



NBK CAPITAL REPORT EQUITY RESEARCH

KEY DATA

Fair Value per Share (KD)	0.165
Closing Price (KD)*	0.106
52-week High / Low (KD)	0.143 / 0.093
YTD / 12-month Return	+8% / +10%
P/E (TTM)	6.1
Shares Outstanding (million)	620
Market Cap (KD million)	66
Free Float	65%
Reuters / Bloomberg Code	MAZA.KW / MAZAYA KK

*Prices as of December 15, 2014. Source: Bloomberg and NBK Capital

KEY METRICS

	2013A	2014F	2015F	2016F
EPS (KD)	0.010	0.010	0.019	0.017
EPS Growth	nm	3%	86%	-8%
P/E	10.9	10.6	5.7	6.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%
P/B	0.7	0.6	0.6	0.5
Revenue (KD million)	26.0	17.7	69.5	61.2
Revenue Growth	-22%	-32%	292%	-12%
Op. Profit (KD million)	4.5	3.4	15.2	13.4
Op. Profit Growth	-36%	-25%	347%	-12%
Op. Profit Margin	17.3%	19.2%	21.9%	21.9%

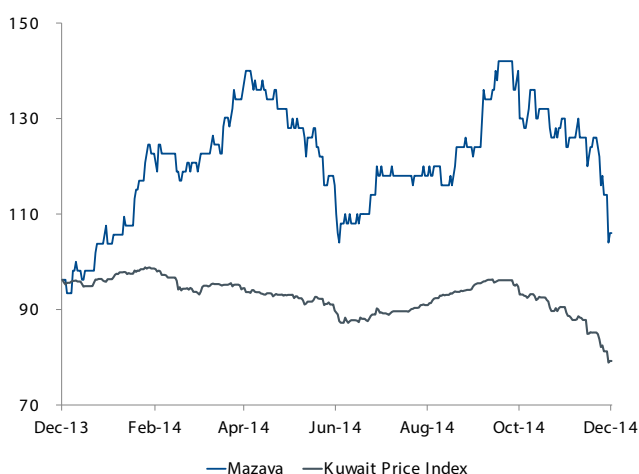
Source: Mazaya and NBK Capital

QUARTERLY FORECASTS

KD 000s	4Q2013A	3Q2014A	4Q2014F	1Q2015F
Revenue	5,588	6,155	2,417	16,375
Operating profit	1,228	(289)	684	3,050

Source: Mazaya and NBK Capital

REBASED PERFORMANCE



Source: Bloomberg

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Fair Value: KD 0.165

Upside: +56%

Risk Level: 3**

BUY

- Initiating with a Buy.** We initiate our coverage on Mazaya with a Buy recommendation and a fair value of KD 0.165 per share applying a SOTP methodology using two different set of DCFs (one for development properties and one for investment properties). We see value in Mazaya owing to high visibility on its future cashflow generation and a relatively cleaned up and strong balance sheet and undemanding valuations compared to its Kuwaiti peers. In addition, on a price to book value basis, Mazaya currently trades significantly below its peak valuation of the last two years.
- Great visibility on steady stream of future cashflows.** A geographically diverse and well-placed portfolio of income-generating assets (with a high level of occupancy for its office space in Kuwait unlike the rest of the Kuwait commercial real estate market and sustained demand for its residential investment properties in Dubai) provides great visibility regarding Mazaya's future cash generation, in our opinion. Furthermore, the company's ongoing development project in Dubai is in its last phase and nearing completion. Due to the dynamic nature of information on future projects, we are not including in our estimates any project that the company has not yet launched.
- Balance sheet is in much better shape now, except for AFS portfolio.** Mazaya currently has lower leverage than its peers in Kuwait (25% vs. peer average of 58%, as of June 2014). Mazaya has also reduced its exposure to non-core investments (AFS), which now account for 12% of equity (as of June 2014) after around 34% cumulative impairments on original investments in the last four years. Management currently does not foresee any material risks to its investment book. However, we still view this as a source of potential risk; on the conservative side, we have opted to assign a 20% discount to these investments in our SOTP valuation to account for any downside to its realizable value.
- Valuations are not too demanding looking at the strength in the balance sheet and the asset profile.** Mazaya currently trades at a trailing price to book of 0.67x (34% below the peak of the last two years) compared to its Kuwait peer average of 0.76x. Looking at the strength in Mazaya's balance sheet, its geographically diverse asset profile including its presence in the attractive Dubai real estate market, we believe that the company deserves to trade at a higher multiple.
- Key risks:** 1) Prolonged over-supply in Kuwait commercial real estate could lead to pressure on rentals; 2) a significant increase in supply in Dubai may cause a sharp correction in the Dubai real estate market; and 3) a material reversal in the current low interest rate environment could affect financing options for the company as well as its potential customers.

**Please refer to page 19 for recommendations and risk ratings.

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INVESTMENT THESIS

We initiate our coverage on Mazaya with a Buy recommendation and a fair value of KD 0.165 per share using a SOTP methodology. Our positive outlook on Mazaya stems from the high visibility on its future cashflow generation, its relatively strong balance sheet, and reasonably undemanding valuations compared to its Kuwait real estate peers. In addition, on a price to book value basis, Mazaya currently trades significantly below its peak valuation of the last two years.

Great visibility on steady stream of future cashflows

Mazaya has a large portfolio of investment properties (mainly spread across prime locations in Kuwait and Dubai) with a high level of occupancy rates. Therefore, Mazaya's recurring income-generating assets provide great visibility on the company's future cashflows. In addition, Mazaya is on the last leg of completing its current development projects (primarily Queue Point Liwan in Dubai). Looking at the current optimism in the Dubai real estate market (against the backdrop of anticipated economic growth running up to the World Expo 2020 and the improving overall fundamentals), we believe that the outlook for Dubai real estate appears promising over the medium term. In an unlikely scenario, even if we were to assume that the company would not be able to find buyers for its remaining unsold inventory in Liwan, our stress test does not result in any catastrophic change to our views (fair value drops by 18% to KD 0.135). This further bolsters our confidence in the company's recurring income generating assets.

Balance sheet is in much better shape now but AFS exposure remains a concern

Mazaya currently has lower leverage than its peers in Kuwait (25% vs. peer average of 58%, as of June 2014). The company has undertaken a series of clean-up actions concerning its non-core investments. Financial investments (AFS) now account for KD 12 million or 12% of equity (as of June 2014). Over the last four years, the company has taken a cumulative impairment charge of around KD 7.7 million (around 34% of its original investments) on its investment book. Management currently does not foresee any material downside to its investment book. However, we still view this as a source of potential risk; to be conservative, we have assigned a 20% discount to these investments in our SOTP valuation to account for any downside to its realizable value.

On a PB basis, valuations do not seem too demanding

Mazaya currently trades at a price to book of 0.67x (34% below the peak of the last two years) compared to its Kuwait peer average of 0.76x. Looking at the strength in Mazaya's balance sheet and its geographically diverse asset profile including its presence in the attractive Dubai real estate market, we believe that Mazaya deserves to trade at a higher multiple. For comparison, we only include peers that follow similar accounting policies with respect to investment properties (carried at fair value with no depreciation charges).

Our FV represents 56% upside thus we initiate with a Buy

We arrive at a fair value of KD 0.165 for Mazaya applying a SOTP valuation using two different sets of DCFs. For the company's recurring income stream, we apply a WACC of 8.0% (50:50 debt-equity ratio) and for development properties a WACC of 9.8% (20:80 debt-equity ratio). The company has stated that it will be launching new projects in a phased manner in its existing as well as new markets (mainly Abu Dhabi, Oman and Turkey). Due to a lack of details however, we do not account for any new development projects that are yet to be finalized. Given that almost all of the existing development projects (except the last phase of the Queue Point Liwan) should be fully delivered by 2014 or early 2015, we believe that any concrete announcement of new projects is likely to lead to some upside to our forecasts and valuation.

Key risks

1) Prolonged over-supply in Kuwait commercial real estate may put pressure on rents and/or occupancy rates for Mazaya over the medium to long term; 2) As new and massive projects are being launched on a constant basis in Dubai, it could lead to an oversupply situation in the Dubai real estate market; 3) Furthermore, any material reversal in the current low interest rate environment could affect financing options for Mazaya's potential customers and the company could find it difficult to sell off-plan projects.

VALUATION

We arrive at a fair value (FV) of KD 0.165 for Mazaya using a SOTP comprising two different sets of DCFs, one for its development properties and one for its recurring business. Since our FV implies upside potential of 56%, we initiate coverage on Mazaya with a Buy recommendation.

Figure 1 SOTP Valuation for Mazaya

SOTP	KD 000s
Development properties EV	42,614
Recurring income business EV	69,114
Total EV	111,728
Adjustments:	
Net debt (2014F end)	(33,661)
Undeveloped land bank	10,855
Associates/JV (at 9M2014 BV)	8,550
AFS (20% discount to 9M2014 BV)	11,902
Minorities (at 9M2014 BV)	(6,644)
Other liabilities (at 9M2014 BV)	(465)
Net equity value	102,264
Outstanding shares 000s (ex. treasury)	619,589
Per share fair value (KD)	0.165
Current market price (KD)	0.106
Upside	55.7%

Our SOTP is a result of two different DCFs adjusted for other assets and liabilities

Source: NBK Capital

Valuations do not appear demanding in our opinion

We compare Mazaya with other Kuwait real estate players on a price to book basis. We have only taken into consideration the company's peers that follow accounting policies similar to Mazaya, i.e. investment properties carried at their fair value without depreciation but less any impairment charges.

Mazaya is trading close to its historical average PB but 34% below its peak of the last two years. However, since the visibility on its future cashflows is much higher at the moment, and its balance sheet has been cleaned up, we expect the company to be able to trade much higher than its historical average

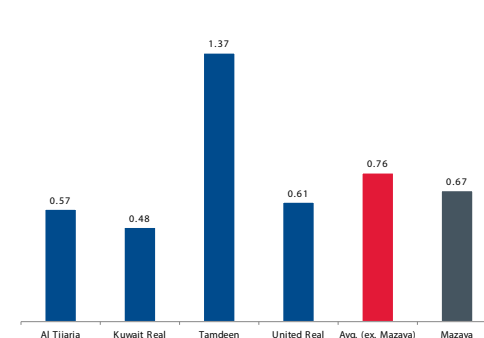
Mazaya trades lower than its peer average but looking at the strength of its balance sheet and asset profile, we expect it to trade at a higher multiple

Mazaya is currently trading at a PB of 0.67x, lower than its peer average. Also, from a historical perspective, Mazaya is trading at 34% below its peak of the last two years. However, given Mazaya's geographically diverse asset profile (including its presence in the promising Dubai real estate market), its lower leverage than its peers, and its reduced exposure to non-core financial assets, we believe that it should trade at a higher multiple.

Figure 2 Mazaya Historical Trailing PB



Figure 3 Price to Book Comparison



Source: Bloomberg

Implied cap rate

For the recurring income portfolio, our 12-month forward implied cap rate using 2017F operating cashflows is 6.5%. We argue that Mazaya's exposure in prime locations in Dubai could attract lower cap rates than those for its Kuwaiti properties, mainly due to the current over-capacity concerns in the Kuwait commercial real estate segment. Thus, on a blended basis, we feel comfortable with this cap rate, considering the geographical diversification that Mazaya offers in terms of its income-generating assets.

Summary of Key Assumptions**Development properties:**

Projects: We are not factoring in any new projects that the company has not formally launched and are only including the remaining phase of Queue Point Liwan (Mazaya's current flagship project in Dubai), which is likely to be fully delivered over the next two to three years. We also account for Mazaya's land bank at its book value, on which the company will soon launch new projects (Abu Dhabi, Dubai and Oman).

Financing: Given that the company operates in both the development and investment segments of the real estate market, we find it difficult to apportion the existing debt between the businesses. Therefore, we have attempted to use a broad industry/target-based financing structure for each business. Since most development projects are self-financed (commonly excluding the cost of the land), we assign a 20:80 debt-equity ratio for this business, in line with the broad market trend. However, in reality, the debt component could be higher if the company faces difficulties selling the project off-plan.

SG&A expenses: Our discussion with management revealed that the majority of the company's SG&A could be attributed to development properties, such as marketing expenses along with higher head office-related expenses due to the nature of the business.

WACC: Using a cost of equity of 11.0%, a cost of debt of 5.0%, and a debt-equity ratio of 20:80, we assign a WACC of 9.80% for the development business.

Investment properties:

Projects: Besides the existing projects, the company is currently looking to build another commercial real estate project in Kuwait along with a new logistics project in Bahrain that we have taken into account in our forecasts.

We have valued all of the company's undeveloped land bank at its book value except for the KD 2.3 million land plot in Lebanon. Considering the current uncertain political and security situation in Lebanon, we assign a discount of 20% to this particular piece of land.

Financing: Since investment projects typically have a much higher debt component in terms of financing, we assign a 50:50 debt to equity ratio for this business, in line with the broad market trend. However, in reality, the equity component could be higher if the company finds it difficult to raise large debt to fund new investment projects.

