

Gulf International Services (GISS)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR34.00	Current Target Price	QR53.00
Implied Upside	55.9%		

In-Line 1Q2016 Results; Maintain Estimates and TP

GISS posted 1Q2016 results that were bang in line with our modeled estimates. We continue to maintain our forward estimates and price target. As implied in our note, "QNBFS Alert – Drilling Drives GISS' Weak 4Q2015", on February 3, 2016, GISS' stock is worth around QR32 based on its median historical P/E. However, we believe our DCF-based price target of QR53 provides a better indication of the level at which the stock should trade once sentiment in the name improves. We do note GISS potentially stands to gain 100% market share of the Qatari offshore market (2 rigs) this year, which could allow for redeployment of idling rigs. Indexation of rig rates to oil could also act as a source of upside once prices recover.

Highlights

- **1Q2016 review: Reported overall results were in-line with QNBFS estimates.** GISS reported a net profit of QR78.9mn in 1Q2016, in-line with our estimate of QR78.4mn (variation +0.7%). Net profit fell significantly from QR355.7mn in 1Q2015. Other metrics, such as revenue and EBITDA were also almost exactly as modeled. However, the company is yet to disclose segment details for the first quarter. *Please see page 2 for a comparison of actual vs. reported numbers for 1Q2016.*
- **We continue to project a 17% YoY fall in 2016 revenue, along with a 41% fall in earnings.** While all segments should post yearly declines, the major contributor to this falloff is the drilling segment. After being subjected to a 15% cut in rig rates in 2Q2015, it is our understanding that rates were lowered by another 15% in November. On the fleet front: (1) an older **onshore rig** has been released from contract, while GDI-8 is not expected to contribute until 2Q2016; (2) five **offshore rigs** have been idled, including Al-Doha (went off-line on March 28), Al-Rayyan, Al-Jassra, Les-Hat and Msheireb. However, Al-Jassra was contracted by Dolphin in late-February, while Msheireb is expected back in service in January 2017. Halul is anticipated to start contributing from April; and (3) an **accommodation jack-up** (Zikreet) has been idled, while the Rumailah **lift boat** is not expected to resume operations all year. Al-Safliya (lift boat under construction) should commence activity in 2Q2016. *Please see page 2 for a detailed breakdown of segment forecasts for 2016.*

Catalysts

- **While the investment case is compelling, recovery remains hinged on sustained recovery in oil prices and a resumption of confidence in company performance.** GISS also potentially stands to gain 100% market share of the offshore market (2 rigs) this year, which could allow for redeployment of idling rigs.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate GISS an Outperform with a price target of QR53.00.** The stock is currently trading at 2016 and 2017 P/E multiples of 13.3x and 11.5x, respectively. While our price target provides compelling upside, the stock remains in a "show me" mode.
- **Risks: Declining/volatile oil prices remain a substantial risk to regional equity prices.** Further decline in rig rates/rig utilizations could pressure the stock. GISS also faces concentration risk given its exposure to QP/affiliates.

Key Financial Data and Estimates

	2014	2015	2016e	2017e
EPS (QR)	6.14	4.31	2.56	2.95
P/E (x)	5.5	7.9	13.3	11.5

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)	90.60/28.65
3-m Avg. Volume (000)	1,072.2
Mkt. Cap. (\$ bn/QR bn)	1.7/6.3
FO Limit* (%)	25.0
Current FO* (%)	7.0
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	(59.7)
Fiscal Year End	December 31

Source: Bloomberg (as of April 27, 2016), *Qatar Exchange (as of April 27, 2016); Note: FO is foreign ownership

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GISS Posts In-Line Results for 1Q2016

Reported overall results were in-line with QNBFS estimates. GISS reported a net profit of QR78.9mn in 1Q2016, in-line with our estimate of QR78.4mn (variation +0.7%). Net profit fell significantly from QR355.7mn in 1Q2015. Other metrics, such as revenue and EBITDA were also almost exactly as modeled. However, the company is yet to disclose segment details for the first quarter.

