ENBD REIT NAV Analyst Call
4th February 2020

Call transcript

Speaker 1
Ladies and gentlemen welcome to the ENBD REIT conference call. Throughout the call all participants are in a listen only mode and afterwards there will be a question and answer session. I now pass the floor to our host Mr. Mohammad Haidar from Arqaam Capital. Sir, please go ahead.

Mohammad Haidar
Hello everyone and welcome to the ENBD REIT December 2019 quarterly update call. This is Mohammad Haidar from Arqaam Capital and with us today from ENBD REIT is Mr. Anthony Taylor, Head of Real Estate and Mr. Asif Sidiqqe Chief Financial Officer over to you, Anthony.

Anthony Taylor
Good afternoon everyone, and welcome to our analyst call for the quarter ended 31st December 2019. My name is Anthony Taylor, and I am the Head of Real Estate, and I am joined by Asif Siddique, ENBD REIT’s CFO. Before we address the content of the GM notice published last week, we would like to take your through a snapshot of the REIT and performance for the quarter.

Anthony Taylor
On slide 4 you can see our property portfolio value stands at USD 429 million, reducing from USD 435 million in the previous quarter. This is as a result of continued valuation losses predominantly in our residential holdings as well as smaller adjustments in the office and assets. We continue to see downward pressure on valuations, as a result of general softness in the local real estate market. In terms of our portfolio, this remains unchanged with 11 properties across office, residential and alternative asset classes. Occupancy improved slightly to 81%, due to some success in leasing residential units, with the Weighted Average Unexpired Lease Term reducing slightly to 3.37 years. Our holdings by value today are 64% office, 17% residential, and 19% alternative. The loan to value ratio has remained steady since our last update at 42% and the portfolio net rental yield for the 9 months annualised is 4.2% on NAV, or 8.7% on market capitalisation at the prevailing share price.
ENBD REIT’s NAV now stands at USD 246 million or USD 0.98 per share. NAV is down from the previous quarter when it was USD 254 million, due to the valuation losses mentioned above as well as the dividend payment of USD 4.9 million made in December.

**Anthony Taylor**

Slide 5 provides a brief reminder of dividend payments made to shareholders since listing and as you can see, dividends have declined over time in line with pressure on rental income. Another challenge being faced by the REIT has been consistent downward pressure on share price creating a wide discount to the prevailing NAV. Over the last year a number of measures were put in place to address this, including a share buy-back programme as well as strong focus on active asset and balance sheet management. During our last call we announced that the Board and Management had decided to proceed with a formal restructuring of the REIT, a decision that has now been put forward to shareholders for their approval at the upcoming GM.

The intention with this proposal is to move from a publicly listed REIT trading on the exchange to a private REIT with a fixed term. As a private REIT, the strategy would be for management to exit the assets at a time in the future when market conditions are more favourable and to return the proceeds of these sales back to shareholders.

We believe that this decision is in the best interest of shareholders who stand to realise greater value from holding equity in the REIT – valued according to NAV rather than the share price – for a fixed term. If the delisting is approved by shareholders and the regulator, then the value gap between the publicly traded share price and NAV will no longer exist and shareholders’ value of their holding will be reported to them at the prevailing NAV, going forward. Shareholders also stand to realise their investment during this fixed term period as management facilitates an orderly exit from the assets.

**Anthony Taylor**

On slide 6 we have included the proposed resolutions for the upcoming GM to be held on Wednesday 12 February at 10am. Shareholders will have the opportunity to vote at this meeting and subject to shareholder and regulatory approval, ENBD REIT will target an unlisted vehicle by the 31 March 2020.

As mentioned previously, we believe that the proposed private structure is better suited for shareholders looking to realise returns over a fixed investment horizon.

Until the restructuring is approved by shareholders and the regulator, the REIT remains a publicly listed vehicle that can be traded on Nasdaq Dubai. This means that shareholders or prospective investors can deal in ENBD REIT’s shares ahead of these dates.
Should the restructuring be approved, there will be a period during which the REIT will continue trading until the delisting is finalised by the end of March 2020, providing sufficient time for shareholders to review and adjust their positions as they see fit. Post-restructuring, shareholders will be able to trade off-market through recognised brokers, subject to identification of a potential buyer and a negotiated price.

While management is of the view that the current discount between NAV and share price is unacceptably wide, we are also mindful that the NAV remains under pressure in a soft real estate market. The portfolio has shown considerable resilience to market conditions and exiting now is unlikely to realise the best value for the Fund’s underlying assets. The assets continue to generate net rental income, which we will continue to distribute to shareholders in the form of dividends from this rental income, while market conditions are not conducive to disposing of assets.

It’s important to note that in line with the new fixed term strategy, we believe that a capital reduction of the Fund is also essential to provide flexibility in terms of returning proceeds of disposals back to shareholders via distributions or “return of capital”. The proposed share capital reduction will facilitate this and will see the nominal value of the Fund’s shares decrease from USD 0.80 per share to USD 0.001 per share. This will mean that issued share capital decrease from USD 200 million to USD 250,000. We would like to highlight that this is an accounting adjustment that will allow us to distribute the proceeds of sale from a distributable reserve which will be created equivalent to the value of the share capital reduction. The amount of the Capital Reduction is significant in order to avoid having to seek further shareholder approval over time, which would likely be expensive, due to the process dictated by the company’s law, as well as time consuming.

