

جدوى للإستثمار  
Jadwa Investment



## Jadwa Al Haramain REIT Fund Risk Report

Submitted By:



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## Fund Description

|                                |  |
|--------------------------------|--|
| <b>Fund Name</b>               | Jadwa Al Haramain REIT Fund                  |
| <b>Fund Manager</b>            | Jadwa Investment Company                     |
| <b>Listing Exchange</b>        | Tadawul (Saudi) Stock Exchange in April 2017 |
| <b>Type of Fund</b>            | Closed-ended Shariah Compliant               |
| <b>Authorized Capital</b>      | SAR 600,000,000                              |
| <b>Fair Value NAV per unit</b> | SAR 10.79 (as of 31 Dec 2019)                |
| <b>No. of Properties</b>       | 5  |
| <b>Risk Level</b>              | Medium/ Average                              |

## Key Risks

| Risk Type                      | Risk Description  | Risk Mitigation  |
|--------------------------------|---|--|
| Changes in economic conditions | Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends, tax laws and other factors can affect the Fund's prospects.                                       | Regular monitoring of macroeconomic conditions and regulatory trends in laws is being carried out by the Fund Manager. Proactive steps are taken to mitigate or minimize the impact as much as possible.   |
| Regulatory Risk                | Failure to adhere to laws, rules and regulations as stipulated by CMA can result in suspension of trading or cancelation of the Fund's listing.   | Inspection of Compliance Team confirmed that the Fund is clear of any breaches and has made a smooth progress. The Fund Manager has recruited qualified personnel to manage the Fund and monitor all regulatory requirements such as compliance and risk management. All these activities from the Fund Manager are aimed at establishing and confirming the controls to avoid any raise in non-complainant practices. |
| Occupancy Risk                 | Risk when expected occupancy rates are not achieved, which affects the profitability of the Fund.   | All properties acquired by the Fund have strong economic fundamentals and cash-generation characteristics, and thus providing significant margins of safety on occupancy rates. The Fund normally engages in long term leases ranging between 3 and 16 years which also mitigates the risk of not achieving the expected occupancy rates.  |
| Development Risk               | Development risks associated with real estate projects under development include: Delay in construction, costs exceeding planned allocations that may affect the profitability and / or financial feasibility of the Project. | Currently all the properties owned by the Fund are fully developed. Thereby there is no development risk exposure towards the Fund.  |
| Collection Risk                | Risks relating to the inability of tenants to meet their payment obligations towards the Fund.  | The Fund reviews the financial status of all current and prospective tenants and decides on the appropriate level of security required via promissory notes.   |
| Financing Risk                 | Financing Risk occurs when the Fund is unable to attain financing from market to continue/expand its operation.   | The Fund has a committed SAR 200 million credit line facility funded by Riyad Bank. Also, the Fund has only utilized SAR 183mn out of the previous 500mn facility obtained by Banque Saudi Fransi. Given the available committed credit line with the Fund, financing risk is at a minimal.  |
| Lease Renewal Risk             | Lease Renewal Risk is the risk of non-renewal of existing leases or renewal at lower than current lease rate that might impact the rental income of the Fund.   | The Fund enters into long-term operating lease contracts with tenants for space in its investment properties with lease terms ranging between 3 and 16 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent. Given the nature of the contractual agreement, increase in  |

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| Risk Type                       | Risk Description  | Risk Mitigation   |
|---------------------------------|---|---|
|                                 |   | rental prices is monitored and linked to market conditions, therefore the Fund faces minimum lease renewal risk.  |
| Risk of neglecting the property | Any adverse event leading to structural damage to properties owned by the Fund thereby risking the income generating potential from such properties may have a negative impact on income profile of the Fund. | All properties are insured by the Fund which covers for all property damages and the cost for the insurance over the lease term is borne by the lessee. These responsibilities of the lessee ensure the mitigation of property negligence risk.   |
| Counterparty Concentration Risk | This Risk arises when a single counterparty has the most concentration of leased assets, this might lead to an adverse condition if the counterparty has troubles in future.                                  | A major portion of the Fund's leasing income is derived from Tharawat Al Mashaer Property Development and Investment Company. If, this lessee was to serve the Fund notice in the next few years, it could expose the Fund to a high cash-flow risk. This risk is being mitigated by growing the portfolio over a range of tenants.   |
| Sector Concentration Risk       | This Risk arises when all assets belong to the same sector, this might lead to an adverse condition if that location has troubles in future.  | Majority of the Fund's assets are hotels, which subjects the Fund to the risks inherent in the hospitality sector. The Fund continuously explores options of the diversification.   |
| Increasing Interest Rate        | Increasing interest rates would reduce the attractiveness and demand of the REIT resulting in negative pressure on market prices and financing costs for the market-based borrowing.                          | All total long-term loan taken by the Fund and unutilized credit limits have fixed margins above the base rate, thereby reducing the interest rate risk. Also, the Fund Manager analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the Fund.  |
| Liquidity Risk                  | The risk of Jadwa Al Haramain REIT Fund not being able to meet short term financial demands.  | Liquidity risk is managed by regular monitoring and ensuring that sufficient funds are available to meet any future commitments. The Fund has lower current liabilities as compared to its operating income which provides an adequate comfort on the ability to service the debt.  |
| Asset Valuation Risk            | Incorrect Valuation of the properties resulting in notional and reputational losses.  | The Fund Manager ensures clear communication of most up to date required information to the external professional valutors for valuation of the properties to reduce the risk of inaccurate valuation. Moreover, valuations are carried out by two independent valutors accredited by Saudi Authority for Accredited Valutors (TAQEEM) and the Fund Manager uses the average of two valuations for reporting and decision making. |

## Conclusion

The Jadwa Al Haramain REIT Fund is exposed to various risks as identified above which may impact the performance of the REIT. These Risks have been mitigated by the actions taken by Fund manager. With the global widespread of the Corona Virus, precautionary measures such as suspension of Umrah & visiting visas, temporary suspension of Umrah for citizens and residents in the kingdom, suspension of international & domestic travels have been announced by Saudi government. The effect of widespread of COVID-19 are still unfolding and the Fund Manager is working closely with all counterparties to mitigate any risks. As the situation is variable and rapidly evolving therefore the potential impact on the Fund's results cannot be estimated. However, the Fund Manager is putting in place a rental review plan with major counterparties who are negatively affected to ensure the continuation of revenue stream to unit holders.

The fund is exposed to a concentration risk as significant portion of leasing income is derived from hotel properties. This subjects the Fund to the risks inherent in the hospitality sector. Moreover, 3 of the 5 properties are leased by the same tenant, Tharawat Al Mashaer Property Development and Investment Company which makes the Fund prone to counterparty concentration risk. Committed credit facility of a total of SAR 700 million helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently.

Based on the various identified risks and mitigations actions by the Fund Manager, overall Risk of the Fund is "Medium/Average".



## **End of the Report**

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