

AAMAL COMPANY (AHCS)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR0.895	Current Target Price	QR0.770
Implied Upside	-14.0%	Old Target Price	QR0.686

Adjusting our 2020/2021 Estimates & Target Price; Maintain MP

COVID-19 precautionary measures and QR74.4mn of net fair value losses on investment properties (vs. none in 1Q2020 and 2Q2019) negatively affected Aamal's 2Q2020 results, leading us to revisit our 2020/2021 estimates. While the industrial segment suffered from margin compression due to intensified competition, Aamal's property segment results were depressed with the waiver of rents for its retail units. AHCS has Qatar's leading pharma & medical device distribution companies in its portfolio. Accordingly, its trading & distribution segment continued to grow especially with increasing orders of medical supplies. Going forward, although Aamal's 2020 results are affected by COVID-19 and oil shocks, we believe its 2021 prospects could be better with the completion of renovation works & expansion in the City Center Mall (CCD) during 2020 and Senyar's new drum and copper factories becoming operational during 1H2021. In 2022, we also think Aamal will be one of the top beneficiaries of FIFA'22 given its property, retail and trading exposures. Qatar aims to increase its number of hospital beds to 5.7k by 2033 from an estimated 4k as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033. With its leading pharma & medical device businesses in place, Aamal is strongly positioned to capture the growth in Qatar's healthcare system. That said, as a general risk factor for all the listed companies, COVID-19 counter-measures could result in lower revenue/margins vs. our assumptions, which could lead us to revisit our EPS forecasts in the coming months.

Highlights

- Aamal Company (AHCS) recorded a net loss of QR62.2mn vs. a net profit of QR85.3mn in 2Q2019 and QR82.5mn as of 1Q2020, below our estimate of QR48.8mn, primarily due to QR74.4mn of net fair value losses on investment properties (vs. none in 1Q2020 and 2Q2019).** Excluding these fair value losses, the company would have reported QR12.2mn in net profits for 2Q2020. Industrial manufacturing and the property segments recorded QR19.1mn and QR48.4mn (ex-fair value losses) in net income in 1H2020, with 51.9% and 58.9% YoY declines, respectively. On the other hand, trading & distribution posted QR65.2mn in net profits with a 19.5% rise YoY.
- 2Q2020 gross profit declined by 58.9% YoY and 60.1% QoQ to QR44.2mn, falling short of our estimate.** Aamal's revenue came in at QR260.0mn in 2Q2020, with a 17.3% decline YoY (-30.5% QoQ). On the other hand, its gross margin decreased from 34.2% in 2Q2019 and 29.6% as of 1Q2020 to 17.0% in 2Q2020. The company stated that its industrial manufacturing segment was impacted by intense price competition which negatively impacted margins, despite new contract wins at Aamal Readymix which increased ready-mix revenue by 40.0% YoY. Regarding the property segment, Aamal waived all rental income payable between mid-March and the end of June 2020 in order to support its tenants, leading to a 58% YoY decline in CCD's rental income. As of 1H2020, Aamal Real Estate recorded a 27% YoY decline primarily due to the closure of Souq Haraj in mid-March while the residential properties portfolio exhibited resilience. On the positive side, Aamal's trading and distribution segment recorded a strong performance, primarily due to Ebn Sina Medical expanding its revenue by 38.9% YoY as of 1H2020. However, the segment's net margin declined slightly in 1H2020 to 14.2% vs. 1H2019's 14.6%. **Meanwhile, 2Q2020 G&A fell 0.8% YoY but rose 10.6% QoQ to QR40.7mn in 2Q2020. 1H2020 G&A was also 11.6% higher YoY.**
- Going forward, Phase 2 of the renovation works at the CCD have been completed, adding an additional 7.1% of leasable space to the mall.** Moreover, the mall's newly dedicated jewelry retail area, the "Gold Souq" is expected to be finished in 4Q2020. By July 15, all retail units in CCD were open, albeit with lower footfalls.
- Following 2Q2020 results, we reduced our FY2020 and 2021 net earnings estimates by 20.3% and 21.0% to QR185.4mn and QR295.8mn, respectively, while we maintained our initial estimates for 2022 and onwards. We have also adjusted our DCF model for the lower risk free rate (falling from 2.5% to 1.4%), which resulted in the increase in our target price.**

Catalysts

1) Lifting of COVID-19 restrictions 2) Opening of CCD's extension & new factories.

