Qatar Logistic Sector

3 Dec 2023

Company	Rating
Qatar Gas Transport Co (QGTS QD)	Buy (Previously UR)
Qatar Navigation Co (QNNS QD)	Accumulate (Previously UR)

Neetika Gupta
Head of Research
neetika@u-capital.net
Tel: +968 2494 9036

- **By 2025, Qatar is anticipated to witness stability, marked by a forecasted rise in GDP, eventually decreasing interest rate and lowering of inflation.**
- **Rising demand for ecommerce, government initiatives and growing demand from LNG globally to drive Qatar's logistic sector .**
- **The long-term fixed nature of the shipping contracts provides earnings stability.**

We update the investment case on the Qatar Logistics Sector comprised of the companies: **Qatar Gas Transport Co (QGTS QD) and Qatar Navigation Co(QNNS QD)**. **Our overall stance on the sector is optimistic**, given the positive outlook for logistic sector in Qatar which is primarily driven by growth of Ecommerce and government initiatives. Additionally, the growing demand for LNG across Asia and globe could result in the growth of LNG shipping segment.

- **Qatar's economic journey: From world cup triumph to navigating global challenges.** Despite global economic headwinds in 2022, Qatar has witnessed impressive real GDP growth of 4.9% driven by hosting of the FIFA World Cup in November and December. However, this also resulted in increase in inflation rate for 2022 which reached a high of 5%. To tackle this, Qatar Central Bank has increased interest rates to an all-time high of 6% in 2023. IMF expects real GDP growth to decelerate in 2023-24e and is expected it to be around 2.2% for those periods, due to pressure on oil and gas and high interest rates but the economy is expected to bounce back in 2025 with a GDP growth of 3.7% driven by the ongoing expansion of the energy sector, infrastructure spending and favourable global economic conditions.
- **LNG Shipping carriers benefit from growing LNG demand.** Qatar holds the world's third-largest reserves of natural gas. As global gas demand is projected to rise steadily, fuelled by factors such as population growth, urbanization and increasing energy needs in developing nations, Qatar is strategically positioned to capitalize on this increasing demand. The surge in demand for liquefied natural gas (LNG) also amplifies the need for LNG shipping, leading to significant growth prospects for LNG shipping carriers amid the increasing demand for LNG.
- **Freight and logistics to emerge as key growth drivers.** Freight and Logistics emerged as the key growth driver for logistics-based companies, with companies focused on increasing their Capex spend to meet the growing demand in ecommerce segment and bringing operational efficiency through automation of the warehouses. Although, the current global economic scenario has currently affected the momentum and resulted in slowdown, we expect reversal in the situation post 2023.
- **Nakilat upgraded to Buy; Milaha to Accumulate:** Nakilat, has the largest number of LNG carriers across the globe and is a strategic partner of the Qatar Energy thereby leading to a consistent and steady flow of income. We assign Nakilat a **Buy** rating with **TP QAR4.3.** Milaha has solid market presence in the maritime logistic sector in Qatar and expect it to benefit from growth in ecommerce and government initiatives. We assign Milaha '**Accumulate** rating with **TP QAR11.1.**

Name	Last Px (QAR)	Target Px	Upside/Downside (%)	EV/EBITDA '23e (x)	P/E'23e (x)	ROA'23e (%)	ROE'23e (%)	Div Yield'23e (%)
Qatar Gas Transport (Nakilat)	3.3	4.3	30.3%	12.7x	12.4x	5.1%	12.7%	4.0%
Qatar Navigation (Milaha)	9.6	11.1	15.4%	12.8x	9.3x	2.8%	7.2%	4.3%
Average				**12.7x**	**10.9x**	**4.0%**	**10.0%**	**4.1%**

Source: Bloomberg, U Capital Research; LC – Local Currency; Last price as on 3rd December 2023.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Qatar Logistics Sector

Contents

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Risks to Valuation

Key upside risks to our valuations include:

- Moderation in inflation and interest rate will help improve the overall sentiment and demand.
- Increasing margins driven from cost efficiency

Key downside risks to our valuations include:

- A scenario of global recession leading to a fall in logistics and discretionary travel.
- Increase interest rate to slow the pace of overall economic growth and further increase recessionary pressure
- Decrease in LNG demand leading to decrease in shipping rates for LNG.

Sensitivity Analysis

Our TP for QGTS QD (Nakilat) is sensitive to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards Cost of Equity. Our TP is also sensitive to the Avg. daily rate (+/- 10,000 QAR) and No. of LNG Carriers (Wholly owned) (+/- 2).

QGTS QD (Nakilat)

Terminal Growth rate	Cost of Equity				
	9.2%	**10.2%**	**11.2%**	**12.2%**	**13.2%**
0.50%	4.8	4.5	4.3	4.1	3.9
0.75%	4.9	4.6	4.3	4.1	4.0
1.00%	4.9	4.6	**4.3**	4.2	4.0
1.25%	5.0	4.7	4.4	4.2	4.0
1.50%	5.1	4.8	4.5	4.3	4.1

Avg. Daily Rate	Number of LNG carriers (wholly owned)				
	25	**27**	**29**	**31**	**33**
89,125	4.0	4.1	4.2	4.3	4.4
90,125	4.1	4.2	4.3	4.4	4.5
91,125	4.2	4.3	**4.3**	4.5	4.6
92,125	4.2	4.4	4.5	4.6	4.7
93,125	4.3	4.4	4.6	4.7	4.8

Our TP for QNNS QD (Milaha) is sensitive to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards Cost of Equity. Our TP is also sensitive to the Avg. Shipping Rate (+/- 10,000 QAR) and No. of vessels (Wholly and Partially owned) (+/- 2).

QNNS QD

Terminal Growth rate	Cost of Equity				
	9.2%	**10.2%**	**11.2%**	**12.2%**	**13.2%**
0.50%	12.3	11.6	11.0	10.5	10.1
0.75%	12.5	11.7	11.1	10.6	10.2
1.00%	12.7	11.9	**11.1**	10.7	10.2
1.25%	12.9	12.0	11.4	10.8	10.3
1.50%	13.1	12.2	11.5	10.9	10.4

Avg. Shipping Rate	Number of vessels				
	73	**75**	**77**	**79**	**81**
31,207	10.3	10.5	10.8	11.0	11.3
32,207	10.5	10.8	11.0	11.3	11.6
33,207	10.8	11.0	**11.1**	11.6	11.8
34,207	10.8	11.3	11.6	11.8	12.1
35,207	11.0	11.3	11.8	12.1	12.3

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

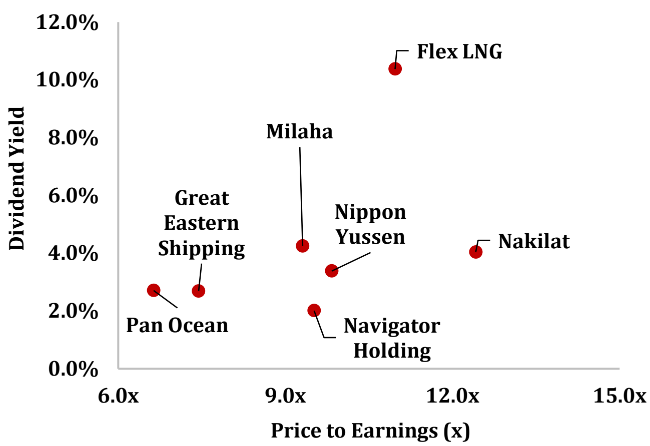
Peer Group Valuation

Qatar Logistics Market

Name	Mkt Cap (QAR mn)	Last Px	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	EV/EBITDA' 23e, (x)	P/E'23e, (x)	ROE'23e, (%)	Div Yield' 23e, (%)	FCF Yield'23e (%)
Nakilat	18,404.8	3.32	-5.9%	-10.0%	-9.3%	12.7	12.4	12.7%	4.0%	12.5%
Milaha	10,907.2	9.60	0.6%	0.1%	-5.4%	12.8	9.3	7.2%	4.3%	7.3%
Flex LNG Ltd	5,830.7	29.32	-5.7%	-4.5%	-9.6%	10.2	11.0	17.4%	10.4%	13.8%
Navigator Holding	3,993.6	14.94	4.3%	6.0%	24.9%	6.4	9.5	6.9%	2.0%	7.7%
Great Eastern Shipping	5,437.0	869.35	10.2%	13.2%	30.9%	4.3	7.4	13.6%	2.7%	18.4%
Nippon Yused	50,585.1	3992.00	5.5%	0.9%	28.4%	8.5	9.8	7.5%	3.4%	30.8%
Pan Ocean	7,294.4	4845.00	13.3%	9.1%	-15.4%	4.5	6.6	8.1%	2.7%	42.2%
Average						**8.5**	**9.4**	**10.5%**	**4.2%**	**19.0%**
Median						**8.5**	**9.5**	**8.1%**	**3.4%**	**13.8%**

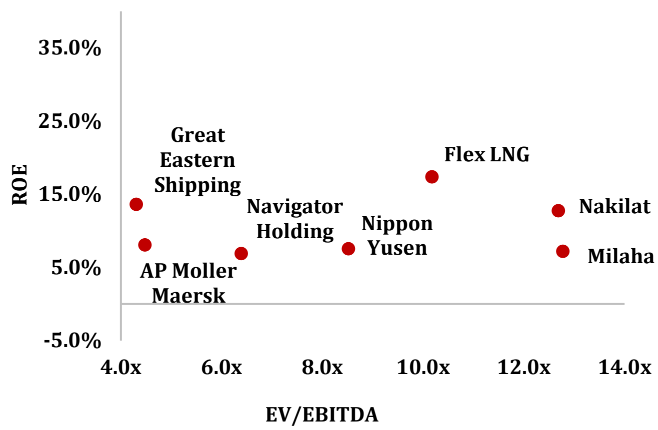
Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 3 December 2023 Market-cap weighted average multiples – EV/ EBITDA, and P/E

Price to Earnings & Dividend Yield



Source: Bloomberg, U Capital Research; As of 3 Dec 23

EV/EBITDA & ROE



Source: Bloomberg, U Capital Research; As of 3 Dec 23

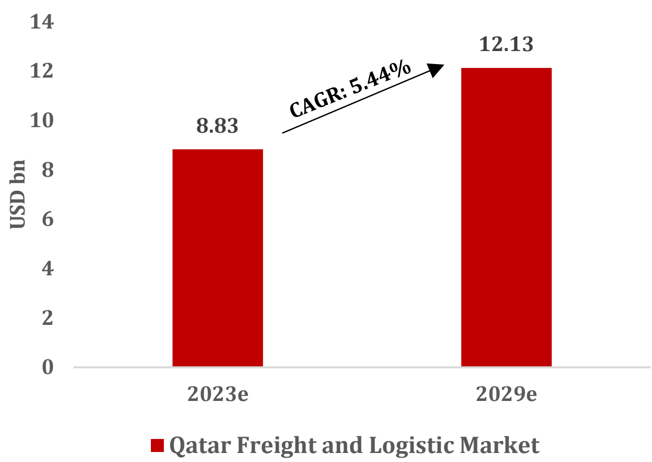
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Sector Overview

Qatar's freight and logistics market overview

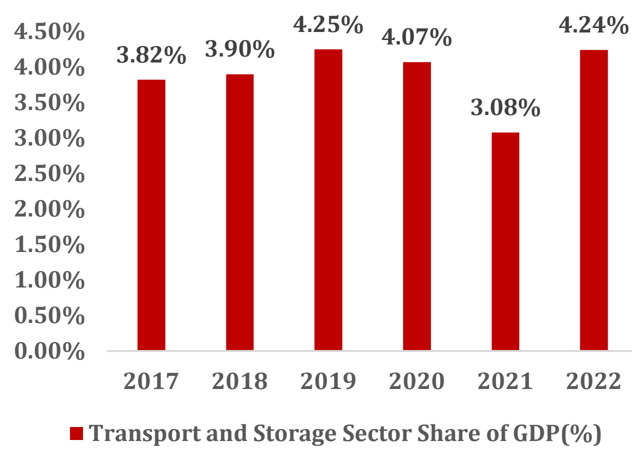
The Qatar Freight and Logistics Market is estimated at USD 8.83 billion in 2023, with a projected growth to USD 12.13 billion by 2029 at a CAGR of 5.44%. The market is segmented by End User Industry (including Agriculture, Fishing and Forestry, Construction, Manufacturing, Oil and Gas, Mining and Quarrying, Wholesale and Retail Trade) and by Logistics Function (Courier, Express and Parcel, Freight Forwarding, Freight Logistics, Warehousing and Storage). Despite a dip in the logistics and storage sector's GDP share contribution from 4.07% in 2020 to 3.08% in 2021 amid Covid-19 restrictions, a rebound occurred in 2022, supported by government initiatives. Further increases are anticipated in the years ahead, reflecting sustained recovery and growth in the logistics market.

