

## QNBFS Alert – QGTS Posts In-Line 2Q16 with Net Income Beat Due to JV Income

- **Nakilat posts in-line 2Q2016 revenue and operating profitability with net income beat driven by higher-than-expected JV income.** Qatar Gas Transport Co. (Nakilat) reported a net profit of QR260.3mn in 2Q2016, indicating a growth of 8% QoQ vs. our estimate of QR227.9mn. However, on a YoY basis, net profit declined by 3% in 2Q2016.
- **Operating items generally were in in-line with our estimates:** (1) **Revenue** from wholly-owned vessels coming in at QR770.4mn (+1% QoQ/+2% YoY) vs. our estimate of QR760.0mn (divergence of 1%). (2) **Adjusted revenue** of QR928.0mn (+4% QoQ/+1% YoY) vs. our estimate of QR882.8mn (divergence of 5%). (3) **EBITDA** of QR579.5mn (+0% QoQ/-1% YoY) vs. our estimate of QR575.4mn (divergence of 1%). (4) **EBIT** of QR404.1mn (+0% QoQ/-2% YoY) vs. our estimate of QR401.2mn (divergence of 1%). The beat in net income was primarily due to JV income jumping up to QR135.1mn (+27% QoQ/-3% YoY) despite some softness seen in the spot LPG shipping market. *Please refer to table in next page for more details. We await more details from management regarding JV income.*
- **Refinancing, fleet expansion and upside from the shipyard should provide medium-term impetus.** The increase in FOL to 49% from 25% has allowed the stock to be included in the MSCI EM Index. 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.
- **Maintain Accumulate with a price target of QR26.** We continue to rate QGTS an Accumulate with a QR26 price target.

<b>Income Statement</b>							
<b>In QR mn Except Otherwise Noted</b>	<b>2Q2015</b>	<b>1Q2016</b>	<b>2Q2016</b>	<b>2Q2016e</b>	<b>A Vs. E</b>	<b>QoQ</b>	<b>YoY</b>
Revenue from Wholly-Owned Vessels	752.605	759.936	770.448	760.000	1.4%	1.4%	2.4%
Operating Costs	(156.228)	(163.410)	(172.666)	(166.440)	3.7%	5.7%	10.5%
<b>Gross Profit</b>	<b>596.377</b>	<b>596.526</b>	<b>597.782</b>	<b>593.560</b>	<b>0.7%</b>	<b>0.2%</b>	<b>0.2%</b>
<i>Gross Margin</i>	<i>79.2%</i>	<i>78.5%</i>	<i>77.6%</i>	<i>78.1%</i>			
Income from Marine and Agency Services	14.477	13.962	14.386	13.822	4.1%	3.0%	-0.6%
General and Administrative Expenses	(26.107)	(31.962)	(32.708)	(31.965)	2.3%	2.3%	25.3%
<b>EBITDA</b>	<b>584.747</b>	<b>578.526</b>	<b>579.460</b>	<b>575.418</b>	<b>0.7%</b>	<b>0.2%</b>	<b>-0.9%</b>
Depreciation & Amortization	(172.571)	(173.081)	(175.391)	(174.267)	0.6%	1.3%	1.6%
<b>EBIT</b>	<b>412.176</b>	<b>405.445</b>	<b>404.069</b>	<b>401.151</b>	<b>0.7%</b>	<b>-0.3%</b>	<b>-2.0%</b>
<i>EBIT Margin</i>	<i>54.8%</i>	<i>53.4%</i>	<i>52.4%</i>	<i>52.8%</i>			
Share of Operating Profits from Joint Ventures	139.767	106.152	135.102	100.844	34.0%	27.3%	-3.3%
Finance Costs	(300.832)	(296.795)	(297.477)	(290.859)	2.3%	0.2%	-1.1%
Interest, Dividend income & Profit from Islamic Banks	8.325	17.363	10.828	9.000	20.3%	-37.6%	30.1%
Vessel Sub-Chartering & Other Income	8.671	8.119	8.069	8.100	-0.4%	-0.6%	-6.9%
Gain / (Loss) on Derivatives from JVs	-	-	-	-			
<b>Profit Before Tax</b>	<b>268.107</b>	<b>240.284</b>	<b>260.591</b>	<b>228.236</b>	<b>14.2%</b>	<b>8.5%</b>	<b>-2.8%</b>
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Minority Interest	(0.350)	(0.313)	(0.257)	(0.297)	-13.6%	-17.9%	-26.6%
<b>Profit for Equity Holders</b>	<b>267.757</b>	<b>239.971</b>	<b>260.334</b>	<b>227.939</b>	<b>14.2%</b>	<b>8.5%</b>	<b>-2.8%</b>
<i>Net Profit Margin</i>	<i>35.6%</i>	<i>31.6%</i>	<i>33.8%</i>	<i>30.0%</i>	<i>12.7%</i>	<i>7.0%</i>	<i>-5.0%</i>
<b>EPS (QR)</b>	<b>0.48</b>	<b>0.43</b>	<b>0.47</b>	<b>0.41</b>	<b>14.2%</b>	<b>8.5%</b>	<b>-2.8%</b>
<b>Adjusted EBITDA</b>	<b>741.510</b>	<b>710.160</b>	<b>733.459</b>	<b>693.362</b>	<b>5.8%</b>	<b>3.3%</b>	<b>-1.1%</b>
<i>Adjusted EBITDA Margin</i>	<i>98.5%</i>	<i>93.4%</i>	<i>95.2%</i>	<i>91.2%</i>			
<b>Adjusted Revenue</b>	<b>915.520</b>	<b>888.169</b>	<b>928.005</b>	<b>882.767</b>	<b>5.1%</b>	<b>4.5%</b>	<b>1.4%</b>
<b>Growth Rates</b>	<b>YoY</b>	<b>YoY</b>	<b>YoY</b>	<b>YoY</b>			
Adjusted EBITDA	5.1%	3.1%	-1.1%	-6.5%			
Adjusted Revenue	3.2%	3.6%	1.4%	-3.6%			
Net Income	12.3%	7.9%	-2.8%	-14.9%			
<b>Growth Rates</b>	<b>QoQ</b>	<b>QoQ</b>	<b>QoQ</b>	<b>QoQ</b>			
Adjusted EBITDA	7.7%	1.4%	3.3%	-2.4%			
Adjusted Revenue	6.8%	-5.0%	4.5%	-0.6%			
Net Income	20.4%	6.2%	8.5%	-5.0%			
<b>Particulars</b>	<b>2Q2015</b>	<b>1Q2016</b>	<b>2Q2016</b>	<b>2Q2016e</b>			
EBITDA Margin	81.0%	80.0%	79.0%	78.5%			
Gross Margin	79.2%	78.5%	77.6%	78.1%			
EBIT Margin	54.8%	53.4%	52.4%	52.8%			
G & A % of Sales	3.5%	4.2%	4.2%	4.2%			
Depreciation & Amortization % of Sales	22.9%	22.8%	22.8%	22.9%			
Minority Interest % of PAT	0.1%	0.1%	0.1%	0.1%			

**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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