



SHUAACAPITAL_{PSC}

Industries Qatar (IQCD.QA)

Equity Research

Initial Coverage

March 22nd, 2006

Sector Coverage Team

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Current Price:	114.5	Country:	Qatar
Fair value Target:	136.6	Sector:	Petrochemicals, Fertilizers, Steel
Recommendation:	BUY	Exchange:	Doha Securities Market

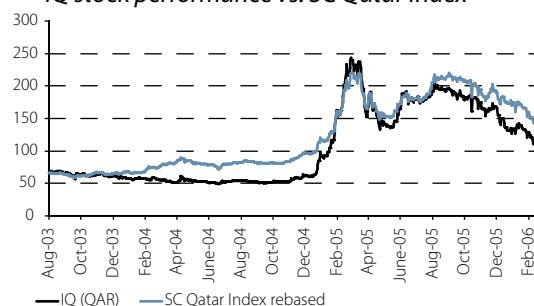
- Industries Qatar (IQ) is the largest listed company in Qatar and among the largest in the GCC with a market capitalization of USD 15.4 bn. The current business operation of IQ is the direct holding of shares in four companies operating in the fields of petrochemicals, fertilizers and steel.
- The company's feedstock advantage as well as the massive expansions to be undertaken by its subsidiaries are key drivers for the company's future growth.
- Despite an expected fall in prices of steel, petrochemicals, and fertilizers, IQ is projected to record a CAGR in net income of 5.9% over the coming five years. Growth is to be driven by substantial expansions from IQ's subsidiaries of which IQ's share is QAR 14.2 billion.
- We initiate coverage on IQ with a Buy recommendation. Our target value of QAR 136.6 per share implies a 19.3% upside to the current market price of QAR 114.5 per share.

Year	Net profit (QAR'000)	BV (QAR'000)	EPS (QAR)	BVPS (QAR)	RoAE (%)	P/E (x)	EV/EBITDA (x)	P/BV (x)
Dec-08E	2,597,503	16,086,705	5,195	32,173	19%	22.0	15.1	3.6
Dec-07E	2,353,339	13,489,202	4,707	26,978	19%	24.3	16.9	4.2
Dec-06E	2,462,232	11,135,863	4,924	22,272	36%	23.3	17.2	5.1
Dec-05	3,214,868	7,603,655	6,430	15,207	37%	17.8	14.4	7.5

Number of shares ('000)	500,000
Free Float (%)	30
Market cap (QAR'000)	57,250,000
Market cap (USD'000)	15,728,022
Div. Yld. 2005 (%)	2.2

Source: Reuters, SHUAACAPITAL

IQ stock performance vs. SC Qatar Index

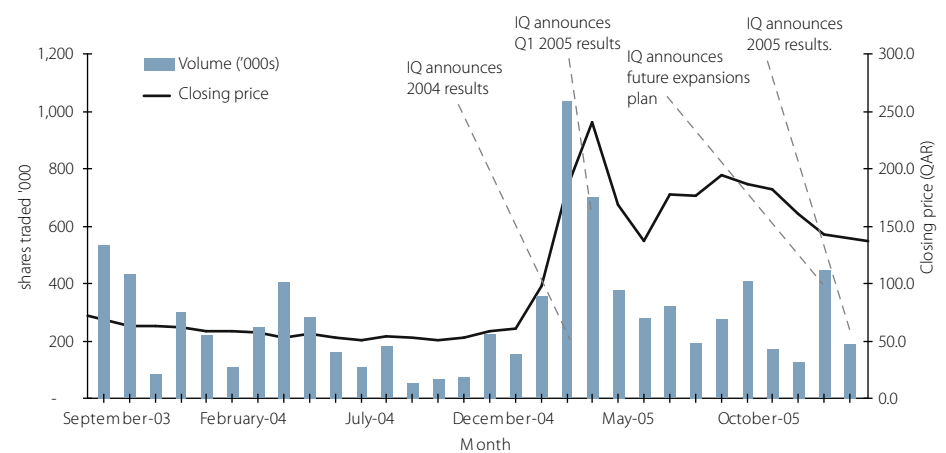


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Investment Highlights

- Industries Qatar (IQ) offers investors exposure to a diversified portfolio of companies operating in the petrochemical, steel and fertilizer industries.
- Management of IQ's subsidiaries has a strong track record with extensive experience in their companies' respective industries.
- Despite an expected fall in prices of steel, petrochemicals, and fertilizers, IQ is projected to record a CAGR in net income of 5.9% over the coming five years. Growth is to be driven by substantial expansions from IQ's subsidiaries of which IQ's share is QAR 14.2 billion.
- IQ's 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 costs.
- Through its subsidiaries, IQ has a strong client base in growing markets, namely Asia.
- Competitive feedstock cost- Natural gas, a main feedstock component for the production of petrochemicals and fertilizers is supplied by QP at competitive market rates.
- IQ international joint venture partners in three of its subsidiaries, benefiting the respective subsidiary with marketing agreements as well as technical expertise.
- IQ's share in its subsidiaries profits is exempt from taxes. The subsidiaries themselves are not entirely exempt from tax.
- QASCO, the only steel producer in Qatar, benefits particularly from a protective 20% steel tariff imposed on certain imported steel, enabling the company to supply the bulk of the local market.
- We initiate coverage on IQ with a Buy recommendation. Our target value of QAR 136.6 per share implies a 19.3% upside to the current market price of QAR 114.5 per share.

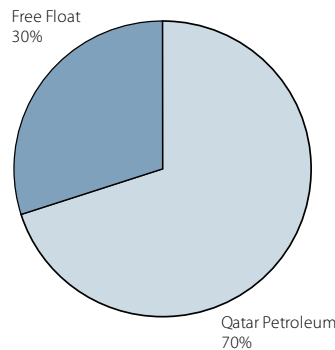


Source: Reuters, SHUAA Capital

Overview

Industries Qatar (IQ) is a Limited Liability Company (LLC) registered and incorporated in the state of Qatar. IQ was formed with Qatar Petroleum (QP) as its sole founding shareholder. QP subsequently divested 30% of its interest to Qatari individual investors through an IPO.

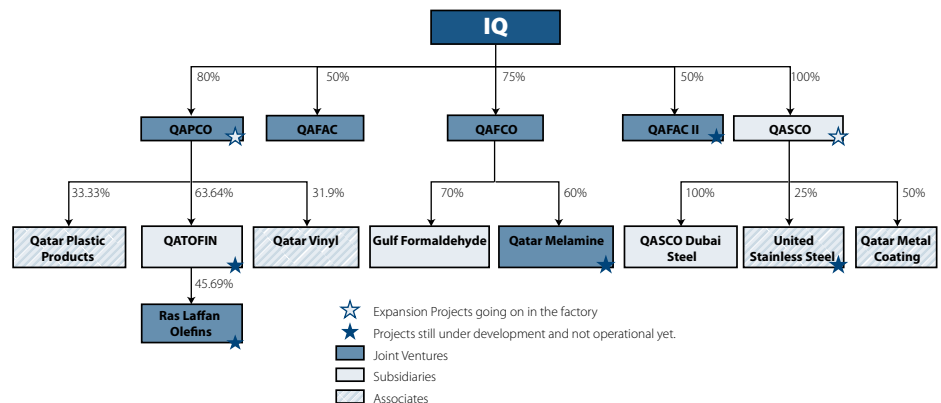
Industries Qatar: Shareholding Structure



Source: Industries Qatar

IQ offers exposure to petrochemicals, steel and fertilizers

The main business operation of IQ is the direct holding of shares in joint ventures and a subsidiary. IQ provides its shareholders with a diversified exposure to the petrochemical, fertilizer and steel industries. IQ may in the future acquire other entities (not restricted to QP affiliated entities) in order to further diversify its revenue base. Currently, IQ holds shares in the following subsidiaries:



Source: Industries Qatar

- Qatar Petrochemical Company (QAPCO), a manufacturer of ethylene and low density polyethylene (80% stake).
- Qatar Fertiliser Company (QAFCO), a producer of ammonia and urea (75% stake).
- Qatar Fuel Additives Company (QAFAC), a methanol and MTBE producer (50% stake).
- Qatar Steel Company (QASCO), an integrated steel manufacturer (100% stake).

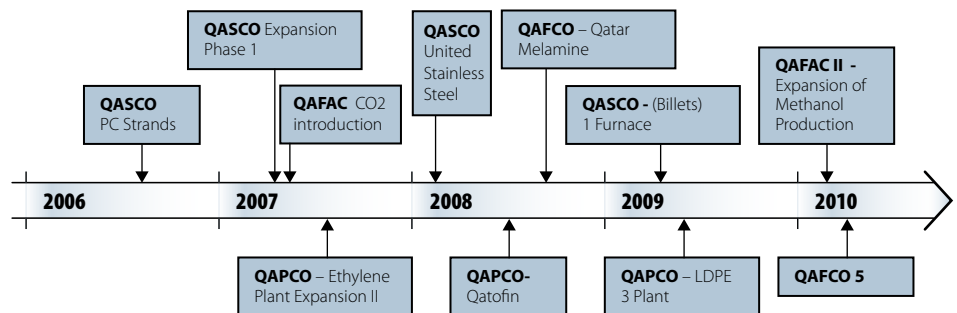
The company's profits have increased from QAR 1.4 billion in 2003 (full year), its year of inception, to QAR 2.5 billion in 2004 and QAR 3.21 billion in 2005. The outlook for the company is promising given the expansion plans to be undertaken by its subsidiaries. Total expansions costs amount to QAR 15.7 billion (of which IQ's share is 10.5 billion). In addition, there are two expansions by QASCO estimated to cost QAR 11.7 billion, of which IQ's share is QAR 3.7 billion which were not included in our projections as they are still under study. Revenues are forecasted to grow at a CAGR of 11.9%. As margins narrow in line with a forecasted decrease in product prices, net income is projected to grow at a CAGR of 5.9%.

IQ's subsidiaries CAPEX to exceed QAR 27 bn

Industries Qatar: Capacity Expansions

Company	Project Details	Total Cost (QAR million)	IQ Cost (QAR million)	Completion Date	Capacity increase
QAFAC	QAFAC 2 - Expansion of methanol production	3,000	1,500	Q1 2010	Methanol 2.3 mtpa Ammonia 330,000 tpa
QAFAC	Introduction of CO2 into existing process	47	24	Q2 2007	Methanol 83,250 tpa
QASCO	Expansion phase 1	2,094	2,094	Q2 2007	DRI 1.5 mtpa Billets 583,000 tpa Bars 700,000 tpa
QASCO	United Stainless Steel	300	75	Q2 2008	
QASCO	PC Strands	110	110	Q4 2006	PC Strands 79,200 tpa
QASCO	Billets	820	820	Q1 2009	Billets 1.0 mtpa
QASCO	Expansion phase 2	3,095	3,095	2010	DRI 1.5 mtpa Billets 600,000 tpa Tubes 300,000 tpa
QASCO	Iron Ore Mining & Pelletization	8,576	643	2010	Iron Ore and Pellets
QAPCO	Ethylene plant expansion 2	800	640	Q2 2007	Ethylene 195,000 tpa
QAPCO	Qatofin	4,475	2,282	Q4 2008	LLDPE 450,000 tpa Ethylene 595,000 tpa
QAPCO	LDPE 3 Plant	910	728	Q2 2010	LDPE 250,000 tpa
QAFCO	QAFCO 5	2,600	1,950	Q1 2010	Ammonia 1.15 mtpa Urea 1.15 mtpa
QAFCO	Qatar Melamine	548	247	Q4 2008	Melamine 59,400 tpa
Total		27,330	14,174		

Source: Industries Qatar, SHUAA Capital



Source: Industries Qatar

IQ Infrastructure and strategic direction

IQ's consolidated infrastructure offers the potential for future savings through group economies of scale. Although the companies work with independent management teams, there is strong direction from the board of the companies to work together to achieve group savings in the future. This could be from the perspective of effective cash management for the companies at the group level. One of the strategic business objectives in the set up of IQ is the monitoring and cash management operation of its subsidiaries on a regular basis. Providing counsel and advice on optimal cash allocation enhances the funding capacities of the subsidiaries in order to meet their respective capital expenditure requirements.

Oil & gas sector in Qatar

Qatar has the third largest gas reserves in the world...

...creating opportunities for increasing government spending in the sector

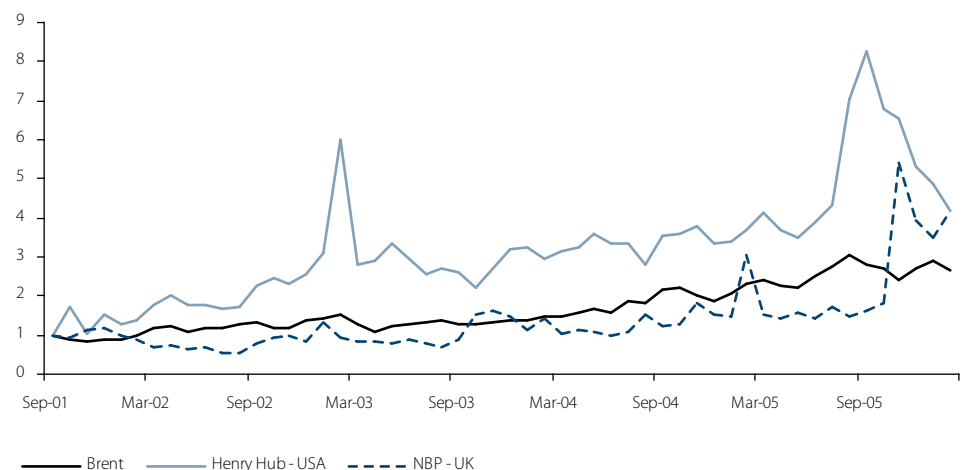
Qatar conducts its oil and gas operations through Qatar Petroleum, which controls Qatar's interest in oil, gas, petrochemicals and refining. Gas constitutes Qatar's main hydrocarbon resource. The North Field is one of the world's largest non-associated gas reserves. It accounts for around 15% of world gas reserves. Qatar with around 740 thousand inhabitants has the third largest gas reserves in world. Although it has such large reserves it only accounts for 1.5% of global production according to BP statistics. The government therefore would like to expand the sector to take advantage of its large reserves as well as high oil and gas prices.

