

Mabaneer

Equity Research Update

Sector – Real Estate

All eyes on Avenues Riyadh outcome; retain Neutral

Solid FCF generation from Avenues Kuwait; but clarity on Riyadh awaited

Our thesis on Mabaneer continues to revolve around Avenues Kuwait reaching full potential revenues in 2021/22, maintaining high retail GP margins, and its limited capex needs, driving significant FCF generation from the project. Mabaneer is expected to generate an average annualized FCF of KWD 58.5 Mn over 2021E-2023E from its Avenues Kuwait operations, as per our estimates. Looking ahead, we consider the outcome over the status of the Riyadh project to be the most important catalyst for growth, reinvestment of FCFs, and the company's valuation. Our TP captures the company's Avenues Kuwait operations, and does not represent a significant upside (+5.2%) to the current market price. We maintain our 'Neutral' rating on the stock, until we attain further visibility on the Riyadh project and its strategic direction.

Fully operational Avenues Kuwait to drive revenues +58% higher y-o-y in 2021

Mabaneer reported 2020 EPS of KWD 0.0197, broadly in line with our estimate of KWD 0.020. Going forward, we forecast group EPS of KWD 0.053 for 2021E and KWD 0.055 and KWD 0.056 for 2022E and 2023E, respectively. Phase IV retail occupancy rates should continue to progress towards the average of Phase I-III (~93%) in our view. The company guided that leasing of certain vacant units in Phase IV was held back for international tenants who have expressed interest, and are currently awaiting the opening of the airport, and the easing of restrictions for physical assessment of the spaces. The 5-Star Waldorf Astoria should commence operations by late Q3/early Q4-2021, with full potential annualized impact from 2022E onwards. Incorporating these assumptions, we forecast group revenues to grow +58% y-o-y to KWD 103.9 Mn in 2021E, from a Covid-19 impacted low base of KWD 65.5 Mn. We further forecast revenues to reach KWD 108.2 Mn and KWD 110 Mn in 2022E and 2023E, respectively.

Riyadh project decision alters funding needs for future growth capex

The Riyadh project would be the most important catalyst for growth and reinvestment of FCFs generated from Avenues Kuwait, given the size of the project; therefore, we view the comprehensive feasibility study on the project constructively. Although Mabaneer's decision over the final outcome of the Riyadh project does not impact the status of other growth projects, the project will alter funding mix for other under development, and upcoming growth opportunities. For Avenues Bahrain, the additional GLA from Phase II (+41,200 sq.m) should elevate the project's scale in comparison to other larger super regional mall operators, and result in better competitive positioning when attracting quality tenants.

Valuation & Risks – TP revised to KWD 0.735/share

Our revised target price (TP) of KWD 0.735/share is based on a 70:30 blend of DCF and 2022E P/NAV valuation. **Key upside risks:** 1) Rebound of key market discretionary consumer spending 2) Higher Avenues Kuwait hotels revenues 3) Faster capex-led growth **Key downside risks:** 1) Continuation of Covid-19, driving lower footfalls 2) Oversupply in retail and prospective RE segments 3) Significant project cost over-runs

Key Financials	2019	2020	2021E	2022E	2023E
Revenue (KWD Mn)	96.4	65.5	103.9	108.2	110.0
GPM (%)	77.0%	66.1%	76.8%	75.7%	75.6%
EBIT (KWD Mn)	62.2	26.7	64.0	65.8	66.7
Net Income (KWD Mn)	56.4	21.8	58.1	60.3	61.5
EPS (KWD)	0.051	0.020	0.053	0.055	0.056
PE (x)	16.7	33.4	13.3	12.8	12.6
PB (x)	2.0	1.5	1.5	1.3	1.2
Div. yield (%)	1.6%	0.9%	1.4%	2.1%	2.1%

Sources: Kamco Invest Research and Mabaneer

Neutral

CMP 04-Mar-21: KWD 0.699

Target Price: KWD 0.735

Upside/Downside: +5.2%



Price Perf.	1M	3M	12M
Absolute	4.1%	6.5%	-8.3%
Relative	4.4%	4.0%	-4.8%

Stock Data

Bloomberg Ticker	MABANEE KK
Refinitiv Ticker	MABK.KW
Last Price (KWD)	0.699
MCap (KWD Mn)	772
MCap (USD Mn)	234
EV (KWD Mn)	1,072
Stock Performance - YTD (%)	6.4%
PE - 2021E (x)	13.3
PB - 2021E (x)	1.5
Dividend yield - 2021E (%)	1.4%
52-Week Range (KWD)	0.470 / 0.771

Sources: KAMCO Invest Research & Bloomberg

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Valuation and Risks

Target price revised to KWD 0.735/share; maintain 'Neutral' rating

Post Mabanee's Q4-2020 earnings call and speaking to the management, we fine-tuned our estimates. We now forecast group EPS of KWD 0.053 (+0.5%) for 2021E, and KWD 0.055 (+1.9%) and KWD 0.056 (+3.1%) for 2022E and 2023E, respectively. For Avenues Kuwait operations, we now incorporate the opening of 5-Star Waldorf Astoria by late Q3/early Q4-2021, and expect full potential annualized impact from 2022E onwards, while mall rents will continue to contribute 91%-92% of group revenues over 2021E-2023E. Our revised target price (TP) of KWD 0.735/share (Previous: KWD 0.715/share) is based on our new forecasts, and is 70:30 blend of DCF and 2022E P/NAV valuation.

Mabanee Fair Value			
Valuation Method	Fair value per share (KWD)	Weight (%)	Weighted Value (KWD)
DCF	0.721	70%	0.505
P/NAV - 2022E	0.767	30%	0.230
Weighted Average Fair Value per Share (KWD)			0.735
Current market price (KWD)			0.699
Upside/Downside			5.2%

Sources: Kamco Invest Research

Our thesis on Mabanee revolves around Avenues Kuwait continuing as the FCF engine for the company over our forecast period. Full potential retail rents, high GP margins, and incremental capex needs reverting towards maintenance capex would drive significant FCF generation from the project. Mabanee is expected to generate an average annualized FCF of KWD 58.5 Mn over 2021E-2023E, from Avenues Kuwait, as per our estimates. Looking ahead, we consider the decision over the status of the Riyadh project to be the most important catalyst for growth, reinvestment of FCFs from Avenues Kuwait, and the company's valuation going forward. Our TP captures Mabanee's Avenues Kuwait operations and does not represent a significant upside (+5.2%) to the current market price. We maintain our 'Neutral' rating on the stock, until we attain further visibility on the Riyadh project, and its strategic direction.

In our DCF valuation, we have assumed a terminal growth rate of 1.5%, and average WACC of 7.3% over our forecast period, which we believe appropriately represents the sustainable long-term growth rate, the risk profile for the company given the nature of technological advancement and disruption in the sector. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC. Our valuation includes Phase I and Phase II of Avenues Bahrain, including the hotel project, at 35% associate participation. Fair values of land in Saudi, land in Salmiya, and the Fintas project are included in our valuation. Our valuation based on P/NAV derives a price of KWD 0.767/share based on a multiple of 0.85x 2022E NAV, which is fair in our view, given 1) the level of disruption caused by the increasing market share of e-tailing, 2) newer business models evolving in other RE segments which Mabanee aims to foray into, and 3) when compared with closer industry peers in the region.

Upside/downside risks to our rating & forecasts include:

Upside risks:

- Higher than expected rebound of Kuwait & GCC economic growth and discretionary consumer spending
- Higher occupancy rates and F&B revenues leading to growth in RevPAR and TRRevPAR for Avenues Kuwait hotels
- Faster capex-led growth, and growth via accretive e-commerce acquisitions

Downside risks:

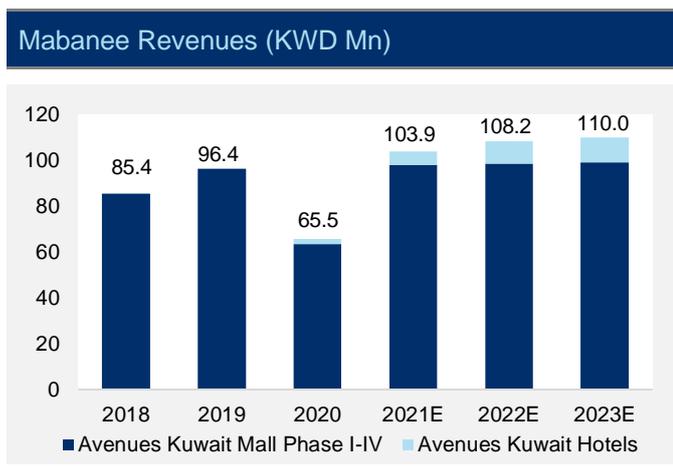
- Continuation of Covid-19 driving lower footfalls and retail sales conversion
- Slowdown of GCC economic growth and discretionary consumer spending
- Oversupply of retail spaces and other prospective RE segments
- Significant cost over-runs of development costs of expansion projects

