



AQARAT
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AQARAT'S

Investors Conference Call

Thursday 09 November 2023

At 1:30pm (Kuwait Time)

2023

SPEAKERS

Mr. Talal Jassem Al Bahar

Vice Chairman & CEO

Mr. Maher S. Khalaf

Vice President – Finance Department

Mr. Awrad Al Enezi

Manager - Investor Relations

Mai Attia: Good morning, everyone. This is Mai Attia from EFG Hermes. We're very happy to be hosting AQARAT third quarter 2023 results call today. Please allow me to introduce the speakers in Today's call:

Mr. Talal Al Bahar – Vice Chairman & CEO

Mr. Maher Khalaf –VP - Finance

Ms. Awwad Al Enezi - Investor Relations Manager.

Awwad Al-Enezi: Welcome everyone to AQARAT's earnings call for the Third Quarter of 2023, where we will present and discuss the company's key developments and financial performance during the period. Before we start, I would like to draw your attention to the disclaimer slide available in today's presentation as this presentation may contain forward looking statements. These statements reflect the Company's expectations and are subject to certain risks and uncertainties that may cause actual results to differ materially. In this matter, I would like to refer you to the full disclaimer presented in slide #2.

We will begin with the key highlights that occurred during the nine months of 2023, then move to the financial performance overview followed by business updates. And eventually open the floor for the Q&A session.

In slide 6, you'll notice that the company delivered impressive financial results for the quarter and year to date. We have managed to navigate through the difficult market conditions and deliver accelerated growth in our operational income compared to the previous period. This is attributed to several factors that I will discuss as I go over the figures in the next slide.

In addition to the solid financial performance, we are pleased to announce that one of our local development projects has been completed and opened to public, Al Riggae Tower hotel. It was launched in September this year and has been performing well since then, and we're currently working on developing the commercial part that's adjacent to it.

Next key event I would like to highlight is that we recently signed an MOU for a strategic partnership with Sanam Real Estate Company, to launch real estate products through a Sharia compliant company. This cooperation with Sanam aims to provide

innovative and sustainable solutions in the real estate field, through a diversified portfolio that allows for the distribution of periodic dividends to shareholders.

The company has also entered into a joint venture with investors focused on strategic real estate investments in the US and Europe. Our stake is 33% equivalent to \$16.7 million. This JV aligns with our opportunistic investment approach, where we focus on high growth markets that offer a diverse range of assets that can generate strong risk-adjusted returns.

Now moving to the financial highlights.

Aqarat recorded KD 6.5million in rental income for Q3, an increase of 4.1% compared to Q3 2022. And our YTD rental revenue was KD 21.2 million, an increase of 5.5% y-o-y. The growth witnessed here reflects the consistent progress coming from our properties in Kuwait and Dubai, specifically Domus 1 and 2.

The net rental income in Q3 was KD 4.9 million, an increase of 3.1% and NR margin stood at 76%. For our YTD results, net rental income was KD 16.1million, an increase of 3.3% y-o-y and NR margin stood at 76%.

And finally, our net profit for Q3 was KD 2.3 million an increase of KD 147.9 million versus last year. YTD net profit was KD 9.9million, an increase of 76% which brings our net profit margin to 47%. Our net profit growth is mainly a result of the sale of investment properties, Th8 residential units.

So in summary, we had 2 main drivers for these results, first is the enhanced operational performance of our income generating portfolio which includes Domus properties (1+2), contributing to the growth in our topline. Second driver is the sale of residential units in Th8. We are in a growth period and hopefully continue on this momentum for the remainder of the year as we are witnessing several of our projects materialize and start contributing to our rental income.

Now moving to the next slide, our balance sheet items.

The Total Debt at the end of the 3rd quarter stood at KD 199.1 million whereas the Total Assets reached KD 379.2 million for the period, an increase of 7%. Our equity reached KD 138.7 million, an increase of 9.6% over last year.

The ROA is 2.6% for the period compared to 1.6% last year, and the ROE for the period is 7.1% compared to 4.5% for the same period in 2022.

So this is the financial snapshot of AQARAT's performance and we will now go over the business updates and projects under development.

The Kuwait market demonstrated another quarter of healthy and steady performance, with our properties maintaining high occupancy rates and generating stable rental income.

As for the projects under development locally, we have Arabella Hotel that is on track to be opened by the end of this year. Arabella hotel will be operating under the Vignette brand as part of our partnership agreement with IHG. As I mentioned earlier, we are also working on the commercial aspect of the Riggae Tower Hotel and this is expected to be completed by Q2 2024.

We also have the BOT for the staff housing project in Sabhan and it's still at the design and permitting stage.

Moving to our Real estate portfolio in UAE

Dubai real estate market has continued with its impressive growth in Q3 which had a favorable impact on our existing portfolio. Domus 1&2 are fully leased, driving further growth in our rental income. As for the projects under development in Dubai, we have the continuation of our staff housing project, Domus 3 and 4, they're progressing as planned and on track to be completed by Q1 2024.

And finally we have TH8, where the residential units sold during 2023 contributed to our net profit significantly given Dubai's thriving market.

Regarding our existing portfolio and investments in the US. We'll cover 3 key properties in Miami and NY in addition to our Single-Family Rental (SFR) investments. Our investment in Beacon Ridge which has exposed us to the single-family rental (SFR) market in the US, showed a strong performance quarter over quarter. We hold a positive outlook on this investment's future prospects.

Moving on to Yotel Miami, we marked the first year of operations back in June and we are pleased with its progress so far. We are targeting to reach stabilization by the end of the second year.

Yotel New York has improved its performance in terms of occupancy levels and ADR compared to last year. As for the projects under development in the US, we have 501 First Residences in Miami. Construction is underway and going as planned and we expect completion in Q4 2025

That wraps up our quarterly updates, and it's evident that we have numerous properties in the pipeline that will start contributing to the company's rental income and overall profitability in the coming years. So we're looking forward for the launch of these projects.

We would like to take this opportunity to thank you all for attending this session and we will open the call for any questions you may have.

Awrad Alenezi: We got a question that said, what contributed to the gain on sale during the quarter? Is it still the UAE exits? Yes. As I mentioned during the call, it's related to Th8 residential units, which was the major component from the gain on sale of investment properties witnessed, that was around the KD 10 million.

Awrad Alenezi: We have a question related to Th8 as well. We noticed that KRE made 10 million from the gain on sale of investment properties. And this is mainly coming from UAE. Can you state the purpose for this? And will this trend continue going forward into the next quarters?

Talal Al-Bahar: We do have other properties in the UAE that we're planning to sell, part of the portfolio that we're selling due to the increase that we saw in the real estate market there. We have ten penthouse units on top of the Fairmont The Palm that we just released. Hopefully if we sell those, we will see the profits coming in the first quarter. And we're evaluating our other assets that we have due to the increase in real estate value. We might sell those as we are also developing new opportunities in the UAE. And I think 15% of the 10 million was from selling real estate in Kuwait.

Awrad Alenezi: We have another question. What could the potential contribution from the Miami project on an annual basis and what's the current ownership in the project?

Talal Al-Bahar: We have two projects in Miami. One, we own 51%, which we booked the sale of the residential units for. And now we have the hotel operation. We're projected next year, I think close to \$2 million of the contribution on the first project. The second project is under development. We've sold 90% of that development. We just kept one floor, so we sold 100% of what we've released. We own in that development 26%. And we're going to book some profit as a percentage of completion next year. Nothing for this year. And we're looking at other opportunities there.

Awrad Alenezi: We got a question about the total capex remaining for the key projects under development.

Talal Al-Bahar: We have close to KD 7 million on that commitment for Domus 3 and 4. And we have another KD 4 million for Domus 5. In Kuwait, close to KD 2 million on the remaining projects that we've started construction work. And we have, for our new project, which is the staff housing BOT project, but it's under permitting. That will be around KD 7 million divided into two years. And that's without the potential of other projects we're exploring.

Awrad Alenezi: We got a question about the debt level. Are you comfortable with the current level of debt? And is part of the plan to sell property to reduce debt or to continue investing into new properties?

Talal Al-Bahar: We're comfortable with the level of debt. From the cash flow, if you look at the debt level hasn't moved much from last year, compared to the developments and projects that we've done. We are trying to reduce it because of the debt outside Kuwait is a little bit higher than Kuwait. Looking at the ratios, I think we're happy with where it is and we're seeing improvement in the ratio as the projects are being finished and the valuation moving from work in progress to income-producing asset. You will see that the ratio levels will come down.

Awrad Alenezi: That was the last question received for today's call. And I would like to thank you all for attending the session. And just to note that the presentation covered today will be available on the Boursa stock exchange and on our website. Thank you all.

Talal Al-Bahar: Thank you.