

## Ezdan Holding Group

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>14.04</b>	<b>Target Price</b>	<b>16.00</b>
<b>Implied Upside</b>	<b>14.0%</b>		

### Go Private Go-Ahead; Raising More Questions Than Answers

We expect ERES shares to be volatile over the next period as uncertainty regarding going private could force minority shareholders to reduce exposure. We are currently maintaining our valuation and recommendation (QR16.00 TP; Market Perform) pending additional clarity. We believe that the 10% share price movement was driven by the uncertainty on what could happen next. We think shareholders are better served by management proactively “getting ahead of the story” by outlining their views of how to move forward. This should reduce uncertainty for investors and relieve some of the pressure on the shares.

#### Highlights

- Shareholders approve going private; management assures continued disclosures.** At last week’s EGM, ~94% of shareholders voted for starting the process of turning ERES from a publicly traded company into a private company. As discussed in our last note, there is little clarity on the process of voluntary delisting from the QSE. After speaking with management, our understanding is that there is no anticipated impact on financial reporting (i.e. ERES will continue to publish quarterly/annual financials). Also we note that S&P announced that there would be no impact on credit ratings for ERES’ sukuks. Finally, we do not anticipate any impact on other credit facilities used by ERES. Management assured us that should ERES go private, there will be no impact on corporate governance/reporting standards.
- Obtaining an independent valuation demonstrates divergence between company and general market’s assessment of ERES.** We highlight that the shareholders also instructed the Board of Directors (BoD) to retain a valuator to value the company’s assets and determine the “fair value” of the share price and as per management, such a valuation will be made public. We expect that should a favorable independent valuation be obtained, this could help relieve some pressure on the shares. The big questions for the minority common shareholders are: 1) at what price will the remaining shares be bought at; and 2) could the shares be suspended for a prolonged period?
- Given no precedent/defined mechanisms, we see uncertainty putting pressure on the shares.** Given the uncertainties surrounding the whole process, we expect ERES shares to continue to experience increased volatility until (and if) such a favorable valuation emerges. We think ERES should be proactive with its information flow with the market and disclose at their earliest their view of how to proceed.
- Debt is a double-edged sword.** Should real estate market bounce back, ERES’s debt load would work in shareholders’ favor given the company’s financial leverage.

#### Catalysts

- Ezdan Oasis.** Expected to begin occupancy by 2H 2017.
- The Curve Hotel.** Operational (soft opening). Official opening in September 2017.
- Ezdan Palace.** Soft opening in July 2017 (soft opening).

#### Recommendation, Valuation and Risks

- Market Perform with a QR16.00 12-month TP.** Our estimates imply ~1.0x NAV, implying that current operations/upside are fully absorbed into the share price.
- Risks to thesis.** Dividend sustainability could be challenged during an economic downturn or should debt repayment become a more urgent focus. A continued reliance on the balance sheet to fund operations/dividends could continue to erode long-term shareholder value. Ability to re-profile debt at comparable cost and appropriate maturities. Ability to secure funding for organic/acquisitive growth.

#### Key Financial Data and Estimates

	2015	2016	2017e	2018e
Adj. EPS (QR/sh)	0.41	0.68	0.81	0.69
P/E (x)	34.1x	20.7x	17.3x	20.4x
CFPS (QR/sh)	0.49	0.50	0.68	0.83
P/CFPS (x)	18.6x	13.7x	28.1x	16.9x
Adj. EBITDA (QR mn)	1,627.1	2,235.7	2,689.0	2,418.2
EV/EBITDA (x)	30.8x	22.4x	18.6x	20.7x

Source: Company data, Bloomberg, QNBFS Research

#### Key Data

Current Market Price (QR)	14.04
Dividend Yield (%)	3.6%
Bloomberg Ticker	ERES QD
ISIN	QA000A0NE8B4
Sector	Real Estate
52wk High/52wk Low (QR)	20.24 / 13.20
30-d Average Volume ('000)	1,247.3
Mkt. Cap. (\$ mn/QR mn)	10,227 / 37,241
Shares Outstanding (mn)	2,652.5
FO Limit* (%)	49.0%
Current FO* (%)	4.1%
1-Year Total Return (%)	(15.9%)
Fiscal Year End	31-Dec

Source: Bloomberg (as of May 28, 2017), \* Foreign ownership (as of May 24, 2017) and includes GCC institutions

#### Mohamed Abo Daff

+974 4476 6589  
mohd.abodaff@qnbfs.com.qa

#### Saugata Sarkar

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Model Summary

<b>Company Name:</b>	<b>Ezdan Holding Group</b>	<b>Price:</b>	<b>QR 14.04</b>	<b>Target Price:</b>	<b>QR 16.00</b>
<b>Ticker:</b>	<b>ERES QD</b>	<b>Mkt Cap:</b>	<b>QR 37,241 mn</b>	<b>Dividend Yield:</b>	<b>3.6%</b>
<b>Recommendation:</b>	<b>MARKET PERFORM</b>	<b>EV:</b>	<b>QR 50,114 mn</b>	<b>Total Expected Return:</b>	<b>14.0%</b>

	2015	2016	2017e	2018e
<b>Earnings (in QR mn except Per Share Items)</b>				
Revenue	2,169.0	2,909.6	3,439.3	3,231.4
Gross Profit	1,872.6	2,539.0	3,022.5	2,744.6
<b>Adj. EBITDA</b>	<b>1,627.1</b>	<b>2,235.7</b>	<b>2,689.0</b>	<b>2,418.2</b>
Adj. EBIT	1,617.8	2,220.0	2,671.2	2,394.4
<b>Reported Net Income</b>	<b>1,661.9</b>	<b>1,812.5</b>	<b>2,153.2</b>	<b>1,827.9</b>
<b>Adj. Net Income</b>	<b>1,090.8</b>	<b>1,797.4</b>	<b>2,151.2</b>	<b>1,827.9</b>

Reported EPS - FD	0.63	0.68	0.81	0.69
Adj. EPS - FD	0.41	0.68	0.81	0.69

<b>Cash Flow (in QR mn except Per Share Items)</b>				
Operating Cash Flow (ex. WC)	1,311.2	1,319.0	1,802.2	2,212.0
<b>Cash from Operations</b>	<b>2,001.4</b>	<b>2,726.1</b>	<b>1,325.1</b>	<b>2,203.7</b>
Cash from Investing	(1,977.0)	(2,282.5)	3,005.6	176.7
Total Capex	(1,603.6)	(2,034.0)	(673.8)	(29.5)
<b>Simple FCF (CFO - Capex)</b>	<b>397.8</b>	<b>692.1</b>	<b>651.3</b>	<b>2,174.2</b>
Cash from Financing	495.9	(638.8)	(1,888.6)	(3,932.1)
DPS	0.40	0.50	0.50	0.50

CFPS (ex. WC)	0.49	0.50	0.68	0.83
CFPS	0.75	1.03	0.50	0.83

<b>Balance Sheet (in QR mn except Per Share Items)</b>				
Cash/Equiv.	620	426	2,868	1,317
PP&E	22	42	77	83
Investment Properties	36,899	38,920	39,570	39,570
<b>Total Assets</b>	<b>46,939</b>	<b>49,829</b>	<b>50,448</b>	<b>48,941</b>

Current Debt	1,486	2,001	2,072	2,072
Long-Term Debt	13,474	13,926	13,919	11,847
Total Debt	14,960	15,927	15,991	13,919
<b>Total Liabilities</b>	<b>16,558</b>	<b>19,255</b>	<b>19,120</b>	<b>17,079</b>
<b>Owners' Equity</b>	<b>29,977</b>	<b>30,142</b>	<b>30,819</b>	<b>31,145</b>
Minority Interest	404	432	510	717

<b>Quarterly Estimates</b>				
	1Q2017e	2Q2017e	3Q2017e	4Q2017e
Revenue	1,234.1	688.3	735.1	781.8
Gross Profit	1,137.2	588.9	628.5	667.9
<b>Adj. EBITDA</b>	<b>1,056.9</b>	<b>517.3</b>	<b>572.2</b>	<b>542.6</b>
Adj. EBIT	1,054.2	512.5	567.2	537.3
<b>Reported Net Income</b>	<b>943.8</b>	<b>367.7</b>	<b>480.3</b>	<b>359.4</b>
<b>Cash from Operations</b>	<b>(103.2)</b>	<b>500.9</b>	<b>478.5</b>	<b>448.8</b>
Cash/Equiv.	3,228.8	3,517.1	3,061.9	2,868.5
Total Debt	15,671.1	16,991.6	16,491.3	15,991.0

Reported EPS - FD	0.36	0.14	0.18	0.14
Adj. EPS - FD	0.36	0.14	0.18	0.14
CFPS (ex. WC)	0.16	0.16	0.18	0.17

\* 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)

	2015	2016	2017e	2018e
<b>Valuation</b>				
Adj. EV/EBITDA	30.8x	22.4x	18.6x	20.7x
Peer Average*	13.2x	16.9x	13.2x	10.6x
Adj. P/E	34.1x	20.7x	17.3x	20.4x
Peer Average*	12.3x	11.5x	12.6x	11.2x
P/CFPS	18.6x	13.7x	28.1x	16.9x
Peer Average*	11.7x	13.4x	12.6x	12.9x

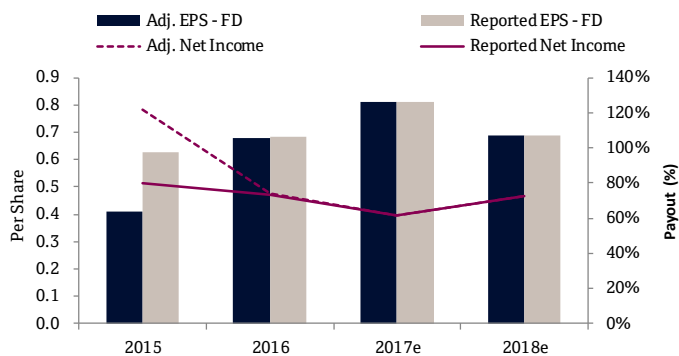
P/Operating NAV	1.04x
P/NAV	0.88x

<b>Metrics</b>				
<b>Leverage and Debt Service</b>				
Net Debt/adj. EBITDA	8.8x	6.9x	4.9x	5.2x
Debt/Capital	32%	32%	32%	29%
Debt/Equity	0.5x	0.5x	0.5x	0.4x
Interest Coverage	4.1x	3.6x	4.2x	4.3x

<b>Profitability</b>				
Adj. ROA	2.4%	3.7%	4.3%	3.7%
Adj. ROE	3.6%	6.0%	7.1%	5.9%
Adj. ROC	3.7%	4.9%	6.0%	5.5%

<b>Dividend Payouts</b>				
Reported Net Income	80%	73%	62%	73%
Adj. Net Income	122%	74%	62%	73%
Operating Cash Flow (ex. WC)	101%	101%	74%	60%
Cash from Operations	66%	49%	100%	60%

<b>Growth</b>				
Revenue	15.9%	34.1%	18.2%	(6.0%)
Adj. EBITDA	23.4%	37.4%	20.3%	(10.1%)
Reported Net Income	27.1%	9.1%	18.8%	(15.1%)
Adj. Net Income	(16.6%)	64.8%	19.7%	(15.0%)
Operating Cash Flow (ex. WC)	21.3%	0.6%	36.6%	22.7%



