

Barwa Real Estate Company

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	35.35	Target Price	39.00
Implied Upside	10.3%		

Earnings Miss on Higher Costs; Expect to Normalize

Maintaining our long-term positive bias on BRES. We positively view BRES' operating assets and development pipeline especially its rental income segment. We expect top line/adj. EBITDA to experience a ~6/13% 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 ~46% 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 ~17/14x 2018/2019 adj. EPS (peers ~14/12x) a reflection of higher growth vs. peers.

Highlights

- 1Q2018 show resilient rental income segment (~88% of total gross profit) but cost of sales higher than anticipated.** We note that rental revenue was in line at ~QR339mn (~4% below our estimate) with overall revenue only 2% higher than our ~QR424mn estimate. Rental and consultancy segments; however experienced higher cost of sales and as a result posted 5% in gross margin compression (~65% vs. our estimate of ~70%) Also, income from equity-accounted associates was a significant miss at a loss of ~QR0.5mn vs. a profit ~QR18.8mn 1 year ago.
- 1Q2018 results slightly miss but we are not worried.** As a result of operations, reported EPS came in at QR1.04; ~16% lower y/y. However, we note that this includes several line items we consider as 1-time or non-recurring. On a normalized basis, while adj. EPS was still down (reflecting weaker real estate market, which we believe is priced into the shares) it came in at QR0.45 vs. our estimate of QR0.56. Despite that, we are happy to see resilient rental income operations despite weaker real estate conditions. We note that higher rental/consultancy cost of sales (which we expect to normalize during the year) accounted for ~QR0.04 of the adj. EPS miss while the lower income from associates accounted for another ~QR0.05 of the miss. Absent those, adj. EPS would have been largely in line with our estimates.
- We adjusted our estimates to reflect quarterly results and continue to expect earnings growth to 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 various projects. We expect adj. EBITDA growth of 13% CAGR through 2020 (flat CAGR 2014-2017) as gross margins improve due to slower total cost of sales growth (73% average gross margins through 2020 vs. 65% from 2015-2017).
- 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	2.13	2.56
P/E (x)	18.0x	17.6x	16.6x	13.8x
CFPS (QR/sh)	1.82	2.38	2.28	2.75
P/CFPS (x)	19.4x	14.9x	15.5x	12.8x
Adj. EBITDA (QR mn)	921.7	941.7	1,019.0	1,203.6
EV/EBITDA (x)	20.5x	20.1x	18.6x	15.7x

Source: Company data, Bloomberg, QNBFS Research

Key Data

Current Market Price (QR)	35.35
Dividend Yield (%)	7.1%
Bloomberg Ticker	BRES QD
ISIN	QA000A0KD6J5
Sector	Real Estate
52wk High/52wk Low (QR)	38.79 / 27.36
30-d Average Volume ('000)	273.2
Mkt. Cap. (\$ mn/QR mn)	3,761 / 13,756
Shares Outstanding (mn)	389.1
FO Limit* (%)	25.0%
Current FO* (%)	9.6%
1-Year Total Return (%)	15.1%
Fiscal Year End	31-Dec

Source: Bloomberg (as of April 30, 2018), * Foreign ownership (as of April 30, 2017) and includes GCC institutions

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Model Summary

Company Name:	Barwa Real Estate	Price:	QR 35.35	Target Price:	QR 39.00
Ticker:	BRES QD	Mkt Cap:	QR 13,756 mn	Dividend Yield:	7.1%
Recommendation:	ACCUMULATE	EV:	QR 18,906 mn	Total Expected Return:	10.3%

	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	1,603	Adj. EV/EBITDA	20.5x	20.1x	18.6x	15.7x
Total Reported Revenue	1,737	1,705	1,702	1,883	Peer Average*	13.8x	12.2x	12.5x	11.5x
Recurring Gross Profit	1,154	1,112	1,190	1,375	Adj. P/E	18.0x	17.6x	16.6x	13.8x
Total Reported Gross Profit	1,154	1,112	1,190	1,375	Peer Average*	14.5x	14.2x	14.0x	11.7x
Adj. EBITDA	922	942	1,019	1,204	P/CFPS	19.4x	14.9x	15.5x	12.8x
Adj. EBIT	865	899	968	1,148	Peer Average*	17.6x	17.6x	11.6x	10.6x
Reported Net Income	1,605	1,705	1,059	995					
Adj. Recurring Net Income	763	783	830	995					

