

United Development Company

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	19.65	Target Price	25.50
Implied Upside	29.8%		

Recent Selloff Unwarranted; Reiterate Accumulate Rating

We reiterate our Accumulate rating; we would be buyers of UDCD shares on more attractive valuation. Shares of UDCD tumbled ~7% today following the approval of QR1.25/sh dividend (~17% lower y/y and recommended in February by the board with release of 2016 results). We view this share price movement as excessive as it discounts real estate/Qatar Cool operations while ignoring the land bank value. We highlight that our QR25.50 12-month TP already reflects the new dividend policy and we would step-in as buyers of the shares on a more attractive valuation (~22%/26% discount to NAV/peers) given our unchanged investment thesis along with a div. yield of ~6.4% vs. peer average at ~5.0%.

Highlights

- **Market discounting operations and ignoring land package value.** With current market cap of ~QR6.9 billion (bn), we attribute ~QR1.7bn to cash/available for sale financial assets. That implies an equity valuation for both the real estate operations as well as Qatar Cool of ~QR5.3bn, a discount to their net book value of ~QR6.7bn (~0.8x book value of PP&E & investment properties less current total/additional debt). This valuation is ~28% below our estimate of ~QR7.3bn (inclusive of real estate, land bank, Qatar Cool, and current/additional debt needed). Moreover, it completely discounts the potential value of UDCD's land package, which we estimate to be worth ~QR1.7bn.
- **In our view, shares are now attractive.** At current price levels, shares are trading at a low~0.8x NAV (~22% discount) and ~10.2x our 2017 EPS estimate (~26% discount to peers) despite our expectation of ~10% growth in earnings in 2017 and a more healthy dividend payout of ~66% allowing for a more stable dividend to be funded organically rather through debt. We view this new dividend policy as supportive of UDCD's future growth plans while reducing the need to lever up the balance sheet. We highlight that on a P/E basis, the shares are currently trading at ~1x standard deviation below their LT average of ~12.5x.
- **A catalyst-rich story unfolds in 2017/18.** We would view positively any developments into the potential for a school and/or medical facility to be constructed within the Pearl given the impact on recurring revenue and (more importantly) the expected associated increase in demand for units on the man-made island (LT +ve to demand). For 2017, we expect management to recognize the remainder of the revenue from the ~QR1.25bn sale of Abraj Quartier office tower, which closed in 4Q2016 (partially recognized by YE2016). For 2018, we expect additional Giardino Villa plot sales, which we view as high margin sales. Finally, we expect the fourth Qatar Cool plant (third in West Bay) to contribute to earnings by mid-2018, which should improve both total and recurring earnings.

Catalysts

1) Revenue recognition from the sale of Abraj Quartier tower through ~3Q 2017; 2) Sale of Giardino Villa plots; 3) Clarity on development of a school and medical facility on the Pearl – 2017/18; 4) Commercial/full operations at the third Qatar Cool plant in West Bay; and 5) Clarity on a second Qatar Cool plant in the Pearl – timeline unknown.

Recommendation, Valuation and Risks

- **Maintain Accumulate rating and QR25.50 TP.** The shares are currently trading at ~10.2x our 2017 adj. EPS estimate, which is at a ~26% discount to peers. We consider this an attractive entry point for 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	1.94	2.06
P/E (x)	12.2x	10.3x	10.2x	9.6x
CFPS (QR/sh)	1.78	2.22	2.26	2.45
P/CFPS (x)	11.0x	8.9x	8.7x	8.0x
Adj. EBITDA (QR mn)	784.7	920.9	950.7	1,013.4
EV/EBITDA (x)	13.1x	11.1x	10.8x	10.1x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	19.65
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)	330.7
Mkt. Cap. (\$ mn/QR mn)	1,911 / 6,958
Shares Outstanding (mn)	354.1
FO Limit* (%)	49.0%
Current FO* (%)	9.7%
1-Year Total Return (%)	29.8%
Fiscal Year End	December 31

Source: Bloomberg (as of March 14, 2017), * Foreign ownership (as of March 13, 2017) and includes GCC institutions

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Model Summary

Company Name:	United Development Co.	Price:	QR 19.65	Target Price:	QR 25.50
Ticker:	UDCD QD	Mkt Cap:	QR 6,958 mn	Dividend Yield:	6.4%
Recommendation:	ACCUMULATE	EV:	QR 10,260 mn	Total Expected Return:	29.8%

	FY2015	FY2016	FY2017e	FY2018e
Earnings (in QR mn except Per Share Items)				
Revenue	1,440.6	2,390.8	2,148.0	1,833.1
Gross Profit	874.9	1,116.0	1,106.5	1,306.4
Adj. EBITDA	784.7	920.9	950.7	1,013.4
Adj. EBIT	709.5	818.9	848.1	892.8
Adj. Net Income	570.1	675.1	687.9	730.2

FD EPS	1.95	1.76	1.94	2.06
FD Adj. EPS	1.61	1.91	1.94	2.06

Cash Flow (in QR mn except Per Share Items)				
Operating Cash Flow	632.0	785.6	799.9	868.4
Cash from Operations	728.9	294.5	1,849.7	749.1
Cash from Investing	(1,394.6)	584.1	(142.3)	(542.3)
Total Capex	(607.4)	(449.7)	(160.0)	(560.0)
Simple FCF (CFO - Capex)	121.5	(155.2)	1,689.7	189.1
Cash from Financing	(715.8)	(837.3)	(860.8)	(417.0)
Total Dividends	457.6	544.5	442.6	442.6

FD CFPS	1.78	2.22	2.26	2.45
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Balance Sheet (in QR mn except Per Share Items)				
Cash/Equiv.	2,277	1,566	2,412	2,202
PP&E	4,499	3,231	3,286	3,726
Investment Properties	8,705	8,861	8,861	8,861
Total Assets	19,138	18,723	16,435	16,868
Current Debt	1,377	1,245	534	460
Long-Term Debt	3,430	3,273	3,566	3,665
Total Debt	4,807	4,518	4,100	4,125
Total Liabilities	7,852	7,413	4,853	4,963
Owners' Equity	10,914	10,898	11,119	11,382

Quarterly Estimates				
	1Q2017e	2Q2017e	3Q2017e	4Q2017e
Revenue	561.2	572.5	603.2	411.1
Gross Profit	251.4	268.1	293.7	293.3
Adj. EBITDA	264.2	224.2	252.5	209.9
Adj. EBIT	241.3	198.0	225.9	182.9
Adj. Net Income	198.9	158.3	186.5	144.2
Cash from Operations	1,204.5	163.3	163.9	318.0
Cash/Equiv.	2,247.9	2,219.7	2,286.1	2,412.5
Total Debt	4,460.4	4,308.8	4,251.3	4,099.8

FD EPS	0.56	0.45	0.53	0.41
FD Adj. EPS	0.56	0.45	0.53	0.41
FD CFPS	0.60	0.54	0.61	0.50

* 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)

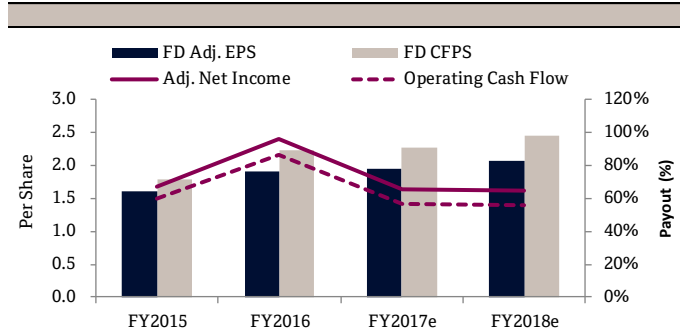
	FY2015	FY2016	FY2017e	FY2018e
Valuation				
Adj. EV/EBITDA	13.1x	11.1x	10.8x	10.1x
Peer Average*	14.5x	19.6x	14.6x	11.5x
Adj. P/E	12.2x	10.3x	10.2x	9.6x
Peer Average*	12.9x	12.3x	13.7x	12.4x
P/CFPS	11.0x	8.9x	8.7x	8.0x
Peer Average*	12.2x	12.4x	15.7x	12.9x

