

## Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR14.70	Current Target Price	QR21.00
Implied Upside	42.9%		

### MSCI Outflow-Related Decline Presents Buying Opportunity; Outperform

We reiterate our Outperform rating on QGTS and our QR21 price target. Nakilat shares have been fairly weak, down 2.7% on a total return basis YTD (down 8.7% in price). QGTS stock has especially come under pressure since mid-March as focus shifted to several other QSE-listed names benefiting from the FOL upside catalyst, while QGTS was marked for deletion from the MSCI EM Index. With the MSCI event behind us, we reiterate our Outperform rating and QR21 price target on Nakilat shares. We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance & anticipated growth in the LNG market. We believe the stock is attractive at current levels.

### Highlights

- **QGTS trades at unwarranted discounts to global/regional peers.** Despite the significant intra-day bounce seen on June 3, Nakilat continues to trade at a substantial discount to its peers despite possessing markedly superior EBITDA margins. We also point to the company substantial FCF yield resulting from limited capex requirements and significant operating cash flow (for more details, please see relative valuation table on Page 2).
- **Nakilat trades at a historically low P/E and has a P/E spread almost 2 standard deviations below its average relative to Milaha (QNNS).** QNNS, in contrast, has benefited from FTSE re-inclusion in March (for more details, please see historical/TTM charts on Page 2). We believe QGTS retains room for upside.
- **QGTS is a vital part of Qatar's LNG value chain and enjoys stable revenue/cash flow from LT (25 years/~15 years left) and fixed-rate time LNG charter contracts (take or pay) with Qatargas and its affiliates.** The availability-based take or pay contracts shields QGTS from end-demand volatility and delays in charterers' projects. 11 ships are on spot-to-medium-term charters; LPG is a spot business. For more details, please see our [upgrade](#) report and our detailed [review](#) of the company.

### Catalysts

- **The expansion of Qatar's LNG output from 77 MTPA to 100 MTPA is a significant driver (potentially another 30 conventional vessels).** QGTS is also considering targeting the FSRU business. Vessels have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, the shipyard business could improve.

### Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 12-month target is QR21.** QGTS trades at attractive multiples vs. peers, while sporting much better EBITDA margins and FCF yields.
- **Risks: (1) Blockade is an overhang but business impact has been limited thus far.** Shipping ultimately remains the charterers' concern and comprehensive insurance policies (including war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2) There is a risk existing LNG contracts get renegotiated as they are at a premium to spot (for wholly-owned fleet and some JVs).** We would not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept significantly worse contract terms. The likelihood of this is low given investment grade-rated bonds and contagion effects for other GRE-related bond issues.

### Key Financial Data and Estimates

	FY2016	FY2017	FY2018e	FY2019e
EPS (QR)	1.72	1.53	1.54	1.73
P/E (x)	8.5	9.6	9.6	8.5
DPS (QR)	1.00	1.00	1.05	1.10
Dividend Yield	6.8%	6.8%	7.1%	7.5%

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	14.70
Current Dividend Yield (%)	6.8
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	19.20/13.05
3-m Average Volume ('000)	981.9
Mkt. Cap. (\$ bn/QR bn)	2.2/8.1
EV (\$ bn/QR bn)	7.1/26.0
Shares Outstanding (mn)	560.0
FO Limit* (%)	49.0
Current FO* (%)	14.9
1-Year Total Return (%)	(9.3)
Fiscal Year End	December 31

Source: Bloomberg (as of May 31, 2018), \*Qatar Exchange (as of May 31, 2018); Note: FO is foreign ownership

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## Relative Valuation

In terms of multiples, QGTS remains relatively cheaper vs. its peers along with substantially better EBITDA margins. We also point to the company substantial FCF yield resulting from limited capex requirements and significant operating cash flow.

