

## Investment Holding Group (IGRD)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-4</b>
<b>Share Price</b>	<b>QR0.669</b>	<b>Current Target Price</b>	<b>QR0.744</b>
<b>Implied Upside</b>	<b>11.2%</b>	<b>Old Target Price</b>	<b>QR0.600</b>

### Benefiting From Lower Interest Rates; Increasing TP; Changing Our Rating to Accumulate

IGRD's net income came in below our expectations due to lower revenue stemming from COVID-19 disruptions, resulting in some delays in order deliveries. Nevertheless, during the conference call, management emphasized that the company is in the process of signing new projects and there is ~QAR600mn of total value of projects in the pipeline (accounting for 135% of 2019 net revenue) expected within the coming months. In addition to new business generation, IGRD continued its efforts of cost rationalization and managed to reduce some G&A expenses such as staff cost and rental expenses. With its net debt position of QR289mn, IGRD also benefits from lower interest expense, which was evident in 2Q2020. Interest expense accounted for 37% of IGRD's EBIT in 2019. Therefore, the impact of lower interest expense should be more visible in the coming quarters as business recovers. While we expect better results from IGRD during 2H2020, we reduce our net earnings forecast by 9.1% for 2020; we have also slightly tweaked 2021 (+0.5%) considering the net impact of lower financial expenses and lower expected other income. We have also adjusted our target price based on a lower risk free rate. While IGRD's revenue is still prone to further volatility from clients' operations and businesses because of COVID-19 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. 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. We continue to like the company as a turnaround story as well as the new management's dedication to 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 30.2%, beating the QE All Share Index's -0.9%. Following its strong share performance, we change our recommendation on the stock from Outperform to Accumulate. We maintain our positive outlook for the company and believe any weakness in its share price represents a buying opportunity.**

### Highlights

- **IGRD's net profit declined 52.9% YoY and 40.9% QoQ in 2Q2020, below our estimate.** Investment Holding Group's (IGRD) net profit declined 52.9% YoY (-40.9% QoQ) to QR5.7mn in 2Q2020, below our estimate of QR7.58mn. IGRD also recorded QR15.4mn in net profit as of 1H2020 vs. QR27.8mn in 1H2019, declining by 44.7% YoY.
- **Gross profit was in-line with our expectations (variation: -1.5%).** The company recorded QR74.8mn in revenue with a 35.2% drop YoY and 1.7% decline QoQ, which we believe is attributable to the suspension of activities because of coronavirus disruptions as well as postponement of some deliveries to coming quarters. Gross margin was 22.5% in 2Q2020, which was slightly below 2Q2019's 23.0% and 1Q2020's 25.0%. As a result, IGRD's gross profit fell by 36.4% YoY and 11.4% QoQ to QR16.8mn in 2Q2020.
- **On the other hand, 2Q2020 G&A fell by 8.6% YoY (+27.6% QoQ) to QR15.3mn, ahead of our estimate of QR14.4mn.** IGRD's 1H2020 G&A was also down 9.9% YoY, despite a 75% YoY rise in depreciation expenses to QR5.9mn, displaying that management's strict cost discipline is intact. Excluding the depreciation charges, the decline in 1H2020 G&A was even more impressive at 20.5% YoY as of 1H2020, mainly due to a 14.2% decline in staff costs and 49.9% decline in rent expenses, accounting for 69.3% and 5.7% of ex-depreciation G&A, respectively.
- **IGRD benefits from the prevailing low interest rate environment due to its net debt position.** Following the buyout of the 39.6% minority stake at CESCO during 4Q2018 at QR193.5mn and increasing working capital requirements, IGRD's net debt position reached QR289mn as of 1H2020, accounting for 51.4% of its market cap. and 34.6% of its equity. Thanks to lower local interest rates, IGRD's financial expenses notably fell by 35.9% sequentially (-34.1 YoY) in 2Q2020 to QR2.5mn.

### 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 Accumulate. Our 1-year target of QR0.744 implies an 11.2% 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) Significant weight of goodwill in total assets.

### Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.07	0.07	0.05	0.07
P/E (x)	9.5	10.1	13.3	10.1
EV/EBITDA (x)	15.7	16.3	17.4	13.0
DPS (QR)	0.03	0.00	0.03	0.03
DY (%)	5.1%	0.0%	3.7%	3.7%

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)	0.698 /0.377
3-m Avg. Volume (000)	35,924
Mkt. Cap. (QR mn/\$ mn)	555/153
EV (QR mn/\$ mn)	836/230
Current FO* (%) / Limit	12.7%/49%
Shares Outstanding (mn)	830
1-Year Total Return (%)	29.7%
Fiscal Year End	December 31

Source: Bloomberg (as of September 17, 2020), \*Qatar Exchange (as of September 17, 2020); Note: FO is foreign ownership

### Mehmet Aksoy, PhD

+974 4476 6589  
mehmet.aksoy@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

