United Development Company

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	22.35	Target Price	25.50
Implied Upside	14.1%		

If You Build it They Will Come; Initiating with Accumulate

We are initiating coverage on United Development Co. (UDCD) with a QR25.50/sh target price (TP) and an Accumulate recommendation (14.1% total expected return) given our view of a risk/reward profile that is skewed to the upside. *UDCD offers potential investors exposure to the higher-end real estate market in Qatar through the Pearl island (the Pearl) with a land package underpinning future growth potential along with existing operations providing stable and (mostly) recurring cash flows. We believe the shares are attractive on valuation backed by a stabilizing and strengthening macro environment supportive of encouraging fundamentals for real estate prices.*

Highlights

- **Supportive macro-economic environment.** We anticipate that much of the weakness in the real estate market that was experienced in Qatar during FY2016 is behind us. The recent rebound in crude prices coupled with the expected shrinking budget deficit and higher government capital spending expected in FY2017 should support higher supply demand fundamentals to help stabilize and ultimately put upward pressure on real estate prices. We are bullish on the Doha municipality where higher economic output should drive higher demand for the mid-to-top end of the real estate market where UDCD's operations exist.
- **Strong earnings growth.** We estimate that adj. EBITDA/Net Income in FY2016 should increase ~8%/9% y/y followed by ~13%/9% in FY2017. Specifically, much of the growth should come from improved real estate operations which we estimate comprise ~81% of revenues with Qatar Cool making up the remaining~19%. This mix should improve in Qatar Cool's favor in later years as new plants become fully operational.
- **Relatively safe/superior dividend of QR1.50/sh; little variability expected (page 13-15).** At ~6.7% yield vs. peer average at ~4.7%, a superior yield should offer significant support to the shares from yield investors (especially retail investors). We expect dividend payout to trend lower in FY2017 vs. prior year (~78% vs. ~87%) and continue this trend to ~72% in FY2018 as earnings grow. This in our view supports the sustainability of the dividend with a diminished risk profile to distributions. At our TP, we estimate a dividend yield of 5.9% relative to peers.

Catalysts

1) Revenue recognition from the sale of Abraj Quartier office tower, which closed in 4Q 2016 for ~QR1.25bn – through ~3Q 2017; **2)** Sale of Giardino Villas plots, which, which we estimate will bring in ~QR800mn through FY2018; **3)** Clarity on the development of a school and medical facility on the Pearl – timeline unknown; **4)** Commercial/full operations at the third Qatar Cool plant in West Bay – 4Q 2017/4Q 2018; and **5)** Clarity on a second Qatar Cool plant in the Pearl – timeline unknown.

Recommendation, Valuation and Risks

- **Accumulate on attractive valuation.** The shares are currently trading at ~11.7x our FY2017 adj. EBITDA and adj. EPS estimates respectively, which are both at a ~15% discount to peers.
- **Risks to our thesis.** General economic weakness could materially impact earnings. Additionally, changes in interest rates could negatively impact valuation due to increased cost of debt. We also see risks associated with funding of growth projects and the ability of the company to secure project financing should its earnings profile deteriorate. Finally, while dividend sustainability is not at risk in the near-to-medium term, 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	FY2016e	FY2017e	FY2018e
Adj. EPS (QR/sh)	1.61	1.76	1.91	2.07
P/E (x)	13.9x	12.7x	11.7x	10.8x
CFPS (QR/sh)	1.78	1.90	2.17	2.40
P/CFPS (x)	12.5x	11.8x	10.3x	9.3x
Adj. EBITDA (QR mn)	784.7	849.2	956.8	1,028.2
EV/EBITDA (x)	14.3x	13.2x	11.7x	10.9x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	22.35
Dividend Yield (%)	6.7%
Bloomberg Ticker	UDCD QD
ISIN	QA000A0KD6M9
Sector	Real Estate
52wk High/52wk Low (QR)	22.94 / 18.01
30-d Average Volume ('000)	283.1
Mkt. Cap. ($ mn/QR mn)	2,173 / 7,914
Shares Outstanding (mn)	354.1
FO Limit* (%)	49.0%
Current FO* (%)	9.3%
1-Year Total Return (%)	14.1%
Fiscal Year End	December 31

Source: Bloomberg (as of February 2, 2017), * Foreign ownership (as of January 30, 2017) and includes GCC institutions

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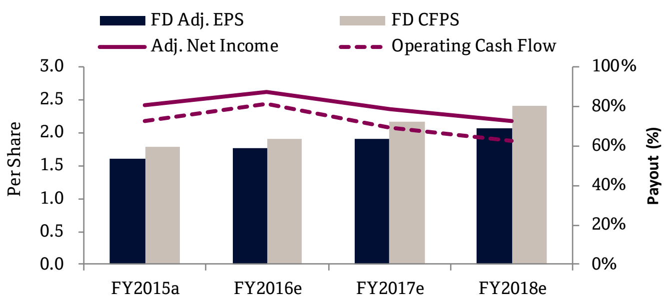
Model Summary

Company Name:	United Development Co.	Price:	QR 22.35	Target Price:	QR 25.50
Ticker:	UDCD QD	Mkt Cap:	QR 7,914 mn	Dividend Yield:	6.7%
Recommendation:	Accumulate	EV:	QR 11,216 mn	Total Expected Return:	14.1%

	FY2015a	FY2016e	FY2017e	FY2018e
Earnings (in QR mn except Per Share Items)				
Revenue	1,440.6	1,919.0	2,138.3	2,257.8
Gross Profit	874.9	928.8	1,020.2	1,276.3
Adj. EBITDA	**784.7**	**849.2**	**956.8**	**1,028.2**
Adj. EBIT	709.5	774.2	878.7	934.0
Adj. Net Income	**570.1**	**623.3**	**677.1**	**733.6**
FD EPS	1.95	1.72	1.91	2.07
FD Adj. EPS	1.61	1.76	1.91	2.07
Cash Flow (in QR mn except Per Share Items)				
Operating Cash Flow	632.0	671.5	768.0	849.4
Cash from Operations	**728.9**	**1,149.0**	**768.0**	**849.4**
Cash from Investing	(1,394.6)	128.9	(142.3)	(542.3)
Total Capex	(607.4)	(351.9)	(160.0)	(560.0)
Simple FCF (CFO - Capex)	**121.5**	**797.2**	**608.0**	**289.4**
Cash from Financing	(715.8)	(736.5)	(1,131.8)	(605.1)
Total Dividends	457.6	543.9	531.1	531.1
FD CFPS	1.78	1.90	2.17	2.40
Balance Sheet (in QR mn except Per Share Items)				
Cash/Equiv.	2,277	2,389	1,883	1,585
PP&E	4,499	4,564	4,647	5,113
Investment Properties	8,705	8,531	8,531	8,531
Total Assets	**19,138**	**16,117**	**15,692**	**15,860**
Current Debt	1,377	681	634	560
Long-Term Debt	3,430	3,785	3,231	3,231
Total Debt	4,807	4,466	3,865	3,791
Total Liabilities	**7,852**	**4,834**	**4,233**	**4,159**
Owners' Equity	**10,914**	**10,884**	**11,007**	**11,186**

	FY2015a	FY2016e	FY2017e	FY2018e
Valuation				
Adj. EV/EBITDA	14.3x	13.2x	11.7x	10.9x
*Peer Average**	*15.8x*	*20.7x*	*14.3x*	*8.9x*
Adj. P/E	13.9x	12.7x	11.7x	10.8x
*Peer Average**	*13.5x*	*14.4x*	*13.6x*	*9.5x*
P/CFPS	12.5x	11.8x	10.3x	9.3x
*Peer Average**	*9.6x*	*12.3x*	*14.8x*	*8.6x*
Metrics				
Leverage and Debt Service				
Net Debt/adj. EBITDA	3.2x	2.4x	2.1x	2.1x
Debt/Capital	26%	28%	25%	25%
Debt/Equity	0.4x	0.4x	0.4x	0.3x
Interest Coverage	5.4x	5.7x	5.2x	6.1x
Profitability				
Adj. ROA	3.0%	3.5%	4.3%	4.7%
Adj. ROE	5.3%	5.7%	6.2%	6.6%
ROC	5.4%	5.9%	6.8%	7.1%
Dividend Payouts				
Adj. Net Income	80%	87%	78%	72%
Operating Cash Flow	72%	81%	69%	63%
Growth				
Revenue	(24.4%)	33.2%	11.4%	5.6%
Adj. EBITDA	(16.4%)	8.2%	12.7%	7.5%
Adj. Net Income	(16.1%)	9.3%	8.6%	8.3%
Operating Cash Flow	(17.0%)	6.2%	14.4%	10.6%

Quarterly Estimates	1Q2017e	2Q2017e	3Q2017e	4Q2017e
Revenue	551.4	555.9	579.7	451.3
Gross Profit	218.6	229.1	247.6	324.9
Adj. EBITDA	**231.8**	**184.9**	**205.5**	**334.6**
Adj. EBIT	212.4	165.8	185.9	314.6
Adj. Net Income	**161.1**	**114.6**	**135.9**	**265.6**
Cash from Operations	**173.0**	**140.9**	**159.3**	**294.7**
Cash/Equiv.	1,906.0	1,809.5	1,825.9	1,883.2
Total Debt	4,363.3	4,165.8	4,062.9	3,865.4
FD EPS	0.45	0.32	0.38	0.75
FD Adj. EPS	0.45	0.32	0.38	0.75
FD CFPS	0.49	0.40	0.45	0.83



* 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

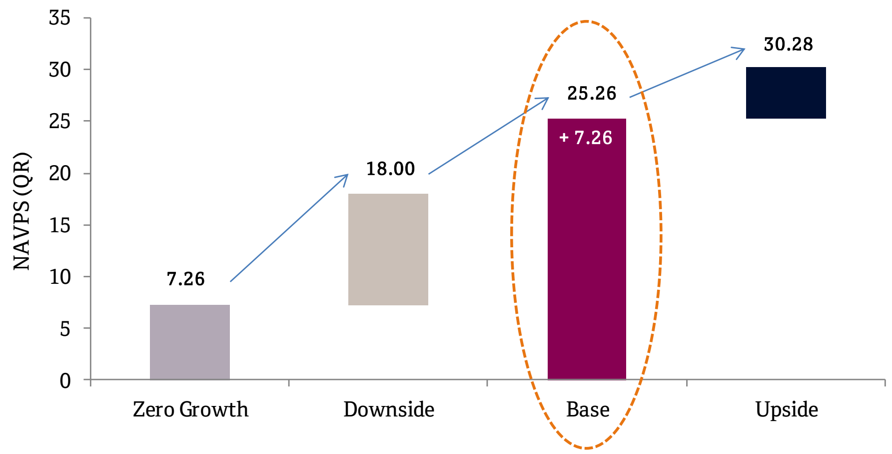
Investment Thesis

We are initiating coverage on United Development Co. (UDCD) with a QR25.50/sh target price (TP) and an Accumulate recommendation (14.1% total expected return) given our view of a risk/reward profile that is skewed to the upside. UDCD offers potential investors exposure to the higher-end real estate market in Qatar through the Pearl island (the Pearl) with a land package underpinning future growth potential along with existing operations providing stable and (mostly) recurring cash flows in the real estate (commercial/residential) and utility segments (through its 51% owned Qatar Cool subsidiary). *We believe the shares are attractive on valuation backed by a stabilizing and strengthening macro environment supportive of supply/demand fundamentals that are positive for real estate prices*. Our view is predicated on the following:

- **Supportive macro-economic environment (page 7-13).** We anticipate that much of the weakness in the real estate market that was experienced in Qatar during FY2016 is behind us. The recent rebound in crude prices coupled with the expected shrinking budget deficit and higher government capital spending expected in FY2017 should support higher supply demand fundamentals to help stabilize and ultimately put upward pressure on real estate prices. Specifically, we are bullish on the Doha municipality where higher economic output should drive higher demand for the mid-to-top end of the real estate market where UDCD's Pearl development and Qatar Cool's operations exist.
- **Strong earnings growth (page 13-15).** We estimate that adj. EBITDA/Net Income in FY2016 should increase ~8%/9% y/y followed by ~13%/9% in FY2017. Specifically, much of the growth should come from improved real estate operations which we estimate comprise ~81% of revenues with Qatar Cool comprising ~19%. This mix should improve in Qatar Cool's favor in later years as new plants become fully operational.
- **Attractive valuation (page 4-7).** We expect UDCD's valuation to improve reflecting higher expected earnings and growth. For FY2017, we expect the market to recognize the superior-to-peers valuation at relatively similar ROE at marginally higher leverage (Fig 4-8). The shares are currently trading at ~11.7x both our FY2017 adj. EBITDA and adj. EPS estimates, which are both at a ~15% discount to pees. We believe that this valuation point offers a compelling entry point to potential investors.
- **Relatively safe and superior dividend of QR1.50/sh; little variability expected (page 14-15).** At ~6.7% yield vs. peer average at ~4.7%, a superior yield should offer significant support to the shares from yield investors (especially retail investors). We expect dividend payout to trend lower in FY2017 vs. prior year (~78% vs. ~87%) and continue this trend to ~72% in FY2018 as earnings grow. This in our view supports the sustainability of the dividend with a diminished risk profile to distributions. At our TP, we estimate a dividend yield of 5.9%, which continues to be a more attractive yield relative to peers.

