



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

### **2Q20 Earnings Results Conference Call Transcript**

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**Hosting:** EFG Hermes Holding

**Title:** NAKILAT 2Q20 Earnings Results Conference Call

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

**Date:** Thursday, 16<sup>th</sup> July 2020

**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) Nafez Alabbas – Ajeej Capital
- 3) Nikhil Arora - Franklin Templeton
- 4) Onkar Jambhale – Demical Point Analytics
- 5) Ramzi Sidani - HSBC Global Asset Management

**Moderator:**

Good morning ladies and gentlemen, and good afternoon, and hope you're all staying safe and well. This is Ahmed Hazem from EFG Hermes Research, and we are pleased to welcome you today to Nakilat's second quarter 2020 results conference call. We have with us on the line Mr. Hani Abuaker, CFO of Nakilat, and Mr. Fotios Zeritis, Head of Investor relations. Today's conference call will include a brief on the results, updates on the market conditions, and a Q&A session towards the end. So with that I'd like to hand over the call to Fotios. Fotios, please go ahead.

**Fotios Zeritis**

Good Afternoon and welcome to Nakilat's semi-annual Conference Call. I hope that everybody stays safe and take all the precautions during this challenging time with COVID-19 pandemic.



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 semi-annual highlights and results followed by a brief discussion of group's financial position and business activity. After which 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 semi-annual earnings results for 2020. I hope that all of you and your families are safe and follow the precautions against COVID-19 pandemic.

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 extremely challenging moments.

Turning to slide 5, you can see some of Nakilat's COVID-19 preventive measures. We are pleased to report that all our seafarers are well and healthy. The safety of our people remains our priority. Without healthy workforce, we cannot deliver to our customers. Without delivering to our customers, we will not make any returns for our shareholders. It is that simple. It goes without saying that Nakilat has taken COVID-19 extensive mitigation measures to ensure safe and reliable operations.



The COVID-19 outbreak posed unprecedented challenges to commercial and operating environment during the first six months of 2020; Nakilat has navigate seamlessly due to its operating resilience and our long-term contract cover have ensured it has had minimal impact on Nakilat's operations and cash flows.

Since the current situation continues to move forward worldwide, it is our duty to closely monitor the developments of coronavirus outbreak and its potential implications on global LNG shipping.

Now, turning to slides 7 and 8 of the presentation; you can see some of Nakilat's recent highlights, as well as a few key takeaways that summarize how we believe Nakilat is uniquely positioned today. Due to Nakilat's solid defensive business model, and balanced growth strategy execution, they allowed us to generate an increase of revenues, EBITDA and EPS compared to the first half of 2019. Now, I will begin the call with Nakilat's financial highlights for the first six months of 2020.

As you can see, I am pleased to report that Nakilat had a strong set of financial results for the first of half of 2020 despite the challenges related to COVID-19. The company achieved a net profit of QAR 550 million compared to QAR 476 million during the same period in 2019, which is translated to an increase of 15.5%. In addition, Nakilat's EBITDA was up by 11.5% year-over-year to reach QAR 1.6 billion. The company's strong financial performance is primarily attributed to operational excellence in the management of its entire fleet and realizing additional revenues from the strategic acquisition of the remaining 49.9% of four Q-Flexs vessels on October 2019. In addition, we continue to focus on overhead cost saving initiatives which has been translated to a decrease of G&As by 11.7% in the first six months of 2020. All the above, emphasize Nakilat's ability to deliver required earnings and operating cash flow during a soft LNG spot shipping market.

Turning to slide number 10 and 11, Nakilat maintains a solid balance sheet with total assets of QAR 32.4 billion as well as a cash balance of QAR 2.2



billion. Moreover, our scheduled debt amortization continues, as the repayment is freeing up our balance sheet capacity. This deleverage process benefits investors by building financial flexibility, through a higher equity base and through interest expense savings

Since 2014, we have already paid more than QAR 4.9Bn debt repayments. Reducing debt balances will reduce our cash flow breakeven levels over time, improving the competitiveness of our fleet. 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 1H20, the net borrowings reached at QAR 21Bn.

We are confident that our financial foundation is strong, because of our very manageable debt repayment profile which is based on the company's long-term cash flow visibility of our fixed long-term charters. Finally, Nakilat's current ratio is at 1.12, and the Return on Equity is at 11.64% 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.

During these last few months, LNG shipping and energy equity markets have experienced enormous volatility, but our defensive business model has largely been insulated from this volatility and unprecedented global economic conditions.