Reported EPS - FD	4.13	4.38	2.72	2.56	P/Operating NAV	0.7x
Adj. EPS - FD	1.96	2.01	2.13	2.56	P/NAV	0.9x

	2016	2017	2018e	2019e		2016	2017	2018e	2019e
Cash Flow (in QR mn except Per Share Items)					Margins				
Operating Cash Flow (ex. WC)	709.1	924.2	887.0	1,070.5	Recurring Gross Margin	98%	89%	84%	86%
Cash from Operations	14.8	2,212.2	785.9	905.1	Adj. EBITDA	78%	76%	72%	75%
Cash from Investing	932.6	(62.7)	(571.1)	(246.8)	Adj. EBIT	74%	72%	68%	72%
Total Capex	(7.6)	(15.2)	(927.8)	(420.0)	Adj. Net Income	65%	63%	58%	62%
Simple FCF (CFO - Capex)	7.2	2,197.0	(142.0)	485.1					
Cash from Financing	(598.3)	(1,302.5)	(850.3)	(1,030.8)	Operating Segments				

CFPS (ex. WC)	1.82	2.38	2.28	2.75	Rental Gross Margin	67%	74%	75%	78%
CFPS	0.04	5.69	2.02	2.33	Finance Lease Gross Margin	100%	100%	100%	100%
					Consultancy Gross Margin	42%	35%	35%	35%

	2016	2017	2018e	2019e		2016	2017	2018e	2019e
Balance Sheet (in QR mn except Per Share Items)					Metrics				
Cash/Equiv.	2,875	3,239	2,238	1,866	Leverage and Debt Service				
PP&E	592	566	1,442	1,807	Net Debt/adj. EBITDA	5.8x	5.2x	6.5x	5.7x
Investment Properties	13,851	16,746	17,139	17,139	Debt/Capital	28%	28%	30%	29%
Total Assets	29,203	29,693	30,034	30,488	Debt/Equity	0.5x	0.4x	0.5x	0.5x
Current Debt	-	200	518	1,083	Interest Coverage	10.7x	8.8x	7.8x	8.3x
Long-Term Debt	8,206	7,972	8,341	7,678					
Total Debt	8,206	8,172	8,859	8,761	Profitability				
Total Liabilities	10,843	10,552	11,820	12,019	Adj. ROA	2.6%	2.7%	2.8%	3.3%
Owners' Equity	18,229	18,923	17,986	18,231	Adj. ROE	4.3%	4.2%	4.5%	5.5%
Minority Interest	131	217	228	239	Adj. ROC	3.8%	3.8%	4.0%	4.6%

	1Q2018e	2Q2018e	3Q2018e	4Q2018e		2016	2017	2018e	2019e
Quarterly Estimates					Dividend Payouts				
Total Reported Revenue	431.0	422.1	424.3	424.8	Reported Net Income	52%	57%	92%	98%
Recurring Gross Profit	280.3	302.1	303.8	304.1	Adj. Net Income	110%	123%	117%	98%
Adj. EBITDA	221.9	289.3	285.1	222.7	Operating Cash Flow (ex. WC)	119%	104%	110%	91%
Adj. EBIT	212.1	275.6	271.3	208.9					
Adj. Recurring Net Income	176.0	240.1	237.7	176.1	Growth				
Cash from Operations	99.2	252.9	231.4	202.4	Rental Revenue	6.9%	5.9%	14.2%	12.7%
Cash/Equiv.	2,521.2	2,788.1	3,027.5	2,238.1	Adj. EBITDA	0.3%	2.2%	8.2%	18.1%
Total Debt	8,122.5	8,406.1	8,648.3	8,859.3	Reported Net Income	(47.5%)	6.2%	(37.9%)	(6.0%)
					Adj. Net Income	2.1%	2.7%	6.0%	19.9%
					Operating Cash Flow (ex. WC)	(78.7%)	30.3%	(4.0%)	20.7%