As seen in Fig 1, we see valuation upside to ~QR30.00/sh (~35% total expected return from current share price) on a more rapid economic growth driving higher real estate prices along with more aggressive long-term occupancy rates (up to 100% by 2021 from our base case of 95%). On the flip side, we highlight the limited downside we see in the shares to ~QR18.00/sh (-19% from current share price) assuming lower occupancy rates (90% by 2021) as existing operating cash flows along with an attractive dividend yield should support the share price. Finally, we highlight an extreme, zero-growth scenario whereby we assume no growth in real estate prices or improved occupancy rates from current levels (~44%) and model zero future developments. In this unrealistic scenario based on current cash flows only, we derive a ~QR7.00/sh valuation. *As such, we view UDCD's risk/reward profile as skewed to the upside and we would be buyers of the shares*.

Fig 1 – In our view, the risk/return profile is skewed to the upside



Source: QNBFS Research

Valuation

Net Asset Valuation. We value the business operating segments separately and utilize a Net Asset Valuation (NAV) methodology dependent on segment-specific operating metrics and assumptions. We estimate corporate operations undiscounted valuation of ~QR11.7bn. Upside to new investors is present in the potential undiscounted value of the remaining land package which we estimate at ~240kSqM and value at ~QR4.1nn (~32% of our overall valuation). Finally, we estimate net balance sheet items erasing ~QR3.4bn of value (~28% of our valuation). On a discounted basis, this translates into a ~QR8.9bn in NAV or QR25.26/sh NAVPS. As such, we set our target price at QR25.50/sh for a total expected return of ~14.1%. Overall, we break down the valuation into (Fig 2-3):

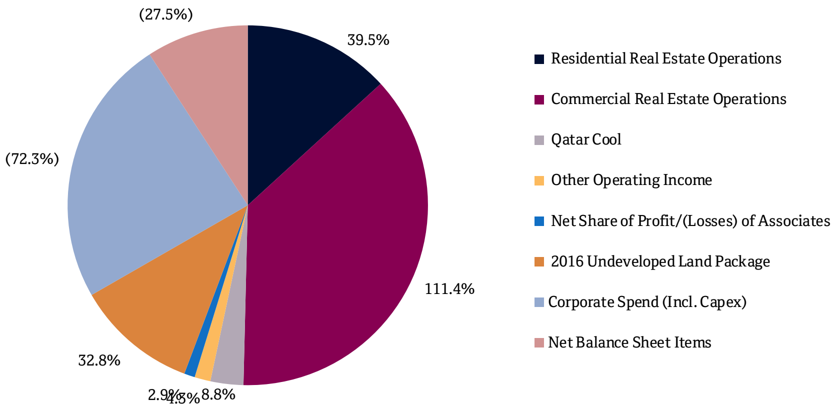
- **Real estate operations:** Here we separate real estate operations into residential and commercial operations which are owned 100% by the company totaling ~90% our operating NAVPS (QR52.78/sh). We anticipate that much of the growth will come from the commercial side of the operations including the potential for greater number of retail shops and F&B establishments as well as a school and medical center.
- **Qatar Cool:** We value it at QR3.09/sh representing UDCD's 51% ownership in the operation. We expect higher growth levels for Qatar Cool's operations especially as West Bay's new plant comes online in 2017 and reaches full contracted capacity by year-end FY2017. While we do not model additional plants except for the one currently under construction, we see upside to our valuation and estimates from additional plants to be constructed and operated especially as new residents and commercial tenants move into the Pearl.
- **Share of profits/(loss) of associates:** Given the lack of information and disclosure on the associated business, we elected to keep contributions flat relative to historical performance (~QR357mn; ~QR1.01/sh).
- **Undeveloped land bank:** We estimate at ~240kSqM and value at ~QR4.1bn or ~QR11.49/sh based on current and adjusted rental yields and applying a ~0.3x development multiple.
- **We reduce our valuation by ~QR3.4bn**: This reflects current and expected debt required to operate the business and offset slightly by cash on hand as well as held-for-sale financial and investment assets as of last reporting period.

Fig 2 – Valuation suggesting a ~13.0% upside to current share price (~14.1% return to TP)

QR mn except per share items	% Own	2017	2018	2019	2020	2021	Term. Mult.	Term. Val.	Total Value
Cash Balance		**1,883**	**1,585**	**1,222**	**880**	**545**			
Attributable Segment Operating Income	**97.4%**	**990**	**1,237**	**1,026**	**1,048**	**1,073**	**13.7x**	**15,297**	**20,671**
Residential Real Estate Operations	100.0%	255	332	263	267	274	12.5x	3,506	4,897
Commercial Real Estate Operations	100.0%	365	575	669	685	702	15.0x	10,794	13,790
Qatar Cool	51.0%	56	65	70	72	74	10.0x	758	1,096
Other Operating Income	100.0%	290	241	-	-	-	1.0x	-	531
Net Share of Profit/(Losses) of Associates	100.0%	23	23	23	23	23	10.0x	240	357
Less Attributable Corporate Spend		**(572)**	**(979)**	**(507)**	**(431)**	**(430)**	**13.7x**	**(6,033)**	**(8,951)**
G&A		(215)	(220)	(226)	(231)	(237)	13.7x	(3,327)	(4,456)
Sales & Marketing		(56)	(62)	(68)	(75)	(83)	13.7x	(1,163)	(1,506)
Net Interest Expenses		(144)	(134)	(129)	(114)	(99)	13.7x	(1,387)	(2,007)
Dividend Income		17	17	17	17	17	13.7x	241	327
Estimated Normalized Taxes	2.5%	(14)	(20)	(15)	(16)	(16)	13.7x	(230)	(312)
Capex		(160)	(560)	(86)	(12)	(12)	13.7x	(168)	(998)
Net Cash Flows		418	258	519	617	643		9,264	
PV of Net Cash Flows		410	235	439	483	467		6,246	
Total Discounted Net Cash Flows		**8,280**							
Other Items		**664**					**1.0x**		**664**
Less:									
2016 Year End Total Debt		(4,466)					1.0x		(4,466)
Total Additional Debt Required		(1,100)					1.0x		(1,100)
Non-Controlling Interest		(399)					1.0x		(399)
Preferred Equity		-					1.0x		-
Add:									
2016 Year End Cash		2,389					1.0x		2,389
2016 Undeveloped Land Package		4,067					1.0x		4,067
2016 Year End Financial Assets Available for Sale		173					1.0x		173
2016 Year End Investment Assets Available for Sale		-					1.0x		-
Equity Value		**8,944**							
2016 FD Shares Outstanding		354.1							
Expected Shares from Equity Raise		-							
Additional Cash from Equity Raise		-							
Fully Funded FD Shares Outstanding		354.1							
Fully Funded & FD Total Equity Value		**8,944**	**25.26**	WACC of 7.8% based on 4.0% weighted average cost of debt, 0.900 Adj. Beta, 8.0%					
Current Market Value		**7,914**	**22.35**	market risk premium, 3.4% risk free rate, and 0.0% size/liquidity premium (42/58					
Premium/(Discount) to Equity Value			***13.0%***	debt-to-equity capital structure)					

Source: Company reports, QNBFS Research

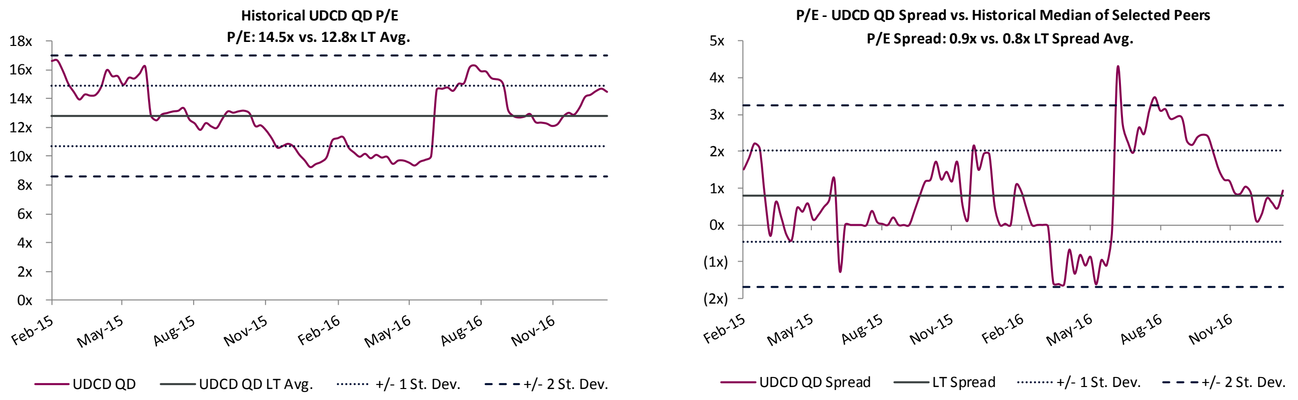
Fig 3 – Breaking down on valuation



Source: Company reports, QNBFS Research

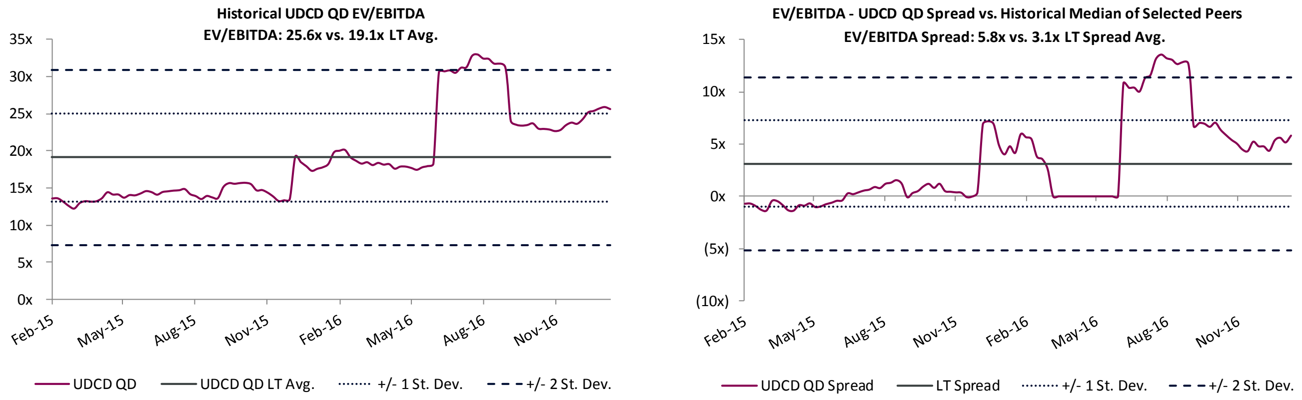
While shares currently trade slightly above their long-term historical average, we expect premium to peers to continue into FY2017. On a bottom-line basis, UDCD historically trades at ~14.5x it's last-twelve-month (LTM) EPS and is currently trading slightly ahead of that long-term average (Fig 4). Looking at the premium/discount of the shares relative to peers (Fig 4), we note that the shares are currently trading at a premium to peers (~0.9x spread), which is effectively in line with its long-term average spread of ~0.8x. As such and based on our valuation and growth estimates, *we expect the current premium trend to continue into FY2017, supported by better macro-economic expectations for Qatar vs. other GCC economies, lower competition, a higher dividend yield, and lower market liquidity*. This view is also consistent on an adj. EV/EBITDA basis (Fig 5).

