

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR144.50	Current Target Price	QR126.00
Implied Upside	(12.8%)		

### 4Q2018 Preview: Urea Drives A Strong Finish to 2018

**Strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible.** We continue to believe with IQCD stock enjoying solid momentum, upside in earnings/dividends are key for charting the way forward. Given IQCD continues to operate above capacity and with no major capex on the horizon, earnings growth remains purely a function of commodity price forecasts. Considering its strong 2018 performance will soon be in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019. In this regard, early indications are positive and could lead to upside vs. our 1.3% EPS decline forecast for 2019.

#### Highlights

- 4Q2018 preview: we estimate revenue/EPS of QR1.46bn/QR2.12, flattish and up 34% YoY, respectively. (1) For steel,** as we have mentioned previously, 3Q2018 gross margins came under pressure hitting their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 (21.5% in 2Q2018). Iron ore prices remain elevated, while selling prices could face headwinds due to regional oversupply/discounting and inventory dump in the fourth quarter. Going forward, electricity charges are also slated to go up. Consequently, we expect 4Q2018 steel gross margins at 15.0%, while prices are down moderately YoY/QoQ. **(2) In petrochemicals,** PE realizations are also under pressure. **(3) Urea,** on the other hand, is up nicely YoY/sequentially and could drive results although prices have started to come down since early December. **We note our estimates do not include any potential impairment charges.** It is no secret that the company is facing challenges with its 31.03%-owned Saudi Steel Associate, SOLB. The BV of this associate is QR37.8mn as of June 2018 (IQCD recorded a QR101.3mn impairment charge related to this associate in 2017). The company also recorded a QR28mn ECL in 1H2018 and has a contingent liability of QR479.1mn. We note that management did not record any impairment charge for SOLB in 1H2018 as its "Value in Use" exceeded the BV of QR37.8mn. **While we are expecting QR7 in DPS for 2018, we are optimistic of a further hike in dividends to QR8 (60% YoY increase).**
- Maintaining 2019 and 2020 estimates for now.** After a 54.1% EPS increase projected for 2018, we expect earnings to moderately decline by 1.3% in 2019 before resuming a growth rate of 8.2% in 2020. Our 2019 estimates reflect our more conservative stance on steel especially relative to strong fundamentals seen in 1H2018, further strength in urea realizations along with margin improvement and slightly muted YoY outlook on PE.
- Strong FCF generation support dividends despite high payout ratio vs. historicals.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), should come in at QR4.8bn in 2018 and should average QR5.1bn over 2017 to 2026 with an average dividend cover of 1.2x. Payouts could remain high at an avg. of ~83% in 2018-2026 (91% payout in 2017).
- Balance sheet remains strong.** With minimal capex needs, strategic deployment of cash remains key; IQCD has 3Q2018 group cash/debt of QR12.1bn/QR0.2bn.

#### Catalysts

- With the stock enjoying solid momentum, upside in earnings/dividends could be key for charting the way forward.**

#### Recommendation, Valuation and Risks

- Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR126.** IQCD is fully valued @ 17.3x and 16.0x P/E for 2019 and 2020, respectively.
- Risks: Volatility in oil prices** remain a 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

	FY2017	FY2018e	FY2019e	FY2020e
Group Revenue (QR mn)	14,345	16,466	16,588	16,984
EPS (QR)	5.48	8.44	8.34	9.02
DPS (QR)	5.00	7.00	7.25	7.50
RoE (%)	9.7	14.2	13.8	14.5
P/E (x)	26.4	17.1	17.3	16.0
EV/EBITDA (x)	22.1	14.7	14.9	13.8
Dividend Yield %	3.5	4.8	5.0	5.2

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

#### Key Data

Current Market Price (QR)	144.50
Dividend Yield (%)	3.5
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	149.00/92.10
3-m Average Volume ('000)	115.6
Mkt. Cap. (\$ bn/QR bn)	24.0/87.4
EV (\$ bn/QR bn)	21.6/78.5
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	7.3
1-Year Total Return (%)	41.7
Fiscal Year End	December 31

Source: Bloomberg (as of February 03, 2019), \*Qatar Exchange (as of February 03, 2019); Note: FO is foreign ownership

