

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.51	Current Target Price	QR10.00
Implied Upside	(4.9%)	Old Target Price	QR10.50

Paring Estimates on Subdued Outlook; Stay Market Perform

*We are reducing our estimates for IQCD given soft 3Q2019 results and further cuts to our price/margin forecasts. As we pointed out in IQCD's 3Q2019 Earnings [Alert](#), our previous earnings estimate for 2019 was clearly not achievable in light of the company's 3Q/YTD 2019 results and thus we have lowered our forecasts across the board. Our 2019 EPS estimate of QR0.45 now implies a decline of 45.8% YoY (-46.3% on a normalized basis excl. 2018 impairment) vs. our prior estimate of a 34.1% YoY EPS decline forecast for 2019. We continue to forecast 2019 DPS at QR0.40 (payout of 88.7%; down 33.3% YoY from QR0.60 in 2018), which could prove optimistic given our earnings forecast and IQCD's 3-year historical payout ratio of 80.3%. While IQCD's 2019 operating results have been weak and fairly volatile on a quarterly basis, we are hopeful of a more positive earnings growth trajectory 2020 onward. We are expecting net income to grow from QR2.7bn in 2019 to QR3.2bn in 2020 or a growth of QR463mn. Given roughly QR1bn has been shaved off IQCD's YTD 2019 earnings due to lower sales volume, of which shutdowns played a key role, we think a bounce-back of QR463mn next year driven by moderate price increase assumptions and lower level of shutdowns (one major capital turnaround planned in QAPCO) could be achievable. We note demand remains weak across all segments, which could lead to further estimates cuts. **We keep our Market Perform rating but lower our PT to QR10.00.***

Highlights

- **Lowering 2019 to reflect 3Q2019/YTD trends:** So far, in 2019, according to the company, of the QR1.8bn in YTD group net income decline, pricing declines of 11% wiped out QR1.1bn in net income, while a 6% fall in sales volume took off another QR1bn. For 4Q2019, we are expecting a pick-up in net income to QR692.0mn. (1) For Fertilizers, urea prices have continued to drift lower since their late July peak of \$290/MT driven by, among other things, higher exports from China. We are hopeful for a slight bounce as we end the year but still expect average 4Q2019 prices to decline sequentially; our 2019 price assumption is \$278/MT, which is a bit higher than YTD average of \$267/MT. On the sales side, we expect a slight seasonal improvement in volumes. (2) In Petrochemicals, YTD prices have remained moribund and have not kept pace with oil's increase. We further reduce our price forecasts and now expect LDPE and LLDPE prices to fall 17% and 15% YoY, respectively. On the plus side, we do expect a modest YoY/sequential improvement in 4Q2019 sales volumes. (3) Finally, for Steel, we think the fall thus far in iron ore pricing in 4Q2019 bodes well for segment GMs, which dropped to a record low of 8.1% in 3Q2019. Steel revenue should however dip vs. both last year's 4Q2018 and 3Q2019; we note the significant 33.6% QoQ increase in steel revenue was on account of a large order from an Asian customer, which is unlikely to be repeated in 4Q2019. *For more details on revenue/net income forecasts please see page2.*
- **After 2019's decline, we expect a 17.0% uptick in 2020 EPS.** After a 51.7% EPS uptick for 2018, we expect 2019 profits to fall 45.8% before resuming a growth of 17.0% in 2020 off the lower base. Our forward estimates (2020-2023) are down by an average of 21%.
- **Lots of cash and almost zero debt –expansion on the horizon?** IQCD retains a strong balance sheet with group cash at QR11.4bn (debt of just QR10.9mn). Proposed QR7.4bn group capex (2019-23, including QR2.5bn for Ammonia 7) could easily be funded by internal cash flows. Recently, IQCD has alluded to potential international expansion in petchems/fertilizers.

