

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR15.70	Target Price	QR19.50
Implied Upside	24%		

2Q2012 Results Show Improvement Despite Net Income Miss; Maintaining Estimates

2Q2012 results show sequential and YoY improvement. While Nakilat reported somewhat softer than expected 2Q2012 results, as expected the company posted a sequentially (and YoY) stronger 2Q2012 after two quarters (1Q2012 & 4Q2011) of sequential declines. Nakilat's revenue from wholly-owned vessels (under long-term charters) came in right in line with our estimate. Further, QGTS' share of operating profits from joint-venture ships benefited from the higher LPG freight rates and came in marginally stronger-than-expected. We continue to view Nakilat as a stable yield play albeit with limited top-line growth prospects in the medium term. QGTS remains Qatar's primary LNG carrier and benefits from stable/visible revenue and cash flow through 25-year fixed (price and quantity) charter contracts with the state-controlled LNG producers, Qatargas and RasGas. With fleet expansion completed in 2010, we expect strong FCF generation to allow the company to meet its debt repayments (total debt was QR24.3bn as of 2Q2012) comfortably and lead to EPS accretion.

Financial Results and Key Takeaways

- **Reported 2Q2012 net revenue increased sequentially by 3.1%.** QGTS posted a net revenue figure of QR849mn for 2Q2012, which was almost in line with our modeled estimate of QR850mn. Net revenue posted a YoY growth of 2.0%. By segment: (1) Revenue from the company's 25 wholly-owned LNG vessels was flat QoQ but increased 2.2% versus 2Q2011. (2) Share of operating profits from the company's 33 joint-venture ships increased 65.9% and 4.9% on a QoQ and YoY basis, respectively, to QR81mn. (3) Finally, income from marine and agency services decreased by 10.6% QoQ (down 5.7% YoY) to QR8mn.
- **Net income also improved but fell below our estimate.** For 2Q2012, Nakilat posted a net income to equity holders of QR204mn, up 15.6% QoQ and 5.9% YoY. Net income, however, was around 6% weaker than our estimate of QR218mn. Higher-than-expected operating costs of wholly-owned vessels and interest expenses contributed to the earnings miss, in our view.
- **Where do we go from here?** While we remain positive on Nakilat longer-term, the headline miss on net income could portend further near-term weakness in the stock price. Thus far this year, the stock has come under pressure (down 10.3% vs. a 5.1% decline in the QE Index) given its tepid top-line (LNG vessels are under long-term charters with no benefit from spot rate increases) and fears about shipping disruptions. However, we continue to believe that QGTS' wholly-owned LNG shipping business should post stable EBITDA on an annual basis despite quarterly volatility. Moreover, strong FCF leaves open the avenue for further dividend increases. Nakilat remains a vital link in the State of Qatar's LNG value chain. We maintain our estimates and 12-month target price.

Key Financial Data and Estimates

In QR mn	Change (%)			New	
	2Q2012	QoQ	YoY	2Q2012e	A vs. E
Revenue (Net)	849	3.1%	2.0%	850	-0.1%
Adjusted EBITDA	693	1.7%	0.6%	706	-1.8%
Net Income	204	15.6%	5.9%	218	-6.2%

Source: Company data, QNBFS estimates

Key Data:

Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector	Transportation
52wk High/52wk Low (QR)	18.30/14.52
3-m Average Volume ('000)	541.2
Mkt. Cap. (\$ bn/QR bn)	2.4/8.8
Shares Outstanding (mn)	560
FOL Limit* (%)	24.7
Current FO* (%)	10.6
1-Year Total Return (%)	(8.7)
Fiscal Year End	Dec. 31

Source: Bloomberg (as of July 18, 2012), *Qatar Exchange

Broker Recommendations

Recommendation	Number
Buy	5
Hold	2
Sell	0

Source: Bloomberg

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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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