



MAZAYA

AIM TO LEAD



Equity Research Report Dec.21,2015

December 21, 2015

KEY DATA

Fair Value per Share (KD)	0.165
Closing Price (KD)*	0.104
52-week High / Low (KD)	0.140 / 0.098
YTD / 12-month Return	-16% / -15%
P/B (TTM)	0.6
Shares Outstanding (million)	620
Market Cap (KD million)	64
Free Float	65%
Reuters / Bloomberg Code	MAZA.KW / MAZAYA KK

*Prices as of December 21, 2015. Source: Bloomberg and NBK Capital

KEY METRICS

	2014A	2015F	2016F	2017F
EPS (KD)	0.013	0.014	0.015	0.014
EPS Growth	35%	9%	7%	-6%
P/E	8.0	7.3	6.8	7.2
Dividend Yield	5.8%	5.8%	5.8%	5.8%
P/B	0.6	0.6	0.6	0.6
Revenue (KD million)	16.7	55.0	59.3	43.6
Revenue Growth	-36%	230%	8%	-26%
Op. Profit (KD million)	3.9	12.1	13.5	12.6
Op. Profit Growth	-13%	209%	12%	-7%
Op. Profit Margin	23.4%	21.9%	22.8%	29.0%

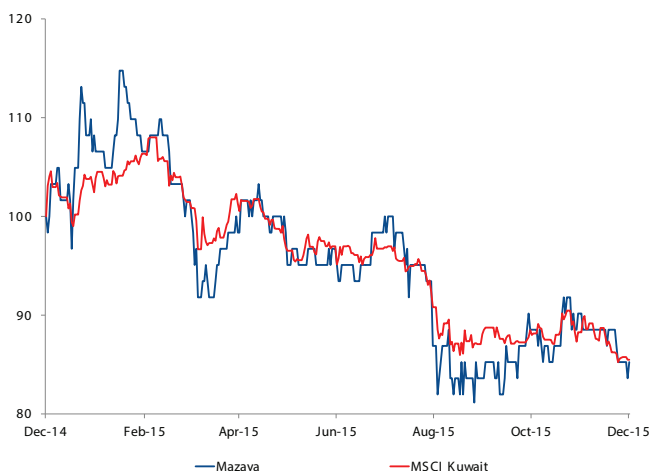
Source: Mazaya and NBK Capital

QUARTERLY FORECASTS

KD 000s	4Q2014A	3Q2015A	4Q2015F	1Q2016F
Revenue	1,366	17,068	15,995	13,643
Operating profit	1,183	3,495	3,444	3,082

Source: Mazaya and NBK Capital

REBASED PERFORMANCE



Source: Bloomberg

Fair Value: KD 0.165

Upside: +59%

Risk Level: 3**

BUY

- Strong profile, low valuation; reiterate Buy.** We maintain our positive view on Mazaya as we expect the company to continue benefitting from its ongoing mid-income real estate development in Dubai despite the general softness in the market, and its fully occupied rent-generating properties across prime locations in Dubai and Kuwait. Despite the strong profile of Mazaya's assets, the stock currently trades at a price-to-book ratio of 0.6x (trailing; we note that Mazaya carries investment properties on a fair-value basis). Thus, we reiterate our Buy recommendation with a fair value of KD 0.165 per share.
- Solid and fully occupied rental properties in Dubai and Kuwait.** Mazaya owns around 270 residential units in Sky Gardens in the Dubai International Financial Center (DIFC) area (accounting for roughly 20% of our EV for the company). So far this year, rents in the DIFC area have outperformed the broader market, which we see as a positive for Mazaya's rental income in Dubai. In addition, Mazaya has four commercial towers in Kuwait (more than one-third of our EV) that are fully occupied, unlike the general Kuwaiti commercial real estate market. Although we lack specific data, anecdotal evidence points towards significant vacancy rates in Kuwait's commercial market.
- Mid-income segment in Dubai housing market continues to outperform amid overall softness – a key positive for Mazaya's ongoing development project.** Mazaya is developing a 2.9 million sqft mid-income project, Queue Point/Queue Line (accounting for 23% of our EV) in Dubailand near Mohammed Bin Zayed Road (E311). It has already launched over 80% of the project and pre-sold around 65% of the total planned BUA. Given that the mid-income segment (mainly end-user driven) continues to see stronger demand than the overall Dubai housing market (see Figures 1 and 2), we do not currently expect the general slowdown in the Dubai market to have a drastic impact on Mazaya's project. Our pricing assumption for the unsold BUA is around AED 600 per sqft, which is much lower than the current selling price of AED 700-750 per sqft, which therefore provides a substantial cushion to our forecasts.
- Key catalysts:** 1) Sustained delivery at Queue Point continuing to boost Mazaya's financial performance; 2) our expectation of KD 0.06 DPS for FY2015, similar to last year, providing an attractive 5.8% yield at the current share price; and 3) a 4% YTD depreciation of the KD against the AED providing incremental benefits to the income generated in AED at the consolidated level.

