

IQCD Alert – Biz Update Webinar Highlights Value of QAFCO Deal & Implies DPS Stability; Accumulate

- **Industries Qatar’s strategy and business update webinar sheds light on key investor queries.** The webinar was focused on discussing IQCD’s \$1bn purchase of the remaining 25% stake in QAFCO from QP. [We have recently written on this acquisition, which prompted us to upgrade our rating on IQCD from Market Perform to Accumulate.](#) As we had noted previously, we expect favorable financial impact on IQCD from two sources: (1) extra 25% contribution from QAFCO and (2) favorable blended gas price for new GSPA for QAFCO 1-6. These points and others were highlighted during the webinar and we briefly discuss some key takeaways below:
- **Independent valuation of the purchase and the new GSPA adds ~QR1/share to IQCD’s fair value, consistent with our recent increase in price target from QR10 to QR11.50.** NPV of the 25% stake ranges between QR0.9-1.7bn and enhancement to equity value (under the new GSPA) of the existing 75% stake is worth around QR4.63bn (at the lower-end of the valuation range). The deal values 100% of QAFCO at QR15.22bn gross equity value or QR11.58bn net equity value or NPV (deducting the \$1bn purchase price). Based on DCF-based valuation provided by external QFMA-approved evaluators, the previously existing 75% stake in QAFCO (at the old gas price) is worth QR6.01bn but the new lower blended gas price adds another QR4.63bn or 77% to this stake. The purchase of the extra 25% adds an almost equivalent amount or another QR4.58bn to bring the overall gross equity value of 100% of QAFCO to QR15.22bn. Of this QR15.22bn, 39% accrues from the existing 75% stake at the old gas price and 30% each come from the impact of the new gas price on the existing 75% stake and the purchase of the 25% stake. WACC used in this valuation exercise was 10% and the range of IRRs for the new 25% stake was ~14-17%.
- **Blended base gas cost for QAFCO under the new GSPA should decline by ~18% to ~\$3.30/MMBtu vs. \$4.00/MMBtu in 2019.** As disclosed by management during the webinar, at \$250/MT (or below) urea price, the base price kicks in, which is adjusted depending on the CPI. However, if urea prices increase, the base price also increases driven by a proprietary formula. *Continued on page 2.*

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- **Management signals that dividends could remain stable going forward.** During the webinar, management pointed out that significant changes in dividends on a year-to-year basis could cause volatility in IQCD's stock price, especially given the dividend-sensitive nature of local individual investors. Management seemed to signal consistent dividends could become the norm going forward. Despite a substantial decline in earnings expected in 2020, this could imply that DPS could remain flat YoY in QR0.40/share, which could be construed positively by investors.
- **Management confirmed that IQCD will look to do similar deals, especially when it comes to Total's 20% stake in QAPCO.** As we have pointed out before, we could witness similar deals concerning other JVs, especially in light of QP's strong deal-making ability and bargaining power relative to minority partners and IQCD's robust cash position/cash generating ability.
- **We maintain our Accumulate rating on IQCD with a QR11.50 price target.** As we have noted previously, we see modest upside to our existing QR1.4bn earnings estimate for IQCD in 2020.

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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