

Integrated Holding Company

Flat q/q performance in Q2 pending recovery in FY 22e. Maintain Buy.

- P&L unchanged q/q on flat crane utilization rates due to travel restrictions hindering the availability of manpower. Revenues from the Port operations ramp up in Kuwait, but expansions are yet to materialize.
- Earnings show a small q/q increase in Q2 due to higher gross margins, but strongly improves from net losses last year.
- We expect a swift recovery in Kuwait as travel restrictions are eased. Utilization rates can grow to 60% in FY 23e from 40% in H1 21A, supported by new growth from Qatar on which CapEx is already deployed. We maintain Buy and tweak TP to KWD 475 with 28% upside at 15x FY 22e EPS.

Flat q/q P&L in Q2: Q2 showed a slight improvement in net profit to KWD 220k, recovery from net losses last year. Revenues improved 52% y/y in Q2 and +6% q/q but remain impacted by subdued equipment utilization rates in Kuwait which remain unchanged at 40% in Q2. Revenues were largely driven by equipment leasing (59% of total, +30% y/y) followed by revenues from heavy lift (15% of total, +15% y/y). The company introduced a new business line (Stevedoring Port Operations) which contributed 13% to total revenues in Q2 21A. Gross margin continues to improve sequentially to 20.1% in Q2 (+372bps q/q) due to revenue mix, recovering from gross losses last year. Revenues from Kuwait dropped to 66% of total (vs. 80% last year) compared to 34% 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 1.4m in H1 21A, and namely in Qatar after the company added most of the expansion equipment in FY 20A (KWD 18m). Leverage remained flat q/q at 22% D/C in Q2 21A, while the cash balance marginally improved q/q to KWD 4.2m. Utilisation rates reached 40% for cranes in Q2, 32% for moving equipment, and 57% for Boom trucks.

Recap of recent 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. IHC is also bidding for port operations in Shuaiba Port and Shuwaikh Port in Kuwait. 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 tweak our TP to KWD 475 with 28% upside: Crane utilization rates improved to 40% in H1 but remain well below historical average. We assume 41%/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 FY 21e to end in profits (compared to net losses in FY 20A) on lower provisioning of receivables and higher revenues. We still see 28% upside at 15x P/E 22e as the market continues to largely price out a recovery in equipment utilization rates.

BUY

KWD 474.6

Industrials / Kuwait

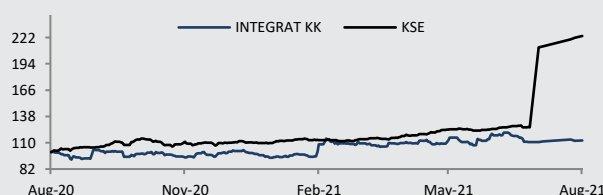
Bloomberg code	INTEGRAT KK
Market index	KSE
Target Price	474.6
Upside (%)	28.3

Market data 10/08/2021

Last closing price	370.0
52 Week range	297.4-399.0
Market cap (KWD m)	94
Market cap (USD m)	311
Average Daily Traded Value (KWD m)	456.0
Average Daily Traded Value (USD m)	1,513.6
Free float (%)	63%

Year-end (local m)	2020	2021e	2022e	2023e
Revenues	20	22	32	36
EBITDA	7	12	16	18
Net income	(2)	1	6	9
EPS	(0.01)	0.01	0.03	0.04
EPS growth (%)	(123.5)	(165.9)	418.1	43.2
P/E (current price)	(43.5)	66.0	12.7	8.9
DPS	0.03	-	-	0.02
Div. yield (%)	7.1	-	0.9	4.8
FCF/share	-	-	-	-
FCF yield (%)	2.3	(1.8)	26.3	22.2
CAPEX	18	6	7	8
CAPEX/sales (%)	89.1	25.7	21.2	23.4
Net Debt/EBITDA (x)	3.0	1.5	0.6	0.2
EV/EBITDA (x)	19.6	11.8	8.6	7.5
RoAE (%)	(2.9)	2.0	9.9	13.1
RoIC (%)	(2.2)	1.4	7.0	9.6

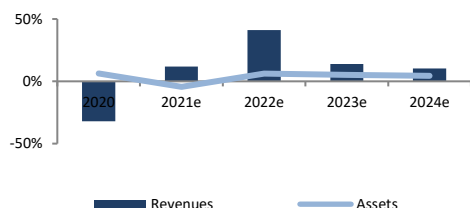
Price Performance



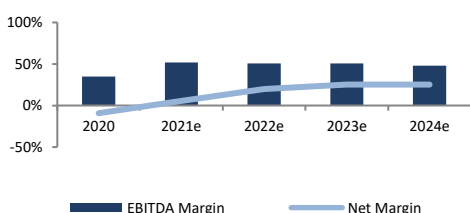
Abacus

Arqaam Capital Fundamental Data

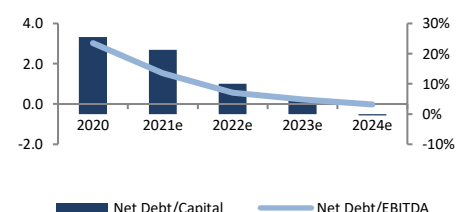
Profitability



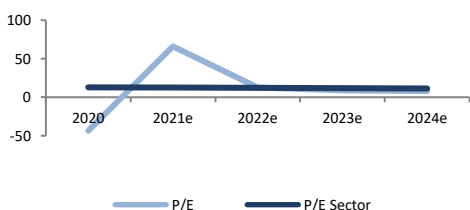
Growth



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	0.04	0.05
Diluted EPS	0.04	(0.01)	0.01	0.03	0.04	0.05
DPS	0.04	0.03	-	-	0.02	0.03
BVPS	0.31	0.27	0.28	0.30	0.32	0.34
Weighted average shares	220.00	220.00	220.00	220.00	220.00	220.00
Average market cap	80.74	80.74	80.74	80.74	80.74	80.74

Year-end	2019	2020	2021e	2022e	2023e	2024e
Valuation metrics						
P/E (x) (current price)	10.2	(43.5)	66.0	12.7	8.9	8.0
P/E (x) (target price)	13.2	(56.3)	85.4	16.5	11.5	10.4
EV/EBITDA (x) (current price)	8.0	19.6	11.8	8.6	7.5	7.2
EV/EBITDA (x) (target price)	8.0	19.6	11.8	8.6	7.5	7.2
EV/FCF (x)	(21.5)	295.8	(338.4)	16.5	17.1	14.3
Free cash flow yield (%)	(21.7)	2.3	(1.8)	26.3	22.2	24.2
Dividend yield (%)	9.5	7.1	-	0.9	4.8	6.8

Year-end	2019	2020	2021e	2022e	2023e	2024e
Growth (%)						
Revenues	(29.5)	(32.1)	11.9	41.0	13.9	10.2
EBITDA	(41.0)	(59.0)	66.5	37.3	13.8	4.1
EBIT	(50.9)	(112.5)	(283.9)	245.7	38.1	9.7
Net income	(54.2)	(123.5)	(165.9)	418.1	43.2	10.6

Year-end	2019	2020	2021e	2022e	2023e	2024e
Margins (%)						
EBITDA	57.8	35.0	52.0	50.6	50.6	47.8
EBIT	30.1	(5.6)	9.1	22.4	27.2	27.0
Net	26.7	(9.2)	5.4	20.0	25.1	25.2

Year-end	2019	2020	2021e	2022e	2023e	2024e
Returns (%)						
RoAA	8.4	(1.9)	1.3	6.5	8.8	9.3
RoAE	11.4	(2.9)	2.0	9.9	13.1	13.7
RoIC	9.4	(2.2)	1.4	7.0	9.6	10.2
FCF margin	(21.7)	2.3	(1.8)	26.3	22.2	24.2

Year-end	2019	2020	2021e	2022e	2023e	2024e
Gearing (%)						
Net debt/Capital	16.2	25.5	21.2	10.0	4.3	(0.4)
Net debt/Equity	19.9	35.3	29.3	13.5	5.8	(0.6)
Interest cover (x)	17.0	(1.7)	2.6	8.9	12.3	13.4
Net debt/EBITDA (x)	0.8	3.0	1.5	0.6	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	22	32	36	40
Cost of sales	(18)	(18)	(18)	(22)	(23)	(26)
Gross profit	11	3	4	10	13	14
SG&A	-	-	-	-	-	-
EBITDA	17	7	12	16	18	19
Depreciation	(8)	(8)	(10)	(9)	(8)	(8)
EBIT	9	(1)	2	7	10	11
Interest expense	(1)	(1)	(1)	(1)	(1)	(1)
Share of results of associates & JV	-	-	-	-	-	-
Profit before tax	8	(2)	1	6	9	10
Taxes	-	-	-	-	-	-
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	8	(2)	1	6	9	10
Minorities	-	-	1	2	3	4
Net profit (parent)	8	(2)	1	6	9	10
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	8	(2)	1	6	9	10

Year-end	2019	2020	2021e	2022e	2023e	2024e
Balance sheet (KWD m)						
Cash and equivalents	2	2	5	14	19	24
Receivables	17	12	12	13	15	16
Inventories	1	1	1	1	1	1
Tangible fixed assets	73	82	75	71	69	67
Other assets including goodwill	1	2	2	2	2	2
Total assets	93	99	95	100	106	110
Payables	7	13	8	8	8	9
Interest bearing debt	15	23	23	23	23	23
Other liabilities	2	3	3	3	3	3
Total liabilities	25	39	33	34	34	35
Shareholders equity	69	60	61	67	71	75
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	93	99	95	100	106	110

Year-end	2019	2020	2021e	2022e	2023e	2024e
Cash flow (KWD m)						
Cashflow from operations	3	18	5	15	16	18
Net capex	(9)	(18)	(6)	(7)	(8)	(8)
Free cash flow	(6)	-	-	8	8	10
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(9)	(7)	-	(1)	(4)	(6)
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	(6)	(1)	(1)	(1)

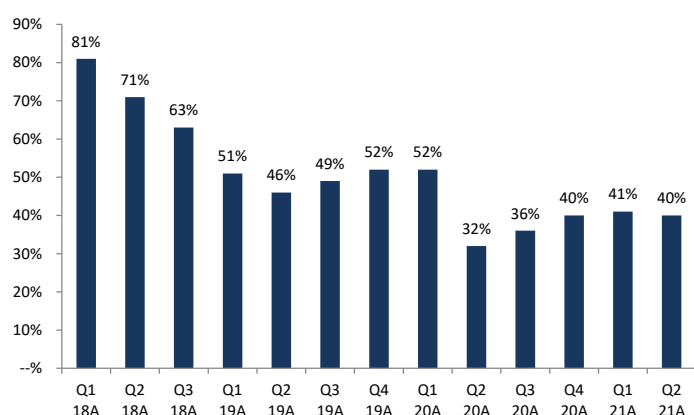
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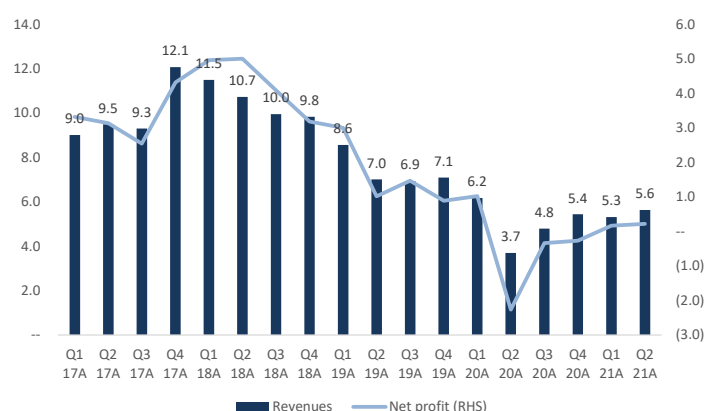
Exhibit 1: INTEGRAT KK revenue breakdown: new business line introduced in Q1 21A reflecting Port Operations in Kuwait

Revenues ('000 KWD)	Q2 18A	Q3 18A	Q4 18A	Q1 19A	Q2 19A	Q3 19A	Q4 19A	Q1 20A	Q2 20A	Q3 20A	Q4 20A	Q1 21A	Q2 21A
Equipment leasing	6,793	6,079	6,645	5,686	4,599	4,310	4,584	4,239	2,561	2,895	3,264	3,224	3,335
Heavy lift	3,117	3,068	2,305	2,293	1,895	2,145	1,936	1,223	514	877	1,239	1,230	820
Oil field services	--	--	--	--	--	--	--	104	192	271	169	213	320
Transportation & others	813	807	839	581	522	477	569	605	431	744	256	413	421
Stevedoring Operations	--	--	--	--	--	--	--	--	--	--	--	237	733
Total	10,723	9,954	9,789	8,560	7,016	6,931	7,089	6,171	3,698	4,787	4,928	5,317	5,629