Quarterly Estimates and Actuals

In QR '000 Except Otherwise Noted	1Q2015	2Q2015	3Q2015	4Q2015	2015	1Q2016e	2Q2016e	3Q2016e	4Q2016e	2016	1Q2016 A	V s. E	QoQ	YoY
Total Revenue	1,209,930	1,084,555	973,933	895,832	4,164,250	803,737	868,125	884,242	902,512	3,458,616	775,168	-3.6%	-13.5%	-35.9%
Insurance	166,773	168,386	166,642	183,820	685,621	161,770	163,334	161,643	178,305	665,052				
Aviation	162,637	164,417	151,156	150,126	628,336	146,348	147,215	147,215	147,806	588,584				
Catering	311,411	249,079	221,049	224,110	1,005,649	246,859	247,438	247,818	248,834	990,950				
Drilling	569,109	502,673	435,086	337,776	1,844,644	248,760	310,137	327,566	327,566	1,214,030				
COGS	783,272	783,419	687,981	699,250	2,953,922	671,436	678,189	679,276	699,351	2,728,252	637,546	-5.0%	-8.8%	-18.6%
Insurance	126,692	173,611	135,648	147,434	583,385	139,122	140,468	139,013	153,343	571,945				
Aviation	104,253	100,771	114,280	82,131	401,435	96,589	97,162	97,162	97,552	388,466				
Catering	257,490	226,569	202,439	199,661	886,159	219,705	220,220	220,558	221,463	881,946				
Drilling	294,837	282,468	235,614	270,024	1,082,943	216,019	220,340	222,543	226,994	885,896				
Gross Profit	426,658	301,136	285,952	196,582	1,210,328	132,302	189,936	204,966	203,161	730,365	137,622	4.0%	-30.0%	-67.7%
GM %	35.3%	27.8%	29.4%	21.9%	29.1%	16.5%	21.9%	23.2%	22.5%	21.1%	17.8%			
Insurance GM %	24.0%	-3.1%	18.6%	19.8%	14.9%	14.0%	14.0%	14.0%	14.0%	14.0%				
Aviation GM %	35.9%	38.7%	24.4%	45.3%	36.1%	34.0%	34.0%	34.0%	34.0%	34.0%				
Catering GM %	17.3%	9.0%	8.4%	10.9%	11.9%	11.0%	11.0%	11.0%	11.0%	11.0%				
Drilling GM %	48.2%	43.8%	45.8%	20.1%	41.3%	13.2%	29.0%	32.1%	30.7%	27.0%				
Gross Profit Contribution														
Insurance	9.4%	-1.7%	10.8%	18.5%	8.4%	17.1%	12.0%	11.0%	12.3%	12.7%				
Aviation	13.7%	21.1%	12.9%	34.6%	18.7%	37.6%	26.4%	24.4%	24.7%	27.4%				
Catering	12.6%	7.5%	6.5%	12.4%	9.9%	20.5%	14.3%	13.3%	13.5%	14.9%				
Drilling	64.3%	73.1%	69.8%	34.5%	62.9%	24.7%	47.3%	51.2%	49.5%	44.9%				
Net Income	355,717	249,689	216,864	(20,842)	801,428	78,398	125,329	137,327	135,473	476,527	78,930	0.7%	N/M	-77.8%
NM %	29.4%	23.0%	22.3%	-2.3%	19.2%	9.8%	14.4%	15.5%	15.0%	13.8%	10.2%			
Insurance	54,573	11,985	30,403	15,413	112,374	24,978	25,220	24,959	27,532	102,689				
Insurance NM %	32.7%	7.1%	18.2%	8.4%	16.4%	15.4%	15.4%	15.4%	15.4%	15.4%				
Aviation	51,386	57,270	49,699	34,855	193,210	45,618	45,888	45,888	46,072	183,467				
Aviation NM %	31.6%	34.8%	32.9%	23.2%	30.7%	31.2%	31.2%	31.2%	31.2%	31.2%				
Catering	40,518	33,277	18,876	22,913	115,584	26,414	26,476	26,517	26,626	106,034				
Catering NM %	13.0%	13.4%	8.5%	10.2%	11.5%	10.7%	10.7%	10.7%	10.7%	10.7%				
Drilling	221,801	159,460	128,505	(78,599)	431,167	(6,783)	40,522	52,978	48,527	135,244				
Drilling NM %	39.0%	31.7%	29.5%	-23.3%	23.4%	-2.7%	13.1%	16.2%	14.8%	11.1%				
Share of Profits from Other JVs														
Gains from Business Combinations														
Unallocated (Plug)	(12,561)	(12,303)	(10,619)	(15,424)	(50,907)	(11,830)	(12,778)	(13,015)	(13,284)	(50,907)				
EPS (QR)	1.91	1.34	1.17	(0.11)	4.31	0.42	0.67	0.74	0.73	2.56	0.42	0.7%	N/M	-77.8%
EBITDA	503,036	391,936	356,355	129,063	1,380,390	224,179	289,855	302,899	301,439	1,118,372	224,073	0.0%	73.6%	-55.5%
EBITDA Margin %	41.6%	36.1%	36.6%	14.4%	33.1%	27.9%	33.4%	34.3%	33.4%	32.3%	28.9%			

