

# QGTGS Alert – 3Q2022 Earnings Surpass Estimate on Strength in JV Income; Reiterate Accumulate

- **Nakilat sails through another impressive quarter, delivering a 5.8% earnings beat.** QGTGS' 3Q2022 net income of QR405.5mn increased 10.3% YoY and 16.6% QoQ, exceeding our estimate of QR383.1mn. **(1) Revenue from wholly-owned ships** of QR891.6mn (flat YoY, 0.5% QoQ) was in-line with our estimate of QR892.6mn (variation of -0.1%). **(2) Adjusted revenue** (wholly-owned ships + marine & agency services + JV income) of QR1.09bn (4.7% YoY, 2.4% QoQ) was also in-line with our estimate of QR1.07bn (divergence of 2.3%) and was driven by the strength in JV income. **(3) EBITDA** of QR692.3mn (-1.1% YoY, -0.9% QoQ) was 1.5% shy of our forecast of QR703.1mn given slight deterioration in cash gross margins (78.6% vs. our model of 79.9% and 80.2%/79.8% in 3Q2021/2Q2022); EBITDA performance was impacted by higher-than-expected direct operating costs of the wholly-owned fleet, which was 6.3% above our model. **G&A** expenses of QR23.7mn (-13.2% YoY, 0.1% QoQ) was 5.1% below our estimate of QR25.0mn due to continued cost reduction initiatives. **(4) Adjusted EBITDA** of QR877.0mn (4.6% YoY, 1.6% QoQ) was 1.7% above our estimate of QR862.1mn again due to the outperformance on the JV income front. **(5) JV income** of QR184.7mn (33.3% YoY, 12.6% QoQ) was 16.2% above our estimate of QR159.0mn. We will seek more color from management whether there were some on-offs during the quarter that aided JV income. Overall, JV income continues its buoyant trend due to improving shipyard performance (which posted net losses of QR36.2mn and QR25.5mn in 2021 and 2020, respectively), along with addition of the 3<sup>rd</sup>/4<sup>th</sup> LNG vessels in QGTGS's Global Shipping JV in Oct. 2021/Jan. 2022. **(6) Finally, finance costs** of QR278.8mn (7.1% YoY, -8.9% QoQ) was 2.8% ahead of our estimate of QR271.2mn; we note 2Q2022 included ~QR30mn in an one-time jump in finance charges because of refinancing-related write-off of legacy financing costs. YoY interest costs increased due to gains in LIBOR rates on the unhedged portion (roughly 30%) of QGTGS' debt, offset by scheduled repayment of loans.
- **2022/2023 could be watershed years for Nakilat if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program.** We remind investors that QatarEnergy is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. In October and November of 2021, QatarEnergy moved ahead with the construction of ten LNG ships (four in China/six in South Korea). We do note that already on April 12, 2022, QatarEnergy announced that it awarded its first batch of time-charter parties (TCPs) with a subsidiary of Mitsui O.S.K Lines (MOL) for the long-term charter and operation of four LNG ships. In a statement, HE the Minister of State for Energy Affairs, Saad Sherida al-Kaabi, also the President and CEO of QatarEnergy, stated that he expected to announce similar contracts in the near future. In early June 2022, South Korean Shipbuilders announced some details of construction orders involving six ships (174k cm each) at a cost of ~\$215mn/ship. *Considering Nakilat's strategic importance and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTGS to be a major beneficiary and secure a meaningful share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to QGTGS' target price (for details, please see our [report](#)) and an award of 20-30 ships could significantly increase our price target and estimates. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections later in 2022/early 2023.*
- **We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector.** Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. Nakilat's fleet continues to provide QGTGS 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 Nakilat's vessels vs. maximum debt life of 25 years (last debt maturing 2033), could allow for value-enhancement. Near-term, addition of 4 LNG vessels (last ship added Jan. 2022) via Global Shipping, along with growth from the shipping JVs/the shipyard, should help 2022 EPS growth. *We stay Accumulate on QGTGS with a price target of QR4.100.*

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Income Statement						
In QR mn Except Otherwise Noted	3Q2021	3Q2022	3Q2022e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	891.350	891.595	892.611	-0.1%	0.0%	0.5%
Operating Costs	(176.205)	(190.688)	(179.415)	6.3%	8.2%	6.4%
<b>Gross Profit</b>	<b>715.145</b>	<b>700.907</b>	<b>713.196</b>	<b>-1.7%</b>	<b>-2.0%</b>	<b>-1.0%</b>
<i>Gross Margin</i>	<i>80.2%</i>	<i>78.6%</i>	<i>79.9%</i>			
Income from Marine and Agency Services	12.083	15.086	14.910	1.2%	24.9%	4.0%
General and Administrative Expenses	(27.307)	(23.708)	(24.993)	-5.1%	-13.2%	0.1%
<b>EBITDA</b>	<b>699.921</b>	<b>692.285</b>	<b>703.113</b>	<b>-1.5%</b>	<b>-1.1%</b>	<b>-0.9%</b>
Depreciation & Amortization	(223.011)	(220.559)	(226.705)	-2.7%	-1.1%	-0.7%
<b>EBIT</b>	<b>476.910</b>	<b>471.726</b>	<b>476.407</b>	<b>-1.0%</b>	<b>-1.1%</b>	<b>-1.1%</b>
<i>EBIT Margin</i>	<i>53.5%</i>	<i>52.9%</i>	<i>53.4%</i>			
Share of Operating Profits from Joint Ventures	138.563	184.688	159.000	16.2%	33.3%	12.6%
Finance Costs	(260.415)	(278.794)	(271.197)	2.8%	7.1%	-8.9%
Interest, Dividend income & Profit from Islamic Banks	12.940	28.100	19.250	46.0%	117.2%	111.9%
Vessel Sub-Chartering & Other Income	-	-	-			
<b>Profit Before Tax</b>	<b>367.998</b>	<b>405.720</b>	<b>383.460</b>	<b>5.8%</b>	<b>10.3%</b>	<b>16.5%</b>
<b>Profit After Tax</b>	<b>367.998</b>	<b>405.720</b>	<b>383.460</b>	<b>5.8%</b>	<b>10.3%</b>	<b>16.5%</b>
Minority Interest	(0.252)	(0.244)	(0.366)	-33.3%	-3.2%	-26.5%
<b>Net Income to Equity</b>	<b>367.746</b>	<b>405.476</b>	<b>383.095</b>	<b>5.8%</b>	<b>10.3%</b>	<b>16.6%</b>
<i>Net Profit Margin</i>	<i>41.3%</i>	<i>45.5%</i>	<i>42.9%</i>			
<b>EPS (QR)</b>	<b>0.07</b>	<b>0.07</b>	<b>0.07</b>	<b>5.8%</b>	<b>10.3%</b>	<b>16.6%</b>
<b>Adjusted EBITDA</b>	<b>838.484</b>	<b>876.973</b>	<b>862.113</b>	<b>1.7%</b>	<b>4.6%</b>	<b>1.6%</b>
<b>Adjusted Revenue</b>	<b>1,041.996</b>	<b>1,091.369</b>	<b>1,066.521</b>	<b>2.3%</b>	<b>4.7%</b>	<b>2.4%</b>

Particulars	3Q2021	3Q2022	3Q2022e
Adj. EBITDA Margin	80.5%	80.4%	80.8%
Gross Margin	80.2%	78.6%	79.9%
EBIT Margin	53.5%	52.9%	53.4%
G & A % of Sales	3.1%	2.7%	2.8%
Depreciation & Amortization % of Sales	25.0%	24.7%	25.4%

Recommendations	
<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>	
<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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