

Milaha/Qatar Navigation (QNNS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR9.809	Target Price	QR11.20
Implied Upside	14.2%		

Weak 3Q2023 On Soft Core Performance; Accumulate Given Compelling SOTP

- Milaha (QNNS or Qatar Navigation) posted 3Q2023 earnings of QR222.1mn, up 5.9% vs. QR209.7mn in 3Q2022 but down 21.9% QoQ as compared to QR284.4mn in 2Q2023.** Reported earnings/EPS of QR222.1mn/QR0.20 also fell short of our estimate of QR307.1mn/QR0.27 by 27.7%. We note that QNNS recorded an impairment charge of QR85.5mn (QR0.08/share) in its capital division in 3Q2022 and excluding this, earnings fell 24.8% YoY on a normalized basis. *Relative to our model, Milaha Offshore, Milaha Maritime & Logistics, Milaha Trading and Milaha Capital posted weaker-than-expected earnings, while Milaha Gas & Petrochem came in modestly above our model. (See page 2 for detailed table). We maintain our estimates for now and expect earnings to grow 13.4% YoY to QR1.15bn (EPS of QR1.01) in 2023.* On a normalized basis, excluding QR165.7mn in 2022 impairments, we still expect 2023 earnings to fall 2.5%.
- Weakness in margins hurt core results, especially from Milaha Offshore/Maritime & Logistics. (1) Milaha Offshore** – 3Q2023 revenue hit another record high at QR364.1mn (13.1% YoY, 6.9% QoQ, 3.4% higher vs. QNB FS estimate) on higher project income, increased utilization of diving assets and full employment of Milaha's liftboat. Margins, however, disappointed with operating margin falling to 10.0% in 3Q2023 from 11.0% in 3Q2022 and 21.3% in 2Q2023. Similarly, EBITDA margin came in at 25.7% in 3Q2023, flattish vs. 25.6% in 3Q2022 but down significantly from 37.8% in 2Q2023. 3Q2023 net income of QR25.6mn (-31.5% YoY, -61.4% QoQ) fell short of our forecast of QR69.4mn by 63.1%. We will have to seek color from management to determine the path forward for segment margins. **(2) Milaha Maritime & Logistics** – a drop in container shipping container shipping rates from near-record highs seen in 1Q2022, along with container volume declines, continue to impact this segment despite management guidance of stable shipping rates in 2H2023. Consequently, we witnessed a MM&L top-line miss this quarter. 3Q2023 segment earnings flipped to loss of QR20.7mn vs. profits of QR71.8mn in 3Q2022 and QR6.0mn in 2Q2023 (our estimate was a profit of QR17.7mn). EBITDA margins came in at -14.2% in 3Q2023 vs. 11.2% in 3Q2022 and -0.3% in 2Q2023. **(3) Milaha Trading** – quarterly earnings continued to remain in the red for the 2nd consecutive quarter. MT posed a loss of QR1.4mn vs. a loss of QR2.1mn in 3Q2022 and a loss of QR1.5mn in 2Q2023; we were expecting a profit of QR2.9mn in 3Q2023. **(4) Milaha Capital** – recorded QR38.0mn in 3Q2023 net income vs. a loss of QR58.9mn in 3Q2022 (QR26.7mn in profit, excluding impairment) and a profit of QR42.7mn in 2Q2023; segment earnings fell short of our estimate of QR41.5mn by 8.4%. **(5) Milaha Gas & Petrochem** – aided by a better-than-expected quarter from its 36.3%-associate Nakilat, MG&P posted earnings of QR179.9mn (10.9% YoY, 5.5% QoQ), which came in 2.0% above our estimate of QR176.4mn. QGTS helped carry the quarter despite a lower-than-expected top-line, along with weaker core profitability and softer performance from other associates vs. our model.
- Earnings should grow at a 5.6% CAGR (2022-2028e) excluding impairments/one-offs vs. a CAGR of -0.2% over 2015-2022. Roughly, 24% of this six-year growth in "clean" earnings should be driven by Milaha's operating businesses or its "core", led by growth in offshore.** MO, which makes up ~16% of the six-year growth in earnings should benefit due to the strong growth in O&G activities in Qatar and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations. Milaha's 49%-owned JV, QTerminals, should show a 4.3% CAGR (2022-2028e) and make up ~10% of the six-year growth in earnings given volume uptick/phase II expansion at the Hamad Port. The biggest drag on earnings growth could be the MM&L segment, excluding QTerminals, that is expected to post a close to 8% cumulative earnings decline over our forecast period. MM&L has faced significant headwinds with container shipping rates coming off their early 2022 highs and while rates declined significantly in 1H2023, management expects them to remain fairly stable for the rest of the year. A whopping 76% of the growth in future earnings is driven by "non-core" items, including Nakilat (7.2% CAGR), which propels almost 60% of Milaha's earnings growth. The remaining ~17% is driven by MC based on stable real estate income and improving yields on Milaha's investment portfolio.
- We stay bullish longer-term on QNNS despite lackluster 3Q2023 results. 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 ~97% of QNNS' market cap. **This implies that investors continue to get Milaha's "core" or operating businesses for almost free.** However, what has changed is that Milaha is enjoying several catalysts, which could help in making progress toward the stock's rerating **(1) The company's exposure to Qatar's oil and gas sector**, primarily through its Offshore segment (MO), could boost momentum through earnings growth and newsflow. **(2) An improvement in Maritime & Logistics (MM&L) segment's profitability**, above their depressed levels, could also help. **(3) Nakilat remains the biggest value driver**, both through its earnings growth and through its potential to secure new NF expansion-related LNG shipping contracts. **(4) QNNS also has the ability to boost its dividends** given its strong balance sheet (net cash of QR808.6mn as of 3Q2023) and solid FCF profile (despite increased capex requirements in offshore); we currently expect a 14.3% increase in DPS from QR0.35 in 2022 to QR0.40 in 2023. *Continued on next page.*

Key Financial Data and Estimates

	2022	2023e	2024e	2025e	2026e	2027e
EPS (Excluding Impairments & One-Offs)	1.04	1.01	1.13	1.22	1.31	1.37
EPS Growth (%)	35.2	(2.5)	11.6	8.2	6.9	5.0
P/E (x)	9.5	9.7	8.7	8.0	7.5	7.2
EV/EBITDA (x)	12.5	12.4	11.4	10.7	10.0	9.4
FCF Yield (%)	7.1	7.6	8.7	9.2	9.7	10.0
DPS (QR)	0.35	0.40	0.45	0.50	0.55	0.60
RoE (%)	7.7	7.0	7.4	7.7	7.8	7.8

Source: Company data, QNB FS estimates; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

Key Data

Current Market Price (QR)	9.809
Current Dividend Yield (%)	3.6
Bloomberg Ticker	QNNS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	11.00/8.10
3-m Average Volume ('00)	703.8
Mkt. Cap. (\$ bn/QR bn)	3.1/11.1
EV (\$ bn/QR bn)	2.8/10.3
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.2
1-Year Total Return (%)	(1.4)
Fiscal Year End	December 31

Source: Bloomberg (as of October 18, 2023), *Qatar Exchange (as of October 18, 2023); Note: FO is foreign ownership

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- **Recommendation & valuation: We recommend an Accumulate rating 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: Accumulate/QR4.100 TP**); **3)** A P/E-based value for Milaha's 49.0%-owned JV QTerminals; **4)** Investment (stocks & bonds) portfolio at its 3Q2023 value; and **5)** Real estate investment properties at a 30% discount to 3Q2023 FV. We also apply a 30% conglomerate discount.
- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio.** For the stock to rerate, investors need to continue to see earnings/EBITDA acceleration without significant 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.

QNB FS 3Q2023 Estimates and Comparisons

Revenue (in QR '000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
MM&L	345,840	256,189	214,487	247,370	-13.3%	-38.0%	-16.3%
MO	322,066	340,760	364,140	352,022	3.4%	13.1%	6.9%
MG&P	58,960	62,760	59,331	63,587	-6.7%	0.6%	-5.5%
MC	111,792	93,568	91,191	87,946	3.7%	-18.4%	-2.5%
MT	69,378	68,719	60,865	69,791	-12.8%	-12.3%	-11.4%
Corporate Adjustments		(2)	0				N/M
Total	908,036	821,994	790,014	820,716	-3.7%	-13.0%	-3.9%
Eliminations	(118,948)	(77,424)	(73,449)	(73,864)	-0.6%	-38.3%	-5.1%
Total Net	789,088	744,570	716,565	746,852	-4.1%	-9.2%	-3.8%

Net Income (in QR '000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
MM&L	71,842	6,032	(20,701)	17,687	N/M	N/M	N/M
MO	37,351	66,210	25,589	69,408	-63.1%	-31.5%	-61.4%
MG&P	162,231	170,528	179,895	176,394	2.0%	10.9%	5.5%
MC	(58,872)	42,665	38,020	41,511	-8.4%	N/M	-10.9%
MT	(2,104)	(1,491)	(1,382)	2,875	N/M	-34.3%	-7.3%
Total	210,448	283,944	221,421	307,875	-28.1%	5.2%	-22.0%
Minorities	(739)	438	649	(786)	N/M	N/M	48.2%
NI to Equity	209,709	284,382	222,070	307,088	-27.7%	5.9%	-21.9%

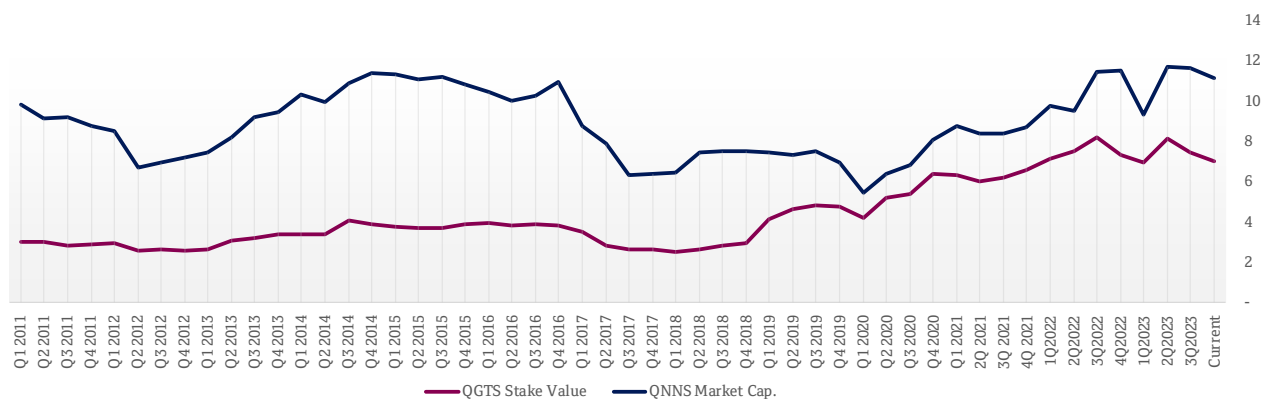
Impairment of PP&E/Vessels/Intangibles	(85,522)					-100.0%	
NI to Equity, Ex. Impairment	295,231	284,382	222,070	307,088	-27.7%	-24.8%	-21.9%

EPS	0.18	0.25	0.20	0.27	-27.7%	5.9%	-21.9%
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Net Income (in QR '000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
MM&L Normalized	71,842	6,032	(20,701)	17,687	N/M	N/M	N/M
MO Normalized	37,351	66,210	25,589	69,408	-63.1%	-31.5%	-61.4%
MG&P Normalized	162,231	170,528	179,895	176,394	2.0%	10.9%	5.5%
MC Normalized	26,650	42,665	38,020	41,511	-8.4%	42.7%	-10.9%
MT Normalized	(2,104)	(1,491)	(1,382)	2,875	N/M	-34.3%	-7.3%
NI to Equity, Ex. Impairment	295,231	284,382	222,070	307,088	-27.7%	-24.8%	-21.9%

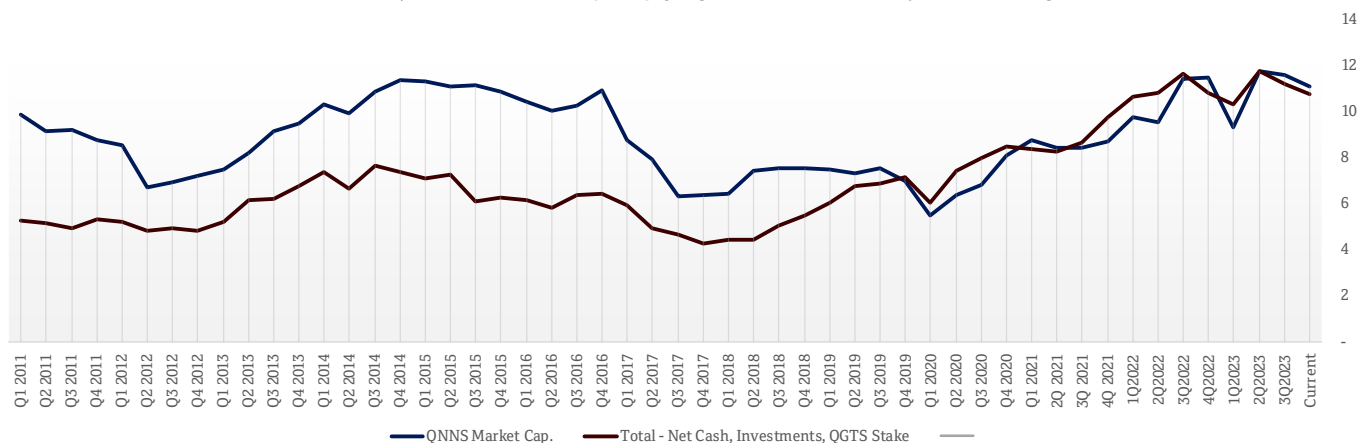
Source: Company data, QNB FS Research

QGTS Stake Alone is ~63% of Milaha's Market Cap. (QR bn)



Source: Bloomberg, QNB FS Research

QGTS+Investments+Net Cash is ~97% of QNNS Market Cap. Implying Almost Zero Value for Remaining Assets (QR bn)



Source: Bloomberg, QNB FS Research

Key Ratios & Valuation

Growth Metrics

Key Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
Growth (%)									
Revenue	(6.49)	22.78	18.01	(12.22)	4.58	3.35	3.24	3.16	3.18
Gross Profit	(0.66)	(0.06)	21.59	(2.99)	4.24	3.37	3.69	3.39	3.55
EBITDA	0.20	(3.87)	38.05	(0.90)	5.38	3.88	4.44	3.77	3.94
EBIT	(1.35)	(9.26)	92.46	(4.82)	6.16	3.44	4.44	3.23	3.51
Net Profit	(89.19)	1,125.18	39.85	13.41	11.60	8.21	6.91	5.02	4.80
Net Profit (Excluding Impairments & One-Offs)	4.27	2.15	35.18	(2.54)	11.60	8.21	6.91	5.02	4.80

Profitability (%)

Gross Margin	54.32	44.21	45.56	50.35	50.19	50.20	50.42	50.53	50.71
EBITDA Margin	28.48	22.29	26.08	29.44	29.67	29.82	30.17	30.35	30.57
EBIT Margin	12.30	9.09	14.82	16.07	16.31	16.33	16.52	16.53	16.58
Net Margin	2.61	26.01	30.83	39.83	42.50	44.51	46.09	46.92	47.66
RoE	0.42	5.10	6.58	7.00	7.45	7.68	7.82	7.83	7.84
RoE (Excluding Impairments & One-Offs)	6.04	6.13	7.66	7.00	7.45	7.68	7.82	7.83	7.84
RoAA	0.34	4.20	5.66	6.19	6.74	7.05	7.23	7.28	7.33
BEP	1.61	1.47	2.72	2.50	2.59	2.59	2.59	2.57	2.55
RoAIC	1.81	1.66	3.06	2.80	2.90	2.90	2.90	2.87	2.85
RoACE	1.72	1.58	2.92	2.66	2.74	2.74	2.74	2.71	2.69

Efficiency

Fixed Asset Turnover	0.62	0.89	1.12	1.01	1.05	1.07	1.10	1.13	1.15
Total Asset Turnover	0.13	0.16	0.18	0.16	0.16	0.16	0.16	0.16	0.15
Sales-to-Net Working Capital	29.91	35.67	10.42	7.75	7.57	7.50	7.42	7.35	7.30
Receivables-to-Payables	1.00	0.97	1.24	1.58	1.59	1.59	1.60	1.60	1.61
Capex-to-Sales (%)	9.77	8.00	6.89	9.49	9.49	9.59	9.71	9.84	9.96

Liquidity (x)

Current Ratio	1.16	1.54	1.96	2.96	3.94	4.12	4.31	4.46	4.60
Quick Ratio	1.11	1.47	1.89	2.86	3.81	3.99	4.18	4.33	4.47
Cash Ratio	0.25	0.47	0.92	1.47	1.84	2.01	2.18	2.30	2.42

Leverage Ratios

Net Debt/Equity (%)	12.73	6.03	(2.56)	(3.92)	(5.21)	(6.35)	(7.36)	(8.14)	(8.82)
Net Debt-to-Capital (%)	11.34	5.82	(2.59)	(3.98)	(5.41)	(6.70)	(7.81)	(8.67)	(9.43)
Net Debt-to-EBITDA	2.70	1.43	(0.48)	(0.78)	(1.03)	(1.26)	(1.47)	(1.64)	(1.79)
Interest Coverage Ratio (x)	3.33	3.48	8.22	7.80	11.78	18.62	24.19	30.83	41.45

Source: Company data, QNB FS Research

Relative Valuation

Valuation Multiples	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
P/E (x)	188.6	15.4	11.0	9.7	8.7	8.0	7.5	7.2	6.8
P/E Excluding Impairments & One-Offs (x)	13.1	12.8	9.5	9.7	8.7	8.0	7.5	7.2	6.8
P/B (x)	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	20.0	19.4	12.5	12.4	11.4	10.7	10.0	9.4	8.9
Dividend Yield (%)	3.1	3.1	3.6	4.1	4.6	5.1	5.6	6.1	6.6
FCFF Yield (%)	7.7	7.2	7.1	7.6	8.7	9.2	9.7	10.0	10.6

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Revenue	3,285	2,884	3,016	3,117
COGS	(1,789)	(1,432)	(1,502)	(1,552)
Gross Profit	1,497	1,452	1,513	1,564
SG&A	(640)	(603)	(619)	(635)
EBITDA	857	849	895	929
Depreciation & Amortization	(370)	(386)	(403)	(421)
EBIT	487	463	492	509
Net Interest Income (Expense)	(44)	(33)	(9)	11
Share of Results From JVs	179	171	193	207
Share of Results From Associates	542	558	618	674
Impairments & Others	(146)	1	0	0
Net Profit Before Taxes & Minority Interest	1,017	1,160	1,294	1,400
Taxes	(1)	(9)	(10)	(10)
Net Profit Before Minority Interest	1,016	1,151	1,285	1,390
Minority Interest	(4)	(3)	(3)	(3)
Net Profit	1,013	1,149	1,282	1,387
Net Profit Excluding Impairments & One-Offs	1,178	1,149	1,282	1,387

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Current Assets				
Cash & Cash Equivalents	1,467	1,577	1,461	1,640
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	528	549	571
Trade & Other Receivables	1,036	968	1,009	1,046
Inventories	115	100	105	108
Total Current Assets	3,120	3,173	3,124	3,365
Non-Current Assets				
Other Assets	312	313	312	308
Investment Securities at FVOCI	2,567	2,617	2,722	2,831
Investment In Associates	7,548	7,844	8,180	8,572
Investments in JVs	1,025	1,059	1,098	1,139
Intangible Assets	16	15	14	13
Investment Property	884	904	925	946
Property, Vessels & Equipment	2,841	2,865	2,890	2,914
Total Non-Current Assets	15,193	15,618	16,140	16,723
Total Assets	18,313	18,791	19,264	20,088
Current Liabilities				
Trade & Other Payables	755	614	634	658
Loans, Borrowings & Lease Liabilities	838	458	159	159
Total Current Liabilities	1,593	1,073	793	816
Non-Current Liabilities				
Loans & Borrowings	299	542	465	387
Others	337	339	339	339
Total Non-Current Liabilities	637	881	803	726
Total Liabilities	2,229	1,954	1,596	1,542
Minority Interest	42	45	48	51
Shareholders' Equity	16,042	16,792	17,620	18,496
Total Liabilities & Shareholders' Equity	18,313	18,791	19,264	20,088

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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