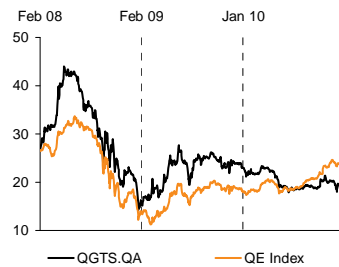


16 February 2011

Initiation of coverage

**Hold**Target price  
QR18.50Price  
QR19.19Short term (0-60 days)  
n/aMarket view  
No Weighting**Price performance**

	(1M)	(3M)	(12M)
Price (QR)	20.20	19.00	22.20
Absolute (%)	-5.0	1.0	-13.6
Rel market (%)	-1.8	-8.7	-33.2
Rel sector (%)	-5.0	1.0	-13.6

Market capitalisation  
QR10.62bn (€28.73bn)Average (12M) daily turnover  
QR16.59mSector: European-DS Tot Mrkt  
RIC: QGTS.QA, QGTS QD  
Priced QR19.19 at close 14 Feb 2011.  
Source: Bloomberg**Analysts****Daniel Abood**  
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# Nakilat

## Where's the growth?

**Nakilat, the world's largest LNG ship owner, offers investors exposure to Qatar's gas reserves. Given the structure of the time charters, we view the current market price as fair and initiate coverage with a Hold recommendation.**

**Key forecasts**

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (QRm)	206.1	1,849	3,064	3,299	3,319
EBITDA (QRm)	160.5	1,585	2,563	2,764	2,772
Reported net profit (QRm)	129.1	588.9	643.1	900.7	993.2
Normalised net profit (QRm)	129.1	588.9	643.1	900.7	993.2
Normalised EPS (QR)	0.23	1.06	1.16	1.63	1.79
Dividend per share (QR)	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Normalised PE (x)	82.30	18.00	16.50	11.80	10.70
EV/EBITDA (x)	204.8	22.70	14.90	13.50	13.10
EV/invested capital (x)	1.48	1.23	1.31	1.29	1.28
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS  
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

**Stable cash flows via 25-year time charters, but limited growth**

Nakilat employs fixed-term contracts – in terms of both price and quantity – on its 25 wholly-owned vessels. As a result, revenues are fixed for the entire duration of the charters, thus providing Nakilat with stable revenues over a 25-year period. The pricing in the contracts incorporates both a capital element and an operating element, with provisions for the operating element to increase in line with US CPI. Because of the nature of this provision, we forecast flat EBITDA over the life of the charters from 2011.

**Looks fair, with limited potential catalysts, in our view**

We believe the current market price fully reflects the economics of the time charter contracts and Nakilat's other interests, resulting in limited earnings growth and lower operating margins in 2011 and beyond. However, we believe upside could come from: 1) higher base shipping rates than those implied by the most recent financial statements; 2) provisions in the time charters that allow for an increase in the capital element of the charter rates and not just the operating element; and 3) incremental revenue generated by the Ras Laffan Shipyard, a project fully financed by state-owned Qatar Petroleum.

**Valuation and risks**

We value Nakilat using a sum-of-the-parts method, implying a fair value of QR18.50ps, with the bulk of the valuation representing a DCF of the company's 25 wholly-owned vessels. The main risk to our valuation relates to the nature of the long-term time charters. The portion of the price paid by the charters that corresponds to Nakilat's operating expenses rises only in accordance with US CPI. However, if there is a provision in the charter contracts for both the operating element and the capital element to increase, this could have a positive impact on the business's financial results and hence provide upside to our valuation, a situation we consider in our bull-case scenario.

**Important disclosures can be found in the Disclosures Appendix.**

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# The basics

## Versus consensus

EBITDA (QRm)	Ours	Cons	% diff
2010F	2,563	2,570	-0.3%
2011F	2,763	2,715	+1.8%
2012F	2,772	2,772	+0.0%

Source: Reuters.; Rasmala forecasts

## Catalysts for share price performance

We see a lack of growth over the next two years coupled with lower operating margins putting a ceiling on the current share price. Catalysts that we think could drive the share price higher include: 1) higher base shipping rates than those implied by the most recent financial statements; 2) provisions in the time charters that allow for an increase in the total charter rate and not just in the operating element; and 3) incremental revenue generated by the Ras Laffan Shipyard, a project fully financed by Qatar Petroleum.

## Earnings momentum

We expect earnings momentum over the next 12 months to be driven by 100% utilisation of wholly-owned ships given that Nakilat received the final ship of its 25 wholly-owned LNG fleet on 12 August 2010. For 2009-11, we forecast a revenue CAGR of 33.6% and an EBITDA CAGR of 32.0%. Going forward we expect little EBITDA growth due to the nature of the long-term charter contracts – we forecast a revenue CAGR of 0.62% for 2011-15 and an EBITDA CAGR of 0.30% for 2011-15. Growth beyond our estimates could stem from possible incremental revenue associated with the Ras Laffan Shipyard.

## Forced ranking\*

Company	Rec	Upside / Downside
Dana Gas	Buy	29%

\* By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

## Valuation and target price

We value Nakilat using a SOTP methodology (see Table 4), which yields a fair value of QR18.50ps. At the current price of QR19.19ps, the stock is trading at 2011F EV/EBITDA of 11.9x and PE of 11.8x. Our base-case scenario implies EV/EBITDA of 12.1x and PE of 11.3x for 2011. Our blue-sky scenario implies a fair value of QR27.53ps, in which we assume higher shipping rates, increases in both the capital and operating elements of the charter rates and lower operating costs.

## How we differ from consensus

We initiate coverage with a Hold rating. The stock has one Hold recommendation and six Buys, according to Reuters consensus. We believe our recommendation deviates from consensus because of the way we model the nature of the long-term contracts. We allow increases in the operating element of the charter rate in line with our forecasts for CPI, and not the entire charter rate, which also includes a capital element. This results in a situation whereby revenue only increases in line with the amount that operating expenses increase. EBITDA therefore remains flat over the life of the charters and operating margins decrease over time.

## Risks to central scenario

Risks to our central scenario include: 1) higher base shipping rates than those implied by the most recent financial statements; 2) provisions in the time charters that allow for increases in both the operating and capital elements of the charter rates; and 3) incremental revenue generated by the Ras Laffan Shipyard, a project fully financed by Qatar Petroleum. Further downside risks include: 1) unexpected maintenance and repair to the ships, leaving them non-operational for extended periods of time; 2) management's future priorities in maximising shareholder value or pursuing a strategy that is beneficial to the government of Qatar rather than the shareholders; and 3) political tensions in the Middle East that could cause disruption to key shipping routes.

## Key events

Date	Event
Late Feb 2011	4Q results

Source: Bloomberg

# Key assumptions and sensitivities

When valuing Nakilat, we look at two scenarios: 1) a base-case scenario, which we use to derive our target price and 2) a bull-case scenario, assuming higher shipping rates, lower operating costs and growth in both the capital and operating elements of the charter rates.

Below, we also include a sensitivity analysis of our base case using the shipping rates and operating costs of the wholly-owned vessels as our key variables. Our fair values and major assumptions in each of these three scenarios are shown in the table below.

**Table 1 : Valuation assumptions**

Assumptions (US\$)	Base case	Bull case
Daily charter rates per m <sup>3</sup>	0.365	0.375
Daily charter rates Q-Max	97,090	99,750
Daily charter rates Q-Flex	78,840	81,000
Average annual wholly owned charter rate revenue growth over 40 years	0.6%	1.3%
Daily opex Q-Max	14,564	13,965
Daily opex Q-Flex	11,826	11,340
Operating margin	85%	86%
Annual opex growth	2.5%	2.5%
5-year maintenance capex	1% of cost	1% of cost
Salvage value wholly owned vessels	10% of cost	10% of cost
Fair value	18.50	27.53
Upside/downside	-3.6%	43.5%

Source: Company data, RBS forecasts

Nakilat's valuation is extremely sensitive to shipping rates and the operating cost structure of the ships. In this sensitivity, we look at the different valuations for a combination of shipping rates on a per cubic metre basis and an average operating margin for both the Q-Max and Q-Flex ships.

**Table 2 : Charter rates and operating cost sensitivity analysis**

		Revenue per day (US\$)										
Operating Margin (%)	Qmax DR	82,616	86,450	89,110	91,770	94,430	97,090	99,750	102,410	105,070	107,730	110,390
	Qflex DR	67,087	70,200	72,360	74,520	76,680	78,840	81,000	83,160	85,320	87,480	89,640
	per m <sup>3</sup>	0.31	0.325	0.335	0.345	0.355	0.365	0.375	0.385	0.395	0.405	0.415
	79.0%	6.5	8.1	9.4	10.7	12.0	13.3	14.6	15.9	17.2	18.5	19.8
	80.0%	7.3	8.9	10.2	11.5	12.8	14.1	15.5	16.8	18.1	19.4	20.8
	81.0%	8.0	9.6	11.0	12.3	13.7	15.0	16.4	17.7	19.1	20.4	21.7
	82.0%	8.8	10.4	11.8	13.1	14.5	15.9	17.3	18.6	20.0	21.4	22.7
	83.0%	9.5	11.2	12.6	14.0	15.4	16.8	18.2	19.5	20.9	22.3	23.7
	84.0%	10.3	12.0	13.4	14.8	16.2	17.6	19.0	20.5	21.9	23.3	24.7
	85.0%	11.0	12.7	14.2	15.6	17.1	18.5	19.9	21.4	22.8	24.3	25.7
	86.0%	11.8	13.5	15.0	16.4	17.9	19.4	20.8	22.3	23.8	25.2	26.7
	87.0%	12.5	14.3	15.8	17.3	18.8	20.2	21.7	23.2	24.7	26.2	27.7
	88.0%	13.3	15.1	16.6	18.1	19.6	21.1	22.6	24.1	25.7	27.2	28.7
	89.0%	14.0	15.8	17.4	18.9	20.5	22.0	23.5	25.1	26.6	28.1	29.7
90.0%	14.8	16.6	18.2	19.7	21.3	22.9	24.4	26.0	27.5	29.1	30.7	
91.0%	15.5	17.4	19.0	20.6	22.1	23.7	25.3	26.9	28.5	30.1	31.6	
92.0%	16.2	18.2	19.8	21.4	23.0	24.6	26.2	27.8	29.4	31.0	32.6	

Source: Company data, RBS forecasts

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# Executive summary

**We initiate coverage at Hold with a QR18.50 target price, implying -3.6% downside.**

**Possible positive catalysts include higher operating margins from Nakilat's wholly-owned fleet and incremental revenue generated by the Ras Laffan Shipyard.**

**Qatar holds an estimated 13.5% of the world's natural gas reserves**

## **Nakilat's vital role in Qatar's LNG supply chain**

Nakilat is an integral component of the supply chain of some of the largest, most advanced energy projects in the world. Qatar holds an estimated 13.5% (source: BP Statistical Review of World Energy 2010) of the world's natural gas reserves, putting it in third place behind Russia and Iran. Nakilat's vast and technologically advanced fleet link the country's natural gas production to global markets in the form of LNG. The group's longstanding relationship with its upstream partners, RasGas and Qatargas, make Nakilat the main midstream LNG venture in Qatar. The delivery of LNG to global consuming markets is strategically important to the state of Qatar through Qatar Petroleum and its JV partners including ExxonMobil, Shell and ConocoPhillips.

**Strong government relations**

The State of Qatar has a close relationship with Nakilat, which was the vision of the head of the State of Qatar, HH The Emir Sheikh Hamid Bin Khalifa Al Thani. Government entities together own 17% of Nakilat's shares.

**Nakilat is the world's largest LNG ship owner**

## **Largest LNG ship owner globally**

According to the company's latest annual report, Nakilat, together with its JV partners, has invested an estimated US\$11bn (QR40.0bn) to date in acquiring its fleet of 54 wholly owned and jointly operated LNG vessels from Korean shipyards. The total effective shipping capacity, which includes four jointly owned liquefied petroleum gas (LPG) ships, is approximately 8.64m m<sup>3</sup>, helping make Nakilat the world's largest LNG ship owner, with almost double the capacity of its nearest competitor.

**We estimate that Nakilat's wholly owned vessels contributed 89.0% of revenues in 2010**

## **Revenue contribution from wholly owned vessels**

Nakilat owns a modern fleet of Q-Max and Q-Flex LNG vessels that incorporate the latest in shipping technology with significantly more capacity, lower operating costs and greater safety than conventional ships. According to management, the company invested an estimated US\$7.5bn (QR27.3bn) in acquiring its fleet of wholly owned vessels, and 2011 will be the first full year of operation for the entire fleet, with the final Q-Max delivered in August 2010. These wholly-owned vessels operate on 25-year time charters with an extension clause, whereas the group's jointly owned vessels are operated on a mixture of spot and charter contracts with unknown contract terms.

We estimate that wholly-owned vessels contributed 89.0% of Nakilat's gross revenue in 2010. We forecast a 2009-12 revenue CAGR of 21.5% and an EBITDA CAGR of 20.5%, with most of the growth in 2010.

**Table 3 : Key forecasts**

(QRm)	2010F	2011F	2012F
Net profit	643.1	900.7	993.2
EBITDA	2,563.1	2,763.5	2,771.5
Cash flow from operations	1,060.8	1,262.1	1,347.0
Gross revenue	3,064.2	3,299.5	3,319.3
<b>Wholly owned vessels</b>	89.0%	90.0%	89.8%
<b>JV vessels</b>	8.0%	7.7%	7.9%
<b>Marine and agency services</b>	0.9%	0.9%	0.9%

Source: Rasmala forecasts

**We think the current price fairly compensates for the nature of the long-term charter contracts**

## **Current price is fair, in our view**

Although we see Nakilat as an integral component of Qatar's LNG supply chain, our view is that the current share price correctly compensates for the economics of the wholly-owned vessel charter contracts and Nakilat's other interests.

Given the long-term nature of the contracts, Nakilat is exposed to a situation whereby revenue for its wholly owned ships increases only by the same amount as the increase in operating expenses.

This results in minimal top-line growth for the life of the business unless the company decides to expand its fleet. In addition, EBITDA therefore remains flat over the life of the charters and operating margins decrease over time. We forecast only modest growth after 2011, given that this will be the wholly-owned fleet's first fully operational year and there is no clear plan for expansion of the production facility at Qatar's North Field at this point in time.

Although we view the Ras Laffan Shipyard as a potential positive catalyst, we exclude it from our valuation at this point due to a lack of information provided by the company regarding the economic structure of the joint ventures between Nakilat, Qatar Petroleum and the operating partners. The Ras Laffan Shipyard, which we expect to be fully completed by 2012, will provide dry docking as well as construction and repair services to all types of maritime vessels, a service that had typically been provided by foreign companies before. The project was fully financed by Qatar Petroleum and has cost around US\$2.8bn (QR10.2bn). The first three phases of the six-phase plan were completed in late 2010 and have begun operations.

**Management hesitant to engage with investors on the business**

The fact that management is hesitant to engage with investors coupled with our long-term view of near-stagnant top-line growth, leads us to initiate coverage with a Hold recommendation.

**Highly levered**

As of 3Q10, Nakilat had a debt-to-capital ratio of 95%. Financing for Nakilat's large capital requirements was obtained with relatively little difficulty given the stable cash flows expected from its 25-year fixed contracts.

# Valuation

We value Nakilat using a sum-of-the-parts methodology and look at two scenarios: a base case and a bull case. In both cases, most of the value comes from a DCF of Nakilat's wholly-owned core shipping business.

## Predictable cash flows

We prefer a DCF valuation due to the nature of the business, which presents predictable cash flows, and because a comparable analysis is not appropriate given the lack of suitable comparable companies.

