

# MEFIC Capital Proprietary Investment Department



## Souq Sharq Investment Opportunity Sale of High Income Yielding Commercial Property

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Confidential Document – Circulation Restricted

ميفك كابيتال  
MEFIC Capital



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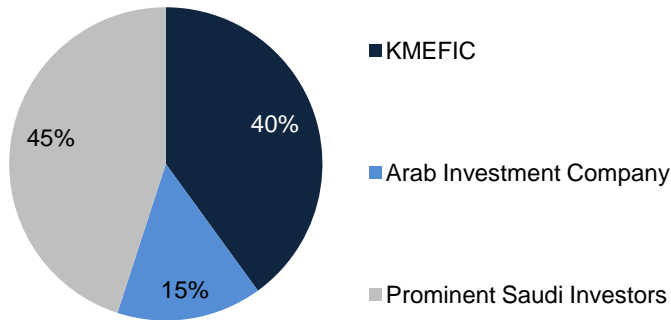
## MEFIC Capital Overview

# MEFIC Capital Overview

## Ownership Structure & Services

MEFIC Capital is a Saudi based investment banking and asset management firm. We are committed to building enduring relationships with our clients and providing expertise and solutions to meet their evolving need.

### MEFIC Capital Ownership Structure



### Corporate Shareholder Overview

#### Kuwait & Middle East Financial Investment Company



KMEFIC is a publicly traded financial services company on the Kuwaiti Stock Exchange providing asset and wealth management services, in addition to direct investment stakes in various sectors. Al Ahli Bank BSC (traded on the Bahraini Stock Exchange) indirectly owns a majority stake in KMEFIC; along with Kuwaiti and Bahraini governmental institutions and GCC investment companies.



#### The Arab Investment Company (TAIC)

TAIC is a Pan-Arab joint stock company established in 1974 and owned by the governments of 17 Arab countries with a paid-up capital of US\$700 million. TAIC's primary objective is to invest Arab funds to develop Arab resources.

### MEFIC Capital Offered Services

#### Wealth Management

- Financial Planning
- Investment Portfolio Management
- Catered to high net worth individuals

#### Asset Management

- Mutual Funds
- Private Equity Funds
- Real Estate Funds
- Discretionary Portfolio Management.

#### Corporate Finance & Investment Banking

- Financial advisory services covering:
  - Mergers & Acquisitions
  - Debt Capital Markets
  - Equity Capital Markets
  - Restructuring
  - Business Strategic Review

#### Brokerage

- Provide clients with brokerage services for trades executed on the Tadawul Stock Exchange.

#### Custody

- Safekeeping customer assets and holdings.
- Ensuring secure handling of funds on behalf of clients or counterparties.

# Investment Opportunity

# Introduction

## Opportunity & Investment Overview

### Overview

Opportunity Overview	Introduction	<ul style="list-style-type: none"> <li>➤ A commercially successful souq, centrally located in Riyadh and ~85% rented with high income generation potential is available for sale.</li> <li>➤ Total rentable area is 69,000 Sq. Meters with sizeable expansion potential.</li> <li>➤ New &amp; high quality construction as project launched in 2012.</li> </ul>
	Location	<ul style="list-style-type: none"> <li>➤ The souq is strategically located in the prime shopping district of Riyadh, with top brands in the vicinity.</li> <li>➤ The market is built on a 120,000 sq meter land area on East Ring Road off Exit 16, directly opposite IKEA, Home Center and Ethra Mall, driving huge foot-traffic.</li> </ul>
	Tenancy	<ul style="list-style-type: none"> <li>➤ Total of 187 showrooms.</li> <li>➤ Market includes regions largest Home Furnishing brand 'Pan Emirates' which opened its 1st flag ship showroom in May 2014.</li> <li>➤ Retail foot traffic driven by Pan Emirates expected to drive rental yields higher.</li> </ul>

