Company: **QNB Financial Services**

Conference Title: **Milaha's YTD Q3-2017 Conference Call**

Moderator: **Shahan Keushgerian**

Date: **Tuesday, 31st October 2017**

Conference Time: **8:00 CT**

Operator: Good day and welcome to the Milaha's YTD Q3 2017 Conference Call. Today's call is being recorded. At this time, I would like to turn the conference over to Shahan. Please go ahead, sir.

Shahan Keushgerian: Alright. Thank you. Thank you, everyone, for your patience and sorry for the delay. Hi, this is Shahan Keushgerian from QNB Financial Services. I want to welcome everyone to Milaha's nine-months 2017 Results Conference Call. One this call we have Akram Iswaisi, EVP Finance Investments, and Sami Shtayyeh, VP Financial Planning and Analysis. So, we will conduct this conference with first management reviewing the company's results, followed by Q&A. I will turn the call over now to Akram. Thank you very much

Sami Shtayyeh: Thank you, Shahan. Actually, this is Sami Shtayyeh. Thank you all for joining our year to date September earnings call. Starting off with the consolidated financial results for the first nine months of the year, operating revenues came in at 1.66 billion riyals compared to 1.99 billion riyals for the same period in 2016, for a decrease of 17% year over year. Operating profit came in at 200 million riyals compared to 513 million riyals for the same period in 2016, for a decrease of 61% year over year. And net profit for the first nine months of 2017 was 363 million compared to 759 million riyals for the same period in 2016, for a decrease of 52% year over year. All business segments were down versus 2016, with essentially the same three issues plaguing us in the third quarter that have been plaguing us all year long.

Number one, overall shipping industry is going through very difficult times. Number two, oil and gas industry clients are cutting back on spending. And number three, the Qatari equities market has had a very rough ride year to date. Having said that, however, we are seeing some glimmers of hope, particularly within our maritime and logistics segments. Where we picked up steam with nice volume increases in both our container shipping unit and into the Hamad port.

Container shipping volumes were up 1% versus the same period last year, with even better rate and margin improvements. Hamad port volumes were up 10% versus the same period last year. To put things into perspective, as of the end of June 2017, volumes at the port were down 10%. So, that's quite a dramatic flip and an increase.

On to offshore, impairments and lower rates continue to be the headlines here. Compared to last year, we have an additional 57 million of impairments that have hurt results. Rates are also lower than in the last period in 2016. Overall, average utilisation percentages, however, remain very close to what they were last year, coming in at the mid-sixties. Our Gas and Petrochem unit is the one dragging down, but that has overall numbers the most. Operationally, not much has changed throughout the year. The segment continues to be negatively impacted by the global downturn in shipping. Virtually all the sectors we operate in are showing degradation versus last year.

On to our trading segment, which closes at five million riyal dip in profits versus last year, Lower[?] equipment and lubricant sales continue to bring down results versus 2016.

Last but not least, our capital segment. At the net profit level, our real estate unit came in flat with 2016. And our Qatar quarry associate posted an eight million increase versus last year.

Investments is what hurt us. We took an impairment in the first quarter of 21 million in our available-for-sale portfolio, and had 99 million in lower returns from our actively-held-for-trading portfolio.

Now I'll switch over to our outlook. In maritime and logistics, we expect to see continued volume growth both on our own vessels and at the port. That should continue to drive higher financial results. In offshore, it's quite evident that we cannot recover the downfall from the first nine months of the year in the final quarter. However, commercially speaking, we are seeing more requests for quotations, and that's usually a good sign of things to come. So, we remain cautiously optimistic. Gas and Petrochem remain at the mercy of global shipping rates. Many analysts believe things have bottomed out, but it's difficult to say for sure. In our trading unit, we expect to have a subdued rest of year. And lastly, capital, investments are largely tied to the Qatar exchange, so I'll refrain on predicting what the market will or won't do. Our real estate unit should begin to show slight upticks in revenue with the opening of our [inaudible] warehousing project, but figures won't be fully evident until 2018. And with that, I'll now turn it over for questions.

Operator: Thank you. If you would like to ask a question at this time, please press star one on your telephone keypad. Please ensure that the mute function is turned off on your phone to allow your signal to reach our equipment. Again, that's star one to ask a question. We will now pause for a moment to allow everyone a chance to signal.

There are currently no questions on the telephone at this time.

Shahan Keushgerian: I have a question, Sami. Thanks for the conference call by the way. Regarding the Milaha Capital, operating expenses jumped year on year. Does this have to do with the real estate aspect, or?

Sami Shtayyeh: No, Shahan. Actually, the operating supplies and expenses go hand in hand with the revenue growth in our Qatar quarry subsidiary. So, our Qatar quarry growth was quite remarkable. You can see in the presentation that our revenue went from— the revenue increased by 83 million. So, that comes along with associated cost of goods sold, which hit the operating supplies and expenses line.

Shahan Keushgerian: Okay. Okay. That's good to know.

Operator: We will now take our next question from Sewad Rizi of Alrayan Investment. Please go ahead, your line is now open.

