

AHCS Alert – Broadly in-line Results ; Lower G&A Lead to NI Beat; Maintain TP & MP

- Aamal Company (AHCS) reported a net profit of QR71.2mn in 3Q2020 as compared to net profit of QR75.9mn in 3Q2019 (-6.2% YoY) and net loss of QR62.2mn in 2Q2020, above our estimate of QR54.3mn. In 9M2020, AHCS reported a net profit of QR91.6mn as compared to QR257.8mn in 9M2019. EPS amounted to QR0.01 in 9M2020 as compared to QR0.04 in 9M2019.
- 3Q2020 gross profit declined by 21.2% YoY (but up 98.0% QoQ) to QR87.4mn, in-line with our estimate (variation: 3.6%). Aamal's revenue came in at QR338.0mn in 3Q2020, with a 9.3% increase YoY (+30.0% QoQ), in-line with our estimate (variation: 0.9%). Gross margin decreased from 35.9% in 3Q2019 to 25.9% in 3Q2020 but increased sequentially from 2Q2020's 17.0%. During 9M2020, Aamal's trading and distribution segment delivered a strong performance with YoY revenue/net profit increases of 26%/18% primarily due to new orders received by Ebn Sina Medical. The industrial manufacturing segment revenue rose 23.8% YoY in 9M2020 driven by new contracts; however, intense competition at Aamal Readymix depressed margins. The property segment continued to be affected by rent waivers for commercial tenants at both City Center Doha (CCD) and Souk Al Harraj. By July 15, all retail units in CCD were open, albeit with lower footfalls.
- On the other hand, 3Q2020 G&A fell 9.3% YoY and 32.2% QoQ to QR 27.6mn (from QR40.7mn in 2Q2020) vs. our QR38.8mn estimate, resulting in the net income beat in 3Q2020. 9M2020 financials do not provide the G&A breakdown; therefore, we await further details on this G&A upside from the upcoming conference call with management.
- The share of profits of equity accounted investees rose by 182.1% YoY and 31.0% QoQ to QR15.3mn, slightly better than our estimate (variation: 12.2%).
- We continue to rate Aamal as Market Perform and maintain our estimates and TP at QR0.77. Aamal's manufacturing segment has started benefit from increased project activity, as Aamal Cables won a QR694mn contract with Kahramaa, to supply 11KV medium voltage and pilot power cables to be delivered over 3 years. On the other hand, 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, Senyar's new drum and copper factories becoming operational during 1H2021, coupled with the new Kahramaa order. In 2022, we believe Aamal could 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.