

Barwa Real Estate Company

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	34.50	Target Price	39.00
Implied Upside	13.0%		

Strong Growth Potential at a Price; Initiating with Accumulate

We are initiating coverage on Barwa Real Estate Company (BRES) with a QR39.00/sh target price (TP) and an Accumulate recommendation. We positively view BRES' operating assets and development pipeline especially its rental income segment. We expect top line/adj. EBITDA to experience a ~6/12% CAGR through 2020 as rental income strength more than offsets "normalized" Finance Lease/Consultancy operations while management efforts to cut operating expenses should drive rental gross margin expansion through the same period to ~80% from ~74% in 2017. We also note that we view the land bank valuation implied by the current share price is, in our view, overly conservative as it reflects a ~66% discount to the cost of the land bank. While BRES' ~QR973mn annual dividend program could be at risk should material growth capex initiatives be undertaken requiring significant cash flows, we could potentially see BRES supplement its earnings through unit sales (especially in Lusail) and/or land sales to help fund growth and help sustain dividends. We estimate the shares to trade at ~16/14x 2018/2019 adj. EPS (peers ~15/12x) a reflection of higher growth vs. peers.

Highlights

- Rental strength more than offsets Finance Lease and consultancy "new normal"; adj. EPS growth of 6% and 17% in 2018 and 2019, respectively.** We expect 2018 to show a solid increase in adj. EPS to QR2.14 from QR2.01 in 2017 as rental performance (84% of 2018 revenue vs. 73% in 2017) offsets Finance Lease/Consultancy normalized operating levels. Our 2018 estimate is influenced by the full-year contribution of Mawater Phase I and Um Shahrain projects to P&L plus partial-year contribution from Mawater Phase II, Barwa Village expansion, and Lusail Dara A. Our 2019 adj. EPS estimate of QR2.50 is driven by the full-year contribution Barwa Al Baraha and partial-year contribution of Salwa Labor City.
- Earnings growth expected at keep up with peers.** We expect top line growth in rental income of 12% CAGR through 2020 (1% CAGR 2014-17) as a result of the contribution of the above mentioned projects (~QR245/377mn revenue contribution in 2019/2020). We expect adj. EBITDA growth of 12% CAGR through 2020 (flat CAGR 2014-2017) as gross margins improve due to slower total cost of sales growth (75% average gross margins through 2020 vs. 67% from 2015-2017).
- Dividends seen as a LT challenge.** While 2018 should be a FCF-ve year given BRES' ~QR1.1bn capex program, we expect BRES to generate material cumulative FCF of ~QR4.0bn (2018-2022) before mandatory debt repayments; however, ~QR5.8bn in debt will need to be repaid over the same period (~5.0bn between 2020-22). Absent refinancing, total cash burn could be ~QR1.8bn through 2022. Given current dividend payments (~QR973mn annually) and ~QR3.2bn in cash as at YE17, we estimate that BRES will need to rely on balance sheet to fund dividends. However, we note that our numbers are conservative as they do not include the potential for supplementing earnings through unit sales (from new developments like Lusail) or even land sales. We estimate a ~20% reduction to dividends would improve our LT valuation by ~QR2.50/sh as it would eliminate ~58% of the expected debt needed.
- 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.

Catalysts

- Mawater phase II (3Q18); Lusail Dara A (3Q18); Barwa Village expansion (3Q18); and Barwa Al Baraha warehouses (2Q19); Salwa Labor City (2Q19).

Recommendation, Valuation and Risks

- Accumulate with a QR39.00 12-month TP.** Our valuation implies that BRES shares are currently trading at a slight discount to our total NAV estimate (~0.9x).
- Risks to thesis.** Dividend sustainability. Ability to re-profile debt at comparable cost. Ability to secure funding for organic/acquisitive growth.

Key Financial Data and Estimates

	2016	2017	2018e	2019e
Adj. EPS (QR/sh)	1.96	2.01	2.14	2.50
P/E (x)	17.6x	17.1x	16.2x	13.8x
CFPS (QR/sh)	1.82	2.38	2.28	2.69
P/CFPS (x)	18.9x	14.5x	15.1x	12.8x
Adj. EBITDA (QR mn)	921.7	941.7	1,020.1	1,182.5
EV/EBITDA (x)	20.2x	19.7x	18.2x	15.7x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	34.50
Dividend Yield (%)	7.2%
Bloomberg Ticker	BRES QD
ISIN	QA000A0KD6J5
Sector	Real Estate
52wk High/52wk Low (QR)	38.79 / 27.36
30-d Average Volume ('000)	372.3
Mkt. Cap. (\$ mn/QR mn)	3,662 / 13,425
Shares Outstanding (mn)	389.1
FO Limit* (%)	25.0%
Current FO* (%)	9.2%
1-Year Total Return (%)	4.2%
Fiscal Year End	31-Dec

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

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Model Summary

Company Name:	Barwa Real Estate	Price:	QR 34.50	Target Price:	QR 39.00
Ticker:	BRES QD	Mkt Cap:	QR 13,425 mn	Dividend Yield:	7.2%
Recommendation:	ACCUMULATE	EV:	QR 18,576 mn	Total Expected Return:	13.0%

	2016	2017	2018e	2019e		2016	2017	2018e	2019e
Earnings (in QR mn except Per Share Items)					Valuation				
Rental Revenue	1,176	1,245	1,422	1,588	Adj. EV/EBITDA	20.2x	19.7x	18.2x	15.7x
Total Reported Revenue	1,737	1,705	1,702	1,868	Peer Average*	14.2x	12.4x	13.1x	12.0x
Recurring Gross Profit	1,154	1,112	1,191	1,353	Adj. P/E	17.6x	17.1x	16.2x	13.8x
Total Reported Gross Profit	1,154	1,112	1,191	1,353	Peer Average*	14.5x	14.7x	14.7x	12.3x
Adj. EBITDA	922	942	1,020	1,183	P/CFPS	18.9x	14.5x	15.1x	12.8x
Adj. EBIT	865	899	969	1,131	Peer Average*	10.9x	14.9x	12.0x	10.7x
Reported Net Income	1,605	1,705	831	973					
Adj. Recurring Net Income	763	783	831	973					

Reported EPS - FD	4.13	4.38	2.14	2.50	P/Operating NAV	0.7x
Adj. EPS - FD	1.96	2.01	2.14	2.50	P/NAV	0.9x

Cash Flow (in QR mn except Per Share Items)					Margins				
Operating Cash Flow (ex. WC)	709.1	924.2	886.3	1,048.1	Recurring Gross Margin	98%	89%	84%	85%
Cash from Operations	14.8	2,212.2	616.9	831.4	Adj. EBITDA	78%	76%	72%	74%
Cash from Investing	932.6	(62.7)	(959.9)	(243.9)	Adj. EBIT	74%	72%	68%	71%
Total Capex	(7.6)	(15.2)	(1,145.0)	(420.0)	Adj. Net Income	65%	63%	58%	61%
Simple FCF (CFO - Capex)	7.2	2,197.0	(528.1)	411.4					
Cash from Financing	(598.3)	(1,302.5)	(41.8)	(1,030.8)	Operating Segments				

