

IQCD Alert – Solid 2Q2021 Beat on Petchems/Fertilizer Outperformance; Accumulate

- **IQCD's bottom-line rises 361.9% YoY and 41.6% QoQ in 2Q2021, handily beating our estimate –** Industries Qatar's (IQCD) net profit rose to QR2.07bn in 2Q2021 vs. QR449.01mn in 2Q2020 and QR1.46bn in 1Q2021; earnings also exceeded our estimate of QR1.53bn. 2Q2021's quarterly profit is also the highest on record since 1Q2013. While sales volumes were generally in-line to modestly higher vs. our model (except a strong upside in urea volumes), stronger-than-expected price realizations (especially in petchems), along with better-than-expected operating margins, helped drive the significant earnings beat in 2Q2021. For 1H2021, IQCD has recorded QR3.54bn in net income. *While we still expect PE prices to ease in 2H2021 vs. 1H2021, we will likely end up increasing our 2021 earnings estimate of QR4.59bn. For now, we reiterate our Accumulate rating & QR14.25 price target.*
- **In terms of segments, better-than-anticipated performance in petrochemicals and fertilizers drove 2Q2021 profitability vs. our model, while steel was modestly below our forecasts on an operating basis.** *For segment details, please see page 4.* Overall sales volume and prices grew roughly 40% and 35%, respectively, YoY, in 1H2021 and 3% and 14%, respectively, QoQ, in 2Q2021.
- **Significant pricing improvement in petrochemicals (including fuel additives) along with modest volume upside boosted segment profitability:** 2Q2021 segment revenue of ~QR1.8bn (~134% YoY, ~28% QoQ) was ~31% higher than our model, while earnings were boosted as profitability expanded even more significantly. Segment earnings of QR886.30mn climbed 376.1% YoY and 45.7% QoQ. Product prices came in stronger-than-expected, with LDPE price up roughly 96% and LLDPE price up approximately 79%, on a YoY basis. Improving demand fundamentals, along with supply shortages lifted prices. Methanol (up ~134%) and MTBE (increasing ~238%) realizations also improved beyond expectations. Sales volumes were in-line with our model for the most part and up approximately 11% QoQ led by MTBE, which saw a significant sequential increase in sales as its production facilities were on a commercial shutdown in 1Q2021. 2Q2021 production volumes increased ~12% QoQ. 1H2021 sales volumes and production both increased roughly 8% YoY with lower MTBE volumes (given planned shutdown) more than offset by higher PE volumes.
- **Fertilizers also handily surpassed our expectations driven by urea volume growth and margin expansion along with moderate pricing upside.** 2Q2021 revenue and net income of QR2.23bn and QR942.30mn increased 151.1% and 433.6%, YoY, respectively. Sequentially, segment revenue increased 38.4% and earnings grew 58.2%. According to the company, urea prices increased ~63% YoY (~14% QoQ) due to strong global coarse grains demand and supply bottlenecks. 1H2021 production volume fell ~3% YoY but sales volume grew ~85%; production was impacted by QAFCO 1-4 maintenance in 1H2021 (specifically 1Q2021), while sales improved given the interim gas agreement in-place during 1H2020. Production and sales volumes grew roughly 10% and 16%, respectively, QoQ (*continued on next page*).

