KAMCO

KAMCO Research

Mabanee

Equity Research Update | **Sector – Real Estate**

Still reason to shop – retain 'Outperform' rating

Kuwait operations to drive EPS growth until 2021

Our 'Outperform' rating on Mabanee is driven by the company's group EPS growth of 17.4% from 53.6 fils in 2018 to 62.9 fils in 2021, derived from a 35% increase in leasable area and hotel revenues, and average GP margins of around 75%. Avenues Kuwait remains the retail destination of choice in Kuwait and should benefit from the presence of additional F&B and entertainment options in Phase IV, and the presence of mall-linked hotels. Moreover, the potential upgrade of MSCI Kuwait to EM status should help sustain Mabanee's stock price rally, as the company has one of the highest flows/ADVT multiples (75.8x) in the index.

Phase IV vacancy fears overdone; retail space demand turns price sensitive

The real estate market for Grade A retail spaces in Kuwait has become more price sensitive with the addition of close to 255,000 sq.m of incremental supply in 2018 and drove higher vacancy rates (+8%) for such spaces. Nevertheless, lease rates have come down by 10%-15% since then, bringing back demand for such spaces. For Avenues Phase IV, we feel market concerns over occupancy rates are excessive, as the delay in recognizing higher occupancy rates is more from tenant timelines for store opening, and Mabanee's management preferring a specific tenant mix for the remaining smaller leasable spaces. As a result, we expect average monthly blended rents to stay stable for Phases I-IV at KWD 20/sq.m. Further, we forecast Mabanee's group revenues to grow at a CAGR of 8.7% CAGR from KWD 85.5 Mn in 2018 to KWD 109.9 Mn in 2021.

Saudi cashflow visibility crucial; impact from other regional projects minimal

We view Mabanee's Saudi Arabia focus positively, given macro trends and initiatives towards increasing discretionary and entertainment spending. However, given the scale of projects (SAR 13 Bn), cashflow visibility becomes extremely significant. Therefore, we prefer to wait for more guidance on financing terms, construction start date, and phasing between retail and other multi-use components before including them in our model forecasts and valuation. Mabanee's regional diversification which includes Phase II at Bahrain and Avenues Sharjah (JV with Shurooq) are likely to have limited impact on existing operations and cashflows, due to Mabanee's lower ownership in these projects.

Valuation & Risks – TP of KWD 0.740/share

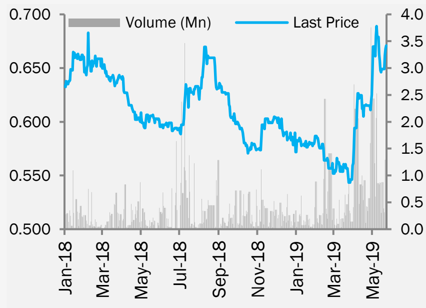
Our TP of KWD 0.740/share for Mabanee is based on a blend of DCF and P/NAV valuation methods, which represents and upside of over 10% from current levels. Mabanee currently trades at a P/NAV of 0.79x, despite the +17% YTD rally in the stock. ***Key Downside risks:*** 1) Slower GCC economic growth and consumer spending. 2) Retail space oversupply, lower footfalls and footfall conversion in malls. 3) Significant cost over-runs for expansion projects. 4) FX related risks

Key Financials	2017	2018	2019E	2020E	2021E
Revenue (KWD Mn)	77.2	85.4	101.3	106.3	109.9
GP Margins (%)	78.2%	79.1%	78.3%	75.5%	73.6%
EBITDA (KWD Mn)	58.5	65.2	76.9	77.9	78.3
Net Income (KWD Mn)	49.2	52.5	63.5	64.6	65.4
EPS (fils)	0.053	0.054	0.061	0.062	0.063
P/E (x)	13.4	11.5	11.0	10.8	10.7
P/B (x)	1.5	1.2	1.5	1.3	1.2
Net debt/EBITDA (x)	4.7	4.4	3.5	2.9	2.2

Sources: KAMCO Research, and Mabanee

Outperform

CMP 23-May-19:	KWD 0.671
Target Price:	KWD 0.740
Upside/Downside:	+10.3%



Price Perf.	1M	3M	12M
Absolute	9.6%	21.1%	11.8%
Relative	12.1%	14.6%	-6.4%

Stock Data	
Bloomberg Ticker	MABANEE KK
Last Price (KWD)	0.671
Mcap (KWD Mn)	697
MCap (USD Mn)	2,291
EV (KWD Mn)	965
Stock performance - YTD (%)	17.4%
P/E - 2019F (x)	11.0
P/B - 2019F (x)	1.5
52 Week Range (KWD)	0.543/0.689

Sources: KAMCO Research & Bloomberg

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Valuation and Risks

Target price of KWD0.740/share; 'Outperform'

We forecast Mabanee's group EPS to jump by 17.4% from 53.6 fils in 2018 to 62.9 fils by 2021, driven by the full potential revenues from Phase IV of Avenues Kuwait. The ramp-up in revenues from Phase IV will continue in 2019 and 2020 and continue to translate into EPS growth, with the Phase IV retail space forecasted to reach optimal occupancy rates by Q4-19 in our view, while Phase IV hotel revenues should commence over the same period. Our TP of KWD 0.740/share is based on a blend of DCF and P/NAV valuation methods.

