Arriyadh Development Company

Initiate with Buy: ADCO to transform to stable recurring income that can double in 5 years.

- **ADCO aims to double its recurring net profit (excl. land sales) over the next 5 years as it shifts from ad hoc revenues (property sales) to recurring income. We pencil in a 5-year revenue CAGR of 16% and 6% EPS CAGR, fueled by debt.**
- **The demographic and socio-economic transformation in Riyadh should drive sustainable demand for real estate and consumer spending – ADCO's operations are Riyadh-centric and should capture significant upside.**
- **The company trades at a P/E of 13x/10x FY 23/25e, at a discount to local and regional peers. We initiate with a Buy rating and SAR 25.9 TP, offering an upside of 36%. We include the stock in our Core portfolio with a 2% position.**

ADCO AB (ARDCO on Tadawul) is one of the main developmental and public benefit arms of the capital city of Riyadh, currently in charge of operating the largest fresh produce market in KSA (60% market share) in addition to managing a portfolio of leasable assets across Riyadh. ADCO targets to double its earnings by FY 30e via steep rental revisions on its existing assets and major CapEx expansions into new verticals including office, education, logistics, and residential leasing assets. The company will utilize its debt-free balance sheet to fund expansions supported by its ~SAR 700m investment book, which we expect to enhance returns by FY 26e+ via accelerated construction. Over the coming 3 years, the company will focus on re-pricing the rents and fees across its existing assets (both wholly owned and leasehold assets).

Riyadh should see rapid population growth (from 7m to 15m) driving consistent demand for real estate and sustainable consumer spending. Riyadh is becoming one of the busiest construction sites in the world with over USD 330bn worth of construction projects planned or underway to be completed by 2035e, of which 1/3 will be allocated to real estate development. The rapid population growth and the shift in consumer behavior will eventually require new supply of public goods and services at the city level, which will largely be executed via public-private partnerships. We think that ADCO is well positioned to expand its exposure to the fresh produce and the automotive sectors in Riyadh given its managerial know-how and the established infrastructure network.

The company has recently launched its new growth-focused strategy with the target of doubling its earnings in the coming decade. The 10-year strategy aims to diversify the mix of real estate leases (add residential leasing, office, and logistics leasing), double down on more profitable operating segments (fresh produce and car auction) and invest in new growing business segments with the target is doubling the company's bottom line in the coming decade. ADCO currently generates 37% of net profit from the recurring business (operating fees and rental income) while 63% is driven by real estate sales through its main subsidiary (Tanal). We expect recurring revenues to grow at a 5-year CAGR of 10%, while contributions from land sales should diminish in the coming years as the company capitalizes on its land bank for the development of new recurring income assets.

ADCO enjoys solid margins, a debt-free balance sheet, and a positive economic spread: Gross profit margin hovered historically around 70% while NOPAT margin is even higher due to the unconsolidated share in profits of a subsidiary (Tanal, due to lack of corporal control despite owning 69.3% share). Net working capital is internally funded helped by a debt-free balance sheet as the company runs operations by sustaining a negative cash conversion cycle. ADCO generates excess ROIC of 4.7% (ROIC of 13.4% vs. an estimated WACC of 8.7%). The market implied competitive advantage period (CAP) is c. 2.7 years, but we think the company should extend value creation due to its lasting ties with the Riyadh municipality and the high barriers to entry in the public benefit segment.

We initiate with a Buy rating and SAR 25.9 TP, offering an upside of 36%: Our SoTP-driven valuation emanates from three business segments (sale of land, leasing, and public benefit) over a 5-year forecast period using a DCF approach until FY 28e on a WACC of 8.7% and TGR of 3%. We expect GPm to slightly improve to 68% over the coming 5 years, while we pencil in minimal maintenance CapEx projections beyond FY 27e as most of the CapEx will be deployed on expansions. ARCO AB trades at undemanding FY 23e/25e multiples of 13x/10x P/E, 22x/14x EV/EBITDA, and 1.5x/1.3x P/B (while unlevered) which we find attractive vs. peers on the three metrics, especially given ARCO's superior ROIC capabilities. We include the stock in our Core portfolio with a 2% position.

Upside risk: faster than expected capital deployment on BTL assets and FV gains from asset revaluation that could support net profit (not in our estimates). ADCO still owns 0.6m sqm of land carried at minimal cost on BV and potentially could be monetized and resolved in sizeable revaluation gains.

Initiation Report

August 29 2023

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BUY SAR 25.9

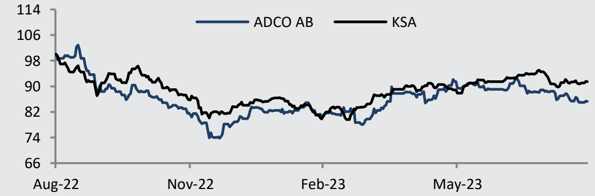
Real Estate / KSA

Bloomberg code	ADCO AB
Market index	KSA
Target Price	25.9
Upside (%)	36.0

Market data	**8/29/2023**
Last closing price	19.0
52 Week range	16.5-23.9
Market cap (SAR m)	3,371
Market cap (USD m)	899
Average Daily Traded Value (SAR m)	5.0
Average Daily Traded Value (USD m)	1.3
Free float (%)	95%

Year-end (local m)	2022	2023e	2024e	2025e
Revenues	258.9	283.1	308.7	428.9
EBITDA	141.9	147.3	161.1	229.1
EPS	1.7	1.5	1.5	1.8
P/E (current price)	11.4	13.3	12.9	10.6
Net debt	17.0	(199.1)	(152.2)	27.8
BVPS	12.4	13.2	14.0	15.0
P/B (current price)	1.6	1.5	1.4	1.3
EV/EBITDA (current price)	22.8	21.9	20.1	14.1
Div. yield (%)	3.9	3.3	3.4	4.2
FCF margin (%)	(31.5)	64.8	(20.4)	(37.3)
Net debt/EBITDA (x)	0.1	(1.4)	(0.9)	0.1
Net debt/Capital (%)	0.8	(8.3)	(5.5)	0.9
Interest cover (x)	35.7	37.2	7.5	6.9
RoAA (%)	11.9	9.6	8.9	9.2
RoAE (%)	14.2	11.4	11.0	12.5
RoIC (%)	13.4	10.8	9.5	10.0

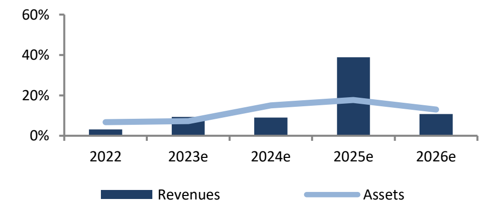
Price Performance



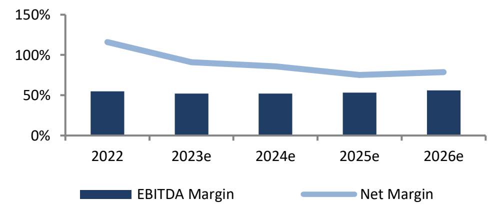
Abacus

Arqaam Capital Fundamental Data

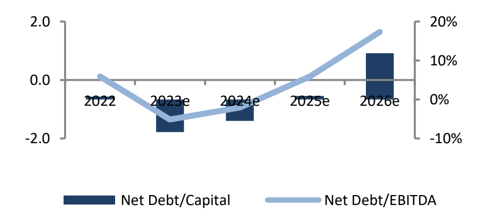
Profitability



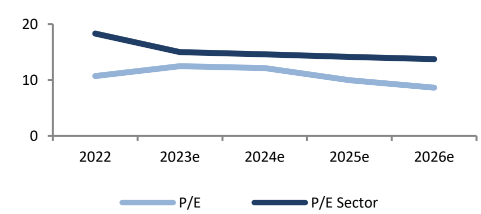
Growth



Gearing



Valuation



Arriyadh Development Company

Year-end	2021	2022	2023e	2024e	2025e	2026e
Financial summary						
Reported EPS	1.79	1.69	1.45	1.49	1.81	2.10
Diluted EPS	1.79	1.69	1.45	1.49	1.81	2.10
DPS	1.50	0.50	0.11	0.11	0.14	0.16
BVPS	11.37	12.36	13.17	14.00	15.01	16.17
Weighted average shares	177.78	177.78	177.78	177.78	177.78	177.78
Average market cap	4,515.61	3,214.26	3,214.26	3,214.26	3,214.26	3,214.26

Year-end	2021	2022	2023e	2024e	2025e	2026e
Valuation metrics						
P/E (x) (current price)	10.8	11.4	13.3	12.9	10.6	9.2
P/E (x) (target price)	14.5	15.3	17.9	17.4	14.3	12.4
P/BV (x) (target price)	1.7	1.6	1.5	1.4	1.3	1.2
EV/EBITDA (x)	24.3	22.8	21.9	20.1	14.1	12.1
EV/FCF (x)	22.8	(39.7)	17.6	(51.3)	(20.2)	(15.6)
EV/Invested capital (x)	1.6	1.4	1.4	1.2	1.0	0.9
Dividend yield (%)	8.4	3.9	3.3	3.4	4.2	4.8

Year-end	2021	2022	2023e	2024e	2025e	2026e
Growth (%)						
Revenues	5.5	3.2	9.4	9.0	38.9	10.7
EBITDA	(27.6)	6.6	3.9	9.4	42.2	16.2
EBIT	(32.8)	5.0	4.2	13.0	51.5	14.0
Net income	39.7	(5.6)	(14.1)	2.8	21.6	15.6

Year-end	2021	2022	2023e	2024e	2025e	2026e
Margins (%)						
EBITDA	53.0	54.8	52.0	52.2	53.4	56.1
EBIT	39.3	40.0	38.1	39.5	43.0	44.3
Net	126.9	116.0	91.1	85.9	75.2	78.5

Year-end	2021	2022	2023e	2024e	2025e	2026e
Returns (%)						
RoAA	13.3	11.9	9.6	8.9	9.2	9.3
RoAE	15.9	14.2	11.4	11.0	12.5	13.5
RoIC	15.3	13.4	10.8	9.5	10.0	10.1
FCF margin	56.5	(31.5)	64.8	(20.4)	(37.3)	(43.7)

Year-end	2021	2022	2023e	2024e	2025e	2026e
Gearing (%)						
Net debt/Capital	-	0.8	(8.3)	(5.5)	0.9	11.9
Net debt/Equity	-	0.8	(8.5)	(6.1)	1.0	15.2
Interest cover (x)	32.0	35.7	37.2	7.5	6.9	5.7
Net debt/EBITDA (x)	-	0.1	(1.4)	(0.9)	0.1	1.6

Abacus *Arqaam Capital Fundamental Data*

Company Profile

Arriyadh Development Company (ADCO AB) is a real estate developer and public benefit services provider in the capital city of Riyadh. Its real estate activities include sale of land and a portfolio of 14 leasable assets across the residential, retail, and office segments. Public benefit services include the company's role in operating three key public utility projects in Riyadh: a fresh produce market, international transportation center, and a car auction.

