Research Department

Mabanee

Company Report 29 April 2010

Nothing but Shopping

- **A retail REIT supported by strategic shareholders with franchise rights in MENA for 55 major international brands**
- **Capital intensive nature of investment properties means high gearing, but comfort drawn from collateralizable operating assets**
- **We initiate coverage on Mabanee with a Buy rating and a TP of KWd905/share, implying 35% upside potential**

Mabanee's business model is straight forward as it revolves around one mall and therefore is the first REIT to be covered in the MENA region. The company owns The Avenues Mall in Kuwait City, which it is expanding in phases. Phases I and II (total GLA 166,000 sqm) are operational with 95% occupancy, while phase III (GLA 86,000 sqm) is under development and is expected be completed by 1Q12 at a total cost of KWD145 million/USD500 million. Construction is progressing ahead of schedule with 16% completed as of 1Q10. Phase IV (GLA c105K sqm) is in the design stage and therefore we exclude it from our analysis.

Mabanee's success hinges on its strategic relationships with major retailers, which provide critical mass and help attract other tenants. Al Shaya Group, Mabanee's largest shareholder with a 36.5% stake, occupies c20% of The Avenues stores. Al Shaya Retail owns franchise rights in the MENA region for 55 major international retail brands like Starbucks, H&M, and Debenhams.

The capital intensive nature of investment properties means high gearing with a net debt to equity ratio at 74%. Additional funding of roughly KWD90 million/USD310 million for phase III is required over the next two years to stretch the balance sheet further. Comfort can be drawn from the collateralizable nature of operating assets, which should insure reasonable financing costs (historically at 5.5%). 2012e to see net cash flows turn positive and operating cash flows more than double on contribution from phase III. **Given its maturity profile, unlike other REITs, Mabanee is not yet a dividend play with a 2009 payout ratio of 30% translating into a dividend yield of 1.5%.**

Sector fundamentals are supportive, driven by (i) relatively low penetration despite higher urbanization, (ii) demographic growth (2010-14 CAGR of 4.6), and (iii) rising purchasing power. Please refer to our Kuwait Real Estate sector note published on 29 April 2010.

We initiate on Mabanee with a Buy recommendation and TP of KWd905/share, implying 35% upside potential. We value Mabanee at a 14% discount to our 2012e NAV of KWd1,051/share, which takes into account phase III. Our NAV implies a per sqm price of USD7,139 for The Avenues Mall, 44% lower than our NAV for Emaar's Dubai Mall of USD12,800/sqm despite comparable footfall and wealth. Independent fair valuations imply market yields of 8%, in line with our estimates. Further upside lies in potential yield compression back to pre-crisis levels of 6% in Kuwait City. **Market implied valuation suggests phase III is being overlooked or the market is applying a cap rate of 12.7% versus prevailing yields of 8%-9%.**

Mabanee Multiples Valuation	2010	2011	2012
P/BV	2.8x	2.6x	2.1x
P/NAV	1.0x	1.0x	0.6x
P/E	22.8x	27.3x	9.9x

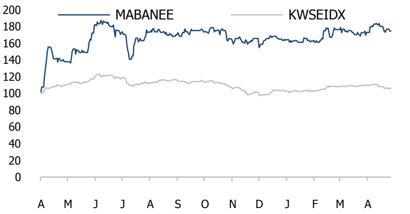
Buy

Target Price (KWd)	905
Market Price (KWd)	670
Upside	35%
Listed On	KWSE
Bloomberg Code	MABANEE KK
RIC	MABK.KW
Enterprise Value (KWD mn)	420
Net Debt (KWD mn)	82
Market Cap. (KWD mn)	338
Market Cap. (USD mn)	1,171
Number of Shares (mn)	505
Foreign Ownership Limit	100%
Daily Turnover (KWD mn)	508
Daily Turnover(USDmn)	1,756

Shareholder Structure	
Al Shaya Group*	36.5%
National Ind. Holding Group	20.0%
Orient Investment Company	6.6%
Free Float	36.9%

*Via Al Shaya United Commercial Company

Price Performance Chart



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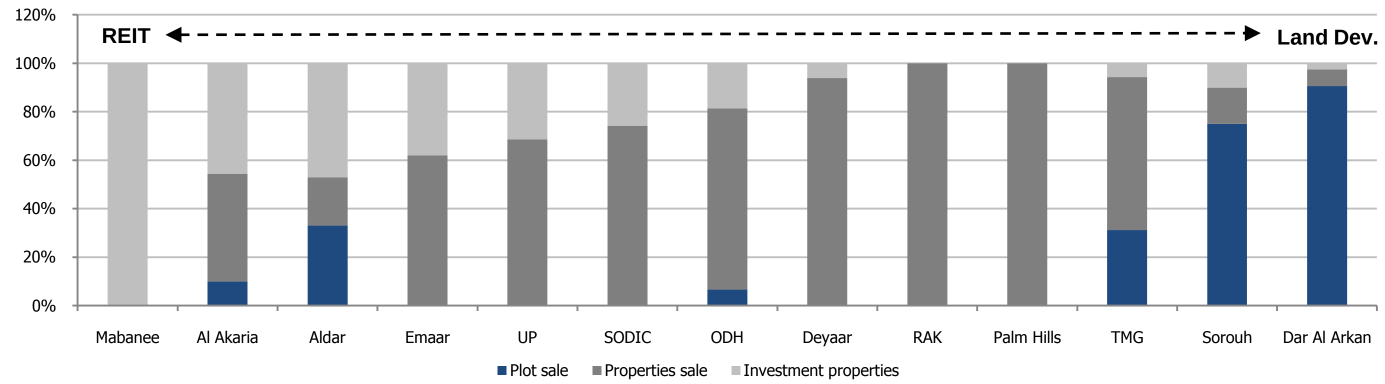
* Disclaimer: See Page 23

Business Model

- **A pure REIT with exposure to the underpenetrated retail market through the largest mall in Kuwait, which is still being expanded in phases**
- **Strong relationships with major retailers provide critical mass and help attract other tenants**
- **Over the longer term, it plans to replicate its successful model in other attractive MENA markets like Egypt and Abu Dhabi**

Chart 1

BUA Breakdown by Segment: Mabanee the first pure REIT to be covered in MENA



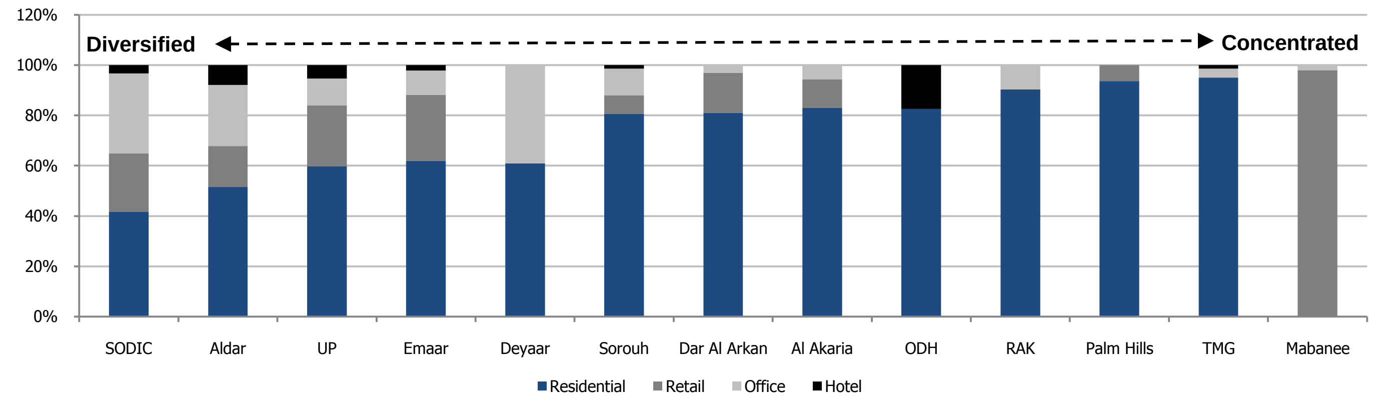
Source: Company data, HC estimates

Mabanee's business model is pretty straightforward as it is essentially a mall developer/owner/operator and therefore is a pure Real Estate Investment Trust (REIT). Lease and related income (one time placement fees) account for roughly 95% of the company's top-line, while the remainder is driven by advertising services for tenants. Mabanee is largely exposed to the retail market in Kuwait, which is among our preferred plays on the sector, characterizing by low penetration and high occupancy levels (please refer to our Kuwait Real Estate sector note published on 29 April 2010). Retail makes up 98% of the company's gross leasable area (GLA), while an office building (Mabanee Office building) accounts for the rest.

Mabanee's success hinges on its strategic relationship with major retailers, which provide its developments a critical mass and help attract other tenants. Al Shaya Group, the company's largest shareholder with a 36.5% stake, owns franchise rights for the Middle East for 55 major international retail brands, including Starbucks, Next, Debenhams, and H&M to name a few (for a full list please refer to table 3). According to the company, about 20% of their mall's stores are occupied by Al Shaya retail.

Chart 2

BUA Breakdown by Type: Mabanee's exposure is highly concentrated around retail



Source: Company data, HC estimates

Over the longer term, the company plans to replicate its successful model in other attractive MENA markets (Egypt and Abu Dhabi) by forming strategic partnerships with local players. That said, for now the story still revolves around one mall (The Avenues Mall), which the company is expanding in phases.

For now the story revolves around The Avenues Mall

Chart 3

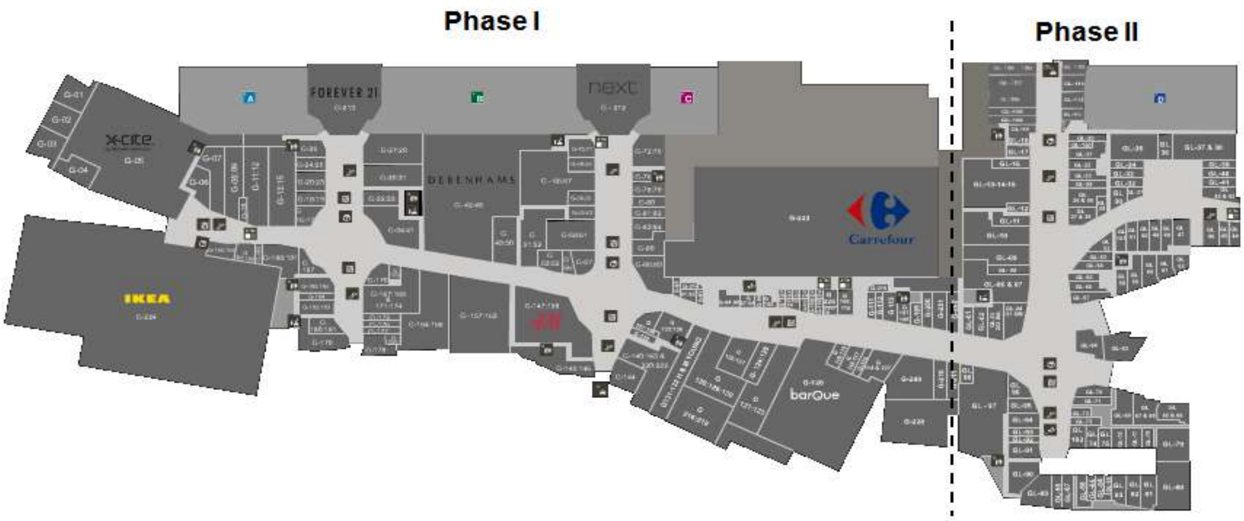
The Avenues Mall's Four Phase Master plan

Source: Google Maps, Company data

Phases I and II (total GLA 166,000 sqm, BUA 385,000 sqm) were completed in 2005 and 2007 respectively at a total cost of cKWD155 million/USD540 million. Phase III (GLA 86,000, BUA 325,000) is under development and is expected to be delivered in 1Q12. Construction started in October 2009 and we understand is running ahead of schedule with 16% of the work completed as of 1Q10. The total cost of phase III is estimated at KWD145 million/USD500 million. Phase IV, the final phase, is still in the design stage (indicative GLA of 105,000 sqm) and is pending regulatory approval. As highlighted in the map above, phases III and IV are adjacent to the first two, and Mabanee has already secured the plot. The land is not owned by the company, but is leased on a long-term basis. Land related leasing expenses account for c30% of total direct costs.

Chart 4

Phase I characterized by anchor stores and phase II mid-end brands



Source: Company data

Table 1: Mabanee Project Details

	GLA sqm	BUA sqm	GLA/ BUA	No. of Stores	Avg. GLA/ Store	Occupancy	Avg. Lease Rate USD/sqm p.a.	Status	Comp. date
The Avenues phases I and II	166,000	385,000	43%	426	390	95%	670	Operational	
The Avenues phase III	86,000	325,000	26%	600	143		830	U/C	2012
The Avenues phase IV	105,000	300,000	35%				830	Design	2014
Mabanee Office building	5,200	7,400	70%			95%	335	Operational	
Total	362,200	1,017,400							

Source: Company data (in blue), HC estimates (in red)

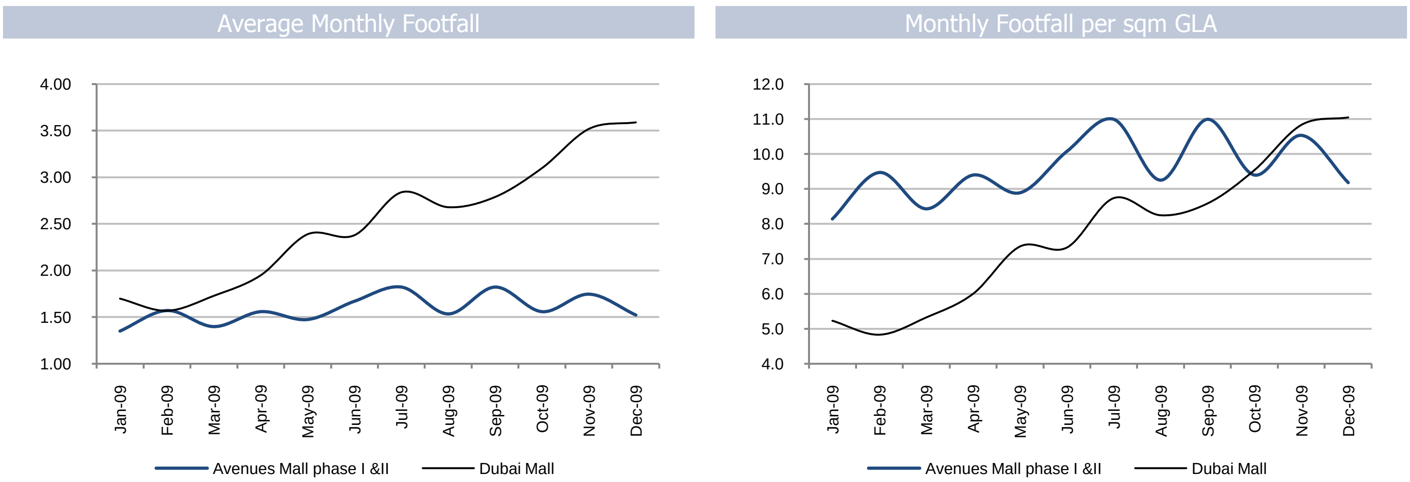
As highlighted in chart 4, the initial phase of the Avenues includes a number of anchor stores (Ikea, Carrefour, and Debenhams). While necessary to boost footfall, anchor stores pay lower rents as they occupy much larger spaces and are typically locked into long-term lease contracts. Phase II is targeted at mid-end retailers, which are more profitable. Accordingly, the average annual rental rate in phase I stands at cKWD160/USD560 per sqm, considerably lower than phase II where it on average stands at cKWD290/USD1,000 per sqm. Overall, phase I and II encompass 426 stores (avg. GLA/store of 390 sqm), which are operating at 95% occupancy with an rental rate of KWD190/USD670 per sqm.

Phase III is targeted at the high-end segment, which remains significantly underserved, according to market studies initiated by the company. It is expected to be similar to phase II in that it will include smaller luxury retailers and only one anchor store (Harvey Nichols). It will encompass roughly 600 stores with an average GLA of 143 sqm, 65% smaller than the average of the first two phases. Based on the same market survey, the average lease rate is expected to be in line with phase II at KWD290/USD1,000 per sqm annually. To be conservative, in our analysis we assume an average rate of KWD240/USD830 per sqm. We also assume an initial occupancy of 75%, gradually rising to 85% at maturity. The company indicated that it has already received more than 2,500 expressions of interest and expects occupancy to be on par with the first two phases at c95%.

Phase IV, the final phase of the mall, is still in the design stage and is pending regulatory approval and licensing. Early indicative details suggest a total GLA of 105,000 sqm and completion date towards the end of 2013. Since phase IV is yet to break ground, we exclude it from our valuation, in line with our approach for all MENA real estate companies. Including phase IV, The Avenues Mall will have a total GLA of 357,000, among the largest in the world. In fact, it will be slightly larger than Emaar's Dubai Mall, which has a total GLA of 325,000 sqm.

