

Company:	Gulf International Services
Conference Title:	Gulf International Services (GISS) Q3-22 Results Conference Call
Speakers from GISS:	Mr. Abdulla Yaqoob Al-Hay, Acting Manager, Privatized Companies Affairs, QatarEnergy Mr. Sami Mathlouthi, Assistant Manager, Financial Operations Privatized Companies Affairs, QatarEnergy Mr. Rashid Al-Mohannadi, Head, Investor Relations and Communications Mr. Riaz Khan, Investor Relations Officer
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
Date:	Thursday, 3 Nov 2022
Conference Time:	1:30 pm Doha Time

Operator:	<p>Good day. My name is Chantelle, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Gulf International Services Conference Call. As a reminder, today's conference call is being recorded. All lines have been placed on used to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, please press star one again. Thank you.</p> <p>Bobby Sarkar, you may begin your conference.</p>
Bobby Sarkar [QNBFS]:	<p>Thank you, Chantelle. Hello, good afternoon, everyone. This is Bobby Sarkar head of research at QNB Financial Services. I wanted to welcome everyone to Gulf International Services' Third Quarter 2022 Results Conference Call. So, on this call from Qatar Energy's privatized company's Affairs Group, we have Abdulla Al-Hay, who is the acting manager, Sami Mathlouthi, who is the assistant manager and financial operations. We have Rashid Hamad Al-Mohannadi, who is the head of IR and Communications, and Riaz Khan, who is the IR officer. We will conduct this conference with management first reviewing the company results followed by Q&A. I would like to turn the call over now to Rashid. Rashid, please go ahead.</p>
Rashid Al-Mohannadi [GIS]:	<p>Thank you Bobby. Good afternoon and thank you all for joining us.</p> <p>DISCLAIMER: 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 October, GIS published its results for the nine-months period ended 30th of September 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>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 22.3% 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. 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 [GIS]:</p>	<p>Thank you Rashid. 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. These liftboats remained operational throughout the third quarter of 2022. Also, all the 5 rigs within gulf drill JV continue to show improved results; 2. Moreover, as discussed in our previous call, during the year the segment 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 the first nine months of 2022, 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 the third quarter 2021. <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 on year-on-year basis. 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 were 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 first nine-months of 2022 improved by 19% compared to the same period of last year, to reach QR 2.7 billion. 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 growth in revenue from the insurance segment.</p> <p>For the current nine-months period, the Group reported an EBITDA of QR 624 million, with an increase of 49% versus the same period of last year. The Group reported a net profit for the current financial period amounting to QR 266 million, as compared to a net profit of QR 41 million for the same period of last year.</p> <p>When analyzing Group's profitability in more detail, as reflected on slide 14, the main contributor towards the growth in the bottom-line profitability was a growth noted in the Group revenue. This was partially offset by higher direct costs, G&A expenses and net finance cost. Additionally, decline in investment income from the insurance segment also adversely affected the year-on-year profitability.</p> <p>Moving on to quarter-on-quarter performance, revenue for the third quarter of 2022 increased by 3% compared to the second quarter of 2022, mainly on account of better revenue reported from the aviation, catering and drilling segments, which was slightly offset by negative movement in the topline from the insurance segment.</p> <p>Net profit for the third quarter inched higher by 16% compared to the second quarter. This growth in the Group net profit was mainly attributed to positive growth in profitability from aviation, catering and insurance segments, while drilling segment's losses increased on a quarter-on-quarter basis.</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 Rashid, to cover the segmental performance.</p>
<p>Rashid Al-Mohannadi [GIS]:</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 950 million for the nine-month period ended 30 September 2022, up by 33% compared to the first nine months of last year.</p>

This revenue growth has largely been linked to the 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, i.e. GDI-5 and GDI-7, during the third quarter of 2021, positively contributed to the topline performance.

Moreover, full deployment of Gulfdrill JV's fleet since mid-last year, had a positive impact on the segment revenue for the first nine months of current year, on account of comparatively higher management fees.

