Ladies and gentlemen, welcome to ENBD REIT 31st December 2018 NAV Quarterly Update call. I will now hand you over to Harshjit Oza from SHUAA Capital. Sir, you may begin.

Harshjit Oza
Good morning and good afternoon everyone. Thank you all for joining with us for ENBD REIT 31st December 2018 NAV Quarterly Update call.

[Introductions]

I will now request Salman to go ahead with his remarks.

Salman Bajwa
Good afternoon everyone and welcome to our analyst call for the quarter ended 31st December 2018.

[Introductions]

A warm welcome to everyone joining the call today. In a moment, I will hand over to these gentlemen to take us through the performance for the period, but first I will give you a brief overview of significant events in Q4 2018.

You will be aware that in November of last year we held a general meeting where reduction in share capital was approved, as well as a new appointment to the board. The former is now waiting for approval by the DIFC Court, and we hope to receive confirmation on this during the coming
weeks. Once that approval is received, we will be in a position to distribute the declared interim dividend. Meanwhile, there have been updates to the board of directors. In addition to Khalid Al Fahim’s appointment at the November general meeting, the board has since accepted the resignation of David Marshall and confirmed the appointment of Mr Ali Al Mazroei. We welcome both Khalid and Ali to the board and look forward to the guidance that they will provide to management. We would also like to thank David Marshall for his time and effort as director.

I will now hand over to Anthony to take us through the recent performance highlights.

Anthony Taylor
We’re starting on slide four where we have a snapshot of some of ENBD REIT’s key metrics as at 31st December. I will be brief here, because as you can see, the numbers remained more or less consistent on the previous quarter. The property portfolio value is slightly down on the first half of 2018 from $459 million to $456 million, reflective of downward pressures in the local real estate market, but on balance we think that the value of our holdings has so far proved robust. This is, to a large extent, due to our diversification strategy that we have been successful implementing. The portfolio still comprises 11 properties covering the office, residential and alternative asset class.

In terms of portfolio composition, our holdings are 64% office, 18% residential, and 18% alternative. Occupancy in the portfolio is followed at 88% and the unexpired lease term or WAULT stands at 3.61 years. Loan to value and gross yields have remained steady over the period.

ENBD REIT’s NAV now stands at $284 million or $1.11 U.S. dollars per share, showing a decline of just $1 million or 42 basis points for the quarter, which we consider evidence of considerable resilience given difficult market conditions.

Slide five provides a brief reminder of recent and proposed dividend payments to shareholders. The latest proposed interim dividend of 2.7c per share is equivalent to 8.4% annualised at the 31st December share price of 64c. We intend to announce the exact payment date after the reduction in share capital process has been finalised in accordance with the new DIFC Companies Law which has caused a delay in our intended distribution back in December. We expect this process to be completed in February and we will, of course, keep the market updated as appropriate. Our intended share buyback programme is also expected to commence at around the same time, subject to regulatory approval.
We will take a look at ENBD REIT’s capital structure on slide six. As we announced in latest quarter, we had secured a competitive financing facility with Standard Chartered, reducing our cost of borrowing, which is currently the largest cost for the REIT. As you can see with Standard Chartered, we have secured favourable terms of three months LIBOR plus 2.15%, and negotiations are ongoing in regards to refinancing our remaining debt, which we hope will achieve further cost efficiencies in our borrowing. At a current loan-to-value of 38%, which is unchanged from the previous period, we have room to increase our loan-to-value to 44% when fully drawn on our available debt facilities.

Moving onto a discussion on the property portfolio, we are now on slide eight where you can see that the portfolio remains well diversified as we continue to look for opportunities to grow through the utilisation of our debt facilities.

In terms of 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 becoming particularly important, given challenges prevailing in the residential and to a lesser extent, the office market. Our alternative assets currently include a balance of student accommodation, education and retail, and at 18% we are looking to increase our allocation in these sub-segments, among others such as industrial and healthcare. The office sector remains our biggest holding at 64%.

Following-on on slide nine, we illustrate how we have effectively spread risk in our office portfolio by leasing assets to tenants in a wide range of sectors including ICT, legal services, healthcare, media and retail to name a few. We continue to seek long-term agreements with tenants boosting occupancy, income and unexpired lease terms and constantly monitor any over-reliance on a single tenant sector.

