

## IGRD Alert – World Cup-Related Activities Boost 3Q2022 Revenue But Margins Down Slightly; Outperform

- **Estithmar's 3Q2022 results were significantly better than our expectations both at the top- and bottom-line: Revenue climbed 44.7% YoY to QR1.18bn vs. our estimate of QR875.8mn, while net profit rose 12.6% to QR99.3mn vs estimate of QR76.4mn (there are no QoQ comparables). However, IGRD's NP margin was marginally weaker at 8.4% compared with our forecast of 8.7%. Our understanding is that activity ramped up markedly in 3Q2022 as project managers frantically hurried to meet World Cup deadlines and this may have contributed to the boost in top-line and the slight deterioration in margins. The implication, however, is that it is likely a lumpy performance for IGRD's contracting and industries segments as it brought forward the order book and is unlikely to recur in the short-term – we will try to get more color from management on what this means for 4Q2022 and the next 12 months.**
- **The contracting business led the pack, registering a 74.6% YoY revenue growth to QR530.5mn in 3Q2022, followed by the services segment, which rose 33.6% YoY to QR596.8mn, and then the industries division with sales of QR119.4mn, a 22.7% YoY growth. Margins were mixed but mostly weaker: contracting and industries NP margins were stronger YoY but weaker compared with 1H2022, and the services margin was weaker YoY but improved from 1H2022. Overall, the group NP margin was both lower YoY at 8.4% (1Q2021: 10.8%) and compared with 1H2022's 10.3%.**
- **The balance sheet has loaded more debt since the beginning of the year but leverage metrics remain reasonable. Finance costs have almost doubled YoY primarily in-line with the increase in debt levels – net debt stands at QR1.52bn end-September compared with QR934.4mn in end-December. We estimate annualized interest cover at 6.9x (9M2021: 10.0x) and Net Debt/EBITDA at 2.8x (FY2021e: 2.1x).**
- **Looking ahead, services segment activity will likely remain elevated in 4Q2022 due to various WC-related contracts secured to manage stadiums and various facilities that are expected to see a surge in occupancies. That should offset some of the slowdown expected in contracting and industries units, while relatively higher services margins should further protect the bottom-line. With 9M2022 revenue at QR3.0bn up 29.9% YoY, the group is on track to hit revenue of ~QR4bn in FY2022, ahead of our earlier estimate of QR3.8bn. We will provide more detail in a follow-up note.**
- **The highly anticipated two new divisions, healthcare & tourism, are set to begin operations in 4Q2022 and can potentially get an early boost from the World Cup visitor influx. In the medium-term, we expect these higher margin divisions to offset some of the weakness that we see in its traditional business as the WC-related boom recedes. The View, IGRD's state-of-the-art hospital, with about 250 combined inpatient and outpatient beds is tipped to start operating early in November as per management's earlier guidance. Similarly, Al Maha, with the UK-themed Winter Wonderland, as one of its main tourist attractions is also set to start operations this coming November.**
- **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's thesis with its future growth geared towards higher-margin sectors of healthcare, tourism and services, which are set to more than offset the slowdown in construction and industries.**

Recommendations	
<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>	
<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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<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

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