

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 extent 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.**

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

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

Abdullah Amin, CFA
Senior Research Analyst
+974 4476 6569
abdullah.amin@qnbfs.com.qa

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

DISCLAIMER: This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.