

## QNBFS Alert – In-Line GISS 3Q17 Operating Results; Net Profit Miss On Other Items; Market Perform

- **GISS' 3Q2017 operating results came in-line with our forecasts; reported net income of QR6.37mn misses due to other items** – Gulf International Services (GISS) reported a net profit of QR6.37mn in 3Q2017 as compared to QR0.74mn in 2Q2017 and vs. our forecast of QR20.76mn; net profit was down 77.5% YoY. The company does not provide basic segment details except for 1H and fiscal year-end reporting periods, so we can only analyze overall numbers, which were broadly in line in terms of revenue, gross profitability and EBITDA:
- **Overall revenue was as expected:** The company's revenue came in at QR620.40mn in 3Q2017 (-4.2% QoQ, -12.9% YoY) vs. our forecast of QR643.81mn (variance of -3.6%).
- **Drilling and aviation posted flattish revenue YoY, while insurance and catering continue to underperform.** According to the company's trading statement, while the aviation and drilling segments maintained fairly the same revenue as the previous year (9M basis), the catering and insurance segments faced challenges due to fierce competition resulting in lower revenue in these segments compared to 2016. Initiatives are underway to address the challenges faced by these two segments. Further, our sense is given the disclosed rig deployment schedule, drilling revenue grew sequentially as well.
- **Gross profit and EBITDA were broadly in-line with our forecasts.** GP came in QR96.0mn vs. our modeled figure of QR91.40mn (differential was +5%) implying costs improved vs. our model despite the slightly lower revenue figure. EBITDA of QR196.87mn was in-line at around +3.9% vs. our estimate of QR189.53mn (actual 3Q2017 EBITDA margin 31.7% vs. our forecast of 29.4% and 27.2% in 2Q2017).
- **The miss vs. our bottom-line forecast came entirely from higher-than-expected net financial expenses and lower other income/investment income.** Net finance charges possibly increased because of refinancing although total debt grew by only 3% QoQ.
- **Cash position remained strong with cash of QR1.1bn across all group companies.**
- **We continue to rate GISS a Market Perform.** GISS stock continues to remain in a “show me” mode. Risks: 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.

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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