

United Development Company

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	15.50	Target Price	20.00
Implied Upside	29.0%		

4Q2017 Preview – Will Dividend Season Help Shares Outperform?

UDCD is set to report 4Q2017 and full year 2017 results on February 7 – We expect 4Q2017 and full year 2017 to be generally in line with prior comparable periods. This is primarily as a result of a challenging year for all real estate plays in Qatar with lease rates seeing significant drop of ~10-20% over 2016 (depending on location). Inside the Pearl, prices have experienced similar trajectory with lease rates down ~10% if one factors in landlord offers (e.g. 1-2 months free; Qatar Cool included, etc.) We view this as a sign of emphasis on increasing occupancy rates; something we have been calling for over the past year.

Highlights

- **EPS should be largely in line with prior quarter and year** – As a result of minor model adjustments, we anticipate 4Q2017/full year 2017 EPS to come in at QR0.50/1.73 to be largely in line with the comparable periods one year ago (+3% q/q; -2% y/y). This should be driven by continued reliance on high margin land plot sales, which tend to garner high prices per square meter. Recall that 2017 should also be aided by the contribution of the profit realized from the sale of Abraj Quartier tower in 1Q2017 and good sales revenue (land plots) in 3Q2017.
- **Dividend trade on hand** – UDCD shares outperformed other Qatari equities YTD (+7.8% vs. +6.6%) on the back of an attractive expected dividend yield of ~8.1% vs. average of ~4.2% for all other 44 stocks on the QSE. This followed a significant underperformance since the start of the June 4 regional tensions (-18.4% vs. -6.8%). We believe that much of the driving force behind the YTD outperformance is driven by this significantly higher dividend yield (QR1.25/sh), which investors anticipate. While we expect dividend payout in 2017 of ~75% on an adj. net income basis (well below other major Qatari peers such as Ezdan and Barwa), we continue to favor lower dividend payouts given weakness in real estate market over the past 1.5-2 years as well as future capex plans.
- **Dividend trade probably crowded by now** – Overall, we think the dividend trade on UDCD shares is probably crowded by now and note that from the beginning of the regional tensions on June 4, ~\$12.5mn in foreign fund flow (non-Qatari) has gone into UDCD shares (~\$40.2mn in 2017). We prefer for investors to focus on long-term value creation plans through organic growth initiatives. We point to UDCD's extensive land bank and the potential value it can generate through development. The UDCD story, in our view, is a direct play on the overall Qatari story underpinned by governmental infrastructure spending for the 2022 FIFA World Cup and through Vision 2030, which aims to transform the economic landscape in Qatar into a larger, more diverse economic engine.
- **Upcoming catalysts should drive long-term value** – We expect UDCD to continue to focus advancing several development projects through the design and/or construction phases including school/medical facility, 04 Mall, and Al Morjan project, a mixed-use residential and commercial project. We await announcement of details and clarity on these projects' economics to incorporate into our model.

Catalysts

- Development of a school/medical facility on the Pearl – unknown. Commercial/full operations at the third Qatar Cool plant in West Bay – 1Q2018. Al Mutahida Towers – 2019. Mall 04 and Al Morjan construction/commercial operations – unknown.

Recommendation, Valuation and Risks

- **Maintaining Accumulate recommendation and QR20.00 TP** – We continue to rate the shares as Accumulate on an attractive dividend yield (~8%) and valuation upside. UDCD is currently trading at ~6.7x our FY2018 CFPS (peers at ~8.2x).
- **Risks to our thesis.** Economic weakness, interest rate and project finance risk.

