GISS Alert – 1Q2021 Loss Narrows Due to Continued Costs Optimization; Accumulate

- **GISS posted an loss of QR5.5mn in 1Q2021 vs. a net profit of QR8.7mn in 1Q2020 and a net loss of QR367.3mn in 4Q2020:** We note 4Q2020 net loss, excluding impairments, was QR59.1mn. Reported net loss for 1Q2021 beat our forecast of a net loss of QR55.2mn with outperformance basically due to the drilling segment. While management pointed to a recovery in the oil and gas sector in 1Q2021, they did state that positive signs of recovery were not felt immediately within the group's operating segments. We believe the progress made in costs reduction thus far should dovetail with an expected recovery in market fundamentals as we move forward this year.
- **Overall 1Q2021 revenue of QR705.0mn (-15.2% YoY, -3.7% QoQ) was 3.9% below our estimate of QR733.7mn.** 1Q2021 top-line was better-than-expected in insurance (10.8% YoY, 4.1% QoQ) but came in moderately lower vs. our model in catering (-31.4% YoY, -3.0% QoQ) and drilling (-31.6% YoY, -0.7% QoQ). Aviation revenue (-11.1% YoY, -16.7% QoQ) was, however, markedly lower than our estimate due to a slower-than-expected recovery in flying hours and lower revenue from GHC's Turkish subsidiary, while MRO revenue also dipped due to completion of a project in 4Q2020.
- **Relative to our model, better-than-expected profitability from drilling served to overall lower net loss vs. our estimate.** GDI's 1Q2021 net loss fell to QR72.4mn vs. a loss of QR0.4mn in 1Q2020 and a loss of QR333.2mn (QR112.1mn loss excluding a rig write-down) in 4Q2020. We were expecting a net loss of QR110.1mn in 1Q2021. With drilling revenue coming in moderately lower than our model, the lower-than-expected segment net loss was due to improved G&A and operating expenses as GISS continues to optimize costs. The other three segments posted modest variations vs. our model, with catering and aviation coming in modestly ahead of our estimates.
- **The NFE project remains a significant catalyst for future growth in GDI & GISS.** As expected, GDI's JV with Seadrill called as GulfDrill started deploying its jackup "Lovanda" on March 29, 2020 as part of its 80-well drilling program for Qatar's North Field East project. The second rig (West Castor) started work in late August. We further model in the remaining four rigs in 2021 but our rig deployment schedule projections are somewhat back-end loaded vs. management guidance of a phased deployment in 1H2021.
- **We expect earnings to surface back into the green (ex. any one-offs, such as impairment) in 2021 as drilling loss declines significantly.** Other segments also contribute positively, while continued progress in costs reduction and lower finance charges help boost earnings.
- **We stay longer-term positive on GISS shares but the stock remains in a "show-me" mode.** We expect improving financial performance in 2021 and newsflow regarding the NFE expansion/potential debt restructuring to drive stock price performance over the next 12 months. *We remain Accumulate on GISS with a price target of QR1.800.*

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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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