

Industries Qatar (IQCD)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR13.25	Current Target Price	QR14.25
Implied Upside	7.5%	Old Target Price	QR11.50

Riding the Recovery Wave; Hiking TP & Staying Accumulate

We are updating our estimates for IQCD and increasing our target price from QR11.50 to QR14.25. Our current estimates incorporate the significant strength seen thus far in key product prices and IQCD's acquisition of the remaining 25% of QAFCO from QP. IQCD's 2020 results were in-line with our estimates and the recovery seen in product prices in the 2nd half of 2020 has accelerated thus far in 2021. We now estimate QR4.59bn in 2021 net income, up 132% YoY from QR1.97bn in 2020. For 2022, we now project QR4.62bn in earnings. Despite paying ~\$1bn for the QAFCO stake, IQCD's balance sheet continues to remain solid with QR9.8bn in proportionate cash/bank balances and no debt. The company generated, on a proportionate basis, operating cash flow of QR3.4bn and free cash flow of QR2.8bn in 2020, which highlights its operational efficiency and ability to generate significant positive cash flows despite challenging conditions. Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions while retaining dry powder to take advantage of potential acquisition opportunities in the future. Since we upgraded the stock from Market Perform to Accumulate on August 24, IQCD shares have appreciated 31% vs. a gain of 10% in the QE Index helped by the QAFCO acquisition and increasing commodity prices. We maintain our Accumulate rating.

Highlights

- Expecting a significant uptick in 2021 earnings in light of YTD 2021 price trends:** We are increasing our price assumptions across-the-board for all IQCD segments given pricing trends seen thus far this year as vaccine rollout-related recovery takes hold and are also incorporating the additional 25% stake in QAFCO in our model. **(1) In Petrochemicals**, LDPE prices are up roughly 70% YoY until late April on average and also up 11% YTD. While supply growth remains limited, demand outlook appears stronger and the US winter storm has helped boost prices thus far this year. We do expect storm-related pricing strength to dissipate in 2H possibly dovetailing with a major maintenance shutdown in QAPCO. **(2) For Fertilizers**, average urea prices have increased 40% YoY so far this year and are up more than 30% YTD. While urea prices are starting to ease post March as expected, demand trends are still strong although we note a resurgence in COVID-19 cases in India could pose as a risk. **(3) Finally for Steel**, so far in 2021, we see rebar prices up more than 20% YTD outpacing the less than 10% growth in iron ore prices. Growth momentum as we come out of COVID-19 lockdowns, along with margin improvement, has positive implications for this segment. *For more details on pricing, volumes and revenue/net income forecasts please see pages 2 and 3.*
- We are currently projecting a flattish 2022 earnings trajectory.** We think easing of product prices beginning in 2H2021 should continue into 2022 and this could offset gains in PE volumes as QAPCO maintenance-related shutdowns end.
- 1Q2021 preview: based on our assumptions, IQCD should be a standout performer in 1Q2021 benefiting from its 25%-acquisition of QAFCO, a significant uptick in commodity prices and a lack of major planned shutdowns across the company's operations.** We note LDPE prices are up +60% YoY (March) helped by the US winter storm in February and urea prices are up almost 40% over the same period helped by the storm, uptick in demand and lower operating rates in China. YoY comparisons are also boosted as the QAFCO acquisition was not included in reported financials in 1Q2020. Moreover, a major shutdown in QAPCO is not planned until 2H2021 further helping results. Net-net, we expect 1Q2021 earnings of QR1.36bn, up significantly vs. QR203.8mn in 1Q2020 and also up 32.7% vs. QR1.02bn in 4Q2020.

Catalysts

- 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.

Recommendation, Valuation and Risks

- Recommendation & valuation: We rate IQCD an Accumulate with a PT of QR14.25.** We have rolled forward our DCF-based model to 2021.
- 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

	FY2019	FY2020	FY2021e	FY2022e
Group Revenue (QR mn)	13,747	11,361	15,607	15,655
EPS (QR)	0.43	0.33	0.76	0.76
DPS (QR)	0.40	0.33	0.76	0.76
RoE (%)	7.5	5.8	12.7	12.8
P/E (x)	31.1	40.6	17.5	17.3
EV/EBITDA (x)	25.0	20.5	11.5	11.5
Dividend Yield %	3.0	2.5	5.7	5.8

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

Key Data

Current Market Price (QR)	13.25
Dividend Yield (%)	2.5
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	13.44/6.45
3-m Average Volume ('mn)	1.12
Mkt. Cap. (\$ bn/QR bn)	22.0/80.2
EV (\$ bn/QR bn)	19.5/71.0
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	49.0
Current FO* (%)	7.0
1-Year Total Return (%)	108.5
Fiscal Year End	December 31

Source: Bloomberg (as of April 25, 2021), *Qatar Exchange (as of April 25, 2021); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Segment Revenue, Net Income, Pricing and Sales Volumes

