

## Industries Qatar

Tickers:

IQCD QD (Bloomberg)

IQCD.QA (Reuters)

Listing:

Doha Securities Market

Fair Value:

QR116.6

CMP:

QR107.1 (as on May 20<sup>th</sup>, 2009)

May, 2009

**Hold**

### Key Data

|                      |              |
|----------------------|--------------|
| Market Cap. (QR mn)# | 58,905       |
| EPS* (QR)            | 10.8         |
| BVPS* (QR)           | 36.0         |
| P/E*                 | 9.9          |
| P/BV*                | 3.0          |
| 12M Avg.vol.         | 575,035      |
| 52 week Lo / Hi (QR) | 60.8 / 189.5 |

Source: Global Research

# As on May 20<sup>th</sup> 2009

\*2009 Projected

### Highlights

- In 2008, **Industries Qatar (IQ)** achieved a growth of 58.1% in its total sales and 46.0% in its after tax profit to QR14.7bn and QR7.2bn, respectively.
- The Company achieved a remarkable growth during 9M2008 when its profitability reached at QR7.1bn. However, the recent economic downturn has caused a major dent in the bottom line growth and the Company was able to post PAT of QR94.2mn during 4Q2008. The financial crisis and economic downturn in 4Q2008 led to a (i) fall in average prices of crude oil by 51.7% to US\$54.8 per barrel in 4Q2008 and (ii) slump in demand of petrochemicals and related products in the wake of global economic slowdown.
- The fall in average crude oil prices in 4Q2008 and lower average crude oil prices in 1Q2009 has led us to revise down our long-term average crude oil price range from our initial forecast of US\$75-US\$80 per barrel to US\$60-US\$65. Moreover, we have also revise down the average capacity utilization rate to 65.0% in 2009, which is expected to increase gradually in coming years to 75% in 2009 and reach above 90% in 2012, in the wake of economic recovery.
- Despite of the global economic slowdown and financial crisis, IQ has not intended to suspend or roll back any of its future expansion projects. However, some delays have been observed in some of its expansion projects i.e. QAFCO-Melamine delayed from 1Q2009 to 2Q2010 and QAPCO LDPE-3 from 4Q2011 to 2Q2012.
- Our consolidated DCF value for IQ worked out to be QR116.6 per share, which shows that at the closing price of QR107.1 (as on May 20, 2009) the stock is offering a potential upside of 8.9%. We, therefore, revise our recommendation on the stock from Buy to 'Hold'.

## Industries Qatar - Financial Performance & Outlook

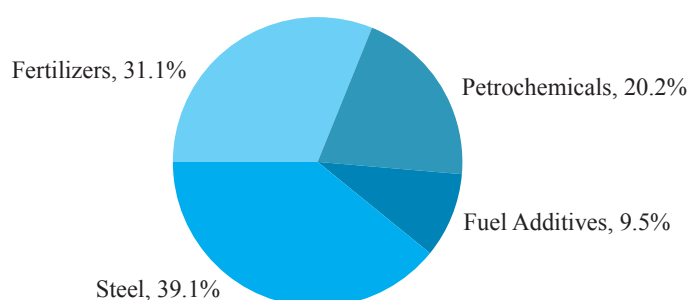
### **Financial Performance - 2008**

The Company's top line and bottom line has registered a growth of 58.1% and 46.0%, respectively, during 2008, which was mainly due to a prominent growth recorded during 9M2008. The Company recorded a growth of 88.1% in sales revenue during 9M2008 over the corresponding period of last year. The growth in top line during 9M2008 was mainly led by the higher average crude oil prices and petrochemical demand. Consequently, the Company's bottom line during 9M2008 registered a growth of more than 100% over corresponding period of last year. The profit for 9M2008 was also aided by higher other income. However, the Company has suffered a major down fall in sales revenue and PAT growth during 4Q2008, which was mainly due to an unpredictable economic downturn and financial crisis. These events caused a (i) slump in demand of petrochemical products, (ii) fall in crude oil prices by 51.7% to US\$54.8 per barrel and (iii) fall in other (investment) income of the Company. Consequently, the top line and bottom line of the Company was restricted to QR1.9bn and QR94.2mn.

### **IQ Business Segments**

It is worth mentioning that during 2008 the Company's steel segment remained a major revenue driver which contributed 39.1% followed by fertilizer segment (31.1%) and petrochemical segment (20.2%). Furthermore, the Company's steel business is based on the Qatar Steel Company (QASCO), which is a 100% subsidiary of IQ. While Qatar Fertilizer Company (QAFCO) is responsible for fertilizer business, where IQ has 75% stakes and Qatar Petrochemical Company (QAPCO) 80% owned by IQ produces petrochemical products. The Company's fuel additive operations are carried out through Qatar Fuel Additive Company (QAFAC), where IQ has 50% stake.

**Chart 01: Sales Revenue Composition - 2008**



Source: Company Annual Report & Global Research

### **Expansion Projects & Costs**

In consistent with the policies of the big regional players, IQ has not made any announcement related to the roll back of any expansion project. However, some delays in the expansion projects have been made due to the global markets condition. In addition, the Company is still committed to make an investment of QR14.1bn (QR21.0bn without net off) to increase the overall capacity at a CAGR of 12.7%, during 2008-12, to produce 9.7mn tons of petrochemical, fuel additives, fertilizers and steel products.

