Operator

Ladies and gentlemen, welcome to the ENBD REIT Quarterly NAV Update conference call. I now hand over to your host, Mr Ankit Gupta, Vice President of SHUAA Capital. Sir, please go ahead.

Ankit Gupta

Good morning and good afternoon ladies gentlemen. I thank you today for joining us for ENBD REIT Quarterly NAV Update conference call. I am pleased to have with me, ENBD REIT management, presented by the Head of Real Estate, Mr Anthony Taylor, and Chief Financial Officer, Mr Muhammad Asif Siddique.

So without further ado, Anthony, please go ahead with the presentation.

Anthony Taylor

Thank you all for joining us for the NAV quarterly update call. As mentioned, the presenting team will be myself, Anthony Taylor, and Asif Siddique who is our CFO.

At this point, I would like to acknowledge that Tim Rose has left the management team following his decision to relocate home to New Zealand. I would like to thank Tim for his commitment to the real estate team at Emirates NBD Asset Management, which he had headed for over seven years. I can confirm the handover process has been well planned for and executed smoothly.

You should have all received the presentation in the invite to this call, but if not, it is also uploaded on our website in the Investor Relations page, under “quarterly update, investor calls, 31st December,” so please log onto that if you haven’t received it already.

I will now start talking through the presentation, so if we can start on slide three, we will take you through a snapshot of ENBD REIT with the numbers as at 31st December 2017. We currently hold 11 properties across office, residential and alternative asset classes. The most recent acquisitions were the Edge in Dubai Internet City, predominantly leased to Oracle, which we acquired in October last year, and the Souq Extra Retail Centre in Dubai Silicon Oasis with Carrefour as the anchor tenant, which was completed at the end of December.

The total property portfolio stands at $460 million, with a portfolio occupancy of 87%, and a weighted average unexpired lease term or WAULT of three and a half years. The loan to value ratio is 36%, with our investments delivering a growth yield of 8.4%.

In terms of portfolio composition, our holdings are 63% offices, 21% residential, and 16% alternative.

On slide four, as at 31st December, our share price was 99c, and at the time of the call, this stands at 98c. A NAV of $300 million for the last period represents quarterly increase of 1.71%, with the NAV per share rising to $1.18. This is compared with $1.16 in the previous period.

The board has, however, decided to align dividend distribution with our financial calendar, so it coincides with the half year and full year financial results. And on that basis, the next dividend declaration is scheduled following the year end 31st March, which will be distributed in June 2018, following the shareholders’ approval at the AGM. Thereafter, we intend to continue to distribute dividends to shareholders on a semi-annual basis.
Moving onto slide five, we will now run through the NAV highlights for the quarter. The property portfolio value stands at $460 million. Our cash position is now $15 million, and a gross asset value (GAV) of $468 million. As mentioned previously, NAV per share has increased in the previous quarter to reach $1.18, with the NAV increasing to 300 million. We have continued to increase our loan-to-value ratio which now stands at 36%, with the aim of reaching a 45% LTV across the portfolio. The gross yield on the NAV is 12.12%, giving the REIT a net yield of 6.7%.

On slide seven, as you can see, our assets are spread over a number of strategic locations in Dubai, which we have identified showing strong growth potential. These range from commercial districts such as the DIFC, Dubai Internet City, and Dubai Healthcare City to upcoming areas in Dubailand, such as Remraam, where we hold our residential and education assets, as well as the student accommodation building in the form of Uninest, which is situated close to Academic City.

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

We will now move onto slide eight. Looking at the assets across the portfolio, we will focus on a few features of particular note. In the office sector, starting with our largest asset, Al Thuraya 1 in Dubai Media City. We saw a reduction in the occupancy to 87%, resulting from tenant turnover during this period. 24,000 square feet of office space is now vacant, and that is starting to fill up again in the New Year. Upgrades of the CCTV systems to improve safety and security in the building were concluded during the last quarter of 2017.

At the Edge, our second largest holding, we acquired last quarter in 2017, we are in the process of transferring the facilities management contract over into our name, and I will cover more details on this acquisition a little later on. We did touch on it in our last call, but it is probably good to refresh as it happened in this quarter as well.

At Burj Damam located in DIFC, we are currently witnessing a strong improvement in occupancy. We will be making a formal announcement soon as some of the lease agreements are in final stages of completion, but please note, we expect the occupancy level to have a substantial jump in this coming quarter. We continue to receive strong interest in the remaining vacant space with over 60,000 square feet worth of enquiries in the last three months.

Occupancy in Dubai Healthcare 49 remains strong, with only two units available to lease. We have had strong interest in 6,000 square feet from existing and new tenants and are installing energy saving lighting to reduce power consumption and improve efficiency in the building. In our other healthcare property, Dubai Healthcare 25, occupancy is also strong with additional units booked and refurbishment works which have been completed on the first floor washroom.