CFPS (ex. WC)	1.82	2.38	2.28	2.69	Rental Gross Margin	67%	74%	75%	77%
CFPS	0.04	5.69	1.59	2.14	Finance Lease Gross Margin	100%	100%	100%	100%
					Consultancy Gross Margin	42%	35%	35%	35%

Balance Sheet (in QR mn except Per Share Items)					Metrics				
Cash/Equiv.	2,875	3,239	2,854	2,410	Leverage and Debt Service				
PP&E	592	566	1,660	2,028	Net Debt/adj. EBITDA	5.8x	5.2x	6.1x	5.5x
Investment Properties	13,851	16,746	16,746	16,746	Debt/Capital	28%	28%	29%	29%
Total Assets	29,203	29,693	31,110	31,604	Debt/Equity	0.5x	0.4x	0.5x	0.5x
Current Debt	-	200	518	1,083	Interest Coverage	10.7x	8.8x	7.9x	7.9x
Long-Term Debt	8,206	7,972	8,545	7,882					
Total Debt	8,206	8,172	9,063	8,965	Profitability				
Total Liabilities	10,843	10,552	11,881	12,136	Adj. ROA	2.6%	2.7%	2.7%	3.1%
Owners' Equity	18,229	18,923	19,000	19,228	Adj. ROE	4.3%	4.2%	4.4%	5.1%
Minority Interest	131	217	229	240	Adj. ROC	3.8%	3.8%	3.9%	4.4%

Quarterly Estimates					Dividend Payouts				
	1Q2018e	2Q2018e	3Q2018e	4Q2018e					
Rental Revenue	353.8	354.2	356.7	357.5	Reported Net Income	52%	57%	117%	100%
Recurring Gross Profit	423.8	424.2	426.7	427.5	Adj. Net Income	110%	123%	117%	100%
Adj. EBITDA	296.4	296.7	298.5	299.1	Operating Cash Flow (ex. WC)	119%	104%	110%	93%
Adj. EBIT	296.4	296.7	298.5	299.1					
Adj. Recurring Net Income	251.7	262.0	256.7	198.6	Growth				
Cash from Operations	(23.4)	226.4	221.6	192.2	Rental Revenue	6.9%	5.9%	14.2%	11.6%
Cash/Equiv.	3,203.1	3,434.5	3,656.1	2,853.8	Adj. EBITDA	0.3%	2.2%	8.3%	15.9%
Total Debt	8,326.4	8,610.1	8,852.2	9,063.2	Reported Net Income	(47.5%)	6.2%	(51.3%)	17.1%
					Adj. Net Income	2.1%	2.7%	6.1%	17.1%
					Operating Cash Flow (ex. WC)	(78.7%)	30.3%	(4.1%)	18.3%

Reported EPS - FD	0.56	0.58	0.57	0.42
Adj. EPS - FD	0.56	0.58	0.57	0.42
CFPS (ex. WC)	0.60	0.59	0.59	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)

Source: Bloomberg, QNBFS Research

Investment Thesis

We are initiating coverage on Barwa Real Estate Company (BRES) with a QR39.00/sh target price (TP) and a Accumulate recommendation. We positively view BRES' operating assets and development pipeline especially its rental income segment. We expect top line/adj. EBITDA to experience a ~6/12% CAGR through 2020 as rental income strength more than offsets "normalized" Finance Lease/Consultancy operations while management efforts to cut operating expenses should drive rental gross margin expansion through the same period to ~80% from ~74% in 2017. We also note that we view the land bank valuation implied by current the share price is, in our view, overly conservative as it reflects a ~66% discount to the cost of the land bank.

However, we note that our valuation and rating are capped by our expectation of BRES' need to rely on its balance sheet to fund its ~QR973mn annual dividend program, which we view as at risk should material growth capex initiatives be undertaken requiring significant cash flows. Outside of a dividend cut, we could potentially see BRES supplement earnings through unit sales especially from new developments such as Lusail and/or land sales to help fund growth and help sustain current dividends. We could become more bullish on the story with clarity on growth/funding and a more sustainable dividend policy to help fund future growth. We estimate the shares to trade at ~16/14x our 2018/2019 adj. EPS¹ (peers ~15/12x), a reflection of higher growth vs. peers.

Rental strength more than offsets Finance Lease and consultancy "new normal". We expect 2018 to show a solid increase in adj. EPS to QR2.14 from QR2.01 in 2017 as rental performance (84% of 2018 revenue vs. 73% in 2017) offsets Finance Lease/Consultancy normalized operating levels. Our 2018 estimate is influenced by the full-year contribution of Mawater Phase I and Um Shahrain projects to P&L plus partial-year contribution from Mawater Phase II, Barwa Village expansion, and Lusail Dara A. Our 2019 adj. EPS estimate of QR2.50 is driven by the full-year contribution Barwa Al Baraha and partial-year contribution of Salwa Labor City.

Earnings growth expected at keep up with peers. We expect top line growth in rental income of 12% CAGR through 2020 (1% CAGR 2014-17) as a result of the contribution of the above mentioned projects (~QR245/377mn revenue contribution in 2019/2020). We expect adj. EBITDA growth of 12% CAGR through 2020 (flat CAGR 2014-2017) as gross margins improve as management efforts to cut operating expenses should drive rental gross margin expansion through the same period to ~80% from ~74% in 2017 (71% overall average gross margins through 2020 vs. 67% from 2015-2017).

Dividends seen as a LT challenge. While 2018 should be a FCF-ve year given BRES' ~QR1.1bn capex program, we expect BRES to generate material FCF of ~QR4.0bn (2018-2022) before mandatory debt repayments ; however, ~QR5.8bn in debt will need to be repaid over the same period (~5.0bn between 2020-22). Absent refinancing, total cash burn could be ~QR1.8bn through 2022. Given current dividend payments (~QR973mn annually) and ~QR3.2bn in cash as at YE17, we estimate that BRES will need to rely on balance sheet to fund dividends. However, we note that our numbers are conservative as they do not include the potential for supplementing earnings through unit sales (from new developments like Lusail) or even land sales. In addition, we do not incorporate the potential for new land being leased for new projects (similar to Salwa Labor City), which could supplement earnings further. We estimate a ~20% reduction to dividends would improve our LT valuation by ~QR2.50/sh as it would eliminate ~58% of the expected debt needed.

BRES' position within Qatari real estate supports growth. BRES targets the low-to-mid end of the market with potential to transition into the mid-to-higher end of the market with the development of Lusail Dara B-F (currently design phase). This fits into our expectation of higher demand for

¹ Note that our adjusted EBITDA/EPS estimates include only recurring income and exclude off-plan property sales as well as unforecastable or extraordinary line items such as revaluation of investment properties, impairments/write-downs, and other income/expenses. Our selected methodology might differ from other investors' way of estimating adj. EBITDA/EPS.

that segment given our outlook on the Qatari economy through 2022. We note that BRES is 45% owned by Qatari Diar (the real estate arm of Qatar Investment Authority), which could prove as a backstop in case of need to refinance/deterioration in operating environment.

