

QAMC Alert – Lower-than-Expected 3Q with Lower Revenue; Maintain TP & Market Perform

- **Qatar Aluminium Manufacturing Company (QAMC) reported a net loss of QR2.4mn in 3Q2020 as compared to a net profit of QR55.4mn in 3Q2019 and a net profit of QR3.9mn in 2Q2020.** The result is lower than our QR34.1mn net income estimate. Loss from “Share of results from a joint venture (Qatalum)” stood at QR0.5mn in 3Q2020 as compared to a gain of QR57.8mn in 3Q2019 (2Q2020: +QR5.1mn). The company recorded a net profit of QR12.3mn in the nine-month period ended September 30, 2020, as compared to a net profit of QR60.6mn for the period (of ten-months) from December 3, 2018 to September 30, 2019.
- **QAMCO’s 50% JV Qatalum’s 2Q2020 revenue fell by 26.3% QoQ and 12.6% YoY:** Qatalum recorded QR0.97bn in 3Q2020 revenue, down 24.2% QoQ/12.6% YoY. Qatalum’s sales volumes in 3Q2020 declined sequentially to 156k tons from 172k tons in 2Q2020. Furthermore, 3Q2020 sales volume was below 3Q2020’s production volume of 165k tons. A 4% QoQ decline in average LME aluminum prices as a result of global market conditions were partially compensated with higher average premiums (rising from \$142 in 2Q to \$166 in 3Q) resulting in a 3% decline in Qatalum’s average selling prices.
- **Qatalum’s 3Q2020 operating margin (4.5%) was lower YoY/QoQ.** Qatalum’s operating margin fell in 3Q2020 from 2Q2020’s 4.8% and 3Q2019’s 13.2%. 26.8% YoY and 17.8% QoQ declines in raw material and energy costs supported operating margins, whereas depreciation expenses, rising 19.2% YoY (and declining 1.7% QoQ), depressed margins given the 26.3% YoY and 12.6% QoQ declines in revenue. Consequently, Qatalum recorded QR43.7mn in operating profits in 3Q2020, which was down 19.0% QoQ and 74.2% YoY.
- **On the positive front, Qatalum’s net financial expenses declined 18.4% YoY and 0.3% QoQ to QR43.7mn, which supported Qatalum’s and consequently QAMCO’s bottom-line.** Furthermore, QAMCO’s share of Qatalum’s net debt declined by 8% during 9M2020 to QR2.2bn, as a result of a principal payment of QR222mn in 2020.
- **We maintain our estimates and TP.** Thanks to its state-of-the-art plant and the support of its major shareholders, which enables Qatalum to act like an integrated producer, Qatalum is one of the world’s lowest cost smelters. Qatalum’s high margins, low indebtedness and lack of major expansion projects on the horizon warrants the continuation of its strong cash generation as well as attractive dividend yields for QAMCO shareholders once the global aluminum market stabilizes. On the other hand, Qatalum currently operates above its nameplate capacity, hence its top- & bottom-lines are more sensitive to the changes in aluminum prices vs. its peers. Coronavirus disruptions pushed aluminum prices to the bottom of their last 5-year-cycle by April 8. Nevertheless, as a result of strong demand from China, coupled with the end of global lockdowns in June, primary aluminum prices have been recovering since then, rising 28.7% from their April bottom. However, elevated global primary aluminum supply-demand surplus (which may deteriorate further in 2020 and 2021) might hamper the price recovery. **We maintain our Market Perform rating and our TP at QR0.98.**

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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