

QNBFS Alert – QGTS 4Q16 Miss Driven By Depr.; Operating Results in-Line; Accumulate

- **Nakilat's net profit falls to QR206.4mn in 4Q2016; Results in-line on operating basis with miss driven by increase in depreciation charges** – Nakilat's net profit declined to QR206.4mn in 4Q2016 as compared to QR247.5mn in 3Q2016. Reported results were in-line with our estimates on an operating basis, with the company posting QR766.3mn in wholly-owned ship revenue (vs. our estimate of QR775.7mn or a -1% divergence) and adjusted EBITDA of QR747.0mn (vs. our estimate of QR712.0mn or a divergence of 5%). On the positive side, JV income jumped a significant 42% QoQ to QR183.0mn driven primarily by growth from the Teekay LNG chartering JVs. However, depreciation charges unexpectedly increased 38% QoQ to QR242.8mn. We will have to wait and check with the company in order to ascertain the reason behind this jump in depreciation.
- **Dividend cut to QR1/share lowering payout to 58%**. The company has proposed to cut its dividend to QR1 a share, or back to its 2012 level, lowering the payout to 58% vs. an average payout of 75% over 2012-15. The dividend cut is surprising especially in light of continued solid results; we await more details from management.
- **We continue to rate QGTS an Accumulate with a QR28 price target**. Refinancing, fleet expansion and upside from the shipyard should provide medium-term impetus. 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.

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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