Moving on now to slide number nine and our residential portfolio. Occupancy at Binghatti Terraces in Dubai Silicon Oasis has reached a pleasing 95%, with all annual maintenance contracts now in place for the building. If you recall, the occupancy was at 70% in the last quarter, so this represents a significant growth since the building began leasing in July 2017.

At Remraam, our occupancy has moved to 60%, again, strong improvement on last quarter’s 38%, and refurbishment works on the vacant units continue, which will likely be completed by the end of this month, so we expect to see strong leasing trend to continue in this building, as it is well priced in an affordable residential market.

Occupancy at Arabian Oryx House in Barsha Heights fell to 90% during the period, due mainly to downward pressure on asking rentals in the area.
We will now move onto slide number 10, which shows our alternative segment in the portfolio. At South View School which we acquired last year, construction is progressing on track with a total spend of AED 12.3 million to date. The school is set to open to students at the start of the 2018/2019 academic year, and key personnel has already been appointed to manage that operation. The alternative portfolio was boosted in size and value by the acquisition of the Souq Extra Retail Centre located in Dubai Silicon Oasis, which is in ENBD REIT’s first retail asset. We will, again, go through this transaction in a bit more detail later.

Uninest in Dubailand remains 100% with a weighted unexpired lease term of 6.4 years, and a gross rental yield from the property at 7.8%.

As you will see on slide 11, we have a number of high quality tenants renting floor space across the portfolio. A few that stand out are Oracle who are in the Edge building, and whose brand is also on the building. Snapchat are also a tenant in the Edge Building; Huawei’s Dubai office is located in our Al Thuraya 1 Tower building. Oldendorff, Squire Patton Boggs and CMS offices are in Burj Damam and Lilly and Dräger who both rent our unit in our DHDC property.

Moving onto slide 12, we will take a look at our most recent acquisition, which was Souq Extra. So this property is a 36,000 square foot community retail centre in Dubai Silicon Oasis. It is 100% leased to 42 retail tenants, including Carrefour Market, KFC, McDonald’s and Starbucks. The centre has 25 units as well as a number of kiosks. We have acquired the first phase of the development for AED 84 million, with a commitment to acquiring the adjoining 45,000 square foot phase two on completion, and completion is expected to be towards the end of 2018. Construction for phase two is expected to start in Q1 this year. The property is managed by Souq Extra and has a rental guarantee provided for the first two years at no cost for either phase one or phase two. And this delivers a net return of 8% on cash, and 11% on equity, applying a 50% loan to value ratio.

Moving onto slide 13, a quick review of the Edge transaction, which we acquired in October last year. It is home to blue chip tenants, including Oracle, Snapchat, and McGraw-Hill. This is a prime A-grade property in Dubai Internet City with 233 parking bays, which is a high parking to office ratio for that area. It is 100% occupied and it delivers a return on equity of 9%, and a net yield on cash of 6.6%.

I will now hand over to Asif; he will take you through the financial highlights for the quarter.

Asif Siddique

Thanks, Anthony. As we move to slide 15, you can see a summary of our “Funds from Operations.” The graph on this slide, we can see a quarterly increase on gross income from $7.3 million in September to $9.1 million in December. This increase of $1.8 million is mainly due to the acquisition of Edge at the beginning of this quarter and Souq Extra at the end of this quarter. It also resulted from the impact of improved occupancy in the residential portfolio.

On a year-to-date basis, gross income was $23.9 million. In terms of unrealised gains, the valuations in the second quarter were flat. However, it rose by $1.4 million in the third quarter and on a year-to-date basis it stands at $4.1 million.

Looking at the total income graph, which has fallen in the second quarter, we now have seen an increase of over $3 million to reach $10.5 million as at 31st December. The year-to-date total income stood at just over $28 million at the end of the quarter. Quarter two has been a challenging quarter due to the following: valuations were flat, there was a significant drop in residential occupancies and cash received at IPO had not yet been deployed, which resulted in low yields in the quarter, but also for the year. Now, we have fully deployed the cash and occupancies are improving, so we envisage quarterly returns going forward.
If we move to the next slide, slide 16, we break down ENBD REIT’s expenses. Operating expenses for the year-to-date period totaled $5.76 million or 24.1% of total income. It is slightly higher than the previous quarter when it was 23.3%, which is due to the one-off expenses incurred in the reinstatement of our Remraam building. Year-to-date finance cost was $4.7 million or 16.9% of total income. This caused an increase from the previous quarter, as we drill down for the Edge and Souq Extra positions, which moved our LTV from 28% to 36%. As you may be aware, EIBOR is also increasing and as a result, our blended profit rate or finance cost increased to 4.6%. Fund expenses were $4.9 million or 17.6% of this total income, with some one-off expenses of 2%. On this basis, ENBD REIT is achieving a net profit of $12.6 million at a margin of 45%.

