

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR140.30	Current Target Price	QR126.00
Implied Upside	(10.2%)		

Keeping 2018 Estimates but Steel Costs Pressure Beyond; MP

We are updating our model but keeping IQCD's PT/Rating unchanged at QR126/Market Perform. While overall 3Q2018 results were in line with QNBFS estimates, steel gross margins fell sharply for the quarter and we decide to lower estimates; the change is most evident in 2019 and 2020, where we have lowered EPS, EBIT and EBITDA by around 4% and 3%, respectively. We continue to expect above consensus dividends of QR7 per share for 2018. IQCD has plenty of liquidity to support this increase in dividends with cash of QR12.1bn and debt of just QR0.2bn across the group as of September 2018. We maintain our QR126 PT and retain our Market Perform rating.

Highlights

- **As expected, a strong 3Q2018 quarter with moderate upside in steel revenue offsetting steel margin decline and an in-line PE/fertilizer performance:** IQCD reported an in-line 3Q2018 (+76.0% YoY, +6.0% QoQ) posting a net profit of QR1,316.29mn, in line QNBFS estimate of QR1,290.64mn (Δ of +2.0%). For more details, please see our [Alert](#).
- **Steel margins come under pressure in 3Q2018 and this is likely to continue over the near term.** In 3Q2018, steel GMs hit their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 and 21.5% in 2Q2018. Iron ore prices remain elevated, while selling prices could come under pressure due to regional oversupply/discounting and inventory dump in the fourth quarter. Going forward, electricity charges are also slated to go up. Consequently, we lower our 4Q2018 steel gross margins to 15.0%; our 2018 and 2019 steel GMs go from 23.8% in 2018 and 25.0% in 2019 to 19.9% and 17.5%, respectively.
- **Reducing forward 2019 and 2020 estimates:** Our 2018 estimates remain pretty much unchanged. We note our estimates do not include any potential impairment charges. It is no secret that the company is facing challenges with its 31.03%-owned Saudi Steel Associate, SOLB. The BV of this associate is QR37.8mn as of June 2018 (IQCD recorded a QR101.3mn impairment charge related to this associate in 2017). The company also recorded a QR28mn ECL in 1H2018 and has a contingent liability of QR479.1mn. We note that management did not record any impairment charge for SOLB in 1H2018 as its Value in Use exceeded the BV of QR37.8mn. For 2019 and 2020, we have lowered EPS, EBIT and EBITDA by around 4% and 3%, respectively.
- **Strong FCF generation support dividends despite high payout ratio vs. historicals.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), should come in at QR4.8bn in 2018 and should average QR5.1bn over 2017 to 2026 with an average dividend cover of 1.2x. Payouts could remain high at an average of around ~83% over 2018 to 2026 (91% payout in 2017).
- **Balance sheet remains strong.** With minimal capex needs, strategic deployment of cash remains a key question.

Catalysts

- **With the stock enjoying solid momentum, 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 QR126. IQCD is fully valued-to-expensive @ 16.8x and 15.6x 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	FY2018e	FY2019e	FY2020e
Group Revenue (QR mn)	14,345	16,466	16,588	16,984
EPS (QR)	5.48	8.44	8.34	9.02
DPS (QR)	5.00	7.00	7.25	7.50
RoE (%)	9.7	14.2	13.8	14.5
P/E (x)	25.6	16.6	16.8	15.6
EV/EBITDA (x)	21.4	14.2	14.4	13.3
Dividend Yield %	3.6	5.0	5.2	5.3

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

Key Data

Current Market Price (QR)	140.30
Dividend Yield (%)	3.6
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	144.97/88.00
3-m Average Volume ('000)	141.2
Mkt. Cap. (\$ bn/QR bn)	23.3/84.9
EV (\$ bn/QR bn)	20.9/76.0
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	7.1
1-Year Total Return (%)	56.2
Fiscal Year End	December 31

Source: Bloomberg (as of November 11, 2018), *Qatar Exchange (as of November 11, 2018); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
Revenue	4,674	4,628	6,015	5,962
Cost of Sales, Excluding D&A	(3,304)	(3,694)	(4,818)	(4,918)
Gross Profit	1,370	935	1,197	1,043
G&A Expenses	(231)	(199)	(153)	(157)
Selling Expenses	(39)	(58)	(84)	(101)
EBITDA	1,101	678	959	785
Depreciation & Amortization	(225)	(225)	(238)	(238)
EBIT	876	453	721	547
Finance Costs	(13)	(10)	(2)	-
Share of Results of Joint Ventures	1,716	2,607	4,080	4,201
Other Income/Expenses	376	266	309	295
Profit for Shareholders	2,955	3,315	5,109	5,043
EPS (QR)	4.88	5.48	8.44	8.34
Group Revenue	13,750	14,345	16,466	16,588
Group EBIT	2,968	3,325	5,110	5,043
Group EBITDA	3,193	3,551	5,348	5,281

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
Non-Current Assets				
PP&E and Projects Under Development	3,671	3,520	3,420	3,343
Investment Properties	-	-	-	-
Investment in Associates	1,451	1,439	1,403	1,353
Investment in Joint Ventures	18,343	18,848	18,948	19,048
Available-for-Sale Investments	674	534	-	-
Catalysts & Others	-	-	-	-
Total Non-Current Assets	24,139	24,341	23,772	23,744
Current Assets				
Inventories	1,244	1,444	1,452	1,482
Accounts Receivables & Prepayments	1,054	1,253	1,285	1,274
Due from Related Parties	674	650	662	656
Held for Trading Investments, Assets Held for Sale and Others	4	4	374	374
Cash and Bank Balances	8,072	7,789	9,412	10,124
Total Current Assets	11,047	11,140	13,185	13,910
Total Assets	35,186	35,481	36,956	37,654
Equity	27,070	27,862	29,817	30,499
Total Equity	33,514	34,239	35,964	36,646
Non-Current Liabilities				
Loans and Borrowings	226	-	-	-
End of Service Benefits & Others	215	199	199	199
Total Non-Current Liabilities	441	199	199	199
Current Liabilities				
Accounts Payables & Accruals	674	776	752	768
Due to Related Parties & Others	106	41	41	41
Loans and Borrowings	451	226	-	-
Total Current Liabilities	1,231	1,043	794	809
Equity and Liabilities	35,186	35,481	36,956	37,654

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

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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