QNNS Alert – 2Q2021 Earnings Misses but LT Story Intact; Outperform

- **Milaha (QNNS or Qatar Navigation) posted 2Q2021 earnings of QR140.5mn, up significantly YoY vs. QR16.7mn recorded in 2Q2020.** Earnings, however, receded 52.7% QoQ from QR297.2mn in 1Q2021 and fell below our estimate of QR194.6mn. YoY earnings comparisons are skewed because of QR226.1mn in impairments in 2Q2020 vs. just QR12.2mn in impairments in 2Q2021 (no impairments were recorded in 1Q2021). Revenue, driven by Milaha Offshore (offshore services) and Milaha Maritime & Logistics (container shipping), grew 29.8% YoY and 3.4% QoQ. The quarterly growth in overall revenue is particularly noteworthy as Milaha usually reports a substantial QoQ decline in revenue in the 2nd quarter given that the company usually records substantial dividend income (in Milaha Capital) in the first quarter of every year.
- **Milaha Offshore (MO) and Maritime & Logistics (MM&L) drive overall growth in revenue but higher expenses crimp profitability. MO** posted hefty 45.6% YoY and 48.4% QoQ increases in top-line driven by offshore services given addition of diving-related projects; vessel chartering revenue also grew due to improving utilization. However, net income performance was softer-than-expected given higher-than-estimated operating supplies & expenses with EBITDA margin dropping to 20.3% in 2Q2021 vs. 43.4% in 2Q2020 and 32.3% in 1Q2021. **MM&L** witnessed 36.1% YoY and 9.1% QoQ increases in its top-line. In 1H2021, 5% volume increase, along with higher shipping rates helped container shipping revenue, while logistics benefitted from higher volumes and a general uptick in business. However, higher-than-expected operating supplies & expenses and salaries, wages & other benefits impacted results, especially QoQ. Segment EBITDA margin came in at -1.3% in 2Q2021, an improvement from 2Q2020's -12.6% but below 1Q2021's 2.5%. Other segments, were generally in-line to modestly below our estimates.
- **Milaha's shares remain poised for longer-term upside; we remain Outperform with a QR10.500 target price.** The stock, over 2011-2021, has always traded at a significant discount to its sum-of the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up close to 100% of QNNS' market cap. This implies that investors get Milaha's "core" or operating businesses for almost free. However, what could be different this time around is that Milaha should enjoy several catalysts, which could help in its rerating. We note recovery in oil prices/sentiment, the recent lifting of Qatar's blockade, the upcoming FIFA World Cup Qatar 2022 and the massive North Field Expansion project, are all positive tailwinds for Milaha. Growth snapback, as COVID-19 restrictions ease, should also contribute to easier comparisons going forward in 2021. Lack of significant impairments in the future should also help earnings trajectory and highlight Milaha's growth story to investors.
- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio**. For the stock to rerate, investors need to see earnings/EBITDA growth acceleration without significant impairments muddling up the story. Other risks remain, including: (1) Weakness/volatility in oil prices; (2) Execution/integration issues with major fleet additions/acquisitions; (3) Fall in local equity/RE prices; (3) A slowdown in Qatar's economy and (4) Geopolitical crisis in the MENA region.

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Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*	
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 *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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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