

Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR22.70	Current Target	QR26.00
Implied Upside	14.5%		

4Q2015 Miss on Higher Costs; Upgrading to Accumulate

Softer-than-expected 4Q2015 given increase in operating costs; moving to an Accumulate rating with an unchanged price target of QR26. Qatar Gas Transport Co.'s (Nakilat) net profit declined 15% QoQ to QR226mn in 4Q2015, missing our estimate of QR271mn. However, on a YoY basis, net profit was up 12%. Top-line metrics were in-line with our model with revenue from wholly-owned vessels right in-line with our estimate (QR776mn vs. our forecast of QR777mn) and adjusted revenue (which also includes the impact of the JV businesses, along with marine & agency services' income and other income) just 1% below our forecast (QR935mn vs. our modeled figure of QR943mn). The major divergence vs. our model was in the direct operating costs line item that increased to QR213mn in 4Q2015 vs. our estimate of QR178mn and 3Q2015's QR175mn. (QR179mn in 4Q2014). A major component of an increase in these costs should have been reflected in the revenue from QGTS' wholly-owned fleet and we suspect timing issues, some minor one-offs and/or increased expenses from ship management-related staff expansion/training could have contributed to this increase. Further, the company's board of directors has recommended a cash dividend of 12.5% of the nominal value of its capital, which translates to QR1.25 per share for FY2015 (vs QR1.20 for FY2014). This implies an attractive 5.5% yield currently.

Highlights

- **Qatar's LNG carrier.** With ~77 MTPA in capacity, Qatar is the #1 global LNG player. Nakilat, the world's largest LNG fleet owner (~15% share), forms a vital link between Qatar's gas output and its monetization as LNG exports. QGTS carries virtually all Qatari LNG exports. The state has shown strong support for Nakilat and owns a ~19% stake through 100%-owned government entities.
- **A state-of-the-art fleet:** Since its formation in 2004, QGTS has invested around \$11bn to own 58 state-of-the-art LNG carriers, 25 of which are wholly owned. Roughly, 75% of these vessels are of the Q-Max and Q-Flex type, which have the largest capacity in the world. An April 2014 deal added a further 3 JV-held LNG vessels bringing the count to 61 and more recently, in August 2015, Nakilat added another 2 JV LNG ships to grow its LNG fleet size to 63. QGTS also jointly owns four LPG ships (along with Milaha).
- **Stable revenue due to exclusive government contracts.** These LNG agreements result in stable revenue and flattish absolute EBITDA. We believe QGTS' LNG contracts with state-owned entities have minimal risk of being revised downward.
- **Weaker-than-expected 4Q2015 due to an increase in operating costs.** Operating costs remain flattish on an annual basis, however.

Catalysts

- **Refinancing, fleet expansion and upside from the shipyard should provide medium-term impetus.** The increase in FOL to 49% from 25% has allowed the stock to be included in the MSCI EM Index. We note Nakilat retains the ability to expand its fleet targeting international clients without expending much capex. Consequently, QGTS has been able to grow Maran Nakilat's JV LNG fleet to 13 currently from 4 in 2013, while upping stake to 40%. We are also positive longer-term on the ship building/repair business.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate Nakilat an Accumulate with an unchanged QR26.00 price target.** Our previous rating was Market Perform.
- **Risks: Declining oil prices remain a substantial risk to regional equity prices.** For QGTS, further escalation of operating costs of wholly-owned vessels and execution risks in shipyard remain the major risk.

Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
Revenue (Adj., QR mn)	3,550	3,638	3,707	3,759
EPS (QR)	1.61	1.77	2.01	2.14
P/E (x)	14.1	12.8	11.3	10.6
DPS (QR)	1.20	1.25	1.40	1.50
Dividend Payout	74.4%	70.5%	72.4%	72.7%
Dividend Yield	5.3%	5.5%	6.2%	6.6%

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

Key Data

Current Market Price (QR)	22.60
Dividend Yield	5.5
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	25.30/18.70
3-m Average Volume ('000)	797.6
Mkt. Cap. (\$ bn/QR bn)	3.5/12.7
Shares Outstanding (mn)	560.0
FO Limit* (%)	49.0
Current FO* (%)	12.8
1-Year Total Return (%)	(1.3)
Fiscal Year End	December 31

Source: Bloomberg (as of February 18, 2016), *Qatar Exchange (as of February 18, 2016); Note: FO is foreign ownership

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Softer-Than-Expected 4Q2015 Results

Nakilat reported in-line revenue for 4Q2015 with probability impacted by higher operating costs. QGTS' top-line metrics were in line with our model with revenue from wholly-owned vessels right in line with our estimate (QR776mn vs. our forecast of QR777mn) and adjusted revenue (which also includes the impact of the JV businesses, along with marine & agency services' income and other income) just 1% below our forecast (QR935mn vs. our modeled figure of QR943mn). The major divergence vs. our model was in the direct operating costs line item that increased to QR213mn in 4Q2015 vs. our estimate of QR178mn and 3Q2015's QR175mn. (QR179mn in 4Q2014).

Quarterly Comparisons

Income Statement							
In QR mn Except Otherwise Noted	4Q2014	3Q2015	4Q2015	4Q2015e	A Vs. E	QoQ	YoY
Revenue from Wholly-Owned Vessels	774.009	771.561	776.394	776.849	0%	1%	0%
Operating Costs	(178.562)	(175.093)	(213.155)	(178.397)	19%	22%	19%
Gross Profit	595.447	596.468	563.239	598.452	-6%	-6%	-5%
<i>Gross Margin</i>	<i>76.9%</i>	<i>77.3%</i>	<i>72.5%</i>	<i>77.0%</i>			
Income from Marine and Agency Services	15.560	16.033	16.069	16.707	-4%	0%	3%
General and Administrative Expenses	(29.476)	(23.724)	(31.840)	(31.429)	1%	34%	8%
EBITDA	581.531	588.777	547.468	583.730	-6%	-7%	-6%
Depreciation & Amortization	(172.673)	(174.089)	(173.689)	(174.151)	0%	0%	1%
EBIT	408.858	414.688	373.779	409.579	-9%	-10%	-9%
<i>EBIT Margin</i>	<i>52.8%</i>	<i>53.7%</i>	<i>48.1%</i>	<i>52.7%</i>			
Share of Operating Profits from Joint Ventures	117.358	132.484	134.405	140.472	-4%	1%	15%
Finance Costs	(308.839)	(299.367)	(300.504)	(294.926)	2%	0%	-3%
Interest, Dividend income & Profit from Islamic Banks	7.943	9.212	10.395	7.558	38%	13%	31%
Vessel Sub-Chartering & Other Income	5.117	9.472	8.335	8.890	-6%	-12%	63%
Gain / (Loss) on Derivatives from JVs	(28.455)	-	-	-			
Profit Before Tax	201.982	266.489	226.410	271.573	-17%	-15%	12%
Profit After Tax	201.982	266.489	226.410	271.573	-17%	-15%	12%
Minority Interest	(0.433)	(0.429)	(0.363)	(0.473)	-23%	-15%	-16%
Profit for Equity Holders	201.549	266.060	226.047	271.100	-17%	-15%	12%
<i>Net Profit Margin</i>	<i>26.0%</i>	<i>34.5%</i>	<i>29.1%</i>	<i>34.9%</i>			
EPS (QR)	0.36	0.48	0.41	0.49	-17%	-15%	12%
Adjusted EBITDA	711.949	739.945	700.603	740.650	-5%	-5%	-2%
<i>Adjusted EBITDA Margin</i>	<i>92.0%</i>	<i>95.9%</i>	<i>90.2%</i>	<i>95.3%</i>			
Adjusted Revenue	912.044	929.550	935.203	942.918	-1%	1%	3%

Growth Rates	YoY	YoY	YoY	YoY
Adjusted EBITDA	7.7%	3.5%	-1.6%	4.0%
Adjusted Revenue	7.1%	2.3%	2.5%	3.4%
Net Income	14.2%	7.6%	12.2%	34.5%
Growth Rates	QoQ	QoQ	QoQ	QoQ
Adjusted EBITDA	-0.4%	-0.2%	-5.3%	0.1%
Adjusted Revenue	0.4%	1.5%	0.6%	1.4%
Net Income	-18.5%	-0.6%	-15.0%	1.9%
Particulars	4Q2014	3Q2015	4Q2015	Q4 FY15
EBITDA Margin	78.1%	79.6%	74.9%	78.5%
Gross Margin	76.9%	77.3%	72.5%	77.0%
EBIT Margin	52.8%	53.7%	48.1%	52.7%
G & A % of Sales	3.8%	3.1%	4.1%	4.0%
Depreciation & Amortization % of Sales	22.3%	22.6%	22.4%	22.4%
Minority Interest % of PAT	0.2%	0.2%	0.2%	0.2%

Source: Company data, QNBFS 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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