Market Size and CAGR (2023e-29e)



Source: Mordor Intelligence Report, U Capital Research

Logistics and storage sector share of GDP (%)



Source: Mordor Intelligence Report, U Capital Research

Government initiatives and Ecommerce drive growth in Qatar's logistics sector

The Qatari government has taken several initiatives to develop the country's transport and logistics sector which are in line with the Qatar National Vision 2030, aiming to make Qatar a sustainable and diversified economy. The Qatari government is investing heavily in developing the country's transport and logistics sector to make it more efficient, sustainable, and attractive for investment. This includes infrastructure development, digitalization, sustainability initiatives, and human capital development. Specific projects include the Doha Metro, Hamad International Airport expansion, Ras Laffan port investment, EV promotion, green logistics practices, and the establishment of the Qatar Logistics Academy. These efforts are positioning Qatar as a leader in the global logistics market.

The rise of e-commerce has revolutionized consumer behavior and expectations, leading to increased demand for faster, more transparent, and convenient delivery services. This has pushed the transport and logistics sector to adapt and innovate, emphasizing last-mile delivery optimization and enhancing supply chain visibility. The e-commerce market in Qatar is poised for rapid growth, driven by a young, tech-savvy population, rising internet penetration, and government support. The future of e-commerce in Qatar is bright, with mobile commerce, social commerce, omnichannel experiences, and enhanced customer experience taking center stage.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Maritime logistics sector in Qatar

The maritime sector in Qatar is experiencing a notable upswing, as demonstrated by robust year-on-year growth in September 2023. Recent data released by Mwani Qatar, in conjunction with the Qatar Financial Centre (QFC) Authority's Purchasing Managers' Index, points to a promising outlook for Qatar's non-energy private sector.

Qatar's ports welcomed a total of 266 vessels in September 2023, reflecting a substantial 6.83% MoM rise. The review period saw Hamad, Doha, and Al Ruwais ports record significant increases in cargo, livestock, and building materials. Particularly noteworthy is Hamad Port, serving as a crucial entry point to the upper Gulf, which hosted an impressive 145 vessels during the review period. Over the initial nine months of 2023, these ports collectively accommodated 2,057 vessels. Furthermore, general cargo tonnage reached 163,103 tonnes in September, marking a robust 23% annual expansion.

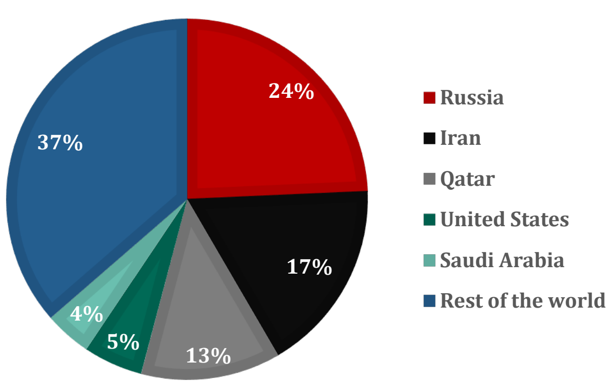
We expect similar traffics for the remainder of 2023e and expect the surge to continue in 2024e as well. Post which we expect it to stabilize. Additionally, the growing demand for LNG as a cleaner fuel and expected demand from Asia is going to further add to traffic in 2023 and 2024 leading to a significant surge in number of vessels and cargo.

Overview on LNG Shipping Business:

Qatar's abundant natural gas reserves

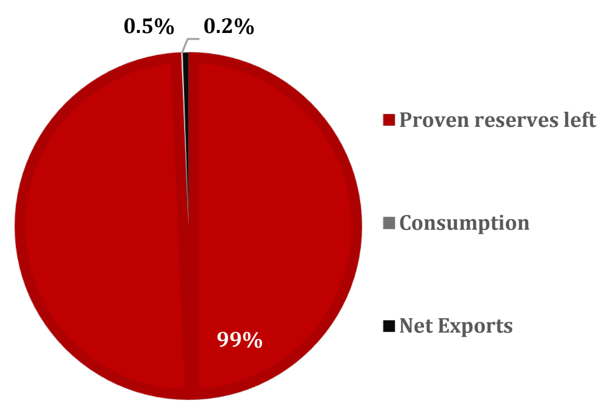
Qatar possesses the world's third-largest gas reserves, accounting for 13% of the global total. As of 2022, only 0.5% of Qatar's total reserves have been utilized for exports, and 0.2% have been consumed, leaving a substantial reserve for future use. Qatar is the sixth-largest gas producer globally and ranks 22nd in terms of consumption. Global gas demand is expected to increase gradually driven by increasing population and urbanization, rising energy demand in developing countries, switching from coal and oil to gas for power generation, growing demand for gas in the industrial sector, and expanding use of natural gas in transportation. Thus, Qatar positions itself as a global player with abundant gas reserves which will useful in satisfying the upcoming global demand.

Global Gas Reserves (%)



Source: Worlometers, U Capital Research

Qatar's yearly gas production as a share of total reserves



Source: Worlometers, U Capital Research

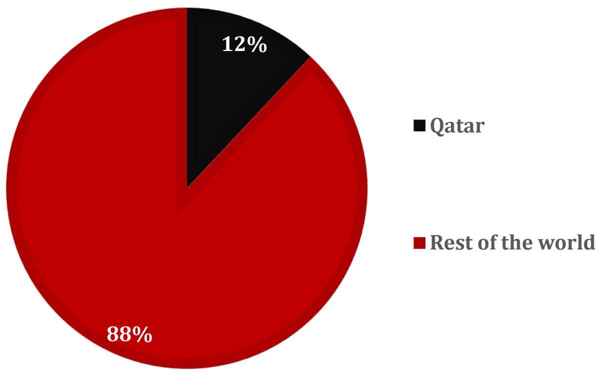
Nakilat takes centre stage: Qatar's dominance in LNG transport.

With the growing demand for natural gas, the need for midstream transport is also on the rise. The outlook for Qatar's gas transport sector is optimistic, propelled by the increasing global demand for LNG, Qatar's extensive LNG reserves, its strategic location, investments in LNG infrastructure, the government's dedication to developing the gas industry, advancements in new LNG technologies, and the rising utilization of LNG in the shipping industry. Consequently, the Qatari gas transport sector is anticipated to sustain its growth in the upcoming years, driven by the escalating demand for gas. Qatar Energy LNG is the world's largest liquefied natural gas (LNG) company and a significant contributor to Qatar's production and supply of 77 million metric tonnes of LNG annually worldwide. Qatar holds a 12% stake in the global LNG carrier fleet, with 39% under the exclusive ownership of Qatar Gas

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

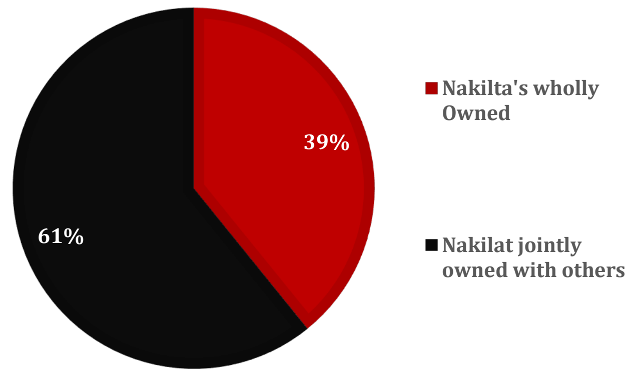
Transport Company, while the remainder is held through joint ownership. As a result, Nakilat is the dominant force in Qatar's LNG transport business.

Number of Gas transporting fleets globally



Source: Company Reports (Nakilat), U Capital Research

Nakilat dominates the gas transport segment



Source: Company Reports (Nakilat), U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

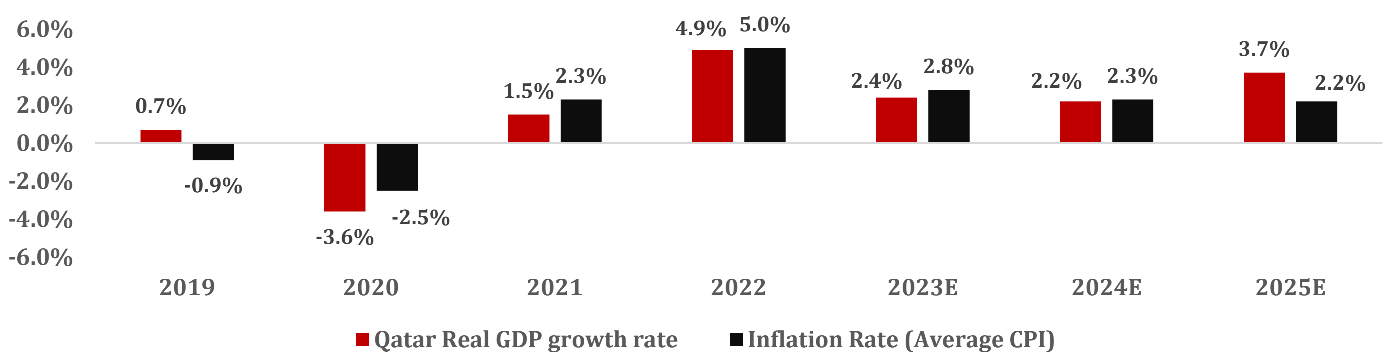
Macro-Economic Overview

Qatar Economy: Navigating inflation and anticipating recovery.

In 2022, Qatar experienced a GDP growth rate of 4.9%, propelled by robust performances in the energy, construction, and hospitality sectors along with hosting of the FIFA World Cup in November and December. However, IMF expects real GDP growth to decelerate in 2023-24e and is expected it to be around 2.2% for those periods, due to pressure on oil and gas price subsequently, real GDP growth is poised to rise to 3.7% in 2025, driven by the ongoing expansion of the energy sector, infrastructure spending and favorable global economic conditions

Qatar's inflation rate was negative between 2019-20 due to a weak global economic growth, government subsidies, and a stronger Qatari riyal. The global economy slowed in 2019-20, which reduced demand for Qatari exports, such as liquefied natural gas (LNG). This put downward pressure on prices, which contributed to deflation. We expect inflation to decrease in 2023 amid decreasing oil and gas prices and expect inflation to be steady around ~2.2% up to 2025e.

GDP and Inflation rate

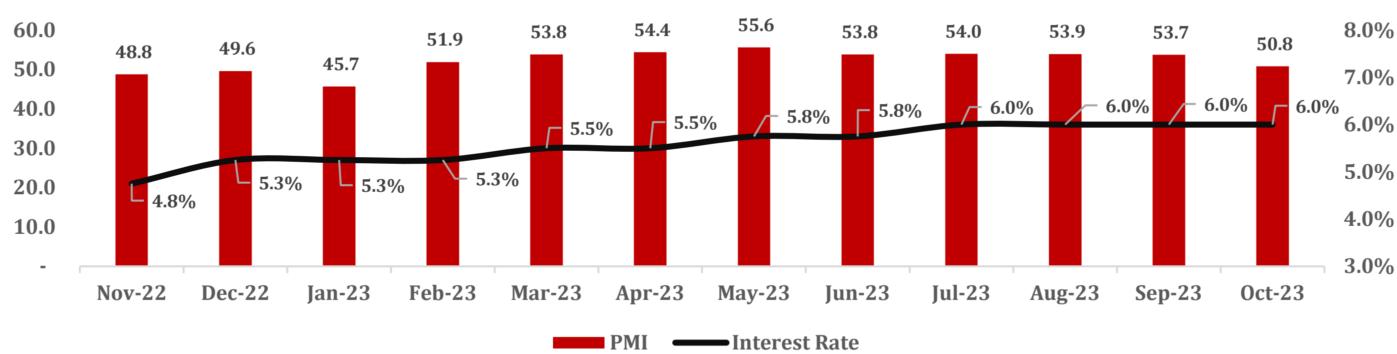


Source: IMF, U Capital Research

Qatar's Inflation: Anticipated easing leads to potential rate cuts

Qatar Central Bank (QCB) has consistently raised interest rates since March 2023, reaching 6% in October, to address the steadily rising inflation in the country. The International Monetary Fund (IMF) expects inflation to be under control in 2023, with a further decline in 2024, potentially leading to a decrease in interest rates at the beginning of that year. Despite mixed PMI performance in 2023, with the non-energy private sector expanding but signs of slow growth in October, a recovery is anticipated in early 2024.

