

QATAR FUEL (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR23.10	Current Target Price	23.40
Implied Upside	1.3%		

LT Drivers Intact But Lacking ST Catalysts; Initiating Coverage with MP

We initiate coverage on Woqod (QFLS) with a MARKET PERFORM rating. QFLS, the exclusive fuel distributor in Qatar, is likely to benefit from the expected fleet expansion of its major client, Qatar Airways, in the coming years. Jet fuel is QFLS' prime product, accounting for half of total fuel sold as of 1H2019. Hence, Qatar Airways Group's planned expansion is likely to be the foremost long-term driver for Woqod's bottom line growth. Concurrently, the company's ongoing expansion of its retail fuel station network should support its fuel and non-fuel revenue growth gradually. Nevertheless, following a 39.2% rise in QFLS shares YTD (outperforming the DSM Index's 0.6%) ignited by the name's FTSE and MSCI EM Index inclusions, we think the stock is now fairly valued. Considering 1) QFLS' strong YTD share price performance, 2) Our modest EPS growth expectations (3.1% for 2019e and 2.8% for 2020e), 3) Rich valuation metrics and 4) The lack of short-term catalysts to drive the stock further, we initiate coverage for QFLS with a MARKET PERFORM rating.

Highlights

- **QFLS holds the exclusive rights for storage and distribution of fuel (including diesel, gasoline and jet fuel) in Qatar.** Woqod also builds and operates branded petrol stations across Qatar. Moreover, the company provides ship-to-ship bunkering within Qatari waters, engages in bitumen imports & distribution as well as LPG, NG and CNG distribution. In 2019, QFLS was included in the FTSE and MSCI emerging markets indices.
- **Qatar Airways' order of over 300 aircraft is likely to more than double its fleet.** Qatar Airways Group has already expanded its fleet rapidly, from 159 in 2015 to 250 in Mar'19. Jet fuel is Woqod's prime product, comprising 49.7% of total fuel sold as of 1H2019. The company mainly supplies its jet fuel to Qatar Airways; as a result, Qatar Airways' expansion plans directly influence Woqod's future top & bottom line growth.
- **Woqod is in the process of doubling its number of gas stations by the end of 2019 vs. 2017, which should support both fuel and non-fuel revenue.** The company opened 32 petrol stations in 2018 and is expected to open 30 fixed stations in 2019 bringing the total number of stations to 114 vs. 52 as of 2017. Furthermore, Woqod signed a MoU with Al Meera for the management of Woqod's Sidra convenience stores. We think Al Meera's retail experience and wholesale purchasing power could help ramp up the revenue growth and profit margins of Sidra stores, thereby further bolstering Woqod's non-fuel revenue growth.
- **Growth of Qatar's LNG output by 43% from 77MTPA to 110MTPA via the North Field expansion project could become a significant driver for Woqod's bunkering business in the long term.** In order to support this planned production growth, in Apr'19 Qatar Petroleum initiated a major LNG ship building campaign, which is expected to deliver 60 new LNG carriers with a potential to exceed 100 new LNG carriers over the next 10 years.
- **Strong balance sheet should allow the company to finance its future growth and create room for a possible dividend yield enhancement.** As of 1H2019, Woqod has a cash position of QR4.0bn with no financial debt plus a QR1.52bn in investment securities portfolio (invested in listed Qatari stocks). Woqod's net cash and investment securities portfolio accounts for 70.8% of its shareholders' equity.
- **FTSE & MSCI Emerging Market Index inclusions have already led to a strong YTD share price performance, restraining our upside for Woqod.** QFLS rose by 39.2% YTD outperforming DSM's 0.6%. QFLS also recorded a 45.9% return over the last 12 months on a total return basis.

Catalysts

1) Qatar Airways fleet expansion. 2) Qatar's LNG vessel fleet expansion. 3) A potential increase in DPS.

Recommendation, Valuation and Risks

- **We rate QFLS as MARKET PERFORM and our 12-month target price of QR23.40 implies a 1.3% upside potential based on a weighted average of DCF, international peer comparison and local market P/E.** QFLS' 2019e and 2020e P/E multiples imply 15% and 11% premiums to the international fuel distributors peer group, respectively. Moreover, its EV/EBITDA multiples are at 39% and 47% premiums. QFLS' 2019-2020e dividend yields (3.5% and 3.6%, respectively) are also below the international peer group average of 3.9% (2019e) and 4.9% (2020e).
- **Risks:** 1) Margin erosion in fuel products 2) Concentration risk 3) Geopolitical risks.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.97	1.17	1.20	1.26
P/E (x)	23.8	19.8	19.2	18.4
EV/EBITDA (x)	18.1	17.4	15.8	14.6
DPS (QR)	0.80	0.80	0.80	0.82
DY (%)	6.3%	4.8%	3.5%	3.6%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	QFLS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QFLS.QD
ISIN	QA0001200771
Sector	Fuel Distribution
52wk High/52wk Low (QR)	23.8 / 15.7
3-m Avg. Volume (000)	473.4
Mkt. Cap. (\$ bn/QR bn)	6.3/23.0
EV (\$ bn/QR bn)	5.3/19.3
Current FO*/FO limit (%)	11.2%/49%
Shares Outstanding (mn)	994.3
1-Year Total Return (%)	45.9%
Fiscal Year End	December 31

Source: Bloomberg (as of Oct 02, 2019), *Qatar Exchange (as of Oct 02, 2019); Note: FO is foreign ownership

Mehmet Aksoy, PhD

+974 4476 6589

mehmet.aksoy@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Valuation

We value QFLS shares at **MARKET PERFORM** with a **1.3% upside potential** using a combination of **DCF, international and domestic multiples**. We assign the biggest weight to DCF (cash flows to firm) methodology, as we think it captures the long-term potential of companies (such as Qatar Airways' fleet expansion) better than the market multiples. Having said that, QFLS currently trades at premiums to its international peers in terms of P/E, EV/EBITDA multiples as well as with its dividend yield. The company also trades at premiums to Qatar Stock Exchange averages in terms of its 2019 P/E and dividend yield.

