Ladies and gentlemen, welcome to ENBD REIT 30th June 2018 NAV quarterly update conference call. I will now hand over to your host, Harshjit Oza, Vice President of SHUAA Capital. Sir, please go ahead.

Harshjit Oza

Good morning and good afternoon everyone. This is Harshjit Oza from SHUAA Capital Research. Thank you all for joining with us for ENBD REIT Quarterly NAV Update conference call.

[Introductions]

Without any further delay, I will request Salman to go ahead with his presentation.

Salman Bajwa

Good afternoon everyone and welcome to our first quarterly analyst call for the 2018/19 financial year. My name is Salman Bajwa and I am the Head of Asset Management at Emirates NBD.

[Introductions]

In a moment, I will hand over to Anthony and Asif to take you through the detail, but let me open the call by providing a brief overview for the quarter.

It gives me great pleasure to let you know that despite the tough market conditions, the portfolio has generated a positive net income of 0.29% for the quarter, which equates to $839,000. This figure
is made up of funds from operations of 1.12% and valuation write-downs of 0.83%. These figures are in line with our expectations and guidance provided at the end of last quarter. The net asset value of the portfolio at the start of the quarter was $300 million. During the quarter, there was the payment of the final dividend of $3.3 million and return of capital of $8.7 million.

When you factor in the net income generated of $839,000 for the period, it gives a closing net asset value of $289 million, or $1.14 per share. The total LTV of the portfolio is currently at 37%, with available funds to drawdown from the existing facility at $23 million.

In order to reach our optimal level of 45% LTV, the management team are in advanced discussions regarding securing of new financing facilities to fuel the process of further expansion and diversification of the REIT’s holding, particularly into alternative asset classes, mitigating valuation risk in the office and residential portion of the portfolio.

I would also like to take the opportunity to update listeners on some personnel changes at the REIT. As announced earlier this week, Ben Coombe will be stepping down from his position as senior portfolio manager, and Melanie Fernandes will be taking over his role. At the same time, we will bolster the portfolio management team by adding two other members under Melanie. Ben has decided to move back to his home country of New Zealand and we will be sad to say goodbye to a longstanding and valued member of the team. We wish him all the best for the future and are pleased to welcome Melanie to her new role. She has been with the team for nearly four years and is well versed with both the portfolio and its key tenets. Prior to joining the ENBD REIT, she was with ENBD Properties for a further four years and brings with her a wealth of experience and expertise to the role.

At this point, I will pass over to Anthony to take you through the detailed presentation for the REIT’s quarterly result.

Anthony Taylor

We’re starting on slide four where we have a snapshot of ENBD REIT with numbers at 30th June 2018. The portfolio currently comprises 11 properties, covering the office, residential and alternative asset classes. In terms of portfolio composition, our holdings are 64% office, 20% residential, and 16% alternative. Occupancy in the portfolio increased slightly in the first quarter from 89-90%, and this improvement was driven by successful leasing efforts over the last three months on our residential assets. All four of the assets we acquired post listing remain 100% occupied on long-term leases to prominent entities, providing stability to rental income and cash flows in line with our long-term
strategy. Growth yield on the portfolio has improved marginally to each 8.4%, with the weighted average unexpired lease term or WAULT currently standing at 3.7 years. The total value of the property portfolio is $463 million.

We move onto slide five which is a new slide containing information that we thought useful for the call. Here, we provide a summary of payments made to shareholders since listing last year. As you can see, our first interim dividend of 3.2% on net asset value was paid back in July 2017. Then there was a gap due to the realignment of the dividend cycle to match our financial calendar, which ends on the 31st March. The final dividend of 1.09% on NAV was paid in June of this year following shareholder’s approval at the AGM as per regulatory requirements. On that occasion, we also paid a return of capital equating to 2.9% of NAV or 3.46% of the share price at the time, in recognition of the delay in semi-annual payments. For the full year period, this brought us to a total payments made to shareholders of $21 million for the year, which was 7.2% of the NAV or 8.6% of the share price, which was 99c at the end of March.

