Estithmar Holding (IGRD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR2.170	Target Price	QR2.236
Implied Upside	3.1%		

2Q2023 Beat Due to Atypically High Services' Margin; Maintain Market Perform

- **In 2Q2023, Estithmar Holding's (IGRD) bottom-line printed significantly ahead of our estimates even as the top-line came largely in-line.** IGRD's 2Q2023 attributable profit edged lower by 2.3%/2.8% YoY/QoQ to QR98.4mn, comfortably ahead of our forecast of QR45.1mn. Meanwhile, revenue fell 28.7%/6.4% YoY/QoQ to QR717.4mn, closer to our estimate of QR694.5mn. NP was driven primarily by the services division's margins – much like the contracting & industries segment in 1Q2023 – which surprised markedly on the upside compared with both our model and historical/industry trends. While the overall group NP margin rose to 14.3% from 9.7% in 2Q2022 (1Q2023: 13.4%), the services segment's NP margin was atypically high at 32.3% from 8.5% in 2Q2023 (1Q2023: 14.3%).
- **For perspective, after accounting for what we perceive to be normal, we hypothesize that the surprising 2.7x/2.0x expansion of services' GP margins YoY/QoQ accounted for roughly 50-60% of the reported group 2Q2023 NP.** We also made a similar assertion for 1Q2023, where we estimate that a sudden 20.7x/6.2x YoY/QoQ expansion in contracting & industries' GP margins contributed approximately 80-90% of the reported 1Q2023 NP.
- **We believe these uncharacteristic margin expansions are not sustainable and were likely due to one-time rebates/cost recoveries from prior-year contracts.** With the contracting & industries' NP margin quickly shrinking back by more than three-quarters to more normal levels in 2Q2023 – at 7.5% from 30.6% in 1Q2023, albeit still a tad elevated – we opine the same could happen to the services segment margins in the near term. Consequently, even though we intend to adjust our FY2023 estimates in a follow-up note, to account for these material one-offs, we do not see our TP changing by a significant magnitude. **We, therefore, maintain a Market Perform rating on the stock.**
- **Segment performance:** While our estimates for the other divisions were misses, they were within reasonable ranges plus they were largely offsetting. **(i) Services segment**: revenue declined 16.6% YoY but recovered by 11.4% QoQ, but NP climbed 215.5%/152.1% YoY/QoQ. **(ii) Contracting & industries unit**: revenue fell 54.4%/14.7% YoY and QoQ; similarly NP declined 64.5%/79.1% YoY/QoQ. **(iii) Healthcare businesses**: revenue climbed 5.5x/2.9x YoY/QoQ, albeit off a very low base, plus we are encouraged that The View Hospital seems to have finally, belatedly, picked up in activity levels. However, it is still a loss-making entity as expected during these early innings. While it flipped a small NP of QR0.8mn in 2Q2022 to a net loss of QR33.8mn in 2Q2023, it is an improvement from the 1Q2023 loss of QR45.3mn. **(iv) Ventures/tourism operations**: 2Q2023 revenue came in at QR30.8mn from zero last year, but it is a decline of 57.5% QoQ due to seasonality – the main Al Maha attraction, WinterWonderland, is closed during summer. Meanwhile, it generated a net loss of QR24.4mn during 2Q2023 compared with a negligible net loss last year and a loss of QR10.7mn in 1Q2023.
- **Quick Take**: **(1)** At this point, we are not too worried about the losses generated by the healthcare division as this is expected during this early ramp-up phase – but we keep a keen eye on how occupancy levels are evolving. **(2)** We are a bit concerned with the ventures' local operations: the hope is management is learning and will soon find a way to turn a profit. Offshore expansion on the cards (Maldives) should help in the medium term but in the short term, local operations must be sustainable. **(3)** Traditional businesses are going through substantial rebasing, down from last year's higher activity levels due to the world cup. We note that, while revenue has come down considerably YoY, the bottom-line has so far been rescued by random one-off spikes in margin levels. We opine, however, they will stabilize at lower levels of activity but likely get a boost from management efforts to expand offshore. There have been several recent announcements of new contract pick-ups in Saudi Arabia and Jordan.
- **After a spike, debt levels have stabilized; leverage metrics have weakened, somewhat, since last year but remain at acceptable levels.** Coupled with rising rates, finance costs spiked 163.0% YoY to Q37.5mn in 2Q2023, a 37.6% QoQ increase. Net debt now stands at QR1.8bn compared with QR1.7bn at end-FY2022 and QR934.4mn at end-FY2021. IGRD's net debt/equity ratio at end-1H2023 was 38.5% from 38.7% at end-FY2022, 27.7% at end-1H2022, and 122.4% at end-FY2021. We estimate a net debt/LTM EBITDA ratio of 3.6 at end-1H2023 compared with 3.3 at end-FY2022 and 2.2 at end-FY2021. *Continued on next page.*

