

Milaha/Qatar Navigation (QNNS)

Recommendation	Outperform	Risk Rating	R-4
Share Price	QR10.25	Target Price	QR13.30
Implied Upside	29.8%	Old Target Price	QR13.10

Raising PT to QR13.30 & Keeping Outperform Given Nakilat's 9 QC-Max Win

We are raising our target price from QR13.10 to QR13.30 and reiterating QNNS as an Outperform. As expected, QGTS announced that it was selected as owner & operator of 9 QC-Max LNG (271,000 m3) carriers tied to the massive 120+ vessel-North Field expansion program. As a result, we have raised our price target on QGTS from QR5.100 to QR5.600. Milaha owns 36.3% of Nakilat and thus, we also increase Milaha's price target. We remain bullish on QNNS. The stock, since we first started coverage in 2011, has usually traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up 100% of QNNS' market cap. This implies that investors continue to get Milaha's "core" or operating businesses for almost free. Milaha's shares offer value and the company is enjoying a multi-year resurgence in its offshore segment (MO) that is leveraged to Qatar's massive North Field Expansion project. Moreover, while its maritime & logistics (MM&L) division is suffering from a significant drop in container shipping revenue (primarily on account of a severe ratcheting down in container shipping rates along with a decline in volumes) and a moribund logistics unit, YoY comparisons could get less challenging. A lack of large impairments in the future should also help Milaha's earnings trajectory and highlight its growth story to investors.

Highlights

- Normalized earnings (excl. impairments/one-offs) should grow at a 6.9% CAGR (2022-2028e) vs. a CAGR of -0.2% (2015-2022). About 22% of this six-year growth in "clean" earnings should be driven by operating businesses or "core", led by growth in offshore. MO (~33% of the six-year growth in earnings) should benefit from the strong growth in Qatar O&G activities and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations – we expect an earnings CAGR of 22.9%. The biggest drag on earnings growth could be MM&L (excl. QTerminals, which shows a CAGR of 1.0%), expected to flip from a 2022 profit of QR127.2mn to a loss of QR20.6mn in 2028 (however, we do model segment losses to progressively decline from 2024). MM&L has faced headwinds but we expect improving fundamentals longer term. A whopping ~78% of the growth in future earnings is driven by "non-core" items, including Nakilat (9.2% CAGR), which propels almost 64% of Milaha's earnings growth. The remaining ~15% is driven by MC based on stable real estate income and growing dividend income. We note that we are yet to increase Nakilat's earnings (and consequently, Milaha's earnings) factoring in the significant NF contract announcements.

Catalysts

- (1) Milaha's exposure to Qatar's O&G sector, primarily via MO, could help momentum. (2) An improvement in MM&L's profitability could also help. (3) Nakilat remains the biggest value driver, both through its earnings growth and through its exposure to the NF project. (4) QNNS also has the ability to boost dividends given its strong balance sheet (1Q2024 net cash of QR305.8mn) and solid FCF profile (despite increased offshore capex needs).

Recommendation, Valuation and Risks

- Recommendation & valuation:** We recommend an Outperform rating on QNNS. We value Milaha using a SOTP methodology, which comprises of these major parts: 1) Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT); 2) A DCF-based value for QNNS' 36.3% stake in Nakilat (QGTS: Outperform/QR5.600 TP); 3) A P/E-based value for Milaha's 49.0%-owned JV QTerminals; 4) Investment (stocks & bonds) portfolio at a 10% discount to its value; and 5) Real estate investment properties at a 30% haircut to 2023 estimated FV. We also apply a 30% conglomerate discount.
- Risks:** Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP. For the stock to rerate, investors need to see earnings/EBITDA acceleration without large impairments muddling up the story. Other risks remain, including: (1) Weakness/volatility in oil prices; (2) Execution/integration issues with major fleet additions/acquisitions; (3) Fall in local equity/RE prices; (3) A slowdown in Qatar's economy; and (4) Geopolitical crisis in the MENA region.

