

Investment Holding Group (IGRD)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR0.499	Current Target Price	QR0.600
Implied Upside	20.2%		

Delays Crimp 1Q2020 Results But Investment Thesis Remains Intact; Outperform

IGRD's net income came in below our expectations due to some delays (not cancellations) in order deliveries, in-line with client preferences, as a result of the Coronavirus malaise. Nevertheless, during the conference call, management emphasized that the delays in deliveries were temporary and IGRD's order book remains intact and is even likely to expand with new projects. Therefore, we expect IGRD's top- and bottom-line to start converging to our FY2020e revenue/net earnings estimates in the coming quarters. It is noteworthy that we expect IGRD's net earnings to shrink by 22% in 2020, 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](#). While IGRD's contracting business is still prone to further disruptions from clients' operations and businesses because of Coronavirus counter-measures, nearly all of IGRD's contracting work is originally related to government projects. Therefore, even if delays in deliveries take place, cancellations are highly unlikely. Nonetheless, IGRD's trading business includes masks and outfits for laborers as well as some food items, sales of which have surged notably since the beginning of the Coronavirus pandemic. The government's recent decision to open up new sections in the industrial area should also bring some relief to the local industry, which is a step toward business-as-usual. 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. **Since our initiation on April 11 2019, IGRD shares have recorded a total return of -1.7%, beating the QE All Share Index's -10.8%.**

Highlights

- **IGRD's net profit declines 38.3% YoY and 52.9% QoQ in 1Q2020, falling short of our estimate.** Investment Holding Group's (IGRD) net profit declined 38.3% YoY (-52.9% QoQ) to QR9.7mn in 1Q2020, below our estimate of QR13.5mn (variation of -28.1%). EPS amounted to QR0.012 in 1Q2020 vs. QR0.019 in 1Q2019.
- **Revenue and gross profit were below our estimates.** The company recorded QR76.1mn in revenue with a 20.9% decline YoY due to lower maintenance revenue resulting from the suspension of activities. This was because of coronavirus disruptions (not cancellations) as well as postponement of some deliveries to the coming quarters. Gross margin declined from 1Q2019's 26.6% to 25.0% as of 1Q2020 due to the liquidation of slow moving materials at discounted prices and non-recurring discounts granted to some customers. As such, IGRD's gross profit fell by 25.7% YoY to QR19mn.
- **Apart from lower revenue and some margin erosion vis-a-vis 1Q2019,** lack of fair value gains on investment properties (vs. QR2.25mn as of 1Q2019) increased 1Q2019's base and accelerated the YoY earnings decline.
- **On the positive side, G&A fell by 11.7% YoY in 1Q2020 to QR11.98mn** as a result of management's continuous cost cutting efforts.
- **We will retain our estimates and TP for now as we await more color on how business trends shape up during 2Q2020.** Regardless of the lower-than-expected results in 1Q2020, our investment case for IGRD remains broadly intact. Nearly all of IGRD's contracting work is originally related to government projects. Thus, even if delays take place, we believe cancellations are unlikely. It is noteworthy that IGRD's trading business include masks and outfits for laborers (sales of which have surged notably since the beginning of the pandemic). We continue to like the company as a turnaround story and appreciate the new management's dedication in cost cutting and its efforts in expanding the trading segment's product range with high-margin products.

Catalysts

- 1) Impact of the 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 20.2% upside potential, based on a weighted average combination of DCF, international peer comparison and local market P/E.**
- **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)	7.1	7.5	9.0	7.6
EV/EBITDA (x)	12.9	13.6	14.7	11.8
DPS (QR)	0.03	0.00	0.03	0.03
DY (%)	5.1%	0.0%	5.0%	5.0%

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)	0.614 / 0.377
3-m Avg. Volume (000)	4,864.4
Mkt. Cap. (QR mn/\$ mn)	416/114
EV (QR mn/\$ mn)	689/189
Current FO* (%) / Limit	23.0%/49%
Shares Outstanding (mn)	830
1-Year Total Return (%)	-15.4%
Fiscal Year End	December 31

Source: Bloomberg (as of May 06, 2020), *Qatar Exchange (as of May 06, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (QR000)

	2017	2018	2019	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
<i>Net Profit Margin</i>	<i>8.7%</i>	<i>13.7%</i>	<i>12.4%</i>	<i>10.9%</i>	<i>11.3%</i>
<i>Shares Outstanding (mn)</i>	<i>830,000</i>	<i>830,000</i>	<i>830,000</i>	<i>830,000</i>	<i>830,000</i>
EPS	0.05	0.07	0.07	0.06	0.07
DPS	0.03	0.03	0.00	0.03	0.03

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	2019	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	1.2	1.5	1.6	1.7	1.5
EV/EBITDA	8.5	12.9	13.6	14.7	11.8
EV/EBIT	9.4	14.5	16.6	18.3	13.9
P/E	10.2	7.1	7.5	9.0	7.6
P/BV	0.5	0.6	0.5	0.5	0.5
Dividend Yield	5.0%	5.0%	0.0%	5.0%	5.0%

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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