

## Qatar Gas Transport Co./Nakilat (QGTS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR20.80</b>	<b>Current Target Price</b>	<b>QR21.00</b>
<b>Implied Upside</b>	<b>1.0%</b>		

### 4Q2018 Preview: Stable Trends Continue to Prevail; Accumulate

*Nakilat's results remain fairly predictable, which is a testament to the company's solid and stable business especially when it comes to its wholly-owned ship segment. We do not expect 2018 results to be any different. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.*

### Highlights

- 4Q2018 Operating metrics should continue to show improvement.** On a YoY basis, adjusted revenue/adjusted EBITDA should post 5%/7% growth rates. However, 4Q2017 also included QR65mn in realized gains on investments, while 4Q2018 finance costs are expected up 5%. Net-net, this leads to an 11% YoY decline in net income. Sequentially, net income should be flattish with the QoQ increase in finance charges offset by operating items. Notwithstanding some quarterly variability, QGTS' wholly-owned business remains steady and predictable. For DPS, we continue to expect QR1.05, up modestly vs QR1.00 in 2017.
- Our projections call for around 5% EPS growth in 2019.** Adjusted revenue should increase around 1% in 2019 with a very modest gain in adjusted-EBITDA margins to 76.9% from 76.6% in 2018. As we have pointed out previously, for 2019, we expect flattish interest charges despite a 6% decline in debt given our forecast of higher interest rates. *However, if interest rates do not go up as originally envisioned, a scenario that looks increasingly likely given the Fed's recent statements and market forecasts, we see decent upside to our 2019 estimates.*

### Catalysts

- Expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver.** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market.

### Recommendation, Valuation and Risks

- Recommendation & valuation: Our 1-Year target is QR21.** QGTS trades at attractive multiples vs. peers despite higher EBITDA margins & FCF yields.
- Risks: (1)** Blockade is an overhang but business impact has been limited thus far. Shipping ultimately remains the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2)** There is a risk existing LNG contracts get renegotiated as they are at a premium to spot (for wholly-owned fleet). We note this premium has fallen markedly over the last 12 months. Overall, we do not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept worse contract terms. The likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

### Key Financial Data and Estimates

	FY2016	FY2017	FY2018e	FY2019e
EPS (QR)	1.72	1.53	1.57	1.65
P/E (x)	12.1	13.6	13.2	12.6
DPS (QR)	1.00	1.00	1.05	1.10
Dividend Yield	4.8%	4.8%	5.0%	5.3%

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	20.80
Current Dividend Yield (%)	5.0
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	21.10/13.55
3-m Average Volume ('000)	364.1
Mkt. Cap. (\$ bn/QR bn)	3.2/11.5
EV (\$ bn/QR bn)	7.9/28.9
Shares Outstanding (mn)	554.0
FO Limit* (%)	49.0
Current FO* (%)	14.1
1-Year Total Return (%)	25.3
Fiscal Year End	December 31

Source: Bloomberg (as of February 07, 2019), \*Qatar Exchange (as of February 06, 2019); Note: FO is foreign ownership

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017	3Q2018	YoY	QoQ	2018e	2017	YoY
Revenue from Wholly-Owned Vessels	776.2	769.3	774.3	0.9%	0.2%	3,076.9	3,057.1	0.6%
Gross Profit	597.2	588.7	596.7	1.4%	0.1%	2,380.8	2,359.6	0.9%
EBITDA	579.5	573.8	579.4	1.0%	0.0%	2,307.8	2,281.4	1.2%
EBIT	389.5	381.2	389.4	2.2%	0.0%	1,551.1	1,513.4	2.5%
Share of Operating Profits from Joint Ventures	101.2	62.0	101.4	63.2%	-0.2%	394.3	339.0	16.3%
Net Income to Equity	214.1	239.8	214.1	-10.7%	0.0%	872.3	846.2	3.1%
EPS (QR)	0.39	0.43	0.39	-10.7%	0.0%	1.57	1.53	3.1%
DPS (QR)						1.05	1.00	5.0%
Adjusted Revenue	891.3	845.6	889.4	5.4%	0.2%	3,526.5	3,451.3	2.2%
Adjusted EBITDA	680.7	635.8	680.8	7.1%	0.0%	2,702.1	2,620.4	3.1%
Gross Margin	76.9%	76.5%	77.1%			77.4%	77.2%	
EBITDA Margin	74.7%	74.6%	74.8%			75.0%	74.6%	
EBIT Margin	50.2%	49.6%	50.3%			50.4%	49.5%	
Net Margin	27.6%	31.2%	27.7%			28.4%	27.7%	
Adjusted EBITDA Margin	76.4%	75.2%	76.5%			76.6%	75.9%	

Source: Company data, QNB FS estimates

## Key Metrics

	2016	2017	2018	2019	2020	2025	2030	2033	CAGR '17-'33
<b>Growth Ratios (In %)</b>									
Revenue - Wholly Owned	0.7%	(0.4%)	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	2.2%	1.2%	1.5%	1.4%	1.3%	1.3%	1.3%
Gross Profit	0.1%	0.4%	0.9%	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	0.0%
EBITDA	(1.1%)	0.5%	1.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	1.5%	1.8%	1.7%	1.5%	1.5%	1.5%
EBIT	(6.5%)	0.7%	2.5%	0.1%	0.1%	(0.0%)	(0.0%)	(0.0%)	0.1%
EPS	(2.9%)	(11.3%)	3.1%	4.9%	13.4%	9.3%	6.0%	5.2%	7.4%
CFPS	(9.9%)	16.7%	(18.5%)	33.1%	9.3%	6.4%	4.5%	4.1%	5.4%
FCFPS	(4.9%)	22.0%	(26.1%)	40.5%	9.7%	6.6%	4.6%	4.2%	5.3%
DPS	(20.0%)	0.0%	5.0%	4.8%	4.5%	29.6%	6.0%	5.2%	6.8%

Source: Company data, QNB FS estimates

## Ratio Analysis

### Key Metrics

	2016	2017	2018	2019	2020	2025	2030	2033
<b>Growth Ratios (In %)</b>								
Revenue - Wholly Owned	0.7%	(0.4%)	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	2.2%	1.2%	1.5%	1.4%	1.3%	1.3%
Gross Profit	0.1%	0.4%	0.9%	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
EBITDA	(1.1%)	0.5%	1.2%	0.1%	0.1%	0.0%	0.0%	0.0%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	1.5%	1.8%	1.7%	1.5%	1.5%
EBIT	(6.5%)	0.7%	2.5%	0.1%	0.1%	(0.0%)	(0.0%)	(0.0%)
EPS	(2.9%)	(11.3%)	3.1%	4.9%	13.4%	9.3%	6.0%	5.2%
CFPS	(9.9%)	16.7%	(18.5%)	33.1%	9.3%	6.4%	4.5%	4.1%
FCFPS	(4.9%)	22.0%	(26.1%)	40.5%	9.7%	6.6%	4.6%	4.2%
DPS	(20.0%)	0.0%	5.0%	4.8%	4.5%	29.6%	6.0%	5.2%
<b>Operating Ratios (In %)</b>								
Gross Margin	76.6%	77.2%	77.4%	77.3%	77.2%	76.7%	76.2%	75.9%
EBITDA Margin	74.0%	74.6%	75.0%	75.0%	75.0%	74.7%	74.4%	74.2%
Adj. EBITDA Margin	76.8%	75.9%	76.6%	76.9%	77.1%	77.8%	78.7%	79.2%
EBIT Margin	49.0%	49.5%	50.4%	50.4%	50.4%	50.1%	49.8%	49.6%
Net Margin	31.1%	27.7%	28.4%	29.7%	33.7%	52.2%	72.9%	85.2%
<b>Finance Ratios</b>								
Net Debt-to-EBITDA	8.3	7.8	7.5	7.1	6.6	4.0	0.9	-1.1
Debt-Equity Ratio	4.1	3.5	2.7	2.4	2.1	0.9	0.3	0.0
Net Debt-Equity Ratio	3.6	3.0	2.4	2.1	1.9	0.8	0.1	-0.1
Interest Coverage	1.3	1.3	1.3	1.3	1.4	2.2	5.4	36.3
EBITDA Interest Coverage	1.9	1.9	1.9	1.9	2.1	3.3	8.0	54.4
<b>Return Ratios (In %)</b>								
ROIC	5.6%	5.7%	5.7%	5.9%	6.1%	6.6%	7.2%	7.5%
ROAE	19.7%	15.1%	13.3%	12.3%	13.0%	13.9%	13.6%	13.2%
ROAA	3.1%	2.8%	2.9%	3.1%	3.6%	6.3%	9.9%	12.2%
<b>Liquidity Ratios</b>								
Current Ratio	2.0	2.0	1.7	1.5	1.5	1.3	1.2	3.7
Quick Ratio	2.0	2.0	1.6	1.5	1.5	1.3	1.2	3.7
<b>Valuation</b>								
EV/EBITDA-Adjusted	10.7	11.2	10.6	10.1	9.5	7.0	4.2	2.7
EV/EBIT	20.2	19.3	18.4	17.8	17.2	13.3	8.8	5.8
P/E	12.1	13.6	13.2	12.6	11.1	7.1	5.1	4.3
P/CF	10.3	8.8	10.8	8.1	7.4	5.5	4.3	3.8
P/B	2.2	1.9	1.6	1.5	1.4	1.0	0.7	0.6
Dividend Yield	4.8%	4.8%	5.0%	5.3%	5.5%	8.4%	11.8%	13.8%
FCF Yield	9.3%	11.4%	8.4%	11.8%	13.0%	17.7%	22.8%	25.9%

Source: Company data, QNB FS estimates

## Detailed Financial Statements

### Income Statement

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Revenue – Wholly-Owned Ships</b>	<b>3,057</b>	<b>3,077</b>	<b>3,080</b>	<b>3,083</b>
Direct Costs	(697)	(696)	(700)	(703)
<b>Gross Profit</b>	<b>2,360</b>	<b>2,381</b>	<b>2,380</b>	<b>2,380</b>
Income from Marine & Agency Services	55	55	56	57
General and Administrative Expenses	(133)	(128)	(126)	(125)
<b>EBITDA</b>	<b>2,281</b>	<b>2,308</b>	<b>2,311</b>	<b>2,312</b>
Depreciation	(768)	(757)	(757)	(758)
<b>EBIT</b>	<b>1,513</b>	<b>1,551</b>	<b>1,553</b>	<b>1,554</b>
Share of Profits from Joint Ventures	339	394	432	481
Finance Costs	(1,172)	(1,194)	(1,191)	(1,119)
Interest, Dividend & Profit from Islamic Banks	64	85	85	86
Vessels Sub-Chartering & Other Income	103	37	37	37
<b>Profit Before Tax</b>	<b>847</b>	<b>873</b>	<b>916</b>	<b>1,039</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>847</b>	<b>873</b>	<b>916</b>	<b>1,039</b>
Minority Interest	(1)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>846</b>	<b>872</b>	<b>915</b>	<b>1,037</b>
<b>EPS (QR)</b>	<b>1.53</b>	<b>1.57</b>	<b>1.65</b>	<b>1.87</b>
<b>Adjusted Net Revenue</b>	<b>3,451</b>	<b>3,526</b>	<b>3,568</b>	<b>3,621</b>
<b>Adjusted EBITDA</b>	<b>2,620</b>	<b>2,702</b>	<b>2,743</b>	<b>2,793</b>

Source: Company data, QNB FS estimates

### Balance Sheet

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	22,392	21,735	21,039	20,343
Investment in Joint Venture Companies	4,144	4,502	4,632	4,752
Loans to Joint Venture Companies	99	82	82	82
Available-for-Sale Investments	109	139	139	139
<b>Total Non-Current Assets</b>	<b>26,744</b>	<b>26,458</b>	<b>25,892</b>	<b>25,316</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	400	586	587	587
Cash and Bank Balances	2,775	2,590	2,342	2,169
<b>Total Current Assets</b>	<b>3,175</b>	<b>3,176</b>	<b>2,929</b>	<b>2,757</b>
<b>Total Assets</b>	<b>29,919</b>	<b>29,635</b>	<b>28,821</b>	<b>28,072</b>
<b>Equity</b>				
Equity Attributable to the Parent	5,922	7,210	7,674	8,232
Minority Interest	4	5	7	8
<b>Total Equity</b>	<b>5,926</b>	<b>7,216</b>	<b>7,681</b>	<b>8,241</b>
<b>Non-Current Liabilities</b>				
Borrowings	19,789	18,638	17,450	16,337
Fair Value of Interest Rate Swaps	2,478	1,738	1,614	1,490
Provision for End of Service Benefits	148	121	121	121
<b>Total Non-Current Liabilities</b>	<b>22,416</b>	<b>20,498</b>	<b>19,185</b>	<b>17,948</b>
<b>Current Liabilities</b>				
Borrowings	832	1,158	1,189	1,113
Accounts Payables/Accruals & Due to Related Parties	746	763	767	771
<b>Total Current Liabilities</b>	<b>1,578</b>	<b>1,921</b>	<b>1,956</b>	<b>1,884</b>
<b>Equity and Liabilities</b>	<b>29,919</b>	<b>29,635</b>	<b>28,821</b>	<b>28,072</b>

Source: Company data, QNB FS 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

<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

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

<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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