



Qatar Gas Transport Company - Nakilat (QE: QGTS)

1Q20 Earnings Results Conference Call Transcript

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Moderator: Ahmed Hazem, VP – Equity Research at EFG Hermes

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Executives:

- 1) Hani Abuaker – Chief Financial Officer at Nakilat
- 2) Fotios Zeritis – Head of Investor Relations at Nakilat

Questions by:

- 1) Jonathan Milan - Waha Capital
- 2) Samer Darwiche – Amwal Capital
- 3) Santosh Gupta - Drewry Maritime
- 4) Ramzi Sidani - HSBC Global Asset Management
- 5) Nikhil Arora - Franklin Templeton
- 6) Maya Bou Kheir - Schroders

Operator:

Good day and welcome to the Nakilat's 1Q20 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Ahmed Hazem. Please go-ahead sir.

Moderator:

Hi. Good morning and good evening, ladies and gentlemen. Hope you and your family are staying safe and healthy in these times. This is Ahmed Hazem from EFG Hermes Research, and we are pleased to host today Nakilat's 1Q20 conference call. Today's conference will include a brief on the 1Q20 results market updates and will be followed up by a Q&A session. We have with us on the line today Mr. Hani Abuaker, CFO of the company, Mr. Fotios Zeritis, Head of Investor Relations of the company.

Today's speakers are Hani Abuaker, Chief Financial Officer; and Fotios Zeritis, Head of Investor Relations. Mr. Zeritis, you may begin.

Fotios Zeritis

Good Afternoon and welcome to Nakilat's first quarter 2020 Conference Call. For your convenience, the transcript of this call and presentation will be available on the investor relations section of our website, www.nakilat.com.

Many of our remarks contain forward-looking statements and for factors that cause actual results to differ materially from these forward-looking statements, please refer to slide 2 of the Investor Relations presentation. In addition, some of our remarks contain non-IFRS financial measures. A reconciliation of this is included in the note of this presentation.

Now, I would like to hand it over to the CFO of Nakilat, Mr. Hani Abuaker.

Hani Abuaker

Thank you and welcome to Nakilat's first quarter earnings results for 2020. As always, we appreciate your participation as Nakilat is committed to continuously improve its Investor Relations initiatives to strengthen its communication and improve transparency with all members of the investment community.

As Ahmed stated at the beginning, I wish that all of you guys are staying safe and healthy through this unprecedented challenging time. Together with our Head of Investor Relations Fotios Zeritis, I will guide you through today's presentation.

The world is confronting one of the greatest health challenges of the generation, one that profoundly impacts the global economy and all its citizens. Our thoughts remain with the communities and individuals, including healthcare workers and first responders, most deeply hit by the COVID-19 crisis.

The COVID-19 has disturbed the global capital markets including our region and Nakilat's share performance during the 1Q20. For this reason, Investor Relations has numerous conference calls with global investors.

Our aim was to ensure that consistent communication with capital market during this challenging time is to spread Nakilat's equity story and display our defensive business model against such events that has impacted the global economy.

As of today, we are happy to state that there has not been a significant impact on Nakilat's operations and fleet reliability due to COVID-19 challenge. Our entire fleet safely continues to sail across the world and to deliver its carrying LNG cargos as per our charterers' needs and instructions.

It goes without saying that Nakilat has taken COVID-19 extensive mitigation measures to ensure safe and reliable operations. We should remark that there have been no known cases of COVID-19 infection amongst the group's sea-going or shore-based personnel. The company established a dedicated COVID-19 task force to constantly review and amend the business continuity plan as required, and other measures include a work from home policy (as every other company) for onshore employees and strict crew guidelines. Charter parties for all the group's term-chartered vessels remain in effect with revenues as per the contract terms.

Since the current situation is too fluid, it is our duty to closely monitor the developments of coronavirus outbreak and its potential implications on global LNG shipping. COVID-19 is one of those extraordinary times. First and foremost, we are prepared to operate under extremely adverse circumstances. We, as a company, operate 24/7. Before COVID-19 era, we already have our own resilience, business continuity and crisis management policies and procedures in place that has been developed over the years and tested since the inception of this company.



The significant economic fallout from this crisis reinforces the critical need to keep incorporate plans for resilience in everything we do – resilience for pandemics, cyber-attacks and any other issues.

After our high-level overview of COVID-19's implications on global markets and Nakilat's precaution actions on this issue, I will begin the call with Nakilat's financial highlights for the first quarter of 2020. Afterwards, Fotios will give you an update on the global LNG shipping market overview. Then, I will take you through our business outlook for 2020 and after, we will welcome any questions that you may have.

As you can see, it has been a good quarter for Nakilat in terms of delivering sustainable bottom-line growth for our shareholders by executing our well-planned business strategy.

Following the strong operating performance through Nakilat's sustainable business model with steady streams of cash-flows in volatile markets, I am delighted to report good company performance results for both EBITDA and net profit for the first quarter of 2020. This emphasizes Nakilat's ability to deliver required earnings over time. Now I'll take you through Nakilat's financial performance.

Now, turning to slide 8, our profitability has strongly increased by 18.3% compared to last year's first quarter, mainly due to the acquisition of 4 Q-Flexs realizing additional revenue. Another contributing factor to our profitability was an improvement on average VLGCs (LPG) vessels charter rates in the first quarter of 2020 compared to same quarter of 2019. Furthermore, Nakilat's EBITDA was up by 13.1% year-over-year to reach QAR 802 million.

Turning to slide number 10 and 11, we can see a strong and healthy balance sheet with total assets of QAR 32.4 billion as well as a cash balance of QAR 2.4 billion. Moreover, our scheduled debt amortization continues, as the repayment is freeing up our balance sheet capacity. Since 2014, we have already paid more than QAR 4.7Bn debt repayments. Due to the



acquisition of the 4 Q-Flexs and change of accounting treatment from equity method to fully consolidation within the group's consolidated financial statements for the 1Q20, the net borrowings reached at QAR 21.2Bn. Finally, Nakilat's current ratio is at 1.11, and the Return on Equity is at 11.84%.

Now, let me hand it back to Fotios to take you through an overview of the LNG shipping market. So, Fotios, if you can please take it further.

Fotios Zeritis

Thank you, Hani.

As Nakilat's Head of Investor Relations, I would like to emphasize that Nakilat's stock is owned by large institutions, pension funds, mutual funds and individual investors. It is important to remember that in almost all cases, the ultimate beneficiaries are individuals in our local and international communities. Approximately 44 thousand shareholders worldwide hold Nakilat's stock. Many of these shareholders are teachers, police officers, firefighters, retirees, or those saving for a home, school or retirement.

Our management team goes to work every day recognizing the enormous responsibility that we have on our shoulders to maximize gains for our shareholders. While we don't run the company worrying about the stock price in the short run, in the long run our stock price is a measure of the progress we have made over the years. Throughout our history, Nakilat has built its reputation on being there for our customers and communities in the most critical times. This unprecedented environment is no different.

I will brief you all on how COVID-19 has affected the global LNG shipping within the first quarter of 2020 and will take you through the LNG shipping market overview that you can see on our presentation from slide 12 to slide 15.



During the first quarter of 2020, the spot LNG shipping rates plummeted as Coronavirus outbreak had an adverse impact on LNG shipping segment.

As a result of this situation, in the near term, the disruptive impact of the COVID-19 outbreak on the economies of importing countries will exert downward pressure. Overtime, the lower LNG prices should stimulate demand and eventually it will increase the shipping requirements in the long term.

Turning to slide 13 of our presentation, the global LNG trade has grown rapidly over the last few years, driven by the ramp up of new liquefaction projects in Australia and the US, and surging demand in Asia.

According to Wood Mackenzie, the LNG supply is expected to grow by around 25mts in 2020. The current LNG output has not been affected, but in the longer term, it's uncertain how these changes could impact production. Wood Mackenzie expects the global LNG trade to increase by ~12% until 2022.

China remains the major source of global LNG demand in the following years. As per Wood Mackenzie, China's LNG demand is estimated to increase at ~127mmtpa in 2040 compared to 60.6mmtpa in 2019 which implies an increase of ~110% in next 20 years.

Looking at slide 14, you can see a high-level summary of LNG Shipping market update for the first quarter of 2020. In combination with already soft LNG pricing as a result of higher production, Coronavirus, and OPEC driven low oil prices, the LNG shipping rates have softened, and market expects the charter rates to remain soft thought the summer, possibly experience some uplift in the next half of the year.

Poten & Partners currently assesses the one-year LNG shipping charter rate at \$62,000pd for MEGIs/XDFs, \$52,000pd for DFDEs, \$30,000pd for STEAMs which is a helpful benchmark when discussing term charter opportunities.



Please, turn to slide 15 of our presentation. After showing strong newbuild ordering momentum in 2019, new LNG ship orders have dried up in 1Q20 with only 9 LNG vessels ordered. In 1Q20, the LNG newbuilding costs averaged at \$186 million. As of March 2020, only 4 vessels have been delivered with a further 35 scheduled for delivery this year.

Furthermore, you can see the global LNG fleet has 510 vessels in operation and another 125 vessels on the orderbook as per Clarksons. This implies an increase of 24.5% of total LNG fleet, in terms of number of vessels as of March 2020. Only ~40% of the 125 vessels on the current orderbook are charter free and available to be absorbed by the new upcoming wave of LNG supply in the next few years. The current LNG fleet age profile is approximately 11 years old.

As a final market note, market participants believe the market may be balanced in 2020 but with limited arbitrage trading, there could be ton-mile compression leading to some excessive supply.

We always encourage transparency with our shareholders in terms of what they should expect regarding the LNG shipping market in 2020 and afterwards. Of course, we do not know how this crisis will ultimately end, including how long it will last, how much economic damage it will do, or how fast or slow the recovery will be. However, we, as the world's largest LNG shipping company, has tremendous market intelligence and numerous tools in our hands to navigate through this unprecedented storm.

Now, I would like to hand it back to Mr. Hani Abuaker to give you an insight into Nakilat's business outlook. Please, go ahead.

Hani Abuaker

Thanks again Fotios.

Moving on to slide 17, I will take you through our business outlook for 2020 but we will keep it short to move on your questions because I think that we have already given you a full overview of Nakilat's financial

results for 1Q20 and an explanatory picture of COVID-19's implications on our operations and LNG shipping.

In 2020, we, as a company with a strong balance sheet and operational excellence, expect to weather this unprecedented challenging period with potentially another successful year for Nakilat, due to the managements' focus to expand its own core LNG shipping business as we have done over the last years and to continue closely monitor the COVID-19's developments in order to mitigate any potential impact on our operating expenses

In addition, we are working closely with the shipyard team and implementing some measures to minimize the negative impact of COVID-19. In 2020, you should expect a full impact of the 49.9% stake acquisition of 4 Q-Flexs in the following quarters and also our new jointly owned vessels that's going to be delivered in the second half of this year.

Other than that, I think that it is going to be focused more on how to manage our costs and to optimize as much as we can to ensure that if any potential negative impact arise in the future, we are ready to cope with it.

Before we open the floor for questions, let me point that we have added an extra slide in our IR presentation at appendix section which clearly illustrate the Impact on OSG Acquisition revaluation – as per the IAS - in fiscal year earnings results of 2019 and other write off, we book, which neutralized the impact of OSG acquisition one-off gain. After our discussions with our investors, we prudently decide to elaborate further on this.

With that, I will ask the operator, to open the floor for questions and answers.

Please go ahead.



Operator:

Yes. If you'd like to ask a question on today's call, that is star one on your telephone keypad. We'll go first to Jonathan Milan with Waha Capital.

Jonathan Milan:

Hi. Good afternoon and thank you for taking the time for the call. Just a few basic questions on my end. How much of your revenue from wholly owned vessels would you say are based on a floating rate because from my understanding it's 90% maybe its 25 years fixed charter. And any of these 25 years fixed charter expiring any time soon?

Second question is, from my understanding that you've fully acquired four of these jointly owned vessels, which is why revenue from wholly owned vessels is up so much. But how come share of results of JV is also up? I would've thought it would drop by similar amount.

Hani Abuaker:

Okay. Let me make sure that I captured your questions. Firstly, all of our wholly owned vessels are on a long-term charter contracts of 25 years. These vessels were delivered in 2007 and 2008. So, these vessels still have a remaining firm contract duration of 12-13 years based on their delivery date.

Also, the majority of our JV owned vessels are on long-term contracts. Some of these vessels are chartered by the international customers. Some of the JV owned vessels also are chartered on the medium-term contracts (7-10 years). In addition, we have a small number of ships that have shorter contracts such as 2-3 years.

Regarding your second question about the results of our Join Ventures, the main positive contributor on our JVs was basically coming from the improvement of LPG rates. Last year, the daily LPG rates was trading at a range of approximately \$30,000 per day on average in first quarter. This year is approximately \$50,000 per day.

Jonathan Milan:

Sorry, the line broke off a bit. So, LPG rates were very low last year. And sorry, can you please repeat that?

Hani Abuaker:

Yeah. In 2019, the LPG charter rates were very low. Basically, we started to generate profits instead of generating losses on the LPG shipping segment in 1Q20. Actually, we generate amount of profits at a level of 200% of the losses that we made in 1Q19.

