

## Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR20.10	Current Target Price	QR25.00
Implied Upside	24.4%	Old Target Price	QR28.00

### In-Line 1Q2017; Lowering Estimates and Price Target

We are lowering our estimates for QGTS driven by higher depreciation expenses and lower contribution from the JV business, namely QGTS' shipyard and LPG operations. Nakilat's LNG fleet of 25 wholly-owned ships and 29 JV vessels remain mostly under 25-year fixed rate contracts (4 ships under 20-year contracts) adding to stability in its top-line. The company's remaining 9 LNG vessels are currently under medium-term charters as well. We lower our target price to QR25 and maintain our Accumulate rating.

#### Highlights

- **Reported 1Q2017 in-line with our estimates.** QGTS' net profit declined 7.4% QoQ to QR191.06mn in 1Q2017, in-line with our estimate of QR179.69mn (+6.3% variation). The company's adjusted revenue declined to QR858.60mn in 1Q2017 (-11.5% QoQ and -3.3% YoY), in line with our estimate of QR904.04mn (-5.0% variation).
- **Lowering revenue and net income estimates.** We are lowering our adjusted revenue forecast for 2017 and 2018 from QR3,725.47mn and QR3,788.77mn to QR3,545.30mn and QR3,528.09mn, a reduction of 4.8% and 5.5% respectively. However, our revenue estimate for the wholly-owned fleet remains largely unchanged, going from QR3,110.29mn and QR3,142.64mn for 2017 and 2018, respectively, to QR3,078.17mn and QR3,093.56mn. The difference in our adjusted revenue mostly stems from lower estimates of JV income given the weakness seen in the shipyard/LPG business in light of the tepid macro environment. Net-net, we are adjusting our net income estimate downward from QR1,079.04mn and QR1,174.93mn to QR864.05mn and QR942.02mn for 2017 and 2018, respectively.
- **We continue to favor Nakilat as a long-term play.** The announced lifting of the North Field moratorium could potentially increase Qatar's LNG output beyond the 77-MTPA level in the future and benefit QGTS' charter business. Our expectations for the wholly-owned LNG business, as noted by our revenue and EBITDA estimates, remain mostly unchanged with minor tweaks.

#### Catalysts

- **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 despite the medium-term softness.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We continue to rate QGTS an Accumulate but lower our price target from QR25 to QR28.** The stock trades at EV/Adjusted EBITDA multiple of 10.4x for 2017.
- **Risks: Volatile oil prices remain a substantial risk to regional equity prices.** For QGTS, further escalation of operating costs of wholly-owned vessels and execution risks in shipyard remain major risks.

#### Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Revenue (Adj., QR mn)	3,638	3,710	3,545	3,582
EPS (QR)	1.77	1.72	1.56	1.70
P/E (x)	11.3x	11.7x	12.9x	11.8x
DPS (QR)	1.25	1.00	1.10	1.20
Dividend Payout	70.5%	58.0%	70.5%	70.6%
Dividend Yield	6.2%	5.0%	5.5%	6.0%

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

#### Key Data

Current Market Price (QR)	20.10
Dividend Yield	5.5
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	25.20/19.95
3-m Average Volume ('000)	399.6
Mkt. Cap. (\$ bn/QR bn)	3.1/11.3
Shares Outstanding (mn)	560.0
FO Limit* (%)	49.0
Current FO* (%)	16.8
1-Year Total Return (%)	(11.2)
Fiscal Year End	December 31

Source: Bloomberg (as of April 24, 2017), \*Qatar Exchange (as of April 24, 2017); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
Revenue – Wholly-Owned Ships	3,046	3,069	3,078	3,094
Income from Marine & Agency Services	61	55	56	59
Share of Profits from Joint Ventures	498	553	374	393
Vessels Sub-Chartering & Other Income	33	33	37	37
<b>Adjusted Net Revenue</b>	<b>3,638</b>	<b>3,710</b>	<b>3,545</b>	<b>3,582</b>
Direct Costs	(698)	(718)	(715)	(722)
<b>Gross Profit</b>	<b>2,939</b>	<b>2,992</b>	<b>2,830</b>	<b>2,860</b>
General and Administrative Expenses	(113)	(136)	(136)	(137)
Interest, Dividend & Profit from Islamic Banks	44	54	77	77
<b>Adjusted EBITDA</b>	<b>2,871</b>	<b>2,911</b>	<b>2,771</b>	<b>2,800</b>
Depreciation	(688)	(768)	(771)	(774)
<b>EBIT</b>	<b>2,182</b>	<b>2,143</b>	<b>1,999</b>	<b>2,026</b>
Finance Costs	(1,199)	(1,188)	(1,134)	(1,083)
Gain/(Loss) on Derivatives from Joint Ventures	0	0	0	0
Profit Before Tax	984	955	865	943
Income Tax Expense	0	0	0	0
Profit After Tax	984	955	865	943
Minority Interest	(1)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>982</b>	<b>954</b>	<b>864</b>	<b>942</b>
<b>EPS (QR)</b>	<b>1.77</b>	<b>1.72</b>	<b>1.56</b>	<b>1.70</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	23,882	23,161	22,438	21,712
Investment in Joint Venture Companies	3,422	4,018	4,111	4,210
Loans to Joint Venture Companies	266	135	140	140
Available-for-Sale Investments	127	134	126	126
<b>Total Non-Current Assets</b>	<b>27,697</b>	<b>27,448</b>	<b>26,815</b>	<b>26,187</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	307	380	348	350
Cash and Bank Balances	2,736	2,493	2,837	2,879
<b>Total Current Assets</b>	<b>3,043</b>	<b>2,873</b>	<b>3,185</b>	<b>3,229</b>
<b>Total Assets</b>	<b>30,740</b>	<b>30,321</b>	<b>30,000</b>	<b>29,416</b>
<b>Equity</b>				
Equity Attributable to the Parent	4,443	5,260	5,573	5,899
Minority Interest	4	4	5	7
<b>Total Equity</b>	<b>4,448</b>	<b>5,264</b>	<b>5,578</b>	<b>5,906</b>
<b>Non-Current Liabilities</b>				
Borrowings	21,415	20,616	19,696	18,776
Fair Value of Interest Rate Swaps	3,363	2,819	2,833	2,833
Provision for End of Service Benefits	220	188	178	178
<b>Total Non-Current Liabilities</b>	<b>24,998</b>	<b>23,624</b>	<b>22,707</b>	<b>21,787</b>
<b>Current Liabilities</b>				
Borrowings	778	804	804	804
Accounts Payables/Accruals & Due to Related Parties	517	630	911	920
<b>Total Current Liabilities</b>	<b>1,295</b>	<b>1,433</b>	<b>1,715</b>	<b>1,724</b>
<b>Equity and Liabilities</b>	<b>30,740</b>	<b>30,321</b>	<b>30,000</b>	<b>29,416</b>

Source: Company data, QNBFS estimates

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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