

Qatar Navigation/Milaha (QNNS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR70.00	Target Price	QR81.00
Implied Upside	15.7%		

Expect a Challenging 2017; Change PT to QR81.00

Milaha's business model is deeply linked to the Qatar growth story. Our thesis on QNNS remains unchanged. We continue to believe that QNNS' business is levered to Qatar's economic growth through: 1) offshore oil & gas (24% of 2015 revenue); 2) the construction sector (19%); 3) import and export activities/logistics (35%); 4) the LNG and LPG shipping markets (14%); 5) the property market (5%) and 6) an investment portfolio invested in Qatari blue chip equities (4%).

Highlights

- **QNNS' business segments enduring weakness.** The company has suffered from numerous setbacks including impairments on its investment book, impairments on vessels, weak utilization rates and weak commodity prices. The company's outlook remains weak. Hence, we reduce our price target to QR81.00/share from QR98.00/share.
- **QNNS reports weak set of results YoY as expected; estimates in-line.** QNNS reported a net profit of QR236.21mn vs. a loss of QR47.27mn in 4Q2016 (351.78mn), in-line with our estimate of QR236.06mn. QNNS' 1st quarter is driven by a seasonality effect. The company books hefty dividend income from investments and thus earnings are always higher QoQ. It should be noted that excluding the impairments of QR160.66mn in 4Q2016, the company would have still displayed a surge in profitability. EBITDA also came in-line at QR184.97mn vs. our estimate of QR176.06mn (+5.1% variation).
- **Revenue on a YoY basis was adversely affected by all business segments across the board, Milaha Capital being the exception.** QNNS posted a revenue of QR647.96mn, dropping by 15.6% YoY (+15.4% QoQ). Challenging operating environment led to this weakness. Milaha Maritime & Logistics' revenue dropped by 29.6% to QR227.41mn due to continued pressure container shipping rates. Milaha Gas & Petrochem's revenue dropped by 17.1% to QR121.13mn due to pressure on LPG rates. Milaha Offshore's revenue also receded by 7.1% due to weak spot prices and low utilization rates.
- **Net profits dropped across the board.** Most notably Milaha Offshore reported a loss QR12.99mn due to impairments vs. a profit of QR12.08mn in 1Q2016.

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Visible progress in management's strategy; 2) improved operational efficiency from Milaha Offshore; 3) better performance from the Qatari equity market and 4) announcements/newsflow on infrastructure projects.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We Change QNNS' price target to QR81.00 vs. QR98.00 previously and maintain Market Perform rating.** QNNS trades at a FY2017e P/E of 12.1x and EV/EBITDA of 13.0x.
- **Risks:** 1) Volatility in oil prices remains the biggest risk to QNNS and regional equities; 2) Execution issues with acquisitions; 3) Significant fall in property prices; 4) A slowdown in Qatar's economy/stock market and 5) Geopolitical crisis in MENA.

Key Financial Data and Estimates

	2015	2016	2017e	2018e
EPS (QR)	9.56	6.21	5.76	7.53
EPS Growth (%)	4.32	-35.0	-7.2	30.7
P/E (x)	7.3x	11.3x	12.1x	9.3x
EV/EBITDA (x)	8.7	11.3	13.0	10.1
DPS (QR)	5.0	3.5	3.0	4.0
Dividend Yield (%)	7.1	5.0	4.3	5.7

Source: Company data, QNBFS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	70.00
Dividend Yield (%)	5.0
Bloomberg Ticker	QNNS QD EQUITY
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector	Transport
52wk High/52wk Low (QR)	97.00 / 69.20
3-m Average Volume ('000)	80.4
Mkt. Cap. (\$ bn/QR bn)	2.2 / 8.0
Shares Outstanding (mn)	114.5
FO Limit* (%)	49.0
Current FO* (%)	5.2
1-Year Total Return (%)	(18.7)
Fiscal Year End	December 31

Source: Bloomberg (as of April 07, 2017), *Qatar Exchange (as of April 07, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2015	2016	2017e	2018e
Operating Revenue	2,984	2,551	2,311	2,486
Operating Expenses	(1,652)	(1,487)	(1,398)	(1,468)
Gross Profit	1,332	1,064	913	1,019
G&A Expense	(169)	(178)	(184)	(191)
EBITDA	1,163	886	730	828
Depreciation & Amortization	(308)	(331)	(350)	(333)
EBIT	855	555	380	495
Net Interest Income (Expense)	8	(14)	(6)	0
Income from Associates & JVs	357	315	327	363
Other Income (Expense)	13	8	4	8
Profit Before Non-Recurring Items	1,233	864	705	866
Non-Recurring Income	(123)	(161)	(43)	0
Profit After Non-Recurring Income	1,109	704	662	866
Minority Interest	(15)	8	(2)	(3)
Net Profit	1,095	711	660	863

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	2015	2016e	2017e	2018e
Non-Current Assets				
Property, Plant and Equipment	5,039	4,862	4,181	3,387
Investment Properties	878	1,141	1,000	1,018
Available for Sale Investments	3,829	4,066	4,066	4,066
Investments in Associates & JVs	4,817	5,114	5,273	5,451
Other Assets	484	842	842	842
Inventory	212	126	115	113
Trade Receivables & Prepayments	788	742	685	739
Investments Held for Trading	499	485	485	485
Cash and Cash Equivalents	5,586	4,682	5,218	6,308
Total Assets	22,132	22,058	21,864	22,408
Shareholders' Equity				
Equity to the Parent	13,679	14,187	14,449	14,969
Minority Interest	72	55	55	55
Total Equity	13,751	14,242	14,504	15,024
Non-Current Liabilities				
Term Loans	2,693	2,790	2,790	2,790
Other Liabilities	250	252	252	252
Total Non-Current Liabilities	2,943	3,042	3,042	3,042
Trade Payables	213	948	115	121
Accruals and Other Credit Balances	339	-	377	396
Loans & Overdrafts	4,885	3,825	3,825	3,825
Total Current Liabilities	5,438	4,773	4,317	4,342
Total Equity and Liabilities	22,132	22,058	21,864	22,408

Source: Company data, QNBFS Research

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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