

IQCD Alert – 4Q19 Miss Driven by Steel & Petchems; DPS of QR0.40 In-Line; Market Perform

- **IQCD posts a 55.3% YoY & a 6.7% QoQ decrease in 4Q2019 net profit, missing our estimate by 5.9%** – Industries Qatar's (IQCD) 4Q2019 net profit of QR538.1mn missed our estimate of QR572.1mn. Both the steel and fertilizer segments were weaker-than-expected; the steel segment was especially soft and results would have been even weaker had it not been for a QR100mn benefit due to a reversal of impairment in IQCD's steel associate Foulath Holding. Overall JV income of QR576.8mn did 20.7% better than our modeled estimate solely driven by fertilizers. For the year, net income fell 48.8% with EPS of QR0.43. Proposed dividends of QR0.40 per share (94% payout) was in-line with our estimate translating into a dividend yield of 4%.
- **4Q2019 steel gross margins dip into the red; significantly misses our estimates.** The company's reported 4Q2019 cash steel GMs fell to -6.7%, marking the first time steel has posted a loss on the gross margin line in at least a decade (our model goes back to 1Q2008). Quarterly steel revenue did come ahead of our expectations pointing to the weakness in selling prices and pressure on margins. For 2019, steel net income fell 85.7% below our estimate. In its press release, the company pointed to lower ASPs that declined 12% YoY vs. 2018, slightly offset by a small 1% increase in sales volume. IQCD continued to point to soft domestic demand given the completion of a majority of large infrastructure projects; the company did state that near-to-medium-term prospects remained encouraging. Moreover, international competition remained strong from lower-cost EM producers. The previously mentioned reversal of impairment helped this segment – associates added QR75.3mn in 2019 net income vs. a net loss of QR39.2mn posted by the wholly-owned steel segment.
- **Petrochemical performance was slightly below our forecast.** 4Q2019 segment revenue fell 1.1% below our estimate, while earnings were 10.3% softer than forecasted, with margins easing off slightly vs. our model. For the year, both revenue and net income were marginally lower than what we had expected; petchem revenue fell ~25% YoY, while net income declined 47%. In the company's trading statement, IQCD pointed to soft demand, excess capacities, new environmental regulations in key countries and falling prices as the key drivers behind challenging conditions in the petchem market. Overall, for 2019, petchem prices fell 15% and volumes declined 12% leading to the revenue fall. Production volumes also fell 10% YoY due to planned and unplanned maintenance shutdowns.
- **Fertilizers stood out as the only outperformer.** 4Q2019 revenue and net income exceeded our forecasts by 16.5% and 97.9%. We are positively surprised by the increase in fertilizer profitability with the entire incremental QoQ growth in fertilizer revenue (and some more) flowing down to the bottom-line. For 2019, segment earnings fell 37% from 2018 due to an overall decline in realized prices of 9% given supply-demand imbalances. Revenue also fell 9% implying flattish YoY sales volumes. Production volumes rose 2% YoY and the company achieved a new production record for ammonia and near-record levels of production for urea.
- *For more details on the company's performance and our estimates, please refer to pages 2 and 3.*
- **Balance sheet continues to remain solid with QR12.4bn in cash/bank balances and zero debt.** In its 3Q2019 presentation, IQCD had guided to QR7.4bn in capex planned over 5 years (2019-2023). The majority of this capex is maintenance-related but QR2.5bn is slated a 400K MTPA-ammonia line (Ammonia 7) with QR1.3bn to be financed by new borrowing. We expect much of this ammonia increase will be to offset older, less efficient production lines with net impact to urea volumes to be not that significant. Net-net, given IQCD's strong balance sheet, we continue to expect some newsflow related to potential acquisitions in the future.
- **Retain Market Perform rating with QR10.00 price target.**

