

Gulf International Services (GISS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR87.50	Current Target Price	QR106.00
Implied Upside	21.1%	Old Target Price	QR120.00

Updating Model and Maintaining Outperform

We continue to remain positive longer-term on GISS. After incorporating 2014 results, we have marginally increased our 2015 net income and EBITDA estimates. We are also introducing our 1Q2015 forecast. Going forward, beyond 2015, we have adopted a more conservative outlook concerning growth prospects in GISS' aviation, insurance and catering businesses. Consequently, we have lowered our 2016-18 net income estimates by an average of 10% and reduced our EBITDA estimate by an average of 6% over the same period. Our price target drops by ~12% to QR106 and we maintain our Outperform rating on GISS stock. We continue to point out that much of the company's drilling business remains secured through existing contracts with just two offshore rigs (Al-Rayyan and Leshat) and two onshore rigs (GDI-5 and GDI-6) up for renewal in 2015 and 2016. Consequently, all remaining offshore rigs, except one, in a total fleet of 10 (9 currently in operation) are already secured by announced contracts with disclosed attractive rig rates that were fixed before the decline in oil prices. These contracts are mostly five years in duration with the earliest ending in 2Q2017.

Highlights

- Majority of fleet will enjoy high contracted rates irrespective of oil prices.** As we have informed investors on past occasions, GISS has inked four major deals with Qatar Petroleum since mid-June 2014. (1) On June 11, GDI announced a five-year contract for two onshore rigs, GDI-7 and GDI-8, with a disclosed value of QR1.1bn (~\$302mn) implying an average rate of almost \$83k/rig versus \$30.4k/rig for the existing land fleet as of 2013. We expect GDI-7 to be deployed in 3Q2015 followed by GDI-8 in 4Q2015. (2) On June 16, GDI announced a QR1.275bn (~\$350mn), five-year contract for the Dukhan jack-up offshore rig. After commencing operations in 4Q2014, this rig is garnering around \$190k/d, or a ~35% premium to Al-Jassra and a ~60% premium to the 2013 blended offshore rate (seven rigs). (3) On July 10, GDI announced a five-year, QR1.6bn contract extension for GDI 1-4 land rigs with effect from 2Q2014. At around ~\$60k/d/rig, deal extension terms implied 2x existing land rig rates. (4) Finally, on July 20, GDI announced a QR1.2bn (~\$330mn) five-year contract to supply a 4th jack-up rig, Halul, to QP. Halul will become GDI's 10th overall offshore rig and will command a day rate of ~\$180k once it is deployed around mid-2016. All four deals have been signed with QP. In total, these four contracts add ~QR5.2bn in revenue, or roughly QR1bn in incremental top-line per year for five years vs. QR912mn posted by all of GDI (at ~70% stake) in 2013.
- We expect net income growth to slow to 6.5% in 2016 followed by 3.3% in 2017.** Revenue should also grow by 6.5% in 2016 and by 3.8% in 2017. EPS should reach QR6.78 in 2016 and QR7.00 in 2017; EPS, including a one-time non-cash gain of QR1.45/share on purchase of GDI, came in at QR7.59 in 2014. For 1Q2015, we are expecting QR1.19bn in revenue (-1% QoQ, +93% YoY) and QR1.54 in EPS (-20% QoQ, +52% YoY on a clean basis excluding the above-mentioned gain). The yearly growth is driven by GDI's buyout.

Catalysts

- While fundamentals remain resilient, stock price recovery will depend on improvement in market sentiment.** 2015 dividend yield is also attractive at 6.3%.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Outperform rating on GISS with a revised price target of QR106.00.** The stock is currently trading at 2015 and 2016 P/E multiples of 13.7x and 12.9x, respectively.
- Risks: Declining/volatile oil prices remain a substantial risk to regional equity prices.** GISS also faces concentration risk given its exposure to QP/affiliates.

