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Conference Title: Barwa Real Estate (BRES) Q1 2020 Results Conference Call
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Zaid Al Nafosi: Hello, ladies and gentlemen. This is Zaid Al Nafosi from QNB Financial Services. I want to welcome everyone to Barwa Real Estate First Quarter 2020 Financial Results Conference Call. From the Group, we have Mr Tamer Elsayed. He's the Group Chief Financial Officer. We also have on the call Mr Mohamad Daakour. He's the Budget and Planning Controller. We will start this conference call with the presentation on the Group's performance followed by questions and answers session. I will now hand over the call to Mr Tamer Elsayed to get us started. Please go ahead sir.

Tamer Elsayed: Thank you, Zaid. Bismillah-ir Rahman-ir Rahim. Welcome everybody. I wish you all a very welcome to Barwa Real Estate Q1 2020 post results conference call. I'm Tamer Elsayed, the Group Chief Financial Officer of Barwa Real Estate. At the beginning, I would like to thank QNB Financial Services to host this call on behalf of Barwa Real Estate.

On the call, I have with me Mr. Mohamad Daakour, Budget & 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 statements contained herein, whether as a result of new information, future events or otherwise. Barwa Real Estate declared the Q1 2020 earnings on 30th April 2020. And the earnings presentation is available on Qatar Stock Exchange website as well as Barwa Real Estate's website in the Investor Relations section. I hope you had the chance to go through 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 3.6 million square meters built-up area under operations, which consists of residential projects, labor rooms, warehouses, retail, showrooms and offices.

As of 31st March, 2020, we have operating units of 8,129 residential units and 37,340 labor rooms. Approximately, 79% of our total operating revenues and about 92% of our operating profits are generated through these assets. Furthermore, Barwa has a land bank exceeding 7.7 million square meters, of which 5.2 million square meters is within Qatar. This translates to having about 67% of our land bank within Qatar. Of this, we own approximately 4.4 million square meters, while the rest is leased land.

Looking forward, Barwa plans to selectively monetize this land banks by selling or developing properties based on the prevailing market demand and the conditions. I would like to highlight some key points on the performance of the company for the Q1 2020. To begin with, our total operating revenues for Q1 stood at QAR387 million as against QAR379 million in Q1 2019. The split between rental revenue and consultancy revenue for the same period stood at 79% to 21% against 79% to 21% year-over-year.

Our total operating profit came in at QAR254 million against QAR245 million in Q1 2019. The split between rental profits and consultancy profits for the same period stood at 92% to 8% as against 91% to 9% in 2019. Our profit after tax for Q1 2020 stood at QAR178 million as against QAR415 million in Q1 2019.

On the balance sheet side, our financial position remains strong with net debt of QAR8.3 billion and net debt to equity at 0.4. We have adequate liquidity and balance sheet strength to pursue our growth agenda.

In April 2020, Barwa Real Estate Group announced being selected as a preferred bidder for the Qatar Schools PPP Development Program, Package 1 by the Public Work Authorities named ASHGHAL. Barwa participation in the project remains subject to the finalization of the project agreements with ASHGHAL and the satisfaction of conditions precedent, including the financial close. The company currently is evaluating the participation in other various opportunities over by Qatari government for the PPP module.

Going forward, Barwa will continue to explore opportunities where on the evolving market demand building on the land bank we have and the opportunities with governments.

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

I now hand over to the moderator at QNB Financial Services to file any questions.

Operator: Thank you. If you would like to ask a question at this time, please press the star key followed by the digit one on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. A voice prompt on your phone line will indicate when your line is open to ask a question. Please state your name and company name before posing your question. If you find that your question has already been answered, you may remove yourself from the queue by pressing star two. Again, please press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal. Once again, please press star one to ask a question. Please ensure that the mute button on your phone is switched off to allow your signal to reach our equipment. We will now take our first question. Please go ahead. Your line is open.

Meet Bhatt: Hi. This is Meet from Axience. I have some questions. I missed out on the first key things which you mentioned that there is a split of 79% and 21% in terms of your revenue. So

can you please help me out with how is the – what constituted 79% and what constituted 21%? And my second question is that, so far in the year, what kind of a trend have you witnessed in terms of rents from your properties? The market fairly buyer-friendly now. So – and this compares how much of rent have reacted so far during this year?

Tamer Elsayed: Okay. Thank you for your questions. The first question is the percentage we mentioned, it's the percentage between or the split between the rental income and the consultancy income. So the percentage is 79% to 21%. 79% is the rental income, 21% is the consultancy income.

Second question, if I got you properly. Yes, second question if I got you properly, I think you are talking about how we are – how our rental income reacting to the market conditions, right?

Meet Bhatt: Yes.

Tamer Elsayed: Yes. Currently we are like everybody. We see the conditions in the markets and we see how the things is going on. However, we – from March – end of March and up to now we don't see any significant impact on our numbers except for we did an initiative late of March 2020. It was relating to postponing the payment or the rental payment for specific commercial units and we give them a postponing of three months. Other than that, and this postpone, we did a release then. Other than that, we don't see any significant impact on our numbers up to now.

Meet Bhatt: Okay. Just one last question. The mandate which you have won on the school from ASHGHAL over – in that – is the land or the plot that will be used will be out of the land bank which Barwa already had or will it be separate from that?

Tamer Elsayed: Yeah. It's a BOT [inaudible] the land will be given by ASHGHAL. We will develop, operate. And at the end of the term, we will return it back to ASHGHAL.

Meet Bhatt: Okay. Thanks a lot.

Tamer Elsayed: Thank you.

Operator: Ladies and gentlemen, if there are any additional questions, please press the star followed by the one at this time. As a reminder, if you're using speaker equipment, you'll need to lift the handset before making your selection. We will now take our next question. Please go ahead. Your line is open.

Zohaib Pervez Naseer: Hello.

Tamer Elsayed: Yes. We are listening. Yes, please.

Zohaib Pervez Naseer: Okay. Thank you. Thank you, Tamer, for the call. This is Zohaib Pervez from Al Rayan Investment. You mentioned that you only have provided a three-month postponement. So do you plan on having further benefits for your attendance like any waivers you plan on doing? And do you plan on increasing this postponement from three to six months because most of other real estate companies are planning on doing something like that and some of that is done. Is there any discussions on that at the moment? Thank you.

Tamer Elsayed: Thank you for your question. We are keep monitoring – close monitoring the market for sure. And we keep all the lines open between us and our tenants to see how we can help in these conditions and this market situation. However, up to now we don't have any approved initiatives other than the one which we talk about. But for sure if we feel that it will be in favor of our tenants to – and to support our tenants and to support our strategic relations with our tenants who are our partners actually, we will do. But as of today, we don't have other than the one we are – we have announced which is the three months' delay.

Zohaib Pervez Naseer: Okay. Thank you. And my second question is regarding the Salwa project. So phase 1 was – phase 1 is still – I believe are completed and I think phase 1 is already 80% leased. Is my understanding correct? And is there any new development on that front?

Tamer Elsayed: Sorry, I didn't get the name. Salwa? Which project?

Zohaib Pervez Naseer: Yes, Salwa.

Tamer Elsayed: Yes, Salwa project. We completed – yes, we completed phase 1 in 2019. We completed now phase 2 and we are very close to complete phase 3. So we are doing good on that side.

Zohaib Pervez Naseer: And phase 1 is already 80% leased if I understand.

Tamer Elsayed: Phase 1 currently is almost 100% leased.

Zohaib Pervez Naseer: Okay. And my last question would be when do you – so this leasing income has started coming into the financials or when will it start coming?

Tamer Elsayed: For phase 1, yes, it has started in 2019 – late of 2019. We are talking about almost October-November.

Zohaib Pervez Naseer: Okay. Perfect. Thank you.

Tamer Elsayed: Thank you.

Operator: As a reminder, to ask a question at this time, please press star one. We will take our next question. Please go ahead. Your line is open.

Speaker: Hello?

Tamer Elsayed: Yes, hello. Yes, we are here, listening.

Speaker: Project 3,200 for labor. When you signed the contract, you said it was QAR1.2 billion. Now it is – you are talking about QAR1.6 billion. Why is – how is the risk?

Tamer Elsayed: Okay. Thanks for your question. You are talking about Barwa – Salwa – or sorry, we are talking about Salwa project, which is our Mukaynis project that we are calling now. Yes, the difference you are talking about, the QAR1.2 billion you're talking about, that was the contractor contract. So this is only construction. Between the QAR1.2 billion to the QAR1.5 billion, this includes the consultancy, design, supervision, finance cost, the staff cost, all the completed costs.

Speaker: So it is not the same contractor?

Tamer Elsayed: No, the contractor is the single contractor. Yeah, contractor is the single contract you sign – we signed with the contractor. But other than that, you sign with the consultants. Yes, that's the QAR1.295 billion it was. But other than that you have a consultant, supervision, designer, finance cost, staff cost, other things, Karahama[?] facilities, these things.

Speaker: QAR400 million for consultant and things like this?

Tamer Elsayed: It's almost 200 because just we are talking about difference between QAR1.3 billion. It was QAR1.295 billion, which is almost QAR1.3 billion. If you compare it to QAR1.3 billion and QAR1.5 billion, you are talking about QAR 200 million. This is including – as I'm saying, it's including Karahama, because you are doing here in that project, yeah, it's primarily substations. It's costing. You are talking about consultancy. You are talking about supervision. You are talking about the staff cost and finance cost, which is also a significant amount.

Speaker: Okay. I have another question, please. In your 2019, you made – you said you made more than QAR1 billion in evaluation profits.

Tamer Elsayed: Yes.

Speaker: And now you are losing on the evaluation. In three months, this tremendous change or you just put the figure to raise the profit on the 2019?

Tamer Elsayed: No. Actually, if you see in 2019, we have almost only QAR20 million as a profit gain valuation.

Speaker: From valuation, yeah.

Tamer Elsayed: Yeah. In 2020, there is only QAR20 million as evaluation gain, which means that we did not put any numbers to increase our profits. But I'm talking about –

Speaker: Now the quarterly, yes, but on the 2019 profits, how much you put for evaluation?

Tamer Elsayed: Yes. I understand you. However, it's – for 2019 – however it's approved long time ago. But 2019, there was new project came in life in 2019, like for example, the projects you have just mentioned Barwa Talwa – or sorry, Salwa project or Mukaynis project. Whenever – normally whenever you have new projects, normally you get a profit or valuation gain a big amount in the beginning of the project. And after that, it will not be repeated. So in 2019, we have two new projects came in life like Baraha warehousing and workshops and we have Salwa project. These two projects is they gave us a big amount in 2019.

And also we have Lusail Golf land. We received – in 2019, we handed over the land. It was not handed over to us. So it was recorded in 2019 – previously, it was recorded as advances and we – the land handed over to us. So you have to evaluate the land on the date of the handover that also gave us a number, a big amount from valuation gain. These transactions are not repeated by nature. That's why it's very normal sometimes to have a gain in one quarter or one year and you have a lower gain or even you may have a loss in the next years.

Speaker: But this is not real profit when you say revaluation, it's not real profit. This is not [inaudible] It's just...

Tamer Elsayed: Yeah. I agree. It's not cash profit. However, it's a profit. It's as per the accounting standards and as per all the related IFRS in this matter. So yes, it is not cash. However, it's profit as per the accounting standards.

Speaker: If it's the profit, why it disappear?

Tamer Elsayed: Sorry, what do you mean?

Speaker: If it is real profit, why it disappears on the next financial figures?

Tamer Elsayed: Because it is not repeated. It is not repeated. It's profit on the report on the time of the transaction. However, it is not repeated. It is not an operation profit like the rental income. Rental income is increasing because you have an asset and you lease it. And every month, you get an income, but you don't have repeated valuation gain with the same amount. At each quarter, we do reassessment to the market. We see all the assumptions in our properties. And based on that, we take – sometimes we take gain, sometimes we take loss. It depends.

Mohamad Daakour: Actually the value of real estate is being going down for two years but due to pre – raising[?] the revaluation instead of going down. Only now the last quarter, you went down the valuation.

Tamer Elsayed: Yes because – yes, it happens that some of our projects is the value of our project went down. However, these loss or valuation loss has been offset against the gain we got from the new project, which I just mentioned. The handover of Lusail Golf, the new project like Salwa project and the Baraha warehousing. The gain came out of these projects has offset the loss came from other projects.

Speaker: And final question, what is your expectation for this year from now until the end of the year? Do you expect profit to increase or to go down?

Tamer Elsayed: Yeah. We don't have the exact number of something like that. However, inshallah we will do our best as the Board of Directors and the company to do our best to maintain numbers or enhance even the numbers inshallah.

Speaker: And this 3,200 labors, is this rented now?

Tamer Elsayed: Phase 1 [inaudible] percent. Phase 2 it's almost it's done. It's completed in 2020 and it's almost rented. We are working now on finalizing phase 3.

Speaker: So you expect to get tenants for all these rooms?

Tamer Elsayed: Inshallah.

Speaker: Okay. Thank you very much.

Tamer Elsayed: You are welcome. Thank you for your questions.

Operator: As a reminder, to ask a question at this time, please press star one. We will now take our next question. Please go ahead. Your line is open.

Meet Bhatt: This is Meet Bhatt again from Axience. I just have one follow-up question. Can you give us an estimate of the value of – the current value of the land bank?

Tamer Elsayed: Yes. Now you're talking about the lands used fair value on our financials?

Meet Bhatt: No, no. That – I guess, you have a land bank of somewhere around 7.7 million square meters. So can you just give us an estimate of the value of that land bank?

Tamer Elsayed: The 7.7, it's not all owned by Barwa. Part of it is leased.

Meet Bhatt: Okay.

Tamer Elsayed: So it will – it's not reasonable to give a number for that. It's only leased land. However, the other number – the other land owned by us, it's classified in different line items in our balance sheet, like between trading and investment properties, yes. For the investment properties, we are talking almost 8 billion plus/minus. And in the trading, unfortunately, I don't have now the fair value number for these lands because it's recorded by cost. So we don't have the current number with me now.

Speaker: Okay. Thanks a lot.

Tamer Elsayed: Welcome.

Operator: As a reminder to ask a question today, please press star one. Please ensure your mute function is turned off to allow your signal to reach our equipment. For your information, we have no further questions in the queue at this time.

Zaid Al Nafsoosi: If that's the case, then I would like to take this opportunity to thank Mr Tamer Elsayed, Mr Mohamad Daakour for their transparency and their presentation. Thank you very much gentlemen. I would like to also thank all the participants and their – for their inquiries. And if you had any further questions or inquiries, please don't hesitate to reach out to us at QNB Financial Services team or Barwa Real Estate team. Thank you very much again for the participation and please stay safe. Ramadan Mubarak to all. Goodbye.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen.