

Estithmar Holding (IGRD)

Recommendation	OUTPERFORM	Risk Rating	R-4
Share Price	QR1.850	Target Price	QR2.350
Implied Upside	27.0%	Old Target Price	QR2.836

Volatile Market Conditions Weigh Down Valuation; Lower Target Price But Remain Outperform

Given a volatile and tougher risky asset pricing regime, we lower our target price for IGRD from QR2.836 to QR2.350 but maintain an Outperform rating. A combination of higher yields coupled with a compression in price multiples has hit not only IGRD's valuation but the entire aggregate market – the QSE Index's trailing PE has declined from 14.1x at end-1H2022 to 12.3x. At our last model revision on 4 September 2022, IGRD's YTD total return stood at 76.2%, while the market was up 16.9%. Both have since deteriorated to 50% and -2.3%, respectively. While IGRD's valuation was primarily affected by the general de-rating of risky asset valuations globally, more specifically, we have also adjusted our occupancy level estimates for The View and KMC, an integral part of IGRD's new healthcare division. Notably, The View eventually met its 4Q target, opening its doors on 18 December. However, this was a delay of more than a month relative to our prior expectations. While we have held the stock in our R-4 risk bucket – implying an above-average risk profile – primarily due to execution risk, we still believe management will deliver on their promise of above-average growth in the short- to medium-term. On an encouraging note, however, IGRD successfully started its touristic operations at Al Maha mid-November in time to take advantage of the World Cup visitor influx.

Highlights

- Weighted group EBITDA multiple is 20.3% lower at 10.7x compared with 13.5x in September during our last model review, while our weighted group WACC has risen from 10.6% to 11.4%.** Meanwhile, we continue to use the EBITDA Exit Multiple (EEM) model as our main valuation model, but over time we will increase the DCF model weight in the valuation as we accumulate more historical financial data from IGRD. Most of the multiple compression occurred in healthcare, services, and leisure divisions, with multiples declining at least 20%.
- Estithmar held an EGM on 27 November 2022 with all agenda items receiving investor approval. We have addressed potential implications in a separate note.** The main agenda items were: (1) to issue up to 50% of additional equity through a combination of private placement (40%) and rights offer (10%), (2) to establish a Shari'a compliant sukuk and/or trust certificates program in an aggregate principal amount of QR3.4bn, (3) an extension period for reducing the ownership stakes by Estithmar's insiders to less than 75% of the issued share capital, and (4) to target a payout ratio of not more than 85%.
- During 3Q2022, IGRD's revenue climbed 44.7% YoY to QR1.18bn vs. our estimate of QR875.8mn, while net profit rose 12.6% to QR99.3mn vs an estimate of QR76.4mn (there are no QoQ comparables).** However, IGRD's NP margin was marginally weaker at 8.4% compared with our forecast of 8.7%. Activity ramped up markedly in 3Q2022 – primarily its contracting segment – as project managers frantically hurried to meet World Cup deadlines and this contributed to the boost in top-line and the slight deterioration in margins. The implication, however, is that the WC-related business is lumpy for IGRD's contracting and industries segments as it brought forward the order book and is unlikely to recur in the short-term – management's 4Q2022 guidance conforms with this assertion.
- In 4Q2022, services segment activity will likely remain elevated due to various WC-related contracts secured to manage stadiums and various facilities that were expected to see a surge in usage.** That should offset some of the slowdown expected in contracting and industries units. In 4Q2022, we expect revenue of QR866.8mn vs. QR1.18bn in 3Q2022, while net profit should print at QR5.6mn from QR99.3mn in 3Q2022 (note there are no YoY comparables). The seemingly uncharacteristic razor-thin NP margin is due to the low/negative margins that we expect to be incurred by the new divisions, healthcare & tourism, operating at reduced capacities in 4Q2022.