As a result, we initiate coverage on BRES shares with a QR39.00/sh TP and an Accumulate rating for an expected return of ~13% including dividends as we view BRES' current share price overly conservative and ignoring a material portion of the land bank as well as too pessimistic towards future operations and potential developments. We value BRES shares at ~16/14x our 2018/2019 adj. EPS estimates, which is in line with peers based on available consensus estimates at least in 2018 (~15x/12x respectively). The premium valuation is a reflection of our expectation of high-than-peers top line/adj. EBITDA growth over the next couple of years. In addition, our valuation implies that BRES shares are currently trading at a minor discount to our total NAV estimate (~0.9x), which is indicative limited upside to current share levels.

Net Asset Valuation

Our total valuation of ~QR15.2bn or QR39.09/sh is predicated on the combined net asset value of BRES' operating and development assets as well as the company's extensive land bank. See Fig 1 for a breakdown of our valuation by asset.

Total Operating NAV – QR28.87/sh NAV: BRES enjoys a significant and diversified portfolio of real estate assets spanning the low-to-mid residential real estate market along with office space, warehouses, car showrooms, and labor residence rooms. The company currently owns/operates assets that contribute to earnings including 6,463 residential units, 12,700 labor rooms, 179,043SqM of retail space, and 66,300SqM of office space. In addition, we expect BRES to begin recognizing earnings from several projects that have either been completed or are in the development stage. Our QR28.87/sh valuation includes QR9.25/sh in current cash and investments in associates. In addition, it includes the below recently inaugurated or development projects:

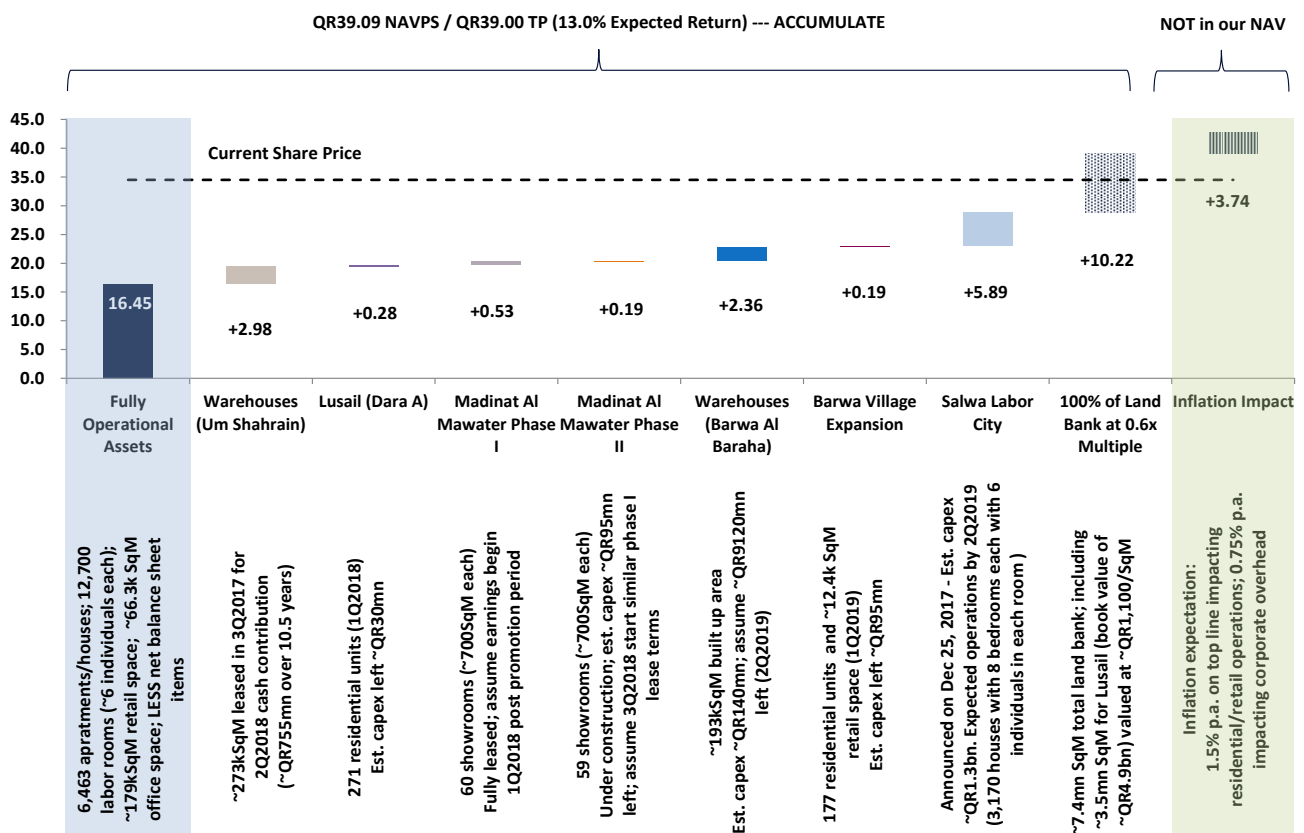
- **Um Shahrain warehouses project (QR2.98/sh NAV):** Lease signed July 11, 2017 for start on October 1, 2017. Total area of ~500,000SqM with built up area of ~273,311SqM. BRES signed a long-term lease for the project for ~QR755mn over 10.5 years.
- **Lusail Dara A (QR0.28/sh NAV):** Dara A is BRES' pilot project in Lusail City and the company's foray into the mid-to-upper end of the residential market. Dara A is currently under construction with 3Q2018 being the estimated completion date. It is designed to have 271 residential apartments with total capex of ~QR140m (~QR30mn remaining).
- **Madinat Al Mawater phase I (QR0.53/sh NAV):** Commenced handover in June 2017 with development taking less than 1 year. 100% of phase I leases have been signed so far. Revenue estimated at ~QR20/SqM in the first 3 years and ~QR30/SqM every year thereafter. Management offered 6 month free rent to tenants and we expect 2018 to reflect full-year contribution to earnings. It includes ~60 showrooms with space ranging between 400-1,000SqM (we model ~700SqM on average).
- **Madinat Al Mawater phase II (QR0.19/sh NAV):** Development expected to take ~1 year with earnings estimated at similar lease economics as phase I. Development capex was announced at ~QR113mn and should include ~59 showrooms. We assumed that much of the capex spend remains (~QR95mn). We assume 3Q2018 completion for the project.
- **Barwa Al Baraha warehouses project (QR2.36/sh NAV):** Construction awarded to Qatar Building Engineers Co. (QBEC) on July 31, 2017 with an expected 18 month build. Estimated completion in 2Q2019 with total capex of ~QR140mn (~QR120mn remaining). Total area of ~684,134SqM with built up area of ~193,000SqM. The project should include ~573 warehouses (average ~300SqM) and ~130 workshops (average ~144SqM).
- **Barwa Village expansion (QR0.19/sh NAV):** This expansion to Barwa Village is estimated to include 177 residential units and 71 retail stores. The project is currently in the

development phase and is expected to be completed by 3Q2018. Remaining capex is estimated at ~QR55mn.

