

Estithmar Holding (IGRD)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR2.165	Target Price	QR2.836
Implied Upside	31.0%	Old Target Price	QR2.900

Attractive Growth Levers But Higher Working Capital Needs; Maintain Outperform

The curved, sleek structure near The Pearl Qatar has suddenly come to life and is set to open its doors in 4Q2022 – it will house Estithmar’s flagship hospital, The View. It is hard not to be bullish on Estithmar’s prospects. This also casts some light on how IGRD contrasts with most companies – it is a conspicuously growing company. Consequently, IGRD’s PE is likely to remain relatively elevated in the short- to medium-term, which is justified by its high growth. This also means there is no dividend on the immediate horizon, but investors could be more than compensated for the lack thereof with capital appreciation. Plus, dividend payments could resume during FY23/24 once cash buffers recover from the current heavy investment cycle. Regarding the recently announced IGRD’s maiden 1H 2022 results, we note they were mixed as strong top-line growth did not quite filter to the bottom-line due to margin pressure. However, investors should be cognizant that higher-margin businesses (healthcare and tourism) that are expected to drive most of the growth have not yet started to contribute to group performance. In 3Q2022, we expect revenue to come in at QR875.8mn, while net profit should print at QR76.6mn (note there are no YoY/QoQ comparables). Our IGRD thesis remains unchanged – the emerging conglomerate is well placed to capitalize on opportunities in both the old and new Qatari economy, creating significant value for investors in the process.

Highlights

- The View and Al Maha resort remain on track to open doors in 4Q, but KMC’s opening has been pushed to 1Q2023/2Q2023.** Like many stakeholders, we continue to monitor IGRD’s execution risk with keen interest and 4Q2022 could prove to be the acid test when The View and Al Maha are both set to open shop. We note that high risk is the price tag for high growth.
- Estithmar reported strong YoY revenue growth of 21.9% reaching QR1.85bn in 1H2022, largely in-line with our estimate (deviation of 1.2%). Net profit increased 3.7% YoY to QR190.6mn, below our expectations of QR223.9mn primarily due to cost pressure with the overall gross profit margin shrinking to 14.2% from 16.3%.** This is primarily due to an unfavorable sales mix and some cost inflation in the services segment. However, services unit margins are expected to recover in 3Q2022 as contracts in higher-margin services have been secured and should tilt the sales mix more favorably.
- Changes to our valuation model were largely offsetting with negligible impact on our price target price.** Higher working capital needs, than initially penciled-in, in its traditional contracting business knocked off a few dirhams on our initial TP but was largely offset by recurring annual government subsidy of QR40mn related to IGRD’s tourism unit (that we had not previously accounted for). However, we expect working capital requirements to come down in the medium-term primarily due to two factors. **First, management expects working capital needs to moderate in the medium term as global supply chains normalize. Second, new segments (healthcare and tourism) are less working capital intensive.** Due to elevated working capital than initially modeled, the RoIC (13.8% vs 14.9% previously) has come down a bit but remains comfortably above WACC (10.6%).
- Significant top- and bottom-line growth:** For 2H22, contracting is expected to slow down as World Cup projects wrap up, although landscaping activity should pick up together with services driven by the WC. Moreover, services attract higher margins. Consequently, we expect revenue to grow 20% (vs 21% previously) this year. We see further double-digit CAGR in revenue between FY2023 and FY2024 as the healthcare and tourism units ramp up, partially offset by slowdown in traditional segments. We estimate net profit to grow to QR339.6mn in FY2022 and then grow 15.5% in 2023 and 42.5% in 2024. We note that as the mix of higher-margin businesses increase in the medium-term, earnings growth should outpace revenue growth.

