

## QNNS Alert – 3Q2021 Earnings Exceeds Estimate; Reiterate Outperform

- **Milaha (QNNS or Qatar Navigation) posted 3Q2021 earnings of QR216.5mn, up 158.6% YoY and 54.1% QoQ.** 3Q2021 net income also beat our estimate of QR170.2mn by a significant 27.2%. YoY earnings comparisons are skewed because of QR107.4mn in impairments in 3Q2020 (in the **Milaha Offshore** segment) vs. no impairments recorded in 3Q2021. Excluding this impairment, 3Q2021 earnings grew 13.3% YoY. Better-than-expected performance from **Milaha Maritime & Logistics** (strong container shipping, network optimization measures boosting margins and YoY/QoQ growth from its 49%-owned QTerminals JV) and **Milaha Gas & Petrochem** (better-than-expected contribution from 36.3%-owned associate Nakilat offsetting top-line weakness due to soft tanker rates) helped drive the earnings beat in 3Q2021.
- **Overall 3Q2021 revenue, driven by MM&L, MO (on a YoY basis), Milaha Trading and Milaha Capital, grew 34.5% YoY but declined 5.3% QoQ to QR661.4mn.** Reported 3Q2021 top-line fell below our forecast of QR706.7mn by 6.4%.
- **We remain bullish on the QNNS growth story.** The stock, over 2011-2021, has always 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 get Milaha's "core" or operating businesses for almost free. However, what could be different this time around is that Milaha should enjoy several catalysts, which could help in its rerating. We note recovery in oil prices/sentiment, the recent lifting of Qatar's blockade, the upcoming FIFA World Cup Qatar 2022 and the massive North Field Expansion project, are all positive tailwinds. Growth snapback, as COVID-19 restrictions ease, should also contribute to easier comparisons going forward. Lack of large impairments in the future should also help QNNS' earnings trajectory and highlight its growth story to investors. **We remain Outperform with a QR10.000 target price**
- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio.** For the stock to rerate, investors need to see earnings/EBITDA growth acceleration without significant 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.

### 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%

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### 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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