Board of Directors and Shareholders

BoD	Position
Prince Faisal bin Abdulaziz bin Ayyaf	Chairman of BoD
Majed bin Nasser Alsubaei	Vice Chairman
Abdul-Ilah Abdul Rahman Saleh Al-Hussein	Board member
Abdullah Mohammed AlBabouth	Board member
Ali Abdullah Al-Hassoun	Board member
Fahad Abdullah AlKasum	Board member
Nayef Ibrahim Al-Hadithi	Board member
Sulaiman Nasser Al Hatlan	Board member

Source: Company Data, Arqaam Capital Research

Executive management	Position
Jehad Alkadi	CEO
Mohammed Alkulaib	CFO
Wael Iundi	CIO
Anas Rajmi	Chief Strategy Officer
Waleed Alkharji	Acting Chief Commercial Centers Officer
Fayez Alahmari	Executive Director of Board Affairs

Source: Company Data, Arqaam Capital Research

Shareholders	Stake (%)
Public Pension Agency	4.95%
Others	95.05%

Source: Arqaam Capital Research

Arriyadh Development Company

Year-end	2021	2022	2023e	2024e	2025e	2026e
Income statement (SAR m)						
Sales revenue	250.9	258.9	283.1	308.7	428.9	474.9
Gross profit	**172.8**	**170.2**	**180.8**	**199.0**	**270.3**	**305.3**
SG&A	(74.3)	(66.7)	(72.9)	(77.2)	(85.8)	(95.0)
EBITDA	**133.0**	**141.9**	**147.3**	**161.1**	**229.1**	**266.2**
Depreciation & Amortisation	34.5	38.4	39.5	39.3	44.5	55.9
EBIT	**98.5**	**103.5**	**107.8**	**121.9**	**184.6**	**210.3**
Net interest income(expense)	(3.1)	(2.9)	(2.9)	(16.2)	(26.9)	(37.0)
Associates/affiliates	226.5	190.5	139.3	146.1	153.2	189.5
Exceptionals/extraordinaries	5.7	22.0	21.6	21.6	21.6	21.6
Other pre-tax income/(expense)	-	-	-	-	-	-
Profit before tax	**327.6**	**313.0**	**265.9**	**273.4**	**332.5**	**384.4**
Income tax expense	(9.3)	(12.7)	(8.0)	(8.2)	(10.0)	(11.5)
Minorities	-	-	-	-	-	-
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit	**318.3**	**300.4**	**257.9**	**265.2**	**322.6**	**372.9**
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	**318.3**	**300.4**	**257.9**	**265.2**	**322.6**	**372.9**

Year-end	2021	2022	2023e	2024e	2025e	2026e
Balance sheet (SAR m)						
Cash and equivalents	55.8	34.6	250.7	453.8	523.8	363.9
Receivables	68.1	97.5	90.6	98.7	137.2	151.9
Tangible fixed assets	1.9	5.9	5.9	5.9	5.9	5.9
Investment properties	1,876.8	1,813.8	1,793.6	2,000.4	2,459.1	3,092.7
Other assets including goodwill	431.6	646.0	646.0	646.0	646.0	646.0
Total assets	**2,434.2**	**2,597.7**	**2,786.8**	**3,204.8**	**3,772.0**	**4,260.4**
Payables	257.2	242.9	288.5	309.1	446.9	477.9
Interest bearing debt	54.9	51.6	51.6	301.6	551.6	801.6
Other liabilities	100.9	105.6	105.6	105.6	105.6	105.6
Total liabilities	**413.0**	**400.1**	**445.7**	**716.3**	**1,104.1**	**1,385.1**
Shareholders equity	2,021.2	2,197.6	2,341.0	2,488.5	2,667.9	2,875.2
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	**2,434.2**	**2,597.7**	**2,786.8**	**3,204.8**	**3,772.0**	**4,260.4**

Year-end	2021	2022	2023e	2024e	2025e	2026e
Cash flow (SAR m)						
Cashflow from operations	**144.1**	**112.1**	**213.5**	**187.0**	**340.1**	**292.7**
Net capex	(2.2)	(193.5)	(30.0)	(250.0)	(500.0)	(500.0)
Free cash flow	**141.8**	**(81.4)**	**183.5**	**(63.0)**	**(159.9)**	**(207.3)**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(288.7)	(132.1)	(114.5)	(117.7)	(143.2)	(165.5)
Net inc/(dec) in borrowings	(6.2)	(6.2)	(2.9)	233.8	223.1	213.0
Other investing/financing cash flows	-	-	-	-	-	-
Net cash flow	**7.0**	**(21.2)**	**216.2**	**203.1**	**70.0**	**(159.9)**
Change in working capital	(1.0)	(44.2)	52.6	12.4	99.3	16.3

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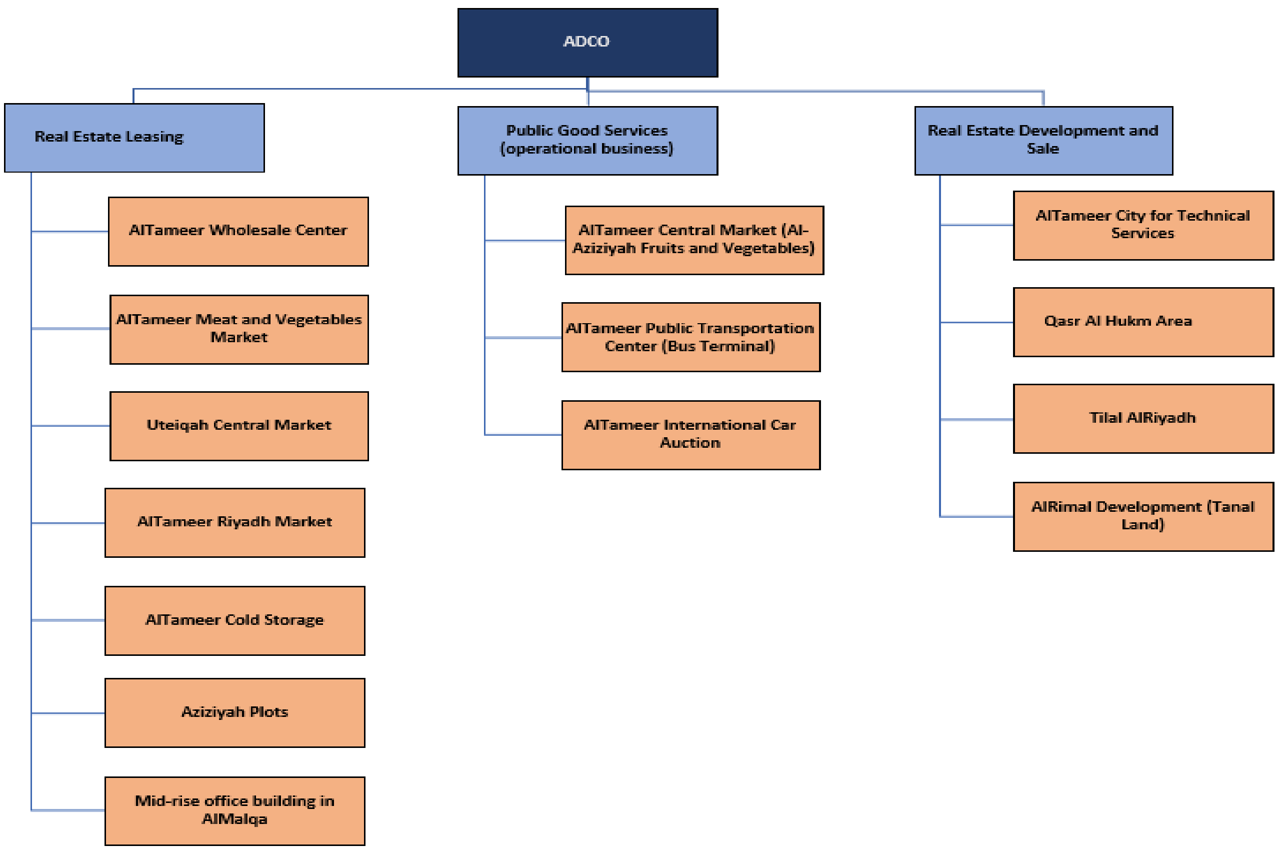
ADCO pivots towards growth and eyes to 2x net profit

- **ADCO plans to optimize its existing businesses and invest in growth with the aim to double recurring net profit over the next 5 years.**
- **The residential leasing segment has an untapped potential for real estate developers in Riyadh- ADCO seems ready to step in.**
- **ADCO to introduce a counter-cyclical revenue split into its leasing segment through Grade B office units.**
- **KSA consumes around SAR 60bn worth of fresh produce annually, 60% of which comes from ADCO's markets.**

Exhibit 1: Arriyadh Development Company assets portfolio



Source: Company Data, Arqaam Capital Research

ADCO's existing revenue stream consists of three business segments: (1) sale of real estate property (developed or land), (2) rental income from leasable assets including retail, office, and residential assets (fully owned or partially owned), and (3) operating income from public benefit operations in the fresh produce wholesale market, bus terminal, and international car auction. The latter two represent the company's recurring income stream, which experienced an underwhelming performance in the past few years due to underinvestment in infrastructure development and asset pre-emptive maintenance as the company directed most of its cash flows towards dividend distributions in the past. During the period of 2017-2021, the company distributed SAR 970m in dividends and only invested SAR 70m in growth.

