



Qatar Gas Transport Company - Nakilat (QE: QGTS)

2Q21 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) Lee Beswick - QNB
- 2) Santosh Gupta - Drewry Maritime Research
- 3) Meet Bhatt – Axience
- 4) Nafez Alabbas - Ajeej Capital
- 5) Ahmed Hazem - EFG Hermes Research
- 6) Maya Bou Kheir – Schroders
- 7) Nikhil Arora - Franklin Templeton

Ahmed Hazem:

Good evening, ladies and gentlemen. I hope everyone is staying safe and healthy. This is Ahmed Hazem, from EFG Hermes Research. We are pleased to welcome you all today to Nakilat's first half of 2021 results conference call. We have with us Mr. Hani Abuaker, CFO of Nakilat, and Mr. Fotios Zeritis, Head of Investor Relations. First of all, I'd like to congratulate management for a very solid set of results and now I will hand over the call to Fotios. Please, go ahead.

Fotios Zeritis:

Good Afternoon and welcome to Nakilat's semi-annual 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. 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 and welcome to Nakilat's semi-annual earnings results presentation for 2021. I hope that all of you and your families are safe and follow the precautions against COVID-19.

Once again, before we get into our results, we will take a moment once again 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.

Now, please turn to slides 8 and 9 of the presentation. Despite the COVID-19 pandemic challenges, I am pleased to announce that Nakilat reported a profit of QAR 636 million or QAR 0.11 per share for the first half of 2021, an 15.6% increase compared to the same period in 2020 which was effectively supported by streamlining of our expenses and creating additional savings to ensure sustainable returns to our shareholders. Specifically, Nakilat's G&A and operating expenses decreased by 18.6% and 2.4% respectively compared to the same period in 2020 due to Nakilat management's emphasis on cost rationalization structure and on

economies of scales. All the above, emphasize Nakilat's ability to deliver required earnings and operating cash-flow during any cycle of LNG shipping market.

Nakilat's EBITDA reached at QAR 1.6 billion in 1H21 due to operational excellence in the management of its entire fleet. Nakilat's goal is always to maximize sustainable bottom-line growth and create value for its shareholders.

Finally, Nakilat's current ratio is at 1.31, and the Return on Equity is at 12.7% due to our strategy of optimizing utilization of our fleet and our continuous efforts of cost savings, which benefits all our stakeholders.

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!

I will give you a brief update of the LNG shipping market. The market participants retain their positive long-term outlook on LNG as its share has been rising in the energy mix for most economies under their decarbonization goals.

According to Drewry, LNG imports for the top five Asian countries grew by 12% in 1H21 due to 1) the harsh winter season which depleted their gas storages, 2) lower nuclear output, and 3) an increase in the coal-to-gas switch. Specifically, China's and Japan's LNG imports in 1H21 are up 26% and 9% from 2020 respectively. Global LNG exports for 2H21 have been increased by 15% YoY.

LNG shipping will also benefit from the positive LNG trade outlook as it translates to a rise in shipping demand. Drewry projects LNG shipping's tonne-mile demand to increase at a CAGR of 8.1% by 2026.

Now, please turn to the slides 7 to slide 8 in our presentation. According to Poten, the current spot charter rates for modern two-stroke tonnage is



around ~\$90,000 per day, ~\$75,000 per day for DFDEs, and ~\$60,000 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 ~\$105,000pd for MEGIs/XDFs, ~\$90,000pd for DFDEs, ~\$55,000pd for STEAMs which is a helpful benchmark when an owner discusses term charter opportunities.

Now, please turn to slide 9 of our presentation. In 2021, you can see the global LNG fleet has 556 vessels in operation and another 153 conventional LNG vessels on the orderbook until 2025 as per Clarksons. This implies an increase of ~28% of total LNG fleet, in terms of number of conventional LNG vessels as of July 2021.

Currently, LNG shipping markets are enjoying counter-seasonal strength for numerous reasons, primarily due to fundamental LNG demand. 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 first half of 2021. In 2021, we expect to see another successful year for Nakilat due to the management effort to maximize the utilization of the entire fleet and to optimize our operating expenses.

In the second half of 2021, we expect to receive our third new-build, jointly owned carrier under Nakilat's commercial and technical management. In addition, we are closely working to make sure that we optimize all our costs to the shipyard team and to mitigate any sort of adverse exposure to this segment.



In addition, we are continuously working and 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 Lee Beswick - QNB. Lee your line is unmuted. Please, go ahead.

Lee Beswick:

Hi. Thanks for the presentation. Just a quick question on margins going forward, not necessarily related to QP, it could be related to anything to be honest, new ships. Correct me if I'm wrong but the day rates that you have on the current fleet are around \$120,000 per day. Is that correct?

Fotios Zeritis:

We do not comment on the charter rates of Nakilat's fleet. It is a commercial sensitivity. We do not disclose this type of information related to charter rates of Nakilat's ships.

Lee Beswick:

Okay. You are not going to give us any idea where they are, at all, in relation to current day rates?



Fotios Zeritis:

If you want to understand what is the average charter rate for a newbuild vessel in the last ten years, I can tell you, as a reference indicative number for the market, is \$75,000 per day on average in last ten years for the global LNG shipping.

Lee Beswick:

Okay. I just wondered if you sign something today what the typical margins would be, especially considering the LNG newbuild price of ships. I presume you're going to be going up if steel prices are up 50% over the five-year average, so it will cost more to build a new ship irrespective of anything else. So, I'm just wondering how the margins would look, given ship prices will inevitably have to go up and day rates are not going up right now.

Fotios Zeritis:

I just want to mention some facts. Historically, the LNG newbuild vessels price is approximately \$200 million. This can be changed in good times and bad times based on the shipping cycle. For example, it can be ranged from \$180 million to \$220 million. The average price of this range is \$200 million. Currently, the LNG newbuild carrier price is approximately \$200 million. In terms of the expected returns, Nakilat is always looking for double-digit level of leveraged IRR and it is in-line with any deals that Nakilat has done in the past. However, I will let the CFO to elaborate further on this matter if it is needed.

Hani Abuaker:

Yes, exactly, Fotios

Lee Beswick:

So, there's been no indication that the price of new-build ships has gone up, given the steel price is double what it was five years ago and 50%

higher than what it was a couple of years ago? There's no indication that the price of ships has gone up yet?

Fotios Zeritis:

Currently, if somebody wants to go ahead and place a LNG newbuild vessel order, it costs approximately at \$195 million but this is a simple indication because it depends on the type of technical specifications of the vessel that will fit in, it depends on the size of the vessels and other parameters. For your reference, it currently costs approximately \$195-\$200 million.

If you asked me the same question, let's say 6-8 months ago, it was approximately \$185 million. So, this is only a price indication. If somebody wants now to go ahead and place a LNG newbuild vessel order, let's say you are a ship owner and you want to place an order, it will cost you approximately \$195-\$200 million.

Santosh Gupta:

Hi, Fotios. I wanted to know about how your LPG earnings had been and what is your outlook for LPG, in general? I have a follow-up question, as well, not related to LPG but to steam turbine vessels. Recently, we have seen the EEXI regulations. I think they are going to come. How do you see adherence to these regulations? That is all from my side. Thank you.

Fotios Zeritis:

I can take this question. Regarding the LPG shipping, Nakilat owns only four LPG carriers which means that we have a minor exposure on LPG shipping relative to our LNG shipping exposure. The approximate VLGC rate in 2020 was \$46,000 per day on average-wise. Currently, the VLGC rates have been dropped due to seasonality but the VLGC average for the first half of year of 2021 is approximately \$38,000.

The current VLGC fleet orderbook remains at reasonable levels and supports VLGC market in the medium and long-term. Looking to the

future, the market participants expect an optimistic view but as you know, LPG shipping is much more volatile than LNG shipping. The majority of LNG shipping contracts are medium term or long-term in terms of duration than LPG shipping.

Regarding EEXI, what I want to tell you is that Nakilat always complies with the regulations of IMO. We have done it during of all these years and we will continue to do it with the new IMO regulations. We expect that the new regulation will impact the shipping market which has to comply with the new IMO's regulations. Please, note that Nakilat's steam vessels are still on term contract. From Nakilat's perspective, we will continue to comply with IMO. This is what we can say and what we do always. I hope that I answered your questions.

Santosh Gupta:

Yes, thanks

Meet Bhatt:

Hi. Thanks for the report. I just have only one question. Can you give us some sense of why was there a decline in the JV income in Q2 compared to Q1'21? If you can give us a sense of that.