Interest rate and PMI



Source: Bloomberg, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Qatar Gas Transport Company (Nakilat)

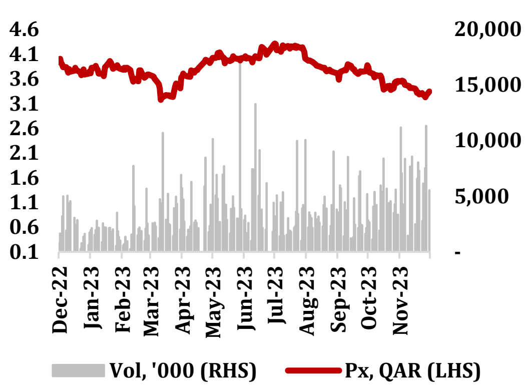
Target Price: QAR 4.3/share
Upside: 30.5%

Recommendation	Buy
Bloomberg Ticker	QGTS QD
Current Market Price (QAR)	3.32
52wk High / Low (QAR)	4.300/3.060
12m Average Vol. (000)	3,597.1
Mkt. Cap. (USD/QAR mn)	5,012/18,405
Shares Outstanding (mn)	5,540.26
Free Float (%)	61%
3m Avg Daily Turnover (QAR'000)	16,109.8
6m Avg Daily Turnover (QAR'000)	15,723.6
P/E'23e (x)	12.4 x
EV/EBITDA'23e (x)	12.7 x
Dividend Yield '23e (%)	4.0%

Price Performance:	
1 month (%)	-5.9%
3 month (%)	-10.0%
12 month (%)	-14.8%

Source: Bloomberg, values as of 3 December 2023

Price-Volume Performance



Source: Bloomberg

- **Steady stream of revenue amid long-term contracts with large number of fleet vessels drives revenue.**
- **A diversified portfolio helps in minimizing risks associated with LNG price fluctuations while simultaneously contributing to the growth of net income.**
- **Demonstrating financial stability with solid cash flows, steady payouts, and prudent leverage.**

We review our coverage of Qatar Navigation (QGTS QD Equity) and reduce our **target price to QAR 4.3** and **maintain Buy rating** on the stock, considering an upside potential of 30.5% from current levels. The stock has been on a downward trajectory since July-2023 falling 22% till date. This can primarily be attributed to macroeconomic challenges like high interest rates and global economic slowdown. The stock is currently trading at a P/E of 12.4x based on our 2023 estimates, compared to its historical average 1-year forward P/E of 13.1x. The stock is poised for growth fueled by growing LNG demand in Asia, stable LNG shipping prices along with steady flow of revenue to the group amid its long-term contracts, supported by a solid dividend payout ratio and prudent leverage.

Investment Thesis

Qatar Gas Transport Co. (Nakilat) is a Qatar-based company engaged in energy transportation with its portfolio including wide range of maritime services such as ship repair, offshore fabrication, towage, and shipping agency support.

- Nakilat positions itself as a major player in the LNG shipping business amid its large number of fleets, strategic geographical location, and an expanding global customer base with long-term contracts.
- The company possesses a varied portfolio, which serves to not only hedge against the volatility of LNG prices but also enhances the group's ability to enhance its net income margins.
- Nakilat's strong cash flow is expected to support its capex needs with limited dependency on external debt for financing
- The group maintains a robust payout ratio and is anticipated to exercise prudent financial management by decreasing debt .

Key indicators

Year (SAR mn)	FY21	FY22	FY23e	FY24e	FY25e
Sales	3,590	3,550	3,511	3,520	3,529
Gross profit	2,844	2,786	2,706	2,696	2,667
EBITDA	2,746	2,674	2,589	2,530	2,445
Operating profit	1,851	1,727	1,634	1,565	1,463
Net income	1,354	1,439	1,483	1,639	1,621
EPS, SAR	0.24	0.26	0.27	0.30	0.29
P/E, x	13.8	14.1	12.4	11.2	11.4
EV/EBITDA, x	12.7	13.0	12.7	13.0	13.4
Dividend yield, %	3.6%	3.3%	4.0%	4.5%	4.4%

Source: Company Reports, U-Capital Research **P/E, EV/EBITDA and EV/Sales from 2023 onwards calculated on current price*

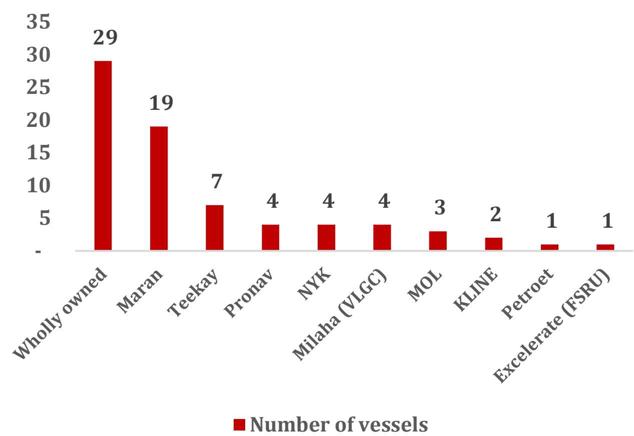
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Investment Rationale

Nakilat: A leading gas transport company in Qatar

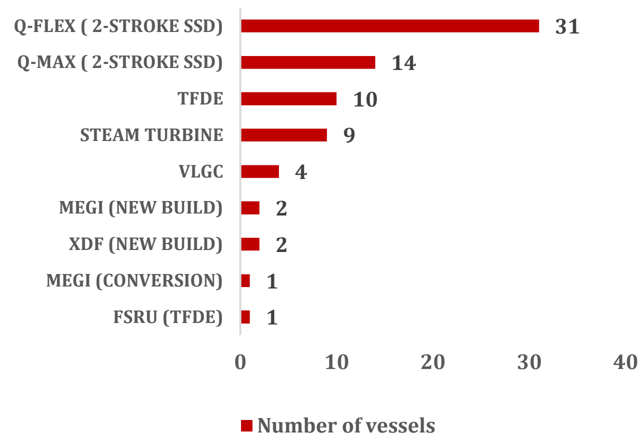
Qatar Gas Transport Company (Nakilat) is a shipping and maritime company headquartered in Qatar, having one of the world's largest fleets of Liquefied Natural Gas (LNG) carriers, totaling 69. The company plays a crucial role as the essential transportation link in Qatar's LNG supply chain. Beyond its primary shipping operations, Nakilat manages the Erhama Bin Jaber Al Jalahma Shipyard in Ras Laffan Industrial City, delivering comprehensive ship repair and offshore fabrication services. Currently, Nakilat owns 29 vessels outright and shares ownership of 45 fleet jointly.

Wholly & Jointly owned fleet



Source: Company Reports, U Capital Research

Vessels' Type / Propulsion

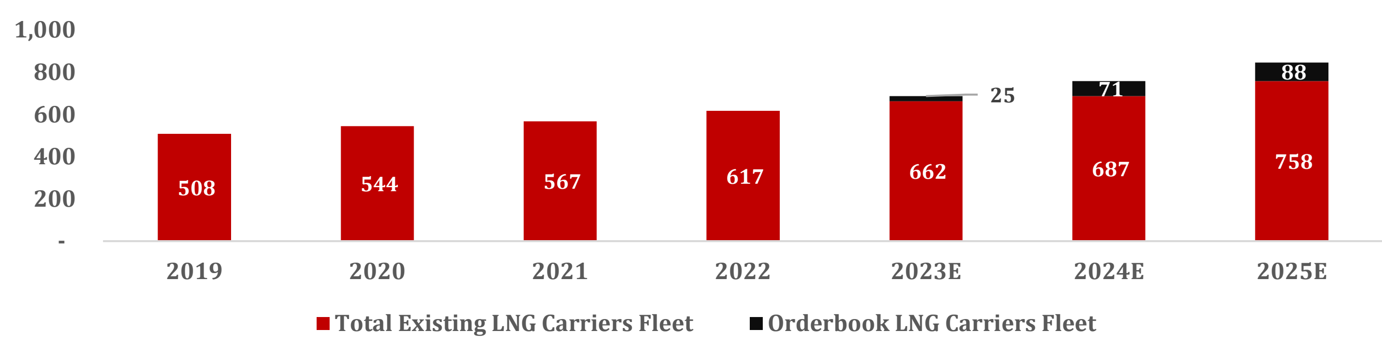


Source: Company Reports, U Capital Research

Nakilat: A global leader in LNG shipping business

The global gas transport market is anticipated to experience a CAGR of 8.6% between 2023-33 as per future market insights primarily propelled by the rising demand for natural gas, notably in the power generation and transportation sectors. Qatar stands as a predominant force in the LNG shipping sector, driven by its extensive natural gas reserves, strategic geographical location, and an expanding global customer base. Leveraging the world's largest LNG shipping fleet and continuous investments in LNG terminals and bunkering, Qatar is well-poised to take advantage of the increasing demand for LNG, aiming to establish itself as a prominent global leader in the LNG industry. As of 2022, Nakilat has the largest LNG fleet, comprising 69 LNG vessels and 4 LPG vessels (Wholly & Jointly owned), contributing 10% to the global shipping capacity. With long-term charter agreements and deliveries to 26 countries in 2022, Nakilat solidifies its position as a leading global player in the LNG shipping business.

Total global LNG fleets



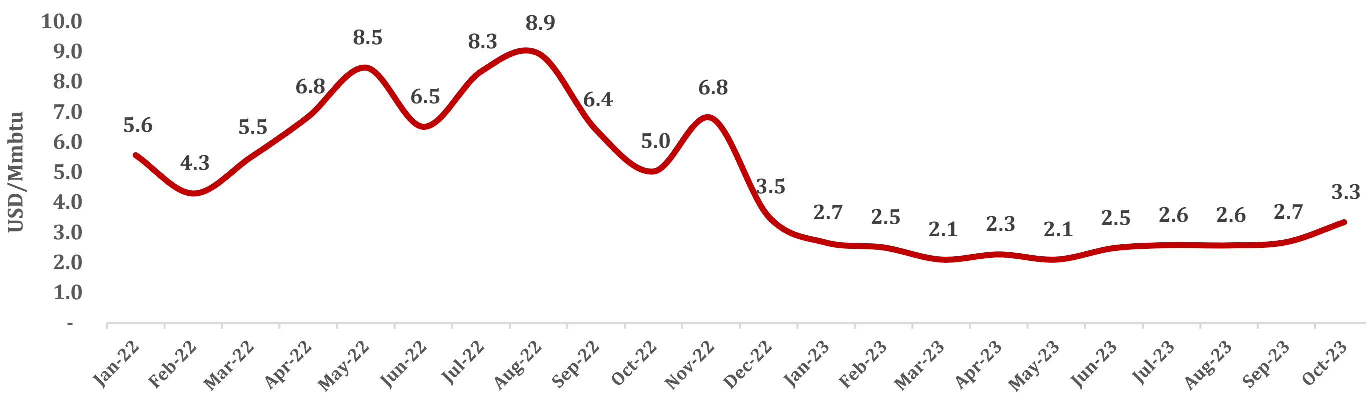
Source: Clarksons, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

LNG market rollercoaster: From record highs to multi-year lows in 2023

Over the past year, liquefied natural gas (LNG) prices underwent a volatile journey, initially surging to record highs before sharply declining to multi-year lows. This fluctuation was attributed to geopolitical tensions, weather patterns, and supply-demand dynamics. The downward trend, initiated in December 2022 by a milder-than-expected European winter, increased LNG supply, reduced Asian demand, and improved energy efficiency, persisted until May 2023, reaching all-time lows. However, the situation has since reversed, with prices steadily improving due to decreased LNG supply and heightened demand from Asia. Projections indicate a continued upward trend for the remainder of 2023 and the initial period of 2024, fueled by strong demand from Asia and the winter season in Europe.