P/Operating NAV	0.63x
P/NAV	0.78x

Metrics				
Leverage and Debt Service				
Net Debt/adj. EBITDA	3.2x	3.2x	1.8x	1.9x
Debt/Capital	26%	25%	26%	25%
Debt/Equity	0.4x	0.4x	0.4x	0.4x
Interest Coverage	5.4x	6.7x	6.6x	7.2x
Profitability				
Adj. ROA	3.0%	3.6%	3.9%	4.4%
Adj. ROE	5.3%	6.2%	6.2%	6.5%
ROC	5.4%	6.0%	6.4%	6.8%

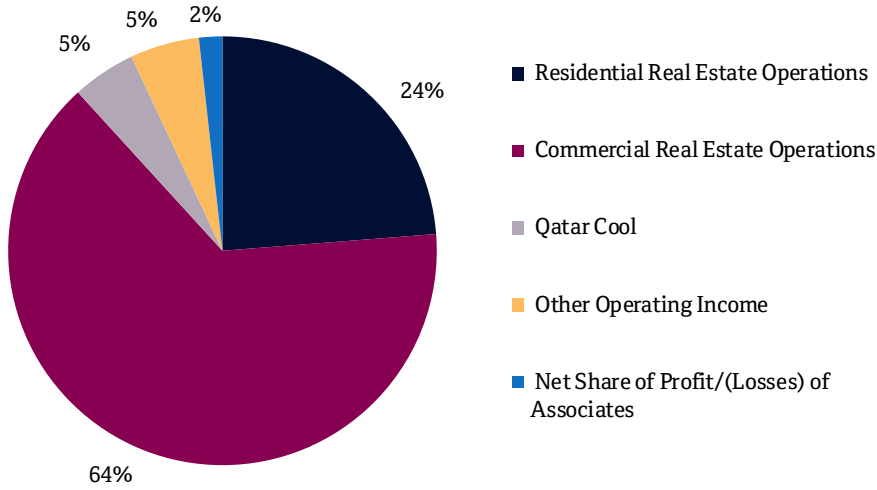
Dividend Payouts				
Adj. Net Income	67%	96%	66%	64%
Operating Cash Flow	60%	86%	56%	55%

Growth				
Revenue	(24.4%)	66.0%	(10.2%)	(14.7%)
Adj. EBITDA	(16.4%)	17.4%	3.2%	6.6%
Reported Net Income	10.2%	(9.6%)	10.4%	6.1%
Adj. Net Income	(16.1%)	18.4%	1.9%	6.1%
Operating Cash Flow	(17.0%)	24.3%	1.8%	8.6%



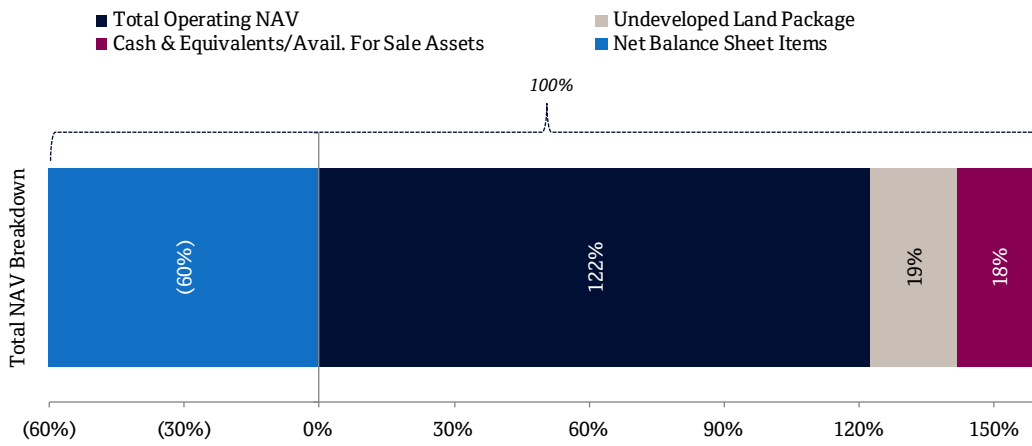
Source: Bloomberg, Company reports, QNBFS Research