The Fund may also look to carry out a share buyback programme before coming off the exchange and we are seeking approval at the GM to do so. We continue to see significant value for remaining shareholders in buying back the shares from the market at the prevailing share price. Any shares purchased from the market would be subsequently cancelled, and if anyone has any questions relating to these resolutions and proposal restructuring, we will gladly address them at the end of this call.

**Anthony Taylor**

Moving on to the NAV highlights on slide 7, our property portfolio value stands at USD 429 million, compared to USD 435 million at the end of the previous quarter, and we are holding approximately USD 10 million in cash. The Gross Asset Value stands at USD 428 million as at 31st December 2019, with the NAV, as mentioned earlier, at USD 246 million, or USD 0.98 per share. As per the latest financials,
the REIT’s Net Rental Yield on NAV is at 4.19% at share price, and 8.7% at the prevailing share price. LTV currently stands at 42% with facilities available for further acquisitions prior to the change in strategy due to the restructuring coming into full effect.

**Portfolio overview and diversification (Anthony) – Slide 9**

As you can see on slide 9, our portfolio remains well-diversified and allocation remains steady. The ‘alternative’ portion of the portfolio, which is currently 19%, is a focus area for us given some of the challenges we are experiencing in the residential and office markets. Our alternative assets include student accommodation, education and retail and we would look to increase our portfolio in this asset class. The office sector remains our biggest holding at 64%, with residential down slightly at 17% due to pressure on this sector’s capital values. Our rental income distribution remains mostly unchanged compared to the previous period.

**Anthony Taylor**

Slide 10 shows robust occupancy, as we saw a slight increase in occupancy across the portfolio to 81% from 80% in the previous period, a result of some leasing success in Arabian Oryx House, Binghatti Terraces and DHCC49. In light of current market conditions, we expect to continue to adjust our rental strategy and lower rates to safeguard occupancy. We are also introducing value-added solutions, such as complimentary shuttle services, short-term holiday leases, and relocation expense coverage for residential tenants, which we believe will help drive occupancy and maintain consistent rental income.

**Anthony Taylor**

On to slides 11 and 12, we continue to see valuations coming under pressure. Residential valuations have been hit the hardest in recent quarters, with around 50% of fall in value this quarter coming from our residential assets, while there has been a more modest downward trends in our office buildings. As mentioned earlier, the management team will continue in the short term to identify and acquire alternative assets that benefit from high occupancy and long lease terms, in order to further diversify our portfolio and improve it. Current market conditions are favourable for such acquisitions and we currently have the financing facilities available to execute ahead of the proposed restructuring.
**Analyst Call Script**

**Anthony Taylor**

Slides 13 through 15 provide more detail on each asset, we remain available to address any queries you may have. I will now hand over to Asif who will take you through the financials.

**Asif Siddique**

Thanks Anthony. On slide 17, we look at key themes in financial performance that have emerged during the reporting period. In summary, these include:

- Net rental income or funds from operations are up by 26% from the previous quarter from lower finance cost following the refinancing while gross income is down by 6% due to lower rental rates
- The cash return on NAV, which is stable, despite soft real estate market conditions;
- And unrealised valuation losses of USD 6 million during the quarter, which have negatively impacted net income

**Asif Siddique**

Moving on to financial performance on slides 18 and 19, we have provided a summary of the 9-month period, comparing to the same period last year. Gross income has decreased by 4.6% due to soft real estate market conditions, where maintaining residential rents is the biggest challenge, compounded by a moderate increase in vacancies. Meanwhile, expenses have increased by 4.5%, mainly due to our cost of debt having risen year-on-year. Our Net Rental Income or FFO has decreased to USD 7.7 million, down 20% from last year, while our net losses have increased to USD 13.2 million on the back of 21m valuation losses at portfolio level.

Moving on to the next slide, you get a clearer picture of our expenses for the 9-month period. On a year-on-year basis, despite cost savings initiatives which have brought the day to day cost of running the buildings down, operating expenses increased by 2.3% during this 9 month period because of an IFRS reclassification of our ground leases which are now added to the building expense line, while fund expenses remained flat. However, total financing costs have increased due to the one-off costs of restructuring our debt being captured in the first 6 months, however, as mentioned in the previous slide, we’re beginning to see the benefits of lower debt costs going forward due to the refinancing we undertook in the last 12 months.
Analyst Call Script

In the Appendix you will find a more detailed summary of our financials, covering our statement of financial position and statement of comprehensive income. I’ll now hand back to Anthony for some closing remarks.

Anthony Taylor
Thanks Asif. This concludes the presentation, and we will now open the floor to a Q&A.

Speaker 1
Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press zero one on your telephone keypad. Please be informed that there might be a short silence while questions are being registered. So, first question comes from Ahmed Al Anani from Sancta Capital please go ahead.

Ahmed Al Anani
Hello everyone. Appreciate you making the time and let me start by first congratulating you for navigating a tough market environment. I just have three questions which are more or less directed to Anthony and are specific to the delisting. The first question is in relation to the market discount to NAV, which is what you cited as the economic rationale for delisting.
My question to you is that, if we think about the NAV for the portfolio assets, is that a NAV that you as a manager post delisting would be willing to underwrite? And if that's the case, would you then be looking to disclose an asset utilisation plan to specify how these 11 portfolio assets would be realised over the next five years?
Then if I look at the fee structure and I think about it being directly linked to NAV, if over the next five years post delisting these NAVs are not realised but the fees are still charged, would you then be considering a claw back or rebate mechanism on those fees that were paid on the inflated NAVs that fail to materialise.
And then finally, I wanted to bring to attention the question around the difference between the economic value to shareholders and NAV, which is how you guys think about it. When I think of your NAV, it's clearly right from rental income, but then there is post the rental income, there's the leakage for the fees, which is one level above the assets at the REITs level, GNA manager fees etc.
Can you just help me rationalise how the delisting would help address that leakage and how the economic value to the shareholders of the REIT would get resolved aside from just hypothetically marking up the assets, the NAV post delisting?
Anthony Taylor

Thanks Ahmed. Very good questions. I’ll tackle them one by one. Starting with the discount to the NAV, and our view on the NAV and disposal plan to realise that. I do believe the NAV is a true and fair reflection of the portfolio today, as we have tried as much as possible to show with all the information that we provide, not only on these calls but on our website with our financial information, and how each asset valuation has been written down in overtime given the market conditions.

