RATING REPORT

Globe Residency REIT (GRR)

REPORT DATE:
January 23, 2024

RATING ANALYST:
Shaheryar Khan Mangan
shaheryar@vis.com.pk

RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
REIT Rating	RFR2 (dr)	RFR2(dr)
Rating Date	*Jan 23, 2024*	*Dec 20, 2022*
Rating Outlook	Reaffirmed	Initial
Rating Action	*Stable*	*Stable*

COMPANY INFORMATION	
Registered in 2021	**External auditors:** A.F. Ferguson PWC
Development REIT	
Key Shareholders (with stake 5% or more):	
Arif Habib Corporation Limited & related party -71.46% *General Public -23.85%*	

APPLICABLE METHODOLOGY(IES)
Real Estate Investment Trust (REIT) Fund **https://docs.vis.com.pk/docs/REIT-Methodology-2023.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

Globe Residency REIT (GRR)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Globe Residency REIT (GRR) is a closed-end development REIT and was established under the Trust Deed dated December, 24, 2021.

The Project has been acquired from Javedan Corporation Limited and as per the approval from SECP the Project has been transferred to the REIT structure, effective April 1, 2022.

The REIT was listed on the Pakistan Stock Exchange Limited (PSX) on December 28, 2022 under the REIT Regulations, 2022.

Globe Residency REIT (GRR) is a closed-ended, listed developmental REIT with a limited life of 5 years. The REIT Scheme is being managed by Arif Habib Dolmen REIT Management Limited ("RMC") and Central Depository Company of Pakistan Limited ("CDC") has been appointed as the Trustee of the REIT Scheme.

The objective of the REIT Scheme is to construct 9 apartment towers with a total of 1344, apartments at the Naya Nazimabad, Karachi on an aggregate land size of 40,500 sq yards. The REIT Scheme has a fund size of PKR 2,800 million comprising of equity of PKR 1,400 million and debt of PKR 1,400 million. As per information memorandum, the REIT fund anticipates to generate Internal Rate of Return (IRR) of around 37.39% on the project and investor IRR of 34.88%.

Despite challenges faced by the real estate sector, residential real estate is expected to stay strong

The real estate business in Pakistan is experiencing significant changes due to economic, political, and social factors. Macroeconomic conditions, removal of subsidies as part of IMF program, heightened inflationary environment together with volatile political landscape, have impacted activity in the real estate sector.

In addition, the devaluation of the rupee has counteracted the gains made in real estate investments, resulting in decreased transaction volumes. Stability in exchange rates will remain important for attracting foreign investment in the sector. Furthermore, while there has been an uptick in construction projects, the industry faces challenges due to escalating costs, which in turn creates uncertainties regarding pricing.

Due to population growth, urbanization, and expanding middle class segment, there has been demand in the middle-income housing sector, however, given the market conditions and the uncertainty around upcoming general elections, demand has been limited to necessity driven purchases. Investment led purchases are expected to remain subdued till there is some stabilization on the political front.

Rating incorporates sponsor profile and market position

The rating is supported by the confidence derived from the REIT's prominent position in the market and the reputable profile of its sponsors. As pioneers in the launch of both rental and developmental REITs, the sponsors maintain a strong foothold in this sector, despite the impending entry of numerous competitors. Additionally, their achievements with rental REITs and their extensive experience in real estate development, exemplified by the Naya Nazimabad project, grant them a notable competitive edge.

Moreover, the ratings finds reassurance in the REIT's solid track record of operations and the financial stability of all parties involved in the management of the REIT fund.

Project Cost remains on track

Total cost of the project has been estimated at Rs. 20.4b, 68% of which encompasses construction cost to execute the project. 86% of the project cost will be financed through customer advances over the life of the fund while remaining will be financed through a mix of equity, borrowing, and Musharaka Investment. The business model of the REIT has built contingencies to the tune of 10% of the total construction cost providing comfort to this extent in any cost escalations during the life of the REIT. Till date, cost wise, the project remains on track with 49.3% of the costs already incurred. Savings realized on material prices offset some of the cost increases due to inflationary pressures. Nevertheless, the project remains exposed to cost overrun risk given inflationary environment.

Meezan Bank and GRR have entered into a Musharaka Agreement in August'2022 to jointly develop and sell apartment towers (three towers, total 408 apartments) at the GRR site. The agreement is designed to expedite the construction process and streamline the sales of the specified towers. Meezan Bank Limited will provide financing or other support to help accelerate the completion of these towers. Both parties have agreed to share profits and losses on a 50/50 basis. This means that any profits generated from the specified towers will be equally distributed between Globe Residency REIT and Meezan Bank Limited. Conversely, any losses incurred will also be shared equally. During FY23, Rs 888m were received from Meezan Bank under the Musharika arrangement.

