

# Company Report

Tuesday, 05 March 2019

## 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
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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 <u>Alert on 4Q2018/2018 results</u>, 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

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	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	QA000A0KD6K3
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

Total Group         14,250         16,344         16,344         16,247         16,245         16,745         16,245         16,724         16,245         16,725         16,725         16,725         16,725         17,72         16,857         17,728         17,857 <th17,877< th=""> <th18,857< th="">         16,86</th18,857<></th17,877<>	Segment Revenue, Net Income, Pricing and Sales								
Petrolizer         5.705         5.897         5.741         5.907         6.007         6.079         6.071         6.079         6.071         6.079         6.071         6.079         6.071         6.079         6.071	Revenue (QR million): All Segments	2017	2018	2019	2020	2021	2022	2023	2024
Fertilizer         3,816         4,681         5,281         5,408         5,848         5,848         5,864	-								
Stel     4,828     5,791     5,813     2,019     2,020     2021     2022     2023     2033     2035 <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>									
Net Income (QR million): All Segments         2017         2018         2019         2020         2021         2022         2023         2033							•		
Total coup         5,715         5,079         4,499         5,088         5,458         5,664         5,668         5,661         6,668         5,661         6,668         5,661         6,667         2,737         6,637         1,839         1,975         2,069         2,737         6,69         565         661         79           Unshlocated         199         413         70         2,16         362         2,45         2,00         1,018           Ewene QR million)         Ext         544         545         5,572         589         601         607         600           LDPE         2,570         2,688         2,415         2,487         2,582         2,613         4,434         443									
Petrochemical         2,227         2,484         2,064         2,268         2,411         2,469         2,705         2,714         2,405         2,705         2,714         2,405         2,005         2,714         2,405         2,005         2,915           Stech         510         799         643         717         649         546         2,85         3,85         3,85         3,85         3,85         3,85         3,85         3,86         3,85         3,86         3,85         3,86         3,85         3,86         3,86         3,85         3,86         3,86         3,86         3,86         3,86         3,86         3,86         3,8									2024
Fertilizer         350         1,394         1,873         1,873         1,873         1,873         1,873         2,184         2,114         2,141         2,114         2,141         2,114         2,141         2,114         2,141         2,114         2,141         2,114         2,114         2,114         2,114         2,117         1,180         1,124         1,127         1,180         1,124         1,127         1,183         1,131         1,115         1,117         1,189         1,181           Methanol         429         521         418         431         431         437         433         437         433         437         433         437         433         437         433         437         433         437         433         437         433         437         433         437         438         4,362         4,564         4,594         4,564         4,594         4,564         5	-								
Stech         510         790         628         717         669         565         661         779           Unallocated         199         4.13         170         2.16         352         2.45         2.00         199           Revenue (QR million)         Ehylene         5.40         5.55         5.72         2.89         6.01         5.07         2.03         2.637         5.79         5.408         5.89         5.89         5.89         5.89         5.89         5.89         5.89         5.89         5.89         5.99         5.799         5.445							•		
Unalocated       199       413       170       216       362       245       200       191         Revene (QR million)       540       554       555       572       2688       24.15       24.47       2.463       2.433       2.633       2.633       2.635         LDPE       1.225       1.225       1.228       1.224       1.84       4.131       4.144       4.35       4.57       4.53         Methanol       429       521       418       4.31       4.444       4.35       4.57       6.079       6.021       6.079       6.079         Ammonia       317       3.46       6.60       9.601       4.811       4.488       4.962       4.967       4.957       4.977       4.18       7.997       6.021       6.01 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>794</td>									794
Ethylene         540         554         572         589         671         677         676           LDPE         1225         1202         1088         1,120         1,154         1,177         1,189           MEthanol         423         521         418         431         444         435         6079         6079           MTBE         682         890         903         958         677         580         680         6079           Ammonia         317         346         360         574         580         580         580         580           Mehamine         121         122	Unallocated		413		216	362	245	200	196
