QNB FINANCIAL SERVICES

Moderator: Akram Iswaisi
October 25, 2016
1:00 p.m. GMT

Operator: This is Conference #: 99719551.

Operator: Thank you for standing by, and welcome to the Milaha Year-To-Date Quarter 3 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 at which time, if you wish to ask a question, please star and one on your telephone keypad. I must advise you that this conference is being recorded today, Tuesday, the 25th of October, 2016.

I would now like to hand the conference over to your first speaker today, Mr. Shahan Keushgerian. Thank you. Please, go ahead.

Shahan Keushgerian: Hello, good afternoon, everybody. This is Shahan from QNB Financial Services. Welcome to QNB Financial Services. And we are holding today Milaha YTD Q3 2016 financial results.

On the line, we have here Milaha speakers, Mr. Akram Iswaisi and Mr. Sami Shtayyeh. Please, go ahead.

Sami Shtayyeh: Thank you, callers. Welcome to Milaha's year-to-date Q3 2016 financial results call. As usual, I'm going to start off with the consolidated financial results for the first nine months of the year. After that, I will get into a little bit on the segment results and then I will turn it over to Akram Iswaisi who will go over the outlook for the rest of the year.

So, starting off with operating revenues, they came in at 1.99 billion reals compared to 2.3 billion for the same period in 2015 for a decrease of 13 percent year over year.

Operating profit for the first nine months of 2016 was 513 million compared to 686 million for the same period in 2015 for a decrease of 25 percent year over year. And net profit for the first nine months of 2016 was 759 million reals compared to 959 million reals for the same period in 2015 for a decrease of 21 percent year over year.

Now, on to the segments and some details. Starting off with Maritime & Logistics, overall revenue was down 13 percent year over year with the majority of the decrease coming from our port services unit. Similar to our last call at the mid-year, I will go over the various moving parts driving the decrease within port services.

Number one, Q3 continued to see a decline in overall RORO general project and bulk cargo volumes that we witnessed up until the first half of the year. Number two, storage fees continue their downward trend. And Number three, TE.U. volumes took an unexpected dip in Q3 bringing the year-to-date growth to 2 percent year over year. As a reference point, up though the half year, it was up 6 percent.

In container shipping, our import volumes are still up 16 percent, but similar to port services, Q3 numbers really took a turn for the worse and aid into the higher growth rates we saw through the mid-year.

In addition, despite the double-digit volume growth, rates continue to face downward pressure. On the expense side, overall cost came down with the majority of the drop attributable to the 38-million-real impairment we took in 2015 on our boat vessel which we did not take this year.

On to Offshore, revenues decreased 17 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 the Halul 41 vessel in the first quarter of this year. And our commercial unit came in lower due to lower utilizations and rate pressure that the entire industry is facing today. Expenses overall came in lower as fewer utilized vessels translated into fewer personnel-related expenses.

Moving on to Gas & Petrochem, overall revenue increased by 24 percent, but there are several moving parts I want to get into on that. First off, on the plus side, our added stake in the two LNG vessels from last year boosted revenues by 87 million reals. Additionally, we saw higher utilization in our harbor operations, particular with – particularly with the older vessels that we have. That increased revenue by 9 million reals.

On the flip side, our five tankers exposed to market prices came down by 30 million reals due to the continuing dropping rates being faced in the segment. On the expense side, the two LNG vessels contributed the majority of the 63-million-real increase.

Non-operating income decreased by 33 million reals. On the favorable side, 25 of that was related to the 60 percent acquisition of the two LNGs from last year that did not recur. On the unfavorable side, we had an additional 25 million in finance expenses related to those same two LNG vessels, and we also had 26 million reals in lower income from our joint partnerships.

On to our Trading segment, which posted a 26 percent revenue and 54 percent net profit decline year over year. As we have been witnessing throughout most of the year, substantial slowdowns in project activity hurt our equipment sales unit, and lower oil prices impacted our bunker sales unit. Related cost of sales for each those two – for each of those two units similarly came down.

And last but not least, our Capital segment. On the financial investment front, 43 million in lower dividends from the beginning of the year continue to drag on the unit's performance despite an increase of 18 million in higher outward trading returns.

Our Qatar quarry subsidiary posted 68 million in lower revenue along with a decrease of 53 million in associated cost of goods sold. And lastly, our Real Estate unit posted slightly higher rental income from higher occupancy levels.

And that essentially sums up our operations, bringing us, once again, to an overall net income of 759 million for the first nine months of 2016. And with that, I'll now turn it back over to Akram who will go over our outlook.

Akram Iswaisi: Thank you very much, Sami. Our outlook for the rest of the year, if we go segment by segment, with respect to Malahi Maritime & Logistics, we expect the TE.U. volume to be positive, but we don't expect the growth to be in the double-digit rates that we have historically seen. Expectation on that like bulk, RORO, storage revenue volumes will be down for the rest of the year.

It's difficult to predict the – what the – what the volumes will look like for the – for the rest of the year. But so far, we've seen (brick) bulk volumes decrease significantly versus last year. For overall – for Maritime & Logistics, I think it will be a difficult third quarter. And as we said before – I'm not sure this question will come up – the Hamad Port concession has not been declared or decided upon yet, so, this is something that we are still waiting for.

With respect to the container shipping segment, container shipping has been increasing its market share, but has been suffering from extreme competition. So, there has been pressure on pricing, and we expect to see the same momentum for the rest of the year.

With respect to Offshore, the Offshore market continues to face extremely challenging conditions. Picture has not changed much. E&P spending still continues to be a challenge.

Obviously, cuts in 2016 was highest, 20 to 30 percent on top of cuts that were made in 2015. So, for – with respect to Milaha Offshore, we expect fourth quarter to be extremely difficult. More than 20 percent of the global feed is still laid up, and there is significant pressure on pricing.

With respect to Gas & Petrochem, the majority of this segment is on long-term contracts, except for the fully-owned product tankers as well as a (JV) that we have in the product tanker segment which are basically exposed to spot market. And as you're well aware, the market for the product tanker segment dropped by roughly 50 percent relative to 2015, so, expect to be – expect the rest of the year to still be difficult for that segment. Otherwise, the majority of the segment is on multiple contracts and we expect stability to a large extent in that segment.

With respect to Milaha Trading, again, this segment is facing a significant slowdown largely because of the slowdown in projects. This business unit is highly coordinated with the structure projects and – structure projects. We expect the fourth quarter to be a difficult fourth quarter for this segment as well.

As related to Milaha Capital, we expect to see a slight uptick in Real Estate income stemming largely from the increase in occupancy rates. With respect to the stock – the performance of the investment fund, this was obviously highly correlated with stock exchange, and there's a lot of volatility in this market, so, it will be a challenging fourth quarter as well for this segment.

And with that, I will hand it back to the operator for Q&A.

Operator: Thank you very much. And ladies and gentlemen, we will now begin our question-and-answer session. If you wish to ask a question, please press star and 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key.

Once again, it's star and 1 for your questions. And your first question comes from the line of (Tibor Bokor). Please ask your question, your line is open.

(Tibor Bokor): Hi, two questions if I may. First question – I am not sure if you can comment, but it still would be interesting to hear your view why the port concession is being delayed. Is there a specific reason or is there anything that you can you know talk about a little bit more on the – and second question is more a top-down view.

Since the oil prices came down already one and a half years ago – a little bit over one year ago, we didn’t really see the deterioration of your business immediately.

It's only two last quarters that we are seeing it. So, if you could just give me a top-down view, like, is it because certain contracts ran out recently or – and also, going forward, how is your sort of length of contracts changing? And if we see sort of the bottoming out of your revenues, is there some sort of protection for next couple of years from here? Thank you.

Akram Iswaisi: OK. I will – I will take those questions. I think with respect to the first question pertaining to the port you know it's really tough for us to comment on why it's taking such a long time because, obviously, we're not the decision makers.

But you know the – let's say, the – what we hear is the decision should be coming soon, but it's difficult for us to tell you why it's taking such a long time.

(Tibor Bokor): OK.

Akram Iswaisi: This is – I know that's not the answer you're expecting, but that's basically what we could say at this point. With respect to the impact on our earnings you know if you look at – I mean, obviously, the drop in our earnings comes from multiple areas, OK? And so, one, if you look at – let's say, the tanker market, the tanker market you know took a hit versus last year.

