

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

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR2.720	Current Target Price	QR3.400
Implied Upside	25.0%	Old Target Price	QR2.600

### Full Steam Ahead; Raising Price Target & Upgrading to Outperform

We are upgrading QGTS from an Accumulate to an Outperform. QGTS posted [strong 3Q2020 results](#) buoyed by continued progress in process enhancement & cost optimization as it brought management/operations of an additional six LNG carriers in-house from STASCO during 9M2020 (7 total in 2020 under phase II of its fleet management transition program). The shipyard business also bounced back after a COVID-19 induced poor 1H2020. We have also tweaked our estimates and lowered QGTS' cost of equity, which has contributed to our increased price target. 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 more in 2020, along with one each in 2021 and 2022) via Global Shipping, should help earnings growth in 2020 and 2021. 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 foresee significant upward revision to our estimates and price target once we factor in this expansion. We do not envision substantial risks to QGTS' business model due to the ongoing oil price volatility/COVID-19 pandemic.

#### Highlights

- **We increase our EPS estimate by 6% for 2020; net income should grow 20% in 2020 with a 5-year CAGR (2019-2024) of 11%.** 2020 benefits from YoY growth in ship revenue driven by Nakilat's October 2019 purchase of the remaining 49.9% stake in 4 LNG ships held under its OSG JV. Moreover, we expect a 20% YoY decline in G&A this year as QGTS successfully undertakes the 2<sup>nd</sup> phase of its fleet management transition with STASCO. In 2021, JV income should benefit from two new LNG vessels in QGTS' 60%-owned Global Shipping JV and improving shipyard performance, along with lower finance charges given principle repayments and considering that ~25% of Nakilat's debt (including JV debt) is unhedged. For 2022, another ship should be added, increasing Global Shipping's fleet to four LNG carriers along with a further decline in finance costs.
- **Transition of fleet management in-house from STASCO has enhanced profitability.** We believe Nakilat's push to assume in-house management of its fleet enhances margins in two ways: (1) It eliminates the profit margin for 3<sup>rd</sup> parties, such as STASCO, and (2) It allows for economies of scale as more ships are brought in-house. So far, this has played a major role in expanding QGTS' EBITDA margin from 74.6% in 2017 to 77.7% (expected) in 2020. While we model in modest margin pressure going forward, we could see upside to our margin assumptions when QGTS is able to transition the remaining eight wholly-owned LNG vessels (17 already brought in-house) from STASCO.
- **Stable profile with industry-leading EBITDA margins & attractive dividend/FCF yields.** Charter agreements result in stable revenue along with operating costs pass-through (a mixture of capped and uncapped inflation rates) leading to flattish absolute EBITDA. Nakilat's stable business profile is highlighted by its industry-leading margins (average adjusted EBITDA margin of 78.2% over 2010-2019 followed by 79.9% over 2020-2033). We model in a dividend yield of 4.0% in 2020 growing to 5.5% by 2033, with 15.3% in FCF yield growing to 19.2% over the same period.

#### Catalysts

- **Expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver.** QP has [signed](#) major LNG shipbuilding capacity agreements to build 100+ LNG vessels, worth in excess QR70bn, to cater to this expansion. While details are yet to be released, we expect QGTS to be a major beneficiary of this expansion. We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market. In addition, while QGTS is likely to miss out on being included in the MSCI EM Index in its November SAIR, the company's stock price appreciation could put it in a better position for the May SAIR.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR3.400.** QGTS trades at attractive multiples vs. peers despite higher EBITDA margins & FCF yields.
- **Risks: (1)** Blockade remains an overhang but business impact has been limited thus far. Shipping is ultimately the charterers' concern and comprehensive insurance policies (incl. 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 are renegotiated – we do 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 worse contract terms. However, the likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

#### Key Financial Data and Estimates

	FY2019	FY2020e	FY2021e	FY2022e
EPS (QR)	0.18	0.22	0.23	0.26
P/E (x)	15.0	12.5	11.6	10.5
DPS (QR)	0.10	0.11	0.11	0.12
Dividend Yield	3.7%	4.0%	4.0%	4.4%

