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Operator: Good day and welcome to the Barwa Real Estate Q3 2019 Results Call. Today's conference is being recorded. I'd like to turn the conference over to Mehmet Aksoy. Please go ahead.

Mehmet Aksoy: Good afternoon ladies and gentlemen, I am Mehmet Aksoy from QNB Financial Services. I welcome everyone to Barwa Real Estate Third Quarter 2019 Financial Results Conference Call. Representing Barwa Real Estate, we have Mr Tamer Elsayed, Group Chief Financial Officer, Mr Abdulla Khalfan, Acting Financial Controller, and Mr Mohamad Daakour, Budget and Planning Controller. We will conduct this conference call beginning with brief comments on the presentation followed by Q&A.

I will now hand the call over to Mr Tamer Elsayed to get us started. Mr Elsayed, please go ahead.

Tamer Elsayed: Thank you. Welcome, everybody. First, I will ask Mrs. Dana Al Ansari to start the introduction to our presentation.

Dana Al Ansari: Good afternoon ladies and gentlemen, I am Dana Al Ansari. I wish you all a very warm welcome to Barwa Real Estate Results Conference Call.

At the outset, I would like to thank QNB Financial Services to host this call on behalf of Barwa Real Estate. On the call, we have with us our Senior Management, including Mr Tamer Elsayed, Group Chief Financial Officer, Mr Abdulla Khalfan, Acting Financial Controller, and Mr Mohamad Daakour, Budget and Planning Controller. Please note that except for the historical facts, statements made by the management may contain a projection or other forward-looking statements regarding future events or future financial performance of Barwa Real Estate. These forward-looking statements are not guarantees or promises of future performance. Barwa undertakes no obligation to update or revise any forward-looking statement contained herein, whether as a result of new information, future events or otherwise.

I would like now to hand over the call to Mr Elsayed for his opening remarks, after which, we will take questions. Thank you very much and over to you, Mr Tamer.

Tamer Elsayed: Thank you very much, Dana. Good afternoon everyone. I am Tamer Elsayed, the Group CFO of Barwa Real Estate. I welcome you all and take this opportunity to thank you for participating in today's conference call.

Barwa Real Estate declared Q3 nine months 2019 earnings on 28 October 2019 and the earnings presentation is available Qatar's Stock Exchange website as well as on Barwa Real Estate's website in the Investor Relation section. I hope you had the chance to look at it.

Let me start by giving you a brief introduction on Barwa Real Estate. We are one of the leading real estate developers in Qatar with expertise in developing, leasing and managing real estate assets. In total, we have about 3.5 million square metres built-up area under operation which consists of residential projects, labour rooms, warehouses, retail showrooms and offices.

As of September 2019, we have operating units of 7,342 residential units and 37,340 labour rooms. Approximately 80% of our total operating revenue and approximately 90% of our operating profits are generated through these properties.

Furthermore, Barwa has a land bank exceeding 7.6 million square metres, of which 5.2 million square metres is in Qatar. About 85% of our land bank in Qatar, which roughly translates into 4.4 million square metres, is owned while the rest is leased. Looking forward, Barwa plans to judiciously monetise this land bank by selling or developing properties based on market demand.

Over the year, we have been able to make “Barwa” a strong brand franchise within Qatar. We have achieved a strong preference for our brand by maintaining a strong reputation for using local expertise well, for being highly cost-efficient, for keeping healthy standards and for timely delivery of our projects.

I would like to highlight the key points on the market performance of the company for the nine months 2019.

Total operating revenue for the nine months QAR 1,153 billion as against QAR 1,261 billion year over year. The split between rental revenue and consultancy revenue for the same period stood at 77% to 23% as against 80% to 20% year-over-year.

Operating profit came in at QAR 729 million as against QAR 784 million in the 9MFY2018. The split between rental profit and consultancy profit for the same period stood at 89% to 11% as against 93% to 7% year-over-year.

