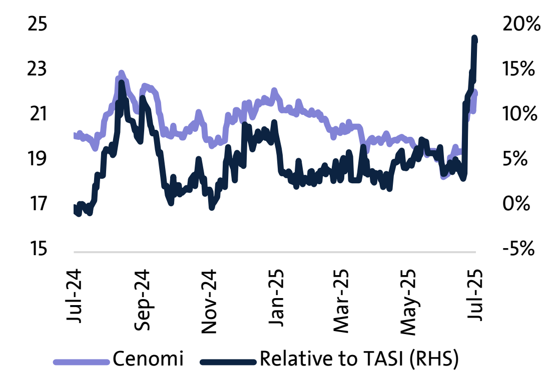
GLA growth & working capital relief to deliver further performance; Buy

Recommendation	BUY
Market Price	22.15
Target Price	26.2
Upside/Downside	18%

Stock Data

Market Cap Total/FF (USDmn)	2,805/1,493
Shares Total/FF (mn)	475/253
52 Week Hi-Low(SAR)	22.98/18.34
3/6/12 M Volume Traded (mnsh)	1.2/1.0/1.3
3/6/12 M Value Traded (USDmn)	6.4/5.5/7.3
3/6/12 M Relative Performance (%)	6/0/18%

Cenomi Stock Price Performance vS TASI



Source: AC, Bloomberg

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Cenomi- GLA growth & working capital relief to deliver further performance

We initiate coverage on Cenomi Centers (Cenomi), Saudi Arabia's largest mall owner, developer, and operator by GLA, with a Buy rating and set a Target Price of SAR26.2 (18% upside, ~7% D/Y). We see room for further price performance in Cenomi on the back of progress on execution of the company's growth strategy, and potential relief on working capital and current valuation. We lay down our investment case on Cenomi below.

Stellar earnings growth ahead

We expect Cenomi to deliver a stellar 14% EBITDA and 13% earnings CAGR (both adjusted for fair value gains) over 2024-2030 driven by GLA expansion, non-GLA revenue growth, growing occupancy and operating efficiency.

Significant room for upside to base-case estimates

Our current estimates are based on conservative assumptions on revenue recovery (RR) from related parties. Future progress on the acquisition of significant ownership in Cenomi Retail, a key related party, by a strategic investor and expected improvement in RR to levels seen in non-related parties may (i) entail 11/20/22% upside in EPS/FCF/ valuation estimates respectively and (ii) allow Cenomi to address two of the three investors' concerns, in our view.

Related party exposure: Cenomi has gradually shrunk related party exposure to 15% of revenues in 2024 vs 31% in 2020. Further gradual decline is likely ahead

Financial Leverage: Leverage will likely remain elevated but manageable. Cenomi's current and future cash flow profile.

Revenue loss from expiry of lease of Dhahran Mall (10% of revenues): Cenomi is likely to contain the impact via a number of measures.

Encouraging industry backdrop

Cenomi aims to further strengthen its leadership position in an underserved industry with strong growth dynamics via focus on new company's flagship lifestyle destinations in major cities and opportunities in asset-light operating model.

Key risks

(i) Risk of time and cost over-run of major projects, (ii) above-expected deterioration in credit due to related parties, and (iii) general economic slowdown.

Cenomi: Financial Highlights (SARmn)

Year to Dec	CY23	CY24	CY25E	CY26E	CY27E	CY28E
Revenues	2254	2344	2370	2696	3048	3356
Growth	2.1%	4.0%	1.1%	13.8%	13.1%	10.1%
PAT	1501	1224	908	781	1001	1189
EPS (SAR)	3.2	2.6	1.9	1.6	2.1	2.5
Growth	49%	-18%	-26%	-14%	28%	19%
DPS (SAR)*	1.6	1.5	1.5	1.5	1.5	1.5
P/E (X)	7.0	8.6	11.6	13.5	10.5	8.8
D/Y (%)	7.3%	6.8%	6.8%	6.8%	6.8%	6.8%
EV/EBITDA(X)	14.3	18.3	15.4	13.7	12.1	10.8

Source: Cenomi, AC Estimates

Cenomi-Investment Case

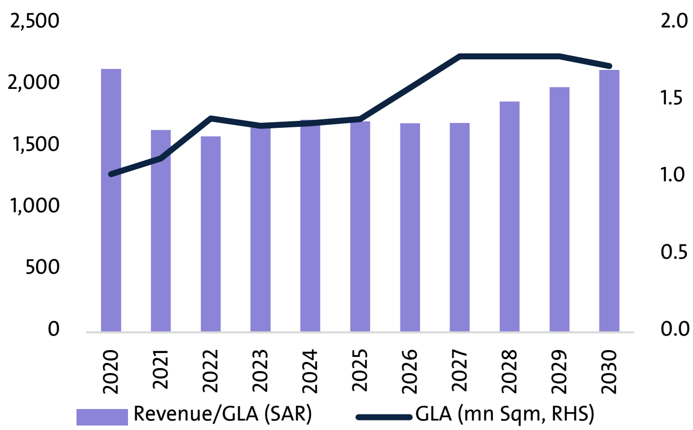
We initiate coverage on Cenomi with a Buy rating and set a Target Price of SAR26.2/sh indicating 18% upside

We initiate coverage on Cenomi Centers (Cenomi), Saudi Arabia's largest mall owner, developer and Operator by GLA and number of malls, with a Buy rating and set a Target Price of SAR26.2/sh indicating 18% upside. Cenomi is poised to benefit from the transformation agenda, execution of growth strategy and favorable industry backdrop. We believe investors' concerns in Cenomi related to leverage; related party transactions and expiry of lease are overplayed. We lay down our investment case on the stock and key risks surrounding our thesis below.

Stellar earnings growth ahead

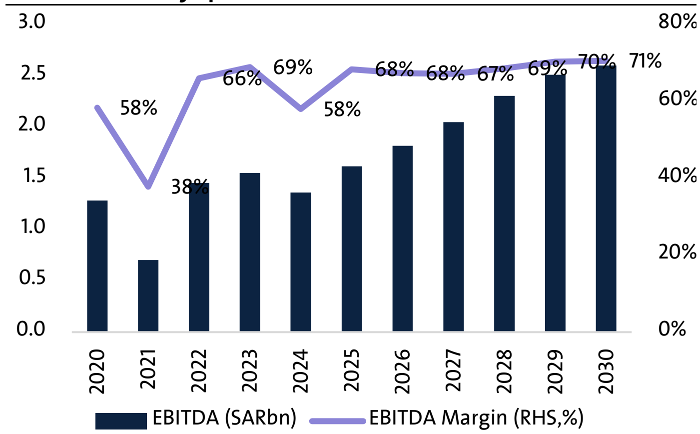
We expect Cenomi to deliver a stellar 14% EBITDA and 13% earnings CAGR (both adjusted for fair value gains) over 2024-2030 driven by GLA expansion, non-GLA revenue growth, growing occupancy and operating efficiency. Strong cash flow generation will allow Cenomi to deleverage. Our estimates account for modest risk of delays in future mall operation and possible extended period for the stability in occupancy of new malls.

A significant GLA addition on the horizon...



Source: Cenomi, AC Estimates

...which will likely spur a 14% CAGR in Cenomi's EBITDA



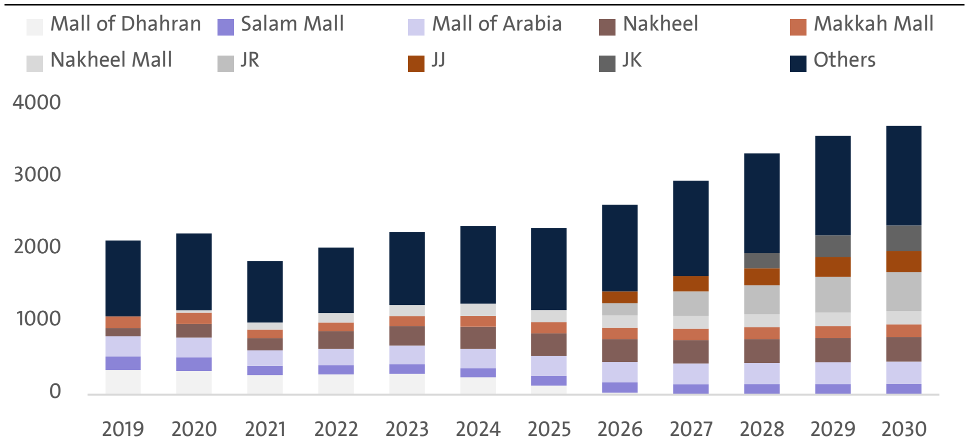
Source: Cenomi, AC Estimates

Cenomi has made significant progress on its ambitious GLA expansion strategy which targets a 46% jump in GLA (36% net addition) by the end of 2028. The company aims to consolidate its leadership position in major cities by opening three lifestyle destinations in Jeddah (JJ= Jawharat Jeddah, Riyadh (JR=Jawharat e Riyadh) and Khobar (JK= Jawharat Al Khobar) with total GLA of 424sqm or ~75% of future addition in GLA. All in all, Cenomi targets to have five new malls under operation by 2028, which include three super regional malls, one regional and one community mall. The future additions in malls will bring the total number of malls under the company's operation to 27.

