

Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	Outperform	Risk Rating	R-3
Share Price	QR3.330	Target Price	QR5.100
Implied Upside	53.2%	Old Target Price	QR4.100

NFE Contract Awarded! Raising Target to QR5.10 & Upgrading to Outperform

As expected, QGTS announced that it was selected as owner & operator of up to 25 conventional LNG vessels tied to the massive 100+ vessels NF expansion program. We are raising our target price from QR4.100 to QR5.100 and upgrading the stock from Accumulate to Outperform. We have long highlighted QGTS as a top pick among our coverage universe and this contract win validates our investment thesis on the company.

Highlights

- What happened?** QGTS announced that it was selected by QatarEnergy as the owner and operator of up to 25 conventional size (174,000 m3) LNG carriers pursuant to Time Charter Parties (TCP) to be entered into by affiliates of QatarEnergy and Nakilat. QGTS will own 100% of these LNG vessels, which will be chartered to affiliates of QatarEnergy. They are scheduled for construction in Korean shipyards as part of QatarEnergy's historic LNG Fleet Expansion Project, which is intended to cater for the LNG transportation requirements of QatarEnergy's LNG expansion projects as well as its fleet renewal requirements.
- Impact on our target price:** We raise TP by ~25% from QR4.100 to QR5.100. We have previously highlighted (most recently, in this [report](#)), that considering Nakilat's strategic importance, (QGTS ships ~75-80% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a beneficiary and secure a meaningful share of new contracts. **We also estimated that every incremental vessel (@100%) adds ~1% to target price and an award of ~25 ships could markedly boost our PT/estimates. While further details about deal economics are awaited, we expect an 80% D/E and a levered IRR between 11-14% (consistent with Nakilat's target range and our modeled expectations).** We incorporate this announcement, along with the deal announced last month for the construction of six gas vessels (two LNG carriers @ 174,000 m3 capacity each and four Very Large LPG/ Ammonia Gas carriers @ up to 88,000 m3) for delivery between 2026 and 2027, to raise our price target to QR5.100.
- What about the increase in leverage? Not a cause for concern plus Moody's upgraded debt rating just last week.** We have previously highlighted (most recently, in this [report](#)), that potential fleet expansion of ~25 vessels should not be a cause for concern in terms of debt servicing or dividend payments. Considering the current \$260mn price tag for LNG ship new builds, an increase of 25 LNG vessels related to the NF expansion and 2 LNG vessels targeted for international customers, QGTS will have to take on new debt of ~QR20.5bn (at 80% D/E). **This could potentially send Nakilat's 2025 net debt-to-equity ratio to 2.5x vs. an average of 1.9x over 2020-2022 and 0.6x by 2025. However, this debt would also be secured by LT charters and hence, not a cause for concern for either debt servicing or dividend payments.** We also note that Moody's recently upgraded Nakilat Inc.'s and its senior secured notes to "Aa3" from "A1", and the subordinated debt to "A1" from "A2" with a stable outlook. This could help QGTS in terms of raising debt at relatively attractive terms.
- The background:** QatarEnergy is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. In October and November of 2021, QatarEnergy moved ahead with the construction of ten LNG ships (four in China/six in South Korea). We do note that already on April 12, 2022, QatarEnergy announced that it awarded its first batch of time-charter parties (TCPs) with a subsidiary of Mitsui O.S.K Lines (MOL) for the long-term charter and operation of four LNG ships. In early June 2022, South Korean shipbuilders announced some details of construction orders involving six ships (174k m3 each) at a cost of ~\$215mn/ship. Overall, the first phase (60 vessels) was contracted to be built in South Korean/Chinese shipyards and phase 2 commenced with a QR14.2bn (\$3.9bn) 17-vessel award to Hyundai on Sep. 27, 2023. On Jan. 2024, news reports indicated that QatarEnergy reportedly entered into an agreement with a Chinese shipbuilder for the construction of eight Q-Max LNG carriers (217,000 m3) in an order valued at +\$2.4bn. This deal, reportedly finalized last month, follows QatarEnergy's September 2023 announcement of plans to order 15 Q-Max ultra-large LNG carriers from Chinese & South Korean shipyards.

Catalysts

- We do not rule out further contract announcements from QGTS given the massive scale of the NFE project.**

Recommendation, Valuation and Risks

- Recommendation & valuation:** Our 1-Year target is QR5.100 and we rate QGTS an Outperform. We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector. Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. Nakilat's fleet continues to provide QGTS 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 Nakilat's existing vessels vs. maximum debt life of 25 years (last debt maturing 2033), could allow for value-enhancement.
- Risks:** With the NFE deal now announced the risk overhanging the stock (that no deal would be announced) has been eliminated. Execution risks remain given the magnitude of this new contract but we note that Nakilat's impeccable track record alleviates this concern.

Key Financial Data and Estimates

	FY2022	FY2023	FY2024e	FY2025e
EPS (QR)	0.26	0.28	0.34	0.38
P/E (x)	12.8	11.8	9.9	8.8
DPS (QR)	0.13	0.14	0.15	0.16
Dividend Yield	3.9%	4.2%	4.5%	4.8%

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

Key Data

Current Market Price (QR)	3.330
Current Dividend Yield (%)	4.2
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.300/3.061
3-m Average Volume ('mn)	6.9
Mkt. Cap. (\$ bn/QR bn)	5.1/18.4
EV (\$ bn/QR bn)	8.7/31.9
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.8
1-Year Total Return (%)	(8.7)
Fiscal Year End	December 31

Source: Bloomberg (as of February 08, 2024), *Qatar Exchange (as of February 08, 2024); Note: FO is foreign ownership

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Our Analysis Shows ~1% Boost To TP For Every LNG Vessel Added Under The North Field Program

We estimate that every incremental vessel (@100%) adds ~1% to Nakilat's target price. We note we assume roughly \$90,000/day in charter rates, which is lower than the company's existing wholly-owned fleet's (the original 25 vessels) charter rates that exceed \$90,000/day. We forecast initial contract terms of 25 years after which we assume a 10-year extension at a 30% haircut in revenue. As usual, we do not forecast any terminal value.

We also note that QGTS could additionally benefit if it is selected for managing a portion of the expansion fleet. We point out that Nakilat possesses significant in-house ship management expertise and is already managing 25 LNG vessels (21 wholly-owned), a FSRU and four LPG carriers.

Each Additional LNG Vessel Could Add ~1% to Nakilat's Target Price

# of Vessels	1
Capex/Ship (\$ mn)	260
Useful Life	40
Depreciation/Year (\$ mn)	7
Depreciation/Year (QRmn)	24
Residual Value of Vessel (s) in Year 35 (QR mn)	118
Debt %	80.0%
Debt (\$ mn)	208
Equity (\$ mn)	52
Equity (QR mn)	189

Periods	1	2	3	4	5	10	15	25	30	35
Revenue (QR mn)	120	120	120	120	120	121	121	123	86	87
Revenue (\$ mn)	33	33	33	33	33	33	33	34	24	24
Average Capacity in m ³	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000
Daily Charter Rate/Vessel (in \$)	90,067	90,157	90,000	90,337	90,428	90,881	91,336	92,001	64,836	65,161
EBITDA (QR mn)	81	83	83	83	83	83	83	82	51	50
EBITDA Margin	67.7%	69.5%	69.5%	69.4%	69.3%	68.7%	68.2%	67.1%	59.1%	57.9%
Taxes (Social & Sports Fund Contribution)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Changes in Working Capital	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	(4)	(4)	(4)	(4)	(7)	(7)	(7)	(7)	(7)	(7)
Free Cash Flow to Firm	76	78	78	78	75	74	74	74	43	42
PV of FCF	71	68	63	59	53	37	26	13	5	4
Cumulative PV of FCF	71	139	202	262	314	537	693	881	914	937

PV of Cash Flows	937
<i>Add:</i>	
Cash Balances	0
PV of BV of Fleet (Fully-Owned)	10
<i>Less:</i>	
Debt Balances	757
Fair Value of Equity	190
Incremental Target Price (Per Share)	0.03
Current Target Price (No Expansion)	4.100
% Upside/(Downside)	0.8%
Shares O/S (Mn)	5,540

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Revenue – Wholly-Owned Ships	3,550	3,565	3,568	3,572
Direct Costs	(764)	(795)	(817)	(820)
Gross Profit	2,786	2,770	2,751	2,752
Income from Marine & Agency Services	55	60	64	67
General and Administrative Expenses	(112)	(114)	(106)	(109)
EBITDA	2,729	2,716	2,709	2,710
Depreciation	(947)	(935)	(843)	(846)
EBIT	1,783	1,781	1,867	1,864
Share of Profits from Joint Ventures	689	785	856	924
Finance Costs	(1,139)	(1,249)	(1,078)	(879)
Interest, Dividend & Profit from Islamic Banks	107	242	232	206
Profit Before Tax	1,439	1,559	1,876	2,115
Income Tax Expense	0	0	0	0
Profit After Tax	1,439	1,559	1,876	2,115
Minority Interest	(0)	(1)	(1)	(1)
Profit for Equity Shareholders	1,439	1,558	1,875	2,113
EPS (QR)	0.26	0.28	0.34	0.38
Adjusted Revenue	4,295	4,410	4,488	4,563
Adjusted EBITDA	3,419	3,501	3,565	3,634

Source: Company data, QNB FS Research

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

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