

IQCD Alert – Significant Pricing Growth Support Strong 3Q2021 Results; Outperform

- **IQCD's bottom-line rises 339.4% YoY and 1.3% QoQ in 3Q2021 but comes in below our estimate –** Industries Qatar's (IQCD) net profit rose to QR2.10bn in 3Q2021 vs. QR477.88mn in 3Q2020 and QR2.07bn in 2Q2021; earnings did, however, fall short of our estimate of QR2.32bn. 3Q2021's quarterly profit is also the highest on record since 1Q2013. Sales volumes were generally modestly lower vs. our model, while prices generally were modestly higher relative to our forecasts (expect for urea realizations), which contributed to the earnings miss in 3Q2021. Despite 3Q2021's lower-than-expected profits, we maintain our FY2021 earnings estimate of QR7.48bn (EPS: QR1.24) for now; IQCD has reported QR5.64bn (EPS: QR0.93) for 9M2021. As expected, IQCD did announce a general PE facilities shutdown for slightly over two months in 4Q2021, which we had already factored in our earnings forecast. Since we upgraded IQCD to an [Outperform](#), the stock has rallied 23% vs. a 7% increase in the QE Index. *We reiterate our Outperform rating & QR16.40 price target.*
- **In terms of segments, fertilizers posted top-line/earnings growth YoY/QoQ, while petchems & steel improved YoY.** *For segment details, please see page 4.* 9M2021 overall sales volumes and prices improved ~34% and ~43%, respectively. Sales volume, however, declined ~8% QoQ but prices grew ~8% QoQ in 3Q2021.
- **Significant pricing improvement in petrochemicals (including fuel additives) along with modest volume upside boosted YoY segment profitability; sequential performance dipped, however:** 3Q2021 segment revenue of ~QR1.57bn (~53% YoY, ~-10% QoQ) was modestly (~3%) lower than our model as overall segment pricing fell roughly 9% QoQ because of supply and inventory improvements. Segment earnings of QR678.44mn climbed 115.3% YoY but declined 23.5% QoQ. Product prices, despite their sequential decline, came in stronger-than-expected, with LDPE price up roughly 57% and LLDPE price up approximately 45%, on a YoY basis (down 8% and 9%, respectively, QoQ). Improving demand fundamentals, along with supply shortages lifted prices YoY. Methanol prices doubled vs. 3Q2020 and MTBE (increasing ~82%) realizations also improved beyond expectations. Sales volumes were around 6% lower relative to our model and down approximately 1% QoQ led by LDPE, which witnessed a ~13% decline in sequential sales volumes. 3Q2021 production volumes increased ~1% QoQ. 9M2021 sales volumes and production both increased in lockstep, by roughly 6% YoY.
- **Fertilizers revenue/profitability improved YoY/QoQ driven by urea YoY volume growth, pricing gains and margin expansion despite a moderate sequential fall in volumes.** 3Q2021 revenue and net income of QR2.69bn and QR1.28bn increased 155.9% and 731.8%, YoY, respectively. Sequentially, segment revenue increased 20.7% and earnings grew 35.9%. According to the company, urea prices increased ~86% YoY (~24% QoQ) due to strong global demand, higher natural gas prices and production/supply bottlenecks; we do note urea prices came in softer-than-our forecasted estimate. 9M2021 production volume fell ~0.5% YoY but sales volume grew ~68%; production was impacted by QAFCO 1-4 maintenance in 1H2021 (specifically 1Q2021), while sales improved given the interim gas agreement in-place during the first seven months of 2021. Production and sales volumes fell roughly 6% and 3%, respectively, QoQ; production fell due to unplanned shutdowns in 3Q2021. As expected, a pair of trains will be on a planned maintenance for ~30 days in 4Q2021 (*continued on next page*).