The segment reported a net loss of QR 40 million for the nine-months period ended 30 September 2022, compared to a net loss of QR 159 million for the same period of last year. 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 689 million for the nine-month period ended 30 September 2022, with an increase of 31% compared to the same period of 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 the international locations; mainly from Turkey & Angola. Also, continuous growth within MRO business segment contributed positively to the segment's topline.

The segmental net profit reached QR 262 million, representing an increase of 50% compared to the first nine months of last year, mainly on account of higher segmental revenue, despite the impacts of currency devaluation from Turkish subsidiary.

Insurance

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

Revenue within the insurance segment for nine-month period ended 30 September 2022, decreased by 15% as compared to first nine months of last year to reach QR 632 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, segment net earnings increased by 3% as compared to nine months of last year, to reach QR 52 million. The growth in bottom line profitability was mainly supported by an overall decline in claims, which decreased by 40% on a year-on-year basis. On the contrary, negative performance of the segment's investment portfolio due to volatilities in capital markets weighed on the segment's profitability along with lowered revenue.

Catering

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

	<p>The segment reported a revenue of QR 394 million, an increase of 53% as compared to the first nine months of last year. Revenue increase was mainly due to the growth in revenue within the manpower segment. Additionally, certain contracts have been renewed within manpower segment, with broader scope improving overall service volumes for the segment.</p> <p>The segment reported a net profit of QR 1 million for the nine-month period ended 30 September 2022, compared to a net loss of QR 19 million for the same period of last year, mainly due to higher revenues and better margins.</p> <p>Question & Answers Now, I think we can open the floor for the Q&A Session.</p>
<p>Operator:</p>	<p>At this time, I would like to remind everyone to ask a question please press star one. We'll pause for just a moment to compile the Q&A roster. Our first question comes from Nikhil Phutane CBFS. Your line is open.</p>
<p>Nikhil Phutane [CBFS]:</p>	<p>Hi, thanks for the presentation and thanks for the continued growth of your overall profit business. And my question actually is pertaining to first, in terms of aviation business which is another back of the profitability which has come from... We are seeing, of course, trends over the last few years and especially during...again I'm going out for the last two to three quarters, revenue is increasing, I just wanted to know how to be...we could be seeing the same thing, maybe in the fourth quarter, increasing revenue growth and quite stable direct costs, especially if you see from the second quarter to third quarter. And also of course, because of the altercation in Angola which is forming more and more revenue patterns as compared to the overall aviation revenues.</p> <p>My second question has got to do with your loans and borrowings, which of course, are a sizable level. And what we've also seen is there has been an increase in your short-term investments, especially in 2022. And you've mentioned right now that the markets are volatile, so I wanted to understand what the logic is behind keeping, I mean, increasing the investments in your... especially as you've rightly pointed out, investment income has not been great given the weak performance in the markets.</p> <p>The third question has got to do with your receivables. Again, in 2022 we are seeing an increasing trend in your receivables, say on an ITD basis. I mean, what has been the reason for that? And lastly, actually the most important one, in terms of your performance dealing business at grass levels it has performed very well, but what we see is that... again, there are a lot of other expenses before interest cost which is increasing further and further on Q-on-Q basis. So, I wanted to know what is the significant change attributed to the same thing we are seeing under the insurance segment also? I mean, unlike your aviation which is quite flat on your operating expenses, can you just give the color why there are such significant changes in your drilling and insurance business operating cost? Thank you.</p>

<p>Sami Mathlouthi [GIS]:</p>	<p>Okay. Thank you so much for your questions. So, I will start with aviation revenue. I think that trend has been quite good since the previous quarter. So, this segment is contributing actually to the profitability of GIS. So, we have seen an increase from quarter to quarter of around 6% in terms of revenue and around 17% in terms of net profit, and we are expecting the same trend to continue. So, for the next quarter, the segment in itself is growing. We are trying to streamline the cost as well. So, the cost is under control and the plus, as you can see, the flying hours have increased tremendously from one quarter to another and compared to last year increased by 33%.</p> <p>So, as you know, the structure of the revenue in this segment is based on two parts. So, the first part is fixed, and the second part is variable. So, any incremental revenue that you will make on the valuable part, which is the flying hours, will increase without incurring higher direct costs. So, I think if we were able to maintain this increase in flying hours, the performance will increase, and it will have a good incremental addition to the net revenue in itself without having a huge impact on the direct cost side.</p> <p>The other part, as you can see as well in the aviation segment, is around 20% of the performance has been contributed by the MRO business. And the MRO business is increasing., actually it has increased by almost 50% compared to last year and it reached almost QR 100 million in terms of revenue plus around QR 33 million in terms of net profit. So, the segment is increasing. We are trying to increase the activity that we are implementing, basically, the expertise that we have in the region. And we are trying to grow that area which could have good potential for growth for the aviation business, in addition to aviation in itself.</p>
<p>Abdulla Yaqob Al-Hay [GIS]:</p>	<p>I would like to add one comment here. It's Abdulla. Also, we are expecting to have higher flying hours during this time period related to the World Cup activity. Actually, there are two charters that are allocated just to serve the requirement that comes from the World Cup requirement, in terms of media or other activities related to tourism. So, this will help us to improve profitability.</p>

<p>Sami Mathlouthi [GIS]:</p>	<p>Thank you, Abdulla, for the next question regarding the investment. So, most of the investment is related to the insurance business in itself. And as you know, any insurance business is related into two parts.</p> <p>So, the first part is the insurance in itself and the underwriting business and the underwriting activities, and the second part will be the investment. So, basically, most of the cash you collect on those contracts, either general insurance or medical insurance, you will need to invest in whatever the situation of the market. So, our strategy is not to invest in real estate, our main investments are mainly in liquid assets and most of the impact that you will see is basically a non-cash impact. So, as you can see, its non-realized profits are impacting the P&L. But if you look in detail at the performance, even in those critical times, basically, the realization or the gain realized on the P&L is positive and not negative. So, what you are seeing as the impact on the negative side of the investment is the non-realized losses that are impacting the P&L.</p> <p>So, this is the strategy of the business. We cannot change tremendously from what we are doing today, and the business in itself, and most of the insurance companies are doing the same thing. So, we cannot make a huge shift to the strategy of the business and invest in other assets or other risky assets which could have a huge impact on the profitability of the business. So, that's in terms of the investment.</p> <p>Receivable. Yes, receivables are increasing. So, basically, if you look at the revenue, it has increased by almost 33%, and if you look at... I mean, for the drilling segment. The increase in the revenue will basically add an increase in the receivables. And it's a question of timing only and we don't have any issues in terms of the collection of those receivables. And the impact will be on the cash flow in the next few quarters.</p> <p>I think there is one question that you asked about the drilling business and the cost increasing quarter over quarter. As you can see, in quarter two, we had a major overhaul for one of our rigs, and that's why our costs were higher in quarter two versus quarter three. However, our business in GDI is a very lean business. We operate in a lean business environment, and this is the binding part against others that we're comfortable with the statement. And for your last question relating to the other expenses.</p> <p>So, the main impact is coming from Gulf Helicopter, which is around QR 20 million. And this is related to the foreign exchange losses that are impacting the P&L and those are basically the losses in Red Star, which is one of the subsidiaries of Gulf Helicopter. Those are the losses, realized losses in the P&L, and those, when they transferred to the P&L of Gulf Helicopter for consolidation, will be part of the other expenses in GIS.</p>
<p>Nikhil Phutane [CBFS]:</p>	<p>Okay. Sir, I mean so just coming back to your second loss in terms of your investments, I can understand you're not going to be changing the strategy of... right? I mean, compared to other P&L also, but do you see, I mean, a possibility that in the future it will be more on fixed natured instruments? That is one question. Second in terms of expenses on the operating side, but the idea is that even suppose we take the entire...I mean, I remember that is around three to four quarters back, you did mention that your margins are going to be improving as more and more fleets come into operation. So of course, the revenues have improved, but what we are seeing is there is no stability in terms of your overall cost that operating, as well as your gross cost. So, do we see us going forward in stability and especially in your billing segment which forms a very huge portion of your COGS? That's what I wanted to know, thank you.</p>
<p>Riaz Khan [GIS]:</p>	<p>Basically, if I bifurcate your questions, it's like two questions, one on the investment income, and the moves in the swings which we are seeing in terms of our investment portfolio performance and the second one is about the operating cost. So, I'll take the first one. The second one may be summing ship in there on the operating costs.</p>