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Adj. EPS (QR/sh)	1.91	1.73	1.84	1.99
P/E (x)	8.1x	8.9x	8.4x	7.8x
CFPS (QR/sh)	2.22	1.99	2.33	2.54
P/CFPS (x)	7.0x	7.8x	6.7x	6.1x
Adj. EBITDA (QR mn)	896.2	883.6	962.7	1,029.4
EV/EBITDA (x)	9.4x	9.6x	8.8x	8.2x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	15.50
Dividend Yield (%)	8.1%
Bloomberg Ticker	UDCD QD
ISIN	QA000A0KD6M9
Sector	Real Estate
52wk High/52wk Low (QR)	22.94 / 12.50
30-d Average Volume ('000)	758.7
Mkt. Cap. (\$ mn/QR mn)	1,507 / 5,488
Shares Outstanding (mn)	354.1
FO Limit* (%)	49.0%
Current FO* (%)	12.1%
1-Year Total Return (%)	(25.4%)
Fiscal Year End	December 31

Source: Bloomberg (as of January 22, 2018), * Foreign ownership (as of January 21, 2018) and includes GCC institutions

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Model Summary

Company Name:	United Development Co.	Price:	QR 15.50	Target Price:	QR 20.00
Ticker:	UDCD QD	Mkt Cap:	QR 5,488 mn	Dividend Yield:	8.1%
Recommendation:	ACCUMULATE	EV:	QR 8,452 mn	Total Expected Return:	29.0%

	FY2016	FY2017e	FY2018e	FY2019e
Earnings (in QR mn except Per Share Items)				
Revenue	2,390.8	1,946.8	1,564.7	1,696.6
Gross Profit	1,116.0	1,081.4	1,159.7	1,226.4
Adj. EBITDA	896.2	883.6	962.7	1,029.4
Adj. EBIT	818.9	806.4	852.1	908.6
Adj. Net Income	675.1	613.9	651.2	702.9
FD EPS	1.76	1.73	1.84	1.99
FD Adj. EPS	1.91	1.73	1.84	1.99

	FY2016	FY2017e	FY2018e	FY2019e
Cash Flow (in QR mn except Per Share Items)				
Operating Cash Flow	785.6	704.5	824.4	899.1
Cash from Operations	294.5	1,046.9	824.4	899.1
Cash from Investing	584.1	(813.1)	(543.0)	(69.0)
Total Capex	(449.7)	(107.2)	(560.0)	(86.0)
Simple FCF (CFO - Capex)	(155.2)	939.7	264.4	813.1
Cash from Financing	(837.3)	(856.5)	(416.8)	(862.3)
Total Dividends	544.5	460.4	442.6	442.6
CFPS (ex. WC)	2.22	1.99	2.33	2.54
CFPS	0.83	2.96	2.33	2.54

	FY2016	FY2017e	FY2018e	FY2019e
Balance Sheet (in QR mn except Per Share Items)				
Cash/Equiv.	1,566	1,773	1,638	1,605
PP&E	3,231	3,054	3,494	3,450
Investment Properties	8,861	9,035	9,035	9,035
Total Assets	18,723	18,309	18,613	18,535
Current Debt	1,245	534	460	378
Long-Term Debt	3,273	3,588	3,687	3,350
Total Debt	4,518	4,122	4,147	3,728
Total Liabilities	7,413	6,787	6,812	6,393
Owners' Equity	10,898	11,068	11,266	11,516
Non-Controlling Interest	412	455	535	627

	1Q2017a	2Q2017a	3Q2017a	4Q2017e
Quarterly Estimates				
Revenue	768.5	305.7	468.6	403.9
Gross Profit	304.2	192.3	274.1	310.7
Adj. EBITDA	287.5	122.1	225.5	248.5
Adj. EBIT	268.9	112.2	200.0	225.3
Adj. Net Income	224.7	60.0	151.8	177.3
Cash from Operations	838.8	95.3	(90.0)	202.8
Cash/Equiv.	1,923.8	1,972.5	1,707.1	1,773.0
Total Debt	4,439.8	4,384.5	4,234.1	4,121.7
FD EPS	0.65	0.15	0.43	0.50
FD Adj. EPS	0.63	0.17	0.43	0.50
CFPS (ex. WC)	0.69	0.23	0.49	0.57

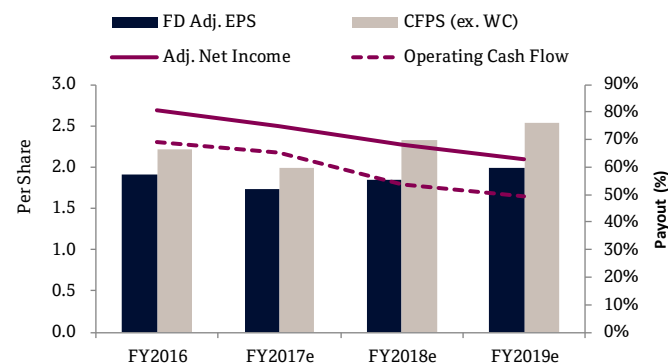
* Bloomberg consensus estimates; calculated if more than 3 observations are present
 NA: Not Applicable
 nmf: Not Meaningful (typically refers to negative or exceedingly large values)

	FY2016	FY2017e	FY2018e	FY2019e
Valuation				
Adj. EV/EBITDA	9.4x	9.6x	8.8x	8.2x
Peer Median*	7.1x	6.1x	5.9x	5.5x
Adj. P/E	8.1x	8.9x	8.4x	7.8x
Peer Median*	NA	8.0x	6.9x	6.3x
P/CFPS	7.0x	7.8x	6.7x	6.1x
Peer Median*	NA	10.6x	8.2x	8.4x
P/Operating NAV				0.8x
P/NAV				0.8x

	FY2016	FY2017e	FY2018e	FY2019e
Metrics				
Leverage and Debt Service				
Net Debt/adj. EBITDA	3.3x	2.7x	2.6x	2.1x
Debt/Capital	25%	23%	23%	21%
Debt/Equity	0.4x	0.4x	0.4x	0.3x
Interest Coverage	6.7x	4.7x	6.2x	7.1x
Profitability				
Adj. ROA	3.6%	3.3%	3.5%	3.8%
Adj. ROE	6.2%	5.6%	5.8%	6.2%
Adj. ROC	6.0%	5.9%	6.3%	6.6%

	FY2016	FY2017e	FY2018e	FY2019e
Dividend Payouts				
Adj. Net Income	81%	75%	68%	63%
Operating Cash Flow	69%	65%	54%	49%

	FY2016	FY2017e	FY2018e	FY2019e
Growth				
Revenue	66.0%	(18.6%)	(19.6%)	8.4%
Adj. EBITDA	17.7%	(1.4%)	9.0%	6.9%
Reported Net Income	(9.6%)	(1.6%)	6.2%	7.9%
Adj. Net Income	18.4%	(9.1%)	6.1%	7.9%
Operating Cash Flow	24.3%	(10.3%)	17.0%	9.1%



Source: Bloomberg, QNBFS Research

Detailed Model Summary

Income Statement		Unit	2013	2014	2015	2016	2017	2018	2019
Revenue	QR mn		2,081	1,906	1,441	2,391	1,947	1,565	1,697
COGS	QR mn		(1,148)	(731)	(566)	(1,275)	(865)	(405)	(470)
Gross Profit	QR mn		933	1,175	875	1,116	1,081	1,160	1,226
<i>Gross Margin %</i>	%		44.8%	61.6%	60.7%	46.7%	55.5%	74.1%	72.3%
G&A	QR mn		(230)	(287)	(312)	(303)	(305)	(305)	(305)
Total Operating Expenses	QR mn		(35)	(262)	(114)	(220)	(198)	(197)	(197)
Adj. EBITDA	QR mn		898	913	761	896	884	963	1,029
<i>Adj. EBITDA Margin %</i>	%		43.2%	47.9%	52.8%	37.5%	45.4%	61.5%	60.7%
D&A	QR mn		(112)	(84)	(75)	(102)	(94)	(121)	(131)
Adj. EBIT	QR mn		553	855	709	819	806	852	909
<i>Adj. EBIT Margin %</i>	%		26.5%	44.9%	49.2%	34.3%	41.4%	54.5%	53.6%
Interest Income	QR mn		22	23	35	37	43	16	15
Interest Expense	QR mn		(84)	(148)	(131)	(123)	(171)	(137)	(128)
Net Interest Expense	QR mn		(62)	(125)	(96)	(86)	(128)	(121)	(113)
Earnings Before Taxes	QR mn		490	730	613	733	678	731	795
Adj. Net Income	QR mn		404	679	570	675	614	651	703
<i>Adj. Profit Margin %</i>	%		19.4%	35.6%	39.6%	28.2%	31.5%	41.6%	41.4%
WA Basic Shares Outstanding	mn		354.1	354.1	354.1	354.1	354.1	354.1	354.1
WA FD Shares Outstanding	mn		354.1	354.1	354.1	354.1	354.1	354.1	354.1
FD EoP Shares Outstanding	mn		337.2	354.1	354.1	354.1	354.1	354.1	354.1
Adj. EPS - FD	QR/sh		1.14	1.92	1.61	1.91	1.73	1.84	1.99
CFPS (ex. WC)	QR/sh		2.27	2.15	1.78	2.22	1.99	2.33	2.54
CFPS	QR/sh		3.16	4.45	2.06	0.83	2.96	2.33	2.54
Balance Sheet			2013	2014	2015	2016	2017	2018	2019
Cash/Equiv	QR mn		2,002	2,823	2,277	1,566	1,773	1,638	1,605
A/R	QR mn		1,729	1,464	1,386	2,265	2,185	2,185	2,185
Inventories	QR mn		3,096	1,665	1,370	2,018	1,603	1,603	1,603
Total Current Assets	QR mn		6,848	5,970	5,033	5,849	5,561	5,425	5,393
PP&E	QR mn		3,824	4,001	4,499	3,231	3,054	3,494	3,450
Total Long-Term Assets	QR mn		11,917	13,244	14,106	12,875	12,748	13,187	13,142
TOTAL ASSETS	QR mn		18,765	19,214	19,138	18,723	18,309	18,613	18,535
A/P	QR mn		2,313	2,671	2,664	2,589	2,344	2,344	2,344
Total Current Liabilities	QR mn		3,775	3,472	4,215	4,000	3,033	2,959	2,877
Total LT Liabilities	QR mn		4,243	4,622	3,637	3,413	3,754	3,854	3,516
TOTAL LIABILITIES	QR mn		8,018	8,094	7,852	7,413	6,787	6,812	6,393
Non-Controlling Interest	QR mn		315	347	373	412	455	535	627
Issued Capital	QR mn		3,372	3,541	3,541	3,541	3,541	3,541	3,541
Retained Earnings	QR mn		4,057	4,099	4,258	4,498	4,751	4,876	5,046
TOTAL OWNERS EQUITY	QR mn		10,432	10,772	10,914	10,898	11,068	11,266	11,516
Cash Flow Statement			2013	2014	2015	2016	2017	2018	2019
Operating Cash Flow	QR mn		803	761	632	786	704	824	899
Non-Cash Change in WC	QR mn		317	816	97	(491)	342	-	-
CFO	QR mn		1,120	1,577	729	294	1,047	824	899
Capex	QR mn		(494)	(316)	(607)	(450)	(107)	(560)	(86)
CFI	QR mn		(455)	(510)	(1,395)	584	(813)	(543)	(69)
Net Change in Debt	QR mn		(2,519)	(1,075)	(1,938)	(649)	(396)	26	(420)
Dividends	QR mn		(345)	(346)	(458)	(544)	(460)	(443)	(443)
CFD	QR mn		(1,040)	(524)	(716)	(837)	(856)	(417)	(862)
FX Translation	QR mn		-	-	-	-	-	-	-
Net Change in Cash	QR mn		(375)	544	(1,381)	41	(623)	(135)	(32)

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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