COMPANY UPDATE

DCR

A certain value earner amidst uncertain macroeconomic environment

Equity Research | Real Estate Investment Trust | Tuesday, 23 April, 2019

We initiate our coverage on Dolmen City REIT (DCR) with a DDM based Dec-19 TP of Rs.14 which provides an upside potential of 23%. A dividend yield of 12%, if incorporated gives a total return of 35%

DCR has been enjoying the consistent level of occupancy since its inception in 2015. The company witnessed the occupancy level of 97.7% in FY18 which depicts the affection of tenants towards both malls due to their attractive locations and a healthy footfall of around 10 Million

The company posted the net operating income of Rs2.8bn with 2-year CAGR of 9% in FY18. Going forward, we expect the NOI to grow at a 5-year CAGR of 11% to Rs4.65bn by FY23 on account of economies of scale and an annual increment of 10% in tenants' rents according to rental agreements

During the current scenario of economic slowdown and high volatility in the stock market, DCR is the best investment avenue for risk-averse investors offering a low correlation with KSE 100 index, a consistent stream of income in form of high dividend yield and an ability to pass on the inflation

Sector Overview

A Real Estate Investment Trust (REIT) is a company that owns or finances income-producing real estate. REITs are like mutual funds. REITs provide investors of all types with regular income streams, diversification, and long-term capital appreciation. REITs allow individuals to invest in real-estate properties in a similar way you purchase a stock of a company and own a share. A REIT combines a pool of money from individuals and institutions to buy real estate projects. The Unitholders of a REIT Scheme earn a share of the income produced through renting or selling of the real estate property without actually having to bear the hassle of buying or managing the property on their own.

REIT Regulatory Framework in Pakistan was introduced by the Securities and Exchange Commission of Pakistan (SECP) in January 2008 which was subsequently repealed and replaced by REIT Regulations 2015. These regulations are comprehensive with the principal focus on the protection of interests of general investor in a REIT Scheme. In Pakistan "REIT Scheme" means a listed closed-end fund registered under Real Estate Investment Trust Regulations 2015. The three types of REIT schemes introduced by SECP in Pakistan:

Developmental REIT: This is a type of REIT scheme which invests in real estate to develop it for Industrial, Commercial or Residential purpose through construction or refurbishment.

Rental REIT: A rental REIT scheme invests in commercial or residential Real Estate to generate rental income.

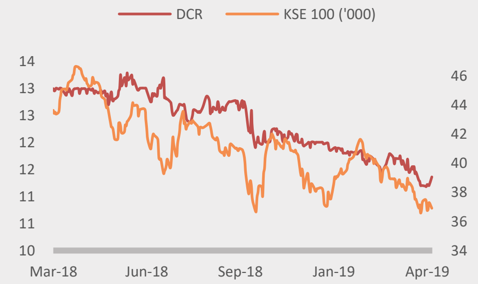
Hybrid REIT: This is a scheme having both a portfolio of buildings for rent and property for development (Arifhabibdolmenreit, 2019).

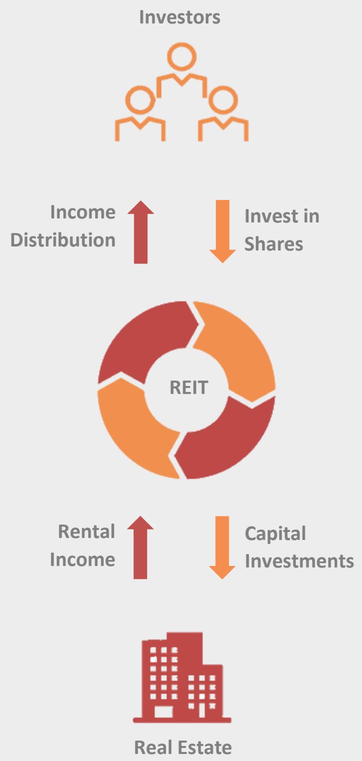
Company Overview

Dolmen City REIT is Pakistan's first and only REIT scheme. It is a Closed-ended, Listed, Rated, Perpetual, Shariah-compliant, Rental REIT scheme which offers investors to become Unitholders of two component of the Dolmen City project, Dolmen Mall Clifton and The Harbor Front.

