

QGTS Alert – Acquires Remaining 49.9% Stake in 4 LNG Ships; Raising PT to QR2.50; Accumulate

- **QGTS acquires remaining 49.9% stake in OSG joint-venture for \$123mn cash** – This JV includes four Q-Flex LNG vessels, which QGTS used to own with partner International Seaways. This increases QGTS' wholly-owned fleet from 25 to 29 out of its overall fleet of 74 vessels. Each of these four LNG carriers (Tembek, Al Hamla, Al Gattara & Al Gharrafa) has a capacity of 217,000 cubic meters and have been operated and managed in-house by Nakilat's ship management arm, Nakilat Shipping Qatar since 2014. The deal closed yesterday (October 7).
- **Financial impact: roughly 4% earnings accretion assuming an all-cash deal.** This JV reported total revenue of QR405mn and QR420mn in 2018 and 2017, respectively, translating into an average daily charter rate of \$76k/d and \$79k/d. The JV also had QR2bn in total debt and QR63mn in cash as of last year. Nakilat had QR2.1bn in cash as of 2Q2019 and will use internal sources of funding for this QR448mn transaction. Even if QGTS uses cash to fund this deal, we see no issues with the company meeting its annual principal repayments/interest charges of roughly QR2bn and dividends of QR554mn given annual OCF (before WC changes) of QR2.3bn and minimal capex requirements.
- **Increasing price target to QR2.50 and maintaining our Accumulate rating.** We factor in the initial impact of this transaction and raise our PT to QR2.50. This transaction is in-line with our thesis that Nakilat will continue to seek out value-added avenues of expansion.
- **We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector.** Going forward, in terms of catalysts, we continue to 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.

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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