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To: Boursa Kuwait  
Mr. Mohammad Saud Al Osaimi  
CEO - Boursa Kuwait

السادة/ شركة بورصة الكويت المحترمين،،  
السيد/ محمد سعود العصيمي المحترم،،  
الرئيس التنفيذي - بورصة الكويت

Subject: Minutes of Analyst/Investor  
Conference of Mabaneer's Company (K.P.S.C)  
for Q1 & Q2/2020

الموضوع: محضر مؤتمر المحللين/المستثمرين  
لشركة المباني (ش.م.ك.ع) للربع الأول والربع الثاني  
للعام 2020

With reference to the aforementioned subject, and to our letter sent to you on 06/08/2020, reference No. M.C/E.M/170/2020, attached the minutes of the analysts/investors conference for Q1 & Q2 of the period ended 31/03/2020 and the period ended on 30/06/2020.


بالإشارة إلى الموضوع أعلاه، وإلى إفصاحنا المرسل لكم بتاريخ 2020/08/06، إشارة رقم ش.م.أ.ع/170/2020، نرفق لكم محضر مؤتمر المحللين/المستثمرين عن الربع الأول والربع الثاني عن الفترة المنتهية في 2020/03/31 والفترة المنتهية في 2020/06/30.

This is for your information and notice.

هذا للعلم والإحاطة،،

Best Regards,

وتفضلوا بقبول فائق الاحترام،،



وليد خالد الشريان  
الرئيس التنفيذي

Waleed Khaled Al Sharian  
Chief Executive Officer

# Mabanees' Earnings Conference Call: Q1-Q2 2020

Thursday, August 6th 2020 at 14:00 (Kuwait Time)

## *Speakers:*

### **Mr. Tareq AlAdsani**

Deputy Chief Executive Officer, Mabanees

### **Mr. Zahid Kasmani**

Chief Financial Officer, Mabanees

## *Moderator:*

### **Mrs. Shuaa Al Qati**

Communications Director, Mabanees



## Introduction

### **Mrs. Shuaa Al Qati - Communications Director, Mabaneer**

Good afternoon everyone, and welcome to Mabaneer's Investors and Analysts Call to discuss the financial performance for the first half of 2020.

My name is Shuaa Al Qati, I'm the Communication Director at Mabaneer. I am joined today by **Mr. Tarek AlAdsani**, DCEO at Mabaneer and **Mr. Zahid Kasmani**, CFO of Mabaneer.

A warm welcome to everyone, and on behalf of the Mabaneer Management Team, I hope that you and your families are safe in these challenging times. I would like to apologize for not holding a Q1 performance due to the COVID 19 pandemic, and as per the Capital Market's Authority's directives to refrain from posting Q1 results.

I would like to commence our call today by reading out a brief disclaimer, which you can also find in the presentation. Certain statements in this presentation are forward-looking based on the company's expectation, predictions and estimates. They are not guarantees of future performance, achievements, or results. I would also like to refer you to our full disclaimer on page 2 of the presentation. Our format for today's call will include a 10 to 15 minutes' presentation, where the speakers will share with you their respective statements on the company's Q4 earnings. Afterwards, a Q&A session will take place immediately. To participate in the Q&A, please type your question on the screen at any time during the presentation.

I will now turn the floor over to **Mr. Tarek**.

## **Mr. Tareq AlAdsani - Deputy Chief Executive Officer, Mabaneer**

Thank you to everyone for joining.

Good afternoon, we welcome you in our Q-1Q2 call, which covers the first half of 2020. It has been an interesting time that we have not planned for or foreseen. It has affected all of us, especially the retail market which has suffered during the past six months and affected our different stakeholders..

As for our results, as demonstrated in the presentation, Kuwait started to see the effects of Corona at the end of February, and the government began to take some measures beginning from mid-March until the end of June. During that period, the malls were closed, with only limited operation, especially when the country went through a full lockdown. These circumstances had a visible impact which we will go through step-by-step with each project.

