

# **IQCD Alert – Awards EPC Contract For World’s Largest Blue Ammonia Train (Ammonia-7); Outperform**

- **IQCD confirms Ammonia-7 project, which should be operational by 1Q2026:** In a press release, IQCD announced the award of an Engineering, Procurement & Construction (EPC) contract for Ammonia-7. This project is expected to be the world’s largest Blue ammonia train, with a designed capacity of 1.2 MTPA. QAFCO has awarded this \$1.06bn (QR3.86bn) EPC contract to consortium of ThyssenKrupp and Consolidated Contractors (CCC). This new train will be located in Mesaieed Industrial City (MIC) and will be a part of QAFCO’s integrated facilities; QAFCO remains the world’s largest integrated single-site producer of ammonia and urea, with a current production capacity of 3.84 MTPA of ammonia and 5.96 MTPA of urea. We remind investors that IQCD first announced this project in early February 2022, when it reported its 4Q2021 results. **Given that IQCD’s last major expansion projects were back in 2012/2013 (QAFCO-5/6 & LDPE-3), this news could be received positively by investors.**
- **IQCD expects to use internal funding for this project, which is not a concern given its balance sheet strength.** IQCD’s balance sheet remains solid with QR14.8bn in cash/bank balances & zero long-term debt. The company, on a proportionate basis, generated operating cash flow of QR5.1bn and free cash flow of QR4.6bn in 1H2022. Previously, IQCD had stated that it had planned to use around QR2.6bn in debt financing to tackle this QR4.1bn project. However, now it seems that the entirety of this project will be funded with internal cash flow. The previously disclosed QR4.1bn project cost included capitalized financing costs, which are not relevant anymore; however, the overall “owners cost” of this project is likely to be somewhat higher than the QR3.86bn EPC cost given project management/overhead costs.
- **Ammonia-7 will likely add to net ammonia production and/or replace older, less efficient existing ammonia plants (Ammonia-1 & 2), which could lead to revenue and/or margin upside in the future.** The two older plants consume roughly 45 MMBtu/T in gas, while Ammonia-7 will likely use only around 30 MMBtu/T. The company had previously disclosed roughly 400 KTPA of ammonia will be left over for sale if Ammonia-1 & 2 are shut down.
- **IQCD also announces a strategic partnership with QatarEnergy Renewable Solutions (QERS) for expanding into Blue Ammonia:** QERS is a fully-owned affiliate of QatarEnergy and will develop and manage integrated carbon capture and storage (CCS) facilities capable of capturing and sequestering about 1.5 MTPA of CO<sub>2</sub>. QERS will also supply more than 35 MW of renewable electricity to the Ammonia-7 train from its Photovoltaic (PV) solar power plant in MIC, which is currently under construction. Moreover, QERS will also develop and lead the process for certifying ammonia produced by the Ammonia-7 facility as Blue ammonia, along with industry experts and relevant independent bodies. Finally, QERS will act as the sole off-taker and marketer of all Blue ammonia produced by Ammonia-7.
- **Blue vs. Gray vs. Green:** Blue ammonia is produced when the CO<sub>2</sub> generated during conventional ammonia production is captured and stored underground. The produced ammonia can be transported using conventional ships and can then be used in power stations to produce low-carbon electricity. Ammonia can also be sold into the merchant market (especially if arbitrage vs. urea is positive) or used to produce urea. Blue ammonia is essentially conventional ammonia (or **Gray ammonia**), where the byproduct CO<sub>2</sub> is captured and sequestered rather than released into the atmosphere. Finally, **Green ammonia** uses a process, which is 100% renewable and carbon-free.
- **We maintain our Outperform rating on IQCD with a QR21.00 price target; Ammonia-7 should boost its ESG credentials.** Earnings trajectory remains strong thus far in 2022, with 1H2022 net income up by 57.2%. In terms of longer-term catalysts, the Ammonia-7 project is also expected to add 400 KTPA of sellable ammonia by 2026. Moreover, similar to the QAFCO deal, IQCD could look to acquire Total’s 20% stake in QAPCO, which could also be perceived positively by investors.

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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