Weighted Average Fair Value

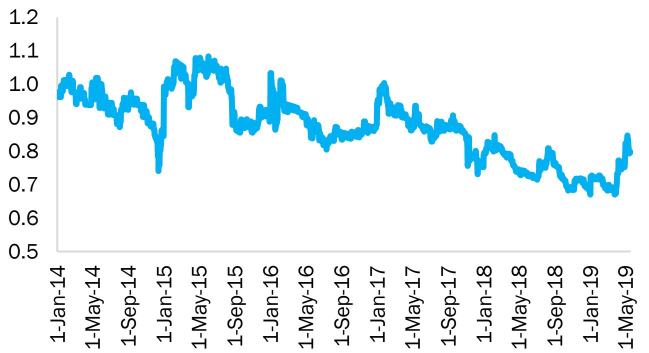
Valuation Method	Fair value per share (KWD)	Weight (%)	Weighted Value (KWD)
DCF	0.750	70%	0.525
Net Asset Value (NAV)	0.717	30%	0.215
Weighted Average Fair Value per Share (KWD)			**0.740**
Current market price (KWD)			0.671
Upside/Downside			***10.3%***

Sources: KAMCO Research and Bloomberg

Our rating on Mabanee is 'Outperform' as we continue to see upside in the company's Kuwait operations, given its leadership position in leasing Grade A retail spaces. Avenues Kuwait continues to be the preferred destination for leading retailers, while we expect the company's focus towards entertainment options and the hotels to augur well for the company. We feel the market fears over Phase IV vacancy rates and lease rates are overdone, and the stock appears undervalued based on our DCF and P/NAV methodologies, warranting the rating. In our DCF valuation, we have assumed a terminal growth rate of 2.0%, and average WACC of 8.0% over our forecast period, which we believe adequately represents the sustainable long-term growth rate for the company, given the nature of real estate cycles and the rate of technological advancement and disruption in the retail sector. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC. Accordingly, we arrive at a DCF value of KWD 0.750.

Our forecasts and valuation include Phase I and Phase II of Avenues Bahrain, including hotels, however we expect the contribution to our target price to be low at around 1%, due to its lower size and 35% associate participation. We have not included Mabanee's Saudi Arabia projects in our forecast and as we prefer to wait for details on capex outlay, financing terms and project phasing, which the company is expected to share over the coming quarters. Land acquisition and related costs for Saudi Arabia are included at cost. Fair values of Mabanee's Salmiya land and Fintas project are included in our valuation and contributes 5.5% of our target price.

Mabanee Price/NAV (x)



Sources: KAMCO Research, Bloomberg

Mabanee estimated passive flows from MSCI Upgrade

Company	Estimated Flows (USD Mn)	Flows/ADVT (x)
NBK	731	47.4
KFH	615	53.4
Zain	241	50.0
Boubyan Bank	113	100.6
Agility	171	61.8
Gulf Bank	101	7.6
Burgan Bank	62	18.9
Mabanee	79	75.8
Boubyan	89	119.3
Total	**2,200**	**40.7**

Sources: MSCI, KAMCO Research

Moreover, Mabanee currently trades at a P/NAV of 0.79x, despite the +17% YTD, rally in the stock. For our P/NAV based target price of KWD 0.717/ share, we apply a P/NAV multiple of 0.9x, factoring in Mabanee's historical P/NAV trends, multiples of other leading GCC retail real estate peers, and the company's growth prospects.

Kuwait's potential MSCI upgrade could help sustain Mabanee's stock price rally

Though Mabanee stock price has rallied +17% from the start of 2019, the announcement of the potential reclassification of MSCI Kuwait to Emerging Market status in MSCI's Annual Market Classification review on 25 June 2019 is likely to provide support for the share price. Further if MSCI Kuwait is upgraded, consensus estimates inflows in the range of USD 2 -2.4 Bn. We expect Mabanee, to be one of the main beneficiaries of these flows, given current trading activity in the stock. Our analysis based on a consensus average of USD 2.2 Bn of inflows, shows that Mabanee (75.8x) has one of the highest flows/ADVT (average daily value traded) multiples amongst index constituents, based on the 4M-ADVT (Jan-April 2019). This should help sustain Mabanee's stock price going forward, apart from fundamental reasons to own the stock.

Downside risks to our rating & forecasts include:

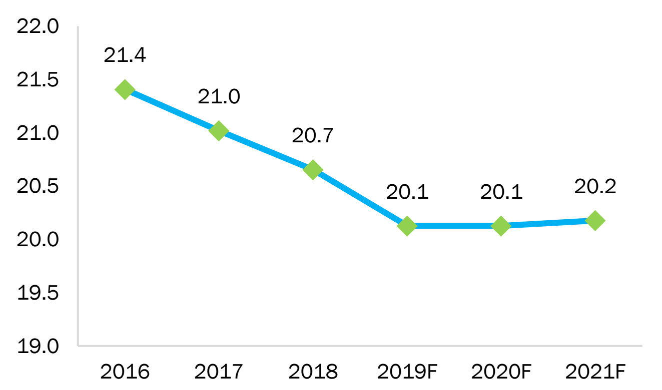
- Slowdown of GCC economic growth and discretionary consumer spending
- Oversupply of retail spaces, driving lower footfalls in malls and footfall conversion
- Significant cost over-runs of development costs of expansion projects.
- FX related risks

Investment Thesis

Phase IV retail and hotel segments to lift group revenues by over 40%

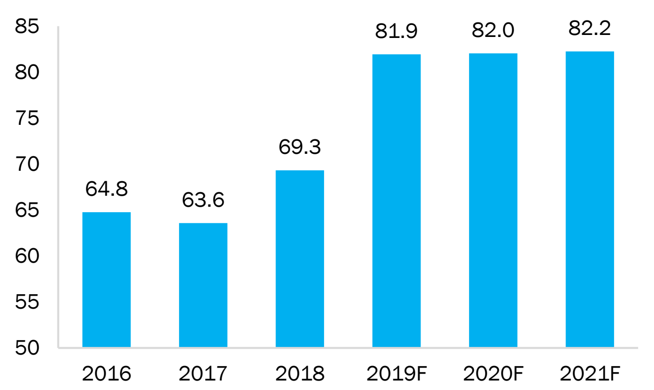
Incremental revenues from Phase IV retail and hotel segments of Avenues Kuwait will drive significant revenue and earnings growth for Mabanee over 2018 -2021, in our view and confirm our positive investment case for Mabanee. We forecast group revenues of the company to grow at a CAGR of 8.7% CAGR from KWD 85.5 Mn in 2018 to KWD 109.9 Mn in 2021. With the addition of Phase IV, we forecast rental revenues of Avenues Kuwait to increase by 29% from KWD 63.6 Mn in 2017, to KWD 82.0 Mn in 2020, given that 2018 and 2019 rental revenues include occupancy and rental revenues build-up of the newly opened phase. Our topline growth forecasts are mainly driven by close to a 35% increase in net leasable area (NLA) and average blended monthly rents of around KWD 20/sq.m for the Phase I-IV combined until 2021.

Avenues Kuwait average blended rents (KWD/sq.m/month)



Sources: KAMCO Research

Avenues Kuwait rental revenues (KWD Mn)

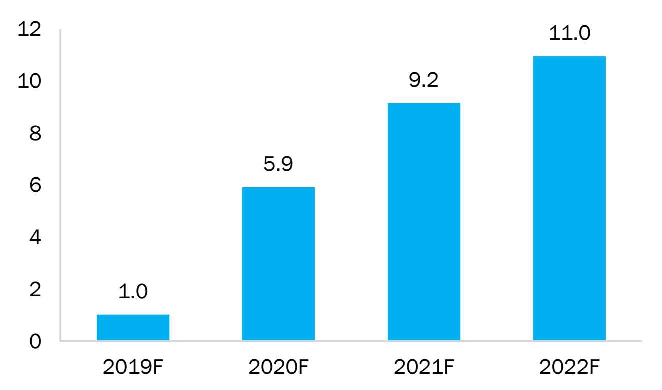


Sources: KAMCO Research, Mabanee

Market fears surrounding Phase IV vacancies and lower rents overdone

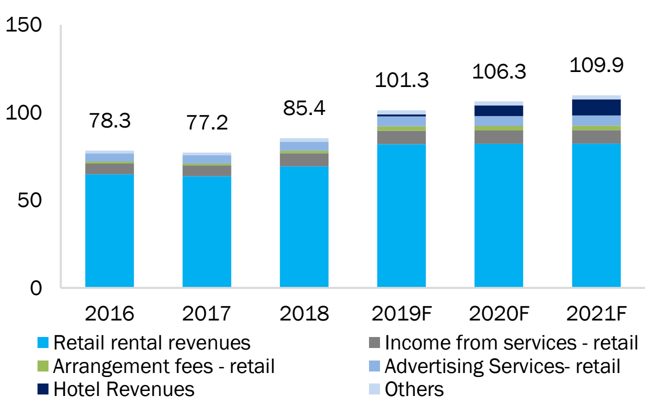
Our forecasts and assumptions do include the impact of price sensitive demand prevalent in Kuwait's retail real estate market, that led to declines in achieved rents for Grade A retail spaces over 2015-2018. Moreover, we have factored in a 20% drop in average rents for Phase IV in comparison to Phase III from the presence of anchor tenants in Phase IV (Phase III has no anchor tenants). However, KAMCO Research considers the market concerns over lower achievable occupancy rates, and expectations of significantly lower average monthly rents for Phase IV as compared to other phases to be excessive.

