

# QAMC Alert – Lower-Than-Expected 2Q2020; Maintain TP & Market Perform Rating

- **QAMCO posted 2Q2020 net income of QR3.9mn, up vs. 2Q2019's QR8.1mn net loss but down 63.6% sequentially.** Earnings were below our QR4.8mn net income estimate. Gain from “share of results from a joint venture (Qatalum)” stood at QR5.1mn in 2Q2020 vs. a loss from “share of results from a JV” of QR6.1mn in 2Q2019 and a comparable gain of QR13.2mn in 1Q2020.
- **QAMCO's 50%-JV Qatalum's 2Q2020 revenue fell by 1.5% QoQ and 3.8% YoY:** Qatalum recorded QR1.1bn in 2Q2020 revenue, down 1.5% QoQ/3.8% YoY. Qatalum's sales volumes in 2Q2020 displayed some growth both YoY and sequentially. However, lower average global aluminum prices (which fell by 11% in 2Q2020 vs. 1Q2020 and 16% vs. 2Q2019, according to Bloomberg's generic 1<sup>st</sup> primary aluminum price data), coupled with the Qatalum's product mix change from value-added products to standard ingots as a result of global market conditions, led Qatalum to record lower revenue in 2Q2020. We also think Qatalum's premiums fell QoQ as well as a result of product mix shift.
- **Qatalum's 2Q2020 operating margin (4.8%) was flat YoY.** On the other hand, Qatalum's operating margin declined sequentially in 2Q from 1Q2020's 9.8%. A 5.0% rise in raw material and energy costs QoQ was the primary reason for the sequential margin decline, whereas a 0.1% decline in the same item vs. 2Q2019 resulted in flat margins YoY. Depreciation expenses, falling 9.4% YoY, also supported operating margins vs. 2Q2019. Consequently, Qatalum recorded QR53.9mn in operating profits during 2Q2020, which was down 51.1% QoQ and 2.8% YoY.
- **On the positive front, Qatalum's net financial expenses fell 47.8% QoQ and 35.2% YoY to QR43.8mn, which supported Qatalum's/QAMCO's bottom-line.** Furthermore, QAMCO's share of Qatalum's net debt declined by 8% during 1H2020 to QR2.2bn as a result of a principal payment of QR222mn.
- **We maintain our estimates and TP.** Thanks to its state-of-the-art plant and the support of its major shareholders, which enables Qatalum to act like an integrated producer, Qatalum is one of the world's lowest-cost smelters. Qatalum's high margins, low indebtedness and lack of major expansion projects on the horizon warrants the continuation of its strong cash generation as well as attractive dividend yields for QAMCO shareholders once the global aluminum market stabilizes. On the other hand, Qatalum currently operates above its nameplate capacity, hence its top & bottom-lines are more sensitive to the changes in aluminum prices vs. its peers. Coronavirus disruptions pushed aluminum prices to the bottom of their last 5-year-cycle by mid-May. Prices have been recovering since then, rising 17.8% from the bottom; however, elevated global primary aluminum supply-demand surplus (which may deteriorate further in 2020) could hamper this price recovery. **We maintain our Market Perform rating and our TP at QR0.79.**

### 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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