

QFLS Alert – Better-Than-Expected 3Q2020 with Recovering Margins; Maintain MP

- **WOQOD posted 3Q2020 net income of QR158.6mn, down 51.0% YoY but up 259.7% QoQ, above our net income estimate of QR95.9mn.** EPS amounted to QR0.16 in 3Q2020 as compared to QR0.33 in 3Q2019. In 9M2020, QFLS' net profit stood at QR428.73mn as compared to QR871.80mn in 9M2019. EPS amounted to QR0.43 in 9M2020 as compared to QR0.88 in 9M2019.
- **Gross profit was above our estimate, which is attributable to higher margins.** During the 3Q2020, we also think the local diesel and gasoline sales volumes recovered notably vs. 2Q with gasoline sales even recording slight positive growth vs. 3Q2019. The company posted QR193.6mn in gross profits in 3Q2020 vs. QR9.8mn in 2Q2020 and QR441.3mn in 3Q2019. Due to relatively higher economies of scale benefits, gross margin rose to 6.3% in 3Q2020 up from 0.5% in 2Q2020 and 5.9% in 3Q2019. As of 9M2020, jet fuel sales volume fell by 34% YoY, implying a c45% volume decline in 3Q2020 YoY. Despite the gradual lifting of coronavirus-related countermeasures, air traffic was still highly restricted in most countries during 3Q, leading WOQOD to experience lower demand for jet fuel. The company also stated that diesel, super gasoline and premium gasoline sales volumes decreased by 11%, 14%, 9%, respectively, during 9M2020, implying an estimated YoY decline of c9% for diesel in 3Q2020; we think 3Q2020 super and premium gasoline sales were slightly positive in 3Q2020 YoY. HFO off-take increased by 18% driven by market demand, while natural gas sales were also higher by 9% YoY as of 9M2020. Furthermore, WOQOD's retail non-fuel revenue, including Sidra sales, increased by 11% YoY in 9M2020 driven by the new stations opened in 2019 and 9M2020 and higher footfall in C-stores. Since 1H2020, WOQOD's retail gas stations increased by 2, reaching 106 as of October 15 from 90 as of September 2019.
- **G&A maintains its downward trend on a YoY basis.** QFLS recorded QR88.5mn in 3Q2020 G&A, with a 39.8% decline YoY, yet rising 116% vs. 2Q2020.
- **Other income was higher YoY as well.** QFLS recorded QR56.6mn in 3Q2020 other income, 37.8% higher than 3Q2019's QR26.4mn.
- **We will be revising our estimates and TP once we have a clearer understanding on QFLS' sales volumes and margins.** 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.

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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