IQCD Alert – Strong but In-Line 2Q2018; Maintain Market Perform

- **As expected a strong 2Q2018 quarter with steel revenue strength offsetting margin decline and an in-line PE/fertilizer performance.** IQCD reported an in-line 2Q2018 (+82.1% YoY, -2.1% QoQ) posting a net profit of QR1,241.71mn, in line with our estimate of QR1,204.48mn (variation of +3.1%).
- **Steel quarterly top-line hits its highest mark in four years.** The company's consolidated revenue, which represents the steel segment, came in at QR1,645.37mn in 2Q2018, which represents an increase of 79.4% YoY (+19.4% QoQ). Steel was again stronger-than-expected with revenue beating our estimate of QR1,308.94mn by 25.7%. This was the strongest segment top-line since 2Q2014; strength in the steel business is partly attributable to IQCD's newly minted (from May 1) offtake agreement with Muntajat that made up 36% of steel revenue for the quarter. According to the company, for 1H2018, sales of steel products have improved due to the change in geographical mix, while increase in raw materials costs and resurgence of demand in some geographies were the key factors those contributed to the increase in steel prices. Cash GMs declined to 21.5% from 28.2% in 1Q2018 despite a sequential decline in iron ore benchmark prices; GMs did expand from 15.8% in 2Q2017.
- **Petchem/fertilizer segments were broadly in-line with our model.** Segment income rose to QR993.65mn, up 71.8% YoY and 15.7% QoQ. According to IQCD, for 1H2018, sales volumes improved moderately on last year, despite a number of planned and unplanned shutdowns in some facilities. PE sales improved through higher production, as the segment was on an extended unplanned shutdown during 1H2017, specifically during 1Q2017. Recovery in global demand help the fertilizer business. PE prices have started to stabilize, while fuel additive prices have improved appreciably YoY. Stable crude oil prices has acted to support the PE/FA segments. Fertilizer prices have shown a modest rise driven by tightening of supplies, and a general recovery in demand.
- **Balance sheet remains strong (group debt of QR0.2bn vs. cash of QR10.2bn).** Capex needs remain minimal. Strategic deployment of this cash remains a key question.
- **Strong set of results but stock seems to be fully pricing it in; Maintain Market Perform rating.** We are of the view that these are a strong set of results and bottom-line performance would have been even stronger if the company did not report a loss of QR77.13mn from its steel associates (vs. a QR43.56mn profit in 2Q2017 and a QR21.0mn profit in 1Q2018) along with a substantial increase in selling costs. We expect to revise our 2018 net income estimate upward given strong 1H2018 results. If we maintain the current quarterly run-rate of QR1.25bn along with moderate growth, we can see IQCD posting QR5.1bn or so in earnings for 2018 (QR8.4 in EPS). This would imply a strong 50+% growth relative to FY2017's EPS of QR5.48 and a 2018 P/ E of 15x, somewhat expensive in our view. We maintain our Market Perform.

QNB FINANCIAL SERVICES

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