

Mabaneer

Equity Research Update

Sector – Real Estate

Mixed-use developments to emerge as flagship

Mabaneer's era of mixed-use growth projects now becomes thesis centerpiece

We maintain our Outperform rating on Mabaneer as we deem the company's expansion projects to be lucrative in terms of competitive positioning. 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. Equity funding for Mabaneer's reinvestment projects in Riyadh and Khobar will continue from Avenues Kuwait as the project is expected to achieve FCFs of above KWD 70 Mn. Our thesis now hinges on Mabaneer's ability to refinance the higher cost debt of these large projects at potentially lower rates closer to project completion and optimize equity funding to achieve IRRs of 11%-12%. As a result, our current valuation for Mabaneer's KSA projects should potentially see significant upward revisions closer to completion and launch timelines.

Avenues Riyadh & Khobar – been there, done that!

We believe that Mabaneer's execution and completion of the malls at Avenues Riyadh (GLA: 370k sq.m) and Avenues Khobar (GLA: 169k sq.m) by Q1-2026 and Q4-2026 would achieve significant competitive advantages for the company. Firstly, Mabaneer's track record of adding prime retail space and becoming the largest retail RE developer in an underserved market in Kuwait can be replicated, as Avenues Riyadh and Avenues Khobar is not expected to have competition from other super regional malls of their scale by launch dates. Secondly, although borrowing rates have increased significantly (3M SAIBOR rising ~7x since Avenues Riyadh started construction), this should provide further barriers to entry for competitors. Further, Mabaneer should be able to refinance debt at potentially lower rates at project completion dates, while interest costs are capitalized until then, as per IFRS which should keep KSA retail mall IRRs at 11%-12% in our view. Our current valuation for Mabaneer's KSA projects (KWD 0.170/share) does incorporate the higher borrowing costs profile, debt funding risk premiums and therefore could undergo significant upward revisions closer to completion. Nevertheless, for other project components at Riyadh and Khobar such as hospitality, residential and office spaces, higher supply (+12%-25%) is expected to enter the market by 2025, most of which should be on a standalone basis based on consultant data. Mabaneer's mixed-use project profiles at both destinations should aid in achieving competitive revenue KPIs in terms ADRs, occupancy rates and lease rates for each of its product components in our view.

Avenues Kuwait portfolio firing at full potential; S3 unlocks higher IRR

We raise our forecasts for Avenues Kuwait, as we expect group revenues to reach KWD 121.8 Mn for 2023E (previous: KWD 117.1 Mn Mn), and KWD 124.2 Mn (previous: KWD 119.3 Mn) for 2024E. Revisions in our forecasts are mainly driven by occupancy rates of +96%, the management's ability to optimize the GLA mix, contract price uplifts, and higher hospitality revenue of rooms and F&B. The higher revenue forecasts and cost optimization is expected to keep GP margins above 80% despite the increase in PAI lease rates from KWD 5.8 Mn to KWD 8.5 Mn. For the company's Souk Sabah (S3) project comprising of Kuwaiti Souq themed mall (GLA: 23,200 sq.m) and hotel (110 keys), we now 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%.

Valuation & Risks – TP raised to KWD 0.980 (Previous: KWD 0.985)

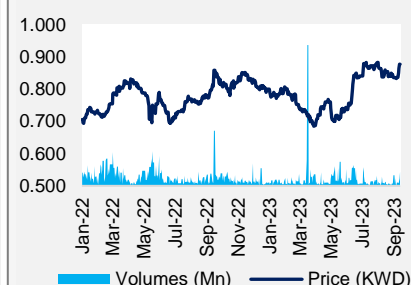
We revise our SotP based TP for Mabaneer to KWD 0.980/share, as KSA projects' cashflows are discounted based on current WACC estimates which reflect higher benchmark SAIBOR linked rates and more stringent risk premiums during the construction phase of the projects. **Key downside risks:** 1) Lower mall 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 13-Sep-23: KWD 0.878

