GISS Alert – 1Q2020 Highlights Positive Momentum; Outperform

- **GISS' net profit declines 65.5% YoY and 3.2% QoQ in 1Q2020 –** Gulf International Services' (GISS) net profit of QR8.7mn in 1Q2020 came in above our estimate of QR5.4mn. Relative to our model, better-than-expected profitability from aviation, drilling and catering more than offset losses in the insurance segment. EPS amounted to QR0.005 in 1Q2020 as compared to QR0.014 in 1Q2019 and QR0.005 in 4Q2019. Gross margin of 19.9% improved vs. 15.0% in 1Q2019 and 13.0% in 4Q2019 as GISS made progress in costs improvement across all segments. However, the insurance segment, despite posting a positive gross margin hurt overall profitability due to unrealized mark-to-market losses within its investment portfolio. On the plus side, overall finance costs declined 14.5% YoY or by QR51.3mn due to the drop in LIBOR.
- **Overall revenue came in at QR831.7mn in 1Q2020, which represents an increase of 15.6% YoY (+7.6% QoQ).** Top-line was better-than-expected in aviation and catering and generally in-line in the drilling and insurance segments.
- **Refinancing/restructuring of drilling debt to boost profitability.** As has been announced previously and further reiterated in its press release, GISS is looking to capitalize on the low interest rate environment to restructure/refinance GDI's $1.3bn debt pile by extending/streamlining its maturity profile & optimizing interest costs. GISS remains committed to gradually deleveraging GDI while allowing for greater flexibility to tap future growth.
- **Drilling remains on track with activity related to the NFE expansion underway from late 1Q2020.** As expected, GDI's JV with Seadrill called as GulfDrill started deploying its jackup called Lovanda on March 29 as part of its 80-well drilling program for Qatar's North Field East Project. Overall the JV will begin to deploy six rigs in phases in 2020. The NFE project remains a significant catalyst for future growth in GDI and GISS.
- **Our overall thesis remains the same – GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile.** We do not expect this to change. However, we do expect drilling to pull itself out of losses suffered during 2016-19 by 2020/2021 in light of demand due to the proposed North Field expansion and given our assumption of high fleet utilization & modest cost savings. We maintain our Outperform rating but will likely lower our TP/estimates given overall business conditions.

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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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