Catalysts

- Significant catalysts abound: (1) The View, IGRD’s hospital and the subject of significant investor interest, is expected to begin operations in 4Q2022. (2) Al Maha’s key attraction Doha Winter Wonderland is also expected to open around November and benefit from FIFA World Cup Qatar 2022 visitors, as well as the anticipated permanent boost of arrivals post-World Cup.**

Recommendation, Valuation and Risks

- Recommendation and Valuation: We maintain our Outperform rating with a 12-month target of QR2.836 with 31.0% upside potential using SOTP EBITDA Exit Multiple valuation.** We 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, with more product launches on the horizon.
- Key risks: (1) Execution risk (2) High base set by World Cup-related activities in traditional segments of the business (3) Conglomerate discount (4) Geopolitics (5) Global disease outbreak.**

Key Financial Data and Estimates

Group	FY21e	FY22e	FY23e	FY24e
EPS (QR)	0.09	0.10	0.12	0.16
P/E (x)	22.82	21.81	18.80	13.20
EV/EBITDA (x)	18.68	16.86	12.31	9.67
DPS (QR)	-	-	0.05	0.07
DY (%)	0.0%	0.0%	2.1%	3.0%

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

Key Data

Current Market Price	QR2.165
Dividend Yield	0.00%
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UUVF886
Sector*	Industrials
52wk Share Price High	QR2.765
52wk Share Price Low	QR1.170
3-m Average Vol. ('mil)	20.0
Mkt. Cap. (\$'bn/QR'bn)	2.0/7.4
Shares Outstanding (mn)	3,404.04
FO Limit* (%)	49.0
Current FO* (%)	0.8
1-Year Total Return (%)	75.0
Fiscal Year-End	December 31

Source: Bloomberg (as of September 2, 2022), *Qatar Exchange (as of September 4, 2022); Note: FO is foreign ownership

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Summary Valuation

Group	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
Revenue	3,202.3	3,840.3	4,544.5	5,108.8	5,571.2	6,018.6
EBITDA	444.6	492.6	674.5	859.1	975.1	1,091.0
Operating Profit	348.0	398.9	529.7	706.0	813.1	919.5
NOPAT	347.8	398.7	525.4	690.4	786.4	874.7
Add D&A	96.5	98.1	149.6	158.2	167.5	177.3
Less Capex	91.3	171.4	195.7	215.9	233.5	251.0
Less Working Capital Changes	400.0	504.2	221.0	104.5	91.8	81.5
FFCF	(46.9)	(178.9)	258.3	528.2	628.5	719.6
WACC weighted		11.4%	11.0%	10.6%	10.6%	10.6%
Discount Factor		1.06	1.17	1.29	1.42	1.58

Sustainable Growth Rate 3.3%

EBITDA Exit Multiple Valuation	
Terminal EBITDA (discounted)	753.6
EV/EBITDA weighted	14.1
Terminal Value	10,138.6
Sum of FCF PV	1,535.1
Implied Fair EV	12,841.4
Net Debt	2,113.4
Minorities	2.1
Equity Value	10,725.9
# outstanding shares ('m)	3,404.0
12M Target Share Price	QR2.836
Upside/ (downside)	31.0%

Sensitivity Analysis

Equity Value at EBITDA Exit Multiple of:						FV per Share (QR) at EBITDA Exit Multiple of:					
WACC	11.9x	12.9x	14.1x	15.x	16.x	WACC	11.9x	12.9x	14.1x	15.x	16.x
8.6%	9,579.0	10,553.3	11,544.9	12,553.5	13,579.4	8.6%	2.533	2.790	3.052	3.319	3.590
9.7%	9,224.0	10,167.5	11,127.5	12,104.2	13,097.5	9.7%	2.439	2.688	2.942	3.200	3.463
10.6%	8,882.2	9,796.0	10,725.9	11,671.9	12,634.0	10.6%	2.348	2.590	2.836	3.086	3.340
11.8%	8,555.5	9,440.88	10,341.8	11,258.4	12,190.5	11.8%	2.262	2.496	2.734	2.977	3.223
12.8%	8,240.7	9,098.8	9,971.9	10,860.1	11,763.5	12.8%	2.179	2.406	2.636	2.871	3.110

Fair Value Attribution

Segment	Peer Multiple	Exit EBITDA	EV (QR'm)	Equity (QR'm)	FV per Share (QR)	% of Total
Healthcare	20.7	206.2	3,525.9	3,192.6	0.938	29.8%
Venture/ Tourism	22.9	143.9	2,489.2	1,762.7	0.518	16.4%
Services	10.0	529.4	4,954.6	4,417.9	1.298	41.2%
Industries	8.7	53.4	349.2	172.2	0.051	1.6%
Contracting	10.0	210.0	1,522.4	917.9	0.270	8.6%
Cash				264.8	0.078	2.5%
Minorities				(2.1)	(0.001)	0.0%

Consolidate Financial Statements & Forecasts

Income Statement

Group	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
Revenue	3,202.3	3,840.3	4,544.5	5,108.8	5,571.2	6,018.6
Services	1,807.2	1,829.8	2,012.8	2,209.0	2,420.0	2,646.8
Industries	338.8	415.3	435.2	451.7	464.3	472.6
Contracting	1,249.5	1,759.4	1,861.3	1,937.6	2,017.0	2,099.7
Healthcare	-	139.2	384.4	633.1	744.8	859.2
Ventures/Tourism	-	158.4	347.8	407.8	490.5	542.3
Corporate/Eliminations	(193.2)	(461.9)	(497.1)	(530.4)	(565.3)	(602.0)
Gross Profit	437.4	639.5	1,018.0	1,194.8	1,337.8	1,458.0
EBITDA	444.6	492.6	674.5	859.1	975.1	1,091.0
Operating Profit	348.0	398.9	529.7	706.0	813.1	919.5
Net Profit	324.6	339.6	391.6	558.1	645.6	720.1
EPS	0.10	0.10	0.12	0.16	0.19	0.21
DPS	-	-	-	0.07	0.08	0.08

Balance Sheet

Group	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
Property, Plant & Equipment	802.8	1,880.2	1,929.0	1,989.2	2,058.2	2,135.1
Investment properties	87.9	90.8	90.8	90.8	90.8	90.8
Intangibles	5.6	4.2	4.1	4.2	4.4	4.7
Goodwill	-	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0
Right-of-use assets	28.0	66.6	74.9	83.8	93.2	102.8
Financial assets @ FVTPL	-	31.0	31.0	31.0	31.0	31.0
Retention receivables	18.1	34.4	36.4	37.9	39.5	41.1
Total Non-Current Assets	942.3	5,347.2	5,406.2	5,477.0	5,557.0	5,645.5
Inventories	383.2	586.8	626.4	681.9	731.2	783.3
Accounts receivable and other debit balances	875.5	2,058.5	2,262.4	2,448.1	2,623.7	2,804.7
Due from related party	475.8	484.8	484.8	484.8	484.8	484.8
Contract assets	385.6	799.6	845.9	880.6	916.7	954.3
Retentions receivable	39.0	66.3	70.1	73.0	76.0	79.1
Cash and bank balances	41.4	369.2	646.8	880.3	1,167.1	1,480.1
Total Current Assets	2,200.6	4,365.3	4,936.5	5,448.8	5,999.6	6,586.5
TOTAL ASSETS	3,142.9	9,712.4	10,342.7	10,925.8	11,556.7	12,232.0
Capital	10.0	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0
Legal reserve	54.9	88.7	127.9	183.7	248.3	320.4
Other reserve	3.9	3.9	3.9	3.9	3.9	3.9
Retained earnings	694.8	978.0	1,174.0	1,453.2	1,776.1	2,136.4
Equity attributable to equity holders of the p	763.6	4,474.6	4,709.8	5,044.9	5,432.4	5,864.7
Non-controlling interests	4.0	3.9	4.2	4.7	5.3	6.0
Total Shareholders' Equity	767.6	4,478.5	4,714.0	5,049.6	5,437.7	5,870.7
Provision or employees' end of service benefits	86.9	188.3	372.4	369.6	395.1	405.0
Interest bearing loans and borrowings-LT	336.2	1,138.7	1,138.7	1,138.7	1,138.7	1,138.7
Loans from related parties	27.8	-	-	-	-	-
Retentions payable	-	1.3	1.3	1.3	1.3	1.3
Lease liabilities-LT	18.4	48.4	54.4	61.0	67.8	74.7
Total Non-Current Liabilities	469.4	1,376.7	1,566.8	1,570.5	1,602.8	1,619.7
Due to related parties	93.0	28.3	-	-	-	-
Accounts payable and other credit balances	1,102.3	2,546.3	2,619.4	2,794.2	2,967.0	3,159.5
Contract liabilities	117.2	31.2	32.7	33.6	34.6	36.0
Interest bearing loans and borrowings-ST	391.8	935.0	935.0	935.0	935.0	935.0
Lease liabilities-ST	2.1	11.9	13.4	15.0	16.6	18.4
Dividend payable	-	-	156.8	223.4	258.4	288.2
Bank overdraft	199.5	304.6	304.6	304.6	304.6	304.6
Total Current Liabilities	1,905.9	3,857.3	4,061.8	4,305.7	4,516.2	4,741.6
Total Liabilities	2,375.2	5,233.9	5,628.7	5,876.2	6,118.9	6,361.3
TOTAL SHE & LIABILITIES	3,142.9	9,712.4	10,342.7	10,925.8	11,556.7	12,232.0

