

Estithmar Holding (IGRD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR2.187	Target Price	QR2.236
Implied Upside	2.3%	Old Target Price	QR2.350

Activity Slows More-Than-Expected; Moving To Market Perform From Accumulate

We make significant forecast adjustments to our [previous model](#) following the release of IGRD's FY2022 and 1Q2023 results, along with its March 2023 investor presentation. We note this was bound to be the case given IGRD's limited operating data history: the group was only reverse-listed last year in May plus its two new segments (healthcare and ventures/tourism) did not have any operating profile. This was further complicated by the fact that the limited operating history of its traditional businesses (services and contracting & industries) was heavily skewed by the abnormal business conditions building up to the 2022 FIFA World Cup tournament. **Notably, for the medium-term, we upwardly revise our healthcare estimates while downwardly revising our forecasts for the other three divisions (ventures/tourism, services and contracting & industries).** We note, however, there are upside risks to the tourism/venture unit given the Maldives project lined up – that project is not in our base model. While we believe the medium-term impact of the Maldives project to be positive, in the near-term, we are a bit concerned that additional capital required to finance the project will be highly dilutive – management estimates the project will require a capital injection of roughly \$343mn (QR1.25bn) with operations expected to open in FY2025. **Consequently, we lower our TP to QR2.236 from QR2.350. Furthermore, IGRD's recent strong share price performance coupled with our revised TP has compelled us to change our call to Market Perform from Accumulate.** While it is positive that we upwardly revised our medium-term healthcare estimates, given that the unit commands higher margins and premium valuation multiples, it was not enough to offset the declines in other divisions. Also, a slower-than-expected ramping up of new businesses weigh down on our near term projections. While we have held the stock in our R-4 risk bucket – implying an above-average risk profile – primarily due to execution risk, we still believe management will deliver on their promise of above-average growth in the medium-term.

Highlights

- During 1Q2023, Estithmar's results fell shy of our model both at the top- and the bottom-line. While margins came in better-than-expected, the top-line miss led to lower-than-expected earnings. Earnings increased 10.2%/166.4% YoY/QoQ to QR101.2mn but was below our estimate of QR125.7mn; net income was helped by uncharacteristically strong margins in the contracting & services segment. Revenue was off the mark, declining 9.5%/36.2% YoY/QoQ to QR766.8bn vs. our estimate of Q1.26bn. **With overall revenue lower, group net margin was surprisingly stronger at 13.4% vs. our 9.6% estimate driven by contracting & industries**, which registered a markedly higher net margin of 30.6% vs 3.9% expected. Management stated this was driven by one-offs and margins are expected to normalize in future. Specifically, IGRD's construction & industries division's net margin was -2.5% in 1Q2022 and 2.8% in 4Q2022, and it averaged 4.0% between FY2019-22.
- For FY23 we expect group revenue to fall 31.8% to QR2.89bn primarily due to a marked slowdown in traditional businesses' activity, while the slow ramp up in new business units will fall short in offsetting this weakness. In 1Q2023, traditional businesses' revenue exhibited a marked decline from last year's World Cup-induced boom. The contracting & industries segment registered a 16.7%/41.8% YoY/QoQ revenue decline to QR362.7mn, while the services segment revenue fell 7.4%/46.4% YoY/QoQ to QR397.7mn in 1Q2023. We see contracting & industries and services revenue decline by 39.2% and 30.8% in FY2023, respectively. We are, however, encouraged by management's efforts to organically grow the contracting & industries business by picking up new contracts/work in Saudi Arabia.
- We see group net profit falling 78.8% in FY2023 and recovering by 333.8% in FY2024 and then climb again in FY2025 by 87.0%. This will be on the back of a revenue increase of 31.9% in FY2024 and 25.3% in FY2025. We do not see any dividends flowing to shareholders until FY2024/25.

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 Market Perform from Accumulate with a 12-month TP of QR2.236 implying 2.3% 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	0.020	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

Key Data

Current Market Price (QR)	2.187
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* (%)	1.2
1-Year Total Return (%)	36.7
Fiscal Year-End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Summary Valuation (QR Million)

Group/SoTP	2022	2023E	2024E	2025E	2026E	2027E
Revenue	4,237.0	3,272.1	4,224.1	5,220.3	5,511.1	5,703.0
EBITDA	517.7	430.5	643.1	888.9	914.9	899.8
Operating Profit	395.9	216.2	452.5	719.3	763.8	765.0
Tax	3.4	2.4	19.0	42.2	64.7	68.7
NOPAT	392.5	213.9	433.5	677.1	699.1	696.4
Add D&A	121.8	214.3	190.6	169.7	151.1	134.7
Less Capex	1,284.2	117.8	137.5	166.4	176.2	182.6
Less Working Capital Changes	-	(105.7)	72.9	109.5	20.6	25.1
FFCF	(769.8)	416.1	413.7	570.9	653.5	623.4
WACC		10.63%	11.67%	11.28%	11.11%	10.80%
Discount Factor		1.01	1.13	1.25	1.38	1.52
FFCF discounted		412.6	367.0	456.9	472.3	410.0
Sustainable Growth Rate	3.2%					
EBITDA Exit Multiple Valuation						
Terminal EBITDA (discounted)	617.5					
EV/EBITDA weighted	11.5					
Terminal Value	7,099.8					
Sum of FCF PV	2,118.8					
Implied Fair EV	10,177.3					
Net Debt	1,727.7					
Minorities	(9.1)					
Equity Value	8,458.6					
# outstanding shares ('m)	3,404.0					
12M Target Share Price	QR2.236					
Upside/ (downside)	1.0%					

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

Sensitivity Analysis

WACC	Equity Value at EBITDA Exit Multiple of:					WACC	FV per Share (QR) at EBITDA Exit Multiple of:				
	9.4x	10.4x	10.2x	12.4x	13.4x		9.4x	10.4x	10.2x	12.4x	13.4x
8.5%	7,386.5	8,167.7	8,962.8	9,771.9	10,595.0	8.5%	2.170	2.399	2.633	2.871	3.112
9.5%	7,173.7	7,933.1	8,706.1	9,492.6	10,292.8	9.5%	2.107	2.330	2.558	2.789	3.024
10.8%	6,968.7	7,707.1	8,458.6	9,223.5	10,001.5	10.8%	2.047	2.264	2.485	2.710	2.938
11.5%	6,771.1	7,489.19	8,220.2	8,964.0	9,720.8	11.5%	1.989	2.200	2.415	2.633	2.856
12.5%	6,580.5	7,279.1	7,990.3	8,713.9	9,450.1	12.5%	1.933	2.138	2.347	2.560	2.776

Source: QNB FS Research; Note: All data based on current number of shares; Note: Valuation before applying a conglomerate discount

Fair Value Attribution

Segment	Peer Multiple	Exit EBITDA	EV (QR'm)	Equity (QR'm)	FV/Share (QR)	% of Total
Healthcare	18.6	222.9	3,470.3	3,363.5	0.988	39.8%
Ventures/Tourism	13.2	137.9	1,950.0	1,441.7	0.424	17.0%
Services	8.2	389.2	3,572.9	3,013.3	0.885	35.6%
Contracting & Industries	7.4	149.7	1,184.1	432.5	0.127	5.1%
Cash				198.5	0.058	2.3%
Minorities				9.1	0.003	0.1%

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

Consolidate Financial Statements & Forecasts

Income Statement (QR Million)

