IPO Note | Pakistan Research

Akseer Research
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REN # REP - 004 REN # REP - 400 R

Customer Funded Growth Meets Attractive Returns; Subscribe

Naya Nazimabad Apartment REIT OFS

PSX: (Pending) | Sector: REIT |

NNAR is a 10-year developmental REIT … Naya Nazimabad Apartment REIT (NNAR) holds seven commercial plots in Naya Nazimabad, Karachi, spanning 46,597 sq yds, which are being developed into apartments with retail space on the lower floors. It also owns 216 plots at Bankers Avenue and 76 shops at IT Tower, both in Lahore, projected to be resold, without any construction. Naya Nazimabad accounts for 94% of both project cost and projected collections, and the REIT expects to have sold everything by FY32.

…**that is funded by its own customers** … The project's PKR 78.8bn cost is financed as follows: PKR 2.9bn equity, PKR 7.8bn via Bank of Punjab Musharaka financing, and the bulk PKR 68.0bn funded through customer installments. The customer advances also fund 98.5% of construction cost, with no borrowing envisaged in future as per the offering documents.

…**which makes sales pace the key risk**. Collections cover construction costs by 1.45x over the life of the project, but that cushion narrows to just 1.03x in FY29, the peak construction year. Any shortfall beyond that would force the FY29 dividend to be pushed back. The plan also assumes 13–16% of area sold each year from FY26 to FY30, well above the 9.4% actually achieved in FY25.

The sponsor ran 16 months late last time, but still paid … Globe Residency REIT (GRR) has the same sponsor, township and manager. It planned completion for November 2025 but is now extended to March 2027. Despite this, it has paid PKR 12.25/unit of dividends and returned 3.5x. We therefore delay NNAR's dividend stream by 12 months (as compared to GRR's 16 months) but leave the price assumption same as mentioned in the offering documents (+5% each year).

Attractive return; Subscribe. NNAR is projected to distribute PKR 63.19/unit between FY28 and FY32. This implies an IRR of 31.1% at the floor price and 24.1% at the cap price. Delaying that stream by 12 months returns 24.7% at the floor of PKR 18.00, and 19.3% at the cap. These returns appear attractive against cost of equity of 18%. **We thus recommend subscribing to the issue.** The value is concentrated at the floor, however, if potential project delays are matched by price gains similar to the case with Globe Residency REIT, the investors can realize a much higher return even after accounting for potential project delays.

At Floor	Increase in Average Selling Price					
	IRR	**3%**	**5%**	**7%**	**9%**	**11%**
Delay in Project (Months)	**0**	26.7%	31.1%	35.1%	38.9%	42.4%
	6	23.6%	27.5%	31.1%	34.4%	37.5%
	12	21.2%	**24.7%**	27.9%	30.9%	33.7%
	18	19.2%	22.4%	25.4%	28.1%	30.6%
	24	17.6%	20.6%	23.2%	25.7%	28.0%
	30	16.2%	19.0%	21.4%	23.7%	25.9%

Key Data	
PSX Symbol	(Pending)
Floor Price	PKR 18.00
Cap Price	PKR 23.00
Price Band	28%
Issue Size	44.1M
% Post-IPO Capital	15%
Funds Raised – Floor	PKR 793MN
Funds Raised – Cap	PKR 1,013 MN
Book Building : Retail	75% : 25%
Book Building Dates	1st Sept – 2nd Sept 2026
Retail Subscription	7th Sept – 8th Sept 2026
Auditor	BDO Ebrahim & Co.
Shariah Compliance	Compliant

Source: IPO Documents, PSX, Akseer Research

At Cap	Increase in Average Selling Price					
	IRR	**3%**	**5%**	**7%**	**9%**	**11%**
Delay in Project (Months)	**0**	19.7%	24.1%	28.0%	31.6%	35.0%
	6	17.6%	21.4%	24.9%	28.1%	31.1%
	12	15.8%	**19.3%**	22.4%	25.3%	28.1%
	18	14.4%	17.6%	20.4%	23.1%	25.6%
	24	13.2%	16.1%	18.8%	21.2%	23.5%
	30	12.2%	14.9%	17.4%	19.6%	21.7%