Avenues Kuwait Hotel Revenues (KWD Mn)



Sources: KAMCO Research

Mabanee group revenues (KWD Mn)



Sources: KAMCO Research, Mabanee

While Phase I-III is still operating at close to 95% occupancy rates, we expect Phase IV to reach full potential occupancy rates of 95% by Q4-19 (above 70% at the end of Q1-19) and forecast average monthly rents of KWD 20/sq.m for the phase. Moreover, the management of Mabanee guided that around 98%-99% of Phase IV was leased, ahead of current occupancy rates, and the delay in recognizing higher occupancy rates and revenues is in more from tenant timelines for fit-out, store opening, and the management of Mabanee preferring a specific tenant mix for the remaining smaller leasable spaces. As a result, we foresee no excessive declines in lease rates and expect average monthly blended rents to stay stable for Phases I-IV at KWD 20/sq.m, given stabilizing market conditions and take-up of Grade A retail spaces. The impact on Avenues Kuwait mall rental revenues from lower achievable rents for Phase IV lease rates are also not excessive, at 1.3% for every change KWD 1/sq.m in monthly.

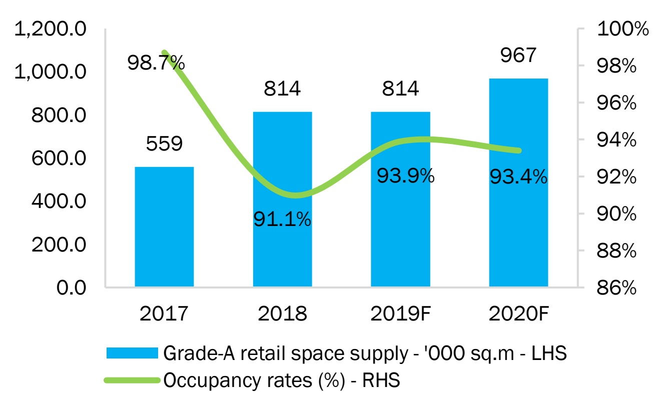
Hotel revenues to reach full potential from 2021/2022 onwards

The addition of Phase IV hotels – four-star Hilton Garden with 400 keys by 2019 and five-star Waldorf Astoria with 200 keys by 2020 will reach full potential revenues by 2021/2022 as per our forecasts and contribute to around 9%-10% of revenues. We forecast revenues from Phase IV hotels to reach around KWD 11 Mn by 2022, driven by our Average Daily Rate (ADR) assumptions of KWD 110 for Waldorf Astoria and KWD 70 for Hilton Garden and average occupancy rates of 60%. The current five-star and four-star hotel occupancy rates in Kuwait are around 52% and 58% respectively as per real estate consultant REMI. But we remain confident with our average 60% occupancy estimate for Phase IV hotels by 2022, given their positioning as the first destination-linked hotels in Kuwait with direct access to the Avenues mall. Regional examples of higher occupancy rates for mall-linked hotels as compared to market-wide averages, such as Hotel Address Downtown linked to The Dubai Mall, further reaffirm our assumptions and forecasts.

Grade A retail space demand turns price sensitive; no oversupply concerns

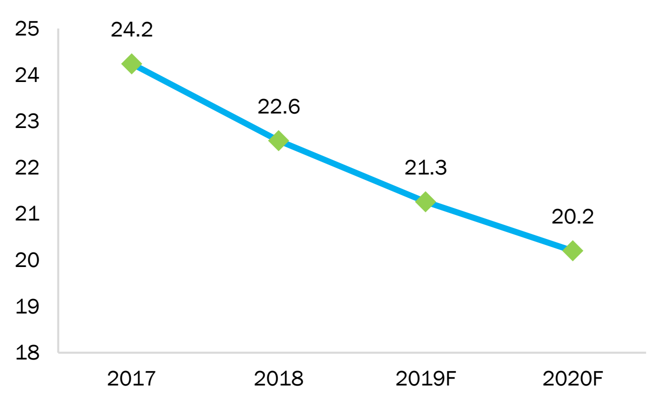
As of 2018, total supply of Grade-A retail space in Kuwait stood at over 814,200 sq.m while aggregate occupancy rate was 91.1% as per REMI. Grade-A space occupancy rates in 2018 dropped from 98.7% in 2017, as retail space supply jumped by 45.5% in 2018 and led to rental declines of around 6.8% y-o-y from KWD 24.2/sq.m per month to KWD 22.6/sq.m per month. The quick increase in supply moved the market from being undersupplied to a market where demand has become more price sensitive, as tenants had ample options of such spaces to occupy.

Kuwait Grade-A retail space & occupancy rates (%)



Sources: REMI

Kuwait monthly Grade-A retail space rents (KWD/sq.m)



Sources: REMI

There is no additional supply expected in 2019 and vacancy rates are expected to move closer to natural vacancy rates (5%-6%) for the entire Grade A retail space market, as per REMI. However, this additional take-up of space will come in at lower lease rates, given the price sensitive nature of demand for such spaces, as REMI expects lease rates to decline to KWD 21.3/sq.m per month by end 2019. Going into 2020, with the addition of Assima Mall and 360 Degree Outlet Mall should lead Grade-A mall space to grow by 18.8% to over 967,400 sq.m. REMI expects tenants to continue to take up new spaces and maintain occupancy rates of over 93%, but at lower average rents as they forecast rents to come down to KWD 20.2 per sq.m. The steady take-up of Grade-A retail space, despite significant additions to supply gives credence to the fact that the market is not oversupplied and is also evident from Kuwait's lower mall space per capita as compared to regional peers.