LDPE2,5,702,6,8802,4,132,4,8732,4,832,4,834,4384,1371,1381,188 </td <td>Revenue (QR million)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	Revenue (QR million)								
LLDPE       1.225       1.208       1.120       1.134       4.1177       1.189       1.181         Methanol       429       521       418       431       444       445       457         MTEE       682       890       903       958       971       5,907       6,021       6,079       6,079         Anmonia       317       346       550       559       5,741       5,807       6,021       6,079       6,071         Meanine       3,717       4,255       4,659       4,817       4,882       4,982       4,982       4,982       4,982       4,982       4,982       4,982       4,982       4,982       5,564	Ethylene	540	564	555	572	589	601	607	607
Methanol         429         521         118         431         443         453         457         457           MTEE         682         890         903         958         977         987         987           Petrochemical & Fuel Additives Revenue         5,705         5,791         5,907         5,741         5,807         5,807         5,807         5,807         5,807         5,808         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         4,861         5,809         5,807         5,804         5,807         5,108         5,805         5,864         5,805         5,804         5,805         5,804         5,805         5,804         5,805         5,804         5,805         5,804         5,805         5,804         5,805         5,									2,639
MTEE       682       880       903       9930       9930       9970       6,071       6,010 <td></td> <td></td> <td></td> <td></td> <td></td> <td>•</td> <td>•</td> <td></td> <td>1,189</td>						•	•		1,189
Petrochemical & Fuel Additives Revenue         5,705         5,741         5,907         6,021         6,079         6,779           Ammonia         317         346         560         359         374         380         380         380         4806         4866           Melamine         121         122         121         1114         1135         1001         1011         1131         1135         1020         1001         10111         1011         1011									457
Armonia         317         346         560         579         374         380         380         380           Urea         3,471         4,252         4,669         4,817         4,889         4,962         4,962         4,962           Fertilizer Revenue         3,916         4,661         5,281         5,408         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,564         5,291         202         2021         2022         2023         2022         2023         2022         2023         2021         205         1,015         1,010         1,010         1,010         1,010         1,010         1,010         1,010         1,010         1,010         1,010         1,									
Uran Melamine3,4714,2504,6712,2801,2121,231,241,331,201,211,101,111,1131,	Petrochemical & Fuel Additives Revenue	-	5,897	5,579	5,/41	5,907	6,021	6,079	
Melamine121122122122122122122122122121121121FrillerFriller5,665,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,5645,7645,7612,122,122,142,1032,112,1352,1212,142,1232,212,142,0352,0152,212,142,0152,1212,142,0142,1352,0212,0222,0222,0222,0232,0232,021Colis2,512,502,515,645,5195,534,7055,0651,0101,0101,0101,0101,0101,0111,1111,1121,1121,1121,1021,0201,0221,0281,0381,0381,0381,0381,0381,0381,0381,0381,0381,0381,0381,0381,0101,0101,0101,0101,0111,1111,1121,1021,0121,0121,0131,1111,1121,1121,0201,0201,0201,0281,038									380
Fertilizer Revenue         3,916         4,661         5,281         5,408         5,464         5,564         5,564           Steel Bars DRI/HBI         3,599         4,33         4,07         4,118         3,944         3,494           DRI/HBI         22         1,216         1,174         1,186         1,150         1,014         1,133           Coils         221         221         5,781         5,784         5,781         5,784         2,024         2,024         2,028         5,213         5,781         5,784         5,785         5,281           Steel Revenue         4,262         5,791         5,464         5,191         5,535         4,708         5,205         5,217           Ethylene         6,99         939         924         952         9,80         1,007         1,018         1,115           LDPE         1,066         1,135         1,020         1,015         1,007         1,018         1,115           LDPE         1,066         7,18         800         505         5,13         1,037         1,028         1,036           Methanol         302         302         305         305         3050         306           Steid<									
Steel Bars         3.599         4.331         4.077         4.118         3.994         5.493         5.493           DRI/HBI         82         - </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>									
DRI/HBI         82         -<									
