Company:	**Gulf International Services (GISS)**
Conference Title:	**GISS Q4-19 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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Conference Time:	**13:30 Doha Time**

Operator:	Good day and welcome to the Gulf International Services (GISS) fourth quarter 2019 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 [QNBFS]:	Hi. Hello, everyone. Good afternoon. This is Bobby Sarkar, head of research at QNB Financial Services. I wanted to welcome everyone to Gulf International Services' fiscal year 2019 results conference call. So on this call, from QP's privatised affairs group, we have Mohammed Al-Sulaiti, who is [inaudible] of privatised company's affairs. We have Abdulla Al-Hay, who is an assistant manager in financial operations. And we have Sami Mathlouthi, who is an assistant manager also in financial operations. And finally we have Riaz Khan, who's the head of IR and communications. So we will conduct this conference with, first, [inaudible] the company's results in a short presentation followed by a 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. 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 representative 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 February 19th, GIS released its results for the year 2019, and today in this call, we will go through these results and provide you with an update on the key financial and operational aspects of GIS. Today on this call, along with me, I have: 1- Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, QP; and 2- Mr. 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 4 till 7, and slides 23 & 24;
- Secondly, Mr. 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. 5 of the IR deck, the ownership structure of GIS comprises of Qatar Petroleum with 10% stake being the Parent shareholder, whereas GRSIA with 22% stake is the largest shareholder.

As detailed on slide no. 4, 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. 6 of the IR Presentation.

In terms of competitive advantages, as detailed on slide no. 7, 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 and being one of the largest operator in the MENA region. 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 23 & 24 of the IR deck, which covers various aspects of GIS's code of corporate governance in detail.

I will now hand over to Mr. Sami.

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

To start with, GIS's business performance in the year ended 2019 reflects commendable measures aimed at improving its financial performance through cost optimization, supported by stronger operational performance. The Group continues to execute some of the initiatives, which are in various stages of completion and are on track.

As detailed on slide 11, the Group's total revenue for the year ended 2019 grew by 20% compared to last year, to reach QR 3.0 billion. The revenue growth was supported by the strong operational performance, and was largely reflective of the growth recorded by insurance and drilling segments.

For the year ended, the Group has averaged an EBITDA of QR 724 million, representing a marginal decline of 3% compared to the last year. Net profit for the year, reached QR 44 million, with an increase of 144% compared to the last year.

When analyzing the profitability in more detail, as reflected on slide 12, the main contributor towards the increase is mainly due to the significant increase in revenues contributing

	positively by QR 492 million, against a significant increase in direct costs amounting to QR 489 million. The increase in revenues of 20%, mainly came from insurance segment, along with the other segments witnessing marginal increase. The increase in direct costs of 23%, was mainly due to a notable increase in the insurance segment, as a result of higher claims. Both the aviation and the catering segment witness a moderate increase in direct cost by 13% and 9% respectively due to overall increase in volumes with higher revenue. While the drilling segment reported a reduction in direct costs of 4% compared to last year. Other variances, affecting the profitability, includes savings noted in General & Admin. expenses amounting to QR 16 million, mainly due to reduction in overall staff costs and rental expenses. This positive effect of General & Admin. expenses was mainly offset by negative movements in profitability due to increase in finance costs by 5%. The decline in other expenses compared to last year was mainly as result of an impairment loss related to Al-Doha rig which was booked in 2018, whereas in contrast, very minimal impairment and write-offs booked in 2019. Here, I would like to emphasize a fact that the Group is continuing its focus on high utilization of its assets, combined with a commitment to expand market share. This has helped the Group's segments to contribute to the Group's performance. The Group would continue to work on rationalizing operating costs, which are at various stages of implementation to reposition the Group's market standing. Moving on to the balance sheet, the Group's total assets reached QR 10.8 billion as at 31 December 2019. On the liquidity front, the closing cash, including short-term investments, stood at QR 908 million, with a total debt declined by 6% and stood at QR 4.7 billion as at 31 December 2019 in comparison to the last year-end. I will now hand over to Mr. Riaz Khan, to cover the segmental performance.
Riaz Khan:	Thank you Sami. Firstly, I would like to start by briefing you about four segments of the Group. As mentioned on slide no. 5, GIS operates in Insurance, Drilling, helicopter transportation and catering services. Now let's analyze segment wise performance. Drilling Let's start with Drilling business and you may refer to slides 14 & 15.

The performance of the drilling segment was fueled by the offshore sector with the successful deployment of the new offshore drilling rig, 'West Tucana', contracted via a strategic partnership.

Furthermore, the segment continued to focus on maximum utilization of its assets such as the deployment of the lift-boat 'Rumailah' at the beginning of the year, after undergoing repair services.

