

QATAR FUEL (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR22.65	Current Target Price	23.40
Implied Upside	3.3%		

3Q2019 Results: Healthy Volume Growth & Barely in-line EPS; MP

3Q2019 results show that WOQOD's retail business continues to grow rapidly both on fuel and non-fuel fronts due to the ongoing gas station network expansion. Jet fuel volume growth also continues at 6% YoY/ 11.6% QoQ in 3Q2019. Jet fuel is WOQOD's prime product, accounting for 50.2% of total fuel sold as of 9M2019. Qatar Airways' order of over 300 aircraft is likely to more than double its fleet; therefore, we believe it is the foremost long-term driver for WOQOD's bottom-line growth. However, considering 1) QFLS' strong YTD share price performance (+36.5% YTD vs. DSM Index's 1.3%), 2) Our modest EPS growth expectations (3.1% for 2019e and 4.5% for 2020e), 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 2019-2020 estimates intact as we anticipate a pickup in volumes during 4Q2019.

Highlights

- **WOQOD posted 3Q2019 net income/EPS of QR323.5m/QR0.325, up 0.4% YoY and 46.1% QoQ, a little shy of our net income estimate of QR344mn** (variance: -5.9%). In 9M2019, WOQOD reported net profit of QR871.8mn vs. QR825.5mn in 9M2018. EPS amounted to QR0.88 in 9M2019 as compared to QR0.83 in 9M2018 with a 5.6% rise YoY.
- **Healthy volume growth both QoQ and YoY:** Within 3Q2019, WOQOD's total fuel sales reached 2.76bnLt, which is up by 1.6% QoQ and 8.4% YoY. 9M2019 total volume was 7.83bnLt, which was also 1.6% up YoY. Jet fuel continues to drive volume growth, increasing 11.6% QoQ and 6.0% YoY to 1.41bnLt in 3Q2019 (9M2019 jet fuel sales were 3.93bnLt, up 6.8% YoY). In 3Q2019, gasoline & super gasoline sales volumes increased 4.5% YoY reaching a total of 0.65bnLt. Diesel sales on the other hand, continued to fall by 8.5% YoY to 0.7bnLt, despite a 10.6% rise QoQ.
- **Gross profits were a tad below our expectations** (variance: -4.5%). In 3Q2019, WOQOD recorded QR5.74bn in revenue, declining 6.8% YoY and 2.1% QoQ due to lower product prices. We focus on gross profits instead of revenue as the top line for WOQOD, as the company receives a fixed margin per liter for most of its products. On the other hand, gross profits (QR369.3mn in 3Q2019) were down 2.6% YoY but up 39.6% QoQ thanks to higher volumes vs. 2Q2019.
- **Retail business continues to grow steadily.** With five new stations opened in 3Q2019, WOQOD's retail gas stations reached 90 as of Sep'19 vs. 84 at end-2018. WOQOD's retail franchise has expanded by 70% since 2017 (when the company had 53 branches). The new stations are gaining traction and accordingly, WOQOD's total retail fuel volumes grew by 25.4% YoY in 3Q2019 (27.6% YoY as of 9M2019). Again, supported by retail network growth, Sidra and APC revenues rose 16.8% YoY to QR108mn in 3Q2019 (14.8% YoY as of 9M2019). WOQOD plans to reach 112 petrol stations by the end of 2019, up 33% vs. 2018. Therefore, we expect retail fuel and non-fuel revenue growth to continue in 2020.
- **G&A was slightly above our expectations** (variance: 7.3%). While 3Q2019 G&A was 7.3% higher YoY, 9M2019 G&A of QR298.4mn was still 1.9% lower YoY.

Catalysts

1) Qatar Airways fleet expansion. 2) Qatar's LNG vessel fleet expansion. 3) A potential increase in DPS.

Recommendation, Valuation and Risks

- **We continue to rate QFLS as Market Perform and our 12-month target price of QR23.40 implies a 3.3% upside potential based on a weighted average of DCF, international peer comparison and local market P/E.** QFLS' 2019e and 2020e P/E multiples imply 12% and 9% premiums to the international fuel distributors peer group, respectively. Moreover, its EV/EBITDA multiples are at 37% and 45% premiums. QFLS' 2019-2020e dividend yields (3.5% and 3.6%, respectively) are also below the international peer group average of 3.9% (2019e) and 4.8% (2020e).
- **Risks:** 1) Margin erosion in fuel products 2) Concentration risk 3) Geopolitical risks.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.97	1.17	1.20	1.26
P/E (x)	23.4	19.4	18.8	18.0
EV/EBITDA (x)	17.7	16.9	15.4	14.2
DPS (QR)	0.80	0.80	0.80	0.82
DY (%)	6.3%	4.8%	3.5%	3.6%

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 / 15.70
3-m Avg. Volume (000)	445.0
Mkt. Cap. (\$ bn/QR bn)	6.2/22.5
EV (\$ bn/QR bn)	5.2/18.8
Current FO*/FO limit (%)	10.8%/49%
Shares Outstanding (mn)	994.3
1-Year Total Return (%)	33.9%
Fiscal Year End	December 31

Source: Bloomberg (as of Oct 17, 2019), *Qatar Exchange (as of Oct 17, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (QRmn)

