ENBD REIT FY 2022 NAV Analyst Call

15 June 2022

Presentation Script

Welcome (Anthony) – Slide 2

Good afternoon everyone, and welcome to our final NAV call for financial year 2021-2022 which ended on 31st March. Thank you for joining us.

Presenting team (Anthony) – Slide 3

My name is Anthony Taylor, and I am the Head of Real Estate. I am joined by Asif Siddique, ENBD REIT's CFO, and Melanie Fernandes, Senior Portfolio Manager.

Our thanks to Arqaam Capital for hosting this call. Please note that a copy of this presentation is available on our Investor Relations webpage; under Results and Reports - Quarterly Investor Presentations.

Snapshot (Anthony) – Slide 4

To start with, I'd like to make a few observations about the past year.

This was a very active period for ENBD REIT, in which we took many measures to position ourselves in a favourable trajectory for future growth. Notably, we increased our blended portfolio occupancy to 80% from 76% the year before, reflecting the successful management of lease negotiations over the year. This was consistent with signs of stabilisation in the Dubai rental market, which became more apparent in H2.

Much of our efforts were devoted to asset upgrades and enhancements, including Al Thuraya Tower 1, our Dubai Healthcare City assets, and The Edge Building, to ensure that we are well positioned to take advantage of any upturn in the market. Proactive asset management requires money to be spent on assets, even while valuations continue to slide during a negative cycle and hopefully we have timed the market well with the completion of these projects.

At the same time, we significantly streamlined and reduced our operating, fund, and finance costs, with total expenses reducing by 11.6%. We are also pleased to have taken advantage of the prevailing lower interest rate environment at the time to refinance our entire debt facility with Emirates NBD and Commercial Bank of Dubai in November – December 2021, for a 5-year period on attractive commercial terms, to strengthen our financial position.

Importantly, we also renegotiated the lease of Uninest which was the last significant leasing challenge coming out of the pandemic. The new lease provides more certainty to our cashflows going forward albeit at lower rates than the original contract.

Looking at Slide 4 of the presentation, the value of our portfolio ended the year at USD 356 million roughly on par with the prior year. This was driven by a soft first half followed by clear signs of market stabilisation in H2 as COVID-19 restrictions eased and economic activity in Dubai recovered.

Our Net Asset Value stood at USD 167 million at the end of the year or USD 0.67 per share, down 7.4% from USD 180 million or USD 0.72 per share the previous year. This valuation was impacted both by the capital expenditure on Al Thuraya Tower 1 and other buildings, as well as one-off expenses and accounting liabilities relating to our debt refinancing towards the end of 2021.

As mentioned before, occupancy rose to 80%, with the residential and alternative markets at nearly 100% and the office market still somewhat weaker. Occupancy at Al Thuraya Tower 1 was impacted prior to the refurbishment that began in 2020 and following its successful completion in Q1 2022, we have begun the process of actively marketing the property and bringing in new tenants successfully. Melanie will elaborate on this further on in the presentation.

Furthermore, our Weighted Average Unexpired Lease Term increased to 4.3 years, representing a considerable improvement over recent years and in turn providing us with greater rental income stability.

Our current asset allocation by value across the 11 buildings is made up of 69% office, 14% residential, and 17% alternative and we remain committed to a diversified portfolio to enable us to better weather all market cycles.

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

On Slide 5 you'll see our dividend history and commitment to maintaining returns to shareholders since we listed just over 5 years ago. We are pleased to be able to offer shareholders a higher final dividend than last year, at USD 5 million or 2 cents a share, representing a 13.6% increase on the same period last year. The total dividend payable for the year is USD 9.5 million or 3.8 cents per share, up 2.7% on the previous financial year. This equates to a dividend yield for the year of 5.7% on NAV and 8.8% on the prevailing share price at the 31st March.

I should point out that, similarly to last year, there was no regulatory requirement for ENBD REIT to distribute dividends, as our negative valuation movements slightly exceeded our net rental income / Funds From Operations (FFO). However, we remain firmly committed to our policy of distributing as much of our net rental income as possible while maintaining a prudent liquidity position. The proposed dividend is 99% of the net rental income / FFO that was generated during the period, which management is now more comfortable can be accommodated given the performance of the REIT and current market conditions. You will recall, last year's total dividend equated to 78% of the total net rental income based on the continued uncertainty of rental payments being experienced during the pandemic. We are pleased to confirm that cashflow certainty improved over the last financial year, resulting in a higher percentage of FFO being distributed.

I'll now hand over to Asif to provide you with an overview of our current capital structure on slide 6.

