

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR128.80	Current Target Price	QR119.00
Implied Upside	(7.6%)	Old Target Price	QR126.00

### Shifting to a More Conservative Stance Post a Stellar 2018

*In light of current commodity price trends, we adopt a more conservative view and reduce our estimates and price target for IQCD but maintain our rating at Market Perform. As we had noted in our [Alert on 4Q2018/2018 results](#), considering IQCD's overall strong 2018 performance is now in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019. We still think urea will indeed be strong in 2019 but choose to take a more conservative stance to reduce our price realizations across the board. As a result, we lower our 2019 group revenue/EPS from QR16.6bn/QR8.34 to QR16.3bn/QR7.44. Our 2019 EPS estimate now implies a decline of 10.5% YoY (-11.4% on a normalized basis excluding impairment in 2018) vs. our prior estimate of a 1.3% EPS decline forecast for 2019. As a result of our model revisions, we lower IQCD's target price from QR126 to QR119 and retain our Market Perform rating.*

#### Highlights

- **Taking a more conservative approach for 2019; growth in urea realizations to be more than offset by PE/Steel declines. (1) For Fertilizers**, we continue to forecast a robust increase in urea prices, modeled to be up another 11% to \$290/MT after a double-digit growth in 2018. Urea prices have declined since early December but we expect a recovery post 1Q2019 driven by increased demand as the application seasons kick in, along with continued environmental regulatory pressure out of China. **(2) In Petrochemicals**, average PE realizations are sporting low double-digit declines YTD vs. their 2018 annual averages; however, current prices are generally up vs. year-end levels. On the balance, we believe pricing could have difficulty keeping up with last year's averages and forecast a 10% decline in realizations in 2019. **(3) Finally for Steel**, a modest decline in realizations could be exacerbated by further margin pressure, which was fairly evident in 2H2018. *For more details on pricing, volumes and revenue/net income forecasts please see Page 2.*
- **After declining in 2019, we expect a 12.6% uptick in 2020 EPS.** After a 51.7% EPS increase for 2018, we expect earnings to decline 10.5% in 2019 before resuming a growth rate of 12.6% in 2020. Our 2019 estimates reflect our more conservative stance on steel especially relative to strong fundamentals seen in 1H2018, strength in urea realizations along with margin improvement and muted YoY outlook on PE.
- **Strong FCF generation support dividends despite high payout ratio vs. historicals.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), came in at QR5.9bn in 2018 and should average QR5.4bn over 2019 to 2026 with an average dividend cover of 1.3x. Payouts could remain high at an avg. of ~70% in 2019-2026 (72.2% payout in 2018).
- **Lots of cash and zero debt – maybe expansion on the horizon?** IQCD maintains a very strong balance sheet with group cash reaching QR13.1bn with debt of just QR26mn.

#### Catalysts

- **While earnings could come under pressure in 2019, investors will seek answers regarding deployment of IQCD's cash pile and the company's strategy.** Expansion/acquisition-related newsflow and upside in earnings/dividends could be key for charting the way forward.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR119.** IQCD is fully valued @ 17.3x and 15.4x P/E for 2019 and 2020, respectively.
- **Risks: Volatility in oil prices** remain a risk to equity prices and have a direct detrimental impact on IQCD's operations. **Geopolitical risks** remain and cannot be modeled.

#### Key Financial Data and Estimates

	FY2017	FY2018	FY2019e	FY2020e
Group Revenue (QR mn)	14,250	16,349	16,324	16,667
EPS (QR)	5.48	8.31	7.44	8.38
DPS (QR)	5.00	6.00	5.50	5.75
RoE (%)	9.9	14.2	12.4	13.4
P/E (x)	23.5	15.5	17.3	15.4
EV/EBITDA (x)	19.0	12.7	14.2	12.7
Dividend Yield %	3.9	4.7	4.3	4.5

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

#### Key Data

Current Market Price (QR)	128.80
Dividend Yield (%)	4.7
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	149.00/92.10
3-m Average Volume ('000)	121.7
Mkt. Cap. (\$ bn/QR bn)	21.4/77.9
EV (\$ bn/QR bn)	18.5/67.3
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	7.3
1-Year Total Return (%)	34.8
Fiscal Year End	December 31

Source: Bloomberg (as of March 05, 2019), \*Qatar Exchange (as of March 04, 2019); Note: FO is foreign ownership

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**Segment Revenue, Net Income, Pricing and Sales Volumes**

<b>Revenue (QR million): All Segments</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Total Group</b>	<b>14,250</b>	<b>16,349</b>	<b>16,324</b>	<b>16,667</b>	<b>16,745</b>	<b>16,293</b>	<b>16,729</b>	<b>16,934</b>
Petrochemical	5,705	5,897	5,579	5,741	5,907	6,021	6,079	6,079
Fertilizer	3,916	4,661	5,281	5,408	5,485	5,564	5,564	5,564
Steel	4,628	5,791	5,464	5,519	5,353	4,708	5,085	5,291
<b>Net Income (QR million): All Segments</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Total Group</b>	<b>3,315</b>	<b>5,079</b>	<b>4,499</b>	<b>5,068</b>	<b>5,458</b>	<b>5,546</b>	<b>5,681</b>	<b>5,868</b>
Petrochemical	2,227	2,484	2,064	2,296	2,451	2,649	2,705	2,736
Fertilizer	380	1,394	1,637	1,839	1,975	2,087	2,114	2,142
Steel	510	789	628	717	669	565	661	794
Unallocated	199	413	170	216	362	245	200	196
<b>Revenue (QR million)</b>								
Ethylene	540	564	555	572	589	601	607	607
LDPE	2,570	2,688	2,415	2,487	2,562	2,613	2,639	2,639
LLDPE	1,225	1,202	1,088	1,120	1,154	1,177	1,189	1,189
Methanol	429	521	418	431	444	453	457	457
MTBE	682	890	903	930	958	977	987	987
<b>Petrochemical &amp; Fuel Additives Revenue</b>	<b>5,705</b>	<b>5,897</b>	<b>5,579</b>	<b>5,741</b>	<b>5,907</b>	<b>6,021</b>	<b>6,079</b>	<b>6,079</b>
Ammonia	317	346	360	369	374	380	380	380
Urea	3,471	4,236	4,699	4,817	4,889	4,962	4,962	4,962
Melamine	121	122	122	122	122	122	122	122
<b>Fertilizer Revenue</b>	<b>3,916</b>	<b>4,661</b>	<b>5,281</b>	<b>5,408</b>	<b>5,485</b>	<b>5,564</b>	<b>5,564</b>	<b>5,564</b>
Steel Bars	3,599	4,331	4,077	4,118	3,994	3,495	3,769	3,948
DRI/HBI	82	-	-	-	-	-	-	-
Billets	723	1,216	1,174	1,186	1,150	1,014	1,114	1,137
Coils	231	250	219	221	214	204	208	212
<b>Steel Revenue</b>	<b>4,628</b>	<b>5,791</b>	<b>5,464</b>	<b>5,519</b>	<b>5,353</b>	<b>4,708</b>	<b>5,085</b>	<b>5,291</b>
<b>Wtd Average Selling Prices (\$/MT)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Petrochemicals &amp; Fuel Additives</b>								
Ethylene	899	939	924	952	980	1,000	1,010	1,010
LDPE	1,086	1,135	1,020	1,051	1,082	1,104	1,115	1,115
LLDPE	1,121	1,100	996	1,025	1,056	1,077	1,088	1,088
Methanol	302	367	295	303	313	319	322	322
MTBE	604	788	800	824	849	866	874	874
<b>Fertilizer</b>								
Ammonia	264	288	300	307	312	316	316	316
Urea	214	261	290	297	302	306	306	306
Melamine	895	904	905	905	905	905	905	905
<b>Steel</b>								
Rebar	515	618	589	595	577	548	559	571
DRI/HBI	226	-	-	-	-	-	-	-
Billets	441	477	461	465	451	429	437	446
Coils	634	685	601	607	589	559	571	582
<b>Sales Volume (MT' 000)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Petrochemicals &amp; Fuel Additives</b>								
Ethylene	165	165	165	165	165	165	165	165
LDPE	650	650	650	650	650	650	650	650
LLDPE	300	300	300	300	300	300	300	300
Methanol	390	390	390	390	390	390	390	390
MTBE	310	310	310	310	310	310	310	310
<b>Fertilizer</b>								
Ammonia	330	330	330	330	330	330	330	330
Urea	4,450	4,450	4,450	4,450	4,450	4,450	4,450	4,450
Melamine	37	37	37	37	37	37	37	37
<b>Steel</b>								
Steel Bar	1,920	1,926	1,900	1,900	1,900	1,750	1,850	1,900
DRI/HBI	100	100	100	100	100	100	100	100
Billets	450	700	700	700	700	650	700	700
Coils	100	100	100	100	100	100	100	100

Source: Company data, QNB FS estimates

## 4Q2018/2018 Review

**A moderate miss in 4Q2018 net income caps a strong year: IQCD's net income rose 25.7% YoY (but declined 8.5% QoQ) to QR1.2bn in 4Q2018; our estimate was QR1.3bn (variation of -6.1%).** The miss vs. our model was due to steel and petchems with strength in urea leading to an in-line fertilizer performance. By segment: **(1) For steel**, gross profit (on a cash basis, ex. depreciation & amortization) fell short by 16.5% vs. our estimate despite steel gross margins coming in only slightly lower at 14.8% vs. our estimate of 15% as steel revenue at QR1.2bn (-15.2% YoY, -19.5% QoQ) fell below our estimate. **(2) For petchems (including fuel additives)**, a modest top-line beat – 4Q2018 revenue of QR1.5bn was slightly above our forecast of QR1.4bn – was more than offset by a decline in segment net income during the quarter. We note segment revenue/net income remain approximations as IQCD does not explicitly provide proportional revenue for QAPCO (which has a number of JVs, including Qatar Vinyl or QVC, Qatofin and Qatar Plastic Products or QPPC) and only discloses segment net income during 1H/FY. **(3) As far as fertilizers are concerned**, revenue of QR1.3bn was bang in-line with our model, while net income was 3% ahead of our estimate. QAFCO's quarterly figures are also approximations as segment results are reported only twice a year. Petchems (including FA) and fertilizers are reported as JV income in the consolidated statements, which came in at QR952.1mn (+16.3% YoY, -11.3% QoQ), again falling 17.5% lower than our forecast of QR1,2bn. Income from associates surprised positively given a nice uptick from Foulath Holding (steel company in Bahrain). As expected, IQCD wrote-off its remaining carrying value in SOLB Steel (KSA) to the tune of QR49.5mn; the company also recognized QR389mn (of its maximum exposure of QR489mn) as provisions on financial guarantees given to lenders in SOLB Steel. For more details on this and our estimates, please see our [4Q2018 preview](#) and refer to below table for actual vs. estimate comparisons.

**In FY2018, IQCD reported a 51.7% YoY jump in net profit to QR5.0bn (-2% vs. QNB FS estimate of QR5.1bn) on increased product prices and sales volume.** Sales volumes increased marginally vs. 2017 (about 4%) and reached a new record for the group; according to the press release, production volumes remained stable despite some planned and unplanned maintenance at some facilities. In petrochems, sales volumes improved YoY, as some plants returned to normal levels following unplanned outages in early 2017. Fertilizer sales volumes were almost flat despite a few planned and unplanned outages, while those in the steel segment saw significant growth on 2017, as billets started to be sold externally (was being used in the UAE steel facility previously). The company also noted product prices saw around 12% growth over 2017, mostly driven by strength in fertilizers (urea) in 2H2018 and uptick in steel prices following iron ore recovery and shortage of some key consumables (electrodes); IQCD also benefited from its new steel marketing strategy (the company is selling its steel volumes through Muntajat from May 2018 onward). PE prices improved slightly driven by strength in crude. Overall group revenue, assuming proportionate consolidation, came in at QR16.3bn up from QR14.3bn in 2017 but was 1% below our estimate of QR16.5bn.

**DPS of QR6 below our estimate of QR7:** IQCD recommended a cash DPS of QR6 (a payout ratio of 72.2%), up 20% YoY from QR5 but below our forecast of QR7.

### QNB FS Estimates and Comparisons

Income Statement (QR million)	4Q2017	3Q2018	4Q2018	4Q2018e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>1,454.596</b>	<b>1,533.821</b>	<b>1,233.996</b>	<b>1,458.027</b>	<b>-15.4%</b>	<b>-15.2%</b>	<b>-19.5%</b>
Cost of Sales (Ex. Depreciation & Amortization)*	(1,173.327)	(1,298.485)	(1,051.479)	(1,239.323)	-15.2%	-10.4%	-19.0%
<b>Gross Profit</b>	<b>281.269</b>	<b>235.336</b>	<b>182.517</b>	<b>218.704</b>	<b>-16.5%</b>	<b>-35.1%</b>	<b>-22.4%</b>
General and Administrative Expenses	(43.388)	(33.357)	(45.536)	(42.000)	8.4%	5.0%	36.5%
Selling Expenses	(24.192)	(21.721)	(19.536)	(21.721)	-10.1%	-19.2%	-10.1%
<b>EBITDA</b>	<b>213.689</b>	<b>180.258</b>	<b>117.445</b>	<b>154.983</b>	<b>-24.2%</b>	<b>-45.0%</b>	<b>-34.8%</b>
Depreciation & Amortization	(57.922)	(59.872)	(59.500)	(59.932)	-0.7%	2.7%	-0.6%
<b>EBIT</b>	<b>155.767</b>	<b>120.386</b>	<b>57.945</b>	<b>95.051</b>	<b>-39.0%</b>	<b>-62.8%</b>	<b>-51.9%</b>
Finance Costs	(2.313)	(0.110)	(0.145)	(0.055)	163.6%	-93.7%	31.8%
Income from Investments	254.610	-	338.498	260.000	30.2%	32.9%	
Cost of take or pay obligation	-	-	-	-			
Share of Results from Associates	(46.536)	10.532	78.243	10.000	682.4%	N/M	642.9%
Share of Results of JVs	818.533	1,073.437	952.099	1,154.185	-17.5%	16.3%	-11.3%
Other, Net	(181.914)	112.044	(173.162)	(236.491)	-26.8%	-4.8%	N/M
Income from Investments & Other Income/Expenses	(40.408)		(49.535)			22.6%	
<b>Profit Before tax</b>	<b>957.739</b>	<b>1,316.289</b>	<b>1,203.943</b>	<b>1,282.690</b>	<b>-6.1%</b>	<b>25.7%</b>	<b>-8.5%</b>
Tax							
<b>Profit After Tax</b>	<b>957.739</b>	<b>1,316.289</b>	<b>1,203.943</b>	<b>1,282.690</b>	<b>-6.1%</b>	<b>25.7%</b>	<b>-8.5%</b>
Minority Interest							
<b>Profit for Equity Holders</b>	<b>957.739</b>	<b>1,316.289</b>	<b>1,203.943</b>	<b>1,282.690</b>	<b>-6.1%</b>	<b>25.7%</b>	<b>-8.5%</b>
<b>EPS (in QR)</b>	<b>1.58</b>	<b>2.18</b>	<b>1.99</b>	<b>2.12</b>	<b>-6.1%</b>	<b>25.7%</b>	<b>-8.5%</b>

