

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR93.40	Current Target Price	QR109.00
Implied Upside	16.7%	Old Target Price	QR120.00

### 2017 Outlook Remains Subdued; Maintain Market Perform

**Lowering estimates & target price after a muted 2Q2017.** While we believe IQCD's 2Q results were not particularly surprising, we have adjusted our forecasts downward given the softer-than-expected outlook for urea prices and moderate weakness expected in the steel segment given ongoing regional uncertainties. We believe overall impact to steel will be muted considering less than 20% of volumes are sold into the KSA, which can be absorbed in the domestic market, albeit with a lag. Improving oil prices could help PE realizations and improve overall investor sentiment in the stock. We expect 2H2017 earnings to increase 7% to QR1.8bn vs. 1H2017's QR1.7bn (normalized). We maintain our Market Perform rating but lower our price target to QR109.

#### Highlights

- **2Q normalized profit of QR743mn was slightly lower than our estimate of QR789mn** – Net income, including a provision of QR61mn for IQCD's Saudi steel associate SOLB, came in at QR682mn (-27% QoQ, -47% YoY). According to management's trading statement, the company's performance in some segments, in particular PE and fertilizer, was affected by some planned and unplanned maintenance during 1H2017. The miss vs. our estimates stemmed primarily due to the steel segment (one month of impact from the blockade), which saw its net margin decline to 14% in 1H2017 vs. 23% in FY2016.
- **Balance sheet remains strong (group debt of QR2.5bn vs. cash of QR10.2bn).** We expect most of this debt (due to QAFCO) to be paid down by YE. Capex needs remain minimal.
- **Strong FCF generation support dividends despite high payout ratio vs. historical.** IQCD's FCF (OCF+Cash dividends from JVs-steel capex), should come in at QR3.1bn in 2017 and should average QR4.9bn over the upcoming 10-year period with an average dividend cover of 1.4x. We continue to forecast a DPS of QR4.50/sh. (4.8% DY, +13% YoY) in 2017, which leads to a high payout of 80% vs. historical normalized payouts of ~55%. However, the company's strong cash position should support our DPS estimate and send a positive signal to investors amid the ongoing political uncertainty.
- **Impact of blockade too early to call but probably not very significant.** According to company's trading statement, the group is closely monitoring the effect of the blockade and is amending the flow of operations and activities when deemed necessary. Our sense is less than 10% of IQCD's petchems/fertilizer business is directed at the blockade countries, which can be redirected given the global commodity nature of these products. Moreover, less than 20% of steel output goes to Saudi Arabia, which can be absorbed by the Qatari market. The company's Dubai steel subsidiary will likely have to re-source its billets but should still be able to sell its rebar output in the UAE for now. QASCO's two associates in Saudi Arabia/Bahrain should only impact earnings modestly. All of this is contingent on the assumption that the present situation does not deteriorate materially.
- **Another leg down in forecasts; 2H expected to be moderately better than 1H.** We expect 2H2017 earnings to increase 7% to QR1.8bn vs. QR1.7bn (normalized) in the first half of 2017. Results for 2H2017 could be impacted by temporary (hopefully) disruptions in the steel business offset by marginal gains in PE and fertilizer results. 3Q2017 could prove challenging given lower seasonal sales considering it is the first full quarter with impact from the blockade. Overall, we see a 3% growth (normalized) in 2017 EPS to QR5.71.

#### Catalysts

- **Limited potential for stock price gains.** We stay moderately bullish on PE, somewhat cautious on urea while steel could face pressure near-term. Urea gas costs remain high.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR109.** IQCD is fully valued @ 13.5x and 11.0x EV/EBITDA for 2017 and 2018, respectively.
- **Risks:** Weakness in oil prices remain a substantial risk to regional equity prices and have a direct detrimental impact on IQCD's operations. Geopolitical risks remain.

#### Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Group Revenue (QR mn)	16,000	13,800	13,714	14,428
EPS (QR)	7.39	4.88	5.61	6.99
DPS (QR)	5.00	4.00	4.50	5.00
RoE (%)	13.3	8.8	9.9	11.8
P/E (x)	12.6	19.1	16.6	13.4
EV/EBITDA (x)	10.4	15.3	13.5	11.0
Dividend Yield %	5.4	4.3	4.8	5.4

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

#### Key Data

Current Market Price (QR)	93.40
Dividend Yield (%)	4.8
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	122.00/91.10
3-m Average Volume ('000)	144.5
Mkt. Cap. (\$ bn/QR bn)	15.5/56.5
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.7
1-Year Total Return (%)	(15.0)
Fiscal Year End	December 31

Source: Bloomberg (as of August 10, 2017), \*Qatar Exchange (as of August 10, 2017); Note: FO is foreign ownership

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## Comparative Multiples

Fertilizers		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
Potash Corp of Saskatchewan Inc	POT	2.4%	28.4x	25.6x	12.2x	12.0x	10.6x	9.4x	2.8%	2.8%
Arab Potash/The	APOT	5.3%	NA	NA	NA	NA	NA	NA	NA	NA
Saudi Arabian Fertilizer Co	SAFCO	1.6%	21.9x	17.7x	16.3x	15.1x	17.1x	14.5x	3.2%	6.1%
Agrium Inc	AGU	3.7%	20.0x	16.6x	9.4x	9.6x	8.3x	7.4x	3.2%	3.4%
Yara International ASA	YAR	3.2%	19.2x	13.6x	8.1x	7.1x	8.4x	6.7x	(6.9%)	1.7%
Mosaic Co/The	MOS	4.8%	26.6x	18.1x	7.0x	6.3x	10.1x	8.0x	0.5%	3.8%
<b>Average</b>		<b>3.5%</b>	<b>23.2x</b>	<b>18.4x</b>	<b>10.6x</b>	<b>10.0x</b>	<b>10.9x</b>	<b>9.2x</b>	<b>0.6%</b>	<b>3.6%</b>
<b>Median</b>		<b>3.5%</b>	<b>21.9x</b>	<b>17.7x</b>	<b>9.4x</b>	<b>9.6x</b>	<b>10.1x</b>	<b>8.0x</b>	<b>2.8%</b>	<b>3.4%</b>
<b>Industries Qatar QSC</b>	<b>IQCD</b>	<b>4.3%</b>	<b>16.6x</b>	<b>13.4x</b>	<b>5.5x</b>	<b>6.8x</b>	<b>13.5x</b>	<b>11.0x</b>	<b>5.7%</b>	<b>7.1%</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Petrochemicals		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
Yanbu National Petrochemical Co	YANSAB	5.5%	14.0x	13.2x	9.3x	9.2x	8.7x	8.2x	10.5%	10.6%
Saudi Kayan Petrochemical Co	KAYAN	NA	18.5x	12.9x	4.3x	4.5x	9.2x	9.0x	19.9%	18.7%
Saudi Basic Industries Corp	SABIC	4.1%	14.7x	14.2x	7.8x	6.8x	7.4x	7.2x	10.3%	10.7%
Rabigh Refining & Petrochemical Co	PETRO	NA	nmf	74.2x	7.5x	3.0x	18.5x	13.8x	NA	NA
Saudi International Petrochemical Co	SIPCHEM	NA	12.6x	10.3x	3.4x	2.7x	8.2x	7.5x	18.9%	26.2%
<b>Average</b>		<b>NA</b>	<b>15.0x</b>	<b>25.0x</b>	<b>6.4x</b>	<b>5.2x</b>	<b>10.4x</b>	<b>9.2x</b>	<b>14.9%</b>	<b>16.5%</b>
<b>Median</b>		<b>NA</b>	<b>14.4x</b>	<b>13.2x</b>	<b>7.5x</b>	<b>4.5x</b>	<b>8.7x</b>	<b>8.2x</b>	<b>14.7%</b>	<b>14.7%</b>
<b>Industries Qatar QSC</b>	<b>IQCD</b>	<b>4.3%</b>	<b>16.6x</b>	<b>13.4x</b>	<b>5.5x</b>	<b>6.8x</b>	<b>13.5x</b>	<b>11.0x</b>	<b>5.7%</b>	<b>7.1%</b>

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Source: Bloomberg, QNBFS Research