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- *(continued from previous page)*
- **2Q2021 steel revenue and profit came in below our estimates:** Steel revenue came in at QR983.95mn (100.2% YoY, -19.9% QoQ). Steel prices were in-line with our model; according to the company, steel realizations increased ~27% YoY in 1H2021 (up roughly 22% QoQ) due to a rebound in construction demand and higher raw materials costs internationally. However, sales volume (down ~4% in 1H2021) were below our expectations. We note that despite missing our segment top-line/earnings estimate, rebar sales volume was still up a strong ~35% YoY. Steel production was down ~24% in 1H2021. The steel segment posted a profit of QR236.91mn in 2Q2021 vs. a loss of QR1.30bn (due to a QR1.22bn impairment related to mothballing of steel facilities) in 2Q2020 and a profit of QR258.72mn in 1Q2021. On a sequential basis, production was flattish but sales were down ~34% possibly due to inventory of billets and DRIs, along with some rebars, sold in 1Q2021. We note the significant uptick in steel segment profitability was due to IQCD's decision to "right-size" the business last year and focus on the higher-margin domestic business. Also, the company was able to take advantage of improved international prices by selling some volumes outside of Qatar. Thus, despite missing our 1Q2021 steel revenue estimate significantly due to primarily lower sales volumes, margin improvement softened the impact on 1Q2021 segment net income, which came in only modestly below our estimate.
- *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 QR11.1bn 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 maintain our Accumulate rating on IQCD with a QR14.25 price target but will likely revise our earnings estimates upward.** As we noted previously, in light of better-than-expected 1H2021 results, we will likely increase our 2021 earnings estimate. However, we do note, as expected, PE prices have started to soften from late 2Q2021 and we think QAPCO will undergo a major maintenance-related shutdown in 2H2021. So 2H2021 could be softer than the first half.
- **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)	2Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E	YoY	QoQ
Revenue	2,420.493	2,839.825	3,214.242	3,013.338	6.7%	32.8%	13.2%
Cost of Sales (Ex. Depreciation & Amortization)	(1,323.934)	(1,607.613)	(1,662.758)	(1,732.958)	-4.1%	25.6%	3.4%
Gross Profit	1,096.559	1,232.212	1,551.484	1,280.380	21.2%	41.5%	25.9%
General and Administrative Expenses	(212.467)	(146.545)	(128.051)	(146.838)	-12.8%	-39.7%	-12.6%
Selling & Distribution Expenses	(8.774)	(17.395)	(15.638)	(9.499)	64.6%	78.2%	-10.1%
EBITDA	875.318	1,068.272	1,407.795	1,124.043	25.2%	60.8%	31.8%
Depreciation & Amortization	(670.529)	(337.634)	(305.583)	(336.283)	-9.1%	-54.4%	-9.5%
EBIT	204.789	730.638	1,102.212	787.759	39.9%	438.2%	50.9%
Finance Costs	(10.822)	(5.915)	(8.041)	(5.500)	46.2%	-25.7%	35.9%
Share of Results from Associates	(8.464)	22.165	31.056	30.000	3.5%	N/M	40.1%
Share of Results of JVs	38.306	608.342	886.297	629.198	40.9%	2213.7%	45.7%
Other Income	98.752	109.977	63.562	92.614	-31.4%	-35.6%	-42.2%
Income from Investments & Other Income/Expenses	184.041		-			-100.0%	
Profit Before Tax	506.602	1,465.207	2,075.086	1,534.072	35.3%	309.6%	41.6%
Tax	(163.102)		(0.691)			-99.6%	
Profit After Tax	343.500	1,465.207	2,074.395	1,534.072	35.2%	503.9%	41.6%
Minority Interest	105.513	(0.734)	(0.479)	(0.768)	-37.7%	N/M	-34.7%
Profit for Equity Holders	449.013	1,464.473	2,073.916	1,533.303	35.3%	361.9%	41.6%
EPS (in QR)	0.07	0.24	0.34	0.25	35.3%	361.9%	41.6%
Cost of Sales	54.7%	56.6%	51.7%	57.5%			
Gross Margin %	45.3%	43.4%	48.3%	42.5%			
G&A % Sales	8.8%	5.2%	4.0%	4.9%			
Selling Expenses % Sales	0.4%	0.6%	0.5%	0.3%			
EBITDA %	36.2%	37.6%	43.8%	37.3%			
D&A % Sales	27.7%	11.9%	9.5%	11.2%			
EBIT %	8.5%	25.7%	34.3%	26.1%			
Net Margin %	18.6%	51.6%	64.5%	50.9%			

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In QR Millions

Steel	1Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E
Revenue	1,302.053	1,227.891	983.951	1,285.602	-23%
Net Profit	(88.274)	258.715	236.907	250.050	-5%
<i>NM %</i>	<i>-6.78%</i>	<i>21.07%</i>	<i>24.08%</i>	<i>19.45%</i>	
<i>Revenue Q/Q</i>	<i>-6%</i>	<i>85%</i>	<i>-20%</i>	<i>5%</i>	
<i>Net Income Q/Q</i>	<i>-27%</i>	<i>422%</i>	<i>-8%</i>	<i>-3%</i>	
<i>Revenue Y/Y</i>	<i>3%</i>	<i>-6%</i>	<i>100%</i>	<i>162%</i>	
<i>Net Income Y/Y</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	
Petrochemicals	1Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E
Revenue	951.000	1,377.175	1,768.758	1,349.632	31%
Net Profit	123.023	608.342	886.297	629.198	41%
<i>NM %</i>	<i>12.94%</i>	<i>44.17%</i>	<i>50.11%</i>	<i>46.62%</i>	
<i>Revenue Q/Q</i>	<i>-11%</i>	<i>12%</i>	<i>28%</i>	<i>-2%</i>	
<i>Net Income Q/Q</i>	<i>-60%</i>	<i>38%</i>	<i>46%</i>	<i>3%</i>	
<i>Revenue Y/Y</i>	<i>-15%</i>	<i>45%</i>	<i>134%</i>	<i>79%</i>	
<i>Net Income Y/Y</i>	<i>-60%</i>	<i>394%</i>	<i>376%</i>	<i>238%</i>	
Fertilizers	1Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E
Revenue	1,040.604	1,611.934	2,230.291	1,727.736	29%
Net Profit	197.121	595.668	942.304	653.084	44%
<i>NM %</i>	<i>18.94%</i>	<i>36.95%</i>	<i>42.25%</i>	<i>37.80%</i>	
<i>Revenue Q/Q</i>	<i>-3%</i>	<i>13%</i>	<i>38%</i>	<i>7%</i>	
<i>Net Income Q/Q</i>	<i>-27%</i>	<i>34%</i>	<i>58%</i>	<i>10%</i>	
<i>Revenue Y/Y</i>	<i>-5%</i>	<i>55%</i>	<i>151%</i>	<i>95%</i>	
<i>Net Income Y/Y</i>	<i>-5%</i>	<i>202%</i>	<i>434%</i>	<i>270%</i>	
Total Revenue	3,293.657	4,217.000	4,983.000	4,362.970	
YoY Growth	-5%	28%	133%	104%	
QoQ Growth	-7%	27%	18%	3%	
Steel	40%	29%	20%	29%	
Petrochemicals	29%	33%	35%	31%	
Fertilizers	32%	38%	45%	40%	
Total NI (Ex. Unallocated)	231.870	1,462.725	2,065.508	1,532.332	
Steel	-38%	18%	11%	16%	
Petrochemicals	53%	42%	43%	41%	
Fertilizers	85%	41%	46%	43%	

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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