Analyst Call Script

ENBD REIT
Managed by Emirates NBD Asset Management

ENBD REIT Q4/FY 2023 NAV Analyst Call

7 June 2023

Presentation Script

Welcome (Anthony) – Slide 1

- Good afternoon everyone, and welcome to our Q4 and Full year 2022-2023 earnings call for the period which ended on 31 March 2023. Thank you for joining today.

Presenting team (Anthony) – Slide 2

- My name is Anthony Taylor, and I am the Head of Real Estate. I am joined by Asif Siddique, our designated CFO, and Melanie Fernandes, Senior Portfolio Manager.
- Our thanks to Arqaam Capital for hosting this call.
- A copy of this presentation is available on our Investor Relations webpage; under 'Results and Reports - Quarterly Investor Presentations'. You will notice that this presentation has changed slightly as we have included more information that we believe may be useful to you.

Successfully capturing the benefits of the market recovery (Anthony) – Slide 3

- On Slide 3 we are pleased to confirm ENBD REIT has successfully captured the benefits of the broader recovery of the real estate market.
- Net income is back in positive territory for the first time since 2018 due to positive valuation movements throughout the year, increasing to 21.9 million dollars, up from negative 4.4 million last year.
- This performance is a direct result of the benefits from the strategic choices made in the previous years to improve asset quality using proactive asset management methods.
- Overall portfolio occupancy rose to 88%, the highest since 2018, with office assets starting to catch up on high levels being enjoyed in the residential and alternative sectors.
- Net Asset Value was up 7.5%, reaching 179 million dollars, up from 167 million dollars the year before as the value of our portfolio rose further in the fourth quarter to reach 370 million dollars, 3.9% higher than last year.
- There has been significant improvement in leasing activity, with our Burj Daman DIFC office holding achieving 100% occupancy in May for the first time since its acquisition in 2015. Our refurbishment efforts at Al Thuraya Tower 1 have resulted in significantly improved occupancy, now over 60%.
- Despite this positive performance in the portfolio, dividends were negatively impacted due to the rising cost of debt. We have taken steps to mitigate this and have put hedges in place post-yearend as the market outlook on finance costs appears to be turning a corner with inverted forward yield curves. We will go into this in more detail later in the presentation.

- I will now hand over to Asif to take you through our dividend payout and yield slides.

<u>Payments to shareholders (Asif) – Slide 4</u>

- Thank you, Anthony and welcome everyone. The proposed final dividend of 4.5 million dollars or 1.8 cents per share, highlighted on slide 4, was approved by the directors and is recommended to the shareholders for their approval at the AGM on 22 June 2023. The proposed final dividend equates to 2.51% of NAV and 4.64% of the share price of 31 March 2023.
- If approved, the total dividend for the year will be 9 million dollars representing a payout ratio of 98.3% of the net rental income or funds from operations (FFO).
- As indicated by Anthony, the proposed total dividend has been reduced by 5.3% from last year as a direct result of the impact of higher finance costs which rose significantly during the year.
- Our dividend history shows our commitment to maintaining consistent cash distributions to shareholders, and we will maintain our policy of distributing as much of our net rental income as possible while maintaining a responsible approach to managing our business and covenants.

<u>Yields (Asif) – Slide 5</u>

- The chart on slide 5 illustrates our consistency to maximize dividend payments from net rental income or FFO. This slide shows dividend payments as a percentage return on share price and NAV, as well as the FFO generated each year as a percentage of NAV.
- Dividends on share price remain attractive and our commitment to distribute close to 100% of FFO remains intact.
- The only exception to this was during covid in 2020-2021 financial year when we adopted a more cautious dividend payment due to the uncertainty around receivables at the time. We will discuss this in more detail later on in the presentation.
- I will now hand over to Melanie to take you through the real estate portfolio.

<u>Portfolio (Melanie) - Slide 6</u>

- Thank you Asif and good to be talking to you all again. Moving on to Slide 7.

<u>Snapshot (Melanie) – Slide 7</u>

- Overall portfolio occupancy improved across our 11 assets to 88% driven by a healthy increase in our office occupancies, following the recent refurbishment completions at Al Thuraya 1, DHCC and Burj Daman.
- Our portfolio composition remains skewed towards these office assets at 68% by value, with the balance in residential and alternative assets.
- Our WAULT decreased to 3.9 years for the overall portfolio from 4.25 years a year ago, due to the natural progression to the expiry of key large tenancy contracts during the year. This was offset slightly by the improved leasing activity witnessed across the commercial office portfolio.

