

Ezdan Holding Group

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	15.99	Target Price	16.00
Implied Upside	0.1%		

1Q 2017 Beat on 1-Time Items; Going Private Officially on the Table

We maintain our **QR16.00 TP and Market Perform recommendation**. We continue to see upside as limited in the shares despite a ~6.0% 1-day share price uptick on the back of strong 1Q 2017 (1-time in nature) and recent indications of ERES potentially going private.

Highlights

- **Beat driven by AFS; mostly 1-time in nature.** ERES printed QR0.36 EPS, which bested our QR0.20 estimate primarily on the back of significantly higher than expected investment income from 1) sale of available for sale securities (AFS) including a ~5% reduction in ERES' stake in Qatar International Islamic Bank; 2) an unexpected net gain on sale of investments in associates – QR177.8mn vs. our Nil; and 3) higher than expected dividend income of ~QR166mn vs. our ~QR66mn. This added ~QR0.19 to our EPS estimate and was slightly offset (~QR0.02) by a ~12% miss on our real estate revenue estimate (~QR435mn vs. our ~QR495mn).
- **Real estate earnings flat y/y; missed our estimates by ~12%.** Real estate revenue (residential/commercial, hotels, and malls) was generally flat y/y despite partial contribution from 2 new malls (Ezdan Wukair and Al Wakra) which drove a ~63% y/y increase in that segment's revenues. Hotel revenue was slightly down y/y (~6%) suggesting weaker occupancy rates.
- **Significant reduction to ERES' investment book added to cash coffers... at a cost.** AFS declined significantly by ~QR2.4bn as the company reduced its stake in several of its investments, most notably its stake in QIIK (14.88% from 20.00%). As a result, cash balances now are ~QR3.2bn with another ~QR1.8bn coming in 2Q 2017 from the recent issuance of another ~US\$500mn in Sukuk currently trading on the Irish exchange. Management could use a significant chunk of the cash to repay/re-profile debt. While this should help alleviate the pressure on the balance sheet, it negatively impacts our earnings estimates. Our 2017 adj. EPS estimate changed to QR0.81 from QR0.79 while our 2018 estimate changed to QR0.69 from QR0.83 reflecting the lower contribution of investment income to earnings (~37% lower vs. prior estimate). We now expect that ~50% of our 2017 operating income estimate should be driven by investments.
- **Rationale behind going private.** On April 30, news circulated that a large investor owning more than 25% of the shares suggested exploring the potential of ERES going private (shareholder meeting on May 23, 2017). There is currently little information available on the process of voluntary delisting. However, our initial thoughts is that this could afford management the opportunity to re-profile the debt (eliminating the dividend could help) and coming to market at a later stage when the balance sheet is cleaner and market dynamics are more supportive.

Catalysts

- **Ezdan Oasis.** Expected to begin occupancy by 2H 2017.
- **The Curve Hotel.** Soft opening in December 2016; official opening in April 2017.
- **Ezdan Palace.** Soft opening in June 2017.

Recommendation, Valuation and Risks

- **Market Perform with a QR16.00 12-month TP.** Our estimates imply ~1.0x NAV, implying that current operations/upside are fully absorbed into the share price.
- **Risks to thesis.** Dividend sustainability could be challenged during an economic downturn or should debt repayment become a more urgent focus. A continued reliance on the balance sheet to fund operations/dividends could continue to erode long-term shareholder value. Ability to re-profile debt at comparable cost and appropriate maturities. Ability to secure funding for organic/acquisitive growth.

Key Financial Data and Estimates

	2015	2016	2017e	2018e
Adj. EPS (QR/sh)	0.41	0.68	0.81	0.69
P/E (x)	38.9x	23.6x	19.7x	23.2x
CFPS (QR/sh)	0.49	0.50	0.68	0.83
P/CFPS (x)	21.2x	15.6x	32.0x	19.2x
Adj. EBITDA (QR mn)	1,627.1	2,235.7	2,689.0	2,418.2
EV/EBITDA (x)	35.9x	26.1x	21.7x	24.1x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	15.99
Dividend Yield (%)	3.1%
Bloomberg Ticker	ERES QD
ISIN	QA000A0NE8B4
Sector	Real Estate
52wk High/52wk Low (QR)	20.24 / 14.63
30-d Average Volume ('000)	1,080.2
Mkt. Cap. (\$ mn/QR mn)	11,648 / 42,413
Shares Outstanding (mn)	2,652.5
FO Limit* (%)	49.0%
Current FO* (%)	4.0%
1-Year Total Return (%)	(14.3%)
Fiscal Year End	31-Dec

Source: Bloomberg (as of May 1, 2017), * Foreign ownership (as of April 27, 2017) and includes GCC institutions

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Model Summary

Company Name:	Ezdan Holding Group	Price:	QR 15.99	Target Price:	QR 16.00
Ticker:	ERES QD	Mkt Cap:	QR 42,413 mn	Dividend Yield:	3.1%
Recommendation:	MARKET PERFORM	EV:	QR 58,346 mn	Total Expected Return:	0.1%

