Company Update
November 12 2021

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Integrated Holding Company

The easing of travel restrictions in Kuwait should support the project activity in Q4e, and more so in Q1 22e.

- **Travel restrictions impacted most of the Q3 activity in Kuwait, which along with the summer period, resulted in a soft Q3 P&L due to manpower shortage. Recovery in execution should be partially seen in Q4 and better reflected in Q1 22e.**
- **Revenues from Port operations gain momentum in Q3 pending a meaningful recovery in crane utilization over the coming quarters.**
- **Normalcy in crane utilization rates can be achieved in FY 23e, supported by new growth from Qatar on which CapEx is already deployed. We tweak our TP to KWd 471, offering 26% upside at 28x/14x FY 22/23e EPS.**

Manpower shortage continues to hinder P&L growth in Q3, but partial recovery to be seen in Q4e: EBITDA improved 6% y/y to KWD 2.12m in Q3, although dropping 24% q/q on lower top-line due to a slowdown in project execution in Kuwait, further impact by a seasonally slow activity in summer. Revenues arrived at KWD 4.7m in Q3 (-3% y/y, -17% q/q), missing our estimates by 20%. Revenues were supported by a growing contribution from stevedoring (port) operations which grew 20% q/q, contributing 20% to total revenues in Q3 and offsetting lower revenues from equipment leasing (57% of total, -20% q/q). Gross margin dropped to 9% in Q3 (-11pps q/q) due to lower revenues, nearly flat y/y. Revenues from Kuwait dropped to 65% of total (vs. 74% last year) compared to 35% from Qatar. As travel restrictions are partially lifted, the company mobilized idle equipment from Kuwait to other GCC countries in preparation for new project awards in Qatar and Bahrain.

Minimal CapEx spending of KWD 1.8m in 9M 21A, and namely in Qatar after the company acquired majority of its new equipment in FY 20A (KWD 18m). Leverage remained flat q/q at 22% D/C in Q3 21A, while the cash balance tripled y/y to KWD 5.5m in Q3. Utilisation rates reached 40% for cranes in Q3, 35% for earth moving equipment, 57% for Boom trucks, and 41% for manlift equipment.

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 tweak our TP to KWd 471 offering 26% upside at 28x/14x FY 22/23e EPS: Crane utilization rates remained flat at 40% in Q3 but are due to a gradual recovery in Q4e, with growth better reflected in Q1 22e. We think that utilization rates will reach 60% by FY 23e on a ramp up in project execution in Kuwait and Qatar, leading to a significant top-line growth in the coming two years as well as margin expansion. We assume gross margins of 22%/30% in FY 22/23e compared to 40-50% historically. We expect FY 21e to end in small profits (compared to net losses in FY 20A) on lower provisioning of receivables and higher revenues. We still see 26% upside at 28x/14x FY 22/23e EPS as the market continues to largely price out a recovery in equipment utilization rates.

BUY KWd 471.1

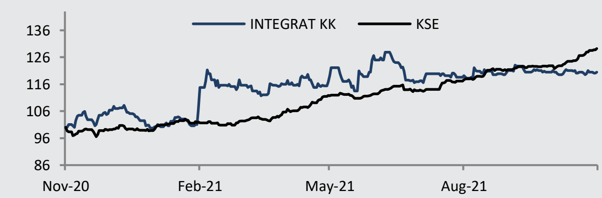
Industrials / Kuwait

Bloomberg code	INTEGRAT KK
Market index	KSE
Target Price	471.1
Upside (%)	26.3

Market data	**10/11/2021**
Last closing price	373.0
52 Week range	300.9-399.0
Market cap (KWD m)	94
Market cap (USD m)	312
Average Daily Traded Value (KWD m)	0.472
Average Daily Traded Value (USD m)	1.561
Free float (%)	62%

Year-end (local m)	2020	2021e	2022e	2023e
Revenues	20	22	29	35
EBITDA	7	11	13	16
Net income	(2)	1	3	7
EPS	(0.01)	0.01	0.02	0.03
EPS growth (%)	(123.5)	(165.9)	176.3	105.0
P/E (current price)	(44.5)	67.5	24.4	11.9
DPS	0.03	-	-	0.01
Div. yield (%)	7.0	-	0.9	2.5
FCF/share	-	-	-	-
FCF yield (%)	2.3	(1.8)	23.2	15.7
CAPEX	18	6	7	8
CAPEX/sales (%)	89.1	25.7	23.3	24.4
Net Debt/EBITDA (x)	3.0	1.5	0.8	0.4
EV/EBITDA (x)	19.5	11.7	10.4	8.5
RoAE (%)	(2.9)	2.0	5.4	10.5
RoIC (%)	(2.2)	1.4	3.9	7.6

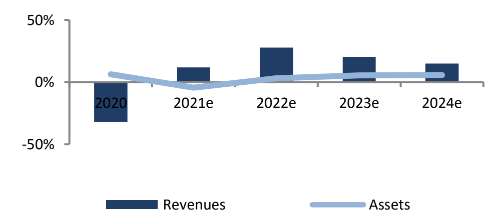
Price Performance



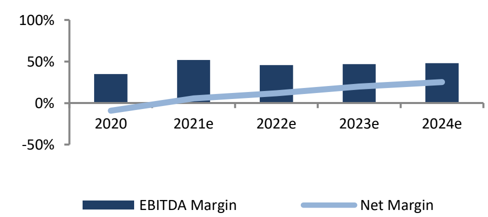
Abacus

Arqaam Capital Fundamental Data

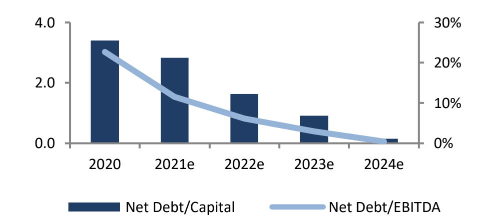
Profitability



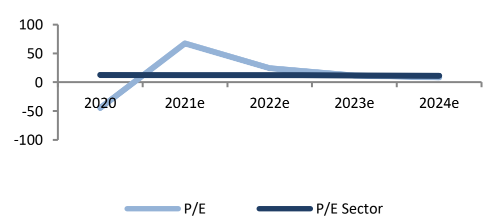
Growth



Gearing



Valuation



Integrated Holding Company

Year-end	2019	2020	2021e	2022e	2023e	2024e
Financial summary						
Reported EPS	0.04	(0.01)	0.01	0.02	0.03	0.05
Diluted EPS	0.04	(0.01)	0.01	0.02	0.03	0.05
DPS	0.04	0.03	-	-	0.01	0.02
BVPS	0.31	0.27	0.28	0.29	0.31	0.33
Weighted average shares	220.00	220.00	220.00	220.00	220.00	220.00
Average market cap	82.50	82.50	82.50	82.50	82.50	82.50

Year-end	2019	2020	2021e	2022e	2023e	2024e
Valuation metrics						
P/E (x) (current price)	10.4	(44.5)	67.5	24.4	11.9	8.2
P/E (x) (target price)	13.1	(55.9)	84.8	30.7	15.0	10.3
EV/EBITDA (x) (current price)	8.0	19.5	11.7	10.4	8.5	7.2
EV/EBITDA (x) (target price)	8.0	19.5	11.7	10.4	8.5	7.2
EV/FCF (x)	(21.3)	293.9	(336.2)	20.5	25.1	15.6
Free cash flow yield (%)	(21.7)	2.3	(1.8)	23.2	15.7	22.1
Dividend yield (%)	9.3	7.0	-	0.9	2.5	5.1