### Relative Valuation Versus Peers

Shippers Company	Ticker	Div. Yield	EBITDA Margin		P/E		P/CFPS		EV/EBITDA		FCF Yield	
			FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e	FY2018e	FY2019e
COSCO SHIPPING Energy Transportation Co Ltd	1138	5.7%	36.1%	40.4%	9.6x	6.8x	3.2x	2.7x	9.0x	7.4x	3.7%	2.6%
National Shipping Co of Saudi Arabia/The	NSCSA	5.2%	34.5%	33.2%	12.5x	11.4x	NA	NA	9.2x	8.7x	NA	NA
GasLog Partners LP	GLOP	8.6%	72.2%	72.0%	12.4x	11.7x	5.5x	5.3x	9.4x	8.7x	(25.8%)	(15.0%)
GasLog Ltd	GLOG	3.4%	70.4%	73.1%	41.8x	15.1x	4.3x	3.6x	11.2x	9.5x	(20.7%)	1.1%
Dynagas LNG Partners LP	DLNG	19.7%	72.9%	75.0%	19.7x	13.5x	4.9x	4.8x	10.5x	9.3x	(2.9%)	NA
Ship Finance International Ltd	SFL	10.5%	66.1%	68.6%	15.9x	13.5x	9.2x	8.1x	10.4x	9.9x	8.0%	21.4%
Teekay LNG Partners LP	TGP	3.1%	73.7%	76.5%	10.7x	7.3x	5.7x	4.8x	10.6x	8.4x	NA	NA
Golar LNG Ltd	GLNG	0.6%	52.1%	59.8%	nmf	44.7x	18.4x	12.1x	27.6x	18.6x	7.8%	6.1%
Tsakos Energy Navigation Ltd	TNP	5.6%	52.0%	54.1%	nmf	10.8x	2.4x	1.6x	10.0x	8.5x	45.2%	53.5%
<b>Average</b>		<b>6.9%</b>	<b>58.9%</b>	<b>61.4%</b>	<b>17.5x</b>	<b>15.0x</b>	<b>6.7x</b>	<b>5.4x</b>	<b>12.0x</b>	<b>9.9x</b>	<b>2.2%</b>	<b>11.6%</b>
<b>Median</b>		<b>5.6%</b>	<b>66.1%</b>	<b>68.6%</b>	<b>12.5x</b>	<b>11.7x</b>	<b>5.2x</b>	<b>4.8x</b>	<b>10.4x</b>	<b>8.7x</b>	<b>3.7%</b>	<b>4.3%</b>
<b>Qatar Gas Transport Co Ltd</b>	<b>QGTS</b>	<b>6.8%</b>	<b>76.0%</b>	<b>76.2%</b>	<b>9.6x</b>	<b>8.5x</b>	<b>5.8x</b>	<b>5.4x</b>	<b>9.4x</b>	<b>8.9x</b>	<b>16.2%</b>	<b>17.4%</b>

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

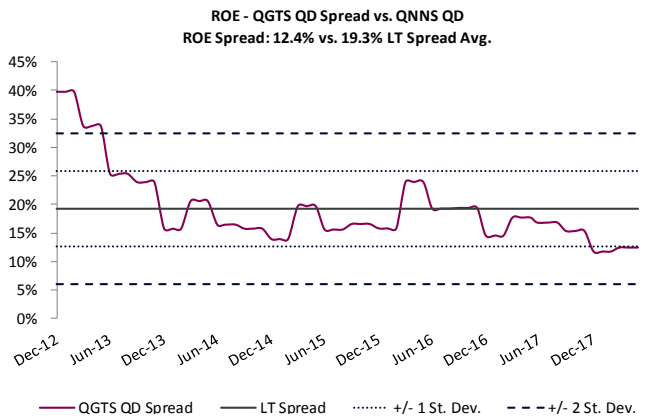
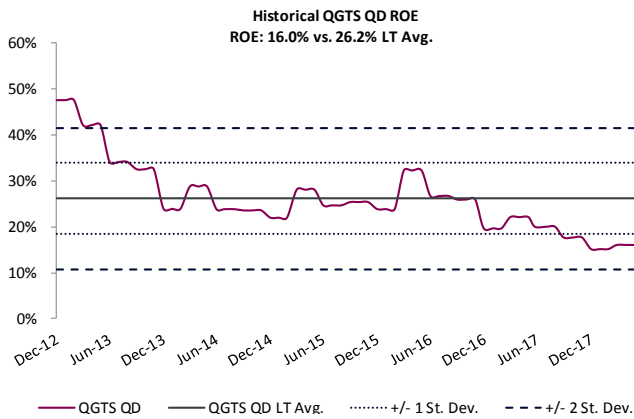
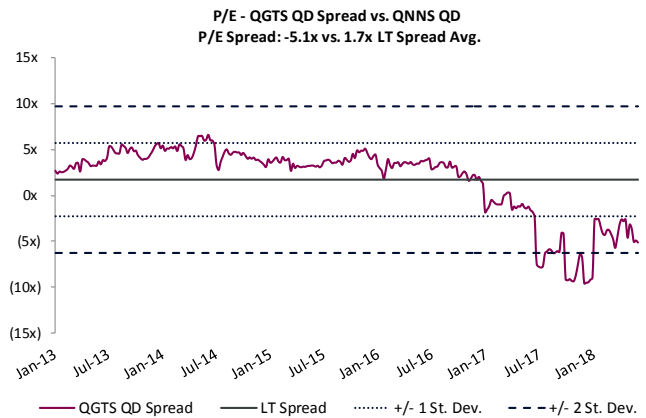
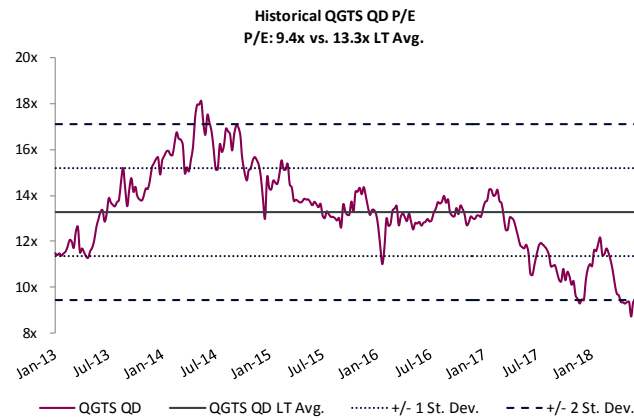
NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Nakilat trades at a historically low P/E and has a P/E spread almost 2 standard deviations below its average relative to Milaha (QNNS). QNNS, in contrast, has benefited from FTSE re-inclusion in March. We believe QGTS retains room for upside. We note the absolute decline in QGTS' ROE over time is misleading because of the company's hedging reserve (which has served to lower book equity historically given the regime of low interest rates relative to higher fixed rates established through swaps).

### Historical Comparisons



Source: Company data, QNBFS estimates

## Key Forecasts: Profitability and Growth Metrics

ROIC should increase over time given pay down of debt and lower interest expenses. This is despite profitability margins coming down as we expect costs to outpace flattish top-line of wholly-owned vessels. Growth of operating metrics remains flattish with profitability already at elevated levels. ROE levels remain healthy.

