

## **IQCD Alert – Petrochemicals Outperformance Drives 1Q2021 Earnings Beat; Accumulate**

- **IQCD's bottom-line rises 618.6% YoY and 43.1% QoQ in 1Q2021, 7.8% higher than our estimate – Industries Qatar's (IQCD) net profit rose to QR1.46bn in 1Q2021 vs. QR203.8mn in 1Q2020 and QR1.02bn in 4Q2020; earnings also exceeded our Street high estimate of QR1.36bn (Bloomberg consensus of only two estimates: QR1.33bn). As we had expected, IQCD posted strong results boosted by significant pricing growth across all three segments, while sales volumes came in modestly above our modeled expectations. *We view these overall set of results positively and reiterate our Accumulate rating and QR14.25 price target on IQCD.***
- **In terms of segments, better-than-anticipated performance in petrochemicals drove 1Q2021 profitability vs. our model, while steel and fertilizers were generally in-line on an operating basis. *For segment details, please see page 4.***
- **Petrochemical margins improve along with modest revenue upside boosting segment profitability: 1Q2021 segment revenue of ~QR1.4bn (~45% YoY, ~12% QoQ) was modestly higher than our model, while earnings were boosted as profitability expanded more significantly. Segment earnings of QR608.3mn climbed 394.5% YoY and 37.9% QoQ. Product prices came in very strong as expected, with LDPE price up 56% and LLDPE price up 32%, on a YoY basis. Sales volume increased roughly 2% YoY, while production volume increased ~9% YoY given lack of shutdowns relative to 1Q2020. Sales volume fell approximately 12% QoQ, while production volume declined ~3% QoQ as MTBE facilities stayed shut from December 2020 to February 2021 due to commercial reasons; however, this was offset by higher PE volume in 1Q2021.**
- **Fertilizers came in-line with modest revenue shortfall vs. our expectations offset by margin upside: 1Q2021 revenue and net income of QR1.61n and QR595.7mn increased 54.9% YoY and 202.2%, respectively. Sequentially, segment revenue increased 13.2% and earnings grew 34.0%. According to the company, urea prices increased ~39% YoY due to strong demand and supply bottlenecks. Production volume fell ~10% YoY but sales volume grew ~55%; production was impacted by QAFCO 1-4 maintenance in 1Q2021, while sales improved given the interim gas agreement in-place during 1Q2020. Production and sales volume fell 6% and 12%, respectively QoQ (*continued on next page*).**

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- *(continued from previous page)*
- **1Q2021 steel revenue and operating profit came in-line with our estimates:** Steel revenue came in at QR1.23bn (-5.7% YoY, 85.3% QoQ); the YoY decline was due to mothballing of export-oriented steel facilities from 2Q2020 onward, while the sequential growth was due to volume/pricing increases. The steel segment posted a profit of QR258.7mn in 1Q2021 vs. a loss of QR88.3mn in 1Q2020 and a small profit of QR49.6mn in 4Q2020. Rebar prices were up roughly 25% YoY. Production and sales volumes fell ~49% and ~23%, respectively, YoY, due to mothballing. On a sequential basis, production and sales were up ~24% and ~76%, respectively. We note the significant uptick in steel segment profitability was due to IQCD's decision to "right-size" the business last year and focus on the higher-margin domestic business.
- *For more details on the company's performance and our estimates, please refer to page 3.*
- **Despite paying ~\$1bn for the QAFCO deal, IQCD's balance sheet continues to remain solid with QR9.6bn in cash/bank balances and zero long-term debt.** Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions while retaining dry powder to take advantage of potential acquisition opportunities in the future.
- **We maintain our Accumulate rating on IQCD with a QR14.25 price target.** In terms of long-term catalysts, similar to the QAFCO deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could also be perceived positively by investors. Expansion/acquisition-related newsflow & upside in dividends could be key going forward.

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Income Statement (QR million)	1Q2020	4Q2020	1Q2021	1Q2021e	A Vs. E	YoY	QoQ
<b>Revenue</b>	1,302.053	2,086.986	2,839.825	2,736.617	3.8%	118.1%	36.1%
Cost of Sales (Ex. Depreciation & Amortization)	(1,312.047)	(1,284.582)	(1,607.613)	(1,501.953)	7.0%	22.5%	25.1%
<b>Gross Profit</b>	(9.994)	802.404	1,232.212	1,234.664	-0.2%	N/M	53.6%
General and Administrative Expenses	(31.885)	(144.882)	(146.545)	(122.618)	19.5%	359.6%	1.1%
Selling & Distribution Expenses	(16.917)	(2.755)	(17.395)	(8.930)	94.8%	2.8%	531.4%
<b>EBITDA</b>	(58.796)	654.767	1,068.272	1,103.116	-3.2%	N/M	63.2%
Depreciation & Amortization	(69.385)	(495.436)	(337.634)	(361.374)	-6.6%	386.6%	-31.9%
<b>EBIT</b>	(128.181)	159.331	730.638	741.741	-1.5%	N/M	358.6%
Finance Costs	(2.842)	(12.340)	(5.915)	(8.872)	-33.3%	108.1%	-52.1%
<u>Income from Investments</u>	<u>94.775</u>	<u>267.924</u>	<u>55.341</u>	<u>78.321</u>	<u>-29.3%</u>	<u>-41.6%</u>	<u>-79.3%</u>
Cost of take or pay obligation		-					
Share of Results from Associates	15.190	10.116	22.165	9.304	138.2%	45.9%	119.1%
Share of Results of JVs	270.864	441.051	608.342	496.210	22.6%	124.6%	37.9%
<u>Other, Net</u>	<u>(46.014)</u>	<u>1,264.393</u>	<u>54.636</u>	<u>22.111</u>	<u>147.1%</u>	<u>N/M</u>	<u>-95.7%</u>
Other Income	48.761	1,532.317	109.977	42.111	161.2%	125.5%	-92.8%
Income from Investments & Other Income/Expenses		(1,172.751)					-100.0%
<b>Profit Before Tax</b>	<b>203.792</b>	<b>957.724</b>	<b>1,465.207</b>	<b>1,358.816</b>	<b>7.8%</b>	<b>619.0%</b>	<b>53.0%</b>
Tax		(0.421)					-100.0%
<b>Profit After Tax</b>	<b>203.792</b>	<b>957.303</b>	<b>1,465.207</b>	<b>1,358.816</b>	<b>7.8%</b>	<b>619.0%</b>	<b>53.1%</b>
Minority Interest		66.270	(0.734)	(0.492)	49.3%		N/M
<b>Profit for Equity Holders</b>	<b>203.792</b>	<b>1,023.573</b>	<b>1,464.473</b>	<b>1,358.324</b>	<b>7.8%</b>	<b>618.6%</b>	<b>43.1%</b>

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In QR Millions

Steel	1Q2020	4Q2020	1Q2021
Revenue	1,302.053	662.541	1,227.891
Net Profit	(88.274)	49.609	258.715
<i>NM %</i>	<i>-6.78%</i>	<i>7.49%</i>	<i>21.07%</i>
<i>Revenue Q/Q</i>	<i>-6%</i>	<i>23%</i>	<i>85%</i>
<i>Net Income Q/Q</i>	<i>-27%</i>	<i>90%</i>	<i>422%</i>
<i>Revenue Y/Y</i>	<i>3%</i>	<i>-52%</i>	<i>-6%</i>
<i>Net Income Y/Y</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>
Petrochemicals	1Q2020	4Q2020	1Q2021
Revenue	951.000	1,231.000	1,377.175
Net Profit	123.023	441.051	608.342
<i>NM %</i>	<i>12.94%</i>	<i>35.83%</i>	<i>44.17%</i>
<i>Revenue Q/Q</i>	<i>-11%</i>	<i>20%</i>	<i>12%</i>
<i>Net Income Q/Q</i>	<i>-60%</i>	<i>40%</i>	<i>38%</i>
<i>Revenue Y/Y</i>	<i>-15%</i>	<i>15%</i>	<i>45%</i>
<i>Net Income Y/Y</i>	<i>-60%</i>	<i>44%</i>	<i>394%</i>
Fertilizers	1Q2020	4Q2020	1Q2021
Revenue	1,040.604	1,424.445	1,611.934
Net Profit	197.121	444.389	595.668
<i>NM %</i>	<i>18.94%</i>	<i>31.20%</i>	<i>36.95%</i>
<i>Revenue Q/Q</i>	<i>-3%</i>	<i>35%</i>	<i>13%</i>
<i>Net Income Q/Q</i>	<i>-27%</i>	<i>442%</i>	<i>34%</i>
<i>Revenue Y/Y</i>	<i>-5%</i>	<i>33%</i>	<i>55%</i>
<i>Net Income Y/Y</i>	<i>-5%</i>	<i>64%</i>	<i>202%</i>
Total Revenue	3,293.657	3,317.986	4,217.000
<i>YoY Growth</i>	<i>-5%</i>	<i>-6%</i>	<i>28%</i>
<i>QoQ Growth</i>	<i>-7%</i>	<i>27%</i>	<i>27%</i>
Steel	40%	20%	29%
Petrochemicals	29%	37%	33%
Fertilizers	32%	43%	38%
Total NI (Ex. Unallocated)	231.870	935.049	1,462.725
Steel	-38%	5%	18%
Petrochemicals	53%	47%	42%
Fertilizers	85%	48%	41%

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

**OUTPERFORM** Greater than +20%

**ACCUMULATE** Between +10% to +20%

**MARKET PERFORM** Between -10% to +10%

**REDUCE** Between -10% to -20%

**UNDERPERFORM** Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

**R-1** Significantly lower than average

**R-2** Lower than average

**R-3** Medium / In-line with the average

**R-4** Above average

**R-5** Significantly above average

**Saugata Sarkar, CFA, CAIA**  
Head of Research  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

**Shahan Keushgerian**  
Senior Research Analyst  
+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

**Mehmet Aksoy, PhD**  
Senior Research Analyst  
+974 4476 6589  
mehmet.aksoy@qnbfs.com.qa

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