

Gulf International Services (GISS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR30.70	Current Target Price	QR39.00
Implied Upside	36.8%		

Updating Model to Reflect Rig Deployments; Outperform

We are updating our model to factor in renewed rig deployments and 2016 results. While 4Q2016 were negatively impacted by the write-off of the Al-Rayyan rig, operating results were generally in-line with our estimates. More importantly, all other 9 offshore rigs seem to be under contract (including one in preparation as per contract) per the February rig report. **This represents a 50% increase vs. only six rigs being deployed as of end-2016.** We have been stating since August that upside to our estimates was possible given previously idle assets were being listed as warm stacked and thus could be potentially deployed in the medium term. Now with the offshore fleet being potentially deployed, we feel optimistic about growth in the drilling segment in 2017. We retain our Outperform rating and our price target of QR39.

Highlights

- **GISS posts QR14mn in normalized net income for 4Q2016.** Reported net income including a QR133mn write-off for the Al Rayyan rig and a QR3mn loss (AFS impairment and JV loss, which we do not forecast) was a significant QR122mn. Results on an operating basis were more in line with our estimates with revenue of QR674mn (-9% divergence), gross profits of QR123mn (-2% divergence) and normalized EBITDA of QR205mn (-11% divergence). DPS of QR1 was flat with 2015 and in line with our estimate.
- **The write-off of the Al-Rayyan rig was a surprise but all other 9 offshore rigs seem to be under contract (including one in preparation as per contract) per the February rig report.** The Al-Rayyan rig was listed as warm stacked in the December rig report but was written off. According to the company "the rig has been off contract with Occidental Petroleum since March 15, 2015 and the company was unable to market the rig since it does not meet any customer specifications." Despite this negative development, we point out eight rigs have been listed as contracted per the February rig report and one rig is under preparation as per contract. This compares to only six rigs being under contract as of end 2016. **This should lead to growth in the drilling segment in 2017.**
- **Modeling 30% growth in drilling revenue in 2017.** We use a \$97,000 blended rig rate in 2017 along with an average utilization of 89%. Our segment net income goes from a loss of QR46mn (normalized for the rig write-off) in 2016 to a gain of QR92mn in 2017. Given no detailed data on rig deployments and rates, our modeled estimates are based on our assumptions.

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 an Outperform with a QR39 price target.** GISS trades at 2017 & 2018 EV/EBITDA multiples of 8.2x and 7.1x, respectively. While our price target offers upside, the stock remains 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	2.43	3.37
P/E (x)	6.6	N/M	11.7	8.5
P/B (x)	1.3	1.4	1.3	1.2
EV/EBITDA (x)	6.9	12.4	8.2	7.1
DPS (QR)	1.00	1.00	1.25	1.50
DY (%)	3.5%	3.5%	4.4%	5.3%

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)	39.80/26.50
3-m Avg. Volume (000)	249.1
Mkt. Cap. (\$ bn/QR bn)	1.5/5.3
FO Limit* (%)	25.0
Current FO* (%)	6.9
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	(6.5)
Fiscal Year End	December 31

Source: Bloomberg (as of February 16, 2016), *Qatar Exchange (as of February 15, 2016); 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	3,403	3,644
Drilling	1,473	1,845	1,178	1,550	1,743
Aviation	644	628	534	558	580
Catering	1,056	1,006	837	850	867
Insurance & Reinsurance	733	686	439	446	455
COGS	2,710	2,954	2,459	2,605	2,667
Gross Profit	1,196	1,210	530	798	977
SG&A	217	267	249	256	257
Total Other Income	89	(84)	(117)	14	14
Net Finance Income (Expense)	(27)	(58)	(97)	(104)	(107)
One-Offs/Non-Recurring Items	269	0	0	0	0
Income from JVs	100	0	0	0	0
Net Income	1,410	801	67	452	627
Net Income (Clean)	1,140	801	200^a	452	627
EBITDA	1,818	1,380	770	1,160	1,340
EBITDA (Clean)	1,549	1,380	903^a	1,160	1,340
DPS (QR)	5.50	1.00	1.00	1.25	1.50

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	2,085	2,954
Investments Held for Trading	218	206	214	214	214
Insurance Contract Receivables & A/R	946	1,170	987	1,163	1,231
Due From Related Parties	634	598	310	310	310
Inventories	203	222	219	234	240
Total Current Assets	3,089	3,158	3,065	4,005	4,948
Non-Current Assets					
Available for Sale Investments	300	314	322	322	322
Held to Maturity Investments	85	86	85	85	85
Investment in Joint Ventures	-	-	-	-	-
Investment Properties	1	-	-	-	-
Goodwill & Intangibles	313	307	306	304	304
Property, Plant & Equipment	7,037	7,364	7,339	7,002	6,675
Non-Current Assets	7,738	8,071	8,052	7,713	7,386
Total Assets	10,826	11,229	11,117	11,718	12,334
Current Liabilities					
Short-Term Debt	909	1,467	940	940	940
Insurance Payables & Accounts Payable	1,719	1,964	1,583	1,744	1,778
Due to Related Parties	11	20	3	3	3
Current Liabilities	2,638	3,451	2,526	2,686	2,721
Non-Current Liabilities					
Employees End of Service Benefits	64	160	163	163	163
Long-Term Debt	3,946	3,690	4,630	4,804	4,991
Non-Current Liabilities	4,010	3,850	4,793	4,967	5,154
Total Liabilities	6,649	7,301	7,319	7,653	7,875
Shareholders' Equity					
Total Shareholders' Equity	4,178	3,928	3,799	4,065	4,459
Liabilities & Shareholders' Equity	10,826	11,229	11,117	11,718	12,334

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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