### Estimates & Revisions (QR000)

QR000	2018	2019	2020e			2021e		
			Current	Previous	%ch.	Current	Previous	%ch.
<b>Gross Profit</b>	<b>126,854</b>	<b>109,575</b>	<b>100,360</b>	<b>103,359</b>	<b>-2.9%</b>	<b>119,055</b>	<b>120,192</b>	<b>-0.9%</b>
Operating Income	45,345	42,524	35,349	39,004	-9.4%	51,742	52,314	-1.1%
<b>Net Income</b>	<b>58,362</b>	<b>55,074</b>	<b>41,771</b>	<b>45,928</b>	<b>-9.1%</b>	<b>54,913</b>	<b>54,641</b>	<b>0.5%</b>
EPS	0.07	0.07	0.05	0.06	-9.1%	0.07	0.07	0.5%
Growth (YoY)	43.4%	-5.6%	-24.2%	-16.6%		31.5%	19.0%	

Source: Company data, QNB FS Research

### Income Statement (QR000)

	2017	2018	2019	2020e	2021e	2022e
<b>Revenue</b>	<b>469,232</b>	<b>426,299</b>	<b>443,522</b>	<b>402,994</b>	<b>474,794</b>	<b>494,505</b>
COGS	328,114	299,445	333,946	302,633	355,739	372,015
<b>Gross Profit</b>	<b>141,117</b>	<b>126,854</b>	<b>109,575</b>	<b>100,360</b>	<b>119,055</b>	<b>122,490</b>
SG&A	75,030	75,761	57,679	54,795	56,975	57,857
Depreciation	6,022	5,748	9,372	10,216	10,338	8,279
<b>Operating Income</b>	<b>60,065</b>	<b>45,345</b>	<b>42,524</b>	<b>35,349</b>	<b>51,742</b>	<b>56,354</b>
EBITDA	66,087	51,093	51,896	45,565	62,080	17,986
Impairment Loss on Investment Properties	-606	-606	0	0	0	0
Fair value gain from financial assets	0	28,750	0	0	0	0
(Loss)/ gain from disposal of Property and equipment	118	-322	531	531	531	531
Provision Expenses	-379	-14,823	0	0	0	0
Loss on sale of Damaged items	-1,489	0	0	0	0	0
Dividend income from AFS Investments	5,000	3,765	3,860	3,976	1,988	2,048
Other Income	21,070	15,866	18,807	18,256	15,105	15,407
Fair value gain from investment properties	0	0	7,160	0	0	0
<b>Total Other Income</b>	<b>23,714</b>	<b>32,630</b>	<b>30,357</b>	<b>22,762</b>	<b>17,624</b>	<b>17,986</b>
Net Finance Income (Expense)	-9,111	-11,943	-15,667	-11,384	-11,156	-12,309
<b>Net profit before management fees and income tax</b>	<b>74,669</b>	<b>66,031</b>	<b>57,215</b>	<b>46,728</b>	<b>58,209</b>	<b>62,031</b>
Management fees	-4,320	-3,995	-2,634	-2,713	-2,795	-2,879
Income Tax	0	0	0	0	0	0
Non controlling interests	-29,636	-3,674	493	-2,243	-502	-535
<b>Net Income</b>	<b>40,712</b>	<b>58,362</b>	<b>55,074</b>	<b>41,771</b>	<b>54,913</b>	<b>58,617</b>
Net Profit Margin	8.7%	13.7%	12.4%	10.4%	11.6%	11.9%
Shares Outstanding (mn)	830,000	830,000	830,000	830,000	830,000	830,000
<b>EPS</b>	<b>0.05</b>	<b>0.07</b>	<b>0.07</b>	<b>0.05</b>	<b>0.07</b>	<b>0.07</b>
<b>DPS</b>	<b>0.03</b>	<b>0.03</b>	<b>0.00</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>