Sewad Rizi: Hi, Sami. Thank you for the call. A few questions, one is we have been seeing a prevision every quarter, roughly. Can you please explain this, the prevision is almost 12 million this quarter? Is this to which segment? And, what is the likelihood of having any next quarter? For impairments.

Sami Shtayyeh: Yes, impairments. So, yes, we have booked approximately 57 million of additional impairments this year when you compare it to last year. The vast majority of that has been in the offshore segment. We can really divide them into three parts. Two of which we are already [inaudible] half of the year, and 12 million which was expensed in the third quarter. The first one has to do with some vessels that we [inaudible] a shipyard. This was going through arbitration over the years. The arbitration results were finalised. We ended up booking a final impairment, and that chapter is now closed. That amount was 22 million riyals. In the first half of the year, we also booked 23 million riyals, this was related to our Singapore unit. We had a lift boat that we had acquired in 2016, took possession of it, and acquired last year. And, simply put, the value of that is not worth what we had on the books. So, we had to take an impairment on that. Last but not least, was the 12 million impairment that we booked in Q3. That had to do with the diving saturation system. So, this is a sophisticated piece of equipment used on our diving vessels. Again, it simply was not worth, according to external appraisals, simply was not worth what we had on the books. So, we had to take an impairment on that. We don't forecast impairments. We don't estimate them going forward. What we do is simply – and this is an IFRS requirement, it's not a Milaha requirement, but simply put, we have to work through impairment testing on a regular basis, which we do on a quarterly basis. And based on the impairment testing, we either take an impairment or not.

Sewad Rizi: I had a question on the market, because you have significant exposure[?] to the market. The market has fallen like 20% in the last six months. As much as it means at the levels that it is assuming, by the end of the year, would there be a significant impairment into the numbers?

Sami Shtayyeh : You're talking about the investment portfolio? Is that correct?

Sewad Rizi: Yes, it is. You have the investment portfolio because we both had the maturity and you know the investment[?] portfolio? So on both portfolios, do you see a significant impact by the end of the year, because after the quarter ended, the end of market fell by 5%, so as we are due the market is still were it is. How much impairment do you expect to add on the maturity portfolio, if any?

Sami Shtayyeh: We don't anticipate anything on either portfolio.

Sewad Rizi: You don't see an impact on the market?

Sami Shtayyeh: We don't consider these as permanent devaluations, I guess you can say. And hence, we don't anticipate any further impairments on either portfolios.

Shahan Keushgerian: We don't provide further looking views on impairments because the market is developing this year and it can move on either direction. So it's not for us to predict exactly what the portfolio is going to look like from the impairment prospective. So, it's something that we can generally —we can give a view on the operational aspect of our business but in terms of impairment, we can't predict that.

Sewad Rizi: Okay. I have one question on the port. The port seems to be performing well. Can you explain, is there any benefit that you are receiving from the government[?] or is there anything which is, especially after what happened in the last 2 months. Is it something that is operational efficiencies because of the bad report or whatever[?] or what is diving into our numbers report?

Sami Shtayyeh: Yeah, I mean it's no secret that a lot of the volumes that were coming to Quatar via the land - in other words, the Saudi border - those of [inaudible] in large part to sea freight and, hence, the volumes that the port have definitely done remarkably well. As I mentioned in the call, they were down 10% through June; volumes year on year were down 10% at the end of June this year. And, at the end of September, they're now up 10%. So, you can see a 20-point flip in volumes and that's in our year-to-date numbers, so volumes definitely increased. The situation has, you know, has driven that increase. Efficiency is definitely a part of it, as well. The port is a state-of-the-art facility; you can definitely expect shorter times in it [inaudible], the automation, all of that.

Shahan Keushgerian: So fundamentally, the growth in the port business is driven primarily by the shifting of the land cargo to the sea and as well as just organic increase in volumes, as well.

Sewad Rizi: Good, thank you.

Operator: Thank you. Just as a reminder, it's star one on your telephone keypad to ask a question. We will now take our next question from Feras Al-Sharraj from QNB Financial Services. Your line is now open, please go ahead.

Feras Al-Sharraj: Yeah, hi guys. Sami, on the old port you had a 60-40 split with the government, a revenue split with the government. Can you just tell us what the new port contractual agreement is that you have right now and any progress in that as time goes on?

Sami Shtayyeh: I guess, Feras, all I can say on, you know, the current arrangement is what is already been public, I can't say anything above and beyond that. While we put in the financial statements, there's a concession fee and it's a 51-49 split. Aside from that, I can't get into the operational details or any other financial details related to the joint arrangements between us and Milani[?]. Does that answer your question?

Feras Al-Sharraj: Unfortunately, yes, but thank you very much. Yeah.

Sami Shtayyeh: Okay.

Operator: There are currently no further questions on the telephone at this time.

Sami Shtayyeh: Okay, let's... I guess, thank you everyone for doing the call. We look forward to your attendance in the year-end call which will take place sometime in the - towards the March timeframe of 2018. Thank you once again. Bye-bye.

Operator: Thank you, ladies and gentlemen, for your participation. You may now disconnect.