

Aldar Properties

Strong sales, project launches, and strategic acquisitions boost the company's revenue prospects

4Q22 Net profit higher than our estimate

Aldar Properties PJSC (Aldar/the Company) net profit rose 17.5% YOY to AED 916 Mn in 4Q22 lower than our estimate of AED 699 Mn. The rise in net profit is attributable to strong revenue growth across Development and Investment business driven by increased sales, launching of new projects, and robust contribution from acquisitions partially offset by a hike in direct cost, higher operating expenses, and an increase in finance cost. The profit is also boosted by fair gain on investment properties worth AED 431 Mn in 4Q22 as compared to AED 312 Mn in 4Q21.

P&L highlights

Aldar's revenue increased 38.9% YOY to AED 3,134 Mn in 4Q22 driven by a strong overall performance by the company. Aldar Development's revenue grew 43.5% YOY to AED 1,784 Mn in 4Q22 mainly due to strong growth in development sales and a solid contribution from SODIC. The Company's development sales rose from AED 1,110 Mn in 4Q21 to AED 5,175 Mn in 4Q22, out of which AED 3,790 Mn sales were recorded in UAE and the remaining AED 1,385 Mn in Egypt. The Project Management Services business received awards of AED 4 Bn worth of new projects whereas the business incurred a capex of AED 3 Bn during 4Q22. On the other hand, Aldar's Investment business revenue rose 39.8% YOY to AED 1,320 Mn in 4Q22 driven by healthy growth across all segments. Revenue from investment properties rose 20% YOY to AED 536 Mn contributed by healthy growth and occupancy across retail, residential, commercial, and logistics segments. Hospitality & Leisure revenue almost doubled from AED 184 Mn in 4Q21 to AED 368 Mn in 4Q22 due to strong performance of existing assets and new acquisitions. Education segment revenue rose 11% YOY to AED 156 Mn in 4Q22. Revenue of Principal Investments grew from 52% YOY to AED 260 Mn driven by strong growth in value of contracts. The Company's direct cost rose significantly from AED 1,090 Mn in 4Q21 to AED 1,847 Mn in 4Q22. Thus, gross profit rose 10.4% YOY to AED 1,287 Mn in 4Q22. The company's general expenses rose 34.0% YOY to AED 519 Mn in 4Q22 while selling and marketing expenses almost doubled to from AED 85 Mn in 4Q21 to AED 167 Mn in 4Q22. As a result, the Company's EBITDA declined 6.8% YOY to AED 703 Mn in 4Q22. Aldar's operating profit declined 13.4% YOY to AED 600 Mn in 4Q22. Furthermore, the company's reversal stood at AED 26 Mn in 4Q22 as compared to provisions of AED 157 Mn in 4Q22 due to impairments reversal on property plant and equipment recorded in 4Q22. In addition, finance income rose from AED 14 Mn in 4Q21 to AED 85 Mn in 4Q22 whereas finance cost rose 87.6% YOY to AED 124 Mn in 4Q22 due to higher benchmark rates. Total other income rose 38.2% YOY to AED 431 Mn in 4Q22 driven by solid gains on the revaluation of investment properties. The share of profit attributable to non-controlling interest holders rose significantly from AED 15 Mn in 4Q21 to AED 97 Mn in 4Q22 dragging profitability.

Rating : BUY

First Look Note – 4Q22

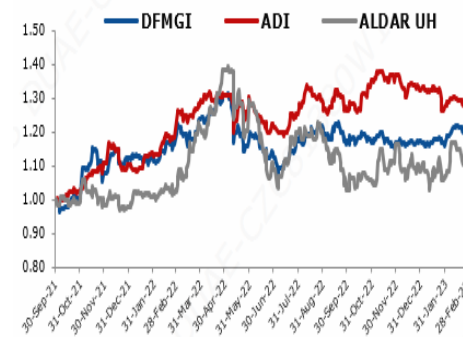
Sector: Real Estate

Recommendation

Current Price (07-Mar-23)	4.67
Target Price (AED)	6.00
Upside/Downside (%)	+28%

Stock Information

Market Cap (mm)	36,718.48
Paid Up Capital (mm)	7,862.63
52 Week High	5.79
52 Week Low	4.12
3M Avg. daily value (AED)	58,825,200



Financial Ratios

Dividend Yield (12m)	3.21
Dividend Pay-out (%)	43.49
Price-Earnings Ratio (x)	12.71
Price-to-Book Ratio (x)	1.22
Book Value (AED)	3.84
Return-on Equity (%)	10.13
Earning Per Share (AED)	0.37
Beta	0.91

Stock Performance

5 Days	-0.64%
1 Months	0.65%
3 Months	4.94%
6 Months	0.65%
1 Year	7.36%
Month to Date (MTD)	-0.64%
Quarter to Date (QTD)	5.42%
Year to Date (YTD)	5.42%

Balance sheet and Sales Backlog highlights

Aldar's liquidity remained strong with free cash of AED 6.5 Bn excluding AED 1.1 Bn cash received from a customer against the development of certain projects. It also held committed undrawn facilities of AED 4.0 Bn in 2022. The group revenue backlog from UAE and Egypt's development business stood at AED 17.6 Bn in 2022 which ensures strong revenue visibility. The backlog in the Project Management Service business backlog stood at AED 64.8 Bn in 2022. Aldar refinanced bank facilities worth AED 500 Mn in 4Q22 maturing in 2023. The weighted average debt duration stood at 4.88 years in 2022.

Target price and rating

We maintain our BUY rating on Aldar Properties with a target price of AED 6.00. The Company's development business sales almost doubled to AED 14.4 Bn in 2022, as compared to AED 7.3 Bn in 2021 due to record sales and project launches along with solid contributions from SODIC. SODIC recorded AED 3.4 Bn in sales during 2022 with a strong revenue backlog of AED 5.5 Bn. In addition, Aldar already sold 86% of launched development project pipeline in UAE as of 2022. As a result, the development business revenue backlog rose from AED 14.5 Bn in 3Q22 to AED 17.6 Bn in 4Q22 providing strong revenue visibility over the next two to three years. The Project Management business received AED 35.6 Bn worth of new projects in 2022 leading to a revenue backlog of AED 64.8 Bn. The Company expects the group sales to reach AED 15 - 17 Bn in 2023 with the revenue backlog reaching AED 21 - 23 Bn. AUM of Aldar Investment business reached AED 32 Bn in 2022 as compared to AED 21 Bn in 2021 attributable to strategic acquisitions and capital deployment. The occupancy across the investment property business stood strong at 92% in 2022 whereas the acquisition of ADGM towers boosted the Company's revenue. Aldar's witnessed a rebound in its hospitality and leisure business driven by a strong recovery in the tourism sector in 2022. The Company entered the Dubai markets through a JV with Dubai Holding and plans to launch three developments spanning 3.6 Mn sqm of land. Aldar also acquired Al Fahid Island, a 3.4 Mn sqm of island located between Saadiyat and Yas Island. The company completed USD 1.4 Bn worth of long-term investment with Apollo Global Management that includes USD 500 Mn Land JV which will diversify the Company's funding source, USD 500 Mn Hybrid Perpetual Notes priced at 5.625%, and USD 400 Mn equity investment in Aldar Investment Properties LLC (AIP) at 100% of NAV. The company is planning to distribute AED 0.16 for the year of 2022 which will give us 3.4% dividend yield. A significant revenue backlog with a strong project pipeline and diversified revenue source ensures long-term revenue visibility for the Company. Thus, based on our analysis, we assign a BUY rating on the stock.

Aldar - Relative valuation

(At CMP)	2018	2019	2020	2021	2022	2023F
PE(x)	20.0	18.7	19.2	16.1	12.9	12.2
PB(x)	1.5	1.5	1.5	1.4	1.3	1.2
EV/EBITDA	18.0	17.3	16.1	13.7	12.9	11.0
Dividend Yield	3.0%	3.1%	3.1%	3.2%	3.4%	3.4%

FABS estimate & Co Data

Aldar - P&L

AED (MM)	4Q21	3Q22	4Q22F	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	2,256	2,713	3,134	2,963	5.8%	38.9%	15.5%	8,576	11,200	30.6%
Direct costs	-1,090	-1,578	-1,847	-1,722	7.3%	69.5%	17.1%	-4,976	-6,466	30.0%
Gross profit	1,166	1,135	1,287	1,241	3.7%	10.4%	13.4%	3,600	4,734	31.5%
General expenses	-388	-355	-519	-400	29.8%	34.0%	46.2%	-934	-1,435	53.7%
Selling & Marketing exp.	-85	-100	-167	-104	61.3%	96.4%	66.6%	-183	-443	142.4%
EBITDA	754	765	703	815	-13.7%	-6.8%	-8.1%	2,734	3,199	17.0%
EBIT	693	679	600	737	-18.6%	-13.4%	-11.7%	2,484	2,856	15.0%
Share of assoc.	-2	-2	-1	-2	-25.5%	-13.6%	-36.9%	-8	-8	-5.5%
Provision/(reversal)	-157	-16	26	-133	-119.5%	NM	NM	-247	-64	-74.2%
Finance income	14	57	85	84	0.9%	500.2%	47.7%	48	218	349.3%
Finance cost	-66	-114	-124	-120	3.2%	87.6%	8.9%	-266	-397	49.6%
Total other income	312	8	431	193	123.8%	38.2%	NM	322	578	79.4%
Profit before Income tax	795	613	1,017	759	34.0%	27.9%	65.9%	2,333	3,183	36.4%
Income tax	-	-12	-4	-15	-76.0%	NM	NM	0	-39	NM
Profit after tax	795	601	1,013	744	36.2%	27.5%	68.5%	2,333	3,144	34.7%
Non-controlling int.	-15	-45	-97	-45	118.8%	544.4%	118.8%	-18	-199	NM
Net profit	780	557	916	699	31.0%	17.5%	64.5%	2,316	2,944	27.2%

FABS estimate & Co Data

Aldar - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
GPM	51.7%	41.8%	41.1%	-1063	-78	42.0%	42.3%	29
EBITDA Margin	33.4%	28.2%	22.4%	-1099	-577	31.9%	28.6%	-331
OPM	30.7%	25.0%	19.1%	-1158	-589	29.0%	25.5%	-346
Net margin	34.6%	20.5%	29.2%	-534	870	27.0%	26.3%	-71

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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