

INVESTMENT HOLDING GROUP (IGRD)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR5.37	Target Price	QR7.50
Implied Upside	39.7%		

1Q19 Results to be on Track With Our 2019 Forecasts; Outperform

Expect 2.3% YoY growth in 1Q2019 earnings along with substantial EBITDA growth. We anticipate slightly lower revenue for IGRD in 1Q2019 YoY, which is likely to be more than compensated over the remaining quarters of 2019 as new projects are expected to kick in starting 2Q2019. We still foresee IGRD's 1Q2019 EBITDA to rise by 21% vs. 1Q2018 primarily due to lower G&A as a result of management's ongoing cost cutting efforts. **Since our initiation on April 11, 2019, IGRD shares recorded a total return of 5.5% (including DPS0.25/share paid on April 15th), beating the QE All Share Index's 2.1%.**

Highlights

- **We estimate net Income/EPS of QR14.78m/QR0.18 for IGRD, up 2.3% YoY.** First quarter of the year, in general, is a slow season for contractors (especially in terms of initiations) and 1Q2019 is not likely to be an exception. We anticipate slightly lower revenue in 1Q2019 (down 4.1% vs. 1Q2018), and continue to expect new projects to kick in starting from 2Q2019. Nevertheless, ongoing restructuring has already been bearing fruit – we expect a 37% decline in G&A expenses YoY, which is likely to lead to an EBITDA growth of 21% over 1Q2018. At the EPS level, we expect a modest growth (2.3% YoY) vs. the anticipated EBITDA increase as **we foresee other income to decline by 79% YoY with the contribution of lower rent income.**
- **Ongoing restructuring increases efficiency and lowers costs.** On one hand, IGRD's new management is engaged in expanding the product range of the supplies & trading segment with high margin products. On the other, it is also continuously evaluating cost cutting opportunities, especially in terms of labor force rationalization and rental cost reduction.
- **We maintain our expectation for Revenue/EBITDA/Normalized EPS (excluding non-recurring items such as revaluation gains and provision expenses) growth rates of 86%/73%/32% in 2019, respectively.** Starting from 2Q2019, we expect IGRD's top line and EBITDA growth to speed up further.
- **A decent dividend yield.** IGRD has paid QR0.25/share of dividends for 2018 on April 15th and is expected to pay the same amount in 2019-20, which should correspond to a dividend yield of 4.7%.

Catalysts

1) Further expansion in the order book. 2) New products. 3) Potential buyouts of minority stakes at other subsidiaries.

Recommendation, Valuation and Risks

- **We rate IGRD as OUTPERFORM.** Our 12 month target price of QR7.5 implies a 39.7% upside potential, based on a weighted average combination of DCF, international peer comparison and local market P/E. IGRD trades at 2019e and 2020e P/E multiples of 7.5x and 9.4x, respectively, implying 32% and 5% discounts to the international contractors peer group. IGRD's 2019-2020e dividend yields are 4.7% each, notably above the international peer group averages of 3.3% and 3.7%, 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)	0.49	0.70	0.71	0.57
P/E (x)	10.9	7.7	7.5	9.4
EV/EBITDA (x)	8.9	13.5	8.6	10.3
DPS (QR)	0.25	0.25	0.25	0.25
DY (%)	4.7%	4.7%	4.7%	4.7%

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

Key Data

Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector	Construction
52wk High/52wk Low (QR)	6.19 / 4.73
3-m Avg. Volume (000)	371.2
Mkt. Cap. (QR mn/\$ mn)	446/122
EV (QR mn/\$ mn)	659.5/181
Current FO* (%) / Limit	25.0%/49%
Shares Outstanding (mn)	83
1-Year Total Return (%)	-0.1%
Fiscal Year End	December 31

Source: Bloomberg (as of April 24, 2019), *Qatar Exchange (as of as of April 23, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement

	2017	2018	2019e	2020e	2021e
Revenue	469,232	426,299	794,935	635,183	656,970
COGS	328,114	299,445	646,304	501,161	518,147
Gross Profit	141,117	126,854	148,631	134,021	138,823
Adj. 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	81,575	63,293	65,382
EBITDA	66,087	51,093	88,416	70,503	73,126
Impairment Loss on Investment Properties	-606	-606	-606	-606	-606
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	3,765	3,878	3,994
Other Income	21,070	15,866	9,289	9,981	10,079
Gain on the Disposal of a Subsidiary	0	0	0	0	0
Total Other Income	23,714	32,630	12,448	13,253	13,467
Net Finance Income(Expense)	-9,111	-11,943	-19,746	-20,890	-19,410
Net profit before management fees and income tax	74,669	66,031	74,277	55,655	59,438
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	-11,000	-3,898	-4,174
Net Income	40,712	58,362	59,282	47,643	51,026
Net Profit Margin	8.7%	13.7%	7.5%	7.5%	7.8%
Shares Outstanding (k)	83,000	83,000	83,000	83,000	83,000
EPS	0.49	0.70	0.71	0.57	0.61
EPS (Normalized for extraordinary & one-off items)	0.51	0.54	0.71	0.57	0.61
<i>Growth</i>	<i>N/M</i>	<i>5%</i>	<i>32%</i>	<i>-20%</i>	<i>7%</i>
DPS	0.25	0.25	0.25	0.25	0.25

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	8,365	35,238	45,015
Accounts Receivable & Prepayments	173,306	169,959	178,426	193,239	200,803
Gross amounts due from customers on contract work	198,745	201,199	376,701	323,391	336,049
Due From Related Parties	32,750	30,911	46,232	43,026	44,710
Inventories	71,652	78,663	83,383	88,385	93,689
Total Current Assets	613,309	560,684	773,058	763,232	800,217
Retentions Receivable	49,528	44,621	83,599	67,113	69,739
Financial Assets at Fair Value Through Other Comprehensive Income	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	849,264	832,553	834,356
Total Assets	1,397,789	1,370,093	1,622,322	1,595,784	1,634,574
Short-Term Debt	197,417	212,219	287,829	275,015	258,015
Insurance Payables, Accounts Payable & Accruals	192,393	203,181	349,681	326,321	346,704
Due to Related Parties	16,812	63,030	48,447	33,864	34,687
Dividend Payable	3,003	3,293	3,293	3,293	3,293
Current Liabilities	409,624	481,723	689,250	638,493	642,699
Retention Payable	1,285	1,881	3,978	3,021	3,123
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	122,617	127,592	133,923
Total Liabilities	442,318	596,594	811,867	766,085	776,622
Total Shareholder's Equity	869,694	748,733	784,505	803,134	830,481
Minority Interest	85,777	24,767	25,950	26,566	27,471
Liabilities & Shareholder's Equity	1,397,789	1,370,093	1,622,322	1,595,784	1,634,574

Source: Company data, QNB FS Research

Cash Flow Statement

	2017	2018	2019e	2020e	2021e
Cash Flow From Operations	29,314	54,701	-10,241	95,855	75,822
Cash Flow From Investment Activities	-2,772	-158,263	-22,535	-22,533	-22,530
Cash Flow From Financing Activities	-11,784	46,892	36,744	-58,110	-55,249
Cash Flow From Other Activities	-416	-233	4,396	11,660	11,733
Change In Cash	14,342	-56,903	8,365	26,873	9,776
Cash Beginning of Period	122,514	136,855	79,952	79,952	79,952
Decrease (increase) in Fixed Deposits	0	0	-8,365	-26,873	-9,777
Cash End of Period	136,855	79,952	79,952	79,952	79,952

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	4.8%	(9.1%)	86.5%	(20.1%)	3.4%
Gross Profit	(4.9%)	(10.1%)	17.2%	(9.8%)	3.6%
EBITDA	(14.5%)	(22.7%)	73.0%	(20.3%)	3.7%
EBIT	(16.1%)	(24.5%)	79.9%	(22.4%)	3.3%
PAT/EPS	N/M	43.4%	1.6%	(19.6%)	7.1%
DPS	N/M	0.0%	0.0%	0.0%	0.0%
CFPS	N/M	86.6%	N/M	N/M	(20.9%)
Operating Ratios					
Gross Margin	30.1%	29.8%	18.7%	21.1%	21.1%
Gross Margin, Excluding Depreciation & Amortization	30.1%	29.8%	18.7%	21.1%	21.1%
EBITDA Margin	14.1%	12.0%	11.1%	11.1%	11.1%
EBIT Margin	12.8%	10.6%	10.3%	10.0%	10.0%
Net Margin	8.7%	13.7%	7.5%	7.5%	7.8%
Finance Ratios					
Debt-Equity Ratio	23%	40%	48%	46%	43%
Net Debt-Equity Ratio	7%	29%	37%	32%	28%
Net Debt-to-Capital	7%	23%	27%	24%	22%
Net Debt-to-EBITDA	0.9	4.3	3.3	3.6	3.2
Interest Coverage	6.6	3.8	4.1	3.0	3.4
Return Ratios					
ROIC	5.6%	4.3%	7.0%	5.4%	5.5%
ROE	4.7%	7.8%	7.6%	5.9%	6.1%
ROA	2.9%	4.3%	3.7%	3.0%	3.1%
FCF Yield	6.0%	10.5%	-4.1%	19.7%	15.2%
Liquidity Ratios					
Current Ratio	1.5	1.2	1.1	1.2	1.2
Quick Ratio	1.3	1.0	1.0	1.1	1.1
Valuation					
EV/Sales	1.3	1.6	1.0	1.1	1.1
EV/EBITDA	9.0	13.5	8.6	10.3	9.7
EV/EBIT	9.9	15.2	9.4	11.5	10.8
P/E	10.9	7.6	7.5	9.4	8.7
P/CF	15.2	8.1	-43.5	4.6	5.9
P/BV	0.5	0.6	0.6	0.6	0.5
Dividend Yield	4.7%	4.7%	4.7%	4.7%	4.7%
FCF Yield	6.0%	10.5%	(4.1%)	19.7%	15.2%

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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