

## Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.608	Target Price	QR4.100
Implied Upside	13.6%		

### In-Line 2023 Earnings Despite 4Q2023 Miss; Still Awaiting NF Ship Awards

QGTS posted an 8.3% growth in EPS to QR0.28 and 7.7% growth in DPS to QR0.14 in 2023, both generally in-line with our estimates. For 4Q2023, in-line revenue and gross margin expansion drove better-than-expected EBITDA but EPS of QR0.07 fell shy of our model by 9.9% given higher-than-expected D&A, G&A and finance costs, along with weaker-than-expected JV income. Recently QGTS announced that it has placed orders with Hyundai of South Korea for the construction of six gas vessels (two LNG carriers @ 174,000 m3 capacity each and four Very Large LPG/ Ammonia Gas carriers @ up to 88,000 m3) for delivery between 2026 and 2027. While these announced vessels target international markets, we remain optimistic that QGTS will be able to secure a piece of QatarEnergy's massive North Field-related LNG expansion contracts over the next few months. Nakilat retains significant upside if it is selected as one of the ship owners involved in Qatar's massive LNG expansion. We note the first phase (60 vessels) has been contracted to be built in South Korean/Chinese shipyards and phase 2 has already commenced with a QR14.2bn (\$3.9bn) 17-vessel award to Hyundai on Sep. 27. However, we do not have color on how many shipping contracts are yet to be awarded – with a total 100+ ships to be replaced some existing fleet/cater to NF and Golden Pass – we expect awards to be forthcoming. Considering Nakilat's strategic importance, (QGTS ships ~75-80% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a beneficiary and secure a share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to target price and an award of 20-25 ships could markedly boost our PT/estimates. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections over the next few months. While we remain hopeful that news on the contract front is imminent, we do expect QGTS shares to come under pressure in the unlikely scenario that the company does not secure a portion of the new LNG shipping contracts.

#### Highlights

- In-line revenue & progress in direct costs drive better-than-expected 4Q2023 EBITDA; earnings miss due to higher-than-anticipated depreciation, G&A and finance costs, along with softer-than-modeled JV income. Nakilat's net profit/eps rose 21.2% YoY (but fell 11.3% QoQ) to QR368.3mn/QR0.066 in 4Q2023, missing our estimate of QR408.7mn/QR0.074 (variation of -9.9%).
- Wholly-owned ship revenue of QR903.6mn (0.7% YoY, 0.8% QoQ) was bang in-line with QNB FS estimate.
- Adjusted revenue (wholly-owned ships + marine & agency services + JV income) of QR1.11bn (1.5% YoY, -1.1% QoQ) was also in-line with our estimate of QR1.13bn (-1.5% variance) with in-line wholly-owned vessel top-line offset by weaker-than-modeled JV income.
- EBITDA of QR683.2mn (3.8% YoY, -0.3% QoQ) was 1.1% above our forecast of QR675.5mn given significantly better-than-expected cash operating costs of the wholly-owned fleet (cash gross margins increased to 78.3% vs. our model of 76.1%; GMs gained YoY/QoQ vs. 76.6%/77.4% in 4Q2022/3Q2023). However, G&A expenses of QR40.1mn (-9.3% YoY, 61.2% QoQ) was 42.7% higher than our estimate of QR28.1mn. 2023 G&A of QR114.2mn increased 1.8% from QR112.1mn in 2022 and management attributed this to increase in planned activities this year. Adjusted EBITDA (EBITDA + JV income) of QR874.6mn (4.1% YoY, -2.3% QoQ) was 1.0% below our estimate of QR883.8mn given the miss on the JV income front.
- Depreciation of QR255.9mn (-10.7% YoY, 11.5% QoQ) exceeded our forecast of QR230.5mn. Management continues to attribute YTD depreciation (QR935.3mn in 2023, down 1.2% vs. QR946.6mn in 2022) to timing of the new dry-dock cycle execution, offset by the accounting of the initial dry-dock component. We remind investors that QGTS completed a 5-year dry-dock cycle in 2022 starting a new one in 2023.
- JV income of QR191.4mn (5.3% YoY, -9.0% QoQ) was 8.1% below our estimate of QR208.3mn. Overall, JV income continues its buoyant trend, posting a 13.9% YoY increase from QR689.4mn in 2022 to QR784.9mn in 2023. A key driver of this JV income increase is improving shipyard performance (which posted a net profit of QR134.4mn in 2023, up 47.3% from QR91.2mn in 2022 after posting net losses of QR36.2mn and QR25.5mn in 2021 and 2020, respectively). Maran Nakilat (40% ownership in 15 conventional vessels) also posted an impressive 51.2% YoY growth in earnings from QR194.5mn in 2022 to QR294.0mn in 2023 offsetting weakness in other shipping/marine JVs.
- Finally, finance costs of QR317.4mn (7.7% YoY, 1.9% QoQ) was 3.4% ahead of our estimate of QR307.1mn. Interest costs increased due to gains in LIBOR rates on the unhedged portion (~30%) of QGTS' debt, offset by scheduled repayment of loans. Interest, dividend & other income of QR67.3mn (50.1% YoY, 10.4% QoQ) was 7.4% better than our model of QR62.7mn.
- 2023 profitability jumps 8.3% with record-high earnings/eps of QR1.6bn/QR0.28; DPS of QR0.14 (DY: 3.9%) increases 7.7% and is in-line with our model. 2023 earnings were 2.5% below our model.
- We should find out whether QGTS wins a piece of the LNG expansion contracts over the next few months. 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 QGTS 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.
- Recommendation & valuation: Our 1-Year target is QR4.100 and we rate QGTS an Accumulate.

#### Key Financial Data and Estimates

	FY2022	FY2023	FY2024e	FY2025e
EPS (QR)	0.26	0.28	0.34	0.38
P/E (x)	13.9	12.8	10.7	9.5
DPS (QR)	0.13	0.14	0.15	0.16
Dividend Yield	3.6%	3.9%	4.2%	4.4%

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

#### Key Data

Current Market Price (QR)	3.608
Current Dividend Yield (%)	3.9
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.300/3.061
3-m Average Volume ('mn)	6.7
Mkt. Cap. (\$ bn/QR bn)	5.5/20.0
EV (\$ bn/QR bn)	9.2/33.4
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.9
1-Year Total Return (%)	(1.7)
Fiscal Year End	December 31

Source: Bloomberg (as of January 28, 2024), \*Qatar Exchange (as of January 28, 2024); Note: FO is foreign ownership

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## 4Q2023 & 2023 Results

### QNB FS 4Q2023 Estimates and Comparisons

Income Statement							
In QR mn Except Otherwise Noted	4Q2022	3Q2023	4Q2023	4Q2023e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	897.228	896.213	903.554	902.895	0.1%	0.7%	0.8%
Operating Costs	(209.905)	(202.719)	(196.135)	(215.792)	-9.1%	-6.6%	-3.2%
<b>Gross Profit</b>	<b>687.323</b>	<b>693.494</b>	<b>707.419</b>	<b>687.103</b>	<b>3.0%</b>	<b>2.9%</b>	<b>2.0%</b>
<i>Gross Margin</i>	76.6%	77.4%	78.3%	76.1%			
Income from Marine and Agency Services	15.055	16.228	15.810	16.509	-4.2%	5.0%	-2.6%
General and Administrative Expenses	(44.186)	(24.854)	(40.075)	(28.087)	42.7%	-9.3%	61.2%
<b>EBITDA</b>	<b>658.192</b>	<b>684.868</b>	<b>683.154</b>	<b>675.525</b>	<b>1.1%</b>	<b>3.8%</b>	<b>-0.3%</b>
Depreciation of Property and Equipment	(286.648)	(229.479)	(255.919)	(230.456)	11.0%	-10.7%	11.5%
<b>EBIT</b>	<b>371.544</b>	<b>455.389</b>	<b>427.235</b>	<b>445.070</b>	<b>-4.0%</b>	<b>15.0%</b>	<b>-6.2%</b>
<i>EBIT Margin</i>	41.4%	50.8%	47.3%	49.3%			
Income from Joint Ventures	181.745	210.485	191.444	208.273	-8.1%	5.3%	-9.0%
Finance Costs	(294.593)	(311.599)	(317.379)	(307.056)	3.4%	7.7%	1.9%
Interest, Dividend income & Profit from Islamic Banks	44.865	61.005	67.348	62.681	7.4%	50.1%	10.4%
<b>Profit Before Tax</b>	<b>303.561</b>	<b>415.280</b>	<b>368.648</b>	<b>408.967</b>	<b>-9.9%</b>	<b>21.4%</b>	<b>-11.2%</b>
<b>Profit After Tax</b>	<b>303.561</b>	<b>415.280</b>	<b>368.648</b>	<b>408.967</b>	<b>-9.9%</b>	<b>21.4%</b>	<b>-11.2%</b>
Minority Interest	0.240	(0.179)	(0.299)	(0.258)	15.7%	-224.6%	67.0%
<b>Net Income to Equity</b>	<b>303.801</b>	<b>415.101</b>	<b>368.349</b>	<b>408.709</b>	<b>-9.9%</b>	<b>21.2%</b>	<b>-11.3%</b>
<i>Net Profit Margin</i>	33.9%	46.3%	40.8%	45.3%			
EPS (QR)	0.05	0.07	0.07	0.07	-9.9%	21.2%	-11.3%
<b>Adjusted EBITDA</b>	<b>839.937</b>	<b>895.353</b>	<b>874.598</b>	<b>883.799</b>	<b>-1.0%</b>	<b>4.1%</b>	<b>-2.3%</b>
<b>Adjusted Revenue</b>	<b>1,094.028</b>	<b>1,122.926</b>	<b>1,110.808</b>	<b>1,127.678</b>	<b>-1.5%</b>	<b>1.5%</b>	<b>-1.1%</b>

Particulars	4Q2022	3Q2023	4Q2023	4Q2023e
Adj. EBITDA Margin	76.8%	79.7%	78.7%	78.4%
Gross Margin	76.6%	77.4%	78.3%	76.1%
EBIT Margin	41.4%	50.8%	47.3%	49.3%
G & A % of Sales	4.9%	2.8%	4.4%	3.1%
Depreciation & Amortization % of Sales	31.9%	25.6%	28.3%	25.5%

Source: Company data, QNB FS Research

### QNB FS 2023 Estimates and Comparisons

Income Statement					
In QR mn Except Otherwise Noted	2022	2023	2023e	A Vs. E	YoY
Revenue from Wholly-Owned Vessels	3,550.096	3,565.148	3,564.489	0.0%	0.4%
Operating Costs	(764.023)	(795.029)	(814.686)	-2.4%	4.1%
<b>Gross Profit</b>	<b>2,786.073</b>	<b>2,770.119</b>	<b>2,749.803</b>	<b>0.7%</b>	<b>-0.6%</b>
<i>Gross Margin</i>	78.5%	77.7%	77.1%		
Income from Marine and Agency Services	55.430	60.407	61.106	-1.1%	9.0%
General and Administrative Expenses	(112.118)	(114.150)	(102.162)	11.7%	1.8%
<b>EBITDA</b>	<b>2,729.385</b>	<b>2,716.376</b>	<b>2,708.747</b>	<b>0.3%</b>	<b>-0.5%</b>
Depreciation of Property and Equipment	(946.617)	(935.338)	(909.875)	2.8%	-1.2%
<b>EBIT</b>	<b>1,782.768</b>	<b>1,781.038</b>	<b>1,798.873</b>	<b>-1.0%</b>	<b>-0.1%</b>
<i>EBIT Margin</i>	50.2%	50.0%	50.5%		
Income from Joint Ventures	689.373	784.916	801.745	-2.1%	13.9%
Finance Costs	(1,139.356)	(1,249.287)	(1,238.964)	0.8%	9.6%
Interest, Dividend income & Profit from Islamic Banks	106.598	242.144	237.477	2.0%	127.2%
<b>Profit Before Tax</b>	<b>1,439.383</b>	<b>1,558.811</b>	<b>1,599.130</b>	<b>-2.5%</b>	<b>8.3%</b>
<b>Profit After Tax</b>	<b>1,439.383</b>	<b>1,558.811</b>	<b>1,599.130</b>	<b>-2.5%</b>	<b>8.3%</b>
Minority Interest	(0.465)	(0.977)	(0.936)	4.3%	110.1%
<b>Net Income to Equity</b>	<b>1,438.918</b>	<b>1,557.834</b>	<b>1,598.194</b>	<b>-2.5%</b>	<b>8.3%</b>
<i>Net Profit Margin</i>	40.5%	43.7%	44.8%		
EPS (QR)	0.26	0.28	0.29	-2.5%	8.3%
<b>Adjusted EBITDA</b>	<b>3,418.758</b>	<b>3,501.292</b>	<b>3,510.493</b>	<b>-0.3%</b>	<b>2.4%</b>
<b>Adjusted Revenue</b>	<b>4,294.899</b>	<b>4,410.471</b>	<b>4,427.341</b>	<b>-0.4%</b>	<b>2.7%</b>

Particulars	2022	2023	2023		
Adj. EBITDA Margin	79.6%	79.4%	79.3%		
Gross Margin	78.5%	77.7%	77.1%		
EBIT Margin	50.2%	50.0%	50.5%		
G & A % of Sales	3.2%	3.2%	2.9%		
Depreciation & Amortization % of Sales	26.7%	26.2%	25.5%		
<b>DPS (QR)</b>	<b>0.13</b>	<b>0.14</b>	<b>0.14</b>	<b>0.0%</b>	<b>7.7%</b>

Source: Company data, QNB FS Research

## Our Analysis Shows ~1% Boost To TP For Every LNG Vessel Added Under The North Field Program

Nakilat remains in the running to secure a portion of LNG transport contracts associated with Qatar's massive LNG expansion program. Considering Nakilat's strategic importance and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a major beneficiary of this expansion. We also estimate that every incremental vessel (@100%) adds ~1% to Nakilat's target price and an award of 20-25 ships could significantly affect our price target and estimates. We note we assume roughly \$90,000/day in charter rates, which is lower than the company's existing wholly-owned fleet's (the original 25 vessels) charter rates that exceed \$90,000/day. We forecast initial contract terms of 25 years after which we assume a 10-year extension at a 30% haircut in revenue. As usual, we do not forecast any terminal value. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections over the next few months.

We also note that QGTS could additionally benefit if it is selected for managing a portion of the expansion fleet. We point out that Nakilat possesses significant in-house ship management expertise and is already managing 25 LNG vessels (21 wholly-owned), a FSRU and four LPG carriers.

In terms of risks, we expect Nakilat's shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts. We do note our current price target of QR4.100 and estimates do not include any impact of this expansion program. Given the scale of this expansion program (100+ ships) and Nakilat's excellent track record, it would be surprising if QGTS was not able to secure 20+ vessels under the new program.

### Each Additional LNG Vessel Could Add ~1% to Nakilat's Target Price

# of Vessels	1
Capex/Ship (\$ mn)	260
Useful Life	40
Depreciation/Year (\$ mn)	7
Depreciation/Year (QR mn)	24
Residual Value of Vessel (s) in Year 35 (QR mn)	118
Debt %	80.0%
Debt (\$ mn)	208
Equity (\$ mn)	52
Equity (QR mn)	189

Periods	1	2	3	4	5	10	15	25	30	35
<b>Revenue (QR mn)</b>	120	120	120	120	120	121	121	123	86	87
<b>Revenue (\$ mn)</b>	33	33	33	33	33	33	33	34	24	24
Average Capacity in m <sup>3</sup>	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000
Daily Charter Rate/Vessel (in \$)	90,067	90,157	90,000	90,337	90,428	90,881	91,336	92,001	64,836	65,161
<b>EBITDA (QR mn)</b>	81	83	83	83	83	83	83	82	51	50
EBITDA Margin	67.7%	69.5%	69.5%	69.4%	69.3%	68.7%	68.2%	67.1%	59.1%	57.9%
Taxes (Social & Sports Fund Contribution)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Changes in Working Capital	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	(4)	(4)	(4)	(4)	(7)	(7)	(7)	(7)	(7)	(7)
<b>Free Cash Flow to Firm</b>	<b>76</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>75</b>	<b>74</b>	<b>74</b>	<b>74</b>	<b>43</b>	<b>42</b>
PV of FCFE	71	68	63	59	53	37	26	13	5	4
<b>Cumulative PV of FCFE</b>	<b>71</b>	<b>139</b>	<b>202</b>	<b>262</b>	<b>314</b>	<b>537</b>	<b>693</b>	<b>881</b>	<b>914</b>	<b>937</b>

PV of Cash Flows	937
Add:	
Cash Balances	0
PV of BV of Fleet (Fully-Owned)	10
Less:	
Debt Balances	757
<b>Fair Value of Equity</b>	<b>190</b>
<b>Incremental Target Price (Per Share)</b>	<b>0.03</b>
<b>Current Target Price (No Expansion)</b>	<b>4.100</b>
<b>% Upside/(Downside)</b>	<b>0.8%</b>
Shares O/S (Mn)	5,540

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023	FY2024e	FY2025e
<b>Revenue – Wholly-Owned Ships</b>	<b>3,550</b>	<b>3,565</b>	<b>3,568</b>	<b>3,572</b>
Direct Costs	(764)	(795)	(817)	(820)
<b>Gross Profit</b>	<b>2,786</b>	<b>2,770</b>	<b>2,751</b>	<b>2,752</b>
Income from Marine & Agency Services	55	60	64	67
General and Administrative Expenses	(112)	(114)	(106)	(109)
<b>EBITDA</b>	<b>2,729</b>	<b>2,716</b>	<b>2,709</b>	<b>2,710</b>
Depreciation	(947)	(935)	(843)	(846)
<b>EBIT</b>	<b>1,783</b>	<b>1,781</b>	<b>1,867</b>	<b>1,864</b>
Share of Profits from Joint Ventures	689	785	856	924
Finance Costs	(1,139)	(1,249)	(1,078)	(879)
Interest, Dividend & Profit from Islamic Banks	107	242	232	206
<b>Profit Before Tax</b>	<b>1,439</b>	<b>1,559</b>	<b>1,876</b>	<b>2,115</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>1,439</b>	<b>1,559</b>	<b>1,876</b>	<b>2,115</b>
Minority Interest	(0)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>1,439</b>	<b>1,558</b>	<b>1,875</b>	<b>2,113</b>
<b>EPS (QR)</b>	<b>0.26</b>	<b>0.28</b>	<b>0.34</b>	<b>0.38</b>
<b>Adjusted Revenue</b>	<b>4,295</b>	<b>4,410</b>	<b>4,488</b>	<b>4,563</b>
<b>Adjusted EBITDA</b>	<b>3,419</b>	<b>3,501</b>	<b>3,565</b>	<b>3,634</b>

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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