October 2024

KSA REITs landscape

Improved Dividend Yields of Saudi REITs amid Decreasing Interest Rates Reinforcing Financial Performance, and Valuations Driven by Improvements in Real Estate Activities

Strategy Report | October 2024

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
ajc_research@aljaziracapital.com.sa

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The Saudi Real Estate Investment Trust (REITs) sector faced a few challenges over the past two years as the post-pandemic recovery in the sector was slower than expected. The spike in interest rates during this period stressed the REITs' financials, limiting their portfolio expansion as well as lowering the dividend payments. As the US Federal Reserve now moves forward with expansionary monetary policy starting with 50 bps cut in September, interest rates are expected to be lower in future. The anticipated rate cuts are expected to ease pressure on the sector, providing room for further expansion. Additionally, REITs are well-positioned to benefit from demand in sectors such as commercial real estate, retail, and hospitality fueled by Vision 2030 initiatives. While short-term challenges like still elevated interest rates present hurdles, the long-term outlook remains positive. Key growth factors, including population expansion, tourism development, and large-scale urban projects, are expected to sustain demand and drive the sector's future growth We evaluated REITs on 7 parameters. Based on weighted ranking, Bonyan, Alinma Hospitality, AlMa'ather, Jadwa Saudi, and Jadwa AlHaramain are our top 5 picks from the sector.

Impact of interest rate cuts on Saudi REITs: A reduction in interest rates could be highly favorable for Saudi REITs. As REITs often depend on debt for expansion, lower interest rates would decrease borrowing expenses, enhancing profitability and allowing for more growth. We expect the financing costs of KSA REITs to fall 15-20% in FY25E (based on debt levels and annualized financing costs in H1-24), assuming a gradual decrease in SAIBOR in line with Fed rate cut expectations and some lag period in reflection of interest cuts in actual financing costs. Furthermore, during a rate-cut cycle, the dividend yields offered by REITs become more competitive compared to lower-yielding fixed-income products, which can attract more investors. This shift in demand could result in price increases as income-seeking investors gravitate toward REITs.

Attractive dividend yields despite short-term pressures: Saudi REITs have strong dividend yield track record historically, typically ranging between 6% and 8%. Despite the current pressure on their financial dividend yields of Saudi REITs are higher comparatively (H1-24 annualized DY: 5.3% for TASI REITs). With the possibility of future interest rate reductions, these yields could become even more appealing in a low-rate environment, making REITs a preferred choice for investors looking for steady income. Furthermore, robust non-oil economy and sectoral growth drivers are expected to maintain robust dividend payouts in the long term. Selected **REITs** such as **Bonyan**, **Alinma Hospitality**, **Al Ma'ather** and **Jadwa Saudi**, which are expected to generate dividend yields more than 7% (FY24E) at current valuation based on our estimates, could be an attractive option for investors.

Current valuations and investment appeal: Although the Saudi REITs sector has faced some valuation pressure recently, it currently presents an attractive opportunity for long-term investors. Many REITs are trading below their net asset value (NAV), reflecting a cautious market sentiment. The TASI REITs index is trading at P/B of 0.7x, a 25% discount to the historical average. This undervaluation could be temporary, as improving economic conditions and reduction in interest rates might drive valuations upward. The combination of high dividend yields, expected lower finance expenses and favorable current valuations offers investors the potential for both income and capital gain appreciation.

Long-term growth drivers for Saudi real estate and REITs: The long-term outlook for Saudi REITs is supported by several key drivers, including the government's ambitious infrastructure and real estate projects tied to Vision 2030, such as the development of new cities like NEOM. The hospitality sector is set to benefit from an expected increase in tourism, backed by initiatives like the Red Sea Project. Retail real estate is evolving, with the rise of e-commerce creating demand for logistics and warehousing spaces, though traditional retail will also benefit from growing consumer spending. Both commercial and residential real estate are expected to thrive, with the commercial segment supported by the growth of non-oil industries, and residential rental benefiting from expatriate driven demand and urbanization.

In summary, while the Saudi REIT sector may face some short-term challenges due to broader economic factors, its long-term growth potential remains strong. Key sectors such as hospitality and commercial real estate are expected to drive consistent demand and income growth for REITs. With attractive current valuations and robust dividend yields, the sector presents a compelling opportunity for long-term investors

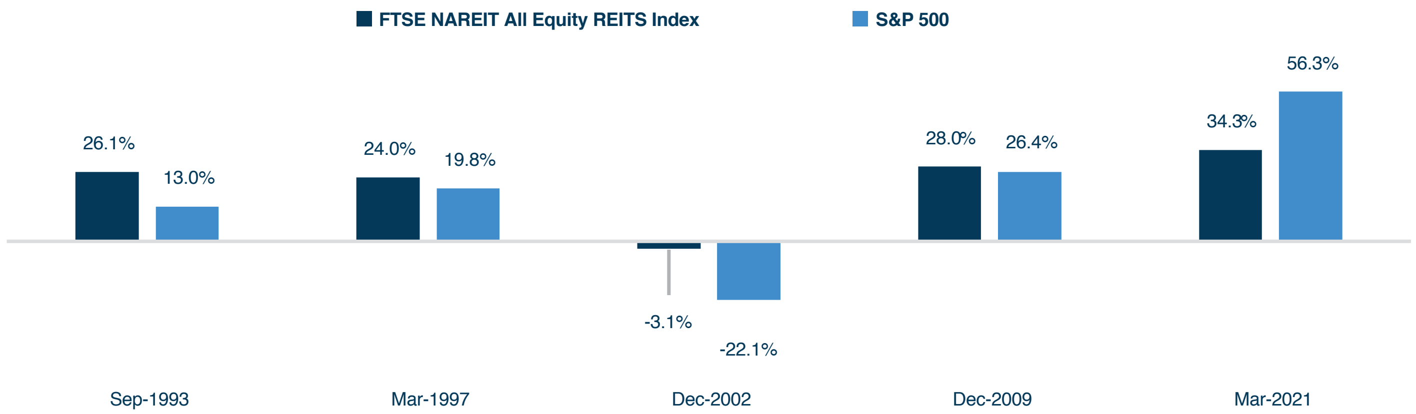
Top REITs Picks: The TASI universe includes 18 listed REITs. Hence, it becomes imperative to evaluate the attractiveness of the REITs and rank them based on the valuation and operational parameters. Our ranking factors in key parameters such as expected dividend yield, implied capital rate, debt parameters and relative valuation. Moreover, sectoral and geographical diversification of funds and liquidity of stocks were given due importance. Based on weighted ranking **Bonyan REIT**, **Alinma Hospitality REIT**, **AlMa'ather REIT**, **Jadwa Saudi REIT**, and **Jadwa AlHaramain REIT** are our top 5 picks from the sector.

REITs as an asset class pose opportunities during shifting economic cycles

Historically REITs in matured markets outperform equities during periods post rate cut cycles

To understand the impact of interest rate cuts on REITs' performance in comparison with the equities, we analyzed historical total returns of US based REITs vs. S&P 500 returns during post rate cut cycle periods from 1971, where rates were held for four quarters or more- after four consecutive cuts or more. During the 12 months ending Sep-93, Mar-97, Dec-02, and Dec-09 REITs outperformed equities after four out of five rate cut cycles by 13.1%, 4.2%, 19.0%, and 1.6% respectively. However, during the Covid era, REITs underperformed equities due to lockdown restrictions and rent delays. Thus, based on historical trend US REITs are more likely to perform well in mature economic conditions, unless there is exceptional weakness in the real estate sector. Although Saudi REITs sector dynamics are different from the matured market such as the US, investors can look at REITs as one of the investment options during monetary easing that could potentially generate healthy returns over the long term considering expected decline in yields on fixed income assets.

Fig 1. REITs vs. Equity 1yr performance post a rate cut cycle in the US



Source: Bloomberg, AlJazira Capital Research. Note: Data measured for mature periods of four quarters of rate pauses, post a cut cycle of four or more cuts.

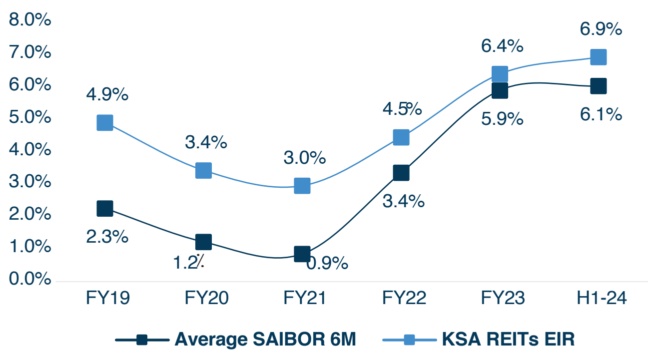
KSA REITs could see recovery backed by lower finance cost, accelerated economic and real estate activities amid easing interest rates

KSA listed REITs have been hit significantly due to weaker asset growth and higher financing costs as interest rates increased sharply to curb inflation. Now as the rate cuts have started reducing, REITs are likely to show a recovery in their financial performance. However, we expect the pressure to persist in the near term due to the interest rate still being high and increased time taken to pass on the benefits of the rate cuts. But in the long term lower finance cost, accelerated economic and real estate activities are expected to boost earnings of KSA REITs that would reflect in higher dividend payments and translate into recovery in prices.

Financing Expenses for the REITs sector may drop by 15-20% in FY25E

Effective interest rate (EIR) for REITs sector went up from 3.0% in FY21 to 6.9% in H1-24 (annualized) following the increase in SAIBOR 6M, which averaged at 0.9% in FY21 before increasing to 6.1% in H1-24. Following the historical trend EIR for Saudi REITs will ease as the US Federal Reserve has already slashed interest rates by 50 bps in September. Economic projections of federal reserve board members indicate interest rates decreases of around 200bps by end of 2025 from the highest level reached recently. As a result, we see the financing costs of KSA REITs falling 15-20% in FY25E (based on debt levels and annualized financing costs in H1-24), assuming a gradual decrease in SAIBOR in line with Fed rate cut expectations and some lag period in reflection of interest cuts in actual financing costs.

Fig 2. Effective interest rates broadly follow SAIBOR 6M

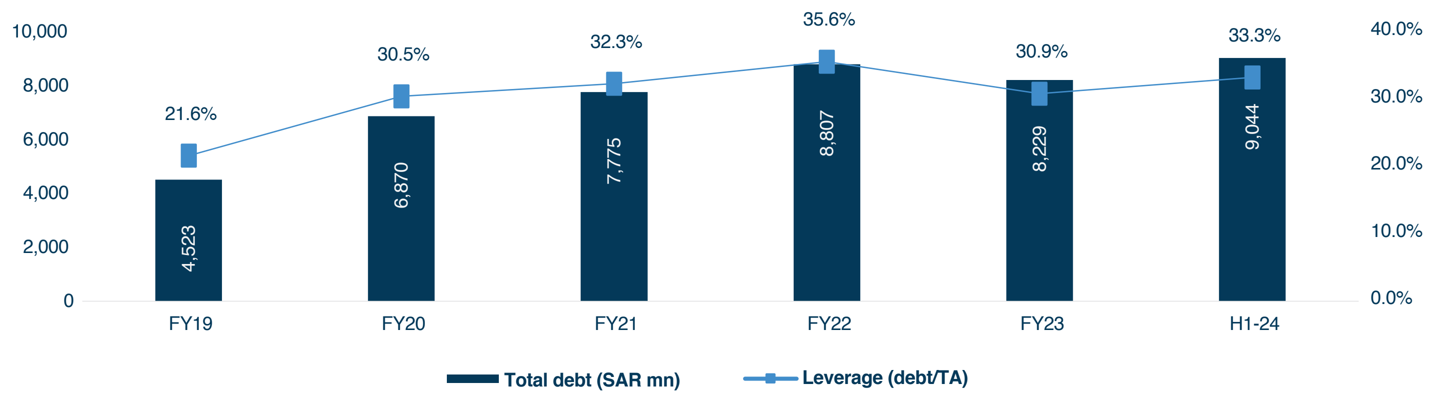


Source: Bloomberg, AlJazira Capital Research

Debt levels of KSA REITs picking up after falling in FY23 amid high interest rates; gradual rise in borrowings expected to fund asset growth as rate cuts start reflecting in financing costs

Saudi REITs sector debt increased in H1-24 to SAR 9.0bn from SAR 8.2bn by the end of FY23, implying an increase of 9.9% as against a decline of 6.6% in full year FY23. With an aggressive interest rate hike, REITs turned cautious in their expansion plans and on raising the debt level, as financing costs increased significantly. As mentioned above, anticipated interest rate cuts would ease the cost financing burden on the REITs.

Fig 3. KSA REITs started raising debt to fund asset growth amid rate cut anticipation



Source: Bloomberg, AlJazira Capital Research

Musharaka and Riyad REITs to witness highest relief from rate cuts, but lower leveraged REITs still more preferable

Among listed REITs on Tadawul, **Musharaka** and **Riyad REITs** are most leveraged with borrowings to total assets ratio reaching close to the regulatory limit of 50%, at 49.2% and 47.7%, respectively, as of H1-24. Additionally, both REITs have lowest borrowing cost coverage ratios (FFO/finance cost; H1-24) of 1.0x and 1.1x, respectively. Thus, upcoming rate cuts would bode well for such highly leveraged REITs, relieving finance cost pressure on their FFOs. Nevertheless, REITs with lower leverage levels and higher borrowing cost coverage are still preferable given that financing costs will reduce gradually with near term pressure likely to continue. Moreover, **REITs** with lower leverage and higher coverage ratio have more room for expansion of their asset portfolio. **AlJazira** and **Alinma Hospitality REITs** have debt free balance sheet. **Al Maather** (7.8x) and **Bonyan** (5.4x) have highest borrowing cost coverage among the leveraged REITs, while **Jadwa Saudi REIT** (23.2%) and **Alinma Retail REIT** (24.6%) have lowest leverage level, but they bear the highest effective interest rates at 9.7% and 10.0%, respectively.