So, let's say if we had losses of a range of QAR 5 million to QAR 10 million. This year, we made actual profits at a range of QAR 5 million to QAR 10 million. Thus, you can see the significant improvement in LPG shipping rates. As you can see, this is the main reason which has positively contributed to our joint-venture's better results. The improvement of LPG shipping offset the derecognition of 4 Q-Flexs (INSW acquisition) from the joint venture level.

Jonathan Milan:

That's the 50-50 JV with Milaha?

Hani Abuaker:

Exactly, yeah.

Jonathan Milan:

Okay. Thank you very much.

Hani Abuaker:

Thank you.

Operator:

We'll go next to Samer Darwiche with Amwal.



Samer Darwiche:

Hello. How are you?

Hani Abuaker:

Great!

Samer Darwiche:

Good. Just a couple of question on my part. On the debt side, can you please tell us what's the percentage of your debt that is fixed versus floating rate?

Hani Abuaker:

Okay. You can say on average between 75% and 80% for the whole group whether the wholly owned or jointly owned are fixed debt.

Samer Darwiche:

Fixed debt. Okay. And but would you mind telling us what's the – so it's around 4% cost of debt?

Hani Abuaker:

Sorry. Could you repeat the question?

Samer Darwiche:

Yeah. What's the cost of debt on it on average?

Hani Abuaker:

Okay. On average, it goes between 4% to 5%.

Samer Darwiche:

Okay. So, that's 4%, okay.



Hani Abuaker:

Yeah.

Samer Darwiche:

Just another question. The fixed rate you have on your contract, is it linked to an inflation index where you can increase it every year or how does it work frankly?

Hani Abuaker:

Yeah. In the simple terms, our time charter contracts have two elements. They have the CapEx element, which is usually we target some rate of return, a leveraged internal rate of return over the life of the contract.

The expected levered IRR to be on a range of 11% to 14%. Furthermore, we have another OpEx element. Usually, the OpEx element is being inflated on an annual base on an agreed inflation rate at the beginning of the contract. It may be the US inflation or a fixed percent. It depends on the venture or the entities or companies. Hence, these are the two elements but only the OpEx element is being inflated on an annual basis.

Samer Darwiche:

Okay. Just one or two more small questions from my part. Do your contracts also include some force majeure clause in the payment?

Hani Abuaker:

Do you mean if they have a force majeure clause?

Samer Darwiche:

The payment from force majeure.

Hani Abuaker:

Yeah, I understand. It is an international practice that any contract has a force majeure clause. However, we, as a company or as a management, do not foresee our force majeure clauses to be relevant to us in the time being. We do not foresee any potential activation of force majeure clauses as of today.

Samer Darwiche:

Okay. One last question from my part. On maintenance CapEx, how should we look at it from your side excluding any acquisition or how – what’s your guidance on maintenance CapEx?

Hani Abuaker:

Yes. On maintenance CapEx, you should understand that Nakilat owns a big a number of vessels and its vessels undergo for maintenance (Dry-Dock) every five years. The cost for these large vessels is at a range of \$4 million to \$5 million every 5 years cycle. We should mention that all these costs have been taken into our economics when we locked in into these long-term charter contracts. Therefore, the maintenance CapEx, we call it a five-year cycle of dry-dock, is the major maintenance CapEx item in our balance sheet.

Samer Darwiche:

Okay. Thank you.

Hani Abuaker:

I would like to highlight something regarding this 5-year maintenance cost, since it has been already gone through the first cycle of maintenance. Thus, you should not see this impact now because it has already been capitalized/depreciated. So, once it’s depleted, it goes back again into sort of being capitalized and being depreciated. As a result, all the impact has



already been gone through the first and second cycles. So, you should not see these kinds of differences in the amount.

Samer Darwiche:

Okay. Perfect. Thank you.

Operator:

We'll then next Santosh Gupta with Drewry Maritime.

Santosh Gupta:

Hi. Thanks a lot for the nice presentation. I think last time during the last quarter's presentation, you had suggested that we are expecting delivery of two LNG newbuild vessels in second half of this year. So, I just wanted to understand if are we still on schedule to receive those vessels in second half, keeping in view that COVID-19 crisis that we are foreseeing?

Fotios Zeritis:

Hello Santosh. How are you? Hopefully you stay safe.

Santosh Gupta:

Yeah. Thank you.

Fotios Zeritis:

As we have discussed previously, we are expecting one vessel to be delivered in the next few months by May. The second LNG carrier is expected to be delivered at the end of the year (Dec'20).

Santosh Gupta:

Okay.

