

Milaha/Qatar Navigation (QNNS)

Recommendation	Outperform	Risk Rating	R-4
Share Price	QR10.50	Target Price	QR13.10
Implied Upside	24.8%		

In-Line 1Q2024 Earnings Buoyed By Offshore & Nakilat; Stay Outperform

Milaha posted in-line 1Q2024 earnings with its offshore and capital segments, along with continued robust growth from associate-Nakilat, offsetting a weak performance from its maritime & logistics business and JV operations. We continue to rate the stock an Outperform with a QR13.10 price target. We remain bullish on QNNS. The stock, since we first started coverage in 2011, has usually 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 almost 100% of QNNS' market cap. This implies that investors continue to get Milaha's "core" or operating businesses for almost free.** Milaha's shares offer value and the company is enjoying a multi-year resurgence in its offshore segment (MO) that is leveraged to Qatar's massive North Field Expansion project. Moreover, while its maritime & logistics (MM&L) division is suffering from a significant drop in container shipping revenue (primarily on account of a severe ratcheting down in container shipping rates along with a decline in volumes) and a moribund logistics unit, YoY comparisons could get less challenging. A lack of large impairments in the future should also help Milaha's earnings trajectory and highlight its growth story to investors.

Highlights

- **QNNS posted 1Q2024 earnings/EPS of QR365.2mn/QR0.32 (0.5% YoY, 127.6% QoQ), which was bang in-line with our estimate of QR365.0mn/QR0.32.** We note that QNNS recorded an impairment charge of QR19.7mn in its offshore division in 4Q2023, which shaved off QR0.02/share from its 4Q2023 EPS. Excluding this charge, on a normalized basis, Milaha's 1Q2024 earnings/EPS grew by 102.7% QoQ. *Relative to our model and on a normalized basis, earnings from Milaha Offshore, Milaha Capital and Milaha Gas & Petrochem came in ahead of our estimates making up for a significant miss in Milaha Maritime & Logistics.* (See page 3 for detailed table).
- **Offshore, capital and gas & petrochem (primarily due to better-than-expected results from associate Nakilat) shored up profitability. (1) Milaha Offshore** – 1Q2024 gross revenue came in at a record high at QR372.8mn (9.6% YoY, 2.9% QoQ, and 2.1% higher vs. QNB FS estimate) on higher project income, increased chartering rates and growth in industrial logistics. Operating margins reached 19.0% in 1Q2024, down from 20.2% in 1Q2023 but up significantly from 10.7% in 4Q2023. Similarly, EBITDA margin came in at 34.4% in 1Q2024, down vs. 37.1% in 1Q2023 but up from 26.9% in 4Q2023 (QNB FS: 27.9%). Segment earnings of QR63.5mn (-4.8% YoY, 96.6% QoQ), came in ahead of our estimate of QR37.3mn by 70.1%. **(2) Milaha Capital** – recorded QR133.4mn (11.4% YoY, 247.6% QoQ) in 1Q2024 net income; segment earnings exceeded our model by 7.3%. Sequentially, the first quarter generally exhibits significant growth given most of Milaha Capital's investment/dividend income is recorded in 1Q. **(3) Milaha Gas & Petrochem** – a 1Q2024 earnings beat from its 36.3%-associate Nakilat was the primary contributor to segment earnings strength despite somewhat weaker-than-modeled revenue/operating performance. MG&P posted earnings of QR186.2mn (19.5% YoY, 11.2% QoQ), which came in 1.4% above our estimate of QR183.7mn. **(4) Milaha Maritime & Logistics** – a drop in container shipping rates, along with lower freight volumes and warehouse utilization, continue to impact this segment. MM&L top-line of QR165.4mn (-23.0% YoY, -21.3% QoQ) was the lowest quarterly gross revenue on record in at least the last four years and was 40.0% below our model. We had been expecting an uplift in the top-line due to the Red Sea crisis but that has not come to pass in 1Q2024 as most of Milaha's shipping business is being routed through India, where the rates are down YoY 1Q2024 segment loss came in at QR13.9mn vs. a profit of QR18.7mn in 1Q2023 and a loss of QR55.9mn in 4Q2023. EBITDA margins came in at -6.6% in 1Q2024 vs. -2.2%/-30.1% in 1Q2024/4Q2023. **(5) Milaha Trading** – quarterly earnings continued to remain in the red for the 4th consecutive quarter. MT posted a loss of QR4.3mn vs. a profit of QR2.9mn in 1Q2023 and a loss of QR2.3mn in 4Q2023; we were expecting a loss of QR1.1mn in 1Q2024.
- **Normalized earnings (excl. impairments/one-offs) should grow at a 6.9% CAGR (2022-2028e) vs. a CAGR of -0.2% (2015-2022). About 22% of this six-year growth in "clean" earnings should be driven by operating businesses or "core", led by growth in offshore.** MO (~33% of the six-year growth in earnings) should benefit from the strong growth in Qatar O&G activities and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations – we expect an earnings CAGR of 22.9%. The biggest drag on earnings growth could be MM&L (excl. QTerminals, which shows a CAGR of 1.0%), expected to flip from a 2022 profit of QR127.2mn to a loss of QR20.6mn in 2028 (however, we do model segment losses to progressively decline from 2024). MM&L has faced headwinds but we expect improving fundamentals longer term. **A whopping ~78% of the growth in future earnings is driven by "non-core" items, including Nakilat (9.2% CAGR), which propels almost 64% of Milaha's earnings growth.** The remaining ~15% is driven by MC based on stable real estate income and growing dividend income. **We note that we are yet to increase Nakilat's earnings (and consequently, Milaha's earnings) factoring in the significant NF contract.**
Continued on next page.

