

UDCD Alert – First Look: 1Q2017 Earnings Beat

- **UDCD's 1Q2017 headline/adjusted earnings beat our estimates (first look)** – United Development Company's (UDCD) net/adj. profit for 1Q2017 came in at ~QR231/225mn (~34/8% q/q) vs. our estimate of ~QR198mn (+16/13%), which translated into headline/adjusted EPS of QR0.65/0.63 vs. our QR0.56. While revenue was up ~68% y/y vs. 1Q2016 (~QR458.1mn), we note that adj. profit came in ~13% lower y/y as a result of the revenue being skewed significantly in favor of higher Opex sales (Abraj Quartier being the main driver). While this was already in our model, we were surprised to see the full recognition of the remainder of the sale of Abraj Quartier office tower in 1Q2017, which was the primary driver of the earnings beat.
- **Abraj Quartier office tower now fully recognized driving lower margins** – We estimate that ~QR500mn of revenue reported is related the recognition of the remainder of the sale of Abraj Quartier office tower (QR1.25bn sale closed in 4Q2016). This resulted in lower-than-expected gross/adj. profit margins (~40/29% vs. our ~45/35%). As such we would expect gross/profit margins to trend higher for the remainder of 2017 as UDCD focuses more on land plot sales, which are considered high margin sales (we estimate ~85-90% contribution to the bottom line).
- **Maintain our QR25.50 TP and Accumulate rating.** We continue to rate the shares as Accumulate given our growth expectations, attractive dividend yield, and valuation upside. The shares are currently trading at ~10x our FY2017 EPS (~20% 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

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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