Key Financial Data and Estimates

	2022	2023	2024e	2025e	2026e	2027e	2028e
EPS (Excluding Impairments & One-Offs)	1.04	0.92	1.13	1.25	1.36	1.46	1.55
EPS Growth (%)	35.2	(10.9)	22.4	10.4	8.9	7.1	6.2
P/E (x)	9.9	11.1	9.1	8.2	7.5	7.0	6.6
EV/EBITDA (x)	12.8	13.0	11.3	10.5	9.6	8.8	8.0
FCF Yield (%)	6.8	6.8	7.8	8.5	9.1	9.7	10.3
DPS (QR)	0.35	0.38	0.45	0.50	0.55	0.60	0.65
RoE (%)	7.7	6.4	7.5	7.9	8.2	8.3	8.4

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

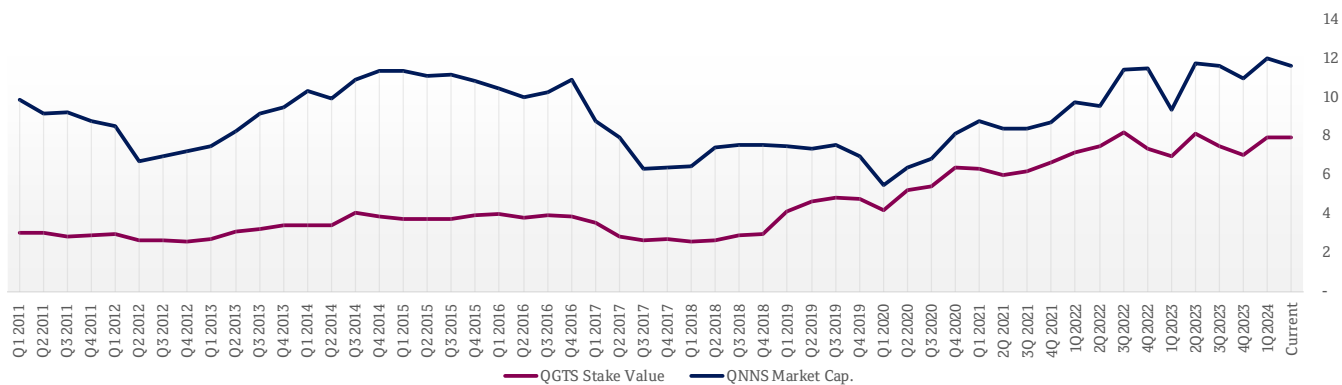
Key Data

Current Market Price (QR)	10.25
Current Dividend Yield (%)	3.7
Bloomberg Ticker	QNNS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	11.640/8.759
3-m Average Volume (mn)	1.0
Mkt. Cap. (\$ bn/QR bn)	3.2/11.6
EV (\$ bn/QR bn)	3.0/11.1
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	100.0
Current Institutional FO* (%)	17.2
1-Year Total Return (%)	9.2
Fiscal Year End	December 31

Source: Bloomberg (as of May 08, 2024), *Qatar Exchange (as of May 08, 2024); Note: FO is foreign ownership

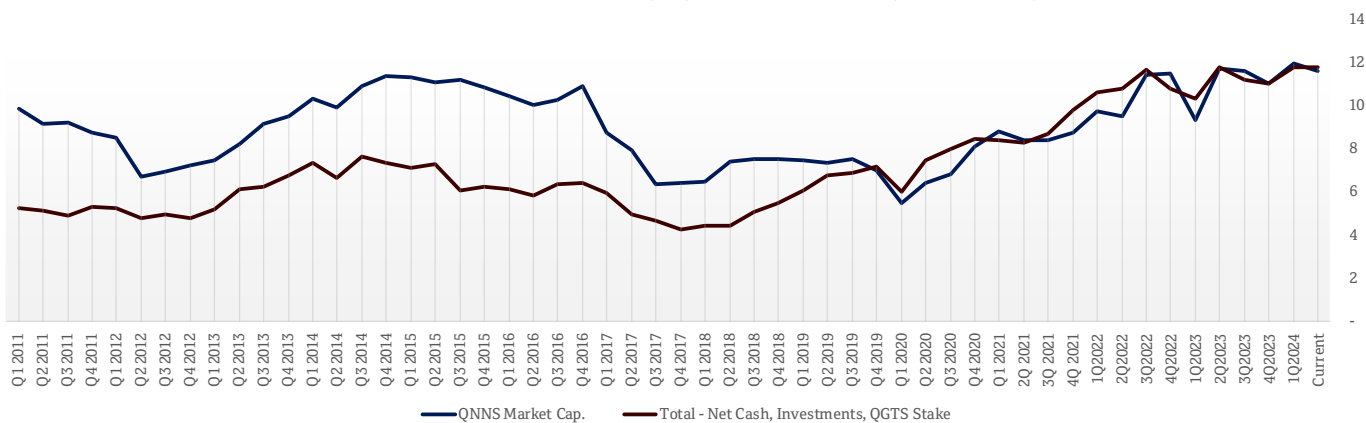
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QGTS Stake Alone is ~68% of Milaha's Market Cap. (QR bn)



Source: Bloomberg, QNB FS Research

QGTS+Investments+Net Cash is ~100% QNNS Market Cap. Implying Almost Zero Value for Remaining Assets (QR bn)



Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Revenue	3,285	2,942	3,120	3,248
COGS	(1,789)	(1,454)	(1,557)	(1,623)
Gross Profit	1,497	1,488	1,563	1,625
SG&A	(640)	(660)	(668)	(687)
EBITDA	857	828	895	938
Depreciation & Amortization	(370)	(391)	(409)	(421)
EBIT	487	436	487	517
Net Interest Income (Expense)	(44)	(31)	9	10
Share of Results From JVs	179	127	136	158
Share of Results From Associates	542	520	675	760
Impairments & Others	(146)	(10)	0	0
Net Profit Before Taxes & Minority Interest	1,017	1,043	1,307	1,445
Taxes	(1)	(14)	(24)	(28)
Net Profit Before Minority Interest	1,016	1,030	1,284	1,417
Minority Interest	(4)	1	1	1
Net Profit	1,013	1,030	1,285	1,418
Net Profit Excluding Impairments & One-Offs	1,178	1,050	1,285	1,418

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Current Assets				
Cash & Cash Equivalents	1,467	1,047	1,414	1,669
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	501	529	552
Trade & Other Receivables	1,036	971	1,040	1,086
Inventories	115	92	104	109
Total Current Assets	3,120	2,612	3,087	3,415
Non-Current Assets				
Other Assets	312	205	220	217
Investment Securities at FVOCI	2,567	2,914	2,570	2,678
Investment In Associates	7,548	7,819	8,221	8,679
Investments in JVs	1,025	1,022	1,077	1,109
Intangible Assets	16	13	13	12
Investment Property	884	856	836	818
Property, Vessels & Equipment	2,841	2,776	2,791	2,810
Total Non-Current Assets	15,193	15,605	15,728	16,323
Total Assets	18,313	18,216	18,815	19,738
Current Liabilities				
Trade & Other Payables	755	692	657	687
Loans, Borrowings & Lease Liabilities	838	498	99	99
Total Current Liabilities	1,593	1,191	756	787
Non-Current Liabilities				
Loans & Borrowings	299	64	248	234
Others	337	239	255	255
Total Non-Current Liabilities	637	303	503	489
Total Liabilities	2,229	1,494	1,259	1,276
Minority Interest	42	42	40	39
Shareholders' Equity	16,042	16,681	17,515	18,422
Total Liabilities & Shareholders' Equity	18,313	18,216	18,815	19,738

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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