

# QNBFS Alert – GISS Issues Statement Addressing Cost Optimization at GDI/Rig Rate Cuts; Stock Already Pricing in Significant Rig Rate Cuts

- **GDI implements cost optimization initiatives to reduce opex and informs clients of changed daily rates.** In a press release, GISS stated that GDI “has implemented several cost optimization initiatives to reduce operation costs of all onshore and offshore rigs due to the lower demand for drilling rig services. Accordingly, GDI has informed its clients of changed daily rates, based on the dialogues and negotiations agreed with clients in line with the market rates.”
- **This press release comes as no surprise as we had already assumed that rig rates are cut across both onshore and offshore and across all clients by at least 15%.** We do however await more details on the nature of cost optimization initiatives and their financial impact.
- **GISS stock is already trading at a “worst-case” scenario pricing in roughly another 30% haircut in drilling revenue (QR3.4bn) and a +40% decline in drilling EBITDA (QR2.6bn) over the next five years.** These cuts are on top of the +15% rig rate reductions mentioned previously. As we pointed out in our *November 19 report, GISS – Revising Estimates and Price Target*, there is risk that rates drop below our assumed levels (+15%) and/or rigs are idled or taken off contract. However, we believe that the stock is pricing in close to a worst-case scenario for the drilling segment as we can see from the downside case below:

GISS Price Target	Drilling						
	Change Vs. Base Case						
	Revenue	Direct Costs	Revenue	Gross Margin	EBITDA Margin	EBIT Margin	
	2016-2020		CAGR 2015-2020	Average 2016-2020			
Upside	92.00	10%	-5%	5%	68%	58%	38%
<b>Base</b>	<b>81.00</b>	<b>0%</b>	<b>0%</b>	<b>3%</b>	<b>65%</b>	<b>55%</b>	<b>36%</b>
Dow nside	55.00	-30%	15%	-5%	57%	46%	27%

- **We continue to believe while the stock remains in a “show me” mode, downside from these levels remains limited.** Dividend yield also remains attractive at 9.6% for 2015.

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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