Hani Abuaker:

We had a one-time item charge in the shipyard entity for a legacy cost and we took it during the 2Q21. So, we expect 3Q21 to normalize and be in line with the results of 1Q21. Hopefully, it will be better than 1Q21 due the fact that shipyard entities have operationally performed better but we took this one-time charge in 2Q21 and that makes the difference.

So, we should expect 3Q21 to be stronger and better than 2Q21 and 1Q21 for the joint venture. I hope that I answered your question.



Meet Bhatt:

Yes. Should we expect any reversal in the charge which you have taken, or will it be there on the books?

Hani Abuaker:

It will continue to be in the books. We, as a company, have looked at this potential cost and we made a prudent decision to take that charge. However, we believe in 3Q21, when that charge is not being present, due to the fact that the shipyard facility, from an operational point of view, is doing very well. So, you will start to see improved results in 3Q21 compared to to Q1 and Q2 alone, by itself.

Nafez Alabbas:

Thank you, gentlemen, for the presentation. Just as a follow-up from the previous question. How much was the charge in 2Q21 on the shipyard?

Hani Abuaker:

We have not disclosed it exactly, but if you really remove that charge, it should normalize with the 1Q21 results.

Nafez Alabbas:

I see. Thank you

Ahmed Hazem:

I will take this opportunity to ask a question myself, if I may. Can we get a sense on when you will continue the ship management transition and getting the rest of the vessels to be managed in-house? Thank you.

Hani Abuaker:

Ahmed, as you can see, we are transferring the ship management in house. Currently, for the delivered newbuild vessels, we are the one who is managing them. So, for the next two ships that are coming up this fall and early 2022, we will manage them as well. Note that we just took the FSRU.

Regarding ship management, I am sure that we will disclose if we are ever going to be planning to take more further ship management in due time. You have to understand that we always try to have the required capacity in-house in case there are new business opportunities that might rise at any time, so we should be able to take the advantage to capture it. As of today, our focus is on taking delivery of the next two newbuild LNG ships to ensure be managed technically and commercially by our team. We took the FSRU in December 2020.

As you know, we are exploring a lot of global opportunities. If they come, then we will be the one who is managing it technically. If there is anything comes as an opportunity, we will let you know, guys, in due course.

Ahmed Hazem:

Thank you

Maya Bou Kheir:

Hi, Fotios and Hani. Thank you for the call. Maybe, following up on what you just said, I'd like to understand what would your operational capacity be to take on a big order of vessels. Can you handle, let's say, ten new vessels at the same time, coming from the Qatari supply increase, operationally?

Hani Abuaker:

Nakilat has a track record of being able to take over the operation of a large number of vessels. We have done it twice in the past with STASCO in two different phases. Specifically, we also did a number of vessels this year, and FSRU in December 2020, a couple of vessels last year, a couple of vessels this year.

So, the company infrastructure which has been built over the years has the required scalability factor built into it and we have a pool of seafarers that allows us to capture any global opportunity that might arise in future.

That also reflects what we are repeatedly saying. The cost saving that you are seeing in the G&A and Opex year-over-year, it is not a reduction but It is a sustainable savings due to the economies of scale and scalability factor built in, within our organization.

So, going forward, for us to manage more vessels based on the opportunities that might arise globally or from anywhere, we think that we can manage more vessels since we have done it twice already. As a result of this, I think that we have no issue to do for third time or fourth time.

Maya Bou Kheir:

Just to be able to understand in terms of number of vessels, when you say a large number of vessels a year, are you thinking double digits or seven, eight or ten-plus? What I'm trying to understand is, let's say, the Qatar LNG supply that's going to come by 2025 will be 33 million tonnes and that will require a certain number of vessels. I'm trying to just assess how much operational capacity Nakilat would have to take advantage of shipping these volumes.

Hani Abuaker:

As we said earlier, we do not comment on a QP's project. For any global project from anywhere in the world, if this project has a shipping requirement with a lot of numbers of vessels, be rest assured that Nakilat is ready and has the required scalability to do as much number of vessels anywhere in the world. It doesn't matter where it is being located.

Again, I do not want to comment on QP or QG because it is something that we are not commenting. As company, we are a global LNG shipping leader, and I can assure you that we can do a large number of vessels. So, please, if you have anybody who has globally 10 or 20 vessels that needs somebody to run these vessels, we are happy to do that.



Maya Bou Kheir:

Great. One more question from my end. The first two vessels, the newbuild vessels under the Maran JV that you have received over the last 12 months had short-term contracts. Have you managed to renew the charters for the first two?

