

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR147.00	Current Target Price	QR153.00
Implied Upside	4.1%	Old Target Price	QR156.00

Updating Model Post 1Q2015; Retain Market Perform Rating

A weaker-than-expected 1Q2015 prompts further estimate revisions; stay Market Perform. IQCD posted a soft 1Q2015 with net income of QR950.6mn vs. our estimate of QR1.09bn with margins compressing beyond expectations in both fertilizers and steel. While at QR4.9bn, we were already at the low end of FY2015 net income estimates, our new forecasts factor in 1Q2015 results and other model changes. Our price target marginally drops to QR153.00 from QR156.00; we retain our Market Perform rating.

Highlights

- 1Q2015 earnings miss as margins crimp across segments:** Industries Qatar's net profit of QR950.6mn declined 40% YoY and 41% QoQ. IQCD stated in its press release that the drop in 1Q2015 net income was a result of weak product prices following a significant fall in global oil prices. The company reported revenue of QR1.3bn (steel) in 1Q2015 (-0.8% YoY; +1.3% QoQ). Consolidated group revenue (steel + petchems + fertilizers) was QR3.8bn in 1Q2015, reflecting declines of 9.4% YoY/20.1% QoQ. IQCD said the YoY reduction in revenue was driven primarily by a significant reduction in selling prices across all segments following the oil price decline that began in 4Q2014. Sales volumes, however, improved on a yearly basis due to lower shutdowns. QoQ decline in revenue/net income was again due to declines in realized prices. Relative to our estimates, IQCD reported better-than-expected group revenue driven by steel; fertilizers were in line and petrochemicals came in slightly lower than expected. Net income, however, fell short as margins declined, relative to our expectations, in steel and fertilizers: **(1) Fertilizers:** a major decline in pricing contributed to a fall in the EBITDA margin to 41.6% vs. 53.4% in 1Q2014 despite lower planned shutdowns (ammonia/urea: 26 days/24 days) last quarter vs. 1Q2014 (46/36). **(2) Petrochemicals:** EBITDA margin dropped to 44.3% (1Q2014: 52.7%) driven by downtimes (planned 1Q2015 -LDPE/LLDPE: 41 days/42 days vs. actual 1Q2014 - 87/13); price realizations likely contributed to the decline despite an improvement seen since early March. **(3) Steel:** witnessed another quarter of falling profitability (EBITDA margin of 20.5% vs. 31.1% in 1Q2014). Weak pricing undoubtedly contributed to the miss but margins are yet to benefit from the fall in iron ore prices.
- We project EPS of QR7.52 (previously QR8.13) for 2015 & QR9.32 (QR10.10) for 2016.** By segment: **(1) Fertilizers:** We are cautious on 2015 pricing given tepid economic forecasts and potential market oversupply. However, slower-than-expected supply additions and seasonal factors should help somewhat. Our urea price realization assumption is \$302/MT in 2015. YTD ME urea prices are down +25%, while ammonia prices are down another ~5% since 1Q2015. **(2) Petrochemicals:** The decline in oil prices is anticipated to create a bear market in 2015. However, PE prices have rebounded nicely since early March and we expect a ~15% fall in PE prices this year. **(3) Steel:** We model in a 10% drop in rebar prices but with some gross margin uptick given lower iron ore pricing.

Catalysts

- The eventual recovery in oil prices will be a major positive.** Also, QP stated recently its intention to conduct feasibility studies to take advantage of the ethane feedstock available following its decision not to proceed with the proposed Al-Karaana Petrochemicals project. IQCD (through QAPCO) could end up benefiting from any resulting petrochemical ventures but not before 2018 or so.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Market Perform with a revised price of QR153.00.** IQCD is trading at 2016 EV/EBITDA multiple of 14.1x.
- Risks:** Declining 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

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	13.24	10.48	7.52	9.32
EPS Growth	(5.1%)	(20.8%)	(28.3%)	24.0%
P/E (x)	11.1	14.0	19.6	15.8
DPS (QR)	11.00	7.00	7.00	8.00
Dividend Yield	7.5%	4.8%	4.8%	5.4%

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

Key Data

Current Market Price (QR)	147.00
Dividend Yield (%)	4.8
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	200.00/127.00
3-m Average Volume ('000)	211.8
Mkt. Cap. (\$ bn/QR bn)	24.4/88.9
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.7
1-Year Total Return (%)	(13.0)
Fiscal Year End	December 31

Source: Bloomberg (as of April 29, 2015), *Qatar Exchange (as of April 29, 2015); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2013	FY2014	FY2015e	FY2016e
Revenue	5,823	5,970	4,905	5,606
Cost of Sales, Excluding D&A	(3,865)	(4,376)	(3,728)	(4,148)
Gross Profit	1,958	1,594	1,177	1,458
G&A Expenses, Excluding Depreciation	(173)	(199)	(167)	(191)
Selling Expenses, Excluding Depreciation	(35)	(48)	(49)	(56)
EBITDA	1,750	1,348	961	1,211
Depreciation & Amortization	(158)	(183)	(211)	(211)
EBIT	1,592	1,165	750	1,000
Finance Costs	(59)	(103)	(32)	(30)
Income from Investments	112	98	97	97
Share of Results of Associates	(11)	15	25	25
Share of Results of Joint Ventures	6,238	4,983	3,616	4,453
Others	140	185	92	92
Profit Before Tax	8,012	6,342	4,548	5,638
Income Tax Expense	-	-	-	-
Profit for Shareholders	8,012	6,342	4,548	5,638
EPS (QR)	13.24	10.48	7.52	9.32
Group EBIT	8,071	6,445	4,580	5,667
Group EBITDA	8,229	6,628	4,791	5,878

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2013	FY2014	FY2015e	FY2016e
Non-Current Assets				
PP&E and Projects Under Development	3,434	3,856	4,050	4,244
Investment Properties	178	198	198	198
Investment in Associates	223	233	258	283
Investment in Joint Ventures	19,879	20,562	20,687	20,787
Available-for-Sale Investments	753	863	856	856
Catalysts & Others	42	37	32	27
Total Non-Current Assets	24,508	25,750	26,082	26,396
Current Assets				
Inventories	1,848	2,143	1,826	2,032
Accounts Receivables & Prepayments	1,455	1,139	935	1,069
Due from Related Parties	34	82	98	112
Held for Trading Investments, Assets Held for Sale and Others	1,249	1,249	1,249	1,249
Cash and Bank Balances	7,683	6,192	5,976	6,570
Total Current Assets	12,269	10,806	10,085	11,033
Total Assets	36,778	36,556	36,167	37,429
Equity				
Total Equity	33,777	33,585	33,768	35,030
Non-Current Liabilities				
Loans and Borrowings	1,662	452	961	931
End of Service Benefits & Others	202	143	149	149
Total Non-Current Liabilities	1,864	595	1,110	1,080
Current Liabilities				
Accounts Payables & Accruals	809	1,049	894	995
Due to Related Parties & Others	15	116	15	14
Loans and Borrowings	313	1,211	380	310
Total Current Liabilities	1,136	2,376	1,289	1,319
Equity and Liabilities	36,778	36,556	36,167	37,429

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

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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