SG&A expenses: As we discussed above, the recurring business requires a very small portion of existing SG&A. In line with the trend that we see among pure-investment-play Kuwait real estate companies (such as Salhia and Mabanee), we assign an average 11% of revenue as SG&A expenses over our forecast horizon for this segment. Although the nature of the assets is different (retail for Mabanee and commercial for Salhia vs. commercial/residential for Mazaya), we expect the trend to remain broadly the same.

WACC: Using a cost of equity of 11.0%, cost of debt of 5.0% and a debt-equity ratio of 50:50, we calculate a WACC of 8.00% for the recurring business.

Other assumptions:

We take investments in associates and JVs at their book value. Similarly, we also take minority interests at their stated book value as of September 2014.

In addition, the company has an AFS portfolio at a book value of KD 15 million as of September 2014. Mazaya has taken a cumulative KD 7.7 million in impairments on this portfolio since 2010. Although management does not foresee any material risks to its non-core financial investment book at the moment, we conservatively apply a 20% discount to this in our SOTP.

Figure 4 Enterprise Valuation Summary

KD 000s	2014	2015	2016	2017	2018	2019	2020
Properties held for trading (development)							
WACC	9.80%						
	2014	2015	2016	2017	2018	2019	2020
Free cashflow	(2,411)	20,611	17,613	17,766	-	-	-
SG&A	(3,800)	(3,767)	(3,752)	(946)	-	-	-
Net cashflows	(6,210)	16,844	13,860	16,819	-	-	-
PV of cashflows		16,532	12,390	13,693	-	-	-
Terminal		-					
Enterprise value		42,614					
Recurring income (excluding income from associates)							
WACC	8.00%						
Terminal growth	1.75%						
	2014	2015	2016	2017	2018	2019	2020
Free cashflow	(2,657)	1,824	4,873	5,577	5,578	5,393	5,389
SG&A (average 11% of revenue)	(692)	(770)	(830)	(867)	(814)	(778)	(781)
Net cashflows	(3,349)	1,054	4,043	4,710	4,763	4,616	4,608
PV of cashflows		1,038	3,686	3,977	3,724	3,341	3,088
Terminal		50,271					
Enterprise value		69,124					
Total enterprise value		111,739					

Source: NBK Capital

Risks:**Significant oversupply and change in sentiment in Dubai real estate market**

New large project launches in Dubai could lead to oversupply. Furthermore, a rapid rise in Dubai real estate prices has reignited fears of the formation of another bubble-burst cycle. Although we do not factor in any significant correction in real estate prices at this point, any material reversal in the current upbeat outlook could weigh on investor sentiment.

Prolonged over-capacity in Kuwait commercial real estate segment

The Kuwaiti commercial real estate market is currently plagued by over-supply and therefore leading to low occupancies for many players. Although Mazaya continues to see almost full occupancy for its commercial business towers in Kuwait, if the over-supply situation continues for a significant length of time, Mazaya's revenue could come under pressure.

Exposure to new and unchartered geographies

Mazaya is planning to launch new projects in Oman and Turkey. Mazaya has not operated in these markets before and hence could be subject to risks associated with operating in new and unchartered territories.

Also, as Mazaya is increasing its presence in newer geographies – especially the countries where the currency has been more volatile (such as Turkey) – the company could be exposed to FX-related risks.

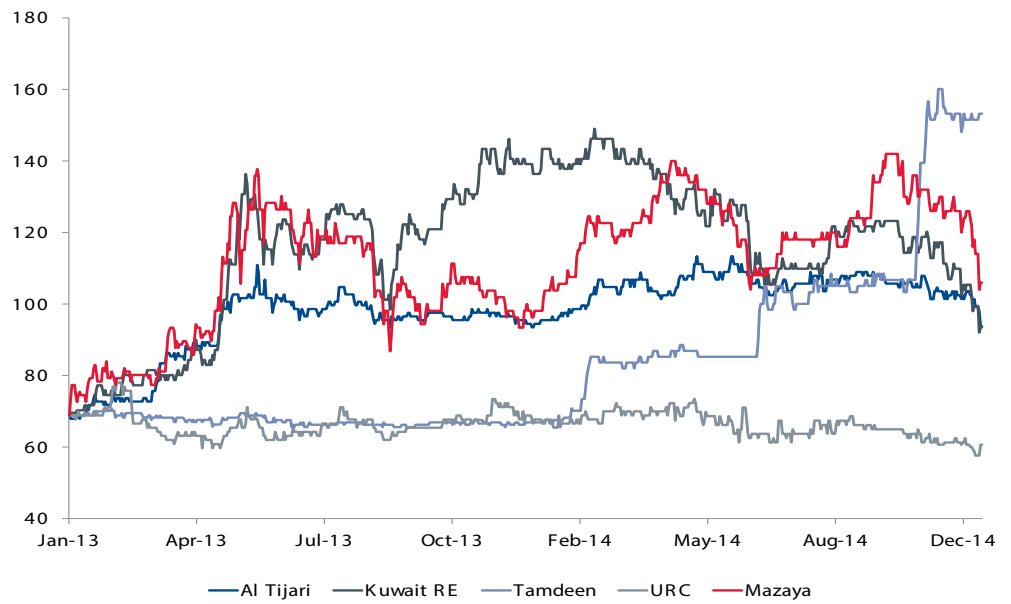
Significant rise in general interest rates

A substantial rise in interest rates could make financing expensive and therefore dampen the sentiment of real estate investors and affect demand from end-users. In such a scenario, selling projects off-plan could prove to be difficult.