Hani Abuaker:

They are still on charter. Once their contact finishes, we can provide further information but we cannot provide any further information as they are still on charter and, as you know, this is a commercial sensitivity and we do not share it with the market but they are currently on charter.

Maya Bou Kheir:

Any idea when they will be up for renewal? Can you share with us?

Hani Abuaker:

Unfortunately, I cannot do that because it is a commercially sensitive information and we would like to always keep it as part of our best interest to the company and to the shareholders of Nakilat. In this way, it allows us to negotiate and to secure always a better charter rate when we know exactly when these vessels might be renewed. But you do not have to worry about not being chartered. Most probably we will do that. However, we do not communicate it or announce it before the deal has been closed.

Maya Bou Kheir:

Great. Understood. For the third one that is coming this year, do we have a confirmed date that you can share with us?

Fotios Zeritis:

For the 3rd Newbuild LNG carrier, you should expect approximately on October/November 2021 and the last one, it is expected at the beginning of 2022, on January/February. This will give you a rough idea.



Maya Bou Kheir:

Okay. Thank you so much.

Nikhil Arora:

Hi, Hani. Hi, Fotios. Thank you so much for the call. Maybe a couple of questions from my side. First of all, just continuing with the last question that was asked. From a capacity point of view, if you were to expand would you rather go via the JV route like you have done in the recent past or, let's say, would you have the capacity to take on more debt on the standalone balance sheet and own that 100%.

Hani Abuaker:

To be honest with you, we are indifferent. I think our balance sheet is very strong. People appreciate Nakilat's equity story. People appreciate there are strong contracts that back the Nakilat story and that's why we have a corporate bond that is the best rated in the world in the shipping segment.

If we have decided to expand through the joint venture or standalone, our balance sheet, our contracts should always give us the right support to secure the required cost of funding that we need for any project

Nikhil Arora:

Thank you for that. One more question. This is not related to the North Field but to the Texas project where Qatar Gas is also involved. Has a tender for ships been floated from that project, as well, and do you intend to participate on that?

Hani Abuaker:

As we said, anything related to QP or QG, I think you will need to go and seek that information directly from through their website or their press releases. As we said, we do not comment on commercial matters that have not been disclosed publicly or anything is related to QP or QG. So, they will provide you more detail.

For us, as I just said before to Maya, we are an LNG shipping company. We have been established for the last 16 years. We are operating close to 28 vessels. We have a track record of potentially able to manage in one year a number of vessels.

So, as a global shipping company, we are happy to participate anywhere in the world in dealing with any charters or any business opportunity and usually we only disclose it when it is the right time to do so. But, anything specific to a specific project related to QP for their LNG production, Only QP can provide further details if it is needed.

Nikhil Arora:

Maybe, lastly, on your G&A expenses. Although, I think, year-on-year they continue to go down, we have seen some pick-up in the last two quarters. If you could comment on what's a more sustainable level or if Q2 is something that we can expect to be the quarterly run rate going ahead.

Hani Abuaker:

You have to understand that we had approximately 30% drop last year, we had approximately 18% now, but these levels are supposed to be more or less sustainable. As I just said, these are not about cost reduction, these are about scalability factors and cost savings. It is about us leveraging company's economies of scale with the number of vessels that we are managing.

A lot of the resources and infrastructure that were built over the years for that number of vessels to be managed is being utilized and charged as part of the Opex rather than just in the G&A side of the business. So, I'm very comfortable that this level is sustainable.

Maybe, going forward it will be at the same level or with a minor increase due to inflation but as we can see at these current levels, I think that we are almost tracking a 30-40% gap compared to the last three years, for instance. But, I see these things are sustainable levels that we can be at, at least, for the next one or two years. If we have more vessels to be managed



in the future and we have a further number of vessels increase, maybe that number will be even further optimized.

Operator:

We do not appear to be having any more questions coming through, so I'll hand it back for you to conclude.

Hani Abuaker:

I would like to thank all of you for taking the time, again, to participate in our conference call today. All your questions are well-received and hopefully we can share it also with the management of the company and we look forward to seeing you always. If you have any questions, please contact Fotios. He's always happy and maybe can provide further details if you guys require it or need it. Fotios, I'll just leave it from here with you.

Fotios Zeritis:

Thank you so much, guys, for your attention and participating in our call. Always happy to hear your feedback. Have a great day and take care of yourself and stay safe. Thank you very much.