No of Units Outs. (m)

Float held by Public

1 YR Price Change

Base Growth Rate Cost of Capital

Terminal Value (m)

5th Yr Forecasted FCF (m)

Forecast cum. FCF PV (m)

PV terminal value (m)

Total EV (m)

Equity Value

Cash (m) assumed

Majority Shareholdings

CHEAP

VALUATION

2223.7

6.30%

75.5%

+1.5%

3,155

40,622

10,125

24,107

34,232

298



DOLMEN CITY REIT DCR: KAR

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

Pakistan **Location HQ:** 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	Weaknesses				
- Stable strong, balance sheet with low leverage - Outstanding real estate location	- Closed ended REIT in a volatile geography - Low market float, ICPL still holds 70% of scheme units/shares				
Opportunities	Threats				
- 118% real estate growth rate posted in last	- Political instability/ terrorism				
five years $(2016)^1$	- Taxes, unstable tax policies regarding REITS, last year Rental REITS tax exemption was removed.				
- The only South Asian REIT around					
- Additional Taxes imposed on Rental REITS					
may be abolished					

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

leverage	- Low market float, ICPL still holds 70% of scheme units/shares					33,935				
- Outstanding real estate location				Unit	Units Outstanding (m)					
Opportunities	Threats									
- 118% real estate growth rate posted in last		- l instabili	tv/ terro	rism		N	Iinimum Justifiable Unit Price	Rs15		
five years (2016) ¹					regarding	g -				
The only South Asian REIT around						_				
- Additional Taxes imposed on Rental REITS	was rem				-	FINANCIALS				
may be abolished										
<u> </u>						Cur	rent Cap. Rate	9%		
Poor Man's Valuation						Cur	rent Ratio ('16)	9.86		
		2015		2016	Expecte	Divi	dend Pay. Ratio	100%		
NAV - Using Last (2016) Company Valuation		2013	Rs	18 R		TVA V	(AR '16)	PKR 18		
		40					p. Margin ('16)	87.04%		
NAV - Using (2015) Company Valuation Investment Summary	Rs	10		K	s 12	Z N. O	pg (10)			
NAV - Using (2015) Company Valuation	_		Dolmer					fice Building		
NAV - Using (2015) Company Valuation Investment Summary	roperty inc	cludes the		n Mall (1	1.37m sqf	t) and H	Iarbour Front Of	_		
NAV - Using (2015) Company Valuation Investment Summary Being the first REIT in South Asia, DCR's properties (0.27m sqft). Offered as a closed-ended reit 2bn free cashflow) whereas initial construct	roperty ind fund, the t	cludes the total prop	erty gen to ~ Rs	n Mall (1 nerated a 18.5 bill	1.37m sqf around ~I lion. Critio	t) and F Rs 2.2bn	Harbour Front Off of Net Operating e future assessme	Income (Rs		
Investment Summary Being the first REIT in South Asia, DCR's properties (0.27m sqft). Offered as a closed-ended reit 2bn free cashflow) whereas initial construct cashflow generation capabilities lies in average.	roperty ind fund, the t tion costs a age future §	cludes the total prop nmounted growth ra	erty gen to \sim Rs te of ren	n Mall (1 lerated a 18.5 bill ts and th	1.37m sqf around ~I lion. Critione rate of	it) and F Rs 2.2bn cal to the growth i	Harbour Front Off of Net Operating e future assessme in property prices	g Income (Rs ent of asset's s. Real estate		
Investment Summary Being the first REIT in South Asia, DCR's properties (0.27m sqft). Offered as a closed-ended reit 2bn free cashflow) whereas initial construct cashflow generation capabilities lies in average prices have registered growth way higher that	roperty ind fund, the t tion costs a age future a an the repo	cludes the total prop amounted growth ra orted 118	erty gen to ~ Rs te of ren % over la	n Mall (1 nerated a 18.5 bill ts and th ast five y	1.37m sqf around ~F lion. Critic he rate of rears but s	it) and H Rs 2.2bn cal to the growth i	Jarbour Front Of of Net Operating e future assessme in property prices ervatively makin	Income (Rs ent of asset's s. Real estate g a base case		
Investment Summary Being the first REIT in South Asia, DCR's preceded reit 2bn free cashflow) whereas initial construct cashflow generation capabilities lies in average prices have registered growth way higher the with an average 9% rent increase and 8% in	roperty ind fund, the t tion costs a age future g an the repo ncrease in	cludes the cotal prop amounted growth ra orted 118 ^o AFFO for	to ~ Rs te of ren % over la the next	n Mall (1 nerated a 18.5 bill ts and th ast five yea	1.37m sqf around ~I lion. Crition he rate of prears but s ars, the va	t) and F Rs 2.2bn cal to the growth i still cons	Jarbour Front Off of Net Operating e future assessme in property prices ervatively makin of the current ap	g Income (Rs ent of asset's s. Real estate g a base case pears cheap.		
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(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 \sim 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