Brick-and-mortar retail model still relevant; Avenues Kuwait remains prime beneficiary
The growing notion that, retail ecommerce and e-tailing are going to contribute to the brick-and-mortar retail format falling completely out of favor in the region is still far-fetched in our view. Though retail groups are pursuing an omnichannel model, and there is increasing focus on e-commerce, retailers with physical presence in the region continue to pursue different strategies to retain footfalls and footfall-to-sales conversion. In Q4-18, some retailers in the region announced extensive sales promotion offers in order to attract footfall, to offset online purchases from the region on international sales promotion days such as Black Friday and Boxing Day.

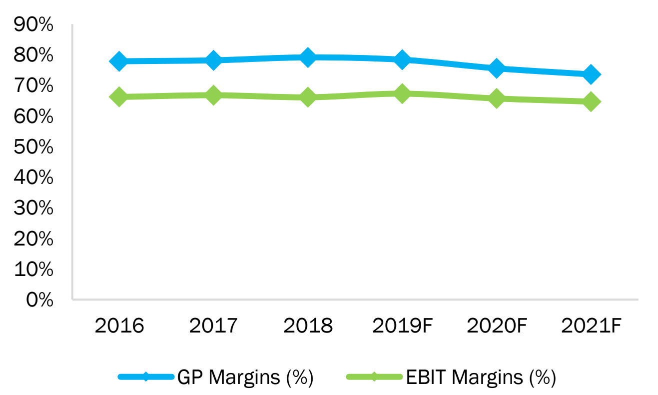
For Kuwait, in our discussion with leading retail brands and retail groups, they did allude to a drop-in footfalls and footfall conversion, but it was highlighted that this is not ascribed to consumer migration to ecommerce entirely, but more because of consumer spending patterns that have changed. Consumers have clearly become more selective about their purchases, and continue to wait for sales promotions and high value offers to shop, which leads to more sporadic mall visits. This is evident from our analysis of POS data, from the Central Bank of Kuwait. The number of POS transactions recorded locally within Kuwait has grown at a CAGR of 19.1% from 43.6 Mn in Q1-17 to 61.9 Mn in Q1-19, while the average POS transaction value dipped from KWD 48.5/transaction to KWD 42.6/ transaction. Another trend seen within newer constructed malls in Kuwait, in-line with regional trends is the increase of Entertainment and F&B tenants.

We therefore expect Phase IV in Avenues Kuwait to be a key beneficiary of this trend and attract more footfall going forward, due to the presence of entertainment options such as Vox Cinemas, additional F&B alternatives and the presence of mall-linked Phase IV hotels. Moreover, in the light of prevalent demand-supply trends, we expect average rents at Avenues Kuwait to stabilize at around KWD 20/sq.m over 2019 and 2020, ahead of the market, given its unique market leadership position as being the preferred space for retail and entertainment in Kuwait.

Margins to remain strong; full potential EPS to increase 17.3% from Phase IV

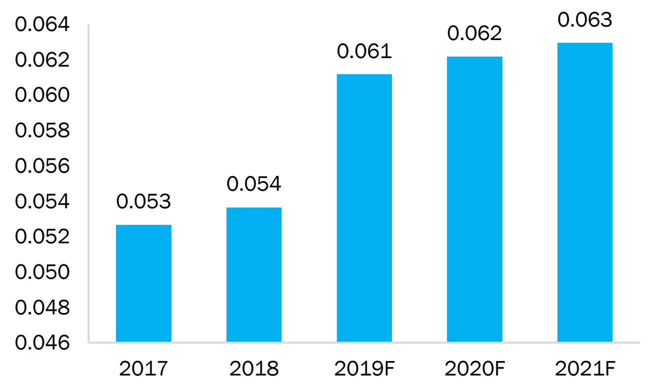
Mabanee's profitability remains strong with average GP margins of over 78% over 2016-2018 and EBIT margins of above 66% over the same period. Mabanee was able to pass on the higher electricity and water utility prices, that were raised by 12.5x and 2x respectively to 25fils/kWh and KWD 4/1,000 imperial gallons by the Ministry of Electricity, to tenants at Avenues Kuwait, which kept EBIT margins intact.

Mabanee Group GP margins (%) & EBIT margins (%)



Sources: KAMCO Research, Mabanee

Mabanee Group EPS forecasts (KWD)



Sources: KAMCO Research, Mabanee

While the addition of the Phase IV mall will continue to keep margins strong, we forecast both GP margins and EBIT margins to decline from 2019 onwards ascribed to the opening of Phase IV hotels. We have assumed an average GOPPAR (gross operating profit per available room) of around 45% over our forecast period, broadly in line with Kuwait's hospitality market and this should lead to GP margins and EBIT margins compressing by 400bps -500 bps in our view. Nevertheless, both GP margins (+73%) and EBIT margins (+63%) will remain extremely healthy over the medium term.

