

## Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR23.00	Target Price	QR24.70
Implied Upside	7.4%		

### A Play on Qatar's LNG; Revising Estimates

*We remain positive on Nakilat given its steady operating model and solid dividend yield. QGTS remains Qatar's primary LNG carrier and benefits from stable/visible revenue and cash flow through 25-year fixed (price and quantity) charter contracts with the state-controlled LNG producers, Qatargas and RasGas. With fleet expansion completed in 2010, we expect strong FCF generation to allow QGTS to meet its debt repayments (9M2014 debt: QR23.3bn/\$6.4bn) comfortably and lead to EPS accretion. Further, the shipyard business could surprise positively in 2015/2016. QGTS also trades at an attractive 2015 dividend yield of 5.7%.*

#### Highlights

- **Qatar's LNG carrier.** With ~77 MTPA in capacity, Qatar is the #1 global LNG player. Nakilat, the world's largest LNG fleet owner (~15% share), forms a vital link between Qatar's gas output and its monetization as LNG exports. QGTS carries virtually all Qatari LNG exports. The state has shown strong support for Nakilat and owns a ~19% stake through 100%-owned government entities.
- **A state-of-the-art fleet:** Since its formation in 2004, QGTS has invested around \$11bn to own 58 state-of-the-art LNG carriers, 25 of which are wholly owned. Roughly, 75% of these vessels are of the Q-Max and Q-Flex type, which have the largest capacity in the world. QGTS also jointly owns four LPG ships (along with Milaha). An April 2014 deal adds a further 3 JV-held LNG vessels bringing the count to 61 (one each in 2015 and 2016).
- **Stable revenue due to exclusive government contracts.** These LNG agreements result in stable revenue and flattish absolute EBITDA.
- **Revising estimates:** Post 9M2014 results, we have upped our 2014 EPS by 4.7% primarily due to upside from LPG-driven JV income. We have trimmed our 2015 & 2016 earnings forecast by 2.0% and 2.2%, respectively, factoring in lower top-line/margin estimates for the wholly-owned business, partially offset by higher JV income from fleet additions and growth in ship building/repairs.

#### Catalysts

- **Refinancing, fleet expansion and upside from the shipyard:** During 2013, QGTS refinanced \$917mn in bank debt at attractive rates. We note Nakilat retains the ability to expand its fleet targeting international clients without expending much capex (e.g., the Maran Nakilat deal, which allowed QGTS to double JV fleet size to 8 LNG tankers, while upping stake to 40% through a \$1.33bn refinancing). The April 2014 \$807mn refinancing is also of a similar nature. We are also positive longer-term on the ship building/repair business.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate Nakilat a Market Perform with a QR24.70 price target.** Our previous price target was QR25.30. QGTS trades at 2015 P/E and EV/Adj. EBITDA of 13.4x and 11.2x, respectively.
- **Risks: Declining oil prices remain a substantial risk to regional equity prices.** For QGTS, further escalation of operating costs of wholly-owned vessels and execution risks in shipyard remain the major risk.

#### Key Financial Data and Estimates

	FY2013	FY2014e	FY2015e	FY2016e
Revenue (Adj., QR mn)	3,384	3,541	3,601	3,650
Revenue Growth	0.4%	4.6%	1.7%	1.3%
EPS (QR)	1.32	1.65	1.72	1.83
EPS Growth	(4.8%)	25.3%	4.0%	6.7%
P/E (x)	17.5	13.9	13.4	12.6
DPS (QR)	1.10	1.20	1.30	1.40
Dividend Payout	83.6%	72.8%	75.8%	76.5%
Dividend Yield	4.8%	5.2%	5.7%	6.1%
ROE	16.8%	19.7%	19.3%	19.5%

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

#### Key Data

Current Market Price (QR)	23.00
Dividend Yield – 2015 (%)	5.7
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	25.90/18.80
3-m Average Volume ('000)	395.2
Mkt. Cap. (\$ bn/QR bn)	3.5/12.9
Shares Outstanding (mn)	560.0
FO Limit* (%)	25.0
Current FO* (%)	10.4
1-Year Total Return (%)	16.7
Fiscal Year End	December 31

Source: Bloomberg (as of January 11, 2015), \*Qatar Exchange (as of January 11, 2015); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2013	FY2014e	FY2015e	FY2016e
Revenue – Wholly-Owned Ships	3,015	3,038	3,068	3,099
Income from Marine & Agency Services	47	58	61	64
Share of Profits from Joint Ventures	301	430	457	471
Vessels Sub-Chartering & Other Income	21	15	16	16
<b>Adjusted Net Revenue</b>	<b>3,384</b>	<b>3,541</b>	<b>3,601</b>	<b>3,650</b>
Direct Costs	(650)	(673)	(713)	(756)
<b>Gross Profit</b>	<b>2,734</b>	<b>2,867</b>	<b>2,888</b>	<b>2,893</b>
General and Administrative Expenses	(103)	(112)	(115)	(115)
Interest, Dividend & Profit from Islamic Banks	37	39	24	24
<b>EBITDA</b>	<b>2,667</b>	<b>2,795</b>	<b>2,797</b>	<b>2,803</b>
Depreciation	(606)	(660)	(673)	(687)
<b>EBIT</b>	<b>2,061</b>	<b>2,134</b>	<b>2,124</b>	<b>2,116</b>
Finance Costs	(1,306)	(1,248)	(1,173)	(1,101)
Gain/(Loss) on Derivatives from Joint Ventures	(26)	28	0	0
Profit Before Tax	730	915	951	1,015
Income Tax Expense	0	0	0	0
Profit After Tax	730	915	951	1,015
Minority Interest	(1)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>729</b>	<b>913</b>	<b>950</b>	<b>1,013</b>
<b>EPS (QR)</b>	<b>1.32</b>	<b>1.65</b>	<b>1.72</b>	<b>1.83</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2013	FY2014e	FY2015e	FY2016e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	24,855	24,337	23,787	23,224
Investment in Joint Venture Companies	2,641	2,826	2,992	3,164
Loans to Joint Venture Companies	805	414	414	414
Available-for-Sale Investments	176	195	195	195
<b>Total Non-Current Assets</b>	<b>28,477</b>	<b>27,772</b>	<b>27,388</b>	<b>26,996</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	285	345	348	350
Cash and Bank Balances	1,931	3,268	3,008	2,764
<b>Total Current Assets</b>	<b>2,216</b>	<b>3,613</b>	<b>3,355</b>	<b>3,115</b>
<b>Total Assets</b>	<b>30,693</b>	<b>31,385</b>	<b>30,743</b>	<b>30,111</b>
<b>Equity</b>				
Equity Attributable to the Parent	4,340	4,643	4,921	5,207
Minority Interest	7	8	9	11
<b>Total Equity</b>	<b>4,346</b>	<b>4,652</b>	<b>4,931</b>	<b>5,218</b>
<b>Non-Current Liabilities</b>				
Borrowings	22,274	21,813	20,851	19,890
Fair Value of Interest Rate Swaps	2,824	3,416	3,416	3,416
Provision for End of Service Benefits	18	100	100	100
<b>Total Non-Current Liabilities</b>	<b>25,116</b>	<b>25,328</b>	<b>24,367</b>	<b>23,406</b>
<b>Current Liabilities</b>				
<b>Borrowings</b>	<b>844</b>	<b>741</b>	<b>741</b>	<b>741</b>
Accounts Payables/Accruals & Due to Related Parties	386	665	704	747
<b>Total Current Liabilities</b>	<b>1,230</b>	<b>1,405</b>	<b>1,445</b>	<b>1,487</b>
<b>Equity and Liabilities</b>	<b>30,693</b>	<b>31,385</b>	<b>30,743</b>	<b>30,111</b>

Source: Company data, QNBFS estimates

### 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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