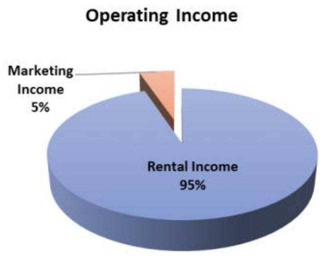
DOLMEN CITY REIT DCR: KAR

SECTOR: REAL ESTATE (CLOSED-ENDED SMALL-CAP)

Location HQ:	Pakistan
Valuation Type:	Growth
Dividend (Per share)	Rs 1.04
Dividend Yield	9.06%



Company Description

Arif Habib Dolmen REIT Management Limited; a joint venture between the Arif Habib Group and the Dolmen Group, was incorporated as a public limited company (un-quoted) in 2009. The objective of the company is to launch and manage REITs on carefully selected and commercially viable real estate properties with the aim of bringing real estate investment within the reach of common investors. The company combines the expertise of Arif Habib and Dolmen Group, bringing together strengths in finance and investments, market gap identification & property development.

SWOT

Strength
- Stable strong, balance sheet with low leverage
- Outstanding real estate location

Weaknesses
- Closed ended REIT in a volatile geography
- Low market float, ICPL still holds 70% of scheme units/shares

Opportunities
- 118% real estate growth rate posted in last five years (2016)[1]
- The only South Asian REIT around
- Additional Taxes imposed on Rental REITS may be abolished

Threats
- Political instability/ terrorism
- Taxes, unstable tax policies regarding REITS, last year Rental REITS tax exemption was removed.

Poor Man's Valuation

	2015	2016	Expected
NAV - Using Last (2016) Company Valuation		Rs 18	Rs 19
NAV - Using (2015) Company Valuation	Rs 10		Rs 12

Investment Summary

Being the first REIT in South Asia, DCR's property includes the Dolmen Mall (1.37m sqft) and Harbour Front Office Building (0.27m sqft). Offered as a closed-ended reit fund, the total property generated around ~Rs 2.2bn of Net Operating Income (Rs 2bn free cashflow) whereas initial construction costs amounted to ~ Rs 18.5 billion. Critical to the future assessment of asset's cashflow generation capabilities lies in average future growth rate of rents and the rate of growth in property prices. Real estate prices have registered growth way higher than the reported 118% over last five years but still conservatively making a base case with an average 9% rent increase and 8% increase in AFFO for the next five years, the valuation of the current appears cheap. Current cap rate (9%) when extended to future (5yr) NOI at current market cap rises to 13%. The question is whether tax regime will change and accommodate rental Reits into tax exemptions (high probability) and most importantly, why opt for a REIT when you can get land that appreciates like no other thing? Not buying land would translate to a required rate of return way above 15% that this Reit does not seem to provide. Also, what to say about Lucky Mall Reit and others in line? Hard to say but seeing the current cap rates, rising rents, rising mall footfall and Dolmen City Reit being backed by an efficient management with a strong balance sheet (Arif Habib Group), even a miserly future forecast reflects a NAV around Rs 13-14. Then imagine selling the enterprise, Nespak independently (over) values it at Rs 52bn implying a cap rate of 4.3% (too low) which is a bit too high considering current NOI. But imagine NOI reaching Rs 3-4 bn mark implying a cap rate of 7- 8%? That makes the Reit look cheap!

CHEAP

No of Units Outs. (m)	2223.7
Float held by Public	6.30%
Majority Shareholdings	75.5%
1 YR Price Change	+1.5%

VALUATION

Base Growth Rate	3%
Cost of Capital	11%
5th Yr Forecasted FCF (m)	3,155
Terminal Value (m)	40,622
Forecast cum. FCF PV (m)	10,125
PV terminal value (m)	24,107
Total EV (m)	34,232
Debt (m)	298
Cash (m) *assumed*	0
Equity Value	33,935
Units Outstanding (m)	2223.7
Minimum Justifiable Unit Price	Rs15

FINANCIALS

Current Cap. Rate	9%
Current Ratio ('16)	9.86
Dividend Pay. Ratio	100%
NAV (AR '16)	PKR 18
N. Op. Margin ('16)	87.04%