

INVESTMENT HOLDING GROUP (IGRD)

| | | | |
|----------------|-------------------|--------------|---------------|
| Recommendation | OUTPERFORM | Risk Rating | R-4 |
| Share Price | QR5.73 | Target Price | QR7.50 |
| Implied Upside | 30.9% | | |

In-Line 1Q2019 Results With a Slight EPS Beat; Outperform

IGRD's net income was slightly above our 1Q2019 estimate with the support of better-than-expected other income. As we move past IGRD's relatively slow first quarter (in terms of project initiations), we anticipate the company's operating income growth to speed up from 2Q2019 in-line with expected project initiations. We maintain our 2019 estimates as well as our target price for the company. Since our initiation on April 11, 2019 IGRD shares recorded a total return of 12.1% (including DPS0.25/share paid on April 15th), beating the QE All Share Index's 1.1%.

Highlights

- **IGRD posted net income/EPS of QR15.7m/QR0.19 for IGRD, up 8.6% YoY (down 41.5%, QoQ), slightly better than our net income estimate of QR14.8mn.** As expected, the first quarter of the year was subdued in terms of new project initiations, leading IGRD to record lower revenues (13.5%) compared to 1Q2018 at QR96.3mn. Nevertheless, higher-than-expected gross margin at 34.2% in 1Q2019, (still below 1Q2018's 36.1%), resulted in an 18.0% decline in gross profits YoY to QR32.9mn (3% below our 1Q2019 estimate). Due to the ongoing restructuring and thanks to management's cost cutting efforts, G&A declined by 18.6% vs. 1Q2018 to QR20.9mn.
- **Other income exceeded our expectations at QR6.3mn, still down 37.7% YoY.** Furthermore, IGRD recorded a QR2.25mn in fair value gain on investment properties.
- **We maintain our expectation for revenue/EBITDA/normalized EPS (excluding non-recurring items such as revaluation gains and provision expenses) growth rates of 86%/73%/32% in 2019, respectively.** Over the coming quarters, we expect IGRD's operating income growth to speed up, thanks to expected new project initiations.
- **A decent dividend yield.** IGRD has paid QR0.25/share of dividends for 2018 on April 15th and is expected to pay the same amount in 2019-20, which should correspond to a dividend yield of 4.4%.

Catalysts

- 1) Further expansion in the order book
- 2) New products
- 3) Potential buyouts of minority stakes at other subsidiaries.

Recommendation, Valuation and Risks

- **We rate IGRD as OUTPERFORM. Our 12 month target price of QR7.5 implies a 30.9% upside potential, based on a weighted average combination of DCF, international peer comparison and local market P/E.** IGRD trades at 2019e P/E multiple of 8.0x implies a 30% discount vs. the international contractors peer group. For 2020, IGRD's forecasted P/E multiple of 10.0x is on par with its international peers. IGRD's 2019-2020e dividend yields are 4.4% each, notably above the international peer group averages of 3.3% and 3.7%, respectively.
- **Risks:** 1) Geopolitical risks 2) Collection risks 3) High weight of goodwill in total assets.

Key Financial Data and Estimates

| | 2017 | 2018 | 2019e | 2020e |
|---------------|------|------|-------|-------|
| EPS (QR) | 0.49 | 0.70 | 0.71 | 0.57 |
| P/E (x) | 11.7 | 8.1 | 8.0 | 10.0 |
| EV/EBITDA (x) | 9.4 | 14.1 | 9.0 | 10.8 |
| DPS (QR) | 0.25 | 0.25 | 0.25 | 0.25 |
| DY (%) | 4.4% | 4.4% | 4.4% | 4.4% |

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) | 6.19 / 4.73 |
| 3-m Avg. Volume (000) | 371.2 |
| Mkt. Cap. (QR mn/\$ mn) | 476/131 |
| EV (QR mn/\$ mn) | 675/185 |
| Current FO* (%) / Limit | 24.9%/49% |
| Shares Outstanding (mn) | 83 |
| 1-Year Total Return (%) | 4.2% |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of April 29, 2019), *Qatar Exchange (as of as of April 29, 2019); 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

Income Statement

| | 2017 | 2018 | 2019e | 2020e | 2021e |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 469,232 | 426,299 | 794,935 | 635,183 | 656,970 |
| COGS | 328,114 | 299,445 | 646,304 | 501,161 | 518,147 |
| Gross Profit | 141,117 | 126,854 | 148,631 | 134,021 | 138,823 |
| Adj. SG&A | 75,030 | 75,761 | 60,216 | 63,518 | 65,697 |
| Depreciation | 6,022 | 5,748 | 6,840 | 7,210 | 7,745 |
| Operating Income | 60,065 | 45,345 | 81,575 | 63,293 | 65,382 |
| EBITDA | 66,087 | 51,093 | 88,416 | 70,503 | 73,126 |
| Impairment Loss on Investment Properties | -606 | -606 | -606 | -606 | -606 |
| Fair Value Gain From Financial Assets | 0 | 28,750 | 0 | 0 | 0 |
| (Loss)/ Gain From Disposal of Property and Equipment | 118 | -322 | 0 | 0 | 0 |
| 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 | 3,765 | 3,878 | 3,994 |
| Other Income | 21,070 | 15,866 | 9,289 | 9,981 | 10,079 |
| Gain on the Disposal of a Subsidiary | 0 | 0 | 0 | 0 | 0 |
| Total Other Income | 23,714 | 32,630 | 12,448 | 13,253 | 13,467 |
| Net Finance Income(Expense) | -9,111 | -11,943 | -19,746 | -20,890 | -19,410 |
| Net profit before management fees and income tax | 74,669 | 66,031 | 74,277 | 55,655 | 59,438 |
| Management Fees | -4,320 | -3,995 | -3,995 | -4,115 | -4,238 |
| Income Tax | 0 | 0 | 0 | 0 | 0 |
| Non-controlling Interests | -29,636 | -3,674 | -11,000 | -3,898 | -4,174 |
| Net Income | 40,712 | 58,362 | 59,282 | 47,643 | 51,026 |
| Net Profit Margin | 8.7% | 13.7% | 7.5% | 7.5% | 7.8% |
| Shares Outstanding (k) | 83,000 | 83,000 | 83,000 | 83,000 | 83,000 |
| EPS | 0.49 | 0.70 | 0.71 | 0.57 | 0.61 |
| EPS (Normalized for extraordinary & one-off items) | 0.51 | 0.54 | 0.71 | 0.57 | 0.61 |
| <i>Growth</i> | <i>N/M</i> | <i>5%</i> | <i>32%</i> | <i>-20%</i> | <i>7%</i> |
| DPS | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet

| | 2017 | 2018 | 2019e | 2020e | 2021e |
|---|------------------|------------------|------------------|------------------|------------------|
| Cash & Cash Equivalents | 136,856 | 79,952 | 79,952 | 79,952 | 79,952 |
| Investments Held for Trading/ST Investments | 0 | 0 | 8,365 | 35,238 | 45,015 |
| Accounts Receivable & Prepayments | 173,306 | 169,959 | 178,426 | 193,239 | 200,803 |
| Gross amounts due from customers on contract work | 198,745 | 201,199 | 376,701 | 323,391 | 336,049 |
| Due From Related Parties | 32,750 | 30,911 | 46,232 | 43,026 | 44,710 |
| Inventories | 71,652 | 78,663 | 83,383 | 88,385 | 93,689 |
| Total Current Assets | 613,309 | 560,684 | 773,058 | 763,232 | 800,217 |
| Retentions Receivable | 49,528 | 44,621 | 83,599 | 67,113 | 69,739 |
| Financial Assets at Fair Value Through Other Comprehensive Income | 2,250 | 31,000 | 31,000 | 31,000 | 31,000 |
| Investment Properties | 1,565 | 959 | 1,007 | 1,057 | 1,110 |
| Goodwill & Intangibles | 711,492 | 711,492 | 711,492 | 711,492 | 711,492 |
| Property, Plant & Equipment | 19,644 | 21,338 | 22,165 | 21,890 | 21,014 |
| Non-Current Assets | 784,480 | 809,410 | 849,264 | 832,553 | 834,356 |
| Total Assets | 1,397,789 | 1,370,093 | 1,622,322 | 1,595,784 | 1,634,574 |
| Short-Term Debt | 197,417 | 212,219 | 287,829 | 275,015 | 258,015 |
| Insurance Payables, Accounts Payable & Accruals | 192,393 | 203,181 | 349,681 | 326,321 | 346,704 |
| Due to Related Parties | 16,812 | 63,030 | 48,447 | 33,864 | 34,687 |
| Dividend Payable | 3,003 | 3,293 | 3,293 | 3,293 | 3,293 |
| Current Liabilities | 409,624 | 481,723 | 689,250 | 638,493 | 642,699 |
| Retention Payable | 1,285 | 1,881 | 3,978 | 3,021 | 3,123 |
| Long-Term Debt | 1,269 | 87,796 | 92,186 | 96,795 | 101,635 |
| Employees End of Service Benefits | 30,139 | 25,193 | 26,453 | 27,776 | 29,165 |
| Non-Current Liabilities | 32,693 | 114,870 | 122,617 | 127,592 | 133,923 |
| Total Liabilities | 442,318 | 596,594 | 811,867 | 766,085 | 776,622 |
| Total Shareholder's Equity | 869,694 | 748,733 | 784,505 | 803,134 | 830,481 |
| Minority Interest | 85,777 | 24,767 | 25,950 | 26,566 | 27,471 |
| Liabilities & Shareholder's Equity | 1,397,789 | 1,370,093 | 1,622,322 | 1,595,784 | 1,634,574 |

Source: Company data, QNB FS Research

Cash Flow Statement

| | 2017 | 2018 | 2019e | 2020e | 2021e |
|---------------------------------------|----------------|----------------|----------------|---------------|---------------|
| Cash Flow From Operations | 29,314 | 54,701 | -10,241 | 95,855 | 75,822 |
| Cash Flow From Investment Activities | -2,772 | -158,263 | -22,535 | -22,533 | -22,530 |
| Cash Flow From Financing Activities | -11,784 | 46,892 | 36,744 | -58,110 | -55,249 |
| Cash Flow From Other Activities | -416 | -233 | 4,396 | 11,660 | 11,733 |
| Change In Cash | 14,342 | -56,903 | 8,365 | 26,873 | 9,776 |
| Cash Beginning of Period | 122,514 | 136,855 | 79,952 | 79,952 | 79,952 |
| Decrease (increase) in Fixed Deposits | 0 | 0 | -8,365 | -26,873 | -9,777 |
| Cash End of Period | 136,855 | 79,952 | 79,952 | 79,952 | 79,952 |

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

| Particulars | 2017 | 2018 | 2019e | 2020e | 2021e |
|---|---------|---------|--------|---------|---------|
| Growth Rates | | | | | |
| Revenue | 4.8% | (9.1%) | 86.5% | (20.1%) | 3.4% |
| Gross Profit | (4.9%) | (10.1%) | 17.2% | (9.8%) | 3.6% |
| EBITDA | (14.5%) | (22.7%) | 73.0% | (20.3%) | 3.7% |
| EBIT | (16.1%) | (24.5%) | 79.9% | (22.4%) | 3.3% |
| PAT/EPS | N/M | 43.4% | 1.6% | (19.6%) | 7.1% |
| DPS | N/M | 0.0% | 0.0% | 0.0% | 0.0% |
| CFPS | N/M | 86.6% | N/M | N/M | (20.9%) |
| Operating Ratios | | | | | |
| Gross Margin | 30.1% | 29.8% | 18.7% | 21.1% | 21.1% |
| Gross Margin, Excluding Depreciation & Amortization | 30.1% | 29.8% | 18.7% | 21.1% | 21.1% |
| EBITDA Margin | 14.1% | 12.0% | 11.1% | 11.1% | 11.1% |
| EBIT Margin | 12.8% | 10.6% | 10.3% | 10.0% | 10.0% |
| Net Margin | 8.7% | 13.7% | 7.5% | 7.5% | 7.8% |
| Finance Ratios | | | | | |
| Debt-Equity Ratio | 23% | 40% | 48% | 46% | 43% |
| Net Debt-Equity Ratio | 7% | 29% | 37% | 32% | 28% |
| Net Debt-to-Capital | 7% | 23% | 27% | 24% | 22% |
| Net Debt-to-EBITDA | 0.9 | 4.3 | 3.3 | 3.6 | 3.2 |
| Interest Coverage | 6.6 | 3.8 | 4.1 | 3.0 | 3.4 |
| Return Ratios | | | | | |
| ROIC | 5.6% | 4.3% | 7.0% | 5.4% | 5.5% |
| ROE | 4.7% | 7.8% | 7.6% | 5.9% | 6.1% |
| ROA | 2.9% | 4.3% | 3.7% | 3.0% | 3.1% |
| FCF Yield | 5.6% | 9.9% | -3.8% | 18.5% | 14.3% |
| Liquidity Ratios | | | | | |
| Current Ratio | 1.5 | 1.2 | 1.1 | 1.2 | 1.2 |
| Quick Ratio | 1.3 | 1.0 | 1.0 | 1.1 | 1.1 |
| Valuation | | | | | |
| EV/Sales | 1.3 | 1.7 | 1.0 | 1.2 | 1.1 |
| EV/EBITDA | 9.4 | 14.1 | 9.0 | 10.8 | 10.1 |
| EV/EBIT | 10.4 | 15.9 | 9.7 | 12.0 | 11.3 |
| P/E | 11.7 | 8.1 | 8.0 | 10.0 | 9.3 |
| P/CF | 16.2 | 8.7 | -46.4 | 5.0 | 6.3 |
| P/BV | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Dividend Yield | 4.4% | 4.4% | 4.4% | 4.4% | 4.4% |
| FCF Yield | 5.6% | 9.9% | (3.8%) | 18.5% | 14.3% |

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 |

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@QNBFS.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@QNBFS.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

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

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