

United Development Company

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	14.60	Target Price	20.00
Implied Upside	37.0%		

Updating Model Following 1Q2018 Results

Remain long-term bullish given growth potential – UDCD remains our preferred exposure to the real estate space in Qatar given current real estate weakness and is seen as a play on the Qatar long-term growth story. 2017 was a challenging year for all real estate plays in Qatar with lease rates seeing significant drop of ~10-20% over 2016. 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. The company continues to enjoy a significant land bank from which it supplements its recurring earnings through land plot sales along with stable utility exposure through Qatar Cool. With a cleaner balance sheet vs. other peers, UDCD is positioned to effectively grow its earnings-generating asset portfolio while maintaining peer average leverage/debt service profiles. We retain our Accumulate recommendation and QR20.00 TP.

Highlights

- **UDCD posts strong numbers in 1Q2018 despite challenging times** – United Development Company (UDCD) reported net profit of QR214.5mn in 1Q2018 and adj. profit of QR203.4mn (+12.6% beat to our estimate of QR182.3mn). The beat came on the back of stronger revenue recognition during the quarter (QR528.5mn), which we assume contributed to the majority of the beat despite higher-than-expected costs that drove gross margins lower.
- **Are results indicative of better occupancy rates?** We expect the this performance was reflective of higher occupancy rates within the Pearl and less-than-expected land plot sales (which tend to garner significantly higher margins). We would consider this as a positive as it reinforces our thesis of the company's emphasis on improving recurring revenue. As a result, headline/adj. EPS of QR0.61/0.57 was higher than our estimate of QR0.51. Adj. net income was ~9% lower y/y, which was not a surprise given 1Q2017's inclusion of partial recognition from the sale of Abraj Quartier Office Tower 1 (closed in 4Q2016 for QR1.25bn).
- **Long-term 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 Gewan Island project, a mixed-use residential and commercial project.
- **Gewan Island in our model at ~QR825mn value on a price/SqM basis.** Recently, management announced that they awarded 3 contracts worth ~QR334mn for the development of Gewan Island (400,000SqM) with construction expected to begin in May 2018. Overall, UDCD expects to spend ~QR2.5bn for total development of the project. Without specificity on project economics, we elect to include the project in our valuation on a price/SqM basis which added ~QR825mn to our valuation. On the other hand, we now apply a ~0.8x multiple of the company's undeveloped land bank reflecting the current investor sentiment towards real estate in Qatar.

Catalysts

- Development of a school/medical facility on the Pearl – unknown. Commercial/full operations at the third Qatar Cool plant in West Bay – 1Q2018. Al Mutahida Towers – YE2019. Mall 04 and Gewan Island construction/commercial operations – 2021.

Recommendation, Valuation and Risks

- **Maintaining Accumulate recommendation and QR20.00 TP** – We continue to rate the shares as Accumulate on an attractive dividend yield (~8.6%) and valuation upside. UDCD is currently trading at ~6.4x our FY2018 CFPS (peers at ~6.8x).
- **Risks to our thesis.** Economic weakness, interest rate and project finance risk.

Key Financial Data and Estimates

	FY2016	FY2017	FY2018e	FY2019e
Reported EPS (QR/sh)	1.76	1.52	1.59	1.70
Adj. EPS (QR/sh)	1.91	1.55	1.56	1.70
P/E (x)	7.7x	8.4x	7.9x	7.5x
CFPS (QR/sh)	2.22	1.96	1.97	2.22
P/CFPS (x)	6.6x	7.2x	6.4x	6.0x
Adj. EBITDA (QR mn)	896.2	815.7	812.6	878.7
EV/EBITDA (x)	9.0x	9.2x	8.7x	8.3x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	14.60
Dividend Yield (%)	8.6%
Bloomberg Ticker	UDCD QD
ISIN	QA000A0KD6M9
Sector	Real Estate
52wk High/52wk Low (QR)	19.26 / 12.50
30-d Average Volume ('000)	349.5
Mkt. Cap. (\$ mn/QR mn)	1,420 / 5,170
Shares Outstanding (mn)	354.1
FO Limit* (%)	49.0%
Current FO* (%)	17.6%
1-Year Total Return (%)	(19.2%)
Fiscal Year End	December 31

Source: Bloomberg (as of April 30, 2018), * Foreign ownership (as of April 30, 2018) and includes GCC institutions

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Model Summary

Company Name:	United Development Co.	Price:	QR 14.60	Target Price:	QR 20.00
Ticker:	UDCD QD	Mkt Cap:	QR 5,170 mn	Dividend Yield:	8.6%
Recommendation:	ACCUMULATE	EV:	QR 8,061 mn	Total Expected Return:	37.0%

	FY2016	FY2017	FY2018e	FY2019e
Earnings (in QR mn except Per Share Items)				
Revenue	2,390.8	2,031.9	1,621.2	1,666.7
Gross Profit	1,116.0	1,028.0	1,030.7	1,111.8
Adj. EBITDA	896.2	815.7	812.6	878.7
Adj. EBIT	818.9	747.6	724.1	779.2
Adj. Net Income	675.1	547.9	551.5	603.4

