

Investment Holding Group (IGRD)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR0.386	Current Target Price	QR0.600
Implied Upside	55.4%	Old Target Price	QR0.750

4Q2019 Net Earnings are Slightly Better but No Dividends; Revising TP, Outperform

IGRD's net income was slightly better than our estimate with the support of fair value gains on investment properties. On the other hand, the Board of Directors recommended forgoing the dividend for 2019. While we maintain our Outperform rating, we trim our FY2020e net earnings by 22%, which is in-line with our pessimistic scenario analysis which foresees a 20% EPS decline for Qatari stocks in 2020 as detailed in our March 22 Strategy Report. IGRD's management is confident it has taken relevant precautions against the impact of the Coronavirus on their 2020 operations and expect changes in the company's financial results to be minimal. Management thinks that unforeseen disruptions on the contracting front are likely to be covered via the trading segment. Furthermore, nearly all of IGRD's contracting work is originally related to government projects. Thus, even if delays take place, cancellations are unlikely, according to management. It is noteworthy that IGRD's trading business includes masks and outfits for laborers (sales of which have surged notably since the beginning of the Coronavirus pandemic). We chose to adopt a more conservative view and cut our TP to QR0.60 (from QR0.75 previously) due to the increased global uncertainty with the Coronavirus. We continue to like the company as a turnaround story as well as the new management's dedication in cost cutting and its efforts on expanding the trading segment's product range with high-margin products.

Highlights

- **IGRD posted 4Q2019 net income/EPS of QR20.5m/QR0.025, down 23.3% YoY (yet up 207%, QoQ), which is slightly better than our net income estimate of QR19.1mn (variation: 7.5%).** In FY2019, IGRD reported net profit of QR55.1mn vs. QR58.4mn in FY2018. EPS amounted to QR0.066 in FY2019 as compared to QR0.070 in FY2018, a 5.6% decline YoY. The beat was due to the fair value gains on investment properties, which rose by QR4.9mn in 4Q2019 vs. QR0.3mn in 3Q2019.
- **No dividends for 2019.** The Board of Directors recommended to forgo the 2019 dividend (2018: QR0.025) and carry forward the profit to 2020 to enhance the Group's financial position.
- **Revenue and gross profits were below our estimates.** Although IGRD expanded its order book notably during 2Q2019 with a QR265mn order received in April (corresponds to 62% of 2018 revenue), we think some of the project completions were pushed out to 2020. Still, 4Q2019 revenue (QR120.5mn) was up 18.0% YoY and 8.2% QoQ. **On the other hand, 4Q2019 gross margin fell to 28.6% vs. 40.5% in 4Q2018.** While quarterly COGS breakdown is not available, FY2019 breakdown indicate a 25.7% YoY rise in material costs to QR107.4mn (32% of total COGS), a 46% rise in subcontractors costs to QR39.4mn (12% of total) and 13.1% rise in staff costs (28% of total). As a result, gross profit declined by 16.7% YoY to QR34.4mn (variation of -7.8%), yet was up by 60.9% QoQ. Meanwhile, G&A fell by 5.4% YoY in 4Q2019 to QR23.5mn (variation -1.7%).
- **Financial expenses rose by 12.6% YoY in 4Q2019 to QR4.4mn (up 18.1% QoQ), in line with the company's increasing net debt to QR281.7mn as of FY2019 from QR82mn as of 3Q2018, following the buyout of the 39.6% minority stake at CESCO during 4Q2018 at QR193.5mn.** It is noteworthy that IGRD's net debt position is on the rise from QR220mn in FY2018 and QR266mn in 3Q2019 reaching QR281.7mn as of FY2019. This is in line with the rising working capital requirement of QR313m in FY2019 from QR246.6mn as of FY2018.
- **We remain Outperform, however, in line with increased uncertainties as a result of the Coronavirus pandemic, we cut our TP from QR0.75 to QR0.60 as well as our 2020e net earnings by 22%.** We trim our FY2020e net earnings by 22% in-line with the pessimistic scenario analysis which foresees a 20% EPS decline for Qatari stocks in 2020 as detailed in our March 22 Strategy Report. Despite 2019's high base due to QR7.2mn of revaluation gains vs. our expectation of none in 2020, our 2020e EPS growth estimate stands at -16.6%YoY.

