

Contracting

Galfar Engg & Contracting

Order book growth keeps revenue elevated: Galfar Engineering (GECS) reported 1Q24 revenue bang in line with our estimate at RO 65.85mn which was higher by 12.7% on a YoY basis. We have remained positive on the topline growth since the “Transformation Strategy” was implemented and the company started bidding for higher value projects. The significant positive changes in the balance sheet has also enabled the company to bid for larger projects. The order book at the end of 2023 stood at RO 579mn with contribution from the high premium O&G segment increasing. We continue to believe the revenue run rate will be higher going forward and reach near RO 70mn on a quarterly basis by end of 2024.

Margins drop, dragging the net profit lower than expected: The company reported a loss of RO 434k in 2023 from share of associates and the recent results evidences that these losses may have continued into 2024 as well. We had however penciled a recovery in the share of losses from associates in our forecast. There were incremental costs associated with the adjustment of end of service benefits of employees which resulted in the company reporting loss of RO 1.4mn during the 4Q23. Except for these, we assume that the company has managed to control its operating costs in a good manner. The net profit of the consolidated entity stood at RO 202k compared to our estimate of RO 471k due to these variances.

Maintain revenue estimates, revising profits downwards, retain STRONG BUY: We continue to remain optimistic on the topline growth based on the solid order book and move towards projects that have more sustainable margins. We retain our revenue estimate for 2024 and expect it at RO 272mn, higher by 8.8% as compared to 2023. However, post full result announcement and the feedback from the management we might have to revise our profit estimates. The stock price has been languishing at the current levels for nearly 9 months due to the variability in profits and negative surprise witnessed in the 4Q23. We retain our STRONG BUY rating for now with a target price of RO 0.225 per share expecting new contract wins the margin improvement as the year progresses. The positive changes in the economy and the market leadership position of Galfar provides sufficient cushion to the valuation and supports our positive view.

in RO '000	1Q24	1Q23	YoY(%)	4Q23	QoQ (%)	2024e	2023	YoY (%)
Revenue	65,855	58,412	12.7%	64,879	1.5%	271,919	249,854	8.8%
Total expenses	-65,653	-57,970	13.3%	-66,279	-0.9%	-269,969	-249,726	8.1%
Profit after tax	202	442	-54.3%	-1,400		1,950	128	1423%
NPM	0%	1%	-59.5%	-2%		1%	0%	
EPS (RO)	0.001	0.002	-54.3%	-0.005		0.007	0.000	1423%

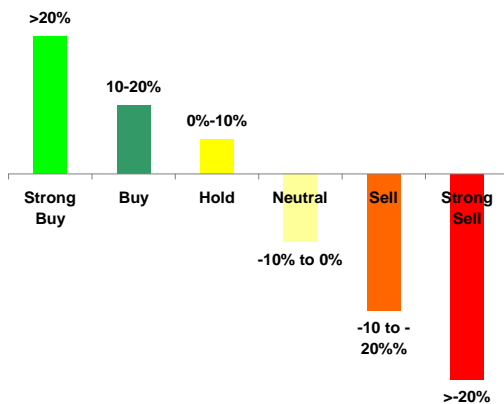
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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