

Company: Barwa Real Estate (BRES) Q4 2020 Results conference call

Conference Title: QNB Financial Services Co.

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Mehmet Aksoy: Hi. Good afternoon, ladies and gentlemen. This is Mehmet Aksoy from QNB Financial Services. I want to welcome everyone to Barwa Real Estate's Fourth Quarter 2020 Financial Results Conference Call. On this call from Barwa, we have Mr. Tamer Elsayed, who is the Group Chief Financial Officer; Mr. Abdulla Khalfan, who is the Financial Controller; and Mr. Mohamad Daakour, Budget & Planning Controller.

We will conduct this conference first with brief comments on the presentation, followed by the 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, Mehmet. Bismillah Rahman Rahim. Welcome everybody. I wish you all a very warm welcome to Barwa Real Estate Q4 2020 post results conference call. I am 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.

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.

Barwa Real Estate declared the financial year 2020 earnings on 15th February 2021. And the earnings presentation is available on Qatar Stock Exchange website, as well as on Barwa Real Estate website in the Investor Relations section.

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 operation, which consists of residential projects, labor rooms, warehouses, retail showrooms and offices.

As of 31st December 2020, we have operating units of 8,148 residential units, and about 37,300 labor rooms, in addition to commercial offices, hospitality and other operating portfolio components, which are detailed in our investor relations presentation. Approximately 82% of our total operating revenue and about 97% of our operating profits are generated through these assets.

Furthermore, Barwa has a land bank approximately 7.8 million square meters, of which 5.4 million square meters is within Qatar. Out of this, we own approximately 4.4 million square meters, while the rest is leased. Looking forward, Barwa plans to selectively monetize this land bank by selling or developing properties based on the prevailing market demand.

Now I would like to highlight some key points on the performance of the company for the financial year 2020. To begin with, our total operating revenue for the financial year 2020 stood at QAR1,637 million as against QAR1,536 million for the financial year 2019. The net rental income has witnessed an increase with the percentage of 16% compared to the financial year 2019.

Our total operating profit came in at QAR1.80 billion against QAR970 million for the financial year 2019. Our profit after tax for the financial year 2020 stood QAR1, 215 million as against QAR1,505

million in the financial year 2019. On the balance sheet side, our financial position remains strong with the net debt balance of QAR9.93 billion and net debt to equity at 0.5.

We have adequate liquidity and balance sheet strength to pursue our growth agenda. Also, we succeeded during the year 2020 to refinance part of our facilities and we are working on refinancing another part to enhance our liquidity ratios and the cash flow projections. Barwa has already announced during the year refinancing deals with the total value of QAR2.7 billion.

With this, we can start to 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. I now hand over to the moderator of QNB Financials Service to field any questions. Thank you.

Mehmet Aksoy: Operator, can we open up for questions now please?

Operator: If you would like to ask a question on today's call, please press star one on your telephone keypad. That's star one to ask a question. We will pause for one moment to allow everyone to signal. Again, that's star one. We can now take our first question from Samir Murad from NBK Capital.

Samir Murad: Hello. Hi. Thank you for hosting the call. I have a few questions, please, if I may. If you can please tell us how – why we saw a strong improvement in rental income in Q4, that is – it was very strong compared to the previous quarter. So what caused this improvement in rental income? Should we expect this performance to roll forward into 2021?

Tamer Elsayed: It would be one question, or you will list all your questions and then answer all of them?

Samir Murad: I have several. So do you want me to go through them all?

Tamer Elsayed: It will be better. Give me all your questions so I can answer one by one.

Samir Murad: All right. Excellent. Okay. And if you can tell us please about the occupancy level in your properties at the moment and should we expect occupancy rates to improve going forward? And in terms of CapEx, we've seen in Q4 you've also spent around QAR440 million and advanced projects. Can you tell us what these advanced payments are for which project and what kind of CapEx should we expect for 2021?

Tamer Elsayed: Thank you, Samir, for all your questions. I will take it – answer. I will answer it one by one and please stop me if you need more clarification for any of the questions. The first question was about the rental income, the increase or the improvement happened in the rental income on quarter four compared to the previous quarter.

Actually, as you see that the improvement is all is like year to year, not only for one quarter, it was the whole year against the 2019. And specifically in Q4 the improvement came from our new completed project, which is Mukaynis. Mukaynis is dedicated as labor accommodation. And we started the operation in 20 – late of 2019. And during the 2020, the occupancy started to increase. So the improvement in the performance from one quarter to another, it came from the enhancement and the occupancy mainly comes from this project. Mukaynis has been dedicated since the Kuwait[?] started as quarantine facility to the government, which gave us – secure the income during this difficult time.

In addition to Mukaynis, we had another two projects which started late of 2019, and the occupancy increased the during the year and this also supported the enhancement in our rental income. We have Al-Baraha warehousing and workshops and AL Khor recreation. It's one – another project, which is a residential units. It completed late of 2019 and started the operation in 2020. This also supported our rental income. This is about the first one.

The second question is the occupancy rate. The occupancy rates, this is from one segment to another because we have different segments. We have residential. We have labor rooms. We have commercial, offices and we have everything in – under the real estate portfolio. So it differs from one segment to another. And it differs from one project to another.

However, if we talk about the most significant segment, which is the residential unit, in most of our projects, we are more than 90% occupancy, most of them. In the labor, we are doing good from one project to another. And the occupancy is – we can consider on average is at a very acceptable rate.

For the third question is the CapEx, which is we seem as you just mentioned the 400-something as an increase in the CapEx is spending. It came from the two new projects – mainly from the two new projects, which are Al-Wakra project. We announced in 2020 that Barwa has started the development of two new Wakra projects. One will be as family units, and the other one would be for labor.

