

Gulf International Services (GISS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR77.90	Current Target Price	QR93.00
Implied Upside	19.4%	Old Target Price	QR106.00

Announcement Incrementally Positive; Accumulate With QR93 PT

Rig rates to be renegotiated 10-15% lower than previous rates. In a press release, Gulf International Services (GISS) announced that it has taken steps to counter the negative effects from having 2 of its jack-up drilling rigs go off contract earlier this month. The Msheireb rig has secured new work that will commence later in June for one firm well with a client option to extend for additional wells. This same rig has also been shortlisted for a 1 year firm plus 1 year option contract scheduled to commence in 1Q2016. The second rig that went off contract, Al Rayyan, is also being considered for work that is scheduled to commence in early 2016. The company also announced that the daily operating rates reached by GDI after renegotiations with clients will be lower by 10% to 15% vs. its previous rates and these rates are considered adequate compared to currently prevailing prices in the global drilling market. GISS further pointed out that these new rates are being set in place with an understanding that they will be re-visited should crude oil prices start to rise. **We were expecting a lowering of rates across the board and believe that a 10-15% drop in rates is better than what many investors were fearing and hence incrementally positive for the stock.**

Highlights

- **Adjusting model to account for rate reductions and 1Q2015 results.** We highlight our major model changes: **(1) Offshore:** We are lowering our offshore rates generally across the board by 15%. We have factored in the lower rates from 2Q2015 onward and also assumed the idling of the Al Rayyan rig over 2Q2015-4Q2015. Our projected average daily offshore rig rate drops to \$121k/d for 2015 vs. \$129k/d in 2014 (-7% YoY) and \$119k/d in 2013. For 2016, we are expecting another 4% drop to \$115k/d. **(2) Onshore:** We are being conservative in lowering rig rates by 10% for the existing GDI 1-6 and the upcoming GDI 7-8 rigs. We have also made some other model changes to reflect 1Q2015's outperformance relative to our expectations.
- **We anticipate recurring net income growth to slow to 1.6% in 2015.** Overall, we are reducing our revenue estimates by 8% for 2015 due primarily to the drilling segment; our 2016-18e revenue estimates have also come down by 6%. We are lowering our 2015 DPS estimate to QR4.25 (68% payout) vs. QR5.50 previously.

Catalysts

- **While fundamentals remain resilient, stock price recovery will depend on improvement in market sentiment.** 2015 dividend yield is also attractive at 5.5%.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate GISS an Accumulate with a revised price target of QR93.00.** Our current price target is 12% lower than our previous target of QR106.00. The stock is currently trading at 2015 and 2016 P/E multiples of 12.5x and 11.7x, respectively.
- **Risks: Declining/volatile oil prices remain a substantial risk to regional equity prices.** Further decline in rig rates could pressure the stock. GISS also faces concentration risk given its exposure to QP/affiliates.

Key Financial Data and Estimates

	2014	2015e	2016e	2017e
EPS (QR)	6.14	6.24	6.68	6.93
P/E (x)	12.7	12.5	11.7	11.2
DPS (QR)	5.50	4.25	4.50	4.75
Dividend Yield (%)	7.1%	5.5%	5.8%	6.1%

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

Key Data

Bloomberg Ticker	GISS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector	Industrials
52wk High/52wk Low (QR)	131.00/67.00
3-m Avg. Volume (000)	454.9
Mkt. Cap. (\$ bn/QR bn)	4.0/14.5
FO Limit* (%)	25.0
Current FO* (%)	11.2
Shares Outstanding (mn)	185.8
1-Year Total Return (%)	(9.5)
Fiscal Year End	December 31

Source: Bloomberg (as of June 02, 2015), *Qatar Exchange (as of June 02, 2015); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement

In QR mn	FY2014	FY2015e	FY2016e	FY2017e	FY2018e
Revenue	3,906	4,509	4,884	5,067	5,163
Gulf Drilling International (GDI)*	1,473	2,040	2,322	2,409	2,406
Gulf Helicopters Company (GHC)	644	739	789	840	894
Amwaj Catering Company (ACS)	1,056	1,027	1,052	1,079	1,106
Al Koot Insurance & Reinsurance (AKIR)	733	704	721	739	758
COGS	2,710	3,063	3,321	3,448	3,509
Gross Profit	1,196	1,447	1,564	1,619	1,654
SG&A	217	283	311	320	323
Total Other Income	89	43	43	43	43
Net Finance Income (Expense)	(27)	(48)	(54)	(54)	(55)
One-Offs/Non-Recurring Items	269	0	0	0	0
Income from JVs	100	0	0	0	0
Net Income	1,410	1,159	1,241	1,288	1,319
Net Income (Clean)	1,140	1,159	1,241	1,288	1,319
EBITDA	1,818	1,725	1,872	1,944	1,984
EBITDA (Clean)	1,549	1,725	1,872	1,944	1,984
DPS (QR)	5.50	4.25	4.50	4.75	5.00

Source: Company data, QNBFS estimates; Note: EPS based on current number of shares, *GDI results consolidated from May 1, 2014

Balance Sheet

In QR mn	FY2014	FY2015e	FY2016e	FY2017e	FY2018e
Current Assets					
Cash & Cash Equivalents	1,087	1,294	2,152	3,131	4,107
Investments Held for Trading	218	244	244	244	244
Insurance Contract Receivables & A/R	946	1,121	1,196	1,241	1,266
Due From Related Parties	634	604	604	604	604
Inventories	203	227	245	255	260
Total Current Assets	3,089	3,490	4,442	5,475	6,481
Non-Current Assets					
Available for Sale Investments	300	302	302	302	302
Held to Maturity Investments	85	86	86	86	86
Investment in Joint Ventures	-	-	-	-	-
Investment Properties	1	1	1	1	1
Goodwill	313	313	313	313	313
Property, Plant & Equipment	7,037	7,447	7,490	7,060	6,622
Non-Current Assets	7,738	8,149	8,192	7,761	7,323
Total Assets	10,826	11,638	12,634	13,237	13,804
Current Liabilities					
Short-Term Debt	909	872	872	872	872
Insurance Payables & Accounts Payable	1,719	1,771	1,863	1,923	1,962
Due to Related Parties	11	80	80	80	80
Current Liabilities	2,638	2,723	2,815	2,874	2,914
Non-Current Liabilities					
Employees End of Service Benefits	64	68	68	68	68
Long-Term Debt	3,946	4,533	4,985	5,077	5,168
Non-Current Liabilities	4,010	4,601	5,052	5,144	5,236
Total Liabilities	6,649	7,323	7,867	8,018	8,150
Shareholders' Equity					
Total Shareholder's Equity	4,178	4,315	4,766	5,218	5,655
Liabilities & Shareholder's Equity	10,826	11,638	12,634	13,237	13,804

Source: Company data, QNBFS estimates

Recommendations

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

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

Risk Ratings

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

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

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