

IQCD Alert – In-line 2Q2022 Results; Stay Outperform With QR21 Price Target

- IQCD posted solid results in 2Q2022 with QR2.73bn in earnings (up 35.6% YoY/0.9% QoQ), which was in-line with our estimate of QR2.65bn (3.1% divergence) – In terms of segments, better-than-anticipated performance in steel and petchems was offset by weaker-than-expected figures from fertilizers.
- Looking at segmental performance, petchems posted a yearly decline in 2Q2022 earnings, while fertilizers reported a sequential fall in net income for a 2nd quarter in a row. For segment details, please see page 4. 1H2022 overall sales volumes and prices improved ~3% and ~51%, respectively, on a YoY basis. 2Q2022 sales volume declined ~7% QoQ but prices increased roughly 8% sequentially. 1H2022 production volumes increased ~5% YoY from 7.8 MTPA in 1H2021 to 8.1 MTPA, while 2Q2022 production volumes gained ~6% QoQ from 3.9 MTPA to 4.2 MTPA.
- PE top-line and profitability exceeded our forecast given moderate upside in sales volumes and better-than-expected pricing. 2Q2022 segment revenue of ~QR2.02bn (~16% YoY, ~10% QoQ) was roughly 7% higher than our model on better-than-expected volumes in PE (especially LLDPE) and increases in LLDPE and LDPE realizations; top-line for fuel additives (lumped in together with the PE segment) was in-line with our forecast with upside in MTBE offset by methanol. Segment earnings of QR831.05mn fell 6.2% YoY but increased 23.6% QoQ, and was 14.1% ahead of our model. EBITDA margins came in ~49% for 2Q2022 vs. around 58% in 2Q2021 and 45% in 1Q2022. Product prices, which came in higher-than-expected with the exception of methanol, were up across the board except for methanol that declined approximately 11% QoQ. PE prices were up moderately, generally speaking, on a YoY basis. However, the extent of the sequential strength in PE prices (LDPE up ~5% and LLDPE up ~9%) was a bit of a surprise but we do note that IQCD's recorded realized prices do have a bit of a lag vs. market benchmarks and Muntajat continues to impress with its marketing acumen. MTBE prices continued their march upward, increasing approximately 72% YoY and 23% QoQ. 1H2022 sales volumes was up ~6% YoY, helped by MTBE growth, while 2Q2022 sales volumes inched up ~2% QoQ; 1H2022 production volumes similarly gained roughly 6% YoY aided by MTBE, which was in a commercial shutdown in 1Q2021 offset by slightly lower PE volumes; 2Q2022 production volumes increased ~5% QoQ driven by better utilization of PE facilities and a QoQ increase in fuel additives.
- In fertilizers, we note segment revenue was bang in-line with our estimate but profitability was surprisingly 10.7% lower due to an unplanned shutdown. 2Q2022 revenue and income of QR3.97bn and QR1.56bn increased 78.1% and 65.3%, YoY, respectively; segment top-line was in-line with our model (divergence of 0.2%) but earnings were short by 10.7%. Sequentially, segment revenue was flattish but earnings declined 10.5%. To explain the sequential decline in earnings, IQCD pointed to an unplanned maintenance shutdown in 2Q2022 that hiked operating costs (as cost of gas is on a take-or-pay basis, which serves to lower margins during unplanned shutdowns), while revenue remained flattish QoQ. EBITDA margins came in ~46% for 2Q2022 vs. approximately 53% in 2Q2021 and 50% in 1Q2022. According to the company, urea prices increased ~94% YoY and ~6% QoQ from \$361/MT in 2Q2021 and \$661/MT in 1Q2022 to \$702/MT in 2Q2022; realized prices were also approximately 11% higher than our modeled estimate as IQCD's price realizations again bucked the trend of the ME urea benchmark, which was moderately lower on a sequential basis. Yearly growth in selling prices were due to restrictions in supply along with inflationary pressures from higher crop and energy prices, as per management. On a QoQ basis, while prices realizations were helped by supply side constraints, we suspect IQCD's geographical sales mix, timing lag and Muntajat's expertise helped enhance the company's price realizations. 1H2022 production volumes were down ~3% YoY but sales volumes grew ~4%; sequentially, 2Q2022 production increased ~3%, while sales volumes fell roughly 7% due to the timing of some shipments carried forward from 4Q2021 that positively impacted 1Q2022 volumes. IQCD also announced that Qatar Melamine Co. (which is already a 100%-owned subsidiary of QAFCO since July 2021) will be merged into QAFCO before YE2022 thus adding to costs and operational synergies (continued on next page).

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- *(continued from previous page)*
- **Steel segment performance was positive on moderately better-than-expected volumes along with price upside relative to our forecasts.** 2Q2022 steel revenue came in at QR1.16bn (17.8% YoY, -10.8% QoQ), while segment income was \$359.53mn (51.8% YoY, 37.6% QoQ). EBITDA margins climbed up to ~35% in 2Q2022 vs. roughly 28% in 2Q2021 and 24% in 1Q2022 benefiting from the segment's mothballing decision. According to the company, steel realizations increased ~13% YoY in 1H2022 (up roughly 8% QoQ in 2Q2022) due to elevated construction demand along with higher international iron ore prices. We do note that steel prices were higher than our forecasts as prices gained more than what we had anticipated. The company reported rebar realizations of \$823/MT in 2Q2022 vs. \$704/MT in 2Q2021 and \$724/MT in 1Q2022. 1H2022 sales volumes fell ~1% YoY, while 2Q2022 sales volumes receded ~18%. Production volumes were up roughly 27% in 1H2022, while 2Q2022 production volumes also gained 12% sequentially. Production volumes were aided by the re-startup of the DR-2 facility in 1Q2022, which has 1,500 KTPA of capacity (as opposed to the 800 KTPA-DR-1 facility it replaced). IQCD's associate Foulath (which produces iron oxide pellets) reported a nice jump in earnings, boosting 2Q2022 associate income to QR98.56mn (217.4% YoY, 72.2% QoQ), which helped boost segment profits.
- *For more details on the company's performance and our estimates, please refer to page 3.*
- **Despite paying ~QR6bn in 2021 dividends, IQCD's balance sheet remains solid with QR14.8bn in cash/bank balances & zero long-term debt.** The company, on a proportionate basis, generated operating cash flow of QR5.1bn and free cash flow of QR4.6bn in 1H2022. Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions, when they arise, while retaining dry powder to take advantage of potential acquisition opportunities in the future. IQCD's strong FCF generating ability also provides investors with lower DPS volatility.
- **We maintain our Outperform rating on IQCD with a QR21.00 price target.** Earnings trajectory remains strong thus far in 2022, with 1H2022 net income up by 57.2%. Going forward, volumes are likely to be modestly up YoY in 2H2022 given QAPCO's major planned shutdown in 4Q2021 and QAFCO's unplanned outage in 2Q2022. Pricing, as usual, remains the major wildcard. While urea prices benefited during the latter-end of 1Q2022 due to the Russia-Ukraine conflict, prices fell to below \$500/MT levels by late July due to recessionary fears; urea has since rebounded to \$545/MT as EU gas prices have increased after Russian supply cuts. The outlook for petrochem prices remains more uncertain given volatility in oil and the Chinese malaise. Moreover, COVID-19-related lockdowns in China is bound to have an impact. Economic growth is also likely to be affected by these factors and will be put under further pressure by rising rates and unwinding quantitative easing by global central banks. So pricing could remain volatile and could potentially ease, in our view. Moreover, domestic steel demand should ease given an expected lull in construction activity during the summer and as we move closer to FIFA World Cup Qatar 2022. Net-net, overall IQCD volumes could be up modestly in 2H2022 but price realizations could be softer.
- **In terms of longer-term catalysts,** the QAFCO 7 project is also expected to add 400 KTPA of sellable ammonia by 2026. Moreover, similar to the QAFCO deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could also be perceived positively by investors.

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Income Statement (QR million)	2Q2021	1Q2022	2Q2022	2Q2022e	A Vs. E	YoY	QoQ
Revenue	3,214.242	5,280.579	5,131.161	5,098.927	0.6%	59.6%	-2.8%
Cost of Sales (Ex. D & A)	(1,662.758)	(2,842.653)	(2,881.190)	(2,717.728)	6.0%	73.3%	1.4%
Gross Profit	1,551.484	2,437.926	2,249.971	2,381.199	-5.5%	45.0%	-7.7%
General & Admin. Expenses	(128.051)	(175.822)	(152.756)	(177.580)	-14.0%	19.3%	-13.1%
Selling & Distribution Costs	(15.638)	(31.240)	(3.789)	(31.552)	-88.0%	-75.8%	-87.9%
EBITDA	1,407.795	2,230.864	2,093.426	2,172.066	-3.6%	48.7%	-6.2%
Depreciation & Amortization	(368.296)	(375.042)	(369.486)	(378.792)	-2.5%	0.3%	-1.5%
EBIT	1,039.499	1,855.822	1,723.940	1,793.274	-3.9%	65.8%	-7.1%
Finance Costs	(8.041)	(5.494)	(5.822)	(5.521)	5.4%	-27.6%	6.0%
Share of Results from Associates	31.056	57.249	98.558	57.592	71.1%	217.4%	72.2%
Share of Results of JVs	886.297	672.594	831.054	728.505	14.1%	-6.2%	23.6%
Other Income	63.562	123.830	80.880	73.637	9.8%	27.2%	-34.7%
Investment Income & Other	-	-	-	-	-	-	-
Profit Before Tax	2,012.373	2,704.001	2,728.610	2,647.487	3.1%	35.6%	0.9%
Tax	(0.277)	(0.145)	(0.003)	(0.142)	-97.9%	-98.9%	-97.9%
Profit After Tax	2,012.096	2,703.856	2,728.607	2,647.345	3.1%	35.6%	0.9%
Minority Interest	(0.479)	(0.238)	0.026	(0.233)	N/M	N/M	N/M
Profit for Equity Holders	2,011.617	2,703.618	2,728.633	2,647.112	3.1%	35.6%	0.9%
Net Margin	62.6%	51.2%	53.2%	51.9%			

EPS (in QR)	0.33	0.45	0.45	0.44	3.1%	35.6%	0.9%
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Cost of Sales	51.7%	53.8%	56.2%	53.3%
Gross Margin %	48.3%	46.2%	43.8%	46.7%
G&A % Sales	4.0%	3.3%	3.0%	3.5%
Selling Expenses % Sales	0.5%	0.6%	0.1%	0.6%
EBITDA %	43.8%	42.2%	40.8%	42.6%
D&A % Sales	11.5%	7.1%	7.2%	7.4%
EBIT %	32.3%	35.1%	33.6%	35.2%
Net Margin %	62.6%	51.2%	53.2%	51.9%

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In QR Millions

Steel	2Q2021	1Q2022	2Q2022	2Q2022e	A Vs. E
Revenue	983.951	1,300.068	1,159.139	1,134.451	2%
Profit Before Tax	236.907	261.211	359.527	213.163	69%
<i>NM %</i>	<i>24.08%</i>	<i>20.09%</i>	<i>31.02%</i>	<i>18.79%</i>	
<i>Revenue Q/Q</i>	<i>-20%</i>	<i>34%</i>	<i>-11%</i>	<i>-13%</i>	
<i>Profit Before Tax Q/Q</i>	<i>-8%</i>	<i>199%</i>	<i>38%</i>	<i>-18%</i>	
<i>Revenue Y/Y</i>	<i>100%</i>	<i>6%</i>	<i>18%</i>	<i>15%</i>	
<i>Profit Before Tax Y/Y</i>	<i>N/M</i>	<i>1%</i>	<i>52%</i>	<i>-10%</i>	
Petrochemicals	2Q2021	1Q2022	2Q2022	2Q2022e	
Revenue	1,740.000	1,835.000	2,017.000	1,882.441	7%
Profit Before Tax	886.297	672.594	831.054	728.505	14%
<i>NM %</i>	<i>50.94%</i>	<i>36.65%</i>	<i>41.20%</i>	<i>38.70%</i>	
<i>Revenue Q/Q</i>	<i>26%</i>	<i>42%</i>	<i>10%</i>	<i>3%</i>	
<i>Profit Before Tax Q/Q</i>	<i>46%</i>	<i>120%</i>	<i>24%</i>	<i>8%</i>	
<i>Revenue Y/Y</i>	<i>130%</i>	<i>33%</i>	<i>16%</i>	<i>8%</i>	
<i>Profit Before Tax Y/Y</i>	<i>376%</i>	<i>11%</i>	<i>-6%</i>	<i>-18%</i>	
Fertilizers	2Q2021	1Q2022	2Q2022	2Q2022e	
Revenue	2,230.291	3,980.511	3,972.022	3,964.476	0%
Profit Before Tax	944.941	1,745.172	1,561.848	1,749.127	-11%
<i>NM %</i>	<i>42.37%</i>	<i>43.84%</i>	<i>39.32%</i>	<i>44.12%</i>	
<i>Revenue Q/Q</i>	<i>38%</i>	<i>6%</i>	<i>0%</i>	<i>0%</i>	
<i>Profit Before Tax Q/Q</i>	<i>59%</i>	<i>-8%</i>	<i>-11%</i>	<i>0%</i>	
<i>Revenue Y/Y</i>	<i>151%</i>	<i>147%</i>	<i>78%</i>	<i>78%</i>	
<i>Profit Before Tax Y/Y</i>	<i>435%</i>	<i>193%</i>	<i>65%</i>	<i>85%</i>	
Total Revenue	4,954.242	7,115.579	7,148.161	6,981.368	2%
YoY Growth	132%	69%	44%	41%	
QoQ Growth	17%	18%	0%	-2%	
Steel	20%	18%	16%	16%	
Petrochemicals	35%	26%	28%	27%	
Fertilizers	45%	56%	56%	57%	
Total Profit Before Tax (Ex. Unallocated)	2,068.145	2,678.977	2,752.429	2,690.795	2%
Steel	11%	10%	13%	8%	
Petrochemicals	43%	25%	30%	27%	
Fertilizers	46%	65%	57%	65%	
Group Net Income	2,011.617	2,703.618	2,728.633	2,647.112	
Segment Profit Before Tax/Group NI	103%	99%	101%	102%	
Unallocated Net Income	(56.53)	24.64	(23.80)	(43.68)	
Steel Net Profit/Steel GP					

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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