So we certainly, in reflecting the NAV, have taken the impact of market sentiment to date, however we are still in a challenging market. So, the question of underwriting the NAV, well, no one really does that, but it doesn’t mean that the NAV is going to hold at this level going forward. We still see pressure out there on the valuations.

To give a bit of colour to that, we saw a dramatic decrease in sentiment and valuations over 2018 and 2019. The sentiment has seemed to slow slightly in the market, and hopefully in 2020 we see even further reduction of that negative pressure. So it’s hopefully not as drastic as what we’ve seen over the last couple of years, but if we remain under pressure, in terms of our strategy we would need to bide our time in these current market conditions and then, take an orderly exit of the assets as we start to see the market coming back.

Ideally achieving NAV or potentially higher on the exit of these assets in the future, but it’s difficult to say depending on how long these market conditions last for. Where I’m very confident is that exiting these assets today is not the best approach to realizing shareholders’ value, which is why we’ve put forward in our proposal a five plus one, plus one term to make sure that we give ourselves enough time to realize the right value of these assets as we look to exit.

In terms of fee structure. Look, it’s something that we are looking at for some time and it’s been raised by other people. I think our fee structure has been fair, but it’s a valid point that you raised going forward and exiting on these assets. How does that fee structure reflect the returns for investors is something that we, as management, are looking at this currently.

Just to keep in mind the proposal is exiting assets at the right time and immediately returning that capital back to shareholders, i.e. no further fees charged on that return of capital in the future. So, we will start to see that fee structure coming down in terms of quantum as we run through this disposal exercise.

In terms of the economic value versus the NAV. Look, there are a number of expenses related to being a publicly listed company that we are potentially going to save. I say potentially, as these savings would
still need to be negotiated with the various service providers once we come off the exchange. It will have some impact on the performance of the product going forward. There is today that disconnect between the share price and the net asset value, and like I mentioned at the start, our view is that valuation is better reflected closer to the NAV than where the share price is currently trading. Does that answer all three of your questions?

Ahmed Al Anani

Not really. I mean, I think there were two things. One is that it feels like we are shareholders that we're being asked to walk into this black box of a private REIT with no visibility on timing or quantum of sales. We just have to take the steeper fees on the NAV. I'm not really doubting the NAV. I think the NAV, I'm sure that the way you guys and CBRE have derived that NAV based on rental income reflects economic rationality, and it is a sensible NAV, but it's really, I just don't understand how taking away the listing, how much of that leakage as I described between GNA, between manager fees, between development, transaction costs, administration listing, de-listing, all that stuff. It's not really that you haven't addressed that, like how much is that discount to NAV going to be? I'm less interested in just marking my assets post delisting at NAV and then two years down the line you guys sell an asset at a 20% discount to NAV, but for two full years you've charged the full fees on based on NAV. So that's a destruction of value to me, and I don't understand how delisting can add results there.

Anthony Taylor

That’s noted and like I said, we are busy looking at that fee structure at the moment.

Ahmed Al Anani

But should you articulate that as part of the delisting as well. This is my point. We don't know what the asset realization looks like. We don't know what changes to the fee structure will be like, we were just being asked to delist.

Anthony Taylor

Well, look, I think the delist is the first thing, right? Because what it allows shareholders to do is realize a reporting at the NAV rather than the current market cap determined by the share price. What it gives
shareholder is clearer sight in terms of when they are likely to see a return on their investment at reasonable levels.
You talk about the leap of faith or a black box. We have tried to be as transparent as we can at this point in time by committing to a period and doing all the steps now necessary, i.e. the share capital reduction in order to return the capital to shareholders immediately after realising an asset disposal. This is to make sure that we can actually deliver to shareholders on what we commit to and set out to achieve.
But, it is very difficult today to say that in two years we wouldn't have achieved X and in four years, we will achieve Y. So, we need a bit of flexibility to manage this out. I'm very comfortable in saying today that I believe in the future we will be in slightly better market conditions than what we've experienced over the last two or three years and shareholders would be better off in the proposed structure at that point.
What we also want to give shareholders is more visibility on when they can realize their investment at reasonable levels (i.e. not the current share price but rather at or around NAV) because maybe one thing we haven't touched on too heavily on the presentation was, besides the heavy discount to NAV, the lack of liquidity and the volume of trades that are not allowing shareholders the ability to exit today, even at the prevailing share price.
Anyone who has been a large or medium shareholder in the portfolio is struggling to work out today how to exit from this investment at any level. This exit is something that we will be providing to shareholders in the future, you won't have to exit your investment because we will take those measures for you, sell the assets at the right time and return the capital to you immediately after each disposal.

**Ahmed Al Anani**

No, but then you're saying to me, I'm stuck in this for five years. Whereas at least now I have some option of secondary liquidity even though it's remote, it's still there.

