

Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	Outperform	Risk Rating	R-3
Share Price	QR3.950	Target Price	QR5.600
Implied Upside	41.8%	Old Target Price	QR5.100

Announces 9-QC-Max LNG Vessel Deal As Expected; Raising Price Target

As expected, QGTS announced that it was selected as owner & operator of 9 QC-Max LNG (271,000 m3) carriers tied to the massive 120+ vessels North Field expansion program. We had anticipated this exact announcement in our previous report and raise Nakilat's price target from QR5.100 to QR5.600. We also reiterate our Outperform rating. We have long highlighted QGTS as a top pick and this contract win further validates our investment thesis.

Highlights

- **What happened?** QGTS announced that it was selected by QatarEnergy as the 100% owner & operator of 9 QC-Max LNG carriers that will be chartered by affiliates of QatarEnergy. These vessels have ~155% of the capacity of conventional (174,000 m3) LNG vessels and are scheduled for construction in Chinese Hudong-Zhonghua shipyards as part of QatarEnergy's historic LNG Fleet Expansion Project.
- **With this announcement, QGTS will own and operate 34 (25 conventional/9 QC-Max) LNG ships or ~28% of QatarEnergy's 122 (104 conventional/18 QC-Max) LNG-vessel program announced thus far.** We note the other nine QC-Max vessels were awarded to three Chinese companies in late April and all 18 QC-Max vessels will be constructed in Chinese Hudong-Zhonghua shipyards. **Nakilat is currently the only company that owns and operates Q-Max class LNG vessels with its existing fleet consisting of 14 such 100%-owned ships.**
- **Impact on our target price: We raise TP by ~10% from QR5.100 to QR5.600.** We have previously highlighted (most recently, in this report), that considering Nakilat's strategic importance, (QGTS ships ~75-80% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a beneficiary and secure a meaningful share of new contracts. With this announcement, QGTS has secured 34 LNG ships out of the 122 LNG vessels awarded. **While further details about deal economics are awaited, we expect roughly \$330mn capex/vessel (QatarEnergy has announced a \$6bn price tag for 18-QC-Max vessel program), an 80% D/E and a levered IRR between 11-14% (consistent with Nakilat's target range and our modeled expectations).** We incorporate the NF-related expansion (25 conventional + 9 QC-Max), along with the deal announced in January for the construction of six gas vessels (two LNG carriers @ 174,000 m3 capacity each and four Very Large LPG/ Ammonia Gas carriers @ up to 88,000 m3) for delivery between 2026 and 2027, to raise our price target to QR5.600.
- **We envision a roughly 60% boost to our earnings estimates over 2026-2030 once all expansion is factored in.** We note that our model does not currently factor in the earnings accretion from this program, the planned 25-vessel conventional LNG expansion or the addition of two conventional LNG/four Very Large LPG/Ammonia Gas carriers. We will update our model once more details are revealed.
- **What about the increase in leverage? Not a cause for concern plus Moody's upgraded debt rating just in February 2024.** We have previously highlighted (most recently, in this report), that potential fleet expansion should not be a cause for concern in terms of debt servicing or dividend payments. Considering the current price tag for LNG ship new builds, an increase of 34 LNG vessels related to the NF expansion and 2 LNG vessels targeted for international customers, QGTS will have to take on new debt of ~QR29bn (at 80% D/E, although QGTS could finance up to 90%). **This could potentially send Nakilat's 2026 net debt-to-equity ratio to 2.8x vs. an average of 1.9x over 2020-2022 and 0.5x by 2026. However, this debt would also be secured by LT charters and hence, not a cause for concern for either debt servicing or dividend payments.** We also note that Moody's recently upgraded Nakilat Inc.'s and its senior secured notes to "Aa3" from "A1", and the subordinated debt to "A1" from "A2" with a stable outlook. This could help QGTS in terms of raising debt at relatively attractive terms. **As a majority of the capex should be spent around 2027-2029, we expect QGTS to be opportunistic and hedge rates once they start to decline. We do note that given the scale of this program, it is possible that dividends may not grow in the future.**
- **The background: QatarEnergy announced in late Feb. that it was expanding its LNG capacity further to 142 MTPA by 2030 (North Field West) after first expanding it from 77 MTPA to 110 MTPA by 2025/2026 (North Field East) and to 126 MTPA by 2027 (North Field South).** In late March, QGTS signed Time Charter Parties (TCP) agreements for 25 conventional LNG carriers as part of QatarEnergy's 2nd phase of ship owner tender agreements. This announcement built on the Feb. 2024 announcement that QGTS had been selected as owner & operator of up to 25 conventional LNG carriers. So far, QatarEnergy has already concluded the conventional-sized vessels portion of its expansion granting TCP agreements for 104 conventional LNG vessels (60 in phase 1 and 44 in phase 2 that includes 25- vessels for Nakilat and 19 for four international ship-owners). Adding 18 QC-Max carriers has increased Qatar's overall LNG fleet expansion to 122 vessels.

