

## Estithmar Holding (IGRD)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-4</b>
<b>Share Price</b>	<b>QR2.024</b>	<b>Target Price</b>	<b>QR2.395</b>
<b>Implied Upside</b>	<b>18.3%</b>	<b>Old Target Price</b>	<b>QR2.236</b>

### 3Q2023 Beat On Higher Services Margins As Healthcare Turns Profit; Upgrade To Accumulate

- In 3Q2023, Estithmar Holding's (IGRD) bottom-line printed significantly ahead of our estimates even as the top-line came below estimates, thanks to cost recoveries within the services unit.** IGRD's 3Q2023 attributable profit edged lower by 4.3% YoY but was higher by 4.7% QoQ to QR103.0mn, comfortably ahead of our forecast of QR78.2mn. Meanwhile, revenue fell 36.8% YoY and inched up 3.8% QoQ to QR744.9mn, below our estimate of QR875.9mn. NP was driven primarily by the services division's margins – much like in 2Q2023 – which surprised markedly on the upside compared with both our model and historical/industry trends. While the overall group NP margin rose to 13.8% from 9.1% in 3Q2022 (2Q2023: 14.3%), the services segment's NP margin was much higher at 29.6% from 14.7% in 3Q2022 (2Q2023: 32.3%).
- The high GP and NP margins made by the services segment – which saw a reversal in expenses during 3Q2023 – emanated from a claim made in 1H by one of the companies within the services cluster (Elegancia Catering),** to recover cost overruns in prior periods on one of its long-term food contracts with a major client. We learned the claim saw the unit's expenses reversed by approximately QR84mn. While we still think the elevated services margins in the quarter under review as well as during 2Q2023 are not sustainable, we believe the ability to repeatedly recover cost overruns by the unit speaks to its stronger pricing power. For the services segment 3Q2023 GPM was 25.2% vs. 18.1% in 3Q2022; and 3Q2023 NPM was 29.6% vs. 14.7% in 3Q2022. We had penciled in an NPM of 16.7%, which was eclipsed by 12.8ppts.
- Another positive surprise from IGRD's 3Q2023 results is that the healthcare division turned in a profit during 3Q2023,** albeit small, it came ahead of our expectation. This means YTD losses actually decreased in 9M2023 compared with 6M2023, while we had expected the loss position to grow.
- We upgrade our assumptions for the services and healthcare units as well as our FY2023 group earnings estimates to incorporate beats witnessed in the last two quarters. Consequently, we also upgrade our TP and our call to Accumulate from Market Perform.** IGRD's share price had been battered in the last several weeks and we think it is due for a recovery. We note there are several projects in the pipeline including Maldives and several healthcare projects. While these projects are not in our base model we illustrate, on page 2, using a back-of-the-envelope calculation how the Maldives project could potentially add ~QR0.13/share in NPV should it perform according to management's guidance.
- Segment performance: (i) Services segment:** revenue declined 34.5%/12.6% YoY/QoQ to QR387.2mn; NP climbed 31.8% YoY but declined 19.9% QoQ to QR114.5mn. **(ii) Contracting & industries unit:** revenue fell 51.4% YoY and recovered by 2.2% QoQ to QR316.0mn; NP declined 29.4%/33.9% YoY/QoQ. **(iii) Healthcare businesses:** revenue climbed 11x/1.2x YoY/QoQ to QR108.3mn, albeit off a very low base. Moreover, we are encouraged that The View Hospital seems to have finally, belatedly and suddenly ahead of expectations, picked up in activity levels. We reckon the healthcare division is still in a loss position YTD but the quarter under review has surprisingly turned positive to small profit of QR4.0mn from a loss of QR33.8mn in 2Q2023. It also had a small profit of QR0.8mn in 3Q2022. **(iv) Ventures/tourism operations:** revenue came in at QR23.0mn from zero last year but decline 25.3% QoQ due to seasonality – the main Al Maha attraction, WinterWonderland, is closed during summer. The unit generated a net loss of QR30.3mn during 3Q2023 compared with a negligible net loss last year and a loss of QR24.4mn in 2Q2023.

