

Company:	Gulf International Services
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Speakers from GISS:	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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Operator:	Good day and welcome to the Gulf International Services Company Q1 2022 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:	Thank you, Leanne, hello, good afternoon, everyone, this is Bobby Sarkar, head of research at and Financial Services. I wanted to welcome everyone to Golf International Services First Quarter 2022 Results Conference Call. So, on this call from Qatar Energy'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. So, we'll conduct this conference with management first reviewing the company's results, followed by Q&A. I would like to turn the call over to Riaz. Riaz, please go ahead.
Riaz-ur-Rehman Khan:	<p>Riaz Khan Thank you Bobby. Good afternoon and thank you all for joining us.</p> <p>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.</p> <p>Moreover, please note that this call is subject to GIS's disclaimer statements as detailed on slide no. 2 of the IR deck.</p> <p>Moving on to the call, on 27th of April, that was yesterday, GIS published its results for the three-month period ended 31st of March 2022, and today in this call, we will go through these results and provide you an update on key financial and operational highlights.</p> <p>Today on this call, along with me, I have:</p> <ol style="list-style-type: none"> 1- Sami Mathlouthi, Asst. Manager, Financial Operations <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ 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.

	<p>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 22.0% stake is the largest shareholder.</p> <p>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.</p> <p>The BOD structure is detailed on slide no. 7 of the IR Presentation.</p> <p>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.</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>I will now hand over to Sami.</p>
<p>Sami Mathlouthi:</p>	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>Starting with the business updates,</p> <p>Within the drilling segment:</p> <ol style="list-style-type: none"> 1. new contracts are won in KSA & Maldives for liftboats within the drilling segment; 2. Also, the segment had successfully renewed contracts for certain offshore rigs with extended term ranging from 2 to 5 years; 3. This was in addition to continued positive impacts on segment’s performance for 1Q-22, from new rig day-rates for the offshore fleet applied starting from mid of last year and redeployment of two previously suspended onshore rigs during 3Q-21 <p>Aviation segment continue to witness improved set of performance with better flying activity within both domestic and international operations. Also, contributions from MRO & international business continue to support the segment performance.</p> <p>Within the insurance segment expansion on the general line of business was noted. However, medical insurance business witnessed loss of certain contracts.</p> <p>The catering segment improved its performance on the back of realizations from the new contract won during last year. Additionally, certain contracts have been renewed within manpower segments, with broader scope improving overall service volumes for the segment.</p>

	<p>In terms of Group’s financial performance, as detailed on slide 12, the Group’s total revenue for the current period improved by 18% compared to the same period of last year, to reach QR 835 million. Revenue growth from the aviation, drilling and catering segments led to an overall increase in the Group revenue. This was partially offset by a negative contribution in revenue from the insurance segment.</p> <p>For the current three-month period, the Group averaged an EBITDA of QR 198 million, with an increase of 77% versus the same period of last year. The Group reported a net profit for the current financial period amounting to QR 83 million, as compared to a net loss of QR 6 million for the same period of last year.</p> <p>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 growth in investment income. This was partially offset by higher direct costs and G&A expenses. Also, foreign currency revaluation losses from Gulf Helicopter’s Turkish subsidiary contributed negatively towards the year-on-year movement in net earnings.</p> <p>Moving on to quarter-on-quarter analysis, revenue for 1Q-22 declined by 1% compared to 4Q-21, mainly on account of decline in revenue from the insurance segment. However, revenue growth from the aviation, catering, and drilling segments, almost offset the decline in revenue from the insurance segment.</p> <p>On the other hand, net profit for 1Q-22 significantly increased by 545% compared to 4Q-21, mainly due to reporting comparatively lower foreign currency revaluation losses from GHC’s Turkish subsidiary and absence of impairment provisions relating to receivables within GHC which were reported in 4Q-21. The drilling segment also reduced its losses, in line with improved revenues. Also, the insurance segment investment portfolio positively impacted 1Q-22 net profits for the Group, with a growth of QR 42 million noted on account of segment’s investment income versus 4Q-21.</p> <p>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.</p> <p>I will now hand over to Riaz, to cover the segmental performance.</p>
<p>Riaz-ur-Rehman Khan:</p>	<p>Thank you Sami.</p> <p>Drilling I will start with Drilling segment, where you may refer to slides 16 till 18.</p> <p>Drilling segment reported a revenue of QR 321 million for the three-month period ended 31 March 2022, up by 62% compared to 1Q-21. Revenue growth has largely been linked to new rig day-rates implemented for the offshore fleet since the mid of last year (July’21). Also, redeployment of the two onshore suspended rigs (GDI-5 and GDI-7) during 3Q-21, positively contributed to the topline performance. Moreover, full deployment of Gulfdriill JV’s fleet during</p>

2Q-21, had a positive impact on segment revenue for 1Q-22 on account of comparatively higher management fees.

