

## Industries Qatar (IQCD)

Recommendation	<b>OUTPERFORM</b>	Risk Rating	<b>R-3</b>
Share Price	<b>QR13.09</b>	Current Target	<b>QR16.40</b>
Implied Upside	<b>25.3%</b>	Old Target Price	<b>QR14.25</b>

### Juicy Dividend to Hike Returns; Upgrading to Outperform

We are upgrading IQCD to an Outperform and raising our price target from QR14.25 to QR16.40. In light of very strong [2Q2021 results](#) and continued strength in commodity prices, we are raising our 2021 net income estimate to QR7.5bn, which translates into an EPS of QR1.24. Our earnings estimate is now the highest among analysts covering the stock. We also now forecast a 2021 DPS of QR0.85, which implies a very healthy dividend yield of 6.5%, the highest in our coverage universe. With IQCD well on track to posting significant earnings growth this year, along with a sizable uptick expected in DPS, the stock's underperformance relative to its peers is surprising. We believe the stock should rerate in the medium-term and upgrade IQCD from Accumulate to Outperform.

#### Highlights

- Tale of two halves: strength in urea and a pickup in PE prices should bode well for 2H2021, despite a PE shutdown planned for 4Q2021.** Previously, we were of the view that 2H2021 would moderate vs. 1H2021's QR3.5bn in earnings. However, (1) **Petrochemical** prices that began to ease in May after benefiting from the US winter storm, have again started to strengthen from late July given capacity shutdowns due to Hurricane Ida. IQCD posted \$1,609/MT in LDPE realizations in 2Q2021 and we expect average LDPE prices to come in at \$1,411/MT in 2021. (2) In **fertilizers**, urea prices went above the \$500/MT mark in July given strong demand and tight supply; while prices have retreated to \$485/MT in August, we expect fundamental trends to continue to support them in light of expected Chinese export restrictions and strong seasonal demand from India. IQCD recorded \$361/MT in blended urea realizations in 2Q2021. We are modeling in an average urea realization of \$404/MT in 2021. (3) Finally, for **steel**, prices remain significantly higher YoY and up sequentially thus far in 3Q2021. IQCD has built some higher-priced iron ore inventory so 2H2021 EBITDA margins should ease somewhat vs. 1H2021. Net-net, we forecast EPS to grow from QR0.33 (2020) to QR1.24 this year. For details on prices, volumes & revenue/earnings estimates see page 2.
- We expect QR0.85 in DPS, which translates into a yield of 6.5%.** However, investors should consider these following scenarios as well: IQCD reported a DPS of QR0.33, paying out 100% of its earnings in 2020. If the company decided to do the same this year, DY should jump significantly to 9.4%. A doubling of DPS from 2020 (DPS of QR0.66) translates into a DY of 5.0%. Using an average dividend payout of ~85% recorded over the past five years, DPS for 2021 jumps to QR1.05, which is a yield of 8.0%. In any event, we foresee a significant increase in DPS for 2021, which is a positive catalyst for this stock.
- We expect 2022 earnings to moderate to QR5.8bn.** With volumes relatively flattish, the decline in earnings is primarily based on lower prices in 2022 as we chose to adopt a conservative view in light of the significant pricing strength seen in 2021. For 2023, we expect a further decline in net income to QR5.0bn.
- Despite paying ~\$1bn for the QAFCO deal, IQCD's balance sheet continues to remain solid with QR11.1bn in cash/bank balances and zero long-term debt.** 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.

#### Catalysts

- In terms of long-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.** Expansion/acquisition-related newsflow & upside in dividends could be key going forward.

#### Recommendation, Valuation and Risks

- Recommendation & valuation: We upgrade IQCD to an Outperform with a QR16.40 price target.**
- Risks: Volatility in oil prices** remain a risk to equity prices and have a direct detrimental impact on IQCD's operations. **Geopolitical risks** remain and cannot be modeled.