* 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

Source: Bloomberg, QNBFS Research

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	1,883
COGS	QR mn		(544)	(575)	(648)	(582)	(593)	(512)	(508)
Gross Profit	QR mn		1,278	1,385	1,144	1,154	1,112	1,190	1,375
Gross Margin %	%		70.2%	70.6%	63.8%	66.5%	65.2%	69.9%	73.0%
G&A	QR mn		(430)	(335)	(262)	(241)	(261)	(260)	(260)
Total Operating Expenses	QR mn		(339)	(442)	(225)	(233)	(171)	(171)	(171)
Adj. EBITDA	QR mn		939	943	919	922	942	1,019	1,204
Adj. EBITDA Margin %	%		51.6%	48.1%	51.2%	53.1%	55.2%	59.9%	63.9%
D&A	QR mn		(94)	(93)	(67)	(57)	(43)	(51)	(55)
Adj. EBIT	QR mn		846	850	852	865	899	968	1,148
Adj. EBIT Margin %	%		46.4%	43.4%	47.5%	49.8%	52.7%	56.9%	61.0%
Interest Income	QR mn		116	271	78	78	95	95	84
Interest Expense	QR mn		(1,090)	(748)	(166)	(159)	(197)	(218)	(223)
Net Interest Expense	QR mn		(974)	(477)	(88)	(81)	(102)	(123)	(139)
Earnings Before Taxes	QR mn		(128)	373	764	784	797	845	1,009
Adj. Net Income	QR mn		(129)	361	747	763	783	830	995
Adj. Profit Margin %	%		(7.1%)	18.4%	41.7%	43.9%	45.9%	48.8%	52.8%
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	2.13	2.56
CFPS (ex. WC)	QR/sh		0.02	8.39	8.57	1.82	2.38	2.28	2.75
CFPS	QR/sh		(2.64)	13.21	9.25	0.04	5.69	2.02	2.33
Balance Sheet			2013	2014	2015	2016	2017	2018	2019
Cash/Equiv	QR mn		966	1,781	3,834	2,875	3,239	2,238	1,866
A/R	QR mn		842	867	1,028	1,103	1,164	1,049	1,217
Inventories	QR mn		19,712	3,566	3,793	3,202	1,621	1,848	2,143
Total Current Assets	QR mn		24,826	7,117	9,405	8,001	6,465	5,400	5,490
PP&E	QR mn		417	694	651	592	566	1,442	1,807
Total Long-Term Assets	QR mn		22,303	21,852	19,032	21,202	23,228	24,634	24,998
TOTAL ASSETS	QR mn		47,129	28,969	28,437	29,203	29,693	30,034	30,488
A/P	QR mn		3,660	3,735	1,469	1,357	1,725	1,860	2,157
Total Current Liabilities	QR mn		6,579	5,025	8,784	1,739	2,290	3,181	4,042
Total LT Liabilities	QR mn		26,234	8,025	1,935	9,104	8,262	8,640	7,977
TOTAL LIABILITIES	QR mn		32,813	13,050	10,719	10,843	10,552	11,820	12,019
Non-Controlling Interest	QR mn		504	159	147	131	217	228	239
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	8,109	8,255
TOTAL OWNERS EQUITY	QR mn		13,811	15,759	17,571	18,229	18,923	17,986	18,231
Cash Flow Statement			2013	2014	2015	2016	2017	2018	2019
Operating Cash Flow	QR mn		7	3,266	3,334	709	924	887	1,070
Non-Cash Change in WC	QR mn		(1,033)	1,872	264	(694)	1,288	(101)	(165)
CFO	QR mn		(1,026)	5,138	3,598	15	2,212	786	905
Capex	QR mn		(67)	(18)	(10)	(8)	(15)	(928)	(420)
CFI	QR mn		1,131	17,101	(2,352)	933	(63)	(571)	(247)
Net Change in Debt	QR mn		1,127	(18,373)	(227)	508	-	685	(98)
Dividends	QR mn		(321)	(419)	(848)	(841)	(964)	(1,457)	(973)
CFD	QR mn		107	(21,903)	(1,411)	(598)	(1,303)	(850)	(1,031)
FX Translation	QR mn		-	-	(7)	(6)	7	(0)	-
Net Change in Cash	QR mn		212	336	(172)	343	854	(636)	(373)

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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