QNB FINANCIAL SERVICES

Moderator: Shahan Keushgerian
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Thank you for standing by and welcome to the Milaha year to date June 2015 financial result 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 star one on your telephone. I must advise you the conference is being recorded today, Monday the 3rd of August 2015. I would now like to turn the conference over to your first speaker today, Shahan Keushgerian. Please go ahead, sir.

Shahan Keushgerian: Hello, hi, this is Shahan from QNB FS. I'd like to introduce everyone to Milaha's first half 2015 earnings call. So first of all, I'd like to introduce Milaha's management. We have with us Sami Shtayyeh, VP Financial Planning & Analysis, and Akram Iswaisi, acting EVP Finance & Investments.

So the we'll do this is management will discuss their results and then we'll open it up for Q&A. So, Sami, I'll hand over the call to you.

Sami Shtayyeh: Thanks, Shahan, and thank you everyone for joining us on the call. I want to first introduce our acting Executive Vice-President of Finance & Investments, Akram Iswaisi. Akram has been with the company for several years.

He knows, you know, the ins and outs of the company and the industries we're in and will be joining me on the calls going forward. With that, I'll now turn it over to him to kick things off. Akram?

Akram Iswaisi: Thanks, Sami. Good afternoon and thank you for joining us for our half year 2015 earnings call. We are very pleased to report another solid operational performance for the Milaha group.

Overall, revenues are up. Operating profits are up as well for the various segments and for Milaha overall. And net profit is up, all by strong double digit. That's a really nice story to tell, one that we are extremely proud of.

All of businesses except Milaha -- except for Milaha Capital have produced exceptionally positive results. Maritime & Logistics performance continues to impress this year. The volumes positively impact the results for unit and we have consistently seen strong volume growth this year in both our port and container shipping units that have contributed to better results.

Milaha Offshore has done very well relative to last year as well largely due to the deployment of a new diving support vessel as well as increased emphasis on improving utilization and operating efficiency and pursuing operations of our -- outside of our legacy market.

Due to a favorable tanker market, the product tanker unit of Milaha Gas and Petrochem has performance exceptionally well. The results were driven by the oil prices which have created demand for oil and related products, limited tanker supply, and the increase in the supply of oil.

These factors combined have contributed to a robust tanker market. The trading business continues to perform well as well on the back of a continued strong infrastructure project market Qatar.

We continue to sell more trucks and heavy equipment. We have remained focus on growth and producing solid operational performance and we are reaping the rewards of various group-wide initiatives designed to improve efficiency and effectiveness and we'll continue to do so.

Our goal is to build a scalable infrastructure that will allow us to support growth and do more with less. These initiatives range from process reviews and reengineering to automation and upgrading of employees' skills.

Thank you very much and I would like to turn this over to Sami who will go over the financial.

Sami Shtayyeh: Thanks, Akram. Let me first go over the published consolidated financial results for the first half of 2015. And then I'll get more into the segments in detail. So operating revenues for the first half of 2015 were 1.5 billion riyals compared to 1.2 billion riyals for the same period in 2014, for an increase of 21 percent year over year.

Operating profit for the first half of 2015 was 442 million riyals compared to 337 million for the same period in 2014, for an increase of 31 percent year over year. And net profit for the first half of 2015 was 651 million riyals compared to 518 million for the same period in 2014, for an increase of 26 percent year over year.

Now, I'll get into the segment results highlighting the key variances versus the first half of 2014. Starting off with Maritime & Logistics. Overall revenue was up 27 percent year over year with our two largest units once again driving most of that.

Port services revenue increased substantially due to two main reasons which really are a continuation of what happened in the first quarter. Number one, overall TEU volumes in the port were up 21 percent. And number two, the unit benefitted from a government change in the number of free storage days at the port.

Previously, consignees had 10 free days to pick up cargo whereas now they only have three days. Anything above the three days incurred storage fees which helped our results. Our container shipping unit also saw an uptick in revenues driven by 17 percent overall increase in volume.

All other units really posted higher revenue as well. On the expense side, there's only two main things to make note of. One, operating supplies increased related to the increased volumes that we've seen.

And two we've booked a 38 million riyal impairment on our only bulk shipping vessel. As some of you might know, the bulk market has really underperformed for the past few years and that continues to bring down the prices of vessels.

Onto Offshore. Things continue to look better compared to last year. Overall revenue increased to 41 percent with most of that coming from our diving unit tied to the new diving support vessel we took possession of late last year.

We similarly saw higher revenues from our commercial unit also due to the addition of new vessels last year. On the cost side, we had higher salaries and wages, operating supplies, and depreciation expenses, all attributable to new vessels that we took possession of last year.

Overall -- sorry. Moving on to Gas and Petrochem. Overall revenue increase by 26 percent driven by increased freight rates related to our five wholly owned product tankers, two gas carriers, as well as the full-year effect from vessels we took possession of in 2014 in our port marine operations unit.

Overall expenses remained flat and on the non-operating side, we saw a 26 million riyal increase in profit with 14 million of that coming from our 30 percent share of (Nokilaf) and 13 million coming from our LNG joint ventures.

Our trading segment continues posting nice results with 24 percent increase in revenue and 108 percent net profit increase year over year. Our heavy equipment sales related to infrastructure projects boosted revenue, along with related cost of goods sold, and that more than offset a drop in our bunker revenue and associated costs.

On to our capital segment. Starting with real estate, our results continue to benefit from the company moving its headquarters to an owned property as opposed to the previously leased property.

We realized a net pickup of 12 million riyals related to this. Next, our Qatar quarries subsidiary posted seven million in higher revenue along with essentially a similar increase in expenses. And lastly, our investments posted 14 million in higher dividends than the same period in 2014, but 38 million in lower realized and unrealized gains from our actively managed and traded investment portfolio.

And that sums up our operations and brings us to overall net income of 651 million. With that, I'll now turn it over to Akram who will go over our outlook.

Akram Iswaisi: Thank you, Sami. With respect to our outlook, on Milaha Maritime & Logistics, we continue to expect trade volumes to remain strong as a result of population growth and healthy construction activities.

That said, as we previously indicated in many calls, the growth rates remain volatile. They don’t always remain steady. But nonetheless, we expect continued growth throughout this year. We expect the container volumes to remain strong and expect the gains from additional storage revenues to continue on in the second half of 2015 as it will take some time for the consignees to adjust to the shorter free storage allowed.

With respect to Milaha Offshore business, obviously the primary driver of our offshore business is the level of CapEx spending and operating expenditures for offshore oil and gas exploration productions.

As you're aware, the past 12 months, the global (OSV) market has experience major changes as a result of the dramatic decrease in oil prices. As oil prices were cut by over 50 percent, oil and gas companies cut back spending in response.

And naturally, this has and continues to negatively impact the global (OSV) market in the form of lower utilization rates and increase in pressure on daily rates. This issue was made worse by the extra supply of offshore support vessel.

We are staying close to our customers and continue to monitor the activities in the market and will react accordingly. That said, we expect a stronger performance in the second half of 2015 relative to 2014.

This stems largely from the fact that we received Shaddad the diving support vessel in September of 2014. Plus you have roughly three to four months of revenue in 2014 versus six months of revenue for the same period in 2015.

In addition, close to 70 percent of our vessels are on firm contracts and our utilization rate is higher than industry average. We will continue to remain focused on maintaining and optimizing our current business and continuing to invest organically and inorganically.

Moving on to Milaha Gas and Petrochem. We expect this business segment to do well for the remainder of 2015 for the following reasons. Our two VLGCs are on long-term time charters. The only owned LNG carriers are also on long-term fixed time charters.

Our wholly-owned -- our fully-owned gas carriers are also on fixed time charters. (Al Maruna) is on a two-year time charter until 2016. And (Al Mujaida) is on a time charter until mid 2016.

Our fully-owned product tankers are effectively in (pause) but have done extremely well relative to 2014. Again, as I've mentioned, as -- largely tied to a favorable shipping environment primarily due to lower oil prices. And we expect this momentum and the same trend to continue for the rest of the year. In addition to that as you're aware, Milaha acquired 60 percent of -- the remaining 60 percent in two LNG vessels and we will potentially see the impact of that in the second half of this year.

Now with respect to Milaha Trading, we are still seeing strong construction and infrastructure activities in Qatar which will continue to positively impact our heavy equipment and truck sales. Thus, we continue to expect Milaha Trading to perform better than the same period in 2014 but we expect that the revenue growth seen in the first half of 2015 will slow down slightly.

As it relates to Milaha Capital, there's not much guidance we can provide as the performance of this segment is highly correlated to the Qatar stock market. On the real estate side as we have previously mentioned in this -- in the second half of 2015, we will continue to realize savings from moving to our new owned headquarters as opposed to the second half of 2014 when we were still leasing.

Thank you very much. This concludes our comments for the presentation. Operator, we would like to open the call to questions.

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

Your first question comes from the line of (Lee Bezek) of QNB. Please ask your question.

(Lee Bezek): Hi, guys. Thanks for the comments. Can I just ask at this time given this broad slow-down that we're seeing across most of the -- other listed companies and most of the economy, the business seems to maintain some very good momentum, so is there anything sort of overarching that you'd put that down to why you seem to be maintaining that momentum and everyone else can't? And the second question is whether you could update us on any potential acquisitions as well.

Akram Iswaisi: With respect to acquisitions, we are -- obviously as we've mentioned on many calls before, we are, especially on the Offshore side, we're actively looking at the market. You know, there is obviously a slow-down -- a negative impact on the offshore oil and gas services market and we believe that this is the right time and the opportune time for us to start looking at acquisitions.

So at the moment, we are aggressively looking and, you know, as new things arise or materialize, we will obviously inform the market.

Sami Shtayyeh: Yes. Hi, (Lee). On -- regarding your questions about why we seem to be doing better than others, I assume your question is others within Qatar, is that correct?

(Lee Bezek): Yes…

Sami Shtayyeh: Other companies within Qatar?

(Lee Bezek): Not necessarily looking at (naturalize) specifically but just other, you know, the -- if you look at most other companies in Qatar, there's sort of broad slow-down whereas the opposite seems to be true for Milaha at the -- this moment.

Sami Shtayyeh: Well, the default answer is that we believe we're better run than the other companies, but in addition to that, we also reap some of the benefits of -- all of the development that the country is going through.

You know, you can't -- you can't go from any two points within Qatar without running into traffic diversions or traffic -- you know, new constructions, there's a lot of development and no one can deny that.

And a lot of that development touches our business whether it's the port business, whether it's the container business, whether it's logistics business. So that's part of the -- that's part of the reason, the other part of the reason is, you know, our Gas and Petrochem business in particular.

We've benefitted this year from market rates. So as much as we would like to pride ourselves on doing things correctly and better than others, you know, some of the -- some of it has to do with market rates.

This happens to be a good time for us and the shipping industry goes through ups and downs and this particular part of our business happens to be in an -- in an upswing. So that's really what it is. We're not hitting on all cylinders for sure. If the capital markets were up, we would -- we would have killed the numbers quite frankly.

Akram Iswaisi: I think -- to add to that, I think the diversity of our business has contributed to that story immensely. I mean if you -- if you look at our business, you know, we've surgically been investing in various segments to -- with the anticipation of riding different business cycles.

So if you look at our business -- some of our business are impacted by certain business cycles and so that's a big part of our success so far is diversity of our business. Our ability to, you know -- you know, invest surgically in anticipation of various business cycles and that's largely part of the story.

So that sort of has contributed to our -- to our business. And some businesses -- some of our segments are not doing well in this business cycles, they will do so I think -- you know, we've said that before repeatedly that we've -- you know, we've had that strategy and we're executing in that strategy and part of it is looking ahead and surgically and strategically investing in certain segments and anticipating certain business cycles.

