

AAMAL COMPANY (AHCS)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR0.602	Current Target Price	QR0.686
Implied Upside	13.9%		

Slightly Lower 1Q2020 Results on Higher G&A: Maintain TP & MP

Aamal's net profit declined 14.5% YoY (but rose 28.0% on QoQ basis) to QR82.5mn in 1Q2020, which was below our estimate (variation of -6.4%). While gross profit and "share in results of equity-accounted investees" are in-line with our estimates, higher G&A due to the early payment of zakat in 1Q2020 (vs. the 2Q last year) is the primary reason for the lower bottom line vs. our expectations. We continue to rate Aamal as Market Perform and maintain our estimates and TP at QR0.686. AHCS has Qatar's leading pharma & medical device distribution companies in its portfolio, which supports AHCS' top & bottom line resilience as evident in 1Q2020. Going forward, while Aamal's 2020 results are likely to be affected by the Coronavirus and oil shocks, we believe AHCS' 2021 prospects could be better with the completion of renovation works & expansion in the City Center Mall (CCD) during 2020 and Senyar's new drum and copper factories becoming operational during 1H2021. In 2022, we also think Aamal will be one of the top beneficiaries of FIFA'22, given its property, retail and trading exposures. Qatar aims to increase its number of hospital beds to 5.7k by 2033 from an estimated 4k as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033. With its leading pharma & medical device businesses in place, Aamal is strongly positioned to capture the growth in Qatar's healthcare system. That said, as a major risk factor, Coronavirus counter-measures could result in lower rent income and industrial manufacturing revenue/margins beyond our assumptions, which could lead us to reduce our EPS forecasts in the coming months. On the positive side, the company is likely to benefit directly/indirectly from the recently announced QR75bn support package.

Highlights

- Aamal posted net profit of QR82.5mn in 1Q2020, which was below our estimate of QR88.2mn (variation of -6.4%). EPS amounted to QR0.013 in 1Q2020 vs. QR0.015 in 1Q2019.
- Gross profit declined by 6.9% YoY to QR110.7mn, in-line with our QR110.0mn estimate (variation: +0.6%). Aamal's revenue came in at QR374.0mn in 1Q2020, with a 16.3% YoY rise (+7.2% QoQ) due to strong performance from the healthcare products under the Trading & Distribution segment. However, Aamal's net underlying profit margins decreased by 7.4 percentage points to 17.4% YoY in 1Q2020 vs. 1Q2019's 24.9%, resulting in lower gross profit YoY. The company stated that material impact arising from the COVID-19 pandemic, such as postponement of some projects, reduced contract off-takes, which coupled with intense market competition and client focus on cost effective products, impacted margins. The government had closed Qatar's industrial area where some of Aamal's industrial manufacturing businesses are located, which adversely affected the performance of Aamal Cement Industries and Aamal Readymix. On the positive front, the Trading & Distribution segment recorded 31.8% revenue and 10.0% net earnings growth primarily driven by Ebn Sina Medical's revenue (+35.0% YoY).
- "Share in results of equity-accounted investees" declined by 5.2% YoY to QR16.8mn, in-line with our QR16.4mn estimate.
- G&A rose by 29.6% YoY to QR36.8mn from QR28.4mn in 1Q2019, ahead of our QR31.4mn estimate. The increase in the G&A during 1Q2020 is partially due to Aamal paying zakat (QR4.0mn) in 1Q2020 vs. a payment in 2Q2019. Besides, it is noteworthy that 1Q2019's G&A base was already low, compared to 1Q2017 & 1Q2018's QR35.9mn and QR31.4mn, respectively.

Catalysts

1) Lifting of Coronavirus restrictions 2) Opening of CCD's extension & new factories.

Recommendation, Valuation and Risks

- We maintain our Market Perform rating and our 1-year target price of QR0.686, which implies a 13.9% upside potential. While our blended valuation (DCF & multiples) yields a fair value of QR0.686, our DCF itself implies a 27.2% upside for Aamal shares. For relative comparisons, we prefer to utilize AHCS' relative P/E multiples vs. the QSE Index. Due to Aamal's unique business portfolio and its heavy exposure to Qatar, we think an international peer group comparison is not suitable for the name.
- Risks: 1) Poor visibility on earnings due to the Coronavirus pandemic and 2) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.07	0.05	0.04	0.06
P/E (x)	8.5	11.8	14.4	9.4
EV/EBITDA (x)	10.4	11.7	14.6	10.3
DPS (QR)	0.060	0.040	0.036	0.040
DY (%)	6.1%	6.6%	6.0%	6.7%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	AHCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	AHCS.QD
ISIN	QA000AONCQB1
Sector	Diversified
52wk High/52wk Low (QR)	0.905/0.501
3-m Avg. Volume (000)	4,982
Mkt. Cap. (\$ bn/QR bn)	1.0/3.8
EV (\$ bn/QR bn)	1.1/3.9
Current FO*/FO limit (%)	0.8%/49%
Shares Outstanding (mn)	6,300.0
1-Year Total Return (%)	-28.0%
Fiscal Year End	December 31

Source: Bloomberg (as of May 03, 2020), *Qatar Exchange (as of as of May 03, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (QRmn)

	2017	2018	2019	2020e	2021e
Revenue	1,604,237	1,286,552	1,294,117	1,048,863	1,458,300
COGS	1,031,842	802,025	834,124	671,675	942,049
Depreciation	26,801	17,331	25,980	26,141	24,724
Gross Profit	545,594	467,196	434,013	351,047	491,526
Marketing and promotion expense	13,303	7,405	6,753	5,402	6,483
SG&A	115,324	109,288	119,902	99,567	123,328
Depreciation	9,899	10,034	15,042	15,135	14,315
Operating Income	407,068	340,469	292,316	230,943	347,401
EBITDA	443,768	367,834	333,338	272,219	386,440
EBITDA Margin %	27.7%	28.6%	25.8%	26.0%	26.5%
Fair value gain loss of control of subsidiaries	22,192	0	0	0	0
Provision Expenses	13,769	2,998	14,516	11,765	16,357
Share of profits of equity accounted investees	102,025	100,028	62,265	54,112	83,189
Other Income	20,886	11,415	8,004	8,404	8,825
Total Other Income	131,334	108,445	55,754	50,751	75,656
Financial Expenses	-15,338	-1,323	-25,939	-19,232	-19,357
Finance Income	3,018	1,150	2,549	1,033	813
Finance Expense	-18,356	-2,473	-28,487	-20,265	-20,169
Net profit before discontinued operations	523,064	447,591	322,131	262,462	403,701
Discontinued operations	0	0	0	0	0
Non controlling interests	-22,148	-2,320	136	111	170
Net Income	500,917	445,271	322,267	262,573	403,871
<i>Net Profit Margin</i>	<i>31.2%</i>	<i>34.6%</i>	<i>24.9%</i>	<i>25.0%</i>	<i>27.7%</i>
<i>Shares Outstanding (mn)</i>	<i>6,300,000</i>	<i>6,300,000</i>	<i>6,300,000</i>	<i>6,300,000</i>	<i>6,300,000</i>
EPS	0.08	0.07	0.05	0.04	0.06
DPS	0.06	0.06	0.04	0.04	0.04