The segment reported a net loss of QR 10 million for the three-month period ended 31 March 2022, compared to a net loss of QR 72 million for 1Q-21. Reduction in losses was mainly attributed to growth in segmental revenue.

Aviation

Moving on to the Aviation segment, as detailed on slides 19 till 21.

Here the segment reported a total revenue of QR 206 million for the three-month period ended 31 March 2022, with an increase of 25% compared to 1Q-21. The increase was mainly attributed to higher flying activity recorded within both domestic and international operations, coupled with growth in revenue noted across the international operations, mainly from the Turkish subsidiary. Also, continuous growth within MRO business segment contributed positively to the segment topline.

The segmental net profit reached QR 79 million, representing an increase of 59% compared to 1Q-21, mainly on account of growth in revenue.

Insurance

Moving on to insurance segment, as discussed on slides 22 till 24.

Revenue within the insurance segment for three-month period ended 31 March 2022, decreased by 24% as compared to 1Q-21, to reach QR 195 million. Decline in revenue was mainly linked to loss of two insurance contracts within medical line of business. This decline was partially offset by growth in premiums from the general insurance line of business, on account of new contracts and renewals of existing contracts.

On the contrary, segmental net earnings increased by 22% as compared to 1Q-21, to reach QR 19 million. The growth in bottom line profitability was mainly supported by a robust performance within the segment investment portfolio on the back of surge in capital markets. A growth of QR 27 million (+207%) was noted on account of investment income versus 1Q-21. Moreover, non-renewal of the 2 medical insurance contracts led toward reduction in net claims compared to 1Q-21.

Catering

Finally, moving on to the catering segment, as discussed on slides 25 till 27.

The segment reported a revenue of QR 113 million, an increase of 31% as compared to 1Q-21. Revenue increase was mainly due to the growth in revenue within the manpower segment, on the back of realizations from a new contract won during last year. Additionally, certain contracts have been renewed within manpower segment, with broader scope improving overall service volumes for the segment.

The segment reported a net profit of approximately QR 100k for the three-month period ended 31 March 2022, compared to a net loss of QR 0.5 million for 1Q-21, mainly due to higher revenues.

Now, I think we can open the floor for the Q&A Session.

Operator:	Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please press star one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. That is star one on your telephone. We will pause for just a moment to allow everyone to signal for questions, and we take our first question from Ajeej Capital. Please go ahead, sir. Your line is open.
Speaker [Ajeej Capital]:	Well, congratulations gentlemen on the results, and thank you very much for the call. My question is regarding the debt. As we talked previously, you have been having discussions with the banks, I think for the past year or over regarding the restructuring of debt especially for the GDI unit. Do we have any update on that or do you have any timeline? If you can share that please, that will be appreciated. Thank you
Sami Mathlouthi:	Thank you. So, far we are still in communication with not only with the banks, so it's with all the stakeholders. So including banks, customers and all the related parties on this. So, we haven't achieved, let's say, or completed the discussions yet. We are aiming to complete this as soon as possible. So we can say by end of this year we should have an agreement between all the parties and this should be in the benefits of all the stakeholders.
Speaker [Ajeej Capital]:	Great. Thank you very much and good luck with that. Thank you.
Operator:	Thank you and as a reminder, please press star one to ask a question. And we take our next question from Nitin Garg with SICO. Please go ahead. Your line is open.
Nitin Garg [SICO]:	So, I see you had some fair value gain of 25 million Riyal in this quarter or on some of the investments. So if you can expand on this, which are these investments, which are at a fair value gain of 25 million? Also from your current fleet, if you can just update us and if there are any rigs which are looking for being deployed or which are idle, both from onshore and offshore segment. Thank you.
Sami Mathlouthi:	<p>Thank you Nitin for your question, so, back to the fair value gains that we have made. So there is around 27 million of gain compared to first quarter of 2021. So, that's mainly relating to the insurance segment where the performance of the investment portfolio was outstanding, so first quarter 2022, so the returns were around 40 million on the investment portfolio through the PNL and this is where the 27 million are coming.</p> <p>In terms of your second question relating to the deployment of rigs, so two rigs as you know, have been deployed in Q3, 2021, so GDI-5 and GDI-7. Beginning of Q1 2022, we had two lift boats that had been deployed, where one is relating to a contract in Saudi Arabia, which is starting beginning of the year and the second one is in the Maldives, which is starting by end of Q1 2022.</p> <p>We are planning to have another rig to come back to work, which is GDI-8, which is planned to start in August 2022 and we are still in negotiation with the customers regarding GDI-4. So, most of the rigs I would say are redeployed. As you can see, this has a big impact on the utilization rates which are standing at around 92% and hopefully by end of 2022, we will have all the rigs onshore and onshore rigs fully deployed.</p>
Nitin Garg [SICO]:	Two rigs are there, which are idle, GDI-4 and GDI-8?
Sami Mathlouthi:	GDI-4 and GDI-8, they are idle at the moment. GDI-8 is expected to return back in August 2022, the contract is signed and the start date will be August. GDI-4 is still under discussion and hopefully by the end of 2022 we will have the contract signed.
Nitin:	Thank you.
Operator:	Thank you and we take the next question from Noor Sharif with Arqaam Capital. Please go ahead. Your line is open.
Noor Sharif [Arqaam Capital]:	Hello everyone and thanks for the call and congrats for the strong results. A couple of questions for me and my first one was on the rigs utilization rate. You've mentioned that a couple of contracts should be in August 2022. Can you give us a timeline for GDI-4?

