDR.AD

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement (AEDmn)	2018	2019E	2020E	2021E
Revenue	6,287	6,337	6,346	6,190
EBITDA	2,782	2,354	2,462	2,424
Depreciation and amortisation	230	234	239	251
EBIT	2,552	2,120	2,222	2,173
Other income	(467)	110	110	110
Net Finance Cost	230	236	247	214
Profit before tax	1,855	1,994	2,086	2,069
Taxes	0	0	0	0
Minority interest	(1)	(1)	(1)	(1)
Net profit	1,856	1,995	2,087	2,070

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Cash and cash equivalents	5,015	4,510	4,227	3,730
Other current assets	11,819	11,379	11,416	11,373
Total non-current asset	5,302	5,302	5,531	5,280
Total assets	38,544	38,076	38,615	37,824
Total current liabilities	6,365	5,282	4,836	4,803
Borrowings	7,056	6,779	6,779	5,132
Other non-current liabilities	887	887	887	887
Total liabilities	14,308	12,947	12,501	10,821
Minority interest	173	172	171	170
Shareholders' equity	24,063	24,957	25,943	26,833
Total net debt	2,041	2,269	2,552	1,402

Source: ADCB Securities Equity Research

Cash flow statement (AEDmn)	2018	2019E	2020E	2021E
Cash flow from operations	(182)	1,760	2,029	2,483
Net capex	1,730	651	965	(60)
Free cash flow	(1,912)	1,109	1,064	2,543
Net financing	812	(594)	(321)	(1,929)
Change in cash	(1,871)	(504)	(283)	(497)

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	6.3	5.8	5.6	5.6
P/BV (x)	0.5	0.5	0.4	0.4
P/FFO (x)	4.5	5.2	5.0	5.0
FCF yield (%)	(16.4)	9.5	9.1	21.9
Dividend Yield (%)	8.5	8.5	9.1	9.7
EV/EBITDA (x)	4.9	5.9	5.8	5.4
Interest coverage (x)	8.2	6.7	6.9	7.7
Net debt/equity (x)	0.08	0.09	0.10	0.05
Net debt/EBITDA (x)	0.7	1.0	1.0	0.6

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAIC	9.0	7.3	7.4	7.2
RoAE	10.3	8.1	8.2	7.8
Revenue growth	1.7	0.8	0.2	0.0
EBITDA growth	2.6	(15.4)	4.6	(1.5)
EPS growth	(7.0)	7.5	4.6	(0.8)
EBITDA margin	44.3	37.1	38.8	39.2

Source: ADCB Securities Equity Research

Per-share data (AED)	2018	2019E	2020E	2021E
EPS	0.24	0.25	0.27	0.26
DPS	0.14	0.14	0.15	0.16
BVPS	3.06	3.17	3.30	3.41
Total no. of outstanding shares (mn)	7,863	7,863	7,863	7,863

Source: ADCB Securities Equity Research

Investment case

Aldar Properties is the largest developer in Abu Dhabi with significant land bank. Its recurring income assets (~65% of gross profit) offer stability in income and consistent cash flows. After being stable in 2018, we expect its recurring income to return to growth in 2019E, helped by contribution of expansion assets. Meanwhile, its development property business could see boost in pre-sales starting 2019E owing to successful launch of new projects and addition of prime land bank in Abu Dhabi and Dubai (in JV with Emaar Properties)

Upside case AED2.8

Earlier than expected property market recovery would lift Aldar's recurring income growth prospects and presales outlook. In such a scenario, organic rental CAGR over 2018-22E could increase to 5% vs. 2% estimated by us. Aldar would trade at 2019E P/BV of 0.9 in this case

Downside case AED1.4

Decline in oil prices could prolong downward trend in property market. In such a scenario, Aldar's rental decline could continue at 2% p.a. and market implied EBITDA yield for recurring income assets and higher discount for development property business are likely to sustain at current levels. Aldar would trade at 2019E P/BV of 0.4x in this case.