Source: Company data, QNB FS Research

## Balance Sheet (QR000)

	2017	2018	2019	2020e	2021e	2022e
Cash & Cash Equivalents	136,856	79,952	63,910	63,910	63,910	63,910
Investments Held for Trading/ST Investments	0	0	0	13,370	61,370	96,703
Accounts Receivable & Prepayments	173,306	169,959	203,939	186,175	220,372	230,590
Gross amounts due from customers on contract work	198,745	201,199	237,235	237,548	281,182	294,219
Due From Related Parties	32,750	30,911	25,149	24,154	28,591	29,917
Inventories	71,652	78,663	59,483	59,483	63,052	66,836
<b>Total Current Assets</b>	<b>613,309</b>	<b>560,684</b>	<b>589,717</b>	<b>584,641</b>	<b>718,477</b>	<b>782,175</b>
Retentions receivable	49,528	44,621	36,888	33,674	39,860	41,708
Financial assets at FVTOCI	2,250	31,000	31,000	31,000	31,000	31,000
Investment Properties	1,565	959	22,817	23,958	25,155	26,413
Goodwill & Intangibles	711,492	711,492	711,492	711,492	711,492	711,492
Property, Plant & Equipment	19,644	21,338	17,171	21,890	21,014	20,643
Right-of-use assets	0	0	13,119	11,807	10,626	9,564
<b>Non-Current Assets</b>	<b>784,480</b>	<b>809,410</b>	<b>832,486</b>	<b>833,822</b>	<b>839,148</b>	<b>840,820</b>
<b>Total Assets</b>	<b>1,397,789</b>	<b>1,370,093</b>	<b>1,422,203</b>	<b>1,418,463</b>	<b>1,557,625</b>	<b>1,622,995</b>
Short-Term Debt	197,417	212,219	244,925	207,802	262,073	261,776
Accounts Payable & Accruals	192,393	203,181	187,718	197,053	240,955	261,260
Due to Related Parties	16,812	63,030	43,795	29,212	32,078	33,424
Dividend Payable	3,003	3,293	3,829	3,829	3,829	3,829
Lease Liabilities	0	0	8,472	7,625	6,862	6,176
<b>Current Liabilities</b>	<b>409,624</b>	<b>481,723</b>	<b>488,738</b>	<b>445,520</b>	<b>545,797</b>	<b>566,465</b>
Retentions payable	1,285	1,881	615	546	641	671
Long-Term Debt	1,269	87,796	87,796	83,406	87,577	91,955
Employees end of service benefits	30,139	25,193	21,868	22,961	24,109	25,314
Lease Liabilities	0	0	4,796	4,316	3,885	3,496
<b>Non-Current Liabilities</b>	<b>32,693</b>	<b>114,870</b>	<b>115,074</b>	<b>111,229</b>	<b>116,212</b>	<b>121,437</b>
<b>Total Liabilities</b>	<b>442,318</b>	<b>596,594</b>	<b>603,812</b>	<b>556,749</b>	<b>662,008</b>	<b>687,901</b>
Total Shareholder's Equity	869,694	748,733	796,078	838,220	871,198	909,598
Minority Interest	85,777	24,767	22,313	23,494	24,419	25,495
<b>Liabilities &amp; Shareholder's Equity</b>	<b>1,397,789</b>	<b>1,370,093</b>	<b>1,422,203</b>	<b>1,418,463</b>	<b>1,557,625</b>	<b>1,622,995</b>

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Metrics

Particulars	2017	2018	2019	2020e	2021e
<b>Growth Rates</b>					
Revenue	4.8%	(9.1%)	4.0%	(9.1%)	17.8%
Gross Profit	(4.9%)	(10.1%)	(13.6%)	(8.4%)	18.6%
EBITDA	(14.5%)	(22.7%)	1.6%	(12.2%)	36.2%
EBIT	(16.1%)	(24.5%)	(6.2%)	(16.9%)	46.4%
PAT/EPS	N/M	43.4%	(5.6%)	(24.2%)	31.5%
DPS	N/M	0.0%	(100.0%)	N/M	0.0%
<b>Operating Ratios</b>					
Gross Margin	30.1%	29.8%	24.7%	24.9%	25.1%
Gross Margin, Excluding Depreciation & Amortization	30.1%	29.8%	24.7%	24.9%	25.1%
EBITDA Margin	14.1%	12.0%	11.7%	11.3%	13.1%
EBIT Margin	12.8%	10.6%	9.6%	8.8%	10.9%
Net Margin	8.7%	13.7%	12.4%	10.4%	11.6%
<b>Finance Ratios</b>					
Debt-Equity Ratio	23%	40%	42%	35%	40%
Net Debt-Equity Ratio	7%	29%	34%	26%	26%
Net Debt-to-Capital	7%	23%	25%	20%	20%
Net Debt-to-EBITDA	0.9	4.3	5.2	4.7	3.6
Interest Coverage	6.6	3.8	2.7	3.1	4.6
<b>Return Ratios</b>					
ROIC	5.6%	4.3%	3.8%	3.1%	4.2%
ROE	4.7%	7.8%	6.9%	5.0%	6.3%
ROA	2.9%	4.3%	3.9%	2.9%	3.5%
<b>Liquidity Ratios</b>					
Current Ratio	1.5	1.2	1.2	1.3	1.3
Quick Ratio	1.3	1.0	1.1	1.2	1.2
<b>Valuation</b>					
EV/Sales	1.5	1.9	1.9	2.0	1.7
EV/EBITDA	10.6	15.7	16.3	17.4	13.0
EV/EBIT	11.7	17.6	19.9	22.4	15.5
P/E	13.6	9.5	10.1	13.3	10.1
P/BV	0.6	0.7	0.7	0.7	0.6
Dividend Yield	3.7%	3.7%	0.0%	3.7%	3.7%

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

### Contacts

#### Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@QNBFS.com.qa](mailto:saugata.sarkar@QNBFS.com.qa)

#### Mehmet Aksoy, Ph.D.

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@QNBFS.com.qa](mailto:mehmet.aksoy@QNBFS.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@QNBFS.com.qa](mailto:shahan.keushgerian@QNBFS.com.qa)

#### QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

#### Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@QNBFS.com.qa](mailto:zaid.alnafoosi@QNBFS.com.qa)

**Disclaimer and Copyright Notice:** This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNB FS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS 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. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment 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 QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS 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. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS 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. This report may not be reproduced in whole or in part without permission from QNB FS.

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