GCC Petrochemical Sector-*building upon 2021 rebound…*

February 13, 2022

Company	Rating
Mesaieed (MPHC)	**Hold**
Industries Qatar (IQCD)	**Accumulate**

- ➢ **Qatar Petrochemicals resilient amid COVID-19 pandemic and rebounded in 2021.**
- ➢ **Demand expected to continue from both the East (India, China) and the West (US, EU).**
- ➢ **Qatar Petrochemical companies demonstrate strategic advantage as diversified producers.**
- ➢ **Major product-feedstock spreads to remain steady after suffering from downcycle till 2020.**

We expand coverage on the GCC Petrochemicals Sector with two names in focus in this report - Mesaieed Petrochemical Holding Company (MPHC) and Industries Qatar (IQCD). Our valuations are based on a mix of DDM (40% weight), EV/EBITDA (10% weight), P/E (10% weight) and DCF (40% weight). Globally, petrochemicals demand recovered during 2021 as economic activity rebounded from the lows of 2020 and appears to have resumed the super-cycle seen from 2010 to2018. Petrochemical prices rose sharply in 2021 and especially during 2Q21, which we believe will correct from the multi-year highs but remain strong enough to maintain margins for petrochemical producers, in spite of feedstock price rise. We will be expanding our coverage to include more GCC Petrochemical companies with time.

- **Qatar Petrochemical companies resilient amid Covid-19 pandemic and ride the global economic recovery wave in 2021.** The year 2021 witnessed global economic recovery after the lows of 2020 impacted by COVID-19. Along with the rise in crude oil prices (+50% in 2021) to average over USD 70 per barrel, petrochemical prices have also risen between 25-35% over 2020. The price rise was driven by a rebound in economic demand as well as global supply chain bottlenecks. The petrochemicals industry rode this wave of rebound to post strong topline and bottom-line results in 2021 (9M) and looks set to continue the momentum into 2022.
- **Demand expected to continue from both the East (India, China) and the West (US, EU).** The demand for petrochemical products is coming from both developing economies like India but also those like US and China, which had seen peak growth some time back. While crude as a source of fuel may be impacted by global environmental concerns, the widespread application of petrochemicals across industries – from packaging to construction to transportation – is likely to result in continued demand for the near to medium term at least.
- **Qatar Petrochemical companies demonstrate strategic advantage over other producers as they are diversified producers**. Qatar-based petrochemical companies, like their Middle Eastern peers, are amongst the lowest-cost producers on the cost curve, due to the lowest cost of oil extraction further flowing along the value chain. Further, because of other products like fertilizers, output is diversified, providing resilience during periods of economic volatility.
- **Major product-feedstock spreads to remain steady after suffering from downcycle until 2020**. Spreads across major pairs such as Polyethylene (PE)-Naphtha, Polypropylene (PP)-Naphtha, and Polypropylene (PP)-Propane have witnessed a rebound in 2021 and are likely to remain steady for the next few years. Demand for fertilizers is also expected to remain steady. Consequently, margins and cash flows of petrochemical companies are also likely to sustain.
  We prefer companies that have significant market share in major product segments like Urea, PE and PP, have feedstock allocations for inputs, and have low leverage (they stand to be insulated from expected rising interest rates). We assume demand, prices, and spreads to sustain until 2024. Risks to our valuations arise from renewed economic restrictions to halt the spread of new COVID-19 variants, which could negatively affect demand.

Name	Last Px (QAR)	Target Price (QAR)	Upside / (Downside) (%)	Current P/E	P/E'22e, (x)	EV/EBITDA'22e, (x)	ROE'22e, %	Cash Div Yield'22e, (%)
Mesaieed	2.7	2.5	-9.5%	20.9	20.2	19.7	10.1%	2.6%
IQCD	18.3	20.7	13.3%	13.7	13.3	13.6	20.5%	2.0%
Average				17.3	16.7	16.6	15.3%	2.3%

Source: Reuters, U Capital Research,

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Qatar Petrochemicals Sector

Contents

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Valuation

We have used a mix of DDM (40% weight), EV/EBITDA (10% weight), P/E (10% weight) and DCF (40% weight) to arrive at our target price for each company. We find present value for each year over the forecast period (2022-2024e). This present value is then added to the present value of the terminal year valuation. For terminal value calculation, we use the Weighted Average Cost of Capital (WACC) and terminal growth rate for each entity.

	Mesaieed	IQCD
DDM Methodology (40% weightage)		
PV of Future dividends per share (QAR)		
2022e	0.1	0.4
2023e	0.1	0.3
2024e	0.1	0.3
Terminal Value	4.0	33.0
Total PV of Future dividend per share (Target Price)	**4.2**	**34.0**
Dividend yield (2022e)	3.2%	3.0%
Growth rate	1.5%	2.0%
EV/EBITDA '22e Median Multiple (10% weightage) *	8.1	7.2
EBITDA '22e, QAR mn	1,630	7,834
Target Price, QAR	**1.1**	**10.1**
P/E '22e Median Multiple (10% weightage) *	11.5	10.4
Earnings per share '22e, QAR	0.1	1.4
Target Price, QAR	**1.5**	**14.3**
DCF Methodology (40% weightage)		
PV of Future Cashflows to the Firm (QAR mn)		
2022e	1,474	6,973
2023e	1,400	6,184
2024e	1,143	4,912
Terminal Value	10,652	48,619
Total PV of Future Cashflows (Enterprise Value, QAR mn)	14,669	66,688
Target Price, QAR	**1.3**	**11.7**
Assumptions		
Risk Free Rate, % (USD Sovereign Bond Yield: Bloomberg)	2.42%	2.42%
Risk Premium, % (Equity Risk Premium: Bloomberg)	7.95%	7.95%
Beta (2 year weekly), x	1.36	1.25
Cost of Equity (COE), %	13.3%	12.4%
Growth Rate, %	1.5%	2.0%
Cost of Debt (COD), %	0.0%	6.3%
WACC, %	13.3%	12.3%
Debt/Equity Ratio, %	0.0%	0.9%
Net Debt, QAR mn	(2,229)	(4,233)
Fair Value of Equity, QAR mn	16,899	70,921
Outstanding Shares, mn	12,563	6,050
Weighted Average Target Price, QAR	**2.5**	**20.7**
Current Market Price, QAR	2.7	18.3
Upside/(Downside), %	-9.5%	13.3%
Recommendation	**Hold**	**Accumulate**

Source: Company Financials, Refinitiv, U Capital Research, note: * Different peer set used for IQCD & Mesaieed

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Risks to Valuation

Key downside risks to our valuations include
• A slower-than-expected economic growth due to renewed lockdowns triggered by new COVID-19 variants
• New capacity additions that would lead to surplus in key petrochemicals like polyethylene and fertilizers like Urea.

Key upside risks to our valuation include
• Any delay in planned petrochemical capacity additions announced in major countries like China, India and USA
• Stronger than expected demand for fertilizers and petrochemicals that will lead to higher-than-expected prices

Sensitivity Analysis

Our TP for Mesaieed is sensitive to the single product Polyethylene prices (+/- USD 100/t) and input cost of Ethane (+/- USD 50/t). Between them, the higher sensitivity is towards Polyethylene prices. Our TP is also sensitive (though relatively lower) to valuation inputs such as Cost of Equity (CoE) (+/- 5%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards the terminal growth rate.

Mesaieed

Terminal Growth rate	Cost of Equity				
	3%	8%	13%	18%	23%
1.00%	4.1	2.4	2.1	2.0	1.9
1.25%	4.5	2.6	2.3	2.1	2.0
1.50%	5.1	2.8	2.5	2.3	2.3
1.75%	5.9	3.1	2.8	2.6	2.5
2.00%	7.0	3.5	3.2	3.0	2.9

Ethylene price (USD/t, 2022e)	HDPE price (USD/t, 2022e)				
	928	1028	1128	1228	1328
950	2.4	2.4	2.5	2.5	2.5
1000	2.4	2.4	2.5	2.5	2.5
1050	2.4	2.4	2.5	2.5	2.5
1100	2.4	2.4	2.5	2.5	2.5
1150	2.4	2.4	2.5	2.5	2.5

Our TP for IQCD is sensitive to the prices of its main product Urea (+/- USD 100/t) and Steel Rebar (+/- USD 50/t). Fertilizer business contributes over 50% of revenues. Between them, the higher sensitivity is towards Urea prices. Our TP is also sensitive (though relatively higher) to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards terminal growth rate.

IQCD

Terminal Growth rate	Cost of Equity				
	10%	11%	12%	13%	14%
1.50%	17.2	16.6	16.2	15.9	15.6
1.75%	19.0	18.5	18.1	17.7	17.4
2.00%	21.7	21.2	20.7	20.4	20.0
2.25%	26.1	25.5	25.1	24.7	24.3
2.50%	34.5	33.8	33.3	32.9	32.6

Steel Rebar price (USD/t, 2022e)	Urea price (USD/t, 2022e)				
	370	470	570	670	770
630	20.2	20.6	21.0	21.4	21.9
680	20.2	20.6	21.0	21.5	21.9
730	20.2	20.6	20.7	21.5	21.9
780	20.2	20.6	21.1	21.5	21.9
830	20.2	20.7	21.1	21.5	22.0

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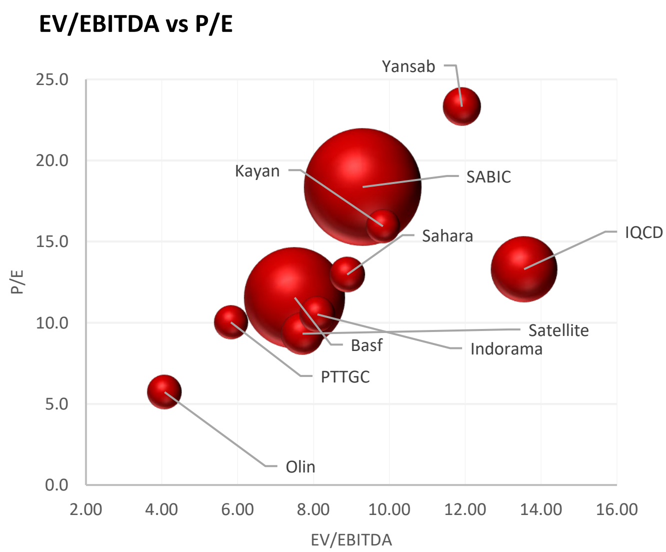
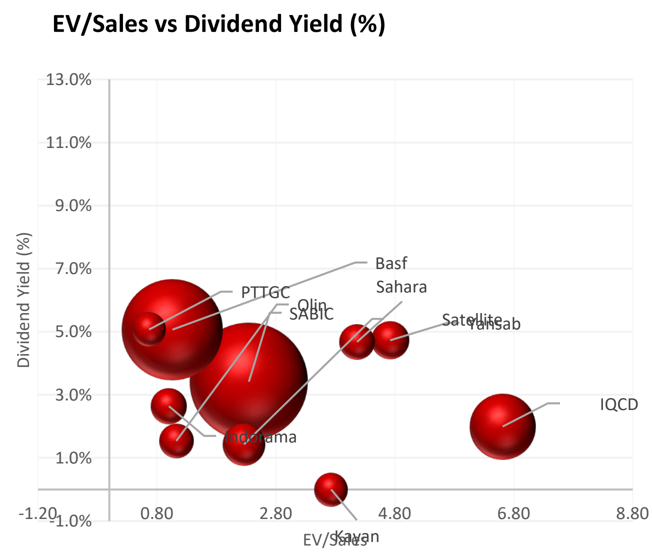
Peer Group Valuation (IQCD)

Name	Mkt Cap (USD bn)	Last Px (Local Currency)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	Current EV/EBIT DA (x)	EV/EBIT DA '22e (x)	P/E '22e (x)	EV/Sale s '22e (%)	Div Yield '22e (%)
SABIC	97.6	122.0	1.5%	-5.0%	5.2%	8.63	9.29	18.37	2.35	3.4%
SABIC Agrinutrients	21.2	167.0	-3.8%	-9.0%	-5.4%	12.95	10.95	12.94	7.52	4.0%
Sasol Ltd	13.6	33089.0	15.9%	25.3%	26.6%	6.00	5.05	8.38	1.28	0.0%
ICL Group Ltd	12.7	3169.0	-4.9%	16.7%	5.6%	10.12	6.76	10.81	1.88	0.0%
Boubyan Petrochemicals	1.7	949.0	11.3%	2.4%	11.4%	20.83	7.40	1.46	9.87	0.0%
Egypt Kuwait Holding	1.6	1.4	0.4%	1.3%	7.7%	5.27	4.70	7.18	2.02	6.2%
Misr Fertilizers	1.3	89.0	-3.4%	-2.2%	-8.7%	3.20	2.92	4.57	1.64	11.2%
Fertiglobe	8.5	3.8	3.8%	9.7%	9.1%	5.95	5.48	10.19	2.58	1.9%
Mesaieed	9.4	2.7	17.5%	16.0%	30.5%	18.94	19.65	20.19	19.47	2.6%
Industries Qatar	30.4	18.3	14.4%	14.7%	18.1%	10.36	13.55	13.30	6.61	2.0%
Average						**10.22**	**8.58**	**10.74**	**5.52**	**3.14%**
Median						**9.37**	**7.08**	**10.50**	**2.47**	**2.31%**

Peer Group Valuation (2022E)





Source: Refinitiv; valuation as of 10th February 2022; Size of the bubble indicates market capitalization in USD bn

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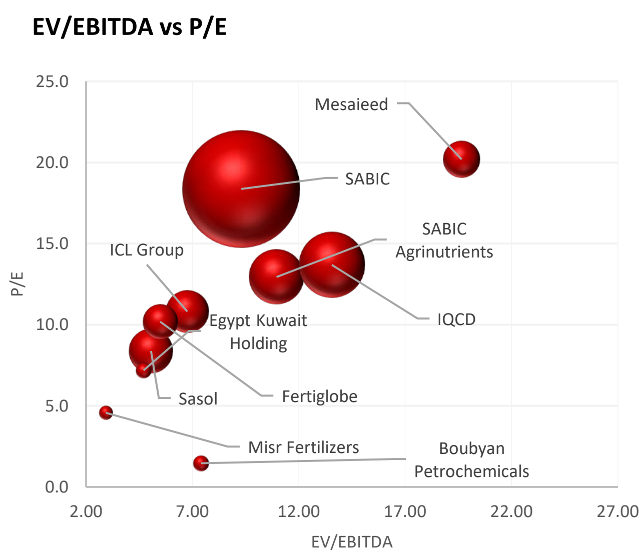
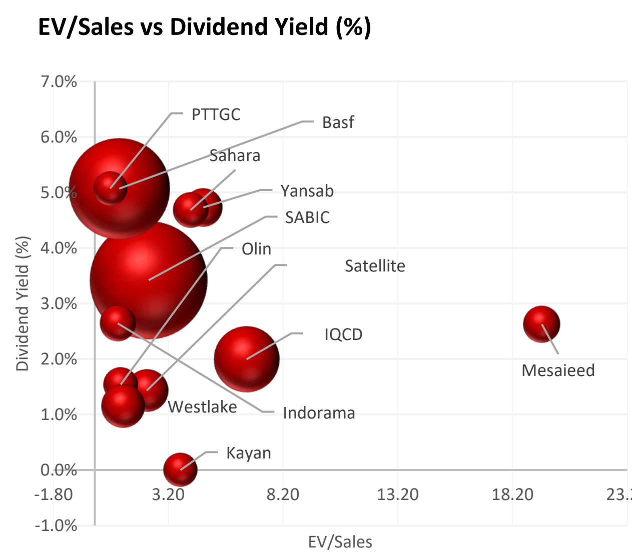
Peer Group Valuation (Mesaieed)

Name	Mkt Cap (USD bn)	Last Px (Local Currency)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	Current EV/EBITDA (x)	EV/EBITDA '22e (x)	P/E '22e (x)	EV/Sales '22e (%)	Div Yield '22e (%)
SABIC	97.6	122	1.5%	-5.0%	5.2%	8.63	9.29	18.37	2.35	3.4%
Industries Qatar	30.4	18.3	14.4%	14.7%	18.1%	10.36	13.55	13.30	6.61	2.0%
Basf Se	72.1	68.56	2.8%	10.1%	11.0%	7.08	7.50	11.55	1.06	5.1%
Yansab	10.2	68	-5.9%	-7.0%	-1.0%	11.45	11.91	23.32	4.72	4.7%
SATELLITE Chemical	12.5	45.6	3.8%	16.7%	9.4%	9.90	7.71	9.33	2.26	1.4%
Sahara	8.7	44.3	0.3%	2.8%	5.5%	6.97	8.89	12.97	4.17	4.7%
Indorama Ventures	8.8	51	7.9%	22.9%	17.9%	8.81	8.10	10.51	1.00	2.6%
Olin Corp	8.2	52.71	-2.2%	-14.9%	-8.2%	4.28	4.07	5.72	1.13	1.5%
Kayan	7.9	19.76	7.7%	3.2%	16.1%	8.50	9.83	15.95	3.73	0.0%
PTT Global Chemical	8.0	57.75	-4.1%	-6.1%	-1.7%	5.71	5.82	10.02	0.67	5.1%
Westlake Chemical	13.2	103.21	1.9%	1.4%	6.1%	4.35	4.44	7.45	1.23	1.2%
Mesaieed	9.4	2.727	17.5%	16.0%	30.5%	18.94	19.65	20.19	19.47	2.6%
Average						**8.75**	**9.23**	**13.22**	**4.03**	**2.9%**
Median						**8.56**	**8.49**	**12.26**	**2.30**	**2.6%**

Peer Group Valuation (2022E)





Source: Refinitiv; valuation as of 10 February 2022; Size of the bubble indicates market capitalization in USD bn

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Peer Group Analysis

In terms of the listed companies, there are several Petrochemical companies listed on exchanges across the region in Saudi Arabia, Qatar, Kuwait, Jordan. Among them, SABIC is the largest and an industry giant with operations comparable to global peers such as Lyondell, BASF, Chevron, ExxonMobil, and others. Among other comparable companies, we have identified peer companies that are not only from petrochemicals industry but also fertilizers and chemicals. As both IQCD and Mesaieed operate in multiple businesses but derive their value mostly from petrochemicals and fertilizers. Hence, we choose a diversified set of companies operating in related industries such as petrochemicals, fertilizers and specialty chemicals.

In terms of operations, the companies have their operations based in the GCC, close to the production of feedstock. The feedstock such as naphtha and natural gas liquids like methane are allocated by the governments or government-controlled bodies to various petrochemical companies. As such, any expansion plans are contingent on securing incremental allocations. While the pricing for these allocations is not publicly disclosed, the comparison of historical market prices for these inputs and cost trends of petrochemical companies indicate that the prices closely track market price trends.

MENA petrochemical companies have their end-consumers across the globe as the region is located strategically mid-way from both sets of major buyers – US, Europe, as well as Asia-Pacific countries. Among western economies, the trend appears to be veering towards closure of older plants in the US and Europe, while replacement capex is not being added quickly enough, thereby creating an opportunity for the MENA Petrochemical industry to expand market share in these economies.

