Company:	**Gulf International Services (GISS)**
Conference Title:	**GISS Q2-20 Results Conference Call**
Speakers from IQCD:	**1. Mr. Mohammed Jaber Al-Sulati, Manager, Privatized Companies Affairs, Qatar Petroleum** **2. Mr. Sami Mathlouthi, Assistant Manager, Financial Operations, Privatized Companies Affairs, Qatar Petroleum** **3. Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
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Operator:	Good day, and welcome to the Gulf International Services Q2 2020 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]:	Hi, Hello, good afternoon. Good morning, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Gulf International Services First Half and second quarter 2020 results conference call. So on this call from QPs Privatized Companies Affairs Group we have Mohammed Al-Sulaiti who is the Manager of Privatized Companies Affairs. We have Sami Mathlouthi, who is an Assistant Manager in Financial Operations and Riaz Khan, who is the Head of IR and Communications. So we will conduct this conference with first, management review of the company's results, followed by a brief Q&A. I will now turn the call over to Riaz. Riaz, please go ahead.
Riaz Khan:	Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are all staying safe. Before we go into the business and performance updates, I would like to mention that this call is purely for the investors of GIS and no media representatives should be participating in 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 12th August, GIS released its results for the second quarter of 2020, 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- Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, QP; and 2- Sami Mathlouthi, Asst. Manager, Financial Operations We have structured our call as follows: ▪ At first, I will provide a quick insight on GIS's ownership structure, competitive advantages, overall governance & BOD structure by covering slides 5 till 8, and slides 27 & 28;

	▪ 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 Qatar Petroleum with 10% stake being the Parent shareholder, whereas GRSIA with approximately 22.5% stake is the largest shareholder. As detailed on slide no. 5, Qatar Petroleum 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, strategically placed having significant market share in their respective business sector within Qatar. Drilling business is the only Qatari on-shore drilling service provider with 100% market share and having more than 50% market share in the off-shore drilling business in Qatar. Similarly, the aviation business of GIS is a sole provider of helicopter services in Qatar 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 27 & 28 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:	Thank you Riaz. Good afternoon and thank you all for joining us. To start with, GIS's business performance for the first half of 2020 continued its path of repositioning its segments by measures aimed at improving its financial performance through cost optimization, supported by stronger operational performance. The Group continued to execute some of the initiatives, which are in various stages of completion and are on track. As detailed on slide 12, the Group's total revenue for the 1H-20 grew by 6% compared to the same period last year, to reach QR 1.6 billion. The revenue growth was supported by the strong operational performance, and was largely reflective of the strong revenue growth amid capturing growth opportunities, expanding market share and major renewals of contracts across different segments. For the year ended, the Group has averaged an EBITDA of QR 359 million for 1H-20, with decline of 2% compared to the last year. Net profit for the six months period reached QR 54 million, with a significant increase of 84% compared to the first half of last year. When analyzing the profitability in more detail, as reflected on slide 14, the main contributor towards the growth in profitability was as a result of overall growth in revenue led by all the segments except for drilling. The growth in revenues contributed positively by QR 88 million to the net earnings, which was partially offset against increase in direct costs amounting to QR 37 million.

	The increase in direct costs of 3%, was mainly due to increase in cost of the insurance segment as a result of higher reinsurance costs, slightly offset by lowered net claims. Both the aviation and the catering segment also witnessed an increase in direct costs due to overall increase in volumes with higher revenues. While, the drilling segment reported a reduction in direct costs of 6% compared to last year due to cost optimization initiatives. Finance cost also decreased by 21%, to reach QR 98 million in 1H-20, as compared to QR 125 million in 1H-19, on the back of the declining interest rates. Moving on to the balance sheet, the Group's total assets rose 1% during the period, to reach QR 11 billion as at 30 June 2020, as compared to 31 December 2019. On the liquidity front, the closing cash, including short-term investments, stood at QR 891 million down by 2% as compared to the last year end. The total debt at Group level stood at QR 4.7 billion as at 30 June 2020. Before we go into the segment details, I would like to highlight some of the key initiatives, as detailed on slide 25, which the Group had taken to ensure our resilience in this challenging macroeconomic situation. These measures included optimizing human resource structures, reducing direct costs, reducing non-production related expenditures including corporate and PR related expenses. Similarly, the Group reviewed its CAPEX programs across all the segments and identified CAPEX items that can either be avoided or deferred, without affecting the overall quality, safety, environmental aspects and reliability of the operations. The implementation of these measure began in June 2020 and the effects of the same expected to be realized in the subsequent quarters. On overall basis, our base case strategy will continue to focus on market development focusing on building 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:	Thank you Sami. Drilling I will start with Drilling segment and you may refer to slides 16 & 17. The drilling segment witnessed a slight recovery in 1H-20 net losses of 3%, compared to the same period last year, as a result of savings on direct operating costs and lower finance costs. However, drilling revenues for 1H-20 declined by 11% compared to 1H-19, to reach QR 522 million. Topline performance was mainly impacted by lower rig utilization rates due to travel restrictions imposed to contain the spread of COVID-19 pandemic which affected the crew repatriation process. The overall decline in rig utilization resulted in a reduction of the on-shore revenue by 29% and off-shore revenue by 4%. Revenue reduction was partially offset by additional revenue streams from the GulfDrill JV, as the first out of six rigs has already commenced operations from 29 March 2020.

Going forward, taking into account the current distressed oil price environment, GDI would continue to evaluate and optimize Opex and controllable costs in a step to support the bottom line profitability.

Looking ahead, the drilling segment is uniquely placed to unlock solid growth opportunities, mainly due to the North Field expansion project, where the jack up rig “GulfDrill Lovanda” has already commenced operations at the end of the first quarter this year, while other rigs will commence operations in various phases during this year.

Aviation
Moving on to Aviation, as detailed on slides 18 & 19, the overall profitability of this segment has remained strong with an overall increase in the bottom line earnings of 31% year-on-year basis, excluding the one off capital gains. This was mainly due to increased revenues of 16%.

This growth was mainly driven by revision of contract rates starting from this year, with an addition of one new aircraft within the Qatar’s Oil and Gas operations. Moreover, revenue within the international segment also improved by 25% as compared to 1H-19, on the back of improved operational performance from Turkish subsidiary, coupled with penetration into new territories by winning new short term contracts in Angola, Oman and South Africa. In addition, the segment continued the expansion of its MRO business, with a new contract won in Kuwait, during the current half year, and adding further revenue streams to the segment.

However, overall results were partially impacted by reduction in the number of flying hours domestically and internationally, mainly witnessed in April and May with a recovery in June due to the outbreak of COVID-19 pandemic.

Insurance
Moving on to insurance segment, as discussed on slides 20 & 21, the bottom line profitability increased by 7% year-on-year basis, mainly on the back of successful renewal of policies, along with improved pricing terms on all major accounts within the medical segment, which provided an assurance of continued revenue streams over the year. This led to segment revenue growth of 23% year on year basis.

Furthermore, the growth in profitability was also supported by lower net claims compared to 1H-19 by 37%. This was driven by the impact of COVID-19 lockdowns that reduced the doctor’s consultations and minor medical procedures, causing a reduction in medical insurance claims.

Catering
Finally, moving on to catering business, as discussed on slides 22 & 23, the segment saw growth in revenue by 9% to reach QR 227 million during 1H-20, due to successful expansion of the core industrial catering and manpower contracting services, and higher occupancy level at Mesaieed and Dukhan Camps. This led to a growth in profits, by 23%, to reach QR 4.7 million in 1H-2020, compared to the same period last year. Although, segment profitability was impacted by lowered margins on account of higher direct costs.

The segment continues to explore opportunities from both industrial and non-oil and gas sectors.

