QNBFS Alert – GISS Posts Robust Results in FY2014; Driven by GDI

- **GISS reports broadly in-line results for FY2014 –** Gulf International Services (GISS) reported a net income of QR1.41bn in FY2014 vs. our estimate of QR1.10bn and consensus (two estimates) of QR1.12bn. The miss was on the back of one-time gains from business combination (QR269.44mn). If we adjust net income for this gain, net profit would have been QR1.14bn (in-line with our estimate). On the other hand revenue came in at QR3.91bn, bang inline with our estimate of QR3.90bn. Reported net income was up 108.3% YoY. The growth in earnings was driven primarily by GDI and to a certain extant the one-time gain mentioned above. The major growth drivers remained the 100% consolidation of GDI, fleet expansion and increased day rates.

- **Robust performance from GDI drives growth.** GISS completed the buy-out of Japan Drilling's ~30% shareholding in GDI for $157.7mn, making GDI a 100% subsidiary from April 30, 2014. In 2014, GDI's growth was propelled by offshore, which contributed over 80% of revenue, with the deployment of Al-Jassra/Leshat offshore rigs in 2Q2013/4Q2013, Msheireb offshore rig in 2Q2014, Rumailah accommodation lift boat in 3Q2014, Dukhan offshore rig in 4Q2014 and to favorable rate extensions for three rolled-over offshore contracts for Al-Doha, Al-Zubarah and Al-Rayyan in 2013.

- **Factoring in lower rates for rig renewals:** Given the expected weak outlook for crude prices, we have lowered our day rate estimates for rig renewals. **(1)** For offshore, we have renewed the Al-Rayyan rig from 2Q2015 and the Leshat rig from 1Q2016 at a 20% discount to existing contracted rates. **(2)** For onshore, we have renewed GDI-5/6 at around ~$30k/d from 1Q2016 vs. recent renewals (from 2Q2014) of GDI-1-4 land rigs at 2x these rates or at ~$60k/d.

- **Majority of fleet still enjoying high contracted rates.** As mentioned in our January 06 report, GISS has inked four major deals with Qatar Petroleum since mid-June. **(1)** On June 11, GDI announced a five-year contract for two onshore rigs, GDI-7 and GDI-8, with a disclosed value of QR1.1bn (~$302mn) implying an average rate of almost $83k/rig versus $30.4k/rig for the existing land fleet as of 2013. We expect GDI-7 to be deployed in 3Q2015 followed by GDI-8 in 4Q2015. **(2)** On June 16, GDI announced a QR1.275bn (~$350mn), five-year contract for the Dukhan jack-up offshore rig. When commencing operations in 4Q2014, this rig will garner around $190k/d, or a ~35% premium to Al-Jassra and a ~60% premium to the 2013 blended offshore rate (seven rigs). **(3)** On July 10, GDI announced a five-year, QR1.6bn contract extension for GDI 1-4 land rigs with effect from 2Q2014. At around ~$60k/d/rig, deal extension terms implied 2x existing land rig rates. **(4)** Finally, on July 20, GDI announced a QR1.2bn (~$330mn) five-year contract to supply a 4th jack-up rig, Halul, to QP. Halul will become GDI's 10th overall offshore rig and will command a day rate of ~$180k once it is deployed around mid-2016. All four deals have been signed with QP. In total, these four contracts add ~QR5.2bn in revenue, or roughly QR1bn in incremental top-line per year for five years vs. QR912mn posted by all of GDI (at ~70% stake) in 2013.

- **We maintain our target price of QR120.00.**

QNB FINANCIAL SERVICES

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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