And that's basically all we could share at this point. I hope that answers your question.

(Lee Bezek): Yes, it did. Thank you. Sorry, could I just slip in one final question as well? Would you look again to share about that? Is that something which is going to be on the radar anytime soon?

Sami Shtayyeh: At the moment.

(Lee Bezek): OK. Thanks.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from the line of (Ramsey Sidani). Please ask your question.

(Ramsey Sidani): Hi, gentlemen. Thanks for taking the call. I just have a couple questions. First, if you can -- if you can talk more about the outlook of daily rates and utilization of the -- of the Offshore division and the support vessels and how are the negotiations with the -- with main clients progressing?

Akram Iswaisi: Well, I think...

(Ramsey Sidani): And then -- and then if you can...

Akram Iswaisi: Sorry, go ahead.

(Ramsey Sidani): Sorry, sorry, please...

Akram Iswaisi: Finish your question please.

(Ramsey Sidani): Then the second question, if there's any new development with the -- with the tender of the new port -- I think -- I mean it should be operational in 2016, so when do you think we can expect a decision?

And finally, on the -- on the gas as well, if you can comment on the -- I mean I know that most of them are on fixed rates now but if you can comment on the market in general?

Akram Iswaisi: Well, let me -- let me start off by...

(Ramsey Sidani): Sure.

Akram Iswaisi: Gas and petchem market, absolutely. Well, you know, let me -- let me start by answering the question on the -- on the Offshore market. I think, you know, I think everybody in the (OSV) market is feeling the pressure.

And I think we all know that, you know, our clients as well as the clients of other offshore markets, you know, have been trying to reduce rates and really what it comes down to is negotiation between, you know, (OSV) companies and their clients.

And, you know, it's about the value that we add to our clients. We have been fortunate so far because we are close to our clients and we have continued to articulate our value proposition to our clients. So...

(Ramsey Sidani): Uh-hmm.

Akram Iswaisi: ...you know, we have long-term contracts in place so as of right now, we feel confident that we will essentially maintain the same position. But as I mentioned, you know, we are close to our clients.

We're working closely with our clients and continuing to articulate our value proposition of what we bring to the table. So, you know, in the -- in the short run, we don't see any major impact to our numbers but that's not to say that things don't change. So that's all I could share at this point.

Sami Shtayyeh: Let me just add...

(Ramsey Sidani): OK. Just on...

Sami Shtayyeh: Hi, (Ramsey).

(Ramsey Sidani): Just -- yes. Hi, Sami. How are you?

Sami Shtayyeh: Hi. Good. Thanks. Let me just add to that that, you know, the biggest contract we have is the -- the diving contract as you know. And that's long-term in nature. So that's a five-year contract...

(Ramsey Sidani): Sure.

Sami Shtayyeh: That's a long-term contract adding a great amount to our bottom line for the -- for the segment so that's somewhat isolating us from, you know, some of the things that our competitors are going through.

And really it's all about utilization. It's -- yes, the day rates might be coming down but it's all about utilization at this point. You know, us trying to ride out this down -- this downturn. So, you know, we've done a good job and like Akram said it's really about keeping close to your customers.

In some cases, we found situations where it's actually a win-win. So it's not just the client coming after us and demanding that we reduce rates but it's us working with the client to say, "Well, if you -- if you do this, we can -- we can eliminate that." So it's working that with the clients where it's a win-win -- where it's a win-win situation.

Onto the port question...

(Ramsey Sidani): I see.

Sami Shtayyeh: (Ramsey)...

(Ramsey Sidani): Just to finish on that front, I know you're getting new vessels end of 2015, beginning 2016. I mean they're not going to be as material as the diving but do you think they'll be -- you'll be able to find contracts for these vessels when you receive them?

Sami Shtayyeh: Yes. So without getting into too much detail, yes, obviously we've made note that we are taking possession of new vessels later on this year and next year. Some are already -- we've already got contracts lined up for some. The others, we're working on.