This pandemic that has impacted the world, and in this case the region and Kuwait, has pushed us to re-examine our projects and revisit all assumptions, especially the ones where construction hasn't started yet. With this being said, we have not shifted our direction, our strategy remains the same: we want to take the name of The Avenues regionally and target new asset classes gradually in the coming years. Unfortunately, our plans were delayed due to COVID19-, however the delay is understandable.

## **Operational Projects - The Avenues, Kuwait**

The Avenues - Kuwait, is our major asset, and is the main income that we have thus far. As previously mentioned, The Avenues had shut down from mid-March until the end of June, following the government's instructions. The closure had several consequences as shown in our financials. I would like to first mention that units such as entertainment, cinemas and FEC remain closed until today. Additionally, Mabaneer gave discounts prior to the lockdown and closures, where all our tenants received discounts from mid-March until the end of March; %100 for F&B and %25 for retail.

As for the following period, all rent was waived until the reopening in early July, totaling a 3 months period of waived revenue. In the months of July and August, Mabaneer committed to a %50 waiver across the board, amounting to around KD 40 million. We look forward to recover some of that in the remaining period in some of the variable income that we have in our operation.

As for occupancy, it has expectedly decreased from the previous occupancy rate we had announced, which was %95. For those of you who are close to the market or based in Kuwait, you can see that several tenants have closed a few outlets. It is true that %2 of a huge mall translates to a big number, however that a natural outcome of what occurred. Many of the operators decided to close their low performing operators and concentrate on the stronger ones.

I believe that we can continue to see a turn-over in tenants, however as our Leasing team indicated, they still have good demand. We were able to lease back some of the units straight away during the lockdown period, which indicates great efforts on behalf of our Leasing team.

Going forward, the situation is improving in terms of a reduced curfew and therefore longer opening hours, However, until the airports are open to the region we can then expect to see more of the regional players, since most regional retailer would need to visit and inspect prospective units they are interested in. Nevertheless, I reconfirm the decrease in our occupancy rate, and it may continue to slightly decline, but we are hopeful it will increase gradually.

For the footfall, during the lockdown and closure it was zero, however our three supermarkets were operating during those few months. Today and after the re-opening, footfall is back to a good level considering the limited operating hours. Our operating hours were from 10:00 AM to 6:00 PM, and a week ago it was extended until 8:00 PM, which also helped our footfall. We also witnessed a positive impact in our footfall during the holidays, such as Eid.

In regards to hotels, unsurprisingly the Hilton Garden Inn was affected. Despite having a great start in January and February, where the hotel was operational with a high occupancy rate, it later declined to %0 occupancy due to the lockdown. Hilton Garden Inn later resumed its operations on the 28th of July. Taking the weather currently into consideration, most of the demand is towards hotels with a sea front, and while the location of the hotel is in the Avenues, it still receiving demand from the local market. Since it's only been a few weeks, we cannot benchmark anything yet, but we believe that we are on the right track.

## **Operational Projects - The Avenues, Bahrain**

Bahrain experienced similar circumstances but with different effects. The pandemic hit during the same time, at the end of February, so the decline in footfall began from that time. However, the measures taken by the Bahraini government differed: the malls closed twice for smaller periods as it shows in point 3. The first closure was from 26th March until 9th April, then again from 24th April until 9th May. Otherwise, The Avenues – Bahrain operated normally.

Nevertheless, the footfall at that period was at its lowest due to the virus. After June, the footfall began to pick up and reach healthier levels. Prior to June, levels were at about %50-30 from the normal level; today, and we are recovering at a faster rate.

In terms of waivers and rent, we have offered a %50 waiver for March, and %100 for April and May, where The Avenues – Bahrain was operating most of the time. It is worth noting that, a big part of our footfall comes from across the King Fahad Causeway, which has yet to reopen. We do not have the exact dates on when the entertainment will reopen, but hopefully as the measures by the governments ease up, we will experience a positive impact in the early Q4 and be back in full operations.

