



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

### **3Q21 Earnings Results Conference Call Script**

October 18<sup>th</sup>, 2021

**Hosting:** EFG Hermes Holding

**Title:** Nakilat 3Q21 Earnings Results Conference Call

**Moderator:** Omar Maher, Head of Telecom Coverage at EFG Hermes

**Date:** Monday, 18<sup>th</sup> October 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) Shabbir Kagalwala - Al Rayan Investment
- 2) Samer Darwiche - Amwal Capital Partners
- 3) Santosh Gupta - Drewry Maritime Financial Research
- 4) Ashish Kumar - United Securities LLC

**Omar Maher:**

Good Afternoon! My name is Omar Maher from EFG Hermes. On behalf of my colleague Ahmed Hazem, it's my pleasure to welcome everyone to Nakilat's third quarter 2021 results Conference Call.

I'm pleased to be joined by Mr. Hani Abuaker, Chief Financial Officer, and Mr. Fotios Zeritis, Head of Investor Relations. As usual, the conference call will begin with a discussion of the key highlights for the period, and this will be followed by question-and-answer (Q&A) session.

I will now hand the call over to Nakilat's management team to begin the presentation. Thank you very much.

**Fotios Zeritis:**

Good afternoon and welcome to Nakilat's third quarter 2021 results 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 everyone and welcome to Nakilat's third quarter 2021 earnings results conference call. I hope that all of you and your families are safe and staying healthy. Before getting into our great financial results, we will take a moment to thank all our seafarers and shore-based staff for their continued dedication to maintain business continuity and bringing clean and reliable energy to the world.

Now, please turn to slides 7 and 8 of the presentation. We are pleased to announce that Nakilat reported a profit of QAR 1 billion or QAR 0.18 per share for the first nine months of 2021, an 11.5% 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 4.8% and 0.9% respectively compared to the same period in 2020 due to Nakilat management's emphasis on cost rationalization structure and on economies of scales.

In addition, we remain fully focused on delivering reliable, high-quality service to our customers. This focus has allowed us to maintain a high degree of uptime and fleet utilization. All the above, emphasize Nakilat's ability to deliver required earnings and operating cash-flow for our shareholders.

Nakilat's EBITDA reached at QAR 2.4 billion in 9M21 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 1.47, and the Return on Equity is at 13.3% due to our strategy of optimizing utilization of our fleet and our continuous efforts of cost savings, which benefits all our key 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 unseasonal high in the market has boosted LNG shipowners' confidence. Charter rates have spiked during recent winter as the LNG spot market struggles to find sufficient capacity for prompt deliveries. According to Wood Mackenzie, operational fleet capacity has doubled since 2010, but more capacity is required to prevent seasonal charter rates spikes. Demand for short-term vessel charter surged in 2021 as charterers jumped to secure tonnage in anticipation of a surge in spot rates during the winter.

Drewry projects that LNG trade to grow at a CAGR of 5.6% from 2021 to 2026 due to rising demand for power generation, as well as industrial and marine bunkering consumption.



According to Refinitive vessel tracking, the global exports of LNG reached 278.9mln tons in 9M21, implying a +4.2% increase YoY. In addition, China imported 57.6mln tons of LNG in 9M21, implying a +22.2% increase YoY as per Refinitive vessel tracking.

Now, please turn to the slides 11 to slide 12 in our presentation. According to SSY, the current spot charter rates for modern two-stroke tonnage is around ~\$190,000 per day, ~\$150,000 per day for DFDEs, and ~\$111,000 per day for STEAMs. SSY assesses the one-year LNG shipping charter rates at ~\$130,000pd for MEGIs/XDFs, ~\$100,000pd for DFDEs, ~\$62,000pd for STEAMs which is a helpful benchmark when an owner discusses term charter opportunities.

Now, please turn to slide 12 of our presentation. In 2021, you can see the global LNG fleet has 604 vessels in operation and another 141 conventional LNG vessels on the orderbook until 2025 as per Clarksons. This implies an increase of ~26% of total LNG fleet, in terms of number of conventional LNG vessels as of Oct'21.

The long-term outlook for LNG shipping is positive, driven by the upcoming global LNG supply growth. Supply growth by LNG producers will require longer voyages to meet growing demand in Asia, tying up shipping capacity and increasing shipping demand.

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 third quarter of 2021.

Moving on to slide 14, I will shortly discuss about Nakilat's business outlook for 2021. Against the backdrop of the global uncertain economic environment, Nakilat's nine months financial performance highlighted the benefits of having a great asset portfolio on long-term charter contracts which are backed by high-quality customers and the resulting earnings



power of our company. All of these make Nakilat to represent a compelling investment vehicle for the global investors and shareholders.

In 2021, we expect to see another successful year for Nakilat due to the managements' efforts to maximize the utilization of our entire fleet and to optimize our operating expenses. In the 4Q21, we expect to receive the 3rd newbuild jointly owned LNG carrier under Nakilat's commercial and technical management. In regard to the shipyard segment, we expect it to have a better financial performance and to strengthen shipyard abilities in the way they carry on their work. 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 QatarEnergy's announcements. Nakilat cannot comment on commercial and technical details related to North field project that is owned by QatarEnergy and Qatar Gas. For additional details on QatarEnergy's announcements, I refer you to QatarEnergy'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:**

Thank you. If you wish to ask a question at this time, please press star one on your telephone keypad. Please, ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will pause for a moment to allow everyone to signal. We will now take our first question from Shabbir Kagalwala from Al Rayan Investment. Please go ahead.

**Shabbir Kagalwala:**

Hi, good afternoon. Thank you for the call. Fotios, another good set of results for you and the company. Just wondering in terms of the JV income which has grown significantly during the quarter, obviously you highlighted that there was a one off in Q2. Now that that's gone, is this the level at which we should expect the JV income to continue, provided that you will have additional vessels coming in? That's my question. Thank you.

**Hani Abuaker:**

Actually, yes. You should expect that sort of level of income from our JVs, if it is not event better. On shipyard segment, we have seen a good turnaround and sustainable results, so hopefully, it will continue over the next quarters. In future, we should expect to have sustainable results from the joint ventures.

**Shabbir Kagalwala:**

Right. Just an addition to that, when exactly are you getting the third LNG vessel? Is it the end of the coming quarter or just some timeline on that, please?

**Hani Abuaker:**

It should be coming very soon, within the next 10 days.

**Shabbir Kagalwala:**

Great to hear. Is it going to be on a short-term charter, or have you contracted it out on a long-term basis?

**Hani Abuaker:**

We have already secured employment for this vessel. We do not comment on specific duration, but it ranges between one to three years.

**Shabbir Kagalwala:**

All right, perfect! Thank you so much.

**Samer Darwiche:**

Hello Hani, hello Fotios, this is Samer. Congratulations on Q3 results. I just have one question regarding your debt repayment strategy. How much should we expect in terms of debt repayment per year going forward?

**Hani Abuaker:**

We have a scheduled debt repayment, which is approximately 900 million to 1 billion Riyal per year. However, if there is any new business opportunities, and if we do not have enough internally generated funds, usually we go for a corporate loan to bridge that, and we might incur some of that on a corporate level. I hope that I answer your question.

**Samer Darwiche:**

Yes. On a normalized year – I guess, we can assume up to one billion Qatari ryal, correct? If I understood you correctly

**Hani Abuaker:**

Yes. But over time, year over year, the payments become more to the principle than the interest.

**Samer Darwiche:**

What I mean is only the principal for the – How much the repayment from the principal, would you expect? It's around a billion, right?

**Hani Abuaker:**

Yes, around 900 million to 1 billion.

**Samer Darwiche:**

Okay. Perfect. Thank you.

**Operator:**

As a reminder, to ask a question please press star one. We will take our next question from Santosh Gupta from Drewry Maritime Financial Research. Please go ahead.

**Santosh Gupta:**

Hi Hani and hi Fotios. I am asking the “*Global Sealine*” LNG newbuild vessel, when is it expected to be delivered? I think previously, if I remember correctly, it was expected to be delivered around January 2022. And second thing is on the duration of the contract, it also similar as in one to three years contract, or is it different?

**Fotios Zeritis:**

The 3<sup>rd</sup> newbuild delivery, as Hani said, is expected in the following days. But the last one, the 4<sup>th</sup> newbuild delivery is expected on January 2022. Now, when we have something to announce about the last delivery, we'll announce it accordingly. But for the 3<sup>rd</sup> newbuild delivery, as the CFO said, it's on the term agreement on a range of one to three years contract. We cannot comment anything specific regarding the 4<sup>th</sup> newbuild, as you know, it is a commercial sensitivity and we do not want to give competitive advantage of these type of information to market.

**Santosh Gupta:**

Okay. Sure. Thank you. That answers my question.

**Operator:**

We will now take a follow up question from Samer from Amwal Capital Partners. Please, go ahead.

**Samer Darwiche:**

Hello gents. Yes, just a follow up on my part regarding what's the plan for the excess cash that you'll be able to generate? Are you basically setting aside this cash to pay more debt, especially the 2025 senior debt facility



that's coming in 2025? Just wondering what your strategy regarding is that?

**Hani Abuaker:**

Actually, we look at capital allocation rather than paying the debt. It also includes if we have to pay some of our corporate debts or exploring potential business opportunities. As you have seen, we are deploying the extra cash that we are generating into very good and successful ventures. In addition, we ensure to allocate some back to our shareholders in the form of dividends. As you know, we increased our dividend this year as well. In the upcoming debt repayment in 2025, we can also look into refinance option if needed, because we still have a charter contract that ends in 2030-32. Everything depends on the actual available business opportunities, and what we can do with that available cash for the best interest of company, and its shareholders. I hope that I answer your question.

**Samer Darwiche:**

Yes, thank you.

**Operator:**

We will now take our next question from Ashish Kumar from United Securities. Please go ahead.

**Ashish Kumar:**

Hi Fotios and congratulations for the good numbers. I had a small query in terms of hedging reserves. I just wanted to understand the hedging reserves, if you can. Thank you.

**Hani Abuaker:**

As you know, a hedging reserve is basically when these vessels have been hedged almost up to 70%-80% of our interest rate based on a set specific rate. If interest rate goes against us, which is when it goes down, that



hedging reserve becomes negative. If the interest rate starts to go up, it rebalances and starts to become more positive. From my point of view, the hedging reserve it is an accounting treatment rather than reflection of the actual economic performance of the company.

**Ashish Kumar:**

Right. Thank you for that.

**Operator:**

As there no further questions at this time, I'd like to turn the call back to your speakers for any additional or closing remarks.

**Hani Abuaker:**

If there is no further questions, I would like to thank you all for attending and participating in our conference call. Thank you for your questions. We are happy to see you hopefully in the new year once we are announcing our fourth quarter results. And, as we said, we are expecting to see it as good and as strong as what we have reported this quarter. Hopefully, we'll see you then. Thank you very much. Please, stay safe and healthy and we'll see you in the next year. Thanks.

**Fotios Zeritis:**

Thank you very much for everyone. Have a great day.

**Operator:**

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