Among the companies covered in this report, Mesaieed Petrochemicals produces a range of products from HDPE to Chlor Alkali, while IQCD is diversified further into fertilizers and steel along with petrochemicals. The key products sold by Mesaieed under petrochemicals include HDPE (contributed ~64% of the segment revenue in 9M 21) and NAO (contributed ~24% of the segment revenue in 9M 21) while key products sold under the Chlor-alkali segment include vinyl chloride monomer (contributed ~45% of the segment revenue in 9M 21) and Caustic Soda (contributed ~40% of the segment revenue in 9M 21). The key products sold by IQCD under the fertilizers segment include urea (contributed ~85% of the segment revenue in 9M 21) and ammonia (contributed ~11% of the segment revenue in 9M 21). Under the steel segment, the key products sold are rebars (contributed ~75% of the segment revenue in 9M 21) and billets (contributed ~11% of the segment revenue in 9M 21). Petrochemicals form a part of a joint venture and the key products sold are LDPE (contributed ~50% of the segment revenue in 9M 21), LLDPE (contributed ~17% of the segment revenue in 9M 21), MTBE (contributed ~8% of the segment revenue in 9M 21) and Methanol (contributed ~9% of the segment revenue in 9M 21).

MENA Petrochemical companies' stock prices and valuations have seen a jump in 2021 driven by product price increases as well as capacity addition announcements along with merger activity. As a result, several companies are trading at relatively fair valuation or higher. Further, the dividend track record also plays an important role of GCC Petrochemicals companies' relative attractiveness to stocks from other sectors.

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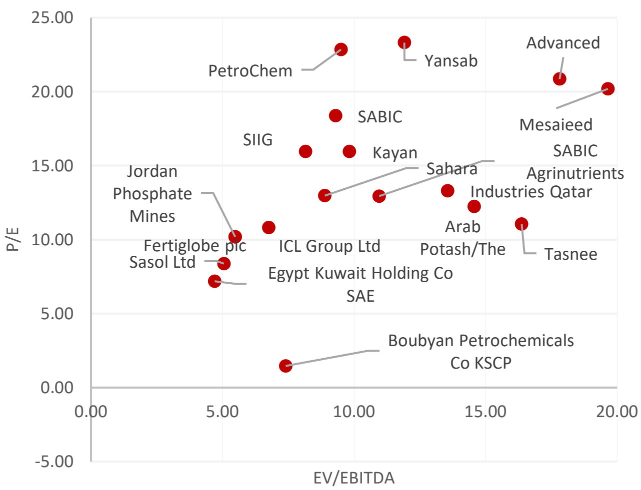
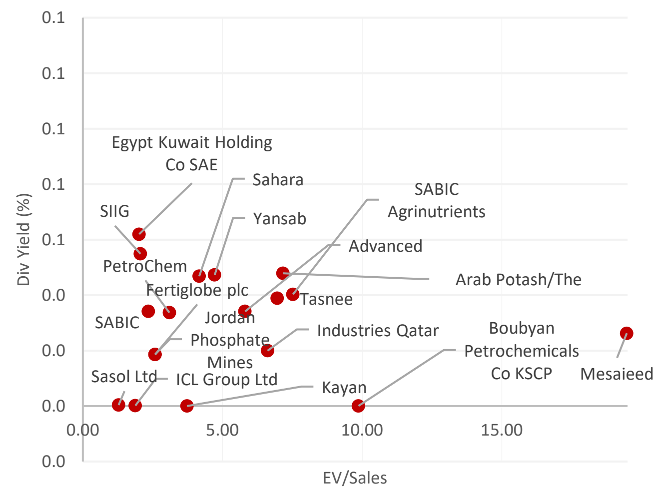
MENA Petrochemicals Valuation (2022E)

EV/EBITDA vs P/E



EV/Sales vs Dividend Yield (%)



Source: Refinitiv; valuation as of 10th February 2022

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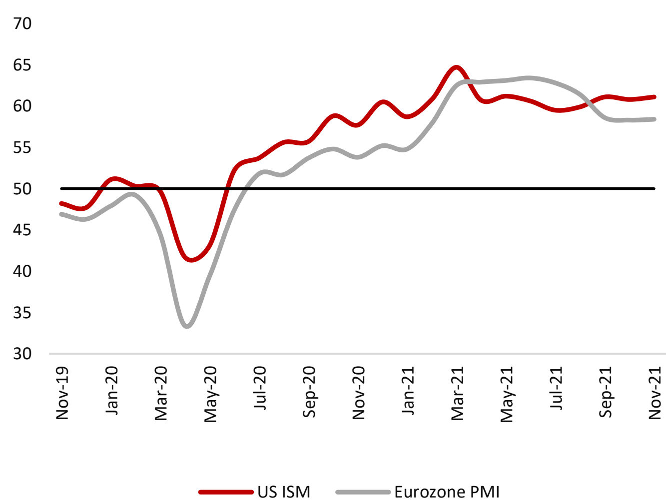
Global and Sector Outlook

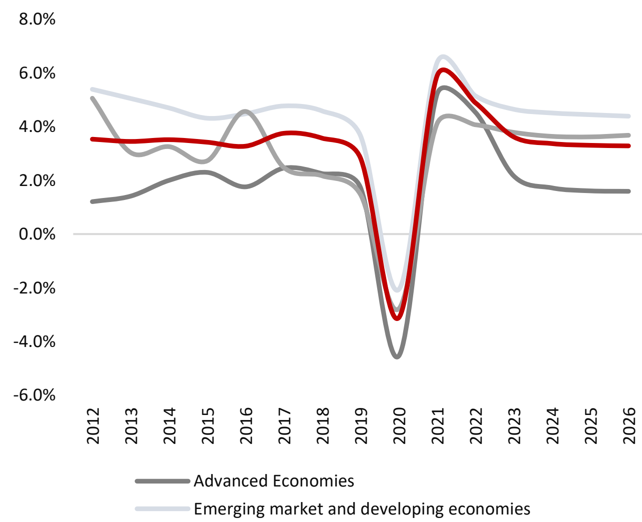
Global economy recovered in 2021

Led by vaccination and subsiding of Delta wave of COVID-19, global economy recovered in 2021 from the lows of 2020. Economic growth, especially manufacturing bounced back across the globe, as observed from the Purchasing Managers Indices (PMIs). Since petrochemicals have wide variety of end-use applications across both industrial and consumer segments, the resumption of manufacturing activity led to revival in petrochemical demand in 2020 and continued in 2021 as well. In terms of future prospects for global growth and consequently demand petrochemicals, growth is expected to moderate from 2021 highs but remain steady for the medium term, thus auguring well for the sector.

Manufacturing PMIs



Global GDP – historical and forecasts



Source: The World Bank, Institute of Supply Management, IHS Markit

Petrochemicals industry resilient amid COVID-19 and ride global economic recovery wave in 2021

While COVID-19 impacted the oil market adversely in 2020 (crude oil fell to abnormally low levels in 2Q20), the petrochemicals sector demonstrated relative resilience during 2020 and has further grown on that foundation in 2021. Demand for petrochemicals from sectors such as healthcare and packaging increased during the pandemic and offset the fall in demand from the automotive sector. In general refining margins for petrochemicals increased in 2020 as compared to 2019, in contrast, to fall in refining margins for transport fuels.

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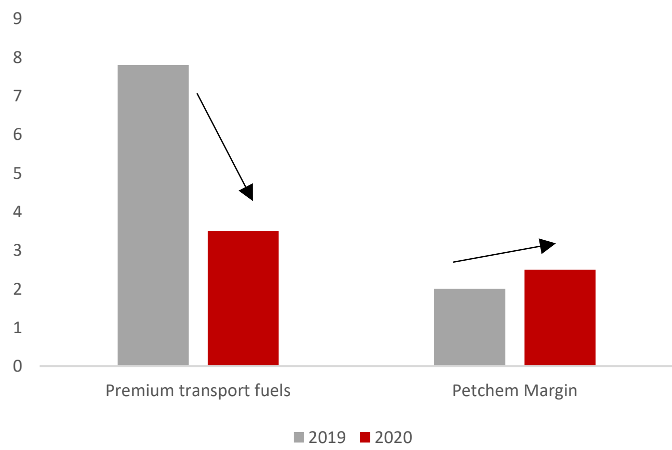
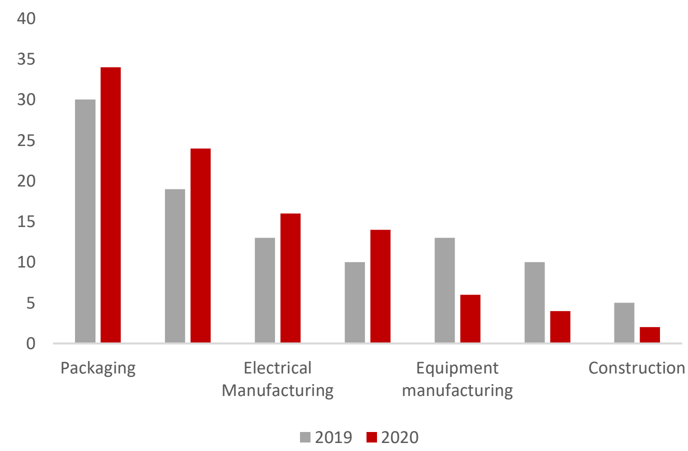
Indicative margins (USD/bbl)- premium fuels refining vs petrochemicals



Change in share of demand (%) from key end-use sectors



Source: IEA, ICIS

The year 2021 witnessed global economic recovery after the lows of 2020 impacted by COVID-19. Along with rise in crude oil prices (+50% in 2021) to average over USD 70 per barrel, petrochemical prices have also risen between 25-35% over 2020. The price rise was driven by a rebound in economic demand as well as global supply chain bottlenecks, and inventory drawdowns amid low CAPEX by oil & gas companies. The petrochemical industry rode this wave of rebound to post strong topline and bottom-line results in 2021 (9M) and looks set to continue the momentum into 2022.

Impact of COVID-19 on Petrochemicals industry

The impact of economic restrictions put in place to curb the spread of Covid-19 was different acccross different industries that used petrochemicals. Automotive and construction sectors saw particularly steep declines in 2020 while packaging demand (especially in food, sanitary products, and medical applications) remained robust and also improved in specific end-products. The versatility of petrochemicals has led to its applications across a wide range of end-use sectors, ranging from packaging, automotive, construction, medical equipment, textiles, electricals and, electronics as well as several other sectors. The well-diversified nature of end-use sectors helped the Petrochemicals industry to limit the impact of COVID-19. Further, GCC petrochemicals and fertilizer companies are at the lower end of the global cost curve due to lower cost of feedstock (Ethane, Naphtha) which in turn is supported by the lowest cost of extraction for crude oil in GCC region. As such the cost benefit flows through the value chain and helps GCC petrochemicals and fertilizer companies to remain relatively resilient as compared to its global peers.

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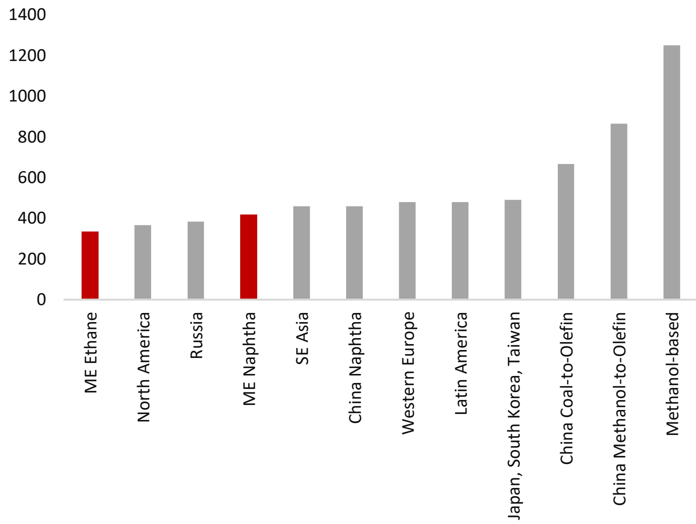
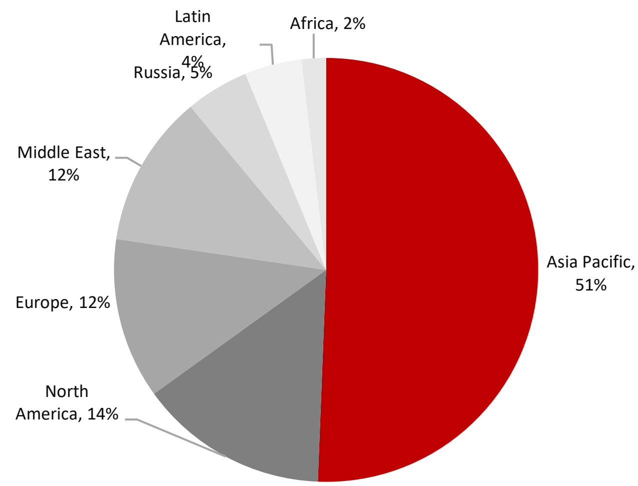
Petrochemicals cost curve (USD/mt) as of mid-2020



Petrochemical production capacity across the globe



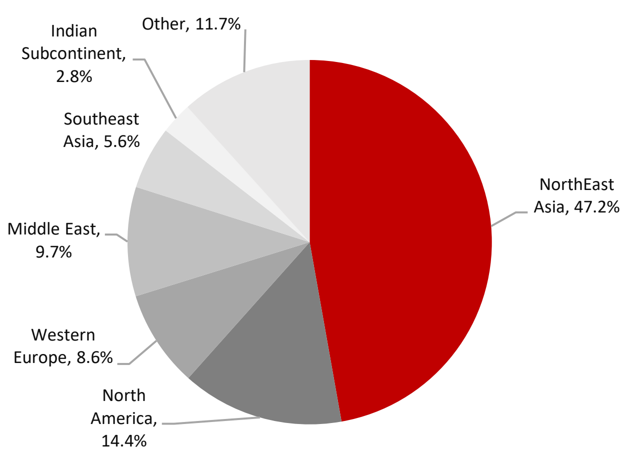
Source: McKinsey Chemicals Insight, ICIS; ME -Middle East

Demand expected to remain robust from both the East (India, China) and the West (US, EU)

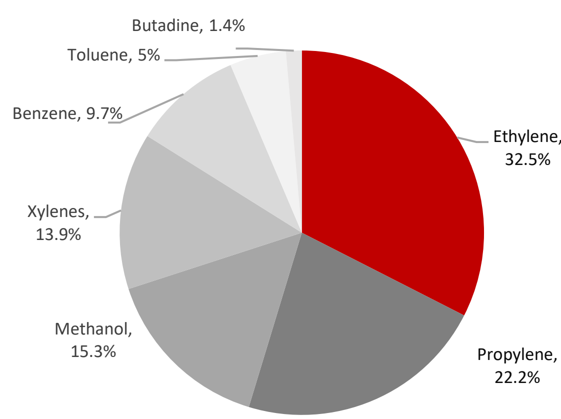
The demand for petrochemical and fertilisers is driven by both developing economies like India but also those like US and China who had seen peak economic growth in the past. While crude as a source of fuel may be impacted by global environmental concerns, the widespread application of petrochemicals across industries – from packaging to construction to transportation – is likely to result in continued demand. As of now, there are no immediate substitutes available for major petrochemicals that could impact demand.

The major demand currently is coming from Asia (China, Japan, India, SEA), while product demand is dominated by Ethylene, Propylene and its variants. From an industry perspective, the packaging industry is a major consumer, both in terms of consumer packaging (such as food and beverage), as well as industrial packaging used for business-to-business transactions. According to Grandview Research, the global petrochemicals market size was estimated at USD536bn in 2020 and is estimated to grow at a CAGR of 6.4% till 2028.

World Consumption of Primary Petrochemicals- By Region



World Consumption of Primary Petrochemicals by Resin



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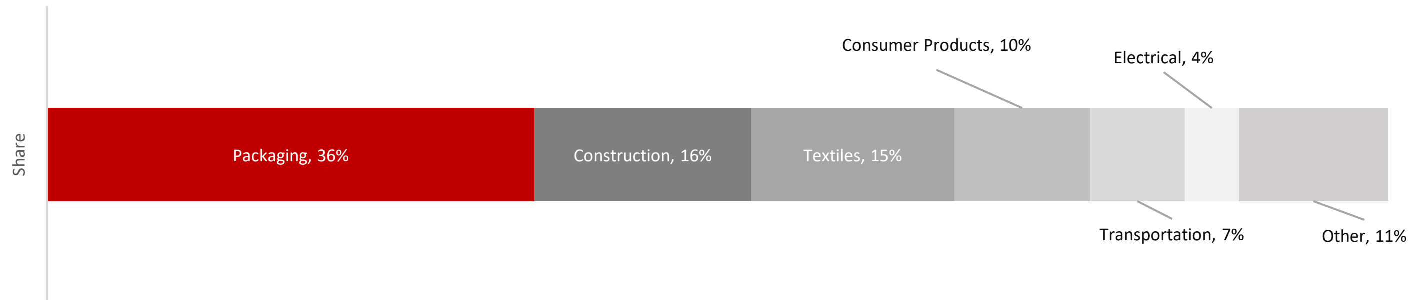
World Consumption of Primary Petrochemicals- By End Use



Source: IHS Markit

Environment concerns may not materially impact the Petrochemical and Fertilizer sector

Globally, with climate change and growing consensus about decarbonization, all industries including petrochemicals are being increasingly scrutinized for environmental impact. The non-biodegradable nature of plastics is a major concern among environmentalists. There is also a growing momentum for ban on single use plastics. Governments are beginning to either limit or tax single use plastics or non-recycled plastic used in packaging. Further, recycling targets and other innovative plastic technologies also aim to limit incremental ubiquitous use of plastics. The International Energy Agency estimates that these initiatives may have only a moderate impact on overall plastics consumption. As of now, there are no immediate alternatives to petrochemicals, unlike fossil fuels which are being replaced by alternative energy sources. The Petrochemicals industry itself is conscious of the broader shift towards greener alternatives and is undertaking research for longer term biodegradable alternatives as well as reducing their own carbon footprint generated though energy intensive production. In case of fertilizer sector, demand for polluting fertilizers would be replaced with organic fertilizers and water-soluble fertilizers.

Petrochem companies ESG initiatives

Company	**ESG initiatives**
Mesaieed	**Environment:** The company strives to limit the environmental impact of its business, while enhancing energy efficiency and conservation measures. The company has achieved certification related to ISO 14001:2015 for Environmental Management Systems. It also undertakes capex projects related to minimizing emissions and waste. **Social:** The company follows the Qatarization programs (partnership with educational institutions, internships, career fairs, trainings), undertaking initiatives for employee retention, training and development, promoting health and fitness, sports activities etc. In terms of society-related activities, these include promoting community partnership, added value for business partners, customer satisfaction, local procurement, sponsorships etc. Further, 2.5% of the Company's annual net profit is allocated to support sports, cultural and social activities.
IQCD	**Environment:** The company invests in research and development that would enhance environmental footprints. The company also has a separate health, safety, security and environment (HSSE) committee that oversees energy efficiency, environment management and environmental compliance through emission reduction, water management, waste management, and continuous investment in environmental projects to rationalize and make efficient use of the natural resources. **Social:** The company focuses on supporting local procurement (approximately 63% of the total spending on procurements by group companies went for local procurement), sponsorship, community awareness activities such as fitness campaigns, donations, partnerships with non-profit and charitable societies.

Source: Company filings

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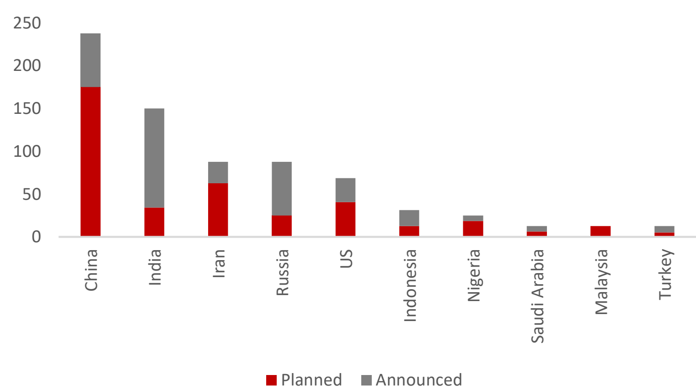
Oversupply concerns from 2024/2025 onwards due to announced capacity expansions in end-consumer countries

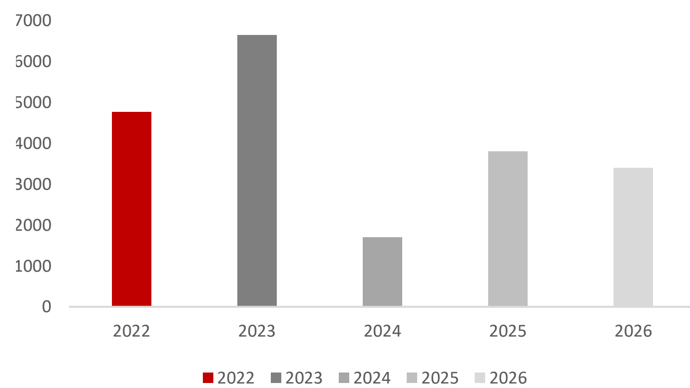
The Asia Pacific region accounts for half of the world's production and China is the largest producer in the region. The major consumers – China, India and US – have seen capacity expansion announcements. Driven mainly by China, global petrochemical capacity is expected to increase from 2.13bn million tonnes per annum (mtpa) in 2019 to 3.03bn mtpa in 2030, as per IEA. A production surplus can result in triggering the next downcycle in the Petrochemicals industry earlier than expected. However, Middle East producers are amongst the lowest-cost producers and have a strategic advantage.

According to IEA, petrochemical manufacturers in the US are investing a total of USD200 billion for the construction of new petrochemical facilities, which is around 40% of the current capacity. China's petrochemical producers are expected to launch 2 mb/d of refining capacity between 2019 and 2024, accounting for an estimated 40% of global net capacity additions and 90% of Chinese capacity increases over the same period. Further, among the oil refining companies in China, the tendency is to spend incremental capex on petrochemical–oriented projects, with outputs geared towards producing olefins and aromatics. The objective is to replace feedstock or imports of petrochemical base materials, which is likely to be achieved in the second half of this decade.

Global Capacity Additions by top countries (mtpa) by 2024



Year-wise capacity addition ('000 t/y')



Source: Petrochemical analytics, GlobalData Oil and Gas Intelligence Centre, IEA

Select Petrochemical plant additions underway across the world

Projects	Country	Capacity ('000 t/y')	Feedstock	Scheduled year
INEOS Cracker, Antwerp	Belgium	1000	Ethane	2023
SINOPEC Gulei JV Cracker, Zhangzhou	China	800	Naphtha	2022
PetroChina Cracker, Korla	China	600	Naphtha	2025
Carbon Holdings Cracker, Ain Sokhna	Egypt	1500	Naphtha	2023
HPCL-Mittal Energy Limited (HMEL) Cracker, Bathinda	India	1200	Naphtha/Kerosene	2022
PT Lotte Chemical Titan Cracker, Merak	Indonesia	1000	Naphtha	2023
Dehloran Sepehr PC Cracker, Dehloran	Iran	500	Ethane	2024
Ganaveh-Dashtestan PC Cracker, Ganaveh	Iran	500	Ethane	2025
Nizhnekamskneftekhim Cracker 2, Nizhnekamsk	Russia	650	Ethane/Naphtha	2023
Sibur-Amur Cracker, Svobodny	Russia	1200	Ethane/Propane	2025
Rosneft-VNHK Cracker, Nakhodka	Russia	1400	Ethane	2026
Aramco-Sabic Cracker, Yanbu	Saudi Arabia	2000	Naphtha	2026
Lotte-Hyundai Cracker, Daesan	South Korea	750	Naphtha/LPG	2022
GS Caltex Cracker, Yeosu	South Korea	700	Naphtha	2023

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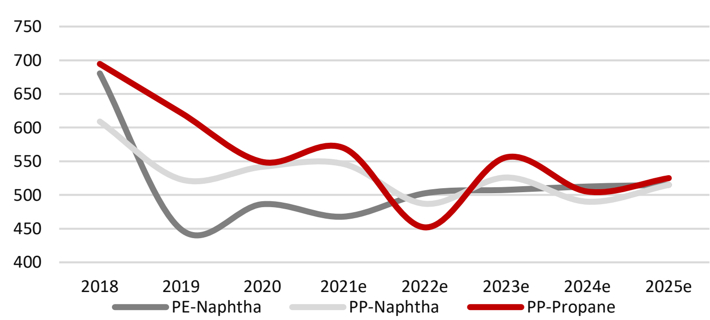
Projects	Country	Capacity ('000 t/y')	Feedstock	Scheduled year
PTTGC Cracker 5, Map Ta Phut	Thailand	525	Naphtha/LPG	2022
Shell Cracker, Monaca	US	1497	Ethane	2022
Exxon-SABIC Cracker, Corpus Christi	US	1800	Ethane	2023
Formosa Cracker 1, St. James	US	1200	Ethane	2024
Borouge Cracker 4, Ruwais	UAE	1500	Ethane	2025

Source: IEA

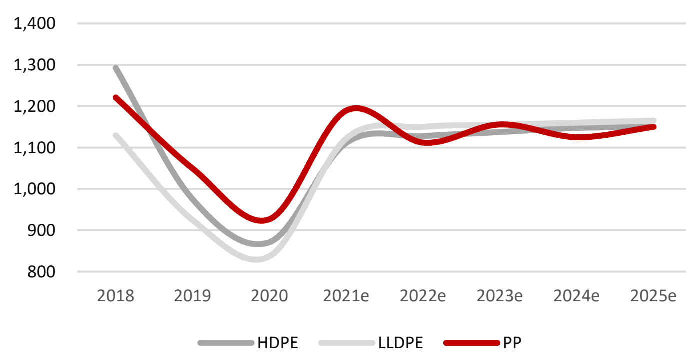
Major product-feedstock spreads to remain steady after suffering from downcycle till 2020

While petrochemicals have enjoyed a super cycle between 2010 and 2018, the capacity additions during this period caught up with demand, resulting in lowering of spread across major pairs such as Polyethylene-Naphtha, Polypropylene-Naphtha, and Polypropylene-Propane. However, in 2020, led by a collapse in crude prices and consequently lower naphtha prices, the spreads stabilized and even increased in 2021 in the case of specific pair of products and feedstock. Product prices had jumped in 2Q21 but have moderated in 2H21 and are expected to continue correcting into 2022 based on the trend observed in 4Q21. Thereafter, the spreads are expected to remain steady for the next few years due to continued economic recovery. Consequently, margins and cash flows of GCC petrochemical companies are also likely to sustain.

Product Price Spreads (USD/t)



Product Price Trends (USD/t)



Source: Refinitiv

Major Petrochemicals Demand Trends

Polyethylene (PE)

The global polyethylene (PE) market is projected to grow from USD107.4 billion in 2019 to USD130.3 billion in 2027 at a CAGR of 3.4% in forecast period, as per Fortune Business Insights report. Polyethylene is the most widely used polymer in the world with large part of demand coming from the packaging industry due to its characteristics. PE is a versatile material with properties such as durability, resistance to moisture, high strength to density ratio, resistance to physical stress yet easy customization allowing easy molding into various products.

The main industries that use PE are packaging, automotive, electrical and electronics, food and beverage and consumer goods. In automotive industry, PE is used due to its easy processability, sealing and stiff properties in addition to being light weight. In the food and beverage industry, the moisture barrier property of PE leads to its use in packaging solutions. PE is also widely used in consumer goods industry ranging from fashion apparel to sports goods to toys, due to its ability to handle physical stress. In agriculture, its durability and resistance to moisture has led to its use in making of drippers, piping solutions, nozzles and other irrigation related systems.

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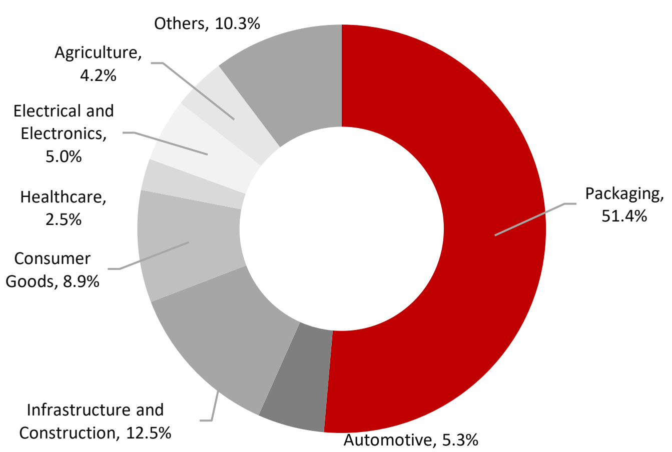
Types of PE

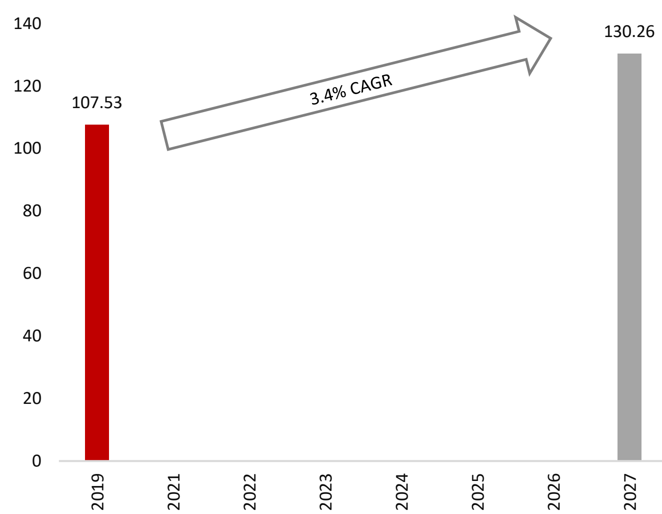
Polyethylene is mainly used in three variants – High Density Polyethylene (HDPE), Low Density Polyethylene (LDPE) and Linear Low-Density Polyethylene (LLDPE). Among these, HDPE has most applications across wide variety of industries and hence has higher share compared to LDPE and LLDPE. Some common daily use products made from HDPE include plates, bottle caps, food storage containers, plastic bottles that hold chemicals such as detergents, liquid soaps etc. LDPE is mainly used in packaging due to its flexibility and softness as well as resistance to chemicals. The industries that mainly use LDPE include food and beverages, healthcare, and electronics. LLDPE has high tensile strength, high impact resistance along with flexibility, which finds applications in industries such as packaging, healthcare, agriculture, and building construction.

During 2020, the demand for PE from automotive, electrical and electronics, and consumer goods sectors declined. However, demand from healthcare and packaging industries increased. Especially in the healthcare segment, demand for single use plastic products, personal protective equipment (PPE), sampling containers, saline bottles, curtains and similar other products has increased and expected to remain elevated in near future until various variants of COVID-19 virus keep evolving leading to high number of infections.

Polyethylene demand by end-use sector



Polyethylene estimated market size (USD bn) and demand growth



Source: Fortune Business Insights

Low Density Polyethylene (LDPE)

The global LDPE market is projected to grow from USD35.6 billion in 2020 to USD44.8 billion in 2026 at a CAGR of 3.91%, as per IMARC Group report. Growing demand for plastic packaging products is the key driver behind global demand for polypropylene. Currently, LDPE is widely used in packaging of food and non-food items, protecting them from environmental and other factors, thereby extending shelf life. LDPE has a density between 0.910 g/cc and 0.940 g/cc and has 4,000-40,000 carbon atoms. This results in increased ductility and low tensile strength. Other than packaging, it is used in the construction industry for pipes and fittings, electrical insulations and so on, due to its ability to resist against impact from moisture, wear and tear, chemicals, and stress. About 55% of the global consumption of LDPE is consumed by the packaging sector alone. Due to improving food and safety standards in APAC, South America and the Middle East, the packaging industry is expected to lead to the growth in the LDPE market.

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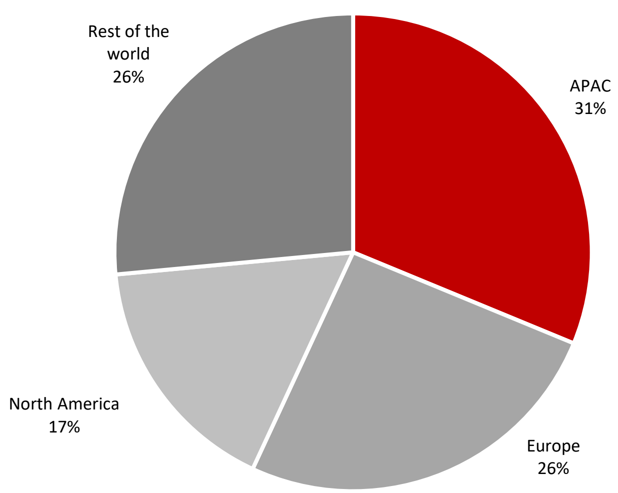
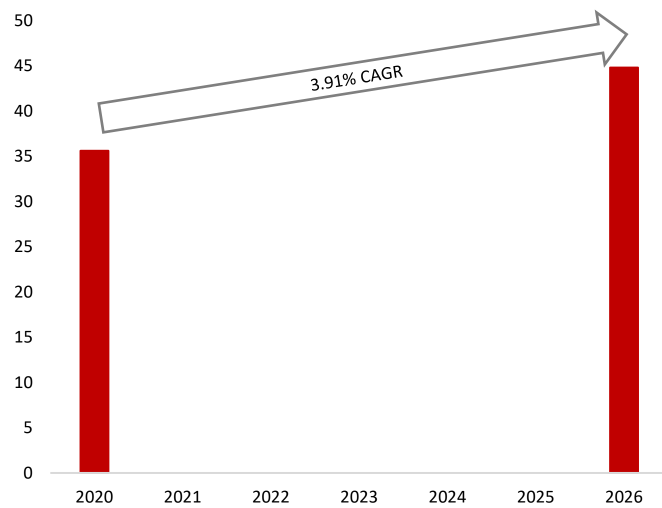
LDPE Production by geography



LDPE estimated market size (in USD billion) & demand growth



Source: Beroe, IMARC Group

During 2020, the demand for LDPE from building construction sector declined due to lower end-consumer demand, supply chain bottlenecks and the halt in non-essential economic activities imposed by lockdowns. On the other hand, the demand from food and non-food packaging industries increased due to increased demand packaged food and beverages. The rapid urbanization has played a major part in increasing demand for packaged products, thus leading to growth in the LDPE market.

The APAC region dominates the LDPE market due to countries such as China, India, and Japan which account for major share of demand. China is the largest manufacturer and exporter of packaging materials and products globally. In case of India, the packaging consumption has increased by 100% in the last decade. The packaging sectors of China and India are expected to grow by 6.8% and 26.7% during 2020-25. The competitive landscape for the LDPE market is relatively consolidated. Some of the large players in the market are Exxon Mobil Corporation, BASF, LG Chem, Chevron Phillips Chemical Company and Dow among others.

Linear Low-Density Polyethylene (LLDPE)

The global LLDPE market is projected to grow from USD58.94 billion in 2020 to USD85.95 billion in 2028 at a CAGR of 4.83%, as per a Reports and Data report. Rapid industrialization, growing demand for automobiles, oil and gas, electronics and manufacturing and replacement of LDPE and HDPE are the key drivers behind global demand for polypropylene. Currently, LLDPE is widely used in packaging of food and non-food packaging, due to their properties such as impact-resistance and immense tensile durability. The growing adoption of packaged, ready-to-eat, or frozen foods has led to the increased demand for LLDPE. According to Ceresana, LLDPE is one of the most widely used types of plastics, due to higher flexibility and higher resistance to shocks and cracks. Further, LLDPE can be produced with reduced thickness, saving materials and costs. Other than packaging, LLDPE is used to manufacture pipes, bags and sacks, plastic and stretch wraps, lids, buckets, toys, cable coverings, geomembranes, etc. The extrusion molding segment, which involves extruding materials to create tube-shaped objects such as PVC pipes, fencing, weather stripping, etc., contributed the largest share in 2020.

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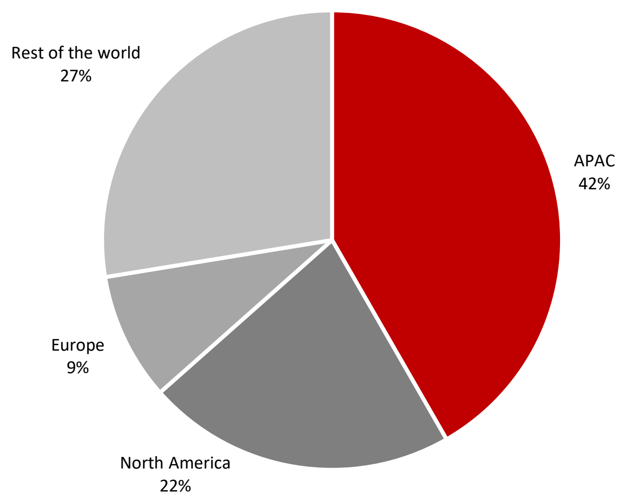
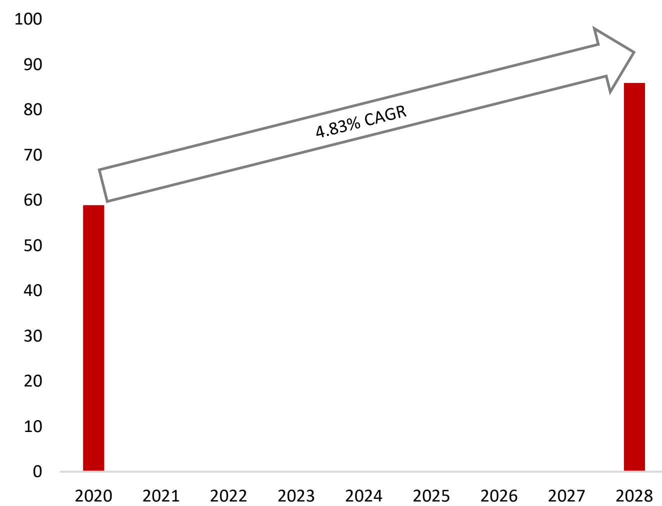
LLDPE Production by geography



LLDPE estimated market size (in USD billion) & demand growth



Source: Beroe, Reports and Data

During 2020, the demand for LLDPE from building construction and automotive sectors declined due to lower end-consumer demand, supply chain bottlenecks and the halt in non-essential economic activities imposed by lockdowns. On the other hand, the demand from food and non-food packaging industries grew significantly due to higher demand packaged food and beverages. The rapid urbanization, coupled with increasing adoption for packaged foods has played a major part in increasing demand for packaged products, thus leading to growth in the LLDPE market.

In 2020, the APAC region dominated the LLDPE market, with 42% of LLDPE production coming from this region. This is due to countries like China and India which are popular destinations for packaging, construction, and automobiles. The market in APAC region is expected to grow rapidly due to higher growth rates in the above-mentioned end-use sectors. The higher APAC growth rate is a key factor for the LLDPE market growth. The competitive landscape for the LLDPE market is relatively consolidated as companies resort to strategies such as mergers and acquisitions, partnerships, product development and so on, in order to stay ahead of the competition. Some of the large players in the market are Exxon Mobil Corporation, Saudi Basic Industries Corporation (SABIC), BASF, Mitsubishi Chemicals, Chevron Phillips Chemical Company and Braskem SA among others.

Global Fertilizer Industry impacted by COVID-19

The global fertilizer industry has been affected by the COVID-19 pandemic, owing to lockdowns, supply chain disruptions and labor shortages. While the pressure has gradually eased, supply chain disruptions and labor shortages remain the main concerns of producers. These factors have also led many smaller players shutting down production. The Global Fertilizer Market is expected to grow at a CAGR of 2.4% between 2021 and 2027, as per GM Insights report. Furthermore, the demand is expected to grow from 187.1 Mt nutrients in marketing year 2018/19 to 208.3 Mt nutrients in 2025/26, as per IFA.

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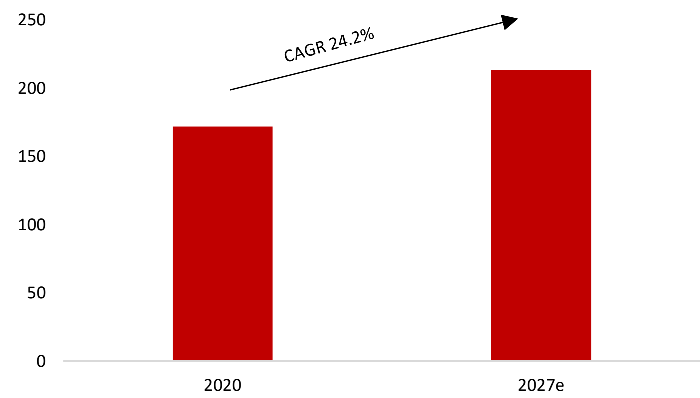
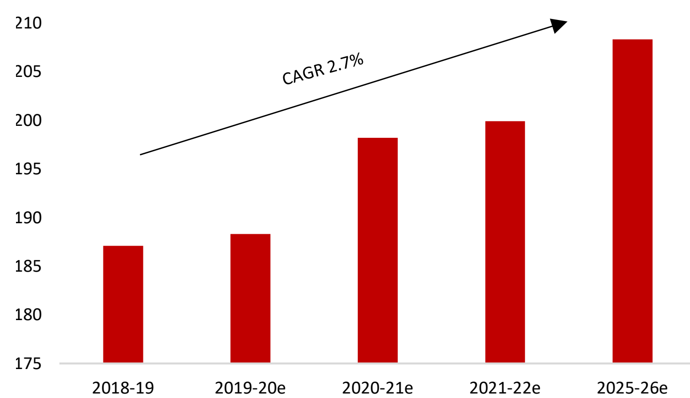
Global Fertilizer Industry Size and Growth Forecast



Global Fertilizer Demand (in Mt Nutrients) (by Marketing Year)

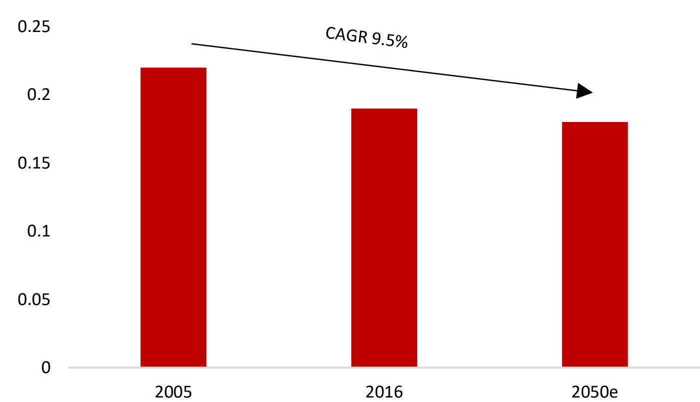


Source: GM Insights, International Fertilizer Association

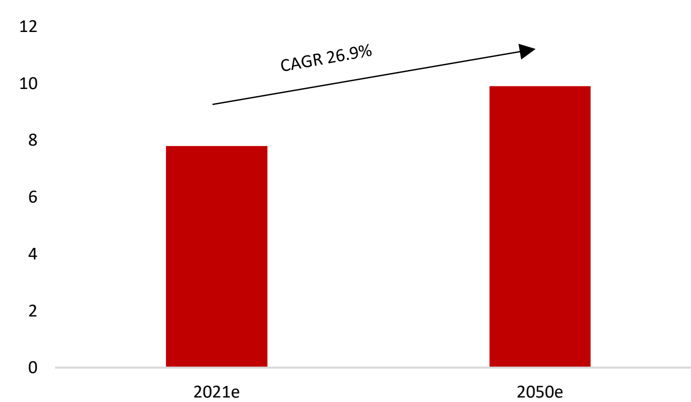
Increasing Food Demand to play a key role in fertilizer industry growth

The rising population is expected to play an important role in the growth of the fertilizer industry. The UN estimates that world population will be 9.9 billion in 2050. Furthermore, a rising percentage of the population is expected to be urban. Rapid urbanization is also expected to add to the food demand. The large population coupled with reducing arable land means that feeding this population may prove a major challenge and can only be possible through getting higher output from existing land. Improved fertilizers such as organic and specialty fertilizers are being developed to improve crop yields. Rising adoption of precision farming practices and the development of newer technologies will support the growth of this market. The adoption of better technologies is expected to lead to increased investments in equipment and R&D, in turn leading to higher demand for fertilizers.

Global Per Capita Arable Land (in hectares)



World Population (in billion)



Source: Mordor Intelligence, FAO, UN

Demand rising for organic and water-soluble fertilizers

Fertilizers contain chemicals such as nitrogen, methane, etc., which are harmful to environment as well as to human and animal life. Fertilizers are known to lead in ground water pollution and to harm aquatic life. The rising attention and focus on ESG is increasing pressure on farmers and fertilizer producers to use organic fertilizers. The rising demand for organic fertilizers is expected to drive growth and improve farming practices in the long run. The demand for WSFs is growing and is expected to remain high. Such fertilizers are efficient in improving crop yields and require less water, thus highly compatible with modern irrigation techniques.

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Factors such as overuse and higher cost of specialty fertilizers may restrain growth

Many farmers lack awareness regarding the optimal usage of fertilizers and end up using far more than is necessary. Fertilizer over-use is harmful to the soil and may reduce the fertility of the soil in the long term and increases pollution. This is a major factor restraining growth of the industry. Further, certain categories of fertilizers namely micronutrient and customized fertilizers are expensive. The low cost-effectiveness is thus, expected to act as a hindrance in the growth of the industry.

Demand expected to remain robust from agriculture sector and the Asia Pacific Region

Agriculture is the largest segment of the global fertilizer industry followed by horticulture. This is expected to remain so as the demand for agricultural products is expected to keep increasing. As per GM Insights, the agriculture segment generated USD 70 billion in 2020 due to increased fertilizer demand for food crops and other plants.

In terms of geography, Asia Pacific is the most attractive market owing to countries such as China, India, Vietnam and Thailand. In 2020, the region contributed to around than 60% revenue and China, alone, contributed approximately 31.8%. Demand in Asia Pacific is expected to remain strong with increasing rice and oil palm production, driven by population growth. Moreover, government subsidies, direct benefit transfers to farmers, and other reforms are also expected to drive growth in the region.

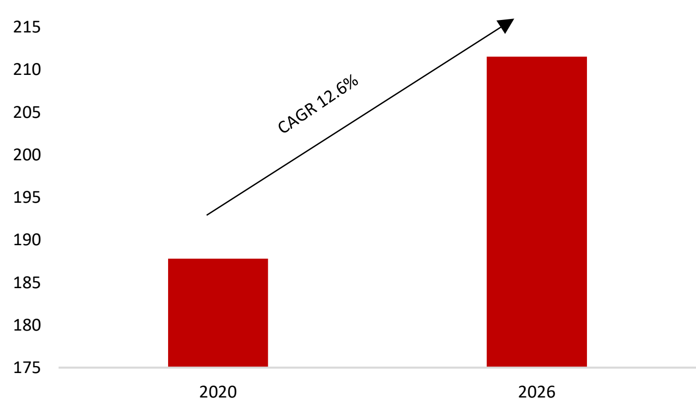
Fertilizer industry is globally consolidated

The market is relatively consolidated in nature with the existence of a few major players and several minor players. Some of the well-known companies in the industry are Yara International ASA, Nutrien Limited, Indian Farmers Fertilizer Cooperative Limited (IFFCO), Haifa Group, Syngenta AG and Sumitomo Chemical Co. Limited. Product development is important in the fertilizer industry and companies are investing heavily in R&D, product development and other related activities. The consolidated nature of industry means producers like IQCD benefit from being able to pass cost increases to consumers and maintain margins

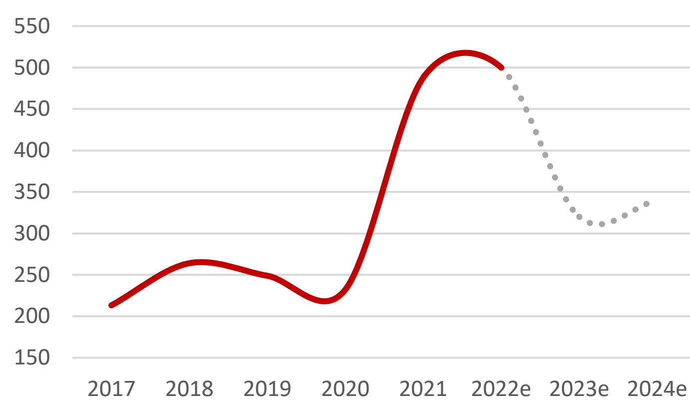
Urea is the most in-demand fertilizer

Urea is a fertilizer which has the highest nitrogen content (around 46%) among all nitrogenous fertilizers. It is widely used in agriculture as it is an important nutrient for crop growth. It is also known as carbamide and is a colorless crystalline substance. Other than fertilizers, urea is also used in medical, cosmetic and skincare, automotive, etc. The urea market is estimated to grow at a CAGR of more than 2% between 2021-26, as per Expert Market Research report.

Global Demand for Urea (in Million MT)



Urea Prices (USD/mt)



Source: Expert Market Research, Bloomberg

Urea market is driven by demand from agriculture as well as industrial applications

The growth of the agriculture sector is an important driver of the growth in the urea market. Urea is a widely used fertilizer due to high nitrogen content. Nitrogen is the one of the most important nutrients necessary for plant growth. The growth in the fertilizer market, especially that of nitrogenous fertilizers, is expected to further boost the demand for urea.

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Compared to other segments, industrial applications are expected to grow faster. The is due to the increasing usage of urea in automotive due to changing regulations related to the nitrogen oxide in diesel engines. Growth in other markets such as medical and, cosmetics and skin care are expected to be faster than the fertilizer industry. GM Insights expects that the medical segment will hold a significant share by 2027, due to urea's usage in medicines for treating diseases such as eczema, psoriasis and keratosis.

Largest Producer and Consumer is China

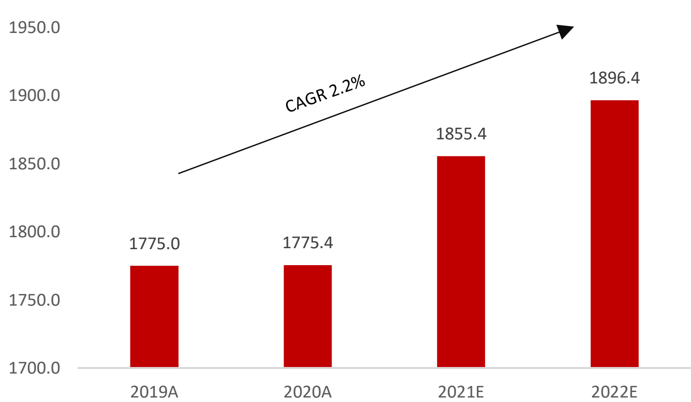
The largest producer and consumer of urea is China due to its abundance of coal reserves and its vast agriculture industry. China is a net exporter of urea, exporting the product to countries like India, which is the second largest consumer of urea. Asia Pacific is the largest market for urea due to China and India and the growth in agriculture in this region is expected to retain its position.

Similar to the fertilizer industry, the urea market is consolidated with a few large players. Some of these players are Yara International ASA, IFFCO, Qatar Fertilizer Company, SABIC, National Fertilizers Ltd (NFL), Saudi Arabian Fertilizer Company (SAFCO),BASF and IQCD.

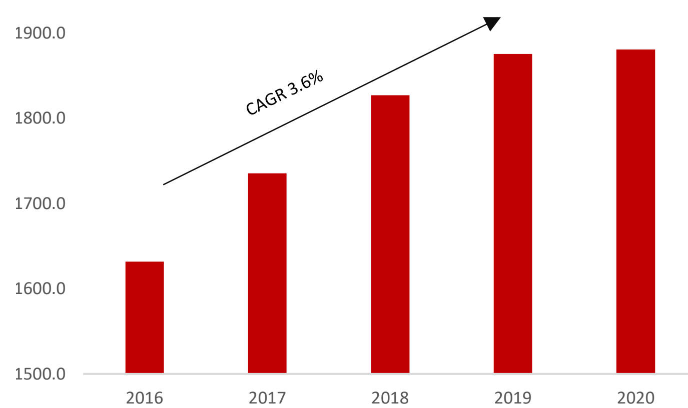
Global steel demand and supply trend

According to the report published by The World Steel Organization in October 2021, the demand for steel will grow 4.5% to 1,855.4 Mt in 2021, after witnessing a marginal growth of 0.1% in 2020. The year 2022 will see a surge of 2.2% to 1,896.4 Mt. The development of vaccinations across the globe and a decrease in the number of Covid cases will function as key drivers for this surge. The year 2021 witnessed a robust recovery in steel demand, leading to a steep revision in the forecasts. The global steel demand outside China is likely to witness a recovery to its pre-pandemic levels earlier than expected.

Global finished steel demand (in million tonnes)



Global crude steel production (in million tonnes)



Source: The World Steel Organization

Steel demand forecasts – MENA, GCC, China, Asia and Oceania and (in million tonnes)

The steel demand recovery in the GCC countries was lesser than expected due to a decline in the construction activities amid fiscal consolidation efforts. In 2022, steel demand is expected to be robust due to rising oil prices and a decrease in the spread of the Covid-19 virus. The steel demand in Egypt was negatively impacted by the deferment of construction licenses in densely populated urban areas.

The Chinese economy posted a robust recovery between 2020 to early parts of 2021. However, the recovery has been sloppy since June 2021. Occasional factors like adverse weather conditions and an increase in infections during the summer attributed to the sharp deceleration. Furthermore, a sluggish momentum in real estate activities and government cap on steel production also attributed to the deceleration. It is estimated that the demand for steel in China will remain flat in 2022, amid weakness in the real estate sector and the government's stance on environmental protection and rebalancing. The government's stance on moving away from the real estate-dependent growth is expected to continue.

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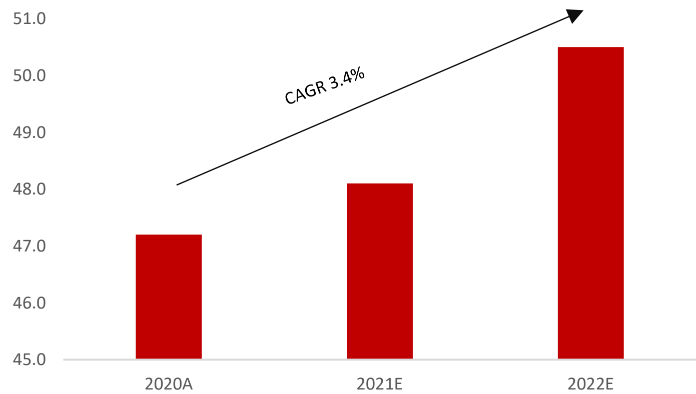
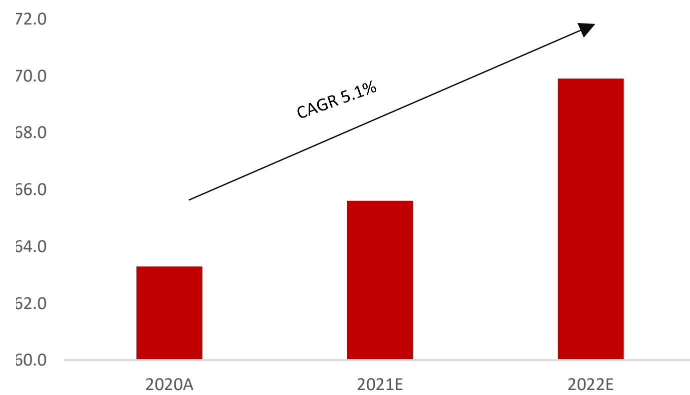
Steel demand – GCC region (in million tonnes)

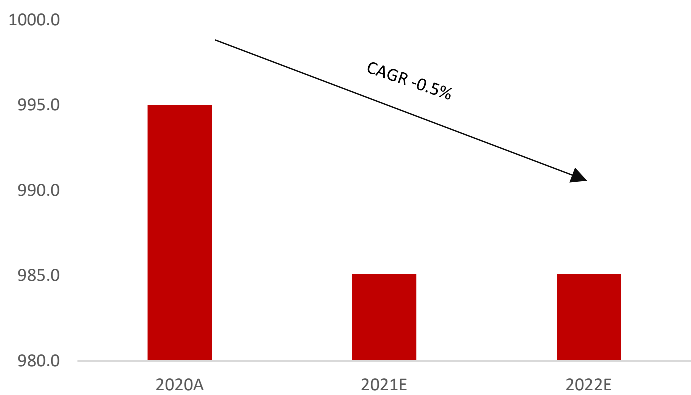


Steel demand – MENA region (in million tonnes)

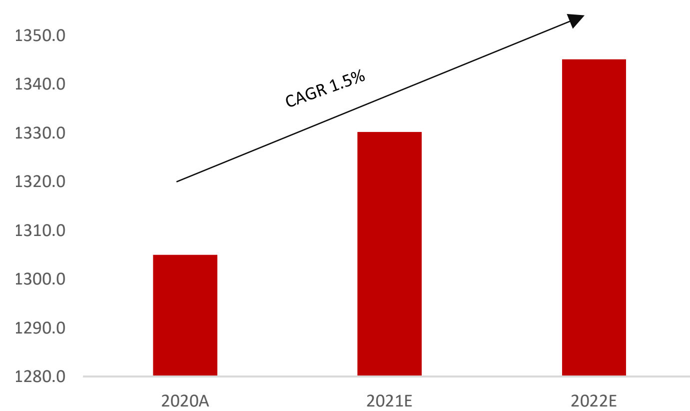


Source: The World Steel Organization

Steel demand – China (in million tonnes)



Steel demand – Asia and Oceania (in million tonnes)



Source: The World Steel Organization

Global steel price trends

The LME showed signs of growth in the second half of the year 2021. The pandemic hit trading activities passed during the second half of 2021 as the exchange continues to strengthen its footprint in steel trading. The volumes trended sharply lower during the mid-2020s due to the virus and the slump extended to May 2021. European hot-rolled, Indian scrap, and Taiwan scrap saw some momentum after its launch in August 2021. Investors have rekindled to this sector post the prolonged downturn.

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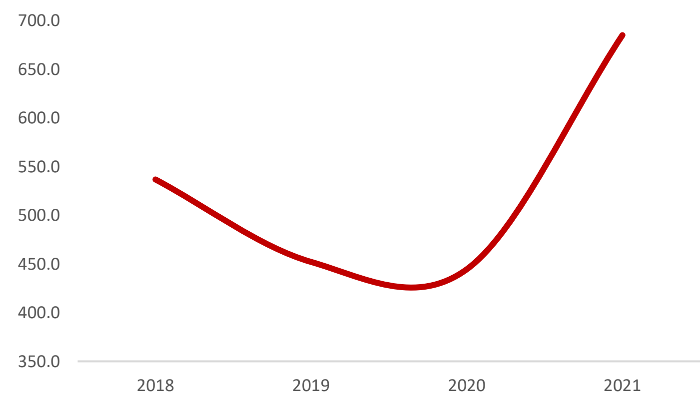
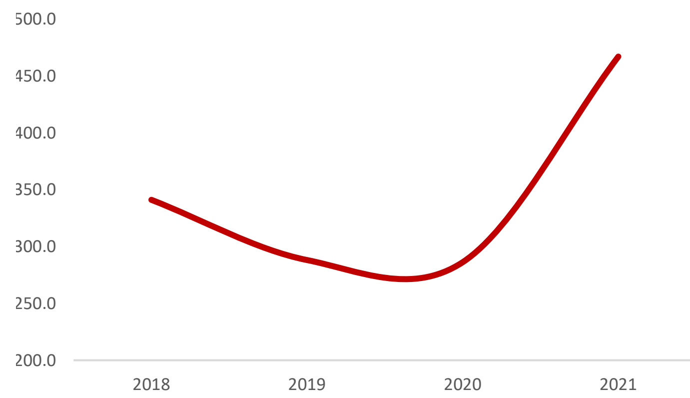
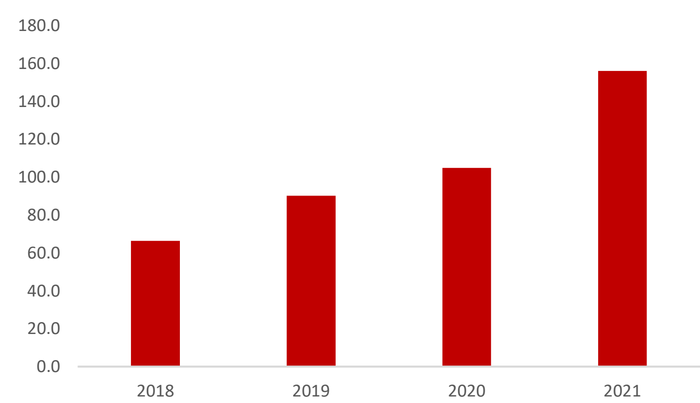
Steel rebar prices (in USD/million tonnes)



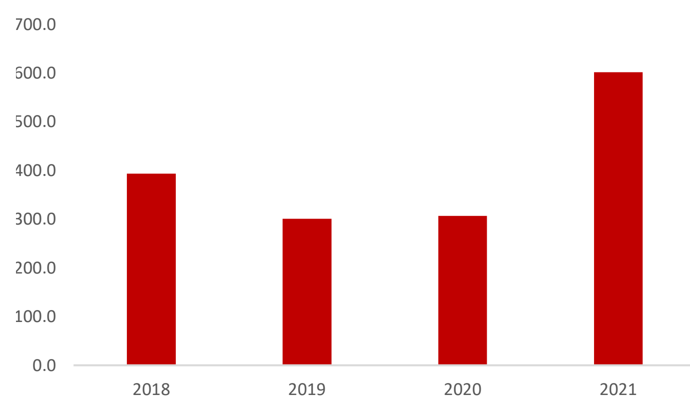
Steel Scrap prices (in USD/million tonnes)



Iron ore 62% FE CFR prices (in USD)



Busheling scrap prices (in USD)



Source: Bloomberg; London Metal Exchange

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Mesaieed Petrochemical Holding Company

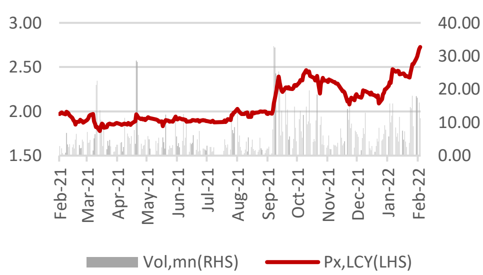
Target Price: QAR 2.5

Downside: 9.5%

Recommendation	Hold
Bloomberg Ticker	MPHC QD
Current Market Price (QAR)	2.7
52wk High / Low (QAR)	2.73 / 1.78
12m Average Vol. (mn)	6.4
Mkt.Cap. (QAR bn)	34.3
Shares Outstanding (mn)	12,563
Free Float (%)	34.6%
3m Avg Daily Turnover (QAR mn)	17.4
6m Average Daily Turnover (QAR mn)	17.5
PE 2022e (x)	20.19x
EV/EBITDA 2022e (x)	19.65x
Dividend Yield '22e (%)	2.6%
Price Performance:	
1 month (%)	17.5%
3 months (%)	16.0%
12 months (%)	37.8%

Source: Refinitiv, as of 10th Feb 2022

Price -Volume Performance



Source: Reuters

- **One of the leading diversified producers of petrochemicals and chemicals across the MENA region.**
- **Global presence with 96% of the revenue from overseas sales.**
- **Major markets are India (33%), Asia and Pacific (28%), Europe (24%), and Africa (7%)**
- **Strong liquidity position with QAR 2.23 billion (13.1% of assets) in cash and bank balances and deposits.**
- **Consistently rewards its shareholders through dividends**

We initiate coverage on Mesaieed Petrochemical Holding Company with a **Hold** rating and a target price of QAR 2.5 per share, implying a downside of 9.5% to the last closing price (10th February 2022). Our target price implies a P/E'22e of 18.3x. The stock has rallied in the recent past, underpinned by the revival of the overall economy, pent-up demand for petrochemical products, and the company's increasing revenues and profits.

Investment Thesis

Valuation & Risks: Our valuation is based on a mix of dividend discount model (40% weight), discounted cash flows (40% weight), and multiples approach (10% weight each to both PE & EV/EBITDA based multiples). Key downside risks include a decrease in the prices of commodities and lower production volumes due to unplanned shutdowns. Key upside risks include an increase in commodity prices and higher utilization levels to take advantage of higher prices.

Diversified operations provide resilience to business

MPHC derives its revenues from petrochemicals such as HDPE and Chlor-alkali such as Vinyl Chloride Monomer (VCM) and caustic soda segments. The revenue sources are geographically diversified as well, with customers in Asia, especially India, MENA, and Europe.

Stable dividends yield along with enjoying the status of being a virtually debt-free company

Mesaieed has de-levered its balance sheet with a net D/E of -0.13x in 9M21 from -0.11 in 2020. The cash position has increased from QAR 1.73 bn in 2020 to QAR 2.23 bn in 9M 21. Dividend yield averaging 3.8% over FY18-FY20 was due to the strong balance sheet, and net cash position over the same period.

MPHC is trading at 20.2x FY22e P/E and 19.7x FY22s EV/EBITDA multiples, making it one of the most expensive stocks in the context of profit growth.

Key Indicators

Year (In QAR mn)	FY19	FY20	FY21e	FY22e	FY23e	FY24e
Sales	1,949	596	1,756	1,645	1,771	1,637
Gross profit	1,949	596	1,756	1,645	1,771	1,637
EBITDA	1,929	582	1,744	1,630	1,753	1,621
Operating profit	1,929	582	1,744	1,630	1,753	1,621
Net income	2,076	532	1,794	1,697	1,832	1,710
EPS	0.17	0.04	0.14	0.14	0.15	0.14
P/E (x)	15.19	48.32	19.10	20.19	18.70	20.03
EV/EBITDA (x)	15.43	41.20	18.36	19.65	18.27	19.77
Dividend yield	3.2%	3.4%	2.9%	2.6%	2.8%	2.6%

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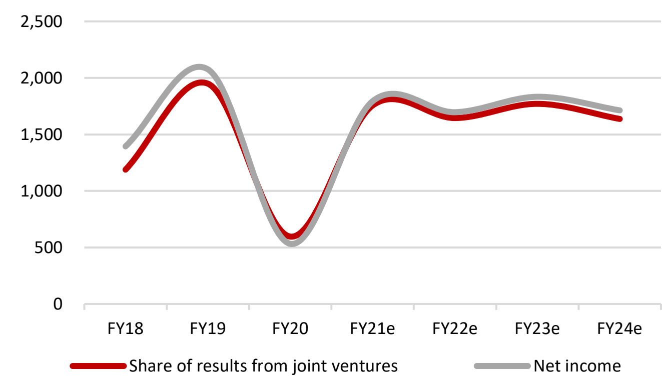
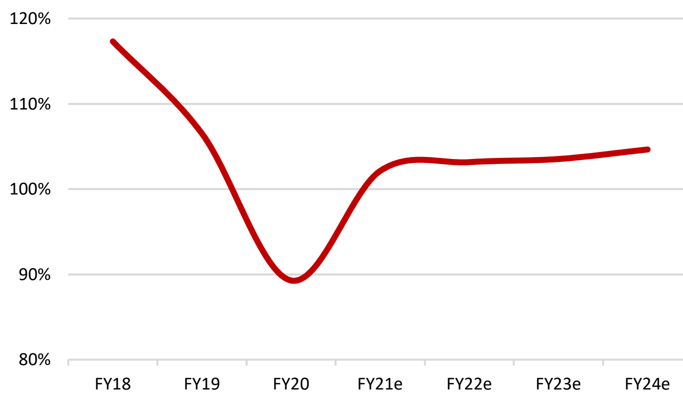
Diversified operations across three JVs in petrochemicals and chemicals industry give resilience to performance

Mesaieed is structured as a holding company having stakes in three joint ventures (JVs). Through its joint venture companies, Q-Chem I, Q-Chem II and QVC, MPHC operates in two distinct business segments - Petrochemical and Chlor Alkali. Segment wise, Petrochemicals contributes around 71% of revenues and around 70% of profits. Chlor-Alkali segment contributes around 29% of revenues and profits both. The most relevant line item driving the company's profitability is the share of earnings of these JVs. The business of the jointly owned companies lies in the manufacturing of petrochemical and Chlor-alkali products which links the performance of the jointly owned projects to the movement in the petrochemical and chlor-alkali prices. We estimate that income from JVs will stabilize growing forward post the rise in FY21. Due to MPHC being a holding company, its bottom-line closely follows the topline, as there are very few costs for holding company.

Share of joint venture vs net profit (QAR mn)



Net Profit margin (%)



Mesaieed has partnered with well-known and experienced industry players for its joint ventures. Mesaieed has three joint ventures as follows

Joint Venture	MPHC Stake	JV Partners
Qatar Chemical Company Limited (Q-Chem)	49%	Qatar Energy, MPHC and Chevrons Phillips Chemical International Qatar Holdings L.L.C.
Qatar Chemical Company II Limited (Q-Chem II)	49%	Qatar Energy, MPHC and Chevrons Phillips Chemical International Qatar Holdings L.L.C.
Qatar Vinyl Company Limited (QVC)	55.2%	Qatar Energy, MPHC and Qatar Petrochemical Company Limited (QAPCO)

Mesaieed has Chevrons Philips as a JV partner in the petrochemicals segment and Qatar Petrochemical Company Limited in the Chlor-alkali segment. Chevrons Phillips Chemical International Qatar Holdings L.L.C. is a subsidiary of Chevron Philips, a reputed petrochemical company based in the USA. QAPCO is one of the world's largest producers of LDPE based in Qatar. Both these companies are well-renowned in their businesses. Finally, Qatar Energy, formerly Qatar Petroleum is a state-owned oil and gas company as well as the holding company of Mesaieed. All these companies are reputed in their sectors.

Further, both of the MPHC segments' products are marketed by Qatar Chemical and Petrochemical Marketing and Distribution Company (Muntajat), which is a wholly owned company of the government of the State of Qatar, has the exclusive rights to purchase, market, sell and distribute the State's production of petrochemical regulated products. Along with strong parent support from Qatar Energy, MPHC's business is based solid partnerships and associations with renowned private and public sector institutions.

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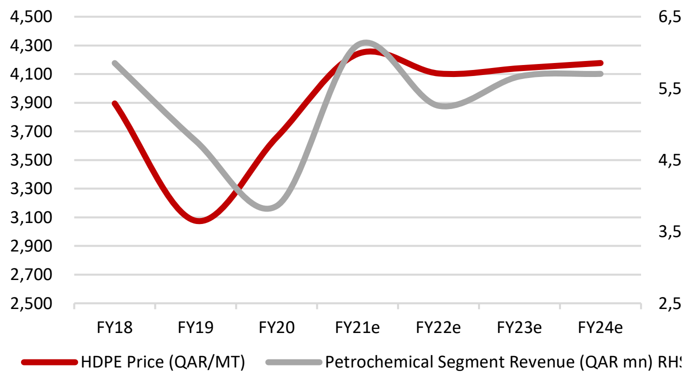
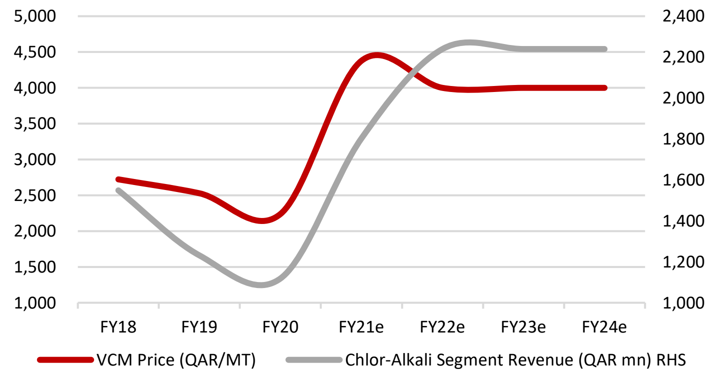
JV revenues to remain range-bound

Mesaieed has not announced any expansion plans which means that output is expected to remain constrained by the current capacity. The company already is producing at utilization close to 100% and, thus, the possibility of higher production is low, and output is expected to remain the same. Further, Mesaieed's topline is heavily influenced by the prices of the commodities sold by its joint ventures. During 2021, the prices of HDPE and other commodities have increased significantly which has driven MPHC's stock price and financial performance. We expect HDPE prices to remain slightly tilted upwards for the next couple of years due to overall demand. For VCM, we expect prices to remain stable post the spike witnessed during 2021.

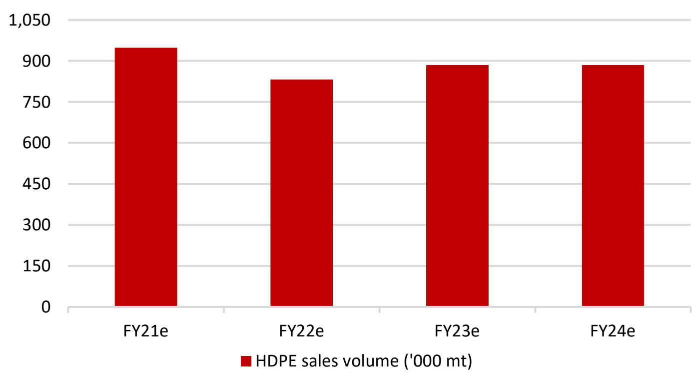
Petrochemical Segment Revenue – HDPE price trend



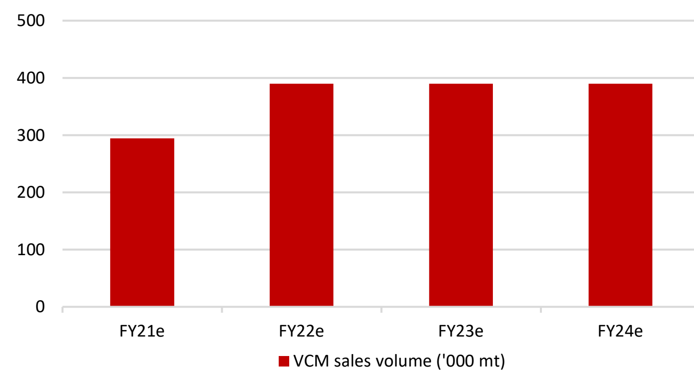
Chlor-Alkali Segment Revenue – VCM price trend



Petrochemical Segment Volume – HDPE volume expectation



Chlor-Alkali Segment Volume – VCM volume expectation



Debt-free company with robust liquidity

Mesaieed and its joint ventures are debt-free and have a strong cash position. As of September 30, 2021, Mesaieed had liquidity in the form of cash and cash equivalents, and bank deposits worth QAR 2.23 billion. The high amount of cash can ensure timely payment of dividends as well as the ability to meet financial contingencies, if any, in the future. Further, the company need not resort to debt to fund its capex plans.

Stable dividends due to strong balance sheet

Mesaieed has de-levered its balance sheet with a net D/E of -0.13x in 9M 21 from -0.11 in 2020. The cash position has increased from QAR 1.73 bn in 2020 to QAR 2.23 bn in 9M21. Sustainable dividend yield averaging 3.8% over FY18-FY20 is due to the strong balance sheet, and net cash position over the same period. Dividends slightly reduced in FY21 in the backdrop of global crises induced by the

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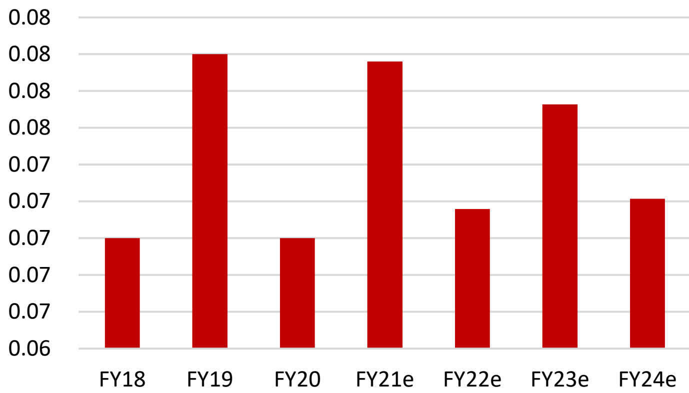
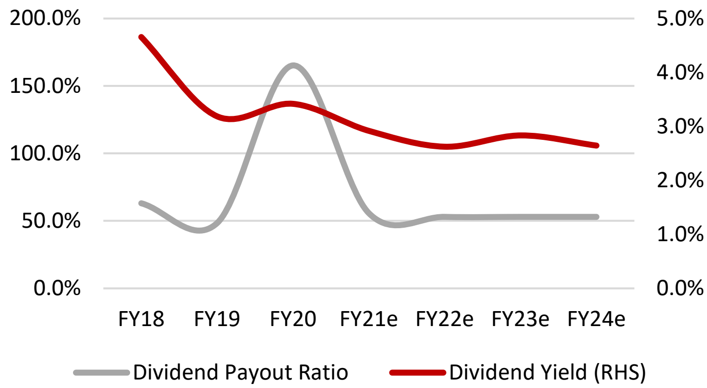
pandemic. Over the forecast period (FY21-FY24), the dividend yield is expected to average at 3.9% with a dividend payout ratio of 80% going forward. Why is FY21 DPS lower than FY20??

Dividend per share (QAR)



Dividend payout and dividend yield (%)



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Relative valuation

We have given an equal weightage of 10% each to the P/E and EV/EBITDA multiples. The peer set includes the companies globally. At median peer P/E multiple of 11.5x and EV/EBITDA multiple of 8.1x, we arrive at target price of QAR 1.5 and QAR 1.1 per share respectively.

Dividend Discount Method

We have given a weightage of 40% to DDM method. We arrive at target share price by forecasting dividend per share (2022-2024) and long-term growth rate. By summing the PV of future dividend per share and terminal value, target dividend yield of 3.2% and growth rate of 1.5%, we arrive at target price QAR 4.2 per share.

Discounted Cash Flow

		FY22e	FY23e	FY24e	Terminal Value
Pegged on	February 10, 2022				
Time period index		0.89	1.89	2.89	2.89
Free cash flow					
NOPAT		1,630	1,753	1,621	
Depreciation		0	0	0	
Changes in Working Capital		17	18	18	
Less: Capex		0	0	0	
Free cash flow to firm (FCFF)		1,647	1,771	1,639	15,270
Discounted FCFF		1,474	1,400	1,143	10,652

Enterprise Value	14,669
Less: Net debt (Includes lease liabilities)	(2,229)
Equity Value	16,899
Shares O/S	12,563
Equity Value per share	1.3
Current share price (QAR)	2.7
% upside/downside	-50.7%

Assumptions	
WACC	13.3%
Cost of debt / Lease Liabilities (A-T)	0.0%
Cost of Equity	13.3%
Terminal growth rate	1.5%
Cost of equity calculation	
Risk-Free Rate	2.4%
Beta	1.36
Equity Risk Premium	7.95%
Weights	
Debt	0.0%
Equity	100.0%

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About Mesaieed

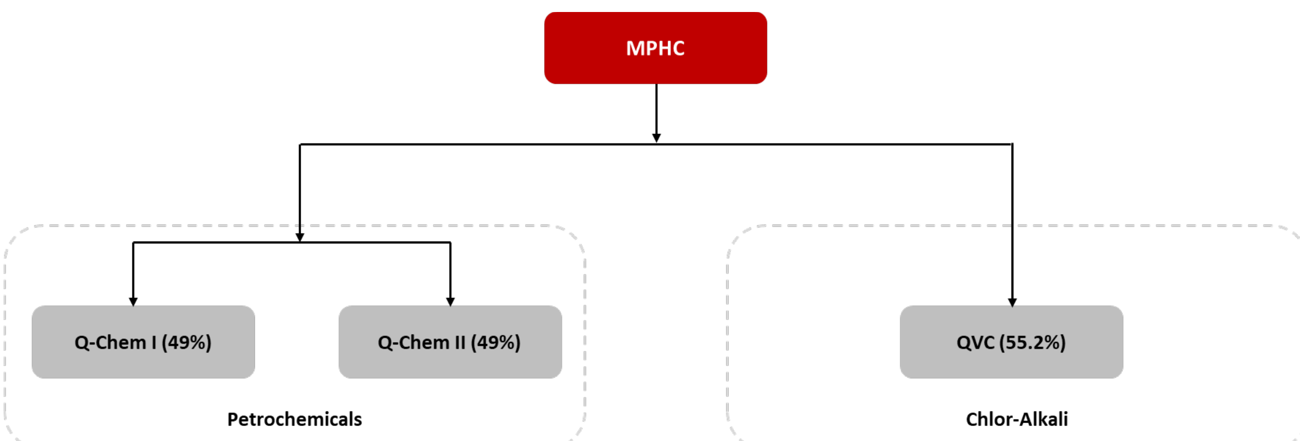
Established in October 1998, Mesaieed Petrochemical Holding Company Q.P.S.C. (Mesaieed or MPHC), is a Qatari-based holding company listed on the Qatar Stock Exchange since 2007. Mesaieed is into manufacturing of petrochemicals and Chlor-alkali products, which includes manufacturing of ethylene, HDPE, vinyl chloride monomer (VCM) and caustic soda among other products. The company uses ethylene as an intermediate product in the production of HDPE. In the petrochemicals segment, it currently has the capacity to produce 1,220,000 MT per year of ethylene and 810,000 MT per year of HDPE from its JVs Q-Chem and Q-Chem II, having their production facilities located in Mesaieed Industrial City, Qatar. In the chlor-alkali segment, it currently has the capacity to produce 370,000 MT per year of VCM and 355,000 MT per year of Caustic Soda from its JV QVC, having its production facility located in Mesaieed Industrial City, Qatar. Mesaieed derives its major chunk of revenues from overseas sales representing ~96% of total revenues. The company's products are marketed by Qatar Chemical and Petrochemical Marketing and Distribution Company (Muntajat), a state-owned company which was recently merged into Qatar Energy. Muntajat has exclusive rights to buy, sell, market all petrochemical products produced by Qatari State-owned companies. The company is a known name across the MENA region for delivering superior products which are being produced using state-of-the-art technology.

Product sold	Revenue contribution
HDPE	45.4%
NAO	17.0%
VCM	13.1%
Caustic Soda	11.6%
Others	12.9%
Total	**100.0%**

Source: Company filings, 9M21

Holding structure

Through its joint venture companies, MPHC operates in two distinct business segments - Petrochemical and Chlor Alkali. Segment wise, Petrochemicals contributes around 71% of revenues and around 70% of profits. Chlor-Alkali segment contributes around 29% of revenues and profits both.



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Joint Ventures

Qatar Chemical Company Ltd (Q-Chem)

Q-Chem is engaged in the petrochemical segment producing HDPE and MDPE, 1-hexene and other products. The company is a joint venture between Mesaieed (49%), Chevron Phillips Chemical (49%) and Qatar Energy (2%). The technology for production was provided by Chevron Phillips Chemical. The Company began operations in 2004 and over USD 1 billion was invested in the process, for engineering, commission and construction. The Company's complex is located in Mesaieed Industrial City and has a capacity to manufacture 453,000 MT per annum of polyethylene and 47,000 MT per annum of 1-hexene.

Qatar Chemical Company II Ltd (Q-Chem II)

Q-Chem II is also engaged in the petrochemical segment and was established with the intention of expanding the operations of Q-Chem. The plant was constructed adjacent to the Q-Chem plant with a capital expenditure of USD 2 billion. The Company began commercial operations in 2010 and is a joint venture with the same shareholders as Q-Chem, having with the same stakes.

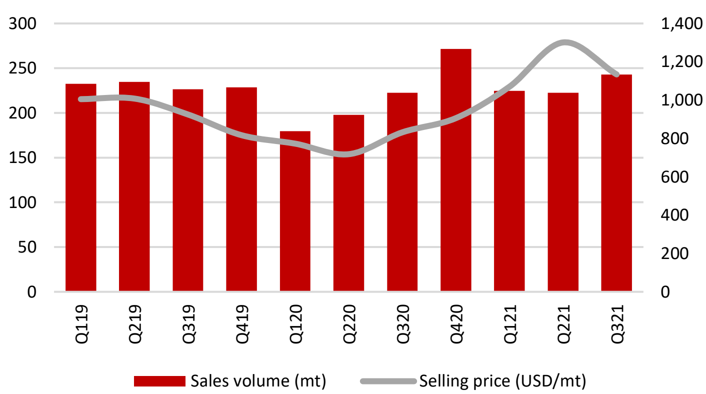
The Company has the capacity to produce 350,000 MT per annum of HDPE and 345,000 MT per annum of Normal Alpha Olefins (NAO) such as 1-hexene, 1-decene, 1-butene, etc. The plant employs Chevron Phillips Chemical's proprietary loop-slurry process for HDPE, which has many advantages over gas-phase and solution-phase polyethylene processes.

The Company owns a 53.31% stake in Ras Laffan Olefins Company Ltd (RLOC), the rest of which is held by Qatofin Company Ltd (Q.S.C) (45.69%) and Qatar Energy (1%). RLOC has the capacity to produce 1.3 million MT per annum of ethylene and began commercial operations in 2010. The ethylene cracker is operated by Q-Chem II. Ethylene produced by RLOC is transported via a 135km pipeline. From the ethylene produced, 700,000 MT is allocated to Q-Chem II and 600,000 MT to Qatofin Company.

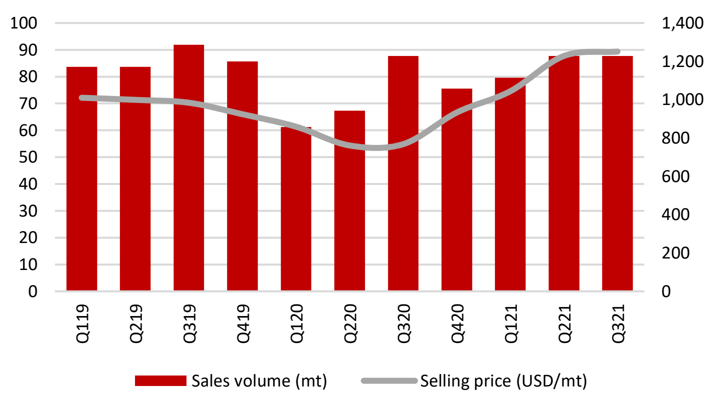
HDPE is the largest contributor to the revenues of these two JVs. The petrochemical segment has seen a strong recovery from 2H20, thanks to increasing prices of the products sold by the two JVs. The HDPE price has risen significantly from USD 718 per MT in 2H20 to USD 1,134 in 3Q21. To take advantage of these higher prices, the JVs have ramped production and are currently operating at more than 100% utilization. This has significantly increased revenues of the petrochemical segment. Furthermore, although the feedstock prices have also risen, the prices of products being sold have increased more, which has led to increasing margins.

Some of the reasons for the HDPE price rise are reduced oil and gas production in 2020, increasing demand for HDPEs, reduced production of HDPE and other related products due to planned and unplanned plant shutdowns, supply chain disruptions.

HDPE Sales Volumes and Prices



NAO Sales Volumes and Prices



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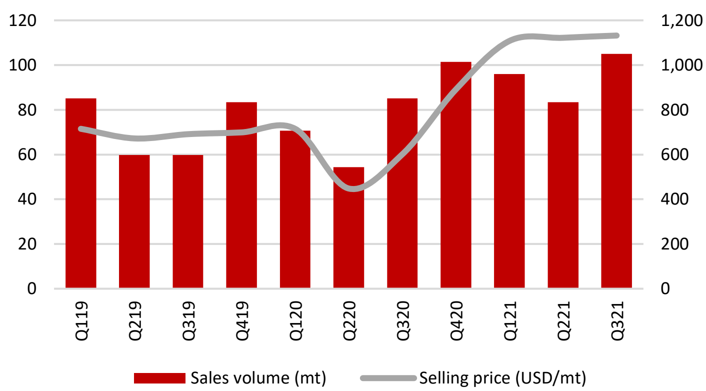
Qatar Vinyl Company Ltd (QVC)

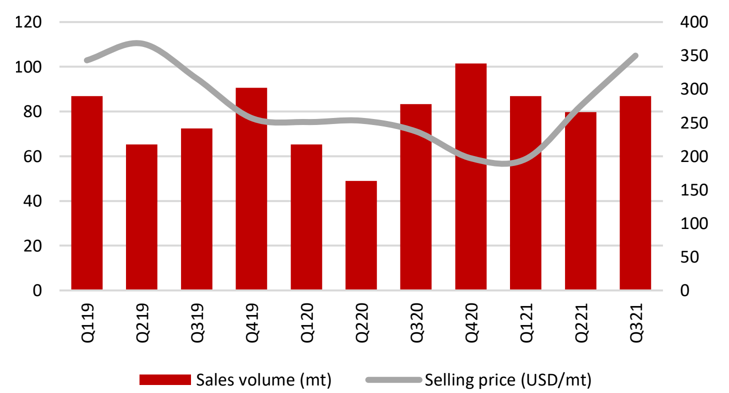
QVC is engaged in the chlor-alkali segment. The company is a joint venture between Mesaieed (55.2%), QAPCO (31.9%) and Qatar Energy (12.9%). The QVC plant is operated by QAPCO and located in Mesaieed Industrial City. The Company has the capacity to produce 370,000 MT per annum of caustic soda (dry basis), 180,000 MT per annum of ethylene dichloride (EDC) and 355,000 MT per annum of vinyl chloride monomer (VCM) and 15,000 MT per annum of hydrochloric acid (HCL). VCM forms the major contributor to the revenues of QVC.

Similar to the petrochemical segment, QVC's products saw a strong rebound in 2H20, given the rapidly increasing prices of VCM. VCM prices were seen to stabilize in 3Q21. On the other hand, caustic soda prices which remained low in 2020 amid low demand and macroeconomic challenges, saw a rebound in 2Q21. The company increased production levels in line with the price rises and the plant saw a utilization rate of more than 100% to meet the higher demand. Higher prices, coupled with increased production, have led to higher revenues.

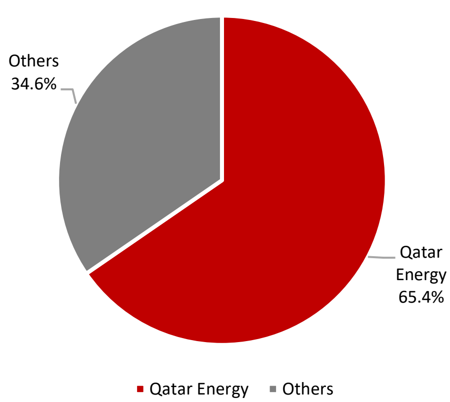
VCM Sales Volumes and Prices



Caustic Soda Sales Volumes and Prices



Mesaieed's shareholding structure



Source: Bloomberg

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Key financials

(QAR mn)	FY19	FY20	FY21e	FY22e	FY23e	FY24e
Income Statement						
Sales	1,949	596	1,756	1,645	1,771	1,637
COGS	0	0	0	0	0	0
Gross profit	**1,949**	**596**	**1,756**	**1,645**	**1,771**	**1,637**
SG&A expenses	(20)	(14)	(12)	(15)	(18)	(16)
Operating profit	**1,929**	**582**	**1,744**	**1,630**	**1,753**	**1,621**
Finance income	84	21	46	54	65	77
Other income	63	(71)	4	13	14	13
Finance charges	0	0	0	0	0	0
Income before tax	**2,076**	**532**	**1,794**	**1,697**	**1,832**	**1,710**
Tax	0	0	0	0	0	0
Net income for the period	**2,076**	**532**	**1,794**	**1,697**	**1,832**	**1,710**
Balance Sheet						
Cash & Cash equivalents	755	177	590	1,033	1,512	1,964
Short-term investments	1,007	1,555	1,555	1,555	1,555	1,555
Receivables	154	70	70	70	70	70
Inventories	0	0	0	0	0	0
Investment in joint ventures	14,478	14,277	14,629	14,958	15,312	15,639
Intangible assets	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0
Total assets	**16,394**	**16,080**	**16,844**	**17,616**	**18,449**	**19,228**
Accounts payable	248	320	335	351	369	387
Accruals and other current liabilities	7	5	5	5	5	5
Lease liabilities - current	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0
Share capital	12,563	12,563	12,563	12,563	12,563	12,563
Statutory reserve	62	68	68	68	68	68
Actuarial reserve	0	0	0	0	0	0
Retained earnings	3,513	3,125	3,874	4,629	5,444	6,206
Total stockholders' equity	**16,139**	**15,756**	**16,505**	**17,260**	**18,075**	**18,836**
Total liabilities & equity	**16,394**	**16,080**	**16,844**	**17,616**	**18,449**	**19,228**
Cash Flow Statement						
Cash from operating activities	33	(14)	(42)	(40)	(46)	(41)
Cash from investing activities	1,551	316	1,455	1,383	1,495	1,399
Cash from financing activities	(1,005)	(879)	(1,000)	(899)	(971)	(906)
Net changes in cash	579	(578)	413	443	479	452
Cash at the end of the period	755	177	590	1,033	1,512	1,964
Key Ratios						
Current ratio	7.5	5.6	6.5	7.5	8.4	9.2
Inventory turnover ratio	0.0	0.0	0.0	0.0	0.0	0.0
Debtors' turnover ratio	22.0	6.3	9.6	24.4	35.5	75.7
Creditors turnover ratio	0.1	0.0	0.0	0.0	0.0	0.0
Gross profit margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating margin	99.0%	97.6%	99.3%	99.1%	99.0%	99.0%
Net profit margin	106.5%	89.3%	102.1%	103.2%	103.5%	104.5%
EBITDA margin	99.0%	97.6%	99.3%	99.1%	99.0%	99.0%
Average return on equity	13.3%	3.3%	11.1%	10.1%	10.4%	9.3%
Average return on assets	13.1%	3.3%	10.9%	9.8%	10.2%	9.1%
Debt/Equity (x)	0.00	0.00	0.00	0.00	0.00	0.00
P/E	15.19	48.32	19.10	20.19	18.70	20.03
EV/EBITDA	15.43	41.20	18.36	19.65	18.27	19.77
EV/Sales	15.27	40.23	18.24	19.47	18.09	19.57
EV/capacity x (QR)	8.87	7.15	9.55	9.55	9.55	9.55
EPS (QR)	0.17	0.04	0.14	0.14	0.15	0.14
Dividend payout ratio	48.4%	165.2%	55.7%	53.0%	53.0%	53.0%
Dividend yield (%)	3.2%	3.4%	2.9%	2.6%	2.8%	2.6%
Net debt (QR 'million)	(1,762)	(1,733)	(2,145)	(2,588)	(3,067)	(3,519)
Net debt/ EBITDA	-0.91	-2.98	-1.23	-1.59	-1.75	-2.17
ROCE	12.4%	3.7%	10.8%	9.7%	9.9%	8.8%

Source: Company Financials, U Capital Research

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Industries Qatar (IQCD)

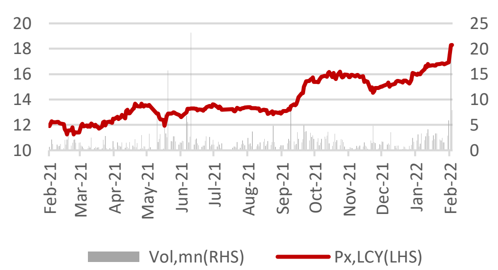
Target Price: QAR 20.7

Upside: 13.3%

Recommendation	**Accumulate**
Bloomberg Ticker	IQCD QD
Current Market Price (QAR)	18.30
52wk High / Low (QAR)	18.3 / 11.3
12m Average Vol. (mn)	1.87
Mkt.Cap. (QAR bn)	110.7
Shares Outstanding (mn)	6,050
Free Float (%)	49.0%
3m Avg Daily Turnover (QAR mn)	33.2
6m Average Daily Turnover (QAR mn)	30.3
PE 2022e (x)	13.30x
EV/EBITDA 2022e (x)	13.55x
Dividend Yield '22e (%)	2.0%
Price Performance:	
1 month (%)	14.4%
3 months (%)	14.7%
12 months (%)	50.0%

Source: Refinitiv, as of 10th Feb 2022

Price-Volume Performance



Source: Refinitiv

- **IQCD is the world's largest single-site Urea producer, second largest by market capitalization on Qatar Exchange and also part of MSCI Qatar Index**
- **Diversified business operations across fertilizer, petrochemicals and steel industries**
- **Strong liquidity position, virtual debt-free status and sound dividend policy**
- **Structural weakness in steel business is a drag on profitability**

We initiate coverage on Industries Qatar (IQCD) with an **Accumulate** rating and a target price of QAR 20.7 per share, implying an upside of 13.3% to the last closing price (10th Feb. 2022). Our target price implies a P/E'22e of 15.1x. The stock has rallied by almost 50% in last one year. The company's prospects are closely tied with the trends in the fertilizer industry as fertilizer contributes ~69% to its revenue and ~50% to its net profit.

Investment Thesis

Valuation: Our valuation is based on a mix of dividend discount model (40% weight), discounted cash flows (40% weight) and multiples approach (10% weight each to both PE & EV/EBITDA based multiples). Key downside risks to our valuation include a decrease in urea prices, demand softening, and shutdowns including planned and unplanned maintenance shutdowns. Key upside risks include an increase in steel prices coupled with uptick in demand, and higher utilization levels, which will augur well for the company.

Diversified segment portfolio with strong global footprints

IQ is well-diversified segmentally (fertilizer, petrochemical and steel) and also has a wide global reach. The fertilizer segment targets America, Asia followed by the Indian sub-continent. Following a shift in strategy from a wider market to a more focused regional market, the company has identified Middle East followed by Asia as the key market for the steel segment. For petrochemicals, Asia followed by the Indian sub-continent are the key markets. Overall, the company is focused on both developed and emerging markets, thus targeting growth.

Strong liquidity position, virtual debt-free status and sound dividend policy

IQCD has been diligently rewarding its shareholders with an average dividend payout of 88% between 2016 to 2020. Coupled with virtually nil leverage, IQCD projects strong financial position.

Steel segment weakness is offset by fertilizer segment

IQCD's steel business has not recovered from COVID-induced global economic downturn in 1H20. Mothballing part of the capacity and shifting focus to domestic steel market from exports has partly arrested the decline in steel segment profits. However, steel segment may remain a drag on overall profitability of the company until global economy recovers meaningfully.

Key indicators

Year (In QAR mn)	FY19	FY20	2021	2022e	2023e	2024e
Sales	5,096	7,400	14,169	16,054	11,973	12,244
Gross profit	4	934	6,004	8,641	6,072	6,212
EBITDA	59	2,027	6,683	7,834	5,470	5,580
Operating profit	-218	418	5,233	6,418	3,972	4,040
Net income	2,575	1,844	8,090	8,323	5,848	5,881
EPS	0.43	0.30	1.34	1.38	0.97	0.97
P/E(x)	24.16	35.67	11.58	13.30	18.93	18.83
EV/EBITDA(x)	867.79	28.15	15.88	13.55	19.41	19.02
Dividend yield	3.9%	3.0%	6.5%	2.0%	2.0%	2.0%

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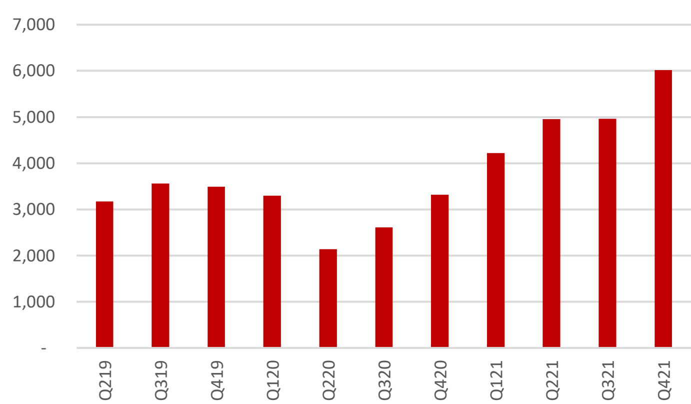
Industries Qatar recorded strong turnaround in 2H20 and built on its momentum in 2021 to rebound beyond pre-COVID levels

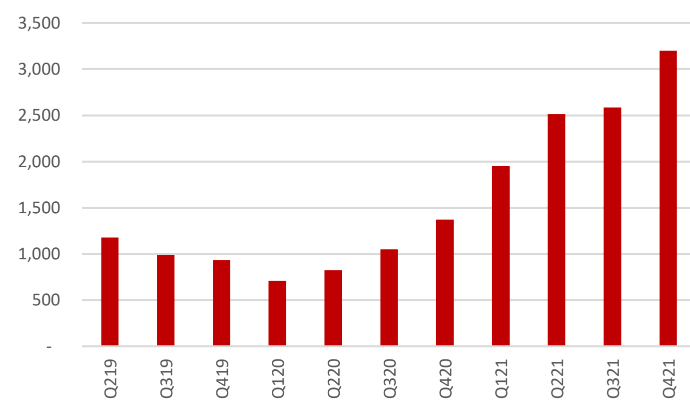
IQCD is a diversified conglomerate operating across fertilizer and steel industry through fully owned subsidiaries and having presence in petrochemicals business through joint ventures (JVs). IQCD operates as the holding company for these subsidiaries and JVs, exercising substantial control and driving the strategic direction of these entities. The company fully consolidates the fertilizer and steel segment, while contribution from petrochemicals business is recorded as share of results of investments in joint ventures. The diversified nature of operations has helped IQCD weather the COVID-induced economic downturn and emerge stronger in 2021 as compared to 2020.

Overall revenues of IQCD were impacted in 1H20 due to the impact of COVID. The decline was also due to a decline in the crude oil prices. However, demand and revenues recovered well in the following quarters. In 1H21 the momentum built from previous quarters led to performance improving beyond pre-COVID levels. Apart from external factors such as recovery in demand and rise in petrochemical and urea prices, internal factors such as strategic realignment also played a part in the turnaround.

IQCD Quarterly Revenue Trend (QAR million)

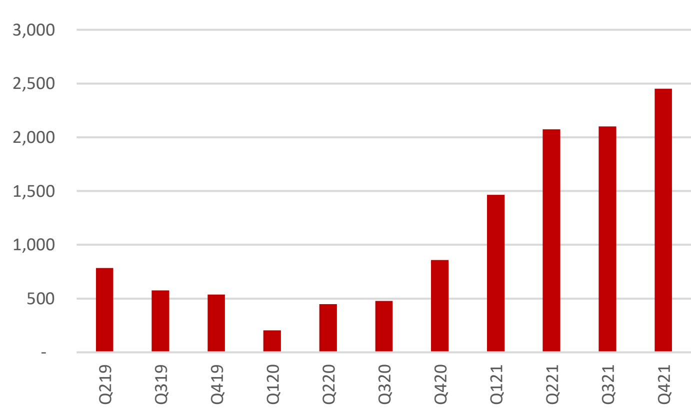


IQCD Quarterly EBITDA Trend (QAR million)

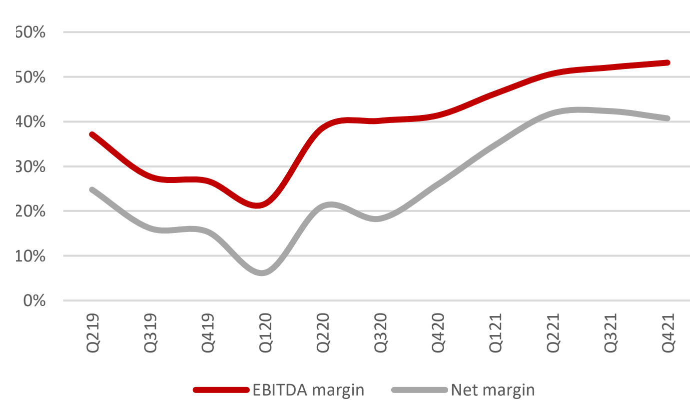


The margin and profitability trend have followed similar trajectory to revenue and EBITDA trend. The company seems to have a high leverage effect due to which the increase in profit is almost 2x-4x times the revenue in many quarters. The overall increase in Net Profit margin and EBITDA margin in 2021 has been driven by Urea prices in the fertilizer segment, which has offset the weakness in demand for steel and consequent weakness in steel segment profits.

IQCD Quarterly Net Profit Trend (QAR million)



IQCD Quarterly Margin Trend (%)



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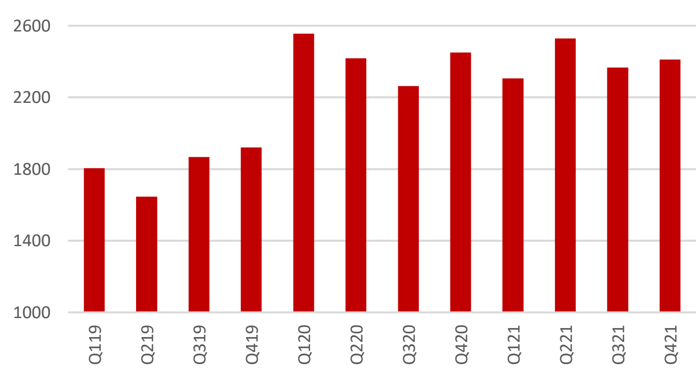
Fertilizer business has been the mainstay and driving business of IQCD

Fertilizer business is the largest contributor to revenues and profitability of the company. The segment has shown strong rebound since 2H20, mainly due to rise in urea prices. The fertilizer production of the company was up in 2021 due to additional volumes added with the complete acquisition of QAFCO in 2019. The company is the largest single-site urea producer across the world. The increase in revenue of the fertilizer segment was the reason why the overall revenue of IQ didn't see a negative trend. The American continent is the main market for fertilizer segment (47% of revenues in 9M21), following Asia including Indian sub-continent (41% of revenues in 9M21).

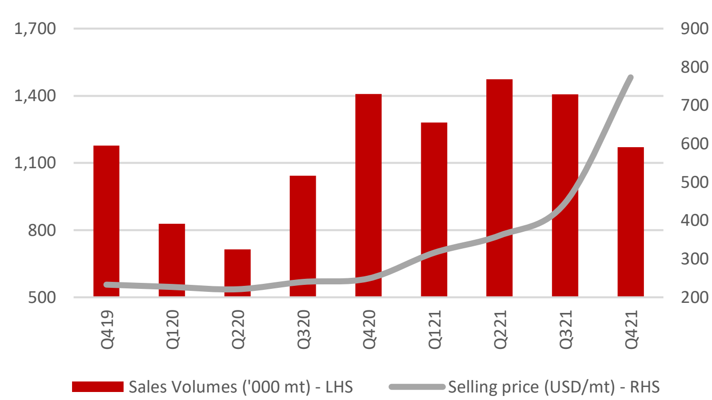
Urea price rise in 2021 and specifically Q421 to boost 2021 results for IQCD

Urea prices have been increasing throughout 2021 primarily due to two factors viz. increase in prices of raw materials (natural gas and coal) and production shortages. Natural gas and coal are important raw materials in the production of urea. Higher prices of these commodities are resulting in added raw material costs, which is passed down to customers in the form of higher prices. Further, Chinese urea producers have had a tough year in 2021 due to multiple challenges ranging from energy crunch in China to disruptions due to COVID-19. China is a key producer of urea and the recent energy crunch in China caused many producers to shut down production. Due to reduced production, China and Russia have restricted exports to ensure adequate supplies to their own farmers. Lockdowns and travel restrictions have led to longer plant turnarounds for maintenance and other reasons, due to which production is further curtailed. Additionally, Hurricane Ida in the US caused many chemical manufacturers to shut down production. All these factors led to production shortages around the world in 2021. These factors combined to lead to sharp rise in selling prices, especially of major fertilizers like Urea.

IQCD Quarterly Fertilizer Production ('000 mt)



Urea Quarterly Trend - Sales ('000 mt) and Price (USD/mt)



The sharp rise in Urea prices have led to sharp ramp up of revenues in 2H21, in spite of production and sales remaining relatively flat throughout 2021. Revenue has increased at a CAGR rate of 14.5% from Q1 of 2020 till Q3 of 2021. Consequently, higher sales have driven up margins and EBITDA trends. The EBITDA of the fertilizer business has grown at a CAGR of 3.77% from Q1 of 2020 to Q3 of 2021. The operating leverage effect has driven higher ramp up in profits as can be seen from the charts below.

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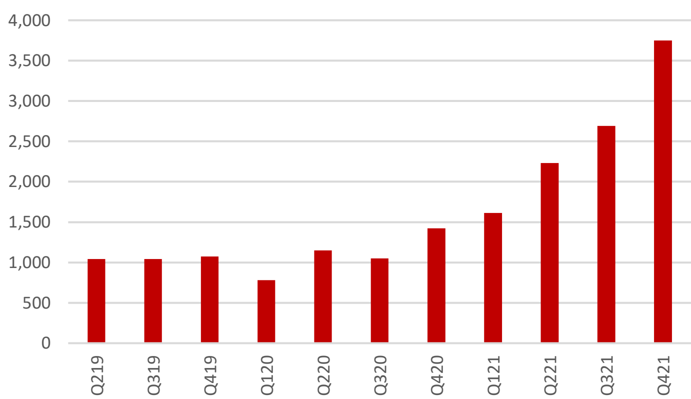
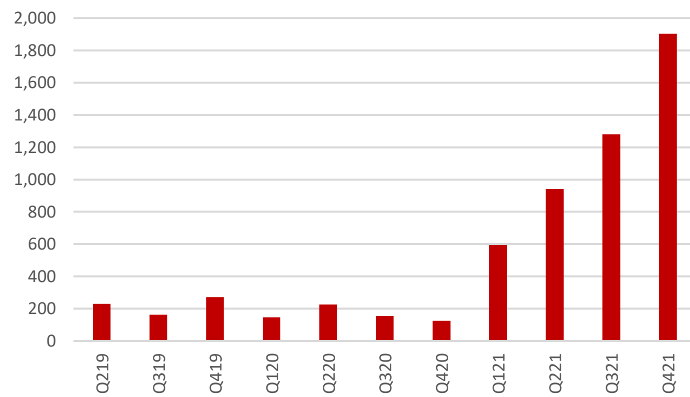
IQCD Fertilizer Quarterly Revenue Trend (QAR million)



IQCD Fertilizer Quarterly Net Profit Trend (QAR million)



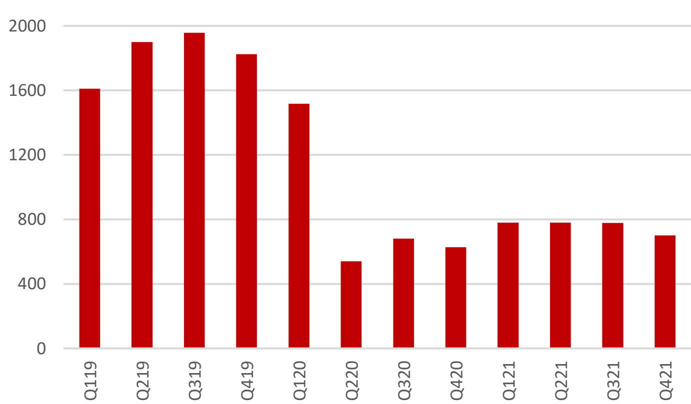
Steel business has dragged down overall performance of IQCD

The steel business of IQCD has suffered from COVID related economic impact and has not recovered since then, as can be seen from continued low demand. Multiple factors ranging from higher raw material costs, supply chain constraints, intensifying competition in end-consumer countries have led to the company deciding to mothball part of its capacity and focus on local sales vs exports earlier. The company is expecting an increase in steel segment revenue due to demand from infrastructure projects in Qatar. However, the realization of this expectation is yet to be seen.

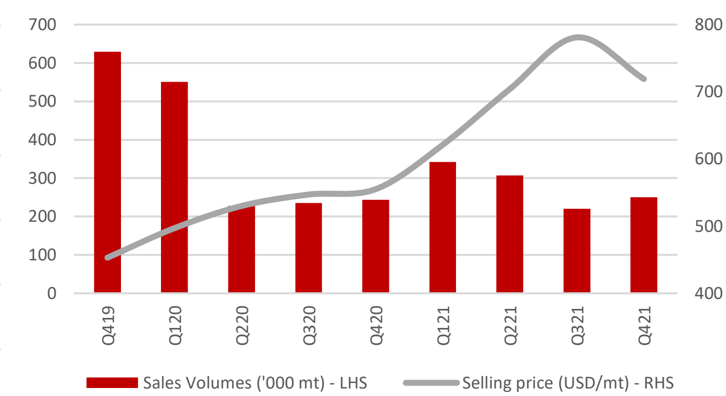
Change in strategy likely to support steel business at its current level

In a bid to optimize the segment's cost structure and improve its profitability, the company changed its strategy to sell its product predominantly in the regional/domestic market than catering to a wider market where it faced stiff competition and contributed negatively to the bottom line. This strategic shift and lower demand in domestic market (as compared to exports) has led company deciding to mothballing part of its production since mid of 2020.

IQCD Quarterly Steel Production ('000 mt)



Steel Rebar Quarterly Trend - Sales ('000 mt) and Price (USD/mt)



The segment recorded net profit of QAR 629 million in 9M21 against a net loss of QAR 1.4 billion in 9M20. The sharp changes in the net profit are driven by volatility in segment revenue. The steel business has a very high leverage effect as the changes in net profit are huge as compared to the changes in the revenue. For instance, a 62% decline in revenue in Q2 of 2020 caused a decline of 1378%

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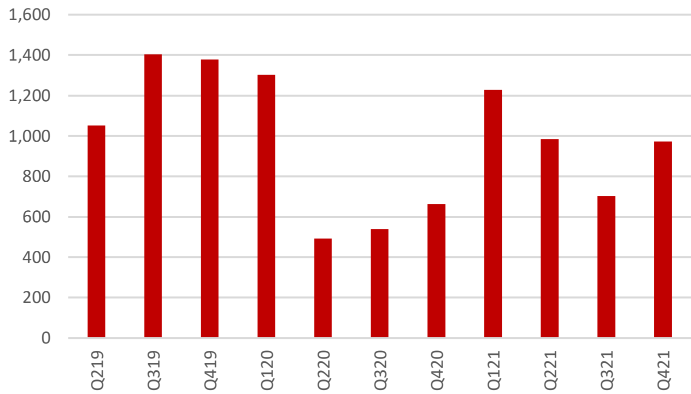
in net profit. Also, an increase of 85% in revenue in Q1 of 2021 caused an increase of 420% in net profit. Going forward we expect steel business to remain at current levels as exports market is competitive (loss in market share would be tough to regain).

IQCD Steel Quarterly Revenue Trend (QAR million)



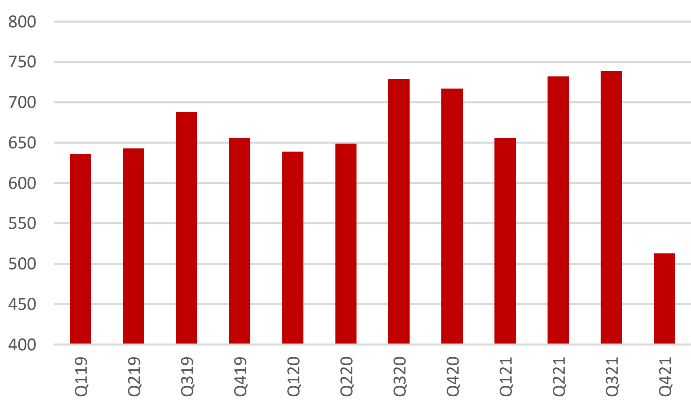
IQCD Steel Quarterly Net Profit Trend (QAR million)

Petrochemical business has seen a rebound since 2H20

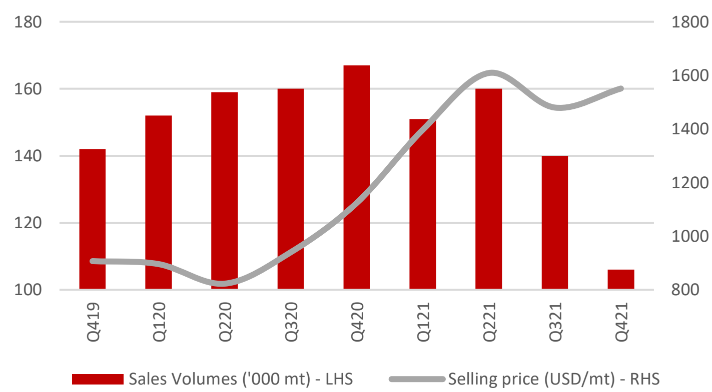
IQCD is present in the petrochemicals business through two JVs - Qatar Petrochemical Company Limited (QAPCO) and Qatar Fuel Additives Company Limited (QAFAC). Qatar Petrochemical Company Limited (QAPCO) is a joint venture (80% owned by IQCD), engaged in the production of ethylene, low-density polyethylene (LDPE), sulphur and linear low-density polyethylene (LLDPE) through its joint venture Qatofin Company Limited. Qatar Fuel Additives Company Limited (QAFAC) is a joint venture (50% owned by IQCD), engaged in the production of methanol and methyl-tertiary-butyl-ether (MTBE).

The revenue of the petrochemical business started declining from Q419 till Q220. The increased pressure on commodity prices for petrochemicals, slowdown in global economies due to COVID, trade conflicts, and volatility in global commodity prices contributed to the decline. The segment revenue started recovering from Q3 of 2020 led by increase in production and sales volumes as pent up demand drove recovery in prices.

IQCD Petrochemicals Production ('000 mt)



LDPE Quarterly Trend - Sales ('000 mt) and Price (USD/mt)



The segment's decrease in net profit in 1H20 was driven by fall in sales. However, net profit started increasing from Q220 as a result of recovery in demand and improving margin trend. An important point to note in case of petrochemicals business is that IQCD's share of profits from petrochem JVs has witnessed a boost in 2021 due to a tax benefit to the tune of QAR 756 mn in 9M21 vs QAR 757 mn in whole of 2020. We have not assumed any future tax benefit but taken into account reported 9M21 tax benefit in 2021 estimates.

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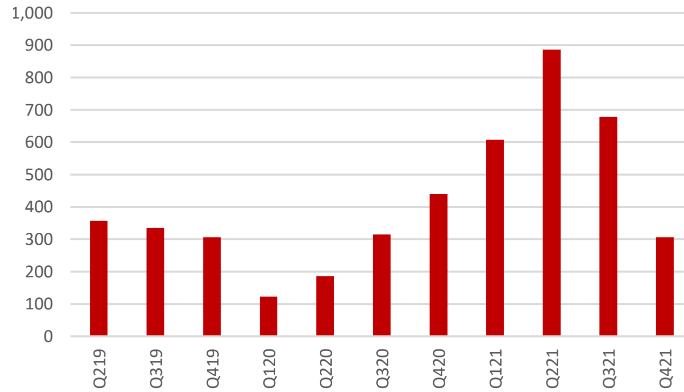
IQCD Petrochemicals Quarterly Revenue Trend (QAR million)

IQCD Petrochemicals Quarterly Net Profit Trend (QAR million)



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Relative valuation

We have given an equal weightage of 10% each to the P/E and EV/EBITDA multiples. The peer set includes the companies across the MENA region. At median peer P/E multiple of 10.43x and EV/EBITDA multiple of 7.23x, we arrive at target price of QAR 14.3 and QAR 10.1 per share respectively.

Dividend Discount Method

We have given a weightage of 40% to DDM method. We arrive at a target share price by forecasting dividend per share (2022-2024) and terminal value. By summing the PV of future dividend per share and terminal value, target dividend yield of 3.0% and growth rate of 2.0%, we arrive at target price QAR 34.0 per share.

Discounted Cash Flow

		FY22	FY23	FY24	Terminal Value
Pegged on	February 10, 2022				
Time period index		0.89	1.89	2.89	2.89
Free cash flow					
PAT		8,323	5,848	5,881	
Interest (1-tax rate)		21	18	15	
Depreciation		1,415	1,498	1,540	
Changes in Working Capital		(230)	1,235	(67)	
Less: Capex		(1,800)	(900)	(500)	
Free cash flow to firm (FCFF)		7,729	7,698	6,870	67,995
Discounted FCFF		6,973	6,184	4,912	48,619

Enterprise Value	66,688
Less: Net debt (Includes lease liabilities)	(4,233)
Equity Value	70,921
Shares O/S	6,050
Equity Value per share	11.7
Current share price (QR)	18.30
% upside/downside	-35.9%
Assumptions	
WACC	12.3%
Cost of debt / Lease Liabilities (A-T)	6.3%
Cost of Equity	12.4%
Terminal growth rate	2.0%
Cost of equity calculation	
Risk-Free Rate	2.4%
Beta	1.25
Equity Risk Premium	7.95%
Weights	
Debt	0.9%
Equity	99.1%

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About IQCD

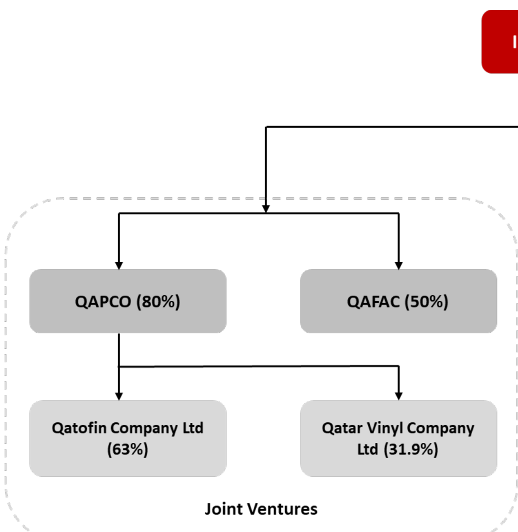
Industries Qatar Q.P.S.C. was incorporated as a Qatari joint stock company on April 19, 2003. One of the largest conglomerates in Qatar and in GCC region, operating in three distinct segments: petrochemicals, fertilizer and steel.

The IQ group currently consists of 4 major companies, with two companies as direct fully owned subsidiaries focused on fertilizer and steel, while the company also has stakes in Petrochem companies that operate as joint ventures. Together the four companies and their own subsequent investments together form the entire operations of the IQCD.

The operations of the Group's subsidiary and joint ventures remain independently managed by their respective Boards of Directors and senior management teams. The business operations of IQ comprise the direct holding of shares in the following subsidiaries and joint venture companies:

(i) Qatar Steel Company, a wholly owned subsidiary, engaged in the manufacture and sale of steel billets and reinforcing bars
(ii) Qatar Fertilizer Company (QAFCO), a 100% owned subsidiary, engaged in the manufacture of ammonia and urea
(iii) Qatar Petrochemical Company Limited (QAPCO), a joint venture 80% owned by IQ, engaged in the production of ethylene, low-density polyethylene (LDPE), sulphur and linear low-density polyethylene (LLDPE) through its joint venture Qatofin Company Limited
(iv) Qatar Fuel Additives Company Limited (QAFAC), a joint venture 50% owned by IQ, engaged in the production of methanol and methyl-tertiary-butyl-ether (MTBE)

Holding structure



Joint Ventures

Qatar Petrochemical Company (QAPCO)

QAPCO is the world's largest producer of low-density polyethylene (LDPE). The company's shareholders are Industries Qatar (80% holding) and TotalEnergies Petrochemicals France (20% holding). The company has 2 joint ventures (JVs), Qatofin Company Limited (Q.S.C.) and Qatar Vinyl Company Limited and another associate company Qatar Plastic Products Company W.L.L. All these combined, the company is engaged in the production of polyolefins, polyethylene, and Chlor-alkali products.

Qatar Petrochemicals holds 63% of the Qatofin Company Limited. The derivative plant (LLDPE) has a production capacity of 570 kilo tonnes per annum (ktpa). QAPCO holds 31.9% in Qatar Vinyl Company Limited. The company produces 370 ktpa of caustic soda, 180 ktpa of ethylene dichloride (EDC), and 355 ktpa of vinyl chloride monomer (VCM). QAPCO has its own 3 low-density polyethylene

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(LDPE) plants with a combined production capacity of 780 ktpa, 1 ethylene plant with a production capacity of 840 ktpa, and 1 sulfur plant with a production capacity of 70 ktpa. The product-wise production capacities of QAPCO are as follows

Products sold	Capacity (000' MT)
Ethylene	1150
LDPE	750
LLDPE	551
EDC & VCM	652
Caustic Soda	386

Note: Capacity as of 2020 end

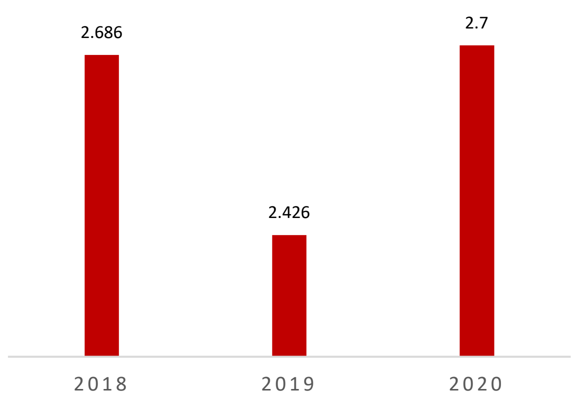
Qatar Fuel Additives Company (QAFAC)

The shareholders of QAFAC are Industries Qatar (50%), OPIC Middle East Corporation (20%), International Octane L.L.C. (15%), and LCY Middle East Corporation (15%). The company is involved in the production of methanol and methyl tertiary-butyl ether (MTBE). The product-wise production capacities of QAFAC, production for past three years and contribution to revenues are as follows

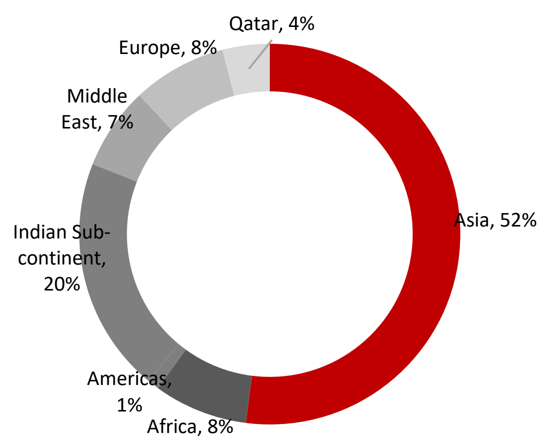
Products sold	Capacity (000' MT)
Methanol	1000
MTBE	610

Note: Capacity as of 2020 end

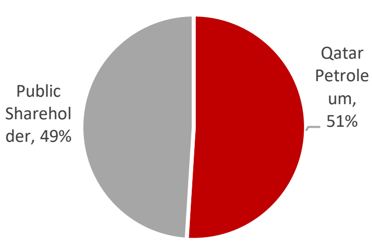
Production (MT' million)



Contribution to the revenue by various markets



IQCD shareholding structure



Source: Company presentations

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Key financials

(QAR mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Sales	5,096	7,400	14,169	16,054	11,973	12,244
COGS	(5,092)	(6,466)	(8,165)	(7,413)	(5,901)	(6,032)
Gross profit	**4**	**934**	**6,004**	**8,641**	**6,072**	**6,212**
SG&A expenses	(222)	(516)	(771)	(807)	(602)	(633)
Operating profit	**(218)**	**418**	**5,233**	**6,418**	**3,972**	**4,040**
Other income – net	67	87	69	69	69	69
Finance charges	(11)	(37)	(25)	(21)	(18)	(15)
Income before tax	**2,575**	**1,846**	**8,091**	**8,326**	**5,849**	**5,883**
Tax	0	(2)	(1)	(3)	(2)	(2)
Net income for the period	**2,575**	**1,844**	**8,090**	**8,323**	**5,848**	**5,881**
Balance Sheet						
Cash and bank balances	1,960	1,855	4,607	4,377	7,987	10,815
Fixed deposits	8,758	6,946	9,479	9,479	9,479	9,479
Trade and other receivables	1,297	2,456	4,584	5,194	3,874	3,950
Inventories	1,851	1,945	2,004	1,820	1,449	1,477
Property, plant and equipment	3,336	13,882	12,696	13,110	12,537	11,518
Investments in joint ventures	16,732	6,916	6,823	8,340	9,817	11,248
Right of use assets	135	225	187	159	136	117
Total assets	**35,870**	**36,049**	**42,308**	**44,515**	**47,429**	**50,878**
Trade and other payables	1,239	1,403	1,991	2,186	1,729	1,767
Lease liabilities - current	33	75	82	64	55	47
Lease liabilities	168	325	292	256	219	188
Share capital	6,050	6,050	6,050	6,050	6,050	6,050
Legal reserve	158	177	196	196	196	196
Retained earnings	28,020	27,551	33,261	35,315	38,736	42,190
Total stockholders' equity	**34,230**	**33,777**	**39,510**	**41,565**	**44,985**	**48,439**
Total liabilities & stockholders' equity	**35,870**	**36,049**	**42,308**	**44,515**	**47,429**	**50,878**
Cash Flow Statement						
Cash from operating activities	111	1,919	7,672	7,672	6,760	5,572
Cash from investing activities	3,518	428	(1,797)	(1,797)	(896)	(497)
Cash from financing activities	(3,674)	(2,468)	(6,104)	(6,104)	(2,254)	(2,248)
Net changes in cash	(45)	(121)	(230)	(230)	3,609	2,828
Cash at the end of the period	1,838	1,717	4,377	4,377	7,987	10,815
Key Ratios						
Current ratio	11.2	8.9	10.1	9.4	13.0	14.4
Inventory turnover ratio	2.9	3.4	4.1	3.9	3.6	4.1
Debtors' turnover ratio	3.4	3.9	4.0	3.3	2.6	3.1
Creditors turnover ratio	3.9	4.9	4.8	3.5	3.0	3.4
Gross profit margin	0.1%	12.6%	42.4%	53.8%	50.7%	50.7%
Operating margin	-4.3%	5.6%	36.9%	40.0%	33.2%	33.0%
Net profit margin	50.5%	24.9%	57.1%	51.8%	48.8%	48.0%
EBITDA margin	1.2%	27.4%	47.2%	48.8%	45.7%	45.6%
Average return on equity	7.4%	5.4%	22.1%	20.5%	13.5%	12.6%
Average return on assets	7.1%	5.1%	20.6%	19.2%	12.7%	12.0%
Debt/Equity (x)	0.01x	0.01x	0.01x	0.01x	0.01x	0.00x
Interest coverage ratio (x)	-18.97x	11.18x	206.43x	308.57x	218.42x	262.14x
P/E	24.16x	35.67x	13.69x	13.30x	18.93x	18.83x
EV/EBITDA	867.79x	28.15x	15.88x	13.55x	19.41x	19.02x
EV/Sales	10.08x	7.71x	7.49x	6.61x	8.87x	8.67x
EPS (QR)	0.43	0.30	1.34	1.38	0.97	0.97
Dividend payout ratio	94.0%	108.3%	74.78%	26.53%	37.76%	37.55%
Dividend yield (%)	3.9%	3.0%	6.5%	2.0%	2.0%	2.0%
Net debt (QR 'million)	(1759)	(1419)	(4233)	(4057)	(7713)	(10580)
Net debt/ EBITDA	-29.72	-0.70	-0.63	-0.52	-1.41	-1.90
ROCE	-0.6%	1.2%	13.0%	15.2%	8.7%	8.2%

Source: Company Financials, U Capital Research

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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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