

## Qatar Gas Transport Co./Nakilat (QGTS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR21.40</b>	<b>Current Target Price</b>	<b>QR24.00</b>
<b>Implied Upside</b>	<b>12.1%</b>		

### An In-Line 1Q2019; Maintain Estimates, Accumulate Rating & QR24 PT

*Nakilat's reported 1Q2019 results met/slightly exceeded our forecasts. Results continued to highlight YoY growth from acquisitions as QGTS benefited from adding two LNG vessels at its Maran JV in March 2018 and deploying a FSRU in June 2018. Moreover, adjusted EBITDA margins improved almost 600 bps to 77.7% as the company continues to rationalize opex, enhance operational efficiencies and benefit from JV income growth (including its shipyard business). Overall, we view these as a solid set of results and do not envision any estimate changes for now. We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Going forward, in terms of catalysts, we continue to 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. QGTS' fleet continues to provide Nakilat 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), creates refinancing opportunities to increase fleet size. Thus, we think further JV deals in LNG ships and FSRUs are likely especially considering current attractive market fundamentals, which should continue to provide QGTS with growth avenues. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve. We continue to rate QGTS an Accumulate with a price target of QR24.*

#### Highlights

- **QGTS' 1Q2019 bottom-line rises 9.1% YoY and 1.3% QoQ, in-line with our estimate:** Reported net income of QR236.0mn modestly bested our estimate of QR226.6mn (variation of +4.1%). Overall operating metrics also remained in-line with our modeled estimates with: **(1)** Wholly-owned LNG ship charter revenue of QR751.9mn (-0.8% YoY, -1.4% QoQ) coming in 0.8% ahead of QNB FS expectations of QR745.7mn; **(2)** Adjusted revenue (that includes JV income & income from marine/agency services) of QR867.4mn (+1.2% YoY, -1.2% QoQ) was just 0.2% short of our estimate of QR869.6mn; and **(3)** Adjusted EBITDA (which comprises of wholly-owned vessel EBITDA & JV income) of QR673.6mn (+1.9% YoY, -0.9% QoQ) again came in just 0.2% shy of our estimate of QR674.7mn. YOY comparisons benefited from higher JV income (2 conventional LNG vessels added at Maran in March, one FSRU added in June and strength in the shipyard business) and improvement in G&A expenses. Sequentially, earnings benefitted from lower G&A. For more details, please see page 2.
- **No estimate revisions: we continue to expect 8% and 12% growth in 2019 and 2020 earnings, respectively.** For 2019, we continue to forecast QR962mn (EPS: QR1.74), which implies a YoY growth of 8%. For 2020, our earnings estimate accelerates by a further 12%. Our 2019 and 2020 earnings growth is mostly driven by higher JV income as: **(1)** Teekay JVs bounce back from a one-off tax adjustment that lowered earnings in 2018; **(2)** QGTS benefits from some contract rollovers at its Nakilat Maran joint venture, in our view; **(3)** Gulf LPG shows growth from a weak 2018 base and **(4)** the shipyard business continues to show progress. Our earnings estimate also benefits from lowered finance charges. Our 2020 profit forecast also factors in another four LNG vessels via QGTS' new JV (Global Shipping Co).

#### Catalysts

- **Expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver.** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR24.** QGTS trades at attractive multiples vs. peers despite higher EBITDA margins & FCF yields.
- **Risks: (1)** Blockade remains an overhang but business impact has been limited thus far. Shipping is ultimately the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2)** There is a risk existing LNG contracts get renegotiated but at current rates this looks unlikely. Overall, we do not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept worse contract terms. The likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

#### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	1.61	1.74	1.94	2.33
P/E (x)	13.3	12.3	11.0	9.2
DPS (QR)	1.00	1.00	1.00	1.10
Dividend Yield	4.7%	4.7%	4.7%	5.1%

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	21.40
Current Dividend Yield (%)	4.7
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	22.70/13.55
3-m Average Volume ('000)	340.9
Mkt. Cap. (\$ bn/QR bn)	3.3/11.9
EV (\$ bn/QR bn)	8.0/29.1
Shares Outstanding (mn)	554.0
FO Limit* (%)	49.0
Current FO* (%)	14.5
1-Year Total Return (%)	53.7
Fiscal Year End	December 31

