

## GISS Alert – 2Q2022 Earnings Beats On Insurance/Aviation Upside; Maintain Accumulate

- GISS posted a net profit of QR84.5mn in 2Q2022 vs. QR4.8mn in 2Q2021 and QR83.3mn in 1Q2022. Reported earnings for 2Q2022 exceeded our forecast of QR60.8mn given better-than-expected top-line performance from catering, aviation and insurance, along with higher-than-anticipated gross profits from insurance and aviation. Drilling, however, posted lower-than-expected revenue and gross profit vs. our model. *GISS also reported QR7.7mn in net monetary gain from hyperinflation under IAS 29 on its Turkish aviation subsidiary, Redstar, from April 1. The Turkish economy is considered hyperinflationary because its cumulative inflation rate is more than 100% over the last three years, and this has led GISS to revalue current-period non-monetary (real) assets using the general purchasing power of the Turkish Lira (i.e. the CPI) rather than F/X rates (more details in note 4.3 of the June 2022 financial statements). If we exclude this item, net income for the quarter came in at QR76.8mn.* As far as GISS' 50%-owned GulfDrill JV is concerned, as expected, we believe GISS recorded a slight profit in 2Q2022 as the JV recouped mobilization costs from Qatargas and the JV's net assets' position became a surplus. We note JV income (primarily GulfDrill and aviation JVs) rose to QR3.0mn in 2Q2022 from QR1.6mn in 1Q2022 (GISS did not report any share of income from its JV in 1Q2022, despite the GulfDrill JV itself recording a modest QR3.8mn because the overall net assets position for the JV was at a slight deficit in 1Q2022). ***Net-net, we like these set of results and maintain our Accumulate rating; we will likely raise our target price from QR2.1000 shortly.*** We continue to envision an acceleration in momentum in the drilling segment in 2022 and onward. We expect earnings to continue to improve in 2022 with the drilling segment achieving profitability (or near-profitability). Other segments should also contribute positively, while continued progress in costs reduction should help boost earnings.
- Overall 2Q2022 revenue of QR903.5mn (24.3% YoY, 8.2% QoQ) was 7.2% ahead of our forecast of QR843.0mn. 2Q2022 drilling revenue of QR311.1mn (28.5% YoY, -3.0% QoQ) was 4.0% lower than our estimate of QR324.0mn. As expected, the significant YoY top-line growth in 1H2022 was driven by new higher day rates becoming effective for GDI's offshore fleet from July 2021, along with resumption of two onshore rigs (GDI-5/7 that had been idling for an year due to COVID-19) from 3Q2021. Moreover, all five offshore rigs under the GulfDrill JV in the NFE project, are operating with 3Q2021 being the first full quarter of contribution, which boosted management fees and thus revenue. New contracts for liftboats in the KSA/Maldives signed in 1Q2022 also helped boost top-line. Finally in 1Q2021, GDI successfully renewed contracts for some offshore rigs with extended terms ranging 2-5 years, aiding YoY growth. On a QoQ basis, a largescale overhaul of an offshore rig impacted top-line and bottom-line performance causing the miss vs. our model. *(continued on page 2)*

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- *(continued from page 1)* **Aviation revenue** of QR234.9mn (35.6% YoY, 13.8% QoQ) was 11.6% ahead of our estimate of QR210.5mn. On a YoY basis in 1H2022, easing coronavirus restrictions helped flying activity domestically and internationally (especially Turkey and Angola), leading to increasing flying hours; the MRO business also contributed positively. Sequentially, a contract revision (with better terms because of higher asset utilization) in Angola, along with higher revenue in Turkey, also helped segment top-line. GHC deployed one helicopter each in Turkey and Angola from the Qatari fleet to meet increased demand during 2Q2022. **Insurance top-line** of QR221.9mn (-1.4% YoY, 14.0% QoQ) came in 11.7% above our estimate of QR198.6mn. On a yearly basis, for 1H2022, the company continued to point to the loss of two medical insurance contracts, which was partially offset by growth in premiums (due to renewals with wider coverage scope) in the general insurance segment. However, QoQ growth was surprisingly strong given renewal of certain medical insurance contracts with better pricing terms and higher volumes. Finally, **catering revenue** of QR135.6mn (57.1% YoY, 19.8% QoQ) was 23.5% higher than our estimate of QR109.7mn. Catering benefited from growth in the manpower business (new contract win, along with renewals with broader scope improving overall service volumes) and receding pandemic-related restrictions, especially on a YoY basis, in 1H2022. Sequential growth was also due to the manpower segment.
- **Relative to our model, better-than-forecasted profitability from insurance and aviation served to increase 2Q2022 earnings.** Gross profits did improve vs. our model (especially in insurance, which recorded an increase in both GM and gross profit). We note that insurance net income exceeded our forecast despite a QoQ decline of ~QR72mn in investment income (due to unrealized losses on revaluation of held for trading securities). Given GISS' thin margins any slight divergence in costs creates significant volatility in the bottom-line. *Please see page 3 for details on segmental revenue/costs/earnings.*
- **In terms of catalysts, positive newsflow/performance on the drilling front and continued growth in the other segments should help.** We stay longer-term positive on GISS and continue to expect improving financial performance to drive stock price performance over the next 12 months. Moreover, we believe the progress made in costs reduction thus far should dovetail improving market fundamentals as we move forward. Favorable updates on debt restructuring, which was put on the back burner due to COVID-19, could also please equity investors.

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## Income Statement

	2Q2021	1Q2022A	2Q2022A	2Q2022e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>726.7</b>	<b>835.0</b>	<b>903.5</b>	<b>842.8</b>	<b>7.2%</b>	<b>24.3%</b>	<b>8.2%</b>
<i>Gulf Drilling International (GDI)</i>	242.0	320.8	311.1	324.0	-4.0%	28.5%	-3.0%
<i>Gulf Helicopters Company (GHC)</i>	173.2	206.4	234.9	210.5	11.6%	35.6%	13.8%
<i>Amwaj Catering Company (AHC)</i>	86.3	113.1	135.6	109.7	23.5%	57.1%	19.8%
<i>Al Koot Insurance &amp; Reinsurance (AKIR)</i>	225.2	194.7	221.9	198.6	11.7%	-1.4%	14.0%
<b>COGS</b>	<b>663.2</b>	<b>706.0</b>	<b>709.3</b>	<b>705.9</b>	<b>0.5%</b>	<b>7.0%</b>	<b>0.5%</b>
<i>Gulf Drilling International (GDI)</i>	246.6	287.1	277.4	285.4	-2.8%	12.5%	-3.4%
<i>Gulf Helicopters Company (GHC)</i>	102.8	114.5	138.8	118.1	17.5%	35.0%	21.2%
<i>Amwaj Catering Company (AHC)</i>	102.0	107.9	132.1	105.6	25.1%	29.5%	22.4%
<i>Al Koot Insurance &amp; Reinsurance (AKIR)</i>	211.8	196.5	161.1	196.8	-18.2%	-24.0%	-18.1%
<b>Gross Profit</b>	<b>63.5</b>	<b>128.9</b>	<b>194.2</b>	<b>136.9</b>	<b>41.8%</b>	<b>205.8%</b>	<b>50.6%</b>
<b>Gross Margin</b>	<b>8.7%</b>	<b>15.4%</b>	<b>21.5%</b>	<b>16.2%</b>	<b>32.3%</b>	<b>146.0%</b>	<b>39.2%</b>
<i>Gulf Drilling International (GDI)</i>	(4.5)	33.7	33.7	38.6	-12.5%	N/M	0.1%
<i>Gross Margin</i>	-1.9%	10.5%	10.8%	11.9%			
<i>Gulf Helicopters Company (GHC)</i>	70.4	91.9	96.1	92.4	4.0%	36.6%	4.6%
<i>Gross Margin</i>	40.6%	44.5%	40.9%	43.9%			
<i>Amwaj Catering Company (AHC)</i>	(15.7)	5.2	3.4	4.2	-17.3%	N/M	-33.3%
<i>Gross Margin</i>	-18.2%	4.6%	2.5%	3.8%			
<i>Al Koot Insurance &amp; Reinsurance (AKIR)</i>	13.4	(1.8)	60.9	1.8	3305.3%	355.9%	N/M
<i>Gross Margin</i>	5.9%	-0.9%	27.4%	0.9%			
<b>Net Income</b>	<b>4.8</b>	<b>83.3</b>	<b>84.5</b>	<b>60.8</b>	<b>38.9%</b>	<b>1675.3%</b>	<b>1.4%</b>
<b>Net Margin</b>	<b>0.7%</b>	<b>10.0%</b>	<b>9.4%</b>	<b>7.2%</b>			
<i>Gulf Drilling International (GDI)</i>	(60.0)	(10.0)	(13.3)	(7.6)	75.1%	-77.8%	33.5%
<i>Net Margin</i>	-24.8%	-3.1%	-4.3%	-2.3%			
<i>Gulf Helicopters Company (GHC)</i>	61.8	79.0	84.4	79.7	5.9%	36.5%	6.8%
<i>Net Margin</i>	35.7%	38.3%	35.9%	37.9%			
<i>Amwaj Catering Company (AHC)</i>	(8.9)	0.1	(1.3)	(1.4)	-12.1%	-85.8%	N/M
<i>Net Margin</i>	-10.3%	0.1%	-0.9%	-1.3%			
<i>Al Koot Insurance &amp; Reinsurance (AKIR)</i>	17.2	18.6	16.3	(4.9)	N/M	-5.7%	-12.6%
<i>Net Margin</i>	7.7%	9.6%	7.3%	-2.5%			
<i>Corporate/Other</i>	(5.4)	(4.5)	(1.6)	(4.9)	-68.4%	-71.3%	-65.3%
<b>EPS</b>	<b>0.00</b>	<b>0.04</b>	<b>0.05</b>	<b>0.03</b>	<b>38.9%</b>	<b>1675.3%</b>	<b>1.4%</b>

Recommendations	
<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>	
<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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