

QGT's Alert – Operating/Dry-Docking Costs Lower 4Q2022 EPS; In-Line DPS; Awaiting Contract News

- **Nakilat misses our 4Q2022 estimates on higher-than-expected costs:** QGT's 4Q2022 net income of QR303.8mn decreased 13.3% YoY and 25.1% QoQ, falling short of our estimate of QR392.4mn. **(1) Revenue from wholly-owned ships** of QR897.2mn (0.4% YoY, 0.6% QoQ) was in-line with our estimate of QR894.1mn (variation of 0.4%). **(2) Adjusted revenue** (wholly-owned ships + marine & agency services + JV income) of QR1.09bn (3.6% YoY, 0.2% QoQ) was bang in-line with our estimate of QR1.09bn. **(3) EBITDA** of QR658.2mn (-3.0% YoY, -4.9% QoQ) was 4.5% shy of our forecast of QR689.0mn given higher-than-expected **cash operating costs** of the wholly-owned fleet (cash gross margins fell to 76.6% vs. our model of 78.0% and 77.2%/78.6% in 4Q2021/3Q2022) and an uptick in G&A expenses; **G&A** expenses of QR44.2mn (74.0% YoY, 86.4% QoQ) was significantly above our estimate of QR24.1mn; management, in Nakilat's earnings presentation, alluded to resumption of activities that were postponed due to COVID-19 as a contributing factor driving the uptick in G&A expenses. **(4) Adjusted EBITDA** of QR840.0mn (1.5% YoY, -4.2% QoQ) was 3.9% below our estimate of QR874.2mn, again due to the higher costs mentioned previously. **(5) Depreciation & amortization** expense of QR286.6mn (23.2% YoY, 30.0% QoQ) was 22.7% ahead of our modeled forecast of QR233.5mn given completion of a 5-year dry-dock cycle in 2022. **(6) JV income** of QR181.7mn (22.3% YoY, -1.6% QoQ) was 1.9% below our estimate of QR185.3mn. Overall, JV income continues its buoyant trend due to improving shipyard performance (which posted a net profit of QR91.2mn after posting net losses of QR36.2mn and QR25.5mn in 2021 and 2020, respectively), along with addition of the 3rd/4th LNG vessels in Nakilat's Global Shipping JV in Oct. 2021/Jan. 2022. **(7) Finally, finance costs** of QR294.6mn (13.8% YoY, 5.7% QoQ) was 6.1% ahead of our estimate of QR277.8mn. Interest costs increased due to gains in LIBOR rates on the unhedged portion (~ 30%) of QGT's debt, offset by scheduled repayment of loans.
- **2022 profitability jumps 6.3% with record-high EPS of QR0.26; DPS of QR0.13 (DY: 3.6%) increases 8.3% and is in-line with our model.** 2022 earnings were 5.8% below our model.
- **2023 could be a watershed year for Nakilat if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program.** We remind investors that QatarEnergy is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. In October and November of 2021, QatarEnergy moved ahead with the construction of ten LNG ships (four in China/six in South Korea). We do note that already on April 12, 2022, QatarEnergy announced that it awarded its first batch of time-charter parties (TCPs) with a subsidiary of Mitsui O.S.K Lines (MOL) for the long-term charter and operation of four LNG ships. In a statement, HE the Minister of State for Energy Affairs, Saad Sherida al-Kaabi, also the President and CEO of QatarEnergy, stated that he expected to announce similar contracts in the near future. In early June 2022, South Korean Shipbuilders announced some details of construction orders involving six ships (174k cm each) at a cost of ~\$215mn/ship. *Considering Nakilat's strategic importance (Nakilat ships ~75% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTs to be a major beneficiary and secure a meaningful share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to QGTs' target price (for details, please see our [report](#)) and an award of 20-30 ships could significantly increase our price target and estimates. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections in early 2023. We do expect QGTs shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts.*
- **We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector.** Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. Nakilat's fleet continues to provide QGTs with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of Nakilat's vessels vs. maximum debt life of 25 years (last debt maturing 2033), could allow for value-enhancement. *We stay Accumulate on QGTs with a price target of QR4.100.*

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Income Statement												
In QR mn Except Otherwise Noted	4Q2021	3Q2022	4Q2022	4Q2022e	A Vs. E	YoY	QoQ	2021	2022	2022e	A Vs. E	YoY
Revenue from Wholly-Owned Vessels	893.778	891.595	897.228	894.077	0.4%	0.4%	0.6%	3,541.032	3,550.096	3,546.945	0.1%	0.3%
Operating Costs	(203.840)	(190.688)	(209.905)	(196.253)	7.0%	3.0%	10.1%	(746.303)	(764.023)	(750.371)	1.8%	2.4%
Gross Profit	689.938	700.907	687.323	697.825	-1.5%	-0.4%	-1.9%	2,794.729	2,786.073	2,796.575	-0.4%	-0.3%
<i>Gross Margin</i>	<i>77.2%</i>	<i>78.6%</i>	<i>76.6%</i>	<i>78.0%</i>				<i>78.9%</i>	<i>78.5%</i>	<i>78.8%</i>		
Income from Marine and Agency Services	14.016	15.086	15.055	15.184	-0.8%	7.4%	-0.2%	49.086	55.430	55.559	-0.2%	12.9%
General and Administrative Expenses	(25.396)	(23.708)	(44.186)	(24.058)	83.7%	74.0%	86.4%	(97.318)	(112.118)	(91.990)	21.9%	15.2%
EBITDA	678.558	692.285	658.192	688.950	-4.5%	-3.0%	-4.9%	2,746.497	2,729.385	2,760.143	-1.1%	-0.6%
Depreciation & Amortization	(232.668)	(220.559)	(286.648)	(233.544)	22.7%	23.2%	30.0%	(895.351)	(946.617)	(893.513)	5.9%	5.7%
EBIT	445.890	471.726	371.544	455.406	-18.4%	-16.7%	-21.2%	1,851.146	1,782.768	1,866.630	-4.5%	-3.7%
<i>EBIT Margin</i>	<i>49.9%</i>	<i>52.9%</i>	<i>41.4%</i>	<i>50.9%</i>				<i>52.3%</i>	<i>50.2%</i>	<i>52.6%</i>	<i>-4.6%</i>	<i>-3.9%</i>
Share of Operating Profits from Joint Ventures	148.635	184.688	181.745	185.254	-1.9%	22.3%	-1.6%	493.560	689.373	692.882	-0.5%	39.7%
Finance Costs	(258.924)	(278.794)	(294.593)	(277.787)	6.1%	13.8%	5.7%	(1,048.767)	(1,139.356)	(1,122.550)	1.5%	8.6%
Interest, Dividend income & Profit from Islamic Banks	15.031	28.100	44.865	29.746	50.8%	198.5%	59.7%	58.285	106.598	91.479	16.5%	82.9%
Profit Before Tax	350.632	405.720	303.561	392.619	-22.7%	-13.4%	-25.2%	1,354.224	1,439.383	1,528.441	-5.8%	6.3%
Profit After Tax	350.632	405.720	303.561	392.619	-22.7%	-13.4%	-25.2%	1,354.224	1,439.383	1,528.441	-5.8%	6.3%
Minority Interest	(0.096)	(0.244)	0.240	(0.235)	N/M	N/M	N/M	(0.755)	(0.465)	(0.940)	-50.5%	-38.4%
Net Income to Equity	350.536	405.476	303.801	392.384	-22.6%	-13.3%	-25.1%	1,353.469	1,438.918	1,527.501	-5.8%	6.3%
<i>Net Profit Margin</i>	<i>39.2%</i>	<i>45.5%</i>	<i>33.9%</i>	<i>43.9%</i>				<i>38.2%</i>	<i>40.5%</i>	<i>43.1%</i>		
EPS (QR)	0.06	0.07	0.05	0.07	-22.6%	-13.3%	-25.1%	0.24	0.26	0.28	-5.8%	6.3%
Adjusted EBITDA	827.193	876.973	839.937	874.204	-3.9%	1.5%	-4.2%	3,240.057	3,418.758	3,453.025	-1.0%	5.5%
Adjusted Revenue	1,056.429	1,091.369	1,094.028	1,094.514	0.0%	3.6%	0.2%	4,083.678	4,294.899	4,295.385	0.0%	5.2%
Particulars	4Q2021	3Q2022	4Q2022	4Q2022e				2021	2022	2022e		
Adj. EBITDA Margin	78.3%	80.4%	76.8%	79.9%				79.3%	79.6%	80.4%		
Gross Margin	77.2%	78.6%	76.6%	78.0%				78.9%	78.5%	78.8%		
EBIT Margin	49.9%	52.9%	41.4%	50.9%				52.3%	50.2%	52.6%		
G & A % of Sales	2.8%	2.7%	4.9%	2.7%				2.7%	3.2%	2.6%		
Depreciation & Amortization % of Sales	26.0%	24.7%	31.9%	26.1%				25.3%	26.7%	25.2%		
Minority Interest % of PAT	0.0%	0.1%	-0.1%	0.1%				0.1%	0.0%	0.1%		

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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