

REIT	CMP	TP	Upside	D. Y. ('23)
Taleem	11.6	12.2	5.9%	5.6%
AlRajhi	9.8	10.0	1.1%	6.1%
Ahli1	9.6	10.6	10.2%	6.2%

Source: Bloomberg, GIBC

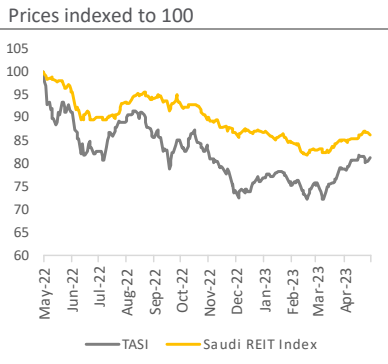
Saudi Arabian REITs

Profits to bottom by 2H23

- The Saudi REIT Index has fallen by 1.9% YTD vs 7.9% gains posted by TASI. Even as we are likely in the last phase of tightening credit conditions, we believe profits may not bottom out before 2H23.
- However, current dividend yields at ~6.3% appear favorable compared to 10Y Saudi Govt bond yield (3.5%) or global REITs (~4.4%).
- Overall, while yields are healthy, we remain mostly Neutral on the sector in general compared to Saudi equities. We initiate on 3 REITs, one backed by defensive assets and two others with large and liquid funds .

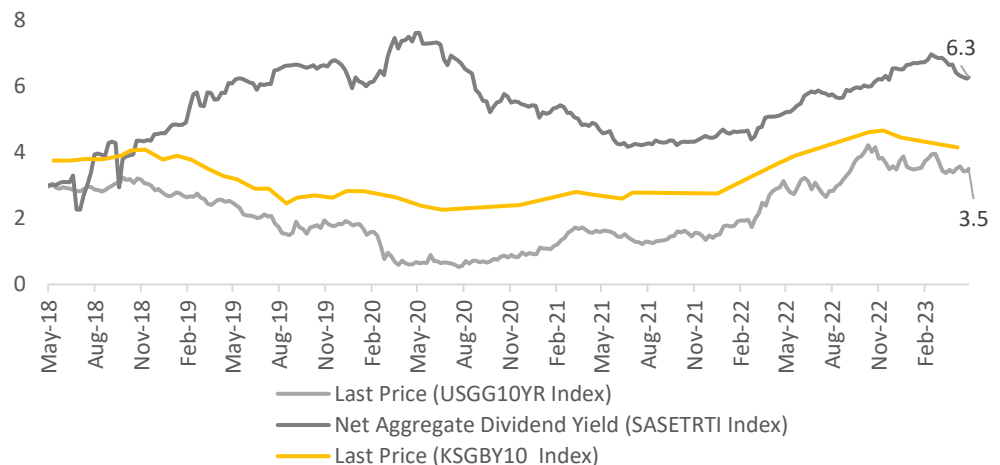
Profits yet to bottom. Supported by a healthy local economy, most REIT revenues (esp. for hotels/malls, etc.) have remained stable (or as per contractual terms) in general. In terms of costs, as REITs are well levered [~35% D/A], the financing expenses are yet to peak only by 2H23. Thus, even as we are likely at the peak in terms of interest rates (the Fed has hiked rates for likely the last time in May 2023), the delayed effect of interest rates on profits (and thereby FFO/Dividends) imply that profits have not yet bottomed. Other aspects remain positive because we are mostly past the timeframe **a**) when profits were guaranteed irrespective of the performance of the underlying asset for a few years from the IPO date (and thus now, current revenues are reflective of actual conditions) **b**) or due to COVID-related disruptions. The local economy's strength is reflected in the low cost of risk guidance by most of the Saudi Banks.

Initiate on 3 REITs. In general, unit prices of REITs in KSA generally move together as evidenced by the unit price movement (in Appendix 1) given the similar underlying parameters unless there are underlying asset-specific issues. While our valuation could hold in general for all REITs, we cover 3 names – Taleem, Rajhi, and Ahli1, chosen based on size and safety.



Source: Bloomberg

Figure 1: Yields look attractive relative to Govt Bond yields



Source: Bloomberg

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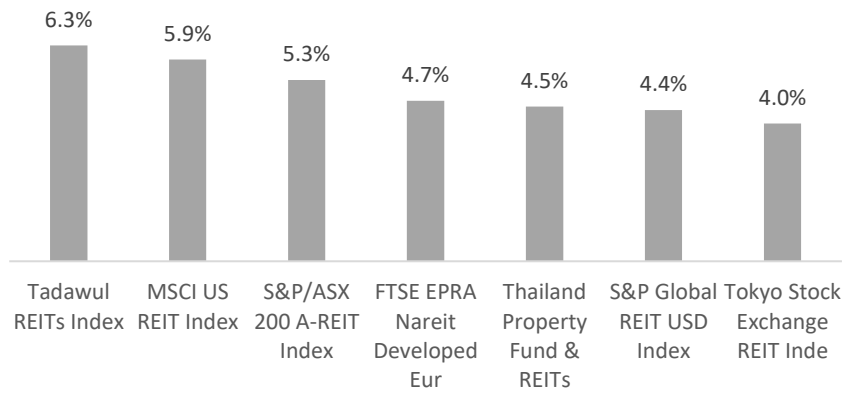
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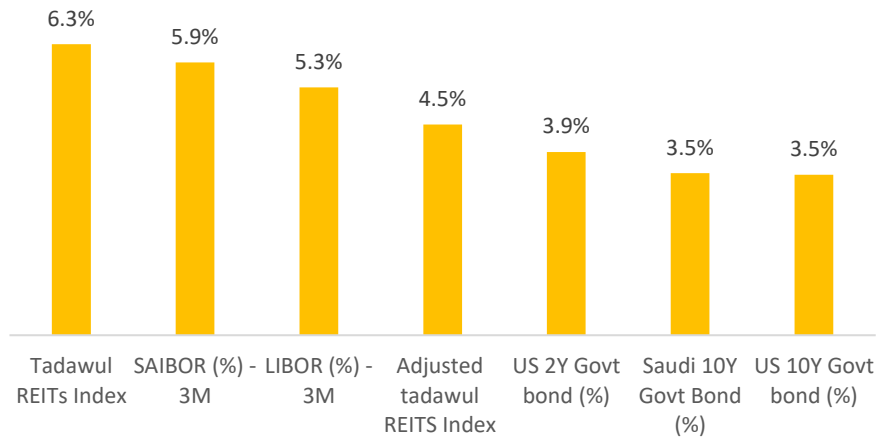
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Figure 2: Saudi REITs have better yields than most REIT peers globally



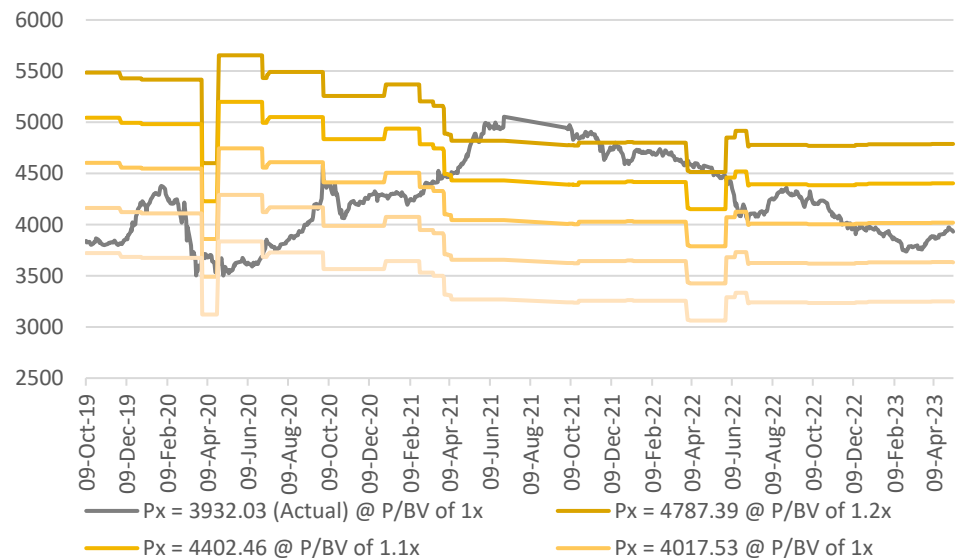
Source: Bloomberg; Data as of 8th May 2023

Figure 3: REIT yields look favourable as compared to 10Y Govt bond yields too



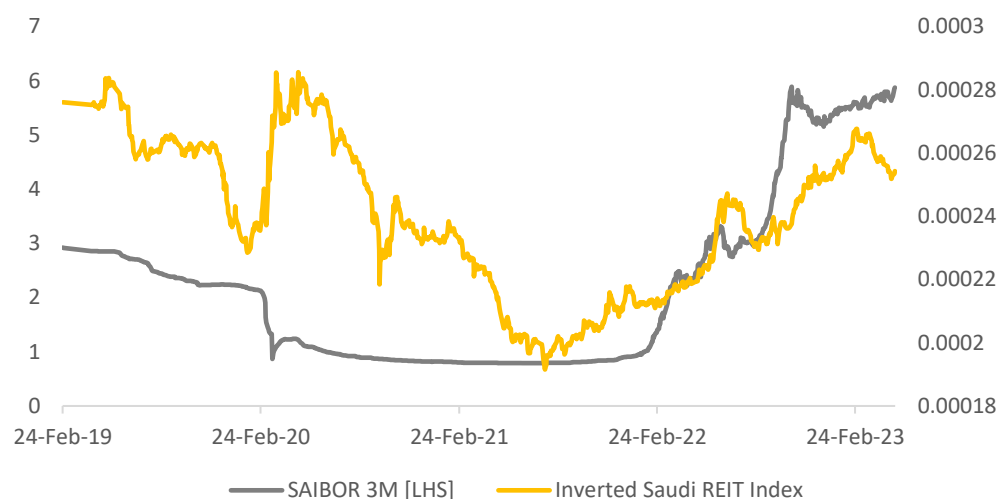
Source: Bloomberg; Data as of 8th May 2023