**Please refer to page 6 for recommendations and risk ratings.

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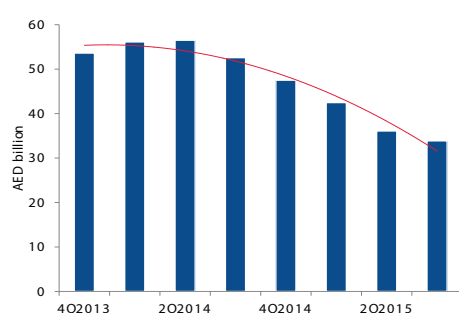
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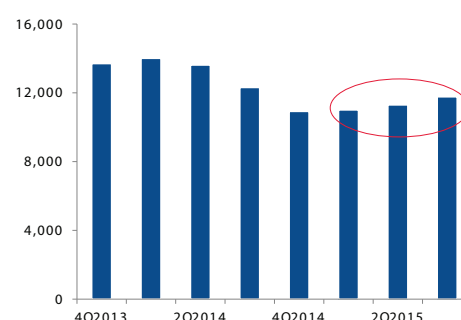
- **Other projects in pipeline:** Mazaya is looking to start work on a 350K sqft BUA mixed-use project in Oman and has secured an OMR 10.5 million (around KD 8.2 million) financing facility to fund construction. Given the very early stage of the project, we have valued it on a land-only basis at its book value of KD 2.8 million. Mazaya has also bought a commercial investment property in Turkey from a joint venture, and this is currently under development. We have valued the property at its book value of KD 11.4 million, of which Mazaya has a 65% direct stake. Mazaya's other major undeveloped land bank includes, Kuwait (book value of KD 8 million), Abu Dhabi (book value of KD 6 million), Dubai (book value of KD 2.7 million) and Lebanon (book value of KD 2.7 million, on which we assign 20% discount considering the current uncertain political and security situation).
- **Key risks:** 1) Prolonged over-supply of commercial real estate in Kuwait could lead to pressure on rents; 2) a further significant correction in the Dubai real estate market; and 3) a material reversal in the interest-rate environment could affect potential customers, leading to a slowdown in business.

Figure 1 Value of Dubai Real Estate Transactions (AED Billion) Figure 2 Dubai Real Estate Transactions (Units)

While the value of transactions in the Dubai real estate market has plummeted this year, the volume of transactions (in number of units) has been relatively flat. This, in our opinion, indicates much stronger activity (or demand) among lower-priced units, mainly in the mid-income segment



