

Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	Outperform	Risk Rating	R-3
Share Price	QR4.330	Target Price	QR5.600
Implied Upside	29.3%		

Beats 3Q2024 On Margin Upside/Lower Finance Charges; Revising Estimates

QGTS reported 3Q2024 earnings that come in above our expectations despite an in-line top-line performance from wholly-owned LNG vessels as margins and finance charges surprised on the upside. Overall results continue to remain reassuring with Nakilat delivering on its growth metrics. We continue to reiterate QGTS as our top pick and stay Outperform with a price target of QR5.600.

Highlights

- Nakilat's net profit/EPS rose 7.5% YoY and 9.0% QoQ to QR446.3mn/QR0.081 in 3Q2024, besting our estimate of QR424.1mn/QR0.077 by 5.2%. For more details, please see page 2.
- Wholly-owned ship revenue of QR908.3mn (1.4% YoY, 0.2% QoQ) was right in-line with QNB FS estimate of QR908.2mn.
- EBITDA of QR704.0mn (2.8% YoY, 4.0% QoQ) was moderately above our forecast of QR685.2 (2.7% difference) considering lower-than-expected cash operating costs of the wholly-owned fleet (cash gross margins increased to 80.2% vs. our model of 78.6%; GMs also improved YoY/QoQ vs. 79.7%/77.9% in 3Q2023/2Q2024. G&A of QR15.6mn (-37.1% YoY, -43.0% QoQ) was markedly better than our estimate of QR27.4mn (-42.9% divergence) due to timing variation of costs, along with expense optimization. We will check with QGTS if there were any one-offs that served to lower G&A.
- Depreciation of QR210.7mn (-8.2% YoY, 2.9% QoQ) was moderately above our forecast of QR204.5mn by 3.1%. We note that reported depreciation was in-line with management guidance of an annual run-rate of QR800-840mn. We remind investors that QGTS completed a dry-dock cycle in 2022 starting a new one in 2023 – 10 vessels were dry-docked in 2023, with eight more in 2024. However, Nakilat's TCPs typically account for these dry-dock days ensuring a stable and consistent revenue stream.
- JV income of QR188.8mn (-10.3% YoY, 5.0% QoQ) was modestly (-1.4%) below our estimate of QR191.6mn due to lower shipyard activity/LPG business. Thus far, in 2024, JV income continues to remain below 2023's quarterly run rate of QR196mn. We do note that, overall, JV income continues its buoyant trend, up 13.9% YoY from QR689.4mn in 2022 to QR784.9mn in 2023. Management remains confident that the shipyard will generate sustainable profit going forward despite a subdued performance, thus far, in 2024.
- Finally, finance costs of QR270.0mn (-13.4% YoY, -9.7% QoQ) was 9.5% below our estimate of QR298.4mn. Interest costs decreased due to scheduled loan repayments, while interest associated with the new fleet expansion program is currently being capitalized. Total debt of QR19.4bn increased 10.1% from YE2023 levels of QR17.6bn (-0.3% QoQ) as Nakilat took on new debt to partly finance its new build program, offset by scheduled repayments. Interest, dividend & other income of QR34.4mn (-43.6% YoY, -39.4% QoQ) was 31.9% below our model of QR50.5mn due to lower cash held in term deposits given Nakilat's fleet expansion and outlays associated with the company's maiden interim dividend.
- We are adjusting estimates to reflect 3Q2024 results and other model changes. We project a 9.3% growth with net income/EPS growing from QR1,557.8mn/QR0.281 in 2023 to QR1,703.1mn/QR0.307 in 2024. Our new estimate is 5.6% higher than our previous estimate. The key driver for our new higher estimates for 2024 is our model assumption of lower finance charges and higher EBITDA driven by positive revisions in top-line/margins. JV income assumptions have been lowered vs. our previous model, however. For more details, please see page 3.
- We envision a roughly 60% boost to our earnings estimates over 2026-2030 once all expansion is factored in. We note that our model does not currently factor in the earnings accretion from the recently announced 9 QC-Max program, the planned 25-vessel conventional LNG expansion or the addition of two conventional LNG/four Very Large LPG/Ammonia Gas carriers. We will update our model once more details are revealed.

Catalysts

- With Nakilat on the cusp of a significant growth cycle, we expect the stock to appreciate.

Recommendation, Valuation and Risks

- Recommendation & valuation:** Our price target is QR5.600 and we rate QGTS an Outperform. We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT 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. Moreover, the 40-year life of Nakilat's existing vessels vs. maximum debt life of 25 years, could allow for value-enhancement.
- Risks:** Execution risks remain given the magnitude of the expansion but we note that Nakilat's impeccable track record alleviates this concern.

Key Financial Data and Estimates

	FY2023	FY2024e	FY2025e	FY2026e
EPS (QR)	0.281	0.307	0.332	0.354
P/E (x)	15.4	14.1	13.0	12.2
DPS (QR)	0.140	0.150	0.160	0.170
Dividend Yield	3.2%	3.5%	3.7%	3.9%

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

Key Data

Current Market Price (QR)	4.330
Current Dividend Yield (%)	3.2
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.794/3.061
3-m Average Volume ('mn)	2.8
Mkt. Cap. (\$ bn/QR bn)	6.6/24.0
EV (\$ bn/QR bn)	11.2/40.8
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.8
1-Year Total Return (%)	36.5
Fiscal Year End	December 31

Source: Bloomberg (as of October 20, 2024), *Qatar Exchange (as of October 20, 2024); Note: FO is foreign ownership

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3Q2024 Results Review

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- Wholly-owned ship revenue of QR908.3mn (1.4% YoY, 0.2% QoQ) was right in-line with QNB FS estimate of QR908.2mn.
- EBITDA of QR704.0mn (2.8% YoY, 4.0% QoQ) was moderately above our forecast of QR685.2 (2.7% difference) considering lower-than-expected cash operating costs of the wholly-owned fleet (cash gross margins increased to 80.2% vs. our model of 78.6%; GMs also improved YoY/QoQ vs. 79.7%/77.9% in 3Q2023/2Q2024. G&A of QR15.6mn (-37.1% YoY, -43.0% QoQ) was markedly better than our estimate of QR27.4mn (-42.9% divergence) due to timing variation of costs, along with expense optimization. We will check with the company if there were any one-offs that served to lower G&A expenses in 3Q2024.
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QNB FS 3Q2024 Estimates and Comparisons

Income Statement							
In QR mn Except Otherwise Noted	3Q2023	2Q2024	3Q2024	3Q2024e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	896.213	906.102	908.328	908.181	0.0%	1.4%	0.2%
Operating Costs	(202.719)	(216.078)	(204.860)	(210.698)	-2.8%	1.1%	-5.2%
Gross Profit	693.494	690.024	703.468	697.483	0.9%	1.4%	1.9%
<i>Gross Margin</i>	<i>77.4%</i>	<i>76.2%</i>	<i>77.4%</i>	<i>76.8%</i>			
Income from Marine and Agency Services	16.228	14.302	16.149	15.053	7.3%	-0.5%	12.9%
General and Administrative Expenses	(24.854)	(27.412)	(15.631)	(27.363)	-42.9%	-37.1%	-43.0%
EBITDA	684.868	676.914	703.986	685.173	2.7%	2.8%	4.0%
Depreciation of Property and Equipment	(229.479)	(204.894)	(210.741)	(204.466)	3.1%	-8.2%	2.9%
EBIT	455.389	472.020	493.245	480.707	2.6%	8.3%	4.5%
<i>EBIT Margin</i>	<i>50.8%</i>	<i>52.1%</i>	<i>54.3%</i>	<i>52.9%</i>			
Income from Joint Ventures	210.485	179.800	188.791	191.559	-1.4%	-10.3%	5.0%
Finance Costs	(311.599)	(299.046)	(269.983)	(298.448)	-9.5%	-13.4%	-9.7%
Interest, Dividend income & Profit from Islamic Banks	61.005	56.785	34.398	50.479	-31.9%	-43.6%	-39.4%
Profit Before Tax	415.280	409.559	446.451	424.297	5.2%	7.5%	9.0%
Profit After Tax	415.280	409.559	446.451	424.297	5.2%	7.5%	9.0%
Minority Interest	(0.179)	(0.171)	(0.174)	(0.177)	-1.8%	-2.8%	1.8%
Net Income to Equity	415.101	409.388	446.277	424.120	5.2%	7.5%	9.0%
<i>Net Profit Margin</i>	<i>46.3%</i>	<i>45.2%</i>	<i>49.1%</i>	<i>46.7%</i>			
EPS (QR)	0.07	0.074	0.081	0.077	5.2%	7.5%	9.0%
Adjusted EBITDA	895.353	856.714	892.777	876.732	1.8%	-0.3%	4.2%
Adjusted Revenue	1,122.926	1,100.204	1,113.268	1,114.793	-0.1%	-0.9%	1.2%
Particulars							
	3Q2023	2Q2024	3Q2024	3Q2024e			
Adj. EBITDA Margin	79.7%	77.9%	80.2%	78.6%			
Gross Margin	77.4%	76.2%	77.4%	76.8%			
EBIT Margin	50.8%	52.1%	54.3%	52.9%			
G & A % of Sales	2.8%	3.0%	1.7%	3.0%			
Depreciation & Amortization % of Sales	25.6%	22.6%	23.2%	22.5%			

