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Shahan Keushgerian: Hello everyone. This is Shahan Keushgerian from KMB Financial Services. I want to welcome everyone to Qatar Navigation’s First Half and Second Quarter 2020 Financial Results Conference Call. So on this call, we have with us Akram Iswaisi, EVP Finance & Investments; and Sami Shtayyeh, VP Financial Planning and Analysis. So as usual, we will conduct this conference call with first management reviewing the company’s results, followed by Q&A session. I will turn the call over now to Akram. Thank you.

Akram Iswaisi: Thank you very much. Thank you everyone for joining our call today and your interest in Milaha. To recap the highlights of our financial results; Milaha’s operating revenues came in at QAR 1.2 billion for the first half of 2020, compared with QAR 1.26 billion, for the same period in 2019, for a slight decrease of little under 3%. Operating profit came in at QAR 254 million, for the first half of 2020, compared with QAR 233 million for the same period in 2019, for an increase of 9%. Net profits for the first half of 2020 was QAR 300 million, compared with QAR 316 million for the same period in 2019, for a decrease of 5%. And lastly, our earnings per share were, 0.26 for the first half of 2020, compared with 0.28 for the same period in 2019.

And with that, we’ll get into segment results. Starting with maritime and logistics, top line revenue decreased by 5% or QAR 22 million, with our container shipping, bulk and logistics units driving the decline. Container shipping and logistics were negatively impacted by COVID-19 as supply chains were disrupted. Among others, one of our main trading partners, India went into a lockdown, and that impacted our container feeder business. Locally some of our clients shut down operations as they dealt with COVID-19 outbreaks and that impacted our heavy equipment division within logistics. As for our bulk units, earlier this year, we discontinued our charting activities and that negatively impacted revenue. This unit historically has operated with both our wholly owned bulk carrier as well as chartered-in vessels, but going forward, we will only focus on our owned vessel operations.

On the expense side, overall we saw a minor increase of just QAR 1 million. Our variable component being operating supplies and expenses dropped in line with our revenue by QAR 15 million. The recording of additional provisions for bad debt, however, increased by QAR 6 million, as did a few other smaller expense categories.

Lastly, our non-operating income grew by QAR 4 million; and this was a result of, one, QAR 4 million in lower impairments from our bulk shipping unit, two, QAR 4 million in gains on sale of the container vessels, and, lastly, a QAR 3 million decrease in finance costs. And then, one more point actually, a decrease of QAR 7 million drop in our share of two thermals.

Going on to offshore. We didn’t see the type of impact related to COVID-19 as we did in maritime and logistics. Costs did go up marginally related to the logistics of managing our crew and extra precautions to prevent the spread of the virus. Top line revenue grew by 8% or QAR 31 million, boosted by higher utilization of both our regional fleet as well as our liftboat operating in Western Africa. We additionally saw increased revenue from our chartered-in vessels. As a side note, we service our clients using a hybrid model of wholly owned vessels as well as chartered-in vessels. This gives us greater flexibility and allows us to capture jobs in which we may not be otherwise – in which we may not have the capacity at that given point in time.

Operating Expenses grew by QAR 3 million, and this was mainly attributable to our chartering-in expenses that I just touched on. Operating margins grew up from 10% in the first half of 2019, to 16% in the first half of 2020. A lot of management time and attention has been devoted to turning around the offshore business. And this is just one example of the improvements made. Despite the strong operations, the bottom line came in lower due to QAR 25 million in increased vessel impairments.

Our gas and petrochem segment was also not severely impacted by COVID-19, as with offshore, it did witness some marginal crew and proportionally costs. Performance for the first half of 2020 was exceptional. Revenue grew as a result of increased shipping rates and expenses dropped as we dispose those underperforming vessels in 2019.

On the non-operating level, income grew by QAR 72 million as a result of, one, a QAR 13 million drop in vessel impairments compared to the same period last year, two, QAR 31 million in increased profits from our share and Nakilat income, and, lastly, QAR 30 million increase from our VLGC’s Joint Venture and due to stronger VLGC shipment rates.

Now moving on to trading. Despite a drop in revenue of QAR 51 million, we did see improved sales margins in our bunker units, which helped drive a slight reduction in the net loss. And lastly, moving on to capital, overall, our investments came down by QAR 90 million, driven by lower dividend income and held for trading returns. Our held for trading portfolio is now fully liquidated. And so, we should not see any more volatility related to this in our P&L.

On the top line, our real estate division posted QAR 17 million in lower rent income. This is a function of the real estate environment that we are in right now. Our occupancy remains in the high 90s. But rates of course have come down consistent with the overall market. At the non-operating level, we recorded QAR 73 million in gains, on the sale of four properties, along with a one-time QAR 163 million impairment related to, our Milaha Logistic City assets. With that, wrap up the segment analysis and I will hand it over now to Sami to get into the outlook for the rest of the year.

Sami Shtayyeh: Thank you, Akram. Starting with maritime and logistics, for the rest of the year, we expect overall volumes to remain steady, with the second quarter at Hamad Port which is the main driver of our Q terminal share of profit. In logistics, utilizations are expected to continue increasing in the warehouse, which will have a positive impact, but there is some uncertainty with our heavy equipment division, which is dependent on local client shutdowns and when they are eased up. And on the container shipping side, we expect volumes to slowly increase once lockdowns ease up; but again that timing is difficult to predict at this point. In offshore, given the persistent low oil prices and impact from COVID-19, there is uncertainty in this segment and what the next six months hold for it.

Gas and petrochem, our VLGCs had a very good half year but the rest of the year is difficult to predict. Rates had been downward churning for the past couple of months and then just this week started climbing again. On our wholly owned and joint venture LNG carriers, along with our share of Nakilat profit, we expect very limited volatility to earnings. Similarly, our gas carrier has renewed her charter for another two years, so that will provide further stability.

With regards to our tankers, charter rates had been very strong for the first few months of the year but eased up since; this outlook is also unpredictable. On to trading, we expect a better second half, but this would be largely dependent on how COVID-19 impacts local project spending and buying sentiment of our clients. And lastly, onto capital; downward pressure on our investments unit should be eliminated as we have fully liquidated our Held for Trading portfolio. In real estate, we’re still awaiting certain government permits and approvals on the new Villa compound. We have seen weakening rental rates with the majority is already in our Q2 run rates. And with that, we’ll now open up for Q&A. Operator.

Operator: Thank you, sir. If you would like to ask a question, 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. A voice prompt on the phone line will indicate your line is open. Please state your name and company, before posing your question. Again, press star one to ask an audio question. We’ll pause for just a moment to allow everyone an opportunity to signal for questions.

As a reminder, that is star one, to ask a telephone question. We will now take our first question. Please state your name and company before posing your question.

Jonathan Milan: Hi. This is Jonathan Milan from Waha Capital. How are you gentlemen and thank you very much for taking the time for the call. My question is basically on the real estate. How much of the lower rate you rent to the navigation tower? And how much rent do you think the villa compound can generate once it’s operational?

Sami Shtayyeh: Hi Jonathan, this is Sammy. Thanks for the question. Historically we haven’t released how much the rates have been with particular clients. I know when we first signed the deal on the tower, we did issue a press release, but that was almost ten years ago. For competitive reasons, we would rather not disclose that information, to be honest with you.

Akram Iswaisi: We cannot disclose that information actually.

Sami Shtayyeh: What I can tell you it’s in line with prevailing market rates, along with the tenure of it. I think it can –

Jonathan Milan: Hellow.

Sami Shtayyeh: Sorry, it has been renewed for ten years. But as far as the rate is concerned, like I said, we can’t really get into the rates issue. On the villas, we did some modeling, obviously, when we first started with the project, things have changed since then. And again, unfortunately, that’s another area where we’re not going to be able to disclose anticipated revenue growth. Once we are able to rent it out, I think you’ll see it floating into the numbers. I think you’ll acknowledge that we are pretty transparent in our presentations, and that’s something that you should be able to capture off the P&L.

Akram Iswaisi: And then, if I may add, I mean, the market is changing and we’re currently negotiating, various contracts to rent the contract – so, to rent the compound. So, to be honest with you, we don’t want to disclose what these –

Jonathan Milan: Yeah, of course. Yeah, makes sense.

Akram Iswaisi: So after we’re done, we’ll be happy to share with you at least a view. But right now we’re still in negotiation. And quite frankly, there’s an appetite right now for a compound like this, the way it was built. But again, we don’t want to disclose it until we’re done with the negotiations.

