

IGRD Alert – 2Q2020 EPS Miss Due to Higher-Than-Expected G&A; Maintaining TP/Outperform

- **IGRD's net profit declines 52.9% YoY and 40.9% QoQ in 2Q2020, below our estimate.** Investment Holding Group's (IGRD) net profit declined 52.9% YoY (-40.9% QoQ) to QR5.7mn in 2Q2020, below our estimate of QR7.58mn (variation of -24.6%). EPS amounted to QR0.007 in 2Q2020 vs. QR0.012 in 1Q2020 and QR0.0146 in 2Q2019. IGRD also recorded QR15.4mn in net profit in 1H2020 vs. QR27.8mn in 1H2019 with a 44.7% decline YoY. EPS for 1H2020 was QR0.019 vs. QR0.034 for the same period of the previous year.
- **Gross profits were in line with our expectations (variation: -1.5%).** The company recorded QR74.8mn in revenue with a 35.2% fall YoY and 1.7% lower QoQ, which we think is attributable to the suspension of activities as a consequence of coronavirus disruptions as well as postponement of some deliveries to coming quarters. Gross margin was 22.5% in 2Q2020, which was slightly below 2Q2019's 23.0% and 1Q2020's 25.0%. As a result, IGRD's gross profit fell by 36.4% YoY and 11.4% QoQ to QR16.8mn in 2Q2020.
- **On the other hand, 2Q2020 G&A fell by 8.6% YoY but up 27.6% QoQ to QR15.3mn, above our estimate of QR14.4mn.** Due to the lack of 2Q2020 G&A breakdown, we await further details of 2Q2020 G&A during the upcoming conference call with management. IGRD's 1H2020 G&A was also down 9.9% YoY, despite a 75% YoY rise in depreciation to QR5.9mn, displaying management's strict cost discipline is intact. Excluding depreciation charges, the decline in 1H2020 G&A was even more impressive at 20.5% YoY as of 1H2020, mainly due to a 14.2% decline in salaries & fringe benefits and a 49.9% decline in rent expenses YoY, accounting for 69.3% and 5.7% of ex-depreciation G&A, respectively.
- **Our investment case for IGRD remains broadly intact and we will retain our estimates and TP for now as we await more color on how business recovery trends shape up during 3Q2020 with the ending of lockdowns.** Coronavirus disruptions have depressed IGRD's top-line (and gross margins to an extent) within 1H2020, overshadowing the company's successful cost-cutting efforts. As the top-line and margins start to recover in the coming quarters, we think the company's notably lower cost-base will become an important driver for EPS growth. Furthermore, nearly all of IGRD's contracting work is originally related to government projects. Thus, even if delays take place, cancellations are unlikely, therefore we anticipate the company's revenue growth to speed up in 2H2020. It is also noteworthy that IGRD's trading business include masks and outfits for laborers (sales of which have surged notably since the beginning of the pandemic). We continue to like the company as a turnaround story as well as the new management's dedication in cost-cutting and its efforts in expanding the trading segment's product range with high-margin products. *We continue to rate IGRD as an Outperform.*

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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