- **Salwa Labor City (QR5.89/sh NAV):** Announced on Dec 25, 2017 with a 12 month build at ~QR1.3bn. Expected operations by 2Q2019 (3,170 houses with 8 bedrooms each with 6 individuals in each room at ~QR110-150/individual).

Land bank (QR10.22/sh NAV): BRES owns a land bank of ~7.4mn SqM (~3.6mn SqM in Lusail City). While management had indicated an intent to develop the remainder of the land bank, we currently only include in our DCF projects with officially announced capex/timelines. Absent said specificity, we value the land bank on a price/SqM basis. The total land bank value of ~QR6.8bn is included in our valuation by applying a ~0.6x multiple reflecting a variety of valuation risks and current investor sentiment towards real estate investments in Qatar for a net value of ~QR4.1bn.

Fig 1 – Breaking down our NAV



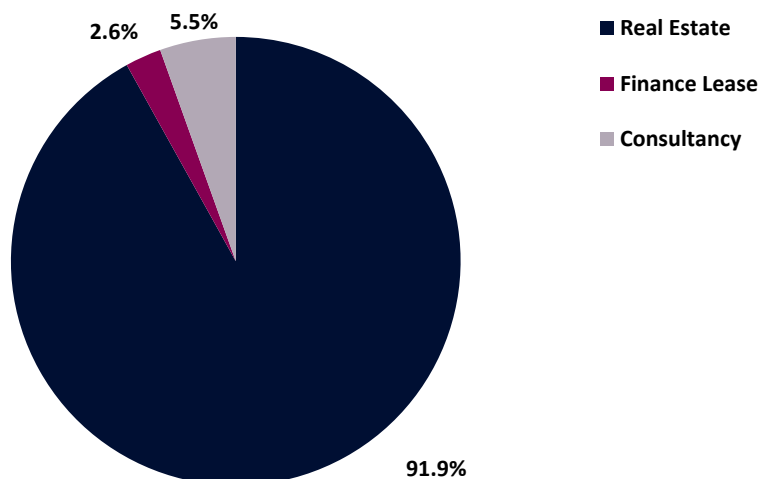
Source: Bloomberg, company reports, QNBFS Research

Fig 2 – Discounted Cash Flow (DCF) Model

QR mn except per share items	Attrib. %	2018	2019	2020	2021	2022	Terminal
Segment Operating Income (Revenue - Opex)	100.0%	1,191	1,353	1,502	1,528	1,538	1,569
Residential	100.0%	1,067	1,229	1,378	1,404	1,414	1,442
Real Estate Sales	100.0%	-	-	-	-	-	-
Finance Lease	100.0%	40	40	40	40	40	41
Consultancy	100.0%	84	84	84	84	84	86
Less Corporate Drag		(1,551)	(849)	(449)	(438)	(451)	(320)
G&A		(261)	(261)	(261)	(261)	(261)	(266)
D&A		(51)	(52)	(52)	(52)	(52)	(53)
Net Interest Expense		(123)	(142)	(136)	(124)	(138)	NA
Estimated Normalized Taxes	2.5%	(22)	(26)	(30)	(30)	(31)	(31)
Add Back D&A		51	52	52	52	52	53
Capex		(1,145)	(420)	(22)	(22)	(22)	(22)
QR mn except per share items & where noted		2018	2019	2020	2021	2022	Terminal
WACC		7.9%	8.4%	8.3%	9.9%	10.2%	7.2%
PV of Free Cash Flow (FCF)		(360)	465	897	822	738	17,092
Residential		(323)	422	823	756	678	15,714
Real Estate Sales		-	-	-	-	-	-
Finance Lease		(12)	14	24	22	19	445
Consultancy		(25)	29	50	45	40	933
Total PV of FCF (Including Terminal Value)							19,653
Residential							18,070
Real Estate Sales							-
Finance Lease							511
Consultancy							1,073
Other Items							
Less:						1.0x	(12,137)
Total Debt		(9,063)				1.0x	(9,063)
Additional Debt Required Through DCF Period		(2,739)				1.0x	(2,739)
Due from Related Parties (Current)		219				1.0x	219
Due from Related Parties (LT)		-				1.0x	-
Due to Related Parties (Current)		(324)				1.0x	(324)
Due to Related Parties (LT)		(1)				1.0x	(1)
Non-Controlling Interest		(229)				1.0x	(229)
Add:						0.8x	7,694
Cash/Equiv.		2,854				1.0x	2,854
Land Bank		6,827				0.6x	4,096
Financial Assets at Fair Value through Profit/Loss (Current)		21				1.0x	21
Available for Sale Financial Assets (Current)		145				1.0x	145
Investments in Associates		579				1.0x	579
Assets Held for Sale (Current)		-				1.0x	-
Assets Held for Sale (LT)		-				1.0x	-
Equity Value		15,210					
Current FD Shares Outstanding		389.125					
Expected Shares from Equity Raise		-					
Additional Cash from Equity Raise		-					
Fully Funded FD Shares Outstanding		389.125					
Fully Funded & FD Total Equity Value		15,210	39.09				
Current Market Value		13,425	34.50				
Premium/(Discount) to Equity Value			13.3%				

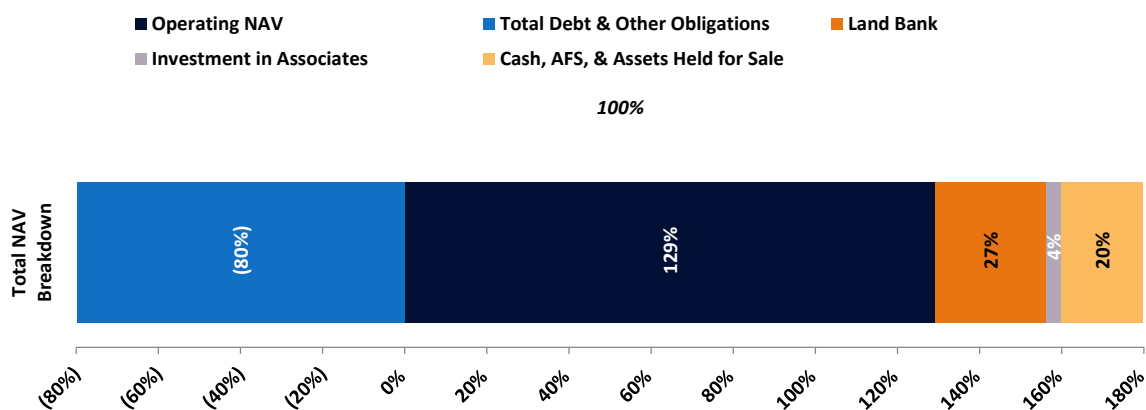
Source: Company reports, Bloomberg, QNBFS Research

Fig 3 – Operating Net Asset Value (NAV) Breakdown



Source: Company reports, QNBFS Research

Fig 4 – Total Net Asset Value (NAV) Breakdown



Source: Company reports, QNBFS Research

Fig 5 – Base case current & target occupancy levels

Base Scenario	Count	Unit	Own	Occupancy Rates %	
				Current	Target
Assets included in NAV					
Residential	6,463	Apartments	100.0%	95.0%	95.0%
Labor Rooms	76,200	Individuals	100.0%	80.0%	80.0%
Retail*	191,443	SqM	100.0%	88.8%	95.0%
Offices	66,300	SqM	100.0%	85.0%	85.0%
Warehouses Project in Um Shahrain	273,311	SqM	100.0%	100.0%	100.0%
Lusail (Dara A)	271	Apartments	100.0%	0.0%	65.0%
Madinat Al Mawater Phase I	42,000	SqM	100.0%	100.0%	100.0%
Madinat Al Mawater Phase II	41,300	SqM	100.0%	0.0%	100.0%
Warehouses Project - Barwa Al Baraha	192,891	SqM	100.0%	0.0%	100.0%
Barwa Village Expansion - Residential	177	Apartments	100.0%	0.0%	95.0%
Salwa Labor City	152,160	Individuals	100.0%	0.0%	80.0%

* Includes 12,400 SqM of new retail space as part of Barwa Village expansion project.
Current operating retail space is 17,943 SqM with ~95% occupancy rates.

Source: Company reports, QNBFS Research

Fig 6 – Base case economic drivers for real estate operations

Base Scenario	Est. Rev. at Target Occupancy			Est. Opex at Target Occupancy		
	/Unit per mo	/qtr (QR mn)	/yr (QR mn)	%	/qtr (QR mn)	/yr (QR mn)
Assets included in NAV						
Residential	5,500.0	101.3	405.2	20.0%	(20.3)	(81.0)
Labor Rooms	600.0	109.7	438.9	20.0%	(21.9)	(87.8)
Retail*	180.0	98.2	392.8	20.0%	(19.6)	(78.6)
Offices	180.0	30.4	121.7	20.0%	(6.1)	(24.3)
Warehouses Project in Um Shahrain	21.9	18.0	71.9	20.0%	(3.6)	(14.4)
Lusail (Dara A)	5,500.0	2.9	11.6	20.0%	(0.6)	(2.3)
Madinat Al Mawater Phase I	30.0	3.8	15.1	20.0%	(0.8)	(3.0)
Madinat Al Mawater Phase II	30.0	3.7	14.9	20.0%	(0.7)	(3.0)
Warehouses Project - Barwa Al Baraha	30.0	17.4	69.4	25.0%	(4.3)	(17.4)
Barwa Village Expansion - Residential	5,500.0	2.8	11.1	20.0%	(0.6)	(2.2)
Salwa Labor City	150.0	54.8	219.1	20.0%	(11.0)	(43.8)
Total Assets included in NAV Revenue		443.0	1,771.9	20.2%	(89.5)	(357.8)
Total Assets included in NAV Operating Expenses		(89.5)	(357.8)			
Assets included in NAV Gross Profit		353.5	1,414.0			

* Includes 12,400 SqM of new retail space as part of Barwa Village expansio project.
Current operating retail space is 17,943 SqM with ~95% occupancy rates.

Source: Company reports, QNBFS Research

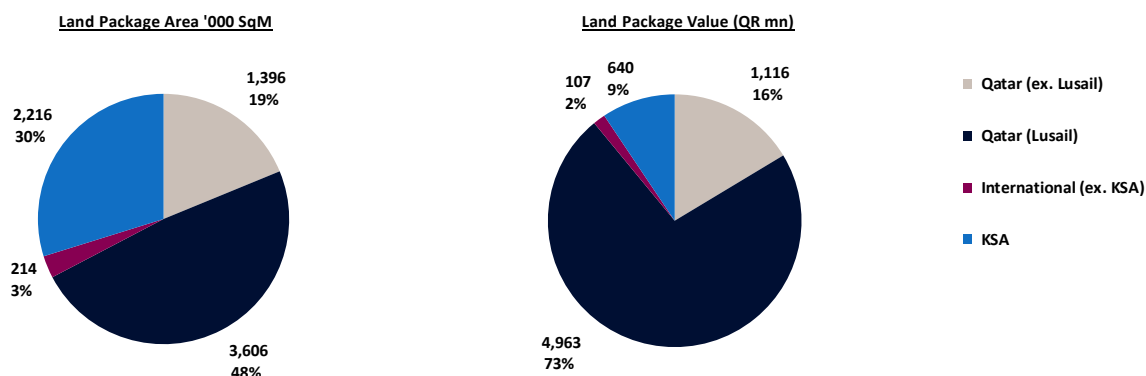
Breaking Down the Land Bank

From our analysis, we estimate that ~67% of BRES' land bank is located in Qatar and ~30% in Saudi Arabia with the remainder (~3%) spread across Bahrain and Cyprus. From our valuation, we highlight that while Qatar is ~67% of the land bank, we estimate that it is ~89% of the land bank value (Fig 7).

We currently carry the land bank in our valuation by applying a 0.6x to our ~QR6.8bn estimate for total value of ~QR4.1bn. The discount reflects development, monetization, and other risks as well as the current investor sentiment towards real estate investments in Qatar (Total of ~7,432kSqM):

- **Lusail:** ~3,606kSqM purchased for ~QR4.9bn. We include it at cost (~QR1,376/SqM).
- **Saudi Arabia:** ~2,216kSqM bought for ~SAR659.3mn. We include it at cost converted to QAR based on current FX rates (~QR289/SqM).
- **Qatar (excluding Lusail):** ~1,396kSqM across multiple areas making an accurate assessment challenging so we carried them at cost of ~QR800/SqM for total value of ~QR1.1bn.
- **International (excluding Saudi Arabia):** ~214kSqM over spread over Cyprus and Bahrain making an accurate assessment challenging so we carried them at cost of ~QR500/SqM for total value of ~QR100mn.

Fig 7 – Breaking down our land bank valuation



Source: Company reports, QNBFS Research

Current implied valuation of the land bank viewed as overly conservative. We also note that we view the land bank valuation implied by current the share price is, in our view, overly conservative as it reflects a ~66% discount to the cost of the land bank.

We estimate that the value of the company’s operating and development projects (excluding the land bank) is ~QR28.56/sh. At current market price of QR34.50/sh, this would imply that investors are valuing BRES’ entire ~7.4mn SqM of land bank at ~QR5.94/sh or ~QR2.3bn in total. This is a ~66% discount to the value of the land bank even at cost, which we could argue is too conservative to begin with. Put another way, the current implied valuation is suggesting a ~QR311/SqM on average for the whole land bank vs. our estimate (which is at cost) of ~QR919/SqM. Note that the value we derive is further discounted by applying a ~0.6x multiple to this estimated carrying cost. This further reinforces our view of the overly conservative nature of investor assessment of BRES’ land bank value and should provide significant upside to our valuation which we currently do not factor into our model.