If you look at the next slide, slide 17, looking at the REIT capital structure, which is outlined on there, you will note that the terms of our financing remains the same from the previous quarter. These are in summary profit-only with maturity at 2021 and at three months EIBOR +2.5%. Repayment is 10% at the end of year four and the remaining amount of 90% is repayable at the end of year five. The remaining available drawdown amount is $22 million and then fully drawn we will reach an LTV of approximately 39%. At present, our LTV is 36%, which Anthony already touched on, with total equity of $300 million, and a total debt of $168 million. We are looking at various options to increase this LTV to our desired level of 45%.

If you look at the slide 18, you will find a more detailed summary of our financials with slides covering our statement of financial position and statement of comprehensive income.

At this stage I can also mention that you are aware that value added tax has been introduced in the UAE from 1st January 2018, which will have a positive impact on the economy and stimulate Government spending. In terms of VAT, ENBD REIT has some exposure to it, as the residential portfolio will not be able to recover input VAT. We have run an impact assessment tech specialists and confirm that ENBD REIT’s exposure to VAT is a minimal and bearable expense.

With this, I will pass it back to Anthony.

Anthony Taylor

Thank you, Asif, so this concludes the presentation for this call. In summary, the highlights on the quarter include quarter-on-quarter increase of 1.71% in the net asset value and portfolio occupancy growth of 8% over that period to reach 87%. Together with the conclusion of the further two acquisitions, The Edge and Souq Extra, taking our loan to value to 36%, the portfolio is well positioned to perform in the coming periods. A realignment of the dividend cycle to coincide with the financial year will simplify ENBD REIT’s financial calendar and enable us to adhere to international standards of best practice. We appreciate the time that you’ve taken to join us.

Question and Answer Session

Operator

We have a question from Mohamad Haidar from Arqaam Capital. Please go ahead.

Mohamad Haidar

I have three questions please. The first one is on Souq Extra, so if the acquisition was done fully by debt, which is $22 million, what was the acquisition yield? When you say 8% on cash and 11% on equity, what would be the acquisition yield? Is it 8%? That’s one. Two, with the full consolidation of The Edge and Souq Extra, where do you see FFO growing in Q4? So in Q3 it was around $7.6 million net of revaluation gains, so that’s cash profit. Where do you see this growing with the full consolidation of the two new acquisitions? My third question is on dividends. So apparently you have $15 million in cash on balance sheet and if we want to net out the final dividend payment, which is going to be close
to 50% of that or more, you will end up with very little cash on the balance sheet. Do you plan... if dividends are currently higher than 100% of FFO, will we end up maybe next year with deficit in cash, so how are you planning to target that issue? Thank you.

**Anthony Taylor**

Thank you, Mohamad. I will address your first query on acquisitions and then Asif will respond on your second two questions regarding FFO and dividends and cash. On the Souq Extra transaction, you're correct, we look at these opportunities in two ways. First is purely on a cash basis. We paid AED 84 million for this asset and we're receiving an 8% yield in year one on the AED 84 million. We also run the calculation at a portfolio level of being able to go up to a 50% LTV. As you rightly mentioned, we utilised 100% debt for this transaction, because we drew down on our facility, but when we do the calculation, we look at it on a 50% LTV basis and that generates an 11% on equity, given the current terms on the facility we have in place.

I will hand it over to Asif to address your other two questions. **Asif Siddique**

The first one is about funds from operations after Souq Extra. If you notice that Edge was acquired on 4th October, so it has already captured most of the rental income from this asset in Q3. Souq Extra was acquired on 26th December 2017. Its impact will therefore begin in this fourth quarter. The increase, which you referred to was from the previous quarter where valuations were flat, occupancies were down and cash had not been fully deployed. From here onwards, Souq Extra will generate additional income. We can give you a guidance that it will have a positive impact around 10% on the Q3 income numbers, the absolute number cannot be disclosed at this time.

In terms of your last question, which is on the cash availability, we drew down on our current facility for the Edge acquisition; and a further AED 100 million for the Souq Extra acquisition. We still have ability to draw down additional amounts from our current facility.

**Mohamad Haidar**

One more question. Let’s say dividends for the full year are at $19 million for full year, where do you see FFO growing to in 2018 for the full year compared to what you were going to give in dividends?

**Asif Siddique**

If you notice, we acquired those buildings during the year, so Uninest was acquired in May, South View School was acquired in August, the Edge building was acquired in October, and Souq Extra was acquired in December, so first of all this $19 million number does not reflect the total rental income for a full year financial year where these additional 4 assets were held in the portfolio for the full year. In other words, this $19 million income is expected to increase in the next financial year. On top of that, we will continue to source opportunities for acquisition which should take ENBD REIT’s LTV from 36% to 45%.

**Operator**

We have no further questions. Dear speakers, back to you for the conclusion.

**Anthony Taylor**

Thank you everyone. No further questions, so we will end the call. Thanks to Shuua and Ankit for hosting, and we look forward to another update at the end of March.