Billets         723         1,216         1,174         1,186         1,150         1,014         1,131           Coils         231         250         219         2214         214         204         208         221           Steel Rvenue         4,628         5,791         5,454         5,519         5,353         4,708         5,085         5,291           Wtd Average Selling Prices (\$/MT)         2017         2018         2020         2020         2021         2022         2023         2023         2023           Petrochemicals & Fuel Additives         599         939         924         952         980         1,000         1,010         1,011           LDPE         1,086         1,135         1,132         1,000         1,025         1,035         1,007         1,088         1,030           Methanol         302         367         258         303         313         319         322         363           Methanol         302         367         258         303         315         319         322         363           Mumonia         300         300         300         307         312         316         316         366 <th< td=""><td></td><td></td><td>-</td><td>4,077</td><td>4,118</td><td>3,994</td><td>3,495</td><td>3,769</td><td>3,948</td></th<>			-	4,077	4,118	3,994	3,495	3,769	3,948
Coils         231         250         219         221         214         204         208         211           Stel Rvenue         4,628         5,791         5,464         5,519         5,353         4,708         5,085         5,291           Vid Average Selling Prices (\$/MT)         2017         2018         2019         2020         2021         2022         2022         2022         2022         2022         2022         2022         2022         2022         2023         2022         2021         2022         2021         2022         2021         2022         2021         2022         2021         2022         2021         2022         2021				1.174	1.186	1.150	1.014	1.114	1.137
Steel Revenue         4,628         5,791         5,464         5,513         4,708         5,081         5,291           Wtd Average Selling Prices (\$/MT)         2017         2018         2019         2020         2021         2022         2023         2023         2023           Petrochemicals & Fuel Additives         899         939         924         952         980         1,000         1,011         1,101         1,115			•			•	•		212
Petrochemicals & Fuel Additives         899         939         924         952         980         1,000         1,010         1,010           LDPE         1,066         1,135         1,020         1,051         1,082         1,044         1,115         1,115           LDPE         1,121         1,100         996         1,022         1,056         1,077         1,088         1,088           Methanol         302         367         295         303         313         319         322         324           MTBE         604         788         800         824         846         866         874         874           Fertilizer         -									5,291
Ethylene       899       939       932       952       980       1,000       1,010       1,010         LDPE       1,066       1,135       1,020       1,025       1,027       1,088       1,019         LDPE       1,121       1,100       996       1,025       1,056       1,077       1,088       1,019         Methanol       302       367       295       303       313       319       322       322         MTBE       604       788       800       824       848       866       874       874         Fertilizer	Wtd Average Selling Prices (\$/MT)	2017	2018	2019	2020	2021	2022	2023	2024
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       1,086         Methanol       302       295       303       313       319       322       322         MTBE       604       788       800       824       849       866       874       874         Fertilizer       Ammonia       264       288       300       307       312       316       316       316         Urea       214       261       290       297       302       306       306       306         Melarnine       285       905       9									
LLDPE       1,121       1,100       996       1,025       1,056       1,077       1,088       1,084         Methanol       302       367       295       303       313       319       322       327         MTBE       604       778       800       824       849       866       874       874         Fertilizer         800       824       849       866       316       316       316         Urea       264       288       300       307       312       316       316       306       306         Melamine       264       288       300       307       312       316       316       316         Steel        214       261       290       297       302       306       306         Rehar       515       618       589       597       548       559       577       548       559       577       548       559       577       548       559       577       548       559       577       548       559       577       548       559       571       586       560       650       650       650       650       650	-						•	•	
Methanol         302         367         295         303         313         319         322         322           MTBE         604         788         800         824         849         866         874         874           Fertilizer									
MTBE       604       788       800       824       849       866       874       874         Fertilizer       Ammonia       264       288       300       307       312       316       316       316       316         Melamine       264       288       900       905		1 1 2 1	1 1 0 0	006					
Fertilizer         Ammonia         264         288         300         307         312         316         316         316           Urea         214         261         290         297         302         306         306         306           Melamine         895         905         905         905         905         905         905         905           Steel         Rebar         515         618         589         595         577         548         559         577           PRI/HBI         226									
