



Nakilat (QGTC) 1H19 Results

Earnings Call Transcript

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Moderator: Yousef Hussein

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Executives:

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

Questions by:

- 1) Bobby Sarkar – QNB Financial Services
- 2) Maya Bou Kheir – Schroders
- 3) Brian Mugabe – Change Global Investments
- 4) Aventicum – Bassam Slim

Operator:

Good day, and welcome to Nakilat's 2Q19 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Yousef Hussein. Please go-ahead sir.

Yousef Hussein:

Good afternoon, ladies and gentlemen. This is Yousef Hussein from EFG Hermes Research. Thank you for joining us today on Nakilat's Second Quarter 2019 Results Conference Call. We have with us on the call today, Hani Abuaker, CFO, and Fotios Zeritis, Head of Investor Relations.

Without further ado, I'd like to hand the call over to Fotios to get us started. Please, go ahead.

Fotios Zeritis:

Good afternoon, and welcome to Nakilat's semi-annual conference call. The transcript of this call and presentation will be available on the Investor Relations section of our website. Any statement that refers to expectations, projections, guidance or any other characterizations of future events, including financial projections or future market condition, is a forward-looking statement



based on the assumptions today. Actual results may differ materially from those expressed in these forward-looking statements. In addition, some of our remarks contain non-IFRS financial measures such as EBITDA. 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:

Thanks, Fotios. Hello everyone, thank you for joining us today. As always, we appreciate your participation as Nakilat is committed to continuously improving its investor relation initiatives in order to strengthen our communication and improve transparency with all members of the global investment community.

I would like to begin by outlining why Nakilat offers a compelling investment case, first with the financials and then with the recent business developments. Throughout the year, consistency stands out across all key financial figures explained by stable and predictable cash flow generated by our company.

If you turn to slide eight, you can see that the company has delivered a 7% increase in net income which translates to QR 476 million, compared to the first half of 2018. Nakilat has also remained committed to further optimization of its OPEX, G&As and improvements in our financing terms following our successful effort over the past 12 months.

Operationally, our total expenses and G&As decreased in the first half of 2019 by 1.6% and 5.5% respectively, compared to the same period in 2018 due to cost control as well as savings generated through synergies and process enhancement by Nakilat's management. In addition to the reduction in G&As, the operating expense declined by 3.6%. This is in-line with Nakilat's goal to provide sustainable and balanced bottom - line growth for its shareholders.

The word efficiency has been the key to Nakilat's success. Whether it is unmatched operational efficiency through the rationalization of operating expenses or well thought out and carefully executed business strategies, we are always committed to finding the most effective and efficient course of action. This is clearly reflected in both the Net Income and EBITDA on slide seven, which is up by 1.9% for the first half compared to the same period in 2018.



Now that we have gone through the financial performance for the first half, I would like to talk about Nakilat's current financial position. Now, turning to slide 9, the balance sheet has not changed much since the first quarter of 2019. You can see a healthy balance sheet with total assets of QR 29.9 billion, as well as a cash and bank balances at QR2.1 billion.

The repayment of Nakilat's amortized debt continues to strengthen our position while freeing up our capacity for the future ventures and business opportunities. Borrowings have reduced by almost QR 4 billion in the last 5 years, while at the same time we have acquired 11 additional LNG carriers and one FSRU, in addition to further 4 LNG carriers .

Slide 7 has a few more key financial metrics that I would like to highlight. Nakilat's current ratio is at 1.14, return on equity is at 10.7% and earnings per share is up by a healthy 7% compared to the same period in 2018, driven primarily by driven primarily by fleet growth and optimization efforts.

Now, moving on to some of Nakilat's recent business developments. Earlier this year, Nakilat expanded its LNG fleet with four additional newbuild LNG carriers, which will be fitted with the latest technology system through the establishment of our new joint venture with Maran. The new vessels will be commercially and technically managed by Nakilat with the delivery time between 2020 and 2021. The four new LNG vessels' competitive transportation costs should make them particularly attractive to potential term charterers.