Group	2022	2023E	2024E	2025E	2026E	2027E
Revenue	4,237.0	2,888.8	3,811.6	4,776.1	5,032.4	5,202.2
Services	2,300.3	1,590.9	1,762.6	1,952.3	2,162.2	2,270.3
Contracting & Industries	2,386.4	1,451.0	1,510.5	1,572.4	1,636.9	1,704.0
Healthcare	37.1	70.5	656.6	1,266.6	1,278.8	1,291.1
Ventures/Tourism	103.9	159.7	294.4	429.0	433.3	437.6
Corporate/Eliminations	(590.6)	(383.3)	(412.5)	(444.2)	(478.7)	(500.8)
Gross Profit	620.0	511.4	784.5	1,091.0	1,152.7	1,195.3
EBITDA	517.7	373.0	580.1	820.1	840.9	825.8
Operating Profit	395.9	158.7	389.5	650.4	689.8	691.1
Net Profit	325.0	68.8	298.3	557.7	598.0	600.6
EPS	0.107	0.020	0.087	0.162	0.174	0.174
DPS	-	-	0.035	0.097	0.147	0.148

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

Balance Sheet (QR Million)

Group	2022	2023E	2024E	2025E	2026E	2027E
Property, Plant & Equipment	1,975.4	1,819.0	1,652.5	1,503.6	1,370.4	1,251.3
Investment properties	90.8	90.8	90.8	90.8	90.8	90.8
Intangibles	6.0	134.6	125.3	116.7	108.6	101.2
Goodwill	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0
Right-of-use assets	98.9	80.7	65.8	53.7	43.8	35.7
Financial assets @ FVTPL	31.0	31.0	31.0	31.0	31.0	31.0
Retention receivables	43.8	26.7	27.7	28.9	30.1	31.3
Total Non-Current Assets	5,486.0	5,422.7	5,233.2	5,064.7	4,914.7	4,781.3
Inventories	233.9	166.0	220.3	277.5	290.9	299.9
Accounts receivable and other debit balances	1,306.5	868.7	1,239.2	1,430.1	1,525.5	1,587.3
Due from related party	490.8	490.8	490.8	490.8	490.8	490.8
Contract assets	951.7	578.7	602.4	627.1	652.8	-
Retentions receivable	92.1	56.0	58.3	60.7	63.1	65.7
Cash and bank balances	167.5	345.8	522.6	967.3	1,279.7	2,151.4
Total Current Assets	3,242.5	2,505.9	3,133.6	3,853.4	4,303.0	4,595.2
TOTAL ASSETS	8,728.5	7,928.6	8,366.8	8,918.0	9,217.7	9,376.5
Capital	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0
Legal reserve	56.9	56.9	86.3	141.4	200.5	259.8
Other reserve	3.9	3.9	3.9	3.9	3.9	3.9
Reserve for renewal of FF&E	0.5	1.2	2.4	3.6	3.6	3.6
Retained earnings	1,003.4	1,069.7	1,209.6	1,361.1	1,375.9	1,390.7
Equity attributable to equity holders of the parent	4,468.8	4,535.7	4,706.3	4,914.1	4,988.0	5,062.2
Non-controlling interests	(9.1)	(8.3)	(4.6)	2.2	9.5	16.8
Total Shareholders' Equity	4,459.6	4,527.4	4,701.7	4,916.3	4,997.4	5,079.0
Provision or employees' end of service benefits	99.6	119.5	157.7	197.6	208.2	215.2
Interest bearing loans and borrowings	915.8	915.8	915.8	915.8	915.8	915.8
Loans from related parties	28.8	28.8	28.8	28.8	28.8	28.8
Retentions payable	1.3	1.3	1.3	1.3	1.3	1.3
Lease liabilities	69.4	54.0	37.8	20.7	2.7	0.0
Total Non-Current Liabilities	1,114.9	1,119.4	1,141.4	1,164.2	1,156.8	1,161.1
Due to related parties	110.1	110.1	110.1	110.1	110.1	110.1
Accounts payable and other credit balances	2,003.0	1,261.0	1,430.2	1,582.1	1,689.7	1,758.3
Contract liabilities	125.2	69.2	77.3	80.1	82.9	85.8
Interest bearing loans and borrowings	671.6	671.6	671.6	671.6	671.6	671.6
Lease liabilities	24.7	19.2	13.4	7.4	1.0	0.0
Income tax payable	3.5	0.7	3.1	5.8	6.2	6.2
Dividend payable	-	-	117.9	330.6	502.1	504.3
Bank overdraft	216.0	150.0	100.0	50.0	-	-
Total Current Liabilities	3,154.1	2,281.8	2,523.7	2,837.6	3,063.5	3,136.4
Total Liabilities	4,268.9	3,401.2	3,665.1	4,001.8	4,220.3	4,297.5
TOTAL SHE & LIABILITIES	8,728.5	7,928.6	8,366.8	8,918.0	9,217.7	9,376.5

Source: Company Data, QNB FS Research

Cash Flow Statement (QR Million)

Group	2022	2023E	2024E	2025E	2026E	2027E
Cash generated from operating activities	534.5	300.8	256.8	652.6	738.0	1,398.4
Net cash generated from operating activities	425.8	295.7	248.7	635.8	717.5	1,377.4
Net cash used in investing activities	(1,133.0)	(29.6)	-	-	-	-
Net cash generated from financing activities	817.1	(20.8)	(22.0)	(141.0)	(355.0)	(505.7)
Changes in cash	109.9	245.2	226.8	494.7	362.5	871.7
Opening cash	(159.3)	(49.4)	195.8	422.6	917.3	1,279.7
Closing cash	(49.4)	195.8	422.6	917.3	1,279.7	2,151.4

Source: Company Data, QNB FS Research;

Key Ratios

Ratios	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
PE Ratio	20.5	109.6	25.3	13.5	12.6	12.5	11.9	11.3	11.0
PEG Ratio	(1.4)	(1.3)	0.1	0.2	1.7	28.5	2.0	2.2	3.8
P/CF	3.1	5.4	6.4	2.5	2.2	1.2	2.1	2.1	2.1
P/BV	0.37	0.36	0.35	0.33	0.33	0.32	0.32	0.31	0.31
Debt-Equity Ratio	43%	41%	38%	34%	32%	32%	31%	31%	30%
Net Debt/Equity	38.7%	32%	26%	14%	6%	-11%	-16%	-20%	-23%
Net Debt-to-Capital	31.5%	26%	21%	12%	5%	-9%	-13%	-17%	-20%
Net Debt/EBITDA	3.3	3.9	2.1	0.8	0.4	(0.7)	(1.0)	(1.2)	(1.4)
Interest Coverage	5.9	1.8	4.4	7.5	8.1	8.2	8.6	9.0	9.3
EV/EBITDA	16.2	22.5	14.4	10.2	10.0	10.1	9.9	9.7	9.6
EV/Sales	2.0	2.9	2.2	1.8	1.7	1.6	1.6	1.5	1.5
EV/EBIT	21.2	52.8	21.5	12.9	12.1	12.1	11.5	11.0	10.8
ROIC	7.2%	3.0%	7.0%	11.8%	12.7%	15.2%	16.6%	17.9%	18.9%
ROE	7.6%	1.5%	6.3%	11.2%	11.8%	11.7%	12.2%	12.6%	12.8%
ROA	3.9%	0.9%	3.5%	6.2%	6.4%	6.3%	6.6%	6.8%	6.8%
FCF Yield	-11.5%	3.3%	3.0%	8.2%	9.3%	18.5%	10.0%	10.2%	10.4%
Dividend Yield	0.0%	0.0%	1.6%	4.4%	6.7%	6.8%	7.2%	7.5%	7.7%
Current Ratio	1.0	1.1	1.2	1.4	1.4	1.5	1.5	1.6	1.6
Quick Ratio	1.0	1.0	1.2	1.3	1.3	1.4	1.4	1.5	1.5
Inventory Days	24	25	27	27	27	27	27	27	27
Average Collection Period	113	110	119	109	111	111	112	112	113
Payable Days	202	194	172	157	159	160	161	162	163

Source: QNB FS Research

[Ends]

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