QNB FINANCIAL SERVICES (EVENTCONNECT PLUS)

Moderator: Shahan Keushgerian
November 11, 2015
13:00 GMT

Operator: This is Conference #: 62370702

Operator: Thank you for standing by, and welcome to the Milaha Q3 2015 Financial Results 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 and one on your telephone. I must advised you that this conference is being recorded today, Tuesday, the 3rd of November, 2015. And I would now like to hand the conference over to your first speaker, today, Shahan Keushgerian. Please go ahead.

Bobby Sarkar: Hi. This is actually Bobby Sarkar from QNBFS speaking on Shahan's behalf. I'd like to welcome everybody to Milaha's 3rd quarter 2015 earnings calls. First of all, I'd like to introduce Milaha's management for the call. We have with us Akram Iswaisi, Acting EVP Finance & Investments; and Sami Shtayyeh, VP Financial Planning & Analysis. We will start the call with management discussing their results, and then we will open up the call to Q&A. Guys, you can go ahead. Thank you.

Akram Iswaisi: Thank you very much, Bobby. Good afternoon, and thank you for joining us for our 9-month 2015 earnings call. We are very pleased to report another solid operational performance for the Milaha group. Overall, revenues are up, operating profit is up, and net profit is up by a strong double digit. We're very pleased with this performance.

All of our business units, except for Milaha Capital, have produced exceptional, positive results. Maritime and logistics performance, again, consistent with last quarter, continues to impress. Trade volumes heavily impacted results for this unit, and we consistently see strong growth in volume this year, in both our port and container shipping units, which have collectively contributed to improved results.

Milaha Offshore has also done exceptionally well, relative to last year, largely due to the deployment of the new DSV, which combined with an increased emphasis on improving utilization and operating efficiency. And, at the same time, (Halul) continues to pursue opportunities within (Qatar) and outside of (Qatar).

Due to favorable tanker market, as you are well aware, the product tanker unit of Milaha Gas & Petrochem has done exceptionally well. And, this was the same information that was shared with you last quarter. And the results were driven largely by oil prices, which again, have continued to increase the demand for oil and oil-related products.

The trading business unit continues to do exceptionally well on the back of strong infrastructure projects. In Qatar, we continue to sell more trucks and more heavy equipment. All in all, trading business has done exceptionally well again, and continues to do well.

As a company, we have remained focused on growth and producing solid operational performance. And, as a result, we continue to deliver strong financial performance and continue to create shareholder value. Thank you very much, and I would like to turn this over to Sami, who will go over the financials.

Sami Shtayyeh: Thanks, Akram. As usual, I'm going to go over the published consolidated financial results for the first nine months of 2015, and then I will get a little more into the segments with some more detail.

Operating revenues for the first nine months of 2015 were 2.31 billion compared to 1.97 billion riyals for the same period in 2014, for an increase of 17 percent year-over-year. Operating profit for the first nine months of 2015 was 699 million compared to 540 million for this same period in 2014, for an increase of 29% year-over-year. And, net profit for the first nine months of 2015 was 959 million compared to 821 million riyals for the same period in 2014, for an increase of 17 percent year-over-year.

Now, I'll get into the segment results highlighting the key variances versus the first nine months of 2014. Starting off with maritime and logistics, overall revenue was up 30 percent year-over-year with port services and container shipping, once again, driving most of that. We continue to see strong volumes in both those units. Doha Port volumes increased 13 percent year-over-year. And our container shipping volumes increased 19 percent year-over-year, which helped boost revenues.

In addition, similar to what we've seen all year, the change in the number of free storage days at Doha Port from 10 down to three also helped increase revenue. On the expense side, operating supplies increased by (50) million riyals, mostly related to the higher volumes. The other significant increase came from a 39 million riyal impairment we booked against our bulk carrier in June.

On to offshore, we continue to have a pretty decent story to tell compared to last year. Revenue was up 29 percent, with most of that coming out of our diving unit. We also saw higher revenues from our commercial unit due to the full year effect of vessel additions during 2014. On the cost side we had higher salaries and wages, operating supplies, and depreciation expenses, all mainly attributable to new vessels we took possession of last year.

Moving on to gas and petrochem. Overall revenue increased by 52 percent, half of that driven by increased freight rates related to our five wholly-owned product tankers, two gas carriers, as well the full year effect from vessels we took possession of in our – in 2014 in our port marina operations. The other half is due to the 100 percent stake we took in two LNG vessels in early July and the change in reporting related to that.

We had a 21 million riyal increase in overall expenses, and that is all related to the two LNG vessels we took full ownership of in July. On the nonoperating side, we saw a 23 percent decrease versus last year, in income, with $24 million of that coming from transaction-related charges related to the two LNG vessels.

Our trading segment posted a 12 percent revenue increase, and a 100 percent net profit increase year-over-year. It's really been the same story all along. With higher heavy equipment sales related to infrastructure projects, that more than offset a drop in our bunker unit.

On to our capital segment, starting with real estate. Our results continue to benefit from moving our headquarters to an owned property that we developed, as opposed to our previous headquarters that was on a lease that ended late last year. We realized a net pick-up of 19 million riyals related to this.

Next, on to Qatar quarries subsidiary posted 51 million in higher revenue, along with 33 million increase in cost of goods sold. And, lastly, our investments were close to 12 million higher dividends than the same period in 2014. But, 154 million in lower returns from our actively managed and trading – and traded investment portfolio.

That pretty much sums up our operations to bring us to an overall net income of 959 million. With that, I'll now turn it back over to Akram, who will go over our outlook.

Akram Iswaisi: Thank you very much, Sami. With respect to our outlook for the rest of the year, I'll take that segment by segment. On MML, we continue to expect trade volumes to remain strong through the end of this year. And, with that, we see a positive impact on our port and container shipment business. In addition, the revenue earned from the additional storage dates – we expect that to remain steady throughout the rest of the year. So, all in all, we continue to see MML perform strongly throughout the rest of the year.

With respect to Milaha Offshore business, as you are well aware the offshore market is going through a dramatic shift, largely due to the decrease in oil prices. With the increase in the supply of offshore vessels, and the cutback in CAPEX spendings by oil majors – the oil majors. A lot of offshore companies are struggling today. But, I'm pleased to say that we have been able to weather the storm so far, and we are staying close to our customers continuing to discuss with our customers our value proposition and we are continuing to expand outside of Qatar.

With that – in addition to that, most of our vessels are on long-term contracts, so we are very comfortable with the performance of (Halul) and that our performance for (Halul) will continue to be the same throughout the rest of the year. Again, we are staying focused, we're looking at the market, and we are trying to be lean, and look at how we run the business and become much more efficient. So, we're very, very optimistic about the performance of Milaha for the rest of the year.

Now, with respect to Milaha Gas & Petrochem, most of the revenue in that segment is on long-term contract. So a lot of it is fixed. Now that we own – we jointly own 50 percent of four VLGCs with Nakilat. These vessels are on long-term time charter, are jointly-owned LNG carriers, are on long-term fixed time charter. Our two fully-owned LNG vessels are also a long-term time charter. We have the 19 harbor marine vessels. They are on a long-term time charter.

On top of that, our fully-owned product tankers and one crude carrier – those five vessels are in a pool today, but the product tanker and the crude market is doing exceptionally well. And, so, we will expect to see strong performance as we've seen earlier this year, through Q4 2015. So, again, we expect a solid, strong performance from Milaha Gas & Petrochem throughout the rest of this year.

With respect to Milaha Trading, Milaha Trading has done exceptionally well on the back of strong construction and infrastructure activities in Qatar and, we expect the same momentum throughout this year. And, so, we feel very strongly that the performance will be as we've seen earlier this year.

With respect to Milaha Real Estate and Milaha Capital, we will continue to realize savings from moving from – moving to our new headquarters as opposed to 4Q 2014. And so, all in all, I think the Milaha – the expectation for Q4 2015 is very positive, and we're very pleased with the results so far. Thank you very much. This concludes our comments for the presentation. Operator, we would like to open the call to questions.

Operator: Thank you. As a reminder, if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you'd like to cancel your request, you can press the hash key. That's star and one if you would like to ask a question. Thank you.

And your first question today comes from the line (Omar Farooqui). Please ask you question.

(Omar Farooqui): Good afternoon.

Akram Iswaisi: Good afternoon.

(Omar Farooqui): Yes. Can you give me an update on the bidding for the new port and what will happen? I mean, will the old port be closed and the new one – and we rely on the new port? How would it go? And my second question is regarding there's news that oil companies are cutting down on spending, and they'll probably postpone oil maintenance and services. So, how will that impact on your offshore business?

Akram Iswaisi: Well, I think the answer to the first question is the same as we said last quarter. The decision on the Doha Port has not been made yet. We are awaiting the final decision. We are comfortable with our position being, you know, in the current Doha operator. But, again, as of right now the decision has not been made.

With respect to what’s going to happen to the old port. Naturally, there's going to be a transition period where the volumes and the business will shift from the old port to the new port. But, in terms of what's going to happen with that old port, we really don't know what the government plans to do with that port. They have various plans, but unfortunately we cannot speak on behalf of the government.

Now, with respect to the second question. You know, the news about oil companies cutting back, CAPEX has been around for the past couple of years. And, true – it does have an impact. It does create competition. And, for us, from our perspective, we are keeping an eye on the market. We are staying in touch with our customers. We are watching the market.

And, as I mentioned earlier, we are trying to manage our operating – our operating expenses, and trying to be leaner as we deliver the service. But, like I said, we are very comfortable with our position here in Qatar. We are very close with our customers and yes, we have been approached by some of our customers about reduced rates. But, again, we have managed to convince our customers about our value proposition, and I think we've been successful so far. So, yes, there will be competition. But we are prepared to manage that.

(Omar Farooqui): OK. Just to follow up on the port question. What are the capacity of the new port and which are the other competitors – and who are the other competitors who are bidding for the operating license?

Sami Shtayyeh: Yes, (Omar). This is Sami. So, the first phase of the new port is 2 million TEUs. That's the capacity of the new port first phase. The existing port can handle currently – probably around 650,000 TEUs. Just to put thing into perspective, last year we moved 462,000 TEUs. So, even the existing port, we're well below the capacity of what it can handle. There is – there is quite a gap between the capacity of the existing port and the capacity of the first phase of the new port.

(Omar Farooqui): And about the competitors? I mean, who are they? Can you name a few?

Sami Shtayyeh: So, we haven't formally advised of who the competition is. So, I'd – we'd rather not guesstimate on that and not provide any details on that, really, because we haven't been formally notified. You know, we're in the market, obviously. We have a feeling. But, again, none of that has formally been shared with us. So you can probably, you know, guess. It's probably the big port operators that – around the world.

(Omar Farooqui): And, any particular timeline as to when it will be announced? Or…

Sami Shtayyeh: No. I mean, we expect any day. We've been saying any day for a quite a while. I mean, typically the port operator has a lot of involvement in the final preparations of the port. And, if they're going to open up a port at the end of 2016, which they have publically announced they will, then really we're in a crunch – we're in a crunch time. Because, like I said, the operator typically has a say.

They have to be involved in everything from, you know, systems, mobilization of staff, mobilization of equipment. All of that. The infrastructure, you know – the positioning of some of the infrastructure work, the equipment, all of that. So, we've been saying any day now for a while, and I know it's kind of lost its effect, but that's the reality of the situation.

(Omar Farooqui): OK, thank you. Then, that's all.

Akram Iswaisi: Thank you.

Sami Shtayyeh: Thank you.

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question please press star one on your telephone and wait for your name to be announced. We appear to have no further questions at this time. Please continue.

Akram Iswaisi: OK. Well, thank you very much for your time today.

Sami Shtayyeh: Thank you for your interest in Milaha, and we look forward to you joining us on the next call. Thank you.

Operator: We have, actually, had one further question, and if you'd like to take that?

Akram Iswaisi: Sure, we can take it.

Operator: Certainly. And that comes from the line of (Shabbir Kagalwala). Please ask your question.

(Shabbir Kagalwala): Hi, gents. A quick question on the finance cost. That is, we have seen a significant increase in the finance costs in the third quarter, and also the debt levels have increased. Any particular reason for that?

Akram Iswaisi: You know, part of that increase relates to the acquisition of the 60 percent in the two LNG vessels. So, before we were accounting for this investment under the equity method. So now we have a 100 percent consolidation. So, part of that interest increase relates to those two LNG vessels.

(Shabbir Kagalwala): So this still is expected to stay at this level, right?

Akram Iswaisi: This is expected. Absolutely. Well, I mean, it's amortizing, so it's expected to decrease over time because it's an amortizing loan.

(Shabbir Kagalwala): Right. Right. Right. Thank you. Thank you.

Operator: Thank you. There are no further questions at this time.

Akram Iswaisi: Thank you so much. Appreciate it.

Sami Shtayyeh: Thank you.

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

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