

Investment Holding Group (IGRD)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR0.527	Target Price	QR0.75
Implied Upside	42.3%		

Key Data

Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector	Construction
52wk High/52wk Low (QR)	6.39 / 4.73
3-m Avg. Volume (000)	1,634.6
Mkt. Cap. (QR mn/\$ mn)	434/121
EV (QR mn/\$ mn)	692/190
Current FO* (%) / Limit	23.3%/49%
Shares Outstanding (mn)	830
1-Year Total Return (%)	1.4%
Fiscal Year End	December 31

Revising our Estimates Due to Order Push Outs; Maintain Outperform

We remain Outperform and tweak our estimates after 3Q2019 results. IGRD's net income came in above our 3Q2019 estimate primarily due to lower minority interest. On the other hand, the company started the year with a strong addition to its order book (QR265mn, accounting for 62% of its 2018 revenue); however, slow second and third quarters in terms of project initiations lead our revenue and net earnings growth estimates to move partially into 2020. We continue to like the company as a turnaround story as well as the new management's dedication in cost cutting and its efforts on expanding the Trading segment's product range with high margin products. We also maintain our TP at QR0.75. **Since our initiation on April 11, 2019 IGRD shares recorded a total return of 2.8% (including DPS0.25/share paid on April 15th), beating the QE All Share Index's -0.3%.**

Highlights

- IGRD posted 9M2019 net income/EPS of QR34.5m/QR0.042, up 9.4% YoY. On a quarterly basis, the company recorded earnings QR7.1mn (-26.9% QoQ, -37.5% YoY), beating our net income estimate of QR4.7mn. The beat was primarily due to the minority interest, turning from a profit of QR0.4mn as of 2Q2019 to QR1.6mn loss in 3Q19.
- 3Q2019 EBIT was QR7.1mn (variation +2.0%), falling by 26.9% QoQ and 37.5% YoY. Although the company managed to expand its order book notably during 2Q2019 with a QR265mn order received in April (corresponds to 62% of 2018 revenues), third quarter of the year remained relatively subdued in terms of new project initiations, similar to 2Q2019. Consequently, 3Q2019 revenue (QR111.3mn) was up 7.3% YoY, down 3.6% QoQ. 3Q2019 gross margin declined by 1.1% YoY to 19.2% due to increasing competition in the local market, resulting in gross profit to reach QR21.4mn (rising by 1.8% with variation of 3.5%). G&A rose by 48.9% YoY due to a low base effect from 3Q2018 pertaining to reclassification of some G&A items.
- Other income was below our expectation at QR1.4mn (down 80.2% QoQ and 68.8% YoY), which could be attributable to lower rental and service income.
- Financial expenses rose by 68.7% YoY in 3Q19 to QR3.7mn (down 1.6% QoQ but up 68.7% YoY) (variation 0.1%), in line with the company increasing net debt to QR266mn as of 3Q19 from QR82mn as of 3Q18, following the buyout of 39.6% minority stake at CESCO during 4Q18 at QR193.5mn.
- Due to some delays in project initiations in 2019, we have reduced our revenue & EPS estimates for 2019 but increased for 2020. Our 2019 EPS estimate of QR0.065 now implies a decline of 8.2% YoY vs. our prior estimate of a 1.6% YoY EPS increase. On the other hand, as we expect a higher portion of the delayed projects to be completed in 2020, we raised our 2020 EPS estimate to QR0.071 (an increase of 9.3% YoY) from our prior estimate of QR0.057 (implying a 19.6% YoY EPS decline).

Catalysts

- Further expansion in the order book
- New products
- Potential buyouts of minority stakes at other subsidiaries.

Recommendation, Valuation and Risks

- We rate IGRD an Outperform. Our 12 month target price of QR0.75 implies a 42.3% upside potential, based on a weighted average combination of DCF, international peer comparison and local market P/E.** IGRD trades at 2019e P/E multiple of 8.2x, implies a 34% discount vs. the international contractors peer group. For 2020, IGRD's forecasted P/E multiple of 7.5x also implies a 30% discount to its international peers. IGRD's 2019-2020e dividend yields are 4.7% each, notably above the international peer group averages of 3.4% and 3.8%, respectively.
- Risks:** 1) Geopolitical risks 2) Collection risks 3) High weight of goodwill in total assets.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.05	0.07	0.06	0.07
P/E (x)	10.7	7.5	8.2	7.5
EV/EBITDA (x)	2.9	5.6	4.2	3.5
DPS (QR)	0.03	0.03	0.03	0.03
DY (%)	4.7%	4.7%	4.7%	4.7%

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

Source: Bloomberg (as of Nov 05, 2019), *Qatar Exchange (as of Nov 05, 2019); Note: FO is foreign ownership

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Estimate Revisions

	2017	2018	2019e			2020e		
			Current	Previous	%ch.	Current	Previous	%ch.
Revenue	469,232	426,299	594,935	794,935	-25%	715,183	635,183	13%
Gross Profit	141,117	126,854	125,631	148,631	-15%	146,284	134,021	9%
SG&A	75,030	75,761	60,216	60,216	0%	63,518	63,518	0%
Depreciation	6,022	5,748	6,840	6,840	0%	7,210	7,210	0%
Operating Income	60,065	45,345	58,575	81,575	-28%	75,556	63,293	19%
EBITDA	66,087	51,093	65,416	88,416	-26%	82,766	70,503	17%
Impairment Loss on Investment Properties	-606	-606	-606	-606	0%	-606	-606	0%
Total Other Income	23,714	32,630	16,052	12,448	29%	16,383	13,253	24%
Net Finance Income (Expense)	-9,111	-11,943	-15,043	-19,746	-24%	-18,743	-20,890	-10%
Net profit before management fees and income tax	74,669	66,031	59,584	74,277	-20%	73,196	55,655	32%
Management fees	-4,320	-3,995	-3,995	-3,995	0%	-4,115	-4,115	0%
Income Tax	0	0	0	0	0%	0	0	0%
Non controlling interests	-29,636	-3,674	-2,000	-11,000	-82%	-10,500	-3,898	169%
Net Income	40,712	58,362	53,589	59,282	-10%	58,581	47,643	23%
EPS	0.05	0.07	0.06	0.07		0.07	0.057	
Growth (YoY)	N/M	43.4%	-8.2%	1.6%		9.3%	-19.6%	

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement

	2017	2018	2019e	2020e	2021e
Revenue	469,232	426,299	594,935	715,183	656,970
COGS	328,114	299,445	469,304	568,898	523,566
Gross Profit	141,117	126,854	125,631	146,284	133,404
SG&A	75,030	75,761	60,216	63,518	65,697
Depreciation	6,022	5,748	6,840	7,210	7,745
Operating Income	60,065	45,345	58,575	75,556	59,962
EBITDA	66,087	51,093	65,416	82,766	67,707
Impairment Loss on Investment Properties	-606	-606	-606	-606	0
Fair value gain from financial assets	0	28,750	0	0	0
(Loss)/ gain from disposal of Property and equipment	118	-322	0	0	0
Provision Expenses	-379	-14,823	0	0	0
Loss on sale of Damaged items	-1,489	0	0	0	0
Dividend income from AFS Investments	5,000	3,765	3,860	3,976	4,095
Other Income	21,070	15,866	12,797	13,013	13,122
Fair value gain from investment properties	0	0	0	0	0
Total Other Income	23,714	32,630	16,052	16,383	17,217
Net Finance Income (Expense)	-9,111	-11,943	-15,043	-18,743	-18,286
Net profit before management fees and income tax	74,669	66,031	59,584	73,196	58,892
Management fees	-4,320	-3,995	-3,995	-4,115	-4,238
Income Tax	0	0	0	0	0
Non controlling interests	-29,636	-3,674	-2,000	-10,500	-3,628
Net Income	40,712	58,362	53,589	58,581	51,026
Net Profit Margin	8.7%	13.7%	9.0%	8.2%	7.8%
Shares Outstanding (mn)	830,000	830,000	830,000	830,000	830,000
EPS	0.05	0.07	0.06	0.07	0.06
Growth (YoY)	N/M	5%	20%	9%	-13%
DPS	0.03	0.03	0.03	0.03	0.03

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	136,856	79,952	79,952	79,952	79,952
Investments Held for Trading/ST Investments	0	0	24,028	69,068	106,409
Accounts Receivable & Prepayments	173,306	169,959	98,312	168,739	155,729
Gross amounts due from customers on contract work	198,745	201,199	281,861	361,402	333,539
Due From Related Parties	32,750	30,911	31,661	44,151	40,747
Inventories	71,652	78,663	83,383	88,385	93,689
Total Current Assets	613,309	560,684	599,198	811,697	810,066
Retentions receivable	49,528	44,621	62,566	75,565	69,739
Financial assets at FVTOCI	2,250	31,000	31,000	31,000	31,000
Investment Properties	1,565	959	1,007	1,057	1,110
Goodwill & Intangibles	711,492	711,492	711,492	711,492	711,492
Property, Plant & Equipment	19,644	21,338	22,165	21,890	21,014
Non-Current Assets	784,480	809,410	828,231	841,005	834,356
Total Assets	1,397,789	1,370,093	1,427,429	1,652,702	1,644,422
Short-Term Debt	197,417	212,219	217,581	275,015	258,015
Accounts Payable & Accruals	192,393	203,181	232,006	370,426	350,233
Due to Related Parties	16,812	63,030	48,447	33,864	33,695
Dividend Payable	3,003	3,293	3,293	3,293	3,293
Current Liabilities	409,624	481,723	501,328	682,598	645,235
Retentions payable	1,285	1,881	2,889	3,429	3,156
Long-Term Debt	1,269	87,796	92,186	96,795	101,635
Employees end of service benefits	30,139	25,193	26,453	27,776	29,165
Non-Current Liabilities	32,693	114,870	121,527	128,000	133,955
Total Liabilities	442,318	596,594	622,855	810,598	779,191
Total Shareholder's Equity	869,694	748,733	778,812	815,141	837,528
Minority Interest	85,777	24,767	25,761	26,963	27,704
Liabilities & Shareholder's Equity	1,397,789	1,370,093	1,427,429	1,652,702	1,644,422

Source: Company data, QNB FS Research

Cash Flow Statement

	2017	2018	2019e	2020e	2021e
Cash Flow From Operations	29,314	54,701	62,156	40,882	106,236
Cash Flow From Investment Activities	-2,772	-158,263	-22,535	-22,533	-22,530
Cash Flow From Financing Activities	-11,784	46,892	-28,801	21,047	-59,085
Cash Flow From Other Activities	-416	-233	13,208	5,643	12,721
Change In Cash	14,342	-56,903	24,028	45,040	37,342
Cash Beginning of Period	122,514	136,855	79,952	79,952	79,952
Decrease (increase) in Fixed Deposits	0	0	-24,028	-45,040	-37,341
Cash End of Period	136,855	79,952	79,952	79,952	79,953

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	4.8%	(9.1%)	39.6%	20.2%	(8.1%)
Gross Profit	(4.9%)	(10.1%)	(1.0%)	16.4%	(8.8%)
EBITDA	(14.5%)	(22.7%)	28.0%	26.5%	(18.2%)
EBIT	(16.1%)	(24.5%)	29.2%	29.0%	(20.6%)
PAT/EPS	N/M	43.4%	(8.2%)	9.3%	(12.9%)
DPS	N/M	0.0%	0.0%	0.0%	0.0%
CFPS	N/M	86.6%	13.6%	(34.2%)	159.9%
Operating Ratios					
Gross Margin	30.1%	29.8%	21.1%	20.5%	20.3%
Gross Margin, Excluding Depreciation & Amortization	30.1%	29.8%	21.1%	20.5%	20.3%
EBITDA Margin	14.1%	12.0%	11.0%	11.6%	10.3%
EBIT Margin	12.8%	10.6%	9.8%	10.6%	9.1%
Net Margin	8.7%	13.7%	9.0%	8.2%	7.8%
Finance Ratios					
Debt-Equity Ratio	23%	40%	40%	46%	43%
Net Debt-Equity Ratio	7%	29%	26%	27%	21%
Net Debt-to-Capital	7%	23%	21%	21%	17%
Net Debt-to-EBITDA	0.9	4.3	3.1	2.7	2.6
Interest Coverage	6.6	3.8	3.9	4.0	3.3
Return Ratios					
ROIC	5.6%	4.3%	5.4%	6.4%	5.0%
ROE	4.7%	7.8%	6.9%	7.2%	6.1%
ROA	2.9%	4.3%	3.8%	3.5%	3.1%
FCF Yield	6.1%	10.7%	12.4%	7.5%	22.5%
Liquidity Ratios					
Current Ratio	1.5	1.2	1.2	1.2	1.3
Quick Ratio	1.3	1.0	1.0	1.1	1.1
Valuation					
EV/Sales	0.4	0.7	0.5	0.4	0.4
EV/EBITDA	2.9	5.6	4.2	3.5	3.6
EV/EBIT	3.2	6.4	4.7	3.9	4.1
P/E	10.7	7.5	8.2	7.5	8.6
P/CF	14.9	8.0	7.0	10.7	4.1
P/BV	0.5	0.6	0.6	0.5	0.5
Dividend Yield	4.7%	4.7%	4.7%	4.7%	4.7%
FCF Yield	6.1%	10.7%	12.4%	7.5%	22.5%

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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