

QGTS Alert – In-Line 2Q2020 Results; Maintain Accumulate

- **Nakilat posts 12.6% YoY increase in 2Q2020 earnings; however, net income declines 3.3% QoQ and is 5.3% below our estimate** – QGTS posted 2Q2020 bottom-line of QR269.9mn vs. QR239.6mn in 2Q2019 and QR279.2mn in 1Q2020 (QNB FS estimate: QR285.0mn). Lower-than-anticipated JV income and income from marine & agency services, along with higher-than-expected finance charges, contributed to the majority of the modest earnings miss. (1) Revenue from wholly-owned ships of QR874.3mn (14.9% YoY, 0.1% QoQ) was in-line with our estimate of QR877.7mn (difference of -0.4%). 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. (2) Adjusted revenue of QR980.1mn (10.1% YoY, -1.7% QoQ) was also consistent with our estimate of QR996.7mn (-1.7% divergence) and was driven by the previously mentioned YoY surge in wholly-owned revenue offsetting a decline in JV income. (3) EBITDA of QR679.8mn (17.5% YoY, 2.0% QoQ) was also in-line with our forecast of QR670.8mn (1.3% difference). Improvement in both direct costs and SG&A vs. our model helped Nakilat during 2Q2020. (4) Adjusted EBITDA of QR770.2mn (10.9% YoY, -0.8% QoQ) was also in-line with our modeled figure of QR775.8mn (-0.7% divergence). (5) JV income of QR90.4mn (-22.1% YoY, -17.9% QoQ) was lower than our estimate of QR105.0mn with QGTS possibly feeling the impact of lower spot LNG shipping rates on the small number of its vessels on short-term (2-3-year) contracts and weak shipyard business. (6) Higher-than-expected finance charges of QR296.1mn (2.3% YoY, -1.1% QoQ), which modestly exceeded our forecast of QR289.2mn, also contributed to the slight earnings miss. Net-net, these results are in-line and consistent with the overall progress we see the company making on the operational/costs front.
- **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.** Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. In the near-term, addition of 4 LNG vessels (2 in 2020, with 2 next year) via its 60%-owned JV, should help earnings growth in 2020 and 2021. Going forward, 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 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. We do not envision substantial risks to QGTS' business model due to the ongoing oil price volatility/COVID-9 pandemic. **We maintain our Accumulate rating.**

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Income Statement							
In QR mn Except Otherwise Noted	2Q2019	1Q2020	2Q2020	2Q2020E	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	760.651	873.382	874.313	877.749	-0.4%	14.9%	0.1%
Operating Costs	(164.429)	(189.618)	(185.596)	(190.566)	-2.6%	12.9%	-2.1%
Gross Profit	596.222	683.764	688.717	687.183	0.2%	15.5%	0.7%
<i>Gross Margin</i>	<i>78.4%</i>	<i>78.3%</i>	<i>78.8%</i>	<i>78.3%</i>			
Income from Marine and Agency Services	13.312	13.334	15.382	14.000	9.9%	15.5%	15.4%
General and Administrative Expenses	(31.055)	(30.542)	(24.298)	(30.400)	-20.1%	-21.8%	-20.4%
EBITDA	578.479	666.556	679.801	670.783	1.3%	17.5%	2.0%
Depreciation & Amortization	(188.818)	(222.910)	(222.815)	(225.139)	-1.0%	18.0%	0.0%
EBIT	389.661	443.646	456.986	445.644	2.5%	17.3%	3.0%
<i>EBIT Margin</i>	<i>51.2%</i>	<i>50.8%</i>	<i>52.3%</i>	<i>50.8%</i>			
Share of Operating Profits from Joint Ventures	116.037	110.133	90.393	105.000	-13.9%	-22.1%	-17.9%
Finance Costs	(289.464)	(299.312)	(296.120)	(289.247)	2.4%	2.3%	-1.1%
Interest, Dividend income & Profit from Islamic Banks	18.486	19.700	13.747	19.000	-27.6%	-25.6%	-30.2%
Vessel Sub-Chartering & Other Income	5.121	5.387	5.213	5.000	4.3%	1.8%	-3.2%
Profit Before Tax	239.841	279.554	270.219	285.397	-5.3%	12.7%	-3.3%
Profit After Tax	239.841	279.554	270.219	285.397	-5.3%	12.7%	-3.3%
Minority Interest	(0.254)	(0.363)	(0.331)	(0.371)	-10.7%	30.3%	-8.8%
Net Income to Equity	239.587	279.191	269.888	285.027	-5.3%	12.6%	-3.3%
<i>Net Profit Margin</i>	<i>31.5%</i>	<i>32.0%</i>	<i>30.9%</i>	<i>32.5%</i>			
EPS (QR)	0.04	0.05	0.05	0.05	-5.3%	12.6%	-3.3%
Adjusted EBITDA	694.516	776.689	770.194	775.783	-0.7%	10.9%	-0.8%

Adjusted Revenue	890.000	996.849	980.088	996.749	-1.7%	10.1%	-1.7%
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Particulars	2Q2019	1Q2020	2Q2020	2Q2020E
Adj. EBITDA Margin	78.0%	77.9%	78.6%	77.8%
Gross Margin	78.4%	78.3%	78.8%	78.3%
EBIT Margin	51.2%	50.8%	52.3%	50.8%
G & A % of Sales	4.1%	3.5%	2.8%	3.5%
Depreciation & Amortization % of Sales	24.8%	25.5%	25.5%	25.6%

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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