IQCD Alert – 3Q2017 Net Income In-Line; Stay Market Perform

- **IQCD's bottom-line rises 9.7% QoQ in 3Q2017 coming in-line with our forecast–** Industries Qatar's (IQCD) net profit rose 9.7% QoQ (+1.6% YoY) to QR747.81mn in 3Q2017, in line with our estimate of QR733.30mn (variation of +2%). In its 9M2017 trading statement, the company stated it was able to maintain average 2017 prices slightly above 2016 levels, while keeping controllable operating costs below last year. Production and sales volumes remained relatively flat despite planned and unplanned outages.
- **Steel revenue surprises on the upside but muted impact on profitability, as expected.** The company's steel revenue came in at QR1,149.29mn in 3Q2017, which represents an increase of 25.3% QoQ (+14.2% YoY). This was higher our estimate of QR963.18mn, a somewhat surprising number given the blockade; we suspect there may be some one-offs in the figure. Our sense is IQCD is actively looking to target alternative markets for its steel, especially the 15% of volumes sold into Saudi Arabia previously. Also, the blockade's impact was only felt from September, as flagged in our preview note on October 2, 2017. However, as expected, steel margins were impacted by higher iron ore prices; the trading statement also pointed to utility costs as a contributor to the margin compression. Cash GMs came in at 17.3%, an improvement vs. 2Q2017's 15.8% but lower than the 37.7% posted in 3Q2016. In its published 9M2017 statement, the company disclosed steel prices/sales marginally fell YoY with volume reduction driven by lower production due to slightly higher facility maintenance in 2017.
- **Other details remain limited but fertilizer and petchems JV income came in QR567.25mn, below our estimate of QR645.00mn in 3Q2017.** IQCD does not provide basic segment details except during 1H/annual reports, so we do not have a good sense of revenue/margin details. However, we note urea prices improved progressively in 3Q2017 (especially in September), reaching a high of $290/MT. Moreover, petrochemical realizations should have benefited from the rebound in oil translating to moderate growth. For 9M2017, IQCD noted in its statement, PE price improvements over 2016 helped offset reduced sales volumes from unplanned outages and fuel additives gained YoY on both prices and volumes. Fertilizers, however, saw flat YoY volumes and marginal price improvements.
- **Selling costs doubled its quarterly run rate to QR17.36mn and we await more details** regarding the nature/continuity of this expense run-rate increase.
- **Balance sheet remains strong with net cash of QR9bn.** We expect most of the remaining QR2.4bn debt (due to QAFCO) to be paid down by YE. Capex needs remain minimal.
- **We retain our Market Perform rating on the stock with a QR109 price target.** Our estimates will change moderately on the net income level given the strength seen in urea, averaging $277/MT so far in 4Q2017 vs. $225/MT in 3Q2017. PE prices also continue to firm progressively. Steel will remain the swing factor with prices for re-bars and iron ore both down on an average in 4Q2017 and as IQCD maneuvers around the blockade.

QNB FINANCIAL SERVICES

Saugata Sarkar, CFA
+974 4476 6534 | saugata.sarkar@qnbfs.com.qa

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

Saugata Sarkar, CFA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff
Senior Research Analyst
+974 4476 6589
mohd.abodaff@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafoosi, CMT, CFTe
Senior Research Analyst
+974 4476 6535
zaid.alnafoosi@qnbfs.com.qa