Price Performance and Share Liquidity

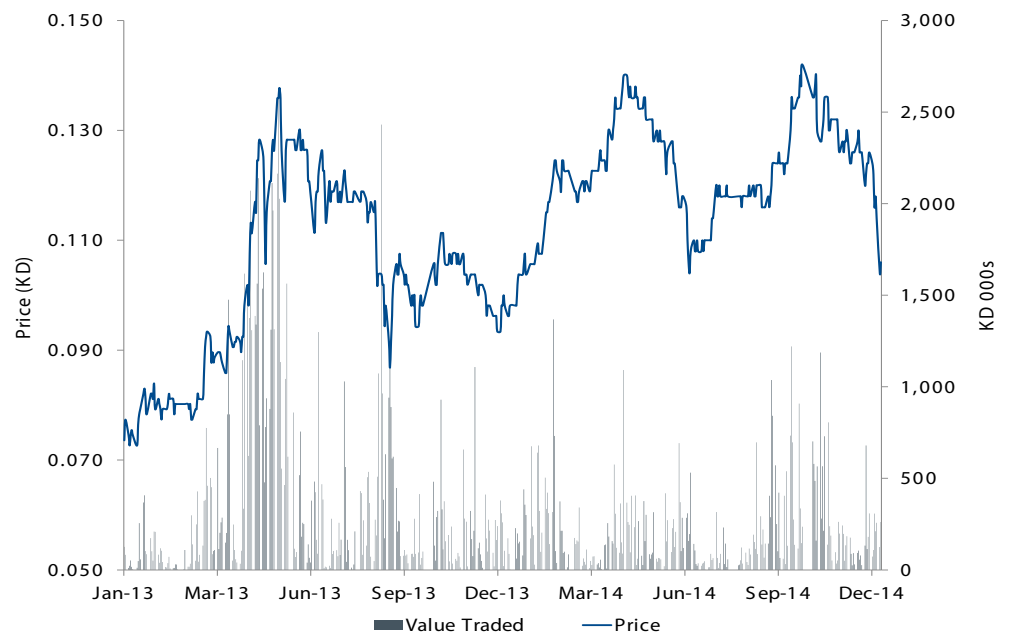
Figure 5 Price Performance

Mazaya has outperformed most of its Kuwaiti peers in the last 12 months



Source: Bloomberg

Figure 6 Mazaya Share Performance and Daily Traded Value



Source: Bloomberg

COMPANY OVERVIEW

Mazaya was established in 1998 and started operating as Al Mazaya Holding Company in 2004. It is dual-listed on the Kuwait Stock Exchange and the Dubai Financial Market. The company's primary activity is real estate development and owning rental-generating properties, while its other operations include land purchase and sale, project management and consultancy, and property valuation.

Delivered, ongoing and potential projects

Figure 7 Project Overview

Project Name	Location	Total Investment (USD millions)
Delivered Projects		
Al Maha Villas	Kuwait	30
Al Roya Residential Complex	Kuwait	30
Global Tower	Kuwait	22
Seven Zones	Kuwait	36
Dubai Healthcare City	Dubai	65
Mazaya B Business Avenues	Dubai	273
Sky Gardens	Dubai	135
The Icon Towers	Dubai	90
The Villa	Dubai	260
Ongoing Projects		
Clover Center	Kuwait	30
Mazaya Towers	Kuwait	135
Mazaya Villas	Kuwait	5
Indigo	Dubai	16
Queue Point	Dubai	490
Sky Gardens	Dubai	135
Al Ma'azar Towers	Saudi Arabia	30
Potential Projects		
Al-Mazaya Logistics	Bahrain	14
Clover Center Sabah Al Salem	Kuwait	27
Morina	Abu Dhabi	114
Oman Mawaleh	Oman	24

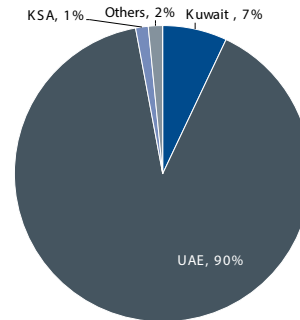
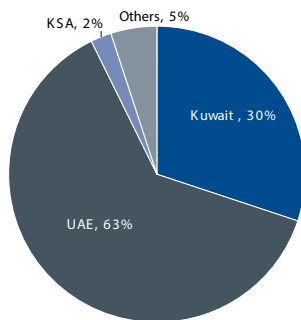
Source: Mazaya

Geographical breakdown

Figure 8 Assets by Geography (FY2013)

Figure 9 Revenue by Geography (FY 2013)

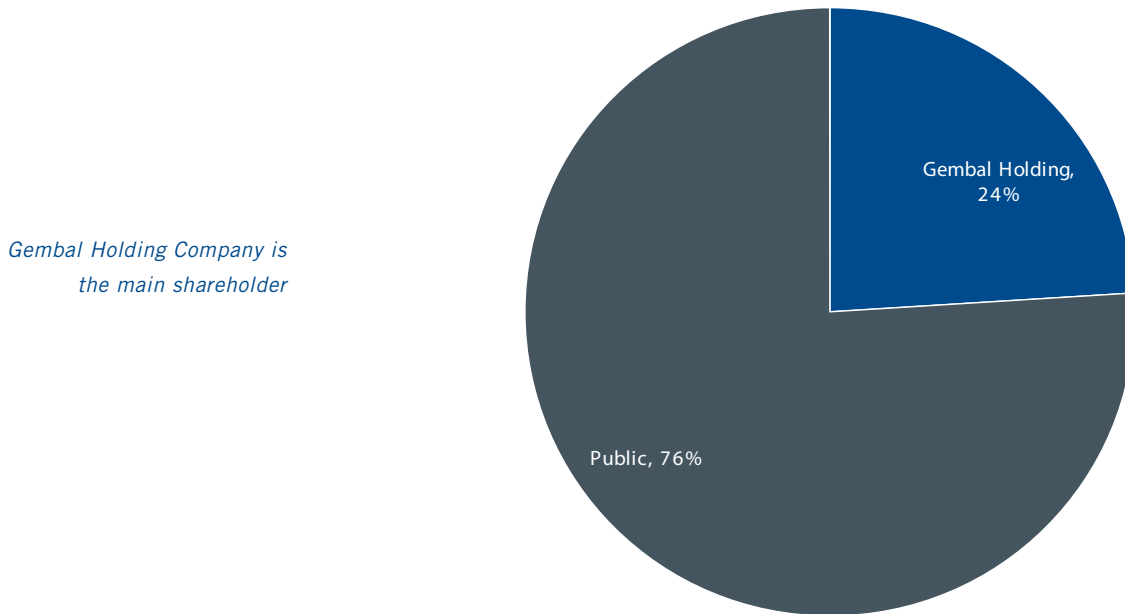
UAE accounts for the majority of Mazaya's assets and revenues followed by Kuwait. However, this could change after the company fully delivers units in the ongoing Queue Point Liwan project in Dubai



Source: Mazaya

Ownership structure

Figure 10 Ownership Structure



Source: Kuwait Stock Exchange

BUSINESS MODEL AND OUTLOOK

Mazaya's current portfolio includes investment properties in Kuwait (mainly commercial), investment and development properties in UAE (mainly residential), and other investment and development properties in Bahrain, Oman and Saudi Arabia. Mazaya is also planning to launch a new development project in Turkey in a JV with a local partner (Dumankaya).

Investment Properties: Kuwait, UAE and Others

Kuwait: Mazaya Business Towers, Clover Centers

The company currently operates three office towers in Kuwait (known as Mazaya Business Towers), one commercial tower dedicated to clinics and healthcare services (Clover) and two small residential villas (Surra). It is also planning to develop another tower for the healthcare segment (Clover Sabah Al Salem) with a total cost of around KD 7.6 million, which is likely to be ready for leasing by 2016.

Market overview: Mazaya is well placed in Kuwait's over-supplied commercial real estate market

Although no reliable statistics are available regarding the current state of the Kuwait commercial real estate segment, anecdotal evidence points towards significant over-supply in prime locations in Kuwait. Therefore, occupancy rates in many prime office buildings remain low.

On the contrary, Mazaya continues to enjoy almost full occupancy rates for its offices and healthcare towers. Mazaya mainly targets small- and medium-sized businesses that typically require smaller units. This helps it to secure continually renewed contracts from existing as well new clients. Only one of the three Mazaya business towers currently has 95% occupancy but according to management it is likely to be fully leased by the end of 2014 as the company is in the process of signing new tenancy agreements. As for the healthcare-related commercial space, Mazaya management believe that their unique positioning in the segment should continue to help them achieve higher occupancy than the rest of the commercial real estate market in Kuwait.

We keep our occupancy rates forecasts mostly stable for all existing towers (expecting that the tower that is seeking new tenants would be fully leased in 2015). We also gradually raise our occupancy rate forecast for the new Clover tower (Sabah Al Salem) once it is available for leasing, expecting it to come in line with the existing Clover Center. In terms of how the company's rental rates may develop, despite Mazaya seeing sustained demand, given the current situation in the market, we feel that these could lag the general inflationary trend. Accordingly, we increase our current rental rates forecasts by an average of 1% pa over our forecast horizon.

UAE: Sky Gardens, Indigo

Mazaya's key investment properties in UAE include Sky Gardens (residential) in DIFC Dubai and the Indigo complex (office/retail) on Sheikh Zayed Road in Dubai. In Sky Gardens, Mazaya owns around 275 residential apartments, which form the majority of its rental income from UAE-related investment properties. The company is also planning to develop its land plot in Abu Dhabi (Morina), which is likely to include some element of recurring income-generating assets (this is not included in our forecasts).

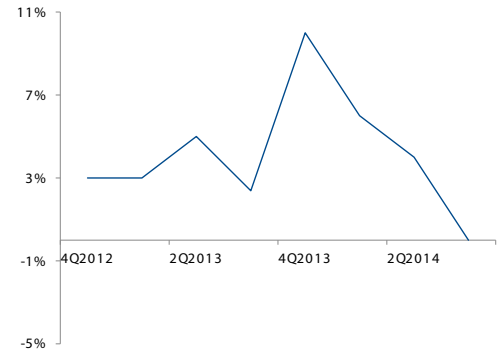
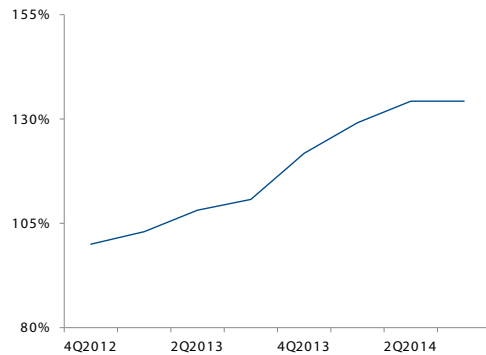
Market overview: Dubai residential rental rates continue to expand but at a slower pace of late

Dubai real estate has been on a rapid upward trajectory since 2012 and prices in many areas have reached close to their pre-2008 crisis levels. The key drivers of this growth, in our opinion, are the influx of new investors and the general improvement in the economic environment in Dubai. Dubai is increasingly being projected as a safe-haven destination for investors from countries that have been affected by the Arab Spring. In addition, there has been heightened interest in Dubai real estate from other emerging markets such as Russia, the Commonwealth of Independent States, the Indian sub-continent and the rest of the GCC. This, along with general optimism about the overall growth prospects for the UAE economy (well supported by the UAE’s successful bid and preparation for the World Expo 2020) and the anticipated rise in population, is helping the Dubai real estate market to show sustained growth. Accordingly, rental rates are broadly on a rising trend in the prime DIFC/Downtown location (where Mazaya’s main asset Sky Gardens is located), as shown below.

Figure 11 Residential Rental Index in Downtown Dubai*

Figure 12 QoQ Increase in Rents in Downtown Dubai*

Steep rise in rentals in the Downtown area in Dubai shows demand having expanded very rapidly but early indications point towards market stabilization as QoQ growth subsides



*Since rental rates for DIFC are not available, we use the nearby Downtown area as a proxy. Source: Asteco and NBK Capital

We expect rentals to follow the general inflationary trajectory. Since the location of Sky Gardens, which is in close proximity to DIFC, remains prime, we expect it to continue to have almost full occupancy.

Other markets: Saudi Arabia and Bahrain

Apart from its operations in Kuwait and UAE, Mazaya has an investment property in Saudi Arabia (Maather Towers, Riyadh – office space of around 14.6k sqm) and is currently developing a logistics facility in Bahrain (Bahrain Investment Wharf – 27.6k sqm space, estimated cost KD 3.8 million). The logistics facility in Bahrain is likely to be ready for leasing by end-2015.

We broadly maintain occupancy rates but increase our rentals forecast in line with general inflation for Maather tower. For the project in Bahrain, we gradually ramp up the occupancy over our forecast horizon.

Mazaya also holds a land bank in Baalchmay, Lebanon, worth around KD 2.3 million (65K sqm area). Looking at the current political and security situation in Lebanon, we believe that it is unlikely that the company will develop the land anytime soon. Therefore, in our valuation, we assign a 20% discount to the value of the land plot considering the prevailing uncertainties.

Development Properties: UAE, Oman and Turkey

Mazaya mostly targets the mid-income segment, as the company believes that the demand for this segment reflects the end-user market along with the true fundamentals of regional economies and is thus less speculative in nature.

Mazaya currently has an ongoing residential development project in Dubai (Queue Point Liwan) and holds land in Abu Dhabi (Morina at Al Reem Island), Oman (Mawaleh) and Sharjah (Basateen). In addition, Mazaya is looking to launch residential projects in Turkey along with a local partner.

Moreover, the company is also in the process of delivering pre-sold units in Dubai in its Mazaya Business Avenue (JLT), The Villa (20 villas in Dubai Land), and Marina Residences (Marina) projects. According to management, these projects are likely to be completed by the end of the year or early 2015.

UAE: Ongoing projects and land bank - Queue Point Liwan, Morina, Dubai Residential Complex

Queue Point Liwan in Dubai is Mazaya’s largest development project at the moment with a total estimated project value of around KD 110 million and a total sellable area of 2.1 million sqft. Queue Point Liwan is located near the intersection of road E311 (Mohammed Bin Zayed Road) and Dubai-Al Ain road. The company has sold around three-fourths of its total sellable area and has already started delivering those units, and is looking to complete and deliver the rest by the end of 2016 or early 2017.

Currently, we are not including the Dubai Residential Complex (KD 1 million land plot in Dubailand) and Morina projects (64k sqft BUA, on which the company plans to develop a 29-story residential tower along with some retail space) in our forecasts and we only account for the book value of the land in our valuation (KD 5.4 million).

Underlying fundamental and regulatory measures mean the outlook appears promising in the medium term

Market overview: Massive rise in selling prices in Dubai in the last two years but improving fundamentals means a substantial correction is unlikely

Based on estimates by various market participants, average residential real estate selling prices in Dubai have risen by around 70-80% in the last two years. As we mentioned above, Dubai’s perceived safe-haven status, economic recovery, and successful bid for the World Expo 2020 are among the core drivers of this massive rise in real estate prices. However, at the same time, the rapid rise has reignited fears of a formation of another bubble-burst cycle similar to 2008-09. The government has taken some serious steps to curb the speculative demand, including increasing stamp duty to 4%, lowering mortgage limits, creating the Al Etihad credit bureau, and tightening its grip on flipping of off-plan purchases. Taking these factors into account, along with Dubai’s improving economic fundamentals and ample liquidity in the financial markets, we remain of the opinion that envisioning a significant crash similar to 2008-09 could be premature at the moment.

Massive rise in real estate prices in Dubai in the last two years; given the economic fundamentals and government measures, the market appears in better shape than at the previous peak in 2008

Figure 13 Dubai Apartment Selling Price Index

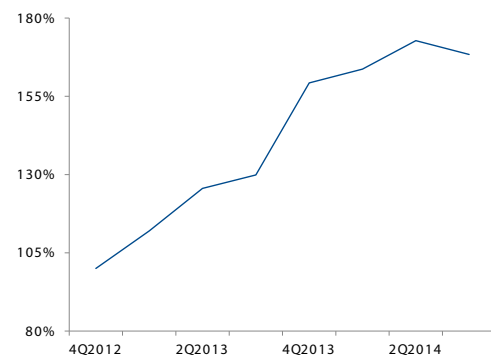
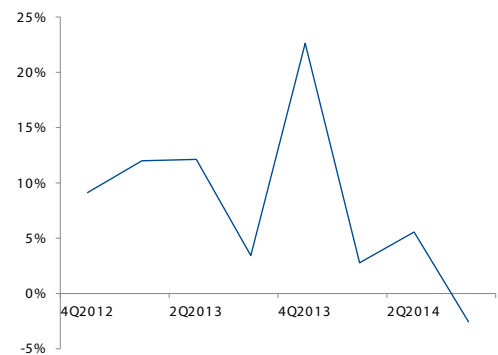


Figure 14 Dubai Apartment Selling Price Increase QoQ



Source: Asteco and NBK Capital

Other markets: Oman and Turkey

Mazaya is planning to launch a residential complex of five towers in Oman (Mawaleh) which is likely to be completed in the next two years. For now, we account for the Mawaleh project at the book value of its land (KD 2.7 million).

In addition, Mazaya is in the process of finalizing its plans for Turkey where it is planning to launch a mixed use project (residential, office and retail) in a JV with a local partner. Mazaya may look to fund the cost of the land for this project in Turkey through in-kind payments (by offering a portion of BUA in exchange for the cost of the land), thus reducing the initial cash outlay. Since we still await further details about the project, we are not including it in our forecasts.

BALANCE SHEET AND CASHFLOWS

Structure of balance sheet

Mazaya’s assets consist of investment properties (carried at fair value), development properties, investment in associates and JVs, and investment in financial assets.

On the liability side, customer advances broadly match development properties, with debt and equity being the other main sources of financing.

Figure 15 Assets Mix (as of June 2014)

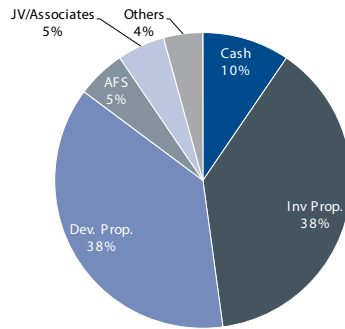
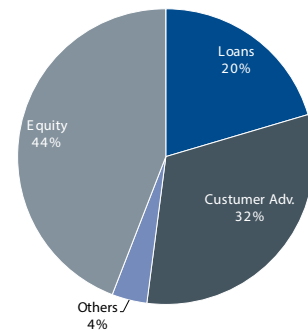


Figure 16 Liabilities Mix (as of June 2014)



Balance sheet appears fairly mature with reduced non-core assets

Source: Mazaya

Strong balance sheet makes Mazaya less vulnerable to future shocks

As Mazaya has been constantly looking to improve its cash generation, the company’s gearing has declined since 2012.

Furthermore, for development properties, Mazaya’s current strategy is to prepare itself for a bear-case scenario. Essentially, Mazaya tries to leave sufficient room for itself to fund development projects internally through a combination of equity and debt in case off-plan financing through customer advances becomes unfeasible. Therefore, we do not see any significant scope for solvency risks for Mazaya in the event of the market turning completely sour and Mazaya not being able to offload unsold inventories in its ongoing projects.

Despite this strategy, Mazaya’s leverage is lower than its peers. Therefore, we draw comfort from this approach as its balance sheet appears less vulnerable to external shocks.

Figure 17 Mazaya Net Debt to Equity

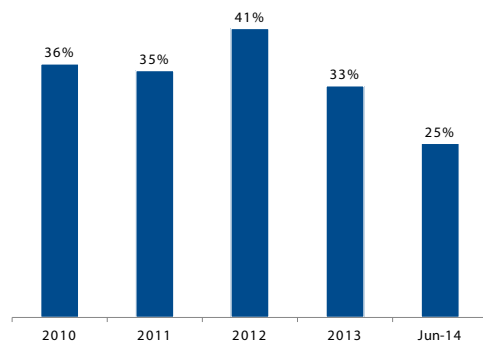
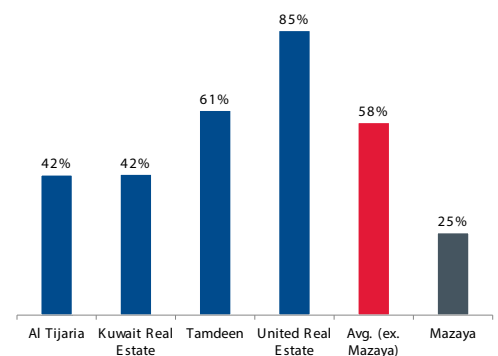


Figure 18 Peers’ Net Debt to Equity



Mazaya net debt to equity is significantly lower than its peers, making it less vulnerable to external shocks

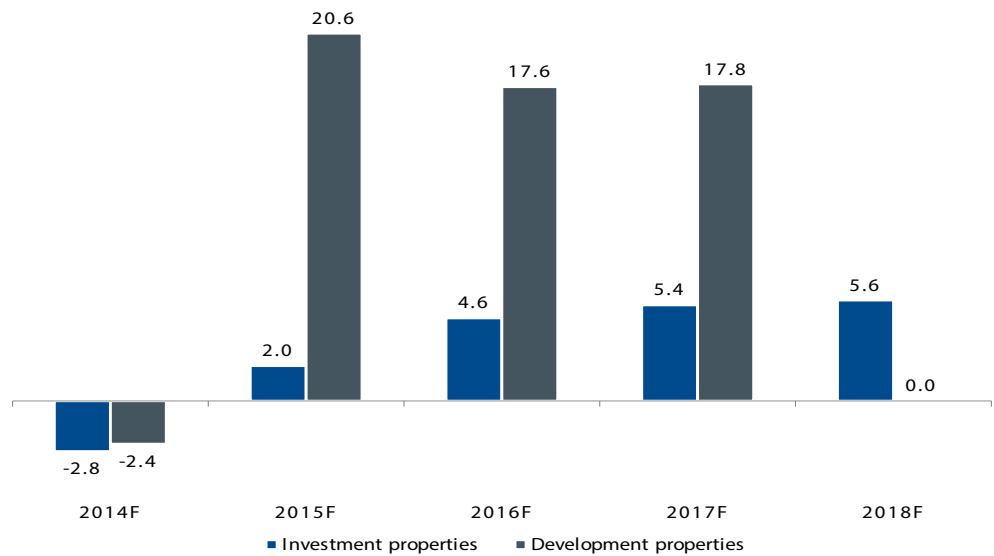
Source: Respective Company Financial

High predictability of near-term future cashflows – another key driver of our positive outlook on Mazaya

Most of the company's current development projects are nearing completion and the ongoing project Queue Point Liwan has only around a fourth of its total inventory still to be sold. The main driver of cashflows from development properties over the next two to three years would be the Queue Point Liwan project as management expects to realize the remaining cashflows from sold and unsold inventories by 2016 or early 2017. Given the current upbeat state of the Dubai real estate market, we believe that the company should be able to achieve this without encountering any significant obstacles. This, along with stable and recurring revenue generation from investment properties, leads to high visibility on future cashflows for Mazaya.

Figure 19 Net Cashflow Generation Before SG&A Expenses (KD million)

Queue Point Liwan is expected to drive near-term cashflows from development properties, while income from investment properties should continue to support recurring cashflows. Combined, this provides high visibility on Mazaya's future cash generation



Source: Mazaya and NBK Capital

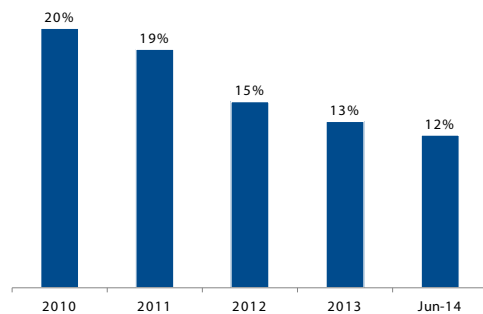
Exposure to financial assets is now lower

Mazaya has a non-core investment portfolio of KD 12 million, standing at 12% of its equity (as of June 2014). A significant portion of the current AFS book is related to Global MENA Financial Assets (unquoted, around KD 6.7 million, 55% of total AFS).

Mazaya has taken a cumulative impairment charge of KD 7.7 million on this investment portfolio in the last four years (around 34% of its original investments) and has reduced the exposure from 20% of equity in 2010 to 12% as of June 2014. Management no longer foresees any material risks to the investment book. However, we have chosen to assign a 20% discount to the stated book value in our SOTP valuation to account for any risks to its realizable value.

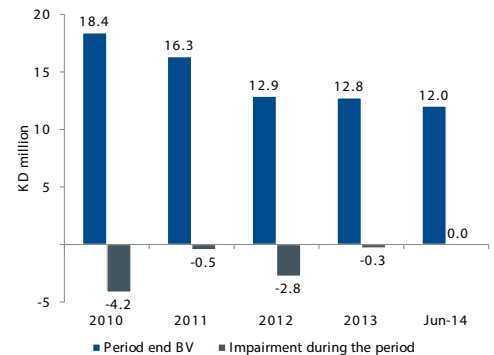
Figure 20 AFS Portfolio as % of Total Equity

Mazaya has reduced its exposure to non-core investments and they now represent 12% of total equity



Source: Mazaya

Figure 21 Impairment Charges and Investment Book



FINANCIAL STATEMENTS*

Balance Sheet (KD 000s)	Historic		Forecast				
Fiscal Year Ends December	2012	2013	2014	2015	2016	2017	2018
ASSETS							
Cash	13,391	17,446	14,339	12,561	19,482	30,569	39,061
Prop. Held for Trading	93,788	86,386	101,412	64,313	29,527	2,966	61
Others	5,446	5,563	5,563	5,563	5,563	5,563	5,563
Total Current Assets	112,626	109,395	121,314	82,437	54,572	39,097	44,685
Investment Properties	74,474	89,095	95,900	98,625	99,381	99,711	99,851
AFS	12,894	12,751	14,877	14,877	14,877	14,877	14,877
Associates and JVs	18,631	14,250	8,550	8,550	8,550	8,550	8,550
Goodwill & Others	2,428	2,625	2,687	2,703	2,720	2,745	2,774
TOTAL ASSETS	221,053	228,116	243,327	207,191	180,100	164,979	170,737

LIABILITIES & EQUITY

Customer Advances	62,070	68,663	78,972	48,109	19,376	2,236	2,236
Short-Term Debt	18,416	6,887	5,000	5,000	5,000	5,000	5,000
Other Current Liabilities	21,390	12,524	12,524	12,524	12,524	12,524	12,524
Total Current Liabilities	101,876	88,074	96,496	65,633	36,900	19,760	19,760
Long-Term Debt	31,000	42,498	43,000	25,000	15,000	5,000	5,000
Other Liabilities	337	377	377	377	377	377	377
Total Liabilities	133,213	130,949	139,873	91,010	52,277	25,137	25,137
Total Equity	87,840	97,167	103,455	116,181	127,822	139,842	145,600
TOTAL LIABILITIES AND EQUITY	221,053	228,116	243,327	207,191	180,100	164,979	170,737

Income Statement (KD 000s)	Historic		Forecast				
Fiscal Year Ends December	2012	2013	2014	2015	2016	2017	2018
Total Revenue	33,502	25,976	17,716	69,506	61,150	43,947	11,266
Operating Expenses	(27,837)	(21,783)	(15,317)	(54,419)	(47,891)	(30,826)	(5,007)
Income from Associates & JVs	1,331	310	1,000	118	118	118	118
Operating Income	6,996	4,503	3,399	15,205	13,377	13,239	6,376
Net Finance Charges	(3,146)	(2,558)	(2,121)	(1,878)	(1,187)	(653)	(347)
Net Impairment Charges	252	705	-	-	-	-	-
Net Investment & Revaluation Gains	(4,498)	4,885	4,706	-	-	-	-
Other	686	(1,533)	186	(1,837)	(1,674)	(1,418)	(485)
Net Profit	291	6,001	6,169	11,489	10,516	11,168	5,544

Cash Flow Statement (KD 000s)	Historic		Forecast				
Fiscal Year Ends December	2012	2013	2014	2015	2016	2017	2018
Cash from Operating Activities	1,446	9,515	(1,392)	20,841	18,915	22,155	9,089
Cash from Investing Activities	(518)	(2,463)	1,763	(2,756)	(801)	(352)	(119)
Cash from Financing Activities	(7,760)	(2,737)	(3,477)	(19,862)	(11,194)	(10,716)	(477)
Forex Adjustments	(858)	(270)	-	-	-	-	-
Net Change in Cash	(7,690)	4,045	(3,106)	(1,778)	6,921	11,086	8,493

*These projected financial statements do not include the impact of Mazaya's potential projects in Abu Dhabi, Oman and Turkey. Therefore, we have assumed the surplus cash flows generated from the existing projects to be retained at the balance sheet without considering any further returns on them. Source: Mazaya and NBK Capital

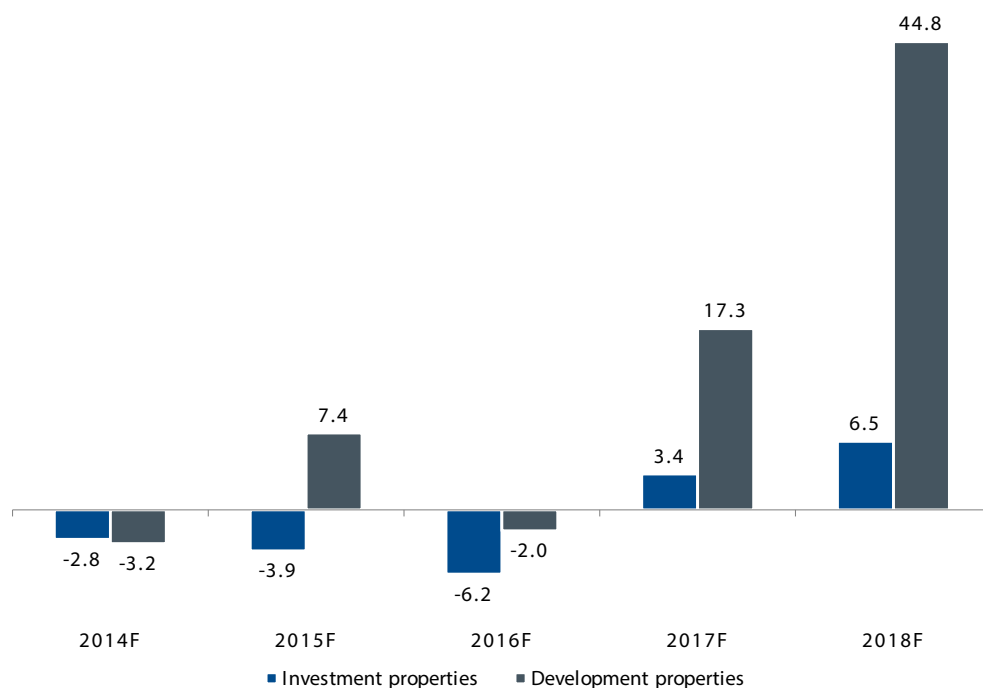
APPENDIX: SCENARIO ANALYSIS – IMPACT OF POTENTIAL PROJECTS

As we discussed earlier in the report, in our forecasts and valuation, we are only considering projects that Mazaya has already launched.

Mazaya holds several land plots in Abu Dhabi and Oman and intends to develop these properties. Similarly, Mazaya is also looking to launch a mixed-use project in Turkey. The company is still in the process of finalizing its plans for these projects. We have not included them in our forecasts (and applied book value of land plots in our valuation) as Mazaya has not started the launch phase.

We have conducted a scenario analysis to assess the potential impact that these projects can have on our forecasts (relying on management's guidance). If we were to account for these projects, our projected financial and cashflows would appear as shown below:

Figure 22 Net Cashflow Projections Before SG&A Expenses (including new projects)



Source: Mazaya and NBK Capital

Figure 23 Financial Statements (including potential projects)

KD 000s	2014F	2015F	2016F	2017F	2018F
Balance Sheet					
Cash	13,525	16,931	15,895	8,550	12,054
Prop. Held for Trading	102,226	82,104	86,533	89,021	78,908
Others	5,563	5,563	5,563	5,563	5,563
Total Current Assets	121,314	104,598	107,991	103,134	96,526
Investment Properties	95,900	104,524	116,083	118,574	118,714
AFS	14,877	14,877	14,877	14,877	14,877
Associates and JVs	8,550	8,550	8,550	8,550	8,550
Goodwill & Others	2,687	2,703	2,720	2,745	2,774
TOTAL ASSETS	243,327	235,251	250,221	247,879	241,441
Customer Advances	78,972	50,575	38,287	43,757	63,532
Short-Term Debt	5,000	5,000	5,000	5,000	5,000
Other Current Liabilities	12,524	12,524	12,524	12,524	12,524
Total Current Liabilities	96,496	68,099	55,811	61,281	81,056
Long-Term Debt	43,000	50,000	65,000	45,000	5,000
Other Liabilities	377	377	377	377	377
Total Liabilities	139,873	118,477	121,188	106,658	86,433
Total Equity	103,455	116,774	129,033	141,221	155,007
TOTAL LIABILITIES AND EQUITY	243,327	235,251	250,221	247,879	241,441
Income Statement					
Total Revenue	17,716	69,506	61,150	53,097	65,416
Operating Expenses	(15,317)	(54,419)	(47,891)	(39,532)	(49,642)
Income from Associates & JVs	1,000	118	118	118	118
Operating Income	3,399	15,205	13,377	13,683	15,893
Net Finance Charges	(2,121)	(1,257)	(540)	(921)	(1,457)
Net Impairment Charges	-	-	-	-	-
Net Investment & Revaluation Gains	4,706	-	-	-	-
Other	186	(1,865)	(1,703)	(1,426)	(864)
Net Profit	6,169	12,082	11,133	11,337	13,572

Source: Mazaya and NBK Capital

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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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