

## QGTS Alert – LPG/Ship-Yard Causes 3Q17 NI Miss; Stable/Consistent LNG; Accumulate

- **QGTS' net profit declines 8.8% QoQ in 3Q2017 modestly below our forecast of QR214mn.** Qatar Gas Transport Company's (QGTS) net profit declined 8.8% QoQ (-20% YoY) to QR198.07mn in 3Q2017 vs. our estimate of QR213.87mn (variation of -7.4%). Operating metrics remained in-line with our forecasts, with (1) QR771mn in wholly-owned ship revenue vs. our forecast of QR772mn; (2) QR572mn in EBITDA vs. our forecast of QR574mn and (3) QR378mn in operating income vs. our modeled figure of QR380mn. The divergence in net income stemmed primarily from JV income, which came in at QR91mn vs. our forecast of QR102mn, QR102mn in 2Q2017 and QR84mn in 1Q2017 (QR129mn in 3Q2016). The miss vs. our forecast on the JV income comes from persistent weakness in the spot LPG market (4 ships jointly-owned by Milaha) and the shipyard (repair/building) business. *(For detailed quarterly comparisons, please see Page 2)*
- **We continue to favor Nakilat as a long-term play.** The announced lifting of the North Field moratorium could potentially increase Qatar's LNG output beyond the 77-MTPA level in the future and benefit QGTS' charter business.
- **Reiterate Accumulate Rating** – The LNG business remains stable with long-term fixed charters and we reiterate our Accumulate rating on QGTS. The blockade has not impacted Nakilat's secure LNG shipping business.
- **Risks:** Volatile oil prices remain a substantial risk to regional equity prices. For QGTS, further escalation of operating costs of wholly-owned vessels and execution risks in shipyard remain major risks.

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<b>Income Statement</b>							
<b>In QR mn Except Otherwise Noted</b>	<b>3Q2016</b>	<b>2Q2017</b>	<b>3Q2017</b>	<b>3Q2017E</b>	<b>A v E</b>	<b>Q/Q</b>	<b>Y/Y</b>
Revenue from Wholly-Owned Vessels	771.888	764.354	770.857	771.981	-0.1%	0.9%	-0.1%
Operating Costs	(181.793)	(169.025)	(177.120)	(178.328)	-0.7%	4.8%	-2.6%
<b>Gross Profit</b>	<b>590.095</b>	<b>595.329</b>	<b>593.737</b>	<b>593.653</b>	<b>0.0%</b>	<b>-0.3%</b>	<b>0.6%</b>
<i>Gross Margin</i>	<i>76.4%</i>	<i>77.9%</i>	<i>77.0%</i>	<i>76.9%</i>			
Income from Marine and Agency Services	14.780	13.523	14.123	13.500	4.6%	4.4%	-4.4%
General and Administrative Expenses	(33.536)	(35.132)	(36.339)	(33.504)	8.5%	3.4%	8.4%
<b>EBITDA</b>	<b>571.339</b>	<b>573.720</b>	<b>571.521</b>	<b>573.649</b>	<b>-0.4%</b>	<b>-0.4%</b>	<b>0.0%</b>
Depreciation & Amortization	(176.387)	(192.064)	(193.763)	(193.980)	-0.1%	0.9%	9.9%
<b>EBIT</b>	<b>394.952</b>	<b>381.656</b>	<b>377.758</b>	<b>379.669</b>	<b>-0.5%</b>	<b>-1.0%</b>	<b>-4.4%</b>
<i>EBIT Margin</i>	<i>51.2%</i>	<i>49.9%</i>	<i>49.0%</i>	<i>49.2%</i>			
Share of Operating Profits from Joint Ventures	129.134	101.777	91.390	102.000	-10.4%	-10.2%	-29.2%
Finance Costs	(295.991)	(289.058)	(295.894)	(290.000)	2.0%	2.4%	0.0%
Interest, Dividend income & Profit from Islamic Banks	11.702	14.346	14.131	14.000	0.9%	-1.5%	20.8%
Vessel Sub-Chartering & Other Income	7.978	8.811	10.872	8.500	27.9%	23.4%	36.3%
Gain / (Loss) on Derivatives from JVs	-	-	-	-			
<b>Profit Before Tax</b>	<b>247.775</b>	<b>217.532</b>	<b>198.257</b>	<b>214.169</b>	<b>-7.4%</b>	<b>-8.9%</b>	<b>-20.0%</b>
<b>Profit After Tax</b>	<b>247.775</b>	<b>217.532</b>	<b>198.257</b>	<b>214.169</b>	<b>-7.4%</b>	<b>-8.9%</b>	<b>-20.0%</b>
Minority Interest	(0.313)	(0.306)	(0.184)	(0.301)	-38.9%	-39.9%	-41.2%
<b>Profit for Equity Holders</b>	<b>247.462</b>	<b>217.226</b>	<b>198.073</b>	<b>213.868</b>	<b>-7.4%</b>	<b>-8.8%</b>	<b>-20.0%</b>
<i>Net Profit Margin</i>	<i>32.1%</i>	<i>28.4%</i>	<i>25.7%</i>	<i>27.7%</i>			
<b>EPS (QR)</b>	<b>0.45</b>	<b>0.39</b>	<b>0.36</b>	<b>0.39</b>	<b>-7.4%</b>	<b>-8.8%</b>	<b>-20.0%</b>
<b>Adjusted EBITDA</b>	<b>720.153</b>	<b>698.654</b>	<b>687.914</b>	<b>698.149</b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>-4.5%</b>
<i>Adjusted EBITDA Margin</i>	<i>93.3%</i>	<i>91.4%</i>	<i>89.2%</i>	<i>90.4%</i>			
<b>Adjusted Revenue</b>	<b>923.780</b>	<b>888.465</b>	<b>887.242</b>	<b>895.981</b>	<b>-1.0%</b>	<b>-0.1%</b>	<b>-4.0%</b>
<b>Growth Rates</b>	<b>YoY</b>	<b>YoY</b>	<b>YoY</b>	<b>YoY</b>			
Adjusted EBITDA	-2.7%	-4.7%	-4.5%	-3.1%			
Adjusted Revenue	-0.6%	-4.3%	-4.0%	-3.0%			
Net Income	-7.0%	-16.6%	-20.0%	-13.6%			
<b>Growth Rates</b>	<b>QoQ</b>	<b>QoQ</b>	<b>QoQ</b>	<b>QoQ</b>			
Adjusted EBITDA	-1.8%	3.7%	-1.5%	-0.1%			
Adjusted Revenue	-0.5%	3.5%	-0.1%	0.8%			
Net Income	-4.9%	13.7%	-8.8%	-1.5%			
<b>Particulars</b>	<b>3Q2016</b>	<b>2Q2017</b>	<b>3Q2017</b>	<b>3Q2017E</b>			
Adj. EBITDA Margin	78.0%	78.6%	77.5%	77.9%			
Gross Margin	76.4%	77.9%	77.0%	76.9%			
EBIT Margin	51.2%	49.9%	49.0%	49.2%			
G & A % of Sales	4.3%	4.6%	4.7%	4.3%			
Depreciation & Amortization % of Sales	22.9%	25.1%	25.1%	25.1%			
Minority Interest % of PAT	0.1%	0.1%	0.1%	0.1%			

### 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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