Ammonia       264       288       300       307       312       316       316       316         Urea       214       261       290       297       302       306       306       306         Melamine       895       904       905	Methanol	302	367	295	303	313	319	322	1,088 322 874
Urea       214       261       290       297       302       306       306       306       306         Melamine       895       904       905       907       207       201       2020       2021       2022       2023       2023       2027       2023       2027       2023       2027       2023       2027       2023       2027       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2023       2033       303       303       303       303       303       303       303       303       303       303       303       303       303       303       303	Methanol MTBE	302	367	295	303	313	319	322	322
Steel         Steel <th< td=""><td>Methanol MTBE Fertilizer</td><td>302 604</td><td>367 788</td><td>295 800</td><td>303 824</td><td>313 849</td><td>319 866</td><td>322 874</td><td>322 874</td></th<>	Methanol MTBE Fertilizer	302 604	367 788	295 800	303 824	313 849	319 866	322 874	322 874
Rebar         515         618         589         595         577         548         559         577           DRI/HBI         226         -	Methanol MTBE <b>Fertilizer</b> Ammonia	302 604 264	367 788 288	295 800 300	303 824 307	313 849 312	319 866 316	322 874 316	322
Rebar         515         618         589         595         577         548         559         577           DRI/HBI         226         -	Methanol MTBE Fertilizer Ammonia Urea	302 604 264 214	367 788 288 261	295 800 300 290	303 824 307 297	313 849 312 302	319 866 316 306	322 874 316 306	322 874 316
DRI/HBI         226         Jamma Salas         Jamma	Methanol MTBE Fertilizer Ammonia Urea Melamine	302 604 264 214	367 788 288 261	295 800 300 290	303 824 307 297	313 849 312 302	319 866 316 306	322 874 316 306	322 874 316 306
Coils         634         685         601         607         589         559         571         582           Sales Volume (MT'000)         2017         2018         2019         2020         2021         2022         2023         2022           Petrochemicals & Fuel Additives         E	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel	302 604 264 214 895	367 788 288 261 904	295 800 300 290 905	303 824 307 297 905	313 849 312 302 905	319 866 316 306 905	322 874 316 306 905	322 874 316 306 905
Sales Volume (MT' 000)         2017         2018         2019         2020         2021         2022         2023         2022           Petrochemicals & Fuel Additives         165	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar	302 604 264 214 895 515	367 788 288 261 904	295 800 300 290 905	303 824 307 297 905	313 849 312 302 905	319 866 316 306 905	322 874 316 306 905	322 874 316 306
Petrochemicals & Fuel Additives         Image: Section of the sectin of the section of the section of the section of the sec	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI	302 604 264 214 895 515 226	367 788 288 261 904 618	295 800 300 290 905 589	303 824 307 297 905 595	<ul><li>313</li><li>849</li><li>312</li><li>302</li><li>905</li><li>577</li></ul>	319 866 316 306 905 548	322 874 316 306 905 559	322 874 316 306 905
Ethylene       165	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets	302 604 264 214 895 515 226 441	367 788 288 261 904 618 477	295 800 300 290 905 589 461	303 824 307 297 905 595 465	313 849 312 302 905 577 451	319 866 316 306 905 548 429	322 874 316 306 905 559 437	322 874 316 306 905 571
LDPE6506	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils	302 604 264 214 895 515 226 441 634	367 788 288 261 904 618 477 685	295 800 300 290 905 589 461 601	303 824 307 297 905 595 465 607	313 849 312 302 905 577 451 589	319 866 316 306 905 548 429 559	322 874 316 306 905 559 437 571	322 874 316 306 905 571 446
LLDPE       300 <td< td=""><td>Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals &amp; Fuel Additives</td><td>302 604 264 214 895 515 226 441 634 <b>2017</b></td><td>367 788 288 261 904 618 477 685 <b>2018</b></td><td>295 800 300 290 905 589 461 601 <b>2019</b></td><td>303 824 307 297 905 595 465 607 <b>2020</b></td><td>313 849 312 302 905 577 451 589 <b>2021</b></td><td>319 866 316 306 905 548 429 559 <b>2022</b></td><td>322 874 316 306 905 559 437 571 <b>2023</b></td><td>322 874 316 306 905 571 446 582 2024</td></td<>	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives	302 604 264 214 895 515 226 441 634 <b>2017</b>	367 788 288 261 904 618 477 685 <b>2018</b>	295 800 300 290 905 589 461 601 <b>2019</b>	303 824 307 297 905 595 465 607 <b>2020</b>	313 849 312 302 905 577 451 589 <b>2021</b>	319 866 316 306 905 548 429 559 <b>2022</b>	322 874 316 306 905 559 437 571 <b>2023</b>	322 874 316 306 905 571 446 582 2024
Methanol MTBE390 310390<	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene	302 604 264 214 895 515 226 441 634 <b>2017</b> 165	367 788 288 261 904 618 477 685 <b>2018</b> 165	295 800 300 290 905 589 461 601 <b>2019</b> 165	303 824 307 297 905 595 465 607 <b>2020</b> 165	313 849 312 302 905 577 451 589 <b>2021</b> 165	319 866 316 306 905 548 429 559 <b>2022</b> 165	322 874 316 306 905 559 437 571 <b>2023</b> 165	322 874 316 306 905 571 446 582 <b>2024</b> 165
MTBE       310	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650	367 788 288 261 904 618 477 685 <b>2018</b> 165 650	295 800 300 290 905 589 461 601 <b>2019</b> 165 650	303 824 307 297 905 595 465 607 <b>2020</b> 165 650	313 849 312 302 905 577 451 589 <b>2021</b> 165 650	319 866 316 306 905 548 429 559 <b>2022</b> 165 650	322 874 316 306 905 559 437 571 <b>2023</b> 165 650	322 874 316 306 905 571 446 582 <b>2024</b> 165 650
Fertilizer         330	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300
