

IQCD Alert – QP Buys Yara’s 25% Stake in QAFCO for \$1bn; Initial Take – No Financial Impact on IQCD

- **Qatar Petroleum announced an agreement to purchase Yara’s 25% stake in QAFCO for \$1bn.** In a press release, QP announced it has entered into a binding agreement to acquire Yara’s 25% stake in Qatar Fertilizer Co. or QAFCO for \$1bn. Established as a JV in 1969, QAFCO has become the world’s largest single-site urea producer, representing a significant share of the world’s traded urea volume. Prior to this transaction, QAFCO was owned by Industries Qatar with a 75% share and Yara of Norway with a 25% share. This deal remains conditional upon customary regulatory and closing conditions.
- **Impact on IQCD – no financial impact.** Our preliminary take, per our discussions with IQCD, is that this is a shareholder to shareholder transaction (i.e. QP buying the remaining 25% not owned by QAFCO from Yara). Thus, there is no immediate impact as IQCD’s 75% stake in QAFCO will remain unchanged.
- **This transaction is further testament to QP’s deal making prowess.** Given \$3.6bn in overall QAFCO net assets in 2019, this deal values QAFCO at 1.1x book value. Based on EBITDA, the deal is priced at 6.6x and 5.1x 2019 and 2018 EBITDA, respectively.
- **Fertilizers stood out as the only outperformer in IQCD’s 4Q2019 results.** 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.
- **We remain Market Perform on IQCD.**

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C ("QNB"). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.