

## QGTS Alert – 4Q2020 Earnings Miss on Lower JV Income; In-Line DPS of QR0.11; Outperform

- **Nakilat quarterly earnings decline but caps off a strong 2020 despite the global pandemic.** QGTS posts 4.9% YoY & 25.6% QoQ decrease in 4Q2020 earnings. Nakilat recorded 4Q2020 bottom-line of QR260.7mn vs. QR274.3mn in 4Q2019 and QR350.4mn in 3Q2020; earnings came in 14.1% lower relative to QNB FS estimate of QR303.6mn. Lower-than-anticipated JV income was primarily responsible for the earnings miss. (1) Revenue from wholly-owned ships of QR868.6mn (-1.1% YoY, -1.8% QoQ) was bang in-line with our estimate of QR885.4mn (variation of -1.9%). (2) Adjusted revenue of QR932.6mn (-17.2% YoY, -9.2% QoQ) was below of our estimate of QR1.0bn (-7.2% divergence) and was driven by the previously mentioned fall in JV income. (3) EBITDA of QR672.6mn (3.4% YoY, -4.0% QoQ) was consistent with our forecast of QR687.4mn (-2.2% difference). In-line revenue and direct operating cash costs of wholly-owned vessels, along with substantial improvement in G&A expenses – QR17.9mn (-51.5% YoY, -13.7% QoQ) vs. our estimate of QR27.7mn – drove EBITDA performance. (4) Adjusted EBITDA of QR728.5mn (-17.5% YoY, -12.7% QoQ), however, fell below our forecast of QR794.6mn (-8.3% variation) due to weak JV income. (5) JV income of QR55.9mn (-76.0% YoY, -58.2% QoQ) was significantly below our estimate of QR107.2mn and is the lowest we have seen since 4Q2012. While JV shipyard loss was lower than our model, weakness in shipping/marine JVs likely contributed to the overall softness in JV income. We await more details from management regarding this decline in JV income. (6) Lower-than-modeled finance costs of QR263.4mn (-16.3% YoY, -5.4% QoQ), which beat our estimate of QR284.7mn by 7.5%, helped 4Q EPS.
- **2020 profitability jumps 15.8% with record-high EPS of QR0.21; DPS of QR0.11 increases 10% and is in-line with model.** Overall, we find these results encouraging and consistent with the overall progress we see QGTS making on the operational/costs front – we note gross profits from wholly-owned ships increased 12.1% YoY, while G&A decreased 28.0%.
- **We remain bullish on Nakilat and consider it as the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector.** *Since we upgraded the stock to an Outperform, QGTS' share price has appreciated by 25%, significantly beating the QE Index's increase of 4% as Nakilat was re-included in the MSCI EM Index.* Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. QGTS' fleet continues to provide the company with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of QGTS' vessels vs. maximum debt life of 25 years (last debt maturing 2033), continues to create refinancing opportunities to increase fleet size. Thus, we think further deals in LNG ships and FSRUs are likely. In the near-term, addition of 4 LNG vessels (remaining one each in 2021 and 2022) via Global Shipping, should help earnings growth in 2020 and 2021. In terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver. Currently our model does not assume any fleet growth and we will incorporate such expansion once more details become available. We foresee significant upward revision to our estimates and price target once we factor in this expansion. We do not envision substantial risks to QGTS' business model due to the ongoing oil price volatility/COVID-19 pandemic.

# QGT's Alert – 4Q2020 Earnings Miss on Lower JV Income; In-Line DPS of QR0.11; Outperform

Income Statement							
In QR mn Except Otherwise Noted	4Q2019	3Q2020	4Q2020	4Q2020e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	878.413	884.327	868.566	885.444	-1.9%	-1.1%	-1.8%
Operating Costs	(207.022)	(172.096)	(186.251)	(182.258)	2.2%	-10.0%	8.2%
<b>Gross Profit</b>	<b>671.391</b>	<b>712.231</b>	<b>682.315</b>	<b>703.186</b>	<b>-3.0%</b>	<b>1.6%</b>	<b>-4.2%</b>
<i>Gross Margin</i>	76.4%	80.5%	78.6%	79.4%			
Income from Marine and Agency Services	15.701	9.448	8.143	11.918	-31.7%	-48.1%	-13.8%
General and Administrative Expenses	(36.882)	(20.727)	(17.881)	(27.667)	-35.4%	-51.5%	-13.7%
<b>EBITDA</b>	<b>650.210</b>	<b>700.952</b>	<b>672.577</b>	<b>687.437</b>	<b>-2.2%</b>	<b>3.4%</b>	<b>-4.0%</b>
Depreciation & Amortization	(318.059)	(222.594)	(223.172)	(222.371)	0.4%	-29.8%	0.3%
<b>EBIT</b>	<b>332.151</b>	<b>478.358</b>	<b>449.405</b>	<b>465.065</b>	<b>-3.4%</b>	<b>35.3%</b>	<b>-6.1%</b>
<i>EBIT Margin</i>	37.8%	54.1%	51.7%	52.5%			
Share of Operating Profits from Joint Ventures	232.816	133.734	55.882	107.181	-47.9%	-76.0%	-58.2%
Finance Costs	(314.525)	(278.411)	(263.385)	(284.725)	-7.5%	-16.3%	-5.4%
Interest, Dividend income & Profit from Islamic Banks	19.673	12.793	11.369	12.500	-9.0%	-42.2%	-11.1%
Vessel Sub-Chartering & Other Income	4.483	3.880	7.458	4.000	86.5%	66.4%	92.2%
<b>Profit Before Tax</b>	<b>274.598</b>	<b>350.354</b>	<b>260.729</b>	<b>304.021</b>	<b>-14.2%</b>	<b>-5.1%</b>	<b>-25.6%</b>
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Minority Interest	(0.281)	0.039	0.012	(0.372)	-103.2%	-104.3%	-69.2%
<b>Net Income to Equity</b>	<b>274.317</b>	<b>350.393</b>	<b>260.741</b>	<b>303.648</b>	<b>-14.1%</b>	<b>-4.9%</b>	<b>-25.6%</b>
<i>Net Profit Margin</i>	31.2%	39.6%	30.0%	34.3%			
EPS (QR)	0.05	0.06	0.05	0.05	-14.1%	-4.9%	-25.6%
<b>Adjusted EBITDA</b>	<b>883.026</b>	<b>834.686</b>	<b>728.459</b>	<b>794.617</b>	<b>-8.3%</b>	<b>-17.5%</b>	<b>-12.7%</b>

<b>Adjusted Revenue</b>	<b>1,126.930</b>	<b>1,027.509</b>	<b>932.591</b>	<b>1,004.543</b>	<b>-7.2%</b>	<b>-17.2%</b>	<b>-9.2%</b>
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Particulars	4Q2019	3Q2020	4Q2020	4Q2020e
Adj. EBITDA Margin	78.4%	81.2%	78.1%	79.1%
Gross Margin	76.4%	80.5%	78.6%	79.4%
EBIT Margin	37.8%	54.1%	51.7%	52.5%
G & A % of Sales	4.2%	2.3%	2.1%	3.1%
Depreciation & Amortization % of Sales	36.2%	25.2%	25.7%	25.1%

### 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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