Source: NBK Capital



Source: Dubai Land Department, REIDIN, NBK Capital

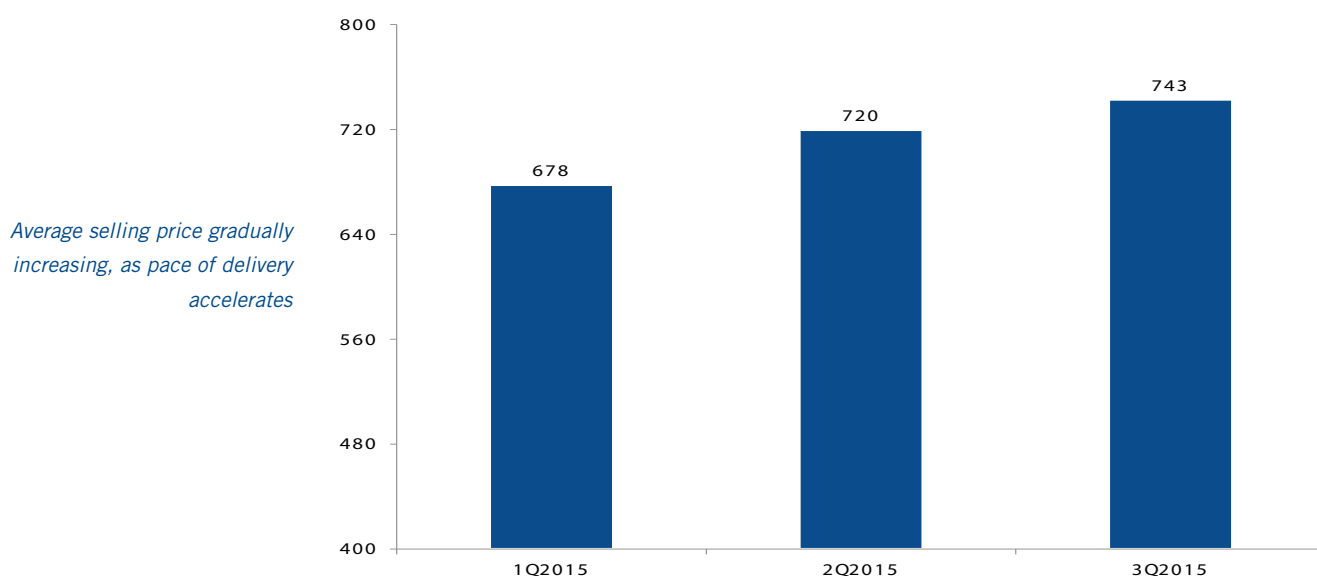
Figure 3 Overview of Mazaya's Queue Point/Queue Line Liwan Project

Queue Point	Description
Location	Dubailand (at the intersection of E311 and Dubai-Al Ain road)
Size	2.9 million sqft (around 3,000 units)
Total revenue potential	KD 160 million (around AED 1.9 billion)
Status	Ongoing, around 65% pre-sold, 80-85% launched
Delivery schedule	2014-2020
Cashflow schedule	until 2020
Cumulative revenue recognition so far	Around 30%
Current Selling price/sqft (AED)	700-750
Our forecast selling price/sqft (AED)	600
Contribution to our gross EV	Around 23%

Source: Mazaya, NBK Capital

Targeting the mid-income segment and with an attractive location, the project continues to see good demand

Figure 4 Queue Point Average Selling Price per Sqft (AED)