Hani Abuaker:

Santosh, in another words, we are still on expected delivery schedule of these newbuild vessels. Santosh, you have to understand that our nature of business - as I always say to people - we work on 24/7 anywhere in the world on a moving target called for vessels. So, we are well prepared to weather such unforeseen challenges such as COVID-19.

We should mention that we have our own measures in place. We have our own business continuity plan in place. All these precautions were already in place regardless whether it was a COVID-19 or any other incident. So, yes, we're still on plan. Unless, no other internal factor causes a postponement for a couple of weeks. But we are still on plan to take these vessels and we have taken into consideration all the potential impacts of COVID-19.

Santosh Gupta:

Okay. Thanks a lot.

Operator:

We'll go next to Jonathan Milan with Waha Capital.

Jonathan Milan:

Hi. If I may please ask just a follow-up question. On the break-down of borrowings, you said senior bank facilities of QAR 11.4 billion. Supposedly they expire December 2025; and just looking at the cash flow seems like the repayment per year is QAR0.5 billion or so. So, is there a bullet payment at the end of December 2025? And are you most likely going to refinance it via the banks or sukuk or something of that sort?

Hani Abuaker:

Yes. That's what hopefully we will do if we have any of these contracts or any of these loans that they are about to expire, and we still have time left in our charter party contracts. We have some of our joint ventures, recently

have similar refinancing arrangement with bullet payments. We were able to achieve a very strong and competitive rate with the long-term contracts.

Jonathan Milan:

And furthermore, from now until then your yearly payments, debt payments are going to peak at around QAR 1.1 billion, QAR 1.2 billion, or could it be more? And, I mean, is there a risk to dividends, I think, is the ultimate question that I have.

Hani Abuaker:

Okay, great. No, I don't foresee any risk for dividend due to our ability to deleverage our balance sheet. We believe that we can continue to service the debt repayments. When this debt requirements comes in, we would be able to refinance it for the remaining term of the contracts. So, we do not foresee any risk to dividend.

Please, note that these vessels will be almost around 17 years old in 2025. They would still have eight years remaining of the firm contract. On top of this, these vessels will continue to have a remaining operational and technical life for another 10 to 15 years after the expired firm period of contract. We should mention that these vessels are very important for our charterer. I do not foresee any potential risk to run short of cash because as we have seen all these years that we have great relationships with banks. Nakilat's lenders were very happy to finance our vessel which are attached with long term contracts with first class charterers.

Therefore, the target financing will be intended to match the maturity of our time charter party contracts. As you can see, we do not expect any risk for Nakilat not being able to finance on the backdrop of our contract. Thus, So, there is no concern about the dividend from that angle.

Jonathan Milan:

Okay. You think the vessels could last another 10 to 15 years after the end of the life of the contract. So, for a total life of 40 years for the vessel?

Hani Abuaker:

Yes. But our loans of these vessels are only for 25 years. Basically, when Nakilat refinances the bullet point, it has already built in our economics. We will still have another 15 years that we can leverage these vessels. It shows that we have a lot of flexibility in ensuring that we have the adequate liquidity in place.

It is not only that the life of these vessels will have another 15 years of trading after the finish of the contract, but it is also that the portion of the bullet payment in 2025 which would be left on these vessels is going to be almost about eight years of worth of debt that we can finance against the remaining contract with our existing charterers.

Jonathan Milan:

Okay. Excellent! You said you that you expect to have more vessels to be delivered this year. Can you please elaborate on that? Are they also with with the Qatari entities or are they with other multinational entities, the contracts?

Fotios Zeritis:

Yes, as we have mentioned in the previous conference calls, we have total four newbuild vessels under construction. The first two vessels will be delivered at the second half of 2020. The first vessel of the two is expected to be delivered in the next few months and the second newbuild carrier at the end of the year. We are collaborating with the shipyards. We, as Nakilat, have taken all the required precautions actions to make sure that these vessels will be delivered safely with all the required crew and specifications etc. Hence, we expect our first two new LNG carriers to be delivered in the second half of 2020.

Jonathan Milan:

Are they already contracted with an entity? is it with any Qatari entity or a non-Qatari entity?



Fotios Zeritis:

In terms of ship-ownership, these vessels are co-owned with Maran. However, do you mean who is the charterer of these vessels?

Jonathan Milan:

Yeah. With the charterer I meant, sorry.

Fotios Zeritis:

Okay. We are currently under commercial negotiation with the different charterers to find the best option for Nakilat's economic interests. However, we cannot disclose further on that because it is our responsibility to keep confidential commercial issues to protect our clients' interests.

