QNNS Alert – In-Line 1Q2022 Earnings on Broad-Based Strength Across Divisions; Outperform

- **Milaha (QNNS or Qatar Navigation) posted 1Q2022 earnings of QR360.4mn, which was up 21.3% YoY and 415.9% QoQ. Reported earnings were in-line with our estimate of QR352.2mn (variation of 2.3%).** The significant sequential growth in earnings was due to QR135.4mn in impairments posted in 4Q2021; adjusting for this item, QoQ earnings growth was a robust 75.6%. We note QNNS usually benefits from significant dividend income in the March quarter generally leading to sizable QoQ earnings growth. 1Q2022 revenue of QR912.7mn (35.2% YoY, 21.8% QoQ) was also in-line with our model of QR875.1mn (difference of 4.3%). Relative to our model, all segments excluding **Milaha Capital** posted moderately better-than-expected earnings.

- **Better-than-expected performance from Milaha Gas & Petrochem, Milaha Maritime & Logistics and Milaha Offshore were key drivers of earnings growth. (1) Milaha Gas & Petrochem –** better-than-expected performance from its 36.3%-associate Nakilat helped drive earnings of QR164.3mn (14.9% YoY, 196.8% QoQ), which came in 21.1% higher than our estimate of QR135.7mn. **(2) Milaha Maritime & Logistics –** strong container shipping fundamentals and network optimization measures boosting margins helped propel segment earnings to QR88.3mn (107.8% YoY , 124.3% QoQ), which was 21.9% ahead of our estimate of QR72.4mn. **(3) Milaha Offshore –** strong top-line growth helped boost net income to QR8.4mn (218.6% YoY, -8.5% QoQ), which was significantly better than our forecast of QR0.8mn. **(4) Milaha Trading –** posted a larger loss of QR2.2mn in 1Q2022 vs. 1Q2021's QR1.0mn; net loss, however, improved vs. 4Q2021's net loss of QR5.5mn, while we were expecting a loss of QR2.6mn. **(5) Milaha Capital –** recorded QR102.5mn in 1Q2022 net income (-7.8% YoY, 470.7% QoQ), which was lower than our model of QR145.9mn by 29.7%. The capital segment faced lower investment income, which was partially offset by increased real estate profit.

- **We remain bullish longer-term on the QNNS growth story.** The stock, over 2011-2021, has always traded at a significant discount to its sum-of the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up more than 100% of QNNS' market cap. This implies that investors get Milaha's "core" or operating businesses for almost free. However, what could be different this time around is that Milaha should enjoy several catalysts, which could help in its rerating. We note recovery in oil prices/sentiment, the lifting of Qatar's blockade, the upcoming FIFA World Cup Qatar 2022 and the massive North Field Expansion project, are all positive tailwinds. Growth snapback, as COVID-19 restrictions ease, should also contribute to easier comparisons going forward. Lack of large impairments in the future should also help QNNS' earnings trajectory and highlight its growth story to investors. *We rate QNNS an Outperform with a QR10.00 price target.*

- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio.** For the stock to rerate, investors need to see earnings/EBITDA growth acceleration without significant impairments muddling up the story. Other risks remain, including: (1) Volatility in oil prices; (2) Execution/integration issues with major fleet additions/acquisitions; (3) Fall in local equity/RE prices; (3) A slowdown in Qatar's economy and (4) Geopolitical crisis.

QNB FINANCIAL SERVICES

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Recommendations		Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price		*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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

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