



## **Qatar Gas Transport Company - Nakilat (QE: QGTS)**

### **1Q21 Earnings Results Conference Call Transcript**

April 19<sup>th</sup>, 2021

**Hosting:** EFG Hermes Holding

**Title:** Nakilat 1Q21 Earnings Results Conference Call

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

**Date:** Monday, 19<sup>th</sup> April 2021

**Time:** Qatar – 13:30

**Executives:**

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

**Questions by:**

- 1) Santosh Gupta - Drewry Maritime Research
- 2) Onkar Jambhale - Decimal Point Analytics
- 3) Ahmed Hazem - EFG Hermes
- 4) Divye Arora – Daman Investments
- 5) Akber Khan – Al Rayan Investments

**Ahmed Hazem:**

Hello, good morning and good evening, ladies and gentlemen, and Ramadan Kareem. This Ahmed Hazem from EFG Hermes Research. We would like to welcome you all today to the Nakilat 1Q21 results conference call. We have with us on the line Mr. Hani Abuaker, CFO of Nakilat, and Mr. Fotios Zeritis, Head of Investor Relations. I'd like to start off by congratulating Nakilat on the results and then hand over the call to Fotios. Fotios, please go ahead.

**Fotios Zeritis:**

Good Afternoon and welcome to Nakilat's First Quarter 2021 Conference Call. For your convenience, the transcript of this call and presentation will be available on the company's investor relations section of our website, [www.nakilat.com](http://www.nakilat.com). As a reminder, this conference call is being recorded.



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.

Nakilat's CFO Hani Abuaker will begin today's call with a discussion of company's highlights and followed by a brief discussion of group's earnings results. After, I will give you an overview of LNG shipping market. And finally, Nakilat's CFO Hani Abuaker will walk you through the company's business outlook. We will then be happy to address your questions.

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

**Hani Abuaker:**

Thank you Fotios. Ramadan Kareem to everyone and welcome to Nakilat's First Quarter 2021 earnings results presentation. Together with our Head of Investor Relations Fotios Zeritis, I will guide you through today's presentation.

I hope that all of you and your families are safe and follow the precautionous measures against COVID-19. Before we get into our results, we will take a moment to say thank you to all our seafarers and shore-based staff for their extraordinary dedication to maintain business continuity and resilience during these challenging moments bringing cleaner energy to the world without disruptions or delays.

In spite of the ongoing COVID-19 restrictions worldwide, Nakilat successfully managed to receive the delivery of its 2<sup>nd</sup> newbuild LNG carrier during the month of January 2021 on time and budget. This is a substantial testament of Nakilat's technical and operating management as well as our seafarers' commitment to excellence.

Now, please turn to slides 8 and 9 of the presentation. Despite the COVID-19 pandemic challenges and market volatility, I am pleased to announce

that Nakilat reported a profit of QAR 320.1 million or QAR 0.06 per share for the first quarter of 2021, an 14.5% increase compared to the same period in 2020 which was effectively supported by streamlining of our business expenses and creating additional savings to ensure the continuation of sustainable returns to our shareholders. Specifically, Nakilat's G&A and operating expenses decreased by 28.1% and 4.1% respectively compared to the same period in 2020 due to Nakilat management's emphasis on cost rationalization structure and on economies of scales.

Nakilat's EBITDA reached at QAR 803 million in 1Q21. This continues to be aligned with Nakilat's goal to maximize sustainable bottom-line growth and create value for its shareholders in the way, we efficiently deliver our services in order to maintain healthy cash-flows for our shareholders.

Last but not least, Nakilat's current ratio is at 1.30 and the Return on Equity has stood at 12.77% due to the full utilization of our growing fleet and our efforts at cost streamlining.

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. Hello everyone and Ramadan Kareem!

I will give you a brief update of the LNG shipping market. We are glad to see that COVID-19 vaccines are being rolled out worldwide, and as a result of this, it might have a positive impact on the world economy and demand for LNG shipping.

According to Clarksons, the seaborne LNG trade growth is projected to pick up to 5.6% in 2021 from the estimated 1.6% growth in 2020. Some support is expected to be provided from an uptick in global gas demand as Covid-19 restrictions are eased back, as well as LNG export project start-



ups. Tonne-mile trade is forecast to grow by 9.1%, on the back of expected firm US export and Chinese import growth.

Now, please turn to the slides 13 to slide 14 in our presentation. According to SSY, the current spot charter rates for modern two-stroke tonnage is around ~\$52,000 per day, ~\$42,000 per day for DFDEs, and ~\$30,000 per day for STEAMs. The term contracts which dominate the LNG shipping chartering have not been impacted substantially like the spot market. SSY assesses the one-year LNG shipping charter rates at ~\$72,000pd for MEGIs/XDFs, ~\$60,000pd for DFDEs, ~\$33,000pd for STEAMs which is a helpful benchmark when an owner discusses term charter opportunities.

Now, please turn to slide 14 of our presentation. In the 2020, the LNG newbuilding costs have been stabilized at an average price of ~\$187 million. Furthermore, you can see the global LNG fleet has 556 vessels in operation and another 129 conventional LNG vessels on the orderbook until 2025 as per Clarksons. This implies an increase of ~24% of total LNG fleet, in terms of number of conventional LNG vessels as of March 2021.

The long-term fundamentals of global LNG shipping are healthy which would be beneficial for Nakilat due to the fact that our core competency is around the transportation of LNG.

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 for the brief overview of LNG shipping market during the 1<sup>st</sup> quarter of 2021.

Nakilat's ships are a critical component of the global LNG value chain that acts as the flexible floating pipelines, which offer loading and destination flexibility. Nakilat's unique portfolio of long-term fixed-price contracts will continue to allow us to generate consistent cash flows, further reduce our leverage and return capital to our shareholders. The unique tailwinds

in the global LNG industry provide a strong outlook for our shipping business in 2021 and beyond, and we believe the steps that we are taking today to further strengthen our financial foundation will position us well for the future. All of these make Nakilat to represent a compelling investment vehicle for the global investors.

Moving on to slide 16, I will shortly discuss about Nakilat's business outlook before we open the floor for the questions and answers session.

In 2021, we expect to see another successful year for Nakilat due to the managements' focus to expand its own core LNG shipping business and to persist to streamline its operating expenses. In the second half of 2021, we expect to receive the 3rd newbuild jointly owned LNG carrier under Nakilat's commercial and technical management. In addition, we are closely working with the shipyard team to mitigate any adverse exposure of this segment. In addition, we are continuously screening the global LNG shipping market to identify attractive business opportunities which will add value to our company and shareholders.

Before we open the floor for questions, let me say that we will not be taking any question during today's call with the respect to QP's LNG shipping tender announcement. Nakilat cannot comment on commercial and technical details related to this tender which is a project that is owned by QP and QG. For additional details on QP's announcement, I refer you to QP's press release which is available on their website.

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

Please, go ahead.

**Operator:**

We have a question from Santosh Gupta - Drewry Maritime Research. Santosh, your line is unmuted. Please, go ahead.

**Santosh Gupta:**

Hi, Hani and Fotios. I hope you are doing well. I have two questions. The first question is regarding to the results. I want to understand what is driving the decline in operating costs for the last two quarters. I think this quarter, we have seen operating costs declining by 4.1%. My 2<sup>nd</sup> question is that we have come across the plans of GasLog, which is another big player in the LNG shipping, to go private, following acquisition by BlackRock. So, is Nakilat looking at potential acquisition opportunities in the market? These are the two questions, if you can answer, please.

**Hani Abuaker:**

In regard to operating expenses, we have discussed it a couple of times in the past. Basically, we create economies of scale through taking more vessels under our in-house management. It allows us to better utilize our existing resources over time. Nakilat has built all the required capabilities to be a world's class LNG ship operator since 2007-08.

As long as we take more and more vessels in-house and we have a bigger fleet under our management, it allows us to enjoy the required economies of scale and synergies to utilize effectively our existing resources. In addition, as you understand, we, as a company, with the size that are growing and with the expertise that is being developed over the years, we can try to secure a more cost-effective way to manage our third parties vendors.

We continuously ensure to streamline our costs and achieve better savings in the way, we deliver our duties to operate our fleet. We will continue to see this trend of savings as long as our fleet is becoming bigger. It is our duty to manage our operating costs, to work with our vendors and suppliers, and to ensure that Nakilat is a cost resilient.

Regarding your 2<sup>nd</sup> question about consolidation, we have seen it in the LNG shipping market with different entities. There is some sort of consolidation. As you understand, we, at Nakilat, have always been screening the global LNG shipping market for attractive business

opportunities. For example, we acquired the INSW's remaining stake in 2019. It is worth of mentioning that we are always open to new business opportunities; however, it always depends on the economics and if it makes sense in terms of the risk/return levels. We are always exploring new business opportunities. This could happen through different means either acquiring new assets or finding new business opportunities etc. This is something that we have done over the last years. I hope that I answered your questions.

**Santosh Gupta:**

Sure. Thank you!

**Onkar Jambhale:**

Thank you for the presentation and opportunity. I have one question related to the outlook for 2021, especially for LNG and shipyard business.

**Hani Abuaker:**

In regard to the LNG business performance, the year of 2021 is expected to be another good year for us. As you understand, our business model is very resilient and solid. We will continue to enjoy a good performance while we are creating savings in our operating cost base. You should expect that as we deleverage, our interests spend would be less and to increase our savings. We may see a better performance in our JV's LNG shipping segment which will contribute to better performance. Usually, we see this trend during the following three quarters of the year.

Regarding the shipyard business, it looks like that the outlook is going to be improved during 2021. Our shipyard team is working hard to mitigate any potential impact. We see a better outlook for our shipyard entities after the development of COVID-19, during the last three or four quarters. So far, all the indications are moving in the right direction. If we assume that things do not get worse, we should expect a better set of results in the following three quarters.



**Onkar Jambhale:**

Regarding the LPG shipping, what is the outlook?

**Hani Abuaker:**

Also, the LPG shipping rates have shown good results during the first quarter of 2021. I will leave it up to Fotios to give us an update about the LPG shipping outlook. Fotios, can you please give us an update on the LPG shipping outlook?

**Fotios Zeritis:**

According to Clarksons, the VLGCs average charter rate was approximately \$46,500 per day. The current VLGC spot rate is approximately \$33,000 per day. As you know, there is a seasonality in LPG shipping business. For the year of 2020, the global seaborne LPG volumes fell by over 2% year-on-year to 106.8 million tons. The current fleet orderbook remains at reasonable levels and supports the VLGC market for the medium-long term. Market expects that supply side inefficiencies, improved US production and demand pull from Asia set to support freight. I hope that I have answered your question.

**Onkar Jambhale:**

Thanks

**Ahmed Hazem:**

My question here is on the debt side. When should we expect a sizable repayment in debt to the point that you can effectively restructure and benefit from the lower interest rates? I understand that there is a hedge on the interest. But is there a mismatch in maturity in the hedge or will you basically benefit from any possible restructuring down the line?

**Hani Abuaker:**

Thanks, Ahmed. I think that we have repeatedly answered to this question. For the assets that has being hedged until the end of the 25-years firm



contract, there is not much we can do about it. However, we have, in some of our joint ventures and even some of the vessels that we took over with INSW, they will go through a refinancing phase in 2022-23.

For these assets, we are going to have a refinance opportunity with a lower interest rate since these assets are fully hedged at almost 100%. For these assets, should be some potential savings for Nakilat in 2022-23. For everything else, as the debt maturity comes, we can refinance and then try to achieve a lower financing cost. I hope that I answered your question Ahmed.

**Ahmed Hazem:**

Yes, very clear. Thank you very much.

**Operator:**

We have a question from Divye Arora of Daman Investments. Your line is open, please go ahead.

**Divye Arora:**

Hi, gentlemen, thank you for the call. Just a question on, I think somebody was touching on the hedging component of the debt. If you could clarify what portion of your debt is hedged.

**Hani Abuaker:**

On a Group level (including JVs), you could say approximately the 75% is being hedged.

**Divye Arora:**

In terms of the expansion's plans, it is mentioned in your presentation that there are two more newbuilds coming this year in 2021-22. Beyond that, we have no further visibility, right?

**Hani Abuaker:**

Beyond that, we don't have any visibility and we haven't announced anything.

**Divye Arora:**

Anything you want to comment on regarding the Qatar North Field project? They have signed some contractors to build the fields and that might take 3 to 4 years, but have any discussions started with Qatargas in terms of the future transportation or for the field in the future in 2024 and 2025?

**Hani Abuaker:**

We just informed all call participants before we started the question and answers session that we were not going to be taking any questions about the QP LNG shipping tender announcement. We do not comment on the commercial and technical details related to this tender and we leave it up to them to what they can announce. So if you need any further details, just go to QP's website and you can see what they have announced as of today.

**Divye Arora:**

Let's not talk about them, but any client, any major client, who is looking to expand capacity and expand production.

**Hani Abuaker:**

Absolutely. We are out there.

**Divye Arora:**

My question is if any client has signed to expand capacity, how much before the capacity coming online, they will come and start talking to the vessel operators? Will it be two years before they will start to come and talk and come and seek the vessel?



**Hani Abuaker:**

Absolutely. Fotios, maybe you can take that question, please.

**Fotios Zeritis:**

This is something that we do not know. Every charterer is different, and it has a different approach on how to select an LNG shipping operator. However, what I can tell you is that the construction of an LNG newbuild carriers needs approximately 3 years. You can do a back calculation to understand when the vessel is needed and when the vessel will be ready to start to transport LNG.

Of course, the indication of 3 years can be changed due to many parameters such as the number of ships order, the size of vessels, the required technology, and specifications of the vessels, how many ship orders the shipyard has at the moment of order etc. But as a general rule of thumb, three years is a good indication of building an LNG carrier.

**Divye Arora:**

So, let's say a company was looking to increase production of gas, in general, so I'm just trying to understand how much is the LNG supply in the market right now? So, they may not even need to go to anyone and give them an order for the vessel, because there is enough of a level in the market. They can just pick it up in the market and put it on the long-term charter.

So, is that what we should look at or it depends how many vessels they want? And they will go three years ahead and tell the vessel company that owns the vessels that they will need maybe ten or 20 more vessels in the next three years and give them a contract, so that those guys get the vessel built in the next three years.

**Fotios Zeritis:**

It is always charterer's decision. The charterer will decide how many vessels it needs and when. The charterer will decide if they want to secure

existing vessels from the shipping market or to select a newbuild order with their vessel specifications etc. It depends on the needs of each charterer around the world. Every charterer has a different commercial approach and a different strategy. Globally, we have seen charterers to secure vessels from the existing supply of vessels and we see charterers to want to charter newbuilds with their own specifications. This can only be answered from each charterer separately. The charterer decides due to the fact that the charterer gets in a long-term contact with a shipowner for a specific vessel for many years and needs to make sure that this vessel meet the charter's requirements. The shipowner supervises the construction of newbuild vessel.

**Divye Arora:**

Okay. That is clear. In terms of the demand supply situation in the market. In 2020, you mentioned that there are 543 vessels in total. And in 2021, I think 41 more vessels are coming, that is what you mentioned. Can you comment on the inflation rate in the market? Are most of these vessels contracted? What percentage of these vessels are contracted and not contracted in the market?

**Fotios Zeritis:**

If you want to ask me how many vessels have been contracted with duration of 6 months plus contracts, I can tell you that this number is estimated approximately 90% of the existing fleet and the remaining is on the spot mark.

**Divye Arora:**

Okay. Thank you.

**Hani Abuaker on behalf of Akber Khan:**

I think one of the participants is trying to press star, one, but it's not working, and he's asking about what we are doing about ESG in Nakilat and why we are still not yet being rated on QSE. I think there is a great

initiative that the company has embarked in 2021 to build the required ESG framework into our business model. So, Fotios, if you can please answer. By the way, this question is coming from Mr. Akbar Khan from Al Rayan Investments. So, Fotios, if you can please summarize about Nakilat's ESG initiatives in 2021.

**Fotios Zeritis:**

First of all, let me tell you that you need to understand that Nakilat's equity story is an ESG story by itself since Nakilat delivers cleaner energy to the global community.

Nakilat takes seriously any element of sustainability and environmental protections. The world demands more governance transparency and better commitment as well as a greater responsibility toward society, climate and environment.

For this reason, Nakilat is always committed to comply with pollution thresholds imposed by IMO 2020 (International Maritime Organization) about a healthier and greener environment. Now, Nakilat is working internally to implement the new ESG reporting system for the company.

This will be a very well structured ESG reporting system, which will make Nakilat's ESG report to be in line with the international ESG standards. This ESG report will meet the expectations of capital markets and current shareholders. Nakilat is an ESG story since we deliver cleaner energy around the world and we have a very positive impact on the global society. I think that I have answered your question.

**Hani Abuaker:**

What I would like to emphasize is that ESG is a frequent topic that is being discussed in our board discussions and we are fully committed. In 2020, we were putting in place a roadmap to implement our ESG reporting and hopefully, in 2021, you will see the results of this effort. I am pleased to say that hopefully, in fourth quarter of this year, we will start to publish



our first ESG report which is expected to meet the different stakeholders' requirements.

**Ahmed Hazem:**

Thank you, Mr. Hani and Mr. Fotios, would you like to make some closing remarks?

**Hani Abuaker:**

Thank you very much, everyone, for listening to us and your continued interest in the Nakilat's equity story. We really appreciate your call participation, and we look forward to speaking to you, hopefully, one day in the next two quarters, in person, when things go back to normal.

In the meantime, if you have any questions, please contact Fotios and I'm sure he will be able to address your enquiries and questions. Other than that, please stay safe and healthy, and thank you very much.

**Fotios Zeritis:**

Thank you so much for participating in this call. All your questions were well received, and we will communicate with our top management. Please, be safe and take care of yourselves and your family. Thank you so much.