

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR110.77	Current Target Price	QR105.00
Implied Upside	(5.2%)	Old Target Price	QR119.00

### Paring Forecasts/PT Given Weak 1Q19 & Prices; Mkt. Perform

We are reducing our estimates/price target for IQCD given soft 1Q2019 results and further cuts to our price/margin forecasts. We had previously [lowered our estimates in early March](#) but had alluded to [further cuts to our estimates](#) given weaker-than-expected 1Q2019 results. Steel gross margins declined significantly once again in 1Q2019 and we adopt a conservative view regarding future margins. Petrochemicals, surprisingly, have not tracked crude's ~30% YTD increase and are barely treading water for the year. Urea trends have decidedly been more positive (and our estimates reflect this) but will not help enough to uplift the overall group bottom-line. We could be conservative with our estimates and will revisit our model after 2Q2019 results. For now, we lower our 2019 group revenue/EPS from QR16.3bn/QR7.44 to QR15.1bn/QR5.48. Our 2019 EPS estimate now implies a decline of 34.1% YoY (-34.7% on a normalized basis excl. 2018 impairment) vs. our prior estimate of a 10.5% (-11.4%) EPS decline forecast for 2019. We also lower IQCD's target from QR119 to QR105 but keep our Market Perform rating.

#### Highlights

- Lowering 2019 to adopt a more conservative view in light of 1Q2019/price trends.** On top of the weak pricing environment that wiped out ~QR400mn in net income YoY in 1Q2019, shutdowns eroded another QR200mn; we continue to expect some volume impact from these shutdowns going forward in 2019. **(1) For Fertilizers**, we are still bullish on urea prices but lower our 2019 forecast from \$290/MT to \$283/MT, still implying an 8% YoY growth vs. 2018. Urea prices have declined since early December but as predicted, have seen a recovery post 1Q2019 driven by increased demand as the application seasons kick in, along with continued environmental regulatory pressure out of China. **(2) In Petrochemicals**, YTD prices have remained moribund and have not kept pace with oil's increase. Despite seasonality, benchmark prices are down low double digits YoY so far in 2Q2019 and are only slightly up QoQ. We further reduce our price forecasts and now expect LDPE and LLDPE prices to fall 14% and 13% YoY, respectively. **(3) Finally for Steel**, we continue to think margin pressure will take a chunk out of earnings as iron ore remains strong (+30% YTD) on supply concerns and end-market fundamentals remain neutral-to-weak. For more details on pricing, volumes and revenue/net income forecasts please see pages 2 and 3.
- After 2019's decline, we expect a 26.0% uptick in 2020 EPS.** After a 51.7% EPS uptick for 2018, we expect 2019 profits to fall 34.1% before resuming a growth of 26.0% in 2020 off the lower base. Our forward estimates beyond 2019 are down by an average of 20%.
- Lowering 2019 DPS from QR6 to QR4.** In line with our 26% cut to our EPS estimate for 2019, we reduce our 2019 DPS forecast from QR5.50 to QR4.00; IQCD paid QR6 in 2018.
- Lots of cash and zero debt – maybe expansion on the horizon?** IQCD maintains a very strong balance sheet with group cash reaching QR9.9bn with debt of just QR25.5mn, which is expected to be paid off by 2H2019. Recently, management has alluded to potential international expansion in petchems/fertilizers.

#### Catalysts

- With earnings under pressure in 2019, investors will seek answers regarding deployment of IQCD's cash pile and its strategy.** Expansion/acquisition-related newsflow and 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 QR105. IQCD is fully valued @ 20.2x 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	FY2018	FY2019e	FY2020e
Group Revenue (QR mn)	14,250	16,349	15,063	16,020
EPS (QR)	5.48	8.31	5.48	6.91
DPS (QR)	5.00	6.00	4.00	4.25
RoE (%)	9.9	14.2	9.5	11.4
P/E (x)	20.2	13.3	20.2	16.0
EV/EBITDA (x)	16.6	11.1	16.5	13.3
Dividend Yield %	4.5	5.4	3.6	3.8

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

#### Key Data

Current Market Price (QR)	110.77
Dividend Yield (%)	5.4
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	149.00/100.01
3-m Average Volume ('000)	150.5
Mkt. Cap. (\$ bn/QR bn)	18.4/67.0
EV (\$ bn/QR bn)	16.2/59.0
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	7.3
1-Year Total Return (%)	6.6
Fiscal Year End	December 31

Source: Bloomberg (as of May 28, 2019), \*Qatar Exchange (as of May 27, 2019); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Estimate Changes

**Lowering 2019 to adopt a more conservative view in light of 1Q2019/price trends.** On top of the weak pricing environment that wiped out ~QR400mn in net income YoY in 1Q2019, shutdowns eroded another QR200mn; we continue to expect some volume impact from these shutdowns going forward in 2019.

- **For Fertilizers, we are still bullish on urea prices but lower our 2019 forecast from \$290/MT to \$283/MT**, still implying an 8% YoY growth vs. 2018. Urea prices have declined since early December but as predicted, have seen a recovery post 1Q2019 driven by increased demand as the application seasons kick in, along with continued environmental regulatory pressure out of China.
- **In Petrochemicals, YTD prices have remained moribund and have not kept pace with oil's increase.** Despite seasonality, benchmark prices are down low double digits YoY so far in 2Q2019 and are only slightly up QoQ. We further reduce our price forecasts and now expect LDPE and LLDPE prices to fall 14% and 13% YoY, respectively.
- **Finally for Steel, we continue to think margin pressure will take a chunk out of earnings** as iron ore remains strong (+30% YTD) on supply concerns and end-market fundamentals remain neutral-to-weak.

### QNB FS Estimate Changes

Income Statement (QR mn)	2018	2019e			2020e			2021e			2022e			2023e		
		Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
<b>Steel Revenue</b>	<b>5,791</b>	<b>5,382</b>	<b>5,464</b>	<b>-2%</b>	<b>5,461</b>	<b>5,519</b>	<b>-1%</b>	<b>5,328</b>	<b>5,353</b>	<b>0%</b>	<b>5,061</b>	<b>4,708</b>	<b>8%</b>	<b>5,162</b>	<b>5,085</b>	<b>2%</b>
Cost of Sales (Excl. D&A)	(4,631)	(4,767)	(4,645)	3%	(4,697)	(4,553)	3%	(4,635)	(4,282)	8%	(4,454)	(3,860)	15%	(4,440)	(4,170)	6%
<b>Gross Profit</b>	<b>1,160</b>	<b>615</b>	<b>820</b>	<b>-25%</b>	<b>765</b>	<b>966</b>	<b>-21%</b>	<b>693</b>	<b>1,071</b>	<b>-35%</b>	<b>607</b>	<b>847</b>	<b>-28%</b>	<b>723</b>	<b>915</b>	<b>-21%</b>
Gross Margin	20%	11%	15%		14%	18%		13%	20%		12%	18%		14%	18%	
G&A	(157)	(151)	(162)	-7%	(154)	(167)	-8%	(152)	(172)	-11%	(151)	(177)	-15%	(154)	(182)	-15%
Selling Expenses	(82)	(89)	(90)	-2%	(92)	(93)	-1%	(92)	(93)	0%	(90)	(84)	8%	(94)	(93)	2%
<b>EBITDA</b>	<b>921</b>	<b>375</b>	<b>568</b>	<b>-34%</b>	<b>518</b>	<b>706</b>	<b>-27%</b>	<b>448</b>	<b>806</b>	<b>-44%</b>	<b>367</b>	<b>587</b>	<b>-38%</b>	<b>474</b>	<b>641</b>	<b>-26%</b>
EBITDA Margin	16%	7%	10%		9%	13%		8%	15%		7%	12%		9%	13%	
Depreciation & Amortization	(237)	(264)	(240)	10%	(266)	(242)	10%	(269)	(245)	10%	(272)	(247)	10%	(274)	(250)	10%
<b>EBIT</b>	<b>684</b>	<b>112</b>	<b>328</b>	<b>-66%</b>	<b>252</b>	<b>464</b>	<b>-46%</b>	<b>179</b>	<b>562</b>	<b>-68%</b>	<b>95</b>	<b>340</b>	<b>-72%</b>	<b>200</b>	<b>391</b>	<b>-49%</b>
EBIT Margin	12%	2%	6%		5%	8%		3%	10%		2%	7%		4%	8%	
Finance Costs	(2)	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from Investments	338	340	340	0%	340	340	0%	340	340	0%	340	340	0%	340	340	0%
Associates' Income	33	55	30	83%	55	30	83%	55	30	83%	55	30	83%	55	30	83%
JV Income (PE, FA & Fert.)	3,878	2,713	3,701	-27%	3,433	4,135	-17%	3,674	4,426	-17%	3,849	4,736	-19%	3,925	4,820	-19%
Other, Net	148	100	100	0%	100	100	0%	100	100	0%	100	100	0%	100	100	0%
Impairments	(50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit before Tax</b>	<b>5,030</b>	<b>3,317</b>	<b>4,499</b>	<b>-26%</b>	<b>4,180</b>	<b>5,068</b>	<b>-18%</b>	<b>4,348</b>	<b>5,458</b>	<b>-20%</b>	<b>4,439</b>	<b>5,546</b>	<b>-20%</b>	<b>4,620</b>	<b>5,681</b>	<b>-19%</b>
Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit after Tax</b>	<b>5,030</b>	<b>3,317</b>	<b>4,499</b>	<b>-26%</b>	<b>4,180</b>	<b>5,068</b>	<b>-18%</b>	<b>4,348</b>	<b>5,458</b>	<b>-20%</b>	<b>4,439</b>	<b>5,546</b>	<b>-20%</b>	<b>4,620</b>	<b>5,681</b>	<b>-19%</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit for Equity Holders</b>	<b>5,030</b>	<b>3,317</b>	<b>4,499</b>	<b>-26%</b>	<b>4,180</b>	<b>5,068</b>	<b>-18%</b>	<b>4,348</b>	<b>5,458</b>	<b>-20%</b>	<b>4,439</b>	<b>5,546</b>	<b>-20%</b>	<b>4,620</b>	<b>5,681</b>	<b>-19%</b>
<b>EPS</b>	<b>8.31</b>	<b>5.48</b>	<b>7.44</b>	<b>-26%</b>	<b>6.91</b>	<b>8.38</b>	<b>-18%</b>	<b>7.19</b>	<b>9.02</b>	<b>-20%</b>	<b>7.34</b>	<b>9.17</b>	<b>-20%</b>	<b>7.64</b>	<b>9.39</b>	<b>-19%</b>
<b>DPS</b>	<b>6.00</b>	<b>4.00</b>	<b>5.50</b>	<b>-27%</b>	<b>4.25</b>	<b>5.75</b>	<b>-26%</b>	<b>4.50</b>	<b>6.00</b>	<b>-25%</b>	<b>4.75</b>	<b>6.25</b>	<b>-24%</b>	<b>5.00</b>	<b>6.50</b>	<b>-23%</b>
Payout Ratio	72%	73%	74%		62%	69%		63%	67%		65%	68%		65%	69%	
<b>JV Details (QR mn)</b>	<b>2018</b>	<b>2019e</b>			<b>2020e</b>			<b>2021e</b>			<b>2022e</b>			<b>2023e</b>		
		Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
Petchem/Fuel Additives Revenue	5,897	5,019	5,579	-10%	5,381	5,741	-6%	5,542	5,907	-6%	5,653	6,021	-6%	5,710	6,079	-6%
Petchem/Fuel Additives Net Income	2,484	1,430	2,064	-31%	1,776	2,296	-23%	1,940	2,451	-21%	2,063	2,649	-22%	2,113	2,705	-22%
Net Margin	42%	29%	37%		33%	40%		35%	42%		37%	44%		37%	45%	
Fertilizers Revenue	4,661	4,662	5,281	-12%	5,178	5,408	-4%	5,254	5,485	-4%	5,331	5,564	-4%	5,331	5,564	-4%
Fertilizers Net Income	1,394	1,282	1,637	-22%	1,657	1,839	-10%	1,734	1,975	-12%	1,786	2,087	-14%	1,812	2,114	-14%
Net Margin	30%	28%	31%		32%	34%		33%	36%		34%	38%		34%	38%	
Steel Revenue	5,791	5,382	5,464	-2%	5,461	5,519	-1%	5,328	5,353	0%	5,061	4,708	8%	5,162	5,085	2%
Steel Net Income	789	404	628	-36%	546	717	-24%	479	669	-28%	395	565	-30%	490	661	-26%
Net Margin	14%	8%	12%		10%	13%		9%	13%		8%	12%		10%	13%	

Source: Company data, QNB FS estimates

**Segment Revenue, Net Income, Pricing and Sales Volumes**

<b>Revenue (QR million): All Segments</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Total Group</b>	<b>14,250</b>	<b>16,349</b>	<b>15,063</b>	<b>16,020</b>	<b>16,124</b>	<b>16,045</b>	<b>16,203</b>	<b>15,667</b>
Petrochemical	5,705	5,897	5,019	5,381	5,542	5,653	5,710	5,553
Fertilizer	3,916	4,661	4,662	5,178	5,254	5,331	5,331	5,037
Steel	4,628	5,791	5,382	5,461	5,328	5,061	5,162	5,077
<b>Net Income (QR million): All Segments</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Total Group</b>	<b>3,315</b>	<b>5,030</b>	<b>3,317</b>	<b>4,180</b>	<b>4,348</b>	<b>4,439</b>	<b>4,620</b>	<b>4,390</b>
Petrochemical	2,227	2,484	1,430	1,776	1,940	2,063	2,113	2,027
Fertilizer	380	1,394	1,282	1,657	1,734	1,786	1,812	1,687
Steel	510	789	404	546	479	395	490	487
Unallocated	199	363	201	201	195	195	205	188
<b>Revenue (QR million)</b>								
Ethylene	540	564	492	572	589	601	607	552
LDPE	2,570	2,688	2,301	2,380	2,451	2,500	2,525	2,506
LLDPE	1,225	1,202	996	1,080	1,113	1,135	1,146	1,108
Methanol	429	521	384	419	431	440	444	433
MTBE	682	890	845	930	958	977	987	955
<b>Petrochemical &amp; Fuel Additives Revenue</b>	<b>5,705</b>	<b>5,897</b>	<b>5,019</b>	<b>5,381</b>	<b>5,542</b>	<b>5,653</b>	<b>5,710</b>	<b>5,553</b>
Ammonia	317	346	318	358	364	369	369	347
Urea	3,471	4,236	4,222	4,698	4,768	4,840	4,840	4,568
Melamine	121	122	122	122	122	122	122	122
<b>Fertilizer Revenue</b>	<b>3,916</b>	<b>4,661</b>	<b>4,662</b>	<b>5,178</b>	<b>5,254</b>	<b>5,331</b>	<b>5,331</b>	<b>5,037</b>
Steel Bars	3,599	4,331	4,033	4,073	3,981	3,782	3,858	3,831
DRI/HBI	82	-	-	-	-	-	-	-
Billets	723	1,216	1,149	1,186	1,150	1,093	1,115	1,056
Coils	231	250	200	202	196	186	190	189
<b>Steel Revenue</b>	<b>4,628</b>	<b>5,791</b>	<b>5,382</b>	<b>5,461</b>	<b>5,328</b>	<b>5,061</b>	<b>5,162</b>	<b>5,077</b>
<b>Wtd Average Selling Prices (\$/MT)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Petrochemicals &amp; Fuel Additives</b>								
Ethylene	899	939	924	952	981	1,000	1,010	1,010
LDPE	1,086	1,135	976	1,005	1,035	1,056	1,067	1,067
LLDPE	1,121	1,100	960	989	1,018	1,039	1,049	1,049
Methanol	302	367	286	295	304	310	313	313
MTBE	604	788	800	824	849	866	874	874
<b>Fertilizer</b>								
Ammonia	264	288	291	298	303	307	307	307
Urea	214	261	283	290	294	299	299	299
Melamine	895	904	905	905	905	905	905	905
<b>Steel</b>								
Rebar	515	618	587	593	575	547	558	569
DRI/HBI	226	-	-	-	-	-	-	-
Billets	441	477	461	465	451	429	437	446
Coils	634	685	596	602	584	555	566	578
<b>Sales Volume (MT' 000)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Petrochemicals &amp; Fuel Additives</b>								
Ethylene	165	165	146	165	165	165	165	150
LDPE	650	650	648	650	650	650	650	645
LLDPE	300	300	285	300	300	300	300	290
Methanol	390	390	369	390	390	390	390	380
MTBE	310	310	290	310	310	310	310	300
<b>Fertilizer</b>								
Ammonia	330	330	300	330	330	330	330	310
Urea	4,450	4,450	4,100	4,450	4,450	4,450	4,450	4,200
Melamine	37	37	37	37	37	37	37	37
<b>Steel</b>								
Steel Bar	1,920	1,926	1,886	1,886	1,900	1,900	1,900	1,850
DRI/HBI	100	100	92	92	92	92	92	90
Billets	450	700	685	700	700	700	700	650
Coils	100	100	92	92	92	92	92	90

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Revenue (Steel)</b>	<b>5,791</b>	<b>5,382</b>	<b>5,461</b>	<b>5,328</b>
Cost of Sales, Excluding D&A	(4,631)	(4,767)	(4,697)	(4,635)
<b>Gross Profit</b>	<b>1,160</b>	<b>615</b>	<b>765</b>	<b>693</b>
G&A Expenses	(157)	(151)	(154)	(152)
Selling Expenses	(82)	(89)	(92)	(92)
<b>EBITDA</b>	<b>921</b>	<b>375</b>	<b>518</b>	<b>448</b>
Depreciation & Amortization	(237)	(264)	(266)	(269)
<b>EBIT</b>	<b>684</b>	<b>112</b>	<b>252</b>	<b>179</b>
Finance Costs	(2)	(3)	-	-
<b>Share of Results of Joint Ventures</b>	<b>3,878</b>	<b>2,713</b>	<b>3,433</b>	<b>3,674</b>
Other Income/Expenses	470	495	495	495
<b>Profit for Shareholders</b>	<b>5,030</b>	<b>3,317</b>	<b>4,180</b>	<b>4,348</b>
<b>EPS (QR)</b>	<b>8.31</b>	<b>5.48</b>	<b>6.91</b>	<b>7.19</b>
<b>Group Revenue</b>	<b>16,349</b>	<b>15,063</b>	<b>16,020</b>	<b>16,124</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,438	3,334	3,238	3,149
Investment Properties	-	-	-	-
Investment in Associates	1,407	1,462	1,517	1,572
Investment in Joint Ventures	17,886	17,986	18,086	18,186
Available-for-Sale Investments	-	-	-	-
Catalysts & Others	-	98	98	98
<b>Total Non-Current Assets</b>	<b>22,731</b>	<b>22,880</b>	<b>22,939</b>	<b>23,005</b>
<b>Current Assets</b>				
Inventories	1,717	1,768	1,742	1,719
Accounts Receivables & Prepayments	1,005	664	673	657
Due from Related Parties	665	618	627	611
Held for Trading Investments, Assets Held for Sale and Others	364	364	364	364
Cash and Bank Balances	10,589	10,515	11,911	13,551
<b>Total Current Assets</b>	<b>14,339</b>	<b>13,927</b>	<b>15,316</b>	<b>16,902</b>
<b>Total Assets</b>	<b>37,070</b>	<b>36,807</b>	<b>38,255</b>	<b>39,906</b>
<b>Equity</b>				
<b>Total Equity</b>	<b>35,490</b>	<b>35,092</b>	<b>36,747</b>	<b>38,415</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Others	205	306	306	306
<b>Total Non-Current Liabilities</b>	<b>205</b>	<b>306</b>	<b>306</b>	<b>306</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	1,327	1,366	1,158	1,143
Due to Related Parties & Others	47	44	44	43
Loans and Borrowings	-	-	-	-
<b>Total Current Liabilities</b>	<b>1,374</b>	<b>1,410</b>	<b>1,202</b>	<b>1,186</b>
<b>Equity and Liabilities</b>	<b>37,070</b>	<b>36,807</b>	<b>38,255</b>	<b>39,906</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

### Contacts

#### **Saugata Sarkar, CFA, CAIA**

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### **Mehmet Aksoy, PhD**

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@qnbfs.com.qa](mailto:mehmet.aksoy@qnbfs.com.qa)

#### **Shahan Keushgerian**

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### **Zaid al-Nafoosi, CMT, CFTE**

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@qnbfs.com.qa](mailto:zaid.alnafoosi@qnbfs.com.qa)

#### **QNB Financial Services Co. W.L.L.**

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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