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- *(continued from previous page)*
- **Steel segment performance continued to improve YoY but dipped sequentially:** Steel revenue came in at QR700.86mn (30.1% YoY, -28.8% QoQ). Steel prices were better than our model; according to the company, steel realizations increased ~31% YoY in 9M2021 (up roughly 13% QoQ) due to a rebound in construction demand; despite focusing mostly on Qatar/regional markets, QASCO continues to target international sales on an opportunistic basis. However, sales volume (down ~6% in 9M2021) were below our expectations. Steel production was down ~15% in 9M2021. The steel segment posted a profit of QR132.99mn in 3Q2021 vs a profit of only QR26.09mn in 3Q2020 and a profit of QR236.91mn in 2Q2021. On a sequential basis, production was flattish (~-0.2%) but sales were down ~37% due to seasonality. We note the significant uptick in steel segment profitability on a YoY basis is due to IQCD's decision to "right-size" the business last year and focus on the higher-margin domestic business; moreover, the company has been able to reduce its production costs without affecting the quality of the final product by changing the raw material mix.
- *For more details on the company's performance and our estimates, please refer to page 3.*
- **Despite paying ~\$1bn for the QAFCO deal, IQCD's balance sheet continues to remain solid with QR13.4bn 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.
- **We expect QR0.85 in DPS, which translates into a yield of 5.3%.** 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 7.7%. A doubling of DPS from 2020 (DPS of QR0.66) translates into a DY of 4.1%. 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 6.5%. *In any event, we foresee a significant increase in DPS for 2021, which is a positive catalyst for this stock.*
- **We maintain our Outperform rating on IQCD with a QR16.40 price target.** 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.

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Income Statement (QR million)	3Q2020	2Q2021	3Q2021	3Q2021E	A Vs. E	YoY	QoQ
Revenue	1,590.186	3,214.242	3,392.226	3,885.607	-12.7%	113.3%	5.5%
Cost of Sales (Ex. Depreciation & Amortization)	(935.685)	(1,662.758)	(1,614.621)	(1,826.235)	-11.6%	72.6%	-2.9%
Gross Profit	654.501	1,551.484	1,777.605	2,059.372	-13.7%	171.6%	14.6%
General and Administrative Expenses	(100.035)	(128.051)	(121.759)	(128.511)	-5.3%	21.7%	-4.9%
Selling & Distribution Expenses	(6.573)	(15.638)	(1.444)	(16.652)	-91.3%	-78.0%	-90.8%
EBITDA	547.893	1,407.795	1,654.402	1,914.209	-13.6%	202.0%	17.5%
Depreciation & Amortization	(347.848)	(305.583)	(322.245)	(311.639)	3.4%	-7.4%	5.5%
EBIT	200.045	1,102.212	1,332.157	1,602.570	-16.9%	565.9%	20.9%
Finance Costs	(6.588)	(8.041)	(5.697)	(6.770)	-15.9%	-13.5%	-29.2%
Share of Results from Associates	(2.495)	31.056	27.602	29.617	-6.8%	N/M	-11.1%
Share of Results of JVs	315.084	886.297	678.443	726.632	-6.6%	115.3%	-23.5%
Other Income	83.737	63.562	67.739	(34.038)	-299.0%	-19.1%	6.6%
Income from Investments & Other Income/Expenses	(153.001)	-	-	-	-	-100.0%	-
Profit Before Tax	436.782	2,075.086	2,100.244	2,318.011	-9.4%	380.8%	1.2%
Tax	85.772	(0.691)	(0.122)	(0.346)	-64.7%	-100.1%	-82.3%
Profit After Tax	522.554	2,074.395	2,100.122	2,317.665	-9.4%	301.9%	1.2%
Minority Interest	(44.675)	(0.479)	(0.192)	(0.377)	-49.0%	-99.6%	-59.9%
Profit for Equity Holders	477.879	2,073.916	2,099.930	2,317.289	-9.4%	339.4%	1.3%
EPS (in QR)	0.08	0.34	0.35	0.38	-9.4%	339.4%	1.3%
Cost of Sales	58.8%	51.7%	47.6%	47.0%			
Gross Margin %	41.2%	48.3%	52.4%	53.0%			
G&A % Sales	6.3%	4.0%	3.6%	3.3%			
Selling Expenses % Sales	0.4%	0.5%	0.0%	0.4%			
EBITDA %	34.5%	43.8%	48.8%	49.3%			
D&A % Sales	21.9%	9.5%	9.5%	8.0%			
EBIT %	12.6%	34.3%	39.3%	41.2%			
Net Margin %	30.1%	64.5%	61.9%	59.6%			