Source: Bloomberg, QNBFS Research

## Detailed Model Summary

Income Statement	Unit	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	<b>QR mn</b>	<b>1,379</b>	<b>1,871</b>	<b>2,169</b>	<b>2,910</b>	<b>3,439</b>	<b>3,231</b>
COGS	QR mn	(184)	(297)	(296)	(371)	(417)	(487)
<b>Gross Profit</b>	<b>QR mn</b>	<b>1,195</b>	<b>1,574</b>	<b>1,873</b>	<b>2,539</b>	<b>3,022</b>	<b>2,745</b>
Gross Margin %	%	86.7%	84.1%	86.3%	87.3%	87.9%	84.9%
G&A	QR mn	(181)	(255)	(246)	(303)	(334)	(326)
Total Operating Expenses	QR mn	(181)	(255)	(246)	(303)	(334)	(326)
<b>Adj. EBITDA</b>	<b>QR mn</b>	<b>1,014</b>	<b>1,318</b>	<b>1,627</b>	<b>2,236</b>	<b>2,689</b>	<b>2,418</b>
Adj. EBITDA Margin %	%	73.5%	70.5%	75.0%	76.8%	78.2%	74.8%
D&A	QR mn	(8)	(9)	(9)	(16)	(18)	(24)
<b>Adj. EBIT</b>	<b>QR mn</b>	<b>1,006</b>	<b>1,309</b>	<b>1,618</b>	<b>2,220</b>	<b>2,671</b>	<b>2,394</b>
Adj. EBIT Margin %	%	72.9%	70.0%	74.6%	76.3%	77.7%	74.1%
Interest Income	QR mn	-	-	-	-	25	22
Interest Expense	QR mn	(212)	(325)	(399)	(623)	(638)	(556)
Net Interest Expense	QR mn	(212)	(325)	(399)	(623)	(613)	(534)
<b>Earnings Before Taxes</b>	<b>QR mn</b>	<b>793</b>	<b>984</b>	<b>1,219</b>	<b>1,597</b>	<b>2,058</b>	<b>1,860</b>
<b>Adj. Net Income</b>	<b>QR mn</b>	<b>1,047</b>	<b>1,308</b>	<b>1,091</b>	<b>1,797</b>	<b>2,151</b>	<b>1,828</b>
Adj. Profit Margin %	%	75.9%	69.9%	50.3%	61.8%	62.5%	56.6%
WA Basic Shares Outstanding	mn	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5
WA FD Shares Outstanding	mn	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5
FD EoP Shares Outstanding	mn	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5	2,652.5
Adj. EPS - FD	QR/sh	0.39	0.49	0.41	0.68	0.81	0.69
CFPS (ex. WC)	QR/sh	0.29	0.41	0.49	0.50	0.68	0.83
CFPS	QR/sh	0.09	0.37	0.75	1.03	0.50	0.83
<b>Balance Sheet</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Cash/Equiv	QR mn	450	298	620	426	2,868	1,317
A/R	QR mn	144	82	127	236	464	502
Inventories	QR mn	13	22	20	19	15	16
<b>Total Current Assets</b>	<b>QR mn</b>	<b>676</b>	<b>890</b>	<b>1,268</b>	<b>780</b>	<b>3,474</b>	<b>1,961</b>
PP&E	QR mn	28	28	22	42	77	83
<b>Total Long-Term Assets</b>	<b>QR mn</b>	<b>40,527</b>	<b>42,503</b>	<b>45,670</b>	<b>49,048</b>	<b>46,975</b>	<b>46,980</b>
<b>TOTAL ASSETS</b>	<b>QR mn</b>	<b>41,203</b>	<b>43,393</b>	<b>46,939</b>	<b>49,829</b>	<b>50,448</b>	<b>48,941</b>
A/P	QR mn	262	324	916	664	377	408
Total Current Liabilities	QR mn	1,867	1,558	2,402	4,176	2,505	2,536
Total LT Liabilities	QR mn	10,692	11,757	14,156	15,079	16,615	14,543
<b>TOTAL LIABILITIES</b>	<b>QR mn</b>	<b>12,559</b>	<b>13,316</b>	<b>16,558</b>	<b>19,255</b>	<b>19,120</b>	<b>17,079</b>
Non-Controlling Interest	QR mn	-	-	404	432	510	717
Issued Capital	QR mn	26,525	26,525	26,525	26,525	26,525	26,525
Retained Earnings	QR mn	861	1,230	1,623	1,882	2,452	2,575
<b>TOTAL OWNERS EQUITY</b>	<b>QR mn</b>	<b>28,644</b>	<b>30,077</b>	<b>29,977</b>	<b>30,142</b>	<b>30,819</b>	<b>31,145</b>
<b>Cash Flow Statement</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Operating Cash Flow	QR mn	769	1,081	1,311	1,319	1,802	2,212
Non-Cash Change in WC	QR mn	(521)	(111)	690	1,407	(477)	(8)
<b>CFO</b>	<b>QR mn</b>	<b>248</b>	<b>970</b>	<b>2,001</b>	<b>2,726</b>	<b>1,325</b>	<b>2,204</b>
Capex	QR mn	(756)	(400)	(1,604)	(2,034)	(674)	(30)
<b>CFI</b>	<b>QR mn</b>	<b>(1,446)</b>	<b>(266)</b>	<b>(1,977)</b>	<b>(2,283)</b>	<b>3,006</b>	<b>177</b>
Net Change in Debt	QR mn	1,305	131	1,557	300	(103)	(2,072)
Dividends	QR mn	(345)	(822)	(1,061)	(937)	(1,326)	(1,326)
<b>CFF</b>	<b>QR mn</b>	<b>960</b>	<b>(691)</b>	<b>496</b>	<b>(639)</b>	<b>(1,889)</b>	<b>(3,932)</b>
FX Translation	QR mn	-	-	-	-	-	-
<b>Net Change in Cash</b>	<b>QR mn</b>	<b>(238)</b>	<b>12</b>	<b>520</b>	<b>(195)</b>	<b>2,442</b>	<b>(1,552)</b>

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*

<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

### Contacts

#### Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafsoosi@qnbfs.com.qa](mailto:zaid.alnafsoosi@qnbfs.com.qa)

#### Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

[mohd.abodaff@qnbfs.com.qa](mailto:mohd.abodaff@qnbfs.com.qa)

#### QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

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