Key Statistics

Symbol	DCR
TP - Dec 19	14.00
LDCP	11.36
Upside	23%
Free Float (MN)	556
Market Cap. (Rs. MN)	25,261

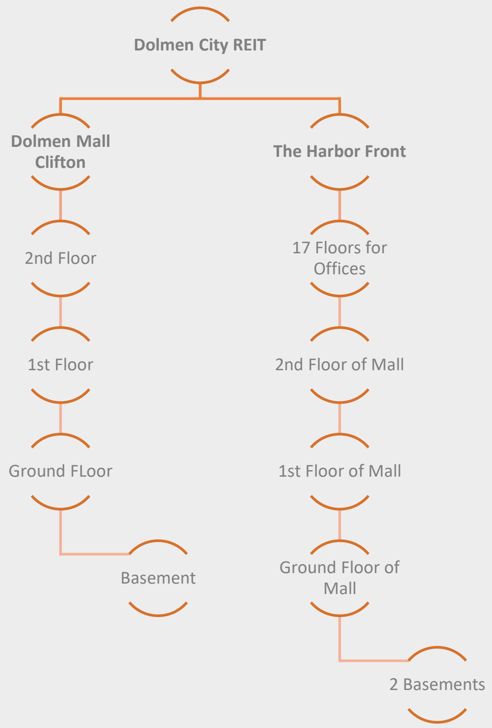


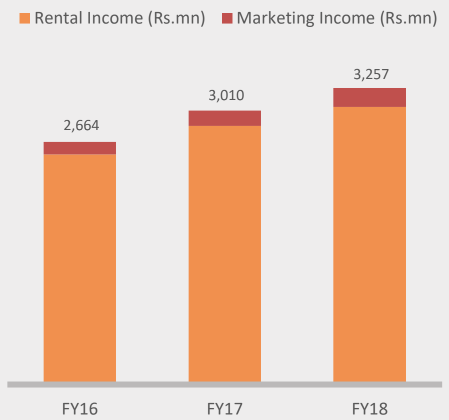


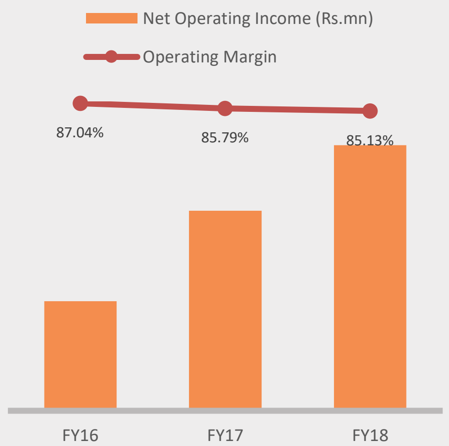
Sources: ACPL Research, Company Financials, PSX

M. Fawad Naveed
Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

Key Statistics







Sources: ACPL Research, Company Financials

The properties generate rental income that is distributed by the REIT Scheme among unitholders in the shape of dividends. Any possible appreciation in the value of the property is added benefit. Dolmen Mall Clifton has a total built-up area of approximately 1 million square feet spread over three levels. Anchored by Hyperstar and Debenhams, Dolmen Mall Clifton has a strong mix of local and international brands including Mango, Next, Nike, Nine West, Timberland and Charles & Keith. With 130 retail outlets, a multi-level department store, and a food court that accommodates 1,200 customers, Dolmen Mall Clifton is the largest shopping mall in Pakistan, currently operating over 96.58% occupancy rate. The Harbor Front is an office complex home to leading local and multinational corporations of the country. The complex offers prime office space across seventeen floors, spread over 270,000 square feet. The building is currently 100% occupied with the current tenant portfolio comprising of companies including Engro, Phillip Morris Mitsubishi and Procter & Gamble, among others (Arifhabibdolmenreit, 2019).

