

Qatar Aluminium Manufacturing Co. (QAMCO)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR0.991	Current Target Price	0.980
Implied Upside	-1.0%	Old Target Price	0.790

Recovering Aluminum Prices May Lead to Higher Valuations; Increasing Price Target

Following in-line 2Q2020 results, we have tweaked QAMCO's target price primarily due to our assumption of a lower risk-free rate. On the other hand, as a result of strong demand from China, coupled with the end of global lockdowns in June, primary aluminum prices continue their recovery in 3Q2020, rising 23.8% from their 5-year bottom tested on April 8. Current consensus average aluminum price for 2020-2023 is 7.8% above our base-case estimates; hence, if these levels are sustained, there will be further room for us to upgrade our forecasts for QAMCO in the coming months. Thanks to its state-of-the-art plant and the support of its major shareholders, which enables QAMCO's JV 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 warrant the continuation of its strong cash generation as well as attractive dividend yields for QAMCO shareholders once the global aluminum market stabilizes. 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 vs. its peers.

Highlights

- **QAMCO posted 2Q2020 net income/EPS of QR3.9mn/QR0.0007, up vs. 2Q2019's QR8.1mn net loss but down 63.6% sequentially.** We were expecting QR4.8mn in net income for 2Q2020. Gain from "Share of results from a joint venture (Qatalum)" stood at QR5.1mn in 2Q2020 as compared to loss of QR6.1mn in 2Q2019 and gain of QR13.2mn in 1Q2020.
- **QAMCO's 50%-JV Qatalum's 2Q2020 revenue fell by 1.5% QoQ and 3.8% YoY:** Qatalum recorded revenue of QR1.1bn in 2Q2020, down 1.5% QoQ and 3.8% YoY. Qatalum's sales volume in 2Q2020 displayed some growth both YoY and sequentially. However, lower average global aluminum prices (which fell by 11% in 2Q2020 vs. 1Q2020 and 16% vs. 2Q2019, according to Bloomberg's generic 1st primary aluminum price data) coupled with Qatalum's product mix change from value-added products to standard ingots led Qatalum to record lower revenue in 2Q2020. We also think Qatalum's premiums fell QoQ because of this mix shift.
- **Qatalum's 2Q2020 operating margin (4.8%) was flat YoY.** On the other hand, Qatalum's operating margin declined sequentially in 2Q from 1Q2020's 9.8%. A 5.0% rise in raw material and energy costs QoQ was the primary reason for the sequential margin decline. Whereas, a 0.1% decline in the same item vs. 2Q2019 resulted in flat margins YoY. Depreciation expenses, falling 9.4% YoY, also supported operating margins vs. 2Q2019. Consequently, Qatalum recorded QR53.9mn in operating profits during 2Q2020, which was down 51.1% QoQ and 2.8% YoY.
- **On the positive front, Qatalum's net financial expenses declined 47.8% QoQ and 35.2% YoY to QR43.8mn, which supported Qatalum's and consequently QAMCO's bottom-lines.** Furthermore, QAMCO's share of Qatalum's net debt declined by 8% during 1H2020 to QR2.2bn because of a principal payment of QR222mn.
- **Recovering aluminum price dynamics opens the way for higher valuations, if sustained.** Due to COVID-19 disruptions, primary aluminum prices tested their 5-year bottom at \$1,426/ton (April 8). Prices, since then, have bounced by 23.2% due to strong demand from China. Chinese aluminum imports rose by 219% YoY in 1H2020 and increased 490% in Jun'20 vs. Jun'19 to their 11-year high. Currently, primary aluminum price is at \$1,757/ton, which is roughly flat YoY. *If the second-wave COVID-19 concerns do not affect prices again, we believe there will be room for us to upgrade our TP.* In our recent initiation **report**, we used Bloomberg consensus estimates for primary aluminum and have considered an average of \$1,690/ton for the 2020-2023e period in our earnings forecasts. Current Bloomberg consensus for the same period is \$1,821, 7.8% above our base-case estimate and slightly below the 2016-2020 cycle average (\$1,839).

Catalysts

- 1) Primary aluminum and feedstock price trends are the main determinants of QAMCO's EPS, DPS and valuations.
- 2) New capacity plans or other growth initiatives for Qatalum.
- 3) Dividend announcements.

Recommendation, Valuation and Risks

- **We continue to rate QAMCO a MARKET PERFORM.** Our 1-year price target of QR0.98 implies a 1.0% downside potential, based on a weighted average of DCF and international peer comparison.
- **Risks:** 1) Geopolitical risks. 2) Further COVID-19 disruptions on demand. 3) Global aluminum over-capacity/over-supply.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.01	0.00	0.01	0.03
P/E (x) (*)	70.8	222.7	69.6	32.1
EV/EBITDA (x) (*)	11.3	13.2	11.3	9.2
DPS (QR)	0.01	0.00	0.01	0.03
DY (%)	1.0%	0.4%	1.3%	2.8%

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

Key Data

Bloomberg Ticker	QAMC QD
ADR/GDR Ticker	N/A
Reuters Ticker	QAMC.QA
ISIN	QA000M2522L9
Sector	Industrials
52wk High/52wk Low (QR)	1.03 / 0.451
3-m Avg. Volume (000)	24,983
Mkt. Cap. (\$ bn/QR bn)	1.5/5.5
EV (\$ bn/QR bn)	1.5/5.4
FO Limit* (%)	49.0
Current FO* (%)	5.1
Shares Outstanding (mn)	5,580.1
1-Year Total Return (%)	21.3%
Fiscal Year End	December 31

