

QATAR FUEL (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR18.30	Current Target Price	19.80
Implied Upside	8.2%		

Better-than-Expected 1Q2021 with Higher Margins; Retain TP & Market Perform

We think the worst is over for QFLS as 1Q2021 results show YoY growth in diesel and super gasoline volumes (as well as earnings) despite partial coronavirus-related restrictions still impacting jet fuel volumes during the quarter. We expect the company to maintain this YoY momentum in the coming quarters of 2021 as well. We believe prevailing coronavirus measures are less severe vs. 2020; moreover, we expect normalization to speed up during the second half of the year bolstered by Qatar's effective vaccination program. Going forward, the 2022 World Cup should positively impact both gasoline and jet fuel sales (which we expect to incorporate into our 2022 estimates later this year). In the long-term, Qatar Airways Group's planned expansion likely remains the foremost driver of Woqod's bottom-line growth; however, this could be prone to delays given the ongoing disruptions in international flights. **Therefore, due to relatively poor visibility given the coronavirus malaise, we retain our Market Perform rating for WOQOD shares.**

Highlights

- **We modestly tweak our estimates.** Following 1Q2021 results, we have tweaked our 2021 earnings to QR971mn from QR976mn incorporating minor adjustments to depreciation and other income. Our 2022e profit declines to QR1,113mn from QR1,125mn previously.
- **1Q2021 exceeded our forecast:** QFLS' net profit rose 12.0% YoY (however, declined 9.1% on a QoQ basis) to QR253.2mn in 1Q2021, above our estimate of QR200.3mn. EPS amounted to QR0.25 in 1Q2021 as compared to QR0.23 in 1Q2020.
- **Gross profit was above our estimate, which is attributable to higher margins and higher volumes of diesel and super gasoline.** The company posted QR244.3mn in gross profits in 1Q2021 vs. QR291.0mn in 4Q2020 and QR202.1mn in 1Q2020; GP rose 20.8% rise YoY but fell 16.1% QoQ. Gross margin rose to 6.4% in 1Q2021 from 1Q2020's 4.1% and FY2020's 5.3%; however, GMs fell below 4Q2020's 9.5%. During 1Q2021, diesel and super gasoline volumes continued their recovery on a YoY basis, rising 3% and 10%, respectively, vs. 1Q2020 (we were expecting flattish volumes YoY). On the jet fuel front, Woqod recorded a 23% volume contraction YoY, in line with our 24% decline estimate. Continuation of air traffic restrictions due to coronavirus-related counter-measures led QFLS to experience lower demand in 1Q2021 for its jet fuel. On the positive front, Woqod's natural gas sales rose by 21% YoY. Retail fuel sales also expanded by 4% YoY and non-petroleum retail sales grew by 5%, thanks to the new fuel stations opened in 2020. During 1Q2021, the company opened one new gas station bringing the number of stations to 107 in 1Q2021. Woqod intends to add 5 more stations to its network in 2021 depending on demand.
- **G&A maintains its downward trend:** QFLS recorded QR74.3mn in 1Q2021 G&A, with a 15% decline YoY (yet up 5.5% QoQ) thanks to its ongoing cost-cutting efforts.
- **Other income was down 24.9% YoY to QR90.7mn,** which is attributable to lower dividends and lower returns on cash, accompanied by lower cash balances.
- **We maintain our TP (QR19.8) and Market Perform Rating.** 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. The recent removal of the blockade should also be supportive for jet fuel volumes longer-term.

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 QR19.80 implies an 8.2% 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

	2019	2020	2021e	2022e
EPS (QR)	1.22	0.71	0.98	1.12
P/E (x)	15.0	25.7	18.7	16.3
EV/EBITDA (x)	13.7	26.2	17.4	15.6
DPS (QR)	0.80	0.46	0.63	0.72
DY (%)	4.4%	2.5%	3.5%	4.0%

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)	19.45 / 15.65
3-m Avg. Volume (000)	504.3
Mkt. Cap. (\$ bn/QR bn)	5.0/18.2
EV (\$ bn/QR bn)	3.7/13.5
Current FO*/FO limit (%)	11.6%/49%
Shares Outstanding (mn)	994.3
1-Year Total Return (%)	16.1%
Fiscal Year End	December 31

Source: Bloomberg (as of April 19, 2021), *Qatar Exchange (as of April 18, 2021); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (QRmn)

	2017	2018	2019	2020	2021e	2022e
Revenue	17,372	23,155	22,446	13,245	20,250	21,497
COGS	16,193	22,001	21,281	12,549	19,285	20,432
Gross Profit	1,179	1,154	1,165	697	965	1,064
SG&A	360	319	256	302	261	233
Depreciation	69	53	55	34	40	72
Operating Income	750	783	854	361	664	760
EBITDA	1,043	1,090	1,129	618	951	318
Total Other Income	242	314	253	228	267	329
Net Finance Income (Expense)	104	147	151	139	69	68
Income Tax	0	0	0	0	0	0
Non controlling interests	-132	-84	-42	-20	-28	-44
Net Income	964	1,160	1,216	707	971	1,113
<i>Net Profit Margin</i>	<i>5.5%</i>	<i>5.0%</i>	<i>5.4%</i>	<i>5.3%</i>	<i>4.8%</i>	<i>5.2%</i>
<i>Shares Outstanding (mn)</i>	<i>994</i>	<i>994</i>	<i>994</i>	<i>994</i>	<i>994</i>	<i>994</i>
EPS	0.97	1.17	1.22	0.71	0.98	1.12
DPS	0.80	0.80	0.80	0.46	0.63	0.72

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet (QRmn)

	2017	2018	2019	2020	2021e	2022e
Cash & Cash Equivalents	4,363	4,995	3,014	2,251	2,010	2,349
Accounts Receivable & Prepayments	2,296	2,518	1,485	1,884	2,880	3,057
Other Receivables and Prepayments	448	220	159	127	194	206
Due From Related Parties	529	434	322	176	269	286
Inventories	414	422	427	315	387	410
Total Current Assets	8,051	8,589	5,407	4,753	5,740	6,308
Right of use assets	0	0	124	154	138	124
Financial assets at fair value through other comp. income	1,631	1,485	3,022	2,712	2,712	2,712
Property, Plant & Equipment	1,707	2,661	3,081	3,175	2,949	2,999
Non-Current Assets	4,380	5,185	7,246	7,082	6,887	6,970
Total Assets	12,431	13,775	12,653	11,835	12,627	13,278
Accounts Payable & Accruals	4,939	5,140	3,633	2,979	3,292	3,488
Decommissioning Provisions	0	0	22	23	0	0
Finance lease liability	0	6	20	37	37	37
Current Liabilities	4,939	5,146	3,676	3,040	3,329	3,525
Due to related parties	0	233	81	0	0	0
Long-Term Debt	0	25	105	119	125	131
Employees end of service benefits	131	92	89	90	95	99
Non-Current Liabilities	131	350	275	209	219	230
Total Liabilities	5,069	5,496	3,951	3,248	3,548	3,755
Shareholder's Equity	7,072	8,031	8,495	8,431	8,871	9,315
Minority Interest	290	247	207	156	207	207
Liabilities & Shareholder's Equity	12,431	13,775	12,653	11,835	12,627	13,278

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020	2021e	2022e
Growth Rates						
Revenue	26.6%	33.3%	(3.1%)	(41.0%)	52.9%	6.2%
Gross Profit	2.1%	(2.1%)	1.0%	(40.2%)	38.5%	10.3%
EBITDA	14.7%	4.5%	3.6%	(45.3%)	54.0%	9.2%
EBIT	16.0%	6.5%	3.6%	(45.6%)	56.0%	6.1%
PAT/EPS	N/M	20.3%	4.9%	(41.8%)	37.3%	14.6%
DPS	N/M	0.0%	0.0%	(42.5%)	37.3%	14.6%
Operating Ratios						
Gross Margin	6.8%	5.0%	5.2%	5.3%	4.8%	5.0%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	5.2%	5.3%	4.8%	5.0%
EBITDA Margin	6.0%	4.7%	5.0%	4.7%	4.7%	4.8%
EBIT Margin	5.6%	4.5%	4.8%	4.4%	4.5%	4.5%
Net Margin	5.5%	5.0%	5.4%	5.3%	4.8%	5.2%
Finance Ratios						
Debt-Equity Ratio	0%	0%	1%	1%	1%	1%
Net Debt-Equity Ratio	-62%	-62%	-34%	-25%	-21%	-24%
Net Debt-to-Capital	N/M	N/M	-52%	-34%	-27%	-31%
Net Debt-to-EBITDA	-4.2	-4.6	-2.6	-3.5	-2.0	-2.1
Interest Coverage	N/M	N/M	N/M	N/M	N/M	N/M
Return Ratios						
ROIC	13.8%	12.9%	12.5%	6.8%	10.1%	10.2%
ROE	13.6%	14.4%	14.3%	8.4%	11.0%	11.9%
ROA	7.8%	8.4%	9.6%	6.0%	7.7%	8.4%
Liquidity Ratios						
Current Ratio	1.6	1.7	1.5	1.6	1.7	1.8
Quick Ratio	1.5	1.6	1.4	1.5	1.6	1.7
Valuation						
EV/Sales	0.8	0.6	0.7	1.2	0.8	0.8
EV/EBITDA	13.5	12.4	13.7	26.2	17.4	15.6
EV/EBIT	14.5	13.0	14.4	27.8	18.1	16.7
P/E	18.9	15.7	15.0	25.7	18.7	16.3
P/BV	2.6	2.3	2.1	2.2	2.1	2.0
Dividend Yield	6.3%	4.7%	4.4%	2.5%	3.5%	4.0%

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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