AAMAL COMPANY (AHCS)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR0.620	Current Target Price	QR0.686
Implied Upside	10.6%		

Defensive Nature & Exposure to Healthcare Sector Should Help Ease 2020's Volatility

We initiate coverage on Aamal Company with a Market Perform rating. *Aamal enjoys a well-diversified business portfolio across many major sectors of the Qatari economy; thus, we think AHCS could be one of the top direct and indirect beneficiaries of the recently announced QR75bn government support package. Furthermore, it has Qatar's leading pharma & medical device distribution companies in its portfolio, which should increase AHCS' top- & bottom-line resilience. In 2019, Aamal's net earnings fell 27.6% due to challenging local market conditions given slowdown in infrastructure investments, renovation works in its flagship shopping mall City Center Doha (CCD) and increasing financial expenses; DPS was also cut from QR0.06 to QR0.04 (which still offered a 6.5% yield, above the QE's 4.8%). As a result, AHCS' shares have fallen 29.9% from beginning 2019, underperforming the QSE Index by 12.8%. Going forward, while Aamal's 2020 results are likely to be affected by the Coronavirus and oil shocks, we believe AHCS' 2021 prospects will be better with the completion of renovation works & expansion in CCD during 2020 and Senyar's new drum and copper factories becoming operational during 1H2021. In 2022, we believe Aamal will be one of the top beneficiaries of FIFA'22 given its property, retail and trading exposures. That said, due to poor visibility surrounding the markets, we initiate coverage with a Market Perform rating.*

Highlights

- **Established in 2001, AHCS is well-diversified with operations across 26 active business units, across four main segments, in Qatar:** 1) Property (generating 59% of net earnings, ex. head office costs, as of FY2019), 2) Trading & Distribution (26%) of healthcare products, auto oil & tires, 3) Industrial Manufacturing (14%) with a focus on building materials & cables and 4) Management Services (2%). At $1.1bn in market cap., AHCS is the 19th largest stock in the QSE Index.
- **While the dual headwinds of Coronavirus and oil price malaise continue to dampen Qatari equities, we think there are major drivers to soften the blow on Aamal and its shares in 2020.** 1) Aamal's exposure to the healthcare sector, 2) Qatar's 2020 budget, foreseeing a 5-year-high in spending, 3) the recently announced QR75bn government support package to the private sector, 4) the QR10bn government backstop for Qatari equities and 5) Aamal's already low 2019 base due to the subdued performance of its industrials segment. **In-line with our 20% EPS decline forecast for Qatari stocks in 2020, we expect Aamal to record 19.0%/18.5% revenue/EPS declines in 2020**. We note already reduced contribution of industrial manufacturing to the consolidated EPS **and non-cyclical and low-volatility characteristics of the pharma business should increase bottom-line stability.** It is noteworthy that Aamal owns the leading pharma & medical device distributors in Qatar, which generate the majority of its Trading & Distribution segment's EPS. *However, we note there could be downside risk to our estimates given Coronavirus-related elevated volatility.*
- **Qatar aims to increase its number of hospital beds to 5.7k by 2033 from an estimated 3.8k as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033.** With its leading pharma & medical device businesses in place, Aamal's is well positioned to capture the growth in Qatar's healthcare system.
- **Visibility remains quite low for 2020; however, we expect Aamal's bottom-line to normalize in 2021. For 2021, we maintain our base case estimates of 39% revenue/54% EPS expansion, which ignores the potential for pent-up demand from a subdued 2020.** In 2021, we believe the major revenue and EPS drivers are: 1) the completion of renovation works at City Center Mall in 2020, which is likely to increase the GLA by 10% in the mall, 2) drum & copper factories of Senyar Industries becoming operational in 1H2021 and 3) several major government-sponsored infrastructure projects tendered in 2019 driving higher construction activity in the market during 2020-2021.
- **Aamal's dividend yield is above its local peers.** Even after the DPS cut from QR0.06 for 2018 to QR0.04 in 2019, AHCS enjoys a dividend yield of 6.5% for 2019 and 5.8% for 2020, which are above the Qatar Stock Exchange averages of 4.8% and 4.9%, respectively.
- **AHCS' beta of 0.91x vs. the QE Index and 0.66x vs. the MSCI EM Index shows its defensive nature.**

Catalysts

1) Impact of the State's QR75bn support package & 2) Opening of CCD's extension & new factories.

Recommendation, Valuation and Risks

- ***We rate AHCS a Market Perform and our 1-year target price of QR0.686 implies a 10.6% upside potential.*** While our blended valuation (DCF & multiples) yields a fair value of QR0.686, our DCF itself implies a 23.9% upside for Aamal shares. For multiples, we prefer to utilize AHCS' relative P/E multiples vs. the QSE Index. Due to Aamal's unique business portfolio and its heavy exposure to Qatar, we think an international peer group comparison is not suitable for the name.
- **Risks:** 1) Poor visibility on earnings due to the Coronavirus pandemic and 2) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.07	0.05	0.04	0.06
P/E (x)	8.8	12.1	14.9	9.7
EV/EBITDA (x)	10.7	12.1	15.0	10.6
DPS (QR)	0.060	0.040	0.036	0.040
DY (%)	6.1%	6.5%	5.8%	6.5%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	AHCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	AHCS.QD
ISIN	QA000AONCQB1
Sector	Diversified
52wk High/52wk Low (QR)	1.06 /0.58
3-m Avg. Volume (000)	2,434.0
Mkt. Cap. ($ bn/QR bn)	1.1/3.9
EV ($ bn/QR bn)	1.1/4.0
Current FO*/FO limit (%)	0.7%/49%
Shares Outstanding (mn)	6,300.0
1-Year Total Return (%)	-31.5%
Fiscal Year End	December 31

Source: Bloomberg (as of Mar 30, 2020), *Qatar Exchange (as of as of Mar 30, 2020); Note: FO is foreign ownership

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Valuation

We value AHCS' shares at QR0.686 with a 10.6% upside potential using a combination of DCF and relative & historical P/E multiples. We assign the biggest weight to DCF (cash flows to firm). On the other hand, as Aamal is a diversified holding company with investments in real estate, construction, building materials, trading & distribution and managed services sectors primarily in Qatar, we prefer to utilize its relative P/E multiples vs. the QSE Index, together with its DCF, in order to value AHCS.

Due to Aamal's focus on the local market, coupled with its unique portfolio of companies operating in different businesses, we think an international peer group comparison may not deliver accurate results.

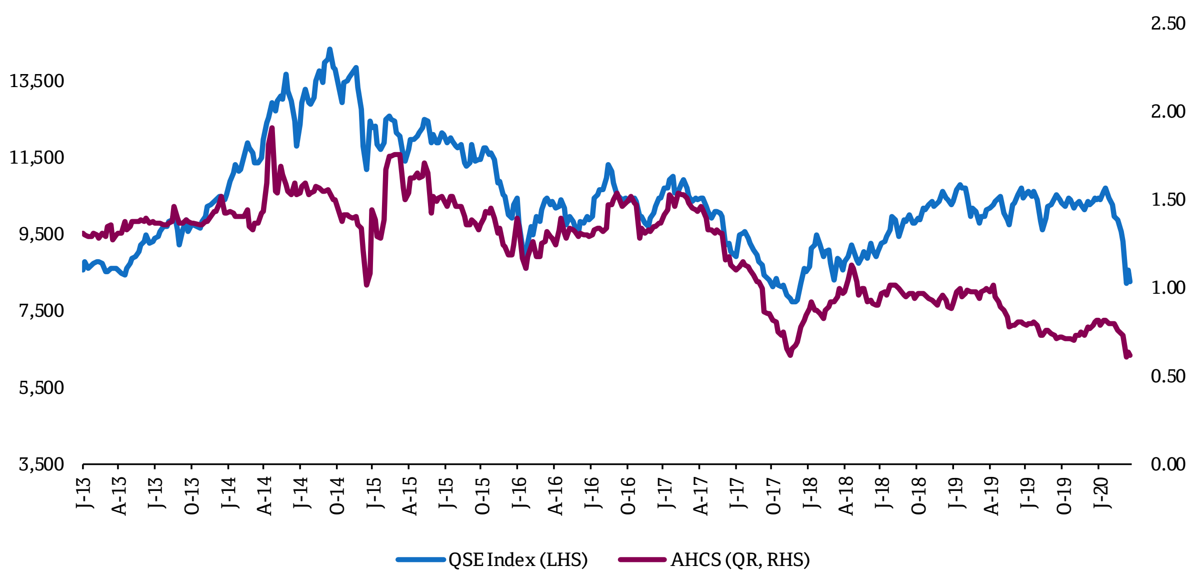
Valuation Summary

Method	Weight in Overall AHCS' Valuation	AHCS' Upside Potential
DCF	50.0%	23.9%
AHCS's P/E vs. QNB FS QE Index Pessimistic Scenario Analysis P/E, 2020E	30.0%	-5.4%
Relative P/E vs. QE Index, 2021E	10.0%	7.4%
AHCS 2020 P/E vs. Historic av. NTM P/E	10.0%	5.5%
Weighted Average Upside Potential for Aamal Shares		**10.6%**

Source: QNB FS Research

AHCS' shares have underperformed the QSE Index since the beginning of 2019, which is attributable to lower 2019 net earnings due to less favorable conditions in the company's segments. Aamal's FY2019 net earnings were 27.6% lower YoY, primarily due to lower revenue and margin pressures in the industrial segment, while other segments also witnessed margin compression and contracting bottom-lines. Accordingly, its shares have declined by 29.9% since the beginning of 2019 while the QSE Index fell by 19.6%. In fact, Aamal has been suffering from a declining EPS from QR0.095 as of 2015 to QR0.071 as of 2018 and further to QR0.051 in 2019. Furthermore, in-line with lower EPS, the company also cut its dividends to QR0.04 per share in 2019 from QR0.06 in 2018, which has been a key catalyst depressing the share price YTD.

AHCS & QSE Index Share Price Graph

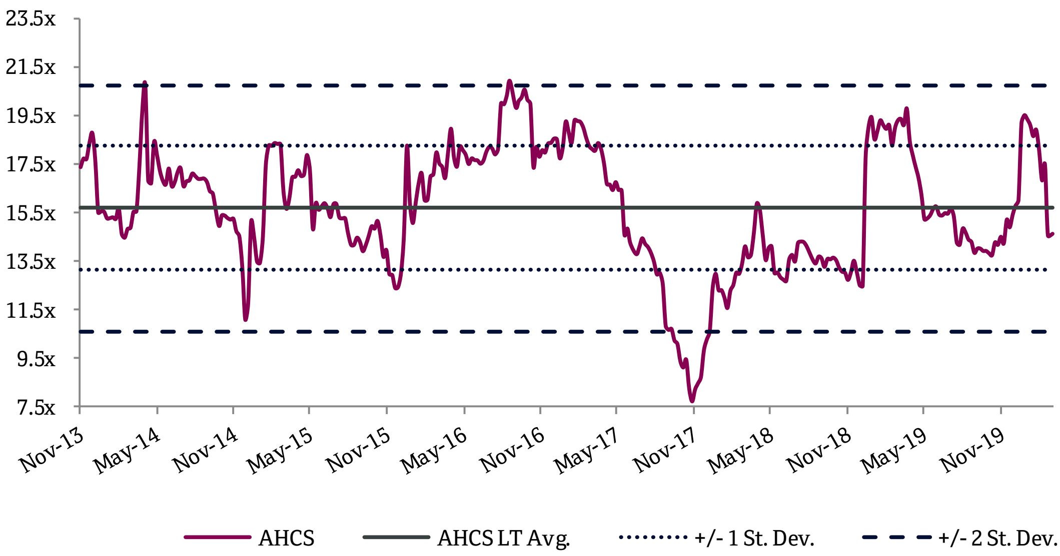


Source: Bloomberg, QNB FS Research

Aamal's 2020-2021e P/E vs. the QSE Index implies -2.5% & 6.9% upsides for AHCS shares. Aamal trades at 2020 P/E multiple of 14.9x vs. the pessimistic scenario analysis case 2020e P/E of 14.1x as mentioned in our *March 22, 2020 Strategy Report*. As we expect Qatari stocks' EPS to turn back to their normal trajectories in 2021, Aamal is likely to outperform its local peers with expected EPS growths of 54% for 2021 and 36% for 2022.

Compared to its 2013-2019 forward looking average P/E of 15.7x, Aamal currently trades at 15x, which implies a 4.8% upside potential for the name.

AHCS' Forward Looking P/E



Source: QNB FS Research

DCF Assumptions:

- **Our DCF model implies a 23.9% upside for Aamal.** While calculating the Cost of Equity, we have considered a risk free rate of 2.6% (US 10-year government bond plus Qatar's 10 year CDS rate). We have also added 1pp to Aamal's equity risk premium (ERP) due to its high dependence on local macroeconomic developments, which increased its ERP to 8.8% for 1x beta. Given that the company's beta of 0.91x, we have reached a Cost of Equity of 10.3% for Aamal.
- It is noteworthy that AHCS' beta of 0.91x vs. the QE Index and 0.66x vs. the MSCI EM Index shows its defensive nature.