The substantial investments by the government are expected to significantly boost gas production as well as Liquefied Natural Gas (LNG) and Gas to Liquids (GTL). Business Monitor International expects gas production to increase from 37.3 bcm in 2005 to 49.6 bcm in 2008 an increase of 33%. Furthermore, exports of gas are expected to go up to 33.1 bcm by 2008 an increase of 36% according to BMI. In order to distribute the gas to customers, several major LNG projects are underway. In addition, a gas pipeline from Qatar to UAE is currently under construction. This project will help supply the significant need for gas in UAE and Oman primarily for new electricity generation plants.

Qatar is expected to become the world's largest supplier of LNG at some point in 2006. The government estimates the current projects at hand should allow it to export 77 mn tpa of LNG by 2010 a 185% increase over 2005 levels. In 2006, the Sasol GTL Project is expected to be finished providing 35,000 barrels per day of diesel fuel and naphtha. Larger projects with Shell and Exxon Mobil are in the development phase.

Reflecting the strong demand for gas, prices have increased faster than oil prices as can be viewed in the graph below. The attractiveness of natural gas as being less harmful to the environment as well as its increased use in the production of electricity has allowed prices to rise significantly. Since transporting gas is not as simple and cheap as transporting oil, large differences appear in gas prices between gas rich regions and those with limited reserves. This creates further potential for LNG and GTL projects as well as major pipeline projects that were previously uneconomical.

Oil prices versus gas prices



Source: Reuters

Qatar Fertilizer Company (QAFCO)

Overview

Qatar Fertilizer Company (QAFCO) was established in 1969 to utilize Qatar's gas resources for the production of ammonia and urea. QAFCO is currently the only chemical fertilizer producer in the country and is jointly owned by Industries Qatar (75%), and Yara International (25%).

QAFCO is the single largest fertilizer producer in the World, placing Qatar among the leading exporters of ammonia and urea in the world. QAFCO comprises four integrated plants; QAFCO 1 (1973), QAFCO 2 (1979), QAFCO 3 (1997) and QAFCO 4 (2004). Each plant comprises two units, one for production of ammonia and the other for urea.

Fertilizers Industry

Overview

Nitrogenous fertilizers, which are one of the main fertilizers produced through processing natural gas, are a key input in enhancing crop production. Fertilizers contribute to around 50% of the total increase in food grain production. As world population increases and land resources become more scarce, demand for fertilizers to achieve vertical agriculture expansion increases. Ammonia is the raw material from which various nitrogenous fertilizers are made. Ammonia itself can be applied directly to soil as a fertilizer but its use in this way is declining in favour of solid and liquid applications. The use of fertilizer to replace soil nutrients has enabled farmers all over the world to increase the production of food for the same amount of arable land.

Supply

Asia is the largest producer of fertilizers with around 40% to 50% of total world production, followed by North America and Russia. According to the Arab Fertilizer Association, the Arab Fertilizer Industry had a capacity of 9.0 mtpa of ammonia and 10.2 mtpa of urea in 2004. This represented around 7% and 9% of total world production of ammonia and urea respectively. The region has around 30% of the world's natural gas reserves. This provides it with a significant cost advantage given that natural gas represents around 80% of the production cost of ammonia. Fertilizers production capacity in the region is expected to grow by a CAGR of 5% over the coming five years. Significant ammonia and urea capacities are expected to be added in 2006 and 2007 coming mainly from Saudi Arabia and Egypt.

Arab Fertilizers Capacities

Capacity mn tons	1990	2000	2004	2010E
Ammonia	5.3	8.7	9	13.7
Urea	5.6	9.9	10.2	17.6

Source: Arab Fertilizers Association

Demand

World ammonia demand amounts to about 140 million tons per year, around 44% of which is used for the production of urea. Global demand for ammonia is expected to rise by about 2.0% per year for the next fifteen years. British Sulphur and Fertecon forecast urea consumption to grow on average over the next three years by 2.5% and 4.3% respectively.

Market Prices and cyclicity

Global ammonia prices declined in early 2005 due to inventory build up in North America. High global energy prices squeezed margins for facilities located outside gas rich regions. Urea prices posted a marked rise in 2005, hovering around USD 233 per tonne, against an average of USD 184 per tonne in 2004. Several factors contributed to this trend, including diminished exports from China and Indonesia throughout the first half of 2005, the rise in gas prices in the US, higher demand from the US and traditional Asian markets, namely India, Pakistan, Bangladesh and Iran, in addition to growing European imports due to the shutdown of a number of fertiliser plants in Europe.

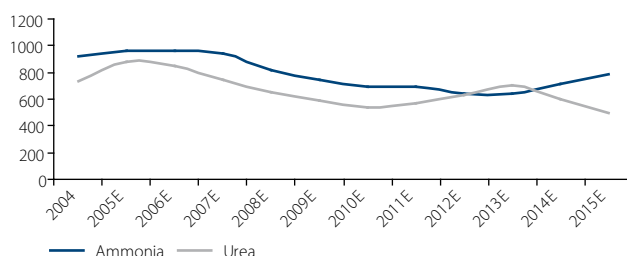
The Arab region represents around 7% of global ammonia production...

...expected to grow at a CAGR of 5% over the next five years

New fertilizers capacity additions are expected to push prices downward

In its Ammonia outlook issue for 2005, Fertecon expected the supply demand balance to weaken as new export supplies become available. From 2008 onwards, sizeable new capacity additions in the Middle East could weaken the market, pushing prices downward. Fertecon expects prices for ammonia and urea to fall by 17% and 51% over the coming decade.

Ammonia and Urea price forecasts (QAR per ton)



Source: Fertecon

Analysis & forecasts

The analysis for QAFCO refers to QAFCO as a whole and not to IQ's share in the company.

QAFCO is planning to increase its urea production capacity by 1.25 mtpa

Capacity

QAFCO's latest expansion "QAFCO 4" was completed in 2004. The QAFCO 5 expansion (fifth production train) is scheduled for completion in Q1 2010 and will cost QAR 2.6 billion, of which IQ's share is QAR 1.95 billion. The expansion is dependent on the arrival of additional gas at Mesaieed, Qatar. A pipeline will be laid from Ras Laffan to Mesaieed Industrial area to supply gas for QAFCO 5. The planned expansion will boost QAFCO's ammonia production to 3.3 million tonnes per annum (mtpa) and urea production to 3.9 mtpa. As a result of the expansion, the company will be able to maintain its position as the world's largest single site urea producer. In addition, Qatar Melamine, 60% owned by QAFCO, will start operations in Q4 2008 with a melamine capacity of 60,000 tpa. The capital expenditure for the plant is estimated at QAR 548 million, of which QAFCO's share is QAR 329 million.

QAFCO: Production capacity

Units in tons'000	2003	2004	2005	2006e	2007e	2008e	2009e	2010e
Ammonia	1,111	1,667	2,000	2,000	2,000	2,000	2,000	3,251
Urea	1,363	2,249	2,800	2,800	2,800	2,800	2,800	3,878
Melamine							36	36

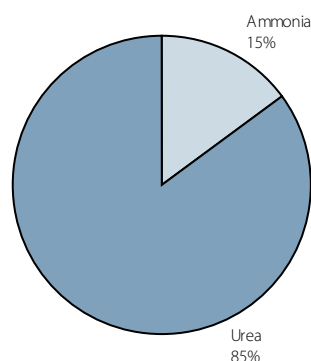
Source: QAFCO, SHUAA Capital

Urea accounts for 85% of QAFCO's sales

Sales

Urea sales accounted for around 85% of the company's revenues in 2005, while ammonia accounted for the remaining 15%. A significant portion of QAFCO's sales are carried out through long term marketing agreements with Yara International, providing QAFCO with direct access to the Yara International global marketing network. Four main marketing deals were signed in 2005, including one with Jordan's Phosphate Mines to supply 130,000 MT of ammonia per year for five years. The biggest deal for urea was that with the Australian company Incitec Pivot for the export of 500,000 MT per year to East Australia, thus enabling QAFCO to capture 43% share of Australia's urea imports. QAFCO also signed with Yara Asia for the marketing of 100,000 MT of urea annually during 2005 and 2006, with the quantity gradually increasing to 240,000 MT per year over 2007-2009, taking QAFCO's share of New Zealand market to 42% and making QAFCO the largest supplier to New Zealand. The company's first deal for the European market was also signed in 2004 with Yara Belgium for the distribution of 100,000 MT of urea annually to France, Spain and Italy.

QAFCO 2005 Revenue Breakdown



Source: QAFCO

The main markets for QAFCO's ammonia are India (67%), Jordan (22%), with the rest exported to USA, South Korea, and South Africa. QAFCO's main markets for urea in 2005 were USA (25%), Australia (25%), Thailand (8%), South Africa (8%), and Philippines (5%).

QAFCO: Sales volume

Unit tons'000	2003*	2004	2005
Ammonia	425	464	465
Growth	NA	9%	0%
Urea prilled	889	931	899
Growth	NA	5%	-3%
Urea granular	903	1,198	2,061
Growth	NA	33%	72%
Urea bagged	102	3	3
Growth	NA	-97%	0%
GFC	-	-	5

Source: QAFCO

* Period from inception to year end

Selling Prices

QAFCO's selling prices for urea and ammonia rose significantly during 2003-2005 in line with the increase in global prices for fertilizers.

QAFCO: Selling prices

Average price per ton (QAR)	2003*	2004	2005
Ammonia	637	880	926
Growth	NA	38%	5%
Urea prilled	511	671	820
Growth	NA	31%	22%
Urea granular	559	671	860
Growth	NA	20%	28%
Urea bagged	526	307	300
Growth	NA	-41%	-2%
Urea Formaldehyde	NA	NA	1,238

Source: QAFCO

* Period from inception to year end

Revenues

Revenues QAR'000	2003*	2004	2005
Ammonia	270,700	408,357	430,726
Growth	NA	51%	5%
Urea prilled	454,501	624,704	737,139
Growth	NA	37%	18%
Urea granular	504,777	803,981	1,772,582
Growth	NA	59%	120%
Urea bagged	53,701	768	760
Growth	NA	-99%	-1%
Urea Formaldehyde	0	0	6,646
Total revenues	1,283,679	1,837,811	2,947,852

Source: QAFCO

* Period from inception to year end

Production costs

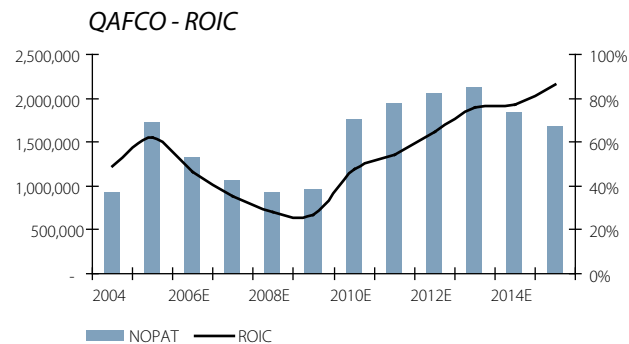
Cost of sales includes raw materials cost, direct salaries and related costs. Natural gas is the key raw material and comprises more than 80% of total raw material cost. Qatar petroleum is contracted to supply QAFCO with all of its natural gas requirements. The rates are competitive market rates enabling QAFCO to produce ammonia and urea on a relatively low cost basis compared to other producers.

Margins and returns

Higher fertilizer prices during 2005 resulted in higher margins and returns during the year. Gross margin (excluding depreciation) increased from 77% in 2004 to 79% in 2005, while Return on Invested Capital (ROIC) increased from 49% to 62% during the same period.

**ROIC to come under pressure
due to an expected price fall**

According to Fertecon, ammonia and urea prices are projected to soften over 2007-2010. The expected fall in prices, in addition to the accumulation of invested capital as the construction of QAFCO 5 progresses, is projected to result in a decline in ROIC to 26% by 2009. As QAFCO 5 comes on stream in 2010 and prices of urea rebound, ROIC is expected to reach 47% by 2010. The surge in ROIC during the latter part of our projection period is also due to the reduction of invested capital as no new expansions beyond QAFCO 5 have been forecasted.



Source: QAFCO, SHUAA Capital

Valuation

Our DCF valuation for QAFCO implies a fair value of QAR 30.9 bn, based on the following assumptions:

**Our valuation range for QAFCO
is QAR 26 bn – 31 bn**

Expansions	Ammonia capacity to increase from 2.0 mtpa in 2005 to 3.25 mtpa in 2010
	Urea capacity to increase from 2.8 mtpa in 2005 to 3.88 mtpa in 2010
	Melamine capacity increase of 36,000 tpa (Qatar Melamine)
CAPEX	QAR 2.9 bn over 2006–2010
Revenue breakdown	Urea to remain main revenue contributor
Price outlook	Based on average of two scenarios
	1) Ammonia and urea prices to drop by 31% and 47% over 2005–2010 (based on Fertecon)
	2) Prices held constant at their (2003–2005) average
Margins	Net margin to drop in line with falling prices from 60% in 2005 to 54% in 2010
Net income growth	Net income to drop during early years of projection impacted by falling prices then rebounds to its 2005 level by 2010
ROIC	Falling ROIC during 2005–2010 impacted by heavy CAPEX. ROIC recovers starting 2010

Source: SHUAA Capital

The multiple based valuation yields a fair value of QAR 25.8 bn. It is based on the average PE 2005 multiple for international and regional peers of 14.5 .

Company	Country	Market Cap USD mn	PE 2005
Yara International ASA	Norway	4,807	10.1
Nufarm	Australia	1,382	17.8
Taiwan Fertilizer	Taiwan	1,205	11.6
Fauji Fertilizer	Pakistan	1,044	12.4
Average international peers			12.9
Abu Qir	Egypt	1,201	15.4
EFIC	Egypt	222	16.5
Average regional peers			16.0
Average peer group			14.5

Source: Reuters, SHUAA Capital

Qatar Petrochemicals Company (QAPCO)

Overview

Qatar Petrochemical Company Limited (QAPCO) was established in 1974 as a multinational joint venture to utilise ethane gas from petroleum production in Qatar. The company is involved in the manufacturing of ethylene, low density polyethylene (LDPE), as well as solid sulphur.

Ownership structure

The company, established in 1974, is owned by Industries Qatar (80%) and Total Petrochemicals France (20%). Total Petrochemicals purchased Italian firm Enichem's 10% stake in QAPCO in 2002, giving it a total of 20% stake in the joint venture.

Industry background

The feedstock for petrochemical products is either naphtha, butane (component of natural gas), or some of the by products of oil refining processes such as ethane and propane. The feedstock is then processed through an operation known as cracking. Once the cracking process is concluded, new products are obtained, which are considered the building blocks for the petrochemical industry; olefins (such as ethylene and propylene) and aromatics (such as benzene). Ethylene is the most used olefin and is regarded as the pillar of the petrochemical industry. Olefins and aromatics are then processed into other more specialized products. Ethylene for instance is used as a feedstock for the production of plastic polyethylene, while benzene is used to produce nylon.

The primary difference between the MENA region producers and almost all other producers in the rest of the world is the feedstock advantage. Most of the world, except for North America and the MENA region, depends on naphtha (derived from oil) as the main feedstock for petrochemical production, resulting in margins that are negatively correlated with the price of oil. North America uses primarily natural gas, which due to its limited availability in the continent is relatively expensive and is purchased on the local spot market. Producers in the MENA region on the other hand use natural gas obtained through relatively low cost long term contracts from national oil producers. Furthermore, around 61% of the gas in Saudi Arabia is associated gas, ie derived while pumping out oil. Associated gas is therefore cheaper in comparison to extracted oil. The low cost of extraction and the abundance of the feedstock has provided the local petrochemical producers in the MENA region with the advantage of cheap feedstock that is unmatched anywhere else in the world.

Supply

MENA region accounts for 10% of global ethylene production

Current global ethylene capacity is estimated at around 140 million tpa. It grew at a CAGR of 4.5% over the past ten years. The MENA region, on the other hand, grew at a CAGR of 11.2% over the same period, accounting for around 10% of global ethylene capacity. The share of the region is expected to increase substantially over the coming years with more than half of the global capacity expansions will be coming from the region. Ethylene and polyethylene capacity in the region is expected 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.

MENA region ethylene capacity expansions

Units in tons'000	2002	2003	2004	2005e	2006e	2007e	2008e	2005-2008 increase	2005-2008 CAGR
KSA	5,650	6,350	7,350	7,350	7,350	7,350	12,050	4,700	18%
Iran	711	711	1,310	3,466	5,586	5,586	6,686	3,220	24%
Qatar	520	920	1,020	1,025	1,100	1,200	2,520	1,495	35%
Kuwait	800	750	800	800	800	800	1,650	850	27%
UAE	600	600	600	600	600	600	600	-	0%
Egypt	300	300	300	300	300	300	600	300	26%
Libya	150	330	330	330	330	330	330	-	0%
Algeria	130	130	130	130	130	130	130	-	0%
Total	8,861	10,091	11,840	14,001	16,196	16,296	24,566	10,565	21%

Source: Business Monitor Intelligence (BMI), SHUAA Capital

MENA region polyethylene capacity expansions

PE capacity tpa'000	2002	2003	2004	2005	2006e	2007e	2008e	2005-2008 increase	2005-2008 CAGR
KSA	2974	3495	4215	4215	4215	4215	6565	2,350	16%
Iran	160	300	420	2520	2820	2850	4320	1,800	20%
Qatar	385	685	822	822	922	922	1722	900	28%
Kuwait	600	600	600	600	600	600	1200	600	26%
UAE	450	450	450	500	580	580	580	80	5%
Egypt	225	225	225	225	225	225	525	300	33%
Algeria	130	130	130	130	130	130	130	-	0%
Total	4,924	5,885	6,862	9,012	9,492	9,522	15,042	6,030	19%

Source: Business Monitor Intelligence (BMI), SHUAA Capital

Saudi Arabia, Iran and Qatar are the three largest ethylene producers in the region

Saudi Arabia is the largest ethylene producer in the MENA region and the third largest in the world. It is planning to add 4.7 million tpa of ethylene in the coming three years, enabling it to replace Japan as the world's second largest ethylene producer, after the US. The country is also the third largest producer of polyethylene in the world. Petrochemical production in Saudi Arabia has been led by Saudi Basic Industries Corporation (SABIC), which is owned 70% by the Government of Saudi Arabia. It is the most diversified petrochemical company in the MENA region producing a wide range of petrochemicals, making it the largest independent petrochemical company in the world in terms of market capitalization and net profits. The company consists of 18 world-scale manufacturing subsidiaries, most of which are operated with multinational partners such as Exxon Mobil, Shell and Mitsubishi Chemicals. The rapid emergence of private sector involvement in the petrochemical sector in Saudi Arabia was marked by the start up of Saudi Chevron Plant in Jubail in 2000. Since then, several other wholly owned private companies ventured into the sector including Tasnee, Sahara, Lujain, Sipchem and others. This has accelerated the country's capacity additions.

Iran has been the most aggressive in terms of capacity additions in the past few years as it added a total of 4.3 million tpa of ethylene and polyethylene in 2005. It is expected to add another 16.6 million tpa of ethylene and polyethylene during the coming three years. It is worth noting that due to the US led embargo on Iran, the country could face difficulties attracting international joint venture partners. As a result, the materialization of planned production expansions is less definite than in other parts in the region.

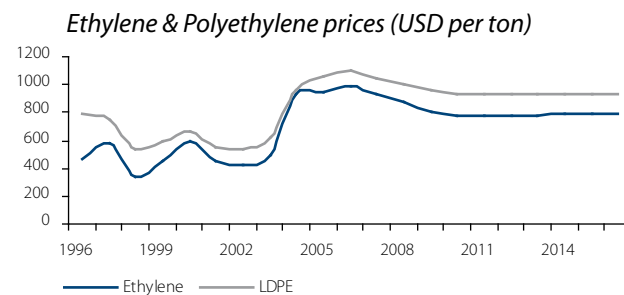
Qatar currently has two crackers with a total ethylene capacity of 1.0 million tpa. 525,000 tpa of ethylene are produced by QAPCO, while the other 500,000 are produced by Q-Chem, a joint venture between Qatar Petroleum (QP) and Chevron Phillips Chemical Company. Qatar is adding another cracker at Ras Laffan with a capacity of 1.3 million tpa of ethylene. Qatar's total polyethylene capacity amounts to 833,000 tpa. 410,000 tpa are produced by QAPCO, while the other 453,000 tpa are produced by Q-Chem.

Demand

Demand for ethylene is directly related to demand on polyethylene, which in turn is a function of global GDP growth. Global GDP grew by 4.9% in 2004, higher than the historical average of 3.7%. Global GDP growth is estimated to remain strong growing at 4.2% and 4.3% for 2005 and 2006 respectively. The highest GDP growth has been witnessed in Emerging Asia and China in particular. High GDP growth in China has been a major driver for demand for polyethylene in the past years. China's 2004 GDP grew by 9.5% in 2004 and is expected to grow by 8.5% in 2005. China's demand for refined and chemical products accounts for a least 40% of global demand growth. Demand for petrochemical products was strong in 2004 at 3.3%, higher than the historical average of 2.0%. According to McKinsey & Co. overall Chinese demand for polyolefins is expected to grow at a CAGR of 10% (Linear low density polyethylene (LDPE) 12% and high density polyethylene (HDPE) 9%).

Prices and cyclicalities

Fluctuations in oil prices, variations in global GDP growth, and supply lags all contribute to the industry's cyclicalities. The last cycle lasted for years. The industry went through a downturn in 1997 and 1998, and then in 2001 and 2002. Jacobs Consultancy expects ethylene and polyethylene prices to correct over 2006-2009 and then stabilize thereafter. Prices are forecasted to remain comfortably above their historical averages.



Analysis & forecasts

The analysis for QAPCO refers to QAPCO as a whole and not to IQ's share in the company. In addition, profitability numbers are based on pre tax profits as taxes shown on the company's financials only relate to the foreign shareholder's stake. IQ's share in QAPCO is tax exempt.

**QAPCO's future CAPEX
amounts to QAR 4.6 bn**

Capacity

QAPCO currently has one cracker at Mesaieed with an ethylene capacity of 525,000 tpa. Its LDPE capacity stands at 410,000 tonnes per annum. The company is planning massive expansions which will more than double the company's total production capacity by 2010. Total expansion cost for QAPCO is estimated at QAR 4.5 bn, of which IQ shares QAR 3.6 bn.

QAPCO is currently working on a second ethylene plant expansion, which is expected to increase capacity to 720,000 tonnes per annum. The project is due on stream Q2 2007 with a total cost of QAR 800 million, of which QAR 455 million have already been spent.

QAPCO is also taking part of QATOFIN project, which involves the establishment of an LLDPE plant and a new ethylene cracker at Ras Laffan "Ras Laffan Olefins Company (RLOC)". QAPCO will own 63% of the project, the other shareholders being Total with 36% share and QP with 1% share. QAPCO's share in the Qatofin project, which includes both the LLDPE and ethylene, is estimated at QAR 2.8 billion.

The LLDPE plant will have a capacity of 450,000 tonnes per annum. QAPCO's share in the LLDPE plant is 284,000 tonnes per annum, representing its 63% share. The ethylene required for the plant will be supplied by a new Cracker at Ras Laffan RLOC. RLOC in-

volves the construction of an ethane cracker plant in Ras Laffan, in addition to a 120 km pipeline from Ras Laffan to Misaieed to transport the ethylene produced. The cracker will have a capacity of 1.3 million tonnes of ethylene per annum, supplying QATOFIN and Qatar Chemicals Company II (Q-Chem II), an affiliate of QP. QATOFIN will own 45.7% of the cracker, the other shareholders being Q-Chem II and QP. QAPCO's share of the cracker's capacity is 374,000 tonnes per annum. Commercial production is planned in Q1 2009 and is intended to coincide with the start of production of the LLDPE plant.

QAPCO is planning to further expand its LDPE capacity by adding a new LDPE plant with an annual capacity of 250,000 tonnes by 2010. The plant is estimated to cost QAR 910 million.

QAPCO: Production Capacity

Units in tons'000	2003	2004	2005	2006e	2007e	2008e	2009e	2010e
Ethylene	525	525	545	545	720	1,094	1,094	1,094
PE	380	380	410	410	410	694	694	944
Sulphur	70	70	70	70	70	70	70	70

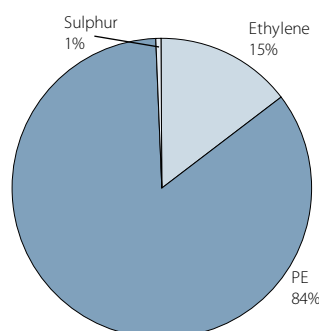
Source: QAPCO, SHUAA Capital

Sales

PE accounts for 84% of QAPCO's sales

Around 84% of QAPCO's 2005 revenues were derived from the sale of PE, while 15% were derived from ethylene and the remaining 1% from sulphur. Most of QAPCO's ethylene production is used internally as feedstock for LDPE production, while the remainder is supplied to QVC under a long term supply agreement.

QAPCO 2005 Revenue Breakdown



Source: QAPCO

Historically, QAPCO has marketed its products in the GCC and the Middle East, the Far East, South East Asia, the Indian Subcontinent, Europe, Africa, and Oceania. Sales to the GCC including Qatar are estimated to represent around 11% of total sales, while the remaining 89% is international sales. QAPCO has 15 offices worldwide located in China, Pakistan, Egypt, Syria, India, UAE, Lebanon, Taiwan and Bangladesh. The company markets around 70% of its LDPE sales, while the remainder is marketed by Total, the joint venture partner in QAPCO.

QAPCO: Sales volume

Unit in tons'000	2003*	2004	2005
Ethylene	175	159	120
Growth	NA	-9%	-25%
LDPE	400	362	405
Growth	NA	-10%	12%
Sulphur	42	50	43
Growth	NA	19%	-14%

Source: QAPCO

* Period from inception to year end

Prices

High global GDP growth, particularly from China, was a major driver behind higher prices for ethylene and LDPE over the past three years. QAPCO's selling prices for Ethylene and PE increased significantly in 2004, continuing their upward trend in 2005 as well. Ethylene prices are based on a formula agreed as per long term supply agreement with QVC. It is worth noting that generally, prices for ethylene and LDPE are highly correlated. The correlation for monthly price changes for the two chemicals over the past ten years was around 0.68. This is considered high when compared to correlations between other petrochemical products. Ethylene prices are however more volatile having a standard deviation of 9.0% versus 5.4% for LDPE. This is consistent with the fact that as a company moves towards downstream products, earnings volatility tends to decline.

QAPCO: Selling prices

Avg. price per ton (QAR)	2003*	2004	2005
Ethylene	1,525	2,222	2,443
Growth	NA	46%	10%
LDPE	2,433	3,850	4,164
Growth	NA	58%	8%
Sulphur	224	244	272
Growth	NA	0%	11%

Source: QAPCO

* Period from inception to year end

Revenues

The surge in 2004 and 2005 revenues was mainly price driven

The surge in the company's revenues was mostly price driven. An increase of 13% in revenues was recorded for 2005 reflecting continued price improvement for the company's products.

