



Company: QNB Financial Services Co. WLL
Conference Title: Qatar Navigation (Milaha) Q2 2018 Conference Call
Moderator: Mohamed Salah
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Operator: Good day and welcome to the Qatar Navigation Milaha Q2 2018 Conference Call. Today's conference is been recorded. After this time, I'd like to turn the conference over to Mr. Bobby Sarkar. Please go ahead sir.

Bobby Sarkar: Thank you. Hi, hello everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Milaha's Second Quarter 2018 Results Conference Call. On this call from Milaha management, we have Akram Iswaisi, who is Executive VP Finance & Investment and Sami Shtayyeh who is VP Financial Planning & Analysis.

So we will conduct this conference first with management reviewing the company's result followed by a Q&A. I will now turn the call over to Akram. Akram?

Akram Iswaisi: Great, thank you very much. Good afternoon and thanks to everyone who joined us today. Milaha's operating revenues came in at QAR 1.25 billion for the first quarter of 2018 compared to QAR 1.15 billion for the same period in 2017, an increase of 9% year-over-year for the same period.

Operating profit came in at QAR 258 million compared to QAR 170 million for the same period in 2017, an increase of 51% year-over-year driven mainly by the increase in investment income. Net profit for the first half of 2018 was QAR 297 million compared to QAR 267 million for the same period in 2017, an increase of 11% year-over-year.



Our net profits for the first half of 2018 and 2017 are inclusive of non-cash asset impairments of QAR 140 million and QAR 69 million respectively. If we adjust our results of these non-cash asset impairment charges, our net profit for the first half of 2018 would have been QAR 437 million versus QAR 336 million for the first half of 2017, an increase of close to 30% in net profit year-over-year.

Earnings per share increased to QAR 2.62 for the first half of 2018, up from QAR 2.35 for the same period in 2017. I'm pleased to say that we continued to deliver results without compromising any of our highest safety compliance and service quality standard. With that, I will hand it over to Sami to discuss segment results.

Sami Shtayyeh: Thank you, Akram. On to the business segments starting with maritime and logistics, first half results are up significantly from last year. Revenue is up 21% and net profit is up 123%. Strong net profit performance was driven by two main factors. Number one, our share in Q terminals, which benefited from 160% increase in TEU volumes.

As a side note, volumes and subsequently profits would have been even higher had it not been for a loss of approximately one week's worth of cargo delays coming out of Oman due to the hurricanes that hit there in late May. The second driver of improved performance for the segment came from our container shipping unit where we continually add regional routes that continued to drive top and bottom line growth.

In offshore, results are still in negative territory, but less so than last year. The main reason for the improvement has to do with the fact that we had impairment expense in 2017 whereas we had none in 2018. Operationally, however utilisation is up from 71% to 76%, which is quite high



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compared to the competition, and we're cautiously optimistic that the tide is finally changing for this unit. Akram will touch more upon in his outlook.

Our Gas & Petrochem segment continues to disappoint unfortunately with the macro shipping environment bearing down on its performance. Rates continued to be extremely low and this has led to drops in asset valuations. We booked a 140 million investment impairment this year, which really brought down the company's results.

On to trading, the segment is down overall versus 2017 with lower equipment sales offsetting higher bunker sales. It has been a challenging first half to say the least for this segment.

And finally, capital, this segment has more than doubled its net income from QAR 126 million to QAR 264 million. QAR 100 million in year-over-year held for trading income along with QAR 38 million in additional dividend income drove the huge increase. And with that, I will now switch it back over to Akram to discuss our outlook.

Akram Iswaisi: Thank you very much Sami. Our expected outlook for the rest of the year in Milaha Maritime and Logistics, we expect the volume strength that we have seen at Hamad Port in the first half of 2018 to continue well into the second half. This will continue to have a positive impact on our joint arrangements in Q terminals.

As we continue to expand our container network we anticipate margin pressures on this business due to the increase in bunker cost and the general increase in competition on some of the routes our ships trade. In Q1 of 2018, Milaha inaugurated Phase one of Milaha Logistics City with a 35,000 square metre warehousing facility dedicated to temperature petrol cargo.



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New facility marks Milaha's at entry into coaching[?] solutions. This facility caters to the food industry, pharmaceuticals and other fast moving consumer goods. We are very pleased with the progress and ramp-up of this aspect of our business and anticipate stronger ramp-up and utilisation in the second half of 2018, which will make a positive contribution to our income statement in the second half of this year.

With respect to Milaha offshore, despite the high OSV supply inventory globally, but low supply growth at a macro level. Global utilisation in offshore sector has continued to increase from an average of 40% to 45% in 2017, an average of 63. We have also begun to see slight improvements in global day rates. This has been driven largely by the increase in oil prices.

As a company, we're cautiously optimistic that these trends will continue and will have a positive impact on our business in the second half of 2018. In June of 2018, we deployed our 300-passenger capacity liftboat in Nigeria on a long term contract with a global oil major.

We're very pleased with this accomplishment and we anticipate that revenue from this contract will be reflected positively in our results in the second half of 2018. Lastly, last year we were awarded various contracts in the offshore sector. Some of these contracts have taken effect the first half of this year, and the remainder will take effect the second half of this year.

I'm very optimistic that these contracts will make positive contributions to Milaha's P&L for the remainder of the year. With respect to gas and petrochem, VLGC's charter rates remain depressed, expect the remainder of the year to be challenging.

The jointly fully-owned LNG carriers, very limited fluctuation. These carriers are long term contracts. So we expect 2018 to be in line with last year. Fully-owned product tankers and crude carriers, these carriers are deployed in the spot market and they're subject to volatility. This



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segment has struggled and we're cautiously optimistic that it might improve, but it's going to take some time.

So we're quite cautious about the remainder of the year for these specific vessels. Fully-owned and ammonia carriers, one vessel has been renewed on a on long term contract, but at a lower rate compared to historical rates that we've seen. And the other one is in the spot market, but this market is still quite challenging. With respect to the harbor marine vessels, these vessels are on a long term contract and we expect limited volatility for the rest of the year.

And moving up to trading with respect to the segment, this segment has struggled this year, and we don't expect any change for the rest of the year. The sales for this segment is largely tied to infrastructure spending and construction activity. So for the rest of the year, we expect the same momentum.

Moving on to Milaha Capital with respect to the real estate segment of this business. We expect limited volatility. Most of our assets are on short or long term contracts so we expect limited volatility, limited changes for the rest of the year. And as it relates to the other part of Milaha Capital investment portfolio, obviously this is tied to the market performance and it's tough to predict what the outlook will look like in the second year.

And with that, we will go ahead and open it up for questions.

Operator: If you'd 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. Again, press star one to ask a question. We'll pause for a moment to allow everyone an opportunity to signal for questions. We would never take our next question from Rami Jamal. Please go ahead sir.



Rami Jamal: Good afternoon gents. Is my line clear?

Sami Shtayyeh: It's clear. Good afternoon.

Rami Jamal: Good afternoon. Thank you for having the call first of all. And I have a couple of questions. One on the first segment which is the logistics you mentioned that most of the increase came from your increased routes and expanding on that as well the TEUs from Hamad Port. So what routes have you ventured into and where do you see the growth in this segment going in the second half of the year? Would the trade war happening around the world do you see that impacting your business given the routes that you have ventured into? And the second question is related to the Milaha Capital. I just wanted to know if the QAR 132 million on the based on the entire portfolio be around 3.9 billion or that's just on the share value of portfolio?

Sami Shtayyeh: Thanks Rami. I'll take the first question first obviously. When you compare year-over-year performance, last year, we did not have the Oman-Doha route. This year we do obviously. The Aman-Doha route is it's further distance-wise so geographically the vessel have to travel longer distance. And thus the rate per TEU or rate per container is higher than what it was before.

Additionally, we opened up new lanes into Kuwait, into Sri Lanka, Bangladesh. Within the Indian subcontinent there's a couple new routes. We've also started you could call it delving into the on Qatar-Iraq route as well. So these are all new routes that we've opened in the last 12 months or so. And that really is one of the drivers along with the ports like you rightfully mentioned.

Now as for your question on our expectation with regards to the trade wars going on or potentially going on and how that would impact our new routes that would really have limited impact



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because the volume coming to Qatar is met -- the big portion of it or the vast majority of it is met for Qatar. So it's not like it's a transshipment hub although, we are starting to see more and more transshipment coming through the ports.

So the impact of a trade war between some of the bigger global markets is going to have limited impact on the route that we're travelling. We have a captive market and that's what the volume coming here relates to.

On the capital question, I'll turn that over to Akram.

Akram Iswaisi: And Sami a little bit I mean we're a feeder network. We're not a mainliner that operates globally so our impact it will be minimal if not non-existent, but there will be a slight impact. Now respect to Milaha Capital, most of the -- in fact all of the gain that we've seen in the P&L, you've got the dividends as well as the realised and unrealised gain on the effectively trading portfolio so because of IFRS 9 obviously the -- any realised gain on the strategic or how to trade at the available for sales goes through equity and not the P&L anymore. So the majority of the gain relates to a higher trading returns and as well as increase in dividend income. Did I answer the question?

Rami Jamal: Yeah, I'll go back to the first part related to the maritime. Do foresee yourself acquiring more ships to cover the requirements of the state or do you believe that you have sufficient number of vessels to actually cover the expansion routes like you mentioned?

Sami Shtayyeh: Well let me jump in and say that. I mean from our perspective as a company, container shipping is an area that we're going to continue to grow. And when we look at services that we offer and services that we're going to expand globally, we'll look at them in the context of a let's



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say an integrated logistics solutions and container shipping is part of a leg or segment of these service offerings that we provide.

So we are expanding container shipping, but we are, let's say surgical about it and deliberate about it. And we'll expand where we think we can make money. So I think this is the way we're looking at it. And I think that the routes now that we've got have been and the ships that we got today have been let's say more than sufficient to support the domestic needs, but again we've got aggressive plans to grow and you will see more growth plans into the future.

And if you look at our fleet, we have owned vessels and we have chartered vessel. So in terms of our growth it's not just our vessels, but we have a substantially I'd say a large number of chartered vessels that we utilise as well. And it's part of our strategy is to have a mix of owned and chartered vessels to be able to time the market, to be able to explore new routes, and be able to get in and get out if necessary without let's say a significant capital commitments on new ships.

Rami Jamal: Okay thank you.

Sami Shtayyeh: Thank you.

Operator: We will now take our next question. Please go ahead caller.

Aamer Mustafa: Hello, hi good afternoon gents. Thank you for having the call.

Sami Shtayyeh: Hello. Who is this?

Aamer Mustafa: This is Aamer from Commercial Bank.



Sami Shtayyeh: Mustafa how are you?

Aamer Mustafa: I'm good. How are you guys? Thank you for having the call guys. Just a question on the impairments. We sort of agreed[?] that the impairment cycle would have peaked last year after the 2016-2017. From your outlook, what seems to be the case is that shipping rates will still be on the lower end. Do you expect the impairments to continue in the second half and going to into 2019? Yeah, that's it. Thanks.

Sami Shtayyeh: Thank you very much for the question. To be frank with you, I mean we follow IFRS as there are accounting standards that we have to follow. So it's tough to predict what it's going to look like for the second half of the year. But so far if you look at the traditional, the maritime shipping sector, we're still not out of the woods yet. We've bottomed out and this is I think that let's say the bottom has -- we have been in a prolonged bottom cycle if you will.

Question is when is it going to recover? We are not quite sure. The volatility in shipping market has been extreme. And so to be honest with you, it's tough for us to predict what the second half will look like in terms of impairments. But again, we're optimistic. We're seeing some signs of positive improvements in the sector so hopefully that's the end of it.

Aamer Mustafa: All right, thank you.

Operator: Once again if you'd like to ask a question please press star one. We'll now take our next question. Please go ahead caller.

Bijoy Joy: Thank you gentlemen for the call.



Sami Shtayyeh: Hello. Who is this?

Bijoy Joy: Yeah, this is Joy from QIC.

Sami Shtayyeh: Hi.

Bijoy Joy: Thank you for the call. My question is on the Thumama warehouse. What is the current utilisation on the warehouse and where do you see it in 2019?

Sami Shtayyeh: Thank you very much for the question. To be honest with you, given the strategic importance of this project at the moment, this is not information we can disclose. So love to be able to tell you about the utilisation, but I'm pleased to say that the project has been very successful, been picking up a lot of momentum. But unfortunately, at this point in time because of the strategic importance of this project to the company we cannot disclose it.

Bijoy Joy: Okay no problem. That's it from my side. Thank you.

Sami Shtayyeh: Thank you very much, appreciate it.

Operator: It appears there are no further questions at this time. I'd like to turn the conference back to you for any additional or closing remarks.

Bobby Sarkar: Hi, this is Bobby Sarkar again. So if there are no additional questions let's end the call here. Thank you, Akram. Thank you Sami, for taking the time to answer questions and give us overview of Milaha for the second quarter. And if anyone has any further questions please get in touch with us or with company management. Thank you all.



Sami Shtayyeh: Okay thank you very much, appreciate it.

Bobby Sarkar: Okay bye.

Operator: Ladies and gentlemen this concludes today's conference call. Thank you for your participation. You may now disconnect.