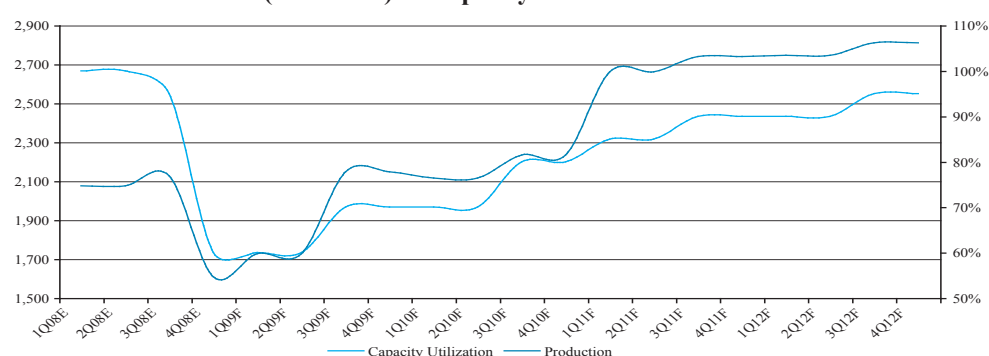
**Table 01: Expansion Projects & Costs**

| Project Name               | Cost<br>(Mn US\$) | Basic-<br>Olefins<br>(tons) | Polymers<br>(tons) | Melamine<br>(tons) | Ammonia<br>(tons) | Urea<br>(tons)   | Expected<br>Production |
|----------------------------|-------------------|-----------------------------|--------------------|--------------------|-------------------|------------------|------------------------|
| QAPCO                      | 410.0             |                             | 250,000            |                    |                   |                  | 2Q2012                 |
| Qatofin Polyethylene Plant | 1,200.0           |                             | 450,000            |                    |                   |                  | 3Q2009                 |
| Ras Laffin Olefins Cracker | 800.0             | 1,300,000                   | 1,200,000          |                    |                   |                  | 3Q2009                 |
| QAFCO-Melamine             | 250               |                             |                    | 60,000             |                   |                  | 2Q2010                 |
| QAFCO-V                    | 3,200             |                             |                    |                    | 1,656,000         | 1,386,000        | 2Q2011                 |
| Fereej Tower I & II        | 140               |                             |                    |                    |                   |                  |                        |
| <b>Total</b>               | <b>6,000</b>      | <b>1,300,000</b>            | <b>1,900,000</b>   | <b>60,000</b>      | <b>1,656,000</b>  | <b>1,386,000</b> |                        |

Source: Company Annual Report 2008, Zawya & Global Research

### Capacity, Production and Utilization Rate

The global economic slowdown has caused a massive downfall in the demand of petrochemical and steel products. However, the demand for fertilizer products is expected to remain on higher side but with lower prices. Subsequently, we have revised down the capacity utilization rate of the Company's petrochemicals, fuel additives and steel segment to the average level of 60%-65% in 2009. However, we believe that the capacity utilization rate will start improving during the end of 2009 and start of 2010 and is expected to be averaged out in the range of 85%-90% in 2012 on the back of expected recovery in early 2010. Based on our updated utilization rate, the overall production of the Company is expected to increase at a CAGR of 8.9% during 2008-12. Furthermore, the Company's overall production is expected to show a remarkable YoY growth of 24.1% in 2011, which is mainly due to the completion of QAFCO-V (fertilizer project) and full year impact of Melamine project.

**Chart 02: Production ('000' tons) & Capacity Utilization**

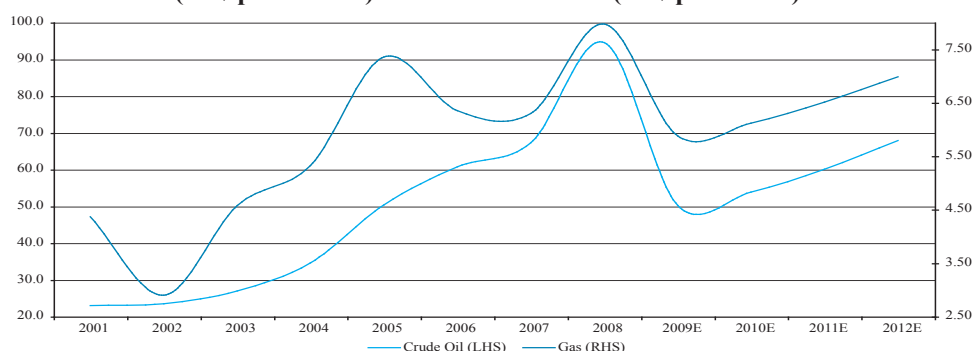
Source: Company Annual Reports & Global Research

### Feed Stock & Product Prices

Natural gas is the main feedstock for fertilizer sector and crude oil prices are used as a benchmark to set gas prices in international markets. However, gas prices are highly subsidized in certain regions of the world. Among these regions, Middle-East, Northern Africa, and South Asia have pre-determined discounts which are ranging between US\$0.75 per mmbtu (in Saudi Arabia) to US\$2.5 per mmbtu (North Africa and South Asia). Average gas prices, in international markets, have shot up by 79.5% from US\$4.4 per mmbtu in 2001 to US\$7.9 per mmbtu in 2008, which was mainly due to higher average crude oil prices YoY. However, the recent decline in crude oil prices has broken the upward rally in the gas

prices and brought the average prices of gas from US\$8.7 per mmbtu in 3Q2008 to US\$5.7 per mmbtu in 4Q2008. Furthermore, we have changed our stance on future OPEC crude oil prices and reduce our forecasted prices from recently updated average price range of US\$65-US\$70 per barrel to the levels of US\$60-US\$65 per barrel during 2009-12, which is based on the lower than expected average prices of US\$42.9 per barrel in 1Q2009. However, the expected global recovery in 2010 will lead to fuel the prices of OPEC crude oil to have better year end average prices from 2010 onwards. Consequently, the average gas prices are expected to remain in between the levels of US\$6.25-6.75 per mmbtu during 2009-12.

