

United Development Company

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	19.50	Target Price	25.50
Implied Upside	30.8%		

1Q2017 Beat on Timing of Revenue Recognition

We continue to be buyers of UDCD following 1Q2017 results, which did not change our overall LT view on the company. We continue to see significantly more upside than downside in the shares with management execution on driving higher occupancy rates and potential earnings' accretive milestones are key to bridging the valuation gap vs. peers. However, our estimate of a flat 1Q2017 occupancy could pose a risk to our near-term view.

Highlights

- **UDCD's 1Q2017 headline/adj. earnings beat our estimates** – UDCD's net/adj. profit for 1Q2017 came in at ~QR231/225mn (~34/8% q/q) vs. our estimate of ~QR198mn (+16/13%), which translated into headline/adj. EPS of QR0.65/0.63 vs. our QR0.56.
- **As expected, 1Q2017 revenues were skewed to lower margin operations** – While revenue was up ~68% y/y vs. 1Q2016 (~QR458.1mn), we note that adj. profit came in ~13% lower y/y as a result of the revenue being skewed significantly in favor of higher Opex sales (Abraj Quartier being the main driver). While this was already in our model, we were surprised to see the full recognition of the remainder of the sale of Abraj Quartier office tower in 1Q2017, which was the primary driver of the earnings beat. We now adjusted our estimates to reflect that with negligible impact on our 2017 estimates.
- **Abraj Quartier office tower now fully recognized driving lower margins** – We estimate that ~QR500mn of revenue reported is related to the recognition of the remainder of the sale of Abraj Quartier office tower (QR1.25bn sale closed in 4Q2016). This resulted in lower-than-expected gross/adj. profit margins (~40/29% vs. our ~45/35%). As such we would expect gross/profit margins to trend higher for the remainder of 2017 as UDCD focuses more on land plot sales, which are considered higher margin sales.
- **Earnings profile suggests flat occupancy; could be a red flag** – Given our estimate of ~QR500mn in revenue attributable to Abraj Quartier sale, this implies that ~QR270mn is attributable to all other real estate operations and Qatar Cool. This implies that occupancy rates remained largely unchanged in 1Q2017, which gives us pause. We would like to see a more aggressive push on increasing recurring revenue through higher occupancy rates but understand that this could be a function of the weak real estate environment in Qatar. This continues to be the single biggest risk to our estimates and we will be revisiting this over the next couple of quarters to make sure that our valuation remains appropriate.

Catalysts

1) Sale of Giardino Villa plots; 2) Clarity on development of a school and medical facility on the Pearl – timeline unknown; 3) Commercial/full operations at the third Qatar Cool plant in West Bay; and 4) Clarity on a second Qatar Cool plant in the Pearl – timeline unknown.

Recommendation, Valuation and Risks

- **Maintain our QR25.50 TP and Accumulate rating.** We continue to rate the shares as Accumulate given our growth expectations, attractive dividend yield, and valuation upside. The shares are currently trading at ~10x our FY2017 EPS (~20% discount to peers) with P/NAV at ~0.8x suggesting that there remains upside not reflected in the current share price. We consider this an attractive entry point for new investors.
- **Risks to our thesis.** General economic weakness, changes in interest rates and project finance risk. Finally, we would welcome clarity on future growth initiatives supporting recurring income, which is necessary to sustain the dividend long-term.

Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Adj. EPS (QR/sh)	1.61	1.91	1.92	2.06
P/E (x)	12.1x	10.2x	10.0x	9.5x
CFPS (QR/sh)	1.78	2.22	2.20	2.44
P/CFPS (x)	9.5x	23.4x	3.7x	9.2x
Adj. EBITDA (QR mn)	761.3	896.2	928.0	999.2
EV/EBITDA (x)	13.0x	11.1x	10.7x	10.0x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	19.50
Dividend Yield (%)	6.4%
Bloomberg Ticker	UDCD QD
ISIN	QA000A0KD6M9
Sector	Real Estate
52wk High/52wk Low (QR)	22.94 / 18.01
30-d Average Volume ('000)	347.9
Mkt. Cap. (\$ mn/QR mn)	1,896 / 6,905
Shares Outstanding (mn)	354.1
FO Limit* (%)	49.0%
Current FO* (%)	10.8%
1-Year Total Return (%)	8.0%
Fiscal Year End	December 31

Source: Bloomberg (as of February 18, 2017), * Foreign ownership (as of February 18, 2017) and includes GCC institutions

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Model Summary

Company Name:	United Development Co.	Price:	QR 19.50	Target Price:	QR 25.50
Ticker:	UDCD QD	Mkt Cap:	QR 6,905 mn	Dividend Yield:	6.4%
Recommendation:	ACCUMULATE	EV:	QR 10,178 mn	Total Expected Return:	30.8%

	FY2015	FY2016	FY2017e	FY2018e
Earnings (in QR mn except Per Share Items)				
Revenue	1,440.6	2,390.8	1,989.0	1,813.6
Gross Profit	874.9	1,116.0	1,184.6	1,320.9
Adj. EBITDA	761.3	896.2	928.0	999.2
Adj. EBIT	709.5	818.9	853.7	906.8
Adj. Net Income	570.1	675.1	679.8	728.9
FD EPS	1.95	1.76	1.94	2.06
FD Adj. EPS	1.61	1.91	1.92	2.06

Cash Flow (in QR mn except Per Share Items)				
Operating Cash Flow	632.0	785.6	778.0	863.7
Cash from Operations	728.9	294.5	1,506.0	476.9
Cash from Investing	(1,394.6)	584.1	(1,056.8)	(542.3)
Total Capex	(607.4)	(449.7)	(127.2)	(560.0)
Simple FCF (CFO - Capex)	121.5	(155.2)	1,378.8	(83.1)
Cash from Financing	(715.8)	(837.3)	(869.2)	(417.0)
Total Dividends	457.6	544.5	450.5	442.6
CFPS (ex. WC)	1.78	2.22	2.20	2.44
CFPS	2.06	0.83	4.25	1.35

Balance Sheet (in QR mn except Per Share Items)				
Cash/Equiv.	2,277	1,566	2,149	1,667
PP&E	4,499	3,231	3,253	3,693
Investment Properties	8,705	8,861	8,849	8,849
Total Assets	19,138	18,723	16,603	17,057
Current Debt	1,377	1,245	534	460
Long-Term Debt	3,430	3,273	3,567	3,667
Total Debt	4,807	4,518	4,102	4,127
Total Liabilities	7,852	7,413	5,044	5,179
Owners' Equity	10,914	10,898	11,116	11,375

Quarterly Estimates				
	1Q2017e	2Q2017e	3Q2017e	4Q2017e
Revenue	768.5	368.3	433.9	418.3
Gross Profit	304.2	262.2	316.3	302.0
Adj. EBITDA	287.5	205.5	243.0	192.1
Adj. EBIT	268.9	189.3	223.4	172.1
Adj. Net Income	224.7	145.1	180.3	129.6
Cash from Operations	838.8	412.7	50.9	203.6
Cash/Equiv.	1,923.8	2,183.9	2,137.2	2,149.2
Total Debt	4,439.8	4,310.7	4,253.2	4,101.5
FD EPS	0.65	0.41	0.51	0.37
FD Adj. EPS	0.63	0.41	0.51	0.37
CFPS (ex. WC)	0.69	0.45	0.60	0.46

* 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)

Source: Bloomberg, QNBFS Research

	FY2015	FY2016	FY2017e	FY2018e
Valuation				
Adj. EV/EBITDA	13.0x	11.1x	10.7x	10.0x
Peer Average*	15.2x	19.6x	16.0x	12.9x
Adj. P/E	12.1x	10.2x	10.0x	9.5x
Peer Average*	14.9x	13.3x	14.4x	13.0x
P/CFPS	9.5x	23.4x	3.7x	9.2x
Peer Average*	13.0x	12.5x	15.7x	13.6x
P/Operating NAV				0.64x
P/NAV				0.77x

Metrics				
Leverage and Debt Service				
Net Debt/adj. EBITDA	3.3x	3.3x	2.1x	2.5x
Debt/Capital	26%	25%	25%	25%
Debt/Equity	0.4x	0.4x	0.4x	0.4x
Interest Coverage	5.4x	6.7x	5.6x	6.6x
Profitability				
Adj. ROA	3.0%	3.6%	3.8%	4.3%
Adj. ROE	5.3%	6.2%	6.2%	6.5%
ROC	5.4%	6.0%	6.3%	6.7%

Dividend Payouts				
Adj. Net Income	67%	96%	67%	65%
Operating Cash Flow	60%	86%	57%	57%

Growth				
Revenue	(24.4%)	66.0%	(16.8%)	(8.8%)
Adj. EBITDA	(16.6%)	17.7%	3.6%	7.7%
Reported Net Income	10.2%	(9.6%)	10.0%	6.3%
Adj. Net Income	(16.1%)	18.4%	0.7%	7.2%
Operating Cash Flow	(17.0%)	24.3%	(1.0%)	11.0%

