

QGTS Alert – In-Line 2Q2021 Results; Remain Outperform with QR3.500 Price Target

• **Nakilat's bottom-line rises 16.7% YoY but declines 1.6% QoQ in 2Q2021, in-line with our estimate** – QGTS posted QR315.1mn in 2Q2021 net income, in-line with our estimate of QR323.4mn (variation of -2.6%). While reported figures generally only showed modest divergences vs. our forecast, better-than-anticipated wholly-owned ship revenue was offset by weaker-than-expected JV income. **(1) Revenue from wholly-owned ships** of QR880.7mn (0.7% YoY, 1.5% QoQ) was in-line with our estimate of QR868.3mn (variation of 1.4%). **(2) Adjusted revenue** of QR991.4mn (1.2% YoY, 0.5% QoQ) was bang in-line with our estimate of QR989.6mn and was driven by the previously mentioned strength in wholly-owned vessel top-line, along with an uptick in marine & agency services income. **(3) EBITDA** of QR688.1mn (1.2% YoY, 2.4% QoQ) was 2.2% ahead of our forecast of QR673.1mn due to the same factors that drove adjusted revenue. **G&A** continued to improve on a YoY basis, coming in at QR22.7mn (-6.7% YoY, 3.2% QoQ), but was 3.1% above our modeled forecast of QR22.0mn. **(4) Adjusted EBITDA** of QR784.3mn (1.8% YoY, 0.3% QoQ) was also at par with our estimate of QR786.1mn (-0.2% variation). **(5) JV income** of QR96.2mn (6.4% YoY, -12.7% QoQ) was 14.9% below our estimate of QR113.0mn. **(6) Finally finance costs** continued their significant YoY decline, coming in at QR265.0mn (-10.5% YoY, 0.2% QoQ), but was 0.7% ahead of our estimate of QR263.1mn.

• **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 on November 10, 2020, QGTS' share price has appreciated by **17%**, **significantly beating the QE Index's increase of 6%** 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 (1 added in early January followed by one each in 2H2021 and in early 2022) via Global Shipping, should help earnings growth in 2021 and 2022. **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 note every vessel (@100%) adds roughly 1% to QGTS' target price and we should hear more about carrier selection by end of 2022. We foresee significant upward revision to our estimates and price target once we factor in this expansion.

QGTS Alert – In-Line 2Q2021 Results; Remain Outperform with QR3.500 Price Target

Income Statement							
In QR mn Except Otherwise Noted	2Q2020	1Q2021	2Q2021	2Q2021e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	874.313	867.478	880.674	868.345	1.4%	0.7%	1.5%
Operating Costs	(185.596)	(181.867)	(184.391)	(181.484)	1.6%	-0.6%	1.4%
Gross Profit	688.717	685.611	696.283	686.861	1.4%	1.1%	1.6%
<i>Gross Margin</i>	<i>78.8%</i>	<i>79.0%</i>	<i>79.1%</i>	<i>79.1%</i>			
Income from Marine and Agency Services	15.382	8.474	14.513	8.200	77.0%	-5.6%	71.3%
General and Administrative Expenses	(24.298)	(21.951)	(22.664)	(21.973)	3.1%	-6.7%	3.2%
EBITDA	679.801	672.134	688.132	673.088	2.2%	1.2%	2.4%
Depreciation & Amortization	(222.815)	(218.822)	(220.850)	(218.625)	1.0%	-0.9%	0.9%
EBIT	456.986	453.312	467.282	454.463	2.8%	2.3%	3.1%
<i>EBIT Margin</i>	<i>52.3%</i>	<i>52.3%</i>	<i>53.1%</i>	<i>52.3%</i>			
Share of Operating Profits from Joint Ventures	90.393	110.157	96.205	113.021	-14.9%	6.4%	-12.7%
Finance Costs	(296.120)	(264.399)	(265.029)	(263.077)	0.7%	-10.5%	0.2%
Interest, Dividend income & Profit from Islamic Banks	13.747	17.017	11.996	15.000	-20.0%	-12.7%	-29.5%
Vessel Sub-Chartering & Other Income	5.213	4.065	4.988	4.000	24.7%	-4.3%	22.7%
Profit Before Tax	270.219	320.152	315.442	323.407	-2.5%	16.7%	-1.5%
Profit After Tax	270.219	320.152	315.442	323.407	-2.5%	16.7%	-1.5%
Minority Interest	(0.331)	(0.046)	(0.361)	(0.046)	676.9%	9.1%	684.8%
Net Income to Equity	269.888	320.106	315.081	323.361	-2.6%	16.7%	-1.6%
<i>Net Profit Margin</i>	<i>30.9%</i>	<i>36.9%</i>	<i>35.8%</i>	<i>37.2%</i>			
EPS (QR)	0.05	0.06	0.06	0.06	-2.6%	16.7%	-1.6%
Adjusted EBITDA	770.194	782.291	784.337	786.109	-0.2%	1.8%	0.3%
Adjusted Revenue	980.088	986.109	991.392	989.567	0.2%	1.2%	0.5%

Particulars	2Q2020	1Q2021	2Q2021	2Q2021e
Adj. EBITDA Margin	78.6%	79.3%	79.1%	79.4%
Gross Margin	78.8%	79.0%	79.1%	79.1%
EBIT Margin	52.3%	52.3%	53.1%	52.3%
G & A % of Sales	2.8%	2.5%	2.6%	2.5%
Depreciation & Amortization % of Sales	25.5%	25.2%	25.1%	25.2%

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

DISCLAIMER: 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 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. 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. While this publication has been prepared with the utmost degree of care by our analysts, 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. 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.

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