

QGTS Alert – In-Line 4Q2021/FY2021 Results & QR0.12 DPS; Remain Outperform

- **Nakilat posts in-line 4Q2021 and 2021 results/DPS.** QGTS' 4Q2021 net income of QR350.5mn rises 34.4% YoY but declines 4.7% QoQ and is in-line with our estimate of QR344.4mn (difference of 1.8%). **(1) Revenue from wholly-owned ships** of QR905.4mn (2.2% YoY, 2.0% QoQ) was in-line with our estimate of QR886.6mn (variation of 2.1%). **(2) Adjusted revenue** (wholly-owned ships + marine & agency services + JV income) of QR1.07bn (12.5% YoY, 2.9% QoQ) was also in-line-to-moderately above with our estimate of QR1.02bn (divergence of 4.7%) and was driven by the strength in JV income and uptick in wholly-owned ship revenue. **(3) EBITDA** of QR690.2mn (0.1% YoY, -0.8% QoQ) was barely 0.3% behind our forecast of QR692.4mn given modest deterioration of cash gross margins (77.5% vs. our model of 79.3%); EBITDA performance was aided by marine & agency services but was offset by **G&A** expenses of QR25.4mn (42.0% YoY, -7.0% QoQ/12.5% ahead of our estimate of QR22.6mn **(4) Adjusted EBITDA** of QR838.8mn (12.5% YoY, 0.5% QoQ) was 3.1% above our estimate of QR813.4mn. **(5) JV income** of QR148.6mn (166.0% YoY, 7.3% QoQ) was 22.8% above our estimate of QR121.1mn. We note that JV income was depressed in 4Q2020 due to weak shipyard performance and one-time write-down of legacy costs. **(6) Finally finance costs** came in at QR258.9mn (-1.7% YoY, -0.6% QoQ), and was in-line with our estimate of QR259.8mn (difference of -0.3%).
- **2021 profitability jumps 16.7% with record-high EPS of QR0.24; DPS of QR0.12 increases 9% and is in-line with our model.** FY2021 earnings were bang in-line with our estimate (0.5% divergence). Overall, we find these results encouraging and consistent with the overall progress we see QGTS making on the operational/costs front.
- **We remain bullish on Nakilat and consider it as the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector.** Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. QGTS' fleet continues to provide the company with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of QGTS' vessels vs. maximum debt life of 25 years (last debt maturing 2033), continues to create refinancing opportunities to increase fleet size. Thus, we think further deals in LNG ships and FSRUs are likely. In the near-term, addition of 4 LNG vessels (1 added in early January 2021 followed by one each in October/November 2021 and January 2022) via Global Shipping, should help earnings growth in 2022. In terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver. Currently our model does not assume any fleet growth and we will incorporate such expansion once more details become available. *We note every vessel (@100%) adds roughly 1% to QGTS' TP and we should hear more about carrier selection by end of 2022.* We foresee significant upward revision to our estimates and price target once we factor in this expansion. **We continue to rate QGTS an Outperform and could possibly revise our price target of QR3.500.**

