

## 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*

<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%

### 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

#### 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

**DISCLAIMER:** This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNBFS.