

GISS Alert – Drilling Margins Upside Aid 3Q2021 Earnings Beat; Reiterate Accumulate & QR2.100 PT

- **GISS posted a profit of QR42.0mn in 3Q2021 vs. a net loss of QR5.2mn in 3Q2020 and a profit of QR4.8mn in 2Q2021:** Reported earnings for 3Q2021 beat our forecast of QR17.4mn with outperformance primarily due to better-than-expected drilling gross margins. *3Q2021 results validate our investment thesis on the stock as most recently articulated in our report (dated October 28, 2021), in which we increase GISS' price target from QR1.800 to QR2.100 while maintaining our Accumulate rating.* We continue to envision an acceleration in momentum in the drilling segment in 2H2021 and onward. We expect earnings to surface back into the green (ex. any one-offs, such as impairments) for FY2021 as drilling loss declines significantly. Other segments, excluding catering, should also contribute positively, while continued progress in costs reduction and lower finance charges help boost earnings.
- **Overall 3Q2021 revenue of QR815.0mn (15.2% YoY, 12.2% QoQ) was in-line with our estimate (2.7% variation) of QR793.2mn. 3Q2021 drilling revenue of QR275.8mn (36.9% YoY, 13.9% QoQ) was also in-line with our estimate of QR284.0mn (-2.9% divergence).** As expected, the significant top-line growth was driven by new higher day rates becoming effective for the 7 offshore rigs from July 2021, along with resumption of two onshore rigs (that had been idling for an year due to COVID-19). Moreover, 3Q2021 was the first full quarter of contribution from all five offshore rigs operating under the GulfDrill JV in the NFE project. **Aviation revenue** of QR189.6mn (26.3% YoY, 9.5% QoQ) was 8.4% ahead of our estimate of QR174.9mn as easing coronavirus restrictions helped flying activity domestically and internationally, along with renewal of some international contracts. GHC' s Turkish subsidiary also performed well during the quarter. **Insurance top-line** of QR263.9mn (-0.6% YoY, 17.2% QoQ) came in 6.1% above our estimate of QR248.8mn driven by policy renewals in the general insurance segment. The company also pointed to additional coverage for major contracts within the energy segment and growth in the SME medical business as key drivers so far in 2021. Finally, catering revenue of QR85.6mn (-4.8% YoY, -0.8% QoQ) was right in-line with our estimate of QR85.4mn. Catering performance remains subdued given lingering effects of COVID-19 restrictions on food delivery, transportation and manpower accommodation; Amwaj also reportedly lost a catering contract in 3Q2021.
- **Relative to our model, better-than-forecast profitability from drilling served to boost 3Q2021 earnings.** GDI's 3Q2021 gross profit improved to QR26.2mn (gross margin of 9.5%) vs. a gross loss of QR20.7mn in 3Q2020 and a gross loss of QR4.5mn in 2Q2021; we were modeling a gross loss for the quarter of QR3.2mn. While, the uptick in 3Q2021 drilling revenue was in-line with our model, the higher-than-anticipated decline in direct costs was a positive surprise. *Please see page 2 for details on segmental revenue/costs/earnings.*
- **In terms of catalysts, positive newsflow/performance on the drilling front and signs of growth in the other segments should help.** We stay longer-term positive on GISS shares but the stock remains in a “show-me” mode. Lacking a dividend-related catalyst that generally benefits Qatari companies in 4Q/early 1Q, we expect improving financial performance to drive stock price performance over the next 12 months. Moreover, we continue to believe the progress made in costs reduction thus far should dovetail with an expected recovery in market fundamentals as we move forward. Favorable updates on debt restructuring, which was put on the back burner due to COVID-19, could also please equity investors.

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Income Statement

	3Q2020	2Q2021	3Q2021	3Q2021e	A Vs. E	YoY	QoQ
Revenue	707	727	815	793	3%	15%	12%
<i>Gulf Drilling International (GDI)</i>	201	242	276	284	-3%	37%	14%
<i>Gulf Helicopters Company (GHC)</i>	150	173	190	175	8%	26%	10%
<i>Amwaj Catering Company (AHC)</i>	90	86	86	85	0%	-5%	-1%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	266	225	264	249	6%	-1%	17%
COGS	668	663	712	718	-1%	7%	7%
<i>Gulf Drilling International (GDI)</i>	222	247	250	287	-13%	12%	1%
<i>Gulf Helicopters Company (GHC)</i>	86	103	110	100	10%	28%	7%
<i>Amwaj Catering Company (AHC)</i>	105	102	99	97	2%	-6%	-3%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	254	212	253	234	8%	-1%	19%
Gross Profit	40	63	103	75	38%	161%	63%
Gross Margin	6%	9%	13%	9%			
<i>Gulf Drilling International (GDI)</i>	(21)	(5)	26	(3)	N/M	N/M	N/M
Gross Margin	-10%	-2%	9.5%	-1%			
<i>Gulf Helicopters Company (GHC)</i>	64	70	80	75	6%	24%	13%
Gross Margin	43%	41%	42%	43%			
<i>Amwaj Catering Company (AHC)</i>	(15)	(16)	(14)	(12)	15%	-11%	-13%
Gross Margin	-17%	-18%	-16%	-14%			
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	11	13	11	15	-27%	-3%	-17%
Gross Margin	4%	6%	4%	6%			
Net Income	(5.2)	4.8	42.0	17.4	141%	N/M	783%
Net Margin	-1%	1%	5%	2%			
<i>Gulf Drilling International (GDI)</i>	(76)	(60)	(26)	(51)	-49%	-66%	-56%
Net Margin	-38%	-25%	-10%	-18%			
<i>Gulf Helicopters Company (GHC)</i>	60	62	63	63	1%	6%	2%
Net Margin	40%	36%	33%	36%			
<i>Amwaj Catering Company (AHC)</i>	(9)	(9)	(9)	(7)	34%	3%	3%
Net Margin	-10%	-10%	-11%	-8%			
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	22	17	18	20	-11%	-21%	3%
Net Margin	8%	8%	7%	8%			
Corporate/Other	(2)	(5)	(4)	(8)	-53%	68%	-34%
EPS	(0.00)	0.00	0.02	0.01	141%	N/M	783%

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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