**Chart 03: Gas (US\$ per mmbtu) & OPEC Crude Oil (US\$ per barrel) Prices**



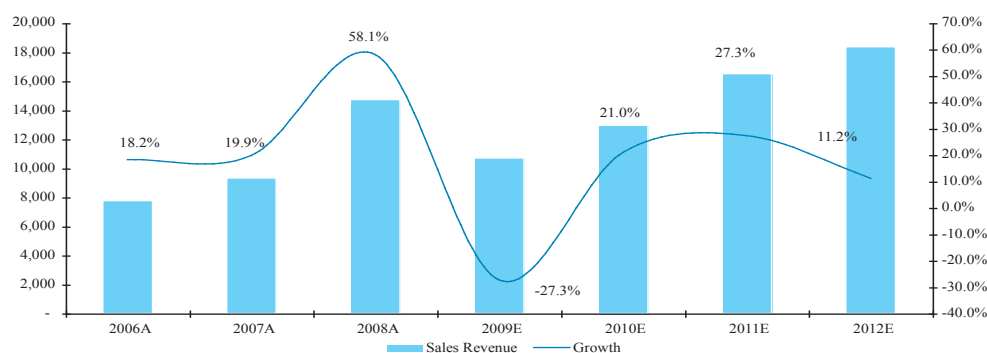
Source: OPEC, EIA & **Global Research**

Furthermore, we believe that lower average prices of OPEC crude oil during 2009 will restrict the long-term prices of naphtha in the average range of US\$250-400 per ton. Hence, the prices of petrochemical product will also remain under pressure.

### Sales Revenue Growth

We have revised down the forecasted increase in consolidated sales revenue at 4-years CAGR of 5.7% as compared to our initial forecast of 4 years CAGR of 21.5%. The downward revision in sales revenue growth is mainly associated with the (i) lower capacity utilization and (ii) 50%-65% lower prices from the initial estimates. The major impact of these factors has shown in 2009, where the Company is expected to show a decline in top line by 27.3%. However, with the expected improvement in utilization rate on the back of expected recovery in late 2009 and early 2010 and completion of fertilizer and petrochemical related projects will lead the sales revenue to grow in the average range of 19%-20% during 2010-2012.

**Chart 04: Expected Sales Revenue (QR mn) & Growth**

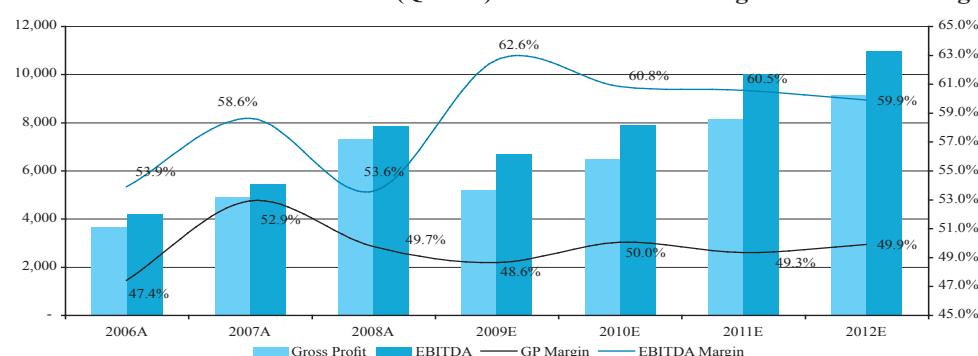


Source: Company Annual Reports & **Global Research**

### Expected Gross & EBITDA Margins

Based on our calculations, the Company is expected to post the gross profit of QR5.2bn in 2009 as compared to QR7.3bn reported in 2008. The lower gross profit is expected due to lower sales revenue and cost of sales excluding depreciation expense. However, the Company is expected to maintain the gross profit margin at 48.6% in 2009 as compared to 49.7% in 2008. Going forward, based on forecasted improvement in economy the Company's (i) gross profit is forecasted to increase at a CAGR of 20.7% during 2010-2012 and (ii) GP margin is expected to remain in the average range of 45%-49.5% during 2009-2012. Furthermore, we expect that Company is likely to show EBITDA of QR6.7bn in 2009 as compared to QR7.7bn in 2008.

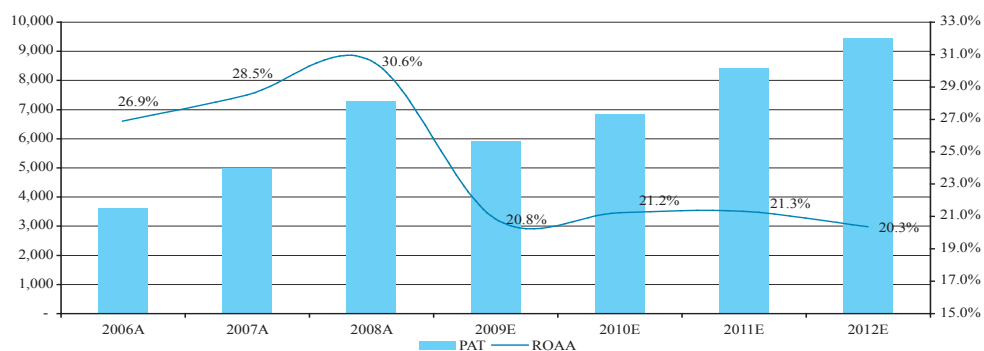
**Chart 05: Gross Profit & EBITDA (QR mn) and Gross Profit Margin & EBITDA Margin**



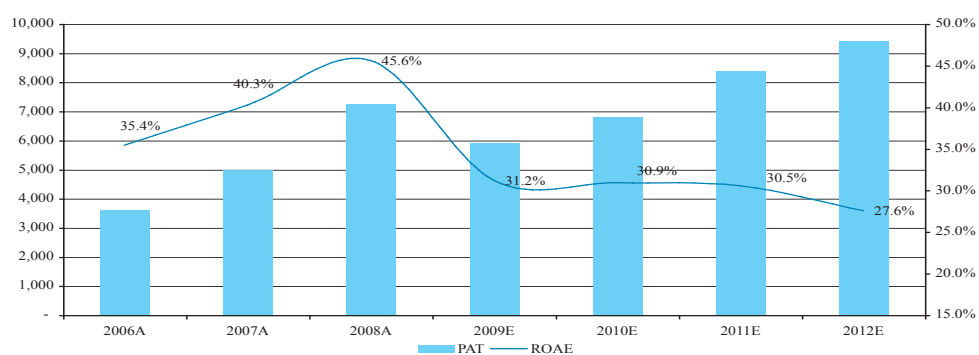
Source: Company Annual Accounts & Global Research

