

QNBFS Alert – Drilling Drives GISS' Weak 4Q2015

- **GISS reports a loss in 4Q2015; DPS lowered to QR1 vs. QR5.5 in 2014** – GISS' reported revenue declined 8% QoQ and 25% YoY to QR896mn in 4Q2015, missing our estimate of QR1,048mn. The miss was due primarily to the drilling segment, which did not seem to benefit from the startup of the two land rigs. Drilling numbers also seem to indicate a further decline in rates and/or idling of rigs. Blended GMs dropped to 21.9% in 4Q2015 vs. 29.4% in 3Q2015 again on account of the drilling segment that witnessed a sequential increase in costs. GISS also reported a net loss of QR21mn in 4Q2015 vs. a net profit of QR217mn in 3Q2015. The reported net loss adjusted for certain one-time items from GDI – QR189mn loss from the damaged Rumailah lift boat less insurance claim received of QR91mn, and impairments of QR10mn – came out to be a profit of QR87mn, still well below our estimate with the drilling decline being the major contributor. The company lowered its proposed DPS to QR1 (23.2% payout) from QR5.5 (72.5%) in 2014; average payout ratio of 45.1% over 2009-2013. While we had expected a cut in dividends given the uncertain environment, we had not anticipated a decline of this magnitude.
- **Estimates on hold.** Cost reduction remains the top most priority for management with the company's drilling and aviation subsidiaries actively relooking at optimal deployment plan of their asset base. We put our estimates on hold pending our conversation with the company. Unavailability of details, especially pertaining to the drilling business, will continue to create volatility around quarterly estimates.
- **Valuation** – If we apply another 30% haircut to GISS' 2015 EPS of QR4.31 and adjust the stock price by roughly QR4 in cash per share (factoring in 2015 dividends), GISS is trading at a P/E of 11.4x. This compares to its historical TTM mean and median P/Es of 11.3x and 10.6x, respectively.

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

Saugata Sarkar

Head of Research

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

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