

الخدمات المالية Financial Services

Gulf International Services (GISS)

Recommendation	ACCUMULATE	Risk Rating	R-4		
Share Price	QR3.090	Target Price	QR3.410		
Implied Upside	10.4%	Old Price Target	QR2.617		
Buys 3 Offshore Rigs; Modestly Accretive Deal Could Enhance LT Value; Accumulate					

We are increasing our price target on GISS and maintaining our Accumulate rating. GISS announced that it was buying Seadrill's three offshore rigs/50% interest in GulfDrill JV for \$338mn and that it will finance 90% of this transaction through a debt placement over the next several weeks. We note these three rigs are being deployed in Qatar's North Field expansion project and are commanding day rates of ~\$120K/d (through end-2025/early-2026) vs. GISS's existing offshore fleet of 7 rigs that run at an average of ~\$80K/d. We are rolling our DCF model forward to 2024 and given this deal/GISS's 1Q2024 operating performance, are raising our price target from QR2.617 to QR3.410. We have not incorporated this transaction into our earnings estimates (as we await further details) but our initial sense is that this deal could be modestly accretive to earnings. We do note that management has stated that this purchase could lead to untapped and unaccounted revenue/costs synergies and our initial take on earnings growth could indeed be conservative. Importantly, we think this transaction enables GISS to better tap the growth in Qatar's offshore drilling market. We reiterate our Accumulate rating on GISS. Highlights

- What happened? GISS announced that its wholly-owned subsidiary GDI is purchasing 3 offshore rigs and the remaining 50% stake in its GulfDrill JV from Seadrill for \$338mn; deal should close end-June/early-July. The GulfDrill JV was formed in 3Q2019, operating five offshore jack-up rigs (3 owned by Seadrill and 2 by a Chinese shipyard) with staggered deployments beginning in 1Q2020 in Qatar's North Field. GISS will purchase Seadrill's three offshore rigs, West Castor, West Telesto and West Tucana, for \$325mn and Seadrill's 50%-interest in GulfDrill for \$13mn.
- Why do it now? Given its recent debt restructuring, GISS has meaningfully reduced its interest burden, better positioning it to undertake a deal of this size. We had been expecting this transaction given Seadrill's intention to exit this venture since June of last year. Given its recent debt restructuring of a majority of GDI's QR4.4bn debt load, which allowed GDI to markedly reduce its finance costs (annual run rate of QR130mn in 2024 vs. QR183mn, excluding one-offs, in 2023) and defer principal payments until 2026 (followed by 18 unequal annual installments with a balloon payment of 35% due in 2048), GISS is better positioned to undertake this deal.
- How will it be financed? GISS will finance 90% of the transaction or \$304mn through senior debt financing that should be finalized over the next few weeks. The remaining 10% could be funded through internal sources (GISS has cash/ST investments of QR1.1bn as of 1Q2024). After this deal, GISS's total debt could increase ~25% from QR4.3bn in 1Q2024 to QR5.4bn but GISS has put together a SPV structure to ring-fence the transaction (details below).
- A word about the structure: the new debt will be housed at a SPV level and not at GDI's level given the latter's significant debt burden. According to the press release, 10% of the purchase or \$33.8mn will be funded by GISS (probably through its internal sources) and will be provided as a shareholder loan to the SPV. The three rigs, along with the shareholder loan of \$33.8mn and the senior debt financing of \$304.2mn, will be housed in a SPV called as Gulf Jackup SPC. This should allow for ring fencing and tax benefits. Overall, GDI, owned 100% by GISS, will own 100% of a new SPV called Gulf Jackup SPC and 100% of GulfDrill (that was previously owned 50% and will now house the two Chinese rigs under a bare boat structure).
- Impact on numbers: GISS states that the transaction will improve combined revenue and profitability given operational synergies and elimination of bare boat charges; our initial sense is that this deal is modestly accretive to earnings. Our assumption is that finance charges, running at a rate of around 7-8% per annum, could take a bite out of the earnings increase. On an EBITDA basis, we think these three rigs could add around QR150-QR170mn in EBITDA per year, which is roughly a 40% growth from GDI's 2023 EBITDA of QR418mn. We await more color regarding operational synergies, margins, etc., so we can adjust our estimates. We do note that given this deal, it is possible that GISS could have to cap its DPS around its 2023 level of QR0.15 a share.

Catalysts

• Further details about earnings impact of this transaction, along with an increase in rig rates for the remaining seven offshore rigs, should help. We stay longer-term positive on GISS shares. Recommendation. Valuation and Risks

• Recommendation and valuation: We rate GISS an Accumulate with a TP of QR3.410.