Natural Gas price volatility

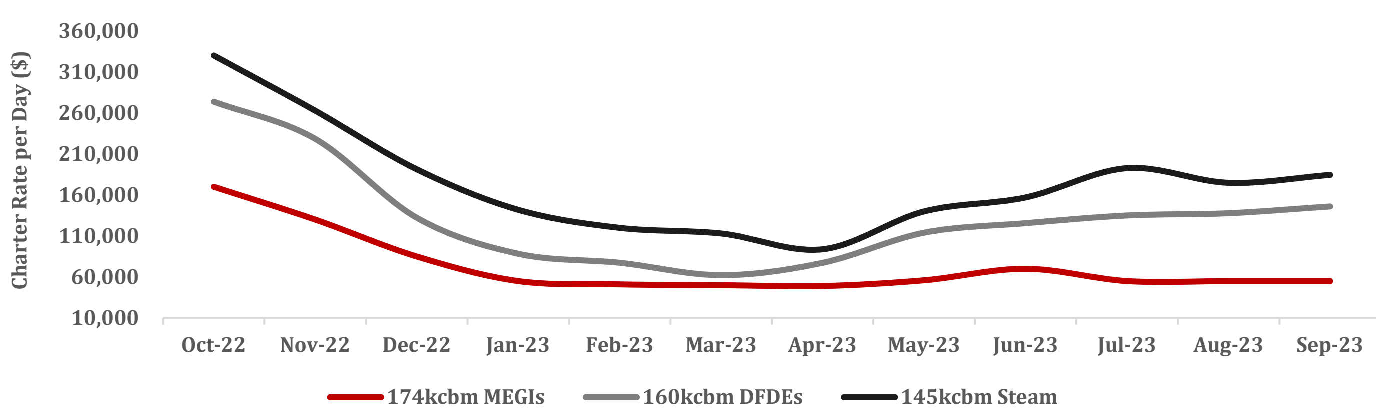


Source: Bloomberg, U Capital Research

LNG shipping rates plunge amidst falling prices and declining demand

Between December 2022- April 2023, LNG shipping rates experienced a decline exceeding 50% as a result of reduced LNG prices, driven by lower demand attributed to milder-than-expected weather and a general softening of global energy prices. China's diminished LNG demand in 2022, influenced by COVID-19 lockdowns and a mild winter, coupled with increased LNG production in the United States, Australia, and Qatar, contributed to the overall reduction in LNG prices. Consequently, this downward pressure on LNG prices extended to shipping rates, resulting in a decline from December 2022-April 2023. From June 2023 onward, natural gas prices have been on a consistent upward trend, leading to a corresponding increase in shipping rates with expectation of further increase in the remainder of 2023 along with initial period of 2024 backed by strong LNG demand from Asia.

Natural Gas price volatility



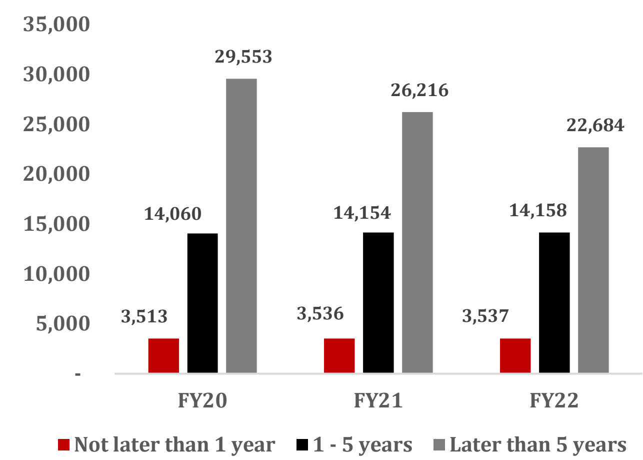
Source: Clarksons, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Long-term contracts provide stability to revenues and earnings

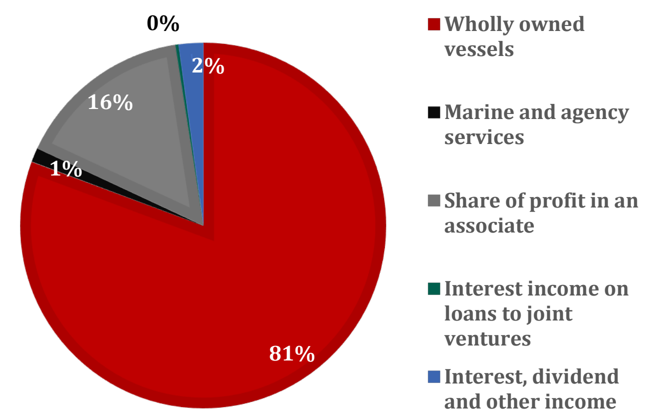
Nakilat is one of the largest LNG carrier companies in GCC and is a strategic partner of Qatar Energy. 75% of the company's fleet is chartered to Qatar Gas, a subsidiary of Qatar Energy. The company's long track record makes it likely to receive multiple shipping charter contracts from Qatar Energy. This will boost Nakilat's revenues and increase its profits, providing significant upside. Nakilat primarily operates through long-term shipping charter contracts with 12% market share in the Global LNG shipping capacity. The company does not operate in the spot market, and only five or six vessels are chartered on contracts which have a term of one to three years. This provides significant revenue visibility as the charter rates remain stable for longer periods, and the primary driver for revenue growth is the acquisition of more vessels.

Fixed stream of revenues



Source: Company Reports, U Capital Research

Total Income Mix (FY'22)



Source: Company Reports, U Capital Research

Nakilat's resilient growth: Navigating challenges and embracing opportunities

Qatar possesses the world's third-largest gas reserves with Qatar Energy being a major player in exploration. Qatar Energy has announced plans to increase Qatar's gas capacity from 77 mn tonnes per annum (mtpa) to 100 mtpa by 2024, an increase of 64%. The first production is expected in 4Q25. Nakilat is one of the largest LNG carrier companies in GCC and is a strategic partner of Qatar Energy. 75% of the company's fleet is chartered to Qatar Gas, a subsidiary of Qatar Energy. The company's long track record makes it likely to receive multiple shipping charter contracts from Qatar Energy.

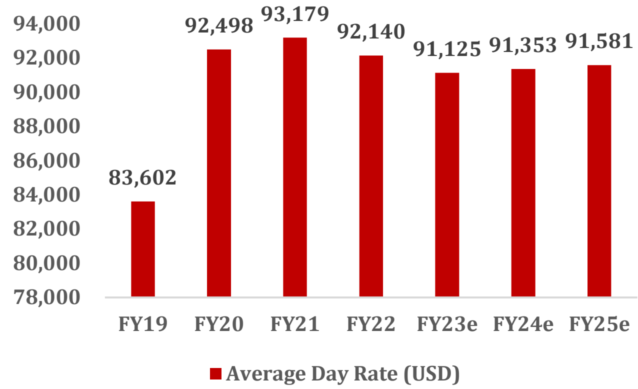
The company is shielded from the fluctuations in the broader industry, thanks to its long-term contracts, which also protected it during the approximately 50% plunge in shipping rates in the spot markets in 2020. Despite this market volatility, Nakilat's revenues grew by 10.6%. These long-term contracts ensure that the company's revenues remain unaffected by the spot market's volatility. Over time, as the contracts are utilized, revenue is booked.

In FY'22, there was a slight 1.1% decline in revenue due to the decrease in average daily shipping rates. Similar trends are expected to continue in FY'23e as shipping rates decline. This decline is primarily attributed to lower LNG prices resulting from increased supply and weak demand from Asia.

Looking ahead post-FY'23e, we anticipate stability in shipping rates driven by improved LNG pricing, with strong demand expected from Asia. This is coupled with the expansion of LNG infrastructure and the development of new LNG technologies. Additionally, the company's addition of four new LNG Carriers, fixed on term contracts with international world-class charterers, further supports our expectation of a steady flow of revenue and earnings post-FY'23e, driven by the stability of long-term contracts.

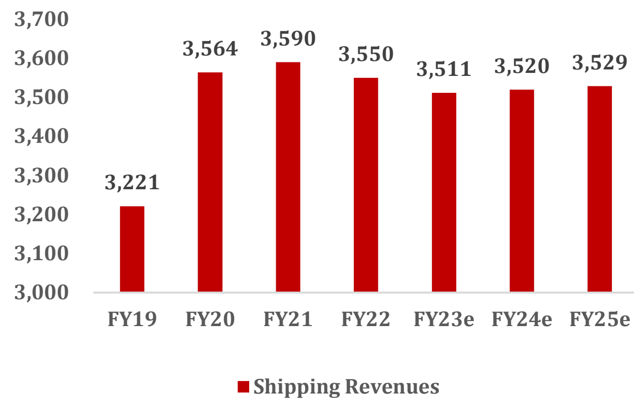
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Average Day Rate (Shipping Revenues / No. of Vessels)



Source: Company Reports, U Capital Research

Steady Shipping Revenue (QAR mn)

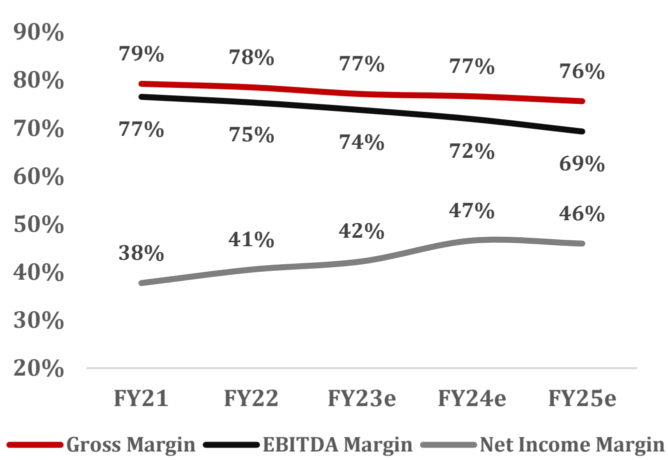


Source: Company Reports, U Capital Research

Net income margins to shine amid diversified income sources

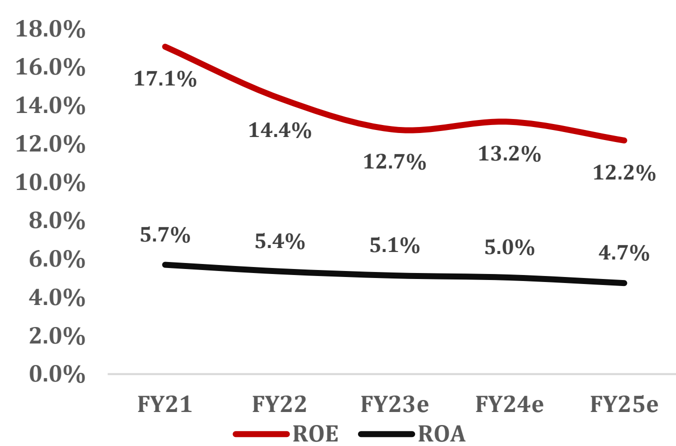
Nakilat maintains a robust gross margin, with the sole operating cost for the group being the maintenance expense of vessels. Between FY'19-22, Nakilat achieved an average gross margin of 78.9%. However, we anticipate a slight decrease to approximately 76% by FY'25e, primarily driven by the expected rise in maintenance costs for vessels. Similarly, we project a decline in EBITDA margins due to the anticipated increases in both maintenance and general administrative expenses. Despite the forecasted decreases in gross and EBITDA margins, we anticipate a growth in net margins. This is mainly attributed to an augmented income contribution from various sources, with significant inputs from associates and joint ventures. As a result, we foresee net income margins increasing to around 46% by FY'25e.

Solid Margins



Source: Company Reports, U Capital Research

Steady Return Ratios



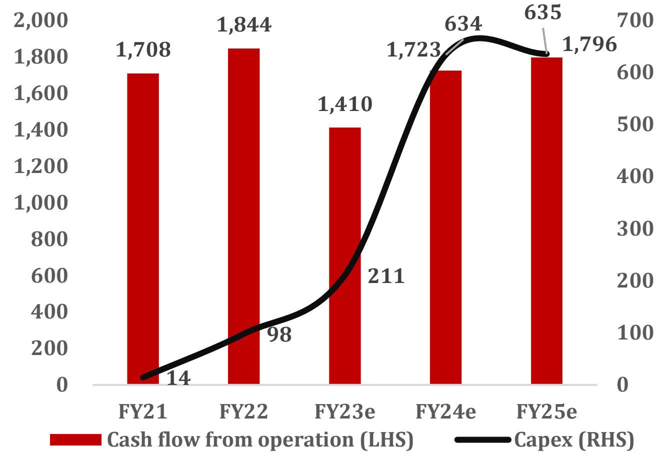
Source: Company Reports, U Capital Research

Nakilat's strong cash flow support capex

Nakilat is expected to maintain its robust financial position, benefiting from an augmented cash flow from operations through FY'25e and a favorable cash conversion ratio. While cash flow from operations is projected to decrease in FY-23e, it is anticipated to rebound post FY-23e, primarily driven by a rise in net income margins, owing to a higher contribution from associates and joint ventures. Nakilat is a strategic partner for Qatar Energy in transporting gas and 75% of the company's fleet is chartered to Qatar Gas, a subsidiary of Qatar Energy. With Qatar Energy's announcement of increasing gas capacity from 77 mtpa to 100 mtpa by 2024, this would lead to an increase in capital expenditure for Nakilat as they would be required to meet the growing capacity. Consequently, we foresee a surge in capital expenditure to accommodate the growing capacity.

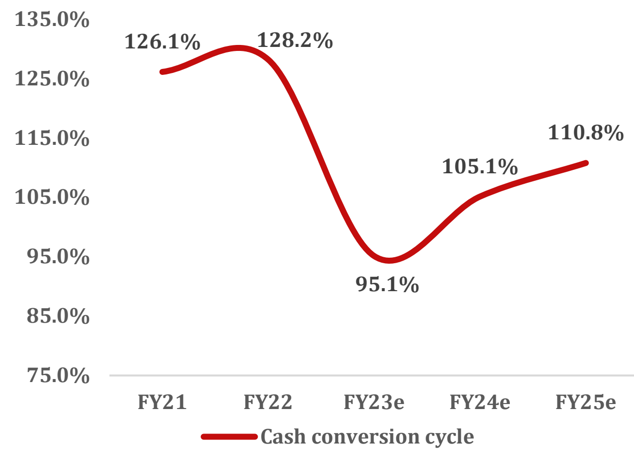
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Increasing Capex (QAR mn)



Source: Company Reports, U Capital Research

Solid cash conversion ratios



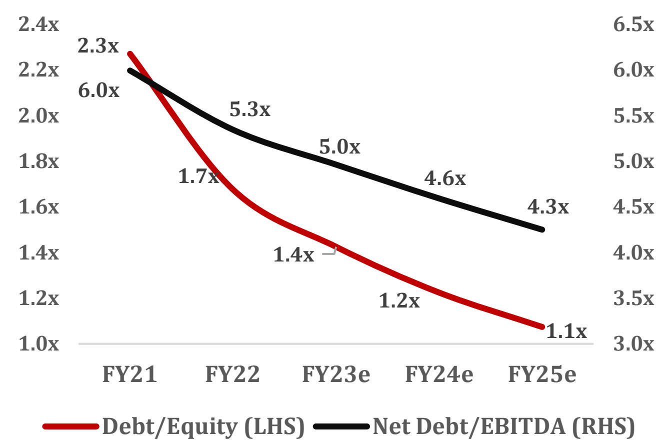
Source: Company Reports, U Capital Research

Prudent leverage demonstrates financial strength

Leverage: In FY'22, Nakilat repaid around QAR 4.8bn in borrowings with QAR 3.7bn refinanced and we expect Nakilat to follow this trend of repayment in upcoming years. Furthermore, we anticipate the leverage ratio to decrease throughout the forecast period, reflecting a prudent approach to debt management and reinforcing the company's solid financial standing.

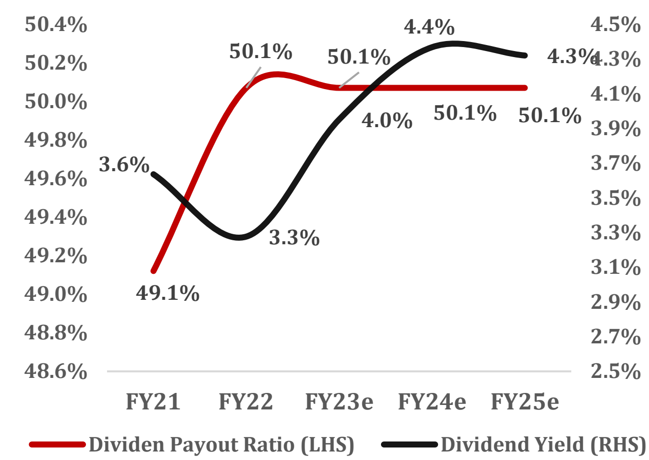
Dividend: The dividend yield is expected to show a consistent improvement starting from FY'23e, and we anticipate a dividend payout ratio of approximately 50%, signifying a dependable return to its shareholders. Nakilat's attractive dividend yield and judicious payout ratios position it as an appealing investment in the LNG shipping industry.

Declining Leverage



Source: Company Reports, U Capital Research

Steady payout ratio with increasing yields



Source: Company Reports, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Valuation

To value Qatar Gas Transport Company (Nakilat), we employed two valuation methods: the Discounted Cash Flow (DCF) and Relative Valuation. In our DCF analysis, given a weight of 80%, we used a WACC of 8.6%, a cost of equity of 11.2%, a risk-free rate of 4.4%, a beta of 0.9, and a risk premium of 7.5%. This method yielded a fair value of approximately QAR 4.6 per share.

On the other hand, our Relative Valuation considered two multiples, P/E and EV/EBITDA, each with a 10% weight. We derived these multiples based on industry median values, resulting in a P/E multiple of 11.8x and an EV/EBITDA multiple of 12.6x. We then applied these multiples to our forecasted EPS of QAR 0.3 and EBITDA of QAR 2,589mn, yielding fair values of QAR 3.1 and QAR 3.4 per share respectively.

Taking a weighted average of these valuations, we arrived at an overall fair value of **QAR 4.3/per share**.

Valuation

	QGTS
DCF (80% weight)	
PV of Free Cash Flow (QAR mn)	
2023e	3,445
2024e	2,721
2025e	2,496
2026e	2,230
2027e	2,015
Terminal value	26,950
Total PV of Future Cashflows (Enterprise Value, QAR mn)	39,856
Assumptions	
Risk Free Rate (%)	4.4%
Adjusted Beta	0.9
Risk Premium (%)	7.5%
Cost of Equity (COE) (%)	11.2%
WACC (%)	8.6%
Equity value (QAR mn)	25,467
Outstanding Shares (mn)	5,540
Target Price (QAR)	***4.6***
P/E based Relative Valuation (10% weight)	
Target P/E multiple for 2023e	11.8x
EPS 2023e (QAR)	0.3
Target Price (QAR)	***3.1***
EV/EBITDA based Relative Valuation (10% weight)	
Target EV/EBITDA multiple for 2023e	12.6x
EBITDA 2023e (QAR mn)	2,589
Net Debt (QAR mn)	*13602*
Target Price (QAR)	***3.4***
Weighted Average Target Price (QAR)	**4.3**
Current Market Price (QAR)	*3.3*
Upside/(Downside), %	30.5%
Recommendation	**Buy**

Source: Company Financials, Bloomberg, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Financial tables

(QAR mn)	FY21	FY22	Prev. FY23e	FY23e	Prev. FY24e	FY24e	FY25e
Income Statement							
Sales	3,590	3,550	3,556	3,511	3,570	3,520	3,529
COGS	-746	-764	-804	-805	-807	-823	-861
Gross profit	**2,844**	**2,786**	**2,752**	**2,706**	**2,763**	**2,696**	**2,667**
SG&A expenses	-97	-112	-106	-117	-167	-167	-223
Operating profit	**1,851**	**1,727**	**1,694**	**1,634**	**1,643**	**1,565**	**1,463**
Share of results of investments in associates and joint ventures	494	689	806	804	809	806	808
Other income – net	35	13	20	20	24	20	20
Finance charges	-1,049	-1,139	-1,244	-1,244	-1,128	-940	-856
Income before tax	**1,354**	**1,439**	**1,536**	**1,483**	**1,728**	**1,639**	**1,621**
Income tax	0	0	0	0	0	0	0
Net income for the period	**1,354**	**1,439**	**1,536**	**1,483**	**1,728**	**1,639**	**1,621**
Balance Sheet							
Cash and bank balances	3,439	4,560	4,563	4,268	5,169	4,188	4,331
Trade and other receivables	775	730	731	750	732	760	764
Inventories	29	26	28	33	28	34	38
Property, plant and equipment	22,266	21,327	20,388	20,499	19,449	20,083	19,651
Intangible assets	4,900	5,290	5,438	5,437	5,586	5,585	5,733
Loans to joint venture companies	669	68	68	68	68	68	68
Total assets	**32,311**	**32,196**	**31,411**	**31,250**	**31,226**	**30,912**	**30,779**
Trade and other payables	1,403	1,392	1,446	1,415	1,543	1,488	1,633
Long-term borrowings	18,143	17,722	16,164	16,092	14,995	14,861	13,845
Lease liabilities	47	41	36	36	31	32	27
Share capital	5,540	5,540	5,540	5,540	5,540	5,540	5,540
Legal Reserve	1,213	1,357	1,510	1,505	1,683	1,669	1,831
Retained earnings	3,313	3,852	4,427	4,407	5,074	5,020	5,627
Total stockholders' equity	**8,764**	**11,249**	**12,064**	**12,011**	**13,024**	**12,907**	**13,707**
Total liabilities & stockholders' equity	**32,311**	**32,196**	**31,411**	**31,250**	**31,226**	**30,912**	**30,779**
Cash Flow Statement							
Cash from operating activities	1,708	1,844	1,522	1,410	1,636	1,723	1,796
Cash from investing activities	-84	142	867	760	990	258	257
Cash from financing activities	-1,824	-1,801	-2,386	-2,462	-2,021	-2,061	-1,910
Net changes in cash	-200	186	3	-292	606	-80	143
Cash at the end of the period	3,439	4,560	4,563	4,268	5,169	4,188	4,331
Key Ratios							
Current ratio	1.2	2.0	2.0	1.9	2.2	1.9	1.9
Inventory turnover ratio	22.8	27.8	30.5	29.5	29.1	24.6	24.1
Debtors' turnover ratio	4.6	4.7	4.7	4.7	4.9	4.7	4.6
Creditors turnover ratio	0.5	0.5	0.6	0.6	0.5	0.6	0.6
Gross profit margin	79.2%	78.5%	77.4%	77.1%	77.4%	76.6%	75.6%
Operating margin	51.6%	48.7%	47.6%	46.6%	46.0%	44.5%	41.5%
Net profit margin	37.7%	40.5%	43.2%	42.2%	48.4%	46.6%	45.9%
EBITDA margin	76.5%	75.3%	74.4%	73.7%	72.7%	71.9%	69.3%
Average return on equity	17.1%	14.4%	13.5%	12.7%	13.8%	13.2%	12.2%
Average return on assets	5.7%	5.4%	5.3%	5.1%	5.2%	5.0%	4.7%
Debt/Equity (x)	2.3x	1.7x	1.4x	1.4x	1.2x	1.2x	1.1x
Interest coverage ratio (x)	1.8x	1.5x	1.4x	1.3x	1.5x	1.7x	1.7x
P/E	13.8x	14.1x	13.1x	12.4x	11.6x	11.2x	11.4x
EV/EBITDA	12.7x	13.0x	13.1x	12.7x	13.3x	13.0x	13.4x
EV/Sales	9.7x	9.8x	9.7x	9.4x	9.7x	9.3x	9.3x
EPS (QAR)	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Dividend payout ratio	49.1%	50.1%	50.1%	50.1%	50.1%	50.1%	50.1%
Dividend yield (%)	3.6%	3.3%	3.8%	4.0%	4.3%	4.5%	4.4%
Net debt	16,463	14,294	12,632	12,851	10,780	11,619	10,392
Net debt/ EBITDA	5.99	5.35	4.77	4.96	4.15	4.59	4.25
ROCE	6.6%	6.4%	6.5%	6.3%	6.5%	6.0%	5.7%

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

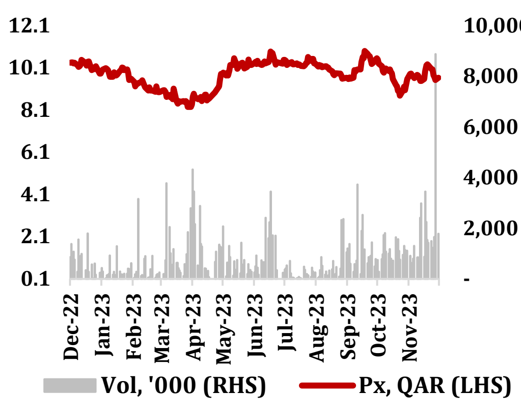
Qatar Navigation QPSC (Milaha)

Target Price: QAR 11.1/share
Upside: 15.6%

Recommendation	**Accumulate**
Bloomberg Ticker	QNNS QD
Current Market Price (QAR)	9.60
52wk High / Low (QAR)	11.000/8.100
12m Average Vol. (000)	826.7
Mkt. Cap. (USD/QAR mn)	2,970/10,907
Shares Outstanding (mn)	1,136.16
Free Float (%)	85%
3m Avg Daily Turnover (QAR'000)	12,448.8
6m Avg Daily Turnover (QAR'000)	9,116.3
P/E'23e (x)	9.3 x
EV/EBITDA'23e (x)	12.8 x
Dividend Yield '23e (%)	4.3%
Price Performance:	
1 month (%)	0.6%
3 month (%)	0.1%
12 month (%)	-7.7%

Source: Bloomberg, values as of 3 December 2023

Price-Volume Performance



Source: Bloomberg

- **Milaha is one of the largest and the most diversified maritime and logistics companies in the Middle East**
- **A diversified portfolio helps in minimizing risks associated with shipping rates while simultaneously contributing to the growth of revenue and margins**
- **Healthy dividends to support returns along with deleveraging plans to reduce risk**

We review our coverage of Qatar Navigation (QNNS QD Equity) and decrease our **target price to QAR 11.1** and **update our rating to Accumulate** on the stock, considering an upside potential of 15.6% from current levels. The share performance in the past one year has been steady with a decrease of -7.7% witnessed in the share price YoY. The stock is currently trading at a P/E of 9.3x based on our 2023 estimates, compared to its historical average 1-year forward P/E of 9.6x. will witness growth attributable to stability in shipping rates, alongside expansion in the logistics and transportation sector, primarily fueled by the surge in e-commerce. Moreover, the growing demand for LNG is expected to benefit Milaha's gas shipping segment.

Investment Thesis

Qatar Navigation (Milaha) is a Qatar-based company providing comprehensive logistics and supply chain solutions generating approx. 85% of its revenue domestically, with 9% from the UAE and 6% from Germany.

- Milaha is a major player in the logistic segment in Qatar amid its large number of fleets and long-term contracts and is poised for growth amid increasing demand for ecommerce, government initiatives along with rising demand for LNG in Asia and across the globe.
- The company possesses a diversified portfolio, which serves to not only hedge against the volatility of shipping revenue but also enhances the group's ability to enhance its revenue and net income margins.
- Milaha's strong cash flow is expected to support its capex needs with limited dependency on external debt for financing.
- The group's dividend payout ratio is expected to increase, and the group is expected to reduce debt by leading a prudent approach to debt management.

Key indicators

Year (SAR mn)	FY21	FY22	FY23e	FY24e	FY25e
Sales	2,784	3,285	3,007	3,086	3,306
Gross profit	1,231	1,497	1,539	1,404	1,522
EBITDA	621	857	924	848	925
Operating profit	253	487	523	404	442
Net income	727	1,016	1,172	1,104	1,187
EPS, QR	0.64	0.89	1.03	0.97	1.04
P/E, x	11.9	11.4	9.3	9.9	9.2
EV/EBITDA, x	16.2	11.8	12.8	13.9	12.8
Dividend yield, %	3.9%	3.4%	4.3%	5.0%	5.8%

Source: Company Reports, U-Capital Research **P/E, EV/EBITDA and EV/Sales from 2023 onwards calculated on current price*

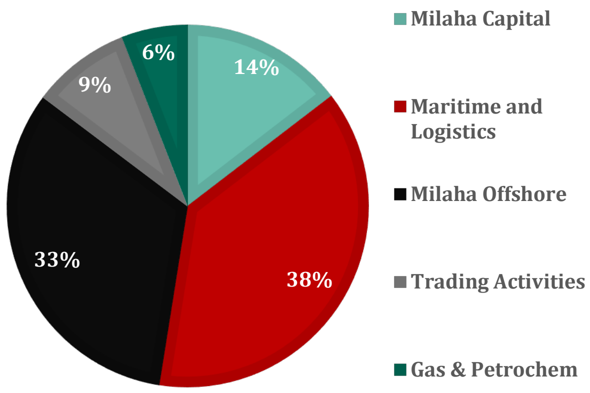
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Investment Rationale

Milaha: A Qatari maritime and logistics powerhouse

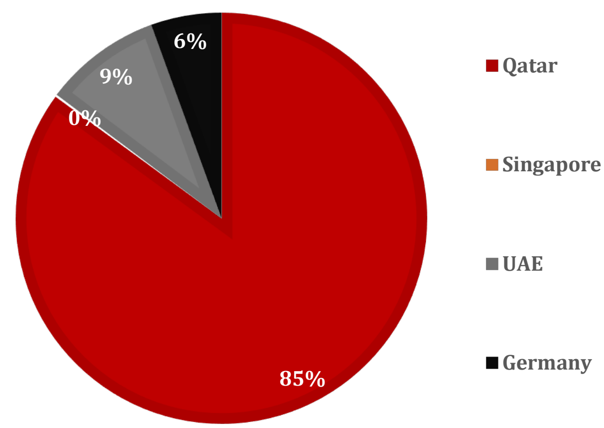
Qatar Navigation QPSC (Milaha) is a publicly traded maritime and logistics company based in Qatar, providing comprehensive logistics and supply chain solutions. The company, along with its subsidiaries, operates in various business segments, including Milaha Capital, Milaha Maritime and Logistics, Milaha Offshore, Milaha Trading, and Milaha Gas and Petrochem. Its services encompass marine transport, acting as an agent for foreign shipping lines, offshore services, sale of heavy vehicles, ship repair, fabrication and installation of offshore structures, land transport, vessel chartering, real estate, and investment in listed and unlisted securities. Milaha generates approximately 85% of its revenue domestically, with 9% coming from the UAE and 6% from Germany.

Revenue by business segment (FY'22)



Source: Company Reports, U Capital Research

Revenue by Geography (FY'22)

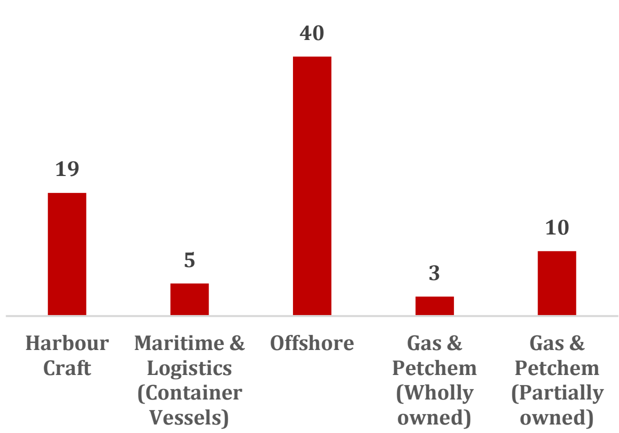


Source: Company Reports, U Capital Research

Milaha's shipping and capital segments: Diversification for success

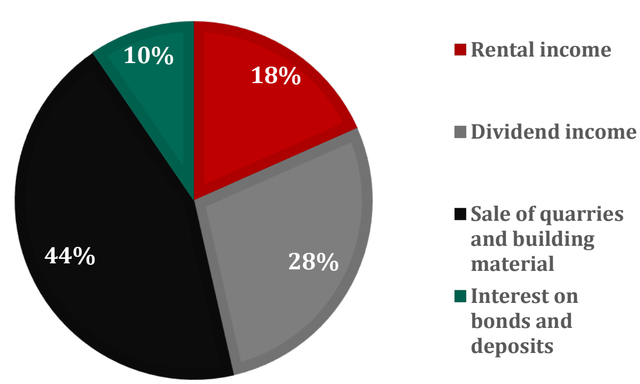
Milaha possesses a total of 77 fleets for its shipping-related business, with 40 Offshore vessels and 19 Harbor craft including Harbor Towage Tug, Service and Pilot boats etc. Milaha also owns 5 containers which are dedicated for Maritime and logistics segment along with 3 wholly owned and 10 partially owned carriers for Gas and Petchem transport. Furthermore, Milaha generates 14% of its revenue from the capital segment, which is derived from real estate and investments in both start-ups and established companies in Qatar.

Vessels per business segment



Source: Company Reports, U Capital Research

Revenue breakup of Milaha Capital



Source: Company Reports, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Diversified portfolio drives revenue growth despite shipping rate challenges

Milaha generated approximately 32.7% of its revenue from Offshore and 37.9% from Maritime & Logistics services in FY'22. By strategically establishing a robust regional foothold in logistics and transportation services, Milaha enhanced its revenue contribution from Offshore and Maritime & Logistics significantly during this fiscal year. This improvement was facilitated by a diverse fleet of vessels, dedicated staff, state-of-the-art equipment, and strong partnerships with world-class entities. Moreover, the increase in shipping rates during FY'22 provided an additional boost to the revenue in the Offshore and Maritime & Logistics segment.

Additionally, in July 2022, Milaha announced a major five-year contract award for supplying EPCI services for offshore projects in Qatar. The project is worth more than QAR 1.4 bn and represents the largest commercial deal in Milaha's history. The achievement is likely to enhance the company's status, making Milaha a reliable partner and provider of choice for key oil and gas field expansion projects in Qatar. Winning the contract confirms the company's ability to deliver value-added services to its engineering and construction partners and strengthen its footsteps in the domestic market. This contract further boosted revenue FY'22 for Milaha.

However, this situation reversed in 202 with shipping rates declining from all-time highs. Consequently, there was a 34.4% decline in Maritime & Logistics revenue as of YTD'3Q23. We anticipate a continuation of this stress in shipping rates for the remainder of FY'23e, impacting revenue for the entire period of FY-23e. Post-FY'23e, we expect shipping rates to steadily improve thereby increasing revenue contribution from Maritime & Logistics sector.

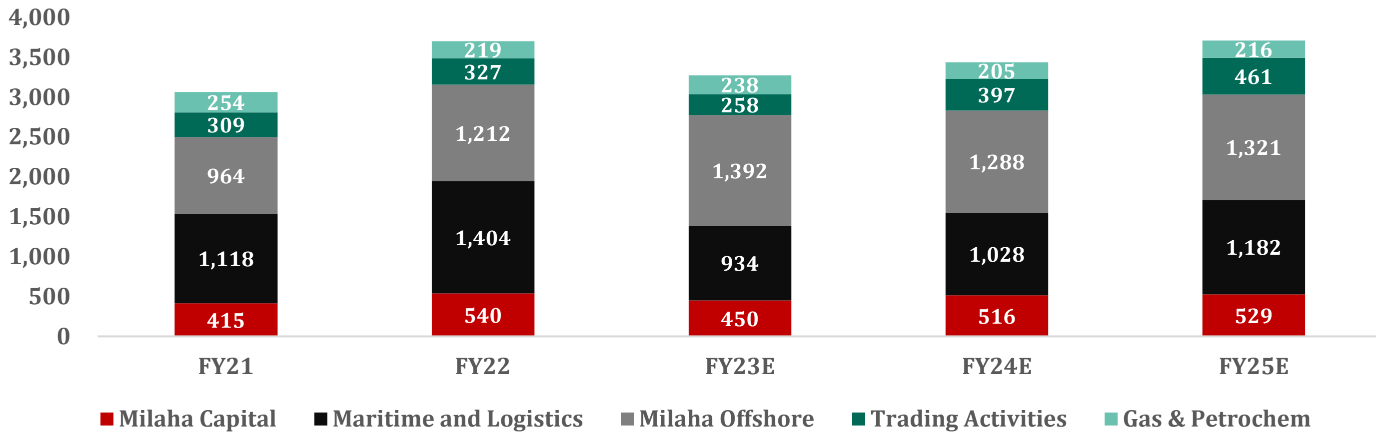
In the Gas & Petchem segment, Milaha experienced a decline in revenue contribution for FY'22, attributed to a decrease in average daily shipping rates for gas. This drop was a consequence of lower LNG prices, which were influenced by heightened supply and weakened demand from Asia. We expect a reversal in FY'23e. This positive shift is projected to be fueled by stabilized shipping rates, driven by improved LNG pricing. Additionally, robust demand from Asia, coupled with the expansion of LNG infrastructure and the advancement of new LNG technologies, is foreseen. Consequently, we anticipate an improvement in contributions from the Gas & Petchem segment starting from FY-23e onward.

Milaha has recently joined the esteemed Global Project Logistics Network (GPLN), marking a significant expansion of its international presence in project-related logistics. As a member, Milaha anticipates strengthening its logistics capabilities, fostering partnerships, and accessing global marketing opportunities. This strategic move aligns with Milaha's commitment to excellence, growth, and expansion, as its workforce remains dedicated to enhancing services and extending the company's global reach in the dynamic logistics industry. Participation in GPLN also enables Milaha to connect with logistics professionals worldwide, contributing to the development of a strong and interconnected global logistics community.

Overall, given the stability in shipping rates and the global and local expansion of the transport and logistics sector, we foresee a consistent rise in revenue across all segments. Furthermore, we project positive growth in the Capital segment, driven by stable performance in real estate and investments. Consequently, we anticipate a steady overall increase in Milaha's total revenue, reaching QAR 3.3bn by FY'25e.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Revenue

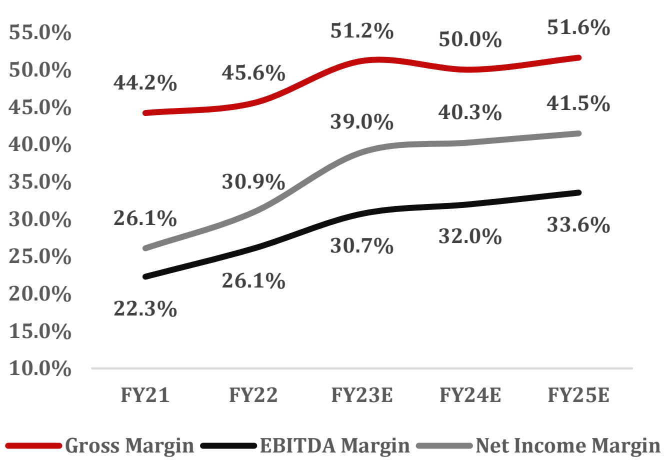


Source: Company Reports, U Capital Research

Milaha's margin momentum: Navigating efficiency and growth in FY'23e and beyond

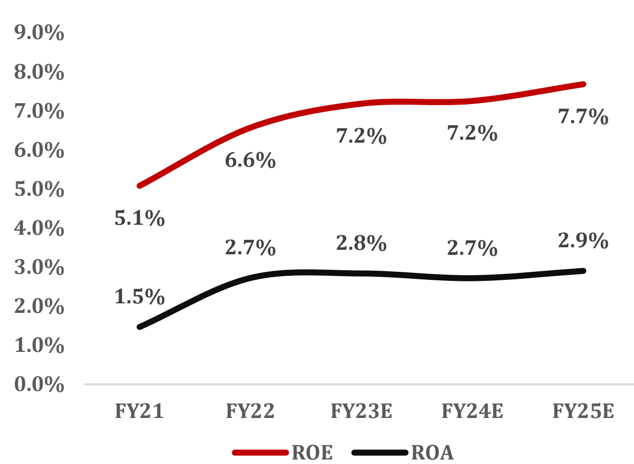
Margins for Milaha have been steadily improving since FY'22, and we anticipate similar trends in the upcoming periods. Despite the expected contraction in revenue in FY'23e, we project margin improvement due to Milaha's robust regional foothold in logistics and transportation services. In 2023, Milaha experienced a substantial reduction in operating supplies and expenses, leading to a significant improvement in gross margins as of the current date. Operating supplies and expenses decreased by 22% YoY as of YTD'Q323, and we anticipate this trend to continue for the remainder of FY'23e and the initial period of FY'24e. Through efficient management of operating costs, we expect both EBITDA and net income margins to increase significantly in FY'23e, followed by a steady performance post-FY'24e onwards.

Increasing Margins



Source: Company Reports, U Capital Research

Solid return ratios



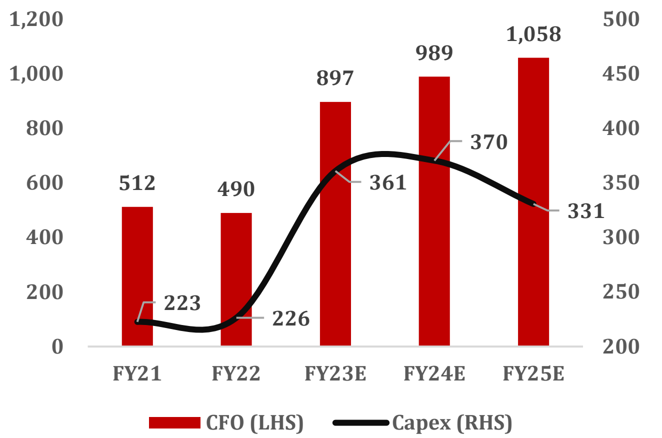
Source: Company Reports, U Capital Research

Milaha to benefit from operational efficiencies and capex expansion

Milaha is anticipated to uphold its strong financial position, deriving increased cash flow from operations through FY'25e. The anticipated growth in cash flow from operations starting from FY'23e is attributed to the reduction in operating expenses, resulting in an improved net income margin. Moreover, with anticipated growth in the transport and logistics sector, coupled with an expansion in gas exploration capacity in Qatar, we project a rise in capital expenditure from FY'23e onwards, leading to a substantial increase in capex between FY'23e-25e.

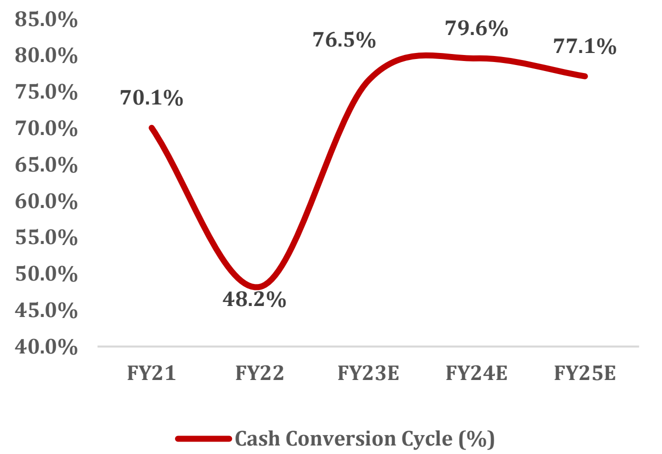
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Increase cash flow from operation



Source: Company Reports, U Capital Research

Steady Cash Conversion Ratio



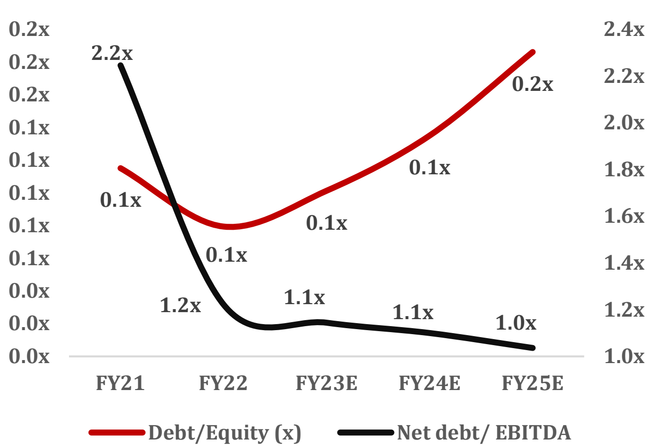
Source: Company Reports, U Capital Research

Prudent debt management with increasing dividend payout

Leverage: Milaha has a debt/equity ratio of 0.1x and a net debt/EBITDA multiple of 1.2x in FY'22. Debt and net debt have reduced in FY'22 on an absolute and relative basis. The company's debt has reduced from QAR 1,699 mn in 2021 to QAR 1,277 in FY'22. Moreover, the net debt has declined from QAR 1,394 mn to QAR 1,047 mn in FY'22. We expect the company to maintain debt levels constant, while reducing net debt thereby decreasing leverage from FY'23e onwards leading prudent approach to debt management.

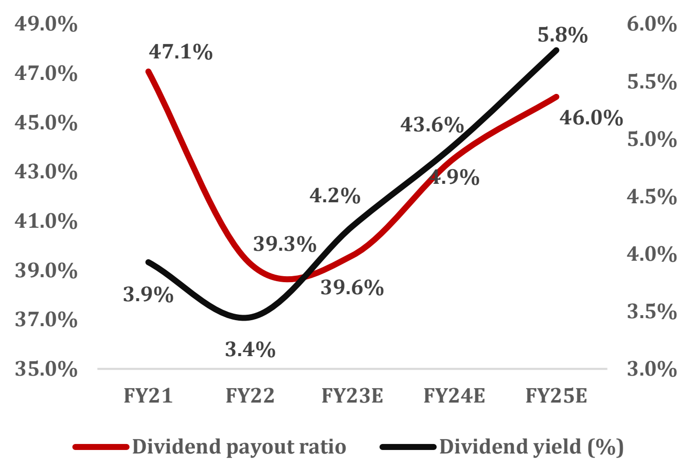
Dividend: The dividend yield is anticipated to demonstrate steady improvement, commencing from FY'23e, with an expected dividend payout ratio reaching 46% by FY'25e, symbolizing a reliable return to its shareholders. Furthermore, the anticipated increase in Milaha's dividend yield suggests growth.

Decreasing Leverage



Source: Company Reports, U Capital Research

Improving dividend payout and yield



Source: Company Reports, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Valuation

To value Qatar Navigation QPSC (Milaha), we employed the Sum-of-the-parts (SOTP) valuation valuing the Shipping (incl. trading) and Capital Business Segments. To value these individual segments, we have assigned the Discounted Cash Flow (DCF) and Relative Valuation.