Now, I will give you an overview of how COVID-19 affected global LNG shipping market in the second quarter of 2020. In addition, the developments of LNG shipping markets are shown on our presentation from slide 12 to slide 14.

Global LNG demand continues to be impacted by both the COVID-19 pandemic and the resultant global economic weakness. The lack of LNG demand and arbitrage means that the sentiment in the freight market has been weak in the 2<sup>nd</sup> Quarter of 2020, with current spot charter rates for modern two-stroke tonnage of around \$34,000 per day and \$29,000 per day for DFDEs as per Poten & Partners. Additionally, owners have been facing stiff competition from portfolio players and traders as they have been increasingly active in the markets with relets.

The global LNG shipping has been 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. As per Gas Exporting Countries Forum, the pace of LNG supply growth is forecast to ease significantly to around 3.5%-5% in 2020 compared to a strong 12% growth in LNG supply recorded in 2019.

As you can see on slide 13 of our presentation, Coronavirus outbreak had an adverse impact on LNG shipping segment during the second quarter of 2020. With already non-existing arbitrage, the LNG shipping rates have softened, and market expects the charter rates to remain soft in the upcoming quarters.

Poten & Partners currently assesses the one-year LNG shipping charter rate at \$60,000pd for MEGIs/XDFs, \$48,000pd for DFDEs, \$28,000pd for STEAMs which is a helpful benchmark when discussing term charter opportunities.

Now, please turn to slide 14 of our presentation. After showing strong newbuild ordering momentum in 2019, new LNG ship orders have dried up in 1H20 with only 3 conventional size LNG vessels ordered compared to 24 conventional LNG vessels orders in the first six months of 2019 and 50 vessels full year of 2019. In 1Q20, the LNG newbuilding costs have been stabilized at an average price of ~\$186 million. As of June 2020, 12 vessels have been delivered within 2020, with a further 24 scheduled for delivery this year.





Furthermore, you can see the global LNG fleet has 522 vessels in operation and another 110 vessels on the orderbook as per Clarksons. This implies an increase of 21% of total LNG fleet, in terms of number of vessels as of June 2020. The current LNG fleet age profile is approximately 11 years old. Note that only the ~4% of the current operating Standard-sized LNG fleet is above of 30 years old. In the first 6 months of 2020, there were reported demolitions of only 3 Standard-sized LNG carriers compared to 2 Standard-sized LNGCs in 2019, and 1 Standard-sized LNGCs in 2018.

As a final market note, market participants believe the LNG shipping market will be volatile in the upcoming quarters due to a combination of dynamics and factors such as compressed global shipping average of ton-mile, and incremental availability of shipping tonnage.

In a long-term point of view, the LNG demand will be stimulated by the current price levels as we saw it to happen in the first six months of 2020 with India and Europe. Due to the fact that LNG is a clean fuel, it will enhance LNG's attractiveness of energy consumers. In this way, it will accelerate the switch from coal to gas consumption driven by increased industrial output.

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 2<sup>nd</sup> quarter of 2020.

Moving on to slide 16, I will shortly discuss about Nakilat's business outlook for 2020. Of course, we do not know how this global economic crisis and pandemic will ultimately end, including how long it will last, how much economic damage it will continue to do or how fast or slow the recovery will be. However, we always strive to navigate through this unprecedented storm and to maintain our sustainable returns to our long-term shareholders.

We should mention that the vast majority of our vessels are on term-charter and they continue to receive hires as per the terms of our charter parties with no commodity price exposure, which is a testament to the strength of our strong counterparties.

Regarding to Nakilat's LNG shipping business segment, our new vessel delivery has so far been unaffected by COVID-19. Last month, we took delivery of “*Global Energy*”, which is commercially and technically managed in-house by Nakilat. Currently, the vessel has entered on short term charter until we finalize its longer-term charter agreement with potential charterers. As of today, the delivery of the 2<sup>nd</sup> LNG carrier is expected on the end of the 4<sup>th</sup> of Quarter of 2020.

Furthermore, it is worth of mentioning that Nakilat has taken three LNG carriers under the management of Nakilat Shipping Qatar Ltd. (NSQL) from STASCO in the first 6 months of 2020, bringing the total number of vessels managed by NSQL to 22, comprising of 18 LNG and 4 LPG carriers. This is a great achievement and testament for Nakilat's operating capabilities during an unprecedented challenging period for all shipping companies around the world.

In 2020, we expect to weather the current weak economic environment as well as soft LNG shipping market and to have potentially 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 addition, we are persistently working with the shipyard team or Join Ventures to minimize the negative impact of COVID-19. You should expect a full impact of the 49.9% stake acquisition of 4 Q-Flexs in the following quarters.

In summary, we have a strong liquidity balance, a very manageable debt maturity profile and therefore we believe Nakilat has a strong financial foundation, which benefits all stakeholders. Nakilat Inc debt has the best credit rating by the international credit rating agencies among its peers and provides a sustainable total return to its shareholders. All the above make





Nakilat unique in the markets today and compelling investment proposition for existing and new investors worldwide.

Before we open the call for questions, we would like to close out today by recognizing Nakilat's seafarers and employees for their dedication and professionalism under these challenging and uncertain circumstances. As economies begin to reopen and hopefully return to the same for some level normalcy, it will become clearer to us what it is expected. However, during these uncertain times, we take comfort in our robust business model, which, with a fully fixed LNG fleet, a strong financial foundation and dedicated seafarers who will keep everyone safe. Hopefully we come back to that normal situation.

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

Please go ahead.

**Operator:**

Thank you. As a reminder, ladies and gentlemen, if you'd like to ask a question please press star followed by one on your telephone keypad, or if you're joining us online, please click the flag icon. When preparing to ask your question, please ensure your headset is fully plugged in and unmuted locally. Our first question comes from Santosh Gupta from Drewry Maritime Research. Your line is now open.

**Santosh Gupta:**

Hello Hani and Fotios, hope both of you are doing well. my question is regarding "*Global Energy*" LNG vessel, which you received in the last few days. When do you think that we will start getting the full contribution from this vessel on Nakilat's financials? So just a question, will we see the complete contribution in the third quarter? And my second question is,



how long is this for charter duration? So, three months or maybe six months? Thank you.

**Hani Abuaker:**

You should start to see the new vessel's contribution in this quarter. Please, note that we do not usually disclose the duration of our charter agreements, especially if it is a short-term charter. This is also part of our fiduciary duties to our charterers. However, we can say that the charter party duration is less than seven months. Usually, short term charters are between three to six months.

**Santosh Gupta:**

Okay, thanks. I can ask one more question. So, we are hearing a lot on IMO 2030 and 2050 regulations. So the regulations still I think are not very clear. Related to that, are you planning for some retrofit in coming years? Do you have significant time ahead of you so you can plan? But as of now, any decision on retrofit?

**Hani Abuaker:**

As the world's largest LNG shipping company by capacity, our technical team continues to monitor the required IMO regulations in order to ensure that Nakilat is always in compliance with IMO's regulations and requirements. I am sure that they are exploring all potential options, and we are aware of what is expected and needed to be done. In addition, our technical team is monitoring what everyone else is doing in the market. However, nothing yet is being announced or disclosed or being concluded.

If anything is going to be concluded or decided, we are going to announce it right away, and we will share it with you. Thus, you have to be assured



that we are in compliance with 2020 IMO regulation and we will continue to be in compliance with IMO regulation in future. Thank you.

**Santosh Gupta:**

Okay, I think that's all I have. Thanks a lot.

**Operator:**

And as a reminder, please press star followed by one on your telephone keypad, or if you're joining us online, please click the flag icon. We have a question from Nafez Alabbas from Ajeej Capital. Nafez, your line is now open.

**Nafez Alabbas:**

Thank you, gentlemen, for hosting your call. I just have one question. I know it's difficult to give details of the new fleet order, but can you shed some light on the items that QP have published about serving the capacity of ship builders? Is there a possibility that QP may be, let's say, forming a separate company to file these vessels under? And maybe the new vessels will not be managed by Nakilat. Is that a possibility?

**Fotios Zeritis:**

Thank you for the question. As we have said many times in our previous calls, this project is entirely handled by QP and QG. Nakilat does not comment on behalf of them. They do their own assessments and exercises. As you can see, QP has done their own announcement about the reserve of LNG newbuild slots in China and South Korea and we do not comment on other companies' projects. Moreover, we would like to highlight that we have a long-term relationship and collaboration with them through our current portfolio. Of course, as Nakilat, we do have a long-standing relationship with QP and Qatargas during all these years, and the majority of our fleet is chartered to Qatargas, and we are happy for that and for this



reason, we have always an open and effective communication with them in general. I do not know if Hani wants to add something on this.

**Hani Abuaker:**

Not really. This is something that is only related to Qatar Petroleum and Qatargas. They are the ones who have been announcing about this historic project. So they will, for sure, advise the market about their strategy on this. We leave it up to them to decide when and what and how they will do it. I hope that we have answered your question.

**Nafez Alabbas:**

Thank you very much.

**Operator:**

We do have a question from Nikhil Arora from Franklin Templeton. Nikhil, your line is now open.

