

## QGTS Alert – 1Q2020 Results Benefit From Higher JV Income/Lower Costs; Accumulate/QR2.60 PT

- **QGTS' bottom line rises 18.3% YoY and 1.8% QoQ in 1Q2020, above our estimate** – Nakilat's net profit came in at QR279.2mn in 1Q2020, above our estimate of QR253.2mn (variation of +10.3%). Lower-than-expected operating and finance costs, along with better-than-expected joint venture income, contributed to the majority of the earnings beat. (1) Revenue from wholly-owned ships of QR873.4mn (16.2% YoY, -0.6% QoQ) was in-line with our estimate of QR875.5mn (difference of -0.2%). 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 QR996.8mn (14.9% YoY, -11.5% QoQ) was also consistent with our estimate of QR984.5mn (1.3% divergence) and was driven by the previously mentioned outperformance in JV income. (3) EBITDA of QR666.6mn (16.8% YoY, 2.5% QoQ) was also in-line with our forecast of QR657.5mn (1.4% difference). Improvement in both direct costs and SG&A vs. our model helped Nakilat during 1Q2020. (4) Adjusted EBITDA of QR776.7mn (15.3% YoY, -12.0% QoQ) was also in-line with our modeled figure of QR752.5mn (3.2% divergence). (5) JV income of QR110.1mn (7.0% YoY, -52.7% QoQ) was higher than our estimate of QR95.0mn with QGTS reporting better performance from its LPG and towage business; the significant sequential decline in JV income was because of some one-offs recorded in 4Q2019 – there was a net boost of QR82.6mn in JV income in 4Q2019 as gain on revaluation of OSG assets of QR287.9mn was partially offset by QR205.4mn in contingencies/write-offs for Gulf LPG, NKOM and NDSQ. (6) Lower-than-expected finance charges of QR299.3mn (4.3% YoY, -4.8% QoQ), which modestly beat our forecast of QR309.8mn, also helped the beat in earnings. Net-net, these results are not surprising and consistent with the overall progress we see the company making on the operational/costs front. *Please see page 2 for YoY and QoQ comparisons.*
- **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.** While the ongoing downturn has influenced the global LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. 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. **For now, we maintain our Accumulate rating and price target of QR2.60.**

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Income Statement							
In QR mn Except Otherwise Noted	1Q2019	4Q2019	1Q2020	1Q2020e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	751.896	878.413	873.382	875.515	-0.2%	16.2%	-0.6%
Operating Costs	(162.761)	(207.022)	(189.618)	(196.991)	-3.7%	16.5%	-8.4%
<b>Gross Profit</b>	<b>589.135</b>	<b>671.391</b>	<b>683.764</b>	<b>678.524</b>	<b>0.8%</b>	<b>16.1%</b>	<b>1.8%</b>
<i>Gross Margin</i>	78.4%	76.4%	78.3%	77.5%			
Income from Marine and Agency Services	12.547	15.701	13.334	14.000	-4.8%	6.3%	-15.1%
General and Administrative Expenses	(31.028)	(36.882)	(30.542)	(35.021)	-12.8%	-1.6%	-17.2%
<b>EBITDA</b>	<b>570.654</b>	<b>650.210</b>	<b>666.6</b>	<b>657.5</b>	<b>1.4%</b>	<b>16.8%</b>	<b>2.5%</b>
Depreciation & Amortization	(185.459)	(318.059)	(222.910)	(217.452)	2.5%	20.2%	-29.9%
<b>EBIT</b>	<b>385.195</b>	<b>332.151</b>	<b>443.646</b>	<b>440.052</b>	<b>0.8%</b>	<b>15.2%</b>	<b>33.6%</b>
<i>EBIT Margin</i>	51.2%	37.8%	50.8%	50.3%			
Share of Operating Profits from Joint Ventures	102.945	232.816	110.133	95.000	15.9%	7.0%	-52.7%
Finance Costs	(286.929)	(314.525)	(299.312)	(309.825)	-3.4%	4.3%	-4.8%
Interest, Dividend income & Profit from Islamic Banks	27.908	19.673	19.700	23.722	-17.0%	-29.4%	0.1%
Vessel Sub-Chartering & Other Income	7.097	4.483	5.387	4.500	19.7%	-24.1%	20.2%
<b>Profit Before Tax</b>	<b>236.216</b>	<b>274.598</b>	<b>279.554</b>	<b>253.448</b>	<b>10.3%</b>	<b>18.3%</b>	<b>1.8%</b>
<b>Profit After Tax</b>	<b>236.216</b>	<b>274.598</b>	<b>279.554</b>	<b>253.448</b>	<b>10.3%</b>	<b>18.3%</b>	<b>1.8%</b>
Minority Interest	(0.225)	(0.281)	(0.363)	(0.259)	40.0%	61.3%	29.2%
<b>Net Income to Equity</b>	<b>235.991</b>	<b>274.317</b>	<b>279.191</b>	<b>253.189</b>	<b>10.3%</b>	<b>18.3%</b>	<b>1.8%</b>
<i>Net Profit Margin</i>	31.4%	31.2%	32.0%	28.9%			
<b>EPS (QR)</b>	<b>0.04</b>	<b>0.05</b>	<b>0.05</b>	<b>0.05</b>	<b>10.3%</b>	<b>18.3%</b>	<b>1.8%</b>
<b>Adjusted EBITDA</b>	<b>673.599</b>	<b>883.026</b>	<b>776.689</b>	<b>752.504</b>	<b>3.2%</b>	<b>15.3%</b>	<b>-12.0%</b>

<b>Adjusted Revenue</b>	<b>867.388</b>	<b>1,126.930</b>	<b>996.849</b>	<b>984.515</b>	<b>1.3%</b>	<b>14.9%</b>	<b>-11.5%</b>
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Particulars	1Q2019	4Q2019	1Q2020	1Q2020e
Adj. EBITDA Margin	77.7%	78.4%	77.9%	76.4%
Gross Margin	78.4%	76.4%	78.3%	77.5%
EBIT Margin	51.2%	37.8%	50.8%	50.3%
G & A % of Sales	4.1%	4.2%	3.5%	4.0%
Depreciation & Amortization % of Sales	24.7%	36.2%	25.5%	24.8%

### 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

**Saugata Sarkar, CFA, CAIA**  
Head of Research  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

**Mehmet Aksoy, PhD**  
Senior Research Analyst  
+974 4476 6589  
mehmet.aksoy@qnbfs.com.qa

**Shahan Keushgerian**  
Senior Research Analyst  
+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

**Zaid Al Nafsoosi, CMT, CFTe**  
Senior Research Analyst  
+974 4476 6535  
zaid.alnafsoosi@qnbfs.com.qa

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