### Ratio Analysis

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033
<b>Growth Ratios (In %)</b>												
Revenue - Wholly Owned	0.7%	(0.4%)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.0%	1.5%	2.9%	(0.7%)	1.2%	1.1%	1.1%	1.2%	1.2%	1.2%
Gross Profit	0.1%	0.4%	(0.2%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
EBITDA	(1.1%)	0.5%	(0.1%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA -Adjusted	1.1%	(7.2%)	1.0%	1.9%	3.6%	(1.1%)	1.5%	1.3%	1.3%	1.4%	1.5%	1.5%
EBIT	(6.5%)	0.7%	(0.4%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
EPS	(2.9%)	(11.3%)	0.7%	12.3%	17.0%	2.9%	8.9%	8.0%	7.6%	7.8%	6.0%	5.3%
CFPS	(9.9%)	16.7%	6.9%	7.1%	10.6%	2.5%	5.4%	5.1%	5.0%	5.2%	4.5%	4.1%
FCFPS	(4.9%)	22.0%	0.3%	7.6%	11.3%	2.6%	5.7%	5.3%	5.2%	5.5%	4.6%	4.2%
DPS	(20.0%)	0.0%	5.0%	4.8%	4.5%	4.3%	4.2%	4.0%	3.8%	26.1%	6.0%	5.3%
<b>Operating Ratios (In %)</b>												
Gross Margin	76.6%	77.2%	77.0%	76.9%	76.8%	76.7%	76.6%	76.5%	76.4%	76.3%	75.8%	75.5%
EBITDA Margin	74.0%	74.6%	74.5%	74.4%	74.3%	74.3%	74.2%	74.1%	74.1%	74.0%	73.7%	73.6%
Adj. EBITDA Margin	76.8%	75.9%	76.0%	76.2%	76.8%	76.5%	76.7%	76.8%	77.0%	77.2%	78.1%	78.6%
EBIT Margin	49.0%	49.5%	49.3%	49.2%	49.2%	49.1%	49.0%	49.0%	48.9%	48.8%	48.5%	48.4%
Net Margin	31.1%	27.7%	27.9%	31.3%	36.5%	37.6%	40.9%	44.1%	47.4%	51.0%	70.6%	82.6%
<b>Finance Ratios</b>												
Net Debt-to-EBITDA	8.3	7.8	7.4	7.0	6.5	6.1	5.5	5.0	4.4	3.8	0.8	-1.2
Debt-Equity Ratio	4.1	3.5	3.1	2.7	2.3	2.0	1.7	1.4	1.2	1.0	0.3	0.0
Net Debt-Equity Ratio	3.6	3.0	2.7	2.3	2.0	1.7	1.4	1.2	0.9	0.7	0.1	-0.1
Interest Coverage	1.3	1.3	1.3	1.4	1.5	1.6	1.7	1.8	2.0	2.2	5.3	36.0
EBITDA Interest Coverage	1.9	1.9	2.0	2.1	2.3	2.4	2.6	2.8	3.0	3.4	8.1	54.8
<b>Return Ratios (In %)</b>												
ROIC	5.6%	5.7%	5.8%	5.9%	6.0%	6.1%	6.2%	6.3%	6.4%	6.5%	7.1%	7.3%
ROAE	19.7%	15.1%	13.8%	14.4%	15.4%	14.5%	14.4%	14.3%	14.1%	13.9%	13.3%	12.8%
ROAA	3.1%	2.8%	2.9%	3.3%	4.0%	4.2%	4.6%	5.1%	5.6%	6.1%	9.5%	11.8%
<b>Liquidity Ratios</b>												
Current Ratio	2.0	2.0	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.3	3.8
Quick Ratio	2.0	2.0	1.7	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.3	3.8
<b>Valuation</b>												
EV/EBITDA-Adjusted	9.5	9.9	9.4	8.9	8.2	7.9	7.4	6.8	6.3	5.7	3.2	1.6
EV/EBIT	17.9	17.1	16.6	15.9	15.2	14.5	13.7	12.9	12.1	11.2	6.6	3.6
P/E	8.5	9.6	9.6	8.5	7.3	7.1	6.5	6.0	5.6	5.2	3.7	3.2
P/CF	7.2	6.2	5.8	5.4	4.9	4.8	4.5	4.3	4.1	3.9	3.1	2.7
P/B	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.8	0.8	0.7	0.5	0.4
Dividend Yield	6.8%	6.8%	7.1%	7.5%	7.8%	8.2%	8.5%	8.8%	9.2%	11.6%	16.1%	18.9%
FCF Yield	13.2%	16.1%	16.2%	17.4%	19.4%	19.9%	21.0%	22.1%	23.3%	24.6%	31.4%	35.7%