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

#### Key Data

Current Market Price (QR)	2.720
Current Dividend Yield (%)	3.7
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	2.920/1.836
3-m Average Volume ('mn)	5.3
Mkt. Cap. (\$ bn/QR bn)	4.1/15.1
EV (\$ bn/QR bn)	9.1/33.1
Shares Outstanding (mn)	5,539.0
FO Limit* (%)	49.0
Current FO* (%)	12.9
1-Year Total Return (%)	13.3
Fiscal Year End	December 31

Source: Bloomberg (as of November 10, 2020), \*Qatar Exchange (as of November 09, 2020); Note: FO is foreign ownership

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## Investment Themes

- **QGTS enjoys stable revenue/cash flows from LT (25 years/~13 years left) and fixed-rate time LNG charter contracts (take or pay) with Qatargas and its affiliates.** The availability-based take or pay nature of these contracts shield QGTS from end-demand volatility and delays in charterers' projects.
- **Transition of fleet management in-house from STASCO has enhanced profitability.** QGTS entered into a master services agreement with STASCO in 2006, under which the latter agreed to provide a number of key shipping services, including initial handling of the technical management of the wholly-owned LNG vessels. This agreement has a provision for STASCO to hand over the management of these vessels to QGTS between 2018 and 2022. So far, QGTS' subsidiary NSQL has been able to fast track this process with 10 wholly-owned LNG carriers transitioned to in-house operations and management in 2017. A further seven LNG vessels have been brought in-house from STASCO in 2020 but any further transition is on hold given the pandemic. QGTS also manages the four LNG vessels acquired from OSG in October 2019 and the new LNG ship acquired via the Global Shipping JV in May 2020. In total, QGTS now manages 22 LNG vessels and 4 LPG carriers (from 2014 onward). Going forward, QGTS expects to operate and manage a FSRU held under its 55%-owned Excelerate JV in December and will also manage Global Shipping's upcoming three LNG newbuilds over 2021-2022. We believe Nakilat's push to assume in-house operations and management of its fleet enhances margins in two ways: (1) It eliminates the profit margin for third parties, such as STASCO, and (2) It allows for economies of scale as more ships are brought in-house. So far, this has played a major role in expanding QGTS' EBITDA margin from 74.6% in 2017 to 77.7% (expected) in 2020. While we conservatively model in modest margin pressure going forward, we could see upside to our margin assumptions when QGTS is able to transition the remaining eight wholly-owned LNG vessels in-house from STASCO.
- **Stable profile with industry-leading EBITDA margins & attractive dividend/FCF yields.** Charter agreements result in stable revenue along with operating costs pass-through (a mixture of capped and uncapped inflation rates) leading to flattish absolute EBITDA. Nakilat's stable business profile is highlighted by its industry-leading margins (average adjusted EBITDA margin of 78.2% over 2010-2019 followed by 79.9% over 2020-2033). A majority of interest payments (~75%) are locked at fixed rates via swaps over the length of the charters/debt at around 5.5%. Locked in charter rates, with minimal exposure to spot rates, along with predictable and declining interest payments, virtually guarantee the residual stream for shareholders as dividends. We model in a dividend yield of 4.0% in 2020 growing to 5.5% by 2033, with 15.3% in FCF yield growing to 19.2% over the same period.
- **High leverage but debt is mostly secured by watertight charter agreements; we do not foresee any challenges in debt servicing/repayments.** As of 3Q2020, QGTS has \$5.8bn in debt on its books (2019 net debt-to-EBITDA: 7.9x; 3.1x debt-to-equity/2.2x debt-to-equity excluding hedging reserve and another estimated \$2.7bn in debt in JVs (2019: net debt-to-EBITDA of 5.8x and 2.0x debt-to-equity). However, out of this \$8.5bn in debt, only ~\$500mn is corporate debt with the rest being project financing backed by charter agreements of QGTS' LNG vessels, and will be amortized over the remaining life of charters with the last of this debt (in form of bonds) paid off by 2033. Qatargas charters a majority of QGTS' 70 LNG ships (including one FSRU) with charter payments to Nakilat mostly retaining higher priority than debt service in the charterer's cash waterfall. We see no major risk of default as ~QR2bn in interest plus repayments per annum is met easily by OCF with no major refinancing expected until 2025 (\$2.7bn in bank facility balloon payments). Interestingly, while QGTS should repay all debt by 2033, its LNG fleet could retain another 15 years of useful life (until 2048) and can be relevered for fleet growth, etc.
- **Expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver.** QP has signed major LNG shipbuilding capacity agreements to build 100+ LNG vessels, worth in excess QR70bn, to cater to this expansion. While details are yet to be released, we expect QGTS to be a major beneficiary of this expansion. We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market.
- **MSCI upgrade:** In addition, while QGTS is likely to miss out on being included in the MSCI EM Index in its November SAIR, the company's stock price appreciation could put it in a better position for the May SAIR.
- **Risks: (1) Blockade remains an overhang but business impact has been limited thus far.** Shipping is ultimately the charterers' concern and comprehensive insurance policies (incl. 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 are renegotiated – we do 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 worse contract terms. However, the likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

