

Integrated Holding Company

Gradual recovery in equipment utilization to continue in FY 21e. Maintain Buy and raise TP to KWd 517.

- **New project awards in Kuwait/Qatar should drive P&L growth in FY 21e as execution gradually recovers. But COVID restrictions likely to continue to hinder growth in H1 21e.**
- **Revenues dropped 23% in Q4 and -32% in FY 20A on slower execution, but equipment utilization rates continue to gradually recover, up 8pps h/h to 40% in Q4.**
- **We see +29% revenue growth and a reversion to profits in FY 21e. We increase our TP by 20% to KWd 517 and maintain Buy as execution picks up in Kuwait, supported by new growth from Qatar. We expect crane utilization rates to improve to 45% in FY 21e and to 60% in FY 22e, and see accelerated momentum in new project awards in H2 21e.**

4 new projects were secured in 2020, including a contract with Kuwait Oil company for 3 years, a contract with Qatar Petroleum for 5 years, a contract with Qatar Shell GTL Ltd for 5 years, and handling Seaport operations in Kuwait. But the direct impact on revenues remains unclear as execution continues to stall due to COVID restrictions. Integrated Holding is also bidding for a large pipeline of O&G expansions in Qatar (at premium margins to Kuwait projects) to be awarded over the next 5 years. Crane utilization improved to 40% in Q4 2020 from 32% in H1.

Revenues dropped 23% y/y in Q4 and -32% in FY 20A: revenues from equipment leasing (66% of total) dropped 32% in FY 20A on lower crane utilization rates (40% in 20A vs. 50% in 19A and 68% in 18A), while revenues from heavy lift (20% of total) slipped 53% y/y. The company managed to introduce a new business line (oil field services) which constituted 4% of total revenues in FY 20A. Gross margins remain under pressure (12% in Q4 vs. 33% last year) due to lower revenues, while earnings ended in losses due to lower revenues and COVID-related provisions. Revenues remain largely driven in Kuwait (71% of total) vs. 29% in Qatar, and likely to continue to be shifted towards Qatar as contributions from new projects kicks in.

CapEx spending doubled in FY 20A, reaching KWD 17.9m of which KWD 11.6m were invested in Kuwait and KWD 6.3m in Qatar, on new cranes, other equipment, and plant & machinery. New equipment will be used for the newly awarded projects in Kuwait and Qatar. Leverage increased to 23% D/C in FY 20A vs. 17% the year before, while cash balances remain limited at KWD 1.9m in Q4 20A. IHC proposed 15% stock dividends and zero cash dividends for the year 2020.

We increase our TP by 20% to KWd 517 and maintain Buy with 29% upside: we assume 45%/60%/65% crane utilization rate for FY 21/22/23e, yet remaining below FY 18A levels. We use gross margins of 17%/30% in FY 21/22e and 35% in FY 23e+ (vs. 13% in FY 20A). We expect EPS to revert to profits in FY 21e on lower provisioning of receivables and higher revenues. We still see 29% upside at 12x P/E 22e as the market continues to largely price out recovery in equipment utilization rates.

BUY

KWd 517.4

Industrials / Kuwait

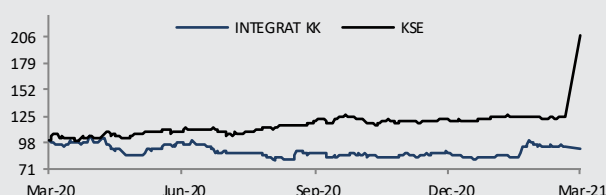
Bloomberg code	INTEGRAT KK
Market index	KSE
Target Price	517.4
Upside (%)	28.7