So we started the work in the second half of 2020, and then we started the spending. So mostly the CapEx spending came from these two projects.

The last thing you ask for was about the CapEx spending expected for 2021. We expect around QAR4 billion as per our budget. For the new projects and completing the current underdevelopment project and the small portion for sure to keep and maintain your operating project. So we are talking about almost QAR4 billion as CapEx spending expected for 2021. I hope I answered all your questions. Please let me know if you have any further questions.

Samir Murad: Thank you so much. This was very helpful. Thank you so much.

Operator: As a reminder, if you would like to ask a question, press star one. Our next question comes from Lee Beswick from QNB.

Lee Beswick: Hi. Could you tell me what the net fair value gains of QAR786 million, what that relates to in the last year please?

Tamer Elsayed: Thank you for your question. The fair value gain, it came mainly from two projects. One is the new Wakra project, which I just mentioned. And the other one was from our projects in AL Khor. We have extension for the leases, which you give us a valuation gain. And again is that we have some decrease in other few projects.

For sure, just to confirm that all our valuations are being prepared by independent well-named valuation firm. And for sure, it's being audited by the external auditors, just for input.

Lee Beswick: Okay. So – and is it possible to say which one was more influential during that time? Was it the new project or was it the lease extension, or is it a combination?

Tamer Elsayed: The two new project.

Lee Beswick: Okay. Right. So presumably that's – but your – you would book a fair value gain in the case that the build cost is essentially the – sorry, the fair value of the project is above the build cost. Is that where it comes from?

Tamer Elsayed: To give you a brief, we have two types of our investment properties. We have land bank, and we have projects. For land bank, we are using the comparative methods. For the projects, we are using the DCF or the discounted cash flow. For the discounted cash flow, it's considered all the future cash inflows and outflows compared to your current book value. So it's

include all the your expected income against your expected CapEx and operating expense. And the net is your fair value gain or loss.

Lee Beswick: Okay.

Operator: And our next question comes from Zohaib Pervez from Al Rayan Investments. Please go ahead.

Zohaib Pervez: Thank you, Tamer, for the call. I wanted to know what is the reason for the substantial increase in your other income. In the note, if I see it says others and which has – within the other income is the other which has increased a lot. Could you give us more clarity on that? Secondly since 2016, we've seen – '17, we've seen your general expenses, G&A expenses keeps going down. Could you give us a sense of where we should see more bottom for this, or is this the bottom? Or you can still continue to be more lenient, more efficient again? Thank you.

Tamer Elsayed: Thanks for your question. For the first question about the other income, the other income came mainly from some amounts related to liabilities, which has been derecognized during the year. We had some accruals, some provisions, which was recorded in previous years. And then it has been reversed due to the de-recognition in the current year. And for sure, this is not something recurring, and it will happen only once when any changes in your assumptions or in facts came in.

So you are doing – for sure, we do reassessment for all our accruals and the provisions all the time. And when there is a change in the facts or something, we do the accounting treatment as to increase the provision or to derecognize the provision. So this is the first one.

The second question was about the G&A. As you just mentioned, there is decrease in the G&A by almost QAR24 million. And this came mainly from a decrease from the staff cost. One of the

key targets we are doing is to keep monitoring the efficiency of our spending, including the operating expense and including the G&A or overheads. Even if you notice the margin of the rental income, if you see how much the percentage of that OpEx to the rental income, you will find there is enhancement. And this also compared to 2019.

And the overheads, we keep monitoring. We keep looking for any room for an efficiency, and alhamdulillah, this is always resulting in this improvement. For sure, I cannot guarantee that these improvements will continue forever because we – for sure we cannot. But as long as we have a room for an increase the efficiency, for sure we will do it, inshallah.

Zohaib Pervez: Inshallah. But don't you think anything below QAR220 million is – will be difficult for you to achieve? And this should be like your bare minimum to sustain your operations?

Tamer Elsayed: The thing is, as you notice that most of the number of the G&A, it came from the staff cost. Our staff is our assets. And if you see the promise again, the ambitious growing plan or growth plan of Barwa, which for sure mainly depends on our people. So as long you are enhancing your operating portfolio, as long you are enhancing your performance for the rental income and for the consultancy, for sure you may need to increase and enhance your staff benefits. So it's a formula.

So we cannot sustain the growth, but on the other side, we maintain the decrease in our staff costs. It's – we can – it can not be done in this way. But as I'm saying, our target always to be efficient and we will do our best for that.

Zohaib Pervez: I have one more question, if I may. The share of results from associates and JVs, that has declined. That was a profit last year. Now it's a loss, and it seems it's primarily Al-Imtiaz Investment. Do you think this was due to a one-off Al-Imtiaz because it's an investment company or it's a more of a repetitive thing? Thank you.

Tamer Elsayed: Yes, as you properly mentioned, it came mainly from Al-Imtiaz. And Al-Imtiaz mainly it's an investment company. And if you see the financial results of Al-Imtiaz in 2020 compared to 2019, the impact in their investment portfolio, I think it came mainly from the COVID implications. So I think inshallah, we hope that in the next year they will – their performance will turn again to profits, which will support our investment value.

Zohaib Pervez: Okay. Sounds good. Thank you, Tamer. Thank you.

Operator: There are no further questions on the line at this time. I would now like to turn the call back to the hosts for any additional or closing remarks.

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 team at QNBFS or Barwa if you have any further questions. Thank you.

Operator: That concludes today's conference. Thank you for your participation. Ladies and gentlemen, you may now disconnect.