



Company: QNB Financial Services Co. WLL
Conference Title: Qatar Navigation (Milaha) Q4 2018 Conference Call
Moderator: Mohamed Salah
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Operator: Good day and welcome to the Qatar Navigation. Q4 2018 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Feras Al Sarraj, Head of Sales, QNB Financial Services. Please go ahead.

Feras Al Sarraj: Thank you Bettina. Good day everyone. I want to welcome you to Milaha year-end 2018 results conference call. On this call from Milaha Management, we have Akram Iswaisi who is executive VP, finance and investments. And of course, we have a Sami Shtayyeh who is VP, financial planning and analysis. We'll conduct this conference with the first management reviewing the company's results followed by Q&A. I'll now turn the call over to Akram. Akram, please go ahead.

Akram Iswaisi: Great. Thank you very much. Thank you everyone for joining us on this call today. Overall, we had a great year. Milaha operating revenue came in at 2.41 billion riyal for the full year 2018 compared to 2.49 billion for 2017, a decrease of 3% year over year. Operating profit came in at 397 million in 2018 compared to 448 million in 2017, a decrease of 11% year over year. However, net profit for the full year 2018 was 516 million compared to 470 million for 2017, an increase of 10% year over year. And our earnings per share increased to 4.54 riyals for 2018 up from 4.14 for 2017. In respect to our EBITDA, our EBITDA increased by 1% year over year from 1 billion 163 million in 2017 to 1 billion 175 in 2018. Overall, we had a great year. We are very pleased with the results.



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And before we get into the segment analysis, I'd like to just touch on a few of the operational achievements for 2018. In 2018, we acquired and deployed Majd, which is Milaha's largest container vessel with 3,768 TEU capacity. We inaugurated phase one of the 400,000 square meter Milaha logistics city project with the 35,000 square meters of warehousing facility dedicated to temperature-controlled cargo. The new facility marks Milaha's entry into the cold chain solutions and this will cater to the food industry, pharmaceuticals and other fast-moving consumer goods. We're very pleased with the progress and ramp-up of this aspect of our business and anticipate very strong ramp-up in utilization in 2019. We also launched the first ever container feeder service between Qatar and Iraq in Q2, 2018. On the offshore side, in June of 2018, we deployed our 300-passenger capacity lift boat in Nigeria on a long-term contract with global Oil Major. Revenue from this contract is included in our numbers from June 2018 onwards.

In 2018, we purchased and deployed 11 new offshore vessels on medium to long term contracts. Overall, we're very pleased with the operational and financial results for the company, and with that, I will hand it over to Sami to get into the segment results analysis.

Sami Shtayyeh: Thank you Akram. The revenue waterfalls are in the presentation, so I don't want to regurgitate what you already have and will instead focus on the big units within each segment that impacted the bottom line profits. For maritime and logistics, there are two main units to discuss. Firstly, our container shipping unit. Given the downturn in the shipping industry and that knock-on effect on the values of our marine assets, we recorded an additional 43 million in vessel impairments as compared to 2017. It's coupled with rate pressure from competition and higher bunker cost due to the rise in oil prices has reduced margins considerably. Secondly, our joint arrangement company QTerminals which operates at the Hamad Port has done exceptionally well. Volumes are up over 70% and this has contributed positively to the segment's bottom line. In offshore, things have really turned around with a year-over-year improvement in bottom line of QR177 million. This is a result of two main things. Firstly, a reduction in vessel impairments with



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almost 100 million of the improved figures. As the offshore industry stabilizes, so did the values of the vessels. And secondly, operationally things have also improved. Utilizations are up from 63% in 2017 to 78% in 2018.

In vessels as well as the previously idle lift boat in particular listed both the top line and bottom line. On to gas and petrochem segment, depressed shipping rates continue to hurt profits in the segment, reduced the vessel valuations drove impairments in our two gas carriers and tankers and brought down the segment's results. Helping to offset those reductions, our JVC & Associates including Abgalad[?] in particular performed better. On to trading, the segment is down overall versus 2017 with lower equipment sales being offset with lower margin bunker and marine lubricant sales. And finally, our real estate units held its own with close to flat results overall. But our investments posted lower profits in 2017 which was due to an exceptional 2018. And with that, I will now switch over to Akram to discuss our outlook.

Akram Iswaisi: Thank you very much Sami. I'll now get into the outlook for 2019. Starting off with maritime logistics, we expect little to no volume volatility at Hamad Port. I think we should expect the returns from that aspect of our business to be relatively stable, perhaps some lost growth, but overall, no large swings or volatilities. On the container feeder side, we expect margins to remain under pressure as our geographic network footprint expands. As we mentioned before, we have opened the routes and as part of our strategy, we will continue to do so. This business is not something which you invested today and get results tomorrow. We are investing in the building blocks for the future. So nonetheless, there will be initial upfront investments that will eventually pay off in the years to come.

We expect continued ramp-up in the utilization in Milaha logistic city warehouses and this will continue to contribute positively to the logistics unit. We are investing in assets, we're investing in people. We are investing in developing and delivering new solutions of services on the logistics



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side. So we're very optimistic about what this will bring in 2019. Moving on to offshore, at a macro level, the offshore industry appears to be stabilizing, but obviously, you know we still see a lot of volatility in the oil prices. You know, if you look at the OSV fleet overall, utilization on global level reach rock bottom of 55% in 2017, but a year-over-year decline in active OSV fleet that basically help improve utilization to 59% globally in 2018. But again, there's a significant unutilized oversupply inventory of roughly 25% of the global fleet. Most of that is in layup at the moment. So it's kind of feeds up to the swing factor that unknown, that could impact the market at any given point in time. At the global level, we've begun to see improvements in day rates. Again, this has been largely driven by the swings in oil prices, but we're optimistic that, you know, things will change it and perhaps 2019 will be much more positive than last year.

At Milaha level, obviously we've seen year-over-year growth in revenue and profitability. We've deployed our 300-passenger capacity lift boat Nigeria in mid of 2018, but we saw half the year in 2018 and we'll see a full-year impact of 2019. On top of that, we have won contracts and projects throughout 2018 including the addition of 11 vessels, which were deployed throughout 2018, so we should see a full-year impact of that in 2019. Overall, our utilization continues to improve. Moving on to the gas and pet-chem, this segment obviously has been negatively impacted by the global downturn in the overall shipping industry. Fully-owned product tankers and large crude carriers are all trading in the spot market and are exposed to daily volatility, if you will. Charter rates for both crude and product tankers increased in Q4, 2018. And we are starting to see a lot of optimism around the sector. And charter rates are expected to continue to increase in 2019 for a variety of different reasons, including expectations about compliance with IMO 2020 sulphur regulation, which is expected then again, depending on your position and how you plan to address that; the expectation is it will impact the supply of vessels in the market, then which will be very favorable to vessel owners that remain in the market. With respect to the fully-owned gas and ammonium carriers, we have one vessel tight charter and one working on sporadic jobs in the spot market.



So there is some volatility as it relates to that one vessel, the VLGCs the charter rates remain depressed and our outlook is neutral at this point. It's stuff that predictable if this market will look like and that market is characterized by basically a short-term contract and a lot of spot contracts, if you will. The joint and fully-owned LNG carriers, very limited fluctuations. These vessels are long-term contracts. Our marine vessels, again long-term contracts, so 2019 should be relatively stable.

Lastly, given, our increased stake in Nakilat from 30% to roughly 36%, we expect results from associates to increase quarterly in 2019. Moving up to trading, obviously the trading unit - the revenue and the growth is correlated to the growth and infrastructure spending and construction market, which, at the moment, looks bleak, but we are optimistic and hoping that we begin to see some signs of improvement by the end of 2019 in anticipation of the build up to [inaudible]. Moving on to the capital, the investment, we expect our health propriety investment portfolio income to come down primarily because of the fact that we liquidated our investment portfolio towards the end of last year and effectively used these proceeds to reallocate the capital elsewhere. On the real estate side, given our depressed portfolio holdings, again, we expect limited volatility. We are going to be completing our [inaudible] villa compound somewhere between either second quarter or the third quarter. The project is currently under development but what we expect to see the results perhaps late in the year or early 2020. And with that, I will turn it over to questions and answers.

Operator: Thank you ladies and gentleman. If you would like to ask the questions, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask the question. Could you pause for just a moment to allow everyone an opportunity to signal for question.



Feras Al Sarraj: Thank you operator. Thank you Bettina - just while you were waiting for questions,

Akram, I've got a question for you. You touched on the 6% stake increase in Nakilat. Can you just tell us a little bit more about the rationale behind that and also if possible, how is it funded?

Akram Iswaisi: Basically, I mean our investments, the additional increase in Nakilat, as you're well aware, we own 30% of Nakilat today and we raised it to 36%. We believe in Nakilat, we believe in the gas sector and that investment reflects our confidence in that space as well as Nakilat and where it's going. How it's funded? Basically, I've alluded to the fact that we've liquidated our trading portfolio. The proceeds from that liquidation will be reallocated to that investment. So basically, we no longer actively trade. You know, we had a trading portfolio that no longer exists. So that capital is going to be allocated to the investment in Nakilat. Again, part of that strategy, you know, it is a commitment that we've made over time to focus on our core business and our core activities and so focusing more and more on core business such as shipping, logistics as a key priority for us and you will be seeing us stick and move along those lines and to focus on our core business. And again, shipping, whether you operate directly or indirectly remains a core business for us. And with that also, you know, we'll have less volatility from the trading portfolio that you have historically seen from the active trading.

Feras Al Sarraj: Understood. Very clear. Thank you for that.

Akram Iswaisi: Thank you.

Operator: We currently have no questions in the queue. As a reminder, to ask the question, please press star one on your telephone keypad. We have no questions at this point of time.

Feras Al Sarraj: Oh, well, I guess with that, thank you very much for your interest in Milaha and the Milaha story. And then I guess we will see you next quarter. Thank you very much everyone.



Operator: This will conclude today's conference call. Thank you for your participation. You may now disconnect.