**Anthony Yalor**

Sure, but you still have options what we have put forward in the proposal is there are options to exit off the exchange.

**Ahmed Al Anani**

Which are worse than what's available to me right now.
**Analyst Call Script**

**Anthony Taylor**
There are options available. If better or worse depending on pricing and timing I suppose.

**Ahmed Al Anani**
I don't want to have a conversation, but I don't think any of my questions were answered adequately, frankly.

**Speaker 1**
Thank you. The next question comes from Badr Sabban from Sabban Holdings. Please go ahead.

**Badr Sabban**
Hi Anthony. Hi Asif. Thank you for your time. I have three questions as well. Ahmed earlier on the call alluded to quantifying the savings made through the delisting. Can you just let us know what level of savings are expected?

**Anthony Taylor**
Sure. We have run an analysis on potential cost savings that could be achieved. By our estimates, it’s anywhere between $500,000 a year to a $1,000,000 a year, and it depends on the negotiations that we will enter into with service providers and counter parties post the delisting. This is why it’s a wide range today, but in our view, there are significant cost savings which are purely for the benefit of the shareholder once we come off the exchange. A lot of that is around reporting and obviously marketing expenses which we would be reducing.

**Badr Sabban**
Thank you. My second question is regarding fund expenses. So, I noticed that the expenses have been going up since March 2019, from about 500,000 a quarter to about 700,000 now, that's almost 8% of rental income. Despite the fact that the fund is not active in acquiring or disposing of assets. Could you please explain the reason behind such a high fund expense?

**Anthony Taylor**
Asif, do you want to address that?
**Asif Siddique**
In this period, we’ve had several initiatives to reduce costs, the main one was amortised expenses that we had to incur relating to the financing restructuring, which we have now concluded and are set to benefit from cheaper financing costs going forward. We also had several other expenses related to legal expense which were incurred in this period. Those were the main drivers for the increased and we have already done some significant work where these costs will be controlled in future.

**Badr Sabban**
So, the legal costs are purely for the delisting?

**Asif Siddique**
No, not related to delisting, but there were some other legal expenses incurred in this period in relation to the refinancing and other corporate expenses.

**Badr Sabban**
Okay. And then my final question, also around the costs. There are lots of items that are being charged under miscellaneous without the breakdown being provided. We already pay a one and a half percent management fee so I just want to know what that's covering and what's being charged under the miscellaneous expense line.

**Asif Siddique**
There are various, Boards and Committees, the PR and marketing, administrator, auditors and other operational fee required by the regulatory framework that we operate in as a listed entity. Those make up most of the miscellaneous fund costs and are clearly stated in the audited account.

**Badr Sabban**
Okay. The point I'm trying to get to is the leakage that was mentioned earlier, it's significant. When you compound, that was higher than average market fees that you guys are charging. The industry is not left with much at the end of the day. And that's why there's big discounts in that.

**Anthony**
On the leakage. Look, it’s a cost. It’s the nature of being a listed company. You need to incur these costs. Those costs change if you’re in a different structure. So that’s the proposal we are making and again, it’s made in the best interests of the shareholders going forward.

In terms of the fees charged today, I’m very comfortable that they are in line with other markets around the world. There are a number of different fee structures that can be proposed. Each one has their own pros and cons, and like I said, this is something that we are going back and looking into at this point in time to bring forward to shareholders.

I don’t think to say “it is exorbitant”, or “out of line with the market” is entirely accurate. But that being the case, I think the focus for us moving forward is to make this product as efficient as possible to get the highest return for the shareholders. And we’ve acknowledged that there are potential savings in this restructuring and that’s what we’re looking to take forward and realize for shareholders.

Badr Sabban
Okay. Just for the final comments, I've done extensive research on REITs both in EM and in developed markets and I can share the paper with you if you like. You're not in line with the market standards like the standards per se.

Anthony Taylor
I disagree. In terms of the way we've structured our fees, we did extensive analysis ourselves before we came to market with this current fee proposal, and I was then, and am still now, very comfortable that it was in line with similar markets.

Badr Sabban
Okay, thank you.

Speaker 1
Thank you. The next question comes from Green Coast Investments. Please go ahead.

Green Coast
Hi, good afternoon. My first question about the line in the circular talks about different strategies which you considered before computing the delisting, which is the best one. I just wanted to understand what
other options did you consider, and could you have not followed the five-year liquidation plan without the delisting?

Now, from our perspective of the rationale, I talk about the stock trading at a substantial discount plus very low liquidity as the key reasons which inherently defeat the benefits of delisted REITs. And those are the reasons why you've chosen delisting.

But then, probably, addressing both of those things. So, if we talk about a stock trading at a discount, the only way you're able to give value to the shareholders is to not have the market price, by saying that it’s probably only relevant for the long-term investors. Long-term investors are not looking for a mark-to-market, but then even if they do and even if they find, let’s say a buyer for the shares.

I don't know if that price increase for 100% would be acceptable to the auditors. So, going from what's currently in the books, a 0.48 or even lower, now to going to 0.98. That's one on the uplift in terms of the price for the investors. And second on the liquidity. Again, delisting is not really addressing that. Not only we don't have the exchange platform for trading shares, but even the investor pool is further reduced. The investors can no longer participate.

And again, after that, if you still are able to find a professional client, as per the DFSA definition, who may want to buy any of these shares, you still have a DLD piece, which in typical cases is 4%, but now taking into account the leverage that could go up to as high as 8%. So, I'm not sure the reasons for the rationale for delisting is really helping out the investors here.

Anthony Taylor

It's a good question, valid points. In terms of the different strategies that we've considered, certainly one of the first strategies was remaining listed and going through this same disposal process. We have tried a number of other things already. If you recall back in 2017, we did a return of capital to give some evidence to the market of the value of the portfolio as well as recognize that certain investors hadn't received a dividend for a period of time. That exercise didn't have any effect on the value of the shares.

And last year we executed share buyback programme, which we fully executed and, again, it made good value for remaining shareholder. However, neither of those triggers that we had available to us had any significant positive effect on the share price. One could probably argue that the share price went the other way. So, staying listed would mean that shareholders, in our view, in the short term, will have to live with that large discount to NAV will remain.

Shareholders will be marked-to-market and they will have that valuation on their books. If they were to sell their shares, they'd be exiting at those current levels. What we are trying to achieve by this
proposal, and it is still only a proposal that we have presented to the shareholders, is that we will look to exit these assets and return that valuation to them in time as opposed to them having to exit at the share price.

I suppose it depends on the shareholders appetite, whether they want to be marked at the current share price or at the valuation of the underlying assets.

In terms of the other strategies we looked at, obviously we're relatively small in terms of global standards for REITs. So size is a very important thing to look at. And if we were able to grow that size significantly, maybe there would be more liquidity, and less of a discount to the share price. Unfortunately, we've not been able to identify suitable portfolios to merge with, in which case that option after a period of time was not one that we were looking to actively explore further. In our view, coming off the exchange, putting the REIT into a product with a firm commitment to exit these assets when the market turns is the best option for the shareholders.

I appreciate there are different shareholders in this product, and some will certainly have different views to ours, so we don't expect all of them to agree with us, but in our view, with this proposal we are trying to act in the best interests for all the shareholders.

**Green Coast**

But could you not pursue the liquidation strategy over the five-year period, which you want to do now without delisting? You have the proposal to reduce share capital so you could still go ahead and do that, but then keep the company listed.

**Anthony Taylor**

Sure. But your shareholders will be marked-to-markets during that process and many shareholders do not like that.

**Green Coast**

Yeah, but either way, I think going from marked-to-market to NAV is not really helping anybody. It's an inflated price. As I mentioned, I don't know if my auditors would even accept the jump in price purely because it's no longer listed.

**Anthony Taylor**
We have shared our views on the NAV earlier in terms of whether we'd believe it is inflated or a fair reflection of the valuation of the assets.

**Green Coast**

Yeah. But it's still not a very convincing argument, I would say, in terms of how does all of this help shareholders?

**Asif Siddique**

If I may jump in here and discuss how auditors should view this proposal. When you look at the IFRS requirements, and the ISA requirements, if the product is listed, then it will be marked-to-market. If it's not listed, then the information which is provided on the NAV, will be taken as the value of the investment by the auditor. So, my view is that auditor should not have a big issue with that because it has moved from the exchange to a private company.

**Green Coast**

Yeah. But then I think it's probably a forgone conclusion here that the actual price if I want to sell this, or if anybody wants to sell this, it's going to be closer to 0.48. I mean even for 0.48 it's very hard to see liquidity, so forget finding liquidity at levels of 0.98 that's probably not the price where you will be able to see any liquidity in the near term.

**Anthony Taylor**

Sure. But the proposal at the moment is that we go out and, with the right market timing, look to exit these assets at ideally valuation, hopefully higher given the market conditions that we're sitting in today. Granted the market could continue to fall, in which case our exits may be slightly lower than the current NAV. But in any event, we believe that there is more value to this portfolio than the current share price suggests. And that's one of the main reasons that we have put forward this proposal.

**Green Coast**

Okay. And then plus the delisting thing. The reporting requirements would be a lesser requirement to the company, so that again means that we are pretty much in a moving on to opaque setup with very little transparency.
**Analyst Call Script**

**Anthony**

I appreciate that there is that perception. There are different requirements for a listed entity versus a private company. Our commitment to shareholders, as well as to the regulator, on this product was that we would continue to report in the same way that we've been doing up until now. We have no intention of reducing that transparency and I'd like to think most people will agree that we are one of the more transparent reporting entities around in the region. We'd are committed to continuing that. What we are removing in terms of the resolutions is the non-reporting entity requirement and that's largely around the obligations in terms of timings. Reporting entities need to disclose price sensitive information immediately, and that requirement applies to listed companies because they are daily traded. We would still commit to disclosing all price sensitive information, what we are looking for is some flexibility to not have to report it same day as that requirement is no longer there.

So, we will continue to do our quarterly NAV presentations, the information that's available on our website will remain. We'll continue audited financials which will still be made publically available. So, then there's really only access to management and I don't see that changing at all going forward as we will have AGM's and remain readily available to engage with our shareholders wherever we can.

It's just the requirement that we're no longer listed entities, so we do not have to consider ourselves a reporting entity.

**Green Coast**

Okay. Thank you.

**Anthony Taylor**

Sure.

**Speaker 1**

Thank you. Next question comes from Abdullah from National Bonds. Please go ahead.

**Abdullah**

Hi everyone. I think I need to maybe recap about the point and the question raised earlier in this call. I might tend to be biased towards the view of not delisting the fund because again I would agree with everyone that doesn't have at all. The reason being if you're confident about the value of those assets,
you don’t think like if one it’s listed and you deliver it to the market that you actually stand behind the value and the market. 
If you have the building and you’ve been able to successfully sell it at the value of the asset itself rather than the share price. And then distribute a capital that, above just rent and dividends. You don’t think like that might change the view of the fund, or I mean like in the share prices and then see more liquidity into the fund while it’s listed or than delisted. So, that’s my question number one since we are trying to argue the gap between the NAV and the traded price.
Second is, you’ve said that the act of being resilient to the market although we’ve seen and you confirmed that there is pressure on the rent in particular to the residential sector and you started to offer incentives, and those incentives come with a cost. So, I would rather you elaborate on this more than anything.
And thirdly, which is I think it was raised about the fee. And I think you guys need to have a view on that, even if it is not delisted. So even if it is listed, I think there should be a view about the fee because if we are saying now, we are pursuing liquidation rather than anything.
So, I don’t see maybe a lot of acquisitions going forward but predominantly working with the agent and selling assets etc, being proactive in front and maybe try and deliver more asset management strategy to improve that and some people after, from that perspective, to ensure that whatever valuation for setting those units is sustainable. I think those are my three questions for this.

**Anthony Taylor**
Okay, thanks Abdulla. Trying to tackle them in order here. Your suggestion is to stay listed and to sell the assets and that should benefit the share price potentially? Yes that’s an option. It’s timing then, how long before we are of the view that it’s the right time to exit these assets and given what we’ve seen on the performance of the share price recently, what would that mean to shareholders in the short term?
And I’d disagree with selling any asset now, just to send a message to the market that the share price is disproportionate. This would not be good investment strategy and we wouldn’t to disadvantage the shareholders by doing that. So certainly, we’ll continue to look today at the exits, we’ll continue to exit while achieving valuation, and we will look to return those proceeds of sales back to shareholders over a period.
On your second point, we’ve said in the current market conditions, our portfolio has been resilient but not immune to valuation losses. If we look at the percentage write downs across the different sectors
in our portfolio, we feel quite comfortable that we’ve invested shareholders’ money in the right areas. And it’s held up relatively well to what we’ve seen in the wider market, but it’s still under pressure and there’s no denying that our valuations have come down due to market pressures.

But as shareholders, you would also expect to see our valuations come down in a market like this, if they didn’t that would be cause for different concerns. We continue to work with our tenants and service providers to make sure that we maintain the occupancies and the values at the most optimal levels that we can achieve.

On your last question that you had Abdullah, sorry could you just remind me what that was again.

Abdullah
Correct. Talking about the rental because you said, in particular, the residential sector is under pressure from a leasing perspective. I want to see if we are saying that regardless of listing or delisting and we are seeing a pressure on the rentals which ultimately will impact the valuation. So how that would be eliminated from delisting?

So, at the end of the day either list or delist, you’re still exposed and that’s the reason I asked that question. So let me give you the rationale why I ask that question, because the way I look at it, I believe the valuation is inflated, and what we see in the market from a view about the share price is that the view of investors, and the valuations after that, those assets should return better yields, and a better yield distributed as a dividend.

So, if you adjust that, then you will start to see more visible liquidity, more positive views about the fund itself because again, if you’re saying that the fund is dropping differently, people will be concerned and they will price that accordingly by the share price.

Anthony Taylor
Sure. One thing that I’m very comfortable with today is that the underlying portfolio is worth more than what the current trading prices. It’s one of the reasons we’re putting forward this proposal, because if we believe that shareholders are going to benefit from this proposal. I don’t believe that the current share price today is a fair reflection of value.

We’ve evidenced that by going out and purchasing the shares that were available and we’re proposing to go out and do that again because we see real value in doing this. So, I disagree that the market is
determining the accurate value of these underlying assets today. If we believe that we continue managing in our current position.

**Abdullah**

So, you agreed earlier that if you cancel an asset and then are so confident that at the end of the day the view of risk towards being listed with, as you just said, now that you believe the asset value. You believe in the strength of the underlying assets. So why delist? Again, it's all coming to the rationale behind the delisting. If we are already been exposed to that for three years now already in terms of the validity of the share price and we are saying that we are selling, so why you don't sell, no one told you to sell tomorrow. No one told you to sell in three months. At the end of the day you can sell whenever you can sell, whenever you want.

But at least now, you are requested to put forward the strategy of where do you see the market and what's your strategy to sell those assets, at what price do you think the market will price you, if you sell them today or you sell tomorrow and you sell in a year. At least we have some visibility on the proactive management that you as a manager that you would pursue to liquidate the fund over a period of time. So, this being at a time not necessarily being five plus one plus two could be even extended to eight years, but at least as the shareholders we have a visibility of saying occupy, you know what? Now, we know that this is the strategy. Now we know that we have liquidity. We will absorb the volatility, but at least based on your commitments made based on the strengths of the underlying pattern and how can continue with the market, at least we know that there'll be an upside somehow, somewhere, would come in the future.

**Anthony Taylor**

Yes, look it's a fair point. I think it will come down to what the shareholders requirements are, and again it's a similar strategy, one's staying on the exchange, one's coming off. The outcome ideally would be similar for the shareholders to achieve the highest value for them over that period that we look to exit.

**Abdullah**

I would honestly disagree on the statement respectively, because at least shareholders, where this is listed and they see some interest from others to come and, say occupy this fund, is delivering and exhibiting higher dividends than anticipated. So, you tell me even if that's small, this one is smaller but
at least there is a window, there’s a consideration as the other shared earlier that why are you taking that window even if it is a small window.
If it is like the percentage of such a thing happening is like 10%, 20%, this is still better for me rather than being nil. You don't agree that the reason of listing was just like to give us that window, that if you want to exist, we all have find that it's narrow to find that's like minimum because of that.