Portfolio characteristics – portfolio occupancy - (Melanie) – Slide 8

- On Slide 8, we see that during the year, significant letting milestones were achieved across flagship assets with our office holdings improving in occupancy by 10% in the year, to 83%.
- We are pleased to confirm that we have reached 100% occupancy at Burj Daman offices located in DIFC in May 2023. This is up from 91% in March 2023, and as Anthony mentioned, this is the highest occupancy levels achieved in this asset since it was acquired in 2015.
- At Al Thuraya Tower 1 in Dubai Media City, occupancy improved steadily throughout the year to over 60% in May 2023, from a low of 35% after the completion of the refurbishment project at the start of this financial year. As at March 2023, the occupancy was at 59%.
- The Residential and Alternative assets remained close to fully let with leasing rates improving during the year in line with positive market sentiment across Dubai.

ENBD REIT's valuations improving in current market (Q-o-Q) (Melanie) – Slide 9

- Moving on to valuations on slide 9, you can see that we are experiencing a steady positive trend in valuation movement after the pain we took between 2018 and 2021.
- We are up 13.8 million dollars in the past year, continuing the trend for the fourth quarter in a row.
- This is expected to continue in the coming quarters as all underlying lease fundamentals remain strong and the office sector, our largest sector by value, is showing signs of performance improvements which should support valuations further.
- We are, however, also cautious that the higher interest rate environment may impact yields, and as a result, valuations negatively if relief in this interest rate cycle doesn't materialise in the coming quarters.

Asset Valuations with Y-o-Y change (Melanie) – Slide 10

- Moving to slide 10, this slide provides each assets' valuation movements for the last 2 years, with the percentages highlighting the change over the past 12 months.
- As mentioned a moment ago, offices are set to maintain an upward trajectory with solid leasing data continuing. Occupancies in the residential and alternative assets are expected to remain allowing us to increase leasing rates in some assets which should also impact valuations positively.

Asset snapshot: Office (Melanie) – Slide 11

- From slide 11, we have revised the tables for each sector to include actual 12-month trailing gross and net yield figures per asset.
- Please keep in mind that these numbers are impacted by lower occupancies in the prior quarters and the stated occupancy rates are as at our financial year end.
- Net Yields across the portfolio are currently 6.8% and as a point of reference, assuming a fully occupied portfolio at market rates, our overall net yield could potentially reach 8% if current market sentiment remains.

- On the office front, we see Al Thuraya 1 standing out with a low net yield of 3.3% as the building has been recovering during the year from its low occupancy at the start of 2022.
- The average occupancy over the last 12-month period has been 49%. And we are pleased to confirm we have now achieved over 60% at this building which continues to climb steadily with renewed tenant interest, now that the improvements to this asset are widely acknowledged across the Dubai office market.
- Similarly, Burj Daman's net yield was calculated off an 82% average occupancy for the last 12 months. As mentioned, we have finally achieved full occupancy in May with the last of our subdivided and furnished units being leased last month.
- This higher occupancy across the office portfolio provides us with the opportunity to start revisiting our asking rental rates for new tenants and renewals.
- While doing this drives net rental higher, we are mindful to balance this with existing tenants' rising costs in an inflationary environment.

Asset snapshot: Residential (Melanie) – Slide 12

- On slide 12, we look at our residential portfolio.
- Residential assets remain close to full occupancy and rentals are being revised in line with the market and renewals negotiated in keeping with the RERA Indices and the rental increase calculator.
- Binghatti Terraces is currently boasting a high 8.5% net yield, having enjoyed strong occupancy and improving rental rates. We expect the valuation to move further up on the back of this strong demand.
- Remraam remains a challenge at a 6% net yield despite high occupancy. This is one of the assets earmarked for disposal as the potential unit sale price in the current market is likely to exceed its current valuation even at this yield.

Asset snapshot: Alternative (Melanie) – Slide 13

- Our alternative assets displayed on slide 13 continue to generate healthy net yields with high occupancies secured under longer-term lease structures.
- With Souq Extra retail reaching 100% at financial year end, we are please to report 100% occupancy in our alternative asset holdings. Moreover, we continue to receive regular payments from the corporate occupiers Uninest and South View School.

Sustainability and Wellness (Melanie) – Slide 14

- ENBD REIT has placed an emphasis on sustainability and wellness in line with market trends and our commitment to align with the green initiatives of the UAE.
- We are actively integrating sustainable practices throughout or portfolio to develop environmentally friendly and wellness-enhancing spaces including the use of LED lighting, water aerators, waste recycling as well as improving of shared facilities for our occupiers in our buildings in the form of break-out areas, meeting rooms and exercise spaces. We believe that this focus

adds significant value to our portfolio and to our tenants well-being as we see a strong trend of "return-to-office" across Dubai.

