

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR93.00	Current Target Price	QR109.00
Implied Upside	17.2%		

### Expect Flattish 3Q Driven by Urea/PE; Steel Swing Factor

We expect IQCD to post QR733mn in net income for 3Q2017, flattish vs. QR743mn (normalized) reported in 2Q2017 and QR736mn in 3Q2016. We leave our 2017 estimates unchanged and maintain our Market Perform rating.

#### Highlights

- We expect group revenue to increase 6% sequentially and 4% YoY to QR3.2bn driven by strength across all segments: (1) Steel** revenue (+6% QoQ, -4% YoY) remains tricky to forecast given the blockade; while 15% of the output used to go into Saudi Arabia we think much of that impact was only felt beginning mid-3Q2017. We note benchmark rebar prices are up 10-15% QoQ. **(2) Fertilizer** top-line (+5% QoQ, +39% YoY) should be a source of strength with urea prices rebounding strongly in September, reaching a high of \$290/MT. We note there is a lag in terms of price realizations so much of this benefit could be shifted into the fourth quarter. **(3) Petrochemical** (+8% QoQ, -9% YoY) realizations should benefit from rebound in oil translating to moderate growth.
- Net income of QR733mn should be flattish QoQ and YoY: (1) Steel** margins could come under pressure given iron ore has outpaced rebar pricing in the quarter. **(2) in Fertilizers** growth in top-line should increase net margins significantly vs. 8% posted in 1H2017. **(3) Petrochemicals** net margin should also expand beyond 1H2017's 39%.
- Balance sheet remains strong (group debt of QR2.5bn vs. cash of QR10.2bn).** We expect most of this debt (due to QAFCO) to be paid down by YE. Capex needs remain minimal.
- Strong FCF generation support dividends despite high payout ratio vs. historical.** IQCD's FCF (OCF+Cash dividends from JVs-steel capex), should come in at QR3.1bn in 2017 and should average QR4.9bn over the upcoming 10-year period with an average dividend cover of 1.4x. We continue to forecast a DPS of QR4.50/sh. (4.8% DY, +13% YoY) in 2017, which leads to a high payout of 80% vs. historical normalized payouts of ~55%. However, the company's strong cash position should support our DPS estimate and send a positive signal to investors amid the ongoing political uncertainty.
- Blockade remains an overhang but impact limited thus far.** As we have pointed out previously, the commoditized petchems/fertilizer business has had little impact from the blockade. The steel segment is more of a challenge and IQCD is continuing to look for other regions to absorb the 15% of volumes previously being sold into Saudi Arabia. The company's Dubai steel subsidiary will likely have to re-source its billets but should still be able to sell its rebar output in the UAE for now. QASCO's two associates in Saudi Arabia/Bahrain should only impact earnings modestly. All of this is contingent on the assumption that the present situation does not deteriorate materially.

#### Catalysts

- Limited potential for stock price gains.** We remain moderately bullish on PE and urea while steel could face pressure near-term given the continuing blockade. Urea gas costs remain high.

#### Recommendation, Valuation and Risks

- Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR109.** IQCD is fully valued @ 13.4x and 10.9x EV/EBITDA for 2017 and 2018, respectively.
- Risks:** Weakness in oil prices remain a substantial risk to regional equity prices and have a direct detrimental impact on IQCD's operations. Geopolitical risks remain.

#### Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Group Revenue (QR mn)	16,000	13,800	13,714	14,428
EPS (QR)	7.39	4.88	5.61	6.99
DPS (QR)	5.00	4.00	4.50	5.00
RoE (%)	13.3	8.8	9.9	11.8
P/E (x)	12.6	19.0	16.6	13.3
EV/EBITDA (x)	10.3	15.2	13.4	10.9
Dividend Yield %	5.4	4.3	4.8	5.4

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	93.00
Dividend Yield (%)	4.8
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	122.00/85.00
3-m Average Volume ('000)	118.9
Mkt. Cap. (\$ bn/QR bn)	15.5/56.3
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.6
1-Year Total Return (%)	(8.0)

Fiscal Year End December 31

Source: Bloomberg (as of October 2, 2017), \*Qatar Exchange (as of October 1, 2017); Note: FO is foreign ownership

