

# **Qatar Research**

**Qatar Fuel Company (Woqod)** 

May 3, 2011 CMP: QR 252 Target price (Dec '11): QR 261

- ➤ Revenue growth of (+c24%, YoY) in 2010 after a decline of (-c18%, YoY) in 2009, was in line with our expectations.
- ➤ The company would benefit from the recent increase in prices of petroleum products in Qatar. Improvement in cash flows (Profits up by +c23% in 2010), healthy cash position (cQR 2.4 bn.;Q1 2011) and support from Qatar Petroleum gives leverage to pursue expansion plans.
- > Based on our EPS estimates for 2011 the stock is currently trading at forward PE of c9.0x.We increase our target price to cQR 261 per share and recommend buying at lower levels.

**Overview:** Revenue (+c3% v/s BM estimates) and profit (+c0.25% v/s BM estimates) for 2010 has been in line with our estimates. Increase in volume of petroleum products along with higher prices and stable economic environment has been helping the revenue growth.

March 2011 result update: Revenues for the quarter ended March 2011 stood at cQR 2.28 billion (+c4% QoQ, +c38% YoY). Net income for Q1 2011 reached cQR 295 million (+c23% QoQ, +c6 % YoY). The net income in Q4 2010 was impacted on account of increase in provisions for litigation and impairment losses. However, we expect margins to move in a narrow range and remain stable on account of fixed tariff regime.

Increased prices of petroleum products during Q1 2011 would fuel in revenue growth and profits during 2011: Prices for Diesel (contributes c50-60% to the overall refined products sales) increased by c+43%, Super & Premium petrol prices saw a jump of c21% & 25% in the beginning of the year. On back of these increased prices we expect revenue to grow by c+26% and EBITDA +c8% during 2011. We expect margins to remain in a stable range going forward.

				% volume
QR per litre	Old	New	% increase	cont.
Super 97 Octane	0.80	1.00	25%	23%
Premium	0.70	0.85	21%	18%
Diesel	0.70	1.00	43%	59%
Kerosene	0.70	0.80	14%	0%

Source: Company report & Bank Muscat research

Investing in building infrastructure and looks to expand in other countries: As highlighted in our initiation report, Woqod aims to set up 50 to 75 petrol stations within Qatar over next few years. The Management indicated that 12 petrol stations are currently under construction phase and 4 petrol stations are in tendering process. The company has also announced its intention to open two new service centres and aims to leverage on its recent acquisition of Qatar Technical Inspection. Company is in foray for international expansion into Africa and other Middle East countries. It has signed distributors for lubricants in UAE and Iraq. The second phase of building pipeline infrastructure for transportation of Jet fuel is as per schedule. We do not see any evidence of stalling activity and expect company to benefit from these developments. The company plans to incur capital expenditure of cQR 950 million during 2011e.

**Outlook:** We expect the revenue for the current year (December 2011) to reach cQR 9.6 billion (+c26%, compared to FY 2010) and EPS to reach cQR 28.1 per share. Based on our EPS estimate for 2011E and 2012E the company is currently trading at PE multiple of c9.0x and c8.8x respectively. We increase our target price to cQR 261 per share on back of recent developments and recommend buying at lower levels as the company appears to be fairly valued at current levels.

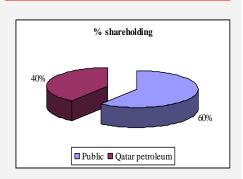
## Recommendation

Hold

#### **Stock Details**

Exchange / Code QFLS
Bloomberg Code QFLS
Equity Capital QAR 415.8 mn
Face Value QAR 10
52-Week H/L 261/130.2
Market Cap QAR 10.5 bn

#### **Shareholding Pattern**



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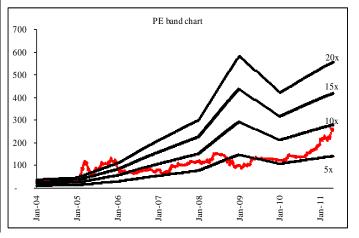




**Quarterly Snapshot (Q1 2011)** 

Figures in QR Million	01 2011	04 2010	01 2010	% Q <sub>0</sub> Q	% YoY	2009	2010	% YoY
Sales	2,285	2,205	1,653	4%	38%	6,176	7,663	24%
Cost of Sales	1,889	1,807	1,286	5%	47%	4,900	6,043	23%
Gross Profit	396	398	367	-1%	8%	1,277	1,620	27%
% Margin/change (bps)	17%	18%	22%	(73)	(488)	21%	21%	47
SG&A Expense	154	70	93	119%	66%	476	455	-4%
EBITDA	242	328	274	-26%	-12%	801	1,165	45%
% Margin/change (bps)	11%	15%	17%	(428)	(600)	13%	15%	223
Depreciation	24	28	17			65	89	37%
EBIT	218	301	257	-27%	-15%	736	1,076	46%
% Margin/change (bps)	10%	14%	16%	(409)	(601)	12%	14%	212
Non-Operaing								
Other Income/Loss	77	(61)	21	-227%	258%	213	93	-56%
Doubtful debts	-	-						
Finance Charges	(0.1)	0.3	(0.1)			-	-	
PBT	295	240	278	23%	6%	949	1,169	23%
Tax								
PAT	295	240	278	23%	6%	949	1,169	23%
% Margin/change (bps)	13%	11%	17%	201	(394)	15%	15%	(11)

The company is currently trading at a PE (TTM) of c9.4x and is towards the higher end of the trading band 5-10 (last two years trading range).



Source: Company report & Bank Muscat research

## **Financials**

Income statement summary (QR mn.)	2009	2010	2011E	2012E	Cash Flow Summary (QR mn)	2009	2010	2011E	2012E
Refined Products	3,869	4,681	5,900	6,264	Cash from Operating Activities	1,214	1,702	1,041	1,210
Jet Fuel	2,145	2,791	3,531	4,113	Capital Expenditures	-280	-210	-400	-400
Transportation and storage	139	149	164	180	Cash from Investing Activities	-296	-298	-402	-400
Vehicle Inspection	23	41	46	50	Cash from Financing Activities	-338	-365	-416	-583
Overall revenue	6,176	7,663	9,640	10,607	Net Cash-Beginning Balance	1,284	1,864	2,903	3,127
EBITDA	801	1,165	1,260	1,300	Net Cash-Ending Balance	1,864	2,903	3,127	3,354
EBIT	736	1,076	1,153	1,173					
Pre-Tax Profit	949	1,169	1,251	1,276	YoY Growth (%)	2009	2010	2011E	2012E
Net Profit	949	1,169	1,251	1,276	Refined Products	-6%	21%	26%	6%
EPS	20.9	26.2	28.1	28.6	Jet Fuel	-34%	30%	27%	16%
					Overall revenue	-18%	24%	26%	10%
Balance Sheet summary (QR mn)	2009	2010	2011E	2012E	EBIDTA	-35%	45%	8%	3%
Fixed Assets					EBIT	-38%	46%	7%	2%
Goodwill	135	133	133	133	Net Profit	-28%	23%	7%	2%
Available-for-Sale Investments	149	225	248	272					
PPE	1,269	1,389	1,682	1,955					
Total Fixed Assets	1,553	1,747	2,062	2,360	Ratio Analysis	2009	2010	2011E	2012E
Current Assets					Profitability				
Accounts Receivables & Prepaym.	1,339	1,306	1,585	1,744	Gross profit margin	21%	21%	18%	17%
Other Assets	0	0	5	5	EBITDA Margin	13%	15%	13%	12%
Inventories	188	198	274	332	EBIT Margin	12%	14%	12%	11%
Bank Balances & Cash	1,864	2,903	3,127	3,354	Net Income Margin	15%	15%	13%	12%
Total Assets	4,945	6,154	7,053	7,794	Return on Assets	19%	20%	18%	16%
Long term Liabilities					Return on Equity	30%	30%	27%	23%
Long term debt	0	0	0	0	ROCE	51%	69%	65%	52%
Due to related party	0	34	34	34					
Provision	0	100	100	100	Leverage and Efficiency				
Minority interest	172	218	229	240	Debt to Equity	0.0%	0.0%	0.0%	0.0%
Pension	23	33	43	56	EBITDA/Interest Expense				
Current Liabilities					Assets turnover	137%	138%	146%	143%
Accounts Payable & Accruals	272	174	223	251	Days of Sales Outstanding	79.2	62.2	60.0	60.0
Short term debt	0	0	0	0					
Due to Qatar Petroleum	1,205	1,575	1,654	1,737	Valuation				
Total Liabilities	1,673	2,135	2,284	2,418	Price to Earnings	12.0	9.6	9.0	8.8
Total Equity	3,271	4,019	4,770	5,376	Price to Book	3.2	2.6	2.2	1.9
Total Liabilities and shareholders equity	4,945	6,154	7,053	7,794	Enterprise Value to EBITDA	10.7	6.5	5.8	5.5
Source: Company report & Bank Muscat re	esearch								

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