So, yes, we are taking possession of them. We still feel optimistic about the prospects. However, as you know, this is -- you know, the market is changing every single day. I mean, you know, market -- the oil -- oil prices seem to be going up, you know, there was an upward trend and then the whole -- last week or so, it started going back down. So, you know, things could change but right now, we're feeling pretty decent, (Ramsey).

Akram Iswaisi: But I'd like to add a couple of points to that. I think, you know, we've mentioned, you know, early on that we are focused, you know, heavily on improving operating efficiency, staying close to the client. But we've also invested quite a bit into business development and growth.

So -- you know, and we've got a few opportunities lined up in the pipeline. Now, you know, don’t forget that we are also, you know, fortunate to be in a region that has one of the lowest production costs and where according to, you know, recent reports as well that I've read, you know, the region will continue to invest in (E&P) activities.

So I think -- I think -- although the global pictured looked bleak, we are optimistic and we are aggressively working to deploy these vessels and – with the same token we are also looking at renewing our fleet and divesting from non-performing assets.

So, you know, any opportunities that we get...

(Ramsey Sidani): OK.

Akram Iswaisi: ...we are aggressively working on selling vessels. And we've done that early this year.

(Ramsey Sidani): Sure.

Sami Shtayyeh: OK. Back to your other questions, (Ramsey). The ports -- the port concession -- it literally has to be any day now, any week now. There was -- I don't know if you, you know, caught the news but I think 10 or -- 10 days ago, you know, the -- they put out a formal press release saying that part of the port would actually be opened up at the end of this year.

So -- and it's...

(Ramsey Sidani): OK.

Sami Shtayyeh: It's still supposedly on schedule to be opened up next year, phase on at least. So having said all of that, the -- a decision has to be imminent. It has to be. So any day now hopefully, (Ramsey), any day. Trust me, we'll be the first to announce something.

(Ramsey Sidani): Sure. I'm sure.

Sami Shtayyeh: Yes.

Akram Iswaisi: Well...

(Ramsey Sidani): OK. Thanks.

Akram Iswaisi: ...you know, you asked for our view on the LNG and LPG market, was that what it was?

(Ramsey Sidani): Yes, and the products as well.

Akram Iswaisi: Well, I mean tell you what, we will...

(Ramsey Sidani): as petrochemical product

Akram Iswaisi: We'll share...

(Ramsey Sidani): … shipping, yes.

Akram Iswaisi: Sure, sure. And I'll -- we'll share with you our view and it's obviously a view as well. You know, basically I mean I think in terms of LNG shipping, I think the, you know, the LNG shipping market is struggling, you know, especially on the -- on the spot and the short term market.

There are too many vessels and not enough cargo to soak that up. So I think the -- you know, in my view, my personal view, the LNG shipping market will struggle for a while. Now on the -- and so, you know, and obviously it's important to articulate that, you know, all of our LNG exposure is long-term. So fixed time charters -- and so we're not really exposed to that market volatility.

(Ramsey Sidani): Yes.

Akram Iswaisi: With respect to LPG shipping, I think you guys are well aware that, you know, the VLGCs are enjoying golden years. You know, there are plenty of exports out of the US, plenty of exports out of the Middle East and they are keeping the VLGCs busy.

So, you know, even daily spot rates are very high pro-owners. So small ones are obviously struggling but the long haul is doing exceptionally well. And this is sort of what we're seeing in the market and we've benefitted from that as well anyway since we have -- we own two VLGCs jointly with (Nakalet).

(Ramsey Sidani): OK. All right. Thank you. Thank you so much for the -- for the answers.

Operator: There are no further questions at this time. Please continue.

Sami Shtayyeh: There's no more further questions. Thank you for the -- for attending the call. We look forward to speaking again at the Q3 results call. Thank you, operator.

Akram Iswaisi: Thank you so much. Appreciate it.

Operator: That does conclude the conference for today. Thank you for participating. You may all disconnect.

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