Figure 4: P/B Bands are at mid cycle



Source: Bloomberg

Figure 5: Relationship between REITs and 3m SAIBOR



Source: Bloomberg

Figure 6: Key fund parameters

Fund	Price/FFO*	FFO/NI*	Receivables Days*	D/A*	Dividend Yield%*
Taleem	12.9x	1.4	342	34.8%	6.1%
Al Rajhi	15.7x	1.0	57	41.0%	6.7%
AlAhli 1	13.8x	1.4	142	30.4%	6.8%
Jadwa Saudi	29.6x	1.1	119	19.7%	6.0%
Riyad	13.8x	1.3	146	46.8%	7.6%
Bonyan	12.5x	1.3	171	20.2%	6.8%
SEDCO Capital	15.2x	1.8	68	43.1%	7.3%
Derayah	15.4x	1.4	194	45.1%	6.8%
Alkhabeer	20.7x	1.1	24	40.0%	7.0%
Musharaka	19.8x	3.2	87	48.1%	6.7%
Alinma Retail	NM	-2.3	24	0.8%	4.4%
AL Maather	12.9x	1.5	29	27.6%	6.9%
Mulkia	19.7x	NM	131	42.8%	6.9%
Jadwa Al Haramain	NM	0.0	327	33.3%	N.A.
MEFIC	NM	0.5	153	44.1%	N.A.
SICO Saudi	30.3x	-0.1	182	26.0%	N.A.
AlJazira	NM	0.7	NM	0.0%	1.7%

Source: Argaam, Eikon, Bloomberg; *Year end

Figure 7: Additional data for comparison

Ticker	Current price	Mcap (SARmn)	Fund Assets (SARmn)	NAV (or Equity) SARmn	P/NAV	2022 DPS	Div Yield (%)	Listing date	Free float	TASI weight	DPS Frequency
Taleem	11.6	590	854	546	1.1	0.7	6.1	30-May-17	60.8	0.03	Quarter
Al Rajhi	9.8	1589	2,187	1261	1.3	0.7	6.7	20-Mar-18	68.7	0.08	Quarter
Alahli	9.6	1321	1,937	1273	1.0	0.7	6.8	08-Jan-18	31.3	0.02	Semi-Anl
Jadwa	13.3	2488	2,466	1851	1.3	0.8	6.0	11-Feb-18	94.3	0.13	Quarter
Riyad	9.1	1562	3,073	1599	1.0	0.7	7.6	13-Nov-16	70.6	0.08	Semi-Anl
Bonyan	9.7	1583	1,908	1378	1.1	0.7	6.8	25-Jul-18	40.0	0.03	Semi-Anl
Sedco	9.7	1144	1,844	997	1.1	0.7	7.3	01-May-18	92.6	0.06	Quarter
Derayah	9.7	1046	1,695	910	1.1	0.7	6.8	26-Mar-18	97.9	0.05	Quarter
Alkhabeer	6.8	965	1,883	1070	0.9	0.5	7.0	20-Mar-19	64.4	0.05	Quarter
Musharaka	7.5	661	1,657	817	0.8	0.5	6.7	01-Oct-17	83.9	0.03	Semi-Anl
Alinma Retail	5.1	598	923	906	0.7	0.2	4.4	06-Aug-18	74.3	0.03	Semi-Anl
Al Maather	9.1	555	726	499	1.1	0.6	6.9	22-Aug-17	76.7	0.03	Quarter
Mulkia Gulf	7.5	510	1,345	600	0.8	0.5	6.9	05-Nov-17	57.1	0.03	Quarter
Jadwa Alharamain	7.6	498	794	539	0.9	N.A.	N.A.	30-Apr-17	79.8	0.03	Semi-Anl
Mefic	5.1	375	1,024	425	0.9	N.A.	N.A.	13-Nov-18	100.0	0.02	Semi-Anl
Sico Saudi	5.8	329	577	410	0.8	N.A.	N.A.	18-Jan-18	74.3	0.02	Irreg
Al-Jazira	16.8	198	87	85	2.3	0.3	1.7	15-Feb-17	93.2	0.01	Annual
Median		661	1,657	906	1.1	0.7	6.8		74.3		
Average		951	1,469	892	1.1	0.6	6.3		74.1		

Source: Bloomberg, Argam, GIB Capital

FAQ

1- How do we value REITs?

In our view, there are 3 ways to look at REIT valuations –

- Compare current yields with other yields including Govt. bond yield/ SAIBOR+spread/ Global REITs. However, one would have to factor in adjustments in profits (and thereby dividends) due to various factors such as interest costs, asset performance, etc.
- DCF/DDM approach helps capture future improvements, especially after considering REIT expansions. This is based on mid-cycle valuations and thus may be more suitable for a long-term investor.
- The other way is to look at independent Valuation reports (which may in turn use DCF) for the NAV and thereafter apply historical P/NAV (or P/B) to arrive at a fair value.

Very simplistically, the rental yields could be around 7-8% of assets depending on the riskiness of assets. The higher the risk, the higher the required return. After netting for various expenses, such as fund management fees, custodian fees, etc., the net yields could be around 3-5% on assets, which translates to ~7% on equity if assets are levered (and this determines the dividend yield). Higher the rental yields and the lower the expenses, the higher the dividends.

2- Are Properties on the Balance sheet valued at Market value or Book value?

They are typically reported at fair value in line with IFRS. However, per International Accounting Standards 40 (IAS 40), REITs may also opt to use the cost method wherein investment properties are carried at cost less accumulated depreciation and impairment, if any, in their financial statements. In any case, the fair value below also has to be disclosed for information purposes.

3- How are rental revenues recognized?

Rental revenue from the lease of investment properties is recognized based on the determination of whether each lease is a finance lease or an operating lease. To classify each lease, Funds make an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease.

Rental income from operating leases is recognized on a straight-line basis over the lease term. Under the straight-line method, revenue is recognized equally over the lease period, irrespective of whether the rent amount varies. When the Fund provides incentives to its tenants, the cost of incentives is recognized over the lease term, on a straight-line basis, as a reduction of rental income.

For most properties, the rents are contracted, and fixed over a period of time. However, for properties such as hotels, income depends on the occupancy of the hotel.

4- Is there VAT for the rental income?

There is a VAT of 15% on rentals on the tenant which is only a pass-through for the REITs to the General Authority for Zakat and Income. REITs also pay VAT on the acquisition of real estate for the REIT.

5- How much are the subscription fees?

During the IPO or upon any increase in the total value of the fund's assets, a new investor pays the Fund Manager a subscription fee equivalent to 2% of the amount that is subscribed and allocated.

6- How much are the REIT fund management fees?

Management fees are around 0.8%-1% of the total value of the fund's assets (net fees). They are capped at 1.5% of NAV. These annual fees are charged to the fund from the total value of the fund's assets based on the last valuation after deducting the expenses calculated daily and paid every three months.

7- How much are property management fees?

Property management depends on the underlying assets. There may be a fixed or a variable component or may be based on slabs. Example: In Alrajhi REIT, there is a fee of 8% of collected rent for Rama Plaza and Anwar Plaza and a fixed fee of SAR480k to a third party for managing a Jarir Bookstore property.

8- How much are the custodian fees?

REITs in general pay an annual fee of 0.025% of Net Asset value, which is calculated on a daily basis and paid quarterly.

9- What are the other fees?

There is also a brokerage commission which is a maximum of 2.5% of the acquisition value of any real estate paid by REITs.

The transfer ownership fee is 1% of the purchase or sale price for each property acquired or sold by the fund for the fund manager.

There may be a debt structuring fee equivalent to 2% of the amount drawn under any bank facilities in favour of the fund.

Smaller fees include regulatory fees (annual CMA fees & Saudi stock exchange fees), sub-administrator fees, real estate evaluation fees, auditor fees, etc.

10- What is the leverage cap set by CMA?

The CMA has imposed a cap of 50% on borrowings to total assets.

11- Are properties based on Leasehold or Freehold?

Most of the real estate in our study is based on freehold ownership. Freehold ownership is where the owner of the property has full ownership and control of the property and the land on which it is built, with no time limit or restrictions on the use of the property. The owner has the right to use, modify, sell, or rent the property as they wish, subject to compliance with applicable laws and regulations.

Leasehold ownership, on the other hand, is where the owner of the land (the freeholder) grants the right to use and occupy the property to another party (the leaseholder) for a specified period, which can range from a few years to several decades. The leaseholder has the right to use and occupy the property during the lease period, subject to compliance with the terms and conditions of the lease agreement. At the end of the lease period, the property reverts to the freeholder, unless a new lease agreement is negotiated.

In general, freehold ownership provides greater control and flexibility to the property owner, as they are not subject to the restrictions and obligations of a lease agreement. However, freehold properties may be more expensive to acquire, and the owner is solely responsible for all maintenance and repair costs. Leasehold ownership, on the other hand, provides a more affordable entry point to owning property, with the leaseholder sharing the cost of maintenance and repair with the freeholder. However, the leaseholder may face restrictions on

the use and modification of the property and may be subject to rent increases or lease renewal negotiations.

12- Who pays for maintenance costs and Capex?

In a Real Estate Investment Trust, the capital expenditures for a property are typically the responsibility of the REIT fund manager. The REIT fund manager is responsible for the management and maintenance of the properties owned by the REIT. This includes ensuring that the properties are kept in good condition, making any necessary repairs or renovations, and upgrading the properties to maintain their value and attractiveness to tenants. While tenants may be responsible for certain maintenance tasks related to their specific leased space, such as minor repairs or cleaning, the larger capex projects are typically handled by the REIT fund manager. It's worth noting that the specific terms of lease agreements can vary, and in some cases, tenants may be responsible for certain capital expenditures, such as improvements or upgrades to the leased space. However, in general, the REIT fund manager is responsible for the capex related to the property as a whole.

Triple net, also known as NNN, is a term used in real estate to describe a lease agreement where the tenant is responsible for paying for three major expenses in addition to the rent: property taxes, building insurance, and maintenance costs. Under a triple net lease, the tenant takes on the financial responsibility for these expenses, in addition to paying rent. This type of lease is commonly used in commercial real estate, such as retail or office space, where the tenant is expected to maintain the property to a certain standard. Triple net leases can be advantageous for landlords, as they can reduce their expenses and pass on the costs to the tenant. For tenants, triple net leases can provide more control over the property and may allow for lower rent payments.

13- What is the level of dividend payout?

Dividends should not be less than 90% of the Fund's annual net profits, except profits resulting from the sale of basic real estate assets, which are returned to be invested in other investment assets to serve the interests of the unit holders.

14- How do REITs expand?

The Fund is allowed to invest mainly in income-generating, developed real estate assets wherein it invests at least 75% of the total value of assets of the Fund. It may also invest up to 25% of its total value of assets into real estate development projects and up to 25% in properties outside the Kingdom. However, it is not allowed to invest in vacant (white) lands.