Catalysts

- 1) Impact of Coronavirus pandemic on operations/financials
- 2) Order book expansion
- 3) New products for the trading segment
- 4) Potential buyouts of minority stakes at other subsidiaries.

Recommendation, Valuation and Risks

- **We rate IGRD an Outperform. Our 1-year target of QR0.60 implies a 55.4% upside potential, based on a weighted average combination of DCF, international peer comparison and local market P/E.** IGRD's 2019a/2020e P/Es imply 13%/18% discounts vs. the international contractors' peer group.
- **Risks:** 1) Coronavirus related business risks such as further delays in projects 2) Collection risks 3) High weight of goodwill in total assets.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.07	0.07	0.06	0.07
P/E (x)	6.1	6.5	7.8	6.6
EV/EBITDA (x)	11.8	12.5	13.6	10.9
DPS (QR)	0.03	0.00	0.03	0.03
DY (%)	5.1%	0.0%	5.8%	5.8%

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

Key Data

Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector	Construction
52wk High/52wk Low (QR)	0.639 / 0.410
3-m Avg. Volume (000)	2,980.9
Mkt. Cap. (QR mn/\$ mn)	320/88
EV (QR mn/\$ mn)	578/159
Current FO* (%) / Limit	22.9%/49%
Shares Outstanding (mn)	830
1-Year Total Return (%)	-22.2%
Fiscal Year End	December 31

Source: Bloomberg (as of Mar 31, 2020), *Qatar Exchange (as of Mar 31, 2020); Note: FO is foreign ownership

Mehmet Aksoy, PhD

+974 4476 6589

mehmet.aksoy@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Estimate Revisions

QR000	2018	2019	2020e		%ch.	2021e		%ch.
			Current	Previous		Current	Previous	
Revenue	426,299	443,522	420,608	535,185	-21%	485,028	508,426	-5%
Operating Income	45,345	42,524	39,004	54,315	-28%	52,314	50,241	4%
Net Income	58,362	55,074	45,928	58,581	-22%	54,641	51,026	7%
EPS	0.07	0.07	0.06	0.07		0.07	0.06	
Growth (YoY)	43.4%	-5.6%	-16.6%	6.4%		19.0%	-12.9%	

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (QR000)

	2017	2018	2019e	2020e	2021e
Revenue	469,232	426,299	443,522	420,608	485,028
COGS	328,114	299,445	333,946	317,249	364,836
Gross Profit	141,117	126,854	109,575	103,359	120,192
SG&A	75,030	75,761	57,679	54,795	58,203
Depreciation	6,022	5,748	9,372	9,559	9,674
Operating Income	60,065	45,345	42,524	39,004	52,314
EBITDA	66,087	51,093	51,896	48,564	61,988
Impairment Loss on Investment Properties	-606	-606	0	0	0
Fair value gain from financial assets	0	28,750	0	0	0
(Loss)/ gain from disposal of Property and equipment	118	-322	531	531	531
Provision Expenses	-379	-14,823	0	0	0
Loss on sale of Damaged items	-1,489	0	0	0	0
Dividend income from AFS Investments	5,000	3,765	3,860	3,976	4,095
Other Income	21,070	15,866	18,807	18,256	15,086
Fair value gain from investment properties	0	0	7,160	0	0
Total Other Income	23,714	32,630	30,357	22,762	19,712
Net Finance Income (Expense)	-9,111	-11,943	-15,667	-14,100	-14,805
Net profit before management fees and income tax	74,669	66,031	57,215	47,667	57,221
Management fees	-4,320	-3,995	-2,634	-2,713	-2,795
Income Tax	0	0	0	0	0
Non controlling interests	-29,636	-3,674	493	975	215
Net Income	40,712	58,362	55,074	45,928	54,641
Net Profit Margin	8.7%	13.7%	12.4%	10.9%	11.3%
Shares Outstanding (mn)	830,000	830,000	830,000	830,000	830,000
EPS	0.05	0.07	0.07	0.06	0.07
DPS	0.03	0.03	0.00	0.03	0.03