Exhibit 2: ADCO's recurring income assets

	NLA (sqm)	Revenues FY 23e (SARm)	Implied rent/sqm (SAR)	Revenues 25e (SARm)	Implied rent/sqm (SAR)
Al Tameer Wholesale Center (aka AlTameer Wholesale Market)	80,681	46.2	573	55.9	693
Al Tameer meat and Vegetables market in Al -Batha	4,640	5.6	1,205	6.8	1,458
Otaiqah Central market	84,593	37.4	442	52.2	617
Al Tameer Riyadh Market	28,927	14.1	488	15.0	519
Malqa plot	10,500	12.1	1,150	13.3	1,265
AlTameer Vegetables and Fruit Wholesale Market (aka Al Azizia f&v)	229,226[1]	114.0	497	129.5	565
Al Tameer Bus Terminal (aka public transportation center)	148,303[1]	22.0	148	26.6	179
Al Tameer International Car auction	241,495[1]	11.0	46	13.3	55

Source: Company Data, Arqaam Capital Research

[1] Total asset area which is not directly leased rather utilized for the company's public benefit operations.

ADCO pivots and launches its new strategy, starting with the appointment of a new management team in 2022 to deliver on the next cycle of growth for ADCO. The company launched a new 10-year strategy in FY 23e that aims to diversify the mix of real estate leases (to introduce residential, office, and logistics leasable assets), optimize profitability in the operating segments (fresh produce and car auction) and leasable assets through steep rental escalations in line with market rates, and invest in new growing business segments with the main target of doubling the company's net profit over the next 10 years.

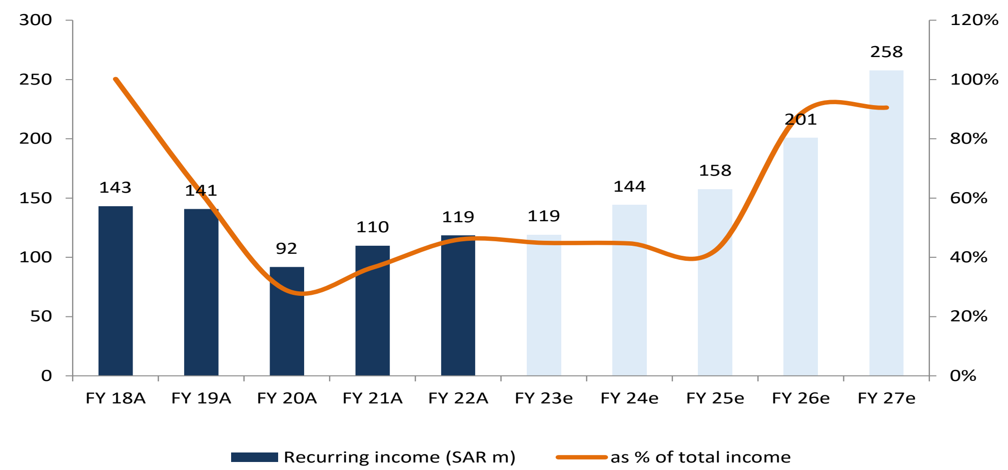
The public benefit services segment should grow at an implied CAGR of 8% until FY 28e, mainly driven by growth in the fresh produce business which constitutes c.77% of segment revenue. Growth is derived from (1) a 4.5% y/y increase in the total addressable market, where 60% of which comes from ADCO's markets, and (2) growth in ADCO's share of the total turnover (which is currently less than 1%) throughout supply chain management and improvements in pricing mechanisms which should reduce marginal costs and support gross margin at 75-76%.

Growth in the leasing segment to emanate from rental fee revisions and expansions given the elevated level of occupancy in existing leasable assets. This, in addition to the like-for-like strength in rents across all property assets in Riyadh, should result in growth in the leases from existing assets at a CAGR of 8% until FY 28e. Expansion projects, which include residential housing, Grade B offices, education, and logistics leasing should support the segment growth by another 6% CAGR.

ADCO's strategic shift towards recurring income-generating activities to undermine CFs from the sale of land segment going forward. We think ADCO will use its 142,500 sqm wholly owned land portfolio both on build-to-sell and build-to-lease assets. The company will continue to receive its share from Tanal (an associate entity that manages a sizable land bank for ADCO, ~70% owned by ADCO) until FY 25e, according to our forecasts. Given the cyclical nature of land sales, we project a 2% growth in segment revenues from Tanal land, until it is fully sold (or exited) and pencil in a GPm at the current 50% level.

ADCO's recurring income can grow at a 5-year CAGR of 14% by FY 28e driven by asset expansions and supported by de-bottlenecking in existing segments. This will materialize via contract revisions and rental escalations in the sub-optimal leasable assets (ex. Wholesale center, Otaiqa, and AlAziziyah fresh produce market) in the near term, with a positive financial impact likely to appear in FY 24e, in our view. In the medium term, the utilization of the remaining land bank on recurring income assets (offices, houses, schools, logistics, and expansions in the fresh produce markets) should drive further growth in GY 25e+.

Exhibit 3: ADCO's recurring income



Source: Company Data, Arqaam Capital Research

All in, we project revenues to grow at a CAGR of 16% until FY 28e, and by 4% thereafter as GPm slightly improves to 68% over the next 5 years from 66% currently. As for net profit, we pencil in a 5-year CAGR of 6%. ADCO's expansions will be realized through heavy CapEx deployment (~SAR 4bn), of which we estimate ~SAR 1.5-2bn will be deployed over the coming 4 years. This results in negative explicit discounted FCFF, which is more than offset by future growth captured by the terminal value. We arrive at an EV of SAR 3.9bn, implying an equity value of SAR 4.6bn and TP of SAR 25.9/share (+36% upside).

Light maintenance CapEx and debt-free balance sheet to fuel growth as capital is directed towards expansion CapEx: We expect ADCO to accelerate its investment program and spend up to SAR 4bn on new projects across different asset classes including leasable assets and upgrades to the fresh produce business. Maintenance CapEx is minimal and capped to only 3-5% of the total CapEx program. The company enjoys a debt-free balance sheet but should soon lever up (likely after H2 24e) to optimize its capital structure and bolster its income-producing portfolio, eyeing a target capital structure of c.20% LTV.

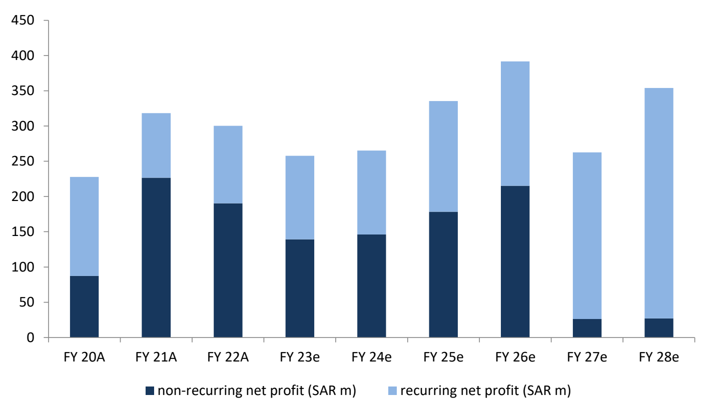
We think the market is overlooking ADCO's capacity for future growth: ADCO, while unlevered yet, is generating an excess ROIC of 4.7% (ROIC of 13.4% and WACC that we estimate at 8.7%) which we expect to be sustained over the next 10 years as the company executes on its growth strategy. We expect recurring revenues and EPS to more than double over the next 5 years, which should partly offset the profits from land sales which are coming to an end in c. 4 years. We see an attractive entry at 13x/10x FY 23e/25e P/E and initiate with a Buy rating and SAR 25.9 TP, offering an upside of 36%.

Valuation: we initiate with a Buy rating and SAR 25.9 TP

- **We pencil in a 5-year CAGR of 16% for top-line and 6% for the bottom line, while recurring net profits (excl. land sales) could more than double in 5 years.**
- **The company trades at a P/E of 13x/10x FY 23/25e, at a discount to regional peers.**
- **We initiate with a Buy rating and SAR 25.9 TP, offering an upside of 36%.**

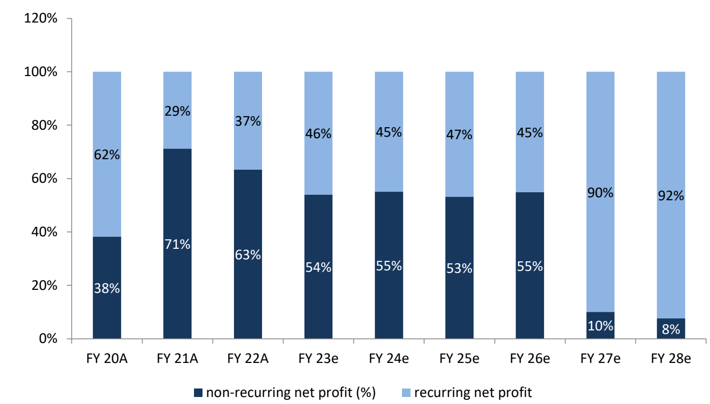
ADCO offers deep value and 36% upside at a target price of SAR 25.9: Our SoTP-driven valuation emanates from three business segments (sale of land, leasing, and public benefit) over a 5-year forecast period using a DCF approach until FY 28e on a WACC of 8.7% and TGR of 3%. We expect GPm to remain in the range of 65-67% over the coming 5 years, while we pencil in minimal maintenance CapEx projections beyond FY 27e as most of the CapEx will be deployed on expansions. ADCO AB trades at undemanding multiples of 13x/10x P/E, 22x/14x EV/EBITDA, and 1.5x/1.3x P/B (while unlevered) which we find attractive vs. peers on the three metrics, especially given ADCO's superior ROIC of 13.4%.