QAPCO: Revenues

QAR'000	2003 *	2004	2005
Ethylene	266,303	353,223	293,111
Growth	NA	33%	-17%
LDPE	974,000	1,393,594	1,686,502
Growth	NA	43%	21%
Sulphur	9,000	12,182	11,689
Growth	NA	35%	-4%
Total revenues	1,249,303	1,758,999	1,991,302
Growth	NA	41%	13%

Source: QAPCO

* Period from inception to year end

Input costs

Cost of sales includes direct production costs such as feed gas, utilities consumption, production chemicals and manpower. Gross profit margin excludes depreciation costs. Feedstock in the form of natural gas is supplied by Qatar Petroleum under a long term agreement. Prices are reset once a year according to a certain formula, reducing fluctuations in the feed gas component. QAPCO has its own utilities plant and is self sufficient in its production of electricity, water, steam and air.

Margins and returns

Gross profit margin for QAPCO was constant for 2004 and 2005 at 80%. Net profit margins dropped from 70% to 67% in 2005, still high compared to regional and international peers. The company has small amount of debt and a large excess cash position (QAR 2.0

billion at 31/12/2005). The current ROIC of 120% is mainly the result of a surge in ethylene and LDPE prices since 2003, in addition to limited additions to invested capital over the past two years. According to Jacobs Consultancy, prices for LDPE are expected to drop by 21% over the coming five years, putting pressure on QAPCO's operating profits. The ethylene expansions in 2007 and 2008, in addition to the LDPE expansions in 2008 and 2009 will counterbalance the drop in prices pushing operating profits upward. The expected drop in LDPE prices coupled with substantial capital expenditure over the coming four years (QAR 4.1 billion) will reduce ROIC from its current high levels, stabilizing at around 60% from 2010 onwards, until another cycle causes a rise in prices.

QAPCO vs. peers

QAPCO's peers that are listed on a stock exchange in the region with exposure to ethylene and polyethylene markets include SABIC, Sidpec, and Boubyan.

Peer comparison: Margins (2005)

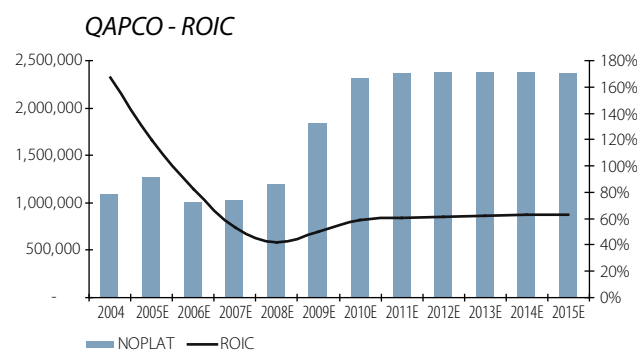
	Gross Profit Margin	Net Profit margin
QAPCO	80%	45%
Sidpec	64%	47%
Average International peers	17%	5%

Source: Bloomberg, SHUAA Capital

SABIC has exposure to the ethylene and polyethylene markets through several of its subsidiaries including Petrokemya, United, Yanpet, Sadaf, Sharq, and Kemya. Petrokemya is the only plant which is fully owned by SABIC while the rest are joint ventures with international partners. The total capacity of SABIC's subsidiaries amounts to 7.4 mtpa of ethylene and 5.5 mtpa of PE, with plans to expand capacity to 9.9 mtpa and 7.1 mtpa respectively.

Sidi Krer Petrochemicals (Sidpec), listed on Cairo & Alexandria Stock Exchange, has an annual production capacity of 300,000 tons of ethylene and 225,000 tons of polyethylene. Similar to QAPCO, Sidpec obtains its feedstock from the government owned monopoly, Gasco. The major difference between the two producers is that Sidpec sells most of its PE production locally, while most of QAPCO's PE production is exported.

Boubyan, which is listed on the Kuwait Stock Exchange (KSE), is a holding company with an exposure to the ethylene and polyethylene markets through its 9% stake in Equate (Ethylene capacity of 800,000 tpa and a PE capacity of 600,000 tpa) and a 9% stake in Kuwait Olefins Company (Ethylene capacity of 850,000 tpa starting 2008).



Source: QAPCO, SHUAA Capital

Valuation

Our DCF valuation for QAPCO implies a fair value of QAR 33.6 bn, based on the following assumptions:

**Our valuation range for QAPCO
is QAR 24 bn – 34 bn**

Expansions	Ethylene capacity to double from 0.5 mtpa in 2005 to 1.09 mtpa in 2009
	PE capacity to increase from 0.4 mtpa in 2005 to 0.9 mtpa in 2010
CAPEX	QAR 4.6 bn over 2006–2010
Revenue breakdown	PE to remain main revenue contributor
Price outlook	Based on average of two scenario
	1) Ethylene and PE prices to drop by 20% over 2005–2010 (based on Jacobs Consultancy)
	2) Prices remain at their past three years average
Margins	Net margin to hover around 70%
Net income growth	CAGR of 13% over 2005–2010, boosted by capacity expansions
ROIC	Falling ROIC during 2005–2010 impacted by heavy CAPEX. ROIC hovers around 60%

Source: SHUAA Capital

The multiple based valuation yields a fair value of QAR 23.5 bn. It is based on the average PE 2005 multiple for international and regional peers of 17.5.

Company	Country	Market Cap USD mn	PE 2005
Sumitomo Chemical	Japan	12,962	19.1
Formosa Chemicals	Taiwan	8,487	6.8
Mitsubishi Chemicals	Japan	6,341	17.5
Lyondell Chemical	USA	5,165	9.9
Sinopec Shanghai Petrochemical	China	4,461	16.7
LG Chemical	Korea	3,541	8.3
Methanex	Canada	2,265	13.7
Average international peers			13.2
Sidpec	Egypt	2,121	15.3
Boubyan	Kuwait	1,369	28.3
Average regional peers			21.8
Average peer group			17.5

Source: Reuters, SHUAA Capital

Qatar Fuel Additives Company (QAFAC)

Overview

Qatar Fuel Additives Company "QAFAC" was incorporated in 1991 to diversify Qatar's petrochemical base and expand its downstream industries. The Company commenced operations in 1999 and aims to optimise the utilisation of Qatar's hydrocarbon resources through production and export of Methanol and MTBE. The company's production facilities, which are located in Mesaieed Industrial City near Doha, have an annual capacity of 833,000 tonnes of Methanol and 610,000 tonnes of MTBE.

Ownership structure

QAFAC is a joint venture between Industries Qatar (IQ) 50%, OPIC Middle East Corporation (OMEC) 20%, International Octane Limited (IOL) 15%, and LCY Investments Corp. (LCY) 15%.

OMEC is a wholly owned subsidiary of Overseas Petroleum and Investment Corporation, which is owned by Chinese Petroleum Corporation (CPC). CPC is the state owned supplier of oil and refined petroleum products in the Taiwanese market.

International Octane Limited (IOL) is part of the DUTCOP Group of companies established to develop business opportunities in the methanol and MTBE markets worldwide.

LCY Investments Corp. (LCY) is a major supplier of petrochemical products.

Methanol & MTBE

Methanol is a petrochemical that is used to make industrial and consumer products such as synthetic textiles, recyclable plastics, household paints, pillows, and even medicines. It is also used to manufacture a fuel component that, when added to gasoline, reduces gas emissions. Methanol can also be used to remove nitrates from waste water.

Supply

The global methanol capacity is estimated at 40 million tonnes as at end 2004. The global capacity is expected to increase substantially in the coming years. The increase in capacity is expected to come from new methanol plants in the Middle East, South America and Australia. The industry's production base has been relocating to low cost gas regions. China is building numerous coal based methanol plants, some of which are being built by coal miners on site. Methanol capacity in North America on the other hand has been significantly reduced over the last few years, and is estimated at 10% of global methanol capacity. A total of 3.0 million tonnes of capacity was shut down in North America during the 2000-2004 period. Major expansions in the MENA region include the Egyptian Methanex Methanol Company's plans to establish a 1.3 million tpa methanol plant, which is due on stream in 2008 and Iran adding 4.25 million tpa of methanol in 2006. National Methanol Company (Ibn Sina), which is 50% owned by SABIC, has postponed its 1.0 million tpa methanol project because of feedstock supply constraints and the likely oversupply of methanol.

Demand

Demand for methanol is largely dependant upon levels of global industrial production and changes in general economic activity. Changes in environmental, health and safety requirements could also lead to a decrease in methanol demand. Methanol for the production of formaldehyde represents around 33% of global methanol demand, while the production of MTBE represents around 23% of global methanol demand. MTBE is used primarily as a source of octane. Demand for MTBE is driven by levels of gasoline demand. Concerns have been raised in the United States regarding the use of MTBE in gasoline, because gasoline containing MTBE has reportedly leaked into groundwater in United States. The presence of MTBE in some water supplies has led to public concern about MTBE's potential to contaminate drinking water supplies. As a result, several states in the

Methanol production base has been shifting to low cost gas regions

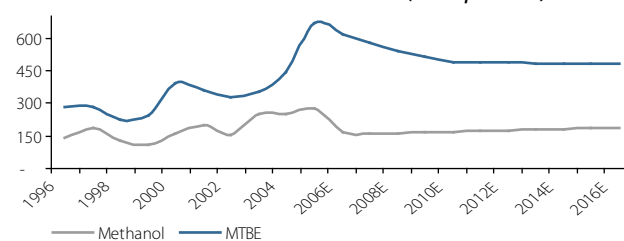
Use of MTBE has been banned in several states in the US

US have banned the use of MTBE as a gasoline component. Limiting the use of MTBE in gasoline in the US has reduced the demand for MTBE and methanol in the US. Elsewhere in the world, MTBE continues to be used as a source of octane. Demand for MTBE in Asia, particularly China, is increasing as many countries work towards removing lead from gasoline and reduce aromatics to improve air quality.

Prices and cyclicality

Methanol's prices, like other commodities, are cyclical. Supply constraints and economic growth resulted in tight methanol markets, low inventories and strong methanol prices in 2004 and 2005. The favourable price environment prevailed despite the challenges facing the MTBE industry and new supply coming from Iran, Saudi Arabia and China. Typical of most cyclical commodity chemicals, periods of high methanol prices encourage construction of new plants and expansion projects leading to the possibility of an oversupply in the market. Jacobs Consultancy projects that 2005 was a peak year for the methanol cycle and expects methanol and MTBE prices to fall significantly during the coming two years. Despite the expected price correction, methanol and MTBE prices are expected to remain at a premium to their historical average.

Methanol & MTBE Prices forecasts (USD per ton)



Source: Jacobs Consultancy

Analysis & forecasts

The analysis for QAFAC refers to QAFAC 1 and QAFAC 2 as a whole and not to IQ's share in the two companies. In addition, profitability numbers are based on pre tax profits as taxes shown on the companies' financials only relate to the foreign shareholder's stake. IQ's share in QAFAC is tax exempt.

Production capacity

QAFAC produces and supplies methanol and MTBE to local, regional and international markets. It currently has one plant "QAFAC 1", which is designed to produce 832,500 tons of methanol annually, of which 600,000 are for export. The balance is used as feedstock for the MTBE plant which has a capacity of 610,000 tons of MTBE.

QAFAC's future CAPEX amounts to QAR 3.0 bn

The company plans on de-bottlenecking its QAFAC 1 plant, expanding its annual methanol production capacity in Q2 2007 to 916,000 tpa. The company's shareholders are also establishing a 2.2 mtpa methanol plant "QAFAC II" under a separate entity, to become the world's largest. The plant is due on stream in 2010 at a cost of QAR 3.0 billion, of which IQ's share is QAR 1.5 billion. Germany's Lurgi has been selected by QAFAC II as licensor for the planned expansion. QAFAC II intends to add Ammonia to its list of products by building an Ammonia plant with a capacity of 330,000 tpa. The ammonia plant is expected to come on stream in Q1 2010. Although QAFAC 1 and QAFAC 2 are separate entities with different shareholders, this section discusses both operations because they produce the same product.

QAFAC 1 & QAFAC 2 Capacities

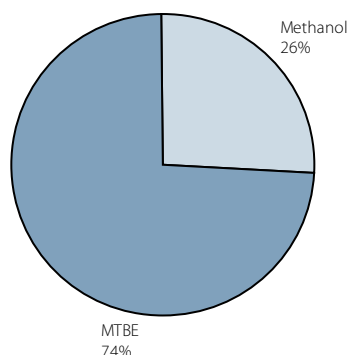
Unit tons'000	2003	2004	2005	2006e	2007e	2008e	2009e	2010e
Methanol	833	833	833	833	895	916	973.5	3,143
MTBE	610	610	610	610	610	610	610	610
Ammonia	-	-	-	-	-	-	-	330

Source: QAFAC, SHUAA Capital

Sales

Around 74% of QAFAC's 2005 revenues are derived from MTBE sales, while the remaining 26% are from methanol.

QAFAC 2005 Revenue Breakdown



Source: QAFAC

QAFAC benefits from several takeoff agreements

QAFAC benefits from various offtake agreements under which all of QAFAC's export production is purchased by QAFAC's shareholders or their related entities. QAFAC has concentrated on directing its methanol sales to the Far East and India. Due to the limit of MTBE use in the USA, QAFAC's focus has shifted to other parts of the world, including Europe, Asia and the Middle East. The USA market now accounts for less than 20% of QAFAC's market. Locally, the company supplies methanol to the newly established Gulf Urea Formaldehyde Company as a feedstock for its formaldehyde plant. The main markets for MTBE are the Far East, Europe, North Africa and the GCC. Locally, MTBE is supplied to the QP refinery. QAFAC has gradually started to reduce its dependence on the traditional US markets and penetrate other emerging markets.