It is worth mentioning that Nakilat has a diversified customer base with international energy companies such as Shell, Cheniere Energy, Trafigura, Woodside, Oriental Energy. In addition, into our largest charterer, Qatar Gas.

Our counterparties are mainly active, strong energy producers that are typically able to forward their program of their vessel requirements for a period of time, which gives us a degree of planning ability and cost control.

An interesting fact about our fleet is that it is designed for wide terminal compatibility, which we believe that it is important for our market and that it provides us relatively better economics and efficiencies.

Nakilat continues to strengthen and reaffirm its position as a global leader and provider of the choice.



I will now hand it back to Fotios, who will give us an overview of the LNG shipping market.

Fotios Zeritis:

Thank you, Hani. Now, we would like to give you an overview of the LNG shipping market.

The world demands better commitment and greater responsibility towards sustainability and environmental protection. For this reason, LNG, as commodity, has emerged as the world's desired source of energy as it is vital for a sustainable future for the generations to come.

The LNG upstream developments have progressed despite the low LNG prices with more on the way, likely making 2019 the largest year on record for new project sanctioning. We tend to believe that the competitively priced LNG will continue to remain attractive and find new markets, maintaining production levels and stimulating the demand for shipping.

We need to highlight that the National Energy Agency forecasts that gas will make up more than one-fourth of the global energy mix by 2040.

As you can see on slide 11 of our presentation, during the first half of 2019, the spot rates for LNG shipping have been challenged but projected to pick up seasonally in the second half of 2019. The spot rates continue to rise from seasonal lows and are back into the \$60,000 per day range for DFDEs, compared to \$36,000 per day during March 2019.

On the other hand, the term contracts remain robust, clearly illustrating the strong fundamentals of the LNG shipping market. For this reason, LNG ship owners are turning their attention to the mass requirements of multi-month/year charters and are increasingly keen to lock away tonnage for one-year-plus periods.

As an indication, a multi-month LNG charter rate for MEGIs is approximately at \$95,000 per day and \$85,000 per day for DFDE during the month of June 2019. It is worth mentioning that the demand for term charterers is derived from portfolio companies and LNG traders as the LNG industry grows and develops.



Turning to slide 12, you can see the global LNG fleet has 492 vessels in operation and another 115 vessels on the order book. This implies only an increase of 23% of total LNG fleet in terms of number of vessels as of June 2019. Only 40% of the vessels on the current order book are charter free and are available to be absorbed by the new upcoming wave of LNG supply in the next few years.

In addition, we have added a graph that illustrates the historical price development of a newbuild LNG carrier from 2006 until 2018. Historically, the average price of LNG vessel is around \$200 million range, plus or minus 10% of that level. The current level of LNG newbuild price are approximately in the \$190 million range. We expect this rising trend to be continued in the coming quarters.

Now, if you turn to slide 13, you can see some highlights of the LNG shipping balance. In relation to the LNG trade and demand, during the past three months, Chinese imports of seaborne LNG were up approximately 24.8%. However, Japanese demand fell by 4.3%, year on year, and South Korea demand fell by 11.2% during the mild winter weather. However, the low LNG prices have stimulated demand in Europe. From January through May, Europe imported 34.6 million tons of LNG as compared to just 24.4 million tons approximately in the last four months of 2018, which implies an increase of 41.8%.

On the LNG production side, the first five months of 2019 was 5.3% higher than the last five months of 2018, given the startup of projects in the US and Australia.

From the first half of 2019 until 2020, you should expect to see further improvement of the fundamentals of LNG shipping due to incremental US LNG supply which translates to an increased need for shipping tonnage.

Last but not least, you can see Affinity's LNG freight-forward rate curve for steams, DFDEs, and MEGIs/XDFs until the fourth quarter of 2020. From the trends of the LNG freight-forward curves, you can see market expectations for the charter rates in the next 18 months.

If there is a key message from today's presentation, it is on this slide. The market is expected to be tightened significantly as we go through the second



half of 2019 and into 2020 which will be very positive for ship demand, for Nakilat, and for our shareholders.

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

Hani Abuaker:

Thank you, Fotios. Moving into slide 16, I would like to take you through our business outlook for the rest of 2019. It has been a busy quarter here at Nakilat and it's only going to get busier. Nakilat is committed to meet all its strategic goals while placing safety, efficiency and sustainability as top priorities for us.

Nakilat is fully prepared both financially and with a talented and robust workforce, to take advantage of the strong LNG shipping market fundamentals to strengthen its position as global leader. In another word, Nakilat is in a very favorable strategic position to secure potential future business opportunities and to expand its LNG portfolio globally.

Furthermore, recent expansion exercise like the new joint venture with Maran effectively increase Nakilat's fleet size to 74 vessels comprising the world's largest LNG fleet of 69 LNG carriers, four LPGs and one FSRUs. Nakilat's in-house shipping management subsidiary, Nakilat Shipping Qatar Limited, currently operates 18 vessels comprising of 14 LNG carriers and four LPG carries. Once delivered, NSQL will be handling the management and marketing of four newbuild LNG carriers with Maran.

The decision to manage these vessels in-house is driven by a long-term cost optimization, management efficiency, and strengthen our capabilities to market ourselves to international customers.

In-line with our strategy, our current priority is to continue to deliver a corporate balanced growth with a strong focus on international diversification, continuous cost rationalization and sustainable long-term shareholders return.

We also have a great degree of confidence that higher utilization of our shipyard facility will continue with the maritime initiatives, like the IMO's requirements and dry dock activities.



As a final note, with a strong LNG shipping market, Nakilat will continue to deliver sustainable shareholders return and make use of the strategic alliance we have with renowned partners to grow and diversify our international portfolio.

And with that, we open now the floor for questions, so please, go ahead.

Operator:

Thank you. If you would like to ask a question today, please signal by pressing star one on your telephone keypad. If you were using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star one to ask a question. We will pause for just a moment now to allow everyone an opportunity to signal for questions.

We will now take our first question from Bobby Sarkar from QNB Financial Services. Your line is now open sir. Please go ahead.

Bobby Sarkar:

Hi guys. Hi Hani. Hi Fotios. Bobby here. How are you? Hello.

Hani Abuaker:

Hi Bobby. We are good. How are you?

Bobby Sarkar:

Good. Great set of results. Just a couple of questions. Could you give us an update on the shipyard business? I think that you had mentioned that you were going to provide more details on that business line in the second quarter. That's number one.

In your press release you mentioned something about a towage JV that helped in improving total revenue. Can you give me some more details on that? And finally, in terms of the new JV that is coming on-line in 2020, 2021, can you be a little more specific in terms of when we can start seeing these vessels starting to make an impact? Thank you so much.

Hani Abuaker:

As per the requirements of standard of financial reporting, we usually do not separate the different segments until the end of the year. Hopefully, we will have separate segment reporting by the end of the year. I should mention that



the shipyard performance only contributed around 1%-2% of the total performance. Approximately the 95%-97% of Nakilat's financial performance is derives from our core business which is the shipping and marine services. So, I hope that I answered your question.

Bobby Sarkar:

Sure. Thank you.

Hani Abuaker:

To address your second question about the towage, the towage business performance was good. However, Nakilat's overall performance was mainly due to the reduction in OPEX and the G&As, which is very good, as it is something that is within the company's control that really shows our resilience of how we are becoming more mature as a company. This discipline ultimately helps to improve the bottom line within our control.

We expect this to continue into the future as we believe that we can leverage our size to acquire more vessels. Also, the expansion that we have gone through in the last year with the two new LNG vessels as well as the FSRU has helped these numbers to improve Nakilat's bottom line.

In regard to the new joint venture with Maran (the four LNG vessels), they are coming on-line in 2020 and 2021. As Fotios said, we expect a very strong market for LNG shipping during the coming two years. So we should expect a very strong fixing and chartering of these vessels in the coming two years, which also is going to translate to a better financial performance for Nakilat. I hope that I answered all the questions.

