QNB FINANCIAL SERVICES

Moderator: Shahan Keushgerian
March 2, 2016
12:00 GMT

OPERATOR: This is Conference #: 57572438

Operator: Thank you for standing by and welcome to the Milaha 2015 Financial Results conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you need to press star one in your telephone. I must advise you that this conference is being recorded today, the 2nd of March 2016.

I would now like to hand the conference over to your speakers today Mr. Akram Iswaisi, acting Executive Vice President Financial Investments; and Mr. Sami Shtayyeh, Vice President Financial Planning and Analysis. Thank you. Please go ahead.

Akram Iswaisi: Great, thank you so much. Good afternoon, everyone, and thank you for joining us for our full year 2015 earnings call. Despite a very challenging business environment, we are very pleased to report another great year for the Milaha group. Overall revenues are up, operating profit is up, and net profit is up.

Milaha Maritime and Logistics, this year, produced exceptional results. This is largely due to increasing trade volumes which have positively impacted this business unit. We have consistently seen strong volume growth this year both in our port and container shipping units. This was largely driven primarily by population growth and healthy construction and the government spending activities.

In March of 2015, in line with our growth strategy, Milaha launched the first direct container liner service between Qatar and India, the nonstop service connects Qatar’s Doha port with Nhava Sheva India’s largest port. This move was in response to the phenomenal growth in trade between the two countries in recent years.

With respect to offshore, the offshore market is going through a major shock largely due to significant drop in oil prices. Supply of offshore vessels is high. Offshore activity has declined and continues to decline and utilization rates across the industry have and continue to dwindle. Despite this unfavorable business environment, Milaha offshore has done well relative to last year largely due to the deployment of a new diving support vessel and other asset additions as well as focused on increasing utilization. The same time, we have began looking at fleet optimization improving utilization and operating efficiency and pursuing opportunities outside of our legacy markets.

Now if we move on to Milaha Gas and Petrochem, this segment has done very well this year. As you’re well aware due to favorable tanker market, the product tanker unit of Milaha Gas and Petrochem has performed exceptionally well. The results as you would expect were driven by the oil prices which have created demand for oil and oil related products, the limited tanker supply and the increase in the supply of oil, these factors combined have contributed to a robust tanker market.

In addition in June 2010, 15 Qatar shipping company a wholly owned subsidiary of Milaha acquired the remaining 60 percent interest in two LNG carriers, Milaha Ras Laffan and Milaha Qatar, from Société Générale thereby increasing our stake in the vessels for 40 percent to a controlling 100 percent. Overall, we’re very pleased with our results and continue to remain focused on growing our core activities.

The business environment is very challenging, but we believe that Milaha has this stable foundation to withstand the headwinds as well as grow the business.

Thank you very much. Now, I'd like to turn this over to Sami who will go over the financials.

Sami Shtayyeh: Thank you, Akram. OK, starting off the published consolidated financial results for the full year of 2015. Operating revenues for the full year of 2015 were 2.998 billion compared to 2.633 billion Qatar Riyals for the same period in 2014, for an increase of 14 percent year over year.

Operating profit for 2015 was 772 million compared to 656 million for the same period in 2014, for an increase of 18 percent year over year.

Net profit for 2015 was 1.095 billion compared to 1.049 billion Qatar Riyals for the same period in 2014 for an increase of 4 percent year over year. It's also worth noting that the board has recommended a dividend per share of 5 Riyals.

Now on to the segment results, as usual I will highlight key variances versus 2014. Starting off with Maritime and Logistics, overall revenue was up 26 percent year over year with port services and container shipping once again driving most of that. Volumes were a big contributor to both units. Doha port volumes ended the year up 15 percent year over year, and our container shipping volumes ended up 21 percent year over year.

On the expense side, really only two notable things to mention. The first is an increase in the operating supplies and expenses category, which increased by 61 million versus 2014, and this is mainly driven by additional volumes as well as increases in chartering expenses coming from our bulk and container shipping units.

The other significant increase relates to the impairment we've booked on our bulk carrier in the first half of the year. Which ended up being an overall increase for 2015 – sorry, year over increase of 21 million. The bulk market continues to show weakness and this unfortunately continues to drive down market values of vessels.

Onto offshore revenues increased 21 percent with most of that from our diving units, we also saw higher revenues from our commercial units due to the full year effect of vessel additions during 2014. Up until the fourth quarter, our cost side was well aligned with revenues and we were posting some decent operating margins, in Q4 however, we booked 49 million of impairments which when compared to 2014 has an increase of 29 million. And those impairments really came from two areas – the first was an impairment against an aged diving vessel, which was built in 1986, that's (Hasaf); and the other was an impairment against a diving saturation system we had purchased several years ago with the intention of it being used on a new diving vessel. We never invested in that new diving vessel, so the saturation system was left unused, and as such we took an impairment to align how our book value with the market value.

Moving on to Gas and Petrochem, overall revenue increased by 51 percent with over half of that driven by the two LNG vessels we increased our stake in, in early July, and the change in reporting related to that. The balance came from increased freight rates related to our five wholly owned product tankers, two gas carriers as well as the full year effect from vessels we took possession of in 2014 in our port marine operations.

On expenses, we saw an increase of 61 million, with 45 million of that from the two LNG vessels and another 10 million from vessel impairments. Non-operating income decreased by 52 million with 27 million coming from onetime accounting related costs tied to the two LNG vessels, 27 million in increased finance expenses on the two L&G vessels, and 20 million in lower Gulf LPG profits.

Partially offsetting those was a 26 million favorable increase from our share of (Nakhilas) results. Our trading segment posted a 6 percent revenue increase and 67 percent net profit increase year over year, it's really been the same story all year long with high or heavy equipment sales related to infrastructure projects along with related costs of goods sold, and that more than offset a drop in our bunker revenue and associated costs.

Onto our capital segments, starting with investments, we posted 12 million in higher dividends in 2014, but 208 million in lower returns from our actively managed and traded investment portfolio. Our Qatar quarry subsidiary posted 72 million in higher revenue along with 42 million increase in cost of goods sold. And lastly, our real estate unit continued to benefit from our headquarter move from a leased property to an owned property. And that pretty much sums up our operations bringing us once again to an overall net income of 1.095 billion Riyals.

And with that, I'll now turn back over to Akram, who will go over our outlook.

Akram Iswaisi: Thank you very much, Sami. If we start looking at the different segments with respect to Milaha Maritime and Logistics, we expect the list segment to do well in 2016, expect volumes to remain strong, and that will drive cargo volumes, import volumes remain strong and that will drive quite a bit of the growth for this segment in 2016. The growth in volumes may slow down a little bit in 2016, but nonetheless, we expect in 2016 to show similar robust growth as it did in 2015.

Now with respect to Hamad Port, I know the question will come up later the decision is still pending, and we're still waiting for the final outcome on that one.

With respect to the (Inaudible) Offshore, the offshore market again, it's in a shock and with oil prices remaining where they are we expect a lot of challenges in this segment, you know E&P CapEx has been slashed significantly, and what we're seeing is contract renewals are – the rates for contract renewals are coming down slightly.

So 2016 is going to be a challenging year, but the good news is, what we are seeing is that there's been a in 2015, there was a 70 percent decline in the older book for offshore vessels versus 2014. So you know there's at least some positive news, but nonetheless 2016 will be a challenging, challenging market. 2016, we also expect a – we have planned dry docking option (debt), which is our diving support vessel later towards the end of 2016.

So with respect to Milaha Gas and Petrochem as, as you're well aware the majority of the business and the contracts at Milaha Gas and Petrochem is on long term contracts.

The VLGCs were put on long term fine charters in late 2014, early 2015, so there's minimum volatility in 2016 looks fairly stable. In terms of the jointly-owned LNG carriers, again a long term contracts, limited fluctuations. The fully-owned two LNG carriers which, you know acquired wholly in 2015, we expect again a limited volatility in 2016. We had one-off transaction related expenses in 2015 and early 2016, but for the most part it should be volatile (cash), it should be fairly stable.

In terms of the fully owned product tankers and crude carrier, those were largely in a pool in 2000, primarily in a pool in 2015, and they still remain in a pool. The market has done exceptionally well. We saw softening of rates, daily rates earlier this year, but we anticipate you know the results – the market to be robust and, hopefully, we're optimistic that the results will be comparable to 2016 to 2015.

In terms of the fully owned gas and ammonia carriers both vessels are in time charter ending Q3 2016, one with options to renew for two years, so we're optimistic we'll be able to renew or redeploy at comparable rates.

Last but not least the harbor marine vessels, we have the 19 vessels that are chartered to Q3 on a 20-year contract which commenced in 2014, and again these are – that's a long term contract with fixed rates for the most part, cash flow and revenue will be fairly stable and fixed.

If we move on to Milaha Trading, despite recent signs of slow down and projects, the state of Qatar has reaffirmed its commitment to continue investing in infrastructure and other major projects, which is likely to continue to have a positive impact on this unit. As you all aware in 2015, this unit benefitted largely from the investments and these infrastructure projects. And we are optimistic that we'll see similar performance and momentum in 2016 as well.

Last but not least Milaha Capital, we expect a slight uptick in revenues from real estate coming from leasing of additional show rooms (inside) of commercial projects. And we are optimistic that the market will slightly improve next year, but again we're hopeful, but as you all are aware oil prices are not expected to rebound anytime soon.

So I think that's – and we believe that you know Milaha is well positioned. There is the global environment, the business environment is very, very challenging and we believe Milaha will have to deal with these significant challenges in the midterm. But we believe that we are well positioned to withstand these headwinds and all of the investments that we have made in our people, in our systems, in our products, will allow us not only to withstand the headwinds but also to grow the business. And with that, I'll open it up to questions.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. I must advise you that participants from media are not allowed to ask questions. If you wish to cancel your requests, please press the hash key.

Your first question comes from the line of (Jonathan Milan). Please ask a question

(Jonathan Milan): Good afternoon, gentlemen, thank you very much for the call. I have a couple of questions, first of all, when you say dry docking of Shaddad, is it off contract or is it just something that's temporary, and if it's temporary for how long?

Sami Shtayyeh: Hi, (Jonathan), it's Sami. It's a regular dry docking, Shaddad is still on a five-year contract. But you know these vessels every two and a half years, they have to – it's mandatory to keep the registration and certification. So it's nothing unusual, it's time and it's mandatory for it to get done.

As far as the timing is concerned, right now, we're looking at two to three weeks. But depending on you know once they bring the vessel in and lift it up and see what's under the hull and look at the engine and all of that, it could take less time, it could take – it could take longer time, but that that gives you an idea.

(Jonathan Milan): OK, it's on a five-year contract, is it still revenue generating during the dry docking period?

Sami Shtayyeh: No, no, during that – during that period of dry dock, it's not earning revenue.

(Jonathan Milan): OK. And about the utilization, what does the rough utilization rate of the other vessels? Are they more or less still fully utilized and what kind of rate cuts are you seeing is the lines of say 30 percent so similar to what we've seen in terms of rate cuts for say GDI or a bit plus, a bit more?

Sami Shtayyeh: It really depends on the type of vessel. So we're not – we're not seeing rate cuts across the board. And you know as we mentioned, really the Shaddad vessel is the mother ship so called, you know, diving means it's no secret we make up over half of our profits from the diving units. So you know fortunately that one is still there. The reductions are pretty much coming from vessels that are going off contract or retendering and we're having to rebid at lower prices to make sure that the vessels remain utilized.

(Jonathan Milan): Well I mean so far has any vessel gone off contract in '15, if that so you've seen a reduction in the rates?

Sami Shtayyeh: Yes, we've definitely had some vessels go off and come on. Some of the reductions have been in the single digit, some have been in the – in the double digits.

(Jonathan Milan): OK. Right. Thank you very much, thanks.

Operator: Thank you. Once again if you wish to ask questions, please press star one on your telephone and wait for your name to be announced.

There are no further questions at this time. Please continue.

Akram Iswaisi: Well thank you very much, appreciate your time today, and that concludes the call. Thank you.

Sami Shtayyeh: Thank you.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.

END