Taleem REIT Fund

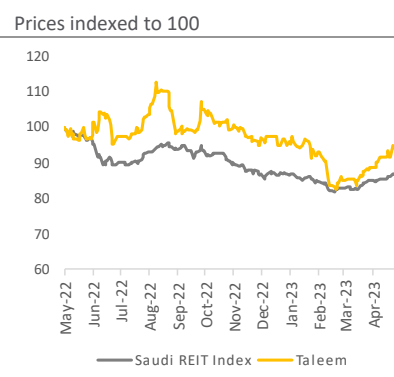
Backed by defensive assets

Target Price (SAR)	12.2/unit
Current Price (SAR)	11.6/unit
Upside (%)	5.9%
Div Yield (2023e)	5.6%
Rating	Neutral

- Taleem has a portfolio backed by defensive assets. The fund added 4 assets recently, increasing the total assets to 7.
- The dividend yield is likely to stay around 5%-7% between 2023 and 2025.
- We initiate on Taleem REIT with a target price of SAR12.2 based on an average of **A)** SAR12.8/unit for long-term investors based on DDM. **B)** SAR11.7/unit for short-term investors based on a 6.5% required yield on 2024e dividends.

Stock data	
TASI ticker	4333
Mcap (SARmn)	597
Trd. Val (3m) (SARmn)	0.8
Free float	60.8%
QFI holding	1.2%
TASI FF weight	0.03%

Source: Bloomberg



Source: Bloomberg

Safe and growing portfolio: The primary exposure of the Fund's portfolio is in the education sector, consisting of 7 fully leased schools with over 20 years of leases. The properties are located in the Kingdom's two major cities – Riyadh (96%) and Dammam (4%). The Fund's assets have grown at a CAGR of 23% since its inception. Also, recently the Fund acquired a portfolio of four educational properties worth SAR148.5mn, which will support the growth in rental income in the future.

Key Metrics: The Fund's dividend yield stands at 6.1% (2022 DPS), lower than the sector median of ~6.8% and higher than the SAIBOR 1Y. The Fund Manager distributes dividends every quarter. Taleem's leverage stands at ~35%, indicating that there still exists headroom to increase the leverage to fund further expansions (50% cap). Taleem's Price/FFO for 2022 stood at 12.9x, lower as compared to the sector median of 15.4x. Trade receivable days for the sector stood at 137. Taleem REITs receivable days stood at ~342, higher compared to the sector.

Valuation: We have used a mix of two methods for valuation 1) The DDM with a long-term focus, which captures dividend recovery with a reduction of interest rates, 2) For the short term, we have used a required yield of 6.5% (a 0.8% premium over 1Y-SAIBOR of around 5.7%). The average of the two methods is our target price.

Risks: Higher/lower than expected in receivables, fall/increase in occupancy levels, adverse economic conditions, change in interest rates, change in government regulations, non-renewal of existing lease or renewal at lower rates, unforeseen events leading to structural damage to properties owned by the Fund, and the selling pressure from a major unitholder are the key risks to our investment view.

Figure 8: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	62	66	69	70
Revenue growth	23%	5%	6%	1%
Funds from Operations	46	39	45	49
FFO Margin	73%	59%	66%	70%
Net income	33	30	36	40
Net margin	53%	45%	52%	57%
FFO/Unit	0.89	0.76	0.89	0.96
EPS (in SAR)	0.65	0.59	0.71	0.78
DPS (in SAR)	0.66	0.65	0.76	0.85
P/FFO	12.9x	15.2x	13.0x	12.0x

Source: Fund, GIB Capital

Asset details

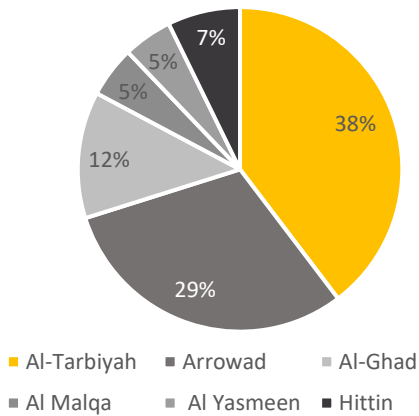
Taleem REIT Fund is a closed-ended Shariah-compliant real estate investment traded fund. The Fund aims to invest in real estate in and out of Saudi Arabia which is related to the education or training sector. The Fund portfolio consisted of seven (7) freehold education and education-related assets, all of which generate periodic rental income.

Figure 9: Property details

Name	Location	MV (SARmn)	BV (SARmn)	Tenure	Occupancy (%)	Rent End Date
Al-Tarbiyah Al-Islamiyah Schools	Riyadh	292	285	Freehold	100%	31-Aug-43
Arrowad International Schools	Riyadh	227	215	Freehold	100%	31-Dec-41
Al-Ghad National Schools	Riyadh	93	91	Freehold	100%	30-Jun-44
Al Khaleej - Al Malqa	Riyadh	37	36	Freehold	100%	Avg. remaining lease term of 17.6 years*
Al Khaleej - Al Eshraq	Dammam	29	29	Freehold	100%	
Al Khaleej - Al Yasmeen	Riyadh	36	36	Freehold	100%	
Al Khaleej - Hittin	Riyadh	53	53	Freehold	100%	

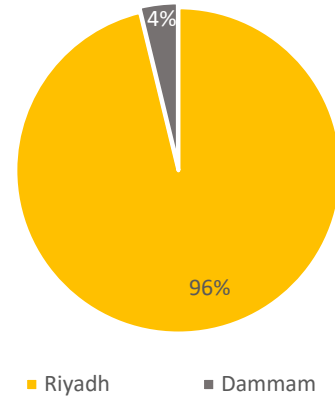
Source: Fund, GIB Capital *Based on fund announcement on the 1st Jul-20

Figure 10: Real estate portfolio – Market value (FY22)



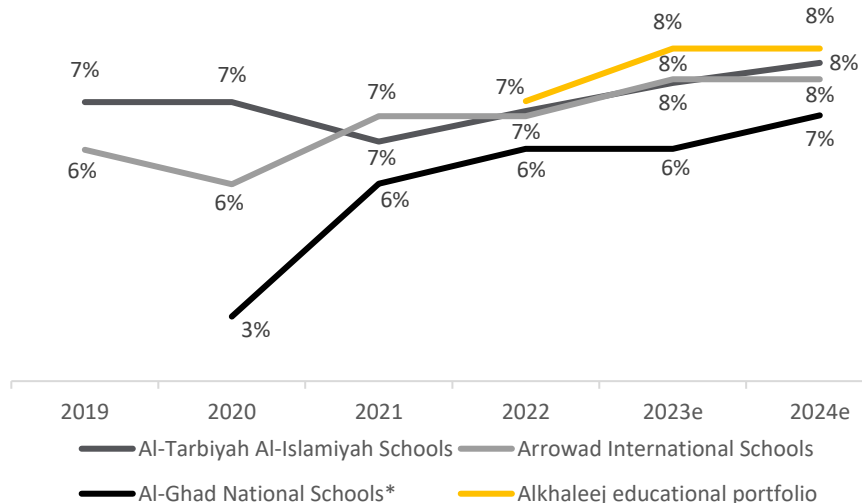
Source: Fund, Argaam

Figure 11: Geographic distribution – Market value (FY22)



Source: Fund, Argaam

Figure 12: Property portfolio yields



Source: Fund, GIB Capital * Property was acquired at 30-June-20

Timeline

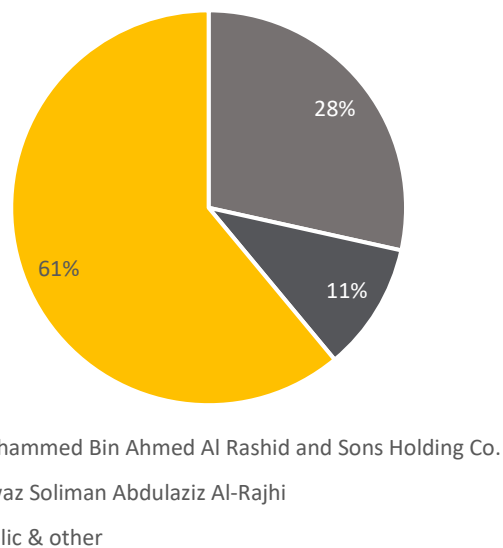
Figure 13: Timeline of announcements for Taleem REIT

Year	Details
2017 – 2018	<ul style="list-style-type: none"> ○ The Fund was established in 2017 with a capital of SAR285mn. The Fund manager has raised SAR85.5mn via Cash subscription and the rest (SAR199.5mn) from an in-kind from property owner Mohammed Al-Rasheed Co. Tarbiyah school was the first school acquired (established in 1964). ○ Sep-18: the fund raised its capital to SAR510mn by issuing more units to acquire AlRowad Schools.
2019	<ul style="list-style-type: none"> ○ 30-May: the fund signed a facility agreement with BSF for SAR350mn, to acquire future assets. ○ 11-Nov: registered the fund with the GAZT (for Zakat purposes), per the relevant procedures and regulations.
2020	<ul style="list-style-type: none"> ○ 30-June: acquisition of Al-Ghad National School, which is wholly-owned, and operated by National Company for Learning and Education as follows: <ul style="list-style-type: none"> ▪ The property's purchase price was SAR92mn, funded by Fund's existing financing facility with BSF. ▪ The property is leased to the School under a 10-year binding lease agreement starting 1 July 2020, with an annual rent payment of SAR5.95mn and increases by 10% in year 5, followed by a 10% escalation every 5th year (including renewal periods). ▪ The Lease is automatically renewed for additional three five-year periods (total lease life of 25 years); unless the Lessee elects not to renew by serving a 5-year advance notice period to the Lessor.
2021	<ul style="list-style-type: none"> ○ 9-Mar: received a request from a tenant to adjust the rent for the financial year 2020 and to negotiate the rent for FY2021. On the same day, the Fund Manager made the decision to suspend rent increases for 2021 and to appoint an independent financial consultant to recommend any other financial measures. ○ 13-Aug: The Board and Fund manager approved a 10.3% rent discount for 2021 for all tenants ○ 6-Feb: Fund entered into an agreement with AlTarbiya Islamya School (TIS) to transfer the construction works completed of new 'boys section building' to the Fund at cost and the transaction details were as follows: <ul style="list-style-type: none"> ▪ Total estimated cost of expansion was SAR33.3mn, and pending works were expected to be completed by August 2022. ▪ This expansion was financed through Shariah-compliant loan facility. ▪ The lease addendum started from 1 September 2022, and the terms of the lease addendum aligned with the existing lease agreement with TIS. ○ 15-Feb, A portfolio of four educational properties owned by Alkhaleej Training and Education Company was acquired as follows: <ul style="list-style-type: none"> ▪ The portfolio comprised three kindergartens located in the city of Riyadh and one school located in the city of Dammam. ▪ Purchase price of this acquisition was SAR148.5mn, reflecting an average yield of 8.4%. ▪ The acquisition was financed through a shariah-compliant loan facility. ▪ All four properties are leased to Alkhaleej Training and Education Company as a triple-net lease with an average remaining lease term of 17.6 years.

