

QATAR FUEL (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR16.85	Current Target Price	23.00
Implied Upside	36.5%	Old Target Price	23.40

1Q2020 Miss Driven by Lower Volumes; Lowering Estimates & Keeping MP

WOQOD's retail fuel volumes & non-fuel retail revenue continued to grow in 1Q2020 despite being partially impacted by the Coronavirus-related slowdown. On the other hand, jet fuel volume declined 6.4% YoY in 1Q2020, which also lead to a contraction in gross margins. Going forward, we think WOQOD's 2020 bottom line is likely to be under the negative influence of lower volumes, both on the jet and retail fuel fronts due to Coronavirus-related counter measures. Consequently, we reduce our FY2020e net earnings from QR1,003mn to QR864mn, while slightly cutting our TP from QR23.4 to QR23.0. Our base case assumes that Coronavirus disruptions will not persist into 2021. Therefore, we maintain our post-2020 estimates. In the medium-to long-term, Qatar Airways Group's planned expansion is likely to be the foremost long-term driver for Woqod's bottom line growth. That said, due to the poor visibility arising from the Coronavirus malaise, we keep our Market Perform rating for WOQOD shares.

Highlights

- **WOQOD posted 1Q2020 net income of QR226mn, down 31% YoY and 34% QoQ, falling short of our estimate of QR270mn (variance: -16%).** EPS amounted to QR0.23 in 1Q2020 as compared to QR0.33 in 1Q2019.
- **Gross profit was below our estimate, which is attributable to lower-than-expected sales volumes:** The company recorded QR202.1mn gross profit in 1Q2020 with a 35.5% decline YoY, below our QR247.3mn forecast (variation: -18.3%). Gross margin also fell to 4.1% in 1Q2020 from 6.1% in 1Q2019. Jet fuel sales volume fell by 6.4% YoY as the company is experiencing lower demand from its major client, Qatar Airways, with flights being reduced because of Coronavirus-related counter measures. The company also stated that completion of many projects that consume fuel resulted in a decrease in overall fuel demand; accordingly, diesel and super gasoline sales fell by 8.0% and 7.4%, respectively. On the positive side, WOQOD's retail non-fuel revenue and fuel retail sales increased by 5.8% and 3.5%, respectively, compared to 1Q2019 due to the opening of new stations and higher footfall in C-stores. HFO off-take increased by 39.5% YoY driven by market demand, while LPG and natural gas sales were higher by 3.1% and 22.8%, respectively, driven by market demand.
- **G&A was lower than our estimate, which partially mitigated lower gross profits.** As a result of its ongoing cost-cutting efforts, QFLS recorded QR87.0mn in 1Q2020 G&A, which was below our QR94.8mn estimate (variation: -8.2%) and falling 11.3% YoY.
- **Other income was slightly better than expected as well.** QFLS recorded QR120.7mn in 1Q2020 other income (flattish vs. 1Q2019's QR122.2mn), which is slightly above our QR112.4mn estimate (variation: 7.4%).
- **We are revising our estimates and slightly tweaking our TP.** We reduce our FY2020e net earnings from QR1,003mn to QR864mn, while slightly cutting our TP from QR23.4 to QR23.0. We maintain our post-2020 estimates for now.
- **In the medium-to long-term, Qatar Airways' order of approximately 300 aircraft (which is likely to double its fleet) is the foremost long-term driver for WOQOD's bottom-line growth.** Concurrently, the company's ongoing expansion of its retail fuel station network should support its fuel and non-fuel revenue growth gradually.

Catalysts

1) The extent and duration of Coronavirus prevention measures. 2) Qatar Airways fleet expansion. 3) Qatar's LNG vessel fleet expansion.

Recommendation, Valuation and Risks

- **We continue to rate QFLS as Market Perform and our 12-month target price of QR23.00 implies a 36.5% upside potential based on a weighted average of DCF, international peer comparison and local market P/E.**
- **Risks:** 1) Coronavirus malaise 2) Margin erosion in fuel products 3) Concentration risk 4) Geopolitical risks.

Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	1.17	1.22	0.87	1.27
P/E (x)	14.4	13.8	19.4	13.3
EV/EBITDA (x)	11.0	12.4	18.2	11.3
DPS (QR)	0.80	0.80	0.80	0.80
DY (%)	4.7%	4.7%	4.7%	4.7%

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 / 15.30
3-m Avg. Volume (000)	909.9
Mkt. Cap. (\$ bn/QR bn)	4.6/16.8
EV (\$ bn/QR bn)	3.1/11.1
Current FO*/FO limit (%)	11.6%/49%
Shares Outstanding (mn)	994.3
1-Year Total Return (%)	-16.2%
Fiscal Year End	December 31

Source: Bloomberg (as of April 19, 2020), *Qatar Exchange (as of April 19, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Estimates & Revisions (QR)

QR000	2019	2020e		2021e		C. vs. O	YoY ch.	C. vs. O	YoY ch.
		Current	Old	Current	Old				
Revenue	22,446,258	17,842,852	20,156,465	-11.5%	-20.5%	25,444,888	25,444,888	0.0%	42.6%
Gross Profit	1,165,398	834,848	1,007,812	-17.2%	-28.4%	1,220,688	1,220,688	0.0%	46.2%
Gross Margin	5.2%	4.7%	5.0%			4.8%	4.8%		
Operating Income	854,237	535,396	688,337	-22.2%	-37.3%	910,518	910,518	0.0%	70.1%
EBIT Margin	3.8%	3.0%	3.4%			3.6%	3.6%		
Net Income	1,216,382	863,566	1,003,121	-13.9%	-29.0%	1,262,002	1,262,002	0.0%	46.1%

Source: Company data, QNB FS Research

Income Statement (QRmn)

	2017	2018	2019	2020e	2021e
Revenue	17,372	23,155	22,446	17,843	25,445
COGS	16,193	22,001	21,281	17,008	24,224
Gross Profit	1,179	1,154	1,165	835	1,221
SG&A	360	319	256	245	254
Depreciation	69	53	55	55	57
Operating Income	750	783	854	535	911
EBITDA	1,043	1,090	1,129	793	1,220
Total Other Income	242	314	253	269	296
Net Finance Income (Expense)	104	147	151	89	98
Income Tax	0	0	0	0	0
Non controlling interests	-132	-84	-42	-30	-43
Net Income	964	1,160	1,216	864	1,262
<i>Net Profit Margin</i>	5.5%	5.0%	5.4%	4.8%	5.0%
<i>Shares Outstanding (mn)</i>	994	994	994	994	994
EPS	0.97	1.17	1.22	0.87	1.27
DPS	0.80	0.80	0.80	0.80	0.80

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

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	2,427	3,062
Accounts Receivable & Prepayments	2,296	2,518	1,485	1,180	1,683
Other Recevables and Prepayments	448	220	159	127	181
Due From Related Parties	529	434	322	256	365
Inventories	414	422	427	341	486
Total Current Assets	8,051	8,589	5,407	4,510	5,955
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	11,877	13,560
Accounts Payable & Accruals	4,939	5,140	3,633	2,904	4,136
Decomissioning Provisions	0	0	22	0	0
Finance lease liability	0	6	20	20	20
Current Liabilities	4,939	5,146	3,676	2,924	4,156
Due to related parties	0	233	81	65	92
Long-Term Debt	0	25	105	111	116
Employees end of service benefits	131	92	89	94	98
Non-Current Liabilities	131	350	275	269	306
Total Liabilities	5,069	5,496	3,951	3,193	4,462
Shareholder's Equity	7,072	8,031	8,495	8,478	8,881
Minority Interest	290	247	207	207	217
Liabilities & Shareholder's Equity	12,431	13,775	12,653	11,877	13,560

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%)	(20.5%)	42.6%
Gross Profit	2.1%	(2.1%)	1.0%	(28.4%)	46.2%
EBITDA	14.7%	4.5%	3.6%	(29.8%)	53.9%
EBIT	16.0%	6.5%	3.6%	(31.3%)	57.6%
PAT/EPS	N/M	20.3%	4.9%	(29.0%)	46.1%
DPS	N/M	0.0%	0.0%	0.0%	0.0%
Operating Ratios					
Gross Margin	6.8%	5.0%	5.2%	4.7%	4.8%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	5.2%	4.7%	4.8%
EBITDA Margin	6.0%	4.7%	5.0%	4.4%	4.8%
EBIT Margin	5.6%	4.5%	4.8%	4.1%	4.6%
Net Margin	5.5%	5.0%	5.4%	4.8%	5.0%
Working Capital Ratios					
	(45)	(32)	(23)	(23)	(23)
Inventory Days	9	7	7	7	7
Average Collection Period	66	50	34	34	34
Payable Days	111	89	64	64	64
Finance Ratios					
Debt-Equity Ratio	0%	0%	1%	1%	1%
Net Debt-Equity Ratio	-62%	-62%	-34%	-29%	-35%
Net Debt-to-Capital	N/M	N/M	-52%	-42%	-54%
Net Debt-to-EBITDA	(4.2)	(4.6)	(2.6)	(3.1)	(2.6)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	13.8%	12.9%	12.5%	8.6%	12.9%
ROE	13.6%	14.4%	14.3%	10.2%	14.2%
ROA	7.8%	8.4%	9.6%	7.3%	9.3%
Liquidity Ratios					
Current Ratio	1.6	1.7	1.5	1.5	1.4
Quick Ratio	1.5	1.6	1.4	1.4	1.3
Valuation					
EV/Sales	0.7	0.5	0.6	0.8	0.5
EV/EBITDA	12.2	11.0	12.4	18.2	11.3
EV/EBIT	13.0	11.6	13.1	19.6	11.9
P/E	17.4	14.4	13.8	19.4	13.3
P/BV	2.4	2.1	2.0	2.0	1.9
Dividend Yield	6.3%	4.7%	4.7%	4.7%	4.7%

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

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