Source: Bloomberg (as of September 9, 2020), *Qatar Exchange (as of September 8, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement* - QAMCO

In QR mn	2019(*)	2020e	2021e	2022e
Total Revenues	2,695	2,113	2,174	2,304
Total operating expenses	2,494	1,993	2,015	2,066
Raw materials and energy consumption	1,487	1,130	1,134	1,172
Salaries and related costs	225	206	208	210
Depreciation and amortization	494	445	451	458
Loss on disposal of PPE	30	3	1	1
Technical service costs	31	23	27	28
Other expenses	218	177	182	185
Qamco's own SG&A	10	11	11	12
Operating profit	200	119	159	238
EBITDA	694	564	610	696
Net finance costs	121	95	79	63
Net Profits	80	24	80	175
Other Comprehensive Income:	10	0	0	0
Total Comprehensive Income	88	24	80	175
EPS	0.01	0.00	0.01	0.03
DPS	0.01	0.00	0.01	0.03

* As QAMCO has no operations on his own, figures are based on QAMCO's 50% stake at Qatalum plus QAMCO's own P&L items

Note: EPS based on current number of shares, Source: Company data, QNBFS Research estimates

Balance Sheet - QAMCO

In QR mn	2019(*)	2020e	2021e	2022e
Current Assets				
Cash & Cash Equivalents	103	51	61	81
HFT Investments/ST Investments	0	0	0	0
Accounts Receivables/Prepayments	0	0	0	0
Other Receivables	2	2	2	2
Inventories	0	0	0	0
Total Current Assets	105	52	63	83
Non-Current Assets				
Investment in a joint venture	5,647	5,723	5,780	5,881
Goodwill & Intangibles	0	0	0	0
Property, Plant & Equipment	0	0	0	0
Non-Current Assets	5,647	5,723	5,780	5,881
Total Assets	5,752	5,776	5,843	5,964
Current Liabilities				
Accounts Payable & Accruals	0	0	0	0
Other Payables	29	39	40	41
Due to Related Parties	4	2	2	2
Current Liabilities	34	41	42	43
Non-Current Liabilities				
Employees End of Service Benefits	0	0	0	0
Long-Term Debt	0	0	0	0
Non-Current Liabilities	0	0	0	0
Total Liabilities	34	41	42	43
Shareholders' Equity				
Share Capital	5,580	5,580	5,580	5,580
Total Shareholder's Equity	5,719	5,735	5,801	5,921
Liabilities & Shareholder's Equity	5,752	5,776	5,843	5,964

* As QAMCO has no operations on his own, figures are based on QAMCO's 50% stake at Qatalum plus QAMCO's own P&L items
 Source: Company data, QNBFS Research estimates

Ratio Analysis

Key Metrics

Particulars	2019(***)	2020e	2021e	2022e	2023e
Growth Rates*					
Revenue*	N/M	(21.6%)	2.9%	6.0%	4.1%
Gross Profit*	N/M	(32.1%)	14.7%	22.0%	11.3%
EBITDA*	N/M	(18.4%)	8.2%	13.8%	7.8%
EBIT*	N/M	(38.2%)	31.4%	46.4%	19.2%
PAT/EPS**	N/M	(58.5%)	159.0%	103.6%	34.4%
DPS**	N/M	(58.5%)	159.0%	103.6%	34.4%
FCPS*	N/M	(21.6%)	9.3%	18.0%	9.7%
Operating Ratios*					
Gross Margin	18.1%	15.7%	17.5%	20.1%	21.6%
EBITDA Margin	26.1%	27.2%	28.6%	30.7%	31.8%
EBIT Margin	7.8%	6.2%	7.9%	10.8%	12.4%
Net Margin	3.2%	1.7%	4.2%	8.2%	10.5%
Finance Ratios*					
Debt-Equity Ratio	65%	58%	50%	41%	34%
Net Debt-to-Equity Ratio	54%	44%	31%	19%	7%
Net Debt-to-Mcap	85%	69%	50%	31%	12%
Net debt- to-EBITDA	3.3	3.3	2.2	1.2	0.4
Interest Coverage	5.7	6.1	7.9	11.4	16.9
Return Ratios**					
ROA	1.4%	0.4%	1.4%	2.9%	3.9%
ROE	1.4%	0.4%	1.4%	2.9%	3.9%
Valuation					
EPS**	0.01	0.00	0.01	0.03	0.04
DPS**	0.01	0.00	0.01	0.03	0.04
FCFPS*	0.10	0.07	0.08	0.10	0.11
EV/Sales*	1.5	1.8	1.6	1.4	1.2
EV/EBITDA*	11.3	13.2	11.3	9.2	7.8
EV/EBIT*	39.3	62.2	43.2	26.8	20.5
P/E**	70.8	222.7	69.6	32.1	23.6
P/BV**	1.0	1.0	1.0	0.9	0.9
FCF Yield*	9.6%	7.6%	8.3%	9.7%	10.7%
Dividend Yield**	1.0%	0.4%	1.3%	2.8%	3.8%

* As QAMCO has no operations of its own, multiples are based on QAMCO's 50% stake at Qatalum, plus QAMCO's relevant financial items

** QAMCO

*** QAMCO's 2019 financials are for the 13-month period between Dec'18-Dec'19

Source: Company data, QNBFS Research 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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