

QGTS Alert – 3Q2018 Net Income Falls Short of Forecast; Maintain Outperform

- QGTS posts 8.1% YoY increase but 6.0% QoQ decline in 3Q2018 net profit missing our estimate; **Maintain Outperform** with a QR21 price target – Nakilat’s 3Q2018 net profit of QR214.1mn fell short of our estimate of QR238.3mn (variation of -10.2%).
- **The wholly-owned LNG shipping business was bang in-line with our estimates** -100%-owned ships’ revenue of QR774.3mn (+0.5% YoY, +0.7% QoQ) tracked our estimate of QR777.3mn (divergence of -0.4%). EBITDA of QR579.4mn (+1.4% YoY, +1.1% QoQ) was in-line with our estimate of QR580.0mn (difference of -0.1%).
- **What caused the miss? JV income and finance charges.** The miss vs. our estimates came from two sources: (1) a weaker-than-expected JV income of QR101.4mn (+11.0% YoY, -5.0% QoQ) vs. our forecast of QR113.7mn (delta of -10.8%) and (2) higher-than-expected finance charges of QR305.5mn (+3.2% YoY, +4.6% QoQ) vs. our estimate of QR292.1mn (divergence of +4.6%). We await color from management regarding the QoQ fall in JV income. While total debt was flattish vs. 2Q2018 at QR20.2bn, the increase in finance costs is likely due to increased rates on the portion of QGTS’ debt that is unhedged (less than 30% of total debt). EPS amounted to QR1.19 in 9M2018 as compared to QR1.09 in 9M2017. *(For detailed quarterly comparisons, please see Page 2)*
- **Notwithstanding some quarterly variability, QGTS’ wholly-owned business remains steady and predictable.** *We continue to recommend an Outperform rating on the stock with a QR21 price target.* In terms of catalysts, we believe expansion of Qatar’s LNG output from 77 MTPA to 110 MTPA is a significant driver (potentially another 30 conventional vessels). Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company’s ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business could further improve.

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Income Statement							
In QR mn Except Otherwise Noted	3Q2017	2Q2018	3Q2018	3Q2018e	A vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	770.857	768.870	774.328	777.319	-0.4%	0.5%	0.7%
Operating Costs	(177.120)	(174.934)	(177.605)	(176.856)	0.4%	0.3%	1.5%
Gross Profit	593.737	593.936	596.723	600.463	-0.6%	0.5%	0.5%
<i>Gross Margin</i>	<i>77.0%</i>	<i>77.2%</i>	<i>77.1%</i>	<i>77.2%</i>			
Income from Marine and Agency Services	14.123	12.701	13.702	13.500	1.5%	-3.0%	7.9%
General and Administrative Expenses	(36.339)	(33.642)	(31.026)	(34.012)	-8.8%	-14.6%	-7.8%
EBITDA	571.521	572.995	579.399	579.951	-0.1%	1.4%	1.1%
Depreciation & Amortization	(193.763)	(188.099)	(189.999)	(190.965)	-0.5%	-1.9%	1.0%
EBIT	377.758	384.896	389.400	388.986	0.1%	3.1%	1.2%
<i>EBIT Margin</i>	<i>49.0%</i>	<i>50.1%</i>	<i>50.3%</i>	<i>50.0%</i>			
Share of Operating Profits from Joint Ventures	91.390	106.757	101.406	113.662	-10.8%	11.0%	-5.0%
Finance Costs	(295.894)	(292.111)	(305.450)	(292.111)	4.6%	3.2%	4.6%
Interest, Dividend income & Profit from Islamic Bank	14.131	19.458	20.353	19.000	7.1%	44.0%	4.6%
Vessel Sub-Chartering & Other Income	10.872	8.953	8.656	9.000	-3.8%	-20.4%	-3.3%
Gain / (Loss) on Derivatives from JVs	-	-	-	-			
Profit Before Tax	198.257	227.953	214.365	238.538	-10.1%	8.1%	-6.0%
Profit After Tax	198.257	227.953	214.365	238.538	-10.1%	8.1%	-6.0%
Minority Interest	(0.184)	(0.231)	(0.257)	(0.242)	6.3%	39.7%	11.3%
Net Income to Equity	198.073	227.722	214.108	238.296	-10.2%	8.1%	-6.0%
<i>Net Profit Margin</i>	<i>25.7%</i>	<i>29.6%</i>	<i>27.7%</i>	<i>30.7%</i>	<i>-9.8%</i>	<i>7.6%</i>	<i>-6.6%</i>
EPS (QR)	0.36	0.41	0.39	0.43	-10.2%	8.1%	-6.0%
Adjusted EBITDA	662.911	679.752	680.805	693.614	-1.8%	2.7%	0.2%
<i>Adjusted EBITDA Margin</i>	<i>86.0%</i>	<i>88.4%</i>	<i>87.9%</i>	<i>89.2%</i>			
Adjusted Revenue	876.370	888.328	889.436	904.482	-1.7%	1.5%	0.1%
Growth Rates	YoY	YoY	YoY	YoY			
Adjusted EBITDA	-5.4%	0.6%	2.7%	4.6%			
Adjusted Revenue	-4.3%	1.0%	1.5%	3.2%			
Net Income	-20.0%	4.8%	8.1%	20.3%			
Growth Rates	QoQ	QoQ	QoQ	QoQ			
Adjusted EBITDA	-1.9%	2.9%	0.2%	2.0%			
Adjusted Revenue	-0.4%	3.6%	0.1%	1.8%			
Net Income	-8.8%	5.2%	-6.0%	4.6%			
Particulars	3Q2017	2Q2018	3Q2018	3Q2018e			
Adj. EBITDA Margin	75.6%	76.5%	76.5%	76.7%			
Gross Margin	77.0%	77.2%	77.1%	77.2%			
EBIT Margin	49.0%	50.1%	50.3%	50.0%			
G & A % of Sales	4.7%	4.4%	4.0%	4.4%			
Depreciation & Amortization % of Sales	25.1%	24.5%	24.5%	24.6%			
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

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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