

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR99.90	Current Target Price	QR100.00
Implied Upside	0.1%	Old Target Price	QR104.00

### Weak Commodity Fundamentals Weigh; Stay Market Perform

**A weaker-than-expected 1Q2016; lowering price target to QR100 and staying Market Perform.** IQCD's overall reported quarterly net income of QR697mn was well below estimates with the major divergence stemming from the fertilizer segment. This segment dipped into losses for the first time since we can remember driven by high natural gas feedstock pricing. While the fertilizer segment remains cash flow positive (EBITDA margin of 22.9%), segment earnings dipped into the red by around QR3mn vs. a profit of QR333mn just one year ago. We do not foresee a relief in feedstock pricing this year with prices contractually set in early 2015. Hence, we lower our estimates for 2016 factoring in cramped profitability amid a subdued outlook for urea this year. We reduce our price target to QR100 and maintain our Market Perform rating.

#### Highlights

- **IQCD's 1Q2016 net profit misses estimates:** The company posted QR697mn in net income in 1Q2016 as compared to QR614mn in 4Q2015 (net income came in at QR860mn after excluding one-offs) & QR951mn in 1Q2015, missing our estimate of QR808mn (BBG consensus: QR800mn). While petrochemical profitability was in-line with our model, steel margins improved with the company benefiting from lower iron-ore pricing. The major negative surprise was in fertilizers, which posted a loss of QR3mn on higher-than-expected gas feedstock prices.
- **2016 profitability to remain subdued unless fertilizer fundamentals improve.** The improvement in petchem price realizations (on the back of higher crude in 2Q2016) and the uptick in steel pricing (albeit mitigated by increasing iron-ore prices) remain as positives. However, the outlook for urea remains challenging and feedstock pricing is expected to remain sticky at least for the remainder of 2016.

#### Catalysts

- **We favor IQCD as a long-term play but concede that any meaningful recovery in the stock will likely come only when confidence regarding oil price stability resurfaces.** We believe that the stock price continues to reflect a challenging operating environment. While near-term earnings will be under pressure, IQCD will be one of the first stocks to anticipate a relative stability/potential recovery in oil prices. An improvement in fertilizer economics should also bode well for the name.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD a Market Perform with a QR100 price target.** The stock is trading at a P/E of 18.5x for 2016, along with a dividend yield of 4.0%. We think another cut in dividends to QR4 in 2016 is possible (in-line with our model) unless results improve vs. our estimates.
- **Risks:** Declining oil prices remain a substantial risk to regional equity prices and have a direct detrimental impact on IQCD's operations.

#### Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
EPS (QR)	10.48	7.35	5.39	6.37
EPS Growth	(20.8%)	(29.9%)	(26.6%)	18.1%
P/E (x)	9.5	13.6	18.5	15.7
DPS (QR)	7.00	5.00	4.00	4.25
Dividend Yield (%)	7.0	5.0	4.0	4.3

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

#### Key Data

Current Market Price (QR)	99.90
Dividend Yield – 2016 (%)	4.0
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	152.00/88.00
3-m Average Volume ('000)	162.2
Mkt. Cap. (\$ bn/QR bn)	16.6/60.4
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.2
1-Year Total Return (%)	(29.7)
Fiscal Year End	December 31

Source: Bloomberg (as of May 05, 2016), \*Qatar Exchange (as of May 04, 2016); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
<b>Revenue</b>	<b>5,228</b>	<b>4,895</b>	<b>4,988</b>	<b>5,084</b>
Cost of Sales, Excluding D&A	(3,908)	(3,696)	(3,691)	(3,686)
<b>Gross Profit</b>	<b>1,319</b>	<b>1,199</b>	<b>1,297</b>	<b>1,398</b>
G&A Expenses, Excluding Depreciation	(175)	(152)	(155)	(158)
Selling Expenses, Excluding Depreciation	(57)	(39)	(50)	(51)
<b>EBITDA</b>	<b>1,088</b>	<b>1,008</b>	<b>1,092</b>	<b>1,190</b>
Depreciation & Amortization	(212)	(218)	(222)	(226)
<b>EBIT</b>	<b>876</b>	<b>790</b>	<b>870</b>	<b>963</b>
Finance Costs	(22)	(15)	(14)	(14)
Share of Results of Joint Ventures	3,697	2,381	2,879	3,417
Other Income/Expenses	(106)	104	116	129
<b>Profit Before Tax</b>	<b>4,445</b>	<b>3,261</b>	<b>3,851</b>	<b>4,495</b>
Income Tax Expense				
<b>Profit for Shareholders</b>	<b>4,445</b>	<b>3,261</b>	<b>3,851</b>	<b>4,495</b>
<b>EPS (QR)</b>	<b>7.35</b>	<b>5.39</b>	<b>6.37</b>	<b>7.43</b>
<b>Group EBIT</b>	<b>4,467</b>	<b>3,275</b>	<b>3,865</b>	<b>4,509</b>
<b>Group EBITDA</b>	<b>4,679</b>	<b>3,493</b>	<b>4,087</b>	<b>4,735</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,796	3,713	3,626	3,535
Investment Properties	4	4	4	4
Investment in Associates	1,396	1,366	1,346	1,336
Investment in Joint Ventures	19,606	19,706	19,806	19,906
Available-for-Sale Investments	683	659	659	659
Catalysts & Others	32	27	22	17
<b>Total Non-Current Assets</b>	<b>25,517</b>	<b>25,475</b>	<b>25,463</b>	<b>25,456</b>
<b>Current Assets</b>				
Inventories	1,436	1,215	1,214	1,212
Accounts Receivables & Prepayments	1,008	1,019	1,039	1,059
Due from Related Parties	773	196	200	203
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	7,021	7,800	9,058	10,823
<b>Total Current Assets</b>	<b>10,242</b>	<b>10,234</b>	<b>11,513</b>	<b>13,300</b>
<b>Total Assets</b>	<b>35,758</b>	<b>35,709</b>	<b>36,976</b>	<b>38,757</b>
<b>Equity</b>				
<b>Total Equity</b>	<b>33,625</b>	<b>33,751</b>	<b>35,085</b>	<b>36,897</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	676	556	526	496
End of Service Benefits & Others	157	158	158	158
<b>Total Non-Current Liabilities</b>	<b>834</b>	<b>714</b>	<b>684</b>	<b>654</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	799	744	743	742
Due to Related Parties & Others	51	49	12	13
Loans and Borrowings	451	451	451	451
<b>Total Current Liabilities</b>	<b>1,300</b>	<b>1,244</b>	<b>1,206</b>	<b>1,206</b>
<b>Equity and Liabilities</b>	<b>35,758</b>	<b>35,709</b>	<b>36,976</b>	<b>38,757</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

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