**Table 4 : Base-case sum-of-the-parts valuation**

(QRm)	Value	Per Share (QR)	% of Asset Value	Valuation Methodology
Wholly owned Core Business	29,024	52.42	283%	DCF
JV Boats	2,712	4.90	26%	EVA
Loans to JV's	1,127	2.04	11%	Book Value
Marine and Agency Services	347	0.63	3%	12x Multiple on Earnings
AFS Investments	103	0.19	1%	Book Value
<b>Total EV</b>	<b>33,314</b>	<b>60.17</b>	<b>325%</b>	
Net Debt	-23,069	-41.67	-225%	Estimated Net Debt as of 31/12/2010
<b>Total Equity Value</b>	<b>10,244</b>	<b>18.50</b>	<b>100%</b>	
Shares Outstanding	554			
Equity Value per Share	18.50			
Current Price	19.19			
Upside/Downside	-3.6%			
Recommendation	Hold			

Source: Company data, Rasmala forecasts

## Main assumptions

### Wholly owned vessels

- We assume a fixed shipping rate of US\$0.365 per cubic metre for the first year of the 25-year charters. This translates into US\$97,090 per day for the Q-Max ships and US\$78,840 per day for the Q-Flex ships. As the operating portion of the price in the time charters allows for an increase consistent with the US CPI, we increase this by our expected 2.5% annual increase in operating expenses a year for the full 25 years. We understand from Nakilat's prospectus that the capital portion of the time charters remains constant. We estimate this results in a small increase in revenues of less than 1% per year and, hence, lower operating margins.
- We assume operating expenses per day of US\$14,564 for the Q-Max ships and US\$11,826 for the Q-Flex ships for the first year of the 25-year charters. This translates into operating margins of 85% for both the Q-Max and the Q-Flex ships. We assume a 2.5% annual increase in operating expenditure consistent with that of our expected annual CPI increase. Due to the nature of the charter price structure, this operating margin is reduced to 75% by the last year of the 25-year charters.
- Although the wholly owned vessels are under 25-year charter contracts, it is our understanding that these contracts have extension clauses at Nakilat's discretion. We assume an additional 15 years of life for the vessels, with the same operating assumptions as the 25-year charters. We do this also to coincide with the expected life of this new breed of vessel. In addition, unlike oil tankers, there are no regulations requiring the phase-out from trading of LNG vessels after they reach a certain age.

### Capex

- Expansion – Although all vessels have been delivered and are currently reflected on the balance sheet, we assume that the Q-Max ships cost around US\$327m per boat and the Q-Flex boats US\$266m per boat. According to the company, these boats were financed with 80% debt and 20% equity. We do not forecast any expansion capex post 2010.

- Maintenance – We assume major maintenance capex once every five years of 1% of the original cost of the ship. Vessels generally receive a major maintenance overhaul once every five years.

#### Salvage value

- We take the present value of 10% of the original cost of the vessels.

#### WACC

- We use a WACC of 8.0%. Assumptions include a cost of debt of about 6.0% and cost of equity of 12.1%, made up of a risk-free rate of 6.0%, market-risk premium of 6.1% and a beta of 1.0.

**Table 5 : WACC and shipping rate sensitivity analysis**

		Revenue per day (US\$/m <sup>3</sup> )									
		0.325	0.335	0.345	0.355	0.365	0.375	0.385	0.395	0.405	0.415
Discount rate (%)	7.0%	17.99	19.59	21.19	22.79	24.39	25.99	27.59	29.19	30.79	32.39
	7.5%	15.24	16.75	18.27	19.79	21.31	22.82	24.34	25.86	27.37	28.89
	8.0%	12.74	14.18	15.62	17.06	18.50	19.94	21.38	22.82	24.26	25.70
	8.5%	10.46	11.83	13.20	14.58	15.95	17.32	18.69	20.06	21.43	22.80
	9.0%	8.38	9.69	11.00	12.31	13.61	14.92	16.23	17.53	18.84	20.15
	9.5%	6.48	7.72	8.97	10.22	11.47	12.72	13.97	15.22	16.47	17.72
	10.0%	4.73	5.92	7.12	8.31	9.51	10.70	11.90	13.09	14.29	15.49

Source: Rasmala forecasts

#### JV boats

- Nakilat also has interest in a further 29 LNG carriers and four LPG carriers. Of the 29 LNG carriers, 20 are Q-Flex ships and nine are conventional ships. Nakilat's interests in these JV boats range from 30% to 60% and, accordingly, we value its equity interests using an EVA approach and apply a 30% premium to the estimated cost of the vessels. (We assume 20% equity and 80% debt like that of the wholly-owned vessels). We do this due to the unknown nature of the agreements.

#### Loans to JVs

- These are interest-bearing loans granted to the joint ventures. The weighted average interest rate on these loans was 2.7% at 31 December 2009.

#### Marine and Agency services

- We apply a 12x multiple on 2010F income from Marine and Agency services.

#### AFS investments

- This represents Nakilat's investments in listed securities on the Qatar Exchange. They are marked to market on the balance sheet and, as such, we value this at book value.

#### Bull-case scenario

In this scenario, we assume three important variations from the base case:

- We assume a fixed shipping rate of US\$0.375 per cubic metre or US\$0.0157 per MMBtu for the first year of the 25-year charters. This translates into US\$99,750 per day for the Q-Max ships and US\$81,000 per day for the Q-Flex ships.
- We assume that the capital part of the negotiated price in the time charters is provisioned to grow by 1% for the life of the charters and not just the operating part that is linked to US CPI.
- We assume operating expenses per day of US\$13,965 for the Q-Max ships and US\$11,350 for the Q-Flex ships for the first year of the 25-year charters. This translates into operating margins of 86% for both the Q-Max and the Q-Flex ships.

**Table 6 : Bull-case scenario – SOTP valuation**

(QRm)	Value	Per Share (QR)	% of Asset Value	Valuation Methodology
Wholly owned Core Business	34,023	61.45	223%	DCF
JV Boats	2,712	4.90	18%	EVA
Loans to JV's	1,127	2.04	7%	Book Value
Marine and Agency Services	347	0.63	2%	12x Multiple on Earnings
AFS Investments	103	0.19	1%	Book Value
<b>Total EV</b>	<b>38,313</b>	<b>69.20</b>	<b>251%</b>	
Net Debt	-23,069	-41.67	-151%	Estimated Net Debt as of 31/12/2010
<b>Total Equity Value</b>	<b>15,244</b>	<b>27.53</b>	<b>100%</b>	
Shares Outstanding	554			
Equity Value per Share	27.53			
Current Price	19.19			
Upside/Downside	43.5%			

Source: Rasmala estimates

# Investment positives

**Investment positives, in our view, include Nakilat's key role in the Qatar LNG supply chain, its limited exposure to the volatile LNG shipping rate market and a near monopoly on a new fleet of cost-efficient world-class carriers.**

## **Integral component of the Qatar LNG supply chain**

Nakilat's LNG vessels form a key component of an integrated LNG delivery chain that extends from Qatar to the global gas market. The associated delivery of LNG to consuming markets globally, the largest being Japan and Korea, is strategically important to Qatar and will meaningfully impact Qatar's production and cash flow. Nakilat expects Qatar to produce over 30% of the global LNG supply by end-2011 and, with Nakilat owning close to 16% of the global LNG shipping tonnage, we believe it is set to remain an integral component in the chain and expect it to continue to enjoy the full support of the government of Qatar.

## **Limited exposure to spot LNG shipping rates**

Nakilat's revenues should remain stable and predictable due to its long-term and fixed-rate time charters. The daily rate agreed between Nakilat and the charterers comprises two components: a capital element and an operating element. The capital element is structured to cover service costs of the debt and to provide for an equity return to shareholders. The operating component of the charter payment is structured to provide adequate coverage of operating expenses.

Under the time charters, Nakilat does not pay for fuel or port charges and is therefore not exposed to commodity price risk. However, it does pay for variable costs such as maintenance, insurance and labour. The time charters provide scheduled charter rate increases for the operating part of the price based on US CPI, with provisions for increases in insurance costs (insurance costs are reviewed every five years). The long-term contracts afford Nakilat cash flow visibility for the next 25 years. Nakilat's wholly-owned shipping business is protected from swings in spot market LNG charter rates and from changes in LNG and oil prices. LNG shipping rates in 2010 fluctuated in a range of US\$0.20-0.40 per cubic metre and ended the year at about US\$0.40 per cubic metre.

## **Near monopoly on fleet of world-class carriers in Qatar**

Nakilat's fleet is comprised of new-build, large-sized LNG vessels using leading technology, delivering optimum efficiency and benefits of scale not typically available to more conventionally sized LNG vessels. It enjoys a near monopoly on this new breed of LNG ships, which are widely viewed as close to 30% more efficient in terms of operational expenditure than most conventional carriers. Nakilat accounts for 60% of Qatar's LNG export tankers by number and 80% by capacity.

## **Experienced operating partner**

Nakilat's LNG vessels are operated and managed through a strategic alliance with Shell International Trading and Shipping Company (STASCO). Under the terms of the agreement, Nakilat outsources all key operating and management tasks to STASCO for an initial period of around 25 years for Nakilat's 25 wholly-owned vessels. Also included in the agreement is a transfer of know-how, which should allow Nakilat to develop its own LNG ship management. Nakilat expects the transition to begin around 2018 and be completed four years later in 2022. After the transition, either Nakilat or STASCO may give notice that the 25-year agreement will terminate subject to a certification process (an approval process that allows Nakilat to terminate the agreement) that would allow Nakilat to terminate the contract three years from the date of such notice.

STASCO has a 40-year track record in shipping LNG and according to management is estimated to manage and operate around 15% of the world's LNG vessel fleet, making it one of the largest operators in the business.

# Risks

**We view key risks as including: 1) limited growth; 2) the uncertain future strategy of the company; and 3) political tensions in the Middle East.**

## **Limited growth**

We expect Nakilat's wholly owned charter revenue to have limited growth because, according to the prospectus, it is only the portion of the price paid by the charterers that corresponds to Nakilat's operating expenses that is allowed to rise in accordance with US CPI. This results in a situation whereby revenue for the wholly owned ships increases by only the same amount as our forecast increase in operating expenses. The result is minimal top-line growth for the life of the business. In addition, EBITDA thus remains flat over the life of the charters and operating margins decrease over time. Other risks relate to the cost structure of the fleet, specifically Nakilat's expenses outside of the charter agreements. These include cleaning and painting the LNG vessels' hull area, scheduled overhaul and maintenance, and required modifications to the LNG vessels. No fee is payable by the customer during any period required to complete required modifications if such period extends beyond scheduled dry docking. According to the prospectus, under the terms of the charter agreements, the charterer may cancel the charter agreement if the LNG vessel is encumbered for more than 60 days or fails to maintain the required insurance.

## **Limited upside potential to resurgence in LNG shipping**

The time charters on Nakilat's fleet of wholly-owned vessels fix revenues for a period of 25 years and allow revenue increases consistent with US CPI. This has been a positive in that for the past two years, Nakilat has not been exposed to the depressed LNG shipping environment. However, more recently, shipping rates have recovered and are close to our estimated contract rates. We estimate that 70% of Nakilat's total vessel capacity operates on these fixed contracts, and hence the contract structure limits the company's ability to benefit from any upside should LNG spot rates continue their recent strong trend.

## **Uncertain future direction of the company**

The company's future direction and strategy remain unclear. Nakilat announced a dividend of QR0.50 on 25 March 2010, equivalent to a yield of 2.61% using the current price. However, the dividend strategy going forward is uncertain. While we would generally view favourably a return of cash to shareholders once the company is cash flow positive, we see a risk that Nakilat's future strategy could favour the interests of the Government of Qatar over those of the shareholders. This could be through reinvestment of excess cash in projects that the government may require to support existing infrastructure, regardless of whether such projects are NPV positive or negative.

## **Highly levered**

As of 3Q10, Nakilat had around QR25bn in long-term debt financed at a rate of about 6.0%. Although the company forms an integral component of the Qatar LNG supply chain, has strong government support and enjoys visibility on long-term cash flows, it is highly levered with a debt-to-capital ratio of 95%.

## **Political tensions in the Middle East**

Nakilat's revenues rely heavily on the ability of its LNG vessels to travel through the Straits of Hormuz, the Suez Canal and other international waterways. However, the Middle East region in general has at times experienced political instability, most recently the political turmoil in Egypt. Any blockage of these waterways could adversely affect Nakilat's revenues and its ability to meet payments of principal and interest on its financial obligations.

# Qatar Gas Transport Company (Nakilat)

**Nakilat is a publicly-listed shipping and transportation company in Qatar. Created in 2004, it owns, operates and leases a fleet of LNG and gas derivative vessels. The company exports gas to Asia, Europe and North America.**

**As of 2010, Nakilat is the largest LNG shipping company in the world**

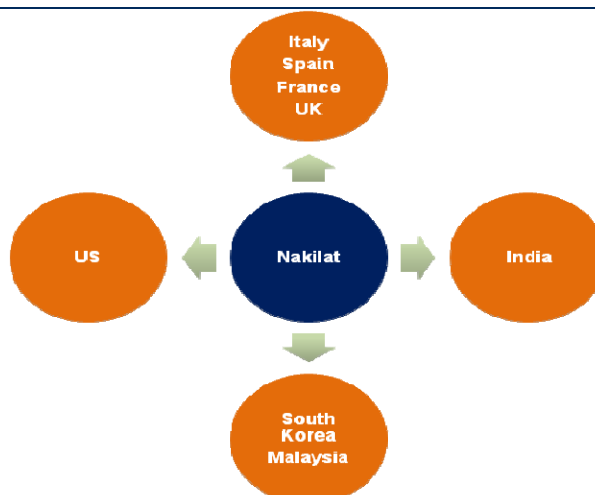
Established in June 2004, Qatar Gas Transport (Nakilat) is headquartered in Doha, Qatar and is the world's largest liquefied natural gas (LNG) shipping and transportation company by LNG shipping capacity. We estimate that Nakilat now holds over 16% of the global LNG shipping capacity, further strengthening its global presence within a relatively short period of six years since its inception.

The group is engaged in owning, renting, managing, operating and maintaining a fleet of vessels for transporting natural gas and its derivatives, in addition to acquiring shares and establishing companies with similar business interests. Nakilat was listed on the Qatar Exchange in April 2005 and is one of the largest companies listed in Qatar by market capitalisation (QR10.62bn as of 14 February 2011).

Nakilat was formed by the State of Qatar (whose North Fields contain nearly 14% of the world's proven gas reserves) to coordinate the overall shipping and transportation requirements of all LNG projects in the country. According to management, Qatar's LNG exports have increased to the government's historical target of 77 million tonnes per annum (mta) as of December 2010, from 49mta in 2009, thus strengthening the supply of natural gas to markets including the US, Mexico, the UK, Belgium, France, Spain, Italy, India, South Korea, Japan and Taiwan.

The State of Qatar has evolved over time from being an investment hub to becoming one of the world's largest LNG ship owners. It emerged as the largest exporter of LNG in the world by the end of 2009, exporting nearly double the quantity transported overseas by the second-largest exporter, Malaysia.

**Figure 1 : Nakilat transports LNG to significant markets around the world**



Source: Company data

## **Nakilat is an integral part of the LNG value chain in Qatar**

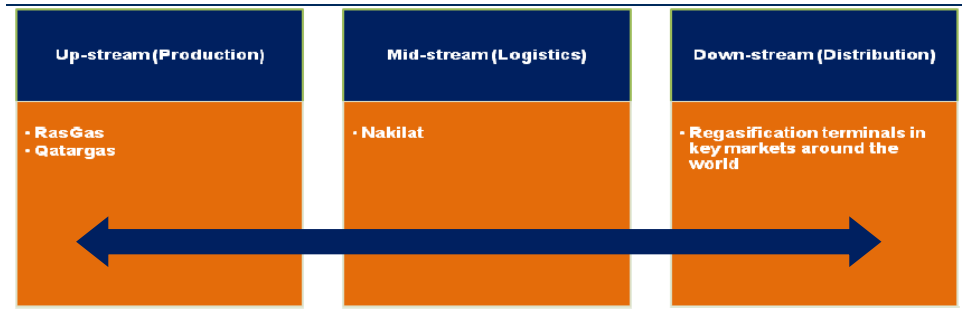
**Nakilat effectively links upstream and downstream LNG operations in Qatar**

Nakilat provides the vital link in the Qatari LNG value chain through its fleet of LNG vessels that connect the government of Qatar's substantial investment in upstream operations to significant export markets. The company primarily provides midstream LNG shipping and transportation operations, thus linking the upstream and downstream components of the LNG value chain in the country. Its fleet of LNG vessels, also known as the 'Floating Pipeline', is an integral part of the LNG value chain since it fully integrates Qatar Petroleum's LNG operations with those of its upstream partners, RasGas and Qatargas.

It thus has substantial involvement in all segments of the LNG value chain in Qatar. This has, in turn, concentrated the entire Qatari LNG supply in the hands of the State of Qatar.

Nakilat ships and transports LNG through specially manufactured vessels that are also capable of regasifying LNG in order to assist downstream operations in key markets around the world. These vessels, which are wholly or jointly owned by Nakilat, are chartered through long-term charters with ship owners and operators, notably OSG (Overseas Shipholding Group), Japan's Nippon Yusen Kaisha (NYK) (NR) and US-based Teekay Shipping (NR).

**Figure 2 : Midstream operations form an integral part of the LNG value chain**



Source: Company data

**Nakilat has strengthened its operations by entering into strategic joint ventures with reputed ship owners**

**Nakilat's investments in joint ventures amounted to QR1.8bn by 3Q10**

By 3Q10, Nakilat's core business structure included 31 subsidiaries and 15 joint ventures in addition to its strategic partnership agreements. As of 3Q10, the group's financial statements showed an estimated QR1.8bn worth of investments in joint venture companies, thereby strengthening Nakilat's position in LNG midstream operations.

Its key ventures include Nakilat-Keppel Offshore & Marine Limited, which was incorporated to construct and manage a high-standard ship repair yard facility at the Port of Ras Laffan. Nakilat Shipping (Qatar) Limited is one of Nakilat's fully-owned subsidiaries, in which the firm controls the operations of wholly-owned LNG vessels and other vessels used in transporting cargoes of LPG, sulphur and other products.

Apart from its fully owned subsidiaries, Nakilat has an average 43% equity interest through strategic joint ventures and partnership agreements. Among its joint ventures are four firms set up in collaboration with Germany's Pronav, in which Nakilat has 45% ownership of four large LNG vessels chartered to Qatargas; the remaining 54% and 1% of the interest is owned by German Commercial Partners and Pronav, respectively.

**Table 7 : Nakilat's business structure includes 31 subsidiaries**

<b>Nakilat's business structure</b>	<b>Date of incorporation</b>	<b>Stake %</b>	<b>Comments</b>
<b>Wholly owned subsidiaries</b>			
Nakilat Inc.	Apr-06	100	Nakilat Inc. was established with the intention of acquiring finance in order to purchase wholly-owned LNG vessels.
Nakilat Shipping (Qatar) Limited	Mar-07	100	The firm controls wholly-owned LNG vessel operations and other vessels used in transporting cargoes such as LPG, sulphur and other products.
Nakilat Agency Company Limited.	May-05	100	The firm's main role is to act as the agent for all ships calling at the port of Ras Laffan.
QGTC Nakilat (2245-8) Investment Limited	Nov-04	100	The firm serves as a holding company of the group.
Nakilat Umm Slal Inc.	Nov-08	100	The LNG carrier Umm Slal used to ship LNG produced by Qatargas to customers in Europe.
Nakilat Bu Samra Inc.	Dec-08	100	The LNG carrier Bu Samra used to ship LNG produced by Qatargas to customers in Europe.
Nakilat Al Ghuwairiya Inc.	Dec-08	100	The LNG carrier Al Ghuwairiya used to ship LNG produced by Qatargas to customers in Europe.
Nakilat Lijmiliya Inc.	Jan-09	100	The LNG carrier Lijmiliya used to ship LNG produced by Qatargas to customers in Europe.
Nakilat Al Samriya Inc.	Mar-09	100	The LNG carrier Al Samriya used to ship LNG produced by Qatargas to customers in Europe.
Nakilat S.H.I. 1694 Inc.	Feb-09	100	The LNG carrier Al Mayeda used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat S.H.I. 1695 Inc.	Mar-09	100	The LNG carrier Mekaines used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat S.H.I. 1696 Inc.	May-09	100	The LNG carrier Al Ghashamiya (217,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat H.H.I 1908 Inc.	Mar-09	100	The LNG carrier Mesaimeer (216,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat H.H.I. 1909 Inc.	Jul-09	100	The LNG carrier Al Kharaitiyat (216,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat H.H.I 1910 Inc.	Jul-09	100	The LNG carrier Al Rekayyat (216,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat DSME 2264 Inc.	Feb-09	100	The LNG carrier Al Sheehaniya (210,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat DSME 2265 Inc.	Mar-09	100	The LNG carrier Al Sadd (210,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat DSME 2266 Inc.	Apr-09	100	The LNG carrier Onaiza (210,000 cm) used to ship LNG produced by Qatargas to markets primarily in the United States.
Nakilat S.H.I. 1726 Inc.	Oct-09	100	The LNG carrier Al Dafna chartered to RasGas on a long-term basis.
Nakilat S.H.I. 1751 Inc.	Nov-09	100	The LNG carrier Shagra used to ship LNG produced by QG4 to markets primarily in North America and China.
Nakilat S.H.I. 1752 Inc.	Mar-10	100	The LNG carrier Zarga used to ship LNG produced by Qatargas to markets primarily in the North America, China and Dubai.
Nakilat S.H.I. 1753 Inc.	May-10	100	The LNG carrier Aamira used by Qatargas on a long term charter to ship LNG produced. Main exports are primarily to North America, China and Dubai.
Nakilat S.H.I. 1754 Inc.	Nov-09	100	The LNG carrier Rasheeda chartered to Qatargas on a long-term basis.
Nakilat DSME 2283 Inc.	Oct-09	100	The LNG carrier Al Khattiya (210,000 cm) used to ship LNG produced by Qatargas to markets primarily in North America.
Nakilat DSME 2284 Inc.	Oct-09	100	The LNG carrier Al Karaana (210,000 cm) used to ship LNG produced by QG4 to markets primarily in North America.
Nakilat DSME 2285 Inc.	Nov-09	100	The LNG carrier Al Nuaman (210,000 cm) used to ship LNG produced by Qatargas to markets primarily in North America and China.
Nakilat DSME 2286 Inc.	Jan-10	100	The LNG carrier Al Bahiya (210,000 cm) will be used to ship LNG produced by Qatargas to markets primarily in North America, China and Dubai.
Nakilat Marine Services Limited	May-05	95	It is an exclusive agent for all ships calling at the port of Ras Laffan.
Nakilat Haloul Inc.	Nov-07	100	Formerly known as S.H.I. Hull No. 1675. Inc. The LNG carrier Mekaines used to ship LNG produced by Qatargas.
Nakilat S.H.I. 1697 Inc.	Sep-09	100	The firm operates the Al-Mafyar Q-Max vessel and is chartered to Qatargas.

Source: Company data

**Table 8 : Nakilat's business structure also includes 14 joint ventures**

Nakilat's business structure	Date of Incorporation	Stake %	Comments
<b>Joint ventures</b>			
Nakilat Svitzerwijsmuller W.L.L.	Sep-06	70	The group owns and manages tug boats, pilot boats and other harbour craft at the Port of Ras Laffan. The other 30% of equity interest is owned by Svitzer Middle East Limited.
Gulf LPG Transport Company W.L.L.	Mar-08	50	The group is responsible for the construction, ownership and operation of 4 Very Large Gas Carriers. The other 50% is owned by Qatar Shipping Company.
Maran Nakilat Company Ltd.	Jul-04	30	The firm owns 4 conventional LNG vessels which have been chartered to RasGas. The other 70% of the shares is owned by Maran Ventures Inc.
Peninsula LNG Transport No. 4 Ltd.	Aug-04	30	The company jointly owns one conventional LNG vessel chartered to RasGas. The remaining interest is owned by J4 Consortium (MOL, NYK, Mitsui and K-Line).
Teekay Nakilat Corporation	Sep-04	30	It jointly has possession of 3 conventional LNG vessels chartered to RasGas. 70% is owned by Teekay.
OSG Nakilat Corporation	Nov-04	50	The company jointly owns 4 LNG vessels (216,000 cm) chartered to Qatargas. OSG owns 49.9% of the firm.
J5 Nakilat No. 1 to 8 Ltd.	Jul-05	40	The company jointly owns 8 LNG vessels (216,000 cm) chartered to RasGas. J5 Consortium (MOL, NYK, Mitsui, Lino Lines and K-Line) has 60% of ownership.
Teekay Nakilat (III) Corporation	Aug-05	60	The firm jointly claims the possession of 4 Q-Flex LNG vessels chartered to RasGas. The other 40% is owned by Teekay.
India LNG Transport Company No. 3 Ltd.	Mar-06	20	The group incorporated features equity interests of MOL 26%, SCI 26%, NYK 16.67%, K-Line 8.33% and Petronet 3%. The group jointly owns 1 conventional LNG vessel chartered to Petronet, which the charterer uses to transport LNG from Ras Laffan to receiving ports in India.
Nakilat-Keppel Offshore & Marine Ltd Pronav	Nov-08	80	Operating and maintaining the ship repair yard
- Neptana Schiffsbetriebsgesellschaft mbH & Co. TS "Alexandra" KG	Nov-04	45	Nakilat has a 45% interest in 4 Q-Flex LNG vessels chartered to Qatargas. The remaining 54% and 1% interest in each of these LNG vessels is owned by German commercial partners and Pronav respectively.
- Nausola Schiffsbetriebsgesellschaft mbH & Co. TS "Britta" KG	Nov-04	45	
- Nauranto Schiffsbetriebsgesellschaft mbH & Co. TS "Gabriela" KG	Nov-04	45	
- Neptora Schiffsbetriebsgesellschaft mbH & Co. TS "Julia" KG	Nov-04	45	

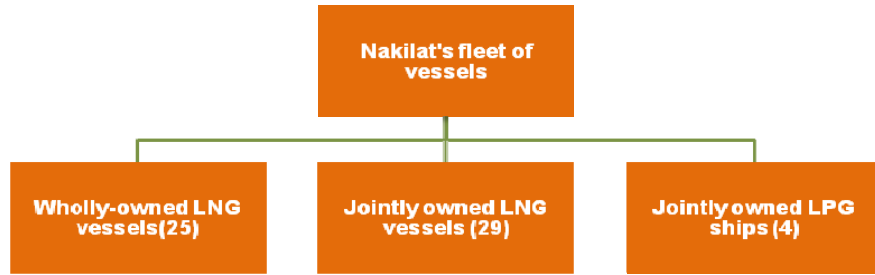
Source: Company data

**Nakilat currently fully owns 25 LNG vessels and jointly owns 29 LNG vessels****Nakilat owns a fleet of 54 vessels valued at US\$11bn**

Nakilat owns and operates a fleet of 54 LNG carriers that are engaged in significant upstream LNG projects of Qatar Petroleum. The group's US\$11bn investment on its fleet of LNG vessels includes 25 fully owned vessels valued at US\$7.5bn at the time of acquisition. Furthermore, as a result of its strategic joint ventures with ship operators such as Japan's NYK (NR), Germany's Pronav (NR) and Greece's Maran Gas Maritime (NR), the group jointly owns 29 LNG vessels valued at US\$3.5bn.

In addition to its fleet of LNG vessels, Nakilat owns four very large gas carriers (VLGCs) through its joint venture agreement with Qatar Shipping Company Limited (Q-Ship) (NR) to create a special-purpose company, namely Gulf LPG Transport Company W.L.L.

**Figure 3 : Nakilat currently operates 54 LNG and 4 VLGC vessels**



Source: Company data

As of December 2010, all 25 of the group's wholly-owned vessels were in operation, with the newest Q-Max LNG carrier, "Rasheeda," delivered on 12 August 2010. However, all of Nakilat's jointly-owned LNG vessels were delivered and in operation by the end of 2009.

The group places its orders for vessels with Korean shipyards. According to management, these shipbuilders incorporate the latest technology in their design, without compromising safety and minimising waste of LNG during transportation, so that their vessels are capable of holding large capacities of LNG. This, in turn, makes Nakilat's export of LNG to major markets cost-effective and competitive.

**Nakilat's fleet of vessels includes 14 high-capacity Q-Max vessels that consume less energy than conventional vessels**

Nakilat's 25 wholly-owned LNG vessels comprise 14 large Q-Max vessels that have a capacity of up to 266,000m<sup>3</sup> each, and 11 Q-Flex vessels that have a capacity of up to 216,000m<sup>3</sup> each.

The group's jointly-owned fleet of 29 LNG carriers comprises 20 Q-Flex and nine conventional LNG vessels. Management claims its Q-Flex vessels have around 50% more capacity and the larger Q-Max vessels over 80% more capacity than conventional LNG carriers, and also consume 40% less energy.

Most of the vessels in Nakilat's LNG fleet are Q-Flex vessels capable of holding 50% more capacity than conventional LNG vessels

**Figure 4 : Nakilat's portfolio includes high-capacity Q-Max and Q-Flex LNG vessels**

Conventional	Q-Flex	Q-Max	VLGC
<ul style="list-style-type: none"> <li>- Nine conventional vessels</li> <li>- Capacity 145,000m<sup>3</sup></li> <li>- Estimated Cost US\$80m</li> </ul>	<ul style="list-style-type: none"> <li>- 31 Q-Flex vessels</li> <li>- Capacity 210,000m<sup>3</sup></li> <li>- Estimated Cost US\$266m</li> </ul>	<ul style="list-style-type: none"> <li>- 14 Q-Max vessels</li> <li>- Capacity 263,000m<sup>3</sup></li> <li>- Estimated Cost US\$327m</li> </ul>	<ul style="list-style-type: none"> <li>- Four VLGC vessels</li> <li>- Capacity 82,200m<sup>3</sup></li> <li>- Estimated Cost US\$80m</li> </ul>

Source: Company data

Nakilat's large Q-Max vessels are able to transport LNG to North American markets

Furthermore, according to management, Nakilat's Q-Max and Q-Flex LNG carriers incorporate the latest technology such as re-liquefaction systems, membrane containment systems, and advanced propulsion technology that afford the safe, reliable and cost-effective transportation of LNG globally. These specially-made vessels are also capable of handling the boil-off gas, by incorporating a liquefaction system to liquefy and return the LNG to cargo tanks in the vessel, thereby being cost-effective in the transportation of LNG.

Furthermore, these vessels also operate at high speed and thus increase the overall efficiency of Nakilat's operation. One instance of such efficiency relates to the Q-Max vessel, Umm Slal, that successfully set sail in December 2009 from the Port of Ras Laffan with 240,000m<sup>3</sup> of LNG. It reached the Sabine Pass LNG terminal in Louisiana, USA, within three weeks of departure (almost half the time taken by conventional LNG carriers).

Nakilat's 25 wholly-owned vessels are managed by Shell International Trading & Shipping

Company (STASCO), out of the UK. Through a master service agreement signed in 2006 that is due to cease within eight to 12 years of delivery of the final Q-Max, STASCO has agreed to provide the necessary crew members and operate these ships. Upon expiration of the agreement, STASCO will transfer full management of the vessels to Nakilat as part of a technology transfer strategy intended to extend control over operations.

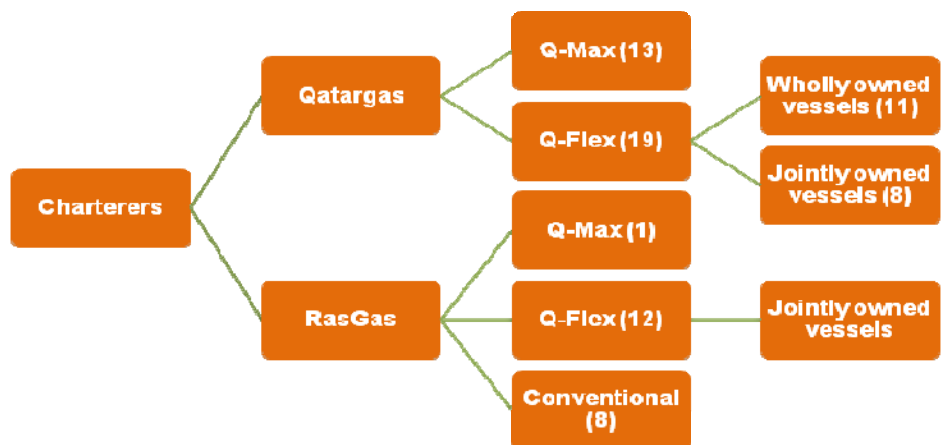
**The majority of Nakilat’s Q-Max vessels are chartered to Qatargas**

**Q-Max vessels have been certified by Lloyd's Register, DNV and ABS**

Nakilat’s Q-Flex and Q-Max vessels are chartered to Qatar’s two LNG producers, RasGas and Qatargas. Qatargas has chartered 32 of Nakilat’s LNG carriers while the remainder are chartered by RasGas. The Q-Max vessels have been certified by Lloyd’s Register (UK), DNV (Norway) and the American Bureau of Shipping (US).