Source: Fund, Tadawul, Argaam

Ownership

Figure 14: Current ownership



Source: Tadawul

Financials

Figure 15: Summarized basic financial statements (All in SARmn unless mentioned)

Income statement	2021a	2022a	2023e	2024e	2025e
Revenue	51	62	66	69	70
Revenue y/y	4%	23%	5%	6%	1%
Management fee	-4	-4	-4	-4	-4
Ope. & other exp.	-1	-1	-2	-2	-2
Finance cost	-2	-11	-21	-18	-15
Funds from Operations	43	46	39	45	49
FFO margin	85%	73%	59%	66%	70%
Dep. on investment properties	-4	-6	-7	-7	-7
Impairment /rev. on invt. properties	2	-4	0	0	0
Allowance for expected credit losses	0	0	0	0	0
Other income	0	0	0	0	0
Profit for the year before Zakat	42	36	31	38	42
Zakat charge for the year	-2	-3	-2	-2	-2
Net income	39	33	30	36	40
Net margin	78%	53%	45%	52%	57%
y/y	11%	-16%	-10%	21%	10%
FFO/unit (in SAR)	0.85	0.89	0.76	0.89	0.96
EPS (in SAR)	0.77	0.65	0.59	0.71	0.78
DPS (in SAR)	0.52	0.66	0.65	0.76	0.85
Payout	67%	101%	111%	107%	109%
Dividend/FFO per unit	61%	74%	85%	85%	88%
Dividend Yield	4.2%	6.1%	5.6%	6.6%	7.3%
Balance Sheet	2021a	2022a	2023e	2024e	2025e
Cash and cash equivalents	5	18	20	22	26
Rent receivable	26	34	36	38	38
Rent receivable from related party	22	26	26	27	27
Total current assets	53	78	82	87	91
Investment properties, net	559	742	734	727	719
Net investment in finance lease	35	35	35	35	35
Total non-current assets	594	776	769	761	754
Total Assets	647	854	851	848	845
Total current liabilities	6	10	10	10	10
Total non-current liabilities	94	298	298	298	298
Total liabilities	100	308	308	308	308
Net assets attrib. to the Unitholders	547	546	543	541	537
Units in issue	51.0	51.0	51.0	51.0	51.0
BVPS (in SAR)	10.72	10.71	10.65	10.60	10.53
Rent receivable (days)	342	341	338	332	329
Cashflow	2021a	2022a	2023e	2024e	2025e
Cashflow from Operations	28	47	56	59	62
Cashflow from Investing	0	-192	0	0	0
Cashflow from Financing	-29	158	-54	-57	-58
Total Cashflows	-1	13	2	3	4

Source: Fund, GIB Capital

Valuation

Figure 16: Valuation

First method (DDM) – (in SAR)	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TV
DPS	0.76	0.85	0.92	0.98	0.98	1.05	1.13	14.35
Discounted dividend	0.71	0.72	0.71	0.69	0.62	0.61	0.59	7.54
Valuation								
Value per unit	12.8							
Current market share price	11.6							
% upside/downside	11.0%							
Assumptions								
Cost of equity	10.0%							
Terminal growth rate	2.0%							
Second method								
DPS 2024e	0.76							
Required dividend yield	6.5%							
Value per unit	11.7							
% upside/downside	0.8%							

Source: GIB Capital

Al Rajhi REIT Fund

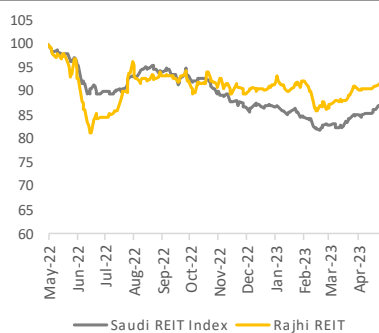
Large, diversified, and a growing portfolio

Target Price (SAR)	10.0/unit
Current Price (SAR)	9.82/unit
Upside (%)	1.1%
Div Yield (2023e)	6.1%
Rating	Neutral

Stock data	
TASI ticker	4340
Mcap (SARmn)	1,602
Trd. Val (3m) (SARmn)	1.3
Free float	68.7%
QFI holding	1.7%
TASI FF weight	0.08%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- A well-diversified and growing portfolio across sectors and geographies will likely support top-line growth. The fund plans to add 2 large assets (not factored in our model).
- Consistent and high payouts translate into healthy yields, which are expected to continue. Dividend yield to stay around 6-7% between 2023 and 2025.
- We initiate on AlRajhi REIT with a target price of SAR10.0 (rounded) based on an average of A) SAR9.6/unit for long-term investors based on DDM B) SAR10.1/unit for short-term investors based on a 6.5% required yield on 2024e dividends.

Diversified and growing portfolio: The Fund has a well-diversified portfolio in terms of sector and geography. It has an investment in 19 properties across various sectors, such as retail (~37% as of assets MV 2022), education (~30%), commercial offices (~17%), logistics (~9%), and healthcare (~8%). The properties are located across major cities of the Kingdom – Riyadh (~55%), Jeddah (~20%), Dammam (12%), AlKhobar (~7%), AlKharj (~5%), and Khamis Mushait (~2%). Its properties have grown at a CAGR of 4% between 2018 and 2022. Also, recently the BoDs have approved the acquisition of two developed properties in Riyadh and Jeddah for SAR930mn by increasing the fund size.

Dividends: The Fund's dividend yield stands at 6.7% (2022 DPS), in line with the sector median of ~6.8% and higher than the SAIBOR 1Y. Given the Fund's ability to generate consistent and healthy cash flows, the dividend yield is expected to stay at around 6%-7% between 2023 and 2025. The Fund Manager distributes semi-annual cash dividends, provided that the annual cash dividend is a minimum of 90% of net profits. Recently, BoD changed the dividend policy to quarterly payments instead of semi-annual. Al Rajhi REIT's leverage is 41% and close to the 50% cap. However, if the new acquisition takes place all from equity contributions (cash subscriptions), the ratio would be in the 28-30% range leaving room for an increase. Al Rajhi REIT's receivable days stood at 57, lower than the sector's 137.

Valuation/Risk: We have used a mix of two methods for valuation 1) The DDM with a long-term focus, which captures dividend recovery with a reduction of interest rates, 2) For the short term, we have used a required yield of 6.5% (a 0.8% premium over 1Y-SAIBOR of around 5.7%). Downside risks include: Higher/lower than expected receivables, fall/increase in occupancy levels, adverse economic conditions, change in interest rates, change in Gov. regulations, non-renewal of existing lease/renewal at lower rates, unforeseen events leading to structural damage to properties owned, and selling pressure from a major unitholder are key risks to our investment view.

Figure 17: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	158	159	163	171
Revenue growth	21%	1%	2%	5%
Funds from Operations	101	88	96	110
FFO Margin	64%	55%	59%	64%
Net income	113	48	57	70
Net margin	72%	30%	35%	41%
FFO/Unit	0.63	0.54	0.59	0.68
EPS (in SAR)	0.70	0.30	0.35	0.43
DPS (in SAR)	0.66	0.60	0.66	0.68
P/FFO	15.7x	18.1x	16.5x	14.5x

Source: Fund, GIB Capital

Asset details

Al Rajhi REIT Fund is a closed-ended Shariah-compliant real estate investment traded fund. The Fund has a diversified portfolio of 19 properties across various sectors such as retail, education, commercial offices, logistics, and healthcare.

The investment objective of the Fund is to provide its investors with regular income by investing in income-generating real estate assets in the KSA. All properties of the Fund are held in the name of Privileged Warehouse Company 2 and Gulf Fund Company for development and real estate investment (the "SPVs").

Figure 18: Property portfolio

Property	Category	City	Acquisition Value (SARmn)	Date of acquisition
Jarir Bookstores	Commercial,Offices,Retail	Riyadh	72	18-Feb-17
Al Louloua warehouses	Warehouse	Riyadh	199	18-Dec-17
Blue Tower	Commercial,Offices	Khobar	227	18-Dec-17
Al Andalus Center – Jeddah	Commercial,Offices	Jeddah	190	18-Dec-17
Panda - Madain Al-Fahd	Commercial,Retail	Jeddah	49	18-Dec-17
Panda - Al Rawdah	Commercial,Retail	Jeddah	67	18-Dec-17
Panda - Al Marwa, Jeddah	Commercial,Retail	Jeddah	218	18-Dec-17
Panda - Khamis Mushait	Commercial,Retail	Khamis Mushait	48	18-Dec-17
Al Faris International School	Educational	Riyadh	133	18-Dec-17
Rama Plaza	Commercial,Offices,Retail	Riyadh	69	18-Dec-17
Narjes Plaza	Commercial,Offices,Retail	Riyadh	61	18-Dec-17
Anwar Plaza	Commercial,Retail	Riyadh	62	18-Dec-17
Lulu Hypermarket	Commercial,Retail	Riyadh	226	18-Dec-17
Lulu Central Warehouses	Warehouses	Riyadh	52	31-Oct-18
NMC Al-Salam Specialty Hospital	Health care	Riyadh	164	7-Nov-19
Rowad Alkhaleej International School	Educational	Dammam	245	24-Dec-19
Baraem Schools	Educational	Riyadh	20	25-Dec-19
Rowad Al Khaleej International Schools	Educational	Riyadh	210	25-Dec-19
Al-Waha Mall	Commercial,Retail	Al Kharj	93	8-Feb-22

Source: Fund, Argaam

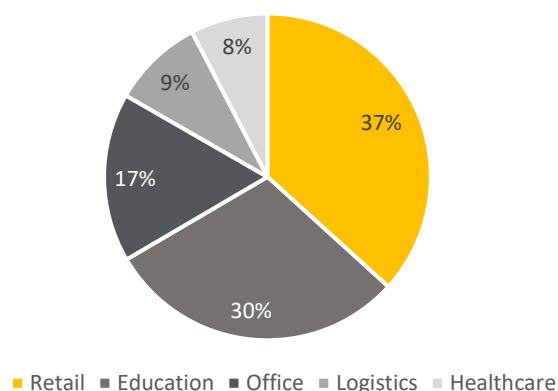
The Fund seeks to acquire two developed properties by increasing the Fund's total assets (not reflected in our model). The Capital Market Authority approved the request on April 2nd but is awaiting the approval of unit holders. Below are details of the additional assets as per Supplementary Annex.