Sami Mathlouthi:	GDI-4 is still under discussion, so at the moment we haven't reached an agreement where we can confirm exactly when the start date or whether the contract will happen or not. So, we are aiming to reach an agreement, but it is still under discussion.
Noor Sharif [Arqaam Capital]:	Yes, clear, okay. Regarding the aviation segment, we've seen growth in the flying hours in 2022 compared to a year earlier. Can you give us guidance where we can expect this as the run rate for 2022?
Sami Mathlouthi:	Yeah, aviation, we have seen very exceptional quota especially in the local and outside as well. So, flying hours has increased, as you have mentioned it, by around 24% compared to Q1 2021. Despite that, a lower decrease compared to Q4 2021. So, I think we expect to maintain high flying hours going forward. So, we expect by end of 2022 we will have the similar flying hours. In addition, the top line revenue is not impacted only by the flying hours, but very good increase in the amount of business and we have seen both as well. The international business has contributed very well. So, the subsidiary in Turkey is doing very well and they have contributed very well to the net profit and the top line of the business.
Noor Sharif [Arqaam Capital]:	That's clear and just because I'm new to this business, can you share with us how are the dynamics for pricing these flying hours?
Sami Mathlouthi:	The dynamics for pricing?
Noor Sharif [Arqaam Capital]:	Yeah. So, the dynamics are a little bit different from what we see in the drilling segment. So, contracts are based on two components, one fixed part and one variable part. So, the fixed part, that's basically the availability of the aircraft to the customer, we try to cover the main parts of those fixed revenue and then the variable part is based on the flying hours where we put an average rate for per hour, for each hour the aircraft is flying. So, this is how the business is constructed and this has helped us, especially during the crisis, during the COVID-19 years, where our revenues haven't been affected too much because big part of our revenues was based on the fixed rate.
Noor Sharif [Arqaam Capital]:	And the same formula is intact? Most of the revenues are based on --
Sami Mathlouthi:	Sorry, can you repeat that?
Noor Sharif [Arqaam Capital]:	Yeah, just to follow up is that the fixed part of the formula remains the majority of the revenue or the pricing formula.
Sami Mathlouthi:	Yeah, majority of revenue, it's based on the fixed price and then any additional revenue will come from the flying hours. So, as long as we do higher-flying hours, so this will add to the profit and to the revenue.
Noor Sharif:	Yes, clear, and do you have any plans for expansions in the fleet of the aviation segment?
Sami Mathlouthi:	Yeah, there are plans to expand. So, actually we have expanded during the last few years in terms of number of aircrafts, in terms of regional focus. We are planning to grow this business by at least one, two aircrafts per year and we are doing this plan and following our development and that's the strategy. The strategy is mainly to grow this business to a much higher level and to increase our footprint in terms of vision and in terms of existing segments as well.
Noor Sharif:	Yes. Just one last follow up question for me regarding the contracts for new aircrafts. You have the client base secured or how it works for the newly added aircrafts.
Sami Mathlouthi:	So, how it works here, so the aircrafts, we have around 59 aircrafts. So, some of the aircrafts are allocated directly to the contracting itself, and then we have additional aircrafts. They are put on hold, basically to serve some of those contracts as well. So, in case we have new contracts, so we can deploy one of the existing contracts which are grounded and then deploy them to the new region. Otherwise, once we secure the new agreement or new contracts, we can directly try to find an aircraft to serve this this new project and then we either lease it or we buy it and then we use it for the contract.

Noor Sharif:	Yeah thank you very much and congrats again.
Sami Mathlouthi:	Thank you.
Operator:	Thank you. And if we have no further questions, I would like to turn the call back over for any additional or closing remarks to the speakers, thank you.
Bobby Sarkar:	Yeah. Hi. Thank you. So, if you have no further questions, we can end the call for today. I want to thank Sami and Riaz for taking the time to answer our questions and Idd Mubarak everyone, thank you so much.
Sami Mathlouthi:	Thank you so much.
Riaz-ur-Rehman Khan:	Thank you.
Operator:	Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.