Slide 10 shows that occupancy across our holdings remains strong, although it has experienced some downward pressure moving from 90% to 88, driven by both the residential and office portfolio. In the case of some properties, rental rate adjustments have been necessary to safeguard occupancy, and we expect to see the occupancy improve in the near-term, albeit at lower rental levels. This is, of course, heavily influenced by the prevailing market conditions, which remain challenging.

In terms of target allocation, as we acquire further assets, we will be looking to double our holdings in the alternative segment, as this is where we see the most attractive upside potential as well as the opportunity to mitigate market volatility in the short-term. Generally speaking, we’re pleased to
report that the valuations across the portfolio are holding up in difficult market circumstances.

Slides 11 and 12, you will note that this is particularly true of our office and alternative properties. As you would expect, the greatest downward pressure on the valuations has been experienced in the residential segment. We will reiterate again, in light of these stable valuations, how important our commitment to diversifying the portfolio is. We will be looking to acquire assets that show the best potential for high occupancy levels, long-term lease agreements and diversification within the current portfolio.

We will take a look now at the portfolio segments in more detail on slides 13 through 15, starting with the office buildings.

Despite a soft market, office valuations are holding up well. Al Thuraya 1 in Dubai Media City still occupies the most significant share of our total portfolio at 20%, followed by The Edge at 17%. WAULTs in the office portfolio are mostly strong with The Edge and Burj Daman at 2.71 and 3.01 years respectively. Overall, office portfolio occupancy is also strong at an average of 85%, which is down by 2% on the previous period. Gross rental yield from the office segment is steady at 8.3%. We do see some challenges leasing at Al Thuraya 1 during the first half of 2019, with Huawei set to vacate part of their current space, so leasing here will be a focus for our real estate team.

Moving onto the residential portfolio. Reduced rental rates have been implemented in order to maintain high occupancies. This approach has had the desired effect that income has been maximised, however, it does put current valuations under pressure. Binghatti Terraces occupancy has started to fall in the second half of 2018 and further amendments to leasing rates are set to correct this going forward. As is the nature of residential assets, the WAULTs in this part of the portfolio is typically lower than the average at 0.75 years. The gross rental yield stands at 8.4%.

On slide 15, we take a look at the alternative portfolio and this continues to perform well at 100% occupancy and the growth is a high priority for management in 2019. Here, we will target long-term leases such as that at South View School, which is for 35 years to the operator.

I will now pass it over to Asif to take you through some of the financials in more detail.

Muhammad Asif Siddique
On slide 17 we look at key themes in financial performance that have emerged during the first nine months of the reporting year. These include significant improvements to net rental income or funds from operation, acquisitions and higher occupancies rising, increased gross income, a higher cash return on NAV despite challenging market conditions, and unrealised valuation losses impacting the REIT net income.

On slide 18, we have provided a summary of financial performance for the nine-month period ended 31st December 2018 compared to the same period last year. Gross income has improved by 18% due to post-listing acquisitions, but it has also suffered from the impact of the soft residential market. In this respect, residential income, in particular, is lower. Operating expenses have increased by 18%, which is mostly reflective of the increased cost of the portfolio, additional drawdowns and rate hikes. We will take you through the expenses in more detail on the next slide, but if you look at funds from operations have increased by 16% for much the same reasons as those just described.

With regard to unrealised losses impacting net income, these are driven primarily by the soft rental market, which translates directly into valuation losses in the portfolio.

Moving onto slide 19, you get a clearer picture of our nine months expenses year-on-year, which have increased by $2.8 million. The pie chart on the left of this slide breaks down the total expenses. Operating expenses of $5.5 million are down by 3% reflective of acquiring assets at minimal cost to ENBD REIT. Meanwhile, fund expenses of $5.1 million are also down by 2%, however, total financing costs have increased due to additional drawdown on debt facilities and increased cost of financing, which has made management’s effort to secure more competitive facilities all the more important. This remains a near-term focus and once fully executed in the coming months, we would expect to see a positive impact on our P&L.

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 will now hand back to Anthony for some closing remarks.

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**Anthony Taylor**

That concludes the brief presentation. We are appreciative of the time that you have all taken to join us and we will open up the call now to any questions.
Mohamad Haidar
Two questions please. The first one on FFO, we have seen it going down in Q3 or in this quarter to 2.9 million. On this run rate, if you annualise this FFO, it would still end up lower than the interim dividend that you paid for H1. Does this mean that the final dividend payment, if you want to maintain the 100% pay-out on FFO could be actually lower than the interim dividend? That is my first question.

