

## IGRD Alert – Revenue In-line, Margins Weighed By Sales Mix; Stay Outperform With QR2.900 Price Target

- In IGRD's maiden set of results as a new entity following its reverse-merger in May, the company reported strong YoY revenue growth of 21.9% to QR1.85bn in 1H2022, largely in line with our estimate of QR1.87bn (-1.1% divergence). 1H2022 net profit increased 3.7% YoY to QR190.6mn, below our expectations with overall gross profit margin shrinking to 14.2% from 16.3% in 1H2021. This is mainly due to an unfavorable sales mix and some costs inflation in the services segment. However, services unit margins are expected to recover in 3Q2022 as contracts in higher-margin services (gabbro) have been secured and should tilt the sales mix more favorably.
- **All divisions showed positive revenue growth:** In 1H2022, contracting and industries segments' revenue rose 49.3% and 41.8% to QR885.5mn (vs estimate QR850.2mn) and QR228.0mn (vs. estimate of QR276.4mn), respectively, on strong orders. Services segment revenue increased 12.0% to QR960.9mn (vs. estimate of QR971.0mn), while the healthcare division made its first top-line contribution of QR17.8mn – healthcare revenue at this stage is only attributed to a long-term military hospital management contract with the government.
- **At the operating level, cost increases – including some one-off items related to the reverse-merger – were more than offset by a jump in “other income”, which absorbed some of the GP margin weakness.** Other income primarily constitutes a subsidy of QR40.0mn related to the group's new Al Maha project (tourism) and is expected to be a recurring item. Group EBITDA margin came in at 12.0% (1H2021: 13.3%).
- **Margins were mixed, but mostly lower than our mode:** Contracting net profit margin came in lower at 4.5% vs 6.7% in 1H21 (our estimate was 5.8%); industries was higher at 6.4% vs 5.7% (our estimate was 3.2%); services at 11.9% was lower compared with 15.8% in 1H21 (our estimate was 16.8%); and healthcare registered a maiden margin of 9.3%. These divisional dynamics support the group's longer-term valuation as the mix of higher-margin segments (services, healthcare and tourism) make an increasing contribution at the top line.
- **Balance sheet fairly solid with some borrowing headroom:** Estithmar's Net D/E ratio has improved from the base period due to injection of equity through the reverse-merger. Despite the heavy capital investment the group is currently going through, the Net D/E ratio stands at 27.0% from 118.7% in 1H2021. However, goodwill has remained high as Elegancia's pre-merger identifiable assets were consolidated at carrying value, with all the implied fair value difference allocated to goodwill.
- **New projects and/or acquisitions lined up in the short-to-medium-term:** The group expects to raise more equity and debt capital to fund expansion projects/new products and acquisitions in its contracting and ventures/tourism segments. Net-net, we expect these initiatives to be earnings accretive.
- **Overall, we remain positive on the stock and maintain our 12M TP of QR2.900 per share, which implies an upside of 20.8%.** Our thesis remains: New high-margin segments (healthcare and tourism) are expected to start contributing to the top line in 4Q2022, while services segment's margins should recover. We expect contracting and industries to finish the year strong as World Cup-related projects wrap up. In the medium-term, we expect the ramp-up in healthcare and tourism segments to offset the slowdown in contracting and industries units

# IGRD Alert – Revenue In-line, Margins Weighed By Sales Mix; Stay Outperform With QR2.900 Price Target

Group	1H21a	FY21e	1H22a	FY22e	FY23e	FY24e
<b>Revenue</b>	<b>1,520.1</b>	<b>3,412.3</b>	<b>1,853.0</b>	<b>4,131.6</b>	<b>4,913.8</b>	<b>5,479.5</b>
<i>Services</i>	857.9	1,615.4	960.9	1,824.6	1,997.9	2,181.5
<i>Industries</i>	160.8	268.3	228.0	389.7	427.8	465.4
<i>Contracting</i>	593.1	1,528.6	885.5	1,619.1	1,715.0	1,799.3
<i>Healthcare</i>	-	-	17.8	141.7	428.3	629.2
<i>Ventures/Tourism</i>	-	-	-	156.6	344.8	404.1
<i>Eliminations</i>	(91.7)	-	(239.3)	-	-	-
<b>Gross Profit</b>	<b>247.5</b>	<b>328.3</b>	<b>263.0</b>	<b>813.0</b>	<b>1,018.7</b>	<b>1,163.3</b>
Other income	9.3	120.8	42.6	-	-	-
G&A expenses	57.3	239.9	81.0	297.4	319.9	327.9
Management fees	2.5	-	9.3	-	-	-
Other expenses	-	-	-	-	-	-
<b>EBITDA</b>	<b>202.4</b>	<b>256.7</b>	<b>222.7</b>	<b>515.6</b>	<b>698.8</b>	<b>835.4</b>
Depreciation & amortization	5.5	47.5	7.4	70.3	87.6	93.7
<b>Operating Profit</b>	<b>196.9</b>	<b>209.2</b>	<b>215.2</b>	<b>445.3</b>	<b>611.2</b>	<b>741.7</b>
Finance costs	15.2	42.8	24.5	73.1	78.4	78.7
Tax	0.2	0.2	0.1	37.2	53.3	66.3
<b>Net Profit</b>	<b>183.9</b>	<b>166.2</b>	<b>190.6</b>	<b>335.0</b>	<b>479.5</b>	<b>596.7</b>
<b>EPS</b>	<b>0.071</b>	<b>0.05</b>	<b>0.065</b>	<b>0.10</b>	<b>0.14</b>	<b>0.18</b>
<b>DPS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.07</b>

