



Final Transcript



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Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
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Contents

Corporate Participants	3
Presentation	3
Question and Answer	8

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

Corporate Participants

Gautam Bellur

Milaha – Senior Vice President, Corporate Development & Communication

Sami Shtayyeh

Milaha – Vice President, Financial Planning & Analysis

Michel Deleuran

Milaha – Executive Vice President, Maritime

Keith Whitney

QNBFS -- Head of Sales

Presentation

Operator

Thank you for standing by and welcome to the Milaha Year-to-Date 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 will need to press *1 on your telephone. I must advise you that this conference is being recorded today on Wednesday, 30th October 2013. I would now like to turn the conference over to your speaker today, Keith Whitney. Please go ahead, sir.

Keith Whitney – QNBFS – Head of Sales

Hi, thanks very much and welcome everybody to the Milaha Year-to-Date, September 2013, Financial Results Conference Call. I'm very pleased to have representation from the Milaha management team. First of all our first speaker will be Gautam Bellur, who's the Senior Vice President of Corporate Development & Communications and Sami Shtayyeh, who is the Vice President of Financial Planning & Analysis. So without further ado, I'll go ahead and turn the call over to Gautam. Gautam?

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

Gautam Bellur – *Milaha – Senior Vice President, Corporate Development & Communication*

Thanks, Keith, and thanks everyone for joining in the call today. We also have with us, here at Milaha, we have Michel Deleuran, who's our Executive Vice President for our maritime business and who is responsible for the Maritime & Logistics and Gas & Petrochem segments that we report out on and he will be available to take any questions, as well, at the end of the call. I'm just going to make a few opening remarks and turn it over to Sami to discuss the Year-to-Date 2013 results and, then, following which we'll provide a brief outlook on the rest of 2013 and, in some cases, beyond that, at least as we see it right now. And after that, we'll throw it open for questions to the group.

To get it started, as you can see from the results, we've done well in the third quarter and year-to-date overall. All our core segments, Maritime & Logistics, Offshore and Gas & Petrochem, have improved year-on-year with bottom line growing by double digits in each of the segments. Some of the reasons, in Qatar the big infrastructure projects, the awarding of those projects have started to materialise. This is driving, to some extent, the volume increases for our ports and container feeder business primarily but also has knock-on positive impact on our logistics and shipping agency units. It's difficult, at this time, to say when project activity will fully ramp up in the country but we're cautiously optimistic that things have at least started to move in that direction.

In our offshore business we've had a stronger year than last year and put behind some of the operational issues that we had in the early part of 2012 but there is more to do and we're continuing to focus on optimising utilisation, which is key in that business. The Gas & Petrochem segment, which is a mix of long term charters, short term charters and spot fixtures, also improved year-on-year. Some of the markets that were previously weak, for example, VLGCs and product tankers, are showing signs of improvement and we're keeping our fingers crossed. Of our non-core units, Milaha Trading has declined somewhat from last year while Milaha Capital has gained significantly over last year but a majority of that gain came in the first quarter of this year due to dividend distributions. With that, I will turn it over to Sami to discuss the financials in more detail.

Sami Shtayyeh – *Milaha – Vice President, Financial Planning & Analysis*

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

Thanks, Gautam. I'm going to now go through our year-to-date September results for 2013 and then I'll go over some key highlights of the P&L overall. Operating revenues in 2013 were QR 1.69 billion compared to QR 1.7 billion in 2012, for a decrease of 0.2%. Operating profit was QR 569 million compared to QR 436 million in 2012, for an increase of 30%. And overall net profit for 2013 was QR 778 million compared to QR 637 million, for an increase of 22%.

Overall revenues slightly decreased year-over-year by just under QR 4 million, however there were several moving parts to that decrease. The key revenue changes really, overall, were our Trading unit's revenue decreased by QR 112 million and that drop was due to reduced bunker and equipment sales. You'll see the associate drop in cost of goods sold shown on the Operating Supplies & Expenses line. The bunker drop was driven by the loss of a key client that moved its base of operations outside the areas we service and nothing to do with the actual service provided to them. And the equipment drop is something we expect to recover in the fourth quarter as some pending orders are about to get delivered.

Within the Capital pillar, our Qatar Quarries subsidiary had a drop of QR 47 million in revenue and, similar to Trading, we had drop in associated cost of goods sold, which is also reflected in the Operating Supplies & Expenses line. Also within the Capital pillar, we have a drop compared to last year due to the liquidation of a fund in 2012 in the amount of QR 73 million that did not recur this year. Offsetting those large drops, we had an increase in unrealised gains in our held-for-trading portfolio, an increase in dividends and we liquidated part of our AFS portfolio, which brought in QR 30 million.

In the Maritime & Logistics pillar, we had an overall increase of QR 14 million in revenue and that was mainly the result of increased volumes and efficiencies in our port operations, as well as increased volumes in our container feedering service. And last but not least, our Offshore unit's revenue increased QR 51 million and was, in large part, due to higher utilisation of vessels, as well as the introduction and hiring out of new vessels that came online.