FD EPS	1.76	1.52	1.59	1.70
FD Adj. EPS	1.91	1.55	1.56	1.70

Cash Flow (in QR mn except Per Share Items)				
Operating Cash Flow	785.6	695.0	695.9	784.8
Cash from Operations	294.5	935.5	507.0	784.8
Cash from Investing	584.1	(330.6)	288.3	(288.6)
Total Capex	(449.7)	(40.0)	(335.5)	(290.0)
Simple FCF (CFO - Capex)	(155.2)	895.4	171.4	494.8
Cash from Financing	(837.3)	(815.6)	(966.5)	(1,201.0)
Total Dividends	544.5	460.9	421.1	442.6

CFPS (ex. WC)	2.22	1.96	1.97	2.22
CFPS	0.83	2.64	1.43	2.22

Balance Sheet (in QR mn except Per Share Items)				
Cash/Equiv.	1,566	1,734	969	264
PP&E	3,231	3,053	3,278	3,448
Investment Properties	8,861	9,250	9,268	9,268
Total Assets	18,723	18,341	17,946	17,411
Current Debt	1,245	549	763	763
Long-Term Debt	3,273	3,616	2,858	2,100
Total Debt	4,518	4,165	3,622	2,863
Total Liabilities	7,413	6,806	6,685	5,927
Owners' Equity	10,898	11,076	10,953	11,093
Non-Controlling Interest	412	460	308	391

Quarterly Estimates				
	1Q2018e	2Q2018e	3Q2018e	4Q2018e
Revenue	528.5	306.7	373.6	412.4
Gross Profit	308.0	189.7	249.9	283.1
Adj. EBITDA	269.2	101.5	184.3	257.6
Adj. EBIT	242.1	82.0	160.2	239.8
Adj. Net Income	203.4	37.1	115.6	195.4
Cash from Operations	38.6	75.8	159.4	233.2
Cash/Equiv.	1,236.6	1,126.5	1,009.8	969.4
Total Debt	4,027.4	3,891.3	3,755.2	3,621.6

FD EPS	0.61	0.10	0.33	0.55
FD Adj. EPS	0.57	0.10	0.33	0.55
CFPS (ex. WC)	0.64	0.21	0.45	0.66

* 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)

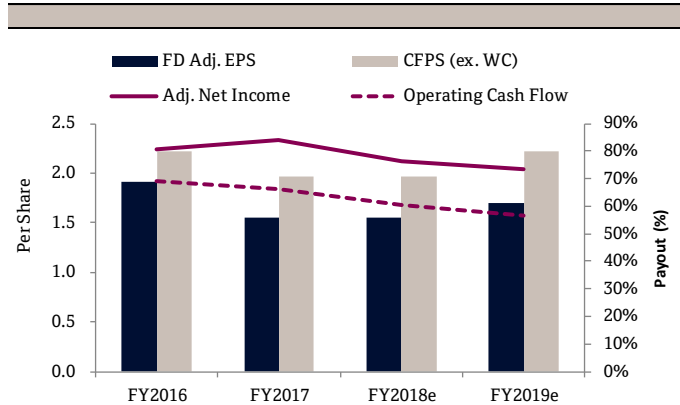
	FY2016	FY2017	FY2018e	FY2019e
Valuation				
Adj. EV/EBITDA	9.0x	9.2x	8.7x	8.3x
Peer Median*	6.2x	5.8x	5.1x	4.7x
Adj. P/E	7.7x	8.4x	7.9x	7.5x
Peer Median*	6.6x	7.7x	6.2x	5.7x
P/CFPS	6.6x	7.2x	6.4x	6.0x
Peer Median*	12.4x	12.4x	6.8x	7.7x
P/Operating NAV				0.7x
P/NAV				0.7x

Metrics				
Leverage and Debt Service				
Net Debt/adj. EBITDA	3.3x	3.0x	3.3x	3.0x
Debt/Capital	25%	23%	21%	17%
Debt/Equity	0.4x	0.4x	0.3x	0.3x
Interest Coverage	6.7x	4.1x	5.3x	7.6x

Profitability				
Adj. ROA	3.6%	3.0%	3.0%	3.4%
Adj. ROE	6.2%	5.0%	5.0%	5.5%
Adj. ROC	6.0%	5.5%	5.3%	5.7%

Dividend Payouts				
Adj. Net Income	81%	84%	76%	73%
Operating Cash Flow	69%	66%	61%	56%

Growth				
Revenue	66.0%	(15.0%)	(20.2%)	2.8%
Adj. EBITDA	17.7%	(9.0%)	(0.4%)	8.1%
Reported Net Income	(9.6%)	(13.6%)	4.5%	7.2%
Adj. Net Income	18.4%	(18.9%)	0.7%	9.4%
Operating Cash Flow	24.3%	(11.5%)	0.1%	12.8%



Source: Bloomberg, QNBFS Research

Detailed Model Summary

Income Statement		Unit	2013	2014	2015	2016	2017	2018	2019
Revenue	QR mn		2,081	1,906	1,441	2,391	2,032	1,621	1,667
COGS	QR mn		(1,148)	(731)	(566)	(1,275)	(1,004)	(590)	(555)
Gross Profit	QR mn		933	1,175	875	1,116	1,028	1,031	1,112
Gross Margin %	%		44.8%	61.6%	60.7%	46.7%	50.6%	63.6%	66.7%
G&A	QR mn		(230)	(287)	(312)	(303)	(261)	(265)	(265)
Total Operating Expenses	QR mn		(35)	(262)	(114)	(220)	(212)	(218)	(233)
Adj. EBITDA	QR mn		898	913	761	896	816	813	879
Adj. EBITDA Margin %	%		43.2%	47.9%	52.8%	37.5%	40.1%	50.1%	52.7%
D&A	QR mn		(112)	(84)	(75)	(102)	(93)	(109)	(120)
Adj. EBIT	QR mn		553	855	709	819	748	724	779
Adj. EBIT Margin %	%		26.5%	44.9%	49.2%	34.3%	36.8%	44.7%	46.8%
Interest Income	QR mn		22	23	35	37	52	28	10
Interest Expense	QR mn		(84)	(148)	(131)	(123)	(182)	(136)	(102)
Net Interest Expense	QR mn		(62)	(125)	(96)	(86)	(130)	(108)	(93)
Earnings Before Taxes	QR mn		490	730	613	733	617	616	687
Adj. Net Income	QR mn		404	679	570	675	548	552	603
Adj. Profit Margin %	%		19.4%	35.6%	39.6%	28.2%	27.0%	34.0%	36.2%
WA Basic Shares Outstanding	mn		354.1	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	354.1
FD EoP Shares Outstanding	mn		337.2	354.1	354.1	354.1	354.1	354.1	354.1
Adj. EPS - FD	QR/sh		1.14	1.92	1.61	1.91	1.55	1.56	1.70
CFPS (ex. WC)	QR/sh		2.27	2.15	1.78	2.22	1.96	1.97	2.22
CFPS	QR/sh		3.16	4.45	2.06	0.83	2.64	1.43	2.22
Balance Sheet			2013	2014	2015	2016	2017	2018	2019
Cash/Equiv	QR mn		2,002	2,823	2,277	1,566	1,734	969	264
A/R	QR mn		1,729	1,464	1,386	2,265	2,125	2,376	2,376
Inventories	QR mn		3,096	1,665	1,370	2,018	1,509	1,429	1,429
Total Current Assets	QR mn		6,848	5,970	5,033	5,849	5,368	4,775	4,070
PP&E	QR mn		3,824	4,001	4,499	3,231	3,053	3,278	3,448
Total Long-Term Assets	QR mn		11,917	13,244	14,106	12,875	12,973	13,171	13,341
TOTAL ASSETS	QR mn		18,765	19,214	19,138	18,723	18,341	17,946	17,411
A/P	QR mn		2,313	2,671	2,664	2,589	2,328	2,063	2,063
Total Current Liabilities	QR mn		3,775	3,472	4,215	4,000	3,030	2,980	2,980
Total LT Liabilities	QR mn		4,243	4,622	3,637	3,413	3,776	3,706	2,947
TOTAL LIABILITIES	QR mn		8,018	8,094	7,852	7,413	6,806	6,685	5,927
Non-Controlling Interest	QR mn		315	347	373	412	460	308	391
Issued Capital	QR mn		3,372	3,541	3,541	3,541	3,541	3,541	3,541
Retained Earnings	QR mn		4,057	4,099	4,258	4,498	4,674	4,509	4,580
TOTAL OWNERS EQUITY	QR mn		10,432	10,772	10,914	10,898	11,076	10,953	11,093
Cash Flow Statement			2013	2014	2015	2016	2017	2018	2019
Operating Cash Flow	QR mn		803	761	632	786	695	696	785
Non-Cash Change in WC	QR mn		317	816	97	(491)	240	(189)	-
CFO	QR mn		1,120	1,577	729	294	935	507	785
Capex	QR mn		(494)	(316)	(607)	(450)	(40)	(336)	(290)
CFI	QR mn		(455)	(510)	(1,395)	584	(331)	288	(289)
Net Change in Debt	QR mn		(2,519)	(1,075)	(1,938)	(293)	(355)	(545)	(758)
Dividends	QR mn		(345)	(346)	(458)	(544)	(461)	(421)	(443)
CFF	QR mn		(1,040)	(524)	(716)	(837)	(816)	(967)	(1,201)
FX Translation	QR mn		-	-	-	-	-	-	-
Net Change in Cash	QR mn		(375)	544	(1,381)	41	(211)	(171)	(705)

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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