Event ID: 6581731
Event Title: Qatar Navigation (Milaha) Fourth Quarter and Year-End 2023 Results Conference Call
Date: February 7, 2024
Audio Duration: 00:28:52

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Operator: Hello and welcome to the Qatar Navigation (Milaha) Conference Call. I would like to advise all participants that this call is being recorded. Thank you.

I'd now like to welcome Mr. Bobby Sarkar to begin the conference. Bobby, over to you.

Bobby Sarkar: Okay. Thank you, Bavesh. Hi. Hello, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Milaha's Fourth Quarter and Year-End 2023 Results Conference Call.

So, on this call from Milaha's management, we have Akram Iswaisi, who is the EVP of finance & investments, and Sami Shtayyeh, who's the VP of financial planning & analysis. So, as usual, we'll conduct a call with management first reviewing the company's results followed by a brief Q&A.

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

Akram Iswaisi: Okay. Thank you very much. Appreciate it. Thank you, everyone, for joining Milaha's 2023 year-end earnings call and for your interest in the company.

2023 was a great year for Milaha, especially when you consider the headwinds we faced early on. The largest and is expected and discussed on previous earning calls was the container shipping windfall we saw in 2022, which quickly dissipated leaving us with a large gap to fill in terms of profitability in 2023. We more than filled that gap, hosting year-over-year increased profits and our ability to do that defines 2023 and we anticipate 2024 to look just as strong. I will now go over our consolidated financial results, and then our various individual business segments before turning it over to Sami to go over the outlook, as usual, we will end the call with Q&A.

The key highlights of our financial results. Milaha's operating revenue came in at QR 2.9 billion for the year ended December 31st, 2023, compared with QR 3.3 billion for the same period in 2022 for a decrease of 10%.

Operating profit came in at QR 436 million for the year ended December 31st, 2023 compared with QR 487 million for the same period in 2022 for a decrease of 10%.

Net profit for the year ended December 31st, 2023 was QR 30 billion compared with QR 13 billion for the same period in 2022 for an increase of 2%.

And lastly, our earnings per share was QR 0.91 for the year ended December 31st, 2023 compared with QR 0.89 for the same period in 2022.

Now, I'm going to get into the various segments. Starting with Milaha Maritime & Logistics. As mentioned in my opening remarks, the large decline in container shipping rates took install in 2023, and that drop in container shipping rate not only impacted Milaha but impacted the entire container shipping industry. This obviously had a severe impact on our Maritime & Logistics segments. Overall, revenue per maritime logistics dropped by QR 477 million versus the same period last year. And that was predominantly because of the reduced container shipping rates along with a slight decrease in volumes. Expenses came down by QR 214 million, driven primarily by the drop in container shipping volume. Overall, we ended the year with net profit down QR 330 million versus the same period in 2022.

Now, moving on to Offshore. Offshore ended the year with operating revenue being up QR 164 million or 14% versus the same period in 2022. The offshore segment continues to benefit from the oil & gas expansion taking place in Qatar with additional subsea and engineering-related projects and services along with increased utilization of key assets driving our growth. Overall, expenses increased by QR 55 million with variable expenses tied to the increased revenue more than upsetting favorable one-offs related to the reversal of a VAT provision that was taken in 2021 and lower professional fees. Net income result was a year-over-year growth of QR 87 million or 112%.

Gas & Petrochem recorded a 12% increase in revenue, driven by increases from our FSO unit that became operational in the middle of 2022, along with one-off increases in our LNG vessels. Those two more than offset the loss of revenue from the sale of our gas carrier last year. Overall, expenses came down by QR 21 million, primarily from reduced expenses related to the gas carrier divestment along with lower operational-related costs incurred for the FSO. At the non-operating level, income increased by QR 62 million with QR +79 million from reduced impairments, more than offsetting a QR -12 million gains taken in 2022, on the sale of the gas carrier that didn't recur, and QR -8 million lower net income from our JV's & Associates. Net profit for the segment ended up QR 108 million or 19% versus the same period in 2022.

In our Trading segment, we were able to reduce bottom line losses by QR 3 million versus the same period in 2022 by increasing sales of higher margin goods and services, namely marine-related ship chandlering products.

And lastly, Capital. Revenue slipped by 19% or QR 102 million with QR 140 million drops in Qatar Quarries, partially offset by higher overall investment income. Total expenses came down by QR 156 million driven by QR 131 million of lower Qatar Quarries cost of goods sold. That's tied to the drop in revenue along with a QR 24 million reduction in bad debt provisions. The non-recurrence of an QR 86 million impairment on a real estate properly recorded in 2022, helped boost year-over-year results, ending with an overall net profit growth of QR 149 million or 165% versus the same period in 2022. And that wraps up the segments, and I will now turn it over to Sami to discuss the outlook.

Sami Shtayyeh: Thank you, Akram. Starting with Maritime & Logistics. On the container shipping side, as already discussed, 2023 was negatively impacted by the large drop in container shipping rates and for the most part, we expect rates to continue being under pressure due to depressed global demand and expected new vessel capacity coming online.

In Logistics, the environment is quite challenging and expected to remain so. Our focus is on boosting sales efforts and improving operating efficiencies.

In Offshore, on the support vessels and services side, we expect to see continued growth particularly longer term with all the expansion work in Qatar’s oil & gas industry.

For the harbor operations, we expect stable revenue throughout the year given that most of the vessels are on long-term contracts.

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 will continue to focus on profitable growth and margin improvement.

And in Capital, we will continue to focus on yield enhancement. With that, operator, we'll now open up for questions.

Operator: Thank you. To ask a question, please press the star followed by the one on your telephone star, one to ask a question.

Our first question comes from the line of Mark Krombas from TFI. Please go ahead.

Mark Krombas: Thanks very much, gentlemen. I just wanted to ask the question about the sort of the freight forwarding and that sort of the container business. Obviously, last year it was in a loss, but this year apparently rates have improved because of disruptions in the Red Sea. What do you think is kind of a stabilized or sort of a normalized level for that subsidiary? Like, what are you hoping for this year from it?

Akram Iswaisi: You know, in all honesty, I think with the Red Sea situation. You know, we're seeing that, not just in our business, but with other container shipping carriers that rates have gone up. Okay? But the expectation is that the increase will be temporary. So, because the situation is in flux or fluid, it's very difficult to predict what would be the positive impact on our numbers for the rest of the year. So, I can't really… we can't really disclose to you really what the normalized numbers would look like for the rest of the year. But we expect a decent pickup as a result of this situation because again, it's still fluid, and the question is how long will it last, the longer it lasts obviously, the more positive and impact that has on container shipping rates.

Mark Krombas: Okay. And then, I just want…

Akram Iswaisi: Fairly speaking, with seeing that piece overall, not just in the container shipping market overall, there is an increase in rates as a result of the rescue situation.

Mark Krombas: Okay. And I just wanted to ask, obviously, you have a very large investment book like Milaha Capital. Is there any consideration to sort of lower that over time and increase the dividend paid to shareholders?

Akram Iswaisi: I think that it's a good question. I think the way we're looking at this right now is that, if you take for example today our offshore business, our offshore business has done exceptionally well in 2023, and we are optimistic that this business will continue to do well in the next few years. I mean, the offshore market is very strong. The demand far exceeds supply and even from a vessel perspective and there's a huge pipeline of opportunities. So, our plan is to continue to invest in our core operating activities of which offshore is going to be a substantial one. And so, if you look at our CapEx program in the past couple of years, we have not invested enough in CapEx. If we look at the cash flow, you'll see that. But already this year, we've been winning tenders, winning contracts, and the next couple of years is going to be a significant CapEx program to build out a bigger fleet, and to also continue to rejuvenate our fleet. So, what we're looking at is how do we use our balance sheet to fund that growth activities, whether it's the investment portfolio or use in debt to continue to fund that growth. This is how we're look at it. So, there are discussions or that optimize that investment program.

Mark Krombas: Yeah, obviously, I just wondered if that might help narrow the discount to book that your stock trades at if you improved the payout ratio of your earnings that you pay out in dividend that was just an observation.

Akram Iswaisi: I think it's a good… I mean, listen, we continue to have discussions with the Board on this, and it's definitely a good question. But what we're looking at is how do we use our balance sheet, whether it's the investment portfolio or using debt to try to fund some of this CapEx program. Because at the end of the day, if you look at our business, we need to continue to invest our business is CapEx heavy. We are shipping an offshore company logistics company. If you look at where the growth is going to come for us, a big part of what we're focusing on right now is offshore business. You guys are in the region, you're in the market, and there's significant potential not even for the next couple of years, we see it for a much longer period. And so, our focus is on how do we fund that growth. And so, we're looking like again, at how do we optimize our balance sheet to be able to fund that growth.

Mark Krombas: Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Ejayan Al-ahbabi from Al Rayan Investment. Please go ahead.

Ejayan Al-ahbabi: As-Salaam-Alaikum. Thank you for taking my question. My question is regarding the Amortisation and the impairments for 2024. How do you see it for the full year? Do you have any plans to increase or decrease your impairments? Thank you.

Akram Iswaisi: Thank you for the question. I mean, as we've mentioned on previous calls, the large impairment charges in our perspective are behind us and as you look at future impairments, if you look at this year, the book is close to QR 20 million on our P&L, which is really negligible in material. And so, as we have all the equipment, we'll be conservative. Honestly, we're not going to be aggressive approach is to be much more conservative on how we look at impairments and the future economic life of our assets. So, in terms of future impairments, we don't expect anything material. I mean, as you've seen in 2023, and that's it's been QR 20 million. So, that tells you a lot about what to expect in the future. And again, we've done a lot the past few years, we were conservative, and so, our view is always to be conservative on how we look at again economic life of our vessels and we take action immediately.

Ejayan Al-ahbabi: Thank you.

Operator: Our next question comes from line of Joshua Martin from Ashmore Group. Please go ahead.

Joshua Martin: Hi. Yeah, I was just wondering with regards to the maritime section, how much capacity do you currently have and really what are you planning to add in that space? Thank you.

Akram Iswaisi: Thank you for the question. When you say maritime, you're talking about container shipping primarily, right?

Joshua Martin: Yes.

Akram Iswaisi: Okay. In terms of our capacity, some flux because what we do is we have our own vessels and we're also chattering vessels depending on market dynamics. This container shipping business, we will grow it strategically, so, we're looking at various new opportunities and new network expansion programs, but we're also looking the way we're looking at our business right now is how do we build, how do we push our platform out. So, looking at container shipping and logistics as an integrated platform to be able to optimize the returns. So, that's basically how we're looking our business. So, again, we owned 5 vessels today, and again, we are looking at potentially buying some more vessels. But again, the way we're trying to grow that business is looking at container shipping as part of a platform. So, integrating the other services with it which is logistics and various other supply chain solutions and we've been successful recently with a couple of pilots and that's sort of what we're looking to do is continue to push that integrated platform approach as we push out some of the maritime services in Qatar and outside of Qatar.

Operator: Thank you. Our next question comes from the line of Nikhil Phutane. Please go ahead.

Nikhil Phutane: Yeah. Good afternoon, gentlemen. Maybe I've just not been able to start the meeting early. Well, I just wanted to know whether these questions have been asked well it's fine, otherwise you can skip it. Well, this is regarding again to your requirement vessel which you have again shown in your offshore and the management has indicated to very much in the past that we could not be necessarily showing this again and again because that is being done and dusted, but again, we are seeing the same thing going forward in the fourth quarter. So wanted to have a view on that.

Secondly, similar to that, we have this state-related provisions maritime & logistics. So, what is this, and can you just give some color on this? Thank you.

Akram Iswaisi: So, the first question you're referring to impairments on offshore, correct? Well, you've heard so right. Okay. And if you look at the P&L, that impairment number is immaterial in the grand scheme of things. And if you compare, offshore companies and shipping companies are always going to be impairment charges taken on various equipment, various assets. But the question was asked is what does it look like for 2024? And my response earlier was we'll always look at our assets, our vessels, and evaluate economic value of those vessels, we're always going to follow the proper accounting standards, and we're usually conservative. We're not aggressive. So, we've taken a lot of charges in the past and that were material. But if you look at 2023, I think the number QR 20 million is really immaterial in the grand scheme of things. So, we don't expect big charges going forward.

As it relates to the second question, I think you mentioned on maritime & logistics, I mean, listen, we have… if you look at maritime logistics 2023, there is really if you're talking about provision, what are you talking about provisions for M&L, we have none right there. I mean, if you look at the provision from payment of trade receivables is zero. So, I'm not sure which number are you referring to for the second part of the question.

Nikhil Phutane: It's regarding the provisions that he has provided. I mean, under your maritime logistics, which you just mentioned related.

Akram Iswaisi: It's not related to maritime logistics. It's related to offshore. So, those provisions relate to offshore, if you look at maritime & logistics provisions for impairment of trade receivables to zero, and impairment of property and vessels is zero. So, there's none there. It's mainly tied to offshore. As specifically as I mentioned those, we had old equipment, and we went through the exercise of evaluating impairments. So, those assets are no longer employable. So, we were conservative and taking the impairments in Q4.

Nikhil Phutane: Okay. I mean, coming back to your maritime & logistics, I mean, what we are seeing is a lot of tourism-related activities around Qatar, going forward even right now as we look at in the first quarter. I mean, can we see some kind of a liftoff in your warehousing freight forwarding activities going forward?

Akram Iswaisi: I mean, in terms of that logistics business is a volume game. So, as you've alluded to, if we see more activities here in Qatar, that bodes well for us. You've seen our announcement in the media about our expansion into Saudi Arabia. So, we've started new service in Saudi as new products and services in Saudi Arabia. So, that business will continue to evolve and grow and that's what we're hoping for. But we've got to and again we've got we've got a strategy to grow that business, and that growth requires volume. So, part of it will have to come domestically as things start moving. But we're also looking at expansion outside of Qatar. And again, you've seen that first step with Saudi Arabia. So, we're pushing hard in Saudi Arabia and from there we're going to continue to push them to logistics business.