Operational Performance

DCR has been enjoying the consistent level of occupancy since its inception in 2015. In FY18, the occupancy level in the harbor front was 100% while the occupancy level in Clifton mall was 96.6%. Collectively, DCR witnessed the occupancy level of 97.7% in FY18 which depicts the affection of tenants towards both malls due to their attractive locations and a healthy footfall of around 10 Million (average monthly footfall was 843,919 visitors in FY18). DCR maintains the interest of its visitors by customer-centric marketing and branding activities at the Mall such as Dolmen Shopping Festival, Ramzan and Eid Shopping extravaganzas, Independence Day and New Year celebrations. Going forward, we expect the occupancy level to remain near 100% as a number of potential tenancies are in the pipeline according to company sources. Moreover, the marketing and branding activities are expected to keep the footfall intact in future as well.

Financial Performance

DCR has two streams of income, the rental income and the income from marketing activities. The rental income of the company has grown at a double-digit 2-year CAGR of 10% to Rs3bn in FY18. On the other hand, the company posted the marketing income of Rs210mn during the same period with a 2-year CAGR of 23%. Cumulatively, the total income of the company has grown at a 2-year CAGR of 11% to Rs3.3bn in FY18. Although, DCR has witnessed the near about full occupancy level since its inception, yet the growth in rental income has been witnessed due to the clause of 10% annual rent increment in rental agreements with tenants. Going forward, we expect the total income to grow at a 5-year CAGR of 11% to Rs5.4bn by FY23 on account of consistent occupancy level and constant growth of 10% in the rental income of the company.

After deducting the administrative and operating expenses, the company posted the net operating income of Rs2.8bn with 2-year CAGR of 9% in FY18. Going forward, we expect the NOI to grow at a 5-year CAGR of 11% to Rs4.65bn by FY23 on account of economies of scale.

After including the other income and deducting other expenses i.e. management fee, trustee remuneration, and sales tax, the company arrived at the profit before the change in fair value of investment property at a 2-year CAGR of 9% to Rs2.8bn in FY18. This amount actually represents the distributable income of the company and is expected to grow at a 5-year CAGR of 11% to Rs4.7bn by FY23.

Change in the fair value of investment property is calculated through the income capitalization approach with the capitalization rate of 7%. The Investment property comprises of the buildings named as the “DOLMEN CITY MALL” and the “HARBOUR FRONT”, comprising of two Basements (5,285 square feet), Ground floor (187,347 square feet), Mezzanine Floor (19,879 square feet), First floor (275,399 square feet), Second floor (272,972 square feet), Plant and Transformer Rooms (27,667 square feet), Third to Nineteenth floors (270,271 square feet) i.e. having a total covered area of 1,567,678 square feet with 15,201.68 square yards undivided share in the Plot bearing No. HC-3, Block 4, KDA, Scheme 5, Marine Drive, Karachi. According to the company's annual report FY18, the investment property of the company stands at Rs41bn with a cumulative gain of Rs18.9bn over the investment value of Rs22bn in FY15. Going forward, we expect the fair value of the company's investment property to stand at Rs73.5bn by FY13 as calculated by the income capitalization approach.

The company's income is exempted from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realized or unrealized is distributed amongst the unitholders.

Effective Hedge Against Inflation

As inflation is constantly rising up nowadays, the buying power of each rupee is decreasing with every passing day. In this situation, an inflation hedge protects the money from losing its value. An inflation hedge typically involves investing in an asset expected to maintain or increase its value over a specified period of time. That's why real estate is considered a hedge against inflation since land value and rents typically increase during times of inflation as it can be witnessed in the financials of Dolmen City REIT.

High Dividend Yield as Consistent Income

One of the simplest ways for companies to communicate financial well-being and shareholder value is to say, "the dividend check is in the mail." REITs have to distribute at least 90% of its profits as dividends to the unitholders to avail tax-exempt status. DCR had announced the annual dividend of Rs1.2 (96% payout ratio) in FY18 which makes a dividend yield of around 11%. Hence, during the period of uncertainty and high volatility in the stock market, DCR is one of the best options to secure a regular stream of income in the form of high expected dividend yield of around 12% in FY19.

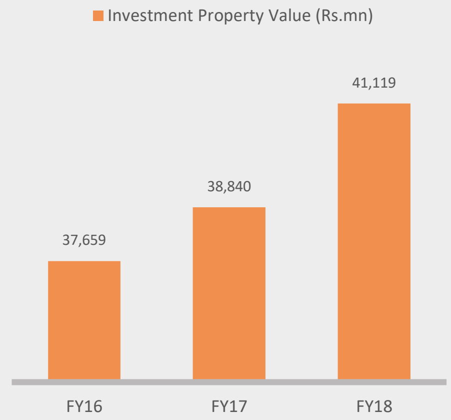
Immune to Economic Slowdown

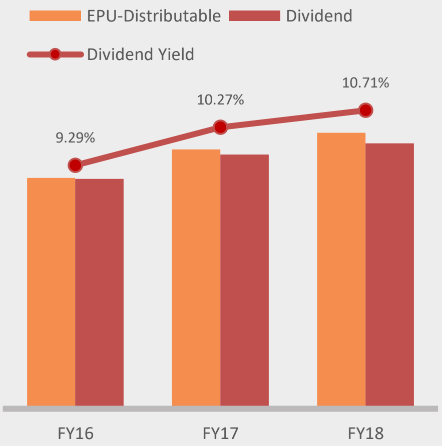
Preserving capital and generating safe income are core goals of the majority of the investors. So not surprisingly, risk-averse investors often worry about when the next recession will occur and how it will affect their portfolios. Therefore, during the current scenario when the overall economy is not performing well, safe dividend-paying stocks like DCR are the appealing choice for risk-averse investors who desire a predictable income stream that can hold its ground regardless of economic conditions and short-term stock price fluctuations as the company's stock possesses a beta of 0.25 which shows the share price is less volatile than the market, meaning the portfolio is less risky with the stock included than without it as the stock tends to move more slowly than market averages.

Debt Free Investment

In today's high-cost money environment where the policy rate has reached 10.75% from the bottom of 5.75% within a year and expected to rise further in future as well, debt-free companies are the only suitable options for risk-averse investors. DCR is wholly equity financed and only unsecured borrowing is permitted under the regulations. Hence, it has a debt-free structure and free from related cash flow distress and default risks.

Key Statistics





Sources: ACPL Research, Company Financials

Key Statistics

REIT is Better Than Buying Real Estate

A key characteristic of real estate investment is illiquidity. The investment horizon usually has to be long-term in nature. Real estate investment often could not be liquidated because of the difficulty in selling the underlying asset in a depressed market. Real Estate Investment Trust (REIT) is being seen as an attractive alternative to direct investment in real estate, combining the benefits of real estate investment with liquidity as REIT is a publicly traded real estate company that owns and manages real estate and can be traded like stocks.

Furthermore, the investor of REIT enjoys the benefit of being a part of a pool of capital, acquiring interests over much larger opportunities as compared to what he would achieve at his personal capital alone. For instance, it may not be available for an individual investor to afford a direct investment into a giant asset such as a shopping mall or plaza. However, he/she can get to invest in it via REITs in small chunks.

Valuation

DCR is currently trading at FY19E and FY20E PE of 2.32x and 1.54x respectively. Furthermore, the script is trading at a FY19E P/B of 0.40x which offers a discount of 17% relative to its historical 3-year average of 0.61x. Using the income capitalization approach with a capitalization rate of 7%, the value of the company stands at Rs.19.8 which offers a gigantic discount of 75% from its LDCP of Rs11.36. Furthermore, the script also offers a significant discount of 67% from its FY18 BVPS of Rs18.99. We have a **BUY** stance on the script with a DDM based Dec-19 TP of Rs.14 which provides an upside potential of 23%. Furthermore, it also offers a dividend yield of 12% which makes the total return of 35%.