#### Catalysts

- Significant catalysts: (1) Positive sales & operation updates of The View (Hospital) and Al Maha (Tourism) (2) Opening of Korean Medical Center (KMC) expected later this year (3) New product launches/offshore expansion**

#### Recommendation, Valuation and Risks

- Recommendation and Valuation:** We change our rating to Accumulate from Market Perform and raise our 12-month TP to QR2.395 from QR2.236 implying 18.3% upside potential, using SoTP EBITDA Exit Multiple valuation. We continue to like the new IGRD model with 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. These growth areas are supported by the macro backdrop where Qatar is striving to reach "advanced economy" status by 2030. This, along with the fact that IGRD's founders are very entrepreneurial, gives us confidence in the prospects of this emerging giant. We note, however, that near-term negative base effects and dilution impact could affect the share price adversely.
- 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	2022	2023E	2024E	2025E	2026E
EPS (QR)	0.107	0.094	0.100	0.165	0.177
P/E (x)	19.00	21.53	20.31	12.28	11.46
EV/EBITDA (x)	15.11	12.40	12.51	9.42	9.19
DPS (QR)	-	-	0.04	0.10	0.15
DY (%)	0.0%	0.0%	2.0%	4.9%	7.4%

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)	2.024
Dividend Yield (%)	0.00%
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector*	Industrials
52wk High/52wk Low (QR)	2.414/1.423
3-m Average Vol. ('mn)	4.7
Mkt. Cap. (\$'bn/QR'bn)	1.9/6.9
EV (\$'bn/QR'bn)	2.5/9.2
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.2
1-Year Total Return (%)	11.1
Fiscal Year-End	December 31

Source: Bloomberg (as of October 30, 2023), \*Qatar Exchange (as of October 30, 2023); Note: FO is foreign ownership

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### 3Q2023 IGRD Financial Performance

	3Q2022	2Q2023	3Q2023	YoY	QoQ
<b>Revenue</b>	<b>1,178.42</b>	<b>717.40</b>	<b>744.87</b>	-36.8%	3.8%
Services	591.09	442.99	387.25	-34.5%	-12.6%
Contracting & Industries	649.96	309.31	316.01	-51.4%	2.2%
Healthcare	9.07	49.89	108.29	1094.4%	117.1%
Ventures/Tourism	-	30.84	23.03	N.M	-25.3%
Corporate/Eliminations	(71.70)	(115.63)	(89.70)	N.M	N.M
<b>Net Profit</b>	<b>99.29</b>	<b>102.77</b>	<b>101.73</b>	2.5%	-1.0%
Services	86.90	143.02	114.52	31.8%	-19.9%
Contracting & Industries	21.79	23.27	15.39	-29.4%	-33.9%
Healthcare	0.79	(33.83)	3.99	407.2%	N.M
Ventures/Tourism	(0.33)	(24.44)	(30.28)	N.M	N.M
Corporate/Eliminations	(9.86)	(5.26)	(1.89)	N.M	N.M
<b>Minorities</b>	<b>(8.36)</b>	<b>4.36</b>	<b>(1.27)</b>	N.M	N.M
<b>Attributable Earnings</b>	<b>107.65</b>	<b>98.41</b>	<b>103.00</b>	<b>-4.3%</b>	<b>4.7%</b>

Source: Company data, QNB FS Research

### Maldives Project Sensitivity Analysis: Potential Marginal Value Added Per Share (QR)

WACC	IRR				
	14.10%	15.10%	16.10%	17.10%	18.10%
8.78%	0.165	0.197	0.228	0.259	0.290
9.78%	0.117	0.144	0.171	0.198	0.225
10.78%	0.079	0.103	0.126	0.150	0.174
11.78%	0.049	0.070	0.091	0.112	0.133
12.78%	0.025	0.044	0.062	0.081	0.100

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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