ENBD REIT 3Q20 NAV Analyst Call

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Presentation Transcript

Speakers:

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Asif Siddique, CFO

Welcome Slide 2 (AT)

Good afternoon everyone, and welcome to our analyst call for the quarter ended 31st December 2020.

Presenting team Slide 3 (AT)

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

Snapshot Slide 4 (AT)

On slide 4, you can see our property portfolio value now stands at USD 366 million, reducing 3.1% from USD 377 million in the previous quarter. This is largely a result of valuation pressure driven by capital works for refurbishments at Al Thuraya Tower 1 in Dubai Media City; ongoing discussions around non-payment of rent at the Uninest student accommodation building in Dubailand; and pressure on residential rental rates due to competitive market conditions. We continue to see downward pressure on valuations and we may see more in the coming quarters, a result of general softness in the local real estate market.

In terms of our portfolio, this remains unchanged with 11 properties across office, residential and alternative asset classes. Occupancy remains stable at 75%, with some improvement at Arabian Oryx House (up to 83% occupied), and challenges at Al Thuraya Tower (44%) and Remraam (46%). WAULT remains stable at just over 4 years, a result of management securing longer leases in the office portfolio. Our holdings by value today are 67% office, 15% residential, and 18% alternative. The loan to value ratio has increased to 51.4%, exceeding 50% for the first time, with negative movements in valuation putting pressure on some debt covenants. We remain in open dialogue with lenders to manage this situation.

ENBD REIT's NAV now stands at USD 184 million or USD 0.74 per share. NAV is down 7.1% from the previous quarter when it was USD 198 million, due to the valuation losses mentioned before as well as the interim dividend payment of USD 4.85 million announced during this period.

Payments to shareholders Slide 5 (AT)

Slide 5 provides a brief reminder of dividend payments made to shareholders and as you can see, dividends have declined over time in line with pressure on rental income. We were pleased to have paid an interim dividend of USD 4.85 million or 1.94 cents per share on 6th January, for the 6-month period ended 30 September 2020. This interim dividend represents 80% of recurring FF0 for the period, while also maintaining a small cash reserve within the REIT to assist with navigating current market conditions, as well as capital projects planned across the portfolio, with the aim of improving occupancy and rental income in the future.

You will notice we have removed the Covid-19 impact slide as we are pleased to report that we are no longer receiving high volumes of rent relief requests from current tenants. Despite this, the pandemic is still putting a number of tenants under pressure and renewals are often concluded at lower rates. Our most pressing challenge coming out of the pandemic remains Uninest student accommodation, who are still in arrears from June 2020. We are in ongoing dialogue with the tenant and have also initiated legal proceedings, calling on the rental guarantee. I'll now hand over to Asif to discuss our capital structure.

Capital structure Slide 6 (AS)

Thanks Anthony, we are now on slide 6. As Anthony mentioned, the REIT's Loan to Value ratio has increased to 51.4%, exceeding 50% for the first time, however still comfortably below the 65% regulatory ceiling for REITs. We remain in open dialogue with lenders to manage the situation. Our Mashreq facility remains within its FTV covenants but is getting close to its threshold. Proactive engagement with the bank is underway to ensure we avoid any non-compliance with the covenants in the short term before markets recover. We have made an additional payment of USD 600,000 to Standard Chartered Bank to maintain our 50% obligation but remain confident in our ability to manage this USD 45 million facility through to maturity in November 2021. This is due to our secure position against two well occupied assets - The Edge (with Oracle as the main tenant in this building, who recently renewed for a further 5-year term) and Souq Extra (with an occupancy of 98%). Cashflows from rental payments remain strong and, in this current low interest rate environment, will cover all payment obligations for the foreseeable future. In addition, we have begun engaging the market on the subject of refinancing the Standard Chartered facility with a number of lenders expressing interest. I'll now hand back to Anthony to take us through the portfolio.

Portfolio occupancy Slide 8 (AT)

Thanks Asif. Moving onto slide 8, you can see that occupancy remains stable but is still under pressure, with the blended occupancy rate for the portfolio at 75% compared to 76% for the previous quarter. We continue to see occupancy pressures in our residential assets but saw improvements in Arabian Oryx house with occupancy improving from 79% to 83% with the revision of rental rates and a strong leasing campaign from our appointed property managers, Asteco, towards the end of the year. Remraam occupancy has slipped to 46% from 66% and rental rates have been revised accordingly on this asset to address this. Subdivision works at Burj Daman in DIFC have been completed to create smaller, more leasable units and our major refurbishment project at Al Thuraya Tower 1 is underway, with the design phase finalized. Our expectation is for this project to have a positive impact on leasing once completed in the second half of 2021.

ENBD REIT's valuations remains under pressure Slide 9-10 (AT)

As shown on slides 9-10, we have provided information on valuations since inception of ENBD REIT back in March 2017. Total portfolio valuation is down, and we saw significant drops this quarter at Al Thuraya Tower in relation to low occupancy and anticipated refurbishment expenditure, and Uninest student accommodation due to non-payment of rent. We also saw reduced valuations across residential assets as leasing rates continue to decline in a more and more competitive sector of the market. With residential accounting for 15% of the total portfolio value, these pressures are a concern but the impact is partially absorbed by more resilient assets elsewhere.

Asset snapshot: office Slide 11 (AT)

On slide 11 we can see a snapshot of our office portfolio, where overall portfolio occupancy stood at 67%. As mentioned earlier, fit out work at Burj Daman has been completed to create the smaller and more leasable units on the 10th and 14th floors, with furnished options also available to new tenants, and active leasing set to kick-off this month. We think this will be an important value add for our leasing of these units at relatively better rental rates, and could have a positive impact on future valuations.

Despite its low occupancy, Al Thuraya remains our largest asset by value, and we are pleased to report that our major refurbishment project, which will see upgrades made to the ground floor lobby, external landscaping and MEP services, is well underway. We are working with top-class partners on the project, in Savills and Bluehaus Group, and we're looking forward to reporting on its progress during the coming months.

Asset snapshot: residential Slide 12 (AT)

Moving to slide 12, we continue to maintain an active leasing strategy and to reassess rental rates frequently to attract new tenants and address volatile occupancy rates in all three residential assets. The residential market remains challenging with shorter lease terms and mobile tenants which means we must adapt to market rates to maintain occupancies.

Asset snapshot: alternative Slide 13 (AT)

On slide 13, assets in the alternative sector have all been affected by the pandemic last year, however it has been pleasing to see that Souq Extra and South View School have proved fairly resilient and are recovering well. The Uninest valuation has been falling significantly in the last two quarters due to non-payment of rent, an issue which remains under discussion. We are now exercising the rental guarantee and hope to resolve this challenging situation in the coming months. I will now hand over to Asif to take you through a summary of the financials.

Financial summary Slide 15 (AS)

Thanks Anthony. On slide 15, we look at key themes in our financial performance that have emerged during the quarter. In summary, these include:

- Net rental income / FFO is up 27% from the same 9-month period last year, as previously highlighted its mainly due to the change in calculation on our new Property Management system on certain properties and is coupled with the lower interest rate environment.
- Gross income is down 6% from last year, mainly due to lower occupancies and lower rental rates achieved on renewals
- Unrealised valuation losses of USD 45 million (slightly over 11% of portfolio value) – primarily due to COVID-19
- Finance cost is down 27% (USD 2.2 million) from the same 9-month period last year, mainly due to lower EIBOR / LIBOR rates

- Operating expenses are down 14% and fund expenses 13% from the 9-month period last year due to active management of the properties and reduction in Fund Management, Board, and Committees costs

Financial performance Slide 16 (AS)

Moving on to financial performance on slide 16, you will see that gross income is lower by USD 1.6 million mainly due to Al Thuraya 1 vacancies and lower rental income in DHCC 49 and Arabian Oryx House, but overall rental income is still healthy. Expenses have gone down by USD 3.7 million across the board in all categories - operating expenses, fund expenses and finance costs. FFO has increased by USD 2.1 million mainly due to active asset management and reduction in the finance costs. Valuation losses of USD 45 million are a reflection of a soft real estate market compounded by the material impact of Covid-19. We therefore reported a net loss of USD 35.5 million for the 9-month period due to these valuation losses. We are not yet out of this period of market uncertainty and it is possible we will see more valuation pressure in the coming months.

Breakdown of total expenses Slide 17 (AS)

On the final slide before we move onto the Q&A, we have provided a detailed breakdown of the REIT's expenses. Operating expenses have gone down by USD 820,000 (14.4%) due to the active management of assets which has reduced expenses such as property and facilities management, and utilities. Fund expenses have decreased by USD 650,000 (12.7%) due to lower management fees being charged by the fund manager, a reduction in expenses including Board and Committees, as well as falling valuations. Finance costs have gone down by USD 2.2 million due to the lower interest rate environment. Lastly, I would like to add that while the worst of the Covid-19 pandemic seems to be behind us, based on our provision policy we have actively provided for some of the receivables due from tenants who had been given relief earlier in the pandemic. Should these tenants recover in good time and honour their repayments against our relief programme, there would be a positive impact on our financials. With that, I will hand over to Anthony to wrap up the presentation.

Closing remarks (AT)

Thanks Asif. This concludes the presentation, and we will now open the floor to a Q&A, hosted by Arqaam Capital.