

QGTS Alert – Beats 3Q2021 Earnings Est. on Margins/JV Income Upside; Outperform

- **Nakilat's bottom-line rises 5.0% YoY & 16.7% QoQ in 3Q2021, exceeding our estimate** – QGTS posted QR367.7mn in 3Q2021 net income, ahead of our estimate of QR337.3mn (variation of 9.0%). A moderate beat in gross profits from its 29-wholly-owned ships, along with a better-than-expected performance from its JV shipping/shipyard businesses, led to the upside in 3Q2021 relative to our model. **(1) Revenue from wholly-owned ships** of QR887.5mn (0.4% YoY, 0.8% QoQ) was in-line with our estimate of QR885.4mn (variation of 0.2%). **(2) Adjusted revenue** (wholly-owned ships + marine & agency services + JV income) of QR1.04bn (1.0% YoY, 4.7% QoQ) was also in-line with our estimate of QR1.01bn (divergence of 3.0%) and was driven by the previously mentioned strength in JV income, along with an uptick in marine & agency services income. **(3) EBITDA** of QR696.0mn (-0.7% YoY, 1.1% QoQ) was barely 1.3% ahead of our forecast of QR687.4mn as improvement in cash costs drove gross margin upside (80.1% vs. our model of 79.2%); EBITDA performance was further aided by marine & agency services but was offset by the growth seen in **G&A** expenses of QR27.3mn (31.7% YoY, 20.5% QoQ/18.2% ahead of our estimate of QR23.1mn). Despite the growth in G&A in 3Q2021, we would like to point out that overall G&A has fallen 30.3% from 2018 to 2020 and 9M2021 G&A has declined 4.8% YoY from QR75.6mn to QR71.9mn. **(4) Adjusted EBITDA** of QR834.6mn (flat YoY, 6.4% QoQ) was 4.2% above our estimate of QR800.9mn. **(5) JV income** of QR138.6mn (3.6% YoY, 44.0% QoQ) was 22.1% above our estimate of QR113.5mn. We note that JV income was depressed in 2Q2021 due to a one-time charge associated with the shipyard for a legacy cost. We believe QGTS' shipyard operations have continued to improve in 3Q2021 contributing to the JV income upside. **(6) Finally finance costs** continued their significant YoY decline, coming in at QR260.4mn (-6.5% YoY, -1.7% QoQ), and was in-line with our estimate of QR262.4mn (difference of -0.7%).
- **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.** 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 2021 followed by one each in October/November 2021 and January/February 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' TP 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. **We rate QGTS an Outperform with a QR3.500 price target.**

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Income Statement							
In QR mn Except Otherwise Noted	3Q2020	2Q2021	3Q2021	3Q2021e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	884.327	880.674	887.474	885.352	0.2%	0.4%	0.8%
Operating Costs	(172.096)	(184.391)	(176.205)	(184.153)	-4.3%	2.4%	-4.4%
Gross Profit	712.231	696.283	711.269	701.199	1.4%	-0.1%	2.2%
<i>Gross Margin</i>	<i>80.5%</i>	<i>79.1%</i>	<i>80.1%</i>	<i>79.2%</i>			
Income from Marine and Agency Services	9.448	14.513	12.083	9.345	29.3%	27.9%	-16.7%
General and Administrative Expenses	(20.727)	(22.664)	(27.307)	(23.100)	18.2%	31.7%	20.5%
EBITDA	700.952	688.132	696.045	687.443	1.3%	-0.7%	1.1%
Depreciation & Amortization	(222.594)	(220.850)	(223.011)	(221.114)	0.9%	0.2%	1.0%
EBIT	478.358	467.282	473.034	466.329	1.4%	-1.1%	1.2%
<i>EBIT Margin</i>	<i>54.1%</i>	<i>53.1%</i>	<i>53.3%</i>	<i>52.7%</i>			
Share of Operating Profits from Joint Ventures	133.734	96.205	138.563	113.462	22.1%	3.6%	44.0%
Finance Costs	(278.411)	(265.029)	(260.415)	(262.379)	-0.7%	-6.5%	-1.7%
Interest, Dividend income & Profit from Islamic Banks	12.793	11.996	12.511	14.874	-15.9%	-2.2%	4.3%
Vessel Sub-Chartering & Other Income	3.880	4.988	4.305	5.192	-17.1%	11.0%	-13.7%
Profit Before Tax	350.354	315.442	367.998	337.479	9.0%	5.0%	16.7%
Profit After Tax	350.354	315.442	367.998	337.479	9.0%	5.0%	16.7%
Minority Interest	0.039	(0.361)	-0.252	-0.161	56.9%	-746.2%	-30.2%
Net Income to Equity	350.393	315.081	367.746	337.318	9.0%	5.0%	16.7%
<i>Net Profit Margin</i>	<i>39.6%</i>	<i>35.8%</i>	<i>41.4%</i>	<i>38.1%</i>			
EPS (QR)	0.06	0.06	0.07	0.06	9.0%	5.0%	16.7%
Adjusted EBITDA	834.686	784.337	834.608	800.905	4.2%	0.0%	6.4%

Adjusted Revenue	1,027.509	991.392	1,038.120	1,008.158	3.0%	1.0%	4.7%
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Particulars	3Q2020	2Q2021	3Q2021	3Q2021e
Adj. EBITDA Margin	81.2%	79.1%	80.4%	79.4%
Gross Margin	80.5%	79.1%	80.1%	79.2%
EBIT Margin	54.1%	53.1%	53.3%	52.7%
G & A % of Sales	2.3%	2.6%	3.1%	2.6%
Depreciation & Amortization % of Sales	25.2%	25.1%	25.1%	25.0%

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%

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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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