

Mabaneer

Equity Research Update

Sector – Real Estate

'Rev'ving it up; maintain 'Outperform'

Revenue & FCF visibility improve for existing and under construction projects

The timing of higher mall occupancy rates achieved at Avenues Kuwait is a significant positive in our view, as they provide substantial fire power for Mabaneer's upcoming reinvestment projects. Avenues Kuwait should achieve FCFs of above KWD 65 Mn according to our estimates, that should adequately fund Mabaneer's equity contribution for its KSA projects along with cash on hand (9M-2022: KWD 110.6 Mn). We maintain our Outperform rating on Mabaneer, as we deem the company's expansion projects to be lucrative both in terms of its competitive positioning and respective IRR profiles. These projects will also transform the company into a diversified regional developer with a unique portfolio of landmark income generating assets across real estate sub-segments. Further, we expect the company's smaller sized PPP projects like Sabah Al Ahmed (S3) and J3 Aventura to be highly profitable investments.

Occupancy increases drive higher steady-state revenues in operational projects

We raise our forecasts for Avenues Kuwait with group revenues expected to reach KWD 112.4 Mn for 2022E (previous: KWD 106.2 Mn), and KWD 117.1 Mn (previous: KWD 110.2 Mn) and KWD 119.3 Mn (previous: KWD 112.1 Mn) for 2023E & 2024E respectively. Revisions in our forecasts are mainly driven by a c.100bps increase in our average mall occupancy to around 96%-97%, and the management's ability to optimize the mall's tenant mix on an ongoing basis. We assume full potential revenues from Waldorf Astoria to come in from Q1-2023E onwards, post the normal service ramp up period (soft opening in Q3-2022). GP margins should remain at +80% over 2022E-24E but decline c.60 bps by 2024E, as hotel revenues ramp up. For Avenues Bahrain, mall occupancy rates rose to 95.5% (+200 bps q-o-q) in Q3-2022, and the new run-rate is included in our forecasts. We model the completion of the West expansion by Q4-2023E, which would position the mall (~80k sq.m) amongst the largest players in Bahrain. We remain optimistic on Avenues Bahrain benefiting from scale and locational advantages, while leaving room for optimization of project components.

KSA development projects underway; S3 yet another winning investment

Mabaneer expects to complete the malls at Avenues Riyadh (GLA: 389k sq.m) and Avenues Khobar (GLA: 175k sq.m) by Q4-2025 and Q2-2026 respectively, as project timelines have become clearer. The mall projects in KSA should achieve an IRR of 11%-12% in our view, as combined revenues should touch ~SAR 2 Bn given its premium positioning, and the limited competition from other large super regional malls. Meanwhile, we remain optimistic on Mabaneer's recent signings for PPP investments in Kuwait. Mabaneer signed a Build-Operate-Lease-Transfer (BOLT) agreement to independently develop Sabah Al Ahmed (S3) project with Public Authority for Housing Welfare (PAHW) in 2022, involving a construction period of 3 years followed by a lease term of 32 years. Total capex spend is projected at KWD 26 Mn, and involves the development of a Kuwaiti Souq themed mall (GLA: 23,200 sq.m) and hotel (110 keys). We believe that S3 and the earlier signed J3 Aventura (35% participation) are extremely lucrative investment projects for Mabaneer, with potential project IRRs of at least 17%-20%, according to our estimates. Moreover, these investments enable a larger footprint for the company in Kuwait across real estate sub-segments, and the smaller size of these projects would not put significant strain on the company's cashflows aimed towards capex outlays towards Avenues Riyadh and Avenues Khobar, in our view.

Valuation & Risks –TP raised to KWD 0.985 (Previous: KWD 0.935)

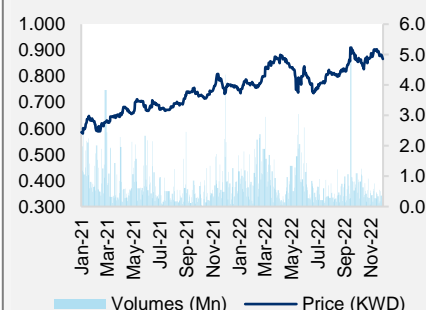
We raise our SotP based TP for Mabaneer to KWD 0.985/share, as greater visibility is available for its upcoming KSA projects cashflows. Nevertheless, this is offset by a higher WACC across projects which incorporates more stringent risk premiums warranted by the market in the current environment. **Key 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 29-Nov-22: KWD 0.867

Target Price (TP): KWD 0.985

Upside/Downside: +13.6%



Price Perf.	1M	3M	12M
Absolute	-0.2%	4.6%	18.0%
Relative	-4.4%	7.3%	9.6%

Stock Data

Bloomberg Ticker	MABANEE KK
Refinitiv Ticker	MABK.KW
Last Price (KWD)	0.867
MCap (KWD Mn)	1,077
MCap (USD Mn)	3,499
EV (KWD Mn)	1,374
PE-2022E (x)	17.7
PB - 2022E (x)	1.7
Dividend yield - 2022E (%)	1.2%
Stock Performance - YTD (%)	17.8%
52-Week Range (KWD)	0.735 / 0.910

Sources: Kamco Invest Research & Bloomberg

Mabaneer Financials	2021	2022E	2023E
Revenue (KWD Mn)	100.5	112.4	117.1
GP margins (%)	80.7%	80.6%	80.2%
EBITDA (KWD Mn)	79.2	86.6	89.8
EPS (KWD/share)	0.045	0.049	0.051
PE (x)	16.8	17.7	17.1
PB (x)	1.5	1.7	1.5
Div Yield (%)	1.8%	1.2%	1.2%

Source: Kamco Invest Research, Mabaneer

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Valuation and Risks

Target price raised to KWD 0.985/share; maintain 'Outperform' rating

Post speaking to Mabanee's management, we have updated and rolled over our forecasts from our previous update - [Mabanee \(TP: KWD 0.935, Outperform\) - FCF runway opens via Riyadh & J3 Aventura](#). We fine tune our group EPS forecasts for 2022E and 2023E to KWD 0.049 (previous: KWD 0.047) and KWD 0.051 (previous: KWD 0.049) respectively and publish our 2024E EPS of KWD 0.052. Our forecasts integrate the capex spend, drawdown of debt facilities and minority accruals of Avenues Riyadh and Avenues Khobar projects. We also include the company's capex spend and debt funding of the newly announced PPP investment at the Sabah Al Ahmed (S3) project in our forecasts. However, we prefer to value each project independently due to the company's varied ownership interests in these developments and arrive at our sum-of-the-parts (SotP) based valuation. We raise our SotP target price (TP) for Mabanee to KWD 0.985/share (Previous: KWD 0.935/share), driven by the significant project timeline and cashflow visibility available now for the upcoming projects in KSA, and the inclusion of highly profitable S3 project (IRR ~20%).

Mabanee Fair Value

SotP valuation	Methodology	Fair value (KWD)
Avenues Kuwait	75:25 blend of DCF (Average WACC - 8.0%, terminal growth rate - 1.5%) & P/NAV of 0.85x	0.730
Avenues KSA - Riyadh & Khobar	DCF (Average WACC - 7.3%, exit cap rate - 7%)	0.200
Sabah Al Ahmed	DCF (Average WACC - 10.5%, exit cap rate - 7%)	0.025
Associates: J3 Aventura & Bahrain	1) J3 Aventura - DCF (25 yr lease, average WACC - 7.1%); 2) Avenues Bahrain - blend of DCF & P/NAV of 0.8x	0.030
Mabanee Group Fair Value per Share (KWD)		0.985
Current market price (KWD)		0.867
Upside		13.6%

Sources: Kamco Invest Research

The timing of higher steady state mall occupancy rates of 96%-97% (+100 bps) achieved at Avenues Kuwait is a significant positive in our view, as they provide substantial fire power for Mabanee's upcoming reinvestment projects. Avenues Kuwait should achieve FCFs of above KWD 65 Mn according to our estimates, that should adequately fund Mabanee's equity contribution for its KSA projects along with cash on hand (9M-2022: KWD 110.6 Mn). The upcoming projects provide a runway for reinvestment of these FCFs, and the company's KSA projects, S3 and J3 Aventura are particularly rewarding projects with double-digit IRRs. Cashflows for providing Mabanee's equity funding contribution across all projects also remains comfortable, despite competing timelines of the developments. Successful completion of these projects will also transform the company into a diversified regional developer with a unique portfolio of landmark income generating assets across real estate sub-segments.

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. The newly announced (S3) project with Public Authority for Housing Welfare (PAHW) in 2022, was modelled based a construction period of 3 years, followed by a lease term of 32 years. Cost of capital calculations for the projects are based on funding mix of the respective projects, and our revised WACC incorporates the higher risk premiums warranted by the market in a rising interest rate environment. Both Avenues Bahrain (Phase I,II & Hilton Garden Inn) and J3 Aventura are valued at their respective 35% associate participation. 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 its 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

Mabane Financials

Balance Sheet (KWD Mn)	2019	2020	2021	2022E	2023E	2024E
Assets						
Cash and cash equivalents	72.6	38.6	139.2	121.9	114.8	37.8
Receivables	19.8	20.2	12.6	14.6	16.4	16.7
Total current assets	92.4	58.8	151.9	136.5	131.2	54.5
Net property, plant and equipment	4.6	119.5	142.7	151.0	150.9	150.8
Investment Properties & LT Assets	868.1	786.6	791.1	879.6	1,069.4	1,466.6
Total assets	965.1	964.8	1,085.7	1,167.1	1,351.4	1,671.9
Liabilities						
Total debt	340.6	334.7	385.6	445.5	543.2	747.0
Accounts payable and other liabilities	77.6	75.1	95.8	84.4	90.1	91.6
Total liabilities	418.2	409.8	481.4	529.9	633.2	838.6
Shareholders' Equity						
Share capital	120.8	127.0	133.6	140.7	140.7	140.7
Retained earnings	234.0	236.8	267.3	277.7	327.3	378.2
Other equity	192.1	191.2	203.5	218.9	250.2	314.4
Total Equity	546.9	555.1	604.4	637.2	718.2	833.3
Total Liabilities and Equity	965.1	964.8	1,085.7	1,167.1	1,351.4	1,671.9
Income Statement (KWD Mn)	2019	2020	2021	2022E	2023E	2024E
Revenue	96.4	65.5	100.5	112.4	117.1	119.3
Cost of goods sold	-22.1	-22.2	-19.4	-21.8	-23.2	-23.7
Gross profit	74.2	43.4	81.2	90.7	93.9	95.6
General and administrative expenses	-1.3	-3.1	-1.9	-4.0	-4.1	-4.2
EBITDA	72.9	40.2	79.2	86.6	89.8	91.4
Depreciation and amortization	-10.8	-13.5	-18.0	-19.6	-20.2	-20.3
EBIT	62.2	26.7	61.2	67.0	69.6	71.1
Finance costs	-4.0	-5.1	-5.1	-6.4	-6.9	-7.5
Share from associates & Other Income/Loss	1.2	1.3	2.4	3.2	3.3	3.5
Net profit before taxes	59.3	23.0	58.5	63.8	65.9	67.2
Provision for Income Taxes & Directors Fee	-3.2	-1.4	-3.1	-3.4	-3.5	-3.5
Net profit after taxes	56.1	21.6	55.4	60.4	62.4	63.7
Minority interest	0.3	0.2	0.0	0.4	0.4	0.4
Net profit attributable to parent	56.4	21.8	55.4	60.8	62.8	64.0
EPS (KWD)	0.045	0.018	0.045	0.049	0.051	0.052
Cash Flow (KWD Mn)	2019	2020	2021	2022E	2023E	2024E
Net cash from operating activities	89.1	34.2	84.4	87.6	89.4	88.2
Net cash (used in) from investing activities	-43.5	-38.3	-109.5	-133.6	-206.1	-413.4
Net cash from (used in) financing activities	8.5	-30.0	28.4	129.4	109.6	248.2
Change in cash and cash equivalents	54.1	-34.1	3.4	83.3	-7.1	-77.0
FX and other adjustments	0.1	0.1	97.3	-100.6		
Cash at the end of the year	72.6	38.6	139.2	121.9	114.8	37.8

Source : Kamco Invest Research and Mabane

Valuation & Financial Ratios						
Key Ratios	2019	2020	2021	2022E	2023E	2024E
Leverage Ratios						
Total Debt / Total Assets (x)	0.35	0.35	0.36	0.38	0.40	0.45
Total Debt / Equity (x)	0.62	0.60	0.64	0.70	0.76	0.90
Net debt/ Equity (x)	0.49	0.53	0.41	0.51	0.60	0.85
Profitability Ratios						
Return on Average Assets (%)	5.8%	2.3%	5.1%	5.2%	4.6%	3.8%
Return on Average Equity (%)	10.3%	3.9%	9.2%	9.5%	8.7%	7.7%
ROIC (%)	6.6%	2.8%	5.9%	5.9%	5.2%	4.3%
Margins						
Gross profit margin (%)	77.0%	66.1%	80.7%	80.6%	80.2%	80.1%
EBITDA margin (%)	75.7%	61.4%	78.8%	77.1%	76.7%	76.6%
EBIT margin (%)	64.5%	40.8%	60.9%	59.6%	59.4%	59.6%
Net profit margin (%)	58.5%	33.2%	55.1%	54.0%	53.6%	53.7%
Per Share Data and Valuation Ratios						
Earnings Per Share (KWD)	0.045	0.018	0.045	0.049	0.051	0.052
Book Value Per Share (KWD)	0.44	0.45	0.49	0.51	0.58	0.67
Dividend Per Share (KWD)	0.014	0.006	0.013	0.010	0.010	0.010
PE (x)	16.7	33.4	16.8	17.7	17.1	16.8
PB (x)	1.7	1.3	1.5	1.7	1.5	1.3
Dividend Yield (%)	1.8%	1.0%	1.8%	1.2%	1.2%	1.2%

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