The management believes JJ and JR can cumulatively contribute over SAR650mn in EBITDA upon full stabilization by 2028

The management believes JJ and JR can cumulatively contribute over SAR650mn in EBITDA upon full stabilization expected by 2028. We believe management guidance on EBITDA contribution is achievable given current and future trends in occupancy, and leasing rate. We expect the three flagship malls to contribute 31% of the company's revenue by 2030. Cenomi targets to hand over leased spaces for JJ by end of 2Q/early 3Q and for JR by end of 1Q2026 for fit-outs and soft opening. The delivery of space will allow the company to start booking revenue following the end of the rent-free period.

Cenomi: Revenue contribution by malls (SARmn)



JR=Jawharat Riyadh, JJ= Jawharat Jeddah, JK= Jawharat AlKhober Source: Company Presentation, AC

Cenomi: Details of future capex and GLA additions

Mall	Capex (SARbn)	GLA (000sqm)	% of total*	Cost (SAR/sqm)	Expected Opening
Jawharat Riyadh	2.6	220	18%	11818	1Q 2026
Jawharat Jeddah	2	104	9%	19231	End of 2025
Jawharat Al Khobar	1.3	100	8%	15000	TBD**
Murcia	0.26	45	4%	5778	2027
U-Walk Qasim	0.4	60	5%	6667	4Q2026
Jubail Marina Mall	N/A	30	2%	N/A	TBD**
Total Addition in GLA	**6.56**	**559**	**46%**		

*Total GLA Excluding Mall of Dhahran **To be decided, Incorporated in our estimates in 2028 and 2025 respectively

Source: Cenomi, AC

Cenomi has entered important partnerships with Westfield & Makan

Cenomi has recently unveiled two important strategic partnerships which will likely have a direct impact on the company's revenue and may add to management's current focus on bringing cost efficiencies. We have not included the specific impact of new partnerships at this stage. The two partnerships include.

Partnership with URW: Cenomi has recently announced a strategic partnership agreement with Unibail-Rodamco-Westfield (URW), the largest commercial real estate company in Europe, to introduce UNW's brand in the Kingdom in a franchise agreement across select malls owned and operated by Cenomi. Cenomi expects to materialize revenues synergies (introduction of brands currently not available in malls operated by Cenomi), improvement in non-lease revenues (advertising and other avenues) and cost efficiency (adopting best practices for mall management) via partnership with URW.

Partnership with Makan: Cenomi has also entered a strategic partnership with Makan Parking Solution to introduce charge parking in malls. The initiative will ensure better management of the parking facilities and will contribute to enhancing visitors' experience, particularly during peak hours.

Significant room for upside to our base-case estimates

Recent announcement by Cenomi Retail regarding progress on potential divestment of 49.95% stake by Cenomi Retail's existing shareholders to a strategic investor is a major positive development for Cenomi, in our view, as it may allow Cenomi to address two of the three major investors' concerns.

We estimate upto 11/20/22% upside in earnings/FCF/valuation estimates from improvement in revenue recovery

As highlighted below, our current estimates are based on a conservative set of assumptions related to related party exposure. Future tangible progress on the change in the ownership may (i) entail an upside in our estimates for earnings and valuation, and, (ii) allow Cenomi to accelerate deleveraging the balance sheet and create room for upside in cash dividend. We estimate upto 11/20/22% upside in earnings/FCF/ valuation estimates respectively from improvement in revenue recovery from 40% to levels experienced with other non-related parties. Our estimate does not take into account the settlement of existing current and overdue receivables or possible increase in lease rates.

Cenomi Retail is one of the major related parties and accounts for 64% of outstanding receivables from related parties and 10% of Cenomi's revenues in 1Q2025.

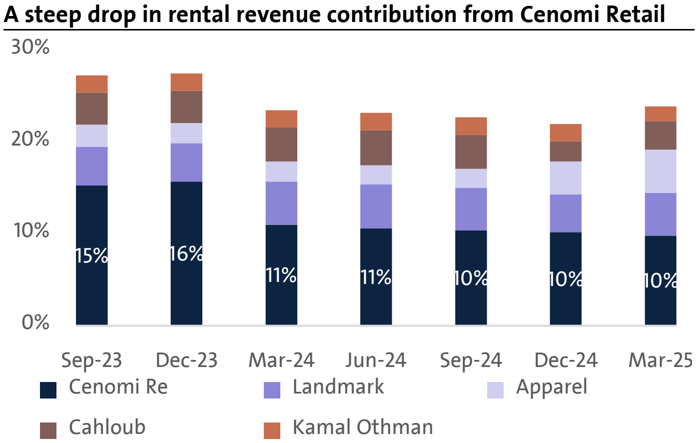
Three key investors' concerns and our views

1-Related party exposure and associated credit burden

Cenomi leases a significant portion of its GLA to companies associated with the group

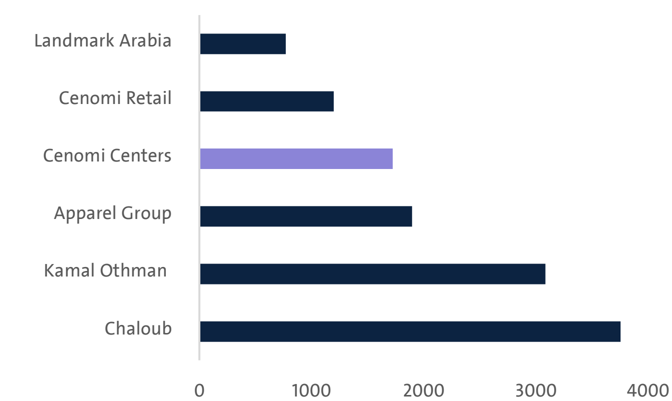
Cenomi leases a significant portion of its GLA to companies associated with the group mainly operating in fashion, entertainment and F&B segments. The company has maintained that the terms of the leases with related parties are at competitive leasing rates offered to companies in the same segments. It is pertinent to note some of the group companies also act as anchor tenants and enjoy the discounted lease rate accordingly. The available details on revenue contribution and GLA occupancy in select fashion retail revealed the discounts offered to one of the major related parties, Cenomi Retail, are not exceptional and in fact come in 55% higher than the lease rate offered to another anchor retail operator. Given the nature of the business, we believe the lease discounts for related parties are likely to persist in future. That said, we see two related issues with the related party exposure beyond leasing discounts. The following outlines the context and latest updates on the two issues.

A steep drop in rental revenue contribution from Cenomi Retail



Source: Cenomi, AC

Lease rate (SAR/sqm) of Cenomi Retail vs other retailers



Source: Cenomi

Cenomi has made conscious efforts to reduce its related party exposure

1-The outsized revenue exposure to related parties

The cumulative exposure of related parties, including Cenomi Retail, stood at 26% of revenues in Mar-22. Cenomi has made conscious efforts to reduce its related party exposure as part of the company's transformation plan. To this end, Cenomi has reduced its revenue exposure to a major related party, Cenomi Retail, from a high of 21% in 2020 to 10% in 1Q2025. The significant drop in the number of franchises/retail stores operated by Cenomi Retail suggests the drop in related party exposure is sustainable. Revenue exposure to other related parties has also dropped from 7% in 2020 to 4% in 1Q2025, implying overall drop in related party exposure to 14% by 1Q2025. Looking ahead, the declining trend in revenue exposure is likely to continue for two reasons.

- Further, the expected rationalization of the number of non-core retail franchises by Cenomi Retail is part of the company's restructuring exercise
- Expected low concentration of related parties in future GLA addition due to sizeable addition GLA via opening of new malls and differentiated offerings in retail and non-retail segments

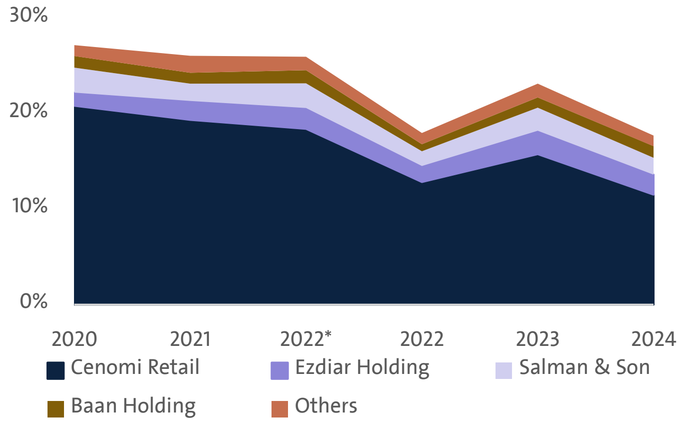
2-Significant outstanding receivables from related parties

While the company's revenue exposure to related parties has significantly dropped, Cenomi has exhibited a mixed progress on receivables collection from various related parties. Revenue Recovery (RR defined as 1 minus change in gross receivables divided by revenue for the period from a related party) has either improved or remained broadly stable. For Cenomi Retail, RR has deteriorated to its lowest point in the past six years to 10% in 1Q2025. As a result, the total stock of gross receivables from related parties have jumped to SAR840mn by Mar-2025 up from SAR484mn in 2023, with overall RR of 14% in 1Q2025. Cenomi Retail accounts for 72% of revenues and 63% of gross receivables from related parties.

Due to lack of visibility on likely improvement in revenue recovery from Cenomi Retail, we have incorporated conservative assumptions for related party exposure and recovery of revenues for forecast years. We have based our forecasts of related party exposure to exit rate in 4Q2024 and have assumed a gradual decline to 15%. For RR, we have assumed gradual recovery to 40% vs an average RR of 76% in the preceding four years. We note the following points are relevant to future recovery trends.