Year-end	2019	2020	2021e	2022e	2023e	2024e
Growth (%)						
Revenues	(29.5)	(32.1)	11.9	27.9	20.3	15.0
EBITDA	(41.0)	(59.0)	66.5	12.3	23.0	17.8
EBIT	(50.9)	(112.5)	(283.9)	103.6	83.7	40.0
Net income	(54.2)	(123.5)	(165.9)	176.3	105.0	44.9

Year-end	2019	2020	2021e	2022e	2023e	2024e
Margins (%)						
EBITDA	57.8	35.0	52.0	45.7	46.7	47.8
EBIT	30.1	(5.6)	9.1	14.6	22.2	27.0
Net	26.7	(9.2)	5.4	11.7	20.0	25.2

Year-end	2019	2020	2021e	2022e	2023e	2024e
Returns (%)						
RoAA	8.4	(1.9)	1.3	3.5	6.9	9.5
RoAE	11.4	(2.9)	2.0	5.4	10.5	14.1
RoIC	9.4	(2.2)	1.4	3.9	7.6	10.4
FCF margin	(21.7)	2.3	(1.8)	23.2	15.7	22.1

Year-end	2019	2020	2021e	2022e	2023e	2024e
Gearing (%)						
Net debt/Capital	16.2	25.5	21.2	12.3	6.9	1.1
Net debt/Equity	19.9	35.3	29.3	16.7	9.2	1.5
Interest cover (x)	17.0	(1.7)	2.6	5.2	9.6	13.4
Net debt/EBITDA (x)	0.8	3.0	1.5	0.8	0.4	0.1

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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 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 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	29	35	40
Cost of sales	(18)	(18)	(18)	(22)	(24)	(26)
Gross profit	**11**	**3**	**4**	**6**	**10**	**14**
SG&A	-	-	-	-	-	-
EBITDA	**17**	**7**	**11**	**13**	**16**	**19**
Depreciation	(8)	(8)	(10)	(9)	(8)	(8)
EBIT	**9**	**(1)**	**2**	**4**	**8**	**11**
Interest expense	(1)	(1)	(1)	(1)	(1)	(1)
Share of results of associates & JV	-	-	-	-	-	-
Profit before tax	8	(2)	1	3	7	10
Taxes	-	-	-	-	-	-
Other post-tax income/(expense)	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (group)	8	(2)	1	3	7	10
Minorities	-	-	1	2	3	4
Net profit (parent)	**8**	**(2)**	**1**	**3**	**7**	**10**
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	**8**	**(2)**	**1**	**3**	**7**	**10**

Year-end	2019	2020	2021e	2022e	2023e	2024e
Balance sheet (KWD m)						
Cash and equivalents	2	2	5	12	17	22
Receivables	17	12	12	12	14	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**	**98**	**103**	**109**
Payables	7	13	8	8	9	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	64	68	74
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	**93**	**99**	**95**	**98**	**103**	**109**

Year-end	2019	2020	2021e	2022e	2023e	2024e
Cash flow (KWD m)						
Cashflow from operations	**3**	**18**	**5**	**13**	**14**	**17**
Net capex	(9)	(18)	(6)	(7)	(8)	(8)
Free cash flow	**(6)**	**-**	**-**	**7**	**5**	**9**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(9)	(7)	-	(1)	(2)	(5)
Net inc/(dec) in borrowings	9	8	-	-	-	-
Other investing/financing cash flows	-	-	-	-	-	-
Net cash flow	**(3)**	**3**	**1**	**7**	**4**	**5**
Change in working capital	(15)	11	(6)	1	(2)	(2)

