

## **QNNS Alert – 4Q2021 Earnings Misses & DPS of 0.30 Below Estimate; LT Story Intact; Outperform**

- **Milaha (QNNS or Qatar Navigation) posted 4Q2021 earnings of QR205.2mn, before impairments, which was up 84.4% YoY but down 5.2% QoQ.** Reported earnings, before impairments, fell short of our estimate of QR223.2mn by 8.0%. If we include impairments of QR135.4mn recorded in 4Q2021, earnings came in at QR69.9mn as compared to a net loss of QR324.6mn in 4Q2020 (which had impairments of QR435.9mn) and net profit of QR216.5mn in 3Q2021. 4Q2021 revenue of QR749.1mn (37.3% YoY, 13.3% QoQ) was actually 8.8% ahead of our estimate of QR688.6mn.
- **FY2021 earnings, before impairments, grew 2.1% YoY with a flat DPS of QR0.30 (yield of 3.5%).** Impairments declined significantly from QR868.0mn in 2020 to QR147.6mn in 2021 pointing to the underlying health of the company's operations. Including impairments, FY2021 earnings jumped significantly from QR59.1mn in 2020 to QR724.2mn in 2021. DPS of QR0.30 was flat with 2020 but below our estimate of QR0.35. FY2021 revenue of QR2.78bn increased 22.8% YoY and was 2.2% ahead of our estimate. Better-than-expected performance from **Milaha Maritime & Logistics** (strong container shipping, network optimization measures boosting margins and YoY growth from its 49%-owned QTerminals JV) and **Milaha Gas & Petrochem** (driven by contribution from its 36.3%-owned associate Nakilat offsetting top-line weakness due to soft tanker rates) helped drive FY2021 performance.
- **We remain bullish longer-term on the QNNS growth story.** These results and the lower-than-expected dividend could put some pressure on the stock and we would view any weakness opportunistically. We also note the stock is up roughly 18% since our initiation. The stock, over 2011-2021, has always traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up more than 100% of QNNS' market cap. This implies that investors get Milaha's "core" or operating businesses for almost free. However, what could be different this time around is that Milaha should enjoy several catalysts, which could help in its rerating. We note recovery in oil prices/sentiment, the lifting of Qatar's blockade, the upcoming FIFA World Cup Qatar 2022 and the massive North Field Expansion project, are all positive tailwinds. Growth snapback, as COVID-19 restrictions ease, should also contribute to easier comparisons going forward. Lack of large impairments in the future should also help QNNS' earnings trajectory and highlight its growth story to investors. **We remain Outperform with a QR10.000 target price**
- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio.** For the stock to rerate, investors need to see earnings/EBITDA growth acceleration without significant impairments muddling up the story. Other risks remain, including: (1) Weakness/volatility in oil prices; (2) Execution/integration issues with major fleet additions/acquisitions; (3) Fall in local equity/RE prices; (3) A slowdown in Qatar's economy and (4) Geopolitical crisis in the MENA region.

### Recommendations

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

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

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### Risk Ratings

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

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

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