QNB FINANCIAL SERVICES (EVENTCONNECT PLUS)

Moderator: Saugata Sarkar
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Operator: This is Conference #56057093.

Thank you for standing by and welcome to the Milaha Year-to-Date June 2016 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. During which, if you wish to ask a question, you will need to press star one on your telephone. Please be advised that this conference is being recorded, today August 4th, 2016.

I would now like to turn the call over to your speaker today, Bobby Sarkar. Thank you. Please go ahead.

Bobby Sarkar: Good morning, everyone. This is Bobby Sarkar, the Head of Research at QNB Financial Services. Welcome. We're going to the Milaha YTD Q2 2016 Financial Results Conference Call. With me today, we have Akram Iswaisi, who’s Executive VP of Finance and Investments at Milaha; and Sami Shtayyeh, who’s the VP of Financial Planning and Analysis at Milaha.

We'll start with a brief presentation and then we'll move over to Q&A. Akram, please go ahead.

Sami Shtayyeh: Thank you, Bobby, actually this is Sami, so I'm going to start things off. Thank you, callers …

Bobby Sarkar: Sure.

Sami Shtayyeh: … for joining in. I will start off with the consolidated financial results for the first half of 2016.

Operating revenues came in at 1.387 billion compared to 1.50 billion for the same period in 2015, for a decrease of 8 percent year-over-year. Operating profit for the first half of 2016 was 371 million compared to 442 million for the same period in 2015, or a decrease of 16 percent year-over-year. And net profit for the first half of 2016 was 553 million, compared to 651 million for the same period in 2015 for a decrease of 15 percent year-over-year.

To get into the segments detail, we'll start off with Maritime and Logistics. Overall, revenue was down 7 percent year-over-year with the majority of the decrease coming from our Port Services unit. There are several moving parts within Port Services, so I'll get into the main ones, really. Number one, we saw a steep decline in overall (roll row) general project and bulk cargo volumes. Number two, if you recall on prior calls, we made note that the tariff for storage was changed towards the beginning of 2015 by the government. That tariff essentially reduced the number of (free) days to pick up cargo from what was previously 10 days down to three days. When that decision was made, many consignees were not able to get their cargo out within three days, so they incurred storage charges, which Milaha obviously benefited from. Consignees are now better prepared, customs clearance is faster, and the overall storage times have come down significantly, which impacted our revenue. Number three, (TEU) volumes have grown 6 percent, which helped offset some of the declines I just mentioned.

In our Container Shipping unit, import volumes rose 29 percent. With newly acquired customers on the (Jabadadi) Doha route helping, as well as increasing business out of our India route. Despite strong volumes, rates continue to face pressure, which impacts margins.

On the expense side, overall costs came down. We had additional container shipping expenses related to the 29 percent volume increase, but those were more than offset by the fact that in 2015, we took a 38 million rial impairment on our bulk vessel, whereas this year we did not.

On to Offshore, revenues decreased 12 percent, with most of that coming from our Diving and Commercial units. The Diving unit came in lower, largely due to the delayed mobilization of one of our vessels, Halul 41. That vessel was due to commence a five-year contract mid February but was delayed until the last week of March. So, that impacted the numbers.

Our Commercial unit came in lower due to lower utilizations and rate pressure that the entire industry has really been facing. Expenses, overall, came in lower as fewer utilized vessels translated into fewer personnel-related expenses.

Moving on to Gas and Petro Chem, overall revenue increased by 56 percent, with the vast majority of that driven by the two LNG vessels we increased our stake in towards the second half of 2015. Partially offsetting that, we had a reduction of 11 million rials coming from our product tankers, which are exposed to spot rates that have come down considerably. Similarly, on the expense side, the two LNG vessels contributed the majority of the 59 percent – sorry 59 million rial increase.

Non operating income decreased by 32 million, with 26 million of that from the additional finance expenses related to the two LNG vessels.

On to our Trading segment, (they posted) a 24 percent revenue and 53 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 segments, starting with investments, we had a – we had 43 million rials in lower dividends and 28 million in lower (help) for trading returns. Our Qatar Quarries subsidiary posted 19 million in lower revenue, along with a decrease of 25 million in cost of goods sold. And lastly, our real estate unit posted slightly higher rental income from higher occupancy levels.

That essentially sums up our operations, bringing us once again to an overall net income of 553 million. And with that, I'll now turn it over to Akram, who will go over our outlook.

Akram Iswaisi: (Thanks a lot), Sami. With respect to our outlook for the rest of the year, Milaha Maritime and Logistics, we expect our (TEU) volume growth to continue to be positive. However, we anticipate that that growth will slow down slightly relative to the same period last year. And as was alluded to earlier, the storage revenue was largely impacted the first half of the year. We expect the same momentum and the same trend to continue throughout the year.

With respect to container shipping, we have seen, and we expect to continue to see, an increase in volume. However due to competitive pricing pressures, we will see that – for the rest of the year, we will see similar trends as we've seen in the first half of 2016 with margins being negatively impacted by the competitive pricing pressures.

With respect to Milaha Offshore, our view on the offshore market remains somewhat pessimistic and the market remains depressed. And we anticipate that (Halul) will perform similarly for the rest of the year. Our main emphasis, as it relates to Milaha Offshore is to remain focused on optimizing the fleet and managing costs as much as possible. But nonetheless, we anticipate the same performance for the rest of the year.

With Milaha (Gas and Pet Chem), this business unit is the – the volatility of that business unit is largely minimized by the fact that a large percentage of our revenue is fixed and tied to long-term contracts. However, we do have some volatilities, as it relates to the five product tankers that we own, which are partly in the spot market. And currently the product – the global shipping market is experiencing some volatility. And the product tanker market has been pointing – the trend has been pointing downwards.

So, we do expect some volatility as it relates to that segment. However most of the other revenue generated in that segment is largely fixed. For example, (VLGCs), the four (VLGCs) that are (co-owned) with (Nakina) are on shortto mid-term contracts. So as it relates to 2016, there is no volatility; LNG carriers (on) long-term contract, fully owned LNG carriers on long-term contracts, but we expect minimum volatility in this business unit, depending on how basically the product tanker and the crude market perform for the rest of the year.

With respect to Milaha Trading, this business unit was impacted largely by the slowdown in construction activities, and we expect that trend to continue throughout the year.

And with respect to Milaha Capital, we expect an uptick in real estate income, driven largely by a major focus on increasing utilization in our income-producing assets. This business area is also highly correlated to the (top exchanges') performance. We expect a slight uptick towards the end of the year. However, it's tough to predict how the market will perform. But we'll remain positive (inaudible).

Thank you very much. With that, I will hand it over to the operator for questions.

Operator: And at this time, if you would like to ask a question, please press star one.

We have no questions in queue at this time.

Bobby Sarkar: Hi, this is Bobby, can you hear me?

Male: Yes, Bobby, we can hear you.

Bobby Sarkar: Yes, so I have a question, could you just shed some more color as to what's happening with the port concession contract? And, you know, I guess where – you know, the story is that the decision is expected anytime, but there have been delays, so what's going on there? Could you just shed some color please? Thank you.

Akram Iswaisi: Well, Bobby, this is Akram. Obviously, we can't comment on why the decision is being delayed because we are not the decision-maker, obviously. But what we understand is there's still a lot of internal deliberation and discussion from the other side. So, we're hearing positive things in the market, but unfortunately, we can't really comment on the outcome because we really don’t know.

And we expect to hear a decision soon over the next few months, maybe sooner than that, but unfortunately, I can't comment or – because we really don’t have any insight into exactly when that decision will be made.

Bobby Sarkar: Okay, thank you. Operator, if there's no more calls, thank you, everyone, for joining. We look forward to your participation in next quarter’s call. Thank you.

Sami Shtayyeh: Thank you.

Akram Iswaisi: Thank you very much. Thank you.

Operator: This does conclude today’s conference call. You may now disconnect.

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