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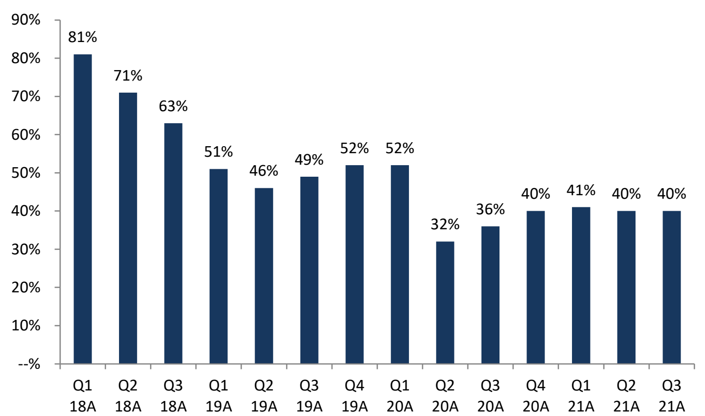
Exhibit 1: INTEGRAT KK revenue breakdown: stevedoring operations continue to ramp up in Q3

Revenues ('000 KWD)	Q3 18A	Q4 18A	Q1 19A	Q2 19A	Q3 19A	Q4 19A	Q1 20A	Q2 20A	Q3 20A	Q4 20A	Q1 21A	Q2 21A	Q3 21A
Equipment leasing	6,079	6,645	5,686	4,599	4,310	4,584	4,239	2,561	2,895	3,264	3,224	3,335	2,654
Heavy lift	3,068	2,305	2,293	1,895	2,145	1,936	1,223	514	877	1,239	1,230	820	765
Oil field services	--	--	--	--	--	--	104	192	271	169	213	320	349
Transportation & others	807	839	581	522	477	569	605	431	744	256	413	421	20
Stevedoring Operations	--	--	--	--	--	--	--	--	--	--	237	733	876
Total	**9,954**	**9,789**	**8,560**	**7,016**	**6,931**	**7,089**	**6,171**	**3,698**	**4,787**	**4,928**	**5,317**	**5,629**	**4,664**

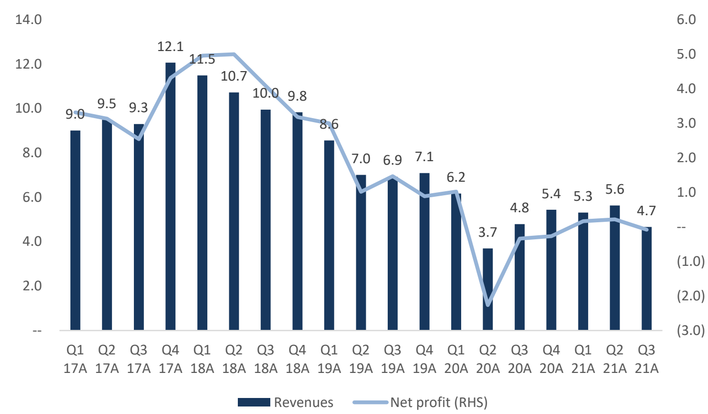
Source: Company Data, Arqaam Capital Research

Exhibit 1: Crane utilization rates flat in Q3



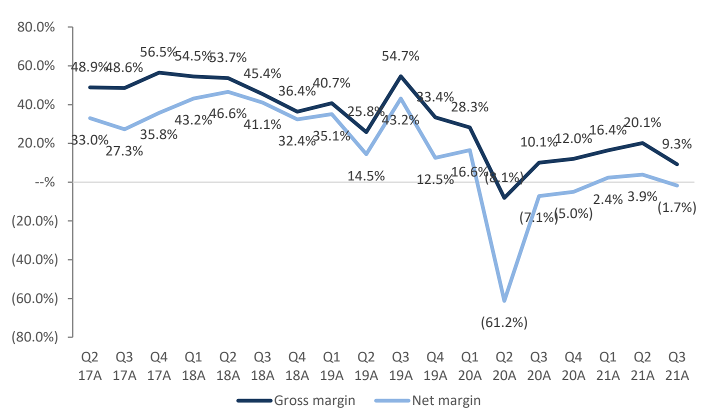
Source: Company Data, Arqaam Capital Research

Exhibit 2: P&L seasonally lower in Q3 due to summer



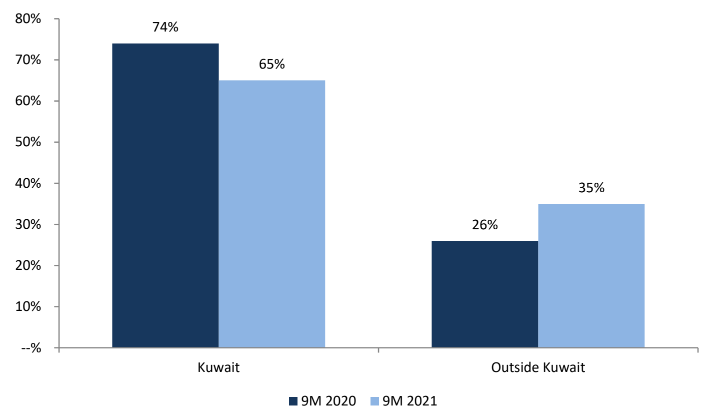
Source: Company Data, Arqaam Capital Research

Exhibit 3: Margins under pressure in Q3 due to lower rev



Source: Company Data, Arqaam Capital Research

Exhibit 4: Revenue breakdown by geography



Source: Company Data, Arqaam Capital Research

Revenues: KWD 4.67m (-3% y/y, -17% q/q, -20% vs. AC)
Gross profit: KWD 0.43m (-11% y/y, -62% q/q, -66% vs. AC)
EBITDA: KWD 2.12m (+6% y/y, -24% q/q, -27% vs. AC)
Net loss: KWD 0.08m (-77% y/y)

Exhibit 5: INTEGRAT KK Q3 21A results

KWD m	Q3 21A	AC estimates	Δ	Q3 20A	y/y	Q2 21A	q/q
Revenues	4.67	5.80	(19.5%)	4.79	(2.5%)	5.63	(17.1%)
Gross profit	0.43	1.25	(65.5%)	0.48	(10.5%)	1.13	(61.9%)
EBITDA	2.12	2.90	(27.0%)	2.00	6.0%	2.79	(24.1%)
Net income	(0.08)	0.30	(126.6%)	(0.34)	(76.6%)	0.22	(136.4%)
Gross margin	9.3%	21.6%	(1,230bps)	10.1%	(83bps)	20.1%	(1,089bps)
EBITDA margin	45.4%	50.0%	(461bps)	41.8%	364bps	49.5%	(414bps)
Net margin	(1.7%)	5.2%	(688bps)	(7.1%)	541bps	3.9%	(560bps)

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**	**5.7**	**9.0**
Depreciation & Amortization	8.1	9.6	8.9	8.5
EBITDA	**12.1**	**13.4**	**14.6**	**17.4**
Working Capital Changes	10.7	(5.8)	0.7	(1.9)
Operating Cash Flow	**22.8**	**7.6**	**15.4**	**15.6**
Purchase of PPE	(17.9)	(5.8)	(6.7)	(8.5)
Free Cash Flow to Firm	**4.9**	**1.9**	**8.7**	**7.1**
Discount Factor	1.0	1.0	0.9	0.8
PV of Visible FCFF	--	0.9	7.5	5.6
Terminal Value	168			

Equity Valuation		**WACC parameters**	
PV of Visible FCFF	**29**	Rf	4.0%
PV of Terminal Value	**108**	EMRP	7.0%
		Adjusted Beta	1.20
Enterprise Value	**137**	**Cost of Equity**	**12.4%**
Cash & Cash Equivalents	4	**Cost of Debt**	**4.0%**
Less: Net (Debt) Funds	(22)	D/C (market)	25.0%
Equity Value	**119**	**WACC**	**10.3%**
NOSH	253		
Equity Value per Share (KWd)	**471**	Perpetual growth	3.0%

Source: Company Data, Arqaam Capital Research

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