Overall, salaries wages and benefits increased by QR 33 million, with the largest parts coming out of our Corporate and Maritime & Logistics units due to increased operational volumes, new hires and salary increases. I've really already discussed the main drops in the Operating Supplies & Expenses line. Again, those are attributable to the drop in the cost of goods sold related to the bunker equipment and Qatar Quarries. Depreciation expense is the next line with considerable variance. We show a drop of expense of QR 8 million and that's mainly due to some accounting adjustments within our Gas & Petrochem unit that occurred in 2012 that we did not have again this year, as well the completion of the amortisation of some intangibles that came as a result of

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

the Q-Ship acquisition from 2010. Other operating expenses decreased and that was driven by really a mixed bag of things including insurance premiums, bank fees, communications expenses, etc.

On the non-operating side of things, finance income rose by close to QR 3 million. We had an increase year-over-year of QR 7 million from the gain on sale of assets, which was primarily out of our Maritime & Logistics unit and those assets were mainly underutilised and aged logistics equipment and containers. We had a drop in miscellaneous income in the amount of QR 10 million and, lastly, impairments on available-for-sale investments that hit us last year didn't recur, so that netted an increase of QR 4 million. And that brings us to the net income which, again, grew from 637 in 2012 to QR 778 million in 2013. And, with that, I'll now turn it back over to Gautam who will go over the outlook.

Gautam Bellur – *Milaha – Senior Vice President, Corporate Development & Communication*

Thanks, Sami. In terms of outlook, in general, our operating outlook for the rest of year is in line with what we've seen so far this year. We're not expecting any major changes. As we mentioned previously on previous calls, we have started to see some increased project execution activity and, while the nature and speed of the ramp up is not fully visible to us yet, we're hopeful that the uptick is here to stay and will continue to help us grow the Maritime & Logistics segment as trade volumes grow.

In the same segment, we are continuing to work on driving our continuous process excellence initiatives and better yield management initiatives as well through all the units. Our offshore business, Halul Offshore, is expected to maintain its trajectory from the first three quarters of this year. We're still working hard to improve utilisation of some parts of our fleet. In addition, we expect to add one more vessel to the fleet in November, which has already been contracted, so we think we'll get a small bump from that in the Q4 results.

Beyond that, we're still going ahead with a quite ambitious expansion plan. We expect to take delivery of somewhere between seven and nine vessels in 2014 in the offshore space assuming minor or, you know, at least no delays in the delivery schedules, which will have a significant impact on our offshore segments financials next year. We're also actively pursuing opportunities. I think we've talked about this on the previous call. We are actively pursuing opportunities to take Halul's quite strong business model, as we see it, to other geographies.

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

In our Gas & Petrochem segment, we either expect to maintain steady state or grow moderately, depending on which markets we're talking about. As you know, we're involved in LNG, LPG, ammonia, clean and dirty petroleum product sectors to varying degrees. In the LNG space our joint venture vessels that are jointly owned with other partners are on long term charters so we don't expect any revenue fluctuations in that, although we have some refinancing costs that are likely to occur in the next 12-18 months.

The outlook for our crude tankers continues to be weak and we're not expecting much improvement in the coming quarters. We continue to be moderately optimistic about product tanker rates. We've seen a slight upturn in Handymax and LR2 rates and believe that these may be sustainable for the rest of the year and perhaps even increase slightly over the next couple of years. BLGC rates, which have been weak for a while, have improved somewhat in the last few months and, again, we're cautiously optimistic about the coming quarter and beyond in that sector.

So going beyond the ocean-going fleet we have taken delivery of eight harbour vessels, as well, out of a new building order of 19 vessels this year, which are now operational and we expect to take delivery of the remaining 11 vessels between now and May 2014. As we announced last year, these are to be deployed in a 20-year harbour towage contract with Qatar Petroleum and in Mesaieed.

Going to the non-core segments in our trading pillars. Trading agencies business: we are renewing efforts on converting opportunities over the next few months. We think we can make up for some of the weakness in the first half of the year in the last quarter, as Sami mentioned previously. Increased project activity, we're hoping, will help drive this going forward. Last but not least, we expect our investment portfolio to continue to perform well in what is a fairly robust economic environment – no surprises there – and we're continuing to develop our real estate projects in a carefully phased manner.

One additional note on real estate: I want to pre-empt a question we get asked often on these calls regarding the Al Thumama development. We have approved the initial phase of development of logistics facilities in Al Thumama and expect to commission the first set of warehouses in mid to late 2015. However, we estimate that we will start to earn some revenue from the land – mainly from leasing open yard space – sometime in the middle to late next year. With that we'll throw it open to questions.

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

Questions and Answers

Operator

Thank you. As a reminder, if you wish to ask a question, please press *1 on telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key. Once again, that is *1 if you wish to ask a question. Your first question comes from the line of Shahan Keushgerian. Please ask your question

Shahan Keushgerian – *QNB Financial Services*

Thanks Sami and Gautam. I have three questions, actually. First one, Qatar Quarries, you guys mentioned it dropped. Can you just shed some colour on there? And what has been the utilisation rate so far this year on Halul's vessels? And then regarding the eight vessels that you guys took delivery for Gas & Petrochem, have they started operating those eight vessels?

Sami Shtayyeh – *Milaha – Vice President, Financial Planning & Analysis*

Yes, Shahan, thanks for the questions. I'll take the last one first. Yes, the eight vessels, actually seven of them, have begun operations just in the last... I want to say since August. We took possession of them between, I believe, March and August and they're now operational. Regarding the utilisation of the vessels for Halul, really it depends on the types of vessels. I'm going to read off some utilisation figures for you now but, again, it depends on the type of vessels that we're dealing with here. So on the construction and maintenance, vessel utilisation really has been averaging in the upper 80s; these are the construction and maintenance vessels. Diving operation vessels is close to 100%; really those are the big revenue earners of the unit. Development and commercial vessels; within this unit we've got different types of vessels. We have anchor handling vessels which is in the upper 80s; yes, upper 80s is a good barometer. The safety standby is pretty much 100% and all other vessels are really varying between 50-65%. So that's the Halul question. Regarding Qatar Quarries, really it has to do with the aggregate market, Shahan, so there's been weakness in the aggregate market over the last... really for a while now. When that rebounds we hope, with some of the infrastructure development we'll see some improvement in the coming quarters but it's purely a result of the aggregate demand in the country. You okay with that?

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

Shahan Keushgerian – *QNB Financial Services*

Yes, thanks. Thanks a lot.

Sami Shtayyeh – *Milaha – Vice President, Financial Planning & Analysis*

Okay, next caller.

Operator

Thank you. Once again, that's *1 if you wish to ask a question. There are no further questions at this time. Please continue.

Keith Whitney – *QNBFS – Head of Sales*

Why don't we just give it just one more second. Maybe if you could just go ahead and query the group again for any final question.

Operator

Okay. As a reminder, if you wish to ask a question, that's * and 1 on your telephone keypad. Your next question comes from the line of Jubin Jose from Qatar Insurance. Please ask your question.

Jubin Jose – *Qatar Insurance*

Hi, my concern is regarding the real estate development. Can you just give us some more light on that?

Gautam Bellur – *Milaha – Senior Vice President, Corporate Development & Communication*

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

What's the specific question?

Jubin Jose – *Qatar Insurance*

It's regarding the land you are going to develop; the real estate.

Gautam Bellur – *Milaha – Senior Vice President, Corporate Development & Communication*

We have quite a reasonably sized land bank. We have a couple of projects under development and some that we... as I mentioned in the outlook, the plan has always been and continues to be to develop our land banks in a pretty carefully phased manner. So, at the moment, we're focusing on a couple of projects but that, you know, doesn't mean that that will not change in the coming years as we start to develop land banks. Right now the focus is on one development in an area called Ain Khaled in Doha, which is being developed; should be completed close to somewhere near the end of next year or maybe early 2015. And then, as I mentioned, the Al Thumama land, which has been targeted for logistics facilities. We have finally started development on those with a view to commissioning warehouses in 2015; late 2015 or so.

Jubin Jose – *Qatar Insurance*

Okay. What kind of square feet or square metres are you expecting on the logistics site and the logistics village you are talking about, once it's finished?

Michel Deleuran – *Milaha – Executive Vice President, Maritime*

It's an ongoing project. I would really just repeat what Gautam Bellur said, that we have a large piece of land which is 420,000 square metres and it's already been compacted and it's prepared for basic construction. The issue is taking a staged approach towards it. So you could basically say, you know, hypothetically a number of years down the road on a 420,000 square metre piece of land you have immense opportunities for erecting various types of construction but we will be taking a very careful and phased approach, ensuring that we have the market canvassed and we

Date: 30/10/2013	Time: 13:00 GMT	Name of Conference: Milaha Year-to-Date, September 2013, Financial Results – 90571649 Duration: 21 minutes and 12 seconds
---------------------	--------------------	---

only develop in line with what we feel we can get reasonable commitments for from customers in the country.

Jubin Jose – *Qatar Insurance*

Okay. Perfect. Thank you.

Operator

Once again, that's *1 to ask a question. There are no further questions at this time, please continue.

Keith Whitney – *QNBFS – Head of Sales*

Okay, great, well thank you. I'd like to extend a big thank you out to the Milaha management team for your time today, giving a perspective, a comprehensive perspective of the company earnings and some perspective on the way forward. So thank you guys very much and I want to thank everybody that's been on the call today. I wish you all a great rest of the day. Cheers.

Operator

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