#### Key Financial Data and Estimates

	FY2019	FY2020	FY2021e	FY2022e
Group Revenue (QR mn)	13,747	11,361	19,435	16,914
EPS (QR)	0.43	0.33	1.24	0.96
DPS (QR)	0.40	0.33	0.85	0.76
RoE (%)	7.5	5.8	19.1	14.6
P/E (x)	30.8	40.1	10.6	13.7
EV/EBITDA (x)	24.7	20.2	7.4	9.1
Dividend Yield %	3.1	2.5	6.5	5.8

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

#### Key Data

Current Market Price (QR)	13.09
Dividend Yield (%)	2.5
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	13.80/8.88
3-m Average Volume ('mn)	1.86
Mkt. Cap. (\$ bn/QR bn)	21.7/79.2
EV (\$ bn/QR bn)	18.7/68.1
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	49.0
Current FO* (%)	7.1
1-Year Total Return (%)	33.4
Fiscal Year End	December 31

Source: Bloomberg (as of September 12, 2021), \*Qatar Exchange (as of September 12, 2021); Note: FO is foreign ownership

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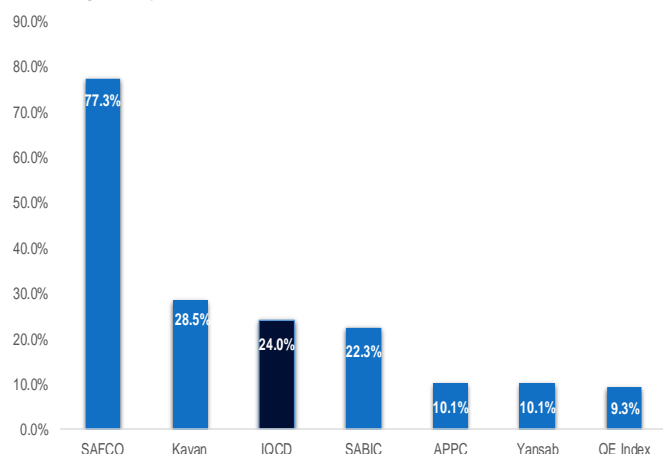
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### Segment Revenue, Net Income, Pricing and Sales Volumes

Revenue (QR million): All Segments	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Group</b>	<b>14,250</b>	<b>16,349</b>	<b>13,747</b>	<b>11,361</b>	<b>19,435</b>	<b>16,914</b>	<b>15,962</b>	<b>16,495</b>
Petrochemical	5,705	5,897	4,394	3,961	5,970	5,436	5,039	5,361
Fertilizer	3,916	4,661	4,258	4,405	9,627	8,422	8,019	8,172
Steel	4,628	5,791	5,096	2,995	3,838	3,057	2,904	2,962
Net Income (QR million): All Segments	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Group</b>	<b>3,315</b>	<b>5,030</b>	<b>2,575</b>	<b>1,975</b>	<b>7,479</b>	<b>5,785</b>	<b>4,996</b>	<b>5,293</b>
Petrochemical	2,227	2,484	1,308	1,065	2,645	2,283	1,940	2,198
Fertilizer	380	1,394	872	898	4,070	3,035	2,644	2,668
Steel	510	789	36	(1,314)	767	472	420	437
Unallocated	199	363	358	1,325	(3)	(5)	(8)	(10)
Revenue (QR million)								
Ethylene	540	564	359	271	406	356	348	355
LDPE	2,570	2,812	2,070	2,204	3,113	2,743	2,647	2,700
LLDPE	1,225	1,152	834	658	1,050	928	899	917
Methanol	429	478	310	303	574	471	358	471
MTBE	682	890	692	381	519	630	479	611
<b>Petrochemical &amp; Fuel Additives Revenue</b>	<b>5,705</b>	<b>5,897</b>	<b>4,394</b>	<b>3,961</b>	<b>5,970</b>	<b>5,436</b>	<b>5,039</b>	<b>5,361</b>
Ammonia	317	302	374	269	864	734	697	711
Urea	3,471	3,974	3,862	3,992	8,390	7,315	6,949	7,088
Melamine	121	122	122	144	373	373	373	373
<b>Fertilizer Revenue</b>	<b>3,916</b>	<b>4,661</b>	<b>4,258</b>	<b>4,405</b>	<b>9,627</b>	<b>8,422</b>	<b>8,019</b>	<b>8,172</b>
Steel Bars	3,599	4,331	3,794	2,379	2,889	2,375	2,256	2,301
DR/HBI	82	-	-	-	147	-	-	-
Billets	723	1,216	1,028	352	310	264	251	256
Coils	231	250	282	272	491	418	397	405
<b>Steel Revenue</b>	<b>4,628</b>	<b>5,791</b>	<b>5,096</b>	<b>2,995</b>	<b>3,838</b>	<b>3,057</b>	<b>2,904</b>	<b>2,962</b>
Wtd Average Selling Prices (\$/MT)	2017	2018	2019	2020	2021	2022	2023	2024
Petrochemicals & Fuel Additives								
Ethylene	899	939	840	736	1,173	997	947	966
LDPE	1,086	1,136	979	949	1,411	1,199	1,139	1,162
LLDPE	1,121	1,099	931	821	1,132	962	914	932
Methanol	302	367	230	189	317	270	256	261
MTBE	604	788	645	402	672	571	543	553
Fertilizer								
Ammonia	264	289	241	228	482	409	389	397
Urea	214	262	253	237	404	343	326	333
Melamine	895	904	905	686	1,708	1,708	1,708	1,708
Steel								
Rebar	515	614	489	519	667	567	539	550
DR/HBI	226							
Billets	441	492	408	416	543	462	439	447
Coils	634	685	704	934	675	573	545	556
Sales Volume (MT' 000)	2017	2018	2019	2020	2021	2022	2023	2024
Petrochemicals & Fuel Additives								
Ethylene	165	165	117	101	95	98	101	101
LDPE	650	680	581	638	606	628	638	638
LLDPE	300	288	246	220	255	265	270	270
Methanol	390	358	370	441	497	480	384	495
MTBE	310	310	295	260	212	303	242	303
Fertilizer								
Ammonia	330	288	426	290	492	492	492	492
Urea	4,450	4,165	4,189	3,993	5,706	5,853	5,853	5,853
Melamine	37	37	37	58	60	60	60	60
Steel								
Steel Bar	1,920	1,936	2,131	1,258	1,189	1,150	1,150	1,150
DR/HBI	100	100	110	80	200	200	200	200
Billets	450	679	691	233	157	157	157	157
Coils	100	100	110	80	200	200	200	200

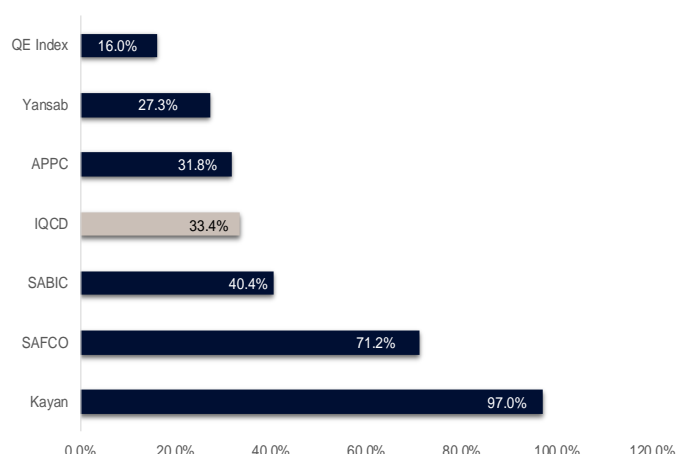
Source: Company data, QNB FS estimates

### IQCD Lags Major Peers on YTD Total Return...



Source: Bloomberg

### ...& on a 1-Year Total Return Basis



## 2Q2021 Results Review

**IQCD's bottom-line rises 361.9% YoY and 41.6% QoQ in 2Q2021, handily beating our estimate** – Industries Qatar's (IQCD) net profit rose to QR2.07bn in 2Q2021 vs. QR449.01mn in 2Q2020 and QR1.46bn in 1Q2021; earnings also exceeded our estimate of QR1.53bn. 2Q2021's quarterly profit is also the highest on record since 1Q2013. While sales volumes were generally in-line to modestly higher vs. our model (except a strong upside in urea volumes), stronger-than-expected price realizations (especially in petchems), along with better-than-expected operating margins, helped drive the significant earnings beat in 2Q2021. For 1H2021, IQCD has recorded QR3.54bn in net income.

