

QNBFS Alert – QGTS Beats 3Q2014 Estimate on Strong LPG Rates

- **3Q2014 profit beats our estimate driven by JV income; maintain Market Perform rating with QR25.30 price target.** In a near repeat of the performance seen in 2Q2014, Nakilat or QGTS reported 3Q2014 results that exceeded our estimate primarily due to better-than-expected performance from the company's LPG joint ventures. Delving into details, we note: (1) Revenue from wholly-owned vessels came in just 1% above our estimate at QR770mn (+2% QoQ, +1% YoY). (2) Share of operating profits from JVs gained significantly to another record level of QR120mn (+3% QoQ, +50% YoY) driven by significant gains in LPG shipping rates beyond our expectations and expansion of the jointly-held LNG fleet (through the Maran Nakilat JV) in line with our model. The shipyard business, while small, also continues to show traction on a YoY basis. (3) Adjusted EBITDA of QR715mn (+1% QoQ, +7% YoY) was only around 4% above our estimate of QR688mn. (4) Net income, before appropriations, of QR247mn (+4% QoQ, +28% YoY) was also impacted by QR9mn in gains from derivative instruments in JVs, which we do not model. Excluding this, net income was 11% greater than our estimate of QR213mn.
- **A state-of-the-art fleet:** Since 2004, QGTS has invested ~\$11bn to own 58 state-of-the-art LNG ships, 25 of which are wholly owned. Around 78% of these vessels are Q-Max/Q-Flex type, which have the largest capacity in the world. QGTS also jointly owns four LPG ships (along with Milaha). An April 2014 deal adds a further 3 JV-held LNG vessels bringing the count to 61 (we expect the last two LNG ships to be added in 2015 and 2016).
- **Refinancing, fleet expansion and upside from the shipyard are catalysts.** During 2013, QGTS refinanced \$917mn in bank debt at attractive rates. We note Nakilat retains the ability to expand its fleet targeting international clients without expending much capex (e.g. the Maran Nakilat deal, which allows QGTS to double JV fleet size to 8 LNG tankers, while upping stake to 40% through a \$1.33bn refinancing). The April 2014 \$807mn refinancing is also of a similar nature. We remain positive longer-term on the shipbuilding business; in April 2014, QGTS signed a major MOU with Qatar Armed Forces to build 7 vessels (QR3.1bn).

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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