Fig 4. Debt profile based standing of Saudi REITs

Borrowing to Total Assets 1H24		Borrowing 1H24		Borrowing Cost Coverages H1-24		Effective Interest Rate H1-24	
REITs	Borrowings to Assets	REITs	Borrowings (SAR mn)	REITs	Coverage	REITs	EIR
Aljazira REIT	0.0%	Aljazira REIT	0.0	Aljazira REIT	NA	Aljazira REIT	NA
Alinma Hospitality REIT	0.0%	Alinma Hospitality REIT	0.0	Alinma Hospitality REIT	NA	Alinma Hospitality REIT	NA
Jadwa Saudi REIT	23.2%	Sico Saudi REIT	149.9	Al Maather REIT	7.8	Al Maather REIT	3.3%
Alinma Retail REIT	24.6%	Al Maather REIT	199.8	Bonyan REIT	5.4	Alkhabeer REIT	5.4%
Bonyan REIT	24.8%	Jadwa Alharamain	214.3	Jadwa Saudi REIT	4.1	AlAhli REIT 1	5.8%
Al Maather REIT	26.9%	Alinma Retail REIT	263.8	Al Rajhi REIT	3.6	Al Rajhi REIT	6.2%
Al Rajhi REIT	28.4%	taleem REIT	297.6	Jadwa Alharamain	2.8	Riyad REIT	6.2%
Jadwa Alharamain	29.2%	MEFIC REIT	444.0	AlAhli REIT 1	2.7	MEFIC REIT	7.2%
Sedco Capital REIT	33.5%	Mulkia REIT	476.9	Alkhabeer REIT	2.7	Mulkia REIT	7.3%
AlAhli REIT 1	33.7%	Bonyan REIT	498.3	Taleem REIT	2.6	Bonyan REIT	7.4%
Taleem REIT	34.7%	Jadwa Saudi REIT	542.5	Sedco Capital REIT	2.3	Musharaka REIT	7.5%
Sico Saudi REIT	34.8%	Derayah REIT	608.0	Mulkia REIT	1.9	Sedco Capital REIT	7.8%
Mulkia REIT	36.6%	AlAhli REIT 1	680.2	Derayah REIT	1.7	Taleem REIT	7.9%
Derayah REIT	39.8%	Alkhabeer REIT	751.5	MEFIC REIT	1.5	Jadwa Alharamain	8.0%
Alkhabeer REIT	40.3%	Musharaka REIT	789.6	Alinma Retail REIT	1.4	Derayah REIT	8.0%
MEFIC REIT	44.5%	Sedco Capital REIT	794.9	Sico Saudi REIT	1.3	Sico Saudi REIT	8.4%
Riyad REIT	47.7%	Al Rajhi REIT	896.4	Riyad REIT	1.1	Jadwa Saudi REIT	9.7%
Musharaka REIT	49.2%	Riyad REIT	1,436.1	Musharaka REIT	1.0	Alinma Retail REIT	10.0%

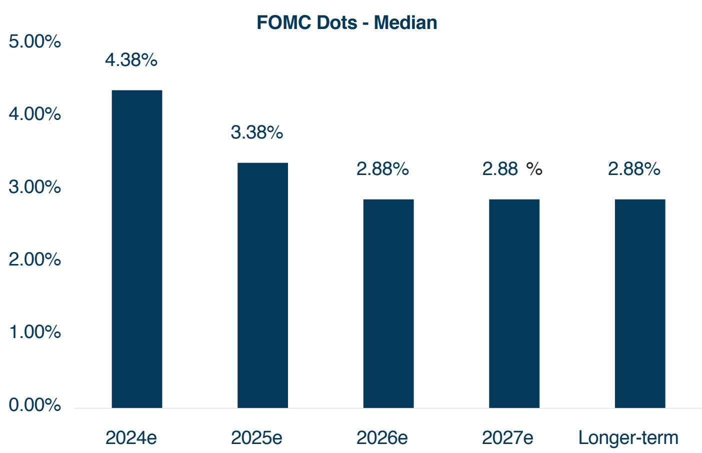
Source: Bloomberg, AlJazira Capital Research

Upcoming rate cuts make the dividend yield of KSA REITs attractive vs. fixed income and Murabaha

Fed Dot Plot signals 100bps rate cut in 2025e, reducing the yield of fixed income securities and Murabaha financing

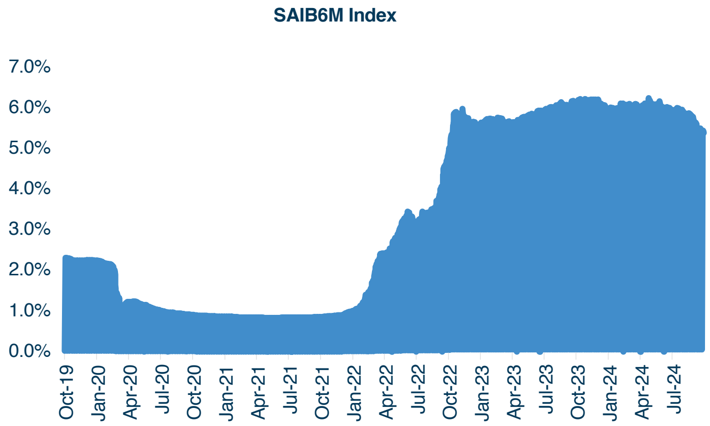
Since KSA's currency is pegged to the US Dollar, SAMA would likely align with the US Fed, to ensure stability of the exchange rate. When the Fed changes its interest rates, SAMA often adjusts its own policy rates, to maintain the attractiveness of SAR relative to the USD and prevent capital outflows that could destabilize the peg. Based on the rate cut direction provided by the Fed in its September 18 FOMC meeting, consensus expects a 100bps rate cut in 2025e, thereby bringing the interest rates to 3.38% levels. Further 50bps cut is expected in 2026e. This can significantly decrease the SAIBOR, leading to a downward adjustment in the local interest rates. This downward shift could drive bond prices up and resultantly have a negative impact on the attractiveness of the fixed income and Murabaha.

Fig 5. Expectations of 100bps rate cut in 2025e based on September 18 FOMC meeting



Source: Bloomberg, AlJazira Capital Research

Fig 6. KSA's SAIBOR mimics the trajectory of Fed rate cuts and hikes due to SAR being pegged to USD



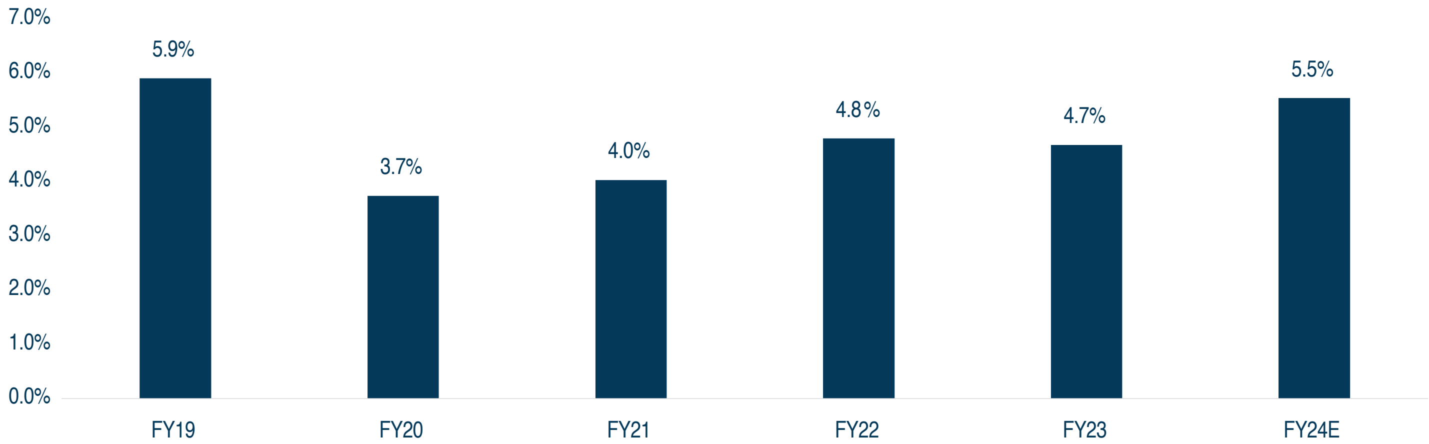
Source: Bloomberg, AlJazira Capital Research

KSA REITs FY24e dividend yields to increase driven by upcoming rate cuts and financial performance improvements in H1-24

The dividend distributions of leveraged REITs remained under pressure historically due to higher interest rates, as majority of their loans were priced at floating rates. This increased their finance expenses and took a toll on their dividend distribution ability. However, with major central banks announcing rate cuts in recent times, and the anticipated rate cuts going forward, we believe KSA REITs could emerge as an attractive asset class for investors. Moreover, the improvements seen in financial performance of the 18 listed REITs in KSA in H1-24, would act as an additional driver for healthy dividends in FY24E. Accordingly, we expect FY24E average dividend for the sector to increase by 90bps to 5.5%. Further the FY25e dividend payments could increase even further at the back of steeper 100bps rate cut expectations, which will leave more scope for expansion because of cheaper borrowing costs. We believe that the long-term investors could benefit from the declining interest rates as it enhances the relative appeal of REITs compared to traditional fixed-income instruments.

We expect 16 out of 18 REITs to fetch a higher dividend yield in the FY24E compared to FY23. In Fig 8 we captured the expected dividend yields for all the 18 REITs in FY24e in comparison with FY23. **Bonyan**, **Alinma Hospitality** and **AlMa'ather REITs** are expected to deliver the highest yield of 7.58%, 7.57% and 7.35%, respectively.

Fig 7. Average dividend yield for FY24e to increase by 90bps at the back of rate cuts announced by major central banks and financial performance improvement seen across majority of the REITs in H1-24



Source: Argaam, AlJazira Capital Research

Fig 8. Estimated dividend yields

REIT	FY23	FY24e
Bonyan REIT	6.7%	7.6%
Alinma Hospitality REIT	6.6%	7.6%
Al Maather REIT	6.9%	7.3%
Jadwa Saudi REIT	6.0%	7.2%
Alinma Retail REIT	6.4%	7.0%
Alkhabeer REIT	6.8%	6.9%
Alahli REIT 1	5.5%	6.8%
Jadwa AlHaramain REIT	2.0%	6.6%
Sedco Capital REIT	5.7%	6.3%
Mulkia REIT	6.4%	6.3%
Al Rajhi REIT	4.8%	6.1%
Taleem REIT	5.7%	5.8%
Riyad REIT	4.5%	5.3%
Derayah REIT	3.6%	4.1%
Musharaka REIT	2.9%	3.9%
Mefic REIT	1.6%	2.8%
Aljazira REIT	2.0%	2.2%
Sico Saudi REIT	0.0%	0.0%

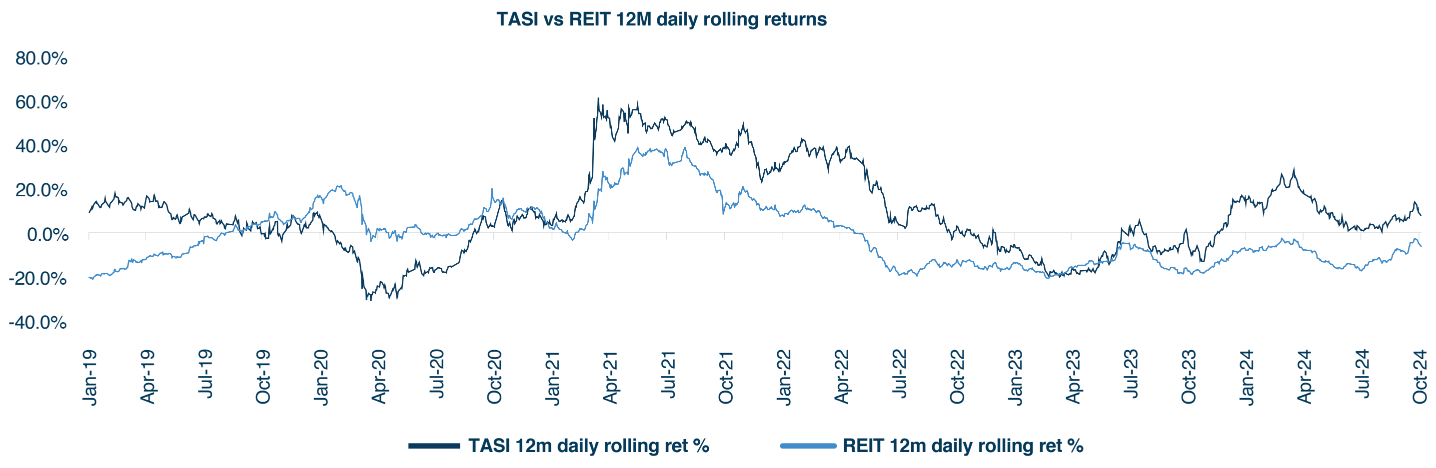
Source: Argaam, AlJazira Capital Research. Note: FY23 dividend yields are based on the year end closing prices, and FY24E dividend yields based on the closing price of October 17, 2024.

Relatively cheaper valuations for REITs making it a good bet amidst declining interest rates

Upon analyzing the current price return of TASI and TASI REITs index over 1-month, 3-month, 6-month, 12-month, 2-year, 3-year and 5-year time-horizon, in 7 out of 8 time horizons, TASI REITs underperformed TASI by 0.9% to 34%. This underperformance is steeper in the last 3 years. However, this underperformance has also materially lowered the P/E and P/B ratio for TASI REITs index, making it more attractive in terms of valuations.

The TASI REITs index is currently trading at 30.3x P/E and 0.7x P/B, implying 34.0% and 24.7% discount to its 5-year historical average. This compares TASI (including Aramco), which is currently trading at 20.0x P/E implying 10.1% discount. While on P/B terms, it is currently trading at 2.4x P/B, implying 4.5% premium to its 5-year historical average.

Fig 9. Consistent TTM underperformance by TASI REITs over the last 5 years; Steeper underperformance witnessed in the last 3 years



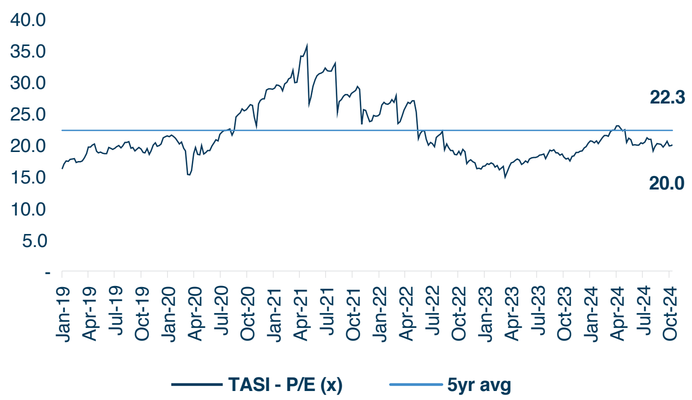
Source: Tadawul, AlJazira Capital Research

Fig 10. TASI REITs currently underperforming the main TASI index across several timeframes

Price return %	YTD	1m	3m	6m	12m	2yr	3yr
TASI	-1.1%	-1.8%	0.7%	-7.1%	11.1%	0.1%	1.7%
REITs	-11.8%	-0.9%	0.6%	-8.1%	-6.5%	-23.4%	-34.0%

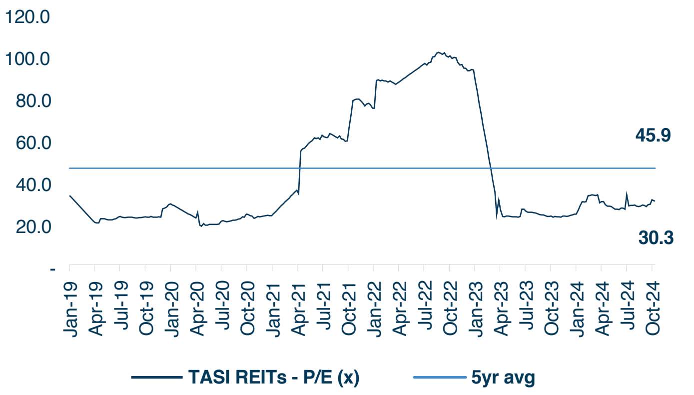
Source: Tadawul, AlJazira Capital Research

Fig 11. TASI P/E currently trading at 10% discount to 5-yr average P/E



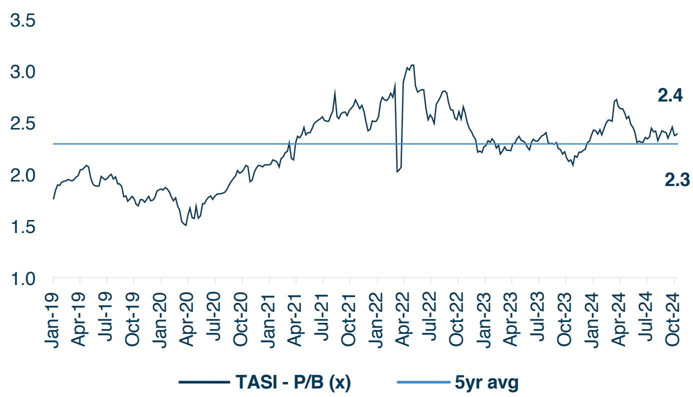
Source: Bloomberg, AlJazira Capital Research

Fig 12. TASI REITs relatively cheaper as it trades at 34% discount to 5-yr average P/E



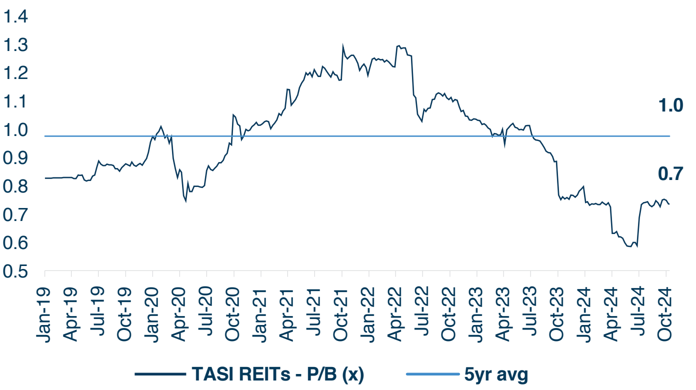
Source: Bloomberg, AlJazira Capital Research

Fig 13. TASI P/B currently trading at 4% premium to 5-yr average P/B



Source: Bloomberg, AlJazira Capital Research

Fig 14. TASI REITs relatively cheaper as it trades at 25% discount to 5-yr average P/B



Source: Bloomberg, AlJazira Capital Research

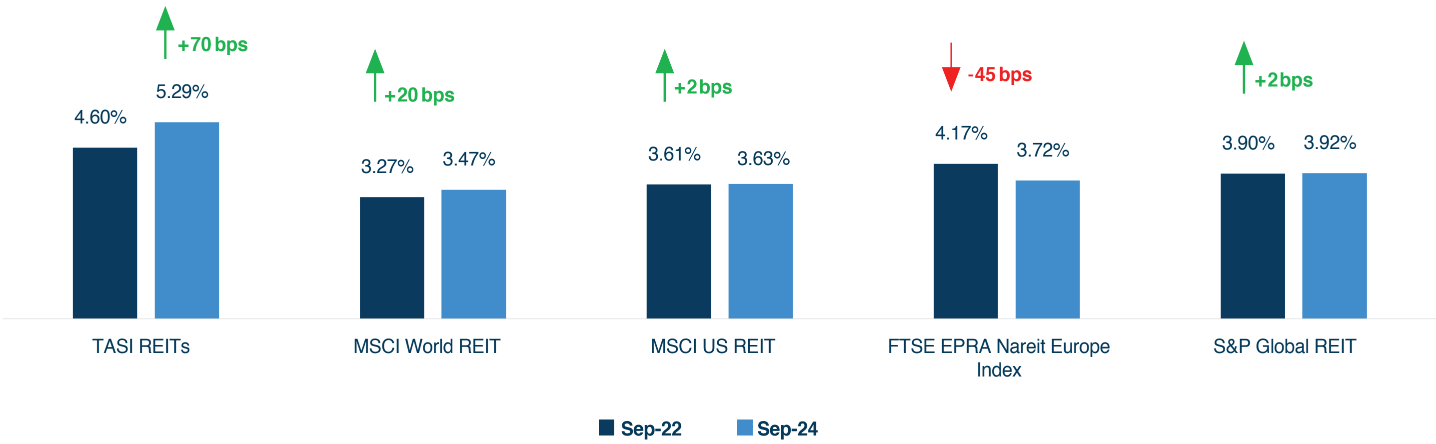
KSA REITs outperformed global counterparts on dividend yields, and growth momentum continued to stay in FY24E

Highest dividend yields for KSA REITs versus global counterparts; Bolstering of non-oil economy could drive growth opportunities and result in 90bps higher dividend yield in FY24e

The dividend yields in September 2024 improved for 4 of 5 global REIT indices compared to September 2022, with the highest improvements seen for TASI REITs index. The TASI REITs Index dividend yield currently stands at 5.29% (annualized based on H1-24 dividend). Average dividend yield for Tadawul-listed KSA REITs stands the highest in comparison with global and developed markets' REIT indices. As of September 2024, the dividend yields for major global REIT indices were ~130-180bps lower than KSA's REITs. The yield for MSCI World REIT and S&P Global REIT stood at 3.47% and 3.92%, respectively, while REITs in the US (MSCI US REIT) and Europe (FTSE EPRA Nareit Developed Europe Index) had a dividend yield of 3.63% and 3.72%, respectively.

The dividend yields for KSA's REITs remained higher than the global peers on account of better economic growth compared to its global counterparts. We believe a pickup in the long-term initiatives for bolstering the non-oil economy could bode well for growth opportunities for KSA REITs and translate into higher dividend yields in FY24e. Based on our internal calculations, we expect KSA REITs to deliver and an average dividend yield of 5.5% in FY24e (90bps higher than FY23).

Fig 15. Global REITs Dividend Yield – KSA REITs have depicted the highest dividend yields versus the global REITs

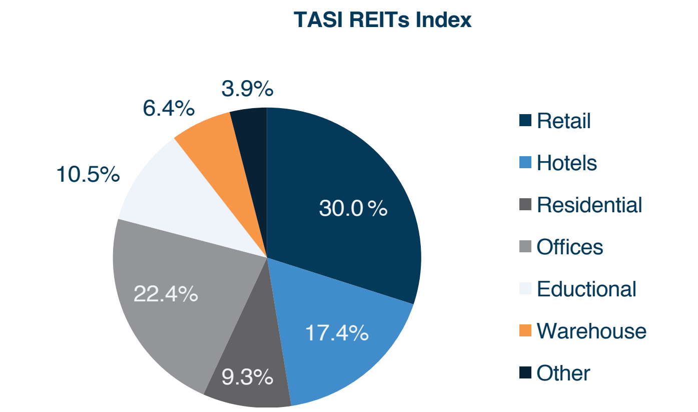


Source: MSCI, S&P, FTSE Russell, Argaam, AlJazira Capital Research. Data is updated for September 2024

KSA REIT portfolio distribution is partially concentrated when compared to MSCI US REITs

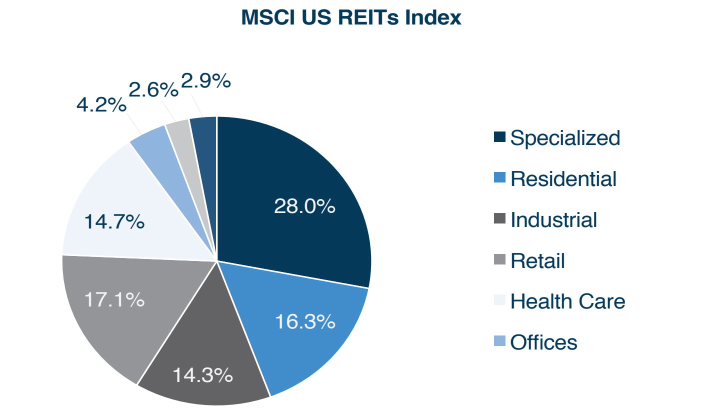
KSA's REITs index have the maximum concentration of assets in the Retail sector at 30.0% of total assets, followed by Offices (22.4%) and Hotels (17.4%). Meanwhile, MSCI US REITs Index has the highest contribution from Specialized REITs at 28.0%, followed by the Retail (17.1%) and Residential (16.3%) sectors. Notably, in KSA, offices displayed the largest growth in share of total segmentation, growing from 15.7% of total REITs' assets in FY18, to 22.4% by H1-24.

Fig 16. Portfolios of KSAs REITs are highly skewed towards retail, offices and hotels as a category



Source: Argaam, AlJazira Capital Research. Note: 'Others' segment includes lands and hospital facilities

Fig 17. While MSCI US REITs are skewed towards Specialized, Residential and Retail as a category



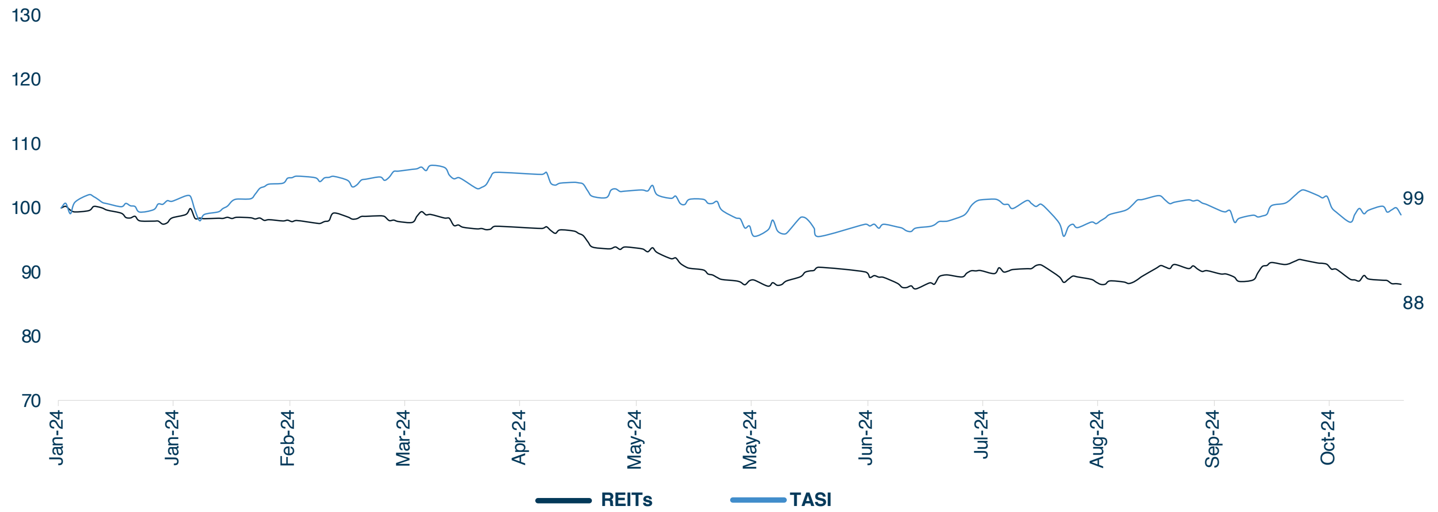
Source: MSCI, AlJazira Capital Research

KSA REITs financial performance improving but underperforming versus TASI

Material underperformance of TASI REITs sector index compared to the main TASI index, both Y/Y and YTD

TASI REITs index has materially underperformed the main TASI index on Y/Y basis and YTD basis as well. TASI REITs index fell from 3,495 points in September 2023 to 3,353 points in September 2024, implying a negative 4.1% Y/Y return. While on YTD basis it reported a negative 11.8% return. Over the said period TASI returned 10.6% on Y/Y basis and a negative 1.1% on YTD basis. **Derayah REIT** (-19.5% return), **Riyad REIT** (-16.6%) and **Jadwa AlHaramain** (-15.2%) were the REITs which dragged the overall index returns over the said period.