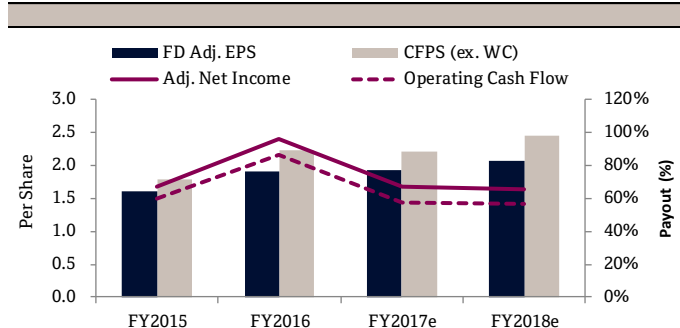


Fig 1 – Historical quarterly results vs. QNBFS estimates

	Unit	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017	QNBFS Est.	Δ	q/q	y/y
Financial Results										
Total Operating Revenue	QR mn	458.1	353.4	500.2	1,079.1	768.5	561.2	37%	(29%)	68%
Gross Profit	QR mn	310.2	187.7	212.2	405.9	304.2	251.4	21%	(25%)	(2%)
Gross Margin	%	68%	53%	42%	38%	40%	45%			
Adj. EBITDA	QR mn	307.8	132.4	159.2	296.7	287.5	264.1	9%	(3%)	(7%)
Adj. EBITDA Margin	%	67%	37%	32%	27%	37%	47%			
D&A	QR mn	(17.5)	(17.9)	(18.7)	(47.9)	(25.6)	(22.8)	12%	(46%)	47%
Adj. EBIT	QR mn	293.2	120.6	150.0	255.0	268.9	241.3	11%	5%	(8%)
Adj. EBIT Margin	%	64%	34%	30%	24%	35%	43%			
Net Interest Expense	QR mn	(22.0)	(22.2)	(21.3)	(20.7)	(30.9)	(29.8)	4%	50%	41%
Adj. EBT	QR mn	271.3	98.4	128.7	234.3	237.9	211.5	12%	2%	(12%)
Adj. EBT Margin	%	59%	28%	26%	22%	31%	38%			
Reported Net Income (Attrib. to Common Equity)	QR mn	258.9	72.9	119.8	171.6	230.8	198.9	16%	34%	(11%)
Reported Net Income (Attrib. to Common Equity) Margin	%	57%	21%	24%	16%	30%	35%			
Adj. Net Income	QR mn	258.8	89.7	117.8	208.8	224.7	198.9	13%	8%	(13%)
Adj. Net Income Margin	%	56%	25%	24%	19%	29%	35%			
Cash/Equiv.	QR mn	1,645.4	1,610.1	1,544.0	1,565.9	1,923.8	2,247.9	(14%)	23%	17%
Total Debt	QR mn	4,738.2	4,733.1	4,633.5	4,517.9	4,439.8	4,460.4	(0%)	(2%)	(6%)
Operating Cash Flow (Before WC)	QR mn	253.0	103.3	129.1	300.2	244.6	213.8	14%	(19%)	(3%)
Operating Cash Flow (Before WC) Margin	%	55%	29%	26%	28%	32%	38%			
Per Share Items										
Reported EPS - FD	QR/sh	0.73	0.21	0.34	0.48	0.65	0.56	16%		
Adj. EPS - FD	QR/sh	0.73	0.25	0.33	0.59	0.63	0.56	13%		
CFPS (ex. WC)	QR/sh	0.71	0.29	0.36	0.85	0.69	0.60	14%		

NA: Not Applicable
nmf: Not Meaningful

Source: Company reports, QNBFS Research

Fig 2 – Our 2017 revised vs. prior earnings estimates

	Unit	2017e			2018e		
		Revised	Prior	Δ	Revised	Prior	Δ
Financial Results							
Total Operating Revenue	QR mn	1,989.0	2,148.0	(7%)	1,813.6	1,833.1	(1%)
Gross Profit	QR mn	1,184.6	1,106.5	7%	1,320.9	1,306.4	1%
Gross Margin	%	60%	52%		73%	71%	
Adj. EBITDA	QR mn	928.0	950.7	(2%)	999.2	1,013.4	(1%)
Adj. EBITDA Margin	%	47%	44%		55%	55%	
Adj. Net Income	QR mn	679.8	688.0	(1%)	728.9	730.2	(0%)
Adj. Net Income Margin	%	34%	32%		40%	40%	
Total Debt	QR mn	4,101.5	4,099.8	0%	4,127.2	4,125.4	0%
Total Dividends Paid	QR mn	450.5	442.6	2%	442.6	442.6	0%
Current Adj. Net Income Dividend Payout Ratio	%	66%	64%		61%	61%	
Per Share Items							
Adj. EPS - FD	QR/sh	1.92	1.94	(1%)	2.06	2.06	(0%)
CFPS (ex. WC)	QR/sh	2.20	2.26	(3%)	2.44	2.45	(1%)

NA: Not Applicable
nmf: Not Meaningful

Source: QNBFS Research

Detailed Model Summary

Income Statement	Unit	2013	2014	2015	2016	2017	2018
Revenue	QR mn	2,081	1,906	1,441	2,391	1,989	1,814
COGS	QR mn	(1,148)	(731)	(566)	(1,275)	(804)	(493)
Gross Profit	QR mn	933	1,175	875	1,116	1,185	1,321
Gross Margin %	%	44.8%	61.6%	60.7%	46.7%	59.6%	72.8%
G&A	QR mn	(230)	(287)	(312)	(303)	(309)	(317)
Total Operating Expenses	QR mn	(35)	(262)	(114)	(220)	(257)	(322)
Adj. EBITDA	QR mn	898	913	761	896	928	999
Adj. EBITDA Margin %	%	43.2%	47.9%	52.8%	37.5%	46.7%	55.1%
D&A	QR mn	(112)	(84)	(75)	(102)	(102)	(121)
Adj. EBIT	QR mn	553	855	709	819	854	907
Adj. EBIT Margin %	%	26.5%	44.9%	49.2%	34.3%	42.9%	50.0%
Interest Income	QR mn	22	23	35	37	30	19
Interest Expense	QR mn	(84)	(148)	(131)	(123)	(151)	(137)
Net Interest Expense	QR mn	(62)	(125)	(96)	(86)	(122)	(118)
Earnings Before Taxes	QR mn	490	730	613	733	732	789
Adj. Net Income	QR mn	404	679	570	675	680	729
Adj. Profit Margin %	%	19.4%	35.6%	39.6%	28.2%	34.2%	40.2%
WA Basic Shares Outstanding	mn	354.1	354.1	354.1	354.1	354.1	354.1
WA FD Shares Outstanding	mn	354.1	354.1	354.1	354.1	354.1	354.1
FD EoP Shares Outstanding	mn	337.2	354.1	354.1	354.1	354.1	354.1
Adj. EPS - FD	QR/sh	1.14	1.92	1.61	1.91	1.92	2.06
CFPS (ex. WC)	QR/sh	2.27	2.15	1.78	2.22	2.20	2.44
CFPS	QR/sh	3.16	4.45	2.06	0.83	4.25	1.35
Balance Sheet		2013	2014	2015	2016	2017	2018
Cash/Equiv	QR mn	2,002	2,823	2,277	1,566	2,149	1,667
A/R	QR mn	1,729	1,464	1,386	2,265	1,143	1,560
Inventories	QR mn	3,096	1,665	1,370	2,018	461	540
Total Current Assets	QR mn	6,848	5,970	5,033	5,849	3,753	3,767
PP&E	QR mn	3,824	4,001	4,499	3,231	3,253	3,693
Total Long-Term Assets	QR mn	11,917	13,244	14,106	12,875	12,851	13,290
TOTAL ASSETS	QR mn	18,765	19,214	19,138	18,723	16,603	17,057
A/P	QR mn	2,313	2,671	2,664	2,589	637	746
Total Current Liabilities	QR mn	3,775	3,472	4,215	4,000	1,331	1,366
Total LT Liabilities	QR mn	4,243	4,622	3,637	3,413	3,713	3,813
TOTAL LIABILITIES	QR mn	8,018	8,094	7,852	7,413	5,044	5,179
Non-Controlling Interest	QR mn	315	347	373	412	443	503
Issued Capital	QR mn	3,372	3,541	3,541	3,541	3,541	3,541
Retained Earnings	QR mn	4,057	4,099	4,258	4,498	4,796	4,975
TOTAL OWNERS EQUITY	QR mn	10,432	10,772	10,914	10,898	11,116	11,375
Cash Flow Statement		2013	2014	2015	2016	2017	2018
Operating Cash Flow	QR mn	803	761	632	786	778	864
Non-Cash Change in WC	QR mn	317	816	97	(491)	728	(387)
CFO	QR mn	1,120	1,577	729	294	1,506	477
Capex	QR mn	(494)	(316)	(607)	(450)	(127)	(560)
CFI	QR mn	(455)	(510)	(1,395)	584	(1,057)	(542)
Net Change in Debt	QR mn	(2,519)	(1,075)	(1,938)	(649)	(419)	26
Dividends	QR mn	(345)	(346)	(458)	(544)	(450)	(443)
CFF	QR mn	(1,040)	(524)	(716)	(837)	(869)	(417)
FX Translation	QR mn	-	-	-	-	-	-
Net Change in Cash	QR mn	(375)	544	(1,381)	41	(420)	(482)

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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