

GISS Alert – Higher Costs Dent 4Q2022 EPS; Resumption of DPS (DY: 6%) a Positive; Maintain Accumulate

- GISS posted a net profit of QR24.0mn in 4Q2022, up 85.6% vs. QR13.0mn in 4Q2021 but down 75.6% from QR98.4mn in 3Q2022. Reported earnings for 4Q2022 were, however, 62.7% short of our forecast of QR64.2mn. Overall top-line of QR1.0bn was around 5.3% higher than our estimate of QR950.2mn with **upside in insurance/catering/drilling offsetting lower-than-expected aviation revenue; drilling top-line moderately exceeded our estimates but drilling gross profit slipped into the negative territory for the first time in 2022 (-0.2% gross margin) due to higher cost accruals, which should be a one-time impact.** Also, as far as GISS' 50%-owned GulfDrill JV is concerned, GISS recorded only about QR2.3mn in earnings net to GISS in 4Q2022 due to mobilization costs/regular rig maintenance expenses. **On the other hand, insurance and catering helped 4Q2022 earnings. Aviation was a negative surprise with GISS reporting a QR19.1mn net monetary loss from hyperinflation in 4Q2022 (a reversal, as the company had actually recorded a net gain from hyperinflation of QR7.7mn in 2Q2022); helicopters also recorded a small impairment of QR2.2mn. If we exclude these two items, net income for 4Q2022 came in at QR45.3mn.**
- **FY2022 revenue and earnings show traction.** While 2022 top-line grew 18.6% YoY, the company grew earnings 5x from QR54.2mn in 2021 to QR290.2mn in 2022.
- **In a positive surprise, GISS proposed a cash DPS of QR0.10 (dividend yield of 6%), which would be its first dividend since 2016.** We expect investors to take this announcement positively.
- **Net-net, we like these set of results and maintain our Accumulate rating and QR2.10 price target.** We continue to envision an acceleration in momentum in the drilling segment – one onshore rig is yet to be deployed and is expected to come on-line in 1H2023. Other segments should also contribute positively, while continued progress in costs reduction should help boost earnings. **Interest expenses do remain a challenge given the company's significant debt load of QR4.3bn (most of which is related to drilling) and 4Q2022's quarterly finance charges' run-rate of QR58.8mn (up 79.6% YoY and 10.3% QoQ; 245.5% of 4Q2022 net income).** Thus, *favorable updates on debt restructuring, which was put on the back burner due to COVID-19, could please equity investors and we expect to hear something on this front this year. Moreover, progress on the potential merger of [Amwaj \(catering\) with Shaqab](#), should help drive sentiment. Finally, although GDI's offshore rigs are under 2-5 year contracts, current market rates are significantly higher. Thus, if the company is able to renegotiate these contract rates, that could be a major positive for the stock.*
- **Overall 4Q2022 revenue of QR1.0bn (18.4% YoY, 7.9% QoQ) was 5.3% ahead of our forecast of QR950.2mn. 4Q2022 drilling revenue of QR334.8mn (10.3% YoY, 5.2% QoQ) was 3.3% above our estimate of QR324.0mn.** As expected, the significant YoY top-line growth in 2022 (up 26.0% from QR1.0bn in 2021 to QR1.3bn in 2022) was driven by new higher day rates becoming effective for GDI's offshore fleet from July 2021, along with resumption of two onshore rigs (GDI-5/7 that had been idling for an year due to COVID-19) from 3Q2021. *(continued on page 2)*

