

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR112.00	Current Target Price	QR109.00
Implied Upside	(2.7%)		

Steel Segment Strength Boosts 1Q2018; MSCI/FTSE in Focus

IQCD reported a strong set of numbers buoyed by revenue/margin expansion in steel; stock could see further upside given impending MSCI/FTSE weight increases. IQCD shares have jumped 20% from mid-March driven by expectation of near-doubling of its FOL and the resultant \$200mn or so in flows from passive trackers. We expect some remaining upside as implementation days approach (May 31/June 14 for MSCI/FTSE). Such gains could, however, be short-lived as they have historically and we maintain our 12-month price target of QR109 for now. While 1Q2018 numbers beat expectations, 2Q could be more challenging especially in the steel segment. We will adjust our model after 1H2018 results.

Highlights

- **Driven by outperformance in steel, IQCD's bottom line rises 32% QoQ in 1Q2018, exceeding our estimate.** Earnings were up 37% YoY to QR1.27bn in 1Q2018, exceeding our forecast of QR1.15bn (variation of +10%). For more details, please see page 2.
- **Steel revenue bests our forecast with strong GMs.** IQCD's revenue (representing its 100%-owned steel segment) came in at QR1.38bn in 1Q2018, which represents a decrease of 5% QoQ; steel revenue exceeded our forecast of QR1.24bn. On a YoY basis revenue rose 24%. Majority of the earnings beat was due to better-than-expected GMs at the wholly-owned steel segment – cash GMs expanded to 28.2% from 19.3% in 4Q2017 (28.0% in 1Q2017) vs. our estimate of 23%. According to the company, sales improved due to changes in geographical mix; steel prices increased significantly QoQ and YoY due to an increase in iron ore costs and short supply of electrodes, which are consumables. We note that during the quarter, IQCD signed an offtake agreement with Muntajat for its steel products.
- **Income from JVs (that represent IQCD's 75% stake in QAFCO, 80% share in QAPCO and 50% ownership of QAFAC) came in-line with our estimates.** According to IQCD, PE sales benefited from higher volumes given lack of extended unplanned shutdowns faced during 1Q2017. PE prices have improved and began stabilizing while fuel additive prices have increased significantly YoY as crude continues its march higher. Moreover, fertilizer prices as well have shown a modest rise driven by tightening of supplies, and a general recovery in demand.
- **Balance sheet remains strong (group debt of QR0.4bn vs. cash of QR8.8bn).** Capex needs remain minimal. Strategic deployment of this cash remains a key question.
- **No estimate changes; 2Q2018 earnings could fall sequentially especially due to the steel segment.** While our QR3.9bn 2018 earnings estimate appears conservative in light of 1Q results, we maintain our estimates for now. For 2Q2018, we note: **(1)** 1Q2018 strength in steel pricing was driven by shortage of electrodes and increase in iron ore prices, which have largely reversed. Moreover, summer/Ramadan remains a seasonally soft period for construction and some large projects in Qatar are coming to a close. We note Qatar Steel supplies almost all domestic demand. **(2)** Fertilizers should see stable performance given higher QoQ volumes and price stability. Medium-term, expected lower Chinese exports as smaller inefficient plants are shut down bodes well for urea price realizations. **(3)** PE should see largely flattish volumes, while prices could continue to strengthen QoQ as oil goes up.
- **Strong FCF generation support dividends despite high payout ratio vs. historical.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), should come in at QR3.5bn in 2018 and should average QR4.5bn over 2017 to 2026 with an average dividend cover of 1.3x. We forecast a DPS of QR5 for 2018, which is flat and could see upside. However, payouts will remain high at an average of around ~71% over 2018 to 2026 (91% payout in 2017).

Catalysts

- **FOL increase from 25% to 49% acts a near-term catalyst driven by MSCI & FTSE inflows.** However, these gains could prove to be short-lived as they have been historically once implementation days approach (May 31/June 14 for MSCI/FTSE).

Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR109.** IQCD is fully valued-to-expensive @ 17.3x and 15.8x P/E for 2018 and 2019, respectively.
- **Risks:** Weakness in oil prices remain a substantial 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

	FY2016	FY2017	FY2018e	FY2019e
Group Revenue (QR mn)	13,800	14,300	14,773	15,050
EPS (QR)	4.88	5.48	6.46	7.07
DPS (QR)	4.00	5.00	5.00	5.25
RoE (%)	8.8	9.7	11.2	11.8
P/E (x)	22.9	20.4	17.3	15.8
EV/EBITDA (x)	19.2	17.3	14.8	13.6
Dividend Yield %	3.6	4.5	4.5	4.7

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

Key Data

Current Market Price (QR)	112.00
Dividend Yield (%)	4.5
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	115.00/85.00
3-m Average Volume ('000)	182.5
Mkt. Cap. (\$ bn/QR bn)	18.6/67.8
EV (\$ bn/QR bn)	16.9/61.4
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	6.6
1-Year Total Return (%)	12.1
Fiscal Year End	December 31

Source: Bloomberg (as of April 30, 2018), *Qatar Exchange (as of April 29, 2018); Note: FO is foreign ownership

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1Q2018 Review

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1Q2018 Actual Vs. Estimates and Comparisons

In QR mn	1Q2018	1Q2018e	4Q2017	1Q2017	A vs. E	QoQ	YoY	2018e	2017	YoY	2016	YoY
Revenue	1,377.8	1,236.4	1,454.6	1,107.3	11%	-5%	24%	4,859.9	4,628.5	5%	4,674.3	-1%
Gross Profit	388.2	284.4	281.3	310.4	37%	38%	25%	1,069.2	935.0	14%	1,370.3	-32%
EBITDA	335.1	222.6	213.7	214.3	51%	57%	56%	767.8	678.0	13%	1,101.0	-38%
EBIT	276.1	164.4	155.8	158.8	68%	77%	74%	542.3	452.5	20%	875.7	-48%
Share of Results of JVs	858.7	856.9	818.5	642.5	0%	5%	34%	2,999.5	2,606.6	15%	1,716.3	52%
Profit for Equity Holders	1,267.9	1,149.9	957.7	927.9	10%	32%	37%	3,905.9	3,315.4	18%	2,955.0	12%
DPS								5.00	5.00	0%	4.00	25%
Group EBITDA (IQ)	1,327.7	1,210.1	1,058.4	986.0	10%	25%	35%	4,134.8	3,652.1	13%	3,193.5	14%
Group EBIT (IQ)	1,268.7	1,152.0	1,000.5	930.6	10%	27%	36%	3,909.3	3,426.7	14%	2,968.1	15%
Gross Margin	28.2%	23.0%	19.3%	28.0%				22.0%	20.2%		29.3%	
EBITDA Margin	24.3%	18.0%	14.7%	19.4%				15.8%	14.6%		23.6%	
EBIT Margin	20.0%	13.3%	10.7%	14.3%				11.2%	9.8%		18.7%	

Source: Company data, QNBFS estimates

Comparative Multiples

Fertilizers		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e
Saudi Arabian Fertilizer Co	SAFCO	2.7%	20.7x	18.9x	16.1x	14.6x	15.2x	13.7x	4.2%	NA
Yara International ASA	YAR	3.0%	17.1x	11.7x	8.7x	7.1x	1.1x	0.9x	(0.1%)	0.1%
Mosaic Co/The	MOS	1.3%	18.7x	15.2x	8.2x	7.2x	8.2x	7.4x	3.5%	5.4%
Average		2.3%	18.8x	13.5x	11.0x	8.7x	8.2x	4.1x	2.5%	NA
Median		2.7%	18.7x	15.2x	8.7x	7.2x	8.2x	7.4x	3.5%	NA
Industries Qatar QSC	IQCD	4.5%	17.3x	15.8x	17.4x	15.9x	14.8x	13.6x	5.6%	6.1%

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 2 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Petrochemicals		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e
Yanbu National Petrochemical Co	YANSAB	4.7%	14.0x	14.4x	9.6x	12.5x	9.1x	9.4x	8.6%	8.7%
Saudi Kayan Petrochemical Co	KAYAN	NA	15.4x	13.3x	7.4x	6.1x	8.6x	8.3x	0.1%	0.3%
Saudi Basic Industries Corp	SABIC	3.7%	15.7x	14.8x	7.9x	9.8x	8.1x	7.7x	7.9%	8.3%
Rabigh Refining & Petrochemical Co	PETROR	1.8%	16.6x	12.4x	4.9x	4.4x	13.8x	10.9x	11.4%	14.2%
Saudi International Petrochemical Co	SIPCHEM	2.4%	12.9x	13.0x	4.8x	4.5x	7.7x	7.4x	NA	NA
Average		3.1%	14.9x	14.5x	6.9x	9.5x	9.5x	8.1x	7.0%	8.1%
Median		3.0%	15.4x	13.3x	7.4x	6.1x	8.6x	8.3x	8.2%	8.5%
Industries Qatar QSC	IQCD	4.5%	17.3x	15.8x	17.4x	15.9x	14.8x	13.6x	5.6%	6.1%