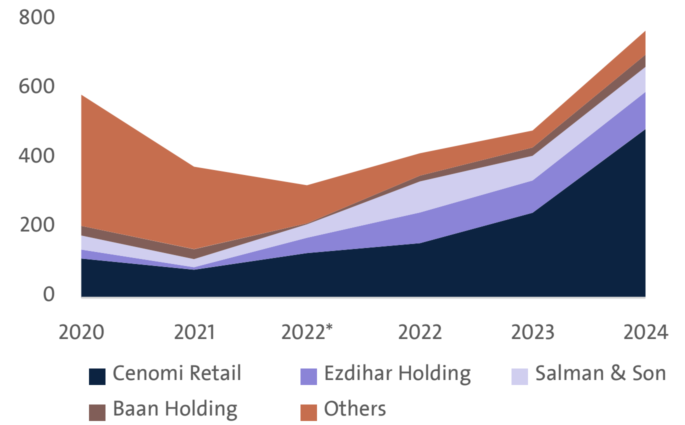
- Cenomi has entered an understanding to retain the dividend to its sponsors for related party exposure in non-listed companies with overlapping ownership though Cenomi Retail is not part of such arrangement
- Cenomi has separately reached a settlement agreement with Cenomi Retail for the recovery of overdue receivables via banking instruments. The maturity of such banking instruments is likely to fall in 2025 and would provide visibility on cash collection from Cenomi Retail.

Revenue contribution from related parties is on the decline…



Source: Cenomi, AC

…though total receivables are on the rise (SARmn)



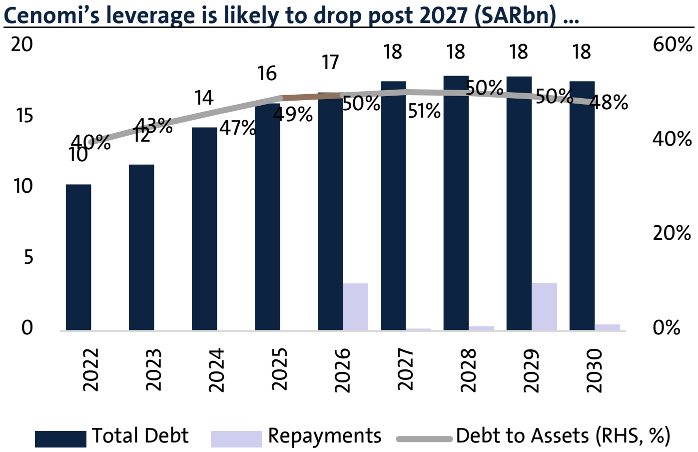
2022* relates to Mar-2022, Source: Cenomi, ACO

We contend the leverage on Cenomi's balance sheet remains manageable despite elevated levels

2-Elevated Financial Leverage

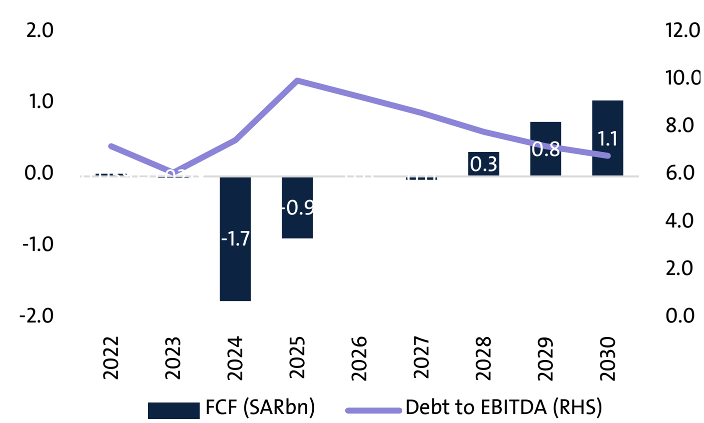
We contend the leverage on Cenomi's balance sheet remains manageable despite elevated levels considering the company's current and future cash flow profile, asset disposal plan and funding arrangement for the capex. All in all, we expect Cenomi's debt ratios to continue the uptrend as the company goes through the peak capex period over 2025-2026 to deliver GLA expansion and stay committed to its payout guidance. Accordingly, we expect Cenomi's net debt to asset and net debt to EBITDA ratios to jump to 50% (+400bps over 2024) and 9.1x (+1.95x over 2024) respectively by 2026 under a scenario of no additional asset disposals beyond current plans, no major slippage in the capex plan or further deterioration in related party receivables (further details below). The period of rapid debt accumulation to fund the capex will likely follow a sustained drop in the debt ratio over 2028-2030 as the flagship projects start cash flow generation, in our view. We expect Cenomi's debt ratio to recede close to the company's targeted levels (debt to assets of 48% and Debt to EBITDA of 6.7x) by 2030.

Cenomi's leverage is likely to drop post 2027 (SARbn) …



Source: Cenomi, AC Estimates

…as +ve FCF to lead to easing of debt ratio levels



Source: Cenomi, AC Estimates

In terms of capex, we estimate Cenomi's remaining capex of SAR4.8bn over 2025-2028 out of total capex of ~SAR9bn (40% of 2022 assets) of the current investment cycle which kicked off in 2022. Like recent years, we believe almost all capex funding is likely to be materialized in the form of asset disposal (SAR0.8bn remaining from ~SAR2bn asset disposal plan put in place in 2023), addition of debt (mainly via funds set up for the projects) or draw-down of advances for the projects. 2025 will likely mark the peak of the company's current capex cycle with SAR2.6bn capex (30% of total current capex cycle). With completion of construction and other work on the two-flagship projects (50% of gross GLA addition), capex requirement will likely significantly trend down to SAR1.0bn by 2026.

New approach for project development allows flexibility

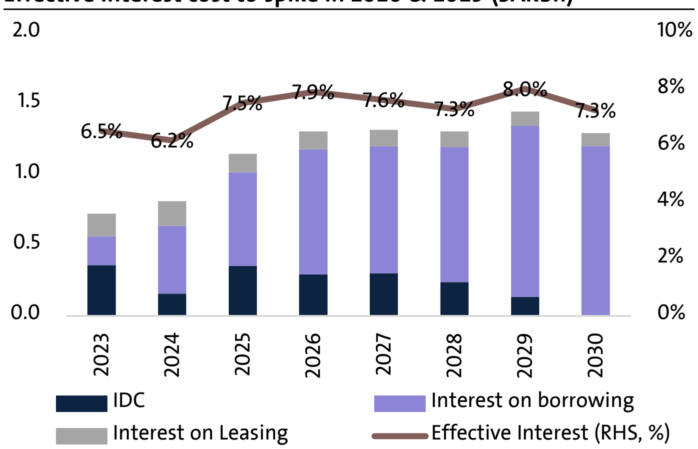
We draw comfort on the company's funding and debt management policy despite elevated debt levels and future funding requirements

We draw comfort on the company's funding and debt management policy despite elevated debt levels and future funding requirements based on the following.

- A departure from Cenomi's conventional development strategy to a new approach entailing development of projects in a private fund structure on company-owned land. Cenomi is developing four major projects (Jawharat Jeddah, Jawharat Riyadh, Jawharat Al Khobar, U-Walk Qassim) with cumulative capex requirement of SAR3.3bn under such arrangement. The management may consider offering units of private funds to the public in future once the projects turn into earnings assets.
- Management proactiveness in arranging funds for capex in the form of undrawn facilities with the banks.
- Tapping unconventional sources of funding (latest BoD's approval for SAR-denominated Sukuk issuance with SAR4.5bn target issuance).

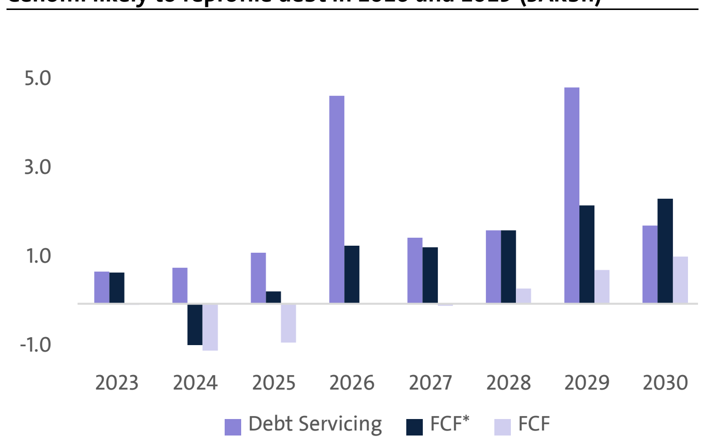
As per management, the company's funding requirements for 2025-2026 are nearly fulfilled. While Cenomi has faced delays in the asset disposal plan in Qassim due to regulatory issues, the company is likely to prepone the issuance of SAR-denominated sukuk in 3Q/4Q 2025 to meet the funding requirement in 2025 and benefit from expected development in benchmark interest rates.

Effective Interest cost to spike in 2026 & 2029 (SARbn)



Source: Cenomi, AC Estimates

Cenomi likely to reprofile debt in 2026 and 2029 (SARbn)



*before payment of interest/commission Source: Cenomi, AC Estimates

Financing cost to peak in 2029

We expect the financing cost for Cenomi to peak in 2029

We expect the financing cost for Cenomi to peak in 2029 which is consistent with the expected refinancing of SAR3.2bn Sukuk in 2026 and further addition in debt to fund the remaining capex beyond 2026. The Sukuk maturing in 2026 was issued in a low-rate environment in 2021. Cenomi is looking at options to refinance the sukuk either through issuance of SAR or USD-denominated sukuk and/or bank borrowing. All in all, we expect effective financing costs to increase to 8% by 2029 from 6.2% in 2024.