Nikhil Phutane: Okay. Thanks. Well lastly, on your operating expenses, I mean, we are seeing quite a change significantly increasing trend, especially in your wages, say for example in a very time logistic division, I mean against a normal rate it has quite increased substantially. So, are we going to be seeing the, I mean is this the one-time thing which has happened is something which we could be seeing in 2024.

Akram Iswaisi: I'm sorry you're referring to maritime logistics. So, what are you referring to? What are you seeing an increase in operating and expenses, operating supplies and expenses?

Nikhil Phutane: Yes, yes, yes.

Akram Iswaisi: Actually, I mean, operating supplies and expenses have come down, they've decreased by 208 million on merit.

Nikhil Phutane: No, I'm talking about overall including other operating expenses and other things which have been classified, including your wages. So, there has been…

Akram Iswaisi: At the end of the day, we tightly monitor the operating supplies and expenses, we were impacted again by macro dynamics there's been an impact. As a result of inflation, we've had an impact on various expenses. We've had crew cost issues that have gone up as well in the past. So, we continue to look at ways to optimize costs, but generally speaking, our cost has been well controlled and that's what we're seeing in the P&L. Now, we continue to find ways to do more with less. We look at how do we… how to use, I mean, we've got major digital initiatives to try to leverage technology to be able to build scalability into our business, to be able to do more with less. But if you look at our operating expenses, they've seen stable, in fact, they've come down. And you got to look at that in relation to revenue as well because again, some of our… if you got to look at that in relation to revenue. If you look at what we've been able to do today, we've been able to significantly increase the top line on offshore without majorly increasing the operating expenses. So, that is also a testament to what we've been trying to do to squeeze more value out of a top line. Whether it's optimizing pricing, doing more with less and so you see that in our numbers, I think it's quite clear.

Nikhil Phutane: Okay. Fine. I will not argue on this. Well, lastly, only our trading division, wanted to understand when we can see a turnaround 2024 could be seeing that?

Akram Iswaisi: In terms of trading, I think there was a positive improvement compared to last year. And so, we mentioned again, if we're going to make an investment that we've developed some new products and services that it takes anywhere from 2 to 3 years to begin to reap the fruits of your investment. So, shipyard, we've bid major changes to shipyard management as an example, we've brought some across the business we brought some new talent. So, we're optimizing the business. If you look at trading for example, we also made some changes in terms of management there, the ship-challenging platform is going to be it's a platform that takes time to develop. So, over the next 2 to 3 years you begin to see the fruits of some of those investments being made. But again, it's not going to be an overnight success because it takes time to build those services and roll out those products.

Nikhil Phutane: Okay. Thank you.

Akram Iswaisi: And again, I want to highlight again, if you look at what we've done with offshore, where we've lost the significant amount of revenue from container shipping and we've managed to replace most of that profitability, most of that top line from the offshore business, that's a testament to our ability to be able to react to the market. And so, we're building a lot of products and services right now to continue to grow the business, but it takes a little bit of time to be able to reap the fruits of those investments. So, it doesn't happen within 12 months.

Nikhil Phutane: Okay. Thank you.

Akram Iswaisi: You're welcome.

Operator: Our next question comes from the line of Ejayan Al-ahbabi from Al Rayan Investment. Please go ahead.

Ejayan Al-ahbabi: Yes. Hello, gentlemen. You've mentioned the CapEx for the offshore business for 2024. I was just wondering if you could provide us with some guidance regarding that, please. And just some clarifications on the number and how are you thinking of going about this CapEx?

Akram Iswaisi: Honestly, we've signed non-disclosure agreements, so can't specifically give you a number, but I can tell you is going to be substantially higher than what you've seen in our P&L. We've bid on a lot of contracts and we've won some contracts as well. And so, I think you will see more disclosures coming up over the next quarter, but right now I can't give you an exact number, but it's going to be substantially higher than what you've seen in the past. And if you look at, I mean, from a CapEx perspective in 2023, I think we did it a little less than QR 300 million whether it's maintenance CapEx or new CapEx in 2022, I think it was some close to QR 400 million. The number we're expecting to see is much higher than that for two reasons. One, we're winning. We're winning a lot of tenders. Secondly, on the offshore side, we are looking to rejuvenate our fleet. And so, if you look at offshore vessels in the market today, generally speaking, if you look at even our competitors, the vessels are aging, and there haven't been significant CapEx investments in new vessels and new fleets. So, we are looking at rejuvenating a fleet and also fulfilling requirements for some of the tenders that we're winning.

Ejayan Al-ahbabi: Thank you very much.

Akram Iswaisi: Welcome.

Operator: There are no further questions at this time, I'll now hand the call back to Mr. Bobby Sarkar.

Bobby Sarkar: Okay. Thank you, Bavesh. 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. Thank you very much, guys.

Akram Iswaisi: Thank you very much, everyone. Appreciate it.

Operator: Thank you. This concludes today's conference call. You may now disconnect.