

Industries Qatar (IQCD)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR12.51	Target Price	QR17.00
Implied Upside	35.9%	Old Target Price	QR21.00

2022 A Tough Act To Follow; We Stay Bullish LT Despite YoY EPS Drop

We reduce our price target from QR21.00 to QR17.00 but maintain our Outperform rating. IQCD ended 2022 on a high in terms of its results, with its operating results handily beating our model and its DPS of QR1.10 (8.8% yield) coming right in-line with our forecast. For 2023, we lower our net income estimate by 16.2% from QR7.3bn (EPS: QR1.20) to QR6.1bn (EPS: QR1.01). Moreover, our 2024 estimates go from QR7.7bn (EPS: QR1.27) to QR6.4bn (EPS: QR1.05), a decline of 17.2%. 2023 volumes are likely to be flattish YoY with prices driving the earnings decrease. Urea, which was very strong in 1H2022 (primarily due to the Russia-Ukraine war) with IQCD's realizations increasing to \$702/MT in 2Q2022, should be down more than 40% from \$618/MT in 2022 to \$352/MT in 2023. On the positive side, fertilizer margins based on YTD urea prices, could improve. PE prices could also decline; we expect LDPE realizations to drop ~16% YoY from \$1,378/MT last year to \$1,152/MT in 2023. The surprise recent OPEC+ cut could act as a catalyst, if only temporarily, and we note that PE spreads are at multi-year lows implying limited downside from current levels. Steel rebar realizations are modeled to decline roughly 8% from \$728/MT in 2022 to \$668/MT in 2023. However, if overall recession expectations worsen, we could face a further downturn in commodity prices and IQCD's earnings expectations. From a valuation perspective, IQCD is trading at 12.4x its estimated 2023 EPS, which is below its historical median of ~17x, implying limited downside.

Highlights

- 1Q2023 preview: the significant decline in urea prices should weigh down IQCD's earnings, which should post YoY/QoQ net income declines of 49.6%/23.0% to QR1,361.5mn. On a YoY basis, average prices are down across the board, with steel rebars down ~20%, LDPE declining ~30% and urea falling ~55%. While sequentially, PE prices have remained stable and rebar prices are up ~15%, urea prices are down almost 40% QoQ. Considering that fertilizers drive ~60% of IQCD's profitability, we expect a weak 1Q2023 with a sequential increase in margins softening the QoQ earnings decline somewhat.
- We project 2023 earnings to decline 30.9%, followed by a resumption of growth with 2024 net income growing 4.7%. Overall group EBITDA (on a proportionate basis) is expected to decline 23.0% from QR11.0bn in 2022 to QR8.4bn in 2023, before gaining 3.7% to QR8.8bn in 2024. After posting significant declines this year, we expect prices to stabilize in 2024 unless there is significant recession-related demand destruction.
- LT dividend payouts should remain high but DPS is projected to decline to QR0.80 (6.4% yield) in 2023 before increasing to QR0.85 (6.8%) in 2024. This translates to an average payout of roughly 80% vs. a historical payout average of ~79% between 2018-2022.
- Bullet-proof balance sheet with QR19.2bn in cash/bank balances & zero long-term debt. We note that IQCD had sufficient cash in 2022 to pay its dividend of QR6.7bn and fund its entire capex outlay of QR11.0bn over 2023-2027. The company, on a proportionate basis, generated operating cash flow of QR9.9bn and free cash flow of QR8.8bn in 2022. Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions, when they arise, while retaining dry powder to take advantage of potential acquisition opportunities in the future. IQCD's strong FCF generating ability, along with its large cash balances, also provide investors with lower DPS volatility.

Catalysts

- In terms of longer-term catalysts, the QR4.4bn Ammonia-7 project, which is also the world's largest Blue ammonia train, is expected to add 400 KTPA of sellable ammonia by 2026. The Ammonia-7 project should also boost the company's ESG credentials. Also, in a smaller deal (roughly QR455mn net cost), IQCD expects to increase its direct stake in Qatar Vinyl Co. (QVC) to 44.8% from May 2026 from its current indirect stake (via QAPCO) of 25.52% by funding its share of the construction of a new Polyvinyl Chloride (PVC) plant. Moreover, similar to the QAFAC deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could also be perceived positively by investors. The purchase of the remaining 50% of QAFAC could also be a possibility.

Recommendation, Valuation and Risks

- Recommendation and valuation:** We rate IQCD as an Outperform with a PT of QR17.00. The stock is trading at P/E multiples of 12.4x for 2023 and 11.9x for 2024.
- Risks:** Oil/urea prices influence IQCD's operations and investor sentiment. Geopolitical risks remain and cannot be modeled.