- **In terms of segments, better-than-anticipated performance in petrochemicals and fertilizers drove 2Q2021 profitability vs. our model, while steel was modestly below our forecasts on an operating basis.** For segment details, please see page 4. Overall, sales volume and prices grew roughly 40% and 35%, respectively, YoY, in 1H2021 and 3% and 14%, respectively, QoQ, in 2Q2021.
- **Significant pricing improvement in petrochemicals (including fuel additives) along with modest volume upside boosted segment profitability:** 2Q2021 segment revenue of ~QR1.8bn (~134% YoY, ~28% QoQ) was ~31% higher than our model, while earnings were boosted as profitability expanded even more significantly. Segment earnings of QR886.30mn climbed 376.1% YoY and 45.7% QoQ. Product prices came in stronger-than-expected, with LDPE price up roughly 96% and LLDPE price up approximately 79%, on a YoY basis. Improving demand fundamentals, along with supply shortages lifted prices. Methanol (up ~134%) and MTBE (increasing ~238%) realizations also improved beyond expectations. Sales volumes were in-line with our model for the most part and up approximately 11% QoQ led by MTBE, which saw a significant sequential increase in sales as its production facilities were on a commercial shutdown in 1Q2021. 2Q2021 production volumes increased ~12% QoQ. 1H2021 sales volumes and production both increased roughly 8% YoY with lower MTBE volumes (given planned shutdown) more than offset by higher PE volumes.
- **Fertilizers also handily surpassed our expectations driven by urea volume growth and margin expansion along with moderate pricing upside.** 2Q2021 revenue and net income of QR2.23bn and QR942.30mn increased 151.1% and 433.6%, YoY, respectively. Sequentially, segment revenue increased 38.4% and earnings grew 58.2%. According to the company, urea prices increased ~63% YoY (~14% QoQ) due to strong global coarse grains demand and supply bottlenecks. 1H2021 production volume fell ~3% YoY but sales volume grew ~85%; production was impacted by QAFCO 1-4 maintenance in 1H2021 (specifically 1Q2021), while sales improved given the interim gas agreement in-place during 1H2020. Production and sales volumes grew roughly 10% and 16%, respectively, QoQ.
- **2Q2021 steel revenue and profit came in below our estimates:** Steel revenue came in at QR983.95mn (100.2% YoY, -19.9% QoQ). Steel prices were in-line with our model; according to the company, steel realizations increased ~27% YoY in 1H2021 (up roughly 22% QoQ) due to a rebound in construction demand and higher raw materials costs internationally. However, sales volume (down ~4% in 1H2021) were below our expectations. We note that despite missing our segment top-line/earnings estimate, rebar sales volume was still up a strong ~35% YoY. Steel production was down ~24% in 1H2021. The steel segment posted a profit of QR236.91mn in 2Q2021 vs. a loss of QR1.30bn (due to a QR1.22bn impairment related to mothballing of steel facilities) in 2Q2020 and a profit of QR258.72mn in 1Q2021. On a sequential basis, production was flattish but sales were down ~34% possibly due to inventory of billets and DRIs, along with some rebars, sold in 1Q2021. We note the significant uptick in steel segment profitability was due to IQCD's decision to "right-size" the business last year and focus on the higher-margin domestic business. Also, the company was able to take advantage of improved international prices by selling some volumes outside of Qatar. Thus, despite missing our 1Q2021 steel revenue estimate significantly due to primarily lower sales volumes, margin improvement softened the impact on 1Q2021 segment net income, which came in only modestly below our estimate.

## 2Q2021 Actuals Vs. Estimates

Income Statement (QR million)	2Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>2,420.493</b>	<b>2,839.825</b>	<b>3,214.242</b>	<b>3,013.338</b>	<b>6.7%</b>	<b>32.8%</b>	<b>13.2%</b>
Cost of Sales (Ex. Depreciation & Amortization)	(1,323.934)	(1,607.613)	(1,662.758)	(1,732.958)	-4.1%	25.6%	3.4%
<b>Gross Profit</b>	<b>1,096.559</b>	<b>1,232.212</b>	<b>1,551.484</b>	<b>1,280.380</b>	<b>21.2%</b>	<b>41.5%</b>	<b>25.9%</b>
General and Administrative Expenses	(212.467)	(146.545)	(128.051)	(146.838)	-12.8%	-39.7%	-12.6%
Selling & Distribution Expenses	(8.774)	(17.395)	(15.638)	(9.499)	64.6%	78.2%	-10.1%
<b>EBITDA</b>	<b>875.318</b>	<b>1,068.272</b>	<b>1,407.795</b>	<b>1,124.043</b>	<b>25.2%</b>	<b>60.8%</b>	<b>31.8%</b>
Depreciation & Amortization	(670.529)	(337.634)	(305.583)	(336.283)	-9.1%	-54.4%	-9.5%
<b>EBIT</b>	<b>204.789</b>	<b>730.638</b>	<b>1,102.212</b>	<b>787.759</b>	<b>39.9%</b>	<b>438.2%</b>	<b>50.9%</b>
Finance Costs	(10.822)	(5.915)	(8.041)	(5.500)	46.2%	-25.7%	35.9%
Share of Results from Associates	(8.464)	22.165	31.056	30.000	3.5%	N/M	40.1%
Share of Results of JVs	38.306	608.342	886.297	629.198	40.9%	2213.7%	45.7%
Other Income	98.752	109.977	63.562	92.614	-31.4%	-35.6%	-42.2%
Income from Investments & Other Income/Expenses	184.041	-	-	-	-	-100.0%	-
<b>Profit Before Tax</b>	<b>506.602</b>	<b>1,465.207</b>	<b>2,075.086</b>	<b>1,534.072</b>	<b>35.3%</b>	<b>309.6%</b>	<b>41.6%</b>
Tax	(163.102)	-	(0.691)	-	-	-99.6%	-
<b>Profit After Tax</b>	<b>343.500</b>	<b>1,465.207</b>	<b>2,074.395</b>	<b>1,534.072</b>	<b>35.2%</b>	<b>503.9%</b>	<b>41.6%</b>
Minority Interest	105.513	(0.734)	(0.479)	(0.768)	-37.7%	N/M	-34.7%
<b>Profit for Equity Holders</b>	<b>449.013</b>	<b>1,464.473</b>	<b>2,073.916</b>	<b>1,533.303</b>	<b>35.3%</b>	<b>361.9%</b>	<b>41.6%</b>
<b>EPS (in QR)</b>	<b>0.07</b>	<b>0.24</b>	<b>0.34</b>	<b>0.25</b>	<b>35.3%</b>	<b>361.9%</b>	<b>41.6%</b>

Source: Company data, QNB FS estimates

## 2Q2021 Segment Details

In QR Millions

Steel	1Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E
Revenue	1,302.053	1,227.891	983.951	1,285.602	-23%
Net Profit	(88.274)	258.715	236.907	250.050	-5%
NM %	-6.78%	21.07%	24.08%	19.45%	
Revenue Q/Q	-6%	85%	-20%	5%	
Net Income Q/Q	-27%	422%	-8%	-3%	
Revenue Y/Y	3%	-6%	100%	162%	
Net Income Y/Y	N/M	N/M	N/M	N/M	
Petrochemicals	1Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E
Revenue	951.000	1,377.175	1,768.758	1,349.632	31%
Net Profit	123.023	608.342	886.297	629.198	41%
NM %	12.94%	44.17%	50.11%	46.62%	
Revenue Q/Q	-11%	12%	28%	-2%	
Net Income Q/Q	-60%	38%	46%	3%	
Revenue Y/Y	-15%	45%	134%	79%	
Net Income Y/Y	-60%	394%	376%	238%	
Fertilizers	1Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E
Revenue	1,040.604	1,611.934	2,230.291	1,727.736	29%
Net Profit	197.121	595.668	942.304	653.084	44%
NM %	18.94%	36.95%	42.25%	37.80%	
Revenue Q/Q	-3%	13%	38%	7%	
Net Income Q/Q	-27%	34%	58%	10%	
Revenue Y/Y	-5%	55%	151%	95%	
Net Income Y/Y	-5%	202%	434%	270%	
<b>Total Revenue</b>	<b>3,293.657</b>	<b>4,217.000</b>	<b>4,983.000</b>	<b>4,362.970</b>	
<b>YoY Growth</b>	<b>-5%</b>	<b>28%</b>	<b>133%</b>	<b>104%</b>	
<b>QoQ Growth</b>	<b>-7%</b>	<b>27%</b>	<b>18%</b>	<b>3%</b>	
Steel	40%	29%	20%	29%	
Petrochemicals	29%	33%	35%	31%	
Fertilizers	32%	38%	45%	40%	
<b>Total NI (Ex. Unallocated)</b>	<b>231.870</b>	<b>1,462.725</b>	<b>2,065.508</b>	<b>1,532.332</b>	
Steel	-38%	18%	11%	16%	
Petrochemicals	53%	42%	43%	41%	
Fertilizers	85%	41%	46%	43%	