Revenue (QR million): All Segments	2017	2018	2019	2020	2021	2022	2023	2024
Total Group	14,250	16,349	13,747	11,361	15,607	15,655	15,148	15,692
Petrochemical	5,705	5,897	4,394	3,961	4,980	5,342	4,968	5,311
Fertilizer	3,916	4,661	4,258	4,405	7,408	7,190	7,119	7,259
Steel	4,628	5,791	5,096	2,995	3,220	3,123	3,061	3,122
Net Income (QR million): All Segments	2017	2018	2019	2020	2021	2022	2023	2024
Total Group	3,315	5,030	2,575	1,975	4,586	4,621	4,257	4,595
Petrochemical	2,227	2,484	1,308	1,065	1,804	2,049	1,782	2,021
Fertilizer	380	1,394	872	898	2,654	2,456	2,368	2,438
Steel	510	789	36	(1,314)	90	74	60	84
Unallocated	199	363	358	1,325	37	42	46	51
Revenue (QR million)								
Ethylene	540	564	359	271	314	334	324	331
LDPE	2,570	2,812	2,070	2,204	2,650	2,798	2,714	2,768
LLDPE	1,225	1,152	834	658	803	939	911	929
Methanol	429	478	310	303	474	480	372	495
MTBE	682	890	692	381	593	646	501	643
Petrochemical & Fuel Additives Revenue	5,705	5,897	4,394	3,961	4,980	5,342	4,968	5,311
Ammonia	317	302	374	269	613	595	589	601
Urea	3,471	3,974	3,862	3,992	6,644	6,445	6,381	6,508
Melamine	121	122	122	144	150	150	150	150
Fertilizer Revenue	3,916	4,661	4,258	4,405	7,408	7,190	7,119	7,259
Steel Bars	3,599	4,331	3,794	2,379	2,755	2,673	2,619	2,672
DRI/HBI	82	-	-	-	-	-	-	-
Billets	723	1,216	1,028	352	183	178	174	178
Coils	231	250	282	272	290	281	276	281
Steel Revenue	4,628	5,791	5,096	2,995	3,220	3,123	3,061	3,122
Wtd Average Selling Prices (\$/MT)	2017	2018	2019	2020	2021	2022	2023	2024
Petrochemicals & Fuel Additives								
Ethylene	899	939	840	736	957	909	882	899
LDPE	1,086	1,136	979	949	1,268	1,204	1,168	1,191
LLDPE	1,121	1,099	931	821	985	955	927	945
Methanol	302	367	230	189	283	275	266	272
MTBE	604	788	645	402	604	586	568	579
Fertilizer								
Ammonia	264	289	241	228	342	332	329	335
Urea	214	262	253	237	312	302	299	305
Melamine	895	904	905	686	686	686	686	686
Steel								
Rebar	515	614	489	519	665	645	632	644
DRI/HBI	226							
Billets	441	492	408	416	503	488	478	488
Coils	634	685	704	934	995	966	946	965
Sales Volume (MT' 000)	2017	2018	2019	2020	2021	2022	2023	2024
Petrochemicals & Fuel Additives								
Ethylene	165	165	117	101	90	101	101	101
LDPE	650	680	581	638	574	638	638	638
LLDPE	300	288	246	220	224	270	270	270
Methanol	390	358	370	441	460	480	384	500
MTBE	310	310	295	260	270	303	242	305
Fertilizer								
Ammonia	330	288	426	290	492	492	492	492
Urea	4,450	4,165	4,189	3,993	5,853	5,853	5,853	5,853
Melamine	37	37	37	58	60	60	60	60
Steel								
Steel Bar	1,920	1,936	2,131	1,258	1,139	1,139	1,139	1,139
DRI/HBI	100	100	110	80	80	80	80	80
Billets	450	679	691	233	100	100	100	100
Coils	100	100	110	80	80	80	80	80

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2019	FY2020	FY2021e	FY2022e
Revenue	5,096	7,400	10,628	10,313
Cost of Sales, Excluding D&A	(4,814)	(4,856)	(6,216)	(6,111)
Gross Profit	282	2,543	4,411	4,202
G&A Expenses	(140)	(481)	(490)	(500)
Selling Expenses	(83)	(35)	(36)	(36)
EBITDA	59	2,028	3,885	3,666
Depreciation & Amortization	(277)	(1,445)	(1,445)	(1,445)
EBIT	(218)	582	2,440	2,220
Finance Costs	(11)	(37)	(35)	(34)
Share of Results of Joint Ventures	2,181	1,065	1,804	2,049
Other Income/Expenses/Taxes/Minorities	623	365	377	385
Profit for Shareholders	2,575	1,975	4,586	4,621
EPS (QR)	0.43	0.33	0.76	0.76
Group Revenue	13,747	11,361	15,607	15,655

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2019	FY2020	FY2021e	FY2022e
Non-Current Assets				
PP&E and Projects Under Development	3,336	13,882	12,736	13,091
Investment Properties	-	-	-	-
Investment in Associates	1,476	1,475	1,492	1,510
Investment in Joint Ventures	16,732	6,916	8,116	8,216
Available-for-Sale Investments	-	-	-	-
Right-of Use Assets	135	227	227	227
Total Non-Current Assets	21,679	22,499	22,571	23,044
Current Assets				
Inventories	1,851	1,945	2,489	2,447
Accounts Receivables & Prepayments	897	1,587	2,279	2,212
Due from Related Parties	400	869	1,248	1,211
Financial Assets at FV through P&L	325	348	348	348
Cash and Bank Balances	10,718	8,801	9,983	9,548
Total Current Assets	14,191	13,550	16,348	15,766
Total Assets	35,870	36,049	38,919	38,810
Equity	28,020	27,551	30,025	29,945
Total Equity	34,230	33,777	36,254	36,176
Non-Current Liabilities				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Lease Liabilities	368	745	745	745
Total Non-Current Liabilities	368	745	745	745
Current Liabilities				
Accounts Payables & Accruals	1,239	1,403	1,796	1,765
Due to Related Parties, Lease Liabilities & Others	33	88	88	88
Loans and Borrowings	-	37	37	37
Total Current Liabilities	1,272	1,527	1,920	1,890
Equity and Liabilities	35,870	36,049	38,919	38,810

Source: Company data, QNB FS 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, CFA, CAIA

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

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNB FS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS 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. QNB FS 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 QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS 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 QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS 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 QNB FS.

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