

QATAR FUEL (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR21.1	Current Target Price	23.40
Implied Upside	10.9%		

4Q2019 Results: In-line EPS & DPS, Volume Growth Continues; MP

4Q2019 results highlight that WOQOD's retail fuel volumes continue to grow rapidly due to the ongoing gas station network expansion while non-fuel revenues maintain their upward trend. Jet fuel volume growth also continues at 6% YoY in 2019. Jet fuel is WOQOD's prime product, accounting for c50% of total fuel sold in 2019, therefore, Qatar Airways' order of over 300 aircraft (which is likely to more than double its fleet) is the foremost long-term driver for WOQOD's bottom-line growth. However, considering 1) QFLS' strong YoY share price performance (+20.8% YoY vs. QE Index's 0.95% on a total return basis), 2) Our modest EPS growth expectations (4.7% for 2020e and 5.0% for 2021e), 3) Rich valuation metrics and 4) The lack of short-term catalysts to drive the stock further, we maintain our Market Perform rating and our target price at QR23.40. We also maintain our 2020 estimates.

Highlights

- **WOQOD posted 4Q2019 net income/EPS of QR344m/QR0.35, up 3.0% YoY and 6.5% QoQ, in line with our net income estimate of QR337mn (variance: 2.3%).** For FY2019, WOQOD reported net profit of QR1,216mn vs. QR1,160mn in 12M2018 (variance 0.7%). EPS amounted to QR1.22 in FY2019 as compared to QR1.17 in FY2018 with a 4.8% rise YoY. DPS of QR0.8, flat YoY, is also in-line with our estimate.
- **Healthy volume growth:** As of FY2019, WOQOD's total fuel sales reached 10.5bnLt, which is up by 1.4% YoY. Jet fuel continues to drive volume growth, increasing 6% YoY, whereas super gasoline sales rose by 4.9% YoY and premium gasoline increased by 1.7%. Diesel, however, retreated by 8.3% as a result of lower quantities demanded by projects.
- **4Q2019 gross profits were slightly above expectations (variance: 4.4%), which was offset by lower other & financial income.** WOQOD recorded QR22.4bn in revenue as of 2019, falling 3.1% YoY due to the lower product prices, which were partially mitigated by increasing volumes. However, as we have mentioned in our prior reports, we focus on gross profits instead of revenue as the top line for WOQOD, since the company receives a fixed margin per liter for most of its products.
- **Retail business continues to grow.** WOQOD completed 30 new gas stations in 2019, 16 of which are already operational and 14 are awaiting approval. As a result, its number of stations reached 110 as of Dec'19, 96 of which are functioning. WOQOD's retail franchise has expanded by 84.6% since 2017 (when the company had 52 stations). In line with the increase in its number of stations, WOQOD's total retail fuel volumes grew by 24.4% YoY in 2019. Supported by retail network growth, sale of non-fuel products rose by 8.4% YoY in 2019 to QR1.12bn, accounting for 5.0% of total sales revenues (4.5% in 2018). WOQOD is in preparations for 33 new stations plans to reach 124 petrol stations by the end of 2020. Therefore, we expect retail fuel and non-fuel revenue growth to continue in 2020-2021.
- **Lower G&A as a result of lower impairment provisions.** 2019 G&A (ex-interest expenses) was 16.1% lower YoY at QR311mn, as impairments declined substantially to QR10.6mn from QR86.0mn in 2018.

Catalysts

1) Qatar Airways fleet expansion. 2) Qatar's LNG vessel fleet expansion. 3) Potential deal with Al Meera for the management of Woqod's Sidra convenience stores.

Recommendation, Valuation and Risks

- **We continue to rate QFLS as Market Perform and our 12-month target price of QR23.40 implies a 10.9% upside potential based on a weighted average of DCF, international peer comparison and local market P/E.** QFLS' 2020e P/E multiple imply 7.3% premium to the international fuel distributors peer group. Moreover, QFLS' 2019-2020e dividend yields (3.8%) are also below the international peer group average of 4.1% and 4.7%, respectively.
- **Risks:** 1) Margin erosion in fuel products 2) Concentration risk 3) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	1.17	1.22	1.28	1.34
P/E (x)	18.1	17.2	16.5	15.7
EV/EBITDA (x)	14.9	16.2	13.7	12.3
DPS (QR)	0.80	0.80	0.80	0.80
DY (%)	4.8%	3.8%	3.8%	3.8%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	QFLS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QFLS.QD
ISIN	QA0001200771
Sector	Fuel Distribution
52wk High/52wk Low (QR)	23.83 / 17.65
3-m Avg. Volume (000)	440.7
Mkt. Cap. (\$ bn/QR bn)	5.7/20.9
EV (\$ bn/QR bn)	4.6/16.8
Current FO*/FO limit (%)	11.9%/49%
Shares Outstanding (mn)	994.3
1-Year Total Return (%)	20.8%
Fiscal Year End	December 31

Source: Bloomberg (as of Feb 02, 2020), *Qatar Exchange (as of as of Jan 30, 2020); Note: FO is foreign ownership

Mehmet Aksoy, PhD

+974 4476 6589

mehmet.aksoy@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (QRmn)