Fig 1 – Operation NAV Breakdown



Source: QNBFS Research

Fig 2 – Overall NAV Breakdown



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	2,148	1,833
COGS	QR mn	(1,148)	(731)	(566)	(1,275)	(1,041)	(527)
Gross Profit	QR mn	933	1,175	875	1,116	1,107	1,306
Gross Margin %	%	44.8%	61.6%	60.7%	46.7%	51.5%	71.3%
G&A	QR mn	(230)	(287)	(312)	(303)	(280)	(280)
Total Operating Expenses	QR mn	(269)	(236)	(90)	(195)	(156)	(293)
Adj. EBITDA	QR mn	664	939	785	921	951	1,013
Adj. EBITDA Margin %	%	31.9%	49.2%	54.5%	38.5%	44.3%	55.3%
D&A	QR mn	(112)	(84)	(75)	(102)	(103)	(121)
Adj. EBIT	QR mn	553	855	709	819	848	893
Adj. EBIT Margin %	%	26.5%	44.9%	49.2%	34.3%	39.5%	48.7%
Interest Income	QR mn	22	23	35	37	21	22
Interest Expense	QR mn	(84)	(148)	(131)	(123)	(129)	(124)
Net Interest Expense	QR mn	(62)	(125)	(96)	(86)	(108)	(103)
Earnings Before Taxes	QR mn	490	730	613	733	740	790
Adj. Net Income	QR mn	404	679	570	675	688	730
Adj. Profit Margin %	%	19.4%	35.6%	39.6%	28.2%	32.0%	39.8%
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	1.94	2.06
CFPS (ex. WC)	QR/sh	2.27	2.15	1.78	2.22	2.26	2.45
CFPS	QR/sh	3.16	4.45	2.06	0.83	5.22	2.12
Balance Sheet		2013	2014	2015	2016	2017	2018
Cash/Equiv	QR mn	2,002	2,823	2,277	1,566	2,412	2,202
A/R	QR mn	1,729	1,464	1,386	2,265	783	929
Inventories	QR mn	3,096	1,665	1,370	2,018	308	366
Total Current Assets	QR mn	6,848	5,970	5,033	5,849	3,503	3,497
PP&E	QR mn	3,824	4,001	4,499	3,231	3,286	3,726
Total Long-Term Assets	QR mn	11,917	13,244	14,106	12,875	12,932	13,371
TOTAL ASSETS	QR mn	18,765	19,214	19,138	18,723	16,435	16,868
A/P	QR mn	2,313	2,671	2,664	2,589	447	532
Total Current Liabilities	QR mn	3,775	3,472	4,215	4,000	1,147	1,158
Total LT Liabilities	QR mn	4,243	4,622	3,637	3,413	3,706	3,806
TOTAL LIABILITIES	QR mn	8,018	8,094	7,852	7,413	4,853	4,963
Non-Controlling Interest	QR mn	315	347	373	412	463	523
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	4,644	4,828
TOTAL OWNERS EQUITY	QR mn	10,432	10,772	10,914	10,898	11,119	11,382
Cash Flow Statement		2013	2014	2015	2016	2017	2018
Operating Cash Flow	QR mn	803	761	632	786	800	868
Non-Cash Change in WC	QR mn	317	816	97	(491)	1,050	(119)
CFO	QR mn	1,120	1,577	729	294	1,850	749
Capex	QR mn	(494)	(316)	(607)	(450)	(160)	(560)
CFI	QR mn	(455)	(510)	(1,395)	584	(142)	(542)
Net Change in Debt	QR mn	(2,519)	(1,075)	(1,938)	(649)	(418)	26
Dividends	QR mn	(345)	(346)	(458)	(544)	(443)	(443)
CFE	QR mn	(1,040)	(524)	(716)	(837)	(861)	(417)
FX Translation	QR mn	-	-	-	-	-	-
Net Change in Cash	QR mn	(375)	544	(1,381)	41	847	(210)

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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