

Short-Term Rec.: Neutral

Current Price*: QAR 107.7

Long-Term Rec. : Neutral

LT Fair Value : QAR 111.8

• **What Happened During 2Q2009?** IQ reported 2Q2009 results on Thursday 13 August 2009. Operating performance was slightly below expectations with revenues and EBITDA coming in 3% and 6% short of our forecasts, respectively. The prices of IQ's main commodities have shown mixed trends during 2Q2009. While the strong recovery in oil and naphtha prices has caused IQ's main petrochemical prices (ethylene and PE) to rise by a range of 18-22% Q-o-Q, urea prices fell marginally by 7% Q-o-Q as fertilisers' prices usually lag changes in feedstock costs. Steel prices remained relatively constant Q-o-Q.

• **2Q2009 Revenue Broadly In Line with Forecasts:** The marginal decline in urea prices during the quarter was more than compensated by the strong rise in petrochemicals and fuel additives prices, in line with our expectations. Consolidated revenues came in at QAR2,331 million (up 7% Q-o-Q, down 45% Y-o-Y), 3% ahead of our estimates of QAR2,255 million. On a year-to-date basis, petrochemicals and fuel additives (produced by QAPCO - 80% owned and QAFAC - 50% owned) contributed 29% of IQ's 1H2009 turnover, fertilisers (QAFCO - 75% owned) contributed 26%, and steel (QASCO - 100% owned) represented 44%.

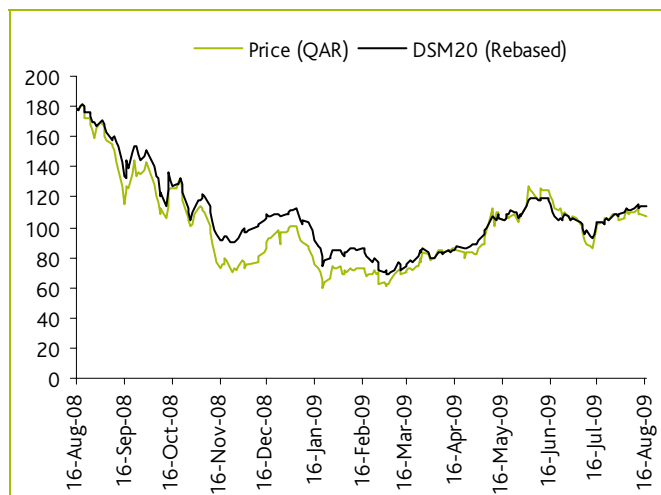
• **Gross Profit and EBITDA Slightly Miss Estimates:** Gross profits in 2Q2009 grew by 12% Q-o-Q to QAR785 million (down 69% Y-o-Y), almost 5% below our estimate. EBITDA came at QAR730 million (down 71% Y-o-Y), marginally below 1Q2009 and almost 6% below our estimates. EBITDA margin was 31% (vs. 34% in 1Q2009 and 60% in 2Q2008). IQ does not provide a breakdown of its operating earnings, but we estimate that 42% of total EBITDA came from fertilizers, 37% from petrochemicals, 12% from fuel additives and 9% from steel.

• **Net Income Inflated By QAR366 Million in Government Compensation:** IQ reported a net income of QAR1.2 billion in 2Q2009 (down 14% Q-o-Q, 54% Y-o-Y), including QAR366 million of government compensation for capping steel prices during 2008. This is well above our estimate of QAR974 million (we have assumed only QAR200 million in 2Q2009). IQ's 2Q2009 recurring income stood at QAR852 million (up 40%, down 68% Y-o-Y), 10% above our estimates due mainly to higher investment/dividend income.

• **What to Expect Beyond 2Q2009?** We believe IQ is poised to show stronger results in 2H than in 1H as the price of its main commodities (except steel) continue to rise and as new volumes (proportionately +0.28mtpa of LLDPE and +0.6mtpa of ethylene) start contributing to performance. Current spot ethylene and PE prices are c33% and c15% higher than 2Q2009 levels, respectively. Methanol and MTBE spot prices are c15% above 2Q2009 average. Urea and ammonia prices started to strengthen as the oil-based gas price formula in Europe started to price in the recent rally in crude prices.

• **Downgrade ST Rec. to Neutral, Maintain LT Rec. and LTFV:** We downgrade our ST recommendation to Neutral from Accumulate as we believe most of the positive news in the global commodity markets are priced in. We maintain our LT Neutral rec. and LTFV at QAR111.8, implying only 3.8% upside potential over current levels. We remain positive on fertilisers in 2010e but cautious on the global ethylene value chain after massive capacity expansion in the Middle East and expected in China during 2H2009e-2011e (+20 mtpa of new ethylene supply). Essentially, we believe the recent rally in crude prices (the main valuation trigger for IQ) does not yet reflect the weak supply/demand fundamentals globally.

FLASH NOTE



	2009e	2010e	2011e
EPS	7.6	8.9	12.7
PER (x)	14.2	12.1	8.45
DPS	4.0	4.0	8.0
Div. Yield	3.7%	3.7%	7.4%
CFPS	7.9	8.0	12.8
PCF (x)	13.6	13.5	8.4
BVPS	36.7	42.2	45.6
PBV (x)	2.9	2.6	2.4

Stock Data

Last Ex-Div Date	QAR8 on 21 Apr 2009
Mkt. Cap. / Shares (mn)	QAR59,235 / 550
Local Av. Mthly Liqd. (mn)	QAR1,421
52-Wk. High / Low	QAR181.6 / 59.8
Bloomberg / Reuters	IQCF QD / IQCD.QA
Est. Free Float	30%

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*Prices as at 16 August 2009

I. MAIN HIGHLIGHTS

Figure 1: Results Highlights

QAR million, unless otherwise stated

	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	1H2009	Change Q-o-Q	Change Y-o-Y	2Q2009e	Vs. Estimates
Revenue	3,466	4,210	5,074	1,993	2,176	2,331	4,507	7%	-45%	2,255	3%
Cost of Sales		(1,669)			(1,473)	(1,545)	(3,018)	5%	-7%	(1,426)	8%
Gross Profits	1,970	2,541	2,679	140	703	785	1,489	12%	-69%	829	-5%
<i>Gross Profit Margin</i>	56.8%	60.4%	52.8%	7.0%	32.3%	33.7%	33.0%			36.8%	
S G&A	(166)	(114)	(271)	(42)	(143)	(126)	(269)	-12%	11%	(121)	4%
EBIT	1,804	2,427	2,408	98	560	659	1,219	18%	-73%	708	-7%
EBITDA	1,918	2,541	2,522	278	736	730	1,466	-1%	-71%	778	-6%
<i>EBITDA Margin</i>		60%			34%	31%	33%			35%	
Net Finance	(29)	(20)	-22	(72)	(68)	13	(55)	-119%	-164%	(2)	
Other Income / Expense	148	265	201	69	120	181	302	51%	-32%	68	
One-off Gains*					800	366	1,166			200	
Net Income - Reported	1,923	2,672	2,588	94	1,413	1,219	2,632	-14%	-54%	974	25%
Net Income - Recurring	1,923	2,672	2,588	94	613	854	1,466	39%	-68%	774	10%

*Represent the Qatari Government's compensation on capping steel price during 2008

Source: IQ, EFG-Hermes estimates

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