

GISS Alert – Aviation/Drilling Drive 2Q2021 Upside; NFE/Rig Rate Hike to Boost Growth; Accumulate

- **GISS posted a profit of QR4.8mn in 2Q2021 vs. a profit of QR45.3mn in 2Q2020 and a net loss of QR5.5mn in 1Q2021:** Reported earnings for 2Q2021 beat our forecast of a profit of QR0.6mn with outperformance due to the aviation and drilling segments. Consistent with their 1Q2021 commentary, management continued to point to a recovery in the oil & gas sector in 2Q2021. However, they maintain that positive signs of recovery remained uneven within the group's operating segments – aviation/insurance are improving with drilling still moribund given rig suspensions/depressed day rates. However, with new higher offshore rates going into effect in July, along with all five offshore rigs now being deployed under the GulfDrill JV for the NFE project (remaining 3 rigs started in 2Q2021), drilling momentum should accelerate in 2H2021. Moreover, we continue to believe the progress made in costs reduction thus far should dovetail with an expected recovery in market fundamentals as we move forward this year.
- **Overall 2Q2021 revenue of QR726.7mn (-0.1% YoY, 3.1% QoQ) was in-line with our estimate (1.6% variation) of QR715.0mn.** 2Q2021 drilling revenue of QR242.0mn (4.5% YoY, 22.0% QoQ) was 21.4% ahead of our estimate of QR199.4mn. The beat is due to the remaining three rigs deployed under the GulfDrill JV in 2Q2021, which we had conservatively modeled to start operating later in 2H2021. Insurance top-line of QR225.2mn (-5.9% YoY, -11.9% QoQ) fell 13.0% below our estimate of QR258.8mn as certain medical policies expired without renewal, which offset the growth in premiums in the general insurance segment. Medical insurance also faced increased claims as COVID-19 restrictions ease. Aviation revenue of QR173.2mn (11.9% YoY, 5.1% QoQ) and catering revenue of QR86.3mn (-14.9% YoY, 0.3% QoQ) were in-line with our estimates, with variations of 2.5% and -1.8%, respectively.
- **Relative to our model, better-than-expected profitability from drilling and aviation served to boost 2Q2021 net income vs. our estimate.** GDI's 2Q2021 net loss fell to QR60.0mn vs. a loss of QR43.6mn in 2Q2020 and a loss of QR72.4mn in 1Q2021. We were expecting a net loss of QR67.8mn in 2Q2021. Upside in drilling revenue vs. our model, along with improved margins, as GISS continues to optimize costs helped 2Q2021; drilling net loss margin improved to -24.8% vs. our estimate of -34.0%. Aviation net margin also grew to 35.7% vs. our estimate of 29.6% with the segment posting a net income of QR61.8mn vs. our estimate of QR50.0mn.
- **The NFE project remains a significant catalyst for future growth in GDI & GISS.** The company deployed the remaining three rigs in its GulfDrill JV in 2Q2021. In its press release, GISS stated Java Star, W-Castor and W-Tucana started working during 2Q2021. The five rigs deployed by GDI will undertake a 80-well drilling program for Qatar's North Field East project.
- **We expect earnings to surface back into the green (ex. any one-offs, such as impairments) for FY2021 as drilling loss declines significantly.** Other segments also contribute positively, while continued progress in costs reduction and lower finance charges help boost earnings.
- **We stay longer-term positive on GISS shares but the stock remains in a “show-me” mode.** We expect improving financial performance in 2021 and newsflow regarding the NFE expansion/potential debt restructuring to drive stock price performance. *We remain Accumulate on GISS with a price target of QR1.800.*

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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