

UDCD Alert – First Look: 4Q2017 Top Line Beat Keeps Us Optimistic About the Future

- **Top line beat in challenging times** – UDCD’s 4Q2017 results missed our estimates as adj. EPS came in at QR0.31 vs. our estimate of QR0.50. However, we note that top line beat (+21%) along with stability in recurring income during challenging times (as per UDCD’s CEO) keep us positive on the story. We believe that the top line beat was, in part, achieved by higher revenue at Qatar Cool which likely offset real estate weakness. This is primarily as a result of a challenging year for all real estate plays in Qatar with lease rates seeing significant drop of ~10-20% over 2016 (depending on location). Inside the Pearl, prices have experienced similar trajectory with lease rates down +10% if one factors in landlord offers (e.g. 1-2 months free; Qatar Cool included, etc.) We view this as a sign of landlord emphasis on increasing occupancy rates (not just UDCD); something we have been calling for over the past year. Overall, we would retain our Accumulate recommendation and QR20.00 TP for the time being.
- **UDCD’s 4Q2017 bottom line missed (despite beating on the top line) on higher-than-expected cost of revenue** – The company beat on the top line with revenue of ~QR489mn (+21% vs. our estimate of ~QR404mn) likely on more robust land sales that we anticipated and better than expected Qatar Cool performance. However, overall weakness in real estate market in Qatar can be seen in gross margin compression as cost of sales was higher than we expected. Gross profit missed our ~QR249mn estimate by ~QR53mn or ~QR0.15/sh, which explains the majority of the miss. The remainder was a result of minor items. Note that our adj. EPS excludes certain line items such as impairments and changes in fair values. Reported EPS for the quarter came in at QR0.29. Overall, we are encouraged by the beat on top line and highlight better G&A management vs. a year ago (down 14% y/y). We note that sales/marketing expenses in 2017 increased to ~QR81mn vs. ~QR71mn one year ago, which highlights, in our view, management’s emphasis on driving higher footfall on the Pearl and even improve occupancy rates.
- **Upcoming catalysts should drive long-term value** – We expect UDCD to continue to focus advancing several development projects through the design and/or construction phases including school/medical facility, 04 Mall, and Al Morjan project, a mixed-use residential and commercial project. We await announcement of details and clarity on these projects’ economics to incorporate into our model.

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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