Jonathan Milan:

Fair enough. Thank you very much.

Operator:

Yes. We do have one question from Ramzi Sidani with HSBC.

Ramzi Sidani:

Hello

Hani Abuaker:

Hello

Ramzi Sidani:

Hi gentlemen. Thank you for your time. Just on the new vessels, is there – can you share any information, or can you help us think of the rates that you would be achieving? How should we think of the rates versus the current contracts you have in place?

Fotios Zeritis:

Look, as you understand, there is an international market for LNG shipping. The global LNG shipping market is formed based on the supply-demand on LNG vessels. Thus, the dynamics of market indicate the charter rates of short-term contracts and long-term contracts,

In addition, you should understand that the company has specific investment criteria and always looks at a vessel – not only for now – It looks at a vessel as an important asset that can trade for 35 to 40 years and it can generate an expected lever IRR of approximately 11%.

Obviously, the expected investment returns depend on many different factors such as: a) the duration of the firm contract, b) the credit rating of charterer, c) the size of the vessel, and many other market parameters. So, we cannot give specific economics on that. However, I believe that what you need to look is that the expected IRR for these vessels for the next years in long-term; It may range of approximately 11% on lever IRR. I hope that I answered your question.

Ramzi Sidani:

Yes. And has the JV already been formed, or you need to invest any equity in the JV?

Hani Abuaker:

Yeah, sure. The JV has already been formed. These vessels are being constructed and delivered. There are many milestones which require specific payments. We pay and fund the JV to pay these vessels. I hope that I answered your question.

Ramzi Sidani:

So, no payments have been done already?

Hani Abuaker:

No. Some payments have been done already for these vessels because we fund them as our equity contribution earlier. But remember, they are coming in a staggered way, one towards maybe by end of May or June and the other is almost end of December and the other two coming on 2021.

Just to answer your question about the charter rates. I think Fotios has really elaborated. Always, these rates are the expected ones. We always look for a levered rate of return something that we target between 11% and 14%, that's what we say. That's what has been the case when the rates were almost \$150,000 per day and \$200,000 per day. Everybody was locking the vessels to generate a stable rate of return on the long-term.

If somebody wants to go into the spot, he might be exposed for a couple of months, three months, whatever it is. But usually when you lock it, you usually lock it at a rate that's supposed to be sustainable in the long-term. So, I hope we answered your question.

Ramzi Sidani:

That's very clear. Thank you.

Operator:

We'll go next to Nikhil Arora with Franklin Templeton.

Nikhil Arora:

Hi Hani and hi Fotios. Thank you so much for hosting the call. A couple of questions from my side. First one is in continuation of the last gentleman's question. So, you said leverage IRR of 11% to 14%. Can you help us understand what kind of leverage are we assuming here versus equity contribution for these vessels?

Secondly, can you tell us what kind of vessels are these? I see that you are saying these are newbuild LNGCs. But which ones exactly, like MEGI or is it the XDF or is it like a Q-Max?

And so, third question that I have is, if you can elaborate something on the North field expansion because we have been kind of reading that it has been delayed by one year. So, what does that mean for you guys? And when can we expect that leg of the expansion to begin? Thank you.

Hani Abuaker:

Okay. I'll take question number one and question number three and then leave the one in the middle for Fotios to elaborate. In LNG shipping sector, you can estimate a 20% equity, and 80% debt from lenders. If you have a longer contract, we can go to 10% equity, and 90% debt from lenders. So, this is the reason that your lever IRR becomes more attractive in a range of 11% to 14%.

However, we have seen some vessels with lower leveraged at 75% and equity at 25%. There is not a strict rule, it really depends on the business opportunity. Nevertheless, we usually target something around 20/80. That's the number.

In regard to the North field expansion, this is something that only Qatar Petroleum and Qatargas can comment. For us, they are our major customers. We should mention that we always want to serve them, and we have a long-term relationship with them. So, it's up to them to decide and to plan their time and their schedule.

We, as a global LNG shipping company, can lift any international capacity as we have done all these years even through some of our joint ventures. In this way, we ensure to have a sustainable growth for our company and shareholders.

Fotios, you can take the second one.



Fotios Zeritis:

Yeah. Can you please repeat the second one? I'm sorry about that it was long question, so I missed it. Can you repeat it, please?

Nikhil Arora:

What I was trying to ask you is on the new vessels again. So, you said that the commercial terms are under negotiation. So, we understand the confidentiality part. But can you at least tell us whether these vessels are kind of in anticipation of new business or are you quite certain that you will get this business?

Fotios Zeritis:

As we previously discussed, as the world's largest LNG shipping company, we have strong relationships with our current charterers and potentially new ones.

Currently, we are in negotiations with charterers. We do not actually like to disclose specific items such as how we compete for these businesses. You need to understand that there is a kind of high sensitivity in these matters with charterers who are willing to charter these vessels. It is a common practice in shipping not to disclose confidential issues or negotiations with our charterers. Thus, we will inform you when we have something firm on this matter.

Nikhil Arora:

Okay. Thank you. And sorry, what's the kind of vessel these are, like based on the propulsion method? Is it an MEGI?

Fotios Zeritis:

Actually, all four of the vessels are with the new propulsion technology. We have two MEGIs and two XDFs.

Nikhil Arora:

Okay. All right. Thank you.

Operator:

We'll go next to Maya Bou Kheir with Schrodgers.

Maya Bou Kheir:

Hi Hani. Hi Fotios. Thank you for the call. I just wanted to confirm, you mentioned that 75-80% of the total debt is fixed. But the debt on the balance sheet is mostly fixed, right?

Hani Abuaker:

The debt mix of the balance sheet should also be also on the range of 75-80% fixed. Usually, we quote a fixed debt of approximately 80%, which includes our jointly owned vessels. So, I hope that I answered your question.

Maya Bou Kheir:

Yeah. Great! I just want to get the LPG outlook for rest of the year. Do you see that trend in Q1 continuing?

Fotios Zeritis:

In general, nobody can be certain for anything under the current circumstances of COVID-19. Whoever try to forecast anything or to take the chance to comment on something, it will definitely be very challenging and not certain. However, I can tell you that the LPG shipping has improved from last year. Nevertheless, we need to see if this improved trend will continue under these unprecedented moments.

Many things are going to change after COVID-19 era worldwide. COVID-19 has influenced the global economy, put an unprecedented pressure on the price of oil. So, we cannot be certain for anything at the moment. I can tell you that we will see a kind of volatile market in LPG in the next

quarters. Maybe the arbitrage opportunities will be tighter for the next quarters, but the long-term picture is favorable for the LPG shipping, but you must see the long-term picture. Hopefully, I answered your question.

Maya Bou Kheir:

Yeah. That's very clear. Also, one more thing to ask about is the shipyard's activity. I mean, has this seen any disruption from the COVID-19 crisis? I mean, I do know that last year we had a drop-in activity due to increased insurance premiums on tankers being in the region. So, year-on-year probably that would mean lower impact. But, I mean, are we going to turn into another loss for the shipyard this year?

Hani Abuaker:

Okay. I will start on a good note about the LPG shipping rates. If you look at the LPG shipping rates as of today, you can see still strong numbers despite what is happening around the world and even about oil or COVID-19. So, let's keep our fingers crossed and hopefully, this improved trend to be sustained.

For the shipyard business, we have negatively impacted by COVID-19. We have seen some delays on vessels to visit us or service engineers to visit the vessels. Nevertheless, we try to minimize that exposure from that segment as we've done in the past. We hope that we will continue to see a better performance compared to the previous year.

As we have mentioned previously, the shipyard business is always expected to contribute plus or minus of 2-3% or neutral sometimes to our total performance. We will continue to do our bests on that segment. Hopefully, the LPG shipping rates will maintain a strong momentum in the coming two quarters; then the LPG shipping performance could offset all the other potential impact on the shipyard's performance as a group level.

Maya Bou Kheir:

Great. I guess I'll just ask the last question. I know you've discussed this over many other questions. But I understand that you're currently in negotiations for the new vessels. But I'm thinking in case you do not reach an agreement before the time; the vessel gets delivered. Would you – I mean, what alternative do you have? Would you be placing these vessels in the spot markets?

Hani Abuaker:

All options are open. You must understand that sometimes the vessels should be traded on the open market during the interim period until they will be eventually delivered to a charterer for a term period. This interim period can be a few weeks or months. It depends on many parameters. Thus, we try our bests during this period.

Fotios Zeritis:

Also, I would like to elaborate further on this. You also need to understand that these assets have a very long life of 35 to 40 years. When we invest in these types of assets, we always look at the long-term value that we can get for our shareholders. We are not looking only at the presence.

Maya Bou Kheir:

Great! Thank you so much for the question – answering my questions and stay safe.

Hani Abuaker:

You too.

Operator:

And at this time, there are no further questions – I do apologize, we'll go next to Nikhil Arora with Franklin Templeton.



Nikhil Arora:

Yes, hi gentlemen. Sorry, it's me again. If I may ask a couple of more questions. So, on the slide show again on the last new slide that you have added, where you have shown some contingency provisions taken for Gulf LPG and N-KOM and NDSQ. I mean, going into 2020, could we expect more of these or were these like completely one-offs, because I think these kinds of relate to your shipyards which are not generating probably enough ROE?

Hani Abuaker:

No, you shouldn't really expect any of these things in the future. To be honest with you, we are very conservative in our estimates when we did the acquisition and revaluation of the current asset of INSW. On top of this, we even looked after the transition costs which is the infrastructure that we have built for our own LNG to transfer the operations.

Regarding the shipyard's side, we ensured over time that if there's any sort of impairment to some of the machine's lifetime. If any potential exposure could happen in the future, we brought it down to 2019 and we let it go. So, if things are good and performing very well, you're going to reap the benefits in the future by having lower depreciation.

For instance, the LPG shipping rates is doing phenomenal with positive impact on our business. However, the value of these vessels sometimes goes below the expected market and maybe some people do not understand the level of volatility of this segment. However, we don't foresee anything potentially happen in the future. For this reason, I said that it made our balance sheet stronger. We are being conservative while we chose to reduce potential future depreciation expenses.

Nikhil Arora:

Okay. All right. Thank you for that. And I think that you have mentioned this during the call, but it wasn't very clear to me. So, you said that the wholly owned vessels are all on 25-year charterers, so which means that the first expiry of those will be somewhere in the 2030s. And then you also said that on the JV front, some of the vessels are on seven to ten-year contracts. But could you tell us like what's the kind of weighted average, let's say, tenure of the JV side? And if you can confirm if I'm right on the wholly owned vessel side?

Hani Abuaker:

No. Let me elaborate a little bit more and then Fotios can even elaborate further if he can clarify. After the acquisition of 4 Q-flexs, we have 29 wholly owned LNGCs which are chartered with Qatargas for 25 years.

However, we have some vessels that are being chartered through different international charters and they are not link to Qatari entities. These vessels have seven to ten years contracts and we have some for five years contracts and some one or two- or three-years charter contracts.

Nikhil Arora:

Yes. That's very clear. Thank you so much for that. Just one last question from my side is that I see in your 2019 annual report that you mentioned something called NSQL managed vessels. And then you write them separate to the wholly owned vessels. Can you just elaborate what's the difference between the two? And what does NSQL management really mean? Thank you.

Hani Abuaker:

Okay. Basically, the NSQL is our operating shipping arm company. So, we have Nakilat Inc., which is legal structure that owns the vessels and we have also our operating arm, which is called Nakilat Shipping Qatar Limited. In simple words, Nakilat Shipping Qatar Limited is currently



operates 14 LNG vessels and 4 LPG vessels (50-50 owned with Milaha). In addition, we are going to receive another 7 LNGCs and the 4 newbuilds and the FSRU in the near future.

So, NSQL is our operating company. In shipping industry, it is a common practice to have both a ship owning company and a ship operating company.

Nikhil Arora:

Yeah. Thank you, gentlemen.

Hani Abuaker:

Thank you.

Operator:

And at this time, there are no further questions.

Ahmed Hazem:

Okay. Thank you, operator. I think that we don't have any further questions. Mr Hani and Mr Fotios, if you'd like to close with some closing remarks for the call?

Hani Abuaker:

First of all, thank you all for your great participation in our 1Q20 conference call. If you have any further questions or clarifications, Fotios and myself are always reachable and please feel free to talk to us. So, thank you again for taking the time and participating in our conference call. Once again, please stay safe and healthy and we're looking forward in the near future to see you again in person hopefully in a very near future.

All your question and concern, as usually, as we said before, we discuss it with our management, and we highlight with even with our CEO to understand how better we can address your recommendation or concern. And again, at the end we think that we're going all go through this

unprecedented situation and hoping for you guys to see you in the near future. And I leave it for Fotios.

Fotios Zeritis:

Thank you so much guys for participating during this challenging time. Please, stay safe. Try to take care of yourself and your families. We highly appreciate your attendance in this call.

We always encourage you to reach us through telephone calls. All your questions were well received, and we will make sure that we'll communicate the capital market's feedback to Nakilat senior management. Thank you so much for taking your time to join us. Have a great day!

Ahmed Hazem:

Thank you Mr Hani. Thank you Mr Fotios. That will end the call.

Operator:

Thank you. This does conclude today's conference. We thank you for your participation.