

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR100.10	Current Target Price	QR104.00
Implied Upside	3.9%	Old Target Price	QR130.00

Soft 4Q2015; Revising Price Target to QR104

A weaker-than-expected 4Q2015; lowering price target to QR104. Industries Qatar's (IQCD) net income declined 56% QoQ and 62% YoY to QR614mn vs. our estimate of QR1,105 (-44% divergence) and Bloomberg consensus of QR1,136mn (-46% divergence). Net income was impacted by roughly QR246mn in impairments of investment properties/AFS; excluding these items, net income came in at QR860mn, still well below estimates. Reported quarterly revenue for fertilizers, petrochemicals and steel were generally in-line with our model, with fertilizers exhibiting the highest divergence (-9%) relative to our estimates. Big misses in fertilizer and steel profitability impacted reported results. The company recommended a DPS of QR5 a share vs. QR7 in 2014. While below estimates, announced DPS was in-line with modified expectations following other similar dividend cuts. We reduce our price target to QR104 and will wait for our meeting with management to adjust our future estimates.

Highlights

- IQCD's net profit misses estimates:** The company's net income plummeted 56% QoQ and 62% YoY. IQCD, in its trading statement, reported a more than 9% growth in its sales volume for the year to reach record levels. Production also reached a record of 17mn tons, with utilization reaching 104.6% which also was the highest in the group's operating history. The decline in prices continued to negate sales growth with net income declining roughly 30% in 2015.
- Divided cut to QR5 a share lowers the yield to 5.0%.** While below modeled estimates, the reduction in DPS to QR5 was broadly in-line with what investors were expecting given dividend announcements by Qatari companies thus far this year. This implies a cash outlay of roughly QR3bn vs. IQCD's reported cash (across the group) of QR10.6bn as of December 2015. IQCD's liquidity position continues to remain strong.

Catalysts

- We favor IQCD as a long-term play but concede that any meaningful recovery in the stock will likely come only when confidence regarding oil price stability resurfaces.** IQCD offers a diversified mix of steel, petrochemicals and fertilizers. The stock has taken a severe beating since the dividend surprise for 2014 and was under significant pressure in 2015 on the back of volatile oil prices. While near-term growth in earnings will be under pressure, IQCD will be one of the first stocks to anticipate a relative stability/potential recovery in oil prices.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate IQCD a Market Perform with a QR104 price target.** We move to 50/50 weighed DCF/Price-to-Earnings multiple-based methodology. Our DCF value remains at QR130 for now but we do envision a reduction once we update our model. In terms of our relative valuation-based methodology, we haircut IQCD's normalized 2015 EPS by another 20% (QR6.20) and apply its historical median P/E of 12.6x to arrive at QR78. We will update our 2016 estimates once we are able to discuss these results with management.
- 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

	FY2014	FY2015	FY2016e	FY2017e
EPS (QR)	10.48	7.35	7.93	8.32
EPS Growth	(20.8%)	(29.9%)	7.9%	4.9%
P/E (x)	9.5	13.6	12.6	12.0

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

Key Data

Current Market Price (QR)	100.10
Dividend Yield - 2015 (%)	5.0
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	157.00/88.00
3-m Average Volume ('000)	204.1
Mkt. Cap. (\$ bn/QR bn)	16.6/60.6
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	5.7
1-Year Total Return (%)	(32.4)
Fiscal Year End	December 31

Source: Bloomberg (as of February 07, 2016), *Qatar Exchange (as of February 07, 2016); Note: FO is foreign ownership

Saugata Sarkar
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Comparisons and Actual Vs. Estimates

