Qatar Gas Transport Company - Nakilat (QE: QGTS)

FY'20 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) Santosh Gupta - Drewry Maritime Research
2) Waruna Kumarage - SICO

Ahmed Hazem:

Good morning and good afternoon, ladies and gentlemen. I hope that everyone is staying safe. This is Ahmed Hazem, from EFG Hermes Research, and we are pleased to welcome you today to the Nakilat's 2020 results conference call.

Today's call will include a recap on the 4Q results and the full year results, followed by a market update and a Q&A session. With us on the line today are Mr. Hani Abuaker, CFO of Nakilat, and Mr. Fotios Zeritis, Head of the Investor Relations Department. With that, I'd like to hand over the call to Fotios.

Fotios Zeritis:

Good Afternoon and welcome to Nakilat's Fiscal Year 2020 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 IR updates. 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 full year 2020 earnings results presentation for Nakilat. Together with our Head of Investor Relations Fotios Zeritis, I will guide you through today's presentation.

I hope that everyone and your families remain safe and healthy through this period of COVID-19 pandemic. Before we discuss Nakilat's great financial achievements of 2020, I would like 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 without disruptions.

Even though that the global economy and the LNG shipping market felt the negative implications of Covid-19 pandemic for the majority of 2020, Nakilat continued to demonstrate a strong resilience, as reflected in its outstanding operational and positive financial performance during this challenging year.

Nakilat's resilient business model has allowed us not only to navigate through this challenging and uncertain environment but also to generate sustainable returns to our shareholders.

Despite the COVID-19 pandemic challenges and uncertain economic environment, Nakilat records highest profit of QAR 1.16Bn since inception, an increase by 15.7% for FY2020. In-line with Nakilat's commitment to reward sustainable returns to its long-term shareholders; yesterday, the company's board of directors has recommended an cash dividend at QAR 0.11 per share; an increase of 10% compared to the same period last year as a result of company's great performance in 2020.

So, first of all, I am pleased to announce that the 2020 was a very successful year for Nakilat in terms of executing our strategy which has resulted in the safe completion of the second phase fleet management transition involving 7 LNG carriers, delivery of 1 MEGI LNG newbuilds (the 2nd MEGI on Jan'21), as well as the first FSRU transition to NSQL-management and achieving high profitability for our shareholders in spite of the extremely severe business environment and challenges due to the pandemic.

Now, turning to slides 8 and 9 of the presentation; the company achieved a strong net profit of QAR 1.16 billion compared to QAR 1 billion during the same period in 2019, which is translated to a remarkable increase of 15.7% which was supported by the vast majority of our LNG shipping segment, wholly owned and jointly owned, contracted revenues that are fixed daily rates of hire with very minimal exposure to market conditions and ensures an extremely high rate of fleet utilization.

That is in spite of weak performance related to our shipyard entity and the one-time write down of legacy costs pertaining to investment in JVs and subsidiaries at inception, shipping and support segments showed a positive trend.

In similar positive trend, Nakilat's EBITDA was up by 4.3% year-over-year to reach QAR 3.2 billion. This continues to be aligned with Nakilat's goal to maximize sustainable bottom-line growth and create value for its shareholders.

Other significant factors that supported Nakilat's 2020 bottom-line were the lower G&As by 28% compared to 2019. Also, I would like to highlight that even our operating costs, excluding the impact of the INSW acquisition in 2019 which used to be reported at JV level and not consolidated line by line, was down actually 4%.

All these outcomes have been achieved due to Nakilat management's emphasis on cost reduction initiatives and the delivery of 10 (including the 2nd MEGI, Jan'21) vessels under the management of Nakilat Shipping Qatar Ltd. (NSQL) within 2020 which has improved the economy of scales in the way we efficiently deliver our services in order to maintain healthy cashflows and returns to our shareholders.

Now, I would like to talk about Nakilat's financial position. Turning to slide 10 and 11, you can see Nakilat's strong healthy balance sheet with cash and bank balances at almost QAR 2.9 billion as well as total assets at QAR 32.6 billion. Moreover, our schedule debt amortization continues the repayment with free up our balance sheet capacity. In 2020, we repaid QAR 1.16 billion and we added new loan of QAR 910 Million to fund new business opportunity, the net borrowings reached at QAR 21 billion.

Last but not least, Nakilat's current ratio is at 1.41 and the Return on Equity has increased at 12.3% due to the full utilization of our growing fleet and our efforts at cost savings.

Now, let me hand it back to Fotios to take you through an overview of the LNG shipping market and company's IR developments. So, Fotios, if you can please take it further.

Fotios Zeritis:

Thank you, Hani.

Before I discuss with you the overview of the LNG shipping market for 2020, I would like to take a moment and mention that we intensified our efforts of promoting excellence in Investor Relations and enhancing corporate value though effective communication with the global investment community in order to ensure that Nakilat's attractive investment proposition is spread among global investors in 2020.

Our strong commitment of promoting the world's best practices of Investor Relations rewarded us with a record number of investor participation in Nakilat's quarterly earnings result conference calls for 2020 and Nakilat's inclusion to MSCI Large Cap Index which demonstrates the great confidence of global capital markets in Nakilat. These achievements are testament of IR's commitment to an open and transparent communication with global investors and all stakeholders of the company.

The global economy and energy demand as well as LNG shipping market felt the negative ramifications of Covid-19 pandemic for the majority of 2020.

In the first quarters of 2020, when the COVID-19 pandemic caused lockdowns in Asia and Europe leading to economic decline and a fall in energy demand, the LNG arbitrage closed, implying much less demand of US LNG to be transported to Asia which were translated to a smaller tone-mile multiple in global LNG shipping. However, since then the picture has changed dramatically. Initially the impact of the pandemic started to ease, and economic recovery brought higher demand and increased LNG prices, pushing the margin back into positive territory in the last months of 2020.

According to Affinity, the total global LNG exports reached ~359mts at the end of 2020, up ~3% from 2019. The pandemic led recession remains in force and continues to impact demand globally. However, strong demand growth came from the east, particularly China (+16%) and India (+20%) YoY. Drewry projects that LNG trade to expand at a CAGR rate of 4.5% in the period of 2020-25, due to strong demand in power generation.

Now, I would like to give you an overview of global LNG shipping market for the fourth quarter of 2020 which can be seen in our presentation from slide 13 to slide 14.

At the 4Q20 and the January of 2021, a combination of factors such as a very cold weather, a rapid rise in LNG prices in Asia, significant transit delays at the Panama Canal, and lack of LNG shipping available tonnage has positively impacted charter rates in 4Q20 and January 2021. According to SSY, the current spot charter rates for modern two-stroke tonnage is around ~$90,000 per day, ~$71,000 per day for DFDEs, and ~$52,000 per day for STEAMs.

The term contacts 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 ~$60,000pd for MEGIs/XDFs, ~$55,000pd for DFDEs, ~$33,000pd for STEAMs which is a helpful benchmark when an owner discusses term charter opportunities.

Now, please turn to slide 14 of our presentation. In the 2020, the LNG newbuilding costs have been stabilized at an average price of ~$186 million.

Furthermore, you can see the global LNG fleet has 543 vessels in operation and another 138 vessels on the orderbook until 2024 as per Clarksons. This implies an increase of ~25% of total LNG fleet, in terms of number of vessels as of December 2020. It is worth of mentioning that the ~90% of the existing LNGCs are chartered with term contracts of more than 6 months and the remaining is available on the spot market as per SSY.

The overall consensus among the participants is that the LNG market shipping market will continue to be volatile in the upcoming quarters due to the following different factors such as COVID-19 pandemic is still on-going, newbuild orders, fleet optimization, trade arbitrage, and Panama Canal transit restrictions etc.

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 4th quarter of 2020. I will move to slide 16 and I will shortly discuss about Nakilat's business outlook before we open the floor for questions and answers session.

Committing on our growth strategy, Nakilat has put considerable efforts to expand its current excellent in-house ship management operation. For this reason, Nakilat has recruited a workforce to continue to deliver first-class services to its customers around the clock and to ensure reliable LNG transportation services are being provided.

In 2021, we expect to see another successful year for Nakilat due to the managements' focus to expand its own core LNG shipping business and to persist to control closely its operating expenses. In the second half of 2021, we expect to receive the 3rd newbuild LNG carrier under Nakilat's commercial and technical management.

In addition, we are working closely with the shipyard team to mitigate any adverse exposure of this segment. The shipyard business is expected to see an improvement the following quarters due to a more normalized business environment than the year of 2020.

Before we open the floor for questions, let me say that everything we do is rooted in our culture of focusing on the long term perspective, and contributing to more equitable, resilient future, to benefit our clients, to benefit our employees, to benefit our shareholders, and the people in the communities where we live, where we work, where we operate.

I firmly believe that the efforts of 2020 will position Nakilat to deliver value over the long term for all of our stakeholders. With that, I will ask the operator, to open the floor for questions and answers.

Please, go ahead.

Operator:

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

Santosh Gupta:

Thank you. Hi, Hani, and hi, Fotios. My first question is primarily on the fourth quarter. If I look on a quarter-on-quarter basis, I believe the share of joint venture earnings has declined from QAR 133.7 million in 3Q20 to QAR 55.9 million in 4Q20. I would like to understand what is driving this decline. The second question is that I understand that you completed your second fleet transition plan sometime last year. I believe there are approximately seven or eight more vessels that there is a potential that you can transition. So, by when should we expect those transition plans to start? These are the two questions I have. Thank you.

Hani Abuaker:

I will take the first question and Fotios can take the second question. Yes, we have seen a drop in our segment reporting of jointly owned. It is mainly due to two factors. The first factor is that we have one-time write-offs related to deferred assets for some of the start-up financing of our joint ventures and subsidiaries. As part of our annual assessments, these deferred assets are related to financing of joint venture and the subsidiaries which were identified. We believe, as a management, that these deferred assets have not met the required capitalization criteria under the IFRS standards, and that is something that was done in 2007-8. For this reason, it was prudent from our side to evaluate them and to de-recognize these balances. In this way, we can accurately provide and reflect Nakilat's financial status. In addition, we reversed a provision which was taken last year because of the winding down of one of our shipyard facilities (NDSQ). If you add both of them together, one was QAR 150 million written-off, and one was QAR 54 million reversal, so total net impact of writing down was around QAR 95 million. For this reason, you saw a drop of joint venture earnings. I hope that I answered your question.

Santosh Gupta:

Yes. Thanks a lot.

Fotios Zeritis:

Hello, Santosh. Good afternoon! Regarding your second question. As you already know, Nakilat successfully completed the 2nd phase of fleet transition from STASCO (Shell). From the beginning of Nakilat, STASCO were managing Nakilat's 25 wholly owned vessels.

After the successful completion of the first and second phase of our fleet transition, Nakilat received the 17 wholly owned vessels from STASCO. Regarding the remaining vessels, whenever it is needed, Nakilat will announce it. In addition, Nakilat is focused on the remaining two LNG newbuild deliveries which are expected by the second half of 2021 (3rd Newbuild) and January 2022 (4th newbuild). As you can see, Nakilat has effectively managed the transition of all of these vessels on time and on budget in a very challenging year due to COVID-19 pandemic. Hopefully, the market conditions will improve in the following years. I hope that I answered your question.

Santosh Gupta:

Yes. Thank you.

Waruna Kumarage:

Hi. This is Waruna Kumarage, from SICO. My question is on the debt repayment schedule. How do you see the outlook of debt repayment in the next 5 to 10 years? Do you expect them to repay as per the schedule? The thing is this gets muddled because of some JV acquisitions that you make, which tend to increase the debt levels, plus new vessel acquisitions but, with the outstanding in 2014, do you expect that debt stack to be paid down gradually?

Hani Abuaker:

We believe that the debt amortization of the existing vessels which are either wholly owned or jointly owned will be paid off as per the schedule within the 25-year firm charter contract. Even if we have any additional financing in that term, we still have the schedule of debt that matches the 25-year firm charter-party. Thus, the answer is "yes", you should expect the continuation of debt amortization as per the schedule and these debts to be paid off as they are coming closer to the maturity of the firm period of contract (remaining of approximately 12 years). Note that we have some charter options in place on the existing charter-parties after the firm period. I hope that I answered your question.

Waruna Kumarage:

Yes. Thanks for the clarification. In terms of the contractual rates of these loans, since they were agreed upon 5 or 10 years back, under the current low interest rate environment do you plan to refinance any of these? So, is there any other way that you can benefit from lower interest rates?

Hani Abuaker:

Yes, it depends on many parameters. As we have said previously, Nakilat have approximately 75% of its debts hedged and the remaining unhedged on the group level (including JVs). On the wholly owned vessels, the potential of refinancing might be limited. However, some of our jointly owned vessels or the vessels that we acquired from INSW; are due for refinancing in the following years which could be good refinancing opportunities for Nakilat. Then, we might enjoy lower refinancing costs on these vessels compared to what the interest rates were when they was locked back in 2006 or 2007.

Waruna Kumarage:

May I ask how significant is this refinancing opportunity in the JVs?

Hani Abuaker:

We cannot provide further information on how significant is refinancing opportunity in the JVs. However, the vessels, which we are acquired by INSW, will come for refinancing in the next 3 years and that could be a good refinancing opportunity for us. For the other JVs, we have not disclosed it. I cannot commit on something which can be after two or three years. For this reason, I mentioned about INSW because these vessels are hedged of more than 90%. When we refinance these vessels in 2022-2023, we will realize a lot of savings if we assume that the interest rate remains below of what it was in 2006 or 2007. In the future; if there is any further clarity, we would be happy to provide more color on how significant the refinancing opportunity within JVs is.

Hani Abuaker:

Thank you, again, all of you, for joining us this afternoon and for your continued interest in Nakilat. I hope that Nakilat 2020 results, again it's a directive of our commitment to serve our clients and our stakeholders and, hopefully, 2021 will provide us another successful year. Again, we're happy always to answer your questions and clarifications. Fotios and the team is available to do that and also myself, if needed. Thank you very much.

Fotios Zeritis:

Thank you so much for participating in this call. All your questions have been well received and we'll communicate them with Nakilat's top management. Again, stay safe, you and your family. Thanks, so much.