IGRD Alert – World Cup-Related Activities Boosts 4Q/FY2022 Revenue; Stay Outperform

- **Estithmar's 4Q2022 results were significantly better than our expectations both at the top- and the bottom-line: Revenue climbed 38.5% YoY to QR1.2bn vs. our estimate of QR874.5mn, while net profit fell 27.5% YoY to QR38.0mn vs estimate of QR10.2mn**. Sequentially, net profit declined 64.7% while revenue edged up by 1.7%. While World Cup related activities bolstered sales, we note that these results are also significantly ahead of management's guidance, specifically within services and contracting & industries segments. IGRD's net margin improved YoY to 8.0% from 6.0% but weakened sequentially from 9.1%.
- **No dividend was declared as we had expected**. While its FY2022 net profit came in at QR338.2mn, up 5.0% from last year, the company's leverage levels and capital needs have been growing since the beginning of the year which likely compelled management to conserve cash.
- **All division experienced revenue growth as the two new divisions started operations.** The tourism division which began operations in November registered revenue of QR103.9mn in 4Q2022. In the healthcare division, The View hospital delayed its opening until the last two weeks of the 4Q2022, and revenue for the division came in at QR10.2mn, growing from QR2.2mn in 4Q2021 – base year revenue came from a military hospital management contract that Estithmar has with the Qatari government. Traditional businesses were robust with the contracting & industries segment registering a 45.1% YoY revenue growth to QR622.9mn in 4Q2022, while the services segment revenue rose 54.8% YoY to QR742.6mn.
- **Leverage metrics remain reasonable although they have been weakening since the beginning of 2022**. Finance costs more than doubled YoY to QR22.7mn in 4Q2022, a 12.1% increase sequentially. Net debt now stands at QR1.7bn compared with QR934.4mn at the beginning of 2022. IGRD's net debt/equity ratio at end-FY2022 was 38.7% from 34.2% at end-9M2022 and 27.7% at end-1H2022. With the recent announcement of new offshore projects we expect more capital raises in future, with the initial effect of equity and/or earnings dilution. Coupled with no or limited distributions to shareholders, IGRD's share price faces near-term headwinds. We are bullish on its above-average growth in the medium-term, however.
- **Our thesis is that in the medium-term, higher margin divisions – healthcare, tourism and services – should offset some of the weakness that we see in its traditional business of contracting & industries**. *While we expect to adjust our TP in a subsequent note to take into account the capital markets developments primarily related to the latest cost of capital and market multiples signals, we expect to maintain an outperform rating.* We note that growth companies or higher-duration assets such as IGRD have been adversely affected by the faster-than-expected ratcheting up of global interest rates. **Overall, we like IGRD as its future growth is geared towards higher-margin sectors.**

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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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