Exhibit 4: ADCO to shift focus to recurring income streams over the next 5 years



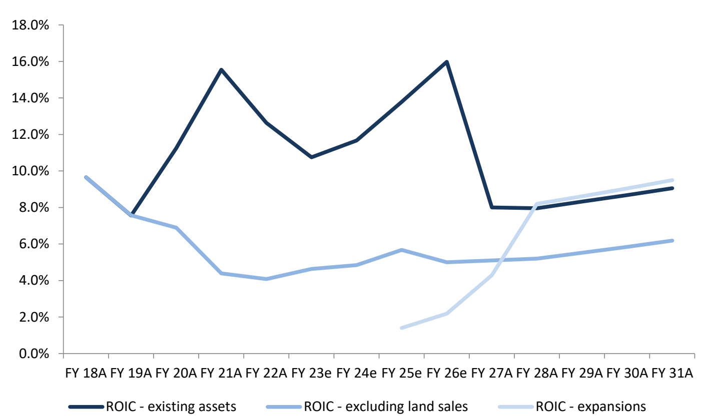
Source: Company Data, Arqaam Capital Research

Exhibit 5: ADCO recurring income as % of total



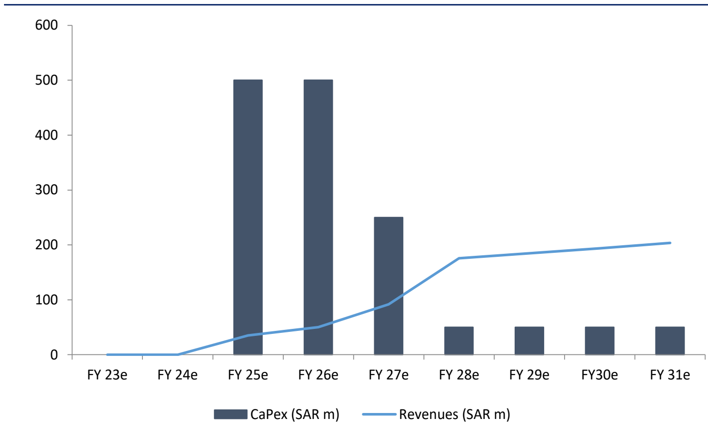
Source: Company Data, Arqaam Capital Research

Exhibit 6: RoIC to sustainably grow in FY 25e+ from recurring income proceeds without support from land sales



Source: Company Data, Arqaam Capital Research

Exhibit 7: Expansion CapEx and revenues (SAR m)



Source: Company Data, Arqaam Capital Research

Exhibit 8: Breakdown of recurring revenues by asset

Recurring income assets: revenues	FY 20A	FY 21A	FY 22A	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e
AlTameer Wholesale Center (AlTameer Wholesale Market)			41.6	46.2	50.8	55.9	61.5	62.7	64.0
AlTameer Meat and Vegetables Market in Al-Batha			4.7	5.6	6.2	6.8	7.4	7.6	7.7
Otaiqah Central Market			30.3	37.4	46.1	52.2	58.9	61.7	64.5
AlTameer Riyadh Market			13.8	14.1	14.6	15.0	15.5	16.0	16.4
Malqa Plot			12.1	12.1	12.1	13.3	14.6	16.1	17.7
AlTameer Cold Storage			11.7	12.1	12.5	12.9	13.3	13.6	13.9
AlAziziyah Plots			8.6	8.6	8.6	8.6	8.6	8.6	8.6
AlTameer Vegetables and Fruits Wholesale Market			106.2	114.0	121.5	129.5	139.4	150.0	161.5
AlTameer Bus Terminal			20.0	22.0	24.2	26.6	29.3	32.2	35.4
AlTameer International Car Auction			10.0	11.0	12.1	13.3	14.6	16.1	17.7
Expansions:									
Residential leasing units				0.0	0.0	0.0	6.3	15.4	17.4
Grade B offices				0.0	0.0	35.0	44.1	70.6	145.9
Education / schools				0.0	0.0	0.0	0.0	6.0	12.6
Total	**237.7**	**250.9**	**259.0**	**283.1**	**308.7**	**369.1**	**413.7**	**476.6**	**583.4**

Source: Company Data, Arqaam Capital Research

Exhibit 9: ADCO – SotP summary: we arrive at SAR 25.9 TP, offering 36% upside

SotP summary		
EV - public benefit segment		1,586.2
EV- existing leasable assets		984.4
EV - property & land sales		594.4
EV - residual land		213.8
NPV - rental expansions		559.3
Total EV		**3,938**
Borrowings	-	
EOS benefits	(10.7)	
Cash and equivalents	680	
Less: Net (debt) funds		668.9
Add: Investment in associates		-
Less: NCI		-
Equity value		**4,607**
Shares outstanding (mn)		177.8
Equity value per share		**25.9**
Market price		19.1
Upside (donwside)		36%

Source: Company Data, Arqaam Capital Research

Exhibit 10: ADCO – SotP summary: detailed projections by business segment

	FY 22A	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e		
Public benefit segment									
Revenue	136.2	147.0	157.8	169.4	183.3	198.4	214.6		
Cost of revenue	(34.3)	(42.0)	(44.3)	(46.7)	(49.5)	(52.4)	(57.1)		
Other income	0.2	-	-	-	-	-	-		
SG&A	(33.3)	(36.5)	(38.6)	(42.0)	(46.2)	(51.6)	(60.4)		
EBIT	**68.8**	**68.5**	**74.9**	**80.7**	**87.6**	**94.3**	**97.2**		
Taxes	(2.8)	(2.1)	(2.2)	(2.4)	(2.6)	(2.8)	(2.9)		
EBIAT	**66.0**	**66.5**	**72.7**	**78.3**	**85.0**	**91.5**	**94.2**		
Depreciation	20.2	20.5	20.1	17.6	21.6	24.6	23.7		
CapEx							(15.0)	1,872.26	TV
NOPAT	86.2	87.0	92.8	95.9	106.6	116.1	103.0	1,586.22	EV
Leasing segment									
Revenue	122.8	136.1	150.9	164.7	179.9	186.3	192.9		
Cost of revenue	(54.5)	(60.4)	(65.4)	(69.7)	(74.4)	(75.2)	(75.9)		
Other income	(2.9)	-	-	-	-	-	-		
SG&A	(33.3)	(36.5)	(38.6)	(42.0)	(46.2)	(51.6)	(60.4)		
EBIT	**32.1**	**39.3**	**46.9**	**52.9**	**59.3**	**59.5**	**56.6**		
Taxes	(1.3)	(1.2)	(1.4)	(1.6)	(1.8)	(1.8)	(1.7)		
EBIAT	**30.8**	**38.1**	**45.5**	**51.4**	**57.5**	**57.7**	**54.9**		
Depreciation	18.2	19.0	19.2	17.1	21.2	23.1	21.3		
CapEx							(15.0)	1,114.03	TV
NOPAT	49.0	57.1	64.7	68.5	78.7	80.9	61.3	984.40	EV
Sale of Land segment									
Revenue	-	-	-	59.8	61.2	62.7	64.2		
Cost of revenue	-	-	-	(29.9)	(30.6)	(31.3)	(32.1)		
Other income	-	-	-	-	-	-	-		
SG&A	-	-	-	-	-	-	-		
Share in profit from associate	190.5	139.3	146.1	153.2	189.5	-	-		
EBIT	**190.5**	**139.3**	**146.1**	**183.1**	**220.1**	**31.3**	**32.1**		
Taxes	(7.7)	(4.2)	(4.4)	(5.5)	(6.6)	(0.9)	(1.0)		
EBIAT	**182.7**	**135.2**	**141.7**	**177.6**	**213.5**	**30.4**	**31.1**		
Depreciation	(0.0)	-	-	6.2	7.2	7.8	7.1		
CapEx								0.00	TV
NOPAT	182.7	135.2	141.7	183.8	220.7	38.2	38.2	594.40	EV
Expansions									
Revenue	-	-	-	35.0	50.4	92.0	175.8		
Cost of revenue	-	-	-	(12.3)	(15.1)	(23.0)	(44.0)		
Other income	-	-	-	-	-	-	-		
SG&A	-	-	-	(1.8)	(2.5)	(4.6)	(8.8)		
EBIT	**-**	**-**	**-**	**21.0**	**32.8**	**64.4**	**123.1**		
Taxes	-	-	-	(0.6)	(1.0)	(1.9)	(3.7)		
EBIAT				**20.4**	**31.8**	**62.5**	**119.4**		
Depreciation	-	-	-	3.6	5.9	11.4	19.4		
CapEx		(30.0)	(250.0)	(500.0)	(500.0)	(250.0)		2,523.99	TV
NOPAT	0.0	-30.0	-250.0	-476.0	-462.3	-176.1	138.8	559.27	EV

Source: Company Data, Arqaam Capital Research

Exhibit 11: RV – ADCO vs. selected local and regional peers

Company	Country	MarketCap (USD m)	ADTV 6m (USD)	P/E	EV/EBITDA	P/B	DY (%)	RoA (%)	ROIC (%)
Arriyadh Development Co	KSA	926	1,355,770	11.4x	22.8x	1.6x	3%	14%	13%
Banan Real Estate Co.	KSA	346	181,948	48.2x	nm	3.6x	1%	4%	7%
Arabian Centres Co	KSA	2,960	3,839,559	8.2x	15.6x	0.8x	8%	2%	5%
Retal Urban Development	KSA	1,220	4,612,885	17x	23.3x	5.8x	5%	9%	13%
Alandalus Property Co	KSA	599	839,087	36.3x	19.0x	2.1x	2%	3%	6%
Saudi Real Estate Company	KSA	1,383	2,885,447	nm	16.7x	1.1x	0%	2%	4%
Sumou Real Estate Co	KSA	527	196,989	22.3x	26.6x	3.7x	4%	13%	17%
ladun Investment Co	KSA	458	133,961	28.2x	11.1x	3.1x	2%	3%	4%
Aldar Properties	UAE	11,252	13,172,282	14.1x	13.3x	1.4x	3%	5%	7%
Emaar Properties	UAE	16,255	24,615,376	7.3x	4.9x	0.8x	4%	6%	8%
Emaar Development	UAE	7,070	4,091,691	6.7x	2.9x	1.3x	8%	10%	20%
Deyaar Development	UAE	878	3,903,244	19.1x	11.5x	0.7x	0%	3%	4%

Source: Company Data, Arqaam Capital Research

Exhibit 12: RV – ADCO vs. Saudi REITS

	MarketCap (SAR mn)	ADTV 6m (SAR)	NPm (%)	P/E	EV/EBITDA	P/B	DY (%)
Arriyadh Development Company	3,431	5,021,372	72.6%	11.3x	22.6x	1.5x	2.52%
Riyadh REIT	1,542	1,931,272	30%	17.3x	18.9x	1.0x	5.6%
AL Jazira REIT	248	3,075,584	94%	43.6x	52.2x	2.9x	1.4%
Jadwa REIT Alharamain Fund	483	663,814	nm	nm	49.4x	0.9x	nm
Jadwa REIT Saudi Fund	2,275	1,386,427	17%	69.8x	23.2x	1.2x	6.6%
Taleem REIT	583	1,095,306	55%	17.6x	16.2x	1.1x	5.6%
Al Maather REIT	538	564,079	46%	64.2x	15.8x	1.0x	14.1%
Musharaka REIT	560	884,887	11%	53.0x	23.2x	0.7x	2.2%
Mulkia Gulf REIT	446	1,532,480	nm	388.3x	22.4x	0.8x	6.1%
Sico Saudi REIT	298	620,144	nm	nm	26.3x	0.7x	nm
Al Rajhi REIT	1,426	3,552,430	71%	12.6x	17.0x	1.1x	5.4%
Sedco Capital REIT	989	1,802,253	30%	24.1x	17.9x	1.0x	6.4%
Alinma Retail REIT	577	1,051,693	nm	nm	62.4x	0.6x	5.3%
MEFIC REIT	358	593,857	19%	26.2x	24.6x	0.7x	2.0%
Bonyan REIT	1,489	1,190,025	39%	22.8x	13.0x	1.1x	7.2%
AlKhabeer REIT	926	2,024,588	37%	40.0x	21.3x	0.9x	6.4%

