Company:	**Gulf International Services**
Conference Title:	**Gulf International Services (GISS) Q4-21 Results Conference Call**
Speakers from GISS:	**Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, QatarEnergy** **Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, QatarEnergy** **Mr. Riaz Khan, Investor Relations and Communications Lead, QatarEnergy**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
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Conference Time:	**13:30 Doha Time**

Operator:	Good day, and welcome to the Gulf International Services Company Q4 2021 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Bobby Sarkar. Please go ahead, sir.
Bobby Sarkar [QNBFS]:	Thank you, Ashley. Hello. Good afternoon, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Gulf International Services fourth quarter and fiscal year 2021 results conference call. So on this call from QatarEnergy's Privatized Companies Affairs Group, we have Sami Mathlouthi, who is the Assistant Manager in Financial Operations; and Riaz Khan, who is the Head of IR and Communications. We will conduct this conference with first management reviewing the company's results followed by a brief Q&A. I would like to now turn the call over to Riaz. Riaz, please go ahead.
Riaz Khan [GIS]:	Thank you Bobby. Good afternoon and thank you all for joining us. Before we go into the business and performance updates of GIS, I would like to mention that this call is purely for the investors of GIS and no media representatives should be attending this call. Moreover, please note that this call is subject to GIS's disclaimer statements as detailed on slide no. 2 of the IR deck. Moving on to the call, on 17th of February, GIS released its results for the year ended 31st of December 2021, and today in this call, we will go through these results and provide you an update on the key financial and operational highlights of GIS. Today on this call, along with me, I have: 1- Sami Mathlouthi, Asst. Manager, Financial Operations We have structured our call as follows: ▪ At first, I will provide you a quick insight on GIS's ownership structure, competitive advantages, overall governance & BOD structure by covering slides 5 till 8, and slides 29 & 30; ▪ Secondly, Sami will brief you on GIS's key operational & financial performance matrix. ▪ Later, I will provide you with insights on the segmental performance. ▪ And finally, we will open the floor for the Q&A session.

	To start with, as detailed on slide no. 6 of the IR deck, the ownership structure of GIS comprises of QatarEnergy with 10% stake being the Parent shareholder, whereas GRSIA with 22.1% stake is the largest shareholder. As detailed on slide no. 5, QatarEnergy provides most of the head office functions through a service-level agreement. The operations of GIS's subsidiaries are independently managed by their respective Board of Directors, along with the senior management team. The BOD structure is detailed on slide no. 7 of the IR Presentation. In terms of competitive advantages, as detailed on slide no. 8, all of the GIS's group companies are strategically placed having significant market share in their respective business sectors within Qatar. • For eg. drilling business is the only Qatari on-shore drilling service provider and have more than 50% market share in the off-shore drilling service in Qatar. • Similarly, the aviation business of GIS is a sole provider of helicopter services in Qatar's Oil & Gas service sector and being one of the largest operator in the MENA region. • In terms of insurance business, it is one of the leading medical insurance providers in Qatar. • This is supported by an experienced senior leadership having expertise in the relevant business segments. In terms of the Governance structure of GIS, you may refer to slides 29 & 30 of the IR deck, which covers various aspects of GIS's code of corporate governance in detail. I will now hand over to Sami.
Sami Mathlouthi [GIS]:	Thank you Riaz. Good afternoon and thank you all for joining us. Recovery for the Group, following constructive macroeconomic drivers along with improved oil price dynamics, remained uneven where aviation and insurance segments continued to demonstrate persistent improved set of results versus last year. Drilling segment remained under pressure until first half of the year, however, the segment started to show signs of recovery since Q3-21. The catering segment did not take advantage of macroeconomic tailwinds immediately. The sector suffered from COVID-linked restrictions and challenges that affected the hospitality industry and induced lower revenues, with higher operating costs. Nevertheless, the segment started to show signs of recovery since Q4-21. In terms of Group's financial performance, as detailed on slide 12, the Group's total revenue for the current year improved by 3% compared to last year, to reach QR 3.1 billion. Revenue growth from insurance, aviation and drilling segments, was entirely offset by a negative growth in revenue from catering segment.

	For the current year, the Group averaged an EBITDA of QR 550 million, with a decline of 4% versus last year. The Group reported a net profit for the current financial year amounting to QR 54 million, as compared to a net loss of QR 319 million for last year. When analyzing the profitability in more detail, as reflected on slide 14, the main contributor towards the growth in the bottom line profitability was mainly linked to growth in revenue coupled with savings on account of General & Administrative expenses which declined by 7% & Finance cost which declined by 21% versus last year. This was partially offset by higher direct costs, on account of increased business activity. Moreover, an impairment provision amounting to QR 308 million booked during last year, significantly impacted last year's profitability compared to current year. Moreover, the performance of Group's investment portfolio was positively impacted due to recovery in capital markets, and a recovery amounting to QR 23 million was noted on account of unrealized gains on revaluation of investment securities, when comparing current year's investment portfolio performance with last year. Moving on to quarter-on-quarter analysis, Revenue for Q4-21 represented an increase of 4% compared to Q3-21, mainly on account of growth in revenue from aviation, catering and drilling segments, partially offset by a decline in revenue from insurance segment. Net profit for Q4-21 amounted to QR 13 million with a reduction of 69% compared to Q3-21. This was mainly linked to a foreign currency revaluation loss from GHC's Turkish subsidiary and impairment provisions relating to receivables within GHC. Moreover, insurance segment also witnessed a decline in net earnings during Q4-21 due to an unrealized loss reported on its investment portfolio, amid negative movements in Capital markets. Drilling segment also furthered its losses, due to higher accruals in relation to operational costs. On overall basis, our base case strategy will continue to focus on market development by focusing on building our market share, reducing operating costs and continue to improve utilization of assets. I will now hand over to Riaz, to cover the segmental performance.
Riaz Khan [GIS]:	Thank you Sami. Drilling I will start with Drilling segment, where you may refer to slides 16 till 18. Drilling segment reported a revenue of QR 1.0 billion for the year ended 31 December 2021, up by 10% compared to last year. Growth in revenue was mainly driven by comparably higher newly implemented rig day-rates for the offshore fleet, which took effect from July'21. In addition, two of the suspended rigs commenced operations during Q3-21, which positively added to the segment's topline. Moreover, deployment of three additional rigs as part of Gulfdrill JV's fleet during Q2-21, had a positive impact on segment's revenue trajectory, amid higher management fees.

	Segment reported a net loss of QR 201 million for the year ended 31 December 2021, compared to a net loss of QR 453 million for last year. The reduction in losses was mainly attributed to growth in segmental revenue, coupled with a decline in the segment's finance cost compared to last year, on account of lower interest rates and repayment of some loans. Also, absence of one-off impairment losses which were booked during last year (QR 217 million) contributed positively to the segment's current year's comparative performance. Aviation Moving on to the Aviation segment, as detailed on slides 19 till 21. Here, the segment reported a total revenue of QR 722 million for the year ended 31st of December 2021, up by 5% compared to the last year. The increase was mainly attributed to higher flying activity recorded within both domestic and international operations, coupled with growth in revenue noted across all the businesses within the segment. Segment's net profit reached QR 221 million, representing an increase of 91% compared to last year, mainly on account of revenue growth. Insurance Moving on to insurance segment, as discussed on slides 22 till 24. Revenue within the insurance segment for year ended 31 December 2021, increased by 1% as compared to last year, to reach QR 988 million. Growth in premiums from general insurance line of business, almost entirely offset against decline in premiums from medical line of business. Segmental net earnings increased by 16% as compared to last year, to reach QR 60 million. Strong growth in net profits was mainly supported by a robust recovery within the segment's investment portfolio on the back of recovery in capital markets. Catering Finally, moving on to the catering segment, as discussed on slides 25 till 27, the segment reported a revenue of QR 361 million, with a decline of 11% compared to last year. This was in addition to loss of some contracts within both manpower and catering segments, which adversely affected overall growth. The segment reported a net loss of QR 15 million for the year ended 31 December 2021, compared to a net loss of QR 10 million last year, mainly due to lowered margins and declining revenues. Now, I think we can open the floor for the Q&A Session.
Operator:	Thank you. And if you'd like to ask a question, please signal by pressing star one on your telephone keypad. Again, that one to enter the queue for questions. It appears there are no questions at this time. Apologies, we do have one question. The question comes from Shabbir Kagalwala of Al Rayan Investments.
Shabbir Kagalwala [Al Rayan Investments]:	Gentlemen, Thank you for the call. I had a couple of questions, if I may. One on the drilling segment. We have seen that in the third quarter, you had a lot of new rigs which were starting to deploy. Were there any rigs deployed in Q4? And are there any rigs pending to be deployed, which you are currently not on contract?

Sami Mathlouthi [GIS]:	Thank you, Shabbir for the question. Compared to Q3 2021, there is no additional rig that has been deployed. Basically, at this stage, the situation is we have two rigs, two onshore rigs which are not deployed yet, which are GDI-4 and GDI-8. And then most of the other rigs, offshore rigs are deployed and the burgers and the accommodation rates, some of them are deployed. But there is no change in situation compared to the quarter 3.
Shabbir Kagalwala [Al Rayan Investments]:	So what we have seen in the fourth quarter versus the third quarter with all the deployment of the rigs, the losses of the segment has widened on a quarterly basis. And also we have seen is that the Gulfdrilling JV, which was supposed to be a profitable venture has also seen a loss for the full year. So what's the outlook there? Will we continue to see losses from the drilling segment despite the high oil price and higher utilization of rigs or this will turn or there are one-offs in this as well?
Sami Mathlouthi [GIS]:	Yeah, Thank you again for the question. I think if you analyze the quarterly situation, so we are seeing an improvement in terms of revenue on the top line side. So basically, the revenue has increased by around 10% compared to Q3 2021 to reach around QR340 million in Q4 2021. The losses have increased. That's correct compared to Q3 from QR26 million to QR42 million. So the main reason is -- there are inclusion of around QR29 million of accruals relating to some costs, which has been accrued during the year. So those are like catering costs and crew changes, which are included in the cost of Q4. But if we streamline the situation, so the loss will be around QR30 million, which will be almost lower than all the other quarters. So in general, we will see improvement in terms of top line and in terms of bottom line profitability as well. Coming back to your second part of the question, which is related to the JV. So JV is still generating losses. We are still at the first year of full operation of the JV rigs. So basically, part of those rigs has been deployed during Q2. So it's end of Q2 2021. So only six month and a half of operations. So many mobilization costs are still accumulating in those JVs.
Shabbir Kagalwala [Al Rayan Investments]:	All right. Thank you. And I had a question on the investments on the insurance side. So we have seen investments provision coming on the investment side in this year. I would like to know what -- given what the debt market will be doing because most of the investments are in debt. What the outlook you're seeing, how much losses from investments can we expect this year? Or do you -- are you having a strategy to mitigate those losses? And will we see more provisions coming from the investment side?
Sami Mathlouthi [GIS]:	Those provisions are relating to ECL. For the insurance segment itself, the portfolio is divided between investment through P&L and investment to other comprehensive income. So I will say, it's around 50-50 are allocated. So it's around QR400 million for investment under profit loss and around QR420 million for the investment under other comprehensive income, which are the investment in that. So we have flexibility. And basically, we balance the investments based on the risk that we see in the future. If we see additional risk in the fixed income side, so basically, we balance our portfolio through additional profit and loss portfolio.
Shabbir Kagalwala [Al Rayan Investments]:	Thank you. So, this year are we expecting to see – sorry.
Sami Mathlouthi [GIS]:	In general, we have seen a good -- in general, we have seen good recovery of investment compared to last year, so by around QR15 million. It's investment income is standing at QR15 million, which is better than what we have seen during last year. And we are seeing the same structure to be in the future.
Shabbir Kagalwala [Al Rayan Investments]:	All right. Thank you.
Operator:	We will take our next question from Siju Philip of United Securities. Please go ahead.

Siju Philip [United Securities]:	Thank you gentlemen for this presentation. I had some few questions actually. One is I just want to clarify with my colleagues when asked a question on this, on the rig cost -- sorry, rig losses in Q4. You mentioned that QR29 million is accruing costs which happened. So can I conclude that this is a one-off and which means that this is what I can understand, maybe if that is not there you would have made only QR13 million losses, but this is going to be amortized, right, maybe next year as well, right? This is what I wanted to get a clarity on that. Then, I have another couple of questions as well.
Sami Mathlouthi [GIS]:	This is -- this is one of the amortized. Those are costs relating to mobilization basically at the GDI level. Those are like true changes and catering costs which are invoiced at the end of the year, which are relating to prior months. And so, after checking all those expenses, basically, we booked them in Q4 2021, but we cannot restate like it's not relating to prior years. Those are relating to the same financial year. So they need to be booked in Q4 2021. Those are not recurring costs. And they will be included in Q4. But as I said, if we include only Q4 costs, the losses will be calculated at around QR30 million for Q4 2021.
Siju Philip [United Securities]:	Okay. And one other question is that any update on your refinancing plans on your debt? Could you just give a color on that?
Sami Mathlouthi [GIS]:	For the debt, we are still in continuous discussion with all the stakeholders. So there is no new development at that site. So it's -- we try to align between all the stakeholders. This is basically big exposure. And all the stakeholders, they need to be aligned. So it's from our side as well. We are looking for the benefits of the shareholders where we are looking for a sustainable debt, where at the same time, we can grow the business, we can make investments in potential rigs when the business picks up, and at the same time be able to finance our debt. So the exercise is still running, many discussions, many meetings between us and all the stakeholders to outline. And hopefully, we will reach an alignment before the deadline. So basically, we still have time. So the deadline for the debt is 2023. And we are in continuous discussion and we will discuss on the benefit of all the shareholders of GDI and of GIS.
Siju Philip [United Securities]:	Okay. And my other question is that on your insurance, you mentioned that the QR400 million goes through P&L. Could you just give a breakdown of your asset class? Is it -- how much comes from fixed income and how much is equities? If you can share some color on that?
Sami Mathlouthi [GIS]:	Yeah. So, I think it's detailed in our financial statement. But what I stated, it's -- we have QR400 million, around QR400 million financial assets which are invested in other comprehensive income. And those are relating to investment in debt. So for equities, so it's around QR420 million are invested in the equity portfolios.
Siju Philip [United Securities]:	And this is through P&L, right, the 400? Or is a mixed of both?
Sami Mathlouthi:	No, no, that's through P&L.
Siju Philip [United Securities]:	That's through P&L. Okay.
Sami Mathlouthi [GIS]:	Yeah.
Siju Philip [United Securities]:	All right. Thank you.
Sami Mathlouthi [GIS]:	Thank you.
Operator:	Again, as a reminder, if you'd like to ask a question please signal by pressing star one. We will now take our next question from Rupesh Lohiya of Decimal Point Analytics.

Rupesh Lohiya [Decimal Point Analytics]:	Thank you for presensation. I just have a question on the aviation side. As I can see in the presentation that there are 59 aircrafts in total. So I just wanted to know like how many are of the -- like there are any nonoperational aircrafts? Thank you.
Sami Mathlouthi [GIS]:	Yes. Look, the business of aircraft is -- and the contractual arrangement that we have with the aircraft. In many cases, it requires operating aircraft and then some aircraft, they need to be grounded. These are basically for potential contracts or for the same contract as a backup aircraft. At the moment, we have 59 aircraft, out of that around 19 they are operating and they are allocated to the contracts. And then we have around 19 preserved aircrafts, and the remaining, they're allocated to the aircrafts in contract.
Rupesh Lohiya [Decimal Point Analytics]:	Okay. Thank you.
Operator:	And we now have a follow-up from Siju Philip of United Securities.
Siju Philip [United Securities]:	I just want to talk about you said about Gulf JV and you give a color on that that here's a positive outcome this year onwards. And more on that, any deployment strategy on your rigs that we could see what is your -- could you just give a color on that for this year and next?
Sami Mathlouthi [GIS]:	Sorry, can you please repeat the question again? Sorry. Is that JV or the GDI?
Siju Philip [United Securities]:	No, no. Yeah, one is on the JV. I'm saying, could you just give -- you said -- I think this Gulf JV you said this year, you're going to see a positive outcome. You mentioned it. Could you just elaborate on that on the Gulf JV project? And my other question is that could you just elaborate on your deployment strategy of your rigs for this year in 2022?
Sami Mathlouthi [GIS]:	Yeah, yeah, sure.
Siju Philip [United Securities]:	Because you said your 2 rigs not been deployed, right? So that's why I just thought you're concerned actually on this.

Sami Mathlouthi [GIS]:	Yeah, yeah, sure. So basically, for the JV rigs. So the JV as you know, started in 2020. And with the deployment of two rigs, I would say, mid of 2020, and then remaining rigs were expected to start in beginning of 2021. So due to the exceptional COVID situation, so some of the rigs has been delayed. So either as the shipment yard or due to issues with bringing employees or mobilization of staff, so we had to delay the deployment of those rigs. So instead of 2020 -- beginning of 2021, so the three remaining rigs of the JV have started in May 2021. So, starting from next year, you will see a full deployment of those JV rigs. We will have the five rigs, will be fully operational. So, most of the mobilization costs, they will be basically -- most of them will be deployed in 2021. And we will see, hopefully, starting from 2022, improved utilization of those rigs and then this will have an impact on the bottom line profitability of the JV. So, this is at the JV level. In terms of the deployment of rigs at GDI level, at the moment, most of the offshore rigs, they are operational. We have only one JV rig, which was under maintenance. This has been deployed in Q3 2021 and then contracted for a longer time period. So starting from 2022, we will work closely with our customers basically to improve the tenure of the contracts from -- now we are working with an average of 2.5-3 years, and we are aiming to improve the tenure of those contracts to much higher period. At the same time, we started to have negotiation at international level to deploy the lift boats, and we are in final discussions to sign the contracts for those two lift boats. They will go international. So, I think starting from next year, we will see more deployment, improved utilization of the rigs. The two remaining onshore rigs, which are not deployed yet. They are under final discussion as well for the deployment. So we are in the final negotiation for one. And we are expecting much higher utilization for 2022. And then, prices are capped at the moment for the offshore rigs, and then we might need to discuss those prices as well if the oil price will increase in the future.
Siju Philip [United Securities]:	So it means that you can renegotiate with your pricing actually and with your -- since the oil price have been elevated, if you look at it right now, close to 100 barrels.
Sami Mathlouthi [GIS]:	These are contracted arrangements. So, they could be discussed at any time at both levels, at the up level and at the downside level. And based on the oil prices, we can enter into discussion in those rigs, especially if there are some rigs that will -- their contract will expire in 2022 or 2023. As you know, the commercial discussion start earlier, before the expiry date. And then it's a good time to renegotiate the content of the contract at both commercial side and legal side as well.
Siju Philip [United Securities]:	If you can give us how many of your rigs they are going to get -- the contract is going to get expired actually and where we expect a renegotiation this year. Is it -- could you just give us a color on that?
Sami Mathlouthi [GIS]:	We have -- I will say we have three rigs, three offshore rigs, which are expiring in 2022. And for those rigs we are in negotiation, basically in their contractuals. And then the onshore rigs, some of those rigs as well, they're expiring in 2022, and we will renegotiate as well the contracts of those rigs.
Siju Philip [United Securities]:	Okay. But is it at the end of 2022 or is it more during the 2022 actually these rigs, which you mentioned.
Sami Mathlouthi [GIS]:	I will say at the end of 2022.
Siju Philip [United Securities]:	Okay. Fine. Thank you.

Sami Mathlouthi [GIS]:	They're not expiring at the same time, but starting from Q3 2020 to Q4 2020.
Siju Philip [United Securities]:	Okay. Thank you.
Operator:	We will now take our next question from Nitin Garg of SICO.
Nitin Garg [SICO]:	Hi. This is Nitin from SICO. Thank you for the call. Just one question. I mean I'm not able to understand, I mean, how will you make profit in 2022? I mean all your rigs are deployed in fourth quarter. I mean, if we take fourth quarter is a benchmark, so all your rigs were deployed, you have already renegotiated rates in July last year and your rates are capped, I think, at around 70-$75,000 per day. So if you didn't make a profit in 4Q when all the rigs were deployed, how will you make profit in full year '22? Unless -- there are only two possibilities. One is you renegotiated your rate upwards at a higher dollar or the rigs are deployed, but they are not being utilized. So the utilization rates are low. So other than this, I mean, if we take fourth quarter a benchmark, I mean how the drilling segment will make profit in '22?
Sami Mathlouthi [GIS]:	Thank you, Nitin, for your question. We are basing our analysis based on Q4 2022. So, as you mentioned, so yes, most of the rigs have been deployed in Q4 2022, however. First of all, two onshore rigs are deployed in most of 2022. And those are -- those rigs, so they will start basically their utilization in 2022. And hopefully, if they are fully deployed, this will have a positive impact on the revenue as well as on the bottom line profitability. Lift boats, most of them, they have not been deployed during last year. So one of them, it has zero days of revenue generation. So those two liftboats, if they are deployed as well, so with their full utilization during 2022, it will have an impact as well on the revenue as well as on the net profit. The net income from the joint venture will improve as well due to utilization of the JV rigs, as you know, so utilization is not 100% in the JV during 2021. And starting from 2022, we will have those rigs deployed. I think all of these aspects will improve the bottom line profitability as well as the revenue. So in addition to lower mobilization, which we have seen during late 2020 and during the year 2021. I think this will have a good push for the drilling segment together aligned with our control of the SG&A costs, our control and our lien, let's say, direct cost that we have, which is among the lowest in the region. So this will have a good impact on the net profitability of the business.
Nitin Garg [SICO]:	Okay. So just a follow-up. Can you share some color on utilization? I mean you have deployed five rigs last year in the Gulf JV Drill. So where are the utilizations? I mean, and how much is the scope and improvement in utilization. And coming to the rigs I mean the --one, communicated before was in July that the rates, the ceiling rate is $74,000 per day. I mean, you mentioned the renegotiation. I mean the rigs which are up for renewals. So how much you can negotiate there from $74,000?
Sami Mathlouthi [GIS]:	Well, Nitin, this is relating to the commercial discussion that we will have with our customers. So as you know, those discussions are not easy to have. So it's based on the whole market environment. It's based on the benchmark that we have in the region as well, and it's based on the oil prices. So at the moment, as you said, some of the offshore rigs, not all of them, some of the offshore rigs are indexed based on the indexation formula where the cap is $74,000. And again, so based on the profitability of those rigs, based on the oil prices, we are in continuous discussion with our customers. And once we reach an agreement, so we'll announce that. So I cannot state how much you will be able to achieve and whether we'll be able to achieve a better rate or not. But the management are working hardly with all the customers to improve both the revenue side as well as the net profit side to make this business running at profit. So especially with the existing oil price that we are seeing today and with the higher utilization that we will have based on the revenues that we will achieve.

	So as you know, so if you compare 2020 and 2021, those were very exceptional years due to all the issues that we have faced. So due to the market and economic issues that we have faced due to the oil prices late 2020 and beginning of 2021. So issues with the restrictions to travel and the restriction to bring additional staff to the rigs. So issues relating to over time where it has been extremely difficult to bring stuff to the rigs. And this, you will have to deploy the existing staff and maybe to bear additional costs for the deployment of those staff. So, all of these COVID related issues, they impacted negatively on the bottom line profitability as well as on the revenue side as well. So on the JV side, as you know, so starting from 2022, we will be fully operational. So instead of having only 2 rigs running beginning of 2021, you will have the full year covered with 100% utilization for those rigs for the full year of 2022. So I think this will have an impact on our performance for the next quarter and for the whole year of 2022.
Nitin Garg [SICO]:	Okay. Thank you.
Sami Mathlouthi [GIS]:	You are welcome.
Operator:	And there are no further questions at this time. I'd like to hand the call back to our host for any additional or closing remarks.
Bobby Sarkar [QNBFS]:	Thank you. If there are no further questions, I would like to thank GISS Management, Sami. And so we can pick this up next quarter. Thank you very much.
Sami Mathlouthi [GIS]:	Thanks a lot. Thank you, Bobby. Thank you, everyone, on the call.
Operator:	That now concludes the call. Thank you for your participation. You may now disconnect.