### Profitability Growth

The profitability of the Company has shown a growth of 45.9% during 2008 over the PAT of QR4.9bn in 2007. The Company's profitability was mainly hit during 4Q2008, which was mainly due to global economic slump and massive fall in crude oil prices. Furthermore, these factors have also led us to make downward revision in future demand, capacity utilization and prices. Consequently, the forecasted bottom line has been revised downward in an average range of 30%-32%, during 2009-11, from our initial forecasts. Furthermore, the Company's profitability is expected to show a negative growth of 18.5% to QR5.9 during 2009 from the profitability of 2008. However, the expected recovery in 2009-2010 will lead the Company to increase its bottom line at 4-years CAGR of 6.7% as compared to our initial forecasted 4-years CAGR of 22.8%. Our updated ROAA and ROAE are expected to stay at an average level of 20.9% and 30.0% respectively.

**Chart 06: Profitability (QR mn) & ROAA**

Source: Annual Reports & *Global Research*

**Chart 07: Profitability (QR mn) & ROAE**

Source: Annual Reports & *Global Research*

## Quarterly Performance - 1Q2009

IQ has posted after tax profit of QR1.4bn during 1Q2009 as compared to the after tax profit of QR1.9bn reported in corresponding period of last year. The lower profitability during 1Q2009 was mainly due to lower demand and average prices. Moreover, during the quarter under review, the fall in the Company's income from associates and investment coupled with higher financial cost due to increase in debt base has also played important role to restrict the Company's profitability during 1Q2009.

**Table 02: 1Q2009 - Income Statement**

| QR '000'                          | 1Q2008           | 1Q2009           |
|-----------------------------------|------------------|------------------|
| Sales                             | 3,466,002        | 2,176,224        |
| Cost of Sales                     | (1,496,035)      | (1,472,719)      |
| <b>Gross Profit</b>               | <b>1,969,967</b> | <b>703,505</b>   |
| Income from Associates            | 23,710           | (6,573)          |
| Other Income                      | 124,426          | 926,787          |
| Selling Expenses                  | (45,770)         | (27,489)         |
| General & Administrative Expenses | (119,864)        | (115,853)        |
| Finance Cost                      | (29,267)         | (67,679)         |
| <b>Net Profit for the Period</b>  | <b>1,923,202</b> | <b>1,412,698</b> |

Source: Company Quarterly Reports

Durring Q12009, the balance sheet size of the Company increased by 4.6% to QR28.7bn from QR27.5bn reported at the end of 2008, which is mainly due to a growth in the asset base of the Company from QR11.3bn in 2008 to QR12.3bn. However, the increase in asset base of the Company is mainly financed through long term and short term finances, which has increased by QR500.0mn to QR3.9bn and QR100.0mn to QR1.5bn respectively.

**Table 03: 1Q2009 – Balance Sheet**

| QR in '000'                                         | 2008              | 1Q2009            |
|-----------------------------------------------------|-------------------|-------------------|
| <b>Assets</b>                                       |                   |                   |
| Total Current Assets                                | 14,075,596        | 14,434,291        |
| Total Fixed and Non-Current Assets                  | 13,374,066        | 14,283,590        |
| <b>Total Assets</b>                                 | <b>27,449,662</b> | <b>28,717,881</b> |
| <b>Liabilities &amp; Equity</b>                     |                   |                   |
| Total Current Liabilities                           | 5,059,427         | 4,552,174         |
| Total Non-Current Liabilities and provisions        | 4,135,773         | 4,591,076         |
| <b>Total Liabilities</b>                            | <b>9,195,200</b>  | <b>9,143,250</b>  |
| <b>Shareholders' Equity</b>                         |                   |                   |
| Share Capital                                       | 5,500,000         | 5,500,000         |
| Legal Reserve                                       | 141,832           | 141,832           |
| Cumulative Change in Fair Value                     | 141,213           | 60,400            |
| Hedging Reserve                                     | (634,665)         | (645,255)         |
| Retained Earnings                                   | 8,694,589         | 10,106,910        |
| Proposed Dividend / Bonuses Issue                   | 4,400,000         | 4,400,000         |
| Minority Interest                                   | 11,493            | 10,744            |
| <b>Total Shareholders' Equity</b>                   | <b>18,254,462</b> | <b>19,574,631</b> |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>27,449,662</b> | <b>28,717,881</b> |

Source: Company Quarterly Reports

## Valuation and Recommendation

We have valued each business segment to arrive at a consolidated value for the company. This indicates that we have used sum of the part Discounted Cash Flow Methodology. Under this valuation, we have used 4-years (FY2009-FY2012) explicit forecast period for the consolidated Free Cash Flows (FCF) of IQ. The terminal value is estimated by using a constant terminal growth rate for each business segment of the Company. The forecasted cash flow and the terminal value is then discounted at the company Weighted Average Cost of Capital (WACC). In order to value the FCF of IQ, we have used the following assumptions:

1. Risk Free Rate (RFR) of 5.8%.
2. Equity risk premium of 6.0%.
3. Beta of 1.1.
4. A terminal growth rate of 3.0%.
5. A target cost of debt of 7%.

Using the above assumptions, we have derived a cost of equity for the company at 12.3%, by using Capital Assets Pricing Model, and a WACC of 10.4%, resulting in the Company worth at QR116.6 per share.

