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AQARAT'S

Investors Presentation

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At 1:30pm (Kuwait Time)

2020

SPEAKERS:

Mr. Talal Jassem Al Bahar

Vice Chairman & CEO

Mr. Maher Khalaf

Assistant Vice President – Finance Department

Mr. Saad Al Muneefi

Vice President – Asset Management & Investor Relations

Saad Al Muneefi: Welcome to AQARAT's first investor and analysts conference call to present and discuss the company's performance for the year 2020. I would like to take this opportunity to introduce the speakers on today's call. Mr Talal Al-Bahar, Vice Chairman and CEO. Mr Maher Khalaf, Assistant Vice President of the Finance Department. And myself, Saad Al-Muneefi, Vice President of the Asset Management and Investor Relation Department.

Before we start, I would like to bring to your attention that today's presentation and discussion may contain forward-looking statements based on the company's expectations and estimates. These expectations, estimates, and predictions herein, are subject to certain risks and uncertainties that may cause actual results to differ materially. This matter, I would like to refer you to the full disclosure contained in the presentation for today's call.

The year 2020 has been a challenging year by all means due to the wide and rapid spread of the COVID-19 pandemic. The spread of the pandemic affected and disrupted the lives of people around the globe, which, in turn, had an adverse effect on business in all sectors. At AQARAT, we strive to take measures in a timely manner to protect our shareholders' interest, as well as easing the unfortunate burdens faced by our tenants and clients.

In Kuwait, once the government imposed restrictions on certain business, early March 2020, and immediate dialogue was conducted with affected tenants and clients to discuss the potential effects of the restrictions. Furthermore, internally, the company took measures and activated its emergency procedures to ensure that essential services were provided while abiding the authority restrictions and protecting the wellbeing of all employees.

Once the partial and full curfews were imposed in March and May respectively, the company, in coordination with its tenants, assessed the burdens levied by the authority's decisions and support packages were offered, depending on the actual evaluation of their business activity, which ranged from a month rental to other cases where tenants are still exempt from rental payments.

In aggregate, the rental revenue for the year 2020 was 18,466,440 KD, compared to 23,735,949 KD achieved in 2019, representing a decrease of 22%, which is attributed mainly to the inevitable effects of COVID-19. As for net income reported for 2020, it was 3,567,703 KD compared to 7,045,605 KD, representing a decrease of 49%. This is just a snapshot of AQARAT's performance, and we will go into more details in the call.

Income Generating Portfolio

AQARAT's income generating portfolio in Kuwait consists of 26 properties, with 3,072 units in various sectors. During the year 2020, the portfolio was not immune to the COVID-19 effect, as mentioned earlier, with the commercial units being the most affected, while the residential units were

resilient to the disruption in the marketplace.
In aggregate, 5,269,509 KD of income was lost due to the waiver, discounts, and slight drop in occupancy. However, this loss was partially offset by the fee waiver granted by the government on BOT projects, which constitute the majority of AQARAT's commercial unit inventory. Taking into account the waiver, the net effect on the portfolio is 3.4 million KD.

The portfolio operating expense was unchanged for the year, despite the extraordinary measures taken to continuously sterile and control the portfolio assets. On the occupancy level, AQARAT's portfolio stood at 90% occupancy during this difficult year. Before moving to AQARAT's portfolio in the US, we would like to state that the investments in the US are done through club deals and partnerships.
The first property we will be discussing is the student housing asset in Atlanta, Georgia, the flats at Atlantic Station. The property was severely affected by universities going online. Accordingly, occupancy which had averaged 97% during the whole period declined to 70%. A number of measures were taken, of which opening rentals to multi-family leases as well as students, providing non-cash incentive for students, and applying for loan refinance.
Moving to the properties in Austin, Texas and San Jose, California, both properties were not affected by the COVID pandemic, as their income was unchanged for the year 2020. Understandably, the most affected asset class due to the pandemic was that hospitality sector worldwide. AQARAT is exposed to the sector in the US, namely by Yotel New York and Yotel San Francisco. Immediate measures were taken in both properties to mitigate the effect on the properties' performance.

