

IQCD Alert – Strong 1Q2022 Results Reinforce Our Bullish View; Raising PT to QR21 & Staying Outperform

- **IQCD reported strong results in 1Q2022 with QR2.70bn in earnings (up 87.3% YoY/10.3% QoQ)** – Industries Qatar's (IQCD) earnings, however, did come in 5.9% below our estimate of QR2.87bn. In terms of segments, modestly better-than-anticipated performance in steel and petchems was offset by weaker-than-expected figures from fertilizers.
- **In a significant development, IQCD restarted its DR-2 facility in 1Q2022, swapping it for DR-1, which should provide the company an opportunity to sell 400 KTPA of additional DR directly in the market.** DR-1 (800 KTPA capacity), which was operational until YE2021, has been mothballed in favor of DR-2 (1.5 MTPA capacity).
- **In terms of segments, all segments posted yearly and sequential increases in top-line/earnings, except fertilizers that faced a QoQ decline in profitability.** For segment details, please see page 4. 1Q2022 overall sales volumes and prices improved ~9% and ~55%, respectively, on a YoY basis. Sales volume also gained ~25% QoQ but prices eased roughly 5% sequentially. Production volumes increased ~5% YoY and ~9% QoQ.
- **Bounce in PE volumes after 4Q2021 maintenance shutdowns helped boost sequential petchems profitability despite pricing pressure; YoY metrics also remain positive aided by both prices and volumes.** 1Q2022 segment revenue of ~QR1.84bn (~33% YoY, ~42% QoQ) was ~27% higher than our model on better-than-expected volumes in PE (especially LLDPE) and a significant increase in MTBE realizations. Segment earnings of QR672.59mn climbed 10.6% YoY and 119.6% QoQ, and was 9.7% ahead of our model. Product prices, which came in a bit softer-than-expected with the exception of MTBE, nevertheless climbed YoY. LDPE, LLDPE and methanol prices gained roughly 11%, 13% and 13% YoY, respectively, but were flattish-to-moderately lower QoQ. MTBE prices, however, increased substantially, up approximately 55% YoY and 27% QoQ. Improving demand fundamentals, along with higher oil prices and supply shortages, lifted prices YoY. Sales volumes were up ~13% YoY and ~31% QoQ; 1Q2022 production volumes gained roughly 9% and 39%, YoY and QoQ, respectively. We note QAPCO's major planned commercial shutdown in 4Q2021 drove the significant sequential growth in volumes; the more measured increase in YoY volumes were due to a combination of lower PE volumes offset by a sizable growth in MTBE volumes, which witnessed a commercial shutdown in 1Q2021.
- **In fertilizers, significant growth in YoY prices boosted revenue and earnings; lower prices vs. 4Q2021 crimped sequential profitability, however.** 1Q2022 revenue and income of QR3.98bn and QR1.75bn increased 146.9% and 193.3%, YoY, respectively; segment top-line and earnings were, however, ~4% and ~15% shy of our estimates, respectively. Sequentially, segment revenue increased 6.2% but earnings fell 8.3% (we note IQCD reported a sequential decline of ~24% in earnings in their press release as fertilizer's 4Q2021 earnings have been restated). To explain the sequential decline in earnings, IQCD pointed to higher variable costs, expensive inventory carried forward from 4Q2021 and urea-price indexed gas feedstock costs. According to the company, urea prices increased ~109% YoY but declined ~14% QoQ, realized prices were also approximately 17% lower than our modeled estimate. Yearly growth in selling prices were due to restrictions in supply along with inflationary pressures from higher crop and energy prices, as per management. On a QoQ basis, prices were soft in the first two months of 1Q2022 due to lower demand and cautious buyers but gained once the impact of higher energy prices and sanctions on Russia began to flow through. 1Q2022 production volumes were flat YoY but sales volumes grew ~16%; sequentially, production fell ~5%, while sales volumes increased roughly 19%. We note, given operational issues, certain shipments were carried forward from 4Q2021 helping the QoQ increase in sales volumes. *(continued on next page).*