QAFAC: Sales volume

Unit tons'000	2003*	2004	2005
Methanol	564	638	668.00
growth	NA	13%	5%
MTBE	584	618	709.00
growth	NA	6%	15%

Source: QAFAC

* Period from inception to year end

Prices

Methanol and MTBE are positively correlated, as methanol is a feedstock for MTBE production. Supply constraints and economic growth resulted in tight methanol markets, low inventories and strong methanol prices in 2004 and 2005. QAFAC's selling prices for MTBE increased sharply in 2004 and 2005, while the selling price of Methanol slowed down in 2005, recording a 4% increase over the previous year.

QAFAC: Selling prices

QAFAC avg. price per ton (QAR)	2003*	2004	2005
Methanol	685	758	769
growth	NA	11%	4%
MTBE	1,107	1,441	2,038
growth	NA	30%	44%

Source: QAFAC

* Period from inception to year end

The surge in 2004 and 2005 revenues was mainly price driven

Revenues

The surge in the company's revenues was driven by higher prices as well as higher sales volume during the past two years.

QAFAC: Revenues

QAR'000	2003*	2004	2005
Methanol	386,437	483,646	513,472
growth	NA	25%	6%
MTBE	646,577	890,707	1,445,102
growth	NA	38%	62%
Total	1,033,014	1,374,353	1,958,574
growth	NA	33%	43%

Source: QAFAC

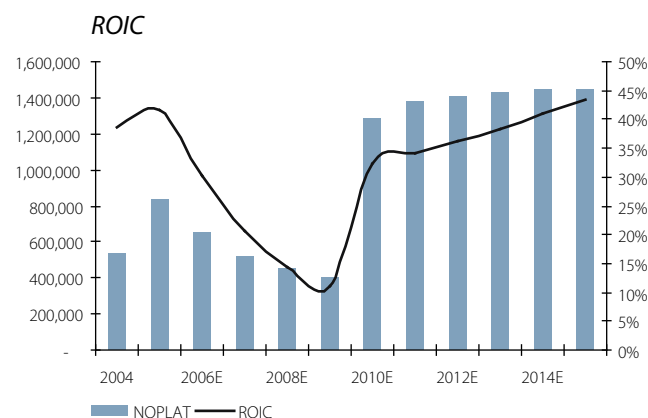
* Period from inception to year end

Production costs

Cost of sales includes cost of feedstock and labour costs. The primary raw materials are methane and butane. Methane is obtained from QP on a fixed price per MMTBU. Butane is acquired from QP at open market prices and hence is sensitive to general price movements. The cost of butane forms a substantial portion of the total cost of MTBE. Given that there is no direct correlation between the price of butane and the price of MTBE, changes in the price of butane impact MTBE margins.

Margins and returns

The gross profit margin improved slightly from 48% in 2004 to 49% in 2005. The margin improvement was mainly due to a surge in petrochemical prices. Margins are expected to narrow during the projection period as a result of an expected drop in methanol prices. Jacobs Consultancy expects price per ton for methanol to fall by 48% over the coming five years, resulting in a deterioration in operating profit and hence, a falling ROIC from 42% in 2005 to 11% in 2009. ROIC is expected to pick up in 2010 to reach 32% following the completion of the methanol expansion.



Source: QAFAC, SHUAA Capital

Valuation

Our valuation range for QAFAC is QAR 14 bn – 17 bn

Our combined DCF valuation for QAFAC 1 and QAFAC 2 implies a fair value of QAR 17.4 bn, based on the following assumptions:

Expansions –	QAFAC 2 Methanol expansion of 2.3 mtpa by 2010
	QAFAC 2 Ammonia expansion of 330,000 tpa by 2010
CAPEX	QAR 3.0 bn over 2006-2010
Revenue breakdown	MTBE to remain main revenue contributor for QAFAC 1, while Methanol will be the main revenue contributor to QAFAC 2.
Price outlook	Based on average of two scenario
	1) Methanol and MTBE prices to drop by 48% and 26% over 2005-2009 (based on Jacobs Consultancy)
	2) Prices remain at their past three years average
Margins	Net margin to drop from 42% in 2005 to 37% in 2010.
Net income growth	CAGR of 9% over 2005-2010, boosted by capacity expansions.
ROIC	Falling ROIC during 2005-2010 impacted by heavy CAPEX. ROIC approaches 44%.

Source: QAFAC, SHUAA Capital

The multiple based valuation yields a fair value of QAR 14.3 bn. It is based on the average PE 2005 multiple for international and regional peers of 17.5.

Company	Country	Market Cap USD mn	PE 2005
Sumitomo Chemical	Japan	12,962	19.1
Formosa Chemicals	Taiwan	8,487	6.8
Mitsubishi Chemicals	Japan	6,341	17.5
Lyondell Chemical	USA	5,165	9.9
Sinopec Shanghai Petrochemical	China	4,461	16.7
LG Chemical	Korea	3,541	8.3
Methanex	Canada	2,265	13.7
Average international peers			13.2
Sidpec	Egypt	2,121	15.3
Boubyan	Kuwait	1,369	28.3
Average regional peers			21.8
Average peer group			17.5

Source: Reuters, SHUAA Capital

Qatar Steel Company (QASCO)

Overview

Qatar Steel Company (QASCO), established in 1974, was the first integrated steel producing company in the GCC. It is Qatar's only steel producer. The company's main products are steel bars and billets. The production facilities are located in Mesaieed Industrial City near Doha. QASCO is fully owned by Industries Qatar. QASCO has two associate companies, Qatar Metals Coating Company (50%) and United Stainless Steel Company in Bahrain (25%). In August 2003, QASCO acquired a wire rod and rebar operation in Dubai (QASCO Dubai Steel).

Industry background

Global steel production has grown by 9.0% in 2004 to reach 1,057 million tons. China, the largest steel producing country in 2004, was a key contributor to increased global production of steel. As China increased both its production and consumption of steel by 22% and 24% in 2004, the country remains a major importer of steel. It currently accounts for 25% of global steel demand and could account for 40% of global demand by 2010.

China's rapid growth and the high global GDP growth increased the demand for steel, leading to a sharp rise in steel prices. Global production was not able to satisfy the rising demand as the industry has been recovering from shrinkage of capacity owing to the downturn in the industry during 2000-2002.

According to Metal Bulletin Research (MBR), demand for billets is likely to fall. A softening of the Chinese demand by 2008 could result in China becoming a net exporter, thus putting pressure on finished products prices.

Analysis & forecasts

***QASCO's future CAPEX
amounts to QAR 2.5 bn***

Capacity

QASCO produces molten steel from sponge iron. Liquid steel is converted into billets, which are then used to produce bars. QASCO has a production capacity of 800,000 tons of sponge iron, 1.1 million tons of molten steel, 1.1 million tons of billets, and 782,000 tons of bars. In August 2003, QASCO acquired a wire rod and rebar operation in Dubai. The Dubai plant produced 187,000 tons of bar and wire rod coil in 2004. The plant's capacity is currently being revamped to increase its capacity to 600,000 tons of bar and wire rod coil by 2009.

During 2004 and 2005, QASCO signed three EPC contracts for three plants. "QASCO plant expansion phase one" with a total cost of QAR 2.09 billion is due on stream in Q3 2007 and is expected to increase sponge iron production capacity to 2.25 million tons and billet production capacity to 1.6 million tons. The majority of the increase in billet capacity will be used in bar production and the rest is likely to be sold to QASCO's operation in Dubai, which will make wire rods and rebars for the UAE market. QASCO is also planning to start producing 79,200 tpa of PC strands starting Q4 2006 at a cost of QAR 110 million. In addition, The company is planning to further increase its capacity of billets by 1.0 mtpa in Q1 2009 at a cost of QAR 820 million.

QASCO has a 25% interest as an incorporating partner in United Stainless Steel Company, a Bahrain based project. The cost of the project is around QAR 300 million (of which QASCO's share is QAR 75 million) and the project is scheduled to go on stream in 2008.

QASCO: Production

Production tons'000	2004	2005	2006E	2007E	2008E	2009E	2010E
Sponge iron	830	815	840	1,425	2,175	2,300	2,300
Molten steel	1,110	1,079	1,093	1,452	1,585	1,630	1,630
Billet	1,089	1,057	1,076	1,424	1,555	2,600	2,600
Bar	782	791	729	1,300	1,440	1,440	1,440
Bar - QDS	41	51	16	150	225	300	300
Wire rod coil	146	143	215	215	225	300	300
PC Strands			20	79	79	79	79

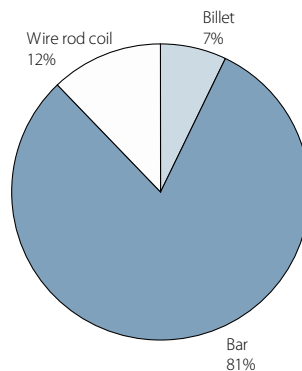
Source: QASCO, SHUAA Capital

Sales

Bars represent 81% of QASCO's revenues

The company currently produces 316,000 tpa of billet and 740,000 tpa of bar for sale. Most of the steel billets are processed into bars, while the remainder are sold directly to customers. The company produces both plain and deformed bars. Around 81% of QASCO's total 2005 revenues were generated from the sale of bars, while 12% were from wire rod coil, and the remaining 7% were generated from billets sales. QASCO benefits from a protective 20% steel tariff imposed on certain imported steel, enabling the company to supply the bulk of the local market.

QASCO 2005 Revenue Breakdown



Source: QASCO

QASCO benefits from a 20% import tariff on steel

Around 70% of billets are consumed internally with the rest exported to the UAE and Saudi Arabia. Exports to the UAE represent sales to the company's plant in Dubai. Around 80% of the rebar output is currently sold in the domestic market, while the remainder is sold to other GCC markets, mostly Saudi Arabia and the UAE. Under current legislation, the State of Qatar currently imposes a 20% tariff on certain imported steel, leaving QASCO supplying the bulk of the Qatari steel bar market. The increase in demand for bars in 2004 prompted QASCO to import bars into the country, and resell them. This strategic move by the company enabled it to maintain its relation with its customers both in Qatar and other GCC countries. Importation of bars will likely be discontinued once the new plant becomes operational in 2007.

Sales volume tons'000	2003*	2004	2005
Billet	281	176	92
growth	NA	-37%	-48%
Bar	762	820	877
growth	NA	8%	7%
Wire rod coil	20	143	126
growth	NA	615%	-12%

Source: QASCO

* Period from inception to year end

Prices

Steel prices have gone up significantly in 2004 boosting the company's profits that year. Steel prices slowed down in 2005 as did the prices for bars and wire rod coil. GCC prices have historically been consistent in reacting to price movements in the global steel industry. This is expected to continue throughout the forecast period.

QASCO avg. price per ton (QAR)	2003*	2004	2005
Billet	934	1,427	1,401
growth	NA	53%	-2%
Bar	1,153	1,562	1,645
growth	NA	35%	5%
Wire rod coil	1,190	1,730	1,725
growth	NA	45%	0%

Source: QASCO

* Period from inception to year end

Revenues

Revenues QAR'000	2003*	2004	2005
Billet	262,576	251,250	128,872
growth	NA	-4%	-49%
Bar	879,127	1,279,858	1,443,761
growth	NA	46%	13%
Wire rod coil	24,358	246,691	216,811
growth	NA	912%	-12%
Total	1,166,061	1,777,799	1,789,444

Source: QASCO

* Period from inception to year end

Production costs

Cost of sales includes direct production costs such as raw material, utilities and manpower. Raw materials are bought from international markets through suppliers. Major utilities consumed are electricity, water and natural gas, and are supplied by Qatar Electricity and Water and QP.

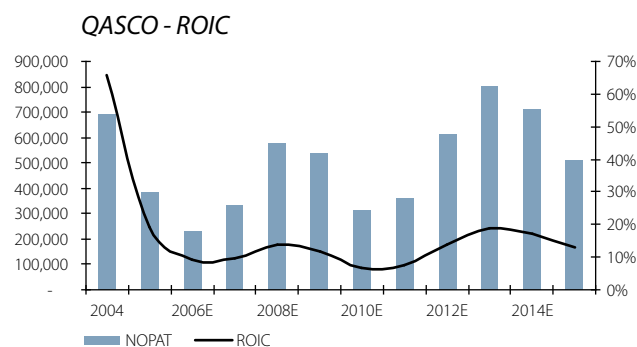
Margins

QASCO's production cost should improve once it starts producing DRI

The natural gas requirements of QASCO's plants are governed by a long term contract with Qatar petroleum, hence power and gas costs are low. QASCO is however one of the high cost operations in the region due to its shortage of HBI, which it buys on the spot market. Once its additional DRI capacity is installed, QASCO should benefit from additional scale and its costs should fall given the same input costs. QASCO has been an importer of HBI since 2001. Following the start up of the expansion, QASCO will be a net exporter of HBI in the region of 540,000 tpy when operating at full capacity. QASCO uses around 5% of scrap in its input mix, most of which is produced locally.

The slight rise in revenue per ton for QASCO along with the substantial increase in the prices for raw materials led to a drop in gross margin (excluding depreciation) from 46% in 2004 to 29% in 2005 as well as a significant drop in ROIC from 66% in 2004 to 20% in 2005.

Heavy expenditures by QASCO in addition to the expected fall in steel prices will put significant pressure on the company's ROIC going forward (from 20% in 2005 to 8% in 2011, then hover around 14%).



Source: QASCO, SHUAA Capital

Valuation

Our valuation range for QASCO is QAR 4 bn – 8 bn

Our DCF valuation for QASCO implies a fair value of QAR 8.2 bn, based on the following assumptions:

Expansions	DRI 1.5 mtpa expansion by Q2 2007 .
	Billets 0.58 mtpa expansion by Q2 2007 , Billets 1.0 mtpa by Q1 2009
	Bars 0.70 mtpa expansion by Q2 2007.
	PC Strands 79,200 tpa expansion by Q4 2006
CAPEX	QAR 2.5 bn over 2006-2010
Revenue breakdown	Bars to remain main revenue contributor for QASCO.
Price outlook	Based on average of two scenario
	1) Steel prices to drop by around 25% over 2005-2009 (based on QASCO's price guidance)
	2) Prices remain at their (2003-2005) average
Margins	Net margin to drop from 22% in 2005 to 8% by 2010, then hover around 15%.
Net income growth	CAGR of -4% over 2005-2010, impacted by expected fall in steel prices.
ROIC	Falling ROIC during 2005-2010 impacted by heavy CAPEX. ROIC hovers around 14% thereafter.

