

Mabaneer

Equity Research Update

Sector – Real Estate

Shomoul execution cadence picks up – raising TP

Recurring FCFs & funding flexibility to unlock further value from Shomoul

Our investment thesis on Mabaneer turned more bullish as we see further value unlocking from the company's Shomoul projects. Avenues Kuwait bolsters this thesis by providing equity funding for Mabaneer's reinvestment projects in Riyadh and Khobar through its annual FCFs of around KWD 72-75 Mn, from constant optimization of its mall GLA, occupancy rates of 97%, and higher hotel ADRs. Strong project execution milestones achieved at Avenues Riyadh and buoyant preleasing demand for mall GLA at both Shomoul projects should help Mabaneer achieve its super regional malls leadership position in Riyadh and Khobar, in our view. Moreover, the company's ability to finance both projects comfortably at ~70% debt funding and further refinance the higher cost debt at potentially lower rates at project stabilization, along with optimizing equity funding should push total IRR above 13%. We maintain our Outperform rating on Mabaneer as we remain positive on the company's transformation to a diversified regional developer with a unique portfolio of landmark income generating assets.

Preleasing demand & execution dispelling risks at Avenues Riyadh & Khobar

We spoke with Mabaneer's management which led us to raise our valuation for Avenues Riyadh and Avenues Khobar. We are now confident that market concerns over funding gaps are quickly dissipating as execution picks up pace, despite Mabaneer's higher shareholding of 80% on a total project value guidance of SAR 24 Bn and SAR 10 Bn of total combined equity funding. Further, as highlighted in our previous research update [Mabaneer: Raising stakes in gamechanger Saudi projects - Nov 2023](#), debt funding of ~70% at the Shomoul level, along with efficient cashflow control and debt management over 2024E-27E should allow us to potentially revise our valuations upwards closer to completion and launch timelines. Moreover, Mabaneer's management guided for extremely strong pre-leasing demand for mall components, and that they are continuously looking to optimize spaces such as Luxury retail, F&B, FEC and other tenants to achieve the right mix. We remain optimistic on the significant competitive advantages that both Avenues Riyadh & Avenues Khobar possess underpinned by 1) Mabaneer's track record of adding prime super regional retail in an underserved market that can be replicated and; 2) Both malls enjoying first-mover advantage of providing large-format malls of this scale at both locations evident from strong preleasing demand and prime mixed-use marketability for other components.

Upcoming projects/extensions on track to register impressive IRRs

Mabaneer's upcoming projects/extensions and early guidance from the management point towards impressive IRRs, according to our estimates for both associates – Avenues Bahrain (35% stake), J3 Aventura (35% stake) and PPP project - Sabah Al Salem. Avenues Bahrain Phase-II should benefit from the strong occupancy that Phase-I (Q1-2024: 98%) is experiencing and the high RevPAR (Q1-2024: BHD 49.9) profile of Hilton Garden Inn. Further, Mabaneer's purchase of a vacant land near Phase II of Avenues Bahrain of 9,550 sq.m for BHD 6.1 Mn below prevailing market prices of ~BHD 850-900/sq.m should provide an attractive source of potential growth post the completion of west expansion of Avenues Bahrain, considering its location and allowed FAR ratio. We remain bullish on J3 Aventura and S3 Souk Sabah projects as the projects should achieve IRRs of ~16%-18%, and J3 Aventura should contribute KWD 1.5 Mn - 2 Mn of income from associates upon competition in Q2-2025.

Valuation & Risks –TP raised to KWD 1.065 (Previous: KWD 0.995)

We raised our SotP based TP for Mabaneer to KWD 1.065/share ascribed to stronger Avenues Kuwait FCFs, and higher IRR unlocking from Mabaneer's Shomoul projects (80% shareholding) from strong preleasing, execution trends and funding flexibility. **Key downside risks:** 1) Lower mall footfalls and retail sales conversion rates; 2) Oversupply in ongoing & prospective RE segments; 3) Significant cost over-runs and/or cancellation of expansion projects.

Outperform

CMP 22-May-24: KWD 0.819
Target Price (TP): KWD 1.065
Upside: +30.0%


| Price Perf. | 1M | 3M | 12M |
|-------------|------|-------|-------|
| Absolute | 3.3% | 6.8% | 17.6% |
| Relative | 2.3% | 10.5% | 12.1% |

Stock Data

| | |
|-----------------------------|---------------|
| Bloomberg Ticker | MABANEE KK |
| Refinitiv Ticker | MABK.KW |
| Last Price (KWD) | 0.819 |
| MCap (KWD Mn) | 1,142 |
| MCap (USD Mn) | 3,770 |
| EV (KWD Mn) | 1,572 |
| PE-2024E (x) | 17.4 |
| PB - 2024E (x) | 1.7 |
| Dividend yield - 2024E (%) | 1.8% |
| Stock Performance - YTD (%) | 3.0% |
| 52-Week Range (KWD) | 0.705 / 0.883 |

Sources: Kamco Invest Research & Bloomberg

| Mabaneer Financials | 2023 | 2024E | 2025E |
|---------------------|-------|-------|-------|
| Revenue (KWD Mn) | 129.3 | 131.8 | 134.3 |
| GP margins (%) | 80.2% | 79.5% | 78.9% |
| EBITDA (KWD Mn) | 99.5 | 100.4 | 101.6 |
| EPS (KWD/share) | 0.047 | 0.047 | 0.048 |
| PE (x) | 17.1 | 17.4 | 17.2 |
| PB (x) | 1.6 | 1.7 | 1.6 |
| Div Yield (%) | 1.8% | 1.8% | 1.8% |

Source: Kamco Invest Research, Mabaneer

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Valuation and Risks

Target price raised to KWD 1.065/share; maintain 'Outperform' rating

Post the Q1-2024 analyst call, we spoke with the management and updated our valuation estimates and forecasts for Mabanee's operational and ongoing projects. Our revised valuation estimates include: 1) Raising Avenues Kuwait steady-state mall occupancy rates to 97% (previous: 96%); 2) Stronger execution and visibility of Avenues Riyadh and Avenues Khobar at Mabanee's Shumoul shareholding of 80%; 3) Stronger outlook for associates Avenues Bahrain and J3 Aventura. Our EPS forecasts of KWD 0.047 and KWD 0.048 for 2024E and 2025E respectively, incorporates the management's ability to optimize GLA mix, effect contract price uplifts, and achieve better than expected contribution from hospitality revenue of rooms and F&B from Avenues Kuwait. Our forecasts also integrate the capex spend, drawdown of debt facilities and minority accruals of Avenues Riyadh and Avenues Khobar projects. We include the company's capex spend and debt funding of the company's PPP investment at the Sabah Al Ahmed (S3) project in our forecasts. Each project is valued independently due to the company's varied ownership interests in these developments and arrive at our sum-of-the-parts (SotP) based valuation. We raised our SotP based TP for Mabanee to KWD 1.065/share ascribed to stronger Avenues Kuwait FCFs, and higher IRR unlocking from Mabanee's Shumoul projects (80% shareholding) from strong preleasing, execution trends and funding flexibility.

| Mabanee Fair Value | | |
|---|---|------------------|
| SOTP valuation | Methodology | Fair value (KWD) |
| Avenues Kuwait | 75:25 blend of DCF (Average WACC - 8.3%, terminal growth rate - 1.5%) & 2025E P/NAV of 0.85x | 0.745 |
| Avenues KSA - Riyadh & Khobar | DCF (Average WACC - 7.8%, terminal growth rate - 1.5%) | 0.245 |
| Sabah Al Ahmed | DCF (Average CoD - 5%, 32 years term) | 0.035 |
| Associates: J3 Aventura & Bahrain* | 1) J3 Aventura - DCF (25 yr lease, average WACC - 7.3%); 2) Avenues Bahrain - blend of DCF & P/NAV of 0.8x | 0.040 |
| Mabanee Group Fair Value per Share (KWD) | | 1.065 |
| Current market price (KWD) | | 0.819 |
| Upside/Downside | | 30.0% |

Sources: Kamco Invest Research, * Bahrain land purchase value included

Equity funding for Mabanee's reinvestment projects in Riyadh and Khobar will continue from Avenues Kuwait as the project is expected to achieve FCFs of above KWD 72-75 Mn. Further, the execution of these projects will transform the company into a diversified regional developer with a unique portfolio of landmark income generating assets across real estate sub-segments. Moreover, the company's ability to finance both projects comfortably at ~70% debt funding and further refinance the higher cost debt at potentially lower rates at project stabilization and optimize equity funding should push total IRRs above 13%. Our current valuation for Mabanee's KSA projects should therefore potentially see significant upward revisions closer to completion and launch timelines.

In our DCF based valuation across projects, we have assumed a terminal growth rate of 1.5% for Avenues Kuwait, malls at Avenues Riyadh and Avenues Khobar, which we believe appropriately represents the sustainable long-term growth rate, sector fundamentals and disruption in the sector. Cost of capital calculations for the projects are based on the funding mix of the respective projects, and our revised WACC incorporates the higher risk premiums warranted by the market in a high interest rate environment. For the company's Souk Sabah (S3) project comprising of Kuwaiti Souq themed mall (GLA: 23,200 sq.m) and hotel (110 keys), we discount project CFs based on corporate loan rates, as against our earlier expectation of a funding mix of both debt and equity, which we believe increases project IRR to a lucrative +20%. Both Avenues Bahrain (Phase I, II & Hilton Garden Inn) and J3 Aventura are valued at their respective 35% associate participation. Further, we include 100% of Mabanee's recent purchase of a vacant land near Phase II of Avenues Bahrain of 9,550 sq.m for BHD 6.1 Mn at the project level. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC for Mabanee's Kuwait projects. For Avenues Riyadh and Avenues Khobar malls, we utilize an exit cap rate of ~7%, to arrive at the terminal value. We value S3 and J3 Aventura over their lease terms of 32 years and 25 years respectively, and

therefore do not arrive at a separate terminal value beyond the lease term. Further, fair values of land in Saudi, land in Salmiya, and the Fintas project are included in our valuation.

Downside risks to our rating & forecasts include:

- Slowdown of GCC economic growth and discretionary consumer spending.
- Lower footfalls and retail sales conversion in mall projects.
- Oversupply of ongoing and prospective RE segments.
- Cancellation and/or significant cost over-runs of development costs of expansion projects.
- Inability to refinance debt availed at higher rates for Saudi projects.

Mabanee Financials

| Balance Sheet (KWD Mn) | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | |
| Cash and cash equivalents | 139.2 | 99.7 | 163.9 | 24.1 | 6.7 | 6.8 |
| Receivables | 10.0 | 11.5 | 24.8 | 13.7 | 16.1 | 16.4 |
| Total current assets | 149.2 | 111.2 | 188.7 | 37.8 | 22.8 | 23.2 |
| Net property, plant and equipment | 142.7 | 150.3 | 145.1 | 142.2 | 139.1 | 136.1 |
| Investment Properties & LT Assets | 793.8 | 873.2 | 1,024.2 | 1,318.9 | 1,791.6 | 2,078.9 |
| Total assets | 1,085.7 | 1,134.7 | 1,358.1 | 1,498.8 | 1,953.6 | 2,238.2 |
| Liabilities | | | | | | |
| Total debt | 385.6 | 389.0 | 548.2 | 739.1 | 1,121.8 | 1,331.4 |
| Accounts payable and other liabilities | 95.8 | 91.9 | 109.0 | 91.2 | 100.0 | 101.8 |
| Total liabilities | 481.4 | 480.9 | 657.2 | 830.3 | 1,221.8 | 1,433.1 |
| Shareholders' Equity | | | | | | |
| Share capital | 133.6 | 140.7 | 148.1 | 148.1 | 148.1 | 148.1 |
| Retained earnings | 267.3 | 292.0 | 318.5 | 283.3 | 328.1 | 374.3 |
| Other equity | 203.5 | 221.1 | 234.3 | 237.1 | 255.6 | 282.7 |
| Total Equity | 604.4 | 653.8 | 700.8 | 668.5 | 731.8 | 805.1 |
| Total Liabilities and Equity | 1,085.7 | 1,134.7 | 1,358.1 | 1,498.8 | 1,953.6 | 2,238.2 |
| Income Statement (KWD Mn) | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
| Revenue | 100.5 | 113.2 | 129.3 | 131.8 | 134.3 | 136.6 |
| Cost of goods sold | -19.4 | -22.5 | -25.7 | -27.1 | -28.3 | -28.7 |
| Gross profit | 81.2 | 90.8 | 103.7 | 104.7 | 106.0 | 108.0 |
| General and administrative expenses | -1.9 | -3.6 | -4.1 | -4.3 | -4.4 | -4.4 |
| EBITDA | 79.2 | 87.1 | 99.5 | 100.4 | 101.6 | 103.5 |
| Depreciation and amortization | -18.0 | -21.0 | -25.7 | -27.0 | -27.3 | -27.6 |
| EBIT | 61.2 | 66.1 | 73.8 | 73.4 | 74.3 | 75.9 |
| Finance costs | -5.1 | -6.7 | -12.0 | -14.7 | -14.9 | -15.1 |
| Share from associates & Other Income/Loss | 2.4 | 4.9 | 6.8 | 10.4 | 10.5 | 10.6 |
| Net profit before taxes | 58.5 | 64.3 | 68.7 | 69.1 | 70.0 | 71.5 |
| Provision for Income Taxes & Directors Fee | -3.1 | -3.5 | -3.8 | -3.9 | -3.9 | -4.0 |
| Net profit after taxes | 55.4 | 60.9 | 64.8 | 65.3 | 66.1 | 67.5 |
| Minority interest | 0.0 | -0.2 | -0.2 | -0.4 | -0.4 | -0.4 |
| Net profit attributable to parent | 55.4 | 61.1 | 65.0 | 65.6 | 66.4 | 67.8 |
| EPS (KWD) | 0.040 | 0.044 | 0.047 | 0.047 | 0.048 | 0.049 |
| Cash Flow (KWD Mn) | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
| Net cash from operating activities | 84.4 | 86.0 | 83.6 | 100.8 | 103.1 | 100.0 |
| Net cash (used in) from investing activities | -109.5 | -29.4 | -249.4 | -320.1 | -486.2 | -301.1 |
| Net cash from (used in) financing activities | 28.4 | -30.2 | 105.2 | 79.5 | 365.8 | 201.2 |
| Change in cash and cash equivalents | 3.4 | 26.4 | -60.6 | -139.8 | -17.4 | 0.1 |
| FX and other adjustments | 97.3 | -65.9 | 124.8 | | | |
| Cash at the end of the year | 139.2 | 99.7 | 163.9 | 24.1 | 6.7 | 6.8 |

Source : Kamco Invest Research and Mabanee

| Valuation & Financial Ratios | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| Key Ratios | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
| Leverage Ratios | | | | | | |
| Total Debt / Total Assets (x) | 0.36 | 0.34 | 0.40 | 0.49 | 0.57 | 0.59 |
| Total Debt / Equity (x) | 0.64 | 0.60 | 0.78 | 1.11 | 1.53 | 1.65 |
| Net debt/ Equity (x) | 0.41 | 0.44 | 0.55 | 1.07 | 1.52 | 1.65 |
| Profitability Ratios | | | | | | |
| Return on Average Assets (%) | 5.1% | 5.4% | 4.8% | 4.4% | 3.4% | 3.0% |
| Return on Average Equity (%) | 9.2% | 9.3% | 9.3% | 9.8% | 9.1% | 8.4% |
| ROIC (%) | 5.9% | 6.0% | 5.6% | 4.9% | 3.8% | 3.4% |
| Margins | | | | | | |
| Gross profit margin (%) | 80.7% | 80.2% | 80.2% | 79.5% | 78.9% | 79.0% |
| EBITDA margin (%) | 78.8% | 77.0% | 77.0% | 76.2% | 75.7% | 75.8% |
| EBIT margin (%) | 60.9% | 58.4% | 57.1% | 55.7% | 55.4% | 55.5% |
| Net profit margin (%) | 55.1% | 53.9% | 50.3% | 49.8% | 49.5% | 49.6% |
| Per Share Data and Valuation Ratios | | | | | | |
| Earnings Per Share (KWD) | 0.040 | 0.044 | 0.047 | 0.047 | 0.048 | 0.049 |
| Book Value Per Share (KWD) | 0.43 | 0.47 | 0.50 | 0.48 | 0.52 | 0.58 |
| Dividend Per Share (KWD) | 0.013 | 0.013 | 0.014 | 0.015 | 0.015 | 0.015 |
| PE (x) | 16.8 | 17.2 | 17.1 | 17.4 | 17.2 | 16.8 |
| PB (x) | 1.5 | 1.6 | 1.6 | 1.7 | 1.6 | 1.4 |
| Dividend Yield (%) | 2.0% | 1.7% | 1.8% | 1.8% | 1.8% | 1.8% |

Source : Kamco Invest Research and Mabanee

Note : Forward Valuation ratios are based on current market prices

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