



Event ID: 625-4903

Event Title: Qatar Navigation (Milaha) MMCID QNNS QNB Financial Services C1802125 44400245

Date: August 7, 2023

Audio Duration: 00:17:18

Executives:

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Sami Shtayyeh - Vice President, Financial Planning & Analysis

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 Bobby Sarkar to begin the conference. Bobby, over to you.

Bobby Sarkar:

Thank you. Hi. Hello, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I want to welcome everyone to Milaha's Second Quarter 2023 Financial Results Conference Call.

So, on this call from Milaha's management, we have Akram Iswaisi, who is the executive vice president of finance & investments, and Sami Shtayyeh, who is a VP of financial planning & 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 now turn the call over to Akram. Akram, please go ahead.

Akram Iswaisi:

Okay. Thank you very much. Thank you, everyone, for joining Milaha's H1 2023 Earnings Call and for your interest in the company. We are very pleased to report another quarter of solid financial results. In fact, this past second quarter had the highest profits of any Q2 going back to 2015. This is a testament to the efforts we've put in over the years into building a strong foundation for future growth. We'll follow the same lines as previous calls, I'll 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 rest of the year, and then we will end the call with Q&As.

The key highlights of our financial results. Milaha's operating revenues came in at QR 1.5 billion for the first quarter of 2023, compared with QR 1.7 billion for the same period in 2022, for a decrease of 15%. Operating profits came in at QR 344 million for the first half of 2023, compared with QR 310 million for the same period in 2022, or an increase of 11%. Net profit for the first half of 2023 was QR 648 million compared with QR 641 million for the same period in 2022, for an increase of 1%. And lastly, our earnings per share was QR 0.57 for the first half of 2023, compared with QR 0.56 for the same period in 2022.

Now, let's jump on to the segments. Maritime Logistics, the large decline in container shipping rates continues to drag down results in the Maritime & Logistics segment when compared to the previous year. Overall, revenue dropped by QR 245 billion versus the same period last year with QR 262 million of that coming from container shipping due to reduced rates and volumes. And so, we had offsets, we have decreased and we had increased, but the majority of the decreases were coming from container shipping rates, higher revenue from our logistics units



... tied to some spillover work from the World Cup along with increased project cargo only slightly offset the large container have been dropped. Expenses came down by QR 113 million with most of that tied to the drop in container shipping volumes. Overall, we ended the year with a net profit down QR 152 million or 84% versus 2022.

Moving on to Offshore. Milaha Offshore continues to steadily grow with operating revenues increasing by 11% or QR 63 million versus the same period in 2022. Increased utilization of key assets along with additional diving & construction-related projects more than offset that drop in third-party charter vessels' income. Lower chartering costs related to the drop in revenue and the one-off provision reversal drove a QR 31 million decrease in expenses versus the same period in 2022. The net income result was year-over-year growth of QR 99 million or 344%.

Gas & Petrochem recorded a 19% increase in revenue with our FSO that became operational in the middle of 2022, offsetting lost revenue from the sale of our gas carrier, which was sold last year. Overall, expenses came down by QR 16 million from the gas carrier divestment along with the non-recurring of mobilization-related costs incurred last year for the FSO. At the non-operating level, income decreased by QR 15 million as a result of lower income from our associates and net profit for the segment ended up QR 20 million or 6% higher versus the same period in 2022.

Trading segment, we were able to reduce bottom line losses by QR 6 million versus the same period in 2022 by increasing sales of higher margin goods and services, including marine-related ship chandling products. And lastly, capital revenues slipped by 15% or QR 47 million with QR 64 million of lower Qatar Quarries sales more than offsetting higher overall investment and real estate income. Overall, expenses came down by QR 79 million, driven primarily by around QR 60 million from lower Qatar Quarries cost of goods sold due to the drop in revenue along with a QR 16 million reduction in bad debt provisions. All of which resulted in overall net profit growth of QR 35 million or 27% 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 for the rest of the year.

Sami Shtayyeh:

Thank you, Akram. Starting with Maritime & Logistics. On the container shipping side, H1 has already reflected the large rate drop and we expect that to hold the rest of the year. In Logistics, we expect a subdued second half. 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 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 prices. In Trading, we will continue to focus on profitable growth and margin improvement. And lastly, Capital, where we will continue to focus on yield enhancement.

And with that, the operator will now open up for questions.

Operator:

Thank you. If you would like to ask a question, please press the star followed by the one on your telephone. That is star one to ask a question. As a reminder, if you'd like to ask a question, please press the star followed by the one on your telephone.

Our first question comes from the line of Nikhil Phutane from CBFS, please go ahead.



Nikhil Phutane: Hi. Good afternoon. Sorry, good morning, gentlemen. I haven't been able to hear your presentation, but there are a couple of questions which I'd like to know in terms of your divisions.

First, in terms of your Maritime & Logistics, what we are seeing is there is a downfall in your joint venture revenues. So, I just wanted to know what the reason behind it as compared to the run rate of around QR 40 million? That is it.

Secondly, in terms of your, again, Maritime, you just mentioned that there is going to be an uptick in the second half of 2023. Do you see the same thing happening in the second half? Because you did mention now that the outlook could be a little subdued in the second half of 2023.

Again, one more question in terms of your overall Offshore, I mean you did mention that there are significant contracts in the pipeline. So, do you see the continued growth going up in terms of vessel chartering in the second half? Thank you.

Akram Iswaisi: Okay. Could you just repeat that first question because I didn't hear you clearly?

Nikhil Phutane: Yes, this is regarding your Maritime & Logistics division. We are seeing that there is a slight downfall in your JVs results from an average run rate of around QR 30-QR 40 million, it has come down to around QR 18 million, is that right? And what is the reason behind it? And what do you see going forward in the 2023 second half? Thank you.

Akram Iswaisi: Okay. You know, there was...in terms of the JV on M&L there was a slight drop in our Qterminal results and that's driven primarily by the slowdown in port activities in Q1 and slightly in Q2 of this year. So, you're seeing that across the board, across various other logistics players as well as our container business and our logistics business, in general. Q1 and Q2, there is some drop in volume, but we were able to compensate for that in our project logistics work because we've been doing some additional project logistics work. So, this is part of the increase in terms of that JV. And the second question is what? I'm sorry, repeat that again.

Nikhil Phutane: Well, so again, I mean the second half, do you see the same trend continuing in terms of other division logistics? For example, supporting it much more than your results from your joint agreements will be nullified or whatever downturn that you see in joint ventures. So that overall profits could likely...

Akram Iswaisi: Listen. There was, again, in terms of cargo, there is what is a drop across the board. You see that everywhere in Q1. There was excess inventory in warehouses across the country, and that inventory now is being consumed. So, you should see the second half of the year looking much better in terms of cargo flow. And that's...we're optimistic that that picture will look much better in the second half of the year. But again, there was a significant amount of cargo and volume moving in the second half of last year, and so some of that spillover effect, you see that in Q1 of 2023. And so, we suspect that in the second half of the year, much of that inventory will be consumed and absorbed, and there should be more movement in the second half of the year.

Nikhil Phutane: Okay, fine. I mean, regarding your other businesses, we see that the vessel chartering business under Offshore has done well, I mean comparatively over the last one or two quarters. So, what do you see the trend in the second half of 2023? And anything else I mean in terms of say, any abnormal losses/gains which could be seen going forward in the second half?

Akram Iswaisi: I think the results for the first half speak for themselves. We're in a very positive trend. It's a good trajectory and that will continue for the rest of the year. So, there's nothing else to add to that.

Nikhil Phutane: Okay. Now, lastly on your Trading division. I mean what we are seeing is to a certain extent in terms of your...overall revenue movement has been quite good. But suppose you look at the GPM levels we could be...we have seen a sharp drop. I mean operating supplies and expenses have gone up quite considerably compared to the first quarter. Any reason behind this? The first quarter was an abnormal one. What I mean, what do you see in this?

Akram Iswaisi: For what? For Trading?

Nikhil Phutane: Yes, for Trading.

Akram Iswaisi: Well, I mean, listen, this is a spot business. So, there is, again, a lot of movement month to month, quarter to quarter. So, I'm not sure what is your question. I mean this business here is tied to... the marine and industrial products business has been growing, and as I mentioned in previous calls, we are growing our ship chandling that continues to grow. So, in terms of this business, I don't see a significant...talking about the bunker, our bunker volume dropped, but that also is correlated. If you look at the delta in the revenue versus the delta in operating expenses, they're very much aligned. So, as you see a drop in bunker volume, we do see a drop in bunker cost of sales.

But overall, in terms of this business, again, it's not profitable. And again, because we are focused on higher margin products as I mentioned earlier, we are pushing more higher products and services, and we are pushing more ship chandling activities. And so, to grow on...as I mentioned in the previous calls, we see the potential for building up a ship chandling supply chain in the country and we continue to focus on that and be able to serve vessel owners in Qatar and the region. So, that's one of the areas we're focused on. So, I think, hopefully, that answers your question on Trading.

Nikhil Phutane: Yes. I mean, you mentioned...okay, finally, I can understand that you want to go for higher yields, higher returns. But I mean that is belies in the second quarter because overall you've increased your bunker sales. But then I believe that the yields and margins have been negative the way it looks like because it has been pulled down very drastically on your GPM levels. So, we wanted to know whether are you going to be causing the same thing of forcefully going into bunker sales further. Am I right in saying that margins have been very squeezed hard in the second quarter, the bunker?

Akram Iswaisi: I mean, there's bunker margins that are very, very thin. This is an ancillary business that we provide to our customers. So, if you look at our approach, the way we're approaching our customers, so again, don't get fixated on the bunker by itself. We provide a lot of different services and products to our customers. When I come to my customer, I provide ship chandling, I provide bunkering, I provide a lot of different services, so I have to increase. It's a platform approach so you will make thin margins of certain products but you will try to increase them on others, and that's the strategy that we're following. So, if I serve vessel owners, vessel owners have a need for spare parts, for rope, for water, for bunker, and the approach that we take is a platform approach and that's the approach that we're following.

So, don't get fixated on the bunker by itself, because again, at the end of the day, it's a thin-margin product and we are using this as an enabler to be able to serve our clients. I cannot just



serve my clients with just water spare parts, I need to provide a platform to serve my clients who's ultimately vessel owners, right? So, that's the approach that you got to consider and that's what you got to look at.

Nikhil Phutane: Okay. Thank you, sir. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Jagdish Thanvi from Avalon Global Research. Please go ahead with your question.

Jagdish Thanvi: Hi, good morning. Thank you for the result.

Akram Iswaisi: Good morning.

Jagdish Thanvi: Yes, I think most of the questions are answered. So, I mean I'm pretty satisfied with the answer that you have.

Akram Iswaisi: Okay. Thank you.

Operator: As a reminder, if you'd like to ask a question today, please press the star, followed by the one on your telephone. That's star one to ask a question. There are no further questions at this time. I will now hand the call back to Bobby Sarkar.

Bobby Sarkar: Okay. Thank you. 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 go with the presentation and answer our questions and we will pick this up next quarter. Thank you very much.

Akram Iswaisi: Thank you very much, everyone.

Sami Shtayyeh: Thank you, everyone. Thank you.

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