Source: QASCO, SHUAA Capital

The multiple based valuation yields a fair value of QAR 3.7 bn. It is based on the average PE 2005 multiple for international and regional peers of 9.6.

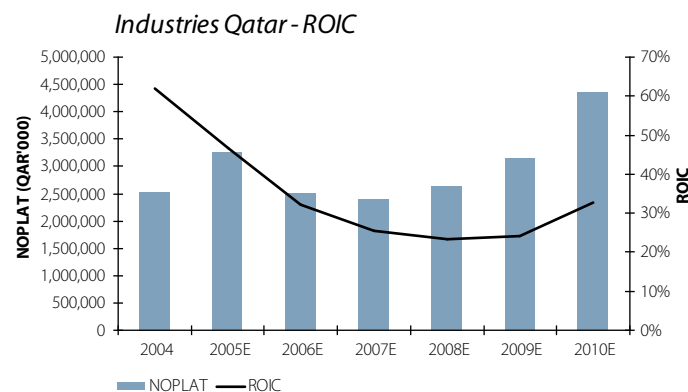
Company	Country	Market Cap USD mn	PE 2005
Posco	Korea	21,323	4.0
China Steel	Taiwan	9,650	6.0
Eregli Demir	Turkey	3,358	9.8
Jindal Steel & Power	India	1,039	7.5
Tokyo Tekko	Japan	419	12.2
Canam Group	Canada	325	8.4
Average international peers			8.0
ANS DK	Egypt	3,443	8.3
El Ezz Steel Rebars	Egypt	1,183	14.2
Average regional peers			11.2
Average peer group			9.6

Source: Reuters, SHUAA Capital

IQ Consolidated Statements Analysis

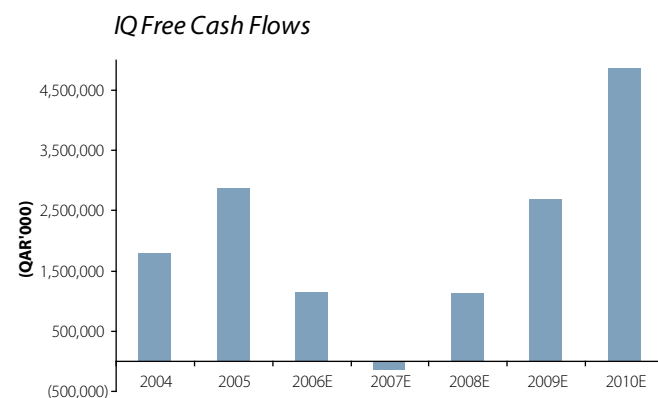
IQ reported net income of QAR 3.2 billion in 2005, representing 29% growth over the previous year. We are expecting IQ to report lower profits for the next two years, mainly due to lower prices for its subsidiaries products. As IQ's expansions become operational starting 2008, net income is expected to record healthy growth rates during 2008-2010.

Substantial expenditures and expected fall in product prices over 2006-2009 is forecasted to put ROIC under pressure. Increased production capacities starting 2010 is expected to lift ROIC up to 33%.



Source: Industries Qatar, SHUAA Capital

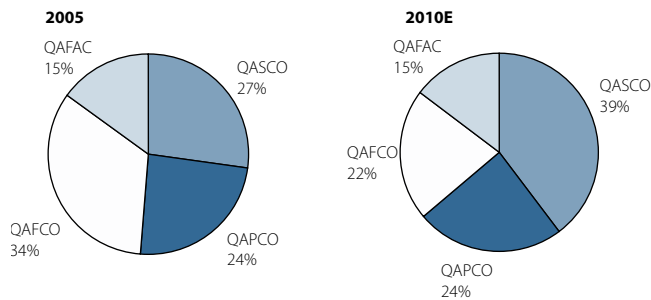
IQ had a debt to equity ratio of 18% and a net debt to equity of -24% at 2005 end. We expect IQ to maintain its healthy financial position driven by its strong free cash flows in the future.



Source: Industries Qatar, SHUAA Capital

QASCO is expected to replace QAFCO as the largest revenue contributor by 2010

QAFCO was the main contributor to IQ's revenues during 2005, followed by QASCO, QAPCO and QAFAC. Going forward, QAFCO's share is expected to fall from 34% to 22%, while QASCO's share is expected to increase from 27% to 39%. Both QAPCO and QAFAC are expected to remain at their current revenue contribution share.

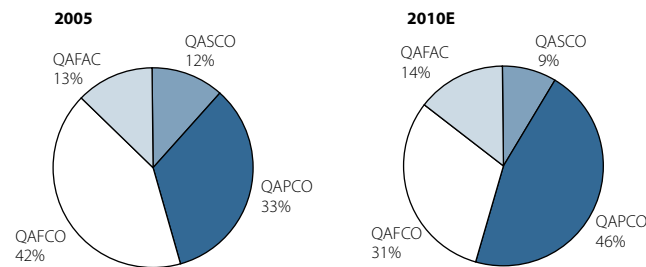
IQ - Revenue Breakdown

Source: Industries Qatar, SHUAA Capital

While margins for all of IQ's subsidiaries are projected to be squeezed throughout the projection period, the change in revenue contribution levels could put IQ's consolidated margins under further pressure. QASCO, which is expected to replace QAFCO as the main revenue contributor by 2010, had the lowest gross profit margins (29%) and the lowest ROIC (19%) among IQ's subsidiaries in 2005. QAFCO, on the other hand, had a gross profit margin of 79% and a ROIC of 62% in 2005.

QAPCO to become the main profit contributor by 2010

In 2005, QAFCO was the largest contributor to IQ's net income (42%), followed by QAPCO, QAFAC and QASCO. As QAPCO more than doubles its capacity by 2010, QAFCO is expected to be replaced by QAPCO as the largest profit contributor.

IQ - Net Profit Breakdown

Source: Industries Qatar, SHUAA Capital

Note on IQ's consolidation method

IQ applies the proportionate consolidation method in preparing its consolidated financial statements. IQ's share of its subsidiaries assets, liabilities, revenues and expenses are included in the consolidated financial statements. The minority interest share is excluded from both the balance sheet and the income statement. This is important to note when comparing IQ with its peers. SABIC, for instance, uses the parent company concept, whereby 100% of the subsidiaries income statement and balance sheet items are included while the non controlling interested is netted out on a single line in the balance sheet and the income statement. As a result, reported sales on IQ's consolidated statements cannot be compared to SABIC's reported sales because of different consolidation methods.

Industries Qatar Valuation

**We initiate coverage on IQ with
a BUY recommendation....**

**...and a target price
of QAR 136.6**

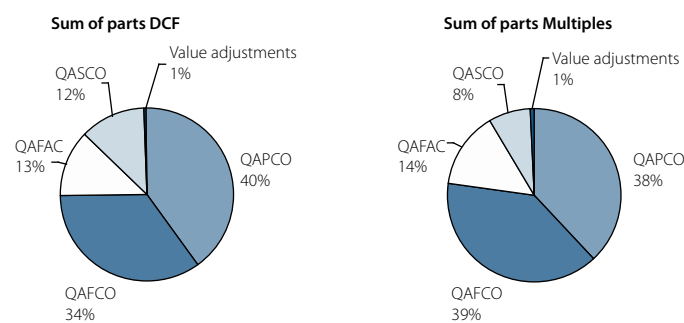
We initiate coverage on Industries Qatar with a Buy recommendation. Our target value per share of QAR 136.6 implies a 19.3% upside to the current market price of QAR 114.5/share.

Our valuation for Industries Qatar was based on three valuation approaches; sum of parts DCF (50% weight), sum of parts multiple based valuation (30% weight), and consolidated multiple based valuation (20% weight). The sum of parts DCF yielded a per share value of QAR 134.6 while the multiple based valuations yielded a value per share of QAR 138.6.

The value of each of IQ's subsidiaries based on average 2005 PEs for regional and international peers was used to calculate the sum of parts multiples valuation. The consolidated multiple based valuation, on the other hand, used SABIC as IQ's peer in the region. Although SABIC is much larger in size than IQ (around 6.0x IQ's 2005 net income), we believe SABIC is the closest peer to IQ with an exposure to the fertilizers, steel and petrochemicals industries. Based on SABIC's 2005 PE of 29.8, the implied value per share for IQ is QAR 192.

Value adjustments to the sum of parts DCF and sum of parts multiple based valuation account for IQ's cash and investments in securities (QAR 383 million) at end of 2005.

IQ value contribution by subsidiary



Source: SHUAA Capital

	Multiples	DCF sum of parts	Weighted average
Value/share (QAR)	138.6	134.6	136.6
Weight	50%	50%	

Source: SHUAA Capital

Risks to valuation

- IQ's subsidiaries are dependent on Qatar Petroleum for the supply of feedstock such as natural gas and fuel. The termination of such agreements as well as changing prices for feedstock could impact the business of the subsidiaries.
- The current duties levied on the import to Qatar of some products to those of IQ's subsidiaries are relatively high, representing a barrier of entry for the benefit of the subsidiaries. It is anticipated that Qatar's accession to WTO is likely to reduce or eliminate these tariffs, which might have an impact on the sales of certain subsidiaries.
- The subsidiaries are undertaking several expansion projects. The timely and successful completion of these projects impacts the business performance and financial condition of the subsidiaries.

- IQ's subsidiaries have plants which are subject to periodic shut downs, both for scheduled and unscheduled basis.
- Price forecasts for IQ's subsidiaries products have been based on independent industry sources. Our valuation is therefore sensitive to such forecasts.
- IQ may in the future acquire other entities (not restricted to QP affiliated entities). Further acquisitions may provide further upside to our valuation.

QAFCO Financials

QAFCO - Income Statement (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Sales (Net)	1,875,007	2,967,944	2,603,328	2,360,780	2,257,127	2,410,786	3,325,008
Cost of sales	(425,181)	(621,544)	(621,544)	(584,786)	(549,129)	(609,682)	(708,537)
Gross profit	1,449,826	2,346,400	1,981,783	1,775,994	1,707,998	1,801,103	2,616,471
Depreciation & amortization	(290,028)	(373,209)	(429,313)	(486,501)	(544,793)	(597,156)	(608,688)
Selling expenses	(63,433)	(63,202)	(66,362)	(69,680)	(73,164)	(76,822)	(80,663)
General and administrative expenses	(172,124)	(171,317)	(179,883)	(188,877)	(198,321)	(208,237)	(218,649)
Operating profit	924,241	1,738,672	1,306,225	1,030,936	891,720	918,888	1,708,471
Other income	40,242	81,506	83,136	84,799	86,495	88,224	89,989
Finance charges	(19,702)	(31,947)	(34,963)	-	-	-	-
Net profit for the period before minority interest	944,781	1,788,231	1,354,398	1,115,734	978,215	1,007,113	1,798,460
Minority interest	(2,344)	(3,026)	(2,292)	(1,888)	(1,655)	(1,704)	(3,043)
Net profit for the period	942,437	1,785,205	1,352,107	1,113,847	976,560	1,005,409	1,795,417

Source: Industries Qatar, SHUAA Capital

QAFCO - Balance Sheet (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Net Fixed assets	2,591,140	2,397,999	2,840,248	3,242,141	3,602,899	3,819,181	3,389,639
Catalysts and other assets		13,979	-	-	-	-	-
Total Non-Current Assets	2,591,140	2,411,978	2,840,248	3,242,141	3,602,899	3,819,181	3,389,639
Cash and cash equivalents	1,213,505	1,880,944	2,473,460	3,291,826	3,925,615	4,689,164	6,859,206
Debtors and prepayments	520,786	244,543	215,963	195,842	187,243	199,990	275,831
Inventories	207,512	248,112	333,056	233,439	219,205	243,377	282,838
Amounts due from related parties	276	324,345	-	-	-	-	-
Total Current Assets	1,942,079	2,697,944	3,022,479	3,721,107	4,332,063	5,132,531	7,417,875
Total Assets	4,533,219	5,109,922	5,862,727	6,963,248	7,934,961	8,951,712	10,807,515
Creditors and accruals	302,384	184,900	163,290	148,077	141,575	151,213	208,556
Amounts due to related parties	135,626	228,789	228,789	228,789	228,789	228,789	228,789
Short-Term Loans	125,362	579,983					
Total Current Liabilities	563,372	993,672	392,079	376,866	370,364	380,002	437,345
Long-Term Loans	1,039,438	-	-	-	-	-	-
Provision for empl. end of serv. benefits	49,358	48,920	48,920	48,920	48,920	48,920	48,920
Total Non-Current Liabilities	1,088,796	48,920	48,920	48,920	48,920	48,920	48,920
Minority interest	14,561	15,636	17,928	19,816	21,471	23,174	26,217
Total Shareholders Equity	2,866,490	4,051,694	5,403,801	6,517,648	7,494,207	8,499,616	10,295,033
Total Liability & Shareholders Equity	4,533,219	5,109,922	5,862,728	6,963,249	7,934,962	8,951,712	10,807,515

Source: Industries Qatar, SHUAA Capital

QAFCO Free Cash Flow (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
EBIT	964,483	1,820,178	1,389,361	1,115,734	978,215	1,007,113	1,798,460
Add: depreciation	290,028	373,209	429,313	486,501	544,793	597,156	608,688
Change in working capital	(4,846)	(112,747)	246,372	104,524	16,331	(27,281)	(57,959)
CAPEX	(263,938)	(163,095)	(871,563)	(888,394)	(905,550)	(813,438)	(179,147)
Minority interest	(2,344)	(3,026)	(2,292)	(1,888)	(1,655)	(1,704)	(3,043)
Free Cash Flow	983,383	1,914,519	1,191,192	816,478	632,134	761,845	2,166,999

