

Company Update May 20 2021

Mohamad Haidar, CFA

mohamad.haidar@arqaamcapital.com +961 3 813486

Integrated Holding Company

Equipment fleet on stand-by pending market reopening. Maintain Buy and KWd 517 TP.

- Flat q/q revenues on steady-slow crane utilization rates due to travel restrictions hindering the availability of manpower. New Port project commence in Kuwait, but expansions are yet to materialize in Qatar.
- Company reverts to profits in Q1 21A after 3 quarters of losses thanks to a +440bps sequential growth in GPm due to equipment utilization mix.
 But equipment rental rates remain pressured on continued project delays and high competition.
- Utilization rates can grow to 60% in FY 23e from 41% in Q1 21A as execution picks up in Kuwait starting in H2, supported by new growth from Qatar on which CapEx is already deployed. We maintain Buy and KWD 0.52 TP with 23% upside at 13x FY 22e EPS.

EPS reverts to profits, but revenues remain flattish q/q: Q1 registered a net profit of KWD 126k after 3 quarters of losses that were driven by weak equipment utilisation rates and provisions. Revenues dropped 14% y/y in Q1 and -2% q/q and remain largely driven by equipment leasing (66% of total, -24% y/y) followed by revenues from heavy lift (23% of total, +1% y/y). The company introduced a new business line (Kuwait Port Operations) which contributed 4% to total revenues in Q1 21A. Gross margin improved 441bps q/q to 16.4% due to equipment mix but remain -12ppt y/y on lower top-line. Revenues from Kuwait dropped to 67% of total (vs. 81% last year) compared to 33% in Qatar due to travel restrictions leading to a shortage in manpower in Kuwait, as well as a slowdown in project execution and delays in new projects in Kuwait and Qatar.

Minimal CapEx spending of KWD 1.2m in Q1 21A, and namely in Qatar after the company added most of the expansion equipment in FY 20A (KWD 18m). Leverage remained flat q/q and y/y at 22% D/C in Q1 21A, while the cash balance marginally improved q/q to KWD 2.5m. IHC approved a 15% stock dividend to be implemented in June 2021.

Recap of 2020 project awards: 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.

We maintain Buy and KWd 517 TP with 23% upside: Crane utilization rates improved to 41% in Q1 from 32% in H1 2020 but remain well below historical average. We assume 45%/60%/65% crane utilization rates in 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 remain in profits in FY 21e on lower provisioning of receivables and higher revenues. We still see 23% upside at 13x P/E 22e as the market continues to largely price out a recovery in equipment utilization rates.

BUY

KWd 517.4

Industrials / Kuwait

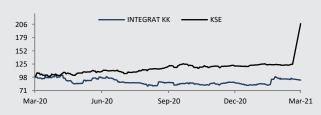
Bloomberg code	INTEGRAT KK
Market index	KSE
Target Price	517.4
Upside (%)	22.7

Market data 20/05/2021

Last closing price	420.0
52 Week range	342.0-463.0
Market cap (KWD m)	92
Market cap (USD m)	308
Average Daily Traded Value (KWD m)	468.0
Average Daily Traded Value (USD m)	1,551.5
Free float (%)	64%

2020	2021e	2022e	2023e
20	26	34	39
7	12	17	19
(2)	2	7	10
(0.01)	0.01	0.03	0.05
(123.5)	(206.4)	260.8	40.2
(47.5)	44.6	12.4	8.8
0.03	-	0.01	0.02
7.5	-	1.6	5.7
-	-	-	-
2.3	(2.6)	26.7	22.4
18	6	7	9
89.1	22.3	19.6	22.0
3.0	1.5	0.5	0.2
19.5	11.0	8.1	7.1
(2.9)	3.2	11.0	14.2
(2.2)	2.3	7.8	10.4
	20 7 (2) (0.01) (123.5) (47.5) 0.03 7.5 - 2.3 18 89.1 3.0 19.5 (2.9)	20 26 7 12 (2) 2 (0.01) 0.01 (123.5) (206.4) (47.5) 44.6 0.03 - 7.5 - 2.3 (2.6) 18 6 89.1 22.3 3.0 1.5 19.5 11.0 (2.9) 3.2	20 26 34 7 12 17 (2) 2 7 (0.01) 0.01 0.03 (123.5) (206.4) 260.8 (47.5) 44.6 12.4 0.03 - 0.01 7.5 - 1.6 - - - 2.3 (2.6) 26.7 18 6 7 89.1 22.3 19.6 3.0 1.5 0.5 19.5 11.0 8.1 (2.9) 3.2 11.0

Price Performance



© Copyright 2021, Arqaam Capital Limited. All Rights Reserved. See Important Notice.



Arqaam Capital Fundamental **Abacus**

Data

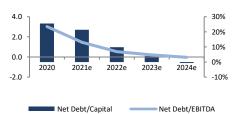
Profitability



Growth



Gearing



Valuation



Integrated Holding Company

Year-end	2019	2020	2021 e	2022 e	2023 e	2024 e
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	2021 e	2022 e	2023 e	2024 e
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	2023 e	2024 e
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	2023 e	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	2021 e	2022 e	2023 e	2024 e
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	2021 e	2022 e	2023 e	2024 e
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 Argaam 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%
Jassim Mustafa Boodai	6.8%
Saud Abdel Aziz Al Babtain	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 Fozan	Chairman
Mr Jassim Mustafa Boodai	ice Chairman & CEO
Mr Saleh Sulaiman Al Huw aidi	Director
Mr Ahmad Hamad Al Hamad	Director
Mr Abdulaziz Jasim Boodai	Director
Mr Nasser Mohammed Al Fouzan	Director

Source: Company Data

ntegrated	Holding	Company
megrateu	110101112	Company

2019	2020	2021 e	2022 e	2023 e	2024 e
30	20	26	34	39	41
(18)	(18)	(22)	(24)	(25)	(27)
11	3	4	10	14	14
-	-	-	-	-	-
17	7	12	17	19	20
(8)	(8)	(10)	(9)	(9)	(8)
9	(1)	3	8	11	11
(1)	(1)	(1)	(1)	(1)	(1)
-	-	-	-	-	-
8	(2)	2	7	10	11
-	-	-	-	-	-
-	-	-	-	-	-
8	(2)	2	7	10	11
-	-	1	2	3	4
8	(2)	2	7	10	11
-	-	-	-	-	-
8	(2)	2	7	10	11
	30 (18) 11 - 17 (8) 9 (1) - 8 - 8 - 8	30 20 (18) (18) 11 3 17 7 (8) (8) 9 (1) (1) (1) 8 (2) 8 (2) 8 (2)	30 20 26 (18) (18) (22) 11 3 4 17 7 12 (8) (8) (10) 9 (1) 3 (1) (1) (1) 8 (2) 2 8 (2) 2 18 (2) 2 18 (2) 2	30 20 26 34 (18) (18) (22) (24) 11 3 4 10 17 7 12 17 (8) (8) (10) (9) 9 (1) 3 8 (1) (1) (1) (1) (1) 8 (2) 2 7 8 (2) 2 7 1 2 8 (2) 2 7	30 20 26 34 39 (18) (18) (22) (24) (25) 11 3 4 10 14 17 7 12 17 19 (8) (8) (10) (9) (9) 9 (1) 3 8 11 (1) (1) (1) (1) (1) 8 (2) 2 7 10 8 (2) 2 7 10 1 2 3 8 (2) 2 7 10 1 2 3 8 (2) 2 7 10

Year-end	2019	2020	2021e	2022 e	2023 e	2024 e
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	2021 e	2022 e	2023 e	2024 e
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

mohamad.haidar@arqaamcapital.com +961 3 813486



Revenues ('000 KWD)	Q1 18A	Q2 18A	Q3 18A	Q4 18A	Q1 19A	Q2 19A	Q3 19A	Q4 19A	Q1 20A	Q2 20A	Q3 20A	Q4 20A	Q1 21A
Equipment leasing	7,481	6,793	6,079	6,645	5,686	4,599	4,310	4,584	4,239	2,561	2,895	3,264	3,224
Heavy lift	3,206	3,117	3,068	2,305	2,293	1,895	2,145	1,936	1,223	514	877	1,239	1,230
Oil field services									104	192	271	169	213
Transportation & others	808	813	807	839	581	522	477	569	605	431	744	256	413
Stevedoring Operations													237
Total	11,495	10,723	9,954	9,789	8,560	7,016	6,931	7,089	6,171	3,698	4,787	4,928	5,317

Source: Company Data, Arqaam Capital Research

Exhibit 1: Crane utilization rates marginally improve q/q in Q1, but remain subdued on major project delays

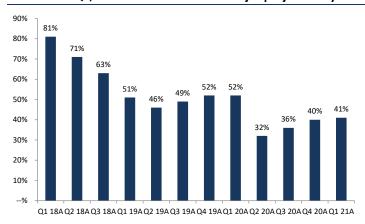


Exhibit 2: Bottom-line reverts to profits amid flat revenues in Q1 21A



Source: Company Data, Arqaam Capital Research

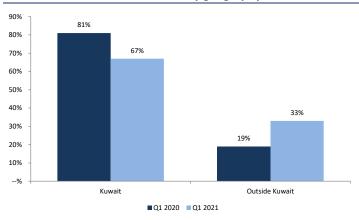
Source: Company Data, Arqaam Capital Research

Exhibit 3: Company reverts to profits in Q1 21A



Source: Company Data, Arqaam Capital Research

Exhibit 4: Revenue breakdown by geography



Source: Company Data, Arqaam Capital Research



Revenues: KWD 5.32m (-14% y/y, -2% q/q, -3% vs. AC, KWD 5.49m) **Gross profits**: KWD 0.87m (-50% y/y, +34% q/q, -3% vs. AC, KWD 0.9m) **EBITDA**: KWD 2.20m (-23% y/y, +14% q/q, -4% vs. AC, KWD 2.30m)