DCF Summary

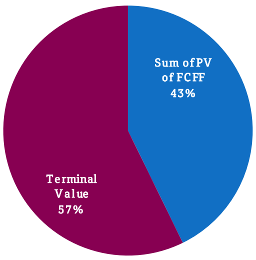
WACC calculation	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Term. Value Normalized
Mcap (QR)	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000	3,906,000,000
Share Price (QR)	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62
Number of shares	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000	6,300,000,000

WACC calculation	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Value Normalized
Cost of equity	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
RFr (US 10 yr+Qatar 10yr CDS)	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
ERP	8.05%	8.05%	8.05%	8.05%	8.05%	8.05%	8.05%	8.05%	8.05%	8.05%
ERP for 1x Beta	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
Beta	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92
WACC	**9.3%**	**9.3%**	**9.3%**	**9.3%**	**9.3%**	**9.3%**	**9.3%**	**9.3%**	**9.3%**	**9.3%**

DCF-Cash Flow to Firm (QR)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Term. Value Normalized
EBIT (1-tax rate)	**225,169,132**	**338,715,837**	**476,141,726**	**394,596,516**	**403,983,603**	**413,109,134**	**422,690,942**	**439,027,642**	**456,024,281**	**473,709,935**
EBIT	230,942,700	347,400,858	488,350,488	404,714,376	414,342,157	423,701,676	433,529,172	450,284,761	467,717,212	485,856,344
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Depreciation & Amortisation	**41,275,855**	**39,039,105**	**42,189,786**	**43,358,798**	**44,739,631**	**46,327,538**	**48,119,070**	**50,111,986**	**52,305,173**	**54,698,584**
Capital Expenditure	**102,163,887**	**105,505,241**	**107,780,503**	**110,169,528**	**112,678,005**	**115,311,905**	**118,077,500**	**120,981,375**	**124,030,444**	**127,231,966**
% of Enterprise Value	2.1%	2.1%	2.2%	2.2%	2.3%	2.3%	2.4%	2.5%	2.5%	2.6%
Change in WC	**5,423,053**	**76,882,016**	**54,244,051**	**-29,339,690**	**9,330,573**	**9,625,906**	**10,104,025**	**12,822,829**	**13,400,849**	**14,004,381**
Chg. working capital days	1.9	19.2	11.8	-6.9	2.1	2.1	2.1	2.6	2.6	2.5
Net Sales	1,048,863,281	1,458,299,569	1,672,017,742	1,556,864,252	1,619,301,490	1,684,860,589	1,753,697,643	1,833,679,538	1,917,467,953	2,005,248,399
Change in sales	-19.0%	39.0%	14.7%	-6.9%	4.0%	4.0%	4.1%	4.6%	4.6%	4.6%
Free cash flow to the firm (FCFF)	**158,858,048**	**195,367,686**	**356,306,958**	**357,125,476**	**326,714,656**	**334,498,861**	**342,628,487**	**355,335,423**	**370,898,161**	**387,172,172**
PV of FFCF	**158,858,048**	**178,782,674**	**298,379,990**	**273,677,391**	**229,118,101**	**214,663,460**	**201,214,672**	**190,962,186**	**182,404,794**	**174,244,228**
Sum of PV of FCFF	**2,102,305,544**									

Terminal Value	**2,815,445,628**
Terminal FCFF	174,244,228
Terminal Growth Rate	3.1%
Terminal WACC	9.3%
Enterprise value	**4,917,751,173**
+Cash and cash equivalents	519,317,377
-Debt - long term and short term	559,720,859
-Minority Interest	37,130,660
Fair Value of Equity	**4,840,217,030**
Shares o/s (mn)	6,300,000,000
12M target price per share	**0.77**
12 Month Upside Potential	**23.9%**

DCF Enterprise value breakdown



DCF SENSITIVITY

TARGET SHARE PRICE SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

	Terminal Growth Rate				
Terminal	**2.0%**	**2.5%**	**3.1%**	**3.5%**	**4.0%**
7.3%	0.85	0.90	0.98	1.05	1.17
8.3%	0.76	0.80	0.85	0.90	0.97
9.3%	0.70	0.73	0.77	0.80	0.85
10.3%	0.66	0.68	0.71	0.73	0.76
11.3%	0.62	0.64	0.66	0.68	0.70

SHARE PRICE UPSIDE POTENTIAL SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

	Terminal Growth Rate				
Terminal	**2.0%**	**2.5%**	**3.1%**	**3.5%**	**4.0%**
8.3%	36.4%	45.2%	58.3%	70.0%	88.0%
8.8%	22.9%	29.1%	37.8%	45.2%	56.1%
9.3%	13.1%	17.7%	23.9%	29.1%	36.4%
9.8%	5.7%	9.2%	13.9%	17.7%	22.9%
10.3%	-0.1%	2.7%	6.3%	9.2%	13.1%

Source: QNB FS Research

Investment Themes

- **Non-cyclical and low-volatility characteristics of the pharma business should increase bottom-line stability and Aamal's defensive characteristics.** As of 2019, the property segment generated 59% of net earnings (ex. head office costs), followed by the trading & distribution segment's 26%. Aamal owns the leading pharma & medical devices and diagnostic distributors in Qatar, which generate the majority of its Trading & Distribution segment's EPS. Aamal's **Ebn Sina Medical** is the leading provider of pharmaceutical, hospital supplies and consumer health products in Qatar. **Ebn Sina Pharmacy**, which is managed by Ebn Sina Medical, is a modern chain of pharmacies. **Foot Care Centre** (managed by Ebn Sina Medical) provides a range of foot care services and a variety of foot care products from the well-known brand SCHOLL. Foot Care Centre operates through branches. **Aamal Medical** is a leading medical equipment supplier in Qatar.

  Qatar plans to increase its number of hospital beds to 5.7k by 2033 from an estimated 3.8k as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033. We think that with its leading pharma & medical device businesses in place, Aamal's is well positioned to capture the expected growth in Qatar's healthcare system.

- **Following 2019's subdued performance, industrial manufacturing only accounted for 14% of Aamal's EPS. 2019's low consolidated EPS base and Aamal's reduced industrial exposure should also dampen the company's EPS volatility in 2020.** In 2019, the company operated in a challenging market environment with a slowdown in major infrastructure projects in Qatar. Increased market competition has also impacted pricing and margins adversely across Aamal's business units, particularly hitting the industrial manufacturing segment. As a result, Aamal's industrial segment suffered from 26.6% earnings and 48.2% EPS declines. Consequently, the industrial segment's share in Aamal's net earnings (ex. head office costs) declined to 14% in FY2019, notably below the property segment's 59% and trading & distribution's 26%. **That said, in-line with our 20% EPS decline pessimistic scenario analysis for the Qatari stocks in 2020 as detailed in our March 22 Strategy Report, we expect Aamal to record 19.0%/18.5% revenue/EPS declines in 2020.**

- **While the dual headwinds of the Coronavirus and oil price malaise continue to dampen Qatari equities, the recently announced QR75bn support package to the private sector and the QR10bn Government backstop for Qatari equities should help soften the blow on Aamal and its shares.** Aamal enjoys a well-diversified business portfolio across many major sectors of the Qatari economy; therefore, we think the group will be one of the top direct and indirect beneficiaries of the recently announced support program.

- **Apart from the State's support program, Qatar's 2020 budget foresees a 5-year-high in spending, which should support Aamal's industrial manufacturing segment once the global turmoil diminishes**. Previously, Qatar announced an expansionary government budget for 2020 with expenditures reaching a 5-year high, while maintaining a modest surplus of QR500mn. Total revenue is anticipated at QR211bn, in-line with 2019. On the other hand, government spending is envisaged to see a 2% increase YoY to QR210.5bn. The 2020 budget considers allocations for water, electricity, sewerage networks, as well as roads, apart from the development of 13 new housing areas. New infrastructure projects (such as the Sharq Crossing) worth QR11.5bn are planned to be awarded in 2020. Beyond 2020, falling investments spending on projects related to the World Cup would be replaced by higher infrastructure spending on Qatar National Vision 2030 projects. Aamal's industrial manufacturing segment is already well-positioned to take advantage of these opportunities, winning two major contracts commencing in 2020.

- **We expect Aamal's bottom-line to normalize in 2021.** For 2021, we maintain our base case estimates of 39% revenue/54% EPS expansion, even without considering the pent-up demand from what looks like to be a slow 2020. Completion of the renovation works at City Center Mall in 2020, which should also increase the retail space in the mall by 10%, is likely to impact positively on 2021 financials. On the residential front, Aamal Real Estate completed the renovation of 40 apartments; renovation work also started at Souq Al Haraj, which is expected to be completed by mid-2020. 2019 saw the execution of a number of corporate leasing contracts, which could lead the occupancy rates to reach 95% in 2020. Even before considering any spending uptick related to mitigating the dual blows of the Coronavirus and the oil shock, **Aamal was cautiously optimistic about the outlook for industrial manufacturing pointing to some emerging green shoots.** Furthermore, several major government-sponsored infrastructure projects tendered in 2019 are expected to drive higher construction activity in 2020-2021, which is beneficial for both Senyar and Aamal Readymix. Separately, Aamal Maritime benefits from improved shipping rates in 4Q2019.

- **With the completion of the renovation works at City Center Mall in 2020, coupled with the recently leased 4,000 sqm of retail space in the mall, we expect property segment revenue to recover in 2021.** Despite a challenging real estate market, Aamal's performance in the property segment was broadly in-line with 2018. Revenue in the division declined marginally by 0.8% and profit decreased by 3.6%. Reduced demand for residential properties increased vacancy rates in 2019. Performance at City Center Doha was down due to increased maintenance and insurance costs in 2019. Negative base impact of QR3.2mn one-off lease termination penalty income in 2018 also adversely impacted property segment's net income growth.

AHCS: Property Segment

(QRmn)	2016	2017	2018	2019	2020e	2021e
Revenue	318	321	295	290	218	301
YoY ch.		0.9%	-7.9%	-1.8%	-25.0%	38.4%
Net profit -fully consolidated activities	252.1	262.6	235.7	218.4	163.8	226.7
Net underlying profit margin %	79.3%	81.8%	79.8%	75.3%	75.3%	75.3%
Share of net profit of associates and joint ventures accounted for using the equity method	6	6	5	6	5	6
YoY ch.		-13%	-2%	3%	-8%	10%
Total net profit	**258**	**268**	**241**	**224**	**169**	**227**
YoY ch.		3.8%	-10.1%	-7.1%	-24.7%	34.8%

Source: Aamal, QNB FS Research

- **Senyar Holdings' new factories to become operational by 1H2021 driving synergies and reducing production costs among Senyar's subsidiaries.** In early 2018, Senyar Industries Qatar announced the launch of two major, first of their kind, industrial projects: 1) Senyar Copper Production Factory – The factory will specialize in the production of copper wires. 2) Senyar Drum Production Factory – The factory will specialize in the production of wooden and steel cable drums.
- **Aamal's dividend yield is above its local peers.** Even after the decline in DPS for 2019 to QR0.04 from QR0.06 for 2018, AHCS enjoys a dividend yield of 6.5% for 2019 and 5.8% for 2020, which are above the Qatar Stock Exchange average of 4.8% and 4.9% respectively.
- **Qatar's highest GDP per capita (PPP adjusted) in the world, coupled with a growing economy, should provide sufficient consumption power to residents.** As of 2018, Qatar had the highest GDP per capita (PPP adjusted) in the world with $130.5k according to IMF's 2018 ranking, markedly above the major advanced economies' (G7) average of $53.1k and OECD's $43.8k (as of 2017). IMF anticipates Qatar's real GDP per capita to increase further in the coming years (1.4% in 2019 and 2.9% in 2020).
- **Before the global Coronavirus pandemic, tourist arrivals to Qatar were on the rise. We expect the same trend to continue once this pandemic abates. Given Aamal's significant exposure to the property, retail and trade & distribution sectors (generating 85% of EPS as of 2019), we expect Aamal to benefit from rising tourist flow to Qatar.** In 2019, tourist arrivals to Qatar reached 2.1mn, with a 17.4% rise over 2018. Initiatives like Discover Qatar Stopover Program has had a positive impact on tourist arrivals and achieved success in realizing its goal to make Qatar a genuine seven-night destination for visitors, especially from Europe. It is noteworthy that number of visitors in 2019 was 27.1% below 2015's peak (2.93mn); therefore, we think there is substantial room for recovery, which could support local business activity, especially on the retail front.
- **Furthermore, FIFA 2022 World Cup Qatar is likely to be a major driver for the retail, trading and property sectors.** Qatar is expected to welcome 1.7mn visitors during the event

(approximately accounting for 63% of its population) according to the Qatar Civil Aviation Authority. The event will take place between November to December 2022 with visitors anticipated to stay approximately a month in Qatar during the event.

- **Over the last 18 months, Aamal has enrolled in several ESG-related initiatives.** The company passed QFMA's internal controls and financial reporting requirements, and has recorded significant achievements in policies and procedures on corporate governance. Aamal also passed successfully an external audit on corporate governance. With investors increasingly seeking out companies with favorable ESG characteristics, we think this bodes well for AHCS shares.

Investment Challenges

- **Dependence on Qatar.** While Aamal has diversified its operations into various sectors in Qatar, bulk of its revenue and net income originates from Qatar, which ties the company's fate closely to macroeconomic developments in the country. While AHCS prospers during expansion years, it could face a challenging environment under tight spending conditions. That said, Aamal's focus on the Qatari economy is a deliberate choice by management as Aamal's investment case is firmly based on its diversified exposure to Qatar's economic development.
- **While infrastructure spending still continues to expand, its growth rate is decelerating with the completion or (near completion) of major projects.** During 2012-2018, infrastructure spending grew at an average 18% pa, thanks to the contracting of $200bn worth of projects. As major projects near completion, infrastructure spending shrank for the first time by 1.2% as of 1Q19 vs. 1Q18. On the positive front, backed by enhanced infrastructure, we anticipate real estate and services sectors could benefit from the increased interest in Qatar due to the publicity of the World Cup event.

