

Qatar Aluminium Manufacturing Co. (QAMCO)

| Recommendation | MARKET PERFORM | Risk Rating | R-4 |
|----------------|----------------|----------------------|-------|
| Share Price | QR1.606 | Current Target Price | 1.450 |
| Implied Upside | -9.7% | Old Target Price | 0.980 |

Higher Aluminum Prices Lead to Higher Valuation; Increasing TP but Maintaining MP

We have increased QAMCO's target price, primarily due to higher product prices and lower risk free rate. After testing an 11-year cycle-low of \$1,426/ton in April'20, primary aluminium prices have been continuously rising reaching \$2,542 in August 2021 and approaching their 11-year cycle-high of \$2,792, which was last seen in 2011. Supply shortages due to the drought in China, strong demand from China, coupled with expectations for global economies to normalize in the near future amid successful vaccine rollout in the developed countries, are the major factors currently driving aluminium prices higher. Furthermore, we think there is no immediate indication for cycle reversal in aluminium prices. Hence, we tweak our aluminium price estimates for QAMCO for 2022 and onward by 11.3% to \$2,104, a level that equals the mid-point of the aluminium price cycle. We still would like to note that current prices (\$2,542) are 20.5% above the cycle mid-point. Thanks to its state of the art plant and the support of its major shareholders, which enable QAMCO's JV Qatalum to act like an integrated producer, Qatalum is one of the world's lowest cost smelters. Qatalum's high margins, low indebtedness and lack of major expansion projects on the horizon warrant the continuation of its strong cash generation as well as attractive dividend yields for QAMCO shareholders. On the other hand, Qatalum currently operates above its nameplate capacity; hence, its top- & bottom-lines are more sensitive to the changes in aluminum prices vs. its peers. We revise our one-year TP for QAMCO shares to QR1.45 and maintain our Market Perform rating.

Highlights

- **Qatar Aluminium Manufacturing Company (QAMCO) reported a net profit of QR288.5mn in 1H2021 as compared to a net profit of QR14.6mn in 1H2020. The increase in net profits is mainly attributable to higher aluminum prices and rising aluminum premiums.** Gain from "share of results from a joint venture (Qatalum)" stood at QR288.0mn in 1H2021 vs. QR18.3mn in 1H2020. EPS amounted to QR0.052 in 1H2021 vs. QR0.003 in 1H2020. QAMCO reported the highest half-yearly net profit in its history of QR288.5mn at the end of June 30, 2021.
- **QAMCO's 50% JV Qatalum's 1H2021 revenue rose 20.7% YoY as a result of higher aluminium prices, and shifting product mix to more value-added products, which mitigated lower sales volumes.** Qatalum recorded QR2.71bn in 1H2021 revenue, despite a 4% decline in production volumes to 319k tonnes. On the other hand, a 21.5% YoY increase in average LME aluminium prices in 1H2021 (because of better global market conditions) were the primary reason for QAMCO's average sales prices to rise to \$2,325/ton, up 26.0% YoY. Furthermore, due to a higher value-added product mix vs. 1H2020, QAMCO's average premium rose by 77.2% YoY to \$266/ton in 1H2021. The demand for value-added products started to pick-up in 4Q2020 and has continued in 1H2021 as well, supporting QAMCO's higher aluminum premiums.
- **Higher product prices and premiums, coupled with QAMCO's high operating leverage, result in a significant margin expansion YoY.** Qatalum recorded QR647.6mn in operating profits in 1H2021, which was up 294.1% YoY. Increasing aluminum premiums and higher aluminum prices vs. a moderate increase in average alumina prices (from \$264/ton in 1H2020 to \$288.2 in 1H2021) resulted in Qatalum's operating margin to rise to 23.9% in 1H2021 from 7.3% in 1H2020 and 9.3% in FY2020.
- **Qatalum's net financial expenses declined 43.9% YoY to QR71.7mn in 1H2021 from QR127.7mn last year, supporting Qatalum's and, consequently, QAMCO's bottom-line.** On the other hand, QAMCO's share of Qatalum's debt rose slightly YTD to QR2.27bn in 1H2021 from QR2.22bn at end-2020.
- **We are revising our 1-year target share price to QR1.45 mainly on higher long-term aluminium price expectations and a lower risk-free rate while maintaining our Market Perform rating.** Due to COVID-19 disruptions, primary aluminum prices tested their 11-year cycle-low at \$1,426/ton in April 2020. Since then, prices have bounced by 78.3% to \$2,542 reaching nearly their cycle-highs, amid strong demand from China, leading Chinese aluminum imports to rise by 118% YoY in 1Q2021. Currently, primary aluminum price is at \$2,542/ton, which is roughly flat YoY. There is no indication for a cycle reversal in aluminium prices in the foreseeable future; therefore, we tweak our aluminium price estimates for QAMCO for 2022 and onward by 11.3% to \$2,104, a level that equals to the mid-point of the 11-year price cycle. We still would like to note that current primary aluminum prices (\$2,542) are 20.5% above the cycle mid-point.

