

QNNS Alert – 3Q2022 Earnings Beat Estimates Excluding One-Off Impairment; Outperform

- **Milaha (QNNS or Qatar Navigation) posted 3Q2022 earnings of QR209.7mn, down 3.2% YoY and 25.2% QoQ. Reported earnings fell short of our estimate of QR277.5mn (variation of -24.4%).** We note reported 3Q2022 earnings included a large QR85.5mn asset impairment recorded by **Milaha Capital**; excluding this impairment, 3Q2022 earnings would have come in at QR295.2mn (36.3% YoY, 5.3% QoQ), 6.4% *ahead* of our estimate. We will seek color from management regarding the nature of this impairment. Relative to our model, all segments, excluding **Milaha Maritime & Logistics**, posted better-than-expected earnings on a normalized basis (*see page 2*).
- **Better-than-expected performance from Milaha Offshore and Milaha Gas & Petrochem were key drivers of earnings growth.** (1) **Milaha Offshore** – according to the company, strong utilization of assets and increased project income helped boost 3Q2022 net income to QR37.4mn vs. a loss of QR5.7mn in 3Q2021; profits grew 84.2% QoQ and handily exceeded our forecast of QR11.1mn. (2) **Milaha Gas & Petrochem** – better-than-expected performance from its 36.3%-associate Nakilat led to earnings of QR162.2mn (6.1% YoY, 14.0% QoQ), which came in 8.5% higher than our estimate of QR149.5mn. (3) **Milaha Capital** – recorded QR26.7mn in 3Q2022 net income (81.6% YoY, 2.7% QoQ) if we exclude the large impairment of QR85.5mn recorded during 3Q2022; earnings exceeded our model of QR24.2mn by 10.3%. (4) **Milaha Trading** – posted a loss of QR2.1mn in 3Q2022 vs. losses of QR3.1mn in 3Q2021 and QR2.0mn in 2Q2022; we were expecting a loss of QR2.3mn for 3Q2022. (5) **Milaha Maritime & Logistics** – strong container shipping fundamentals from mid-2021 onward helped propel segment earnings, on a YoY basis, to QR71.8mn (24.7% YoY, -23.7% QoQ). However, net income came in 24.6% shy of our estimate of QR95.3mn.
- **We remain bullish longer-term on the QNNS growth story and our investment thesis has been spot-on so far with the stock up 33.5% YTD despite recent weakness.** The stock, over 2011-2021, always traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its “non-core” assets (investment stake in Nakilat and its equity/bond portfolio). This implied that investors received Milaha’s “core” or operating businesses for almost free. However, what has changed now is that Milaha is enjoying several catalysts, which has helped in making progress toward the stock’s rerating. We note strength in oil prices (despite volatility), recovery in sentiment, the lifting of Qatar’s blockade, the upcoming FIFA World Cup Qatar 2022 and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help QNNS’ earnings trajectory and highlight its growth story to investors. *We continue to rate QNNS an Outperform and will revisit our QR10.00 price target once we update our estimates.*

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Revenue (in QR '000)	3Q2021	2Q2022	3Q2022	3Q2022e	A Vs. E	YoY	QoQ
MML	285,852	381,934	345,840	392,437	-11.9%	21.0%	-9.5%
MO	228,005	296,708	322,066	307,449	4.8%	41.3%	8.5%
MG&P	64,805	47,909	58,960	43,309	36.1%	-9.0%	23.1%
MC	67,172	104,422	111,792	106,072	5.4%	66.4%	7.1%
MT	90,724	107,221	69,378	110,695	-37.3%	-23.5%	-35.3%
Corporate Adjustments	41						
Total	736,599	938,194	908,036	959,962	-5.4%	23.3%	-3.2%
Eliminations	(75,223)	(77,194)	(118,948)	(98,033)	21.3%	58.1%	54.1%
Total Net	661,376	861,000	789,088	861,929	-8.5%	19.3%	-8.4%

Net Income (in QR '000)	3Q2021	2Q2022	3Q2022	3Q2022e	A Vs. E	YoY	QoQ
MML	57,612	94,131	71,842	95,284	-24.6%	24.7%	-23.7%
MO	(5,658)	20,279	37,351	11,099	236.5%	N/M	84.2%
MG&P	152,951	142,319	162,231	149,535	8.5%	6.1%	14.0%
MC	14,679	25,951	(58,872)	24,163	N/M	N/M	N/M
MT	(3,109)	(1,992)	(2,104)	(2,347)	-10.3%	-32.3%	5.6%
Total	216,475	280,688	210,448	277,734	-24.2%	-2.8%	-25.0%
Minorities	68	(196)	(739)	(194)	281.1%	N/M	277.0%
NI to Equity	216,543	280,492	209,709	277,540	-24.4%	-3.2%	-25.2%

Impairment of PP&E/Vessels			(85,522)				
NI to Equity, Ex. Impairment	216,543	280,492	295,231	277,540	6.4%	36.3%	5.3%
MC, Ex. Impairment	14,679	25,951	26,650	24,163	10.3%	81.6%	2.7%

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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