Source: Mazaya, NBK Capital

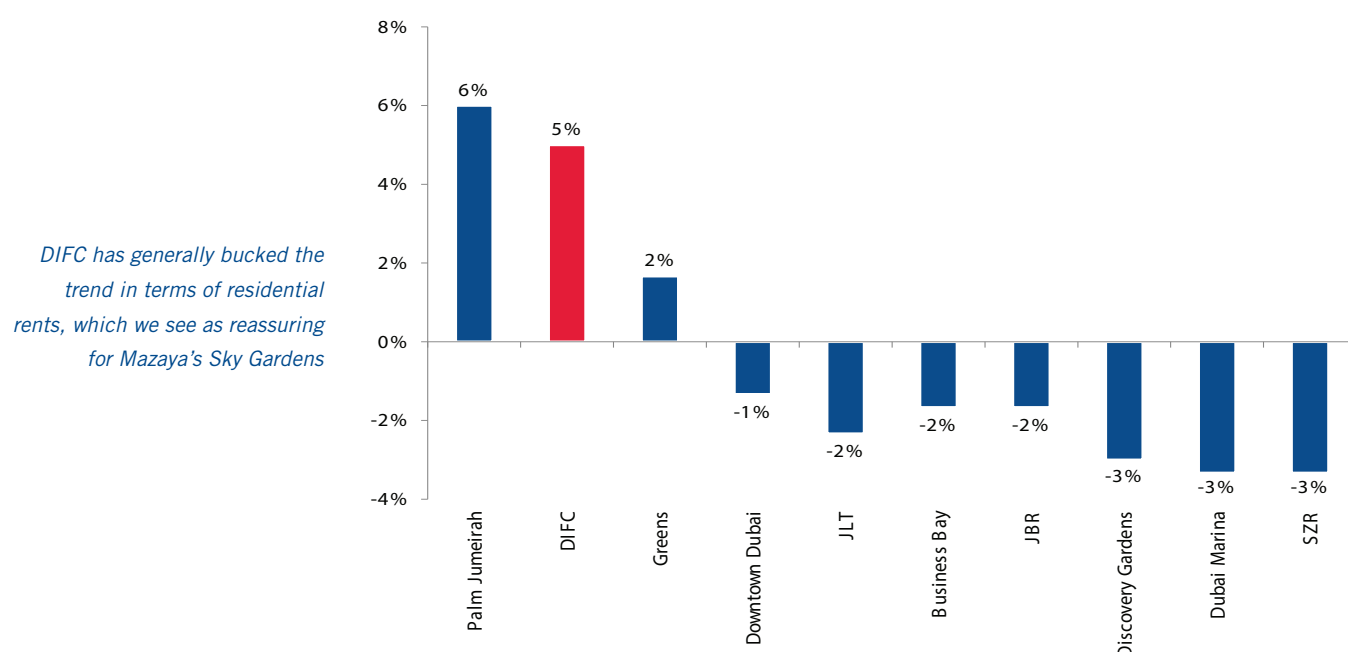
Figure 5 Overview of Major Investment Property in Dubai – Sky Gardens

Sky Gardens continues to be fully occupied given its prime location in Dubai. We assume average rent growth of 1-2% p.a. over our forecast horizon for the property

Sky Gardens	Description
Location	DIFC
Size	Around 270 units, 275K sqft
Book value/sqft. (AED)	1,500
Current market price/sqft. (AED)*	1,600 - 2,100
Current annual rent	KD 1.9 million or AED 23.4 million
As % of Mazaya's total rental income	Around 35%
Contribution to our gross EV	Around 20%

Source: Mazaya, NBK Capital

Figure 6 Rental Performance of Apartments in Dubai (Average YoY Change During 9M2015)



Source: Asteco, NBK Capital

Figure 7 Overview of Mazaya's Kuwait Commercial Investment Properties

Unlike the general Kuwait commercial property market, which has been struggling with high vacancy rates, Mazaya enjoys almost full occupancy due to its product offering, which caters to small and mid-sized corporate tenants

Kuwait Commercial Investment Properties	Description
Location	Kuwait City
Size	75K sqft NLA
Current annual rent	KD 3.1 million
As % of Mazaya's total rental income	Around 50%
Contribution to our gross EV	Around 35%

Source: Asteco, NBK Capital

Figure 8 SOTP Valuation for Mazaya

Our SOTP is the result of two DCFs, adjusted for other assets and liabilities, with recurring income contributing the bulk of our valuation. The stock currently trades at a 0.6x price-to-book ratio (trailing), which we consider attractive. Hence, we maintain our Buy recommendation