The second question is on the basis of valuation of your property value, specifically for the vacant GLA, how you actually value these vacant units. Is it also on DCF approach or, for example, if the office unit in Thuraya now, occupancy goes down, how would that trigger the new valuation of the portfolio. Thank you.

Anthony Taylor
Let me address your first question on the FFO. You're correct, in terms of what we have achieved in the first half and extrapolating that for the rest of the year, it could potentially be lower than what we had achieved for the six months. What we still need to determine is how successful we are in implementing our leasing strategy for the last quarter. We have seen movements in occupancy. What you see on each quarter presentation is the end of the quarter occupancy rate for especially the residential assets which do have quite a lot of churn. You can see Binghatti Terraces is down at 69%, the other two buildings are quite high, but that doesn’t necessarily mean that they were at that level for the full quarter. It is important to see how the occupancies remain for the remaining two months, and then we will have a much better indication of what that final dividend will be.

I think, for us, at a best-case, it is going to be the same, it could be potentially off what the first six months were for those reasons.
In terms of your question on the vacancies and valuation, it is done on the DCF basis, so assumptions are made every quarter in terms of the vacant space available, taking into consideration how long it’s been vacant, and what is the likelihood of it leasing out at the current rate being the asking rate and the rate being achieved. I think Al Thuraya is an interesting asset in our portfolio in that the rental rate in [TCOM] are determined by [TCOM], so those will most likely be fixed, but then again there will be assumptions on how long it would take to lease out, and that would obviously have an impact on the valuation.

Mohamad Haidar
Just a follow-up question on this. So we know that lower rents would automatically trigger lower valuations, but should you also assume lower valuations if vacancy goes up and, in particular, units or that we should take into consideration other factors on this?

Anthony Taylor
As the vacancies increase, typically assets have slightly lower values than if they were full. There are a number of moving parts – is it leased above market, below market rentals, has an impact on that equation, but I think it’s safe to say in the current market environment if we do start to see vacancies increasing, we would expect to see some pressures on valuation. It’s not a like-for-like, so a 20% increase in vacancy does not reflect a 20% decrease in valuation at all, but there are some movements around those two metrics.

Harshjit Oza
I have some questions on this side, if I may. So two questions: first of all, occupancy has corrected a bit from quarter-to-quarter, 90% to 88%. How do you see going forward for the full year? Secondly, what does Anthony – you mentioned earlier about the valuation, if you can give us some idea that… first of all, I mean, your WAULT in residential is still very low, so how many… what sort of… how many percentages of your assets are in line with the market valuation and how many are maybe above or below, if you can give some reference with respect to your rental and the current market valuation, especially for the residential?

Anthony Taylor
I think on the occupancy, yes, we are seeing it fall off some of the highs achieved to the end of 2017, beginning of 2018, where I think we got up to
90%. It has come down slightly. Not significantly, though, and keep in mind the portfolio was I think below 80% occupied at the time of the IPO, so we have improved that significantly over the last two years, and what we’re seeing now is a trade-off between trying to achieve higher rental rates versus renting it at lower rates and improving our occupancy. I do feel specifically on the residential assets that you can achieve well over 90% on each of these assets if you price it at a low rate in the market, and we’re busy trying to find that balance in the current environment.

On the residential rates at the moment, it is a difficult one to answer, because we are... it’s still in an environment where those rates are changing constantly. We have recently revised our market rates to be able to achieve the highest occupancies in the building, and we will see that at the end of this quarter how successful that strategy has been, but I think we’ve got it right. I think we’re on the market rate and that should potentially have a slight impact on the valuation, but if you look – again, we’re talking mainly residential, which is only 20% of our portfolio, we’ve seen a lot of that valuation correction already. Some of the assets have gone down by 20% since our IPO pricing.

Harshjit Oza
Yes, residential I agree, it’s relatively less, but all the [mark-to-market] losses are coming from that side, correct?

Anthony Taylor
Yes. Well, again, what we’re seeing is on the rest of the portfolio you have... if you look at the offices, you have contractual increases with existing tenants kicking in, which typically drives up your valuation, and at the same time you’re having some market assumptions being adjusted to bring down, and the valuation holds, but we are seeing softer assumptions being applied to those assets as well.

Harshjit Oza
One on the financing cost, there was an increase in the quarterly numbers, so was there anything, one-off sort of thing, or this is...

Anthony Taylor
I will pass it onto Asif to answer.

