

جدوى للإستثمار  
Jadwa Investment



## Jadwa REIT Al Haramain Fund Risk Report

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Submitted By:

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Date of Submission: 25-March-2021

## Fund Description

<b>Fund Name</b>	Jadwa REIT Al Haramain 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 660,000,000
<b>Fair Value NAV per unit</b>	SAR 9.57 (as of 31 <sup>st</sup> Dec 2020)
<b>No. of Properties</b>	4 (3 Developed + 1 Under Development)
<b>Risk Level</b>	Above Average / High

## Key Risks

Risk Type	Risk Description	Risk Mitigation
Economic Risk	Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends 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. COVID-19 restrictions by government to suspend Hajj & Umrah have impacted the hospitality sector adversely in Makkah and Medina. The Fund Manager has availed all the relevant economic stimulus provided by the government such as delaying the VAT return filing and suspended the management fees to mitigate the negative impact on the Fund.
Legal and 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.	No observations raised in the last CMA audit remains open which confirms 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. These qualified persons take all necessary steps to avoid any non-compliant practices under the supervision of the Fund Manager.
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, thus providing significant margins of safety on occupancy rates. However, suspension of Hajj & Umrah due to COVID-19 has resulted in lease suspension for all three properties and termination notice for two properties. The Fund Manager is currently evaluating the new tenants for the properties where termination notices have been received. Any new leasing would depend on lifting of COVID-19 restrictions and future performance of the hospitality market in Makkah. If the restrictions will continue to be implemented by the government, then this will increase the risk of not achieving the expected occupancy rates across the whole hospitality sector in Makkah.
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.	The Fund has initiated redevelopment of Tharawat Wadi Ibrahim Hotel and the restaurant building through merging these properties and redeveloping them into a hotel tower during the year ended on Dec 31, 2020. This redevelopment project is projected to be completed by the end of 2022. However, extension of COVID-19 restrictions in the kingdom may delay the construction and increase the development risk faced by the whole hospitality sector in Makkah and Medina.



Risk Type	Risk Description	Risk Mitigation
Credit Risk	Risks relating to the inability of tenants to meet their payment obligations towards the Fund.	Credit analysis/ assessment is conducted by the Fund Manager before onboarding new tenants. For the existing tenants, regular monitoring of outstanding dues towards the fund and follow up for payments is done by the Fund Manager.
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 500 million credit line facility from Banque Saudi Fransi out of which 267 million is unutilised, which assures that the financing risk is at a minimal.
Lease Renewal Risk	Lease renewal risk is the risk of nonrenewal 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 suspension of Umrah due to global pandemic, the Fund faces a significant risk related to lease renewal.
Risk of neglecting the property	Any adverse event leading to structural damage to the properties owned by the Fund thereby risking the income generating potential from such properties.	All the properties are insured by the Fund which covers for all property damages. The Fund Manager ensures that the insurance coverage is adequate under public liability and property all risks insurance.
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.	The Fund has received termination notice from Tharawat Al Mashaer Property Development and Investment Company. This lessee was contributing the major portion of the Fund's income from initiation. This has exposed the Fund to a high cash-flow risk. The Fund Manager is mitigating this risk by evaluating other tenants for these properties and would look to lease 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 sector 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 various options for diversification. The Fund has amended its terms and conditions to allow investment in Buy-back and Leasehold agreements, Cash and money market funds and Units in Real Estate investment funds up to 25% of the Fund's total asset value subject to certain conditions. The Fund has invested 50 Mn SAR in closed ended Shariah compliant private real estate investment fund for diversification.
Geographical Concentration Risk	The risk arises when all the assets belong to same geographical area, this might lead to an adverse condition if that location has troubles in future.	As per initial terms and conditions of the Fund, investments can be made only in properties situated in Makkah and Medina. The Fund Manager has reduced the geographical concentration by revising the Fund's terms and conditions to include minimum 60% asset allocation in the holy cities of Makkah and Medina instead of 100%. Remaining can be invested in income generating and development real estate projects in rest of the cities inside or outside the kingdom with restrictions on concentration limits of 40% and 25% respectively.
Interest Rate Risk	The risk arises due to increase in interest rate impacting the Fund's net income.	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. In addition to this, the Fund has revolving credit line with profit rates reset every 6 months at SIBOR + 200 bps. During last year, the base rate has dropped from 225 bps to 100 bps resulting in reduction of the borrowing cost substantially.
Liquidity Risk	The risk of the Fund not being able to meet short term financial demands or unable to meet any payment obligations for exiting property.	Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund general and administrative expenses. Therefore, the Fund Manager ensures that there are adequate funds to repay obligation in a timely and cost-effective manner. The Fund has an unutilised line of credit of SAR 267 million with bank which partly mitigates the liquidity risk.





Risk Type	Risk Description	Risk Mitigation
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). The Fund Manager uses the average of two valuations for reporting and decision making.
Force Majeure Risk	Risk arising due to some emergency conditions such as global pandemic or war or any other adverse conditions can affect the Fund's prospects.	The Fund Manager has amended terms & conditions of the Fund to include "Force Majeure risks & emergency conditions". The Fund Manager periodically evaluates the COVID-19 related restrictions on Hajj & Umrah in the kingdom and informs the investors on the financial impact of the same. This risk has resulted in a suspension of the rental income for 3 quarters in the year ended on Dec 31,2020.
Environmental, Social and Governance (ESG) Risk	Environmental, Social, and Governance (ESG) risks refer to the three factors in measuring the sustainability and societal impact of an investment.	As part of the traditional financial analysis and due diligence, the risks arising due to environmental issues of properties and environmental regulation are accounted for the valuation processes by the independent valutors. The increased awareness of the Fund Manager about ESG risks, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.

## Conclusion

The Jadwa REIT Al Haramain Fund is exposed to various risks as identified above which may impact the performance of the Fund. These risks have been mitigated through the actions taken by the Fund Manager to some extent. The global spread of the COVID-19 virus in 2020 led to complete lockdown imposed by governments across the globe resulting in suspension of international and domestic travels for major part of the year. COVID-19 has impacted all segments of the economy with the largest impact on the travel and hospitality segment. The Fund Manager has worked closely with all parties and regulatory bodies to minimize the impact of the pandemic on their businesses. Due to pandemic, leases have been suspended on all 3 properties and termination request has been received for 2 properties. This has negatively impacted the Fund's rental income and exposed the Fund to occupancy and lease renewal risk. The Fund has announced the redevelopment of one of the properties which exposes the Fund to development risk. With the start of vaccination against the Covid-19 across the country during 2021, the situation starts to head back to normality which would improve the Fund's long term financial health. The Fund Manager is continuously exploring new investments and diversification opportunities to provide a stable stream of income to the investors. The Fund has invested SAR 50 Mn in a closed ended shariah-compliant private real estate investment fund to achieve diversification benefits. The Fund is exposed to a sector 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. Unutilized credit facility of SAR 267 Mn helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently.

The changes in macroeconomic conditions brought by COVID-19 had a negative impact on businesses in the holy cities and the Fund's performance in 2020 and this negative impact would continue in 2021 until the restrictions imposed by government on Hajj & Umrah are lifted. This has increased the Fund's risk from Average / Moderate to "Above Average / High".





## **End of the Report**

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