

Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	Outperform	Risk Rating	R-3
Share Price	QR4.500	Target Price	QR5.600
Implied Upside	24.4%		

4Q2024/2024 Earnings Miss On JV Income Fall; LT Thesis Intact; Outperform

QGTS posted a 5.1% growth in earnings/EPS to QR1,637.4mn/QR0.30 and flat DPS to QR0.14 in 2024, both falling shy of our estimates. For 4Q2024, in-line revenue and gross profits were more than offset by a worse-than-expected JV income performance (Maran Nakilat & Shipyard JVs declined) leading to a net income/EPS of QR361.9mn/QR0.07 (-1.7% YoY, -18.9% QoQ) that was 16.7% below our estimates of QR434.7mn/QR0.08. **Nakilat stands out as a true growth story, leveraged to the massive anticipated growth expected from Qatar's North Field Expansion project, with its: (1) current operations valued at QR4.100 a share; (2) upcoming fleet expansion of 27 conventional LNG vessels/4 VLGCs adding a QR1/share; and (3) contract win of 9 QC-Max LNG carriers adding another QR0.50/share.** Nakilat remains a top pick and is presently involved in 75-80% of Qatar's current LNG exports. As QatarEnergy looks to increase LNG capacity from 77 MTPA to 142 MTPA, it has awarded contracts for 128 LNG ships (104 conventional & 24 QC-Max vessels). Nakilat has secured contracts for 25 conventional LNG ships and 9 QC-Max vessels (27% of total fleet expansion). **We estimate these new conventional/QC-Max vessels should add QR1/QR0.50 to our target price and thus raised Nakilat's TP from QR4.10 to QR5.60 when these deals were announced in February/May of 2024. We envision a roughly 60% boost to our earnings estimates over 2026-2031 once all expansion is factored in.** 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. QGTS is trading at P/Es of 13.5x and 12.7x for 2025 and 2026. **We rate Nakilat an Outperform with a QR5.600 target price.**

Highlights

- For 4Q2024, in-line revenue & progress in direct costs is offset by an increase in SG&A and weaker-than-expected JV income leading to the earnings miss. Nakilat's net profit/EPS came in at QR361.9mn/QR0.07 (-1.7% YoY, -18.9% QoQ), which was 16.7% below our estimates of QR434.7mn/QR0.08. For more details, please see page 2.
- 2024 profitability jumps 5.1% with record-high earnings/EPS of QR1,637.4mn/QR0.30; DPS of QR0.14 (DY: 3.1%) was flat YoY and below our estimate of QR0.15. Given that QGTS declared QR0.07 in DPS for 1H2024, this implies another QR0.07 for 2H2024. 2024 earnings were 4.3% below our model. For more details, please see page 2.
- We envision a roughly 60% boost to our earnings estimates over 2026-2031 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. According to information released in Nakilat's presentation, the lion-share of payments/deliveries will be in 2027. For payments, QGTS expects to expend 10% in 2024, 5-10% in 2025, 10-20% in 2026, 25-35% in 2027 and 10% p.a. over 2028-2031. As far as vessel deliveries are concerned, QGTS expects to receive 5-10% of the new fleet in 2026, 35-45% in 2027, 15-20% in 2028 and 10% p.a. over 2029-2031. We will update our model once more details, including capex, leverage taken and charter economics, 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. The Global Minimum Tax of 15%, if applied, could act as a headwind.

Key Financial Data and Estimates

	FY2022	FY2023	FY2024	FY2025e
EPS (QR)	0.26	0.28	0.30	0.33
P/E (x)	17.3	16.0	15.2	13.5
DPS (QR)	0.13	0.14	0.14	0.15
Dividend Yield	2.9%	3.1%	3.1%	3.3%

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

Key Data

Current Market Price (QR)	4.500
Current Dividend Yield (%)	3.1
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.794/3.317
3-m Average Volume ('mn)	3.0
Mkt. Cap. (\$ bn/QR bn)	6.8/24.9
EV (\$ bn/QR bn)	11.5/42.0
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.6
1-Year Total Return (%)	30.9
Fiscal Year End	December 31

Source: Bloomberg (as of January 28, 2025), *Qatar Exchange (as of January 28, 2025); Note: FO is foreign ownership

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4Q2024 & 2024 Results

For 4Q2024, in-line revenue & progress in direct costs is offset by an increase in SG&A and weaker-than-expected JV income leading to the earnings miss. Nakilat's net profit/EPS came in at QR361.9mn/QR0.07 (-1.7% YoY, -18.9% QoQ), which was 16.7% below our estimates of QR434.7mn/QR0.08.

2024 profitability jumps 5.1% with record-high earnings/EPS of QR1,637.4mn/QR0.30; DPS of QR0.14 (DY: 3.1%) was flat YoY and below our estimate of QR0.15. Given that QGTS declared QR0.07 in DPS for 1H2024, this implies another QR0.07 for 2H2024. 2024 earnings were 4.3% below our model.

- **Wholly-owned ship revenue of QR904.4mn (0.1% YoY, -0.4% QoQ) was in-line with QNB FS estimate of QR908.7mn.**
- **Adjusted revenue (wholly-owned ships + marine & agency services + JV income) of QR1,058.1mn (-4.7% YoY, -5.0% QoQ) was 5.3% below our estimate of QR1,117.5mn, with in-line wholly-owned vessel top-line offset by weaker-than-modeled JV income.**
- **EBITDA of QR671.3mn (-1.7% YoY, -4.6% QoQ) was 1.5% below our forecast of QR681.9mn despite better-than-expected cash operating costs of the wholly-owned fleet (cash gross margins increased to 78.3% vs. our model of 77.6%; GMs were favorable vs. 78.3%/77.4% in 4Q2023/3Q2024. However, G&A expenses of QR48.9mn (22.1% YoY, 213.0% QoQ) was 25.7% higher than our estimate of QR38.9mn. 2024 G&A of QR113.0mn decreased 1.0% from QR114.2mn in 2023 as the company continues to benefit from its costs optimization initiatives. Adjusted EBITDA (EBITDA + JV income) of QR813.0mn (-7.0% YoY, -8.9% QoQ) was 7.1% below our estimate of QR874.8mn given the miss on the JV income front.**
- **Depreciation of QR218.2mn (-14.7% YoY, 3.5% QoQ) exceeded our forecast of QR210.8mn by 3.5%. Management continues to attribute the decline in YTD depreciation (QR838.7mn in 2023, down 10.3% vs. QR935.3mn in 2023) to a one off accounting adjustment for initial dry-dock component taken in 2023. 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.**
- **4Q2024 JV income of QR141.7mn (-26.0% YoY, -25.0% QoQ) was 26.5% below our estimate of QR192.9mn.** Overall, in 2024, JV income has declined YoY in every quarter, coming in at QR675.4mn or a decline of 14.0% vs. QR784.9mn in 2023. Maran Nakilat (40% ownership in 15 conventional vessels) posted a 37.6% YoY decline in earnings in 2024 to QR183.6mn from QR294.0mn in 2023; we note this JV posted an impressive 51.2% YoY growth in earnings in 2023. Similarly, shipyard performance, after a stellar 47.3% growth in 2023, declined by 46.3% in 2024 to QR72.2mn. Management has attributed soft JV income performance throughout 2024 to lower income received from LNG, volatility in LPG joint venture income and reduced shipyard activities.
- **Finally, finance costs of QR265.1mn (-16.5% YoY, -1.8% QoQ) was in-line (-0.6% divergence) with our estimate of QR266.8mn.** Interest costs decreased due to scheduled loan repayments, while interest associated with the new fleet expansion program is currently being capitalized. **Total debt of QR19.5bn increased 10.5% from YE2023 levels of QR17.6bn (0.4% QoQ) as Nakilat took on new debt to partly finance its new build program, offset by scheduled repayments. Interest, dividend & other income of QR32.4mn (-51.9% YoY, -5.8% QoQ) was 14.0% below our model of QR37.7mn due to lower cash held in term deposits given Nakilat's fleet expansion.**

QNB FS 4Q2024 Estimates and Comparisons

Income Statement							
In QR mn Except Otherwise Noted	4Q2023	3Q2024	4Q2024	4Q2024e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	903.554	908.328	904.413	908.681	-0.5%	0.1%	-0.4%
Operating Costs	(196.135)	(204.860)	(196.194)	(203.822)	-3.7%	0.0%	-4.2%
Gross Profit	707.419	703.468	708.219	704.859	0.5%	0.1%	0.7%
<i>Gross Margin</i>	78.3%	77.4%	78.3%	77.6%			
Income from Marine and Agency Services	15.810	16.149	12.044	15.952	-24.5%	-23.8%	-25.4%
General and Administrative Expenses	(40.075)	(15.631)	(48.922)	(38.906)	25.7%	22.1%	213.0%
EBITDA	683.154	703.986	671.341	681.905	-1.5%	-1.7%	-4.6%
Depreciation of Property and Equipment	(255.919)	(210.741)	(218.186)	(210.838)	3.5%	-14.7%	3.5%
EBIT	427.235	493.245	453.155	471.067	-3.8%	6.1%	-8.1%
<i>EBIT Margin</i>	47.3%	54.3%	50.1%	51.8%			
Income from Joint Ventures	191.444	188.791	141.683	192.853	-26.5%	-26.0%	-25.0%
Finance Costs	(317.379)	(269.983)	(265.125)	(266.757)	-0.6%	-16.5%	-1.8%
Interest, Dividend income & Profit from Islamic Banks	67.348	34.398	32.407	37.665	-14.0%	-51.9%	-5.8%
Profit Before Tax	368.648	446.451	362.120	434.828	-16.7%	-1.8%	-18.9%
Profit After Tax	368.648	446.451	362.120	434.828	-16.7%	-1.8%	-18.9%
Minority Interest	(0.299)	(0.174)	(0.172)	(0.169)	1.5%	-42.5%	-1.1%
Net Income to Equity	368.349	446.277	361.948	434.658	-16.7%	-1.7%	-18.9%
<i>Net Profit Margin</i>	40.8%	49.1%	40.0%	47.8%			
EPS (QR)	0.066	0.081	0.065	0.078	-16.7%	-1.7%	-18.9%
Adjusted EBITDA	874.598	892.777	813.024	874.758	-7.1%	-7.0%	-8.9%

Adjusted Revenue	1,110.808	1,113.268	1,058.140	1,117.485	-5.3%	-4.7%	-5.0%
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Particulars	4Q2023	3Q2024	4Q2024	4Q2024e
Adj. EBITDA Margin	78.7%	80.2%	76.8%	78.3%
Gross Margin	78.3%	77.4%	78.3%	77.6%
EBIT Margin	47.3%	54.3%	50.1%	51.8%
G & A % of Sales	4.4%	1.7%	5.4%	4.3%
Depreciation & Amortization % of Sales	28.3%	23.2%	24.1%	23.2%

Source: Company data, QNB FS Research

QNB FS 2024 Estimates and Comparisons

Income Statement						
In QR mn Except Otherwise Noted	2023	2024	2024e	A Vs. E	YoY	
Revenue from Wholly-Owned Vessels	3,565.148	3,613.914	3,618.182	-0.1%	1.4%	
Operating Costs	(795.029)	(808.689)	(816.317)	-0.9%	1.7%	
Gross Profit	2,770.119	2,805.225	2,801.865	0.1%	1.3%	
<i>Gross Margin</i>	77.7%	77.6%	77.4%			
Income from Marine and Agency Services	60.407	55.487	59.395	-6.6%	-8.1%	
General and Administrative Expenses	(114.150)	(112.991)	(102.975)	9.7%	-1.0%	
EBITDA	2,716.376	2,747.721	2,758.285	-0.4%	1.2%	
Depreciation of Property and Equipment	(935.338)	(838.733)	(831.385)	0.9%	-10.3%	
EBIT	1,781.038	1,908.988	1,926.900	-0.9%	7.2%	
<i>EBIT Margin</i>	50.0%	52.8%	53.3%			
Income from Joint Ventures	784.916	675.357	726.527	-7.0%	-14.0%	
Finance Costs	(1,249.287)	(1,130.267)	(1,131.899)	-0.1%	-9.5%	
Interest, Dividend income & Profit from Islamic Banks	242.144	183.915	189.173	-2.8%	-24.0%	
Profit Before Tax	1,558.811	1,637.993	1,710.701	-4.3%	5.1%	
Profit After Tax	1,558.811	1,637.993	1,710.701	-4.3%	5.1%	
Minority Interest	(0.977)	(0.623)	(0.620)	0.4%	-36.2%	
Net Income to Equity	1,557.834	1,637.370	1,710.080	-4.3%	5.1%	
<i>Net Profit Margin</i>	43.7%	45.3%	47.3%			
EPS (QR)	0.281	0.296	0.309	-4.3%	5.1%	
Adjusted EBITDA	3,501.292	3,423.078	3,484.812	-1.8%	-2.2%	

Adjusted Revenue	4,410.471	4,344.758	4,404.103	-1.3%	-1.5%
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Particulars	2023	2024	2024e		
Adj. EBITDA Margin	79.4%	78.8%	79.1%		
Gross Margin	77.7%	77.6%	77.4%		
EBIT Margin	50.0%	52.8%	53.3%		
G & A % of Sales	3.2%	3.1%	2.8%		
Depreciation & Amortization % of Sales	26.2%	23.2%	23.0%		
DPS (QR)	0.14	0.14	0.15	-6.7%	0.0%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024	FY2025e
Revenue – Wholly-Owned Ships	3,550	3,565	3,614	3,623
Direct Costs	(764)	(795)	(809)	(819)
Gross Profit	2,786	2,770	2,805	2,803
Income from Marine & Agency Services	55	60	55	61
General and Administrative Expenses	(112)	(114)	(113)	(106)
EBITDA	2,729	2,716	2,748	2,759
Depreciation	(947)	(935)	(839)	(835)
EBIT	1,783	1,781	1,909	1,924
Share of Profits from Joint Ventures	689	785	675	792
Finance Costs	(1,139)	(1,249)	(1,130)	(1,031)
Interest, Dividend & Profit from Islamic Banks	107	242	184	163
Profit Before Tax	1,439	1,559	1,638	1,847
Income Tax Expense	0	0	0	0
Profit After Tax	1,439	1,559	1,638	1,847
Minority Interest	(0)	(1)	(1)	(1)
Profit for Equity Shareholders	1,439	1,558	1,637	1,847
EPS (QR)	0.26	0.28	0.30	0.33
Adjusted Revenue	4,295	4,410	4,345	4,475
Adjusted EBITDA	3,419	3,501	3,423	3,550

Source: Company data, 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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