

IQCD Alert – Modest 4Q2018 Miss; DPS of QR6 Below Expectations; Maintain Market Perform

- **A moderate miss in 4Q2018 net income caps a strong year:** IQCD's net income rose 25.7% YoY (but declined 8.5% QoQ) to QR1,203.9mn in 4Q2018; our estimate was QR1,282.7mn (variation of -6.1%). The miss vs. our model was due to steel and petchems with strength in urea leading to an in-line fertilizer performance. By segment: **(1) For steel**, gross profit (on a cash basis, ex. depreciation & amortization) fell short by 16.5% vs. our estimate despite steel gross margins coming in only slightly lower at 14.8% vs. our estimate of 15% as steel revenue at QR1,234.0mn (-15.2% YoY, -19.5% QoQ) fell below our estimate. **(2) For petchems (including fuel additives)**, a modest top-line beat – 4Q2018 revenue of QR1.5bn was slightly above our forecast of QR1.4bn – was more than offset by a decline in segment net income during the quarter. We note segment revenue/net income remain approximations as IQCD does not explicitly provide proportional revenue for QAPCO (which has a number of JVs, including Qatar Vinyl or QVC, Qatofin and Qatar Plastic Products or QPPC) and only discloses segment net income during 1H/FY. **(3) As far as fertilizers** are concerned, revenue of QR1.3bn was bang in-line with our model, while net income was 3% ahead of our estimate. QAFCO's quarterly figures are also approximations as segment results are reported only twice a year. Petchems (including FA) and fertilizers are reported as **JV income** in the consolidated statements, which came in at QR952.1mn (+16.3% YoY, -11.3% QoQ), again falling 17.5% lower than our forecast of QR1,154.2mn. Income from associates surprised positively given a nice uptick from Foulath Holding (steel company in Bahrain). As expected, IQCD wrote-off its remaining carrying value in SOLB Steel (KSA) to the tune of QR49.5mn; the company also recognized QR389mn (of its maximum exposure of QR489mn) as provisions on financial guarantees given to lenders in SOLB Steel. *For more details on this and our estimates, please see our [4Q2018 preview](#) and refer to page 2 for actual vs. estimate comparisons.*
- **In FY2018, IQCD reported a 51.7% YoY jump in net profit to QR5.0bn (-2% vs. QNB FS estimate of QR5.1bn) on increased product prices and sales volume.** Sales volumes increased marginally vs. 2017 (about 4%) and reached a new record for the group; according to the press release, production volumes remained stable despite some planned and unplanned maintenance at some facilities. In **petrochems**, sales volumes improved YoY, as some plants returned to normal levels following unplanned outages in early 2017. **Fertilizer** sales volumes were almost flat despite a few planned and unplanned outages, while those in the **steel** segment saw significant growth on 2017, as billets started to be sold externally (was being used in the UAE steel facility previously). The company also noted **product prices** saw around 12% growth over 2017, mostly driven by strength in **fertilizers** (urea) in 2H2018 and uptick in **steel** prices following iron ore recovery and shortage of some key consumables (electrodes); IQCD also benefited from its new steel marketing strategy (the company is selling its steel volumes through Muntajat from May 2018 onward). **PE** prices improved slightly driven by strength in crude. **Overall group revenue**, assuming proportionate consolidation, came in at QR16.3bn, which grew by 16% on 2017 but was 1% below our estimate of QR16.5bn.
- **Lots of cash and zero debt – maybe expansion in the horizon?** IQCD maintains a very strong balance sheet with group cash reaching QR13.1bn with debt of just QR26mn.
- **DPS of QR6 below our estimate of QR7:** IQCD recommended a cash DPS of QR6 (4.3%, a payout ratio of 72.2%), up 20% YoY from QR5 but below our forecast of QR7.
- **We continue to recommend a Market Perform with a PT of QR126.** Considering its overall strong 2018 performance is now in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019 (our 2019 earnings estimate is flat at QR5bn). Sequentially for 1Q2019, trends look to be flattish-to-down given product pricing.

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Income Statement (QR million)	4Q2017	3Q2018	4Q2018	4Q2018e	A Vs. E	YoY	QoQ
Revenue	1,454.596	1,533.821	1,233.996	1,458.027	-15.4%	-15.2%	-19.5%
Cost of Sales (Ex. Depreciation & Amortization)	(1,173.327)	(1,298.485)	(1,051.479)	(1,239.323)	-15.2%	-10.4%	-19.0%
Gross Profit	281.269	235.336	182.517	218.704	-16.5%	-35.1%	-22.4%
General and Administrative Expenses	(43.388)	(33.357)	(45.536)	(42.000)	8.4%	5.0%	36.5%
Selling Expenses	(24.192)	(21.721)	(19.536)	(21.721)	-10.1%	-19.2%	-10.1%
EBITDA	213.689	180.258	117.445	154.983	-24.2%	-45.0%	-34.8%
Depreciation & Amortization	(57.922)	(59.872)	(59.500)	(59.932)	-0.7%	2.7%	-0.6%
EBIT	155.767	120.386	57.945	95.051	-39.0%	-62.8%	-51.9%
Finance Costs	(2.313)	(0.110)	(0.145)	(0.055)	163.6%	-93.7%	31.8%
Income from Investments	254.610	-	338.498	260.000	30.2%	32.9%	
Cost of take or pay obligation	-	-	-				
Share of Results from Associates	(46.536)	10.532	78.243	10.000	682.4%	N/M	642.9%
Share of Results of JVs	818.533	1,073.437	952.099	1,154.185	-17.5%	16.3%	-11.3%
Other, Net	(181.914)	112.044	(173.162)	(236.491)	-26.8%	-4.8%	N/M
Income from Investments & Other Income/Expenses	(40.408)		(49.535)			22.6%	
Profit Before tax	957.739	1,316.289	1,203.943	1,282.690	-6.1%	25.7%	-8.5%
Tax							
Profit After Tax	957.739	1,316.289	1,203.943	1,282.690	-6.1%	25.7%	-8.5%
Minority Interest							
Profit for Equity Holders	957.739	1,316.289	1,203.943	1,282.690	-6.1%	25.7%	-8.5%
EPS (in QR)	1.58	2.18	1.99	2.12	-6.1%	25.7%	-8.5%

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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