	2015	2016	2017e	2018e
Earnings (in QR mn except Per Share Items)				
Revenue	2,169.0	2,909.6	3,439.3	3,231.4
Gross Profit	1,872.6	2,539.0	3,022.5	2,744.6
Adj. EBITDA	1,627.1	2,235.7	2,689.0	2,418.2
Adj. EBIT	1,617.8	2,220.0	2,671.2	2,394.4
Reported Net Income	1,661.9	1,812.5	2,155.2	1,831.9
Adj. Net Income	1,090.8	1,797.4	2,153.1	1,831.9

Reported EPS - FD	0.63	0.68	0.81	0.69
Adj. EPS - FD	0.41	0.68	0.81	0.69

Cash Flow (in QR mn except Per Share Items)				
Operating Cash Flow (ex. WC)	1,311.2	1,319.0	1,802.2	2,212.0
Cash from Operations	2,001.4	2,726.1	1,325.1	2,203.7
Cash from Investing	(1,977.0)	(2,282.5)	3,005.6	176.7
Total Capex	(1,603.6)	(2,034.0)	(673.8)	(29.5)
Simple FCF (CFO - Capex)	397.8	692.1	651.3	2,174.2
Cash from Financing	495.9	(638.8)	(1,497.6)	(3,928.2)
DPS	0.40	0.50	0.50	0.50

CFPS (ex. WC)	0.49	0.50	0.68	0.83
CFPS	0.75	1.03	0.50	0.83

Balance Sheet (in QR mn except Per Share Items)				
Cash/Equiv.	620	426	3,259	1,712
PP&E	22	42	77	83
Investment Properties	36,899	38,920	39,570	39,570
Total Assets	46,939	49,829	50,839	49,336

Current Debt	1,486	2,001	2,072	2,072
Long-Term Debt	13,474	13,926	13,919	11,847
Total Debt	14,960	15,927	15,991	13,919
Total Liabilities	16,558	19,255	19,120	17,079
Owners' Equity	29,977	30,142	31,210	31,541
Minority Interest	404	432	510	717

Quarterly Estimates				
	1Q2017e	2Q2017e	3Q2017e	4Q2017e
Revenue	1,234.1	688.3	735.1	781.8
Gross Profit	1,137.2	588.9	628.5	667.9
Adj. EBITDA	1,056.9	517.3	572.2	542.6
Adj. EBIT	1,054.2	512.5	567.2	537.3
Reported Net Income	943.8	367.7	481.3	360.3
Cash from Operations	(103.2)	500.9	478.5	448.8
Cash/Equiv.	3,228.8	3,906.2	3,451.9	3,259.5
Total Debt	15,671.1	16,991.5	16,491.2	15,990.9

Reported EPS - FD	0.36	0.14	0.18	0.14
Adj. EPS - FD	0.36	0.14	0.18	0.14
CFPS (ex. WC)	0.16	0.16	0.18	0.17

* Bloomberg consensus estimates; calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

	2015	2016	2017e	2018e
Valuation				
Adj. EV/EBITDA	35.9x	26.1x	21.7x	24.1x
Peer Average*	13.6x	18.2x	14.1x	11.2x
Adj. P/E	38.9x	23.6x	19.7x	23.2x
Peer Average*	13.0x	12.3x	13.6x	12.1x
P/CFPS	21.2x	15.6x	32.0x	19.2x
Peer Average*	12.1x	13.8x	12.4x	13.3x

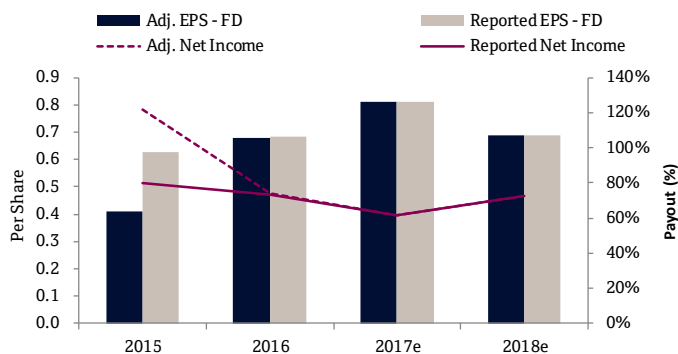
P/Operating NAV	1.18x
P/NAV	0.99x

Metrics				
Leverage and Debt Service				
Net Debt/adj. EBITDA	8.8x	6.9x	4.7x	5.0x
Debt/Capital	32%	32%	32%	29%
Debt/Equity	0.5x	0.5x	0.5x	0.4x
Interest Coverage	4.1x	3.6x	4.2x	4.3x

Profitability				
Adj. ROA	2.4%	3.7%	4.3%	3.7%
Adj. ROE	3.6%	6.0%	7.0%	5.8%
Adj. ROC	3.7%	4.9%	6.0%	5.5%

Dividend Payouts				
Reported Net Income	80%	73%	62%	72%
Adj. Net Income	122%	74%	62%	72%
Operating Cash Flow (ex. WC)	101%	101%	74%	60%
Cash from Operations	66%	49%	100%	60%

Growth				
Revenue	15.9%	34.1%	18.2%	(6.0%)
Adj. EBITDA	23.4%	37.4%	20.3%	(10.1%)
Reported Net Income	27.1%	9.1%	18.9%	(15.0%)
Adj. Net Income	(16.6%)	64.8%	19.8%	(14.9%)
Operating Cash Flow (ex. WC)	21.3%	0.6%	36.6%	22.7%



Source: Bloomberg, QNBFS Research

Detailed Model Summary

Income Statement		Unit	2013	2014	2015	2016	2017	2018
Revenue	QR mn		1,379	1,871	2,169	2,910	3,439	3,231
COGS	QR mn		(184)	(297)	(296)	(371)	(417)	(487)
Gross Profit	QR mn		1,195	1,574	1,873	2,539	3,022	2,745
<i>Gross Margin %</i>	%		86.7%	84.1%	86.3%	87.3%	87.9%	84.9%
G&A	QR mn		(181)	(255)	(246)	(303)	(334)	(326)
Total Operating Expenses	QR mn		(181)	(255)	(246)	(303)	(334)	(326)
Adj. EBITDA	QR mn		1,014	1,318	1,627	2,236	2,689	2,418
<i>Adj. EBITDA Margin %</i>	%		73.5%	70.5%	75.0%	76.8%	78.2%	74.8%
D&A	QR mn		(8)	(9)	(9)	(16)	(18)	(24)
Adj. EBIT	QR mn		1,006	1,309	1,618	2,220	2,671	2,394
<i>Adj. EBIT Margin %</i>	%		72.9%	70.0%	74.6%	76.3%	77.7%	74.1%
Interest Income	QR mn		-	-	-	-	26	26
Interest Expense	QR mn		(212)	(325)	(399)	(623)	(638)	(556)
Net Interest Expense	QR mn		(212)	(325)	(399)	(623)	(611)	(530)
Earnings Before Taxes	QR mn		793	984	1,219	1,597	2,060	1,864
Adj. Net Income	QR mn		1,047	1,308	1,091	1,797	2,153	1,832
<i>Adj. Profit Margin %</i>	%		75.9%	69.9%	50.3%	61.8%	62.6%	56.7%
WA Basic Shares Outstanding	mn		2,652.5	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5
WA FD Shares Outstanding	mn		2,652.5	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5
FD EoP Shares Outstanding	mn		2,652.5	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5
Adj. EPS - FD	QR/sh		0.39	0.49	0.41	0.68	0.81	0.69
CFPS (ex. WC)	QR/sh		0.29	0.41	0.49	0.50	0.68	0.83
CFPS	QR/sh		0.09	0.37	0.75	1.03	0.50	0.83
Balance Sheet			2013	2014	2015	2016	2017	2018
Cash/Equiv	QR mn		450	298	620	426	3,259	1,712
A/R	QR mn		144	82	127	236	464	502
Inventories	QR mn		13	22	20	19	15	16
Total Current Assets	QR mn		676	890	1,268	780	3,865	2,356
PP&E	QR mn		28	28	22	42	77	83
Total Long-Term Assets	QR mn		40,527	42,503	45,670	49,048	46,975	46,980
TOTAL ASSETS	QR mn		41,203	43,393	46,939	49,829	50,839	49,336
A/P	QR mn		262	324	916	664	377	408
Total Current Liabilities	QR mn		1,867	1,558	2,402	4,176	2,505	2,536
Total LT Liabilities	QR mn		10,692	11,757	14,156	15,079	16,615	14,543
TOTAL LIABILITIES	QR mn		12,559	13,316	16,558	19,255	19,120	17,079
Non-Controlling Interest	QR mn		-	-	404	432	510	717
Issued Capital	QR mn		26,525	26,525	26,525	26,525	26,525	26,525
Retained Earnings	QR mn		861	1,230	1,623	1,882	2,843	2,970
TOTAL OWNERS EQUITY	QR mn		28,644	30,077	29,977	30,142	31,210	31,541
Cash Flow Statement			2013	2014	2015	2016	2017	2018
Operating Cash Flow	QR mn		769	1,081	1,311	1,319	1,802	2,212
Non-Cash Change in WC	QR mn		(521)	(111)	690	1,407	(477)	(8)
CFO	QR mn		248	970	2,001	2,726	1,325	2,204
Capex	QR mn		(756)	(400)	(1,604)	(2,034)	(674)	(30)
CFI	QR mn		(1,446)	(266)	(1,977)	(2,283)	3,006	177
Net Change in Debt	QR mn		1,305	131	1,557	300	(103)	(2,072)
Dividends	QR mn		(345)	(822)	(1,061)	(937)	(937)	(1,326)
CFB	QR mn		960	(691)	496	(639)	(1,498)	(3,928)
FX Translation	QR mn		-	-	-	-	-	-
Net Change in Cash	QR mn		(238)	12	520	(195)	2,833	(1,548)

Source: Company reports, QNBFS Research

Recommendations

Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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