Investment Overview	Pricing Guidance	<ul style="list-style-type: none"> <li>➤ The shopping mall is being offered for sale for SAR 300 Mn with deferred payment option. <ul style="list-style-type: none"> <li>➤ SAR 180,000,000 upfront cash payment.</li> <li>➤ MEFIC to provide long term loan at 4% for the balance portion to be paid in 5 equal installments starting end 2015.</li> </ul> </li> </ul>
	Strong Rental Growth Outlook	<ul style="list-style-type: none"> <li>➤ Currently promotional &amp; below market rents in place at yields averaging SAR xx per sq meter. (&gt;50% discount to market average).</li> <li>➤ Average retail rents as per JLL in Riyadh are above SAR 2000 per sq meters.</li> <li>➤ Over 82% of contracts end by Dec-2015 and this provides strong potential for market based re-pricing.</li> <li>➤ At SAR 1000 sq meter (50% of Mkt avg) the gross revenue yield is at SAR 69 Mn.</li> </ul>
	Land Lease	<ul style="list-style-type: none"> <li>➤ The project land is leased for 22 years starting 2007, with lease rentals fixed for the entire 22 years term at SAR 12.6mn p.a. with no escalations.</li> <li>➤ 5 year extension option for lease in consultation with the lessor.</li> </ul>
	Shareholder Equity Options	<ul style="list-style-type: none"> <li>➤ The return for the incoming investor, at the offer price of SAR 300mn will result in an attractive 13.4% IRR for remaining 15 year lease period, even after assuming no extension &amp; a zero terminal value.</li> </ul>

### Investment Details

Type of Property	Commercial Market (SOUQ)
Location	Riyadh, East Ring Road off Exit 16, directly opposite IKEA.
Leased	~85%
Tenancy	xx Tenants, Promotional below market rents in place with huge re-pricing potential
Rental Income	SAR 31.4 Mn
Current Yield	11%
Rentable Area	69,000 sq meters
Site Land Size	120,000 sq meters
Launch Date	2012
Pricing Guidance	SAR 300Mn
NPV @ 7% WACC	SAR 372 Mn
Base Case IRR	13.4%

# Investment Overview

## Property & Lease Contracts Details

Souq Sharq - Lease Contract Details	
<b>Owner of Property</b>	Souk Sharq is owned by JESER Real Estate (a wholly owned subsidiary of MEFIC Capital) on a long term 22 years lease till 2029. There is a 5 year extension clause in the agreement subject to consent from Lessor.
<b>Total Number of Showrooms</b>	187 Shops
<b>Land / Net Leasable Area</b>	120,000 sqm / 69,000 sqm
<b>Key Tenants</b>	Pan Emirates, Abu Nayan Trading, Al Manae Electronics, Al Kaffary Group, Mr. Big Furniture
<b>Land Lease Rental</b>	SAR 12.6 Mn per annum
<b>Non Escalation Clause</b>	The land lease payments are fixed for the term of 22 years with no escalation.
<b>Re-pricing of Lease contracts</b>	Between 2013 to 2014: 84 contracts (45% of Total) Between 2017 to 2018: 68 contracts (36% of Total) Between 2019 to 2020: 28 contracts (15% of Total) Cumulative of 82% of contracts re-price before Dec 2015.
<b>Current Lease Income (2013 Actual)</b>	SAR 31.4 Mn
<b>Average Lease Rate</b>	SAR xxxx/ square meters (60% discount to market average due to promotional below market rents in place. Re-pricing due from Nov 2014 onwards )

# Investment Overview

## Investor Value Proposition

### Secure Investment

- Souq Sharq offers investors a tangible secure asset backed investment opportunity in a quality purpose built commercial property in Saudi Arabia..

### Reputed Tenants

- The Souq has been leased out to established and highly reputed brand names e.g. Pan Emirates, which will drive strong retail foot-traffic in the market.

### Growth Outlook

- The market has received phenomenal response with occupancy reaching 85% in initial phase yielding Gross rental income of SAR 31.4Mn.
- Pan Emirates has signed a long-term contract for 15 years; Opened the 1<sup>st</sup> flag ship showroom in KSA in Souq Sharq.

### High & Definite Returns

- The investment offers investors, a definitive income stream with minimal operating costs and related risks, resulting in very attractive net IRR of 13.4% (potential for further yield enhancements through re-pricing of rental contracts and increasing rentable area by adding more shops.).