Catalysts

- **With Nakilat on the cusp of a significant growth cycle, we expect the stock to appreciate.**

Recommendation, Valuation and Risks

- **Recommendation & valuation: Our price target is QR5.600 and we rate QGTS an Outperform.** We stay bullish on Nakilat, which is 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. Moreover, the 40-year life of Nakilat's existing vessels vs. maximum debt life of 25 years, could allow for value-enhancement.
- **Risks:** Execution risks remain given the magnitude of the expansion but we note that Nakilat's impeccable track record alleviates this concern.

Key Financial Data and Estimates

	FY2023	FY2024e	FY2025e	FY2026e
EPS (QR)	0.28	0.31	0.36	0.40
P/E (x)	14.0	12.8	11.0	9.9
DPS (QR)	0.14	0.15	0.16	0.17
Dividend Yield	3.5%	3.8%	4.1%	4.3%

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

Key Data

Current Market Price (QR)	3.950
Current Dividend Yield (%)	3.5
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.433/3.061
3-m Average Volume ('mn)	5.7
Mkt. Cap. (\$ bn/QR bn)	6.0/21.9
EV (\$ bn/QR bn)	9.7/35.3
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.8
1-Year Total Return (%)	(0.4)
Fiscal Year End	December 31

Source: Bloomberg (as of May 08, 2024), *Qatar Exchange (as of May 07, 2024); Note: FO is foreign ownership

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Valuation and Key Ratios

Growth Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033	CAGR 22-33
Growth Ratios (In %)													
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	0.3%	0.1%	0.1%	0.1%	0.2%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	2.7%	0.6%	1.1%	0.9%	0.7%	1.0%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	(0.6%)	0.3%	0.1%	0.1%	0.1%	0.0%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	(0.5%)	(0.0%)	(0.2%)	(0.1%)	(0.2%)	-0.2%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	2.4%	0.6%	1.3%	0.9%	0.7%	1.0%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	(0.1%)	5.2%	(0.5%)	(0.4%)	(0.4%)	0.1%
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	13.9%	2.8%	6.3%	3.8%	2.7%	4.8%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	9.6%	(5.2%)	(12.8%)	(25.7%)	(64.2%)	(23.5%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.3%	9.6%	17.0%	4.7%	5.0%	7.3%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(16.1%)	15.4%	1.5%	5.1%	3.7%	3.6%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(39.2%)	59.0%	1.6%	5.6%	0.2%	3.4%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	5.0%	4.3%	5.7%

Source: Bloomberg, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033
Growth Ratios (In %)												
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	0.3%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	2.7%	0.6%	1.1%	0.9%	0.7%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	(0.6%)	0.3%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	(0.5%)	(0.0%)	(0.2%)	(0.1%)	(0.2%)
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	2.4%	0.6%	1.3%	0.9%	0.7%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	(0.1%)	5.2%	(0.5%)	(0.4%)	(0.4%)
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	13.9%	2.8%	6.3%	3.8%	2.7%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	9.6%	(5.2%)	(12.8%)	(25.7%)	(64.2%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.3%	9.6%	17.0%	4.7%	5.0%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(16.1%)	15.4%	1.5%	5.1%	3.7%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(39.2%)	59.0%	1.6%	5.6%	0.2%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	5.0%	4.3%

Operating Ratios (In %)

Gross Margin	76.6%	77.2%	77.8%	78.0%	79.1%	78.9%	78.5%	77.7%	77.6%	77.6%	77.4%	77.3%
EBITDA Margin	74.0%	74.6%	75.2%	75.6%	77.8%	77.6%	76.9%	76.2%	75.9%	75.6%	74.6%	74.0%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	78.1%	79.1%	79.3%	79.6%	79.4%	79.3%	79.4%	79.7%	79.7%
EBIT Margin	49.0%	49.5%	50.5%	47.7%	52.5%	52.3%	50.2%	50.0%	52.4%	52.1%	50.7%	49.9%
Net Margin	31.1%	27.7%	29.1%	31.6%	33.0%	38.2%	40.5%	43.7%	47.7%	55.8%	75.3%	86.1%

Finance Ratios

Net Debt-to-EBITDA	8.3	7.8	7.5	7.9	6.6	6.0	5.2	4.9	4.4	3.7	0.5	-2.0
Debt-Equity Ratio	4.1	3.5	2.9	3.1	3.0	2.3	1.7	1.5	1.4	1.2	0.3	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.8	2.5	1.9	1.3	1.1	0.9	0.7	0.1	-0.2
Debt-to-Capital	80.3%	77.7%	74.1%	75.6%	74.7%	69.4%	62.6%	59.3%	59.0%	54.3%	21.8%	0.0%
Interest Coverage	1.3	1.3	1.3	1.3	1.6	1.8	1.6	1.4	1.6	1.8	5.0	30.1
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.4	2.6	2.4	2.2	2.3	2.6	7.3	44.6

Return Ratios (In %)

ROIC	5.6%	5.7%	5.8%	5.4%	6.6%	6.5%	5.9%	6.0%	5.9%	6.0%	6.6%	6.7%
ROAE	19.7%	15.1%	13.9%	14.5%	16.6%	17.1%	14.4%	13.4%	13.6%	14.7%	13.0%	12.0%
ROAA	3.1%	2.8%	3.0%	3.2%	3.6%	4.2%	4.5%	4.9%	5.2%	5.9%	9.1%	10.7%

Valuation

EV/EBITDA-Adjusted	14.4	15.1	14.5	13.8	12.7	11.8	10.5	10.0	9.5	8.9	6.1	4.3
EV/EBIT	27.1	26.2	25.3	26.9	21.6	20.6	20.2	19.7	17.9	17.1	12.6	9.2
P/E	22.9	25.9	24.6	21.8	18.9	16.2	15.2	14.0	12.8	11.0	8.1	7.0
P/CF	19.5	16.7	17.8	15.4	8.6	11.8	9.1	10.8	9.4	9.2	6.9	6.2
P/B	4.2	3.7	3.2	3.2	3.1	2.5	1.9	1.8	1.7	1.5	1.0	0.8
Dividend Yield	2.5%	2.5%	2.5%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.1%	5.3%	6.1%
FCF Yield	4.9%	6.0%	4.7%	5.2%	11.1%	8.4%	10.6%	6.4%	10.2%	10.4%	14.1%	15.2%

Source: Bloomberg, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Detailed Financial Statements

Income Statement (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
Revenue – Wholly-Owned Ships	3,565	3,578	3,582	3,586
Direct Costs	(795)	(800)	(803)	(806)
Gross Profit	2,770	2,778	2,779	2,780
Income from Marine & Agency Services	60	55	51	47
General and Administrative Expenses	(114)	(117)	(121)	(124)
EBITDA	2,716	2,715	2,709	2,704
Depreciation	(935)	(841)	(844)	(848)
EBIT	1,781	1,874	1,865	1,856
Share of Profits from Joint Ventures	785	807	857	919
Finance Costs	(1,249)	(1,184)	(1,032)	(851)
Interest, Dividend & Profit from Islamic Banks	242	211	309	279
Profit Before Tax	1,559	1,708	1,999	2,203
Income Tax Expense	0	0	0	0
Profit After Tax	1,559	1,708	1,999	2,203
Minority Interest	(1)	(1)	(1)	(1)
Profit for Equity Shareholders	1,558	1,707	1,997	2,202
EPS (QR)	0.28	0.31	0.36	0.40
Adjusted Revenue	4,410	4,439	4,490	4,552
Adjusted EBITDA	3,501	3,522	3,566	3,622

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
Non-Current Assets				
Property, Plant and Equipment	21,002	20,261	19,516	18,767
Investment in Joint Venture Companies	5,681	5,905	6,138	6,384
Loans to Joint Venture Companies	90	90	90	90
Equity Investments	142	129	129	129
Total Non-Current Assets	26,915	26,385	25,872	25,369
Current Assets				
Receivables, Inventories, Due from Joint Ventures & Others	838	691	692	693
Cash and Bank Balances	4,224	6,916	6,769	6,524
Total Current Assets	5,062	7,607	7,461	7,217
Total Assets	31,977	33,992	33,334	32,586
Equity				
Equity Attributable to the Parent	12,084	13,037	14,225	15,562
Minority Interest	6	7	8	9
Total Equity	12,090	13,044	14,233	15,572
Non-Current Liabilities				
Borrowings	16,495	16,921	14,870	12,801
Lease Liability, Provision for End of Service Benefits and Other Liabilities	710	667	627	587
Total Non-Current Liabilities	17,205	17,589	15,497	13,388
Current Liabilities				
Borrowings	1,125	1,813	2,052	2,069
Accounts Payables/Accruals, Due to Joint Ventures & Others	1,556	1,546	1,552	1,558
Total Current Liabilities	2,681	3,359	3,603	3,626
Equity and Liabilities	31,977	33,992	33,334	32,586

Source: Bloomberg, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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