	<p>So, in terms of investment income. Basically, it's purely a market play, capital markets play. All of our investment securities, if you have seen our realty disclosures, are Level 1 securities. Level 1 securities mean most of them are listed securities at any Stock Exchange or their courts are readily available, so the capital markets have been very volatile since the start of the year. We saw things going down significantly, again, things getting recovered to an extent in Q2 and again, things going back downwards. So, it's a volatile market, capital markets are volatile and that is reflected in our investment income because most of our portfolio is held for trading securities and then they are Forex lines. We have to recognize all of their markets to markets into the income statement and that is basically the moves which we're seeing. And Last Sami, to maybe chip in on the operating side.</p>
<p>Sami Mathlouthi [GIS]:</p>	<p>Yeah. In terms of operating cost, I think in the drilling segment specifically, so then I can comment on the GIS in itself. So, if I look at the quarter-on-quarter basis and if I look at the gross profit margin for Gulf, the drilling, we are having an almost very lean direct cost and the gross margin is almost varying from 11 -12%. So, Q1 was 11%, Q2 was 11%, and Q3 was 11.8%. So, it's almost the same gross margin and this is based on some stability in terms of cost controls. But again, there are some variables that you cannot control which are relating to the maintenance of the rigs. So, you have seven offshore rigs and eight onshore rigs, and all of these rigs will, from time to time, need big maintenance to take place for some of the rigs like the one that we had in one of the rigs in the latter part of Q2 2022 and the first part of Q3 2022. And this will obviously, affect or impact the P&L and impact the direct cost. Another impact, which is not the direct cost in itself, but the financial cost which is increasing from... if I compare it to Q1, Q1 was around QR 29 million and Q3, it's around QR 52 million. So, this is something that is out of the control of the company, and this is relating to the interest rate fluctuation, which the effective rate has fluctuated from 3% to almost 5% from Q1 2022 to Q3 2022. I think in terms of, we are watching the direct costs, we are trying to be as lean as possible and one of the main objectives actually, in GIS level is to make sure that the cost is controlled well and to make sure that the company is spending it's cash flows in the... basically on a lean basis.</p>
<p>Nikhil Phutane [CBFS]:</p>	<p>Thank you, Sir. I really appreciate it, and we only hope your rig maintenance and other costs are kept under control so hopefully, that will give you better margins realize on your business. Thank you, Thank you.</p>
<p>Operator:</p>	<p>Again, if you would like to ask a question, please press star one. There are no further questions at this time, I'll turn the call over to Bobby for closing remarks.</p>
<p>Bobby Sarkar[QNBFS]:</p>	<p>Hey, this is Bobby Sarkar. I would like to ask a couple of questions, if I may. I just wanted to find out, you know, to get an update on the two onshore rigs that, I believe, are not deploying. When will they deploy? And then maybe an update on the restructuring of the debt, because as far as things stand, I guess with the two onshore rigs, you would not be given the interest charges, you would not be breaking even unless we see a restructuring of the drilling level. Could you just please clarify that? Thank you.</p>

<p>Sami Mathlouthi [QNBFS]:</p>	<p>Yes, Sir, thank you. Thank you, Bobby, for the question. So, the two onshore rigs, one, which is already started as we announced it in Q2 2022. So, it started at the end of October 2022. That's the GDI-8. And GDI-4, we are in the tendering process, so most probably the tender will be completed by the end of November, and we are expecting mobilization to be at the end of Q1 2023. So, I think we are expecting that beginning by end of Q1 2023 would have most all the rigs deployed and this will be a great achievement, I think, for GDI in terms of mobilization of all the rigs.</p> <p>In addition to being able to have much longer contracts for the offshore and for the onshore rigs, there were in some cases better, better rig rates.</p> <p>For your next question, relating to the restriction of the debt, I think we are in advanced discussions with the stakeholders, with all the parties. But as you can... so this is..the loans that we are discussing are of huge value for all the parties, and the loss of arrangement that needs to be agreed between everyone. So, in terms of contracting arrangements between all the parties including GIS as the main shareholder and the key stakeholders which are the bank well as the customers. So, we are trying to make sure that the solution is put in place. It...first of all, will enable GDI to be able to generate the expected cash flows, to be able to pay its debts, and be able to be sustainable over the next long-term period. Because it's a company which is considered strategic for the state. And so, we are at this stage, we are in continuous discussion with all the parties, and once we reach an agreement, we will announce that to the market.</p>
<p>Bobby Sarkar [QNBFS]:</p>	<p>Okay. Great. I just said another question. That's just got to do with the Gulfdrill JV that you have in drilling. You reported QR 8 million in your share of profits for the third quarter. Is this the max profit that we can see from this venture? Because I guess, all the rigs have been deploying since the third quarter of last year and we haven't had any issues with maintenance, etc, right? So, is this like QR 8 million a quarter, is this what we can expect in terms of the net earnings contribution from this JV? Thank you.</p>
<p>Sami Mathlouthi [GIS]:</p>	<p>Thank you. Thank you, Bobby. So, far what we have announced, is around QR 10 million for the year-to-date and you are correct. So, QR 8, million for Q3 2022. I believe... so this JV could be more profitable because as you know, we had some impact during the last year relating to the late deployment of the rigs, so this had a...let's say, an impact in terms of some penalties for the late deployment of those rigs which were impacted last year. But I think the business for this quarter Q3 was the full deployment of all the rigs with much more control over the cost, or the elimination of the mobilization cost. I think it could do a little bit better compared to what we have provided in Q3 2022.</p>
<p>Bobby Sarkar [GIS]:</p>	<p>Okay, that's great. Thank you. Chantelle., do we have any external questions?</p>
<p>Operator:</p>	<p>We do have one more question from Riyyas Abdulkader with Integra Asset Management. Your line is open.</p>
<p>Riyyas Abdulkader [Integra]:</p>	<p>Hi there. One question was on... if you could update us on the merger on the insurance side?</p>
<p>Abdulla Yaqob Al-Hay [GIS]:</p>	<p>Yes, actually, we have announced that we are in the early stages of taking all the regulatory approvals for that merger. We got the green light from the central bank, and we are right now in a stage where we are...looking at an investment bank to start and kick off the process for the evaluation related to that merger. I believe we are at a very early stage. We should have a progress during the first and second quarter of the next year.</p>
<p>Operator:</p>	<p>Again, if you would like to ask a question, please press star one. There are no further questions at this time. I'll turn the call back over to Bobby.</p>
<p>Bobby Sarkar [QNBFS]:</p>	<p>Thank you. Thank you, everyone, for attending the call. I want to thank Abdulla Sami, Rashid, and Riaz for taking the time to do the call. And now, Abdulla Al-Hay will say a few closing remarks and we can end the call after that. Thank you.</p>

Abdulla Yaqob Al-Hay [GIS]:	Thank you all for joining us on this call. If you have any things or further questions, the team here is ready to take your question. We have Rashid, we have Riaz. You can approach them anytime.
Operator:	This concludes this conference call. You may now disconnect.