Net profit: KWD 0.13m (-88% y/y, -58% vs. AC)

Exhibit 5:	INTEGRAT KK	Q1 21A res	ults				
KWD m	Q1 21AAC	estimates	Δ	Q1 20A	у/у	Q4 20A	q/q
Revenues	5.32	5.49	(3.2%)	6.17	(13.9%)	5.44	(2.2%)
Gross profit	0.87	0.90	(3.0%)	1.74	(49.9%)	0.65	33.7%
EBITDA	2.20	2.30	(4.4%)	2.85	(22.8%)	1.93	13.7%
Net income	0.13	0.30	(58.0%)	1.02	(87.7%)	(0.27)	(146.4%)
Gross margin	16.4%	16.4%	3bps	28.3%	(1,183bps)	12.0%	441bps
EBITDA margi	n 41.4%	41.9%	(54bps)	46.1%	(479bps)	35.6%	580bps
Net margin	2.4%	5.5%	(309bps)	16.6%	(1,419bps)	(5.0%)	737bps

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		WA	CC paramete	rs	
PV of Visible FCFF	30	Rf			4.2%
PV of Terminal Value	104	EIV	IRP		7.0%
		Ad	justed Beta		1.20
Enterprise Value	137	Cos	t of Equity		12.6%
Cash & Cash Equivalents	2	Cos	t of Debt		4.0%
Less: Net (Debt) Funds	(25)	D/C	(market)		25.0%
Equity Value	114	WA	ıcc		10.5%
NOSH	220				
Equity Value per Share	0.52	Per	petual growth		3.0%

Source: Company Data, Arqaam Capital Research



Important Notice

1. Author, regulator and responsibility

Arqaam Capital Limited ("Arqaam") is incorporated in the Dubai International Financial Centre ("DIFC") and is authorised and regulated by the Dubai Financial Services Authority ("DFSA") to carry on financial services in and from the DIFC. Arqaam publishes and distributes (i.e. issues) all research.

Argaam Capital Research Offshore s.a.l. is a specialist research centre in Beirut, Lebanon, which assists in the production of research issued by Argaam.

2. Purpose

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Arquam did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives.

3. Rating system

Arqaam investment research is based on the analysis of regional and country economics, industries and company fundamentals. Arqaam company research reflects a long-term (12-month) fair value target for a company or stock. The ratings bands are:

Buy	Total return >15%
Hold	0-15%
Sell	Total return <0%

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Arqaam policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Arqaam's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Arqaam clients.

4. Accuracy of information

The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is accurate or complete and it should not be relied upon as such. Any mention of market rumours has been derived from the markets and is not purported to be fact or reflect our opinions. Argaam has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. In accordance with Regulation AC of the 1934 Exchange Act, the views expressed in this research report accurately reflect the research analysts' personal views about the subject securities or issuers and are subject to change without notice. No part of the research analysts' compensation is related to the specific recommendations or views in the research report.

5. Recipients and sales and marketing restrictions

- 5.1 Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service.
- 5.2 This document is directed at Professional Clients and not Retail Clients within the meaning of DFSA rules. Any investments or financial products referred to herein will only be made available to clients who Arqaam is satisfied qualifies as Professional Clients. Any other persons in receipt of this document must not rely upon or otherwise act upon it.
- 5.3 This document is only being distributed to investors who meet certain qualifications and to whom an investment or service may be offered or promoted in accordance with relevant country restrictions. This excludes the US except for SEC registered broker-dealers (or banks in permissible "broker" or "dealer" capacity) acting on a principal or agency capacity, and major US institutional investors in accordance with SEC Rules 15a-6(a)(2). Details of other relevant country restrictions are set out on our website at http://www.arqaamcapital.com/english/system/footer/terms-of-use.aspx. Persons into whose possession this document comes are required to inform themselves about, and observe, such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorisation, registration or other legal requirements.

6. Risk warnings

- 6.1 Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected.
- 6.2 The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).
- 6.3 Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgement. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance.
- 6.4 Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.
- 6.5 This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

7. Conflic

- 7.1 Arqaam and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document.
- 7.2 Argaam may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document.
- 7.3 Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Arqaam business areas, including investment banking personnel.
- 7.4 Emirates NBD PJSC owns 8.32% of Arqaam.
- 7.5 The report on IHC is a commissioned piece, for which Arqaam Capital has been remunerated.

8. No warranty

Arqaam makes no representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, merchantability, fitness for a particular purpose and/or non-infringement.

9. No liability

Arqaam will accept no liability in any event including (without limitation) negligence for any damages or loss of any kind, including (without limitation) direct, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.

10. Copyright and Confidentiality

The entire content of this document is subject to copyright with all rights reserved and the information is private and confidential for your own personal use only. This document and the information contained herein may not be reproduced, distributed or transmitted to any other person or incorporated in any way into another document or other material without our prior written consent.

11. Governing law

English law governs this document and these disclaimers and any dispute in relation thereto shall be exclusively referred to the English Courts.