

GISS Alert – 1Q2022 Earnings Accelerate as Drilling Leads Recovery; Maintain Accumulate

- **GISS posted a net profit of QR83.3mn in 1Q2022 vs. a net loss of QR5.5mn in 1Q2021 and a profit of QR12.9mn in 4Q2021.** Reported earnings for 1Q2022 exceeded our forecast of QR36.7mn despite an in-line top-line performance given better-than-anticipated gross profits, net finance charges and investment income relative to our model. We were positively surprised by the growth in drilling gross profits driven by higher-than-expected segment revenue and better costs control. However, on the flip-side, GISS did not report any share of income from its 50%-owned GulfDrill JV despite the JV itself recording a modest QR3.8mn in 1Q2022 earnings. This is because the overall net assets position for the JV remains at a slight deficit. We remind investors that GISS reported a loss from GDI's GulfDrill JV of QR5.0mn in 4Q2021 as the company accrued mobilization costs for its JV rigs. We are expecting this to dissipate going forward as the JV recoups these costs from Qatargas and the JV net assets position becomes a surplus. Recording of this JV income is mostly a timing issue that will work itself out as we move forward in 2022. ***Overall, we like these set of results and maintain our Accumulate rating and QR2.1000 price target on GISS.*** We continue to envision an acceleration in momentum in the drilling segment in 2022 and onward. We expect earnings to continue to improve in 2022 with the drilling segment achieving profitability (or near-profitability). Other segments should also contribute positively, while continued progress in costs reduction should help boost earnings.
- **Overall 1Q2022 revenue of QR835.0mn (18.4% YoY, -1.1% QoQ) was in-line with our estimate (-0.7% variation) of QR841.2mn. 1Q2022 drilling revenue of QR320.8mn (61.7% YoY, 5.7% QoQ) was 4.6% higher than our estimate of QR306.6mn.** As expected, the significant yearly top-line growth was driven by new higher day rates becoming effective for GDI's offshore fleet from July 2021, along with resumption of two onshore rigs (GDI-5/7 that had been idling for an year due to COVID-19) from 3Q2021. Moreover, all five offshore rigs are operating under the GulfDrill JV in the NFE project from 3Q2021 onward, which boosted management fees and thus revenue. On a QoQ basis, new contracts for liftboats in KSA and Maldives helped boost top-line performance. *Management also stated that GDI successfully renewed contracts for certain offshore rigs with extended terms ranging from 2 to 5 years. (continued on page 2)*

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- *(continued from page 1)* **Aviation revenue** of QR206.4mn (25.2% YoY, 6.1% QoQ) was only 3.5% ahead of our estimate of QR199.4mn as easing coronavirus restrictions helped flying activity domestically and internationally, leading to increasing flying hours; international flying hours did soften sequentially, however. GHC's Turkish subsidiary and its MRO business also contributed positively. **Insurance top-line** of QR194.7mn (-23.9% YoY, -19.9% QoQ) came in 15.7% below our estimate of QR231.0mn mainly due to the loss of two medical insurance contracts, which was partially offset by growth in premiums in the general insurance segment. Management is actively looking to explore new opportunities in the domestic retail and SME segments in order to increase growth. *We expect the company to increase its focus on the emerging mandatory health insurance market in Qatar and to also benefit from the anticipated growth in this segment from the surge of visitors related to the FIFA World Cup Qatar 2022.* Finally, **catering revenue** of QR113.1mn (31.4% YoY, 9.7% QoQ) was 8.6% higher than our estimate of QR104.1mn. Catering benefited from growth in the manpower business and receding pandemic related restrictions, especially on a YoY basis.
- **Relative to our model, better-than-forecast profitability from aviation, drilling and insurance served to increase 1Q2022 earnings.** Gross profits did improve vs. our model (especially in drilling as mentioned above) despite some pressure from the catering and insurance segments. We note that insurance net income exceeded our forecast despite a loss at the gross profit level as investment income came in above our modeled estimate. Given GISS' razor-thin margins any slight divergence in costs creates significant volatility in the bottom-line. *Please see page 3 for details on segmental revenue/costs/earnings.*
- **In terms of catalysts, positive newsflow/performance on the drilling front and signs of growth in the other segments should help.** We stay longer-term positive on GISS but the stock remains in a "show-me" mode. We continue to expect improving financial performance to drive stock price performance over the next 12 months. Moreover, we believe the progress made in costs reduction thus far should dovetail improving market fundamentals as we move forward. Favorable updates on debt restructuring, which was put on the back burner due to COVID-19, could also please equity investors.

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Income Statement

	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E	YoY	QoQ	A Vs. E	YoY	QoQ
Revenue	705.0	844.4	835.0	841.2	-0.7%	18.4%	-1.1%	(6)	130	(9)
<i>Gulf Drilling International (GDI)</i>	198.4	303.6	320.8	306.6	4.6%	61.7%	5.7%	14	122	17
<i>Gulf Helicopters Company (GHC)</i>	164.8	194.5	206.4	199.4	3.5%	25.2%	6.1%	7	42	12
<i>Amwaj Catering Company (AHC)</i>	86.1	103.1	113.1	104.1	8.6%	31.4%	9.7%	9	27	10
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	255.7	243.2	194.7	231.0	-15.7%	-23.9%	-19.9%	(36)	(61)	(48)
COGS	658.8	711.0	706.0	721.7	-2.2%	7.2%	-0.7%			
<i>Gulf Drilling International (GDI)</i>	221.2	327.3	287.1	315.8	-9.1%	29.8%	-12.3%	(29)	66	(40)
<i>Gulf Helicopters Company (GHC)</i>	103.9	107.2	114.5	112.1	2.1%	10.1%	6.8%	2	11	7
<i>Amwaj Catering Company (AHC)</i>	93.2	64.8	107.9	74.2	45.5%	15.8%	66.6%	34	15	43
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	240.5	211.7	196.5	219.7	-10.5%	-18.3%	-7.2%	(23)	(44)	(15)
Gross Profit	46.2	133.4	128.9	119.4	7.9%	179.4%	-3.4%	9	83	(4)
Gross Margin	6.5%	15.8%	15.4%	14.2%						
<i>Gulf Drilling International (GDI)</i>	(22.8)	(23.7)	33.7	(9.2)	N/M	N/M	N/M	43	56	57
<i>Gross Margin</i>	-11.5%	-7.8%	10.5%	-3.0%						
<i>Gulf Helicopters Company (GHC)</i>	60.9	87.4	91.9	87.3	5.2%	51.1%	5.2%	5	31	5
<i>Gross Margin</i>	36.9%	44.9%	44.5%	43.8%						
<i>Amwaj Catering Company (AHC)</i>	(7.1)	38.3	5.2	30.0	-82.7%	N/M	-86.5%	(25)	12	(33)
<i>Gross Margin</i>	-8.3%	37.2%	4.6%	28.8%						
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	15.2	31.4	(1.8)	11.3	N/M	N/M	N/M	(13)	(17)	(33)
<i>Gross Margin</i>	5.9%	12.9%	-0.9%	4.9%						
Net Income	(5.5)	12.9	83.3	36.7	127.0%	N/M	544.9%	47	89	70
Net Margin	-0.8%	1.5%	10.0%	4.4%						
<i>Gulf Drilling International (GDI)</i>	(72.4)	(42.2)	(10.0)	(29.0)	-65.7%	-86.3%	-76.4%	19	62	32
<i>Net Margin</i>	-36.5%	-13.9%	-3.1%	-9.5%						
<i>Gulf Helicopters Company (GHC)</i>	49.5	46.4	79.0	55.8	41.5%	59.4%	70.1%	23	29	33
<i>Net Margin</i>	30.1%	23.9%	38.3%	28.0%						
<i>Amwaj Catering Company (AHC)</i>	(0.5)	3.1	0.1	2.3	-95.6%	N/M	-96.8%	(2)	1	(3)
<i>Net Margin</i>	-0.6%	3.0%	0.1%	2.2%						
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	15.3	10.2	18.6	12.0	55.0%	21.6%	83.0%	7	3	8
<i>Net Margin</i>	6.0%	4.2%	9.6%	5.2%						
<i>Corporate/Other</i>	2.6	(4.6)	(4.5)	(4.4)	1.6%	N/M	-2.8%	(0)	(7)	0
EPS	(0.00)	0.01	0.04	0.02	127.0%	N/M	544.9%			

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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