Source: IPO Documents, PSX, Akseer Research

Financial Estimates

PKR mn	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F
Sales Revenue	109	2,747	3,061	6,772	23,060	12,045	51,536
Cost of Sales	(108)	(1,929)	(2,231)	(2,042)	(18,451)	(7,658)	(33,438)
Gross Profit	**1**	**818**	**830**	**4,729**	**4,609**	**4,386**	**18,099**
REIT-level Expenses	(62)	(182)	(97)	(97)	(98)	(99)	(100)
Musharaka / Finance Cost	(638)	(228)	–	–	–	–	–
Contract Cost Amortisation	–	–	–	(212)	(723)	(592)	(1,509)
Factoring Expense	–	–	–	–	–	–	(4,595)
Profit Before Tax	**(700)**	**75**	**444**	**4,303**	**3,672**	**3,578**	**11,777**
Project Management Fee	–	–	–	–	(642)	(617)	(2,032)
Musharaka Profit Share – BOP	–	–	–	–	(940)	(903)	(2,972)
Net Income	**(700)**	**75**	**444**	**4,303**	**2,089**	**2,058**	**6,773**
EPU (PKR)	**(2.38)**	**0.26**	**1.51**	**14.65**	**7.11**	**7.01**	**23.06**
DPU (PKR)	**–**	**–**	**1.37**	**14.65**	**7.11**	**7.01**	**23.06**
Cash Available for Distribution	1,649	7,316	9,104	7,844	7,102	3,911	9,711

Source: IPO Documents, PSX, Akseer Research

What Actually Drives the Return

NNAR is a closed-end, Shariah-compliant developmental REIT targeted for completion by June 2032. The offer reflects a 15% stake sell-down by Javedan Corporation, meaning no new equity enters the REIT directly. While the fund holds three asset clusters, value creation is concentrated almost entirely in Karachi: the seven Naya Nazimabad plots account for 94% of project costs and collections, along with 95% of lifetime margins. The remaining Lahore assets are 216 BACHS plots and 76 IT Tower shops which contribute a modest 7% to overall unitholder distributions.

Within the Karachi portfolio, independent valuer KGT estimates total value at PKR 15.34bn using a flat rate of PKR 275,000 per square yard. This assigns PKR 7.00bn (46%) to three active construction sites and PKR 8.33bn (54%) to four plots still awaiting SBCA permits.

Operational momentum is currently anchored entirely to those three permitted sites. As of March 2026, buyers had contracted 726 of 1,292 launched units for PKR 15.5bn, with PKR 3.9bn collected. This represents 17% of lifetime projected revenue contracted and 4% collected.

The Customers Are the Lenders …

Buyers purchase off-plan with payments spread over an 82-month schedule. Overall project cost stands at PKR 78.8bn, of which PKR 68.0bn, 98.5% of construction spend is funded via customer installments, underscoring reliance on customer financing rather than external debt/equity. Equity accounts for PKR 2.94bn and a Musharaka facility provides PKR 7.78bn, with management indicating that no further borrowing is planned.

… Hence Delayed Revenues Can Result in Delays in Dividend Payout…

Because customer installments serve as both top-line revenue and the main construction budget, lower-than-expected sales do more than delay cash flow, they directly reduce the funds available to pay contractors. This slowdown can hinder construction progress, make unfinished units harder to sell, and ultimately raise the risk of delayed dividend payouts to unitholders.

PKR mn	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Collections from customers	3,210	11,666	12,746	12,387	13,309	13,229	9,054
Construction spends	(1,287)	(4,493)	(9,678)	(12,047)	(6,956)	(11,729)	(5,789)
Cover (x)	2.49	2.60	1.32	1.03	1.91	1.13	1.56
Year-end cash	1,649	7,316	8,702	3,540	5,013	1,852	-

Source: IPO Documents, PSX, Akseer Research

… But There is Some Cushion Available

While coverage averages 1.45x over the project lifespan, liquidity is unevenly distributed, narrowing to 1.03x in FY29, the peak construction year and 1.13x in FY31. Projected FY29 closing cash of PKR 3.5bn represents 8.9% of cumulative collections to that point. Any revenue shortfall exceeding this buffer would leave the REIT unable to pay its modeled FY29 dividend.

Under the REIT's operating structure, management would prioritize construction progress by deferring dividend distributions rather than halting development. Consequently, a lower sales velocity delays the timing of unitholder returns rather than reducing overall cash generation.

Sales Pace Remains The Key Operational Variable to Monitor.

