

QNNS Alert – 2Q2022 Earnings Beat On Strength Across Most Divisions; Outperform

- **Milaha (QNNS or Qatar Navigation) posted 2Q2022 earnings of QR280.5mn, which was up 99.6% YoY but down 22.2% QoQ. Reported earnings exceeded our estimate of QR260.8mn (variation of 7.5%).** We note that the second quarter is usually sequentially weaker given that QNNS generally benefits from significant dividend income in the March quarter (recorded in the **Milaha Capital** segment). 2Q2022 revenue of QR861.0mn (23.3% YoY, -5.7% QoQ) was also higher than our model of QR810.2mn (difference of 6.3%). Relative to our model, all segments excluding **Milaha Gas & Petrochem and Milaha Trading**, posted better-than-expected earnings (*see page 2*).
- **Better-than-expected performance from Milaha Maritime & Logistics, Milaha Capital and Milaha Offshore were key drivers of earnings growth. (1) Milaha Maritime & Logistics** – strong container shipping fundamentals from mid-2021 onward, along with uptick in volumes from logistics/shipyard businesses, helped propel segment earnings to QR94.1mn (237.5% YoY, 6.6% QoQ), which was 23.2% ahead of our estimate of QR76.4mn. **(2) Milaha Capital** – recorded QR26.0mn in 2Q2022 net income (86.6% YoY, -74.7% QoQ), which was higher than our model of QR18.1mn by 43.6%. **(3) Milaha Offshore** – growth in 3rd party chartering revenue, along with use of the liftboat that was idle last year and increase in services revenue from diving/other projects, helped boost net income to QR20.3mn vs. a loss of QR14.8mn in 2Q2021 (mainly driven by an impairment of QR12.2mn); profits grew 140.5% QoQ and was 19.2% better than our forecast of QR17.0mn. **(4) Milaha Gas & Petrochem** – moderately worse-than-expected performance from its 36.3%-associate Nakilat led to earnings of QR142.3mn (22.7% YoY, -13.4% QoQ), which came in 5.4% lower than our estimate of QR150.5mn. **(5) Milaha Trading** – posted a loss of QR2.0mn in 2Q2022 vs. losses of QR2.4mn in 2Q2021 and QR2.2mn in 1Q2022; we were expecting a loss of QR1.0mn.
- **We remain bullish longer-term on the QNNS growth story and our investment thesis has been spot-on so far with the stock up 40.1% YTD.** The stock, over 2011-2021, always traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its “non-core” assets (investment stake in Nakilat and its equity/bond portfolio). This implied that investors received Milaha’s “core” or operating businesses for almost free. However, what has changed now is that Milaha is enjoying several catalysts, which has helped in making progress toward the stock’s rerating. We note strength in oil prices (despite volatility), recovery in sentiment, the lifting of Qatar’s blockade, the upcoming FIFA World Cup Qatar 2022 and the massive North Field Expansion project, are all positive tailwinds. Growth snapback, as COVID-19 restrictions ease, should also contribute to easier comparisons going forward. Lack of large impairments in the future should also help QNNS’ earnings trajectory and highlight its growth story to investors. *We rate QNNS an Outperform with a QR10.00 price target for now but will likely increase our target price shortly.*

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Revenue (in mn)	2Q2021	1Q2022	2Q2022	2Q2022e	A Vs. E	YoY	QoQ
MML	261,556	366,012	381,934	372,600	2.5%	46.0%	4.4%
MO	283,197	289,849	296,708	293,327	1.2%	4.8%	2.4%
MG&P	67,910	53,011	47,909	53,912	-11.1%	-29.5%	-9.6%
MC	65,583	208,375	104,422	99,263	5.2%	59.2%	-49.9%
MT	85,415	67,199	107,221	68,409	56.7%	25.5%	59.6%
Total	763,661	984,446	938,194	887,511	5.7%	22.9%	-4.7%
Eliminations	(65,521)	(71,702)	(77,194)	(77,335)	-0.2%	17.8%	7.7%
Total Net	698,140	912,744	861,000	810,176	6.3%	23.3%	-5.7%

Net Income (in mn)	2Q2021	1Q2022	2Q2022	2Q2022e	A Vs. E	YoY	QoQ
MML	27,888	88,282	94,131	76,404	23.2%	237.5%	6.6%
MO	(14,792)	8,431	20,279	17,013	19.2%	N/M	140.5%
MG&P	115,969	164,331	142,319	150,519	-5.4%	22.7%	-13.4%
MC	13,905	102,532	25,951	18,066	43.6%	86.6%	-74.7%
MT	(2,377)	(2,227)	(1,992)	(1,026)	94.1%	-16.2%	-10.6%
Total	140,593	361,349	280,688	260,976	7.6%	99.6%	-22.3%
Minorities	(72)	(939)	(196)	(134)	46.7%	172.2%	-79.1%
Total to Equity	140,521	360,410	280,492	260,842	7.5%	99.6%	-22.2%

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

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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