Fig 4 – Expect premium valuation to continue into FY2017 on a P/E basis…



Source: Bloomberg, QNBFS Research

Fig 5 – … and EV/EBITDA basis

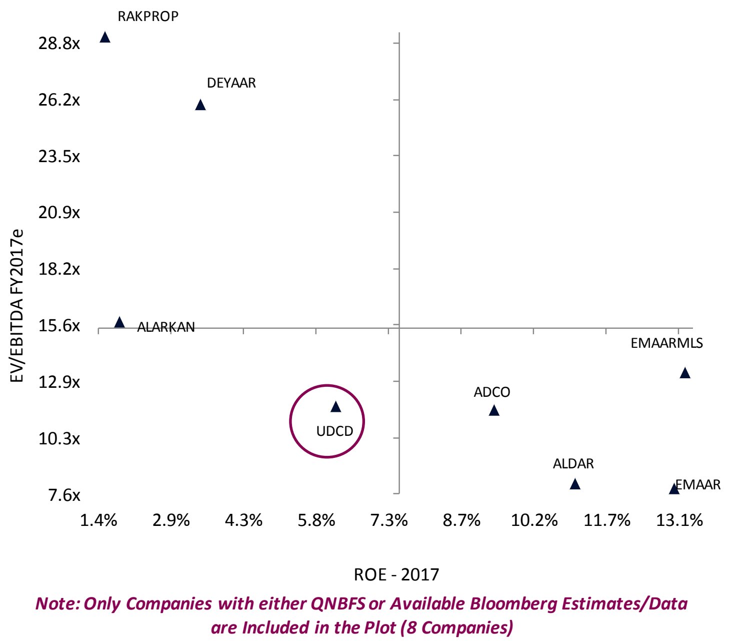


Source: Bloomberg, QNBFS Research

Attractive valuation on our FY2017 estimates relative to peers as a result of organic earnings growth and improved profitability at marginally higher debt levels. On a next-twelve-month basis (NTM), we view the shares as undervalued based on our FY2017 estimates vs. peers (adj. P/E of ~11.7x vs. ~13.6x) as we expect earnings to improve on the back of greater operating income from higher occupancy rates in the real estate segment along with recognition of ~QR875mn in revenue as part of the sale of one of the two towers (Abraj Quartier) for ~QR1.25bn (closed 4Q 2016). Our analysis (Fig 6) suggests that UDCD's shares are attractive on FY2017 estimates when comparing expected profitability (ROE) relative to valuation (EV/EBITDA).

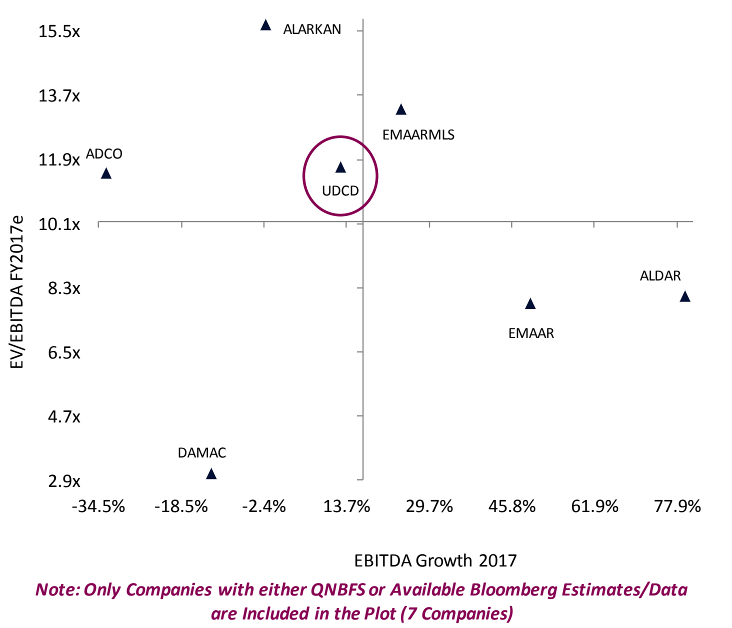
As can be seen, we expect FY2017 to show a material improvement in earnings (i.e. higher growth; Fig 7) to drive a more attractive valuation, suggesting an upside to the shares (based on our estimates). We note that our analysis assumes marginally higher levels of debt that are insignificant relative to the impact on earnings (Fig 8).

Fig 6 – Shares are attractive on our FY2017 numbers as a result of higher profitability…



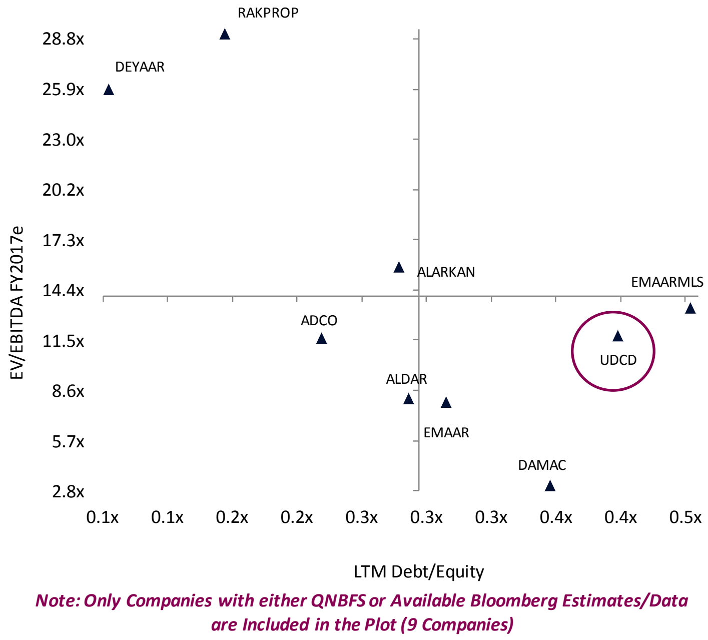
Source: Bloomberg, QNBFS Research

Fig 7 – … Driven by growth in earnings…



Source: Bloomberg, QNBFS Research

Fig 8 – … At marginally higher leverage

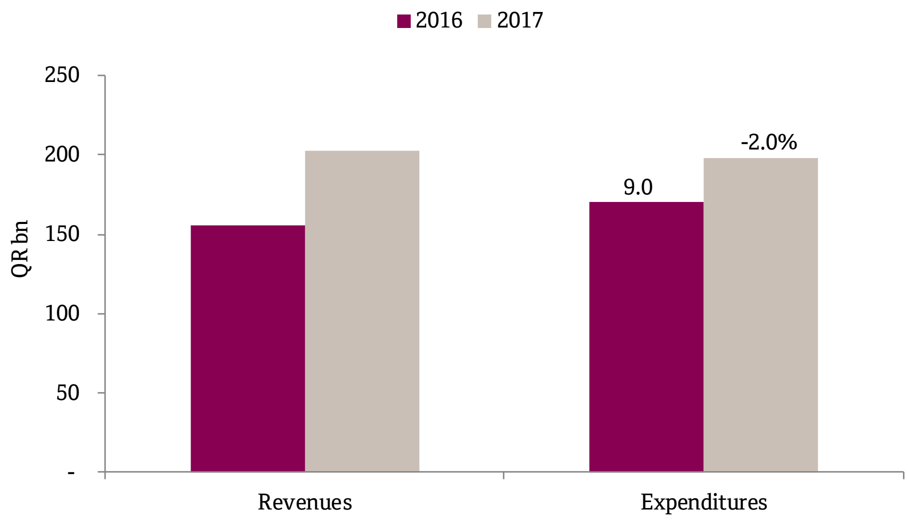


Source: Bloomberg, QNBFS Research

Qatar's Macro Environment

Budgetary pressures expected to ease in 2017 as revenues and capital expenditures grow. According to our QNB Economics team (LINK), Qatar's Ministry of Finance (MoF) is committed to reducing the country's planned deficit by ~39% from QR46.5bn to QR28.4bn by year-end 2017. This should be driven by a pickup in government revenues (+9% y/y based on a US$45/bbl budget), coupled with continued rationalization of expenditures (-2% y/y) – Fig 9. However, the team highlighted that capital spending is expected to increase to support Qatar's preparation for the World Cup and the country's diversification objectives including investment and infrastructure spending. The commitment to ramp up future capital spending indicates that public investment will continue to be main driver of economic growth in the coming years. But the investment program will also support the drivers of Qatar's long-term growth, evidenced by the sizeable investments in the education and health sectors. *These investments will foster human capital accumulation, population growth and private sector development* in line with Qatar's National Vision 2030.

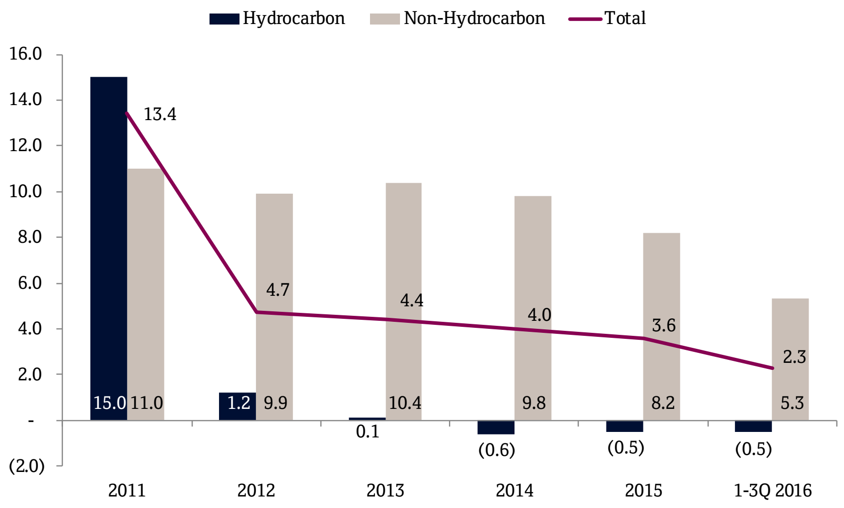
Fig 9 – Expect a shrinking budget deficit in FY2017 to support supply/demand fundamentals for real estate



Source: Qatar Ministry of Finance (MoF), QNB Economics, QNBFS Research

Higher economic growth to focus on large infrastructure projects. This should support a faster pace of GDP growth, which slowed down to ~1.7% (in real terms) in H1 2016 (vs. ~3.6% in H1 2015) as a result of a slowdown in both the hydrocarbon (-2.0% vs. -0.5%) and the non-hydrocarbon (5.8% vs. 8.2%) sectors. For H2 2016, our QNB Economics team expects growth to pick up on stronger government spending, especially on large infrastructure projects, supported by the recovery in oil prices from the multi-year lows experienced early in the year. We note that 3Q 2016 data showed GDP growth of 3.7% owing to the recovery in the hydrocarbon sector (~2.3% 1Q-3Q 2016) – Fig 10.

Fig 10 – Real GDP growth y/y (%)



Source: MDPS, Haver Analytics, QNB Economics, QNBFS Research

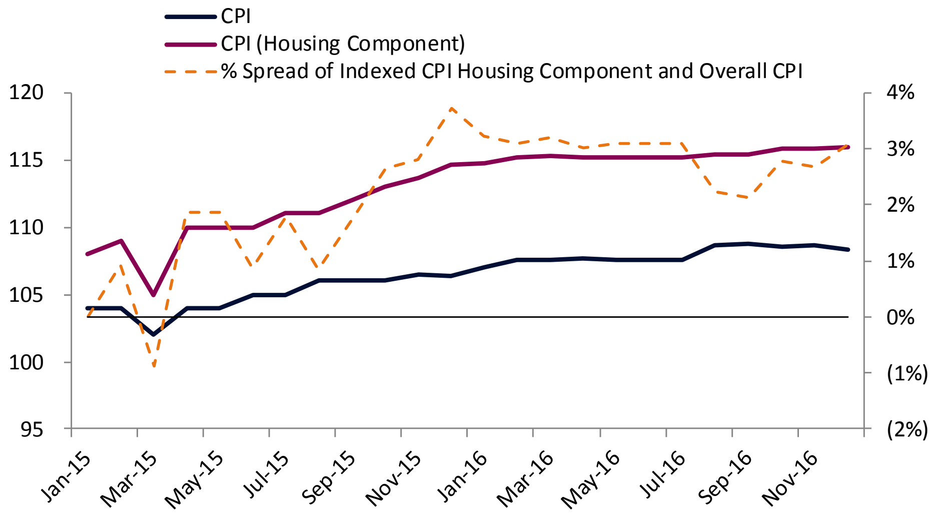
We expect growth to pick up going forward driven by the non-hydrocarbon sector as a result of a fading drag from manufacturing, rising government capital spending and high population growth. We expect real GDP growth to recover in 2017-18 with the non-hydrocarbon sector continuing to be the main driver of growth for a number of reasons:

- The slowdown in the non-hydrocarbon sector is partly attributable to a drag from manufacturing, which we expect to fade.
- Government investment is expected to continue to drive growth. The government budget announced in December slated a 3.2% increase in capital spending for 2017 and the Ministry of Finance has signaled its intention to sign QR46bn of multi-year contracts in 2017, adding to a stock of QR374bn in ongoing total project budgets in Qatar (LINK).
- Government investment continues to attract workers to Qatar who require a range of services and increase aggregate demand in the economy. The latest population data from December 2016 show year-on-year population growth of 7.3%.
- The outlook for oil prices has improved markedly. Oil prices are currently ~$53/barrel, higher than the average of USD47/b in Q3 2016. We expect oil prices to continue rising to the USD60/b level if the production cuts recently announced by OPEC and non-OPEC are fully implemented (LINK). Higher oil prices should boost government revenue and embolden capital spending plans as well as supporting sentiment, investment and consumer spending in the broader economy.

Compared to 2016, *we expect a continued positive trend in oil prices in 2017-18, which should support a recovery in growth with the non-hydrocarbon sector as the main driver*. Nonetheless, fiscal deficits are expected to continue and the recovery is likely to be moderate with headline real GDP forecast to be 3.8% in 2017 and 4.1% in 2018.

Continued inflation trajectory supportive of higher real estate prices. Inflation in Qatar has been generally stable throughout 2016, averaging ~1.8% year-over-year in the year. This represents a rise from 2015, when inflation was 1.8% on an annual basis. Prices in 2016 have been driven by higher costs for recreation and culture (7.9% year-over-year), housing and utilities (4.5%), transportation (2.9%) and education (6.3%). Higher GDP growth should drive the continued trajectory of inflationary pressures, driving higher prices including housing prices, which have been accelerating at a faster pace than overall CPI (Fig 11). *As such, our team expects rising but contained inflation, in line with higher global inflation, a gradual pick up in commodity prices and continued population inflows*.

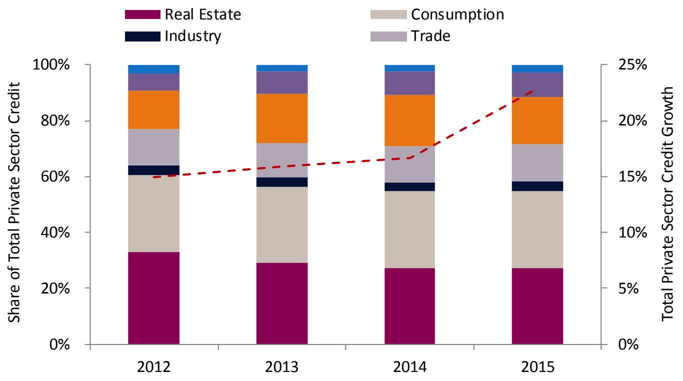
Fig 11 – Expect continued inflationary pressures overall with emphasis on housing component



Source: Qatar Ministry of Development, Planning, & Statistics (MDPS), QNBFS Research

Private sector credit growth also expected to pick up. Overall credit growth has moderated from 15.2% year-over-year at end-2015 to 11.2% as of September 2016. Deposit growth has also slowed, falling to 7.4% as of September 2016 from 8.2% at end-2015. As a consequence, the loan-to-deposit ratio rose to 117.6 in September from 115.7 at end-2015. We expect that lending will continue to grow, including a pickup in credit demand by the private sector supported by higher consumption from the rising population, as well continued to be public credit demand remaining robust on project lending (Fig 12). What we have seen is that real estate private sector credit as a proportion of overall private sector credit has declined to ~27% in 2015 from ~33% in 2012 as other subsector credit growth (e.g. contractors and services) has overshadowed that of the real estate market. This, in our view, is expected as investments flow initially and more rapidly into private sector economic growth engines and then trickle down to real estate to meet increased demand on consumption and household spending.

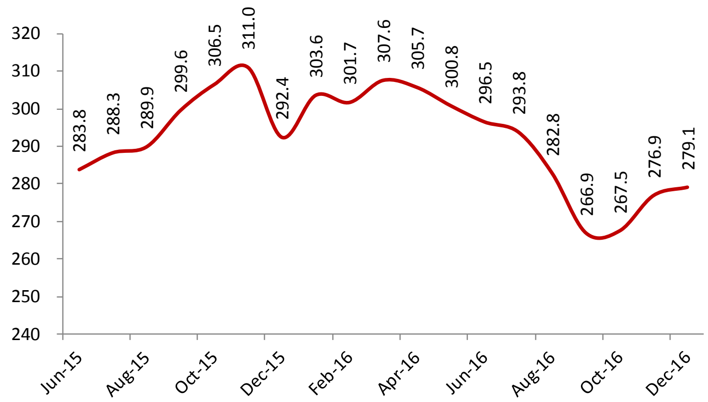
Fig 12 – Private sector credit and growth



Source: Qatar Central Bank (QCB), QNBFS Research

Overall, real estate prices seem to have bottomed out and are seen to be rebounding. Real estate prices in Qatar have gradually declined in 2016. In Q4 2016, the QCB's published real estate price index declined by ~5% year-over-year, following a weak 3Q that exhibited the first such contraction since Q4 2009. We note that so far, real estate prices (as measured by the Real Estate Price Index published by the Qatar Central Bank) show that prices have bottomed out in September 2016 and have improved by YE2016 (~5% in 4Q vs. 3Q). This is broadly in line with the expansion in the domestic economy, proxied by the nominal growth of the non-hydrocarbon economy, which grew by 4.7% year-over-year by 3Q 2016 (Fig 13).

Fig 13 – Real Estate Price Index as published by Qatar Central Bank



Source: Qatar Central Bank (QCB), QNBFS Research

Real estate landlords have been getting creative to battle weaker demand for residential and commercial real estate. From our conversations with various realtors as well as our proprietary research into listed properties, we have noticed anecdotal evidence of a marked increase in offers to entice prospective lessors such as offering 1-2 months "free" on the lease agreement. The way this works is that a 2 month free results in a 14 month lease where the lessor pays only 12 months at current prices. This in our view is a short-term tactic that helps support near-term cash flows (where landlords do not have to drop lease rates significantly). However, absent a rebound in economic activity and demand for residential properties, the long-term impact could potentially be negative.

Qatar's Real Estate Supply and Demand Activities

2016 building permits have dropped ~10% vs. 2015 but a closer look reveals different trends. 2016 experienced a material decline in building permits in Qatar, dropping ~10% over the same period in 2015 (6,811 permits issued vs. 7,607) – Fig 14. However, a closer look at the composition of the issued building permits reveals a divergence between municipalities. With the exception of Al Wakra, virtually every municipality experienced a drop in issued building permits. The most significant declines were seen in the lower end residential parts in Al Shamal and Umm Slal (~40% and ~27% respectively) while Al Wakra (a more central lower-to-mid end residential neighborhood) was up by ~25%. Looking specifically at the Doha municipality (part of which is the Pearl Island as well as West Bay), the drop in issued building permits is much less pronounced at ~5% y/y (1,665 vs. 1,756) as a result of the continued demand for residential and office space given the central location and available amenities as well as previously planned developments that are part of the longer-term strategic vision of the government (e.g. Lusail development) – Fig 15.

We believe that much of the issued permits in Al Wakra were driven by developers executing on existing plans and well as a result of expected demand of lower-income blue collar expats arriving in the country as part of the government infrastructure and development spending program in preparation for the World Cup in 2022. However, we also noticed that demand was also coming from families looking to downsize as a result of the material increase in real estate prices up until YE2015 and slower overall economic growth in 2016 as a result of the global decline in oil and gas prices (Fig 16).

Fig 14 – Historical number of building permits (issued)

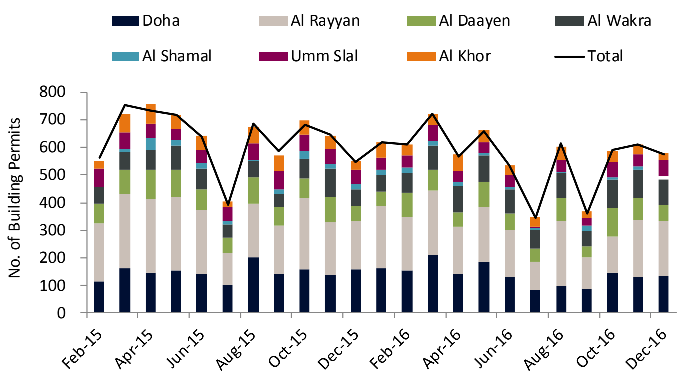
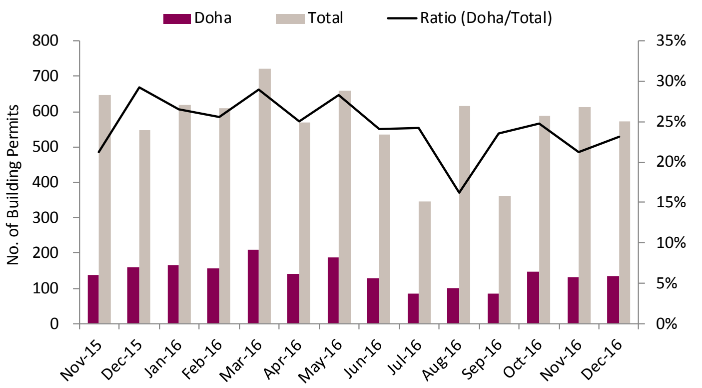
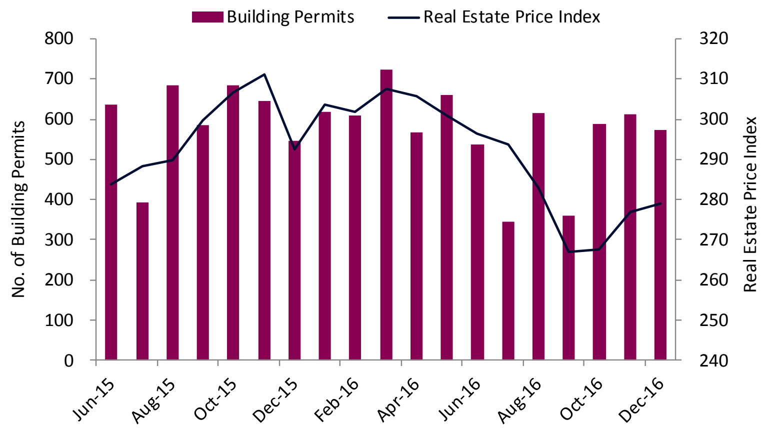