Fig 18. TASI vs REITs sector index performance

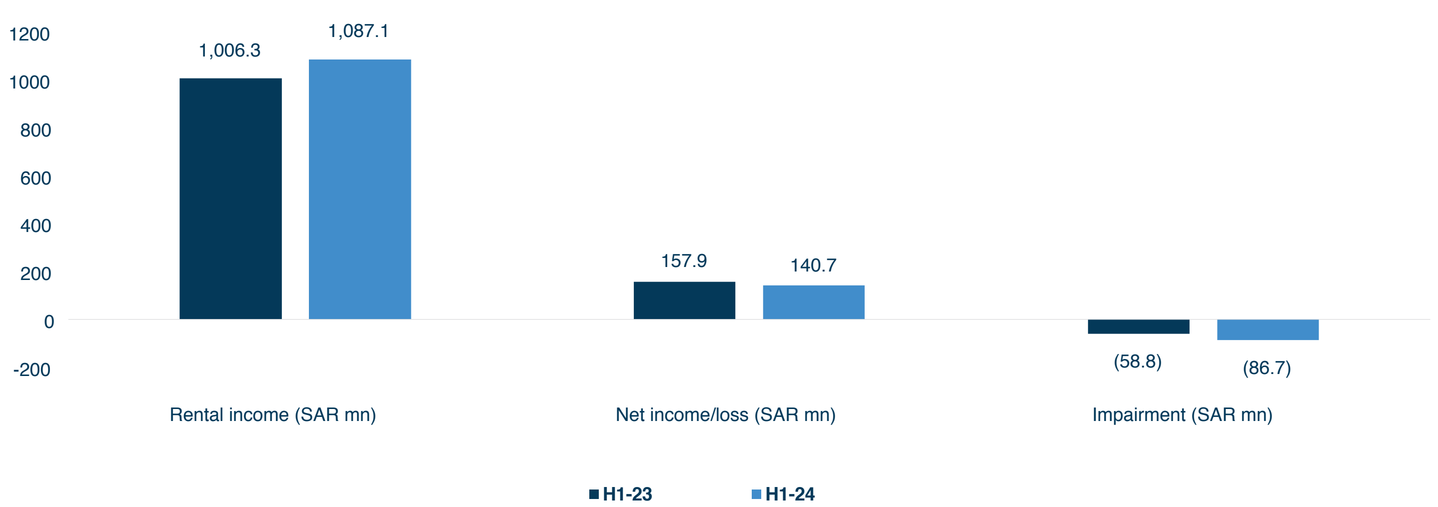


Source: Tadawul, AlJazira Capital Research

Signs of improvements in rental incomes in H1-24, but rise in impairments impacts the bottom-line growth momentum

In H1-24, KSA's REIT funds aggregated a total rental income of SAR 1,087.1mn, marking an 8.0% Y/Y increase. This was supported by increased economic activities. Residential property and Hotels benefited the most from increasing rents and occupancy due to 10% Y/Y rise in visitors in the first seven months, to the Kingdom. Out of the total 18 listed REITs, 15 REITs recorded increase in rental income in H1-24. As a result, the sector registered a net profit of SAR 140.7mn, as against a net income of SAR 157.9mn in H1-23. The growth in bottom-line was impacted due to increase in impairments on real estate investments, as impairments increased from a negative SAR 58.8mn in H1-23 to a negative SAR 86.7mn in H1-24.

Fig 19. Improvement in rental incomes, but increase impairments leads to a decline in bottom-line growth momentum

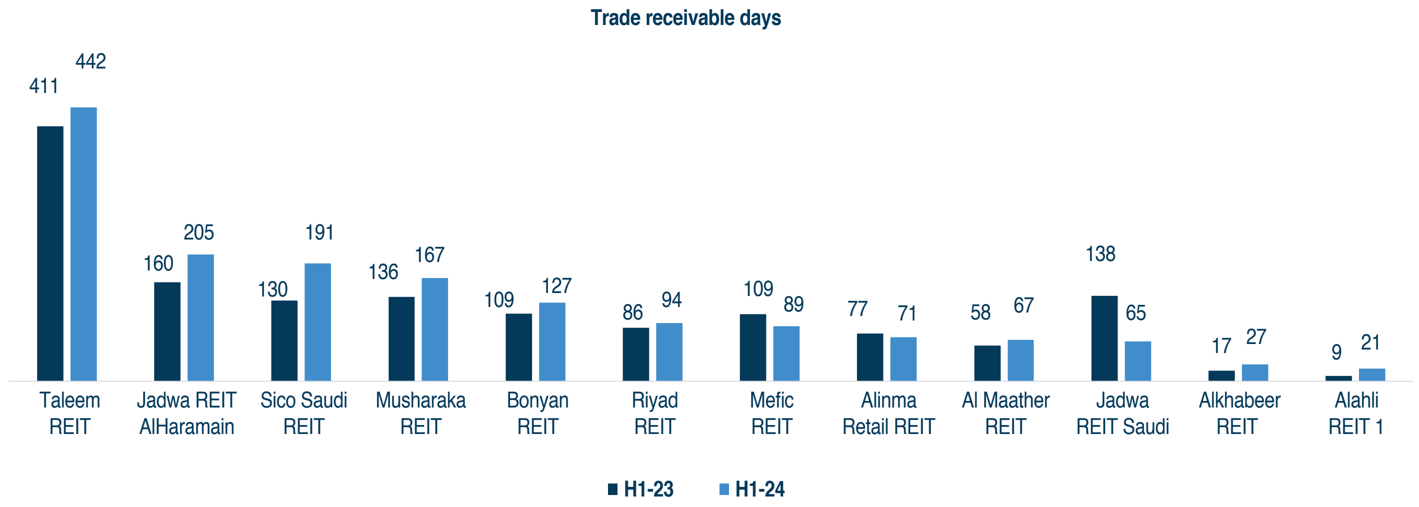


Source: Argaam, AlJazira Capital Research

Significant improvement seen in managing trade receivable days in H1-24 despite total receivables growth outpacing rental income growth

We analyzed the trade receivable days for the 18 listed REITs in KSA over H1-24 and H1-23, based on TTM rental income and trade receivables as on June 2024. The trade receivable days for the sector increased marginally from 71 days in H1-23 to 73 days in H1-24. This was driven by a faster increase in total receivables versus rental income for the sector. Sector-wide receivables increased 11.8% Y/Y, outpacing the rental income growth of 8.0% Y/Y. **SICO Saudi REIT** sector marked the highest increase in receivable days by 61 days which was partially offset by the highest improvement of 73 receivable days by **Jadwa Saudi REIT**. When looking at the absolute receivable days, **Taleem REIT** (442 receivable days in H1-24) and **Jadwa AlHaramain REIT** (205 receivable days in H1-24) had the highest receivable days.

Fig 20. Sector-wide trade receivable days – SICO Saudi REIT reported the highest Y/Y increase, while Jadwa Saudi REIT showcased significant efficiency by improving its trade receivable days

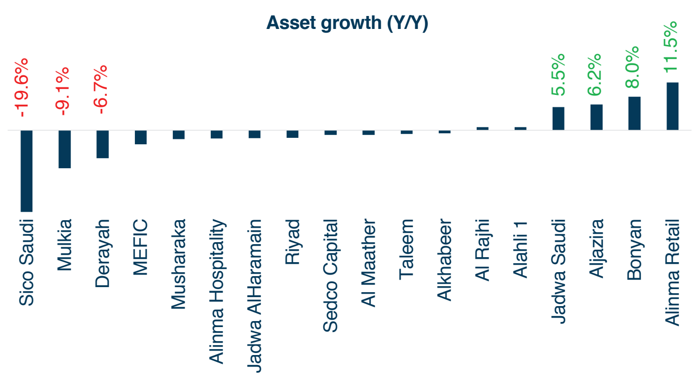


Source: Tadawul, Argaam, AlJazira Capital Research

Notable imbalance witnessed in H1-24 as debt growth outpaced the asset growth

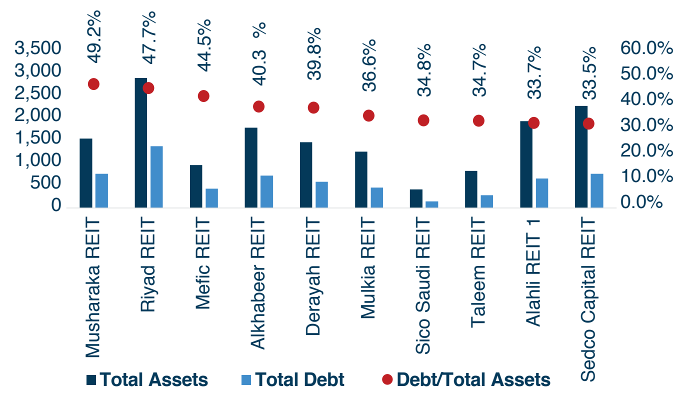
KSA's REITs sector experienced a notable imbalance with debt growth outpacing the asset growth during H1-24. The sector witnessed increase in leverage from SAR 8.8bn in H1-23, to SAR 9.0bn (2.2% Y/Y rise) to support the expansion and operational needs. However, it struggled to translate this into corresponding asset growth. While the debt levels rose sharply, the asset growth recorded a Y/Y decline of 0.5%, as the assets declined from SAR 27.3bn in H1-23, to SAR 27.2bn in H1-24. In H1-24, **Musharaka REIT** and **Riyad REIT** were the most levered REITs with a debt/assets metric at 49.2% and 47.7%, respectively.

Fig 21. Aljazira, Bonyan and Alinma Retail lead the sectoral asset growth, while SICO Saudi, Mulkia and Derayah drag the growth



Source: Argaam, AlJazira Capital Research

Fig 22. Musharaka and Riyad REIT are the most levered REITs, with their debt/assets significantly above the average debt/assets for the sector



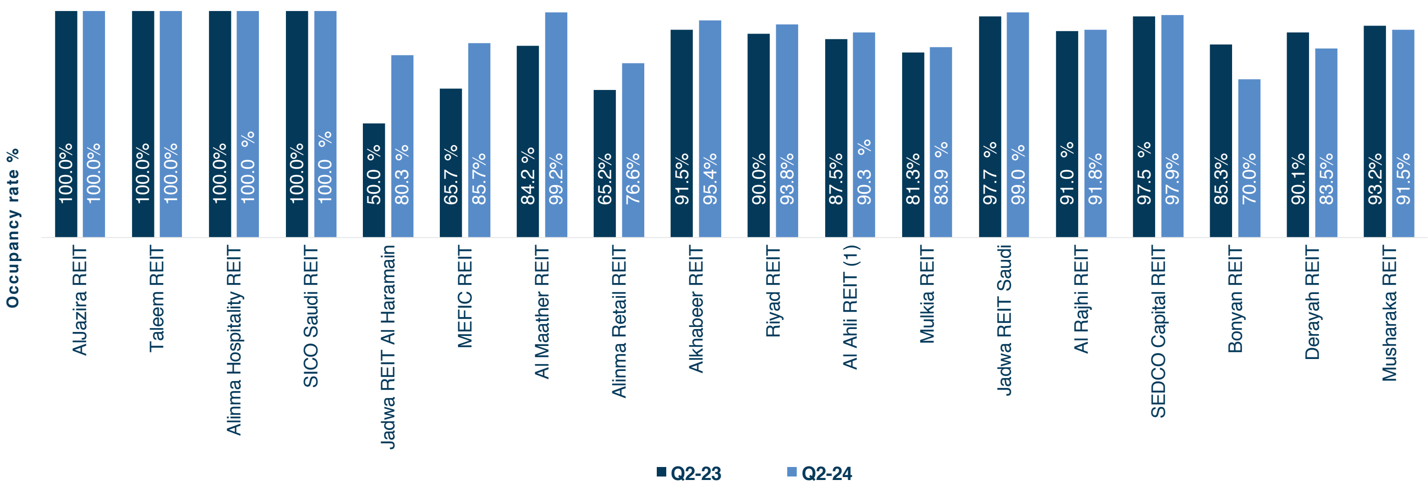
Source: Argaam, AlJazira Capital Research

Key growth drivers for KSA real estate and REITs

The occupancy rates for SAUDI Arabian REITs has been rising consecutively for the last 6 quarters, reaching about 91.5% in Q2-24, implying a 370bps Y/Y increase. This growth is attributable to continued improvement in all operating sectors, especially hospitality sector. This robust growth in the occupancy rates can lead to several positive outcomes for the KSA REITs landscape;

- **Higher rental income:** Increased occupancy rates indicates a greater number of properties in a REIT's portfolio are occupied, resulting in higher rental income, contributing to a more stable revenue stream for the REIT.
- **Improved Cash Flow:** With higher rental income, the cash flow of the REITs improves, which enhances its ability to meet operational expenses, service debt, and make distributions to shareholders. This is particularly important since REITs are required to distribute a significant portion of their taxable income as dividends.
- **Potential for dividend increase:** REITs often adjust their dividends based on their cash flow and profitability. With rising occupancy and income, a REIT may be in a better position to increase its dividend payouts to investors, making it more attractive to income-seeking investors.

Fig 23. Consistent increase in occupancy levels could improve rental income, cash flow position and potential for dividend increase



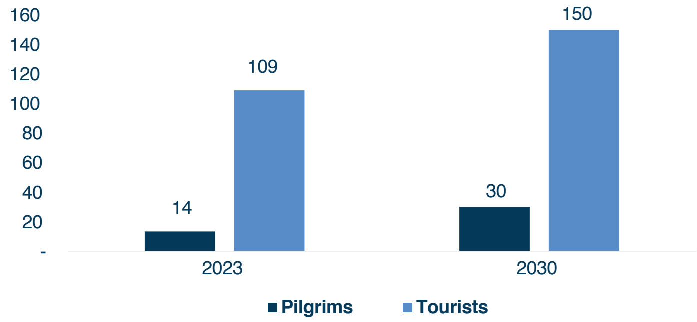
Source: Argaam, AlJazira Capital Research

Multiple sectors collectively support KSA's REITs by offering diverse range of investment opportunities. The continued focus on infrastructure, economic diversification, and sector-specific growth initiatives ensures a steady demand for real estate assets, providing REITs with opportunities for growth and income generation. In the following parts we have deep-dived into each categories and highlighting the growth trends which are supportive for the growth of KSA's REITs landscape.

1. Hospitality and Tourism

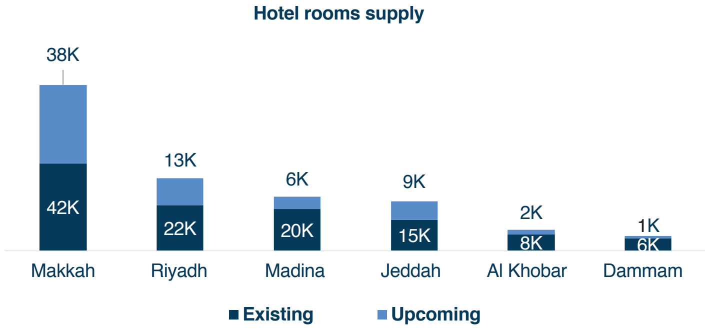
KSA is actively developing its tourism industry under Vision 2030 through projects like NEOM, the Red Sea Project, and Qiddiya. These projects are expected to attract millions of tourists annually, thus increasing the need for hospitality infrastructure such as hotels and resorts. Cities like Makkah and Madinah are also seeing increased demand for hospitality services due to rising religious tourism. REITs investing in hotels, serviced apartments, and mixed-use developments could benefit from these trends. The Kingdom is gearing up for a major expansion in its hospitality sector, as the number of tourists are expected to increase significantly in the next few years. A total of 315K hotel keys are either under construction or planned by FY30e, according to global property consultancy Knight Frank. Thus, total hotel rooms inventory is expected to reach around 450K FY30e. **Makkah** is expected to add the greatest number of hotel keys followed by Riyadh and Jeddah.

Fig 24. Developments in tourism industry through Vision 2030 to attract significant growth in tourists. (in million)



Source: Argaam, Vision 2030, AlJazira Capital Research

Fig 25. Rising tourism to boost hotel rooms supply in KSA, with Makkah leading in new inventory



Source: Knight Frank, AlJazira Capital Research

2. Commercial Real Estate

The demand for high-quality retail spaces and modern office buildings has been on the rise, especially in major cities like Riyadh, Jeddah, and Dammam. This growth is driven by the expansion of local businesses, increased foreign direct investment (FDI), and regulatory initiatives like mandating international companies to establish regional headquarters in KSA. In Q2-24 strong demand for quality office space continued to remain elevated in Riyadh, as more international and local occupiers moved to the city. Riyadh registered the highest volume of demand and enquiries across all major cities in KSA. The trend of repurposing of existing and upcoming real estate into office space in an attempt to meet demand remained prevalent during Q2-24.

Fig 26. Over the last 2 years, occupancy levels of offices across major cities in KSA have increased, thus suggesting the increased demand in commercial real estate

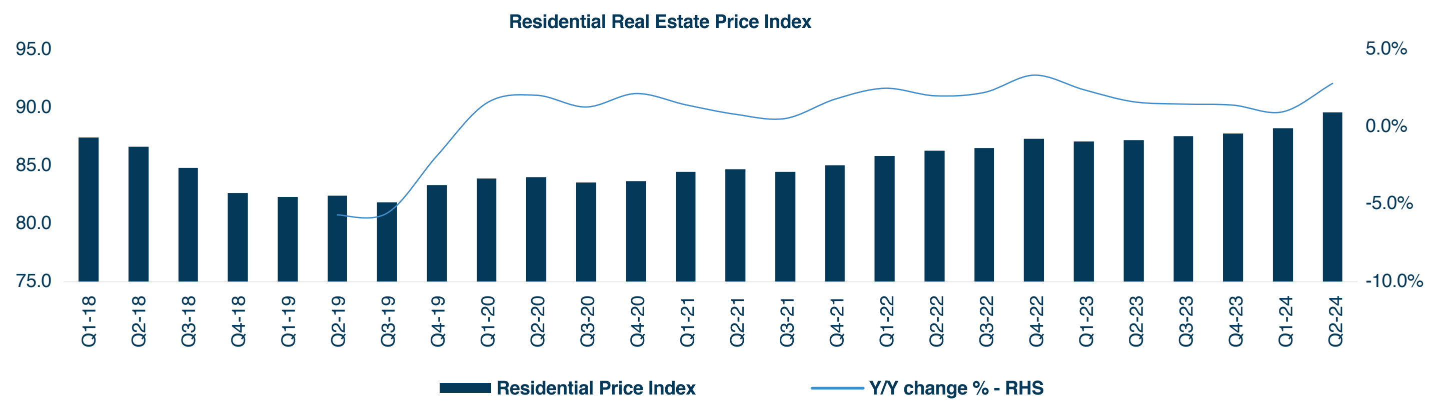
Occupancy %	Q2-22				Q2-23				Q2-24			
	Riyadh	Jeddah	Dammam	Khobar	Riyadh	Jeddah	Dammam	Khobar	Riyadh	Jeddah	Dammam	Khobar
Grade A	98.6%	87.8%	76.3%	76.0%	99.9%	92.5%	82.2%	81.0%	100.0%	93.1%	87.2%	86.3%
Grade B	97.6%	74.6%	66.3%	0.0%	99.4%	80.0%	67.6%	0.0%	99.4%	88.0%	71.6%	0.0%

Source: CBRE, AlJazira Capital Research

3. Residential Real Estate

The demand for residential properties, including apartments, villas, and affordable housing units is robust in the Kingdom. Saudi Arabia has a young and growing population, with a significant portion residing in urban areas. More importantly, expatriates form a considerable fraction of the country's population. As per 2022 census, Saudi Arabia has expatriate population of 13.4mn i.e 41.6% of the total. The expatriate population, particularly middle and high-income workers, is a key driver of demand for residential rentals. This supports the REITs focusing on the residential segment. This increase in demand is very well captured by the consistent rise in resident real estate index price, which has inched up from 87.4 level in Q1-18 to 89.6 in Q2-24.

Fig 27. Rising residential pricing index over last 6 years is a testament of the increased demanddividend increase



Source: GASTAT, AlJazira Capital Research

REITs Market Data

Fig 28. Operational and Fundamental characteristics of KSA's 18 listed REITs

REITs	Market Price	Book value/Unit	Market value/Unit	Pric to NAV	Expected dividend yield %	Debt value (SAR mn)	Debt/ Assets	Units (mn)	Properties mkt. value (SAR mn)	Average 3M turnover	Cash (SAR mn)
Riyad REIT	6.6	8.4	11.1	0.78	5.3%	1,436.1	47.7%	172	1,945	1,225	49
Aljazira REIT	15.9	7.9	7.9	2.02	2.2%	0.0	0.0%	12	92	2,587	1
Jadwa AlHaramain	6.0	7.7	7.7	0.79	6.6%	214.3	29.2%	66	659	626	5
Taleem REIT	11.1	10.8	15.5	1.02	5.8%	297.6	34.7%	51	703	672	1
Al Maather REIT	9.0	8.4	10.7	1.06	7.3%	199.8	26.9%	61	688	738	33
Musharaka REIT	5.1	8.7	9.4	0.59	3.9%	789.6	49.2%	88	1,225	447	41
Mulkia REIT	5.6	7.5	8.5	0.73	6.3%	476.9	36.6%	104	1,244	706	11
Sico Saudi REIT	4.1	4.5	5.8	0.92	0.0%	149.9	34.8%	57	402	572	2
Alahli REIT	7.4	8.9	10.1	0.82	6.8%	680.2	33.7%	138	1,924	856	9
Sedco Capital REIT	8.3	8.2	8.7	0.99	6.3%	794.9	33.5%	187	2,235	1,185	55
Derayah REIT	6.2	8.2	9.2	0.75	4.1%	608.0	39.8%	108	1,409	953	5
Al Rajhi REIT	8.5	8.0	8.5	1.06	6.1%	896.4	28.4%	276	3,008	4,305	23
Alinma Retail	4.9	6.6	7.0	0.74	7.0%	263.8	24.6%	118	657	745	4
Jadwa Saudi	10.4	9.5	11.8	1.08	7.2%	542.5	23.2%	187	2,053	3,235	19
Mefic REIT	4.2	6.9	7.7	0.61	2.8%	444.0	44.5%	73	816	491	4
Bonyan REIT	9.2	8.5	12.7	1.07	7.6%	498.3	24.8%	163	1,526	852	71
Alkhabeer REIT	6.1	7.5	8.7	0.81	6.9%	751.5	40.3%	141	1,620	996	99
Alinma Hospitality	8.5	10.2	10.8	0.82	7.6%	0.0	0.0%	102	988	2,480	13

Source: Tadawul, Argaam, AlJazira Capital Research. Note: Market Price as of the closing of October 17, 2024. Debt, Property market value and Cash in SAR mn, while Avg 3M turnover in 000's. Expected dividend yields based on the closing of October 17, 2024.

Real Estate Portfolio: sector and geographic distribution

Fig 29. Sector-wise overview of KSA's 18 listed REITs

REIT	Residential	Commercial	Offices	Hotels	Industrial	Educational	Warehouse	Retail
Riyad REIT	√	√	√	√		√		√
Jadwa AlHaramain		√		√				√
AlMa'ather REIT	√	√	√	√		√	√	
Musharaka REIT	√	√	√	√			√	
Mulkia - Gulf Real Estate REIT	√	√	√	√	√			
SICO REIT		√	√	√				
AlAhli REIT 1		√	√	√				√
Derayah REIT	√	√	√	√		√	√	√
Alinma Retail REIT		√	√					√
Jadwa Saudi REIT	√	√	√	√		√	√	
AlJazira REIT		√					√	
Taleem REIT						√		
SEDCO CAPITAL REIT	√	√	√	√		√		√
Al Rajhi REIT		√	√			√	√	√
MEFIC REIT	√	√	√	√				√
Bonyan REITS	√	√	√	√				
Alkhabeer REIT	√	√	√			√	√	√
Alinma Hospitality REIT				√				

Source: Argaam, AlJazira Capital Research

Fig 30. Geography-wise overview of KSA's 18 listed REITs

REIT	Total Properties	Riyadh	Jeddah	Khobar	Dammam	Mecca	Jubail	Other
Riyad REIT	28	12	2	2	1			Washington (1), Escolinas (1), California (1), Dallas (1), Pennsylvania (1), Brussels (1), Missouri (2), South Carolina (1), Alabama (1), Texas (1)
Jadwa AlHaramain	4					4		
AlMa'ather REIT	15	12		1				Unaizah (1), Sharjah (1)
Musharaka REIT	13	5		4	1		1	Al Kharj (1), Dubai (1)
Mulkia REIT	12	7	3		1			Khamis Mushayt (1)
SICO REIT	4	1				3		
AlAhli REIT 1	4	1	3					
Derayah REIT	24	9	3	3	6		2	Al-Hasa (1)
Alinma Retail REIT	8	5						Hafr Al-Batin (1) Tabuk (1), Dawadmi (1)
Jadwa Saudi REIT	9	7	1		1			
AlJazira REIT	1		1					
Taleem REIT	7	6			1			
SEDCO REIT	21	9	5	2	5			
Al Rajhi REIT	21	12	5	1	1			Al Kharj (1), Khamis Mushayt (1)
MEFIC REIT	7	3	1			2		Dubai (1)
Bonyan REITS	14	7						Dubai (1), Abha (1), Medina (2), Jazan (3)
Alkhabeer REIT	11	5	5					Tabuk (1)
Alinma Hospitality REIT	5	3	2					

Source: Argaam, AlJazira Capital Research

REITs liquidity as a parameter

In the following sections we have analyzed the liquidity angle of Saudi Arabian REIT market by gauging the i) activity, ii) width, and iii) changes in the ease of entering and exiting a trade during periods of illiquidity. We ranked the 18 listed REITs by the average turnover over the last 9 months to gauge the ability of stocks to absorb a large buy or sell order. **AlJazira REIT** is at the top, indicating good liquidity. The downside deviation measures the extent of a drop in REIT's trading activity when the REIT market is witnessing a decline in liquidity. The lower the downward deviation, the lower will be the drop in the liquidity of a REIT when the market is witnessing a decline in trading activity. **JADWA ALHARAMAIN REIT** and **JADWA SAUDI REIT** registered maximum deviation when trading in the REITs contracting market. Spread cost indicates how much one would pay to get in and out of a trade instantly. A lower spread percentage implies consensus in the market on the price of a REIT. A higher spread price indicates an illiquid asset, as lower participation leads to inefficient price discovery and, therefore, trading costs will increase if a participant wants to exit or enter a trade quickly. This is because the market price would be farther from the closest price the counterparty would be willing to buy or sell at. **SICO REIT** and **MEFIC REIT** recorded the highest spread cost, calculated as the ratio of spread cost (bid-ask) to price.

Fig 31. Liquidity Parameters

Most Active by Daily Turnover

REITs	9M Avg turnover (SAR mn)
AL-JAZIRA REIT	4.4
MUSHARAKA REIT	3.0
ALINMA HOSPITALITY REIT	2.8
TALEEM REIT	2.0
SEDCO CAPITAL REIT	1.5
BONYAN REIT	1.1
ALKHABEER REIT	1.0
RIYAD REIT	1.0
JADWA ALHARAMAIN	1.0
ALAHLI REIT	0.9
AL RAJHI REIT	0.9
MEFIC REIT	0.9
MULKIA REIT	0.9
ALINMA REIT	0.8
AL MAATHER REIT	0.8
JADWA SAUDI REIT	0.7
SICO SAUDI REIT	0.6
DERAYAH REIT	0.5

Downside Turnover Deviation

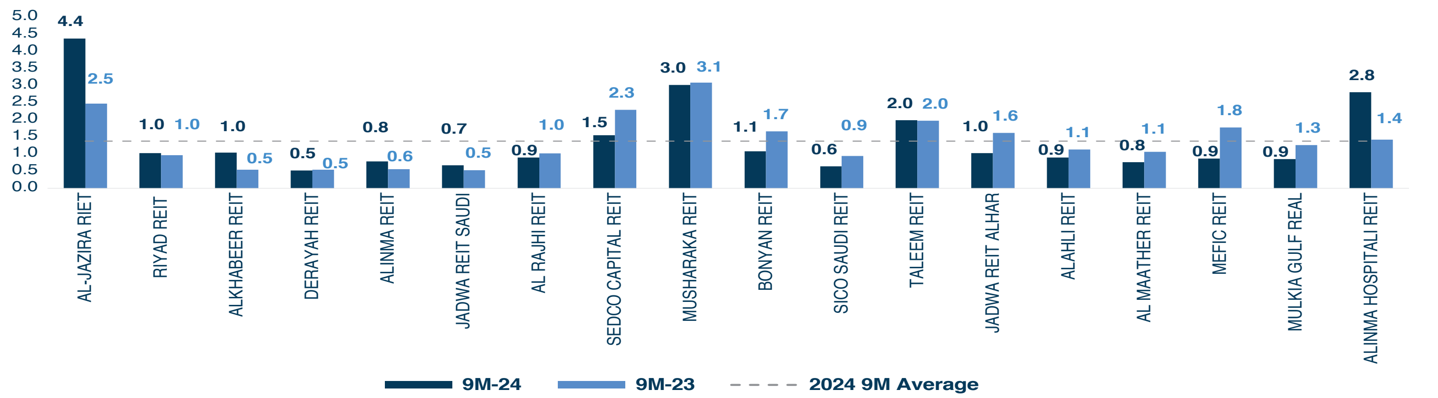
REITs	Downside deviation
DERAYAH REIT	1.68
AI RAJHI REIT	1.97
SEDCO CAPITAL REIT	1.97
RIYAD REIT	2.03
AL-JAZIRA REIT	2.03
ALINMA RETAIL REIT	2.04
MULKIA REIT	2.16
ALKHABEER REIT	2.17
SICO REIT	2.32
MUSHARAKA REIT	2.35
AL AHLI REIT	2.39
MEFIC REIT	2.44
TALEEM REIT	2.54
AL MAATHER REIT	2.55
ALINMA HOSPITALITY REIT	2.69
BONYAN REIT	2.70
JADWA ALHARAMAIN REIT	2.76
JADWA SAUDI REIT	2.99

Spread Cost

REITs	Bid-Ask Spread to Price
AL RAJHI REIT	0.16
AL MAATHER REIT	0.19
ALINMA HOSPITALITY REIT	0.20
SEDCO CAPITAL REIT	0.21
RIYAD REIT	0.21
ALKHABEER REIT	0.22
MULKIA REIT	0.24
DERAYAH REIT	0.24
BONYAN REIT	0.24
AL-JAZIRA REIT	0.25
AL AHLI REIT	0.26
MUSHARAKA REIT	0.28
TALEEM REIT	0.29
JADWA SAUDI REIT	0.29
ALINMA RETAIL REIT	0.31
JADWA ALHARAMAIN REIT	0.33
MEFIC REIT	0.36
SICO REIT	0.36

Source: Bloomberg, AlJazira Capital Research

Fig 32. Traded value averages (9M-24 vs 9M-23)



Source: Bloomberg, AlJazira Capital Research

Scoring Mechanism

Based on our proprietary developed model, we have analyzed the 18 listed REITs as of September 2024, for 7 quantitative parameters, with each parameter carrying a distinguished weight. The choice of these 7 parameters is based on i) valuation attractiveness; and ii) operational efficiency.