Cash Flow Statement

Group	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
Cash generated from operating activities	168.8	(78.5)	434.7	725.8	843.3	941.4
Net cash generated from operating activities	168.8	22.8	618.9	722.9	868.8	951.3
Net cash used in investing activities	(284.4)	(1,038.4)	(189.7)	(208.6)	(225.3)	(242.0)
Net cash generated from financing activities	227.1	884.3	(42.6)	(172.0)	(239.6)	(275.7)

Key Ratios

Ratios	FY21ee	1H21a	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
PE Ratio	22.8		21.8	18.8	13.2	11.4	10.2	
PEG Ratio			N/A	4.7	1.2	0.3	0.7	0.9
P/CF			9.6	(20.6)	3.7	2.2	1.9	1.7
P/BV			2.12	0.36	0.34	0.32	0.30	0.28
Debt-Equity Ratio			128%	54%	52%	49%	45%	42%
Net Debt/Equity			122%	46%	38%	31%	23%	16%
Net Debt-to-Capital			82%	36%	30%	25%	19%	14%
Net Debt/EBITDA			2.1	4.1	2.6	1.8	1.3	0.9
Interest Coverage			15.0	6.8	4.1	6.0	6.8	7.7
EV/EBITDA			18.7	16.9	12.3	9.7	8.5	7.6
EV/Sales			2.6	2.2	1.8	1.6	1.5	1.4
EV/EBIT			23.9	20.8	15.7	11.7	10.2	9.0
ROIC			26.2%	7.3%	9.2%	11.7%	12.9%	13.8%
WACC			8.3%	11.4%	11.0%	10.6%	10.6%	10.6%
ROE			42.3%	7.5%	8.3%	11.1%	11.9%	12.3%
ROA			10.3%	3.5%	3.8%	5.1%	5.6%	5.9%
FCF Yield			1.1%	-2.1%	5.6%	6.8%	8.5%	9.4%
Dividend Yield			0.0%	0.0%	2.1%	3.0%	3.5%	3.9%
Current Ratio			1.2	1.1	1.2	1.3	1.3	1.4
Quick Ratio			1.0	1.0	1.1	1.1	1.2	1.2
Inventory Days			45	67	65	64	63	63
Average Collection Period			148	278	255	243	237	233
Payable Days			144	294	275	264	259	256

[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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