



Transcription for Nakilat

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Conference Title: Nakilat Q2 2018 Conference Call

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Operator:

Good day and welcome to the Nakilat Second Quarter 2018 Conference Call. This conference is being recorded. At this time, I would like to hand the conference over to Bobby Sarkar. Please go ahead.

Bobby Sarkar:

Thank you. Hi. Hello everyone. This is Bobby Sarkar, head of research at QNB Financial Services. I want to welcome everyone to Nakilat's first ever public investor conference call. On this call we have Hani Abuaker, who's Nakilat's CFO. So, we will conduct this management reviewing the company's first half 2018 results followed by a Q&A. I will turn the call over now to Hani. Thank you.

Hani Abuaker:

Thanks Bobby and good afternoon everyone and thank you for attending our first conference call for this year, our first ever conference call. I'm going to take you through our H1 2018 financial results.



I'm going to start by going to page number two just to recap about the Nakilat three operating segments and I'm going to start with the fleet which is basically our shipping arm. We have 25 wholly owned, 40 jointly owned LNG vessels, 4 jointly owned LPG vessels. In addition, this year we have entered into the FSRU segment with the acquisition of Nakilat's first jointly owned floating storage gasification unit (FSRU). Also, we have our shipyard segment, which consists of two companies NKOM and NDSQ. NKOM looks after the repairs and maintenance for marine vessels and provides shipbuilding and construction of the onshore and offshore structures; where NDSQ looks after the ship building of vessels up to 170-meter length.

Lastly, marine services which complements the previous two segments, and it consists of NSW, which looks after tug operation, Nakilat Agency, and vessel support unit which provides provisions, warehousing and repair in Ras Laffan.

I will take you now to page number three and I will start to recap about the major highlights for Nakilat in the first half of 2018. To start with, we had the addition of the two LNG vessels through our joint venture with Maran. Once again, this shows our ability to continue grow our business not necessarily in the region, but also internationally. Furthermore, the addition of our first FSRU which opens new horizon for us and a new segment that we can potentially grow in.



Now, I'm moving to the fourth page. Where I will look into the actual financial performance. As you can see, almost in every single line item our first half results are almost better than last year results, and it is even better than what we have budgeted. On the revenue side, the addition of the two new vessels has contributed to our results and we have achieved higher interest income in the first half compared to last year.

On the expense side, we can see that our operating costs are in line with last year results or even a little bit lower, mainly due to our cost optimization strategy and initiatives that the company has adopted as we become more mature full-fledged shipping company. On the G&A side, our numbers are lower, our depreciation is lower, and even our finance charges are lower despite the fact that the LIBOR rate has increased compared to last year's first half.

Moving on to the final slide which talks about our outlook for H2 2018. This outlook is based on the actual news released to the public earlier. So, I would start with the fleet side, because of the addition of the two LNG vessels in March we should expect in H2 to have six month results rather than just only the first three months results that we have already reported. Furthermore, we have the addition of the first FSRU, which we have jointly owned towards the end of June and expect our numbers to reflect that in the next half of the year.



For the shipyard, usually the summer time is the busiest time in general for any shipyard with a higher utilization due to the number of vessels that goes into the dry dock and with the additional marine and offshore projects that we are expecting in the second half. Lastly, on the marine services, we also expect similar momentum to the first half with the increased activities in Ras Laffan and Mesaieed compared to last year, due to what happened in the region last year in June 2017.

I come to the end of it and I'll leave the floor open for you guys if you want to ask questions and I'm happy to answer them.

Bobby Sarkar:

Great. Thank you. Operator, can we start the Q&A process?

Operator:

Thank you. If you would like to ask a question, please press star one on your telephone keypad. Please and show the mute function on your telephone is switched off to allow your signal to reach or equipment. If you find your question has been –

Bobby Sarkar:

Okay, thank you. Hani, this is Bobby again. I just wanted to start off the Q&A with the question of my own. Slide five on the guidance bit, can you just elaborate a little bit on the shipyard business



and what did the business do in the first half and what do you expect in the second half in, you know, in terms of utilization, dry docking activities etc. Thank you.

Hani Abuaker:

As indicated earlier, usually we expect the shipyards activities to increase during the summer time, as we have a higher number of vessels compared to what we have in the first half. Moreover, we have an increased number of marine and offshore work load that is coming to our shipyard facilities and that's what exactly I can highlight to you.

As you know, the shipyard is not going to be a big contributor to our company. Our company is basically a shipping company which has the LNG fleet that contribute most to the bottom line.

Bobby Sarkar:

Great. Thank you.

Operator:

We have a question on the telephone. This question comes from Nafez Alabbas from Areej Capital.

Please go ahead.

Nafez Alabbas:

Thank you, gentlemen, for holding the call, we really appreciate it. I just – I'm sorry if I missed this earlier on but can you please give us some insight into the performance of the joint ventures



because we have noticed that, obviously, the spot market maybe the rates are slightly lower that it resulted in a lower performance. But can you tell us, I mean, if you have any outlook on – do you see any recovery, is there, like, did we reach the bottom, or do you expect any more further weakness in that site, please.

Hani Abuaker:

Thank you very much. Let me just elaborate more. On the joint venture level, the reason we have performed better than last year is because of the addition of the two new additional vessels into our fleet or joint venture with Maran. Also, about the spot market, what I heard from you is that the spot market is performing lower, just to highlight one thing for you is that the actual LNG shipping spot market in general has increased compared to last year. However, we usually have time charter contract with any joint venture that we get into. So basically, most of our vessels are not exposed to the spot market.

Nafez Alabbas:

Great. Perfect. Thank you very much.

Operator:

As a reminder, to ask the question please press star one. We will now take the next question from Shabbir Kagalwala from Al Rayan Investment.



Shabbir Kagalwala:

Thank you Mr Hanı for the call. I have two questions. One, you mentioned that marine project is expected in the second half, which should improve the shipyard which is good news. Could you give us a bit more clarity on that? Secondly, could we have some more clarity on this FSRU and if there is any Capex outflow, what will be that? Thank you.

Hani Abuaker:

First of all, about the marine services, as I said, we have seen in the first half more activities going on in the marine services in general in the ports of the state of Qatar compared to last year. On the shipyards, as I have highlighted to Bobby earlier, we are having a lot of activities going on through the summer period. Usually, shipyards are busier during the summer time, that's the peak time for them in any year where we have higher utilization and services.

However, I want to re-emphasize again that shipyard facilities are not as big as our fleet or the LNG segment.

Shabbir Kagalwala:

True.

Hani Abuaker:

And it should help us to improve the numbers or maybe at least to achieve similar results or as good results in the second half.



Hani Abuaker:

The second one is about FSRU. We just jointly owned or bought interest of 55% in one FSRU with Excelerate Energy. We concluded the deal almost towards the end of June. So, the equity income was not really captured in the first half because we were not owning it yet. Therefore, we should really expect to see the results from jointly owned FSRU unit in the second half of the year.

Shabbir Kagalwala:

Thank you.

Shabbir Kagalwala:

Oh yes. How much – what benefit can you see from this venture in numeric terms?

Hani Abuaker:

Typically for FSRU unit you should expect similar results as any regular LNG vessel. So, you should expect the same potential financial results as if we bought a new additional LNG vessel.

Shabbir Kagalwala:

Financial gain, okay. alright, thank you.

Operator:

We will now take the next question from Nikhil Arora from Franklin Templeton. Please go ahead.

Nikhil Arora:



Hello. Hi Mr Hani. This is Nikhil Arora from Franklin Templeton. Thank you so much for hosting the call and, you know, I hope that this series of calls will continue over the next quarters as well. A couple of questions from my side, the first one is that the shipyards that you guys operate, are they profitmaking at the bottom line level or are they still loss making. And the second question that I have, is can you update us regarding the plan. If I remember correctly, there was a plan of bringing some of the ships from STASCO to your own in-house management, which should have ideally resulted in some margin expansion. If you could provide me an update of, you know, where do we stand on that effort? Thanks.

Hani Abuaker:

First of all, about the shipyard, I know that we haven't started to report them separately in our financial statements. However, I think we are doing very well as with the increased level in shipyard activities and we expect increased utilization which will improve the bottom line significantly. However, I cannot really give colours for the time being because it has not publicly disclosed. However, for sure in the future we will try to start segment reporting so at least we can provide you guys with a clear indication.

I hope I did answer your question.

The second question about the operating of the new vessels that we have started to take over from STASCO, we have taken already 10 of the 25 wholly owned and we will continue in the future



the remaining ones. However, due to the dry-docking cycle we will maybe continue to take over the remaining vessels after the next couple of years.

Nikhil Arora:

Okay. Sure. So, I mean, over the next couple of years should we expect any kind of margin improvement because of this plan?

Hani Abuaker:

Our aim is as highlighted before that when we take over operation of these vessels, and we expect to manage them more efficiently and to be able to have all of costs controlled. So, that's something that is part of our objectives and plan in the future.

And, yes, we should expect better financial results but however we cannot forecast the future now, that's something that will come in the future. We always aim to start to operate efficiently and effectively and if you look at our results compared to last year, we're more or less the same as last year expense. In fact, expenses this year were lower by a little bit. So, I think as we move forward we should be able to find a way to cost optimise our cost structures.

Nikhil Arora:

All right. Okay. And if I may ask, like, a follow up question on the FSRUs. Just from my understanding, can you tell us where exactly geographically would this FSRU be situated? And



then what's the value proposition of this project for the end client and do – should we expect, like, more FSRUs to be put in service in the future?

Hani Abuaker:

The FSRU is in Pakistan. However, its chartered to Excelerate United States. The charter is not basically with Pakistan. And should we expect more of FSRUs in the future? I think we have disclosed that in our press release earlier that this will open a new horizon for us. So, if we can grow into that new segment, for sure we will. And I think we are the only one now with a partnership with Excelerate who is the pioneer, they were the first and I think they are supposed to be one of the largest in the world in that segment. So, yes, if there's any opportunity for further growth in that segment, we shall explore, and we will proceed and pursue.

Nikhil Arora:

Okay. Thank you so much.

Operator:

The next question comes from Ahmed Saadeh from Milaha. Please go ahead.

Ahmed Saadeh:

Thank you, Hani, for hosting us. I'd like to get a guidance on two points. The first one is if you could provide us with guidance on the Gulf LPG activities and their contribution to the bottom line. And



the second one, if you can provide us with a guidance on the increase in LNG supply from the U.S. and Australia and your competitive position please. Thank you.

Hani Abuaker:

Okay, I will start with the LPG. As you know, Ahmed, we own almost 70 vessels which include only four LPGs. These vessels are traded in the spot market. So basically, they are being impacted by the spot market rate. The rate hasn't been good for the last couple of years compared to earlier years but that usually is part of the shipping business.

What have they contributed to the bottom line for Nakilat? they are too small compared to the actual LNG segment of our Fleet. We have seen better results, we can say it has improved from early in the year from low 20s and now the rate is in the higher 30s. So, we should expect, hopefully, it will continue to go higher. We had great years two years or three years ago. However, we cannot predict the market and the impact of that LPG business is not really that significant compared to the LNG.

The other question was about the LNG outlook on the production coming from USA and Australia. As you know, China's demand for LNG has increased almost 46%. However, for us we don't really comment about the LNG production but from a shipping side, we have seen great improvements in the actual spot market. For instance, we have seen compared to 2017 that the rate has increased by 25% to 27% during this year compared to last year.



So, I think, for us the more LNG being produced, the better things for us as a shipping company because we can lift more cargo and then there's going to be more demand for us.

Ahmed Saadeh:

Thank you.

Operator:

We'll now take a follow up question from Nafez Alabbas from Areej Capital.

Nafez Alabbas:

Yes. Thank you again for the time. Is there a rough estimate for the utilization of vessels in the joint venture operations? Any number could be very useful, please. Thank you.

Hani Abuaker:

As you know, we have long-term contract or short-term contracts. So, basically, we expect the utilization to be very high. We don't really report on them but it's very high utilization numbers that you should expect for our vessels. Basically, even if the vessels are not being utilized by the charterer we still get paid and that's what matters for us.

Nafez Alabbas:

Perfect. Thank you very much. Thank you.



Operator:

We will now take the next question from Vrajesh Bhandari from Al Mal Capital.

Vrajesh Bhandari:

Hi. Thanks for the call. I would just like to know your FSRU acquisition plan, if that could imply a cut to dividend this year or, let's say, in the coming couple of years. Also, from a – due to long term point of view, does the company have a target date to equity ratio? I know you have a pre-defined debt repayment plan, but would the company necessarily follow it, in other words if you have a target date to equity in issue, basically that would imply refinance of borrowings and prioritize dividends.

Hani Abuaker:

Sorry, the question was not clear but let me recap about what you have just said. You are talking about our FSRU and what's our plan for that segment over the next couple of years. And the second question is about our debt equity ratio and if we have a plan for our debt equity ratio. Am I correct?

Vrajesh Bhandari:

That's correct, yeah. On the FSRU, if it could lead to a parting dividend, reduction of dividends based on the Capex required for your total plan.



Hani Abuaker:

First of all, we strongly don't think that our acquisition of a FSRU or a couple of LNGs will have any sort of impact on our dividend over the next one or two years. If you can see, our profit is almost close to 850 million and we pay a dividend to almost 554 million. So, we can maintain some of our own generated profit for potential growth. And plus, we are a big of a size company and we have the capability to raise or at least to have Capex available for our normal growth on an annual basis.

The other question, I think you talked about the debt to equity ratio. We don't have that targeted one but, as you can see, our debt is being paid on an annual basis. We're paying the debt of our wholly owned vessels close to 800 million Qatari Riyal annually. Moreover, our jointly owned vessels pay off our debt regularly also.

So, yes. we will continue to try to pay off the debt that we took earlier. This is always taken into consideration into our economics, when we look at the charter rate, the charter hire, the expected return and lastly the cash generated from these projects to ensure that we can pay off our debt as per the loan document over the lifetime of the vessels.

Vrajesh Bhandari:

Okay. Thank you.



Operator:

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

Bobby Sarkar:

Okay. Hi, hello. This is Bobby again. If there are no further questions, we can end the call now.

Operator:

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

Bobby Sarkar:

Thank you.

Hani Abuaker:

Thank you very much. Thank you everyone and looking forward to seeing you guys all the time in our conference call and to answer any questions you have. And please, if there were further topics you would like to address, we're available, please we can take it offline.

Bobby Sarkar:

Thank you, Hani. Thank you, everyone. Thanks.