Bobby Sarkar:

Great. Thank you.

Operator:

Again, that's star one to ask a question today. We will pause for another moment if anybody would like to key for a question.

It appears there are no further questions at this time.

We will now take our next question from Maya Bou Kheir from Schroders. Your line is now open. Please, go ahead.



Maya Bou Kheir:

Yes, hi, good afternoon, gentlemen. Thank you for the conference call. I just wanted to ask or get some more color on the performance of the JV. So, if you can just give us a breakdown maybe of how much of this growth, we have seen in the first half that is coming from contribution from the FSRU or the LPG vessels or the other LNG JVs?

Hani Abuaker:

Okay. The LPG's charter rate has improved compared to last year, so our performance is better. In addition, VLGCs charter rate have improved in the second quarter of 2019, which is going to translate into better financial results in the coming quarters. For instance, we can see that the average charter rate per day was approximately \$16,000 for VLGCs in 2017. In 2018, it was roughly \$20,000 per day and Year-to-date in 2019, the average has reached approximately \$35,000 per day, despite the fact that the first quarter was not as good.

The current spot market is around \$71,000 per day. So, you can see the volatility in this segment, which also should really translate to a better performance going forward, assuming the rate will be prevailing.

Maya Bou Kheir:

Sorry, the LPG vessels are mostly on spot rates?

Hani Abuaker:

Nakilat's LPG vessels follow the market's Baltic LPG index. For example, the generated revenues of the month of June will be based on May's average Baltic rate. There is always one month lagging between month over month. We have seen the LPG improvement coming in the end of April and for this reason, we have not seen yet the good numbers in our results. If the LPG charter rate stays the same, it is very good for Nakilat's LPG performance because it should translate to a much better financial performance for us.

In regard to the FSRU, you should expect that the FSRU should translate to a similar financial performance with an LNG vessels. Nakila has one FSRU and its performance should be in-line with an LNG carrier. We have not disclosed exactly in details the numbers but that usually is the case.



Maya Bou Kheir:

So, is it safe to say that most of the growth in the JV income has come from higher contribution from the FSRU and the shipyards?

Hani Abuaker:

It is safe to say that the higher financial contribution coming from the FSRU, and the two new vessels with Maran that also joined Nakilat's fleet back in the March of 2018. So, we have three months more in 2019 compared to 2018, and that's what is translated to a better performance of results.

Maya Bou Kheir:

Okay. Just one last question. Last year, you had a one-off charge within the taxes on one of the JVs in the second half of 2018. So, is it safe to say that given that this one-off is not going to be there, we will see bigger growth in the second half in the JV income?

Hani Abuaker:

Yes. As we talked about it in previous conference calls, this was one-off item that came to us last year. Also, you have to understand that the LPG charter rates were not as good as last year. So there was an offset for that one or it was actually a little bit better than the first quarter but not the second quarter. In addition, you have to understand that we also had a lower LIBOR interest rate in 2018 compared to 2019 for the small portion that wasn't hedged, which is around 15% to 20%.

During the 2nd half of 2019, you should expect better results overall from the joint ventures due to the lower LIBOR interest rate and the debt repayment of debt happened over the last six months. Thus, you should expect better results going forward.

Maya Bou Kheir:

Perfect. Thank you so much.

Operator:

It appears there are no further questions at this time.

We will now take our next question from Brian Mugabe from Change Global Investment. Please, go ahead sir.



Brian Mugabe:

Thank you. Yes, good afternoon gentlemen. Just a quick question. Are you able to give us a sense of what utilization was like for the first half of the year and how you are seeing that developing, going into the second half?

Hani Abuaker:

What kind of utilization are you talking about? Fleet utilization?

Brian Mugabe:

In terms of shipping utilization

Fotios Zeritis:

As you already know, Nakilat's fleet is mainly on long-term contracts and as a result, Nakilat's fleet utilization is very high. We do not report the fleet utilization but it is very high utilization because actually most vessels have long-term contracts.

Hani Abuaker:

Further, I can tell you that Nakilat's fleet utilization is above 98%-99% because we are in a long-term contract. Nakilat gets paid whether the vessels are being used or not. It is our charterer's decision how much they want to utilize Nakilat's vessels and what port the vessels will call worldwide. It is up to our charterers. From our side, I can confirm that the fleet utilization rate, on average, is above 97%-98% and usually it reaches approximately 99%.

Brian Mugabe:

Okay, got it. Thank you.

Operator:

We will now take our next question Bassam Slim from Avenicum Asset Management. Please, go ahead. Your line is now open.

Bassam Slim:

Yes, hello gentlemen. Thank you for the call. This is Bassam from Avenicum in Doha. I just had a question on the trade receivables and the trade payables. It seems that the uptake is still continuing into the second quarter and this seems to be a related to a certain contract regarding the port agency services. So, can



you just shed some light on this? And what – and how are you expecting to see those come down to a more normalized level?

Hani Abuaker:

Yeah. This is mainly due to the new hub business for port agency that our NAC got into. Nakilat is just an agent in the middle. This is the nature of the business. As you can see both our accounts payable and accounts receivable have increased. Basically, we receive money from Qatar Gas and then we have to provide it to the agency, which is Wilhelmsen. This process of transaction will continue to be the case. This is part of the new business that we are gotten in and the new contract that we have with Qatar Gas.

Bassam Slim:

Right. Just to be clear, so you're the middleman and you're just streaming cash from one side to the other and you make commission?

Hani Abuaker:

Exactly. That's what it is.

Bassam Slim:

Okay. And that is the commission? is 1% to 2%.

Hani Abuaker:

No, it's not. It is something very minimal but that is the nature of the business. When we bid for the contract, our aim was to secure our existing agency services in Qatar. In order to do that, we also had to really be a focal point for the international operation that our charterer has.

For this reason, we subcontracted an international strategic partner, which is Wilhelmsen and we take very minimal fees for that. Basically, we are doing the same business that we used to do with Qatar Gas before. However, we have to provide wider responsibility by subcontracting our international agency services to them through Wilhelmsen.

Bassam Slim:

Understood. Why do you have to take balance sheet risk? I mean, why is it going through your balance sheet?



Hani Abuaker:

Well, this is the nature of the business. There is a time difference between the settlements of both. We have to receive the money in advance first from them and then you have to pay it to them. It is just the timing difference as over time. We do not take any type of balance sheet risk. If you can look at our accounts payable is high, and also accounts receivables is high. Everything is back to back but that's the nature of the business.

If I still want to make a business which is NAC's contributor something in the range of QR 30-40 million, I have to do that. So, this is the nature of the business. There is no risk here. It is back to back. You take the money. You deliver and there is no risk whatsoever.

Bassam Slim:

Okay, clear. Thank you.

Operator:

There are no further questions at this time. It appears there are no further questions being queued at this time. I would like to turn the conference back over to Mr. Yousef Husseini for any final or closing remarks.

Yousef Husseini:

Yeah. No remarks from my side. Fotios or Hani, is there anything you guys would like to say before we sign off?

Hani Abuaker:

Just I would like to say thank you very much, guys, for taking the time today and thank you for your questions. We are going to take all your valuable questions and share it with our management.

We encourage you all the time to join our conference calls. I can see the questions are less, which is a really great indication that we are providing more and more transparency. However, we are committed, as always, to do even more and provide further details about our performance going forward. And thank you. And please feel free to contact Fotios or myself any time, any day, through email or give us a call. We are happy to address all your questions. Fotios?



Fotios Zeritis:

Thank you so much for participating guys. All members of the investment community play a huge part in helping Nakilat reach its goal of being a global leader and provider of choice. All your questions were well received. As Hani said, we will communicate capital market's feedback with Nakilat's top management and we are committed in Nakilat to improve our investor relations initiatives, to provide all the members of the investment community with transparency and credibility of information. Thank you so much again, looking forward to seeing you again in the next quarter.

Operator:

Ladies and gentlemen, this concludes our conference call for today. Thank you very much for your participation and you may now disconnect.