



## GBCM Research: Galfar Engineering and Contracting Co- Q1 2019 Results- Initial View

(Closing: RO 0.099, Rating- Accumulate, 12 Month Fair Value: RO 0.106)

### Losses due to discontinued operations, Divestment of Indian Operations remain critical

#### Parent Co Performance- Lower Margins impact seen

- Total revenue of the Parent Company during Q1 2019 is at RO 60.461 million as compared to RO 65.963 million in Q1 2018, reporting a decline of 8% YoY, this is in line with the management focus on quality of order backlog. The company has been extremely careful in their project selection strategy and looking for projects from good clientele with proper payment schedule.
- Profit before tax of the parent company during Q1 stood at RO 109K as compared to profit of RO 1.294 million in the corresponding period last year. This is lower than our estimates.

#### Consolidated Performance- Impact seen from losses on discontinued operations

- Consolidated revenues of the group in Q1 2019 stood at RO 64.795 as against RO 70.2 million in the same period last year, declining by 7.7% YoY. This is lower than our estimates. **Q1 Profit before tax (from continuing operations) of the group company is at RO 665K as compared to RO 1.595 million during Q1 last fiscal year. This is marginally lower than our estimates of RO 800K**
- The loss from discontinued operations remained at RO 686K during Q1 2019 and hence the company reported net loss of RO 198K during the quarter. **The negative impact on Indian operations reflected in disappointing performance during Q1.**

#### Sale of Indian Operations to remain critical for turnaround in performance

As per the company, the proposal of sale of Indian operations has been approved by shareholders in its EGM last week. Management expect the sale and purchase agreement to be executed before end of Q2 2019. **Post this completion, the losses from discontinued operations will not be part of consolidated statements.**

As per the earlier announcement, Galfar has agreed to sell all its investments in India for a sale price of RO 17.2 million to PMA International LLC. The sale price of RO 17.2 million is against the net book value of RO 15.71 million in the books of the company. **Hence, this sale completion would positively impact the results by RO 1.5 million (on SPA execution and completion).** We believe this would reflect in the performance during the coming quarters.



**Outlook- Turnaround story, Caveat on execution delays...**

As discussed in the investor meeting last week, we do believe in the management focus and strategy adopted towards turnaround of core business operations, cost optimization measures, and trust on RoE enhancement. Several key steps have been taken towards the improvement of overall performance which would start reflecting during the coming quarters. Caveat to remain on continued stress in payment dues, receivable management and escalation of costs.

The sale of loss-making Indian operations is the first step towards achieving their key objectives towards financial restructuring. This would in a way lower the funding requirements and the resources could be utilized for other lucrative business opportunities including Oman, Kuwait, Iraq and East Africa.

**At the current levels, the stock trades at PE (2019E) of 8X and PBV (2019E) of 0.7X. Galfar is part of our Top 10 stock recommendations in Oman for 2019 on expectations of turnaround benefits. We have an Accumulate rating on the stock. Our 12-month fair value is at RO 0.106 (subject to revision post detailed results).**



### Stock Rating Methodology:

- Buy** - Upside more than 20%
- Accumulate** - Upside between 10% and 20%
- Neutral** - Upside or downside less than 10%
- Reduce** - Downside between 10% and 20%
- Sell** - Downside more than 20%
- Not Rated** - Stocks not in regular research coverage

**LT- Long Term**

**ST- Short Term**

### Contact Details,

#### Equity Research

Kanaga Sundar  
Kumail Al Humaid

#### Contact

(+968) 22350727  
(+968) 22350728

#### Email

[sundar@gbcmoman.net](mailto:sundar@gbcmoman.net)  
[kumail@gbcmoman.net](mailto:kumail@gbcmoman.net)

#### Institutional Broking

Talal Al Balushi  
Abdullah Al Shamosi  
Ahmed Al Maawali

(+968) 22350725  
(+968) 22350718  
(+968) 22350719

[talal@gbcmoman.net](mailto:talal@gbcmoman.net)  
[abdullah@gbcmoman.net](mailto:abdullah@gbcmoman.net)  
[almaawali@gbcmoman.net](mailto:almaawali@gbcmoman.net)

#### Institutional Sales

Hunaina Banatwala

(+968) 22350717

[hunaina@gbcmoman.net](mailto:hunaina@gbcmoman.net)

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