

BRES Alert – QR133mn (QR0.34/Sh.) Charge in 4Q2018 Due to Judgment; Accumulate

- **What happened?** – BRES recently announced a judgment from the Supreme Court of Qatar directing Barwa to pay QR153.06mn to Panceltica for Ready Made Buildings Co. We note BRES has already provisioned for QR20mn leading to a further charge of ~QR133mn or QR0.34 a share in 4Q2018. By issuance of the said Supreme Court judgment, the judged amount became final. BRES will also have to pay a presently undisclosed sum for Panceltica’s legal expenses. The Execution court will determine the amount for expenses and the timing of the actual cash payment.
- **Background** – The case involves a construction dispute between BRES and Panceltica for Ready Made Buildings (previously known as Panceltica Qatar) regarding projects in Meseimeer/Al Saliya, where both parties filed cases against each other in 2009 and 2010. According to financial filings, Barwa owns 26% of Panceltica Holding Ltd. (UK) and we understand this company owns 49% of Panceltica for Ready Made Buildings. Panceltica Holding is listed as an Associate in Barwa’s financial statement notes and BRES has already impaired its entire investment of QR200.9mn in this associate. Both Panceltica Holding and Panceltica for Ready Made Buildings are under liquidation.
- **Financial impact** – QR0.34 a share in 4Q2018 or 9% of TTM EPS of QR4.02. As previously noted, actual timing of the cash payment could vary.
- **BRES’s position within Qatari real estate supports growth.** BRES targets the low-to-mid end of the market but is transitioning into the mid-to-higher end with Lusail Dara B-F (design phase). This fits into our view of higher demand for that segment given our outlook on the Qatari economy by 2022. Note that BRES is 45% owned by Qatari Diar, which could prove a backstop in case of need to refinance/fund growth.
- **We maintain our Accumulate rating.** The company’s increase in FOL to 49% and resultant doubling of weight in the MSCI EM Index has boosted the stock beyond our QR39 target price. We expect to revisit our PT/rating after 4Q2018 results.
- **Risks to thesis:** Dividend sustainability. Ability to re-profile debt at comparable cost. Ability to secure funding for organic/acquisitive growth.

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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