

Manazel Al Mamlaka Fund Investor Update December 2024



The following report presents an update in relation to your investment in Manazel Al Mamlaka Fund ("Fund") as of December 31st, 2024.

Background

The Fund was incorporated in 2012 and invested in two real estate assets in Saudi Arabia:

1. Radium Compound, acquired in 2014; and
2. Qurtobah Labour accommodation, acquired in 2015.

In 2022, the Fund exited Qurtobah Labour accommodation through an auction process.

The Fund currently has a mortgage on the Radium Compound. This loan was taken in 2015 and the outstanding amount on the loan as of December 31st, 2024, is SAR 171.00 million. The principal payments, that were due on May 30th and November 30th 2024, for the amount of SAR 8 and SAR 10 million, respectively, were deferred. As of December 31st 2024, cash with banks amounted to SAR 2.85 million, provisioned liabilities amounted to SAR 15.42 million (Excluding accrued profit), while accrued profit on the bank loan amounted to approximately SAR 1.38 million.

We would like to bring to your attention that there was disputes with the Zakat authorities in the Kingdom of Saudi Arabia, and to efficiently address this matter, we have engaged the professional services of KPMG. In the second half of 2024, final ruling has been issued in favor of the Zakat authorities for a dispute pertaining to years prior to 2022. In which, the liability of such dispute is approximately SAR 8.9 million, and is already provisioned for in the NAV calculation.

Radium Compound

Radium Residential Compound is located within Al Munsiyah District, Riyadh, Kingdom of Saudi Arabia and it is situated approximately 200 meters northwest of Al Thumamah Road, 400 meters south of Saudi Railway Company headquarters, and 5 km northeast of Airport Road.

The immediate surroundings of Radium Compound have witnessed significant development in recent years, highlighted by the completion of the King Khalid International Airport's new terminal for domestic flights. Notably, plans are underway to expand the airport, projecting a remarkable capacity of 120 million travelers by 2030, reinforcing the area's prominence. Furthermore, the area is also well serviced by metro connectivity. Moreover, the retail landscape in the proximity of Radium Compound has undergone substantial upgrades, amplifying its appeal as a preferred destination for residents.

Property Details

The Radium Compound has a land area of 44,689 sq. m and consists of 229 residential units (69 villas and 160 apartments) with a total built-up area of 35,175 sq. m. including facilities. The compound's facilities and amenities include landscaped garden areas, recreation center, swimming pools, multi-functional sport courts, an administration building and a mosque.

The Radium Compound is in good condition, fully insured with 24-hour security.

Fund Strategy

In 25 November 2024, Heads of Terms agreement was signed for the sale of Radium Compound marking a significant step towards liquidating the Fund. However, it is important to note that while this marks progress, the successful closure of the sale process cannot be guaranteed at this stage. The expected timeline for the sale and liquidation of the Fund is not anticipated to conclude before six months from the date of signature.

In the event that the sale process is not successfully completed, key maintenance work will resume, with plans to renovate critical areas such as toilets, kitchens, and furniture-related upgrades, among other improvements.

Maintenance strategy

The maintenance work in the compound started in June 2024, and the work related to the maintenance agreement has been completed in October 2024, with minimal additional work remains ongoing. An engineering consulting firm was appointed to oversee the contractor's work throughout the maintenance process.

It should be noted that we prioritized essential maintenance to ensure the compound is in good operating condition. However, we refrained from undertaking extensive refurbishments in key areas such as toilets, kitchens, and furniture-related uplifts, recognizing that potential incoming tenants may have specific preferences or requirements. This approach allows tenants the flexibility to manage and personalize these aspects according to their needs, aligning with their individual preferences upon occupancy.

Rental strategy

Given that the Heads of Terms agreement has been signed, the appointment of a leasing and property manager has been deferred until a final decision is made regarding the success of the sale process.

However, it is important to note that we have engaged with leasing agents and property managers through an RFP process to solicit proposals targeting Category A tenants, with the goal of securing robust and sustained rental inflows while maximizing yield. Additionally, we held discussions with various parties, including compound operators, to potentially engage their services in managing the compound, should securing a credible single tenant prove challenging. As a result, we received several proposals from leasing agents and property managers to manage and begin trying to lease out the compound.

Furthermore, during discussions with property managers and leasing agencies, it was recommended that additional renovations be undertaken, specifically targeting the toilets, kitchens, and landscaping of the compound. These improvements are expected to enhance the overall appeal and functionality of the property, ultimately aiming to maximize its rental value. In the event that the sale process is not successfully completed, key maintenance work will resume, with plans to renovate critical areas such as toilets, kitchens, and furniture-related upgrades, among other improvements.

Net Asset Value (NAV):

As of December 31st, 2024, and based on the management accounts of the Fund, the Fund had the following key assets and liabilities. It should be noted that management accounts can vary from the audited financial statements.

Key Assets:

	<i>In Millions (SAR)</i>
Radium Compound	239.02
Cash with Banks	2.85

Key Liabilities:

	<i>In Millions (SAR)</i>
Bank Loan	171.00
Provisioned Liabilities	16.80*

* The provisioned liabilities primarily relate to the anticipated zakat expenses, sales process expenses, maintenance expenses, and accrued profit on the bank loan.

Estimated NAV

NAV: SAR 54.07 million

Estimated NAV per Unit: SAR 19.32

We have received a comprehensive valuation report dated January 7th 2025 from a licensed service provider in Saudi Arabia (ESNAD Real Estate Valuation), valuing the Compound at SAR 265,576,000. However, we find the indicated valuation doesn't accurately capture the compound's liquidity value. Conservatively, a discount of 10% was applied to better align the valuation with a more adequate liquidity value of the compound.

It is imperative to emphasize that the valuation price stipulated in the valuation report is not indicative of an offered price but rather serves as an estimate provided by the evaluator. This estimation is subject to significant fluctuations, potentially altering in a positive or negative direction upon an eventual exit from the investment. The dynamic nature of market conditions and variables pertinent to the property's performance may notably influence this valuation.

Furthermore, it should be highlighted that it is anticipated that cash flow challenges might arise and cash reserves to deplete if the sale with the prospective buyer is not successful, primarily due to maintenance costs, financing cost on loans, zakat and tax disputes, and other operational expenses.

Exit

The Fund Manager is regularly assessing the exit options for the Fund and the ways to maximize such exit. The initial term of the Fund was for 5 years (3+1+1) and, since then, it was extended on a yearly basis. In November 2024 the Fund Board has approved a final term extension to end upon the commencement of the voluntary liquidation of the Fund, which is anticipated to be no later than a year from the date of the final extension. However, the Investment Manager can at no point guarantee to the investors that the fund will liquidate in one year as this is subject to the sale of the Radium Compound.

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