Key Financial Data and Estimates

	2022	2023	2024e	2025e	2026e	2027e	2028e
EPS (Excluding Impairments & One-Offs)	1.04	0.92	1.13	1.25	1.36	1.46	1.55
EPS Growth (%)	35.2	(10.9)	22.4	10.4	8.9	7.1	6.2
P/E (x)	10.1	11.4	9.3	8.4	7.7	7.2	6.8
EV/EBITDA (x)	13.2	13.3	11.7	10.8	9.9	9.1	8.3
FCF Yield (%)	6.7	6.7	7.8	8.5	9.1	9.7	10.3
DPS (QR)	0.35	0.38	0.45	0.50	0.55	0.60	0.65
RoE (%)	7.7	6.4	7.5	7.9	8.2	8.3	8.4

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

Key Data

Current Market Price (QR)	10.50
Current Dividend Yield (%)	3.6
Bloomberg Ticker	QNNS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	11.64/8.759
3-m Average Volume (mn)	1.0
Mkt. Cap. (\$ bn/QR bn)	3.3/11.9
EV (\$ bn/QR bn)	3.0/11.0
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	100.0
Current Institutional FO* (%)	17.2
1-Year Total Return (%)	14.0
Fiscal Year End	December 31

Source: Bloomberg (as of May 01, 2024), *Qatar Exchange (as of April 30, 2024); Note: FO is foreign ownership

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Catalysts

- **(1) Milaha's exposure to Qatar's O&G sector**, primarily via MO, could help momentum. **(2) An improvement in MM&L's profitability** could also help. **(3) Nakilat remains the biggest value driver**, both through its earnings growth and through its exposure to the NF project. **(4) QNNS also has the ability to boost dividends** given its strong balance sheet (1Q2024 net cash of QR305.8mn) and solid FCF profile (despite increased offshore capex needs).

Recommendation, Valuation and Risks

- **Recommendation & valuation: We recommend an Outperform rating on QNNS.** We value Milaha using a SOTP methodology, which comprises of these major parts: **1)** Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT); **2)** A DCF-based value for QNNS' 36.3% stake in Nakilat (**QGTS: Outperform/QR5.100 TP**); **3)** A P/E-based value for Milaha's 49.0%-owned JV QTerminals; **4)** Investment (stocks & bonds) portfolio at a 10% discount to its value; and **5)** Real estate investment properties at a 30% haircut to 2023 estimated FV. We also apply a 30% conglomerate discount.
- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP.** For the stock to re-rate, investors need to see earnings/EBITDA acceleration without large 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.

1Q2024 Review

QNB FS 1Q2024 Estimates and Comparisons

Revenue (in QR '000)	1Q2023	4Q2023	1Q2024	1Q2024E	A Vs. E	YoY	QoQ
MM&L - Gross	214,778	210,186	165,364	275,826	-40.0%	-23.0%	-21.3%
MO - Gross	340,129	362,482	372,839	365,129	2.1%	9.6%	2.9%
MG&P - Gross	57,370	64,581	62,948	63,879	-1.5%	9.7%	-2.5%
MC - Gross	172,003	80,396	168,730	179,630	-6.1%	-1.9%	109.9%
MT - Gross	57,926	82,523	47,156	50,502	-6.6%	-18.6%	-42.9%
Corporate Adjustments	2	0	0				
Total	842,208	800,168	817,037	934,965	-12.6%	-3.0%	2.1%
Eliminations	(75,960)	(85,759)	(69,994)	(84,326)	-17.0%	-7.9%	-18.4%
Total External Revenue - Net	766,248	714,409	747,043	850,639	-12.2%	-2.5%	4.6%

Net Income (in QR '000)	1Q2023	4Q2023	1Q2024	1Q2024E	A Vs. E	YoY	QoQ
MM&L	18,680	(55,899)	(13,885)	21,222	N/M	N/M	-75.2%
MO	66,683	12,613	63,451	37,302	70.1%	-4.8%	403.1%
MG&P	155,865	167,497	186,214	183,702	1.4%	19.5%	11.2%
MC	119,743	38,365	133,374	124,315	7.3%	11.4%	247.6%
MT	2,940	(2,327)	(4,316)	(1,068)	304.3%	N/M	85.5%
Total	363,911	160,249	364,838	365,472	-0.2%	0.3%	127.7%
Minorities	(626)	213	342	(629)	N/M	N/M	60.6%
NI to Equity	363,285	160,462	365,180	364,843	0.1%	0.5%	127.6%

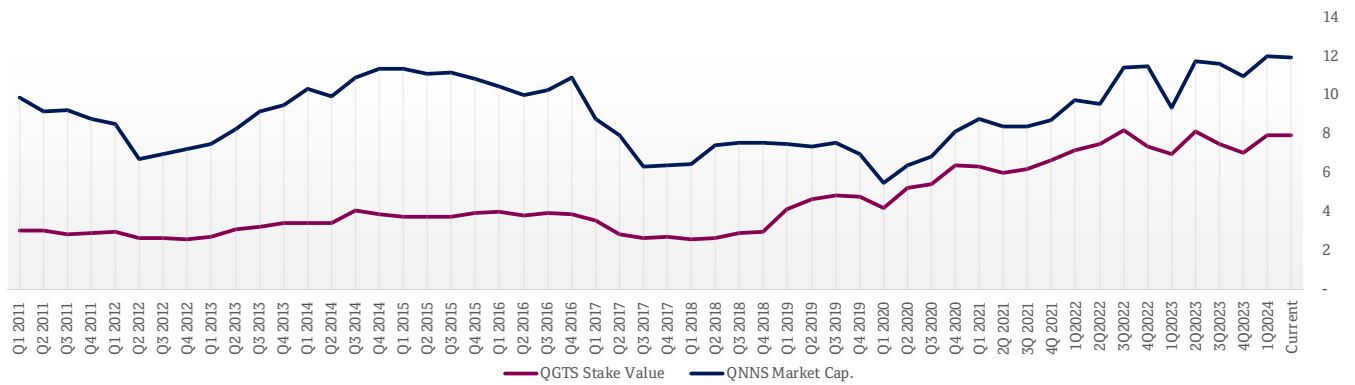
Impairment of PP&E/Vessels/Intangibles		(19,666)					-100.0%
NI to Equity, Ex. Impairment	363,285	180,128	365,180	364,843	0.1%	0.5%	102.7%
EPS	0.32	0.14	0.32	0.32	0.1%	0.5%	127.6%

Net Income (in QR '000)	1Q2023	4Q2023	1Q2024	1Q2024E	A Vs. E	YoY	QoQ
MM&L Normalized	18,680	(55,899)	(13,885)	21,222	N/M	N/M	-75.2%
MO Normalized	66,683	32,279	63,451	37,302	70.1%	-4.8%	96.6%
MG&P Normalized	155,865	167,497	186,214	183,702	1.4%	19.5%	11.2%
MC Normalized	119,743	38,365	133,374	124,315	7.3%	11.4%	247.6%
MT Normalized	2,940	(2,327)	(4,316)	(1,068)	304.3%	N/M	85.5%
NI to Equity, Ex. Impairment	363,285	180,128	365,180	364,843	0.1%	0.5%	102.7%
EPS, Ex. Impairment	0.32	0.16	0.32	0.32	0.1%	0.5%	102.7%

EBITDA (in QR '000)	1Q2023	4Q2023	1Q2024	1Q2024E	A Vs. E	YoY	QoQ
MM&L	(4,685)	(63,313)	(10,891)	22,971	N/M	132.5%	-82.8%
MO	126,037	97,523	128,234	101,908	25.8%	1.7%	31.5%
MG&P	44,346	47,832	46,294	48,695	-4.9%	4.4%	-3.2%
MC	134,929	53,825	145,965	140,578	3.8%	8.2%	171.2%
MT	3,386	(1,980)	(3,886)	(657)	491.9%	N/M	96.3%
Corporate Adjustments	521	530	525	556	-5.6%	0.8%	-0.9%
Total	304,534	134,417	306,241	314,051	-2.5%	0.6%	127.8%

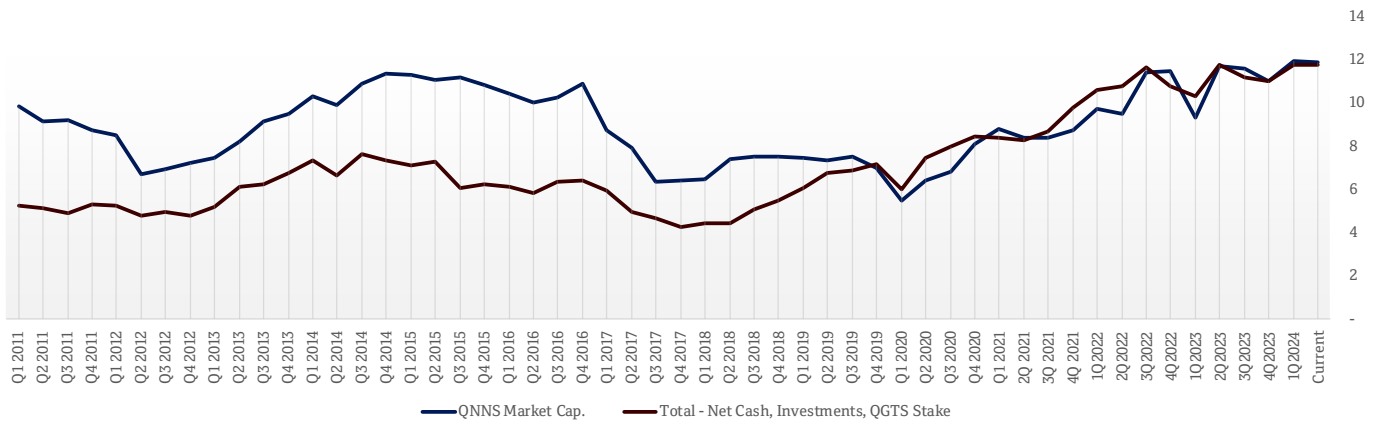
Source: Company data, QNB FS Research

QGTS Stake Alone is ~67% of Milaha's Market Cap. (QR bn)



Source: Bloomberg, QNB FS Research

QGTS+Investments+Net Cash is ~99% QNNS Market Cap. Implying Almost Zero Value for Remaining Assets (QR bn)



Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Revenue	3,285	2,942	3,120	3,248
COGS	(1,789)	(1,454)	(1,557)	(1,623)
Gross Profit	1,497	1,488	1,563	1,625
SG&A	(640)	(660)	(668)	(687)
EBITDA	857	828	895	938
Depreciation & Amortization	(370)	(391)	(409)	(421)
EBIT	487	436	487	517
Net Interest Income (Expense)	(44)	(31)	9	10
Share of Results From JVs	179	127	136	158
Share of Results From Associates	542	520	675	760
Impairments & Others	(146)	(10)	0	0
Net Profit Before Taxes & Minority Interest	1,017	1,043	1,307	1,445
Taxes	(1)	(14)	(24)	(28)
Net Profit Before Minority Interest	1,016	1,030	1,284	1,417
Minority Interest	(4)	1	1	1
Net Profit	1,013	1,030	1,285	1,418
Net Profit Excluding Impairments & One-Offs	1,178	1,050	1,285	1,418

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Current Assets				
Cash & Cash Equivalents	1,467	1,047	1,414	1,669
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	501	529	552
Trade & Other Receivables	1,036	971	1,040	1,086
Inventories	115	92	104	109
Total Current Assets	3,120	2,612	3,087	3,415
Non-Current Assets				
Other Assets	312	205	220	217
Investment Securities at FVOCI	2,567	2,914	2,570	2,678
Investment In Associates	7,548	7,819	8,221	8,679
Investments in JVs	1,025	1,022	1,077	1,109
Intangible Assets	16	13	13	12
Investment Property	884	856	836	818
Property, Vessels & Equipment	2,841	2,776	2,791	2,810
Total Non-Current Assets	15,193	15,605	15,728	16,323
Total Assets	18,313	18,216	18,815	19,738
Current Liabilities				
Trade & Other Payables	755	692	657	687
Loans, Borrowings & Lease Liabilities	838	498	99	99
Total Current Liabilities	1,593	1,191	756	787
Non-Current Liabilities				
Loans & Borrowings	299	64	248	234
Others	337	239	255	255
Total Non-Current Liabilities	637	303	503	489
Total Liabilities	2,229	1,494	1,259	1,276
Minority Interest	42	42	40	39
Shareholders' Equity	16,042	16,681	17,515	18,422
Total Liabilities & Shareholders' Equity	18,313	18,216	18,815	19,738

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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