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2019	FY2020	FY2021e	FY2022e
<b>Revenue</b>	<b>5,096</b>	<b>7,400</b>	<b>13,465</b>	<b>11,478</b>
Cost of Sales, Excluding D&A	(4,814)	(4,856)	(7,142)	(6,436)
<b>Gross Profit</b>	<b>282</b>	<b>2,543</b>	<b>6,323</b>	<b>5,042</b>
G&A Expenses	(140)	(481)	(560)	(576)
Selling Expenses	(83)	(35)	(70)	(71)
<b>EBITDA</b>	<b>59</b>	<b>2,028</b>	<b>5,693</b>	<b>4,394</b>
Depreciation & Amortization	(277)	(1,445)	(1,299)	(1,334)
<b>EBIT</b>	<b>(218)</b>	<b>582</b>	<b>4,394</b>	<b>3,060</b>
Finance Costs	(11)	(37)	(28)	(26)
<b>Share of Results of Joint Ventures</b>	<b>2,181</b>	<b>1,065</b>	<b>2,645</b>	<b>2,283</b>
Other Income/Expenses/Taxes/Minorities	623	365	468	468
<b>Profit for Shareholders</b>	<b>2,575</b>	<b>1,975</b>	<b>7,479</b>	<b>5,785</b>
<b>EPS (QR)</b>	<b>0.43</b>	<b>0.33</b>	<b>1.24</b>	<b>0.96</b>
<b>Group Revenue</b>	<b>13,747</b>	<b>11,361</b>	<b>19,435</b>	<b>16,914</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2019	FY2020	FY2021e	FY2022e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,336	13,882	12,883	13,348
Investment Properties	-	-	-	-
Investment in Associates	1,476	1,475	1,585	1,694
Investment in Joint Ventures	16,732	6,916	8,116	8,216
Available-for-Sale Investments	-	-	-	-
Right-of Use Assets	135	227	208	208
<b>Total Non-Current Assets</b>	<b>21,679</b>	<b>22,499</b>	<b>22,791</b>	<b>23,467</b>
<b>Current Assets</b>				
Inventories	1,851	1,945	1,663	1,499
Accounts Receivables & Prepayments	897	1,587	2,582	2,201
Due from Related Parties	400	869	673	574
Financial Assets at FV through P&L	325	348	348	348
Cash and Bank Balances	10,718	8,801	13,247	13,577
<b>Total Current Assets</b>	<b>14,191</b>	<b>13,550</b>	<b>18,514</b>	<b>18,200</b>
<b>Total Assets</b>	<b>35,870</b>	<b>36,049</b>	<b>41,305</b>	<b>41,666</b>
<b>Equity</b>				
<b>Total Equity</b>	<b>34,230</b>	<b>33,777</b>	<b>39,074</b>	<b>39,575</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Lease Liabilities	368	745	729	729
<b>Total Non-Current Liabilities</b>	<b>368</b>	<b>745</b>	<b>729</b>	<b>729</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	1,239	1,403	1,409	1,270
Due to Related Parties, Lease Liabilities & Others	33	88	93	93
Loans and Borrowings	-	37	-	-
<b>Total Current Liabilities</b>	<b>1,272</b>	<b>1,527</b>	<b>1,502</b>	<b>1,362</b>
<b>Equity and Liabilities</b>	<b>35,870</b>	<b>36,049</b>	<b>41,305</b>	<b>41,666</b>

Source: Company data, QNB FS 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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