

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR132.00	Current Target Price	QR126.00
Implied Upside	(4.5%)	Old Target Price	QR109.00

### Increasing Estimates and Target Price; Maintain MP Rating

**Updating model and revising target price; maintaining Market Perform rating.** We are increasing our estimates to account for strong earnings performance in 1H2018 and continued strength in end-market fundamentals. In line with our view, as discussed in our 2Q2018 earnings [alert](#), we are raising our 2018 net income to QR5.1bn (EPS of QR8.44). Given strong earnings growth of 49% on a normalized basis, we expect a 40% growth in DPS from QR5 in 2017 to QR7 in 2018. IQCD has plenty of liquidity to support this increase in dividends with cash of QR10.2bn and debt of just QR0.2bn across the group as of June 2018. We also roll forward our DCF model to 2019 given proximity to the year-end and raise our target price from QR109 to QR126 and maintain our Market Perform rating.

#### Highlights

- 3Q2018 preview: Net income should grow 72.6% YoY and 3.9% QoQ; yearly growth should be fueled by an 81% uptick in petchems/fertilizer JV income.** 3Q2018 group (steel + petchems + fert.) revenue should grow nicely YoY but decline slightly QoQ despite strength in fertilizers; net income should grow YoY/QoQ. YoY comparisons should be positive across the board with the possible exception of PE realizations. Sequentially: (1) the level of steel revenue will continue to remain high as IQCD sells (from 4Q2017 onward) billets previously earmarked for steel bar production in its Dubai operations. However, QoQ revenue should come down due to lower inventory release and seasonality/project completions but we expect margins to improve. (2) Fertilizers should grow given the healthy uptick in urea prices. (3) Softening sequential PE prices could cause a modest decline in the petchems segment.
- Increasing forward estimates:** In line with our view, as discussed in our 2Q2018 earnings [alert](#), we are raising our 2018 net income to QR5.1bn (EPS of QR8.44). Urea prices continue to strengthen and could offset moderate declines/flattish PE prices. Steel remains the swing factor. For 2018, we expect YoY EPS growth of 54% (normalized growth: 49%); we note our estimates do not include any potential impairment charges.
- Increasing 2018 DPS from QR5 to QR7 (DY: 5.3%):** Given strong earnings uptick of 49% on a normalized basis, we project a 40% growth in DPS from QR5 in 2017 to QR7 in 2018. IQCD has plenty of liquidity to support this increase in dividends with cash of QR10.2bn and debt of just QR0.2bn across the group as of June 2018.
- Strong FCF generation support dividends despite high payout ratio vs. historicals.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), should come in at QR4.6bn in 2018 and should average QR5.1bn over 2017 to 2026 with an average dividend cover of 1.2x. Payouts could remain high at an average of around ~82% over 2018 to 2026 (91% payout in 2017).
- Balance sheet remains strong.** With minimal capex needs, strategic deployment of cash remains a key question.

#### Catalysts

- With the stock enjoying solid momentum, upside in earnings/dividends could be key for charting the way forward.**

#### Recommendation, Valuation and Risks

- Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR126.** IQCD is fully valued-to-expensive @ 15.6x and 15.2x P/E for 2018 and 2019, respectively.
- Risks: Volatility in oil prices** remain a risk to equity prices and have a direct detrimental impact on IQCD's operations. **Geopolitical risks** remain and cannot be modeled.

#### Key Financial Data and Estimates

	FY2016	FY2017	FY2018e	FY2019e
Group Revenue (QR mn)	13,750	14,345	16,338	16,468
EPS (QR)	4.88	5.48	8.44	8.70
DPS (QR)	4.00	5.00	7.00	7.25
RoE (%)	8.8	9.7	14.2	14.3
P/E (x)	27.0	24.1	15.6	15.2
EV/EBITDA (x)	22.6	20.3	13.5	13.1
Dividend Yield %	3.0	3.8	5.3	5.5

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

#### Key Data

Current Market Price (QR)	132.00
Dividend Yield (%)	3.8
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	133.00/88.00
3-m Average Volume ('000)	137.6
Mkt. Cap. (\$ bn/QR bn)	21.9/79.9
EV (\$ bn/QR bn)	19.8/72.2
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	7.0
1-Year Total Return (%)	44.4
Fiscal Year End	December 31