Key Financial Data and Estimates

	2014	2015e	2016e	2017e
EPS (QR)	6.14	6.37	6.78	7.00
P/E (x)	14.3	13.7	12.9	12.5

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

Key Data

Bloomberg Ticker	GISS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector	Industrials
52wk High/52wk Low (QR)	131.00/67.00
3-m Avg. Volume (000)	414.4
Mkt. Cap. (\$ bn/QR bn)	4.5/16.3
FO Limit* (%)	25.0
Current FO* (%)	12.6
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	21.6
Fiscal Year End	December 31

Source: Bloomberg (as of March 25, 2015), *Qatar Exchange (as of March 25, 2015); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement

In QR mn	FY2014	FY2015e	FY2016e	FY2017e
Revenue	3,906	4,884	5,204	5,401
Gulf Drilling International (GDI)*	1,473	2,367	2,592	2,692
Gulf Helicopters Company (GHC)	644	739	789	840
Amwaj Catering Company (ACS)	1,056	1,027	1,052	1,079
Al Koot Insurance & Reinsurance (AKIR)	733	751	770	789
COGS	2,710	3,420	3,636	3,781
Gross Profit	1,196	1,464	1,568	1,620
SG&A	217	283	304	313
Total Other Income	89	43	43	43
Net Finance Income (Expense)	(27)	(41)	(47)	(48)
One-Offs/Non-Recurring Items	269	0	0	0
Income from JVs	100	0	0	0
Net Income	1,410	1,183	1,260	1,302
Net Income (Clean)	1,140	1,183	1,260	1,302
EBITDA	1,818	1,764	1,893	1,961
EBITDA (Clean)	1,549	1,764	1,893	1,961
DPS (QR)	5.50	5.50	5.75	6.00

Source: Company data, QNBFS estimates; Note: EPS based on current number of shares, *GDI results consolidated from May 1, 2014

Balance Sheet

Figures in QR mn	FY2014	FY2015e	FY2016e	FY2017e
Current Assets				
Cash & Cash Equivalents	1,087	1,432	2,085	2,861
Investments Held for Trading	218	218	218	218
Insurance Contract Receivables & A/R	946	1,116	1,176	1,219
Due From Related Parties	634	634	634	634
Inventories	203	253	268	280
Total Current Assets	3,089	3,654	4,381	5,213
Non-Current Assets				
Available for Sale Investments	300	300	300	300
Held to Maturity Investments	85	85	85	85
Investment in Joint Ventures	-	-	-	-
Investment Properties	1	1	1	1
Goodwill	313	313	313	313
Property, Plant & Equipment	7,037	7,443	7,478	7,039
Non-Current Assets	7,738	8,143	8,178	7,739
Total Assets	10,826	11,797	12,559	12,952
Current Liabilities				
Short-Term Debt	909	909	909	909
Insurance Payables, Accounts Payable & Other	1,719	1,942	2,014	2,082
Due to Related Parties	11	11	11	11
Total Current Liabilities	2,638	2,861	2,934	3,001
Non-Current Liabilities				
Employees End of Service Benefits	64	64	64	64
Long-Term Debt	3,946	4,533	4,985	5,077
Non-Current Liabilities	4,010	4,597	5,049	5,141
Total Liabilities	6,649	7,458	7,983	8,142
Total Shareholders' Equity	4,178	4,339	4,576	4,810
Liabilities & Shareholders' Equity	10,826	11,797	12,559	12,952

Source: Company data, QNBFS estimates

Cash Flow Statement

Figures in QR mn	FY2014	FY2015e	FY2016e	FY2017e
Cash Flow From Operation	1,167	1,746	1,870	1,952
Cash Flow From Investment Activities	(2,175)	(904)	(580)	(130)
Cash Flow From Financing Activities	1,098	(496)	(638)	(1,046)
Change In Cash	91	345	652	776
Cash Beginning of Period	509	1,087	1,432	2,085
Cash End of Period	599	1,432	2,085	2,861

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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