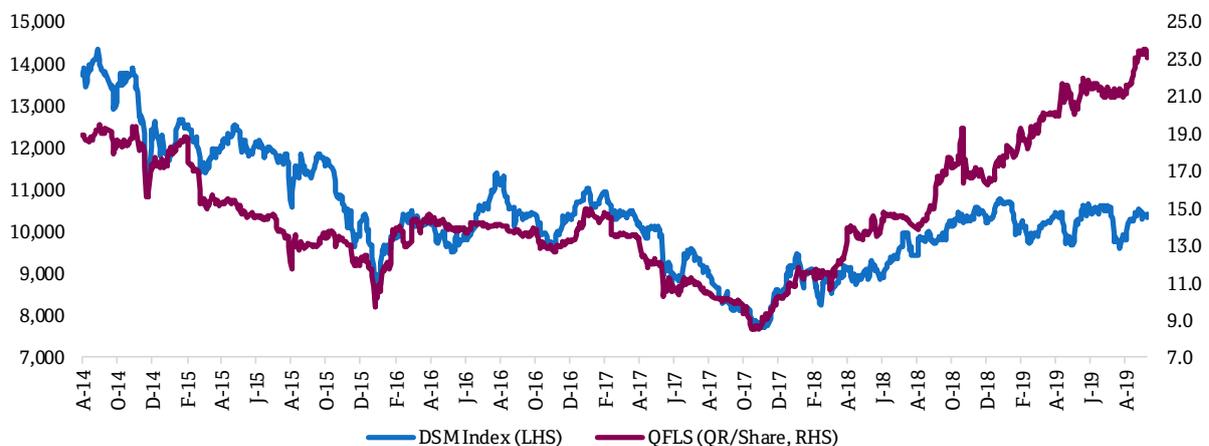
Valuation Summary

Method	Weight in Overall Valuation	QFLS' Upside/Downside Potential
DCF	60%	15.7%
International Comparison	30%	
P/E, 2019e	5%	-13.0%
EV/EBITDA, 2019e	5%	-28.0%
Dividend Yield, 2019e	5%	-11.8%
P/E, 2020e	5%	-10.2%
EV/EBITDA, 2020e	5%	-32.1%
Dividend Yield, 2020e	5%	-26.4%
Local Comparison	10%	
DSM All Share Index Dividend Yield 2019e @ 4.0%	5%	-14.3%
DSM All Share Index P/E, 2019e @13.6x	5%	-25.9%
Weighted Average Upside Potential for QFLS Shares		1.3%

Source: Bloomberg consensus figures for international peers, QNB FS Research

QFLS shares displayed a substantial increase YTD, thanks to its FTSE & MSCI inclusions and resultant active and passive inflows. Since the beginning of 2019, QFLS shares rose by **39.2% outperforming DSM Index's 0.6%**. On a 1-year TTR basis, QFLS shares recorded **+45.9%**. In Feb'19, FTSE announced it would include QFLS to its mid cap index. During May'19, QFLS along with Mesaieed Petrochemical Holding Co. (MPHC), were added to MSCI Emerging Market Index. In Aug'19, FTSE announced it would add QFLS to its large cap index. While investors were betting on the index inclusion ahead of the news, foreign passive inflows originating from index tracking funds continued to drive up the share price after the announcement.

QFLS Share Price Graph



Source: Bloomberg, QNB FS Research

QFLS' 2019e & 2020e P/Es are more expensive than its international peer group. QFLS trades at 2019e and 2020e P/E multiples of 19.2x and 18.4x, implying 15% and 11% premiums to its international peers, respectively, which we think may partially be justified, given the higher growth prospects of Woqod. Note that while establishing the international peer group we attempt to focus on pure distribution companies and exclude companies with sizable refining businesses, in order to achieve a homogeneous peer group.

Valuation Multiples: International Peers vs. QFLS

Company	Country	Mcap USDmn	Beta 5yr adj.	P/E		EV/EBITDA		EBITDA Margin		Dividend Yield		ROE%	
				2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e
ABU DHABI NATIONAL OIL CO FO	UAE	9,155	0.34	14.7	13.4	11.7	10.8	13.0%	13.3%	7.0%	8.1%	61.0%	63.9%
ALDREES PETROLEUM AND TRANSP	KSA	853	0.81	13.5	13.5	11.8	8.5	7.9%	10.4%	1.6%	4.7%	11.7%	34.4%
PETRONAS DAGANGAN BHD	Malaysia	5,580	0.81	23.4	23.4	12.7	12.4	5.4%	5.4%	3.1%	3.3%	15.7%	15.9%
PTG ENERGY PCL	Thailand	1,019	1.53	18.6	18.6	8.1	7.8	4.0%	3.8%	2.5%	2.5%	25.6%	23.6%
VIVA ENERGY GROUP LTD	Australia	2,468	1.18	14.7	14.7	11.0	8.9	3.7%	4.4%	2.8%	4.5%	6.9%	10.0%
PETROBRAS DISTRIBUIDORA SA	Brazil	7,579	0.88	15.1	15.1	12.6	10.8	2.8%	3.2%	6.8%	6.4%	18.6%	23.0%
Peer Group Av.			0.93	16.7	16.5	11.4	9.9	6.1%	6.8%	3.9%	4.9%	23.3%	28.5%
QFLS	Qatar	6,307	0.86	19.2	18.4	15.8	14.6	4.9%	5.1%	3.5%	3.6%	14.2%	14.2%

Source: Bloomberg consensus figures for international peers, QNB FS Research

QFLS' EV/EBITDA multiples are also above its international peers. QFLS trades at 2019e & 2020e EV/EBITDA multiples of 15.8x and 14.6x (respectively), implying 39% and 47% premiums to international peers. These higher multiples seem less justified given our expected EBITDA margins for QFLS (4.9% for 2019e and 5.1% for 2020e vs. international peers' 6.1% and 6.8%).

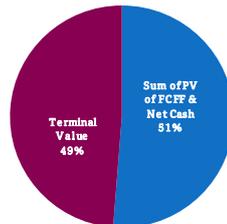
DCF Assumptions:

- **QFLS' beta is below its international peers due to its defensive characteristics.** QFLS' 5-year beta was 0.86 vs. international peer group's average of 0.93. We are of the view that Woqod's defensive characteristics are justified with its huge cash position (accounting for 70.8% of its equity) and the stability of its business as well as bottom line.
- **We believe our terminal growth rate estimation (3.25% pa) is justified given the following long-term growth opportunities for Woqod:**
 - 1) Woqod's major client Qatar Airways has ambitious growth targets to increase its number of planes from 250 as of Mar'19 to more than 550. According to its FY2019 Annual Report, Qatar Airways has an order book of over 300 aircraft worth more than \$85bn (including options and letters of intent).
 - 2) Expansion of Qatar's LNG output by 43% from 77MTPA to 110MTPA through the North Field expansion project may become a significant driver for Woqod's bunkering business in the long term. In order to support the planned production growth, Qatar Petroleum initiated a major LNG ship-building campaign in Apr'19, which is expected to deliver 60 LNG carriers with a potential to exceed 100 new LNG carriers over the next 10 years.
 - 3) Qatar's population growth of 2.4% pa, coupled with Qatar's Highest GDP per capita (PPP adjusted) in the world, provides a lucrative backdrop for Woqod's expanding retail fuel and non-fuel businesses (such as retail shops, auto care and vehicle inspection services).

DCF Summary

WACC calculation	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Value Normalized
Cost of equity	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
RFi (US 10 yr+Qatar 10yr CDS)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
ERP	6.26%	6.26%	6.26%	6.26%	6.26%	6.26%	6.26%	6.26%	6.26%	6.26%	6.26%
ERP for 1x Beta	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%
Beta	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86
After-tax cost of debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Weight of Equity	99.89%										
Weight of Debt	0.11%										
Mcap (QRmn)	23										
Debt (QRmn)	0										
Total (QRmn)	23										
WACC	8.8%										

DCF-Cash Flow to Firm (QR)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Term. Value Normalized
EBIT (1-tax rate)	845,135	880,874	906,092	947,597	995,768	1,039,700	1,096,503	1,152,704	1,257,507	1,379,246	1,482,779
EBIT	866,805	903,460	929,325	971,894	1,021,300	1,066,359	1,124,618	1,182,261	1,289,751	1,414,611	1,520,799
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Depreciation	221,556	268,361	297,320	326,279	355,237	384,196	413,155	442,114	436,249	429,647	447,573
Capital Expenditure	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
% of Enterprise Value	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Change in WC	-64,984	-78,779	-161,914	-167,979	-176,563	-189,386	-200,546	-214,574	-219,521	-231,532	-254,265
Chg. working capital days	-1.0	-1.2	-2.3	-2.3	-2.2	-2.2	-2.2	-2.2	-2.2	-2.1	-2.2
Net Sales	23,233,227	24,029,828	25,562,313	27,189,667	28,916,615	30,758,826	32,730,861	34,830,528	37,078,688	39,473,098	42,037,706
Change in sales	0.4%	3.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.5%	6.5%	6.5%
Free cash flow to the firm (FCFF)	631,675	728,014	865,325	941,855	1,027,568	1,113,283	1,210,203	1,309,392	1,413,277	1,540,425	1,684,617
PV of FCFF	631,675	669,150	731,050	731,368	733,408	730,339	729,729	725,699	719,943	721,266	725,003
Sum of PV of FCFF	7,123,628										
Terminal Value	13,070,647										
Terminal FCFF	725,003										
Terminal Growth Rate	3.25%										
Terminal WACC	8.8%										
Enterprise value	20,194,275										
+Cash and cash equivalents	6,616,626										
-Debt - long term and short term	0										
-Minority Interest	247,383										
Fair Value of Equity	26,563,517										
Shares o/s (mn)	994,256										
12M target price per share	26.72										
12 Month Upside Potential	15.7%										



DCF SENSITIVITY

TARGET SHARE PRICE SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

Terminal Discount Rate %	Terminal Growth Rate				
	2.75%	3.00%	3.25%	3.50%	3.75%
7.8%	28.01	28.76	29.60	30.53	31.58
8.3%	26.71	27.33	28.01	28.76	29.60
8.8%	25.63	26.15	26.72	27.34	28.02
9.3%	24.70	25.15	25.62	26.14	26.71
9.8%	23.91	24.29	24.70	25.15	25.62

SHARE PRICE UPSIDE POTENTIAL SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

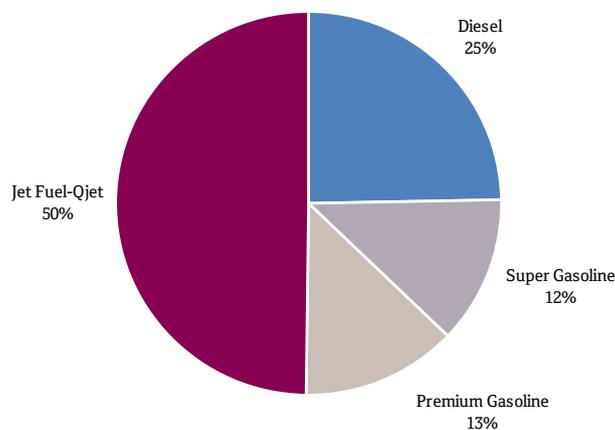
Terminal Discount Rate %	Terminal Growth Rate			
	2.8%	3.0%	3.3%	3.8%
7.8%	21.3%	24.5%	28.1%	36.7%
8.3%	15.6%	18.3%	21.3%	28.1%
8.8%	11.0%	13.2%	15.7%	21.3%
9.3%	6.9%	8.9%	10.9%	15.6%
9.8%	3.5%	5.2%	6.9%	10.9%

Source: QNB FS Research

Investment Themes

- **Qatar Airways' planned fleet expansion of more than 300 aircraft is likely to more than double its number of aircraft and is a major growth opportunity for Woqod.** According to its 2019 Annual Report, Qatar Airways has an order of over 300 aircraft worth more than \$85bn (including options and letters of intent). Qatar Airways Group has already posted significant growth, increasing its number of aircraft to 250 by Mar'19 (2018/19) from 159 in 2014/15, with a CAGR of 9.5%. In line with its fleet expansion, Qatar Airways added 11 new destinations to its network in 2018/19.
- **Jet Fuel A1 is the major product of Woqod, accounting for 49.7% of total fuel sold as of 1H2019, followed by diesel (24.6%).** Woqod mainly supplies its jet fuel to **Qatar Airways; as a result, Qatar Airways' expansion plans directly influence Woqod's future top & bottom line growth.**

Woqod's Major Fuel Sales Volume Breakdown (1H2019)



Source: Woqod

- **While Woqod's sales volume have grown continuously, Jet fuel sales grew the fastest among Woqod's major products.** Following its 16.3% CAGR during 2013-18, Woqod's jet fuel sales volume grew by 7.2% YoY to 2.52bnLt as of 1H2019, the highest compared to Woqod's other major fuel products. While Woqod's diesel sales contracted by 9.2% YoY to 1.25bnLt, super gasoline sales rose by 5% to 0.63 bnLt and premium gasoline remained flat at 0.66bnLt. As a result, land vehicle fuel (diesel, super & premium gasoline) sales in total volume fell by 4.1% YoY to 2.54bnLt.