As mentioned, the payments made to shareholders last month of $12 million have adjusted the NAV downwards in this quarter.

Moving onto slide six, as at 30th June our share price was $0.81 per share, and at the time of this call stands at 80.5c. A NAV of $289 million shows a decline from $300 million since the previous quarter, and equates to $1.14 per share, with the total value of the portfolio at $463 million. As per the recent alignment of the dividend and financial calendars, the next interim dividend will be paid to shareholders in December following our half-year financial results as at the 30th September 2018.

At this point, it makes sense to look at the REIT’s share price movement. There are a few factors impacting the share performance, most notably the current lack of liquidity in the market, which means that one trade of any reasonable size can have a disproportionate impact on the share price, and this has been influential in the fall in the share price over the last month. The performance of the local equity market has also not been favourable. If you compare year-to-date performance of ENBD REIT’s stock with various local indices, including the DFM General Index, the DFM Real Estate Sector Index, and the NASDAQ Dubai UAE 20 Index, all have trended down in 2018. Managements are reviewing these issues in detail to see what actions we might take to address challenges for our share price, and once we have reached a decision on the best approach, we will be announcing it to the market through the appropriate channels. In the meantime, we remain focused on protecting and delivering consistent returns from the portfolio in the form of dividends.

On slide seven we will be fairly brief, as you are aware, we have now aligned the dividend distribution cycle to coincide with our financial year. Dividends will now be calculated as at 30th September for
the interim dividend, and 31st March for the final dividend. They will therefore be paid in December for the interim and in June for the final dividend following all necessary regulatory approvals. We intend to continue paying dividends to shareholders on a regular semi-annual basis.

I will now hand over to Asif for the NAV highlights and capital structure.

Asif Siddique

On slide eight, we will take a quick look at NAV highlights that you will mostly be familiar with. As mentioned before, NAV is lower due to the dividend distribution and capital repayment, but is up by 29 basis points from the previous quarter at $289 million. There was a progress payment made on South View School of $3 million, which has been offset by the fall in valuations on some of the other properties in the portfolio. This has resulted in the same portfolio value at the end of this quarter as we had at the end of the previous quarter, which is $463 million. Gross asset value is $457 million, and we are currently holding $6 million in cash. GAV, in this case, includes liabilities such as advanced rentals received, security deposits, and retention amounts held for assets under development or recently developed. Net yield from rental income is at 4.5% on an annualised basis.

We are generally pleased to have maintained solid income levels despite a softer real estate market environment. LTV is up slightly to 37% and we expect this to increase further, as we tap new financing options to fund our portfolio growth.

Let's move to the next slide where I will take you through our capital structure in more detail. Those of you who attended our last NAV call may notice that our capital structure has slightly changed due to the repayment of capital. There was no drawdown in this quarter, and at present, LTV stands at 37% and total drawdown unchanged is at $169 million. Equity stands at 63% with $289 million. On our current facility which expires in 2021, we unfortunately recently received a notice that the profit margin has increased from 250 basis points to 300 basis points. While we acknowledge the cost of borrowing is in the market increasing, we are actively seeking alternative options for reducing the cost of our financing and enhancing our capital structure. We will be negotiating new lending facilities to take us up to an optimum level of LTV 45%. We are also looking to refinance our existing debt on more favourable terms in light of the recent update.

I will hand back to Anthony to take you through the portfolio.
Anthony Taylor

We are now on slide 11 where we will take a high-level look at the portfolio itself. Our assets are spread across a number of strategic locations in Dubai, which we have identified as showing promising growth potential going forward. These range from established commercial districts such as the DIFC, Dubai Internet City, Dubai Media City, and Dubai Healthcare City, to upcoming areas such as Dubailand where we hold residential and education assets, a student accommodation building in the form of Uninest and in Dubai Silicon Oasis where we hold residential and retail assets.

We remain open to acquiring properties in other areas of Dubai as well as in Abu Dhabi and the Northern Emirates, provided target acquisitions meet our investment criteria of long-term stable leases, solid income generation, and potential for capital appreciation.

In terms of sector allocation, you will see from these pie charts that diversification of our holdings is at the heart of our investment strategy, and remains a key focus for management. The alternative portion of the portfolio is a particularly important area of focus, given challenges prevailing in the residential and office market. Our alternative assets currently include retail, education, student accommodation and at 16%, we are looking to increase allocation in these sub-segments among others. We also benefit from a strong level of diversification in our office portfolio, by accommodating a range of tenant profiles in different locations. Across our office assets, tenants include healthcare, media, information, communication and technology, legal services and general offices to name a few. We continue to seek long-term agreements with tenants, boosting occupancy, income stability and improving our weighted averaged unexpired lease term.

We believe that the underlying strength of the REIT lies mostly in the quality and performance of the property portfolio, so we are proud of the metrics shown on slide 12. This shows that occupancy across our holdings remain strong and where we experienced some challenges in 2017/18, we have mostly been successful in addressing them. Robust blended occupancy has further improved increasing from 89% to 90% with all four of our most recently acquired assets remaining 100% leased. The residential occupancy has performed particularly well, improving from 86% in March to reach 89% for the first quarter. This is, to a large extent, due to the successful implementation of our leasing strategy, which we have been executing for all three of our residential assets.

In terms of allocation, as we acquire further assets, we will be looking to slightly reduce our exposure to office properties, maintain our exposure to the residential segment, and at least double our holdings in the alternative segment. This is where we see the most attractive potential upside as well as the opportunity to de-risk in light of the challenging real estate market conditions.
We will now take a look at the portfolio segment in more detail on slide 13, starting with our office buildings. Despite the soft market, our office valuations are actually holding up quite well, and this is mostly due to the active asset management for the buildings, as well as proactive leasing activity.

In Al Thuraya 1 in Dubai Media City, still occupies the most significant share of our total portfolio at 20%, closely followed by The Edge at 17%. WAULTs in the office portfolio are mostly strong with The Edge and Burj Daman at 3.2 and 3.5 years respectively, while overall office portfolio occupancy is also strong at an average of 87%. Gross rental yield from the office segment is 8.4%.

Moving onto the residential portfolio on slide 15, valuations are down by $3 million, which is a quarterly decline of 3% for this sector in the portfolio. This is largely due to the reduced rental rate that we have pursued in our efforts to improve occupancy and secure rental income through leasing. While this approach has negatively impacted valuations, it has had the desired effect on increasing rental income for the portfolio. Occupancy at Binghatti Terraces is strong at 96%, along with a gross rental yield of 9.2% as compared to 8.4% and 6.6% for Arabian Oryx House and Remraam respectively. Yields for all three has improved on the previous quarter. As is the nature of residential assets, WAULTs in this part of the portfolio is lower than average, but the properties themselves occupy a relatively small percentage of the REIT’s total value.

On slide 15 we look at alternative assets with the portfolio. This segment continued to perform well at 100% occupancy and its growth is a high priority for management as the year progresses. Construction at South View School is progressing well and is on track. The school is set to open to students at the start of the 2018/2019 academic year in September with key personnel already appointed. Gross rental yield on the school is 9% and with a long unexpired lease term of over 35 years for the operator. All of our alternative properties have strong WAULTs that exceed the portfolio average with Uninest at 5.9 years and Souq Extra Retail Centre at 3.9 years.

I will now hand back over to Asif to take you through some of the financials.

