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Operator: Hello and welcome to the Milaha Conference Call. I would like to advise all participants that this call is being recorded. Thank you. I'd now like to welcome Bobby Sarkar to begin the conference. Bobby, over to you.

Bobby Sarkar: Thank you, Gavin. Hi. Hello, everyone. This is Bobby Sarkar, head of research at QNB Financial Services. I want to welcome everyone to Milaha's First Quarter 2023 Results Conference Call. So, on this call we have Akram Iswaisi, who is the EVP of Finance Investment, and Sami Shtayyeh, who's the VP of Financial Planning and Analysis. So, we will conduct this conference with the management first, reviewing the company's results followed by a Q&A.

I would like to turn the call over now to Akram. Akram, please go ahead.

Akram Iswaisi: Okay. Thank you very much. Thank you everyone for joining Milaha's Q1 2023 Earnings Call and your interest in our company. Let me start by just saying that we had a very good Q1, especially when considering the steep decline in container shipping rates and the very difficult macro environment. However, we were able to remain focused on growing the business and focused on growing a profitable business and at the same time eliminate unneeded costs to improve our bottom line. We'll follow along the same lines as previous calls. I will be starting with our consolidated financial results and then we'll go through our various segments before turning it over to Sami to go over our outlook for the remainder of the year. And as usual, we will end the call with a Q&A.

The key highlights of our financial results. Milaha's operating revenues came in at QR 766 million for the first quarter of 2023 compared with QR 913 million for the same period in 2022, for a decrease of 16%. Operating profit came in at QR 210 million for the first quarter of 2023 compared with QR 194 million for the same period in 2022, for an increase of 8%. Net profit for the first quarter of 2023 was QR 363 million compared with QR 360 million for the same period in 2022, for an increase of 1%. And lastly, our earnings per share remained flat at QR 0.32 for the first quarter of 2023 and for the same period in 2022.

Now moving on to our segments. Maritime & Logistics, the big storyline in Maritime & Logistics has to do with the decline in container shipping rates, which we benefited from for the past two years when they hit record highs. We essentially began to see rates plummet towards the end of last year and that had a large negative impact on our Container Shipping segment. And of course, overall revenue dropped by 33% or QR 120 million as a result. Expenses came down by QR 57 million with most of that tied to the drop in container shipping. Overall, we ended the year with a net profit down QR 64 million or 73% versus last year.

With respect to Offshore. Offshore continued its growth trajectory with operating revenue growing by 6% or QR 19 million versus the same period in 2022. This was driven by increased utilization of key assets and additional diving-related projects which more than offset a drop in third-party chartered-in vessels' income. Lower chartered-in costs related to the drop in revenue and the one-off provision reversal drove a QR 29 million decrease in expenses versus the same period in 2022. The net income result was year-over-year growth of QR 53 million or 627%.

As for Gas & Petrochem, we recorded an 8% increase in revenue with our FSO that was employed in mid-2022, offsetting loss revenue from our divestment last year from the last gas carrier. That divestment similarly contributed to lowering our expenses, which came down by QR 5 million. At the non-operating level, income decreased by QR 18 million mainly as a result of lower income from our associates, and the net profit of the segment ended down QR 8 million or 5% versus the same period last year.

In our Trading segment, we were able to reduce bottom line losses by QR 5 million versus the same period in 2022 by selling more marine-related and heavy equipment and improving margins. And lastly, capital on the investment side, revenue decreased by QR 3 million with lower dividend income offsetting higher fixed offsetting...being offset by higher fixed deposits and other income. And in real estate, revenue remained flat with the same period last year and on the expense side, we had a QR 16 million in lower bad debt provisions last year. All of which resulted in overall net profit growth of QR 18 million or 17% versus the same period last year.

And that wraps up the segments and I will now turn it over to Sami to discuss our outlook for the rest of the year.

Sami Shtayyeh: Thank you, Akram. Starting with Maritime & Logistics. On the container shipping side, Q1 reflected the large container shipping rate drop and we expect that to hold for the rest of the year. In logistics, we expect to slow down in the second quarter of the year but expect an uptick during the second half of 2023. In offshore, on both the support vessels and services side as well as the harbor side, we expect to see continued growth particularly longer term with all the expansion in Qatar's oil and gas industry.

In Gas & Petrochem, overall, we expect limited volatility due to the long-term nature of contracts we have in most business units. Our VLGC joint venture is the exception where performance is difficult to predict due to volatile spot prices. In trading, we're going to continue to work on profitable growth and margin improvement. And lastly, capital, our focus will continue to be on yield enhancement.

And with that operator, we'll now open up for questions.

Operator: If you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. That is star one if you wish to ask the question. And your first question comes from the line of Lee Beswick of QNB. Your line is open.

Lee Beswick: Hi, yes, thanks for the presentation. Just a question on the balance sheet and dividend as well. The balance sheet is now extremely strong and it's probably...I think now it's probably fair to label it inefficient. You're carrying net cash of QR 700 million. There's absolutely no need for you to do that at all. So, the question sort of turns to the dividend and the payout ratio. The payout ratio is simply too low. You know you should double it minimum. You used to carry a payout ratio of 50 to 60%. I don't know why that changed. It's now down at 40%. So, the question is why...what are you doing with the money? Because otherwise, you're just collecting cash on a balance sheet for no reason, you've got too much capital. I don't...unless there's some massive growth out there which you're going to tell me about. Your payout ratio is frighteningly low and very, very inefficient.

Akram Iswaisi: Okay. Thank you very much for that question. Now, some of that cash that you are seeing is cash that is parked for redeployment because as I've mentioned in previous calls, we are basically, we've liquidated certain positions and put some of that cash in deposits and we're transitioning. So, we have a new strategy for the investment portfolio, and so that cash is essentially the majority of it has to do with the investment portfolio. So, that's one thing.

The second thing is you've noticed that as an organization, we have been working on building up some of the core activities like offshore and you've seen a significant improvement in the offshore operating activities. There's a significant number of contracts that we have in the pipeline right now that we are looking at, and these require significant CapEx commitment. And so, there is a significant growth plan on the offshore side. And I have also mentioned...and these are again, these are capital-intensive investments. We are looking at acquiring more assets to be able to satisfy the local demand, which is substantial. At the same, mentioned on previous calls, that we are looking to invest again in new segments like FSOs, FPSOs, and shuttle tankers. And again, these are large CapEx investments. Now, that cash, as I mentioned, is earmarked for the investment portfolio as well as to support some of these new investment programs in our core business.

Lee Beswick: Okay. So can you talk about if this...some of this cash is earmarked for future CapEx, what the return on capital and return on the equity you're going to generate out of these businesses because I would suggest once again you still...I don't know how well, how much are you going to spend on CapEx, I suppose as a question. But this company has consistently generated a single-digit return. You have never pushed it into the double digits ever. So, what kind of returns are you going to generate off this CapEx investment?

Akram Iswaisi: Honestly, we don't provide guidance on that kind of return, but we are looking at a double-digit return. If you look at the offshore business in general, it has changed significantly. And it's Halul or offshore for the first time in a long time, it's actually quite profitable and much more efficient. And the oil and gas market is hot and robust right now. So again, the returns that we're targeting in that segment are double-digit returns.

Lee Beswick: Just in that segment, the other segments, it's less than double digits as it always is. There's always a segment doing well. There's always a segment doing badly. So, how do you generate those? That's the whole...

Akram Iswaisi: But that is the nature of the business. Invest in...when you invest in tanker business and container shipping that is the nature of the business. And this is across...if you look at the major liners, they've struggled to make money for a long, long time. The past two or three years is when those mainliners and container shipping companies started making money. So, if you look at container shipping and the tanker business in general, it is a cyclical business. If you look at the logistics business, it is a thin-margin business. And so, cyclicality is basically part of shipping and logistics. But in the portfolio...

Lee Beswick: Yes, I completely agree.

Akram Iswaisi: Okay. And the portfolio that we've got is a sustainable portfolio and this is why we have been able to consistently pay dividends. And so, you look at the container shipping the past two years we've done exceptionally well because the market has done exceptionally well. Containership in the first quarter hasn't done well, but however, we are looking to grow that business. This is the right time to start acquiring more tonnage. We do have plans to expand our network, but again, if you look at our business, it is a portfolio of different businesses that complement each other. And so again, container shipping, tankers, and shipping in general, these are cyclical segments.

Lee Beswick: Yes, I completely accept that, that is 100% true. It's still the fact that if I look at the last 10 years of navigation and you have your peak ROE return on equity is 8%, it suggests that you have an issue with the way that the capital is deployed and maybe that is too much. In my opinion, and I may be wrong, but you may have a different opinion, but it certainly seems that there's too much capital in the business and therefore actually running down the capital and running the business with a lower level of capital relative to what you're generating, and part of the way to do that is through increase. Dividends is actually what the business needs to generate a decent return because a peak ROE of 8% is pretty low.

Akram Iswaisi: If you see our story this quarter, it's quite promising. You see some of those segments which have struggled for a while are actually beginning to deliver better results and better performance. And so. we are optimistic about the future. There's a strong plan to...have to grow the business and again, you have to rejuvenate the fleet, you have to continue...as an asset-heavy company, we have to continue to invest in assets and this is where our revenue is going to come from. So, fundamentally, we are aligned on the fact that the business needs to grow and you're beginning to see some of that in Q1 where we're beginning to turn some of these businesses around. And we have for example, trading is beginning to become profitable, offshore again, multiple earnings calls. I've heard comments about offshore and we said, listen give us some time, we'll show you what we can deliver, and we've been able to do that. So, I know for a fact that there's a large CapEx program coming up and we are confident that we will continue to deliver shareholder value. Milaha is a stable company and we've been able to weather the storm through various cycles.

Lee Beswick: Okay, I await the 10% or more ROE return on equity for four straight quarters in a row.

Akram Iswaisi: We'll put it as a target.

Operator: Your next question comes from Mustafa Aamer from Al Rayan Investment. Your line is open.

Mustafa Aamer: Hello, gentlemen, thank you for the presentation. Just wondering on the share of associates and JV Nakilat's contribution should have really gone up. So, where is that reduction coming from year-on-year and quarter-on-quarter?

Akram Iswaisi: It's just an accounting adjustment.

Mustafa Aamer: Sorry?

Akram Iswaisi: An accounting adjustment.

Mustafa Aamer: For Nakilat?

Akram Iswaisi: Yes. That’s right.

Mustafa Aamer: All right. Okay. Could you elaborate on that? I'm not sure because...

Akram Iswaisi: Let me, you know year-end there are...we closed the books sometimes based on estimates due to timing and some adjustments are immaterial. So, if it's immaterial, we close the books to be able to meet the deadlines, so it's simply an accounting adjustment.

Mustafa Aamer: Right. All right.

Akram Iswaisi: Thank you.

Operator: Your next question comes from the line of Nikhil Phutane of CBFS. Your line is open.

Nikhil Phutane: Hi, good afternoon gentlemen, Akram, Sami. Thanks for the presentation. Well, you did mention in your previous answers that you're looking in terms of better performance, and especially the first quarter was quite in good measure or wonderful performance, but I would slightly like to defer on this. Actually, on your revenues, overall have come down and largely on your...you name it, your bunker sales have come down, your Qatar quarries revenues have come down, and as you mentioned rightly your container shipping has come down. And what is more important somehow, you've managed to do your operating profit better margin because of other operating expenses and operating...I mean so many other operating expenses which have come down quite significantly as compared to the overall revenues. So, wanted to understand what makes you think that the second quarter, the third quarter is going to be looking much better? Thank you.

Akram Iswaisi: Thank you for the question. And I agree with you. Revenue has come down, but our big focus right now is on profitable growth. We've had contracts in the past that had slim margins and so what we've done is really focused on number one, for example, in some of the business segments, increasing uptime. And increasing uptime again results in additional bottom-line contributions, pure profit, reducing penalties in our operations wherever possible. Again, we need to grow, but we need profitable growth. So, growth for the hell of growth doesn't make sense if you're not able to generate margin and this is very much what we're focused on. We can add another QR 500 million top line at 2% net profit, but that doesn't move much on the bottom line.

So, a big focus of this company now is improving margins, which are key to our bottom-line contribution and effectively, liquidity as well. This what you're seeing right now is our efforts to continue to squeeze more out of our existing contracts and to be able to grow the business profitably.

Now after that, there's a significant amount of activity and you guys are in the market, and you know that, and that in the oil and gas sector. So, we have a pipeline of projects and opportunities in Qatar that we're looking at and we're all quite optimistic that we can continue to deliver for the rest of the year.

Nikhil Phutane: Well, I think partly to a certain extent one can understand in terms of you're looking at oil and gas, which is very robust right now. But my understanding is, let us assume your offshore for example, your operating expenses overall has come and reduced quite considerably as again the run rate in the past. Similarly, that goes to a certain extent in your gas and petrochem business also. So, I just wanted to know whether…will that be maintained in the sense that most likely your revenues could be flat for the second quarter but margins also whatever we are seeing in the first quarter will be maintained overall?

Akram Iswaisi: Okay. Listen. We, again...what you're asking is, are we going to be able to maintain those margins? I'm comfortable to say that we will. You know, we have a pipeline...have visibility on the pipeline of work that's coming up. And so, this business right now is much more sustainable than, say, container shipping, which the past couple of years was an anomaly if you will, not only for us but the global container shipping companies as well. If you look at the offshore business and what we have right now and some of the other segments, we have a much more sustainable revenue base that we can build upon for the rest of the year.

Nikhil Phutane: Okay, thanks. Thanks a lot. Appreciate it.

Operator: Reminder, if you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. And your next question comes from the line of Mustafa Aamer from Al Rayan Investment. Your line is open.

Akber Khan: Hi Akram, this is Akber. I just wanted to follow up on offshore. Obviously, it's been a great start to the year, and you said you're optimistic in terms of the pipeline. How…I mean, where do you see this business in a sort of 12-24 months from now and relative to the current level of revenues or profits? Thanks.

Akram Iswaisi: You know from a macro perspective; we are optimistic in offshore business for the next two to three years at a minimum. The dynamics of the offshore market as such that there is a demand that has not been met with the supply of vessels and so if you look at the market, vessel prices have actually in fact gone up because demand far exceeds supply. So, from our perspective, there are plenty of opportunities in the market for the next two to three years and we're bullish on that. Demand far exceeds supply vessels, and therefore, rates have gone up.

And again, within that business and we've mentioned that before that we have been diversifying in the offshore business by beginning to offer services to complement our asset base. And if you look at some of the margin contributions that you're seeing today, that also has to do with some of the projects that we are beginning to do and that we will continue to do for the next couple of years. So, projects have been an add-on that we've added to our service offerings, and they've been helping to enhance our margin on our bottom line.

Akber Khan: Right. And so do you have any... Thank you. Do you have any vessels at present which are not being used which you expect to be deployed during the year? Or any assets in this business?

Akram Iswaisi: Well, honestly, we have a fleet of 44 assets, and we have some chartered-in vessels as well. We have some that are being optimized, so again technical requirements change and so we have to do enhancements to the vessels. As I mentioned earlier in the call, we are looking to expand our fleet and as well as rejuvenate our fleet. So, we are in the market looking at new tonnage, new assets to continue to satisfy the contracts we have in the pipeline.

Akber Khan: Sure. Thank you for that. So essentially, where you are right now in terms of the first quarter? And correct me if I'm wrong, that's a good quarterly run rate for the rest of the year because these are the assets that you have and you don't really have too much more additional that you can deploy not until you purchase something else. Is that correct?

Akram Iswaisi: We are chartering vessels as well. So, last year we had close to 18 to 20 chartered-in vessels that we used to do projects. So, for some projects that are short-term, for example, like I mentioned, services we've made chartered-in vessels for two to three months for six months to do the work. If the work becomes long-term, then we buy the vessels. So, it's a mix. And again, not having vessels for new contracts will not prohibit us from doing some of the work. Again, we have done that in the past. We've chartered-in vessels to be able to do the work and then we use that as a bridge to be able to then buy vessels and deploy them on a long-term basis. And we do, as you know, as mentioned earlier, we do have some vessels today that we're optimizing to be able to deploy on new contracts. So, there's a backlog of assets that are available for us to deploy in contracts. And hopefully, that answers your questions.

Akber Khan: And lastly, on pricing in this space. If you have an asset which is being...which the customer is paying X amount for today, does that mean that in general that that rate would be fixed for the duration of the contract whether it's three months or two years? Or is other prices reviewed more frequently?

Akram Iswaisi: No, they're not. I mean, if it's a two-year contract, then the rate is fixed for two years, if it's five years then it's fixed for five years. It's not variable, it's fixed.

Akber Khan: Okay, so this business isn't going to see pricing increases...additional pricing increases this year. It's just going to be whether you're able to lease additional assets...

Akram Iswaisi: Not necessarily that...

Akber Khan: To cater the demand.

Akram Iswaisi: That depends on the contract maturity. So, if you have contracts maturing this year and when you renegotiate, you have the option to renegotiate with your customers. But you know, renegotiating rates take into consideration, obviously, market conditions, but also the duration of the contract.

Akber Khan: Great! Thanks, Akram. Appreciate, we appreciate it. Thanks for the color.

Akram Iswaisi: Thank you.

Operator: Your next question comes from the line of Nikhil Phutane from CBFS. Your line is open.

Nikhil Phutane: Yes, this is actually a question add-on to the previous questions. Just wanted to understand in terms of when you mentioned price increase, can we have an idea in terms of the current contract size of your total contracts, what could be renegotiated say in your...

Akram Iswaisi: Unfortunately, we can't provide that guidance.

Nikhil Phutane: Okay. Can you provide in terms of what could be the likely CapEx, what was say in 2022? What we could be likely seeing in 2023 including acquisitions, if any?

Akram Iswaisi: It depends on what we get awarded, but it could be again, if you look at our vessels, it could be anywhere from $100 to $200 million. But again, it depends on what we get awarded. So, we are...we have a long pipeline of vessels, there are certain vessels that cost $40 million up. If we're able to win some of these tenders, then we would might be commit to a higher CapEx amount. So again, I can't give you a specific number, but it could be anywhere from $100 to $200 million this year.

Nikhil Phutane: Okay. And lastly on your investments, I mean, I believe that the first quarter normally has an aberration because of dividends. Am I right in that?

Akram Iswaisi: Yes, that's correct.

Nikhil Phutane: Okay. Thank you.

Operator: If you do wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. And there are no further questions at this time. So, I'd like to hand it back to Bobby.

Bobby Sarkar: Okay. Thank you, Gavin. If there are no further questions, we can end the call for today. I want to thank Akram and Sami for taking the time to answer our questions and we will pick this up next quarter. Thanks all.

Akram Iswaisi: Thank you.

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