Sensitivity scenarios. Fig 8-9 highlights the valuation’s sensitivity to changes in occupancy or revenue drivers. Our model suggests that a ~5% increase in occupancy rates and residential/retail prices (rent/month and revenue/SqM) could drive valuation as high as ~QR45.00/sh. A corresponding decline in occupancy/prices could drive the share price as low as ~QR25.00/sh. Note that price changes are limited to residential/retail operations as projects such as showrooms/warehouses are typically governed by longer-term leases with stipulated pricing parameters.

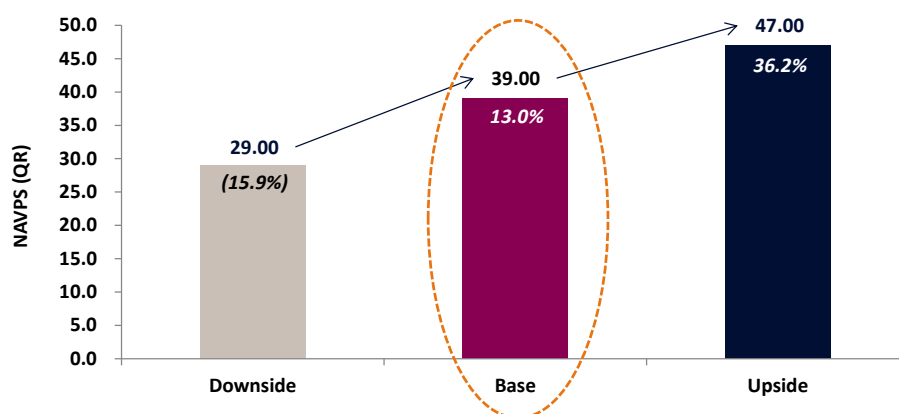
Fig 8 – Assumptions for Base case, Upside, and Downside valuation scenarios

Base Scenario	Target Occupancy Rates			Prices			Units
	Downside	Base	Upside	Downside	Base	Upside	
Assets included in NAV							
Residential	90.0%	95.0%	100.0%	5,225	5,500	5,775	Apartments
Labor Rooms	75.0%	80.0%	85.0%	570	600	630	Individuals
Retail*	90.0%	95.0%	100.0%	171	180	189	SqM
Offices	80.0%	85.0%	90.0%	171	180	189	SqM
Warehouses Project in Um Shahrain	100.0%	100.0%	100.0%	22	22	22	SqM
Lusail (Dara A)	60.0%	65.0%	70.0%	5,225	5,500	5,775	Apartments
Madinat Al Mawater Phase I	100.0%	100.0%	100.0%	30	30	30	SqM
Madinat Al Mawater Phase II	100.0%	100.0%	100.0%	30	30	30	SqM
Warehouses Project - Barwa Al Baraha	100.0%	100.0%	100.0%	30	30	30	SqM
Barwa Village Expansion - Residential	90.0%	95.0%	100.0%	5,225	5,500	5,775	Apartments
Salwa Labor City	75.0%	80.0%	85.0%	143	150	158	Individuals

* Includes 12,400 SqM of new retail space as part of Barwa Village expansion project.
Current operating retail space is 17,943 SqM with ~95% occupancy rates.

Source: Company reports, QNBFS Research

Fig 9 – Our Base case valuation vs. Upside/Downside scenarios



Source: Bloomberg, QNBFS Research

Earnings Expectations

Operating segments. We expect rental income to experience a 12% CAGR through 2020 (2017 base year) driven by improved operations at existing assets (as seen in 2017 results) as well as the partial year contribution of Lusail Dara A, Mawater II, and Barwa Village expansion as well as the full-year contribution of Um Shahrain warehouses and Mawater I. 2019 should see the full-year contribution of the prior mentioned projects as well as the partial year contribution of Salwa Labor City. Overall, we expect those projects to contribute ~QR86mn in 2018, ~QR245 in 2019, and ~QR377mn in 2020 as rental revenue reaches ~QR1.7bn by then, more than offsetting lower revenue from Finance Lease/Consultancy (total recurring revenue to reach ~QR2.0bn from ~QR1.7bn in 2017 (6% CAGR through 2020)). In addition, we expect Consultancy/Finance Lease revenue to stabilize below 2017 levels at ~QR240/40mn annually. In addition, we expect adj. EBITDA growth of 12% CAGR through 2020 (flat CAGR 2014-2017) as gross margins as gross margins improve as management efforts to cut operating expenses should drive rental gross margin expansion through the same period to ~80% from ~74% in 2017 (71% overall average gross margins through 2020 vs. 67% from 2015-2017). For 2018, we expect the adj. EBITDA to reach ~QR1.0bn vs. ~QR942mn 2017. This should be followed by ~QR1.2/1.3bn in 2019/2020 as new projects begin contributing to overall earnings. Net-net (and post corporate drag), we expect BRES' adj. EPS to improve to QR2.14/2.50 in 2018/19 vs. QR2.01 in 2017 and reach QR2.90 by 2020 as all development projects contribute full-year earnings to the P&L and full margin expansion is achieved.

Revenue and Adj. EBITDA growth relative to peers. We note that 2018 should be a flat revenue growth year compared to 2017 as rental income growth is offset by lower, yet more normalized, Finance Lease/Consultancy revenues. However, 2019 is when BRES should become competitive with peers as revenue growth of 10% is expected to outpace peer median (~7%) while adj. EBITDA growth of 16% should outpace that of peer median at 9%.

Relative Valuation

Relative valuation supports our view and should cap upside to shares. We see the current relative valuation as limiting any significant upside for new investors. However, we assume that BRES' cornerstone investor should help support the shares. We estimate the shares to trade at ~16/14x our 2018/2019 adj. EPS forecasts vs. peers at 15/12x. Our selected peer group contains 6 real estate companies.

Fig 10 – Comparative Relative Valuation

Company	Ticker	Coverage	Div. Yield	P/E (adj.)		P/CFPS	
				FY2018e	FY2019e	FY2018e	FY2019e
United Development Co QSC	UDCD QD	Y	7.9%	10.0x	9.5x	7.8x	7.3x
Deyaar Development PJSC	DEYAAR DB	N	NA	25.5x	17.0x	NA	NA
Emaar Properties PJSC	EMAAR DB	N	9.8%	6.3x	5.4x	6.5x	5.7x
Emaar Malls PJSC	EMAARMLS DB	N	4.7%	11.9x	11.0x	10.7x	9.7x
Ciputra Development Tbk PT	CTRA IJ	N	0.4%	18.2x	16.5x	19.6x	17.5x
SP Setia Bhd Group	SPSB MK	N	6.1%	16.6x	14.6x	15.2x	13.3x
Average ex. Barwa Real Estate			5.8%	14.7x	12.3x	12.0x	10.7x
Median ex. Barwa Real Estate			6.1%	14.3x	12.8x	10.7x	9.7x
Barwa Real Estate	BRES QD	Y	7.2%	16.2x	13.8x	15.1x	12.8x

Note: Where coverage does not exist, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable/Available

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Balance Sheet Health & Dividend/Capex Funding

While 2018 should be a FCF-ve year given BRES' ~QR1.1bn capex program, we expect BRES to generate material cumulative FCF of ~QR4.0bn (2018-2022) before mandatory debt repayments; however, ~QR5.8bn in debt will need to be repaid over the same period (~5.0bn between 2020-22). Absent refinancing, total cash burn could be ~QR1.8bn through 2022. Given current dividend payments (~QR973mn annually) and ~QR3.2bn in cash as at YE17, we estimate that BRES will need to rely on balance sheet to fund dividends. However, we note that our numbers are conservative as they do not include the potential for supplementing earnings through unit sales (from new developments like Lusail) or even land sales. In addition, we do not incorporate the potential for new land being leased for new projects (similar to Salwa Labor City), which could supplement earnings further.