We forecast full potential group EPS for Mabanee to increase by 17.4% from 53.6 fils in 2018 to 62.9 fils in 2021, ascribed to growth from Phase IV retail and hotel segments, as each component becomes fully operational, while margins remain strong.

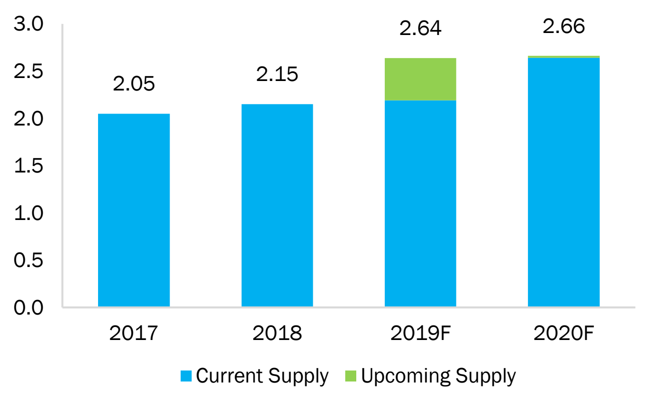
Saudi cashflow visibility crucial; impact from other regional projects minimal

Mabanee's Saudi Arabia projects in Riyadh and Khobar include both retail and multi-use components with an estimated cost of around SAR 13 Bn (KWD 1 Bn). The Avenues Riyadh project will include a retail mall with GLA of over 390,000 sq.m and five multi-use towers, and the company also mentioned that the main contractor has been selected. Mabanee guided that funding of SAR 5.1 Bn has been secured through an initial agreement with 9 GCC banks, while an MoU for SAR 500 Mn with Project Support Fund of Ministry of Finance was signed to fund part of the project. The Avenues Khobar project will include retail, entertainment area along with four towers that will have residential apartments, hotels, offices, medical facilities, exhibitions, ballrooms and conference halls.

Saudi Arabia focus good for growth; but cashflow visibility crucial

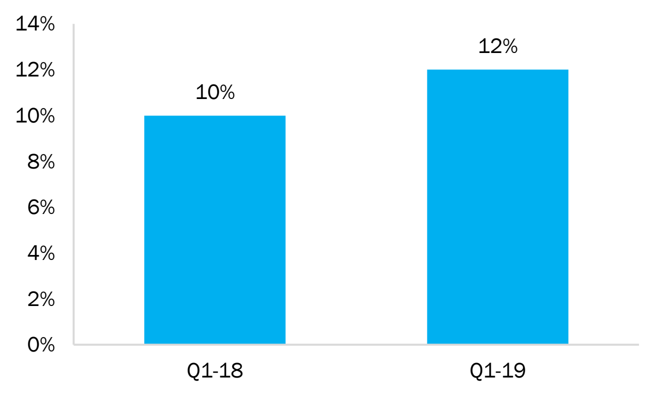
Mabanee has been successful in managing capex and cashflows for Avenues Kuwait. We view Mabanee's Saudi Arabia focus for growth positively, given the size of the economy, large population and 2030 focus towards improving and increasing household spending towards entertainment initiatives. The concerns however are whether the retail real estate market in Saudi Arabia can absorb large retail spaces like Avenues Riyadh, given that the GLA of existing malls are significantly smaller and vacancy rates prevalent in the market are still applying pressure on rents. As per JLL, the vacancy rates in retail mall spaces in Riyadh are 12% as of Q1-19. Moreover, Mabanee's current plan entails constructing the retail mall at Avenues Riyadh (GLA: 390,000 sq,m) at one go, which is larger than the combined GLA of Phase I-IV of Avenues Kuwait, and does not include phasing like Avenues Kuwait. The phasing of Phase I-IV of the Avenues Kuwait project did allow for ample flexibility for the newer phases, from strong rental revenues of existing phases along with debt funding.

Riyadh retail space supply (Mn sq.m)



Sources: JLL

Riyadh retail space vacancy rate (%)



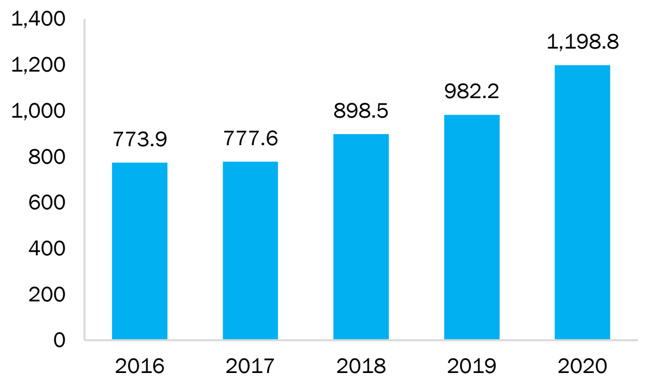
Sources: JLL

We do not see concerns for Mabanee over securing occupancy rates, and on the contrary expect Mabanee to achieve above market occupancy rates for its projects in Saudi Arabia, given the strong support from Alshaya brands and existing tenants from other retailers in Avenues Kuwait. Also, Mabanee's strong execution track record of previous and ongoing projects in Kuwait and Bahrain also mitigates cashflow concerns. Mabanee mentioned that they would be providing more guidance on their Saudi Arabia projects, like financing terms, construction start date, and phasing between retail and other multi-use components. Given the size of projects in Saudi Arabia, and Mabanee's 60% participation which requires full consolidation, we prefer to wait for these details before including cashflows and forecasts, in order model forecasts and valuation. Our DCF valuation and target price therefore excludes capex and cashflow forecasts for Mabanee's Saudi Arabia projects, barring land acquisition costs which are factored at cost.