Key Financial Data and Estimates

Group	2022	2023E	2024E	2025E	2026E
EPS (QR)	0.107	0.020	0.087	0.162	0.174
P/E (x)	20.53	n.m.	25.26	13.51	12.60
EV/EBITDA (x)	16.18	22.46	14.44	10.22	9.96
DPS (QR)	-	-	0.03	0.10	0.15
DY (%)	0.0%	0.0%	1.6%	4.4%	6.7%

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)	2.170
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)	2.469/1.423
3-m Average Vol. ('mn)	16.9
Mkt. Cap. ($'bn/QR'bn)	2.0/7.4
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.1
1-Year Total Return (%)	-3.0
Fiscal Year-End	December 31

Source: Bloomberg (as of August 03, 2023), *Qatar Exchange (as of August 03, 2023); Note: FO is foreign ownership

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- **Capital needs are growing:** With the recent announcement of new offshore projects (Saudi Arabia and Maldives) as well as the revised/updated equity issuance plans, already approved by shareholders, we expect more capital raises in the near future, with the initial effect of equity and/or earnings dilution. Also, we do not see any distributions to shareholders in the near term. Over time, however, we expect these new projects to translate into above-average earnings growth. Consequently, we remain bullish on IGRD's medium-term prospects.
- **We maintain our Market Perform rating.** IGRD's share price has been hovering around our target price and we expect that to remain so for the foreseeable future, barring any potential newsflow. Our thesis is that in the medium term, higher-margin divisions – healthcare, tourism and services – should offset some of the weakness that we see in its traditional business of contracting & industries. 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 as its future growth is geared towards higher-margin sectors.

2Q2023 IGRD Financial Performance

QR'millions	2Q22a	1Q23a	2Q23a	YoY	QoQ
Revenue	**1,005.78**	**766.77**	**717.40**	-28.7%	-6.4%
Services	531.26	397.72	442.99	-16.6%	11.4%
Contracting & Industries	677.96	362.75	309.31	-54.4%	-14.7%
Healthcare	9.09	17.13	49.89	448.9%	191.2%
Ventures/Tourism	-	72.60	30.84	n.m	-57.5%
Corporate/Eliminations	(212.52)	(83.43)	(115.63)	n.m	n.m
Gross Profit	**163.64**	**170.34**	**226.07**	38.1%	32.7%
Services	74.93	75.00	167.57	123.6%	123.4%
Contracting & Industries	107.79	138.21	53.64	-50.2%	-61.2%
Healthcare	2.75	(11.11)	5.75	108.6%	n.m
Ventures/Tourism	-	(32.29)	(0.37)	n.m	-98.9%
Corporate/Eliminations	(21.84)	0.52	(0.52)	n.m	n.m
Net Profit	**97.59**	**102.46**	**102.77**	5.3%	0.3%
Services	45.33	56.74	143.02	215.5%	152.1%
Contracting & Industries	65.58	111.17	23.27	-64.5%	-79.1%
Healthcare	0.84	(45.27)	(33.83)	n.m	n.m
Ventures/Tourism	(0.00)	(10.74)	(24.44)	n.m	n.m
Corporate/Eliminations	(14.16)	(9.43)	(5.26)	n.m	n.m
Minorities	(3.09)	1.25	4.36	n.m	248.8%
Attributable Profit	100.69	101.21	98.41		

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*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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