

GISS Alert –In-line 3Q2022 Results Along With Drilling Gross Margin Expansion; Maintain Accumulate

- GISS posted a net profit of QR98.4mn in 3Q2022, up 134.1% vs. QR42.0mn in 3Q2021 and up 16.4% from QR84.5mn in 2Q2022. Reported earnings for 3Q2022 were in-line with our forecast of QR102.9mn (variation of -4.4%). Overall top-line of QR926.9mn was bang in-line with our estimate of QR922.0mn (difference of 0.5%) with slight upside in aviation/catering offsetting modestly lower-than-expected insurance revenue; drilling top-line was right in-line with our estimate. Drilling gross margin expanded to the highest level since 2Q2019 on lower-than expected direct costs. However, higher-than-expected direct costs in catering and insurance more than offset costs improvements in drilling and aviation. As far as GISS' 50%-owned GulfDrill JV is concerned, as expected, GISS recorded almost QR8.0mn in earnings net to GISS.
- **Net-net, we like these set of results and maintain our Accumulate rating.** We continue to envision an acceleration in momentum in the drilling segment – two onshore rigs are yet to be deployed and are expected to come on-line in 4Q2022/early 2023. Other segments should also contribute positively, while continued progress in costs reduction should help boost earnings. Interest expenses do remain a challenge given the company's significant debt load of QR4.3bn (~99% of which is related to drilling) and 3Q2022's quarterly finance charges' run-rate of QR53.3mn (up 70.5% YoY and 34.8% QoQ; 54.2% of 3Q2022 net income). *Thus, favorable updates on debt restructuring, which was put on the back burner due to COVID-19, could please equity investors and we expect to hear something on this front by YE2022/early 2023. Moreover, progress on two announced deals, including the potential merger of [Al Koot \(insurance segment\) with Doha Insurance](#) in an all-share swap deal and of [Amwaj \(catering\) with Shaqab](#), should help drive sentiment.*
- Overall 3Q2022 revenue of QR926.9mn (13.7% YoY, 2.6% QoQ) was right in-line with our forecast of QR922.0mn. 3Q2022 drilling revenue of QR318.2mn (15.4% YoY, 2.3% QoQ) was also bang in-line with our estimate of QR320.3mn (-0.6% divergence). As expected, the significant YoY top-line growth in 9M2022 (up 32.7% from QR716.2mn in 9M2021 to QR950.1mn in 9M2022) 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 North Field 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 completed in 2Q2022, helped boost rig utilization (~89% in 3Q2022 vs. ~88% in 2Q2022) and top-line sequentially. *(continued on page 2)*

GISS Alert –In-line 3Q2022 Results Along With Drilling Gross Margin Expansion; Maintain Accumulate

- *(continued from page 1)* **Aviation revenue** in 3Q2022 of QR247.9mn (30.7% YoY, 5.5% QoQ) was 3.8% ahead of our estimate of QR238.8mn. On a YoY basis in 9M2022, segment top-line grew 30.6% from QR527.6mn in 9M2021 to QR689.2mn. 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, higher revenue from international operations, especially Turkey helped segment top-line. **3Q2022 insurance top-line** of QR215.0mn (-18.5% YoY, -3.1% QoQ) came in 3.7% below our estimate of QR223.2mn. On a yearly basis, for 9M2022, the company continued to point to the loss of two medical insurance contracts from early-2022, which was partially offset by growth in premiums (due to renewals with wider coverage scope) in the general insurance segment; consequently, insurance revenue declined 15.2% YoY from QR744.8mn in 9M2021 to QR631.6mn in 9M2022. Moreover, insurance revenue fell QoQ due to expiration of certain policies which were not renewed in 3Q2022. Finally, **catering revenue** of QR145.8mn (70.2% YoY, 7.6% QoQ) was 4.3% higher than our estimate of QR139.8mn. Catering benefited from growth in the manpower business (new contract win in late 2021, along with renewals with broader scope improving overall service volumes) and receding pandemic-related restrictions, especially on a YoY basis, in 9M2022. Thus, 9M2022 catering revenue of QR394.5mn shot up 52.9% YoY from QR258.0mn in 9M2021. Sequential growth was also due to the manpower segment.
- **In terms of net income, relative to our model, better-than-forecasted profitability in 3Q2022 from aviation, drilling and catering was more than offset by insurance.** Slight top-line upside in aviation, along with GM expansion, helped aviation profitability. **Significant improvement in drilling gross margin, helped blunt some of the substantial ~30% QoQ increase in drilling finance charges; however, drilling bottom-line still increased to a loss of QR16.8mn in 3Q2022 vs. a loss of QR13.3mn in 2Q2022 because of higher finance charges.** Catering earnings went back into the green in 3Q2022 despite costs pressure impacting its gross profit. Finally, the drop-off in insurance gross margin trickled down to the segment's bottom-line, but was offset in part by a ~117% QoQ increase in unrealized gains on the company's investment book. 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.*

GISS Alert –In-line 3Q2022 Results Along With Drilling Gross Margin Expansion; Maintain Accumulate

Income Statement

	3Q2021A	2Q2022A	3Q2022A	3Q2022e	A Vs. E	YoY	QoQ
Revenue	815.0	903.5	926.9	922.0	0.5%	13.7%	2.6%
<i>Gulf Drilling International (GDI)</i>	275.8	311.1	318.2	320.3	-0.6%	15.4%	2.3%
<i>Gulf Helicopters Company (GHC)</i>	189.6	234.9	247.9	238.8	3.8%	30.7%	5.5%
<i>Amwaj Catering Company (AHC)</i>	85.6	135.6	145.8	139.8	4.3%	70.2%	7.6%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	263.9	221.9	215.0	223.2	-3.7%	-18.5%	-3.1%
COGS	711.6	709.3	751.4	725.7	3.5%	5.6%	5.9%
<i>Gulf Drilling International (GDI)</i>	249.6	277.4	247.8	286.4	-13.5%	-0.7%	-10.7%
<i>Gulf Helicopters Company (GHC)</i>	109.8	138.8	139.0	141.6	-1.9%	26.5%	0.1%
<i>Amwaj Catering Company (AHC)</i>	99.4	132.1	170.5	136.0	25.4%	71.6%	29.1%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	252.8	161.1	194.1	161.8	20.0%	-23.2%	20.5%
Gross Profit	103.4	194.2	175.5	196.3	-10.6%	69.7%	-9.6%
Gross Margin	12.7%	21.5%	18.9%	21.3%			
<i>Gulf Drilling International (GDI)</i>	26.2	33.7	70.5	33.9	107.7%	168.6%	108.8%
<i>Gross Margin</i>	9.5%	10.8%	22.1%	10.6%			
<i>Gulf Helicopters Company (GHC)</i>	79.8	96.1	108.9	97.2	12.1%	36.5%	13.3%
<i>Gross Margin</i>	42.1%	40.9%	43.9%	40.7%			
<i>Amwaj Catering Company (AHC)</i>	(13.7)	3.4	(24.7)	3.8	N/M	80.1%	N/M
<i>Gross Margin</i>	-16.0%	2.5%	-17.0%	2.7%			
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	11.1	60.9	20.8	61.4	-66.0%	87.5%	-65.8%
<i>Gross Margin</i>	4.2%	27.4%	9.7%	27.5%			
Net Income	42.0	84.5	98.4	102.9	-4.4%	134.1%	16.4%
Net Margin	5.2%	9.4%	10.6%	11.2%			
<i>Gulf Drilling International (GDI)</i>	(26.3)	(13.3)	(16.8)	(26.9)	-37.4%	-35.9%	26.5%
<i>Net Margin</i>	-9.5%	-4.3%	-5.3%	-8.4%			
<i>Gulf Helicopters Company (GHC)</i>	63.3	84.4	98.4	80.9	21.6%	55.5%	16.7%
<i>Net Margin</i>	33.4%	35.9%	39.7%	33.9%			
<i>Amwaj Catering Company (AHC)</i>	(9.2)	(1.3)	1.8	(3.9)	N/M	N/M	N/M
<i>Net Margin</i>	-10.7%	-0.9%	1.2%	-2.8%			
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	17.7	16.3	17.0	59.0	-71.2%	-3.9%	4.5%
<i>Net Margin</i>	6.7%	7.3%	7.9%	26.4%			
<i>Corporate/Other</i>	(3.5)	(1.6)	(2.0)	(6.3)	-68.1%	-43.7%	28.5%
EPS	0.02	0.05	0.05	0.06	-4.4%	134.1%	16.4%

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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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

Saugata Sarkar, CFA, CAIA
 Head of Research
 +974 4476 6534
 saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
 +974 4476 6509
 shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
 +974 4476 6589
 phibion.makuwerere@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank (“Q.P.S.C.”). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.