

Company:	Gulf International Services
Conference Title:	Gulf International Services (GISS) 9M-21 Results Conference Call
Speakers from GISS:	<ol style="list-style-type: none"> 1. Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, Qatar Petroleum 2. Sami Mathlouthi, Assistant Manager, 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 Company Q3 2021 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Bobby Sarkar. Please go ahead, sir.

Bobby Sarkar: Thanks, Claire. 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 and Nine Months 2021 Results Conference Call.

So, on this call from Privatized Companies Affairs, we have Mohammed Al-Sulaiti, who is the Manager of Privatized Companies Affairs. We have Sami Mathlouthi, who is Assistant Manager in Financial Operations, and we have Riaz Khan, who is the Head of Investor Relations and Communications. So, we will conduct this conference first with management reviewing the company's results followed by a quick Q&A. I would like to turn the call over now 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 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 29th of August, GIS released its results for the nine-month period ended 30th of September 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- Mohammed Jaber Al-Sulaiti, Manager, Privatized Companies Affairs; and
- 2- 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 22.2% 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:

Thank you Riaz. Good afternoon and thank you all for joining us.

During first nine months of 2021, oil and gas industry showed positive signs of recovery with constructive macroeconomic drivers, on the back of effective vaccination campaigns leading to ease of societal restrictions in major markets linking to heightened economic activity.

However, the post-pandemic recovery within the Group remained uneven, with Aviation and Insurance segments reported improved set of results, while drilling segment remained under pressure until first half of the year, whereas the latest strategic realizations within the drilling segment resulted an improved set of results for the segment during Q3-21.

In terms of Group's financial performance, as detailed on slide 12, the Group's total revenue for the first nine months of 2021 declined by 1% compared to same period last year, to reach QR 2.2 billion. Revenue growth from insurance and aviation segments, was entirely offset by a negative growth in revenue from both drilling and catering segments.

For the nine-month period ended, the Group averaged an EBITDA of QR 417 million, with a decline of 14% versus same period last year. The Group reported a net profit for the first nine months of 2021 amounting to QR 41 million, as compared to a net profit of QR 49 million for the same period last year.

When analyzing the profitability in more detail, as reflected on slide 14, the one of the main contributor towards the decline in the bottom line profitability was the overall decline in revenues which contributed QR 20 million negatively towards the current period's bottom-line earnings versus same period last year.

Direct costs at the Group level increased by 3% versus first nine months of last year, and contributed negatively by QR 65 million to current year's net earnings versus last year. Increase in direct cost was mainly due to increase in activity within drilling and aviation segments, coupled with increased claims within insurance segment, partially offset by direct cost reduction noted in catering segment.

On the other hand, finance cost contributed positively to the bottom line earnings and decreased by 27%, on the back of the declining interest rates. General and administrative expenses also declined by 1% on account of continued optimization drive.

Moreover, the performance of Group's investment portfolio was positively impacted due to recovery in capital markets, and a recovery amounting to QR 38 million was noted on account of unrealized gains on revaluation of investment securities, when comparing current period's investment portfolio performance with the same period last year.

Moving on to quarter-on-quarter analysis, revenue for Q3-21 was increased by 12% compared to Q2-21, mainly on account of growth in revenue from aviation, insurance and drilling segments, partially offset by a decline in revenue from catering.

Net profit for Q3-21 amounted to 42 million with an increase of 783% compared to Q2-21. This was mainly linked to recovery in losses within drilling segment, coupled with continued momentum from aviation segment.

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.

Riaz Khan: I will now hand over to Riaz, to cover the segmental performance.
Thank you Sami.

Drilling
I will start with Drilling segment, where you may refer to slides 16 till 18.

The segment reported a revenue of QR 716 million for the nine-month period ended 30 September 2021, down by 1% compared to the same period last year. The reduction in revenue was primarily driven by the rig suspension within the onshore fleet and lowered rig day-rates, effective since July 2020 until mid of this year. However, the rig-day rates applicable to the offshore fleet improved during Q3-21, as the new day-rates were applied to the offshore fleet and took effect starting from July'21. Moreover, two of the suspended rigs commenced operations during Q3-21.

The segment reported a net loss of QR 159 million, compared to a net loss of QR 120 million for the same period last year. The increase in losses was primarily attributed to negative growth in revenue. However, this negative growth was partially offset by lowered finance cost.

Aviation

Moving on to the Aviation segment, as detailed on slides 19 till 21. Here, the segment reported a total revenue of QR 528 million for the nine-month period ended 30th of September 2021, up by 8% compared to the same period last year. The increase was mainly attributed to higher flying hours recorded within both domestic and international operations, coupled with growth in revenue noted across all the businesses within the segment

The segment's net profit, reached QR 175 million, representing a growth of 13% compared to first nine months of 2020, mainly on account of revenue growth.

Insurance

Moving on to insurance segment, as discussed on slides 22 till 24. Revenue within the segment increased by 1% for the first nine month period of 2021 versus last year, to reach QR 745 million. Growth in premiums from general insurance line of business, were entirely offset against decline in premiums from medical line of business.

Segment's net profit for 9M-21, increased by 44% compared to same period last year. The strong growth in bottom line profitability was mainly supported by strong recovery of the investment portfolio on the back of rebound 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 258 million, with a decline of 19% compared to first nine months of 2020. This was mainly due to ongoing COVID-19 related restrictions which resulted in lower number of meals being served across majority of catering locations. And, in addition, loss of some contracts within both manpower and catering businesses, adversely affected the overall growth.

The segment reported a net loss of QR 19 million for the first nine-month period of 2021, compared to a net loss of QR 4 million for the same period of last year, mainly due to lowered margins and declining revenues.

Question & Answers

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

Operator: Thank you, sir. Ladies and gentlemen, if you'd like to ask a question today, please press star one on your telephone keypad now. Please ensure your mute function is switched off to allow your signal to reach our equipment. Again, that is star one to ask a question. And our first question today comes from Noor Sheriff from Arqaam Capital. Please go ahead.

Noor Sheriff: Hello everyone, and thanks for the call. Actually, I'm new to the company, so I will have to ask some basic questions if you don't mind. I will take it one by one if that works. So, my first question actually on the drilling segment. And we've seen in Qatar there is a strong expansion plans for LNG. Should this have an impact on the Company or should we see higher exposure to the drilling fleet or expansion in the fleet because of such plan?

Sami Mathlouthi: Hello. Yeah, at the moment it's basically starting from last year, we created this joint venture between us and Sea Drill, and this will be including five jack-up rigs. So those rigs are allocated to the NFE project. So, we are studying all the options. But at this stage there is no potential development for the segment, but based on the requirement from the customers, we'll study all the opportunities and then we can invest.