Target Price (TP): KWD 0.980

Upside: +11.6%



Price Perf.	1M	3M	12M
Absolute	4.2%	7.7%	7.7%
Relative	6.0%	6.1%	15.2%

Stock Data

Bloomberg Ticker	MABANEE KK
Refinitiv Ticker	MABK.KW
Last Price (KWD)	0.878
MCap (KWD Mn)	1,156
MCap (USD Mn)	3,814
EV (KWD Mn)	1,513
PE-2023E (x)	18.2
PB - 2023E (x)	1.8
Dividend yield - 2023E (%)	1.1%
Stock Performance - YTD (%)	9.7%
52-Week Range (KWD)	0.685 / 0.883

Sources: Kamco Invest Research & Bloomberg

Mabaneer Financials	2022	2023E	2024E
Revenue (KWD Mn)	113.2	121.8	124.2
GP margins (%)	80.2%	81.1%	80.6%
EBITDA (KWD Mn)	87.7	95.1	96.4
EPS (KWD/share)	0.046	0.048	0.049
PE (x)	17.2	18.2	17.8
PB (x)	1.6	1.8	1.6
Div Yield (%)	1.7%	1.1%	1.1%

Source: Kamco Invest Research, Mabaneer

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Valuation and Risks

Target price revised to KWD 0.980/share; maintain 'Outperform' rating

Post Q2-23, we spoke to Mabanee's management, which has led us to fine tune our forecasts from our previous update - [Mabanee \(TP: KWD 0.985, Outperform\) - Rev'ing it up](#). We forecast group EPS of KWD 0.048 and KWD 0.049 for 2023E and 2024E, which 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 revise our SotP based TP for Mabanee to KWD 0.980/share, as KSA projects' cashflows are discounted based on current WACC estimates which reflect higher benchmark SAIBOR-linked rates, and more stringent risk premiums during the construction phase of the projects.

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%) & 2024E P/NAV of 0.85x	0.740
Avenues KSA - Riyadh & Khobar	DCF (Average WACC - 7.5%, terminal growth rate - 1.5%)	0.170
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	0.035
Mabanee Group Fair Value per Share (KWD)		0.980
Current market price (KWD)		0.878
Upside		11.6%

Sources: Kamco Invest Research

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 70 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. Mabanee's ability to refinance higher cost debt for these large projects at potentially lower rates closer to project completion and optimize equity funding for the projects should help to achieve IRRs of 11%-12% in our view. 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 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 now 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. 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