	2017	2018	2019e	2020e	2021e
Revenue	17,372	23,149	23,233	24,030	25,562
COGS	16,193	22,001	22,087	22,848	24,356
Gross Profit	1,179	1,149	1,146	1,182	1,206
SG&A	360	319	301	292	288
Depreciation	69	53	60	62	64
Operating Income	750	777	785	829	854
EBITDA	1,043	1,050	1,148	1,234	1,290
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Other Income	242	320	277	283	281
<i>Rental Income</i>	144	140	136	140	144
<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	56	54	44
Fair value gain from investment properties	0	0	0	0	0
Total Other Income	242	320	277	283	281
Net Finance Income (Expense)	104	147	173	178	191
Net profit before management fees and income tax	1,096	1,244	1,235	1,289	1,327
Income Tax	0	0	0	0	0
Non controlling interests	-132	-84	-39	-40	-40
Net Income	964	1,160	1,196.1	1,250	1,287
<i>Net Profit Margin</i>	5.5%	5.0%	5.1%	5.2%	5.0%
<i>Shares Outstanding (mn)</i>	994	994	994	994	994
EPS	0.97	1.17	1.20	1.26	1.29
DPS	0.80	0.80	0.80	0.82	0.82

Note: EPS based on current number of shares

Balance Sheet (QRmn)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	3,172	3,164	3,164	3,164	3,164
S/T Deposits	1,191	1,831	1,934	2,100	2,411
Accounts Receivable & Prepayments	2,296	2,518	2,472	2,556	2,720
Other Receivables and Prepayments	448	220	221	229	243
Due From Related Parties	529	434	427	441	470
Inventories	414	422	424	439	467
Total Current Assets	8,051	8,589	8,642	8,930	9,475
Retentions receivable	0	0	0	0	0
Financial assets at fair value through other comprehensiv	1,631	1,485	1,518	1,518	1,518
Property, Plant & Equipment	1,707	2,661	2,939	3,171	3,373
Non-Current Assets	4,380	5,185	5,541	5,821	6,073
Total Assets	12,431	13,775	14,183	14,750	15,548
Short-Term Debt	0	0	0	0	0
Accounts Payable & Accruals	4,939	5,140	5,160	5,343	5,690
Other Payables	0	0	0	0	0
Finance lease liability	0	6	6	6	6
Current Liabilities	4,939	5,146	5,167	5,349	5,697
Due to related parties	0	233	234	242	258
Long-Term Debt	0	25	27	28	29
Employees end of service benefits	131	92	96	101	106
Non-Current Liabilities	131	350	357	371	393
Total Liabilities	5,069	5,496	5,523	5,720	6,090
Total Shareholder's Equity	7,072	8,031	8,402	8,761	9,176
Minority Interest	290	247	259	270	283
Liabilities & Shareholder's Equity	12,431	13,775	14,183	14,750	15,548

Source: Company data, QNB FS Research

Cash Flow Statement (QRmn)

	2017	2018	2019e	2020e	2021e
Cash Flow From Operations	2,239	1,699	1,343	1,443	1,563
Cash Flow From Investment Activities	-417	-287	-449	-440	-436
Cash Flow From Financing Activities	-627	-780	-707	-702	-713
Cash Flow From Other Activities	0	0	-84	-120	-122
Change In Cash	1,195	632	103	181	292
Cash Beginning of Period	2,747	3,172	3,164	3,164	3,164
Decrease (increase) in Fixed Deposits	-770	-640	-104	-182	-290
Cash End of Period	3,172	3,164	3,164	3,164	3,164

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	26.6%	33.3%	0.4%	3.4%	6.4%
Gross Profit	2.1%	(2.6%)	(0.2%)	3.2%	2.0%
EBITDA	14.7%	0.7%	9.3%	7.4%	4.6%
EBIT	16.0%	2.4%	9.1%	7.7%	4.7%
PAT/EPS	N/M	20.3%	3.1%	4.5%	3.0%
DPS	N/M	0.0%	0.0%	3.1%	0.0%
CFPS	N/M	(24.1%)	(21.0%)	7.4%	8.3%
Operating Ratios					
Gross Margin	6.8%	5.0%	4.9%	4.9%	4.7%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	4.9%	4.9%	4.7%
EBITDA Margin	6.0%	4.5%	4.9%	5.1%	5.0%
EBIT Margin	5.6%	4.3%	4.7%	4.9%	4.8%
Net Margin	5.5%	5.0%	5.1%	5.2%	5.0%
Working Capital Ratios					
	(45)	(32)	(33)	(33)	(33)
Inventory Days	9	7	7	7	7
Average Collection Period	66	50	49	49	49
Payable Days	111	89	89	89	89
Finance Ratios					
Debt-Equity Ratio	0%	0%	0%	0%	0%
Net Debt-Equity Ratio	-62%	-62%	-60%	-60%	-60%
Net Debt-to-Capital	-161%	-162%	-152%	-149%	-153%
Net Debt-to-EBITDA	(4.2)	(4.7)	(4.4)	(4.3)	(4.3)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	13.8%	12.4%	12.9%	13.3%	13.3%
ROE	13.6%	14.4%	14.2%	14.2%	14.0%
ROA	7.8%	8.4%	8.4%	8.5%	8.3%
FCF Yield	7.2%	0.6%	0.8%	4.2%	4.7%
Liquidity Ratios					
Current Ratio	1.6	1.7	1.7	1.7	1.7
Quick Ratio	1.5	1.6	1.6	1.6	1.6
Valuation					
EV/Sales	1.1	0.8	0.8	0.7	0.7
EV/EBITDA	17.7	16.9	15.4	14.2	13.4
EV/EBIT	18.9	17.8	16.3	15.0	14.1
P/E	23.4	19.4	18.8	18.0	17.5
P/CF	10.1	13.3	16.8	15.6	14.4
P/BV	3.2	2.8	2.7	2.6	2.5
Dividend Yield	6.3%	4.8%	3.5%	3.6%	3.6%
FCF Yield	7.2%	0.6%	0.8%	4.2%	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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