The Avenues phases I and II are seeing strong interest as the mall is among only a few grade A quality retail outlets in Kuwait and is very centrally located in the heart of Kuwait City (please refer to the location map chart overleaf). Also, as highlighted in the charts below, The Avenues phase I and II witnessed an average monthly footfall of 1.75 million and an average monthly footfall per sqm of 10.5, comparable to 2.5 million and 7.7 per sqm for Dubai Mall, respectively. Dubai Mall reached its full capacity (95%) only in 4Q09 and the average monthly footfall per sqm then increased to 10.5.

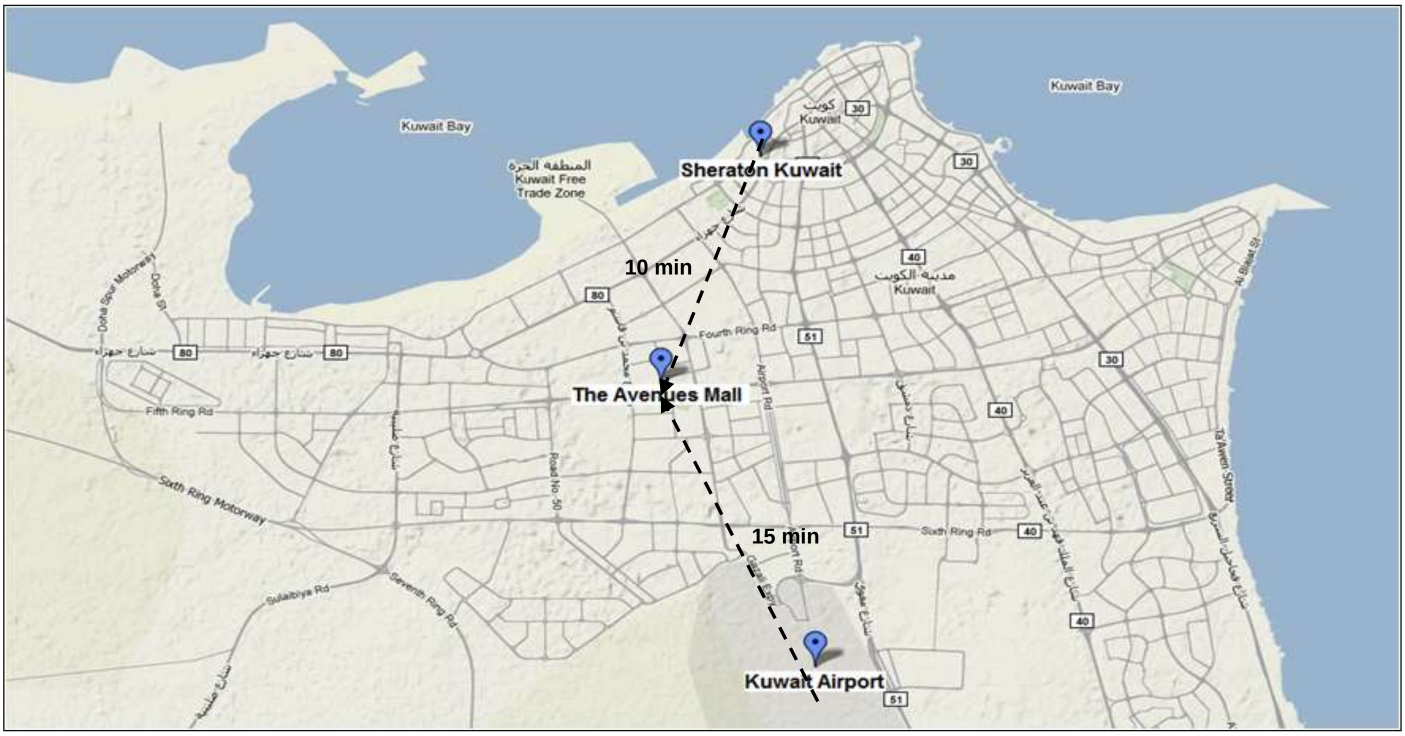
Chart 5



Source: Company data

Chart 6

The Avenues Location in Perspective



Source: Google Maps

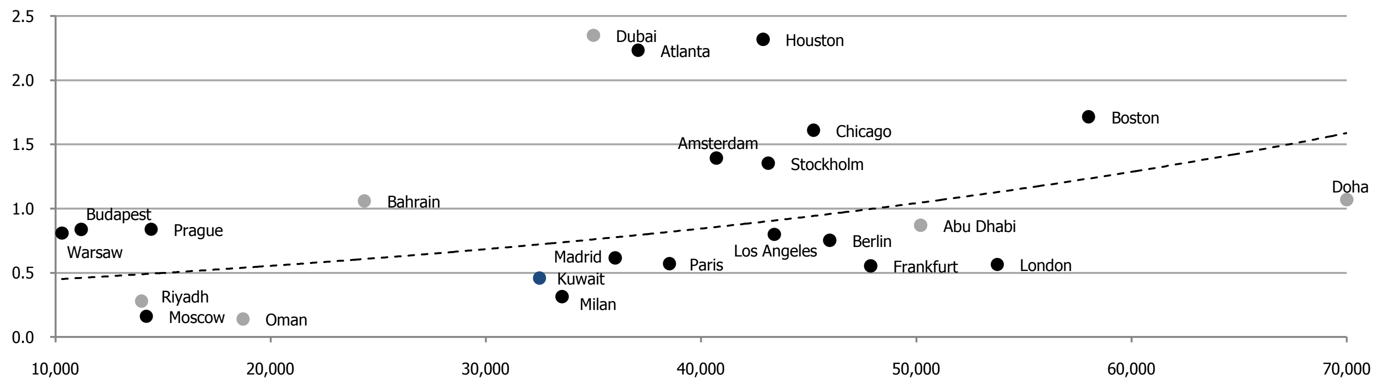
Retail sector in brief: low penetration, expatriate growth, and rising purchasing power

For a more in depth analysis please refer to our sector note published on 29 April 2010.

The chart below compares retail density in Kuwait to other global cities based on GDP per capita, which we use as a proxy for affordability and hence consumption. Based on that analysis, retail stock in Kuwait looks limited, suggesting that there is still plenty of room for growth. Our GLA per capita figure for Kuwait of 0.5 sqm is conservative as it is based on our estimates of the target market, which excludes blue-collar workers. If we were to include the entire population, then retail density would fall to 0.3 sqm. Additionally, since Kuwait is among the most urbanized countries, consumption should be higher.

Chart 7

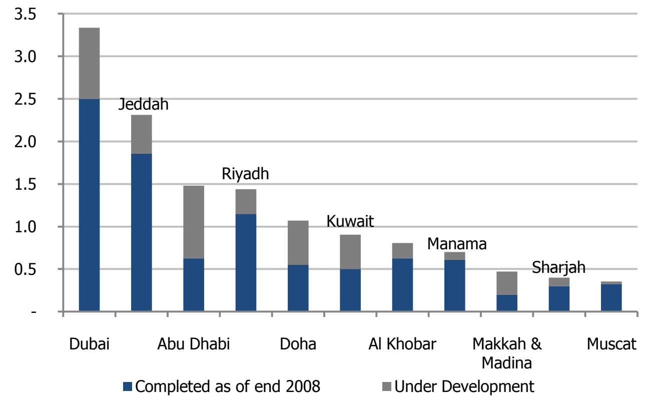
2009 Retail GLA/Capita versus GDP/Capita in USD



Source: Better Homes, Colliers International, Global Property Guide, HC estimates

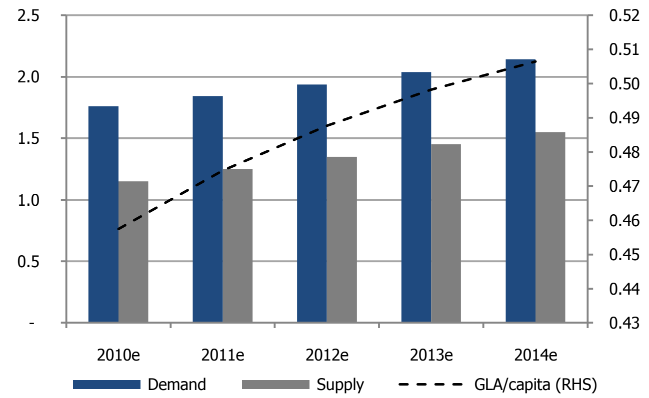
Chart 8

2008 Current and Forthcoming Retail GLA in mn sqm



Source: Retail International

Retail Cumulative Supply/Demand Analysis (mn sqm)



Source: Retail International, HC estimates

Retail International estimates that at the end of 2008, the mall GLA in Kuwait stood at c500,000 sqm (comparable to Doha with one third of the population). The stock, however, is expected to almost double, with malls under development estimated to add another 400,000 sqm over the next few years. The table below highlights the major malls in Kuwait as well as average rental rates.

Taking into account population growth, we estimate this forthcoming supply would increase the retail density in Kuwait to 0.5 sqm, still significantly below comparable peers. Retail demand in Kuwait is largely driven by population growth and rising purchasing power, but to a lesser extent tourism as it is predominantly business related. We estimate that by the end of 2014, the retail market in Kuwait would still be undersupplied by roughly 600,000 sqm. Nonetheless, we expect retail density (GLA/capita) to gradually increase to 0.51 sqm in 2014e from 0.46 sqm in 2010.

Table 2

Mall Name	Location	GLA in sqm	Rental in USD/sqm p.a.	Completion Date
Avenues Mall phase III	**Al Rai**	**86,000**	**830**	**2012**
Al Asemeh Mall	Sharq	N/A	N/A	2011
Mall of Kuwait	Sabahiya	150,000		2010
Symphony Mall	Salmiya	N/A	N/A	2009
360 Degrees Mall	South Surra	60,000	675-1,010	2009
Avenues Mall phases I and II	**Al Rai**	**166,000**	**670**	**2007**
Al Kout Mall	Fahaheel	17,000	560-790	2005
Al Raya Mall	Sharq	20,000	787-1,010	2003
Marina Mall	Salmiya	31000	675-1,010	2002
Al Thuraya	Salmiya	5400	562-787	1999
Souk Sharq	Kuwait City	28,384	562-788	1998
Al Bustan	Salmiya	12,000	450-675	1998
Al Fanar	Salmiya	17,000	560-790	1997
Laila Gallery	Salmiya	6,407	450-675	1993
Salhia Complex	Kuwait City	14,000	675-1,010	1978
Total		361,191		

Source: Markaz, HC Research

Table 3: Al Shaya Retail Brands

Food	Fashion and Accessories	Health and Beauty	Optics	Footwear	Home Furnishings	Pharmacy	Sports Fashion	Office Supplies
Pinkberry	American Eagle	Bobbi Brown	Pearle Opticians	Milano	Pottery Barn	Boots	Foot Locker	Office Depot
Castania Nut Boutique	Debenhams	La Mer	Solaris	Payless	Pottery Barn Kids			
Amigos	Next	Clinique	Vision express					
P.F Chang's	Bhs	Estee Lauder						
Starbucks Coffee	H&M	VaVaVoom						
The Gaucho Grill	Topshop	Aramis						
Asha's	Topman	M.A.C						
Le Pain Quotidien	River Island	The Body Shop						
Sarai	Oasis	Jo Malone						
Totally Fish	Claire's	Kiehl's						
Thai Chi	Evans							
Noodle Factory	Dorothy Perkins							
Al Forno	Coast							
Nolita Pizza	Peacocks							
Meias	Wallis							
Dondurma	Early Learning Centre							
IZ Juice	Warehouse							
Santoor	Express							
Shanghai Express	Miss Selfridge							
Dean and Deluca								
Pizza Rustica								
Brasserie de L'Etoile								

Source: Al Shaya Retail

Financials

- **Capital intensive nature of investment properties means stretched balance sheet with net debt/equity ratio at 74%**
- **2012e to see strong rental growth on contribution from phase III and associated placement fees**
- **Additional KWD75 million in debt required as internal cash flows inadequate to fund development plan**

Balance sheet stretched due to capital intensive nature of business model

Table 4: Investment Properties Recognized at Cost

Investment Properties in KWD mn	December 2009
Operational properties:	
Avenues phase I and II	150.2
Mabanee Office Building	2.7
Investment Properties WIP:	
Avenues phase III	13.9
Land:	
Salmiyah Plot	3.0
Total	**169.8**

Source: Company data, HC estimates

Mabanee's investment properties could be broken down into three categories: (i) operational properties (ii) properties under development, and (iii) land. As we discussed earlier, the operating assets consist of The Avenues Mall phases I and II and a small office building in Salhiya Kuwait City. Phases I and II are held at cost of KWD150 million, while the office building's attributed cost is KWD2.7 million, on our estimates. Under development assets reflect the CAPEX associated with phase III of The Avenues, which at the end of 2009 stood at KWD13.9 million, c10% of the total estimate cost of KWD145 million. Land relates to a 9,500 sqm plot in Salmiyah acquired in 2003 for KWD3 millin, or KWD316/sqm.

Mabanee follows cost accounting and as such does not recognize any fair value gains on its investment portfolio. That said, the company commissions three independent valuers to value its assets on a quarterly basses. At the end of 2009 the average of the three independent fair valuations stood at KWD323 million (down from KWD342 million in 2008), 90% higher than the carrying amount. According to the company, the market value of the Salmiyah plot was cKWD40 million at the end of 2009.

Table 5: Investment in Associates

Name of Associate	Principal activity	Place of Incorporation	Ownership 2009	Ownership 2008
Al Rai Logistica K.S.C.	Warehousing facilities, construction, and management	Kuwait	49.99%	47.67%
Injaz Real Estate Building Company	Property development and investments	Kuwait	40.00%	40.00%
	December 2009			
Total Investment in KWD million	17.0			

Source: Company data

In the past, Mabanee has used idle cash to make both long-term strategic investments and short-term equity investments (like many other Kuwaiti companies). At the end of 2009, the company's long-term investments stood at KWD17 million. As shown in the above table, the amount represents investments in associate companies. Since associates are recognized at cost, it is difficult for us to assess their market value. Accordingly, we carry the amount forward at book value and add on top of our DCF (please refer to the valuation section on page 12).

The company indicated that going forward it plans to focus on core operations, and as such might consider disposing of non-strategic investment if the right opportunity presents itself.

Table 6: Available for Sale Investments

KWD million	December 2009	December 2008
Quoted Local Equities	10.6	19.0
Unquoted Local Equities	2.7	1.1
Unquoted Foreign Equities	5.4	5.5
Total	18.7	25.5

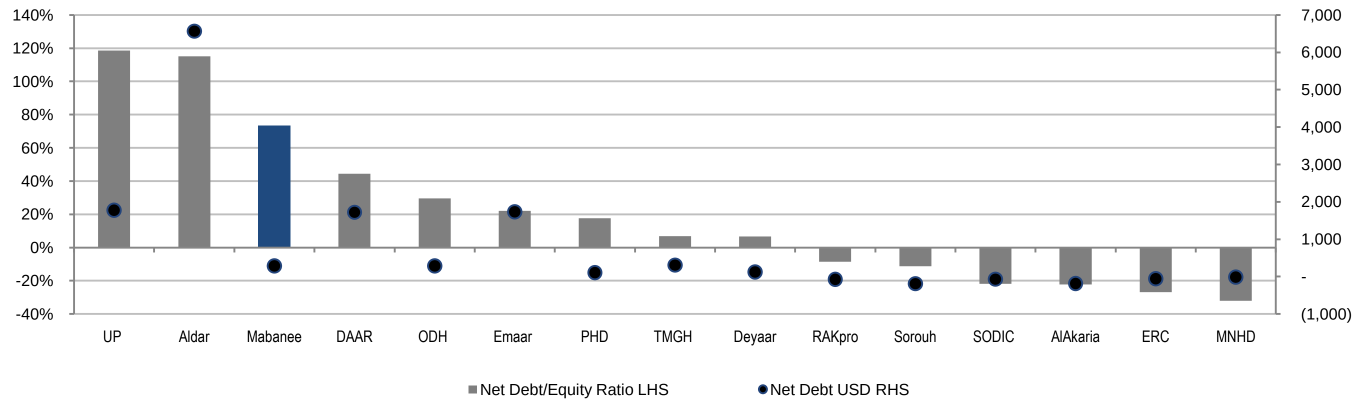
Source: Company data

Mabanee's short-term investments represent investment in quoted and unquoted Kuwaiti equities and unquoted foreign equities. At the end of 2009 those investments stood at KWD18.7 million, down from KWD25.5 million in 2008. Since those investments are classified as available for sale, they are marked to market. However, certain investments amounting to KWD4.6 million are carried at cost due to a lack of an active market or other reliable measure of their fair values. The group's intension was to sell these assets in the short term, but due to a severe drop in market prices, management plans to hold them until they see some recovery. Accordingly, investments were reclassified as long term.

In our analysis, we assume these securities will be redeemed in 2011 to help fund CAPEX requirements (please refer to the cash flow section on page 10). Given the lack of detail, we do not assume any gains or losses, but carry the amount at FY09 value.