Asif Siddique
This is more related to the drawdown, which happened in the period of September/October last year. We had additional drawdowns which increased the cost. At the same time, the financing cost increased in the market, the rate hike, so these are the two main factors which caused higher interest costs or the finance costs in comparison to the last quarter.

Harshjit Oza
But now with the new facility your rates are lower, so this should improve, I guess, going forward or...?

Anthony Taylor
I think just on that point it’s important to note the new facility portion of it is refinancing the existing and the rest of that facility we have earmarked for some acquisitions we’re intending to do in the next two quarters, so the immediate benefit you probably won't see in the numbers, but it is cheaper in terms of the current facility, and we’re out there at the moment finalising a full refinance of the existing facility that we have. So, again, we expect that to come down. It may not be evident in the next two months remaining.

Operator
Our next question comes from Anastasia Belgianakis, Greek Capital. Please go ahead.

Anastasia Belgianakis
I have a question. Given the circumstances about your fund expenses, they seem to be held at a very elevated level. In fact, you announced that your expanded your board of directors, which will only increase the fund expenses. I would like to ask you what exactly are you doing to actually reduce the fund expenses? Because given your current NAV in the market, your current market, they're almost 100% above your management fee; even on your NAV, they are almost 1% above your management fee. So I would like to ask you how do you plan to optimise them and reduce them? That’s my first question.

The second question is I just want to confirm what’s your high watermark as of now in order to evaluate? I assume there is no performance fee that you are accruing at the moment, but I just want to confirm that.

Anthony Taylor
Let me start with the high watermark. It is a measure of what the NAV was at the time of the IPO less what your return of capital payment was made. You're correct. There is no performance fee being charged at the moment. We have a hurdle rate to meet as well, which is 7%, so while we are not achieving in excess of that, we're not charging any performance fees on the portfolio. You're correct, expanding the board does have a slight increase to our fund cost; it also brings a number of benefits that we hope to utilise in terms of exposure to the real estate market and other expertise. One of the key drivers for us in our budgeting for our next financial year is to look at every cost in this portfolio and try and make it as efficient as possible. We do believe, when you look at the assets in the portfolio, that maintaining a high level of quality in the service providers that we engage with is beneficial to maintaining the occupancy, and that’s important for us to maintain going forward. If you try and save too much on cost, you often do that to the detriment of the income that a product can generate as well, but in the current market environment where we are seeing softer rates being achieved, we are very mindful that we need to be focusing heavily on the cost as well.

Operator
Our next question comes from Bassam Slim, Avendicum Capital Management. Please go ahead.

Bassam Slim
I have two questions. The first one is clearly the current market situation, it’s a buyer’s market, so I'm assuming you must be busy as ever looking for new deals. Are there certain parts of the market that you think is a no-brainer and do you expect to see quite a positive this year? The second question is can you possibly give us an update on the buyback?

Anthony Taylor
In terms of the market and the opportunities to acquire, like we referenced in the presentation, our focus is in that alternatives sector. The reasons for that is they come with long leases and long leases hold you over any short-term volatility, so it’s about buying into five, 10-year lease arrangements with tenants and riding out this current market environment. There are more opportunities coming to us that are more attractive in terms of the pricing and that’s obviously refreshing to see. It’s helpful as well that we’re now in a position to execute on those with the financing facilities that we've arranged, so we’re expecting to transact now at better rates than what we were achieving back in 2017. But I think it’s fair to say if it’s a good quality asset, there are still a number of potential buyers out there looking for these
yields and long leases, and you might be surprised that the opportunities are not as attractive as maybe some of the headlines in the newspapers suggest when you get into larger institutional assets.

In terms of the share buyback, we are finalising the regulatory approval process. Again, like we mentioned, we’re expecting by the end of this month that that will be finalised and we can be out there executing. We are, again, looking to – what we’re trying to achieve with this programme is really to stop the short-term volatility or the small volume trades having a large impact on the share price, which we've seen towards the end of 2017, and it has a benefit to the shareholders in the fund. The shares that we would be acquiring would get cancelled and there would be an obvious uptick to the main shareholders.

Asif Siddique
Just to add to Anthony’s point, I think when he is mentioning about the month-end, it’s more related to the February side rather than the January.

Anthony Taylor
Correct, end of February, yes.

[No further questions]

Anthony Taylor
Thank you very much. Thanks again to everyone for joining the call and we look forward to our year-end call once we have finalised those numbers. Thank you.