

QNBFS Alert – GISS Weak 4Q16 Exacerbated by Rig W/O; Fleet Being Fully Deployed

- **GISS posts QR14mn in normalized net income for 4Q2016.** Reported net income including a QR133mn write-off for the Al Rayyan rig and a QR3mn loss (AFS and JV) was a significant QR122mn. Results on an operating basis were more in line with our estimates with revenue of QR674mn (-9% divergence), gross profits of QR123mn (-2% divergence) and normalized EBITDA of QR205mn (-11% divergence).
- **DPS of QR1 was flat with 2015 and in line with our estimate.** This translates into a 3.5% yield.
- **The write-off of the Al-Rayyan rig was a surprise but all other 9 offshore rigs seem to be under contract (including one in preparation as per contract) per the February rig report.** The Al-Rayyan rig was listed as warm stacked in the December rig report but was written off. According to the company “the rig has been off contract with Occidental Petroleum since March 15, 2015 and the company was unable to market the rig since it does not meet any customer specifications.” Despite this negative development, we point out eight rigs have been listed as contracted per the February rig report and one rig is under preparation as per contract. This compares to only six rigs being under contract as of end 2016. **This should led to growth in the drilling segment in 2017.**
- **We continue to maintain our QR39 price target and Outperform rating.** GISS’ stock price improvement is hinged on a resumption of confidence in company performance. With drilling segment performance closely linked to oil prices, an expected recovery in crude could help the stock price this year.

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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