

## Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR107.00	Current Target Price	QR109.00
Implied Upside	1.9%		

### Updating Model for 2017 Results; Maintain Market Perform

***IQCD reported 4Q2017 results that were generally in-line with our forecasts; we maintain our price target of QR109.** With only around QR0.5bn in debt across the group, limited capex requirements and average expected FCF of QR4.5bn over 2017-2026, IQCD retains the potential to increase dividends for shareholders and/or deploy cash into value accretive areas beyond current operating segments. However, this is a cyclical business and there is considerable uncertainty to the direct of oil prices in the medium-term. We remain Market Perform on the name with an unchanged price target of QR109.*

#### Highlights

- **IQCD reports QR957.7mn net profit in 4Q2017; ups dividend from QR4 to QR5 (4.7% yield):** Industries Qatar reported net profit of QR957.7mn in 4Q2017 as compared to QR747.8mn in 3Q2017, versus our estimate of QR1,068.26mn (variation of 10%). QR40mn in impairments from its associate SOLB steel contributed to the miss of roughly QR110mn relative to our net income estimate. The company also proposed a 25% increase in DPS to QR5; as we had stated previously, IQCD's strong cash position could support or lead to an upside vs. our DPS estimate and send a positive signal to investors amid the ongoing political uncertainty. [Overall results were generally as we had stated in our preview.](#)
- **Adjusting estimates to reflect results.** We now expect 14% normalized growth in earning for 2018 after adjusting for the QR101mn impairment taken in 2017. We model 5% growth in steel revenue and 15% YoY increase in JV income from petchems and fertilizers. Urea prices have been strengthening YTD and PE prices also remain modestly up and we expect around 2.5% YoY growth in both segments along with growth in margins.
- **Balance sheet remains strong (group debt of QR0.5bn vs. cash of QR10.3bn).** Capex needs remain minimal. Strategic deployment of this cash remains a key question.
- **Strong FCF generation support dividends despite high payout ratio vs. historical.** IQCD's FCF (OCF+Cash dividends from JVs-steel capex), should come in at QR3.5bn in 2018 and should average QR4.5bn over 2017 to 2026 with an average dividend cover of 1.3x. We forecast a DPS of QR5 for 2018, which is flat and could see upside. However, payouts will remain high at an average of around ~71% over 2018 to 2026 (91% payout in 2017).

#### Catalysts

- **Limited potential for stock price gains.** We remain moderately bullish on PE and urea while steel remains the swing factor. Urea gas costs remain high but a renegotiation could boost fertilizer margins.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR109.** IQCD is fully valued @ 13.8x and 12.7x EV/EBITDA for 2018 and 2019, respectively.
- **Risks:** Weakness in oil prices remain a substantial risk to regional equity prices and have a direct detrimental impact on IQCD's operations. Geopolitical risks remain and cannot be modeled.

#### Key Financial Data and Estimates

	FY2016	FY2017	FY2018e	FY2019e
Group Revenue (QR mn)	13,800	14,300	14,773	15,050
EPS (QR)	4.88	5.48	6.46	7.07
DPS (QR)	4.00	5.00	5.00	5.25
RoE (%)	8.8	9.7	11.2	11.8
P/E (x)	21.9	19.5	16.6	0.0
EV/EBITDA (x)	17.9	16.1	13.8	12.7
Dividend Yield %	3.7	4.7	4.7	4.9

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

#### Key Data

Current Market Price (QR)	107.00
Dividend Yield (%)	4.7
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000AOKD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	121.6/85.00
3-m Average Volume ('000)	162.4
Mkt. Cap. (\$ bn/QR bn)	17.8/64.7
Shares Outstanding (mn)	605.0
FO Limit* (%)	25.0
Current FO* (%)	6.7
1-Year Total Return (%)	(4.2)
Fiscal Year End	December 31

Source: Bloomberg (as of February 14, 2018), \*Qatar Exchange (as of February 12, 2018); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Revenue</b>	<b>4,674</b>	<b>4,628</b>	<b>4,860</b>	<b>4,909</b>
Cost of Sales, Excluding D&A	(3,304)	(3,694)	(3,791)	(3,780)
<b>Gross Profit</b>	<b>1,370</b>	<b>935</b>	<b>1,069</b>	<b>1,129</b>
G&A Expenses	(231)	(199)	(204)	(209)
Selling Expenses	(39)	(58)	(97)	(98)
<b>EBITDA</b>	<b>1,101</b>	<b>678</b>	<b>768</b>	<b>822</b>
Depreciation & Amortization	(225)	(225)	(226)	(226)
<b>EBIT</b>	<b>876</b>	<b>453</b>	<b>542</b>	<b>596</b>
Finance Costs	(13)	(10)	(3)	-
<b>Share of Results of Joint Ventures</b>	<b>1,716</b>	<b>2,607</b>	<b>2,999</b>	<b>3,316</b>
Other Income/Expenses	376	266	368	368
<b>Profit for Shareholders</b>	<b>2,955</b>	<b>3,315</b>	<b>3,906</b>	<b>4,279</b>
<b>EPS (QR)</b>	<b>4.88</b>	<b>5.48</b>	<b>6.46</b>	<b>7.07</b>
<b>Group Revenue</b>	<b>13,800</b>	<b>14,300</b>	<b>14,773</b>	<b>15,050</b>
<b>Group EBIT</b>	<b>2,968</b>	<b>3,325</b>	<b>3,909</b>	<b>4,279</b>
<b>Group EBITDA</b>	<b>3,193</b>	<b>3,551</b>	<b>4,135</b>	<b>4,505</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,671	3,520	3,395	3,269
Investment Properties	-	-	-	-
Investment in Associates	1,451	1,439	1,467	1,495
Investment in Joint Ventures	18,343	18,848	18,948	19,048
Available-for-Sale Investments	674	534	534	534
Catalysts & Others	-	-	-	-
<b>Total Non-Current Assets</b>	<b>24,139</b>	<b>24,341</b>	<b>24,343</b>	<b>24,346</b>
<b>Current Assets</b>				
Inventories	1,244	1,444	1,454	1,450
Accounts Receivables & Prepayments	1,054	1,253	1,265	1,278
Due from Related Parties	674	650	656	663
Held for Trading Investments, Assets Held for Sale and Others	4	4	4	4
Cash and Bank Balances	8,072	7,789	8,321	9,449
<b>Total Current Assets</b>	<b>11,047</b>	<b>11,140</b>	<b>11,700</b>	<b>12,843</b>
<b>Total Assets</b>	<b>35,186</b>	<b>35,481</b>	<b>36,043</b>	<b>37,188</b>
<b>Equity</b>	<b>27,070</b>	<b>27,862</b>	<b>28,645</b>	<b>29,792</b>
<b>Total Equity</b>	<b>33,514</b>	<b>34,239</b>	<b>35,022</b>	<b>36,169</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	226	-	-	-
End of Service Benefits & Others	215	199	199	199
<b>Total Non-Current Liabilities</b>	<b>441</b>	<b>199</b>	<b>199</b>	<b>199</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	674	776	779	777
Due to Related Parties & Others	106	41	43	44
Loans and Borrowings	451	226	-	-
<b>Total Current Liabilities</b>	<b>1,231</b>	<b>1,043</b>	<b>822</b>	<b>820</b>
<b>Equity and Liabilities</b>	<b>35,186</b>	<b>35,481</b>	<b>36,043</b>	<b>37,188</b>

Source: Company data, QNBFS 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

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