

QAMC Alert – Higher-than-Expected 4Q with Higher Revenue; Maintain TP & Market Perform

- **Qatar Aluminium Manufacturing Company (QAMC) reported a net profit of QR82.4mn in 4Q2020 as compared to a net profit of QR19.5mn in 4Q2019 and a net loss of QR2.4mn in 3Q2020.** The result is higher than our QR49.2mn net income estimate. Gain from “Share of results from a joint venture (Qatalum)” stood at QR83.7mn in 4Q2020 as compared to a gain of QR18.3mn in 4Q2019 (3Q2020: -QR0.5mn). The company recorded a net profit of QR94.7mn in FY2020 vs. a net profit of QR80.0mn for the period (13 months) from December 3, 2018 to December 31, 2019. **Cash dividend (QR0.035/share) was slightly better than our expectation of QR0.03 and above 2019’s QR0.03, which included QR0.02/share of interim dividends.**
- **QAMCO’s 50% JV Qatalum’s 4Q2020 revenue fell 2.0% YoY but up 22.2% QoQ:** Qatalum recorded QR1.18bn in 4Q2020 revenue, down 2.0% YoY/up 22.2% QoQ. While the deviation from our revenue estimate of QR1.13bn was a mere 4.4%, it has fed all the way down the P&L and resulted in the bottom line variation vs. our estimates. Qatalum’s sales volumes in 4Q2020 rose sequentially by 4% to 162k tons from 156k tons in 3Q2020. A 13% QoQ increase in average LME aluminum prices as a result of better global market conditions were also accompanied with higher average premiums (rising from \$166 in 3Q to \$243 in 4Q) resulting in a 16% sequential rise in Qatalum’s average selling prices during the fourth quarter. The demand for value added products has started to pickup in 4Q, enabling Qatalum to adjust its product mix accordingly and enjoy higher premiums and better margins during the quarter.
- **Qatalum’s 4Q2020 operating margin (17.2%) was higher YoY/QoQ.** Qatalum’s operating margin rose in 4Q2020 from 3Q2020’s 13.3% and 4Q2019’s 7.0%. Higher product prices, coupled with a 16.5% decline in raw material and energy costs YoY and a mere 9.5% rise QoQ (notably below the 22.2% revenue increase) supported operating margin. Depreciation expenses (QR223mn in 4Q) remained stable YoY/QoQ, rising 2.1% and 0.3%, respectively. Consequently, Qatalum recorded QR202.7mn in operating profits in 4Q2020, which was up 141.7% YoY and 363.6% QoQ.
- **On the positive front, Qatalum’s net financial expenses declined 23.2% YoY and 16.9% QoQ to QR36.3mn, which supported Qatalum’s and consequently QAMCO’s bottom-lines.** Furthermore, QAMCO’s share of Qatalum’s debt declined by 8% during 12M2020 to QR2.2bn as a result of a principal payment of QR222mn in 2020.
- **We maintain our estimates and TP.** Thanks to its state-of-the-art plant and the support of its major shareholders, which enables Qatalum to act like an integrated producer, Qatalum is one of the world’s lowest cost smelters. Qatalum’s high margins, low indebtedness and lack of major expansion projects on the horizon warrants the continuation of its strong cash generation as well as attractive dividend yields for QAMCO shareholders once the global aluminum market stabilizes. On the other hand, Qatalum currently operates above its nameplate capacity, hence its top- & bottom-lines are more sensitive to the changes in aluminum prices vs. its peers. Coronavirus disruptions pushed aluminum prices to the bottom of their last 5-year-cycle by April 8. Nevertheless, as a result of strong demand from China, coupled with the end of global lockdowns in June, primary aluminum prices have been recovering since then, rising 46.3% from their April bottom. **We maintain our Market Perform rating and our TP at QR0.98.**

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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