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Income Statement (QR million)	4Q2018	4Q2019	4Q2019e	A Vs. E	YoY	QoQ	2019	2019e	A Vs. E
Revenue	1,233.996	1,378.291	1,151.737	19.7%	11.7%	-1.9%	5,095.823	4,869.269	4.7%
Cost of Sales (Ex. Depreciation & Amortization)	(1,051.479)	(1,471.018)	(1,029.324)	42.9%	39.9%	13.9%	(4,814.298)	(4,372.604)	10.1%
Gross Profit	182.517	(92.727)	122.413	NM	-150.8%	-181.8%	281.525	496.665	-43.3%
General and Administrative Expenses	(45.536)	(34.473)	(45.470)	-24.2%	-24.3%	-10.1%	(139.743)	(150.740)	-7.3%
Selling Expenses	(19.536)	(27.410)	(25.147)	9.0%	40.3%	13.9%	(82.606)	(80.343)	2.8%
EBITDA	117.445	(154.610)	51.796	NM	-231.6%	-403.2%	59.176	265.582	-77.7%
Depreciation & Amortization	(59.500)	(71.490)	(69.972)	2.2%	20.2%	2.2%	(277.273)	(275.755)	0.6%
EBIT	57.945	(226.100)	(18.176)	1144.0%	-490.2%	1094.5%	(218.097)	(10.173)	2043.9%
Finance Costs	(0.145)	(2.696)	(2.800)	-3.7%	1759.3%	-4.9%	(11.497)	(11.601)	-0.9%
Share of Results from Associates	78.243	(16.043)	(3.000)	434.8%	-120.5%	-280.8%	75.328	88.371	-14.8%
Share of Results of JVs	952.099	576.813	478.059	20.7%	-39.4%	15.6%	2,180.755	2,082.001	4.7%
Other Income	165.336	106.157	118.033	-10.1%	-35.8%	17.1%	448.124	460.000	-2.6%
Income from Investments & Other Income/Expenses	(49.535)	100.000	-				100.000	-	
Profit Before Tax	1,203.943	538.131	572.116	-5.9%	-55.3%	-6.7%	2,574.613	2,608.598	-1.3%
Tax			-						
Profit After Tax	1,203.943	538.131	572.116	-5.9%	-55.3%	-6.7%	2,574.613	2,608.598	-1.3%
Minority Interest			-						
Profit for Equity Holders	1,203.943	538.131	572.116	-5.9%	-55.3%	-6.7%	2,574.613	2,608.598	-1.3%
<i>Net Margin</i>	<i>97.6%</i>	<i>39.0%</i>	<i>49.7%</i>	<i>-21.4%</i>	<i>-60.0%</i>	<i>-5.0%</i>	<i>50.5%</i>	<i>53.6%</i>	<i>-5.7%</i>

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In QR Millions

Steel	4Q2018	2018	4Q2019	2019	4Q2019e	A Vs. E	2019e	A Vs. E
Revenue	1,233.996	5,791.018	1,378.291	5,095.823	1,151.737	19.7%	4,869.269	4.7%
Net Profit	130.708	788.739	(121.818)	36.109	95.275	NM	253.202	-85.7%
NM %	10.59%	13.6%	-8.84%	0.7%	8.27%		5.2%	
Revenue Q/Q	-20%		-2%		-18%			
Net Income Q/Q	-19%		-1212%		769%			
Revenue Y/Y	-15%	25%	12%	-12%	-7%		-16%	
Net Income Y/Y	33%	55%	-193%	-95%	-27%		-68%	
Petrochemicals	4Q2018	2018	4Q2019	2019	4Q2019	A Vs. E	2019	A Vs. E
Revenue	1,408.423	5,896.751	1,072.216	4,393.579	1,083.943	-1.1%	4,405.306	-0.3%
Net Profit	441.040	2,483.725	305.844	1,308.346	341.116	-10.3%	1,343.618	-2.6%
NM %	31.31%	42.1%	28.52%	29.8%	31.47%		30.5%	
Revenue Q/Q	-8%		0%		1%			
Net Income Q/Q	-33%		-9%		2%			
Revenue Y/Y	-5%	3%	-24%	-25%	-23%		-25%	
Net Income Y/Y	-19%	12%	-31%	-47%	-23%		-46%	
Fertilizers	4Q2018	2018	4Q2019	2019	4Q2019	A Vs. E	2019	A Vs. E
Revenue	1,406.581	4,661.231	1,100.587	4,257.598	945.114	16.5%	4,102.125	3.8%
Net Profit	511.059	1,394.123	270.969	872.409	136.943	97.9%	738.382	18.2%
NM %	36.33%	29.9%	24.62%	18.0%	14.49%		18.0%	
Revenue Q/Q	29%		8%		-7%			
Net Income Q/Q	23%		66%		-16%			
Revenue Y/Y	33%	19%	-22%	-9%	-33%		-12%	
Net Income Y/Y	87%	267%	-47%	-37%	-73%		-47%	
Total Revenue	4,049.000	16,349.000	3,551.095	13,747.000	3,180.794	11.6%	13,376.700	2.8%
YoY Growth	1%	15%	-12%	-16%	-21%		-18%	
QoQ Growth	-2%		-1%		-11%			
Steel	30%	35%	39%	37%	36%		36%	
Petrochemicals	35%	36%	30%	32%	34%		33%	
Fertilizers	35%	29%	31%	31%	30%		31%	
Total NI (Ex. Unallocated)	1,082.807	4,666.587	454.995	2,216.864	573.333	-20.6%	2,335.203	23.4%
Steel	12%	17%	-27%	2%	17%		11%	
Petrochemicals	41%	53%	67%	59%	59%		58%	
Fertilizers	47%	30%	60%	39%	24%		32%	

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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