

QATAR FUEL (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR18.21	Current Target Price	19.80
Implied Upside	8.7%	Old Target Price	23.00

Revising Our Estimates and TP Following 2Q2020 Results; Maintain MP

WOQOD's both retail and non-retail fuel volumes were impacted by the coronavirus-related slowdown in 2Q2020, which also led to a contraction in gross margins. While we think the worst is over for QFLS as coronavirus measures are gradually easing in 3Q2020, we still expect WOQOD's 2020 bottom-line (and partially 2021 net income as well) is likely to remain under some pressure due to coronavirus-related counter measures. Consequently, we reduce our FY2020e/FY2021e net earnings, while cutting our TP from QR23.0 to QR19.8. In the medium-to long-term, while Qatar Airways Group's planned expansion is likely to be the foremost driver for Woqod's bottom-line growth, it could be prone to delays given the ongoing disruptions in international flights. Due to poor visibility arising from the coronavirus malaise, we keep our Market Perform rating for WOQOD shares.

Highlights

- **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.
- **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 2Q2020. 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% and c28% for 2Q2020. On the positive side, Heavy Fuel Oil 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 (convenience stores). During 2Q2020, WOQOD's retail petrol stations increased by 1, reaching 104.
- **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.
- **We are revising our estimates and cutting our TP.** We reduce our FY2020e/FY2021e net earnings from QR864mn/QR1,217mn to QR512mn/QR977mn, while cutting our TP from QR23.00 to QR19.80.
- **In the medium-to long-term, Qatar Airways' order of approximately 300 aircraft (which is likely to double its fleet) is the foremost 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 QR19.80 implies an 8.7% 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	0.52	0.98
P/E (x)	15.6	14.9	35.3	18.5
EV/EBITDA (x)	12.3	13.6	35.4	15.4
DPS (QR)	0.80	0.80	0.34	0.64
DY (%)	4.7%	4.4%	1.9%	3.5%

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)	603.0
Mkt. Cap. (\$ bn/QR bn)	5.0/18.1
EV (\$ bn/QR bn)	3.9/14.3
Current FO*/FO limit (%)	11.4%/49%
Shares Outstanding (mn)	994.3
1-Year Total Return (%)	-9.5%
Fiscal Year End	December 31

Source: Bloomberg (as of August 24, 2020), *Qatar Exchange (as of August 23, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Estimates & Revisions (QR000)

QR000	2019	2020e			2021e				
		Current	Old	C. vs. O	YoY ch.	Current	Old	C. vs. O	YoY ch.
Revenue	22,446,258	18,067,643	17,842,852	1.3%	-19.5%	20,250,468	24,694,909	-18.0%	12.1%
Gross Profit	1,165,398	431,821	834,848	-48.3%	-62.9%	965,003	1,176,379	-18.0%	123.5%
Gross Margin	5.2%	2.4%	4.7%			4.8%	4.8%		
Operating Income	854,237	176,145	535,396	-67.1%	-79.4%	664,016	867,097	-23.4%	277.0%
EBIT Margin	3.8%	1.0%	3.0%			3.3%	3.5%		
Net Income	1,216,382	512,361	863,566	-40.7%	-57.9%	976,818	1,216,769	-19.7%	90.7%

Source: Company data, QNB FS Research

Income Statement (QRmn)

	2017	2018	2019	2020e	2021e
Revenue	17,372	23,155	22,446	18,068	20,250
COGS	16,193	22,001	21,281	17,636	19,285
Gross Profit	1,179	1,154	1,165	432	965
SG&A	360	319	256	188	231
Depreciation	69	53	55	68	70
Operating Income	750	783	854	176	664
EBITDA	1,043	1,090	1,129	447	987
Total Other Income	242	314	253	269	259
Net Finance Income (Expense)	104	147	151	89	97
Income Tax	0	0	0	0	0
Non controlling interests	-132	-84	-42	-22	-43
Net Income	964	1,160	1,216	512	977
<i>Net Profit Margin</i>	5.5%	5.0%	5.4%	2.8%	4.8%
<i>Shares Outstanding (mn)</i>	994	994	994	994	994
EPS	0.97	1.17	1.22	0.52	0.98
DPS	0.80	0.80	0.80	0.34	0.64

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	2,437	2,993
Accounts Receivable & Prepayments	2,296	2,518	1,485	1,195	1,340
Other Receivables and Prepayments	448	220	159	128	144
Due From Related Parties	529	434	322	259	291
Inventories	414	422	427	354	387
Total Current Assets	8,051	8,589	5,407	4,552	5,332
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	2,879	2,949
Non-Current Assets	4,380	5,185	7,246	7,076	7,182
Total Assets	12,431	13,775	12,653	11,628	12,514
Accounts Payable & Accruals	4,939	5,140	3,633	3,011	3,292
Decommissioning Provisions	0	0	22	0	0
Finance lease liability	0	6	20	20	20
Current Liabilities	4,939	5,146	3,676	3,031	3,313
Due to related parties	0	233	81	67	73
Long-Term Debt	0	25	105	111	116
Employees end of service benefits	131	92	89	94	98
Non-Current Liabilities	131	350	275	271	288
Total Liabilities	5,069	5,496	3,951	3,302	3,601
Shareholder's Equity	7,072	8,031	8,495	8,118	8,706
Minority Interest	290	247	207	207	207
Liabilities & Shareholder's Equity	12,431	13,775	12,653	11,628	12,514

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%)	(19.5%)	12.1%
Gross Profit	2.1%	(2.1%)	1.0%	(62.9%)	123.5%
EBITDA	14.7%	4.5%	3.6%	(60.4%)	120.9%
EBIT	16.0%	6.5%	3.6%	(64.7%)	142.1%
PAT/EPS	N/M	20.3%	4.9%	(57.9%)	90.7%
DPS	N/M	0.0%	0.0%	(57.9%)	90.7%
Operating Ratios					
Gross Margin	6.8%	5.0%	5.2%	2.4%	4.8%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	5.2%	2.4%	4.8%
EBITDA Margin	6.0%	4.7%	5.0%	2.5%	4.9%
EBIT Margin	5.6%	4.5%	4.8%	2.1%	4.5%
Net Margin	5.5%	5.0%	5.4%	2.8%	4.8%
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%	-31%	-35%
Net Debt-to-Capital	N/M	N/M	-52%	-45%	-54%
Net Debt-to-EBITDA	(4.2)	(4.6)	(2.6)	(5.6)	(3.1)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	13.8%	12.9%	12.5%	4.6%	10.4%
ROE	13.6%	14.4%	14.3%	6.3%	11.2%
ROA	7.8%	8.4%	9.6%	4.4%	7.8%
Liquidity Ratios					
Current Ratio	1.6	1.7	1.5	1.5	1.6
Quick Ratio	1.5	1.6	1.4	1.4	1.5
Valuation					
EV/Sales	0.8	0.6	0.7	0.9	0.8
EV/EBITDA	13.4	12.3	13.6	35.4	15.4
EV/EBIT	14.4	12.9	14.3	41.7	16.6
P/E	18.8	15.6	14.9	35.3	18.5
P/BV	2.6	2.3	2.1	2.2	2.1
Dividend Yield	6.3%	4.7%	4.4%	1.9%	3.5%

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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