Source: Company data, QNBFS estimates

## Detailed Financial Statements

### Income Statement

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Revenue – Wholly-Owned Ships	3,057	3,060	3,063	3,066
Direct Costs	(697)	(704)	(708)	(712)
<b>Gross Profit</b>	<b>2,360</b>	<b>2,355</b>	<b>2,355</b>	<b>2,354</b>
Income from Marine & Agency Services	55	56	57	59
General and Administrative Expenses	(133)	(134)	(134)	(134)
<b>EBITDA</b>	<b>2,281</b>	<b>2,278</b>	<b>2,279</b>	<b>2,279</b>
Depreciation	(768)	(770)	(771)	(772)
<b>EBIT</b>	<b>1,513</b>	<b>1,508</b>	<b>1,508</b>	<b>1,507</b>
Share of Profits from Joint Ventures	339	369	419	517
Finance Costs	(1,172)	(1,127)	(1,071)	(1,006)
Interest, Dividend & Profit from Islamic Banks	64	64	64	64
Vessels Sub-Chartering & Other Income	103	39	39	39
<b>Profit Before Tax</b>	<b>847</b>	<b>854</b>	<b>959</b>	<b>1,121</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>847</b>	<b>854</b>	<b>959</b>	<b>1,121</b>
Minority Interest	(1)	(1)	(1)	(2)
<b>Profit for Equity Shareholders</b>	<b>846</b>	<b>852</b>	<b>957</b>	<b>1,120</b>
<b>EPS (QR)</b>	<b>1.53</b>	<b>1.54</b>	<b>1.73</b>	<b>2.02</b>
<b>Adjusted Net Revenue</b>	<b>3,451</b>	<b>3,485</b>	<b>3,539</b>	<b>3,641</b>
<b>Adjusted EBITDA</b>	<b>2,620</b>	<b>2,647</b>	<b>2,698</b>	<b>2,796</b>

Source: Company data, QNBFS estimates

### Balance Sheet

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	22,392	21,708	21,023	20,337
Investment in Joint Venture Companies	4,144	4,268	4,394	4,523
Loans to Joint Venture Companies	99	99	99	99
Available-for-Sale Investments	109	109	109	109
<b>Total Non-Current Assets</b>	<b>26,744</b>	<b>26,184</b>	<b>25,624</b>	<b>25,068</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	400	400	400	401
Cash and Bank Balances	2,775	2,835	2,634	2,536
<b>Total Current Assets</b>	<b>3,175</b>	<b>3,235</b>	<b>3,035</b>	<b>2,937</b>
<b>Total Assets</b>	<b>29,919</b>	<b>29,418</b>	<b>28,659</b>	<b>28,004</b>
<b>Equity</b>				
Equity Attributable to the Parent	5,922	6,393	6,941	7,625
Minority Interest	4	5	7	8
<b>Total Equity</b>	<b>5,926</b>	<b>6,398</b>	<b>6,948</b>	<b>7,633</b>
<b>Non-Current Liabilities</b>				
Borrowings	19,789	18,638	17,450	16,337
Fair Value of Interest Rate Swaps	2,478	2,323	2,168	2,014
Provision for End of Service Benefits	148	148	148	148
<b>Total Non-Current Liabilities</b>	<b>22,416</b>	<b>21,109</b>	<b>19,766</b>	<b>18,498</b>
<b>Current Liabilities</b>				
Borrowings	832	1,158	1,189	1,113
Accounts Payables/Accruals & Due to Related Parties	746	753	756	760
<b>Total Current Liabilities</b>	<b>1,578</b>	<b>1,911</b>	<b>1,945</b>	<b>1,873</b>
<b>Equity and Liabilities</b>	<b>29,919</b>	<b>29,418</b>	<b>28,659</b>	<b>28,004</b>

Source: Company data, QNBFS estimates

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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