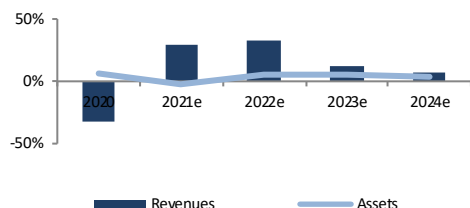
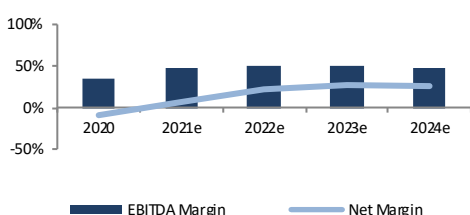
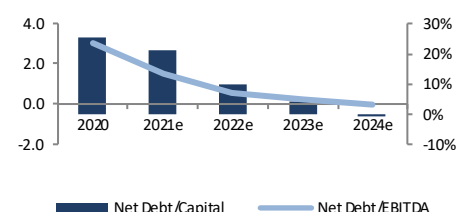
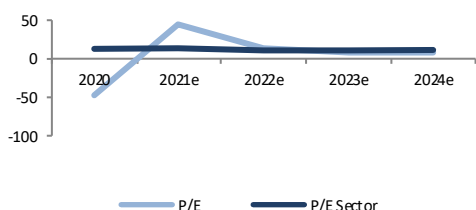
Market data 28/03/2021

Last closing price	402.0
52 Week range	342.0-463.0
Market cap (KWD m)	88
Market cap (USD m)	293
Average Daily Traded Value (KWD m)	468.0
Average Daily Traded Value (USD m)	1,551.5
Free float (%)	64%

Year-end (local m)	2020	2021e	2022e	2023e
Revenues	20	26	34	39
EBITDA	7	12	17	19
Net income	(2)	2	7	10
EPS	(0.01)	0.01	0.03	0.05
EPS growth (%)	(123.5)	(206.4)	260.8	40.2
P/E (current price)	(47.5)	44.6	12.4	8.8
DPS	0.03	-	0.01	0.02
Div. yield (%)	7.5	-	1.6	5.7
FCF/share	-	-	-	-
FCF yield (%)	2.3	(2.6)	26.7	22.4
CAPEX	18	6	7	9
CAPEX/sales (%)	89.1	22.3	19.6	22.0
Net Debt/EBITDA (x)	3.0	1.5	0.5	0.2
EV/EBITDA (x)	19.5	11.0	8.1	7.1
RoAE (%)	(2.9)	3.2	11.0	14.2
RoIC (%)	(2.2)	2.3	7.8	10.4

Price Performance



Abacus
Arqaam Capital Fundamental Data
Profitability

Growth

Gearing

Valuation

Integrated Holding Company

Year-end	2019	2020	2021e	2022e	2023e	2024e
Financial summary						
Reported EPS	0.04	(0.01)	0.01	0.03	0.05	0.05
Diluted EPS	0.04	(0.01)	0.01	0.03	0.05	0.05
DPS	0.04	0.03	-	0.01	0.02	0.03
BVPS	0.31	0.27	0.28	0.31	0.33	0.35
Weighted average shares	220.00	220.00	220.00	220.00	220.00	220.00
Average market cap	88.00	88.00	88.00	88.00	88.00	88.00

Year-end	2019	2020	2021e	2022e	2023e	2024e
Valuation metrics						
P/E (x) (current price)	11.1	(47.5)	44.6	12.4	8.8	8.2
P/E (x) (target price)	14.4	(61.4)	57.7	16.0	11.4	10.7
EV/EBITDA (x) (current price)	8.0	19.5	11.0	8.1	7.1	6.9
EV/EBITDA (x) (target price)	8.0	19.5	11.0	8.1	7.1	6.9
EV/FCF (x)	(21.3)	294.2	(201.7)	14.9	15.8	13.3
Free cash flow yield (%)	(21.7)	2.3	(2.6)	26.7	22.4	24.8
Dividend yield (%)	10.0	7.5	-	1.6	5.7	7.9

Year-end	2019	2020	2021e	2022e	2023e	2024e
Growth (%)						
Revenues	(29.5)	(32.1)	29.1	32.4	12.8	6.9
EBITDA	(41.0)	(59.0)	77.1	35.6	14.1	2.6
EBIT	(50.9)	(112.5)	(350.2)	181.8	35.8	6.4
Net income	(54.2)	(123.5)	(206.4)	260.8	40.2	6.9

Year-end	2019	2020	2021e	2022e	2023e	2024e
Margins (%)						
EBITDA	57.8	35.0	47.9	49.1	49.6	47.6
EBIT	30.1	(5.6)	10.8	23.0	27.6	27.5
Net	26.7	(9.2)	7.6	20.7	25.8	25.8