Capital structure (Asif) – Slide 6

Thanks Anthony. As mentioned, we were pleased to secure the refinancing of our entire debt when we did, with a syndicated facility worth USD 200 million through Emirates NBD and Commercial Bank of Dubai. The new 5-year facility has replaced our debt of USD 45 million with Standard Chartered Bank and USD 150 million with Mashreq Bank on favourable terms including an improved profit margin of 2% over 3-month LIBOR that is expected to lead to USD 7 million of savings over the full term. The additional drawdown of USD 5 million in debt has been used to contribute to the refurbishments of the buildings.

The refinancing did not only provide improved commercial terms for ENBD REIT going forward but also extended flexibility around its financial covenants, most notably the Loan to Value (LTV) covenant, which was raised to 60%. Current LTV is now at 54%, providing welcome headroom even while market valuations appear to be stabilising.

The new facility does, however, remain unhedged and exposes ENBD REIT to interest rate increases in the short term. Management is closely monitoring the interest rate outlook and hedge pricing to identify suitable timing to enter into conservative levels of profit rate hedging. We are of the view, that current hedge pricing, given the global outlook, is not attractive to lock in today for the 5 year term of the facility. The interest rate expense, which was lower in the last two years due to a lower interest rate environment, will increase this year.

We would like to extend our thanks to all our lenders, old and new, for their valuable support. Our LTV of 54% is supported by stable valuations and strong cash flows with an interest rate coverage of 3.7x as at 31st March. Taking into account the anticipated interest rates increases over the next year, we are comfortable that we are covered on this covenant moving forward.

I'll now hand back to Anthony to go through the details of the portfolio.

<u>Portfolio characteristics</u> (Anthony) – Slide 8

Thank you Asif.

On slide 8, our diversified portfolio remains unchanged for the year, with slight variations in our sector allocations due to movements in valuations.

The rise in occupancy to 80% was achieved despite a drop in occupancy from 43% to 35% at Al Thuraya Tower 1, one of our largest office assets, where the extensive upgrades required many parts of the building to remain unoccupied. This decline however was offset by strong occupancy increases at Burj Daman from 69% to 79%, DHCC 25 from 67% to 77%, and Al Ramth 57 & 59 – Remraan from 46% to 98%. These improvements in occupancy were the result of flexible rental renegotiations attracting new tenants to these buildings and successful marketing of our portfolio, as well as the stabilisation of the market which also played a significant role in these improved occupancy numbers.

<u>ENBD REIT's valuations stabilizing post pandemic</u> (Anthony) – Slide 9

The chart on slide 9 shows that the continuing pressures on valuations across our portfolio since listing have begun levelling off. Even though improvements in portfolio valuations in December 2021 were a result of the new valuation methodology adopted in line with regulations, the trend towards stabilisation is evident over the last year.

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

On slide 10, we see this trend broken down by sector and individual asset, with the valuations of almost all our 11 buildings recording an increase in the second half.

At this point I would like to hand you over to Melanie who will take you through the performance of our portfolio in more detail.

Asset snapshot (Melanie) – Slide 11

Thanks Anthony.

Starting on slide 11, overall office occupancy has gone up slightly to 72% from 70%, and the total value of the office portfolio has increased from USD 243 million to USD 245 million. In particular, occupancy at The Edge Building remained strong at 99%, underpinned by the award of the prestigious LEED Gold certification in March 2022 and the renewal of a 5-year lease with Oracle in 2021.

Our primary challenge still remains Al Thuraya Tower 1, but occupancy is projected to improve in the coming months given the completion of the refurbishments. The upgrades, valued at 22 million dirhams, created a modern and sophisticated workplace that promotes health, comfort, and wellbeing. The works included repurposing the first floor and outdoor podium to include common facilities; installing new lifts with destination control and improved speed to reduce overall waiting times; refreshing lift lobbies, toilets and corridors; and addition of toilets for people of determination.

With occupancy having dropped as low as 35% due to the disruption, we are now able to offer more readily available office space in the tower to tenants once again. Following the completion of the refurbishment works, we have been pleased to receive significant new leasing enquiries from corporate tenants. To date, we have managed to convert 21,000 sq. ft into new signed leases, which equates to a 10% improvement in overall occupancy; and not reflected in our 31st March numbers. While this initial take up of vacant space in the building has been positive, the market remains challenging and requires active negotiations to maintain occupancy levels.

Burj Daman occupancy has gone up 10% in the year to 79%, due to the availability of smaller units as well as an improved leasing commission structure designed to incentivise new introductions to the building. Earlier in 2021, we also completed upgrades to two other office buildings, DHCC 49 and DHCC 25, which included refurbishments to ground floor lobbies that significantly improved their appearance. The upgrades proved to be successful, increasing the occupancy at DHCC 25 from 67% to 77% while DHCC 49 remained stable at 78%.