**Table 04: Consolidated DCF Calculations**

| (QR 000)                            | 2009 (E)          | 2010 (E) | 2011 (E)  | 2012 (E)  |
|-------------------------------------|-------------------|----------|-----------|-----------|
| FCF                                 | 3,157,562         | 539,741  | (449,796) | 4,787,314 |
| Discounted Cash Flow                | 2,932,679         | 454,271  | (343,053) | 3,308,682 |
| Terminal Value                      | 67,062,443        |          |           |           |
| Primary Value                       | 6,352,578         |          |           |           |
| Terminal Value (discounted)         | 49,903,371        |          |           |           |
| Total Enterprise Value              | 56,255,950        |          |           |           |
| Debt                                | (3,705,928)       |          |           |           |
| Add: Investments & cash equivalents | 11,584,981        |          |           |           |
| <b>Total Equity Value</b>           | <b>64,135,004</b> |          |           |           |
| Shares Outstanding ('000)           | 550,000           |          |           |           |
| <b>Fair Value Per Share</b>         | <b>116.6</b>      |          |           |           |

Source: *Global Research*

### Sensitivity Analysis

We have carried out a sensitivity analysis, which shows the probable value given different growth rate assumption and WACC.

**Table 05: Sensitivity Analysis**

|      |        | Terminal Growth Rates |       |              |       |       |
|------|--------|-----------------------|-------|--------------|-------|-------|
| WACC |        | 1.00%                 | 2.00% | 3.00%        | 4.00% | 5.00% |
|      | 8.35%  | 120.4                 | 136.2 | 158.0        | 189.9 | 240.7 |
|      | 9.35%  | 106.6                 | 118.5 | 134.0        | 155.4 | 186.7 |
|      | 10.35% | 95.8                  | 105.0 | <b>116.6</b> | 131.9 | 152.9 |
|      | 11.35% | 87.1                  | 94.4  | 103.4        | 114.8 | 129.8 |
|      | 12.35% | 80.0                  | 85.9  | 93.0         | 101.8 | 113.1 |

Source: *Global Research*

Our consolidated DCF value for IQ worked out to be QR116.6 per share, which shows that at the closing price of QR107.1 (as on May 20, 2009) the stock is offering a potential upside of 8.9%. We, therefore, revise our recommendation on the stock from Buy to **'Hold'**.

## Balance Sheet

| QR in '000'                                 | Industries Qatar  |                   |                   |                   |                   |                   |                   |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                             | 2006              | 2007              | 2008              | 2009E             | 2010E             | 2011E             | 2012E             |
| Bank & Cash                                 | 3,126,830         | 3,664,087         | 5,936,227         | 9,426,281         | 8,832,370         | 9,146,596         | 9,916,482         |
| Deposits Maturing in 90 Days                | 1,499,559         | 2,507,340         | 3,508,980         | -                 | -                 | -                 | -                 |
| Account R/A & PP                            | 1,149,975         | 1,266,743         | 1,297,557         | 1,886,293         | 2,373,824         | 3,045,557         | 3,538,807         |
| Other Financial Assets                      |                   |                   | 120,755           | 132,831           | 146,114           | 160,725           | 176,797           |
| Inventories                                 | 1,141,841         | 1,373,226         | 2,520,907         | 2,479,451         | 2,593,663         | 3,349,678         | 3,682,927         |
| Dues to Related Parties                     | 543,284           | 639,107           | 566,119           | 816,119           | 1,066,119         | 1,316,119         | 1,566,119         |
| Investments Held for Trading                | 27,061            | 102,868           | 125,051           | 225,051           | 325,051           | 425,051           | 525,051           |
| <b>Total Current Assets</b>                 | <b>7,488,550</b>  | <b>9,553,371</b>  | <b>14,075,596</b> | <b>14,966,026</b> | <b>15,337,140</b> | <b>17,443,727</b> | <b>19,406,183</b> |
| Investments in Associates                   | 359,059           | 1,171,186         | 1,487,160         | 1,635,876         | 1,799,464         | 1,979,410         | 2,078,380         |
| Investments in Available for Sales          | 293,850           | 452,594           | 247,773           | 297,773           | 303,728           | 309,803           | 315,999           |
| Intangible Assets                           | 71,707            | 72,313            | 71,707            | 75,292            | 76,798            | 78,334            | 79,901            |
| Investment Property                         | 118,426           | 148,032           | 124,347           | 130,564           | 133,176           | 135,839           | 138,556           |
| Property Under Development                  |                   | 2,275,768         | 5,186,479         | 3,111,887         | 1,867,132         | 1,493,706         | 1,194,965         |
| Property, Plant & Equipment                 | 6,385,679         | 6,364,035         | 6,137,619         | 9,184,404         | 15,289,730        | 22,528,045        | 25,429,550        |
| Other Assets                                | 163,195           | 104,473           | 118,981           | 130,879           | 143,967           | 158,364           | 174,200           |
| <b>Total Non-Current &amp; Fixed Assets</b> | <b>7,391,916</b>  | <b>10,588,401</b> | <b>13,374,066</b> | <b>14,566,676</b> | <b>19,613,995</b> | <b>26,683,501</b> | <b>29,411,551</b> |
| <b>Total Assets</b>                         | <b>14,880,466</b> | <b>20,141,772</b> | <b>27,449,662</b> | <b>29,532,702</b> | <b>34,951,136</b> | <b>44,127,228</b> | <b>48,817,735</b> |
| Short Term Loans                            | 205,458           | 1,083,819         | 2,668,076         | 2,534,672         | 3,802,008         | 6,653,515         | 4,657,460         |
| Accounts P/A & Accruals                     | 1,047,475         | 2,019,065         | 1,367,321         | 1,652,967         | 1,945,247         | 2,596,001         | 2,762,195         |
| Other Financial Liabilities                 |                   |                   | 165,751           | 167,409           | 169,083           | 170,773           | 172,481           |
| Due to related parties                      | 422,460           | 745,683           | 858,279           | 858,279           | 958,279           | 1,058,279         | 1,108,279         |
| <b>Total Current Liabilities</b>            | <b>1,675,393</b>  | <b>3,848,567</b>  | <b>5,059,427</b>  | <b>5,213,327</b>  | <b>6,874,617</b>  | <b>10,478,568</b> | <b>8,700,416</b>  |
| Long-Term Loans                             | 1,961,623         | 2,357,967         | 3,369,025         | 3,705,928         | 2,779,446         | 2,084,584         | 1,250,751         |
| Subordinate Loans                           | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| Provision for Employees' End of Service     | 118,728           | 153,740           | 177,080           | 194,788           | 214,267           | 235,693           | 259,263           |
| Interest Rate Swaps                         | 40,544            | 103,412           | 589,668           | 619,151           | 650,109           | 682,614           | 716,745           |
| <b>Total Non-Current Liabilities</b>        | <b>2,120,895</b>  | <b>2,615,119</b>  | <b>4,135,773</b>  | <b>4,519,867</b>  | <b>3,643,821</b>  | <b>3,002,892</b>  | <b>2,226,758</b>  |
| <b>Total Liabilities</b>                    | <b>3,796,288</b>  | <b>6,463,686</b>  | <b>9,195,200</b>  | <b>9,733,194</b>  | <b>10,518,438</b> | <b>13,481,460</b> | <b>10,927,174</b> |
| Share Capital                               | 5,000,000         | 5,000,000         | 5,500,000         | 5,500,000         | 5,500,000         | 5,500,000         | 5,500,000         |
| Legal Reserves                              | 104,813           | 141,309           | 141,832           | 141,832           | 141,832           | 141,832           | 141,832           |
| Investment Revaluation Reserves             | 132,204           | 309,585           | 141,213           | 169,456           | 186,401           | 205,041           | 225,545           |
| Hedging Reserves                            | (37,623)          | (103,412)         | (634,665)         | (650,532)         | (666,795)         | (683,465)         | (700,551)         |
| Retained Earnings                           | 3,372,795         | 5,819,558         | 8,694,589         | 12,427,260        | 17,059,766        | 23,270,867        | 30,512,242        |
| Proposed Dividends                          | 2,500,000         | 2,500,000         | 4,400,000         | 2,200,000         | 2,200,000         | 2,200,000         | 2,200,000         |
| Equity to Parents                           | 11,072,189        | 13,667,040        | 18,242,969        | 19,788,015        | 24,421,204        | 30,634,275        | 37,879,068        |
| Minority Interest                           | 11,989            | 11,046            | 11,493            | 11,493            | 11,493            | 11,493            | 11,493            |
| <b>Total Equity</b>                         | <b>11,084,178</b> | <b>13,678,086</b> | <b>18,254,462</b> | <b>19,799,508</b> | <b>24,432,697</b> | <b>30,645,768</b> | <b>37,890,561</b> |
| <b>Total Liabilities &amp; Equity</b>       | <b>14,880,466</b> | <b>20,141,772</b> | <b>27,449,662</b> | <b>29,532,702</b> | <b>34,951,136</b> | <b>44,127,228</b> | <b>48,817,735</b> |

Source: Company Annual Accounts &amp; Global Research

**Income Statement**

| <i>QR in '000'</i>                                           | <b>Industries Qatar</b> |                  |                  |                   |                   |                   |
|--------------------------------------------------------------|-------------------------|------------------|------------------|-------------------|-------------------|-------------------|
|                                                              | 2006                    | 2007             | 2008             | 2009E             | 2010E             | 2011E             |
| Sales                                                        | 7,778,065               | 9,325,932        | 14,743,056       | 10,721,437        | 12,975,862        | 16,518,957        |
| Cost of Sales                                                | (4,091,928)             | (4,394,626)      | (7,412,548)      | (5,509,891)       | (6,484,157)       | (8,374,196)       |
| <b>Gross Profit</b>                                          | <b>3,686,137</b>        | <b>4,931,306</b> | <b>7,330,508</b> | <b>5,211,546</b>  | <b>6,491,706</b>  | <b>8,144,761</b>  |
| Selling Expenses                                             | (117,871)               | (137,580)        | (201,038)        | (167,874)         | (191,455)         | (243,278)         |
| General & Administrative Expenses                            | (296,118)               | (318,341)        | (391,785)        | (398,698)         | (438,970)         | (557,859)         |
| Income from Associates                                       | 20,117                  | 52,254           | 269,529          | (26,689)          | (27,773)          | (28,900)          |
| Income from Investment                                       | 173,975                 | 244,730          | 319,383          | (83,732)          | 369,989           | 493,318           |
| Other Gains / Losses                                         | 199,694                 | 292,130          | 125,673          | 1,583,994         | 794,913           | 823,194           |
| Financial Charges                                            | (44,204)                | (79,933)         | (143,693)        | (184,690)         | (164,536)         | (218,452)         |
| Impairment                                                   | -                       | -                | (31,451)         | -                 | -                 | -                 |
| <b>Profit For the Year</b>                                   | <b>3,621,730</b>        | <b>4,984,566</b> | <b>7,277,126</b> | <b>5,933,857</b>  | <b>6,833,873</b>  | <b>8,412,783</b>  |
| <b>Attributable to</b>                                       |                         |                  |                  |                   |                   |                   |
| Equity holders of the parent                                 | 3,619,218               | 4,983,259        | 7,275,554        | 5,932,671         | 6,832,507         | 8,411,101         |
| Minority Interest                                            | 2,512                   | 1,307            | 1,572            | 1,187             | 1,367             | 1,683             |
| <b>P&amp;L Appropriation Account</b>                         |                         |                  |                  |                   |                   |                   |
| <b>Opening Balance</b>                                       | <b>2,234,654</b>        | <b>3,372,795</b> | <b>5,819,558</b> | <b>8,694,589</b>  | <b>12,427,260</b> | <b>17,059,766</b> |
| Net Profit for the Year                                      | 3,619,218               | 4,983,259        | 7,275,554        | 5,932,671         | 6,832,507         | 8,411,101         |
| Change in Fair Value of Investments                          | -                       | -                | -                | -                 | -                 | -                 |
| Dividend Paid                                                | -                       | -                | -                | -                 | -                 | -                 |
| Transfer to Legal Reserve                                    | (838)                   | (36,496)         | (523)            | -                 | -                 | -                 |
| Dividend Proposed                                            | (2,500,000)             | (2,500,000)      | (4,400,000)      | (2,200,000)       | (2,200,000)       | (2,200,000)       |
| Bonus Issue                                                  | -                       | -                | -                | -                 | -                 | -                 |
| Prior Year Adjustment                                        | 19,761                  | -                | -                | -                 | -                 | -                 |
| <b>Ending Balance</b>                                        | <b>3,372,795</b>        | <b>5,819,558</b> | <b>8,694,589</b> | <b>12,427,260</b> | <b>17,059,766</b> | <b>23,270,867</b> |
| <b>Source: Company Annual Accounts &amp; Global Research</b> |                         |                  |                  |                   |                   |                   |