## Summary of Estimate Changes

We increase our EPS estimate by 6% for 2020 to QR0.22; net income should grow 20% in 2020 with a 5-year CAGR (2019-2024) of 11%. 2020 benefits from YoY growth in ship revenue driven by Nakilat's October 2019 purchase of the remaining 49.9% stake in 4 LNG ships held under its OSG JV. Moreover, we expect a 20% YoY decline in G&A this year as QGTS successfully undertakes the 2nd phase of its fleet management transition with STASCO. In 2021, JV income should benefit from two new LNG vessels in QGTS' 60%-owned Global Shipping JV and improving shipyard performance, along with lower finance charges given principle repayments and considering that ~25% of Nakilat's debt (including JV debt) is unhedged. For 2022, another ship should be added, increasing Global Shipping's fleet to four LNG carriers along with a further decline in finance costs.

### QNB FS Current Estimates Vs. Previous Estimates

In QR mn	Current			Previous			Current			Previous			
	2019	2020	2021	2020	2021	2022	2021	2022	2022	2023	2023		
<b>Revenue from Wholly-Owned Vessels</b>	<b>3,166</b>	<b>3,517</b>	<b>3,473</b>	<b>1.3%</b>	<b>3,522</b>	<b>3,476</b>	<b>1.3%</b>	<b>3,527</b>	<b>3,480</b>	<b>1.4%</b>	<b>3,532</b>	<b>3,483</b>	<b>1.4%</b>
Growth	3.4%	11.1%	9.7%		0.1%	0.1%		0.1%	0.1%		0.1%	0.1%	
Operating Costs	(697)	(730)	(735)	-0.7%	(737)	(737)	0.0%	(739)	(739)	0.0%	(740)	(769)	-3.7%
Growth	2.7%	4.7%	5.4%		1.0%	0.3%		0.3%	0.3%		0.1%	4.0%	
<b>Gross Profit</b>	<b>2,469</b>	<b>2,788</b>	<b>2,738</b>	<b>1.8%</b>	<b>2,785</b>	<b>2,740</b>	<b>1.7%</b>	<b>2,788</b>	<b>2,741</b>	<b>1.7%</b>	<b>2,791</b>	<b>2,715</b>	<b>2.8%</b>
GM %	78.0%	79.3%	78.8%		79.1%	78.8%		79.0%	78.8%		79.0%	77.9%	
Income from Marine and Agency Services	55	50	55	-8.2%	52	56	-6.4%	53	57	-6.4%	54	58	-6.4%
General and Administrative Expenses	(130)	(103)	(147)	-29.6%	(106)	(147)	-27.5%	(110)	(147)	-25.4%	(110)	(147)	-25.5%
<b>EBITDA</b>	<b>2,394</b>	<b>2,735</b>	<b>2,646</b>	<b>3.3%</b>	<b>2,731</b>	<b>2,648</b>	<b>3.1%</b>	<b>2,731</b>	<b>2,651</b>	<b>3.0%</b>	<b>2,736</b>	<b>2,626</b>	<b>4.2%</b>
EBITDA Margin %	75.6%	77.7%	76.2%		77.5%	76.2%		77.4%	76.2%		77.5%	75.4%	
Depreciation & Amortization	(883)	(891)	(868)	2.6%	(890)	(869)	2.5%	(890)	(870)	2.3%	(890)	(871)	2.1%
<b>EBIT</b>	<b>1,512</b>	<b>1,844</b>	<b>1,778</b>	<b>3.7%</b>	<b>1,841</b>	<b>1,779</b>	<b>3.4%</b>	<b>1,841</b>	<b>1,781</b>	<b>3.4%</b>	<b>1,846</b>	<b>1,755</b>	<b>5.2%</b>
<b>Share of Operating Profits from Joint Ventures</b>	<b>558</b>	<b>441</b>	<b>446</b>	<b>-1.0%</b>	<b>490</b>	<b>592</b>	<b>-17.2%</b>	<b>554</b>	<b>631</b>	<b>-12.2%</b>	<b>572</b>	<b>665</b>	<b>-14.1%</b>
Finance Costs	(1,171)	(1,159)	(1,215)	-4.7%	(1,117)	(1,146)	-2.5%	(1,068)	(1,072)	-0.4%	(1,008)	(1,007)	0.1%
Interest, Dividend income & Profit from Islamic Banks	83	59	92	-35.9%	62	92	-32.8%	92	92	0.0%	92	92	0.0%
Vessel Sub-Chartering & Other Income	21	18	34	-46.3%	19	34	-43.7%	20	34	-40.9%	21	35	-38.0%
Profit Before Tax	1,003	1,204	1,135	6.1%	1,295	1,352	-4.2%	1,439	1,466	-1.8%	1,523	1,540	-1.1%
Taxes													
Profit After Tax	1,003	1,204	1,135	6.1%	1,295	1,352	-4.2%	1,439	1,466	-1.8%	1,523	1,540	-1.1%
Minority Interest	(1)	(1)	(1)	-18.7%	(1)	(2)	-27.1%	(1)	(2)	-25.4%	(1)	(2)	-26.2%
% of PAT	-0.1%	-0.1%	-0.1%		-0.1%	-0.1%		-0.1%	-0.1%		-0.1%	-0.1%	
<b>Profit for Equity Holders</b>	<b>1,002</b>	<b>1,203</b>	<b>1,134</b>	<b>6.1%</b>	<b>1,294</b>	<b>1,350</b>	<b>-4.2%</b>	<b>1,438</b>	<b>1,464</b>	<b>-1.8%</b>	<b>1,522</b>	<b>1,538</b>	<b>-1.0%</b>
Net Profit Margin	31.6%	34.2%	32.6%		36.7%	38.8%		40.8%	42.1%		43.1%	44.1%	
Growth	12.4%	20.1%	13.1%		7.5%	19.1%		11.1%	8.4%		5.9%	5.0%	
<b>EPS</b>	<b>0.18</b>	<b>0.22</b>	<b>0.20</b>	<b>6.1%</b>	<b>0.23</b>	<b>0.24</b>	<b>-4.2%</b>	<b>0.26</b>	<b>0.26</b>	<b>-1.8%</b>	<b>0.27</b>	<b>0.28</b>	<b>-1.0%</b>
Growth	12.4%	20.1%	13.1%		7.5%	19.1%		11.1%	8.4%		5.9%	5.0%	
<b>DPS</b>	<b>0.10</b>	<b>0.11</b>	<b>0.10</b>	<b>10.0%</b>	<b>0.11</b>	<b>0.11</b>	<b>0.0%</b>	<b>0.12</b>	<b>0.12</b>	<b>0.0%</b>	<b>0.12</b>	<b>0.13</b>	<b>-7.7%</b>
Payout Ratio	55.3%	50.6%	48.9%		47.1%	45.1%		46.2%	45.4%		43.7%	46.8%	
Growth	0.0%	10.0%	0.0%		0.0%	0.0%		0.0%	0.0%		0.0%	0.0%	
<b>Adjusted EBITDA</b>	<b>2,952</b>	<b>3,176</b>	<b>3,092</b>	<b>2.7%</b>	<b>3,221</b>	<b>3,241</b>	<b>-0.6%</b>	<b>3,285</b>	<b>3,281</b>	<b>0.1%</b>	<b>3,308</b>	<b>3,291</b>	<b>0.5%</b>
Growth	9.3%	7.6%	4.7%		1.4%	4.8%		2.0%	1.3%		0.7%	0.3%	
<b>Adjusted Revenue</b>	<b>3,779</b>	<b>4,009</b>	<b>3,973</b>	<b>0.9%</b>	<b>4,065</b>	<b>4,124</b>	<b>-1.4%</b>	<b>4,134</b>	<b>4,167</b>	<b>-0.8%</b>	<b>4,157</b>	<b>4,207</b>	<b>-1.2%</b>
Growth	7.6%	6.1%	5.1%		1.4%	3.8%		1.7%	1.0%		0.6%	0.9%	

Source: QNB FS estimates

## 3Q2020 Review

Nakilat posts 39.0% YoY & 29.8% QoQ increase in 3Q2020 earnings fueled by higher shipyard profitability, LPG growth, income from an additional vessel deployed in Global Shipping JV and lower finance charges. QGTS posted 3Q2020 bottom-line of QR350.4mn vs. QR252.0mn in 3Q2019 and QR269.9mn in 2Q2020 (QNB FS estimate: QR281.1mn). Lower G&A and higher-than-anticipated JV income, along with lower-than-expected finance charges, contributed to the majority of the earnings beat.

- **Revenue from wholly-owned ships of QR884.3mn (14.1% YoY, 1.1% QoQ) was bang in-line with our estimate of QR883.9mn.** As expected, the YoY growth in ship revenue was driven by the purchase of QGTS' remaining 49.9% stake in 4 LNG ships held under its OSG joint venture in October 2019.
- **Adjusted revenue of QR1,027.5mn (14.8% YoY, 4.8% QoQ) was ahead of our estimate of QR993.0mn (3.5% divergence)** and was driven by the previously mentioned YoY surge in wholly-owned revenue along with growth in JV income.
- **EBITDA of QR701.0mn (17.8% YoY, 3.1% QoQ) was also better than our forecast of QR685.2mn (2.3% difference).** Improvement in SG&A vs. our model also helped Nakilat during 3Q2020.
- **Adjusted EBITDA of QR834.7mn (19.0% YoY, 8.4% QoQ) was also better than our forecast of QR778.8mn (7.2% difference).**
- **JV income of QR133.7mn (25.7% YoY, 47.9% QoQ) was significantly above our estimate of QR93.7mn.** A resurgence in shipyard profitability relative to subdued global shipyard fundamentals in 1H2020, growth in LPG and contribution from the new LNG vessel (delivered in May to 60%-owned JV Global Shipping Co. and operating under a multi-month contract with an international charterer) helped drive this growth in JV income.
- **Lower-than-modeled finance costs of QR278.4mn (-0.7% YoY, -6.0% QoQ), which beat our est. of QR293.0mn by 5.0%, also contributed to the EPS beat.**

Overall, we find these results encouraging and consistent with the overall progress we see Nakilat making on the operational/costs front.