Impact from Bahrain and other regional projects to be limited
We view Mabanee's regional diversification strategy positively, but the impact of such projects due to lower participation rates are likely to be limited in our view.

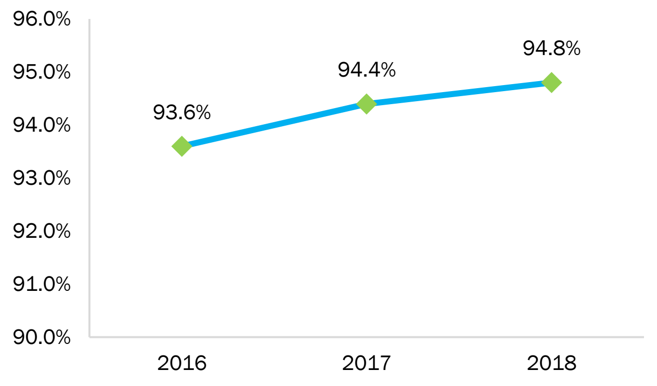
The Avenues Bahrain project, that Mabanee holds via an associate participation of 35%, currently consists of Phase-I GLA of 40,000 sq.m and is operating at an occupancy rate of 85%. We expect the occupancy rate to build up further going forward, towards Bahrain's organized retail average of above 94% (Source: REMI), while average monthly lease rates for Phase I at the end of 2018 was estimated to be around BHD 16/sq.m, and above the market average of BHD 9.31/sq.m, as per REMI.

Bahrain organized retail space supply ('000 sq.m)



Sources: REMI

Bahrain organized retail occupancy rate (%)



Sources: REMI

Mabanee is set to expand operations in Bahrain with the construction of Phase II and a hotel with direct access to the mall. The GLA of Phase II is higher at 56,000 sq.m with a capex outlay of around BHD 75 Mn, while the four-star Hilton Garden Inn of 210 keys is expected to cost around BHD 25 Mn, as per the company. For our model, we have assumed a start date of Q2-21 for the hotel component, while Phase-II retail comes in by Q4-21. We further assumed an ADR of BHD 85 and a stabilized occupancy rate of 50%, given the unique destination linked nature of the hotel. For Phase-II retail, we expect average lease rates to be lower than Phase I at BHD 13.5/sq.m. In terms of financing, 70% of Phase-II capex and 60% of the hotel capex are expected to be funded via debt, with a funding tenure of 10 years including two years of grace period during construction, while funding costs of around 5%, similar to Phase I is assumed. While we expect Avenues Bahrain to do well in terms of rental revenues and project profitability, we believe profitability will be lower than Mabanee's Kuwait projects and the impact on Mabanee's overall operations is likely to be limited, considering the smaller size of the project and 35% associate participation.

Other regional projects for Mabanee include Avenues Sharjah, a partnership with Shurooq: Sharjah Investment and Development Authority in the UAE, with similar partnership interests. The project includes a retail space of 13,000 sq.m and a 200 key smart urban hotel. Mabanee is also looking at the partnering with the government in Kuwait and bidding for PPP and BOT projects and are shortlisted for few projects as well. However, the management of Mabanee mentioned that risk-return profiles of these projects and individual projects' viability from Mabanee's overall strategic objectives will determine participation in such projects. Mabanee is also studying the concept and feasibility of their Salmiya plot of land of 9,761 sq.m for its first mixed-use project outside the Avenues in Kuwait.

For our forecasts, we only include Bahrain Phase I, Phase II and the hotel, as we prefer to see more progress and visibility for Mabanee's other regional projects, Kuwait partnerships, and their Salmiya project before including them in our forecasts.