Source: Industries Qatar, SHUAA Capital

QAFCO Key Ratios & Figures (QAR'000) unless otherwise stated	2004	2005	2006E	2007E	2008E	2009E	2010E
Quantity sold (tonnes'000)	2,596	3,433	3,433	3,433	3,433	3,469	4,845
growth	11.9%	32.3%	0.0%	0.0%	0.0%	1.0%	39.7%
Revenues	1,875,007	2,967,944	2,603,328	2,360,780	2,257,127	2,410,786	3,325,008
growth	42.0%	58.3%	-12.3%	-9.3%	-4.4%	6.8%	37.9%
EBITDA	1,254,511	2,193,387	1,818,674	1,602,235	1,523,008	1,604,269	2,407,148
growth	NA	74.8%	-17.1%	-11.9%	-4.9%	5.3%	50.0%
Net income	942,437	1,785,205	1,352,107	1,113,847	976,560	1,005,409	1,795,417
growth	57.1%	89.4%	-24.3%	-17.6%	-12.3%	3.0%	78.6%
NOPLAT	924,241	1,738,672	1,306,225	1,030,936	891,720	918,888	1,708,471
growth	60.6%	88.1%	-24.9%	-21.1%	-13.5%	3.0%	85.9%
CAPEX	NA	163,095	871,563	888,394	905,550	813,438	179,147
Gross margin	77.3%	79.1%	76.1%	75.2%	75.7%	74.7%	78.7%
Net margin	50.3%	60.1%	51.9%	47.2%	43.3%	41.7%	54.0%
EBITDA margin	66.8%	73.8%	69.8%	67.8%	67.4%	66.5%	72.3%
ROIC	48.9%	62.0%	46.0%	34.7%	27.5%	26.0%	47.4%
ROaA	32.7%	37.0%	37.0%	18.6%	14.1%	12.6%	19.4%
ROaE	53.4%	51.6%	42.9%	20.9%	15.1%	13.4%	20.5%
Debt/Equity	0.41	0.14	-	-	-	-	-
Net Debt/Equity	(0.02)	(0.32)	(0.46)	(0.51)	(0.52)	(0.55)	(0.67)

Source: Industries Qatar, SHUAA Capital

QAPCO Financials

QAPCO - Income Statement (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Sales (Net)	1,758,999	1,991,302	1,784,620	1,992,458	2,318,270	3,143,693	3,486,019
Cost of sales	(347,331)	(390,905)	(390,905)	(481,537)	(565,218)	(690,413)	(759,454)
Gross profit	1,411,668	1,600,397	1,393,715	1,510,921	1,753,052	2,453,280	2,726,564
Depreciation & amortization	(186,081)	(184,835)	(227,718)	(311,517)	(373,824)	(435,244)	(210,684)
Selling expenses	(56,598)	(64,849)	(68,091)	(71,496)	(75,071)	(78,824)	(82,766)
General and administrative expenses	(83,949)	(85,539)	(89,816)	(94,307)	(99,022)	(103,973)	(109,172)
Operating profit	1,085,040	1,265,174	1,008,090	1,033,601	1,205,136	1,835,238	2,323,943
Income from associates	67,032	58,076	63,884	70,272	77,299	85,029	93,532
Other income	74,202	19,850	20,247	20,652	21,065	21,486	21,916
Net profit before minority	1,226,274	1,343,100	1,092,220	1,124,525	1,303,500	1,941,754	2,439,391
Minority interest		(49)	(59,87)	(61,64)	(71,45)	(106,44)	(133,71)
Net profit for the period	1,226,274	1,343,051	1,092,160	1,124,463	1,303,429	1,941,647	2,439,257

Source: Industries Qatar, SHUAA Capital

QAPCO - Balance Sheet (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Fixed assets	683,480	785,594	1,415,542	2,780,002	3,652,307	3,520,396	3,440,285
Goodwill		140,846	140,846	140,846	140,846	140,846	140,846
Investments in Associates	245,633	307,444	371,328	441,600	518,899	603,928	697,460
Projects under development	67,725						
Advances to associates	-	152,590					
Total Non-Current Assets	996,838	1,386,474	1,927,716	3,362,447	4,312,051	4,265,169	4,278,591
Cash and cash equivalents	1,761,270	2,005,736	2,649,329	2,313,830	2,665,192	4,702,577	7,137,885
Debtors and prepayments	252,980	309,832	277,674	310,012	360,705	489,135	542,398
Inventories	223,307	248,444	248,444	306,046	359,230	438,800	482,680
Amounts due from related parties	313,525	212,443	-	-	-	-	-
Total Current Assets	2,551,082	2,776,454	3,175,446	2,929,888	3,385,128	5,630,512	8,162,963
Total Assets	3,547,920	4,162,928	5,103,162	6,292,335	7,697,179	9,895,681	12,441,553
Creditors and accruals	512,995	619,396	555,108	619,756	721,100	977,849	1,084,329
Amounts due to related parties	148,397	171,837	171,837	171,837	171,837	171,837	171,837
Total Current Liabilities	661,392	791,234	726,945	791,594	892,938	1,149,686	1,256,167
Long-Term Loans		87,698	-	-	-	-	-
Provision for empl. end of serv. benefits	56,265	31,203	31,203	31,203	31,203	31,203	31,203
Total Non-Current Liabilities	56,265	118,901	31,203	31,203	31,203	31,203	31,203
Minority interest		107,276	107,336	107,398	107,469	107,575	107,709
Total Shareholders Equity	2,830,263	3,145,517	4,237,677	5,362,141	6,665,569	8,607,217	11,046,474
Total Liability & Shareholders Equity	3,547,920	4,162,928	5,103,162	6,292,335	7,697,179	9,895,681	12,441,553

Source: Industries Qatar, SHUAA Capital

QAPCO - Free Cash Flow (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
EBIT	1,226,274	1,343,100	1,092,220	1,124,525	1,303,500	1,941,754	2,439,391
Add: depreciation	186,081	184,835	227,718	311,517	373,824	435,244	210,684
Change in working capital	37,661	148,935	180,312	(25,292)	(2,534)	48,750	9,337
CAPEX	(315,279)	(277,290)	(857,667)	(1,675,977)	(1,246,128)	(303,333)	(130,573)
Minority interest	-	(49)	(60)	(62)	(71)	(106)	(134)
Free Cash Flow	1,134,737	1,399,532	642,524	(265,288)	428,590	2,122,308	2,528,706

Source: Industries Qatar, SHUAA Capital

QAPCO Key Ratios & Figures (QAR'000) unless otherwise stated	2004	2005	2006E	2007E	2008E	2009E	2010E
Quantity sold (tonnes'000)	571	568	568	714	857	1,137	1,137
growth	-7.5%	-0.5%	0.0%	25.7%	19.9%	32.8%	0.0%
Revenues	1,758,999	1,991,302	1,784,620	1,992,458	2,318,270	3,143,693	3,486,019
growth	40.7%	13.2%	-10.4%	11.6%	16.4%	35.6%	10.9%
EBITDA	1,412,355	1,527,935	1,319,939	1,436,042	1,677,324	2,376,998	2,650,075
growth	NA	8.2%	-13.6%	8.8%	16.8%	41.7%	11.5%
Net income	1,226,274	1,343,051	1,092,160	1,124,463	1,303,429	1,941,647	2,439,257
growth	164.1%	9.5%	-18.7%	3.0%	15.9%	49.0%	25.6%
NOPLAT	1,085,040	1,265,174	1,008,090	1,033,601	1,205,136	1,835,238	2,323,943
growth	175.6%	16.6%	-20.3%	2.5%	16.6%	52.3%	26.6%
CAPEX	NA	277,290	857,667	1,675,977	1,246,128	303,333	130,573
Gross margin	80.3%	80.4%	78.1%	75.8%	75.6%	78.0%	78.2%
EBITDA margin	80%	77%	74%	72%	72%	76%	76%
Net margin	69.7%	67.4%	61.2%	56.4%	56.2%	61.8%	70.0%
ROIC	166.8%	119.9%	82.1%	52.9%	41.9%	50.3%	59.0%
ROaA	58.4%	35.0%	23.6%	21.7%	20.5%	24.4%	24.4%
ROaE	70.7%	44.3%	29.6%	26.5%	24.0%	28.2%	27.8%
Debt/Equity	-	0.03	-	-	-	-	-
Net Debt/Equity	(0.62)	(0.61)	(0.63)	(0.43)	(0.40)	(0.55)	(0.65)

Source: Industries Qatar, SHUAA Capital

QAFAC Financials

QAFAC Income Statement (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Sales (Net)	1,374,354	1,958,574	1,681,862	1,596,830	1,562,978	1,538,018	3,379,022
Cost of sales	(720,892)	(1,006,696)	(867,424)	(873,787)	(876,939)	(852,333)	(1,805,741)
Gross profit	653,462	951,878	814,438	723,043	686,039	685,685	1,573,281
Depreciation & amortization	(92,853)	(94,395)	(130,990)	(168,490)	(205,990)	(243,490)	(247,142)
General and administrative expenses	(26,516)	(27,165)	(28,523)	(29,949)	(31,447)	(33,019)	(34,670)
Operating profit	534,093	830,318	654,925	524,604	448,602	409,176	1,291,468
Other income	7,845	17,135	17,478	17,827	18,184	18,547	18,918
Finance charges	(21,531)	(32,091)	(20,822)	(34,322)	(47,822)	(61,322)	(74,822)
Net profit	520,407	815,362	651,581	508,109	418,964	366,402	1,235,565

Source: Industries Qatar, SHUAA Capital

QAFAC Balance Sheet (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Gross fixed assets	2,314,241	2,322,147	3,061,147	3,811,147	4,561,147	5,311,147	5,384,194
Accumulated depreciation	423,377	517,772	648,762	817,252	1,023,242	1,266,732	1,513,874
Fixed assets	1,890,864	1,804,375	2,412,385	2,993,895	3,537,905	4,044,415	3,870,320
Catalysts and other assets	27,714	26,145	24,110	22,799	21,488	20,178	18,867
Total Non-Current Assets	1,918,578	1,830,520	2,436,495	3,016,694	3,559,393	4,064,593	3,889,187
Cash and cash equivalents	494,152	449,594	1,297,127	1,723,037	2,098,435	2,462,057	3,992,414
Debtors and prepayments	183,681	225,917	193,999	184,190	180,286	177,406	389,762
Inventories	110,440	100,622	98,504	99,227	99,585	96,790	205,059
Amounts due from related parties	60,173	56,689	-	-	-	-	-
Total Current Assets	848,446	832,822	1,589,629	2,006,454	2,378,306	2,736,254	4,587,234
Total Assets	2,767,024	2,663,342	4,026,124	5,023,148	5,937,699	6,800,847	8,476,421
Creditors and accruals	114,211	137,428	118,012	112,046	109,670	107,919	237,097
Amounts due to related parties	6,493	105,789	-	-	-	-	-
Short-Term Loans	113,786	121,212					
Total Current Liabilities	234,490	364,430	118,012	112,046	109,670	107,919	237,097
Long-Term Loans	771,170	650,468	1,271,170	1,771,170	2,271,170	2,771,170	2,971,170
Provision for empl. end of serv. benefits	5,156	5,074	5,074	5,074	5,074	5,074	5,074
Deferred income taxes	96,471	117,908	101,250	96,131	94,093	92,590	203,420
Total Non-Current Liabilities	872,797	773,450	1,377,494	1,872,375	2,370,337	2,868,834	3,179,664
Total Shareholders Equity	1,659,737	1,525,462	2,530,618	3,038,728	3,457,692	3,824,094	5,059,659
Total Liability & Shareholders Equity	2,767,024	2,663,342	4,026,124	5,023,148	5,937,699	6,800,847	8,476,421

Source: Industries Qatar, SHUAA Capital

QAFAC Free Cash Flow (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
EBIT	541,938	847,453	672,402	542,431	466,786	427,723	1,310,387
Add: depreciation	92,853	94,395	130,990	168,490	205,990	243,490	247,142
Change in working capital	(56,431)	93,580	(34,480)	3,119	1,171	3,922	(191,445)
CAPEX	4,805	(7,906)	(739,000)	(750,000)	(750,000)	(750,000)	(73,047)
Free Cash Flow	583,165	1,027,522	29,912	(35,960)	(76,053)	(74,865)	1,293,037

Source: Industries Qatar, SHUAA Capital

QAFAC Key Ratios & Figures (QAR'000) unless otherwise stated	2004	2005	2006E	2007E	2008E	2009E	2010E
Quantity sold (tonnes'000)	1,256	1,377	1,377	1,419	1,460	1,460	4,018
growth	9.4%	9.6%	0.0%	3.0%	2.9%	0.0%	175.1%
Revenues	1,374,354	1,958,574	1,681,862	1,596,830	1,562,978	1,538,018	3,379,022
growth	33.0%	42.5%	-14.1%	-5.1%	-2.1%	-1.6%	119.7%
EBITDA	634,791	941,848	803,392	710,921	672,776	671,213	1,557,529
growth	NA	48.4%	-14.7%	-11.5%	-5.4%	-0.2%	132.0%
Net income	520,407	815,362	651,581	508,109	418,964	366,402	1,235,565
growth	92.3%	56.7%	-20.1%	-22.0%	-17.5%	-12.5%	237.2%
NOPLAT	534,093	830,318	654,925	524,604	448,602	409,176	1,291,468
growth	79.2%	55.5%	-21.1%	-19.9%	-14.5%	-8.8%	215.6%
CAPEX	NA	7,906	739,000	750,000	750,000	750,000	73,047
Gross margin	47.5%	48.6%	48.4%	45.3%	43.9%	44.6%	46.6%
Net margin	37.9%	41.6%	38.7%	31.8%	26.8%	23.8%	36.6%
ROIC	38.5%	41.7%	30.5%	21.2%	14.6%	11.3%	32.8%
ROaA	28.9%	31.3%	19.5%	13.0%	8.4%	6.2%	17.5%
ROaE	32.7%	52.7%	32.1%	21.5%	13.9%	10.7%	30.0%
Debt/Equity	0.53	0.51	0.50	0.58	0.66	0.72	0.59
Net Debt/Equity	0.24	0.21	(0.01)	0.02	0.05	0.08	(0.20)