Source: Company Data, Arqaam Capital Research

Appendix 1: Business overview

- **ADCO is a key undertaker of municipal public-benefit mandates in Riyadh.**
- **Revenues are generated from three different business lines: sale of land, public benefit services, and rental income from leasable assets. The latter two represent the company's recurring income business.**
- **ADCO owns various assets between the different segments, carried at a BV of SAR 1.5bn under investment properties, but fairly valued in the range of SAR 4bn suggesting upside risk from P&L asset revaluation gains.**

Riyadh Development Company (ADCO) was established as a public company in 1994 by a decree from the Royal Court initiated by King Salman during his time in the office of Governor of Riyad, with their first mandate being the development of the Qasr-Al Hukm area in Central Riyadh. Since then, ADCO gradually assumed a greater role in the capital city's real estate landscape through its development and leasing activities, and in its public landmark assets through establishing, operating, and managing key projects in the public good services sector.

ADCO operates across three business segments: the company (1) develops commercial, residential, and public goods services projects, (2) operates public benefit assets in Riyadh that include three fresh produce markets, a public transport service (bus terminal), and a car auction, and (3) leases and manages real estate investment properties mainly in the retail and logistics segments in addition to other retail and office space available at the public good services projects they operate. The latter two constitute ADCO's recurring income business, which the company will focus on expanding over the next 5 years via rental revisions, enhancement of tenant mix, and capacity additions.

ADCO owns multiple assets across its three business segments located across the city of Riyadh. All of these are wholly owned, except for the Utaiqa Central Market and AlTameer Market for Meat and Vegetables in AlBatha which are operated under a BoT with the Riyadh municipality. ADCO's investment properties are carried at a book value of SAR 1.5bn (includes all wholly owned land and real estate developed on leased land) which is valued at SAR 4.2bn by a 3rd party independent valuer as of Dec 2022 (we value it at SAR 4bn), suggesting sizeable future gains on future land sale/asset disposal.

KSA consumes around SAR 60bn worth of fresh produce annually, 60% of which comes from ADCO's three markets in Riyadh which represents a defensive revenue split that is related directly to the national fresh produce market. However, of the SAR 36bn turnover, ADCO generates less than 1% in operating income, which holds room for income enhancement. The company targets to maximize this revenue split via supply chain improvements (c. 40% of produced goods go to waste in the current supply chain), pricing mechanism optimization, and the introduction of complementary and synergetic services (ex. temperature-controlled storage, handling, and sorting services, vertical farming). The ongoing food security initiatives by the government, rising demand for a healthier diet, and a recent shift towards greenhouse production should drive market growth at a CAGR of 3.4% during the forecast period -until 2028.

Residential leasing in Riyadh has an untapped potential: despite the increasing rate of internal migration towards Riyadh, a significant proportion of migrants appear to be likely uncommitted to establishing a permanent residence, preferring the flexibility of renting in Riyadh and owning property in their hometowns instead. House affordability will remain a limitation for buyers in the near term given the elevated interest rates and high building materials costs which impact the demand for housing and tilt the tenant preference into renting. ADCO plans to expand into residential leasing through the development of high-end leasable apartments. We expect such projects to be funded through a mix of internal cash flows (Murabaha securities) and new debt, and to be completed between FY 25e and FY 27e.

ADCO to introduce a counter-cyclical revenue split in the office leasing segment through Grade B units. Office spaces in Riyadh are nearing full capacity for Grade A and Grade B units, while supply is progressing at a slower pace than demand. ADCO's planned expansion in the office segment will be centered around developing client-centric Grade B office stock that offers high standards of amenities and services targeting the growing influx of international tenants. This would represent a counter-cyclical revenue split in the office market given the persistent demand for offices and the potentially growing elasticity of Grade A stock along with the continuing uptrend in rental rates.

International schools are anchoring residential communities. Riyadh leads a competitive yet fragmented education industry accounting for c.33% of private school enrolments in KSA (vs. 25% of the population) supported by the prevalence of high-earning professionals and their families. Education reforms are propping up the private sector role and we think that private institutions can gain an additional 5% market share of enrollments, raising the share to c.18% by 2030 (below Vision's goal of 25%). Government initiatives include 100% foreign ownership in foreign schools, VAT coverage for Saudi nationals, and the transfer of 25-state-run institutions to the private sector. We think that ADCO is well positioned to venture into the education segment in Riyadh (on the property side) in partnership with regional and global school operators and backed by the support of the Municipality of Riyadh

Exhibit 13: Centers and markets owned by ADCO

Administration / center	Area (sqm)
AlTameer Central Market (vegetable and fruits wholesale market in AlAziziyah)	229,226
AlTameer International Car Auction	61,495
AlTameer Bus Terminal	68,303
AlTameer Wholesale Center	104,475
AlTameer Riyadh Market	25,001
AlTameer Plaza (1)	1,200
AlTameer Plaza (2)	5,000
AlTameer Plaza (3)	7,000
AlTameer Cold Storage	27,864
AlAziziyah Land (developed with BoT)	27,104
AlAziziyah Land (developed with BoT)	15,576
Office Building in AlMalqa	3,500
Total	**575,744**

Source: Company Data, Arqaam Capital Research

Exhibit 14: Land owned by ADCO

Company owned land	Area (sqm)
Technical Services City Land	141,000
Lands in Qasr AlHukm Area	18,247
Tilal AlRiyadh Lands	22,965
International Car auction land	180,000
Bus terminal land	80,000
Tanal Company Scheme (associate company)	309,000
Total	**751,212**

Source: Company Data, Arqaam Capital Research

Exhibit 15: Projects built on leased land

Projects built on leased land	Area (sqm)
Utaiqa Central Market	186,000
AlTameer Market for Meat and Vegetables in AlBatha	13,961
Total	**199,961**

Source: Company Data, Arqaam Capital Research

Leasing segment: ADCO manages and leases a multitude of wholly or partially owned residential, retail, office, and logistics properties through 14 of its assets in Central Riyadh.

- **AlTameer Wholesale Center**: considered ADCO's first and largest project to date, it is a mix-use complex developed on a wholly owned 105,000 sqm plot with 80,681 sqm of NLA located in AlDirah district. It offers +1,200 retail, residential, and office leasing units which are regularly leased at near full capacity (current occupancy of 98%). The center is popular and known for its consumer products and specialized markets including the Galleria Mall for wholesale clothing, the Gold Market, and Mobile City Market.
- **AlTameer Meat and Vegetables Market in AlBatha**: KSA's first indoor, fully climate-controlled marketplace for meat retail. It was developed in 1997 in collaboration with the Riyadh municipality as the 14,000 sqm (4,640 sqm NLA) landowner according to a 25-year BoT agreement which expired in 2021. The company successfully extended the agreement for a year and is currently negotiating another extension. This market accounts for only a small portion of ADCO revenues and is fully occupied.
- **Uteiqa Central Market**: a historically significant landmark in Riyadh built on a 196,000 sqm plot (84,593 sqm NLA) and operated by ADCO based on a 23-year BoT agreement signed in 2011 with the Riyadh municipality with the aim to re-establish, operate, and maintain the place. Uteiqa market comprises 660+ stores, 33 trade exhibitions, 87 offices, and 2,500+ parking spots. The market offers a multitude of food options mainly fresh produce, meat and fish, dates, and legumes. Current occupancy hovers around 78%, suggesting room to grow lease revenues in the future.
- **AlTameer Riyadh Market**: It is a wholly owned multiuse complex with retail and office units that include 8 individual buildings and 155+ offices and retail leasing units with a total NLA of 28,297 sqm that is 91% occupied. It is part of a larger development along with the nearby AlAziziya central market. The main products sold in the market are wholesale and retail fruits and vegetables, and dates.

- **AlTameer Cold Storage**: is ADCO's logistics leasing property that includes 56 temperature-controlled storage units located on a 27,864 sqm plot near ADCO's fresh produce markets to cater to the markets' logistics needs.
- **Al Aziziyah plots**: parcels of land with a total area of 42,000 sqm strategically located near AlTameer fresh produce markets and leased out in a built-to-operate agreement.
- **Mid-rise office building in ALMalqa**: acquired in 2022, it is ADCO's newest asset and consists of 12-story office space developed on a 3,346 sqm plot with a fully occupied total leasable area of 10,500 sqm.

Exhibit 16: AlTameer Wholesale Center

Source: Company Data, Arqaam Capital Research

Exhibit 17: Uteiqah Central Market

Source: Company Data, Arqaam Capital Research

Exhibit 18: AlTameer Riyadh Market

Source: Company Data, Arqaam Capital Research

Exhibit 19: AlTameer Cold Storage Units

Source: Company Data, Arqaam Capital Research

The public benefit services segment represents the company's operational projects. ADCO manages and operates three public goods services in Riyadh:

- **AlTameer Vegetables and Fruits Wholesale Market**: is one of the middle east's largest wholesale fresh produce markets built on ADCO's own 300,000 sqm land in AlAziziya. It is a key supply point of local and imported fruits and vegetables to numerous national (c. 60% of KSA demand of fresh produce) and regional retail markets. ADCO operates the market and facilitates fresh produce transactions, acting as an intermediary between farmers and fresh produce retailers.
- **AlTameer bus terminal**: a public transport center built over ADCO's 150,000 sqm land in AlAziziya. It offers daily land transportation services for travelers inside and outside KSA via

cars and buses. It also includes office spaces for Hajj and Umrah companies and a residential and retail center located near the terminal with 31 stores and 128 apartments with a total of 2,000 NLA.

- **AlTameer international car auction**: developed over ADCO's own 240,000 sqm in eastern Riyadh, it is a marketplace where potential car buyers and sellers can bid for auctioned vehicles. The auction is comprised of nine auction lanes, and a storage area with a capacity for 20,000 cars. It also hosts sales centers servicing car financing and insurance companies. ADCO manages the auctioning process and provides related services such as vehicle inspection and storage.