## **Projects Under Development – Kuwait**

Going forward with our projects that are still under development, Jaber Al-Ahmad is a project that we have been working on for over a year now. The project is in cooperation with a bidding done by the Public Authority for Housing and Welfare. It was intended to sign before the closure in March, however it was postponed and pushed to July.

During that period, and with the help of our consultants, we studied the project once more and decided to continue with it especially after the Board reconfirmed their approval. Currently, we have signed The Agreement Letter but have not begun construction yet as there are certain aspects that need to be finalized in terms of legality, design and engineering. Construction is expected to commence a year from today.

The project's largest component is the mall, where the GLA represents approximately 104,000 sqm, and will include 276 residential units comprising of townhouses, studios, and apartment buildings, of 2 to 4 bedrooms. In addition, the surrounding areas and roads have been further development, where it currently takes a fraction of the time it used to, to reach the area. As for the Waldorf Astoria in Kuwait, construction is at %70 and is expected to be completed by Q2021 1, the delay has been due to the pandemic and lockdown. Mabaneer continues the recruitment of the administration team of the hotel. So far, a General Manager has been appointed and is completing his organization for recruiting the rest of the team.

As for Hilton Garden Inn Bahrain, construction progress is at %60 and is expected to be completed by the end of this year or early Q1 next year.

Regarding our Salmiya project, a sizeable land on the Arabian Gulf Street, that is a major urban center in Kuwait, benefiting from of sea access and great connectivity. The project covers 9,761 sqm and is currently under a comprehensive feasibility study to reach the best concept with the best possible returns. It is a project that we have been working on for the past two months, and we hope to be able to shed light on our plans in the next six months.



## **Projects Under Development – KSA & UAE**

As for our projects in the Kingdom of Saudi Arabia, we witnessed the least amount of progress due to external factors caused by the COVID19- pandemic. The Avenues - Khobar though, experienced further progress with its design and we hope for further progress by Q-3Q4.

Finally, in regards to our land in Sharjah, we have not witnessed any progress because of the pandemic. However, we are using this delay to reevaluate the project.

Hopefully we have covered everything. We believe that, if the medical aspect of the pandemic continues to improve with less restrictions on our operations, then we have seen the worst and it should move uphill from now. In Kuwait, despite the decline in footfall, however the penetration rate, which is the percentage of the population that purchases products, has been much higher than before the pandemic, as we have received positive feedback on the retail. Finally, we want to thank everyone, our government and the front liners, as we hope that we pass this crisis in the best way possible.

Thank you for joining and we will be here later for the Q&A.

### **Mr. Zahid Kasmani - Chief Financial Officer, Mabaneer**

The COVID19- pandemic has impacted The Avenues operations, similar to all the other operators in the similar business. The total projected revenue loss from the pandemic is expected to be around KD40m for the year 2020 based on the current situation. This may change depending on how long the pandemic related restrictions continue and the gradual return to the normal life.

Mabaneer has opted to book the revenue loss from rental waivers upfront in the year 2020.

Consequently, the consolidated 6 months operating income fell by %50.5 to KD 23.2m compared to the same period in 2019. In Q1 of 2020, the consolidated operating income fell by KD 1.7m to KD 21.3m compared to Q2019 1, mainly due to rental waivers offered in the month of March 2020.

The direct operating expenses of the mall decreased by %2.4 to KD10m in first 6 months of 2020 compared to the same period in 2019. However, the total operating margin fell from %78.1 to %51.1 in the first 6 months of 2020, compared to the same period in 2019.

The net profit for the H1 fell by KD 26.2m to KD 1.6m, which is a direct result of the current pandemic. The net profit for Q1 2020 fell by KD 4.4m to KD 9.3m.

As you can see on the graph, our returns on assets and returns of equity have taken a hit from pandemic related revenue losses.

The net profit margin decreased to %6.7 so far 2020, as compared to %59.3 in 2019. We expect these margins to improve as we have witnessed return of footfall in The Avenues during the initial phases of lifting of lockdown.

The debt equity ratio increased to %77 in 2020 as compared to %70.8 in 2019. Debt to asset has improved to %36.7 in Q2 2020 as compared to %35.1 in 2019.

The total assets and the book values increased to KD 970m and 419 fils respectively as of June 2020 ,30 compared to KD 896m and 402 fils in 2019 as of June 2019 ,30, which is mainly due to continued spending on asset creation, expansion and higher retention of profits in the business.

The EPS for six months ended June 2020 decreased to 1.42 fils from 25.25 fils (adjusted EPS) in 2019. In Q2020 1, the EPS fell to 8.45 fils from 12.50 fils in 2019.

I would like to take this opportunity to thank you for attending this session.

## Q & A

**What has been The Avenues - Kuwait's performance after the re-opening?**

**Mr. Tarek AlAdsani**

In regards to our investors, we do not operate on revenue sharing or turn-over contracts. Hence, we cannot see the actual sales by the tenants. We do however, consistently perform surveys, one-on-one interviews and are in constant communication with our tenants; and their feedback indicates that most of the retail sector, if not all, is performing well. Even though the footfall is slightly less due to the reduced mall operation timings, the penetration rate is high and most of our tenants have indicated more sales than anticipated. There are queues and good demand in most of our retail outlets.

**What has been the change in blended rent from the end of 2019 to Q2020 1 for Phase 1 to Phase 4 combined, as well as Phase 4 separately, and what has been the change in average rent per square meter?**

### **Mr. Tarek AlAdsani**

For the first question, the blended rent hardly changed due to the size of The Avenues, and those are not less than a year-long contract. Yes, averages will not change that fast, or year on year. One to two percent in changing the tenants will hardly have an effect on our average rates. We anticipate for many reasons, that the change in our tenants might result in a higher blended rate, although that is yet to be seen, and I believe that will only be seen in 2021.

For the second question, there is no change in the average rate per sqm. Changes in %2-1, even up to %3 in The Avenues will hardly change the average. Phase 4 is approximately %94 leased. In terms of how much revenue we are making percentage wise, we are around %80, however, we anticipate it reaching higher by the end of this year or early next year.

### **What are the costs associated with the KD 17 million increase in the Saudi project?**

#### **Mr. Zahid Kasmani**

As you all know, the project is still going on as Mr. Tarek had mentioned but it is at a slower pace. What has happened during this period is that from the month of January until now, we received numerous approvals. We have paid many regulatory and design related fees, finalizations, as well as the legal and advisor fees. Our financial commitment is also done with the banks, so we continue to pay the commitment fees for that, for the undrawn amount. Therefore, it is a combination of different costs, not specifically one item, which totaled to KD 17 million during the first half of 2020.

**Are there any further waivers expected to occur during the second half of 2020 and when do you expect revenue to return to pre-COVID levels?**

**Mr. Tarek AlAdsani**

We do not foresee any new waivers based on today's circumstances. However, considering the unpredictable circumstances, we cannot really predict the future. What if a second wave comes in and things go back to different measures by the government? Therefore, the answer is no, there is only what we have indicated in this presentation, which is %50 if July and %50 of August. That is what we can project now.

For Q3, since Mabaneer offered a %50 waiver for the months of July and August, then Q3 will also be slightly affected. However, if all goes as planned, Q4 should reach a normal state compared to all three previous quarters.

**Is there any priority in terms of the expansion timeline that you are seeking to achieve between Kuwait projects such as, Jaber Al-Ahmad and Salmiya, as well as Saudi Arabia, Bahrain and Sharjah?**

**Mr. Tarek AlAdsani**

I wouldn't use 'priority'; I think it is more about the timing of those projects. First, it needs to pass all the checkpoints that we do internally. Second, it must pass all the approvals that we need for the project, and we are timing all those projects to what fits our capabilities in terms capex and cashflow. Thus, it is a combination of many factors that are internal and external, and that decide which project comes first. As indicated, the sequence that we placed each project in the presentation demonstrates their progress.