Jonathan Milan: Okay, fair enough. And with regards to the announcement, when you decide to reorganize to focus on core business growth, can you please explain the idea behind this? And I’m guessing, is there a lot more behind this initiative? Is this just the start? Are we going to see more of these initiatives?

Akram Iswaisi: Okay, that’s a good question. And we are continuously looking at how we’re structured and we are looking right now at how do we grow the business. Now, if you look at this restructuring, a big part of it is aligning. Let’s say capabilities and assets within the company. One of the key areas that we are looking at focusing on is providing services to vessel owners. Historically, we have been an asset owner. And slowly we’ve been expanding into technical services, whether its fleet and technical. So we do technical services to ship owners here in Qatar. We’re spending into ship shattering, we’re ready to do bunkering, lubricants, we’re lubricant supplier.

So we’re expanding more into the value chain, which is really an extension of what we should be doing at Milaha. So we’ve restructured the way we look at some of the business units, more so in terms of value chain, rather than, I do technical services or I sell lubricants. It’s more around who is the end customer and what’s the value proposition that can be provided to this customer. So we’re looking at this from a value chain, integrated value chain perspective and that’s really the reason behind this restructuring. Now we have a lot of capabilities in house. And so we’re realigning those capabilities to focus on markets where we see potential in the market, number one.

Number two, we have a big focus right now on services. So, you will see over the next couple of years a big focus on enhancing our service capabilities. And we’ve mentioned that, when it comes to Hulual. Hulual has been making some great achievements in terms of expanding more into services. Now, we historically have been just an asset owner, but now we’re expanding more into services which complement our asset base. So where you’re going to see more margin coming in in the future is really from services. So the ability that you can provide, typically the services without having the assets. So we are looking at the way we deliver services today, whether it’s in offshore, logistics from an integrative perspective. Now, how do we serve the client, help them solve problems and using our different capabilities and our different assets.

Sami Shtayyeh: Jonathan also let me just add that in the future, we’ll be reporting in that new structure. We’re just trying to align our systems to that structure. But once we do the reporting that way, you’ll get better insight into what we’re trying to do.

Jonathan Milan: Okay, perfect. Do you see yourselves disposing of some assets or businesses as you go to focus more on what you’re calling your core operations – your core operation? And you have some businesses that maybe aren’t that much in line with the maritime business, let’s call it this way. Do you see yourself disposing of any assets or businesses for that?

Akram Iswaisi: Well, I’ll tell you what. Part of our strategy right now is disposing of non-performing business units and reallocating capital. Now, first of all, we’ve shut down the travel agency. We had a small travel agency which is really not aligned with our core business. So we shut that down. We started selling land bank, we have land banks that we began to sell. And we sold out the first six months of this year, and we are reallocating capital to higher yielding investments. So, we’ve already begun executing on the strategy which is selling nonperforming assets. If you look at, for example, what we’ve mentioned earlier, even asset ownership, we have sold some container ships that we have. We’ve leased it, we’ve chartered in assets. So we don’t necessarily have to be an asset owner. We can lease vessels in when it makes economic sense. And so, if you look at the strategy is, non-performing assets, we have to sell. Non-performing businesses, if we can’t turn them around, we will sell them or shut them down. And there’s going to be a much bigger focus on our core business; logistics is a key area of focus for us, offshore and shipping.

Jonathan Milan: Okay, thank you very much. Your voice is breaking. Can you repeat?

Akram Iswaisi: Okay. I said these examples demonstrate that we’ve already begun taking action on some of these things. Now, selling land bank, selling land in general in our region is very difficult, right? It’s not something that is easily done, but we’ve managed to do that. We’ve got major push from the board to sell low yielding assets, so assets that don’t generate any income, and really focus on enhancing yield overall. So, that’s our focus going forward.

Jonathan Milan: Okay, perfect. Thank you very much guys.

Akram Iswaisi: Thank you, appreciate it.

Operator: As a reminder, to ask a telephone question, please signal by pressing star one. We will now take our next question. Please go ahead, caller, your line is open.

Shabbir: Thank you, Akram and Sammy. This is Shabbir Kagalwala from Algan Investment. I have a question on the gain on sale of real estate properties which you have taken in the impairments of real estate assets. Can you just please elaborate which assets are these?

Akram Iswaisi: Well, the gain on the sale of assets pertains to land bank that we owned in Qatar, which we sold. Okay, the first half of this year. If you look at the impairments, this is an impairment that we took on the plot. Basically, the investment we made in the logistics city. If you look at that plot, it’s approximately 420,000 square meters. When we developed that plot, there was a plan to develop ten warehouses. And so we invested in infrastructure. And we invested also – right now we’ve developed three warehouses. The business case at that point in time was different from the market dynamics right now. So, we did write off some of the infrastructure costs, primarily because of the fact that the market is oversaturated. There’s two plus – 2 million plus square meters of warehousing capacity right now in Qatar, and there continues to be additional capacity coming into the market. There’s a lot of pressure on rates and the ability to really generate returns on investment and warehousing. And so, there’s a lot of supply in the market. Even after we started the project, if you’re looking at, for example, [inaudible] the market. We also had a mix of assets from low quality to high quality warehousing. And so all of that has had really a significant impact on rates that you can charge to customers the fastest two to three years. So, we’ve decided after extensive analysis that – in discussion with the auditors – to take impairments on that infrastructure and some of the warehousing costs.

Shabbir: And how much is the total infrastructure amount you spent on these projects?

Akram Iswaisi: Well, the infrastructure that we have spent on – well, if you look at the total cost for that project, is QAR 567 million and the infrastructure cost is close to QAR 210 million.

Shabbir: Of the QAR 210 million, you took QAR 163 million for the impairments in this.

Akram Iswaisi: A mix of infrastructure and the warehouse as well. So we also have the warehouses, three warehouses that we built. Again, the business case at the beginning was based on certain assumptions that have changed significantly. If you look at the market rates, if you’ve been in the market for long enough, if you look at it, 5-6-7 years ago, warehousing rates were significantly higher than they are today. And you’ve got a significant amount of competition. The outlook for your ability to generate those kind of returns again looks bleak because more supply continues to come into the market. That’s also tied to say economic activity and growth potential; if you look at growth in logistics versus as a multiple of GDP, then you can start building a view on where the market is going.

Shabbir: And are there any plans to sell out this land because like you did, you are moving to high yielding assets; since you’re taking impairments of the infrastructure already, are there plans to sell off the land and book some gains as well?

Akram Iswaisi: No, there is no plan, at the moment, no.

Shabbir: Right sir. Thank you for answering. That’s all from my side.

Akram Iswaisi: No problem.

Operator: As another reminder to ask a telephone question, please signal by pressing star one. We’ll pause for just a moment to allow everyone opportunity to signal for questions. We will now take another question, please go ahead. Your line is open.

Jonathan Milan: Hi, Jen, it’s Jonathan again. With regards to the land you sold, it shows a cash inflow of QAR 83 million and a gain of QAR 73 million, something around those numbers. Something around those numbers. It seems like it was a decent mark up to book[?] value; and then the 2019 financials you show, QAR 160 million of land. Just to get an idea, how much more land bank can you sell? And is it at a similar markup to what we saw in H1, because if it is, that QAR 160 million is probably worth a billion.

Akram Iswaisi: We still have a few plots of land and we’re looking, to be honest with you, at what we do with that land. And so, the mandate from the director from the board is optimize capital. So, we are still looking at the potentially selling some more of that land plots.

Jonathan Milan: So, the remaining land bank that you can still sell, that isn’t already in use for whatever – for buildings. Is it as big, much bigger than what you’ve already sold – because, again, what you’ve already sold seems to be less than 10% of the book value of your land.

Akram Iswaisi: But not the book value of the land. If you look at, if you’re talking about real estate, that’s not all land, because we also have –

Jonathan Milan: QAR 167 million, right, because I’m just checking on the your ‘19 financials, land and investment property is QAR 167 million. Maybe I’m looking at it incorrectly, in which case, please, do direct me and where to look.

Akram Iswaisi: If you look at the – hold on, let me pull up the footnotes, make sure we’re looking at the same thing, okay. Here we go. If you look at – the land bank, to be honest with you, is a small percentage of the overall real estate base. The majority of the value is really in the commercial buildings, in the villas, in the towers that we own. So to be honest with you, there’s not going to be a whole lot more – let’s say that any gain that we will get in the future will be nominal.

Jonathan Milan: Okay. Fair enough. Thank you.

Akram Iswaisi: And by the way, just, as a follow up to your question, a lot of this land, we’ve owned it for decades. So the actual book value was a lot less than the market value, which is why you’re seeing a nice pickup on gain.

Jonathan Milan: Sir, can you repeat that because I couldn’t hear.

Akram Iswaisi: You said there’s a lot of – the gain was substantial would suggest that the book value was low. That is correct. This is land that we’ve accumulated over decades. So there was a substantial gain when you look at the difference between the price at which it was sold versus the book value.

Jonathan Milan: Okay. Fair enough. Thank you.

Operator: There appears to be no further questions at this time. I would like to turn – apologies, we do have another question. Please go ahead, caller. Your line is open.

Dujoy: Hi, gentlemen, thank you for the call. This is Dujoy here from QIC. My question is on the navigation tower. Can you please tell me for how many years it is getting renewed?

Akram Iswaisi: It’s been renewed for ten years, basically five plus five.

Dujoy: And what exactly do you mean by five plus five? Is it the rent going to be renegotiated again after five years?

Akram Iswaisi: Well, it’s an option to renew.

Dujoy: Okay. And is it fully leased out, the full property or is it –

Akram Iswaisi: Yeah.

Dujoy: Okay. And my second question is on the impairment on the offshore site. Maybe we’ve seen this impairment coming in every year now. So, because of COVID, is it fair to assume that the mark to market will speed up? And there could be a possible impairment coming in the second half as well, so that probably from 2021, maybe it’s closed down?

Akram Iswaisi: Well, to be honest with you, we can’t forecast impairments. We have a model that obviously looks – obviously views accounting standards – value in use. So it looks at – it’s a DCF model. So it looks at, it essentially considers the outlook for future rates. And so, if you look at the market, to be honest with you, it’s – we’re all wondering what is it going to look like post COVID-19. There are a lot of views on where the market is going. A lot of PMP project timelines have slipped in 2020. And there’ll be a lot of delays. So, one report I saw said EPC CapEx is expected QAR 360 billion, which is a 50% decline from what was forecasted at the beginning of the year.

So when you start looking at a lot of these dynamics, it just puts into question what does the market look like for the rest of the year. And so, to be frank with you, we’re not quite sure what the market is going to look like. Now, just like everybody else, we’re looking out for the type of recoveries, that’s going to come out of COVID-19, what it means for energy markets. And accordingly, we will adjust the view on our vessel valuation. So, that’s all I can tell you at this point in time to be honest with you.

Dujoy: Okay. Thank you.

Akram Iswaisi: If you read the same stuff we read, one research talks about, for example, demand growth, and we’ll find all products will never return to the levels that reached before COVID-19. That’s by one of the large financial institutions. A lot of these reports are out there, a lot of this analysis. The question is, what does that mean. And I think we haven’t seen really the true impact of COVID-19 from an economics perspective yet. I think even from an earnings perspective yet, we’ll probably see – it becomes clearer to us in Q3 and potentially Q4. And then by the end of the year, we’ll have a better view on vessel values, really the oil prices, the future outlook and what it means for our offshore assets.

Dujoy: Just to clarify on that. So if there is a need – is the board and the management focused on speeding up the impairment if required?

Akram Iswaisi: Yes. Listen, where – if it needs to be to taken, we will take it. It’s not an issue. But again, we’re following accounting standards. And there’s a model that we work with and it gets audited and reviewed. So, I think we will continue to follow that process. And by the end of the year, we’ll have a better view on, really, where does this go, to be honest with you. And if you look at our numbers [inaudible] we’ve taken, we’ve been conservative, or let’s say we follow the standard to the letter, and [inaudible] how we treat the asset valuation. I think by the end of the year, we’ll have a better view on where that’s going to go.

Dujoy: Perfect. Thank you.

Operator: There appears to be no further questions. I’d like to turn the conference back to the host for any additional or closing remarks.

Shahan Keushgerian: Okay, since we don’t have any more questions, I want to thank Qatar Navigations management for the conference call. Thank you, everyone.

Akram Iswaisi: Thank you very much. Appreciate it. Thank you very much everyone who joined us. Eid mubarak and we’ll see you next quarter.

Operator: This concludes today’s call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.