GISS Alert – No Surprises in 4Q2019; Drilling Catalyst to Boost Stock in 2020; Outperform

- **GISS' 4Q2019 earnings broadly in-line –** GISS reported earnings of QR9.0mn in 4Q2019, gaining vs. QR5.3mn posted in 3Q2019 and significantly above the rig impairment-driven loss of QR137.7mn posted in 4Q2018. We were expecting an overall net income of QR8.1mn in 4Q2019 so earnings were broadly in-line our model. As expected, the company did not recommend a cash dividend for 2019.
- **4Q2019 revenue came in-line at QR772.8mn (23.1% YoY, 0.8% QoQ).** GISS' top-line was in-line with our estimate of QR774.5mn (delta of -0.2%). Segment revenue was generally in-line with our forecasts.
- **For the year, GISS posted QR3.0bn in revenue, up 19.5% YoY and earnings of QR43.6mn vs. a loss of QR98.3mn in 2018.** 2018 earnings, excluding rig impairment, was QR51.7mn. 2019 EBITDA of QR724mn also dipped below 2018's QR746mn. 2019 revenue benefitted from a significant 91.6% increase in insurance top-line, while international expansion in the aviation segment boosted segment revenue by 8.2%.
- **Drilling continues to improve bottom-line performance.** While segment revenue for 2019 was up only 2.0% YoY to QR1.2bn, drilling net loss improved to QR101.8mn vs. a loss of QR263.7mn in 2018. The segment made good progress by cutting operating costs through outsourcing services and rationalizing its costs structure. According to the company, drilling was able to reduce its direct costs by QR35mn and g&a expenses by QR23mn in 2019.
- **Our overall thesis remains the same – GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile.** We do not expect this to change. However, we do expect drilling to pull itself out of losses suffered during 2016-19 by 2020 in light of demand due to the proposed North Field expansion and given our assumption of high fleet utilization & modest cost savings. We maintain our Outperform rating with a QR2.10 price target. We believe as newsflow and contribution of the drilling expansion program become apparent later this year, the stock should benefit.

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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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