

Milaha/Qatar Navigation (QNNs)

Recommendation	Outperform	Risk Rating	R-4
Share Price	QR10.66	Target Price	QR13.10
Implied Upside	22.9%	Old Target Price	QR12.00

Raising PT to QR13.10 & Upgrading to Outperform Given Nakilat's NFE Win

We are raising our target price from QR12.00 to QR13.10 and upgrading QNNs from Accumulate to Outperform. Nakilat finally announced that it was selected by QatarEnergy as owner & operator of up to 25 conventional LNG vessels tied to the massive 100+ vessels NF expansion program. As a result, we have upgraded QGTS to an Outperform and raised our price target from QR4.100 to QR5.100. Milaha owns 36.3% of Nakilat and thus, we also increase Milaha's price target and rating. We remain bullish on QNNs. The stock, since we first started coverage in 2011, has usually 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 close to 100% of QNNs' market cap. This implies that investors continue to get Milaha's "core" or operating businesses for almost free. Milaha's shares offer value and the company is enjoying a multi-year resurgence in its offshore segment (MO) that is leveraged to Qatar's massive North Field Expansion project. Moreover, while its maritime & logistics (MM&L) division is suffering from a significant drop in container shipping revenue (primarily on account of a severe ratcheting down in container shipping rates along with a decline in volumes) and a moribund logistics unit, the worst may be behind us and YoY comparisons are likely to get less challenging. Container rates (while still down precipitously from pandemic-related unsustainable highs) have more than doubled thus far this year given the Red Sea crisis – this could have positive implications for this segment at least in 1Q2024. A lack of large impairments in the future should also help Milaha's earnings trajectory and highlight its growth story to investors.

Highlights

- Normalized earnings (excl. impairments/one-offs) should grow at a 6.9% CAGR (2022-2028e) vs. a CAGR of -0.2% (2015-2022). About 22% of this six-year growth in "clean" earnings should be driven by operating businesses or "core", led by growth in offshore. MO (~33% of the six-year growth in earnings) should benefit from the strong growth in Qatar O&G activities and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations – we expect an earnings CAGR of 22.9%. The biggest drag on earnings growth could be MM&L (excl. QTerminals, which shows a CAGR of 1.0%), expected to flip from a 2022 profit of QR127.2mn to a loss of QR20.6mn in 2028 (however, we do model segment losses to progressively decline from 2024). MM&L has faced headwinds but we expect improving fundamentals; this segment could also benefit from the Red Sea crisis but this is likely to be relatively short-lived as compared to COVID-19-related disruptions. A whopping ~78% of the growth in future earnings is driven by "non-core" items, including Nakilat (9.2% CAGR), which propels almost 64% of Milaha's earnings growth. The remaining ~15% is driven by MC based on stable real estate income and growing dividend income. We note that we are yet to increase Nakilat's earnings (and consequently, Milaha's earnings) factoring in the significant NFE contract.

Catalysts

- (1) Milaha's exposure to Qatar's O&G sector, primarily via MO, could help momentum. (2) An improvement in MM&L's profitability could also help. (3) Nakilat remains the biggest value driver, both through its earnings growth and through its exposure to the NFE project. (4) QNNs also has the ability to boost dividends given its strong balance sheet (2023 net cash of QR565.3mn/QR0.50 per share) and solid FCF profile (despite increased offshore capex needs).

Recommendation, Valuation and Risks

- Recommendation & valuation:** We recommend an Outperform rating on QNNs. We value Milaha using a SOTP methodology, which comprises of these major parts: 1) Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT); 2) A DCF-based value for QNNs' 36.3% stake in Nakilat (QGTS: Outperform/QR5.100 TP); 3) A P/E-based value for Milaha's 49.0%-owned JV QTerminals; 4) Investment (stocks & bonds) portfolio at a 10% discount to its value; and 5) Real estate investment properties at a 30% haircut to 2023 estimated FV. We also apply a 30% conglomerate discount.
- Risks:** Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP. For the stock to rerate, investors need to see earnings/EBITDA acceleration without large impairments muddling up the story. Other risks remain, including: (1) Weakness/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 in the MENA region.

Key Financial Data and Estimates

	2022	2023	2024e	2025e	2026e	2027e	2028e
EPS (Excluding Impairments & One-Offs)	1.04	0.92	1.13	1.25	1.36	1.46	1.55
EPS Growth (%)	35.2	(10.9)	17.8	10.4	8.9	7.1	6.2
P/E (x)	10.3	11.5	9.4	8.5	7.8	7.3	6.9
EV/EBITDA (x)	13.7	14.0	12.3	11.4	10.5	9.6	8.8
FCF Yield (%)	6.6	6.6	7.7	8.4	9.0	9.6	10.2
DPS (QR)	0.35	0.38	0.45	0.50	0.55	0.60	0.65
RoE (%)	7.7	6.4	7.5	7.9	8.2	8.3	8.4

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	10.66
Current Dividend Yield (%)	3.5
Bloomberg Ticker	QNNs QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	11.43/8.100
3-m Average Volume (mn)	1.8
Mkt. Cap. (\$ bn/QR bn)	3.3/12.1
EV (\$ bn/QR bn)	3.2/11.5
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	100.0
Current Institutional FO* (%)	17.1
1-Year Total Return (%)	18.0
Fiscal Year End	December 31

Source: Bloomberg (as of February 11, 2024), *Qatar Exchange (as of February 08, 2024); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Revenue	3,285	2,942	3,120	3,248
COGS	(1,789)	(1,454)	(1,557)	(1,623)
Gross Profit	1,497	1,488	1,563	1,625
SG&A	(640)	(660)	(668)	(687)
EBITDA	857	828	895	938
Depreciation & Amortization	(370)	(391)	(409)	(421)
EBIT	487	436	487	517
Net Interest Income (Expense)	(44)	(31)	9	10
Share of Results From JVs	179	127	136	158
Share of Results From Associates	542	520	675	760
Impairments & Others	(146)	(10)	0	0
Net Profit Before Taxes & Minority Interest	1,017	1,043	1,307	1,445
Taxes	(1)	(14)	(24)	(28)
Net Profit Before Minority Interest	1,016	1,030	1,284	1,417
Minority Interest	(4)	1	1	1
Net Profit	1,013	1,030	1,285	1,418
Net Profit Excluding Impairments & One-Offs	1,178	1,050	1,285	1,418

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
Current Assets				
Cash & Cash Equivalents	1,467	1,047	1,414	1,669
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	501	529	552
Trade & Other Receivables	1,036	971	1,040	1,086
Inventories	115	92	104	109
Total Current Assets	3,120	2,612	3,087	3,415
Non-Current Assets				
Other Assets	312	205	220	217
Investment Securities at FVOCI	2,567	2,914	2,570	2,678
Investment In Associates	7,548	7,819	8,221	8,679
Investments in JVs	1,025	1,022	1,077	1,109
Intangible Assets	16	13	13	12
Investment Property	884	856	836	818
Property, Vessels & Equipment	2,841	2,776	2,791	2,810
Total Non-Current Assets	15,193	15,605	15,728	16,323
Total Assets	18,313	18,216	18,815	19,738
Current Liabilities				
Trade & Other Payables	755	692	657	687
Loans, Borrowings & Lease Liabilities	838	498	99	99
Total Current Liabilities	1,593	1,191	756	787
Non-Current Liabilities				
Loans & Borrowings	299	64	248	234
Others	337	239	255	255
Total Non-Current Liabilities	637	303	503	489
Total Liabilities	2,229	1,494	1,259	1,276
Minority Interest	42	42	40	39
Shareholders' Equity	16,042	16,681	17,515	18,422
Total Liabilities & Shareholders' Equity	18,313	18,216	18,815	19,738

Source: Company data, QNB FS Research

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

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