ENBD REIT H1 2023 NAV Analyst Call

8 December 2022

Presentation Script

Welcome (Anthony) – Slide 2

Good afternoon everyone, and welcome to our H1 2022-2023 financial year earnings call for the period which ended on 30th September. 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 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

The first half of the financial year has been positive for ENBD REIT, as a result of our own management activities and a continuing broad improvement in market sentiment across Dubai. Our blended portfolio occupancy rate increased to 84%, a strong improvement from 76% a year ago, and there were notable increases in both our portfolio value and Net Asset Value.

Our strategy of investing in upgrades of key properties to make them more attractive to potential tenants has continued to show positive results to our gross rental income. As a result of higher occupancy, our operating expenses have also risen marginally. Rising interest rates have also pushed our financing costs, which has been mitigated to an extent by the refinancing that we undertook in the last financial year. Overall, we are pleased to deliver a positive net income rebounding from a loss of USD 11.6 million for the same prior year's period.

As we see on Slide 4 of the presentation, the value of our portfolio reached USD 363 million at the end of H1, representing an increase of 4.8% from USD 346 million at the end of H1 2021-22, and a 1.5% rise from USD 357 million at the end of previous quarter.

Our Net Asset Value stood at USD 172 million, or USD 0.69 per share, at the end of the first half of this year, up 4.8% from USD 164 million or USD 0.66 the year before. This valuation reflects the enhancements made to a number of our properties as well as the background strengthening of the Dubai property market.

The higher occupancy that I have mentioned stems from an across-the-board improvement in occupancy rates in our portfolio, especially in the residential and office segment, and notably from the completion of the major refurbishment in our flagship Al Thuraya Tower 1 office building in March 2022.

Our Weighted Average Unexpired Lease Term stands at a solid 4.13 years, with satisfactory levels achieved across our office, residential, and alternative portfolios. As ever we aim to increase the WAULT wherever appropriate to provide us with greater rental income certainty.

Our current asset allocation by value across the 11 buildings is made up of 68% office, 14% residential, and 18% alternative. We continue to be open to exiting current investments if the right opportunities present themselves, to ensure an optimal composition of properties in our portfolio and maximising shareholders' returns.

Over to Asif, who'll take you through our dividend payments and capital structure.

<u>Payments to shareholders</u> (Asif) – Slide 5

Thanks Anthony. On slide 5, we are pleased to announce that an interim dividend of USD 4.5 million, or USD 0.018 per share, has been approved by the Board of Directors. This interim dividend is the same as last year and, at 82% of FFO generated, reflects our prudent strategy towards dividend distribution to ensure continuity in an aggressive rising interest rate environment.

The shares traded ex-dividend on 6 December with the payment date set for 21 December. The payment is equivalent to an annualised dividend yield of 5.2% for the half year on NAV and 8.8% on the share price at 30th September 2022.

Our dividend history shown on this slide illustrates our commitment to maintaining consistent 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.

Capital structure (Asif) – Slide 6

Our capital structure shown on slide 6 remains at 46% equity and 54% debt, the same as at the end of H1 in the last financial year. What has changed over this period was the refinancing of our entire debt with a syndicated facility worth USD 200 million through Emirates NBD and Commercial Bank of Dubai, announced in December 2021. This facility replaced our previous debt on favourable commercial terms at the time.

ENBD REIT does however remain exposed to floating LIBOR interest rate movements in an environment where these have been rising exponentially. With an LTV of 54% being higher than our ideal range of 30-45%, and yield to interest rate mismatch on certain assets has prompted management to explore a few disposals to pay down its debt while the market remains buoyant. We also continue to analyse possible avenues for effective hedging mechanisms where these might be appropriate and reduces the current cost of debt.

Due to our improving business performance and strong financial underpinnings, we remain confident that we can adequately manage the interest rate environment going forward but acknowledge it currently remains our biggest threat to performance.

I'd now like hand over to Melanie to go through the portfolio in further detail.

Portfolio characteristics – portfolio occupancy (Melanie) – Slide 8

Thank you, Asif.

Despite the challenging outlook on financing, we are pleased with the performance of the portfolio during this period. Slide 8 illustrates a welcome rise in portfolio occupancy to 84%, from 76% the year before. This has been led by a number of assets in the portfolio attracting more tenants as a result of upgrades and active asset management on the back of improving market conditions.

The completion in March 2022 of our upgrade of Al Thuraya Tower 1 in Media City, one of our largest office buildings, has enabled us to increase occupancy in the building from 35% to 49% at the end of

H1 this year. Since then, we are pleased to announce that we have successfully crossed the 50% level and expect this to continue to improve.

At Burj Daman in the DIFC, our third largest asset by value, occupancy rose from 69% to 80%, the highest level since we acquired the asset in 2015. This is mainly due to the creation and availability of smaller units as well as an improved leasing commission structure designed to incentivise new introductions to the building. At DHCC25 occupancy has risen from 69% to 77%, while occupancy at The Edge, our most valuable asset, has also moved up to 99% from 96%.

In our residential portfolio, Remraam occupancy increased from 57% to 95% during the year.

Our successes in improving occupancy throughout the portfolio are due to our realistic rental expectations and approach to renewal negotiations. Beyond the residential sector, we are now starting to also see signs of improved sentiment in the higher-end of the office market.

Earlier in 2021, we also completed minor upgrades to two other office buildings, DHCC49 and DHCC25, which included refurbishments to ground floor lobbies that significantly improved their appearance. The upgrades proved to be successful, increasing the occupancy at Building 25 from 67% to 77%, while Building 49 retained tenants at a stable occupancy of 78% in what is proving to be a more challenging office market to some other locations in Dubai.

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

On slide 9, we can see the long-term trends in valuations since our listing in 2017. The signs of stabilisation that began to be evident about a year ago have been maintained and continue to improve quarter on quarter.

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

On slide 10, we show valuation changes in more detail, with a noticeable uptick in the residential and alternative sectors. Changes to the office portfolio were less pronounced but still showing improvement overall.

Asset snapshot: Office (Melanie) – Slide 11

Moving on to the assets by sectors on slide 11. Looking first at the office portfolio, overall occupancy of the 5 assets rose to 77% from 70% at the end of H1 2021-2022, and the total value of the office portfolio increased from USD 239 million to USD 245 million.

The Edge Building achieved LEED Gold certification in March 2022, which has helped with the marketing of this building and improved occupancy to 99%.

Al Thuraya Tower 1 is enjoying the benefits of the completion of its major upgrade in March. As mentioned earlier, the level is now above 50% and this figure has the potential to continue increasing based on current enquiries, although conversion rates remain challenging. The upgrade is proving popular with tenants and their employees. The works included the creation of a modern, sophisticated workplace, through the enhancement of common facilities.

Burj Daman occupancy in the DIFC has risen from 69% to 80%, as we elected to make smaller units available and improved commission structures in line with market demand.

Lobby and aesthetic upgrades at our two other office buildings, DHCC49 and DHCC25, have been followed by occupancy increases to 82% and 77% respectively.

Asset snapshot: Residential (Melanie) – Slide 12

A look now at our residential portfolio on slide 12. Occupancy overall rose from 80% to 98%, with gains at all three buildings. While certainly impacted by demand for residential rentals in Dubai, it also reflects our careful management and effective marketing of these buildings, including positioning rental rates and other incentives for tenants in line with market demand.

Occupancy at Binghatti Terraces located in Dubai Silicon Oasis rose from 79% to 98%, while at Arabian Oryx House in Barsha Heights, our most valued residential asset by market value, occupancy improved from 96% to 100%. Al Ramth 57 & 59 in Remraam saw the largest improvement from 57% to 95%. We continue to see potential in a possible disposal of this asset given its relatively smaller size and strata-title.

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Asset snapshot: Alternative (Melanie) – Slide 13

In the alternative sector on slide 13, occupancy has reached 100% at all three buildings. Uninest and South View School had already achieved that figure in H1 last year, while Souq Extra Retail Centre was previously at 96%.

We are pleased to confirm that the renegotiation of the lease at the Uninest student accommodation building in the 2021-2022 financial year, is working well with regular rental payments. The agreed terms have resulted in greater certainty of cash flow, and include a turnover clause that provides us with a percentage of the operator's gross revenue in coming years. We believe our policy of working with tenants in our negotiations is commercially beneficial for all parties, including generating positive sentiment towards ENBD REIT.

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

Financial summary (Asif) – Slide 15

Thanks Melanie. As we see on slide 15, gross income has risen by 0.7% from last year, as our improved occupancy figures and a broadly strengthening rental market positively impacted our performance. The one-off renegotiation of the Uninest lease dampened the overall improvement in rental income, but the upward trend is clear and encouraging for the future.

The overall value of our portfolio improved by 1.5% this quarter, reflecting the managements continued efforts to keep our properties occupied and maintained to the highest levels, as well as the strengthening of the local property market.

Amid a volatile and inflationary macro-economic environment, our financing costs rose by 5.5% from H1 last year as interest rates have risen. We remain exposed to a floating LIBOR rate and these numbers do not reflect the full impact of rising interest rates in the first half of this financial year. With an interest coverage ratio of 3.3 times, we do, however, remain confident that we can see out this volatile period, but it is likely to have an impact on our dividend pay-out. We are monitoring the situation closely and would consider a rebalancing the capital structure should the outlook from here take a turn for the worse.

Operating expenses slightly increased by 2.2% compared to the same period last year, driven largely by the occupancy across our portfolio increasing by over 8%, as well as inflationary price increases. This relatively limited increase in expenses is due to our rigorous cost controls and proactive asset management approach to operating expenses.

Fund expenses increased 3.7% from last year, in line with the increase in valuations.

Financial performance (Asif) – Slide 16

On slide 16, we provide the overall financial performance. After an unrealised valuation loss last year of USD 16.5 million, ENBD REIT was able to record an unrealised gain of USD 5.5 million in this year, reflecting the improved real estate climate as well as management's own performance across the portfolio.

And with expenses being closely controlled, a net gain of USD 10.3 million was achieved compared to a loss of USD 11.6 million the year before, signalling a welcome correction across the entire ENBD REIT portfolio.

Breakdown of total expenses (Asif) – Slide 17

A brief breakdown of our expenses for the half year is provided on slide 17. As mentioned earlier, expenses across the portfolio were up due to the direct costs associated with the occupancy, inflationary pressures, and rising interest rates. Compared to the year before, operating expenses were USD 3.04 million, up marginally from USD 2.98 million, while fund expenses were USD 2.45 million compared to USD 2.36 million, and finance costs were USD 4.06 million, up from 3.85 million. This equates to our Total Expenses amounting to USD 9.55 million, an increase of 4%. We are monitoring expenses closely in light of the rising interest rate environment, but confident we can offset a large portion of these increased costs through higher revenue generation from the portfolio.

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

Closing remarks (Anthony)

Thanks Asif, and this concludes our H1 presentation for 2022-23. Overall, this was a positive period for ENBD REIT, as we have started to capitalise on Dubai's rebound in the property market and our own strategic initiatives are starting to pay off. Highlights of the period included:

- Significantly increasing overall occupancy, notably in the office sector
- Successfully concluding the upgrade of Al Thuraya Tower 1, which has been positively received by the market and has strengthened our brand's reputation
- Maintaining rigorous cost controls in an inflationary environment
- Enjoying positive valuation movement across the portfolio

Looking ahead, we believe there are grounds for further optimism both for the Dubai property market and for ENBD REIT's performance within it. We do, however, caution that the rising interest rate environment is bound to catch up with market sentiment eventually and we will be strategic and opportunistic in navigating this period.

Thank you for your time today and I will now hand back to our host Arqaam Capital who will open the call to your questions.