Figure 19: Details of the property to be acquired

Property	Riyadh Avenue Mall	Al Hanaki Business Center Building
City	Riyadh	Jeddah
Property Type	Mall	Administrative/Commercial
Development Status	Developed	Developed
Purchase Value (SARmn)	465*	465*
Total Acquisition Cost (SARmn)	497	505
Annual Rent (SARmn)	37	33
Leases	The property is fully leased to Lulu LLC, and the initial lease period of twenty-five binding years, and the remaining period is 19 binding years. The rent is increased by 5% every four years.	Fully leased to the MoJ for three years, starting from 27-Sep-22. The tenant has the right to extend the lease contract for a period not exceeding 3 additional years. In such case, the rental amount is subject to an increase of no more than 5% if the extension is for an additional one 1 year and by no more than 10% if the extension is for a period of more than one year.

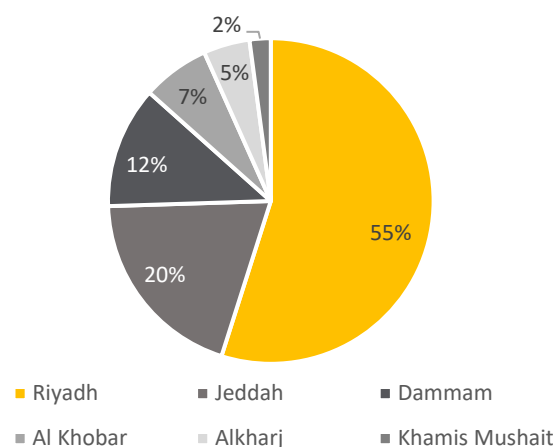
Source: Fund *excluding the real estate transactions tax and brokerage fee.

Figure 20: Real estate portfolio – Market value (FY22)



Source: Fund, *percentages have been rounded

Figure 21: Geographic distribution – Market value (FY22)



Source: Fund, *percentages have been rounded

Timeline

Figure 22: Timeline of announcements for Al Rajhi REIT

Year	Details
2018	<ul style="list-style-type: none"> ○ 1-Oct: Secured a SAR500mn Shariah-compliant financing facility agreement with Al Rajhi Bank with the following terms: <ul style="list-style-type: none"> ▪ Drawdown up to 30th June 2019. ▪ During the facility's tenure, profit will be serviced quarterly in arrears with a bullet principal repayment at the end of the contractual period of 7 years. ○ 31-Oct: Acquisition of Lulu Central Logistics with the following terms: <ul style="list-style-type: none"> ▪ Purchase price was SR 52.250mn through a debt facility. ▪ Annual rent payment of SAR3.795mn, to increase by 12% every five years. ▪ Current lease with Lulu Saudi Hypermarkets LLC is for a term of 15 years starting from 16-Dec-2016.
2019	<ul style="list-style-type: none"> ○ 3-Nov: Unitholders approved increasing the fund's total asset value from SAR1.7bn to a maximum of SAR2.4bn. ○ 7-Nov: Acquisition of a property Al Salam NMC Hospital with the following terms: <ul style="list-style-type: none"> ▪ Purchase price was SAR163.77mn through debt facility. ▪ Annual rent payment of SAR11.64mn. The annual rent will be increased by 5% every five years. ▪ Lease term of 15.75 years starting from 1-Apr-2018. ▪ The Property also has an additional income of SAR70K from leasing an optical shop and a coffee shop within the hospital's premises. The lease for both these shops has the same escalations and terms as that of the hospital. ○ 24-Dec: Acquisition of Rowad AlKhaleej International School located in Dammam with the following terms: <ul style="list-style-type: none"> ▪ Transaction was funded through issued units. ▪ Purchase price was SR 244.5mn. ▪ Annual rent payment of SAR18.94mn. The yearly rent is to be increased by 7.5% every five years. ▪ Lease term of 15 years starting 24-Dec. ○ 25-Dec: Acquisition of two properties: <ol style="list-style-type: none"> 1) Rowad AlKhaleej International School, located in Riyadh: <ul style="list-style-type: none"> - Purchase price of SAR210mn. The purchase price was partly paid through the issuance of 11,685,867 in-kind units and the balance by cash.

	<ul style="list-style-type: none"> - Annual rent payment of SAR16.275mn. The annual rent will be increased by 7.5% every five years. - Lease term of 15 years. <p>2) Baraem Rowad Al Khaleej Kindergarten, located in Riyadh:</p> <ul style="list-style-type: none"> - Purchase price of SAR20mn. The purchase price is partly paid through the issuance of 1,112,939 in-kind units and balance by cash. - Annual rent payment of SAR1.55mn, to increase by 7.5% every five years. - Lease term of 15 years.
2020	<ul style="list-style-type: none"> o 20-Dec: Signed a SAR254.5mn facility with Al Rajhi Bank. The loan duration is for 5 years. During the tenure of the loan, profit will be paid semi-annually with a bullet principal repayment at the end of the contractual period of 5 years. This facility is to refinance the existing loan tranche maturing on 20-Dec-2020.
2021	<ul style="list-style-type: none"> o 23-Mar: Signed a SAR145.4mn facility agreement with Al Rajhi Bank. The loan duration is for 5 years. During the tenure of the loan, profit will be paid on a semi-annual basis with a bullet principal repayment at the end of the contractual period of 5 years. This facility is to refinance the existing loan tranche that is maturing on 23-Mar-2021. o 1-Dec: Rawaj Real Estate Company (the anchor tenant for both assets Blue Tower and Luluwah warehouse) has followed the provisions of the lease agreement with respect to the rent review process by appointing three appraisers so that the rent will be the average of the three appraisers. The reviewed annual rent was as follows: <ul style="list-style-type: none"> 1) Luluwah warehouse amount of SAR9.4mn. 2) Blue tower amount of SAR12.3mn. <p>The rent has been revised from the beginning of the third year of the lease agreement on 06/03/2020 until the end of the lease agreement.</p> <p>Rescheduling of the unpaid due amounts totaling SAR24.5mn for blue tower and a total of SAR18.6mn for luluwah warehouse to be scheduled on 6 payments, one payment upon signing the contract, and five payments on a monthly basis.</p> o 22-Dec: The Fund settled with Al Fouzan company, a tenant of Al-Narjis, Al-Anwar, and Rama Plaza, with the following terms: <ul style="list-style-type: none"> 1) Termination of lease agreement of Rama Plaza from the date of 01/07/1442 Hijri (note: rent agreement yearly SAR4.91m per Hijri year) 2) Termination of lease agreement of Anwar Plaza from the date of 01/01/1443 Hijri, and the tenant will be obligated to pay a penalty for terminating the lease agreement with an amount of SAR4.6mn. 3) Continue the lease agreement of Al Narjis Plaza with the exact terms. <p>Tenant will settle the net due amount of SAR29.4mn by payment of SAR15mn and schedule the rest of the amounts on four quarterly payments.</p>
2022	<ul style="list-style-type: none"> o 11-Jan: The appointment of Medad Alkhaer Real Estate to conduct the handover works from the previous lessee "Alfouzan" and act as property and facility management for Anwar/Rama Plaza. o 25-Jan: Increasing the limit of the Shariah facilities granted to the fund by Al Rajhi Bank to SAR600mn. The duration of the facility is seven years from any drawdown, bringing the total size of the facilities granted to the fund to SAR1.42bln, including a SAR25mn profit rate swap, whenever the fund decides to execute such an agreement. o 9-Feb: Acquisition of Oasis Mall (mall consists of a two-story building and a standalone restaurant outside the building) with the following terms: <ul style="list-style-type: none"> ▪ Purchase price of SAR93mn, the transaction was funded through a debt facility. ▪ The mall building is fully let to Landmark Arabia LTD. for 18 years from 28 May 2015 and ends on 27 May 2033. The rent amount is SAR6.8mn for the first 5 years, SAR7.82mn for the next five years, and SAR9.35mn for the eight years after (The current rent is SAR7.82Mn).

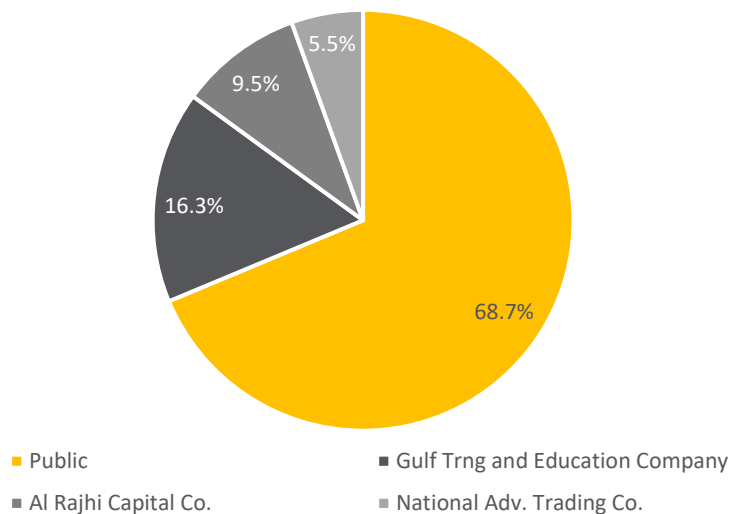
- The standalone restaurant is leased to Herfy Food Service Co. for 19 years from 25-Nov-2014 and ends on 31-Mar-2033. The rent amount is SAR450k for the first 5 years, SAR500k for the next 5 years, and SAR550k for the remaining 9 years (The current rent is SAR500k).
 - The total current rental income for the property is SAR8.32mn, and the yield is 8.9% from the purchase price.
 - 27-Feb: Unitholders refused the request to release the lock-up units owned by Al Khaleej Training and Education Co.
 - 11-Oct: The fund board approved the following:
 - 1) To increase the sharia facility availed from Al Rajhi Bank for the purpose of acquisition from SAR600mn to SAR900mn, conditional to not exceeding 50% of the fund's total assets.
 - 2) Reduction of profit spread on total financing from Al Rajhi Bank and hedging against interest rates for a facility amounting to SAR193.7mn, where 50% of the total financing (approximately SAR448mn) will have a fixed cost at a rate of 4.52% until the end of 2025.
 - 7-Nov: Signed a purchase agreement of two developed properties; one is based in Riyadh, and the other is in Jeddah with a total value of SAR930mn and leased for a total rent of SAR70.49mn. Mentioning that the purchase agreements are conditional on completing the process of increasing the fund's total asset value through additional unit offerings.
 - 8-Dec: Changing the distribution policy from semi-annual, paid at the end of February and August, to quarterly basis starting from the first quarter of 2023.

Source: Fund, Tadawul, Argaam

Ownership

The major shareholders of Al Rajhi REIT Fund are Gulf Training and Education Co, Al Rajhi Capital, and National Advanced Trading Co., which owns 16.3%, 9.5%, and 5.5%, respectively. QFI holding currently is 0.8%.

Figure 23: Current ownership



Source: Tadawul

Financials

Figure 24: Summarized basic financial statements (All in SARmn unless mentioned)

Income statement	2021a	2022a	2023e	2024e	2025e
Revenue	130	158	159	163	171
revenue y/y	-23%	21%	1%	2%	5%
Management fee	-17	-17	-17	-18	-18
Ope. & other exp.	-7	-9	-8	-9	-10
Finance cost	-21	-33	-49	-43	-35
Other income	5	2	3	2	2
Funds from Operations	91	101	88	96	110
FFO Margin	70%	64%	55%	59%	64%
Dep. on investment properties	-29	-30	-30	-30	-29
Impairment/Rev. of on inv. properties	-227	30	0	0	0
Allowance for expected credit losses	-10	12	-10	-10	-10
Net income	-175	113	48	57	70
Net margin	-134%	72%	30%	35%	41%
y/y	-	-165%	-57%	17%	24%
FFO/Unit (in SAR)	0.56	0.63	0.54	0.59	0.68
EPS (in SAR)	-1.08	0.70	0.30	0.35	0.43
DPS (in SAR)	0.56	0.66	0.60	0.66	0.68
Payout	-52%	94%	200%	188%	156%
Dividend/FFO per unit	100%	105%	110%	111%	100%
Dividend Yield	5.7%	6.7%	6.1%	6.7%	6.9%
Balance Sheet	2021a	2022a	2023e	2024e	2025e
Cash and cash equivalents	0	0	0	0	0
Investments carried at FVTPL	66	86	59	41	30
Rental income receivable, net	29	25	25	26	27
Total current assets	107	133	106	88	79
Investment Properties	1,955	2,053	2,027	1,998	1,968
Total non-current assets	1,955	2,053	2,027	1,998	1,968
Total Assets	2,062	2,187	2,133	2,086	2,047
Total current liabilities	24	30	30	30	30
Total non-current liabilities	791	896	896	896	896
Total liabilities	816	926	926	926	926
Net assets attributable to the Unitholders	1,246	1,261	1,207	1,160	1,121
Units in issue	161.9	161.9	161.9	161.9	161.9
BVPS (in SAR)	7.70	7.79	7.46	7.17	6.93
Rent receivable days	82	57	52	47	42
Cashflow	2021a	2022a	2023e	2024e	2025e
Cashflow from Operations	79	95	78	86	98
Cashflow from Investing	-3	-117	-31	-18	-11
Cashflow from Financing	-76	23	-102	-104	-109
Total Cashflows	0	0	-55	-37	-22

Source: Fund, GIB Capital

Valuation

Figure 25: Valuation:

First method (DDM) – (in SAR)	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TV
DPS	0.66	0.68	0.72	0.76	0.77	0.77	0.80	10.14
Discounted dividend	0.61	0.57	0.56	0.53	0.49	0.45	0.42	5.33
Valuation								
Value per unit	9.6							
Current market share price	9.8							
% upside/downside	-3.2%							
Assumptions								
Cost of equity	10.0%							
Terminal growth rate	2.0%							
Second method								
DPS 2024e	0.66							
Required dividend yield	6.5%							
Value per unit	10.1							
% upside/downside	3.2%							

Source: GIB Capital

AlAhli REIT Fund 1

Higher exposure to the retail sector

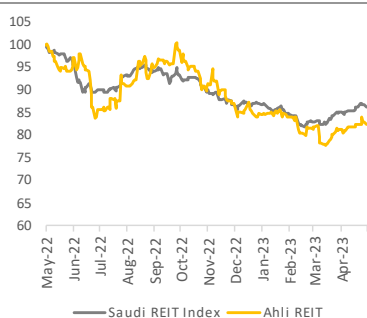
Target Price (SAR)	10.6/unit
Current Price (SAR)	9.61/unit
Upside (%)	10.2%
Div Yield (2023e)	6.2%
Rating	Overweight

- Most of the Fund's revenues come from the retail sector. Recently the Fund acquired a plot of land to expand the Mall, further increasing its Retail exposure.
- Dividend yield to stay around 6% - 8% between 2023 and 2025.
- We initiate on AlAhli REIT with a target price of SAR10.6 based on an average of **A)** SAR10.4/unit for long-term investors based on DDM. **B)** SAR10.8/unit for short-term investors based on a 6.5% required yield on 2024e dividends.

Stock data	
TASI ticker	4338
Mcap (SARmn)	1,348
Trd. Val (3m) (SARmn)	0.7
Free float	31.3%
QFI holding	1.9%
TASI FF weight	0.02%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Fund Portfolio: The Fund was established to acquire two assets in Jeddah city from Al Andalus Real Estate Company (former owner and holds 68.73% of the fund units as of 2022), a retail shopping mall, and a hotel adjacent to it. Subsequently, two fully rented commercial offices were acquired in Jeddah and Riyadh cities. This makes the Fund's portfolio to date composed of four properties. Most of the fund revenues come from Jeddah city, the commercial center (88% and 68% as of 2022). Also, recently the **BoDs have approved the mall's expansion** by acquiring land worth SAR43.5mn owned by a related party (Al-Andalus) and appointing them as the project developer (details on later pages). By the end of 2024, the fund manager expects the **hotel to operate under the "Double Tree by Hilton" brand**.

Key Metrics: The Fund's dividend yield stands at 6.8% (2022 DPS), in line with the sector median of 6.8% and higher than the SAIBOR 1Y. The Fund Manager distributes semi-annual cash dividends. AlAhli REIT's leverage is around ~30%, indicating that headroom still exists to increase the leverage to fund further expansions as compared to the sector median of ~35%, close to the cap of 50%. AlAhli REIT's Price/FFO 2022 stood at 13.8x, lower than the sector median of 15.4x. Trade receivable days for the sector stood at 137. AlAhli REIT's receivable days stood at 147, higher as compared to the sector.

Valuation/Risks: We have used a mix of two methods for valuation 1) The DDM with a long-term focus, which captures dividend recovery with a reduction of interest rates, 2) For the short term, we have used a required yield of 6.5% (a 0.8% premium over 1Y-SAIBOR of around 5.7%). The average between the two methods is our target price. Downside risks include: Higher/lower than expected increases in receivables, fall/increase in occupancy levels, adverse economic conditions, change in interest rates, change in government regulations, non-renewal of existing lease or renewal at lower rates, unforeseen events leading to structural damage to properties owned by the Fund, and selling pressure from a major unitholder are the key risks to our investment view.

Figure 26: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	185	193	198	205
Revenue growth	1%	4%	3%	3%
Funds from Operations	96	88	94	111
FFO Margin	52%	46%	48%	54%
Net income	66	58	63	79
Net margin	36%	30%	32%	39%
FFO/Unit	0.70	0.64	0.69	0.81
EPS (in SAR)	0.48	0.42	0.46	0.57
DPS (in SAR)	0.65	0.60	0.70	0.80
P/FFO	13.8x	15.1x	14.0x	11.9x

Source: Fund, GIB Capital

Asset details

AlAhli REIT Fund (the "Fund") is a shariah-compliant closed-ended real estate investment traded fund. Its objective is to provide periodic rental income to its unitholders by investing mainly in developed income-generating properties. The Fund has a portfolio of 4 properties across three sectors; retail, commercial offices, and hospitality.

Figure 27: Property portfolio

Property	Location	Sector	Date of Acquisition	Purchase Price*	MV-22*
AlAndauls Mall	Jeddah	Commercial,Retail	25-Dec-17	1,150	1,369*
Land, adjacent to the Mall	Jeddah	Commercial,Retail	9-Nov-20	43.5	
AlAndalus Hotel	Jeddah	Hospitality	25-Dec-17	200	145
Salama Tower	Jeddah	Commercial,Offices	4-Aug-19	255	244
Qbic Plaza	Riyadh	Commercial,Offices	22-Jun-20	250	259

Source: Fund, GIB Capital. *in SARmn **including the new land

AlAndalus Property Co. manages the Mall, where it provides management, lease, operation, and operational services in return for certain fees (see Figure 29). Currently, the mall is expanding, including a) construction of a three-story parking building (completed) b) a 450-meter walking boulevard from the Southern to the Eastern side, along with the adornment of the area with plants and fountains at the front of the Mall. c) A 7,000 square meter open yard between the hospital (West Jeddah Hospital), the hotel, and the mall, including a dancing fountain and playground area. d) Internal renovations inside the mall. According to the fund manager's business study, it will add around 15,000 sqm of additional GLA and the expected opening is from 3Q24.

The hotel has been managed internally (AlAndalus Property Co) since 2020 until the new operator "Hilton" will take over in 2024 as it is presently undergoing soft renovation. Reforming the hotel into an international brand name alongside the opening up of West Jeddah Hospital (beginning of 2024) is the turnaround story, given the weak performance in the last couple of years. As for the two commercial offices, 1) Salama Tower has been leased to the seller as a principal tenant for five years, and the contract will end in Aug-24 2) Qbic Plaza is fully leased to the Ministry of Housing for three years and the contract will end at Jun-23, and we expect a renewal with an escalation.

Figure 28: Occupancy rate

Property	2020a	2021a	2022a	2023e	2024e
AlAndauls Mall	98%	97%	95%	95%	92%*
AlAndalus Hotel	-	37%	52%	60%	65%
Salama Tower	100%	100%	100%	100%	95%
Qbic Plaza	100%	100%	100%	100%	100%

Source: Fund, GIB Capital *decline due to higher GLA from the expansion

Figure 29: Summary of the Agreement for Management and Operation of AlAndalus Mall

Date	1-Jan-20
Duration	3 years renewable by written approval of the parties
Fees	<ul style="list-style-type: none"> o Lease fees of 7% of the total mall leases for the first year at the time of the first lease or when replacing a lessee with another, or of the increase in the rental value of a renewed lease; o Basic operating fees of 2% of the total monthly income of the Mall (consisting of rental income and advertising returns); o Relative operating fees of 1% of the total monthly income of the Mall multiplied by the achieved percentage of the target income for the month;

- Collection fees of 1% of the total amount collected from the Mall's income per month, multiplied by the ratio of the total amount collected from the lessees during the month to the total amount to be collected from the lessees' receivables during the month per Leases,
- Newly introduced lease fees of 15% of the total rent of a lessee for one only year, for the newly leased Units or services that the operator creates and adds and that were not included in the plans of the malls or the projected rental budget;
- Other financial obligations related to the employees of the Mall and salaries thereof, and maintenance and electricity expenses, based on the actual amount;
- All such fees shall be paid from the shopping mall's income.

Source: Fund

Figure 30: Real estate portfolio – Market value (FY22)

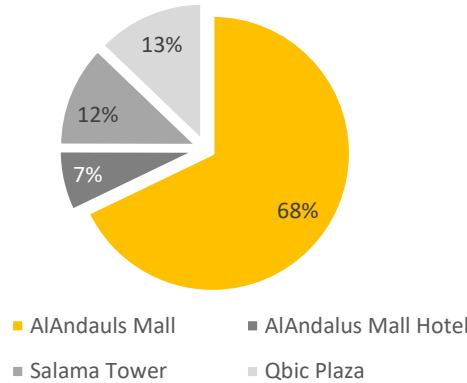
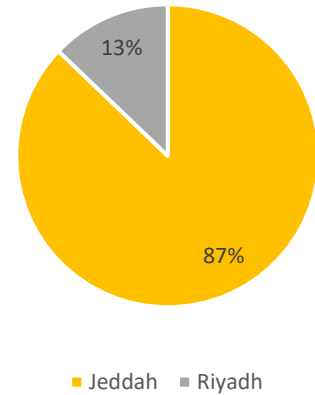


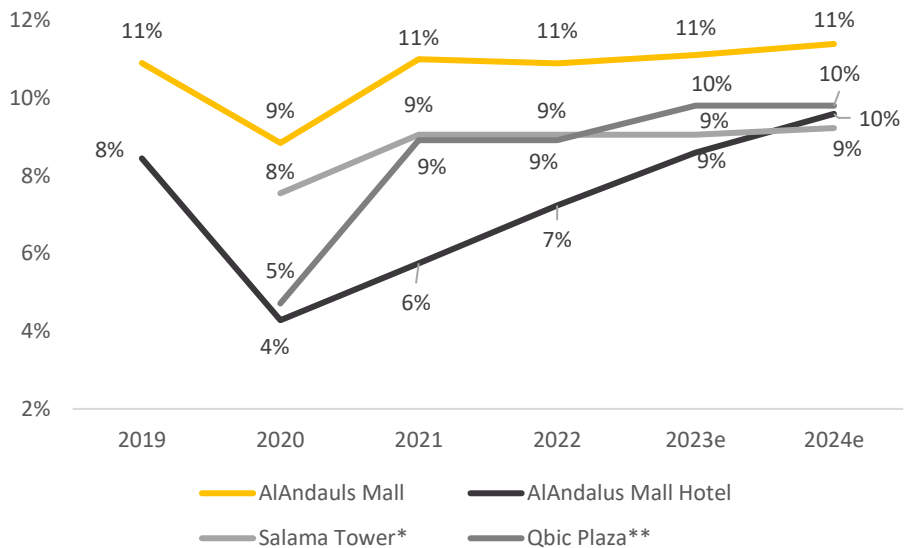
Figure 31: Geographic distribution – Market value (FY22)



Source: Fund

Source: Fund

Figure 32: Property portfolio yields



Source: Fund, GIB Capital * Property was acquired at 4-Aug-19. **Plaza was acquired at 22-Jun-20.

Timeline

Figure 33: Timeline of announcements for AlAhli REIT

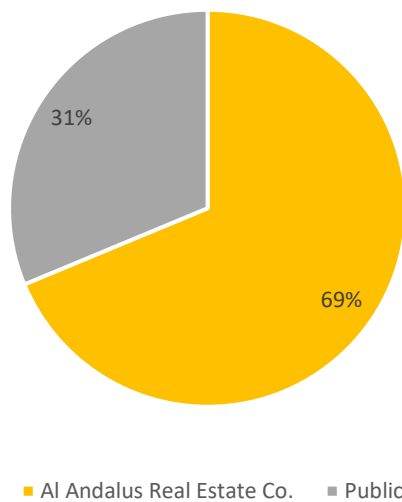
Year	Details
2018	<ul style="list-style-type: none"> The Fund commenced its activities on 25 December 2017 (the "Inception Date"). The Fund acquired AlAndalus Mall and the hotel at Inception Date against cash consideration of SR 405mn (representing 30% of the total purchase value of SR 1,350 million) and by issuing units valuing SR 945 million to Alandalus Property Company ("APC") – the previous owner. 7-Nov: Signed a SAR650mn Shariah-compliant Ijara facility from NCB which has a duration of 15 years, for the reason of acquiring income-generating properties.
2019	<ul style="list-style-type: none"> 4-Aug: Completion of the acquisition of an office tower (Salama) in Jeddah city for SAR255mn, and it was financed by the existing bank facility available to the Fund. The property is leased to the seller as a principal tenant for a period of 5 years at a net lease of SAR23mn (equivalent to 9% yield). 8-Dec: Registration of the Fund with the GZAT for the purpose of Zakat was completed, and the annual Zakat expense will be paid by the fund starting from 2019. 18-Dec: inclusion of Al Ahli REIT Fund (1) to "FTSE EPRA Nareit Global Real Estate Index Series".
2020	<ul style="list-style-type: none"> 27-Jan: Appointing "Al-Andalus Property Company" as the operator of Al-Andalus Mall, where the current operator "Hamat Property Company" will be replaced by the new operator. 16-Mar: Temporary closure of AlAndalus Mall in Jeddah, in line with the Kingdom's efforts to control the spread of coronavirus and noting that hypermarket and pharmacies will continue to operate. 16-Apr: Receiving rent reduction requests from a number of tenants in AlAndalus Mall. 29-Apr: Announcing a gradual reopening of AlAndalus Mall. 23-Jun: Completion of acquisition and transfer of title deed of double floor office complex in Riyadh. The property was bought for SAR250mn and was financed by the existing bank facility. The property is fully leased for 3 years with an 8.6% yield. 26-Oct: BoD approved the development and expansion of Alandalus Mall which will include an external space for food and beverage, in addition to a parking building to enhance services offered by the mall. The fund signed a purchase agreement to acquire the land adjacent to the mall with an area of 9,669 square meters for SAR43.51mn. The land is owned by Alandalus Property Co. a related party to the fund. 10-Nov: Completion of acquisition and transfer of title deed of the land adjacent to AlAndalus Mall.
2021	<ul style="list-style-type: none"> 5-Jan: Announcing the mutual termination of the contractual relationship to operate the hotel adjacent to AlAndalus Mall operated by Holiday Inns Middle East Limited. Noting that the hotel will continue to operate and serve its customers with its staff temporarily. 15-Dec: Appointment of Al-Andalus Property Co., a related party as a developer to expand Alandalus Mall. <ul style="list-style-type: none"> The project's estimated cost reaches SAR131mn, adding that the fee payable to the developer will be 10% of the development costs, capped at SAR11.5mn. The development work is expected to be completed within 130 weeks starting from the contract date. According to the project business study, around 15,000 m2 of additional Gross Leasable Area will be added.
2023	<ul style="list-style-type: none"> 12-Apr: Signing a management agreement with Hilton to operate the hotel under the "DoubleTree by Hilton" brand following soft renovation expected to be completed in 2024 and funded through a loan. The Fund manager expected to see a positive financial impact from the year 2025.

Source: Fund, Tadawul, Argaam

Ownership

The major shareholder of AlAhli REIT Fund is AlAndalus Property Co, which is not planning to exist in the near term. Currently, QFI is holding around 1.7%.

Figure 34: Current ownership



Source: Bloomberg

Financials

Figure 35: Summarized basic financial statements (All in SARmn unless mentioned)

Income statement	2021a	2022a	2023e	2024e	2025e
Revenue	183	185	193	198	205
Revenue growth	30%	1%	4%	3%	3%
Management fee	-19	-20	-20	-21	-22
Custodian fee	-1	-1	-1	-1	-1
Ope. & other exp.	-42	-47	-49	-54	-54
Finance cost	-14	-21	-35	-28	-18
Funds from Operations	107	96	88	94	111
FFO Margin	59%	52%	46%	48%	54%
Dep. on investment properties	-25	-24	-24	-24	-24
Impairment/Rev. of on invt. properties	0	0	0	0	0
Allowance for expected credit losses	-6	-4	-4	-5	-5
Other income	0	0	0	0	0
Profit for the year before Zakat	77	68	60	65	81
Zakat charge for the year	-2	-2	-2	-2	-2
Net income	75	66	58	63	79
Net margin	41%	36%	30%	32%	39%
y/y	412%	-12%	-12%	9%	25%
FFO/Unit (in SAR)	0.78	0.70	0.64	0.69	0.81
EPS (in SAR)	0.55	0.48	0.42	0.46	0.57
DPS (in SAR)	0.70	0.65	0.60	0.70	0.80
Payout	128%	135%	142%	151%	140%
Dividend/FFO per unit	90%	93%	94%	102%	100%
Dividend Yield	7.3%	6.8%	6.2%	7.3%	8.3%

Balance Sheet	2021a	2022a	2023e	2024e	2025e
Cash and cash equivalents	12	10	10	10	14
Investments carried at FVTPL	40	0	0	0	0
Rent receivable	56	72	71	71	67
Total current assets	111	85	85	84	85
Investment properties, net	1,826	1,851	1,870	1,888	1,864
Total non-current assets	1,826	1,851	1,870	1,888	1,864
Total Assets	1,937	1,937	1,954	1,971	1,948
Total current liabilities	75	75	75	75	76
Total non-current liabilities	559	589	631	673	673
Total liabilities	634	664	706	749	750
Net assets attrib. to Unitholders	1,303	1,273	1,249	1,223	1,199
Units in issue	137.5	137.5	137.5	137.5	137.5
BVPS (in SAR)	9.48	9.26	9.08	8.89	8.72
Rent receivable (days)	112	142	135	130	120

Cashflow	2021a	2022a	2023e	2024e	2025e
Cashflow from Operations	114	96	118	117	125
Cashflow from Investing	-46	-7	-42	-42	0
Cashflow from Financing	-62	-91	-76	-75	-121
Total Cashflows	6	-2	0	0	4

Source: Fund, GIB Capital

Valuation

Figure 36: Valuation

First method (DDM) – (in SAR)	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TV
DPS	0.70	0.80	0.85	0.90	0.95	0.95	0.97	12.43
Discounted dividend	0.59	0.62	0.59	0.57	0.55	0.50	0.47	5.94
Valuation								
Value per unit	10.4							
Current unit price	9.6							
% upside/downside	8.5%							
Assumptions								
Cost of equity	10.0%							
Terminal growth rate	2.0%							
Second method								
DPS 2024e	0.70							
Required dividend yield	6.5%							
Value per unit	10.8							
% upside/downside	11.9%							

