

QGTS Alert – 3Q2019 Results In-Line With Our Estimates; Maintain Accumulate & QR2.50 PT

- **QGTS' bottom-line rises 17.7% YoY and 5.2% QoQ in 2Q2019 and comes in-line with our forecast** – Qatar Gas Transport's 3Q2019 earnings of QR252.0mn was in-line with our estimate of QR249.3mn (variation of +1.1%). Operating metrics were also in-line with our forecasts: (1) Revenue from wholly-owned ships of QR774.8mn (0.1% YoY, 1.9% QoQ) was in-line with our estimate of QR769.0mn (difference of +0.8%). (2) Adjusted revenue of QR895.0mn (0.6% YoY, 0.6% QoQ) was also in-line with our estimate of QR902.5mn (-0.8% divergence). (3) Adjusted EBITDA of QR701.3mn (3.0% YoY, 1.0% QoQ) was also in-line with our modeled figure of QR706.8mn (difference of -0.8%). While JV income of QR106.4mn (5.0% YoY, -8.3% QoQ) was 10.9% shy of our estimate of QR119.5mn, this was partially offset by lower finance charges of QR280.4mn (-8.2% YoY, -3.1% QoQ), which beat our forecast of QR291.0mn by 3.7%. Net-net, these results are in-line with our estimates and we will obtain more color regarding the divergence in JV income from management. *Please see page 2 for YoY and QoQ comparisons.*
- **Positive momentum continues across key metrics.** Management cited better performance of LNG and LPG vessels for the improvement in adjusted revenue. While JV income was down sequentially, YoY growth continued with 3Q2018 JV income impacted by an one-off tax adjustment at Teekay. Operating costs also improved 8.3% YoY and 0.9% QoQ driven by costs optimization. G&A costs also continued their decline (-0.7% YoY, -0.8% QoQ) due to process enhancement and cost optimization initiatives.
- **We will update our model post Nakilat's earnings call.** We will factor in QGTS' recent deal in which QGTS acquired the remaining 49.9% stake in OSG joint-venture (4 Q-Flex LNG vessels) for \$123mn cash. The financial impact of this transaction is roughly 4% earnings accretion (annualized) assuming an all-cash deal.
- **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.** Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 110 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 maintain our Accumulate rating and price target of QR2.50.*

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Income Statement							
In QR mn Except Otherwise Noted	3Q2018	2Q2019	3Q2019	3Q2019e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	774.328	760.651	774.837	769.010	0.8%	0.1%	1.9%
Operating Costs	(177.605)	(164.429)	(162.910)	(164.568)	-1.0%	-8.3%	-0.9%
Gross Profit	596.723	596.222	611.927	604.442	1.2%	2.5%	2.6%
<i>Gross Margin</i>	<i>77.1%</i>	<i>78.4%</i>	<i>79.0%</i>	<i>78.6%</i>			
Income from Marine and Agency Services	13.702	13.312	13.779	14.000	-1.6%	0.6%	3.5%
General and Administrative Expenses	(31.026)	(31.055)	(30.822)	(31.150)	-1.1%	-0.7%	-0.8%
EBITDA	579.399	578.479	594.884	587.292	1.3%	2.7%	2.8%
Depreciation & Amortization	(189.999)	(188.818)	(190.308)	(190.706)	-0.2%	0.2%	0.8%
EBIT	389.400	389.661	404.576	396.586	2.0%	3.9%	3.8%
<i>EBIT Margin</i>	<i>50.3%</i>	<i>51.2%</i>	<i>52.2%</i>	<i>51.6%</i>			
Share of Operating Profits from Joint Ventures	101.406	116.037	106.431	119.518	-10.9%	5.0%	-8.3%
Finance Costs	(305.450)	(289.464)	(280.396)	(291.021)	-3.7%	-8.2%	-3.1%
Interest, Dividend income & Profit from Islamic Banks	20.353	18.486	16.965	19.000	-10.7%	-16.6%	-8.2%
Vessel Sub-Chartering & Other Income	8.656	5.121	4.744	5.500	-13.7%	-45.2%	-7.4%
Profit Before Tax	214.365	239.841	252.320	249.582	1.1%	17.7%	5.2%
Profit After Tax	214.365	239.841	252.320	249.582	1.1%	17.7%	5.2%
Minority Interest	(0.257)	(0.254)	(0.281)	(0.264)	6.3%	9.3%	10.6%
Net Income to Equity	214.108	239.587	252.039	249.318	1.1%	17.7%	5.2%
<i>Net Profit Margin</i>	<i>27.7%</i>	<i>31.5%</i>	<i>32.5%</i>	<i>32.4%</i>			
EPS (QR)	0.04	0.04	0.05	0.05	1.1%	17.7%	5.2%
Adjusted EBITDA	680.805	694.516	701.315	706.810	-0.8%	3.0%	1.0%
Adjusted Revenue	889.436	890.000	895.047	902.528	-0.8%	0.6%	0.6%
Particulars	3Q2018	2Q2019	3Q2019	3Q2019e			
Adj. EBITDA Margin	76.5%	78.0%	78.4%	78.3%			
Gross Margin	77.1%	78.4%	79.0%	78.6%			
EBIT Margin	50.3%	51.2%	52.2%	51.6%			
G & A % of Sales	4.0%	4.1%	4.0%	4.1%			
Depreciation & Amortization % of Sales	24.5%	24.8%	24.6%	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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