Exhibit 20: AlTameer Fruits and Vegetables Wholesale Center

Source: Company Data, Arqaam Capital Research

Exhibit 21: AlTameer International Car Auction

Source: Company Data, Arqaam Capital Research

Exhibit 22: AlTameer Bus Terminal

Source: Company Data, Arqaam Capital Research

Exhibit 23: Residential and Retail Center near the Bus Terminal

Source: Company Data, Arqaam Capital Research

Real Estate development and sales segment: ADCO has invested in infrastructure and development for several residential projects in Northern and Eastern Riyadh since 2001.

- **Tilal AlRiyadh**: ADCO was the infrastructure master developer of this 1,200,000 sqm (22,965 RSA) and acquired it in 2001. It is Riyadh's first gated community located in one of the capital's most desirable areas.
- **AlRimal development (Tanal land):** a joint asset sprawling 3,000,000 sqm (1,798,345 sqm developed and unsold) development in AlRimal. The land was acquired in partnership with

Sumou Real Estate in 2014. Five years later, the asset partnership was transferred to the newly established Tanal Investment and Real Estate Company, which is owned by ADCO (69.3%), Sumou Holding (20.62%), and SMO Real Estate (10%). These proportions reflect respective ownership in the Land.

- **AlTameer Technical Services City**: developed in 2002 on a 250,000 sqm wholly owned land located near AlTameer car auction. Main that serves and supports light manufacturing industries in Riyadh.
- **AlShorouq cities development (Shorouq AlTameer):** developed in 2002 over a plot of 2,900,000 sqm owned by the company in Northeastern Riyadh.

Appendix 2: Riyadh's strong macro-outlook

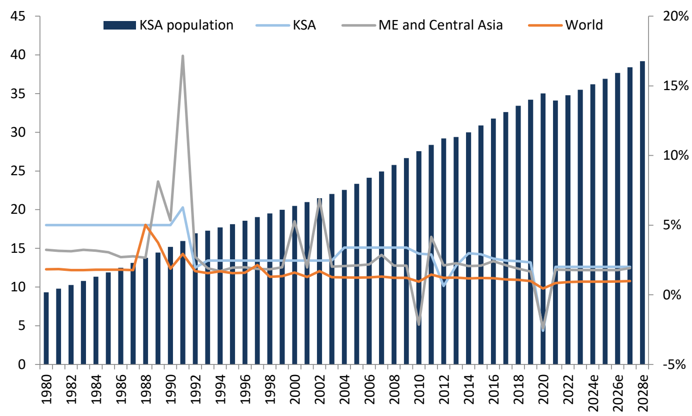
- **Riyadh's demographic and socio-economic transformation to drive persisting demand for real estate and consumer spending.**
- **More than USD 330bn worth of construction projects are planned or underway in Riyadh to be completed by 2035e, 1/3 of which will be allocated to real estate development.**
- **The KSA giga project vision is materializing, with a huge pipeline of USD 879bn worth of announced projects that are only 6.5% awarded so far but expected to accelerate in the ST.**
- **ADCO's operations are Riyadh-centric and holds significant upside potential.**

Riyadh is poised for rapid population growth from the current 7m day residents to 17m by 2030 as the capital city transforms into a popular metropolitan destination and a regional business hub attracting residents, expatriate talent, and business HQ. This is supported by a population pyramid that remains pointedly skewed (c. 2/3 below the age of 35 years) and growing (at c. 2% until FY 28e) indicating sizeable long-term demand for living and working spaces. The pace of change has been already partly reflected in Riyadh's real estate landscape. But unsurprisingly, the sheer volume of the undergoing demographic change will require a new supply of residential, office, logistics, and hospitality accommodation over the coming 10 years. Demand will arise mostly from the internal migration of Saudi nationals from peripheral cities towards the capital due to modernization and career-seeking trends, and also from an increasing influx of foreign buyers as global HQs continue to establish a presence in Riyadh (number of professional expats residing in KSA grew 6-fold to 1.2 million between March and September 2022), although currently constrained by the full occupancy of Grade A offices and Grade B offices.

More than USD 330bn worth of construction projects are planned or underway in Riyadh to be completed by 2035e, and largely still in the early execution phase. Third of which will be allocated to real estate development with some USD 104b worth of projects unveiled in the past six years. Despite the recent slowdown in property transactions due to higher SIBOR rates (moving in tandem with USA's Fed) that delayed project financing (which could reverse in 2024e), demand for housing in Riyadh remains high as it continues to be the most popular target for buyers in KSA. As for the funding pressure which may have caused delays in execution, we see little risk arising from project cancelations and expect an accelerated execution activity that will be fueled by PIF-led projects (ROSHN, King Salman Park, Diriyah, Al Murabaa, etc.), and catalyzed by governmental initiatives such as the Sakani program to achieve the homeownership target of 70%, from current ~65%.

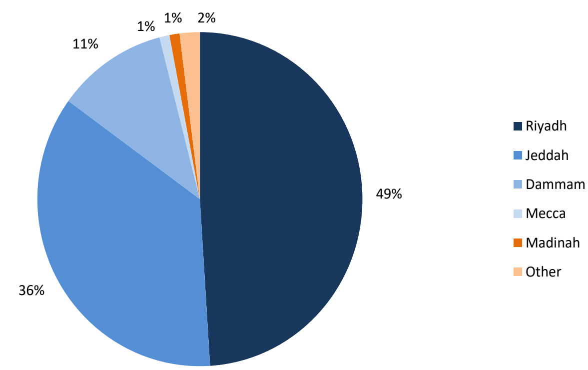
Gigaprojects' construction is picking up in KSA but remains slow in the context of the grand scheme. The current pipeline under execution consists of 15 projects with a total value of USD 879bn, only c. 6.5% of which have been awarded so far. Besides Neom, the program is largely concentrated in the Central region with some USD 300 bn worth of announced contracts such as the Diriyah Gate project (USD 20 bn), King Salman International Park (USD 23bn), Qiddiya (USD 8.8bn), ROSHN (USD 90bn), Al Murabaa Downtown (USD 100bn), and King Salman International Airport (USD 50bn). These include over 555,000 residential units, 275,000 hotel keys, 4.3m sqm of retail space, and 6.1m sqm of new office space, most of which are largely still in the pre-execution phase. However, we expect to see a pickup in tendering activity and an acceleration in the rate of spending on the projects in the coming years. During 2022, KSA maintained its position as the strongest market in the MENA region with USD 25.7bn worth of awards (33% of region) and is expected to unveil bids for another USD 267bn of work between FY 23-25e mostly coming from new projects roll-out in Giga projects, and predominantly through the PIF.

Exhibit 24: KSA population (m) and population growth (%)



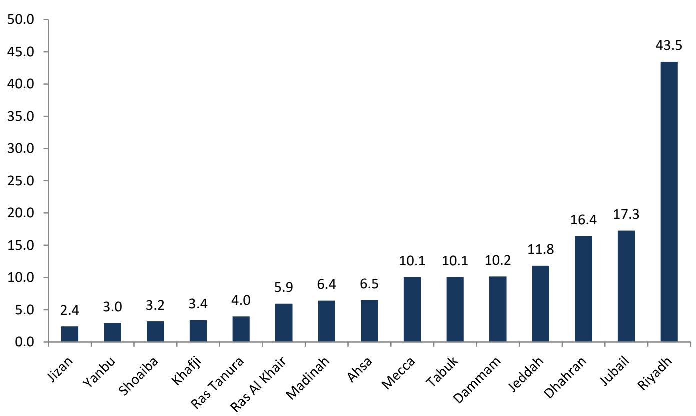
Source: IMF, Arqaam Capital Research

Exhibit 25: Saudi's preferred location for first home (%)



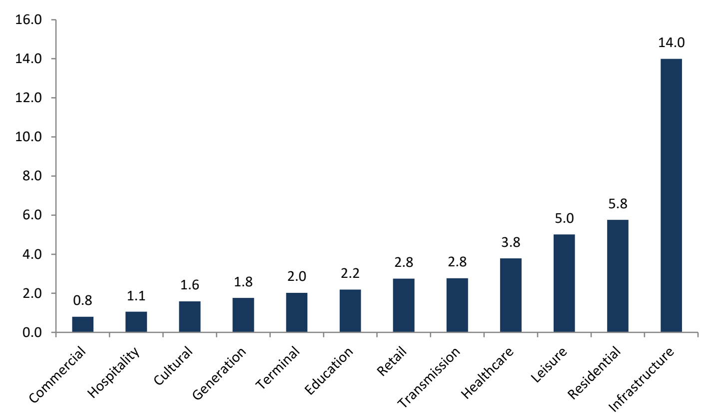
Source: KF, Arqaam Capital Research

Exhibit 26: Value of contacts in execution by city (USD bn)



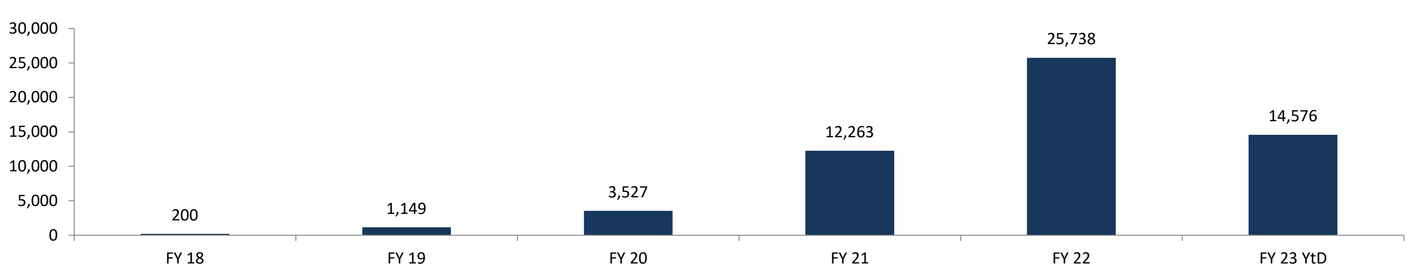
Source: MEED, Arqaam Capital Research

Exhibit 27: Value of contracts in execution in Riyadh province by sector (USD bn)



Source: MEED, Arqaam Capital Research

Exhibit 28: Total value of giga project contracts awarded (USD m)



