

## IGRD Alert – Margins and SG&A Impacts 4Q2020 Bottom-Line

- **IGRD records FY2020 net profits of QR23.4mn compared to 2019's QR55.1mn.** Investment Holding Group (IGRD) reported a net loss of QR3.4mn in 4Q2020 as compared to a net profit of QR20.5mn in 4Q2019 and a net profit of QR11.3mn in 3Q2020. We were projecting a net profit of QR10.2mn in 4Q2020. For FY2020, IGRD's net profit came in at QR23.4mn as compared to QR55.1mn in FY2019. EPS amounted to QR0.028 in FY2020 as compared to QR0.066 in FY2019.
- **In line with our expectations, the board has recommended no dividend distribution for 2020, similar to 2019.**
- **During 4Q2020, the company recorded QR83.3mn in revenue with a 30.9%/4.5% fall YoY/QoQ.** Gross margin was 20.3% in 4Q2020 which was below 3Q2020's 22.9% and 4Q2019's 28.6%. As a result, IGRD's gross profit fell to QR16.9mn in 4Q2020 from QR19.9mn in 3Q2020 and QR34.4mn in 4Q2019.
- **4Q2020 SG&A rose by 13.4% YoY to QR28.0mn; however, IGRD managed to reduce its cost base on a full-year basis.** In 2020, IGRD's SG&A declined to QR67.6mn, down 2.3% YoY.
- **Fair value gain on investment properties & lower financial expenses supported 4Q2020's bottom-line.** IGRD recorded QR5.5mn in fair value gain on investment properties during 4Q2020, up from QR0.4mn posted in 3Q2020 and QR4.9mn recorded in 4Q2019. On the other hand, on a YoY basis, financial expenses declined by 23.2% in 4Q2020 to QR3.4mn, which is attributable to declining net debt of QR195mn in FY2020 ( vs. QR226mn in 2019).
- **We maintain our Accumulate rating and our TP at QR0.744 for now; however, we may revise our estimates after IGRD's conference call.** In-line with most listed companies, IGRD's revenue remains prone to further volatility from clients' operations and businesses because of COVID-19 disruptions. On the other hand, nearly all of IGRD's contracting work is originally related to government projects. Therefore, even if delays in deliveries take place, cancellations are highly unlikely. IGRD's trading business includes masks and outfits for laborers as well as some food items, sales of which have surged notably since the beginning of the coronavirus pandemic. *We will likely adjusted our estimates (and possibly our target price) once we determine if the decline in revenue and gross profits for the quarter was temporary in nature (i.e., a result of contract pushouts) or something more emblematic of a downturn in business conditions.* We do note that we continue to like the company as a turnaround story as well as the new management's dedication to cost cutting and its efforts on expanding the trading segment's product range with high-margin products. We maintain our positive outlook for the company and believe any weakness in its share price represents a buying opportunity.

### 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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