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Steel		Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
Company	Ticker		FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e
ArcelorMittal	MT	NA	8.7x	9.0x	5.0x	4.8x	5.1x	5.2x	8.9%	10.5%
thyssenkrupp AG	TKA	0.7%	13.7x	11.3x	7.0x	6.5x	5.8x	5.5x	3.1%	4.8%
Nucor Corp	NUE	2.4%	10.3x	11.0x	7.6x	7.3x	6.6x	7.1x	6.8%	9.9%
United States Steel Corp	X	0.6%	6.3x	6.1x	4.8x	4.0x	4.1x	4.1x	5.0%	11.6%
JFE Holdings Inc	5411	3.5%	11.1x	7.9x	4.7x	4.6x	6.5x	6.3x	4.5%	7.5%
Steel Authority of India Ltd	SAIL	NA	26.0x	12.5x	9.4x	7.4x	9.8x	7.4x	2.4%	11.8%
JSW Steel Ltd	JSTL	0.7%	12.4x	12.9x	8.4x	8.0x	7.8x	7.2x	4.0%	5.0%
Average		1.6%	12.6x	10.1x	6.7x	6.0x	6.5x	6.7x	5.0%	7.3%
Median		0.7%	11.1x	11.0x	7.0x	6.5x	6.5x	6.3x	4.5%	9.9%
Industries Qatar QSC	IQCD	4.5%	17.3x	15.8x	17.4x	15.9x	14.8x	13.6x	5.6%	6.1%

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Source: Bloomberg, QNBFS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
Revenue	4,674	4,628	4,860	4,909
Cost of Sales, Excluding D&A	(3,304)	(3,694)	(3,791)	(3,780)
Gross Profit	1,370	935	1,069	1,129
G&A Expenses	(231)	(199)	(204)	(209)
Selling Expenses	(39)	(58)	(97)	(98)
EBITDA	1,101	678	768	822
Depreciation & Amortization	(225)	(225)	(226)	(226)
EBIT	876	453	542	596
Finance Costs	(13)	(10)	(3)	-
Share of Results of Joint Ventures	1,716	2,607	2,999	3,316
Other Income/Expenses	376	266	368	368
Profit for Shareholders	2,955	3,315	3,906	4,279
EPS (QR)	4.88	5.48	6.46	7.07
Group Revenue	13,800	14,300	14,773	15,050
Group EBIT	2,968	3,325	3,909	4,279
Group EBITDA	3,193	3,551	4,135	4,505

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
Non-Current Assets				
PP&E and Projects Under Development	3,671	3,520	3,395	3,269
Investment Properties	-	-	-	-
Investment in Associates	1,451	1,439	1,467	1,495
Investment in Joint Ventures	18,343	18,848	18,948	19,048
Available-for-Sale Investments	674	534	534	534
Catalysts & Others	-	-	-	-
Total Non-Current Assets	24,139	24,341	24,343	24,346
Current Assets				
Inventories	1,244	1,444	1,454	1,450
Accounts Receivables & Prepayments	1,054	1,253	1,265	1,278
Due from Related Parties	674	650	656	663
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	8,072	7,789	8,321	9,449
Total Current Assets	11,047	11,140	11,700	12,843
Total Assets	35,186	35,481	36,043	37,188
Equity	27,070	27,862	28,645	29,792
Total Equity	33,514	34,239	35,022	36,169
Non-Current Liabilities				
Loans and Borrowings	226	-	-	-
End of Service Benefits & Others	215	199	199	199
Total Non-Current Liabilities	441	199	199	199
Current Liabilities				
Accounts Payables & Accruals	674	776	779	777
Due to Related Parties & Others	106	41	43	44
Loans and Borrowings	451	226	-	-
Total Current Liabilities	1,231	1,043	822	820
Equity and Liabilities	35,186	35,481	36,043	37,188

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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