# IGRD Alert – Revenue In-line, Margins Weighed By Sales Mix; Stay Outperform With QR2.900 Price Target

Group	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
Property, Plant & Equipment	189.3	892.7	945.9	1,004.8	1,068.7	1,134.4
Investment properties	90.4	73.6	59.9	48.7	39.7	32.3
Intangibles	9.6	11.1	12.8	14.8	16.9	19.1
Goodwill	3,247.4	3,247.4	3,247.4	3,247.4	3,247.4	3,247.4
Right-of-use assets	46.8	49.9	54.5	60.0	65.9	71.9
Financial assets @ FVTPL	31.0	31.0	31.0	31.0	31.0	31.0
<b>Non-current assets</b>	<b>3,614.6</b>	<b>4,305.7</b>	<b>4,351.6</b>	<b>4,406.7</b>	<b>4,469.6</b>	<b>4,536.0</b>
Inventories	437.5	461.1	527.7	579.2	628.6	669.6
Accounts receivable and other debit balances	1,877.6	2,150.7	2,385.9	2,590.2	2,788.8	2,973.4
Contract assets	1,051.6	1,051.6	1,051.6	1,051.6	1,051.6	1,051.6
Cash and bank balances	193.1	116.3	450.3	882.8	1,401.5	2,011.6
<b>Current assets</b>	<b>3,559.8</b>	<b>3,779.7</b>	<b>4,415.4</b>	<b>5,103.8</b>	<b>5,870.5</b>	<b>6,706.1</b>
<b>TOTAL ASSETS</b>	<b>7,174.4</b>	<b>8,085.4</b>	<b>8,767.0</b>	<b>9,510.6</b>	<b>10,340.1</b>	<b>11,242.1</b>
Capital	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0
Legal reserve	50.1	50.1	50.1	50.1	50.1	50.1
Other reserve	3.9	3.9	3.9	3.9	3.9	3.9
Retained earnings	479.8	814.4	1,251.3	1,794.8	2,443.2	3,165.8
<b>Common Equity</b>	<b>3,938.0</b>	<b>4,272.5</b>	<b>4,709.4</b>	<b>5,252.9</b>	<b>5,901.3</b>	<b>6,623.9</b>
Non-controlling interests	4.7	5.1	5.7	6.4	7.2	8.2
<b>Total shareholders' equity</b>	<b>3,942.6</b>	<b>4,277.6</b>	<b>4,715.0</b>	<b>5,259.3</b>	<b>5,908.6</b>	<b>6,632.1</b>
Provision or employees' end of service benefits	97.1	120.0	145.5	165.5	168.8	172.2
Interest bearing loans and borrowings-LT	643.4	959.4	959.4	959.4	959.4	959.4
Loans from related parties	27.8	27.8	27.8	27.8	27.8	27.8
Lease liabilities-LT	35.6	37.9	41.4	45.6	50.1	54.6
<b>Non-current liabilities</b>	<b>803.9</b>	<b>1,145.0</b>	<b>1,174.2</b>	<b>1,198.3</b>	<b>1,206.1</b>	<b>1,214.0</b>
Accounts payable and other credit balances	1,980.2	2,003.5	2,175.3	2,338.8	2,499.6	2,661.5
Interest bearing loans and borrowings-ST	422.6	630.2	630.2	630.2	630.2	630.2
Lease liabilities-ST	11.8	12.6	13.8	15.1	16.6	18.1
Dividend payable	2.1	-	42.1	52.4	62.5	69.7
Bank overdraft	11.1	16.5	16.5	16.5	16.5	16.5
<b>Current liabilities</b>	<b>2,427.8</b>	<b>2,662.7</b>	<b>2,877.8</b>	<b>3,053.0</b>	<b>3,225.5</b>	<b>3,396.0</b>
<b>Total liabilities</b>	<b>3,231.8</b>	<b>3,807.8</b>	<b>4,052.0</b>	<b>4,251.3</b>	<b>4,431.6</b>	<b>4,610.0</b>
<b>EQUITY &amp; LIABILITIES</b>	<b>7,174.4</b>	<b>8,085.4</b>	<b>8,767.0</b>	<b>9,510.6</b>	<b>10,340.1</b>	<b>11,242.1</b>

# IGRD Alert – Revenue In-line, Margins Weighed By Sales Mix; Stay Outperform With QR2.900 Price Target

Group	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
<b>Cash generated from operating activities</b>	<b>230.6</b>	<b>159.9</b>	<b>470.2</b>	<b>635.2</b>	<b>763.5</b>	<b>876.8</b>
Net cash generated from operating activities	208.8	182.7	495.8	655.2	766.8	880.2
Net cash used in investing activities	(284.4)	(759.1)	(116.3)	(129.7)	(142.4)	(151.9)
Net cash generated from financing activities	227.1	513.3	(14.7)	(57.9)	(69.3)	(80.5)
<b>Changes in cash</b>	<b>151.4</b>	<b>(63.1)</b>	<b>364.8</b>	<b>467.6</b>	<b>555.1</b>	<b>647.8</b>

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>	
<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

**Saugata Sarkar, CFA, CAIA**  
 Head of Research  
 +974 4476 6534  
 saugata.sarkar@qnbfs.com.qa

**Shahan Keushgerian**  
 Senior Research Analyst  
 +974 4476 6509  
 shahan.keushgerian@qnbfs.com.qa

**DISCLAIMER:** This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank (“Q.P.S.C.”). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNB FS.