**Anthony Taylor**
Sure, but I think the intention at listing was that you would have the option to invest or divest from your holdings at or around a fair market value. And that's not existing today, and it hasn't been existing for some time, which has prompted us to put forward this proposal. And I want to reiterate that this is a proposal to shareholders and they will still have the opportunity to vote on it. But it is a proposal that has already been requested by a number of shareholders both large and small, currently invested in the REIT.

**Abdullah**
I think the last thing is maybe like everyone said, I think the fees need to be reconsidered, even if we continue listing for years, I think that's something that would show more commitment from you guys as a fund manager to the shareholders knowing, as I said, that now we are more into liquidation rather than holding going forward.

**Anthony Taylor**
Look, I appreciate all the input and like I said before, the fee structure is something that's under consideration at this point in time.

**Abdullah**
Good. Thank you.

**Speaker 1:**
Thank you. The next question comes from Ahmed Abdul Latif from Creek Capital. Please go ahead.

**Ahmed Abdul**
Hello gents. Good afternoon. Thank you for hosting this call. I have a few comments. A lot of them are repetitive to be honest. I just want to voice our concern on this proposal. You highlighted the advantages of going to, you highlighted the disadvantages of being in the NASDAQ as a listed entity and one of them you mentioned the liquidity. I just want to reiterate that being a closed ended fund, would be even more illiquid than what we have now. So, you will make the liquidity situation worse than it is, just a simple answer. This is a correct statement. Being in a listed vehicle regardless of liquidity of the particular exchange will provide us with more liquidity for the exit than being in an unlisted vehicle. That’s one.

Two, I believe that the main issue that you guys, of course there are other issues related with the market which is depressing your price, but we believe the main issue that is depressing you and driving the discount to NAV is the management fee, which as you say is under review. What we would have loved to see is a proposal within your circular that mentions exactly what you plan to do with the management fee rather than say, let's do a closed-ended fund and then we'll leave it up to us to decide to cut our own fees. We all know that the likelihood of that happening in a vehicle where shareholders will not have any vote is let’s say at best, highly unlikely.

At the moment, I think the liquidity solution is for me, with all due respect, then, and I don't mean this to address it to you gents specifically, that doesn't make any sense for us. In the new vehicle you will be subject to the DLD fees, that none of the other callers have raised this. This is a major concern for us because at the moment, we’re not subject to the DLD fees and later on we will be subject to the DLD fees. This is a further an argument for a further discount to NAV, if you like. There was an argument that was made regarding the-

**Anthony Taylor**

Can I just clarify this DLD point?

**Ahmed Abdul**

Yes please go ahead.

**Anthony Taylor**
I won’t tackle the first two points just yet, but I just want to stop you on the DLD fees. You’re incorrect in saying that moving from one to the other is a further discount on the NAV. If you’re a shareholder who realizes your investment back from management exiting these assets, then there will always be the land department fees applied to the assets on exit, as per the DLD regulations, regardless of whether you were listed or not. Those fees are captured in the valuations today of the assets in the portfolio. So, nothing changes.

**Ahmed Abdul**

Fair enough.

**Anthony Taylor**

What we are highlighting is, if once we are in a non-listed entity, if that shareholder wishes to exit his shares before management has liquidated the holdings, then DLD fees may apply to the their shareholdings at the time of exit. And that number could be significant, so we are urging anyone who has a short-term view on this portfolio not participate in the delist and then look to exit in a year’s time, because they may well be subject to those fees. Today as a listed entity, transfer of shares holding underlying property in Dubai, is exempt of DLD fees on the share transfer amount. And that's something that we simply wanted to highlight today, but to be clear, moving into a delisted structure does not reduce the NAV.

**Ahmed Abdul**

Fair enough. Fair enough. Thank you for addressing that. Maybe we can take the view of that if all shareholders were long-term shareholders, then the NAV would currently, maybe reflect that potential fee upon exit. So that’s a fair argument. What is a concerning argument when you mentioned the long-term versus short-term shareholder?

Generally speaking, these vehicles, especially in a liquid listed vehicle. I believe that most of your shareholders will be long-term in nature. Perhaps you have some statistics that I don’t, but if you look at the term of your shareholders, it would be minimal. What that means is probably most shareholders would have opted for, under IFRS 9, to have the fluctuation in the market cap hit the balance sheet rather than the income statement.
So, the effect of going into an unlisted company, even if accepted by the auditor, would really not do anything for the income, would just go into the balance sheet. And I guess for us and for probably most of the shareholders, that doesn’t really move the needle for us. So, this uplift in NAV, not to mention even if it were possible and auditors were to accept it, I don’t think it has that big of an impact. I think what we face gents is a situation where we go from a vehicle that is partially liquid to a vehicle that is less liquid. A fee structure remains the same. You’re saying it’s under review, but we have no clarity on that. And then at the moment, at least, we have some degree of voting, a shareholder, and then the new vehicle, we will have no voting a shareholder. Honestly, gents-

**Anthony Taylor**

Sorry, just to correct you as well there, that’s not true. The company structure remains the same in terms of the shareholders and the rights to vote on a resolution that will be put forward. It’s being listed or non-listed does not change that.

**Ahmed Abdul**

Okay. Was that highlighted in your circular? I apologize if I missed that.

**Anthony Taylor**

I don’t think it was explicit, but I don’t see why you would assume that would change?

**Ahmed Abdul**

I don’t think it was highlighted in the circular. So, one of the fears we had is that at least for now we have some shareholder rights, whereas going to close then the-

**Anthony**

And you still do going forward. So yes, that shouldn't be an issue.

**Ahmed Abdul**

Just a closing remarks to avoid rambling. I believe if you want to realize shareholder value, the best way to do so is not to delist but rather to find a strategic buyer or buy your own shares to the extent that if you really find that they are trading at a large discount to NAV, the way to signal to do so, you said we
did some signalling to the market that hasn’t worked, but the way to properly signal to the market is to do a large scale recap of the company or even a take it private.

That would make the shareholders realize the value rather than going to an unlisted vehicle. You can still exercise in the same timeframe that you want the assets sales that you envisage changing from a listed vehicle to an unlisted vehicle. It doesn’t really change the time horizons at all. And I reiterate what my other shareholders have mentioned. So, our view is we fail to see the full logic of such a delisting.

**Anthony Taylor**

Sure. Look, thanks for your comments. We can disagree on some of those points. We have highlighted at the beginning some of the other strategies that we had looked at and that a buyout and take private was one of these. However, in current market conditions that hasn't been something that is realistically going to achieve this value for the shareholders as most large institutional investors are looking for significant discounts if they were to acquire.

So, in our view, what we are putting forward is the best option for shareholders at the moment. Look, your argument of liquidity on an exchange versus liquidity in a private company is correct, but you've got to put it in the context of liquidity at a share price, which is trading at 50% plus to the current underlying value of the assets, is probably not justified in that you can only trade and realize half the investments that a lot of shareholders put in. So, we would prefer to return that investment to shareholders at a higher number closer to the NAV.

**Ahmed Abdul**

Thank you gents. I'm done.

**Speaker 1**

Thank you. The next question comes from Ankit Banzal from Sancta Capital. Please go ahead.

**Ankit**

Hello gentlemen, my question is regarding the property portfolio value. So as of December 2019, the property portfolio value that you have reported is $429 million. My question is that I think I believe that
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this value is given by the independent valuer, which probably is CBRE in your case. So, can you confirm that and then I'll ask my following question.

Anthony
Yes. There are two valuers on our panel today. CBRE and Cavendish Maxwell.

Ankit
Okay. So, I've gone to your IPO prospectus and I think the valuation methodology is following, it basically takes into account the current market trends and the current transaction values and the expenses of running the property and so on. So, when I look at your income statement, if you go for FY 19 that is ending in March, you made revenues roughly $38 million and your operating income after expenses were $30 million.

So, it is my understanding that your value or CBRE is taking into account the operating income of $30 million to value these properties, which is fine. So even if you agree that the real value is for $29 million, the problem is that the valuer has not taken into account fund expenses and fund expenses are at least $6 million per year.

And from that $429 million, if you’re deducting the debt, which is $182 million, and then you are accounting for cash and working capital, they now have $246 million that you’re left with that now is actually pre-fund expenses. It does take into account the fund expenses. So, the right way to value this would be to take into account the $6 million of fund expenses every year. And then you can assume a cap rate for the fund expenses.

If you take up the multiple of 10 times, which is a cap rate of 10% and that fund expenses of $6 million would become $60 million. So, you deduct $60 million from the NAV of $246 million and that gets you to the NAV, which is like 180 or $190 million. So, the NAV that you’re reporting of 0.98 is actually not right in my opinion.

Anthony Taylor
Sure. I think just to clarify, the valuers report at an asset level that’s clear. It’s in the prospectus that they don’t take into account holding fund cost in their valuations. I believe this is the correct way to value the assets. I don’t have any issue with the way that they have been determined.

You’re also right in coming up with your own assessment on how different people look at valuations. You do have to take into account the additional expenses. Obviously, the NAV is net of the liabilities of
the debt, and there are costs associated with that debt. We use debt in this portfolio to ideally maximize shareholders returns and it's something that we monitor very carefully. If the cost of debt is rising in the portfolio and yields on the assets are not keeping up with that, this signals to us the need to potentially exit certain assets and payback some of your debt.

I do however disagree with your suggestion on how the NAV should be determined, but I don’t think we need to argue about how you derive your valuations of this business.

**Ankit**

The reason why I’m asking about this is because given the fund expenses of $6,000,000 every year, if the true NAV is not a $1 per share. If it is 0.75 per share, then as a fund manager you’re charging fees on the $1 per share, which is a loss of value to the shareholder. So, it would be right to deduct the fund expenses which are essential part of running this REITs, and then from the final value to shareholders, which would be anywhere between 75 cents to 80 cents, on that amount you should be charging the management fee, that would be the right method in my opinion.

**Anthony Taylor**

Look, I think we've touched on this a few times. It's under review. I do appreciate the input. I really do. And we'll come back in the future on this.

**Ankit**

Okay. Okay. All right.

**Speaker 1**

Thank you. There are no more questions. We'll now hand over the call to the company for final remarks.

**Mohammad Haidar**

Thank you everyone for joining. Anthony and Asif, thank you for your time. Anthony, do you have any final remarks?

**Anthony**
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Yes, thank you everyone for your time today. It has been a very engaging conversation and obviously there's a significant change put forward at this point for shareholders to consider, so we do appreciate, all the feedback and thanks again for joining the call.

Speaker 1
Ladies and gentlemen, this concludes today's conference call. Thank you all for participating. You may now disconnect your lines.