- Mohammed Al-Sulaiti: Yeah, maybe just to add to that. While we received five rigs award related to the North Field Expansion, any future bids or tenders, GDI will for sure try to locate the necessary assets in order to be able to play part of those enhanced rig, let's say, numbers within the offshore markets of Qatar.
- Noor Sheriff: Yes. And this is mainly for natural gas production, right?
- Mohammed Al-Sulaiti: Yeah, North Field Expansion is natural gas, but offshore drilling is not only natural gas in Qatar, it's both oil and gas.
- Noor Sheriff: Yes, clear. And regarding this new joint venture of the five Jack-up rigs, where are we now or when should we expect this to go forward?
- Sami Mathlouthi: It has already started since last year. So, two of the five rigs had started in 2020 and the remaining three rigs were deployed during Q2 2021. So basically, all the five rigs are in operation and we are not expecting any additional rig at the moment. So those are the five that are contracted.
- Noor Sheriff: Yes, clear. Okay. Can you give us guidance regarding the backlog of the operating rigs? Is this available?
- Sami Mathlouthi: Yeah, basically most of the rigs are contracted. Only two onshore rigs are not contracted at the moment and all remaining rigs are under contract. The average contract tenor is around two to three years at the moment, and then extension discussion starts basically before the expiry date.
- Noor Sheriff: Yes, and regarding the two on-shore idled rigs, are there any plans to get them back to operations or should we just assume that for now it will be idle?
- Sami Mathlouthi: No, not exactly. So basically, we are in continuous discussion with potential customers to operate those two rigs and maybe one of them will be operating in Q4 and the other one will be still under discussion, and basically with the existing oil prices we expect to have those rigs operational.
- Noor Sheriff: Yes, clear. Okay. And regarding the aviation segment. So, can you give us your outlook regarding the number of flying hours and what do you expect also in terms of the day rates or the formula there?
- Sami Mathlouthi: Yeah, the actual flying hours in the helicopter has increased compared to last year by around 28%, with an increase in flying hours from 7,800 hours to 10,000 hours. The same trend in terms of increase we have seen as well from quarter two 2021 to quarter three 2021 with an increase of around 12% between the two quarters.
- We believe that the trend will continue based on the existing contracts that we have, which are a little bit different from the type of contracts we are having in terms of our drilling business. Here the contracts are based on fixed portion and a variable portion which is linked to flying hours. So as higher-flying hours we are doing, the revenue generation will increase, but at the same time we are securing a minimum level of revenue with the fixed portion.
- Noor Sheriff: Yes. Clear. And regarding the outlook for the flying hours in 2022, is there a capacity for the 55 aircraft currently operating? Can you give us your sense about what should we expect in 2022? Well, at the moment, we cannot give like a firm expectation of what will happen in 2022, especially with the issues relating to COVID-19. But the existing fleet is able to generate enough revenue for the business. We will be planning as per the budget to increase the number of aircraft if we are able to win more contracts.
- So, with the existing oil prices and because we are linked to the oil industry, as well, and if the economic situation remain stable as what we have seen in the beginning of Q3 2021, I think there is nothing to let us not believe that maybe 2022 will be similar to what we are doing in Q3 2021 or may be better.
- Noor Sheriff: That's clear. And one last question again on drilling with the joint venture with the SeaDrill, what kind of contribution do you expect in terms of profitability in 2022 for the joint venture? Well, at the moment, , the joint venture is contributing negatively to the net income of GDI, which is mainly due to the delays especially in the operation of three rigs which were planned to start in Q1 2021. But we had them to start in Q2 2021 due to many factors which are relating to COVID-19. Well, we have seen some delays in the deployment of those rigs. So, starting from Q4 2021 and Q1 2022, I think you will see more positive contribution from the JV.

- Noor Yes, and in terms of contribution, do you have an estimate there?
- Sheriff:
- Sami Well, at the moment, that's the thing, we don't have exactly how much it will contribute in 2022, and we can provide that in due course during our next call, when the budgets will be finalized.
- Mathlouthi: Yes, clear. And regarding the day rate at the JV, is it the same formula that applied to the rest of the on-shore and offshore of the GDI?
- Noor It's not the same formula, it's not exactly the same customers. So those are different contracts that we have made on the beginning of the JV. And at the moment, they are not indexed to the oil price, so they are fixed. Fixed day rates that we have agreed with our customers.
- Sheriff: Yes. Is there a certain point that you are going to renegotiate or is it fixed until the contract comes to an end?
- Sami Well, those are contractual arrangements. And the initial contract, they have been made for two years and a half to three years' term, and all the parties have freedom to re-discuss those contracts, either at the expiry of the contract or during the contract. So, if we see a huge increase in oil prices or so, we might renegotiate those terms with our customer and either to keep the fixed day rates or maybe to renegotiate indexed formula. But those are contractual agreements that can be discussed between the parties.
- Noor Yes, clear. Okay, that's it for me, thank you very much.
- Sheriff:
- Operator: We do have further questions, gentlemen, are you happy to take them?
- Riaz Khan: Yes, please go ahead.
- Operator: Thank you. Our next question today comes from Nafez Alabbas from Ajeej Capital. Please go ahead.
- Nafez Well, thank you gentlemen, very much for the meeting at the time. I just have one question regarding your GDI entity and leverage. I understand that the company was discussing with the banks regarding their outstanding debts for the past, let's say year or a little bit over a year. Do you have any update? Did you reach any agreement with them? Are you going to get a haircut on the debt? What should we expect the developments for that to be? Thank you.
- Alabbas: Mohammed Yes. The discussions were initiated, let's say a year and a half or two years ago. At a time when we were on the verge of restructuring the debt, then came the pandemic that delayed the whole process. Starting, I'd say, Q3 of this year, we have re-engaged with the bank, so we are currently working closely with our financial advisor to put forward a restructuring plan with the local or the current lenders. It is very early maybe at this stage to tell you what kind of conclusion we're going to reach, but we expect that towards the end of this year or early, very early next year, it should be concluded and communicated to the shareholders.
- AI-Sulaiti: Nasib: All right, thank you very much.
- Operator: Our next question comes from Mustafa Amir from Al Rayan Investment. Please go ahead.
- Mustafa Thank you, gentlemen, for the presentation and congratulations on the set of results for the third quarter. I have actually two questions. My first question is regarding the drilling segment. So, in the third quarter you recorded a loss of 26 million only. Now, considering that your rates are capped nearly. Is this the best that we can expect or we can expect to break even going forward?
- Amir: Sorry, I was just saying, should I ask my second question also? Yeah?
- Sami Yeah, yeah, you can go ahead. Go ahead with second question as well.
- Mathlouthi: Mustafa Okay. So, my second question is on the opportunity that is there for the insurance segment regarding the mandatory insurance. So, could you talk a little bit about what the opportunity is and how the insurance segment could benefit from this opportunity? Thank you.
- Amir: Sami So, for the first question regarding GDI segment, it is true that at the offshore level we reached the ceiling for most of the offshore rigs. But as stated in the beginning of this conference call, we have some rigs which are not yet deployed and once those rigs gets deployed will add a bit to the equation. And based on a discussion with our commercial team, we expect these unutilized rigs will be deployed soon. So, if the operating days will improve, I think the situation could improve
- Mathlouthi:

as well. So, there is a potential for improvement, all depending on the market conditions and the market environment relating to both oil prices and the COVID situation.

Now, in terms of insurance, at the moment, the segment is basically organized to deal mainly with corporate accounts not directly with the retail customers. So, at the moment, the business is studying the new opportunity. This segment will require additional outlay and at the same time to study the feasibility of moving towards the retailing segment. If we find out that this will bring additional returns to the shareholders, we will go ahead with it. But currently we are still in the study phase and hopefully by the end of this year, we will have a better idea about the strategy and whether we would like to penetrate this specific segment.

Sounds good, thank you.

Mustafa

Amir:

Operator:

Nitin Garg:

Sami

Mathlouthi:

Nitin Garg:

Sami

Mathlouthi:

Nitin Garg:

Sami

Mathlouthi:

Operator:

Bobby

Sarkar:

Sami

Mathlouthi:

Riaz Khan:

Operator:

Thank you. And our final question today comes from Nitin Garg from SICO. Please go ahead.

Yeah. Hi, this is Nitin from SICO Asset Management. As per the last call, the last rig was deployed in May 2021. Have you deployed a rig after that?

Let me give you the date of when we started every rig. So, we started, the first rig on 9th of May 2021. Second rig was on 31st of May 2021. And the third rig on 23rd of June 2021. So those are the three remaining JV rigs out of the five that has been deployed in 2021. No more additional rigs will be deployed for the JV fleet as per the existing contract terms.

And all offshore rigs are deployed, right?

All offshore the rigs are deployed.

Thank you. Thank you.

Thank you.

Gentlemen, we have no further questions at this time. I'll turn the call back over to you for any closing remarks. Thank you.

Hi, thank you. Claire, this is Bobby again from QNBFS. If we have no further questions, we can end the call for today. I want to thank management for taking the time to answer our questions and we will pick this up next quarter. Thank you so much.

Thank you, everyone.

Thank you all.

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation, you may now disconnect.