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- *(continued from previous page)*
- **Steel segment performance was positive on better-than-expected volumes despite moderate pricing softness QoQ.** Steel revenue came in at QR1.30bn (5.9% YoY, 33.6% QoQ). According to the company, steel realizations increased ~18% YoY in 1Q2022 (down roughly 4% QoQ) due to elevated construction demand along with higher international raw material costs. We do note that steel prices were softer than our forecasts as prices fell modestly QoQ. Sales volumes fell ~10% YoY but increased ~39% QoQ. IQCD sold significantly less billets vs. 1Q2021 (billet sales are of an opportunistic nature) but the QoQ increase in sales is directly attributable to the startup of the DR-2 facility. Production volumes were up roughly 20% and 33%, respectively, on a YoY and QoQ basis. The steel segment posted a profit of QR261.21mn in 1Q2022 vs a profit of QR258.72mn in 1Q2021 and a profit of QR87.33mn in 4Q2021. IQCD's associate Foulath (which produces iron oxide pellets) reported a nice jump in earnings to QR57.25mn (~164% YoY, ~130% QoQ), which helped boost segment profits.
- *For more details on the company's performance and our estimates, please refer to page 3.*
- **Despite paying ~QR6bn in 2021 dividends, IQCD's balance sheet remains solid with QR12.6bn in cash/bank balances & zero long-term debt.** The company, on a proportionate basis, generated operating cash flow of QR2.8bn and free cash flow of QR2.6bn in 1Q2022. 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 QR21.00 from QR19.00.** We will publish our revised estimates factoring in IQCD's 1Q2022 performance. Our sense still remains that earnings for 2022 are likely to be flattish-to-moderately higher relative to 2021. Volumes are likely to be modestly up YoY in 2022 given QAPCO's major planned shutdown in 4Q2021. Pricing, as usual, remains the major wildcard. While energy/urea prices benefited during the latter-end of 1Q2022 due to the Russia-Ukraine conflict, we have to assume these prices will ease somewhat once this conflict is resolved. Moreover, escalating COVID-19-related lockdowns in China is bound to have an impact. Economic growth is also likely to be affected by these factors and will be put under further pressure by rising rates and unwinding quantitative easing by global central banks. So pricing should remain volatile and could potentially ease, in our view. Moreover, domestic steel demand should ease as we move closer to FIFA World Cup Qatar 2022.
- **In terms of longer-term catalysts,** the QAFCO 7 project is also expected to add 400 KTPA of sellable ammonia by 2026. Moreover, 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:	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E	YoY	QoQ
Revenue	2,839.825	4,722.830	5,280.579	5,119.674	3.1%	85.9%	11.8%
Cost of Sales (Ex. D &A)	(1,607.613)	(1,830.056)	(2,842.653)	(2,336.875)	21.6%	76.8%	55.3%
Gross Profit	1,232.212	2,892.774	2,437.926	2,782.799	-12.4%	97.8%	-15.7%
General & Admin. Expenses	(146.545)	(315.813)	(175.822)	(157.624)	11.5%	20.0%	-44.3%
Selling & Distribution Costs	(17.395)	(24.808)	(31.240)	(26.893)	16.2%	79.6%	25.9%
EBITDA	1,068.272	2,552.153	2,230.864	2,598.283	-14.1%	108.8%	-12.6%
Depreciation & Amortization	(358.483)	(484.284)	(375.042)	(486.996)	-23.0%	4.6%	-22.6%
EBIT	709.789	2,067.869	1,855.822	2,111.287	-12.1%	161.5%	-10.3%
Finance Costs	(5.915)	(5.696)	(5.494)	(5.780)	-5.0%	-7.1%	-3.5%
Share of Results from Associates	22.165	24.506	57.249	24.388	134.7%	158.3%	133.6%
Share of Results of JVs	608.342	306.215	672.594	612.910	9.7%	10.6%	119.6%
Other Income	109.977	57.335	123.830	132.467	-6.5%	12.6%	116.0%
Investment Income & Other	-	-	-	-	-	-	-
Profit Before Tax	1,444.358	2,450.229	2,704.001	2,875.272	-6.0%	87.2%	10.4%
Tax	(0.414)	0.144	(0.145)	-	-	-65.0%	N/M
Profit After Tax	1,443.944	2,450.373	2,703.856	2,875.272	-6.0%	87.3%	10.3%
Minority Interest	(0.734)	0.286	(0.238)	(1.440)	-83.5%	-67.6%	N/M
Profit for Equity Holders	1,443.210	2,450.659	2,703.618	2,873.832	-5.9%	87.3%	10.3%
Net Margin	50.8%	51.9%	51.2%	56.1%			

