

Qatar Fuel/Woqod (QFLS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR15.35	12M Target Price	QR18.59
Implied Upside	21.1%		

4Q2024 Beat on Firmer Margins; DPS Jumps to QR1.00 to Sport 6.5% DY; Maintain Accumulate

While Woqod (QFLS) beat our estimates of its 4Q2024 bottom-line and the annual FY2024 dividend, primarily due to a better GP margin and lower-than-modeled G&A expenses, we will seek more color behind the reason for its top-line undershooting expectations by a relatively wide range, falling both YoY and sequentially. Full-year DPS rose 11.1% to QR1.00, better than our QR0.95 forecast, from QR0.90 in FY2023, further bolstering QFLS's dividend play credentials. This will be paid from FY2024 EPS of QR1.06 vs. QR1.05 estimated, and up from QR0.99 in FY2023, translating to a payout ratio of 94.5% and a solid 6.5% DY. The set of FY2024 results show signs of margins bottoming out, in what could be a relief for investors. Group margins, especially the GPM, have been down-trending for several years. We will wait for the IR call before fully updating our model to understand the reasons behind the marked sales underperformance. Based on data from several years until 9M2024, we note Woqod's jet fuel sales have exhibited decent growth; gasoline also grew, though at reduced rates, but diesel sales have been falling. Meanwhile, QFLS balance sheet stands out with a significant cash/investments pile, which contributes substantially to its valuation, and it gives management significant leeway to potentially extract more value for shareholders. Overall, we perceive Woqod's outlook as relatively neutral-to-bullish with its internal strengths providing it with the means to navigate uncertainty. We anticipate mid-single digit bottom-line growth for the foreseeable future but we see an attractive dividend flow. Therefore, we maintain our Accumulate rating and QR18.59 PT.

Highlights

- QFLS's 4Q2024 earnings increased 3.5% YoY but declined 2.8% sequentially to QR281.1mn, ahead of our estimate of QR271.8mn (variation of +3.4%). Despite revenue falling below expectations, earnings beat our expectations driven by a stronger GP margin than modeled, lower-than-expected G&A expenses, slightly higher-than-expected other income, and lower-than-modeled minorities. The GP margin printed at 2.3% vs 2.1% expected, up from 1.8% in 4Q2024. NP margin rose to 4.2% (vs. forecast of 3.4%) from 3.7% last year. For FY2024, attributable earnings rose 7.0% to QR1.05bn vs. QR1.04bn modeled, up from QR984.0mn in FY2023. The GP margin improved for the first time since FY2019 to 2.7% in FY2024 from 2.6% in FY2023. Similarly, the NP margin improved for the first time since FY2020, to 3.8% in FY2024 from 3.5% in 2023. **This could indicate a bottoming out of margins, which bodes well for the company's valuation.**
- Woqod's 4Q2024 revenue declined 9.6%/8.2% YoY/QoQ to QR6.73bn, markedly lower than our estimate of QR7.90bn, likely due to the continuation of recent trends, where diesel sales have been pointing downwards. Given the magnitude of the decline, we will try to get more details from the management team. We also note a significant drop in sales of non-petroleum products in FY2024, though there is no data for quarterly comparables. For FY2024, revenue was almost flat, edging up by 0.3% to QR28.0bn: The sale of petroleum products was marginally up by 0.8% to QR27.1bn, sales of non-petroleum products fell 41.4% to QR472.3mn, and revenue from services jumped 114.3% to QR375.9mn.
- Jet fuel, the single biggest revenue contributor (~54% of overall revenue during 1H2024), will likely drive growth in petroleum products. **The future growth of jet fuel is linked to the growth expected from Qatar Airways (QA), which is expanding its fleet size and destinations** – over 90% of Woqod's jet fuel sales go to QA. Meanwhile, **the expected increase in Qatar's LNG production could be a growth lever for Woqod's bunkering business, and might stem diesel sales decline, as the number of LNG carriers servicing Qatar will increase significantly – new 100+ ship vessels are expected.** However, these vessels will likely be adopting “dual fuel” propulsion technologies that enable them to utilize gas as the primary, cleaner fuel with conventional bunkers relegated to a secondary status.
- Woqod has considerable horsepower on its balance sheet. We estimate more than half of the group's value comes from what we consider to be non-operating items – cash pile, financial investments, and investment properties. **More importantly, this horsepower on the balance sheet provides a platform for growth and value-creation options for management – dividends, buybacks and diversification.** Relative to peers, Woqod exhibits more value-play attributes that can potentially be traced back to its balance sheet structure.

Catalysts

- (1) The business lacks notable catalysts but Woqod's balance sheet contains enough fuel for various corporate actions including buybacks, special dividends and acquisitions. However, there is little visibility on if or when this happens. It was one of the only 10 QSE-listed companies to initiate interim dividends and could, again, follow QNBK's lead on share buybacks. (2) Re-negotiate better terms with Qatar Energy (QE) and QA. (3) QA aircraft and LNG vessel fleets expansion. (4) Sustained rollback of EV targets by auto manufacturers.

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain an “Accumulate” rating and a 12-month PT of QR18.59, implying 21.1% upside. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation. Our primary thesis is that Woqod's petroleum business still has select pockets (jet fuel and LNG expansion-linked bunkering) of potential growth in the short- to medium-term helped by its dominant market position in Qatar. Plus, we believe more value could be unlocked from optimizing the balance sheet.
- Risks:** (1) Customer (QA) & supplier (QE) concentration risk & margin-erosion (2) Price controls & other regulatory/policy risks (3) Commodity price/stock price volatility (4) Consumer adoption of EVs (5) Geopolitics

Key Financial Data and Estimates

GROUP	2024	2025e	2026e	2027e	2028e
EPS (QR)	1.06	1.15	1.17	1.20	1.25
P/E (x)	14.50	13.34	13.15	12.79	12.25
EV/EBITDA (x)	16.64	12.53	11.80	11.06	10.37
DPS (QR)	1.00	1.05	1.10	1.15	1.20
DY (%)	6.5%	6.8%	7.2%	7.5%	7.8%

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

Key Data

Current Market Price (QR)	15.35
Dividend Yield FY2024 (%)	6.5
Bloomberg Ticker	QFLS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QFLS.QA
ISIN	QA0001200771
Sector*	Consumer Goods
52wk High/Low (QR)	16.16/13.45
3-m Average Vol.	511,644
Mkt. Cap. (\$ bn/QR bn)	4.2/15.3
EV (\$ bn/QR bn)	2.2/8.2
Shares O/S (mn)	994.3
FO Limit* (%)	100%
FO (Institutional)* (%)	13.4
1-Year Total Return (%)	3.9
Fiscal Year-End	December 31

Source: Bloomberg (as of January 22, 2025), *Qatar Exchange (as of January 22, 2025); Note: FO is foreign ownership

Phibion Makuwerere, CFA

+974 4476 6589

phibion.makuwerere@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	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

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”) QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB 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

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.