- Following last year's LEED Gold certification for The Edge Building, we have completed a GAP analysis for potential LEED Certification in our wider portfolio.
- The South View School has been identified as the next asset to be registered for LEED Operations and Maintenance Certification.
- This reflects ENBD REIT's commitment to sustainable practices and reducing the environmental impact of our assets.
- The LEED certification, developed by the U.S. Green Building Council, is globally recognized as a symbol of excellence in sustainable building. We are utilizing the ARC platform to track energy and water utilization as well as waste management across all our wholly-owned buildings to identify future certification projects.
- On this slide, we have included South View School's current ARC score of 45 points, which once we have included the surveys relating to transportation and human experience, should achieve a minimum of LEED Silver Certification for this asset.
- I will now hand it back over to Asif to go over the financials.

<u>Financials (Asif) – Slide 15</u>

Thank you, Melanie. Let's go into the financials in more detail. Moving on to slide 16.

<u>Financial summary (Asif) – Slide 16</u>

- Improvements in occupancies resulted in a 14.7% increase in our Gross income.
- Finance costs have however unfortunately also increased, up by 45.4% compared to last year and 19.7% quarter-on-quarter.
- Operating expenses also saw an increase of 14% year-on-year and 11.3% quarter-on-quarter, attributable to the direct expenses that came with higher occupancies and the impact of inflation.
- Our fund expenses rose by 4.5% compared to last year.
- As a result, our FFO for the fiscal year showed a slight downward trend, declining by 3.8% or 360,000 million dollars.

<u>Valuations Movements (Asif) – Slide 17</u>

- We have added slide 17 in our new format to show you valuation movements year-on-year with the orange and green percentages highlighting these movements as a percentage of total portfolio value.
- This highlights the valuation pressures we have experienced since listing in 2017 and we are pleased to see positive signs of recovery over the last year.
- As Melanie referenced earlier, we expect this positive trend to continue over the coming quarters in light of market dynamics. As we mentioned earlier, we have reported an annual valuation gain of 12.3 million dollars, equating to a positive 3.4% movement in the year.

Gross Income (Asif) - Slide 18

- Slide 18 is also a new addition to our presentation which illustrates the ENBD REIT's gross annual rent and various expense margins.
- Gross income has improved over the following year but it is also evident that higher finance costs, rising to 34% of total revenue this year, are here to stay in the short term despite our continued efforts to bring this cost down.
- The FFO margin of 29% is lower than in prior years because of these higher finance costs despite positive growth in our total rent. This has resulted in a slight decline in proposed distributions for the year.

Post-Pandemic Receivables (Asif) – Slide 19

- Moving on to slide 19 which relates to the receivables, where we have another positive development to highlight in relation to our receivables. You may recall receivables which came under pressure during the Covid pandemic where we engaged and reported on our tenant relief programme.
- This programme has now ended and our receivables are now sitting at a reasonable level of 3% of Gross annual rent, down from 17% in March 2021, as tenants' rental payments have reverted to more consistent, pre-pandemic levels.

Receivables and Provision for doubtful debt (Asif) – Slide 20

- Moving on to slide 20, of the 2.5 million dollars total receivable, 2.3 million dollars has been fully provisioned in line with our bad debt policy.
- Further, 1.6 million dollars of this amount, relating to our Uninest asset has a contractual mechanism that enables us to recover this outstanding from the tenant as their operating conditions improve in the future.

Capital structure (Asif) – Slide 21

- Moving to slide 21, due to the improvement in valuation, our LTV has come down from 54.5% last year to 52.7% at the end of this financial year.
- As mentioned earlier, we also believe that the higher-interest rate environment is likely to remain high for longer.
- With this outlook, we have placed hedges on 50% of our debt effective from this quarter.
- As indicated previously, we continue to assess opportunities to rebalance our portfolio and consider value-accretive disposals to bring our LTV down below 50%.
- Finally, we have a detailed balance sheet and income statement in the appendix of this presentation.
- Now I will hand it back to Anthony for the outlook and closing remarks.

Closing remarks (Anthony) – Slide 23

- Thanks Asif.
- So, "Where is our focus over the coming year?"
- Operationally, we remain committed to delivering high-quality accommodation for all our tenants as we review our portfolio allocation in light of current market conditions.
- Finance costs remain our biggest challenge and we are actively considering potential disposals to offset some of this cost.
- As mentioned by Melanie Our ongoing commitment to sustainability and wellness is being ramped up with all wholly owned buildings being monitored under the ARC platform for potential LEED certification in the future, with South View School LEED O&M certification currently underway with a target of achieving a Silver rating.
- With respect to dividends, while interest rates remain high in the short term, cashflows for distributions are likely to remain under pressure. These will hopefully be offset in part by continued positive momentum in our portfolio's net income and valuations over the coming quarters.

- Thank you for attending this presentation today.
- We are now ready to answer any questions you may have.