

QAMC Alert – Higher-than-Expected 1Q With Higher Margins

- Qatar Aluminium Manufacturing Company (QAMC) reported a net profit of QR123.8mn in 1Q2021 as compared to a net profit of QR81.9mn in 4Q2020 and a net profit of QR10.7mn in 1Q2020. The result is higher than our QR101.7mn net income estimate. Gain from “share of results from a joint venture (Qatalum)” stood at QR123.0mn in 1Q2021 as compared to a gain of QR13.2mn in 1Q2020 (4Q2020: QR83.7mn). EPS amounted to QR0.022 in 1Q2021 as compared to QR0.002 in 1Q2020.
- QAMCO’s 50% JV Qatalum’s 1Q2021 revenue rose 12.9% YoY/7.9% QoQ, thanks to higher aluminum prices: Qatalum recorded QR1.28bn in 1Q2021 revenue, bang in-line with our estimate of QR1.28bn. Qatalum’s sales volumes in 1Q2021 declined marginally to 159k tons by 2% QoQ and 1% YoY. On the other hand, an 11.8% YoY/12.2% QoQ increase in average LME aluminum prices as a result of better global market conditions were the primary reason for QAMCO’s average sales prices to rise to \$2,203/MT, up 14.7% YoY and 10.1% QoQ. Meanwhile, due to a higher value-added product mix vs. 1Q2020, QAMCO’s average premium rose to \$230/MT in 1Q2021 from \$155 in 1Q2020, yet a tad lower than 4Q2020’s \$243. The demand for value-added products has started to pickup in 4Q2020 and continued in 1Q2021 as well, supporting higher aluminum premiums.
- Qatalum’s 1Q2021 operating margin was higher YoY/QoQ. Shifting product mix towards higher-margin products accompanied by the company’s already high operating leverage resulted in Qatalum enjoying better margins during the quarter. Qatalum’s operating margin rose to 22.0% in 1Q2021 from 4Q2020’s 18.9% and 1Q2020’s 9.7%. Higher product prices, coupled with a 4.7% decline in raw material and energy costs YoY (flattish QoQ) supported operating margins. Consequently, Qatalum recorded QR282.1mn in operating profits in 1Q2021, which was up 155.6% YoY and 39.2% QoQ.
- Qatalum’s net financial expenses declined 57.0% YoY to QR36.3mn (flat QoQ), supporting Qatalum’s and consequently QAMCO’s bottom-line. QAMCO’s share of Qatalum’s debt remained flat QoQ at QR2.2bn
- We will revise our estimates and target price after QAMC’s conference call. 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. 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 (which are already at their decade highs) vs. its peers. **We maintain our Market Perform rating for now.**

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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