

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR119.50	Current Target Price	QR130.00
Implied Upside	8.8%	Old Target Price	QR100.00

Adjusting Model and Revising PT; Maintaining Market Perform

We are increasing our price target to QR130 and adjusting our model to reflect 3Q2016 results and the current trend in product prices. IQCD stock has recovered close to 25% from its lows in November in conjunction with the resurgence in oil prices. While earnings appear to have troughed medium term, we find the shares fairly valued here and rate IQCD a Market Perform. March 2017 FTSE Phase II inclusion remains a positive near-term catalyst.

Highlights

- **We expect a QoQ increase in 4Q2016 profitability on the back of improved sequential price realizations.** Steel prices should improve but margins could lag given the uptick in iron ore prices. For petrochemicals, given moderate-to-healthy improvement in PE pricing, we expect sequential increase in revenue and profitability. For fertilizers, urea rebounded from its lows in 3Q2016, which bodes well for segment top-line although feedstock pricing remains elevated.
- **For dividends, we expect IQCD to reduce DPS to QR4.50.** This translates to a yield of 3.8%. However, we cannot rule out a range of QR4-QR5 a share in dividends; the company paid QR5 in DPS for 2015. With QR10.6bn in cash and QR3.2bn in debt across the group, IQCD retains the potential to further hike dividends.
- **Earnings recovery in 2017 on the back of improving price realizations.** Urea prices have recovered since their 3Q2016 lows and are currently at \$275/MT. We are projecting a blended price of \$237/MT in 2017. PE prices have improved on the back of oil prices and we estimate an average increase of 5% in LDPE/LLDPE pricing in 2017. Increased emphasis on infrastructure spending on account of the new US administration is a positive for the global steel market. IQCD's steel realizations should benefit from infrastructure spending closer to home but margins could come under pressure due to higher iron ore prices. Overall, we forecast a 19% growth in 2017 EPS to QR7.15 vs. QR6.01 expected in 2016.

Catalysts

- **Given the run-up in the stock price we see limited potential for further price appreciation.** That being said, the upcoming FTSE Phase II inclusion can potentially prolong the rally beyond the dividend season. Better-than-expected dividends could also be positive catalyst. If oil prices move past the expected \$60/b level this year, we could see another potential leg up in the stock price. A decision regarding available ethane capacity is expected by year-end, which could reignite growth at QAPCO.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD a Market Perform with a price target of QR130.00.** Our previous target was QR100. IQCD is trading at 2017 EV/EBITDA multiple of 14.2x.
- **Risks:** Weakness in oil prices remain a substantial risk to regional equity prices and have a direct detrimental impact on IQCD's operations.

Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
Group Revenue (QR mn)	18,237	16,000	13,529	15,065
Net Profit (QR mn)	6,342	4,445	3,633	4,324
EPS (QR)	10.48	7.35	6.01	7.15
DPS (QR)	7.00	5.00	4.50	4.50
RoE (%)	18.9	13.2	10.6	12.1
P/E (x)	11.4	16.3	19.9	16.7
EV/EBITDA (x)	9.8	13.9	16.8	14.2
Dividend Yield %	5.9	4.2	3.8	3.8

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

Key Data

Current Market Price (QR)	119.50
Dividend Yield (%)	3.8
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	122.00/91.70
3-m Average Volume ('000)	161.3
Mkt. Cap. (\$ bn/QR bn)	19.9/72.3
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.9
1-Year Total Return (%)	35.0
Fiscal Year End	December 31

Source: Bloomberg (as of January 25, 2017), *Qatar Exchange (as of January 25, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2014	FY2015	FY2016e	FY2017e
Revenue	5,970	5,228	4,487	5,063
Cost of Sales, Excluding D&A	(4,376)	(3,908)	(2,907)	(3,544)
Gross Profit	1,594	1,319	1,580	1,519
G&A Expenses, Excluding Depreciation	(199)	(175)	(221)	(228)
Selling Expenses, Excluding Depreciation	(48)	(57)	(35)	(40)
EBITDA	1,348	1,088	1,324	1,252
Depreciation & Amortization	(183)	(212)	(224)	(228)
EBIT	1,165	876	1,100	1,024
Finance Costs	15	(78)	16	15
Share of Results of Joint Ventures	184	(159)	88	-
Other Income/Expenses	298	(106)	245	156
Profit Before Tax	-	-	-	-
Income Tax Expense	6,342	4,445	3,633	4,324
Profit for Shareholders	6,342	4,445	3,633	4,324
EPS (QR)	10.48	7.35	6.01	7.15
Group EBIT	6,445	4,467	3,646	4,336
Group EBITDA	6,628	4,679	3,870	4,564

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2014	FY2015	FY2016e	FY2017e
Non-Current Assets				
PP&E and Projects Under Development	3,856	3,796	3,707	3,614
Investment Properties	198	4	4	4
Investment in Associates	1,479	1,396	1,412	1,427
Investment in Joint Ventures	20,562	19,606	19,706	19,806
Available-for-Sale Investments	863	683	655	655
Catalysts & Others	37	32	27	22
Total Non-Current Assets	26,996	25,517	25,511	25,528
Current Assets				
Inventories	2,143	1,436	1,314	1,602
Accounts Receivables & Prepayments	1,139	1,008	897	1,013
Due from Related Parties	82	773	247	278
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	6,192	7,021	7,760	8,888
Total Current Assets	9,560	10,242	10,222	11,784
Total Assets	36,556	35,758	35,733	37,313
Equity	27,162	27,261	27,778	29,271
Total Equity	33,585	33,625	34,164	35,657
Non-Current Liabilities				
Loans and Borrowings	452	676	276	246
End of Service Benefits & Others	143	157	154	154
Total Non-Current Liabilities	595	834	431	401
Current Liabilities				
Accounts Payables & Accruals	1,049	799	649	791
Due to Related Parties & Others	116	51	38	13
Loans and Borrowings	1,211	451	451	451
Total Current Liabilities	2,376	1,300	1,138	1,255
Equity and Liabilities	36,556	35,758	35,733	37,313

Source: Company data, QNBFS estimates

Relative Valuation

Fertilizers		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
Potash Corp of Saskatchewan Inc	POT	3.5%	39.1x	31.9x	12.8x	13.8x	11.5x	10.6x	1.9%	2.1%
Arab Potash/The	APOT	6.9%	26.5x	17.7x	13.3x	15.4x	16.5x	9.4x	NA	NA
Saudi Arabian Fertilizer Co	SAFCO	6.1%	29.5x	23.6x	19.5x	18.0x	21.1x	18.7x	2.4%	3.7%
Agrium Inc	AGU	3.2%	22.7x	19.8x	12.2x	11.8x	9.5x	8.8x	2.2%	2.4%
Yara International ASA	YAR	4.2%	17.0x	16.7x	7.1x	8.6x	7.5x	7.4x	(2.0%)	(3.4%)
Mosaic Co/The	MOS	3.3%	49.1x	35.2x	10.7x	10.6x	14.4x	12.0x	1.2%	(2.6%)
Average		4.5%	30.7x	24.1x	12.6x	13.0x	13.4x	11.1x	1.1%	0.4%
Median		3.8%	28.0x	21.7x	12.5x	12.8x	12.9x	10.0x	1.9%	2.1%
Industries Qatar QSC	IQCD	4.2%	19.9x	16.7x #	7.1x	6.6x	16.8x	14.2x 0	5.7%	5.4%

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		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
Yanbu National Petrochemical Co	YANSAB	4.2%	14.5x	16.0x	10.6x	11.0x	9.2x	9.6x	8.6%	7.6%
Saudi Kayan Petrochemical Co	KAYAN	NA	96.0x	27.2x	6.5x	5.0x	11.5x	9.7x	8.4%	6.7%
Saudi Basic Industries Corp	SABIC	5.2%	16.1x	15.4x	7.2x	6.9x	8.1x	7.5x	9.4%	8.1%
Rabigh Refining & Petrochemical Co	PETRO	NA	nmf	76.4x	4.0x	2.8x	25.5x	20.0x	(23.7%)	7.9%
Saudi International Petrochemical Co	SIPCHEM	NA	98.3x	15.3x	7.4x	4.5x	11.7x	8.8x	8.8%	8.7%
Average		NA	56.2x	30.1x	7.1x	6.0x	13.2x	11.1x	3.3%	7.8%
Median		NA	56.0x	16.0x	7.2x	5.0x	11.5x	9.6x	8.6%	7.9%
Industries Qatar QSC	IQCD	4.2%	19.9x	16.7x #	7.1x	6.6x	16.8x	14.2x 0	5.7%	5.4%

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Steel		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e	FY2016e	FY2017e
ArcelorMittal	MT	NA	16.8x	15.0x	7.3x	6.8x	6.4x	5.9x	4.8%	6.0%
thyssenkrupp AG	TKA	0.6%	23.2x	16.8x	5.7x	7.6x	6.5x	6.1x	(0.5%)	1.9%
Nucor Corp	NUE	2.5%	27.5x	16.4x	12.6x	10.2x	10.6x	7.8x	5.1%	5.7%
United States Steel Corp	X	0.6%	nmf	16.6x	8.0x	7.2x	15.4x	6.1x	5.7%	4.8%
JFE Holdings Inc	5411	0.5%	nmf	19.8x	5.2x	4.4x	10.5x	8.3x	3.3%	2.3%
Steel Authority of India Ltd	SAIL	NA	nmf	nmf	52.0x	18.1x	89.7x	13.8x	(12.2%)	(7.7%)
JSW Steel Ltd	JSTL	0.4%	13.3x	12.1x	7.6x	6.2x	8.8x	6.7x	0.3%	8.3%
Average		0.9%	20.2x	16.1x	14.1x	8.6x	21.1x	7.8x	0.9%	3.0%
Median		0.6%	20.0x	16.5x	7.6x	7.2x	10.5x	6.7x	3.3%	4.8%
Industries Qatar QSC	IQCD	4.2%	19.9x	16.7x	7.1x	6.6x	16.8x	14.2x	5.7%	5.4%

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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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