Note: EPS based on current number of shares

Balance Sheet (QRmn)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	349,748	605,895	519,317	409,629	319,317
S/T Deposits	0	0	0	0	57,122
Accounts Receivable & Prepayments	479,824	405,154	413,064	334,782	473,166
Due From Related Parties	134,778	48,964	38,922	31,546	44,586
Other Assets	0	0	0	0	0
Inventories	146,890	171,479	163,980	154,650	222,065
Total Current Assets	1,111,239	1,231,492	1,135,284	930,608	1,116,255
Right of use assets	0	0	84,023	75,570	67,116
Retention and other non current assets	0	6,036	5,712	5,712	5,712
Investment Properties	6,892,215	7,168,590	7,208,114	7,257,415	7,317,415
Investment in Associates	336,063	324,125	294,657	305,234	316,191
Property, Plant & Equipment	330,309	315,912	292,844	308,468	328,201
Non-Current Assets	7,558,587	7,814,663	7,885,350	7,952,399	8,034,637
Total Assets	8,669,826	9,046,155	9,020,634	8,883,007	9,150,892
Short-Term Debt	228,232	85,665	114,720	100,000	220,000
Accounts Payable & Accruals	350,677	353,914	400,470	307,435	436,351
Other Payables	13,622	16,875	13,333	14,666	16,133
Finance lease liability	0	0	16,359	14,723	13,251
Current Liabilities	592,531	456,455	544,882	436,825	685,735
Interest bearing loans and borrowings	5,491	514,888	400,204	368,469	220,970
Long-Term Debt	0	0	68,677	61,809	55,628
Employees end of service benefits	25,259	26,205	26,093	27,398	28,768
Non-Current Liabilities	30,750	541,093	494,974	457,675	305,366
Total Liabilities	623,282	997,547	1,039,856	894,500	991,101
Total Shareholder's Equity	8,006,864	8,007,437	7,943,647	7,946,056	8,117,342
Minority Interest	39,681	41,170	37,131	42,450	42,450
Liabilities & Shareholder's Equity	8,669,826	9,046,155	9,020,634	8,883,007	9,150,892

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020e	2021e
Growth Rates					
Revenue	(43.3%)	(19.8%)	0.6%	(19.0%)	39.0%
Gross Profit	(20.2%)	(14.4%)	(7.1%)	(19.1%)	40.0%
EBITDA	(22.5%)	(17.1%)	(9.4%)	(18.3%)	42.0%
EBIT	(22.9%)	(17.5%)	(11.0%)	(19.2%)	44.7%
PAT/EPS	N/M	(11.1%)	(27.6%)	(18.5%)	53.8%
DPS	N/M	0.0%	(33.3%)	(10.4%)	12.3%
CFPS	N/M	19.0%	(45.8%)	23.9%	(30.1%)
Operating Ratios					
Gross Margin	34.0%	36.3%	33.5%	33.5%	33.7%
Gross Margin, Excluding Depreciation & Amortization	34.0%	36.3%	33.5%	33.5%	33.7%
EBITDA Margin	27.7%	28.6%	25.8%	26.0%	26.5%
EBIT Margin	27.0%	27.8%	24.6%	24.5%	25.5%
Net Margin	31.2%	34.6%	24.9%	25.0%	27.7%
Working Capital Ratios					
	17	(154)	(92)	(87)	22
Inventory Days	52	78	72	84	86
Average Collection Period	143	164	186	197	191
Payable Days	126	395	350	367	255
Finance Ratios					
Debt-Equity Ratio	3%	7%	8%	7%	6%
Net Debt-Equity Ratio	-1%	0%	1%	2%	2%
Net Debt-to-Capital	-1%	0%	1%	2%	2%
Net Debt-to-EBITDA	(0.3)	(0.0)	0.2	0.5	0.3
Interest Coverage	23.6	144.7	11.2	12.7	18.5
Return Ratios					
ROIC	5.3%	4.2%	3.7%	3.0%	4.3%
ROE	6.3%	5.6%	4.1%	3.3%	5.0%
ROA	5.8%	4.9%	3.6%	3.0%	4.4%
FCF Yield	8.7%	11.7%	6.4%	7.0%	4.5%
Liquidity Ratios					
Current Ratio	1.9	2.7	2.1	2.1	1.6
Quick Ratio	1.6	2.3	1.8	1.8	1.3
Valuation					
EV/Sales	2.3	3.0	3.0	3.8	2.7
EV/EBITDA	8.4	10.4	11.7	14.6	10.3
EV/EBIT	8.6	10.7	12.3	15.4	10.7
P/E	7.6	8.5	11.8	14.4	9.4
P/CF	9.9	8.3	15.3	12.4	17.7
P/BV	0.5	0.5	0.5	0.5	0.5
Dividend Yield	5.1%	6.1%	6.6%	6.0%	6.7%
FCF Yield	8.7%	11.7%	6.4%	7.0%	4.5%

Source: Company data, QNB FS 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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