Investment Thesis

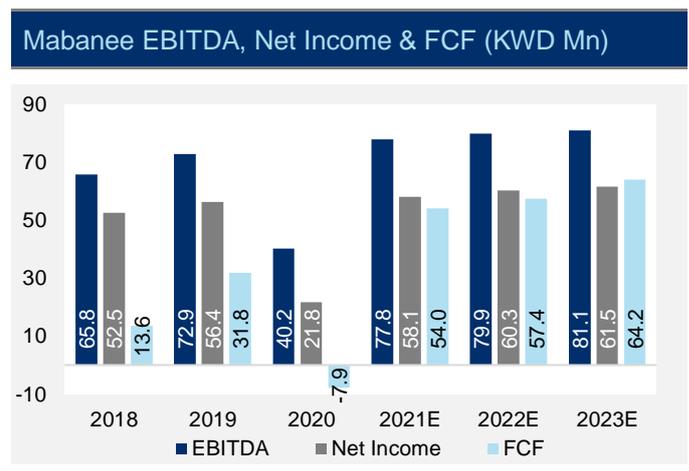
Avenues Kuwait anchors with strong revenue recovery & FCF visibility

Mabaneer reported 2020 group revenues of KWD 65.5 Mn, which was marginally (+2.3%) ahead of our estimates (KWD 64.1 Mn), but came in almost 32% lower y-o-y from KWD 96.4 Mn in 2019. Revenues were impacted by Covid-19 related shutdowns during the year for both retail (Phase I-IV) and hotel components (Hilton Garden Inn) based on government instructions, which led to discounts and waivers being offered to Avenues Mall retail tenants.

We fine-tune our forecasts and expect group revenues of KWD 103.9 Mn for 2021E (Previous Estimate: KWD 105 Mn). We further forecast group revenues to reach KWD 108.2 Mn and KWD 110 Mn in 2022E (Previous Estimate: KWD 107.5 Mn) and 2023E (Previous Estimate: KWD 108.5 Mn), respectively. Our forecasts are driven blended average rents of KWD 19.7/sq.m for Phase I-IV retail, with average occupancy rates of 92%-93% over 2021E-2023E. For Avenues Kuwait Hotels, we incorporate the opening of 5-Star Waldorf Astoria by late Q3/early Q4-2021, and expect full potential annualized impact from 2022E onwards. We retain our ADR estimates of KWD 110/night and KWD 70/night for the 5-Star and 4-Star hotels, and assume occupancy rates of 35% for both hotels in 2021E, and factor in an occupancy build-up for 2022E and 2023E to stay on the conservative side until better visibility on the lower impact from Covid-19 becomes evident. We further forecast group EPS of KWD 0.053 for 2021E, and KWD 0.055 and KWD 0.056 for 2022E and 2023E respectively.



Source: Kamco Invest Research, Mabaneer



Source: Kamco Invest Research, Mabaneer

Despite current headwinds faced by brick-and-mortar retail, and its impact on demand for retail spaces in Kuwait, we remain confident on Mabaneer's leasing capabilities going forward. Phase IV retail occupancy rates should continue to progress towards the average of Phase I-III (~93%) in our view. The management guided that they are keen to lease certain units of the remaining retail space in Phase IV to international tenants who have expressed interest, and are currently awaiting the opening of the airport and easing of restrictions for physical assessment of the spaces. Moreover, the leasing team was able to re-lease a substantial portion of a drop in overall occupancy rates of around 5% during 2020 from the impact of Covid-19, which along with the optionality of tenant mix confirms our view of the company's leasing capabilities. Separately, retail footfalls into Avenues Kuwait prior to time restrictions announced by the government in Feb-2021 were only ~10% lower y-o-y. Footfalls should steadily improve once government restrictions are relaxed, and when Covid-19 vaccination counts pick up significantly, contributing to higher footfall conversion rates.

With the opening of Waldorf Astoria in late 2021, both retail and hospitality components of the Avenues Kuwait project will be fully operational. As a result, we expect the combination of full potential retail rents, high GP margins (2021E-2023E: 76% avg.), and incremental capex needs reverting towards maintenance capex (2021E-2023E: KWD 14 Mn), to drive significant FCF generation from the project. We forecast the company to generate average FCFs of over KWD 58 Mn 2021E-2023E, achieving net income-FCF conversion rates of 104% by 2023E. This reaffirms our thesis on Mabaneer, that Avenues Kuwait will continue to remain the FCF engine for the company over our explicit forecast period. **As of the release date of this report, our forecasts are based on management guidance that there is no intention to provide any discounts on rents or waivers in 2021.**

Bahrain Phase II elevates competitive positioning despite soft market

We remain positive on Mabanee's decision to expand in Bahrain with Phase II of the mall, despite the significant softness of demand in Bahrain's retail space sector. As per real estate consultant REMI, retail space inventory in Bahrain remained more or less the same y-o-y in 2020, however, the occupancy ratio dropped from 89.5% in 2019 to 80.7% in 2020. Further, they estimate the average monthly lease rates to have dropped from BHD 9.02/sq.m/month in 2019 to BHD 8.19/sq.m/month. This led to sharply lower rental income for retail properties with annual rental income declining 18.3% y-o-y from BHD 91.1 Mn in 2019 to BHD 74.5 Mn in 2020, as per REMI. Moreover, no visitors from Saudi Arabia entering Bahrain via the King Fahd Causeway has created immense stress for retailers in Bahrain, along from higher e-commerce contribution to retail sales.

Mabanee's Phase II retail mall expansion adds 41,200 sq.m of GLA, taking the total retail space of Avenues Bahrain to 81,200 sq.m. The additional GLA elevates the project into a scale comparable with other larger super regional malls such as City Centre (155,000 sq.m) and Seef Mall (72,000 sq.m). Given Mabanee's extensive experience in managing large format retail spaces in Avenues Kuwait, we expect scale benefits and locational advantages to translate into better competitive positioning in the market, and demand from quality tenants going forward. Separately, the company aims to open its hotel - Hilton Garden Inn Bahrain (197 keys) around the last week of Ramadan, and ahead of the scheduled opening should of the King Fahd Causeway in mid-May, which should drive additional footfalls into the mall as well, in our view.

Riyadh project decision alters funding needs for future growth capex

We updated the latest project description of under development and upcoming projects, as disclosed by Mabanee in the Q4-call, and our conversations with management. In our model forecasts and valuation, we currently include: 1) 5-Star hotel at Avenues Kuwait – Waldorf Astoria, 2) Avenues Bahrain – Phase II of GLA 41,200 sq.m and 3) Avenues Bahrain Phase II – Hotel of 197 keys.

Mabanee under development and upcoming projects

Project	Project Type	Latest Project Description	Status	Included/Not Included in Kamco Invest Forecasts
Avenues Kuwait - Waldorf Astoria	Hospitality	5-Star hotel of 200 keys; expected completion by Q3-2021	Ongoing	Included
Avenues Bahrain Phase II -Hotel	Hospitality	Hilton Garden Inn with 197 keys; expected completion by end Q1-2021	Ongoing	Included
Avenues Bahrain Phase II	Retail	Mall GLA of 41,200 sq.m; main contract work to commence in Q4-2021	Design	Included
Jaber Al Ahmad: J3 - Kuwait	Mixed-Use	PAHW project with retail GLA of 104,000 sq.m and 276 residential units	Construction start date to be finalized	Not Included
Salmiya Project - Kuwait	Mixed-Use	Comprehensive study of concept and feasibility of developing 9,761 sq.m land	Under study	Not Included
Avenues Sharjah	Retail	Investment & development of projected GLA of 58,000 sq.m	Market study	Not Included
Avenues Riyadh	Mixed-Use	Comprehensive study to assess project extending 390,000 sq.m with a leasable area of 400,000 sq.m	On hold	Not Included
Avenues Khobar	Mixed-Use	Leasable area of 166,000 sq.m of land space; includes four towers with residential, commercial office, hospitality and medical components	Financing stage	Not Included

Sources: Mabanee, Kamco Invest Research

As mentioned in our earlier update ([Mabanee – Awaiting next growth runway](#)), we prefer to gain more visibility for Mabanee's new projects in Kuwait and across the region, before including them in our forecasts and valuation. For Mabanee's Saudi projects, the management guided that they continue to study their Avenues Riyadh project, and currently all third-party activities including contracting and financing are on hold. For Avenues Khobar, all governmental negotiations and approvals have been achieved and the project is currently in financing stage.

The decision over the status of the Riyadh project remains the most important catalyst for the company and its investors going forward in our view, given the significant size of the potential project, and Mabanee's ownership of the land for the project. Given Mabanee's strong capital allocation track record thus far, we believe the company will keenly look at the returns and cashflow profile of this project. Although each project decision would be largely based on how lucrative each project looks across returns, scale and market positioning, the status of the Riyadh project and the land plot investment already incurred could significantly alter funding mix for other future projects. Moreover, although Mabanee seems comfortably placed to take on more debt funding for future growth capex, we believe the company will be cautious in reinvesting FCFs generated from Avenues Kuwait.

Mabaneer Financial Forecasts

Marginal tweaks on better visibility for Avenues Kuwait operations

Mabaneer reported 2020 EPS of KWD 0.0197/share, broadly in line with our estimate of KWD 0.020/share. Our detailed financial forecasts for Mabaneer over 2021E-2023E factor in better visibility of mall rental revenues from Phase I-IV, the opening of 5-Star Waldorf Astoria by late Q3/early Q4-2021, with full potential annualized impact from 2022E onwards. GP margin improvement vs. previous estimates is largely on account of marginally more normalized operations, but is likely to remain below 2019 levels, with the introduction of lower margin hotel operations. We exclude ECL on account receivables from our G&A expenses in our income statement and balance sheet forecasts (2019: KWD 1.9 Mn), until there is more evidence of recurring provisioning for it on a recurring basis.

2021 -2023 Forecasts – Kamco Invest Research									
Mabaneer	2021E			2022E			2023E		
	New	Old	Δ (%)	New	Old	Δ (%)	New	Old	Δ (%)
Revenues (KWD Mn)	103.9	105.0	-1.0%	108.2	107.5	-1.0%	110.0	108.5	-1.0%
GP Margins (%)	76.8%	75.1%	1.7%	75.7%	74.7%	1.7%	75.6%	74.8%	1.7%
EBIT (KWD Mn)	64.0	64.8	-1.3%	65.8	66.2	-1.3%	66.7	66.9	-1.3%
Net Income (KWD Mn)	58.1	57.8	0.5%	60.3	59.2	0.5%	61.5	59.7	0.5%
EPS (KWD)	0.053	0.052	0.5%	0.055	0.054	0.5%	0.056	0.054	0.5%
Net Debt (KWD Mn)	254.2	247.8	2.6%	208.6	205.6	2.6%	162.5	205.6	2.6%

Source: Kamco Invest Research

Our forecasts only include Avenues Kuwait projects and hotels (including 5-Star Waldorf Astoria), along with existing and ongoing projects in Bahrain. As a result, we forecast EPS estimates of KWD 0.053 for 2021E, KWD 0.055 for 2022E and KWD 0.056 for 2023E.

Mabane Financials						
Balance Sheet (KWD Mn)	2018	2019	2020	2021E	2022E	2023E
Assets						
Cash and cash equivalents	18.4	72.6	38.6	55.1	76.0	107.9
Receivables	28.8	19.8	20.2	20.8	22.7	23.0
Total current assets	47.2	92.4	58.8	76.0	98.8	130.9
Net property, plant and equipment	3.4	4.6	119.5	119.8	120.0	120.2
Investment Properties & LT Assets	812.2	868.1	786.6	791.1	795.4	794.7
Total assets	862.8	965.1	964.8	986.8	1,014.1	1,045.8
Liabilities						
Total debt	303.3	340.6	334.7	309.4	284.6	270.4
Accounts payable and other liabilities	134.2	151.5	149.3	147.9	150.7	151.7
Total liabilities	437.5	492.0	484.0	457.3	435.3	422.1
Shareholders' Equity						
Share capital	114.9	120.8	127.0	127.0	127.0	127.0
Retained earnings	207.2	234.0	236.8	285.5	334.8	379.7
Other equity	103.1	118.3	117.0	117.0	117.0	117.0
Total Equity	425.2	473.1	480.8	529.5	578.8	623.7
Total Liabilities and Equity	862.8	965.1	964.8	986.8	1,014.1	1,045.8
Income Statement (KWD Mn)	2018	2019	2020	2021E	2022E	2023E
Revenue	85.4	96.4	65.5	103.9	108.2	110.0
Cost of goods sold	-17.8	-22.1	-22.2	-24.1	-26.3	-26.8
Gross profit	67.6	74.2	43.4	79.9	82.0	83.1
General and administrative expenses	-1.8	-1.3	-3.1	-2.0	-2.0	-2.1
EBITDA	65.8	72.9	40.2	77.8	79.9	81.1
Depreciation and amortization	-9.3	-10.8	-13.5	-13.9	-14.2	-14.4
EBIT	56.5	62.2	26.7	64.0	65.8	66.7
Finance costs	-2.4	-4.0	-5.1	-5.2	-5.2	-5.1
Other Income/Loss	0.7	1.2	1.3	2.2	2.7	3.0
Net profit before taxes	54.7	59.3	23.0	61.0	63.3	64.5
Provision for Income Taxes & Directors Fee	-2.6	-3.2	-1.4	-3.1	-3.2	-3.2
Net profit after taxes	52.1	56.1	21.6	57.9	60.1	61.3
Minority interest	0.4	0.3	0.2	0.3	0.3	0.3
Net profit attributable to parent	52.5	56.4	21.8	58.1	60.3	61.5
EPS (KWD)	0.048	0.051	0.020	0.053	0.055	0.056
Cash Flow (KWD Mn)	2018	2019	2020	2021E	2022E	2023E
Net cash from operating activities	54.6	89.1	34.2	74.6	76.3	78.2
Net cash (used in) from investing activities	-44.7	-43.5	-38.3	-21.4	-14.9	-10.9
Net cash from (used in) financing activities	-6.1	8.5	-30.0	-36.6	-40.5	-35.4
Change in cash and cash equivalents	3.9	54.2	-34.0	16.5	20.9	31.9
Cash at the end of the year	18.4	72.6	38.6	55.1	76.0	107.9

Source : Kamco Invest Research and Mabane

Valuation & Financial Ratios						
Key Ratios	2018	2019	2020	2021E	2022E	2023E
Leverage Ratios						
Total Debt / Total Assets (x)	0.35	0.35	0.35	0.31	0.28	0.26
Total Debt / Equity (x)	0.71	0.72	0.70	0.58	0.49	0.43
Net debt/ Equity (x)	0.67	0.57	0.62	0.48	0.36	0.26
Profitability Ratios						
Return on Average Assets (%)	6.3%	6.2%	2.3%	6.0%	6.0%	6.0%
Return on Average Equity (%)	13.0%	12.6%	4.6%	11.5%	10.9%	10.2%
ROIC (%)	8.6%	9.0%	3.7%	7.8%	7.9%	8.0%
Margins						
Gross profit margin (%)	79.1%	77.0%	66.1%	76.8%	75.7%	75.6%
EBITDA margin (%)	77.0%	75.7%	61.4%	74.9%	73.9%	73.7%
EBIT margin (%)	66.1%	64.5%	40.8%	61.6%	60.8%	60.6%
Net profit margin (%)	61.5%	58.5%	33.2%	55.9%	55.8%	55.9%
Per Share Data and Valuation Ratios						
Earnings Per Share (KWD)	0.048	0.051	0.020	0.053	0.055	0.056
Book Value Per Share (KWD)	0.38	0.43	0.44	0.48	0.52	0.56
Dividend Per Share (KWD)	0.012	0.014	0.006	0.010	0.015	0.015
PE (x)	11.3	16.7	33.4	13.3	12.8	12.6
PB (x)	1.4	2.0	1.5	1.5	1.3	1.2
Dividend Yield (%)	2.2%	1.6%	0.9%	1.4%	2.1%	2.1%

Source : Kamco Invest Research and Mabanee, per share values are based on latest approved number of shares outstanding

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