With that said, we see risk to the current dividend program (~QR973mn annually) especially in light of the potential to fund development of remaining land bank (~7.4mn SqM; ~QR15bn expected capex needed to fund full development).

We estimate a ~20% reduction to dividends would improve our LT valuation by ~QR2.50/sh as it would eliminate ~58% of the expected/additional debt needed. We would prefer dividends to be funded organically from operating cash flow and we would be more supportive of a dividend policy that better matches the company's operating cash flow profile and takes into account any new/significant capex spending needed to develop the remaining land bank. Given our current expectations, we anticipate that dividend payouts should remain elevated at 110% of operating cash flows (CFO before WC) in 2018, 93% in 2019 and trend towards 80% by 2022.

Assuming this ~20% reduction, we imply a dividend yield of ~5.8%, which remains competitive with peers (~5.8%) and the overall QSE (~4.8%). While this will most likely cause an initial drop in the share price given the emphasis of regional investors on dividends, we stress that this is perhaps the best way to ensure that any additional debt taken would be solely used for new growth projects that could potentially generate high ROEs (good debt) rather than for refinancing existing debt (bad debt) or funding dividends (potentially lower ROE vs. growth projects).

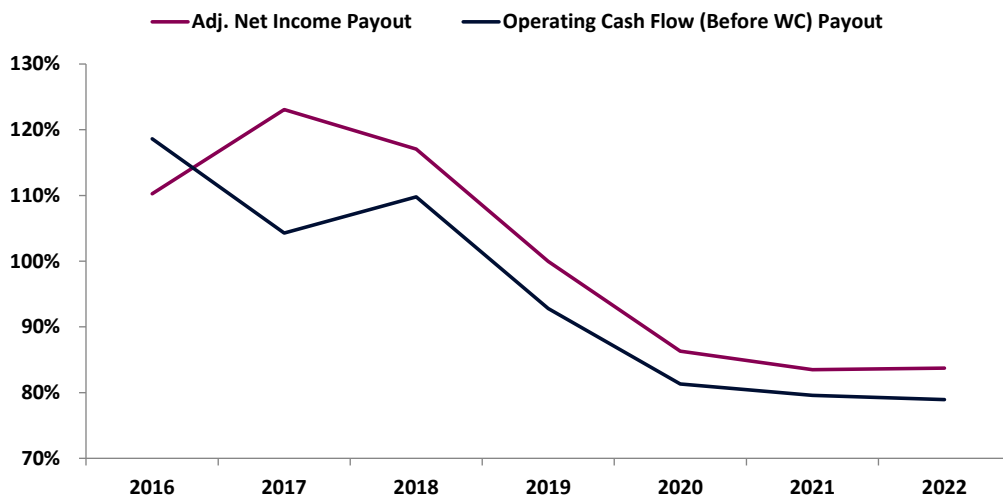
A 15% ROE hurdle rate on new projects could mean a more sustainable dividend policy. 2016's annual report for BRES highlighted a 15% ROE hurdle rate that management expects to evaluate new projects on. With ~7.4mn SqM in land bank, any future project that does not meet this hurdle rate will not be greenlit. The report also highlighted the intention to develop most of the remaining land bank at an estimated capex of ~QR15bn. While those projects have not been announced yet (and therefore are not in our estimates but only in our land bank valuation), we expect from our conversations with management that any/all of them will be funded through additional debt. As such, we would welcome a more sustainable dividend policy assuming that rates of return on those new projects are higher than the current dividend yield (~7.2%).

Fig 11 – BRES will need to rely on its balance sheet to refinance its debt and fund its dividend program

in QR mn	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue									
Rental Revenue	1,217	1,100	1,176	1,245	1,422	1,588	1,726	1,759	1,772
Finance Lease Revenue	300	259	215	48	40	40	40	40	40
Consultancy Revenue	443	433	346	412	240	240	240	240	240
Real Estate Sales	2,930	2,703	-	-	-	-	-	-	-
Total Revenue	4,890	4,496	1,737	1,705	1,702	1,868	2,006	2,039	2,052
Opex									
Rental Cost of Sales	(287)	(354)	(383)	(324)	(356)	(359)	(349)	(355)	(358)
Finance Lease Cost of Sales	-	-	-	-	-	-	-	-	-
Consultancy Cost of Sales	(289)	(294)	(199)	(269)	(156)	(156)	(156)	(156)	(156)
Real Estate Sales Cost	(2)	(2)	-	-	-	-	-	-	-
Total Opex	(577)	(650)	(582)	(593)	(512)	(515)	(505)	(511)	(514)
Other									
Share of Results of Associates	(107)	37	8	90	90	90	90	90	90
Total G&A (ex. D&A, imp. and other non cash items)	(335)	(262)	(241)	(261)	(261)	(261)	(261)	(261)	(261)
Interest Income	271	78	78	95	95	86	71	42	1
Interest (Expense)	(748)	(166)	(159)	(197)	(218)	(228)	(208)	(166)	(139)
Total Capex	(18)	(10)	(8)	(15)	(1,145)	(420)	(22)	(22)	(22)
FCF Before Dividends & Mandatory Debt Repayments	3,376	3,523	833	824	(248)	620	1,173	1,211	1,208
Repayment of Debt	(18,373)	(864)	(92)	-	(254)	(518)	(1,083)	(2,028)	(1,895)
Net Equity Additions/(Buy-backs)	-	-	-	1	-	-	-	-	-
Total Dividends Paid	(419)	(848)	(841)	(964)	(973)	(973)	(973)	(973)	(973)
Cash Build/(Burn)	(15,415)	1,810	(100)	(138)	(1,475)	(871)	(883)	(1,790)	(1,660)

Source: Company reports, QNBFS Research

Fig 12 – Payout ratios to trend lower over the next 5 years but remain elevated at or above ~80%



Source: Company reports, QNBFS Research

Upcoming Catalysts

- **Madinat Al Mawater phase I.** Project completed and already 100% has been leased out. We expect earnings began to flow in 4Q2017 following a 6-month free rent period.
- **Lusail Dara A.** Construction completion and beginning of accretive earnings to financials (3Q2018).
- **Madinat Al Mawater phase II.** Project currently under development with estimated to take ~1 year. We assume 3Q2018 completion.
- **Warehouses project – Um Shahrain.** Project completed and leased out already. Lease begins October 1, 2017. 2018 earnings should reflect full-year contribution but cash flow to begin in 3Q2018 following grace period.
- **Barwa Village expansion project.** Project under development and we expect completion in 3Q2018.
- **Warehouses project - Barwa Al Baraha.** Project under development with expected completion in 2Q2019.
- **Salwa Labor City.** Announced in December 2017 with capex of ~QR1.3bn. Expect earnings contribution by 2Q2019.

