

QNBFS Alert – QGTS Posts Strong 2Q2014; Maintain Accumulate

- **2Q2014 profit beats estimate driven by JV income.** Nakilat reported 2Q2014 results with: (1) Revenue from wholly-owned vessels just 1% shy of our estimate at QR752mn (+1% QoQ and YoY). (2) Share of operating profits from JVs gained significantly to a record level of QR116mn (+43% QoQ, +61% YoY) driven by significant gains in LPG shipping rates beyond our expectations and expansion of the jointly-held LNG fleet (through the Maran Nakilat JV) in line with our model. The shipyard business, while small, also continues to show traction on a YoY basis. (3) Adjusted EBITDA of QR705mn (+5% QoQ, +6% YoY) was around 5% above our estimate of QR670mn. (4) Net income, before appropriations, of QR238mn (+15% QoQ, +31% YoY) was also impacted by QR8mn in gains from derivative instruments in JVs, which we do not model. Excluding this, net income was 16% greater than our estimate of QR199mn.
- **A state-of-the-art fleet:** Since 2004, QGTS has invested ~\$11bn to own 58 state-of-the-art LNG ships, 25 of which are wholly owned. Around 78% of these vessels are Q-Max/Q-Flex type, which have the largest capacity in the world. QGTS also jointly owns four LPG ships (along with Milaha). Recent deal adds a further 3 JV-held LNG vessels bringing the count to 61 (we expect the last two LNG ships to be added in 2015 and 2016).
- **Refinancing, fleet expansion and upside from the shipyard are catalysts.** During 2013, QGTS refinanced \$917mn in bank debt at attractive rates. We note Nakilat retains the ability to expand its fleet targeting international clients without expending much capex (e.g. the Maran Nakilat deal, which allows QGTS to double JV fleet size to 8 LNG tankers, while upping stake to 40% through a \$1.33bn refinancing). Recent \$807mn refinancing is also of a similar nature. We remain positive longer-term on shipbuilding; QGTS recently signed a MOU with Qatar Armed Forces to build 7 vessels (QR3.1bn).
- **We rate QGTS an Accumulate with a price target of QR25.30; we expect to increase our forecasts moderately.** QGTS has already posted QR197mn in 1H2014 JV income and given the encouraging outlook for international LPG rates, our QR335mn FY2014 JV income estimate appears somewhat modest. We will update our forecasts shortly.

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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