AHCS: Industrial Manufacturing Segment (*)

(QRmn)	2016	2017	2018	2019	2020e	2021e
Revenue	1812	582	231	169	127	195
YoY ch.		-68%	-60%	-26.6%	-25%	54%
Net profit -fully consolidated activities	156.5	71.2	6.9	-1.5	1.5	4.1
Net underlying profit margin %	8.6%	12.2%	3.0%	-0.6%	1.2%	2.1%
Share of net profit of associates and joint ventures accounted for using the equity method	54	97	95	54	49	78
YoY ch.		79%	-2%	-43%	-9%	58%
Total net profit	**210**	**168**	**102**	**53**	**50**	**80**
YoY ch.		-20%	-40%	-48%	-4%	58%

(*) Revenue decline in 2017 was due to Senyar Industries' deconsolidation

Source: Aamal, QNB FS Research

- **Aamal's FY2019 results displayed flat revenue and a 27.6% decline in net earnings YoY, due to challenging local market conditions impacting particularly the industrial manufacturing segment, coupled with increasing financial expenses due to the drawdown of a QR110mn loan in Dec'18.** Aamal reported group revenue of QR1,294mn, with a 0.6% rise YoY and net profit of QR322.1mn, down 27.6%. Apart from the above-mentioned rise in financial expenses to finance working capital requirements of the company, Aamal operated in a challenging market environment due to a slowdown in major infrastructure projects. Increased market competition impacted pricing and margins across Aamal's business segments, particularly hitting the Industrial Manufacturing segment: 1) Cement production at Aamal Readymix was down significantly by 28% YoY. 2) The completion of major infrastructure projects such as Qatar Rail and new stadiums for the FIFA 2022 Football World Cup, as well as lower demand in the local market in general, resulted in a 41% decline of Senyar Industries' bottom-line YoY in FY2019. 3) Strong competition resulted in falling average prices, which resulted in mounting pressure on profit margins. Average prices at Aamal Readymix were down 7% year-on-year, impacting both revenue and profit margins. **As a result, the industrial segment's**

FY2019 revenue declined by 26.6%, and this coupled with a 2.4pps decline in net underlying profit margins to -0.6% from 3.0% in 2018, resulted in a net profit decline of 42.8%, YoY.

In order to cope with decelerating growth in the local market, Aamal has initiated a number of cost saving measures, such as the mothballing of excess facilities to increase efficiency and placing staff on long leaves, together with savings across all other expense items.

- **As of FY2019, the Trading and Distribution segment revenue was up 14.8% YoY, with the contribution of a 25% rise in Ebn Sina Medical's revenue, yet segment net profits contracted by 21.1% YoY, primarily due to margin erosion and a QR6mn impact due to an accounting adjustment.** Aamal Medical suffered from sales volume declines and a less favorable product mix, whereas Aamal Trading's results were impacted from one-off items, such as clearance of expired tires, slow-moving home appliance and inventory shortfall for fast tire sizes due to supply issues.
- **For 2020, Aamal Medical has already made new supplier agreements in order to enhance its product range with a strong pipeline of products.** The company continues to explore the possibility of launching some of the latest cutting-edge health care technologies in Qatar, including AI, stem cell therapy, mobile health and telemedicine. Separately, in 2020-21, we anticipate Aamal Trading to enjoy higher margins given the lack of clearance sales and the company's exit from the low-margin home appliances segment.
- Going forward, the trading and distribution segment expects to benefit from increased government demand for medical equipment in advance of FIFA 2022 underpinned by the government's expansion plans in the public health sector.

AHCS: Trading and Distribution Segment

(QRmn)	2016	2017	2018	2019	2020e	2021e
Revenue	650	633	696	800	680	924
YoY ch.		-2.6%	10.0%	14.8%	-15.0%	35.9%
Net profit	119.8	116.2	125.3	98.9	110.4	154.8
YoY ch.		-3.0%	7.8%	-21.1%	11.6%	40.3%
Net profit margin %	18.4%	18.3%	18.0%	14.5%	16.3%	17.1%

Source: Aamal, QNB FS Research

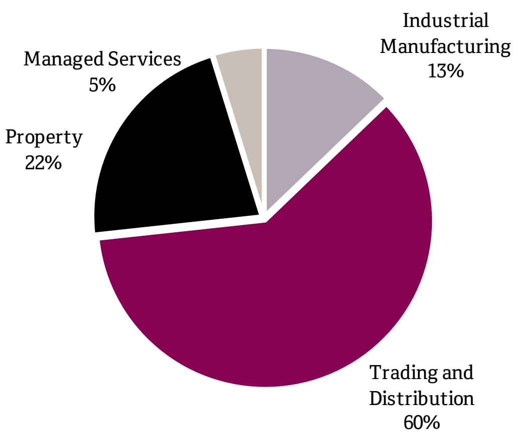
Catalysts

- Elimination/acceleration of the Coronavirus pandemic & oil price recovery.
- Ongoing cost saving measures may improve profitability.
- Senyar Holdings' new factories producing drums and copper rods becomes operational by 1H2021 and is expected to help in synergies and reduction in production costs among Senyar's subsidiaries.

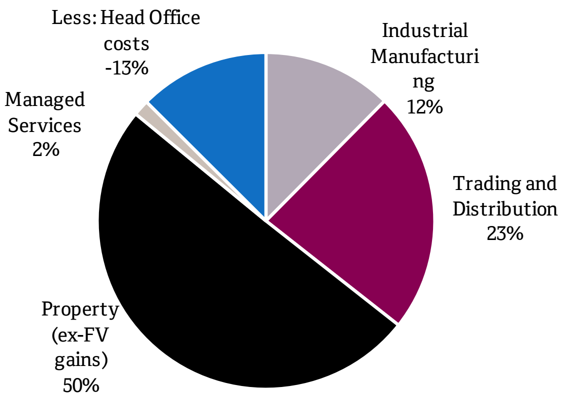
Company Overview

Established in 2001, Aamal is widely diversified with operations across 26 active business units, some of which have been operating in Qatar for almost 40 years. The company seeks to take advantage of growth opportunities stemming from the 2030 National Vision and the 2022 FIFA World Cup, and to leverage its position as a leading participant across various key economic sectors. Therefore, AHCS has increased its focus on industrial manufacturing and related high growth sectors to capitalize on significant demand arising from wider industrialization of the Qatari economy. Aamal has over 2,300 employees.

AHCS: Net Revenue Breakdown According to Segments



Net Profit Breakdown According to Segments (2019)



Source: QNB FS Research

Aamal divides its operations into 4 main segments:

1) Property segment, generating 59% of net earnings (ex. head office costs) as of FY2019.