Catalysts

- Significant catalysts: (1) Sales & operation updates of The View (Hospital) and Al Maha (Tourism). (2) Announcements of new products/services on the back of recently established equity and sukuk lines of capital**

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain our Outperform rating with a 12-month target of QR2.350 with 27.0% upside potential using SOTP EBITDA Exit Multiple valuation. Our thesis remains the same. We continue to like the new IGRD model with future growth geared towards higher-margin sectors of healthcare, tourism and services, which are set to more than offset the slowdown in construction and industries as the WC-related boom recedes. These growth areas are supported by the macro backdrop where Qatar is striving to reach “advanced economy” status by 2030. This, along with the fact that IGRD's founders are very entrepreneurial, gives us confidence in the prospects of this emerging giant, with more product launches on the horizon.
- Key risks: (1) Dilution risk (2) Execution risk (3) High base set by World Cup-related activities in traditional segments of the business (4) Conglomerate discount (5) Geopolitics (6) Global disease outbreak.**

Key Financial Data and Estimates

Group	FY21e	9M22a	FY22e	FY23e	FY24e
EPS (QR)	0.104	0.097	0.099	0.110	0.155
P/E (x)	17.73	n.m.	18.72	16.84	11.93
EV/EBITDA (x)	16.27	n.m.	15.73	11.48	9.01
DPS (QR)	-	-	-	0.04	0.06
DY (%)	0.0%	0.0%	0.0%	2.4%	3.4%

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

Key Data

Current Market Price	QR1.850
Dividend Yield	0.00%
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector*	Industrials
52wk Share Price High	QR2.765
52wk Share Price Low	QR1.181
3-m Average Vol. ('mil)	9.8
Mkt. Cap. (\$'bn/QR'bn)	1.7/6.3
Shares Outstanding (mn)	3,404.04
FO Limit* (%)	49.0
Current FO* (%)	1.3
1-Year Total Return (%)	44.8
Fiscal Year-End	December 31

Source: Bloomberg (as of December 19, 2022), *Qatar Exchange (as of December 19, 2022); Note: FO is foreign ownership

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Summary Valuation (QR Million)

Group/SoTP	FY22e	FY23e	FY24e	FY25e	FY26e
Revenue	3,901.6	4,586.1	5,105.4	5,619.1	6,131.4
EBITDA	459.9	629.9	802.6	927.0	1,069.3
Operating Profit	365.3	492.9	657.0	772.2	904.7
Tax	0.2	9.8	32.8	54.2	91.0
NOPAT	365.2	483.1	624.2	718.0	813.7
Add D&A	96.0	138.6	147.3	156.6	166.6
Less Capex	167.5	190.8	209.4	228.1	246.9
Less Working Capital Changes	269.7	96.3	78.3	60.2	61.5
FFCF	23.9	334.6	483.8	586.4	671.9
WACC	11.10%	11.62%	11.47%	11.38%	11.37%
FFCF discounted	23.8	330.1	417.6	451.0	461.9
Sustainable Growth Rate	3.3%				

EBITDA Exit Multiple Valuation	
Terminal EBITDA (discounted)	740.7
EV/EBITDA weighted	10.7
Terminal Value	7,944.9
Sum of FCF PV	1,718.8
Implied Fair EV	10,756.6
Net Debt	1,873.5
Minorities	(6.3)
Equity Value	8,889.5
# outstanding shares ('m)	3,404.0
12M Target Share Price	QR2.350
Upside/ (downside)	27.0%

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

Sensitivity Analysis

Equity Value at EBITDA Exit Multiple of:						FV per Share (QR) at EBITDA Exit Multiple of:					
WACC	8.9x	9.9x	10.7x	11.9x	12.9x	WACC	8.9x	9.9x	10.7x	11.9x	12.9x
9.5%	7,450.1	8,387.9	9,342.7	10,314.4	11,303.1	9.5%	1.970	2.218	2.470	2.727	2.988
10.5%	7,214.2	8,126.1	9,054.5	9,999.3	10,960.6	10.5%	1.907	2.148	2.394	2.644	2.898
11.4%	6,986.8	7,873.8	8,889.5	9,695.6	10,630.5	11.4%	1.847	2.082	2.350	2.563	2.811
12.5%	6,767.4	7,630.25	8,508.6	9,402.6	10,312.1	12.5%	1.789	2.017	2.250	2.486	2.726
13.5%	6,555.8	7,395.3	8,250.0	9,119.9	10,004.9	13.5%	1.733	1.955	2.181	2.411	2.645

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

Fair Value Attribution

Segment	Peer Multiple	Exit EBITDA	EV (QR'mn)	Equity (QR'mn)	FV per Share (QR)	% of Total
Healthcare	16.5	164.3	2,250.8	1,845.8	0.542	20.8%
Venture/ Tourism	16.0	147.6	2,076.7	1,356.7	0.399	15.3%
Services	7.7	556.0	4,456.2	4,106.7	1.206	46.2%
Industries	11.6	58.6	564.9	453.7	0.133	5.1%
Contracting	9.8	190.2	1,408.1	966.0	0.284	10.9%
Cash				154.2	0.045	1.7%
Minorities				6.3	0.002	0.1%

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

Consolidate Financial Statements & Forecasts

Income Statement (QR Million)

Group	9M22a	FY22e	FY23e	FY24e	FY25e	FY26e
Revenue	3,034.8	3,901.6	4,586.1	5,105.4	5,619.1	6,131.4
Services	1,557.7	1,921.8	2,114.0	2,320.1	2,541.6	2,779.8
Industries	347.4	456.0	477.8	495.9	509.7	518.9
Contracting	1,416.1	1,771.0	1,873.5	1,950.3	2,030.3	2,113.5
Healthcare	26.9	40.9	197.2	384.6	530.4	692.0
Ventures/Tourism	-	103.3	344.8	404.1	486.4	537.8
Corporate/Eliminations	(313.3)	(391.4)	(421.2)	(449.6)	(479.4)	(510.5)
Gross Profit	422.3	560.7	760.8	930.8	1,054.0	1,177.1
EBITDA	402.5	459.9	629.9	802.6	927.0	1,069.3
Operating Profit	333.9	365.3	493.0	657.1	772.3	904.9
Net Profit	289.0	295.5	373.9	528.1	624.0	723.0
EPS	0.097	0.099	0.110	0.155	0.183	0.212
DPS	-	-	-	0.062	0.073	0.085

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

Balance Sheet (QR Million)

Group	9M22a	FY22e	FY23e	FY24e	FY25e	FY26e
Property, Plant & Equipment	1,440.6	1,881.4	2,065.0	2,133.5	2,211.4	2,298.4
Investment properties	90.8	90.8	90.8	90.8	90.8	90.8
Intangibles	4.6	4.0	4.2	4.6	5.1	5.7
Goodwill	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0
Right-of-use assets	59.0	53.3	57.6	62.6	68.1	74.1
Financial assets @ FVTPL	31.0	31.0	31.0	31.0	31.0	31.0
Retention receivables	53.6	41.7	43.9	45.7	47.6	49.5
Total Non-Current Assets	4,919.6	5,342.2	5,532.5	5,608.1	5,693.9	5,789.4
Inventories	286.9	278.5	322.6	354.2	388.7	422.9
Accounts receivable and other debit balances	1,216.3	1,152.4	1,277.3	1,388.2	1,499.5	1,614.6
Due from related party	713.5	713.5	713.5	713.5	713.5	713.5
Contract assets	833.0	781.3	826.6	860.5	895.7	932.5
Retentions receivable	86.0	66.1	69.6	72.4	75.4	78.5
Cash and bank balances	123.2	62.9	333.0	579.8	870.6	1,202.8
Total Current Assets	3,258.9	3,054.8	3,542.6	3,968.5	4,443.4	4,964.7
TOTAL ASSETS	8,178.5	8,397.0	9,075.1	9,576.7	10,137.2	10,754.1
Capital	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0
Legal reserve	54.9	85.5	122.9	175.7	238.1	310.4
Other reserve	3.9	3.9	3.9	3.9	3.9	3.9
Retained earnings	974.1	949.1	1,136.1	1,400.1	1,712.1	2,073.6
Equity attributable to equity holders of the parent	4,437.0	4,442.6	4,666.9	4,983.8	5,358.1	5,792.0
Non-controlling interests	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)
Total Shareholders' Equity	4,430.7	4,436.3	4,660.6	4,977.5	5,351.9	5,785.7
Provision or employees' end of service benefits	119.7	121.3	157.7	160.8	164.9	159.9
Interest bearing loans and borrowings-LT	805.4	976.3	1,039.6	1,039.6	1,039.6	1,039.6
Loans from related parties	28.6	28.6	28.6	28.6	28.6	28.6
Retentions payable	1.7	1.7	1.7	1.7	1.7	1.7
Lease liabilities-LT	43.8	39.5	42.7	46.4	50.5	55.0
Total Non-Current Liabilities	999.1	1,167.4	1,270.3	1,277.1	1,285.3	1,284.7
Due to related parties	116.9	116.9	116.9	116.9	116.9	116.9
Accounts payable and other credit balances	1,746.9	1,646.9	1,782.7	1,895.1	2,030.7	2,170.4
Contract liabilities	89.6	68.6	71.8	74.7	77.8	81.0
Interest bearing loans and borrowings-ST	493.2	597.9	636.6	636.6	636.6	636.6
Lease liabilities-ST	10.7	9.7	10.5	11.4	12.4	13.5
Dividend payable	-	-	149.6	211.2	249.6	289.2
Bank overdraft	291.4	353.2	376.1	376.1	376.1	376.1
Total Current Liabilities	2,748.7	2,793.3	3,144.2	3,322.1	3,500.1	3,683.7
Total Liabilities	3,747.8	3,960.7	4,414.4	4,599.2	4,785.4	4,968.4
TOTAL SHE & LIABILITIES	8,178.5	8,397.0	9,075.1	9,576.7	10,137.3	10,754.1

Source: Company Data, QNB FS Research

Cash Flow Statement (QR Million)

Group	9M22a	FY22e	FY23e	FY24e	FY25e	FY26e
Cash generated from operating activities	62.7	(15.9)	468.2	613.1	737.6	836.5
Net cash generated from operating activities	5.5	(73.2)	454.9	611.9	736.1	838.3
Net cash used in investing activities	(559.3)	(1,039.0)	(316.8)	(209.7)	(227.7)	(246.0)
Net cash generated from financing activities	543.8	971.6	117.0	(158.2)	(220.4)	(259.3)

Source: Company Data, QNB FS Research;

Key Ratios

Ratios	FY22e	FY23e	FY24e	FY25e	FY26e
PE Ratio	18.7	16.8	11.9	10.1	8.7
PEG Ratio	n.m.	1.5	0.3	0.6	0.5
P/CF	(86.9)	3.0	2.3	1.9	1.7
P/BV	0.31	0.30	0.28	0.26	0.24
Debt-Equity Ratio	45%	46%	43%	40%	37%
Net Debt/Equity	43%	38%	31%	23%	16%
Net Debt-to-Capital	35%	31%	25%	19%	13%
Net Debt/EBITDA	4.2	2.8	1.9	1.3	0.9
Interest Coverage	5.2	4.4	6.5	7.6	8.9
EV/EBITDA	15.7	11.5	9.0	7.8	6.8
EV/Sales	1.9	1.6	1.4	1.3	1.2
EV/EBIT	19.8	14.7	11.0	9.4	8.0
ROIC	6.6%	8.6%	11.0%	12.5%	13.9%
WACC	11.1%	11.6%	11.5%	11.4%	11.4%
ROE	6.9%	8.0%	10.6%	11.6%	12.5%
ROA	3.6%	4.1%	5.5%	6.2%	6.7%
FCF Yield	-4.0%	4.1%	6.3%	7.9%	9.3%
Dividend Yield	0.0%	2.4%	3.4%	4.0%	4.6%
Current Ratio	1.1	1.1	1.2	1.3	1.3
Quick Ratio	1.0	1.0	1.1	1.2	1.2
Inventory Days	30	31	31	31	31
Average Collection Period	108	102	99	97	96
Payable Days	180	170	166	162	160

Source: QNB FS Research

[Ends]

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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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