The delivery of anticipated GLA additions and associated cash flows will likely ramp up the company's free cash flow generation from SAR-0.9bn in 2024 to SAR1.1bn by 2030, allowing the company to gradually bring down its gearing to ~100% by 2030.

3-Near-term revenue loss from expiry of lease of Dhahran Mall

The lease on Mall of Dhahran, one of the major Class A malls in Cenomi's portfolio with 10% of revenue and 12% of GLA continuation in 2024, is due to expire in two phases over 2025 and 2026. The lease on approximately 51% of GLA on the mall expired in Feb 2025 and the expiry of the remaining lease area is due on April-2026. While the impact of lease expiry on the mall on Cenomi's earnings is likely to be material (SAR139mn revenue loss as per the company's notice in CY25), we believe the company would be able to maintain its headline revenue sequentially for the following reasons.

- Focus on improving the tenant mix in Class A and Class B malls toward F&B and increasing the non-GLA revenue from existing GLA
- Increase in occupancy of malls, particularly in new malls (U -Walk Jeddah) and other underperforming malls
- Opening of new mall (Jubail Marina Mall)
- Escalation in rents on existing leases (2-3%)

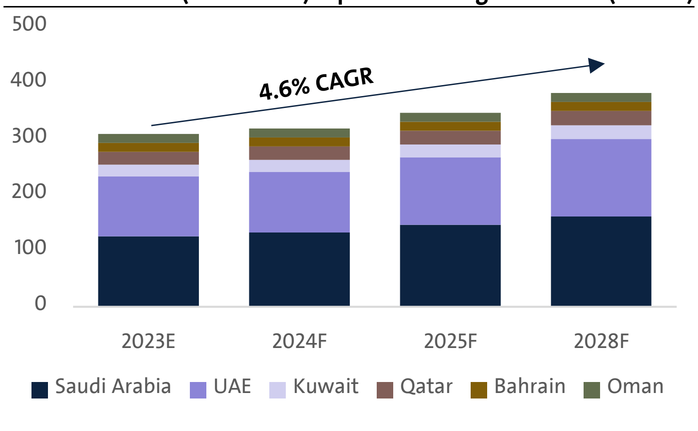
Based on the above reasons, we expect Cenomi to deliver almost flat headline revenues in 2025. For 2026, the negative impact of revenue and earnings will likely be absorbed by the addition of new GLA by the end of 2025.

Encouraging industry backdrop

Low GLA intensity in KSA's major cities, and increased retail demand have emerged as the key drivers in the post COVID-period

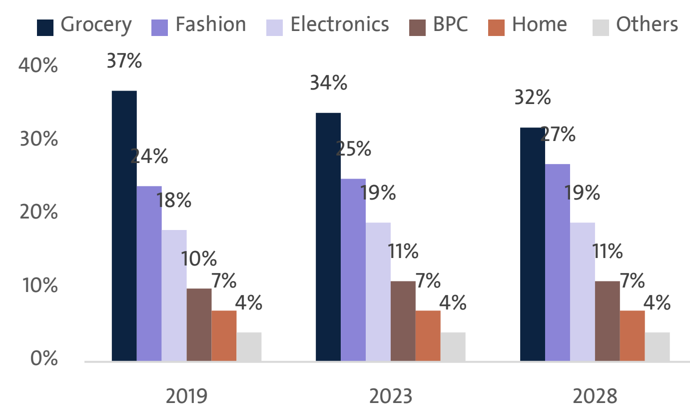
Low GLA intensity in KSA's major cities, and increased retail demand have emerged as the key drivers in the post COVID-period for growing footfall, improved occupancy, and above-inflation growth in lease rates in malls across major cities in the Kingdom. The positive backdrop has not only opened opportunities for the expansion of GLA by the existing mall operators but also attracted new local and regional players. The positive trends in the key demand drivers are expected to sustain high occupancy levels and lease rates for malls in the medium term despite significant additions in GLA. The growing number of tourist arrivals, particularly for business and leisure purposes, remains a major upside risk for future retail demand in our view.

Retail Sales: KSA (CAGR: 5.1%) is poised to outgrow in GCC (USDbn)



Source: Cenomi, AC

Fashion & BPC to emerge key drivers (contribution to retail sales)



BPC: Beauty & Personal Care Source: Nice One Prospectus, AC

KSA is set to outpace the region

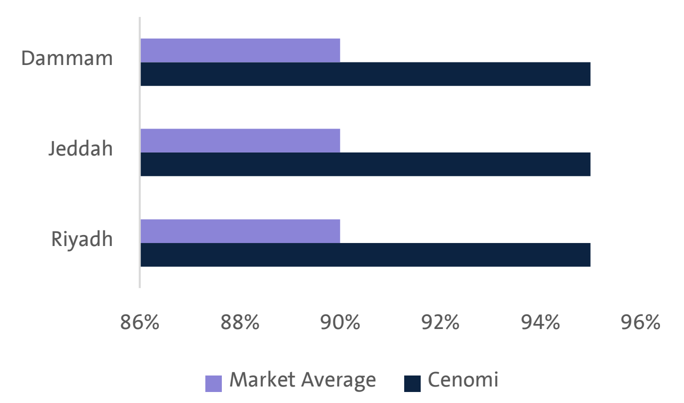
KSA is the largest retail market in the GCC with total retail sales estimated at SAR484bn in 2023

KSA is the largest retail market in the GCC with total retail sales estimated at SAR484bn in 2023 or 42% of total size of the retail market in GCC. The KSA market is expected to outperform the GCC region in retail sales with an expected 5-year CAGR of 5.1% over 2023-2028 vs 4.6% for the region. We see the risk of an upside in retail sales growth projection. The key drivers of retail sales include

- Current and future demographic dynamics in the Kingdom with relatively young population (0-34 age group accounts for 60% of population
- The changing lifestyle in the Kingdom with increased participation of women in the economic activity and significant addition in expat population post pandemic
- Growing purchasing power resulting from above-trend growth in non-oil economy, record-low unemployment rate and wage growth and growing women participation in economic activity
- Significant uptrend in tourist arrivals, particularly for leisure activities supported by entertainment events and the growing number of tourists attractions

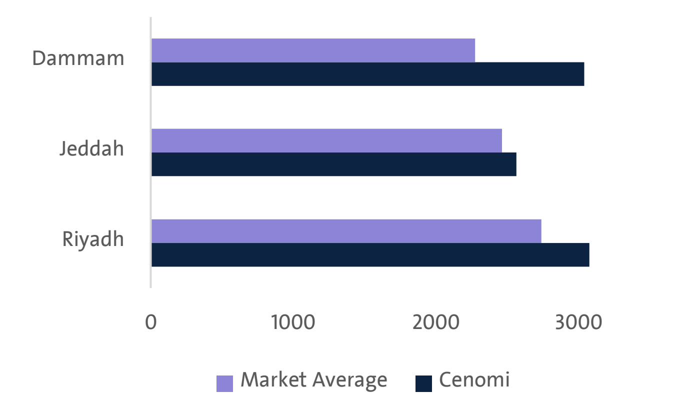
- Online sales, though still expected to grow faster than headline retail sales, the pace of growth is expected to slow down compared to recent years. The contribution of online sales has grown from 5% in 2019 to 13% in 2023 and is expected to grow to 19%, suggesting 14% CAGR over 2023A-2028E.

KSA: Average retail space occupancy in key cities (%)



Source: Cenomi, AC

KSA: Average lease rates in key cities

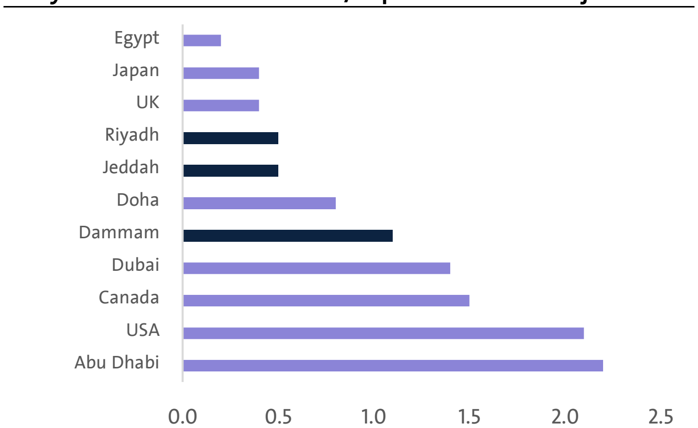


Source: Cenomi, AC

Cenomi to strengthen its leadership position

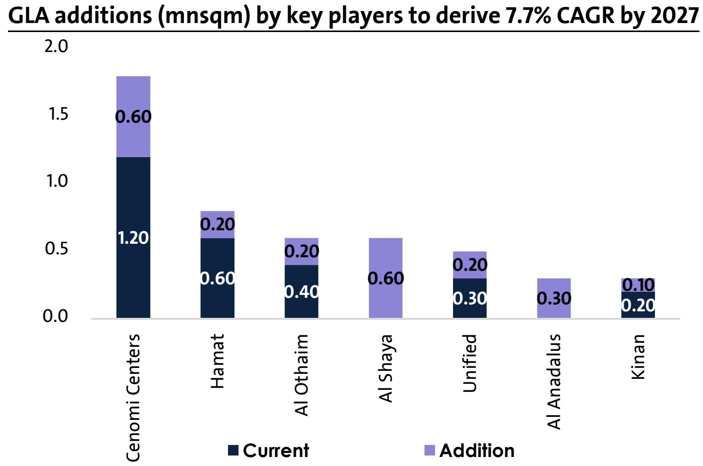
Cenomi aims to further strengthen its leadership position via focus on expansion in major cities and increasing its geographical footprint. The company's expansion supports the Vision 2030 objectives of increasing tourism in the country and making the Kingdom the number one choice for shopping and entertainment. The evolution of malls from a mere shopping destination to a lifestyle destination with multiple offerings in F&B, entertainment and health, wellness and other experimental retail will likely support growing footfalls in malls.

Many cities in KSA have low GLA/Capital relative to major cities



Source: Cenomi, AC

GLA additions (mnsqm) by key players to derive 7.7% CAGR by 2027



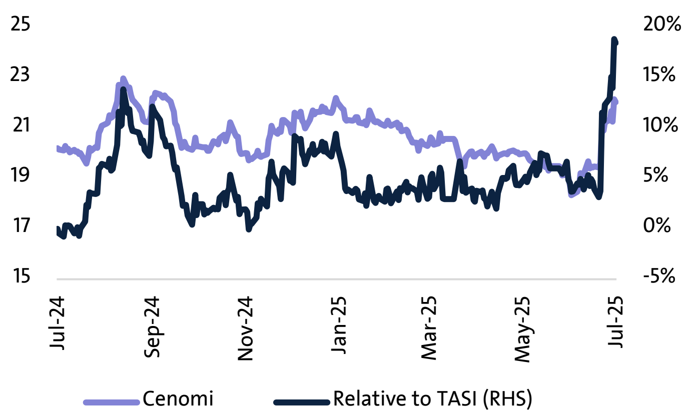
Source: Cenomi, AC

4-Multiple triggers on the horizon

We argue for further outperformance in Cenomi

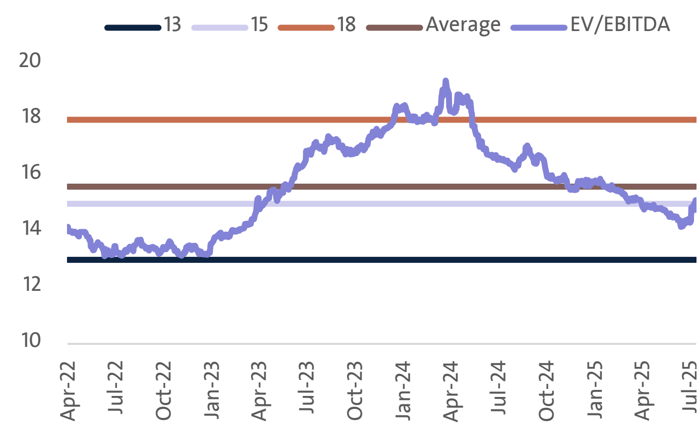
Cenomi has delivered a significant 12-month outperformance of 18% against TASI. However, we argue for further outperformance given a stellar earnings growth trajectory (4- year CAGR of 13% over 2024 to 2028) and potential upside from relief on working capital buildup. The stock trades at CY27/28 EV/EBITDA of 15.4/13.7, which is at a significant discount to its 3-year average. We believe investors' comfort on the stock is likely to gradually further grow on the back of progress on GLA delivery and earnings growth.

Cenomi has delivered a 18% outperformance vs TASI in 12M



Source: Bloomberg, AC

Cenomi's EV/EBITDA* trades at a discount to past avg



*EBITDA adjusted for fair value gains, Source: AC

Key events which can support price discovery

We highlight that 2025 will mark the peak of the company's current capex cycle. We expect plenty of events over the course of 2025 which can serve to further support the price performance.

Key events/triggers include.

- Progress on the company's capex and GLA addition-the expected handover of the retail area to tenants of the two flagship malls in Riyadh and Jeddah over 2Q-3Q25. Subject to handover of the leased space, Cenomi would be entitled to book revenue post completion of rent-free period (3-6 months)
- Updates on further disposal of non-core brands of Cenomi Retail which can further bring down company's exposure to related parties and provide relief on working capital burden
- Progress on the company's plans to dispose of non-strategic assets (SAR0.8bn out of total SAR2.1bn non-core assets are left to be sold by the end of 2Q2025)
- Possible M&A or capital Injection in Cenomi Retail, an associate company with 10% GLA exposure
- Likely continuation of quarterly dividend payment, particularly over the next two to three quarters

We believe the Discounted Cash Flows (DCF) method is the most suitable method for the valuation of Cenomi

Valuation

We believe the Discounted Cash Flows (DCF) method is the most suitable method for the valuation of Cenomi. Cenomi's free cash flows and earnings are in flux given near-term capex cycle, significant leverage and company's asset disposal plan. DCF method allows flexibility to account for fluctuations in the company's cash flows and earnings and its future growth prospects.

1-FCF Method

We have used a two-stage Free Cash Flow to Firm (FCF) method to value Cenomi given company capex, free cash flows profile and the leverage on the balance sheet. We estimate the DCF-based fair value of the company of SAR26.2/sh which is the basis for our Target Price on the stock. We have used WACC of 9.02% and terminal growth rate of 2%.

We estimate the DCF-based fair value of the company of SAR26.2/sh

We highlight our cash flow forecasts incorporate the commencement of announced projects and associated projected stabilization in occupancy. Likely additional real estate offerings (hospitality or residential) in major projects in Riyadh, Jeddah, Khobar and Qasim are not part of our forecasts due to lack of visibility at this stage.

Cenomi: DCF Valuation

SARmn	2025E	2026E	2027E	2028E	2029E	2030E
Operating Profit	**1,705**	**1,803**	**2,036**	**2,291**	**2,474**	**2,568**
Impairment/Dep /Fair Value	67	189	223	256	285	307
Less: Δ in Working Capital	-92	-139	-248	-306	-438	-392
Capex	-1549	-599	-758	-566	-77	-82
Taxes/Zakat	-59	-78	-72	-82	-105	-110
Free Cash To Firm	72	1175	1182	1593	2140	2291
PV of Free Cash To Firm	72	1125	1038	1283	1581	1553
Summary of Valuation						
Long term growth rate (g)	2.00%					
Terminal value	**28,343**					
Present value of terminal value	18,833					
PV of future cash flows	7,974					
Enterprise Value	26,807					
Less: Net debt	14,377					
Equity value	**12,431**					
Shares	475.0					
Equity value per share	**26.2**					
Implied P/E (2027E)	12.4					
Implied EV/EBITDA (2027E)	**13.1**					

Source: AC Estimates

Key assumptions underpinning the DCF methods are explained below:

We have conservatively assumed an average 33% cash collection against the lease revenues from lease area

Cash Collection from related parties: We have conservatively assumed an average 33% cash collection against the lease revenues from lease area used by the related parties (fashion, entertainment primarily) in our forecasts. Aggregate cash collection from related parties has been erratic and has ranged 40-147% over 2021-2024 with an average of ~80%. Cash recovery from non-related parties has averaged 96% over the same period and has been relatively stable.

Terminal growth rate: We have a 2% terminal growth rate which is in line with lease rate escalation assumption. Furthermore, we have assumed additional capex in the terminal year to account for the expiry & refurbishment of future GLA.

Debt to Asset ratio of 50%-This is based on average of the forecast years

Cost of Debt of ~9%: Cenomi's weighted average cost of debt was estimated at 6.2% in 2024 which is likely to trend up with future issuance of debt for either repayment of existing debt (Sukuk II due in 2026) or additional debt to fund capex requirements. That said, we believe the timing of debt issuance would be crucial. With SAR1.8bn undrawn facilities and the three major projects (JR, JJ, JK and Qasim Walk) under fund structure with non-recourse debt, we believe Cenomi may offer future planned sukuk issuance in 3Q/4Q25 to to benefit from expected reduction in benchmark rate and likely soft opening of the two iconic projects.

Cenomi: Basic Valuation Assumptions	
Risk Free rate	4.5%
Market Risk Premium	5.0%
Adjusted Beta (x)	1.0
Cost of Equity	**9.5%**
Share of Equity	50%
Cost of Debt	**8.75%**
WACC	**9.02%**

Sensitivity Analysis on terminal growth and Cost of Equity

The following table presents the sensitivity of Cenomi's FCFF valuation based on changes in terminal growth and Cost of Capital. Based on the sensitivity, we obtain a valuation range of SAR20.8-33.2/sh assuming ranges of terminal growth of 1.5-2.5% and WACC of 8.6-9.6% respectively. On an average basis, Cenomi's FCF valuation moves by 5.8% for every 25bps change in terminal growth rate (13% relative to base) and by 5.6% for 25bps change in WACC respectively.

Cenomi: Valuation Sensitivity to WACC & terminal growth rate

		Terminal Growth				
		1.5%	**1.8%**	**2.0%**	**2.3%**	**2.5%**
WACC	**8.6%**	26.2	27.8	29.4	31.3	33.2
	8.9%	24.7	26.2	27.8	29.4	31.2
	9.1%	23.4	24.7	26.2	27.7	29.4
	9.4%	22.1	23.3	24.7	26.2	27.7
	9.6%	20.8	22.0	23.3	24.7	26.1

Source: AC

3-Relative Valuation

Cenomi trades at a significant discount to its peers on most valuation metrics

We have drawn a sample of 11 diversified real estate companies to assess Cenomi's relative valuation with its peers. We have added companies meeting following criteria given the dearth of pure-play in commercial retail sector in the region

- Diversified real estate companies primarily operating in the GCC region with a particular focus on commercial real estate
- Pure-play in the developed markets

We make the following observations on Cenomi's relative valuation vis a vis selected listed peers.

- Cenomi trades at a discount to its peers on most valuation metrics, barring EV/EBITDA, implying the current valuations of the stock as such don't take into company's future growth dynamics
- While Cenomi's EV/EBITDA of 15.4 and 13.7x on 2026 and 2027 trades at 5% and 12% discount to its own historical average, Cenomi trades at 40% premium to its peers' average multiple on the same valuation benchmark on 2026 estimate. We, however, note the company is undergoing a significant expansion in GLA over 2024-2028 period and the full benefit of the company's investment will likely manifest by 2029, with 14% CAGR in EBITDA and the drop in EV/EBITDA ratio to 9.9 by 2029. Secondly, the peers' average is heavily influenced by three extreme values. Cenomi trades at a nominal discount to the adjusted average of peers' EV/EBITDA in 2026.
- Cenomi's D/Y of 6.8% in 2025/2026 is well ahead of peer's average of 2.1%. In fact, only two stocks in the sample offer D/Y which is comparable to Cenomi's yield. It is pertinent to highlight Cenomi management has come up with dividend guidance quarterly dividend pay-out of SAR0.37/sh or SAR1.5/sh per annum. We believe the future expansion of the company's GLA under management offers opportunity for ramp up dividend over the long-term.

Cenomi's D/Y of 6.8% in 2025/2026 is well ahead of peer's average of 2.2%.

- We have also drawn a valuation comparison for Cenomi on P/BV which shows a 40% discount vs its peers. However, we hasten to highlight the usefulness of the valuation metric is limited as the company uses market values to book its real estate asset, including work-in-progress, on its balance sheet.
- Despite valuing the company assets on market value, Cenomi's can generate superior returns (ROE and ROA) vs its peer. Significant valuation discounts across major metrics and superior comparison on returns make a strong case in favour of Cenomi.

Cenomi: Relative Valuation

Stock name	Country	Market Cap	Price*	P/E		P/BV		D/Y		EV/EBITDA		ROE	ROA
		USDm	Local	2025E	2026E	2025E	2026E	2025E	2026E	2025E	2026E	2025E	2025E
Dar Al Arkan	KSA	4301	20	20.9	18.3	1.0	1.0			17.2	16.5	5%	4%
Deyaar	UAE	1165	1.0	8.7	7.5	0.8	0.8			7.6	5.5	10%	5%
ADCO	KSA	1908	31	40.3	26.9	2.9	2.9	2%	2%	27.1	16.4	7%	3%
Saudi Re	KSA	2256	19	16.5	15.3	1.4	1.4			12.0	12.4	8%	5%
Rak Prop	UAE	1185	1.4	13.5	11.6	0.8	0.8	1%	1%	11.1	9.9	6%	4%
Mabanee	Kuwait	3405	877	15.2	18.4	1.7	1.7	1%	1%	19.0	16.8	11%	5%
Emaar	UAE	33187	15	8.7	7.5	1.3	1.3	6%	6%	5.8	4.9	15%	10%
Aldar	UAE	17606	10	10.5	8.6	1.8	1.8	2%	2%	7.8	6.5	17%	7%
Barwa	Qatar	3,078	2.7	8.7	8.7	0.5	0.5	5%	5%	19.5	19.5	8.7	8.7
Aeon Mall	Japan	3414	2966	25.0	22.5	1.3	1.3	2%	2%	10.2	9.4	5%	3%
Regency	USA	13757	69	31.5	29.4	1.9	1.9	4%	4%	17.4	16.7	6%	4%
Mean				14.0	12.6	1.1	1.1	2%	2%	11.5	9.8	16.0	14.2
Cenomi	**KSA**	**2,805**	**22.15**	**11.6**	**13.5**	**0.7**	**0.7**	**7%**	**7%**	**15.4**	**13.7**	**6%**	**5%**

Source: Bloomberg, AC Estimates

Key Risks to Our Investment Case

The following are key downside risks to our investment case for Cenomi;

I-Risk of time and cost overrun on major projects

With the presence of significant leverage on the company's balance sheet, and sizeable capex requirement in the near-term, the impact of any delay in project launch or cost overrun is likely to have significant ramifications on the company's cash flows, expected future dividend and stock price performance. Out of six major projects, two material projects are due to completion and commercial launch by the end of 2025 and 1Q2026 respectively. Both projects have achieved material progress up to 1Q2025. Management plans to handover leased spaces to future tenants by 4Q25/1Q26 respectively and start booking revenues once the customary rent-free period ends (likely by the end of 1H26).

II- Above-expected deterioration in credit due to related parties

Our earnings and cash flows estimate may face downside risks should there be any below-expected cash recovery

Related party credit constitutes a significant portion of the company's aggregated receivables and results in major drag on company's working capital financing. The provisioning on overdue receivables also drags down the company's book value and bump up debt ratio. We have conservatively assumed Cenomi to collect only average 33% of total rental revenues from related parties (vs 4-year average of 76%) and expect the company to make provision for Expected Credit Loss of 67% of future additions in the stock of receivables. Furthermore, we expect Cenomi to collect non-current, related-party receivables of SAR. These receivables were created as part of the settlement between Cenomi and its associated companies' overdue receivables. Our earnings and cash flows estimate may face downside risks should there be any below-expected cash recovery or non-materialization of long-term related party receivables.

III- Credit conditions

50bps higher borrowing cost than our estimates can chip off Cenomi's earnings by 6-9%

Our estimates and target price face risk from general credit conditions (company's credit rating and credit spreads, movement of benchmark rates and/or liquidity conditions) in the Kingdom or the target currency for new debt issuance given the future need of reprofiling of existing debt (SAR3.3bn facility for Sukuk II falling due in 2026), future requirement for debt issuance and existing floating rate debt on company's balance sheet. The yield on the 10-year USD bond has moved up from 3.64% in Oct-2024 to the current 4.3% with SAIBOR mirroring the movement in the yield. Consensus expectations of the number of future rate cuts by the US Fed have also been revised down from three in early Jan-2025 to two cuts in early May. We have assumed Cenomi's cost of borrowing to average 7.6% in 2025 and 7.9% in 2026. 50bps higher borrowing cost than our estimates can chip off Cenomi's earnings by SAR80-85mn (6-9% of future earnings estimate) given a significant stock of debt on the company's balance sheet.

Cenomi is an undisputed #1 mall owner, developer and operator with GLA under management of 1.4mn sqm

Overview of the Company

About the Company

Cenomi Centers (previously known as Arabian Center) is part of Fawaz Al Hukair Group, one of the leading groups of companies in the Kingdom with particular focus on real estate, retail, hospitality and mobility. Cenomi Centers was established in 2002 as a real estate arm focused on commercial retail. With successive additions of new malls and entry into new cities, Cenomi has established a sizeable portfolio of 21 malls, spread across 10 cities in the Kingdom. Cenomi is an undisputed #1 mall owner, developer and operator with GLA under management of 1.25sqm. The sheer number of strategically located malls and sizeable GLA allows Cenomi to attract over 120mn visitors in its mall and provide retail exposure to 80% of the population in the Kingdom.

Cenomi hosts a number of leading local and international brands in over 4500 retail stores in its malls. For retailers, Cenomi offers major advantages of scale, strategic locations and access to catchment areas in all major cities of the Kingdom.

Diversified Mall Portfolio

Cenomi's mall portfolio consists of super regional, regional and community malls which incorporate unique lifestyle concepts with integrated dining, entertainment and leisure options for the visitors. Out of 2 centres, 11 are on leased land, 9 on land owned, and one mall is operated under a management and operating agreement. Cenomi has added on average one mall every year since its inception.

Major Group Companies in Cenomi Centers

The following companies from Fawaz Al Hukair Group maintain a significant presence in mall operated by Cenomi Centers

Cenomi Retail- Listed on Tadawul's main index, Cenomi Retail is an exclusive franchise owner of many worlds' leading brands in clothing (Inditex and non-Inditex), F&B (Subway, Cinnabon), Cosmetic (KIKO) and many others. Cenomi Retail occupies 14% of total GLA in malls operated by Cenomi and accounts for 10% of revenues in 2024 (10% in 1Q2025) and 61% of total receivables from related parties.

Ezdiyar Holding Co (Esdiyar): The two main activities of Ezdiyar are operating cinemas and fitness centers in select malls. The company accounts for 2% of total revenues for Cenomi but 11% of total receivables from related parties.

Abdul Mohsin Alhukair Group for Tourism & Development (Baan): Baan provides indoor and outdoor entertainment offerings in various malls operated by Cenomi. Baan is listed on Tadawul's main market.

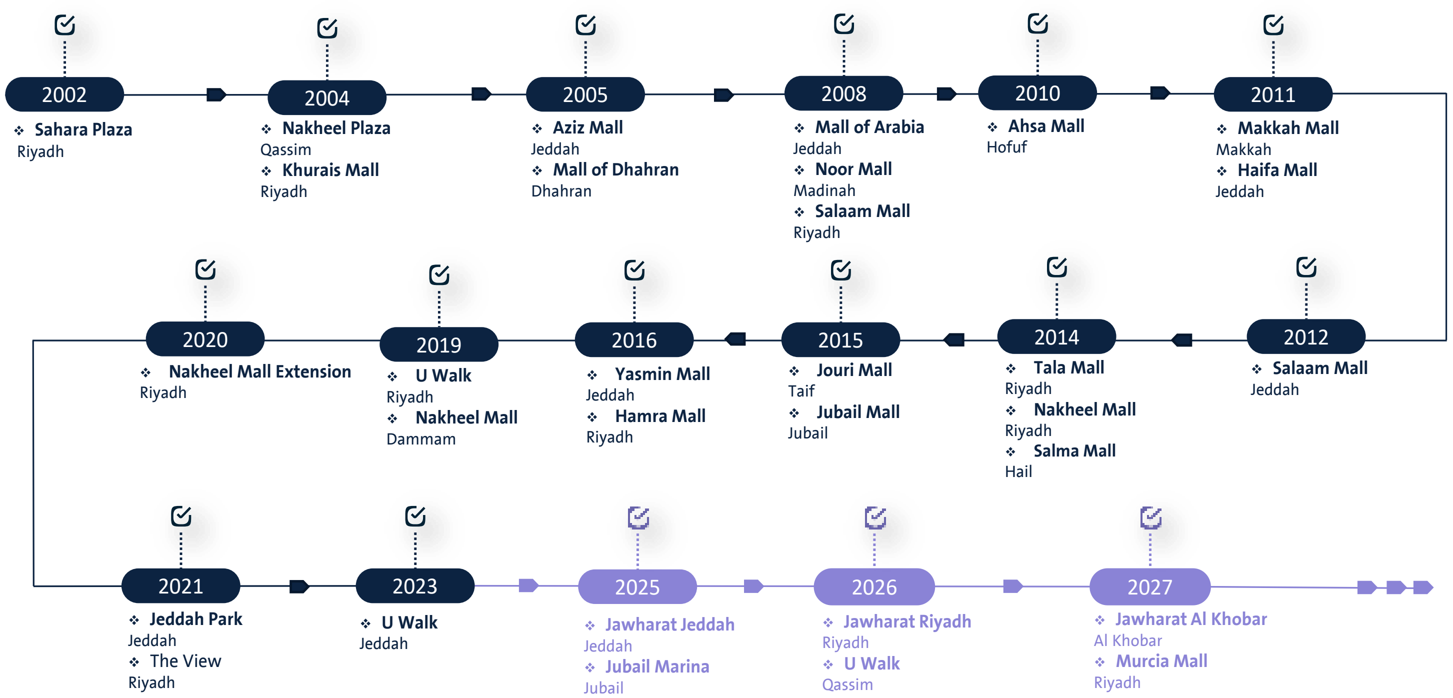
Salman & Sons Holding Co (Salman): The company is engaged in entertainment for kids and indoor soft play. Salman & Co accounted for 2% of Cenomi's revenues in 2024.

Tadaris Aljanjd Security Company (Tadaris): As the name implies, Tadaris provides security services in malls operated by Cenomi. Tadaris accounted for 17% of the operating cost of the company in 2023.

Cenomi Investment in BNPL

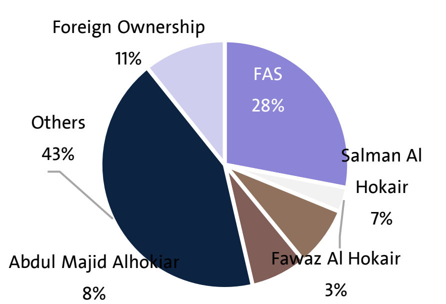
Cenomi Centers maintains an effective 33% stake in a fintech company, FAS Finance, which provides innovative consumer finance solutions (BNPL), customer loyalty program and E-Commerce for mall visitors. Cenomi, Cenomi Retail and valU are the three major partners in the venture. The carrying amount of Cenomi's investment in FAS Lab Holding Company is SAR78mn for a 50% stake. FAS Lab owns a 65% stake in FAS Finance. FAS Finance continues making progress on its strategy. Cenomi recorded SAR7.1mn as the company's share of losses in 2024 vs losses of SAR11mn in 2023.

Cenomi: Major events in company's history



Source: Company Reports

Cenomi Shareholding: 2024



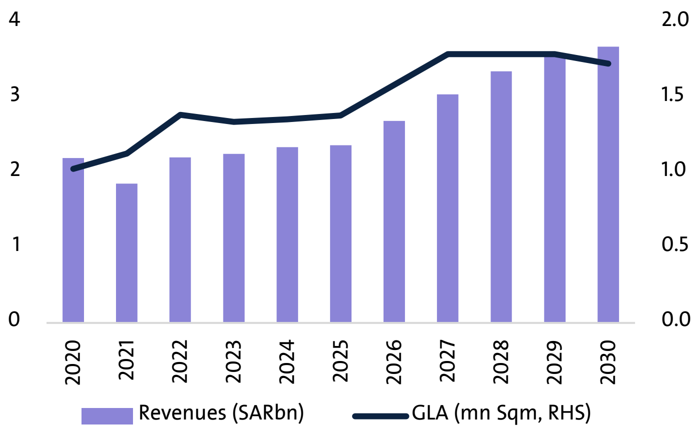
Source: Cenomi, Tadawul

Shareholding Details

Cenomi was listed on Tadawul in 2019 and was one of the major listings in the real estate sector at the time. Al Hukair Group accounts for 33% direct and indirect ownership of the company. The company free float is estimated at 51% as per Bloomberg. Interestingly, foreign shareholders maintain 9.6% ownership in the company which accounts for 19% of free float shares. Cenomi's market cap and free float market are estimated at SAR9.0bn and SAR3.0. Cenomi is part of MSCI Saudia, MSCI EM index and FTS-Russel index. Cenomi

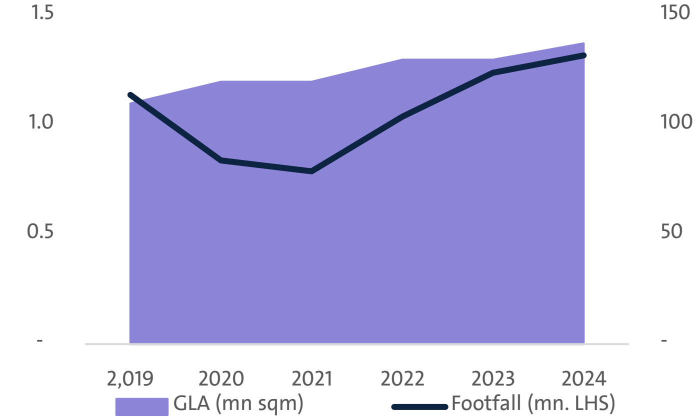
Cenomi in Charts

Cenomi's revenue set to uptrend on GLA expansion



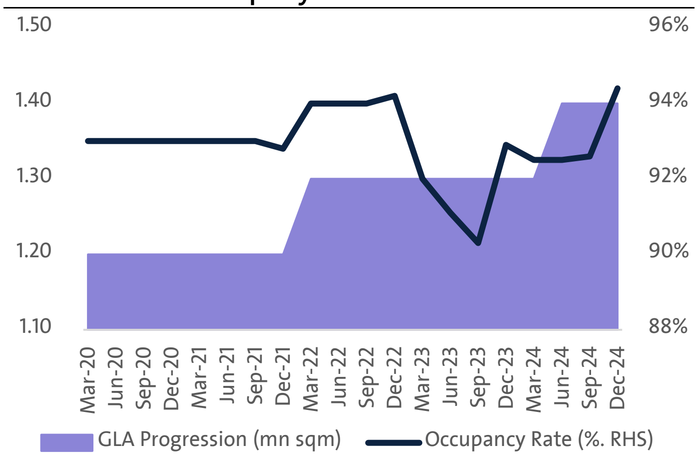
Source: Cenomi, AC Research

Footfall across Cenomi's malls has scaled to new heights



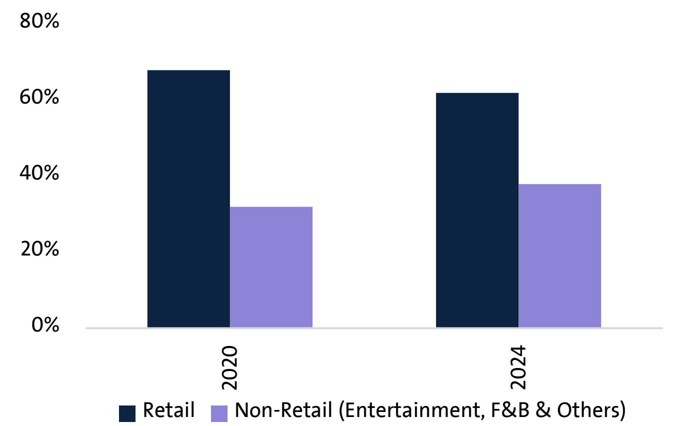
Source: Cenomi, AC Research

Cenomi: Headline occupancy levels continue to rise



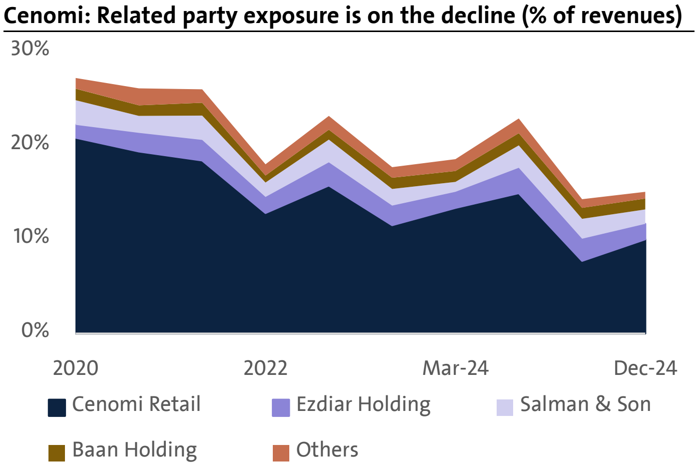
Source: Source: Cenomi, AC Research

Cenomi has shifted the tenant-mix towards high margin segment



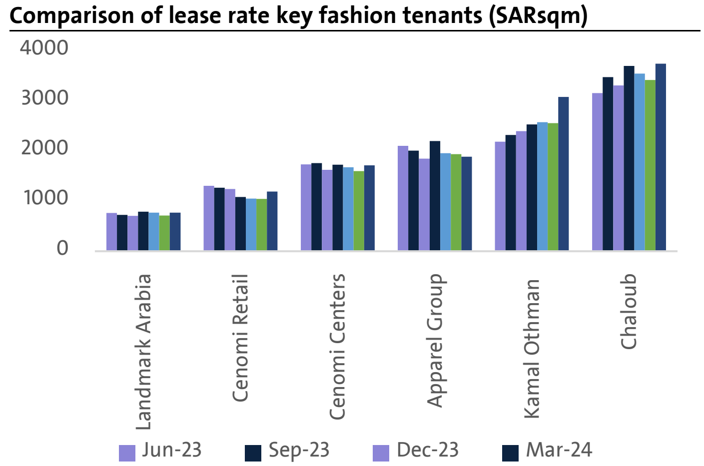
Source: Cenomi, AC Research

Cenomi: Related party exposure is on the decline (% of revenues)



Source: Cenomi, AC Research

Comparison of lease rate key fashion tenants (SARsqm)



Source: Cenomi, AC Research

Key Financials

Income Statement

SARmn	2023	2024	2025E	2026E	2027E	2028E
Revenue	2,254	2,344	2,370	2,696	3,048	3,356
Cost of Revenue	-383	-358	-340	-412	-465	-473
Gross Profit	**1,870**	**1,986**	**2,030**	**2,284**	**2,583**	**2,883**
Selling & distribution Exp	-65	-23	-33	-39	-42	-44
General & Adm. expenses	**-349**	**-256**	**-251**	**-279**	**-308**	**-317**
ECL	**-190**	**-322**	**-150**	**-172**	**-206**	**-240**
Fair Value Gains & Others	**643**	**527**	**109**	**9**	**9**	**9**
EBIT	**1,909**	**1,912**	**1,705**	**1,803**	**2,036**	**2,290**
EBITDA	**1,556**	**1,362**	**1,622**	**1,820**	**2,053**	**2,307**
Finance income/Others	-4	10	28	24	19	10
Financial costs	143	-654	-793	-1,010	-1,017	-1,067
Zakat/tax	-40	-44	-32	-36	-37	-44
Profit after Tax	**1,501**	**1,224**	**908**	**782**	**1,001**	**1,189**
EPS	3.2	2.6	1.9	1.6	2.1	2.5
DPS	1.6	1.5	1.5	1.5	1.5	1.5

*Exclude fair value gains, Source: Cenomi, AC Estimates

Balance Sheet

SARmn	2023	2024	2025E	2026E	2027E	2028E
Assets	**27,751**	**31,452**	**32,870**	**33,880**	**34,922**	**35,827**
Non-Current Assets	**25,855**	**28,781**	**31,004**	**31,887**	**32,882**	**33,561**
PPE	25,390	28,068	30,473	31,439	32,523	33,334
Current Assets	**1,896**	**2,671**	**1,865**	**1,993**	**2,040**	**2,266**
Cash and cash equivalents	85	670	267	332	248	320
Trade receivables	474	483	495	581	669	734
Dues from related parties	484	408	573	726	870	998
Prepayments & Others	472	785	327	213	144	112
Equity	**14,312**	**14,827**	**15,023**	**15,092**	**15,381**	**15,857**
Share capital	4,750	4,750	4,750	4,750	4,750	4,750
Retained earnings & Others	8,232	8,743	8,939	9,008	9,297	9,773
Liabilities	**13,439**	**16,624**	**17,846**	**18,788**	**19,541**	**19,969**
Non-Current Liabilities	**8,800**	**14,985**	**10,665**	**10,328**	**9,804**	**6,202**
Long-term borrowings	5,882	12,138	7,808	7,641	7,295	3,880
Other non-current liabilities	2,876	2,825	2,830	2,654	2,471	2,280
Current Liabilities	**4,639**	**1,639**	**7,181**	**8,460**	**9,737**	**13,767**
Trade and other payables	703	671	624	733	803	791
Accrued expenses and others	427	416	272	280	288	296
Short-term borrowing	3,433	374	5,929	7,090	8,335	12,412

Source: Cenomi, AC Estimates

Summary of Cash Flows

SARmn	2023	2024	2025E	2026E	2027E	2028E
Operating Activities	1,390	1,006	1,651	1,806	1,960	2,185
Investing Activities	(689)	(1,939)	(1,418)	(535)	(726)	(559)
Financing Activities	-1228	1518	-636	-1206	-1319	-1554

Source: Cenomi, AC Estimates

Key Ratios

Revenue Contribution	Units	2023	2024	2025E	2026E	2027E	2028E
Rental Revenue	X	91%	88%	87%	89%	89%	89%
Media	X	4%	5%	6%	6%	6%	6%
Others	X	5%	7%	7%	6%	6%	5%
Turnover Ratios							
AR Turnover	X	2.4	2.5	2.4	2.3	2.1	2.1
AP Turnover	X	2.6	2.3	2.6	3.1	3.2	3.4
DSO	Days	149	144	151	161	170	178
DPO	Days	141	159	139	116	114	108
CCC	Days	**8**	**-15**	**12**	**45**	**56**	**70**
Capital Structure Ratios							
Debt to Equity	X	82%	97%	108%	113%	116%	115%
Debt to Assets	%	42%	46%	49%	50%	51%	51%
Net Debt to EBITDA	X	7.5	10.1	9.8	9.1	8.5	7.7
LTV*	%	34%	40%	43%	45%	47%	47%
Debt to EBITDAR*	X	5.5	8.3	8.1	7.8	7.4	6.8
Gearing*	%	59%	67%	84%	90%	96%	96%
Profitability Ratios							
GP Margin	%	83%	85%	86%	85%	85%	86%
Operating Margin	%	85%	82%	72%	67%	67%	68%
EBITDA Margin	%	69%	58%	68%	68%	67%	69%
NP Margin	%	67%	52%	38%	29%	33%	35%
ROE	%	11%	8%	6%	5%	7%	8%
ROA	%	7%	6%	5%	5%	6%	6%
Market Ratios							
Market Price	SAR/sh	22.15	22.15	22.15	22.15	22.15	22.15
PE	X	7.0	8.6	11.6	13.5	10.5	8.8
Dividend Yield	%	7.3%	6.8%	6.8%	6.8%	6.8%	6.8%
BVPS	SAR/sh	29.5	30.0	31.1	31.5	31.7	32.3
PBV	X	0.75	0.74	0.71	0.70	0.70	0.69
EV/EBITDA	X	14.3	18.3	15.4	13.7	12.1	10.8

Source: Cenomi, AC Estimates

Cenomi's leverage ratio guidance by 2030, LTV (Net Financial Debt Excl Leases/Fair Value of Invest. Properties) =<45%, Debt to EBITDAR Net Financial Debt excluding lease liab./EBITDAR) =<5.0, Gearing) Financial Debt adjusted for lease/tangible equity)=<65%

Appendix

Cenomi Centers-Details of Malls

Malls	City	Category	Lease Expiry	Year Opened	GLA (000sqm)
Makkah Mall	Makkah	A	Freehold	2011	37
Mall of Arabia	Jeddah	A	Freehold	2008	110
Mall of Dhahran Extension	Dhahran	A	2026	2005	62
Nakheel Mall	Riyadh	A	2034	2014	75
Al Noor Mall	Madinah	A	Freehold	2008	69
U-Walk	Riyadh	A	2046	2019	48
Nakheel Mall Dammam	Dammam	A	Freehold	2019	58
Hamraa Mall	Riyadh	A	Freehold	2016	55
The View	Riyadh	A	Freehold	2021	54
U-Walk Jeddah	Jeddah	A	2052	2023	55
Total A					**624**
Aziz Mall	Jeddah	B	2046	2005	67
Salaam mall - Riyadh	Riyadh	B	Freehold	2005	48
Juri Mall	Taif	B	2035	2015	48
Yasmeen Mall	Jeddah	B	2034	2016	60
Salaam Mall - Jeddah	Jeddah	B	2032	2012	124
Total B					**347**
Al Ehsa Mall	Ahsa	C	Freehold	2010	44
Jubail Mall	Jubail	C	Freehold	2015	21
Haifa Mall	Jeddah	C	2032	2011	33
Nakheel Plaza	Qassim	C	2029	2004	43
Tala Mall	Riyadh	C	2029	2014	21
Total C					162
Sub-Total					**1133**
Jeddah Park			N/A	2021	120
Total Cenomi					**1,253**

Source: Cenomi 1Q 2025, AC

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA, Abdulrahman Yusef Alnafia**, the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

Rating Methodology

Alinma Capital Company (AC) follow a three-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AC has not assigned any rating on the stock

Coverage Suspended: AC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Price data for the listed securities is based on 16th July 2025.

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