As a result of improved activities, the segment on overall basis was able to reduce the net loss in this year by 61%, compared to 2018. This was mainly due to the increased revenues of 2% and reduction in direct costs, lower mobilization costs and savings on General & Admin expenses, with no impairment being booked during the year in relation to rigs. The rig utilization was marginally down by 5%.

Looking ahead, the drilling segment is uniquely placed to unlock solid growth opportunities, mainly due to the North Field expansion project for which GIS was awarded a contract to provide six premium jack-up rigs, which will commence operations in various phases in 2020. A JV named 'Gulfdrill JV' has been formed with a 50% stake of GDI, with remaining stake owned by SeaDrill Limited.

GDI will be subcontracted by the JV to mobilize and manage the rigs to meet the requirements of the drilling contracts. The JV will source 3 rigs directly from Seadrill, and the remaining rigs required will be sourced from an unrelated third-party shipyard.

Aviation

Moving on to Aviation, as detailed on slides 16 & 17, the overall profitability of this segment has remained strong with an overall increase in the bottom line earnings of 2% year-on-year basis. This was mainly due to increased revenues of 8%.

This growth was mainly driven by Aviation's international division that secured short-term contracts in Angola, Spain, Oman, Kuwait, Cyprus and South Africa, as well as, its Turkish subsidiary. The domestic aviation business, primarily comprising of Oil & Gas services and VIP services, continued its positive business trajectory. Furthermore, the acquisition of 49% stake in Air Ocean Maroc is set to reignite growth within the segment going forward.

Insurance

Moving on to insurance segment, as discussed on slides 18 & 19, the bottom line profitability decline by 70% year-on-year basis, mainly on the back of overall decline in gross and operating profits.

Although, the revenue were up by 92% compared to last year, against a back drop of expansion in the core energy business. Also, the ongoing market expansion strategy by the Group's medical business acted as a critical catalyst in securing a large number of corporate clients.

But the growth in revenue was mainly offset against the increase in costs. The increase in direct cost was mainly due to the increased claims. In a bid to minimize the risk associated with medical insurance claims, the Group entered into a reinsurance model, wherein the claim settlement exposure would be optimized.

	Catering Finally, moving on to catering business, as discussed on slides 20 & 21, the segment saw revenues rise by 7% to reach QR 431 million during the year, mainly due to the successful bidding of contracts with Qatar Gas, Ooredoo, Hamad Medical Corporation, Qatar's Supreme Committee for Delivery and Legacy. However, profits fell by 50% to reach QR 12 million, mainly due to the absence of favorable one-time items from the previous year where provision reversals were booked in 2018. However, 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:	Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, that is star one to ask a question.
Operator:	Our first question comes from Onkar of Decimal Point Analytics. Please go ahead.
Onkar [Decimal Point]:	Hi, this is Onkar from Decimal Point. Thanks for hosting this call. I have a couple of questions. First, I think, from a drilling segment, I just wanted to know what are the contract status for Mshrieb and GDI-3 rigs? And relating to the new JV, for the [inaudible] the contract was expected to start in this quarter. I just wanted the update on that. From the insurance segment, I just wanted to know what is the outlook for this year. Do we expect the same growth coming, or, if you can add, is there any pipeline of new contracts - are there in pipeline?

