

QGTS Alert – 1Q2022 Earnings Beat Driven by JV Income/Depreciation; Accumulate

- **Nakilat reports better-than-expected 1Q2022 results.** QGTS' 1Q2022 net income of QR381.8mn increased 19.3% YoY and 8.9% QoQ coming in 8.0% higher than our estimate of QR353.5mn (difference of 8.0%). **(1) Revenue from wholly-owned ships** of QR873.9mn (0.3% YoY, -3.5% QoQ) was in-line with our estimate of QR881.3mn (variation of -0.8%). The sequential decline in wholly-owned ship revenue is likely driven by lower operating days in 1Q2022 vs. 4Q2021. **(2) Adjusted revenue** (wholly-owned ships + marine & agency services + JV income) of QR1.04bn (5.4% YoY, -2.3% QoQ) was also in-line with our estimate of QR1.04bn (divergence of 0.4%) and was driven by the strength in JV income. **(3) EBITDA** of QR680.0mn (0.6% YoY, -1.5% QoQ) was just 0.6% ahead of our forecast of QR676.3mn given improvement in cash gross margins (78.9% vs. our model of 78.0%); EBITDA performance was aided by lower-than-expected direct operating costs of the wholly-owned fleet and continued progress (along with some timing-related variation) in **G&A** expenses of QR20.5mn (-6.5% YoY, -19.1% QoQ/18.3% below our estimate of QR25.1mn). **(4) Adjusted EBITDA** of QR839.0mn (6.7% YoY, flat QoQ) was 2.2% above our estimate of QR821.0mn. **(5) JV income** of QR159.0mn (44.3% YoY, 6.9% QoQ) was 9.9% above our estimate of QR144.7mn. We suspect improving shipyard performance (which posted net losses of QR36.2mn and QR25.5mn in 2021 and 2020, respectively), along with addition of the fourth and final LNG vessel in QGTS's Global Shipping JV, led to this increase. **(6) Finally finance costs** came in at QR260.0mn (-1.7% YoY, 0.4% QoQ), and was only 1.0% ahead of our estimate of QR257.4mn.
- **2022 could be a watershed year for Nakilat if it is chosen as one of the ship owners involved in Qatar's massive LNG expansion program.** We remind investors that QatarEnergy (formerly Qatar Petroleum) is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. In October and November of 2021, QatarEnergy moved ahead with the construction of ten LNG ships (four in China/six in South Korea). Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections by 2H2022/1H2023; we do note that already on April 12, QatarEnergy announced that it awarded its first batch of time-charter parties (TCPs) with a subsidiary of Mitsui O.S.K Lines (MOL) for the long-term charter and operation of four LNG ships. In a statement, HE the Minister of State for Energy Affairs, Saad Sherida al-Kaabi, also the President and CEO of QatarEnergy, stated that he expected to announce similar contracts in the near future. *Considering Nakilat's strategic importance and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a major beneficiary such future contract announcements. We also estimate that every incremental vessel (@100%) adds roughly 1% to QGTS' target price and an award of 20-30 ships could significantly affect our price target and estimates.*
- **We remain bullish on Nakilat and consider it as the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector.** Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. QGTS' fleet continues to provide the company with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of QGTS' vessels vs. maximum debt life of 25 years (last debt maturing 2033), continues to create refinancing opportunities to increase fleet size. In the near-term, addition of 4 LNG vessels (one added in early Jan. 2021 followed by one each in Oct. 2021 and Jan. 2022) via Global Shipping, should help 2022 earnings growth. *We remain Accumulate on QGTS with a price target of QR3.900.*

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Income Statement							
In QR mn Except Otherwise Noted	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	871.354	905.406	873.928	881.295	-0.8%	0.3%	-3.5%
Operating Costs	(181.867)	(203.840)	(184.165)	(193.885)	-5.0%	1.3%	-9.7%
Gross Profit	689.487	701.566	689.763	687.410	0.3%	0.0%	-1.7%
<i>Gross Margin</i>	<i>79.1%</i>	<i>77.5%</i>	<i>78.9%</i>	<i>78.0%</i>			
Income from Marine and Agency Services	8.474	14.016	10.785	14.000	-23.0%	27.3%	-23.1%
General and Administrative Expenses	(21.951)	(25.396)	(20.535)	(25.147)	-18.3%	-6.5%	-19.1%
EBITDA	676.010	690.186	680.013	676.262	0.6%	0.6%	-1.5%
Depreciation & Amortization	(218.822)	(232.668)	(217.404)	(226.362)	-4.0%	-0.6%	-6.6%
EBIT	457.188	457.518	462.609	449.901	2.8%	1.2%	1.1%
<i>EBIT Margin</i>	<i>52.5%</i>	<i>50.5%</i>	<i>52.9%</i>	<i>51.0%</i>			
Share of Operating Profits from Joint Ventures	110.157	148.635	158.949	144.677	9.9%	44.3%	6.9%
Finance Costs	(264.399)	(258.924)	(259.967)	(257.442)	1.0%	-1.7%	0.4%
Interest, Dividend income & Profit from Islamic Banks	17.206	16.761	20.373	16.500	23.5%	18.4%	21.6%
Vessel Sub-Chartering & Other Income	-	(13.358)					
Profit Before Tax	320.152	350.632	381.964	353.636	8.0%	19.3%	8.9%
Profit After Tax	320.152	350.632	381.964	353.636	8.0%	19.3%	8.9%
Minority Interest	(0.046)	(0.096)	(0.129)	(0.097)	33.2%	180.4%	34.4%
Net Income to Equity	320.106	350.536	381.835	353.539	8.0%	19.3%	8.9%
<i>Net Profit Margin</i>	<i>36.7%</i>	<i>38.7%</i>	<i>43.7%</i>	<i>40.1%</i>			
EPS (QR)	0.06	0.06	0.07	0.06	8.0%	19.3%	8.9%
Adjusted EBITDA	786.167	838.821	838.962	820.939	2.2%	6.7%	0.0%

Adjusted Revenue	989.985	1,068.057	1,043.662	1,039.971	0.4%	5.4%	-2.3%
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Particulars	1Q2021	4Q2021	1Q2022	1Q2022e
Adj. EBITDA Margin	79.4%	78.5%	80.4%	78.9%
Gross Margin	79.1%	77.5%	78.9%	78.0%
EBIT Margin	52.5%	50.5%	52.9%	51.0%
G & A % of Sales	2.5%	2.8%	2.3%	2.9%
Depreciation & Amortization % of Sales	25.1%	25.7%	24.9%	25.7%

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

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