

QGTS Alert – 3Q2020 Earnings Beat on JV Income Resurgence & Lower Finance Costs; Accumulate

- **Nakilat posts 39.0% YoY & 29.8% QoQ increase in 3Q2020 earnings fueled by higher shipyard profitability, LPG growth, income from an additional vessel deployed in Global Shipping JV and lower finance charges** – QGTS posted 3Q2020 bottom-line of QR350.4mn vs. QR252.0mn in 3Q2019 and QR269.9mn in 2Q2020 (QNB FS estimate: QR281.1mn). Lower G&A and higher-than-anticipated JV income, along with lower-than-expected finance charges, contributed to the majority of the earnings beat. (1) Revenue from wholly-owned ships of QR884.3mn (14.1% YoY, 1.1% QoQ) was bang in-line with our estimate of QR883.9mn. As expected, the YoY growth in ship revenue was driven by the purchase of QGTS' remaining 49.9% stake in 4 LNG ships held under its OSG joint venture in October 2019. (2) Adjusted revenue of QR1,027.5mn (14.8% YoY, 4.8% QoQ) was ahead of our estimate of QR993.0mn (3.5% divergence) and was driven by the previously mentioned YoY surge in wholly-owned revenue along with growth in JV income. (3) EBITDA of QR701.0mn (17.8% YoY, 3.1% QoQ) was also better than our forecast of QR685.2mn (2.3% difference). Improvement in SG&A vs. our model also helped Nakilat during 3Q2020. (4) Adjusted EBITDA of QR834.7mn (19.0% YoY, 8.4% QoQ) was also better than our forecast of QR778.8mn (7.2% difference). (5) JV income of QR133.7mn (25.7% YoY, 47.9% QoQ) was significantly above our estimate of QR93.7mn. A resurgence in shipyard profitability relative to subdued global shipyard fundamentals in 1H2020, growth in LPG and contribution from the new LNG vessel (delivered in May to 60%-owned JV Global Shipping Co. and operating under a multi-month contract with an international charterer) helped drive this growth in JV income. (6) Lower-than-modeled finance costs of QR278.4mn (-0.7% YoY, -6.0% QoQ), which beat our est. of QR293.0mn by 5.0%, also contributed to the EPS beat. Overall, we find these results encouraging and consistent with the overall progress we see Nakilat making on the operational/costs front.
- **We remain bullish on QGTS 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. In the near-term, addition of 4 LNG vessels (1 more in 2020, with 2 next year) via Global Shipping, should help earnings growth in 2020 and 2021. Going forward, 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 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. We do not envision substantial risks to QGTS' business model due to the ongoing oil price volatility/COVID-19 pandemic. **We remain Accumulate on QGTS and will be increasing our estimates and price target shortly.**

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Income Statement							
In QR mn Except Otherwise Noted	3Q2019	2Q2020	3Q2020	3Q2020e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	774.837	874.313	884.327	883.921	0.0%	14.1%	1.1%
Operating Costs	(162.910)	(185.596)	(172.096)	(187.636)	-8.3%	5.6%	-7.3%
Gross Profit	611.927	688.717	712.231	696.285	2.3%	16.4%	3.4%
<i>Gross Margin</i>	79.0%	78.8%	80.5%	78.8%			
Income from Marine and Agency Services	13.779	15.382	9.448	15.400	-38.6%	-31.4%	-38.6%
General and Administrative Expenses	(30.822)	(24.298)	(20.727)	(26.518)	-21.8%	-32.8%	-14.7%
EBITDA	594.884	679.801	700.952	685.168	2.3%	17.8%	3.1%
Depreciation & Amortization	(190.308)	(222.815)	(222.594)	(222.748)	-0.1%	17.0%	-0.1%
EBIT	404.576	456.986	478.358	462.420	3.4%	18.2%	4.7%
<i>EBIT Margin</i>	52.2%	52.3%	54.1%	52.3%			
Share of Operating Profits from Joint Ventures	106.431	90.393	133.734	93.650	42.8%	25.7%	47.9%
Finance Costs	(280.396)	(296.120)	(278.411)	(292.962)	-5.0%	-0.7%	-6.0%
Interest, Dividend income & Profit from Islamic Banks	16.965	13.747	12.793	13.000	-1.6%	-24.6%	-6.9%
Vessel Sub-Chartering & Other Income	4.744	5.213	3.880	5.300	-26.8%	-18.2%	-25.6%
Profit Before Tax	252.320	270.219	350.354	281.408	24.5%	38.9%	29.7%
Profit After Tax	252.320	270.219	350.354	281.408	24.5%	38.9%	29.7%
Minority Interest	(0.281)	(0.331)	0.039	(0.345)	N/M	N/M	N/M
Net Income to Equity	252.039	269.888	350.393	281.063	24.7%	39.0%	29.8%
<i>Net Profit Margin</i>	32.5%	30.9%	39.6%	31.8%			
EPS (QR)	0.05	0.05	0.06	0.05	24.7%	39.0%	29.8%
Adjusted EBITDA	701.315	770.194	834.686	778.818	7.2%	19.0%	8.4%
Adjusted Revenue	895.047	980.088	1,027.509	992.971	3.5%	14.8%	4.8%

Particulars	3Q2019	2Q2020	3Q2020	3Q2020
Adj. EBITDA Margin	78.4%	78.6%	81.2%	78.4%
Gross Margin	79.0%	78.8%	80.5%	78.8%
EBIT Margin	52.2%	52.3%	54.1%	52.3%
G & A % of Sales	4.0%	2.8%	2.3%	3.0%
Depreciation & Amortization % of Sales	24.6%	25.5%	25.2%	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

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