 Risks: Geopolitical risks cannot be modeled. Oil price volatility can hurt operations and rig rate renegotiation efforts. Debt levels are high (2023: QR4.4bn/3.4x net-debt-to-EBITDA) but manageable in light of 5.4x interest coverage (2024e). Decline in rig rates/utilizations could pressure shares. GISS also faces concentration risk given its exposure to QatarEnergy/affiliates.

Key Financial Data and Estimates

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	2023	2024e	2025e	2026e
Revenue (QR mn)	3,538	3,894	4,115	4,326
EPS (QR)	0.211	0.346	0.390	0.442
P/E	14.7	8.9	7.9	7.0
DPS	0.150	0.175	0.200	0.225
Dividend Yield	4.9%	5.7%	6.5%	7.3%

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	3.090		
Dividend Yield (%)	4.9		
Bloomberg Ticker	GISS QD		
ADR/GDR Ticker	N/A		
Reuters Ticker	GISS.QA		
ISIN	QA000A0Q6LH4		
Sector*	Industrials		
52wk High/52wk Low (QR)	3.203/1.740		
3-m Average Volume ('mn)	5.8		
Mkt. Cap. (\$ bn/QR bn)	1.6/5.7		
Shares Outstanding (bn)	1.9		
FO Limit* (%)	49.0		
Institutional FO* (%)	12.5		
1-Year Total Return (%)	56.5		
Fiscal Year End	December 31		

Source: Bloomberg (as of May 16, 2024), *Qatar Exchange (as of May 16, 2024); Note: FO is foreign ownership

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Income Statement

3,034	3,538							
	3,330	3,894	4,115	4,326	4,517	4,733	4,844	4,983
1,232	1,329	1,510	1,544	1,604	1,630	1,707	1,712	1,764
914	1,035	1,109	1,183	1,251	1,338	1,411	1,458	1,493
888	1,174	1,276	1,388	1,471	1,549	1,615	1,673	1,725
2,417	2,867	3,086	3,226	3,334	3,439	3,541	3,608	3,662
1,137.6	1,126.1	1,205.9	1,215.2	1,223.0	1,222.2	1,231.0	1,229.1	1,228.2
540.9	628.0	701.7	743.0	782.4	833.8	875.4	901.0	918.9
782.0	1,103.7	1,168.8	1,257.6	1,318.6	1,372.7	1,423.8	1,466.5	1,503.5
(43.7)	8.7	9.4	9.8	10.2	10.5	10.8	11.0	11.1
616.7	672.0	808.2	889.5	991.6	1,078.4	1,192.0	1,235.9	1,321.0
20.3%	19.0%	20.8%	21.6%	22.9%	23.9%	25.2%	25.5%	26.5%
166	193	209	221	232	244	255	264	272
(11)	10	12	13	14	14	15	16	16
3	46	53	50	51	53	54	55	55
(145)	(135)	(75)	(72)	(70)	(70)	(67)	(58)	(47)
(13)		(10)	(11)	(12)	(13)	(13)	(14)	(15)
18	25	65	76	79	82	86	87	89
302	392	644	724	821	901	1,011	1,059	1,149
10%	11%	17%	18%	19%	20%	21%	22%	23%
(90)	(38)	125	159	215	242	310	316	367
-7%	-3%	8%	10%	13%	15%	18%	18%	21%
310	343	341	363	383	411	438	460	479
34%	33%	31%	31%	31%	31%	31%	32%	32%
71	103	134	158	181	205	221	236	251
8%	9%	11%	11%	12%	13%	14%	14%	15%
12	(16)	43	44	43	43	43	47	51
841	908	1,142	1,102	1.224	1,328	1.460	1.527	1.637
28%		•	•				•	33%
369	418	530	561	619	651	725	738	797
30%	31%	35%	36%	39%	40%	43%	43%	45%
388	415	436	484	525	573	614	645	671
43%				42%	43%	44%	44%	45%
57		110	132	154	177	192	207	222
6%		9%				12%		13%
26		66						(52)
4%			· · · · ·			1 A A A A A A A A A A A A A A A A A A A		-4%
								0.618
								0.325
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21.6% 22.9% 23.9% 25.2% 25.5% 166 193 209 221 232 244 25 25 163 46 53 50 51 53 54 55 1133

Source: Company data, QNB FS Research

Recommendations Based on the range for the upside / downside offered by the 12- month target price of a stock versus the current market price		Risk Ratings Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals		
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average	
ACCUMULATE	Between +10% to +20%	R-2	Lower than average	
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average	
REDUCE	Between -10% to -20%	R-4	Above average	
UNDERPERFORM	Lower than -20%	R-5	Significantly above average	

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