### QNB FS Estimates and Comparisons

Income Statement							
In QR mn Except Otherwise Noted	3Q2019	2Q2020	3Q2020	3Q2020e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	774.837	874.313	884.327	883.921	0.0%	14.1%	1.1%
Operating Costs	(162.910)	(185.596)	(172.096)	(187.636)	-8.3%	5.6%	-7.3%
<b>Gross Profit</b>	<b>611.927</b>	<b>688.717</b>	<b>712.231</b>	<b>696.285</b>	<b>2.3%</b>	<b>16.4%</b>	<b>3.4%</b>
<i>Gross Margin</i>	<i>79.0%</i>	<i>78.8%</i>	<i>80.5%</i>	<i>78.8%</i>			
Income from Marine and Agency Services	13.779	15.382	9.448	15.400	-38.6%	-31.4%	-38.6%
General and Administrative Expenses	(30.822)	(24.298)	(20.727)	(26.518)	-21.8%	-32.8%	-14.7%
<b>EBITDA</b>	<b>594.884</b>	<b>679.801</b>	<b>700.952</b>	<b>685.168</b>	<b>2.3%</b>	<b>17.8%</b>	<b>3.1%</b>
Depreciation & Amortization	(190.308)	(222.815)	(222.594)	(222.748)	-0.1%	17.0%	-0.1%
<b>EBIT</b>	<b>404.576</b>	<b>456.986</b>	<b>478.358</b>	<b>462.420</b>	<b>3.4%</b>	<b>18.2%</b>	<b>4.7%</b>
<i>EBIT Margin</i>	<i>52.2%</i>	<i>52.3%</i>	<i>54.1%</i>	<i>52.3%</i>			
Share of Operating Profits from Joint Ventures	106.431	90.393	133.734	93.650	42.8%	25.7%	47.9%
Finance Costs	(280.396)	(296.120)	(278.411)	(292.962)	-5.0%	-0.7%	-6.0%
Interest, Dividend income & Profit from Islamic Banks	16.965	13.747	12.793	13.000	-1.6%	-24.6%	-6.9%
Vessel Sub-Chartering & Other Income	4.744	5.213	3.880	5.300	-26.8%	-18.2%	-25.6%
<b>Profit Before Tax</b>	<b>252.320</b>	<b>270.219</b>	<b>350.354</b>	<b>281.408</b>	<b>24.5%</b>	<b>38.9%</b>	<b>29.7%</b>
<b>Profit After Tax</b>	<b>252.320</b>	<b>270.219</b>	<b>350.354</b>	<b>281.408</b>	<b>24.5%</b>	<b>38.9%</b>	<b>29.7%</b>
Minority Interest	(0.281)	(0.331)	0.039	(0.345)	N/M	N/M	N/M
<b>Net Income to Equity</b>	<b>252.039</b>	<b>269.888</b>	<b>350.393</b>	<b>281.063</b>	<b>24.7%</b>	<b>39.0%</b>	<b>29.8%</b>
<i>Net Profit Margin</i>	<i>32.5%</i>	<i>30.9%</i>	<i>39.6%</i>	<i>31.8%</i>			
<b>EPS (QR)</b>	<b>0.05</b>	<b>0.05</b>	<b>0.06</b>	<b>0.05</b>	<b>24.7%</b>	<b>39.0%</b>	<b>29.8%</b>
<b>Adjusted EBITDA</b>	<b>701.315</b>	<b>770.194</b>	<b>834.686</b>	<b>778.818</b>	<b>7.2%</b>	<b>19.0%</b>	<b>8.4%</b>

<b>Adjusted Revenue</b>	<b>895.047</b>	<b>980.088</b>	<b>1,027.509</b>	<b>992.971</b>	<b>3.5%</b>	<b>14.8%</b>	<b>4.8%</b>
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Particulars	3Q2019	2Q2020	3Q2020	3Q2020
Adj. EBITDA Margin	78.4%	78.6%	81.2%	78.4%
Gross Margin	79.0%	78.8%	80.5%	78.8%
EBIT Margin	52.2%	52.3%	54.1%	52.3%
G & A % of Sales	4.0%	2.8%	2.3%	3.0%
Depreciation & Amortization % of Sales	24.6%	25.5%	25.2%	25.2%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs



## Key Growth Metrics

### Growth Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2031	2032	2033
<b>Growth Ratios (In %)</b>														
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	6.1%	1.4%	1.7%	0.6%	1.0%	1.1%	0.9%	0.9%	0.9%	1.0%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.9%	(0.1%)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.2%	(0.1%)	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	7.6%	1.4%	2.0%	0.7%	1.2%	1.2%	1.0%	1.0%	1.0%	1.2%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.0%	(0.2%)	0.0%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
EPS	(2.9%)	(11.3%)	5.3%	12.4%	20.1%	7.5%	11.1%	5.9%	9.1%	8.9%	5.7%	5.4%	5.2%	5.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	71.7%	(27.1%)	3.1%	3.7%	5.9%	5.9%	4.2%	4.1%	3.9%	4.3%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	103.5%	(28.7%)	3.4%	3.9%	2.2%	10.7%	10.0%	4.2%	4.0%	4.4%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	0.0%	9.1%	0.0%	0.0%	8.3%	0.0%	7.1%	0.0%	0.0%