Catalysts

- 1) Primary aluminum and feedstock price trends are the main determinants of QAMCO's EPS, DPS and valuations
- 2) New capacity plans or other growth initiatives for Qatalum
- 3) Dividend announcements.

Recommendation, Valuation and Risks

- **We continue to rate QAMCO a MARKET PERFORM.** Our 1-year price target of QR1.45 implies a 9.7% downside potential, based on a weighted average of DCF and international peer comparison.
- **Risks:** 1) Geopolitical risks 2) Further COVID-19 disruptions on demand 3) Global aluminum over-capacity/over-supply.

Key Financial Data and Estimates

| | 2019 | 2020 | 2021e | 2022e |
|-------------------|-------|-------|-------|-------|
| EPS (QR) | 0.01 | 0.01 | 0.12 | 0.09 |
| P/E (x) (*) | 114.9 | 109.6 | 13.6 | 17.9 |
| EV/EBITDA (x) (*) | 16.3 | 17.0 | 8.4 | 9.8 |
| DPS (QR) | 0.01 | 0.01 | 0.11 | 0.08 |
| DY (%) | 0.6% | 0.8% | 6.6% | 5.0% |

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

Key Data

| | |
|-------------------------|--------------|
| Bloomberg Ticker | QAMC QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | QAMC.QA |
| ISIN | QA000M2522L9 |
| Sector | Industrials |
| 52wk High/52wk Low (QR) | 1.738 / 0.81 |
| 3-m Avg. Volume (mn) | 15.4 |
| Mkt. Cap. (\$ bn/QR bn) | 2.4/8.9 |
| EV (\$ bn/QR bn) | 2.3/8.5 |
| FO Limit* (%) | 49.0 |
| Current FO* (%) | 6.6 |
| Shares Outstanding (mn) | 5,580.1 |
| 1-Year Total Return (%) | 72.6% |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of August 18, 2021), *Qatar Exchange (as of August 18, 2021); Note: FO is foreign ownership

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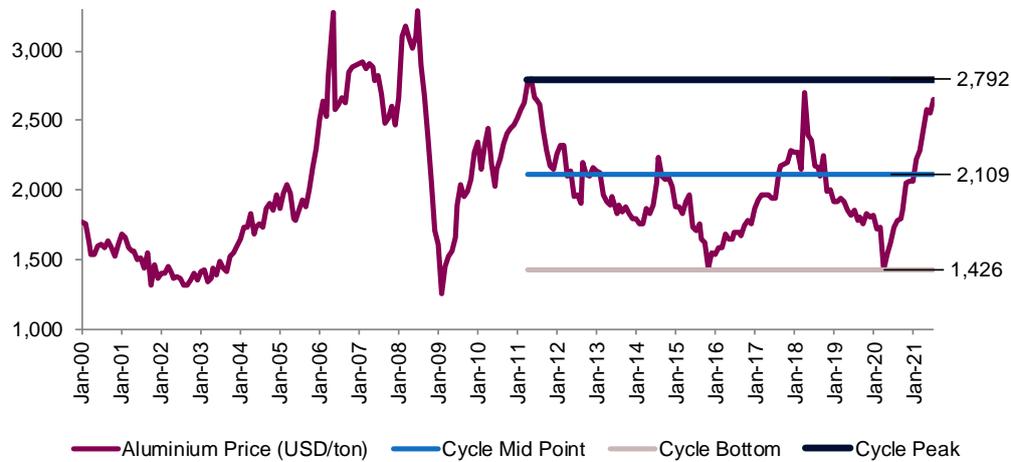
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Primary Aluminium Prices