Source: Company data, QNB FS Research

Estimate Revisions

We are adjusting estimates to reflect 3Q2024 results and other model changes. We project a 9.3% growth with net income/EPS growing from QR1,557.8mn/QR0.281 in 2023 to QR1,703.1mn/QR0.307 in 2024. Our new estimate is 5.6% higher than our previous estimate. The key driver for our new higher estimates for 2024 is our model assumption of lower finance charges and higher EBITDA driven by positive revisions in top-line/margins. JV income assumptions have been lowered vs. our previous model, however.

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QNB FS Estimates Revisions

In QR mn	Current Previous				Current Previous				Current Previous		
	2023	2024	2024	▲	2025	2025	▲	2026	2026	▲	
Revenue from Wholly-Owned Vessels	3,565	3,618	3,578	1.1%	3,623	3,582	1.1%	3,627	3,586	1.1%	
Growth	0.4%	1.5%	0.3%		0.1%	0.1%		0.1%	0.1%		
Operating Costs	(795)	(816)	(800)	2.0%	(819)	(803)	2.0%	(822)	(806)	2.0%	
Growth	4.1%	2.7%	0.6%		0.4%	0.4%		0.4%	0.4%		
Gross Profit	2,770	2,802	2,778	0.9%	2,803	2,779	0.9%	2,805	2,780	0.9%	
GM %	77.7%	77.4%	77.6%		77.4%	77.6%		77.3%	77.5%		
Income from Marine and Agency Services	60	59	55	8.0%	61	51	21.2%	63	47	32.8%	
General and Administrative Expenses	(114)	(103)	(117)	-12.2%	(106)	(121)	-12.2%	(109)	(124)	-12.2%	
EBITDA	2,716	2,758	2,715	1.6%	2,759	2,709	1.8%	2,759	2,704	2.0%	
EBITDA Margin %	76.2%	76.2%	75.9%		76.2%	75.6%		76.1%	75.4%		
Depreciation of Property and Equipment	(935)	(831)	(841)	-1.2%	(835)	(844)	-1.2%	(838)	(848)	-1.2%	
EBIT	1,781	1,927	1,874	2.8%	1,924	1,865	3.2%	1,921	1,856	3.5%	
Income from Joint Ventures	785	727	801	-9.3%	789	860	-8.3%	829	924	-10.3%	
Finance Costs	(1,249)	(1,132)	(1,273)	-11.1%	(1,039)	(1,132)	-8.2%	(935)	(958)	-2.4%	
Interest, Dividend income & Profit from Islamic Banks	242	182	211	-13.9%	167	309	-45.8%	151	279	-46.1%	
Vessel Sub-Chartering & Other Income	-	-	-		-	-		-	-		
Profit Before Tax	1,559	1,704	1,614	5.6%	1,841	1,902	-3.2%	1,965	2,101	-6.5%	
Taxes	-	-	-		-	-		-	-		
Profit After Tax	1,559	1,704	1,614	5.6%	1,841	1,902	-3.2%	1,965	2,101	-6.5%	
Minority Interest	(1)	(1)	(1)	-38.9%	(1)	(1)	-44.0%	(1)	(1)	-45.9%	
% of PAT	-0.1%	0.0%	-0.1%		0.0%	-0.1%		0.0%	-0.1%		
Profit for Equity Holders	1,558	1,703	1,613	5.6%	1,840	1,901	-3.2%	1,964	2,100	-6.5%	
Net Profit Margin	43.7%	47.1%	45.1%		50.8%	53.1%		54.1%	58.6%		
Growth	8.3%	9.3%	3.5%		8.0%	17.9%		6.7%	10.5%		
EPS	0.281	0.307	0.291	5.6%	0.332	0.343	-3.2%	0.354	0.379	-6.5%	
Growth	8.3%	9.3%	3.5%		8.0%	17.9%		6.7%	10.5%		
DPS	0.140	0.150	0.150	0.0%	0.160	0.160	0.0%	0.170	0.170	0.0%	
Payout Ratio	49.8%	48.8%	51.5%		48.2%	46.6%		48.0%	44.8%		
Growth	7.7%	7.1%	7.1%		6.7%	6.7%		6.3%	6.3%		
Adjusted EBITDA	3,501	3,485	3,516	-0.9%	3,548	3,569	-0.6%	3,587	3,628	-1.1%	
Growth	2.4%	-0.5%	0.4%		1.8%	1.5%		1.1%	1.6%		
Adjusted Revenue	4,410	4,404	4,433	-0.7%	4,473	4,493	-0.4%	4,519	4,558	-0.9%	
Growth	2.7%	-0.1%	0.5%		1.6%	1.3%		1.0%	1.4%		

Source: Company data, QNB FS Research

Valuation and Key Ratios

Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Growth Ratios (In %)											
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	1.5%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	2.7%	(0.1%)	1.6%	1.0%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	(0.6%)	1.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	(0.5%)	1.5%	0.0%	(0.0%)
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	2.4%	(0.5%)	1.8%	1.1%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	(0.1%)	8.2%	(0.1%)	(0.2%)
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	13.9%	(7.4%)	8.6%	5.1%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	9.6%	(9.4%)	(8.2%)	(10.0%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.3%	9.3%	8.0%	6.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(16.1%)	18.7%	(1.8%)	5.8%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(39.2%)	(317.4%)	(173.9%)	6.0%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	6.3%
Operating Ratios (In %)											
Gross Margin	76.6%	77.2%	77.8%	78.0%	79.1%	78.9%	78.5%	77.7%	77.4%	77.4%	77.3%
EBITDA Margin	74.0%	74.6%	75.2%	75.6%	77.8%	77.6%	76.9%	76.2%	76.2%	76.2%	76.1%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	78.1%	79.1%	79.3%	79.6%	79.4%	79.1%	79.3%	79.4%
EBIT Margin	49.0%	49.5%	50.5%	47.7%	52.5%	52.3%	50.2%	50.0%	53.3%	53.1%	53.0%
Net Margin	31.1%	27.7%	29.1%	31.6%	33.0%	38.2%	40.5%	43.7%	47.1%	50.8%	54.1%
Finance Ratios											
Net Debt-to-EBITDA	8.3	7.8	7.5	7.9	6.6	6.0	5.2	4.9	6.2	5.7	5.1
Debt-Equity Ratio	4.1	3.5	2.9	3.1	3.0	2.3	1.7	1.5	1.5	1.3	1.1
Net Debt-Equity Ratio	3.6	3.0	2.5	2.8	2.5	1.9	1.3	1.1	1.3	1.1	0.9
Debt-to-Capital	80.3%	77.7%	74.1%	75.6%	74.7%	69.4%	62.6%	59.3%	59.8%	56.1%	51.6%
Interest Coverage	1.3	1.3	1.3	1.3	1.6	1.8	1.6	1.4	1.7	1.9	2.1
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.4	2.6	2.4	2.2	2.4	2.7	2.9
Return Ratios (In %)											
ROIC	5.6%	5.7%	5.8%	5.4%	6.6%	6.5%	5.9%	6.0%	5.9%	6.0%	6.1%
ROAE	19.7%	15.1%	13.9%	14.5%	16.6%	17.1%	14.4%	13.4%	13.6%	13.6%	13.4%
ROAA	3.1%	2.8%	3.0%	3.2%	3.6%	4.2%	4.5%	4.9%	5.1%	5.3%	5.8%
Valuation											
EV/EBITDA-Adjusted	15.2	15.9	15.2	14.5	13.4	12.4	11.1	10.6	11.8	11.1	10.6
EV/EBIT	28.5	27.6	26.6	28.3	22.7	21.7	21.4	20.9	21.3	20.5	19.8
P/E	25.1	28.3	26.9	23.9	20.7	17.7	16.7	15.4	14.1	13.0	12.2
P/CF	21.4	18.3	19.5	16.9	9.4	12.9	10.0	11.9	10.0	10.2	9.6
P/B	4.6	4.1	3.5	3.5	3.4	2.7	2.1	2.0	1.8	1.7	1.6
Dividend Yield	2.3%	2.3%	2.3%	2.3%	2.5%	2.8%	3.0%	3.2%	3.5%	3.7%	3.9%
FCF Yield	4.5%	5.5%	4.3%	4.7%	10.1%	7.7%	9.6%	5.9%	-12.7%	9.4%	10.0%

Source: Bloomberg, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Detailed Financial Statements

Income Statement (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
Revenue – Wholly-Owned Ships	3,565	3,618	3,623	3,627
Direct Costs	(795)	(816)	(819)	(822)
Gross Profit	2,770	2,802	2,803	2,805
Income from Marine & Agency Services	60	59	61	63
General and Administrative Expenses	(114)	(103)	(106)	(109)
EBITDA	2,716	2,758	2,759	2,759
Depreciation	(935)	(831)	(835)	(838)
EBIT	1,781	1,927	1,924	1,921
Share of Profits from Joint Ventures	785	727	789	829
Finance Costs	(1,249)	(1,132)	(1,039)	(935)
Interest, Dividend & Profit from Islamic Banks	242	182	167	151
Profit Before Tax	1,559	1,704	1,841	1,965
Income Tax Expense	0	0	0	0
Profit After Tax	1,559	1,704	1,841	1,965
Minority Interest	(1)	(1)	(1)	(1)
Profit for Equity Shareholders	1,558	1,703	1,840	1,964
EPS (QR)	0.281	0.307	0.332	0.354
Adjusted Revenue	4,410	4,404	4,473	4,519
Adjusted EBITDA	3,501	3,485	3,548	3,587

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
Non-Current Assets				
Property, Plant and Equipment	21,002	25,621	24,886	24,148
Investment in Joint Venture Companies	5,681	5,881	6,094	6,315
Loans to Joint Venture Companies	90	144	144	144
Equity Investments	142	139	139	139
Total Non-Current Assets	26,915	31,785	31,263	30,746
Current Assets				
Receivables, Inventories, Due from Joint Ventures & Others	838	688	688	689
Cash and Bank Balances	4,224	2,241	2,278	2,051
Total Current Assets	5,062	2,928	2,967	2,740
Total Assets	31,977	34,713	34,230	33,486
Equity				
Equity Attributable to the Parent	12,084	13,033	14,064	15,163
Minority Interest	6	6	7	8
Total Equity	12,090	13,039	14,071	15,170
Non-Current Liabilities				
Borrowings	16,495	17,948	16,139	14,313
Lease Liability, Provision for End of Service Benefits and Other Liabilities	710	667	627	587
Total Non-Current Liabilities	17,205	18,616	16,766	14,900
Current Liabilities				
Borrowings	1,125	1,416	1,809	1,826
Accounts Payables/Accruals, Due to Joint Ventures & Others	1,556	1,642	1,584	1,589
Total Current Liabilities	2,681	3,058	3,392	3,415
Equity and Liabilities	31,977	34,713	34,230	33,486

Source: Bloomberg, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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