- (continued from page 1)* Moreover, all five offshore rigs under the GulfDrill JV in the North Field project, are operating with 3Q2021 being the first full quarter of contribution, which boosted management fees and thus revenue. New contracts for liftboats in the KSA/Maldives signed in 1Q2022 also helped the top-line. Finally in 1Q2021, GDI successfully renewed contracts for some offshore rigs with extended terms ranging 2-5 years, aiding YoY growth. On a QoQ basis, higher rig utilization (~93% in 4Q2022 vs. ~89% in 3Q2022) as GDI-8 came on-line during the quarter, helped top-line sequentially. Now, only one onshore rig remains idle. **Aviation revenue** in 4Q2022 of QR226.3mn (16.3% YoY, -8.7% QoQ) was 9.8% shy of our estimate of QR251.0mn. On a YoY basis in 2022, segment top-line grew 26.8% from QR722.1mn in 2021 to QR915.5mn. Easing coronavirus restrictions helped flying activity domestically and internationally (especially Turkey and Angola), leading to increasing flying hours; the MRO business also contributed positively. Sequentially, lower revenue from international operations, especially Turkey/Angola hurt segment top-line. 4Q2022 **insurance top-line** of QR266.0mn (9.4% YoY, 23.7% QoQ) came in 19.8% above our estimate of QR222.0mn. On a yearly basis, for 2022, the company continued to point to the loss of two medical insurance contracts from early-2022, which was partially offset by growth in premiums (due to renewals with wider coverage scope) in the general insurance segment; consequently, insurance revenue declined 9.2% YoY from QR988.0mn in 2021 to QR897.5mn in 2022. However, insurance revenue soared QoQ due to growth in premiums from the medical insurance segment as Al Koot won new contracts during the quarter. Finally, **catering revenue** of QR173.1mn (67.9% YoY, 18.7% QoQ) was 12.9% higher than our estimate of QR153.3mn. Catering benefited from growth in the manpower business (new contract win in late 2021, along with renewals in manpower/catering with broader scope improving overall service volumes) and receding pandemic-related restrictions, especially on a YoY basis, in 2022. Thus, 2022 catering revenue of QR567.6mn shot up 57.2% YoY from QR361.1mn in 2021. Sequential growth in catering revenue was driven by World Cup-related contracts.
- In terms of net income, relative to our model, better-than-forecasted profitability in 4Q2022 from insurance and catering was more than offset by aviation and drilling.** The significant upside in insurance top-line, helped boost its gross margin and filtered down to the segment's bottom-line; this was partially offset by a ~318% QoQ decrease in unrealized gains on the company's investment book. **Catering earnings**, which turned positive in 3Q2022, further rose in 4Q2022 given the uptick in its revenue. A weaker-than-expected top-line in **aviation**, along with GM deterioration, a hyperinflation loss and a small impairment, crimped segment profitability. **Significant deterioration in drilling gross margin, which went into the red due to costs accrual, negated the upside in drilling revenue.** This along with a 12.3% QoQ increase in finance charges hiked segment loss to QR50mn in 4Q2022 vs. a loss of QR16.8mn in 3Q2022. Given GISS' thin margins any slight divergence in costs creates significant volatility in the bottom-line. *Please see page 3 for details on segmental revenue/costs/earnings.*

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Income Statement

	4Q2021A	3Q2022A	4Q2022A	4Q2022e	A Vs. E	YoY	QoQ	A Vs. E	YoY	QoQ	2021	2022	2022e	A Vs. E	YoY
Revenue	844.4	926.9	1,000.1	950.2	5.3%	18.4%	7.9%	50	156	73	3,091.1	3,665.5	3,615.6	1.4%	18.6%
<i>Gulf Drilling International (GDI)</i>	303.6	318.2	334.8	324.0	3.3%	10.3%	5.2%	11	31	17	1,019.8	1,284.9	1,274.1	0.9%	26.0%
<i>Gulf Helicopters Company (GHC)</i>	194.5	247.9	226.3	251.0	-9.8%	16.3%	-8.7%	(25)	32	(22)	722.1	915.5	940.2	-2.6%	26.8%
<i>Amwaj Catering Company (AHC)</i>	103.1	145.8	173.1	153.3	12.9%	67.9%	18.7%	20	70	27	361.1	567.6	547.8	3.6%	57.2%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	243.2	215.0	265.9	222.0	19.8%	9.4%	23.7%	44	23	51	988.0	897.5	853.6	5.2%	-9.2%
COGS	711.0	751.4	826.1	772.6	6.9%	16.2%	9.9%	53	115	75	2,744.6	2,992.9	2,939.5	1.8%	9.0%
<i>Gulf Drilling International (GDI)</i>	327.3	247.8	335.6	252.0	33.2%	2.5%	35.4%	84	8	88	1,044.5	1,147.8	1,064.3	7.9%	9.9%
<i>Gulf Helicopters Company (GHC)</i>	107.2	139.0	148.7	138.4	7.4%	38.8%	7.0%	10	42	10	423.8	540.9	530.6	1.9%	27.7%
<i>Amwaj Catering Company (AHC)</i>	64.8	170.5	129.5	182.0	-28.8%	100.0%	-24.0%	(52)	65	(41)	359.4	540.1	592.6	-8.8%	50.3%
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	211.7	194.1	212.2	200.2	6.0%	0.2%	9.3%	12	0	18	916.9	764.0	752.0	1.6%	-16.7%
Gross Profit	133.4	175.5	174.1	177.6	-2.0%	30.5%	-0.8%	(3)	41	(1)	346.5	672.7	676.2	-0.5%	94.1%
Gross Margin	15.8%	18.9%	17.4%	18.7%							11.2%	18.4%	18.7%		
<i>Gulf Drilling International (GDI)</i>	(23.7)	70.5	(0.8)	72.0	N/M	-96.8%	N/M	(73)	23	(71)	(24.7)	137.1	209.8	-34.7%	N/M
<i>Gross Margin</i>	-7.8%	22.1%	-0.2%	22.2%							-2.4%	10.7%	16.5%		
<i>Gulf Helicopters Company (GHC)</i>	87.4	108.9	77.5	112.5	-31.1%	-11.2%	-28.8%	(35)	(10)	(31)	298.4	374.5	409.5	-8.5%	25.5%
<i>Gross Margin</i>	44.9%	43.9%	34.3%	44.8%							41.3%	40.9%	43.6%		
<i>Amwaj Catering Company (AHC)</i>	38.3	(24.7)	43.6	(28.7)	N/M	13.7%	N/M	72	5	68	1.8	27.5	(44.8)	N/M	1458.7%
<i>Gross Margin</i>	37.2%	-17.0%	25.2%	-18.7%							0.5%	4.8%	-8.2%		
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	31.4	20.8	53.7	21.7	147.3%	71.0%	157.7%	32	22	33	71.1	133.6	101.6	31.5%	87.9%
<i>Gross Margin</i>	12.9%	9.7%	20.2%	9.8%							7.2%	14.9%	11.9%		
Net Income	12.9	98.4	24.0	64.2	-62.7%	85.6%	-75.6%	(40)	11	(74)	54.2	290.2	330.4	-12.2%	435.5%
Net Margin	1.5%	10.6%	2.4%	6.8%							1.8%	7.9%	9.1%		
<i>Gulf Drilling International (GDI)</i>	(42.2)	(16.8)	(49.9)	(25.5)	95.5%	18.2%	196.7%	(24)	(8)	(33)	(200.9)	(90.0)	(65.6)	37.2%	-55.2%
<i>Net Margin</i>	-13.9%	-5.3%	-14.9%	-7.9%							-19.7%	-7.0%	-5.1%		
<i>Gulf Helicopters Company (GHC)</i>	46.4	98.4	47.7	102.5	-53.4%	2.8%	-51.5%	(55)	1	(51)	221.1	309.5	364.2	-15.0%	40.0%
<i>Net Margin</i>	23.9%	39.7%	21.1%	40.8%							30.6%	33.8%	38.7%		
<i>Amwaj Catering Company (AHC)</i>	3.1	1.8	8.2	(2.1)	N/M	162.5%	358.3%	10	5	6	(15.5)	8.9	(1.5)	N/M	N/M
<i>Net Margin</i>	3.0%	1.2%	4.8%	-1.4%							-4.3%	1.6%	-0.3%		
<i>Al Koot Insurance & Reinsurance (AKIR)</i>	10.2	17.0	19.3	(9.5)	N/M	89.6%	13.5%	29	9	2	60.4	71.2	42.4	67.9%	17.8%
<i>Net Margin</i>	4.2%	7.9%	7.3%	-4.3%							6.1%	7.9%	5.0%		
<i>Corporate/Other</i>	(4.6)	(2.0)	(1.4)	(1.1)	28.1%	-69.9%	-30.7%	(0)	3	1	(11.0)	(9.4)	(9.1)	3.3%	-14.3%
EPS	0.01	0.05	0.01	0.03	-62.7%	85.6%	-75.6%	(0)	0	(0)	0.03	0.16	0.18	-12.2%	435.5%
DPS											0.00	0.10	0.00		

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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