

QFLS Alert –2Q2021 Miss Driven by Lower Margins, Higher G&A Maintain TP & MP

- **QFLS' net profit rose 371.7% YoY (however, declined 17.9% on QoQ basis) to QR207.9mn in 2Q2021**, below our estimate of QR264.9mn. The company allocated QR56.0mn of provisions for trade receivables in line with IFRS requirements during 1H2021, (which we assume most of which might be allocated in 2Q2021) is likely to be the major reason behind the deviation from our bottom-line forecast. The net profit for 1H2021 (excluding minority rights) amounted to QR461.1mn, compared to an amount of QR270.2mn achieved in the same period last year, representing an increase rate of 71%. EPS amounted to QR0.46 in 1H2021 as compared to QR0.27 in 1H2020.
- **Strong recovery on a YoY basis in gross profits, due to 2Q2021's low base.** The company posted QR237.3mn in gross profits in 2Q2021 vs. QR9.8mn in 2Q2020, during when QFLS' sales volumes had declined sharply due to the broad-based lockdowns. On the other hand, sequentially, Woqod's gross profits were adversely affected from lower gross margins, declining to 5.3% in 2Q2021 from 6.4% in 1Q2021. Meanwhile, Woqod recorded QR4.50bn in net sales in 2Q2021, increasing 110.5% YoY -mainly thanks to higher product prices and higher volumes- and 18.6% QOQ, which may be attributable to the higher product prices as well. In the lack of 2Q2021 sales volume data in the press release, we will be waiting for the conference call to see the sales volume trends in 2Q2021.
- **New petrol stations should contribute to retail sales in 2H2021 and 2022.** Woqod announced that it has opened 2 petrol stations since the beginning of 2021, bringing the number of stations currently operated by the company to 107 from 105 at 2020 year-end. The company targets to add 4 more stations in 2H2021 which will raise its network to 111 stations. In 2022, Woqod plans to add 7 more stations to its network which should bring the number of stations to 118.
- **G&A was notably higher, both on a YoY and QoQ basis.** QFLS recorded QR105.7mn in 2Q2021 G&A, with a 158.7% rise YoY and 42.3% sequentially. Excluding the provisions for trade receivables (QR56.0mn), **QFLS' 1H2021 G&A was QR124.0mn, which is down 3.0% YoY, maintaining its downward pattern.**
- **Other income was up 6.4% YoY (however, down 9.7% QoQ) to QR81.8mn**, which is attributable to better market conditions prevailing in 2Q2021 vs. 2Q2020.
- **We maintain our TP (QR19.8) and Market Perform Rating for now.** In the medium-to long-term, Qatar Airways Group's planned expansion (which could be prone to delays due to coronavirus disruptions) is likely to be the foremost long-term driver for WOQOD's bottom-line growth. Nevertheless, the company's ongoing expansion of its retail fuel station network should support its fuel and non-fuel revenue growth gradually. Removal of the blockade and World Cup in 2022 should also be supportive for jet fuel volumes longer-term.

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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