Year-end	2019	2020	2021e	2022e	2023e	2024e
Returns (%)						
RoAA	8.4	(1.9)	2.0	7.2	9.5	9.7
RoAE	11.4	(2.9)	3.2	11.0	14.2	14.3
RoIC	9.4	(2.2)	2.3	7.8	10.4	10.7
FCF margin	(21.7)	2.3	(2.6)	26.7	22.4	24.8

Year-end	2019	2020	2021e	2022e	2023e	2024e
Gearing (%)						
Net debt/Capital	16.2	25.5	21.4	9.9	4.1	(0.6)
Net debt/Equity	19.9	35.3	29.3	13.2	5.4	(0.8)
Interest cover (x)	17.0	(1.7)	3.5	9.8	13.4	14.2
Net debt/EBITDA (x)	0.8	3.0	1.5	0.5	0.2	-

Abacus *Arqaam Capital Fundamental Data*

Company profile

IHC is a Sharia-compliant company engaged in the business of operational equipment rental, heavy lift, and transportation services, catering mainly to the oil & gas, power and infrastructure sectors. IHC operates primarily through its subsidiaries in Kuwait and Qatar, with plans for further expansion into Oman in the near future. IHC is ranked 3rd globally in number of wheeled mobile cranes, 5th globally in rough terrain cranes, and 6th globally in crawler cranes. IHC holds an equipment fleet size comprising of c.2.2k units that operated at a weighted average utilization rate of 40% in FY 20A.

Ownership and board of directors

Shareholders

Quest Enterprises	17.1%
Jas sim Mus tafa Boodai	6.8%
Saud Abdel Aziz Al Babbain	4.7%
Wafra Investment Co	4.6%
Triple E Holding Company	3.4%
Others	23.4%
New investors	40.0%

Source: Company Data

Board of Directors

Mr Mohammed Al Foz an	Chairman
Mr Jas sim Mus tafa Boodai	ice Chairman & CEO
Mr Saleh Sulaiman Al Huw aidi	Director
Mr Ahmed Hamed Al Hamed	Director
Mr Abdulaz iz Jas im Boodai	Director
Mr Nass er Mohammed Al Fouzan	Director

Source: Company Data

Integrated Holding Company

Year-end	2019	2020	2021e	2022e	2023e	2024e
Income statement (KWD m)						
Sales revenue	30	20	26	34	39	41
Cost of sales	(18)	(18)	(22)	(24)	(25)	(27)
Gross profit	11	3	4	10	14	14
SG&A	-	-	-	-	-	-
EBITDA	17	7	12	17	19	20
Depreciation	(8)	(8)	(10)	(9)	(9)	(8)
EBIT	9	(1)	3	8	11	11
Interest expense	(1)	(1)	(1)	(1)	(1)	(1)
Share of results of associates & JV	-	-	-	-	-	-
Profit before tax	8	(2)	2	7	10	11
Taxes	-	-	-	-	-	-
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	8	(2)	2	7	10	11
Minorities	-	-	1	2	3	4
Net profit (parent)	8	(2)	2	7	10	11
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	8	(2)	2	7	10	11

Year-end	2019	2020	2021e	2022e	2023e	2024e
Balance sheet (KWD m)						
Cash and equivalents	2	2	5	14	19	24
Receivables	17	12	14	14	16	17
Inventories	1	1	1	1	1	1
Tangible fixed assets	73	82	75	71	69	68
Other assets including goodwill	1	2	2	2	2	2
Total assets	93	99	97	102	108	112
Payables	7	13	9	9	9	10
Interest bearing debt	15	23	23	23	23	23
Other liabilities	2	3	3	3	3	3
Total liabilities	25	39	35	34	35	35
Shareholders equity	69	60	62	68	73	77
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	93	99	97	102	108	112

Year-end	2019	2020	2021e	2022e	2023e	2024e
Cash flow (KWD m)						
Cashflow from operations	3	18	5	16	17	19
Net capex	(9)	(18)	(6)	(7)	(9)	(8)
Free cash flow	(6)	-	(1)	9	9	10
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(9)	(7)	-	(1)	(5)	(7)
Net inc/(dec) in borrowings	9	8	-	-	-	-
Other investing/financing cash flows	-	-	-	-	-	-
Net cash flow	(3)	3	1	9	5	5
Change in working capital	(15)	11	(7)	-	(1)	(1)

Mohamad Haidar, CFA

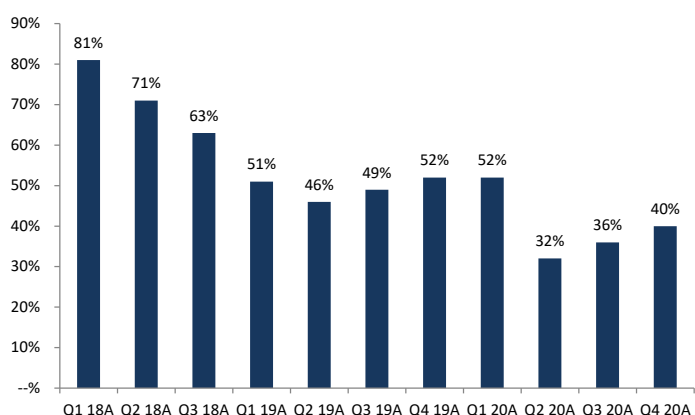
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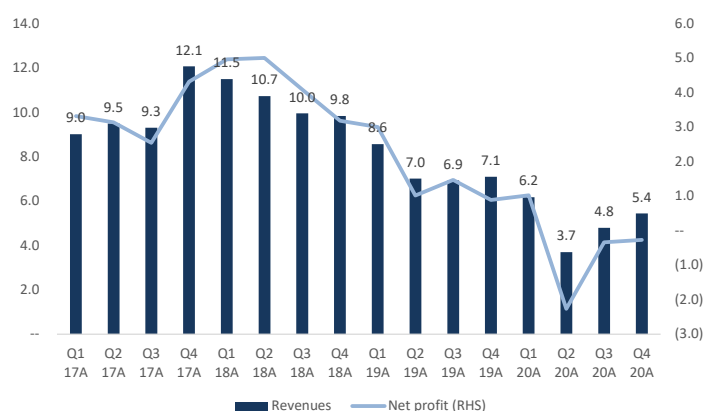
Exhibit 1: Revenue breakdown: -23% y/y in Q4, -32% in FY 20A

Revenues ('000 KWD)	Q3 17A	Q4 17A	Q1 18A	Q2 18A	Q3 18A	Q4 18A	Q1 19A	Q2 19A	Q3 19A	Q4 19A	Q1 20A	Q2 20A	Q3 20A	Q4 20A
Equipment leasing	6,049	7,551	7,481	6,793	6,079	6,645	5,686	4,599	4,310	4,584	4,239	2,561	2,895	3,264
Heavy lift	2,400	3,599	3,206	3,117	3,068	2,305	2,293	1,895	2,145	1,936	1,223	514	877	1,239
Oil field services	--	--	--	--	--	--	--	--	--	--	104	192	271	169
Transportation & others	851	853	808	813	807	839	581	522	477	569	605	431	744	256
Total	9,300	12,003	11,495	10,723	9,954	9,789	8,560	7,016	6,931	7,089	6,171	3,698	4,787	4,928

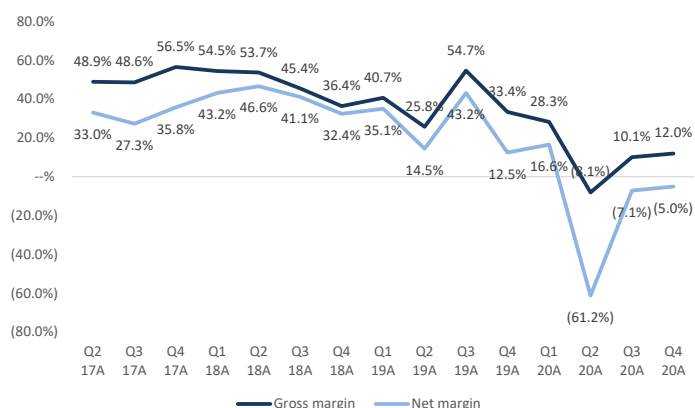
Source: CompanyData, Arqaam Capital Research

Exhibit 1: Crane utilization rates slightly improve in Q4, but remain subdued on major project delays


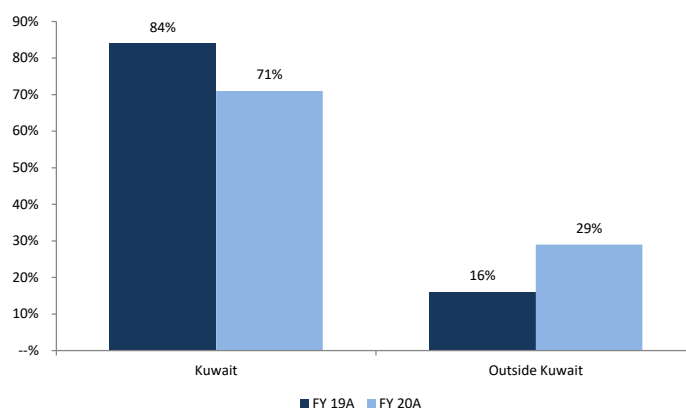
Source: CompanyData, Arqaam Capital Research

Exhibit 2: Revenues and profits show modest signs of improvement in Q4


Source: CompanyData, Arqaam Capital Research

Exhibit 3: Margins substantially diluted in FY 20A on lower revenues


Source: CompanyData, Arqaam Capital Research

Exhibit 4: Revenue breakdown by geography


Source: CompanyData, Arqaam Capital Research

Revenues: KWD 5.44m (-23% y/y, +14% q/q, -9% vs. AC, KWD 5.98m)
Gross profits: KWD 0.65m (-72% y/y, +35% q/q, -44% vs. AC, KWD 1.17m)
EBITDA: KWD 1.93m (-42% y/y, -3% q/q, -34% vs. AC, KWD 2.91m)
Net loss: KWD 0.27m (vs. KWD 0.23m profit ACe)

Exhibit 5: Integrated Holding Q4/FY 20A results

KWD m	Q4 20AAC estimates		Δ	Q4 19A	y/y	Q3 20A	q/q	FY 20A	FY 19A	y/y
Revenues	5.44	5.98	(9.0%)	7.09	(23.3%)	4.79	13.5%	20.09	29.59	(32.1%)
Gross profit	0.65	1.17	(44.1%)	2.37	(72.4%)	0.48	35.4%	2.58	11.46	(77.5%)
EBITDA	1.93	2.91	(33.5%)	3.31	(41.6%)	2.00	(3.3%)	7.02	17.11	(59.0%)
Net income	(0.27)	0.23	(219.0%)	0.89	(130.6%)	(0.34)	(20.4%)	(1.85)	7.90	(123.5%)
Gross margin	12.0%	19.5%	(752bps)	33.4%	(2,138bps)	10.1%	194bps	12.8%	38.7%	(2,587bps)
EBITDA margin	35.6%	48.6%	(1,308bps)	46.7%	(1,110bps)	41.8%	(620bps)	35.0%	57.8%	(2,286bps)
Net margin	(5.0%)	3.8%	(881bps)	12.5%	(1,752bps)	(7.1%)	213bps	(9.2%)	26.7%	(3,592bps)

Source: Company Data, Arqaam Capital Research

Exhibit 6: DCF summary

KWD m unless otherwise stated		FY 20A	FY 21e	FY 22e	FY 23e
EBIT (1-τ)		4.0	4.3	9.0	11.7
Depreciation & Amortization		8.7	8.7	8.1	9.6
EBITDA		12.1	13.9	18.0	20.2
Working Capital Changes		5.7	(2.4)	10.7	(6.6)
Operating Cash Flow		19.4	12.5	22.8	7.3
Purchase of PPE		(10.4)	(17.9)	(5.8)	(6.7)
Free Cash Flow to Firm		8.9	3.7	4.9	1.6
Discount Factor		1.0	1.0	0.9	0.8
PV of Visible FCFF		2.2	--	1.4	9.0
Terminal Value		170			
Equity Valuation			WACC parameters		
PV of Visible FCFF	30	Rf			4.2%
PV of Terminal Value	104	EMRP			7.0%
		Adjusted Beta			1.20
Enterprise Value	137	Cost of Equity			12.6%
Cash & Cash Equivalents	2	Cost of Debt			4.0%
Less: Net (Debt) Funds	(25)	D/C (market)			25.0%
Equity Value	114	WACC			10.5%
NOSH	220				
Equity Value per Share	0.52	Perpetual growth			3.0%

Source: Company Data, Arqaam Capital Research

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