Recommendation, Valuation and Risks

- We maintain our Market Perform rating and tweaked our 1-year target price to QR0.770 from QR0.686, which implies a 14.0% downside potential.** Our blended valuation (DCF & multiples) yields a fair value of QR0.770. For relative comparisons, we prefer to utilize AHCS' relative P/E multiples vs. the QSE Index. Due to Aamal's unique business portfolio and its heavy exposure to Qatar, we think an international peer group comparison is not suitable for the name.
- Risks:** 1) Poor visibility on earnings due to the COVID-19 pandemic and 2) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.07	0.05	0.03	0.05
P/E (x)	12.8	17.5	30.4	19.1
EV/EBITDA (x)	15.5	17.3	22.9	22.2
DPS (QR)	0.060	0.040	0.025	0.029
DY (%)	6.1%	4.5%	2.8%	3.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	AHCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	AHCS.QD
ISIN	QA000AONCQB1
Sector	Diversified
52wk High/52wk Low (QR)	0.944/0.501
3-m Avg. Volume (000)	14,689
Mkt. Cap. (\$ bn/QR bn)	1.56/5.7
EV (\$ bn/QR bn)	1.64/6.0
Current FO*/FO limit (%)	1.6%/49%
Shares Outstanding (mn)	6,300.0
1-Year Total Return (%)	27.0%
Fiscal Year End	December 31

Source: Bloomberg (as of September 09, 2020), *Qatar Exchange (as of as of September 08, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Estimates & Revisions (QR000)

QR000	2018	2019	2020e			2021e		
			Current	Previous	%ch.	Current	Previous	%ch.
Gross Profit	1,286,552	1,294,117	1,328,114	1,048,863	26.6%	1,429,134	1,458,300	-2.0%
Operating Income	340,469	292,316	217,606	200,949	8.3%	226,425	317,787	-28.7%
Net Income	445,271	322,267	185,355	232,567	-20.3%	295,809	374,245	-21.0%
EPS	0.07	0.05	0.03	0.04	-20.3%	0.05	0.06	-21.0%
Growth (YoY)	-11.1%	-27.6%	-42.5%	-27.8%		59.6%	60.9%	

Source: Company data, QNB FS Research

Income Statement (QRmn)

	2017	2018	2019	2020e	2021e
Revenue	1,604,237	1,286,552	1,294,117	1,328,114	1,429,134
COGS	1,031,842	802,025	834,124	943,382	1,022,361
Depreciation	26,801	17,331	25,980	26,141	24,724
Gross Profit	545,594	467,196	434,013	358,591	382,049
Marketing and promotion expense	13,303	7,405	6,753	5,402	6,483
SG&A	115,324	109,288	119,902	120,448	134,826
Depreciation	9,899	10,034	15,042	15,135	14,315
Operating Income	407,068	340,469	292,316	217,606	226,425
EBITDA	443,768	367,834	333,338	258,881	265,464
EBITDA Margin %	27.7%	28.6%	25.8%	19.5%	18.6%
Fair value gain loss of control of subsidiaries	22,192	0	0	-74,377	0
Provision Expenses	13,769	2,998	14,516	0	0
Share of profits of equity accounted investees	102,025	100,028	62,265	54,112	83,189
Other Income	20,886	11,415	8,004	5,168	5,427
Total Other Income	131,334	108,445	55,754	-15,097	88,616
Financial Expenses	-15,338	-1,323	-25,939	-17,232	-19,357
Finance Income	3,018	1,150	2,549	1,533	813
Finance Expense	-18,356	-2,473	-28,487	-18,765	-20,169
Net profit before discontinued operations	523,064	447,591	322,131	185,277	295,685
Discontinued operations	0	0	0	0	0
Non controlling interests	-22,148	-2,320	136	78	125
Net Income	500,917	445,271	322,267	185,355	295,809
Net Profit Margin	31.2%	34.6%	24.9%	14.0%	20.7%
Shares Outstanding (mn)	6,300,000	6,300,000	6,300,000	6,300,000	6,300,000
EPS	0.08	0.07	0.05	0.03	0.05
DPS	0.06	0.06	0.04	0.03	0.03

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet (QRmn)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	349,748	605,895	519,317	296,717	288,210
S/T Deposits	0	0	0	0	0
Accounts Receivable & Prepayments	479,824	405,154	413,064	423,915	463,703
Due From Related Parties	134,778	48,964	38,922	39,945	43,694
Other Assets	0	0	0	0	0
Inventories	146,890	171,479	163,980	217,210	240,996
Total Current Assets	1,111,239	1,231,492	1,135,284	977,787	1,036,603
Right of use assets	0	0	84,023	75,570	67,116
Retention and other non current assets	0	6,036	5,712	5,712	5,712
Investment Properties	6,892,215	7,168,590	7,208,114	7,257,415	7,317,415
Investment in Associates	336,063	324,125	294,657	305,234	316,191
Property, Plant & Equipment	330,309	315,912	292,844	308,468	328,201
Non-Current Assets	7,558,587	7,814,663	7,885,350	7,952,399	8,034,637
Total Assets	8,669,826	9,046,155	9,020,634	8,930,186	9,071,240
Short-Term Debt	228,232	85,665	114,720	100,000	220,000
Accounts Payable & Accruals	350,677	353,914	400,470	431,800	473,551
Other Payables	13,622	16,875	13,333	14,666	16,133
Finance lease liability	0	0	16,359	14,723	13,251
Current Liabilities	592,531	456,455	544,882	561,189	722,935
Interest bearing loans and borrowings	5,491	514,888	400,204	368,469	220,970
Long-Term Debt	0	0	68,677	61,809	55,628
Employees end of service benefits	25,259	26,205	26,093	27,398	28,768
Non-Current Liabilities	30,750	541,093	494,974	457,675	305,366
Total Liabilities	623,282	997,547	1,039,856	1,018,865	1,028,301
Total Shareholder's Equity	8,006,864	8,007,437	7,943,647	7,868,871	8,000,489
Minority Interest	39,681	41,170	37,131	42,450	42,450
Liabilities & Shareholder's Equity	8,669,826	9,046,155	9,020,634	8,930,186	9,071,240

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020e	2021e
Growth Rates					
Revenue	(43.3%)	(19.8%)	0.6%	2.6%	7.6%
Gross Profit	(20.2%)	(14.4%)	(7.1%)	(17.4%)	6.5%
EBITDA	(22.5%)	(17.1%)	(9.4%)	(22.3%)	2.5%
EBIT	(22.9%)	(17.5%)	(11.0%)	(23.4%)	3.0%
PAT/EPS	N/M	(11.1%)	(27.6%)	(42.5%)	59.6%
DPS	N/M	0.0%	(33.3%)	(36.7%)	16.5%
Operating Ratios					
Gross Margin	34.0%	36.3%	33.5%	27.0%	26.7%
Gross Margin, Excluding Depreciation & Amortization	34.0%	36.3%	33.5%	27.0%	26.7%
EBITDA Margin	27.7%	28.6%	25.8%	19.5%	18.6%
EBIT Margin	27.0%	27.8%	24.6%	18.4%	17.6%
Net Margin	31.2%	34.6%	24.9%	14.0%	20.7%
Working Capital Ratios					
	17	(154)	(92)	(29)	35
Inventory Days	52	78	72	84	86
Average Collection Period	143	164	186	197	197
Payable Days	126	395	350	310	248
Finance Ratios					
Debt-Equity Ratio	3%	7%	8%	7%	6%
Net Debt-Equity Ratio	-1%	0%	1%	3%	3%
Net Debt-to-Capital	-1%	0%	1%	3%	3%
Net Debt-to-EBITDA	(0.3)	(0.0)	0.2	1.0	0.8
Interest Coverage	23.6	144.7	11.2	13.0	12.5
Return Ratios					
ROIC	5.3%	4.2%	3.7%	2.9%	3.0%
ROE	6.3%	5.6%	4.1%	2.4%	3.7%
ROA	5.8%	4.9%	3.6%	2.1%	3.3%
Liquidity Ratios					
Current Ratio	1.9	2.7	2.1	1.7	1.4
Quick Ratio	1.6	2.3	1.8	1.4	1.1
Valuation					
EV/Sales	3.5	4.4	4.4	4.5	4.1
EV/EBITDA	12.5	15.4	17.3	22.9	22.2
EV/EBIT	12.8	15.9	18.1	24.3	23.5
P/E	11.3	12.7	17.5	30.4	19.1
P/CF	14.7	12.3	22.7	18.4	26.6
P/BV	0.7	0.7	0.7	0.7	0.7
Dividend Yield	5.1%	6.1%	4.5%	2.8%	3.3%

Source: Company data, QNB FS Research

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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