

UDCD Alert - First Look: 2Q2017 Earnings Miss

- **UDCD's 2Q2017 headline/adjusted earnings missed our estimates (first look)** - United Development Company's (UDCD) net/adj. profit for 2Q2017 came in at ~QR53.2/60.0mn (~27/33% y/y) vs. our estimate of ~QR147mn (-64/59%), which translated into headline/adjusted EPS of QR0.15/0.17 vs. our QR0.42. While revenue was ~18% weaker than expected at QR305.7mn (~13% down y/y), we note that gross profit missed our estimates by a bigger magnitude (~27% below estimate), which is indicative of upward pressure on cost of revenue. The miss on revenue and higher costs of revenue were the main drivers of the adj. EPS miss accounting for ~QR0.27/sh.
- **We look to clarify from management the challenges that led to these results and will update our model soon.** However, given UDCD's revenue profile in 2Q2017, we anticipate that very little land plot sales were made during the quarter as the company relied more heavily on its recurring earnings stream. We note that UDCD kicked off the construction of Al Mutahidah Towers in 1H2017 (480 residential apartments scheduled for delivery in 2019; phase I & II already sold out). In addition, the company is looking to develop several plots of land (beach front) into residential villas with 10 prototypes to be offered for sale in 3Q2017.
- **Persistent operational/macro challenges giving us pause...** From our conversation with company management, we highlight that we are disappointed with the occupancy ramp up on both the residential/commercial sides of the business. On the residential side, occupancy rates have been under mild pressure while commercial occupancy rates have remained stable. The weaker than expected execution was significantly impacted by weaker economic conditions along with geopolitical tensions in the region.
- **... But we remain directionally positive on the UDCD story given attractive valuation.** We continue to rate the shares as Accumulate on valuation upside. The shares are currently trading at 9.1x our FY2017 EPS (~30% discount to peers), while offering an attractive 7.2% dividend yield (~30% higher than peer average).

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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