Mabanee Financials

Balance Sheet (KWD Mn)	2016	2017	2018	2019E	2020E	2021E
Assets						
Cash and cash equivalents	14.3	14.5	18.4	46.8	99.5	150.3
Receivables	62.2	43.1	28.8	31.9	34.5	35.6
Total current assets	76.5	57.6	47.2	78.7	134.0	185.8
Net property, plant and equipment	2.5	3.5	3.4	4.6	4.5	4.3
Other assets	652.8	742.3	812.2	839.7	853.5	849.9
Total assets	**731.8**	**803.5**	**862.8**	**923.1**	**992.0**	**1,040.1**
Liabilities						
Current Liabilities	39.0	56.4	53.6	44.0	47.9	49.4
Long-term debt	244.5	255.0	289.0	315.3	328.0	321.5
Other Liabilities	35.6	47.7	34.8	26.8	27.0	27.2
Total liabilities	**319.1**	**359.2**	**377.4**	**386.0**	**402.9**	**398.1**
Shareholders' Equity						
Share capital	105.7	110.2	114.9	114.9	114.9	114.9
Retained earnings	154.5	179.9	207.2	258.9	311.0	363.8
Minority Interest	69.0	60.5	60.2	60.2	60.2	60.2
Other Equity	83.5	93.7	103.1	103.1	103.1	103.1
Total Shareholders Equity	**412.7**	**444.3**	**485.4**	**537.1**	**589.1**	**642.0**
Total liabilities and equity	**731.8**	**803.5**	**862.8**	**923.1**	**992.0**	**1,040.1**

Income Statement (KWD Mn)	2016	2017	2018	2019E	2020E	2021E
Revenue	78.3	77.2	85.4	101.3	106.3	109.9
Cost of goods sold	-17.3	-16.9	-17.8	-21.9	-26.0	-29.1
Gross profit	**60.9**	**60.4**	**67.6**	**79.3**	**80.3**	**80.8**
General and administrative expenses	-2.1	-1.8	-2.4	-2.5	-2.5	-2.5
EBITDA	**58.8**	**58.5**	**65.2**	**76.9**	**77.9**	**78.3**
Depreciation and amortization	-7.0	-7.0	-8.7	-8.8	-8.8	-8.9
EBIT	**51.8**	**51.5**	**56.5**	**68.1**	**69.0**	**69.4**
Finance costs	-1.4	-0.3	-2.4	-2.9	-3.5	-3.9
Interest/investment and other income	-0.3	0.2	0.7	1.2	2.0	2.8
Net profit before taxes	**50.1**	**51.4**	**54.7**	**66.4**	**67.5**	**68.3**
Provision for Income Taxes	-2.4	-2.5	-2.6	-3.1	-3.2	-3.2
Net profit after taxes	**47.7**	**48.9**	**52.1**	**63.3**	**64.3**	**65.1**
Minority interest	0.5	0.3	0.4	0.3	0.3	0.3
Net profit attributable to parent	**48.2**	**49.2**	**52.5**	**63.5**	**64.6**	**65.4**
EPS (AED)	**0.054**	**0.053**	**0.054**	**0.061**	**0.062**	**0.063**

Cash Flow (AED Mn)	2016	2017	2018	2019E	2020E	2021E
Net cash from operating activities	55.8	76.5	25.5	72.5	75.8	75.5
Net cash (used in) from investing activities	(120.5)	(96.9)	(83.2)	(41.8)	(20.3)	(2.2)
Net cash from (used in) financing activities	66.0	18.8	49.1	(2.3)	(2.9)	(22.5)
Change in cash and cash equivalents	1.2	(1.5)	(8.6)	28.4	52.7	50.8
FX and other adjustments	13.0	1.8	12.5			
Cash at the end of the year	**14.3**	**14.5**	**18.4**	**46.8**	**99.5**	**150.3**

Source : KAMCO Research and Mabanee

Key Financial Ratios

Key Ratios	2016	2017	2018	2019E	2020E	2021E
Profitability Ratios						
Return on Average Assets (%)	7.2%	6.4%	6.3%	7.1%	6.7%	6.4%
Return on Average Equity (%)	14.9%	13.5%	13.0%	14.1%	12.8%	11.8%
ROIC (%)	10.0%	8.6%	8.6%	8.9%	8.8%	8.9%
Margins						
Gross profit margin (%)	77.8%	78.2%	79.1%	78.3%	75.5%	73.6%
EBITDA margin (%)	75.1%	75.8%	76.3%	75.9%	73.2%	71.3%
EBIT margin (%)	66.2%	66.8%	66.1%	67.3%	65.7%	64.7%
Net profit margin (%)	61.6%	63.6%	61.5%	62.7%	60.7%	59.5%
Market Data and Valuation Ratios						
Share Price (AED)	0.69	0.71	0.62	0.67	0.67	0.67
Number of Shares (Mn)	888	933	979	1038	1038	1038
Market Capitalization (KWD Mn)	614	658	605	697	697	697
Enterprise Value (KWD Mn)	867	932	890	965	925	868
Earnings Per Share (KWD)	0.054	0.053	0.054	0.061	0.062	0.063
Book Value Per Share (KWD)	0.465	0.476	0.496	0.517	0.567	0.618
Dividend Per Share (KWD)	0.010	0.010	0.012	0.012	0.012	0.012
PE (x)	12.7	13.4	11.5	11.0	10.8	10.7
PB (x)	1.5	1.5	1.2	1.5	1.3	1.2
Dividend Yield (%)	1.4%	1.4%	2.0%	1.8%	1.8%	1.8%
Net debt/EBITDA (x)	4.3	4.7	4.4	3.5	2.9	2.2

Source : KAMCO Research and Mabanee

Note : Forward Valuation ratios are based on current market prices and KAMCO Research estimates

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