Key Risks to Valuation

- Reduction in the occupancy level due to the economic slowdown
- Reduction in annual footfall due to ineffective branding activities
- Change in the regulatory framework of REITs in order to increase tax revenue

Key Ratios

Profitability Ratios		FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
OP Margin	%	87.04	85.79	85.13	85.99	85.99	85.99	85.99	85.99
ROE	%	44.07	9.07	11.97	21.69	25.98	27.52	27.42	26.51
ROCE	%	5.72	6.16	6.53	6.13	6.12	6.10	6.09	6.09
ROA	%	43.40	8.93	11.76	21.27	29.00	36.02	42.39	48.18

Liquidity Ratios		FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
Current	x	9.86	7.56	3.41	3.96	4.41	4.90	5.44	6.05
Quick	x	8.90	6.96	2.92	3.47	3.92	4.41	4.95	5.56

Activity Ratios		FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
Receivables Days		11.69	11.05	14.35	12.99	11.75	10.62	9.59	8.66
Payables Days		82.16	67.03	61.58	59.13	53.48	48.35	43.68	39.44

Investment Ratios		FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
DPS		1.04	1.15	1.20	1.37	1.52	1.68	1.86	2.06
Div. Yield	%	9.15	10.12	10.56	12.07	13.34	14.76	16.34	18.10
Dividend Cover	x	7.67	1.48	1.89	3.57	4.86	6.04	7.12	8.10
Retention	%	0.34	1.88	3.88	2.03	2.03	2.03	2.03	2.03
Payout	%	99.66	98.12	96.12	97.97	97.97	97.97	97.97	97.97
No. of Shares	('m)	2223.7	2223.7	2223.7	2223.7	2223.7	2223.7	2223.7	2223.7
EPU		7.98	1.70	2.27	4.89	7.37	10.13	13.21	16.64
Distributable EPU		1.04	1.17	1.25	1.40	1.55	1.71	1.89	2.10
Un-Distributable EPU		6.94	0.53	1.02	3.49	5.82	8.42	11.32	14.55
BVPS		18.11	18.77	18.99	22.51	28.37	36.82	48.18	62.77
P/E	x	1.42	6.67	5.00	2.32	1.54	1.12	0.86	0.68
P/BV	x	0.63	0.61	0.60	0.50	0.40	0.31	0.24	0.18

Source: ACPL Research, Company Financials

Financial Projections

Rupees' millions	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
Rental Income	2,527	2,842	3,047	3,347	3,677	4,039	4,436	4,873
Marketing Income	138	168	210	252	303	363	436	523
Total Income	**2,664**	**3,010**	**3,257**	**3,599**	**3,979**	**4,402**	**4,872**	**5,396**
Administrative & Operating Expenses	-345	-428	-484	-504	-558	-617	-683	-756
Net Operating Income	**2,319**	**2,582**	**2,773**	**3,095**	**3,422**	**3,785**	**4,189**	**4,640**
Other income	109	123	113	125	150	166	184	204
Management Fee	-70	-77	-83	-93	-103	-114	-126	-139
FED on Management Fee	-11	0	0	0	0	0	0	0
SST on Management Fee	-11	-10	-11	-12	-13	-15	-16	-18
Trustee Remuneration	-12	-13	-14	-15	-17	-19	-21	-23
SST on Trustee Remuneration	-2	-2	-2	-2	-2	-2	-3	-3
Reversal of provision for WWF	0	3	0	0	0	0	0	0
Charity Expense	-2	0	0	0	0	0	0	0
Profit before change in fair value of investment property	**2,321**	**2,606**	**2,776**	**3,097**	**3,437**	**3,802**	**4,208**	**4,660**
Change in fair value of investment property / unrealized gain	15,422	1,181	2,279	7,762	12,953	18,730	25,167	32,346
Profit before taxation	**17,743**	**3,787**	**5,055**	**10,859**	**16,389**	**22,532**	**29,375**	**37,006**
Income tax expense	0	0	0	0	0	0	0	0
Profit for the year	**17,743**	**3,787**	**5,055**	**10,859**	**16,389**	**22,532**	**29,375**	**37,006**
EPU	**7.98**	**1.70**	**2.27**	**4.88**	**7.37**	**10.13**	**13.21**	**16.64**
Distributable EPU	**1.04**	**1.17**	**1.25**	**1.39**	**1.55**	**1.71**	**1.89**	**2.10**

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment--banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

I. Discounted Cash Flow Model
II. Dividend Discount Model
III. Relative Valuation Model
IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com