SOTP	KD 000s
Development properties EV	24,305
Recurring income business EV	81,022
Total EV	105,327
<u>Adjustments:</u>	
Net debt (at 4Q2015F BV)	(45,773)
Undeveloped land bank	21,852
Associates/JV (at 4Q2015F BV)	12,923
AFS (20% discount to 3Q2015 BV)	9,051
Minorities (at 4Q2015F BV)	(6,557)
Net direct investment in Turkey (at 3Q2015 BV)	7,338
Other liabilities (at 4Q2015F BV)	(674)
Net equity value	103,486
Outstanding shares 000s (ex. treasury)	619,589
Per share fair value (KD)	0.165
Current market price (KD)	0.104
Upside	58.7%

Source: NBK Capital

FINANCIAL STATEMENTS*

Balance Sheet (KD 000s)	Historic		Forecast		
Fiscal Year Ends December	2013	2014	2015	2016	2017
ASSETS					
Cash	17,446	16,318	14,227	14,693	14,829
Prop. Held for Trading	86,386	98,751	61,145	25,284	5,408
Others	5,563	9,848	10,005	10,005	10,005
Total Current Assets	109,395	124,917	85,377	49,983	30,242
Investment Properties	89,095	109,129	126,625	128,424	130,146
AFS	12,751	12,073	11,314	11,314	11,314
Associates and JVs	14,250	12,884	12,923	12,923	12,923
Goodwill & Others	2,625	2,885	2,888	2,897	2,910
TOTAL ASSETS	228,116	261,889	239,127	205,541	187,535
LIABILITIES & EQUITY					
Customer Advances	68,663	79,657	55,147	20,576	2,150
Short-Term Debt	6,887	8,504	5,000	5,000	5,000
Other Current Liabilities	12,524	9,132	14,496	14,496	14,496
Total Current Liabilities	88,074	97,293	74,643	40,072	21,646
Long-Term Debt	42,498	56,254	55,000	50,000	45,000
Other Liabilities	377	586	674	674	674
Total Liabilities	130,949	154,133	130,317	90,746	67,320
Total Equity	97,167	107,755	108,810	114,795	120,215
TOTAL LIABILITIES AND EQUITY	228,116	261,889	239,127	205,541	187,535
Income Statement (KD 000s)					
Fiscal Year Ends December	2013	2014	2015	2016	2017
Total Revenue	25,976	16,665	54,963	59,275	43,632
Operating Expenses	(21,783)	(14,395)	(43,017)	(45,868)	(31,114)
Income from Associates & JVs, excluding Turkey	310	1,629	112	118	118
Operating Income	4,503	3,898	12,058	13,525	12,636
Net Finance Charges	(2,558)	(2,484)	(3,587)	(3,419)	(3,118)
Net Impairment Charges	705	2,004	-	-	-
Net Investment & Revaluation Gains	4,885	3,523	943	-	-
Other	(1,533)	1,146	(568)	(644)	(629)
Net Profit	6,001	8,086	8,845	9,462	8,889
Cash Flow Statement (KD 000s)					
Fiscal Year Ends December	2013	2014	2015	2016	2017
Cash from Operating Activities	9,515	(3,200)	30,055	14,451	13,758
Cash from Investing Activities	(2,463)	(15,320)	(15,897)	(1,955)	(1,880)
Cash from Financing Activities	(2,737)	16,271	(16,250)	(12,030)	(11,742)
Forex Adjustments	(270)	108	-	-	-
Net Change in Cash	4,045	(2,140)	(2,091)	467	136

*Excluding potential projects (such as in Oman) that Mazaya is currently evaluating. Source: Mazaya, NBK Capital

RISK AND RECOMMENDATION GUIDE*

RECOMMENDATION			UPSIDE (DOWNSIDE)	
BUY			MORE THAN 15%	
HOLD			BETWEEN -15% AND 15%	
SELL			LESS THAN -15%	
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

**In exceptional situations, the analyst can exercise discretion and assign a recommendation for a stock which differs from the one indicated by the bands.*

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