Key Financial Data and Estimates

	2021	2022	2023e	2024e	2025e
Revenue (QR mn)	14,169	18,794	12,702	12,956	13,282
EPS (QR)	1.34	1.46	1.01	1.05	1.08
P/E	9.4x	8.6x	12.4x	11.9x	11.6x
EV/EBITDA	9.2x	8.6x	12.4x	12.3x	11.8x
Dividend Yield	8.0%	8.8%	6.4%	6.8%	7.2%

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

Key Data

Current Market Price (QR)	12.51
Dividend Yield (%)	8.8
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	20.20/12.06
3-m Average Volume ('mn)	4.4
Mkt. Cap. (\$ bn/QR bn)	20.8/75.7
EV (\$ bn/QR bn)	16.1/58.8
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	49.0
Institutional FO* (%)	7.7
1-Year Total Return (%)	(31.3)
Fiscal Year End	December 31

Source: Bloomberg (as of April 18, 2023), *Qatar Exchange (as of April 17, 2023, 2022); Note: FO is foreign ownership

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Key Metrics

Segment Revenue, Net Income, Pricing and Sales Volumes

Revenue (QR Million) - Group	2021	2022	2023	2024	2025	2026	2027
Total Group	20,149	25,768	18,058	18,748	19,040	20,319	21,498
Petrochemical	5,980	6,974	5,356	5,792	5,757	5,728	6,382
Fertilizer	10,283	14,532	8,958	9,192	9,417	10,609	10,994
Steel	3,886	4,262	3,745	3,764	3,865	3,982	4,122

EBITDA (QR Million) - Group	2021	2022	2023	2024	2025	2026	2027
Total Group	10,140	10,960	8,439	8,754	8,907	9,780	10,381
Petrochemical	3,055	3,083	2,679	2,836	2,811	2,787	3,068
Fertilizer	6,122	6,402	4,440	4,554	4,658	5,469	5,689
Steel	882	1,086	989	997	1,067	1,149	1,246

Net Income (QR Million) - Group	2021	2022	2023	2024	2025	2026	2027
Total Group	8,089	8,815	6,089	6,373	6,509	7,197	8,057
Petrochemical	2,479	2,460	2,018	2,157	2,128	2,099	2,377
Fertilizer	5,107	5,349	3,233	3,340	3,436	4,072	4,283
Steel	716	889	781	784	849	926	1,018
Corporate/Unallocated	(214)	117	56	92	96	100	379

Revenue (QR Million)	2021	2022	2023	2024	2025	2026	2027
Petrochemicals & Fuel Additives							
LDPE	3,058	3,161	2,609	2,666	2,794	2,591	2,950
LLDPE	1,076	1,256	1,067	1,086	1,142	994	1,205
Methanol	609	471	339	528	533	550	572
MTBE	629	1,319	1,045	1,208	971	1,266	1,320
Petrochemical & Fuel Additives Revenue	5,980	6,974	5,356	5,792	5,757	5,728	6,382
Fertilizer							
Ammonia	1,154	1,742	949	974	998	1,882	1,955
Urea	8,994	12,821	7,496	7,706	7,906	8,215	8,527
Fertilizer Revenue	10,283	14,532	8,958	9,192	9,417	10,609	10,994
Steel							
Steel Bars	2,844	2,966	2,627	2,640	2,712	2,793	2,891
Steel Revenue	3,886	4,262	3,745	3,764	3,865	3,982	4,122

Wtd Average Selling Prices (\$/MT)	2021	2022	2023	2024	2025	2026	2027
Petrochemicals & Fuel Additives							
LDPE	1,508	1,378	1,152	1,178	1,234	1,271	1,303
LLDPE	1,202	1,139	1,011	1,029	1,082	1,115	1,142
Methanol	351	307	282	284	287	296	308
MTBE	736	1,007	967	976	988	1,023	1,067
Fertilizer							
Ammonia	542	922	530	544	557	579	602
Urea	463	618	352	362	371	386	400
Steel							
Rebar	698	728	668	672	690	710	735

Sales Volume (MT' 000)	2021	2022	2023	2024	2025	2026	2027
Petrochemicals & Fuel Additives							
LDPE	557	630	622	622	622	560	622
LLDPE	246	303	290	290	290	245	290
Methanol	477	421	330	510	510	510	510
MTBE	235	360	297	340	270	340	340
Fertilizer							
Ammonia	585	519	492	492	492	892	892
Urea	5,333	5,698	5,853	5,853	5,853	5,853	5,853
Steel							
Steel Bar	1,119	1,119	1,080	1,080	1,080	1,080	1,080
DRI/HBI	134	119	100	100	100	100	100
Billets	304	36	44	44	44	44	44

Source: Company data, QNB FS Research

Ratio Analysis

Key Ratios & Valuation Metrics

Particulars	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Growth Ratios (In %)											
Revenue - Proportionate Group	3.6%	14.7%	(15.9%)	(17.4%)	77.4%	27.9%	(29.9%)	3.8%	1.6%	6.7%	5.8%
Revenue - Reported	(1.0%)	25.1%	(12.0%)	45.2%	91.5%	32.6%	(32.4%)	2.0%	2.5%	9.9%	3.6%
Gross Profit	(31.8%)	24.1%	(75.7%)	803.5%	193.1%	2.2%	(26.3%)	2.5%	3.1%	15.1%	4.6%
EBITDA - Proportionate Group	(4.1%)	31.5%	(41.3%)	3.3%	170.6%	8.1%	(23.0%)	3.7%	1.7%	9.8%	6.2%
EBITDA - Reported	(38.4%)	35.9%	(93.6%)	3326.4%	229.6%	2.8%	(29.4%)	2.4%	3.1%	17.0%	4.8%
EBIT	(48.3%)	51.1%	N/M	N/M	1152.9%	2.7%	(40.7%)	3.2%	4.2%	20.0%	13.4%
JV Income	51.9%	48.8%	(43.8%)	(51.1%)	132.7%	(0.8%)	(18.0%)	6.9%	(1.3%)	(1.4%)	13.2%
PBT	12.2%	51.7%	(48.8%)	(28.3%)	338.4%	9.0%	(30.9%)	4.7%	2.1%	10.6%	11.9%
PAT	12.2%	51.7%	(48.8%)	(28.4%)	338.8%	9.0%	(30.9%)	4.7%	2.1%	10.6%	11.9%
Net Income	12.2%	51.7%	(48.8%)	(29.7%)	346.8%	9.0%	(30.9%)	4.7%	2.1%	10.6%	11.9%
EPS	12.2%	51.7%	(48.8%)	(29.7%)	346.8%	9.0%	(30.9%)	4.7%	2.1%	10.6%	11.9%
DPS	25.0%	20.0%	(33.3%)	(17.5%)	203.0%	10.0%	(27.3%)	6.3%	5.9%	11.1%	10.0%
Operating Ratios (In %)											
Gross Margin	20.2%	20.0%	5.5%	34.4%	52.6%	40.5%	44.2%	44.4%	44.7%	46.8%	47.2%
EBITDA Margin - Proportionate Gr	33.0%	37.8%	26.4%	33.0%	50.3%	42.5%	46.7%	46.7%	46.8%	48.1%	48.3%
EBITDA Margin - Reported	14.6%	15.9%	1.2%	27.4%	47.2%	36.6%	38.2%	38.3%	38.5%	41.0%	41.5%
EBIT Margin	9.8%	11.8%	(4.3%)	5.6%	36.9%	28.6%	25.1%	25.4%	25.8%	28.2%	30.9%
Net Margin	71.6%	86.9%	50.5%	24.5%	57.1%	46.9%	47.9%	49.2%	49.0%	49.3%	53.3%
Working Capital Ratios (Days)											
Inventory days	142.7	135.3	140.4	146.6	108.9	101.4	125.0	125.0	125.0	125.0	125.0
Average collection period	98.8	63.3	64.3	78.5	79.6	37.7	50.0	50.0	50.0	50.0	50.0
Payable days	115.2	104.6	93.9	105.7	108.2	69.7	90.0	90.0	90.0	90.0	90.0
Finance Ratios											
Debt-Equity Ratio	0.0	-	-	0.0	-	-	-	-	-	-	-
Net Debt-Equity Ratio	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Interest Coverage	45.1	351.1	-19.0	11.2	206.4	227.2	110.3	115.1	126.2	159.5	190.4
Return Ratios (In %)											
ROE	9.9%	14.2%	7.5%	5.4%	20.5%	21.0%	14.7%	14.9%	14.8%	15.8%	17.1%
ROA	9.4%	13.6%	7.2%	5.0%	19.1%	19.6%	13.9%	14.1%	14.0%	14.9%	16.1%
Liquidity Ratios											
Current Ratio	7.8	10.4	11.2	8.9	10.1	10.7	11.5	11.0	11.0	11.3	12.0
Quick Ratio	6.8	9.2	9.7	7.6	9.2	9.3	10.2	9.7	9.7	10.0	10.7
Valuation											
EV/Reported EBITDA	100.5	70.6	1097.9	33.0	9.2	8.6	12.4	12.3	11.8	9.9	9.2
EV/EBIT	150.5	95.2	-297.9	160.3	11.8	10.9	18.8	18.5	17.7	14.4	12.3
P/E	22.8	15.0	29.4	41.8	9.4	8.6	12.4	11.9	11.6	10.5	9.4
P/BV	2.3	2.1	2.2	2.3	1.9	1.8	1.8	1.8	1.7	1.7	1.6
Dividend Yield	4.0%	4.8%	3.2%	2.6%	8.0%	8.8%	6.4%	6.8%	7.2%	8.0%	8.8%