	2017	2018	2019	2020e	2021e
Revenue	17,372	23,155	22,446	24,156	25,696
COGS	16,193	22,001	21,281	22,949	24,449
Gross Profit	1,179	1,154	1,165	1,207	1,247
SG&A	360	319	256	258	260
Depreciation	69	53	55	62	64
Operating Income	750	783	854	888	924
EBITDA	1,043	1,090	1,129	1,202	1,306
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Other Income	242	314	253	294	274
<i>Rental Income</i>	144	134	147	140	133
<i>Dividend Income</i>	63	83	85	89	93
<i>Vessels rental income</i>	0	0	0	0	0
<i>Miscellaneous income</i>	35	97	21	66	49
Fair value gain from investment properties	0	0	0	0	0
Total Other Income	242	314	253	294	274
Net Finance Income (Expense)	104	147	151	131	179
Net profit before management fees and income tax	1,096	1,244	1,258	1,313	1,377
Income Tax	0	0	0	0	0
Non controlling interests	-132	-84	-42	-40	-40
Net Income	964	1,160	1,216.4	1,273	1,337
<i>Net Profit Margin</i>	5.5%	5.0%	5.4%	5.3%	5.2%
<i>Shares Outstanding (mn)</i>	994	994	994	994	994
EPS	0.97	1.17	1.22	1.28	1.34
DPS	0.80	0.80	0.80	0.80	0.80

Note: EPS based on current number of shares

Balance Sheet (QRmn)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	3,172	3,164	179	179	179
S/T Deposits	1,191	1,831	2,835	4,685	5,126
Accounts Receivable & Prepayments	2,296	2,518	1,485	1,598	1,700
Other Receivables and Prepayments	448	220	159	171	182
Due From Related Parties	529	434	322	347	369
Inventories	414	422	427	440	469
Total Current Assets	8,051	8,589	5,407	7,420	8,024
Right of use assets	0	0	124	112	101
Financial assets at fair value through other comprehensiv	1,631	1,485	3,022	3,022	3,022
Property, Plant & Equipment	1,707	2,661	3,081	3,171	3,373
Non-Current Assets	4,380	5,185	7,246	7,368	7,606
Total Assets	12,431	13,775	12,653	14,787	15,630
Accounts Payable & Accruals	4,939	5,140	3,633	5,362	5,712
Decommissioning Provisions	0	0	22	0	0
Finance lease liability	0	6	20	20	20
Current Liabilities	4,939	5,146	3,676	5,382	5,732
Due to related parties	0	233	81	87	93
Long-Term Debt	0	25	105	111	116
Employees end of service benefits	131	92	89	94	98
Non-Current Liabilities	131	350	275	291	307
Total Liabilities	5,069	5,496	3,951	5,673	6,040
Total Shareholder's Equity	7,072	8,031	8,495	8,897	9,362
Minority Interest	290	247	207	217	229
Liabilities & Shareholder's Equity	12,431	13,775	12,653	14,787	15,630

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020e	2021e
Growth Rates					
Revenue	26.6%	33.3%	(3.1%)	7.6%	6.4%
Gross Profit	2.1%	(2.1%)	1.0%	3.6%	3.3%
EBITDA	14.7%	4.5%	3.6%	6.4%	8.7%
EBIT	16.0%	6.5%	3.6%	6.1%	9.0%
PAT/EPS	N/M	20.3%	4.9%	4.7%	5.0%
DPS	N/M	0.0%	0.0%	0.0%	0.0%
Operating Ratios					
Gross Margin	6.8%	5.0%	5.2%	5.0%	4.9%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	5.2%	5.0%	4.9%
EBITDA Margin	6.0%	4.7%	5.0%	5.0%	5.1%
EBIT Margin	5.6%	4.5%	4.8%	4.7%	4.8%
Net Margin	5.5%	5.0%	5.4%	5.3%	5.2%
Working Capital Ratios					
	(45)	(32)	(23)	(46)	(46)
Inventory Days	9	7	7	7	7
Average Collection Period	66	50	34	33	33
Payable Days	111	89	64	87	87
Finance Ratios					
Debt-Equity Ratio	0%	0%	1%	1%	1%
Net Debt-Equity Ratio	-62%	-62%	-34%	-53%	-55%
Net Debt-to-Capital	-161%	-162%	-52%	-115%	-124%
Net Debt-to-EBITDA	(4.2)	(4.6)	(2.6)	(4.0)	(4.0)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	13.8%	12.9%	12.5%	12.7%	13.1%
ROE	13.6%	14.4%	14.3%	14.3%	14.3%
ROA	7.8%	8.4%	9.6%	8.6%	8.6%
Liquidity Ratios					
Current Ratio	1.6	1.7	1.5	1.4	1.4
Quick Ratio	1.5	1.6	1.4	1.3	1.3
Valuation					
EV/Sales	1.0	0.7	0.8	0.7	0.6
EV/EBITDA	16.2	14.9	16.2	13.7	12.3
EV/EBIT	17.4	15.7	17.0	14.4	12.9
P/E	21.8	18.1	17.2	16.5	15.7
P/CF	9.7	12.3	27.1	7.1	12.9
P/BV	3.0	2.6	2.5	2.4	2.2
Dividend Yield	6.3%	4.8%	3.8%	3.8%	3.8%

Source: Company data, QNB FS 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

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@QNBFS.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@QNBFS.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@QNBFS.com.qa

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@QNBFS.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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