Source: MEED, Arqaam Capital Research

Appendix 3: Riyadh real estate – positive outlook on solid demographics

- **New demand for residential units supercharged sales prices and rent rates in Riyadh.**
- **Solid labor market and corporate relocation shift tides towards landlords and push Grade A and Grade B office spaces to full 100% occupancy.**
- **Recovery in the retail segment with shopping activity approaching pre-pandemic levels as experiential retail proves to be a footfall generator.**
- **Demand for warehousing and logistics is expected to pick up in response to planned projects and an emerging shift towards e-commerce.**
- **Mortgage growth remains a key pillar to credit growth in the system despite ongoing slowdown, in line with expectations.**

Riyadh remains the most popular target for home buyers in KSA. Demand for residential units in Riyadh remains strong, catalyzed by high levels of job creation in the near term and population expansion over the longer term. However, this demand surge has supercharged sales prices for apartments (+23% y/y to Q2 23A to SAR 4,664 /sqm on average) and villas (+4% y/y to Q2 23A to SAR 5,638 /sqm on average) relative to incomes, resulting in slowing in number of transactions (-38% y/y in total number of residential transactions in H1 23A) and value of these transactions (-25% y/y in H1 23A) due to growing affordability pressures. Villas remain the preferred housing type for nationals, but apartments are incrementally becoming more prevalent partly due to the higher quality of developments being released, but mainly due to affordability issues. In terms of the supply, the total stock of residential units arrived at 1.4m following the introduction of 7,800 units in Q1 23, with another 24,000 units in planned deliveries to come to market over the remainder of this year. Moreover, some 100m sqm of land was recently allocated for residential development to partly bridge the demand-supply gap that is dictating higher prices. We expect the residential segment to remain strong in FY 23e and going forward considering the long-term nature of the influences factoring into the uptrend.

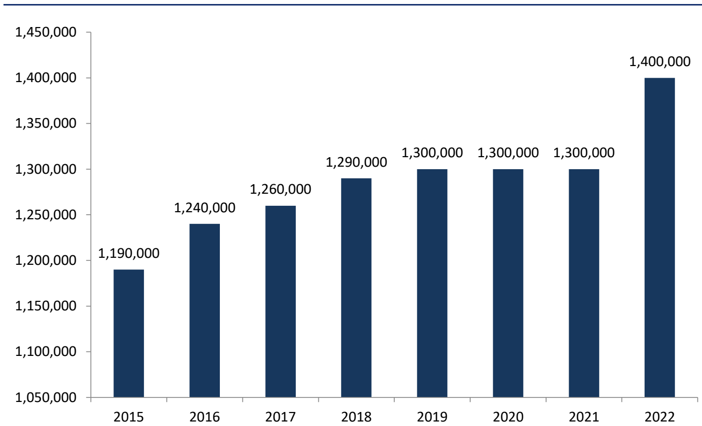
Unprecedented demand for office real estate in Riyadh underpinned by the government's efforts to transform the capital into a business hub for international companies (number of business licenses issued jumped +54% y/y in FY 22A) and a strong Saudi labor market (employment rate c 95%, +11.9% y/y increase in total employment in Q1 23A) have pushed occupancy for Grade A offices to full 100% capacity. The scarcity of Grade A offices in Riyadh has led to demand spilling over into Grade B offices, which are also closing in on full 100% occupancy. This has gradually shifted the market into becoming landlord-driven due to the varying degrees of supply constraints. As such, average office rents have climbed 12.2% y/y in Q2 to reach SAR 1,839 /sqm for Grade A stock and 14.4% y/y to reach SAR 1,471 /sqm for Grade B. However, the future pipeline of planned office spaces seems healthy, with c. 583,000 sqm of floor space scheduled to enter the Riyadh market in FY 23e in addition to the current 4.9m sqm of GLA.

Slow but steady recovery in Riyadh's retail segment along with the rise of experiential retail developments around the city that are proving to be a key footfall generator, encouraging retail landlords to increase the portions of leisure, entertainment, and F&B to up to 30% of the retail mix. With footfall approaching pre-pandemic levels, and continued improvement in retail sales volume (+3.8% in FY 22A in KSA, est +2% y/y between FY 23e and FY 26e), average rental rates jumped in Q1 23 in regional malls (+8% y/y) and super-regional malls (+11% y/y). Strip malls and smaller community centers have been performing even better, thanks to their popularity within the younger demographic. Total GLA is also on the rise, with 78,000 sqm of retail GLA delivered in Riyadh during FY 22A and 84,000 sqm in Q1 23 alone, bringing total supply to 3.3m sqm with an additional 199k sqm GLA to be introduced by year-end.

KSA's logistics market is developing to meet changes and opportunities as the kingdom aims to increase the industrial and logistics sector's share to 10% of GDP by 2030. The underlying growth in e-commerce, international trade, and project development necessitates supportive logistics infrastructure capabilities, both in size and function. In terms of performance, the logistic segment improved by 37% y/y in H1 23A to SAR 198/sqm in Riyadh. But the current supply of international grade stock is limited in major cities including Riyadh (c. 16 sqm of warehousing space, +6% y/y), which led to a softening in rental performance of prime units and a drop in the rates of secondary stock in Q2. Meanwhile the huge pipeline of gigaprojects – concentrated in Riyadh- is set to draw an increasing demand from logistics providers for plans to come to fruition. In addition, KSA's e-commerce sector is expected to grow to SAR at a CAGR of c. 21% to c. SAR 75 bn by 2027 on increased appetite for online shopping and internet usage proliferation. To fulfill this growth and to meet the needs of the target market, vendors are seeking flexible facilities that allow for use-specific and value-adding functionalities (ex. automated retrieval, temperature control, multi-story warehousing, etc..) that are yet to be adequately satisfied.

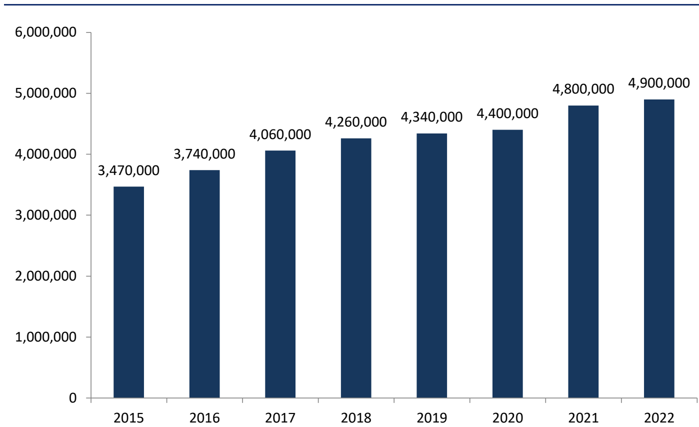
Mortgage growth remains a key pillar to credit growth in the system despite the on-going slowdown, in line with expectations. The growth in the mortgage market is aligned with Vision 2030 goal to increase the homeownership rate from 47% in 2016 to 70% by 2030. Retail real estate loan growth reached 59% in 2020, aided by the launch of the Sakani program by MoH in 2017, with the support of the Real Estate Development Fund (REDF), a government lending initiative, but has been exhibiting a slowdown in recent years, where growth dropped to 41% and 23% in 2021 and 2022, respectively. The slower momentum is expected to continue going forward as the housing market matures, with growth reaching 3.1% YtD in Q1 23. Nevertheless, contribution to credit growth remains key as mortgages represented 51%, 47%, and 36% of overall change in 2020/21/22, respectively.

Exhibit 29: Residential supply in Riyadh – total stock (units), planned deliveries in 2023 is c. 24,000 units



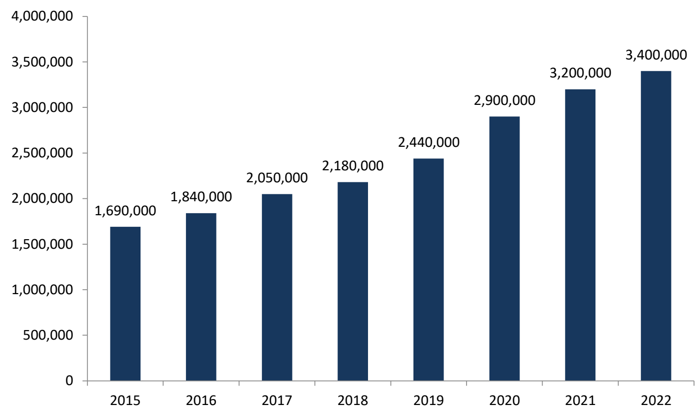
Source: JLL, Arqaam Capital Research

Exhibit 30: Office supply in Riyadh – total stock (sqm GLA), planned deliveries in 2023 is c.583,000 sqm of GLA



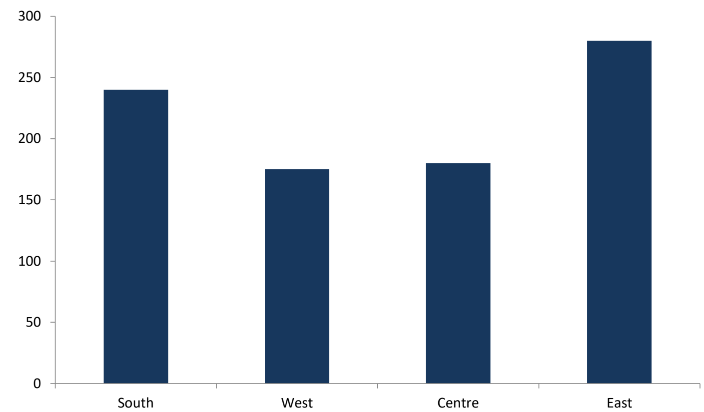
Source: JLL, Arqaam Capital Research

Exhibit 31: Retail supply in Riyadh – total stock (sqm GLA), planned deliveries in 2023 is c. 105,000 sqm of GLA



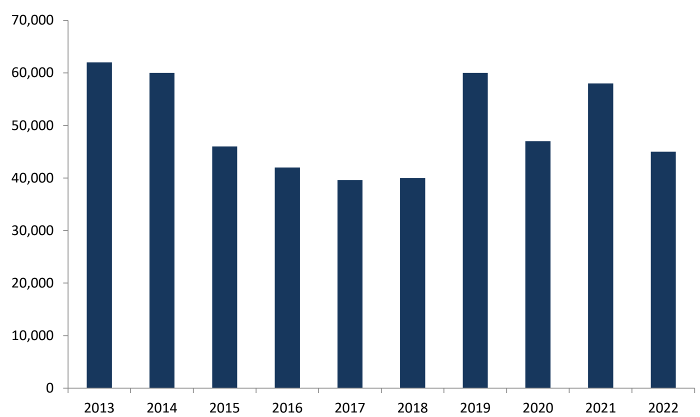
Source: JLL, Arqaam Capital Research

Exhibit 32: Logistics rental rates in Riyadh (SAR / sqm)