Source: GIB Capital

Appendix 1

Figure 37: Table showing that REITs move together

2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
JADWA REIT SAUDI FUND	10.2%	-6.8%	-13.7%	-0.2%	13.4%	-0.2%	10.7%	10.5%	3.6%	-3.4%	-1.1%	5.9%
AL RAJHI REIT	3.4%	-11.7%	-4.0%	-0.1%	2.4%	-0.4%	3.1%	1.6%	14.3%	-7.5%	2.9%	2.2%
RIYAD REIT FUND	10.9%	-14.0%	-4.8%	0.4%	7.6%	0.3%	-0.3%	2.9%	11.5%	-7.7%	3.6%	0.8%
BONYAN REIT	1.2%	-2.1%	-12.4%	-0.7%	-4.8%	2.4%	1.5%	3.6%	12.3%	-7.4%	2.4%	0.9%
ALAHLI REIT FUND 1	5.2%	-6.9%	-13.2%	-0.9%	2.5%	6.8%	2.7%	-4.4%	13.6%	-10.2%	3.7%	0.5%
SEDCO CAPITAL REIT FUND	-1.5%	-3.4%	-10.3%	1.2%	1.2%	-1.4%	4.5%	1.6%	16.1%	-6.2%	3.6%	0.8%
DERAYAH REIT	5.5%	-8.5%	-1.2%	-1.6%	0.1%	1.8%	-0.7%	-0.6%	12.7%	-2.4%	3.9%	0.7%
ALKHABEER REIT	6.8%	-9.3%	-11.6%	2.7%	0.3%	-9.1%	6.5%	-2.1%	23.0%	-8.6%	2.3%	-1.1%
MUSHARAKA REIT FUND	-3.9%	-1.0%	-11.3%	-1.7%	4.0%	-0.1%	1.1%	6.7%	15.3%	-5.6%	4.4%	5.6%
ALINMA RETAIL REIT FUND	-2.6%	-3.7%	-8.3%	-6.1%	-1.8%	0.2%	0.5%	4.0%	34.2%	-19.1%	7.7%	-2.4%
TALEEM REIT	-8.8%	-8.3%	0.2%	0.6%	3.6%	7.4%	1.9%	1.2%	17.5%	-10.7%	7.9%	0.6%
AL MAATHER REIT FUND	2.7%	-4.6%	-16.5%	2.1%	1.6%	1.3%	3.8%	1.8%	33.1%	-10.1%	-2.2%	-2.3%
MULKIA GULF REAL ESTATE REIT	-1.1%	-4.2%	-10.8%	-1.2%	0.5%	-4.5%	1.6%	4.0%	15.6%	-10.2%	3.7%	0.7%
JADWA REIT ALHARAMAIN FUND	9.0%	-15.6%	-15.2%	2.1%	3.0%	-2.2%	2.3%	7.4%	24.3%	-16.7%	5.5%	-2.0%
MEFIC REIT	2.2%	-5.4%	-14.9%	-4.2%	1.0%	0.3%	0.2%	6.3%	29.7%	-19.0%	9.0%	-5.3%
SICO SAUDI REIT	-1.9%	-5.2%	-10.2%	4.7%	11.1%	-2.1%	1.7%	0.1%	19.1%	-13.2%	8.4%	-3.0%
AL-JAZIRA RIET FUND	1.1%	-9.6%	-10.6%	10.3%	6.7%	20.2%	6.8%	13.5%	46.4%	-17.6%	32.3%	0.6%
ALWAHA REIT FUND	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
TASI	-2.4%	-10.0%	-11.4%	8.3%	9.5%	-0.9%	2.8%	6.5%	5.1%	-5.2%	11.2%	-0.4%

2021	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
JADWA REIT SAUDI FUND	1.6%	1.0%	5.4%	-2.3%	4.9%	-3.1%	0.9%	-3.9%	-7.3%	8.2%	-1.0%	-3.7%
AL RAJHI REIT	2.1%	-1.7%	0.9%	3.2%	8.5%	6.1%	2.1%	0.2%	0.5%	-2.2%	-8.2%	-2.2%
RIYAD REIT FUND	0.6%	2.1%	0.8%	6.8%	5.2%	0.7%	10.2%	-7.4%	-0.2%	-1.0%	-2.3%	-1.9%
BONYAN REIT	0.5%	-0.1%	-0.1%	4.3%	5.5%	-0.5%	1.9%	-0.8%	0.0%	-1.0%	-1.6%	-1.7%
ALAHLI REIT FUND 1	2.6%	2.0%	0.4%	8.2%	3.2%	19.4%	-4.5%	-0.2%	10.5%	0.3%	-14.4%	-3.2%
SEDCO CAPITAL REIT FUND	-1.9%	1.6%	1.4%	8.2%	1.4%	13.3%	21.4%	-13.1%	0.5%	-4.6%	-3.4%	0.0%
DERAYAH REIT	1.1%	0.4%	4.5%	1.2%	4.0%	5.2%	-0.1%	-1.5%	0.3%	-0.6%	-0.5%	-3.2%
ALKHABEER REIT	1.3%	-1.7%	1.5%	2.5%	3.9%	-1.4%	-0.7%	-3.0%	-0.2%	-4.9%	-7.0%	1.6%
MUSHARAKA REIT FUND	-3.3%	3.0%	3.7%	1.8%	4.1%	5.2%	-3.9%	-7.7%	-0.4%	-1.0%	-2.2%	1.7%
ALINMA RETAIL REIT FUND	-2.6%	-0.6%	10.5%	14.5%	4.4%	-2.3%	2.1%	-8.5%	-2.8%	-3.8%	-9.8%	1.1%
TALEEM REIT	3.3%	7.1%	3.0%	7.2%	4.0%	-3.6%	-0.1%	-2.1%	-1.9%	-4.5%	-10.9%	-2.4%
AL MAATHER REIT FUND	-3.1%	5.3%	-4.3%	2.3%	7.7%	-0.3%	3.7%	-6.4%	-0.1%	2.7%	-4.2%	0.9%
MULKIA GULF REAL ESTATE REIT	0.0%	-0.8%	2.2%	4.4%	7.3%	-0.2%	-0.8%	-1.0%	0.8%	-1.8%	-2.0%	1.8%
JADWA REIT ALHARAMAIN FUND	-2.3%	-1.7%	10.2%	4.0%	25.0%	-5.4%	4.6%	-7.3%	-3.4%	-2.1%	-7.0%	-2.2%
MEFIC REIT	-2.5%	-2.0%	9.8%	5.5%	11.0%	-0.8%	3.0%	-8.7%	-2.7%	-3.4%	-8.9%	2.4%
SICO SAUDI REIT	-4.7%	-5.3%	11.0%	7.9%	44.8%	-6.0%	4.4%	-10.2%	-6.6%	-2.9%	-11.2%	-3.3%
AL-JAZIRA RIET FUND	-2.7%	0.7%	12.6%	9.6%	13.7%	-3.8%	-1.5%	-4.3%	-3.4%	-7.3%	-15.9%	12.1%
ALWAHA REIT FUND	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
TASI	1.0%	5.7%	8.4%	4.7%	1.8%	3.6%	0.8%	2.3%	1.6%	2.2%	-8.2%	4.4%

2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
JADWA REIT SAUDI FUND	6.1%	-1.1%	-8.4%	-2.9%	-4.8%	-13.1%	7.0%	7.5%	-1.8%	0.3%	-6.0%	3.0%
AL RAJHI REIT	4.6%	-1.4%	-2.1%	-0.7%	-5.9%	-9.5%	6.5%	2.9%	0.8%	-1.0%	-1.5%	-0.6%
RIYAD REIT FUND	1.5%	15.0%	-6.7%	1.5%	0.0%	-6.6%	7.0%	11.5%	-3.5%	-5.1%	-7.3%	-2.8%
BONYAN REIT	2.5%	0.2%	0.4%	1.2%	1.2%	-8.6%	5.8%	3.8%	-0.8%	-0.3%	0.4%	-7.2%
ALAHLI REIT FUND 1	7.0%	-6.7%	0.5%	-1.5%	-5.0%	-8.4%	3.6%	7.3%	4.5%	-4.3%	-4.2%	-2.9%
SEDCO CAPITAL REIT FUND	-8.8%	0.7%	0.0%	1.3%	-2.5%	-6.3%	0.6%	0.6%	7.4%	-3.5%	-3.2%	-0.8%
DERAYAH REIT	-0.5%	0.6%	1.6%	-3.7%	-4.7%	-7.3%	1.3%	2.5%	-3.5%	-4.7%	-3.6%	-0.8%
ALKHABEER REIT	4.3%	-0.6%	0.0%	-0.7%	-2.6%	-5.9%	-5.8%	0.1%	0.0%	1.0%	-3.5%	0.3%
MUSHARAKA REIT FUND	-0.6%	-1.8%	1.2%	-0.3%	0.4%	-0.3%	-3.1%	-0.1%	-1.5%	-3.2%	-4.8%	2.0%
ALINMA RETAIL REIT FUND	-0.3%	-1.7%	-0.6%	-3.3%	-4.6%	-7.8%	-8.6%	4.5%	-3.4%	-3.8%	-3.7%	-1.0%
TALEEM REIT	4.7%	-5.6%	-5.6%	7.9%	-3.3%	-1.5%	4.4%	6.7%	-4.5%	1.4%	-5.2%	-1.5%
AL MAATHER REIT FUND	4.8%	-0.1%	-4.6%	0.3%	-0.4%	-2.2%	1.8%	3.0%	2.1%	-4.3%	-7.0%	0.2%
MULKIA GULF REAL ESTATE REIT	0.7%	-1.3%	2.3%	-1.7%	-3.3%	-3.7%	0.3%	-1.4%	-3.5%	-2.2%	-13.3%	3.6%
JADWA REIT ALHARAMAIN FUND	1.8%	-1.7%	3.5%	-1.1%	-3.8%	-5.9%	1.1%	2.3%	-6.3%	2.1%	1.9%	-8.5%
MEFIC REIT	-0.1%	-3.1%	-0.3%	-2.7%	-2.8%	-8.8%	-1.5%	0.2%	-7.6%	-1.8%	-9.8%	-2.7%
SICO SAUDI REIT	-0.4%	-6.3%	0.3%	-1.8%	-0.8%	-6.4%	-4.0%	1.4%	-6.9%	0.0%	-10.0%	-5.3%
AL-JAZIRA RIET FUND	-0.1%	-4.5%	4.3%	-2.5%	-8.1%	-14.0%	-3.0%	6.2%	-5.1%	2.2%	-2.0%	1.5%
ALWAHA REIT FUND	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	4.8%
TASI	8.3%	2.4%	3.3%	5.0%	-5.9%	-9.7%	6.4%	-0.5%	-5.4%	1.6%	-5.5%	-2.6%

Source: Bloomberg, Argaam, Tadawul

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