

## QGTS Alert – In-line 4Q2018/2018 Operating Results With Finance Charges Driving EPS Beat; Accumulate

- **A strong finish to the year with 4Q2018 EPS of QR0.42 down 3% YoY but up 9% QoQ:** Nakilat posted a net profit of QR233mn in 4Q2018, beating our estimate of QR214mn (variation of +9%). Operating metrics were in line with our forecasts, with adjusted revenue of QR878mn lower by 1.5% relative to our estimate of QR891mn and adjusted EBITDA of QR679mn flattish vs. our forecast of QR681mn. Most of the beat for the quarter came from lower-than-expected finance charges, which came in at QR287mn (-2.5% YoY, -6.1% QoQ) vs. our estimate of QR309mn despite total debt for 2018 coming in exactly in-line with our model at QR19.8bn. Total debt did drop 2% or QR419mn QoQ, which was in-line with our estimate, so the drop in finance charges was surprising given the higher rate environment. We await more details regarding this decline in finance charges. As we had pointed out most recently in our [preview](#), *for 2019, we expect flattish interest charges despite a 6% decline in debt given our forecast of higher interest rates. However, if interest rates do not go up as originally envisioned, a scenario that looks increasingly likely given the Fed's recent statements and market forecasts, we see decent upside to our 2019 estimates.*
- **In FY2018, Nakilat reported 5% YoY growth in net profit to QR891mn.** Excluding an one-off item in 4Q2017 (realized gain on available-for-sale investments), QGTS' 2018 net profit saw a 14% growth. *For more details about 4Q2018 and 2018 results vs. our estimates, please see Page 2.*
- **DPS flat at QR1 slightly below our estimate of QR1.05.** DPS has been flat over 2016-2018 but payout has increased from 58% in 2016 to 65% in 2017 before declining to 62% in 2018. Dividend yield is an attractive 5.2%.
- **Maintain Accumulate with QR21 price target.** In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.

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Income Statement							Quarterly Comparisons			YoY Comparisons	
In QR mn Except Otherwise Noted	4Q2017	3Q2018	4Q2018	2018	4Q2018e	2018e	A vs. E	YoY	QoQ	A vs. E	YoY
Revenue from Wholly-Owned Vessels	769.265	774.328	762.310	3,063.097	776.157	3,076.944	-1.8%	-0.9%	-1.6%	-0.5%	0.2%
Operating Costs	(180.529)	(177.605)	(161.447)	(678.612)	(178.939)	(696.104)	-9.8%	-10.6%	-9.1%	-2.5%	-2.7%
<b>Gross Profit</b>	<b>588.736</b>	<b>596.723</b>	<b>600.863</b>	<b>2,384.485</b>	<b>597.218</b>	<b>2,380.840</b>	<b>0.6%</b>	<b>2.1%</b>	<b>0.7%</b>	<b>0.2%</b>	<b>1.1%</b>
<i>Gross Margin</i>	76.5%	77.1%	78.8%	77.8%	76.9%	77.4%					
Income from Marine and Agency Services	14.294	13.702	12.619	53.949	13.927	55.257	-9.4%	-11.7%	-7.9%	-2.4%	-2.4%
General and Administrative Expenses	(29.275)	(31.026)	(37.350)	(134.059)	(31.600)	(128.309)	18.2%	27.6%	20.4%	4.5%	0.4%
<b>EBITDA</b>	<b>573.755</b>	<b>579.399</b>	<b>576.132</b>	<b>2,304.375</b>	<b>579.545</b>	<b>2,307.788</b>	<b>-0.6%</b>	<b>0.4%</b>	<b>-0.6%</b>	<b>-0.1%</b>	<b>1.0%</b>
Depreciation & Amortization	(192.535)	(189.999)	(190.927)	(757.653)	(189.999)	(756.725)	0.5%	-0.8%	0.5%	0.1%	-1.3%
<b>EBIT</b>	<b>381.220</b>	<b>389.400</b>	<b>385.205</b>	<b>1,546.722</b>	<b>389.546</b>	<b>1,551.063</b>	<b>-1.1%</b>	<b>1.0%</b>	<b>-1.1%</b>	<b>-0.3%</b>	<b>2.2%</b>
<i>EBIT Margin</i>	49.6%	50.3%	50.5%	50.5%	50.2%	50.4%					
Share of Operating Profits from Joint Ventures	62.011	101.406	103.362	396.442	101.203	394.283	2.1%	66.7%	1.9%	0.5%	16.9%
Finance Costs	(294.011)	(305.450)	(286.704)	(1,172.559)	(308.505)	(1,194.360)	-7.1%	-2.5%	-6.1%	-1.8%	0.0%
Interest, Dividend income & Profit from Islamic Banks	16.564	20.353	23.775	87.221	21.953	85.399	8.3%	43.5%	16.8%	2.1%	36.3%
Vessel Sub-Chartering & Other Income	74.455	8.656	7.522	34.363	10.264	37.105	-26.7%	-89.9%	-13.1%	-7.4%	-66.6%
<b>Profit Before Tax</b>	<b>240.239</b>	<b>214.365</b>	<b>233.160</b>	<b>892.189</b>	<b>214.462</b>	<b>873.491</b>	<b>8.7%</b>	<b>-2.9%</b>	<b>8.8%</b>	<b>2.1%</b>	<b>5.3%</b>
<b>Profit After Tax</b>	<b>240.239</b>	<b>214.365</b>	<b>233.160</b>	<b>892.189</b>	<b>214.462</b>	<b>873.491</b>	<b>8.7%</b>	<b>-2.9%</b>	<b>8.8%</b>	<b>2.1%</b>	<b>5.3%</b>
Minority Interest	(0.413)	(0.257)	(0.223)	(1.046)	(0.353)	(1.176)	-36.8%	-46.0%	-13.2%	-11.0%	-12.5%
<b>Net Income to Equity</b>	<b>239.826</b>	<b>214.108</b>	<b>232.937</b>	<b>891.143</b>	<b>214.109</b>	<b>872.315</b>	<b>8.8%</b>	<b>-2.9%</b>	<b>8.8%</b>	<b>2.2%</b>	<b>5.3%</b>
<i>Net Profit Margin</i>	31.2%	27.7%	30.6%	29.1%	27.6%	28.4%					
<b>EPS (QR)</b>	<b>0.43</b>	<b>0.39</b>	<b>0.42</b>	<b>1.61</b>	<b>0.39</b>	<b>1.57</b>	<b>8.8%</b>	<b>-2.9%</b>	<b>8.8%</b>	<b>2.2%</b>	<b>5.3%</b>
<b>Adjusted EBITDA</b>	<b>635.766</b>	<b>680.805</b>	<b>679.494</b>	<b>2,700.817</b>	<b>680.749</b>	<b>2,702.072</b>	<b>-0.2%</b>	<b>6.9%</b>	<b>-0.2%</b>	<b>0.0%</b>	<b>3.1%</b>
<b>Adjusted Revenue</b>	<b>845.570</b>	<b>889.436</b>	<b>878.291</b>	<b>3,513.488</b>	<b>891.287</b>	<b>3,526.484</b>	<b>-1.5%</b>	<b>3.9%</b>	<b>-1.3%</b>	<b>-0.4%</b>	<b>1.8%</b>
<b>Particulars</b>	<b>4Q2017</b>	<b>3Q2018</b>	<b>4Q2018</b>	<b>2018</b>	<b>4Q2018e</b>	<b>2018e</b>					
Adj. EBITDA Margin	75.2%	76.5%	77.4%	76.9%	76.4%	76.6%					
Gross Margin	76.5%	77.1%	78.8%	77.8%	76.9%	77.4%					
EBIT Margin	49.6%	50.3%	50.5%	50.5%	50.2%	50.4%					
G & A % of Sales	3.8%	4.0%	4.9%	4.4%	4.1%	4.2%					
Depreciation & Amortization % of Sales	25.0%	24.5%	25.0%	24.7%	24.5%	24.6%					

### 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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