Qatar Gas Transport Co (QGTS.QA)

OVERWEIGHT

CMP	**QAR 17.02**
Target	**QAR 23.50**
Upside	**38.1%**

Doha Securities Market	8,396.53

Key Stock Data

Sector	Transport
Reuters Code	QGTS.QA
Bloomberg Code	QGTS QD Equity
Net Out. Shares (bn)	0.554
Market Cap (QAR bn)	9.426
Market Cap (USD bn)	2.587
Avg. 12m Vol. (mn)	0.862
Volatility (30 day)	13.724
Volatility (180 day)	21.591

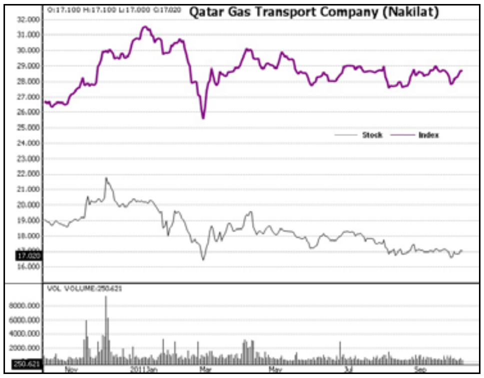
Stock Performance (%)

52 week high / low (QAR) 21.80 / 16.42

	1M	3M	12M
Absolute (%)	0.2	-6.1	-10.9
Relative (%)	-0.7	-5.1	-17.0

Shareholding Pattern	**(%)**
Corporate	53.00
Government	7.00
Public	40.00

Nakilat and DSM 20 Index



Quarterly Result Update

- **Qatar Gas Transport Co. (Nakilat) reported 13.3% YoY increase in total income to QAR 1,653.8 million during 1H11 from QAR 1,459.4 million in 1H10.**
- **Net profit rose 15.6% to QAR 381.2 million from QAR 329.9 million in 1H10, in line with top-line growth.**
- **We have maintained our 2011E total income and net profit estimate for Nakilat at QAR 3,247.3 million and 746.4 million, respectively.**
- **We are reiterating our OVERWEIGHT recommendation on Nakilat with a DCF target price of QAR 23.50, implying an upside of 38.1%.**

Overview

QAR Million	2009A	2010A	2011E	2012E	2013E
Total Income	1,914	3,092	3,247	3,370	3,462
EBITDA	1,650	2,563	2,711	2,816	2,883
Net Profit	588	665	746	838	893
Adjusted EPS (QAR)	1.06	1.17	1.35	1.51	1.61
Total Assets	31,249	32,030	33,045	33,743	32,928
RoAE	9.5%	9.9%	10.6%	11.2%	11.3%

Revenues

Nakilat reported 13.3% YoY increase in total income to QAR 1,653.8 million during 1H11 versus QAR 1,459.4 million in 1H10, benefiting from improved contributions from wholly owned vessels. Operating income from wholly owned vessels was QAR 1,453 million, up 13.8% YoY from QAR 1,277 million in 1H10. Share of profits from joint ventures rose 19.3% YoY to QAR 136 million. However, profit from Islamic banks plunged 65.7% YoY to QAR 6.4 million. Interest and dividend income was down 33.5% to QAR 19 million. Income from marine and agency services grew 22.0% to QAR 16.8 million, whereas other income came in at QAR 22.8 million, up from QAR 8.4 million in 1H10.

Expenses

Operating expenses were reported at QAR 580 million compared to QAR 493 million in the corresponding period of 2010. Similarly, operating expenses for wholly owned vessels increased 26.8% YoY to QAR 247 million from QAR 195 million through fleet expansion. In tandem, general and administrative expenses were up 6.9% YoY to QAR 40 million. Depreciation charges stood at QAR 293 million against QAR 261 million in 1H10. Interest expenses increased to QAR 694 million from QAR 620 million incurred in 1H10, driven by higher borrowings and increased cost of funds. Meanwhile, Nakilat reported a hedging gain of QAR 1.9 million as opposed to a loss of QAR 16.3 million in 1H10.

Profitability

Top-line performance improved operating profit 11.1% to QAR 1,073 million from QAR 966 million in 1H10. Accordingly, net profit came in 15.6% higher at QAR 381.2 million from QAR 329.9 million in the prior year period. Adjusted annualised EPS rose to QAR 1.38 from QAR 1.19 in 1H10.

New Projects and Updates

In September 2011, Fitch rating affirmed Nakilat's Series A senior secured bonds rating at 'A+' and its subordinated second priority secured bonds rating at 'A-', with stable outlook.

Risks and Concerns to Valuation

We expect gradual recovery in the shipping industry and steady increase in charter rates. However, the industry could face problems as it braces with the unrest in the region and volatile oil prices. If charter rates remain low, it could impact the company's operating performance and financial outlook. This disparity could alter our forecasts and estimates, despite the company's long-term contracts.

Valuation Methodology:

We have used the DCF valuation method to arrive at the fair value of Nakilat, as explained below:

Assumptions:

(i) Risk free Rate (Rf) of 3.03%, equivalent to 12-months average yield on a 10-year US T-bill;
(ii) Levered Beta of 1.01;
(iii) Terminal growth rate of 2.0%.

Based on the above and using the Capital Asset Pricing Model (CAPM), we have arrived at a Cost of Equity of 10.83% and a WACC of 7.77%.

DCF Calculation

DCF Valuation (FCFF Model)					
(in QAR Million)	**2011E***	**2012E**	**2013E**	**2014E**	**2015E**
NOPAT	**1,048**	**2,212**	**2,265**	**2,303**	**2,340**
Add: Depreciation and Amortisation	297	604	618	632	646
Less: Capex	620	641	655	670	686
Less: Change in Net Working Capital	39	33	43	37	42
Free Cash Flow to Firm (FCFF)	**686**	**2,141**	**2,184**	**2,228**	**2,259**
WACC (Ko)	**7.77%**	**7.77%**	**7.77%**	**7.77%**	**7.77%**
Present Value / Discount Factor	0.9633	0.8938	0.8294	0.7696	0.7141
Long-Term Growth Rate (g)					**2.00%**
Terminal Multiple					17.68
Nominal Terminal Value					**39,934**
Present Value of Free Cash Flows	**660**	**1,914**	**1,812**	**1,715**	**1,613**

** 2011E excludes 1H11A*

Calculation of Equity Value and Fair Value Per Share		
NPV of Free Cash Flows (during Explicit Forecast Period)		**7,714**
Terminal Value:		
Residual Cash Flow (FCFF of 2015E)		2,259
WACC	7.77%	
Long-Term/Terminal Growth Rate (g)	2.00%	
Divided by Capitalisation Rate (WACC - g)		5.77%
Equals Nominal Terminal Value		39,934
Implied Multiple of 2015E EBITDA		*13.37*
Times PV/Discount Factor		0.71
Present Value of Terminal/Residual Value		**28,517**
Enterprise Value		**36,231**
Implied Multiple of 2015E EBITDA		*12.13*
Less: Market Value of Long-term Debts		25,244
Less: Minority Interest		5
Add: Surplus Cash and Investments		2,035
Equity Value		**13,018**
Net shares outstanding (Million)		554
Fair Value Per Share (QAR)		**23.50**

** figures in QAR Million unless specified*

Sensitivity Analysis

The following tables present a sensitivity analysis and indicate the probable nominal terminal value, discounted terminal value and enterprise value, given different growth rate and WACC assumptions. The shaded areas represent the most probable outcomes.

Sensitivity Analysis of Nominal Terminal Value (QAR Million)

	Long-Term Growth Rate				
Discount Factor	1.00%	1.50%	**2.00%**	2.50%	3.00%
6.77%	39,542	43,509	48,306	54,227	61,719
7.27%	36,389	39,738	43,723	48,543	54,492
7.77%	33,701	36,569	**39,934**	43,937	48,780
8.27%	31,383	33,868	36,749	40,130	44,152
8.77%	29,364	31,539	34,035	36,929	40,325

Sensitivity Analysis of Discounted Terminal Value (QAR Million)

	Long-Term Growth Rate				
Discount Factor	1.00%	1.50%	**2.00%**	2.50%	3.00%
6.77%	29,447	32,401	35,974	40,383	45,963
7.27%	26,535	28,977	31,883	35,398	39,736
7.77%	24,066	26,114	**28,517**	31,376	34,834
8.27%	21,949	23,687	25,702	28,066	30,879
8.77%	20,115	21,605	23,315	25,298	27,624

Sensitivity Analysis of Enterprise Value (QAR Million)

	Long-Term Growth Rate				
Discount Factor	1.00%	1.50%	**2.00%**	2.50%	3.00%
6.77%	37,360	40,314	43,887	48,296	53,875
7.27%	34,348	36,790	39,696	43,210	47,549
7.77%	31,781	33,828	**36,231**	39,090	42,548
8.27%	29,567	31,305	33,320	35,684	38,497
8.77%	27,638	29,128	30,838	32,821	35,147

Investment Opinion

Global LNG demand during 1H11 rose 8.5% YoY, driven by incremental demand from Japan, the United Kingdom, China and India. Post Japan nuclear disaster, the world LNG demand is expected to remain strong as counties prefer LNG over nuclear power. Qatar, the largest exporter of LNG, achieved a production milestone of 77 million ton of LNG in 2010. Qatar's North Field, which it shares with Iran, produced around 30% of the world's total LNG trade in 2010. The Qatari government expects to produce around one-third of the world's LNG supply by 2011, supported by its vast proven gas reserves. According to EIA, Qatar holds the world's third largest natural gas reserves with proven gas reserves of 896 trillion cubic feet as of January 2011, accounting around 14% of the world's total natural gas reserves. The LNG shipping industry plays a vital role in the supply chain. Nakilat, the world's largest LNG shipping company, owns more than 16% of the global LNG shipping tonnage, which is approximately 8.5 million cubic metres of cargo capacity. With a fleet size of 25 wholly-owned LNG carriers, 29 jointly-owned LNG carriers and 4 jointly-owned LPG ships, Nakilat is well positioned to capitalize on these opportunities. Moreover, the company has signed a 25-year charter agreement with RasGas and Qatargas, which provides adequate visibility on future revenues and ensures steady cash flow. However, any rise in spot charter rates will not benefit Nakilat as the company's vessels are under long-term contracts. The successful completion of its fleet expansion has improved contributions from wholly owned vessels by 13.8% to QAR 1,453 million in 1H11 from QAR 1,277 million recorded in 1H10. Total Income for 1H11 reached QAR 1,653.8 million, up 13.3% YoY. We believe that Nakilat's strong relationship with the Qatari government—as reflected in affiliations with government-owned RasGas and Qatargas—and presence across North America, Europe, and Asia will enable optimal utilisation of the newly added carriers. We have maintained our sales and net profit estimate for 2011E. During the second quarter of 2011, the company's 80% subsidiary, Nakilat-Keppel Offshore and Marine, won maintenance contracts, which will drive top-line growth going-forward. Considering the long-term charter contracts, steady cash flows and Nakilat's strong position in Qatar's LNG value chain, we remain optimistic on Nakilat.

We had updated Nakilat on June 15, 2011 with an OVERWEIGHT recommendation (target price of QAR 23.50 and upside of 29.4%). Currently, the stock is trading at a P/E multiple of 12.63x and 11.25x on 2011E and 2012E earnings, and at a P/BV multiple of 1.30x and 1.23x on 2011E and 2012E BVPS, respectively. The stock has declined 6.3% since our last update report as opposed to a 0.1% gains registered by the QE index. Based on the above factors, we have maintained our price target of QAR 23.50, representing an upside of 38.1% over the closing price of QAR 17.02 (as on October 13, 2011). **We are reiterating our earlier OVERWEIGHT rating on Nakilat.**

Financial Statements

Consolidated Income Statement							
(QAR Million)	**2009A**	**2010A**	**1H10A**	**1H11A**	**2011E**	**2012E**	**2013E**
Income							
Operating income from wholly owned vessels	1,494	2,729	1,277	1,453	2,865	2,966	3,049
Share of profits from joint ventures	281	248	114	136	260	272	283
Income from marine and agency services	29	30	14	17	32	33	35
Profit from Islamic banks	65	28	19	6	18	21	14
Interest and dividend income	37	41	28	19	45	49	51
Other income	8	17	8	23	27	30	31
Total Income	**1,914**	**3,092**	**1,459**	**1,654**	**3,247**	**3,370**	**3,462**
Expenses							
Operating costs of wholly owned vessels	-205	-459	-195	-247	-459	-475	-495
General and administrative	-59	-70	-38	-40	-77	-79	-85
Depreciation	-315	-557	-261	-293	-590	-604	-618
Total expenses	**-579**	**-1,087**	**-493**	**-580**	**-1,126**	**-1,158**	**-1,197**
Operating profit	**1,336**	**2,006**	**966**	**1,073**	**2,121**	**2,212**	**2,265**
EBITDA	**1,650**	**2,563**	**1,227**	**1,367**	**2,711**	**2,816**	**2,883**
Interest expense	-754	-1,321	-620	-694	-1,376	-1,373	-1,372
Fair value hedge loss/ gain from joint ventures	20	-20	-16	2	2	0	0
Provision for social and sports fund contribution	-13	0	0	0	0	0	0
Net profit	**589**	**665**	**330**	**381**	**747**	**839**	**894**
Attributable to:							
Equity holders of the parent	**588**	**665**	**330**	**381**	**746**	**838**	**893**
Minority interest	1	0	0	0	0	1	1

Consolidated Balance Sheet							
(QAR Million)	**2009A**	**2010A**	**1H10A**	**1H11A**	**2011E**	**2012E**	**2013E**
ASSETS							
Non-current assets							
Loans to joint venture companies	1,108	1,121	1,110	1,118	1,118	1,118	1,118
Investment in joint venture companies	2,077	2,038	1,998	2,141	2,229	2,418	2,617
Available-for-sale-investments	107	130	93	130	130	130	130
Construction in progress	3,624	0	1,002	0	0	0	0
Property and equipment	22,450	26,338	25,184	26,051	26,374	26,411	26,448
Deferred financing costs	0	0	242	0	0	0	0
Total non-current assets	**29,366**	**29,627**	**29,628**	**29,440**	**29,851**	**30,076**	**30,313**
Current assets							
Cash and bank balances	1,779	2,126	2,246	2,035	2,855	3,277	2,173
Trade and other receivables	102	254	159	254	306	358	410
Due from joint venture companies	2	22	4	32	32	32	32
Total current assets	**1,882**	**2,402**	**2,409**	**2,322**	**3,194**	**3,667**	**2,615**
Total Assets	**31,249**	**32,030**	**32,037**	**31,761**	**33,045**	**33,743**	**32,928**
LIABILITIES AND EQUITY							
Liabilities							
Non-current liabilities							
Borrowings	24,556	24,666	25,129	24,294	24,922	25,118	23,846
Fair value of interest rate swaps	2,131	2,828	3,505	2,989	2,828	2,828	2,828
Provision for end of service benefits	6	9	8	10	13	14	16
Total non-current liabilities	**26,694**	**27,503**	**28,641**	**27,293**	**27,763**	**27,961**	**26,690**
Current liabilities							
Borrowings	458	886	747	950	1,244	1,304	1,273
Accounts payable and accruals	187	212	188	265	278	296	304
Due to related party	1	0	11	0	0	0	0
Total current liabilities	**646**	**1,098**	**946**	**1,214**	**1,522**	**1,600**	**1,577**
Total liabilities	**27,339**	**28,601**	**29,587**	**28,507**	**29,285**	**29,561**	**28,267**
Equity							
Share capital	5,538	5,538	5,538	5,538	5,538	5,538	5,538
Legal reserve	105	172	105	172	246	330	420
Fair value reserve	61	84	46	83	84	84	84
Translation reserve	29	29	29	29	29	29	29
Proposed cash dividend	277	416	0	0	416	416	416
Retained earnings	505	671	835	1,052	927	1,266	1,654
Equity attributable to equity holders of the Company	**6,514**	**6,909**	**6,553**	**6,874**	**7,240**	**7,662**	**8,140**
Hedging reserve	-2,609	-3,485	-4,107	-3,625	-3,485	-3,485	-3,485
Minority interest	4	5	5	5	5	6	6
Total liabilities & equity	**31,249**	**32,030**	**32,037**	**31,761**	**33,045**	**33,743**	**32,928**

Consolidated Cash Flow Statement							
(QAR Million)	**2009A**	**2010A**	**1H10A**	**1H11A**	**2011E**	**2012E**	**2013E**
Cash Flows from Operating Activities							
Net profit for the year	589	665	330	381	747	839	894
Adjustments for:							
Depreciation	315	557	261	293	590	604	618
Interest expense	754	1,321	620	694	1,376	1,373	1,372
Share of profits from joint ventures	-301	-228	-98	-138	-343	-355	-366
Profit from Islamic banks	-65	-28	-19	-6	-18	-21	-14
Interest, dividend and other income	-45	-57	-36	-41	-72	-79	-83
Provision of end of service benefits	0	0	0	0	4	2	2
Operating profit before changes in working capital	**1,246**	**2,230**	**1,058**	**1,183**	**2,284**	**2,363**	**2,423**
Working Capital Changes							
Trade and other receivables	18	-75	-64	-1	-52	-51	-52
Accounts payable and accruals	28	-9	-25	27	66	18	8
Due from joint venture companies	1	-20	-2	-11	-11	0	0
Due to related parties	1	-1	10	0	0	0	0
Cash generated from operations	**1,294**	**2,125**	**977**	**1,198**	**2,287**	**2,329**	**2,379**
Interest paid	-1,254	-1,392	-681	-691	-1,376	-1,373	-1,372
Net cash generated from/(used in) operating activities	**40**	**732**	**295**	**507**	**911**	**956**	**1,008**
Cash Flows from Investing Activities							
Loans to joint venture companies	-537	-8	3	18	3	0	0
Refund of / (investment in) joint venture companies	-1	-1	-1	0	69	83	83
Dividend income received from joint ventures	89	83	48	48	83	83	83
Acquisition of property and equipments	-2	-6	-1	-6	-626	-641	-655
Investment income received	127	97	63	49	90	100	96
Time deposits maturing after ninety days	9	0	-52	-20	36	0	0
Construction in progress	-5,708	-822	-544	0	0	0	0
Net cash used in investing activities	**-6,022**	**-656**	**-483**	**88**	**-345**	**-374**	**-392**
Cash Flows from Financing Activities							
Proceeds on second cash call	0	0	0	0	0	0	0
Payment for bonds issue costs	0	0	0	0	0	0	0
Proceeds from issue of shares against capital	0	0	0	0	0	0	0
Net proceeds from borrowings	5,782	537	861	-309	614	256	-1,304
Payment of dividends	0	-266	-258	-386	-416	-416	-416
Unpaid dividend transferred to separate account	0	-11	-19	-41	0	0	0
Additional payment for social & sports fund contribution 2010	0	0	0	0	0	0	0
Net cash from financing activities	**5,782**	**261**	**584**	**-736**	**199**	**-160**	**-1,720**
Net increase/(decrease) in cash and cash equivalents	**-200**	**337**	**396**	**-140**	**765**	**422**	**-1,104**
Cash and cash equivalents at the beginning of the period	1,953	1,753	1,753	2,090	2,090	2,855	3,277
Cash and cash equivalents at the end of the period	**1,753**	**2,090**	**2,149**	**1,950**	**2,855**	**3,277**	**2,173**

Financial Ratios

	2009A	2010A	1H10A	1H11A	2011E	2012E	2013E
Liquidity Ratios:							
Current Ratio	2.91	2.19	2.55	1.91	2.10	2.29	1.66
Quick Ratio	2.91	2.19	2.55	1.91	2.10	2.29	1.66
Average Collection Period (Days)	29	24	19	32	36	41	46
Length of Operating Cycle (Days)	29	24	19	32	36	41	46
Average Payment Period (Days)	51	27	27	30	31	35	36
Length of Cash Cycle (Days)	-22	-3	-8	2	4	6	10
Activity Ratios:							
Debtors Turnover Ratio	12.68	15.33	19.61*	11.43*	10.22	8.93	7.95
Creditors' Turnover Ratio	7.20	13.66	13.61*	12.18*	11.68	10.33	10.16
Net Fixed Assets Turnover Ratio	0.12	0.11	0.11*	0.11*	0.11	0.11	0.12
Total Assets Turnover Ratio	0.05	0.09	0.08*	0.09*	0.09	0.09	0.09
Equity Turnover Ratio	0.24	0.41	0.39*	0.42*	0.41	0.40	0.39
Profitability Ratios:							
Return on Average Equity	9.5%	9.9%	10.1%*	11.1%*	10.6%	11.2%	11.3%
Return on Average Assets	2.1%	2.1%	2.1%*	2.4%*	2.3%	2.5%	2.7%
Leverage Ratios:							
Debt to Equity (D/E) Ratio	3.84	3.70	3.95	3.67	3.61	3.45	3.09
Shareholders' Equity to Total Assets Ratio	0.21	0.22	0.20	0.22	0.22	0.23	0.25
Total Liabilities to Total Assets Ratio	0.87	0.89	0.92	0.90	0.89	0.88	0.86
Current Liabilities to Equity Ratio	0.10	0.16	0.14	0.18	0.21	0.21	0.19
Growth Rates:							
YoY Growth in Operating Income from wholly controlled vessels	NA	82.7%	155.9%	13.8%	5.0%	3.5%	2.8%
YoY Growth in Operating Profit	485.9%	50.2%	108.7%	11.1%	5.7%	4.3%	2.4%
YoY Growth in EBITDA	583.1%	55.3%	115.2%	11.4%	5.8%	3.8%	2.4%
YoY Growth in Net Profit	355.9%	13.0%	41.2%	15.6%	12.3%	12.3%	6.6%
YoY Growth in Total Assets	27.7%	2.5%	10.2%	-0.9%	3.2%	2.1%	-2.4%
YoY Growth in Shareholders' Equity	10.2%	6.1%	6.6%	4.9%	4.8%	5.8%	6.2%
Ratios used for Valuation:							
Adj. EPS (QAR)	1.06	1.17	1.19*	1.38*	1.35	1.51	1.61
Adj. BVPS (QAR)	11.76	12.48	11.83	12.41	13.07	13.84	14.70
P/E Ratio (x)	16.02	14.54	14.29	12.36	12.63	11.25	10.55
P/BV Ratio (x)	1.45	1.36	1.44	1.37	1.30	1.23	1.16
Current Market Price** (QAR)	17.02	17.02	17.02	17.02	17.02	17.02	17.02

** Annualised*
***CMP as on October 13, 2011*
NA: Not Applicable
Note: Turnover ratios are calculated on Operating Income from wholly controlled vessels

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