

GISS Alert – Amwaj to Potentially Merge with its Competitor Shaqab, a Leading Private Player; Accumulate

- **GISS announces it has entered into negotiations pertaining to a potential merger of Amwaj with Shaqab in an all-share swap deal** – Gulf International Services (GISS) has entered into an interim agreement with Manaya Holding Group, in relation to a potential all-share merger of 100%-owned Amwaj Catering with selected entities of Shaqab Abela Catering Services Co. & Atyab Fruits and Vegetables. Privately-held Shaqab, much like Amwaj, is a top-3 player in the industrial catering and manpower services sector in Qatar; Shaqab is also involved in facilities management services & managed and serviced staff accommodation solutions. Atyab is an importer/wholesaler of food and non-food products, mostly serving Shaqab and other institutional clients. Thus, a successful deal could create the leading player in this segment – a local champion with economies of scale, enhanced growth prospects and potential for capturing commercial and operational synergies. The potential merger is subject to a detailed valuation exercise, shareholder/regulatory approvals, along with other customary closing requirements.
- **Amwaj has struggled and this deal has the potential to turn things around.** Back on May 31, 2012, GISS bought 100% of Amwaj from QatarEnergy (then known as Qatar Petroleum) for a net cash consideration of QR422.1mn. The company carries goodwill to the tune of QR303.6mn (3% of total assets) related to this deal. Catering revenue, which peaked at QR1.1bn in 2014, has since then ran into several headwinds, including the blockade and coronavirus-related shutdowns, and stood at QR361.1mn in 2021. Amwaj is also a fairly-low margin business, with net margins generally exhibiting volatility and receding from around single-digits/low-teens historically to losses in 2020-2021. *If this deal goes through, we expect the following positives to potentially enhance the catering segment's revenue/margins: (1) elimination of price competition between Amwaj and Shaqab; (2) vertical integration with Atyab, which is a leading importer of fruits; (3) increased traction in Qatar's strategic North Field and overall energy sector expansion projects.*
- **We maintain our Accumulate rating and QR2.1000 price target on GISS.** We continue to envision an acceleration in momentum in the drilling segment in 2022 and onward. We expect earnings to continue to improve in 2022 with the drilling segment achieving profitability (or near-profitability). Other segments should also contribute positively, while continued progress in costs reduction should help boost earnings. **In terms of catalysts, positive newsflow/performance on the drilling front and signs of growth in the other segments should help.** We stay longer-term positive on GISS but the stock remains in a “show-me” mode. We continue to expect improving financial performance to drive stock price performance over the next 12 months. Moreover, we believe the progress made in costs reduction thus far should dovetail improving market fundamentals as we move forward. Favorable updates on debt restructuring, which was put on the back burner due to COVID-19, could also please equity investors.

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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

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

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

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