Asif Siddique

On slide 17 we have provided a summary of our funds from operations (FFO), which as you can see totalled $3.35 billion for the quarter or at 1.12%, which translates to annualised 4.5%. This is evidence of a strong and stable rental income in a tough market. The FFO is calculated as a percentage of NAV for the quarter and is calculated by deducting all the operating and fund expenses and finance costs from the growth rental income. For this quarter you will note that devaluation loss
on the portfolio was 83 basis points; although there is a valuation loss, but our net income has increased by 29 basis points.

On the next few slides I will take you through the gross income, valuation movement, and all expenses. With this, I will move to the next slide, which considers total income. On this slide, you can see a year-on-year quarterly comparison of gross income, valuation movement, and total income. As the graph shows, our quarterly gross income has gone up by $2 million on June 2017. This increase is mainly due to the [active share of] 100% of supplied income-producing assets, but this combined with some rent reductions in all three residential assets. For example, there was a rental guarantee in Binhatti until last July and that our Remraam building there was previously a single tenant accounting for full occupancy. As Anthony mentioned, we have now boosted occupancy in these buildings to 96% and 76% respectively. You can see we have recorded a valuation loss of $2.4 million and this is mainly on the residential asset, which represents 20% of the portfolio by value. Valuations in this area of portfolio are down by $3 million. Burj Daman offices are also showing a valuation decline of around half a million dollars. Although we have a high gross income in this quarter in comparison to last year, due to the valuation loss, our total income for the quarter, which includes valuation loss, stands at $7.1 million down from $10.1 million.

ENBD’s expenses are shown on slide 19. In the donut chart on the left side you can see that our operating expenses are $2.2 million and that’s about $630,000 higher than last year. This increase is mainly due to the acquisitions and increased OpEx on residential buildings. With the acquisitions made in the last year, which partially utilised debt, our LTV has increased to 37%. I have already touched on the increase in profit margin on our existing financing facility and due to this, our finance costs have also increased to $2.48 million in comparison to last year, and there were a few one-off expenses last year. Our fund expenses this year have decreased by 18%. If you look at the bottom of the table on the right side you can see that our FFO has increased from last year and our margin of FFO to gross income remained at 34% over the year. In the appendix you will find a more detailed summary of our financials with slides showing our statement of financial position and statement of comprehensive income.

I will now hand back to Anthony for some closing remarks.

Anthony Taylor

That concludes the presentation. We’re appreciative of the time you’ve taken to join us and we will shortly open the call for questions, which will be handled by SHUAA. But, before we do, I’d like to briefly touch on a few items that have been raised and which may be of interest to the participants on the call.
The first point concerns the current performance of our share price. We’re mindful of the fact that at present our share price is not performing in the way that we would like to. Due to the lack of liquidity in the local market, the recent dip in the value of our stock is to a large extent due to the disproportionate movement in our price resulting from a recent single trade. We should add that the trade in question was made by an investor holding less than 0.5% of our equity, which resulted in the share price moving over 10%. This goes some way to showing how disproportionate that impact was. As mentioned before, it’s also worth considering the downward trends currently being experienced by the relevant indices across the local market, which does provide some context for the performance of the REIT shares. Having said that, we’re now actively looking at options to protect the share price against further downward pressure and once we have selected the best approach for addressing this issue, we will make the relevant announcement to the market.

With all that being said, we are also of the belief that as of today ENBD REIT is an attractive value proposition for investors looking for exposure to the stock and that if our NAV remains stable during the coming period, we should see a positive impact on the share price.

Another point that has recently been of interest to shareholders is on the subject of acquisitions in a rising interest rate environment. As mentioned earlier, we are actively seeking acquisition opportunities in the local market. We are particularly interested in increasing the weighting of our alternative assets within the portfolio, as these are showing both upside potential as well as risk mitigation against a soft residential and office market environment. We believe that there are a number of better opportunities offering higher yields compared to a year ago, which is why we’re now seeking the most attractive financing options available to us in order to fund the continued growth and diversification of the portfolio. We recognise the risks of increasing leverage on the portfolio as interest rates continue to rise, but still see value in the current spread between the net yields on assets in the market and the forecasted cost of debt, which is expected to enhance shareholders’ returns.