(In QR mn)	4Q2014	3Q2015	4Q2015	4Q2015e	A vs. E	QoQ	YoY
Revenue	1,296.161	1,218.589	1,120.371	1,181.863	-5.2%	-8.1%	-13.6%
Cost of Sales (Ex. Depreciation & Amortization)	(951.771)	(849.666)	(866.825)	(845.860)	2.5%	2.0%	-8.9%
Gross Profit	344.390	368.923	253.546	336.003	-24.5%	-31.3%	-26.4%
General and Administrative Expenses	(57.142)	(35.652)	(50.979)	(50.570)	0.8%	43.0%	-10.8%
Selling Expenses	(8.797)	(15.654)	(11.134)	(15.621)	-28.7%	-28.9%	26.6%
EBITDA	278.451	317.617	191.433	269.813	-29.0%	-39.7%	-31.3%
Depreciation & Amortization	(53.444)	(52.860)	(53.638)	(52.825)	1.5%	1.5%	0.4%
EBIT	225.007	264.757	137.795	216.988	-36.5%	-48.0%	-38.8%
Finance Costs	(61.104)	(3.473)	(3.639)	(8.268)	-56.0%	4.8%	-94.0%
Income from Investments	98.378	-	130.986	93.000	40.8%		33.1%
Share of Results from Associates	(0.966)	(11.942)	(62.800)	(12.507)	402.1%	425.9%	6401.0%
Share of Results of JVs	1,413.400	1,117.916	732.526	887.785	-17.5%	-34.5%	-48.2%
Other, Net	(53.239)	39.941	(320.416)	(71.894)	345.7%	-902.2%	501.8%
Profit Before tax	1,621.476	1,407.199	614.452	1,105.104	-44.4%	-56.3%	-62.1%
Tax							
Profit After Tax	1,621.476	1,407.199	614.452	1,105.104	-44.4%	-56.3%	-62.1%
Minority Interest	-	-	-	-			
Profit for Equity Holders	1,621.476	1,407.199	614.452	1,105.104	-44.4%	-56.3%	-62.1%
<i>Net Margin</i>	<i>125.1%</i>	<i>115.5%</i>	<i>54.8%</i>	<i>93.5%</i>			
EPS	2.68	2.33	1.02	1.83	-44.4%	-56.3%	-62.1%
Shares O/S (mn)	605	605	605	605	0.0%	0.0%	0.0%
Group EBIT (IQ)	1,682.580	1,410.672	618.091	1,113.372	-44.5%	-56.2%	-63.3%
Group EBITDA (IQ)	1,736.024	1,463.532	671.729	1,166.197	-42.4%	-54.1%	-61.3%

Source: Company data, QNBFS estimates

Segment Actual Vs. Estimates

Steel	4Q2014	2014	3Q2015	4Q2015	2015	4Q2015	A V E
Revenue	1,296	5,970	1,219	1,120	5,228	1,182	-5%
Net Profit	201	1,270	269	70	1,036	232	-70%
NM %	16%	21%	22%	6%	20%	20%	
Revenue Q/Q				-8%			
NP Q/Q				-74%			
Revenue Y/Y				-14%	-12%		
NP Y/Y				-65%	-18%		
Petrochemicals	4Q2014	2014	3Q2015	4Q2015	2015	4Q2015	A V E
Revenue	1,843	6,808	1,566	1,467	5,845	1,429	3%
Net Profit	858	3,252	786	572	2,610	614	-7%
NM %	47%	48%	50%	39%	45%	43%	
Revenue Q/Q				-6%			
NP Q/Q				-27%			
Rev Y/Y				-20%	-14%		
NP Y/Y				-33%	-20%		
Fertilizers	4Q2014	2014	3Q2015	4Q2015	2015	4Q2015	A V E
Revenue	1,597	5,459	1,316	1,102	4,927	1,215	-9%
Net Profit	555	1,731	332	160	1,087	273	-41%
NM %	35%	32%	25%	15%	22%	23%	
Revenue Q/Q				-16%			
NP Q/Q				-52%			
Rev Y/Y				-31%	-10%		
NP Y/Y				-71%	-37%		

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

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of QNB SAQ ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB SAQ is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNBFS.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.