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Income Statement												
In QR mn Except Otherwise Noted	4Q2020	3Q2021	4Q2021	4Q2021e	A Vs. E	YoY	QoQ	2020	2021	2021e	A Vs. E	YoY
Revenue from Wholly-Owned Vessels	885.545	887.474	905.406	886.564	2.1%	2.2%	2.0%	3,517.567	3,541.032	3,522.190	0.5%	0.7%
Operating Costs	(186.251)	(176.205)	(203.840)	(183.762)	10.9%	9.4%	15.7%	(733.561)	(746.303)	(726.225)	2.8%	1.7%
Gross Profit	699.294	711.269	701.566	702.801	-0.2%	0.3%	-1.4%	2,784.006	2,794.729	2,795.964	0.0%	0.4%
<i>Gross Margin</i>	<i>79.0%</i>	<i>80.1%</i>	<i>77.5%</i>	<i>79.3%</i>				<i>79.1%</i>	<i>78.9%</i>	<i>79.4%</i>		
Income from Marine and Agency Services	8.143	12.083	14.016	12.163	15.2%	72.1%	16.0%	46.307	49.086	47.233	3.9%	6.0%
General and Administrative Expenses	(17.881)	(27.307)	(25.396)	(22.578)	12.5%	42.0%	-7.0%	(93.448)	(97.318)	(94.500)	3.0%	4.1%
EBITDA	689.556	696.045	690.186	692.386	-0.3%	0.1%	-0.8%	2,736.865	2,746.497	2,748.697	-0.1%	0.4%
Depreciation & Amortization	(223.172)	(223.011)	(232.668)	(225.280)	3.3%	4.3%	4.3%	(891.491)	(895.351)	(887.963)	0.8%	0.4%
EBIT	466.384	473.034	457.518	467.106	-2.1%	-1.9%	-3.3%	1,845.374	1,851.146	1,860.734	-0.5%	0.3%
<i>EBIT Margin</i>	<i>52.7%</i>	<i>53.3%</i>	<i>50.5%</i>	<i>52.7%</i>				<i>52.5%</i>	<i>52.3%</i>	<i>52.8%</i>	<i>-1.0%</i>	<i>-0.4%</i>
Share of Operating Profits from Joint Ventures	55.882	138.563	148.635	121.056	22.8%	166.0%	7.3%	390.142	493.560	465.981	5.9%	26.5%
Finance Costs	(263.385)	(260.415)	(258.924)	(259.821)	-0.3%	-1.7%	-0.6%	(1,137.228)	(1,048.767)	(1,049.664)	-0.1%	-7.8%
Interest, Dividend income & Profit from Islamic Banks	16.328	12.511	16.761	12.237	37.0%	2.7%	34.0%	62.568	58.285	53.761	8.4%	-6.8%
Vessel Sub-Chartering & Other Income	(14.480)	4.305	(13.358)	4.079	-427.5%	-7.7%	-410.3%	-	-	17.437		
Profit Before Tax	260.729	367.998	350.632	344.657	1.7%	34.5%	-4.7%	1,160.856	1,354.224	1,348.249	0.4%	16.7%
Profit After Tax	260.729	367.998	350.632	344.657	1.7%	34.5%	-4.7%	1,160.856	1,354.224	1,348.249	0.4%	16.7%
Minority Interest	0.012	(0.252)	(0.096)	(0.236)	-59.3%	-900.0%	-61.9%	(0.643)	(0.755)	(0.895)	-15.6%	17.4%
Net Income to Equity	260.741	367.746	350.536	344.421	1.8%	34.4%	-4.7%	1,160.213	1,353.469	1,347.354	0.5%	16.7%
<i>Net Profit Margin</i>	<i>29.4%</i>	<i>41.4%</i>	<i>38.7%</i>	<i>38.8%</i>				<i>33.0%</i>	<i>38.2%</i>	<i>38.3%</i>		
EPS (QR)	0.05	0.07	0.06	0.06	1.8%	34.4%	-4.7%	0.21	0.24	0.24	0.5%	16.7%
Adjusted EBITDA	745.438	834.608	838.821	813.443	3.1%	12.5%	0.5%	3,127.007	3,240.057	3,214.679	0.8%	3.6%

Adjusted Revenue	949.570	1,038.120	1,068.057	1,019.783	4.7%	12.5%	2.9%	3,954.016	4,083.678	4,035.404	1.2%	3.3%
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Particulars	4Q2020	3Q2021	4Q2021	4Q2021e	2020	2021	2021e
Adj. EBITDA Margin	78.5%	80.4%	78.5%	79.8%	79.1%	79.3%	79.7%
Gross Margin	79.0%	80.1%	77.5%	79.3%	79.1%	78.9%	79.4%
EBIT Margin	52.7%	53.3%	50.5%	52.7%	52.5%	52.3%	52.8%
G & A % of Sales	2.0%	3.1%	2.8%	2.5%	2.7%	2.7%	2.7%
Depreciation & Amortization % of Sales	25.2%	25.1%	25.7%	25.4%	25.3%	25.3%	25.2%
Minority Interest % of PAT	0.0%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
QoQ Change in D&A	0.3%	1.0%	4.3%	1.0%			
QoQ Change in Finance Charges	-5.4%	-1.7%	-0.6%	-0.2%			
DPS (QR)					0.11	0.12	0.12

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%

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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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