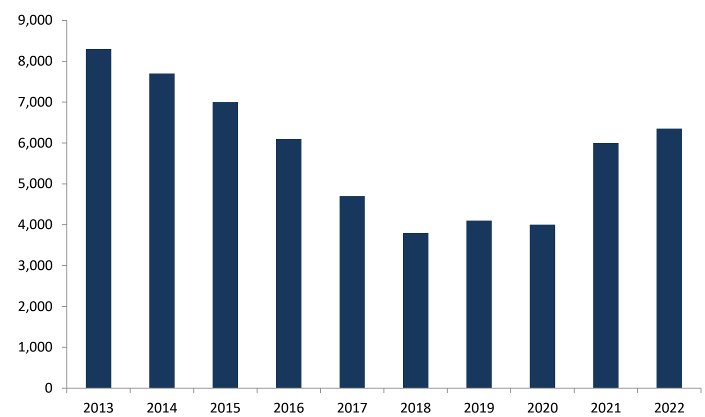
Source: CBRE Research, Arqaam Capital Research

Exhibit 33: Residential transaction in Riyadh



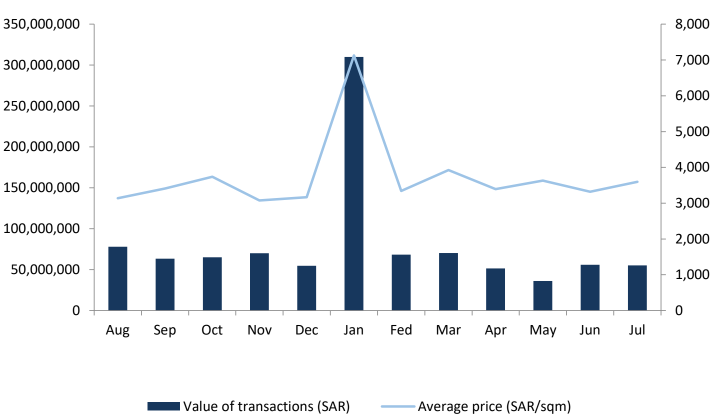
Source: MoJ, Arqaam Capital Research

Exhibit 34: Commercial transactions in Riyadh



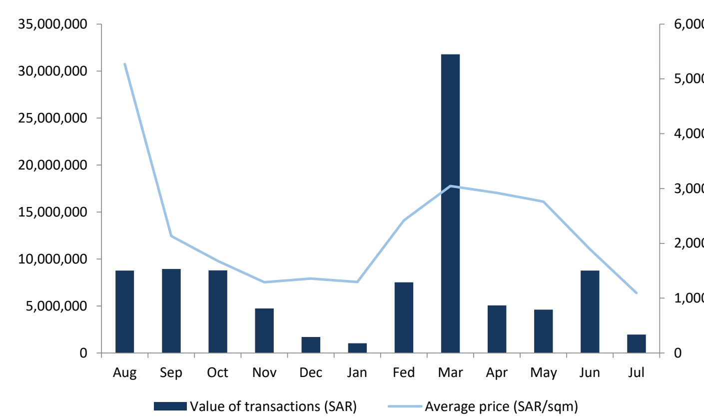
Source: MoJ, Arqaam Capital Research

Exhibit 35: Residential transactions in Riyadh –Apartment, TTM



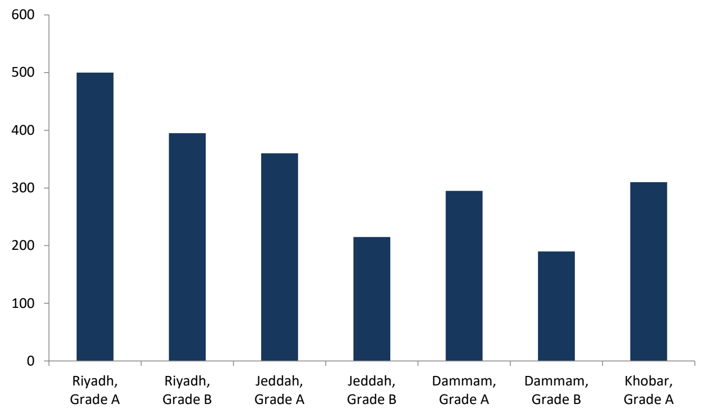
Source: MoJ, Arqaam Capital Research

Exhibit 36: Residential transactions in Riyadh –Villa, TTM



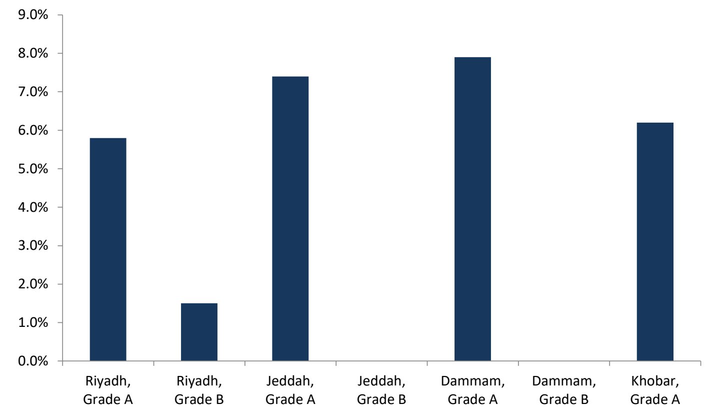
Source: MoJ, Arqaam Capital Research

Exhibit 37: KSA office rents in 2022 (USD per sqm)



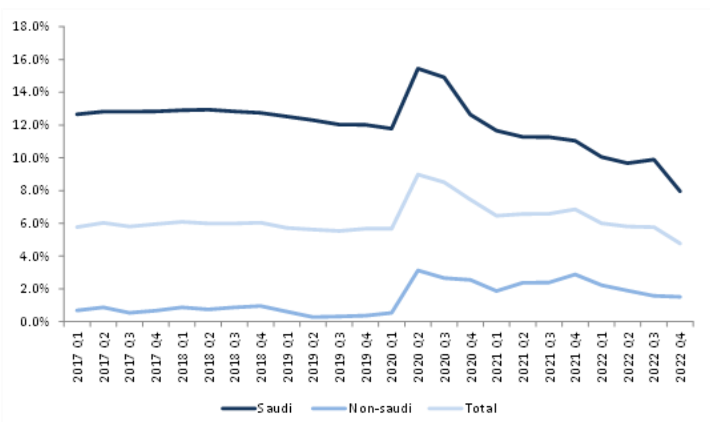
Source: CBRE, Arqaam Capital Research

Exhibit 38: KSA office rents in 2022 (y/y %)



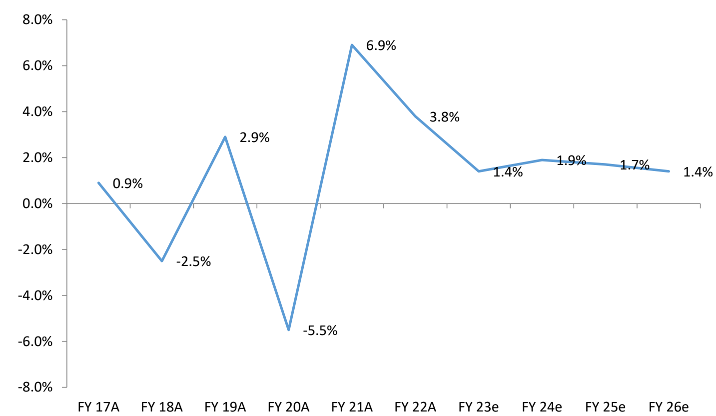
Source: CBRE, Arqaam Capital Research

Exhibit 39: KSA unemployment rate (%)



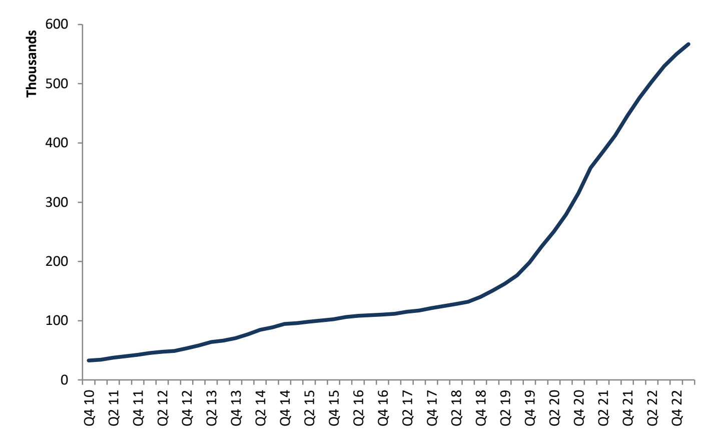
Source: IMF, Arqaam Capital Research

Exhibit 40: KSA retail sales volume growth



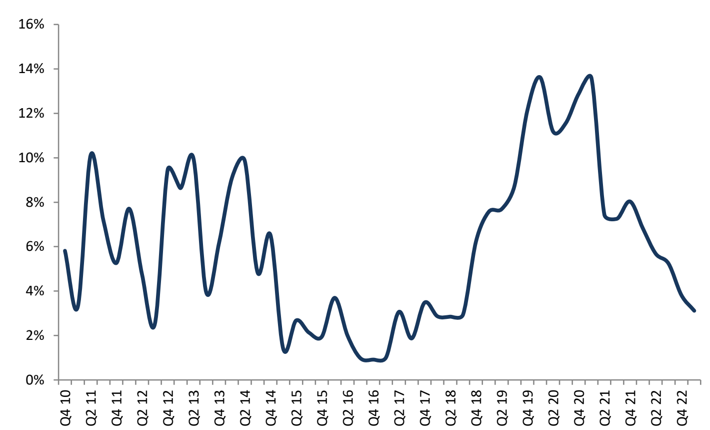
Source: EIU, Arqaam Capital Research

Exhibit 41: Total Retail Mortgages



Source: SAMA, Arqaam Capital Research

Exhibit 42: Outstanding Retail Mortgages q/q Growth



Source: SAMA, Arqaam Capital Research

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