

IQCD Alert – Strong 4Q2021/FY2021 & In-Line QR1 DPS; QAFCO 7 Could Aid Growth; Raising PT to QR19

- **IQCD reported QR2.5bn in 4Q2021 earnings (up 260.5% YoY/16.7 QoQ)** – Industries Qatar's (IQCD) 4Q2021 earnings did come in 16.6% below our estimate of QR2.9bn. We note 4Q2020/2020 figures have been restated and 4Q2021 net income is up 139.4% YoY from prior-reported 4Q2020. In terms of segments, modestly better-than-anticipated performance in steel was more than offset by weaker-than-expected figures from petchems (which went through a major planned turnaround in 4Q2021) and, to a certain extent, from fertilizers.
- **For FY2021, IQCD recorded a net profit of QR8.1bn as compared to QR1.8bn in 2020.** Improvement in pricing helped boost earnings by QR8.5bn (fertilizers: QR5.3bn, petchems: QR2.3bn & steel: QR0.9bn), while sales volumes gained 20% YoY contributing QR1.2bn to the earnings change. Sales volumes received a boost as QAFCO 1-4 was under a temporary gas processing agreement during the first seven months of 2020. However, volumes were somewhat offset by the planned maintenance of PE facilities in 4Q2021. The company also reported record-high proportionate revenue of ~QR20bn, up ~77% YoY. *For segment details, please see pages 2 & 3.*
- **DPS of QR1 is right in-line with our estimate and implies an attractive yield of 5.9%.** DPS tripled from QR0.33 in 2020 and the dividend payout was roughly 75% of IQCD's 2021 EPS of QR1.34.
- **QAFCO 7 ammonia project could be a positive.** In its presentation, IQCD disclosed its QAFCO 7 project, which entails capex of QR4.1bn, of which QR2.7bn is expected to be funded by debt. The presentation also implies this project should commence operations in late 2025 or 2026. 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. Assuming this project is approved and does go ahead, it would likely add to net ammonia production and/or replace older, less efficient existing ammonia plants. This could lead to revenue and/or margin upside in the future. We await more details from management regarding this project. Overall, IQCD disclosed QR11.1bn in group capex over 2022-2026.
- **Despite paying ~\$1bn for the QAFCO deal, IQCD's balance sheet remains solid with QR16.0bn in cash/bank balances & zero long-term debt.** The company, on a proportionate basis, generated operating cash flow of QR9.4bn and free cash flow of QR8.1bn in 2021. Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions, when they arise, while retaining dry powder to take advantage of potential acquisition opportunities in the future. IQCD's strong FCF generating ability also provides investors with lower DPS volatility.
- **We maintain our Outperform rating on IQCD and raise our target price to QR19.00.** We will publish our revised estimates in the near future after IQCD's earnings call. Our initial sense is that earnings for 2022 are likely to be flattish-to-moderately lower relative to 2021 vs. our previous estimate of a ~20% decline. Volumes are likely to be modestly up YoY in 2022 given QAPCO's major planned shutdown in 4Q2021. Pricing, especially for urea (4Q2021 realized price of \$773/MT and ME prices currently at ~\$870/MT), is probably unsustainable but on the flip side, we do think oil prices will continue to strengthen in 2022 helping petchem realizations. Some supply restrictions should continue to linger and that along with accelerating economic recovery, should act as tailwinds for petchems, fertilizer and steel prices. In terms of longer-term catalysts, similar to the QAFCO deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could also be perceived positively by investors.

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| Income Statement (QR millio: | 4Q2020 | 3Q2021 | 4Q2021 | 4Q2021E | A Vs. E | YoY | QoQ | 2020 | 2021 | 2021E | A Vs. E | YoY |
|----------------------------------|------------------|------------------|------------------|------------------|---------------|----------------|--------------|------------------|-------------------|-------------------|--------------|----------------|
| Revenue | 2,086.986 | 3,392.226 | 4,722.830 | 5,028.251 | -6.1% | 126.3% | 39.2% | 7,399.718 | 14,169.123 | 14,474.544 | -2.1% | 91.5% |
| Cost of Sales (Ex. D &A) | (1,284.581) | (1,614.621) | (1,830.056) | (2,162.148) | -15.4% | 42.5% | 13.3% | (4,856.247) | (6,715.048) | (7,047.140) | -4.7% | 38.3% |
| Gross Profit | 802.405 | 1,777.605 | 2,892.774 | 2,866.103 | 0.9% | 260.5% | 62.7% | 2,543.471 | 7,454.075 | 7,427.404 | 0.4% | 193.1% |
| General & Admin. Expenses | (136.468) | (121.759) | (315.813) | (150.848) | 109.4% | 131.4% | 159.4% | (480.855) | (712.168) | (547.203) | 30.1% | 48.1% |
| Selling & Distribution Costs | (2.755) | (1.444) | (24.808) | (24.464) | 1.4% | 800.5% | 1618.0% | (35.019) | (59.285) | (58.941) | 0.6% | 69.3% |
| EBITDA | 663.182 | 1,654.402 | 2,552.153 | 2,690.792 | -5.2% | 284.8% | 54.3% | 2,027.597 | 6,682.622 | 6,821.261 | -2.0% | 229.6% |
| Depreciation & Amortization | (522.160) | (322.245) | (484.284) | (326.400) | 48.4% | -7.3% | 50.3% | (1,609.922) | (1,449.746) | (1,291.862) | 12.2% | -9.9% |
| EBIT | 141.022 | 1,332.157 | 2,067.869 | 2,364.392 | -12.5% | 1366.3% | 55.2% | 417.675 | 5,232.876 | 5,529.399 | -5.4% | 1152.9% |
| Finance Costs | (17.102) | (5.697) | (5.696) | (5.956) | -4.4% | -66.7% | 0.0% | (37.354) | (25.349) | (25.609) | -1.0% | -32.1% |
| Share of Results from Associates | 10.116 | 27.602 | 24.506 | 29.396 | -16.6% | 142.2% | -11.2% | 14.347 | 105.329 | 110.219 | -4.4% | 634.2% |
| Share of Results of JVs | 441.051 | 678.443 | 306.215 | 430.305 | -28.8% | -30.6% | -54.9% | 1,065.305 | 2,479.297 | 2,603.387 | -4.8% | 132.7% |
| Other Income | 1,532.317 | 67.739 | 57.335 | 120.448 | -52.4% | -96.3% | -15.4% | 1,763.567 | 298.613 | 361.726 | -17.4% | -83.1% |
| Investment Income & Other | (1,408.934) | - | - | - | - | -100.0% | - | (1,377.894) | - | - | - | -100.0% |
| Profit Before Tax | 698.470 | 2,100.244 | 2,450.229 | 2,938.585 | -16.6% | 250.8% | 16.7% | 1,845.646 | 8,090.766 | 8,579.122 | -5.7% | 338.4% |
| Tax | 75.462 | (0.122) | 0.144 | (0.171) | N/M | -99.8% | N/M | (1.868) | (0.669) | (0.984) | -32.0% | -64.2% |
| Profit After Tax | 773.932 | 2,100.122 | 2,450.373 | 2,938.414 | -16.6% | 216.6% | 16.7% | 1,843.778 | 8,090.097 | 8,578.138 | -5.7% | 338.8% |
| Minority Interest | (94.171) | (0.192) | 0.286 | (0.591) | N/M | N/M | N/M | (33.333) | (1.119) | (1.996) | -43.9% | -96.6% |
| Profit for Equity Holders | 679.761 | 2,099.930 | 2,450.659 | 2,937.823 | -16.6% | 260.5% | 16.7% | 1,810.445 | 8,088.978 | 8,576.142 | -5.7% | 346.8% |
| EPS (in QR) | 0.11 | 0.35 | 0.41 | 0.49 | -16.6% | 260.5% | 16.7% | 0.30 | 1.34 | 1.42 | -5.7% | 346.8% |
| DPS (in QR) | | | | | | | | 0.33 | 1.00 | 1.00 | 0.0% | 203.0% |

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In QR Millions

| Steel | 4Q2020 | 3Q2021 | 4Q2021 | 4Q2021E | A Vs. E | 2020 | 2021 | 2021E | A Vs. E |
|----------------------------|-----------|-----------|-----------|-----------|---------|-------------|------------|------------|---------|
| Revenue | 662.541 | 700.859 | 973.241 | 702.471 | 39% | 2,994.713 | 3,885.942 | 3,615.172 | 7% |
| Net Profit | 49.602 | 132.987 | 87.333 | 86.815 | 1% | (1,313.583) | 715.942 | 715.424 | 0% |
| NM % | 7.49% | 18.97% | 8.97% | 12.36% | | -43.9% | 18.4% | 19.8% | |
| Revenue Q/Q | 23% | -29% | 39% | 0% | | | | | |
| Net Income Q/Q | 90% | -44% | -34% | -35% | | | | | |
| Revenue Y/Y | -52% | 30% | 47% | 6% | | -41% | 30% | 21% | |
| Net Income Y/Y | N/M | 410% | 76% | 75% | | N/M | N/M | N/M | |
| Petrochemicals | 4Q2020 | 3Q2021 | 4Q2021 | 4Q2021E | A Vs. E | 2020 | 2021 | 2021E | A Vs. E |
| Revenue | 1,231.000 | 1,567.000 | 1,295.000 | 1,229.443 | 5% | 3,962.000 | 5,981.000 | 5,914.443 | 1% |
| Net Profit | 441.051 | 678.443 | 306.215 | 430.305 | -29% | 1,065.305 | 2,479.297 | 2,603.387 | -5% |
| NM % | 35.83% | 43.30% | 23.65% | 35.00% | | 26.9% | 41.5% | 44.0% | |
| Revenue Q/Q | 20% | -10% | -17% | -22% | | | | | |
| Net Income Q/Q | 40% | -23% | -55% | -37% | | | | | |
| Revenue Y/Y | 15% | 53% | 5% | 0% | | -10% | 51% | 49% | |
| Net Income Y/Y | 44% | 115% | -31% | -2% | | -19% | 133% | 144% | |
| Fertilizers | 4Q2020 | 3Q2021 | 4Q2021 | 4Q2021E | A Vs. E | 2020 | 2021 | 2021E | A Vs. E |
| Revenue | 1,424.445 | 2,691.367 | 3,749.589 | 4,325.780 | -13% | 4,405.005 | 10,283.181 | 10,859.372 | -5% |
| Net Profit | 125.062 | 1,280.292 | 1,902.943 | 2,179.821 | -13% | 652.715 | 4,721.207 | 4,998.085 | -6% |
| NM % | 8.78% | 47.57% | 50.75% | 50.39% | | 14.8% | 45.9% | 46.0% | |
| Revenue Q/Q | 35% | 21% | 39% | 61% | | | | | |
| Net Income Q/Q | -19% | 36% | 49% | 70% | | | | | |
| Revenue Y/Y | 33% | 156% | 163% | 204% | | 3% | 133% | 147% | |
| Net Income Y/Y | -54% | 732% | 1422% | 1643% | | -25% | 623% | 666% | |
| Total Revenue | 3,317.986 | 4,959.226 | 6,017.830 | 6,257.695 | | 11,361.718 | 20,150.123 | 20,388.988 | |
| YoY Growth | -6% | 90% | 81% | 89% | | -17% | 77% | 79% | |
| QoQ Growth | 27% | 0% | 21% | 26% | | | | | |
| Steel | 20% | 14% | 16% | 11% | | 26% | 19% | 18% | |
| Petrochemicals | 37% | 32% | 22% | 20% | | 35% | 30% | 29% | |
| Fertilizers | 43% | 54% | 62% | 69% | | 39% | 51% | 53% | |
| Total NI (Ex. Unallocated) | 615.715 | 2,091.722 | 2,296.491 | 2,696.940 | | 404.437 | 7,916.446 | 8,316.895 | |
| Steel | 8% | 6% | 4% | 3% | | -325% | 9% | 9% | |
| Petrochemicals | 72% | 32% | 13% | 16% | | 263% | 31% | 31% | |
| Fertilizers | 20% | 61% | 83% | 81% | | 161% | 60% | 60% | |

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% |

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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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