

QNB FINANCIAL SERVICES

Moderator: Shahan Keushgerian
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Operator: Thank you for standing by ladies and gentlemen. And welcome to the Milaha Q1 Financial Results conference call. At this time, all participants are in the 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 will need to press star and one on your telephone keypad.

I must advise you that this conference is being recorded today, Wednesday the 27th of April, 2016. I would like now to hand over the call to your speaker, Mister (Akram Iswaisi). Please go ahead.

(Akram): Thank you very much. Good afternoon, and thank you for joining us for our Q1 2016 earnings call. Due to a challenging business environment in a number of our business segments this quarter, we saw a modest drop in net profit, relative to the same period in 2015.

Milaha Maritime and Logistics saw a modest drop in profit, largely due to increased pressure on pricing. Particularly in the container theater business. However, port volumes have remained strong, relative to the same period in 2015.

Our offshore market, and the offshore market in general, continues to face major challenges on the back of low oil prices and cutbacks in CAPEX spending. Approximately 18 percent of the global fleet, the offshore global fleet, is laid up. Rates are dropping to break-even levels, and at times, below

break-even. Utilization in the Middle East is estimated at 50 percent in Q1 of this year. And day rates are dropping, are being cut by 20 to 40 percent.

Despite this unfavorable business environment, Milaha Offshore has done well, relative to its peers. But below Q1 2015 results. In addition to the unfavorable business environment, we saw a slight delay in the mobilization of one of our vessels in the first couple of months in this quarter.

With respect to Milaha Gas and PetroChem, this segment has performed very well this quarter. Growth was driven largely by Gulf LPG. The investment we made into L&G vessels in the second half of 2016, if you recall, July 2016, we made an investment, we acquired 60 percent of two L&G vessels. So now we're seeing the benefits of that acquisition in the first quarter of 2016. And growth in the tanker market, as well as growth in (that collapsed) profit.

The business environment is very challenging for Malaha. But we believe that we have the right foundation, and a strong balance sheet, to expand the headwinds. As well as continue to invest in new growth opportunities domestically, as well as internationally.

Thank you very much. Now I would like to turn this over to (Sammy), who will go over the financials.

(Sammy): Thank you, (Akram). I will start off with the consolidated financial results for Q1 2016.

Operating revenues for Q1 2016, were \$771 million (past year RELs) compared to \$786 million for the same period in 2015, for a decrease of 1.9 percent year-over-year. Operating profit for Q1 2016 was \$259 million, compared to \$279 million for the same period in 2015, for a decrease of 7.2 percent year-over-year. And net profit for 2016 was \$352 million, compared to \$365 million for the same period in 2015, for a decrease of 3.5 percent year-over-year.

So now I'll move on to the segments, starting off with Maritime and Logistics. Overall revenue was down 2 percent year-over-year, with most of the decrease coming from our bulk and container shipping units. There was a drop in

chartering activity in our bulk unit, enough that had an impact on revenues. There was a similar drop in our expenses related to this, as well.

In Container Shipping, our import volumes were up 31 percent year-over-year, with the newly initiated India route being a large contributing factor to that growth. Despite strong volumes, however, rates have been facing pressure, which impacted margins.

On the expense side, tied to the lower bulk shipping chartering revenue which I just spoke about, similarly have the reduction in the costs. And on the flipside, we had an increase in port- and terminal-related expenses, tied to the higher volumes. Onto Offshore, revenues decrease 10 percent, with most of that coming from our diving unit. One of our diving vessels was due to commence a 5-year contract mid-February, but was delayed until the last week of March. That negatively impacted our results.

We also faced what has been a recurring theme in the offshore industry for the past several quarters, which is rate and utilization pressure, particularly in our commercial units. Overall expenses came in lower, as fewer utilized vessels meant fewer personnel-related expenses. Moving onto Gas and PetroChem, overall revenue increased by 62 percent, with the vast majority of that driven by the two L&G vessels we increased our stake in, in the second half of 2015.