Mohammed Jaber Al-Sulaiti:	Okay. I'll start with – so I'll go through your questions one by one. So starting with Mshrieb and GDI-3, so we're continuously trying to contract both of those rigs here in Qatar, both the offshore Mshrieb and onshore GDI-3. So there are continuous discussions with the Qatar Gas team and Qatar Petroleum to put both of those rigs back into contract. Of course, as you're aware, is one of the older rigs. It has lower specifications, so – in terms of the works that it could do and the workovers. It's kind of challenged, given the programme that Qatar Petroleum have, but we're trying to have it fit within the programme of drilling that QP has offshore. GDI-3, again, is a similar story. That was released on the back end of QP not requiring that onshore rig. There's an ongoing onshore tender as well where we're trying to put it – put back GDI-3. However, again that's a less technical capable rig, which it requires specific upgrades to be able to meet the requirements of QP. So again, that's also something that we're looking at closely with our partners in Qatar Petroleum to see how we could cater for the requirements and have both of those rigs put back into contract. In terms of the JV and the starting date, so the starting dates have – remain similar. And you're right, there are two rigs that will start in various dates of March, one in mid and the other any time in the beginning to the end of March. So that's still as per the plan, and all of the six rigs are as per the schedule and the commencement windows are going to be all in 2020 in various dates, with the last rig being towards the end of Q3, early 4. So that's uninterrupted and it's going to continue as per the schedule anticipates. And the third question, with regards to the insurance sector, so I think the – most of the work that's ongoing currently with the insurance – mainly on, if I understand correctly, the medical insurance. So medical insurance is mainly repricing for re-tenders or renewals of specific contracts. So – contracts such as Al Jazeera media channel, and other contracts like the Ministry of Foreign Affairs have been renewed with better terms. We're renegotiating some of the contracts that are still active, such as Qatar Gas and – and Qatar Petroleum, which were recently won, just to ensure that we – because some of those contracts, the newer contracts especially, have not been priced well and the high claims that were experienced and witnessed in 2019. So we're in various discussions as well to reprice, which – contractually there were terms for repricing after 12 months of the contract term. And so Qatar Gas is near completion and Q's still ongoing for the reprice. As for the other reinsurances, so there's general insurance [inaudible] our share of the energy general insurance being around 31% of the energy industry within the Qatar Petroleum books. And the reinsurance – so we're also trying to win internationally by reinsuring specific contracts.
Onkar [Decimal Point]:	Okay. I have one follow up question relating to rigs, if I may.
Onkar [Decimal Point]:	The rigs, so I just trying to understand how long you –is that any plans that you – being an older rig, you will write off that rig in 2020. What are the chances that you will write off that in the – 2020?
Mohammed Jaber Al-Sulaiti:	Yes, we are – you are correct. It's been off contract for quite some time – for the whole year of 2019, and towards the late end of 2018. So we've continuously tried to contract this rig. We're not only trying in Qatar, so we're trying as well internationally, so that's one of the objectives that – or the strategies that GDI has as well, to try to operate internationally. So we're trying as well in Oman, we're trying in India, to put that contract into work. As I said – that some of those older rigs would require specific upgrades. We just – we're kind of cautious in terms of how much will we be willing to invest into those older rigs, depending on the term of the contract and the commercial terms of the contract, just to make sure that any investment that we make on the older rigs are recoverable in the period of the contract. So if that does not materialise in 2020, there could be a likelihood that this rig could be imparied.
Bobby Sarkar [QNBFS]:	Hey, hello. It's Bobby. Can I ask a question?

Mohammed Jaber Al-Sulaiti:	Yeah, go ahead.
Bobby Sarkar [QNBFS]:	Hi. Mohammed. Just a question about the North Field expansion. Given that, you know, the overall specs of the project has changed and, you know, now we're talking about 126 million tons by 27, what – do you envision maybe a change or an increase in terms of rig deployments that are required from a GDS perspective? Thank you.
Mohammed Jaber Al-Sulaiti:	Well, if you look at the six contracts for – that we've – we have won, there were a total of eight rigs that were awarded by Qatar Gas/QP. The terms, or the period at which those rigs were awarded are on the range of three years, some slightly higher and one rig, like, at 2.7 or 2.9 years term. We understand from the wells programme that the work that's necessary in the North Field is roughly anywhere between five to seven years. However, due to the commercial terms, QP/Qatar Gas were not willing to take a very long-term contract because a lot of the operators were pricing them too high. And so those rigs are extendable at the end of their terms. And we've ensured as well that our rigs which are leased into the JV as well have extension provisions – that in case Qatar Gas/QP wishes to extend them, that we are able and capable to extend those contracts. So in terms of our six rigs that are working for QP/Qatar Gas, that could be extendable beyond the three years. It will, however, depend on the commercial terms and the day rates, basically, at the end of the term. As for the extension from – or the expansion beyond the 110, because at the time of this tender it was towards the 110 million tons. We haven't seen anything yet from the operator on more than 110. However, we see that there could be some onshore drilling, or understanding at least that there could be some onshore drilling [inaudible]. So it's not only going to be offshore, so there may be onshore drilling requirements as well. However, we're still unclear to us how many rigs there could be. But generally if you look at the offshore operations, there's still a good amount of market share that GDI could gain. If you look at NOC (North Oil Company), who has a total of five rigs working offshore, we have one asset deployed into that programme. So there's a bit of opportunity for GDI to gain further market share, capitalising on the structure that we've done on the joint venture, not necessarily through the joint venture. However, in terms of the model of bareboating or leasing those rigs to operate and manage on behalf of our client and on behalf of, basically, the bareboats. I think that model is less capital-intensive. It's less risky in terms of supporting our current status or current situation.
Bobby Sarkar [QNBFS]:	Great. That's very helpful. Thank you.
Operator:	We do have a question from Shabbir Kagalwala of Al Rayan Investment. Please go ahead.
Shabbir Kagalwala [Al Rayan Investment]:	Good afternoon. Thank you. A few questions. On – two on GDI. On GDI, now you are enter into a asset-light model, which means there's no depreciation, no finance cost related to these rigs. The – once these are commissioned by end of the year, what will be the 12 – I mean, the full-year – I mean, 12-month period of impact until the bottom line, is one question. The other question is GDI, what we see is a problem is the debt. It's a quite big chunk of debt. The question is, is it or would we be get – seeing some benefits because the interest rates are lower compared to what we had 12 months ago, and there's no likelihood that the interest rate – interest rate will go up. And is there any plan to restructure the debt going forward?