Fig 15 – Doha municipality remains stable



Source: Qatar Ministry of Development, Planning, & Statistics (MDPS), QNBFS Research

Fig 16 – Recovery in issued permits in line with recovery in real estate prices



Source: Qatar Ministry of Development, Planning, & Statistics (MDPS), Qatar Central Bank (QCB), QNBFS Research

Number and value of property sales have trended lower in 2016 but Doha municipality remains a focus. Our previously stated view on the differentiated trends amongst Qatar's municipalities is further backed up by examining the number and value of sold properties. Again, we see a downward trend with both categories down ~33%/52% respectively (Fig 17 and 19). Doha municipality's number and value of sold properties was largely in line with the overall average at ~36%/~54% respectively. However, as a percentage of overall numbers, we can certainly see an uptick in Doha municipality's share of the overall numbers coming in at ~25% in December vs. ~21% a quarter earlier and ~21% from a year ago (Fig 18). The same uptick can be seen in the municipality's value share, now standing at ~71% vs. ~23% a quarter ago and ~68% a year ago (Fig 20). Recent figures suggest an uptick in the ratio of value-to-number of sold properties which are currently slightly higher than the past 2-year average (Fig 21).

Fig 17 – Number of properties sold show a decline y/y…

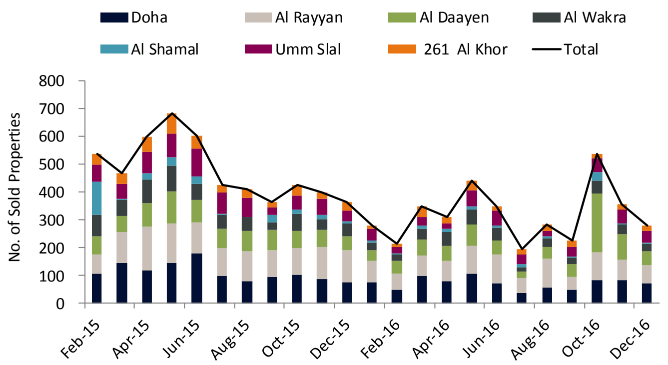
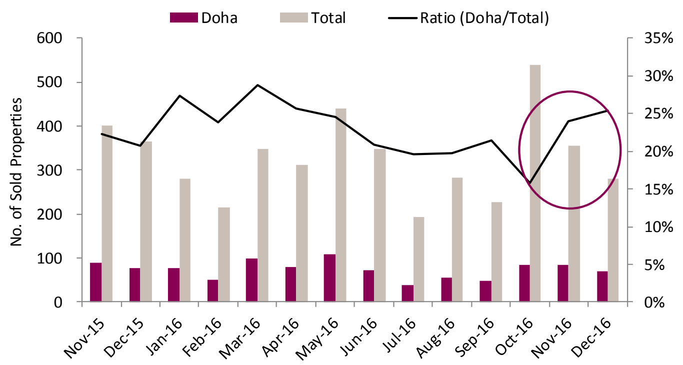


Fig 18 – … But focus is increasingly on Doha municipality



Source: Qatar Ministry of Development, Planning, & Statistics (MDPS), QNBFS Research

Fig 19 – Value of properties sold show a decline y/y…

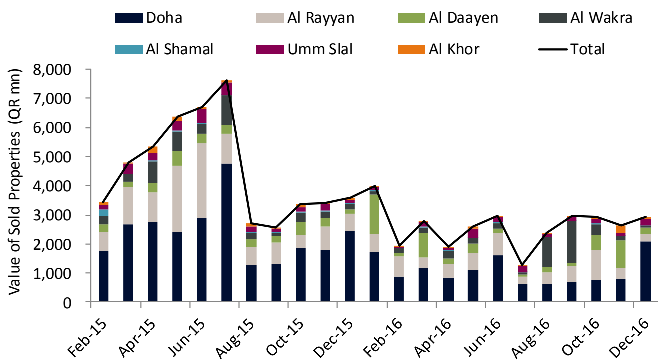
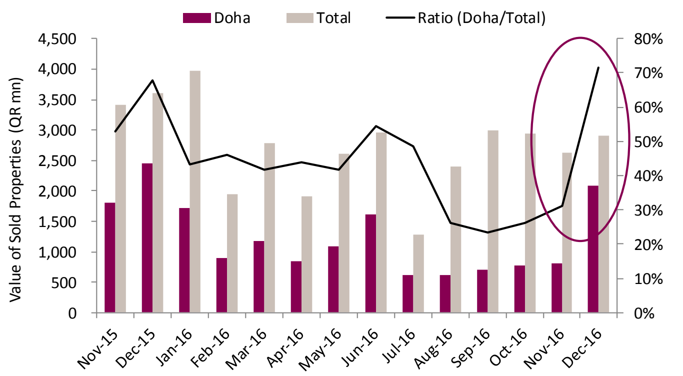
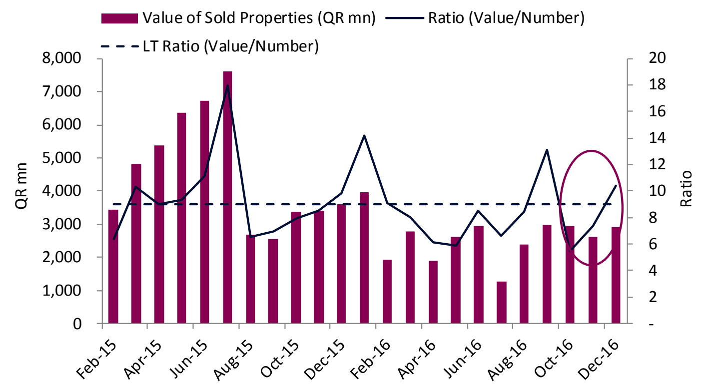


Fig 20 – … But focus continues on Doha municipality



Source: Qatar Ministry of Development, Planning, & Statistics (MDPS), QNBFS Research

Fig 21 – Uptick in ratio of value-to-sold properties in line with real estate price index



Source: Qatar Ministry of Development, Planning, & Statistics (MDPS), QNBFS Research

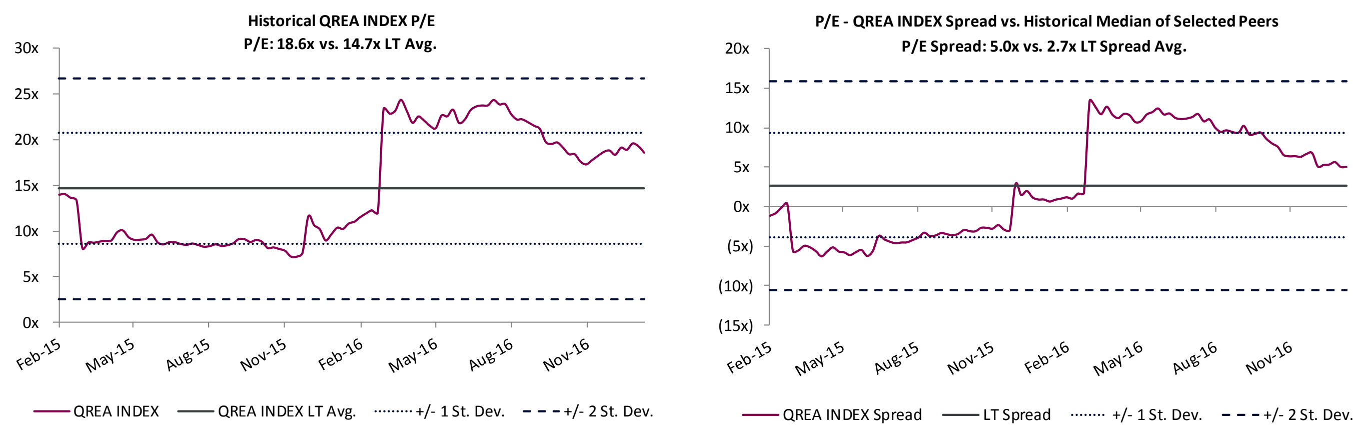
Qatar vs. GCC Real Estate Company Valuations

Valuations converging on long-term averages but our macro view suggests continued premium. YTD valuations of Qatar's real estate index (QREA) have increased to ~18.6x earnings relative to their long-term average of ~14.7x. Also, when comparing QREA valuations vs. that of a selected peer group comprising real estate companies in the GCC, we notice a similar trend whereby the spreads between valuations have been higher on a YTD basis (P/E spread of ~5.0x vs. long-term spread of ~2.7x) – Fig 22. It should be noted that much of the premium valuations could be attributed to lower liquidity in the Qatari market along with economic challenges and greater budget deficits that have impacted other GCC peers in Saudi Arabia and the UAE.

The selected peers we chose represent real estate developers and operators with a similar operating profile to that of UDCD and include:

- Barwa Real Estate (BRES QD);
- Mazaya Qatar Real Estate Development (MRDS QD);
- Ezdan Holding Group (ERES);
- Arriyadh Development Co. (ADCO AB);
- Al Andalus Property Co. (ALANDALU AB);
- Dar Al Arkan Real Estate Development Co. (ALARKAN AB);
- Emaar Properties (EMAAR DB), Emaar Malls (EMAARMLS DB);
- Aldar Properties (ALDAR DH);
- Eshraq Properties Co. (ESHRAQ DH);
- RAK Properties (RAKPROP DH);
- Damac Properties (DAMAC DB); and
- Deyaar Development (DEYAAR DB)

Fig 22 – Qatar real estate sector valuations are trending down after peaking earlier in the year…

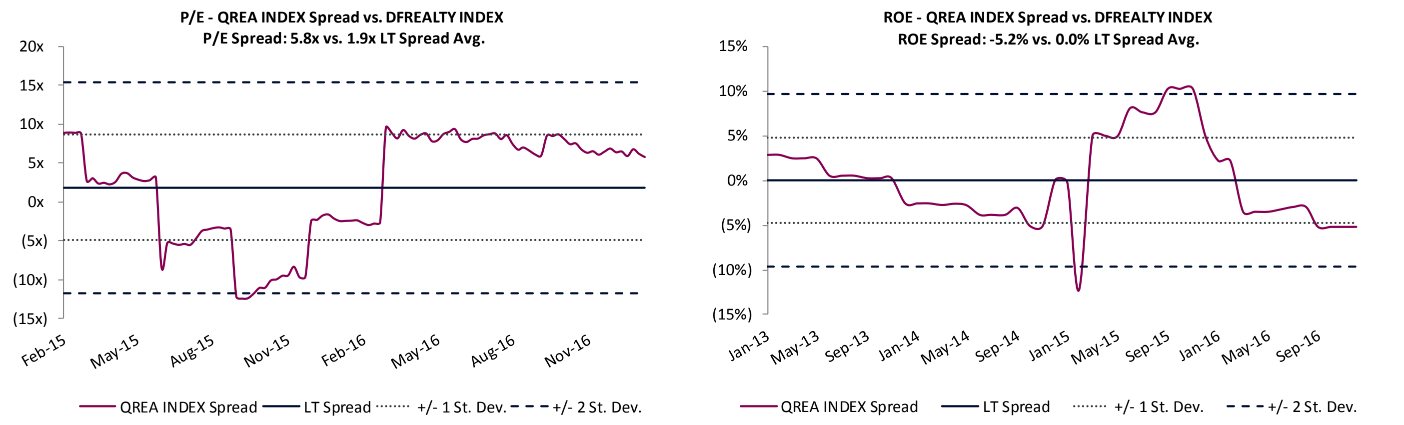


Source: Bloomberg, QNBFS Research

More broadly, Qatar's real estate valuations continue to trend at a premium to UAE peers, though ROEs have certainly corrected in 2H 2016 below their long-term averages where spreads are now ~5% below their broad UAE-specific peers (Fig 23).

