

<b>Recommendation</b>	<b>OUTPERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QAR133.6</b>	<b>Target Price</b>	<b>QAR171.2</b>
<b>Implied Upside</b>	<b>28%</b>		

## 4Q2011 Trading Statement Outlines Growth Roadmap

- IQ releases its 4Q2011 trading statement; maintain Outperform rating.** IQ divulged its quarterly trading statement updating investors on its five-year capacity expansion and business plans. (1) IQ disclosed its capacity expansion plans in petrochemicals and steel. However, these investments will be undertaken on a minority basis, which is a departure from previous expansions. (2) Overall, IQ plans to spend around QAR5bn in capex targeting QAR24bn in revenue and QAR11+bn in net income by 2016, translating into healthy five-year CAGRs of ~ 8% and 7%, respectively. (3) A discussion on dividends reveals a balanced philosophy but is likely to disappoint investors expecting increasing future dividends payouts. Going forward, we continue to anticipate significant capacity expansion (QAFCO-5/6, LDPE-3) to somewhat offset a weaker-than-expected pricing outlook, especially in fertilizer, and to an extent in petrochemicals. IQ continues to maintain a bulletproof balance sheet (net cash of QAR98mn, significant FCF averaging QAR9.8bn over 2012-2016, AA-/Aa3 investment grade rating) and offers a healthy current dividend yield of 5.6%. Thus, we maintain our longer-term bullish stance on IQ shares.
- Capacity expansion: IQ announces minority stakes in new petrochemical and steel projects.** (1) As detailed in our February 15 note, QAPCO (80% owned) will participate with a 20% equity stake in a new major petrochemical facility in Ras Laffan, which is expected to start production in 2018. The overall cost of QAR20bn implies a QAR3.2bn net capex outlay for IQ and the trading update indicates that IQ is currently reviewing its funding strategy and capex phasing for this project. (2) IQ also announced that it is taking a 24.5% equity stake in an Algerian JV called "Qatar Steel International" involved in a 4.8mtpa integrated steel complex requiring an investment of QAR1.5bn over the next five years. The investment will be 70% debt-funded and tenders are being issued for feasibility and market studies. This complex is expected to start production after 2016. Without considering this project, IQ is expected to have 2.8mtpa in rebar capacity by 2013, up from 1.8mtpa currently. (3) Finally, IQ also plans to spend QAR100mn in a CO2 recovery project that will boost methanol production in 2014 by 91ktpa (current saleable capacity is 390ktpa).
- Business plan 2012-2016 to focus on growth.** (1) For 2012, IQ has budgeted QAR18.3bn and QAR8.3bn in revenue and net profit, respectively. This compares to our current estimate of QAR18.5bn/9bn and the Bloomberg consensus of QAR18.1bn/8.5bn. For 2016, IQ is targeting revenue to reach QAR24bn and net profit to exceed QAR11bn; we are currently estimating QAR22.8bn/11bn. We note that IQ's current business plan does not include the new petrochemical project and we have not yet factored in the new projects (petrochemical/steel/methanol) in our estimates. (2) Cumulative capex over this period has been slated at QAR5bn and includes a number of medium-sized upgrade/renovation projects and the new steel and methanol expansion projects. Once the company factors in spending on the new petrochemical project, cumulative spending is likely to increase to QAR8.2bn.
- Update on dividend policy reveals the company's philosophy of balancing generous payouts with liquidity/growth needs.** In IQ's trading statement, management reveals that the "group's progressive and generous dividend payout policy that has seen payout ratios averaging over 50% from 2003 to 2010 has always been tempered by the needs to invest in the future and service outstanding debt." IQ further notes that it has several projects in the pipeline, which are under various stages of consideration and study. We note the company's recommended 2011 dividend of QAR7.5 a share came in line with our estimate but fell short of some estimates of QAR8 a share.

### Key Data:

Bloomberg ticker	IQCD QD
ADR/GDR ticker	NA
Reuters ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector	Industrials
52wk high/52wk low (QAR)	150.0/116.0
3-m average volume ('000)	202.6
Mkt. cap. (USD bn/QAR bn)	20.2/73.5
Shares outstanding (mn)	550
FOL* (%)	7.5
FOL Limit* (mn)	41
1-year total return (%)	(3.5)
Fiscal year end	Dec. 31

Source: Bloomberg (as of February 15, 2012), \*Qatar Exchange

### Broker Recommendations

Recommendation	Number
Buy	10
Hold	4
Sell	0

Source: Bloomberg

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Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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