

## UDCD Alert – First Look: Headline 4Q2016 Earnings Beat; New Div. Seen as LT Positive

- **UDCD's 4Q2016 headline earnings beat our estimates (first look)** – United Development Company's (UDCD) net profit for 4Q2016 came in at ~QR171mn vs. our estimate of ~QR157mn (+9%) or EPS of QR0.48 vs. our QR0.44. For the full year, headline earnings/EPS came in lower y/y (as expected) at ~QR623mn/QR1.76 vs. ~QR690mn/QR1.95 (-10%), reflecting the weakness in the real estate market that was experienced in 2016, which was mostly baked into the share price. We await release of the full financials to compare adjusted earnings and analyze the performance of the company.
- **New dividend policy should attract more LT investors** – Despite the earnings beat, the shares could potentially come under pressure at market open today given the lower-than-expected dividend recommended by the Board of Directors of QR1.25 vs. our QR1.50 (-17% y/y); 2015 dividend was QR1.50/sh.
  - Should share weakness occur at market open, we would be buyers of the shares as we expect sequential earnings growth into 2018 of ~8% annually. However, the new dividend policy implies a more rapid than expected improvement in dividend payouts in 2017 (~65% vs. ~78%) and 2018 (~60% vs. ~72%).
  - We view this new dividend policy as supportive of UDCD's future growth plans as it allows the company to invest more for growth without the need to lever up the balance sheet. This also helps alleviate some of the concerns we highlighted about UDCD's LT dividend sustainability in our initiation report.
- **Maintain our QR25.50 TP and Accumulate rating.** We continue to rate the shares as Accumulate given our growth expectations, attractive dividend yield (still), and valuation upside. The shares are currently trading at ~12x our FY2017 EPS (~14% discount to peers).

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

**Saugata Sarkar**  
Head of Research  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

**Mohamed Abo Daff**  
Senior Research Analyst  
+974 4476 6589  
mohd.abodaff@qnbfs.com.qa

**Shahan Keushgerian**  
Senior Research Analyst  
+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

**Zaid Al Nafsoosi, CMT, CFTE**  
Senior Research Analyst  
+974 4476 6535  
zaid.alnafsoosi@qnbfs.com.qa

**DISCLAIMER:** This publication has been prepared by QNB Financial Services Co. WLL (“QNBFS”) a wholly-owned subsidiary of Qatar National Bank (“QNB”). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNBFS.