

Qatar Aluminium Manufacturing Co. (QAMCO)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR0.733	Current Target Price	0.79
Implied Upside	7.6%		

Global Backdrop Overshadows Value; Initiate With Market Perform

Qatar Aluminium Manufacturing Co. (or QAMCO) is a holding company that owns a 50% stake in Qatar Aluminium (Qatalum), a primary aluminum smelter. Thanks to its state of the art plant and the support of its major shareholders, which enables Qatalum to act like an integrated producer, Qatalum is one of the world's lowest cost smelters. Qatalum's high margins, low indebtedness and lack of major expansion projects on the horizon warrants the continuation of its strong cash generation as well as **attractive dividend yields for QAMCO shareholders once the global aluminum market stabilizes.** On the other hand, Qatalum currently operates above its nameplate capacity; hence, its top- & bottom-lines are more sensitive to the changes in aluminum prices vs. its peers. Coronavirus disruptions pushed aluminum prices to the bottom of their last 5-year-cycle by mid-May. Prices have been recovering since then, rising 8.9% from the bottom; however, elevated global primary aluminum supply-demand surplus (which may deteriorate further in 2020) could hamper the price recovery. On the positive front, as a result of a faster decline in feedstock prices vs. aluminum (normalizing alumina prices in particular), QAMCO witnessed an increase in its margins. In terms of valuation, while our DCF implies a 46.5% upside for QAMCO, its rich multiples vs. international & local peers put a cap on our target price. **We initiate coverage on QAMCO with a Market Perform rating.**

Highlights

- Listed on the QSE in Dec'18, Qatar Aluminium Manufacturing Co. or QAMCO is a holding company that owns a 50% stake in Qatar Aluminium (Qatalum), a primary aluminum producer.** Qatar Petroleum (QP) established QAMCO in Dec'18 and placed its 50% stake of Qatalum into QAMCO as capital-in-kind before offering QAMCO's shares to the public. QP owns 51%, including a golden share in QAMCO, while the rest of the shares are floating in the market. QAMCO operates with a very low G&A (QR10.2mn for Dec'18-Dec-19 period) and its only investment/business is holding its JV shares in Qatalum. Meanwhile, **QAMCO's shares are Shari'ah compliant**, which results in a broader investor base.
- Thanks to its committed major shareholders, Qatalum is able to act like an integrated producer and is one of the world's lowest cost smelters.** While QP provides natural gas to Qatalum via a 25-year agreement (with a 15-year extension provision), Norsk Hydro (enjoying the other 50% stake in Qatalum) supports Qatalum's alumina procurement efforts, provides technical support and markets Qatalum's products through its global sales network (via a 25-year agreement).
- Strong financials backed by low leverage and high EBITDA margins:** As of 1Q2020, QAMCO itself has a net cash position of QR51.4mn, while its 50% share in Qatalum's net debt was QR2.24bn (39.1% of QAMCO's share capital). Moreover, Qatalum's 1Q2020 EBITDA to interest expense ratio was 4.0x. Qatalum's low capex (averaging QR414mn pa for 2020e-2024e period), coupled with its strong EBITDA margins (29.4% in 1Q2020, 2x that of its international peers), results in strong cash generation for Qatalum.
- Strong free cash flow generation should support dividends in the coming years:** Qatalum has high depreciation charges (QR911.8mn as of 2019 on an annualized basis, 5.8x of its net income and 2.4x of its EBIT), which results in a stronger cash generation than its EBIT or bottom-line implies. This enabled Qatalum to pay dividends based on its cash flow in the past, which were above its net earnings.
- On the other hand, Qatalum's lack of expansion plans for the time being increases its top- & bottom-line sensitivities to the volatility of global aluminum prices.** Due to coronavirus disruptions, primary aluminum prices fell by 13.3% YTD to \$1,551/ton. Prices have tested their 5-year bottom at \$1,426/ton as of April 8 and bounced by 8.9% since then. However, the past five years' highest global supply surplus in 1Q2020 may obstruct this price recovery. On the positive front, feedstock prices fell more than aluminum prices, leading to an increase in Qatalum's EBITDA margins from 26.1% in 2019 to 29.4% in 1Q2020.

Catalysts

- 1) Primary aluminum and feedstock price trends are the main determinants of QAMCO's EPS, DPS and valuations
- 2) New capacity plans or other growth initiatives for Qatalum
- 3) Dividend announcements

Recommendation, Valuation and Risks

- We rate QAMCO a MARKET PERFORM.** Our 1-year target of QR0.79 implies a 7.6% upside potential, based on a weighted average of DCF and international peer comparison. QAMCO's 2020-21e P/Es imply significant premiums vs. international peers, whereas its 2020-21e EV/EBITDAs also correspond to respective premiums of 26% and 29%. On the positive front, the DCF implies a 46.5% upside potential for QAMCO shares.
- Risks:** 1) Geopolitical risks 2) Further Covid-19 disruptions on demand 3) Global aluminum over-capacity.

Key Financial Data and Estimates

	2019 (*)	2020e	2021e	2022e
EPS (QR)	0.01	0.00	0.01	0.03
P/E (x)	52.4	164.9	51.5	23.8
EV/EBITDA (x)	9.3	10.6	8.9	7.1
DPS (QR)	0.01	0.00	0.01	0.03
DY (%)	1.4%	0.5%	1.7%	3.8%

(*) QAMCO's 2019 financials are for the 13-month period between Dec'18-Dec'19

Source: Company data, QNB FS Research Estimates; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	QAMC QD
ADR/GDR Ticker	N/A
Reuters Ticker	QAMC.QA
ISIN	QA000M2522L9
Sector	Industrials
52wk High/52wk Low (QR)	1.03 / 0.451
3-m Avg. Volume (000)	13,061
Mkt. Cap. (\$ bn/QR bn)	1.1/4.1
EV (\$ bn/QR bn)	1.1/4.0
FO Limit* (%)	49.0
Current FO* (%)	5.1
Shares Outstanding (mn)	5,580.1
1-Year Total Return (%)	-25.3%
Fiscal Year End	December 31

Source: Bloomberg (as of June 25, 2020), *Qatar Exchange (as of June 25, 2020); Note: FO is foreign ownership

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Valuation

We value QAMCO shares at QR0.79 with a 7.6% upside potential using a combination of DCF and international multiples. We have given the highest weight to DCF (cash flows to firm) methodology, as we believe it reflects Qatalum's cash generation potential better.

We do not apply a holding company discount to QAMCO shares as QAMCO is more like an SPV for Qatalum rather than a holding company, in line with our expectation that QAMCO will pass bulk of the dividends it will receive from Qatalum to its shareholders (except the 10% mandatory retained earnings and sports/social fund contributions).

QAMCO: Valuation Summary

Method	Weight in Overall QAMCO Valuation	QAMCO's Upside/ Downside Potential
DCF	60%	46.5%
International Comparison	40%	
P/E, 2020E	10%	-82.7%
EV/EBITDA, 2020E	10%	-46.0%
P/E, 2021E	10%	-51.3%
EV/EBITDA, 2021E	10%	-22.6%
Weighted Average Upside Potential for QAMCO Shares	100%	7.6%

Source: Bloomberg consensus figures for international peers, QNB FS Research Estimates

Full valuations: QAMCO's price implies a 2020E-2021E P/E's of 164.9x and 51.5x respectively, which are significantly above its international peers. We believe these premiums may not be fully justified given QAMCO's limited growth prospects. QAMCO operates at full capacity and the lack of any major capacity expansion plans (for the time being) limits EPS growth opportunities, primarily to an increase in aluminum prices as well as feedstock price trends. Its 2020E-2021E EV/EBITDAs also correspond to respective premiums of 26% and 29% vs. international peers, which may be justified by QAMCO's superior EBITDA margins, 2x its international peers.

Valuation Multiples: International Peers vs. QAMCO

Company	Country	Mcap		P/E		EV/EBITDA		EBITDA Margin		Dividend Yield			ROE	
		USDmn	Beta	2020e	2021e	2020e	2021e	2020e	2021e	2019	2020e	2021e	2019	2021e
ALCOA CORP	USA	2,123	1.62	n.a.	n.a.	5.6	4.2	9.4%	11.6%	0.0%	1.1%	1.1%	-5%	-2%
UNITED CO RUSAL PLC	Russia	5,763	1.07	4.5	4.1	18.4	15.3	7.9%	8.6%	1.8%	1.3%	4.0%	15%	14%
CHINA HONGQIAO GROUP LTD	China	3,804	1.24	6.4	4.9	4.0	3.9	20.9%	20.2%	7.2%	6.7%	8.8%	8%	10%
ALUMINUM CORP OF CHINA LTD-H	China	5,876	1.25	48.6	21.9	10.6	9.5	7.0%	7.5%	0.0%	0.0%	0.1%	1%	2%
NORSK HYDRO ASA	Norway	5,675	1.18	29.7	14.6	5.8	4.8	8.9%	10.2%	4.7%	4.7%	4.7%	1%	5%
ALUMINIUM BAHRAIN BSC	Bahrain	1,243	0.95	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.5%	0.0%	5.5%	n.a.	n.a.
HINDALCO INDUSTRIES LTD	India	4,356	1.39	7.1	12.7	5.2	6.0	11.7%	10.6%	1.0%	1.0%	0.8%	8%	4%
NATIONAL ALUMINIUM CO LTD	India	842	0.98	85.3	113.7	n.a.	n.a.	n.a.	n.a.	13.0%	4.6%	6.2%	1%	1%
SOUTH32 LTD	Australia	6,560	1.16	28.2	18.0	5.3	4.9	19.5%	21.4%	9.0%	2.4%	2.9%	2%	4%
ALUAR ALUMINIO	Argentina	1,624	0.70	18.3	10.8	12.4	6.8	17.5%	27.5%	n.a.	n.a.	n.a.	n.a.	n.a.
EGYPT ALUMINIUM	Egypt	222	0.79	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.9%	7.3%	3.9%	n.a.	n.a.
Peer Group Average			1.12	28.5	25.1	8.4	6.9	12.8%	14.7%	4.8%	2.7%	3.5%	3.8%	4.6%
Peer Group Median			1.16	23.2	13.6	5.7	5.5	10.5%	11.1%	1.8%	1.3%	3.9%	1.7%	4.1%
Peer Group Normalised Av.*			1.15	23.0	13.8	7.5	6.0	12.5%	13.8%	4.2%	1.9%	3.2%	5.1%	4.2%
Qamco	Qatar	1,123	1.08	164.9	51.5	10.6	8.9	27.2%	28.6%	1.4%	0.5%	1.7%	0.4%	1.4%

Source: Bloomberg consensus figures for international peers, QNB FS Research Estimates

In the lack of any expansion plans, aluminum prices (and feedstock prices) become the most important determinants of QAMCO's valuation. Consequently, current modest consensus expectations for aluminum prices have had an adverse impact on QAMCO's prospective P/E, EV/EBITDA and dividend yield metrics as well as its DCF valuation. In terms of annual average aluminum prices, we have used Bloomberg consensus estimates for primary aluminum and have considered an average of \$1,690/ton for the 2020-2023e period in our earnings forecasts, which is 8.1% below 2016-2020 cycle average of \$1,839. The 2015-2020 period includes a cycle-peak of \$2,292 (May'18) and a cycle-bottom of \$1,446/\$1,426 (Nov'15-Apr'20). After reaching the cycle bottom in April, primary aluminum has been in an upward correction rising 8.9% from the cycle bottom and currently reaching \$1,551, notably below their mid-cycle levels (\$1,839). However, as a result of an 8% decline

in global primary aluminum demand vs. a 2% increase in supply as of 1Q2020 YoY, global supply-demand surplus reached a 5-year peak of 2mn tons as of 1Q2020. Supply-demand surplus is expected to be between 1.5mn to 5.5mn tons in 2020, putting pressure on prices throughout 2020.

DCF Assumptions:

Our DCF sensitivity analysis implies that each 1pp rise in aluminum prices (together with an expected 1pp hike in alumina prices) increases QAMCO's DCF value by 5.8%. This outcome is also in-line with the high beta characteristic of international aluminum companies ranging between 1.62 - 0.70 with a normalized average/median of 1.15/1.16. QAMCO's beta is at 1.08x since its IPO in Dec'18. While the sample size is relatively small for a healthy beta calculation, we think it is reasonable for QAMCO to have a lower beta vs. its international peers, given its solid financials as well as Qatalum's strong relations with its strategically important founding shareholders.

We have added 2pps to QAMCO's ERP due to unforeseen coronavirus-related risks. While calculating QAMCO's Cost of Equity, we have considered a risk free rate of 1.8% (US 10-year government bond yield plus Qatar's 10-year CDS spread). We have also added 2pps to QAMCO's equity risk premium (ERP) for 1x beta due to unforeseen coronavirus-related disruption risks. This equates to a 9.1% ERP for 1x beta. As a result, we have calculated the cost of equity as 11.7% for a beta of 1.08x.

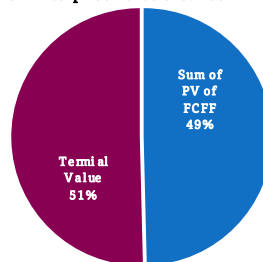
DCF Summary

WACC Calculation	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2026e	2027e	2028e	2029e
Cost of Equity	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%
Rf (US 10 yr+Qatar 10yr CDS)	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
ERP	9.89%	9.89%	9.89%	9.89%	9.89%	9.89%	9.89%	9.89%	9.89%	9.89%	9.89%
ERP for 1x Beta	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%
Beta	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08
After-tax Cost of Debt	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%
Weight of Equity	46.58%										
WACC	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%

DCF-Cash Flow to Firm (QR000)	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2026e	2027e	2028e	2029e
EBIT (1-tax rate)	116,292	155,501	232,154	278,431	263,520	248,057	235,854	222,480	208,478	194,662	191,653
EBIT (**)	119,274	159,488	238,107	285,570	270,276	254,417	241,902	228,185	213,823	199,653	196,568
EBIT (*)	129,961	170,710	249,889	297,941	283,266	268,057	256,223	243,223	229,613	216,232	213,975
QAMCO's own SG&A	10,687	11,221	11,782	12,371	12,990	13,639	14,321	15,038	15,789	16,579	17,408
Tax rate (**)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Depreciation (*)	444,645	450,982	457,635	464,621	471,956	479,658	487,744	496,236	505,152	513,643	513,643
Capital Expenditure (*)	120,692	126,726	133,062	139,716	146,701	154,036	161,738	169,825	178,316	178,316	178,316
% of Enterprise Value	1.5%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%	2.2%	2.2%	2.2%
Change in WC (*)	23,152	23,826	18,939	13,139	13,139	13,139	13,139	6,569	6,569	6,569	6,569
Chg. In Working Capital Days	4.0	4.0	3.0	2.0	2.0	2.0	2.0	1.0	1.0	1.0	1.0
Net Sales	4,225,316	4,348,251	4,608,519	4,795,672	4,795,672	4,795,672	4,795,672	4,795,672	4,795,672	4,795,672	4,795,672
Change in Sales	-21.6%	2.9%	6.0%	4.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flows to the Firm (FCFF)	417,094	455,931	537,788	590,197	575,635	560,539	548,722	542,322	528,744	523,419	520,410
WACC	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Discount Factor	1.00	1.07	1.16	1.24	1.33	1.43	1.54	1.66	1.78	1.91	2.06
PV of FCF	417,094	424,191	465,516	475,317	431,316	390,766	355,897	327,259	296,853	273,406	252,911
Sum of PV of FCF	4,110,527										

Terminal Value	4,175,145
Terminal FCF	252,911
Terminal Growth Rate	1.5%
Terminal WACC	7.5%
Enterprise value	8,285,672
+Cash and Cash Equivalents	543,899
-Debt: Long Term & Short Term	2,837,646
Fair Value of Equity-Qatalum	5,991,925
Shares o/s (mn)	5,580,120
12M Target Price per Share (QR)	1.07
12 Month Upside Potential	46.5%

DCF Enterprise value breakdown



DCF Sensitivity

		Terminal Growth Rate				
		0.5%	1.0%	1.5%	2.0%	2.5%
Terminal	6.5%	1.08	1.15	1.23	1.32	1.45
	7.0%	1.02	1.07	1.14	1.22	1.32
	7.5%	0.97	1.01	1.07	1.14	1.22
	8.0%	0.92	0.96	1.01	1.07	1.13
	8.5%	0.88	0.92	0.96	1.01	1.06

		Terminal Growth Rate				
		0.5%	1.0%	1.5%	2.0%	2.5%
Terminal	6.5%	47.1%	56.3%	67.3%	80.7%	97.4%
	7.0%	38.8%	46.6%	55.7%	66.7%	80.0%
	7.5%	31.7%	38.3%	46.5%	55.2%	66.0%
	8.0%	25.5%	31.2%	37.8%	45.5%	54.6%
	8.5%	20.1%	25.1%	30.8%	37.3%	45.0%

DCF Sensitivity for Aluminium-Alumina Price Increases/Decreases

	-2pp	-1pp	0.0%	+1pp	+2pp
	-11.7%	-5.8%	0.0%	5.8%	11.7%

*For QAMCO's 50% stake in Qatalum

** QAMCO

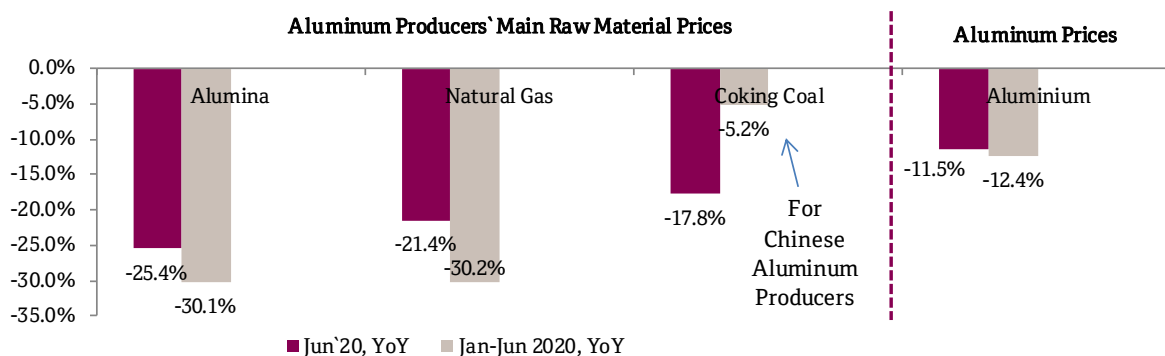
Source: QNB FS Research Estimates

Investment Positives

- **QAMCO's shares are Shari'ah Compliant, which should result in a broader investor base.** We witnessed strong investor interest during the IPO as it was oversubscribed by 2.5x.
- **Strong relations with its strategically important founding shareholders (Qatar Petroleum and Norsk Hydro) results in low production costs for Qatalum, which is a major edge.** In general, we prefer commodity companies to be integrated with their own mines, as these producers are less prone to spot market price volatilities and supply disruptions. Nevertheless, thanks to its committed major shareholders, Qatalum is able to act like an integrated producer. While Qatar Petroleum provides natural gas to Qatalum, Norsk Hydro supports Qatalum's alumina procurement efforts, gives technical support and markets Qatalum's products through its global sales network.
 - **QP's support in natural gas procurement:** Power is the largest cost component for the global aluminum smelting industry, accounting for 23-45% of production costs; hence, a reliable and cost-effective natural gas (NG) supply is vital for Qatalum. Qatalum has secured a 25-year supply agreement with QP for its gas requirements with an option to extend it for 15 more years. Qatalum uses NG, both to fire up its 1,340MW power plant as well as to heat its furnaces during casting. Although QP's stake declined in Qatalum after the IPO, QP maintains its representation and control on 50% of Qatalum.
 - **Hydro's support in alumina procurement:** Following electricity, alumina is the second major cost item for a typical aluminum smelter, accounting for an average c.26% of production costs. Qatalum has an agreement with Hydro for the supply of alumina, which creates a stable source for Qatalum, meeting more than 50% of its alumina requirement. Hydro is the world's 8th largest primary aluminum producer with a 2019 primary aluminum production of 2.0mn tons and is a major player throughout the aluminum value chain (bauxite mining, alumina refining, co-generation, primary aluminum production, rolling, extrusion and recycling). Along with the world's largest alumina refinery (Alunorte, Brazil), Hydro also owns one the largest bauxite mines in the world (Paragominas, Brazil). Among the world's top-10 aluminum producers, only Chalco has such a wide integration in the aluminum value chain similar to Hydro. We note the remaining players are either concentrated on the up-stream or on the down-stream.
 - **Hydro's support in the global distribution of Qatalum's products:** Norsk Hydro distributes 100% of Qatalum's products through its worldwide network. As a result of the marketing and offtake agreement signed between the parties in Dec'09, Hydro Aluminium is responsible for the offtake and marketing of 100% of Qatalum's production for 25 years. This agreement obliges Hydro to treat Qatalum at no less favorable terms than other Hydro Aluminium smelters. Moreover, Hydro Aluminium is obliged to undertake sales with the objective of maximizing Qatalum's net premium revenue. On the other hand, the distribution relationship is mutual as Qatalum acts as Hydro Aluminium's representative for marketing aluminum products in Qatar.
- **Ongoing improvement program (Phase II) targets to cut cash costs by 8.8% (\$120 per ton) by 2021.** Phase I cost cutting project (commenced during 2013-2017) was completed successfully a year earlier than initially planned and reduced cash costs by \$150/ton. In 2017, Qatalum launched its Phase II, which targets a further \$120 (8.8%) reduction in cash costs. If aluminum prices maintain their downward trend, low leverage, strong cash generation and ongoing cost reduction projects are likely to create an edge for Qatalum shares vs. other listed aluminum producers.
- **Strong financials backed by low leverage and high EBITDA margins:** As of 1Q2020, QAMCO had a solo net cash position of QR51.4mn, while its 50% share in Qatalum's net debt was QR2.24bn (39.1% of QAMCO's share capital). Moreover, Qatalum's 1Q2020 EBITDA to interest expense ratio was 4.0x. Qatalum's low capex (averaging QR414mn pa over 2020-2024e period), coupled with its strong EBITDA margins (29.4% in 1Q2020, 2x that of its international peers), results in strong cash generation for Qatalum.

- **We assume an average dividend yield of 4.1% for QAMCO shares over 2021-2029e, despite below cycle-average primary aluminum forecasts.** We expect Qatalum to distribute a substantial portion of its net income to QAMCO in the coming periods, and QAMCO in turn does the same after deductions for mandatory reserves and social/sports fund contributions. QAMCO's 2020-21e dividend yields (0.5% and 1.7%, respectively) are expected to be heavily impacted by prevailing low primary aluminum prices, which tested their 5-year cycle low of \$1,426/ton and still 13.8% below their cycle average of \$1,839. On the other hand, we expect QAMCO's dividend yield to improve starting from 2022e, in line with its expected net earnings to rise from QR23.6mn as of 2020e to QR175.1mn by 2022e. Rising consensus primary aluminum price forecasts are the major driver for our recovery expectations in dividend yield after 2021.
- **Furthermore, Qatalum's extensive free cash flow generation could lead Qatalum's payout ratio to surpass 100% (occasionally) in the coming years.** Sizable depreciation charges (an annualized QR911.8mn in 2019 accounting for 5.8x of the net profits and 2.4x of EBIT) depresses Qatalum's bottom-line. However, it also allows Qatalum to pay dividends based on its 'Distributable Free Cash' in excess of its net earnings occasionally, as it has already done in 2015, 2016 and 1H18. **On the other hand, paying dividends based on distributable free cash has its limits, as it will shrink Qatalum's shareholders equity (QR9.64bn as of 2019).**
- **Falling feedstock prices (more than aluminum prices) are likely to bring a partial relief to the bottom-line in 2020-2021.** With the end of supply-side problems observed in 2018 and early 2019, alumina prices (the main feedstock for primary aluminum) have been on the path of normalization.

