

Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR23.49	Current Target	QR26.00
Implied Upside	10.7%		

In-line 1Q2016; Remain Accumulate

Qatar Gas Transport Co. or Nakilat posted results that were generally in-line with our estimates; maintaining QR26 price target and Accumulate rating. Overall results for 1Q2016 came in-line with QNBFS with revenue from wholly-owned vessels 1% softer-than-expected, adjusted EBITDA 1% ahead of model and net income 2% better than our estimate. We continue to like QGTS' steady business model and maintain our Accumulate rating with a QR26 price target. 2016 DY also remains attractive at 5.5%.

Highlights

- **Qatar's LNG carrier.** With ~77 MTPA in capacity, Qatar is the #1 global LNG player. Nakilat, the world's largest LNG fleet owner (~15% share), forms a vital link between Qatar's gas output and its monetization as LNG exports. QGTS carries virtually all Qatari LNG exports. The state has shown strong support for Nakilat and owns a ~19% stake through 100%-owned government entities.
- **A state-of-the-art fleet:** Since its formation in 2004, QGTS has invested around \$11bn to own 58 state-of-the-art LNG carriers, 25 of which are wholly owned. Roughly, 75% of these vessels are of the Q-Max and Q-Flex type, which have the largest capacity in the world. An April 2014 deal added a further 3 JV-held LNG vessels bringing the count to 61 and more recently, in August 2015, Nakilat added another 2 JV LNG ships to grow its LNG fleet size to 63. QGTS also jointly owns four LPG ships (along with Milaha).
- **Stable revenue due to exclusive government contracts.** These LNG agreements result in stable revenue and flattish absolute EBITDA. We believe QGTS' LNG contracts with state-owned entities have minimal risk of being revised downward.
- **Nakilat net profit rises 6% QoQ in 1Q2016:** QGTS recorded QR240mn net profit in 1Q2016 as compared to QR226mn in 4Q2015 and QR222mn in 1Q2015, reflecting a QoQ growth of 6% and 8% YoY. *Please refer to page 2 for a detailed comparison vs. our estimates.*

Catalysts

- **Refinancing, fleet expansion and upside from the shipyard should provide medium-term impetus.** The increase in FOL to 49% from 25% has allowed the stock to be included in the MSCI EM Index. We note Nakilat retains the ability to expand its fleet targeting international clients without expending much capex. Consequently, QGTS has been able to grow Maran Nakilat's JV LNG fleet to 13 currently from 4 in 2013, while upping stake to 40%. We are also positive longer-term on the ship building/repair business.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate Nakilat an Accumulate with an unchanged QR26.00 price target.** The stock trades at EV/Adjusted EBITDA multiples of 11.2x and 10.8x for 2016 and 2017, respectively.
- **Risks: Declining oil prices remain a substantial risk to regional equity prices.** For QGTS, further escalation of operating costs of wholly-owned vessels and execution risks in shipyard remain the major risk.

Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
Revenue (Adj., QR mn)	3,550	3,638	3,631	3,677
EPS (QR)	1.61	1.77	1.81	1.95
P/E (x)	14.6x	13.2x	13.0x	12.0x
DPS (QR)	1.20	1.25	1.30	1.40
Dividend Payout	74.4%	70.5%	71.8%	71.7%
Dividend Yield	5.1%	5.3%	5.5%	6.0%

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

Key Data

Current Market Price (QR)	23.49
Dividend Yield	5.5
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	25.30/18.70
3-m Average Volume ('000)	394.3
Mkt. Cap. (\$ bn/QR bn)	3.6/13.2
Shares Outstanding (mn)	560.0
FO Limit* (%)	49.0
Current FO* (%)	13.4
1-Year Total Return (%)	10.2

Fiscal Year End December 31

Source: Bloomberg (as of April 20, 2016), *Qatar Exchange (as of April 19, 2016); Note: FO is foreign ownership

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In-line 1Q2016 Results

Nakilat net profit rises 6% QoQ in 1Q2016: QGTS recorded QR240mn net profit in 1Q2016 as compared to QR226mn in 4Q2015 and QR222mn in 1Q2015, reflecting a QoQ growth of 6% and 8% YoY. Overall results came in-line with QNBFS with revenue from wholly-owned vessels 1% softer-than-expected, adjusted EBITDA 1% ahead of model and net income 2% better than our estimate.

Quarterly Comparisons

Income Statement							
In QR mn Except Otherwise Noted	1Q2015	4Q2015	1Q2016	1Q2016e	A Vs. E	QoQ	YoY
Revenue from Wholly-Owned Vessels	745.379	776.394	759.936	767.955	-1%	-2%	2%
Operating Costs	(153.720)	(213.155)	(163.410)	(208.155)	-21%	-23%	6%
Gross Profit	591.659	563.239	596.526	559.800	7%	6%	1%
<i>Gross Margin</i>	<i>79.4%</i>	<i>72.5%</i>	<i>78.5%</i>	<i>72.9%</i>			
Income from Marine and Agency Services	14.045	16.069	13.962	16.081	-13%	-13%	-1%
General and Administrative Expenses	(30.899)	(31.840)	(31.962)	(28.358)	13%	0%	3%
EBITDA	574.805	547.468	578.526	547.523	6%	6%	1%
Depreciation & Amortization	(167.981)	(173.689)	(173.081)	(175.664)	-1%	0%	3%
EBIT	406.824	373.779	405.445	371.860	9%	8%	0%
<i>EBIT Margin</i>	<i>54.6%</i>	<i>48.1%</i>	<i>53.4%</i>	<i>48.4%</i>			
Share of Operating Profits from Joint Ventures	91.298	134.405	106.152	135.203	-21%	-21%	16%
Finance Costs	(297.899)	(300.504)	(296.795)	(291.166)	2%	-1%	0%
Interest, Dividend income & Profit from Islamic Banks	15.961	10.395	17.363	10.500	65%	67%	9%
Vessel Sub-Chartering & Other Income	6.535	8.335	8.119	8.125	0%	-3%	24%
Gain / (Loss) on Derivatives from JVs	-	-	-	-			
Profit Before Tax	222.719	226.410	240.284	234.522	2%	6%	8%
Profit After Tax	222.719	226.410	240.284	234.522	2%	6%	8%
Minority Interest	(0.281)	(0.363)	(0.313)	(0.339)	-8%	-14%	11%
Profit for Equity Holders	222.438	226.047	239.971	234.182	2%	6%	8%
<i>Net Profit Margin</i>	<i>29.8%</i>	<i>29.1%</i>	<i>31.6%</i>	<i>30.5%</i>			
EPS (QR)	0.40	0.41	0.43	0.42	2%	6%	8%
Adjusted EBITDA	688.599	700.603	710.160	701.352	1%	1%	3%
<i>Adjusted EBITDA Margin</i>	<i>92.4%</i>	<i>90.2%</i>	<i>93.4%</i>	<i>91.3%</i>			
Adjusted Revenue	857.257	935.203	888.169	927.364	-4%	-5%	4%
Growth Rates	YoY	YoY	YoY	YoY			
Adjusted EBITDA	2.8%	-1.6%	3.1%	1.9%			
Adjusted Revenue	1.7%	2.5%	3.6%	8.2%			
Net Income	7.7%	12.2%	7.9%	5.3%			
Growth Rates	QoQ	QoQ	QoQ	QoQ			
Adjusted EBITDA	-3.3%	-5.3%	1.4%	0.1%			
Adjusted Revenue	-6.0%	0.6%	-5.0%	-0.8%			
Net Income	10.4%	-15.0%	6.2%	3.6%			
Particulars	1Q2015	4Q2015	1Q2016	1Q2016e			
EBITDA Margin	80.3%	74.9%	80.0%	75.6%			
Gross Margin	79.4%	72.5%	78.5%	72.9%			
EBIT Margin	54.6%	48.1%	53.4%	48.4%			
G & A % of Sales	4.1%	4.1%	4.2%	3.7%			
Depreciation & Amortization % of Sales	22.5%	22.4%	22.8%	22.9%			
Minority Interest % of PAT	0.1%	0.2%	0.1%	0.1%			

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2014	FY2015	FY2016e	FY2017e
Revenue – Wholly-Owned Ships	3,040	3,046	3,069	3,092
Income from Marine & Agency Services	58	61	62	65
Share of Profits from Joint Ventures	435	498	468	488
Vessels Sub-Chartering & Other Income	16	33	33	33
Adjusted Net Revenue	3,550	3,638	3,631	3,677
Direct Costs	(676)	(698)	(705)	(712)
Gross Profit	2,874	2,939	2,926	2,965
General and Administrative Expenses	(111)	(113)	(123)	(124)
Interest, Dividend & Profit from Islamic Banks	39	44	44	45
Adjusted EBITDA	2,802	2,871	2,847	2,886
Depreciation	(661)	(688)	(699)	(709)
EBIT	2,141	2,182	2,149	2,177
Finance Costs	(1,246)	(1,199)	(1,145)	(1,093)
Gain/(Loss) on Derivatives from Joint Ventures	0	0	0	0
Profit Before Tax	895	984	1,004	1,084
Income Tax Expense	0	0	0	0
Profit After Tax	895	984	1,004	1,084
Minority Interest	(1)	(1)	(1)	(2)
Profit for Equity Shareholders	894	982	1,002	1,082
EPS (QR)	1.61	1.77	1.81	1.95

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2014	FY2015	FY2016e	FY2017e
Non-Current Assets				
Property, Plant and Equipment	24,455	23,882	23,337	22,782
Investment in Joint Venture Companies	2,872	3,422	3,816	3,938
Loans to Joint Venture Companies	343	266	214	214
Available-for-Sale Investments	177	127	123	123
Total Non-Current Assets	27,847	27,697	27,490	27,057
Current Assets				
Receivables, Inventories and Due from Joint Ventures	320	307	314	316
Cash and Bank Balances	2,902	2,736	2,426	2,259
Total Current Assets	3,222	3,043	2,740	2,575
Total Assets	31,069	30,740	30,230	29,632
Equity				
Equity Attributable to the Parent	3,792	4,443	4,058	4,412
Minority Interest	8	4	6	7
Total Equity	3,800	4,448	4,064	4,419
Non-Current Liabilities				
Borrowings	22,188	21,415	20,454	19,493
Fair Value of Interest Rate Swaps	3,628	3,363	3,988	3,988
Provision for End of Service Benefits	201	220	212	212
Total Non-Current Liabilities	26,017	24,998	24,654	23,692
Current Liabilities				
Borrowings	753	778	778	778
Accounts Payables/Accruals & Due to Related Parties	499	517	734	742
Total Current Liabilities	1,252	1,295	1,513	1,520
Equity and Liabilities	31,069	30,740	30,230	29,632

Source: Company data, QNBFS 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

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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