Last year was a great year for the product tanker market. And this year, the rates dropped by close to 50 percent for a variety of different reasons. Excess supply vessels coming into the market, stalling refinery throughput, and also had a slight impact on this clean tanker market. So you know there are a variety of market reasons have had an impact on that segment.

Now, with respect to Halul, we've had multiple contracts that were renewed at lower rates. So, as vessel contracts are up for renewal, they are being renegotiated at a much lower rate, which has obviously had an impact on our bottom line.

(Tibor Bokor): If I may, how long are these Halul contracts going forward? New ones?

Akram Iswaisi: Well, I mean, we have 40 vessels, so, the contracts range anywhere from you know two months to five years, OK? So, it runs in the (gambit) for at least 40 vessels.

(Tibor Bokor): And do you disclose, like, upcoming contracts for renewal? Like, next quarter or next six months, is there more contracts to be renewed for Halul, specifically?

Akram Iswaisi: (Disclose) that, no.

(Tibor Bokor): OK, fair enough. Thank you.

Operator: All right. Thank you very much. And our next question comes from the line of (Jose Baul). Please ask your question.

(Jose Baul): Hello. Good afternoon. Thank you for hosting the call. I have a question about your Maritime & Logistics segment, like, just for comparisons basis, I guess. The nearest pier would be, let's say, Dubai DP World at Jebel Ali, and they've had a decline in volumes.

But then it's nowhere near the – when it comes to bottom line, they haven't that – nowhere near your kind of 40 percent decline in net profit. And there's – what do you say, you mentioned there's an increase in container volume. So, basically, your pricing has – if I'm not mistaken, your pricing has gone down significantly.

And you are the only port with – in operation in Qatar, so, how, in spite of having kind of, like, monopolistic operations, can you be so affected in this year? Thank you.

Akram Iswaisi: With respect to the drop in port revenue you know we've alluded to this in multiple calls in the past. During the past couple of years, Milaha was generating storage revenue from port activities, and this storage revenue, basically, had no cost associated with it, so, it's a rental revenue.

So, the past few years, (dual time) – the government changed the (dual time) from ten days – so, you had ten free days in the – in the – in the yard that was changed to three days. So, that seven-day deferential has basically contributed to an increase in revenue for Milaha.

What happened for the past couple of years have been companies thought of adjusting and figuring out ways to increase or expedite the throughput and/or various improvements in the process that have started reducing the (dual time).

So, the (dual time) for cargo containers in the – in the yards have shrunk significantly, which has had an impact on the bottom line. And the (dual time) has increased by – decreased by roughly 33 percent, and that's the main reason for that drop in essentially the M&L segment bottom line.

On top of that you know container shipping is facing extreme competition. And our market share has increased, but rate pressures have been tremendous. So, those two variables combined have contributed substantially to the drop in revenue in the M&L segment. Does that answer your question?

(Jose Baul): Yes. So, just to get an idea, like – so, in a good year, say last year, how much of your profit was driven by the storage revenue? Do you have any idea, like, ballpark percentage-wise?

Sami Shtayyeh: Yes. We haven't disclosed that in the past, but in addition to what Akram said you know I just want to add that you can't really compare us to DP World you know. Maritime & Logistics, yes we have the port.

You also have logistics, you have a shipyard, you have container shipping. You know in container shipping, it's public knowledge. One of the biggest container shipping companies in the world went belly-up. Hanjin filed bankruptcy about 68 weeks ago.

It's a very tough environment that we're working in. And comparing us simply to DP World, I don't think that's the right comparison to make. But after your specific question on what drove the decrease, it's absolutely like what Akram had mentioned.

(Jose Baul): Fair enough. So, it's a mixture of factors. What do you see – what is the outlook in this segment? Because the other segments are pretty straightforward. What is the outlook for the next four quarters, let's say?

Akram Iswaisi: Well, listen, I mean, we obviously are – experienced some very – experiencing some very difficult conditions in some of the segments in which we operate, but also making investments. We're blessed with a strong balance sheet and the ability to invest when many other companies in our segments cannot. I'll give you an example.