Saugata Sarkar, CFA  
 +974 4476 6534  
 saugata.sarkar@qnbfs.com.qa

## Comparative Multiples

Fertilizers		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
Potash Corp of Saskatchewan Inc	POT	2.4%	28.4x	25.6x	12.2x	12.0x	10.6x	9.4x	2.8%	2.8%
Arab Potash/The	APOT	5.3%	NA	NA	NA	NA	NA	NA	NA	NA
Saudi Arabian Fertilizer Co	SAFCO	1.6%	21.9x	17.7x	16.3x	15.1x	17.1x	14.5x	3.2%	6.1%
Agrium Inc	AGU	3.7%	20.0x	16.6x	9.4x	9.6x	8.3x	7.4x	3.2%	3.4%
Yara International ASA	YAR	3.2%	19.2x	13.6x	8.1x	7.1x	8.4x	6.7x	(6.9%)	1.7%
Mosaic Co/The	MOS	4.8%	26.6x	18.1x	7.0x	6.3x	10.1x	8.0x	0.5%	3.8%
<b>Average</b>		<b>3.5%</b>	<b>23.2x</b>	<b>18.4x</b>	<b>10.6x</b>	<b>10.0x</b>	<b>10.9x</b>	<b>9.2x</b>	<b>0.6%</b>	<b>3.6%</b>
<b>Median</b>		<b>3.5%</b>	<b>21.9x</b>	<b>17.7x</b>	<b>9.4x</b>	<b>9.6x</b>	<b>10.1x</b>	<b>8.0x</b>	<b>2.8%</b>	<b>3.4%</b>
<b>Industries Qatar QSC</b>	<b>IQCD</b>	<b>4.3%</b>	<b>16.6x</b>	<b>13.3x</b>	<b>5.5x</b>	<b>6.8x</b>	<b>13.4x</b>	<b>10.9x</b>	<b>5.7%</b>	<b>7.1%</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Petrochemicals		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
Yanbu National Petrochemical Co	YANSAB	5.5%	14.0x	13.2x	9.3x	9.2x	8.7x	8.2x	10.5%	10.6%
Saudi Kayan Petrochemical Co	KAYAN	NA	18.5x	12.9x	4.3x	4.5x	9.2x	9.0x	19.9%	18.7%
Saudi Basic Industries Corp	SABIC	4.1%	14.7x	14.2x	7.8x	6.8x	7.4x	7.2x	10.3%	10.7%
Rabigh Refining & Petrochemical Co	PETRO	NA	nmf	74.2x	7.5x	3.0x	18.5x	13.8x	NA	NA
Saudi International Petrochemical Co	SIPCHEM	NA	12.6x	10.3x	3.4x	2.7x	8.2x	7.5x	18.9%	26.2%
<b>Average</b>		<b>NA</b>	<b>15.0x</b>	<b>25.0x</b>	<b>6.4x</b>	<b>5.2x</b>	<b>10.4x</b>	<b>9.2x</b>	<b>14.9%</b>	<b>16.5%</b>
<b>Median</b>		<b>NA</b>	<b>14.4x</b>	<b>13.2x</b>	<b>7.5x</b>	<b>4.5x</b>	<b>8.7x</b>	<b>8.2x</b>	<b>14.7%</b>	<b>14.7%</b>
<b>Industries Qatar QSC</b>	<b>IQCD</b>	<b>4.3%</b>	<b>16.6x</b>	<b>13.3x</b>	<b>5.5x</b>	<b>6.8x</b>	<b>13.4x</b>	<b>10.9x</b>	<b>5.7%</b>	<b>7.1%</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Steel		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
ArcelorMittal	MT	NA	8.4x	9.2x	5.6x	4.9x	5.0x	5.1x	7.1%	9.2%
thyssenkrupp AG	TKA	0.6%	16.7x	14.1x	10.0x	7.2x	7.6x	6.8x	(0.0%)	3.7%
Nucor Corp	NUE	2.7%	13.3x	12.0x	10.5x	7.9x	6.9x	6.4x	6.5%	8.4%
United States Steel Corp	X	0.9%	14.2x	10.7x	5.5x	4.6x	4.8x	4.2x	3.0%	3.9%
JFE Holdings Inc	5411	1.3%	9.0x	11.3x	5.3x	4.3x	8.2x	7.3x	3.7%	8.4%
Steel Authority of India Ltd	SAIL	NA	nmf	14.0x	7.2x	4.6x	15.1x	8.8x	2.9%	12.8%
JSW Steel Ltd	JSTL	1.0%	13.4x	9.1x	7.7x	6.3x	7.4x	6.7x	2.3%	5.2%
<b>Average</b>		<b>1.3%</b>	<b>12.5x</b>	<b>11.5x</b>	<b>7.4x</b>	<b>5.7x</b>	<b>7.9x</b>	<b>6.5x</b>	<b>3.6%</b>	<b>7.4%</b>
<b>Median</b>		<b>1.0%</b>	<b>13.4x</b>	<b>11.3x</b>	<b>7.2x</b>	<b>4.9x</b>	<b>7.4x</b>	<b>6.7x</b>	<b>3.0%</b>	<b>8.4%</b>
<b>Industries Qatar QSC</b>	<b>IQCD</b>	<b>4.3%</b>	<b>16.6x</b>	<b>13.3x</b>	<b>5.5x</b>	<b>6.8x</b>	<b>13.4x</b>	<b>10.9x</b>	<b>5.7%</b>	<b>7.1%</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Revenue</b>	<b>5,228</b>	<b>4,674</b>	<b>3,804</b>	<b>4,059</b>
