

UDCD Alert – First Look: 3Q2017 Earnings Beat While LT Growth Projects Keep Us Interested

- **UDCD reported ~QR152mn headline net profit in 3Q2017 vs. our estimate of ~QR130mn (first look) –** Headline EPS came in at QR0.43 (our estimate of QR0.37) during the third quarter (27% y/y) and a substantial improvement from 2Q2017's QR0.15, where we estimated that no land plot sales were done. We will update our model shortly to reflect the quarterly results as well as the overall assumptions to account for an overall continued weakness in Qatari real estate. Having said that, we note that adj. EBITDA beat of ~QR18.0mn was the primary driver of the earnings variance driven by higher-than-expected revenue partially offset by higher-than-expected cost of sales.
- **Expect increased overall Pearl-Qatar occupancy to benefit retail commercial segment –** We note that as per UDCD Chairman, the pearl is now home to ~25,000 residents, up substantially from ~16,000 one year ago, when we first spoke to management. This increase in residential occupancy should drive higher profitability for UDCD, which continues to own ~1,100 residential units that are currently (or will be) on the market including 480 apartments as part of the Al Mutahida Towers scheduled for first delivery in 2019. More importantly, we view increased residential occupancy as an encouraging catalyst for the retail commercial segment (i.e. higher foot traffic driving higher retail sales).
- **Upcoming catalysts should drive long-term value –** Going forward, we expect management to continue to focus on cost-cutting in this challenging market environment while at the same time advancing several development projects through the design and/or construction phases. We highlight that in 3Q2017, management signed an agreement for the sale of a land plot that will be used for the construction of a commercial mall (04 Mall). In addition, we highlight that UDCD is in the design phase of Al Morjan Project, which is expected to be a mix of residential, commercial, and entertainment units. We await announcement of details and clarity on the project economics to incorporate into our model. Finally, our understanding is that Al Mutahida Towers construction continues on budget/schedule and estimate that both Phase I & II are now (or close to being) sold out.
- **Persistent macro challenges –** We maintain our long-term bullish view on the Qatari real estate market in light of the government's 2022 & 2030 visions and the related infrastructure spending. However, we have been highlighting in our recent notes the persistent nature of economic challenges facing real estate investors especially in light of current regional tensions. We admit that real estate plays have been some of the worst-hit sectors since the June 5th blockade. As such, while strong 3Q2017 results could help support share prices, we expect near-term macro/regional risks to continue to weigh on share price performance and limit near-term upside. Long-term shareholders should maintain patience throughout the near-term turbulence.
- **Valuation attractive should risk appetite improve –** We continue to rate the shares as Accumulate. The shares are currently trading at 9/7x our FY2017/18 adj. EPS (~40% discount to peers), while offering an attractive 9.8% dividend yield.

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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