

Gulf International Services (GISS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR113.00	Target Price	QR136.00
Implied Upside	20.4%		

Revising Estimates and Upping Price Target to QR136

Raising estimates and price target following GISS' latest contract announcement involving a brand new offshore rig named Halul: In its fourth contract announcement since mid-June, GDI was awarded a QR1.2bn (~\$330mn) five-year contract to supply a 4th jack-up rig, Halul, to Qatar Petroleum (QP). Halul will become GDI's 10th overall offshore rig and will command a day rate of ~\$180k once it is deployed around mid-2016. As a result, we have adjusted our model upping our 2016-2018 revenue, EBITDA and net income estimates by an average of around 4-5%. Consequently, we are increasing our price target by 5% to QR136.00 from QR129.00 and maintain our Outperform rating.

Highlights

- **Latest QR1.2bn offshore contract for Halul at a hefty ~50% premium to the 2013 blended offshore rate.** The disclosed deal value implies a day rate of ~\$180k/d (including income from ancillary services), some 5% below the ~\$190k/d announced for the Dukhan rig but 25% above the ~\$145k/d rate for Al-Jassra. GDI has already selected an international shipyard with a suitable rig that can be delivered by 2Q2014 and is in the process of finalizing its order. With the deployment of Dukhan, GDI's offshore fleet will increase to ten rigs.
- **Net-net, we are boosting our 2016-2018 revenue, EBITDA and earnings forecasts by an average of 4%, 5% and 4%, respectively.** We are assuming Halul is deployed in June 2016 and thus our 2014 estimates are unchanged. We have slightly reduced our 2015 net income estimate factoring in additional debt to fund the purchase of this rig but our 2015 revenue/EBITDA estimates remain unaltered. *More details on our model changes are available on Page 2.*
- **On a roll – latest offshore Halul rig contract marks the fourth consecutive deal signed at premium rates since mid-June. (1)** On June 11, GDI announced a five-year contract for two onshore rigs, GDI-7 and GDI-8, with a disclosed value of QR1.1bn (~\$302mn) implying an average rate of almost \$83k/rig versus \$30.4k/rig for the existing land fleet as of 2013. We expect GDI-7 to be deployed in 3Q2015 followed by GDI-8 in 4Q2015. **(2)** On June 16, GDI announced a QR1.275bn (~\$350mn), five-year contract for the Dukhan jack-up offshore rig. When commencing operations in 4Q2014, this rig will garner around \$190k/d, or a ~35% premium to Al-Jassra and a ~60% premium to the 2013 blended offshore rate (seven rigs). **(3)** On July 10, GDI announced a five-year, QR1.6bn contract extension for GDI 1-4 land rigs with effect from 2Q2014. At around ~\$60k/d/rig, deal extension terms implied 2x existing land rig rates. *All four deals, including the most recent Halul contract, have been signed with QP. In total, these four contracts add ~QR5.2bn in revenue, or roughly QR1bn in incremental top-line per year for five years vs. QR912mn posted by all of GDI (at 70% stake) in 2013.*

Catalysts

- **Expansion in offshore and potential rig contract re-pricing:** Renewals for Al-Wajbah and Al-Khor later this year could provide newsflow catalysts given our expectation of improved pricing terms. Further, targeting a ~50% share in offshore Qatar by 2015, GDI retains significant long-term potential. On the catering front, Amwaj should benefit when major projects, such as Barzan (initial phase: 2015), Al Sejeel (2018) and Al Karaana (2018) come on-line.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Outperform rating on GISS with a revised price target of QR136.00.** The stock is currently trading at 2014 and 2015 P/E multiples of 20.8x and 18.8x, respectively.
- **Risks:** Besides the risk of a decline in oil & gas prices, GISS also faces concentration risk, as most of its businesses are dependent on QP/affiliates.

Key Financial Data and Estimates

	2012	2013	2014e	2015e
EPS (QR)	2.50	3.64	5.44	6.01
P/E (x)	45.2	31.0	20.8	18.8

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	GISS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector	Industrials
52wk High/52wk Low (QR)	119.50/34.16
3-m Avg. Volume (000)	322.3
Mkt. Cap. (\$ bn/QR bn)	5.8/21.0
FO Limit* (%)	25.0
Current FO* (%)	13.9
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	210.5
Fiscal Year End	December 31

Source: Bloomberg (as of July 21, 2014), *Qatar Exchange (as of July 20, 2014); Note: FO is foreign ownership

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Detailed Financial Statements

Major Estimate Changes

In QR m n	2014e			2015e			2016e			2017e			2018e		
	New	Old	(%)	New	Old	(%)	New	Old	(%)	New	Old	(%)	New	Old	(%)
Revenue	3,805	3,805	0.0	4,915	4,915	0.0	5,432	5,272	3.0	5,751	5,512	4.3	6,002	5,765	4.1
EBITDA	1,406	1,406	0.0	1,734	1,734	0.0	1,944	1,868	4.1	2,164	2,046	5.8	2,243	2,125	5.5
EBITDA Margin (%)	37.0	37.0		35.3	35.3		35.8	35.4		37.6	37.1		37.4	36.9	
Net Income	1,011	1,011	0.0	1,118	1,122	(0.4)	1,247	1,210	3.1	1,435	1,372	4.6	1,501	1,438	4.4
Net Margin (%)	26.6	26.6		22.7	22.8		23.0	22.9		25.0	24.9		25.0	24.9	
EPS (QR)	5.44	5.44	0.0	6.01	6.04	(0.4)	6.71	6.51	3.1	7.72	7.38	4.6	8.08	7.74	4.4

Source: Company data, QNBFS estimates

Income Statement

	2012	2013	2014e	2015e
Revenue	1,574	2,302	3,805	4,915
Gulf Drilling International (GDI)*			1,365	2,355
Gulf Helicopters Company (GHC)	514	619	636	693
Amwaj Catering Company (ACS)	436	976	1,041	1,050
Al Koot Insurance & Reinsurance (AKIR)	624	707	763	817
COGS	1,247	1,818	2,755	3,486
Gross Profit	327	484	1,051	1,429
SG&A	66	94	224	329
Total Other Income	49	39	55	55
Net Finance Income (Expense)	6	3	(17)	(38)
Income from JVs	148	245	146	1
Net Income	464	677	1,011	1,118
EBITDA	558	782	1,406	1,734

Source: Company data, QNBFS estimates; Note: EPS based on current number of shares, *GDI results consolidated from May 1, 2014

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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