Catalysts

- **With earnings under pressure in the medium-term, investors will seek answers regarding deployment of IQCD's cash pile and its strategy.** Expansion/acquisition-related newsflow & upside in EPS/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 QR10.00. We have rolled forward our DCF-based model to 2020. IQCD is fully valued @ 23.3x and 19.9x P/E for 2019 and 2020, 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

	FY2017	FY2018	FY2019e	FY2020e
Group Revenue (QR mn)	14,250	16,349	13,531	14,067
EPS (QR)	0.55	0.83	0.45	0.53
DPS (QR)	0.50	0.60	0.40	0.43
RoE (%)	9.9	14.2	7.9	9.1
P/E (x)	19.2	12.6	23.3	19.9
EV/EBITDA (x)	15.6	9.9	17.7	15.3
Dividend Yield %	4.8	5.7	3.8	4.0

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

Key Data

Current Market Price (QR)	10.51
Dividend Yield (%)	5.7
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	14.90/9.80
3-m Average Volume ('mn)	1.28
Mkt. Cap. (\$ bn/QR bn)	17.5/63.6
EV (\$ bn/QR bn)	14.9/54.3
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	49.0
Current FO* (%)	6.9
1-Year Total Return (%)	(22.3)
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

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Estimate Changes

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- **Finally for Steel, we think the fall thus far in iron ore pricing in 4Q2019 bodes well for segment GMs, which dropped to a record low of 8.1% in 3Q2019.** Steel revenue should however dip vs. both last year's 4Q2018 and 3Q2019; we note the significant 33.6% QoQ increase in steel revenue was on account of a large order from an Asian customer, which is unlikely to be repeated in 4Q2019.

After 2019's decline, we expect a 17.0% uptick in 2020 EPS. After a 51.7% EPS uptick for 2018, we expect 2019 profits to fall 45.8% before resuming a growth of 17.0 % in 2020 off the lower base. Our forward estimates (2020-2023) are down by an average of 21%. We note demand remains weak across all segments, which could lead to further estimates cuts.

QNB FS Estimate Changes

Income Statement (QR mn)	2018			2019e			2020e			2021e			2022e			2023e		
	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
Steel Revenue	5,791	4,790	5,382	-11%	4,685	5,461	-14%	4,537	5,328	-15%	4,298	5,061	-15%	4,389	5,162	-15%		
Cost of Sales (Excl. D&A)	(4,631)	(4,287)	(4,767)	-10%	(4,099)	(4,697)	-13%	(3,970)	(4,635)	-14%	(3,825)	(4,454)	-14%	(3,875)	(4,440)	-13%		
Gross Profit	1,160	503	615	-18%	586	765	-23%	567	693	-18%	473	607	-22%	513	723	-29%		
Gross Margin	20%	11%	11%		13%	14%		13%	13%		11%	12%		12%	14%			
G&A	(157)	(151)	(151)	0%	(155)	(154)	0%	(156)	(152)	3%	(158)	(151)	5%	(159)	(154)	3%		
Selling Expenses	(82)	(79)	(89)	-11%	(79)	(92)	-14%	(79)	(92)	-15%	(75)	(90)	-16%	(78)	(94)	-17%		
EBITDA	921	273	375	-27%	352	518	-32%	332	448	-26%	240	367	-35%	277	474	-42%		
EBITDA Margin	16%	6%	7%		8%	9%		7%	8%		6%	7%		6%	9%			
Depreciation & Amortization	(237)	(276)	(264)	5%	(279)	(266)	5%	(281)	(269)	5%	(284)	(272)	5%	(287)	(274)	5%		
EBIT	684	(3)	112	N/M	73	252	-71%	51	179	-71%	(44)	95	-146%	(10)	200	-105%		
EBIT Margin	12%	0%	2%		2%	5%		1%	3%		-1%	2%		0%	4%			
Finance Costs	(2)	(12)	(3)		(11)	-		(11)	-		(10)	-		(10)	-			
Income from Investments	338	360	340	6%	360	340	6%	360	340	6%	360	340	6%	360	340	6%		
Associates' Income	33	88	55	61%	88	55	61%	88	55	61%	88	55	61%	88	55	61%		
JV Income (PE, FA & Fert.)	3,878	2,194	2,713	-19%	2,580	3,433	-25%	2,943	3,674	-20%	3,050	3,849	-21%	3,121	3,925	-20%		
Other, Net	148	100	100	0%	100	100	0%	100	100	0%	100	100	0%	100	100	0%		
Impairments	(50)	-	-		-	-		-	-		-	-		-	-			
Profit before Tax	5,030	2,728	3,317	-18%	3,191	4,180	-24%	3,532	4,348	-19%	3,544	4,439	-20%	3,649	4,620	-21%		
Tax	-	-	-		-	-		-	-		-	-		-	-			
Profit after Tax	5,030	2,728	3,317	-18%	3,191	4,180	-24%	3,532	4,348	-19%	3,544	4,439	-20%	3,649	4,620	-21%		
Minority Interest	-	-	-		-	-		-	-		-	-		-	-			
Profit for Equity Holders	5,030	2,728	3,317	-18%	3,191	4,180	-24%	3,532	4,348	-19%	3,544	4,439	-20%	3,649	4,620	-21%		
EPS	0.83	0.45	0.55	-18%	0.53	0.69	-24%	0.58	0.72	-19%	0.59	0.73	-20%	0.60	0.76	-21%		
DPS	0.60	0.40	0.40	0%	0.43	0.43	0%	0.45	0.45	0%	0.48	0.48	0%	0.50	0.50	0%		
Payout Ratio	72%	89%	73%		81%	62%		77%	63%		81%	65%		83%	65%			
JV Details (QR mn)	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲			
Petchem/Fuel Additives Revenue	5,897	4,441	5,019	-12%	4,694	5,381	-13%	5,281	5,542	-5%	5,390	5,653	-5%	5,446	5,710	-5%		
Petchem/Fuel Additives Net Income	2,484	1,377	1,430	-4%	1,549	1,776	-13%	1,848	1,940	-5%	1,914	2,063	-7%	1,961	2,113	-7%		
Net Margin	42%	31%	29%		33%	33%		35%	35%		36%	37%		36%	37%			
Fertilizers Revenue	4,661	4,300	4,662	-8%	4,688	5,178	-9%	4,761	5,254	-9%	4,836	5,331	-9%	4,836	5,331	-9%		
Fertilizers Net Income	1,394	817	1,282	-36%	1,031	1,657	-38%	1,095	1,734	-37%	1,136	1,786	-36%	1,161	1,812	-36%		
Net Margin	30%	19%	28%		22%	32%		23%	33%		24%	34%		24%	34%			
Steel Revenue	5,791	4,790	5,382	-11%	4,685	5,461	-14%	4,537	5,328	-15%	4,298	5,061	-15%	4,389	5,162	-15%		
Steel Net Income	789	249	404	-38%	328	546	-40%	318	479	-34%	236	395	-40%	263	490	-46%		
Net Margin	14%	5%	8%		7%	10%		7%	9%		6%	8%		6%	10%			

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Revenue (Steel)	5,791	4,790	4,685	4,537
Cost of Sales, Excluding D&A	(4,631)	(4,287)	(4,099)	(3,970)
Gross Profit	1,160	503	586	567
G&A Expenses	(157)	(151)	(155)	(156)
Selling Expenses	(82)	(79)	(79)	(79)
EBITDA	921	273	352	332
Depreciation & Amortization	(237)	(276)	(279)	(281)
EBIT	684	(3)	73	51
Finance Costs	(2)	(12)	(11)	(11)
Share of Results of Joint Ventures	3,878	2,194	2,580	2,943
Other Income/Expenses	470	548	548	548
Profit for Shareholders	5,030	2,728	3,191	3,532
EPS (QR)	0.83	0.45	0.53	0.58
Group Revenue	16,349	13,531	14,067	14,579

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Non-Current Assets				
PP&E and Projects Under Development	3,438	3,327	3,219	3,118
Investment Properties	-	-	-	-
Investment in Associates	1,407	1,495	1,584	1,672
Investment in Joint Ventures	17,886	17,205	18,205	19,705
Available-for-Sale Investments	-	-	-	-
Right-of Use Assets	-	141	141	141
Total Non-Current Assets	22,731	22,169	23,148	24,635
Current Assets				
Inventories	1,717	2,114	2,021	1,958
Accounts Receivables & Prepayments	1,005	656	642	621
Due from Related Parties	665	671	656	635
Financial Assets at FV through P&L	364	364	364	364
Cash and Bank Balances	10,589	9,913	9,816	9,273
Total Current Assets	14,339	13,718	13,499	12,852
Total Assets	37,070	35,886	36,648	37,487
Equity				
Total Equity	35,490	34,518	35,209	36,082
Non-Current Liabilities				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Lease Liabilities	205	381	381	381
Total Non-Current Liabilities	205	381	381	381
Current Liabilities				
Accounts Payables & Accruals	1,327	940	1,011	979
Due to Related Parties & Lease Liabilities	47	48	47	45
Loans and Borrowings	-	-	-	-
Total Current Liabilities	1,374	987	1,058	1,024
Equity and Liabilities	37,070	35,886	36,648	37,487

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

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