Projects Under Development

Moving to the projects under development, as for the projects under development, we will start with Block 107 in Riggae. The project is a residential building consisting of a basement, ground floor, and 18 floors. The property consists of 70 units. The development is currently 100% completed, however, there was a slight delay in completion due to the total lockdown imposed in Kuwait from May to June 2020. The leasing of the units is on track, with 58% leased, as of today.
Continuing in Kuwait, AQARAT made the decision back in 2019 to vacate part of the Arabella commercial property, in order to build a four-star hotel. The hotel will consist of an aggregate of 192 keys. Demolishing and structural strengthening work is completed, with a slight delay due to the total lockdown. The design of the structural skeleton work is completed. We expect the completion of the project within 14 months from the commencement of the development work.
As for the last development, a refurbishment project in Kuwait, the company had a plan to refurbish and partially develop an existing property in Riggae

during 2020. The concept design was finalised late 2019, and the development was planned to commence in Q2 2020. However, due to the unforeseen COVID-19 spread and subsequent measures and effects, AQARAT made the decision not to proceed with the plan temporarily, and focus on the current development and portfolio assets.
Moving to the Mena region, I would like to present two properties that we have under development. The first is Domus which is a staff housing project in Dubai, and the second is a transaction initiated in 2020, aiming to close it in the second quarter of 2021, which is the House of Originals, a five-star hotel in Palm Jumeirah.
Domus is a state-of-the art staff housing accommodation located within close proximity to several of Dubai's major touristic hubs. The project will be completed in phases with two buildings to be completed in 2021. As for the House of Originals, a 162 key five-star hotel in Palm Jumeirah, the soft opening was planned for the fourth quarter of 2020, however, due to the COVID-19 effect, the soft opening is postponed to the second quarter of 2021, and we are aiming to close the transaction at the same time.
Finally, in the US, AQARAT has one project under development, Yotel Miami. The property is a 213 key hotel, and 233 condo units. The project is 75% completed with no delays. Furthermore, all condo units are sold, and the hotel is expected to have the soft opening in October 2021.

Financial Performance Overview

Moving to the financial performance, AQARAT recorded a rental income of 18,466,440 KD for the year 2020, representing a decrease of 22% from 2019 figures, due to the impact of COVID-19. The operating expense for the year stood unchanged. Accordingly, the net income for the year was 15,514,161 KD, 25% lower than 2019. The net profit for the year 2020 fell by 3,477,902 KD to 3,567,703 KD.
The total liabilities increased by 1% during 2020, to reach 197,295,186 KD, whereas the total assets decreased by 3% to 318,552,856 KD. Assets to liability ratio for the year was 1.61. In terms of borrowing, loans during 2020 increased by 8.2 million, an increase of 6% from 2019. Although borrowing increased during the year, financing expense declined by 1.9 million KD due to the reduction of CBK rate.
As a result of the decrease in profitability, the return on equity and assets marked a decrease of 45% and 48% respectively. The EPS for the year 2020 was 4.1 [unclear] versus 8.26 [unclear] recorded in 2019.
Finally, in light of the financial results, the board of directors recommended a 5% treasury share dividend, contingent on the general assembly approval. In conclusion, I would like to take this opportunity to thank you for attending this session, and we will open the call for any questions you may have.

Operator: [Unclear], please, you can take over the call now.
Thank you very much, Saad. Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad, and if you joined

online, please press the flag icon. As a reminder, ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad, and if you joined us online, please press the flag icon. It appears we have no questions, so I'll hand back over to Saad to make any closing remarks.

Actually, so sorry, we do have a question. We currently have a question from Divyre Arora from Daman. Please go ahead, your line is open.

Divyre Arora: Hi, thank you for the conference call. The question is linked to, first of all, the discounts that you have given to your tenants. What are you seeing in 2021, how long these discounts will continue, given, still, the situation is tough in Kuwait? There have been these demos... Just so I understand, you don't have anything linked to the retail, right? It's mainly commercial and residential?

Continuing with the question, the discount that you have given to your tenants, for how long will they continue? Do you expect them to continue at least for the full year of 2021? And also, if you can just tell us about the growth plans that you have shared with us, the new openings that you are going to see this year, what impact they will have on the rental income?

Talal Al Bahar: On the waivers, going forward, what we're looking at is activities. So there are certain activities that still have restrictions, and it's these guys that we've been supporting that giving them waivers. The ones like entertainment, the ones that have a restaurants or shisha bars or coffee shops. The restaurants that are in fine dining that couldn't open, with the lockdowns being still continuous. We've been supporting our clients on that. Activities like travel agencies, we'll be supporting them because there isn't much travel and those business are extremely affected.

Going forward, we're going to continue the same way. We don't want to lose our clients. We've been actively, if the client shows proof of effect, we're trying to be, as much as we can, accommodating to that. That's on the commercial sector or on the retail sector.

The other part, offices that we haven't seen any effect, we gave them discounts on the full lockdown. On the residential, we haven't given any discounts. We've done a committee inside the company for the people who've lost their jobs or people who had a problem collecting their salaries, etc. We gave them ease of collection, or sometimes, even, we gave them a waiver until things get better.

I hope I answered all your questions. I know you mentioned in the first one, something about hotels?

Divyre Arora: No, I just said, first of all, for the rental side, can you give us guidance on 2021, how much of the rental income can recover versus 2020?

Talal Al Bahar: I see a question from [unclear]. Insight of occupancy, we are almost at 90% on occupancy. Residential, we are around 91%. Commercial retail, we're around 88%. Overall, our portfolio is just a notch under 90%, so, we'll round it up as 90%. Any other questions?

Operator: Thank you very much. Divyre. We have another question from Adil Rashid, can you provide some guidance on the rental income for 2021?

Talal Al Bahar: Okay, I can answer the questions that are on the screen, to start with that. Our occupancy, as a company, around 90%. Commercial is around 88%, commercial and offices. Residential is around 91%. So, overall, our portfolio is around 90%. And then, regarding how we're treating the activities that are affected, we are still being accommodating and reducing the rent for activities like entertainment, like coffee shops that have the shisha activity, fine dining because of the continuous lockdowns and the effects on them. That's on the activities that are being effected.

Regarding the guidance on rental income for 2021, there is some effect on the first quarter because of the COVID effect and the drop in occupancy from 2019. But we haven't given a lot of discounts for first quarter, up to now. So, we see the impact will be limited to the activities that are being affected by the COVID restrictions, and the slight drop in occupancy. But we hope that as soon as the government closes stage five and things get back to normal, we show growth compared to 2020. That's on the guidance for 2021.

On the new property, Block 107, Riggae, we are around 58% leased. We started leasing from the third quarter of last year, and we've been adding to that. So, we hope by the end of the second quarter, hopefully reaching around 90% occupancy by that time.

And I see one more question, I'm sorry, regarding also other new properties that were slotted for 2021. We have the Domus project in Dubai. That's only in the fourth quarter, but it's going to be a slight effect. And hopefully, when we close the transaction of the House of Originals in Palm Jumeirah, we will see that effect hopefully in the second half of the year. So, inshallah, if we close the transaction the second quarter, we will see that effect in the third and fourth quarter.

Regarding the last question, can you provide us with an update on the rental yield? Rental yield varies in Kuwait on the location, as we mentioned. Riggae has been doing very well. I don't know the rental yield, from a transaction standpoint, because we haven't sold anything. But performance wise, the occupancies are good. Riggae, for us, has been a good market, and we represent a good part of that market, from a market share in Riggae. We've got a lot of buildings there. And we are the anchor that sets the trend in Riggae.

In southern Kuwait, we have few developments. We have one in [unclear], but it's a small development, mainly a studio mix. We have high occupancy there, but it's a low entry product. So, we haven't had any problem there. But what I know about that market, the south of Kuwait has been struggling. But we don't have a lot of assets there.

In Salmiya, we've got one of the best assets in the Kuwait, which is the Pearl Marzouq. That asset is doing well. We've refurbished it the last three or four

years, and it's yielding well from rental yield. We have it in our books, usually 8% on our book value. But that, of course, differs regarding what the market is transacting. What I'm hearing in the market is 6% and the assets that are unique go even at 5%. The assets that are in areas that are not attractive, they're selling between 8% and 9%.
So, there is a major difference from a year ago in transaction, comparing [unclear] what we have in our books. I hope I covered all the questions. And if you have any other questions, more than happy to answer.

Operator:

Thank you,Talal. I'll give a final reminder. Ladies and gentlemen, if you'd like to ask a question via the chat function, please go ahead. If you've joined by the audio, please press star one, or if you've joined us on online, please press the flag icon. It seems we have no further questions. I'll allow just a second, if anyone has a chat question. It seems we have no further questions. I will hand back over to Talal for any closing remarks.

Talal Al-Bahar:

Okay, thank you very much. We'll have the presentation on our website, if anyone has any questions, please, you can contact the company and we're more than happy to answer any questions you have in the future. And hopefully, we'll see you after the first quarter. That's the presentation, and thank you for attending.