

AHCS Alert – Miss due to Fair Value Losses on Investment Properties: Maintain TP & MP

- **Aamal Company (AHCS) recorded a net loss of QR62.2mn vs. a net profit of QR85.3mn in 2Q2019 and QR82.5mn as of 1Q2020, below our estimate of QR48.8mn, primarily due to QR74.4mn of net fair value losses on Investment properties (vs. none in 1Q2020 and 2Q2019).** In the lack of the fair value losses on investment properties, the company would have reported QR12.2mn in net profits for 2Q2020. EPS amounted to -QR0.01 in 2Q2020 vs. QR0.013 in 1Q2020 and QR0.014 in 2Q2019.
- **2Q2020 gross profit declined by 58.9% YoY to QR44.2mn, falling short of our estimate.** Aamal's revenue came in at QR260.0mn in 2Q2020, with a 17.3% decline YoY (-30.5% QoQ). On the other hand, its gross margin decreased from 34.2% in 2Q2019 and 29.6% as of 1Q2020 to 17.0% in 2Q2020. The company stated that its industrial manufacturing segment was impacted by intense price competition which negatively impacted margins, despite new contract wins at Aamal Readymix which increased ready-mix revenue by 40.0% YoY. Furthermore, Aamal waived all rental income payable between mid-March and the end of June 2020 in order to support its tenants, leading to a 58% YoY decline in City Center Doha's rental income. As of 1H2020, Aamal Real Estate recorded a 27% YoY decline primarily due to the closure of Souq Haraj in mid-March. On the other hand, the residential properties portfolio exhibited resilience. On the positive side, Aamal's Trading and Distribution segment recorded a strong performance, primarily due to Ebn Sina Medical expanding its revenue by 38.9% YoY as of 1H2020, while the segment's margin declined slightly in 1H2020 to 14.2% vs. 1H2019's 14.6%.
- **2Q2020 G&A fell 0.8% YoY but rose 10.6% QoQ to QR40.7mn in 2Q2020.** 1H2020 G&A is also 11.6% higher YoY. 1H2020 financials do not provide G&A breakdown, therefore we await for details from the upcoming conference call with management.
- **We continue to rate Aamal as Market Perform and maintain our estimates and TP at QR0.686.** While we will be revisiting our 2020 estimates, going forward we think 2H2020 is likely to be better than 1H2020 with the gradual lifting of coronavirus counter-measures. On top of the reopening of Qatar's industrial area (which remained closed mostly during the 2Q), Aamal announced that retail outlets at the City Center Mall have gradually reopened at the beginning of July, albeit with lower footfall levels. The company expects a steady improvement in footfall during 2H2020 as business volumes return to pre-coronavirus levels over time. Furthermore, Aamal announced that the completion of the Phase 2 renovation works at City Center resulted in a 7.1% increase in the mall's GLA. Aamal also expects the mall's new dedicated jewelry retail area (the Gold Souq) to be completed within 4Q2020. Aamal enjoys a well-diversified business portfolio across many major sectors of the Qatari economy; thus, we are of the view that AHCS could be one of the top direct and indirect beneficiaries of the expected post-coronavirus recovery in Qatar. Moreover, it has Qatar's leading pharma & medical device distribution companies in its portfolio, which should support AHCS' top & bottom line resilience. Going forward, while Aamal's 2020 results are likely to be affected by the coronavirus shock, we believe AHCS' 2021 prospects could be better with the completion of renovation works & expansion in the City Center Mall during 2020 and Senyar's new drum and copper factories becoming operational during 1H2021. In 2022, we believe Aamal will be one of the top beneficiaries of FIFA'22, given its property, retail and trading exposures.

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS 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. 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 QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS 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. QNBFS 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.

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