	Now we will open the floor for the Q&A Session.
Operator:	Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question over the phone.
Bobby Sarkar [QNBFS]:	Hi, this is Bobby Sarkar again, from QNB Financial Services. Let me get things started by asking a couple of questions of my own. My first question is I think you've seen some delays in the NFE expansion given the pandemic because I see now that your six rigs are now expected to be deployed this year and the next in the communication versus previously, I think they were expected to be deployed this year. So what kind of impact would you see going forward in the NFE expansion and in your remaining offshore and onshore segments in drilling? Also if you can talk a little bit about the outlook you see especially in aviation and catering because of the lockdown and restrictions. And I guess my second overall question is, given the fact that your debt restructuring is now on hold, can you shed some light on when you think you'll restart the process and what kind of impact would you see from our a new restructuring plan? Thank you.
Mohammed Al-Sulaiti:	Thank you, Bobby. I'll start off with the first question on the NFE delay. So as you rightly said, there is a small delay within QP with regards to the NFE expansion, which resulted in a delay in the deployment of the rigs. So initially we had – the plan was that all six rigs would be operating in 2020. And now it's going to be 2020 as well as the first two quarters of 2021. So there is a slight delay, however, the program is fairly ongoing and the rig contracts are going to be activated with the first rig already been deployed in March of this year. We anticipate that two more rigs are to be deployed in 2020 while the rest in next year. As for the aviation disruption of operations, we've seen an effect in the total flying hours in the second quarter mainly of this year, and this was both peers domestically as well as internationally ex Turkey. So Turkey was not affected, but every other jurisdiction that we're operating in, we've seen a reduction in flying hours mainly in April and May. In June, we saw a pick up again generally in flying hours. So with an assumption that we may see continuous restrictions in Q3, we're assuming that Q2 flying hours may be too aggressive, especially April and May given it was a full lockdown, especially domestically. We assume that there's going to be a slow pick up in flying hours in Qatar and in other jurisdictions as well. Libya, however, is also one of the international markets that we are currently operating in. Libya has different challenges, so the pandemic generally, as well as the current situation in Libya as when – with everything that's going on there politically. So we expect it to be a challenging year for the aviation. However, the good thing is that our contracts are still active, our – the aircrafts that are deployed and utilized into the contracts remain undisrupted, so in terms of utilization of our fleet, that hasn't been impacted. However, there is a slight delay as in QP, as our major client here in Qatar had a plan to increase the fleet in 2020 in line with NFE expansion. So that fleet increase as well will be slightly delayed due to the NFE delay. However, we still believe that the increase in the fleet is required and is going to come to Gulf Helicopter hopefully towards the end of the year or early next year.

	As for the debt restructure, as you are aware we were in the stage of finalization and we were waiting for regulatory approvals earlier in the year. We finalized with the consortium of banks here in Qatar and we've closed on the deal commercially. However, we were then delayed or put in a situation where we were slightly worried due to the consequences of the pandemic on the group. So the decision was to defer it to the later part of the year and to rerun our economic models just to understand the impact on our subsidiaries and GIS to ensure that we put in a structure that's sustainable and that allows us to get more certainty on what do we anticipate for the future years in order to put in a structure that could be maintained and sustained in a manner that reduces our total debt exposure over the years.
Bobby Sarkar [QNBFS]:	Yeah, okay. Thank you, Mohammed. Just a follow up, if I may. On the drilling, you also talk about lower utilization in offshore and onshore, maybe you could speak a little bit as to what you're seeing going forward. And on the restructuring, I see that during the quarter there was a building that was moved from aviation to the overall holding company. So I would imagine that that has something to do with possible collateralization down the road for a new debt plan. So is that still on the cards in the future, toward the end of the year or is it going to be put on the back burner until maybe next year? Thank you.
Mohammed Al-Sulaiti:	Well, we've already started discussion with the lenders, our current lenders rather than the new lenders. So we're discussing the latest impact on the group in order to discuss what should be done with regards to the overall debt structure, and to restructure hopefully on a longer tenure that allows us more flexibility on our working capital as well as ensures our ability to repay some part of the principal as well as interest. So that's still ongoing. Yes, we did transfer the property of Gulf Helicopters to GIS. Initially, the earlier plan was that we're up-streaming some parts of the debt of GDI to GIS that may be applicable now and may not be. So it would depend on the final structure that we agree with the banks. In terms of collateralizing assets, our current arrangements with the banks is basically no pledged assets and I think this will continue even if we do agree with the banks, we have to just accept to whatever cash flow generation that we'd have as a security for our repayments. So I will not assume that we'll be pledging any assets to the bank. As for the other question that was related to utilization rates, our onshore fleets, there were three rigs that were put down in Q2 in the onshore fleet and that was explicitly due to the restrictions and the lockdown and travel and the repatriation of the crew. As you know, our onshore fleet and offshore work on shift cycles, where the crew are on those shifts on the rigs and then when the shift is over, they tend to travel back to their countries. And then we bring them back once the shift is about to start. So this was a challenging part due to the restrictions, especially in the main countries where the crews are coming from. So we are able to repatriate some part of the crew members not all and we're also able to keep some part of the crew members that are here and incentivize them to either work for a longer cycle as long as that does not extend beyond our internal policies because we have internal policies about how many days they can work on a shift to ensure that we continue to maintain our safety record. So we were successfully able to utilize our fleet and prioritize our assets based on the requirements of our clients. However, that – the three onshore fleet that were put down we assume are going to be down for perhaps the remainder part of this year. Maybe back early 2021.
Bobby Sarkar:	Great. Thank you so much Mohammed. Operator, can you please open up for question-and-answers, now? Thank you.
Operator:	Of course, no problem. We have one question on the line. This comes from Ankur from Decimal Points. Please go ahead.