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

## Ratio Analysis

### Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2031	2032	2033
<b>Growth Ratios (In %)</b>														
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	6.1%	1.4%	1.7%	0.6%	1.0%	1.1%	0.9%	0.9%	0.9%	1.0%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.9%	(0.1%)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.2%	(0.1%)	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	7.6%	1.4%	2.0%	0.7%	1.2%	1.2%	1.0%	1.0%	1.0%	1.2%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.0%	(0.2%)	0.0%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
EPS	(2.9%)	(11.3%)	5.3%	12.4%	20.1%	7.5%	11.1%	5.9%	9.1%	8.9%	5.7%	5.4%	5.2%	5.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	71.7%	(27.1%)	3.1%	3.7%	5.9%	5.9%	4.2%	4.1%	3.9%	4.3%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	103.5%	(28.7%)	3.4%	3.9%	2.2%	10.7%	10.0%	4.2%	4.0%	4.4%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	0.0%	9.1%	0.0%	0.0%	8.3%	0.0%	7.1%	0.0%	0.0%
<b>Operating Ratios (In %)</b>														
Gross Margin	76.6%	77.2%	77.8%	78.0%	79.3%	79.1%	79.0%	79.0%	79.0%	79.0%	79.0%	79.0%	79.0%	79.0%
EBITDA Margin	74.0%	74.6%	75.2%	75.6%	77.7%	77.5%	77.4%	77.5%	77.4%	77.4%	77.3%	77.2%	77.2%	77.2%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	78.1%	79.2%	79.3%	79.5%	79.6%	79.7%	79.8%	80.3%	80.4%	80.5%	80.6%
EBIT Margin	49.0%	49.5%	50.5%	47.7%	52.4%	52.3%	52.2%	52.3%	52.3%	52.3%	52.4%	52.4%	52.4%	52.4%
Net Margin	31.1%	27.7%	29.1%	31.6%	34.2%	36.7%	40.8%	43.1%	47.0%	51.1%	68.3%	71.9%	75.5%	79.7%
<b>Finance Ratios</b>														
Net Debt-to-EBITDA	8.3	7.8	7.5	7.9	6.5	6.2	5.8	5.3	4.9	4.4	1.5	0.8	0.0	-0.8
Debt-Equity Ratio	4.1	3.5	2.9	3.1	3.2	2.7	2.2	1.8	1.4	1.1	0.3	0.2	0.1	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.8	2.7	2.3	1.9	1.5	1.3	1.0	0.2	0.1	0.0	-0.1
Interest Coverage	1.3	1.3	1.3	1.3	1.6	1.6	1.7	1.8	2.0	2.3	5.2	7.1	11.1	30.9
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.4	2.4	2.6	2.7	3.0	3.4	7.7	10.5	16.3	45.5
<b>Return Ratios (In %)</b>														
ROIC	5.6%	5.7%	5.8%	5.4%	6.7%	6.8%	6.8%	6.9%	7.2%	7.3%	7.3%	7.2%	7.1%	6.8%
ROAE	19.7%	15.1%	13.9%	14.5%	18.0%	18.7%	18.2%	17.0%	16.5%	16.0%	12.7%	12.1%	11.6%	11.0%
ROAA	3.1%	2.8%	3.0%	3.2%	3.7%	4.0%	4.4%	4.8%	5.4%	6.0%	8.4%	8.8%	9.2%	9.6%
<b>Valuation</b>														
FV/EBITDA-Adjusted	12.0	12.5	11.9	11.4	10.3	9.9	9.4	8.9	8.5	8.0	5.3	4.7	4.1	3.5
EV/EBIT	22.5	21.7	20.9	22.4	17.8	17.3	16.7	16.0	15.4	14.6	10.2	9.1	8.0	6.8
P/E	15.8	17.8	16.9	15.0	12.5	11.6	10.5	9.9	9.1	8.3	6.2	5.9	5.6	5.3
P/CF	13.4	11.5	12.3	10.6	6.2	8.5	8.2	7.9	7.5	7.1	5.7	5.5	5.3	5.1
P/B	2.9	2.5	2.2	2.2	2.3	2.0	1.8	1.6	1.4	1.3	0.7	0.7	0.6	0.5
Dividend Yield	3.7%	3.7%	3.7%	3.7%	4.0%	4.0%	4.4%	4.4%	4.4%	4.8%	5.1%	5.5%	5.5%	5.5%
FCF Yield	7.1%	8.7%	6.8%	7.5%	15.3%	10.9%	11.3%	11.7%	12.0%	13.3%	17.0%	17.7%	18.4%	19.2%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

