



# Industries Qatar

## Initiation of Coverage

| Target Price  | Market Price  | Recommendation | Upside Potential | Investment Grade |
|---------------|---------------|----------------|------------------|------------------|
| <b>QAR103</b> | <b>QAR108</b> | <b>HOLD</b>    | <b>-4.6%</b>     | <b>VALUE</b>     |

### Share Data

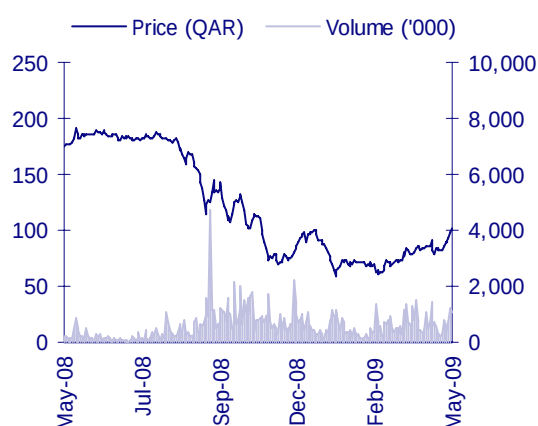
|                                |                        |
|--------------------------------|------------------------|
| <b>Report Date</b>             | <b>May 11, 2009</b>    |
| Company Abbreviation           | IQCD                   |
| Sector                         | Industrial             |
| Traded Market                  | DSM                    |
| Report Reason                  | Initiation of Coverage |
| Valuation Methodology          | DCF                    |
| Previous Report Date           | NA                     |
| Previous Target                | NA                     |
| Exchange Rates                 | USD1/QAR3.64           |
| Stock Currency                 | QAR                    |
| Reuters Code                   | IQCD.QA                |
| Outstanding Shares (mln)       | 550                    |
| Par Value/Share (QAR)          | 10                     |
| Financial Year Ending          | December               |
| Mkt. Cap (QAR mln)             | 59,400                 |
| Weight to (PEMI)               | NA                     |
| Price Low – High (QAR) (52Wk.) | 57.4 - 193.0           |
| Relative Performance (52Wk.)   | 11.5%                  |

### Shareholders

### Ownership Stake

|                 |     |
|-----------------|-----|
| Qatar Petroleum | 70% |
| Free Float      | 30% |

### Stock Performance Chart



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While the world economy struggles to ride out one of the worst recessions since World War II, Qatar is expected to have recorded a real GDP growth of 13.4% in 2008 and to register a real growth rate of 10.7% in 2009e and 23.8% in 2010e. Qatar is the smallest of the OPEC members in terms of oil output, but has the world's third largest natural gas reserves and is one of the region's lowest cost natural gas producers. This resulted in the Qatari Government setting-up large gas-based petrochemical and fertilizer manufacturing industries, with the objective to optimize the utilization of the country's cheap gas feedstock.

Industries Qatar (IQ) is the holding entity created to manage the overall growth for Qatar Petrochemicals (QAPCO), Qatar Fertilizer (QAFCO), Qatar Fuel Additives Company (QAFAC) and Qatar Steel Company (QASCO). QAFCO and QAPCO receive competitively priced gas feedstock from Qatar Petroleum, the state-owned petroleum company and IQ's largest shareholder (70%), enabling the companies to manufacture petrochemical and fertilizer outputs at significantly cheaper production costs relative to their global peers.

IQ's group revenues registered a CAGR of 29.4% between 2004 and 2008 with an average EBITDA margin of 52% during the period. In spite of the high cyclicality of its markets, IQ retains a long term view and is accordingly investing in several high-profile capacity and product line expansion projects at an estimated total cost of QAR21 billion (over 5 years), which should help the company directly benefit from a rise in commodity prices and significantly increase revenues going forward.

We estimate 2009e revenues and EBITDA margins at QAR10,600 million (down 28% Y-o-Y) and 42% (down 700 basis points), respectively. Although the short-term commodity outlook appears volatile, IQ's long-term fundamentals remain strong as it had net cash of QAR3.48 billion (12% of assets) as of 1Q2009. This, combined with its sustainable feedstock advantage and strategic off-take agreements for QAPCO and QAFCO, enable the company to maintain relatively high margins and capacity utilization levels even amid the current economic crisis.

Given the operational uniqueness of each of IQ's subsidiaries, we have valued the company using the sum of the parts (SOTP) approach, which yields a net equity value of QAR56,713 million or an associated value per share of QAR103, which is 4.6% below the current market price of QAR108 per share. We therefore issue a HOLD recommendation on the stock.

| Fiscal Year              | 2007a | 2008a  | 2009f  | 2010f  | 2011f  |
|--------------------------|-------|--------|--------|--------|--------|
| Revenues                 | 9,326 | 14,743 | 10,600 | 12,759 | 18,103 |
| Growth                   | 19.9% | 58.1%  | -28.1% | 20.4%  | 41.9%  |
| EBITDA Margin            | 52.3% | 48.8%  | 41.9%  | 44.5%  | 46.1%  |
| Net Income               | 4,985 | 7,277  | 4,940  | 5,823  | 8,121  |
| EPS (QAR)                | 9.1   | 13.2   | 9.0    | 10.6   | 14.8   |
| EPS Growth               | 37%   | 46%    | -32%   | 18%    | 39%    |
| DPS (QAR)                | 5.0   | 8.0    | 4.5    | 5.3    | 7.4    |
| Book Value / Share (QAR) | 20.3  | 25.2   | 30.6   | 35.8   | 43.2   |
| P/E (x)                  | 11.9  | 8.2    | 12.0   | 10.2   | 7.3    |
| Dividend Yield           | 4.2%  | 7.4%   | 4.2%   | 4.9%   | 6.8%   |
| P/BV (x)                 | 5.3   | 4.3    | 3.5    | 3.0    | 2.5    |

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## Qatar: Overview

*Qatar has the world's third largest natural gas reserves and is one of the lowest cost natural gas producers in the world.*

While the world economy struggles to ride out one of the worst economic recessions since World War II, Qatar is expected to have recorded a high real GDP growth of 13.4% in 2008 and is expected to register real growth rate of 10.7% in 2009e and 23.8% in 2010e, according to EIU's most recent estimates. Qatar is the smallest of the OPEC members in terms of oil output, but has the third largest natural gas reserves in the world after Russia and Iran, holding 905Tcf or 14.5% of total world reserves, according to BP Statistical Review 2008. Almost 99.5% or 900Tcf of Qatar's reserves is present in the giant North Field, which is the single largest non-associated gas field in the world.

Qatar's gas production has almost doubled since 2003 with an average daily production rate of 5.8 billion cubic feet (Bcf) in 2007, while its domestic consumption during the same period grew 68% to reach 2Bcf/d, resulting in an increasing production surplus that helped Qatar surpass Indonesia as the largest LNG exporter in the world in 2007. LNG exports touched 3.7Bcf/d during 2007, with Japan and South Korea combined, making up 56% of Qatari LNG exports.

State-owned Qatar Petroleum (QP) plays a dominant role in the natural gas sector. It is the leading oil and natural gas producer in the country and also plays an important role in most downstream projects. Qatar's LNG sector is dominated by Qatar Liquefied Gas Company (Qatargas) and Ras Laffan Liquefied Natural Gas Company (RasGas) with QP having a majority stake in both the LNG companies.

*The state has set-up large gas-based manufacturing industries, such as petrochemicals and fertilizers, to optimize the utilization of its cheap gas feedstock.*

## Leveraging Cost Advantage

Qatar is one of the lowest cost natural gas and LNG producers in the world, even surpassing most of its Gulf and wider Middle Eastern peers. This has resulted in the Qatari Government setting-up and continuously expanding large gas-based manufacturing industries, namely petrochemicals (ethylene, LDPE) and chemical fertilizers (ammonia, urea), wherein feed stocks such as gas-derived ethane or oil-derived naphtha often make up over 70% of the cash cost of production. Furthermore, the spike in oil prices until mid-2008 increased Qatar's cost-competitiveness considerably, leading to massive capacity expansion plans in these industries.

The chart below exhibits estimated cost advantage enjoyed by gas-based ethylene manufacturers in the Gulf, such as Qatar Petrochemicals (QAPCO), which pay in the range of USD0.75 - USD1.75 per mmbtu for the purchase of gas from their respective state-owned petroleum companies. Even at a conservative oil price of USD20 per barrel, the cash cost advantage is estimated to be in the range of USD1.64-2.64 per thousand cubic feet (Mcf), with significant upside potential at higher crude oil prices.

| Oil Price (USD/bbl) | Naphtha (USD/Mcf) Assuming 6 Mcf = 1 Barrel | Gulf Ethane (USD/Mcf) | Cost Advantage (USD/Mcf) |
|---------------------|---------------------------------------------|-----------------------|--------------------------|
| 20                  | 3.39                                        | 0.75 - 1.75           | 2.64 - 1.64              |
| 30                  | 5.08                                        | 0.75 - 1.75           | 4.33 - 3.33              |
| 40                  | 6.78                                        | 0.75 - 1.75           | 6.03 - 5.03              |
| 50                  | 8.47                                        | 0.75 - 1.75           | 7.72 - 6.72              |
| 60                  | 10.17                                       | 0.75 - 1.75           | 9.42 - 8.42              |

*Source: MEES, Prime Estimates*

*Industries Qatar is the holding entity created to manage the overall growth of Qatar's fertilizer and petrochemical companies.*

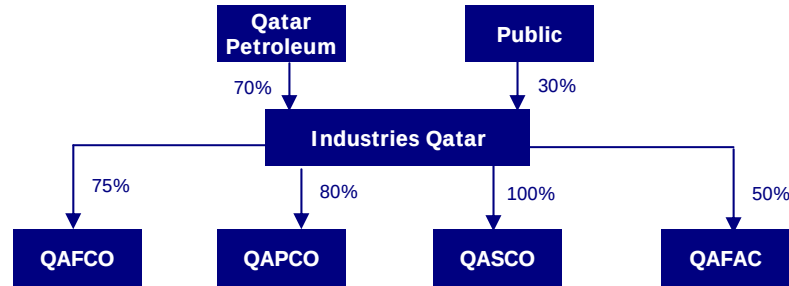
With the primary objective being to exploit Qatar's very low feedstock costs as well as to diversify its historically high hydrocarbon-based income sources, the State of Qatar, through QP (holding entity) established Qatar Fertilizer Company (QAFCO) in 1969 for manufacturing urea and ammonia and Qatar Petrochemicals (QAPCO) in 1974 for manufacturing ethylene and LDPE. Both these ventures were set up in collaborative partnerships with international companies that were leaders in their respective sectors, thus providing QAPCO and QAFCO with critical market access and technical know-how since inception.

With further development of Qatar's natural gas resources as well as a rising share of petrochemicals and fertilizers in Qatar's overall economic growth, QP transferred its stake to "Industries Qatar", a holding entity created to manage the overall growth and market strategy for QAPCO and QAFCO, in addition to Qatar Fuel Additives Company (QAFAC) and Qatar Steel Company (QASCO).

## Industries Qatar: Overview

Industries Qatar (IQ) was incorporated as a Qatari Joint Stock Company on 19 April, 2003 with Qatar Petroleum (QP) as its largest and sole founding shareholder at the time of incorporation. Subsequently in 2003, QP divested 30% of its interest in IQ through an IPO to several investors, including Qatari individuals and institutions and non-Qatari shareholders.

IQ, essentially, is a holding company that operates through several gas and non-gas based subsidiaries, namely QAPCO, QAFCO, QASCO and QAFAC. Since its establishment in 2003, IQ has grown organically through massive capacity expansions and inorganically through several strategic investments and remains one of the largest publicly traded stock on the Doha Stock Market (Ticker: IQCD) with a market cap value exceeding QAR59 billion as of May 2009.



Source: Company Data

Held by QP prior to 2003, IQ acquired interest in the following subsidiaries:

*IQ receives competitively priced gas feedstock from Qatar Petroleum, which is the state-owned petroleum company and IQ's largest shareholder.*

- Qatar Petrochemical Company (QAPCO), a joint venture between Total Petrochemicals of France (20%) and IQ (80%), which manufactures ethylene and low density polyethylene (LDPE)
- Qatar Fertilizer Company (QAFCO), a joint venture involving Yara Nederland (15%), Fertilizer Holding (10%) and IQ (75%), producing ammonia and urea
- Qatar Steel Company (QASCO), an integrated steel manufacturer and the only fully owned subsidiary of IQ
- Qatar Fuel Additives Company (QAFAC), a methanol and methyl-tertiary-butyl-ether (MTBE) producer, involving a joint venture with Chinese Petroleum Corporation of Taiwan (20%), LCY Investments Corp (15%), International Octane (15%) and owned 50% by IQ

During 2008, Industries Qatar established Fereej Real Estate Company with a paid-up capital of QAR300 million as a joint venture owned by IQ (34%), Qatar Real Estate Investment Company (33%) and Al-Koot Insurance and Re-Insurance Company (33%) with the JV's focus on investing in residential and commercial buildings and the provision of facilities management and construction project management services in Qatar. The JV is currently involved in few construction and development projects with IQ's outstanding share of projects under development valued at QAR48 million as of December 2008.

It is interesting to note that the establishment of the majority of the above-mentioned entities was to diversify Qatar's significantly high oil and gas driven income sources and to leverage Qatar's massive natural gas reserves (900Tcf as of December 2007), which facilitate cheap gas feedstock, with gas being the largest component in the manufacturing of petrochemicals and fertilizers produced by QAPCO and QAFCO, respectively. According to IQ's reports, QP supplies feedstock gas to IQ's subsidiaries at a purchase price of between USD1.00 and USD1.5 per mmbtu, which is significantly lower than c.USD5 or more per mmbtu paid by other global manufacturers with less proximity to natural gas reserves.

In addition to the cheap gas feedstock that the subsidiaries receive from Qatar Petroleum, the formation of IQ and the subsequent consolidation of the four entities under a single umbrella further strengthen the support that the subsidiaries receive from the Qatari Government since QP indirectly retains the largest interests in IQ-subsidaries through its 70% ownership of Industries Qatar.

*IQ's revenues registered a CAGR of 29.4% between 2004 and 2008, with average EBITDA margins of 52% during the period.*

IQ's group revenues registered a CAGR of 29.4% between 2004 and 2008 with gross revenues recording the highest annual growth rate of 58% to reach QAR14,743 million during 2008. EBITDA during the same period registered a CAGR of 25.8% with the associated margin averaging 52% during the period. Due to the onset of the credit crisis, which specifically affected IQ's steel segment, group revenues and net profit declined by 60.7% (Q-o-Q) and 96% (Q-o-Q) respectively during 4Q2008 primarily due to inventory write-downs in the steel segment and a drop in commodity prices across the board.

However, price recovery since 4Q2008 resulted in an encouraging performance during 1Q2009 with revenues rising 9.2% (Q-o-Q) and net profit (including QAR800 million related to QASCO's accounting settlement of price difference), increasing significantly to QAR1,413 million as compared to QAR94 million in 4Q2008. Going forward, we do not expect the company to incur significant inventory write-downs but to maintain over 90% capacity utilization levels and benefit from a more stable commodity price environment.

In spite of its highly cyclical nature, IQ retains a long term view and is accordingly investing in several high-profile capacity and product line expansion projects at an estimated total cost of QAR21 billion (IQ's share: QAR14.1 billion), which should help the company significantly increase revenues starting 2012 when most of the new capacity comes on stream.

Given the operational uniqueness and distinctive market dynamics surrounding each of IQ's subsidiaries, we have valued the company using sum-of-the-parts (SOTP) approach. Although the short-term commodity outlook appears volatile, IQ's long-term fundamentals remain very strong due to its sustainable feedstock advantage and strategic off-take agreements for QAPCO and QAFCO, thus enabling the company to maintain relatively high margins and capacity utilization levels even amid the current economic crisis.

## Qatar Petrochemicals (QAPCO):

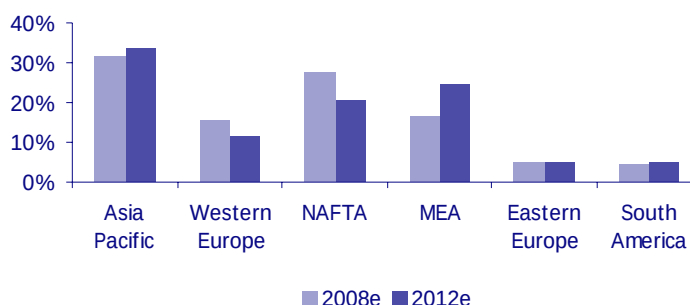
*IQ owns 80% of Qatar Petrochemicals (QAPCO), which has in place a 70% off-take agreement with its JV partner, thus ensuring volume certainties.*

QAPCO was established in 1974 as a JV between Qatar Petroleum (80%) and Total Petrochemicals (20%) with the aim of utilizing the associated and non-associated ethane gas feedstock from Qatar's petroleum production. QAPCO's production facilities are situated on the coast at Mesaieed Industrial City and include the production of ethylene with a capacity of 0.72 million metric tons (MT) per year, Low Density Polyethylene (LDPE) with a capacity of 0.36 million MT per year and an annual production of 70,000 MT of solid sulphur as a by-product from its core activities. During 2008, IQ's proportionate revenues from QAPCO grew by 38.5% to reach QAR2,982 million, thus contributing 20.2% to IQ's gross revenues of QAR14,743 million. The company markets its products in Asia, Europe and the MENA region and has in place a 70% off-take agreement with its JV partner, Total Petrochemicals, thus ensuring high capacity utilization rates.

## Industry Overview

Ethylene – also known as ethene - is a key building block for the petrochemical industry. It is a colorless, flammable gas with a slightly sweet odor and is the main product of the steam cracking of hydrocarbons such as ethane, naphtha and gas oil. In this process, the feedstock molecules are 'cracked' at high temperatures to produce, among other things, hydrogen, ethylene, propylene, butadiene, benzene and toluene. The applications of ethylene are numerous and ethylene derivatives, such as polyethylene (LDPE and LLDPE), are traded around the world. Polyethylenes of various density and melt flow account for more than 50% of world ethylene demand. In fact, over 55% of QAPCO's ethylene output is used in the production of LDPE. The primary use of LDPE is in film applications for packaging, carrier bags and trash liners. Other applications include injection molding, pipe extrusion, wire and cable sheathing and insulation, as well as extrusion coating of paper and cardboard.

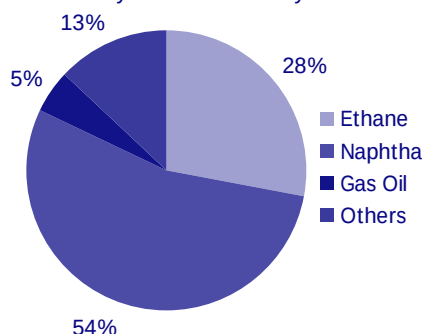
Global Ethylene Capacity



Source: Business Monitor International

The availability of cheap feedstock combined with the region's close proximity to the fast growing markets of India and China, has made the Middle East and Africa (MEA) region a major focus of petrochemicals industrial development. According to Business Monitor International (BMI), the region's fast-growing petrochemicals export market along with the current major capacity expansion projects on the back of high petro-dollar surplus, will help the region's efforts in outpacing its counterparts in North America and Europe in global ethylene production, with MEA's share increasing to 24.4% in 2012e from just 16.3% in 2008e, led by Qatar and Saudi Arabia.

Global Ethylene Production by Feedstock



Source: Business Monitor International

It is worth noting that oil-derived naphtha represents approximately 54% of feedstock for the world's crackers while natural gas derived ethane represents 28%, with the remaining 13% feedstock made up of gas oil, propane and butane, among others. As a result, any medium to long term sustainable trend in crude oil prices has significant implications on the competitiveness of using ethane as a feedstock for ethylene production and consequently on the profitability of QAPCO and other Gulf producers. Having said this, prevailing crude oil prices of over USD50 per barrel make the Gulf region a prime destination for petrochemical investments due to its access to low cost ethane.

For instance, the massive run-up in crude oil prices during 1H2008 significantly boosted ethane's competitiveness, since it costs just over a third of the cost of naphtha with cracking margins for the former higher by at least 6.5%, resulting in a high cash margin for gas-rich petrochemical producers such as QAPCO. As a consequence, higher oil revenues led the governments in the Gulf, led by Saudi Arabia and Qatar, to reinvest petro-dollar revenues in petrochemicals capacity expansions. Although the sharp decline in crude oil prices since mid-2008 negatively affected this cost advantage, the high volatility (as implied in crude oil futures prices) has made naphtha-based petrochemical producers hesitant in pursuing any greenfield or debottlenecking expansions due to concerns about feedstock costs and loss of competitiveness once oil or naphtha prices rebound.

Having said this, an equally large decline in oil prices certainly reduces the competitiveness of gas-based ethylene producers, and more so if the crude oil price levels break below USD20-25 per barrel. However, a drop towards this level looks unlikely given the expectations of improvement in global market conditions, which will subsequently increase end-user demand for the commodity. Accordingly, we expect the price of crude, which averaged USD98 per barrel in 2008 and currently trades at c.58 per barrel, to average c.55 per barrel 2009e, before gradually rebounding to USD66 per barrel in 2010e.

## Capacity expansion

The decline in crude oil prices since 1H2008, which also led to a decline in petrochemical prices, resulted in a slight pushback in QAPCO's expansion plans. However, on a positive note, this should enable QAPCO to benefit from lower construction costs, which are expected to have fallen by at least 30% since July 2008. According to IQ, QAPCO's expansion plans entail increasing annual ethylene and LDPE capacity by 90% and 48% respectively by 2012e and construct a new LLDPE plant with an eventual gross capacity of 0.45 million MT per year via its 51% owned subsidiary – Qatofin - with expected completion now pushed back to 2Q2009. We accordingly estimate QAPCO to incur QAR1,154 million and QAR754 million in capital expenditures in 2009e and 2010e, respectively with debt financing already secured for Qatofin's LLDPE project.

*We expect QAPCO to incur QAR1,154 million and QAR754 million in capital expenditure in 2009e and 2010e, respectively.*

The following table summarizes QAPCO's major expansion projects:

| Project Name          | Expected Completion | Total Cost (QAR billions) | IQ Share   | Debt:Equity |
|-----------------------|---------------------|---------------------------|------------|-------------|
| Qatofin - LLDPE Plant | 2Q2009              | 4.9                       | 2.5        | 70:30       |
| QAPCO - LDPE 3        | 1Q2012              | 1.6                       | 1.3        | NA          |
| <b>Total</b>          |                     | <b>6.5</b>                | <b>3.8</b> |             |

*Source: Company Data*

## Qatofin – LLDPE Plant

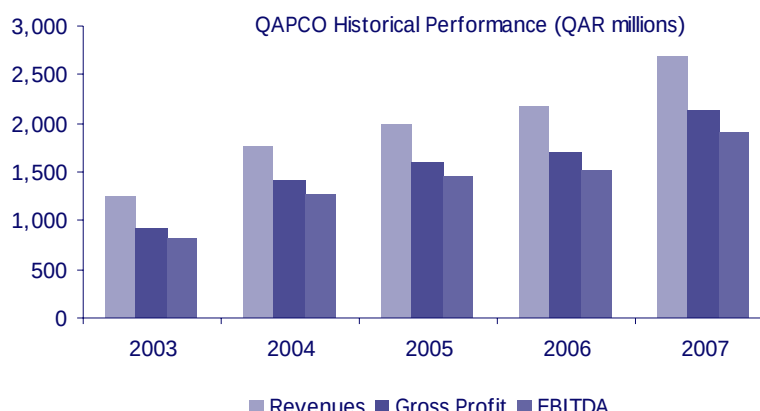
Qatofin is a JV involving QAPCO (63%), Total Petrochemicals (36%) and Qatar Petroleum (1%). It entails the construction of one of the largest LLDPE plants with an initial annual capacity of 0.225 million MT, expandable to 0.45 million MT in 2010e at a total cost of QAR4.9 billion with IQ's portion being QAR2.5 billion. In order to supply the necessary feedstock for the production of LLDPE, a separate project involves the construction of a major ethane-cracker at Ras Laffan through Qatofin's 46% subsidiary – Ras Laffan Olefins Company (RLOC), which will annually produce 0.65 million MT of ethylene from 3Q2009 and is expected to double annual capacity to 1.3 million MT by 2010e. RLOC will source its ethane feedstock from the Dolphin Energy and AKG projects in Qatar's North Field.

## QAPCO LDPE-3 Plant:

In order to further optimize the utilization of Qatar's natural gas reserves, QAPCO is set to increase its current annual LDPE capacity by 48% to 0.65 million MT through the construction of a new LDPE-3 plant having an annual capacity of 0.23 million MT with completion now expected by 1Q2012 instead of 3Q2011. The total cost of the project is QAR1.6 billion with the share of IQ being 80% or QAR1.3 billion. The ethane feedstock for this plant is expected to come from QAPCO's Ethylene Expansion Phase-1 project completed in 2007, which increased the company's gross annual ethylene production capacity by 39% from 0.55 million MT to 0.72 million MT.

## Financial highlights

QAPCO's gross revenues registered a CAGR of 21.1% between 2003 and 2007 (2008 standalone figures for QAPCO are not yet released), with gross revenues increasing from QAR1,250 million in 2003 to QAR2,691 million in 2007. Given the relatively fixed production cost for QAPCO's products, any increase in output price flows directly to the bottomline as reflected in QAPCO's average EBITDA margin of 70.2% and average gross margin of 78.5% during the period. During 2008, IQ's proportionate revenues from QAPCO came in at QAR2,982 million, increasing 38.5% Y-o-Y, with an estimated EBITDA margin of 67.1% for the year.



## Forecasts & Assumptions

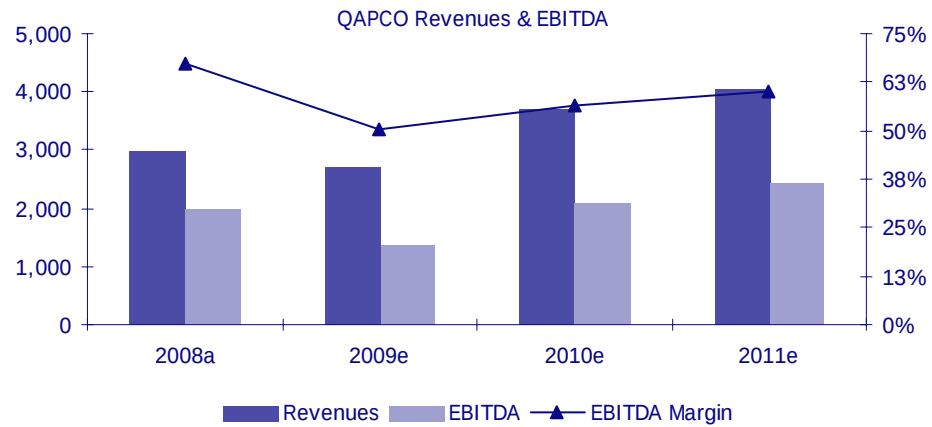
*Source: Company Data*

QAPCO has been consistently operating at utilization levels above its nameplate capacity. For instance, in spite of a slowdown in the global petrochemical industry during 2H2008, QAPCO produced c.0.8 million MT of ethylene against a designed capacity of only 0.72 million MT. At the same time, QAPCO's 70% off-take agreement with Total Petrochemicals ensures volume certainties even amid the current economic downturn. Going forward, QAPCO continues to expect strong consumption in China, where demand for polymers is linked to infrastructure rather than consumable products. We therefore expect QAPCO to continue to maintain high utilization rates going forward, although restrict our production and sales volume assumptions to actual design capacity.

QAPCO's average realized price for ethylene and LDPE during 3Q2008 was USD1,098 per ton and USD1,894 per ton, respectively. However, prices have come down significantly since then as a result of the global economic slowdown and a decline in the prices of crude oil, which have a significant influence on the market prices for major petrochemicals products. Similar to our expectation regarding crude oil prices, we expect ethylene prices to average USD659 per ton and USD797 per ton in 2009e and 2010e, respectively and LDPE prices to average USD1,083 per ton and USD1,154 per ton in 2009e and 2010e, respectively.

Since c.48% of global ethylene production is naphtha or oil-based, oil prices explicitly set a minimum floor for the prices. However, since most of the future capacity expansion is expected to come up in the low-cost, gas-based Middle-Eastern region, increase in petrochemical prices is expected to be muted as compared to the expected increase in crude oil prices in the longer run. We, however, expect prices to rebound starting 2010e and rise gradually until 2012e until most of the new Middle-Eastern capacity comes on stream, which is expected to rise faster than Chinese petrochemicals import growth.

Our pricing and volume assumptions translate into proportionate revenues of QAR2,694 million for 2009e, a decline of 10% over proportionate 2008 revenues of QAR2,982 million. Revenues thereafter are expected to increase by 37.2% to QAR3,701 million in 2010e, encouraged by price recovery and production of additional LDPE, ethylene and LLDPE volumes. EBITDA margins, which we estimate at 67.1% in 2008e, are expected to decline to 51% in 2009e, before recovering to 57% and 60% in 2010e and 2011e, respectively.



Source: Company Data, Prime Emirates

## Valuation:

Using the DCF valuation approach, we value IQ's share from QAPCO at QAR22,005 million or an associated value per share of QAR40.01. We have utilized a WACC of 12.9% with a risk free rate 6.9%, Beta of 1 and terminal growth rate of 3%.

## Qatar Fertilizer (QAFCO):

*IQ owns 75% of Qatar Fertilizer Company (QAFCO), which has in place a 70% off-take agreement with its JV partner, thus ensuring volume certainties.*

QAFCO was Qatar's first major initiative to utilize its abundant natural gas resources for the production of ammonia and urea. At the time of its inception in 1969, QAFCO was formed as a joint venture between the State of Qatar, Norsk Hydro Norway, Davy Power gas, and Hambros Bank. The company is currently owned by Industries Qatar (75%), Fertiliser Holding A S (10%) and Yara Nederland (15%) and, as of the end of 2008, operates approximately 2.9 million MT of urea capacity and 2 million MT of ammonia capacity at its production facilities close to Qatar Petroleum's plants in the Mesaieed Industrial City. During 2008, IQ's proportionate revenues and EBITDA from QAFCO came in at QAR4,590 million and QAR3,622 million (estimated), thus contributing 31% to IQ's gross revenues and 50.5% to aggregate EBITDA.

QAFCO started production from its first plant (QAFCO 1) in 1973 with a nominal daily capacity of 900 MT of ammonia and 1,000 MT of urea. Thereafter, the company expanded its nameplate capacity enormously through the establishment of 3 completely integrated trains (QAFCO 2, QAFCO 3 and QAFCO 4), with each train comprising two units, one for production of ammonia and the other for urea. With demand for these products very seasonal and depending upon crop cycles, QAFCO is able to mitigate volume uncertainty by having in place an off-take agreement with its JV partner, Yara Nederland, which guarantees to purchase 70% of the output. QAFCO also benefits from its close proximity to the largest fertilizer consuming markets of India and China, which accounted for over 22% of QAFCO's exports during 2007.

| Unit           | Output    | Name Plate Capacity<br>(MT / Day) | Typical<br>Present Production<br>(MT / Day) |
|----------------|-----------|-----------------------------------|---------------------------------------------|
| QAFCO 1 (1973) | Ammonia 1 | 900                               | 1150                                        |
|                | Urea 1    | 1000                              | 1300                                        |
| QAFCO 2 (1979) | Ammonia 2 | 900                               | 1220                                        |
|                | Urea 2    | 1000                              | 1450                                        |
| QAFCO 3 (1997) | Ammonia 3 | 1500                              | 1770                                        |
|                | Urea 3    | 2000                              | 2450                                        |
| QAFCO 4 (2004) | Ammonia 4 | 2000                              | 2020                                        |
|                | Urea 4    | 3200                              | 3550                                        |

*Source: QAFCO*

It is worth mentioning that after the completion of QAFCO 4 train, the company earned the status of the largest single site producer of urea in the world. Further, after the completion of QAFCO 5 (discussed later), the company will also become the largest single-site producer of ammonia in the world.

## Product Overview

Urea is one of the most widely used dry granular sources of nitrogen for direct application to crops or in the preparation of blended fertilizers. It is preferred by the fertilizer manufacturing industry because of its relatively ease in manufacturing and its high nitrogen content, which makes its transportation relatively cost effective. The majority of nitrogen-based fertilizers, including urea, are derived from ammonia, which in turn can be derived from natural gas-based methane, oil-based naphtha or coal. However, natural gas-based ammonia is the cleanest high volume production method used today, generating over 70% of global ammonia produced. As a result, most ammonia and urea production plants today are located in regions with readily accessible quantities of natural gas.

## Industry Overview

With the increasing share of urea in the nitrogen fertilizer mix, global urea consumption reached a record level of 145 million MT in 2007, an annual increase of 6.6%, according to International Fertilizers' Association (IFA). However, the onset of credit crisis since 2H2008 is expected to affect fertilizer consumption in the short term due to low availability of credit and lower incentives for the farmers to purchase fertilizers due to stagnant end-user demand for crop yields, resulting in lower prices of grain and farmers' profitability. However, with subsequent recovery in global economy and expected increase in the availability of credit gradually, world fertilizer demand is expected to grow steadily at a CAGR of 2.7% from an expected annual consumption of 169 million MT in 2007/08 to approximately 190 million MT in 2012/13, which includes an increase in demand for urea from 150 million MT in 2007/08 to 180 million MT in 2012/13, resulting in a CAGR of over 3%.

Of greater significance is the increase in urea demand expected to come from Asia (namely, China and India) and Latin America, together accounting for over 81% of the increase in demand in the next 5 years as a result of agricultural sector liberalization and recently announced fiscal stimuli. With India accounting for over 71% of QAFCO's ammonia sales and 16% of urea sales during 2007, this will certainly help in boosting exports of urea and ammonia going forward. According to IFA, while demand for urea is expected to remain buoyant in the longer-term with an expected consumption of 180 million MT in 2012/13, global urea capacity is forecast to reach 184 million MT by 2012/13, resulting in a CAGR of around 5.5%. Going forward, capacity developments will be shaped by cost differential of feedstock between regions, governmental policies fostering developments from the downstream sector and from strong demand projections in Asia in the longer-term.

Due to increasingly growing shortage of natural gas amid rising demand worldwide, natural gas prices vary widely with even the well-stocked gas markets such as United States paying as high as USD8 per mmbtu during 2008 as compared to USD1-1.5 per mmbtu paid by QAFCO for the purchase of natural gas from Qatar Petroleum. With natural gas costs representing over 85% of the total cost of producing ammonia, this results in a significant cost advantage for QAFCO relative to its global peers.

## Capacity Expansion

### QAFCO-5

*We expect QAFCO to incur QAR2,565 million and QAR1,987 million in capital expenditure in 2009e and 2010e, respectively.*

With Qatar looking to further boost its non-hydrocarbon revenues, it is in the process of beefing up its ammonia and urea capacity by 79% and 46% respectively through the completion of a new train – QAFCO-5, which is expected to come on stream in 2011e. Specifically, QAFCO-5 is expected to increase ammonia production capacity from the current 2.01 million MT to 3.41 million MT and urea production capacity from 2.92 million MT in 2008 to 3.87 million MT at a total project cost of QAR12.8 billion, with the share of IQ being QAR9.6 billion.

| Project Name       | Expected Completion | Total Cost<br>(QAR billions) | IQ Share<br>(QAR billions) | Debt:Equity |
|--------------------|---------------------|------------------------------|----------------------------|-------------|
| QAFCO - 5          | 2Q2011              | 12.8                         | 9.6                        | 50:50       |
| Qatar Melamine Co. | 2Q2010              | 1.2                          | 0.5                        | 70:30       |
| <b>Total</b>       |                     | <b>14</b>                    | <b>10.1</b>                |             |

*Source: Company Data, Prime Estimates*

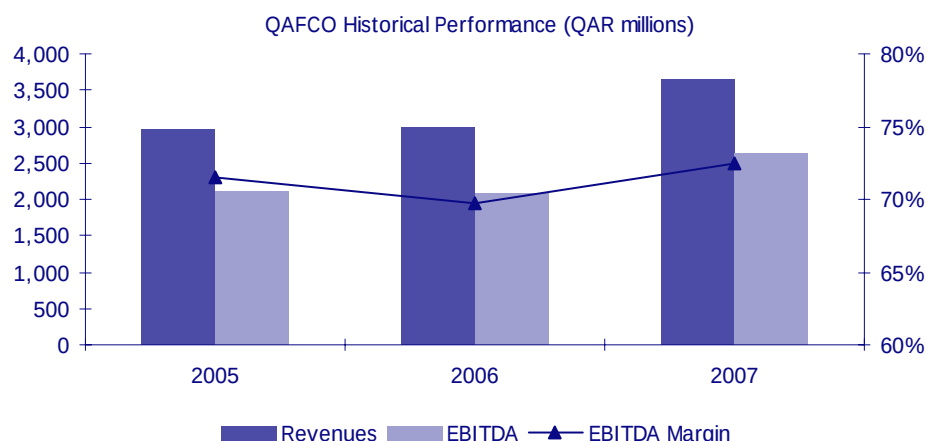
### Qatar Melamine Company

The establishment of Qatar Melamine Company (QMC) is a result of QAFCO's strategy towards diversifying its business in the downstream urea-based industries through the production of melamine, a urea derivative combined with formaldehyde for making melamine resin that is used in many applications such as whiteboards, kitchen ware, filters, fan coils, etc. QMC was set up in July 2006 with QAFCO holding a 60% stake and the remaining 40% held by Qatar Intermediate Industries Holding Company (QH). Once commissioned in 2Q2010, the proposed melamine plant is expected to produce 60,000 MT per year of melamine at a total cost of QAR1.2 billion (IQ's share: QAR0.5 billion) and is expected to contribute 5-6% of global demand for melamine.

With regards to QAFCO-5, we expect IQ to finance 50% of this project with internal cash flows and the remaining 50% to be financed through debt. For QMC, IQ has already secured 70% of the financing through external debt, with the remaining 30% to come from equity. Accordingly, we estimate QAFCO's capital spending at QAR2,565 million in 2009e, QAR1,987 in 2010e and QAR1,916 in 2011e.

## Financial Highlights:

QAFCO was the second highest contributor, after QASCO, to IQ's revenues during 2008 with a revenue contribution of 31% and an estimated EBITDA contribution of 50.5%. Although 2008 standalone results for QAFCO are not yet released, gross (unconsolidated) revenues between 2005 and 2007 registered a CAGR of 11% to reach QAR3,646 million in 2007. Growth in revenues can be attributed to increasing prices of urea and ammonia since urea capacity and sales volumes remained flat during the period, with QAFCO recording average utilization rates of slightly above its nameplate capacity. EBITDA margins remained steady during the period at 71.5% in 2005, 69.7% in 2006 and 72.5% in 2007, indicating costs increased proportionately with the increase in revenues.



Source: Company Data, Prime Estimates

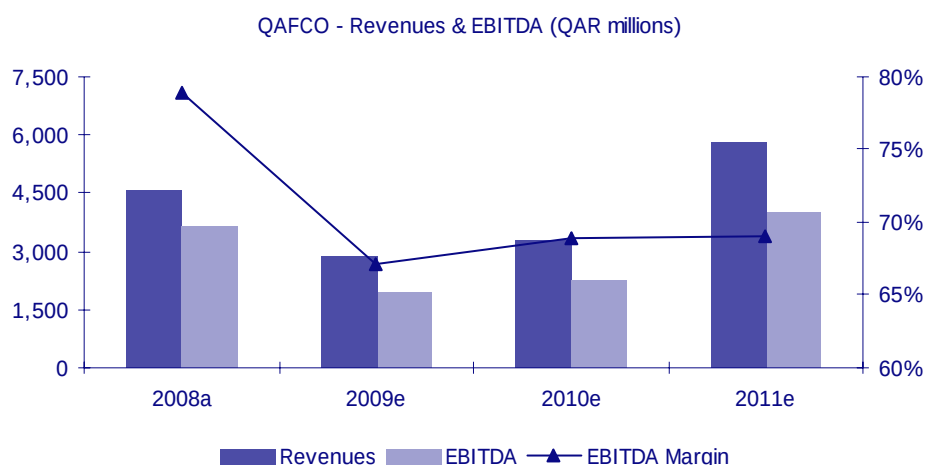
Since early 2007, the global fertilizer market, specifically that of urea and ammonia, entered a demand-pull cycle, driven by a surge in overall consumption and a shortage of available supply, resulting in urea prices reaching record levels in 1H2008. In addition to the demand-driven price increase, urea prices exhibited a high correlation (+0.90) with global crude oil prices, which also have a significant influence on the pricing of natural gas, a key raw material in the production of ammonia. However, a marked slowdown in the global economy since 2H2008 led to a fall in the prices of urea to average USD513 per ton during 2008, resulting in IQ's share of revenues from QAFCO at QAR4,589 million in 2008. (68% rise Y-o-Y).

## Forecasts & Assumptions

Although the run-up in urea prices during 2008 generated fears of demand destruction in the fertilizer industry, which is further exacerbated by the current economic slowdown, we believe that recent developments are largely conjectural and not structural, since they are derived from a short-term economic downturn and not from a surge in additional capacity. Accordingly, we expect QAFCO to continue to operate at utilization rates of between 90% and 95%, further supported by IQ's strategic offtake agreement with Yara International, which guarantees to purchase and market 70% of total output outside of the GCC region. At the same time, liberalization in the agricultural sector in most Asian countries supported by massive fiscal stimulus by China and India, lead us to maintain a bullish stance on the long-term global demand for fertilizers with demand for urea expected to rebound from 150 million MT in 2008 to 180 million MT in 2012, consistent with IFA's industry projections.

This, combined with our expectation of further recovery in crude oil prices starting 2010e, leads us to estimate the price of urea to average USD330 per ton in 2009e, USD348 per ton in 2010e and to gradually increase to USD475 per ton by 2013e. We expect pricing of ammonia, the primary feedstock, to follow a similar pattern with an expected average price of USD303 per ton in 2009e and USD342 per ton in 2010e before rising gradually to USD466 per ton in 2013e.

Our price and capacity assumptions translate into expected revenues of QAR2,892 million in 2009e, a Y-o-Y decrease of 37% over 2008 revenues of QAR4,590 million. In spite of over 30% decline in urea and ammonia prices since 3Q2008, QAFCO reported strong revenues during 2008 due to very high prices for the most part of the year. However, as we discussed before, 2009e is expected to witness relatively lower price levels on account of the global economic slowdown and the historically high correlation between fertilizer and crude oil prices. Anticipating a market recovery starting 2010e, we expect revenues to increase to QAR3,275 million and QAR5,812 million in 2010e and 2011e, respectively and gradually settling at QAR7,224 million in 2013e, primarily due to an expected rebound in prices and additional sales volumes coming from melamine production at QMC (beginning 2010e) and urea production at QAFCO-5 (beginning 2011e).



*Source: Company Data, Prime Estimates*

With over 70% of QAFCO's total cost of production related to the feedstock costs supplied by QP at preferential rates, EBITDA margins are expected to be less severely hit but nevertheless drop to 67.2% in 2009e from an estimated margin of 78.9% in 2008. Margins, thereafter, are expected to improve gradually to 70.2% in 2013e. It is important to note that our estimates assume QAFCO will continue to source feedstock gas from QP at a purchase price of between USD1-1.5 per mmbtu.

## Valuation

Using the DCF valuation approach, we value IQ's share from QAFCO at QAR26,063 million or an associated value per share of QAR47.4. We have utilized a WACC of 12.9% with risk free rate 6.9%, beta of 1 and terminal growth rate of 2.7%, which is consistent with the long-term growth rate in fertilizer demand expected by IFA.

## Qatar Steel (QASCO):

QASCO was formed in 1974 as the first integrated steel plant in the Arabian Gulf as a JV between the Government of Qatar (70%) and two Japanese firms - Kobe Steel (20%) and Tokyo Boeki (10%). Subsequently, in 1997, the government acquired full ownership of the company and transferred the same to Qatar Petroleum (QP), which in turn transferred its shares to Industries Qatar (IQ) in 2003, thus making QASCO, the only 100% owned subsidiary of Industries Qatar. Besides operating from an integrated mill located in the Mesaieed Industrial City in Qatar, QASCO also operates one wholly-owned UAE-based subsidiary – Qatar Steel Company FZE and has strategic investments in several associates, including a 25% stake each in Gulf United Steel Company (Foulath) and Gulf Industrial Investment Company (GIIC).

*Qatar Steel is the only 100% owned subsidiary of IQ, contributing 39% and 14% of total revenues and net profit in 2008.*

QASCO's main activity involves manufacturing of steel billets, reinforced bars (rebars) and wire rod coils. As of year-end 2008, QASCO had an annual production capacity of 1.6 million MT of steel billets, 1.7 million MT of rebars and 0.3 million MT of wire rod coil. During 2008, the company's revenues increased at a staggering rate of 68% to reach QAR5,770 million, while net profits came in at QAR1,019 million, thus contributing 39% to IQ's total revenues and 14% to total net profit.

## Product Overview

The following steps briefly discuss the process of steel making and some of the products (relevant to QASCO) manufactured in the process:

- Steel manufacturing process at QASCO begins with the import of its key raw material - iron ore pellets – which then go through the Direct Reduction Plant, whereby the oxygen is extracted from the pellets in order to obtain reduced/sponge/refined iron using QP-supplied natural gas as a reducing agent
- Direct Reduced Iron (DRI) obtained above is then melted at very high temperatures in an Electric Arc Furnace (EAF) yielding molten iron, which is then mixed with ferroalloys and other chemicals to ensure the right characteristics for the desired grade of finished steel
- Refined molten steel is then transferred to a continuous caster, where molten steel is poured into molds, cooled and shaped into desired cross sections, essentially forming steel billets

While some of the steel billets are sold by QASCO, most are processed further (i.e. reheated) and shaped in rolling mills to produce rebars and wire rod coils. Demand for steel, particularly of rebar, remained high in the GCC between 2003 and 2007 due to significant construction activity, which resulted in increasing consumption of long products, usually consumed for large-scale infrastructure projects.

## Industry Overview

According to World Steel Association (WSA), global steel consumption grew from c.777 million MT in 2001 to 1,209 million MT in 2007, indicating a CAGR of little over 7%. Driven by huge construction spending in the region on the back of high oil prices during the period, Middle East steel consumption during the same period increased steadily to reach 47.6 million MT in 2007 from 23.1 million MT in 2001 (CAGR of 12.8%) led by Iran, Saudi Arabia, the UAE and Qatar, as compared to a world consumption growth of 7.5%, led by China, which was also the largest importer of steel during the period.

In spite of a significant increase in Middle East steel consumption between 2001 and 2007, production of steel, as represented by production growth of rebar, could not keep up with the growth in consumption, leading to significant quantities of more expensive steel imports in order to sustain the massive construction boom in the region. According to WSA, Middle East production of DRI increased from 8.6 million MT in 2001 to 12.8 million MT in 2007, indicating a CAGR of 6.85%. While China accounted for the largest steel imports during 2007, Saudi Arabia and the UAE were the largest importers in the Gulf with import quantities of 4.9 million MT and 8.6 million MT, respectively.

However, 2008 witnessed a sharp demand contraction in 2H2008 resulting in steel companies across the globe, including QASCO, writing down the value of their inventories, thus negatively affecting net margins. Going forward, while demand for steel could remain muted in 2009e due to the global economic slowdown, long-term GCC steel fundamentals remain strong with giant real estate and infrastructure development projects like roads, airports, railways, power grids and metros continue to be announced on a less frequent but steady basis.

At the same time, announced budget deficit by Saudi Arabia, one of the largest consumers of steel in the GCC, combined with gradual economic recovery and oil price stabilization will ensure a highly active construction sector starting 2010e and beyond. According to industry reports, demand for steel in the GCC will continue to witness double digit growth in the range of 10-14% between 2007e and 2013e. These developments will continue to keep QASCO at the helm of all the activities within the booming construction industry in the GCC.

## Major developments and expansion plans

### Strategic investments in Foulath and GIIC to provide significant benefits:

Unlike QAPCO and QAFCO, energy costs represent a smaller percentage (less than 12%) of the total cost of production for QASCO's products, with cost of imported iron ore pellets, the key raw material, representing a significant portion of the total costs. During the last 2 years, the company took strategic steps towards backward integration by acquiring a 25% stake each in GICC and Foulath, Bahraini-based producers of DRI grade iron ore pellets, with GIIC being QASCO's major raw material supplier and operating an annual production capacity of 4.6 million MT.

According to QASCO, GIIC is in the process of expanding its production capacity to 11 million MT within the next few years, which should provide significant benefits to QASCO since any shortage in the supply of oxide pellets, not met by GIIC, is currently being met by expensive imports from Brazil and Sweden. Moreover, recent press reports indicated that Foulath too plans to build additional capacity in Egypt, Bahrain and Oman, in addition to acquiring further interests in Brazilian and Australian mining companies to ensure adequate iron ore feedstock. Although any such developments should benefit QASCO significantly, we have not included them in our forecasts due to limited visibility on planned capacity and capital expenditure.

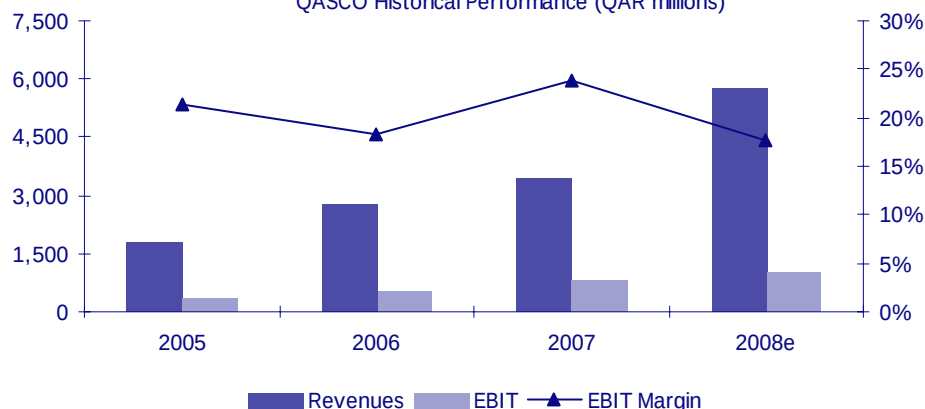
### Qatar Steel Expansion Phase II

During 2007, QASCO implemented phase 1 of its major expansion plan by increasing the annual production capacity of DRI by 1.5 million MT to 2.3 million MT, steel billets by 0.6 million MT to 1.6 million MT and rebars by 0.7 million MT to 1.5 million MT, at a combined aggregate cost of QAR2.1 billion. According to IQ reports, Phase II should see Qatar steel increasing its production capacity of molten steel to 2.26 million MT per year by 2011e, which will help to increase production of steel billets to 2.22 million MT and that of rebars to 2.15 million MT per year, thus enabling the company to enhance its penetration in domestic and GCC markets.

## Financial highlights

QASCO does not report standalone results, however, a breakdown of QASCO's sales and operating profit is provided by IQ. Revenues witnesses a 47.7% CAGR between 2005 and 2008 due to strong demand and supply fundamentals in the GCC construction sector as well as a steady rise in rebar prices until mid-2008. For the most part of 2008, QASCO operated at over 100% of its nameplate capacity with average production of 210 tons per hour against a design capacity of 187.5 tons per hour.

QASCO Historical Performance (QAR millions)



Unlike 4Q2008, we do not expect QASCO to incur further significant inventory write-downs in 2009.

Source: Company Data, Prime Estimates

FY2008 revenues grew by 68% to QAR5,770 million in spite of a sharp contraction in demand during 4Q2008 and frequent caps on rebar sales prices mandated by the local government to control domestic inflation. Due to continuously high demand for steel in Qatar, QASCO also resorted to expensive steel imports and sold the same locally at considerable discount to prevailing international prices in order to satisfy high domestic demand.

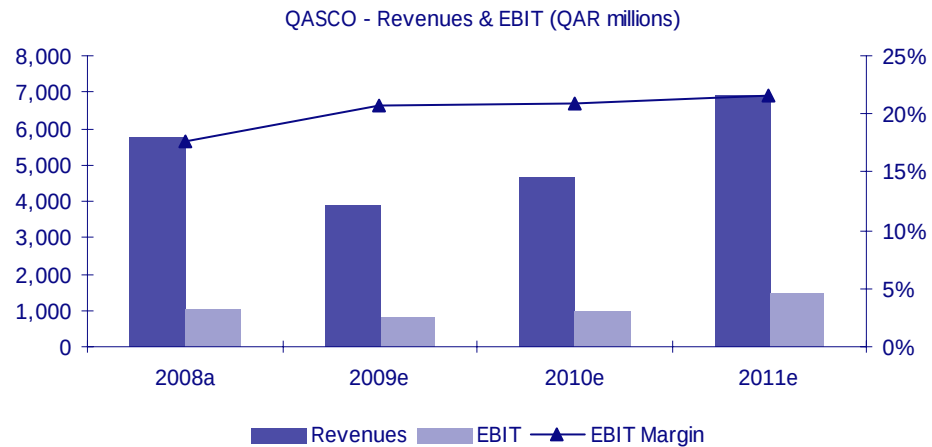
This, combined with a significant write-down in raw materials and finished good inventories during 4Q2008, resulted in QASCO reporting an estimated EBIT margin of c.17.7% in 2008e as compared to average margins of 21.2% since 2005. QASCO's margins, however, remain closer to the industry average since the division purchases its raw materials at international market prices with no special feedstock benefits.

## Forecasts & Assumptions

Unlike 4Q2008, QASCO began 1Q2009 on a positive note with the company operating at close to full capacity, partly supported by likely de-stocking of steel inventories in the region. Going forward, production capacity is expected to remain flat in 2009e and 2010e since Qatar Steel Phase-II expansion is not expected to come on stream before 1Q2011. On the pricing front, a massive slowdown in the GCC construction sector has resulted in a drop in rebar prices, which declined in 2H2008 to average USD750 per ton in 2008, 21% lower than QASCO's 3Q2008 average price realization of USD954 per ton.

According to industry reports, although long-term steel fundamentals continue to remain strong in the region, 2009e is expected to witness a slowdown in global demand for steel, which is expected to drop by c.35%, resulting in lower prices of rebar and other steel products in the short-term. We, accordingly, expect price of rebar to average USD548 per ton in 2009e (down 27% Y-o-Y) before rebounding to USD623 per ton and USD727 per ton in 2010e and 2011e respectively. As a result, we expect 2009e revenues to decrease by 32% to QAR3,896 million as compared to 2008 revenues of QAR5,770 million. Revenues in 2011e and beyond are expected to improve as a result of the start-up of the Qatar Steel Phase II expansion, with revenues estimated to reach QAR8,445 million by 2013e.

Prices of raw materials, which fluctuate with demand, are expected to follow a similar pattern, thus enabling QASCO to maintain flat margins throughout our forecast period. We expect the EBIT margin to improve to 20.7% in 2009e as compared to an estimated margin of 17.7% in 2008e. Margins thereafter are expected to improve gradually to 22.5% in 2013e.



Source: Company Data, Prime Estimates

During 4Q2008, we estimate a large proportion of the QAR329 million write-down to have come from expensive raw material (iron ore pellets) imports, prices of which are usually fixed for one year. With price review for such imports impending, we do not expect QASCO to take any further significant write-downs in 2009e. Net profit for QASCO, however, is estimated to be higher since the company is expected to record a significant other income component resulting from an accounting settlement of price difference with the government. Of the QAR1,800 million that QASCO was expecting to settle, QAR800 million was recovered during 1Q2009 and we have conservatively assumed 50% of the balance to be settled in 2009e.

#### Valuation:

Using the DCF valuation approach, we value IQ's share from QASCO at QAR5,084 million or an associated value per share of QAR9.24. We have utilized a WACC of 13.9% as compared to a WACC of 12.9% for QAPCO and QAFCO, given the higher risk associated with this division in the absence of any significant feed-stock benefit or off-take agreements. Further, we have utilized a risk free rate 6.9%, beta of 1 and a terminal growth rate of 3.5%.

## Qatar Fuel Additives (QAFAC):

Qatar Fuel Additives Company (QAFAC) was formed in 1991 to diversify Qatar's petrochemical base and expand its downstream product line through the production and marketing of methanol and methyl tertiary-butyl-ether (MTBE). The company is a joint venture between Industries Qatar (50%), OPIC Middle East Corporation (20%), International Octane Limited (15%) and LCY Middle East Corporation (15%). QAFAC is the smallest contributor to IQ's topline with proportional revenue growing by 39.7% in 2008 to QAR1,402 million, thus contributing only 9.5% to group revenues.

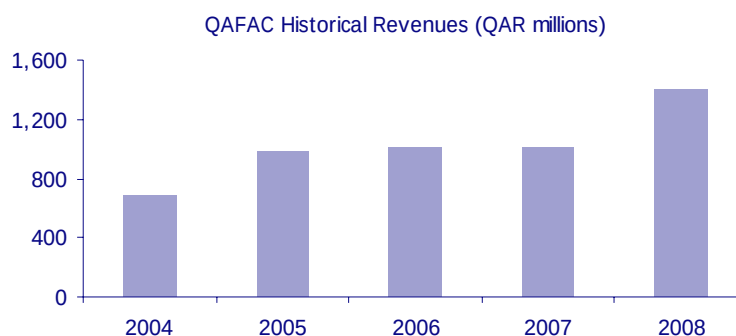
### Product Overview

Similar to QAFCO and QAPCO, QAFAC leverages QP's extensive natural gas reserves through the production of methanol, which is primarily used as a raw material for the manufacturing of solvents, acetic acid, MTBE and formaldehyde, which is processed further into diverse products such as plastics, glue, paints, plywoods, etc. In fact, much of QAFAC's methanol production is processed further and combined with QP-supplied butane (purchased at market prices) to produce MTBE, with production capacity for the two products estimated at 0.78 million MT (methanol) and 0.62 million MT (MTBE) at the end of 2008.

With the ban of MTBE in the United States since 2002, the primary markets for QAFAC are the Far East, Europe and the Gulf region exhibiting stable demand for MTBE, where it is used as a gasoline additive to provide clean burning fuel and reduce pollution. With the slowdown in the global economy, demand for fuel additives declined during the 2H2008. However, the increase in Chinese imports, one of the largest importers and consumer of methanol during 1Q2009, continues to support prices of methanol in Asia, which are currently trading at c.USD220 per ton (down 50% Y-o-Y) and are expected to average USD252 per ton and USD280 per ton in 2009e and 2010e, respectively and gradually settle at USD323 per ton in 2012e. With demand for this commodity highly dependent upon global GDP growth, better than expected economic growth over the next few years should result in higher than estimated methanol prices.

### Financial Highlights

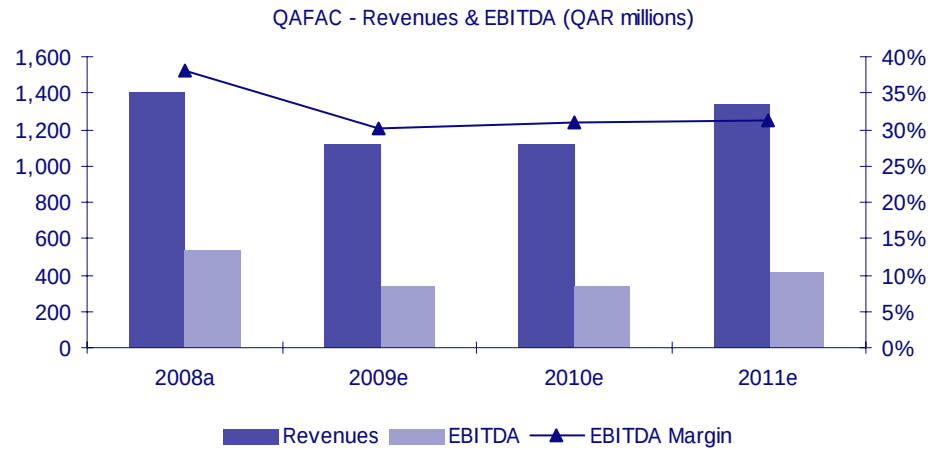
QAFAC does not report standalone results however sales contribution from the subsidiary is provided by IQ. Proportionate revenues registered a CAGR of 19.5% between 2004 and 2008, with sales increasing 39.7% in 2008 with an estimated EBITDA margin of 38%, primarily due to higher commodity prices since volumes have not changed much since 2005. Although QAFAC secures ethane feedstock from QP at fixed prices for the production of methanol, margins for this division are much lower when compared to above 50% earned by QAPCO and QAFCO, since the company sources butane (for manufacturing MTBE) from QP at open market prices with no explicit cost advantage.



*Source: Company Data*

QAFAC is the only division with no capacity expansions planned during our forecast horizon, with the initially planned QAFAC-II expansion project appearing to have taken a backseat for the time being. Of greater significance, however, is the end of QAFAC's off-take agreement with QP (50%) and other partners (50%) and the need for QAFAC to directly market its products with effect from January 1, 2009. According to IQ reports, QAFAC has negotiated multiple sales and purchase agreements with various parties including existing shareholders and accordingly we expect current capacity and volumes to be maintained and any future growth in revenues to come from an increase in methanol and MTBE prices only.

Our pricing and capacity assumptions translate into 2009e revenues of QAR1,118 million (down 20.3% Y-o-Y) and EBITDA margin to drop to 30% from an estimated 38% in 2008e. Margins thereafter are expected to remain flat and settle at 31.5% in 2013e.



Source: Company Data, Prime Estimates

## Valuation

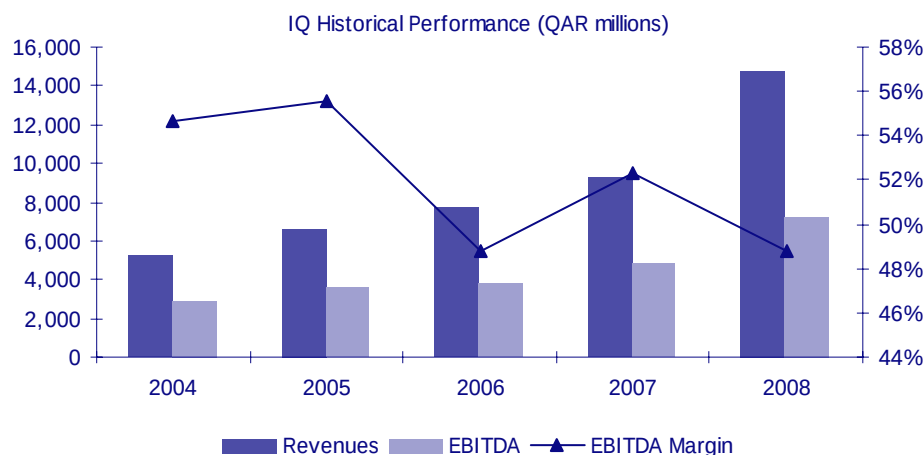
Using the DCF valuation approach, we value IQ's share from QAFAC at QAR3,560 million or an associated value per share of QAR6.47. We have utilized a WACC of 13.9% giving the volume uncertainty associated with the end of the formal off-take agreement. Further, we have utilized a risk free rate 6.9%, beta of 1 and terminal growth rate of only 2%, given the sluggish global demand for fuel additives and IQ's no-growth stance for this division.

## Group Financials:

### Financial highlights

*Group revenues registered a CAGR of 29.4% between 2004 and 2008 and an average EBITDA margin of 52% during the period.*

IQ's group revenues registered a CAGR of 29.4% between 2004 and 2008 with gross revenues recording the highest annual growth rate of 58% to reach QAR14,743 million during 2008. EBITDA during the same period registered a CAGR of 25.8% with the associated margin averaging 52% during the period. Due to the onset of the global financial crisis, which specifically affected IQ's steel segment, group revenues and net profit declined by 60.7% (Q-o-Q) and 96% (Q-o-Q), respectively, during 4Q2008 primarily on the back of inventory write-downs in the steel segment and a drop in commodity prices across the board.



Source: Company Data, Prime Estimates

*Going forward, we expect IQ to benefit from high capacity utilization levels and a more stable commodity price environment.*

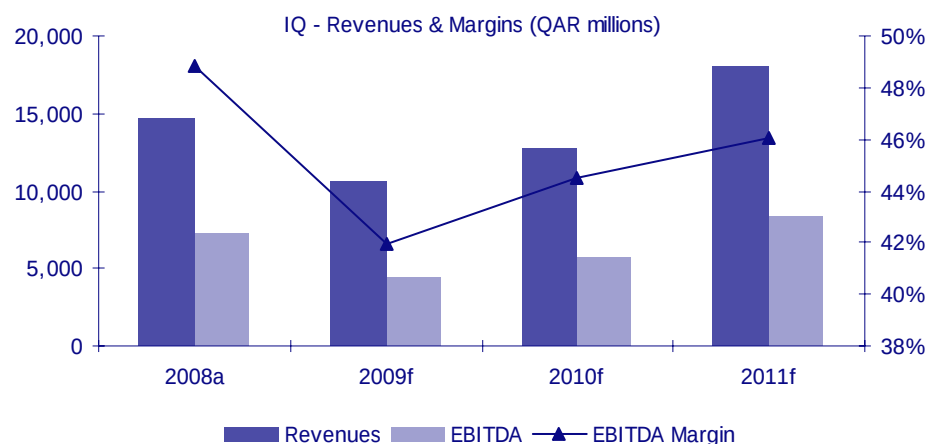
However, price recovery since 4Q2008 resulted in encouraging performance during 1Q2009 with revenues rising 9.2% and net profit (including QAR800 million related to QASCO's price settlement), increasing significantly to QAR1,413 million as compared to QAR94 million in 4Q2008. Going forward, we expect the company not to incur significant inventory write-downs, maintain a reasonably high capacity utilization levels and benefit from a more stable commodity price environment.

As we discussed before, we expect crude oil prices to average USD55 per barrel in 2009e and gradually increase to USD83.9 per barrel in 2012e. Accordingly, we expect petrochemical and fertilizer prices, which are highly correlated to crude oil prices, to gradually increase from 4Q2008 levels and support IQ's revenues going forward.

| Commodity Price Forecasts (USD / ton) | 2008e | 2009f | 2010f | 2011f |
|---------------------------------------|-------|-------|-------|-------|
| <b>QAPCO</b>                          |       |       |       |       |
| Ethylene                              | 1023  | 659   | 797   | 931   |
| LDPE                                  | 1611  | 1083  | 1154  | 1223  |
| <b>QAFCO</b>                          |       |       |       |       |
| Urea                                  | 513   | 330   | 348   | 407   |
| Ammonia                               | 504   | 303   | 342   | 400   |
| <b>QASCO</b>                          |       |       |       |       |
| Rebar                                 | 750   | 548   | 623   | 727   |
| <b>QAFAC</b>                          |       |       |       |       |
| Methanol                              | 467   | 252   | 280   | 300   |
| <b>Crude Oil (USD / bbl)</b>          | 98    | 55    | 67    | 78    |

Source: Methanex, Bloomberg, Prime Estimates, Industry Reports

We accordingly expect aggregate revenues to decline 28% from QAR14,743 million in 2008 to QAR10,599 million in 2009e and rise significantly to QAR18,102 million in 2011e once QAFCO-5 comes on stream. EBITDA margins are expected to decline to 42% in 2009e from 48.8% in 2008 and 1,000 basis points below the average 52% earned between 2004 and 2008 due to relatively lower commodity prices in 2009e. Margins, however, are expected to improve beyond 2009e with the gradual recovery in commodity prices and are estimated to reach 46.4% in 2012e.



Source: Company Data, Prime Estimates

## Capital Expenditure

As we previously stated, IQ continues to have massive capacity expansion plans over the next few years, with its proportionate share estimated at QAR14.1 billion.

We accordingly estimate capital expenditure of QAR4,186 million and QAR3,204 million in 2009e and 2010e, respectively and estimate c.QAR2 billion in external financing to meet the portion of the announced capital expenditure not covered by equity and do not foresee IQ having any troubles in financing the same given its strong net cash position of QAR3,480 million as of 1Q2009.

| Project               | Completion | Total Cost (QAR Billion) | IQ Share (QAR Billion) |
|-----------------------|------------|--------------------------|------------------------|
| Qatofin - LLDPE Plant | 2Q2009     | 4.9                      | 2.5                    |
| QAPCO - LDPE3 Plant   | 1Q2012     | 1.6                      | 1.3                    |
| QAFCO - 5             | 2Q2011     | 12.8                     | 9.6                    |
| Qatar Melamine Co.    | 2Q2010     | 1.2                      | 0.5                    |
| Fereej Towers         | 3Q2010     | 0.5                      | 0.2                    |
| <b>Grand Total</b>    |            | <b>21.0</b>              | <b>14.1</b>            |

Source: Company Data, Prime Emirates

## Valuation

Given the operational uniqueness and distinctive market dynamics surrounding each of IQ's subsidiaries, we have valued the company using sum-of-the-parts (SOTP) approach by individually valuing each segment using the DCF valuation approach.

*We value IQ at QAR103 per share, 4.6% below the current market price and issue a HOLD recommendation.*

Although the short-term commodity outlook appears unclear, IQ's long-term fundamentals remain very strong due to its sustainable feed-stock advantage and strategic off-take agreements for QAPCO and QAFCO that enable these segments to maintain relatively higher margins and capacity utilization levels even amid the current economic crisis. We therefore used a lower risk premium of 6% for QAPCO and QAFCO as compared to a higher risk premium of 7% for QASCO and QAFAC.

| Segment   | WACC  | Perpetual Growth | Net Equity Value (QAR millions) | Value / share (QAR) |
|-----------|-------|------------------|---------------------------------|---------------------|
| QAFCO     | 12.9% | 2.7%             | 26,063                          | 47.4                |
| QAPCO     | 12.9% | 3.0%             | 22,005                          | 40.0                |
| QAFAC     | 13.9% | 2.0%             | 3,560                           | 6.5                 |
| QASCO     | 13.9% | 3.5%             | 5,084                           | 9.2                 |
| <b>IQ</b> |       |                  | <b>56,713</b>                   | <b>103</b>          |

*Source: Prime Estimates*

Our SOTP valuation for IQ results in a net equity value of QAR56,713 million or an associated value per share of QAR103, which is 4.6% below the current market price of QAR108 per share. We therefore issue a HOLD recommendation on the stock.

## FINANCIAL STATEMENTS

(Figures in QAR millions)

| Income Statement (in QAR millions)             | 2007a         | 2008a         | 2009f         | 2010f         | 2011f         |
|------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues</b>                                | <b>9,326</b>  | <b>14,743</b> | <b>10,600</b> | <b>12,759</b> | <b>18,103</b> |
| Growth                                         | 19.9%         | 58.1%         | -28.1%        | 20.4%         | 41.9%         |
| COGS                                           | 3,995         | 6,952         | 5,479         | 6,342         | 8,780         |
| S,G & Admin. Expenses                          | 456           | 593           | 676           | 744           | 979           |
| <b>EBITDA</b>                                  | <b>4,875</b>  | <b>7,199</b>  | <b>4,446</b>  | <b>5,673</b>  | <b>8,343</b>  |
| Growth                                         | 28.4%         | 47.7%         | -38.2%        | 27.6%         | 47.1%         |
| EBITDA Margin                                  | 52%           | 49%           | 42%           | 44%           | 46%           |
| Depreciation & Amortization                    | 399           | 492           | 522           | 731           | 862           |
| <b>Operating EBIT</b>                          | <b>4,475</b>  | <b>6,706</b>  | <b>3,923</b>  | <b>4,942</b>  | <b>7,482</b>  |
| Net Interest Income/(Expense)                  | (165)         | (176)         | 142           | 98            | 87            |
| <b>Pre Tax Income</b>                          | <b>4,932</b>  | <b>7,008</b>  | <b>4,871</b>  | <b>5,753</b>  | <b>8,049</b>  |
| Pre Tax Income Growth                          | 36.9%         | 42.1%         | -30.5%        | 18.1%         | 39.9%         |
| <b>NPAT</b>                                    | <b>4,932</b>  | <b>7,008</b>  | <b>4,871</b>  | <b>5,753</b>  | <b>8,049</b>  |
| Growth                                         | 36.9%         | 42.1%         | -30.5%        | 18.1%         | 39.9%         |
| <b>Net Income</b>                              | <b>4,932</b>  | <b>7,008</b>  | <b>4,871</b>  | <b>5,753</b>  | <b>8,049</b>  |
| Share of associates                            | 52            | 270           | 69            | 70            | 72            |
| <b>Net Attributable Income - NAI</b>           | <b>4,985</b>  | <b>7,277</b>  | <b>4,940</b>  | <b>5,823</b>  | <b>8,121</b>  |
| Growth                                         | 37.7%         | 46.0%         | -32%          | 18%           | 39%           |
| <b>Balance Sheet (in QAR millions)</b>         | <b>2007a</b>  | <b>2008a</b>  | <b>2009f</b>  | <b>2010f</b>  | <b>2011f</b>  |
| Cash & Marketable Securities                   | 6,274         | 9,570         | 6,534         | 9,130         | 12,931        |
| Trade Receivables-Net                          | 1,267         | 1,298         | 1,569         | 1,888         | 2,534         |
| Inventory                                      | 1,373         | 2,521         | 3,180         | 2,935         | 3,621         |
| Other Current Assets                           | 639           | 687           | 383           | 346           | 346           |
| <b>Total Current Asset</b>                     | <b>9,553</b>  | <b>14,076</b> | <b>11,666</b> | <b>14,299</b> | <b>19,432</b> |
| Net Fixed Assets                               | 6,364         | 6,138         | 9,995         | 11,859        | 17,840        |
| Other Assets                                   | 4,224         | 7,236         | 7,112         | 7,791         | 3,907         |
| <b>Total Assets</b>                            | <b>20,142</b> | <b>27,450</b> | <b>28,772</b> | <b>33,949</b> | <b>41,179</b> |
| Short Term Bank Debt                           | 1,084         | 2,668         | 1,685         | 411           | 1,825         |
| Accounts Payable                               | 2,019         | 1,367         | 2,120         | 2,552         | 3,621         |
| Other Current Liabilities                      | 3,246         | 5,424         | 3,237         | 3,650         | 5,108         |
| <b>Total Current Liabilities</b>               | <b>6,349</b>  | <b>9,459</b>  | <b>7,041</b>  | <b>6,613</b>  | <b>10,554</b> |
| Long-Term Debt                                 | 2,358         | 3,369         | 4,112         | 6,084         | 5,963         |
| Provisions & Minority Interest, Others         | 269           | 778           | 814           | 1,537         | 889           |
| <b>Total Shareholders' Equity</b>              | <b>11,167</b> | <b>13,843</b> | <b>16,805</b> | <b>19,715</b> | <b>23,773</b> |
| <b>Total Liab. &amp; Shareholders' Equity</b>  | <b>20,142</b> | <b>27,450</b> | <b>28,772</b> | <b>33,949</b> | <b>41,179</b> |
| <b>Free Cash Flow Statement</b>                | <b>2007a</b>  | <b>2008a</b>  | <b>2009f</b>  | <b>2010f</b>  | <b>2011f</b>  |
| <b>NOPLAT</b>                                  | <b>4,555</b>  | <b>6,706</b>  | <b>3,923</b>  | <b>4,942</b>  | <b>7,482</b>  |
| Depreciation & Amortization                    | 399           | 461           | 522           | 731           | 862           |
| <b>Gross Cash Flow</b>                         | <b>4,954</b>  | <b>7,167</b>  | <b>4,446</b>  | <b>5,673</b>  | <b>8,343</b>  |
| Capex & Change in Projects under development   | 2,654         | 3,145         | 4,186         | 3,204         | 3,889         |
| Change in operating capital & other assets     | 1,027         | 2,263         | -1,124        | 1,078         | 1,551         |
| <b>Free Cash Flow</b>                          | <b>1,803</b>  | <b>2,550</b>  | <b>3,702</b>  | <b>3,350</b>  | <b>4,356</b>  |
| Net Interest Expense/(Income)                  | -165          | -176          | 142           | 98            | 87            |
| Change in Debt & Bonds                         | -1,275        | -2,595        | 241           | -699          | -1,293        |
| Change in Subsidiaries & Long Term Investments | 812           | 316           | 37            | 38            | 39            |
| Net Dividends Paid                             | 2,501         | 2,502         | 4,402         | 2,472         | 2,914         |
| Other Financing Cash Flow                      | 2,431         | 5,005         | 3,282         | 3,912         | 5,522         |
| <b>Total Financing Flow</b>                    | <b>1,803</b>  | <b>2,550</b>  | <b>3,702</b>  | <b>3,350</b>  | <b>4,356</b>  |

Source: Company Financials, Prime estimates

## Stock Recommendation Guidelines

| Recommendation | Target-to-Market Price (x) |
|----------------|----------------------------|
| Strong Buy     | $x > 25\%$                 |
| Buy            | $15\% < x < 25\%$          |
| Accumulate     | $5\% < x < 15\%$           |
| Hold           | $-5\% < x < 5\%$           |
| Reduce         | $-15\% < x < -5\%$         |
| Sell           | $-25\% < x < -15\%$        |
| Strong Sell    | $x < -25\%$                |

| Investment Grade | Explanation                                       |
|------------------|---------------------------------------------------|
| Growth           | 3 Yr. Earnings CAGR > 20%                         |
| Value            | Equity Positioned Within Maturity Stage of Cycle  |
| Income           | Upcoming Dividend Yield > Average LCY IBOR        |
| Speculative      | Quality Earnings Reflect Above Normal Risk Factor |

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