Results summary – 4Q2018

Fig. 1. 4Q18 results review

AEDmn	4Q18	4Q17	y-o-y	3Q18	q-o-q	4Q18E	Variance
Revenues	1,808	1,869	-3%	1,497	21%	1,613	12%
Gross Profit	687	773	-11%	581	18%	659	4%
Margin	38%	41%		39%		41%	
Net Profit	319	141	125%	421	-24%	434	-27%
Margin	18%	8%		28%		27%	
Exceptional items	(451)	(533)		(40)		(40)	
Adjusted net profit	770	675	14%	461	67%	474	63%

Source: Company, ADCB Securities Equity Research

Fig. 2. Segmental performance

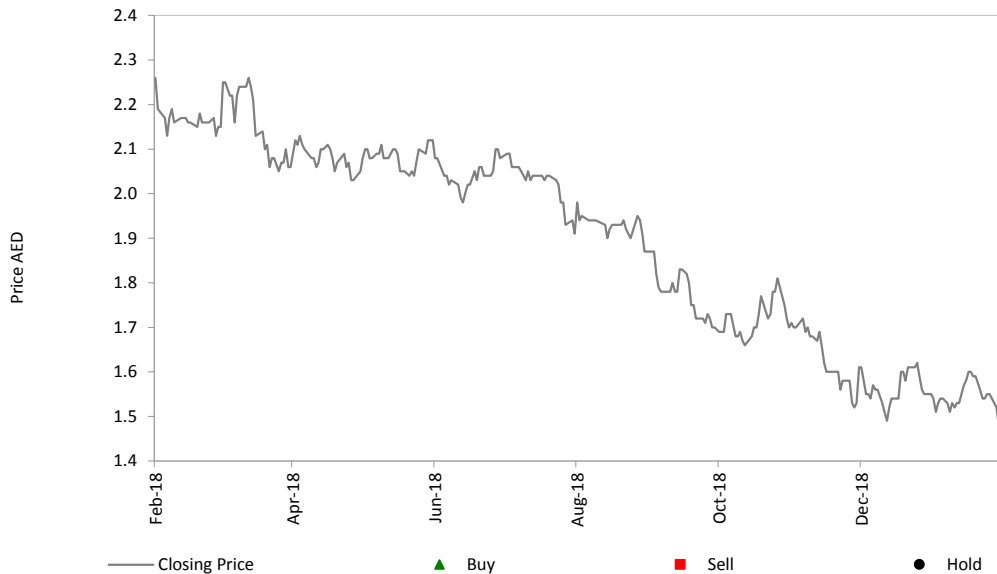
AEDmn	4Q18	4Q17	y-o-y	3Q18	q-o-q	4Q18E	Variance
Revenues							
Development properties	715	698	2%	535	34%	562	27%
Recurring assets (Res., Retail, Office, Others)	666	614	8%	652	2%	681	-2%
Hospitality	239	183	31%	129	86%	180	33%
Construction (Pivot)	189	374	-50%	181	4%	190	-1%
Gross Profit							
Development properties	281	336	-16%	217	29%	210	34%
Recurring assets (Res., Retail, Office, Others)	365	373	-2%	381	-4%	394	-8%
Hospitality	77	65	19%	0	NM	58	32%
Construction (Pivot)	(36)	(0)	NM	(17)	NM	(4)	NM
Gross Profit Margin							
Development properties	39%	48%		41%		37%	
Recurring assets (Res., Retail, Office, Others)	55%	61%		58%		58%	
Hospitality	32%	35%		0%		32%	
Construction (Pivot)	-19%	0%		-10%		-2%	

* Others include Schools, Operating Villages, Facilities management (Khidmah)

Source: Company, ADCB Securities Equity Research

Recommendation history

ALDAR PROPERTIES (ALDAR UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
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Rating Distribution

Rating	Coverage Universe %
Buy	75%
Hold	25%
Sell	0%

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