Risks to Thesis

General economic weakness. The real estate market in Qatar is highly correlated to the overall economic conditions in the country. As such, any economic weakness should negatively impact our valuation as it should reduce demand for residential and commercial real estate. Therefore, the company is susceptible to lower yields on its real estate properties should a downturn in the economy occur.

Dividend sustainability. We currently model sustained levels of dividend payments each year at ~QR973mn; however, as we noted before, we expect BRES to rely on its balance sheet to fund a significant portion of the dividend into the foreseeable future. Given the high nominal value of dividend payments, we expect any slowdown in operations as a result of weaker than anticipated operating results or macro factors to negatively impact dividends and put additional pressure on BRES' BOD to reduce the dividend payment. We would look favorably on any effort to reduce dividend payments.

Interest rates. The company is exposed to material changes in interest rates given its debt load. Any significant increase could materially impact the cost of debt and reduce our valuation. We also highlight that dividend-paying real estate plays tend to be negatively correlated to changes in interest rates as higher rates increase the risk premium required on such investments, thus negatively impacting the share price.

Funding of growth projects and project financing. The company's operations are materially impacted by the need and ability to secure funding for growth projects in the real estate segment. While we think that this risk is low, a material decline in operating earnings could significantly hinder BRES's ability to secure project financing and potentially result in equity issuance to partially fund growth initiatives which would result in dilution to current investors.

Detailed Model Summary

Income Statement		Unit	2013	2014	2015	2016	2017	2018	2019
Revenue	QR mn		1,822	1,960	1,792	1,737	1,705	1,702	1,868
COGS	QR mn		(544)	(575)	(648)	(582)	(593)	(512)	(515)
Gross Profit	QR mn		1,278	1,385	1,144	1,154	1,112	1,191	1,353
Gross Margin %	%		70.2%	70.6%	63.8%	66.5%	65.2%	69.9%	72.5%
G&A	QR mn		(430)	(335)	(262)	(241)	(261)	(261)	(261)
Total Operating Expenses	QR mn		(339)	(442)	(225)	(233)	(171)	(171)	(171)
Adj. EBITDA	QR mn		939	943	919	922	942	1,020	1,183
Adj. EBITDA Margin %	%		51.6%	48.1%	51.2%	53.1%	55.2%	59.9%	63.3%
D&A	QR mn		(94)	(93)	(67)	(57)	(43)	(51)	(52)
Adj. EBIT	QR mn		846	850	852	865	899	969	1,131
Adj. EBIT Margin %	%		46.4%	43.4%	47.5%	49.8%	52.7%	56.9%	60.6%
Interest Income	QR mn		116	271	78	78	95	95	86
Interest Expense	QR mn		(1,090)	(748)	(166)	(159)	(197)	(218)	(228)
Net Interest Expense	QR mn		(974)	(477)	(88)	(81)	(102)	(123)	(142)
Earnings Before Taxes	QR mn		(128)	373	764	784	797	846	989
Adj. Net Income	QR mn		(129)	361	747	763	783	831	973
Adj. Profit Margin %	%		(7.1%)	18.4%	41.7%	43.9%	45.9%	48.8%	52.1%
WA Basic Shares Outstanding	mn		389.1	389.1	389.1	389.1	389.1	389.1	389.1
WA FD Shares Outstanding	mn		389.1	389.1	389.1	389.1	389.1	389.1	389.1
FD EoP Shares Outstanding	mn		389.1	389.1	389.1	389.1	389.1	389.1	389.1
Adj. EPS - FD	QR/sh		(0.33)	0.93	1.92	1.96	2.01	2.14	2.50
CFPS (ex. WC)	QR/sh		0.02	8.39	8.57	1.82	2.38	2.28	2.69
CFPS	QR/sh		(2.64)	13.21	9.25	0.04	5.69	1.59	2.14
Balance Sheet			2013	2014	2015	2016	2017	2018	2019
Cash/Equiv	QR mn		966	1,781	3,834	2,875	3,239	2,854	2,410
A/R	QR mn		842	867	1,028	1,103	1,164	1,460	1,698
Inventories	QR mn		19,712	3,566	3,793	3,202	1,621	2,032	2,364
Total Current Assets	QR mn		24,826	7,117	9,405	8,001	6,465	6,788	6,914
PP&E	QR mn		417	694	651	592	566	1,660	2,028
Total Long-Term Assets	QR mn		22,303	21,852	19,032	21,202	23,228	24,322	24,690
TOTAL ASSETS	QR mn		47,129	28,969	28,437	29,203	29,693	31,110	31,604
A/P	QR mn		3,660	3,735	1,469	1,357	1,725	2,163	2,515
Total Current Liabilities	QR mn		6,579	5,025	8,784	1,739	2,290	3,046	3,964
Total LT Liabilities	QR mn		26,234	8,025	1,935	9,104	8,262	8,835	8,172
TOTAL LIABILITIES	QR mn		32,813	13,050	10,719	10,843	10,552	11,881	12,136
Non-Controlling Interest	QR mn		504	159	147	131	217	229	240
Issued Capital	QR mn		3,887	3,887	3,887	3,887	3,891	3,891	3,891
Retained Earnings	QR mn		4,479	6,213	7,855	8,515	9,113	9,107	9,240
TOTAL OWNERS EQUITY	QR mn		13,811	15,759	17,571	18,229	18,923	19,000	19,228
Cash Flow Statement			2013	2014	2015	2016	2017	2018	2019
Operating Cash Flow	QR mn		7	3,266	3,334	709	924	886	1,048
Non-Cash Change in WC	QR mn		(1,033)	1,872	264	(694)	1,288	(269)	(217)
CFO	QR mn		(1,026)	5,138	3,598	15	2,212	617	831
Capex	QR mn		(67)	(18)	(10)	(8)	(15)	(1,145)	(420)
CFI	QR mn		1,131	17,101	(2,352)	933	(63)	(960)	(244)
Net Change in Debt	QR mn		1,127	(18,373)	(227)	508	-	891	(98)
Dividends	QR mn		(321)	(419)	(848)	(841)	(964)	(973)	(973)
CFD	QR mn		107	(21,903)	(1,411)	(598)	(1,303)	(42)	(1,031)
FX Translation	QR mn		-	-	(7)	(6)	7	-	-
Net Change in Cash	QR mn		212	336	(172)	343	854	(385)	(443)

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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