Profit after tax in 9MFY19 stood at QAR 808 million as against QAR 1.08 billion in 9MFY19. The balance sheet of Barwa Real Estate remains strong with a net debt of QAR 8.1 billion and net debt to equity at 0.4. Barwa's liquidity position remains robust at QAR 3.8 billion of which 37% is cash equivalent. We have adequate liquidity and balance sheet strength to pursue our growth.

The overall occupancy level remains stable for the quarter. Occupancy of the residential projects stood at 92%, labour rooms at 51%, and 92% at non-residential projects as on 30 September 2019. During 9M FY2019, we added 110 residential units, 25,360 labour rooms, 2,051 square metres of retail space, and 1,332 square metres of office space to our operating portfolio

Regarding projects completed in Q3 financial year 2019, we have started leasing out in Mukaynis Compound and Baraha Workshops and Warehouses, and we are witnessing good traction in these projects.

Regarding ongoing projects, the construction Madinat Al Mawater Phase 3 has started in Q3 FY2019 and is expected to be completed by Q4 FY2020. The projects in Lusail, Dara A, and Al-Khor recreation extension are expected to be completed by December 2019 and Mukaynis Compound is expected to be completed by November 2019.

Going forward, Barwa will continue to explore opportunities based on the evolving market demand as the driver. Currently, Barwa is planning to venture into developing education and healthcare assets and also to move up the value chain by developing mid to high-mid residential segments for lease and sale, and by developing assets in freehold areas such as Lusail.

With this, we can start the question-and-answer session. Again, thank you for joining the call and we will be happy to answer any questions that you may have.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is switched off to allow your signal to reach our equipment. We will pause for a moment to allow everyone an opportunity to signal.

Mehmet Aksoy: While we are holding for questions from others, I can start with a question of my own. Given your market-leading position, can you share some insight regarding the rents in Qatar – do you see any signs of stabilisation? Thank you.

Tamer Elsayed: Thanks for your question. From our perspective, the market is changing due to the change and imbalance in demand and supply in the market. However, Barwa's projects are in a safe position. The target for our projects is to obtain average IRR in the 10% range. However, this changes from one project to another, subject to market risk, credit risk, if we have uptake or not. For many of our projects, we have already assigned uptake ahead of the project. Our main target is always an IRR of 10%. Thank you.

Mehmet Aksoy: Thank you.

Operator: Next question is from Shabbir Kagalwala from Al Rayan Investment. Please go ahead.

Shabbir Kagalwala: Thank you for hosting the call, my question is on the Mukaynis Compound. You said it will be finished in Q4 of this year. Slide number 28 of the presentation shows that Zone 1 and Zone 2 are already complete. Can you please explain, what is the size of the project in Zone 3 which is yet to be completed?

Tamer Elsayed: Thank you for your question. Phase 3 is almost one-third of the project and has about 8000 rooms. We have already completed Phase 1 and Phase 2, which are two-thirds of the project. The last one, which we are very close to being completed and we expect to be completed by early December, it's almost one-third of the project.

Shabbir Kagalwala: And my other question is on Dara A, which was listed on the Cityscape. How was the response to that project Cityscape? Were you able to sell some portion of it in Cityscape?

Tamer Elsayed: It was listed in Cityscape to gauge interest level, and not to sell any apartments. Currently, we are in discussion with the 2022 World Cup Committee to lease the project to host fans during the World Cup. If the discussions are fruitful and if both parties reach a consensus, we will not sell it for the time being.

Shabbir Kagalwala: My next question is on Barwa City 3 project, which I understand is also under consideration by the 2022 World Cup Committee?

Tamer Elsayed: Barwa City 3 is in the feasibility study phase.

Shabbir Kagalwala: How long will it take from feasibility study to project completion?

Tamer Elsayed: We cannot guarantee a specific period to finalise a feasibility study because it is subject to many variables. We must be flexible about any new variables in the dynamic market scenario. After the study is completed, we will go for a tender for the construction and then we will start to work on it. We will give try to give you a clear idea by the first quarter of FY2020.

Shabbir Kagalwala: How many units are you planning to get ready for the World Cup out of what you already have right now? Do you have a plan to have a certain number of room keys available for the World Cup?

Tamer Elsayed: This largely depends on the 2022 World Cup Committee who will analyse and gauge the needs for the event. We are working on our projects as planned. In case we have an opportunity, we will do our best to secure it and we make sure that it is favourable for us. But I cannot comment about an exact number of rooms, it's subject to their discretion.

Shabbir Kagalwala: By what time do you think that they will finalise and give you clear clarity of required rooms?

Tamer Elsayed: Unfortunately, I cannot comment on this. It is a government entity and they have their plans and schedule.

Shabbir Kagalwala: Alright. Thank you.

Tamer Elsayed: Thank you so much for your questions.

Operator: We'll now take the next question from Majid Mussaf from Qatar Commercial Bank. Please go ahead.

Majid Mussaf: Thanks for taking the initiative of hosting an investor call. I have three questions. First is on financing. I understand that most of the CAPEX is being financed through debt, which has increased about QAR 1.5 billion this year itself. The impact on the P&L is seen in the form of increased finance. Going forward what kind of impact do you foresee, because this will be a continued drag on your bottom line in FY2020? what is the total CAPEX on all these projects that you are outlaying for the next two years and how you are going to finance it?

My second question is on the projects that are likely to start generating revenue soon. What will be the revenue model? Will there be any sale of properties in any of the projects which are likely to be commissioned for the next year? If yes, what is the sale of property revenue that you are estimating?

Tamer Elsayed: For finance cost, please refer to the disclosure of the finance cost in our financial statement. The increase in finance cost is not only because of an increase in debt. This is one of the reasons, but it is not the only reason. Another reason being there was an increase in the average LIBOR for nine months. However, now we are seeing a decrease in LIBOR, which we see as a positive impact on our financials going forward.

Another aspect which affected finance cost includes the implementation of the new IFRS 16 accounting standards. In addition to that, last year, as part of our finance income, we had recognised a gain on debt restructuring. Going forward, based on the accounting treatment, we have to unwind this number which increased our nine-months finance cost by QAR 23 million. So these are the various reasons due to which our finance costs are higher on a YoY basis.

To answer the second part of your question related to debt level, our debt balance is healthy, current net debt to equity is 0.4, which we feel is very safe. Our liquidity position is strong as we have QAR 1.4 billion cash on hand, QAR 1.6 billion worth trading properties and other investments worth QAR 700 million. Total liquidity of QAR 3.8 billion is available on our balance sheet.

Majid Mussaf: In terms of the CAPEX, will this liquidity on your balance sheet be drawn on or the total debt was foreseen to be going further up beyond QAR 9.5 billion?

Tamer Elsayed: In the investor presentation on slide 14, we have laid out our debt maturity profile. As you can see that over the next few years, we will settle most of our debt hence our debt balance may decrease. But we target to finance most of the new projects through debt, so we plan to maintain our leverage levels.

Majid Mussaf: The debt repayment scheduled in 2021 is likely to be refinanced or paid off?

Tamer Elsayed: Some part of it will be refinanced for sure. We have different strategies to meet our debt maturity profile. One of the ways is to refinance. Another way is to develop part of our assets to sell. We may sell part of our land bank if it is the best way for us.

Majid Mussaf: As a metric or internal benchmark, what is the targeted the debt to equity ratio for the next one to two years? Is it 40-50%?

Tamer Elsayed: Currently, it is 0.4. But our planned cap is maximum one-to-one.

Majid Mussaf: So there is scope to raise more debt if required?

Tamer Elsayed: Yes, for sue.

Majid Mussaf: Okay. And my second question was on the properties which are available for to be leased out, is there any sale of property revenue that has also been seen in any of your projects?

Tamer Elsayed: Are you talking about the projects currently in development or new upcoming projects on the land bank?

Majid Mussaf: The Dara A project and Lusail project. Will these projects be under the rental model, or there will also be an investment model and sale of the property?

Tamer Elsayed: For Dara A project, as mentioned earlier– we are in discussion with the 2022 World Cup Committee to lease it for fans accommodation. If that does not materialise, we may sell those units. For Lusail Golf land, which is a 3.4 million square metres land bank, we have different strategies to consider and we are working on them. We envisage that a part of it will be developed for lease, part of it will be developed for sale, and some part of the land itself may be sold. It is all subject to market demands and dynamics.

Majid Mussaf: My last question is on the fair value gains, it looks like it's a recurring revenue item that you book on your P&L. Almost 30-35% of your P&L is attributed to fair value gains. With the way, the real estate market has been and the interest rates are coming down, similar fair valuation will be seen going forward or there will be more operating revenues being booked in your assets or your profits?

Tamer Elsayed: I would like to highlight that it is not a recurring profit. If we have new projects coming on our financial statements, we undertake valuation. That's why we have a profit in some years. But if we don't have new projects, it will be subject to our current project performance. But I can confirm that for the current year, for last year and even the year before, new projects came in the pipeline. That's why we saw a valuation gain. For example, in the current year, we have Mukaynis, Baraha Warehouses and Workshops as new projects. These will lead to valuation gain in the current year. But I cannot confirm or assure that this will continue.

Majid Mussaf: The contribution of debt element on fair value gain in your overall profitability is quite a sizeable. For nine-months, QAR 376 million from a reported profit of QAR 808 million. So with the projects that are likely to go fully on revenue stream by the end of this year, in 2020, will we see a significant drop in the fair value gains being booked?

Tamer Elsayed: As I mentioned, this is not a recurring element, it is a non-cash element. I cannot plan for that number. I can put a plan in place for my recurring profit. This is what we are working on – how to develop our rental income, how to develop and grow our consultancy and service income, this is our concern. Valuation gain or loss is subject to having a new project. But as a team, we are focussed on the recurring profit, which is more stable and important to our shareholders as a cash profit.

Majid Mussaf: Thank you. Thank you for answering all of my questions.

Tamer Elsayed: Thank you so much for your questions.

Operator: Another question comes from Shabbir Kagalwala from Al Rayan Investments. Please go ahead.

Shabbir Kagalwala: Thank you. It's a follow-up question. Since there was a significant fair value gain in the last few years which led to a good dividend pay-out. What is the view on dividend sustainability or do we have a defined dividend policy? I understand that it's a board decision. But as an analyst, what is the pay-out ratio I can look at?

Tamer Elsayed: As you just mentioned correctly, it's subject to the board and the general assembly approval. Currently, we don't have a formal dividend policy. But we are working very hard to develop and grow our recurring profit, our cash profit, which will directly contribute to our shareholder's benefit.

Shabbir Kagalwala: Our nine months of earning is down 25%. Would it have an impact on the dividend for the next year?

Tamer Elsayed: It is subject to the board and general assembly resolution. I cannot comment on it further.

Shabbir Kagalwala: Have you already booked a gain on Mukaynis project or it will be booked once it's completed?

Tamer Elsayed: Yes, we have booked a valuation gain. We have recorded part of the rental income as we started to lease out the project around mid-July.

Shabbir Kagalwala: So the gains are booked as it gets leased or as you launch it, or both?

Tamer Elsayed: We use discounted cash flow starting from the construction date. So once we start the construction, we have a valuation gain. Until the date of completion, you will get most of the valuation gain. Once you start operations it goes down again as the land is leased.

Shabbir Kagalwala: Okay. And can you tell me what percentage of Mukaynis is already leased?

Tamer Elsayed: Currently, from the phase already leased, about 57%.

Shabbir Kagalwala: Okay. Thank you very much.

Tamer Elsayed: Welcome. Thank you for your questions.

Mehmet Aksoy: Hi, this is Mehmet Aksoy again. If there are no further questions, then we can wind up the call for today. I would like to thank Barwa for participating in the call. Please do reach out to the team at Barwa if you have any further questions. Thank you.

Operator: That will conclude today's call. Thank you for your participation. You may now disconnect.