# ENBD REIT 31st December 2022 NAV Update and Conference Call

## 8 February 2023

Welcome (Anthony) – Slide 2

Good afternoon everyone, and welcome to our Q3 2022-2023 financial year earnings call for the period which ended on 31 December 2022. Thank you for joining today.

Presenting team (Anthony) – Slide 3

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'.

Snapshot (Anthony) – Slide 4

Against a backdrop of continued strengthening of the Dubai property market and the benefits of effective asset management, the value of our portfolio rose further in the third quarter to reach 365 million dollars. This was 0.5% higher than in Q2 of this financial year, and 2.2% higher than a year ago.

Overall portfolio occupancy rose to 85% and has now returned to pre-pandemic levels. This has supported our valuations, as have the robust rental levels that we are increasingly able to negotiate, thanks in part to key improvements and refurbishments that we have carried out.

Net Asset Value reached 173 million dollars, up from 168 million dollars the year before and slightly higher than 172 million dollars in Q2 of this year despite going ex-dividend during this period. WAULT is now at 3.92 years, down slightly due to the natural progression towards expiry and no significant leases being up for renewal during this period.

LTV is unchanged at 54%, and in a high and rising interest rate cycle this is starting to impact returns. A key focus for management is to address this rising cost of finance through disposals of assets to bring down the level of debt and potential hedges while the current yield curve remains inverted.

With regards to disposals, we have recently undertaken a strategic review of our portfolio to identify exit opportunities for non-core assets and as mentioned earlier the proceeds of any disposal would be used to reduce our debt in the current environment of rising interest rates. We will keep you updated about any developments in due course.

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

Payments to shareholders (Asif) – Slide 5

Thank you Anthony. On slide 5 our Interim dividend of 4.5 million dollars or 1.8 cents was distributed on 21 December 2022. The payment is equivalent to an annualised dividend yield of 5.2% for the half year on NAV and 8.8% on the market cap based on the share price at 30 September 2022.

This slide demonstrates our consistency over the years in making payments to shareholders. We will maintain our policy of distributing as much of our net rental income as possible while effectively re-investing in our portfolio to ensure its continued demand by occupants.

Capital structure (Asif) – Slide 6

Moving to slide 6 - our capital structure remains at 46% equity and 54% debt, just as it was at the end of Q3 2021-2022.

The sharp turn in the interest rate cycles driven by the impact of the war in Ukraine and high inflation in the US has negated some of the benefits of the refinance at lower margins undertaken with Emirates NBD and Commercial Bank of Dubai by the team in December 2021.

While we explored opportunities to retain hedges as part of the refinancing in 2021, by the time the refinancing had been concluded in late Q4 2021, the outlook and forward hedge pricing throughout 2022 had become less attractive. We will now look to hedge at lower rates as the interest rate cycle reverses.

I'll now hand over to Melanie to go through further details of the property portfolio.

Portfolio characteristics – portfolio occupancy (Melanie) – Slide 8

Thank you Asif. On slide 8 we see all 11 assets in our portfolio, which remains unchanged with 5 office buildings, 3 residential, and 3 alternatives.

As Anthony mentioned, overall occupancy has now improved to levels last achieved before the pandemic struck in early 2020, to reach 85%, with 7 of our assets now recording 90% occupancy or higher.

This improving picture partly reflects the investment in the maintenance and modernization of our office assets. Over the past two years, the various projects to drive occupancy across the portfolio included:

- Completion of major upgrades at Al Thuraya Tower 1
- Subdivision of vacant units at Burj Daman
- External tiling in DHCC49
- External tiling and façade painting in DHCC25

Our active and committed asset management approach continues to play a strong role in attracting and retaining tenants, and the above projects, represent about 50% of the overall portfolio.

Sustainability remains a top priority for the portfolio with the achievement of the WELL Health Certification for Al Thuraya Tower 1, and The Edge receiving the LEED Gold certification, the most widely-recognised green building rating system in the world. In addition, we have completed a gap analysis for LEED certification for South View School which indicates a strong likelihood of achieving LEED certification via the Operations and Maintenance (O&M) approach.

The portfolio valuation has continued its rising trend, from 357 million dollars in Q3 2021-2022, to 363 million dollars in Q2 of this year, and now 365 million dollars in this latest quarter.

The rising occupancy rates have resulted in a 1% increase in Opex, which we continue to monitor and streamline through portfolio efficiencies.

ENBD REIT's valuations stabilizing post pandemic (Melanie) – Slide 9

On slide 9 we see the overall portfolio valuations dating back to our listing on Nasdaq Dubai in 2017. Overall, they continue to edge upwards steadily, supported by improved occupancy and rental rates.

ENBD REIT's office and alternative portfolios impacted (Melanie) – Slide 10

On the following slide, we can see the valuation changes at an asset level over the past year. Residential valuations continue to strengthen ahead of the other two segments. Offices and alternatives remain stable. The valuation of South View School has seen a slight 4% decline due to the change of a few assumptions by the new valuer appointed in line with the REIT's rotation policy. Otherwise, all underlying lease fundamentals for this asset continue to remain strong.

Asset snapshot: Office (Melanie) – Slide 11

On the office front, there has been significant leasing success with the occupancy of Burj Daman improving from 79% to 83% as at 31 December 2022, and improving further to 90% in January 2023. This is in part due to an increased demand for smaller units following the reconfiguration in 2021.

Occupancy at Al Thuraya Tower 1 has risen from 46% to 51% over the same period and we expect further improvements as enquiries continue to come in for vacant spaces following its successful upgrade. Occupancy at The Edge remains stable at 99%, with DHCC 25 and 49 at 77% and 81% respectively.

The total market value of the office portfolio stands at 246 million dollars, up slightly from 245 million dollars at the end of the previous quarter.

Asset snapshot: Residential (Melanie) – Slide 12

On the next slide you can see that occupancy at our residential portfolio is very satisfactory, standing at either 98% or 99% at all three buildings. This represents a considerable improvement over Q3 last year, when Remraam was at 89%, and Arabian Oryx House and Binghatti Terraces were also slightly lower than the current levels.

These outcomes reflect the noticeable strengthening of Dubai's residential property market in recent quarters. They are also the result of our own active marketing and agile responses to changing market dynamics and preferences shown by the renting public. Rentals are being revised up in line with market demand and in keeping with the RERA index on renewals.

**Asset snapshot: Alternative (Melanie) – Slide 13**

In the alternative segment, occupancy remains at 100% at all three buildings, the same level as the previous quarter. The regular payments that we receive from our corporate tenants provide additional stability to our income profile.

WAULT in this segment stands at a healthy 13.97 years, up from 13.24 the year before following the renegotiation of the Uninest lease.

That concludes the portfolio section, I'll now hand back to Asif to take you through the financials.

**Financial summary (Asif) – Slide 15**

Thank you Melanie. On slide 15 we summarise the key financial movements for the quarter. The improving occupancy levels combined with our success in securing favourable rental agreements in many cases, led to a 16.3% increase in gross income in the first nine months of this financial year compared to last year. This ratio is slightly skewed by the reversal of the Uninest rental income in Dec 2021. Taking into account this one-off adjustment, we have seen growth of 4.4% over the nine-month period when compared to last year.

The portfolio valuation rose by 1.8 million dollars, or 0.5% in the latest quarter, maintaining an improving trend that is benefiting from Dubai's dynamic economic growth and continued ability to attract businesses and individuals from across the world.

As a result of rising interest rates, our financing costs were 12.7% higher in the first nine months compared to the same period last year and, as mentioned earlier, this is unfortunately expected to continue in the short term with the US Federal Reserve maintaining its current monetary policy to tackle US inflation.

Operating expenses were up slightly by 0.9%, due to direct expenses increasing in line with the improved occupancies. Fund expenses increased by 8.8% from last year, driven predominantly by additional provisions of 320,000 dollars for doubtful debt.

FFO, or net rental income, rose 38% in the nine-month period, with the improvement in revenue and one-off adjustments in the previous period as mentioned earlier.

Financial performance (Asif) – Slide 16

Moving to slide 16, we see our nine-month performance in dollar terms, with gross income up at 23.2 million dollars, and net rental income rising to 7.6 million dollars. And we are pleased to highlight a valuation gain of 7.2 million dollars this current year vs a significant loss the previous year.

Breakdown of total expenses (Asif) – Slide 17

On the final slide we see a more detailed breakdown of our expenses. Operating expenses were 4.6 million dollars, up from 4.5 million dollars in last year's first nine months period, while fund expenses reached 3.9 million dollars compared to 3.6 million dollars. Finance costs reached 7.1 million dollars, up from 6.3 million dollars.

Higher expenses are to some extent an inevitable consequence of higher leasing activity and costs associated with higher occupancy levels, inflationary pressures, and rising interest rates. We are comfortable that these costs are in line with market trends and remain manageable despite these higher levels.

Now I'll hand back to Anthony for some closing remarks.

Closing remarks (Anthony)

Thanks Asif.

In closing, to sum up some of the main points of our presentation:

- We are pleased that both occupancy and income are solid and continue a rising trend
- We are monitoring the interest rate environment closely and are confident we can manage through this rising exposure
- As the market remains buoyant, we are looking at strategic exits of certain assets in the portfolio to bring down our cost of debt

- And we are committed to furthering our sustainability agenda with LEED certification being considered for our South View School asset

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