Ammonia       330       <	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE Methanol	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390
Urea4,4504,4504,4504,4504,4504,4504,4504,4504,450Melamine373737373737373737Steel551,9201,9261,9001,9001,9001,7501,8501,900DRI/HBI100100100100100100100100100100Billets450700700700650700700Coils100100100100100100100100	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE Methanol MTBE	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300
Melamine         37         <	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE LLDPE Methanol MTBE Fertilizer	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310
Steel         1,920         1,926         1,900         1,900         1,900         1,750         1,850         1,900           DRI/HBI         100	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE Methanol MTBE Fertilizer Ammonia	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 330	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 330	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 330	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 330	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310 330
Steel Bar1,9201,9261,9001,9001,9001,7501,8501,900DRI/HBI100100100100100100100100100100Billets450700700700700650700700Coils100100100100100100100100	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE Hethanol MTBE Fertilizer Ammonia Urea	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 330 4,450	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 310 330 4,450	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 310	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310 330 4,450	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330 4,450	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 330 4,450	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330 4,450	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310
DRI/HBI100100100100100100100Billets450700700700650700700Coils100100100100100100100100	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE HuppE Stethanol MTBE Fertilizer Ammonia	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 330 4,450	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 310 330 4,450	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 310	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310 330 4,450	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330 4,450	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 330 4,450	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330 4,450	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310 330 4,450
Billets450700700700650700700Coils100100100100100100100100100	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE HLDPE Stehanol MTBE Fertilizer Ammonia Urea Melamine Steel	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 310 330 4,450 37	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 310 330 4,450 37	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 310 330 4,450 37	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310 310 330 4,450 37	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330 4,450 37	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 310 4,450 37	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330 4,450 37	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310 330 4,450 37
	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LLDPE HupPE Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Bar	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 310 330 4,450 37 1,920	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 310 330 4,450 37	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 330 4,450 37 1,900	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310 330 4,450 37	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330 4,450 37 1,900	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 330 4,450 37 1,750	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330 4,450 37	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310 330 4,450
	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LDPE LLDPE Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Bar DRI/HBI	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 330 4,450 37 1,920 100	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 310 330 4,450 37 1,926 100	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 330 4,450 37 1,900 100	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310 310 330 4,450 37	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330 4,450 37 1,900 100	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 310 330 4,450 37 1,750 100	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330 4,450 37 1,850 100	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310 330 4,450 37 1,900
Source: Company data, QNB FS estimates	Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Rebar DRI/HBI Billets Coils Sales Volume (MT' 000) Petrochemicals & Fuel Additives Ethylene LDPE LDPE LLDPE Methanol MTBE Fertilizer Ammonia Urea Melamine Steel Steel Bar DRI/HBI Billets	302 604 264 214 895 515 226 441 634 <b>2017</b> 165 650 300 390 310 330 4,450 37 1,920 100 450	367 788 288 261 904 618 477 685 <b>2018</b> 165 650 300 390 310 330 4,450 37 1,926 100 700	295 800 300 290 905 589 461 601 <b>2019</b> 165 650 300 390 310 330 4,450 37 1,900 100 700	303 824 307 297 905 595 465 607 <b>2020</b> 165 650 300 390 310 310 330 4,450 37	313 849 312 302 905 577 451 589 <b>2021</b> 165 650 300 390 310 330 4,450 37 1,900 100 700	319 866 316 306 905 548 429 559 <b>2022</b> 165 650 300 390 310 330 4,450 37 1,750 100 650	322 874 316 306 905 559 437 571 <b>2023</b> 165 650 300 390 310 330 4,450 37 1,850 100 700	322 874 316 306 905 571 446 582 <b>2024</b> 165 650 300 390 310 330 4,450 37 1,900 100