Asset snapshot (Melanie) – Slide 12

Looking at the residential portfolio on slide 12, overall occupancy has greatly improved across all three assets, and now stands at 97% compared to 75% the year before. Occupancy at Binghatti Terraces stands at 96% for the year, up from 46% in the previous year, whilst Remraam occupancy is at 98% compared to 46%. Arabian Oryx House also maintained its occupancy above 95% during the year. These improvements are largely the result of closely monitoring market rents to ensure the units were offered at competitive rates, combined with an effective marketing and flexible payment terms. As we witness this sector of the market improving, we continue to push for higher rental rates, being mindful of the fluid nature of occupants who are becoming more price sensitive as overall living costs rise with current inflation.

Our smallest residential assets by value, Remraam in Dubailand, currently at its highest occupancy and strata owned, has been earmarked for potential disposal either as a single asset or on a unit-by-unit basis, should this achieve substantially higher value on exit.

Asset snapshot (Melanie) – Slide 13

In the alternative segment, we are pleased that overall occupancy across the three buildings remained stable at almost 100%. The renegotiation of the Uninest lease was a major event in the last financial year, providing the portfolio with improved visibility on future cash flow, and finally concluding the rental uncertainty brought about by the pandemic. Under the new lease terms, the turnover clause entitles the REIT to a percentage of the operator's gross revenue in coming years, which should compensate for the lower fixed rent that was agreed. The renegotiation also reflects our philosophy of engaging constructively with tenants, for the benefit of all parties.

I'll now hand back to Asif to take you through the financials.

Financial summary (Asif) – Slide 15

Thanks Melanie. Could we please move to slide 15 where you'd see our gross income was down 15% from the previous year to USD 27.3 million, mainly due to lease renewals taking place at lower rates in various buildings, following the impact of the pandemic and softer market conditions remaining in the office sector, which contributes over 60% to the total portfolio revenue. The drop can also be attributed to a reversal of income totalling USD 4 million that was booked in the previous year. This income was related to the Uninest renegotiation, the Yardi property investment platform implementation, and an IFRS 16 adjustment in South View School.

Due to the more favourable interest rate environment, finance costs fell 6% from last year. This was achieved even though the figures were heavily impacted by two one-off costs relating to the refinancing being:

1. Unamortised arrangement costs relating to the old Mashreq Bank debt facility
2. Losses from unwinding a hedge as part of our refinancing exercise

As mentioned, this refinancing is expected to lead to savings of USD 7 million in margin over the 5-year term of the facility. Without these one-off expenses of USD 1.4 million, our finance costs would have fallen by 19% year on year. Fund and Operating Expenses also reduced during the year.

Due to these adjustments to gross income and exceptional one-off expenses relating to the refinancing, our net rental income / FFO fell 19.7% to USD 9.5 million during the year.

Financial performance (Asif) – Slide 16

On slide 16, you can see our overall performance. Gross income is down, somewhat offset by lower expenses. Unrealised valuation losses were significantly lower than the previous year, signalling the stabilisation in market conditions. After allowance for the accounting hedge liability relating to the refinancing, the net income for the year resulted in a loss of USD 4.4million, in contrast to USD 39.4 million the year before.

Breakdown of total expenses (Asif) – Slide 17

Moving on to slide 17, we can see a detailed breakdown of our expenses for the year. Operating expenses were USD 5.5 million, down from USD 6.2 million the year before due to our continued focus on the active management of properties and achieving further efficiencies; fund expenses were USD 4.8 million, down from USD 5.9 million the previous year mainly due to the absence of further doubtful debt provisions, combined with lower management fees being charged off a lower NAV; and finally, finance costs were USD 7.4 million, down from USD 7.9 million the year before. When combined, these expenses amount to USD 17.8 million, representing an 11.6% decrease from last year.

Back to you Anthony for the closing remarks.

Closing remarks (Anthony)

Thanks Asif, this concludes our financial year presentation for 2021-22. To recap, this very active year for ENBD REIT included many positive measures, including:

- Active asset management and enhancement of the existing portfolio through strategic upgrades and incentives to improve leasability and tenant demand
- Balancing occupancy and gross revenue through ongoing leasing efforts
- Reducing costs in line with market pressures
- Refinancing our entire debt on more favourable terms to reduce the cost of financing
- Concluding the lease negotiation with Uninest which provides us with improved visibility on cash flows

With the one-off costs that impacted our 2021-22 income now behind us, we are looking forward to a promising year ahead. We hope our strategy and approach to engaging with our most valuable assets, our tenants, will enable us to take advantage of market conditions as they unfold.

And lastly, I'd like to highlight that during March 2022, ENBD REIT celebrated its 5-year anniversary. We'd like to thank all our stakeholders for their continued interest and support over this period as we start a new phase in our journey.

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