

Gulf International Services (GISS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR101.00	Target Price	QR121.00
Implied Upside	19.8%		

Attractive Drilling Contracts Prompt Estimates Revision

Upgrading GISS to Outperform based on recent drilling contract announcements. GISS announced two major drilling contracts with Qatar Petroleum recently. While the new contracts include certain one-offs, such as rig mobilization/demobilization fees, well-site preparation charges, etc., they nevertheless point to significant improvement in economics relative to the existing contracts. As a result, we have adjusted our model upping our 2015-2018 revenue, EBITDA and net income estimates by an average of around 5-7%. Additional changes to our valuation model including applying a lower WACC boosts our target price to QR121.00 from QR101.51 previously.

Highlights

- **Latest offshore contract for Dukhan rig at a significant ~35% premium to Al-Jassra.** In mid-June, GDI announced a new QR1.275bn (~\$350mn), five-year contract for the Dukhan jack-up rig. As expected, this rig should start operations for QP during 4Q2014. While we had anticipated a daily rate of ~\$130k in our model, announced contract terms imply a rig rate close to \$190k/d. The previous high seen by GDI was around \$145k/d for Al-Jassra (deployed with Maersk). The better-than-expected contract value boosts our overall revenue, EBITDA and net income estimate by roughly 2% over 2015-2018. With the deployment of Dukhan post its mobilization from Singapore, GDI's offshore fleet will increase to nine given the recent addition of the Msheireb rig in May 2014.
- **Recent deal involving two new land rigs, GDI-7 and GDI-8, imply increasingly compelling terms for the onshore business as well.** This five-year contract has a disclosed value of QR1.1bn (~\$302mn) implying an average day rate of almost \$83k/rig versus \$30.4k/rig for the existing land fleet as of 2013. According to the company, at 3,000 HP, GDI-8 will be the company's largest onshore rig. The total land fleet will consist of five drilling rigs (one 3,000 HP, one 2,000 HP and three 1,500 HP) and three workover rigs (all 1,000 HP). These two latest additions are expected to cost around QR193mn (~\$53mn) and GISS will finance this amount through local banks at competitive rates. We expect GDI-7 to be deployed around the 3Q2015 timeframe followed by GDI-8 in 4Q2015.
- **Net-net, we are boosting our 2015-2018 revenue, EBITDA and net income estimates by an average of 5%, 7% and 6%, respectively.** Our 2014 estimate changes are more measured given that Dukhan only starts contributing in 4Q2014. We note that GISS recently concluded its buyout of the remaining ~30% stake in GDI for \$157.7mn (vs. a \$160mn price tag disclosed previously). *More details on our model changes are available on Page 2.*

Catalysts

- **Expansion in offshore and potential rig contract re-pricing:** Renewals for Al-Wajbah and Al-Khor later this year could provide newsflow catalysts given our expectation of improved pricing terms. Further, targeting a ~50% market share in offshore Qatar by 2015, GDI retains significant long-term potential to expand its footprint. On the catering front, Amwaj should benefit when major projects, such as Barzan (initial phase in 2015), Al Sejeel (2018) and Al Karaana (2018) come on-line.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We upgrade GISS to an Outperform with a revised price target of QR121.00.** The stock is currently trading at 2014 and 2015 P/E multiples of 19.1x and 17.4x, respectively.
- **Risks:** Besides the risk of a decline in oil & gas prices, GISS also faces concentration risk, as most of its businesses are dependent on QP/affiliates.

Key Financial Data and Estimates

	2012	2013	2014e	2015e
EPS (QR)	2.50	3.64	5.28	5.81
P/E (x)	40.4	27.7	19.1	17.4

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)	102.00/32.88
3-m Avg. Volume (000)	324.5
Mkt. Cap. (\$ bn/QR bn)	5.2/18.8
FO Limit* (%)	25.0
Current FO* (%)	13.6
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	211.8

Fiscal Year End December 31

Source: Bloomberg (as of July 08, 2014), Qatar Exchange (as of July 07, 2014); Note: FO is foreign ownership

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Detailed Financial Statements

Major Estimate Changes

In QR m n	2014e			2015e			2016e			2017e			2018e		
	New	Old	(%)	New	Old	(%)	New	Old	(%)	New	Old	(%)	New	Old	(%)
Revenue	3,728	3,679	1.3	4,766	4,616	3.3	5,050	4,749	6.3	5,307	5,012	5.9	5,559	5,266	5.6
EBITDA	1,362	1,334	2.1	1,663	1,591	4.5	1,762	1,618	8.9	1,944	1,798	8.1	2,024	1,879	7.7
EBITDA Margin (%)	36.5	36.3		34.9	34.5		34.9	34.1		36.6	35.9		36.4	35.7	
Net Income	981	963	1.9	1,079	1,038	4.0	1,146	1,061	8.0	1,309	1,221	7.2	1,375	1,288	6.8
Net Margin (%)	26.3	26.2		22.6	22.5		22.7	22.3		24.7	24.4		24.7	24.5	
EPS (QR)	5.28	5.18	1.9	5.81	5.59	4.0	6.17	5.71	8.0	7.04	6.57	7.2	7.40	6.93	6.8

Source: Company data, QNBFS estimates

Income Statement

	2012	2013	2014e	2015e
Revenue	1,574	2,302	3,728	4,766
Gulf Drilling International (GDI)*			1,288	2,206
Gulf Helicopters Company (GHC)	514	619	636	693
Amwaj Catering Company (ACS)	436	976	1,041	1,050
Al Koot Insurance & Reinsurance (AKIR)	624	707	763	817
COGS	1,247	1,818	2,707	3,395
Gross Profit	327	484	1,021	1,372
SG&A	66	94	216	315
Total Other Income	49	39	55	55
Net Finance Income(Expense)	6	3	(17)	(33)
Income from JVs	148	245	138	1
Net Income	464	677	981	1,079
EBITDA	558	782	1,362	1,663

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

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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