

## IQCD Alert – Weak 3Q2022 On Lower Prices/Higher Costs Esp. In Fertilizers; Outperform; +6% 2022 Dividend Yield

- **IQCD posted weaker-than-expected results in 3Q2022 with QR1.61bn in earnings (down 21.5% YoY/40.9% QoQ), which was well below our estimate of QR2.31bn (30.1% divergence)** – In terms of segments, significant weakness in fertilizer revenue (sales volumes & prices below our model) and fertilizer margins, along with lower-than-expected steel profitability (despite upside in steel top-line), more than offset slightly better-than-anticipated performance in petchems. *These weak set of results are disappointing, with 9M2022 earnings/EPS now tracking at QR7.05bn/QR1.16 (vs. 2021's QR8.09bn/QR1.34 EPS) and overall 2022 earnings could be up only roughly 5-6% from 2021. 4Q2022 earnings could face further (albeit modest) pressure given the current trajectory of prices but we point to a juicy dividend yield of +6% for 2022. We stay Outperform for now with a QR21 price target.*
- **Looking at segmental performance, fertilizers reported a sequential fall in net income for a 3<sup>rd</sup> quarter in a row, while petchems posted a 2<sup>nd</sup> consecutive yearly decline in quarterly earnings; steel earnings also fell QoQ for the first time in 2022.** *For segment details, please see page 4. 9M2022 overall sales volumes and prices improved ~6% and ~35%, respectively, on a YoY basis. 3Q2022 sales volume increased ~5% QoQ but prices decreased significantly by roughly 22% sequentially. 9M2022 production volumes also increased ~6% YoY from 11.7 MTPA in 9M2021 to 12.4 MTPA, while 3Q2022 production volumes gained ~2% QoQ from 4.2 MTPA to 4.3 MTPA.*
- **Petchems the only outperformer in 3Q2022 with top-line and profitability besting our forecasts given moderate upside in sales volumes offsetting lower-than-expected pricing.** 3Q2022 segment revenue of ~QR1.64bn (~5% YoY, ~-19% QoQ) was roughly 6% higher than our model on better-than-expected volumes in PE & FA (especially LDPE, along with MTBE and Methanol) offsetting lower-than-modeled price realizations across the board. PE revenue exceeded our forecast modestly, while the FA segment's top-line was bang in-line with our estimate. Segment earnings of QR568.34mn fell 16.2% YoY and 31.6% QoQ, and was 0.9% ahead of our model. EBITDA margins came in ~45% for 3Q2022 vs. around 53% in 3Q2021 and 49% in 2Q2022. Product prices, which came in weaker-than-expected across the board, have rolled over, as expected, both on a YoY and on a sequential basis, except for MTBE that increased approximately 33% YoY. 9M2022 sales volumes were up ~7% YoY, helped by MTBE, LLDPE and LDPE growth, while 3Q2022 sales volumes were also up ~7% QoQ; 9M2022 production volumes similarly gained roughly 6% YoY aided by MTBE, which was in a commercial shutdown in 1Q2021; 3Q2022 production volumes increased ~4% QoQ driven by better utilization of PE facilities and a QoQ increase in fuel additives.
- **In fertilizers, top-line/profitability were well estimates as lower prices and sales volumes, along with higher-than-expected gas feedstock costs, contributed to send EBITDA margins to ~35%, the lowest level seen in at least three years.** 3Q2022 revenue and income of QR3.16bn and QR858.38mn increased 17.3% and decreased by 32.9%, YoY, respectively; segment top-line was 15.6% below our model and earnings were short by 42.9%. Sequentially, segment revenue was down 20.5% and earnings declined 45.0%. To explain the sequential decline in earnings, IQCD pointed to the lower QoQ top-line on account of lower prices, which on a blended basis declined ~23% QoQ (as sales volumes were up ~3% QoQ). 3Q2022 EBITDA margins declined to ~35% vs. approximately 57% in 2Q2021 and 46% in 2Q2022. According to the company, urea prices increased ~19% YoY but declined ~24% QoQ from \$446/MT in 3Q2021 and \$702/MT in 2Q2022 to \$531/MT in 3Q2022; realized urea prices were also approximately 5% lower than our modeled estimate. Yearly growth in selling prices (blended prices up ~67% YoY in 9M2022) were due to restrictions in supply along with inflationary pressures from higher crop and energy prices, as per management. On a QoQ basis, urea prices were crimped by a cautious market outlook given higher energy prices. 9M2022 production volumes were almost flat YoY but sales volumes grew ~2%; sequentially, 3Q2022 production increased ~4% sequentially, while sales volumes also tracked a ~3% QoQ growth. *(continued on next page).*

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- *(continued from previous page)*
- **Steel segment revenue beat our forecast but profitability was below our estimates with EBITDA margin falling to ~19%; 3Q2022 margins were pressured by a higher mix of lower-margin international sales and higher operating costs.** 3Q2022 steel revenue came in at QR1.05bn (50.5% YoY, -9.0% QoQ), while segment income was QR152.94mn (15.0% YoY, -57.5% QoQ). Given 3Q2022 income from associates, primarily from Foulath that produces and sell iron oxide pellets, came in at QR114.27mn (314.0% YoY, 15.9% QoQ and 21.8% ahead of our forecast), profitability from wholly-owned steel operations was squeezed. EBITDA margins fell to ~19% in 3Q2022 vs. roughly 25% in 3Q2021 and 35% in 2Q2022. According to the company, steel realizations inched up only ~2% YoY in 9M2022 (but down roughly 18% QoQ in 3Q2022) due to softening domestic demand, along with slowdown in international steel prices. Sequentially, realized prices took more of a hit as IQCD diverted most of its sales volumes overseas, which sports lower margins relative to Qatar. We do note that steel prices were somewhat higher than our forecasts as prices gained more than what we had anticipated. The company reported rebar realizations of \$734/MT in 3Q2022 vs. \$781/MT in 3Q2021 and \$823/MT in 2Q2022. 9M2022 sales volumes increased ~19% YoY, while 3Q2022 sales volumes increased ~12%. Production volumes were up roughly up 27% in 9M2022, while 3Q2022 production volumes receded 5% sequentially. Production volumes, YoY, 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).
- *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 QR17.1bn in cash/bank balances & zero long-term debt.** The company, on a proportionate basis, generated operating cash flow of QR7.5bn and free cash flow of QR6.9bn in 9M2022. 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.
- **In terms of longer-term catalysts,** the \$1.06bn (QR3.86bn) Ammonia-7 project, which is also the world's largest Blue ammonia train, is expected to add 400 KTPA of sellable ammonia by 2026. The Ammonia-7 should also boost the company's ESG credentials. Also, in a smaller deal, IQCD expects to increase its direct stake in Qatar Vinyl Co. (QVC) to 44.8% from May 2026 from its current indirect stake (via QAPCO) of 25.52% by funding its share of the construction of a new Polyvinyl Chloride (PVC) plant. 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)	3Q2021	2Q2022	3Q2022	3Q2022e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>3,392.226</b>	<b>5,131.161</b>	<b>4,212.022</b>	<b>4,659.027</b>	<b>-9.6%</b>	<b>24.2%</b>	<b>-17.9%</b>
Cost of Sales (Ex. D &A)	(1,614.621)	(2,881.190)	(2,879.649)	(2,572.780)	11.9%	78.3%	-0.1%
<b>Gross Profit</b>	<b>1,777.605</b>	<b>2,249.971</b>	<b>1,332.373</b>	<b>2,086.247</b>	<b>-36.1%</b>	<b>-25.0%</b>	<b>-40.8%</b>
General & Admin. Expenses	(121.759)	(152.756)	(157.217)	(153.748)	2.3%	29.1%	2.9%
Selling & Distribution Costs	(1.444)	(3.789)	(12.344)	(27.563)	-55.2%	754.8%	225.8%
<b>EBITDA</b>	<b>1,654.402</b>	<b>2,093.426</b>	<b>1,162.812</b>	<b>1,904.936</b>	<b>-39.0%</b>	<b>-29.7%</b>	<b>-44.5%</b>
Depreciation & Amortization	(367.570)	(369.486)	(378.789)	(333.193)	13.7%	3.1%	2.5%
<b>EBIT</b>	<b>1,286.832</b>	<b>1,723.940</b>	<b>784.023</b>	<b>1,571.743</b>	<b>-50.1%</b>	<b>-39.1%</b>	<b>-54.5%</b>
Finance Costs	(5.697)	(5.822)	(5.534)	(6.170)	-10.3%	-2.9%	-4.9%
Share of Results from Associates	27.602	98.558	114.266	93.827	21.8%	314.0%	15.9%
Share of Results of JVs	678.443	831.054	568.336	563.454	0.9%	-16.2%	-31.6%
Other Income	67.739	80.880	154.176	85.312	80.7%	127.6%	90.6%
<b>Profit Before Tax</b>	<b>2,054.919</b>	<b>2,728.610</b>	<b>1,615.267</b>	<b>2,308.167</b>	<b>-30.0%</b>	<b>-21.4%</b>	<b>-40.8%</b>
Tax	(0.122)	(0.003)	(0.528)	(0.063)	739.7%	332.8%	17500.0%
<b>Profit After Tax</b>	<b>2,054.797</b>	<b>2,728.607</b>	<b>1,614.739</b>	<b>2,308.104</b>	<b>-30.0%</b>	<b>-21.4%</b>	<b>-40.8%</b>
Minority Interest	(0.192)	0.026	(0.951)	(0.090)	955.8%	395.3%	N/M
<b>Profit for Equity Holders</b>	<b>2,054.605</b>	<b>2,728.633</b>	<b>1,613.788</b>	<b>2,308.014</b>	<b>-30.1%</b>	<b>-21.5%</b>	<b>-40.9%</b>
<b>Net Margin</b>	<b>60.6%</b>	<b>53.2%</b>	<b>38.3%</b>	<b>49.5%</b>			

EPS (in QR)	0.34	0.45	0.27	0.38	-30.1%	-21.5%	-40.9%
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Cost of Sales	47.6%	56.2%	68.4%	55.2%
Gross Margin %	52.4%	43.8%	31.6%	44.8%
G&A % Sales	3.6%	3.0%	3.7%	3.3%
Selling Expenses % Sales	0.0%	0.1%	0.3%	0.6%
EBITDA %	48.8%	40.8%	27.6%	40.9%
D&A % Sales	10.8%	7.2%	9.0%	7.2%
EBIT %	37.9%	33.6%	18.6%	33.7%
Net Margin %	60.6%	53.2%	38.3%	49.5%

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In QR Millions

Steel	3Q2021	2Q2022	3Q2022	3Q2022e	A Vs. E
Revenue	700.859	1,159.139	1,054.591	916.252	15%
Profit Before Tax	132.987	359.527	152.943	269.561	-43%
<i>NM %</i>	<i>18.97%</i>	<i>31.02%</i>	<i>14.50%</i>	<i>29.42%</i>	
<i>Revenue Q/Q</i>	<i>-29%</i>	<i>-11%</i>	<i>-9%</i>	<i>-21%</i>	
<i>Profit Before Tax Q/Q</i>	<i>-44%</i>	<i>38%</i>	<i>-57%</i>	<i>-25%</i>	
<i>Revenue Y/Y</i>	<i>30%</i>	<i>18%</i>	<i>50%</i>	<i>31%</i>	
<i>Profit Before Tax Y/Y</i>	<i>410%</i>	<i>52%</i>	<i>15%</i>	<i>103%</i>	
Petrochemicals	3Q2021	2Q2022	3Q2022	3Q2022e	
Revenue	1,567.000	2,017.000	1,639.000	1,545.403	6%
Profit Before Tax	678.443	831.054	568.336	563.454	1%
<i>NM %</i>	<i>43.30%</i>	<i>41.20%</i>	<i>34.68%</i>	<i>36.46%</i>	
<i>Revenue Q/Q</i>	<i>-10%</i>	<i>10%</i>	<i>-19%</i>	<i>-23%</i>	
<i>Profit Before Tax Q/Q</i>	<i>-23%</i>	<i>24%</i>	<i>-32%</i>	<i>-32%</i>	
<i>Revenue Y/Y</i>	<i>53%</i>	<i>16%</i>	<i>5%</i>	<i>-1%</i>	
<i>Profit Before Tax Y/Y</i>	<i>115%</i>	<i>-6%</i>	<i>-16%</i>	<i>-17%</i>	
Fertilizers	3Q2021	2Q2022	3Q2022	3Q2022e	
Revenue	2,691.367	3,972.022	3,157.431	3,742.774	-16%
Profit Before Tax	1,278.389	1,561.848	858.375	1,503.473	-43%
<i>NM %</i>	<i>47.50%</i>	<i>39.32%</i>	<i>27.19%</i>	<i>40.17%</i>	
<i>Revenue Q/Q</i>	<i>21%</i>	<i>0%</i>	<i>-21%</i>	<i>-6%</i>	
<i>Profit Before Tax Q/Q</i>	<i>35%</i>	<i>-11%</i>	<i>-45%</i>	<i>-4%</i>	
<i>Revenue Y/Y</i>	<i>156%</i>	<i>78%</i>	<i>17%</i>	<i>39%</i>	
<i>Profit Before Tax Y/Y</i>	<i>731%</i>	<i>65%</i>	<i>-33%</i>	<i>18%</i>	
Total Revenue	4,959.226	7,148.161	5,851.022	6,204.429	-6%
<i>YoY Growth</i>	<i>90%</i>	<i>44%</i>	<i>18%</i>	<i>25%</i>	
<i>QoQ Growth</i>	<i>0%</i>	<i>0%</i>	<i>-18%</i>	<i>-13%</i>	
Steel	14%	16%	18%	15%	
Petrochemicals	32%	28%	28%	25%	
Fertilizers	54%	56%	54%	60%	
Total Profit Before Tax (Ex. Unallocated)	2,089.819	2,752.429	1,579.654	2,336.488	-32%
Steel	6%	13%	10%	12%	
Petrochemicals	32%	30%	36%	24%	
Fertilizers	61%	57%	54%	64%	
Group Net Income	2,054.605	2,728.633	1,613.788	2,308.014	
Segment Profit Before Tax/Group NI	102%	101%	98%	101%	
Unallocated Net Income	(35.21)	(23.80)	34.13	(28.47)	

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>	
<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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<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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