

QNNS Alert – Soft 4Q2022 on Impairments/Nakilat; In-Line QR0.35 DPS; Stay Outperform

- **Milaha (QNNS or Qatar Navigation) posted 4Q2022 earnings of QR162.1mn, up 132.1% YoY vs. QR69.9mn in 4Q2021 but down 22.7% QoQ as compared to QR209.7mn in 3Q2022.** Reported earnings/EPS of QR162.1mn/QR0.14 fell short of our estimate of QR265.3mn/QR0.23 (variation of -38.9%). We note reported 4Q2022 earnings included a large QR80.2mn impairment charge recorded by **Milaha Gas & Petrochem** (QR79.4mn, including a vessel for ~QR13mn and remaining for customer contracts) and **Milaha Maritime & Logistics** (QR0.8mn for software). Excluding these impairments, which shaved QR0.07 off Milaha's EPS, 4Q2022 earnings/EPS would have come in at QR242.3mn/QR0.21 (18.1% YoY, -17.9% QoQ), still 8.7% below our estimate. Relative to our model, all segments, excluding **Milaha Maritime & Logistics** and **Milaha Offshore**, posted better-than-expected earnings on a normalized basis (*see page 2*).
- **On a normalized basis (ex. impairments) and relative to our 4Q2022 model, better-than-expected performance from Milaha Gas & Petrochem and Milaha Trading, along with an in-line quarter from Milaha Capital, was more than offset by the other two segments. (1) Milaha Gas & Petrochem** – despite a weaker-than-expected performance from its 36.3%-associate Nakilat, MG&P posted normalized earnings of QR175.9mn (32.7% YoY, 8.4% QoQ), which came in 15.1% higher than our estimate of QR152.8mn. Better-than-expected core profitability, along with upside from other associates and JVs, helped drive normalized earnings despite Nakilat's miss. **(2) Milaha Trading** – posted its first profitable quarter since 2Q2018 with earnings of QR1.3mn vs. losses of QR5.5mn in 4Q2021 and QR2.1mn in 3Q2022; we were expecting a loss of QR1.8mn for 4Q2022. **(3) Milaha Capital** – recorded QR24.6mn in 4Q2022 net income (12.7% YoY, -7.9% QoQ); earnings exceeded our model of QR23.9mn by 2.5%. **(4) Milaha Maritime & Logistics** – strong container shipping fundamentals from mid-2021 onward had helped propel segment earnings. However, the impact on lower rates is clearly evident in 2H2022 results, with 4Q2022 net income falling to QR30.2mn (-57.5% YoY, -58.0% QoQ). Net income also came in 49.0% below our estimate of QR59.1mn. **(5) Milaha Offshore** – according to the company, increase in vessel chartering revenue (higher utilization plus employment of a lifeboat that was idle in 2021, along with an uptick in services revenue) helped boost 2022 results vs. persistent losses in 2Q2021-4Q2021; however, 4Q2022 net income did decline to QR12.3mn (profits fell 67.1% QoQ) and were well below our estimate of QR35.6mn; segment earnings did recover from a loss of QR13.4mn in 4Q2021.
- **FY2022 earnings, before impairments, grew 35.2% YoY, along with an in-line DPS of QR0.35 (yield of 3.8%) that grew 16.7% YoY.** Impairments increased from QR147.6mn in 2021 to QR165.7mn in 2022; however, impairments were still down significantly from QR868.0mn in 2020, pointing to the underlying health of the company's operations. Including impairments, FY2022 earnings still jumped significantly from QR724.2mn in 2021 to QR1.18bn (up 39.9% YoY). DPS of QR0.35 gained vs. 2021's QR0.30 and was in-line with our estimate of QR0.35. FY2022 revenue of QR3.29bn increased 18.0% YoY and was 1.1% shy of our estimate.
- **We remain bullish longer-term on the QNNS growth story and our investment thesis has been spot-on so far with the stock up 32.9% in 2022 (QSE Index down 8.1%) despite weakness thus far in 2023.** The stock, over 2011-2021, always traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its “non-core” assets (investment stake in Nakilat and its equity/bond portfolio). This implied that investors received Milaha's “core” or operating businesses for almost free. However, what has changed is that Milaha is enjoying several catalysts, which has helped in making progress toward the stock's rerating. We note strength in oil prices (despite volatility), recovery in sentiment and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help QNNS' earnings trajectory and highlight its growth story to investors. *We continue to rate QNNS an Outperform with our QR10.00 price target.*

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Revenue (in QR '000)	4Q2021	3Q2022	4Q2022	4Q2022e	A Vs. E	YoY	QoQ	FY2021	FY2022	FY2022e	A Vs. E	YoY
MM&L	330,943	345,840	310,238	311,948	-0.5%	-6.3%	-10.3%	1,118,092	1,404,024	1,405,734	-0.1%	25.6%
MO	262,471	322,066	302,963	323,998	-6.5%	15.4%	-5.9%	964,482	1,211,586	1,232,621	-1.7%	25.6%
MG&P	57,757	58,960	58,724	59,691	-1.6%	1.7%	-0.4%	254,356	218,604	219,571	-0.4%	-14.1%
MC	111,018	111,792	115,021	108,997	5.5%	3.6%	2.9%	415,412	539,610	533,586	1.1%	29.9%
MT	60,467	69,378	82,951	67,644	22.6%	37.2%	19.6%	309,313	326,749	311,442	4.9%	5.6%
Corporate Adjustments								41	0	0		-100.0%
Total	822,656	908,036	869,897	872,278	-0.3%	5.7%	-4.2%	3,061,696	3,700,573	3,702,954	-0.1%	20.9%
Eliminations	(73,526)	(118,948)	(147,473)	(114,264)	29.1%	100.6%	24.0%	(277,823)	(415,317)	(382,108)	8.7%	49.5%
Total Net	749,130	789,088	722,424	758,014	-4.7%	-3.6%	-8.4%	2,783,873	3,285,256	3,320,846	-1.1%	18.0%

Net Income (in QR '000)	4Q2021	3Q2022	4Q2022	4Q2022e	A Vs. E	YoY	QoQ	FY2021	FY2022	FY2022e	A Vs. E	YoY
MM&L	71,024	71,842	29,387	59,097	-50.3%	-58.6%	-59.1%	198,999	283,642	313,352	-9.5%	42.5%
MO	(99,771)	37,351	12,286	35,582	-65.5%	N/M	-67.1%	(117,575)	78,347	101,643	-22.9%	N/M
MG&P	83,504	162,231	96,444	152,838	-36.9%	15.5%	-40.6%	495,507	565,325	621,719	-9.1%	14.1%
MC	21,783	(58,872)	24,550	23,947	2.5%	12.7%	N/M	161,608	94,161	93,558	0.6%	-41.7%
MT	(5,529)	(2,104)	1,309	(1,765)	N/M	N/M	N/M	(11,966)	(5,014)	(8,088)	-38.0%	-58.1%
Total	71,011	210,448	163,976	269,698	-39.2%	130.9%	-22.1%	726,573	1,016,461	1,122,183	-9.4%	39.9%
Minorities	(1,150)	(739)	(1,849)	(4,368)	-57.7%	60.8%	150.2%	(2,419)	(3,723)	(6,242)	-40.4%	53.9%
NI to Equity	69,861	209,709	162,127	265,330	-38.9%	132.1%	-22.7%	724,154	1,012,738	1,115,941	-9.2%	39.9%

Impairment of PP&E/Vessels/Intangibles	(135,388)	(85,522)	(80,204)			-40.8%	-6.2%	(147,627)	(165,726)	(85,522)	93.8%	12.3%
NI to Equity, Ex. Impairment	205,249	295,231	242,331	265,330	-8.7%	18.1%	-17.9%	871,781	1,178,464	1,201,463	-1.9%	35.2%

EPS	0.06	0.18	0.14	0.23	-38.9%	132.1%	-22.7%	0.77	1.04	1.06	-1.9%	35.2%
DPS								0.30	0.35	0.35	0.0%	16.7%

Net Income (in QR '000)	4Q2021	3Q2022	4Q2022	4Q2022e	A Vs. E	YoY	QoQ
MM&L Normalized	71,024	71,842	30,166	59,097	-49.0%	-57.5%	-58.0%
MO Normalized	(13,385)	37,351	12,286	35,582	-65.5%	N/M	-67.1%
MG&P Normalized	132,506	162,231	175,869	152,838	15.1%	32.7%	8.4%
MC Normalized	21,783	26,650	24,550	23,947	2.5%	12.7%	-7.9%
MT Normalized	(5,529)	(2,104)	1,309	(1,765)	N/M	N/M	N/M
NI to Equity, Ex. Impairment	205,249	295,231	242,331	265,330	-8.7%	18.1%	-17.9%

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	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

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