EPS (in QR)	0.24	0.41	0.45	0.48	-5.9%	87.3%	10.3%
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Cost of Sales	56.6%	38.7%	53.8%	45.6%
Gross Margin %	43.4%	61.3%	46.2%	54.4%
G&A % Sales	5.2%	6.7%	3.3%	3.1%
Selling Expenses % Sales	0.6%	0.5%	0.6%	0.5%
EBITDA %	37.6%	54.0%	42.2%	50.8%
D&A % Sales	12.6%	10.3%	7.1%	9.5%
EBIT %	25.0%	43.8%	35.1%	41.2%
Net Margin %	50.8%	51.9%	51.2%	56.1%

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In QR Millions

Steel	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E
Revenue	1,227.891	973.241	1,300.068	962.178	35%
Profit Before Tax	258.72	87.333	261.211	150.388	74%
<i>NM %</i>	21.07%	8.97%	20.09%	15.63%	
<i>Revenue Q/Q</i>	85%	39%	34%	-1%	
<i>Profit Before Tax Q/Q</i>	422%	-34%	199%	72%	
<i>Revenue Y/Y</i>	-6%	47%	6%	-22%	
<i>Profit Before Tax Y/Y</i>	N/M	76%	1%	-42%	
Petrochemicals	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E
Revenue	1,378.000	1,295.000	1,835.000	1,447.250	27%
Profit Before Tax	608.342	306.215	672.594	612.910	10%
<i>NM %</i>	44.15%	23.65%	36.65%	42.35%	
<i>Revenue Q/Q</i>	12%	-17%	42%	12%	
<i>Profit Before Tax Q/Q</i>	38%	-55%	120%	100%	
<i>Revenue Y/Y</i>	45%	5%	33%	5%	
<i>Profit Before Tax Y/Y</i>	394%	-31%	11%	1%	
Fertilizers	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E
Revenue	1,611.934	3,749.589	3,980.511	4,157.497	-4%
Profit Before Tax	594.934	1,902.943	1,745.172	2,062.118	-15%
<i>NM %</i>	36.91%	50.75%	43.84%	49.60%	
<i>Revenue Q/Q</i>	13%	39%	6%	11%	
<i>Profit Before Tax Q/Q</i>	376%	49%	-8%	8%	
<i>Revenue Y/Y</i>	55%	163%	147%	158%	
<i>Profit Before Tax Y/Y</i>	202%	1422%	193%	247%	
Total Revenue	4,217.825	6,017.830	7,115.579	6,566.924	8%
<i>YoY Growth</i>	28%	81%	69%	56%	
<i>QoQ Growth</i>	27%	21%	18%	9%	
Steel	29%	16%	18%	15%	
Petrochemicals	33%	22%	26%	22%	
Fertilizers	38%	62%	56%	63%	
Total Profit Before Tax (Ex. Unallocated)	1,461.991	2,296.491	2,678.977	2,825.417	-5%
Steel	18%	4%	10%	5%	
Petrochemicals	42%	13%	25%	22%	
Fertilizers	41%	83%	65%	73%	
Group Net Income	1,443.210	2,450.659	2,703.618	2,873.832	
Segment Profit Before Tax/Group NI	101%	94%	99%	98%	
Unallocated Net Income	(18.78)	154.17	24.64	48.41	

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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