Similarly, on the expense side, the two L&G vessels contributed the majority of the \$25 million increase in operating expenses. On the non-operating income side, overall we saw an increase of \$3 million, with an additional \$13 million of finance expenses for the two L&G vessels. Being offset by positive growth out of (Nocilla), contributing \$5 million. Gulf LPG contributing \$4 million, and foreign exchange and finance income contributing \$5 million.

Our trading segment posted a 22 percent revenue, and 54 percent net profit decline year-over-year. A substantial slowdown in project activity hurt our equipment sales unit, and lower oil prices impacted our bunker sales unit. Related cost of sales for each of those two units similarly came down.

And last, but not least, our capital segment. Starting off with investments, we posted \$12 million in higher returns from our actively managed and traded

investment portfolio. But that was negated by a drop in dividends to the tune of \$41 million. Our contract quarry subsidiary posted \$1 million in higher revenue, along with a \$5 million decrease in cost of (that sold). And lastly, our real estate unit posted \$2 million in higher rental income, from higher occupancy levels.

That pretty much sums up our operations, bringing us, once again, to an overall net income of \$352 million. With that, I'll now turn it back over to (Akram) who will go over our outlook.

(Akram): Thank you very much, (Sammy). With respect to the outlook for the rest of the year, as I've indicated earlier, this is going to be a very challenging year for Milaha, and for other companies in the same sectors in which we operate.

With respect to Milaha Maritime and Logistics, we expect the trade volumes at the port to remain relatively strong. But we are beginning to see some drops in ancillary services. In addition to that, the competition will continue to increase, thereby increasing the pressure on pricing in the container (feeder) unit. Which will impact the margins. And of course, the million dollar, or the billion dollar question, we are still waiting to hear the final decision on (Hamid) port any day soon. So anticipate the rest of the year to be relatively stable, but there is some pressure on margins in the container shipping, on the container (feeder) side.

With respect to Milaha offshore, the whole industry, the offshore industry, is struggling. There are -- there's a lot of pressure on margins, a lot of pressure on utilization. Though feel -- we feel like we are in a very good position, and we have been working diligently to optimize our fleet, to manage costs. Therefore, for the rest of the year, we expect our business to remain relatively stable, but none the less, the market is still volatile. And we might have an impact on margins, which will obviously hit the bottom line.

With respect to Gas and Petchem, the majority of our contracts in the gas and petchem segment are all long-term contracts. The only area where our ships are trading in the stock market are the product tankers. Product tanker market has done exceptionally well in 2015, and we expect a moderate drop in 2016.

But none the less, performance will be strong. But overall, the segment should have relatively stable revenues, and stable cash flow for the rest of the year.

With respect to trading, this segment is -- has been negatively impacted by the slowdown in construction activities, and project activities. And we expect the remainder of the year to be -- to show a modest drop in revenue and bottom line. So a weaker rest of the year could be (honest).

With respect to Milaha, we expect to see a slight uptake in income from real estate, coming primarily from increased utilization, as well as leasing additional showrooms at (Kaleef) commercial project. All in all, again, this is going to be a very challenging year, but we remain focused on managing costs, pursuing new opportunities, and investing in growth. Within (popup) and outside of (popup).

With that, I'll open it up to questions.

Operator: Thank you, as a reminder for everyone, if you wish to ask a question, you will need to press star and one on your telephone keypad, and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, for questions, you will need to press star and one on your telephone keypad, and wait for your name to be announced. If you wish to cancel your request, please press the hash key.

And your first question comes from the line of Mister (Jose Paul), a research analyst. Please ask your question.

(Jose): Hello, thank you for hosting the call. I have a couple of questions. My first question is about the Maritime and Logistics. How strong were the port volumes, and how much do you expect it to be year-over-year growth by the end of the year? Second question is offshore, have the rates -- do you feel like the rates have bottomed out, or is there a further downside? And with the mobilization of (Kalu), do you expect the segment to actually post better results in the coming quarters? Thank you.

(Sammy): Thanks for your question. Regarding the port volumes, the -- we expect the (TEU) volumes to continue in the high-single to low-double digit levels throughout the rest of the year. That's regarding the port volumes. With regards to offshore rates, it all depends on what oil prices are going to continue to do. If oil prices seem to have stabilized -- which some analysts believe they have, some believe they have not, but -- it's really, it's tough for us as a vendor to the oil and gas industry, to say whether or not they've bottomed out. Because the oil majors, they're all coming out with ways in which they can cut costs. And a very simple one is going to the vendors and requesting rate drops.

So I'm not sure if it's bottomed out, but I think we're definitely closer to bottoming out -- if it hasn't yet bottomed out -- today, than we were 6 months ago. But having said that, we're not sure what the future holds with that regard.

I guess the billion dollar question are -- hundreds of offshore companies out there trying to answer the same question -- unfortunately, we can't predict the future. And it's difficult to tell, at this point.

(Jose): Well just think it like, say oil prices recover to 60 or 70, how much of a lag effect is there until you see day rates maybe take up a little bit, and help you guys out?

(Akram): Well there are a number of variables that come into play, right? So if you look at the sector today, you know, most of the contracts, they range anywhere from -- if you're talking about long-term contracts, depending on the region of the world -- anywhere from one to five years. So, and there is a large percentage of vessels today playing in the stock market, and in the very short-term market.

So, if oil prices start recovering, you could potentially see some recovery in rates. The question is, how will oil majors deal with that, because many of them have sort of begun looking at how they can reduce their costs. They're negotiating with their vendors. Is this the new norm for oil and gas companies? It's tough for us to predict, because there are a number of variables that come into play.

But we anticipate there will be some -- a positive uplift. But again, there are a number of variables that come into play here. But our view is, if oil prices start picking up again, we will see uplift in the daily rates. Which could potentially have positive impact on us.

(Jose): Fair enough. And the trading segment has, let's say you had a muted quarter so far, so is this a signal of the, let's say, the general economy of (Qatar) in general. Like trading activity, project activity, everything is slowing down. Is this we are finally seeing it, or -- what is your take on the (macro separation) on that?

(Akram): Not necessarily, and I'll tell you why. Our trading unit sells excavators, a lot of heavy-duty equipment for the construction industry, as well as trucks and so forth. So, the sales are typically sporadic. There's a volatility in the sales. So they may come in first quarter, heavy volume during the first quarter of 2016, and later in the year, you see a slow down. So there's not a steady sales pattern, if you will. It's very sporadic. So it's not necessarily indicative of a general slow down. I think it's too early to tell, I think we'll probably need a couple more quarters to see exactly how the numbers will turn out.

(Jose): Even in the worst case, with the stadiums, with the amount of work that needs to be done. The medium-term is not all that bad for the trading segment, right?

(Akram): It should be relatively stable. But as I mentioned, again, we don't have a smooth sales pattern, it's sporadic. Could be one, ten large orders that come in at the beginning of the quarter, next quarter you have a slow down. So, but generally speaking, I agree with the trend that you're saying is there's still a lot of activity. And that activity should have a positive impact on the trading business year.

(Jose): Thank you, thank you. That's all.

Operator: Thank you, and your next question comes from the line of (Nora Aligill) an analyst. Please ask your question.

(Nora): Hello. I just have one question regarding the (Hammett) port. Do you expect delays, or are you expected to open on time?

(Akram): Well, to be frank with you, we're not in a position to be able to answer the question, that question. I mean, we have -- we received indication and communication, (but that said), by the end of the year, (Hammett) port should be open. But at the end of the day, that decision does not lie with us. So, unfortunately, we can't comment on that.

Operator: We have no more further questions at this time, you can continue.

(Akram): Well thank you very much for your participation today. And have a good evening, thank you.

Operator: OK, that does conclude our conference for the day. You may all disconnect.

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