With that, I’d like to thank you again and hand over to SHUAA for any questions from the listeners.

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**Question and Answer Session**

**Operator**

Our first question comes from Bader Al Saban, Saban Group. Please go ahead.
Bader Al Saban
When do you think you’ll be making an announcement regarding liquidity to the market? Is there any timeline?

Anthony Taylor
At this time, it will be something that comes relatively soon. I don’t want to commit to an exact timeline, because what is very important is to consider all the options and the impacts those options have before progressing whichever way we feel is best for the shareholders, but it will be an imminent announcement.

Operator
Our next question comes from Deshar Gupta, Emirates NBD. Please go ahead.

Deshar Gupta
I don’t know whether I missed, Anthony, when you were talking about the liquidity or the share price has gone down, what is it that we’re trying to do to stabilise the share price that’s been going down in the last few months and what is the customer confidence of what we’re going to be giving in terms of an action? Thank you.

Anthony Taylor
There are a number of options that are available to consider when we’ve seen a movement like this where a relatively small trade has moved share price by such a large margin. Again, rather than to discuss these options in this forum, what we’d like to do is to consider all of them and then come back with the best way forward to deal with this issue, but I think it’s very important to give the investors confidence and the shareholders confidence that it is something that we recognise and something that we do feel we need to address, like I say, imminently to make sure that we don’t see more reactions to the share price of this nature.
Operator

Our next question comes from Siyamak Zamin, Zamin Holdings. Please go ahead.

Siyamak Zamin

I would just like to ask about where do you see the future dividend payments. Will it be comparable to the 2017 levels or the latest one that we received in March? Thank you.

Anthony Taylor

Look, it’s always dangerous to give any forecast or predictions on something that is reliant on the market, but I think the best guidance that we can give is the numbers that we were aiming to achieve at the IPO. We have had to revise those numbers off those levels now, given the market conditions. We just haven’t been able to achieve rental rates and occupancy levels at the same level that we were expecting to 12 months, but we’ve also recognised that a considerable amount – and in our last call we tried to quantify it around, I think, 1.5-1.6% of the... of the return that we were off from our target last year was due to the fact that we were sitting on cash for six months in the active year. That cash how now been invested into income-producing assets, so should enhance the return more than what we were experienced over the last 12 months.

Operator

Our next question comes from Toby Dabek representing Faisal BinZagr. Please go ahead.

Toby Dabek

Anthony, just a question on slide 13 and Al Thuraya 1, which traditionally I think has been a good income generator, and I noticed there that the WAULT is at 0.9, so do you see any risk in that particular building in terms of the market conditions and businesses kind of not committing for a longer time there?
Anthony Taylor

Good question, so Al Thuraya 1 has typically been our constant performer over the years. The WAULT there has always been low in the sort of, say, 0.8 to two-year range, because the leases that are signed in the Tecom Free Zone are typically one or three-year leases, so on average that gets you down into low figures. Also, at Al Thuraya 1, just from a historical point of view, we've typically had leases expiring around May to June and then some of those may not have been signed up yet, which could have an impact on this number. We are all aware – I think it’s public knowledge – that Huawei, which is a large tenant in this building, has also had purpose built offices for itself in Dubai Internet City, just next to our Oracle building, The Edge, and they will be looking to relocate some of their office from all their premises scattered around Tecom into this new building. How much impact that will have on their occupancy in Al Thuraya 1, that’s yet to be determined, but that is something that will come up in the next 12 months and we’ll be able to give a bit more colour on that. But in general, that Tecom market, like the whole of Dubai, is a little bit soft, but it is performing better than expected in the current environment, that building.

[No further questions]

Anthony Taylor

Thank you all. I appreciate the time again, have a good summer, and we’ll join this call in October after the September NAV. Thank you.