### Deferred Payment Option

- MEFIC is offering a deferred payment option including:
  - SAR 180,000,000 upfront cash payment.
  - Loan at 4% for the balance portion to be paid in 5 equal installments starting end 2016.
  - Upside includes loan repayment from internal cash flows from the project.

### Fixed Cost Structure

- The project land is leased for 22 years starting 2007, with fixed rental for the entire term at SAR 12.6mn p.a. with no escalations.
- 5 year extension option in lease duration in consultation with the lessor.

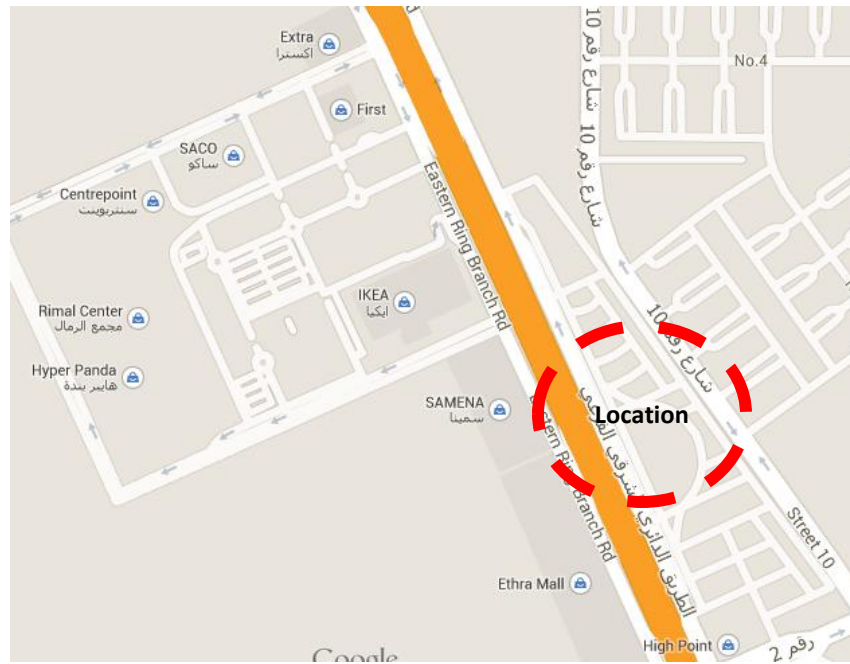
### Low Risk

- Lower business risk as 85% of the market is rented out to renowned local and regional brand names.



# Property Overview

## Location Details



- ✓ Souk Sharq is a commercial market spread into over 120,000 square meter land parcel on East Ring Road, off Exit 16 right opposite IKEA, Rimal Center and Ethra Mall.
- ✓ Prime location in the city of Riyadh, with other malls in the vicinity making the location a complete shopping arena.
- ✓ The market is built with a ground floor and Mezzanine floor. There is a potential to add more floors in the market which will increase the rental income for the project.
- ✓ Ample Parking space in the market and near by area.