Base-case forecasts assume 11–17% of saleable area is sold annually from FY26 to FY30, whereas FY25, the only full year of historical data, achieved 9%. Meeting projected targets requires a ~55% acceleration in annual sales velocity, sustained over five years.

Globe Residency REIT: What The Sponsor and The REIT Manager Delivered Last Time…

Globe Residency REIT (GRR) listed in December 2022 with the same sponsor, township, REIT manager and funding structure. It is the best available guide to execution:

Globe Residency REIT	Planned at IPO	Actual	Read-across
Completion	Nov 2025	Mar 2027	16 months late
Project cost	PKR 20.6bn	PKR 23.7bn	15% over
Sale price (PKR/sq ft)	~10,700	14,000-16,000	31-50% better
Dividend paid	Not guided	PKR 12.25/unit	Paid while building

Source: IPO Documents, PSX, Akseer Research

GRR is 16 months behind schedule and 15% over budget. It has still returned 3.5x, including PKR 12.25/unit of dividends paid while construction was under way. Realized prices of PKR 14,000–16,000/sq ft beat the ~PKR 10,765 – PKR 10,925/sq ft assumed at IPO by more than 30% (8% per annum). **In short, the schedule slipped but the cash still came.**

NNAR's pricing model assumes PKR 16,000 per sq. ft. for residential with 5% annual growth. This starting price aligns with current realization rates achieved by GRR in the same township and sits comfortably below management's 6.5% inflation forecast. Consequently, we treat the price deck as reasonable and apply our risk adjustments strictly to execution timing by modeling a 12-month delay across the entire dividend stream.

Valuation And Return

The offering document values the REIT at NAV of PKR 32.03/unit, based on KGT's April 2026 appraisal of PKR 20.46bn. The floor of PKR 18.00 is a 44% discount to that figure. Although NAV is the appropriate valuation method for a developmental REIT with no rental income, it does not answer what to pay, because the value only converts to cash between FY28 and FY32. We therefore assess the return. NNAR distributes PKR 1.37, 14.65, 7.11, 7.01 and 23.06 per unit across FY28 to FY32, plus PKR 10.00 of capital on dissolution. That is PKR 63.19/unit in total. Our base case delays this stream by 12 months and leaves the amounts unchanged.

Investor return at entry price	Sponsor case	Akseer Base
PKR 18.00- Floor	31.1%	24.7%
PKR 20.00	28.0%	22.4%
PKR 21.00	26.6%	21.3%
PKR 23.00 - Cap	24.1%	19.3%

Source: IPO Documents, PSX, Akseer Research

The base case clears the 18% required return hurdle at every price in the band. But the cushion narrows sharply. At the floor it is 7.3 ppts; at the cap it is 1.8ppt. The REIT is registered with the FBR as a builder/developer under Section 100D, so dividends carry no withholding tax. Against the 15% filer rate on listed dividends, this is worth around PKR 9.5/unit over the life of the stream.

Our Stance; Subscribe

Arif Habib Dolmen Reit Management Company (the RMC) has the strongest record in Pakistani REITs and has already shown at Globe Residency that this structure pays cash to unitholders during construction. Distributions are free of withholding tax. Roughly PKR 3.9bn has already been collected and three towers are under way. The concerns are equally clear. Construction is 98.5% funded by buyers, with cover of 1.03x in FY29. Sales need to run 55% faster than the one year of actual experience. The unitholder share is geared 4x to project cost. GRR itself ran 16 months late.

NNAR is projected to distribute PKR 63.19/unit between FY28 and FY32. This implies an IRR of 31.1% at the floor price and 24.1% at the cap price. Delaying that stream by 12 months returns 24.8% at the floor of PKR 18.00, and 19.3% at the cap. These returns appear attractive against cost of equity of 18%. **We thus recommend subscribing to the issue.** The value is concentrated at the floor, however, if potential project delays are matched by price gains similar to the case with Globe Residency REIT, the investors can realize a much higher return even after accounting for potential project delays.

Key Risks

1. Funding dependence - 98.5% of construction spend relies on customer instalments. Cover is 1.03x in FY29. A collections shortfall above 8.9% defers the FY29 dividend.

2. Sales pace - The plan needs 11–17% of area sold each year against 9% achieved in FY25.

3. Musharaka conversion - Bank of Punjab may convert its PKR 7.78bn Musharaka loan into units at NAV. Principal is due as a bullet in FY32.

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Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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