

IQCD Alert – A Large Miss in 1Q2019; Earnings Revision Likely; Maintain Market Perform

- **IQCD posts a significantly weaker-than-expected 1Q2019; we see downside to our already below consensus QR4.5bn 2019 net income (QR7.44 EPS) – IQCD reported 1Q2019 net income of QR674mn (-47% YoY, -44% QoQ), which was 22% lower than our estimate of QR866mn and 31% lower than Bloomberg consensus of QR974mn. According to IQCD, of the YoY QR594mn decline in earnings, average price decline of 9% wiped out ~QR400mn in net income, while the rest ~QR200mn earnings erosion was due to some shutdowns.**
- **Steel prices decline YoY, while margins take another step down negating moderate volume increase.** By segment, steel revenue of QR1.3bn (-8% YoY,+2% QoQ) was 10% higher than our estimate of QR1.1bn but cash gross margins, due to higher iron prices and other costs, dropped even below our 12% estimate to 9.2%; steel GMs have come under significant pressure dropping from 28.2% in 1Q2018 to 14.8% in 4Q2018 and now further down to 9.2%. According to the company, prices fell YoY due to several factors, including lower demand and higher competition. In Qatar, prices were affected by relatively lower demand in 1Q2019, while regional demand was also impacted by low price steel from non-GCC producers, especially Turkey. Prices in other markets, like the Far East, were affected by the supply of low-cost steel from countries such as China. On the plus side, the steel segment was able to grow its volumes marginally over 1Q2018.
- **JV income comes in below expectations due to petrochemical weakness.** IQCD does not provide breakdowns of the petrochemicals and fertilizer segments until 1H but overall JV income of QR517mn (-40% YoY, -46% QoQ) was a significant 29% below our estimate of QR731mn; our sense is that petchems bore the brunt of these declines with fertilizers up marginally YoY. JV revenue of ~QR2.3bn was also below our estimate of QR2.8bn. According to IQCD, petchem prices declined moderately vs. 1Q2018 due to a marginal reduction in crude prices and muted demand in some major markets due to weak economic conditions. Petchem volumes also fell YoY due to periodic planned shutdowns in one of the JVs. Fertilizer prices, on the other hand, improved marginally vs. 1Q2018 due to better demand metrics along with higher raw material costs and regulatory pressure on non-environment compliant producers in countries like China. Fertilizer sales volumes, however, were marginally down vs. last year. *For more details on this and our estimates, please refer to page 2 for actual vs. estimate comparisons.*
- **Balance sheet continues to remain solid; we expect some newsflow related to potential acquisitions in the future.** IQ's balance sheet remains strong with group cash at QR9.9bn with minor debt of only QR25.5mn, which is expected to be paid off by 2H2019.
- **Overall, these are a weak set of results and we expect to lower our 2019 estimates further by another 20-25%.** Sequentially PE prices have improved on strengthening crude, urea is still on the decline but expected to improve and steel prices have strengthened but iron prices still continue their march up.
- **We remain Market Perform on IQCD with a price target of QR119.** At around QR6 EPS for 2019, the stock trades at ~20x which is expensive with earnings now expected to decline around 30% for 2019.

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Income Statement (QR million)	1Q2018	4Q2018	1Q2019	1Q2019e	A Vs. E	YoY	QoQ
Revenue	1,377.830	1,233.996	1,261.848	1,147.616	10%	-8%	2%
Cost of Sales (Ex. Depreciation & Amortization)	(989.611)	(1,051.479)	(1,145.619)	(1,009.902)	13%	16%	9%
Gross Profit	388.219	182.517	116.229	137.714	-16%	-70%	-36%
General and Administrative Expenses	(38.779)	(45.536)	(30.909)	(39.019)	-21%	-20%	-32%
Selling Expenses	(14.345)	(19.536)	(17.586)	(22.952)	-23%	23%	-10%
EBITDA	335.095	117.445	67.734	75.743	-11%	-80%	-42%
Depreciation & Amortization	(58.999)	(59.500)	(66.646)	(60.100)	11%	13%	12%
EBIT	276.096	57.945	1.088	15.643	-93%	-100%	-98%
Finance Costs	(0.846)	(0.145)	(2.577)			205%	1677%
Income from Investments	112.960	338.498	121.887	110.000	11%	8%	-64%
Share of Results from Associates	21.000	78.243	36.561	10.000	266%	74%	-53%
Share of Results of JVs	858.666	952.099	517.076	730.592	-29%	-40%	-46%
Other, Net		(173.162)					
Income from Investments & Other Income/Expenses		(49.535)					
Profit Before Tax	1,267.876	1,203.943	674.035	866.234	-22%	-47%	-44%
Tax							
Profit After Tax	1,267.876	1,203.943	674.035	866.234	-22%	-47%	-44%
Minority Interest							
Profit for Equity Holders	1,267.876	1,203.943	674.035	866.234	-22%	-47%	-44%
EPS (in QR)	2.10	1.99	1.11	1.43	-22%	-47%	-44%
Cost of Sales	71.8%	85.2%	90.8%	88.0%			
Gross Margin %	28.2%	14.8%	9.2%	12.0%			
G&A % Sales	2.8%	3.7%	2.4%	3.4%			
Selling Expenses % Sales	1.0%	1.6%	1.4%	2.0%			
EBITDA %	24.3%	9.5%	5.4%	6.6%			
D&A % Sales	4.3%	4.8%	5.3%	5.2%			
EBIT %	20.0%	4.7%	0.1%	1.4%			
Net Margin %	92.0%	97.6%	53.4%	75.5%			

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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