

GISS Alert – Higher Accruals, Esp. in Drilling Impact 4Q2021 But Operating Results Improve; Accumulate

- **GISS posted a profit of QR12.9mn in 4Q2021 vs. a net loss of QR367.3mn in 4Q2020 and a profit of QR42.0mn in 3Q2021:** Reported earnings for 4Q2021 came in below our forecast of QR59.8mn despite a modest upside in revenue and better-than-anticipated gross profits relative to our model. The miss in earnings for 4Q2021 was mostly due to: (1) A loss from GDI's GulfDrill JV of QR5.0mn in 4Q2021 vs. our estimate of JV income of QR24.5mn as the company accrued mobilization costs for its JV rigs. We note this is mostly a timing issue and expect this to dissipate in 2022 as the JV recoups these costs from Qatargas. (2) A QR24.8mn miscellaneous expense, primarily made up of F/X losses in Gulf Helicopter's Turkish subsidiary. **Overall, excluding these one-offs, results were generally unsurprising and 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.
- **Overall 4Q2021 revenue of QR844.4mn (15.3% YoY, 3.6% QoQ) was in-line with our estimate (3.7% variation) of QR814.4mn. 4Q2021 drilling revenue of QR303.6mn (51.9% YoY, 10.1% QoQ) was higher than our estimate of QR276.0mn (10.0% divergence).** As expected, the significant top-line growth was driven by new higher day rates becoming effective for the 7 offshore rigs from July 2021, along with resumption of two onshore rigs (that had been idling for an year due to COVID-19) from 3Q2021. Moreover, all five offshore rigs are operating under the GulfDrill JV in the NFE project from 3Q2021 onward. **Aviation revenue** of QR194.5mn (-1.7% YoY, 2.6% QoQ) was only 2.7% ahead of our estimate of QR189.5mn as easing coronavirus restrictions helped flying activity domestically and internationally, leading to increasing flying hours. **Insurance top-line** of QR243.2mn (-1.0% YoY, -7.9% QoQ) came in 8.2% below our estimate of QR264.9mn mainly due to expiry of certain policies without renewals in 4Q2021. Finally, **catering revenue** of QR103.1mn (16.2% YoY, 20.4% QoQ) was higher than our estimate of QR84.1mn. Catering performance benefited from gradual lifting of restrictions from certain catering locations leading to better catering-related revenue, along with growth in the manpower business.
- **Relative to our model, lower-than-forecast profitability from primarily drilling and aviation served to lower 4Q2021 earnings.** Catering was the lone positive surprise. We point to one-offs, discussed above, as key contributors to the lower-than-anticipated 4Q2021 earnings. Gross profits did improve vs. our model despite a drag from the drilling segment. Given GISS' razor-thin margins any slight divergence in costs creates significant volatility in the bottom-line. *Please see page 2 for details on segmental revenue/costs/earnings.*
- **FY2021 revenue and earnings show traction.** While 2021 top-line grew 3.1% YoY, the company generated positive earnings of QR54.2mn vs. a significant net loss (driven mostly by GDI/GHC impairments) of QR318.5mn in 2020.
- **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. Lacking a dividend-related catalyst that generally benefits Qatari companies, we expect improving financial performance to drive stock price performance over the next 12 months. Moreover, we continue to believe the progress made in costs reduction thus far should dovetail recovery in 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.