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In QR Millions

Steel	3Q2020	2Q2021	3Q2021	3Q2021e	A Vs. E
Revenue	538.513	983.951	700.859	856.938	-18%
Net Profit	26.091	236.907	132.987	143.966	-8%
<i>NM %</i>	<i>4.85%</i>	<i>24.08%</i>	<i>18.97%</i>	<i>16.80%</i>	
<i>Revenue Q/Q</i>	<i>10%</i>	<i>-20%</i>	<i>-29%</i>	<i>-13%</i>	
<i>Net Income Q/Q</i>	<i>N/M</i>	<i>-8%</i>	<i>-44%</i>	<i>-39%</i>	
<i>Revenue Y/Y</i>	<i>-62%</i>	<i>100%</i>	<i>30%</i>	<i>59%</i>	
<i>Net Income Y/Y</i>	<i>144%</i>	<i>N/M</i>	<i>410%</i>	<i>452%</i>	

Petrochemicals	3Q2020	2Q2021	3Q2021	3Q2021	A Vs. E
Revenue	1,023.000	1,740.000	1,567.000	1,614.737	-3%
Net Profit	315.084	886.297	678.443	726.632	-7%
<i>NM %</i>	<i>30.80%</i>	<i>50.94%</i>	<i>43.30%</i>	<i>45.00%</i>	
<i>Revenue Q/Q</i>	<i>35%</i>	<i>26%</i>	<i>-10%</i>	<i>-7%</i>	
<i>Net Income Q/Q</i>	<i>69%</i>	<i>46%</i>	<i>-23%</i>	<i>-18%</i>	
<i>Revenue Y/Y</i>	<i>-5%</i>	<i>130%</i>	<i>53%</i>	<i>58%</i>	
<i>Net Income Y/Y</i>	<i>-6%</i>	<i>376%</i>	<i>115%</i>	<i>131%</i>	

Fertilizers	3Q2020	2Q2021	3Q2021	3Q2021	A Vs. E
Revenue	1,051.673	2,230.291	2,691.367	3,028.669	-11%
Net Profit	153.922	942.304	1,280.292	1,362.901	-6%
<i>NM %</i>	<i>14.64%</i>	<i>42.25%</i>	<i>47.57%</i>	<i>45.00%</i>	
<i>Revenue Q/Q</i>	<i>18.4%</i>	<i>38%</i>	<i>21%</i>		
<i>Net Income Q/Q</i>	<i>-12.8%</i>	<i>58%</i>	<i>36%</i>		
<i>Revenue Y/Y</i>	<i>0.9%</i>	<i>151%</i>	<i>156%</i>		
<i>Net Income Y/Y</i>	<i>-5.8%</i>	<i>434%</i>	<i>732%</i>		

Total Revenue	2,613.186	4,954.242	4,959.226		
YoY Growth	-26%	132%	90%		
QoQ Growth	22%	17%	0%		

Steel	21%	20%	14%		
Petrochemicals	39%	35%	32%		
Fertilizers	40%	45%	54%		

Total NI (Ex. Unallocated)	495.097	2,065.508	2,091.722		
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Steel	5%	11%	6%		
Petrochemicals	64%	43%	32%		
Fertilizers	31%	46%	61%		

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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