

Gulf International Services (GISS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR25.65	Current Target Price	QR28.00
Implied Upside	9.2%	Old Target Price	QR39.00

Weak Fundamentals Weigh; Downgrading to Market Perform

We are lowering our estimates and price target following weak 1Q2017 results and subdued prospects for the year. While we remain optimistic about offshore rig deployments in 2017 with the entire fleet of nine rigs set to be deployed this year (all should be invoicing by 4Q2017) vs. only six rigs working in 2016, realized rig rates seem to be lower than our forecast. Moreover, the insurance and catering segments are also coming under renewed pressure thus far this year. Net-net, we expect a subdued 2017 and adjust our estimates and price target accordingly. We note the company did not provide segment details or segment financials during the first quarter so we will likely adjust our estimates further when 1H2017 details are revealed.

Highlights

- 1Q2017 results come in well below our expectations:** GISS reported net profit of QR15mn in 1Q2017 missing our estimate by a wide margin. Overall top-line of QR608mn also missed our estimate of QR793mn by 23%. While no segment details were provided, we believe the miss stemmed primarily because of the drilling segment with two offshore rigs only starting to operate by end-March along with lower rig rates. The company also faced a marked decline in catering and insurance business lines further impacting results.
- We are lowering our estimates to factor in a continuation of the weakness seen in 1Q2017 while accounting for a progressive pickup in rig deployments.** While we remain optimistic about offshore rig deployments in 2017 with the entire fleet of nine rigs set to be deployed this year (all should be invoicing by 4Q2017) vs. only six rigs working in 2016, realized rig rates seem to be lower than our forecast. Moreover, the insurance and catering segments seem to be also under renewed pressure thus far this year and trends could be expected to only abate somewhat in 2H2017.

Catalysts

- Stock price improvement hinged on a resumption of confidence in company performance.** With drilling segment performance closely linked to oil prices, an expected recovery in crude could help the stock price this year.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate GISS a Market Perform with a QR28 price target.** Our previous rating was Outperform with a QR39 price target. GISS trades at 2017 & 2018 EV/EBITDA multiples of 9.3x and 7.9x, respectively. GISS stock continues to remain in a “show me” mode.
- Risks: Volatile oil prices remain a substantial risk to regional equity prices.** Further decline in rig rates/rig utilizations could pressure the stock. GISS also faces concentration risk given its exposure to QP/affiliates.

Key Financial Data and Estimates

	2015	2016	2017e	2018e
EPS (QR)	4.31	0.36	1.55	2.56
P/E (x)	5.9	N/M	16.6	10.0
P/B (x)	1.2	1.3	1.2	1.1
EV/EBITDA (x)	6.5	11.7	9.3	7.9
DPS (QR)	1.00	1.00	1.00	1.25
DY (%)	3.9%	3.9%	3.9%	4.9%

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

Key Data

Bloomberg Ticker	GISS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector	Industrials
52wk High/52wk Low (QR)	39.10/25.30
3-m Avg. Volume (000)	198.0
Mkt. Cap. (\$ bn/QR bn)	1.3/4.8
FO Limit* (%)	25.0
Current FO* (%)	7.5
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	(22.9)
Fiscal Year End	December 31

Source: Bloomberg (as of May 1, 2017), *Qatar Exchange (as of as of May 1, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement

In QR mn	FY2014*	FY2015	FY2016	FY2017e	FY2018e
Revenue	3,906	4,164	2,989	2,826	3,065
Drilling	1,473	1,845	1,178	1,197	1,404
Aviation	644	628	534	544	555
Catering	1,056	1,006	837	737	752
Insurance & Reinsurance	733	686	439	347	354
COGS	2,710	2,954	2,459	2,255	2,300
Gross Profit	1,196	1,210	530	570	765
SG&A	217	267	249	204	220
Total Other Income	89	(84)	(117)	14	14
Net Finance Income (Expense)	(27)	(58)	(97)	(93)	(83)
One-Offs/Non-Recurring Items	269	0	0	0	0
Income from JVs	100	0	0	0	0
Net Income	1,410	801	67	288	476
Net Income (Clean)	1,140	801	200	288	476
EBITDA	1,818	1,380	770	964	1,142
EBITDA (Clean)	1,549	1,380	903	964	1,142
DPS (QR)	5.50	1.00	1.00	1.00	1.25

Source: Company data, QNBFS estimates; Note: EPS based on current number of shares, *GDI results consolidated from May 1, 2014, ^aExcluding rig write-off

Balance Sheet

In QR mn	FY2014*	FY2015	FY2016	FY2017e	FY2018e
Current Assets					
Cash & Cash Equivalents	1,087	961	1,336	1,331	1,549
Investments Held for Trading	218	206	214	200	200
Insurance Contract Receivables & A/R	946	1,170	987	908	971
Due From Related Parties	634	598	310	353	353
Inventories	203	222	219	203	207
Total Current Assets	3,089	3,158	3,065	2,995	3,280
Non-Current Assets					
Available for Sale Investments	300	314	322	337	337
Held to Maturity Investments	85	86	85	4	4
Investment in Joint Ventures	-	-	-	-	-
Investment Properties	1	-	-	-	-
Goodwill & Intangibles	313	307	306	304	304
Property, Plant & Equipment	7,037	7,364	7,339	6,924	6,523
Non-Current Assets	7,738	8,071	8,052	7,569	7,167
Total Assets	10,826	11,229	11,117	10,564	10,447
Current Liabilities					
Short-Term Debt	909	1,467	940	938	938
Insurance Payables & Accounts Payable	1,719	1,964	1,583	1,415	1,449
Due to Related Parties	11	20	3	7	7
Current Liabilities	2,638	3,451	2,526	2,360	2,394
Non-Current Liabilities					
Employees End of Service Benefits	64	160	163	164	164
Long-Term Debt	3,946	3,690	4,630	4,140	3,699
Non-Current Liabilities	4,010	3,850	4,793	4,304	3,863
Total Liabilities	6,649	7,301	7,319	6,664	6,257
Shareholders' Equity					
Total Shareholders' Equity	4,178	3,928	3,799	3,900	4,190
Liabilities & Shareholders' Equity	10,826	11,229	11,117	10,564	10,447

Source: Company data, QNBFS 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

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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