Shipping Business: In our DCF analysis, given a weight of 80%, we used a WACC of 11.8%, a cost of equity of 12.1%, a risk-free rate of 4.4%, a beta of 0.9, and a risk premium of 8.8%. This method yielded a fair value of approximately QAR 10.0 per share. In Relative Valuation, we considered industry median values, resulting in a P/E multiple of 5.8x and an EV/EBITDA multiple of 8.8x. We then applied these multiples to our forecasted EPS of QAR 0.8 and EBITDA of QAR 623mn, yielding fair values of QAR 4.7 and QAR 4.0 per share respectively. Taking a weighted average of these valuations, we arrived at an overall fair value of **QAR 8.9/per share**

Capital Business: In our DCF analysis, given a weight of 80%, we used a WACC of 15.0%, a cost of equity of 15.6%, a risk-free rate of 4.4%, a beta of 1.3, and a risk premium of 8.8%. This method yielded a fair value of approximately QAR 2.2 per share. In Relative Valuation, we considered industry median values, resulting in a P/E multiple of 14.7x and an EV/EBITDA multiple of 9.3x. We then applied these multiples to our forecasted EPS of QAR 0.2 and EBITDA of QAR 301mn, yielding fair values of QAR 3.1 and QAR 1.6 per share respectively. Taking a weighted average of these valuations, we arrived at an overall fair value of **QAR 2.2/per share.**

Valuation (SOTP)

	Shipping incl. repair
DCF (80% weight)	
Total PV of Future Cashflows (Enterprise Value, QAR mn)	13,603
Assumptions	
Risk Free Rate (%)	4.4%
Adjusted Beta	0.9
Risk Premium (%)	8.8%
Cost of Equity (COE) (%)	12.1%
WACC (%)	11.8%
Equity value (QAR mn)	11,342
Outstanding Shares (mn)	1,136
Target Price (QAR)	***10.0***
P/E based Relative Valuation (10% weight)	
Target P/E multiple for 2023e	5.8x
EPS 2023e (QAR)	0.8
Target Price (QAR)	***4.7***
EV/EBITDA based Relative Valuation (10% weight)	
Target EV/EBITDA multiple for 2023e	8.8x
EBITDA 2023e (QAR mn)	623
Net Debt (QAR mn)	*951*
Target Price (QAR)	***4.0***
Weighted Average Target Price (QAR)	**8.9**

	Capital
DCF (80% weight)	
Total PV of Future Cashflows (Enterprise Value, QAR mn)	2,645
Assumptions	
Risk Free Rate (%)	4.4%
Adjusted Beta	1.3
Risk Premium (%)	8.8%
Cost of Equity (COE) (%)	15.6%
WACC (%)	15.0%
Equity value (QAR mn)	2,492
Outstanding Shares (mn)	1,136
Target Price (QAR)	***2.2***
P/E based Relative Valuation (10% weight)	
Target P/E multiple for 2023e	14.7x
EPS 2023e (QAR)	0.2
Target Price (QAR)	***3.1***
EV/EBITDA based Relative Valuation (10% weight)	
Target EV/EBITDA multiple for 2023e	9.3x
EBITDA 2023e (QAR mn)	301
Net Debt (QAR mn)	*951*
Target Price (QAR)	***1.6***
Weighted Average Target Price (QAR)	**2.2**

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Taking a sum of these valuations, we arrived at an overall fair value of **QAR 11.1/per share**.

Sum-of-the-parts valuation (SOTP)	
Shipping business incl. trading segment	**9.9**
Capital business	**2.2**
Target Price (QAR)	**11.1**
Current Market Price (QAR)	*9.6*
Upside/(Downside), %	15.6%
Recommendation	**Accumulate**

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Financial tables

(QAR mn)	FY21	FY22	Prev. FY23e	FY23e	Prev. FY24e	FY24e	FY25e
Income Statement							
Sales	2,784	3,285	3,203	3,007	3,552	3,086	3,306
COGS	-1,553	-1,789	-1,455	-1,468	-1,814	-1,682	-1,784
Gross profit	**1,231**	**1,497**	**1,748**	**1,539**	**1,737**	**1,404**	**1,522**
SG&A expenses	-978	-1,010	-1,038	-1,016	-1,211	-1,000	-1,080
Operating profit	**253**	**487**	**710**	**523**	**527**	**404**	**442**
Share of results of investments in associates and joint ventures	681	721	788	686	877	751	828
Other income – net	15	15	15	15	15	15	15
Finance charges	-73	-59	-53	-52	-66	-66	-97
Income before tax	**730**	**1,017**	**1,460**	**1,172**	**1,352**	**1,105**	**1,188**
Income tax	-4	-1	0	0	-1	-1	-1
Net income for the period	**727**	**1,016**	**1,460**	**1,172**	**1,351**	**1,104**	**1,187**
Balance Sheet							
Cash and bank balances	305	230	857	644	1,523	1,187	1,986
Investments in term deposits	350	1,237	1,237	1,237	1,237	1,237	1,237
Trade and other receivables	879	1,036	1,010	948	1,117	971	1,043
Inventories	103	115	93	94	116	108	115
Property, vessels and equipment	3,005	2,841	2,863	2,965	2,929	3,084	3,147
Intangible assets	91	16	9	9	2	2	-5
Right of use assets	144	210	277	268	335	309	344
Total assets	**17,469**	**18,313**	**19,593**	**19,309**	**21,213**	**20,621**	**22,253**
Trade and other payables	810	755	614	619	763	707	753
Long-term borrowings	1,057	299	299	299	299	299	299
Lease liabilities	63	139	139	139	139	139	139
Share capital	1,145	1,136	1,136	1,136	1,136	1,136	1,136
Fair value reserve	3,408	2,472	2,472	2,472	2,472	2,472	2,472
Retained earnings	4,644	6,122	7,118	6,830	7,928	7,392	7,948
Total stockholders' equity	**14,720**	**16,042**	**17,038**	**16,749**	**17,848**	**17,312**	**17,867**
Total liabilities & stockholders' equity	**17,469**	**18,313**	**19,593**	**19,309**	**21,213**	**20,621**	**22,253**
Cash Flow Statement							
Cash from operating activities	512	490	1,017	897	992	900	890
Cash from investing activities	571	405	-297	-391	-379	-412	-393
Cash from financing activities	-1,084	-970	-93	-92	54	54	303
Net changes in cash	-1	-75	627	414	666	543	800
Cash at the end of the period	305	230	857	644	1,523	1,187	1,986
Key Ratios							
Current ratio	1.5	2.0	2.0	1.8	1.7	1.5	1.3
Inventory turnover ratio	17.2	16.4	14.0	14.0	17.3	16.6	16.0
Debtors' turnover ratio	3.4	3.4	3.2	3.1	3.3	3.2	3.3
Creditors turnover ratio	2.1	2.3	2.3	2.3	2.6	2.5	2.4
Gross profit margin	44.2%	45.6%	54.6%	51.2%	48.9%	45.5%	46.0%
Operating margin	9.1%	14.8%	22.2%	17.4%	14.8%	13.1%	13.4%
Net profit margin	26.1%	30.9%	45.6%	39.0%	38.0%	35.8%	35.9%
EBITDA margin	22.3%	26.1%	34.7%	30.7%	27.4%	27.5%	28.0%
Average return on equity	5.1%	6.6%	8.9%	7.2%	7.7%	6.5%	6.7%
Average return on assets	1.5%	2.7%	3.8%	2.8%	2.6%	2.0%	2.1%
Debt/Equity (x)	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.2x
Interest coverage ratio (x)	3.5x	8.2x	13.5x	10.0x	7.9x	6.2x	4.6x
P/E	11.9x	11.4x	7.6x	9.3x	8.2x	9.9x	9.2x
EV/EBITDA	16.2x	11.8x	10.9x	12.8x	12.5x	13.9x	12.8x
EV/Sales	3.6x	3.1x	3.8x	3.9x	3.4x	3.8x	3.6x
EPS (QAR)	0.6	0.9	1.3	1.0	1.2	1.0	1.0
Dividend payout ratio	47.1%	39.3%	31.8%	39.6%	40.1%	49.0%	53.2%
Dividend yield (%)	3.9%	3.4%	4.2%	4.3%	4.9%	5.0%	5.8%
Net debt	1,394	1,047	844	1,057	839	1,176	1,407
Net debt/ EBITDA	2.2x	1.2x	0.8x	1.1x	0.9x	1.4x	1.5x
ROCE	1.7%	3.2%	4.5%	3.3%	3.2%	2.4%	2.5%

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Investment Research

Ubhar-Research@u-capital.net

Head of Research

Neetika Gupta

+968 2494 9036

neetika@u-capital.net

Research Team

Ahlam Al-Harthi

+968 2494 9024

ahlam.harthi@u-capital.net

Said Ghawas

+968 2494 9034

said.ghawas@u-capital.net

Amira Al Alawi

+968 2494 9112

amira.alalawi@u-capital.net

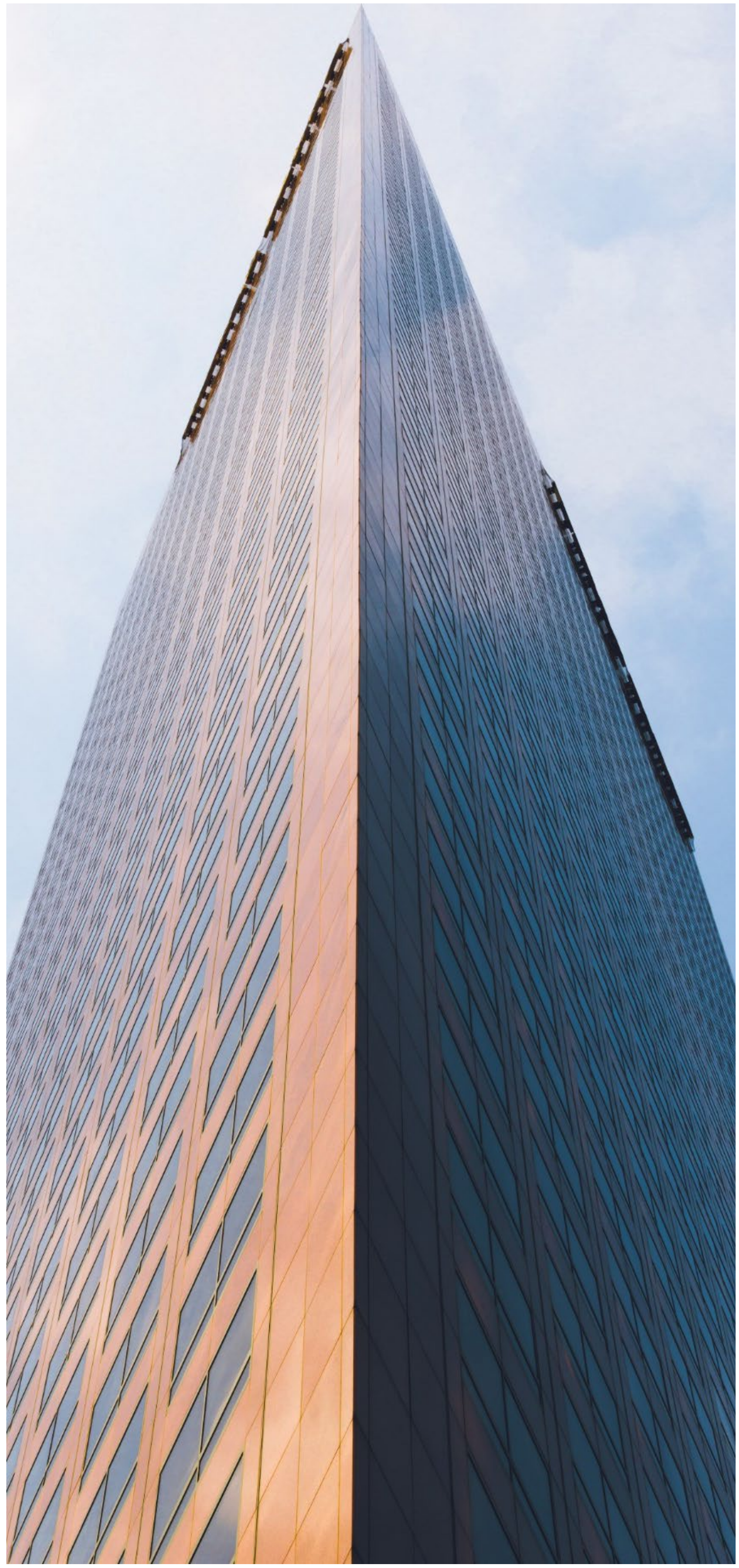
Head of Brokerage

Talal Al Balushi

+968 2494 9051

talal@u-capital.net

Visit us at: www.u-capital.net



P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9036
Fax: +968 2494 9099
Email: research@u-capital.net