You know we're currently developing warehousing capacity, and the first phase of this warehousing capacity will come online sometime next year, so, we've got various investments in warehousing, we're making various investments in various assets.

So, I can't give you a specific outlook on this, but the reality is we are making investments in new growth opportunities domestically and internationally. At the same, we are looking at the way we run our business in terms of looking for efficiencies, optimizing the way we you know deliver services today.

So, from our perspective, we have a lot of interesting opportunities in the pipeline, some at early stages, some at progressive stages. But I can't really comment on those specific opportunities at this point.

Now, aside from these opportunities you know if you – you know from our perspective, we believe that you know late 2017 and going forward, we expect that we'll see a lot more economic activity in Qatar and we're hopeful and optimistic that we'll see a lot of pick-up in our various segments in which (we're already on).

(Jose Baul): OK. That answers my question. Thank you. Thank you so much.

Operator: Thank you very much. And your next question comes from the line of (Shabbir Kagalwala). Please ask your question.

(Amar Irazi): Hi, Akram and Sami. This is (Amar Irazi from RMA Investment). Thank you for hosting the call, and I have two questions. The first is related to Doha Port.

There's a news article recently published in the media that the Doha Port would be going for (tiers-manner) expansion which, apparently, to my understanding, correct me if I'm wrong, would require suspension of existing work starting from April next year. If that is happening, have you received any suspension notice from the Doha Port on the activity for the next year or not? This is first question.

And the second question is, I understand that you do the fair value – I mean, basically, valuation of your assets of product tankers which is – where the market's a bit soft these days. And you do the – you have taken payment in the past.

When – what is the frequency of this valuation? Is it semi-annual or annual or quarterly basis? If it is – I mean, having seen what is happening in the global market in the product tanker segment, do you expect that this would be further impairment on the segment?

Akram Iswaisi: Well, I can't specifically comment and tell you that there will be an impairment, but what I can tell you is we are always proactively looking at our assets and we do perform an annual valuation to assess whether we need to take an impairment or not.

So, at the moment, I can't really give you a specific answer as to whether there will be impairments or not, but this is something that we're proactively looking at every year.

And with respect to the Doha Port, to be honest with you, you know, I can't really comment on this. We have not received any correspondence or any communication on that matter. As I've alluded to earlier, we are still waiting for the decision until we …

(Amar Irazi): No. My question is for the Doha Port, not Hamad Port.

Akram Iswaisi: Well, that's – again, the two are tied together to a large extent. You know, we have not received a notice of suspension, so, occasionally, there will be articles in the newspaper and no one knows the source of that information, so, I really can't comment on that.

(Amar Irazi): It's like a – (another) question, if they go for this expansion or upgrade or whatever they're doing, the Doha Port, (this port), would this impact your business?

Akram Iswaisi: Would it impact my business?

(Amar Irazi): Yes.

Akram Iswaisi: If we expand the current Doha Port?

(Amar Irazi): Yes, if they try to do expand. As they said – they said that they will expand in two-phase manner starting from April next year. So, if that is happening Q1 and this – for – maybe Q2 or Q3 to do the second phases, so, would they require you to stop to work or what – how it will – or they can do without affecting your work?

Akram Iswaisi: I mean, to be honest with you, these are – there are a lot of things happening in the background, there are a lot of things that we can't comment on. So, as soon as we get more information, we can definitely begin to answer some of these questions.

(Amar Irazi): All right.

Akram Iswaisi: But as I've said, we're optimistic that we will be a partner in this. Milaha is – you know has been operating the Hamad Port for a long time. We have a proven track record, proven history, and a (competitive) company. So, we're quite optimistic, but in terms of being able to answer those specific questions at this moment, we can't.

(Amar Irazi): All right. Thank you.

Akram Iswaisi: Thank you.

Operator: Thank you very much. And there are no more questions at this time. Please continue.

Akram Iswaisi: OK. Well, thank you very much for your time today, and we look forward to the next call. Thank you very much.

Operator: Thank you very much everyone. And that does conclude our conference for today. Thank you all for participating. You may now disconnect your line.

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