

QAMC Alert – Good Set of Results Amid Higher Aluminum Prices; Maintaining MP for Now

- **Qatar Aluminium Manufacturing Company (QAMC) reported a net profit of QR164.7mn in 2Q2021 as compared to a net profit of QR123.8mn in 1Q2021 and a net profit of QR3.9mn in 2Q2020. While the net profit is below our QR214.3mn estimate, QAMC still recorded a good set of results with net profits rising 33% QoQ, accompanied by higher revenue and margins.** Gain from “share of results from a joint venture (Qatalum)” stood at QR164.9mn in 2Q2021 vs. QR123.8mn in 1Q2021 and QR5.1mn in 2Q2020, which represents an increase of 34.1% QoQ. EPS amounted to QR0.052 in 6M2021 as compared to QR0.003 in 6M2020. QAMC reported the highest half-yearly net profit of QR288.5mn at the end of June 30, 2021.
- **QAMCO’s 50% JV Qatalum’s 2Q2021 revenue rose 28.6% YoY/11.7% QoQ, mainly thanks to higher aluminum prices.** Qatalum recorded QR1.43bn in 2Q2021 revenue, in-line with our estimate of QR1.45bn (variance: -1.9%). Qatalum’s sales volumes in 2Q2021 rose marginally to 160k tons (1% QoQ), remaining almost same YoY. On the other hand, a 40.5% YoY/ 9.0% QoQ increase in average LME aluminum prices, as a result of better global market conditions, were the primary reason for QAMCO’s average sales prices to rise to \$2,449/MT, up 11.2% QoQ. Meanwhile, most likely due to a higher value-added product mix vs. 1Q2021, QAMCO’s average premium rose to \$298/MT in 2Q2021 from \$230 in 1Q2021. The demand for value-added products started to pickup in 4Q2020 and has continued in 1H2021 as well, supporting higher aluminum premiums.
- **Qatalum’s 2Q2021 operating margin was higher YoY/QoQ (but below our estimate).** Increasing aluminum premiums and higher aluminum prices vs. declining average alumina prices (from \$300/ton in 1Q to 276.7 in 2Q) resulted in Qatalum’s operating margin to rise to 25.5% in 2Q2021 from 22.0% in 1Q2021 and 4.8% in 2Q2020. Given the lower alumina prices in 2Q sequentially, we were expecting Qatalum’s raw material and energy costs to be flattish QoQ at QR559mn, vs. the announced 11.1% rise QoQ to QR625.4mn. Nevertheless, Qatalum recorded QR365.4mn in operating profits in 2Q2021, which was up 577.5% YoY and 29.5% QoQ.
- **Qatalum’s net financial expenses declined 18.8% YoY to QR35.6mn (also down 1.5% QoQ), supporting Qatalum’s and consequently QAMCO’s bottom-line.** On the other hand, QAMCO’s share of Qatalum’s debt rose slightly YTD to QR2.27bn from QR2.22bn at end-2020.
- **We may revise our estimates and target price after QAMC’s conference call.** Thanks to its state-of-the-art plant and the support of its major shareholders, which enables Qatalum to act like an integrated producer, Qatalum is one of the world’s lowest cost smelters. Qatalum’s high margins, low indebtedness and lack of major expansion projects on the horizon warrants the continuation of its strong cash generation as well as attractive dividend yields for QAMCO shareholders. On the other hand, Qatalum currently operates above its nameplate capacity, hence its top- & bottom-lines are more sensitive to the changes in aluminum prices (which are already at their decade highs) vs. its peers. **We maintain our Market Perform rating for now.**

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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