Chart 9

High gearing a reflection of capital intensive nature of investment properties (as of 31 December 2009)*



Source: Company data
*Data for Saudi Companies is for 1Q10

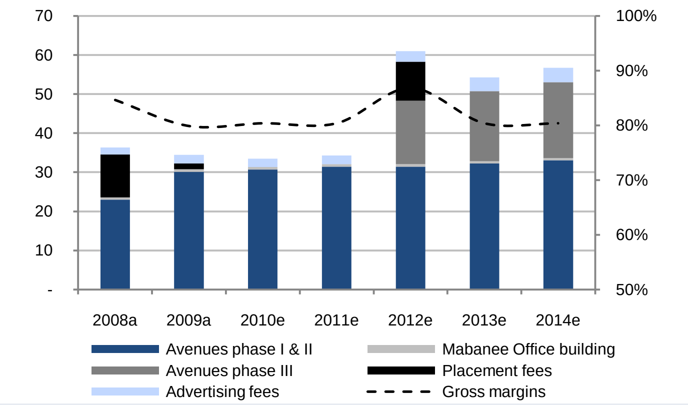
As highlighted in the chart above, Mabanee is among the most highly levered companies within our coverage with a net debt to equity ratio of 74%. The relatively higher gearing has to do with the capital intensive nature of investment properties, whereby no cash is generated until delivery. At the end of 2009, the company's total debt stood at KWD82 million (KWD62 million short term and KWD20 million long term) with an average financing cost of 5.5%. We understand that the current portion of debt will likely be partially refinanced. Management also indicated that they plan to raise additional debt in the form of project finance to fund the development of third phase of the avenues (roughly KWD90 million on our estimates). As such, by the end of 2011e we expect the company's net debt to rise to KWD170 million and net debt/equity ratio to rise to 132% (74% currently). Comfort can be drawn from the collateralizable nature of operating assets, which should ensure reasonable financing costs (historically at 5.5%).

Strong rental income growth in 2012e on delivery of phase III

Rental and related income (placement fees) accounts for roughly 95% of Mabanee's revenue, while the remainder is driven by advertising services for tenants. Chart 10 provides a breakdown of the company's revenue by project. Placement fees are one-time fees associated with the reservation of space at the mall. As evident in the chart, KWD11 million in placement fees were booked in 2008 on the delivery of the second phase of The Avenues and another KWD1.5 million was recognized in 2009. Management guidance suggests that a similar amount should be collected upon the completion of phase III. To be conservative, we assume only KWD10 million instead.

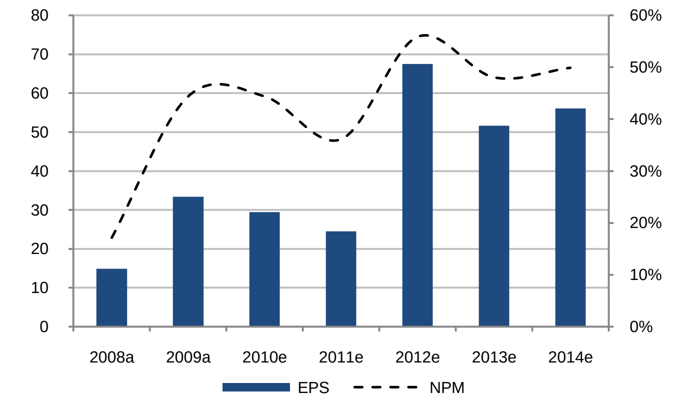
Chart 10

Revenue Breakdown by Project (KWD mn)



Source: Company data, HC estimates

EPS (in KWD) and Net Profit Margins



Source: Company data, HC estimates

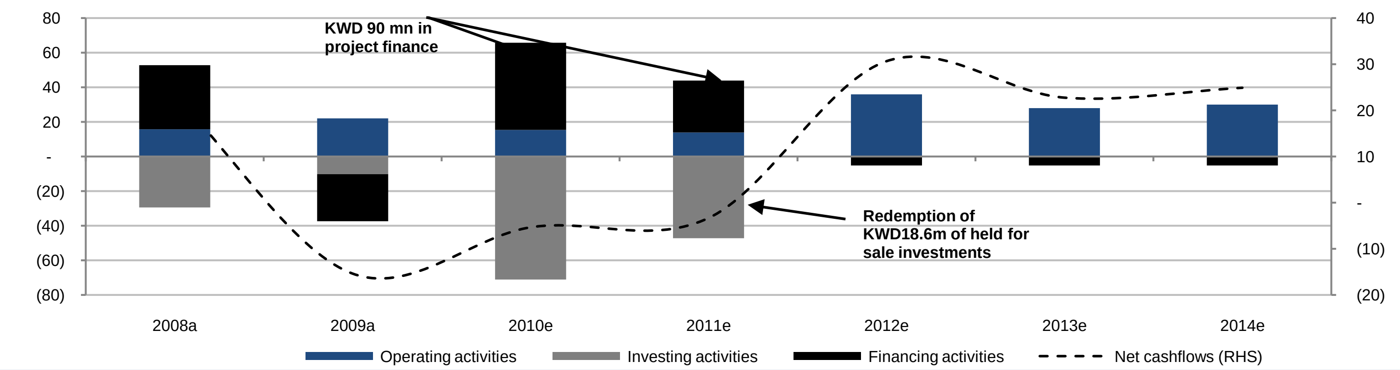
We expect revenue to be more or less flat over 2010e and 2011e, with a 3% YoY decline in 2010e due to the absence of placement fees and a 2% rise in 2011e driven by an upward revision of rental rates as contract renewals come due. We forecast a 78% jump in revenue in 2012e on the delivery of phase II, which will start to contribute to rental income, but also on the recognition of KWD10 million in placement fees. We expect the gross margin to remain flat in 2010e and 2011e at c80%, before rising to 87% in 2012e driven higher by placement fees, similar to 2008 when margins rose to 85%.

In terms of bottom line, we expect earnings to be flat in 2010e, but down 13% in 2011e on higher financing costs associated with the planned debt raising. In 2012e, we estimate a 154% jump in net profit as phase III of The Avenues starts to contribute. In 2008, net profit margins were hit by impairment on financial investments. There were no impairments in 2009 and accordingly margins improved. Since it is difficult to assess the fair value of these securities and given that they have already lost c50% of their value, going forward we do not assume any additional impairment. In 2011e, we forecast NPM compression to 42% from 49% on higher financing costs. Margins are expected to expand to 59% in 2012e before normalizing at c55% from 2013e onwards.

Internal cash flows inadequate to fund development of phase II, additional funding required

Chart 11

Cash Flows: Intensive need until 2012e



Source: Company data, HC estimates

The total estimated cost of The Avenues phase III is KWD145 million, of which 9% has been incurred as of December 2009. Since internal funding is expected to fall short, management indicated that they plan to raise additional debt in the form of project finance. We estimate that the company would need to raise KWD90 million over the next two years. In 2012e, we expect operating cash flows to more than double on contribution from phase III and net cash flows to turn positive.

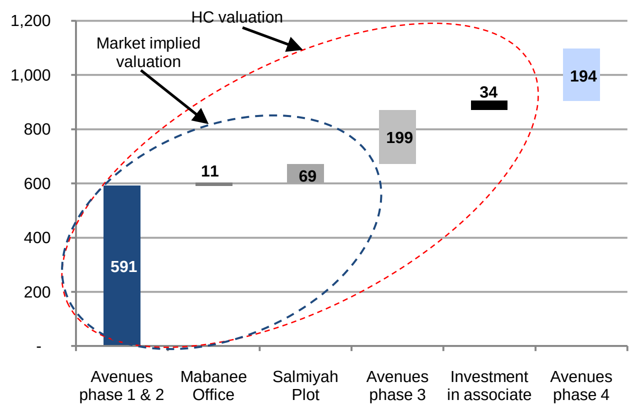
Given its cash needs, Mabanee has been conservative in its dividend policy, relying on a combination of cash and bonus dividends. In 2009, the company paid a cash dividend of KWD10/share (30% payout ratio) and a 10% bonus issue. Going forward, we understand Mabanee will continue to follow a similar policy until the development of phase IV is complete. Accordingly, we expect the company to pay KWD10 million over the next two years. While the amount is not excessive, cash is better used to fund operating needs instead of raising debt.