Nakilat’s revenue from operations is generated by its LNG vessels that are chartered to Qatargas and RasGas. Almost all of Nakilat’s Q-Max vessels are chartered to Qatargas, with the exception of one Q-Max vessel that is chartered to RasGas. Additionally, of its nine conventional LNG vessels, eight are chartered to RasGas and the other to India’s Petronet (Sell; TP Rs57.00). By the end of 2009, Qatargas exported 26mta of LNG and is expected by Qatargas management to reach 42mta in 2010. Meanwhile, RasGas exported 28.5mta of LNG by the end of 2009, which is set to have grown to around 37mta in 2010, according to the company.

**Figure 5 : Most of the group's LNG fleet is chartered to Qatargas**



Source: Company data

**Table 9 : Contracted LNG exports (mta)**

Sale and purchase agreements	Supplier	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Country</b>												
Japan	QatarGas 1	6.3	6.3	6.3	6.3	6.4	6.6	6.6	6.6	6.6	6.7	6.7
Korea	RasGas	4.9	4.9	6.8	8.8	8.8	8.8	7.9	7.0	7.0	7.0	7.0
India	RasGas II	-	-	2.5	3.8	5.0	5.0	5.0	5.6	7.5	7.5	7.5
Italy	RasGas II	-	-	-	-	-	-	3.5	4.7	4.7	4.7	4.7
Spain	QatarGas 1	1.2	1.1	1.3	2.2	2.6	2.9	2.9	2.9	2.9	2.9	2.1
Spain	QatarGas 1	-	0.1	0.8	0.7	0.5	-	-	-	-	-	-
Spain	RasGas II	-	-	-	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Belgium	RasGas II	-	-	-	-	-	2.6	3.4	3.4	3.4	3.4	3.4
Belgium	RasGas II	-	-	-	-	-	1.5	2.1	2.1	2.1	2.1	2.1
Taiwan	RasGas II	-	-	-	-	-	-	1.2	2.5	3.0	3.0	3.0
UK	QatarGas 2	-	-	-	-	-	-	4.5	7.7	7.9	7.6	8.0
France/UK/USA	QatarGas 2	-	-	-	-	-	-	-	7.7	7.9	7.6	8.0
USA	QatarGas 3	-	-	-	-	-	-	-	3.5	7.5	7.7	7.7
<b>Total SPAs</b>		<b>12.4</b>	<b>12.4</b>	<b>17.7</b>	<b>22.4</b>	<b>24.1</b>	<b>28.2</b>	<b>37.9</b>	<b>54.5</b>	<b>61.3</b>	<b>61.0</b>	<b>61.0</b>
<b>Heads of agreements</b>												
<b>Country</b>	<b>Supplier</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
USA	RasGas III	-	-	-	-	-	-	1.0	8.1	10.8	10.2	10.2
USA	QatarGas 4	-	-	-	-	-	-	-	-	5.3	5.3	5.3
Japan	QatarGas 4	-	-	-	-	-	-	-	-	-	0.9	0.9
Total HOAs		-	-	-	-	-	-	1.0	8.1	16.1	16.4	16.4
<b>Grand Total</b>		<b>12.4</b>	<b>12.4</b>	<b>17.7</b>	<b>22.4</b>	<b>24.1</b>	<b>28.2</b>	<b>38.9</b>	<b>62.6</b>	<b>77.4</b>	<b>77.4</b>	<b>77.4</b>

Source: Qatargas and RasGas websites

**Revenue from LNG vessels contributed 98% of Nakilat's revenues in 3Q10**

The group reported consolidated revenues of QR1.85bn in 2009, 81% of which was contributed by its wholly-owned vessels and 15% from the share of profits from Nakilat's joint venture operations. Around 96% of the total revenue generated by Nakilat in 2009 was contributed by its fleet of LNG vessels. This figure reached 98% in 3Q10 as the final Q-Max vessel was delivered.

Income from its marine agency services accounted for around 2% of the group's total revenue in 2009 and 1% by 3Q10. Nakilat's marine agency services essentially include a diverse suite of services such as the collection of dues and fee payments for ships calling at the port, and ensuring compliance with local regulatory authorities and international shipping and local port regulations.

Income from its joint venture operations contributed 15% of Nakilat's total revenue in 2009

**Table 10 : Nakilat's fleet of 25 wholly-owned vessels has an LNG capacity of 6.1m m<sup>3</sup>**

Number	Vessel name	Type	Operator	Capacity (m <sup>3</sup> )
1	2264 (Al Sheehaniya)	Q-Flex	Nakilat	216,000
2	2265 (Al Sadd)	Q-Flex	Nakilat	216,000
3	2266 (Onaiza)	Q-Flex	Nakilat	216,000
4	1908 (Mesaimmeer)	Q-Flex	Nakilat	216,000
5	1909 (Al Kharaitiyat)	Q-Flex	Nakilat	216,000
6	1910 (Al Rekayyat)	Q-Flex	Nakilat	216,000
7	2283 (Al Khattiya)	Q-Flex	Nakilat	216,000
8	2284 (Al Kharaana)	Q-Flex	Nakilat	216,000
9	2285 (Al Nuaman)	Q-Flex	Nakilat	216,000
10	2286 (Al Bahiya)	Q-Flex	Nakilat	216,000
11	1696 (Al Ghashamiya)	Q-Flex	Nakilat	216,000
12	2255 (Al Ghuwairiya)	Q-Max	Nakilat	266,000
13	2256 (Lijmiliya)	Q-Max	Nakilat	266,000
14	2257 (Al Samriya)	Q-Max	Nakilat	266,000
15	1675 (Mozah)	Q-Max	Nakilat	266,000
16	1676 (Umm Slal)	Q-Max	Nakilat	266,000
17	1677 (Bu Samra)	Q-Max	Nakilat	266,000
18	1694 (Al Mayeda)	Q-Max	Nakilat	266,000
19	1695 (Mekaines)	Q-Max	Nakilat	266,000
20	1697 (Al Mayfar)	Q-Max	Nakilat	266,000
21	1726 (Al Dafna)	Q-Max	Nakilat	266,000
22	1751 (Shagra)	Q-Max	Nakilat	266,000
23	1752 (Zarga)	Q-Max	Nakilat	266,000
24	1753 (Aamira)	Q-Max	Nakilat	266,000
25	1754 (Rasheeda)	Q-Max	Nakilat	266,000
<b>Total capacity</b>				<b>6,100,000</b>

Source: Company data

**Table 11 : The 29 jointly operated LNG vessels give Nakilat LNG capacity of over 2m m<sup>3</sup>**

Number	Vessel Name	Type	Stake	Operator	Effective capacity (m <sup>3</sup> )
1	Maran Gas Asclepius	Conventional	30%	Maran Gas Maritime	43,500
2	Umm Bab	Conventional	30%	Maran Gas Maritime	43,500
3	Simaisma	Conventional	30%	Maran Gas Maritime	43,500
4	Al Jassasiya	Conventional	30%	Maran Gas Maritime	43,500
5	Al Marrouna	Conventional	30%	Teekay Shipping	43,500
6	Al Areesh	Conventional	30%	Teekay Shipping	43,500
7	Al Daayen	Conventional	30%	Teekay Shipping	43,500
8	Ejnan	Conventional	30%	NYK	43,500
9	Assem	Conventional	20%	Petronet	29,000
10	Al Huwaila	Q-Flex	60%	Teekay	127,800
11	Al Kharsaa	Q-Flex	60%	Teekay	127,800
12	Al Shamal	Q-Flex	60%	Teekay	127,800
13	Al Khuwair	Q-Flex	60%	Teekay	127,800
14	Al Gharrafa	Q-Flex	50%	OSG	106,713
15	Al Hamla	Q-Flex	50%	OSG	106,713
16	Al Gattara	Q-Flex	50%	OSG	106,713
17	Tembek	Q-Flex	50%	OSG	106,713
18	Al Ruwais	Q-Flex	45%	PRONAV	95,850
19	Al Saffiya	Q-Flex	45%	PRONAV	95,850
20	Duhail	Q-Flex	45%	PRONAV	95,850
21	Al Ghariya	Q-Flex	45%	PRONAV	95,850
22	Al Aamriya	Q-Flex	40%	MOL	85,200
23	Murwab	Q-Flex	40%	MOL	85,200
24	Fraiha	Q-Flex	40%	MOL	85,200
25	Al Thumama	Q-Flex	40%	NYK	85,200
26	Al Sahla	Q-Flex	40%	NYK	85,200
27	Al Utouriya	Q-Flex	40%	NYK	85,200
28	Al Oraiq	Q-Flex	40%	K-Line	85,200
29	Umm Al Amad	Q-Flex	40%	K-Line	85,200
<b>Total capacity</b>					<b>2,380,052</b>

Source: Company data

**Nakilat has entered into LPG transportation through a joint venture agreement with Qatar Shipping Company**

Nakilat – through a joint venture with Qatar Shipping Company – provides shipping services to the state-owned liquefied petroleum gas (LPG) firm Tasweeq to cover its LPG exports. Nakilat also supports Tasweeq in terms of securing bulk vessels from the market for exporting sulphur to global markets. By the end of 2009, Nakilat effectively held an LPG shipping capacity of 164,000m<sup>3</sup>.

**Table 12 : Nakilat jointly owns four VLGC vessels**

Number	Vessel Name	Type	Stake	Operator	Effective capacity (m <sup>3</sup> )
1	Bu Sidra	VLGC	50%	Nakilat Shipping Qatar Ltd	41,000
2	Umm Laqhab	VLGC	50%	Nakilat Shipping Qatar Ltd	41,000
3	Al Wukir	VLGC	50%	Nakilat Shipping Qatar Ltd	41,000
4	Lubara	VLGC	50%	Nakilat Shipping Qatar Ltd	41,000
<b>Total capacity</b>					<b>164,000</b>

Source: Company data

**The ship repair facility will provide services for Nakilat's own fleet of vessels, and for other large vessels in the marine transportation industry**

#### **Nakilat is expanding its business in related industries**

According to management, Nakilat expects to diversify its business by establishing a facility for the construction and maintenance of marine and offshore structures in close collaboration with Qatar Petroleum. This new facility, which is located in Ras Laffan, is divided into six phases, with the first three phases of construction of the US\$2.8bn repair yard completed on 23 November 2010, with eight major fleet owners already on board. The project is a joint venture between Nakilat, Damen Shipyards Group (NR) and Keppel Offshore & Marine (a division of Keppel Corp.; Buy; TP S\$13.50).

Management expects Nakilat's ship repair facility to provide comprehensive services for its own fleet of vessels, and market surplus capacity for the repair, maintenance and conversion of very

large ships to the marine transportation industry. Nakilat's ship repair yard will also construct, repair and maintain all varieties of high-value ships of up to 120 metres in length, and also produce leisure craft and commercial workboats for local and international markets.

**Table 13 : Nakilat's six-phase diversification programme should be completed by 2012**

Phase	Project	Description	Commencement
1 and 2	Ship repair yard	The 43-hectare Ship Repair Yard, built on reclaimed land, is part of the massive expansion of the Port of Ras Laffan. The initial development phase provides for the design, repair and maintenance of large LNG vessels as well as the conversion of tankers to Floating production storage and offloading (FPSO) and Floating, storage and offloading (FSO) units. The ship repair yard will be managed by a joint venture between Nakilat and Keppel Offshore & Marine.	Nov 2010
3	Fabrication and maintenance of offshore structures	The facility includes the fabrication and maintenance of components for land-based petrochemical plants.	Nov 2010
4	Ship construction facility	The new shipyard has been designed to produce a wide variety of vessels up to 120 metres in length. These include: commercial vessels, naval and coastguard vessels, and luxury yachts. This is scheduled to commence operations in 2010 and Nakilat has already signed a joint venture agreement with Damen Shipyards Group to jointly operate this world-class shipbuilding facility.	2011
5	Small ship repair	This would include the repair and maintenance of vessels less than 120m in length. This facility, which is being engineered to service over 200 vessels per year, is scheduled to commence operations in 2012. The addition of this facility will give Nakilat the capability to cover the entire ship repair, refit and conversion market -- from the smallest to the largest of vessels.	2012
6	Fibre reinforced plastics (FRP) boat production	In early 2011, Nakilat expects to commence work to establish an FRP boat production facility in Ras Laffan for the supply of leisure craft and commercial workboats to local and international markets.	2011

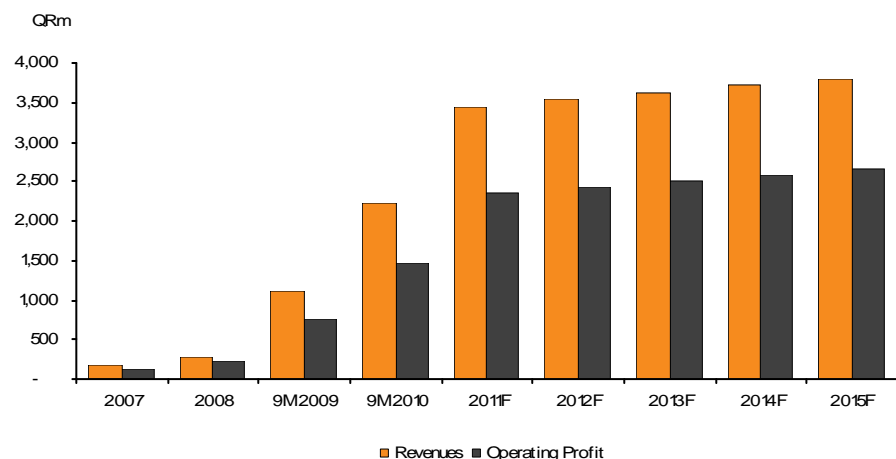
Source: Company data

**Nakilat's gross revenues rose significantly to QR2.24bn in 9M10 from QR1.13bn in 9M09**

Despite the global financial crisis that prevailed during 2008-09, the group was able to report total revenues of QR1.85bn in 2009, thanks to its long-term stable contracts with its charterers to transport LNG to global customers. The increase in its fleet size provided the much-needed capacity to ship Qatar's LNG to global markets. During 2009, 17 of its wholly-owned fleet of 25 LNG vessels were delivered and in operation, as were 29 jointly operated vessels.

The remainder of Nakilat's wholly-owned fleet of LNG vessels was delivered by August 2010, increasing its gross revenues to QR2.24bn in 9M10 from QR1.13bn in 9M09. We project lacklustre revenue growth post 2011 due to the nature of the long-term charter contracts.

**Chart 1 : Nakilat's profit from operations grew 90% in 9M10 vs 9M09**



Source: Company data, Rasmala forecasts

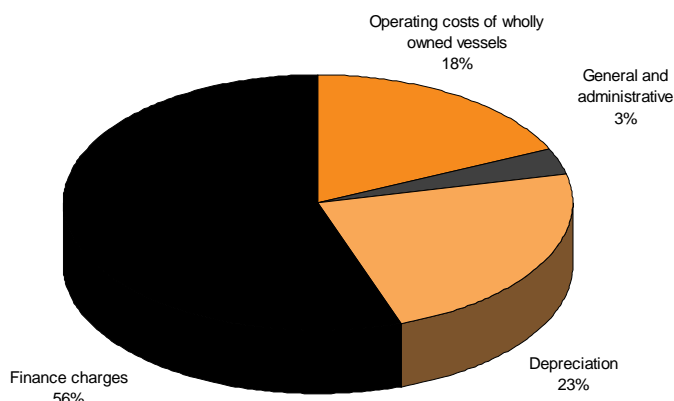
Nakilat's revenues are mainly from the government's long-term, stable LNG contracts with global customers

For 9M10, Nakilat's total expenses of QR1.741bn included QR964m of finance charges

In 2009, gross revenues increased nearly sevenfold compared with 2008, thanks to the group's efforts to increase its LNG fleet and shipping capacity. However, profit from operations rose by just over two times.

For 9M10, 56% of Nakilat's total expenses (ie, QR964m out of QR1.741bn) related to finance charges for the period, owing to the high level of debt of more than US\$6bn taken on by the group to acquire its fleet of vessels.