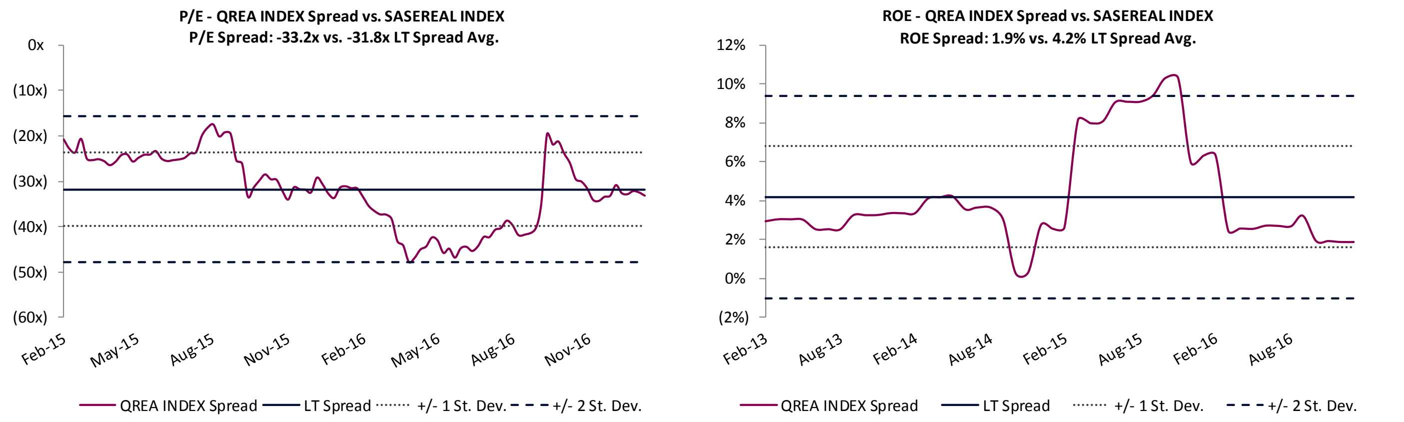
On the other hand, the picture for Saudi peers looks a little different. Certainly recent developments in Saudi Arabia, coupled with the recent rebound in oil prices have helped cut the valuation spread towards its long-term average while ROEs follow a similar trend to that of UAE peers (Fig 24).

Fig 23 – … But remain at a premium to regional peers in the UAE…



Source: Bloomberg, QNBFS Research

Fig 24 – … And in line with Saudi Peers

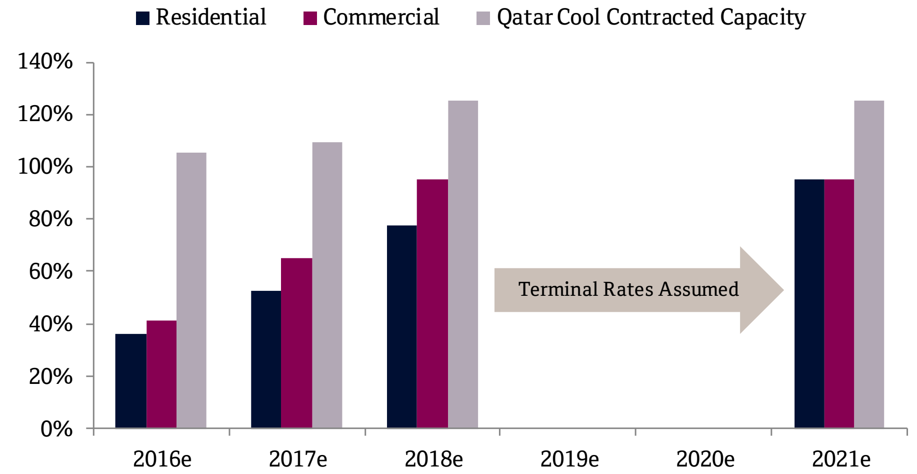


Source: Bloomberg, QNBFS Research

Key Estimates

- **Earnings.** We expect FY2016 top line to reach ~QR1.9bn (~33% y/y) partially supported by ~QR375mn we expect to be recognized in 4Q 2016 from the ~QR1.25bn sale of Abraj Quartier office tower which closed in December. The remainder (~QR875mn) is expected to be recognized in FY2017. We note that this would be considered a "high cost/low margin sale" given that the building construction is completed. We assume cost of sales at ~80% of sale price. We expect adj. EBITDA in FY2017 to come in at ~QR950mn (~13% y/y). Our model assumes ~95% occupancy in both residential and commercial real estate sub segment by FY2018 along with 125% contracted capacity on the existing 3 Qatar Cool plants and the fourth one currently in development by FY2018. We note that we model each plant at ~100% capacity but we model ~125% of contracted capacity being sold. The reason is related to the timing of demand for cooling services as demand drops during day hours (people are at work) which allows Qatar Cool to sell underutilized capacity during those periods.

Fig 25 – Occupancy rates (real estate) and contracted capacity (Qatar Cool) reflect management's aggressive focus



Source: Company reports, QNBFS Research

- **Operating cash flow.** We expect FY2016 operating cash flows (cash flow from operations before net changes in working capital) to reach ~QR670mn (~6% y/y), again supported by the ~QR375mn we expect from Abraj Quartier office tower sale. Similar to earnings, the remainder should impact our FY2017 estimates driving another ~14% increase FY2017 (~QR770mn).
- **Per share items.** Reported EPS in FY2015 was QR1.95/sh, which we estimate included ~QR0.34/sh in non-cash or non-recurring items (e.g. change in fair value of investment properties of ~QR122.5mn). Excluding those items, we estimate adj. EPS for FY2015 of QR1.61/sh. For FY2016, we expect growth on the bottom line to drive a ~9% y/y improvement in adj. EPS to QR1.76/sh followed by another ~9% in FY2017 to QR1.91/sh. The same trend should also be seen in operating cash flow per share (CFPS ex. WC), which we estimate should grow to QR1.90/sh in FY2016 followed by QR2.17/sh in FY2017.
- **Debt.** Sitting at ~QR4.6bn in debt as of last reporting period (3Q 2016), we expect UDCD to roll over a big balloon payment due in FY2017 of ~QR750mn. As such we do not anticipate operating cash flows or cash on hand to be used for that purpose in FY2017. We do however anticipate UDCD to increase its leverage profile as it recently secured a credit facility to finance the construction of Al Mutahida towers in Viva Bahriya. Overall, we expect management to increase its leverage by ~QR1.1bn over the next 24 months. Note that due to our expected growth in earnings, we expect marginally better leverage metrics in FY2017 (net debt/adj. EBITDA ~2.1x from ~2.4x in FY2016).
- **Dividends.** FY2016 should see a ~QR540mn in dividends (~15% of capital; QR1.50/sh) representing a ~19% increase from FY2015 dividend levels. We assume that the current level of dividends should continue into the future with little variability. We note that FY2015 dividend payout is estimated at ~80%. For FY2017 we expect little change to payout coming in at ~78% supported by higher earnings from the partial recognition of the sale of Abraj Quartier office tower (4Q 2016). Our view of high single-digit growth in earnings in FY2017 should drive down payout to ~72% in FY2018. We would welcome a continued downward trend in dividends or even a dividend reduction (~30-40% payout).

Fig 26 – We expect earnings growth to drive lower payout ratios to the ~72% level by FY2018…

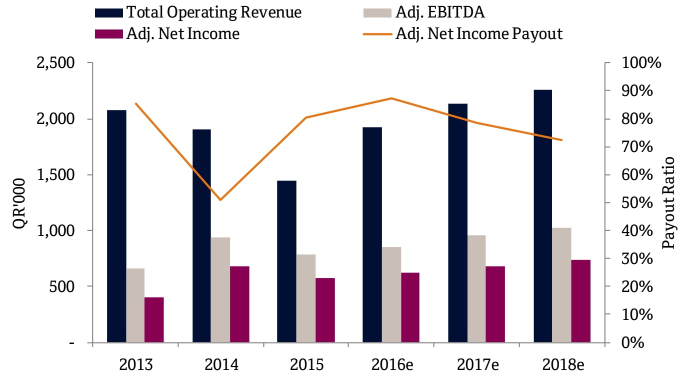
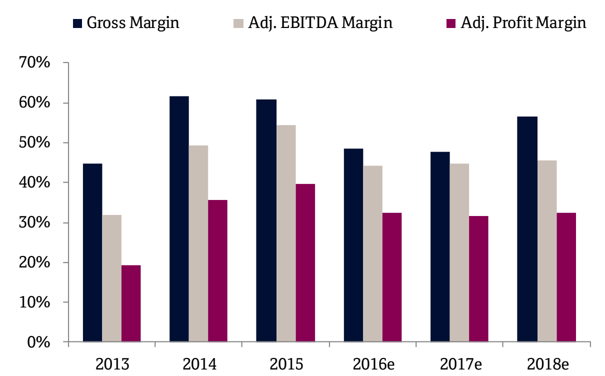


Fig 27 – … Without any margin expansion underlying material improvement in costs



Source: Company reports, QNBFS Research

- **Strategic focus.** While most of the earnings come from real estate operations at the Pearl, we expect management to increasingly focus on its Qatar Cool operations as we expect that business segment to offer greater growth prospects. We also note that this business segment offers recurring cash flows that are less variable than those of the real estate operations and are less impacted by changes in real estate prices and rental rates (i.e. tenants can renegotiate rental agreements but they cannot renegotiate their Qatar Cool rates). By FY2019, we expect Qatar Cool to represent ~30% of operating revenue as the fourth West Bay plant becomes fully operational. This is in line with our FY2016 estimate. On the real estate side, we estimate that ~50% of revenue should be derived from the commercial real estate segment.

Upcoming Catalysts

1. **Abraj Quartier office tower.** Revenue recognition from the sale of Abraj Quartier office tower, which closed in 4Q 2016 for ~QR1.25bn – through ~3Q 2017.
2. **Giardino Villas land plots.** Revenue from the sale of the land plots, which we estimate will generate ~QR800mn – through ~FY2018.
3. **School/Medical Facility.** Clarity on the development of a school and medical facility on the Pearl – timeline unknown.
4. **Qatar Cool's fourth plant (West Bay).** Commercial/full operations at the third Qatar Cool plant in West Bay – 4Q 2017/4Q 2018.
5. **Qatar Cool's fifth plant (the Pearl).** Clarity on a second Qatar Cool plant in the Pearl – timeline unknown.

Risks to Thesis

Dividend sustainability. While dividends are viewed as safe into FY2018, we currently view recurring revenue operations as insufficient to fund the dividend long-term. However, by FY2019, recurring revenue should grow to such an extent so as to be able to support dividends at almost ~100% payouts without the need for large-scale sales (e.g. Abraj Quartier office tower or Giardino Villas land plots). We also note that UDCD management has a few options to grow recurring revenues outside of our valuation:

- The construction of additional Qatar Cool plants (e.g. a second plant at the Pearl, which is not currently in our base case valuation and view it only as an upside), or
- The development of a school and/or medical facility at the Pearl (again, not in our valuation) whereby a revenue sharing agreement could help boost recurring revenue and support the dividends.

Absent earnings growth, management would have to incur large scale sales (e.g. tower sales), which would likely negatively impact our valuation given the loss of recurring revenue estimates. Alternatively, management would need to borrow to fund the dividend, which again would negatively impact our valuation. *Overall, we would view a go-forward decision and clarity on any of the previously mentioned growth avenues as further reassurance of the sustainability of the dividend in the long term*.

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 higher-end 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. We view Qatar Cool's operations as a safeguard that helps slightly offset any negative impact. However, the company should continue to be primarily a real estate company and as such will be exposed to economic trends.

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 both the real estate and utility segments. While we think that this risk is low, a material decline in operating earnings could significantly hinder UDCD'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.

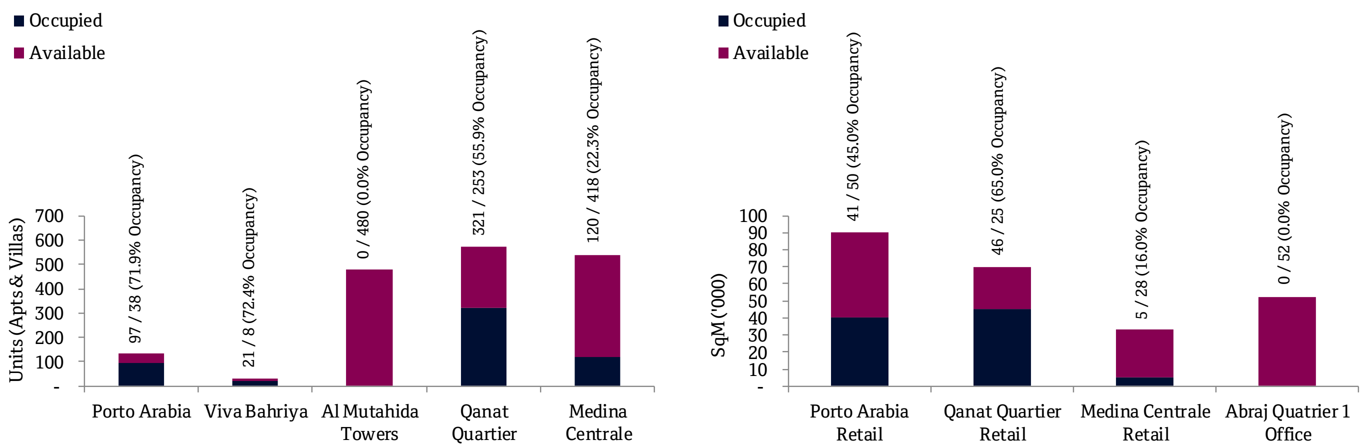
Company Description

Real estate operations. UDCD is primarily in the real estate development and operation business with focus on the Qatari market, specifically on the Pearl. The Pearl is a manmade, urban, mixed-use island. It was designed to be self-sustaining in that it offers residents and professionals working within it access to all facilities and infrastructure needed to daily life including restaurants, shops, grocery stores, entertainment outlets, hospital (pending), school (pending), hotel, office space, as well as beaches and sporting facilities. The Pearl is comprised of several neighborhoods or districts:

- **Porto Arabia –** Designed with 31 Mediterranean-style towers with 6,809 units along with 437 townhouses. It totals ~1mn SqFt of leasable retail and commercial spaces including ~350 retail units and 850 berth marina. It is considered the heart of the Pearl development with probably the most traffic and retail operations. UDCD currently controls 135 apartments and townhouses in that area with 38 currently available for sale or lease (~72% occupancy rate). We estimate that ~90% of available inventory has been designated for leasing to generate recurring income for the company.

- **Viva Bahriya –** Comprises 28 Moroccan-inspired beach front towers with ~5,600 units along with 300 townhouses and 40 low-rise apartments with direct water views and 103 berth marina. The area has its own stretch of beach offering a variety of opportunities for water-sports. UDCD currently controls 29 apartments and townhouses in that area with 8 currently available for sale or lease (~72% occupancy rate). We estimate that ~90% of available inventory has been designated for leasing to generate recurring income for the company.
- **Al Mutahida Towers –** Two residential towers planned for construction in FY2017 at an estimated capex of ~QR800mn for delivery in FY2019. The towers are planned to comprise 480 apartments and will be located . The area has its own stretch of beach offering a variety of opportunities for water-sports. We estimate that ~50% of available inventory has been designated for leasing to generate recurring income for the company.
- **Qanat Quartier** – Designed as a waterfront "Venetian" village, the area totals ~300k SqFt and includes both apartments and townshouses as well as a marina with 117 moorings, a sailing club, and a beachfront hotel (the Kempinski Marsa Malaz). UDCD currently controls 574 apartments in that area with 253 currently available for sale or lease (~56% occupancy rate). We estimate that ~90% of available inventory has been designated for leasing to generate recurring income.
- **Abraj Quartier** – This area includes 2 towers along with land plots (not owned by UDCD), which will likely be developed into residential living spaces. The area also includes restaurants and an eight level parking for over 980 vehicles. The 2 towers form the gateway to enter the Pearl. We note that in December 2016, UDCD announced the sale of one of the 2 towers to an undisclosed buyer for ~QR1.25bn with revenues to be recognized as UDCD management deliver portions of the tower to the buyer/tenant. The second tower remains under UDCD ownership and will eventually house UDCD's offices in 3 floors (currently in West Bay) along with other commercial tenants.
- **Medina Centrale** – Designed as a retain hub with ~700k SqFt of retail outlets including dining outlets, supermarkets, parks, and open spaces. UDCD currently controls 538 apartments in that area with 418 currently available for sale or lease (~22% occupancy rate). We estimate that ~90% of available inventory has been designated for leasing (recurring income).

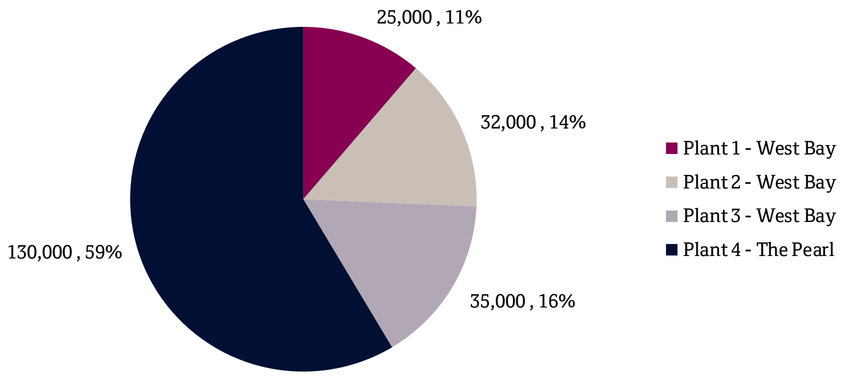
Fig 28 – Residential vs. commercial occupancy rates



Source: Company reports, QNBFS Research

Qatar Cool. In addition, the company owns 51% of Qatar Cool (44% owned by Tabreed in UAE and 5% by Qatari investors) which operates as a district cooling utility for West Bay and the Pearl areas in Doha. Currently Qatar Cool operates 3 plants; 2 in West Bay and 1 in the Pearl. The West Bay plants both have a capacity of 33.5k tons of refrigeration and output is currently 100% contracted. The plant in the Pearl is significantly larger at 133.5k tons and is also 100% contracted. A fourth plant is slated for initial operations by year-end FY2017 (we expect full operations by year-end FY2018), which we assume will be slightly smaller at ~22.5k tons. Our model assumes ~20% of capacity to be contracted by year-end FY2017 and 100% by year-end FY2018 (Fig 29).

Fig 29 – Qatar Cool's 3 current operating plants (+1 in development)



Source: Company reports and management, QNBFS Research

Detailed Model Summary

Fig 30 – Income Statement

Income Statement	Unit	2013	2014	2015	2016	2017	2018
Revenue	**QR mn**	**2,081**	**1,906**	**1,441**	**1,919**	**2,138**	**2,258**
COGS	QR mn	(1,148)	(731)	(566)	(990)	(1,118)	(981)
Gross Profit	**QR mn**	**933**	**1,175**	**875**	**929**	**1,020**	**1,276**
Gross Margin %	*%*	*93,283.4%*	*117,509.6%*	*87,488.3%*	*92,883.0%*	*102,017.1%*	*127,631.1%*
G&A	QR mn	(230)	(287)	(312)	(236)	(220)	(226)
Total Operating Expenses	QR mn	(269)	(236)	(90)	(80)	(63)	(248)
Adj. EBITDA	**QR mn**	**664**	**939**	**785**	**849**	**957**	**1,028**
Adj. EBITDA Margin %	*%*	*31.9%*	*49.2%*	*54.5%*	*44.3%*	*44.7%*	*45.5%*
D&A	QR mn	(112)	(84)	(75)	(75)	(78)	(94)
Adj. EBIT	**QR mn**	**553**	**855**	**709**	**774**	**879**	**934**
Adj. EBIT Margin %	*%*	*26.5%*	*44.9%*	*49.2%*	*40.3%*	*41.1%*	*41.4%*
Interest Income	QR mn	22	23	35	31	20	16
Interest Expense	QR mn	(84)	(148)	(131)	(137)	(168)	(153)
Net Interest Expense	QR mn	(62)	(125)	(96)	(106)	(148)	(138)
Earnings Before Taxes	**QR mn**	**490**	**730**	**613**	**668**	**731**	**796**
Adj. Net Income	**QR mn**	**404**	**679**	**570**	**623**	**677**	**734**
Adj. Profit Margin %	*%*	*19.4%*	*35.6%*	*39.6%*	*32.5%*	*31.7%*	*32.5%*
WA Basic Shares Outstading	mn	354.1	354.1	354.1	354.1	354.1	354.1
WA FD Shares Outstading	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	1.76	1.91	2.07
CFPS (ex. WC)	QR/sh	2.27	2.15	1.78	1.90	2.17	2.40
CFPS	QR/sh	3.16	4.45	2.06	3.25	2.17	2.40

Source: Company reports, QNBFS Research

Fig 31 – Balance sheet

Balance Sheet		2013	2014	2015	2016	2017	2018
Cash/Equiv	QR mn	2,002	2,823	2,277	2,389	1,883	1,585
A/R	QR mn	1,729	1,464	1,386	-	-	-
Inventories	QR mn	3,096	1,665	1,370	-	-	-
Total Current Assets	**QR mn**	**6,848**	**5,970**	**5,033**	**2,389**	**1,883**	**1,585**
PP&E	QR mn	3,824	4,001	4,499	4,564	4,647	5,113
Total Long-Term Assets	**QR mn**	**11,917**	**13,244**	**14,106**	**13,727**	**13,809**	**14,275**
TOTAL ASSETS	**QR mn**	**18,765**	**19,214**	**19,138**	**16,117**	**15,692**	**15,860**
A/P	QR mn	2,313	2,671	2,664	-	-	-
Total Current Liabilities	QR mn	3,775	3,472	4,215	799	752	678
Total LT Liabilities	QR mn	4,243	4,622	3,637	4,035	3,481	3,481
TOTAL LIABILITIES	**QR mn**	**8,018**	**8,094**	**7,852**	**4,834**	**4,233**	**4,159**
Non-Controlling Interest	QR mn	315	347	373	399	453	515
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	4,268	4,317	4,417
TOTAL OWNERS EQUITY	**QR mn**	**10,432**	**10,772**	**10,914**	**10,884**	**11,007**	**11,186**

Source: Company reports, QNBFS Research

Fig 32 – Cash Flow Statement

Cash Flow Statement		2013	2014	2015	2016	2017	2018
Operating Cash Flow	QR mn	803	761	632	671	768	849
Non-Cash Change in WC	QR mn	317	816	97	478	-	-
CFO	**QR mn**	**1,120**	**1,577**	**729**	**1,149**	**768**	**849**
Capex	QR mn	(494)	(316)	(607)	(352)	(160)	(560)
CFI	**QR mn**	**(455)**	**(510)**	**(1,395)**	**129**	**(142)**	**(542)**
Net Change in Debt	QR mn	(2,519)	(1,075)	(1,938)	(347)	(601)	(74)
Dividends	QR mn	(345)	(346)	(458)	(544)	(531)	(531)
CFF	**QR mn**	**(1,040)**	**(524)**	**(716)**	**(736)**	**(1,132)**	**(605)**
FX Translation	QR mn	-	-	-	-	-	-
Net Change in Cash	**QR mn**	**(375)**	**544**	**(1,381)**	**541**	**(506)**	**(298)**
FCF	QR mn	626	1,261	121	797	608	289

Source: Company reports, QNBFS Research

Fig 33 – Other Line Items and Metrics

Metrics		2013	2014	2015	2016	2017	2018
WC (CA-CL)	QR mn	3,073	2,497	818	1,591	1,131	907
ST Debt	QR mn	1,191	641	1,377	681	634	560
LT Debt	QR mn	4,048	4,420	3,430	3,785	3,231	3,231
Total Debt	**QR mn**	**5,240**	**5,062**	**4,807**	**4,466**	**3,865**	**3,791**
Net Debt	**QR mn**	**3,238**	**2,238**	**2,529**	**2,077**	**1,982**	**2,206**
ROA	%	NA	3.6%	3.0%	3.5%	4.3%	4.7%
ROE	%	NA	6.4%	5.3%	5.7%	6.2%	6.6%
ROC	%	NA	6.4%	5.4%	5.9%	6.8%	7.1%
Net Debt/Adj. EBITDA	x	4.9x	2.4x	3.2x	2.4x	2.1x	2.1x
Debt/Capital	%	28.4%	26.8%	25.6%	28.4%	25.4%	24.7%
Debt/Equity	x	0.5x	0.5x	0.4x	0.4x	0.4x	0.3x
Interest Coverage	x	6.6x	5.8x	5.4x	5.7x	5.2x	6.1x

Source: Company reports, QNBFS Research

Comparative Tables

Fig 34 – UDCD currently trading at a discount…

Company	Div. Yield	P/E (adj.) FY2016e	P/E (adj.) FY2017e	P/CFPS FY2016e	P/CFPS FY2017e	EV/Adj. EBITDA FY2016e	EV/Adj. EBITDA FY2017e
Arriyadh Development Co	*7.9%*	11.6x	16.5x	13.9x	15.3x	11.7x	11.6x
Alandalus Property Co	*2.6%*	NA	NA	11.1x	NA	NA	NA
Dar Al Arkan Real Estate Development Co	*NA*	25.9x	20.0x	6.8x	9.2x	15.9x	15.7x
Aldar Properties PJSC	*4.0%*	7.5x	8.2x	19.6x	13.1x	8.3x	8.1x
Barwa Real Estate Co	*6.4%*	NA	NA	NA	NA	NA	NA
DAMAC Properties Dubai Co PJSC	*5.4%*	4.6x	4.6x	9.0x	8.0x	2.9x	3.1x
Deyaar Development PJSC	*NA*	16.6x	21.4x	nmf	nmf	70.8x	25.9x
Emaar Properties PJSC	*2.1%*	10.7x	9.1x	8.2x	7.5x	9.4x	7.9x
Emaar Malls PJSC	*4.0%*	17.6x	14.8x	13.0x	11.8x	15.0x	13.3x
Ezdan Holding Group QSC	*3.3%*	NA	NA	NA	NA	NA	NA
Eshraq Properties Co PJSC	*NA*	NA	NA	NA	NA	NA	NA
Mazaya Qatar Real Estate Development QSC	*NA*	NA	NA	NA	NA	NA	NA
RAK Properties PJSC	*6.4%*	20.5x	14.4x	16.6x	39.0x	32.0x	29.1x
Average ex. United Development Co.	*4.7%*	14.4x	13.6x	12.3x	14.8x	20.7x	14.3x
Median ex. United Development Co.	*4.0%*	14.1x	14.6x	12.0x	11.8x	13.4x	12.5x
United Development Co.	***6.7%***	**12.7x**	**11.7x**	**11.8x**	**10.3x**	**13.2x**	**11.7x**

Note: Where coverage does note exist, estimates are based on Bloomberg consensus, if available
Mean/Median 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

Fig 35 – … While ROE generally in range of…

Company	Div. Yield	ROA FY2016e	ROA FY2017e	ROE FY2016e	ROE FY2017e	ROC FY2016e	ROC FY2017e
Arriyadh Development Co	*7.9%*	*10.0%*	*7.1%*	*13.9%*	*9.4%*	*NA*	*NA*
Alandalus Property Co	*2.6%*	*8.6%*	*NA*	*11.0%*	*NA*	*9.0%*	*9.0%*
Dar Al Arkan Real Estate Development Co	*NA*	*1.0%*	*1.3%*	*1.4%*	*1.8%*	*1.1%*	*1.1%*
Aldar Properties PJSC	*4.0%*	*6.4%*	*6.3%*	*12.5%*	*11.1%*	*10.4%*	*10.4%*
Barwa Real Estate Co	*6.4%*	*NA*	*NA*	*NA*	*NA*	*3.8%*	*3.8%*
DAMAC Properties Dubai Co PJSC	*5.4%*	*17.9%*	*15.5%*	*35.3%*	*26.2%*	*27.4%*	*27.4%*
Deyaar Development PJSC	*NA*	*1.3%*	*2.6%*	*1.7%*	*3.5%*	*5.2%*	*5.2%*
Emaar Properties PJSC	*2.1%*	*5.8%*	*10.8%*	*11.9%*	*13.0%*	*8.9%*	*8.9%*
Emaar Malls PJSC	*4.0%*	*7.5%*	*8.5%*	*12.2%*	*13.3%*	*8.2%*	*8.2%*
Ezdan Holding Group QSC	*3.3%*	*NA*	*NA*	*NA*	*NA*	*4.6%*	*4.6%*
Eshraq Properties Co PJSC	*NA*	*NA*	*NA*	*NA*	*NA*	*0.7%*	*0.7%*
Mazaya Qatar Real Estate Development QSC	*NA*	*NA*	*NA*	*NA*	*NA*	*6.7%*	*6.7%*
RAK Properties PJSC	*6.4%*	*1.1%*	*1.2%*	*1.4%*	*1.5%*	*4.8%*	*4.8%*
Average ex. United Development Co.	*4.7%*	*6.6%*	*6.7%*	*11.3%*	*10.0%*	*7.6%*	*7.6%*
Median ex. United Development Co.	*4.0%*	*6.4%*	*6.7%*	*11.9%*	*10.2%*	*5.9%*	*5.9%*
United Development Co.	***6.7%***	***3.5%***	***4.3%***	***5.7%***	***6.2%***	***5.9%***	***6.8%***

Note: Where coverage does note exist, estimates are based on Bloomberg consensus, if available
Mean/Median calculated if more than 3 observations are present
NA: Not Applicable
nmf: Not Meaningful (typically refers to exceedingly large values)

Source: Bloomberg, QNBFS Research

Fig 36 - … Despite offering compelling growth in FY2017/18…

Company	Revenue Growth FY2017e	Revenue Growth FY2018e	Revenue Growth 3Yr CAGR	adj. EBITDA Growth FY2017e	adj. EBITDA Growth FY2018e	adj. EBITDA Growth 3Yr CAGR
Arriyadh Development Co	*(78.8%)*	*1.2%*	*NA*	*(32.9%)*	*1.5%*	*NA*
Alandalus Property Co	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Dar Al Arkan Real Estate Development Co	*0.0%*	*7.5%*	*7.8%*	*(2.0%)*	*1.2%*	*2.2%*
Aldar Properties PJSC	*33.1%*	*1.1%*	*12.8%*	*79.5%*	*1.9%*	*22.6%*
Barwa Real Estate Co	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
DAMAC Properties Dubai Co PJSC	*(7.1%)*	*1.2%*	*(2.0%)*	*(12.6%)*	*(6.8%)*	*(8.9%)*
Deyaar Development PJSC	*57.3%*	*88.9%*	*NA*	*NA*	*172.9%*	*NA*
Emaar Properties PJSC	*5.7%*	*18.5%*	*11.7%*	*49.6%*	*18.7%*	*26.7%*
Emaar Malls PJSC	*0.0%*	*13.8%*	*8.7%*	*24.3%*	*12.7%*	*16.9%*
Ezdan Holding Group QSC	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Eshraq Properties Co PJSC	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Mazaya Qatar Real Estate Development QSC	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
RAK Properties PJSC	*(2.7%)*	*(2.5%)*	*(0.6%)*	*NA*	*9.8%*	*NA*
Average ex. United Development Co.	*0.9%*	*16.2%*	*6.4%*	*17.6%*	*26.5%*	*11.9%*
Median ex. United Development Co.	*0.0%*	*4.4%*	*8.3%*	*11.2%*	*5.8%*	*16.9%*
United Development Co.	***11.4%***	***5.6%***	***16.2%***	***12.7%***	***7.5%***	***9.4%***

Note: Where coverage does note exist, estimates are based on Bloomberg consensus, if available
Mean/Median calculated if more than 3 observations are present
NA: Not Applicable
nmf: Not Meaningful (typically refers to exceedingly large values)

Source: Bloomberg, QNBFS Research

Fig 37 - ... At marginally higher leverage

Company	Div. Yield	Net Debt/EBITDA		Debt/Equity		Interest Coverage	
		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
Arriyadh Development Co	*7.9%*	NA	NA	0.2x	0.2x	21.7x	21.7x
Alandalus Property Co	*2.6%*	NA	NA	0.2x	0.2x	10.9x	10.9x
Dar Al Arkan Real Estate Development Co	*NA*	6.7x	6.6x	0.2x	0.3x	1.7x	1.7x
Aldar Properties PJSC	*4.0%*	NA	NA	0.2x	0.3x	4.5x	4.5x
Barwa Real Estate Co	*6.4%*	NA	NA	0.3x	0.4x	NA	NA
DAMAC Properties Dubai Co PJSC	*5.4%*	NA	NA	0.3x	0.4x	29.8x	29.8x
Deyaar Development PJSC	*NA*	NA	NA	0.1x	0.1x	(2.2x)	(2.2x)
Emaar Properties PJSC	*2.1%*	NA	NA	0.2x	0.3x	6.6x	6.6x
Emaar Malls PJSC	*4.0%*	1.7x	1.5x	0.3x	0.5x	6.1x	6.1x
Ezdan Holding Group QSC	*3.3%*	NA	NA	0.3x	0.5x	2.9x	2.9x
Eshraq Properties Co PJSC	*NA*	NA	NA	0.0x	0.0x	(22.8x)	(22.8x)
Mazaya Qatar Real Estate Development QSC	*NA*	NA	NA	nmf	nmf	5.8x	5.8x
RAK Properties PJSC	*6.4%*	5.6x	5.1x	0.2x	0.2x	24.9x	24.9x
Average ex. United Development Co.	*4.7%*	NA	NA	0.2x	0.3x	7.5x	7.5x
Median ex. United Development Co.	*4.0%*	NA	NA	0.2x	0.3x	6.0x	6.0x
United Development Co.	***6.7%***	**2.4x**	**2.1x**	**0.3x**	**0.4x**	**5.7x**	**5.2x**

Note: Where coverage does note exist, estimates are based on Bloomberg consensus, if available
Mean/Median 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

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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