## Detailed Financial Statements

### Income Statement

Income Statement (In QR mn)	FY2019	FY2020e	FY2021e	FY2022e
<b>Revenue – Wholly-Owned Ships</b>	<b>3,166</b>	<b>3,517</b>	<b>3,522</b>	<b>3,527</b>
Direct Costs	(697)	(730)	(737)	(739)
<b>Gross Profit</b>	<b>2,469</b>	<b>2,788</b>	<b>2,785</b>	<b>2,788</b>
Income from Marine & Agency Services	55	50	52	53
General and Administrative Expenses	(130)	(103)	(106)	(110)
<b>EBITDA</b>	<b>2,394</b>	<b>2,735</b>	<b>2,731</b>	<b>2,731</b>
Depreciation	(883)	(891)	(890)	(890)
<b>EBIT</b>	<b>1,512</b>	<b>1,844</b>	<b>1,841</b>	<b>1,841</b>
Share of Profits from Joint Ventures	558	441	490	554
Finance Costs	(1,171)	(1,159)	(1,117)	(1,068)
Interest, Dividend & Profit from Islamic Banks	83	59	62	92
Vessels Sub-Chartering & Other Income	21	18	19	20
<b>Profit Before Tax</b>	<b>1,003</b>	<b>1,204</b>	<b>1,295</b>	<b>1,439</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>1,003</b>	<b>1,204</b>	<b>1,295</b>	<b>1,439</b>
Minority Interest	(1)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>1,002</b>	<b>1,203</b>	<b>1,294</b>	<b>1,438</b>
<b>EPS (QR)</b>	<b>0.18</b>	<b>0.22</b>	<b>0.23</b>	<b>0.26</b>
<b>Adjusted Revenue</b>	<b>3,779</b>	<b>4,009</b>	<b>4,065</b>	<b>4,134</b>
<b>Adjusted EBITDA</b>	<b>2,952</b>	<b>3,176</b>	<b>3,221</b>	<b>3,285</b>

Source: Company data, QNB FS estimates

### Balance Sheet

Balance Sheet (In QR mn)	FY2019	FY2020e	FY2021e	FY2022e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	24,144	23,390	22,637	21,885
Investment in Joint Venture Companies	4,378	4,402	4,968	5,422
Loans to Joint Venture Companies	229	771	771	771
Equity Investments	113	110	110	110
<b>Total Non-Current Assets</b>	<b>28,864</b>	<b>28,673</b>	<b>28,486</b>	<b>28,188</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	1,117	1,112	1,114	1,115
Cash and Bank Balances	2,397	3,041	2,846	2,957
<b>Total Current Assets</b>	<b>3,514</b>	<b>4,154</b>	<b>3,959</b>	<b>4,072</b>
<b>Total Assets</b>	<b>32,379</b>	<b>32,826</b>	<b>32,445</b>	<b>32,260</b>
<b>Equity</b>				
Equity Attributable to the Parent	6,851	6,492	7,376	8,404
Minority Interest	6	7	8	10
<b>Total Equity</b>	<b>6,857</b>	<b>6,500</b>	<b>7,385</b>	<b>8,414</b>
<b>Non-Current Liabilities</b>				
Borrowings	20,080	19,736	18,709	17,249
Fair Value of Interest Rate Swaps	2,298	3,174	2,997	2,821
Lease Liability, Provision for End of Service Benefits and Other Liabilities	259	301	301	301
<b>Total Non-Current Liabilities</b>	<b>22,637</b>	<b>23,212</b>	<b>22,007</b>	<b>20,370</b>
<b>Current Liabilities</b>				
Borrowings	1,162	1,093	1,028	1,460
Accounts Payables/Accruals & Due to Joint Ventures	1,520	1,824	1,842	1,848
Fair Value of Interest Rate Swaps and Lease Liability	202	199	183	167
<b>Total Current Liabilities</b>	<b>2,884</b>	<b>3,115</b>	<b>3,053</b>	<b>3,475</b>
<b>Equity and Liabilities</b>	<b>32,379</b>	<b>32,826</b>	<b>32,445</b>	<b>32,260</b>

Source: Company data, QNB FS 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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