Delay in project implementation, albeit remains manageable

Without any major impediment, project completion timeline has been delayed by about 6 months to Dec 2025. As per management, some construction milestones have been pushed out in wake of improved macroeconomic environment. Given the scale of the project, the variances in the construction schedule remain manageable.

Sizeable sold inventory

On the sales front, out of the inventory of 1344 apartments, 803 (59.7%) have been sold as of Sept 30, 2023 for a total sales value of Rs.12.3b. Given sales plan has been devised in a phased manner, the progress remains fairly on track, albeit on a slower pace. During the year about 155 units were sold. In addition, a large part of the unsold inventory pertains to that held under Musharika arrangement, which is planned to be sold in partnership with Meezan bank. This mitigates the offtake risk to a large extent.

	Sept 30, 2023
Total project inventory	1344
Inventory under Musharika	408
Launched for booking	936
Units Sold	803

Furthermore, the impact of variability in sales plan depicts modest sensitivity to investor returns over the rating horizon. Meeting projected targets is considered essential from a ratings perspective.

Lag in recoveries

Installment recovery is lagging but remains at 91%, which is considered reasonable given the macroeconomic environment and inflationary environment. As per management representation, recoveries are being closely monitored.

GRR is also negotiating additional working capital lines with banks to bridge any cash flow shortfall arising due to delays in recoveries. In addition, GRR has negotiated revised terms with their long-term lender Bank Al Falah whereby principal repayments after 1-year grace have been amended from semi-annual basis over a 3-year period to step-up payment arrangement over a 4-year period, with extension in overall tenor of the loan to 5 years. This is expected to reduce cash flow pressure.

Higher cash flow sensitivity

Cash flow sensitivity would be higher, going forward, due to delay in project construction and lag in recoveries. Leveraging to support cash flows would exert pressure on debt servicing.

Leverage levels remain important

Primarily due to reduction in equity base as a result of dividend payout, gearing levels inched up to 0.93x as of Sept 2023 from 0.75x as of June 2023 end. With anticipated increase in working capital lines, we expect gearing to further increase. Maintaining debt levels <20-25% of gross assets is important for higher levels increase cash flow sensitivity of the project.

Globe Residency REIT **Appendix I**

Financial Summary

BALANCE SHEET	**FY22**	**FY23**	**Q1FY24**
Investment Property	2,301.4	2,055.9	2,097.8
Contract cost assets (including current portion)	28.3	38.4	41.140
Contract assets/unbilled revenue	916.2	1,535.2	1,657.0
Receivables and deposits (including current)	318.6	157.154	231.771
Advance for development expenditure	324.553	319.2	323.4
Cash and Bank balances	160.1	7.3	6.0
Total Assets	**4,049.8**	**4,113.2**	**4,357.4**
Long term loan	1,400.0	1,400.0	1,400.0
Outstanding land consideration (including current portion)	700.0	250.0	250.0
Contract Liabilities/Unearned revenue	66.0	178.0	155.5
Accrued expenses and other liabilities	299.4	429.6	625.3
Total Liabilities	**2,465.4**	**2,257.7**	**2,850.8**
Paid-up Capital	1,400.0	1,400.0	1,400.0
Equity	**1,584.4**	**1,855.5**	**1,506.6**
INCOME STATEMENT	**FY22A**	**FY23A**	**Q1FY24**
Revenue from contracts with customers	2,564.5	2,849.8	616.7
Gross Profit	507.6	427.5	111.8
Net Operating income	417.0	299.6	103.6
Profit Before Taxation	412.2	408.3	100.4
Profit for the year	342.4	271.1	71.1
RATIOS	**FY22A**	**FY23A**	**Q1FY24**
Gross Margin	20%	15%	18%
Net Margin	13%	10%	12%
Current Ratio	7.1	3.1	2.7
Gearing	0.9	0.8	0.9

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Globe Residency REIT
Sector	Construction
Type of Relationship	Solicited
Purpose of Rating	Development REIT
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: DEVELOPMENT REIT				
23/01/2024	RFR2 (dr)		Stable	Reaffirm
20/12/2022	RFR2 (dr)		Stable	Initial

Instrument Structure	NA
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence	

Name	Designation	Date
Mr. Raza Haider	CFO AHDRML	December 8, 2023
Mr. Muhammad Ejaz	CEO AHDRML	