Mabanee Financials

Balance Sheet (KWD Mn)	2020	2021	2022	2023E	2024E	2025E
Assets						
Cash and cash equivalents	38.6	139.2	99.7	44.5	12.3	6.3
Receivables	20.2	10.0	11.5	12.9	14.9	15.2
Total current assets	58.8	149.2	111.2	57.5	27.2	21.5
Net property, plant and equipment	119.5	142.7	150.3	146.6	143.6	140.6
Investment Properties & LT Assets	786.6	793.8	873.2	1,055.7	1,419.4	1,867.9
Total assets	964.8	1,085.7	1,134.7	1,259.7	1,590.2	2,030.0
Liabilities						
Total debt	334.7	385.6	389.0	519.4	772.1	1,126.8
Accounts payable and other liabilities	75.1	95.8	91.9	90.7	98.1	99.8
Total liabilities	409.8	481.4	480.9	610.1	870.2	1,226.6
Shareholders' Equity						
Share capital	127.0	133.6	140.7	140.7	140.7	140.7
Retained earnings	236.8	267.3	292.0	282.9	334.7	388.6
Other equity	191.2	203.5	221.1	226.0	244.5	274.1
Total Equity	555.1	604.4	653.8	649.6	720.0	803.4
Total Liabilities and Equity	964.8	1,085.7	1,134.7	1,259.7	1,590.2	2,030.0
Income Statement (KWD Mn)	2020	2021	2022	2023E	2024E	2025E
Revenue	65.5	100.5	113.2	121.8	124.2	126.5
Cost of goods sold	-22.2	-19.4	-22.5	-23.0	-24.1	-24.4
Gross profit	43.4	81.2	90.8	98.8	100.1	102.1
General and administrative expenses	-3.1	-1.9	-3.1	-3.7	-3.8	-3.8
EBITDA	40.2	79.2	87.7	95.1	96.4	98.2
Depreciation and amortization	-13.5	-18.0	-21.0	-23.8	-23.9	-24.2
EBIT	26.7	61.2	66.7	71.3	72.5	74.1
Finance costs	-5.1	-5.1	-6.7	-10.7	-10.4	-10.2
Share from associates & Other Income/Loss	1.3	2.4	4.4	6.8	6.9	7.3
Net profit before taxes	23.0	58.5	64.3	67.4	69.1	71.2
Provision for Income Taxes & Directors Fee	-1.4	-3.1	-3.5	-3.6	-3.7	-3.8
Net profit after taxes	21.6	55.4	60.9	63.8	65.4	67.4
Minority interest	-0.2	0.0	-0.2	-0.4	-0.4	-0.4
Net profit attributable to parent	21.4	55.3	60.7	63.4	65.0	67.0
EPS (KWD)	0.017	0.042	0.046	0.048	0.049	0.051
Cash Flow (KWD Mn)	2020	2021	2022	2023E	2024E	2025E
Net cash from operating activities	34.2	84.4	86.0	97.8	97.1	94.9
Net cash (used in) from investing activities	-38.3	-109.5	-29.4	-205.2	-377.2	-462.0
Net cash from (used in) financing activities	-30.0	28.4	-30.2	52.2	247.9	361.1
Change in cash and cash equivalents	-34.1	3.4	26.4	-55.2	-32.2	-6.0
FX and other adjustments	0.1	97.3	-65.9			
Cash at the end of the year	38.6	139.2	99.7	44.5	12.3	6.3

Source : Kamco Invest Research and Mabanee

Valuation & Financial Ratios						
Key Ratios	2020	2021	2022	2023E	2024E	2025E
Leverage Ratios						
Total Debt / Total Assets (x)	0.35	0.36	0.34	0.41	0.49	0.56
Total Debt / Equity (x)	0.60	0.64	0.60	0.80	1.07	1.40
Net debt/ Equity (x)	0.53	0.41	0.44	0.73	1.06	1.39
Profitability Ratios						
Return on Average Assets (%)	2.2%	5.1%	5.3%	5.0%	4.1%	3.3%
Return on Average Equity (%)	3.8%	9.2%	9.3%	9.8%	9.0%	8.3%
ROIC (%)	2.8%	5.9%	6.1%	5.8%	4.6%	3.6%
Margins						
Gross profit margin (%)	66.1%	80.7%	80.2%	81.1%	80.6%	80.7%
EBITDA margin (%)	61.4%	78.8%	77.5%	78.1%	77.6%	77.6%
EBIT margin (%)	40.8%	60.9%	58.9%	58.5%	58.4%	58.5%
Net profit margin (%)	32.6%	55.1%	53.6%	52.1%	52.4%	53.0%
Per Share Data and Valuation Ratios						
Earnings Per Share (KWD)	0.017	0.042	0.046	0.048	0.049	0.051
Book Value Per Share (KWD)	0.42	0.46	0.50	0.49	0.55	0.61
Dividend Per Share (KWD)	0.006	0.013	0.013	0.010	0.010	0.010
PE (x)	33.4	16.8	17.2	18.2	17.8	17.2
PB (x)	1.3	1.5	1.6	1.8	1.6	1.4
Dividend Yield (%)	1.0%	1.9%	1.7%	1.1%	1.1%	1.1%

Source : Kamco Invest Research and Mabanee

Note : Forward Valuation ratios are based on current market prices

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