Source: Company data, QNB FS Research

IQCD Trading Below One Standard Deviation Below Mean (TTM P/E) Given Projected Earnings Decline



Source: Bloomberg

Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue	5,791	5,096	7,400	14,169	18,794	12,702	12,956	13,282
Cost of Sales, Excluding D&A	(4,631)	(4,814)	(4,856)	(6,715)	(11,174)	(7,084)	(7,199)	(7,348)
Gross Profit	1,160	282	2,543	7,454	7,620	5,619	5,758	5,934
G&A Expenses	(157)	(140)	(481)	(712)	(680)	(698)	(716)	(735)
Selling Expenses	(82)	(83)	(35)	(59)	(68)	(72)	(76)	(80)
EBITDA	921	59	2,028	6,683	6,872	4,848	4,965	5,118
Depreciation & Amortization	(237)	(277)	(1,610)	(1,450)	(1,498)	(1,660)	(1,673)	(1,687)
EBIT	684	(218)	418	5,233	5,374	3,188	3,292	3,431
Finance Costs	(2)	(11)	(37)	(25)	(24)	(29)	(29)	(27)
Share of Results of Joint Ventures	3,878	2,181	1,065	2,479	2,460	2,018	2,157	2,128
Other Income, Expenses, Taxes & Minorities	470	623	365	402	1,004	911	953	978
Profit for Shareholders	5,030	2,575	1,810	8,089	8,815	6,089	6,373	6,509
EPS (QR)	0.83	0.43	0.30	1.34	1.46	1.01	1.05	1.08
Group Revenue	16,349	13,747	11,361	20,149	25,768	18,058	18,748	19,040
Group EBITDA	6,183	3,630	3,748	10,140	10,960	8,439	8,754	8,907

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Non-Current Assets								
PP&E & PUD	3,438	3,336	13,718	12,696	11,877	12,897	14,434	14,687
Investment Properties	-	-	-	-	-	-	-	-
Investment in Associates	1,407	1,476	1,475	1,577	1,890	2,215	2,541	2,886
Investment in Joint Ventures	17,886	16,732	6,916	6,823	7,097	7,335	7,590	7,842
Available-for-Sale Investments	-	-	-	-	-	-	-	-
Right-of Use Assets & Others	-	135	227	189	242	242	242	242
Total Non-Current Assets	22,731	21,679	22,335	21,284	21,106	22,689	24,807	25,657
Current Assets								
Inventories	1,717	1,851	1,945	2,004	3,105	2,426	2,459	2,517
Accounts Rec. & Prepayments	1,005	897	1,587	3,090	1,943	1,740	1,770	1,819
Due from Related Parties	665	400	869	1,494	1,535	1,037	1,058	1,085
Financial Assets at FVTPL	364	325	348	349	397	397	397	397
Cash and Bank Balances	10,589	10,718	8,801	14,086	16,919	15,611	14,807	15,070
Total Current Assets	14,339	14,191	13,550	21,023	23,899	21,212	20,491	20,888
Total Assets	37,070	35,870	35,885	42,308	45,005	43,901	45,298	46,545
Equity	35,490	34,230	33,613	39,510	42,020	41,301	42,675	43,880
Total Equity								
Non-Current Liabilities								
Loans and Borrowings	-	-	-	-	-	-	-	-
EOS Benefits & Lease Liabilities	205	368	745	724	761	761	761	761
Total Non-Current Liabilities	205	368	745	724	761	761	761	761
Current Liabilities								
Accounts Payables & Accruals	1,327	1,239	1,403	1,991	2,132	1,747	1,770	1,812
Due to Related Parties, Lease Liabilities & Others	47	33	88	83	92	92	92	92
Loans and Borrowings	-	-	37	-	-	-	-	-
Total Current Liabilities	1,374	1,272	1,527	2,073	2,224	1,839	1,862	1,904
Equity and Liabilities	37,070	35,870	35,885	42,308	45,005	43,901	45,298	46,545

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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