

IGRD Alert – In line 1Q2021 Results; Maintaining Target Price & Accumulate Rating

- **IGRD records 1Q2021 net profits of QR8.1mn in-line with our estimate.** Investment Holding Group (IGRD) reported a net profit of QR8.1mn in 1Q2021 (in-line with our net profit estimate of QR8.3mn, variation: -3%) as compared to a net profit of QR9.7mn in 1Q2020 and net loss of QR3.4mn in 4Q2020. EPS amounted to QR0.010 in 1Q2021 as compared to QR0.012 in 1Q2020.
- **During 1Q2021, the company recorded QR83.3mn in revenue which is flat QoQ and 9.5% higher vs. 1Q2020.** Gross margin was 26.4% in 1Q2021, which was above 1Q2020's 25.0% and 4Q2020's 20.3%. As a result, IGRD's gross profit rose to QR22.0mn from QR16.9mn in 4Q2020 and QR19.0mn in 1Q2020. We think, better market conditions prevailing in 1Q2021, along with moderating coronavirus precautions, brought some of the delayed client orders back, especially in high-margin segments.
- **SG&A maintains its downward trend.** IGRD's 1Q2021 G&A fell by 6.2% YoY to QR12.6mn, which was also below 4Q2020's QR15.5mn as well, once one-time provisions in 4Q2020's G&A was excluded.
- **Lower other income was partially compensated by lower financial income.** IGRD's other income declined to QR1.03mn in 1Q2021 from 1Q2020's high base of QR8.4mn, which had been bolstered by dividends from affiliates and non-recurring items. On the positive side, IGRD's financial expenses also declined to QR2.1mn from QR3.9mn in 1Q2020, as the company managed to reduce its interest costs, benefitting from the lower rates in the local market.
- **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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