

QFLS Alert – 2Q2020 Miss Driven by Lower Volumes & Margins; Maintain MP

- **WOQOD** posted 2Q2020 net income of QR44.1mn, down 80.1% YoY and 80.5% QoQ, falling short of our net income estimate of QR126.8mn. EPS amounted to QR0.04 in 2Q2020 as compared to QR0.22 in 2Q2019.
- **Gross profit was below our estimate, which is attributable to lower than expected sales volumes and lower distribution margins:** Market slow-down prompted by the coronavirus spread as well as supply and demand factors for petroleum products impacted sales volumes and gross profits. The decrease of petroleum product distribution margins is also one of the factors that led QFLS to lower gross profits in 2Q. The company recorded QR9.8mn in gross profits in 2Q2020 vs. QR192.6mn in 2Q2019, below our QR127.9mn forecast. Due to lower economies of scale benefits and lower distribution margins, gross margin also fell to 0.5% in 2Q2020 from 4.1% as of 1Q2020 and 3.3% in 2Q2019. As of 1H2020, jet fuel sales volume fell by 28% YoY, implying a c50% volume decline in 2Q2020 YoY. Because of coronavirus-related counter-measures, air traffic was suspended/limited in most countries during 2Q, leading WOQOD to experience lower demand from its major client, Qatar Airways. The company also stated that diesel, super gasoline and premium gasoline sales volumes decreased by 12%, 22% and 14%, respectively during 1H2020, implying estimated YoY declines of c16%, c37% c28% for 2Q2020. On the positive side, HFO off-take increased by 12% driven by market demand, while LPG sales were merely lower by 3% YoY as of 1H2020. Furthermore, WOQOD's retail non-fuel revenue, including Sidra sales, increased by 8% YoY in 1H2020 driven by the new stations opened in 2019 and 1H2020 and higher footfall in C-stores. During 2Q2020, WOQOD's retail petrol stations increased by 1, reaching 104 by the end of June 2020.
- **On the positive side, a notable decline in the G&A YoY partially mitigated lower gross profits.** QFLS recorded QR40.9mn in 2Q2020 G&A, with a 23.4% decline YoY.
- **Other income was lower YoY.** QFLS recorded QR76.9mn in 2Q2020 other income, 15.4% lower than 2Q2019's QR90.1mn.
- **We will be revising our estimates and TP once we have a clearer understanding on QFLS' sales volumes and margins.** 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.

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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