

Industries Qatar (IQCD)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR137.40	Target Price	QR164.30
Implied Upside	20%		

Solid 2Q2012 Results; Maintain Outperform

Strong revenue growth with in-line profitability; we maintain our rating and above consensus estimates. We base our bullish view on the company's significant capacity expansion in 2012/13 (our May site visit and subsequent checks confirmed QAFCO 5/6 and LDPE 3 expansions are on track), strong FCF generation (average of QR9.8bn over 2012-2016), solid dividend yield (6.8% in 2013) and potential for future expansion. Macro risks remain but we remain optimistic.

Financial Results and Key Takeaways

- **Reported top-line of QR4.7bn was 7% ahead of our estimate and the Bloomberg consensus of QR4.4bn.** Revenue grew 13% YoY and 8% QoQ and exceeded our modeled estimate due to strength in petrochemical and steel revenue. By segment: (1) Petrochemicals (QR1.7bn; 35% of revenue) beat our modeled estimate by around 8% and was up 24% sequentially (down 2% YoY). (2) Fertilizers (QR1.5bn; 31%) came in 1% ahead of our forecast and increased by 14% QoQ and 42% YoY. The yearly increase was driven by contribution from QAFCO 5 and strength in urea prices, in our view. (3) Steel (QR1.6bn; 34%) beat our estimate by 13% and increased 11% YoY but was down 9% from 1Q2012.
- **Net income of QR2.1bn was slightly below our estimate of QR2.2bn but 1% ahead of consensus estimates.** Net income increased 3% YoY and 12% QoQ. Gross and operating margins improved to 51.6% and 45.8% in 2Q2012 compared to 49.6% and 44.0% in 1Q2012, respectively. We suspect the slightly weaker-than-expected profitability was due to the increased contribution of lower margin steel revenue.
- **Balance sheet remains strong.** The company's net debt position improved to QR942mn vs. QR2.6bn in 1Q2012. IQCD's 2Q2012 net debt-to-equity ratio improved to 4% from 11% in the first quarter of this year.

Key Data:

Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	149.00/118.30
3-m Average Volume	122,486
Mkt. Cap. (\$ bn/QR bn)	20.8/75.6
Shares Outstanding (mn)	550
FO Limit* (%)	7.5
Current FO*	6.5
1-Year Total Return (%)	12.4

Fiscal Year End Dec. 31

Source: Bloomberg (as of August 08, 2012), *Qatar Exchange (as of August 08, 2012); Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	14
Hold	1
Sell	0

Source: Bloomberg

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QR mn ex. per Share Values	2Q2012	QoQ	YoY	2Q2012e	Actual vs. Estimated
Total Revenue	4,712	8%	13%	4,401	7%
Petrochemical	1,668	24%	-2%	1,552	8%
Fertilizer	1,454	14%	42%	1,440	1%
Steel	1,590	-9%	11%	1,410	13%
Net Attributable Income	2,129	12%	3%	2,178	-2%
EPS	3.87	12%	3%	3.96	-2%

Source: Company data

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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