**Chart 2 : 56% of Nakilat's expenses related to finance charges in 3Q10**



Source: Company data

Nakilat is highly geared with a debt-to-equity ratio of 357% in 2009

**Nakilat had QR25bn of debt as of 3Q10, representing 77% of the group's balance sheet**

Nakilat's gearing ratio at end-2009 was 357% vs 292% at end-2008, with net debt of QR23bn vs QR17bn. The high gearing ratio was largely due to the increase in senior bank facilities and subordinated bank facilities taken on by the group to finance the construction of its fleet of LNG vessels.

Nearly 55% of the group's total borrowing as of 2009 was in the form of senior bank facilities, and QR458m was current borrowings. However, the weighted average interest rate on borrowings had fallen to 2.71% at end-2009, from 4.54% at end-2008.

**Table 14 : The majority of Nakilat's borrowings are from senior bank facilities**

Borrowings - (QR '000s)	2008	2009
Loan	1,820,764	1,820,764
Senior bank facilities	9,744,729	13,768,617
Subordinated bank facilities	633,626	1,107,025
Senior bonds – Series "A"	3,095,299	3,095,299
Subordinated bonds Series "A"	1,092,458	1,092,458
KEXIM facility	1,464,890	1,741,600
KEIC covered facility	1,414,775	2,422,408
Less: Issuance costs of bonds	(35,027)	(33,626)
<b>Total</b>	<b>19,231,514</b>	<b>25,014,545</b>

Source: Company data

Nakilat's debt rated high by rating agencies such as Standard & Poor's and Moody's

**Nakilat's debt rated high thanks to its stable, long-term charters**

The group's debt was acquired in three tranches totalling US\$6.4bn, and the repayment spread up to December 2033. Nakilat's obligation under these facilities is secured by a charge over the vessels and guarantees issued by each of the group's subsidiaries that irrevocably and unconditionally guarantee the punctual payment of the debt.

MEED reports the group as claiming that close to 49% of its debt financing is done in collaboration with Bank of China and China Exim Bank.

(Source: <http://www.meed.com/supplements/2010/nakilat/banks-finance-nakilat-ship-acquisition-plans/3003633.article>)

Despite its very high gearing ratio of 357% at end-2009, Nakilat maintained a rating of 'A+' in its senior secured debt and a rating of 'A' in its subordinated secured debt awarded by Standard & Poor's. Additionally, it received 'Aa2' and 'Aa3' ratings by Moody's, respectively, with stable

outlooks. Fitch reaffirmed Nakilat's senior secured debt rating of 'A+' and its subordinated debt rating of 'A-' with stable outlooks. Such high ratings can be attributed to Nakilat's stable revenue positions due to its long-term and fixed-rate charters with RasGas and Qatargas.

On 12 July 2010, Standard & Poor's upgraded Nakilat's long-term corporate credit rating to 'AA-' from 'A+'. Additionally, Standard & Poor's upgraded the issue ratings on Nakilat's US\$850m senior secured bonds to 'AA-' from 'A+', and the issue ratings on its US\$300m secured subordinated bonds to 'A+' from 'A'. Nakilat's 'AA-' rating upgrade was due in part to the high likelihood that the State of Qatar would provide timely and sufficient support for Nakilat in the event of financial stress.

**Table 15 : Around 82% of Nakilat's repayments are due by 2025**

Borrowings - US\$m	Tranche I	Tranche II	Tranche III
Senior bank facilities	2,216	925	640
Repayment period	Dec 2010 - Dec 2025	Jun 2011 - Dec 2025	June 2011 - Dec 2019
Subordinated bank facilities	174	125	5
Repayment period	Dec 2010 - Dec 2025	Jun 2011 - Dec 2025	June 2011 - Dec 2019
Senior bonds – Series "A"	850	-	-
Repayment period	Dec 2021 - Dec 2033	-	-
Subordinated bonds Series "A"	300	-	-
Repayment period	Dec 2010 - Dec 2033	-	-
KEXIM Facility	500	-	-
Repayment period	Dec 2009 - Dec 2020	-	-
KEIC Covered Facility	215	450	-
Repayment period	Dec 2009 - Dec 2020	Dec 2010 - Dec 2021	-
<b>Total</b>	<b>4,255</b>	<b>1,500</b>	<b>645</b>

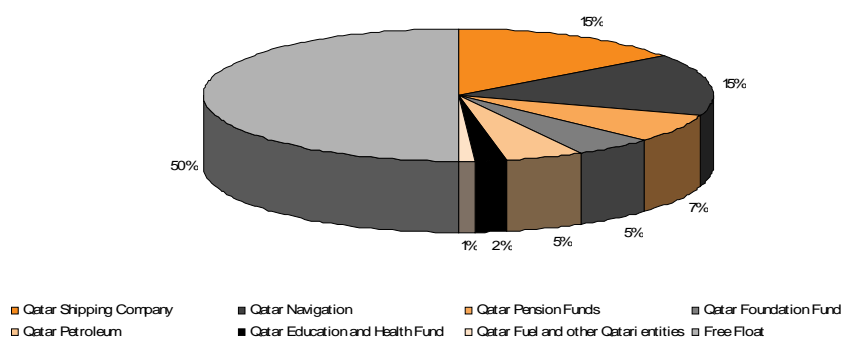
Source: Company data

**Qatari corporate entities comprise the bulk of Nakilat's shareholder base**

Following Nakilat's IPO in 2005, 50% of the group was offered to the public. The remaining 50% is currently owned by Qatari corporate and government entities. Qatar Shipping Company and Qatar Navigation Company each own 15%, while Qatar Petroleum owns about 5% of Nakilat's shares on offer. These companies offer comprehensive services to meet the needs of LPG, LNG and crude oil handling firms such as marine transport, trading, vessel repair, shipping agency and cargo handling services.

50% of Nakilat's shareholders are Qatari corporate and government entities

**Chart 3 : 50% of Nakilat's shares are held by Qatari corporate and government entities**



Source: Company data

# Company forecasts

Now that Nakilat is operating at 100% capacity, we expect a revenue CAGR of 34% from 2009 to 2011. Going forward, from 2011 we assume absolute revenue growth consistent with that of operating expenses and, hence, flat EBITDA.

## Volume

For the wholly owned vessels, we assume ship utilisation of 100%, or 365 days a year of revenue generation. This is because the additional out-of-service maintenance allowance granted under the time charters is quite generous according to the prospectus. We project a life of 40 years for the wholly owned vessels.

## Charter rates and operating margins

Nakilat's valuation is extremely sensitive to shipping rate and operating cost assumptions. Using financial statements from when the boats became operational between 1Q09 and 3Q10, we have extracted the following information:

**Table 16 : Margins and rates**

	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	9M10	4Q10F	2010F	2011F	2012F	2013F
Revenue from wholly owned vessels (QRm)	138	360	453	542	1,494	616	660	711	1,988	740	2,728	2,971	2,982	2,994
Operating costs of wholly owned vessels (QRm)	-	57	58	91	205	79	115	120	315	111	426	455	466	478
EBITDA margin	100.0%	84.2%	87.3%	83.2%	86.3%	87.1%	82.6%	83.1%	84.2%	85.0%	84.4%	84.7%	84.4%	84.0%
Consolidated days in operation	408	1018	1,402	1,640	4,467	1,948	2,098	2,209	6,255	2,281	8,536	9,125	9,125	9,125
QAR/Ship/Day (000)	339	354	323	330	334	316	315	322	318	324	320	326	327	328
Avg size of vessel (cubic metres) (000)	265	251	245	243	248	242	242	243	242	244	243	244	244	244
Shipping rate (QR/cubic metre)	1.28	1.41	1.32	1.36	1.35	1.31	1.30	1.32	1.31	1.33	1.32	1.33	1.34	1.34
Shipping rate (US\$/cubic metre)	0.353	0.387	0.362	0.373	0.371	0.360	0.357	0.364	0.360	0.365	0.362	0.367	0.368	0.369

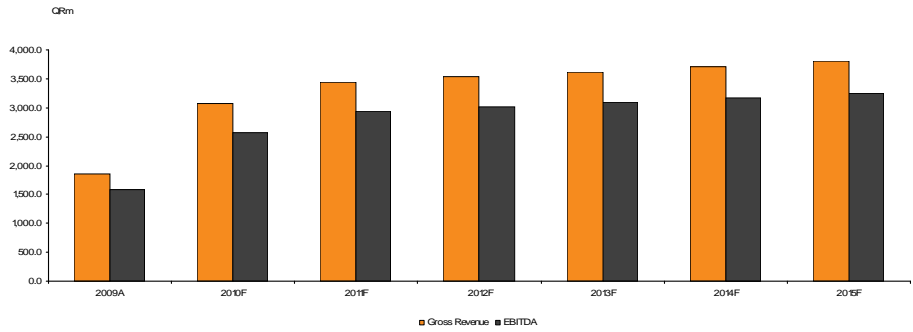
Source: Company data, Rasmala forecasts

To arrive at a reasonable estimate for consolidated days in operation, we assume a 30-day lag from when delivery of the ship has been announced to when it begins generating revenue. 2009 numbers imply operating margins of 86.3% and shipping rates of US\$0.371/m<sup>3</sup> where 9M10 numbers imply operating margins of 84.2% and shipping rates of US\$0.360/m<sup>3</sup>.

We believe the shipping rate for 3Q10 is the most accurate as, in that quarter, only one boat was subject to the variable assumption for the lag between announced delivery and revenue generation: namely the Q-Max carrier Rasheeda, the final wholly owned vessel to be delivered, on 12 August 2010. We thus use a rate close to the 3Q2010 rate in our base case (US\$0.365/m<sup>3</sup>, or US\$97,090 a day for the Q-Max ships and US\$78,840 a day for the Q-Flex ships). We believe the operating margin variability is due to variability in the process of bringing brand new boats online and assume 85% in our base case (US\$14,564 a day for the Q-Max ships and US\$11,826 a day for the Q-Flex ships), which is slightly higher than the 9M10 number.

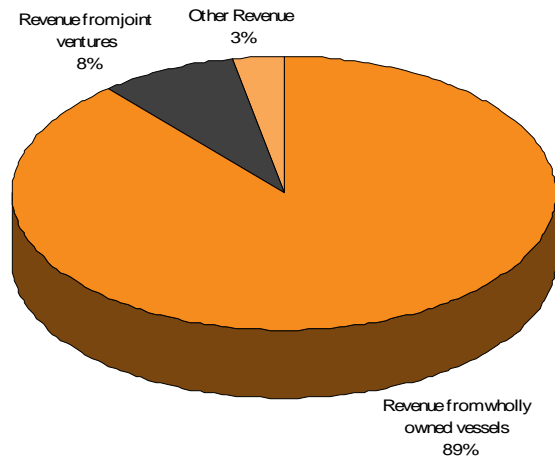
Below (Chart 6) we present an average percentage breakdown of daily expenses for both the Q-Max and the Q-Flex vessels. Note that our operating cost assumptions are in line with Nakilat and Drewry estimates.

**Chart 4 : Gross revenue and EBITDA 2009-15**



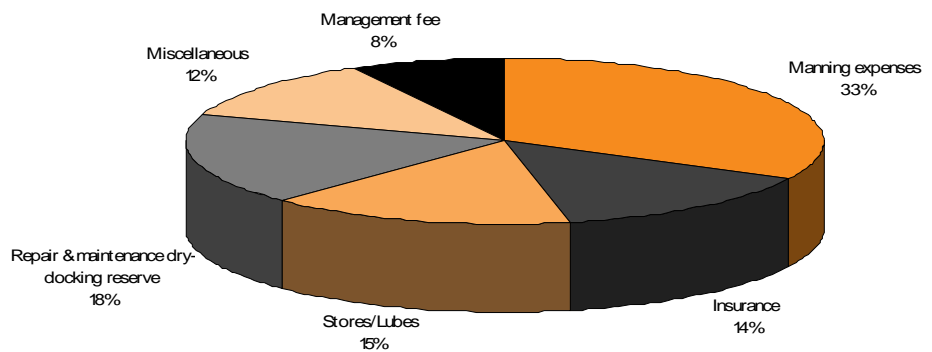
Source: Company data, Rasmala forecasts

**Chart 5 : Nakilat's 2010F revenue breakdown**



Source: Rasmala forecasts

**Chart 6 : Daily expenses of Q-Max and Q-Flex vessels**



Source: Company data

**Financials**

- We forecast FY10 EBITDA of QR2.56bn and net income of QR643m. We expect 2011 to be the first full year of 100% utilisation of all planned and delivered vessels and forecast FY EBITDA of QR2.76bn and net income of QR901m.
- We forecast an EBITDA CAGR of 32.0% over 2009-11 and an EPS CAGR of 23.7% for the

same period. Going forward, for the next 25 years we expect EBITDA to remain flat. Over 2011-15, we see earnings growing at a CAGR of 6.9% as we expect Nakilat to pay down its debt and, hence, lower its interest expense.

- After 2010, we assume no expansion capex; only major maintenance capex once every five years equating to 1% of the original cost of the vessels or a total of approximately QR273m.
- Nakilat announced a dividend of QR0.50 on 23 March 2010, equivalent to 5% of paid of capital, a yield of 2.61% at the current price or a 47% dividend payout ratio. This was a surprise to us, given the company was not generating free cash flow at that point, and given the high level of upcoming debt maturities. We believe it is, however, a positive sign that the company is looking to return cash to shareholders, but it is unclear how the strategy will be implemented in the future. We factor a 50% dividend payout ratio into our forecasts for the life of the business.

# Potential upside to our forecasts

**Potential catalysts are: 1) incremental revenue generation from the Ras Laffan Shipyard; 2) Provisions that allow for increases in both the capital and operating element of the charter rates and 3) possible expansion of the current LPG fleet on favourable terms for Nakilat.**

## Ras Laffan Shipyard

Our forecasts do not factor in any value contribution from contracts announced following the opening of the Ras Laffan Shipyard. The shipyard's first three phases were opened in the Ras Laffan Port on 24 November 2010 and the project is a significant accomplishment for Nakilat and an important development for the state of Qatar. The first three phases are:

- Repair and conversion of very large ships (eg. LNGCs, VLCCs)
- Repair of medium-sized ships (eg. 20,000-80,000 dwt)
- Fabrication and maintenance of offshore structures (and components for land-based petrochemical plants)

The shipyard, which cost US\$2.8bn to construct, can serve more than 150 ships a year and will be capable of manufacturing ships of up to 120 metres in length. The remaining three phases, which the company expects to be complete by 2012, will be for construction of high-value small ships, repair of small ships and production of fibre-reinforced plastic boats for commercial and leisure purposes.

## Recent contracts

- On 31 March 2010, Nakilat announced a contract to build 19 vessels for Qatar Petroleum consisting of service vessels, harbour tugs plus an additional six patrol boats for the Qatar Navy.
- On 23 November 2010, it announced that its Nakilat–Keppel Offshore and Marine (N-KOM) had won a three-year contract to service Shell's LNG vessels, although the size and terms of the deal are yet to be disclosed.
- On 23 November 2010, Nakilat also announced it had signed a deal to provide maintenance services for an offshore drilling rig owned by local firm Gulf Drilling International (NR) and that the work would take place some time in 2011 and the company was seeking additional maintenance contracts for five other rigs.

We do not incorporate forecasts for any of these contracts into our valuations given: 1) the limited details on the contracts at this stage, and 2) the economics of the JV contracts between Nakilat, the JV partners (Keppel Offshore & Marine and Damen Shipyards) and Qatar Petroleum, which was responsible for financing the capex of the shipyard. Management does not expect revenues to be significant until 2012 and, although we see the shipyard as a positive in terms of value added, we are reluctant to include this project in our valuations until further details become available.

## Charter rate provisions

The daily rate agreed to between Nakilat and the charterers is made up of two components: a capital element and an operating element. The capital element is structured to cover service costs of the debt and to provide for an equity return to shareholders. The operating component of the charter payment is structured to provide adequate coverage of operating expenses and is provisioned to increase only in accordance with US CPI. There is a possibility that the capital element is also provisioned to increase, a situation we consider in our bull case scenario with annual increases of 1% in the capital element of the charter rates.

