

## Gulf International Services (GISS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR30.70	Current Target Price	QR39.00
Implied Upside	27.0%	Old Target Price	QR45.00

### Revising TP; Potential Rig Deployments Could Drive Upside

We are lowering our estimates & price target for GISS to reflect 9M2016 results and model changes. 3Q2016 was below expectations with net income dropping to QR28mn. While details behind this decline were not provided, we assume weakness in particularly the drilling segment followed by the aviation segment, key drivers of this fall. We have adjusted our model to reflect 9M2016 results. For 2017-2018, we leave our revenue estimates unchanged but lower our EBITDA by an average of 3% and our net income by an average of 7% modeling higher costs. **We note upside to our estimates is possible given idle assets (three offshore rigs/one accommodation jack-up) are listed as warm stacked (two under process recertification) and thus could be potentially deployed in the medium term.** We maintain our Outperform rating and reduce our target price to QR39.

#### Highlights

- **We project an increase in net income on a sequential basis after the dip seen in 3Q2016.** There is virtually no clarity on segment performance as segment details were last disclosed in 1H2016. We do believe the worst is behind us in terms of the drilling segment and expect the insurance segment to show its usual fourth quarter uptick. For dividends, we hold GISS' 2016 DPS flat at QR1.00.
- **Lowering estimates factoring in recent results and rig deployment schedule.** For 2017-2018, we leave our revenue estimates unchanged but lower our EBITDA by an average of 3% and our net income by an average of 7% modeling higher costs.
- **We could see 2017 earnings improve by around 10% if rig deployments pick up.** In our model, we do not assume any contribution from four offshore rigs, Al Doha, Al Rayyan, Al Khor (went off contract end-2016) and Les-hat, and one barge Zikreet, in 2017. However, Al Doha and Les Hat are both listed as warm-stacked under process recertification, while Al Rayyan and Zikreet are classified as warm stacked. If all these five assets are deployed from 2Q2017 onward, we could see 2017 earnings pick up by 10% from our current estimate.

#### Catalysts

- **Stock price improvement hinged on a resumption of confidence in company performance.** GISS could also potentially gain 100%-offshore market share (2 rigs), allowing for redeployment of idling rigs. With drilling segment performance closely linked to oil prices, an expected recovery in crude could help the stock price this year.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate GISS an Outperform with a QR39 price target.** GISS trades at 2017 & 2018 EV/EBITDA multiples of 8.9x and 7.3x, respectively. While our price target offers upside, the stock remains 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.

#### Key Financial Data and Estimates

	2015	2016e	2017e	2018e
EPS (QR)	4.31	1.27	2.13	3.35
P/E (x)	7.1	24.3	14.4	9.2
P/B (x)	1.5	1.4	1.4	1.2
EV/EBITDA (x)	7.3	10.8	8.9	7.3
DPS (QR)	1.00	1.00	1.25	1.50
DY (%)	3.3%	3.3%	4.1%	4.9%

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)	44.50/27.40
3-m Avg. Volume (000)	266.4
Mkt. Cap. (\$ bn/QR bn)	1.6/5.7
FO Limit* (%)	25.0
Current FO* (%)	7.0
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	(26.2)
Fiscal Year End	December 31

Source: Bloomberg (as of January 29 21, 2016), \*Qatar Exchange (as of January 26, 2016); Note: FO is foreign ownership

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## Detailed Financial Statements

### Income Statement

In QR mn	FY2014*	FY2015	FY2016e	FY2017e	FY2018e
Revenue	3,906	4,164	3,055	3,450	4,096
COGS	2,710	2,954	2,523	2,732	3,128
Gross Profit	1,196	1,210	533	718	968
SG&A	217	267	228	234	252
Total Other Income	89	(84)	29	29	30
Net Finance Income (Expense)	(27)	(58)	(98)	(118)	(123)
One-Offs/Non-Recurring Items	269	0	0	0	0
Income from JVs	100	0	0	0	0
Net Income	1,410	801	235	395	623
Net Income (Clean)	1,140	801	235	395	623
EBITDA	1,818	1,380	932	1,122	1,368
EBITDA (Clean)	1,549	1,380	932	1,122	1,368
DPS (QR)	5.50	1.00	1.00	1.25	1.50