Source: Industries Qatar, SHUAA Capital

QASCO Financials

QASCO Income Statement (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Sales (Net)	1,777,799	1,789,444	2,370,981	2,834,748	3,287,363	4,688,325	4,579,174
Cost of sales	(967,676)	(1,267,237)	(1,928,435)	(2,269,241)	(2,462,414)	(3,895,619)	(4,009,609)
Gross profit	810,123	522,207	442,546	565,507	824,949	792,705	569,565
Income from PC Strands			9,350	37,400	37,400	37,400	37,400
Depreciation & amortization	(61,780)	(75,543)	(121,036)	(159,890)	(174,021)	(174,717)	(175,416)
Selling expenses	(17,295)	(16,234)	(22,489)	(20,328)	(21,345)	(22,412)	(23,533)
General and administrative expenses	(38,940)	(48,313)	(68,420)	(50,637)	(53,169)	(55,827)	(58,618)
Operating profit	692,108	382,117	239,950	372,052	613,815	577,149	349,398
Income from associates	3,956	4,481	4,705	4,940	10,812	22,603	23,733
Income from investments	4,298	2,800	2,940	3,087	3,241	3,403	3,574
Other income	13,601	13,453	14,126	14,832	15,574	16,352	17,170
Finance charges	(8,430)	(15,524)	(13,088)	(30,583)	(30,583)	(27,185)	(25,486)
Net profit for the period	705,533	387,327	248,633	364,328	612,859	592,323	368,389

Source: Industries Qatar, SHUAA Capital

QASCO Balance Sheet (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Fixed assets	1,155,314	1,458,302	2,474,599	3,286,043	3,465,300	3,307,985	3,150,041
Available for sale investments	265,882	355,992	355,992	355,992	355,992	355,992	355,992
Investments in Associates	14,866	93,219	93,219	93,219	93,219	93,219	93,219
Total Non-Current Assets	1,436,062	1,907,513	2,923,810	3,735,254	3,914,511	3,757,196	3,599,252
Cash and cash equivalents	440,722	390,137	785,338	229,971	357,925	680,553	1,082,364
Debtors and prepayments	207,102	350,037	369,998	442,370	513,002	731,626	714,593
Inventories	315,319	587,801	420,529	502,785	583,062	831,544	812,184
Total Current Assets	963,143	1,327,975	1,575,865	1,175,126	1,453,989	2,243,723	2,609,141
TOTAL ASSETS	2,399,205	3,235,488	4,499,675	4,910,380	5,368,500	6,000,919	6,208,393
Creditors and accruals	91,528	251,241	237,098	283,475	328,736	468,832	457,917
Amounts due to related parties	2,341	9,051	9,051	9,051	9,051	9,051	9,051
Short-Term Loans	247,418	60,217					
Total Current Liabilities	341,287	320,509	246,149	292,526	337,787	477,883	466,968
Long-Term Loans	39,049	710,086	1,800,000	1,800,000	1,600,000	1,500,000	1,350,000
Provision for empl. end of serv. benefits	35,626	25,965	25,965	25,965	25,965	25,965	25,965
Total Non-Current Liabilities	74,675	736,051	1,825,965	1,825,965	1,625,965	1,525,965	1,375,965
Total Shareholders Equity	1,983,243	2,178,928	2,427,561	2,791,889	3,404,748	3,997,071	4,365,460
Total Liability & Shareholders Equity	2,399,205	3,235,488	4,499,675	4,910,380	5,368,500	6,000,919	6,208,393

Source: Industries Qatar, SHUAA Capital

QASCO Free Cash Flow (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
EBIT	713,963	402,851	261,721	394,911	643,442	619,508	393,875
Add: depreciation	61,780	75,543	121,036	159,890	174,021	174,717	175,416
Change in working capital	(196,191)	(248,994)	133,168	(108,251)	(105,648)	(327,009)	25,478
CAPEX	(247,077)	(368,911)	(1,137,333)	(971,333)	(353,278)	(17,402)	(17,472)
Free Cash Flow	332,475	(139,511)	(621,408)	(524,784)	358,536	449,813	577,297

Source: Industries Qatar, SHUAA Capital

QASCO Key Ratios & Figures (QAR'000) unless otherwise stated	2004	2005	2006E	2007E	2008E	2009E	2010E
Quantity sold (tonnes'000)	1,138	1,095	1,454	1,865	2,081	3,234	3,234
growth	7.0%	-3.8%	32.8%	28.3%	11.6%	55.4%	0.0%
Revenues	1,777,799	1,789,444	2,370,981	2,834,748	3,287,363	4,688,325	4,579,174
growth	52.5%	0.7%	32.5%	19.6%	16.0%	42.6%	-2.3%
EBITDA	775,743	478,394	382,757	554,801	817,463	794,225	569,291
growth	NA	-38.3%	-20.0%	44.9%	47.3%	-2.8%	-28.3%
Net income	705,533	387,327	248,633	364,328	612,859	592,323	368,389
growth	116.4%	-45.1%	-35.8%	46.5%	68.2%	-3.4%	-37.8%
NOPLAT	692,108	382,117	230,600	334,652	576,415	539,749	311,998
growth	153.4%	-44.8%	-39.7%	45.1%	72.2%	-6.4%	-42.2%
CAPEX	NA	368,911	1,137,333	971,333	353,278	17,402	17,472
Gross margin	45.6%	29.2%	18.7%	19.9%	25.1%	16.9%	12.4%
Net margin	39.7%	21.6%	10.5%	12.9%	18.6%	12.6%	8.0%
EBITDA margin	43.6%	26.7%	16.1%	19.6%	24.9%	16.9%	12.4%
ROIC	65.6%	19.4%	9.2%	9.7%	13.9%	11.7%	6.6%
ROaA	49.7%	13.7%	6.4%	8.6%	12.4%	10.9%	6.3%
ROaE	65.0%	18.6%	10.8%	14.8%	21.3%	17.4%	9.4%
Debt/Equity	0.14	0.35	0.74	0.64	0.47	0.38	0.31
Net Debt/Equity	(0.08)	0.17	0.42	0.56	0.36	0.21	0.06

Source: Industries Qatar, SHUAA Capital

IQ Consolidated Financials

IQ Consolidated Income Statement (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Sales (Net)	5,257,778	6,578,039	6,592,104	6,997,715	7,616,313	9,780,377	11,551,256
Cost of sales	(1,924,872)	(2,549,467)	(3,141,030)	(3,529,954)	(3,764,904)	(5,331,378)	(6,051,446)
Gross profit	3,332,906	4,028,571	3,451,074	3,467,761	3,851,409	4,448,999	5,499,811
Other operating income	-	-	9,350	37,400	37,400	37,400	37,400
Depreciation & amortization	(474,593)	(550,515)	(690,691)	(858,224)	(984,670)	(1,092,524)	(924,050)
Selling expenses	(89,496)	(105,822)	(126,733)	(129,785)	(136,274)	(143,088)	(150,243)
General and administrative expenses	(408,677)	(267,005)	(289,447)	(282,715)	(296,851)	(311,693)	(327,278)
Operating profit	2,360,140	3,105,229	2,353,553	2,234,437	2,471,015	2,939,094	4,135,640
Income from associates	57,582	50,942	55,812	61,158	72,652	90,626	98,559
Income from investments	4,298	12,212	2,940	3,087	3,241	3,403	3,574
Other income	110,228	104,324	101,414	103,866	106,388	108,983	111,654
Finance charges	(33,972)	(55,531)	(49,721)	(47,744)	(54,494)	(57,846)	(62,897)
Net profit for the period before minority interest	2,498,275	3,217,176	2,463,999	2,354,804	2,598,802	3,084,261	4,286,529
Minority interest	(1,758)	(2,308)	(1,767)	(1,465)	(1,298)	(1,363)	(2,389)
Net profit for the period	2,496,517	3,214,868	2,462,232	2,353,339	2,597,503	3,082,898	4,284,140

Source: Industries Qatar, SHUAA Capital

IQ Consolidated Balance Sheet (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
Fixed assets	4,583,416	4,787,464	6,943,412	9,438,598	10,858,272	11,010,895	10,379,659
Catalysts and other assets	21,326	23,557	12,055	11,400	10,744	10,089	9,433
Goodwill	-	112,677	112,677	112,677	112,677	112,677	112,677
Available for sale investments	265,882	418,294	355,992	355,992	355,992	355,992	355,992
Investments in Associates	211,372	339,174	390,281	446,499	508,338	576,361	651,187
Projects under development	67,575	58,240	-	-	-	-	-
Advances to associates	-	122,072	-	-	-	-	-
Cash and cash equivalents	3,217,781	3,951,290	5,408,460	5,411,423	6,483,507	9,190,517	13,933,283
Debtors and prepayments	892,539	899,778	851,108	929,356	1,032,142	1,361,630	1,550,266
Inventories	704,819	1,022,951	918,328	972,314	1,084,643	1,413,511	1,512,986
Amounts due from related parties	281,091	441,555	-	-	-	-	-
Total Current Assets	5,096,229	6,315,575	7,177,896	7,313,094	8,600,292	11,965,658	16,996,535
TOTAL ASSETS	10,245,800	12,177,052	14,992,312	17,678,258	20,446,314	24,031,672	28,505,482
Creditors and accruals	468,613	603,399	862,658	946,360	1,066,633	1,418,481	1,600,347
Amounts due to related parties	226,002	371,007	318,113	318,113	318,113	318,113	318,113
Short-Term Loans	398,333	555,810	-	-	-	-	-
Total Current Liabilities	1,092,947	1,530,217	1,180,771	1,264,473	1,384,745	1,736,593	1,918,460
Long-Term Loans	1,204,213	1,105,478	2,435,585	2,685,585	2,735,585	2,885,585	2,835,585
Provision for empl. end of serv. benefits	120,235	90,154	90,154	90,154	90,154	90,154	90,154
Deferred income taxes	-	-	50,625	48,065	47,046	46,295	101,710
Total Non-Current Liabilities	1,324,447	1,195,633	2,576,364	2,823,805	2,872,786	3,022,034	3,027,449
Minority interest	10,921	97,548	99,315	100,780	102,078	103,441	105,830
Total Shareholders Equity	7,817,485	9,353,655	11,135,863	13,489,202	16,086,705	19,169,603	23,453,743
Total Liability & Shareholders Equity	10,245,800	12,177,052	14,992,312	17,678,258	20,446,314	24,031,672	28,505,482

Source: Industries Qatar, SHUAA Capital

IQ Free Cash Flow (QAR'000)	2004	2005	2006E	2007E	2008E	2009E	2010E
EBIT	2,527,949	3,260,495	2,510,779	2,399,461	2,650,055	3,138,703	4,345,852
Add: depreciation	474,593	550,515	690,691	858,224	984,670	1,092,524	924,050
Change in working capital	(515,740)	(206,044)	801,213	(48,532)	(94,841)	(306,509)	(106,244)
CAPEX	(687,383)	(724,486)	(2,846,639)	(3,353,410)	(2,404,344)	(1,245,147)	(292,814)
Free Cash Flow	1,799,419	2,880,479	1,156,044	(144,257)	1,135,540	2,679,571	4,870,845

Source: Industries Qatar, SHUAA Capital

IQ Consolidated Key Ratios & Figures (QAR'000) unless otherwise stated	2004	2005	2006E	2007E	2008E	2009E	2010E
Quantity sold (tonnes'000)	4,872	4,813	5,171	5,721	6,071	7,476	9,787
growth	2.7%	-1.2%	7.5%	10.6%	6.1%	23.1%	30.9%
Revenues	5,257,778	6,578,039	6,592,104	6,997,715	7,616,313	9,780,377	11,551,256
growth	43.2%	25.1%	0.2%	6.2%	8.8%	28.4%	18.1%
EBITDA	3,006,840	3,823,222	3,204,410	3,260,772	3,637,965	4,234,631	5,273,476
growth	NA	27.2%	-16.2%	1.8%	11.6%	16.4%	24.5%
Net income	2,496,517	3,214,868	2,462,232	2,353,339	2,597,503	3,082,898	4,284,140
growth	94.6%	28.8%	-23.4%	-4.4%	10.4%	18.7%	39.0%
NOPLAT	2,360,140	3,105,229	2,344,203	2,197,037	2,433,615	2,901,694	4,098,240
growth	103.8%	31.6%	-24.5%	-6.3%	10.8%	19.2%	41.2%
CAPEX	NA	724,486	2,846,639	3,353,410	2,404,344	1,245,147	292,814
Gross margin	63.4%	61.2%	52.4%	49.6%	50.6%	45.5%	47.6%
Net margin	47.5%	48.9%	37.4%	33.6%	34.1%	31.5%	37.1%
ROIC	61.9%	46.7%	32.1%	25.4%	23.4%	24.2%	32.7%
ROaA	40.0%	28.7%	27.2%	15.7%	14.7%	14.9%	17.6%
ROaE	55.2%	37.4%	36.1%	20.8%	19.1%	19.0%	21.9%
Debt/Equity	0.20	0.18	0.22	0.20	0.17	0.15	0.12
Net Debt/Equity	(0.21)	(0.24)	(0.27)	(0.20)	(0.23)	(0.33)	(0.47)

Source: Industries Qatar, SHUAA Capital

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