

QNNS Alert – Beats 1Q2023 Earnings Estimate On Strength in Offshore/Capital; Outperform

- **Milaha (QNNS or Qatar Navigation) posted 1Q2023 earnings of QR363.3mn, up 0.8% vs. QR360.4mn in 1Q2022 and up 124.1% QoQ as compared to QR162.1mn in 4Q2022.** Reported earnings/EPS of QR363.3mn/QR0.32 exceeded our estimate of QR333.2mn/QR0.29 (variation of 9.0%). We note QNNS recorded a QR80.2mn impairment in 4Q2022 and excluding that, on a normalized basis, Milaha posted a 49.9% QoQ earnings growth. Relative to our model, **Milaha Offshore, Milaha Capital and Milaha Trading** posted better-than-expected earnings on a normalized basis, while **Milaha Gas & Petrochem** and **Milaha Maritime & Logistics** came in below our model. (*see page 2*).
- **Strength in margins helped propel results from Milaha Offshore/Capital.** (1) **Milaha Offshore** – according to the company, higher operating efficiency, coupled with higher-margin projects, helped drive results; operating margin expanded to 20.5% from 5.4% in 1Q2022 and 7.9% in 4Q2022 blunting the lower-than-expected growth in segment top-line. As a result, 1Q2023 net income of QR61.3mn (627.2% YoY, 399.0% QoQ) exceeded our forecast of QR32.2mn by 90.3%. (2) **Milaha Capital** – recorded QR119.7mn in 1Q2023 net income (16.8% YoY, 387.8% QoQ); earnings exceeded our model of QR92.3mn by 29.8%. Sequentially, the first quarter generally exhibits significant growth given most of Milaha Capital’s investment/dividend income is recorded in 1Q. Moreover, the segment only recorded QR341,000 in provision for impairment of trade receivables in 1Q2023 vs. QR16.1mn in 1Q2022, helping YoY earnings growth. (3) **Milaha Trading** – continued to remain profitable with earnings of QR2.9mn in 1Q2023 vs. a loss of QR2.2mn in 1Q2022 and a profit of QR1.3mn in 4Q2022; we were expecting segment earnings of QR2.1mn for 1Q2023. The company stated that YoY profitability increased due to expansion of its vessel chandlery business and integrated higher-margin offerings. (4) **Milaha Gas & Petrochem** – despite a modestly stronger-than expected performance from its 36.3%-associate Nakilat, MG&P posted earnings of QR155.9mn (-5.2% YoY, 61.6% QoQ), which came in 10.4% below our estimate of QR173.9mn. Worse-than-expected core profitability, along with downside from other associates and JVs, crimped segment earnings despite Nakilat’s earnings beat. We note QNNS recorded a QR79.4mn impairment in this segment in 4Q2022, implying that normalized segment earnings actually declined 11.4% QoQ. (5) **Milaha Maritime & Logistics** – a drop in container shipping container shipping rates from near-record highs seen in 1Q2022 impacted segment earnings, with 1Q2023 net income falling to QR24.1mn (-72.8% YoY, -18.2% QoQ). Net income also came in 28.4% below our estimate of QR33.6mn. This segment incurred a modest QR779,000 impairment in 4Q2022, implying normalized QoQ earnings decline of 20.3%
- **We remain bullish longer-term on the QNNS growth story.** 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 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 and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help QNNS’ earnings trajectory and highlight its growth story to investors. *We continue to rate QNNS an Outperform with our QR10.00 price target.*

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| Revenue (in QR '000) | 1Q2022 | 4Q2022 | 1Q2023 | 1Q2023e | A Vs. E | YoY | QoQ |
|-----------------------|----------------|----------------|----------------|----------------|---------------|---------------|--------------|
| MM&L | 366,012 | 310,238 | 246,344 | 289,142 | -14.8% | -32.7% | -20.6% |
| MO | 289,849 | 302,963 | 308,563 | 320,595 | -3.8% | 6.5% | 1.8% |
| MG&P | 53,011 | 58,724 | 57,368 | 57,315 | 0.1% | 8.2% | -2.3% |
| MC | 208,375 | 115,021 | 172,003 | 178,736 | -3.8% | -17.5% | 49.5% |
| MT | 67,199 | 82,951 | 57,926 | 81,806 | -29.2% | -13.8% | -30.2% |
| Corporate Adjustments | | | 2 | | | | |
| Total | 984,446 | 869,897 | 842,206 | 927,594 | -9.2% | -14.4% | -3.2% |
| Eliminations | (71,702) | (147,473) | (75,960) | (67,561) | 12.4% | 5.9% | -48.5% |
| Total Net | 912,744 | 722,424 | 766,246 | 860,033 | -10.9% | -16.1% | 6.1% |

| Net Income (in QR '000) | 1Q2022 | 4Q2022 | 1Q2023 | 1Q2023e | A Vs. E | YoY | QoQ |
|-------------------------|----------------|----------------|----------------|----------------|-------------|-------------|---------------|
| MM&L | 88,282 | 29,387 | 24,051 | 33,575 | -28.4% | -72.8% | -18.2% |
| MO | 8,431 | 12,286 | 61,312 | 32,220 | 90.3% | 627.2% | 399.0% |
| MG&P | 164,331 | 96,444 | 155,865 | 173,937 | -10.4% | -5.2% | 61.6% |
| MC | 102,532 | 24,550 | 119,743 | 92,264 | 29.8% | 16.8% | 387.8% |
| MT | (2,227) | 1,309 | 2,940 | 2,053 | 43.2% | N/M | 124.6% |
| Total | 361,349 | 163,976 | 363,911 | 334,049 | 8.9% | 0.7% | 121.9% |
| Minorities | (939) | (1,849) | (626) | (868) | -27.9% | -33.3% | -66.1% |
| NI to Equity | 360,410 | 162,127 | 363,285 | 333,181 | 9.0% | 0.8% | 124.1% |

| | | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|-------------|--------------|
| Impairment of PP&E/Vessels/Intangibles | | (80,204) | | | | | |
| NI to Equity, Ex. Impairment | 360,410 | 242,331 | 363,285 | 333,181 | 9.0% | 0.8% | 49.9% |

| | | | | | | | |
|------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| EPS | 0.32 | 0.14 | 0.32 | 0.29 | 9.0% | 0.8% | 124.1% |
|------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|

| Net Income (in QR '000) | 1Q2022 | 4Q2022 | 1Q2023 | 1Q2023e | A Vs. E | YoY | QoQ |
|-------------------------|---------|---------|---------|---------|---------|---------|--------|
| MM&L Normalized | 88,282 | 30,166 | 24,051 | 33,575 | -28.4% | -72.8% | -20.3% |
| MO Normalized | 8,431 | 12,286 | 61,312 | 32,220 | 90.3% | 627.2% | 399.0% |
| MG&P Normalized | 164,331 | 175,869 | 155,865 | 173,937 | -10.4% | -5.2% | -11.4% |
| MC Normalized | 102,532 | 24,550 | 119,743 | 92,264 | 29.8% | 16.8% | 387.8% |
| MT Normalized | (2,227) | 1,309 | 2,940 | 2,053 | 43.2% | -232.0% | 124.6% |

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|-------------------------------------|----------------|----------------|----------------|----------------|-------------|-------------|--------------|

| 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 |

Saugata Sarkar, CFA, CAIA
 Head of Research
 +974 4476 6534
 saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
 +974 4476 6509
 shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
 +974 4476 6589
 phibion.makuwerere@qnbfs.com.qa

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