Source: Bloomberg, QNBFS Research

Estimates Changes - QAMCO

| QRmn | 2020 | 2021e | | | 2022e | | |
|---------------------|--------------|---------------|---------------|-----------|---------------|---------------|-----------|
| | | Current | Previous | %ch. | Current | Previous | %ch. |
| Revenue | 2,204 | 3,051 | 3,051 | 0% | 2,816 | 2,675 | 5% |
| Operating Income | 195 | 752 | 752 | 0% | 581 | 546 | 6% |
| Net Income | 95 | 677 | 677 | 0% | 513 | 482 | 6% |
| EPS | 0.017 | 0.121 | 0.121 | 0% | 0.092 | 0.086 | 6% |
| Growth (YoY) | 19.0% | 614.6% | 614.6% | | -24.2% | -28.7% | |

Source: Company data, QNBFS Research Estimates

Detailed Financial Statements

Income Statement* - QAMCO

| In QR mn | 2017e | 2018e | 2019(**) | 2020 | 2021e | 2022e |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Revenues | 2,557 | 2,799 | 2,695 | 2,204 | 3,051 | 2,816 |
| Total operating expenses | 2,124 | 2,332 | 2,494 | 2,010 | 2,299 | 2,235 |
| Raw materials and energy consumption | 1,137 | 1,379 | 1,487 | 1,140 | 1,405 | 1,336 |
| Salaries and related costs | 253 | 254 | 225 | 195 | 201 | 203 |
| Depreciation and amortization | 504 | 483 | 494 | 447 | 443 | 443 |
| Loss on disposal of PPE | 8 | 2 | 30 | 15 | 25 | 25 |
| Technical service costs | 22 | 25 | 31 | 24 | 30 | 31 |
| Other expenses | 199 | 188 | 218 | 179 | 183 | 185 |
| Qamco's own SG&A | 0 | 1 | 10 | 11 | 11 | 12 |
| Operating profit | 433 | 467 | 200 | 195 | 752 | 581 |
| EBITDA | 938 | 950 | 694 | 642 | 1,195 | 1,024 |
| Net finance costs | 103 | 112 | 121 | 101 | 77 | 69 |
| Qamco's other income | 0 | 0 | 0 | 1.3 | 1.3 | 1.3 |
| Net Profits | 330 | 355 | 80 | 95 | 677 | 513 |
| Other Comprehensive Income: | 43 | 46 | 0 | 0 | 0 | 0 |
| Total Comprehensive Income | 373 | 399 | 80 | 95 | 677 | 513 |
| EPS | 0.06 | 0.06 | 0.01 | 0.01 | 0.12 | 0.09 |
| DPS | 0.05 | 0.02 | 0.01 | 0.01 | 0.11 | 0.08 |

* As QAMCO has no operations on its own, figures are based on QAMCO's 50% stake at Qatalum plus QAMCO's own P&L items

Note: EPS based on current number of shares, Source: Company data, QNBFS Research estimates

Balance Sheet - QAMCO

| In QR mn | 2017e | 2018e | 2019(*) | 2020 | 2021e | 2022e |
|---|----------|--------------|--------------|--------------|--------------|--------------|
| Current Assets | | | | | | |
| Cash & Cash Equivalents | 0 | 0 | 103 | 440 | 417 | 422 |
| HFT Investments/ST Investments | 0 | 0 | 0 | 0 | 0 | 0 |
| Accounts Receivables/Prepayments | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Receivables | 0 | 0 | 2 | 1 | 2 | 2 |
| Inventories | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Current Assets | 0 | 0 | 105 | 440 | 419 | 423 |
| Non-Current Assets | | | | | | |
| Investment in a joint venture | 0 | 5,697 | 5,647 | 5,357 | 5,842 | 5,905 |
| Goodwill & Intangibles | 0 | 0 | 0 | 0 | 0 | 0 |
| Property, Plant & Equipment | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Current Assets | 0 | 5,697 | 5,647 | 5,357 | 5,842 | 5,905 |
| Total Assets | 0 | 5,697 | 5,752 | 5,797 | 6,262 | 6,329 |
| Current Liabilities | | | | | | |
| Accounts Payable & Accruals | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Payables | 0 | 0 | 29 | 38 | 40 | 41 |
| Due to Related Parties | 0 | 0 | 4 | 5 | 2 | 2 |
| Current Liabilities | 0 | 0 | 34 | 42 | 42 | 43 |
| Non-Current Liabilities | | | | | | |
| Employees End of Service Benefits | 0 | 0 | 0 | 0 | 0 | 0 |
| Long-Term Debt | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Current Liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 0 | 0 | 34 | 42 | 42 | 43 |
| Shareholders' Equity | | | | | | |
| Share Capital | 0 | 5,580 | 5,580 | 5,580 | 5,580 | 5,580 |
| Total Shareholder's Equity | 0 | 5,697 | 5,719 | 5,755 | 6,220 | 6,286 |
| Liabilities & Shareholder's Equity | 0 | 5,697 | 5,752 | 5,797 | 6,262 | 6,329 |

* As QAMCO has no operations on its own, figures are based on QAMCO's 50% stake at Qatalum plus QAMCO's own P&L items

Source: Company data, QNBFS Research estimates

Ratio Analysis

Key Metrics

| Particulars | 2019(***) | 2020e | 2021e | 2022e | 2023e |
|--------------------------|-----------|---------|--------|---------|--------|
| Growth Rates* | | | | | |
| Revenue* | N/M | (18.2%) | 38.5% | (7.7%) | 0.0% |
| Gross Profit* | N/M | (15.6%) | 142.5% | (16.6%) | (0.5%) |
| EBITDA* | N/M | (7.9%) | 86.0% | (14.2%) | (0.6%) |
| EBIT* | N/M | (4.2%) | 278.6% | (22.3%) | (1.5%) |
| PAT/EPS** | N/M | 9.5% | 631.2% | (22.7%) | (0.2%) |
| DPS** | N/M | 9.5% | 631.2% | (22.7%) | (0.2%) |
| FCPS* | N/M | (8.2%) | 108.2% | (16.1%) | (0.7%) |
| Operating Ratios* | | | | | |
| Gross Margin | 18.1% | 18.7% | 32.8% | 29.6% | 29.5% |
| EBITDA Margin | 26.1% | 29.4% | 39.5% | 36.8% | 36.5% |
| EBIT Margin | 7.8% | 9.1% | 25.0% | 21.1% | 20.7% |
| Net Margin | 3.2% | 4.3% | 22.5% | 18.9% | 18.9% |
| Finance Ratios* | | | | | |
| Debt-Equity Ratio | 65% | 58% | 44% | 39% | 32% |
| Net Debt-to-Equity Ratio | 54% | 43% | 23% | 22% | 20% |
| Net Debt-to-Mcap | 52% | 41% | 25% | 23% | 22% |
| Net debt- to-EBITDA | 3.3 | 2.9 | 0.9 | 1.0 | 1.0 |
| Interest Coverage | 5.7 | 6.0 | 16.0 | 17.0 | 19.3 |
| Return Ratios** | | | | | |
| ROA | 1.4% | 1.4% | 10.5% | 7.9% | 7.8% |
| ROE | 1.4% | 1.4% | 10.6% | 8.0% | 7.9% |
| Valuation | | | | | |
| EPS** | 0.01 | 0.01 | 0.12 | 0.09 | 0.09 |
| DPS** | 0.01 | 0.01 | 0.11 | 0.08 | 0.08 |
| FCFPS* | 0.10 | 0.09 | 0.18 | 0.15 | 0.15 |
| EV/Sales* | 2.1 | 2.5 | 1.7 | 1.8 | 1.8 |
| EV/EBITDA* | 16.3 | 17.0 | 8.4 | 9.8 | 9.8 |
| EV/EBIT* | 56.5 | 56.7 | 13.4 | 17.2 | 17.4 |
| P/E** | 114.9 | 109.6 | 13.6 | 17.9 | 18.0 |
| P/BV** | 1.6 | 1.5 | 1.4 | 1.4 | 1.4 |
| FCF Yield* | 5.9% | 5.4% | 11.3% | 9.5% | 9.5% |
| Dividend Yield** | 0.6% | 0.8% | 6.6% | 5.0% | 5.0% |

* As QAMCO has no operations of its own, multiples are based on QAMCO's 50% stake at Qatalum, plus QAMCO's relevant financial items

** QAMCO

*** QAMCO's 2019 financials are for the 13 month period between Dec'18-Dec'19

Source: Company data, QNBFS Research 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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