Cost of Sales, Excluding D&A	(3,908)	(3,304)	(3,043)	(3,044)
<b>Gross Profit</b>	<b>1,319</b>	<b>1,370</b>	<b>761</b>	<b>1,015</b>
G&A Expenses	(175)	(231)	(250)	(258)
Selling Expenses	(57)	(39)	(32)	(34)
<b>EBITDA</b>	<b>1,088</b>	<b>1,101</b>	<b>478</b>	<b>722</b>
Depreciation & Amortization	(212)	(225)	(223)	(226)
<b>EBIT</b>	<b>876</b>	<b>876</b>	<b>255</b>	<b>496</b>
Finance Costs	(22)	(13)	(9)	-
<b>Share of Results of Joint Ventures</b>	<b>3,721</b>	<b>1,716</b>	<b>2,829</b>	<b>3,351</b>
Other Income/Expenses	(106)	376	319	380
<b>Profit for Shareholders</b>	<b>4,469</b>	<b>2,955</b>	<b>3,394</b>	<b>4,227</b>
<b>EPS (QR)</b>	<b>7.39</b>	<b>4.88</b>	<b>5.61</b>	<b>6.99</b>
<b>Group Revenue</b>	<b>16,000</b>	<b>13,800</b>	<b>13,714</b>	<b>14,428</b>
<b>Group EBIT</b>	<b>4,491</b>	<b>2,968</b>	<b>3,403</b>	<b>4,227</b>
<b>Group EBITDA</b>	<b>4,702</b>	<b>3,193</b>	<b>3,626</b>	<b>4,453</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,828	3,671	3,548	3,421
Investment Properties	4	-	-	-
Investment in Associates	1,396	1,451	1,501	1,551
Investment in Joint Ventures	19,557	18,343	18,443	18,543
Available-for-Sale Investments	683	674	572	572
Catalysts & Others	-	-	98	98
<b>Total Non-Current Assets</b>	<b>25,468</b>	<b>24,139</b>	<b>24,162</b>	<b>24,186</b>
<b>Current Assets</b>				
Inventories	1,436	1,244	1,584	1,585
Accounts Receivables & Prepayments	1,058	1,054	1,042	1,112
Due from Related Parties	773	674	380	406
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	7,021	8,072	8,123	9,411
<b>Total Current Assets</b>	<b>10,292</b>	<b>11,047</b>	<b>11,133</b>	<b>12,517</b>
<b>Total Assets</b>	<b>35,760</b>	<b>35,186</b>	<b>35,295</b>	<b>36,703</b>
<b>Equity</b>	<b>27,212</b>	<b>27,070</b>	<b>27,959</b>	<b>29,358</b>
<b>Total Equity</b>	<b>33,576</b>	<b>33,514</b>	<b>34,330</b>	<b>35,728</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	676	226	-	-
End of Service Benefits & Others	207	215	191	191
<b>Total Non-Current Liabilities</b>	<b>884</b>	<b>441</b>	<b>191</b>	<b>191</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	799	674	642	642
Due to Related Parties & Others	51	106	133	142
Loans and Borrowings	451	451	-	-
<b>Total Current Liabilities</b>	<b>1,300</b>	<b>1,231</b>	<b>775</b>	<b>784</b>
<b>Equity and Liabilities</b>	<b>35,760</b>	<b>35,186</b>	<b>35,295</b>	<b>36,703</b>

Source: Company data, QNBFS estimates

### Recommendations

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

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

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

### Contacts

#### Saugata Sarkar, CFA

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

[mohd.abodaff@qnbfs.com.qa](mailto:mohd.abodaff@qnbfs.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

#### Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@qnbfs.com.qa](mailto:zaid.alnafoosi@qnbfs.com.qa)

**Disclaimer and Copyright Notice:** This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNBFS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNBFS.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNBFS.