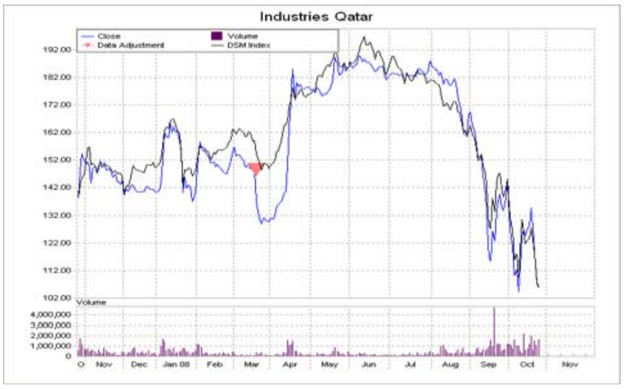
Industries Qatar (IQCD.QA)

October 30, 2008

Key Data

Listing	Doha Securities Market
CMP (QAR)	105.50
YTD Change (%)	-24.69
52-week High/Low (QAR)	193.00 / 101.00
Mkt. Capitalization (QAR mn)	58,025.00
EPS	13.06
BV	34.04
P/E	6.06
P/BV	3.10
Div. Yield (%)	3.45

Price History



Financial Summary

QAR (in billions)	9M'08	9M'07	*% chg*
Sales	12.75	6.78	*88.1*
Cost of Sales	5.56	3.26	*70.6*
Gross Profit	7.19	3.52	*104.3*
Selling Expenses	0.16	0.10	*60.0*
Finance Charges	0.07	0.05	*40.0*
Income from associates	0.23	0.03	*666.7*
Net Profit	7.18	3.40	*111.1*
Share Capital	5.50	5.00	*10.0*
Retained Earnings	13.00	6.72	*93.5*
Shareholders' Equity	18.72	12.16	*54.0*
Total Assets	27.23	17.64	*54.4*
EPS (QAR)*	17.41	9.07	*91.9*
Return on Equity (%)*	51.14	37.29	-
Return on Assets (%)*	35.16	25.72	-
Net Profit Margin (%)	56.33	50.17	-

** Annualized*

For the nine months ended September 30, 2008, Industries Qatar (IQ) reported that its net profit more than doubled to QAR 7.18 billion from QAR 3.40 billion in 9M07 on impressive sales. According to the company this performance came on the back of improved petrochemical volumes and the augmented selling price of most products, mainly fertilizers. Its sales figure soared 88.1% to QAR 12.75 billion compared to QAR 6.78 billion in the previous corresponding period, while cost of sales increased 70.6% to QAR 5.56 billion. Selling and general & administrative expenses increased 65% and 47.8% to QAR 0.16 billion and QAR 0.39 billion, respectively, resulting in an operating profit of QAR 6.64 billion (up 110.2% over 9M07).

The company's income from associates reached a significant QAR 0.23 billion compared to QAR 0.03 billion a year ago, even as other income climbed to QAR 0.39 billion as against QAR 0.27 billion in 9M07. IQ's finance charges, on the other hand, rose 34.7% to QAR 0.07 billion as term loans increased 39.1% to QAR 4.84 billion as compared to QAR 3.50 billion in the comparable period a year ago.

Total assets climbed significantly to QAR 27.23 billion from QAR 17.64 billion (a rise of 54.4%) while the company's shareholders' equity grew 54.0% to QAR 18.72 billion. Cash & cash equivalents rose 71.1% to QAR 7.89 billion, which is extremely pertinent amidst the credit crunch experienced by many firms. Annualized ROA and ROE jumped to 35.2% and 51.1% versus the 9M07 figures of 25.7% and 37.3%, respectively. For FY07, IQ distributed a cash dividend of 40% and a bonus issue of 10%, bringing its share capital to QAR 5.50 billion.

Company Profile

Industries Qatar, one of largest companies in terms of market capitalization, was established on April 19, 2003, by Qatar Petroleum (QP). Its main function was to own operating projects and companies in Qatar involved in the production and processing of industrial products including petrochemicals, agrochemicals, and metals. Subsequently, QP divested 30% of its interest to Qatari individuals and non-profit organizations. IQ is as a holding company with operations in Qatar and the Jebel Ali Free Zone Area (JAFZA) in the UAE. Its subsidiaries include Qatar Fertiliser Co. (Qafco), Qatar Steel Co. (Qasco), Qatar Petrochemical Co. (Qapco), and Qatar Fuel Additives Co. (Qafac)

Industry

Qatar is the leading exporter of liquefied natural gas and much of its soaring GDP reflects that. Qatar seeks to become the fourth largest producer in petrochemicals with USD 15 billion worth of investments. In addition, the nation is heavily investing in infrastructure, construction and manufacturing in order to diversify, with projects such as Qatar Financial Centre, Education City and Energy City Qatar. The ventures would be worth USD 130 billion to USD 150 billion. Even in the midst of the global financial crisis, its nominal GDP is expected to be QAR 327.5 billion this year, up 26.6% over 2007 and QAR 387.2 billion in 2009, an increase of 18.3% over 2008. This growth would continue to be propelled by the oil and gas sector that is estimated to account for 76.8% of the GDP this year.

The concern in such a macroeconomic environment are rising inflation levels, which are set to reach 15% this year compared to 13.8% in 2007. According to the IMF, Qatar's official reserves are anticipated to reach USD 13.8 billion in 2008 and that this would increase to USD 19.6 billion next year. Oil production is predicted to stay constant at 900,000 barrels per day. During 1Q09, the petrochemical sector is expected to witness the awarding of the USD 1 billion lump sum turnkey contract to construct a mixed feed 900,000 tonnes per year (tpy) ethylene cracker at Mesaieed. This would be a 70:30 joint venture between Qatar Petroleum-subsidiary Qatar Intermediate Holdings and Honam Petrochemical. The plant will also have a 900,000 tpy olefins plant, a 700,000 tpy polypropylene complex, a 600,000 tpy styrene plant and a 220,000 tpy polystyrene plant. Qatar plans to double the production of urea, ammonia, low linear-density polyethylene (LLDPE), high-density polyethylene (HDPE) and other petrochemicals utilizing its large gas reserves as feedstock. With these outputs, the country intends to produce 16 different petrochemical products by 2012. Projects slated for completion comprise of the 1.3 mtpa QChem/Qatofin cracker in 2009, the 800,000-900,000 tpa QP-Honam cracker (2011-2012), the 1.3 mtpa QP-ExxonMobil cracker (2012) and the 1.2 mtpa QP-Shell cracker (2012), all of which will be located in the industrial city of Ras Laffan.

Recent Developments

As of 27th October 2008, Qasco has announced that it would be halting all steel exports thanks to a 45% increase in local demand due to a construction boom being witnessed in the nation. This reaffirms Qatar’s success in being able to diversify into development of infrastructure and construction activities. In August 2008, IQ announced that it would invest QAR 21.3 billion to expand and set up new projects by 2011. The companies involved in the expansion would be Qapco, Qafco, Qafac and Qasco while IQ will contribute QAR 14.7 billion to the expansion. Another project in the pipeline is the JV between Qapco, Total Petrochemicals and Qatar Petroleum (QP), Qatofin, which will be producing LLDPE with a production capacity of 450,000 metric tonnes (mt). The project costs QAR 5.3 billion and would be finished in 2Q09. IQ plans to contribute QAR 2.7 billion to this project. During 3Q11, Qapco’s LLDPE 3 investment, with an expected additional capacity of 250,000 mt per year, is slated for completion. The project costs QAR 1.5 million, of which QAR 1.2 billion is IQ’s share. Presently, Qapco produces 720,000 tonnes of ethylene and 400,000 tonnes of low-density polyethylene (LDPE) per year, meaning IQ’s production of polyethylene would more than double. In May 2008, IQ’s subsidiary, Qafco got the right to supply 250,000 tonnes of urea annually to Vietnam in partnership with Petrovietnam Fertilizer & Chemical Co. This would allow Qafco to become the leading exporter of fertilizer to the Vietnamese market.

The following table shows the performance of each operating company under IQ’s control for the third quarter of 2008.

QAR million		QAPCO	QAFCO	QASCO	QAFAC
Total sales by operating company	**YTD Q3 08**	2,525.00	3,945.00	5,094.00	1,186.00
	YTD Q3 07	1,354.00	2,079.00	2,721.00	626.00
	Change	*86.48%*	*89.75%*	*87.21%*	*89.46%*
Net profit by operating company	**YTD Q3 08**	1,967.00	3,046.00	1,612.00	507.00
	YTD Q3 07	1,091.00	1,427.00	658.00	217.00
	Change	*80.29%*	*113.45%*	*144.98%*	*133.64%*

Outlook

Qatar has one of the highest levels of per capita GDP in the world, high levels of natural resources, and no history of political tension. As of September 2008, the nation’s per capita income is forecast to exceed USD 70,000 in 2008. IQ has a number of investments to be completed by 2011. Another significant venture for the firm is the IQ Tower being constructed at a cost of QAR 0.7 billion, which is set to be unveiled by 3Q10. Ove Arup & Partners International is commissioned to design the building for QAR 95.2 million. The firm’s other endeavors include the Qafco’s QAR 1 billion melamine project, Qatar Melamine Co, that will have an annual capacity of 60,000 tonnes and would be completed by 3Q09. It is slated to be the world's second biggest melamine plant and the largest in the Gulf region. World demand for melamine is expected to increase by 4-5% every year. IQ has contributed 50% to the project’s cost and it is expected that Qatar will meet 5% of the global demand for melamine. The QAR 12.8 billion Qafco 5 project is set to finish by 2011 and will help boost the production of ammonia and urea to 3.8 million tonnes and 4.3 million tonnes respectively, making Qafco the largest producer of ammonia and urea in the world. However, the Food & Agriculture Organization estimates that global supply of fertilizers will outstrip demand between 2008 and 2012. Supply will increase by 34 million tonnes, representing a 3% increase over the next three years while demand will only increase by 1.9% annually.

IQ’s stock has lost 24.7% since the beginning of this year as compared to a 29.1% drop in the Doha Securities Market (DSM). Currently the company is trading at a P/E 6.06 and P/B of 3.10, making the stock an attractive investment proposition. The company has had a stellar performance on the back of surging petrochemical prices during the past nine months. However with petrochemical prices looking extremely volatile, we would need to remain cautious. We nevertheless expect the company to maintain its robust performance due to its fledging investments and due to the continued diversification, with such plans as setting up a QAR 1 billion real estate company to invest in Qatar. Hence, we remain positive on the stock and reiterate our OVERWEIGHT opinion.

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