

## QNBFS Alert – Weak 2Q17 Net Masks Drilling Segment Improvement; QR28 Price Target

- **Low bottom-line results mask improving performance from the drilling segment** - GISS reported a net profit of QR0.743mn in 2Q2017, which was well below our modeled estimate. However, operating results were largely in-line with our model (please see page 2 for segment details ) with gains in drilling and aviation offset by weakness in catering and insurance. The 1H2017 earnings miss vs. our estimate was predominantly due to an impairment charge (associated with drilling) of QR11mn and higher-than-expected SG&A expenses and finance costs.
- **Drilling segment may have turned a corner as we had expected with 1H2017 revenue better by 10% vs. our model along with upside in gross margins.** We continue to remain optimistic about offshore rig deployments in 2017 with the entire fleet of nine rigs set to be deployed this year (all should be invoicing by 4Q2017) vs. only six rigs working in 2016. The aviation segment also surprised positively despite having to suspend a contract in one of the blockade countries under force-majeure. The catering segment weakened beyond our modeled estimates, impacted by demobilization of some of its major contracts in 2H2016. Finally, the general downturn in medical and general insurance business and rate reduction affected the insurance segment.
- **Recommendation & Risks: We rate GISS a Market Perform with a QR28/sh price target.** GISS stock continues to remain in a “show me” mode. Risks: Volatile oil prices remain a substantial risk to regional equity prices. Further decline in rig rates/rig utilizations could pressure the stock. GISS also faces concentration risk given its exposure to QP/affiliates.

# QNBFS Alert – Weak 2Q17 Net Masks Drilling Segment Improvement; QR28 Price Target

In QR '000 Except Otherwise Noted	1H2017E	1H2017A	A V E
<b>Total Revenue</b>	<b>1,283,213</b>	<b>1,255,575</b>	<b>-2.2%</b>
Insurance	150,766	155,007	2.8%
<i>% Revenue</i>	<i>11.7%</i>	<i>12.3%</i>	
Aviation	255,866	277,850	8.6%
<i>% Revenue</i>	<i>19.9%</i>	<i>22.1%</i>	
Catering	355,307	251,573	-29.2%
<i>% Revenue</i>	<i>27.7%</i>	<i>20.0%</i>	
Drilling	521,275	571,145	9.6%
<i>% Revenue</i>	<i>40.6%</i>	<i>45.5%</i>	
<b>COGS</b>	<b>1,089,362</b>	<b>1,059,756</b>	<b>-2.7%</b>
<b>Gross Profit</b>	<b>193,852</b>	<b>195,819</b>	<b>1.0%</b>
<b>GM %</b>	<b>15.1%</b>	<b>15.6%</b>	
Insurance	42,214	33,191	-21.4%
<i>GM %</i>	<i>28.0%</i>	<i>21.4%</i>	
Aviation	97,229	105,710	8.7%
<i>GM %</i>	<i>38.0%</i>	<i>38.0%</i>	
Catering	39,608	23,201	-41.4%
<i>GM %</i>	<i>11.1%</i>	<i>9.2%</i>	
Drilling	14,800	33,717	127.8%

### Recommendations

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

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

### Risk Ratings

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

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

**Saugata Sarkar**  
Head of Research  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

**Mohamed Abo Daff**  
Senior Research Analyst  
+974 4476 6589  
mohd.abodaff@qnbfs.com.qa

**Shahan Keushgerian**  
Senior Research Analyst  
+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

**Zaid Al Nafsoosi, CMT, CFTE**  
Senior Research Analyst  
+974 4476 6535  
zaid.alnafsoosi@qnbfs.com.qa

**DISCLAIMER:** This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNBFS.