QNB

Moderator: SHAHAN KEUSHGERIAN
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Thank you for standing by, and welcome to the Milaha Q1 Financial Results Conference Call. At this time, all participants are in a listen only mode. There'll be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you'll need to press star, one on your telephone.

I must advise you that this conference is being recorded today, Thursday, the 30th of April 2015.

I'd now like to hand the conference over to your speaker today, Shahan. Please go ahead.

Shahan Keushgerian: Hello, everyone. This is Shahan from QNB FS. I'd like to welcome everybody to Milaha's 1Q 2015 earnings call.

So I'd like to introduce Milaha's management. We have with us Gautam Bellur, Senior VP, Corporate Development and Communications; (Sam Mishtaya), VP Financial Planning and Analysis. So basically, we'll start with the management going through their financials. And then we'll open up for Q&A session. Thank you.

Gautam Bellur: Thanks, Shahan. And thanks, everyone, for joining in the call today. I think we have a pretty good set of participants or good number of participants today.

Our agenda for those of you joined us before – similar to previous calls, I'm going to make a few opening remarks and turn it over to (Sammy) to discuss the results – the financial results in more detail and the following, which will provide a brief outlook for the rest of 2015 for each of our segments. And then we'll throw it open to questions to the – to the group.

So just to get us started, overall, we are very pleased with our first quarter results, continued year on year bottom line growth in the – in a – in this current environment is a – is a good achievement in our – in our view.

Even more pleasing for us is the fact that all three of our core maritime segments have done extremely well relative to 2014. There have not been many quarters recently where we've been able to say that.

You know our Maritime and Logistics segment – the growth has been driven by a – by trade volumes and a strong growth in trade volumes due to the ramp up in project activity in Qatar in the lead after the World Cup. And this has had a positive impact on revenues across multiple activities in the segment but particularly on the port services and the container feeder businesses.

Just to provide one example – and there're many more of these – we saw 20 percent growth in container throughput in our ports business quarter – you know, year – relative to Q1 2014. That's a pretty significant growth number.

Our Gas and Petrochem segment grew both top line and bottom line relative to Q1 2014 largely on the back of higher rates for our seven fully owned and operated product tankers and gas carriers. Also the record rates for VLGCs, which were on the spot market last year, those didn't materialize till the second quarter. So we're seeing the positive year on year impact of that as well.

Milaha Offshore, improved significantly from last year despite weaker market conditions that as you know have been driven by the decline in oil prices and the cutbacks on CapEx spending by oil majors both in this region and outside. You will recall we had an extremely weak Q1 in 2014, you know, for the – for the segment due to issues that we face in our – in our diving services activities largely.

The deployment of our new vessel Shaddad, which happened in the third quarter of 2014 has helped to recover the numbers. That's why you see higher year on year number.

Just in general, in the – given the downturn in the environment we're in in the offshore marine services sector, our utilization is, you know, is higher overall than the market average year to date.

So you know if we look at the core segments, that we grew our bottom line 71 percent year on year, which offset a relatively weak quarter in – for our capital segment, which had previously done extremely well in most quarters or the last two years or so. And this was largely the actively managed investment portfolio of Milaha Capital, which despite outperforming the index was negatively impacted by volatility in the – in cutter's equities market in Q1.

So that gives a broad overview of Q1 performance. I'll turn it over to (Sammy) to discuss the yesterday's financials in more detail.

(Sam Mishtaya): Thanks, Gautam. As usual, I'll first go over the published consolidated financial results for Q1 and then get into some of the segments – I'll get into some of the segments with more detail.

So operating revenues for Q1 2015 were 786 million compared to 699 million in 2014 for an increase of 12 percent year over year. Operating profit for Q1 was 279 million compared to 273 million in 2014 for an increase of 2 percent, and net profit for 2015 365 million compared to 349 million in 2014 for an increase of 4 percent year over year.

I'll now get into the segment results highlighting the key variances versus Q1 2014 along with some brief explanations, some of which Gautam has already touched on.

So starting off with Maritime and Logistics, overall revenue was up 25 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. First of all, overall TEU volumes in the port were up 23 percent as Gautam mentioned. And secondly, the unit benefitted from a – really a government change in the number of free storage days at the port. So previously, consignees had 10 free days to pick up cargo whereas now they only have three days. Anything above three days incur storage fees, which helped the results in the first quarter of the year.

Our container shipping unit is the other large one that benefitted a lot or sorry – that drove a lot of the revenue increase in the Maritime and Logistics. Overall, there was an 8 percent increase in volumes, 24 percent increase on imports and 4 percent increase on exports.

To a lesser extent, our bulk shipping unit had higher revenue due to increased chartering activities. That in turn increased revenues but simultaneously increased cost. And our logistics unit picked up steam across all of its activities.

On the expense side, operating supplies increased related to additional volumes at the port and container shipping along with increases in chartering expenses tied to our bulk shipping activities that I just mentioned on the revenue side.

Onto offshore, things looked a lot better this year. Or things look a lot better this year when comparing to, you know, the really – the terrible year we had in 2014. Overall, revenue increased 35 percent with most of that coming from our diving unit. This is tied to the new DSV, Shaddad, we finally started earning revenue on in 2014, September of 2014.

Our commercial unit also did better on the revenue side due to the full year effect of new vessels we took possession of last year. Our last operational unit within offshore construction and maintenance performed slightly worse than last year mainly due to two vessels that were due to go on higher but were rejected by the client. We went back and forth with them. And those vessels actually went on higher just about 7 to 10 days ago. So hopefully, going forward, we'll see some pickup in that unit as well.

On the cost side, we had higher salaries and wages, operating supplies, depreciation expenses. And all of those were really mainly attributable to new vessels that we took position of last year.

Moving on to Gas and Petrochem, overall revenue increased by 39 percent driven by increased freight rates related to our five wholly owned product tankers and two gas carriers as well as a full year effect of vessels that we took possession of in the – in 2014 in our port operations – the port marine operations.

On the expense side, cost actually decreased slightly versus last year related to less maintenance and repair expenses. On the non-operating income and expense side of things, we saw a 10 percent increase year over year from our joint ventures and associates with 5 million of that coming from our 30 percent share of Nakilat and 4 percent coming from our Gulf LPG joint venture.

Our trading segment continues to impress with the first quarter of 2015 posting 59 percent revenue growth over last year. Our heavy equipment sales related to infrastructure projects boosted revenue along with related cost of goods sold. Furthermore, you'll – you might notice our margins increase significantly from 3 percent to 8 percent, which in part was due to currency gains on the Japanese yen.

Last but not the least, our capital segment – I'm going to break this out into three components, real estate, Qatar Quarries and financial investments. So starting with real estate, we did not see an – or sorry – we did see a nice tick up in profit related to the fact that we moved our headquarters to an owned property that we newly developed as opposed to our previous headquarters that was on a lease that ended late last year.

Next, our Qatar Quarries subsidiary posted 7 million and higher revenue along with essentially a similar increase expenses. Net-net was only slightly higher profitable – slightly higher profit than last year.

Lastly, our actively managed and traded investment portfolio was hit hard in due one – in Q1, sorry, due to the drop in the local equity markets. Overall, we posted 75 million less in Q1 2015 versus the same period in 2014. That pretty much sums up the operations and brings us to an overall net income of 365 million for the first quarter.

With that, I'll turn it back over to Gautam who will go over our outlook.

Gautam Bellur: Thanks, (Sammy). Just to go through each of – a brief outlook on each of our segments, starting with Maritime and Logistics. At a macro level, we expect the volume growth to continue as an increasing number of these infrastructure projects are kicked off or get into full swing, something that began halfway through last year. So we're hoping to see continued growth there.

That said, those of you who've joined our calls before will know that there tends to be a fair bit of fluctuation in the growth rates over the course of the year. It's not necessarily sustained at the same levels throughout.

Getting into a little bit more detail on – within the Maritime and Logistics segment, in the ports business, while we expect the volume growth to continue, we don't expect to see the same gains from the additional storage revenue, the storage fees that we saw in Q1 over the full year, which (Sammy) had talked about before. There's likely to be some adjustment as consignees get used to the shorter free storage allowance.

Also from a more medium term perspective, not (fiscally) a 2015 issue but from a medium term perspective, we're still awaiting decision on the award of the concession for the new (Hamat) port. That decision has still not yet been made.

On the container shipping side, we're expecting the volumes to also grow. But at the same time, we expect to see some additional competition in the market in a – in our core market and therefore a potential downward pressure on rates in the coming months.

Beyond the region, beyond our core business, our new NDX service to India, the (direct call) to Nhava Sheva in India from Doha looks promising so far. And we're continuing to look at options to further growth that network – grow the network overall in the coming months.

Onto the Offshore segment, the global marine services, offshore marine services market is starting to really feel the pinch from the E&P cutbacks that the oil majors have made due to the lower oil prices. There is likely to be significant pressure on utilization and day rates in the coming months. And the – and that's expected not just in the region but globally.

At this stage, we still expect the stronger year overall relative to 2014 despite the downturn. Part of the – part of the optimism is due to the full year revenues on the Shaddad, the diving vessel Shaddad, which boost our diving services segment and there with – which is on a five-year charter so – and therefore unaffected by this – in the short term by these rates.

Also one other note of optimism. Our 70 percent of our vessels are on term charter, which is a – which is a positive thing. And as I mentioned, our utilization numbers are higher than average. And we're going to try and maintain that throughout the rest of the year.

The focus for that going forward through 2015 is going to be on a couple of things, deployment of the new vessels that were received in 2014, some of which are on higher, some of which are not, and a focus on maintaining utilization of the existing vessels. In this kind of a market utilization is key. And in the short term, we're looking at opportunities not just in our core – in our – in our existing core markets but also outside of that including outside the region to look at all possible avenues for deploying our fleet.

In addition, we expect to take delivery of four PSVs, platform supply vessels, in each – in the second half of this year, some towards the very end of the year and may get push back into 2016 as well. But as of now, we're expecting four PSVs in the second half plus two lift boats that are under construction also in the – also expected to take delivery of that in the fourth quarter in 2015 always keeping in mind there is potential for delays in delivery.

And more broadly longer term, as we've said before, we continue to target expansion in Saudi Arabia and the UAE and the region in general but also new markets outside the region in a number of different ways.

Onto Gas and Petrochem, at a macro level, we expect 2015 to continue to be a strong year overall. Part of the – part of this is due to the fact that our exposure to the spot market is relatively limited. Just to go through some of the different aspects of the segment, the VLGCs, which are in joint venture, Gulf LPG, have now been put on long term charter in the – in the markets for four years. And therefore, there's limited volatility. And they were put into charter at a relatively strong rate out last year towards the end of last year.

The LNG carriers that we jointly owned with other partners – those have always had limited fluctuations due to the long term nature of the contracts.

And then our – in our product tanker and crude carrier fleet, a couple of them are on – are on term charters as well. But the earnings on average are expected to remain strong throughout 2015 since that the rates that we're seeing are above the average 2014 levels in the fleet.

The gas and ammonia carriers, the two – gas and the ammonia carriers that we – that we own and operate, one vessel is on time charter till 2018. It's a 2 plus 2 option renewable in 2016 but through 2018 and then one that will come off charter in the middle of this year with reasonable prospects for extension.

We do expect some weakening of these – of gas carrier rates by the middle of this year, which may affect one of these vessels. But that's about the only downside that we can see at this point in time.

The harbor marine vessels – the harbor marine operations – 19 vessel QP harbor operations contract has started. And therefore, we'll see the full the full impact for the year in 2015. We obviously saw year on year gain for the first quarter, probably again for the second quarter. But the second half should be more or less similar to 2014.

On the trading of segment, we're also expecting a strong year due to the sales of trucks and heavy equipment tied to the infrastructure projects. But the results from – on a – in terms of quarters could be a little bit patchy because of the nature of sale cycles. You don't sell the same every month. It comes in, you know, in chunks, in batches if you will. So you could see some patchiness in the – in the numbers. But overall for the year, we expect a very strong year and also in the – a reasonable growth in all the other trading activities, bunker, our travel agency as well as the lubricants business that we're in.

And last but not the least, on the capital side, there's really nothing to say about the – then from the portfolio – the portfolio performance strongly correlated to the Qatar Exchange Index performance and volatility.

On the real estate side, we'll continue to see the year on year savings from the moving to the new headquarters, which is fully owned as (Sammy) mentioned versus the lease facilities that we were in. And we also expect some revenue bump from renting out commercial space in the new development here in the new HQ.

That's what we have in terms of outlook right now for the rest of year. We'll throw it open to questions. Please go ahead.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star, one on your telephone. And wait for your names be announced. If you wish to cancel your request, please press the hash key.

Once again, if you wish to ask a question, please press star, one on your telephone and wait for your names be announced.

You have a question from the line of (Jonathan Milan). Please ask your question.

(Jonathan Milan): Good afternoon, guys. And thank you very much for hosting the call. I just have couple of questions, one on offshore. Offshore, you expect to bring in six more vessels in the second half of 2015. Are there expectations for deliveries in 2016? And how much are the six vessels going to cost?

Gautam Bellur: We take the one – the first that – just to clarify something, (Jonathan) – first of all, thanks for the question – just to clarify something, the two lift boats aren't vessels that – well, they are. But they're not the same kind of your typical PSVs and anchor handlers.

In terms of the PSVs and anchor handlers, well, we don't have any more anchor handlers. But the PSVs, we've got four, to this year third quarter and fourth quarter, the other two towards the very end of the year, which may get pushed into 2016. And then we've got two on the slate for 2016 already. So there's two more coming, you know, supposed to be delivered next year according to schedule. In terms of CapEx …

(Sam Mishtaya): Yes, (Jonathan). I'll give you estimates. But you know these are definitely pretty rough. I don't want to get too much in the specifics quite frankly. But the – so the four PSVs are going to be around just under $100 million for PSVs.

(Jonathan Milan): OK.

(Sam Mishtaya): The two AHTS', the anchor handlers – really those and the – and the lift boats – I'd rather not communicate that over the phone.

(Jonathan Milan): OK.

(Sam Mishtaya): Yes.

Gautam Bellur: We can talk offline.

(Jonathan Milan): Fine. Sure. No problem. And any expectations on when the announcements for the new port will take place. And just in case Milaha doesn't get the contract for the management of a new port, so what would happen to your port services revenue? Would it drop directly to (Inaudible)? What would happen in case you don't get the new ports?

(Sam Mishtaya): And so we expect the answer any day now. It's not a given that we're going to get it or not get it. So we're waiting just like, you know, the other competitors are waiting.

But you know we've done some rough math. And we've said this numerous times on road shows. If we don't get it, it's – it will – it will pinch us. It's not the end of the world. But you know initial estimates are anywhere between 8 to 10 percent of our bottom line will probably be impacted.

Gautam Bellur: 2017 onwards, obviously, the next two years would …

(Sam Mishtaya): Yes. And that's all else equal – that's all else equal. So that gives you an idea. But you know we're hoping that the Offshore and Gas and Petrochem and even for that matter, the other units that was in Maritime and Logistics – you know they grow at a faster pace or at a fast pace where, you know, that 8 to 12 might drop a little bit. But all else equal – that's what we're looking at.

(Jonathan Milan): OK. Thank you very much.

(Sam Mishtaya): Yes.

Operator: Your next question comes from the line of (Ramsey Sidani). Please ask your question.

(Ramsey Sidani): Hello. Hi, guys. Congratulations on the – on the results. I just have a couple of questions on the offshore division. First, on the diving, can we expect all of the vessels to have a charter – a term charter? Or is there any vessel on spot?

Gautam Bellur: On the diving side, there are – we have three that are on – well, two that are on term charter at the moment including the Shaddad. There's one that is coming off of a charter but, you know, potential to be redeployed into – into another long term charter as well.

And then there is two others that are older vessels that we are – that are not currently deployed that we are looking at, potentially also long term charters. But they're not currently deployed.

So the view is from a – from a – from our perspective diving vessels would go on long term charters. At the moment, they're not all on charters.

(Ramsey Sidani): So the two are dry docked right now.

Gautam Bellur: No. No. They're not dry docked. They're just being (bid) out there. They're booked for a tender that we're working on.

(Ramsey Sidani): OK. But there aren't any revenues coming from those two.

Gautam Bellur: Correct.

(Ramsey Sidani): OK. And on the development and commercial side, are you seeing any – have you started seeing any softness in day rates or lower utilization rates?

Gautam Bellur: Actually, development and commercial had a pretty strong first quarter generally speaking. The challenge is going to – you know as I – as I mentioned before, we are – we are in – we are going to face these pressures.

(Ramsey Sidani): Sure.

Gautam Bellur: I think it's been public knowledge that, you know, Saudi Aramco has asked for – asked all their suppliers to take down their rates on the existing contracts, not just for new contracts. It's likely that others will follow suit.

The question of how much of a, you know, discount the suppliers would have to provide is, you know, to be seen. I think it's one thing to ask. It's another thing to be able to provide services at the rates that are being asked of the suppliers.

So we do expect some decline going forward in the rates particularly for those vessels that are coming off of charters or have not been chartered yet in 2015. But you know – but the good thing for us is the majority of our vessels are actually on term charters and not in the spot markets. So it protects us to some extent. But as I said, even in the ones with the term charters, if you're asked to reduce prices, it will have an impact on the – on the rates – not on the utilization, but on the rates.

For the rest, we're focused really – as I said in the outlook, our focus for this year is utilization.

(Ramsey Sidani): OK. And you mentioned that you have some of the new vessels that you've received in 2014 that haven't been deployed yet. How many are these right now?

(Sam Mishtaya): No, we didn't say that they weren't deployed. We said that this year, we got the full year impact of them …

(Ramsey Sidani): OK.

(Sam Mishtaya): … around the – yes.

(Ramsey Sidani): I see. Yes. All right.

(Sam Mishtaya): Yes.

(Ramsey Sidani): OK. And just finally on – we've talked once about new support vessels that are self elevated. I'm not sure if you're still looking at adding those vessels or …

Gautam Bellur: Yes. Those are the ones that I mentioned, (Ramsey), about the lift boats, what I call the lift boats. Those are the (inaudible) …

(Ramsey Sidani): OK. These are – yes …

Gautam Bellur: … vessels, yes, though there is two of them both expected in the fourth quarter of this year still under construction. You know right now, that's what it looks like fourth quarter. And we're working on contracts with them obviously.

(Ramsey Sidani): OK. If I just may ask – I'm not sure how much you can – you can disclose on your discussions with UACC. I mean if you can just tell us if – is this a merger? Is this an acquisition? If you can shed some light on the financial implications.

Gautam Bellur: No, we can't, (Ramsey). Whatever was in the release that we put out is literally all we can communicate at this point in time.

(Ramsey Sidani): OK.

Gautam Bellur: We will have more details as we know more. But for the moment, that is all we can communicate.

(Ramsey Sidani): Sure. Then just finally on the day rates of the Gas and Petrochem, are they – are they higher Q or Q? Or are we – are we seeing some softness there?

(Sam Mishtaya): No. They're all actually higher, (Ramsey). When you compare, you know, first quarter versus first quarter last year, the VLGC rates are higher. The Aframaxes, the Clean – the (Handy Clean) LR spot rate – they're all – they're all higher than last year.

Gautam Bellur: Yes.

(Sam Mishtaya): So even the ones that are coming off charter if – this year – if they – obviously, when we – when we put them back out on charter, they should come in at higher rates than what they're currently at.

Gautam Bellur: Yes. Just to give you …

(Ramsey Sidani): OK.

Gautam Bellur: … an idea, (Ramsey), a lot of these rates started to climb in the second quarter of last year and so, you know, on the third – second half of last year. So the year on year positive impact will come in the first half of this year relative to, you know, 2014.

The second half may be more – you know, depending on what happens – I mean these are always a little bit (inaudible). But our expectation in the – if you talk to the experts, the expectation is that the rates will remain reasonably strong throughout the year.

(Ramsey Sidani): OK. Interesting. All right. Thank you, Gautam. Thank you, (Sammy).

(Sam Mishtaya): Yes. Thank you.

Gautam Bellur: Thanks, (Ramsey).

Operator: You have no further questions at this time. Please continue.

Gautam Bellur: Oh, I think that's – that's all we have from our side. Thank you all for joining us.

(Sam Mishtaya): That's all, operator. Thank you.

Operator: That concludes our conference for today. Thank you for participating. You may all disconnect.

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