	And one question on insurance: you mentioned that there are a few contracts which are being renewed at better terms. Is it better terms related to the pricing or something else? Thank you.
Mohammed Jaber Al-Sulaiti:	So the debt – you're correct. So this continues to be one of the main burdens of GDI in terms of – or GIS generally in terms of the cost of financing. So if you look at the cost of finance for 2019, we paid around 236 million of finance cost throughout the year. And it's just becoming more expensive in terms of drawing down on a more expensive loan to repay some of our maturing older debt. And you've also rightly mentioned that it's currently a good time to refinance – restructure, given where interest rate – interest rate environment is today. We're actually in the process of working on that, so hopefully very soon we could have an update for our shareholders, which will be announced at the right time when we close on the new arrangement with the banks. We anticipate that that could bring as well additional savings. This also is part of our strategy that we've embarked on two years ago in terms of optimising our total costs and our efficiencies as well to drive bottom-line enhancement. In terms of insurance, the insurance is purely pricing terms. So the actual rates that we've provided for the medical insurance have not necessarily covered for the amount of claims that we've seen, more specifically on the energy medical insurance sector. So the oil and gas, basically, medicine insurance. And it's mainly as well, and more specifically, due to the medical centres that they have enhanced, which is covered as part of the medical insurance programme, which was un-envisaged. So the amount of visits were unpredicted and the amount of claims were unpredicted, which basically was – was basically one of the main risks that we did not really price well. That's affected our overall claims for 2019. In terms of the impact of the JV rigs, there will be – as you said, there's less depreciation, less finance costs on those rigs. So the arrangement is a – is a cash sweep, basically, for a range of – an average of three years. So there's going to be a significant amount of cash that GDI and GIS are going to make in the three years operating those rigs for Qatar Gas on behalf of the JV. So we're going to be making two streams of cash, one through the management and operation agreement that GDI has with the JV, and another one through the JV, which is a QFC-formed entity. So that cash, of course, is going to be used – a good part of it is going to be used to reduce our debt commitments towards the bank. The rest, which is the free cash, basically, is going to go towards investing in the right assets across GIS to grow our balance sheet.
Shabbir Kagalwala [Al Rayan Investment]:	So, with that, there is no chance that we will see that the dividends are coming back any time soon?
Mohammed Jaber Al-Sulaiti:	Well, dividends, of course I understand, is important to shareholders. However, whether that goes through reducing the total cost of finance or whether that goes to cash, so I think our cash – a cash dividend would need to prioritise, on behalf of the shareholder, what really preserves their value or the value of the company and its share. So we understand that shareholders sometimes care about the cash dividends. We're mindful of that. However, I think we're prioritising as well to make sure that we have a healthy or healthier balance sheet with a tolerable amount of debt on our balance sheet. So there's a certain level aim or objective to reach to before making specific dividends. However, with that said, I still haven't seen the new pricing on the debt, so that could play a good role as well into having excess cash that could be distributable. However, we also see further, I'd say, business development opportunities, whether that's in the drilling sector or the helicopter sector.

	So we've been growing our helicopter fleet to meet client requirements, whether that's in Qatar or internationally, because those extra operations or operational rigs in the North Field and the – and the North Field of Qatar Gas would require as well additional helicopters. So we've made as well specific investment to buy new helicopters to meet that additional requirement of QP – that there's three additional helicopters that we anticipate to work or start working in 2020 for the oil and gas sector domestically. And internationally, we've been as well expanding to meet international clientele requirements. And we've just that we have another stream of income, rather than only focusing on domestic flying hours. We've also been investing in our maintenance, repair and overhaul, so this is – that was part of our strategy as well that we focused on, and we're embarking on that.
Shabbir Kagalwala [Al Rayan Investment]:	Good. Thank you.
Operator:	There are no further questions at this time.
Bobby Sarkar [QNBFS]:	Hi, operator. This is Bobby Sarkar again. So there are no further questions. We can end the call now. Thank you, everyone, for dialing in, and see you next call. Thank you.
Operator:	Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.