

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR134.80	Current Target Price	QR153.00
Implied Upside	13.5%		

Decent Beat in 2Q2015; Maintain Market Perform on Tepid Oil Price Outlook

Significant uptick in steel revenue and petrochemical profitability drives earnings upside. IQCD posted QR1.47bn in net income for 2Q2015, which beat our estimate of QR1.21bn by 21% and Bloomberg mean estimate of QR1.13bn by 31%. While we were surprised by the 20% QoQ uptick in steel revenue, steel margins came in below estimates at 20% (net margin) vs. our model of 25%. Petrochemical net margin expanded to 52% from 34% in 1Q2015 with segment net income jumping by more than 130% QoQ benefiting from improved product prices and higher volume growth. The fertilizer segment top line came in line with our estimate. Further, in its disclosure, IQCD mentioned that Qatar Steel has opted to sell its 50% stake in the JV Qatar Steel International to its partner without disclosing the deal price. With Brent prices taking another swoon and going below \$50/b, we believe the stock will continue to face negative sentiment despite 2Q2015's upside. We rate IQCD a Market Perform. We remain of the view IQCD holds long-term potential. However, any meaningful recovery in the stock will likely come only when optimism regarding oil prices resurfaces.

Highlights

- **IQCD net income surges 55% QoQ in 2Q2015.** The QoQ profit growth was on the back of a strong increase in revenue and JV income. IQCD also reported a strong YoY sales growth of 17.1 % in 1H2015 as most of its production facilities were on extensive planned and warranty maintenance shutdown during 1H2014.
- **Better volumes drive steel revenue upside but margins still somewhat depressed.** The company's steel revenue increased 20% QoQ (down 13% YoY) to QR1.58bn with segment net income gaining 52% QoQ (down 13%) to QR322mn. Net margins advanced to 20% from 16% in 1Q2015 and was flattish versus 2Q2014. Steel revenue beat our estimate by a significant 24% but net income was in line with our model given our assumption of higher margins.
- **Petrochemicals – higher price realizations (as expected) and some volume growth drive significant margin expansion.** Petrochemical net margin expanded to 52% from 34% in 1Q2015 (43% in 2Q2014) with segment net income jumping by more than 130% to QR873mn benefiting from improved product prices and higher volume growth. Petrochemical revenue was up 50% QoQ (+14% YoY) to QR1.68bn. Reported revenue was 6% ahead of our model but net income beat our estimate by 39%.
- **Fertilizers faced price declines as expected with revenue/net falling QoQ.** This segment recorded revenue of QR1.16bn (-14% QoQ, +1% YoY) and net income of QR262mn (-21% QoQ, +14% YoY). Reported revenue was in-line but profits were a bit softer than our model.

Catalysts

- **The eventual recovery in oil prices will be a major positive.** Also, QP has stated its intention to conduct feasibility studies in order to take advantage of the ethane feedstock available following the decision not to proceed with the proposed Al-Karaana Petrochemicals project. IQCD (through QAPCO) could end up benefiting from any resulting petrochemical ventures but not before 2018 or so.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform with a price of QR153.00.** IQCD is trading at 2016 EV/EBITDA multiple of 12.8x.
- **Risks:** Declining 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

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	13.24	10.48	7.52	9.32
EPS Growth	(5.1%)	(20.8%)	(28.3%)	24.0%
P/E (x)	10.2	12.9	17.9	14.5
DPS (QR)	11.00	7.00	7.00	8.00
Dividend Yield (%)	8.2	5.2	5.2	5.9

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

Key Data

Current Market Price (QR)	134.80
Dividend Yield (%)	5.2
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	200.00/127.00
3-m Average Volume ('000)	137.7
Mkt. Cap. (\$ bn/QR bn)	22.4/81.6
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.3
1-Year Total Return (%)	(18.0)
Fiscal Year End	December 31

Source: Bloomberg (as of August 03, 2015), *Qatar Exchange (as of August 03, 2015); Note: FO is foreign ownership