Valuation

- **We value Mabanee at a 14% discount to 20102e NAV of KWd1,051/share, or USD7,139/sqm**
- **Further upside lies in potential yield compression back to pre-crisis levels of 6% in Kuwait City**
- **We initiate coverage on Mabanee with a TP of KWd905/share, implying a 35% upside potential**

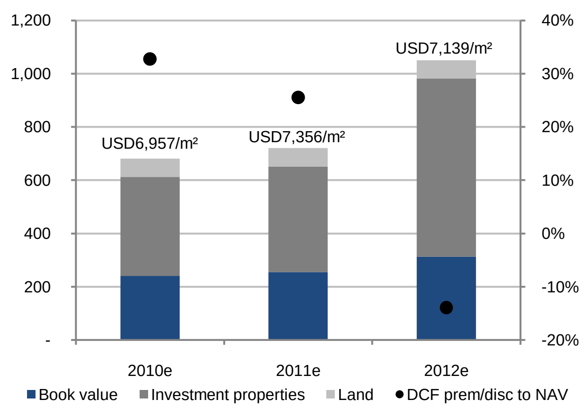
Chart 12

DCF Breakdown by Project/Segment (KWd/share)



Source: HC estimates

NAV Breakdown by Project/Segment (KWd/share)



Source: HC estimates

We value real estate companies using a combination of DCF and land valuation and cross check against NAV. Where a final master plan is available, we use a sum of the parts DCF. Otherwise we rely on land valuation only. For Mabanee, we value all the company using a DCF (please refer to the projects details table on page 4) and the company's raw land at fair value and investment in associates at cost on top. For the time being, we exclude The Avenues phase IV until further details are available and construction breaks ground.

Since Mabanee recognizes its investment properties and land at cost on their book, we revalue them to reflect market value. For the land fair value we rely on the latest independent valuation, which the company indicated was KWD38 million at the end of 2009 (versus carrying cost of KWD3 million). We understand the plot is located in a very prime location of Salmiyah opposite to the American University in Kuwait City. To value the company's investment properties, we use a capitalization rate of 8% based on historic yield trends. To compute NOI (net operating income), we assume a margin of 80%, in line with historic trends.

We value Mabanee at a 33% premium to our 2010e NAV of KWd682/share but at a 14% discount to 2012e NAV of KWd1,051/share. Since NAV is a static valuation it does not take into consideration future projects. Also, considering that the company follows cost accounting, we believe 2012e NAV better reflects the company's fair value as it takes into account the third phase of The Avenues.

Table 7

KWD million	Independent Valuation FY09	Market Valuation	Market Valuation
Phases Included	Phases I and II	Phases I and II	Phases I, II, and III
Fair Value	323.2	338.4	338.4
Rental Income ex. Placement Fees	32.9	32.9	51.0
Direct Costs	6.9	6.9	8.0
Net Cash Flows	26.0	26.0	43.0
Implied Cap Rate	8.0%	7.7%	12.7%

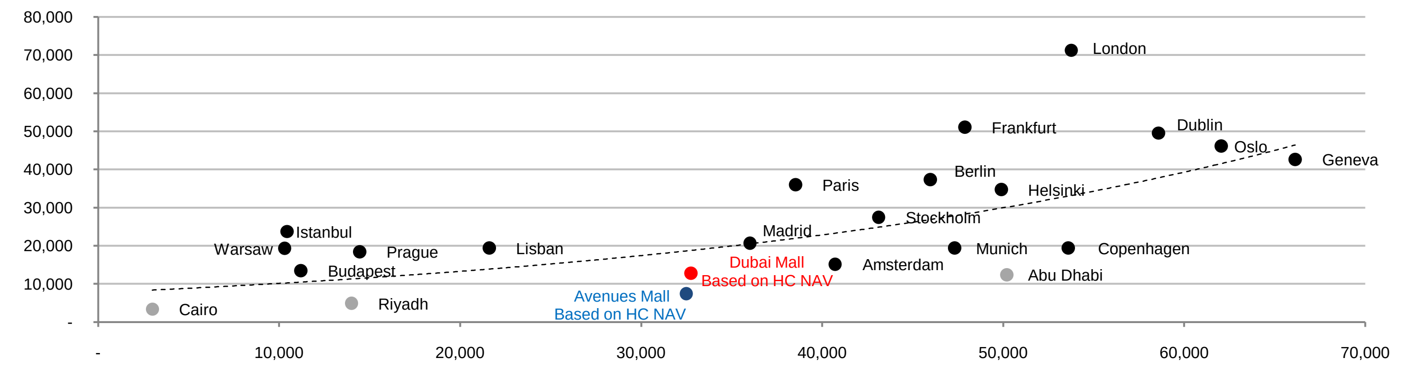
Source: HC estimates

Mabanee's market-implied valuation suggests that either The Avenues phase III is being excluded or, as shown in the table above, the market is applying a cap rate of 12.7%. Based on the company's execution history and given that construction is progressing ahead of schedule with 16% complete as of 1Q10, we feel it is fair to start pricing in phase III. On the other hand, an implied cap rate of 12.7% appears excessive, since even after significant expansion during the crisis, rental yields at the end of 2009 ranged between 9% and 10%, and we estimate have since dropped to between 8% and 9% (please refer to table 8 below). Working backwards from the independent fair valuation, we derive an implied yield of 8%, which is in line with our assumption. Going forward, in our view, the sector is likely to see further yield compression driven by the underway price recovery (please refer to our sector note published simultaneously on 29 April 2010)

Potential upward revaluation driven by an expected yield compression back to pre-crisis levels of 6%

Chart 13

The Avenues NAV in Perspective: 2009 Global Shopping Mall Prices in USD/sqm (y-axis) versus GDP/Capita (x-axis)

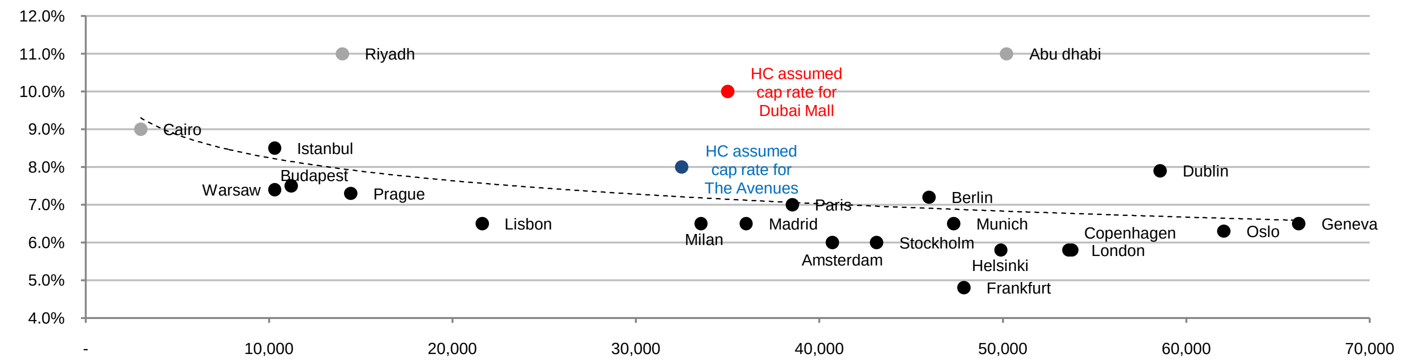


Source: Colliers International

To put our valuation in perspective, we compare shopping mall prices for a wide sample of CEMEA cities to The Avenues and Dubai Mall against GDP per capita. Our 2012e NAV for Mabanee implies a valuation of KWD2,060/USD7,200 per sqm GLA. Based on the above regression and given where we are in the economic cycle, our valuation is conservative with room for further upside. As highlighted in chart 14, potential revaluation is likely to be driven by an expected yield compression back to pre-crisis levels of 6%-8%.

Chart 14

2009 Global Shopping Mall Rental Yields (y-axis) Versus GDP/Capita (x-axis)



Source: Colliers International

Table 8

	Pre Crisis	1H09	December 2009
Kuwait City	6.0%	8.0%	9.0%
Salmiyah/Hawalli	7.5%	9.0%	9.0%
Farwania/Khaitan	7.5%	9.5%	10.0%
Fahaheel/Mangaf/Abu Hulaifa	7.5%	9.5%	10.0%
Average Retail Segment	**6-8%**	**8-10%**	**9-10%**

Source: Markaz Research (Markaz Real Estate Fund)

As highlighted in table 9, if retail rental yields in Kuwait City were to compress back to pre-crisis levels of 6%, then there is potential for a further cKWD420/share upward revision on our 2012e NAV of KWD1,091/share. This would imply a per sqm valuation of USD10,250, still 20% below the per sqm valuation for Emaar's Dubai Mall of USD12,800.