# Tenants Profile

## Key Tenants & Occupancy Rate

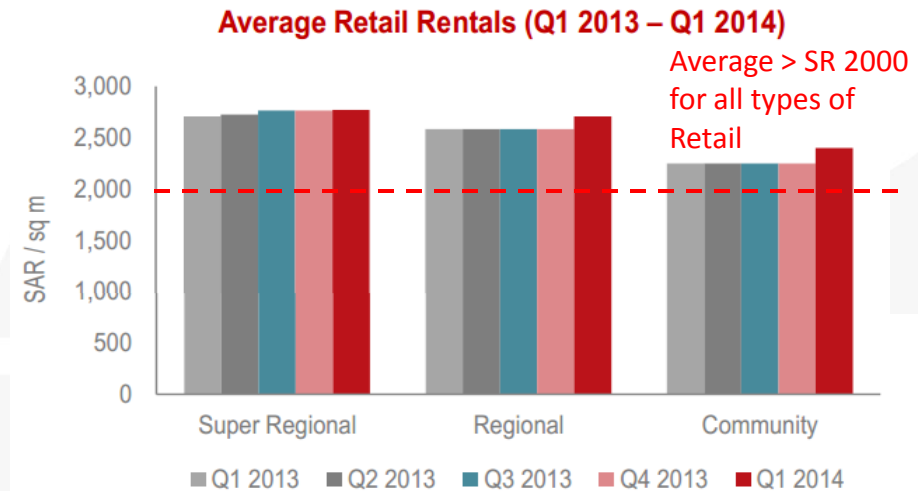


- ✓ Currently the property is 85% rented (as of May 2014).
- ✓ Vacancy of 10-15% kept to get high rental yields after full-fledge operations of large brands like Pan Emirates.
- ✓ Fixed long term 15 year contract with anchor tenant 'Pan Emirates' to ensure presence of highly reputed and established brands in the market.

# Investment Opportunity

## Riyadh Retail Market Overview

Indicator	Level	Comment / Outlook
Current Retail Space* (GLA)	1.28 million sq m	There have been no additions to Riyadh's retail market over the last six months.
Future Supply (2014 – 2016)	499,000 sq m	KAFD, Olaya Towers and ITCC are the next major quality retail projects expected to be delivered during 2014.
Average Estimated Rental Value	SAR 2,700 per sq m p.a.	Average rentals have increased marginally across all retail categories over the last six months, with community centres experiencing the highest rental increase.
Average Regional Mall Vacancy	12%	Vacancies have remained stable at 12% over the last two quarters.



Source: JLL 1Q 2014 – Riyadh Retail Market Overview

Source: JLL 1Q 2014 – Riyadh Retail Market Overview

- ✓ According to Jones Lang LaSalle (JLL) Riyadh property report 2014, the rentals for all types of retail including un-organized community retail are above SAR 2000 per sq meters.
- ✓ Meanwhile, for Souq Sharq due to introductory offers in 2012 average rental yield stand at SAR xxx per sq meters.
- ✓ Key Investment positive includes re-pricing of these contracts at market rates in 2014 and 2015.
- ✓ With NLA of 69,000 sq meters & 187 showrooms, re-pricing of rental contracts to SAR 1000 per sq meters (still 50% discount to market average) will imply Gross Lease Revenue of SAR 69Mn more than 2x current rental income.
- ✓ Likelihood for re-pricing is further enforced by the fact that 45% of contracts expire before Dec-2014 while over 82% end before Dec-2015. The remaining include long term contracts with premium brands like Pan Emirates which are anchor tenants to drive retail foot-traffic in the market.

# Investment Opportunity

## Key Assumptions / NPV & IRR Sensitivity

Valuation - Income & Cost Assumptions	
<b>Rental Income (Current)</b>	SAR 31.4 Mn
<b>Rental Uplifts</b>	First Uplift: SAR 800 per Sqm @ June 2016 Second Uplift: SAR 1000 per Sqm @ Dec 2019
<b>Operating Costs</b>	Property Management @ 5% of Gross Income Other Expenses @ 2% of Gross Income
<b>Debt: Equity</b>	Debt: SAR 150Mn @ 4% Interest Equity: SAR 150Mn Cash Payment
<b>WACC</b>	7% (Based on 50% Leverage)
<b>Occupancy Rate</b>	Step up to 95% in 5 years