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Segment Details

Steel	2Q2014	1Q2015	2Q2015	2Q2015e	A V E
Revenue	1,819	1,312	1,576	1,274	24%
Net Profit	370	211	322	319	1%
NM %	20%	16%	20%	25%	
Revenue Q/Q	38%	1%	20%		
NP Q/Q	3%	5%	52%		
Revenue Y/Y	28%	-1%	-13%		
NP Y/Y	-17%	-41%	-13%		
Petrochemicals	2Q2014	1Q2015	2Q2015	2Q2015E	A V E
Revenue	1,473	1,122	1,680	1,587	6%
Net Profit	627	378	873	628	39%
NM %	43%	34%	52%	40%	
Revenue Q/Q	1%	-39%	50%		
NP Q/Q	-8%	-56%	131%		
Rev Y/Y	-8%	-23%	14%		
NP Y/Y	-26%	-44%	39%		
Fertilizers	2Q2014	1Q2015	2Q2015	2Q2015E	A V E
Revenue	1,151	1,351	1,158	1,119	3%
Net Profit	230	333	262	290	-10%
NM %	20%	25%	23%	26%	
Revenue Q/Q	-17%	-15%	-14%		
NP Q/Q	-55%	-40%	-21%		
Rev Y/Y	-30%	-3%	1%		
NP Y/Y	-68%	-35%	14%		

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2013	FY2014	FY2015e	FY2016e
Revenue	5,823	5,970	4,905	5,606
Cost of Sales, Excluding D&A	(3,865)	(4,376)	(3,728)	(4,148)
Gross Profit	1,958	1,594	1,177	1,458
G&A Expenses, Excluding Depreciation	(173)	(199)	(167)	(191)
Selling Expenses, Excluding Depreciation	(35)	(48)	(49)	(56)
EBITDA	1,750	1,348	961	1,211
Depreciation & Amortization	(158)	(183)	(211)	(211)
EBIT	1,592	1,165	750	1,000
Finance Costs	(59)	(103)	(32)	(30)
Income from Investments	112	98	97	97
Share of Results of Associates	(11)	15	25	25
Share of Results of Joint Ventures	6,238	4,983	3,616	4,453
Others	140	185	92	92
Profit Before Tax	8,012	6,342	4,548	5,638
Income Tax Expense	-	-	-	-
Profit for Shareholders	8,012	6,342	4,548	5,638
EPS (QR)	13.24	10.48	7.52	9.32
Group EBIT	8,071	6,445	4,580	5,667
Group EBITDA	8,229	6,628	4,791	5,878

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2013	FY2014	FY2015e	FY2016e
Non-Current Assets				
PP&E and Projects Under Development	3,434	3,856	4,050	4,244
Investment Properties	178	198	198	198
Investment in Associates	223	233	258	283
Investment in Joint Ventures	19,879	20,562	20,687	20,787
Available-for-Sale Investments	753	863	856	856
Catalysts & Others	42	37	32	27
Total Non-Current Assets	24,508	25,750	26,082	26,396
Current Assets				
Inventories	1,848	2,143	1,826	2,032
Accounts Receivables & Prepayments	1,455	1,139	935	1,069
Due from Related Parties	34	82	98	112
Held for Trading Investments, Assets Held for Sale and Others	1,249	1,249	1,249	1,249
Cash and Bank Balances	7,683	6,192	5,976	6,570
Total Current Assets	12,269	10,806	10,085	11,033
Total Assets	36,778	36,556	36,167	37,429
Equity				
Total Equity	33,777	33,585	33,768	35,030
Non-Current Liabilities				
Loans and Borrowings	1,662	452	961	931
End of Service Benefits & Others	202	143	149	149
Total Non-Current Liabilities	1,864	595	1,110	1,080
Current Liabilities				
Accounts Payables & Accruals	809	1,049	894	995
Due to Related Parties & Others	15	116	15	14
Loans and Borrowings	313	1,211	380	310
Total Current Liabilities	1,136	2,376	1,289	1,319
Equity and Liabilities	36,778	36,556	36,167	37,429

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

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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