

QGTS Alert – In-Line 1Q2021 Results; Retain Outperform Rating and QR3.50 Price Target

- **Nakilat's bottom-line rises 14.7% YoY and 22.8% QoQ in 1Q2021, in-line with our estimate – QGTS posted QR320.1mn in 1Q2021 net income, in-line with our estimate of QR324.5mn (variation of -1.4%). Better-than-anticipated wholly-owned ship revenue/operating costs, along with lower-than-modeled depreciation & amortization expenses, offset weaker-than-expected JV income. (1) Revenue from wholly-owned ships of QR867.5mn (-0.7% YoY, -0.1% QoQ) was in-line with our estimate of QR858.2mn (variation of 1.1%). (2) Adjusted revenue of QR986.1mn (-1.1% YoY, 5.7% QoQ) was bang in-line with our estimate of QR986.3mn and was driven by the previously mentioned strength in wholly-owned vessel top-line. (3) EBITDA of QR672.1mn (0.8% YoY, -0.1% QoQ) was consistent with our forecast of QR665.4mn (1.0% difference). Better-than-expected revenue and direct operating cash costs of wholly-owned vessels drove EBITDA performance; G&A continued to improve on a YoY basis, coming in at QR22.0mn (-28.1% YoY, 22.8% QoQ), but was 24.0% above our modeled forecast of QR17.7mn. (4) Adjusted EBITDA of QR782.3mn (0.7% YoY, 7.4% QoQ) was also at par with our estimate of QR784.3mn (-0.3% variation). (5) JV income of QR110.2mn (0.0% YoY, 97.1% QoQ), showed a significant jump due to one-offs in 4Q2020, but was 7.3% below our estimate of QR118.9mn. (6) Finally finance costs continued their significant YoY decline, coming in at QR264.4mn (-11.7% YoY, 0.4% QoQ), but was 1.1% ahead of our estimate of QR261.6mn.**
- **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 18%, 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.**

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Income Statement							
In QR mn Except Otherwise Noted	1Q2020	4Q2020	1Q2021	1Q2021e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	873.382	868.566	867.478	858.181	1.1%	-0.7%	-0.1%
Operating Costs	(189.618)	(186.251)	(181.867)	(184.255)	-1.3%	-4.1%	-2.4%
Gross Profit	683.764	682.315	685.611	673.926	1.7%	0.3%	0.5%
<i>Gross Margin</i>	<i>78.3%</i>	<i>78.6%</i>	<i>79.0%</i>	<i>78.5%</i>			
Income from Marine and Agency Services	13.334	8.143	8.474	9.200	-7.9%	-36.4%	4.1%
General and Administrative Expenses	(30.542)	(17.881)	(21.951)	(17.702)	24.0%	-28.1%	22.8%
EBITDA	666.556	672.577	672.134	665.424	1.0%	0.8%	-0.1%
Depreciation & Amortization	(222.910)	(223.172)	(218.822)	(222.951)	-1.9%	-1.8%	-1.9%
EBIT	443.646	449.405	453.312	442.473	2.4%	2.2%	0.9%
<i>EBIT Margin</i>	<i>50.8%</i>	<i>51.7%</i>	<i>52.3%</i>	<i>51.6%</i>			
Share of Operating Profits from Joint Ventures	110.133	55.882	110.157	118.889	-7.3%	0.0%	97.1%
Finance Costs	(299.312)	(263.385)	(264.399)	(261.628)	1.1%	-11.7%	0.4%
Interest, Dividend income & Profit from Islamic Banks	19.700	11.369	17.017	19.109	-10.9%	-13.6%	49.7%
Vessel Sub-Chartering & Other Income	5.387	7.458	4.065	5.656	-28.1%	-24.5%	-45.5%
Profit Before Tax	279.554	260.729	320.152	324.498	-1.3%	14.5%	22.8%
Profit After Tax	279.554	260.729	320.152	324.498	-1.3%	14.5%	22.8%
Minority Interest	(0.363)	0.012	(0.046)	0.015	-408.0%	-87.3%	-483.3%
Net Income to Equity	279.191	260.741	320.106	324.513	-1.4%	14.7%	22.8%
<i>Net Profit Margin</i>	<i>32.0%</i>	<i>30.0%</i>	<i>36.9%</i>	<i>37.8%</i>			
EPS (QR)	0.05	0.05	0.06	0.06	-1.4%	14.7%	22.8%
Adjusted EBITDA	776.689	728.459	782.291	784.312	-0.3%	0.7%	7.4%

Adjusted Revenue	996.849	932.591	986.109	986.269	0.0%	-1.1%	5.7%
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Particulars	1Q2020	4Q2020	1Q2021	1Q2021e
Adj. EBITDA Margin	77.9%	78.1%	79.3%	79.5%
Gross Margin	78.3%	78.6%	79.0%	78.5%
EBIT Margin	50.8%	51.7%	52.3%	51.6%
G & A % of Sales	3.5%	2.1%	2.5%	2.1%
Depreciation & Amortization % of Sales	25.5%	25.7%	25.2%	26.0%

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%

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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