Feedstock Prices vs. Aluminum



Source: Bloomberg, QNB FS Research

Alumina Prices vs. Aluminum Prices



Source: QNB FS Research Estimates

Historical data shows that 15-19% of the primary aluminum prices are normal levels for alumina and excluding the 2018-1H2019 anomaly, the average ratio was 16.5% during the 2016-2020 period. During Jan-Jun'20, average alumina/aluminum price ratio retreated to 16.5%, which was notably below Jan-Jun'19's 20.8%, resulting in an increase in Qatalum's EBITDA margins from 26.1% in 2019 to 29.4% in 1Q2020.

Investment Negatives

- Qatalum's tax holiday ends in September 2020 and the company could pay a 10% corporate tax in 2021.** However, QAMCO is expected to receive either a tax exemption or more likely a tax rebate for its 50% stake in Qatalum as is the case with Qatar Petroleum's other JVs with foreign partners. Meanwhile, QAMCO will maintain its tax amnesty and will only be obliged to pay its Social & Sports Contribution Fund, which will be 2.5% of PBT, similar to other listed companies.
- Qatalum's production capacity has already surpassed its initial capacity. In order to sustain future growth, the company may require sizable capex.** The company has a nameplate capacity of 585k tons pa but operates at an annual production volume of 650k tons as a result of the enhancements/de-bottlenecking realized so far. The company currently has no expansion plans despite its strong cash generation, which could limit QAMCO's future growth opportunities.
- Like any other commodity producer, Qatalum has no control on aluminum prices or feedstock prices.** Consequently, QAMCO's bottom-line and dividends as well as its target valuation and market value are all dependent on these uncontrollable variables.
- In the long run, secondary aluminum production (using recycled aluminum scrap) may replace primary production to a large extent due to energy efficiencies & environmental issues.** Aluminium can be recycled endlessly without a significant decay in its quality. According to the IAI, secondary production is 92-95% more energy efficient than primary production, resulting in less emissions. Moreover, secondary production creates less waste and leads to lower transportation costs (alumina refiners have to be located close to bauxite mines and smelters are required to be placed where energy costs are lower). Hence, aluminum industry has higher intra-industry transportation costs. Aluminium beverage cans can be recycled up to 98%, while aluminum used in construction and automotive industries can be recycled approximately by 90%. Inefficiencies in the scrap collection

process (which effectively cuts the beverage can recycling ratio to around 70% even in the US) is likely to be reduced in time as nine EU countries have already reached >90% recycling ratios for beverage cans, with Germany and Finland at 99%. On the other hand, as the global aluminum final product base expands, high quality scrap will be more abundant, which may reduce the requirement for the primary aluminum supply. Currently, 20% of the global aluminum demand is met by scrap aluminum. The International Aluminium Institute (IAI) estimates 21mn tons of scrap to be collected worldwide in 2020 vs. 17mn in 2016 with a CAGR of 5.4%. Therefore, we are of the view that there is no imminent threat to primary producers for the time being. However, in time as aluminum scrap availability increases worldwide, we expect new capex to focus more on recycled aluminum.

Catalysts

- **The most important catalyst for QAMCO would be the announcement of a sizable capacity expansion project at Qatalum.** Any capacity expansion would incur substantial capex (for example, Aluminium Bahrain's recently completed 540k tpa expansion costed c.\$3bn). Such an expansion could depress Qatalum's and thereby QAMCO's dividend yield considerably. On the other hand, this could convert QAMCO into a growth stock, adding a growth premium to QAMCO's share price.
- **Primary aluminum and feedstock price trends:** Higher primary aluminum prices in general lead to higher profits and dividends and consequently higher valuations for commodity producers. On the other hand, feedstock prices affect margins strongly.
- **Better than expected dividends:** As we have noted before, QAMCO's dividend yield may increase if Qatalum pay dividends to QAMCO based on its free cash flow.
- **Going forward, Qatalum's tax holiday ends in September 2020 and the company could pay a 10% corporate tax in 2021.** However, QAMCO is expected to receive a tax exemption or more likely, a tax rebate for its 50% stake in Qatalum, as is the case with Qatar Petroleum's other JVs with foreign partners. Meanwhile, QAMCO will maintain its tax amnesty and will only be obliged to pay Social & Sports Contribution Fund, which will be 2.5% of PBT, similar to other listed companies.

Aluminium Prices & Global Production Trends

Aluminium is the second most consumed metal on earth, following steel. Aluminium is also the most abundant metal on earth making c8% of the earth's crust, and the third most abundant material, following oxygen and silicon. Aluminium is not found in pure form; hence, the main raw material for aluminium is mainly bauxite ore, which includes 30-60% aluminum oxide. Australia is the major bauxite ore supplier globally, providing 28% of the global supply (300mn tons as of 2018), followed by China (21%), Guinea (15%) and Brazil (12%). These four countries together provide 76% of the global bauxite ore as of 2018. Meanwhile, according to the U.S. Geological Survey Mineral Commodity Summaries Report, global bauxite resources are estimated around 55-75bn tons; hence, there is no raw material depletion threat for primary aluminum producers on the horizon.