### 402018/2018 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 402018 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.

### **ONB FS Estimates and Comparisons**

Income Statement (QR million)	4Q2017	3Q2018	4Q2018	4Q2018e	A Vs. E	YoY	QoQ
Revenue	1,454.596	1,533.821	1,233.996	1,458.027	-15.4%	-15.2%	-19.5%
Cost of Sales (Ex. Depreciation & Amortization)*	(1,173.327)	(1,298.485)	(1,051.479)	(1,239.323)	-15.2%	-10.4%	-19.0%
Gross Profit	281.269	235.336	182.517	218.704	-16.5%	-35.1%	-22.4%
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%
EBITDA	213.689	180.258	117.445	154.983	-24.2%	-45.0%	-34.8%
Depreciation & Amortization	(57.922)	(59.872)	(59.500)	(59.932)	-0.7%	2.7%	-0.6%
EBIT	155.767	120.386	57.945	95.051	-39.0%	-62.8%	-51.9%
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%	
Profit Before tax	957.739	1,316.289	1,203.943	1,282.690	-6.1%	25.7%	-8.5%
Tax							
Profit After Tax	957.739	1,316.289	1,203.943	1,282.690	-6.1%	25.7%	-8.5%
Minority Interest							
Profit for Equity Holders	957.739	1,316.289	1,203.943	1,282.690	-6.1%	25.7%	-8.5%
EPS (in QR)	1.58	2.18	1.99	2.12	-6.1%	25.7%	-8.5%
Source: Company data, QNB FS estimates							

## **Detailed Financial Statements**

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

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2017	FY2018	FY2019e	FY2020e
Non-Current Assets				
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	-	-	-	-
Total Non-Current Assets	24,086	22,731	22,781	22,839
Current Assets				
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
Total Current Assets	11,140	14,339	15,047	16,578
Total Assets	35,226	37,070	37,828	39,416
Equity	27,217	29,297	30,054	31,668
Total Equity	33,594	35,490	36,247	37,862
Non-Current Liabilities				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Others	199	205	205	205
Total Non-Current Liabilities	199	205	205	205
Current Liabilities				
Accounts Payables & Accruals	1,165	1,327	1,331	1,305
Due to Related Parties & Others	41	47	44	45
Loans and Borrowings	226	-	-	-
Total Current Liabilities	1,432	1,374	1,376	1,350
Equity and Liabilities	35,226	37,070	37,828	39,416

Source: Company data, QNB FS estimates

### Recommendations

Based on the range for the upside / downside offered by the 12month 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

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