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018	FY2019e	FY2020e
<b>Revenue (Steel)</b>	<b>4,628</b>	<b>5,791</b>	<b>5,464</b>	<b>5,519</b>
Cost of Sales, Excluding D&A	(3,694)	(4,631)	(4,645)	(4,553)
<b>Gross Profit</b>	<b>935</b>	<b>1,160</b>	<b>820</b>	<b>966</b>
G&A Expenses	(199)	(157)	(162)	(167)
Selling Expenses	(58)	(82)	(90)	(93)
<b>EBITDA</b>	<b>678</b>	<b>921</b>	<b>568</b>	<b>706</b>
Depreciation & Amortization	(225)	(237)	(240)	(242)
<b>EBIT</b>	<b>453</b>	<b>684</b>	<b>328</b>	<b>464</b>
Finance Costs	(10)	(2)	-	-
<b>Share of Results of Joint Ventures</b>	<b>2,607</b>	<b>3,878</b>	<b>3,701</b>	<b>4,135</b>
Other Income/Expenses	266	470	470	470
<b>Profit for Shareholders</b>	<b>3,315</b>	<b>5,030</b>	<b>4,499</b>	<b>5,068</b>
<b>EPS (QR)</b>	<b>5.48</b>	<b>8.31</b>	<b>7.44</b>	<b>8.38</b>
<b>Group Revenue</b>	<b>14,250</b>	<b>16,349</b>	<b>16,324</b>	<b>16,667</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2017	FY2018	FY2019e	FY2020e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,520	3,438	3,358	3,286
Investment Properties	-	-	-	-
Investment in Associates	1,439	1,407	1,437	1,467
Investment in Joint Ventures	18,593	17,886	17,986	18,086
Available-for-Sale Investments	534	-	-	-
Catalysts & Others	-	-	-	-
<b>Total Non-Current Assets</b>	<b>24,086</b>	<b>22,731</b>	<b>22,781</b>	<b>22,839</b>
<b>Current Assets</b>				
Inventories	1,444	1,717	1,722	1,688
Accounts Receivables & Prepayments	1,253	1,005	948	957
Due from Related Parties	650	665	627	633
Held for Trading Investments, Assets Held for Sale and Others	4	364	364	364
Cash and Bank Balances	7,789	10,589	11,386	12,935
<b>Total Current Assets</b>	<b>11,140</b>	<b>14,339</b>	<b>15,047</b>	<b>16,578</b>
<b>Total Assets</b>	<b>35,226</b>	<b>37,070</b>	<b>37,828</b>	<b>39,416</b>
<b>Equity</b>	<b>27,217</b>	<b>29,297</b>	<b>30,054</b>	<b>31,668</b>
<b>Total Equity</b>	<b>33,594</b>	<b>35,490</b>	<b>36,247</b>	<b>37,862</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Others	199	205	205	205
<b>Total Non-Current Liabilities</b>	<b>199</b>	<b>205</b>	<b>205</b>	<b>205</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	1,165	1,327	1,331	1,305
Due to Related Parties & Others	41	47	44	45
Loans and Borrowings	226	-	-	-
<b>Total Current Liabilities</b>	<b>1,432</b>	<b>1,374</b>	<b>1,376</b>	<b>1,350</b>
<b>Equity and Liabilities</b>	<b>35,226</b>	<b>37,070</b>	<b>37,828</b>	<b>39,416</b>

Source: Company data, QNB FS 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

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