

Integrated Holding Company

Equipment fleet on stand-by pending market re-opening. 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

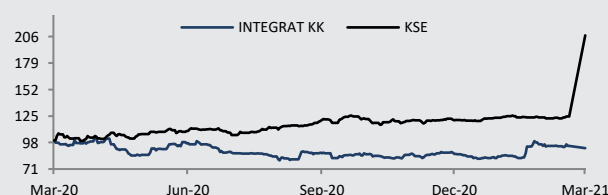
Bloomberg code	INTEGRAT KK
Market index	KSE
Target Price	517.4
Upside (%)	22.7

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%

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

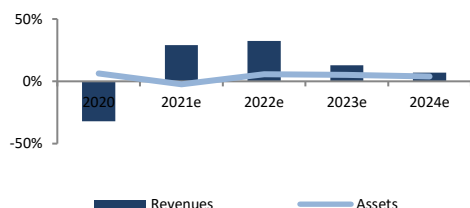
Price Performance



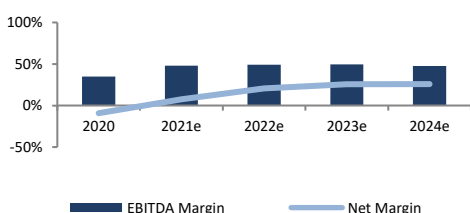
Abacus

Arqaam Capital Fundamental Data

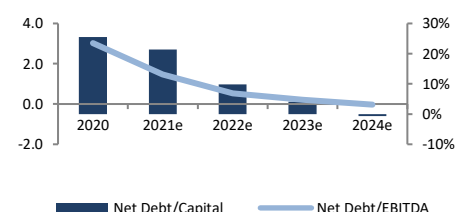
Profitability



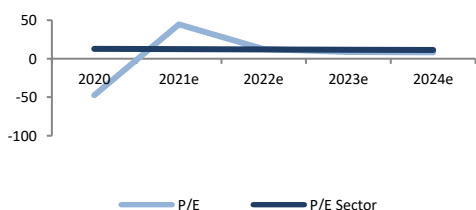
Growth



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%
Jassim Mustafa 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 Fozan	Chairman
Mr Jassim Mustafa Boodai	ice Chairman & CEO
Mr Saleh Sulaiman Al Huwaidi	Director
Mr Ahmad Hamad Al Hamad	Director
Mr Abdulaziz Jasim Boodai	Director
Mr Nasser 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)

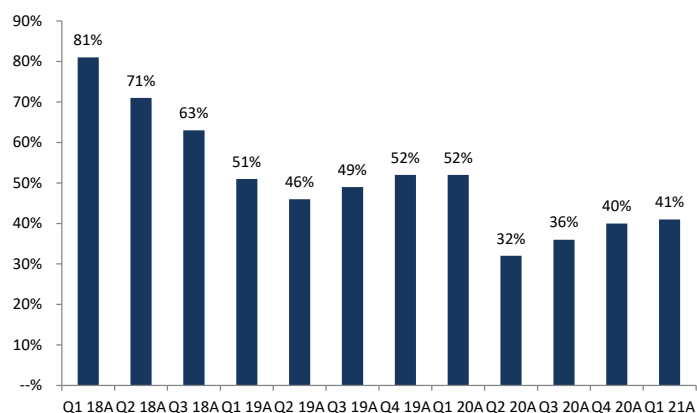
Mohamad Haidar, CFA

mohamad.haidar@arqaamcapital.com
+961 3 813486

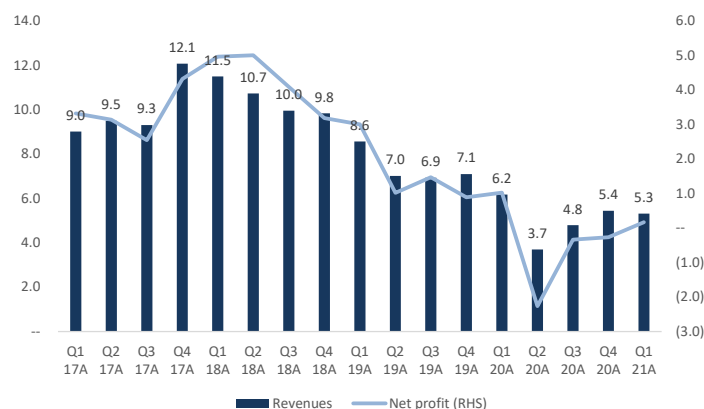
Exhibit 1: INTEGRAT KK revenue breakdown: new business line introduced in Q1 21A reflecting Port Operations in Kuwait

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

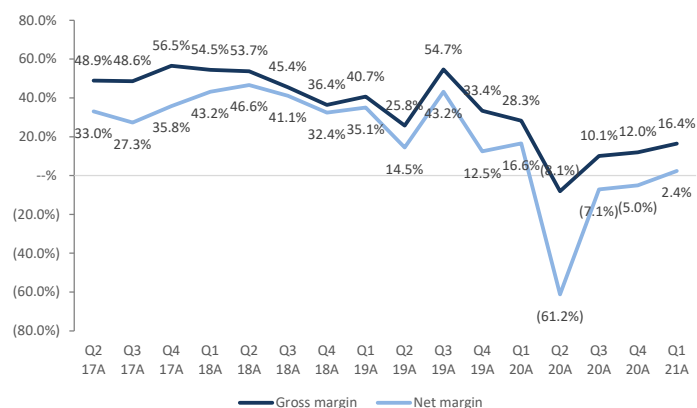
Source: Company Data, Arqaam Capital Research

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


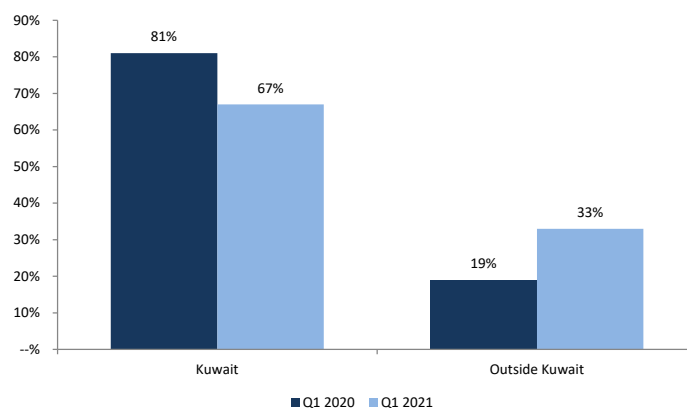
Source: Company Data, Arqaam Capital Research

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


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 results

KWD m	Q1 21AAC estimates		Δ	Q1 20A	y/y	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 margin	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			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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