

IGRD Alert – 2Q2021 Miss Due to Higher - than - Expected G&A; Maintaining TP & Accumulate

- **IGRD's 2Q2021 net profit declines 16.6% YoY/ 41.2% QoQ and falls below with our estimate:** Investment Holding Group (IGRD) reported a net profit of QR4.8mn in 2Q2021 as compared to a net profit of QR5.7mn in 2Q2020 and a net profit of QR8.1mn in 1Q2021. Our 2Q2021 estimate was QR9.3mn. EPS amounted to QR0.016 in 6M2021 as compared to QR0.019 in 6M2020.
- **During 2Q2021, the company recorded QR76.6mn in revenue, which is up 2.5% YoY but down 8.0% vs. 1Q2020.** We think, the company was adversely affected by the increased coronavirus counter-measures in 2Q2021, which were nevertheless less stringent relative to 2Q2020, when the industrial area was put under lockdown. Gross margin was 28.8% in 2Q2021, which was above 2Q2020's 22.5% and 1Q2021's 26.4%. As a result, IGRD's gross profit rose to QR22.1mn (14.3% above our estimate) from QR16.8mn in 2Q2020, while it remained flat QoQ.
- **G&A rose notably, by 29.9% QoQ and 7.5% YoY to QR16.4mn.** In the lack of the G&A breakdown for 1Q2021, salaries & fringe benefits which was up 21.0% YoY in 1H2021 reaching QR17.9mn (and accounting for 62% of total G&A) could be one of the reasons for the G&A increase in 2Q2021. Rent expenses also rose to QR1.8mn in 1H2021 from QR1.2mn in 1H2020, which could have contributed to the G&A expansion as well.
- **Higher other income partially compensated higher lower financial expenses.** IGRD's other income rose to QR1.5mn in 2Q2021 by 41.1% QoQ. On the other hand, its financial expenses also rose to QR2.9mn (15.0% YoY/34.6% QoQ), putting pressure on the bottom-line.
- **We continue to like the company as a turnaround story.** Since its IPO, IGRD has been going through a comprehensive restructuring process. The goal of this restructuring is to shift from an investment company to a private equity structure with full management focus on IGRD's subsidiaries. In order to achieve that, IGRD has had notable shifts in its BoD and top management ranks in recent years. The new management appointed after the IPO & the BoD are highly involved in IGRD's subsidiaries, especially in terms of business generation and cost management. The new management is engaged in expanding the product range of the supplies & trading segment with high margin products. Moreover, management is also continuously evaluating cost cutting opportunities, especially in terms of labor force rationalization and rental cost reduction. As a result, IGRD's G&A declined to QR55mn (after adjusting for one-offs) in 2020 from QR75.7mn in 2018. On the M&A front, in 4Q2018, IGRD purchased the remaining 39.6% minority stake in CESCO at QR193.5mn, increasing its stake to 100%.
- **The prospective acquisition of Elegancia is likely to be another step taken by the management to ensure the long-term growth and profitability of the company.** Recently, Investment Holding Group (IGRD) announced that Elegancia Group Holding W.L.L. has submitted a proposal to be acquired by IGRD, through a share-swap. Elegancia Group employs more than 20,000 employees and is engaged in healthcare services, general services, contracting and industrial sectors. Elegancia has also two upcoming hospitals, International Healthcare Center and the View Hospital (the latter with 250 beds to be opened in 2022). Elegancia's healthcare exposure could contribute notably to IGRD, both in terms of profitability and diversification away from the contracting business. IGRD's Board of Directors has initially approved the proposal, and initiated the due-diligence of the target company. Once the study is finalized, it will be presented to IGRD's Extra-ordinary General Assembly for the shareholders' final decision. Elegancia's financials, growth prospects and ultimately the share swap ratio for the deal will be the major catalysts for IGRD shares going forward. **We maintain our Accumulate rating.**

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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