

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR107.50	Current Target Price	QR120.00
Implied Upside	11.6%	Old Target Price	QR126.00

### In-Line 1Q2017; Limited Potential for Upside; Market Perform

While we expect earnings to improve, for the most part, for the remainder of 2017, we believe this is largely priced into the stock. Barring any sharp improvement in oil prices lifting PE realizations and/or renewed strength in urea prices, we do not envisage significant acceleration in quarterly earnings vs. our estimates going forward. However, we do not expect things to get much worse either and on the mix, we believe IQCD stock is trading close to its fair value; our target price goes from QR126 to QR120.

#### Highlights

- **IQCD reports net profit of QR928mn in 1Q2017, in line with our estimate of QR891mn (+4% variation).** Earnings grew 50% QoQ (on a normalized basis, excluding the effects of QR389mn in one-off fertilizer impairments in 4Q2016) and 33% YoY. Group revenue (proportionate consolidation) came in at QR3.4bn (-6% QoQ, flattish YoY) with sequential financial performance helped by slight QoQ improvement in product prices according to the company's published trading statement. IQCD did also point to some unplanned shutdowns impacting the petrochemicals segment in 1Q2017. The company did not provide any segment level breakdowns as expected but we believe sequential performance was aided by stable-to-moderate growth in PE prices and a healthy uptick QoQ in urea realizations. For the wholly-owned steel segment, as expected, QASCO bounced back from the significant margin contraction seen in 4Q2016 with cash gross margins rebounding from 15.3% in the fourth quarter of 2016 to 28% in 1Q2017.
- **Balance sheet remains strong.** The company retains a strong balance sheet with net cash of QR7.1bn (~QR12/share) after payment of its 2016 dividend of QR2.4bn. With little capex needs to speak of, the deployment of this cash remains an open question. A decision regarding available ethane capacity in Qatar is due in 1H2017, which could reignite growth at QAPCO medium-term.
- **Changing estimates to reflect weakness seen in urea since mid-March.** With no segment details to refer to, we leave most of our price realization forecasts unchanged for now. However, we have lowered our urea price estimate for 2017 from \$240/MT to \$228/MT to adjust for the market weakness seen since mid-March. Our new 2017 and 2018 net income estimates are around 2% lower than our previous estimate. Overall, we see a 20% hike (normalized) in 2017 EPS to QR6.63.

#### Catalysts

- **We see limited potential for further price appreciation.** With the company producing at better-than full utilization levels, IQCD's earnings trajectory is primarily determined by commodity prices. We remain moderately bullish on PE prices, somewhat cautious on urea and believe steel realizations will benefit gradually from infrastructure-related demand. Potential announcements related to an expansion at QAPCO could also provide medium-term impetus.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD a Market Perform with a price target of QR120.00.** Our previous price target was QR126 with the change driven by lower urea realizations and lower margin assumptions. IQCD is trading at a 2017 EV/EBITDA multiple of 13.6x.
- **Risks:** Weakness in 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

	FY2015	FY2016	FY2017e	FY2018e
Group Revenue (QR mn)	16,000	13,800	14,460	15,131
Net Profit (QR mn)	4,469	2,955	4,011	4,594
EPS (QR)	7.39	4.88	6.63	7.59
DPS (QR)	5.00	4.00	4.50	5.00
RoE (%)	13.3	8.8	11.5	12.5
P/E (x)	14.6	22.0	16.2	14.2
EV/EBITDA (x)	12.3	18.1	13.6	12.0
Dividend Yield %	4.7	3.7	4.2	4.7

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

#### Key Data

Current Market Price (QR)	107.50
Dividend Yield (%)	4.2
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	122.00/94.50
3-m Average Volume ('000)	190.4
Mkt. Cap. (\$ bn/QR bn)	17.9/65.0
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.9
1-Year Total Return (%)	6.0
Fiscal Year End	December 31

Source: Bloomberg (as of April 26, 2017), \*Qatar Exchange (as of April 25, 2017); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Revenue</b>	<b>5,228</b>	<b>4,674</b>	<b>4,928</b>	<b>5,164</b>
Cost of Sales, Excluding D&A	(3,908)	(3,304)	(3,646)	(3,666)
<b>Gross Profit</b>	<b>1,319</b>	<b>1,370</b>	<b>1,281</b>	<b>1,498</b>
G&A Expenses	(175)	(231)	(238)	(245)
Selling Expenses	(57)	(39)	(41)	(43)
<b>EBITDA</b>	<b>1,088</b>	<b>1,101</b>	<b>1,003</b>	<b>1,210</b>
Depreciation & Amortization	(212)	(225)	(229)	(232)
<b>EBIT</b>	<b>876</b>	<b>876</b>	<b>774</b>	<b>978</b>
Finance Costs	(22)	(13)	(11)	(10)
<b>Share of Results of Joint Ventures</b>	<b>3,721</b>	<b>1,716</b>	<b>2,867</b>	<b>3,246</b>
Other Income/Expenses	(106)	376	380	380
<b>Profit Before Tax</b>	<b>4,469</b>	<b>2,955</b>	<b>4,011</b>	<b>4,594</b>
Income Tax Expense				
<b>Profit for Shareholders</b>	<b>4,469</b>	<b>2,955</b>	<b>4,011</b>	<b>4,594</b>
<b>EPS (QR)</b>	<b>7.39</b>	<b>4.88</b>	<b>6.63</b>	<b>7.59</b>
<b>Group EBIT</b>	<b>4,491</b>	<b>2,968</b>	<b>4,021</b>	<b>4,604</b>
<b>Group EBITDA</b>	<b>4,702</b>	<b>3,193</b>	<b>4,250</b>	<b>4,836</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,828	3,671	3,597	3,520
Investment Properties	4	-	-	-
Investment in Associates	1,396	1,451	1,501	1,551
Investment in Joint Ventures	19,557	18,343	18,443	18,543
Available-for-Sale Investments	683	674	642	642
Catalysts & Others	-	-	55	55
<b>Total Non-Current Assets</b>	<b>25,468</b>	<b>24,139</b>	<b>24,238</b>	<b>24,311</b>
<b>Current Assets</b>				
Inventories	1,436	1,244	1,249	1,256
Accounts Receivables & Prepayments	1,058	1,054	675	707
Due from Related Parties	773	674	711	745
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	7,021	8,072	9,497	11,062
<b>Total Current Assets</b>	<b>10,292</b>	<b>11,047</b>	<b>12,135</b>	<b>13,773</b>
<b>Total Assets</b>	<b>35,760</b>	<b>35,186</b>	<b>36,373</b>	<b>38,084</b>
<b>Equity</b>	<b>27,212</b>	<b>27,070</b>	<b>28,560</b>	<b>30,316</b>
<b>Total Equity</b>	<b>33,576</b>	<b>33,514</b>	<b>34,975</b>	<b>36,732</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	676	226	106	56
End of Service Benefits & Others	207	215	190	190
<b>Total Non-Current Liabilities</b>	<b>884</b>	<b>441</b>	<b>295</b>	<b>245</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	799	674	639	643
Due to Related Parties & Others	51	106	12	13
Loans and Borrowings	451	451	451	451
<b>Total Current Liabilities</b>	<b>1,300</b>	<b>1,231</b>	<b>1,103</b>	<b>1,107</b>
<b>Equity and Liabilities</b>	<b>35,760</b>	<b>35,186</b>	<b>36,373</b>	<b>38,084</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

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