Fig 33. Proprietary scoring model

Valuation Attractiveness

Price/FFO
Ranking:
This will test the pricing attractiveness of the REIT. It is an indication as to how many years it will take for REIT to earn enough to pay back what one pays as a price. The REIT with lower ratio will be given the better ranking

Implied cap rate
Ranking:
This ratio represents the cap rate that would result in an NAV equal to REIT's stock price. Higher the ratio better the ranking

Expected dividend yield
Ranking:
Investors will be enticed to deploy funds wherein higher dividend is expected on every riyal invested. Hence, higher expected dividend yield, better ranking

Liquidity
Ranking:
Investor would prefer more liquid stocks as they provide flexibility to investors to get in and out of the stock at their will.

Operational Efficiency

FFO payout ratio
Ranking:
REIT with higher and consistent FFO payout ratio attracts higher investments. Higher the ratio better the ranking

Asset growth
Ranking:
Higher ratio better ranking. Higher asset growth suggests better net operating income over the coming years

Debt parameter
Ranking:
Lower the borrowing ratio and higher the coverage ratio better the ranking

Source: AlJazira Capital Research

Below we have summarized our ranking methodology

- **Price-to-FFO:** Companies engaged in real estate use FFO as an operating benchmark. FFO is a measure of the cash generated by a REIT. The attractive pricing of a REIT was tested based on the ratio of its CMP to the funds it has generated for a given period (FFO). A REIT trading at a lesser market price for a given FFO per share is preferred. **Bonyan REIT** is the most attractive fund in the sector from this perspective as it is trading at the lowest P/FFO of 11.3x.

- **Implied Cap rate:** The implied cap rate indicates the yield of net operating income (NOI) produced at a certain share price. It is used as a benchmark for an investment decision, and also as a hurdle rate by a REIT manager to constitute a property portfolio. The REIT that generates the highest yield of NOI at its current market price is preferred. **Bonyan REIT** is the most attractive fund in the sector from this perspective due to its implied cap rate of 9.8%.

- **FFO pay-out ratio:** The FFO payout ratio is calculated by taking the current annual dividend rate of a REIT and dividing it by its FFO per share. It is a useful metric for analyzing the ability to cover the dividend payments. A payout ratio above 100% indicates that the REITs current dividend is higher than its cash income from operations, and the **REIT** may need to pull from its cash reserve to help cover the dividend. Although a payout ratio above 100% in the short term is not necessarily a concern, it is not sustainable in the long term; therefore, the REITs dividend payment plan may require adjustments. However, we preferred REITs that tends to have a high and consistent payout ratio. Thus, **Musharaka REIT** with a payout ratio of 84% has been given the highest ranking under this parameter.

- **Expected Dividend Yield:** REITs is an asset class that distributes almost all of its earnings in the form of dividends. Thus, it is imperative to evaluate the dividend yields. The dividend yield is an estimate of the dividend-only return of a stock investment. Preference was given to the REIT with the highest expected dividend yield. In the current scenario, **Bonyan REIT** scored the highest with the highest expected yield of 7.6%.
- **Y/Y Asset Growth:** The funds invested in portfolios registering the highest asset growth on a Y/Y basis were preferred. Increase in asset size implies a rise in net operating income, which eventually helps in generating better value. **Alinma Retail REIT** has been rated highest in this parameter due to its asset growth of 11.5% Y/Y.
- **Debt parameter:** As per regulations, REITs cannot borrow funds valuing more than 50% of total assets. Hence, while determining the ranking, preference was given to funds that had not borrowed large sums and thus had scope for future expansion on the basis of available leverage. Additionally, REITs ability to serve debt based on FFO coverage (FFO/finance cost) was also considered with preference to REITs with higher coverage ratio. **Aljazira** and **Alinma Hospitality REITs** with a debt-free balance sheet have been ranked the highest on this parameter.
- **Liquidity:** We ranked the listed REITs by the average turnover over the last 9 months to gauge the ability of stocks to absorb a large buy or sell order. **Aljazira REIT** stood at the top of the table with the highest average 9M turnover. We also took downside deviation and spread cost into account while ranking REITs on liquidity.

To evaluate the qualitative aspect of REITs, individual real estate REIT portfolios need to be understood. The REITs are judged on the basis of their concentration risk. Thus, it is imperative to identify and analyze the diversification of each REIT in terms of sectors as well as geography. In an ideal scenario, REITs with the most diverse portfolios are given the highest ranking, and those with extreme concentration in a particular sector or geography may not receive a high ranking.

REITs performance scorecard

We evaluated REITs on 7 parameters as per the scoring mechanism mentioned earlier. Based on weighted ranking, **Bonyan REIT**, **Alinma Hospitality REIT**, **AlMa'ather REIT**, **Jadwa Saudi** REIT, and **Jadwa AlHaramain REIT** are our top 5 picks from the sector.

Fig 34. REIT performance scorecard based on our proprietary developed scoring mechanism

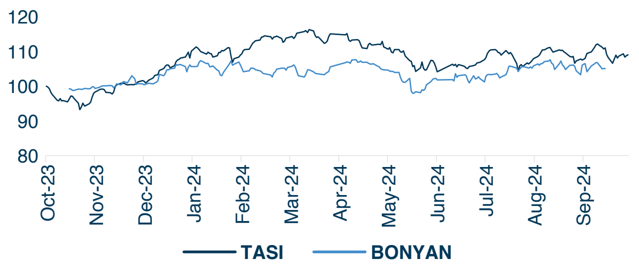
Weighted Rank	REITs	Expected dividend yield	Implied Cap Rate	Price/FFO (TTM)	FFO Payout ratio	Debt parameter score	Liquidity	Asset growth (Y/Y %)
	Weights	30%	20%	15%	10%	10%	10%	5%
1	Bonyan REIT	7.6%	9.8%	11.3x	41.2%	4.3	0	8.0%
2	Alinma Hospitality REIT	7.6%	7.2%	12.9x	49.1%	1.5	1	-2.0%
3	AlMa'ather REIT	7.3%	7.5%	12.8x	45.8%	4.8	0	-1.1%
4	Jadwa Saudi REIT	7.2%	5.8%	18.6x	38.4%	3.0	0	5.5%
5	Jadwa AlHaramain	6.6%	9.5%	53.9x	62.0%	7.3	0	-1.9%
6	Taleem REIT	5.8%	8.6%	14.4x	21.6%	10.3	1	-0.9%
7	AlAhli REIT 1	6.8%	5.4%	17.7x	64.2%	9.0	0	0.8%
8	Alkhabeer REIT	6.9%	6.5%	13.6x	22.0%	13.0	0	-0.7%
9	Al Rajhi REIT	6.1%	6.6%	15.5x	24.3%	6.3	0	0.7%
10	SEDCO REIT	6.3%	4.5%	19.7x	29.5%	9.0	1	-1.1%
11	Riyad REIT	5.3%	8.4%	42.9x	58.6%	16.5	0	-1.8%
12	ALINMA RETAIL REIT	7.0%	1.6%	NM	NM	6.3	0	11.5%
13	Mulkia REIT	6.3%	5.7%	42.3x	47.9%	12.3	0	-9.1%
14	Musharaka REIT	3.9%	6.4%	43.1x	83.7%	17.5	1	-2.2%
15	Derayah REITS	4.1%	7.4%	28.2x	21.8%	13.3	0	-6.7%
16	AlJazira REIT	2.2%	2.6%	43.3x	0.0%	1.5	1	6.2%
17	MEFIC REIT	2.8%	7.2%	NM	0.0%	15.0	0	-3.4%
18	SICO SAUDI REIT	0.0%	4.6%	74.9x	0.0%	12.5	0	-19.6%

Source: Argaam, AlJazira Capital research. Implied cap rate and FFO payout are based on H1-24 financials. Expected dividend and P/FFO are calculated based on the closing price of October 17, 2024. NM – Not meaningful

Bonyan REIT

- Closed ended - Shariah compliant
- Listing date: 25th Jul 2018
- Dividend: Semi-Annual
- Fund Manager: Saudi Fransi Capital
- Major shareholder: Abdul Rahman Saad Al Rashid and sons Co.
- Foreign ownership: 0.86%
- 4th largest fund by Market Cap

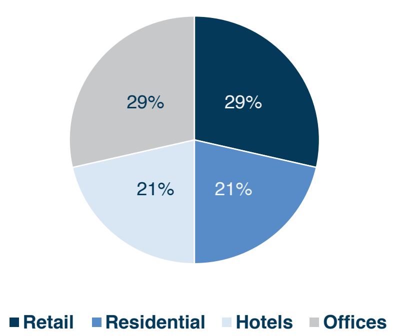
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

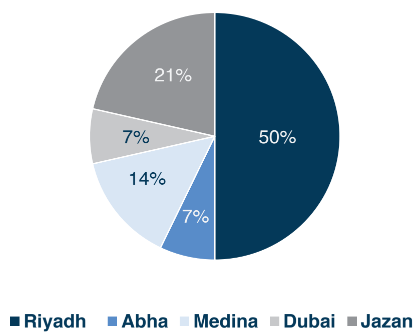
REIT's statistics	
CMP (17th Oct, 2024)	SAR 9.24
Fund Size	SAR 1,628.8mn
NAV/unit	SAR 8.52
Management Fee	0.50 %
3M Average Turnover	852,205.78
FFO/unit	0.83
Dividend/Capital (%)	3.30 %
Price/FFO	11.3x
P/E (REIT-TASI)	12.11
Total Revenue (1H-24)	SAR 131,287,119
Net Profit (1H-24)	SAR 57,079,979
Debt (1H-24)	SAR 498.3mn
Occupancy Rate (%)	63.9%
P/B	1.12
Market Value of Assets/Unit	12.68

Real estate portfolio



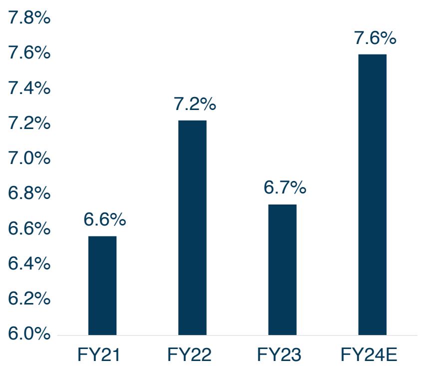
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

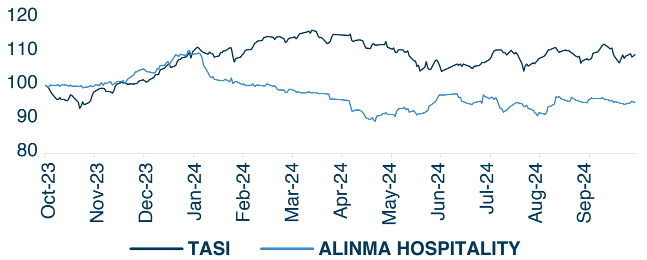
Fund Outlook

Bonyan REIT has a diversified portfolio in terms of geography, while retail and offices weigh the highest in terms sectors with 29% share each of the total property portfolio. Despite a negative Y/Y growth in the rental incomes in H1-24, the net profit Y/Y growth was significant in H1-24. It has the second lowest P/FFO of 11.3x in the sector. The implied cap rate of 9.8% generated by the fund is the best in the industry. Additionally, the fund is expected deliver the highest dividend yield of 7.6% in FY24E.

Alinma Hospitality REIT

- Closed ended - Shariah compliant
- Listing date: 28th Sept 2022
- Dividend: Semi-Annual
- Fund Manager: Alinma Investment Copmany
- Major shareholder: Ashad company, Ashad Co.
- Foreign ownership: 1.77%
- 8th largest fund by Market Cap

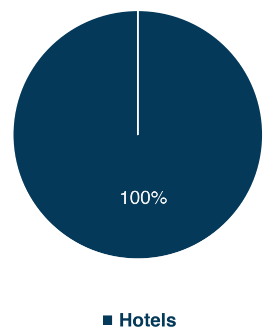
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

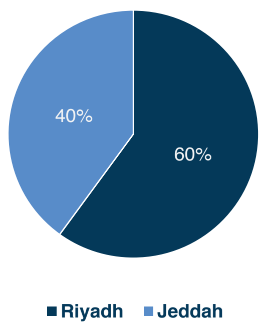
REIT's statistics	
CMP (17th Oct, 2024)	SAR 8.45
Fund Size	SAR 1,020.0mn
NAV/unit	SAR 10.19
Management Fee	0.16 %
3M Average Turnover	2,479,690.82
FFO/unit	0.65
Dividend/Capital (%)	3.20 %
Price/FFO	12.9x
P/E (REIT-TASI)	17.64
Total Revenue (1H-24)	SAR 37,104,484
Net Profit (1H-24)	SAR 24,303,599
Debt (1H-24)	SAR 0.0mn
Occupancy Rate (%)	100.0%
P/B	0.82
Market Value of Assets/Unit	10.76

Real estate portfolio



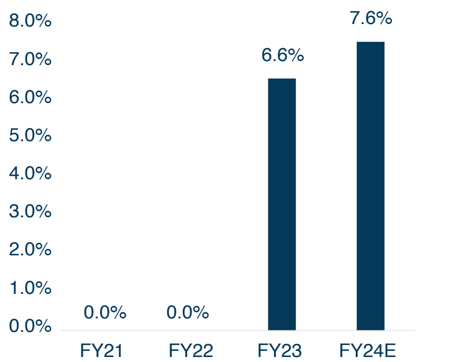
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

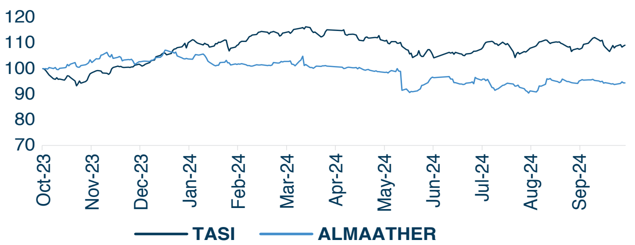
Fund Outlook

Alinma Hospitality REIT has presence only in Riyadh and Jeddah, with focus only on hotels. The company has no impairments but reported significant declines in Y/Y rental income growth and net income growth in H1-24. It has the third lowest P/FFO of 12.9x in the sector. It has a implied cap rate of 7.2%, with no dependency on debt. For the last 5 quarters it has consistently maintained a 100% occupancy rate. Additionally, the fund is expected deliver the second highest dividend yield of 7.6% in FY24e.

AlMa'ather REIT

- Closed ended - Shariah compliant
- Listing date: 22nd Aug 2017
- Dividend: Annual
- Fund Manager: Osool & Bakheet Investment
- Major shareholder: Sahary Arabian Real Estate Co.
- Foreign ownership: 3.3%
- 13th largest fund by Market Cap

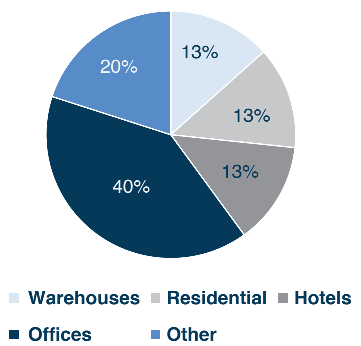
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

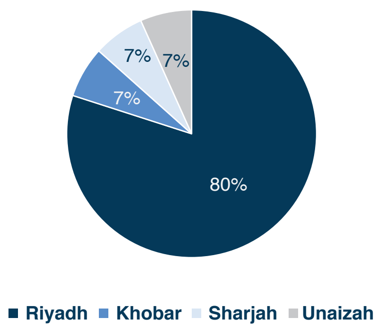
REIT's statistics	
CMP (17th Oct, 2024)	SAR 8.98
Fund Size	SAR 613.7mn
NAV/unit	SAR 8.41
Management Fee	0.5%
3M Average Turnover	737,710.71
FFO/unit	0.70
Dividend/Capital (%)	3.30%
Price/FFO	12.8x
P/E (REIT-TASI)	13.46
Total Revenue (1H-24)	SAR 31,742,564
Net Profit (1H-24)	SAR 22,492,537
Debt (1H-24)	SAR 199.7mn
Occupancy Rate (%)	99.2%
P/B	1.07
Market Value of Assets/Unit	10.73

Real estate portfolio



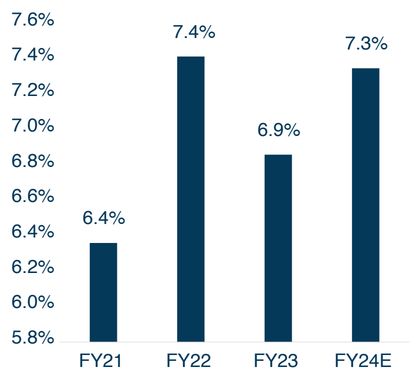
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

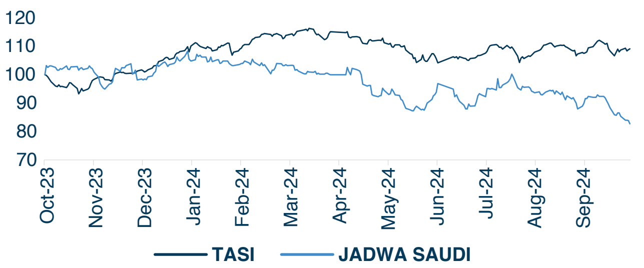
Fund Outlook

AlMa'ather fund's real estate assets are spread across different sectors mainly located in Riyadh. However, the fund also has operations outside KSA. Offices account for the highest sector within properties with a share of 40%. Thus, the fund's rental income is expected to improve gradually with economic activities picking up and foreign companies setting up offices in the Kingdom. The fund's dividend yield is estimated to rise to from 6.9% in FY23 to 7.3% in FY24E. Its P/FFO of 12.8x is the second lowest in the sector. The fund has an implied cap rate of 7.5%.

Jadwa Saudi REIT

- Closed ended - Shariah compliant
- Listing date: 11th Feb 2018
- Dividend: Semi-Annual
- Fund Manager: Jadwa Investment Co
- Major shareholder: Jadwa Investment Company
- Foreign ownership: 3.94%
- 2nd largest fund by Market Cap

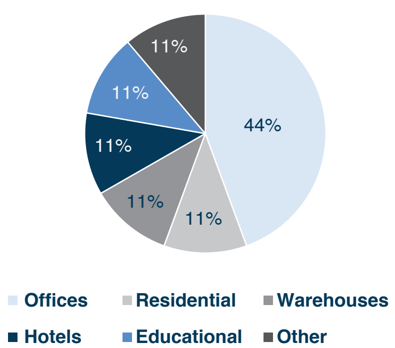
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

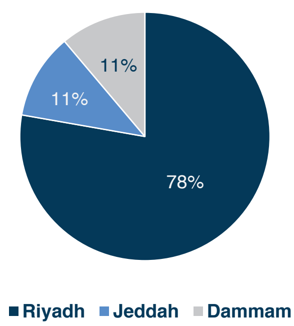
REIT's statistics	
CMP (17th Oct, 2024)	SAR 10.42
Fund Size	SAR 1,580.0mn
NAV/unit	SAR 9.48
Management Fee	0.75 %
3M Average Turnover	3,235,291.37
FFO/unit	0.56
Dividend/Capital (%)	3.30 %
Price/FFO	18.6x
P/E (REIT-TASI)	12.60
Total Revenue (1H-24)	SAR 79,558,604
Net Profit (1H-24)	SAR 11,502,300
Debt (1H-24)	SAR 542.5mn
Occupancy Rate (%)	98.6%
P/B	1.10
Market Value of Assets/Unit	11.82

Real estate portfolio



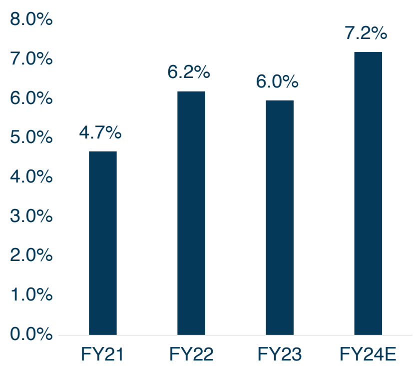
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

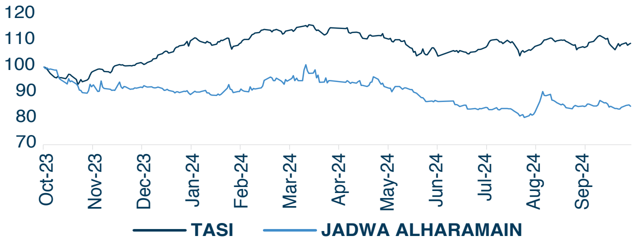
Fund Outlook

Jadwa Saudi REIT has a diversified portfolio in terms of sector, with 44% share coming from Offices. In terms of geographies, the properties are concentrated in the Riyadh region. The fund reported 54.6% Y/Y growth in rental incomes, but despite that the Y/Y net profit growth declined drastically in H1-24. It has a P/FFO of 18.6x and an implied cap rate of 5.8%. The fund is expected deliver a dividend yield of 7.2% in FY24E.

Jadwa AlHaramain REIT

- Closed ended - Shariah compliant
- Listing date: 30th Apr 2017
- Dividend: Semi-annual
- Fund Manager: Jadwa Investment Co
- Major shareholder: Yassar Othman Ibrahim Al Hokail
- Foreign ownership: 0.79%
- 15th largest fund by Market Cap

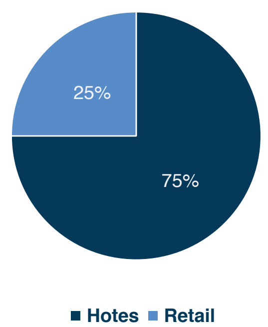
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

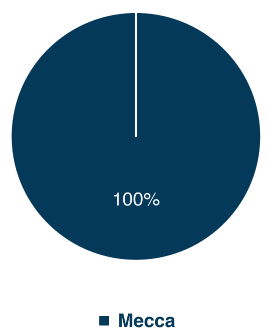
REIT's statistics	
CMP (17th Oct, 2024)	SAR 6.02
Fund Size	SAR 660.0mn
NAV/unit	SAR 7.67
Management Fee	1.0%
3M Average Turnover	625,720.68
FFO/unit	0.1
Dividend/Capital (%)	2.00%
Price/FFO	53.9x
P/E (REIT-TASI)	15.10
Total Revenue (1H-24)	SAR 27,215,038
Net Profit (1H-24)	SAR 10,092,144
Debt (1H-24)	SAR 214.35 m
Occupancy Rate (%)	71.3%
P/B	0.79
Market Value of Assets/Unit	7.67

Real estate portfolio



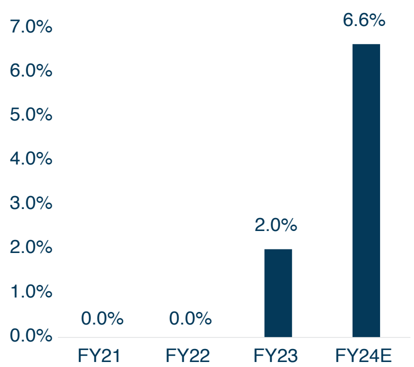
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

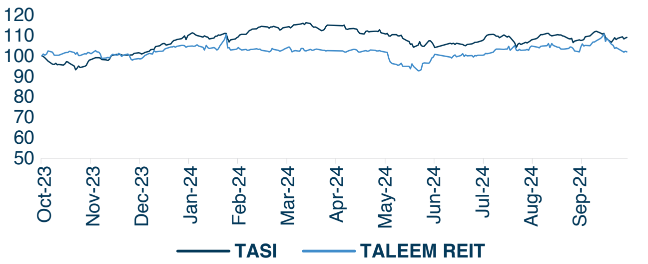
Fund Outlook

Jadwa AlHaramain has 100% presence in Mecca, with major focus on Hotels. The fund's assets declined 1.9% Y/Y in H1-24, but its rental income grew 54.6%, while it achieved profit at after tax level of SAR 10.1mn in H1-24. The fund has the second highest implied cap rate of 9.5%. The company started giving dividends in FY23 at an yield of 2.0%, and is expected to generate a dividend yield of 6.6% in FY24E. The company is moderately levered with debt/assets metric at 29.2% and has the second highest receivable days of 205 days basis H1-24 financials.

Taleem REIT

- Closed ended - Shariah compliant
- Listing date: 30th May 2017
- Dividend: Quarterly
- Fund Manager: Saudi Fransi Capital
- Major shareholder: Mohammed Bin Ahmed Al Rashid and Sons Holding Co.
- Foreign ownership: 1.48%
- 12th largest fund by Market Cap

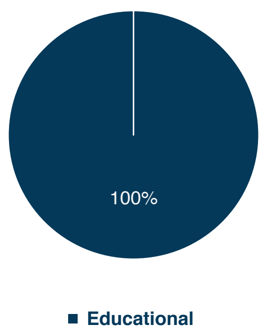
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

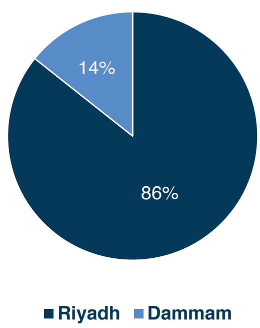
REIT's statistics	
CMP (17th Oct, 2024)	SAR 11.06
Fund Size	SAR 751mn
NAV/unit	SAR 10.76
Management Fee	0.75%
3M Average Turnover	672,393.40
FFO/unit	0.8
Dividend/Capital (%)	1.60%
Price/FFO	14.4x
P/E (REIT-TASI)	16.58
Total Revenue (1H-24)	SAR 33,198,208
Net Profit (1H-24)	SAR 15,492,123
Debt (1H-24)	SAR 297.63 m
Occupancy Rate (%)	100.0%
P/B	1.03
Market Value of Assets/Unit	15.51

Real estate portfolio



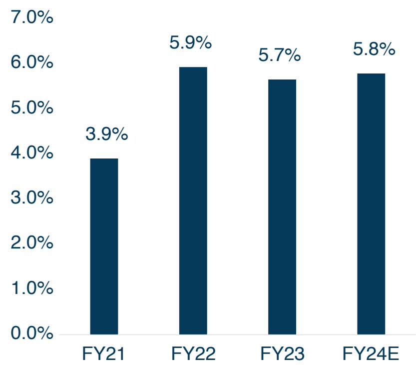
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

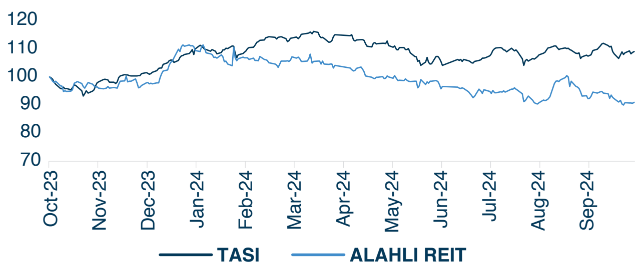
Fund Outlook

Taleem has 100% portfolio of educational assets. The fund's assets declined 0.9% on Y/Y basis in H1-24, but its rental income increased 3.9%. Its P/FFO ratio stood at 14.4x, slightly below the sector's median ratio. The fund has a implied cap rate of 6.1% compared with sector median of 6.5%. The stock is expected to generate a healthy dividend yield of 5.8% in FY24E, higher than 5.7% in FY23. The company also scored well on our debt parameter to analyze impact of leverage and higher interest rates.

