

IQCD Alert – In-Line 3Q2018; Maintain Market Perform

- **As expected, a strong 3Q2018 quarter with moderate upside in steel revenue offsetting steel margin decline and an in-line PE/fertilizer performance:** IQCD reported an in-line 3Q2018 (+76.0% YoY, +6.0% QoQ) posting a net profit of QR1,316.29mn, in line QNBFS estimate of QR1,290.64mn (Δ of +2.0%). *Please see detailed table on page 2.*
- **Steel revenue beats but margins come in softer.** IQCD's 3Q2018 steel sales came in at QR1,533.8mn, up 33.5% YoY. However, on a QoQ basis, steel revenue fell 6.8%. Steel sales exceeded our model by 6.6% continuing a recent trend, which has seen an elevated steel top-line as IQCD sells (from 4Q2017 onward) billets previously earmarked for steel bar production in its Dubai operations. In its trading statement, IQCD attributed 9M2018 steel segment strength to changes in geographical mix (lower GCC ex-Qatar and more Asia) and its steel marketing strategy (IQCD is selling its steel volumes through Muntajat from May onward). Increase in raw materials and other related costs, resurgence of demand in some regions were the key factors that contributed to strength in steel prices this year, according to IQCD. Steel GMs, however, hit their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 and 21.5% in 2Q2018. We suspect increase in raw material costs to be the primary driver behind this margin decline.
- **Income from JVs, which represents IQCD's petrochemicals and fertilizers businesses, also came in line with our forecast at QR1,073.4bn (QNBFS estimate: QR1,028.9mn or a divergence of 4.3%).** JV income jumped 89.2% YoY and 8.0% QoQ. IQCD stated that for 9M2018, product prices across most segments improved moderately. PE prices have started to stabilize and grow while fuel additive prices are significantly higher compared to 9M2017. We note oil prices have supported PE/FA realizations thus far this year. The YoY moderate improvement of PE sales volumes was partially due to higher PE production, as some PE plants were on an extended unplanned shutdown during 9M2017 (primarily during 1Q2017). Fertilizer prices have also improved given a tightening in global supplies and demand recovery, which also helped fertilizers maintain their sales volumes
- **9M2018 results continue to be aided by higher YoY prices and moderate volume improvements.** In 9M2018, steel revenue reported under IFRS 11 was QR4.6bn, significantly up by 43.6% on last year. As far as management reporting revenue, that includes steel+ petchems+ fertilizers (assuming proportionate consolidation) is concerned, it came in at QR12.3bn (QNBFS estimate: QR12.2bn), a significant increase of 24% over 9M2017. Net profit for 9M2018 was QR3.8bn, a healthy growth of 62.3% YoY. EPS amounted to QR6.32 in 9M2018 as compared to QR3.90 in 9M2017. Besides improvements in prices/volumes, costs improvements also aided this growth.
- **Balance sheet remains bullet-proof:** Cash across the group was QR12.1bn ex. 2017's dividend of QR3.0bn and periodic debt payments of QR0.3bn. Total group debt is just QR0.2bn, down from QR0.5bn in 2017.
- **Maintain Market Perform rating:** We note reported results are in-line with our model and we are comfortable with our QR5.1bn net income estimate (QR8.44 in EPS) for 2018; we continue to believe modest upside to our forecasts is possible. *We rate IQCD a Market Perform with a PT of QR126. IQCD is fully valued-to-expensive @ 16.5x and 16.0x P/E for 2018 and 2019, respectively.*

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Income Statement (QR million)	3Q2017	2Q2018	3Q2018	3Q2018e	A Vs. E	YoY	QoQ
Revenue	1,149.291	1,645.371	1,533.821	1,438.648	6.6%	33.5%	-6.8%
Cost of Sales (Ex. Depreciation & Amortization)	(950.696)	(1,291.046)	(1,298.485)	(1,114.952)	16.5%	36.6%	0.6%
Gross Profit	198.595	354.325	235.336	323.696	-27.3%	18.5%	-33.6%
General and Administrative Expenses	(32.251)	(39.349)	(33.357)	(39.000)	-14.5%	3.4%	-15.2%
Selling Expenses	(17.355)	(26.348)	(21.721)	(26.500)	-18.0%	25.2%	-17.6%
EBITDA	148.989	288.628	180.258	258.196	-30.2%	21.0%	-37.5%
Depreciation & Amortization	(56.326)	(59.066)	(59.872)	(59.125)	1.3%	6.3%	1.4%
EBIT	92.663	229.562	120.386	199.071	-39.5%	29.9%	-47.6%
Finance Costs	(2.241)	(0.847)	(0.110)			-95.1%	-87.0%
Share of Results from Associates	11.389	(77.132)	10.532	(10.000)	-205.3%	-7.5%	-113.7%
Share of Results of JVs	567.253	993.646	1,073.437	1,028.918	4.3%	89.2%	8.0%
Income from Investments & Other Income/Expenses	78.743	96.479	112.044	72.647	54.2%	42.3%	16.1%
Profit Before tax	747.807	1,241.708	1,316.289	1,290.635	2.0%	76.0%	6.0%
Tax							
Profit After Tax	747.807	1,241.708	1,316.289	1,290.635	2.0%	76.0%	6.0%
Minority Interest		-		-			
Profit for Equity Holders	747.807	1,241.708	1,316.289	1,290.635	2.0%	76.0%	6.0%
<i>Net Margin</i>	<i>65.1%</i>	<i>75.5%</i>	<i>85.8%</i>	<i>89.7%</i>			
EPS	1.24	2.05	2.18	2.13	2.0%	76.0%	6.0%
Shares O/S (mn)	605	605	605	605			
Group EBIT (IQ)	750.048	1,242.555	1,316.399	1,290.635	2.0%	75.5%	5.9%
Group EBITDA (IQ)	806.374	1,301.621	1,376.271	1,349.760	2.0%	70.7%	5.7%

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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