

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR110.50	Current Target Price	QR126.00
Implied Upside	14.0%	Old Target Price	QR130.00

Weak 4Q2016 Despite One-Offs; Growth Resumes in 2017

Improvement in product pricing should benefit earnings growth in 2017; maintaining our Market Perform rating with a revised price target of QR126. IQCD posted a weak 4Q2016 that missed estimates even after stripping out impairment-related one-offs. Going forward, given expectations of improving price realizations along with continuing high utilization levels (2016: 103%), we still believe that earnings appear to have troughed medium-term. We expect around 22% growth in normalized EPS in 2017. March 2017 FTSE Phase II inclusion remains a positive near-term catalyst.

Highlights

- **IQCD posts QR230mn net profit in 4Q2016, well below our estimate of QR908mn/Reuters consensus of QR903mn despite QR389mn in one-off fertilizer impairments.** Net income included: (1) QR314mn impairment in Qatar Melamine Co. and (2) QR100mn impairment in a revamp project that was shelved. Excluding these items, earnings were still soft vs. estimates, at QR619mn.
- **Fertilizers and steel underwhelm.** IQCD did not provide 9M2016 breakouts but **2H2016 fertilizer loss came in at QR253mn**(excluding impairments) vs. profits of QR37mn in 1H and our estimate of a loss of QR70mn. It seems the 3Q2016 dip in urea prices hurt performance even worse than our model while urea only began to recover strongly in November. **Steel net margins also worsened to 18% in 2H2016** (likely in low single digits in 4Q2016) vs. 28% in 1H and our estimate of 26%. 2H2016 steel revenue topped our model implying significant margin compression. Finally, **petchems fared better with 2H2016 revenue 16% above our estimate** but net margins narrowed to 40% (vs. our model of 46% and 1H's 45%).
- **Another reduction in dividends to QR4 a share but not entirely unexpected.** As we had stated in our report dated January 26, 2017, we were expecting a DPS of QR4.50 but could not rule out a range of QR4-QR5 a share in dividends; the company paid QR5 in DPS for 2015. With QR11.3bn in cash and QR2.9bn in debt across the group at end-2016, IQCD retains a strong balance sheet. The dividend cut could be due to a potential expansion at QAPCO with a decision expected soon.
- **Earnings recovery in 2017 on better price realizations.** Urea prices have recovered since their 3Q2016 lows (currently \$282/MT). We are modeling a 2017 price of \$240MT. PE prices have improved and we estimate flattish price performance. Increased emphasis on infrastructure spending by the new US administration is a positive for the global steel market. IQCD's steel realizations should benefit from infrastructure spending closer to home but margins may be hurt by higher iron ore prices. Overall, we see a 22% hike (normalized) in 2017 EPS to QR6.74.

Catalysts

- **We see limited potential for further price appreciation.** However, the upcoming FTSE Phase II inclusion can be a catalyst. If oil prices move past the expected \$60/b level, we could see another leg up in the stock price. A decision regarding available ethane capacity is due in 1H2017, which could reignite growth at QAPCO.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD a Market Perform with a price target of QR126.00.** IQCD is trading at 2017 EV/EBITDA multiple of 13.5x.
- **Risks:** Weakness in 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

	FY2015	FY2016	FY2017e	FY2018e
Group Revenue (QR mn)	16,000	13,800	14,658	15,339
Net Profit (QR mn)	4,469	2,955	4,080	4,677
EPS (QR)	7.39	4.88	6.74	7.73
DPS (QR)	5.00	4.00	4.50	5.00
RoE (%)	13.3	8.8	11.6	12.7
P/E (x)	15.0	22.6	16.4	14.3
EV/EBITDA (x)	12.4	18.3	13.5	11.9
Dividend Yield %	4.5	3.6	4.1	4.5

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

Key Data

Current Market Price (QR)	110.50
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)	122.00/94.50
3-m Average Volume ('000)	159.9
Mkt. Cap. (\$ bn/QR bn)	18.4/66.9
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.8
1-Year Total Return (%)	12.4
Fiscal Year End	December 31

Source: Bloomberg (as of February 6, 2017), *Qatar Exchange (as of February 5, 2017); Note: FO is foreign ownership

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
Revenue	5,228	4,674	4,928	5,164
Cost of Sales, Excluding D&A	(3,908)	(3,304)	(3,598)	(3,615)
Gross Profit	1,319	1,370	1,330	1,549
G&A Expenses	(175)	(231)	(238)	(245)
Selling Expenses	(57)	(39)	(41)	(43)
EBITDA	1,088	1,101	1,051	1,262
Depreciation & Amortization	(212)	(225)	(229)	(232)
EBIT	876	876	823	1,030
Finance Costs	(22)	(13)	(13)	(12)
Share of Results of Joint Ventures	3,721	1,716	2,890	3,279
Other Income/Expenses	(106)	376	380	380
Profit Before Tax	4,469	2,955	4,080	4,677
Income Tax Expense				
Profit for Shareholders	4,469	2,955	4,080	4,677
EPS (QR)	7.39	4.88	6.74	7.73
Group EBIT	4,491	2,968	4,093	4,689
Group EBITDA	4,702	3,193	4,321	4,921

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
Non-Current Assets				
PP&E and Projects Under Development	3,828	3,671	3,597	3,520
Investment Properties	4	-	-	-
Investment in Associates	1,396	1,451	1,501	1,551
Investment in Joint Ventures	19,557	18,343	18,443	18,543
Available-for-Sale Investments	683	674	674	674
Catalysts & Others	-	-	-	-
Total Non-Current Assets	25,468	24,139	24,216	24,288
Current Assets				
Inventories	1,436	1,244	1,354	1,361
Accounts Receivables & Prepayments	1,058	1,054	1,111	1,164
Due from Related Parties	773	674	711	745
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	7,021	8,072	9,285	10,930
Total Current Assets	10,292	11,047	12,464	14,203
Total Assets	35,760	35,186	36,680	38,491
Equity	27,212	27,070	28,628	30,465
Total Equity	33,576	33,514	35,072	36,909
Non-Current Liabilities				
Loans and Borrowings	676	226	196	166
End of Service Benefits & Others	207	215	215	215
Total Non-Current Liabilities	884	441	411	381
Current Liabilities				
Accounts Payables & Accruals	799	674	734	738
Due to Related Parties & Others	51	106	12	13
Loans and Borrowings	451	451	451	451
Total Current Liabilities	1,300	1,231	1,197	1,201
Equity and Liabilities	35,760	35,186	36,680	38,491

Source: Company data, QNBFS estimates

Relative Valuation

Fertilizers		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
Potash Corp of Saskatchewan Inc	POT	3.8%	38.3x	33.5x	12.4x	12.9x	10.9x	10.7x	1.4%	2.4%
Arab Potash/The	APOT	6.9%	26.5x	17.7x	13.3x	15.4x	16.5x	9.4x	NA	NA
Saudi Arabian Fertilizer Co	SAFCO	6.2%	28.7x	22.6x	19.0x	17.5x	20.5x	17.9x	2.5%	3.8%
Agrium Inc	AGU	3.4%	21.5x	18.8x	11.5x	11.2x	9.2x	8.5x	2.4%	2.6%
Yara International ASA	YAR	4.4%	16.4x	15.9x	6.8x	8.2x	7.3x	7.0x	(2.1%)	(4.2%)
Mosaic Co/The	MOS	3.5%	47.0x	32.6x	10.3x	10.1x	13.9x	11.5x	1.4%	(2.6%)
Average		4.7%	29.7x	23.5x	12.2x	12.6x	13.0x	10.8x	1.1%	0.4%
Median		4.1%	27.6x	20.7x	11.9x	12.1x	12.4x	10.1x	1.4%	2.4%
Industries Qatar QSC	IQCD	3.6%	22.6x	16.4x	7.7x	6.3x	18.3x	13.5x	6.8%	5.5%

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nrf: Not Meaningful (typically refers to negative or exceedingly large values)

Note: FY2016 for IQCD are actuals

Source: Bloomberg, QNBFS Research

Petrochemicals		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
Yanbu National Petrochemical Co	YANSAB	4.2%	14.5x	15.9x	10.5x	10.9x	9.2x	9.5x	8.6%	7.6%
Saudi Kayan Petrochemical Co	KAYAN	NA	94.4x	26.7x	6.4x	4.9x	11.4x	9.6x	8.5%	6.8%
Saudi Basic Industries Corp	SABIC	5.2%	16.2x	15.8x	7.2x	6.9x	8.1x	7.6x	9.3%	8.0%
Rabigh Refining & Petrochemical Co	PETROR	NA	nrf	74.6x	3.9x	2.8x	25.4x	19.9x	(24.3%)	8.1%
Saudi International Petrochemical Co	SIPCHEM	NA	100.0x	15.5x	7.5x	4.6x	11.8x	8.9x	8.6%	8.6%
Average		NA	56.3x	29.7x	7.1x	6.0x	13.2x	11.1x	2.2%	7.8%
Median		NA	55.3x	15.9x	7.2x	4.9x	11.4x	9.5x	8.6%	8.0%
Industries Qatar QSC	IQCD	3.6%	22.6x	16.4x	7.7x	6.3x	18.3x	13.5x	6.8%	5.5%

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Steel		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
ArcelorMittal	MT	NA	16.3x	13.3x	7.1x	6.2x	6.3x	5.6x	4.8%	6.8%
thyssenkrupp AG	TKA	0.6%	22.7x	16.5x	5.4x	7.6x	6.3x	5.9x	(0.6%)	1.3%
Nucor Corp	NUE	2.6%	22.7x	16.1x	10.5x	9.6x	9.5x	7.7x	6.2%	5.4%
United States Steel Corp	X	0.6%	nrf	14.1x	7.3x	7.5x	14.4x	5.9x	7.2%	5.8%
JFE Holdings Inc	5411	0.5%	40.3x	12.6x	5.4x	4.5x	10.5x	8.2x	3.3%	2.7%
Steel Authority of India Ltd	SAIL	NA	nrf	60.4x	44.4x	13.3x	65.0x	12.1x	(14.8%)	(9.2%)
JSW Steel Ltd	JSTL	0.4%	22.3x	11.8x	7.5x	6.0x	8.7x	6.5x	(0.6%)	8.1%
Average		0.9%	24.8x	20.7x	12.5x	7.8x	17.2x	7.4x	0.8%	3.0%
Median		0.6%	22.7x	14.1x	7.3x	7.5x	9.5x	6.5x	3.3%	5.4%
Industries Qatar QSC	IQCD	3.6%	22.6x	16.4x	7.7x	6.3x	18.3x	13.5x	6.8%	5.5%

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Note: FY2016 for IQCD are actuals

Source: Bloomberg, QNBFS Research

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

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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