

Company: QNB Financial Services Co. WLL
Conference Title: Qatar Navigation Year-End 2017 Financial Results Conference Call
Moderator: Mohamed Salah
Date: Monday, 5th March 2018
Conference Time: 5:00 a.m. CT

Operator: Good day, and welcome to the Qatar Navigation Year-End 2017 Financial Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Shahan Keushgerian. Please go ahead, sir.

Shahan Keushgerian: Thank you. Hello, everyone. This is Shahan Keushgerian from QNB Financial Services. I want to welcome everyone to Milaha's 2017 Results Conference Call. On this call, we have Akram Iswaisi, EVP, Finance & Investments, and Sami Shtayyeh, VP, Financial Planning & Analysis. So, the way we will conduct this conference is with first, Management reviewing the company's results, followed by Q&A. I will turn the call over now to Akram. Thank you.

Akram Iswaisi: Thank you very much. Good afternoon, everyone, and thank you for joining us today to discuss Milaha's financial results for the year ended 31st December 2017. Our consolidated revenue declined from QAR 2.551 billion in 2016 to QAR 2.491 billion in 2017, a decrease of 2%. Our consolidated operating profit declined from QAR 555 million in 2016 to QAR 448 million in 2017, a decrease of around 19%. Our consolidated net profit declined from QAR 711 million in 2016 to QAR 470 million in 2017, a decrease of approximately 34%, resulting in earnings per share of QAR 4.14 2017 versus QAR 6.26 per share in 2016.

Despite the very challenging business environment in 2017 in the various segments in which we operate, Milaha continued to invest and expand our core business and invest in the building blocks for the years to come. 2017, we have expanded our container fleet and we currently operate around 17 container vessels, up from around 11 in 2016. We have launched the

container feeder service between Sri Lanka and Bangladesh. We have launched the direct weekly service between Qatar and Pakistan. We've launched the direct reefer service between Qatar and Turkey. We've also launched the first-ever direct feeder service between Qatar and Kuwait.

We have also went live with Optima Logistics in November 2017. We built three warehouses: one chilled, one frozen and one temperature-controlled with a footprint of approximately 35,000 square meters. We have also set up a small office in Oman and started warehousing at 3PL services within the Sohar Free Zone, and we're exploring further expansion opportunities within Oman. With that, I would like to hand this over to Sami to discuss the segment performance and get into more details about the financials.

Sami Shtayyeh: Thank you, Akram. As mentioned, I'm going to focus on the segments and I'll start with Maritime & Logistics. Instead of regurgitating what is already in the investor presentation, I want to highlight three key takeaways that impacted our financials for this segment.

Number one, volumes at Hamad Port were up a remarkable 46% versus 2016. The benefit of this volume growth can be seen in our P&L as our share of results from joint arrangements in QTerminals. Number two, our new container shipping routes helped boost topline growth. Although overall volumes were virtually flat with 2016, our vessels are going longer distances and thus, our revenue from container rates are higher. Number three, we booked QAR 33 million in vessel impairments against our container shipping vessels. Vessels were simply not worth what we had in our books and thus, we took an impairment at the end of the year.

On to Offshore. Again, the main takeaways are number one, we continue to face day rate pressure and utilization rates did take a slight dip. Our overall utilization rate came in at 63% compared to 67% in the prior year. Number two, although day rates are harder to manage, we do have some control over costs. To that effect, we're feasible. We have warm stacked

underutilized vessels. We sold two older vessels, and we revised pay elements with our crew to help on costs as well. And number three, impairments were again an important part of this segment's results. Although we booked QAR 47 million on lower impairments 2017 versus 2016, we did book QAR 113 million which were nonetheless recorded.

Moving on to the Gas & Petrochem segment, the main headlines are number one, we saw a significant drop from our associates in JVs income. Number two, we recorded QAR 135 million in vessel impairments which, again, is a reflection on the shipping industry overall, but particularly in the segments we operate in. And number three, where we have vessels exposed to the swap market, we have been pinched as rates continued to drop throughout 2017 or made low all year.

Discussing our trading segment, we posted a QAR 7 million dip in profits versus last year. Lower equipment and lubricant sales, along with tighter margins, brought down results versus the prior year. Last but not least, our capital segment. At the net profit level, the two main highlights are our Qatar Quarries associate posted a QAR 22 million increase versus the prior year. And on the investment side, our held-for-trading portfolio came down by QAR 78 million but was more than offset by QAR 225 million in available-for-sale gains. And with that, I will now switch over to Akram to discuss our outlook.

Akram Iswaisi: Thank you very much, Sami. With respect to our outlook, I will go through segment by segment. For the Milaha Maritime & Logistics, we expect to see positive results in this segment, primarily driven by the full impact of a higher volume seen at the Hamad Port in the second half of 2017. We expect the container feedering margins to be under pressure due to increases in the cost of bunker as well as competition. But we also expect positive results from the ramp-up at Optima warehouses which went live in November 2017. That should contribute positively to the Logistics segment in 2018.

With respect to Offshore, Offshore still faces quite a bit of challenges. We expect the fundamentals in the offshore market to gradually improve on the back of higher oil prices, declining LSV fleet supply, and then supply/demand imbalances. So, it's still a challenging market, but we're upbeat about 2018. We expect to see some slight improvements.

With respect to Milaha Gas & PetChem, our VLGCs – charter rates remain quite depressed. We expect challenges in 2018. We have three vessels that are coming off charter, but the market rates are slightly higher. So, quite upbeat that the results could be slightly better in 2018 for these vessels. The jointly and fully-owned LNG carriers, a little bit fluctuation versus 2017. These vessels are on long-term charters.

With respect to the fully-owned product tankers and one crude carrier, they're all trading in a spot market. The market is very volatile. But we expect slight improvement in day rates. Fully-owned gas and ammonia carriers, we have one vessel on tank charter ending mid-2018 and the other is on spot. We expect some improvements on the back of expected strong LNG demand between 2018 and 2021. On the harbor marine vessels, we've got realized penalty income in 2017 related to the renegotiation of rates and scope with the client, which we will not expect to occur again. Otherwise, we expect a little bit fluctuation versus 2017.

With respect to Milaha Trading, again, this is a segment that's largely tied to the construction sector and infrastructure spending. We expect 2018 to be quite challenging. As it relates to Milaha Capital, this segment is largely tied or related to the performance of the Qatar Exchange Market and its volatility, so it's tough to predict what the outlook will look like for 2018. With that, I'll open it up for Q&A.

Sami Shtayyeh: Operator, can you please open the call up for Q&A?

Operator: Yes, sir. Thank you. Ladies and gentlemen, if you'd like to ask a question over the phone at this time, please press the star or asterisk key followed by the digit one on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing start two. Again, please press star one to ask a question over the phone. We will pause just for a moment to allow everyone the opportunity to signal.

And we'll take our first question from the queue. Abdullah Al-Otaibi from MBK Capital. Please go ahead. Your line is now open.

Abdullah Al-Otaibi: Thank you, gentlemen, for the call and thank you for the presentation. I have just a couple of question – questions, sorry. The first, regarding the impairments. So, in your mind, do you think we should see further impairments in 2018 across the business segments, whether it's the Offshore, Maritime or Gas & PetChem?

Akram Iswaisi: I'll take that question. Well, to be frank, we don't expect any additional impairments. As part of our regular annual exercise, we evaluate our vessels. Yeah, actually, we've got a full evaluation annually. And on a quarterly basis, we also do that. So normally, we go through the value in use and value in exchange exercise. And to be honest with you, we don't expect any additional impairments next year. But again, that really depends largely on the shipping market. But so far, we're in a comfortable position.

Abdullah Al-Otaibi: Perfect. Sorry. The second question is regarding the Samama load Warehouse. Can you give more details whether how many occupancy rates pre-rating guidance for 2018 and such? Thank you.

Akram Iswaisi: To be honest with you, that's not information that we can disclose, just for competitive reasons.

Abdullah Al-Otaibi: Okay.

Akram Iswaisi: But I can tell you again, we went live in November. And there's quite a bit of demand for the services that we offer. And one of the things that Milaha brings is an integrated solution – logistics solutions approach to services. So, it will be – the ability then sort of for us to be able to cross-sell these services to our existing clients was very easy for us. So to be honest with you, that's all I can say about the services, just for competitive reasons. But I think we can share more with you next quarter and you'll see the results of this.

Abdullah Al-Otaibi: Insha'Allah. Thank you, gents.

Operator: Thank you. And ladies and gentlemen, as a reminder, it's star one to ask a question over the phone. And as there are no further questions over the phone at this time, I would like to hand the call back to our speakers for any additional or closing remarks.

Akram Iswaisi: Thank you.

Shahan Keushgerian: Sami, Akram, I have a few questions. Hello?

Akram Iswaisi: Go ahead.

Sami Shtayyeh: Yeah, go ahead, Shahan.

Shahan Keushgerian: Yeah. So basically, I just for – regarding Milaha Offshore, Milaha Gas & PetroChem, can you give me the percentages of the vessels that are like on time charter or spot just the breakdown?

Sami Shtayyeh: I think, Shahan, the percentages are not going to be very meaningful for you because in the case of Offshore, for example, the day rates across the vessel types varies dramatically. For example, your standard cookie-cutter-type vessels earn a lot less than your more specialized diving vessels. So if I give you a breakdown on what is on charter versus what is on spot, it could be misleading. Nonetheless, we have never disclosed that information in the past and I don't think we're going to disclose it, going forward, either.

The bit of information that is quite useful, however, is the utilization, which we started providing in more granular level really in the past year or so. And really, the same applies in the Gas & Petrochem. But on the Gas & Petrochem, we actually go sector by sector and we explain to you what is on our long-term rates – our long-term charters versus what is in the spot market. To sum up, the product tankers, those are all on spot. The two gas carriers – one is on charter, one is on spot. The harbor is on a 20-year contract with –

Shahan Keushgerian: Right.

Sami Shtayyeh: Petroleum. The LNG, those are on long-term. So, that kind of answers it for Gas & Petrochem. But for Offshore, like I said, we've never really disclosed that in the past, nor do I think it would be completely meaningful.

Shahan Keushgerian: Okay. Great. Fair enough. Are there any more questions?

Operator: There are no further questions over the phone at this time, sir.

Akram Iswaisi: Great. With that, I would like to thank everybody for joining us on this call today. And we look forward to having you on our next call for Q1 2018. Thank you very much.

Sami Shtayyeh: Thank you.

Operator: Thank you. So, ladies and gentlemen –

Shahan Keushgerian: Thank you.

Operator: As we conclude today's conference call, thank you for your participation. You may now disconnect.