**Nikhil Arora:**

Hi gentlemen. Thank you so much for hosting the call. If I may ask a couple of questions, my first question is that I think there is something of QAR 500 million on your cash flow statement which is like a loan to JVs. Can you explain what kind of loan is this and to which JV was this extended? And then my second question is, the new vessel that you're talking about with a contract of less than seven months, is there an expectation of that being converted into a long-term charter, or is this how it's going to be going in the future?

**Hani Abuaker:**

Yes, I will answer the both questions, just to give you a highlight, and maybe I will let Fotios to elaborate further on the second question.

Regarding the JV loan, you have to understand that we provided this loan to the joint venture for the payment of four newbuild vessels. The first LNG newbuild carrier was delivered to us as well as the 2<sup>nd</sup> LNG newbuild carrier is towards the end of the year, and then the remaining two vessels within the next year. Hopefully, in the future when these vessels are being delivered to charterers with term agreements; then we will get the required finance for these vessels and we might get that money back to us.

Regarding your second question, our aim is to go for a long-term employment for our newbuild vessels. This is always Nakilat's ambition, philosophy and strategy. Nakilat is always looking to lock its vessels in the long-term agreements. This is the way of how we generate and provide a sustainable return to our shareholders. Hence, Nakilat will try to secure long-term employment of these vessels. That's our goal. Fotios, if you want to add anything else, please go ahead.

**Fotios Zeritis:**

What I want to add on this question is that Nakilat is the world's largest LNG shipping company, and it maintains strong relations with charterers worldwide. We will continue to have an open and effective communication with the market participants of this matter. In addition, you need to understand that when there is unfavorable market condition, and economic uncertainty around the world, the long-term charter party agreement needs additional interim time to be concluded between the delivery of the vessel from the shipyards, and the delivery of the vessels or then charterer.

As the CFO mentioned previously, we aim to charter the vessels on term and long-term contracts. However, we need more time to secure a term employment due to the current unprecedented market circumstances and conditions. I hope that we answer your question.



**Nikhil Arora:**

Yes, okay, thank you for that. On the first one, regarding the loan to the JVs, so is this done now, or do you think you'll be extending more loans to them? Because two more vessels are expected next year, right?

**Hani Abuaker:**

You have to understand that as we are building these vessels; we are extending the required loan for them so they can do their own instalments. Once these vessels get delivered to the term charterers, then these vessels will do their own financing. As a result of this, they will return the money back to the shareholders. You are going to see some money coming in and some money going out to pay for that newer one. All it depends on the timing that these vessels will secure a term employment by charterer. However, we eventually should expect that joint venture loan will be entirely repaid, and we are going to see only to remain the required equity portion after the financing of these vessels.

**Nikhil Arora:**

Okay, sure. That's clear. One more question is. I think it's taking some of your additional vessels into your own management from the STASCO. Can you give us an update on how many vessels are now under your management and what's the plan for that over the next two/three years?

**Fotios Zeritis:**

Last week, Nakilat assumed full ship management and operations of Q-Max LNG carrier "*Bu Samra*" from STASCO (Shell) with effect from 8th July 2020, as part of the second phase of its planned fleet management transition program.



“*Bu Samra*” is the third vessel that will come under the management of Nakilat Shipping Qatar Ltd. (NSQL) in 2020, bringing the total number of vessels managed by NSQL to 22, comprising of 18 LNG and 4 LPG carriers. During 2020, we expect to take additional 4 LNG vessels, one FSRU under our technical management. In addition, we received the first Newbuild MEGI on May’20 and the 2nd MEGI is expected in 4Q20.

**Nikhil Arora:**

Okay, thank you. Just one last question from my end is on the G&A expenses. I think there is some really good progress that we saw in this quarter. Is this the expected run rate going forward, about QAR 25 million? One of this quarter that may not repeat from 3Q?

**Hani Abuaker:**

Regarding the company’s G&As, you should continue to expect G&As improvements. It is CEO’s mandate as well as guidance and effort as whole management, for a continuous improvement and staying competitive in any way that we deliver our services and being cost conscious to our customers. We always try to make cost savings, but we never call it as a “cost reduction”. Our cost savings ensure our long-term competitiveness, and this is something that we will continue to do. We will never stop looking for a cost savings in anything we do. You should expect a lot of elements that they will contribute to that continuous improvement.

It is an absolute initiative that we take in the way we do things, without compromising any sort of vessel availability and the performance of our vessels. Simply, we make it more efficient, nimbler, and more agile. As we take more vessels, we create synergies and economies of scales. Also, it provides us ability to utilize our great infrastructure that we have built

over the years so we can reap that benefits. Therefore, this continuous improvement and synergies will continue at least coming quarters.

**Nikhil Arora:**

All right, thank you.

**Operator:**

Our next question comes from Omar Jambhale. Omar, your line is now open.

**Onkar Jambhale:**

Hi, this is Onkar Jambhale – Demical Point Analytics. I have one question; declining profits share of joint ventures. Could you please throw some light on where this decline is coming from? Particularly if it's coming from interest rate or rate or the ship building in general.

**Hani Abuaker:**

Yes. There are three factors for this decrease. Firstly, I hope that you guys take into consideration that the 4 Q-Flex vessels that we acquired on October 2019 have been removed from the JV reported line. Secondly, our LPG segment is not doing as great as during the first quarter of 2020. The first quarter of 2020 was truly exceptional for our LPG segment. It is still doing good in the second quarter, but not as good as the first one. Thirdly, another factor is our shipyard JV ventures. As you know, COVID-19 has a negative impact on our shipyard activities with much smaller number of projects. This is happening to the entire shipyard industry around the world, it is not only here. We hope that the countries around the world will start to open up and things will look better in future. In this way, we may cover some of shipyard losses that would happen, let's say, in the next



couple of months. However, we see some of the demand that is coming back.

**Onkar Jambhale:**

Thanks. One more question. Regarding to the second new vessel which is expected to come by this year end, is it fair that we can assume utilization for that vessel come start-up of 2021?

**Hani Abuaker:**

That goes without saying. This is our aim. When these vessels are delivered, they will generate income for us. The same thing was happened with the “Global Energy” that was delivered few months ago. It already started to contribute in June 2020. So yes, it will start to generate some sort of return for since 2021.

**Onkar Jambhale:**

That’s very clear, thank you.

**Operator:**

Our next question comes from Ramzi Sidani from HSBC. Ranvi, your line is now open.

**Ramzi Sidani:**

Hi gentlemen. If I can ask about the dividends from JV, we saw in 1H20, a big increase versus last year. Is this timing difference or are the JVs paying a higher dividend? And if yes, which ones? And then if you can comment on the outlook of the LPG vessels for the remainder of the year.

**Hani Abuaker:**

Okay, I will take the first question and maybe Fotios can take the second one.

Each JV will periodically distribute their dividends. Since there is cash available, they can distribute dividends. Is it going to be more distribution going forward? Not necessarily. But we should really expect different JVs to contribute similar to the historic dividend rate.

Now one of the JV maybe distribute a little bit higher dividend going forward. However, you should look at our historical dividend distribution. Moreover, you should take into consideration that JVs have a different level of hedging. Some JVs will enjoy a higher level of savings due to lower interest environment and it may be translated into higher dividends.

In addition, the payment of debts continues which means less amount of debt and less interest expenses. Thus, we expect the dividends to be the same or potentially to increase in future.

**Ramzi Sidani:**

Yes, thank you.

**Fotios Zeritis:**

I will take the LPG question. As we said earlier, the LPG rates was at healthy level during the first quarter of 2020. However, the COVID-19 pandemic has obviously affected negatively the spot LPG charter rates in the second quarter of 2020.

The VLGC rates decreased at very low levels at mid-June. However, Clarksons currently assesses the VLGC spot rates at approximately \$20,000 per day. Hence, we have seen an improvement from the middle of June.



Due to Covid-19, they may cause some volatility in the short-term, but the long-term picture is favorable driven by robust LPG trade growth and limited new vessel capacity. The LPG trade growth will continue to grow.

**Ramzi Sidani:**

Okay. Thank you.

**Operator:**

As a reminder, ladies and gentlemen, that's star one to ask a question, or if you're joining us online please click the flag icon. As we have no further questions, I will now hand you back to the management team.

**Ahmed Hazem Maher:**

Thank you for that Mr. Fotios and Mr. Hani, would you like to give any concluding remarks for the call for today?

**Hani Abuaker:**

I just would like to thank all of you for taking the time to participate in today's conference call. I would like to express my deep gratitude and appreciation to Nakilat employees. Our employees are the most important asset. We assure you that all your questions will be taken it into consideration. If you have any further question, feel free to contact Fotios. Lastly, we would like to wish you to stay safe and healthy. Hopefully, the Covid-19 will be over and we're going to see you very soon. Thank you.

**Fotios Zeritis:**

Thank you so much for your participation during this challenging time, and you should be sure that all your questions well received from us, and we will continue to communicate the capital markets feedback to the Nakilat's senior management. Stay safe and thank you so much.