## Cash Flow Statement

| QR '000'                             | Industries Qatar |             |             |             |             |             |             |
|--------------------------------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                      | 2006             | 2007        | 2008        | 2009E       | 2010E       | 2011E       | 2012E       |
| Profit for the year                  | 3,621,730        | 4,984,566   | 7,277,126   | 5,933,857   | 6,833,873   | 8,412,783   | 9,443,263   |
| Depreciation & Amortization          | 524,250          | 399,430     | 475,534     | 595,737     | 891,165     | 1,369,473   | 1,334,269   |
| Income from Associates               | (20,117)         | (52,254)    | (269,529)   | 26,689      | 27,773      | 28,900      | 30,074      |
| Income from Investment               | (173,975)        | (244,730)   | (319,383)   | 83,732      | (369,989)   | (493,318)   | (616,648)   |
| Other Gains / Losses                 | (199,694)        | (292,130)   | (125,673)   | (1,583,994) | (794,913)   | (823,194)   | (823,194)   |
| Financial Charges                    | 44,204           | 79,933      | 143,693     | 184,690     | 164,536     | 218,452     | 218,452     |
| Change in Working Capital            | (9,396)          | 850,837     | (1,644,655) | (511,634)   | (459,463)   | (926,995)   | (860,303)   |
| Net Cash from operating activities   | 3,787,002        | 5,725,652   | 5,537,113   | 4,729,077   | 6,292,982   | 7,786,102   | 8,725,913   |
| INVESTING ACTIVITIES                 |                  |             |             |             |             |             |             |
| Plant & Property                     | (2,082,439)      | (2,654,160) | (3,127,772) | (1,571,516) | (5,753,242) | (8,235,897) | (3,938,599) |
| Investments Held for Trading         | (3,079)          | (75,807)    | (22,183)    | (100,000)   | (100,000)   | (100,000)   | (100,000)   |
| Investments in Associates            | (20,018)         | (812,127)   | (315,974)   | (148,716)   | (163,588)   | (179,946)   | (98,970)    |
| Investments in Available for Sales   | 100,462          | (158,744)   | 204,821     | (50,000)    | (5,955)     | (6,075)     | (6,196)     |
| Investment Property                  | (118,426)        | (29,606)    | 23,685      | (6,217)     | (2,611)     | (2,664)     | (2,717)     |
| Other Investment Activities          | 342,527          | 647,836     | 700,077     | 1,461,675   | 1,124,041   | 1,273,215   | 1,393,931   |
| Cash Flows from Investing Activities | (1,780,973)      | (3,082,608) | (2,537,346) | (414,774)   | (4,901,354) | (7,251,367) | (2,752,551) |
| FINANCING ACTIVITIES                 |                  |             |             |             |             |             |             |
| Short Term Loans                     | (350,352)        | 878,361     | 1,584,257   | (133,404)   | 1,267,336   | 2,851,506   | (1,996,054) |
| Long-Term Loans                      | 904,065          | 396,344     | 1,011,058   | 336,903     | (926,482)   | (694,861)   | (833,834)   |
| Subordinate Loans                    | -                | -           | -           | -           | -           | -           | -           |
| Financial Charges                    | (44,204)         | (79,933)    | (143,693)   | (184,690)   | (164,536)   | (218,452)   | (218,452)   |
| Dividend Paid                        | (1,750,000)      | (2,500,000) | (2,000,000) | (4,400,000) | (2,200,000) | (2,200,000) | (2,200,000) |
| Other Financing Activities           | (89,261)         | 207,222     | (177,609)   | 47,963      | 38,143      | 41,299      | 44,864      |
| Cash Flows from Financing Activities | (1,329,752)      | (1,098,006) | 274,013     | (4,333,229) | (1,985,539) | (220,508)   | (5,203,476) |
| Increase/Decrease in Cash            | 676,277          | 1,545,038   | 3,273,780   | (18,926)    | (593,911)   | 314,226     | 769,886     |
| Cash Beginning Balance               | 3,950,112        | 4,626,389   | 6,171,427   | 9,445,207   | 9,426,281   | 8,832,370   | 9,146,596   |
| Cash Ending Balance                  | 4,626,389        | 6,171,427   | 9,445,207   | 9,426,281   | 8,832,370   | 9,146,596   | 9,916,482   |

Source: Company Annual Accounts &amp; Global Research

## Fact Sheet

|                                | Industries Qatar |        |        |        |        |        |        |
|--------------------------------|------------------|--------|--------|--------|--------|--------|--------|
|                                | 2006             | 2007   | 2008   | 2009E  | 2010E  | 2011E  | 2012E  |
| Liquidity Ratios               |                  |        |        |        |        |        |        |
| Current Ratio                  | 4.5              | 2.5    | 2.8    | 2.9    | 2.2    | 1.7    | 2.2    |
| Cash Ratio                     | 1.9              | 1.0    | 1.2    | 1.8    | 1.3    | 0.9    | 1.1    |
| Profitability Ratios           |                  |        |        |        |        |        |        |
| Gross Margin %                 | 47.4%            | 52.9%  | 49.7%  | 48.6%  | 50.0%  | 49.3%  | 49.9%  |
| EBITDA Margin %                | 53.9%            | 58.6%  | 53.6%  | 62.6%  | 60.8%  | 60.5%  | 59.9%  |
| EBIT Margin %                  | 47.1%            | 54.3%  | 50.3%  | 57.1%  | 53.9%  | 52.3%  | 52.6%  |
| Net Profit Margin %            | 46.6%            | 53.4%  | 49.4%  | 55.3%  | 52.7%  | 50.9%  | 51.4%  |
| ROAE                           | 35.4%            | 40.3%  | 45.6%  | 31.2%  | 30.9%  | 30.5%  | 27.6%  |
| ROAA                           | 26.9%            | 28.5%  | 30.6%  | 20.8%  | 21.2%  | 21.3%  | 20.3%  |
| Leverage Ratios                |                  |        |        |        |        |        |        |
| Debt to Equity                 | 0.18             | 0.17   | 0.18   | 0.19   | 0.11   | 0.07   | 0.03   |
| Debt to Asset %                | 13.2%            | 11.7%  | 12.3%  | 12.5%  | 8.0%   | 4.7%   | 2.6%   |
| Liabilities/Total Assets (x)   | 0.26             | 0.32   | 0.33   | 0.33   | 0.30   | 0.31   | 0.22   |
| Growth Rates                   |                  |        |        |        |        |        |        |
| Revenue Growth Rate            | 18.2%            | 19.9%  | 58.1%  | -27.3% | 21.0%  | 27.3%  | 11.2%  |
| Net Income Growth Rate         | 12.6%            | 37.6%  | 46.0%  | -18.5% | 15.2%  | 23.1%  | 12.2%  |
| Equity Growth Rate             | 18.4%            | 23.4%  | 33.5%  | 8.5%   | 23.4%  | 25.4%  | 23.6%  |
| Total Asset Growth Rate        | 23.1%            | 35.4%  | 36.3%  | 7.6%   | 18.3%  | 26.3%  | 10.6%  |
| Ratios Use for Valuation       |                  |        |        |        |        |        |        |
| Number of Shares (mn)          | 500.0            | 500.0  | 550.0  | 550.0  | 550.0  | 550.0  | 550.0  |
| Par value per share (QR)       | 10.0             | 10.0   | 10.0   | 10.0   | 10.0   | 10.0   | 10.0   |
| BV per share (QR)              | 22.2             | 27.4   | 33.2   | 36.0   | 44.4   | 55.7   | 68.9   |
| EPS (QR)-Adjusted              | 6.6              | 9.1    | 13.2   | 10.8   | 12.4   | 15.3   | 17.2   |
| Market Price- Adjusted (QR)*   | 70.7             | 126.1  | 62.4   | 107.1  | 107.1  | 107.1  | 107.1  |
| Market Cap in (QR Mn)-Adjusted | 38,882           | 69,345 | 34,320 | 58,905 | 58,905 | 58,905 | 58,905 |
| EV (QR Mn)                     | 4,190            | 5,464  | 7,865  | 6,714  | 7,890  | 10,001 | 10,996 |
| EV/EBITDA                      | 9.0              | 12.5   | 4.0    | 7.9    | 6.7    | 5.2    | 4.6    |
| P/E Ratio                      | 10.7             | 13.9   | 4.7    | 9.9    | 8.6    | 7.0    | 6.2    |
| P/BV Ratio                     | 3.2              | 4.6    | 1.9    | 3.0    | 2.4    | 1.9    | 1.6    |

\* Historical P/E & P/B multiples pertain to respective year-end prices, while those for future years are based on closing price as at 20th May 2009.

Source: Company Annual Accounts & Global Research

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

#### Disclosure Checklist

| Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Recommendation | Ticker                                   | Price   | Disclosure |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------|---------|------------|
| Industries Qatar                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Hold           | IQCD QD (Bloomberg)<br>IQCD.QA (Reuters) | QR107.1 | 1, 10      |
| <ol style="list-style-type: none"> <li>1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.</li> <li>2. The company being researched holds more than 5% stake in Global Investment House.</li> <li>3. Global Investment House makes a market in securities issued by this company.</li> <li>4. Global Investment House acts as a corporate broker or sponsor to this company.</li> <li>5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.</li> <li>6. An employee of Global Investment House serves on the board of directors of this company.</li> <li>7. Within the past year, Global Investment House has managed or co-managed a public offering for this company, for which it received fees.</li> <li>8. Global Investment House has received compensation from this company for the provision of investment banking or financial advisory services within the past year.</li> <li>9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three months.</li> <li>10. Please see special footnote below for other relevant disclosures.</li> </ol> |                |                                          |         |            |

#### Global Research: Equity Ratings Definitions

| Global Rating | Definition                                                                     |
|---------------|--------------------------------------------------------------------------------|
| Buy           | Fair value of the stock is >10% from the current market price                  |
| Hold          | Fair value of the stock is between +10% and -10% from the current market price |
| Reduce        | Fair value of the stock is between -10% and -20% from the current market price |
| Sell          | Fair value of the stock is < -20% from the current market price                |

*This material was produced by Global Investment House KSCC ('Global'), a firm regulated by the Central Bank of Kuwait. This document is not to be used or considered as an offer to sell or a solicitation of an offer to buy any securities. Global may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities ('securities'), perform services for or solicit business from such issuer, and/or have a position or effect transactions in the securities or options thereof. Global may, to the extent permitted by applicable Kuwaiti law or other applicable laws or regulations, effect transactions in the securities before this material is published to recipients.*

*Information and opinions contained herein have been compiled or arrived by Global from sources believed to be reliable, but Global has not independently verified the contents of this document. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Global accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith. This document is not to be relied upon or used in substitution for the exercise of independent judgement. Global shall have no responsibility or liability whatsoever in respect of any inaccuracy in or omission from this or any other document prepared by Global for, or sent by Global to any person and any such person shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document.*

*Opinions and estimates constitute our judgment and are subject to change without prior notice. Past performance is not indicative of future results. This document does not constitute an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person.*

*Neither this report nor any copy hereof may be distributed in any jurisdiction outside Kuwait where its distribution may be restricted by law. Persons who receive this report should make themselves aware of and adhere to any such restrictions. By accepting this report you agree to be bound by the foregoing limitations.*