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet (QR000)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	136,856	79,952	63,910	63,910	63,910
Investments Held for Trading/ST Investments	0	0	0	31,291	14,666
Accounts Receivable & Prepayments	173,306	169,959	203,939	244,313	283,050
Gross amounts due from customers on contract work	198,745	201,199	237,235	247,014	286,180
Due From Related Parties	32,750	30,911	25,149	28,008	32,449
Inventories	71,652	78,663	59,483	63,052	66,836
Total Current Assets	613,309	560,684	589,717	677,588	747,091
Retentions receivable	49,528	44,621	36,888	35,146	40,719
Financial assets at FVTOCI	2,250	31,000	31,000	31,000	31,000
Investment Properties	1,565	959	22,817	23,958	25,155
Goodwill & Intangibles	711,492	711,492	711,492	711,492	711,492
Property, Plant & Equipment	19,644	21,338	17,171	21,890	21,014
Right-of-use assets	0	0	13,119	11,807	10,626
Non-Current Assets	784,480	809,410	832,486	835,293	840,007
Total Assets	1,397,789	1,370,093	1,422,203	1,512,882	1,587,098
Short-Term Debt	197,417	212,219	244,925	279,624	271,855
Accounts Payable & Accruals	192,393	203,181	187,718	206,570	246,879
Due to Related Parties	16,812	63,030	43,795	29,212	30,645
Dividend Payable	3,003	3,293	3,829	3,829	3,829
Lease Liabilities	0	0	8,472	7,625	6,862
Current Liabilities	409,624	481,723	488,738	526,859	560,069
Retentions payable	1,285	1,881	615	572	658
Long-Term Debt	1,269	87,796	87,796	92,186	96,795
Employees end of service benefits	30,139	25,193	21,868	22,961	24,109
Lease Liabilities	0	0	4,796	4,316	3,885
Non-Current Liabilities	32,693	114,870	115,074	120,035	125,446
Total Liabilities	442,318	596,594	603,812	646,894	685,516
Total Shareholder's Equity	869,694	748,733	796,078	842,377	877,001
Minority Interest	85,777	24,767	22,313	23,611	24,581
Liabilities & Shareholder's Equity	1,397,789	1,370,093	1,422,203	1,512,882	1,587,098

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	4.8%	(9.1%)	4.0%	(5.2%)	15.3%
Gross Profit	(4.9%)	(10.1%)	(13.6%)	(5.7%)	16.3%
EBITDA	(14.5%)	(22.7%)	1.6%	(6.4%)	27.6%
EBIT	(16.1%)	(24.5%)	(6.2%)	(8.3%)	34.1%
PAT/EPS	N/M	43.4%	(5.6%)	(16.6%)	19.0%
DPS	N/M	0.0%	(100.0%)	N/M	0.0%
CFPS	N/M	86.6%	N/M	N/M	61.5%
Operating Ratios					
Gross Margin	30.1%	29.8%	24.7%	24.6%	24.8%
Gross Margin, Excluding Depreciation & Amortization	30.1%	29.8%	24.7%	24.6%	24.8%
EBITDA Margin	14.1%	12.0%	11.7%	11.5%	12.8%
EBIT Margin	12.8%	10.6%	9.6%	9.3%	10.8%
Net Margin	8.7%	13.7%	12.4%	10.9%	11.3%
Finance Ratios					
Debt-Equity Ratio	23%	40%	42%	44%	42%
Net Debt-Equity Ratio	7%	29%	34%	33%	33%
Net Debt-to-Capital	7%	23%	25%	25%	25%
Net Debt-to-EBITDA	0.9	4.3	5.2	5.7	4.7
Interest Coverage	6.6	3.8	2.7	2.8	3.5
Return Ratios					
ROIC	5.6%	4.3%	3.8%	3.2%	4.2%
ROE	4.7%	7.8%	6.9%	5.5%	6.2%
ROA	2.9%	4.3%	3.9%	3.0%	3.4%
Liquidity Ratios					
Current Ratio	1.5	1.2	1.2	1.3	1.3
Quick Ratio	1.3	1.0	1.1	1.2	1.2
Valuation					
EV/Sales	1.1	1.4	1.5	1.6	1.4
EV/EBITDA	7.7	11.8	12.5	13.6	10.9
EV/EBIT	8.4	13.3	15.3	16.9	12.9
P/E	8.8	6.1	6.5	7.8	6.6
P/CF	12.2	6.6	-68.5	19.9	12.3
P/BV	0.4	0.5	0.5	0.4	0.4
Dividend Yield	5.8%	5.8%	0.0%	5.8%	5.8%

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@QNBFS.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@QNBFS.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@QNBFS.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@QNBFS.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNB FS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS 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. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment 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 QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS 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. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS 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. This report may not be reproduced in whole or in part without permission from QNB FS.

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