

QNBFS Alert – GISS Posts In-Line 3Q2014 Results; Upgrading to Outperform

- **GISS reports in-line results for 3Q2014** – Gulf International Services (GISS) reported a net income of QR317.6mn in 3Q2014 vs. our estimate of QR308.2mn (+3% divergence) and consensus (two estimates) of QR306.5mn. Reported net income was up 15% QoQ and 91% YoY. The growth in earnings was driven primarily by the strong uptick in revenue (up 14% QoQ and 94% YoY). Revenue reported of QR1.12bn was also right in line with our modeled estimate of QR1.14bn. The major growth drivers remained the 100% consolidation of GDI, fleet expansion and increased day rates. Addition of a lift boat (Rumailah) in 3Q2014 also boosted sequential growth as expected.
- **Robust performance from GDI drives growth.** GISS completed the buy-out of Japan Drilling's ~30% shareholding in GDI for \$157.7mn, making GDI a 100% subsidiary from April 30, 2014. YTD 2014, GDI's growth was propelled by offshore, which contributed 81.5% of revenue, with the deployment of Al-Jassra/Leshat offshore rigs in 2Q2013/4Q2013, Msheireb offshore rig in 2Q2014, Rumailah accommodation lift boat in 3Q2014, and to favorable rate extensions for three rolled-over offshore contracts for Al-Doha, Al-Zubarah and Al-Rayyan last year.
- **On a roll – recent major drilling contract announcements lock in future growth.** (1) On June 11, GDI announced a five-year contract for two onshore rigs, GDI-7 and GDI-8, with a disclosed value of QR1.1bn (~\$302mn) implying an average rate of almost \$83k/rig versus \$30.4k/rig for the existing land fleet as of 2013. We expect GDI-7 to be deployed in 3Q2015 followed by GDI-8 in 4Q2015. (2) On June 16, GDI announced a QR1.275bn (~\$350mn), five-year contract for the Dukhan jack-up offshore rig. When commencing operations in 4Q2014, this rig will garner around \$190k/d, or a ~35% premium to Al-Jassra and a ~60% premium to the 2013 blended offshore rate (seven rigs). (3) On July 10, GDI announced a five-year, QR1.6bn contract extension for GDI 1-4 land rigs with effect from 2Q2014. At around ~\$60k/d/rig, deal extension terms implied 2x existing land rig rates. (4) Finally, on July 20, GDI announced a QR1.2bn (~\$330mn) five-year contract to supply a 4th jack-up rig, Halul, to QP. Halul will become GDI's 10th overall offshore rig and will command a day rate of ~\$180k once it is deployed around mid-2016. All four deals have been signed with QP. In total, these four contracts add ~QR5.2bn in revenue, or roughly QR1bn in incremental top-line per year for five years vs. QR912mn posted by all of GDI (at ~70% stake) in 2013
- **Maintaining target price of QR136; upgrading to Outperform rating.** Considering the recent sell-off in the stock, we raise our recommendation to Outperform from Accumulate. In light of GISS' 9M2014 financial performance, our 2014 net income estimate of QR1.01bn is likely to be revised upward shortly.

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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