Source: Bloomberg (as of October 10, 2018), \*Qatar Exchange (as of October 9, 2018); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Revenue</b>	<b>4,674</b>	<b>4,628</b>	<b>5,972</b>	<b>5,935</b>
Cost of Sales, Excluding D&A	(3,304)	(3,694)	(4,551)	(4,451)
<b>Gross Profit</b>	<b>1,370</b>	<b>935</b>	<b>1,421</b>	<b>1,484</b>
G&A Expenses	(231)	(199)	(159)	(163)
Selling Expenses	(39)	(58)	(94)	(101)
<b>EBITDA</b>	<b>1,101</b>	<b>678</b>	<b>1,168</b>	<b>1,220</b>
Depreciation & Amortization	(225)	(225)	(236)	(236)
<b>EBIT</b>	<b>876</b>	<b>453</b>	<b>932</b>	<b>983</b>
Finance Costs	(13)	(10)	(2)	-
<b>Share of Results of Joint Ventures</b>	<b>1,716</b>	<b>2,607</b>	<b>3,904</b>	<b>3,988</b>
Other Income/Expenses	376	266	269	295
<b>Profit for Shareholders</b>	<b>2,955</b>	<b>3,315</b>	<b>5,103</b>	<b>5,266</b>
<b>EPS (QR)</b>	<b>4.88</b>	<b>5.48</b>	<b>8.44</b>	<b>8.70</b>
<b>Group Revenue</b>	<b>13,750</b>	<b>14,345</b>	<b>16,338</b>	<b>16,468</b>
<b>Group EBIT</b>	<b>2,968</b>	<b>3,325</b>	<b>5,105</b>	<b>5,266</b>
<b>Group EBITDA</b>	<b>3,193</b>	<b>3,551</b>	<b>5,341</b>	<b>5,503</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,671	3,520	3,436	3,360
Investment Properties	-	-	-	-
Investment in Associates	1,451	1,439	1,363	1,313
Investment in Joint Ventures	18,343	18,848	18,948	19,048
Available-for-Sale Investments	674	534	2	2
Catalysts & Others	-	-	-	-
<b>Total Non-Current Assets</b>	<b>24,139</b>	<b>24,341</b>	<b>23,749</b>	<b>23,722</b>
<b>Current Assets</b>				
Inventories	1,244	1,444	1,496	1,463
Accounts Receivables & Prepayments	1,054	1,253	1,309	1,301
Due from Related Parties	674	650	806	801
Held for Trading Investments, Assets Held for Sale and Others	4	4	363	363
Cash and Bank Balances	8,072	7,789	9,189	10,145
<b>Total Current Assets</b>	<b>11,047</b>	<b>11,140</b>	<b>13,164</b>	<b>14,074</b>
<b>Total Assets</b>	<b>35,186</b>	<b>35,481</b>	<b>36,912</b>	<b>37,796</b>
<b>Equity</b>	<b>27,070</b>	<b>27,862</b>	<b>29,812</b>	<b>30,712</b>
<b>Total Equity</b>	<b>33,514</b>	<b>34,239</b>	<b>35,960</b>	<b>36,860</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	226	-	-	-
End of Service Benefits & Others	215	199	200	200
<b>Total Non-Current Liabilities</b>	<b>441</b>	<b>199</b>	<b>200</b>	<b>200</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	674	776	711	695
Due to Related Parties & Others	106	41	41	41
Loans and Borrowings	451	226	-	-
<b>Total Current Liabilities</b>	<b>1,231</b>	<b>1,043</b>	<b>752</b>	<b>736</b>
<b>Equity and Liabilities</b>	<b>35,186</b>	<b>35,481</b>	<b>36,912</b>	<b>37,796</b>

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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

### Contacts

#### Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### Zaid al-Nafoosi, CMT, CFTE

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@qnbfs.com.qa](mailto:zaid.alnafoosi@qnbfs.com.qa)

#### QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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