

Galfar Engineering and Contracting Co. (GECS)-4Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation: **Accumulate**

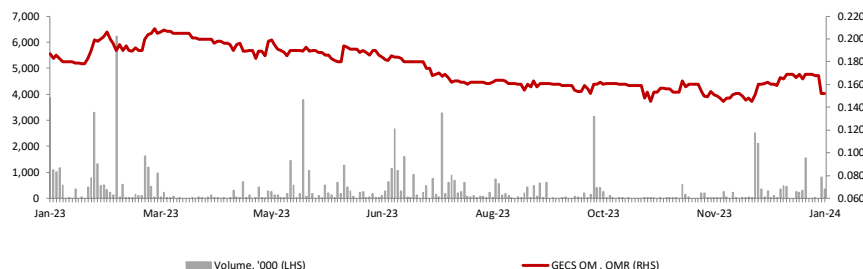
Previous Reco. & Date: TP: OMR 0.169 per share; Accumulate on 05-Nov-2023

Target Price (OMR): 0.169

Upside / (Downside): 11.2%

Date: 1/16/2024

Bloomberg Ticker	GECS OM
Current Market Price (OMR)	0.152
52wk High / Low (OMR)	0.21/0.14
12m Average Vol. (000)	355.2
Mkt. Cap. (USD/OMR mn)	263/101
Shares Outstanding (mn)	666.0
Free Float (%)	100%
3m Avg Daily Turnover (000)	30.2
6m Avg Daily Turnover (000)	37.8
P/E'24e (x)	19.4
EV/EBITDA'24e (x)	8.1
Dividend Yield '24e (%)	0.0%
Price Perf. (1m/3m) (%)	-5/-4.4



Revenue increased by 18% YoY, in line with our expectations

Galfar Engineering has reported a YoY revenue growth of 18% in 4Q23 to reach OMR 65.0mn, in line with our expectation of OMR 64.8mn. For FY23, revenue increased by 40.8% YoY.

Net income declined due to higher expenses

The total expenses grew 23% on YoY basis to reach OMR 66.5mn in 4Q23. However, unlike 4Q22, the total expenses have surpassed the total revenue in 4Q23. As a result, the company reported a net loss of OMR 1.5mn, while we estimated a net profit of OMR 0.6mn. For FY23, the company reported a net income of OMR 0.1mn against an OMR 1.3mn during FY22.

We maintain the rating

Although the company has reported net loss in 4Q23, we are optimistic about the pick-up in demand in GCC with higher PPP initiatives. We would be looking to understand the nature of the expenses incurred that have led to the net loss in the quarter. We anticipate that the pick up in demand in tandem with the implementation of turnaround strategy is expected to enhance the company's profitability. We continue to maintain Accumulate rating on the stock. Link to our investment update is below.

Valuation

Galfar Engineering is trading at 2024e P/E of 19.4x, representing a 9% discount compared to the historical average 1-year forward P/E of 21.3x. Additionally, EV/EBITDA multiple of 8.0x, based on our FY24 estimate, represents 6% discount compared to the historical average 1-year forward EV/EBITDA of 8.5x.

Income Statement														
(OMR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)		FY22	FY23	YoY (%)
Sales/Revenue	44.1	55.1	58.4	64.0	62.6	65.0	64.8	18%	4%	0%		177.6	250.0	40.8%
Expenses	44.7	53.9	58.0	63.5	62.0	66.5	64.2	23%	7%	4%		176.3	250.0	41.7%
Net Profit (Loss) after tax	(0.7)	1.2	0.4	0.5	0.6	(1.5)	0.6	NM	NM	NM		1.3	0.1	-96.1%
Balance Sheet														
(OMR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)				
Shareholders' Equity	22.2	23.3	23.8	24.2	24.7	23.3	25.4	0%	-6%	-8%				
Key Ratios														
	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e							
Net Profit Margin	(1.6%)	2.1%	0.8%	0.8%	0.9%	-2.3%	1.0%							
Return on Equity (RoE)	-12.4%	20.1%	7.4%	8.4%	9.4%	-25.4%	10.0%							
Annualized EPS (OMR)	-0.009	0.016	0.006	0.007	0.008	-0.009	0.009							
BVPS (OMR)	0.07	0.08	0.11	0.11	0.12	0.03	0.12							
TTM P/E (x)						50.03								

Source: Financials, MSX, Bloomberg, U Capital Research


For our investment report, please [click here](#).

Investment Research

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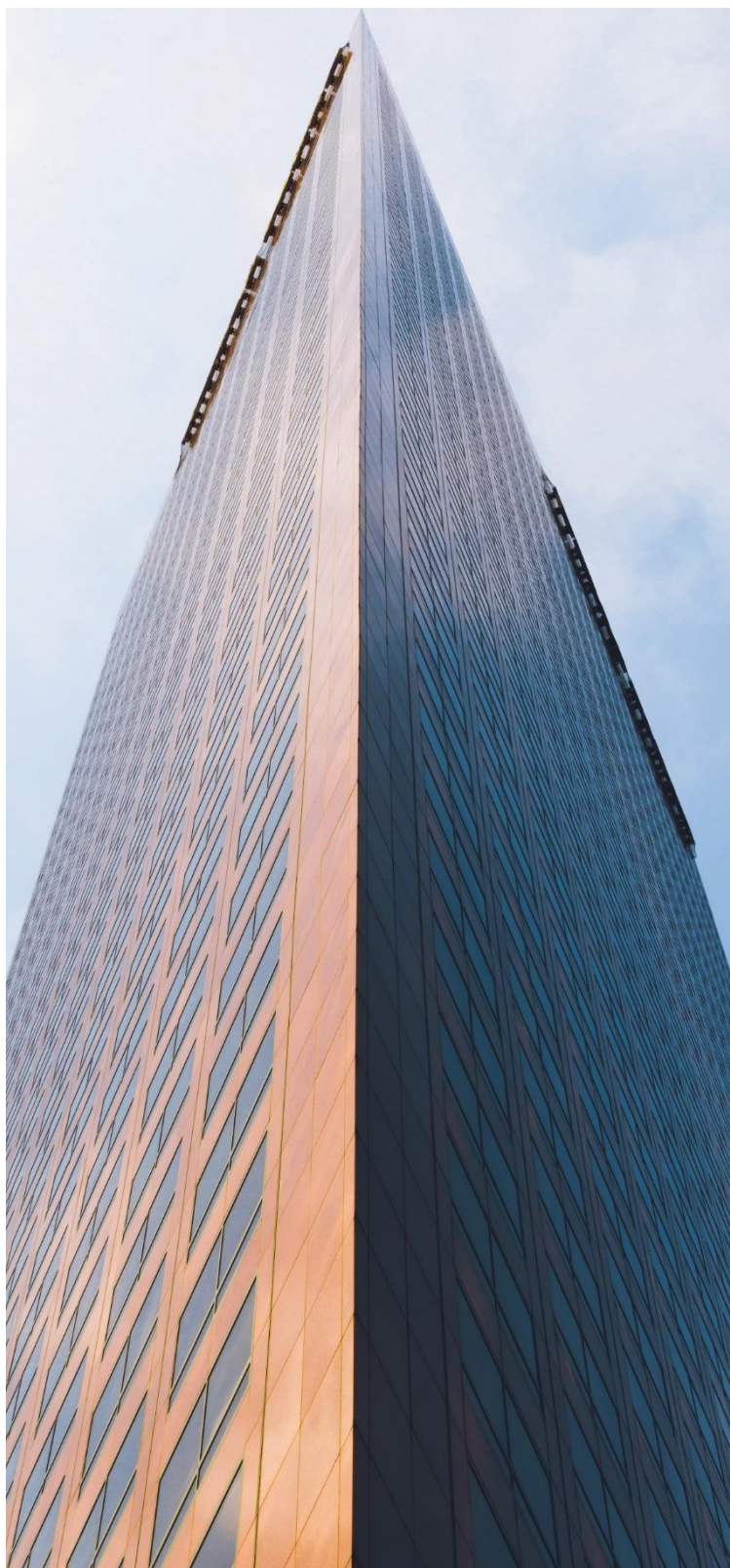
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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