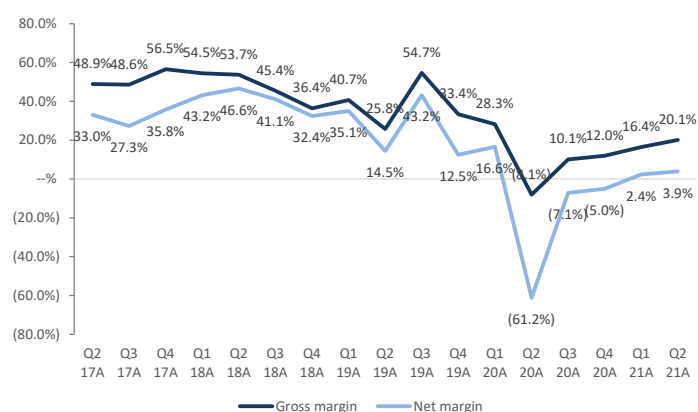
Source: Company Data, Arqaam Capital Research

Exhibit 1: Crane utilization rates flat in Q2


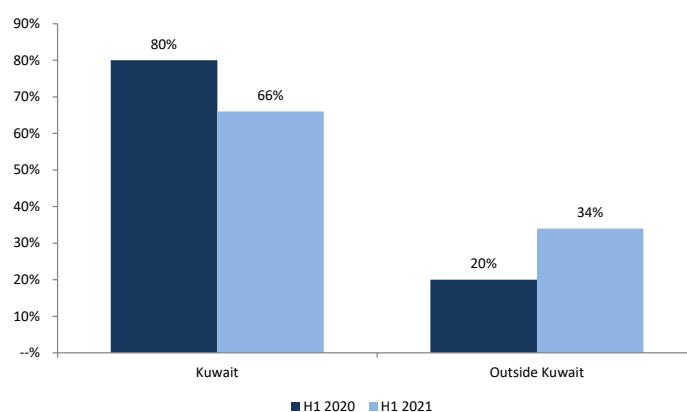
Source: Company Data, Arqaam Capital Research

Exhibit 2: P&L nearly flat sequentially in Q2


Source: Company Data, Arqaam Capital Research

Exhibit 3: Slight improvement in margins in Q2


Source: Company Data, Arqaam Capital Research

Exhibit 4: Revenue breakdown by geography


Source: Company Data, Arqaam Capital Research

Revenues: KWD 5.63m (+52% y/y, +6% q/q, +3% vs. AC)

Gross profit: KWD 1.13m (+30% q/q, +26% vs. AC)

EBITDA: KWD 2.79m (+27% q/q, +21% vs. AC)

Net profit: KWD 0.22m (+74% q/q, -27% vs. AC)

Exhibit 5: INTEGRAT KK Q2 21A results

KWD m	Q2 21AAC estimates		Δ	Q2 20A	y/y	Q1 21A	q/q
Revenues	5.63	5.49	2.6%	3.70	52.2%	5.32	5.9%
Gross profit	1.13	0.90	26.0%	(0.30)	(480.1%)	0.87	29.9%
EBITDA	2.79	2.30	21.3%	0.24	1047.7%	2.20	26.9%
Net income	0.22	0.30	(27.0%)	(2.26)	(109.7%)	0.13	73.8%
Gross margin	20.1%	16.4%	375bps	(8.1%)	2,821bps	16.4%	372bps
EBITDA margin	49.5%	41.9%	764bps	6.6%	4,297bps	41.4%	818bps
Net margin	3.9%	5.5%	(157bps)	(61.2%)	6,510bps	2.4%	152bps

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	3.8	8.5	11.0
Depreciation & Amortization		8.1	9.6	8.9	8.5
EBITDA		12.1	13.4	17.4	19.4
Working Capital Changes		10.7	(5.8)	(0.6)	(1.4)
Operating Cash Flow		22.8	7.6	16.9	18.0
Purchase of PPE		(17.9)	(5.8)	(6.7)	(8.5)
Free Cash Flow to Firm		4.9	1.9	10.2	9.6
Discount Factor		1.0	1.0	0.9	0.8
PV of Visible FCFF		--	0.9	8.7	7.5
Terminal Value		164			
Equity Valuation			WACC parameters		
PV of Visible FCFF	33	Rf			4.2%
PV of Terminal Value	105	EMRP			7.0%
		Adjusted Beta			1.20
Enterprise Value	138	Cost of Equity			12.6%
Cash & Cash Equivalents	4	Cost of Debt			4.0%
Less: Net (Debt) Funds	(22)	D/C (market)			25.0%
Equity Value	120	WACC			10.5%
NOSH	253				
Equity Value per Share (KWd)	475	Perpetual growth			3.0%

Source: Company Data, Arqaam Capital Research

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