

## QGTS Alert – In-Line 2Q2019; Positive Momentum Continues; Stay Accumulate W/ QR2.40 PT

- **QGTS' bottom line rises 5.2% YoY and 1.5% QoQ in 2Q2019, in-line with our estimate** – Nakilat's 2Q2019 net profit of QR239.6mn was right in-line with our estimate of QR238.4mn (variation of +0.5%). Operating metrics were also in-line with our forecasts: (1) Revenue from wholly-owned ships of QR760.7mn (-1.1% YoY, 1.2% QoQ) was in-line with our estimate of QR760.3mn (difference of +0.1%). (2) Adjusted revenue of QR890.0mn (0.2% YoY, 2.6% QoQ) was also in-line with our estimate of QR880.9mn (+1.0% divergence). (3) Adjusted EBITDA of QR694.5mn (2.2% YoY, 3.1% QoQ) was also in-line with our modeled figure of QR681.8mn (difference of +1.9%).
- **Positive momentum continues across key metrics.** Management cited better performance of LNG and LPG vessels and its towage JV for the improvement in adjusted revenue. We note the nice 8.7% YoY and 12.7% QoQ uptick in JV profits as further evidence of positive momentum. As we expected, earnings benefited from higher JV income (2 conventional LNG vessels added at Maran in March 2018 and one FSRU added in June 2018, along with continued traction in the shipyard business). Operating costs also improved 6.0% YoY driven by costs optimization. G&A costs also declined 7.7% YoY due to process enhancement and cost optimization initiatives. Finance charges also fell 0.9% YoY as QGTS made a scheduled repayment of a corporate loan.
- **No change to our model given in-line results.** QGTS trades at 2019 and 2020 P/E of 13.0x and 11.6x.
- **We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector.** Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. *For now, we maintain our Accumulate rating and price target of QR2.40.*

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Income Statement							
In QR mn Except Otherwise Noted	2Q2018	1Q2019	2Q2019	2Q2019e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	768.870	751.896	760.651	760.250	0.1%	-1.1%	1.2%
Operating Costs	(174.934)	(162.761)	(164.429)	(167.255)	-1.7%	-6.0%	1.0%
<b>Gross Profit</b>	<b>593.936</b>	<b>589.135</b>	<b>596.222</b>	<b>592.995</b>	<b>0.5%</b>	<b>0.4%</b>	<b>1.2%</b>
<i>Gross Margin</i>	77.2%	78.4%	78.4%	78.0%			
Income from Marine and Agency Services	12.701	12.547	13.312	12.600	5.7%	4.8%	6.1%
General and Administrative Expenses	(33.642)	(31.028)	(31.055)	(31.931)	-2.7%	-7.7%	0.1%
<b>EBITDA</b>	<b>572.995</b>	<b>570.654</b>	<b>578.479</b>	<b>573.665</b>	<b>0.8%</b>	<b>1.0%</b>	<b>1.4%</b>
Depreciation & Amortization	(188.099)	(185.459)	(188.818)	(189.302)	-0.3%	0.4%	1.8%
<b>EBIT</b>	<b>384.896</b>	<b>385.195</b>	<b>389.661</b>	<b>384.362</b>	<b>1.4%</b>	<b>1.2%</b>	<b>1.2%</b>
<i>EBIT Margin</i>	50.1%	51.2%	51.2%	50.6%			
Share of Operating Profits from Joint Ventures	106.757	102.945	116.037	108.092	7.3%	8.7%	12.7%
Finance Costs	(292.111)	(286.929)	(289.464)	(289.798)	-0.1%	-0.9%	0.9%
Interest, Dividend income & Profit from Islamic Banks	19.458	27.908	18.486	28.000	-34.0%	-5.0%	-33.8%
Vessel Sub-Chartering & Other Income	8.953	7.097	5.121	8.000	-36.0%	-42.8%	-27.8%
<b>Profit Before Tax</b>	<b>227.953</b>	<b>236.216</b>	<b>239.841</b>	<b>238.656</b>	<b>0.5%</b>	<b>5.2%</b>	<b>1.5%</b>
<b>Profit After Tax</b>	<b>227.953</b>	<b>236.216</b>	<b>239.841</b>	<b>238.656</b>	<b>0.5%</b>	<b>5.2%</b>	<b>1.5%</b>
Minority Interest	(0.231)	(0.225)	(0.254)	(0.227)	11.7%	10.0%	12.9%
<b>Net Income to Equity</b>	<b>227.722</b>	<b>235.991</b>	<b>239.587</b>	<b>238.429</b>	<b>0.5%</b>	<b>5.2%</b>	<b>1.5%</b>
<i>Net Profit Margin</i>	29.6%	31.4%	31.5%	31.4%			
<b>EPS (QR)</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.5%</b>	<b>5.2%</b>	<b>1.5%</b>
Shares o/s (mn)	5,539	5,539	5,539	5,539	0.0%	0.0%	0.0%
<b>Adjusted EBITDA</b>	<b>679.752</b>	<b>673.6</b>	<b>694.5</b>	<b>681.8</b>	<b>1.9%</b>	<b>2.2%</b>	<b>3.1%</b>
<b>Adjusted Revenue</b>	<b>888.328</b>	<b>867.4</b>	<b>890.0</b>	<b>880.9</b>	<b>1.0%</b>	<b>0.2%</b>	<b>2.6%</b>
<b>Particulars</b>	<b>2Q2018</b>	<b>1Q2019</b>	<b>2Q2019</b>	<b>2Q2019e</b>			
Adj. EBITDA Margin	76.5%	77.7%	78.0%	77.4%			
Gross Margin	77.2%	78.4%	78.4%	78.0%			
EBIT Margin	50.1%	51.2%	51.2%	50.6%			
G & A % of Sales	4.4%	4.1%	4.1%	4.2%			
Depreciation & Amortization % of Sales	24.5%	24.7%	24.8%	24.9%			

### 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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