GISS Alert – Impairment Losses Wash Out Operational Performance; Accumulate

- **GISS posted an adjusted loss of QR10.3mn in 2020, excluding QR308.3mn in one-time impairment charges, relative to a profit of QR43.6mn in 2019.** We were expecting an adjusted profit of QR64.6mn in 2020. Overall, for FY2020, the company reported a net loss of QR318.5mn (including impairments) vs. our estimate of a QR135.7mn loss. For 4Q2020, given the above-mentioned substantial impairments, GISS reported a net loss of QR367.3mn as compared to a net profit of QR9.0mn in 4Q2019 and a net loss of QR5.2mn in 3Q2020; we were expecting a net loss of QR184.5mn for 4Q2020. Excluding these impairments, adjusted loss for 4Q2020 was QR59.1mn vs. our estimate of a profit of QR15.8mn. *The earnings miss in 2020/4Q2020 is primarily because of higher-than-expected impairment charges of QR308.3mn vs. our estimate of an impairment charge of QR200.3mn.* While we had modeled in the impairment of the offshore Msherib rig and the onshore GDI-3 rig (QR221.1mn), we had not considered the impairment of old non-operating bell helicopters in the aviation segment (QR87.1mn).
- **Overall 2020 revenue was flattish at QR3.0bn vs. 2019/QNBFS estimate of QR3.0bn.** For 4Q2020, revenue of QR732.1mn (-5.3% YoY/3.5% QoQ) was 4.2% ahead of our estimate of QR702.9mn. 4Q2020 top-line was better-than-expected in aviation (31.2% YoY, 31.8% QoQ) and drilling (-26.2% YoY, -0.8% QoQ) but came in moderately lower vs. our estimates in insurance (5.0% YoY, -7.5% QoQ) and catering (-24.4% YoY, -1.5% QoQ). Aviation revenue growth was due to improved flying hours in Qatar, growth in Turkey and positive momentum related to a domestic contract in the MRO business. Fewer policies were written sequentially in the insurance business given no major renewals. Drilling held the line QoQ but YoY performance continued to be affected by coronavirus-related suspensions (especially in the onshore fleet) and rig rate cuts enacted in July.
- **No dividends were declared as expected.** GISS has not distributed cash dividends from 2017.
- **The NFE project remains a significant catalyst for future growth in GDI & GISS.** As expected, GDI's JV with Seadrill called as GulfDrill started deploying its jackup "Lovanda" on March 29 as part of its 80-well drilling program for Qatar's North Field East project. The second rig (West Castor) started work in late August. We further model in the remaining four rigs in 2021 but our rig deployment schedule projections are somewhat back-end loaded vs. management guidance of a phased deployment in 1H2021.
- **We expect earnings to surface back into the green (ex. any one-offs, such as impairment) in 2021 as drilling loss declines significantly.** Other segments also contribute positively, while continued progress in costs reduction and lower finance charges help boost earnings.
- **While the stock should react negatively to the reported net loss, in the medium-term, positive newsflow/performance on the drilling front and signs of growth in the other segments should help.** Favorable updates on debt restructuring could please equity investors. We stay longer-term positive on GISS shares but the stock remains in a "show-me" mode. Lacking a dividend-related catalyst that generally benefits Qatari companies, we expect improving financial performance in 2021 and newsflow regarding the NFE expansion/debt restructuring to drive stock price performance over the next 12 months.

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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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