## Possible expansion of LPG fleet

Nakilat currently jointly operates four LPG vessels in addition to its fleet of 54 LNG vessels. The current arrangement for its sale of LPG is mostly on a free-on-board (FOB) basis, where the customers provide the transportation of the LPG themselves. Comments made by Nakilat's managing director, Mohamed Ghannam, on 28 December 2010 suggest the company may change this arrangement and additionally provide the transport of LPG if doing so would provide a good return for investors. Consequently, this would require Nakilat to expand its LPG fleet.

A moratorium on further development of Qatar's North Field, which contains nearly 14% of the world's proven gas reserves, is currently in place. If the country were to lift the moratorium, production of LPG as well as LNG and by-products would subsequently increase and make a stronger case for an expansion of Nakilat's LPG fleet. Our forecasts do not factor in a possible expansion of Nakilat's LPG fleet in the future.

# The global LNG industry at a glance

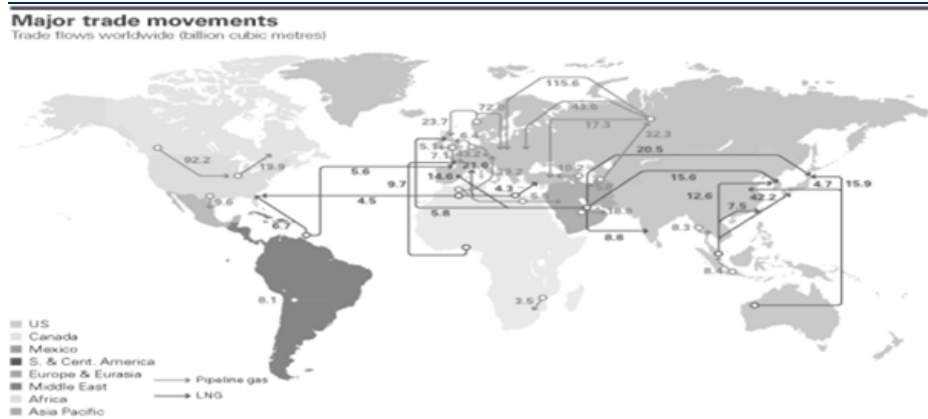
Liquefying cooled natural gas reduces the volume about 600 times. As this requires less storage capacity, LNG can be stored in larger quantities and becomes more economical to transport across greater distances where pipelines do not exist.

LNG takes up 600 times less storage space than natural gas

Natural gas is exported globally through specially constructed pipelines, and through floating pipelines – more commonly known as LNG vessels. Natural gas can be cooled until it becomes liquid, and this reduces the volume about 600 times. As this requires less storage capacity, LNG can be stored in larger quantities and becomes more economical to transport across greater distances where pipelines do not exist.

A large part of the world's LNG supply comes from countries such as Algeria, Australia, Brunei, Indonesia, Libya, Malaysia, Nigeria, Oman, Qatar, and Trinidad and Tobago. According to British Petroleum's (BP) Statistical Review of World Energy report, 2010, more than 45% of the world's natural gas proved reserves are in the Middle East and North Africa (MENA) region, and nearly 60% of the region's trade movement is in the form of LNG.

**Figure 6 : Natural gas is exported through constructed pipelines or as LNG**



Source: BP Statistical Review of World Energy report 2010

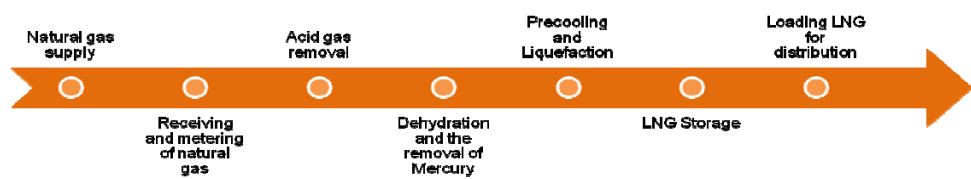
## Natural gas goes through a liquefaction process before being transported as LNG

There were 90 LNG trains in operation internationally in 2009

The upstream liquefaction process that takes place in LNG trains primarily involves the removal of certain components such as dust, acid gases, helium, water and heavy hydrocarbons, which could cause difficulties when reconvert it to natural form. The natural gas is then condensed into liquid form at close to atmospheric pressure by cooling and refrigerating it to approximately 162°C (260°F). (Source: <http://liquefiednaturalgas.de>)

According to an article in <http://liquefiednaturalgas.de>, by the end of 2012, the number of liquefaction trains in operation is set to increase to 100 from 90 as of end-2009, thus providing a total capacity of 297.2mta, which is nearly 21% more than the capacity at end-2009.

**Figure 7 : The liquefaction process converts natural gas to LNG**



Source: IHS website

In 2009, the Pacific basin had the largest capacity of liquefaction in the world

In 2009, Pacific basin countries had capacity to liquefy over 94mta of natural gas (around 38% of total liquefaction capacity globally) and store nearly 2.9m m<sup>3</sup> of LNG. Indonesia operated the highest number of trains (13) with the ability to liquefy 34.55mta of natural gas.

In the Atlantic basin, which had a nominal capacity to liquefy 77.83mta of natural gas

(approximately 32% of total liquefaction capacity globally) and store nearly 3.0m m<sup>3</sup>, Nigeria's Bonny Island site operated the largest number of LNG trains in the region (18) with a capacity to liquefy 21.7mta of natural gas.

**Qatar - the single largest country with the greatest capacity for liquefaction in the world**

The Middle East had a nominal capacity to liquefy of 73.65mta of natural gas (around 30% of total liquefaction capacity globally). The North Field in Qatar, incidentally the single largest country in the world with the capacity to liquefy natural gas, operated 11 LNG trains with a capacity to liquefy 54mta of natural gas.

**Table 17 : The Pacific basin had more than 38% of the world's liquefaction capacity in 2009**

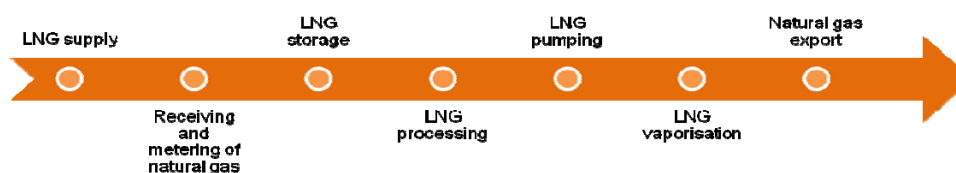
Country	Liquefaction		Storage	
	Number of trains	Capacity (mta)	Number of tanks	Capacity (m <sup>3</sup> )
Atlantic Basin	36	77.83	32	2,695,800
Algeria	18	20.23	14	641,000
Egypt	3	12.20	4	580,000
Equatorial Guinea	1	3.70	2	272,000
Libya	3	0.60	2	96,000
Nigeria	6	21.70	4	336,800
Norway	1	4.30	2	250,000
Trinidad & Tobago	4	15.10	4	520,000
Middle East	18	73.65	18	1,965,000
Abu Dhabi	3	5.60	3	240,000
Oman	3	10.70	2	240,000
Qatar	11	54.00	11	1,345,000
Yemen	1	3.35	2	140,000
Pacific Basin	36	94.20	32	2,939,800
Australia	6	18.80	6	513,000
Brunei	5	7.20	3	195,000
U.S.A.	2	1.40	3	108,000
Indonesia	13	34.55	12	1,478,800
Malaysia	8	22.70	6	445,000
Russia	2	9.55	2	200,000
<b>Total</b>	<b>90</b>	<b>245.68</b>	<b>82</b>	<b>7,600,600</b>

Source: GIIGNL report on the LNG industry 2009

**LNG is converted to its natural state at regasification terminals around the world**

LNG is then transported to downstream terminals, where regasification through a heating process takes place to convert LNG to its natural gas form. Thereafter, regasification terminals around the world are connected to a storage and pipeline distribution network to distribute natural gas to local distribution companies or independent power plants.

**Figure 8 : The regasification process converts LNG back to natural gas**



Source: IHS website

**Japan has the largest number of regasification tanks in the world**

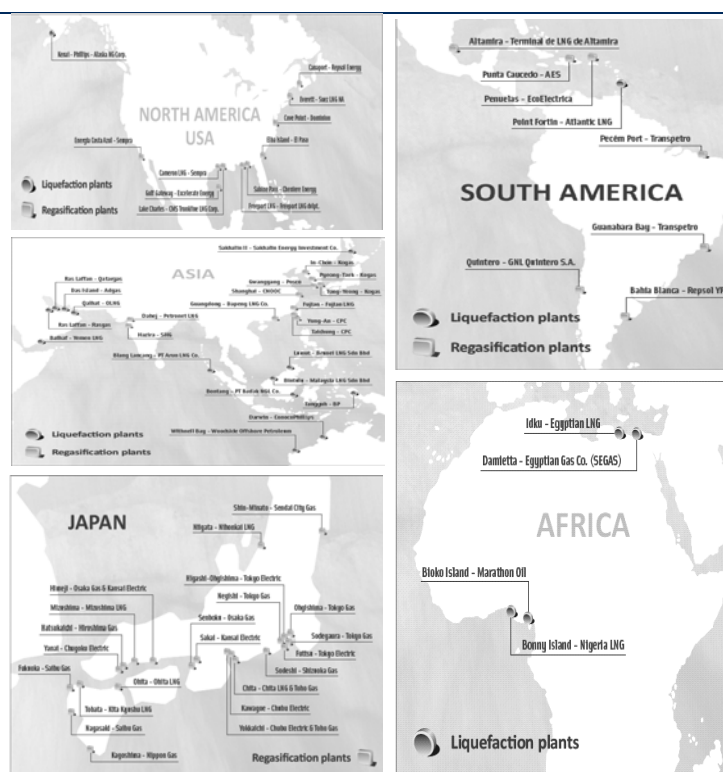
By end-2009, there were 344 tanks across the globe with a total LNG regasification capacity of more than 35.7m m<sup>3</sup>. The majority (173) of the tanks were in Japan, which holds nearly 42% of the world's regasification capacity. Korea operated 48 tanks with a capacity of over 6m m<sup>3</sup> of LNG, while in the US, there were 26 tanks in operation that could together convert a capacity of over 3.1m m<sup>3</sup> of LNG.

**Table 18 : By end-2009, nearly 42% of the world's regasification capacity was in Japan**

Country	Storage		Send out	
	Number of tanks	Total capacity (m <sup>3</sup> )	Number of vaporisers	Nominal capacity (bn m <sup>3</sup> )
France	9	840,000	30	25.25
Spain	21	2,487,000	43	60.04
Italy	2	100,000	9	11.32
Belgium	4	380,000	11	9.00
Turkey	5	535,000	12	12.20
Greece	2	130,000	6	5.00
Portugal	2	240,000	5	5.20
United Kingdom	14	1,895,000	31	45.10
Canada	3	160,000	8	10.00
U.S.A.	26	3,120,694	87	153.84
Dominican Rep.	1	160,000	2	2.32
Mexico	4	620,000	11	18.13
Puerto Rico	1	160,000	2	3.75
Argentina	-	-	6	3.00
Chile	3	344,000	3	3.65
China	11	1,415,000	7	10.10
Kuwait	-	-	-	7.07
Brazil	-	-	4	7.50
India	6	912,000	24	15.90
Japan	173	14,913,200	236	249.69
Korea	48	6,120,000	78	104.29
Taiwan	9	1,170,000	22	32.00
<b>Total</b>	<b>344</b>	<b>35,701,894</b>	<b>637</b>	<b>794.35</b>

Source: GIIGNL report on the LNG industry 2009

**Figure 9 : A snapshot of the regasification and liquefaction plants around the world**



Source: GIIGNL report on the LNG industry 2009

**North America was the largest producer and consumer of natural gas in 2009**

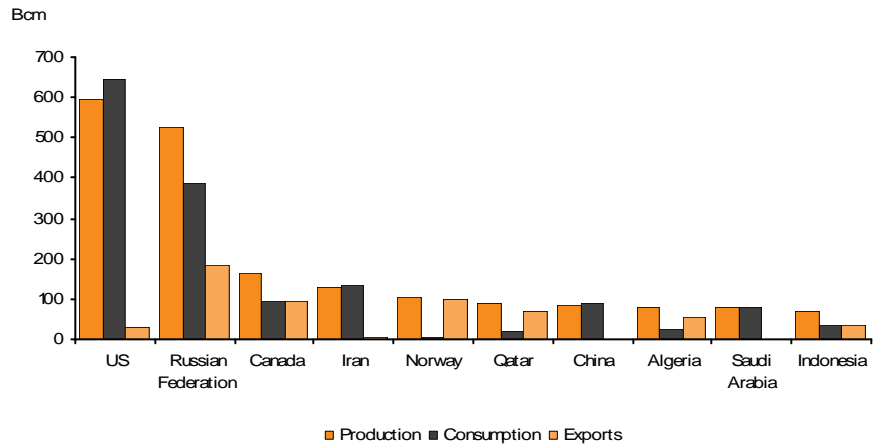
The US market is a net importer of LNG given its high levels of natural gas consumption

As of end-2009, the US was the largest producer of natural gas; it produced 593.4bn m<sup>3</sup>, equivalent to 20% of natural gas production in the world. However, the US consumes more than

646bn m<sup>3</sup> per year (nearly 22% of global consumption), thus making it the world's largest natural gas consumer as well. This high level of consumption makes the US market a net importer of LNG, and a significant market for LNG-exporting countries.

Of the other significant natural gas producers at end-2009, Russia accounted for nearly 18% of the world's natural gas production, while Canada accounted for nearly 5.4%. As regards consumption, Russia accounts for nearly 14%, while Iran and China consume around 4.5% and 3% of global natural gas supply, respectively.

**Chart 7 : US is a net importer of natural gas driven by its high consumption levels**



Source: BP Statistical Review of World Energy report 2010

**The Pacific basin was the largest LNG-exporting region by end-2009**

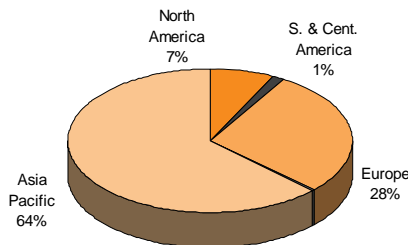
Exports from the Pacific basin accounted for nearly 40% of total LNG exports globally by end-2009; approximately 23% of which was exported by Malaysia and Indonesia. The Atlantic basin accounted for 32% of global LNG exports, and Algeria around 9% of this. The Middle East accounted for around 28% of total LNG exports, with Qatar (as the single largest exporting country) exporting approximately 20% of total global LNG supply.

As regards imports, the Asia-Pacific region accounted for more than 63% of the global total in 2009. The largest importers were Japan and South Korea, importing 85.9bn m<sup>3</sup> and 34.33bn m<sup>3</sup>, respectively. The two countries together accounted for around 50% of the world's total LNG imports in 2009, while in Europe, Spain imported 11.1% of the world's total LNG supply.

Malaysia and Indonesia together exported around 23% of the world's LNG supply in 2009

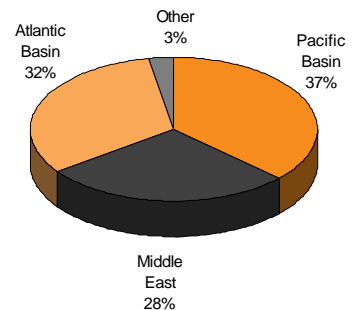
Qatar was the largest LNG-exporting country in the world, accounting for around 20% of global LNG exports

**Chart 8 : The Asia-Pacific region imported the most LNG in 2009**



Source: BP Statistical Review of World Energy report 2010

**Chart 9 : The Pacific basin exported the most LNG in 2009**



Source: BP Statistical Review of World Energy report 2010

**Table 19 : A snapshot of LNG import and export data as of end-2009**

Bcm To	From																	Total imports	
	US & Tobago	Trinidad	Belgium	Norway	Russia	Oman	Qatar	UAE	Yemen	Algeria	Egypt	Equatorial Guinea	Libya	Nigeria	Australia	Brunei	Indonesia		Malaysia
<b>North America</b>																			
US	-	6.68	-	0.84	-	-	0.36	-	-	-	4.54	-	-	0.38	-	-	-	-	12.80
Canada	-	0.80	-	-	-	-	0.09	-	-	-	0.08	-	-	-	-	-	-	-	0.98
Mexico	-	0.16	-	0.09	-	-	0.12	-	0.08	-	0.34	-	-	2.69	-	-	0.08	-	3.55
<b>S. &amp; Cent. America</b>																			
Argentina	-	0.80	-	-	-	-	-	-	-	-	0.16	-	-	-	-	-	-	-	0.96
Brazil	-	0.27	-	-	-	-	-	-	-	-	-	-	-	0.08	-	-	-	-	0.35
Chile	-	0.16	-	-	-	-	0.16	-	-	-	-	0.33	-	-	-	-	-	-	0.65
Dominican Republic	-	0.56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.56
Puerto Rico	-	0.76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.76
<b>Europe</b>																			
Belgium	-	0.16	-	0.17	-	-	6.03	-	-	-	0.09	-	-	0.08	-	-	-	-	6.53
France	-	0.72	-	0.44	-	-	0.17	-	-	7.68	1.63	0.08	-	2.35	-	-	-	-	13.07
Greece	-	0.04	-	-	-	-	-	-	-	0.53	0.17	-	-	-	-	-	-	-	0.74
Italy	-	-	-	-	-	-	1.55	-	-	1.27	0.08	-	-	-	-	-	-	-	2.90
Portugal	-	0.40	-	-	-	-	-	0.08	-	0.11	-	0.09	-	2.14	-	-	-	-	2.82
Spain	-	4.18	0.08	1.38	-	1.30	4.98	-	0.09	5.19	4.10	-	0.72	4.99	-	-	-	-	27.01
Turkey	-	0.08	-	-	-	0.08	0.32	-	-	4.20	0.08	-	-	0.94	-	-	-	-	5.71
United Kingdom	-	1.97	-	0.26	-	-	5.75	-	-	1.68	0.51	-	-	-	0.08	-	-	-	10.24
<b>Middle East</b>																			
Kuwait	-	0.15	0.08	-	0.41	0.08	-	-	-	-	-	-	-	-	0.08	-	-	0.09	0.89
<b>Asia Pacific</b>																			
China	-	0.08	0.08	-	0.25	0.09	0.55	-	-	-	0.08	0.08	-	0.08	4.75	-	0.72	0.88	7.63
India	-	0.68	-	-	0.67	0.35	8.25	0.17	-	0.16	0.33	0.25	-	0.32	1.12	-	0.08	0.25	12.62
Japan	0.86	0.14	-	-	3.69	3.44	10.29	6.75	-	-	0.24	1.70	-	0.77	15.87	8.11	17.25	16.79	85.90
South Korea	-	0.90	-	-	1.35	6.05	9.28	-	0.25	0.08	0.31	1.52	-	0.23	1.75	0.70	4.10	7.81	34.33
Taiwan	-	0.08	-	-	0.24	0.16	1.56	-	-	-	0.08	0.67	-	0.93	0.60	-	3.77	3.71	11.79
<b>Total exports</b>	<b>0.86</b>	<b>19.74</b>	<b>0.24</b>	<b>3.17</b>	<b>6.61</b>	<b>11.54</b>	<b>49.44</b>	<b>7.01</b>	<b>0.42</b>	<b>20.90</b>	<b>12.82</b>	<b>4.72</b>	<b>0.72</b>	<b>15.99</b>	<b>24.24</b>	<b>8.81</b>	<b>26.00</b>	<b>29.53</b>	<b>242.77</b>

Source: BP Statistical Review of World Energy report 2010

The number of LNG vessels in operation is expected to increase more than 43% from 2010 to 2020, according to Seamanship International

**The top eight LNG-transporting companies had over 300 LNG vessels in operation by 2009**

By end-2009, there were more than 300 LNG vessels in operation to transport LNG internationally. As of December 2009, Nakilat was the biggest midstream shipping company by LNG shipping capacity, accounting for around 15.5% of total capacity worldwide. Japanese LNG transportation company Mitsui O.S.K. Lines (NR) accounted for 8% of global LNG fleet capacity, while Malaysia’s MISC Berhad (Sell; TP RM6.00) accounted for 7.6%.

According to Seamanship International, the number of LNG vessels in service is estimated to have increased to over 350 in 2010. Seamanship International also forecasts an increase to over 500 by 2020.

**Table 20 : The top eight LNG-transporting companies account for 50% of total LNG shipping capacity**

Company	Vessels	Capacity ('000 m³)	Capacity (%)
Nakilat	47	7,391	15.5
Mitsui O.S.K. Lines	74	3,824	8.0
MISC	29	3,647	7.6
NYK Line	64	3,380	7.1
South Korean Lines	20	2,619	5.5
Bergesen Worldwide	13	1,915	4.0
Teekay Shipping	15	1,703	3.6
“K” Line	48	1,663	3.5

Note: Frequently, multiple companies jointly own LNG tankers. Above, each partial volume, regardless of amount, is counted as a single tanker. Transport volumes are assigned to individual companies on the basis of their ownership percentage.  
Source: NYK Fact Book 2010

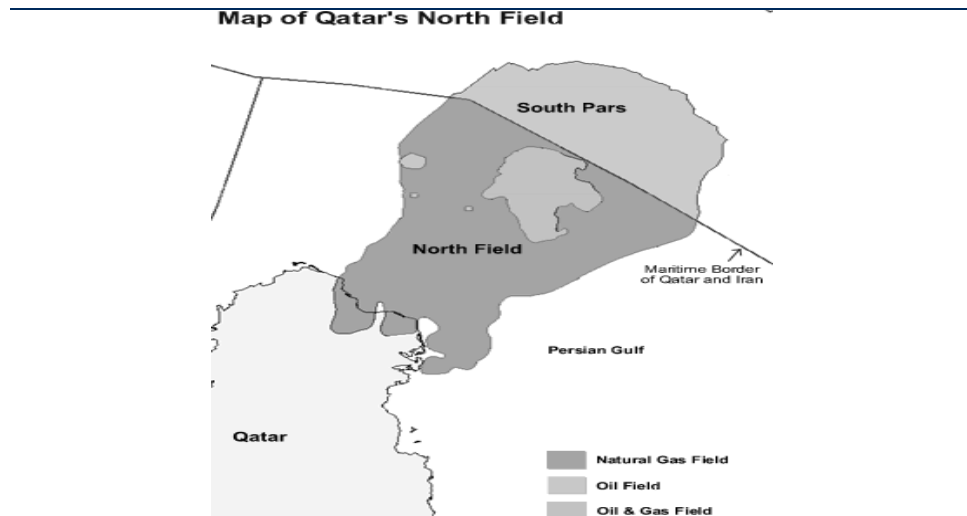
# Qatar's LNG industry at a glance

The Qatari government has invested US\$4bn in natural production, which should enable Qatar to supply a third of the world's LNG by 2011

Qatar's North Field, which it shares with Iran, already produced more than 20% of the world's LNG supply by end-2009. Given investments to build natural gas processing facilities, the government expects Qatar to produce a third of global LNG supply by 2011.

Qatar shares with Iran the largest single non-associated gas field in the world, its North Field, which produced more than 20% of the world's LNG supply by end-2009. The government already achieved its historic target of 77mta of LNG exports by end-2010 (over 50% above 2009 levels) through its North Field operations and, according to AMEinfo, has initiated an investment of US\$4bn with Japan and France to build natural gas processing facilities in Qatar. As a result, the government expects Qatar to produce a third of the world's LNG supply by 2011.

**Figure 10 : Qatar's North Field held 13.5% of the world's proven gas reserves as of end-2009**



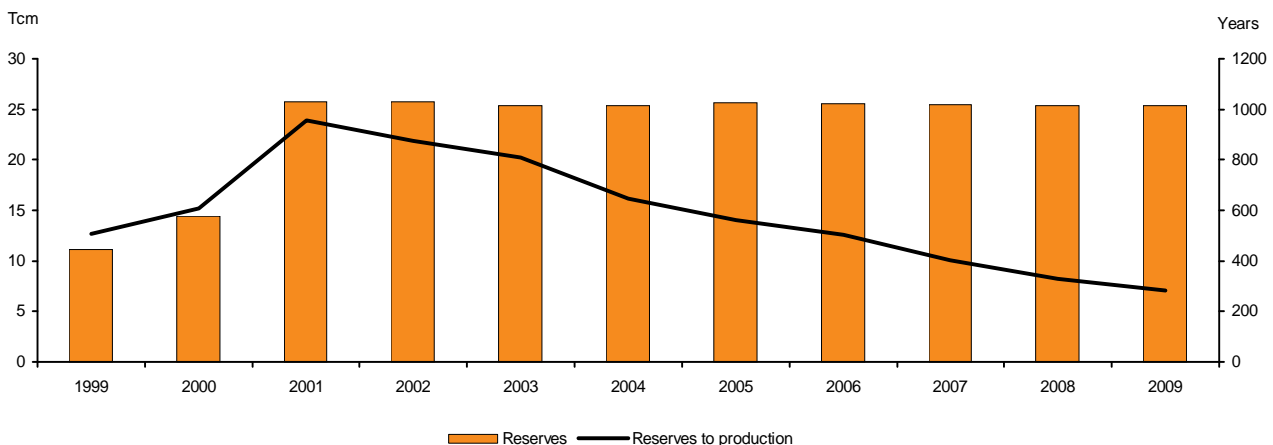
Source: US Energy Information Administration website

Qatar's growth in LNG production is supported by its extensive reserves, which stood at 25.37trn m<sup>3</sup> by end-2009, making them the third-largest reserves in the world (13.5% of the world's proven gas reserves), after those in Russia and Iran. The increase in natural gas production over the years has steadily reduced the number of years of productive utilisation of Qatar's natural reserves.

The increase in production has steadily reduced the number of years that Qatar's natural gas reserves could be utilised

Despite the increase in utilisation, at current production levels Qatar's proved natural gas reserves could be exploited for around another 284 years for the production of natural gas.

**Chart 10 : Qatar's reserves should last 284 years given current production levels**

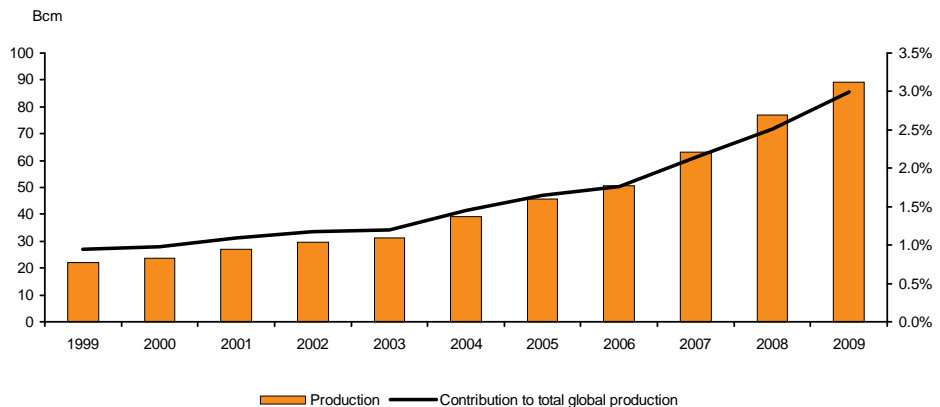


Source: BP Statistical Review of World Energy 2010

Qatar's LNG production increased at a CAGR of 15% during 2000-09, as did its contribution to global production over this period, reaching around 3% by end-2009 from 1.6% in 2005. This can be primarily attributed to Qatar's focus on increasing its LNG export capacity.

Qatar's contribution to global LNG production has increased steadily over the years

**Chart 11 : Qatar's LNG production accounted for 3% of global natural gas production by end-2009**



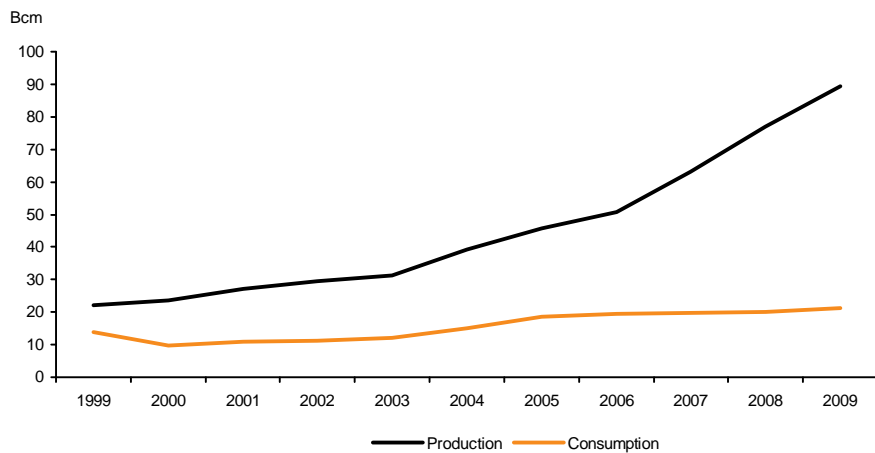
Source: BP Statistical Review of World Energy 2010

**By end-2009, Qatar was the largest LNG exporter in the world**

Qatar fully meets its domestic natural gas needs and exports the remainder

By end-2009, Qatar was the largest exporter of LNG in the world (having a 20.4% global LNG market share) with an export capacity of more than 49mta. It is also the fourth-largest total natural gas exporter (LNG and pipeline). Qatar's export growth is driven by the increase in its natural gas production capacity over the years, owing to robust government investment. This has, in turn, enabled the country to fully meet its domestic needs and channel the remainder for export.

**Chart 12 : Qatar's net exports of LNG have continued to grow as production has grown faster than consumption**



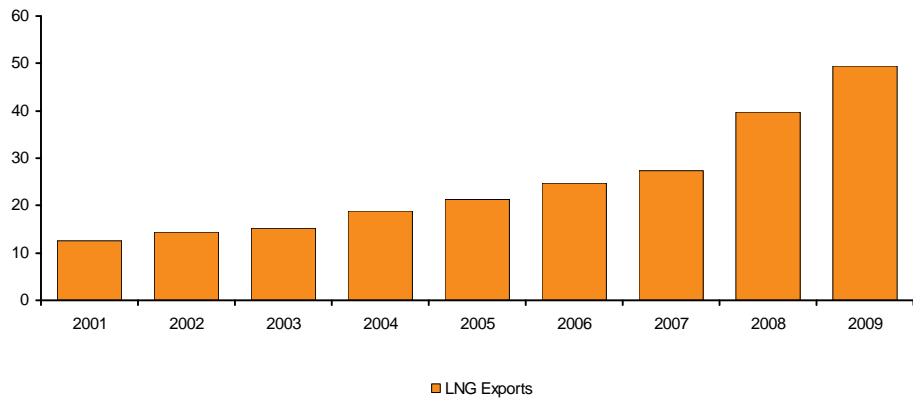
Source: BP Statistical Review of World Energy 2010

Qatar's LNG exports increased more than 25% yoy in 2009

Qatar's LNG exports have increased rapidly over time. In 2009, the country witnessed its highest-ever level of LNG exports, up more than 25% yoy. This can be attributed to the Qatari government's initiatives in providing the necessary finance and assistance to increase the midstream shipping and distribution capacity of LNG to world markets, thus boosting the country's effective export capacity.

In 2009, nearly 21% of Qatar's LNG exports were to Japan, while exports to South Korea, India and Belgium accounted for 19%, 17%, and 12%, respectively. Exports to the UK accounted for around 12%.

**Chart 13 : Qatar's LNG exports grew at a 19% CAGR in 2001-09 (bcm)**



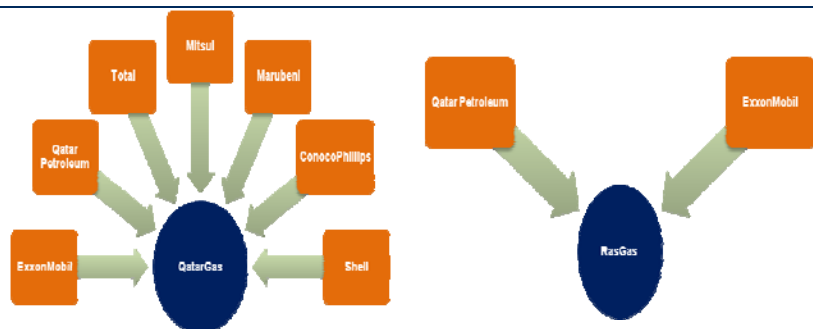
Source: BP Statistical Review of World Energy 2010

**Qatargas and RasGas produce and export nearly all of Qatar’s LNG**

Qatar’s LNG sector is dominated by Qatar LNG Company (Qatargas) and Ras Laffan LNG Company (RasGas), which primarily handle Qatar’s LNG production and exports. RasGas is 70% owned by Qatar Petroleum and 30% by ExxonMobil. The Qatargas consortium includes not only QP and ExxonMobil but also other foreign players such as Total, Mitsui, Marubeni, ConocoPhillips and Shell.

Qatargas and RasGas handle all upstream-downstream natural gas transportation, while Nakilat takes Qatari LNG to its export markets.

**Figure 11 : Qatargas and RasGas have entered into significant ventures**



Source: Qatargas and RasGas websites

**Qatargas is the oldest LNG facility in the State of Qatar**

**By early 2011, Qatargas expects to export 42mta to markets in Europe, Asia and North America**

Qatargas was incorporated in 1984 and has since established itself to become a leading player in the LNG industry by handling the bulk of Qatar’s LNG production. The company was originally formed to operate three LNG trains with a design capacity of 2mta each. The shareholders in this venture (referred to as Qatargas 1) were Qatar Petroleum, ExxonMobil, Total, Mitsui and Marubeni. After a successful expansion project completed in 2005, the total production capacity of Qatargas 1 increased to nearly 10mta of LNG. Qatargas 1 exports LNG to customers in Japan and Spain under long- and mid-term contracts.

In 2009, Qatargas successfully started production from Trains 4 and 5, which are two mega trains capable of producing 7.8mta each. Together, these LNG trains constitute Qatargas 2. As Qatar continues to expand its natural gas production, Qatargas will play a major role in processing LNG and supplying it to the region and to the world.

In November 2010, Qatargas announced that Train 6 of Qatargas 3 had started producing LNG. Its seventh train (Qatargas 4) is projected to begin supplying LNG by early 2011. These trains, which have a capacity to chill natural gas to produce 7.8mtpa each, are the largest in the world. Train 6 is a joint venture between Qatar Petroleum, the US’s ConocoPhillips and Japan’s Mitsui, while Train 7 is being developed with Royal Dutch Shell.

(Source: <http://www.arabianbusiness.com/586490-first-lng-cargo-from-qatargas-train-6-by-nov>)

According to the company, once Qatargas's rapid expansion process is completed by early 2011, it plans to export 42mta to markets in Europe, Asia and North America.

**Table 21 : A snapshot of Qatargas's LNG production capacity**

	Trains 1-3	Train 4	Train 5	Train 6	Train 7
First production	Dec-96	Apr-09	Sep-09	2010	2011
Capacity	9.6 mta combined	7.8 mta	7.8 mta	7.8 mta	7.8 mta
Main markets	Japan and Spain	UK	UK	US	China and N. America

Source: US Energy Information Administration

#### RasGas is another major player in Qatar's LNG production

RasGas expects its production to reach 37mta by early 2011 focusing on the Asian and US markets

RasGas was established in 2001 by Qatar Petroleum, which owns 70%, and ExxonMobil, which owns 30%, in order to develop facilities for the extraction, storage, processing and export of LNG. Since its inception, it has entered into long-term agreements to supply LNG to Qatar's major markets in Korea, India, Spain, Taiwan, Belgium and the US. The company also intends to diversify its markets into South America, and made recent spot sales of LNG to Argentina and Chile.

RasGas currently operates seven LNG trains with 28.5mta of LNG production capacity. The company expects production to reach 37.0mta by early 2011 upon the completion of its seventh LNG train.

**Table 22 : RasGas operates seven LNG trains with a capacity of 28.5mta**

	Trains 1, 2	Train 3	Train 4	Train 5	Trains 6, 7
First production	Aug-99	Feb-04	Aug-05	Nov-06	Online in 2009
Capacity	6.6mta combined	4.7mta	4.7mta	4.7mta	7.8mta
Main markets	Korea	India	Europe	Europe and Asia	Asia and USA

Source: RasGas website

#### The majority of Qatar's LNG contracts are spread over 1997-2034

Much of Qatar's LNG is contracted to India

Approximately 17% of Qatar's contracted supplies for LNG are to India, while 16% of contracted LNG capacity is to Korea and 12% to Belgium. These contracts are chartered to RasGas and are exported from Qatar's port of Ras Laffan. Qatargas makes substantial exports to Japan, the US and UK markets, and Japan accounts for nearly 14% of the total contracted LNG supply.

**Table 23 : By end-2009, Qatar had significant long-term and medium-term contracts in place**

Trade	Export	Seller	Import	Buyer	Nominal quantity (mta)	Duration	Type of contract	Comments
Qatar - Japan	Ras Laffan	Qatargas	Chita/Kawagoe Yokkaichi	Chubu Electric	4.00	1997/2021	F.O.B.	
Qatar - Japan	Ras Laffan	Qatargas	Niigata Ohgishima Senboku, Himeji Sakai Sodegaura Futtsu, Chita Yanai, Mizushima Higashi-Ohgishima	Tohoku Electric Tokyo Gas Osaka Gas, Kansaid Electric Tokyo Electric Toho Gas, Chugoku Electric	2.00	1998/2021	F.O.B.	
Qatar - EU	Ras Laffan	Qatargas	EU	Gas Natural sdg	0.75	2006/2025	F.O.B.	
Qatar - UK	Ras Laffan	Qatargas II TB	South Hook	Total	1.50	2009/2034	D.E.S.	
Qatar -US	Ras Laffan	Qatargas II TB	Sabine Pass	Total	1.15	2009/2034	C.I.F.	
Qatar - Mexico	Ras Laffan	Qatargas II TB	Altamira	Total	0.70	2009/2021	D.E.S.	
Qatar - France	Ras Laffan	Qatargas II TB	Fos Cavaou	Total	1.85	2009/2034	D.E.S.	
Qatar - Spain	Ras Laffan	Qatargas	Ba.H.Cart.	Gas Natural sdg	0.66	2001/2009	D.E.S.	Extension 2012
Qatar - Spain	Ras Laffan	Qatargas	Ba.H.Cart.	Gas Natural sdg	0.66	2002/2007	D.E.S.	Extension 2012
Qatar - Spain	Ras Laffan	Qatargas	Ba.H.Cart.Sag.	Gas Natural sdg	0.75	2005/2025	D.E.S.	
Qatar - Spain	Ras Laffan	Qatargas	Cartagena, Bilbao	Iberdrola	0.88	2003/2022	D.E.S.	
Qatar - Spain	Ras Laffan	RasGas	Barcelona	ENI	0.75	2004/2023	D.E.S.	
Qatar - Spain	Ras Laffan	RasGas II		Endesa	0.74	2005/2025	D.E.S.	
Qatar - Italy	Ras Laffan	RasGas	Rovigo	Edison	4.60	2009/2034	D.E.S.	
Qatar -India	Ras Laffan	RasGas	Dahej	Petronet LNG	7.50	2004/2028	F.O.B.	
Qatar-Korea	Ras Laffan	RasGas	Pyeong-Taek In-Chon, Tong-Yeong	Kogas	4.92	1999/2024	F.O.B.	
Qatar-Korea	Ras Laffan	RasGas III	Pyeong-Taek In-Chon, Tong-Yeong	Kogas	2.10	2007/2026	D.E.S.	
Qatar-Taiwan	Ras Laffan	RasGas II	Taichung	C.P.C.	3.08	2008/2032	F.O.B.	
Qatar - Belgium	Ras Laffan	RasGas RasGas II	Zeebrugge Zeebrugge	Distrigas EDF Trading	2.05 3.40	2007/2027 2007/2012	F.O.B. D.E.S.	

F.O.B. – Freight on board, D.E.S. – Delivered ex ship, C.I.F. – Cost, insurance and freight  
Source: GIIGNL report on the LNG industry 2009

## Income statement

QRm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	206.1	1849	3064	3299	3319
Cost of sales	0.00	-205.3	-426.0	-455.0	-466.4
Operating costs	-45.5	-58.9	-75.2	-80.9	-81.4
<b>EBITDA</b>	<b>160.5</b>	<b>1585</b>	<b>2563</b>	<b>2764</b>	<b>2772</b>
DDA & Impairment (ex gw)	-13.7	-314.7	-559.5	-614.5	-614.5
<b>EBITA</b>	<b>146.9</b>	<b>1270</b>	<b>2004</b>	<b>2149</b>	<b>2157</b>
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>146.9</b>	<b>1270</b>	<b>2004</b>	<b>2149</b>	<b>2157</b>
Net interest	-13.9	-754.0	-1351	-1225	-1138
Associates (pre-tax)	-84.2	19.9	-16.5	0.00	0.00
Other pre-tax items	81.1	65.4	23.6	0.00	0.00
<b>Reported PTP</b>	<b>129.9</b>	<b>601.6</b>	<b>659.8</b>	<b>923.8</b>	<b>1019</b>
Taxation	0.00	-12.6	-16.5	-23.1	-25.5
Minority interests	-0.81	0.00	-0.25	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>129.1</b>	<b>588.9</b>	<b>643.1</b>	<b>900.7</b>	<b>993.2</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	160.5	1585	2563	2764	2772
Normalised PTP	129.9	601.6	659.8	923.8	1019
<b>Normalised net profit</b>	<b>129.1</b>	<b>588.9</b>	<b>643.1</b>	<b>900.7</b>	<b>993.2</b>

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

QRm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	1993	1781	2758	1142	643.8
Other current assets	134.0	101.6	164.9	164.9	164.9
Tangible fixed assets	2284	22204	26174	25559	24945
Intang assets (incl gw)	0.00	0.00	0.00	0.00	0.00
Oth non-curr assets	20066	7162	3382	3635	3895
<b>Total assets</b>	<b>24478</b>	<b>31249</b>	<b>32478</b>	<b>30501</b>	<b>29649</b>
Short term debt (2)	114.8	458.1	820.0	820.0	820.0
Trade & oth current liab	227.7	187.6	563.5	563.5	563.5
Long term debt (3)	19117	24556	25001	22444	21050
Oth non-current liab	5019	2137	4440	4440	4440
<b>Total liabilities</b>	<b>24478</b>	<b>27339</b>	<b>30824</b>	<b>28267</b>	<b>26873</b>
Total equity (incl min)	-0.68	3909	1654	2233	2776
<b>Total liab &amp; sh equity</b>	<b>24478</b>	<b>31249</b>	<b>32478</b>	<b>30501</b>	<b>29649</b>
Net debt	22254	25365	27495	26554	25657

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

QRm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	160.5	1585	2563	2764	2772
Change in working capital	2.71	47.9	-53.8	0.00	0.00
Net interest (pd) / rec	-783.8	-1254	-698.5	0.00	0.00
Taxes paid	0.00	12.6	16.5	23.1	25.5
Other oper cash items	-146.8	-362.4	-714.1	-1524	-1450
<b>Cash flow from ops (1)</b>	<b>-767.4 (1)</b>	<b>28.6</b>	<b>1113</b>	<b>1262</b>	<b>1347</b>
Capex (2)	0.00	0.00	0.00	0.00	0.00
Disposals/(acquisitions)	-20.4	-1.59	-0.82	0.00	0.00
Other investing cash flow	-9484	-6020	-681.1	0.00	0.00
<b>Cash flow from invest (3)</b>	<b>-9505</b>	<b>-6022</b>	<b>-681.9</b>	<b>0.00</b>	<b>0.00</b>
Incr / (decr) in equity	0.97	0.16	0.09	0.00	0.00
Incr / (decr) in debt	10467	5896	994.1	-2557	-1395
Ordinary dividend paid	0.00	0.00	-264.9	-321.5	-450.4
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	-114.8	-187.6	0.00	0.00
<b>Cash flow from fin (5)</b>	<b>10468</b>	<b>5782</b>	<b>541.7</b>	<b>-2878</b>	<b>-1845</b>
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>196.2</b>	<b>-211.4</b>	<b>972.9</b>	<b>-1616</b>	<b>-498.1</b>
Equity FCF (1+2+4)	-767.4	28.6	1113	1262	1347

Source: Company data, Rasmala forecasts

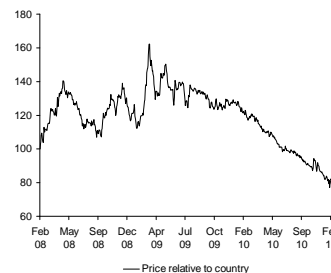
year to Dec



**Company description**

**Hold Price relative to country**

Nakilat is headquartered in Doha and is the world's largest liquefied natural gas (LNG) shipping and transportation company by LNG shipping capacity (more than 16% as of end of 2010). Established in June 2004, the group is engaged in owning, renting, managing, operating and maintaining a fleet of vessels for transporting natural gas and its derivatives, in addition to acquiring shares and establishing companies with similar business interests. Nakilat's fleet of LNG vessels, also known as the 'Floating Pipeline', contributes significantly to the LNG value chain by fully integrating Qatar Petroleum's LNG operations with those of its upstream partners RasGas and Qatargas. The group in total owns 54 vessels, of which 25 are wholly owned vessels and the rest are jointly owned with global ship operators. The group was listed on the Qatar Exchange in April 2005.



**Strategic analysis**

**Average SWOT company score: 5**

**Revenue split (QAR)**

**Strengths 5**

Nakilat holds the largest fleet of LNG vessels in the world. Its relatively young fleet of Q-Max and Q-Flex vessels are the largest LNG carriers that are capable of holding approximately 50-80% more capacity, while consuming less energy than conventional LNG carriers.

**Weaknesses 4**

Nakilat's fleet is highly customer-oriented with its upstream partners - RasGas and Qatargas. Therefore, although income from these long term charter agreements remains stable, Nakilat cannot make any use of upward price revisions and fluctuations in the LNG industry.

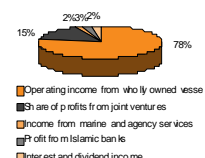
**Opportunities 5**

The State of Qatar has invested significantly to build natural gas processing facilities with the intention to increase Qatar's LNG supply. Nakilat therefore expects to expand the group by diversifying its operations.

**Threats 4**

Nakilat's finance charge accounts for 57% of the total expenses of the group. Therefore, any circumstance that may render Nakilat's wholly owned vessels inoperable and not revenue generating may compromise their ability to service their debt. End 2010 we estimate Nakilat has QR 23bn in net debt.

Scoring range is 1-5 (high score is good)



Source: Company data

**Market data**

**Headquarters**  
Royal Plaza Bldg, Al Sadd Street, PO Box 22271, Doha, Qatar

**Website**  
www.nakilat.com.qa

**Shares in issue**  
553.7m

**Freefloat**  
50%

**Majority shareholders**  
Qatar Shipping (15%), Qatar Navigation (15%)

**Competitive position**

**Average competitive score: 4+**

**Broker recommendations**

**Supplier power 3+**

Moderate - Nakilat's suppliers are its ship builders. The group enters into contracts with limited re-negotiation capacity for the delivery of its LNG vessels.

**Barriers to entry 4+**

High - Large capital requirements are necessary to enter the LNG shipping and transportation sector.

**Customer power 3+**

Moderate - Due to its long-term, fixed charters with upstream operators, customer power is somewhat limited.

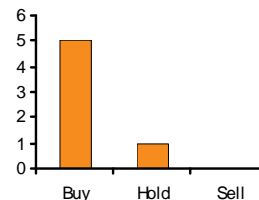
**Substitute products 4+**

Low - Pipeline distribution of natural gas is a substitute for LNG. However, LNG is more cost-effective and it can be transported to regions where pipelines are not feasible to construct.

**Rivalry 4+**

Low - Few significant competitors exist in the LNG shipping and transportation sector, which stems from Nakilat's strategic joint ventures.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

## Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Valuation and risks to target price

**Nakilat (RIC: QGTS.QA, Rec: Hold, CP: QR19.19, TP: QR18.50):** Downside risks to our SOTP-based target price include: 1) operating costs of the wholly owned vessels increasing at a higher rate than US CPI and hence adversely affecting the financial results of the business, and 2) political tension in the Middle East. Upside risks include incremental revenue generation from the Ras Laffan Shipyard, which we do not factor into our valuation, and a recovery in LNG spot shipping rates as we assume 30% of Nakilat's total vessel capacity operates on spot rates.

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