

Estithmar Holding (IGRD)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.854	Target Price	QR2.310
Implied Upside	24.6%		

Modest 2Q2024 Earnings Beat On Contracting Top-line Strength; Maintain Accumulate

Estithmar Holding's 2Q2024 attributable earnings modestly surpassed our projections, primarily driven by an unexpectedly robust performance in the contracting & industries unit, along with contained depreciation and finance costs. The divisional results were mixed, with various segments somewhat offsetting each other. The services and healthcare segments' performances came in moderately below and above expectations, respectively. Ventures continued to underperform. Revenue/earnings from individual underlying business segments remain considerably volatile as new business launches are still in the ramp-up phase, and traditional businesses are establishing a new equilibrium following the heightened activity leading up to the 2022 World Cup. We maintain our Accumulate rating with a price target of QR2.31 until we gain greater confidence in the sustainability of IGRD's revenue, earnings, and margin trends.

Highlights

- In 2Q2024, Estithmar Holding's attributable profit printed modestly above our estimates.** Earnings rose 11.1% YoY but declined marginally by 2.1% QoQ to QR109.4mn (vs. estimate of QR103.5mn) as the top-line and operating margins came in above our estimates while finance costs printed lower than expected. NP margin improved to 14.6% (vs. 14.0% expected) from 14.3% in 2Q2023 and 14.1% in the previous quarter. GP margin declined to 29.2% from 31.5% in 2Q2023 but higher sequentially from 24.6%. Meanwhile, the operating margin came in at 18.0% from 19.6% in 2Q2023 and 17.9% in 1Q2024. Lower depreciation & amortization charges protected the operating margin. The EBITDA margin was recorded at 22.2%, lower than 33.4%/22.3% in 2Q2023/1Q2024.
- Group revenue rose 18.5%/6.7% YoY/QoQ to QR850.1mn, above our estimate of QR801.4mn.** Bulk of the top-line beat emanates from unexpectedly strong contracting & industries sales, partially offset by inter-segment/corporate adjustments coming in higher – the ratio spiked again to 18.1% of relevant revenue lines (services, contracting and ventures) from 9.1% in the previous quarter. Management had guided that the ratio would continue to moderate.
- Mixed segment top-line performances.** Contracting & industries and healthcare units saw revenue increases, while services and ventures experienced declines YoY. Sequentially, bar ventures (affected by seasonality), all units registered revenue increases.
- Segment review; margins remain volatile:** (i) **Services segment** revenue declined 14.0% YoY but rose 3.6% QoQ to QR381.0mn; NP margin fell to 18.0%, from 32.3% in 2Q2023 and 20.6% in 1Q2024. (ii) **Contracting & industries** revenue jumped 30.4%/38.5% YoY/QoQ to QR403.3mn. It is likely the Saudi sales pipeline has started to contribute. NP margin expanded to 9.8% vs. 7.5% in 2Q2023 and 4.7% in 1Q2024. (iii) **Healthcare** revenue climbed 285.1%/25.4% YoY/QoQ to QR192.1mn. NP grew to QR11.7mn from a loss of QR33.8mn in 2Q2023, and increased from QR4.9mn in 1Q2024. We understand profits from the Operation Management Model hospital is more than offsetting losses from The View, and the newly opened, Korean Medical Center. (iv) **Ventures'** revenue came in at QR18.8mn down 39.1%/61.8% YoY/QoQ. The YoY revenue trend is concerning – we had expected it to continue growing as the underlying assumption is that it is still ramping up. Due to seasonality, the unit reverted back to a loss of QR 2.7mn from profit of QR20.7 in 1Q2024, and compared with another loss of QR24.4 YoY. What is comforting is the shrinking loss position YoY.

Catalysts

- Significant catalysts:** (1) Positive sales & operation updates of new healthcare/tourism businesses (2) Opening of Korean Medical Center (KMC) (3) New product launches/offshore expansion (4) Dividend distribution launch

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain our Accumulate rating and our 12-month TP of QR2.310 implying 24.6% upside potential, using a SoTP weighted-average of the DCF and EBITDA Exit Multiple valuation methods. We continue to like the IGRD model where future growth is geared toward higher-margin sectors of healthcare, tourism and services, which are set to more than offset the slowdown in construction and industries. These growth areas are supported by the macro backdrop where Qatar is striving to reach “advanced economy” status by 2030. Near-term negative base effects and dilution impact could affect the share price adversely, however.
- Key risks:** (1) Dilution risk (2) Execution risk and slow ramping up of new projects (3) Elevated debt levels (4) Conglomerate discount.

Key Financial Data and Estimates

Group	2023	2024E	2025E	2026E	2027E
EPS (QR)	0.102	0.114	0.127	0.166	0.194
P/E (x)	18.15	16.31	14.60	11.15	9.54
EV/EBITDA (x)	15.44	13.82	12.35	9.95	8.44
DPS (QR)	-	-	0.06	0.10	0.17
DY (%)	0.0%	0.0%	3.4%	5.4%	8.9%

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

Key Data

Current Market Price (QR)	1.854
Dividend Yield (%)	0.0
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector*	Industrials
52wk High/52wk Low (QR)	2.25/1.782
3m Average Vol. ('mn)	2.5
Mkt. Cap. (\$'bn/QR'bn)	1.7/6.3
EV (\$'bn/QR'bn)	2.3/8.5
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.7
1-Year Total Return (%)	-13.6
Fiscal Year-End	December 31

Source: Bloomberg (as of August 06, 2024), *Qatar Exchange (as of August 06, 2024); Note: FO is foreign ownership

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2Q2024 IGRD Financial Performance

QR'millions	2Q2023	1Q2024	2Q2024	YoY	QoQ
Revenue	717.40	796.64	850.14	18.5%	6.7%
Services	442.99	367.86	381.00	-14.0%	3.6%
Contracting & Industries	309.31	291.17	403.29	30.4%	38.5%
Healthcare	49.89	153.13	192.09	285.1%	25.4%
Ventures/Tourism	30.84	49.15	18.77	-39.1%	-61.8%
Corporate/Eliminations	(115.63)	(64.65)	(145.02)	N.M	N.M
Gross Profit	226.07	195.71	248.16	9.8%	26.8%
Services	167.57	89.32	91.88	-45.2%	2.9%
Contracting & Industries	53.64	40.71	73.93	37.8%	81.6%
Healthcare	5.75	57.10	77.28	1245.0%	35.4%
Ventures/Tourism	(0.37)	8.58	5.07	N.M	-40.9%
Corporate/Eliminations	(0.52)	(0.00)	0.00	N.M	N.M
Net Profit	102.77	112.50	123.77	20.4%	10.0%
Services	143.02	75.74	68.65	-52.0%	-9.4%
Contracting & Industries	23.27	13.58	39.68	70.5%	192.3%
Healthcare	(33.83)	4.89	11.73	N.M	140.0%
Ventures/Tourism	(24.44)	20.74	(2.73)	-88.8%	N.M
Corporate/Eliminations	(5.26)	(2.44)	6.44	N.M	N.M
Minorities	4.36	0.80	14.42	230.4%	1694.0%
Attributable Profit	98.41	111.70	109.36	11.1%	-2.1%

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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