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

### Balance Sheet

In QR mn	FY2014*	FY2015	FY2016e	FY2017e	FY2018e
<b>Current Assets</b>					
Cash & Cash Equivalents	1,087	961	1,582	2,227	3,020
Investments Held for Trading	218	206	211	211	211
Insurance Contract Receivables & A/R	946	1,170	972	1,074	1,232
Due From Related Parties	634	598	436	436	436
Inventories	203	222	221	240	274
<b>Total Current Assets</b>	<b>3,089</b>	<b>3,158</b>	<b>3,422</b>	<b>4,187</b>	<b>5,173</b>
<b>Non-Current Assets</b>					
Available for Sale Investments	300	314	329	329	329
Held to Maturity Investments	85	86	86	86	86
Investment in Joint Ventures	-	-	-	-	-
Investment Properties	1	-	-	-	-
Goodwill & Intangibles	313	307	305	304	304
Property, Plant & Equipment	7,037	7,364	7,583	7,354	7,185
<b>Non-Current Assets</b>	<b>7,738</b>	<b>8,071</b>	<b>8,302</b>	<b>8,072</b>	<b>7,903</b>
<b>Total Assets</b>	<b>10,826</b>	<b>11,229</b>	<b>11,724</b>	<b>12,259</b>	<b>13,076</b>
<b>Current Liabilities</b>					
Short-Term Debt	909	1,467	798	798	798
Insurance Payables & Accounts Payable	1,719	2,050	1,817	1,929	2,104
Due to Related Parties	11	20	6	6	6
<b>Current Liabilities</b>	<b>2,638</b>	<b>3,536</b>	<b>2,622</b>	<b>2,734</b>	<b>2,909</b>
<b>Non-Current Liabilities</b>					
Employees End of Service Benefits	64	75	69	69	69
Long-Term Debt	3,946	3,690	5,057	5,271	5,523
<b>Non-Current Liabilities</b>	<b>4,010</b>	<b>3,765</b>	<b>5,126</b>	<b>5,341</b>	<b>5,592</b>
<b>Total Liabilities</b>	<b>6,649</b>	<b>7,301</b>	<b>7,748</b>	<b>8,075</b>	<b>8,501</b>
<b>Shareholders' Equity</b>					
<b>Total Shareholders' Equity</b>	<b>4,178</b>	<b>3,928</b>	<b>3,976</b>	<b>4,185</b>	<b>4,576</b>
<b>Liabilities &amp; Shareholders' Equity</b>	<b>10,826</b>	<b>11,229</b>	<b>11,724</b>	<b>12,259</b>	<b>13,076</b>

Source: Company data, QNBFS estimates

## Relative Valuation

Company	Ticker	Div. Yield	EV/EBITDA	
			FY2016e	FY2017e
Tidewater Inc	TDW	10.2%	18.7x	86.8x
Bourbon Corp	GBB	8.7%	10.7x	9.4x
SEACOR Holdings Inc	CKH	NA	19.0x	12.2x
Gulfmark Offshore Inc	GLF	NA	nmf	nmf
Farstad Shipping ASA	FAR	NA	15.8x	25.0x
Solstad Offshore ASA	SOFF	NA	10.3x	11.1x
Gulf Marine Services PLC	GMS	2.4%	8.7x	10.9x
Renaissance Services SAOG	RNSS	NA	7.2x	6.8x
<b>Average</b>		NA	<b>12.9x</b>	<b>23.2x</b>
<b>Median</b>		NA	<b>10.7x</b>	<b>11.1x</b>
<b>Gulf International Services QSC</b>	<b>GISS</b>	<b>3.3%</b>	<b>8.9x</b>	<b>7.3x</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

### 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

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