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement

In QR mn	FY2014	FY2015	FY2016e	FY2017e	FY2018e
Revenue	3,906	4,164	3,459	3,672	4,314
Gulf Drilling International (GDI)*	1,473	1,845	1,214	1,347	1,907
Gulf Helicopters Company (GHC)	644	628	589	627	667
Amwaj Catering Company (ACS)	1,056	1,006	991	1,016	1,041
Al Koot Insurance & Reinsurance (AKIR)	733	686	665	682	699
COGS	2,710	2,954	2,728	2,852	2,968
Gross Profit	1,196	1,210	730	820	1,346
SG&A	217	267	233	250	257
Total Other Income	89	(84)	42	42	42
Net Finance Income (Expense)	(27)	(58)	(63)	(64)	(65)
One-Offs/Non-Recurring Items	269	0	0	0	0
Income from JVs	100	0	0	0	0
Net Income	1,410	801	477	548	1,067
EBITDA	1,549	1,380	1,118	1,209	1,732
DPS (QR)	5.50	1.00	1.00	1.25	1.50

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

Balance Sheet

In QR mn	FY2014	FY2015	FY2016e	FY2017e	FY2018e
Current Assets					
Cash & Cash Equivalents	1,087	961	996	1,641	2,595
Investments Held for Trading	218	206	205	205	205
Insurance Contract Receivables & A/R	946	1,170	1,131	1,191	1,351
Due From Related Parties	634	598	520	520	520
Inventories	203	222	216	227	236
Total Current Assets	3,089	3,158	3,068	3,784	4,907
Non-Current Assets					
Available for Sale Investments	300	314	313	313	313
Held to Maturity Investments	85	86	86	86	86
Investment in Joint Ventures	-	-	-	-	-
Investment Properties	1	-	-	-	-
Goodwill	313	307	305	304	304
Property, Plant & Equipment	7,037	7,364	7,594	7,376	7,228
Non-Current Assets	7,738	8,071	8,297	8,078	7,930
Total Assets	10,826	11,229	11,365	11,862	12,837
Current Liabilities					
Short-Term Debt	909	1,467	1,264	1,264	1,264
Insurance Payables & Accounts Payable	1,719	2,050	1,899	1,969	2,031
Due to Related Parties	11	20	25	25	25
Current Liabilities	2,638	3,536	3,189	3,259	3,320
Non-Current Liabilities					
Employees End of Service Benefits	64	75	73	73	73
Long-Term Debt	3,946	3,690	3,887	3,951	4,030
Non-Current Liabilities	4,010	3,765	3,960	4,025	4,103
Total Liabilities	6,649	7,301	7,148	7,283	7,424
Shareholders' Equity					
Total Shareholders' Equity	4,178	3,928	4,217	4,579	5,413
Liabilities & Shareholders' Equity	10,826	11,229	11,365	11,862	12,837

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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