

Industries Qatar (IQCD)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR111.10	Current Target Price	QR130.00
Implied Upside	17.0%	Old Target Price	QR153.00

Adjusting Model and Revising PT; Accumulate

We are lowering our price target to QR130 and adjusting our model; current stock price implies decent LT upside with an attractive dividend yield. IQCD shares underperformed the market in 2015, down 30.79% on a total return basis vs. the QSE All-Share Index's decline of 11.88% but keeping pace with the decline in Brent oil, which has fallen around 36%. With expectations calling for a more balanced oil market in 2016 and current forward prices indicating relative stability, we continue to believe IQCD holds long-term potential. We also continue to expect QR7/share in DPS for 2015, translating into an attractive 6.3% yield.

Highlights

- **Expect a dip in 4Q2015 profitability given weakness seen in product prices.** IQCD posted a much-better-than expected 3Q2015 despite witnessing a drop in sequential profitability. Industries Qatar's net income slipped 4.4% QoQ (-25.2% YoY) in 3Q2015 to QR1.4bn. However, the bottom-line exceeded our estimate and Reuters consensus of QR1.1bn. Results were driven by higher utilization levels (104.7% 9M2015 vs. 98.4% 9M2014) offset by depressed prices (primarily petrochemical realizations). For 4Q2015, we expect another dip in net income to QR1.1bn with flattish sales volume offset by further sequential declines seen in urea and PE prices.
- **Expect QR7/share in dividends translating into a 6.3% yield for 2015.** With QR9bn in cash across the group as of September 2015, IQCD can comfortably pay out QR7 in DPS (QR4.2bn in outlays) for 2015. Management may, however, decide to exert caution and potentially lower dividends further (IQCD cut DPS to QR7 in 2014 from QR11 in 2013). But given limited capex needs and a very strong balance sheet, we think a further lowering of dividends is unlikely. Ultimately, stability or the lack of it in oil prices in early 2016 will play a major role in the company's dividend decision.

Catalysts

- **We favor IQCD as a long-term play but concede that any meaningful recovery in the stock will likely come only when confidence regarding oil price stability resurfaces.** IQCD offers a diversified mix of steel, petrochemicals and fertilizers. The stock has taken a severe beating since the dividend surprise for 2014 and was under significant pressure in 2015 on the back of volatile oil prices. While near-term growth in earnings will be under pressure, IQCD will be one of the first stocks to anticipate a relative stability/potential recovery in oil prices. We also believe that our dividend estimate of QR7/share for 2015 is achievable.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD an Accumulate with a price target of QR130.00.** Our previous target was QR153 with much of the decrease stemming from a higher cost of equity given upward revisions to the risk-free rate and the market risk premium. IQCD is trading at 2016 EV/EBITDA multiple of 12.1x.
- **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

	FY2014	FY2015e	FY2016e	FY2017e
EPS (QR)	10.48	8.16	7.93	8.32
EPS Growth	(20.8%)	(22.2%)	(2.8%)	4.9%
P/E (x)	10.6	13.6	14.0	13.4
DPS (QR)	7.00	7.00	7.00	7.50
Dividend Yield (%)	6.3	6.3	6.3	6.8

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

Key Data

Current Market Price (QR)	111.10
Dividend Yield (%)	6.3
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	178.00/96.00
3-m Average Volume ('000)	205.1
Mkt. Cap. (\$ bn/QR bn)	18.5/67.2
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	5.8
1-Year Total Return (%)	(30.8)
Fiscal Year End	December 31

Source: Bloomberg (as of December 31, 2015), *Qatar Exchange (as of December 31, 2015); Note: FO is foreign ownership

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	FY2014	FY2015e	FY2016e	FY2017e
Revenue	5,970	5,289	5,074	4,984
Cost of Sales, Excluding D&A	(4,376)	(3,887)	(3,704)	(3,539)
Gross Profit	1,594	1,402	1,370	1,445
G&A Expenses, Excluding Depreciation	(199)	(175)	(167)	(164)
Selling Expenses, Excluding Depreciation	(48)	(61)	(51)	(50)
EBITDA	1,348	1,166	1,152	1,231
Depreciation & Amortization	(183)	(211)	(211)	(211)
EBIT	1,165	955	941	1,020
Finance Costs	(103)	(27)	(24)	(22)
Share of Results of Joint Ventures	4,983	3,852	3,693	3,842
Other Income/Expenses	298	155	188	193
Profit Before Tax	6,342	4,936	4,798	5,033
Income Tax Expense				
Profit for Shareholders	6,342	4,936	4,798	5,033
EPS (QR)	10.48	8.16	7.93	8.32
Group EBIT	6,445	4,962	4,822	5,055
Group EBITDA	6,628	5,173	5,033	5,266

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2014	FY2015e	FY2016e	FY2017e
Non-Current Assets				
PP&E and Projects Under Development	3,856	3,777	3,701	3,625
Investment Properties	198	198	198	198
Investment in Associates	233	205	210	220
Investment in Joint Ventures	20,562	20,687	20,787	20,887
Available-for-Sale Investments	863	826	826	826
Catalysts & Others	37	32	27	22
Total Non-Current Assets	25,750	25,726	25,749	25,778
Current Assets				
Inventories	2,143	1,757	1,674	1,600
Accounts Receivables & Prepayments	1,139	1,159	1,112	1,092
Due from Related Parties	82	212	203	199
Held for Trading Investments, Assets Held for Sale and Others	1,249	1,249	1,249	1,249
Cash and Bank Balances	6,192	6,106	6,479	7,089
Total Current Assets	10,806	10,483	10,718	11,230
Total Assets	36,556	36,209	36,467	37,009
Equity				
Total Equity	33,585	34,150	34,594	35,266
Non-Current Liabilities				
Loans and Borrowings	452	737	707	677
End of Service Benefits & Others	143	153	153	153
Total Non-Current Liabilities	595	890	860	830
Current Liabilities				
Accounts Payables & Accruals	1,049	724	690	659
Due to Related Parties & Others	116	63	13	12
Loans and Borrowings	1,211	381	311	241
Total Current Liabilities	2,376	1,168	1,013	912
Equity and Liabilities	36,556	36,209	36,467	37,009

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

Contacts

Saugata Sarkar

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

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst
Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666
PO Box 24025
Doha, Qatar

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