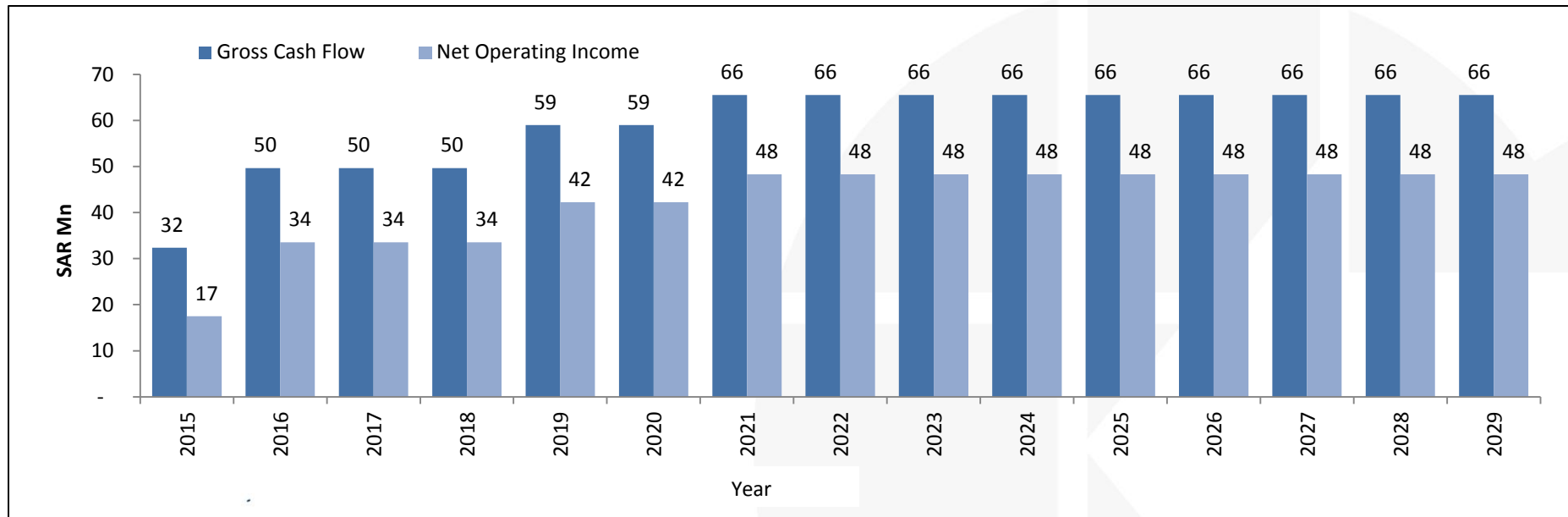
N PV sensitivity (WACC)	
6.0%	400,923,281
6.5%	386,484,864
7.0%	372,776,152
7.5%	359,753,236
8.0%	347,375,186

IRR sensitivity	
300,000,000	13.4%
310,000,000	12.5%
320,000,000	11.7%
330,000,000	11.0%
340,000,000	10.3%

- ✓ Our base case analysis is based on conservative assumptions compared to market averages:
  - Max Rental @ 1000 per sq meter => 50% discount to market average
  - Max Occupancy at 95% => 5% vacancy over entire life of project; 5 year step up to 95% occupancy level.
  - Cost of Equity @ 10% => WACC of 7% as compared to market average of 5%.
- ✓ NPV of SAR 372 Mn over the remaining 15 years of lease period even after assuming a zero terminal value.

# Investment Opportunity

## Attractive Cash Flows & IRR



- ✓ The market is offered for sale at SAR 300Mn with a deferred payment option for investor.
  - SAR 180,000,000 upfront cash payment.
  - MEFIC arranged financing at 4% for the balance portion to be paid in 5 equal installments starting end 2016.
- ✓ The investor will receive net operating cash flows in excess of SAR 30 Mn p.a. right and going up to over SAR 46Mn.
- ✓ Investor expected to realize an IRR of ~13.4% over the remaining 15 years of lease period even assuming no extension and a zero terminal value..

# Investment Opportunity

## Investor Purchase on Leverage

Purchase on 50% leverage	Change in Rent Income			
	-10%	-5%	+5%	+10%
@ 6% Operating Cost	11.0%	12.4%	15.1%	16.3%
@ 7% Operating Cost	10.7%	12.1%	14.7%	16.0%
@ 8% Operating Cost	10.4%	11.8%	14.4%	15.7%

- ✓ The Investor will purchase the property with 50% leverage at a low financing cost of 4%.
- ✓ Reduced upfront equity ticket size of SAR 150 Mn.
- ✓ The returns to the investor increases by using leverage.
- ✓ The Investor will utilize the internal cash generation from lease income to service the debt repayments.
- ✓ Low operational risk as 85% of the property space is rented out.
- ✓ Effective marketing & sales promotion could increase rental yields leading to higher IRR for the investor.

## Appendix – Pictorial Snapshot



# Investment Opportunity

## Pictorial Snapshot of the market

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## Pictorial Snapshot of the market

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**Thank You**