

## Estithmar Holding (IGRD)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.935	Target Price	QR2.310
Implied Upside	19.4%		

### 4Q2023 Miss on Lower Revenue; Margins Moderate Sooner Than Modeled; Stay Accumulate

While our model missed 4Q2023 by a wide mark – as we had assumed that the higher-than-normal margins sustained in the first three quarters of 2023 would persist into the fourth quarter – we believe 4Q2023 results somewhat justifies our initial 2024 forecasts published two days ago that assume moderating levels of margins and a more conservative revenue outlook. Consequently, we maintain our TP and reiterate an Accumulate rating for now. In the first nine months of 2023, we had reiterated that the margins printed primarily in its services and contracting & industries segments were unsustainably high based on its own history and industry trends observed internationally. 4Q2023 results validates this view although admittedly sooner than we had expected. Separately, on 23 January IGRD announced the launch of a QR3.4bn sukuk program to fund its international expansion. We believe the announcement spotlights (1) Maldives (hospitality) and (2) HAQA (healthcare) projects with a combined capex requirement of ~QR2.5bn. These two projects are not yet in our base model as details are still elusive but we estimate, given the available data, they could potentially add ~QR0.37 to IGRD's share price.

### Highlights

- In 4Q2023, Estithmar Holding's (IGRD) attributable profit printed significantly below our estimates. While earnings rose 18.8% YoY, profits fell 56.2% QoQ to QR45.1mn (vs. estimate of QR110.2mn) as the top-line declined considerably annually/sequentially and came in below estimates. Group G&A expenses spiked 26.8%/67.0% YoY/QoQ. NP margin improved to 6.6% from 2.9% in 4Q2022 but declined sequentially from 13.7%. The contracting & industries unit that had enjoyed abnormally high margins in the first nine months flipped into a loss. It was a similar case for the services segment which recorded much slimmer margins in 4Q2023 and saw profits decline YoY/QoQ. Conversely, an encouraging development was witnessed in the two new divisions, healthcare and ventures, which recorded much improved bottom-line positions both YoY and sequentially – they both remain in loss positions for FY2023, however.
- The board did not declare any dividend for a second consecutive year. We thought there was a chance for a dividend for FY2023 due to lighter capex needs relative to FY2022 but we do note debt levels continue to increase plus working capital requirements have grown.
- Group revenue fell 42.8/7.4% YoY/QoQ to QR690.0mn, below our estimate of QR811.6mn. Bar healthcare, all units saw considerable revenue declines YoY. Sequentially, healthcare and ventures unit registered revenue increases, while services and contracting & industries saw revenue declines.
- Segment performance: (i) Services segment revenue declined 49.4%/2.2% YoY/QoQ to QR378.8mn; NP margin improved to 13.8%, up from 11.1% in 4Q2022 but was down sequentially from 29.6% – it is 26.1% for FY2023, which is considerably higher than normal conditions. (ii) Contracting & industries actually turned in a loss in 4Q generating a negative NP margin of 7.6% vs. positive margin of 15.2% in 9M2023 – this could mean another unexpected margin bump in future from cost overruns recovery as we witnessed in the first nine months of 2023. The full year margin remains higher than normal at 10.6%. It was 2.8% in 4Q2022 and 4.9% in 3Q2023. Revenue declined 60.1%/21.3% YoY to QR248.6mn (iii) Healthcare revenue climbed 12.6x/19.2% YoY/QoQ to QR129.1mn. While the division is still in a loss position for the full year, it grew its NP to QR10.5mn from QR0.3mn in 4Q2022 (3Q2023: QR4.0mn). We understand the profit emanates from the Operation Management Model hospital. The View is still making losses. (iv) Ventures' revenue came in at QR51.7mn down 50.2% from last year but up 124.6% QoQ. The YoY trend is worrying where revenues halved. Due to seasonality, YoY comparison is more appropriate – the main Al Maha attraction, Winter Wonderland, only opens during winter/spring. On the bright side, the unit made a small profit of QR1.5mn compared with losses of QR23.8mn in 4Q2022 and QR30.3mn in 3Q2023.

### 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 19.4% 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) High base set by World Cup-related activities in traditional segments of the business (4) Conglomerate discount.

### Key Financial Data and Estimates

Group	2023	2024E	2025E	2026E	2027E
EPS (QR)	0.102	0.102	0.156	0.189	0.218
P/E (x)	21.24	19.00	12.38	10.21	8.87
EV/EBITDA (x)	16.37	15.48	11.29	9.78	8.91
DPS (QR)	-	0.05	0.09	0.16	0.19
DY (%)	0.0%	2.6%	4.8%	8.3%	9.6%

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)	1.935
Dividend Yield (%)	0.0
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UUVF886
Sector*	Industrials
52wk High/52wk Low (QR)	2.414/1.512
3-m Average Vol. ('mn)	4.7
Mkt. Cap. (\$'bn/QR'bn)	1.8/6.6
EV (\$'bn/QR'bn)	2.4/8.7
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.4
1-Year Total Return (%)	0.9
Fiscal Year-End	December 31

Source: Bloomberg (as of February 21, 2024), \*Qatar Exchange (as of February 21, 2024); Note: FO is foreign ownership

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**4Q2023 IGRD Financial Performance**

QR'millions	4Q2022	3Q2023	4Q2023	YoY	QoQ
<b>Revenue</b>	<b>1,205.62</b>	<b>744.87</b>	<b>690.04</b>	-42.8%	-7.4%
Services	748.26	387.25	378.79	-49.4%	-2.2%
Contracting & Industries	622.88	316.01	248.56	-60.1%	-21.3%
Healthcare	10.22	108.29	129.11	1163.5%	19.2%
Ventures/Tourism	103.88	23.03	51.72	-50.2%	124.6%
Corporate/Eliminations	(279.61)	(89.70)	(118.14)	N.M	N.M
<b>Gross Profit</b>	<b>200.13</b>	<b>171.92</b>	<b>232.94</b>	16.4%	35.5%
Services	161.24	97.56	81.03	-49.7%	-16.9%
Contracting & Industries	38.03	52.76	17.66	-53.6%	-66.5%
Healthcare	0.83	47.18	72.34	8596.2%	53.3%
Ventures/Tourism	3.28	(25.58)	36.20	1005.1%	N.M
Corporate/Eliminations	(3.25)	-	25.72	N.M	N.M
<b>Net Profit</b>	<b>35.14</b>	<b>101.73</b>	<b>45.30</b>	28.9%	-55.5%
Services	83.20	114.52	52.11	-37.4%	-54.5%
Contracting & Industries	17.24	15.39	(18.89)	-209.5%	-222.8%
Healthcare	0.31	3.99	10.48	3308.8%	162.7%
Ventures/Tourism	(23.76)	(30.28)	1.48	N.M	N.M
Corporate/Eliminations	(41.85)	(1.89)	0.12	N.M	N.M
<b>Minorities</b>	<b>(2.85)</b>	<b>(1.27)</b>	<b>0.17</b>	N.M	N.M
<b>Attributable Profit</b>	<b>37.99</b>	<b>103.00</b>	<b>45.13</b>	<b>18.8%</b>	<b>-56.2%</b>

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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