Gulf International Services (GISS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR3.090	Target Price	QR3.410
Implied Upside	10.4%	Old Price Target	QR2.617

Buys 3 Offshore Rigs; Modestly Accretive Deal Could Enhance LT Value; Accumulate

We are increasing our price target on GISS and maintaining our Accumulate rating. *GISS announced that it was buying Seadrill's three offshore rigs/50% interest in GulfDrill JV for $338mn and that it will finance 90% of this transaction through a debt placement over the next several weeks. We note these three rigs are being deployed in Qatar's North Field expansion project and are commanding day rates of ~$120K/d (through end-2025/early-2026) vs. GISS's existing offshore fleet of 7 rigs that run at an average of ~$80K/d.* ***We are rolling our DCF model forward to 2024 and given this deal/GISS's 1Q2024 operating performance, are raising our price target from QR2.617 to QR3.410. We have not incorporated this transaction into our earnings estimates (as we await further details) but our initial sense is that this deal could be modestly accretive to earnings. We do note that management has stated that this purchase could lead to untapped and unaccounted revenue/costs synergies and our initial take on earnings growth could indeed be conservative. Importantly, we think this transaction enables GISS to better tap the growth in Qatar's offshore drilling market. We reiterate our Accumulate rating on GISS.***

Highlights

- **What happened? GISS announced that its wholly-owned subsidiary GDI is purchasing 3 offshore rigs and the remaining 50% stake in its GulfDrill JV from Seadrill for $338mn; deal should close end-June/early-July.** The GulfDrill JV was formed in 3Q2019, operating five offshore jack-up rigs (3 owned by Seadrill and 2 by a Chinese shipyard) with staggered deployments beginning in 1Q2020 in Qatar's North Field. **GISS will purchase Seadrill's three offshore rigs, West Castor, West Telesto and West Tucana, for $325mn and Seadrill's 50%-interest in GulfDrill for $13mn.**
- **Why do it now? Given its recent debt restructuring, GISS has meaningfully reduced its interest burden, better positioning it to undertake a deal of this size.** We had been expecting this transaction given Seadrill's intention to exit this venture since June of last year. Given its recent debt restructuring of a majority of GDI's QR4.4bn debt load, which allowed GDI to markedly reduce its finance costs (annual run rate of QR130mn in 2024 vs. QR183mn, excluding one-offs, in 2023) and defer principal payments until 2026 (followed by 18 unequal annual installments with a balloon payment of 35% due in 2048), GISS is better positioned to undertake this deal.
- **How will it be financed? GISS will finance 90% of the transaction or $304mn through senior debt financing that should be finalized over the next few weeks.** The remaining 10% could be funded through internal sources (GISS has cash/ST investments of QR1.1bn as of 1Q2024). After this deal, GISS's total debt could increase ~25% from QR4.3bn in 1Q2024 to QR5.4bn but GISS has put together a SPV structure to ring-fence the transaction (details below).
- **A word about the structure: the new debt will be housed at a SPV level and not at GDI's level given the latter's significant debt burden.** According to the press release, 10% of the purchase or $33.8mn will be funded by GISS (probably through its internal sources) and will be provided as a shareholder loan to the SPV. The three rigs, along with the shareholder loan of $33.8mn and the senior debt financing of $304.2mn, will be housed in a SPV called as Gulf Jackup SPC. This should allow for ring fencing and tax benefits. Overall, GDI, owned 100% by GISS, will own 100% of a new SPV called Gulf Jackup SPC and 100% of GulfDrill (that was previously owned 50% and will now house the two Chinese rigs under a bare boat structure).
- **Impact on numbers: GISS states that the transaction will improve combined revenue and profitability given operational synergies and elimination of bare boat charges; our initial sense is that this deal is modestly accretive to earnings.** Our assumption is that finance charges, running at a rate of around 7-8% per annum, could take a bite out of the earnings increase. **On an EBITDA basis, we think these three rigs could add around QR150-QR170mn in EBITDA per year, which is roughly a 40% growth from GDI's 2023 EBITDA of QR418mn.** We await more color regarding operational synergies, margins, etc., so we can adjust our estimates. **We do note that given this deal, it is possible that GISS could have to cap its DPS around its 2023 level of QR0.15 a share.**

Catalysts

- **Further details about earnings impact of this transaction, along with an increase in rig rates for the remaining seven offshore rigs, should help.** We stay longer-term positive on GISS shares.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** ***We rate GISS an Accumulate with a TP of QR3.410.***
- **Risks: Geopolitical risks** cannot be modeled. **Oil price volatility** can hurt operations and rig rate renegotiation efforts. **Debt levels are high** (2023: QR4.4bn/3.4x net-debt-to-EBITDA) but manageable in light of 5.4x interest coverage (2024e). **Decline in rig rates/utilizations** could pressure shares. GISS also faces **concentration risk** given its exposure to QatarEnergy/affiliates.

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
Revenue (QR mn)	3,538	3,894	4,115	4,326
EPS (QR)	0.211	0.346	0.390	0.442
P/E	14.7	8.9	7.9	7.0
DPS	0.150	0.175	0.200	0.225
Dividend Yield	4.9%	5.7%	6.5%	7.3%

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	3.090
Dividend Yield (%)	4.9
Bloomberg Ticker	GISS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector*	Industrials
52wk High/52wk Low (QR)	3.203/1.740
3-m Average Volume ('mn)	5.8
Mkt. Cap. ($ bn/QR bn)	1.6/5.7
Shares Outstanding (bn)	1.9
FO Limit* (%)	49.0
Institutional FO* (%)	12.5
1-Year Total Return (%)	56.5
Fiscal Year End	December 31

Source: Bloomberg (as of May 16, 2024), *Qatar Exchange (as of May 16, 2024); Note: FO is foreign ownership

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

Income Statement

	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	**3,034**	**3,538**	**3,894**	**4,115**	**4,326**	**4,517**	**4,733**	**4,844**	**4,983**
Gulf Drilling International (GDI)	*1,232*	*1,329*	*1,510*	*1,544*	*1,604*	*1,630*	*1,707*	*1,712*	*1,764*
Gulf Helicopters Company (GHC)	*914*	*1,035*	*1,109*	*1,183*	*1,251*	*1,338*	*1,411*	*1,458*	*1,493*
Al Koot Insurance & Reinsurance (AKIR)	*888*	*1,174*	*1,276*	*1,388*	*1,471*	*1,549*	*1,615*	*1,673*	*1,725*
COGS	**2,417**	**2,867**	**3,086**	**3,226**	**3,334**	**3,439**	**3,541**	**3,608**	**3,662**
Gulf Drilling International (GDI)	*1,137.6*	*1,126.1*	*1,205.9*	*1,215.2*	*1,223.0*	*1,222.2*	*1,231.0*	*1,229.1*	*1,228.2*
Gulf Helicopters Company (GHC)	*540.9*	*628.0*	*701.7*	*743.0*	*782.4*	*833.8*	*875.4*	*901.0*	*918.9*
Al Koot Insurance & Reinsurance (AKIR)	*782.0*	*1,103.7*	*1,168.8*	*1,257.6*	*1,318.6*	*1,372.7*	*1,423.8*	*1,466.5*	*1,503.5*
Corporate/Other	*(43.7)*	*8.7*	*9.4*	*9.8*	*10.2*	*10.5*	*10.8*	*11.0*	*11.1*
Gross Profit	**616.7**	**672.0**	**808.2**	**889.5**	**991.6**	**1,078.4**	**1,192.0**	**1,235.9**	**1,321.0**
Gross Margin	***20.3%***	***19.0%***	***20.8%***	***21.6%***	***22.9%***	***23.9%***	***25.2%***	***25.5%***	***26.5%***
SG&A	166	193	209	221	232	244	255	264	272
Net Insurance Finance Income/Expense	(11)	10	12	13	14	14	15	16	16
Total Other Income	3	46	53	50	51	53	54	55	55
Net Finance Income(Expense)	(145)	(135)	(75)	(72)	(70)	(70)	(67)	(58)	(47)
Taxes, Discontinued Operations, Non-Recurring I	(13)	(33)	(10)	(11)	(12)	(13)	(13)	(14)	(15)
Income from JVs	18	25	65	76	79	82	86	87	89
Net Income	**302**	**392**	**644**	**724**	**821**	**901**	**1,011**	**1,059**	**1,149**
Net Margin	***10%***	***11%***	***17%***	***18%***	***19%***	***20%***	***21%***	***22%***	***23%***
Gulf Drilling International (GDI)	*(90)*	*(38)*	*125*	*159*	*215*	*242*	*310*	*316*	*367*
Net Margin	*-7%*	*-3%*	*8%*	*10%*	*13%*	*15%*	*18%*	*18%*	*21%*
Gulf Helicopters Company (GHC)	*310*	*343*	*341*	*363*	*383*	*411*	*438*	*460*	*479*
Net Margin	*34%*	*33%*	*31%*	*31%*	*31%*	*31%*	*31%*	*32%*	*32%*
Al Koot Insurance & Reinsurance (AKIR)	*71*	*103*	*134*	*158*	*181*	*205*	*221*	*236*	*251*
Net Margin	*8%*	*9%*	*11%*	*11%*	*12%*	*13%*	*14%*	*14%*	*15%*
Corporate/Other	*12*	*(16)*	*43*	*44*	*43*	*43*	*43*	*47*	*51*
EBITDA	**841**	**908**	**1,142**	**1,102**	**1,224**	**1,328**	**1,460**	**1,527**	**1,637**
EBITDA Margin	***28%***	***26%***	***29%***	***27%***	***28%***	***29%***	***31%***	***32%***	***33%***
Gulf Drilling International (GDI)	369	418	530	561	619	651	725	738	797
EBITDA Margin	*30%*	*31%*	*35%*	*36%*	*39%*	*40%*	*43%*	*43%*	*45%*
Gulf Helicopters Company (GHC)	*388*	*415*	*436*	*484*	*525*	*573*	*614*	*645*	*671*
EBITDA Margin	*43%*	*40%*	*39%*	*41%*	*42%*	*43%*	*44%*	*44%*	*45%*
Al Koot Insurance & Reinsurance (AKIR)	*57*	*75*	*110*	*132*	*154*	*177*	*192*	*207*	*222*
EBITDA Margin	*6%*	*6%*	*9%*	*9%*	*10%*	*11%*	*12%*	*12%*	*13%*
Corporate/Other	*26*	*(0)*	*66*	*(74)*	*(74)*	*(74)*	*(71)*	*(63)*	*(52)*
EBITDA Margin	*4%*	*0%*	*8%*	*-8%*	*-7%*	*-7%*	*-6%*	*-5%*	*-4%*
EPS	**0.163**	**0.211**	**0.346**	**0.390**	**0.442**	**0.485**	**0.544**	**0.570**	**0.618**
DPS	**0.100**	**0.150**	**0.175**	**0.200**	**0.225**	**0.250**	**0.275**	**0.300**	**0.325**

Source: Company data, QNB FS Research

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

Contacts

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
Doha, Qatar

Saugata Sarkar, CFA, CAIA
Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa