# IGRD Alert – Additional Capital Raise Commentary; Maintain Outperform But More Details Awaited

- **Estithmar will hold an EGM on 27 November 2022 with two main items on the agenda**. We have addressed both items in different degrees in the past, in our initiation report as well as in our 1H/2Q commentary.
- **First, and arguably the most important item on the agenda is the raising of capital through both equity and sukuk**: **(1)** IGRD seeks to issue up to 50% of equity through a combination of private placement (40%) and rights offer (10%), as well as **(2)** to establish a Shari'a compliant sukuk and/or trust certificates program in an aggregate principal amount of QR3.4bn.**This first appeared in the previous reporting cycle in 2Q. At that point management said it wanted to have the option to raise more capital should the need arise, as it was exploring other investing opportunities that are supposed to be earnings accretive**.
- **In the short-term, this will most likely be dilutive, specifically during the capital outlay phase and IGRD's current share price action shows that investors are somewhat discounting this potential dilution**. The stock is down 2.4% since the end of 2Q, whereas the general market is up 3.6% during the same period on a total-return basis. *However, in the medium term, we believe these investments should yield a positive return and reverse the dilution impact.*
- **The balance sheet has loaded more debt since the beginning of the year but leverage metrics remain reasonable**. Finance costs have almost doubled YoY primarily in-line with the increase in debt levels – net debt stands at QR1.55bn end-September compared with QR934.4mn in end-December. Annualized interest cover is now at 8.3x (9M2021: 11.2x) and Net Debt/EBITDA at 2.9x (FY2021e: 2.1x). Moreover, Net Debt/Equity at 34.2% is better than 119% at the end of FY2021e. Given its reasonable leverage metrics, we believe IGRD is well-equipped to take on additional leverage to deploy into value-accretive projects.
- **The second major item on the agenda relates to reducing the ownership stakes by Estithmar's insiders to less than 75% of the issued share capital.** The insider stake is currently c.77%. Again, this is not new as we raised this in our initiation note. We believe this stake has taken longer to dispose as insiders are looking to dispose this stake in a manner that reduces adverse market impact. **We do note that depending on how this new equity raise is structured, it could leave IGRD's insiders with less than a 75% ownership without a need to sell down their current holdings**.
- In this latest circular, we also learned that **the company will target a payout ratio of not more than 85%.** Given our forecast for average future dividend payout of roughly 40%, we believe this targeted ratio is more than generous. However, we do note that given the high capital needs implied in the company's current/future slate of projects, we think our dividend estimates are more reasonable.
- **We will update our model accordingly once we get more details specifically on the new investments that could have been potentially identified.** In the meantime, we maintain an Outperform rating. IGRD is an entrepreneurial company and we keep expecting announcements of new products particularly those aligned with the new economy as well as exports or international expansion. In the initiation report, we identified modular construction as one such project, which could be instrumental in building IGRD's export sales pipeline. **Overall, our view on IGRD remains bullish – the company's future growth is geared toward higher-margin sectors of healthcare, tourism and services, which is set to more than offset the slowdown in construction and industries**.

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| Recommendations<br>*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<br>*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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