

August 14, 2009

Qatar
EM Chemicals**Industries Qatar (IQCD.QA - QTR 109.00) Neutral**

Operating Results

Government support, higher costs

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NI plc, London**Investment Conclusion**

- Industries Qatar's 2Q net income was higher than our expectations, mainly driven by better-than-expected non-operating items, although the result includes a government grant the company receives for its steel business. This government support and gradual ramp-up of its new capacity in the coming year seems to be reflected in the stock's premium rating, trading on 11.9x EV:EBITDA relative to 10.6x, the average for the regional peer group. However, the decision for a possible sixth expansion at QAFCO reinforces the company's strategy to grow organically at integrated single sites within Qatar, which we see as positive for long-term growth of its fertiliser business. We have a Neutral recommendation on IQ.

Summary

- EPS estimate reduced by 6% in 2009.

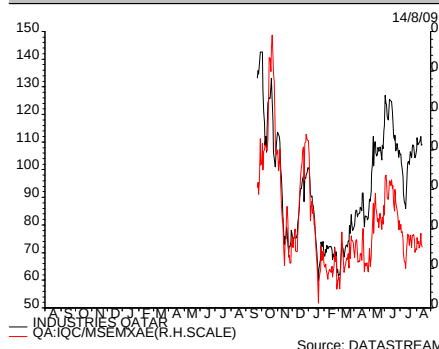
FY Dec	2008A	2009E	2010E		2011E		
Currency QAR	Actual	Old	New	Old	New	Old	New
Revenue	14743	9538	10149	9319	9319	12214	12214
DPS	8	5	5	5	5	6	6
EPS	13.20	11.10	10.40	9.14	9.14	11.21	11.21
Consensus	N/A	N/A	7.70	N/A	8.90	N/A	12.30
EV/Revenues	3.8	N/A	5.3	N/A	5.7	N/A	4.4
EV/EBITDA	7.9	N/A	12.8	N/A	10.1	N/A	8.2
P/E	8.2	9.8	10.4	11.9	11.9	9.7	9.7

Market Data

Market Cap (m)	61600
Units Outstanding (m)	550.0
Float (%)	30
Net Distribution Yield	4.70
Convertible	No
Shares per ADR	N/A

Financial Summary

Five Yr. EPS CAGR (%)	23.0
Return on Equity FY08 (%)	46.0
Current BVPS	33.20
Net Debt (m current)	-3408.00

Stock OverviewReuters IQCD.QA
Bloomberg IQCD QD
ADR

Performance	1M	3M	12M
Absolute %	28	11	0
Rel. Market %	5	1	0
Rel. Sector %	5	1	0

52 Week Range 142.70 - 59.80

Stock Rating**Target Price**

New: Neutral	New: QTR 95.00
Old: Neutral	Old: QTR 95.00

Sector View: Not Rated**2Q results analysis**

Industries Qatar's (IQ) 2Q reported net income was QR1,218m, higher than our expectation of QR1,094m mainly owing to higher non-operating items relative to our expectations. The results were impacted by a government grant the company receives owing to its steel business, which we had only partly reflected in our 2Q forecast. The other income line in 2Q was QR522m versus our forecast of QR250m, which includes a government grant of QR365m in our summary table below. The government grant relates to compensation IQ receives as the company was obliged to sell some of its steel output into the local market in 2008 at local prices instead of selling this output onto international markets at higher prices. The company suggests this settlement has been concluded so we do not expect any further contribution from the government in 2H09 – the grant approved was QR1,165m, as highlighted in these 1H09 results relative to QR1,800m previously communicated by the company in April. Revenues were down 45% y-o-y, although they rose 7% q-o-q and were 31% higher relative to our forecast of QR1,782m. Costs were down 6% y-o-y at QR1,671m, although they were up 3% q-o-q and 77% higher versus our forecast of QR943m. However, the nature of IQ's costs (partly fixed natural gas pricing) would suggest this run rate in costs of approximately QR1.6bn may continue in 2H09 relative to our expectation of some cost optimisation later in the year.

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Industries Qatar 2Q earnings result

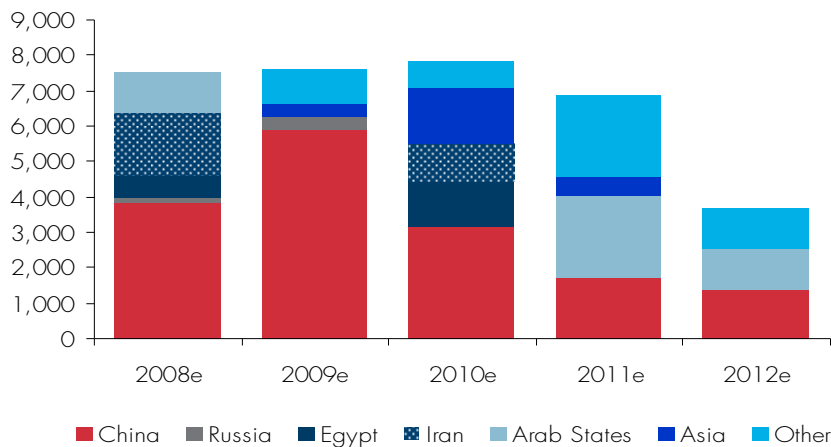
QR, m	2Q08A	1Q09A	2Q09F	2Q09A	2008A	2009F
Gross revenue	4210	2176	1782	2331	14743	10149
Cost of Goods Sold + SG&A	(1783)	(1616)	(943)	(1671)	(7544)	(5919)
Net Operating Profit	2427	560	839	659	6738	3880
Interest Expense	(20)	(68)	(70)	13	(144)	(15)
Investment Income	(11)	(21)	0	21	319	0
Income from Associates	104	(7)	75	5	270	8
Impairment loss	0	0	0	0	(31)	0
Other Income	172	948	250	522	126	1869
Minority	(0.4)	0.4	0	(1.5)	(2)	0
Pretax profit	2672	1413	1094	1218	7276	5742
Tax charge	0	0	0	0	0	0
Tax rate	0	0	0	0	0	0
Adjusted net income	2672	1413	1094	1218	7276	5742
% change	115	(94)	(59)	(54)	46	(21)
Adjusted EPS, QR	4.9	2.6	2.0	2.2	13.2	10.4
EPS growth, % pa	115	(94)	(59)	(54)	33	(21)

Source: Company data, Nomura estimates

Near-term risks for fertiliser...

In the near term, we continue to see overcapacity for fertiliser producers. We expect to see demand taper this year (we estimate by c.2%) and into next decade, global capacity additions of around 34m mt to current capacity of around 150m mt represent annual growth of 4.1% against consumption growth of 4%. China is the biggest contributor to global urea capacity, but the politics of the fertiliser business are complex. Last year, punitive taxes curtailed exports, but in an effort to revive the industry (and overall economy), taxes have been reduced to around 10% currently. Predicting the government's intention with respect to trade policy is probably difficult, and our view is that more rather than less capacity may come to the global market.

Capacity additions (2008e to 2012e), km/t

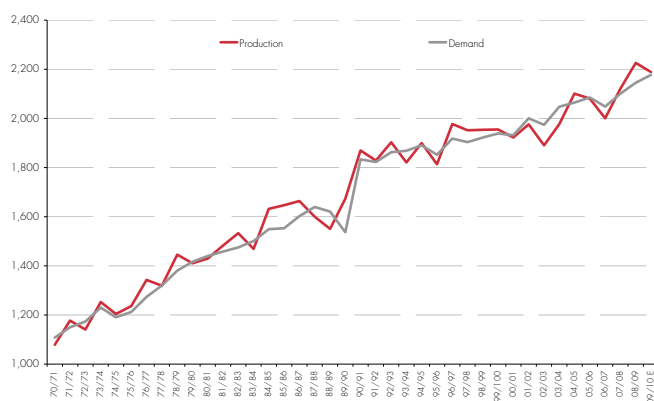


Source: SRI Consulting, Nomura research

... long-term fundamentals still supportive for QAFCO

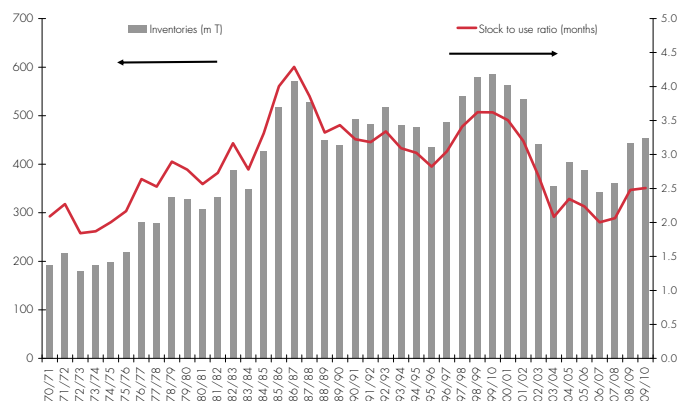
We believe the global challenges facing agriculture should support the long-term fundamentals for fertilisers, as shown in the charts below. Population growth puts pressure on food production and resources already appear stretched. Globally, one of the largest longer-term challenges is to find additional acreage for arable farming. The Food and Agriculture Organisation (FAO) suggests a required 120m ha increase in land use for crop production by 2030 with c.50% expected from Brazil and Sub-Saharan Africa. This is probably not enough to sustain arable land at current per-capita levels and increasing standards of living (higher protein consumption per person) will continue to place increasing strains on grain production – with around 30% of grain used for animal fodder. There is an increasing demand for biofuels, which also puts pressure on current outputs. Therefore, further innovations will be required to improve average yields. Global grain inventory levels remain at low levels, but expected production is now slightly above demand so gradual inventory recovery seems most likely.

Global grains supply/demand (m bushels)



Source: USDA, Nomura research

Global grains and stock to use ratios



Source: USDA, Nomura research

QAFCO VI development

The decision that QAFCO, IQ's fertiliser business, which represents ~40% of group earnings, is holding direct negotiations with Saipem over a contract to build a \$3bn-plus fertiliser plant at Mesaieed (*MEED*, 31 July 2009) is positive for the company's long-term production urea and ammonia outlook, in our view. It also highlights IQ's strategy of growing its business organically within Qatar rather than acquiring chemical assets overseas, which may be tempting for some Middle East producers with the fall in chemical asset prices and distressed opportunities globally. Expanding at existing sites rather than building new Greenfield plants should provide higher returns as the company benefits from not having to invest in extensive new infrastructure at different sites to integrate with feedstock. Mesaieed industrial area is already conveniently located to accommodate further development to Qatar Petroleum's North Field. Saipem is already the contractor for QAFCO V with Hyundai Engineering & Construction and it seems that the company wants to exploit the lower contractor cost environment and get the expansion done in 2011 to take on excess ammonia from QAFCO V, according to MEED.

Forecasts

We decrease our 2009 estimates by 6% to reflect IQ's higher run rate on costs relative to our previous expectations for 2009. This is partially offset by our upward revisions to some of IQ's non-operating items and revenues for 2009. However, we have left our earnings for 2010-13 unchanged and will update our assumptions in future.

EPS changes

	2009F	2010F	2011F	2012F	2013F
New	10.4	9.1	11.2	11.3	11.9
Old	11.1	9.1	11.2	11.3	11.9
change, %	-6%	0%	0%	0%	0%

Source: Nomura estimates

Summary income statement (IFRS)

QR, m	2007A	2008A	2009F	2010F	2011F	2012F	2013F
Gross revenue	9326	14743	10149	9319	12214	12711	12759
Cost of Goods Sold + SG&A	(4451)	(7544)	(5919)	(4083)	(5707)	(6136)	(5923)
DD&A	(399)	(461)	(350)	(856)	(985)	(979)	(961)
Net Operating Profit	4475	6738	3880	4380	5523	5596	5875
Interest Expense	(80)	(144)	(15)	(96)	(96)	(96)	(96)
Interest Income	230	0	0	0	0	0	0
Investment Income	159	319	0	0	0	0	0
Income from Associates	52	270	8	279	279	279	279
Impairment loss	36	-31	0	0	0	0	0
Other Income	111	126	1869	461	461	461	461
Minority	(1)	(2)	0	0	0	0	0
Pretax profit	4983	7276	5742	5024	6166	6240	6519
Tax charge	0	0	0	0	0	0	0
<i>Tax rate</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Adjusted net income	4983	7276	5742	5024	6166	6240	6519
<i>% change</i>	<i>38</i>	<i>46</i>	<i>(21)</i>	<i>(13)</i>	<i>23</i>	<i>1</i>	<i>4</i>
Adjusted EPS, QR	10.0	13.2	10.4	9.1	11.2	11.3	11.9
<i>EPS growth, % pa</i>	<i>38</i>	<i>33</i>	<i>(21)</i>	<i>(13)</i>	<i>23</i>	<i>1</i>	<i>4</i>
DPS, QR	4.0	8.0	5.2	4.6	5.6	5.7	5.9
<i>Payout ratio</i>	<i>40</i>	<i>60</i>	<i>50</i>	<i>50</i>	<i>50</i>	<i>50</i>	<i>50</i>
<i>DPS growth</i>	<i>(20)</i>	<i>100</i>	<i>(35)</i>	<i>(13)</i>	<i>23</i>	<i>1</i>	<i>4</i>

Source: Company data, Nomura estimates

Summary balance sheet

QR, m	2007A	2008A	2009F	2010F	2011F	2012F	2013F
Shareholders equity	13,667	18,243	19,585	21,738	25,392	28,549	31,947
Minorities	11	11	0	0	0	0	0
Short term debt	1,084	2,668	2,668	2,668	2,668	2,668	2,668
Long term debt	2,358	3,369	1,039	(86)	421	3,140	5,980
Cash	(6,171)	(9,445)	(9,445)	(9,445)	(9,445)	(9,445)	(9,445)
Net debt	(2,730)	(3,408)	(5,738)	(6,863)	(6,356)	(3,637)	(798)
Capital employed	10,948	14,846	13,847	14,875	19,036	24,912	31,150
Balance sheet ratios							
Net debt to equity, %	20%	19%	29%	32%	25%	13%	2%
Net debt capital, %	25%	23%	41%	46%	33%	15%	3%
RoACE, %	52%	58%	40%	36%	37%	29%	24%
RoAE, %	40%	46%	30%	24%	26%	23%	22%

Source: Company data, Nomura estimates

Summary cash flow

QR, m	2007A	2008A	2009F	2010F	2011F	2012F	2013F
Adjusted net income	4983	7276	5742	5024	6166	6240	6519
Minorities	(1)	(2)	0	0	0	0	0
Adjusted DD&A	399	461	350	856	985	979	961
Post tax interest charge on debt	(86)	(96)	(119)	(201)	(240)	(222)	(127)
Cash EBIDA	5295	7639	5973	5678	6911	6996	7352
less: post tax interest charge	86	96	119	201	240	222	127
Adjusted movement in provisions	35	(2159)	0	0	0	0	0
Working capital movement	851	0	0	0	0	0	0
Cash flow from operations	6268	5576	6092	5879	7151	7219	7480
Capex (IQ share)							
Total capex	(2531)	(4748)	(5551)	(4493)	(3561)	(1380)	(1382)
Dividends paid	(2000)	(4400)	(2871)	(2512)	(3083)	(3120)	(3259)
Net cash flow from operations	1737	(3572)	(2330)	(1125)	506	2719	2839
Non recurring items							
Acquisitions	(1016)	0	0	0	0	0	0
Divestments	0	0	0	0	0	0	0
Surplus (deficit) from our line items	721	(3572)	(2330)	(1125)	506	2719	2839
Other movements	(184)	0	0	0	0	0	1
Net cash surplus (deficit)	537	(3572)	(2330)	(1125)	506	2719	2840

Source: Company data, Nomura estimates

Analyst Certification:

I, Scott Darling, hereby certify (1) that the views expressed in this Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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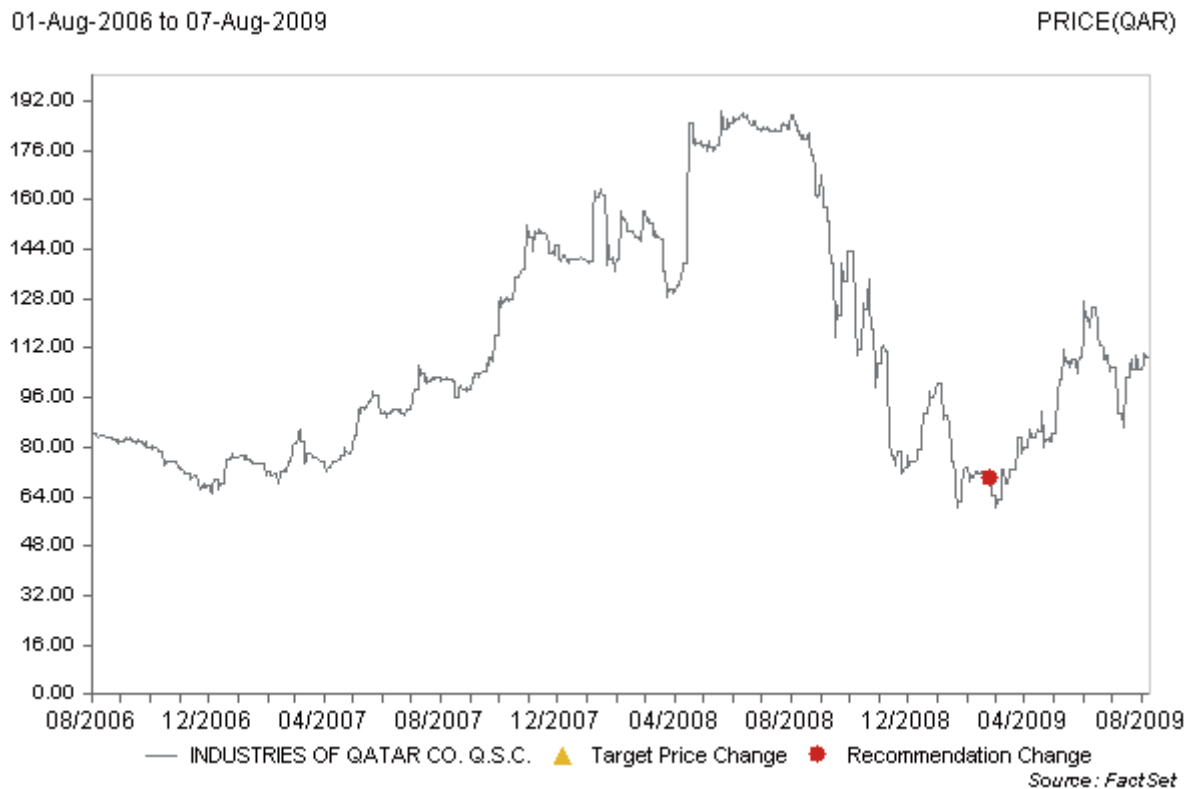
Important Disclosures:

Industries Qatar (IQCD.QA)

QTR 109.00 (12-Aug-2009)

Neutral / Not Rated

Rating and Price Target Chart:



Currency=QAR

Date	Closing Price	Rating	Price Target
25-Feb-09	69.80	Neutral	

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Valuation Methodology: Our price target for Industries Qatar's shares is derived using a discounted cash flow methodology, using a 10.0% discount rate. The target price is not market-linked. The benchmark index for this stock is the local market to which the stock is traded.

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Important Disclosures Continued:

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Industries Qatar	IQCD.QA	QTR 109.00	12-Aug-2009	Neutral / Not Rated

All share prices mentioned are closing prices unless otherwise stated.

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- A rating of "2", or "**Buy**", indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "5", or "**Sell**", indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
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- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

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