Woqod's Major Fuel Products Sales Volume Breakdown (1H2019)

Fuel Sales Volume (bnLt)	2011	2012	2013	2014	2015	2016	2017	2018	CAGR 2018-2013	CAGR 2018-2015
Diesel	2.1	2	2.3	2.5	2.8	2.9	2.9	2.8	4.0%	0.0%
Super Gasoline	0.9	1	1.1	1.2	1.3	1.3	1.2	1.2	1.8%	-2.6%
Premium Gasoline	0.7	0.8	0.8	0.9	1	1.1	1.3	1.3	10.2%	9.1%
Land Vehicle Fuels	3.7	3.8	4.2	4.6	5.1	5.3	5.4	5.3	4.8%	1.3%
Jet Fuel-QJet	1.7	1.9	2.3	2.6	3.3	4	4.5	4.9	16.3%	14.1%
Total Fuel Sales by WOQOD (Major Groups)	5.4	5.7	6.5	7.3	8.4	9.3	9.9	10.3	9.6%	4.2%

Source: Woqod

- **The blockade affected airliner routes and passenger choices, resulting in higher volume of jet fuel sales by Woqod.** Due to the blockade, the number of flights declined in 2017/18 while average plane kilometers increased as destinations in blockading countries were replaced with more distant destinations such as Turkey.
- **Qatar Airways is the world's second largest cargo operator** (measured by global share as of Mar'19). With its fleet of 25 freighter aircraft (as of Mar'19) serving more than 170 cargo destinations, Qatar Airways Cargo transported 1.45mn tons of freight during 2018/19 with a 6.8% growth YoY. When the blockade resulted in closure of all road access at the only land border to the State of Qatar, Qatar Airways Cargo played a crucial role in maintaining critical medical, food and manufacturing supplies to the country. Between 2014/15-2018/19, Qatar Airways' cargo volumes grew at a CAGR of 13.7% while its freight tonnage handled has increased year-on-year since 2008. Qatar Airways Cargo will be receiving three additional Boeing 777 freighters by the end of 2019, which will bring its total fleet count to 28 freighters.

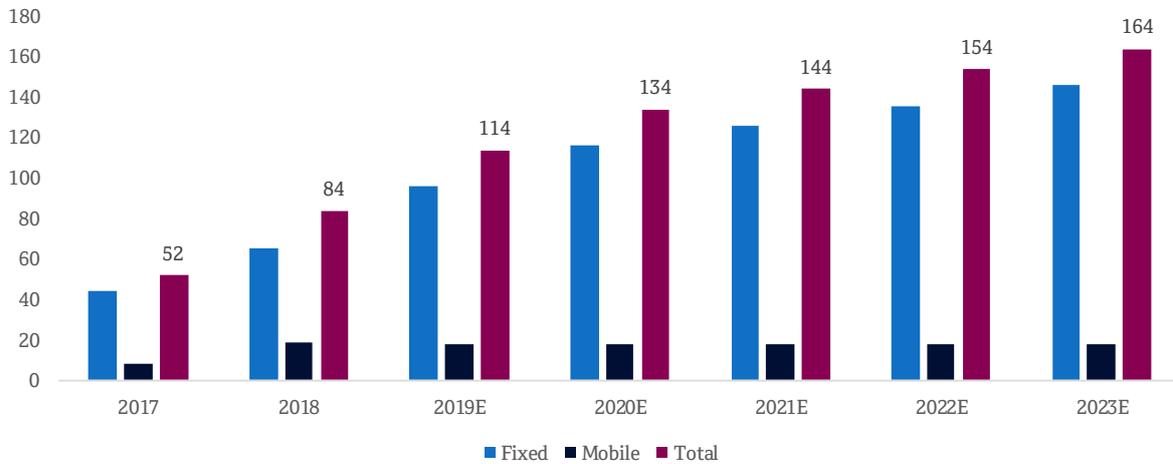
Qatar Airways in Numbers

Number of Aircraft	2014/15	2015/16	2016/17	2017/18	2018/2019	YoY Ch.	2014-19 CAGR
Qatar Airways Group	159	190	215	233	250	7.3%	9.5%
Passengers	2014/15	2015/16	2016/17	2017/18	2018/2019	YoY Ch.	2014-18 CAGR
Qatar Airways	22,352,000	26,654,000	32,007,211	29,162,478	29,484,000	1.1%	5.7%
Cargo (tons)	2014/15	2015/16	2016/17	2017/18	2018/2019	YoY Ch.	2014-18 CAGR
Qatar Airways	764,324	954,191	1,153,825	1,359,203	1,452,000	6.8%	13.7%

Source: Qatar Airways 2018/19 Annual Report, 2017/18 Sustainability Report

- **Hamad International Airport's expansion plans will increase its current capacity of 30 million passengers per year to 50 million upon completion. Apart from Qatar Airways, QFLS sells to foreign airlines; therefore, expansion of the Hamad Airport should affect QFLS' sales positively.** Hamad International Airport (HIA) continues to be one of the fastest growing hubs in the world, serving 34.2mn passengers and recorded 211,658 aircraft movements in 2017/18. During 2017/18, HIA opened a new Climate Control Centre, which contributed to the facilitation of over 2 million tons of cargo passing through the airport.
- **Global air passenger market has displayed rapid growth with passenger load factor reaching an all-time high in 2018, creating a suitable backdrop for Qatar Airways' fleet expansion.** During 2013-2018, global passenger kilometers gained by a CAGR of 7.1%. In 2018, global capacity in terms of available seat kilometers (ASK) expanded at a slower rate vs. passenger kilometers, resulting in a rise in the global passenger load factor (PLF). PLF is the gauge used for measuring capacity utilization of the airliners. According to IATA, ASK rose by 6.1% in 2018 vs. 2017 whereas the PLF reached a record high of 81.9%, up from 81.5% in 2017.
- **The growth in global air passenger traffic has continued in 2019;** between Jan-Jul'19, global passenger kilometers rose by an average of 5% YoY, whereas ASK rose by 2.7% YoY, putting further pressure on the already all-time high load factors. Slower capacity expansion vs. the growth in global passenger kilometers coupled with all-time high passenger load factors, open the way for further capacity expansion in the coming years.
- **Woqod's aggressive retail fuel station expansion strategy is well underway and targets a doubling of gas stations by the end of 2019 vs. 2017.** The company has a 80% market share in the retail fuel business and it is expected to increase its stake in the retail market to 85% by the end of 2020 after the opening of new stations. Woqod opened 32 petrol stations in 2018 and is expected to open 30 fixed stations in 2019 to bring its total number of stations to 114. Woqod is the sole company authorized to open new stations in Qatar. As such, it rapidly increased its share in the local retail fuel-distribution business, growing from 62% in 2017 to an estimated 80% as of 1H2019. The company first locates mobile stations at strategic locations and later replaces them by fixed ones. Therefore, most of the new stations are likely to be fixed. **In parallel to its franchise growth, Woqod's retail fuel sales volume surged by 29% YoY as of 1H2019.**

Woqod's Number of Retail Gas Stations



Source: Qatar Airways 2017/18 Annual Report, Sustainability Report

Woqod's Gas Station Network (1H2019)

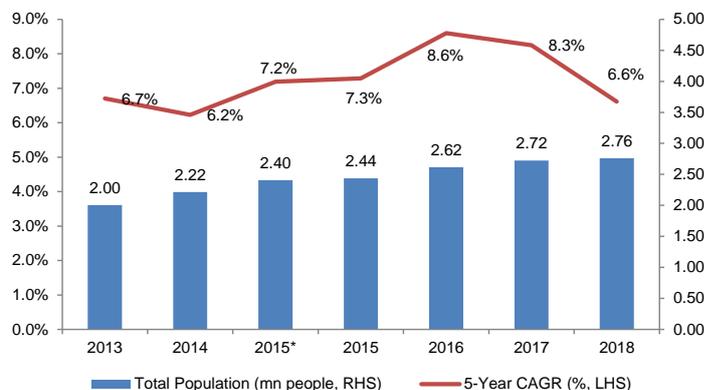


Source: Woqod

- **Woqod has signed a memorandum of understanding with Al Meera recently to enter into an agreement to operate and manage current and prospective Woqod's Sidra convenience stores, currently aggregating 65 convenience store outlets with a net selling area of over 13,000sqm.** We think Al Meera's retail experience and wholesale purchasing power could help ramp up the revenue growth and profit margins of Sidra stores, thereby further bolstering Woqod's non-fuel revenue growth.
- **Strong population growth (2.4% YoY as of Apr'19) is likely to be a major driver for the local retail fuel distribution and car inspection businesses in the coming years.** Qatar's population reached 2.77mn as of Apr'19, growing at a CAGR of 6.6% during 2013-2018. While Aug'19 population data (2.67mn) implies a

4.1% YoY increase, it excludes “Non-Qataris with residency permits who were outside the State’s boundaries on 31 August 2019.” This category mostly consists of expats and expat families that are temporarily out of country for family visits/school breaks and vacations. Data also excludes Qatari Nationals who were outside the State boundaries on 31 August 2019. Therefore, the headline population figure for Aug’19 may not be comparable to year-end 2018.

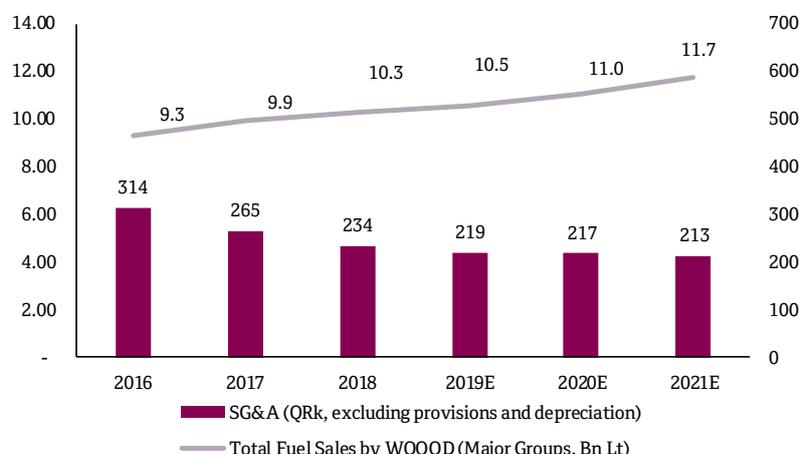
Qatar: Population & Growth (as of Mid-Year)



(*) Results of the General Population & Housing Census
Source: Qatar Planning and Statistics Authority

- Qatar’s highest GDP per capita (PPP adjusted) in the world coupled with a growing economy provides sufficient resources especially for Woqod’s retail businesses:** According to IMF’s 2018 ranking, Qatar has the highest GDP per capita (PPP adjusted) in the world with \$130.5k, notably above the major advanced economies (G7) average of \$53.1k and OECD’s \$43.8k (as of 2017). IMF anticipates Qatar’s real GDP per capita to increase further in the coming years (1.4% in 2019 and 2.9% in 2020) as the agency foresees real GDP growth to accelerate from 2.2% in 2018 to 2.6% in 2019 and further to 3.2% in 2020. Qatar is likely to be one of the few countries that promise GDP acceleration in both 2019 and 2020.
- We think Woqod’s ongoing cost cutting efforts are likely to be maintained over the next 3 years.** Cost optimization is a major tool for Woqod to enhance profitability. During 2016-2018, Woqod managed to cut its SG&A (ex. depreciation and provisions) by 25.5%, mainly driven by a 27% decline in labor costs (68% of total) coupled with a 70% decline in sales and marketing expenses (5% of total). The company is still dedicated to cost cutting whenever possible as long as it maintains its safety and quality standards. We think Woqod still has some room for optimizing its costs and we expect the company to reduce its SG&A by a CAGR of 3% during 2018-2021E.

Woqod’s SG&A (2016-2021E)



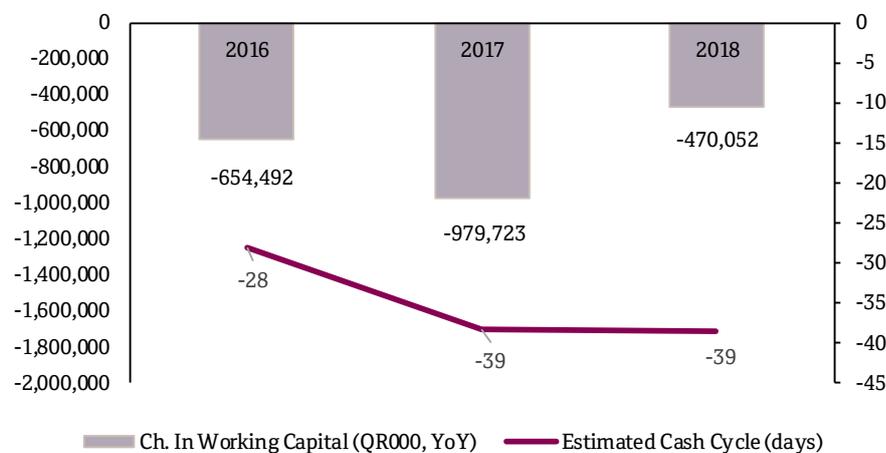
Source: Company financials, QNB FS Research

- Hidden asset value of QR396mn in investment properties.** As of 1H2019, Woqod’s investment properties portfolio amounted to QR890mn and comprises of a number of commercial and residential properties

intended for leasing. The company keeps these assets at cost (less accumulated depreciation) and the changes in their fair values are not recognized in the company's financials. However, Woqod states that independent valuations using the income earning approach (based on capitalization of the net operating income of the relevant property using the market yield) assesses the total fair value of the portfolio at QR1.3bn as of 2018. Given the portfolio's carrying value of QR906mn as of 2018, the estimated fair value implies a QR396mn of hidden value, which accounts for 5.1% of the company's shareholders' equity (as of 1H2019) and 1.7% of its mcap.

- Negative working capital requirement supports cash generation:** Primarily thanks to its major supplier Qatar Petroleum, Woqod managed to increase its payables by QR1.55bn in 2016, QR1.06bn in 2017 and QR461mn in 2018, thereby achieving declines in its working capital requirement. As a result, Woqod's cash cycle remains negative despite its growing sales volumes.

Woqod's Cash Cycle and Change in Working Capital Requirement



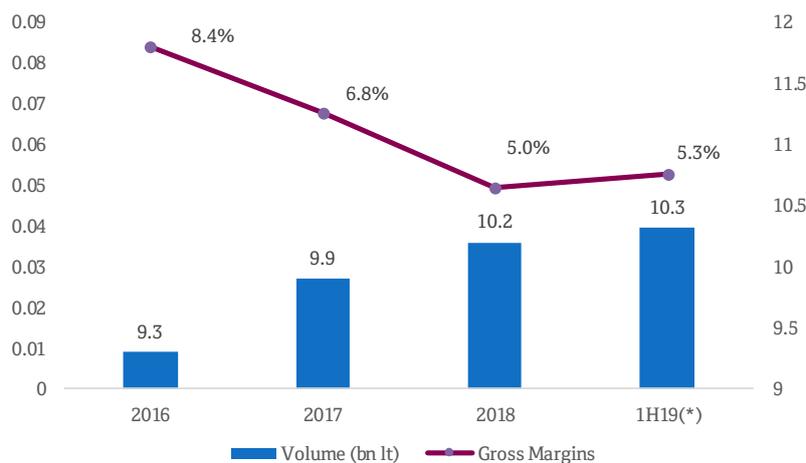
Source: Company financials, QNB FS Research

- Woqod's strong balance sheet (with a hefty cash position accompanied with no financial debt) as well as its strong operating cash generation should allow the company to finance its future growth and create room for a possible dividend yield enhancement.** As of 1H2019, Woqod had a cash position of QR4.0bn with no financial debt and a mere QR119mn of financial lease liabilities. Furthermore, the company has a QR1.52bn investment securities portfolio (invested in listed stocks on the Qatar Exchange). **Woqod's net cash and investment securities portfolio accounts for 45.9% of Woqod's assets and 70.8% of its shareholders' equity as of 1H2019.**
- We believe the company has the potential to increase its DPS notably (by 48.5% based on 2018 financials) in the coming years.** In 2018, Woqod generated QR1.70bn of cash from its operations. Considering: 1) Its dividend income of QR82.6mn and cash interest income of QR147.0mn, 2) Dividend payments of QR927mn & 3) Capex of QR615mn, we calculate that Woqod still had QR386mn of excess cash, which could be utilized to enhance its DPS. Note that 2018's capex figure was above the company's L/T annual capex target of QR400-600mn.

Investment Challenges

- Concentration Risk:** As of 2018, Woqod had 5,233 customers, with its largest 5 customers accounting for 81.7% of its trade receivables (down from 83.9% in 2017). On the supply side, QP supplies the bulk of its fuel products. Furthermore, more than 95% of the company's revenue is generated from a single business segment, which is sale and distribution of refined petroleum products.
- An estimated decline in margins (which could be attributable to increasing fuel procurement prices), could hamper volume growth and dent the bottom line.** On the positive side, 1H2019 margins showed signs of stabilization. Going forward, Woqod's ability to increase its non-fuel revenue will be crucial for maintaining its margins. Sidra Stores (24-hour open retail shops in Woqod Gas stations selling, food, non-food general merchandise, communication products, laundry and flower services), and APC (auto-care services) displayed a combined revenue growth of 14% YoY to QR204mn as of 1H2019. On the other hand, Woqod's revenue from vehicle inspection services (Fahes) rose by 92% YoY to QR73mn as of 1H2019. While Sidra, APC and Fahes account for a mere 2.5% of Woqod total sales revenue, we think their faster growth (supported by Woqod's aggressive gas station expansion) should support Woqod's gross margins in the coming years. To be on the safe side, we anticipate Woqod's gross margins to slip to 4.9% in 2019 and 4.8% in 2020.

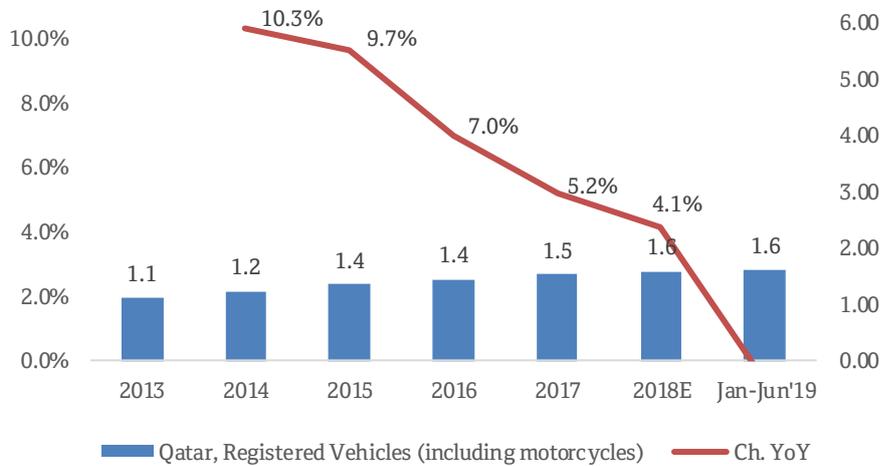
Woqod's Fuel Sales Volumes (Major Products) vs. Woqod's Gross Margin



Source: Woqod

- New retail gas stations may cannibalize older ones as Woqod's market share increases:** Rapid expansion of its retail gas station network (134 gas stations by the end of 2020 from 52 stations at end-2017) is expected to increase Woqod's stake in the retail fuel distribution market to 85% by the end of the year 2020. Such a high market share could cause Woqod's new stations to attract other Woqod stations' clientele (cannibalization) in the medium term. Nevertheless, given its exclusivity, Woqod also has the responsibility to meet Qatar's retail fuel demand; therefore, we think the company will sustain its retail franchise growth (albeit at a slower pace) in newly occupied areas in the future.
- Deceleration of new vehicle sales:** As of 1H2019, Qatar's automobile market remained stable YoY with overall sales of vehicles in all categories at 32,364 vs. 32,570 in 1H2018. On the positive front, sales of private cars and vehicles in Qatar (which account for 70% of total vehicle sales) rose by 4.9% YoY during 1H2019 to 22,696, implying that the stall in new vehicle sales might be temporary.

Total Registered Vehicles and Motorcycles in Qatar



Source: Qatar Planning and Statistics Authority

- **Following a 39.4% YTD rise in the stock price, QFLS' dividend yield could be below DSM Index averages estimated for 2019 & 2020:** QFLS has paid QR0.8/share dividends for 2017 and for 2018, which correspond to respective dividend yields (based on historical prices) of 6.3% and 4.8%.
- **For 2019, we expect QFLS to pay QR0.8/share of dividend (unchanged vs. 2017 & 2018) and up it to 0.825/share in 2020, implying dividend yields of 3.5% and 3.6%, respectively.** Compared to DSM Index's 2017-2018 dividend yields of 4.6% and 4.25%, QFLS shares enjoyed higher dividend yields. On the other hand, QFLS' shares rose by 39.4% since the beginning of 2019 and if QFLS maintains DPS at QR0.8, estimated dividend yields could come in below the DSM's (4.0% for 2019e and 4.3% for 2020e).

Catalysts

- **Qatar Airways' fleet growth remains a significant growth driver.** Qatar Airways' expected fleet expansion should more than double the number of aircraft from 213 to 513.
- **Woqod's retail fuel station expansion should trigger both fuel and non-fuel sales growth.** We think non-fuel revenue are particularly important as we think they enjoy higher and more stable margins than the fuel business. Although non-fuel sales' contribution to total revenue is quite limited for the time being, we believe ongoing retail station growth from 52 (2017) to 144 (2021) should also support non-fuel sales growth. On the negative side, we also expect cannibalization of retail stations to intensify by 2020 as the company is expected to reach 85% market share.
- **An unexpected increase in dividends:** For 2019, we expect QFLS to pay DPS QR0.8 (unchanged from 2017 & 2018) and increase to 0.825 in 2020, implying dividend yields of 3.5% and 3.6%, respectively. Compared to DSM Index's 2017-2018 dividend yields of 4.6% and 4.25%, QFLS shares enjoyed higher dividend yields (6.3% and 4.8% in 2017 and 2018, respectively). However, QFLS' shares rose by 39.4% since the beginning of 2019 and if the company reports dividends in line with our projections, Woqod's estimated dividend yields could lag the DSM's (4.1% for 2019e and 4.4% for 2020e). **We are of the view that the company has the potential to increase its DPS notably (48.5% based on 2018 financials) in the coming years,** given its cash generation from operations (including dividend income and interest income) as well as its capex targets.
- **Better than expected 2019/2020 results:** We anticipate Woqod to post QR1,146mn in gross profits and QR1,196.1mn in net profits in 2019 or -0.2% and 3.1% increases over 2018, respectively. It is noteworthy that Woqod's 2019 net earnings growth is adversely affected

from 2018's strong base of a 20.3% YoY EPS growth. For 2020, we forecast Woqod's gross profits to rise by 3.2% YoY to QR1,182mn, fueled by a 4.5% rise in total sales volume, which in turn is primarily due to an expected 7% rise in jet fuel sales volume. Consequently, we forecast Woqod to record QR1,250.0mn in net profits with a 4.5% rise, YoY.

Company Overview

Established in 2002 by an Emiri decree, QFLS (Woqod) holds the exclusive rights for storage and distribution of fuel in Qatar. QFLS' exclusivity covers the distribution of diesel, gasoline for vehicles, boats and industry as well as aviation fuel for Hamad International Airport. The company also supplies bunkering fuels, provides ship-to-ship bunkering within Qatari waters, engages in bitumen imports & distribution (bitumen is mainly used in the building of new roads). QFLS also engages in LPG, natural gas and compressed natural gas distribution as well as marketing of lubricants. Moreover, Woqod also builds and operates branded petrol stations across Qatar.

With its mcap of QR22.97bn as of Oct 2, 2019, QFLS has the 7th largest mcap among listed Qatari stocks. Woqod was included by FTSE (in March'19) and MSCI (in May'19) to their emerging markets indices, resulting in an increase in its foreign ownership to 11.20% (as of Oct 2, 2019) vs. 3.7% at the end of 2018. As of 1H2019, public shareholders hold 58.5% of QFLS' shares. Qatar Petroleum (its major supplier) has a 20% stake in Woqod, whereas Retirement and Pension Authority and Shafallah have 20% and 1.5% stakes, respectively.

Main Businesses

- **Jet fueling:** Woqod sells jet fuel directly and through its 60% subsidiary Qatar Jet Fuel Company (QJet). Established in 1990, QJet is the leading company in the field of fuel supply at Hamad International Airport. Woqod's main jet fuel client is Qatar Airways; however, the company also serves other airlines as well.
- **Retail fuel distribution:** Woqod started with two retail fuel stations in 2003 and its network has grown to 85 stations as of 1H2019, 66 of which are fixed and 19 are mobile. The company operates its own retail fuel stations, which also include Sidra retail stores, auto-care and maintenance services. Woqod also distributes LPG through 86 retailers and 15 petrol stations. Located in the New Industrial area of Doha, QFLS' LPG filling plant occupies 310 x 130 meters and is fed by a pipeline linking Qatar Petroleum's refinery to the filling plant.
- **Marine Fueling:** Woqod's 100%-owned subsidiary Woqod Marine is responsible for the sale and delivery of fuel oil via ship-to-ship fuel transfer operations. Established in 2009, Woqod Marine controls a fleet of five bitumen tanker vessels, two oil/chemical product tankers and one multi-purpose tanker, totaling 63,000 DWT with an average age of 5.4 years. Woqod Marine plans to add two more vessels to its fleet in 2019 and 3 more ships by 2022. The bunker supply volumes by Woqod has grown up from 5,000MT in June 2017 to 95,000MT in 1H2019. In the long term, QFLS' bunkering business is likely to benefit significantly from Qatar's planned LNG ship fleet expansion of 60-100 ships.
- **Auto inspection:** Established in 2002, Woqod Vehicles Inspection (Fahes) is the sole company licensed in Qatar to conduct inspection of light vehicles, heavy vehicles and heavy equipment in Qatar. As of 1H2019, Fahes operated 13 inspection stations and carries out technical inspection of the vehicles in compliance with standards mutually agreed upon with the Traffic Department under the Ministry of Interior and the General Committee of Standardization and Metrology.

Detailed Financial Statements

Income Statement (QRmn)

	2017	2018	2019e	2020e	2021e
Revenue	17,372	23,149	23,233	24,030	25,562
COGS	16,193	22,001	22,087	22,848	24,356
Gross Profit	1,179	1,149	1,146	1,182	1,206
SG&A	360	319	301	292	288
Depreciation	69	53	60	62	64
Operating Income	750	777	785	829	854
EBITDA	1,043	1,050	1,148	1,234	1,290
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Provision Expenses					
Other Income	242	320	277	283	281
<i>Rental Income</i>	144	140	136	140	144
<i>Dividend Income</i>	63	83	85	89	93
<i>Vessels rental income</i>	0	0	0	0	0
<i>Miscellaneous income</i>	35	97	56	54	44
Fair value gain from investment properties	0	0	0	0	0
Total Other Income	242	320	277	283	281
Net Finance Income (Expense)	104	147	173	178	191
Net profit before management fees and income tax	1,096	1,244	1,235	1,289	1,327
Management fees	0	0	0	0	0
Income Tax	0	0	0	0	0
Non controlling interests	-132	-84	-39	-40	-40
Net Income	964	1,160	1,196.1	1,250	1,287
<i>Net Profit Margin</i>	5.5%	5.0%	5.1%	5.2%	5.0%
<i>Shares Outstanding (mn)</i>	994	994	994	994	994
EPS	0.97	1.17	1.20	1.26	1.29
DPS	0.80	0.80	0.80	0.82	0.82

Note: EPS based on current number of shares

Balance Sheet (QRmn)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	3,172	3,164	3,164	3,164	3,164
S/T Deposits	1,191	1,831	1,934	2,100	2,411
Accounts Receivable & Prepayments	2,296	2,518	2,472	2,556	2,720
Other Receivables and Prepayments	448	220	221	229	243
Due From Related Parties	529	434	427	441	470
Inventories	414	422	424	439	467
Total Current Assets	8,051	8,589	8,642	8,930	9,475
Retentions receivable	0	0	0	0	0
Financial assets at fair value through other comprehensive	1,631	1,485	1,518	1,518	1,518
Property, Plant & Equipment	1,707	2,661	2,939	3,171	3,373
Non-Current Assets	4,380	5,185	5,541	5,821	6,073
Total Assets	12,431	13,775	14,183	14,750	15,548
Short-Term Debt	0	0	0	0	0
Accounts Payable & Accruals	4,939	5,140	5,160	5,343	5,690
Other Payables	0	0	0	0	0
Finance lease liability	0	6	6	6	6
Current Liabilities	4,939	5,146	5,167	5,349	5,697
Due to related parties	0	233	234	242	258
Long-Term Debt	0	25	27	28	29
Employees end of service benefits	131	92	96	101	106
Non-Current Liabilities	131	350	357	371	393
Total Liabilities	5,069	5,496	5,523	5,720	6,090
Total Shareholder's Equity	7,072	8,031	8,402	8,761	9,176
Minority Interest	290	247	259	270	283
Liabilities & Shareholder's Equity	12,431	13,775	14,183	14,750	15,548

Source: Company data, QNB FS Research

Cash Flow Statement (QRmn)

	2017	2018	2019e	2020e	2021e
Cash Flow From Operations	2,239	1,699	1,343	1,443	1,563
Cash Flow From Investment Activities	-417	-287	-449	-440	-436
Cash Flow From Financing Activities	-627	-780	-707	-702	-713
Cash Flow From Other Activities	0	0	-84	-120	-122
Change In Cash	1,195	632	103	181	292
Cash Beginning of Period	2,747	3,172	3,164	3,164	3,164
Decrease (increase) in Fixed Deposits	-770	-640	-104	-182	-290
Cash End of Period	3,172	3,164	3,164	3,163	3,166

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	26.6%	33.3%	0.4%	3.4%	6.4%
Gross Profit	2.1%	(2.6%)	(0.2%)	3.2%	2.0%
EBITDA	14.7%	0.7%	9.3%	7.4%	4.6%
EBIT	16.0%	2.4%	9.1%	7.7%	4.7%
PAT/EPS	N/M	20.3%	3.1%	4.5%	3.0%
DPS	N/M	0.0%	0.0%	3.1%	0.0%
CFPS	N/M	(24.1%)	(21.0%)	7.4%	8.3%
Operating Ratios					
Gross Margin	6.8%	5.0%	4.9%	4.9%	4.7%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	4.9%	4.9%	4.7%
EBITDA Margin	6.0%	4.5%	4.9%	5.1%	5.0%
EBIT Margin	5.6%	4.3%	4.7%	4.9%	4.8%
Net Margin	5.5%	5.0%	5.1%	5.2%	5.0%
Working Capital Ratios					
	(45)	(32)	(33)	(33)	(33)
Inventory Days	9	7	7	7	7
Average Collection Period	66	50	49	49	49
Payable Days	111	89	89	89	89
Finance Ratios					
Debt-Equity Ratio	0%	0%	0%	0%	0%
Net Debt-Equity Ratio	-62%	-62%	-60%	-60%	-60%
Net Debt-to-Capital	-161%	-162%	-152%	-149%	-153%
Net Debt-to-EBITDA	(4.2)	(4.7)	(4.4)	(4.3)	(4.3)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	13.8%	12.4%	12.9%	13.3%	13.3%
ROE	13.6%	14.4%	14.2%	14.2%	14.0%
ROA	7.8%	8.4%	8.4%	8.5%	8.3%
FCF Yield	70.3%	5.5%	7.7%	41.0%	46.3%
Liquidity Ratios					
Current Ratio	1.6	1.7	1.7	1.7	1.7
Quick Ratio	1.5	1.6	1.6	1.6	1.6
Valuation					
EV/Sales	1.1	0.8	0.8	0.7	0.7
EV/EBITDA	18.1	17.4	15.8	14.6	13.7
EV/EBIT	19.4	18.3	16.7	15.3	14.4
P/E	23.8	19.8	19.2	18.4	17.8
P/CF	1.0	1.4	1.7	1.6	1.5
P/BV	0.3	0.3	0.3	0.3	0.3
Dividend Yield	6.3%	4.8%	3.5%	3.6%	3.6%
FCF Yield	70.3%	5.5%	7.7%	41.0%	46.3%

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

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@QNBFS.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@QNBFS.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@QNBFS.com.qa

QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@QNBFS.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNB FS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS 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. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment 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 QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS 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. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS 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. This report may not be reproduced in whole or in part without permission from QNB FS.