Table 9: 2012e NAV Sensitivity (KWd/share)

Rental Growth	Cap Rate						
	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
2.0%	1,785	1,461	1,229	1,055	920	812	724
3.0%	1,804	1,477	1,243	1,067	931	822	732
4.0%	1,823	1,493	1,256	1,079	941	831	741
5.0%	1,842	1,508	1,270	1,091	952	841	750
6.0%	1,861	1,524	1,284	1,103	963	850	758
7.0%	1,880	1,540	1,297	1,115	973	860	767
8.0%	1,899	1,556	1,311	1,127	984	869	776

Source: HC estimates

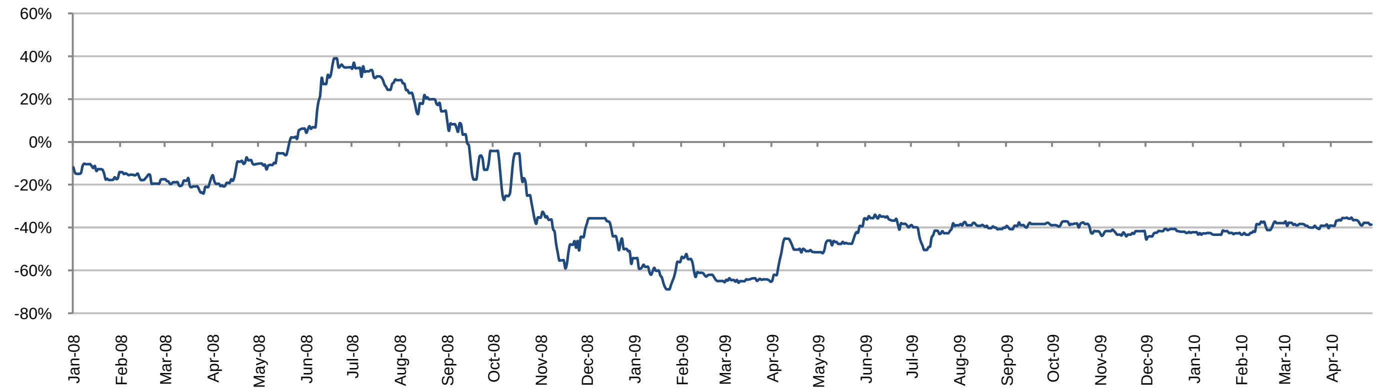
Table 10: DCF Sensitivity (KWd/share)

Terminal Growth	WACC						
	5.6%	6.6%	7.6%	8.6%	9.6%	10.6%	11.6%
1.5%	1,655	1,278	1,026	846	710	605	521
2.0%	1,798	1,355	1,072	874	729	618	530
2.5%	1,988	1,451	1,126	908	751	632	540
3.0%	2,251	1,574	1,193	947	775	648	551
3.5%	2,642	1,738	1,275	994	804	667	563
4.0%	3,283	1,964	1,381	1,051	838	688	577
5.0%	4,523	2,301	1,522	1,123	878	713	593

Source: HC estimates

Chart 15

Discount/Premium to NAV: Mabanee trading at 40% discount to 2012e NAV



Source: Bloomberg, HC estimates

Table 11: MENA Real Estate Comparables

Company	Bloomberg Code	Market Cap (USD million)	Recommendation	TP	Upside	P/BV			P/NAV		
						2009a	2010e	2011e	2009a	2010e	2011e
Saudi Arabia											
Al Akaria	SRECO AB	787	Buy	SAR 34.8	41%	1.0x	0.9x	0.9x	0.6x	0.6x	0.5x
Dar Al Arkan	AL ARKAN AB	4,075	Buy	SAR 18.9	34%	1.1x	0.9x	0.8x	0.6x	0.5x	0.5x
Average						**1.0x**	**0.9x**	**0.9x**	**0.6x**	**0.6x**	**0.5x**
UAE											
Emaar	EMAAR UH	6,489	Buy	AED 6.6	69%	0.8x	0.8x	0.7x	0.3x	0.3x	0.3x
Aldar	ALDAR UH	2,754	Buy	AED 9.7	147%	0.7x	0.6x	0.5x	0.3x	0.3x	0.2x
Aldar (ex. Reval.)	ALDAR UH	2,754	Buy	AED 9.7	147%	1.0x	1.0x	0.7x	0.3x	0.3x	0.2x
Sorouh	SOROUH UH	1,631	Hold	AED 2.9	27%	1.0x	0.9x	0.8x	0.4x	0.4x	0.3x
Average						**0.9x**	**0.9x**	**0.7x**	**0.3x**	**0.3x**	**0.3x**
Egypt											
TMGH	TMGH EY	3,072	Buy	EGP 9.1	8%	0.7x	0.7x	0.6x	0.6x	0.6x	0.5x
SODIC	OCDI EY	598	Buy	EGP 105	13%	1.9x	1.4x	1.2x	0.6x	0.6x	0.6x
PHD	PHDC EY	1,207	Hold	EGP 7.0	9%	1.4x	1.0x	0.8x	0.5x	0.4x	0.4x
ODH	ODHN EY	1,422	Hold	CHF 95	43%	1.8x	1.5x	1.2x	0.5x	0.4x	0.4x
Average						**1.5x**	**1.2x**	**1.0x**	**0.5x**	**0.5x**	**0.5x**
Kuwait											
Mabanee	MABANEE KK	1,172	Buy	KWd 905	35%	3.0x	2.8x	2.6x	1.0x	1.0x	0.9x
Sector Average						**1.6x**	**1.4x**	**1.3x**	**0.6x**	**0.6x**	**0.6x**

Source: HC estimates, Bloomberg (based on prices as of 29 April 2010)

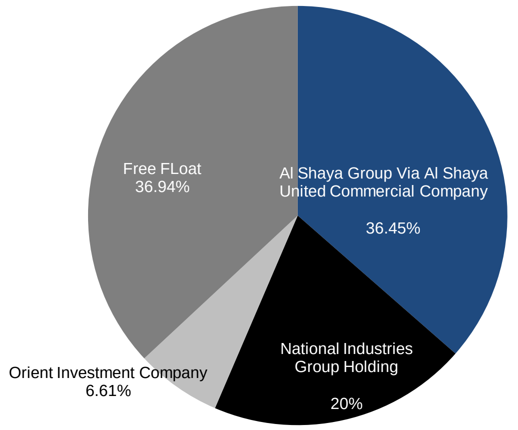
Company-Specific Risks

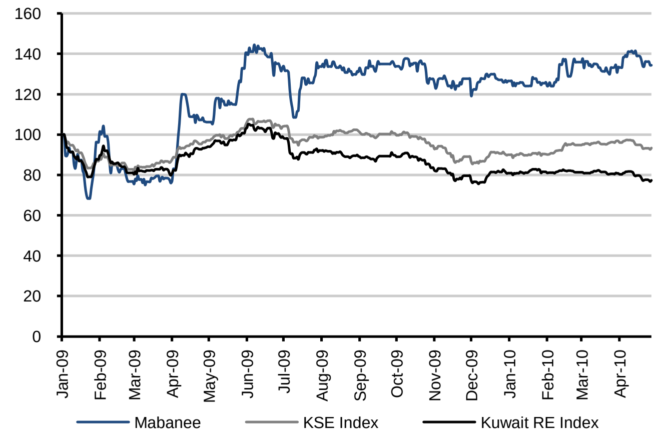
- **Execution Risk:** Development pipeline may likely stretch management and operational capacity, introducing the risk of delays and/or project cancellation.
- **Governance Risk:** Mabanee still operates in an underdeveloped regulatory environment where minority interest can be overlooked.
- **Concentration Risk:** Since Mabanee's projects are concentrated in Kuwait and focused on retail, exposure to any downturn in the segment is high.

Mabanee

Chart 16

Shareholding Structure	Price Performance





Source: Zawya Dow Jones, HC Research

Source: Bloomberg, HC Research

Mabanee Financials

Income Statement (KWD '000)							
Year to 31 December	2008a	2009a	2010f	2011f	2012f	2013f	2014f
Rental Income	23,556	30,731	31,305	32,054	48,308	50,720	52,999
Placement Fees	11,007	1,545	-	-	10,000	-	-
Advertising Services	1,750	2,213	2,191	2,244	2,682	3,550	3,710
Revenue	**36,312**	**34,489**	**33,496**	**34,298**	**60,990**	**54,270**	**56,709**
Direct Rental Expenses	(5,588)	(6,941)	(6,574)	(6,731)	(8,045)	(10,651)	(11,130)
Gross Profit	**30,724**	**27,547**	**26,922**	**27,566**	**52,945**	**43,619**	**45,579**
% of Sales	*85%*	*80%*	*80%*	*80%*	*87%*	*80%*	*80%*
Depreciation	(2,528)	(3,051)	(3,076)	(4,080)	(4,488)	(4,423)	(4,358)
SGA Expenses (Excl. Depreciation)	(2,401)	(2,530)	(2,345)	(2,401)	(4,269)	(3,799)	(3,970)
Fair Value Gains/Losses	(13,485)	(487)	-	-	-	-	-
EBIT	**12,310**	**21,480**	**21,502**	**21,085**	**44,187**	**35,397**	**37,251**
% of Sales	*34%*	*62%*	*64%*	*61%*	*72%*	*65%*	*66%*
Net Financing Cost	(6,068)	(4,938)	(5,951)	(8,140)	(8,487)	(8,111)	(7,644)
Associate Income	(274)	(315)	-	-	-	-	-
Allowance for Doubtful Debt	-	(1,033)	-	-	-	-	-
Foreign Exchange Gains/Losses	-	854	-	-	-	-	-
Other Income/ Expenses	500	25	63	64	77	101	106
Profit Before Taxes	**6,467**	**16,074**	**15,614**	**13,010**	**35,777**	**27,387**	**29,713**
Contribution to KFAS	(59)	(160)	(156)	(130)	(357)	(273)	(296)
Contribution to NLST	(130)	(427)	(415)	(346)	(951)	(728)	(790)
Income Taxes/Zakat	(52)	(176)	(171)	(143)	(392)	(300)	(326)
Net Income before Minority Interest	**6,225**	**15,310**	**14,872**	**12,392**	**34,077**	**26,086**	**28,301**
Minority Interest	-	-	-	-	-	-	-
Net Income Attributable to Shareholders	**6,225**	**15,310**	**14,872**	**12,392**	**34,077**	**26,086**	**28,301**
EBITDA (Excl. Revaluation)	**25,794**	**23,633**	**-**	**-**	**-**	**-**	**-**
EPS	**14.9**	**33.3**	**29.4**	**24.5**	**67.5**	**51.7**	**56.0**

Source: Company data, HC estimates

Balance Sheet Statement (KWD '000)

Year to 31 December	2008a	2009a	2010f	2011f	2012f	2013f	2014f
Assets							
Cash and Cash Equivalents	24,017	10,172	4,799	1,437	32,080	54,820	79,706
Accounts Receivable	6,489	4,258	3,406	2,555	1,703	852	-
Held for Trading Investments	763	-	-	-	-	-	-
Current Assets	**31,268**	**14,430**	**8,206**	**3,991**	**33,784**	**55,672**	**79,706**
Available for Sales Investments	25,504	18,663	18,663	-	-	-	-
Investment in Associates	16,366	17,049	17,049	17,049	17,049	17,049	17,049
Property, Plant, and Equipment	558	673	829	987	1,204	1,266	1,332
Investment Properties	157,122	169,797	237,656	299,227	294,756	290,351	286,012
Long-Term Assets/Non-Current	**199,550**	**206,183**	**274,198**	**317,263**	**313,008**	**308,666**	**304,393**
Total Assets	**230,819**	**220,613**	**282,403**	**321,255**	**346,792**	**364,338**	**384,099**
Liabilities							
Trade and Other Payables	16,852	17,449	13,960	10,470	6,980	3,490	-
Short term Borrowings	66,184	61,730	61,730	61,730	61,730	61,730	61,730
Current Liabilities	83,036	79,179	75,689	72,200	68,710	65,220	61,730
Borrowing and Long-Term Debt	40,779	20,179	75,179	110,179	110,179	110,179	110,179
Other Non-Current Liabilities (Security Deposits)	9,113	9,414	9,414	9,414	9,414	9,414	9,414
Provision for Employee Services	284	447	447	447	447	447	447
Long-Term Liabilities/Non-Current	**50,175**	**30,039**	**85,039**	**120,039**	**120,039**	**120,039**	**120,039**
Minority Interest in Subsidiaries	-	-	-	-	-	-	-
Paid-Up Capital	41,745	45,920	50,511	50,511	50,511	50,511	50,511
Statutory and Other Reserves	17,027	20,255	15,663	15,663	15,663	15,663	15,663
Retained Earnings	36,621	44,528	54,809	62,150	91,177	112,213	135,464
Treasury Shares	(2,300)	(2,645)	(2,645)	(2,645)	(2,645)	(2,645)	(2,645)
Gain on Sale of Treasury Shares	-	-	-	-	-	-	-
Treasury Shares Reserve	4,634	4,418	4,418	4,418	4,418	4,418	4,418
Fair Value Reserve	(119)	(1,082)	(1,082)	(1,082)	(1,082)	(1,082)	(1,082)
Shareholder Equity	**97,608**	**111,394**	**121,675**	**129,016**	**158,043**	**179,079**	**202,330**
Total Liabilities and Equity	**230,819**	**220,613**	**282,403**	**321,255**	**346,792**	**364,338**	**384,099**

Source: Company data, HC estimates

Cash Flow Statement (KWD '000)							
Year to 31 December	2008a	2009a	2010f	2011f	2012f	2013f	2014f
Net Profit before Minorities	**6,519**	**16,144**	**14,872**	**12,392**	**34,077**	**26,086**	**28,301**
Depreciation and Amortization	2,601	3,170	3,076	4,080	4,488	4,423	4,358
Change in Working Capital	(7,889)	1,544	(2,638)	(2,638)	(2,638)	(2,638)	(2,638)
Change in Provisions	192	1,199	-	-	-	-	-
Net Financing Cost	6,068	(617)	(5,951)	(8,140)	(8,487)	(8,111)	(7,644)
Interest Income and Expenditure	-	-	5,951	8,140	8,487	8,111	7,644
Others	8,086	517					
CF from Operating Activities	**15,577**	**21,957**	**15,309**	**13,833**	**35,927**	**27,871**	**30,021**
Investments Activities:							
Capex (PPE)	(30,823)	(234)	(167)	(171)	(233)	(81)	(85)
Capex (Investment Properties)	-	(15,109)	(70,923)	(65,638)	-	-	-
Others	1,444	5,156	-	18,663	-	-	-
CF from Investment Activities	**(29,379)**	**(10,186)**	(71,091)	(47,146)	(233)	(81)	(85)
Financing Activities:							
Dividends Paid	-	-	(4,591)	(5,050)	(5,050)	(5,050)	(5,050)
Share Issue	-	-	-	-	-	-	-
Bank Borrowings Raised	39,271	(26,628)	55,000	35,000	-	-	-
Others	(2,301)	(561)	-	-	-	-	-
CF from Financing Activities	**36,970**	**(27,189)**	**50,409**	**29,950**	**(5,050)**	**(5,050)**	**(5,050)**
Net Addition (Deduction) in Cash	**23,169**	**(15,418)**	**(5,373)**	**(3,363)**	**30,644**	**22,740**	**24,886**
Cash at Beginning Fiscal Year	(2,623)	20,547	10,172	4,799	1,437	32,080	54,820
Cash at End of Fiscal Year	**20,547**	**10,172**	**4,799**	**1,437**	**32,080**	**54,820**	**79,706**

Source: Company data, HC estimates

Mabanee valuation

Table 17: FCF (KWD '000)

Year	2008a	2009a	2010e	2011e	2012e	2013e	2014e	...	2027e
EBIT	**12,310**	**21,480**	**21,502**	**21,085**	**44,187**	**35,397**	**37,251**		**46,977**
Tax Rate	(242)	(764)	(742)	(618)	(1,700)	(1,301)	(1,412)		(2,361)
EBIT * (1-T)	-	20,716	20,760	20,467	42,487	34,095	35,839		44,616
Depreciation and Amortization	-	(3,051)	3,076	4,080	4,488	4,423	4,358		3,653
Capital Expenditure	-	-	(71,091)	(47,146)	(233)	(81)	(85)		(97)
Revaluation of Investment Properties	(13,485)	(487)	-	-	-	-	-		-
Changes in Working Capital	-	-	(2,638)	(2,638)	(2,638)	(2,638)	(2,638)		-
Free Cash Flow: Explicit Period	(13,485)	17,179	(49,893)	(25,237)	44,104	35,799	37,474		48,172
Terminal Growth Rate									**3%**
FCF: Terminal									904,132
FCF: Total	**(13,485)**	**17,179**	**(49,893)**	**(25,237)**	**44,104**	**35,799**	**37,474**		**952,305**

Source: HC estimates

Table 18: FCF (KWD '000)

Terminal Growth Rate	3.00%	WACC	
NPV: FCF '000	**537,013**	Beta	1
Net Debt/ (Cash) '000	132,109	Risk Free Rate	4.5%
Equity '000	404,904	Country Risk Premium	5.5%
Outstanding Shares mn	505		
DCF Value	**802**	Cost of Equity	10.0%
		Cost of Debt	5.0%
Value of Land	35,000	**After tax cost of debt**	**4.8%**
Investment in Associates	17,049	Weights (KWD '000)	
Value of Land and Investments	52,049	Equity Market Capitalization	338,427
Value of Land and Investments (KWd/share	103	Debt	136,908
Total Value (KWd/share)	**904.7**	Total	475,335
		Tax Rate	5.0%
		WACC	**8.5%**

Source: HC estimates

Rating Scale

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

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