Steel		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
ArcelorMittal	MT	NA	8.4x	9.2x	5.6x	4.9x	5.0x	5.1x	7.1%	9.2%
thyssenkrupp AG	TKA	0.6%	16.7x	14.1x	10.0x	7.2x	7.6x	6.8x	(0.0%)	3.7%
Nucor Corp	NUE	2.7%	13.3x	12.0x	10.5x	7.9x	6.9x	6.4x	6.5%	8.4%
United States Steel Corp	X	0.9%	14.2x	10.7x	5.5x	4.6x	4.8x	4.2x	3.0%	3.9%
JFE Holdings Inc	5411	1.3%	9.0x	11.3x	5.3x	4.3x	8.2x	7.3x	3.7%	8.4%
Steel Authority of India Ltd	SAIL	NA	nmf	14.0x	7.2x	4.6x	15.1x	8.8x	2.9%	12.8%
JSW Steel Ltd	JSTL	1.0%	13.4x	9.1x	7.7x	6.3x	7.4x	6.7x	2.3%	5.2%
<b>Average</b>		<b>1.3%</b>	<b>12.5x</b>	<b>11.5x</b>	<b>7.4x</b>	<b>5.7x</b>	<b>7.9x</b>	<b>6.5x</b>	<b>3.6%</b>	<b>7.4%</b>
<b>Median</b>		<b>1.0%</b>	<b>13.4x</b>	<b>11.3x</b>	<b>7.2x</b>	<b>4.9x</b>	<b>7.4x</b>	<b>6.7x</b>	<b>3.0%</b>	<b>8.4%</b>
<b>Industries Qatar QSC</b>	<b>IQCD</b>	<b>4.3%</b>	<b>16.6x</b>	<b>13.4x</b>	<b>5.5x</b>	<b>6.8x</b>	<b>13.5x</b>	<b>11.0x</b>	<b>5.7%</b>	<b>7.1%</b>

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Source: Bloomberg, QNBFS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Revenue</b>	<b>5,228</b>	<b>4,674</b>	<b>3,804</b>	<b>4,059</b>
Cost of Sales, Excluding D&A	(3,908)	(3,304)	(3,043)	(3,044)
<b>Gross Profit</b>	<b>1,319</b>	<b>1,370</b>	<b>761</b>	<b>1,015</b>
G&A Expenses	(175)	(231)	(250)	(258)
Selling Expenses	(57)	(39)	(32)	(34)
<b>EBITDA</b>	<b>1,088</b>	<b>1,101</b>	<b>478</b>	<b>722</b>
Depreciation & Amortization	(212)	(225)	(223)	(226)
<b>EBIT</b>	<b>876</b>	<b>876</b>	<b>255</b>	<b>496</b>
Finance Costs	(22)	(13)	(9)	-
<b>Share of Results of Joint Ventures</b>	<b>3,721</b>	<b>1,716</b>	<b>2,829</b>	<b>3,351</b>
Other Income/Expenses	(106)	376	319	380
<b>Profit for Shareholders</b>	<b>4,469</b>	<b>2,955</b>	<b>3,394</b>	<b>4,227</b>
<b>EPS (QR)</b>	<b>7.39</b>	<b>4.88</b>	<b>5.61</b>	<b>6.99</b>
<b>Group Revenue</b>	<b>16,000</b>	<b>13,800</b>	<b>13,714</b>	<b>14,428</b>
<b>Group EBIT</b>	<b>4,491</b>	<b>2,968</b>	<b>3,403</b>	<b>4,227</b>
<b>Group EBITDA</b>	<b>4,702</b>	<b>3,193</b>	<b>3,626</b>	<b>4,453</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,828	3,671	3,548	3,421
Investment Properties	4	-	-	-
Investment in Associates	1,396	1,451	1,501	1,551
Investment in Joint Ventures	19,557	18,343	18,443	18,543
Available-for-Sale Investments	683	674	572	572
Catalysts & Others	-	-	98	98
<b>Total Non-Current Assets</b>	<b>25,468</b>	<b>24,139</b>	<b>24,162</b>	<b>24,186</b>
<b>Current Assets</b>				
Inventories	1,436	1,244	1,584	1,585
Accounts Receivables & Prepayments	1,058	1,054	1,042	1,112
Due from Related Parties	773	674	380	406
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	7,021	8,072	8,123	9,411
<b>Total Current Assets</b>	<b>10,292</b>	<b>11,047</b>	<b>11,133</b>	<b>12,517</b>
<b>Total Assets</b>	<b>35,760</b>	<b>35,186</b>	<b>35,295</b>	<b>36,703</b>
<b>Equity</b>	<b>27,212</b>	<b>27,070</b>	<b>27,959</b>	<b>29,358</b>
<b>Total Equity</b>	<b>33,576</b>	<b>33,514</b>	<b>34,330</b>	<b>35,728</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	676	226	-	-
End of Service Benefits & Others	207	215	191	191
<b>Total Non-Current Liabilities</b>	<b>884</b>	<b>441</b>	<b>191</b>	<b>191</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	799	674	642	642
Due to Related Parties & Others	51	106	133	142
Loans and Borrowings	451	451	-	-
<b>Total Current Liabilities</b>	<b>1,300</b>	<b>1,231</b>	<b>775</b>	<b>784</b>
<b>Equity and Liabilities</b>	<b>35,760</b>	<b>35,186</b>	<b>35,295</b>	<b>36,703</b>

Source: Company data, QNBFS 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*

<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

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<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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