

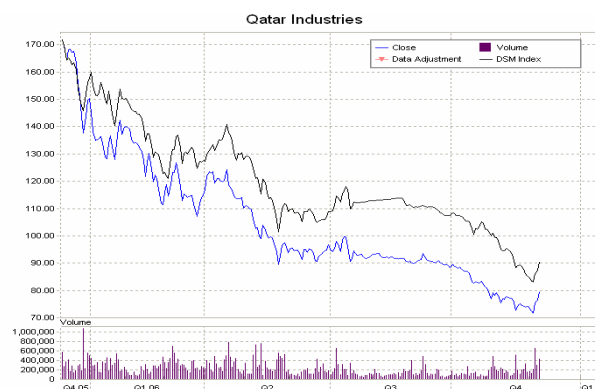
Industries Qatar (IQCD.QA)

December 11, 2006

Key Data

Listing	Doha Securities Market
CMP (QAR)	76.50
YTD Change %	-49.00
52-week High/Low (QAR)	169.20/ 71.50
Mkt. Capitalization (QAR millions)	38250
Annualized EPS	6.80
BVPS	20.17
P/E	11.25
P/BV	3.79
Div. Yield %	4.58

Price History



Financial Summary

QAR (in million)	9M'06	9M'05	% chg
Sales Revenue	5,702	4,805	18.6%
Cost of Sales	2,951	2,129	38.6%
Gross Profit	2,751	2,676	2.8%
Operating Expenses	326	288	13.2%
Operating Profit	2,425	2,388	1.5%
Other Income, net	171	112	52.6%
Financial Charges	45	41	9.7%
Net Profit	2,549	2,457	3.7%
Share Capital	5,000	5,000	
Retained Earnings	4,785	3,229	48.2%
Shareholders' Equity	10,083	8,641	16.7%
Total Assets	13,507	11,067	22.0%
EPS (QAR)	6.80*	6.43	
Return on Equity (%)	33.7*	34.0	
Return on Assets (%)	25.2*	26.4	

* Annualized figure

For the third quarter ended of 2006, Industries Qatar (IQ) registered a net profit of QAR 973 million, marginally up 5.2% from QAR 924 million in the corresponding period of 2005. Sales grew 16.5% to QAR 2.0 billion compared to QAR 1.7 billion in the year-ago quarter. IQ's cost of sales witnessed a significant 30.2% surge, bringing down gross profit margin to 51.7% from 56.8%, for the comparable period in 2005.

For the first nine months ended September 30, 2006, Industries Qatar registered a net profit of QAR 2.5 billion, marginally up 4% from QAR 2.4 billion reported in the corresponding period of 2005. This low growth in profits was due to a 39% surge in cost of sales, despite a significant 18% growth in sales to QAR 5.7 billion in the first three quarters of 2006 compared to QAR 4.8 billion in the earlier year period. This lackluster performance can be attributed to the group's steel business, which is suffering from high input costs. However, the other businesses (petrochemicals and fertilizers) have shown impressive performance during the period.

Company Profile

Headquartered in Doha, Industries Qatar (IQ) was established on April 19, 2003 by Qatar Petroleum (QP) for a period of 50 years, in accordance with the country's law of commercial companies. Today, IQ has emerged as the largest listed company in Qatar in terms of market capitalization. Incorporated with an initial authorized share capital of 500 million ordinary shares of QAR 10 each, Qatar Petroleum as its sole founding shareholder held 500 million shares. However, QP later divested 30% stock to Qatari individuals and non-profit organizations.

The company's main operations comprise holding shares in subsidiary companies and joint ventures. IQ operates through a diversified portfolio of four subsidiaries operating in petrochemicals, fertilizers, fuel additives and steel. These subsidiaries are well located to service their target markets in the GCC, Far East, and South Asia taking advantage of their proximity and competitive transportation cost. The company has a strong client base in growing markets like Asia and the Middle East.

Industry Overview

Natural gas, the key input for the petrochemicals and fertilizers industries, is abundantly available in the state of Qatar. The country has the third largest gas reserves in the world accounting for 15% of global gas reserves. However, despite such large reserves, it accounts for only 1.5% of global production, which provides vast opportunities to capitalize on untapped potential. In order to boost gas production, the Govt. is investing substantially in new projects.

Ethylene, used as an input for plastic polyethylene, is the most used olefin that props up the petrochemicals industry. With the advantage of abundant oil & gas reserves and a relatively low cost of extraction, Qatar and the other GCC countries have an advantage over in the rest of the world. Ethylene and polyethylene capacities in the region are projected to grow at a CAGR of 21% and 19% respectively, over the period 2005-2008.

Saudi Arabia, Iran, and Qatar are expected to account for 89% of the regional capacity expansions. Ethylene capacity expansion is estimated to be the highest in Qatar with a CAGR of 35% between 2005 and 2008.

Natural gas comprises 80% of the total raw material cost of the fertilizer industry. QAFCO (IQ's subsidiary) is currently the only chemical fertilizer producer in the country; it is also the largest producer in the world, placing Qatar among leading exporters of ammonia and urea. Asia is the largest producer of fertilizers with around 40% to 50% of total world production. However due to high demand, Asia is also the biggest importer of ammonia and urea. Most of these demands are fulfilled by Qatar. India alone accounts for 65% of Qatar's ammonia exports. The other main importers are the USA, Jordan and South Korea.

Recent Developments

In a bid to compete for a share of the action about to unfold in the GCC petrochemicals sector, Industries Qatar has adopted a dual strategy of expansion and diversification. The company is not only growing its production capacities of existing products, but also investing in related fields. A new ethane plant is on the cards, while the company explores the prospects of acquiring mines in Latin America. The latter is expected to provide a sustained supply of inputs to Qatar Steel Company (QASCO) and bring in good returns. Investments made by the four subsidiaries in current and future projects stand at QAR 27 billion. However, as IQ does not own 100% stake in all the three companies, its share of the investments is QAR 14.3 billion. Of the total investment, 46% will be in existing projects and the remainder split between Imminent (28%) and Future Projects (26%).

In a recent development, in November 2006, QASCO (IQ's subsidiary) signed a marketing agreement with BHP Billiton Marketing AG (Singapore Branch), the world's largest diversified natural resources company, to market more than 350,000 tones of Hot Briquetted Iron (HBI) per year. This marketing agreement will commence in 2007 and will provide BHP Billiton with the exclusive rights to market Qatar Steel HBI in some Asian markets. QASCO will produce this high quality HBI at the newly built 1.5 million tones Direct Reduction plant starting in the first quarter of 2007.

Earlier in July 2006, the Qatar Fertilizer Company (QAFCO), a subsidiary of Industries Qatar and Qatar Intermediate Industries Holding Company signed an agreement establishing the Qatar Melamine Company. The Qatar Melamine Company will start construction of a melamine plant – the largest in the Middle East and the second largest in the world - with a production capacity of 60,000 tons a year in the fourth quarter of 2006, at a total investment of USD 250 million. Melamine is a chemical product used in laminates, wood adhesives, surface coatings and textile treating. It will benefit from QAFCO's production of high quality urea as feedstock. QAFCO will own a 60% stake in the Qatar Melamine Company, while Qatar Intermediate Industries Holding Company will hold 40%. The construction of the plant is scheduled to start at the end of 2006 and is due for completion in the first quarter of 2009.

Concerns

The performance of the company's steel business remains a concern as its growth is not in tandem with the other segments; as its revenues grew at a modest growth rate. This is due to a slow down in steel prices, which in turn is affecting the prices for bar and wire rod coil. Further, a shortage of Hot Briquette Iron (HBI), an input for steel is affecting the company's margins. However, QASCO has taken steps to seal the gap by installing a direct reduction iron (DRI) capacity, which will add scale and bring down future cost.

Outlook

We believe that the proposed capacity additions by IQ's subsidiaries are likely to help improve its revenues. Further, the economies of scale after the expansions will also help the company to reduce cost and improve margins. However, all these depend on the successful implementation of capacity additions, which, in our opinion, is likely to take at least a year. IQ's stock which had moved up to an yearly high of QAR 246.0 during March 2005, is now trading at QAR 76.5, reflecting a PE multiple of 11.25. We believe the stock will trade on this level in the near future and is likely to attract investors' attention only after the proposed capacity expansion come on stream. Thus, we provide a NEUTRAL opinion for the stock for the short-term and would revise up our opinion after the successful implementation of the capacity additions.

Call us on +973 17549485 or email us at research@taib.com

DISCLAIMER:

All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication, but we make no representation as to its accuracy or completeness. All information is for the private use of the person to whom it is provided without any liability whatsoever on the part of TAIB Securities WLL, any associated company or the employees thereof. Nothing contained herein should be construed as an offer to buy or sell or a solicitation of an offer to buy or sell. The value of any investment may fall as well as rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Consequently, investors may not get back the full value of their original investment