

QFLS Alert– Better-than-Expected 1Q with Higher Margins, Maintain TP & Market Perform

- Qatar Fuel Company's (QFLS) net profit rose 12.0% YoY (however, declined 9.1% on a QoQ basis) to QR253.2mn in 1Q2021, above our estimate of QR200.3mn. EPS amounted to QR0.25 in 1Q2021 as compared to QR0.23 in 1Q2020.
- **Gross profit was above our estimate, which is attributable to higher margins and slightly higher volumes on diesel and super gasoline.** The company posted QR244.3mn in gross profits in 1Q2021 vs. QR291.0mn in 4Q2020 and QR202.1mn in 1Q2020 with a 20.8% rise YoY (down 16.1% QoQ). Gross margin rose to 6.4% in 1Q2021 from 1Q2020's 4.1% and FY2020's 5.3%; however, GMs fell below 4Q2020's 9.5%. During 1Q2021, diesel and super gasoline volumes continued their recovery on a YoY basis, rising 3% and 10%, respectively, vs. 1Q2020 (we were expecting flattish volumes YoY). On the jet fuel front, Woqod recorded a 23% volume contraction YoY, in line with our 24% decline estimate. Continuation of air traffic restrictions due to coronavirus-related counter-measures led QFLS to experience lower demand in 1Q2021 for its jet fuel. On the positive front, Woqod's natural gas sales rose by 21% YoY. Retail fuel sales also expanded by 4% YoY and non-petroleum retail sales grew by 5%, thanks to the new fuel stations opened in 2020. During 1Q2021, the company opened one new gas station bringing the number of new stations to 107 by the end of 1Q2021. Woqod intends to add 5 more stations to its network in 2021 depending on demand.
- **G&A maintains its downward trend:** QFLS recorded QR74.3mn in 1Q2021 G&A, with a 15% decline YoY (yet up 5.5% QoQ) thanks to its ongoing cost-cutting efforts.
- **Other income was down 24.9% YoY% to QR90.7mn,** which is attributable to lower dividends and lower returns on cash, accompanied by lower cash balances.
- **We maintain our TP (QR19.8) and Market Perform Rating.** In the medium- to long-term, Qatar Airways Group's planned expansion (which could be prone to delays due to coronavirus disruptions) is likely to be the foremost long-term driver for WOQOD's bottom-line growth. Nevertheless, the company's ongoing expansion of its retail fuel station network should support its fuel and non-fuel revenue growth gradually. Removal of the blockade should also be supportive for jet fuel volumes longer-term.

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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