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017	3Q2018	YoY	QoQ	2018e	2017	YoY
Revenue	1,458.0	1,454.6	1,533.8	0.2%	-4.9%	6,015.0	4,628.5	30.0%
Gross Profit	218.7	281.3	235.3	-22.2%	-7.1%	1,196.6	935.0	28.0%
EBITDA	155.0	213.7	180.3	-27.5%	-14.0%	959.0	678.0	41.4%
EBIT	95.1	155.8	120.4	-39.0%	-21.0%	721.1	452.5	59.3%
Share of Results of JVs	1,154.2	818.5	1,073.4	41.0%	7.5%	4,079.9	2,606.6	56.5%
Profit for Equity Holders	1,282.7	957.7	1,316.3	33.9%	-2.6%	5,108.6	3,315.4	54.1%
EPS (in QR)	2.12	1.58	2.18	33.9%	-2.6%	8.44	5.48	54.1%
DPS (in QR)						7.00	5.00	40.0%
Gross Margin	15.0%	19.3%	15.3%			19.9%	20.2%	
EBITDA Margin	10.6%	14.7%	11.8%			15.9%	14.6%	
EBIT Margin	6.5%	10.7%	7.8%			12.0%	9.8%	

Source: Company data, QNB FS estimates

### Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Revenue</b>	<b>4,674</b>	<b>4,628</b>	<b>6,015</b>	<b>5,962</b>
Cost of Sales, Excluding D&A	(3,304)	(3,694)	(4,818)	(4,918)
<b>Gross Profit</b>	<b>1,370</b>	<b>935</b>	<b>1,197</b>	<b>1,043</b>
G&A Expenses	(231)	(199)	(153)	(157)
Selling Expenses	(39)	(58)	(84)	(101)
<b>EBITDA</b>	<b>1,101</b>	<b>678</b>	<b>959</b>	<b>785</b>
Depreciation & Amortization	(225)	(225)	(238)	(238)
<b>EBIT</b>	<b>876</b>	<b>453</b>	<b>721</b>	<b>547</b>
Finance Costs	(13)	(10)	(2)	-
<b>Share of Results of Joint Ventures</b>	<b>1,716</b>	<b>2,607</b>	<b>4,080</b>	<b>4,201</b>
Other Income/Expenses	376	266	309	295
<b>Profit for Shareholders</b>	<b>2,955</b>	<b>3,315</b>	<b>5,109</b>	<b>5,043</b>
<b>EPS (QR)</b>	<b>4.88</b>	<b>5.48</b>	<b>8.44</b>	<b>8.34</b>
<b>Group Revenue</b>	<b>13,750</b>	<b>14,345</b>	<b>16,466</b>	<b>16,588</b>

Source: Company data, QNB FS estimates

<b>Balance Sheet (In QR mn)</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018e</b>	<b>FY2019e</b>
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,671	3,520	3,420	3,343
Investment Properties	-	-	-	-
Investment in Associates	1,451	1,439	1,403	1,353
Investment in Joint Ventures	18,343	18,848	18,948	19,048
Available-for-Sale Investments	674	534	-	-
Catalysts & Others	-	-	-	-
<b>Total Non-Current Assets</b>	<b>24,139</b>	<b>24,341</b>	<b>23,772</b>	<b>23,744</b>
<b>Current Assets</b>				
Inventories	1,244	1,444	1,452	1,482
Accounts Receivables & Prepayments	1,054	1,253	1,285	1,274
Due from Related Parties	674	650	662	656
Held for Trading Investments, Assets Held for Sale and Others	4	4	374	374
Cash and Bank Balances	8,072	7,789	9,412	10,124
<b>Total Current Assets</b>	<b>11,047</b>	<b>11,140</b>	<b>13,185</b>	<b>13,910</b>
<b>Total Assets</b>	<b>35,186</b>	<b>35,481</b>	<b>36,956</b>	<b>37,654</b>
<b>Equity</b>				
<b>Total Equity</b>	<b>33,514</b>	<b>34,239</b>	<b>35,964</b>	<b>36,646</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	226	-	-	-
End of Service Benefits & Others	215	199	199	199
<b>Total Non-Current Liabilities</b>	<b>441</b>	<b>199</b>	<b>199</b>	<b>199</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	674	776	752	768
Due to Related Parties & Others	106	41	41	41
Loans and Borrowings	451	226	-	-
<b>Total Current Liabilities</b>	<b>1,231</b>	<b>1,043</b>	<b>794</b>	<b>809</b>
<b>Equity and Liabilities</b>	<b>35,186</b>	<b>35,481</b>	<b>36,956</b>	<b>37,654</b>

Source: Company data, QNB FS 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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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