AlAhli REIT

- Closed ended - Sharia compliant
- Listing date: 08th Jan 2018
- Dividend: Semi-Annual
- Fund Manager: SNB Capital
- Major shareholder: Al Andalus Real Estate Co.
- Foreign ownership: 2.16%
- 6th largest fund by Market Cap

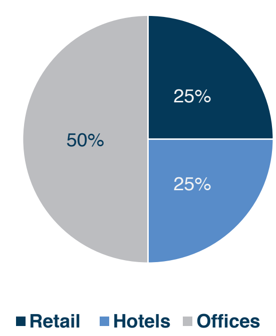
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

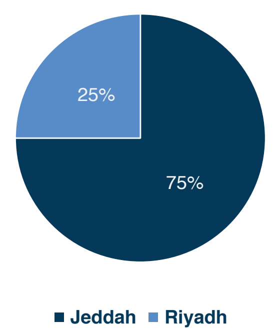
REIT's statistics	
CMP (17th Oct, 2024)	SAR 7.35
Fund Size	SAR 1,375.0mn
NAV/unit	SAR 8.86
Management Fee	1.00%
3M Average Turnover	855,946.55
FFO/unit	0.41
Dividend/Capital (%)	2.50%
Price/FFO	17.7x
P/E (REIT-TASI)	30.28
Total Revenue (1H-24)	SAR 91,626,000
Net Profit (1H-24)	SAR 14,802,000
Debt (1H-24)	SAR 680.22mn
Occupancy Rate (%)	90.3%
P/B	0.83
Market Value of Assets/Unit	10.05

Real estate portfolio



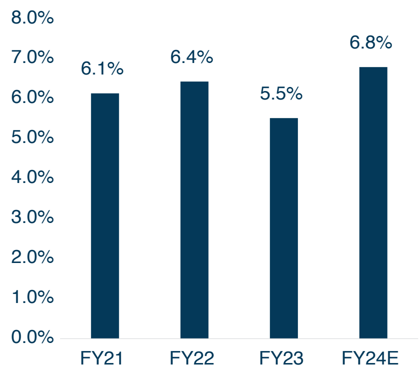
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

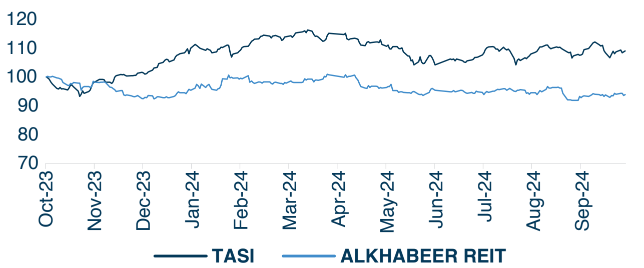
Fund Outlook

Al Ahli REIT's asset portfolio consists of 4 properties in Riyadh and Jeddah. With 50% of assets in the Offices sector, it is expected to benefit from improving commercial activities. The fund trades at a P/FFO of 17.7x and an implied cap rate of 5.4% which is below the industry median of 6.3%. The fund's dividend yield is expected at 6.8% in FY24E. The fund is one of the weakest funds in terms of debt parameter score.

AlKhabeer REIT

- Closed ended - Shariah compliant
- Listing date: 20th Mar 2019
- Dividend: Sem-annual
- Fund Manager: Alkhabeer Capital Company
- Major shareholder: Faycal Said Mohamad Obaid Zaqr
- Foreign ownership: 2.64%
- 7th largest fund by Market Cap

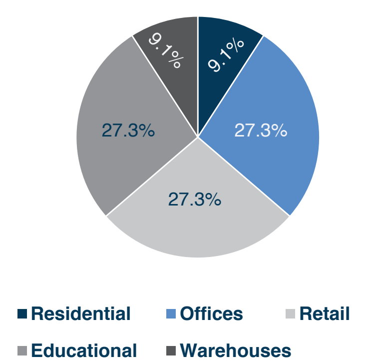
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

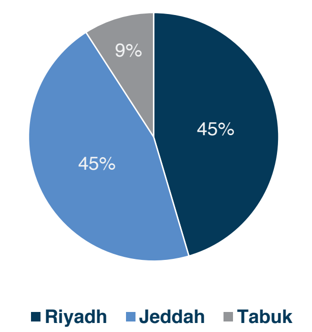
REIT's statistics	
CMP (17th Oct, 2024)	SAR 6.12
Fund Size	SAR 751mn
NAV/unit	SAR 7.54
Management Fee	0.75%
3M Average Turnover	995,830.42
FFO/unit	0.5
Dividend/Capital (%)	1.80%
Price/FFO	13.6x
P/E (REIT-TASI)	19.94
Total Revenue (1H-24)	SAR 66,249,561
Net Profit (1H-24)	SAR 47,554,075
Debt (1H-24)	SAR 751.49 m
Occupancy Rate (%)	95.4%
P/B	0.81
Market Value of Assets/Unit	8.69x

Real estate portfolio



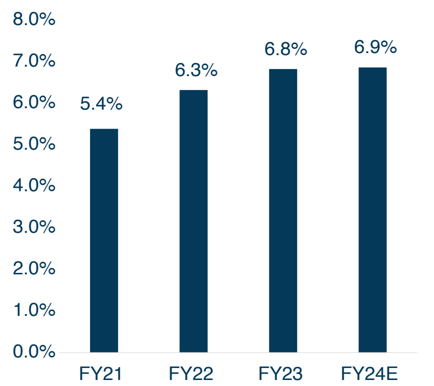
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

Fund Outlook

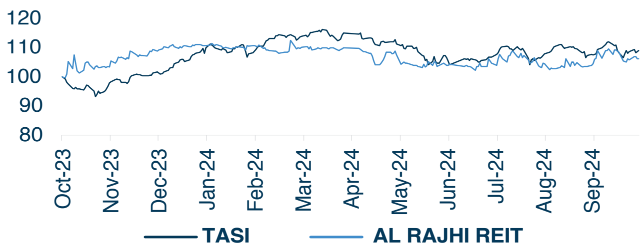
Alkhabeer has diversified portfolio, with primary presence in Riyadh and Jeddah regions. The fund's asset growth declined 0.7% Y/Y in H1-24, but rental income and net income increased 7.3% and 176.7%, respectively in H1-24. Accordingly, we expect the dividend yield to increase by 10bps in FY24E, to 6.9% levels. Its P/FFO ratio stood at 13.6x, while the implied cap rate was 6.5%. The company scored well on our liquidity parameters.

AlRajhi REIT

- Closed ended - Shariah compliant
- Listing date: 20th March 2018
- Dividend: Semi-Annual
- Fund Manager: Al Rajhi Capital Company
- Major shareholder: Al Rajhi Capital
- Foreign ownership: 7.80%
- 1st largest fund by Market Cap

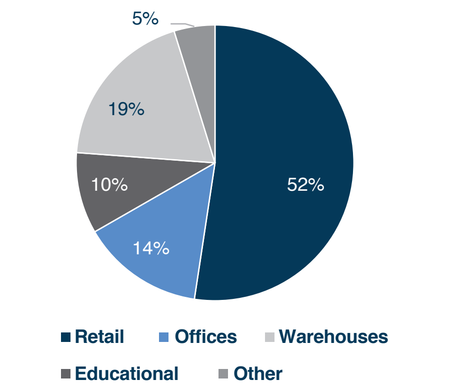
REIT's statistics	
CMP (17th Oct, 2024)	SAR 8.54
Fund Size	SAR 2,756.1mn
NAV/unit	SAR 8.02
Management Fee	0.80 %
3M Average Turnover	4,305,211.66
FFO/unit	0.55
Dividend/Capital (%)	1.50 %
Price/FFO	15.7x
P/E (REIT-TASI)	16.5x
Total Revenue (1H-24)	SAR 119,033,479
Net Profit (1H-24)	SAR 71,578,289
Debt (1H-24)	SAR 896.4mn
Occupancy Rate (%)	91.6%
P/B	1.07
Market Value of Assets/Unit	8.46

Fund performance (Rebased)



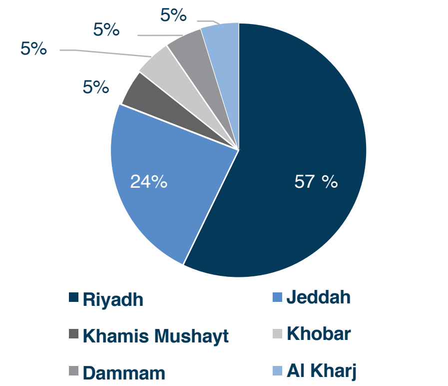
Source: Tadawul, AlJazira Capital Research

Real estate portfolio



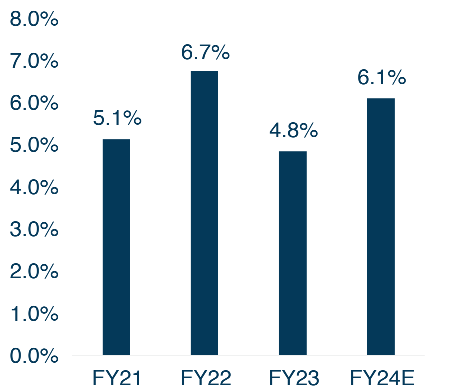
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

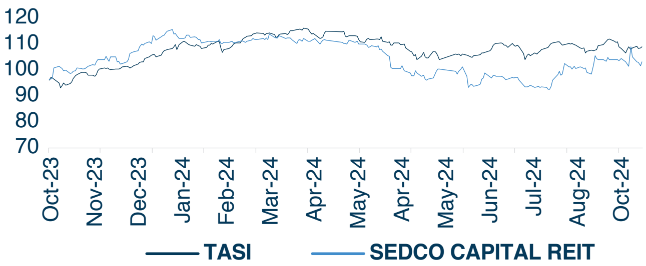
Fund Outlook

Al Rajhi REIT has a diverse portfolio in terms of sector and geography. The fund has an implied cap rate of 6.6%, which slightly greater than the industry average of 6.3%. The dividend yield of the stock is expected to improve from 4.8% in FY23 to 6.1% in FY24E. The stock trades at a P/FFO of 15.5x. The fund has one of the lowest receivable days in the sector at 2 days in H1-24, versus the industry average of 89 days as on H1-24. While the fund's debt/assets which captures the leverage is at 28.4% in H1-24, well below the industry average of 30.7%.

Sedco Capital REIT

- Closed ended - Shariah compliant
- Listing date: 01st May 2018
- Dividend: Quarterly
- Fund Manager: Saudi Economic and Development Company
- Major shareholder: King Abdulaziz Aziziyah Waqaf
- Foreign ownership: 1.81%
- 3rd largest fund by Market Cap

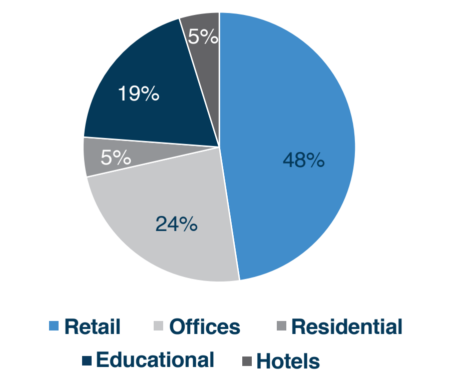
Fund performance (Rebased)



Source: Tadawul, AlJazira Capital Research

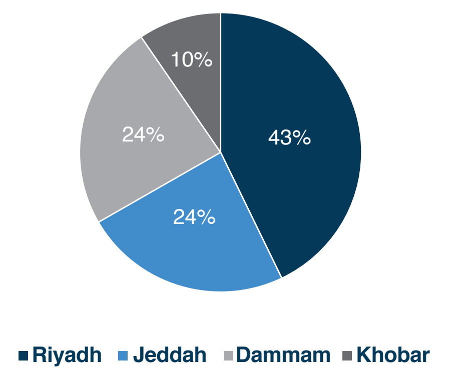
REIT's statistics	
CMP (17th Oct, 2024)	SAR 8.30
Fund Size	SAR 1,869.4mn
NAV/unit	SAR 8.17
Management Fee	1%
3M Average Turnover	1,184,965.18
FFO/unit	0.41
Dividend/Capital (%)	1.25%
Price/FFO	19.7x
P/E (REIT-TASI)	21.1x
Total Revenue (1H-24)	SAR 89,307,162
Net Profit (1H-24)	SAR 17,788,429
Debt (1H-24)	SAR 794.87m
Occupancy Rate (%)	97.6%
P/B	1.02
Market Value of Assets/Unit	8.73

Real estate portfolio



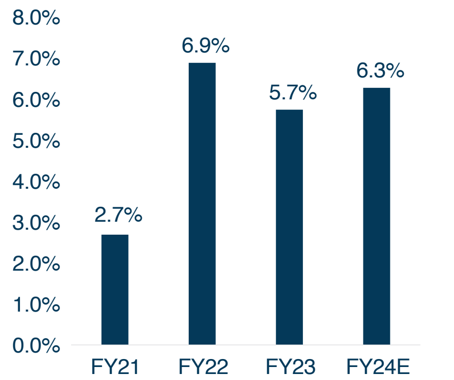
Source: Argaam, AlJazira Capital Research

Geographic Distribution



Source: Argaam, AlJazira Capital Research

Dividend Yield (%)



Source: Argaam, AlJazira Capital Research

Fund Outlook

SEDCO Capital REIT's dividend yield is estimated to increase to 6.3% in FY24E from 5.7% in FY23 and is the top five in the sector. The stock currently trades at P/FFO of 18.1x, slightly above industry median. The fund generates implied cap rate of 4.5%. The fund recorded 1.1% Y/Y decline in asset growth in H1-24, but recorded 19.6% Y/Y growth in the rental incomes. The fund's balance sheet is among highly leveraged REITs in the sector.

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Research DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Research DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer