

Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR3.158	Current Target Price	QR3.500
Implied Upside	10.8%		

In-Line 1Q2021 Maintains Strong Growth Trend; Retain Outperform

QGTS continues to deliver strong earnings growth consistently. Nakilat posted an in-line 1Q2021, with a 14.7% YoY and a 22.8% QoQ growth in net income. Stable ship revenue, along with continuing decline in operating costs and finance charges, helped QGTS post solid 1Q2021 results. **We remain bullish on Nakilat and consider it as the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector.** Since we upgraded the stock to an Outperform, QGTS' share price has appreciated by 16%, significantly beating the QE Index's increase of 8% as Nakilat was re-included in the MSCI EM Index. Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. QGTS' fleet continues to provide the company with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of QGTS' vessels vs. maximum debt life of 25 years (last debt maturing 2033), continues to create refinancing opportunities to increase fleet size. Thus, we think further deals in LNG ships and FSRUs are likely. In the near-term, addition of 4 LNG vessels (1 added in early January followed by one each in 2H2021 and in early 2022) via Global Shipping, should help earnings growth in 2021 and 2022. **In terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver. Currently our model does not assume any fleet growth and we will incorporate such expansion once more details become available. We foresee significant upward revision to our estimates and price target once we factor in this expansion.**

Highlights

- **1Q2021 review: QGTS posted QR320.1mn in 1Q2021 net income, in-line with our estimate of QR324.5mn (variation of -1.4%).** Better-than-anticipated wholly-owned ship revenue/operating costs, along with lower-than-modeled depreciation & amortization expenses, offset weaker-than-expected JV income. For more details, please see page 2.
- **We maintain our estimates and project an 8.8% earnings CAGR over 2020-2025.** While wholly-owned vessel revenue should remain stable at a CAGR of 0.2% over the same period, the bottom-line acceleration should be driven by JV income growth (CAGR: 9.0%) and declining finance charges (CAGR: -7.3%) as deleveraging continues. For 2021, we project 12.5% EPS growth followed by a 7.5% increase in 2022. We note, in 2021, JV income should benefit from two new LNG vessels in QGTS' 60%-owned Global Shipping JV and improving shipyard performance, along with lower finance charges given principle repayments and considering that ~25% of Nakilat's debt (including JV debt) is unhedged. For 2022, another ship should be added, increasing Global Shipping's fleet to four LNG carriers, along with a further decline in finance costs.
- **Costs optimization due to transition of fleet management in-house has enhanced value.** QGTS has successfully completed phase II of its fleet management transition program with management/operations of an additional 10 vessels (including the one delivered in January 2021). So far, this has played a major role in expanding QGTS' EBITDA margin from 74.6% in 2017 to 77.7% in 2020. We could see upside to our future margin assumptions when QGTS is able to transition the remaining eight wholly-owned LNG vessels (17 already brought in-house) from STASCO.
- **Operating profile remains buoyant with industry-leading EBITDA margins & attractive dividend/FCF yields.** Charter agreements result in stable revenue along with operating costs pass-through (a mixture of capped and uncapped inflation rates) leading to flattish absolute EBITDA. Nakilat's stable business profile is highlighted by its industry-leading margins (avg. adj. EBITDA margin of 78.3% over 2010-20 followed by 80.0% over 2021-33). We model in a dividend yield of 3.5% in 2021 growing to 4.7% by 2033, with 10.0% in FCF yield rising to 17.3% over the same period.

Catalysts

- **Expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver.** QP has signed major LNG shipbuilding capacity agreements to build 100+ LNG vessels, worth in excess QR70bn, to cater to this expansion. Recently QP issued an "Invitation to Tender" package to ship owners in relation to this project. While details are yet to be released, we expect QGTS to be a major beneficiary of this LNG expansion. **We note every vessel (@100%) adds roughly 1% to QGTS' target price and we should hear more about carrier selection by end of 2022.** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance.

Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR3.500.** QGTS trades @ 2022 P/E of 12.5x.
- **Risks: (1)** Shipping is ultimately the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2)** There is a risk existing LNG contracts are renegotiated – we do not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept worse contract terms. However, the likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

Key Financial Data and Estimates

	FY2019	FY2020	FY2021e	FY2022e
EPS (QR)	0.18	0.21	0.24	0.25
P/E (x)	17.5	15.1	13.4	12.5
DPS (QR)	0.10	0.11	0.11	0.12
Dividend Yield	3.2%	3.5%	3.5%	3.8%

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

Key Data

Current Market Price (QR)	3.158
Current Dividend Yield (%)	3.5
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	3.509/2.242
3-m Average Volume ('mn)	2.9
Mkt. Cap. (\$ bn/QR bn)	4.8/17.5
EV (\$ bn/QR bn)	9.8/35.5
Shares Outstanding (mn)	5,539.0
FO Limit* (%)	49.0
Current FO* (%)	16.5
1-Year Total Return (%)	31.7
Fiscal Year End	December 31

Source: Bloomberg (as of May 02, 2021), *Qatar Exchange (as of May 02, 2021); Note: FO is foreign ownership

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1Q2021 Review

Nakilat's bottom-line rises 14.7% YoY and 22.8% QoQ in 1Q2021, in-line with our estimate. QGTS posted QR320.1mn in 1Q2021 net income, in-line with our estimate of QR324.5mn (variation of -1.4%). Better-than-anticipated wholly-owned ship revenue/operating costs, along with lower-than-modeled depreciation & amortization expenses, offset weaker-than-expected JV income.

- Revenue from wholly-owned ships of QR867.5mn (-0.7% YoY, -0.1% QoQ) was in-line with our estimate of QR858.2mn (variation of 1.1%).
- Adjusted revenue of QR986.1mn (-1.1% YoY, 5.7% QoQ) was bang in-line with our estimate of QR986.3mn and was driven by the previously mentioned strength in wholly-owned vessel top-line.
- EBITDA of QR672.1mn (0.8% YoY, -0.1% QoQ) was consistent with our forecast of QR665.4mn (1.0% difference). Better-than-expected revenue and direct operating cash costs of wholly-owned vessels drove EBITDA performance; G&A continued to improve on a YoY basis, coming in at QR22.0mn (-28.1% YoY, 22.8% QoQ), but was 24.0% above our modeled forecast of QR17.7mn.
- Adjusted EBITDA of QR782.3mn (0.7% YoY, 7.4% QoQ) was also at par with our estimate of QR784.3mn (-0.3% variation).
- JV income of QR110.2mn (0.0% YoY, 97.1% QoQ), showed a significant jump due to one-offs in 4Q2020, but was 7.3% below our estimate of QR118.9mn.
- Finally finance costs continued their significant YoY decline, coming in at QR264.4mn (-11.7% YoY, 0.4% QoQ), but was 1.1% ahead of our estimate of QR261.6mn.

QGTS 1Q2021 Metrics

Income Statement							
In QR mn Except Otherwise Noted	1Q2020	4Q2020	1Q2021	1Q2021e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	873.382	868.566	867.478	858.181	1.1%	-0.7%	-0.1%
Operating Costs	(189.618)	(186.251)	(181.867)	(184.255)	-1.3%	-4.1%	-2.4%
Gross Profit	683.764	682.315	685.611	673.926	1.7%	0.3%	0.5%
<i>Gross Margin</i>	78.3%	78.6%	79.0%	78.5%			
Income from Marine and Agency Services	13.334	8.143	8.474	9.200	-7.9%	-36.4%	4.1%
General and Administrative Expenses	(30.542)	(17.881)	(21.951)	(17.702)	24.0%	-28.1%	22.8%
EBITDA	666.556	672.577	672.134	665.424	1.0%	0.8%	-0.1%
Depreciation & Amortization	(222.910)	(223.172)	(218.822)	(222.951)	-1.9%	-1.8%	-1.9%
EBIT	443.646	449.405	453.312	442.473	2.4%	2.2%	0.9%
<i>EBIT Margin</i>	50.8%	51.7%	52.3%	51.6%			
Share of Operating Profits from Joint Ventures	110.133	55.882	110.157	118.889	-7.3%	0.0%	97.1%
Finance Costs	(299.312)	(263.385)	(264.399)	(261.628)	1.1%	-11.7%	0.4%
Interest, Dividend income & Profit from Islamic Banks	19.700	11.369	17.017	19.109	-10.9%	-13.6%	49.7%
Vessel Sub-Chartering & Other Income	5.387	7.458	4.065	5.656	-28.1%	-24.5%	-45.5%
Profit Before Tax	279.554	260.729	320.152	324.498	-1.3%	14.5%	22.8%
Profit After Tax	279.554	260.729	320.152	324.498	-1.3%	14.5%	22.8%
Minority Interest	(0.363)	0.012	(0.046)	0.015	-408.0%	-87.3%	-483.3%
Net Income to Equity	279.191	260.741	320.106	324.513	-1.4%	14.7%	22.8%
<i>Net Profit Margin</i>	32.0%	30.0%	36.9%	37.8%			
EPS (QR)	0.05	0.05	0.06	0.06	-1.4%	14.7%	22.8%
Adjusted EBITDA	776.689	728.459	782.291	784.312	-0.3%	0.7%	7.4%

Adjusted Revenue	996.849	932.591	986.109	986.269	0.0%	-1.1%	5.7%
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Particulars	1Q2020	4Q2020	1Q2021	1Q2021e
Adj. EBITDA Margin	77.9%	78.1%	79.3%	79.5%
Gross Margin	78.3%	78.6%	79.0%	78.5%
EBIT Margin	50.8%	51.7%	52.3%	51.6%
G & A % of Sales	3.5%	2.1%	2.5%	2.1%
Depreciation & Amortization % of Sales	25.5%	25.7%	25.2%	26.0%

Source: QNB FS estimates

Key Growth Metrics

Growth Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2031	2032	2033
Growth Ratios (In %)														
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	10.6%	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.2%	2.9%	1.3%	0.4%	0.9%	1.0%	0.7%	0.7%	0.7%	0.7%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.1%	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	13.6%	0.7%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.3%	3.5%	1.5%	0.3%	1.0%	1.2%	0.8%	0.8%	0.8%	0.8%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	21.0%	1.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	12.5%	7.5%	4.6%	9.6%	10.0%	5.4%	5.1%	4.9%	4.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	78.1%	(26.2%)	4.2%	2.9%	6.1%	6.6%	4.0%	3.8%	3.7%	3.6%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	113.4%	(27.5%)	4.5%	3.1%	1.5%	12.3%	9.3%	3.9%	3.8%	3.7%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	0.0%	9.1%	0.0%	0.0%	8.3%	0.0%	7.1%	0.0%	0.0%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Ratio Analysis

Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2031	2032	2033
Growth Ratios (In %)														
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	10.6%	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.2%	2.9%	1.3%	0.4%	0.9%	1.0%	0.7%	0.7%	0.7%	0.7%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.1%	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	13.6%	0.7%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.3%	3.5%	1.5%	0.3%	1.0%	1.2%	0.8%	0.8%	0.8%	0.8%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	21.0%	1.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	12.5%	7.5%	4.6%	9.6%	10.0%	5.4%	5.1%	4.9%	4.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	78.1%	(26.2%)	4.2%	2.9%	6.1%	6.6%	4.0%	3.8%	3.7%	3.6%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	113.4%	(27.5%)	4.5%	3.1%	1.5%	12.3%	9.3%	3.9%	3.8%	3.7%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	0.0%	9.1%	0.0%	0.0%	8.3%	0.0%	7.1%	0.0%	0.0%
Operating Ratios (In %)														
Gross Margin	76.6%	77.2%	77.8%	78.0%	79.0%	79.1%	79.1%	79.1%	79.1%	79.1%	79.1%	79.1%	79.1%	79.1%
EBITDA Margin	74.0%	74.6%	75.2%	75.6%	77.7%	77.8%	77.7%	77.7%	77.6%	77.6%	77.5%	77.4%	77.4%	77.4%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	78.1%	79.0%	79.5%	79.6%	79.6%	79.7%	79.8%	80.2%	80.2%	80.3%	80.4%
EBIT Margin	49.0%	49.5%	50.5%	47.7%	52.2%	52.5%	52.5%	52.4%	52.5%	52.5%	52.6%	52.6%	52.6%	52.6%
Net Margin	31.1%	27.7%	29.1%	31.6%	33.1%	37.1%	39.8%	41.5%	45.4%	49.9%	66.5%	69.8%	73.1%	76.4%
Finance Ratios														
Net Debt-to-EBITDA	8.3	7.8	7.5	7.9	6.6	6.2	5.7	5.3	4.8	4.2	1.0	0.3	-0.5	-1.3
Debt-Equity Ratio	4.1	3.5	2.9	3.1	3.0	2.5	2.1	1.8	1.3	1.0	0.2	0.1	0.1	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.8	2.5	2.1	1.7	1.4	1.2	0.9	0.1	0.0	-0.1	-0.1
Debt-to-Capital	80.3%	77.7%	74.1%	75.6%	74.7%	71.3%	67.7%	63.8%	57.0%	51.2%	19.2%	12.7%	6.3%	0.0%
Interest Coverage	1.3	1.3	1.3	1.3	1.6	1.7	1.8	1.8	2.1	2.4	5.8	8.1	13.5	40.5
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.4	2.5	2.6	2.7	3.1	3.5	8.5	11.9	19.9	59.5
Return Ratios (In %)														
ROIC	5.6%	5.7%	5.8%	5.4%	6.5%	6.6%	6.6%	6.7%	7.2%	7.3%	7.4%	7.4%	7.3%	7.0%
ROAE	19.7%	15.1%	13.9%	14.5%	16.6%	17.3%	16.5%	15.4%	15.2%	15.0%	12.2%	11.7%	11.2%	10.7%
ROAA	3.1%	2.8%	3.0%	3.2%	3.6%	4.0%	4.4%	4.6%	5.2%	6.0%	8.5%	8.9%	9.3%	9.7%
Valuation														
EV/EBITDA-Adjusted	12.9	13.4	12.8	12.3	11.4	10.7	10.1	9.7	9.2	8.7	5.8	5.2	4.5	3.8
EV/EBIT	24.2	23.3	22.4	24.0	19.4	18.6	17.9	17.2	16.5	15.6	10.8	9.7	8.5	7.3
P/E	18.3	20.7	19.6	17.5	15.1	13.4	12.5	11.9	10.9	9.9	7.4	7.0	6.7	6.4
P/CF	15.6	13.3	14.3	12.3	6.9	9.3	9.0	8.7	8.2	7.7	6.3	6.0	5.8	5.6
P/B	3.3	3.0	2.5	2.6	2.5	2.2	1.9	1.7	1.6	1.4	0.9	0.8	0.7	0.7
Dividend Yield	3.2%	3.2%	3.2%	3.2%	3.5%	3.5%	3.8%	3.8%	3.8%	4.1%	4.4%	4.7%	4.7%	4.7%
FCF Yield	6.2%	7.5%	5.8%	6.5%	13.8%	10.0%	10.5%	10.8%	11.0%	12.3%	15.5%	16.1%	16.7%	17.3%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Detailed Financial Statements

Income Statement

Income Statement (In QR mn)	FY2020	FY2021e	FY2022e	FY2023e
Revenue – Wholly-Owned Ships	3,501	3,522	3,527	3,532
Direct Costs	(734)	(737)	(739)	(740)
Gross Profit	2,767	2,785	2,788	2,792
Income from Marine & Agency Services	46	49	50	51
General and Administrative Expenses	(93)	(94)	(97)	(100)
EBITDA	2,720	2,739	2,741	2,743
Depreciation	(891)	(891)	(891)	(890)
EBIT	1,828	1,848	1,850	1,852
Share of Profits from Joint Ventures	390	479	526	535
Finance Costs	(1,137)	(1,103)	(1,055)	(1,004)
Interest, Dividend & Profit from Islamic Banks	58	59	60	61
Vessels Sub-Chartering & Other Income	22	23	23	24
Profit Before Tax	1,161	1,306	1,404	1,468
Income Tax Expense	0	0	0	0
Profit After Tax	1,161	1,306	1,404	1,468
Minority Interest	(1)	(1)	(1)	(1)
Profit for Equity Shareholders	1,160	1,306	1,403	1,467
EPS (QR)	0.21	0.24	0.25	0.26
Adjusted Revenue	3,937	4,050	4,102	4,117
Adjusted EBITDA	3,110	3,219	3,266	3,277

Source: Company data, QNB FS estimates

Balance Sheet

Balance Sheet (In QR mn)	FY2020	FY2021e	FY2022e	FY2023e
Non-Current Assets				
Property, Plant and Equipment	23,161	22,387	21,614	20,842
Investment in Joint Venture Companies	4,194	4,565	4,883	5,205
Loans to Joint Venture Companies	1,271	1,315	1,315	1,315
Equity Investments	120	130	130	130
Total Non-Current Assets	28,746	28,397	27,942	27,491
Current Assets				
Receivables, Inventories and Due from Joint Ventures	911	923	924	926
Cash and Bank Balances	2,995	2,868	3,173	3,192
Total Current Assets	3,907	3,792	4,097	4,117
Total Assets	32,653	32,189	32,039	31,608
Equity				
Equity Attributable to the Parent	7,097	8,002	8,996	9,997
Minority Interest	7	8	8	9
Total Equity	7,104	8,010	9,004	10,006
Non-Current Liabilities				
Borrowings	19,835	18,878	17,636	14,751
Fair Value of Interest Rate Swaps	2,606	2,429	2,252	2,075
Lease Liability, Provision for End of Service Benefits and Other Liabilities	336	318	318	318
Total Non-Current Liabilities	22,776	21,625	20,206	17,144
Current Liabilities				
Borrowings	1,165	954	1,242	2,885
Accounts Payables/Accruals & Due to Joint Ventures	1,442	1,450	1,453	1,454
Fair Value of Interest Rate Swaps and Lease Liability	165	150	134	119
Total Current Liabilities	2,772	2,554	2,829	4,458
Equity and Liabilities	32,653	32,189	32,039	31,608

Source: Company data, QNB FS estimates

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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