

AHCS Alert – Slightly Lower 1Q2020 Results on Higher G&A: Maintain TP & MP

- **Aamal Company's (AHCS) net profit declined 14.5% YoY (but rose 28.0% on QoQ basis) to QR82.5mn in 1Q2020, slightly below our estimate (variation of -6.4%).** EPS amounted to QR0.013 in 1Q2020 vs. QR0.015 in 1Q2019.
- **Gross profit declined by 6.9% YoY to QR110.7mn, in line with our QR110.0mn estimate (variation: +0.6%).** Aamal's revenue came in at QR374.0mn in 1Q2020, with a 16.3% YoY rise (+7.2% QoQ). On the other hand, its net underlying profit margins decreased by 7.4 percentage points to 17.5% YoY in 1Q2020 vs. 1Q2019's 24.9%. The company stated that challenges arising from the COVID-19 pandemic, coupled with intense market competition, impacted margins. The Qatari government has closed parts of Qatar's industrial area where some of Aamal's industrial manufacturing businesses are located, impacting the performance of Aamal Cement Industries and Aamal Readymix in particular. Net profit from the segment was further impacted by the dual impact of continuing price competition seen in tendering for contracts during the period and additional costs incurred in reinstating formerly shuttered manufacturing capacity in line with the contracted volumes. On the other hand, Aamal states that its Trading and Distribution segment recorded a strong performance, primarily due to Ebn Sina Medical.
- **Share in results of equity-accounted investees declined by 5.2% YoY to QR16.8mn, in line with our QR16.4mn estimate (variation: +2.9%).**
- **G&A rose by 29.6% YoY to QR36.8mn from QR28.4mn in 1Q2019, above our QR31mn estimate.** It is noteworthy that 1Q2019's G&A base was already low, compared to 1Q2017 & 1Q2018's QR35.9mn and QR31.4mn, respectively. 1Q2020 financials do not provide G&A breakdown, therefore we await for details from the upcoming conference call with management.
- **We continue to rate Aamal as Market Perform and maintain our estimates and TP at QR0.686.** Aamal enjoys a well-diversified business portfolio across many major sectors of the Qatari economy; thus, we are of the view that AHCS could be one of the top direct and indirect beneficiaries of the recently announced QR75bn government support package. Furthermore, it has Qatar's leading pharma & medical device distribution companies in its portfolio, which should support AHCS' top & bottom line resilience. Going forward, while Aamal's 2020 results are likely to be affected by the Coronavirus and oil shocks, we believe AHCS' 2021 prospects could be better with the completion of renovation works & expansion in CCD during 2020 and Senyar's new drum and copper factories becoming operational during 1H2021. In 2022, we believe Aamal will be one of the top beneficiaries of FIFA'22, given its property, retail and trading exposures.

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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