

Estithmar Holding (IGRD)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR2.027	Target Price	QR2.310
Implied Upside	14.0%		

1Q2024 Earnings Beat on Lower Corporate Eliminations & Stronger Margins; Stay Accumulate

While IGRD's actual results for 1Q2024 were much better than what we had modeled, it is something we have come to expect as its earnings have been highly volatile, a feature synonymous with new business launches that are still ramping up. Moreover, IGRD's more traditional businesses have also seen considerable volatility as they are still trying to establish a new equilibrium since the end of elevated business activity in the build up to the 2022 World Cup.

The group has also seen several senior management changes in a very short space of time which adds another unpredictability dimension to an already volatile earnings profile. Consequently, we maintain our Accumulate call and TP until we are more confident with the durability of its earnings and margins trend.

Highlights

- In 1Q2024, Estithmar Holding's (IGRD) attributable profit printed above our estimates. Earnings rose 10.4%/147.5% YoY/QoQ to QR111.7mn (vs. estimate of QR86.3mn) as both the top-line and margins came in above our estimates.** We estimate that ~22% of the beat is due to lower ratio of inter-segment/corporate revenue adjustments and ~63% can be attributed to higher margins than modeled – about ~2ppts stronger. GP margin improved to 24.6% from 22.2% in 1Q2023 but lower sequentially from 33.8%. Meanwhile, the operating margin rose to 17.9% from 16.9% in 1Q2023 and 12.1% in 4Q2023 on mostly non-cash items – lower depreciation & amortization charges and a reversal in impairment of financial assets. NP margin improved to 14.1% from 13.4% in 1Q2023 and 6.6% in the previous quarter.
- Group revenue rose 3.9%/15.4% YoY/QoQ to QR796.6mn, above our estimate of QR729.8mn.** Bulk of the top-line variance is due to inter-segment/corporate adjustments coming in lower – the ratio fell to ~9.1% of relevant revenue (services, contracting and ventures) from an average of ~12.9% in the last two years. This could mean lower related-party transactions in future which bodes well for growth of net revenue/earnings. Bar healthcare, all units saw revenue declines YoY. Sequentially, healthcare and contracting & industries units registered revenue increases, while services and ventures saw revenue declines.
- 1Q2024 segment performance shows highly volatile margins: (i) Services segment** revenue declined 7.5%/2.9% YoY/QoQ to QR367.9mn; NP margin improved to 20.6%, up from 14.3% in 1Q2023 and 13.8% in 4Q2023 – it is considerably higher than normal conditions. **(ii) Contracting & industries** revenue declined 19.7% YoY but rose 17.1% QoQ to QR291.2mn. NP margin came in at 4.7% vs. 30.6% in 1Q2023 and -7.6% in 4Q2023. **(iii) Healthcare** revenue climbed 793.9%/18.6% YoY/QoQ to QR153.1mn. NP grew to QR4.9mn from a loss of QR45.3mn in 1Q2023 but it is a decline from QR10.5mn in 4Q2023. We understand the profit emanates from the Operation Management Model hospital while The View is still making losses. **(iv) Ventures'** revenue came in at QR49.1mn down 32.3%/5.0% YoY/QoQ. The YoY revenue trend is concerning – we expected it to continue growing as the underlying assumption is that it is still ramping up. The unit turned in a profit of QR20.7mn from a loss of QR10.7 in 1Q2023 and a small profit of QR1.5mn in 4Q2023. Without government support of QR40mn paid in the 1Q of each year the ventures unit would have recorded a loss during the quarter under review.
- On 23 January IGRD announced the launch of a QR3.4bn sukuk program to fund its international expansion.** We believe the announcement spotlights (i) Maldives (hospitality) and (ii) HAQA (healthcare/Algerian hospital) projects with a combined capex requirement of ~QR2.5bn. These two projects are not yet in our base model as details are still elusive but we estimate, given the available data, they could potentially add ~QR0.37 to IGRD's share price.

Catalysts

- Significant catalysts: (1) Positive sales & operation updates of new healthcare/tourism businesses (2) Opening of Korean Medical Center (KMC) (3) New product launches/offshore expansion (4) Dividend distribution launch**

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain our Accumulate rating and our 12-month TP of QR2.310 implying 14.0% upside potential, using a SoTP weighted-average of the DCF and EBITDA Exit Multiple valuation methods. We continue to like the IGRD model where future growth is geared toward higher-margin sectors of healthcare, tourism and services, which are set to more than offset the slowdown in construction and industries. These growth areas are supported by the macro backdrop where Qatar is striving to reach "advanced economy" status by 2030. Near-term negative base effects and dilution impact could affect the share price adversely, however.
- Key risks:** (1) Dilution risk (2) Execution risk and slow ramping up of new projects (4) Conglomerate discount.

Key Financial Data and Estimates

Group	2023	2024E	2025E	2026E	2027E
EPS (QR)	0.102	0.103	0.159	0.182	0.223
P/E (x)	21.24	19.75	12.77	11.15	9.08
EV/EBITDA (x)	15.77	17.56	12.34	10.53	9.11
DPS (QR)	-	0.05	0.10	0.15	0.19
DY (%)	0.0%	2.5%	4.7%	7.6%	9.4%

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

Key Data

Current Market Price (QR)	2.027
Dividend Yield (%)	0.0
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector*	Industrials
52wk High/52wk Low (QR)	2.414/1.800
3m Average Vol. ('mn)	3.2
Mkt. Cap. (\$'bn/QR'bn)	1.9/6.9
EV (\$'bn/QR'bn)	2.5/9.1
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.5
1-Year Total Return (%)	-3.0
Fiscal Year-End	December 31

Source: Bloomberg (as of April 29, 2024), *Qatar Exchange (as of April 29, 2024); Note: FO is foreign ownership

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1Q2024 IGRD Financial Performance

QR'millions	1Q2023	4Q2023	1Q2024	YoY	QoQ
Revenue	766.77	690.04	796.64	3.9%	15.4%
Services	397.72	378.79	367.86	-7.5%	-2.9%
Contracting & Industries	362.75	248.56	291.17	-19.7%	17.1%
Healthcare	17.13	129.11	153.13	793.9%	18.6%
Ventures/Tourism	72.60	51.72	49.15	-32.3%	-5.0%
Corporate/Eliminations	(83.43)	(118.14)	(64.65)	N.M	N.M
Gross Profit	170.34	232.94	195.71	14.9%	-16.0%
Services	75.00	81.03	89.32	19.1%	10.2%
Contracting & Industries	138.21	17.66	40.71	-70.5%	130.5%
Healthcare	(11.11)	72.34	57.10	N.M	-21.1%
Ventures/Tourism	(32.29)	36.20	8.58	N.M	-76.3%
Corporate/Eliminations	0.52	25.72	(0.00)	N.M	N.M
Net Profit	102.46	45.30	112.50	9.8%	148.3%
Services	56.74	52.11	75.74	33.5%	45.3%
Contracting & Industries	111.17	(18.89)	13.58	-87.8%	N.M
Healthcare	(45.27)	10.48	4.89	N.M	-53.4%
Ventures/Tourism	(10.74)	1.48	20.74	-293.0%	1303.4%
Corporate/Eliminations	(9.43)	0.12	(2.44)	N.M	N.M
Minorities	1.25	0.17	0.80	-35.8%	364.1%
Attributable Profit	101.21	45.13	111.70	10.4%	147.5%

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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