

QFLS Alert – Better-Than-Expected 4Q2020 with Recovering Margins; Maintain MP

- **QFLS (WOQOD) posts 19.1% YoY decrease but 75.8% QoQ increase in net profit in 4Q2020, above our estimate.** Qatar Fuel net profit declined 19.1% YoY (but rose 75.8% on QoQ basis) to QR278.7mn in 4Q2020, above our estimate of QR246.7mn (variation of +13.0%). In FY2020, QFLS' net profit (excluding minority rights) amounted to QR707.4mn, compared to an amount of QR1,216.4mn achieved in the past year FY2019, representing a decrease of 41.8%. Earnings per share for the period amounted to QR0.71, compared to QR1.22 for the past year.
- **Cash DPS of QR0.46 is in-line with our expectation of QR0.44.** The Board has recommended to the company's Annual Shareholders General Assembly scheduled for March 8, 2021 to approve a dividend distribution to shareholders of QR0.46 per share. Compared to 2019's QR0.80, cash dividend proposal represents a 42.5% YoY decline.
- **Gross profit was above our estimate, which is attributable to higher margins.** During 4Q2020, diesel and gasoline volumes continue their recovery on a QoQ basis even recording slight positive growth vs. 4Q2019. The company posted QR291.0mn in gross profits in 4Q2020 vs. QR193.6mn in 3Q2020 and QR337.8mn in 4Q2019. Due to relatively higher economies of scale benefits, gross margin rose to 9.5% in 4Q2020 up from 6.3% in 3Q2020 and 5.6% in 4Q2019. As of 12M2020, jet fuel sales volume fell by 33% YoY, implying a c0.2% volume increase in 4Q2020 QoQ. Continuation of air traffic restrictions due to coronavirus-related counter-measures led WOQOD to experience lower demand in 2020 for its jet fuel. Diesel, super gasoline and premium gasoline sales volumes decreased by 9%, 10% and 9% YoY respectively, during 12M2020. HFO off-take increased by 7% driven by market demand, while natural gas sales were also higher by 13% YoY as of 12M2020. Furthermore, WOQOD's retail non-fuel revenue, including Sidra sales, increased by 11% YoY in 12M2020 driven by the new stations opened in 2019 and 2020. In 2020, WOQOD's retail gas stations increased by 12 reaching 108.
- **G&A maintains its downward trend.** QFLS recorded QR70.4mn in 4Q2020 G&A, with a 20% decline YoY and a 24% QoQ.
- **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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

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