

Aldar Properties

HOLD / EqualWeight

Company Update

CMP: AED1.67

Target Price: AED2.27

Upside: 35.9%

MCap: AED13.1bn

Free Float: 62.7%

Bloomberg: ALDAR UH

19-May-2019

Aldar: Earnings down YoY on margin compression and lower other income. We maintain Hold/ Equalweight on Aldar on absence of any near term catalyst.

- IQ19 earnings of AED493m, down 26.3% YoY and up 53.4% QoQ. NOI at AED431m, on track to reach AED1.7bn guidance for full 2019
- Off-plan sales posted second consecutive robust quarter primarily due to Alreeman launch. AED1.0bn in IQ19 (4Q18 AED1.3bn, IQ18 AED0.7bn).
- Aldar's management is citing the new 'freehold law' as a game changer, we are yet to see any +ve impact on Aldar's off-plan sales (Sales on Areeman and LEA mainly driven by UAE nationals)
- With respect to the new launched projects, there is no clarity on the rebates on infra spend (to be received from the government). This could have an impact on Aldar's profitability/ net margins
- Expected benefits of Emaar JV, consolidation of TDIC assets and a potential divestment of recurring business could be some of the catalysts which are yet to be priced in
- We remain cautious as the price/ rents/ yield continues to remain under pressure in Abu Dhabi. We maintain Hold/ Equalweight on Aldar on absence of any near term catalyst.

Aldar Properties IQ19 review: Aldar reported IQ19 earnings of AED493m, down 26.3% YoY and up 53.4% QoQ. The YoY decline in earnings, despite 20.0% YoY increase in revenue to AED1,765mn is due to sustained pressure on gross margins (down 7.7% YoY), higher G&A expenses (up 25.1% YoY) and decline in other income (71.8% YoY) in the absence of Government grants. YoY revenue growth was supported by increase across all segments (property development 20.6%, development management 13.0%, hospitality 61.5%, and adjacencies 35.5%) apart from Investment properties segment (down 3.4%).

YoY margins contraction continues: The real estate market remains soft with lower rents and higher cost, resulting in further contraction in Aldar's gross margins (down 7.7% YoY). During IQ19, RE development margins declined by 14.3% YoY, while Investment Management margins declined by 3.4% YoY.

Off-plan sales dominated by UAE nationals: Off-plan sales for IQ19 clocked in at AED1.0bn (AED1.3bn in 4Q18 & AED0.7bn in IQ18). The recent launches of Alreeman (Alshamkha Area) has given significant support to the off-plan sales during the quarter. We note that most of the Alreeman was purchased by UAE nationals. While the management is citing the new 'freehold law' as a game changer, we are yet to see the impact on Aldar's off-plan sales (Sales on Areeman and LEA mainly driven by locals)

Hospitality performance improved driven by Special Olympics and IDEX event. Hospitality segment revenues increased 61.5% YoY, while its GP doubled to AED56m. Occupancy improved 2% YoY while ADR increased 19% YoY. However, the performance remained lower on QoQ basis.

Asset management NOI in-line, performance to remain stable: NOI at AED431m, on track to reach AED1.7bn guidance for full 2019. Given the concurrent pressure on rents and yield, we believe the asset management performance likely to remain stable in the near term.

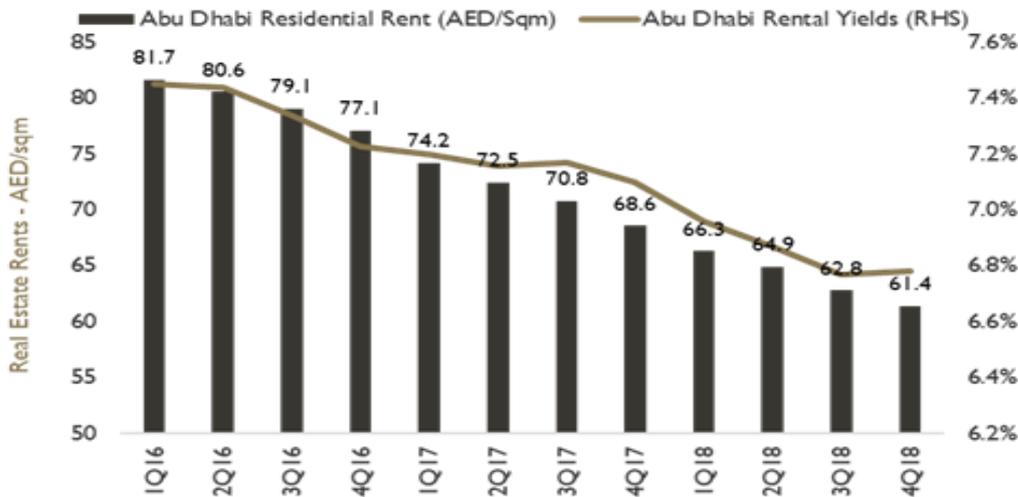
Our take on the results: Aldar IQ19 operational results are broadly in line with our expectation, while the net profit was significantly affected by lack of Government grants on handovers (reported in other Income). The other income component has been a huge supporter of Aldar’s bottom-line as Abu Dhabi was rebating Aldar for the infra work being done by the company. Going forward, with respect to the new projects (Alreeman, LEA), there is no clarity over such rebates and we believe that Aldar may not be able to get the rebate for the infra work. This could impact the profitability margins/net margins, as the recent projects have been sold at competitive pricing. **We remain Neutral on the stock.**

Abu Dhabi Residential Prices Trend



Source: Central Bank, SHUAA Capital

Abu Dhabi Residential Rent Trend



Source: Central Bank, SHUAA Capital

ALDAR IQ19 Results Review

	IQ19	IQ18	YoY	4Q18	QoQ
Revenue	1,765	1,470	20.0%	1,808	-2.4%
Gross Profit	723	715	1.0%	687	5.2%
S&M Expenses	(25)	(22)	11.7%	(33)	-23.8%
G&A Expenses	(160)	(127)	25.1%	(193)	-17.1%
Revaluation G/L	(40)	(40)	0.6%	(401)	-90.0%
Finance Income	24	25	-2.4%	19	27.0%
Finance Costs	(89)	(66)	35.9%	(87)	2.3%
Other Income	38	135	-71.8%	331	-88.4%
Profit	493	668	-26.3%	321	53.4%
<i>Gross Margin</i>	41.0%	48.7%	-7.7%	38.0%	3.0%
<i>Net Margin</i>	27.9%	45.5%	-17.6%	17.8%	10.2%

Aldar Segment Performance

AEDmn	1Q19	1Q18	4Q18	YoY	QoQ
Gross Revenue	1764	1470	1808	20.0%	-2.4%
Property Development	692	574	693	20.6%	-0.1%
Development Management	26	23	22	13.0%	18.2%
Investment Properties	422	437	431	-3.4%	-2.1%
Hospitality	210	130	239	61.5%	-12.1%
Adjecencies	414	306	423	35.3%	-2.1%
Real Estate Development	718	597	715	20.3%	0.4%
Investment Management	1046	873	1093	19.8%	-4.3%
Recurring (as per presentation)	858	725	904	18.3%	-5.1%
Gross Profit	714	710	677	0.6%	5.5%
Property Development	257	301	217	-14.6%	18.4%
Development Management	24	18	20	33.3%	20.0%
Investment Properties	329	354	324	-7.1%	1.5%
Hospitality	56	28	77	100.0%	-27.3%
Adjecencies	48	9	39	433.3%	23.1%
Real Estate Development	281	319	237	-11.9%	18.6%
Investment Management	433	391	440	10.7%	-1.6%
Recurring (as per presentation)	431	396	443	8.8%	-2.7%
Gross Profit Margins	40.5%	48.3%	37.4%	-7.8%	3.0%
Property Development	37.1%	52.4%	31.3%	-15.3%	5.8%
Development Management	92.3%	78.3%	90.9%	14.0%	1.4%
Investment Properties	78.0%	81.0%	75.2%	-3.0%	2.8%
Hospitality	26.7%	21.5%	32.2%	5.1%	-5.6%
Adjecencies	11.6%	2.9%	9.2%	8.7%	2.4%
Real Estate Development	39.1%	53.4%	33.1%	-14.3%	6.0%
Investment Management	41.4%	44.8%	40.3%	-3.4%	1.1%
Recurring (as per presentation)	50.2%	54.6%	49.0%	-4.4%	1.2%

Source: Company & Shuaa Capital

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SHUAA Capital Rating Methodology

Buy / Add/ Overweight: The stock is expected to outperform relative to the benchmark index.

Hold/ Neutral/ Equalweight: The stock is expected to perform in-line relative to the benchmark index.

Reduce/ Sell/ Underweight: The stock is expected to underperform relative to the benchmark index.

Date Published	Stock Price (AED)	Recommendation	Target Price (AED)
21-Feb-2019	1.77	HOLD	2.27
20-Nov-2018	1.70	HOLD	2.27
13-Aug 2018	1.94	HOLD	2.27

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