

Qatar Gas Transport (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR15.49	Target Price	QR18.10
Implied Upside	16.9%		

Weak 3Q2012 Net Income; Lowering Estimates, Price Target and Rating

3Q2012 net income falls short; retaining bullish long-term outlook and changing rating to Accumulate. Nakilat reported a worse-than-expected 3Q2012 net income despite posting in-line revenue from wholly-owned vessels (under long-term charters). QGTS' share of operating profits from joint ventures also fell below our estimates; this segment remains volatile and difficult to model. Operating costs increased beyond our forecasts while finance costs expanded due to one-off items. In light of QGTS' financial performance, we are revising our estimates/price target and changing our rating to Accumulate. We continue to view Nakilat as a stable yield play albeit with limited top-line growth prospects in the medium term. QGTS remains Qatar's primary LNG carrier and benefits from stable/visible revenue and cash flow through 25-year fixed (price and quantity) charter contracts with the state-controlled LNG producers, Qatargas and RasGas. With fleet expansion completed in 2010, we expect strong FCF generation to allow the company to meet its debt repayments (total 3Q2012 debt: QR24.3bn) comfortably and lead to EPS accretion.

Financial Results and Key Takeaways

- **Reported 3Q2012 net revenue was flattish sequentially.** QGTS posted a net revenue figure of QR843mn for 3Q2012, which was almost in line with our modeled estimate of QR856mn. Net revenue declined 5.3% from the year-ago quarter. By segment: (1) Revenue from the company's 25 wholly-owned LNG vessels was up 1.0% QoQ but down 4.9% versus 3Q2011. (2) At QR70mn, share of operating profits from the company's joint ventures declined 13.9% QoQ and was flat on a YoY basis. (3) Finally, income from marine and agency services increased by 13.5% QoQ (down 3.1% YoY) to QR9.5mn.
- **Net income decline accentuated by one-off items.** For 3Q2012, Nakilat posted a net income of QR182mn, down 11.1% QoQ and 25.5% YoY. Net income was almost 17% weaker than our estimate of QR218mn. Higher-than-expected operating costs of wholly-owned vessels and finance costs contributed to the earnings miss. We note that QGTS has discontinued providing operating costs of wholly-owned vessels and has instead lumped this line item with certain costs previously classified as general & administrative expenses. Finance costs increased 2.4% QoQ and 1.0% YoY given fees and expenses associated with the \$380mn August refinancing through a Murabaha facility.
- **Lowering 2012-2013 EPS estimates by an average of 10%; changing rating to Accumulate with a new price target of QR18.10.** We provide more details on our new estimates on page 2.

Key Data:

Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	18.30/14.52
3-m Average Volume	268,891
Mkt. Cap. (\$ bn/QR bn)	2.4/8.7
Shares Outstanding (mn)	560
FO Limit* (%)	24.5
Current FO*	10.3
1-Year Total Return (%)	(4.6)

Fiscal Year End Dec. 31

Source: Bloomberg (as of October 23, 2012), *Qatar Exchange (as of October 23, 2012); Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	3
Hold	2
Sell	0

Source: Bloomberg

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3Q2012, Actual vs. Estimates

QR mn ex. per Share Values	3Q2012	QoQ	YoY	3Q2012e	Actual vs. Estimated
Revenue (Net)	843	-0.6%	-5.3%	856	-1.6%
Net Attributable Income	182	-11.1%	-25.5%	218	-16.5%
EPS	0.33	-11.1%	-25.5%	0.39	-16.5%

Source: Company data, QNBFS estimates

We are revising our estimates and price target. Given QGTS' financial performance thus far we are revising our estimates. We note that our new estimates are conservative relative to consensus expectations. Our model changes lead to our new price target of QR18.10 a share and our Accumulate rating. We will revisit our estimates once we see evidence of profitable growth in Nakilat's joint venture businesses. Our long-term thesis on the company remains unchanged.

Estimates

QR mn ex. per Share Values	New		Previous		Change	
	2012e	2013e	2012e	2013e	2012e	2013e
Revenue (Net)	3,362	3,453	3,357	3,418	0.2%	1.0%
Net Attributable Income	732	828	817	917	-10.4%	-9.7%
EPS	1.32	1.50	1.48	1.66	-10.4%	-9.7%
DPS	0.85	0.85	0.85	0.85	0.0%	0.0%

Source: Company data, QNBFS estimates

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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