Source: Bloomberg (as of April 22, 2019), \*Qatar Exchange (as of April 21, 2019); Note: FO is foreign ownership

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## 1Q2019 Review

**QGT'S 1Q2019 bottom-line rises 9.1% YoY and 1.3% QoQ, in-line with our estimate:** Reported net income of QR236.0mn modestly bested our estimate of QR226.6mn (variation of +4.1%). Overall operating metrics also remained in-line with our modeled estimates with: (1) Wholly-owned LNG ship charter revenue of QR751.9mn (-0.8% YoY, -1.4% QoQ) coming in 0.8% ahead of QNB FS expectations of QR745.7mn; (2) Adjusted revenue (that includes JV income & income from marine/agency services) of QR867.4mn (+1.2% YoY, -1.2% QoQ) was just 0.2% short of our estimate of QR869.6mn; and (3) Adjusted EBITDA (which comprises of wholly-owned vessel EBITDA & JV income) of QR673.6mn (+1.9% YoY, -0.9% QoQ) again came in just 0.2% shy of our estimate of QR674.7mn. YOY comparisons benefited from higher JV income (2 conventional LNG vessels added at Maran in March, one FSRU added in June and strength in the shipyard business) and improvement in G&A expenses. Sequentially, earnings benefitted from lower G&A.

### QNB FS Estimates and Comparisons

In QR mn	1Q2019	1Q2019e	A Vs. E	1Q2018	YoY	4Q2018	QoQ
Revenue from Wholly-Owned Vessels	751.9	745.7	0.8%	757.6	-0.8%	762.3	-1.4%
Gross Profit	589.1	582.9	1.1%	593.0	-0.6%	600.9	-2.0%
General and Administrative Expenses	(31.0)	(32.0)	-3.1%	(32.0)	-3.2%	(37.4)	-16.9%
EBITDA	570.7	564.9	1.0%	575.8	-0.9%	576.1	-1.0%
EBIT	385.2	374.0	3.0%	387.2	-0.5%	385.2	0.0%
Share of Operating Profits from Joint Ventures	102.9	109.8	-6.3%	84.9	21.2%	103.4	-0.4%
Finance Costs	(286.9)	(290.0)	-1.1%	(288.3)	-0.5%	(286.7)	0.1%
Net Income to Equity	236.0	226.6	4.1%	216.4	9.1%	232.9	1.3%
EPS (QR)	0.43	0.41	4.1%	0.39	9.1%	0.42	1.3%
Adjusted Revenue	867.4	869.6	-0.2%	857.4	1.2%	878.3	-1.2%
Adjusted EBITDA	673.6	674.7	-0.2%	660.8	1.9%	679.5	-0.9%
Gross Margin	78.4%	78.2%		78.3%		78.8%	
EBITDA Margin	75.9%	75.8%		76.0%		75.6%	
EBIT Margin	51.2%	50.2%		51.1%		50.5%	
Net Margin	31.4%	30.4%		28.6%		30.6%	
Adjusted EBITDA Margin	77.7%	77.6%		77.1%		77.4%	

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

## Key Growth Metrics

### Growth Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033	CAGR '17-'33
Growth Ratios (In %)													
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	2.2%	1.6%	4.2%	1.2%	1.1%	1.8%	1.6%	1.3%	1.3%	1.6%
Gross Profit	0.1%	0.4%	1.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	2.9%	2.0%	5.4%	1.5%	1.3%	2.2%	1.9%	1.6%	1.5%	2.1%
EBIT	(6.5%)	0.7%	2.2%	(1.0%)	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EPS	(2.9%)	(11.3%)	5.3%	8.0%	11.9%	19.9%	8.6%	7.0%	12.0%	9.4%	5.6%	4.9%	8.1%
CFPS	(9.9%)	16.7%	(6.4%)	39.8%	(11.2%)	10.5%	5.6%	4.7%	8.3%	6.7%	4.3%	3.9%	5.5%
FCFPS	(4.9%)	22.0%	(22.1%)	61.9%	(11.6%)	10.9%	5.8%	(2.3%)	15.6%	7.8%	5.1%	(0.3%)	5.1%
DPS	(20.0%)	0.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	15.4%	6.7%	4.8%	4.0%	6.2%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

## Ratio Analysis

### Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033
Growth Ratios (In %)												
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	2.2%	1.6%	4.2%	1.2%	1.1%	1.8%	1.6%	1.3%	1.3%
Gross Profit	0.1%	0.4%	1.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA	(1.1%)	0.5%	1.0%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	2.9%	2.0%	5.4%	1.5%	1.3%	2.2%	1.9%	1.6%	1.5%
EBIT	(6.5%)	0.7%	2.2%	(1.0%)	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EPS	(2.9%)	(11.3%)	5.3%	8.0%	11.9%	19.9%	8.6%	7.0%	12.0%	9.4%	5.6%	4.9%
CFPS	(9.9%)	16.7%	(6.4%)	39.8%	(11.2%)	10.5%	5.6%	4.7%	8.3%	6.7%	4.3%	3.9%
FCFPS	(4.9%)	22.0%	(22.1%)	61.9%	(11.6%)	10.9%	5.8%	(2.3%)	15.6%	7.8%	5.1%	(0.3%)
DPS	(20.0%)	0.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	15.4%	6.7%	4.8%	4.0%
Operating Ratios (In %)												
Gross Margin	76.6%	77.2%	77.8%	77.9%	77.9%	77.9%	77.8%	77.8%	77.7%	77.7%	77.4%	77.3%
EBITDA Margin	74.0%	74.6%	75.2%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.4%	75.3%	75.3%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	77.4%	77.8%	78.6%	78.8%	79.0%	79.3%	79.6%	80.6%	81.2%
EBIT Margin	49.0%	49.5%	50.5%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	49.9%	49.9%
Net Margin	31.1%	27.7%	29.1%	31.4%	35.1%	42.0%	45.6%	48.7%	54.5%	59.6%	81.2%	94.0%
Finance Ratios												
Net Debt-to-EBITDA	8.3	7.8	7.5	7.0	6.6	6.1	5.6	5.1	4.6	4.0	0.9	-1.2
Debt-Equity Ratio	4.1	3.5	2.9	2.5	2.2	1.9	1.6	1.3	1.1	0.9	0.2	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.2	1.9	1.6	1.3	1.1	0.9	0.7	0.1	-0.1
Interest Coverage	1.3	1.3	1.3	1.3	1.4	1.5	1.6	1.7	1.9	2.2	5.4	37.7
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.1	2.2	2.4	2.5	2.9	3.3	8.2	56.9
Return Ratios (In %)												
ROIC	5.6%	5.7%	5.8%	5.8%	5.9%	6.0%	6.0%	6.1%	6.2%	6.3%	6.3%	6.2%
ROAE	19.7%	15.1%	13.9%	13.4%	13.8%	15.0%	14.7%	14.3%	14.6%	14.5%	13.0%	12.1%
ROAA	3.1%	2.8%	3.0%	3.2%	3.6%	4.4%	4.9%	5.3%	6.0%	6.7%	9.5%	11.0%
Liquidity Ratios												
Current Ratio	2.0	1.6	1.4	1.3	1.2	1.2	1.2	1.0	1.0	1.0	1.0	2.4
Quick Ratio	2.0	1.6	1.4	1.3	1.2	1.2	1.2	1.0	1.0	0.9	1.0	2.4
Valuation												
EV/EBITDA-Adjusted	10.9	11.3	10.8	10.0	9.5	8.7	8.1	7.7	7.1	6.6	4.0	2.4
EV/EBIT	20.4	19.6	18.8	18.2	17.6	16.9	16.1	15.4	14.5	13.6	8.9	5.7
P/E	12.4	14.0	13.3	12.3	11.0	9.2	8.5	7.9	7.1	6.4	4.7	4.1
P/CF	10.6	9.0	9.7	6.9	7.8	7.0	6.7	6.4	5.9	5.5	4.3	3.9
P/B	2.3	2.0	1.7	1.6	1.5	1.3	1.2	1.1	1.0	0.9	0.6	0.5
Dividend Yield	4.7%	4.7%	4.7%	4.7%	4.7%	5.1%	5.6%	6.1%	7.0%	7.5%	10.3%	12.1%
FCF Yield	9.1%	11.1%	8.6%	14.0%	12.3%	13.7%	14.5%	14.1%	16.4%	17.6%	22.5%	24.4%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

## Detailed Financial Statements

### Income Statement

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Revenue – Wholly-Owned Ships</b>	<b>3,063</b>	<b>3,066</b>	<b>3,069</b>	<b>3,072</b>
Direct Costs	(679)	(677)	(677)	(679)
<b>Gross Profit</b>	<b>2,384</b>	<b>2,389</b>	<b>2,392</b>	<b>2,393</b>
Income from Marine & Agency Services	54	55	56	57
General and Administrative Expenses	(134)	(134)	(133)	(133)
<b>EBITDA</b>	<b>2,304</b>	<b>2,310</b>	<b>2,315</b>	<b>2,317</b>
Depreciation	(758)	(779)	(779)	(780)
<b>EBIT</b>	<b>1,547</b>	<b>1,532</b>	<b>1,536</b>	<b>1,536</b>
Share of Profits from Joint Ventures	396	470	522	673
Finance Costs	(1,173)	(1,160)	(1,102)	(1,039)
Interest, Dividend & Profit from Islamic Banks	87	87	87	87
Vessels Sub-Chartering & Other Income	34	34	34	34
<b>Profit Before Tax</b>	<b>892</b>	<b>963</b>	<b>1,078</b>	<b>1,292</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>892</b>	<b>963</b>	<b>1,078</b>	<b>1,292</b>
Minority Interest	(1)	(1)	(1)	(2)
<b>Profit for Equity Shareholders</b>	<b>891</b>	<b>962</b>	<b>1,076</b>	<b>1,290</b>
<b>EPS (QR)</b>	<b>1.61</b>	<b>1.74</b>	<b>1.94</b>	<b>2.33</b>
<b>Adjusted Revenue</b>	<b>3,513</b>	<b>3,591</b>	<b>3,647</b>	<b>3,802</b>
<b>Adjusted EBITDA</b>	<b>2,701</b>	<b>2,780</b>	<b>2,837</b>	<b>2,989</b>

Source: Company data, QNB FS estimates

### Balance Sheet

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	21,840	21,123	20,405	19,686
Investment in Joint Venture Companies	4,613	4,975	5,429	5,739
Loans to Joint Venture Companies	105	85	85	85
Available-for-Sale Investments	144	133	133	133
<b>Total Non-Current Assets</b>	<b>26,703</b>	<b>26,316</b>	<b>26,051</b>	<b>25,642</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	398	788	789	789
Cash and Bank Balances	2,463	2,753	2,533	2,624
<b>Total Current Assets</b>	<b>2,861</b>	<b>3,541</b>	<b>3,322</b>	<b>3,413</b>
<b>Total Assets</b>	<b>29,564</b>	<b>29,857</b>	<b>29,373</b>	<b>29,055</b>
<b>Equity</b>				
Equity Attributable to the Parent	6,933	7,479	8,150	9,036
Minority Interest	5	6	8	9
<b>Total Equity</b>	<b>6,938</b>	<b>7,485</b>	<b>8,158</b>	<b>9,045</b>
<b>Non-Current Liabilities</b>				
Borrowings	18,867	17,856	16,786	15,623
Fair Value of Interest Rate Swaps	1,643	1,526	1,408	1,291
Provision for End of Service Benefits	116	247	247	247
<b>Total Non-Current Liabilities</b>	<b>20,626</b>	<b>19,629</b>	<b>18,441</b>	<b>17,162</b>
<b>Current Liabilities</b>				
Borrowings	928	1,017	1,070	1,163
Accounts Payables/Accruals & Due to Related Parties	773	1,447	1,446	1,451
Fair Value of Interest Rate Swaps	300	279	257	236
<b>Total Current Liabilities</b>	<b>2,000</b>	<b>2,743</b>	<b>2,774</b>	<b>2,849</b>
<b>Equity and Liabilities</b>	<b>29,564</b>	<b>29,857</b>	<b>29,373</b>	<b>29,055</b>

Source: Company data, QNB FS estimates

### 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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