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Income Statement

	4Q2020	3Q2021	4Q2021	4Q2021e	A Vs. E	YoY	QoQ	2020	2021	2021e	A Vs. E	YoY
Revenue	732.1	815.0	844.4	814.4	3.7%	15.3%	3.6%	2,998.3	3,091.1	3,061.1	1.0%	3.1%
<i>Gulf Drilling International (GDI)</i>	199.9	275.8	303.6	276.0	10.0%	51.9%	10.1%	923.1	1,019.8	992.2	2.8%	10.5%
<i>Gulf Helicopters Company (GHC)</i>	197.9	189.6	194.5	189.5	2.7%	-1.7%	2.6%	688.2	722.1	717.1	0.7%	4.9%
<i>Amwaj Catering Company (AHC)</i>	88.7	85.6	103.1	84.1	22.6%	16.2%	20.4%	405.7	361.1	342.1	5.6%	-11.0%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	245.6	263.9	243.2	264.9	-8.2%	-1.0%	-7.9%	981.2	988.0	1,009.7	-2.2%	0.7%
COGS	697.7	711.6	711.0	724.1	-1.8%	1.9%	-0.1%	2,666.1	2,744.6	2,757.7	-0.5%	2.9%
<i>Gulf Drilling International (GDI)</i>	299.8	249.6	327.3	262.1	24.9%	9.1%	31.1%	956.1	1,044.5	979.4	6.7%	9.3%
<i>Gulf Helicopters Company (GHC)</i>	125.4	109.8	107.2	109.5	-2.1%	-14.5%	-2.4%	434.6	423.8	426.1	-0.5%	-2.5%
<i>Amwaj Catering Company (AHC)</i>	59.0	99.4	64.8	99.2	-34.7%	9.8%	-34.8%	395.1	359.4	393.8	-8.7%	-9.0%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	213.6	252.8	211.7	253.2	-16.4%	-0.8%	-16.2%	880.3	916.9	958.4	-4.3%	4.1%
Gross Profit	34.4	103.4	133.4	90.3	47.7%	288.2%	29.0%	332.2	346.5	303.4	14.2%	4.3%
Gross Margin	4.7%	12.7%	15.8%	11.1%				11.1%	11.2%	9.9%		
<i>Gulf Drilling International (GDI)</i>	(100.0)	26.2	(23.7)	13.9	N/M	-76.3%	N/<	(32.9)	(24.7)	12.8	N/M	N/M
<i>Gross Margin</i>	-50.0%	9.5%	-7.8%	5.0%				-3.6%	-2.4%	1.3%		
<i>Gulf Helicopters Company (GHC)</i>	72.6	79.8	87.4	80.0	9.3%	20.4%	9.4%	253.6	298.4	291.0	2.5%	17.7%
<i>Gross Margin</i>	36.7%	42.1%	44.9%	42.2%				36.9%	41.3%	40.6%		
<i>Amwaj Catering Company (AHC)</i>	29.7	(13.7)	38.3	(15.1)	N/M	29.0%	N/M	10.6	1.8	(51.7)	N/M	-83.4%
<i>Gross Margin</i>	33.5%	-16.0%	37.2%	-18.0%				2.6%	0.5%	-15.1%		
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	32.1	11.1	31.4	11.7	169.6%	-2.1%	182.6%	100.9	71.1	51.3	38.5%	-29.5%
<i>Gross Margin</i>	13.1%	4.2%	12.9%	4.4%				10.3%	7.2%	5.1%		
Net Income	(367.3)	42.0	12.9	59.8	-78.4%	N/M	-69.3%	(318.5)	54.2	101.0	-46.4%	N/M
Net Margin	-50.2%	5.2%	1.5%	7.3%				-10.6%	1.8%	3.3%		
<i>Gulf Drilling International (GDI)</i>	(333.2)	(26.3)	(42.2)	(5.0)	752.6%	-87.3%	60.8%	(453.4)	(200.9)	(163.6)	22.8%	-55.7%
<i>Net Margin</i>	-166.7%	-9.5%	-13.9%	-1.8%				-49%	-20%	-16%		
<i>Gulf Helicopters Company (GHC)</i>	(38.6)	63.3	46.4	70.9	-34.5%	N/M	-26.6%	383.3	221.1	245.6	-10.0%	-42.3%
<i>Net Margin</i>	-19.5%	33.4%	23.9%	37.4%				56%	31%	34%		
<i>Amwaj Catering Company (AHC)</i>	(5.5)	(9.2)	3.1	(10.5)	N/M	N/M	N/M	(9.7)	(15.5)	(29.1)	-46.9%	59.2%
<i>Net Margin</i>	-6.2%	-10.7%	3.0%	-12.5%				-2%	-4%	-9%		
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	17.2	17.7	10.2	18.5	-45.0%	-40.9%	-42.5%	52.0	60.4	68.8	-12.1%	16.2%
<i>Net Margin</i>	7.0%	6.7%	4.2%	7.0%				5%	6%	7%		
<i>Corporate/Other</i>	(7.2)	(3.5)	(4.6)	(14.2)	-67.6%	-36.3%	29.7%	(290.7)	(11.0)	(20.6)	-46.7%	-96.2%
EPS	(0.20)	0.02	0.01	0.03	-78.4%	-103.5%	-69.3%	(0.17)	0.03	0.05	-46.4%	N/M
DPS								0.00	0.00	0.00		

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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