Although it is more expensive than steel, aluminum has substantial advantages vs. steel such as weighing c66% lighter vs. steel, which is a major selling point especially for the automotive sector. This is because automotive producers are constantly looking for ways to reduce vehicle weights in an attempt to reduce carbon emissions. Aluminium does not corrode or rust; it is non-magnetic and similar to steel, it can be welded, riveted, bonded, bolted and is recyclable. Aluminium can also be utilized as a cost-effective substitute for copper; although it has c60% of copper's conductivity, it weighs and costs 30% and 31% of copper, respectively.

Global primary aluminum production rose by a CAGR of 3.5% during 2014-19, reaching 63.7mn tons as of 2019 according to the International Aluminium Institute (IAI). However, production growth

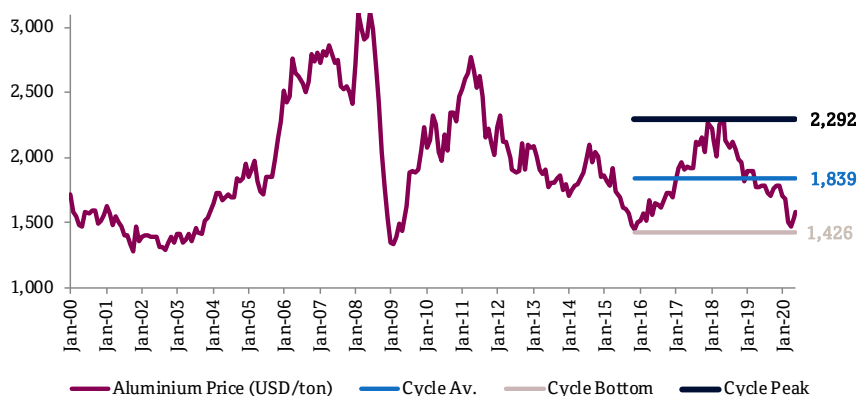
might decelerate over the next 10 years in line with the decelerating global demand growth expectations. Asian (ex-China) demand rose by a CAGR of 9.3% over the last five years to 3.95mn tons, whereas Chinese production expanded at a CAGR of 8.8% reaching 35.9mn as of 2018. China has the highest primary smelting capacity in the world and according to the CRU Commodity Research, Chinese smelting capacity reached 49mn tpa as of 2018, corresponding to 54% of the global capacity.

Following China, the GCC region is the second largest aluminum producer in the world, thanks to its low energy costs. With its 6mn tons pa capacity, the GCC ranks second in global aluminum production. Primary aluminum production in the GCC rose by a CAGR of 7.1% during 2012-17, reaching 5.15mn tons as of 2017, comprising 8% of the world's production. In terms of the regional competitive landscape, UAE's Emirates Global Aluminium (EGA) is the GCC's largest producer with its estimated 2.66mn tons of capacity, followed by Aluminium Bahrain-ALBA (c1.54mn tons), KSA's Maaden (763k), Qatalum (production: 650k) and Oman's Sohar Aluminium (390k). With an approximately \$3bn pot-line 6 capex, ALBA has recently expanded its annual capacity by 0.54mn tons.

Price Trends

Primary aluminum prices has been recovering from their 5-year cycle lows, but we believe high supply-demand surplus could hamper this price recovery. Primary aluminum's 2015 bottom (\$1,446/ton) was a result of a general decline in commodities, following the fall of oil prices from \$115/b in Jun'14 to \$47 in Jan'15.

Aluminum Price Cycle (2015-2020)



Source: Bloomberg

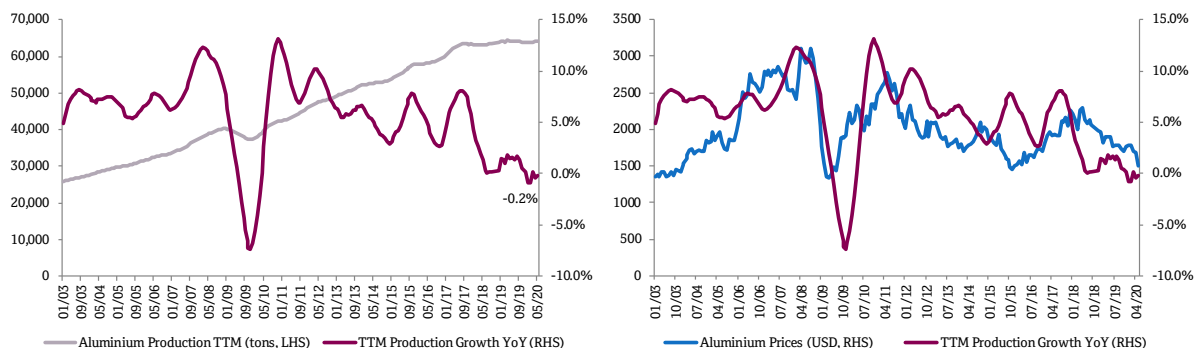
On the other hand, 2018's top was attributable to US sanctions against Rusal. Besides the recovery in oil and other commodity prices in 2016-2017, in Apr'18, US initiated sanctions on the world's second largest aluminum producer Rusal and this resulted in a spike in aluminum prices from \$2,000/ton to \$2,500. However, this rally was short lived, as prices fell back to \$2,000 by Jul'18. With its 3.2mn tons aluminum production in 2018, Rusal comprises 6% of the global aluminum production, most of which is exported outside of Russia. Later during 2H2018-1H2019, we observed that aluminum smelters could not reflect raw material price hikes (primarily of alumina) in their final products, which was another demonstration of lackluster global aluminum demand even before coronavirus ramifications.

A partial recovery in primary aluminum prices in 4Q2019 (from \$1,690 in Sep'19 to \$1,812 in Jan'20), was interrupted by a demand slump due to the coronavirus pandemic. This led primary aluminum prices to test the cycle bottom again in Apr'20, touching \$1,426. Since then, in line with diminishing global panic, prices recovered partially to \$1,551 in June.

Going forward, primary aluminum prices are likely to stay below the mid-cycle level (\$1,839) until 2023 due to supply-demand imbalances. As a result of an 8% YoY decline in global primary aluminum demand vs. a 2% YoY increase in supply as of 1Q2020, global supply-demand surplus reached 2mn tons as of 1Q2020. This is expected to fluctuate between 1.5mn to 5.5mn in 2020, putting pressure on prices. Even during Apr'11-Dec'15 when aluminum prices fell from \$2,768 to \$1,446, global TTM

production growth did not retreat below 2.9%, which was the lowest level over that period. This also shows that primary aluminum production is somewhat rigid vs. price and global demand dynamics.

Global Aluminum Production, Prices & Growth



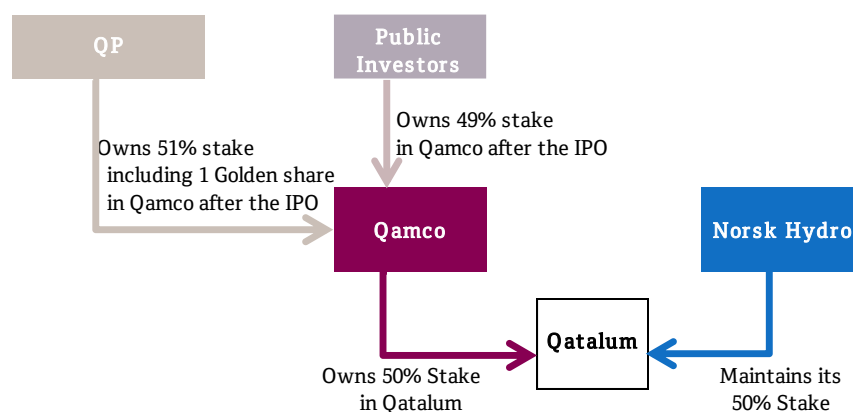
Source: IAI

As of May'20, trailing 12-months global aluminum production was 64.0mn tons, flattish vs. May'19 with a 0.2% contraction YoY, implying that supply side pressure may be a drag on the prices in the coming periods. Using Bloomberg's consensus estimates for primary aluminum, we have considered an average of \$1,690/ton for the 2020-2023e period in our earnings forecasts, which is 8.1% below 2016-2020 cycle average of \$1,839.

Company Overview

QAMCO is a holding company that owns a 50% stake in Qatar Aluminium (Qatalum), a primary aluminum producer. Before the IPO in Dec'18, Qatar Petroleum established QAMCO and placed its 50% stake of Qatalum into QAMCO as capital-in-kind. **QAMCO is not expected to be engaged in any other businesses other than holding Qatalum shares and operates with minimal G&A (QR10.2mn for the Dec'18-Dec-19 period).**

QAMCO & Qatalum, (post-IPO)



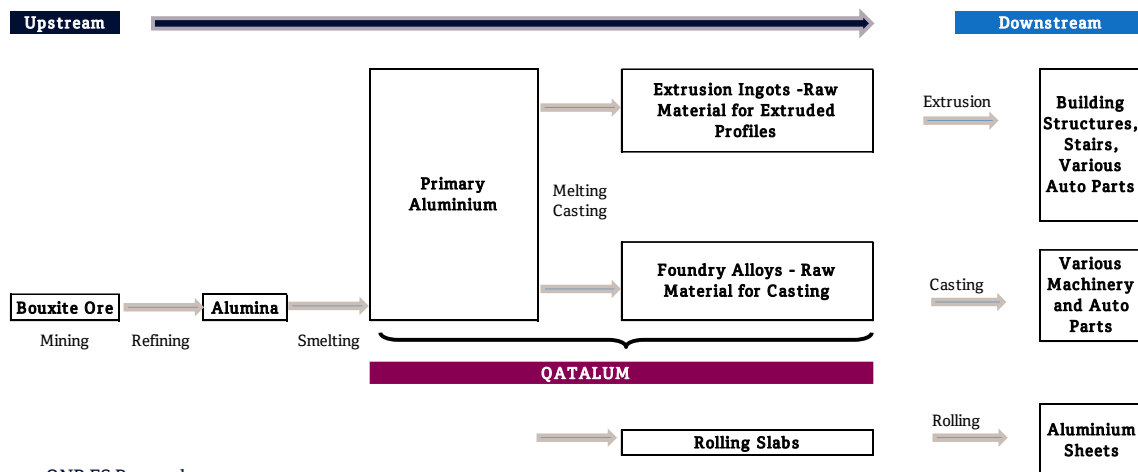
Source: QAMCO

Qatalum was established as a JV of Qatar Petroleum and Norsk Hydro Aluminium of Norway in 2008. In summary, Qatalum uses alumina as the main raw material and benefitting from low energy costs, produces extrusion ingots and foundry alloys. Downstream producers, serving mainly automotive, construction, and food & beverage sectors, use Qatalum's products as raw material.

Qatalum's major shareholders are strategic assets for the company. QP provides natural gas (NG) to Qatalum whereas Norsk Hydro supports the company in raw material (alumina) procurement, marketing Qatalum's products through Hydro's global sales network and by providing technical assistance to Qatalum. Norsk Hydro runs 10 primary aluminum plants worldwide and with its 2.0mn tons of total production, is the 8th largest global aluminum producer. Norsk Hydro (NHY NO) trades in the Oslo/Norway Stock Exchange with a current market capitalization of \$5.6bn.

Qatalum is not a fully integrated operation, as it does not have its own mines or aluminum refinery; it procures alumina to produce aluminum. In order to produce aluminum, bauxite ore is first converted to alumina (Aluminium Oxide - Al_2O_3) at alumina refineries. Qatalum does not have its own refinery; it procures alumina and smelts it into aluminum at its reduction plant (nameplate capacity: 585k tpa) by using the Hall-Heroult electrolysis process. Qatalum's reduction plant has two pot-lines of 1.2kms each, and produces liquid aluminum, which is then treated in fluxing stations to eliminate impurities.

Aluminium Value Chain & Qatalum



Source: QNB FS Research

Qatalum's cast-house produces extrusion ingots and foundry alloys with annual capacities of 350k tpa and 275k tpa, respectively, from the aluminum smelted by its reduction plant. Aluminium produced in the reduction plant is heated in gas-fired furnaces and cast into desired products. Meanwhile, Qatalum's carbon plant produces carbon anodes that are consumed during the smelting process and the anode service plant does the cooling of spent anodes, bath electrolyte handling as well as anode rodding.

Power Plant: Aluminium smelting process is highly energy intensive (electricity and gas accounts for 23-45% of COGS of a smelter) and thanks to its natural gas-fired power plant capacity of 1,340MW, Qatalum is able to co-generate its electricity requirement itself cost effectively. Qatalum procures natural gas from Qatar Petroleum via a 25-year contract that grants an option to Qatalum for a 15-year extension.

Detailed Financial Statements

Income Statement* - QAMCO

In QR mn	2019(**)	2020e	2021e	2022e
Total Revenues	2,695	2,113	2,174	2,304
Total operating expenses	2,494	1,993	2,015	2,066
Raw materials and energy consumption	1,487	1,130	1,134	1,172
Salaries and related costs	225	206	208	210
Depreciation and amortization	494	445	451	458
Loss on disposal of PPE	30	3	1	1
Technical service costs	31	23	27	28
Other expenses	218	177	182	185
Qamco's own SG&A	10	11	11	12
Operating profit	200	119	159	238
EBITDA	694	564	610	696
Net finance costs	121	95	79	63
Net Profits	80	24	80	175
Other Comprehensive Income:	10	0	0	0
Total Comprehensive Income	90	24	80	175
EPS	0.01	0.00	0.01	0.03
DPS	0.01	0.00	0.01	0.03

* As QAMCO has no operations on his own, figures are based on QAMCO's 50% stake at Qatalum plus QAMCO's own P&L items

** QAMCO's 2019 financials are for the 13-month period between Dec'18-Dec'19

Note: EPS based on current number of shares, Source: Company data, QNB FS Research estimates

Balance Sheet - QAMCO

In QR mn	2019(*)	2020e	2021e	2022e
Current Assets				
Cash & Cash Equivalents	103	51	61	81
HFT Investments/ST Investments	0	0	0	0
Accounts Receivables/Prepayments	0	0	0	0
Other Receivables	2	2	2	2
Inventories	0	0	0	0
Total Current Assets	105	52	63	83
Non-Current Assets				
Investment in a joint venture	5,647	5,723	5,780	5,881
Goodwill & Intangibles	0	0	0	0
Property, Plant & Equipment	0	0	0	0
Non-Current Assets	5,647	5,723	5,780	5,881
Total Assets	5,752	5,776	5,843	5,964
Current Liabilities				
Accounts Payable & Accruals	0	0	0	0
Other Payables	29	39	40	41
Due to Related Parties	4	2	2	2
Current Liabilities	34	41	42	43
Non-Current Liabilities				
Employees End of Service Benefits	0	0	0	0
Long-Term Debt	0	0	0	0
Non-Current Liabilities	0	0	0	0
Total Liabilities	34	41	42	43
Shareholders' Equity				
Share Capital	5,580	5,580	5,580	5,580
Total Shareholder's Equity	5,719	5,735	5,801	5,921
Liabilities & Shareholder's Equity	5,752	5,776	5,843	5,964

Source: Company data, QNB FS Research estimates

Ratio Analysis

Key Metrics

Particulars	2019(***)	2020e	2021e	2022e	2023e
Growth Rates*					
Revenue*	N/M	(21.6%)	2.9%	6.0%	4.1%
Gross Profit*	N/M	(32.1%)	14.7%	22.0%	11.3%
EBITDA*	N/M	(18.4%)	8.2%	13.8%	7.8%
EBIT*	N/M	(38.2%)	31.4%	46.4%	19.2%
PAT/EPS**	N/M	(58.5%)	159.0%	103.6%	34.4%
DPS**	N/M	(58.5%)	159.0%	103.6%	34.4%
FCPS*	N/M	(21.6%)	9.3%	18.0%	9.7%
Operating Ratios*					
Gross Margin	18.1%	15.7%	17.5%	20.1%	21.6%
EBITDA Margin	26.1%	27.2%	28.6%	30.7%	31.8%
EBIT Margin	7.8%	6.2%	7.9%	10.8%	12.4%
Net Margin	3.2%	1.7%	4.2%	8.2%	10.5%
Finance Ratios*					
Debt-Equity Ratio	65%	58%	50%	41%	34%
Net Debt-to-Equity Ratio	54%	44%	31%	19%	7%
Net Debt-to-Mcap	115%	93%	67%	42%	16%
Net debt- to-EBITDA	3.3	3.3	2.2	1.2	0.4
Interest Coverage	5.7	6.1	7.9	11.4	16.9
Return Ratios**					
ROA	1.4%	0.4%	1.4%	2.9%	3.9%
ROE	1.4%	0.4%	1.4%	2.9%	3.9%
Valuation					
EPS**	0.01	0.00	0.01	0.03	0.04
DPS**	0.01	0.00	0.01	0.03	0.04
FCFPS*	0.10	0.07	0.08	0.10	0.11
EV/Sales*	1.2	1.4	1.3	1.1	0.9
EV/EBITDA*	9.3	10.6	8.9	7.1	5.9
EV/EBIT*	32.1	50.2	34.2	20.8	15.5
P/E**	52.4	164.9	51.5	23.8	17.5
P/BV**	0.7	0.7	0.7	0.7	0.7
FCF Yield*	13.0%	10.2%	11.1%	13.1%	14.4%
Dividend Yield**	1.4%	0.5%	1.7%	3.8%	5.1%

* As QAMCO has no operations of its own, multiples are based on QAMCO's 50% stake at Qatalum, plus QAMCO's relevant financial items

** QAMCO

*** QAMCO's 2019 financials are for the 13-month period between Dec'18-Dec'19

Source: Company data, QNB FS Research estimates

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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