Ankur [Decimal Points]:	I have questions related to drilling JV. So could you please get with what was the utilization rate on onshore and offshore in 2Q? And what is the current status actually? And if you could brief us about how many rigs are out contract across the segments like inshore, offshore, barge and lift boat, that would be helpful[?]? Thank you.
Mohammed Al-Sulaiti:	So I'll answer that and then maybe the team on the line can maybe give you the details of the utilization rates. So year-to-date utilization rate is in the 80%, I think it's 82% year-to-date. We have as of today four onshore rigs that are stuck, three due to the repatriation restrictions and one which was GDI-3, which was already off contract from last year into this year. As for the offshore fleet, only Musherib continues to be off contract while the rest are contacted.
Bobby Sarkar:	Hi, next question.
Operator:	We'll now take our next question from Nitin on SICO. Please go ahead.
Nitin [SICO Bahrain]:	Yeah. Hi, this is Nitin from SICO Asset Management. Thank you for the call. My question is on the finance cost. So if I see your finance cost is down from 125 million to 98 million first half versus first half, so I assume this is without any debt restructuring because that has been delayed. So what has led to this reduction in finance costs? I see one is lower rates. So is this just because that the debt which is floating had switched to lower rates or is there some other angle to it?
Sami Mathlouthi:	Hello, hi. It's purely due to the floating rate of the LIBOR, so the interest rate effect given that in this year the cost of LIBOR is lower than 2019 and no impact due to any restructure as the restructure has not been concluded yet.
Nitin [SICO Bahrain]:	Okay. So if I go to your last call, which was first quarter, in that call it was told that you were very close to restructuring, I mean the rate was also told it was 16 basis points lower with the restructuring. So is this totally delayed or it was partly restructured at that time?
Sami Mathlouthi:	No, it wasn't restructured. Yes. What we've concluded in the first part of this year as part of the restructuring with the banks, which was approved, signed, but awaiting regulatory approvals was an efficiency of around 16 basis points on the total cost of the debt from an interest rate perspective. However, as we said that we are in the process of awaiting the regulatory approvals, the market slightly deteriorated. And there's a lot of uncertainty now on how long this would last or whether it's going to last for – into next year or beyond. So we're currently assessing the impact of COVID-19 as well as the current oil price environment on GIS and its subsidiaries before we conclude a structure because in the previous structure, what we've also said as well was, it's a ten-year tenure with two year grace and eight years of amortization with a 20% balloon. So there's a lot of risk on the principal payments as we see it today. And we need a bit of more certainty before we conclude an arrangement with the banks, given that there's going to be a lot of commitments on the principal payments over the next ten years.
Nitin [SICO Bahrain]:	Okay, thank you. One last question, if I may. In the insurance segment, your net profit is flat 12 million first half versus first half '19. So I believe the reinsurance cost has increased. Globally, the reinsurers have increased the cost. So I believe that is in the energy segment, right, not in the medical?
Sami Mathlouthi:	Absolutely.
Nitin [SICO Bahrain]:	And do you plan to increase the rates because your cost has – reinsurance cost has gone up. So do you plan to increase the premiums?

Sami Mathlouthi:	In all our contract renewals, they're usually offset, so whatever increase in the reinsurance rates are usually offset in the terms and conditions of our arrangements with our clients. Similarly, we're also re-pricing the medical as we renew them, so we're successfully able to renew some of our contracts with new rates, depending on the loss ratios that we've experienced with those clients, given that some of those clients were new to the program. And we were able to successfully re-price and all of those contracts were maturing and getting renewed. And yes, so it's both, the general insurance or energy[?] insurance as well as the medical.
Nitin [SICO Bahrain]:	Okay, thank you.
Operator:	We have no more questions at this time.
Bobby Sarkar [QNBFS]:	Hi, this is Bobby Sarkar again. If we have no further questions, I guess we can end the call for now. Thank you, Mohammed. Thank you, Sami. Thank you, Riaz, for attending the call and answering our questions. And we will reconvene next quarter. Thank you so much.
Sami Mathlouthi:	Thank you.
Riaz Khan:	Thank you.
Operator:	This concludes today's call. Thank you for your participation. You may now disconnect.