2) Trading & Distribution (26%) of healthcare products, auto oil, lubricant & tires.

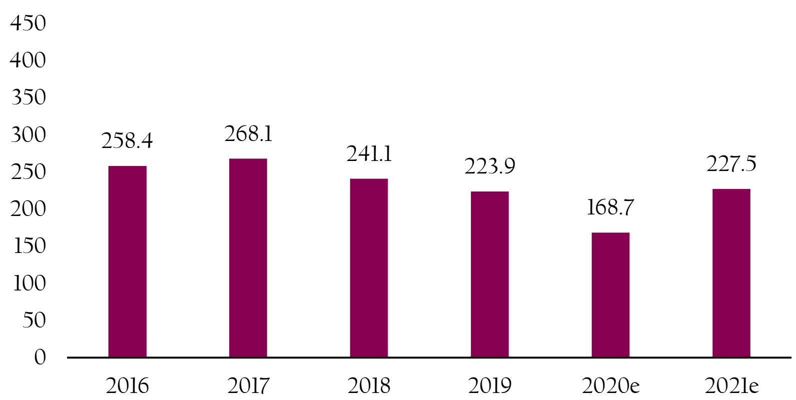
3) Industrial Manufacturing (14%) with a focus on building materials & cables.

4) Management Services (2%).

PROPERTY SEGMENT

The segment involves leasing facilities of retail outlet complexes, real estate investments and property rental businesses.

AHCS: Property Segment Net Profits (QRmn)



Source: QNB FS Research

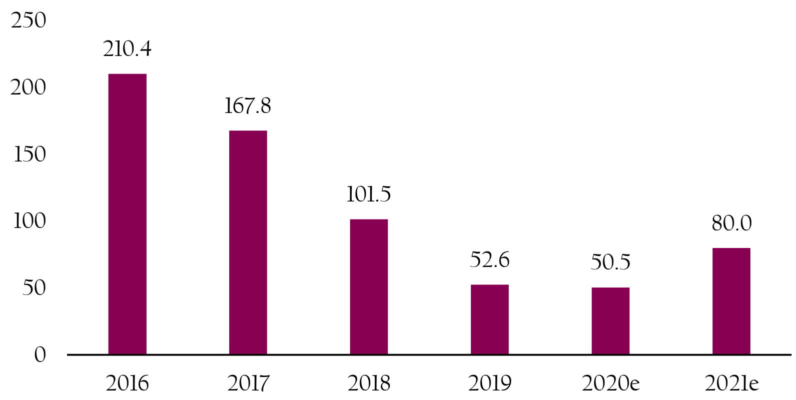
- **City Center Doha (CCD):** CCD opened in 2000 and was one of the first shopping malls in Doha. CCD is widely regarded as the leading mall in Qatar, supported by its twin virtues of size and prime location in the heart of the West Bay area of Doha. Aamal has a 100% interest in City Center Doha.
- **Aamal Real Estate:** Aamal has a 100% interest in Aamal Real Estate. Aamal Real Estate is involved in:
  - The Souq Najma (Al Haraj), built in 1993 as a traditional Middle Eastern souq comprising 346 shops, 26 kiosks and 24 residential flats.
  - The Markhiya 45-villas residential complex.
  - Four residential building compound in Bin Mahmoud.
  - Al Nasr 6-buildings compounds.
  - New residential compound of 63 apartments in Messila.
  - In addition to the above, Aamal Real Estate acquired three residential compounds in 2018. These compounds comprise 24 villas and two buildings containing 20 apartments.
- **Aamal ECE (Qatar German Mall Management):** A partnership agreement between Aamal and ECE Projekt management, commercially known as Qatar German Mall Management. Aamal has a 51% interest in Aamal ECE W.L.L.

INDUSTRIAL MANUFACTURING SEGMENT

This segment involves manufacturing, wholesale and/or retail distribution of electric cables and tools, aggregates, ready mix concrete and cement blocks and provision of services in relation to industrial investment, repair and construction of power plants, trading of LED lighting products and management of industrial enterprises.

- **Aamal Readymix:** Aamal owns 100% of Aamal Readymix. The company commenced operations in 1994, and is one of the largest producers of quality ready-mixed concrete in Qatar with an annual production capacity of 600,000 cubic meters.
- **Aamal Cement Industries:** Aamal owns 99% of this company. It commenced production of decorative interlocking paving stones and concrete blocks in 2010 with an annual production capacity of approximately 25 million blocks or two million square meters of paving stones. The plant has one of the largest block and pavement making machines in Qatar.

AHCS: Industrial Manufacturing Segment Net Profits (QRmn)



Source: QNB FS Research

- **Ci-San Trading:** Aamal has a 50% interest in Ci-San Trading (the other 50% is held by Masraf Al Rayan). The company was set-up to evaluate investments in various sectors such as industrial, real estate and trading, in both local and international markets. The Company currently owns two subsidiaries: Gulf Rocks and Aamal for Maritime Transportation Services.
  - **Gulf Rocks:** Gulf Rocks was established in 2000 and is a leading importer and provider of high-quality gabbro aggregates, which are widely used in concrete products. Aamal owns 74.5% of Gulf Rocks. In 2012, Ci-San Trading purchased 51% with Aamal directly acquiring the remaining 49%.

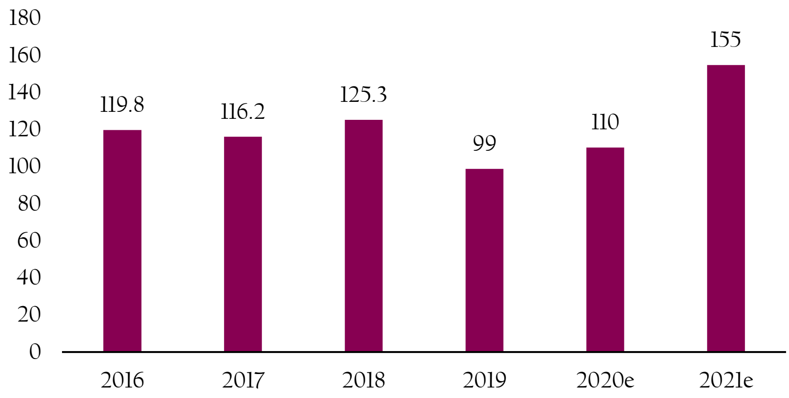
  - **Aamal Maritime Transportation Services (AMTS):** Aamal holds 1% of the shares directly, with the remaining 99% held by Gulf Rocks. Aamal has an overall effective interest of 74.75% in AMTS and owns two vessels, 'Um Al Hanaya' and 'Al Rayyan' – both bulk carriers, each with capacities in excess of 56,000 tones.
- **Senyar Industries Qatar Holding:** A partnership agreement between Aamal Company and Elsewedy Electric, the Middle East's leading integrated cables and electrical products manufacturer, was signed in 2007 creating Senyar Industries Qatar Holding Company. Aamal has a 50% interest in Senyar Industries Qatar Holding (the other 50% is held by Elsewedy Electric). Companies under Senyar Industries Qatar Holding are:
  - **Doha Cables:** Doha Cables is the first Qatari Cable Manufacturer and Aamal has a 47.3% interest in Doha Cables. In 2018, Doha Cables increased production capacity from 52,000 tons per annum to 60,000 tones. Further, in the first half of 2019, Doha Cables has successfully completed the renovation of its factory.
  - **El Sewedy Cables Qatar:** El Sewedy Cables Qatar distributes the products of Doha Cables and those of other manufacturers. It commenced operations in 2006 and a 55% stake was acquired by Senyar Industries from El Sewedy Electric Co. in January 2010. During 2016, Senyar acquired 24.4% additional shares, and unaffiliated third parties own the remaining 26.6%. El Sewedy Cables Qatar is one of the biggest cables distributors in Qatar, specializing in the distribution of electro-mechanical equipment and cables. In addition, it is one of the biggest EPC contractors for Transmission, Distribution & Road diversion-related projects especially with HV cabling works. Projects Division successfully executed prestigious projects of KAHRAMAA, ASHGHAL, QATARI DIAR, LUSAIL, QRAIL, QATAR STEEL And EZDAN as EPC Contractor. Aamal has a 38.3% interest in El Sewedy Cables Qatar.
  - **In early 2018, Senyar Industries Qatar announced the decision to launch two major industrial projects:**
    - Senyar Copper Production Factory: The factory will specialize in the production of copper wires and will be the first of its kind in Doha.
    - Senyar Drum Production Factory: The factory will specialize in the production of wooden and steel cable drums and will be the first of its kind in Doha.
- **Advanced Pipes & Casts Company:** APC was established in July 2010 as a joint venture between the company and Lokma Group, a leading pipe manufacturer in the Middle East. APC started commercial production at the end of 2014, with an extensive production capacity that is largely automated and has the flexibility to respond swiftly to changes in end market demand. Advanced Pipes & Casts Company is located in the Mesaieed industrial area, with a built up area of over 85,000 square meters with a total investment exceeding QR200mn and is considered one of the largest concrete pipe manufacturer in the Gulf area. APC has a concrete pipe production capacity of 450,000 tons/year. Aamal owns 50% of Advanced Pipes and Casts Company (APC).
- **Frijns Structural Steel Middle East:** Frijns Structural Steel – Middle East started operations in Qatar in 2009 after opening its first production facility in the region, which produces steel for the petrochemical and process industries, including all associated engineering, production, anti-corrosion, construction and assembly work. Frijns has a 75,000 square meters state-of-the-art workshop in Mesaieed area. Aamal has a 20% interest in Frijns Structural Steel (60% is held by Frijns Industrial Group of the Netherlands; the remaining 20% is held by a third party).

TRADING AND DISTRIBUTION SEGMENT

This segment represents wholesale and/or retail distribution of pharmaceutical and consumable items, medical equipment, tires and lubricants and industrial printing.

- **Aamal Trading and Distribution:** Aamal Trading and Distribution is the exclusive distributor in Qatar of Bridgestone tires since 1971 and a non-exclusive distributor of TOTAL oil and lubricant products since 1990. It is also involved in the supply, installation and maintenance of air conditioning and refrigeration equipment. In 2018, Aamal Trading and Distribution launched its first 'Pit Stop Service' in Qatar, offering oil change, wash and mechanical repairs for trucks, equipment and light vehicles. Aamal owns 100% interest in Aamal Trading and Distribution.

AHCS: Trading & Distribution Segment Net Profits (QRmn)



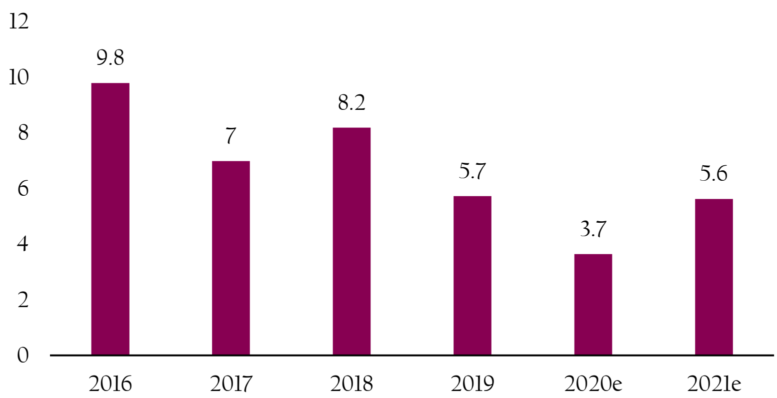
Source: QNB FS Research

- **Aamal Medical:** Aamal Medical is a leading medical equipment and surgical consumables distributor in Qatar with a major market share. Aamal Medical specializes in the sale of medical equipment, medical and surgical consumables, hospital furniture, spare parts and IT solutions and provides post-sales technical support through engineers qualified by the medical equipment manufacturers. Aamal has 100% interest in Aamal Medical.
- **Ebn Sina Medical:** Ebn Sina Medical is the Qatari market-leading provider of pharmaceuticals and consumer health products, representing more than 60 international reputable suppliers, including some of the top-10 global pharmaceutical manufacturers. The company is active in importing, distribution, marketing/ promotion and retailing of pharmaceuticals and disposables in addition to consumer products. Aamal has a 100% interest in Ebn Sina Medical.
- The segment also includes Ebn Sina Pharmacy and Foot Care Center (both of which are 100% owned by Aamal)

MANAGED SERVICES SEGMENT

- **This segment comprises provision of housekeeping and cleaning services, entertainment and amusement services, call center services and travel agent services.** Companies under this segment are: Aamal Travels, Aamal Services, ECCO Gulf, Winter Wonderland, Family Entertainment Center, and Al Farazdaq Company.

AHCS: Managed Services Segment Net Profits (QRmn)



Source: QNB FS Research

- In FY2019, revenue and net profit of this segment fell by 34.7% and 29.7%, respectively. This was partly due to the deconsolidation of ECCO Gulf but also due to the impact of increased competition, which impacted Aamal Services in particular to the tune of QR 1.8mn.

Detailed Financial Statements

Income Statement (QRmn)

	2017	2018	2019	2020e	2021e
Revenue	**1,604,237**	**1,286,552**	**1,294,117**	**1,048,863**	**1,458,300**
COGS	1,031,842	802,025	834,124	671,675	942,049
Depreciation	26,801	17,331	25,980	26,141	24,724
Government Compansation	0	0	0	0	0
Gross Profit	**545,594**	**467,196**	**434,013**	**351,047**	**491,526**
Marketing and promotion expense	13,303	7,405	6,753	5,402	6,483
SG&A	115,324	109,288	119,902	99,567	123,328
Depreciation	9,899	10,034	15,042	15,135	14,315
Operating Income	**407,068**	**340,469**	**292,316**	**230,943**	**347,401**
EBITDA	443,768	367,834	333,338	272,219	386,440
EBITDA Margin %	27.7%	28.6%	25.8%	26.0%	26.5%
Fair value gain loss of control of subsidiaries	22,192	0	0	0	0
Provision Expenses	13,769	2,998	14,516	11,765	16,357
Share of profits of equity accounted investees	102,025	100,028	62,265	54,112	83,189
Other Income	20,886	11,415	8,004	8,404	8,825
Total Other Income	**131,334**	**108,445**	**55,754**	**50,751**	**75,656**
Financial Expenses	-15,338	-1,323	-25,939	-19,232	-19,357
Finance Income	3,018	1,150	2,549	1,033	813
Finance Expense	-18,356	-2,473	-28,487	-20,265	-20,169
Net profit before discontinued operations	**523,064**	**447,591**	**322,131**	**262,462**	**403,701**
Discontinued operations	0	0	0	0	0
Non controlling interests	-22,148	-2,320	136	111	170
Net Income	**500,917**	**445,271**	**322,267**	**262,573**	**403,871**
Net Profit Margin	*31.2%*	*34.6%*	*24.9%*	*25.0%*	*27.7%*
Shares Outstanding (mn)	*6,300,000*	*6,300,000*	*6,300,000*	*6,300,000*	*6,300,000*
EPS	**0.08**	**0.07**	**0.05**	**0.04**	**0.06**
DPS	**0.06**	**0.06**	**0.04**	**0.04**	**0.04**

Note: EPS based on current number of shares

Balance Sheet (QRmn)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	349,748	605,895	519,317	419,317	319,317
S/T Deposits	0	0	0	-9,688	57,122
Accounts Receivable & Prepayments	479,824	405,154	413,064	334,782	473,166
Due From Related Parties	134,778	48,964	38,922	31,546	44,586
Biological assets/ Agricıulturical produce	0	0	0	0	0
Inventories	146,890	171,479	163,980	154,650	222,065
Total Current Assets	**1,111,239**	**1,231,492**	**1,135,284**	**930,608**	**1,116,255**
Right of use assets	0	0	84,023	75,570	67,116
Retention and other non current assets	0	6,036	5,712	5,712	5,712
Investment Properties	6,892,215	7,168,590	7,208,114	7,257,415	7,317,415
Investment in Associates	336,063	324,125	294,657	305,234	316,191
Property, Plant & Equipment	330,309	315,912	292,844	308,468	328,201
Non-Current Assets	**7,558,587**	**7,814,663**	**7,885,350**	**7,952,399**	**8,034,637**
Total Assets	**8,669,826**	**9,046,155**	**9,020,634**	**8,883,007**	**9,150,892**
Short-Term Debt	228,232	85,665	114,720	100,000	220,000
Accounts Payable & Accruals	350,677	353,914	400,470	307,435	436,351
Other Payables	13,622	16,875	13,333	14,666	16,133
Finance lease liability	0	0	16,359	14,723	13,251
Current Liabilities	**592,531**	**456,455**	**544,882**	**436,825**	**685,735**
Interest bearing loans and borrowings	5,491	514,888	400,204	368,469	220,970
Long-Term Debt	0	0	68,677	61,809	55,628
Employees end of service benefits	25,259	26,205	26,093	27,398	28,768
Non-Current Liabilities	**30,750**	**541,093**	**494,974**	**457,675**	**305,366**
Total Liabilities	**623,282**	**997,547**	**1,039,856**	**894,500**	**991,101**
Total Shareholder's Equity	**8,006,864**	**8,007,437**	**7,943,647**	**7,946,056**	**8,117,342**
Minority Interest	39,681	41,170	37,131	42,450	42,450
Liabilities & Shareholder's Equity	**8,669,826**	**9,046,155**	**9,020,634**	**8,883,007**	**9,150,892**

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020e	2021e
Growth Rates					
Revenue	(43.3%)	(19.8%)	0.6%	(19.0%)	39.0%
Gross Profit	(20.2%)	(14.4%)	(7.1%)	(19.1%)	40.0%
EBITDA	(22.5%)	(17.1%)	(9.4%)	(18.3%)	42.0%
EBIT	(22.9%)	(17.5%)	(11.0%)	(19.2%)	44.7%
PAT/EPS	N/M	(11.1%)	(27.6%)	(18.5%)	53.8%
DPS	N/M	0.0%	(33.3%)	(10.4%)	12.3%
CFPS	N/M	19.0%	(45.8%)	23.9%	(30.1%)
Operating Ratios					
Gross Margin	34.0%	36.3%	33.5%	33.5%	33.7%
Gross Margin, Excluding Depreciation & Amortization	34.0%	36.3%	33.5%	33.5%	33.7%
EBITDA Margin	27.7%	28.6%	25.8%	26.0%	26.5%
EBIT Margin	27.0%	27.8%	24.6%	24.5%	25.5%
Net Margin	31.2%	34.6%	24.9%	25.0%	27.7%
Working Capital Ratios	17	(154)	(92)	(87)	22
Inventory Days	52	78	72	84	86
Average Collection Period	143	164	186	197	191
Payable Days	126	395	350	367	255
Finance Ratios					
Debt-Equity Ratio	3%	7%	8%	7%	6%
Net Debt-Equity Ratio	-1%	0%	1%	2%	2%
Net Debt-to-Capital	-1%	0%	1%	2%	2%
Net Debt-to-EBITDA	(0.3)	(0.0)	0.2	0.5	0.3
Interest Coverage	23.6	144.7	11.2	12.7	18.5
Return Ratios					
ROIC	5.3%	4.2%	3.7%	3.0%	4.3%
ROE	6.3%	5.6%	4.1%	3.3%	5.0%
ROA	5.8%	4.9%	3.6%	3.0%	4.4%
FCF Yield	8.5%	11.4%	6.2%	6.8%	4.3%
Liquidity Ratios					
Current Ratio	1.9	2.7	2.1	2.1	1.6
Quick Ratio	1.6	2.3	1.8	1.8	1.3
Valuation					
EV/Sales	2.4	3.1	3.1	3.9	2.8
EV/EBITDA	8.6	10.7	12.1	15.0	10.6
EV/EBIT	8.8	11.0	12.6	15.9	11.0
P/E	7.8	8.8	12.1	14.9	9.7
P/CF	10.2	8.5	15.8	12.7	18.2
P/BV	0.5	0.5	0.5	0.5	0.5
Dividend Yield	5.1%	6.1%	6.5%	5.8%	6.5%
FCF Yield	8.5%	11.4%	6.2%	6.8%	4.3%

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

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