Company:	**Gulf International Services**
Conference Title:	**Gulf International Services (GISS) Q3-19 Results Conference Call**
Speakers from GISS:	**1. Mr. Abdulla Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum** **2. Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
Date:	**Tuesday, 5 November 2019**
Conference Time:	**13:30 Doha Time / 10:30 UK Time**

Operator: Good day, Ladies and Gentlemen. Welcome to the Gulf International Services Q3 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: Thank you, James. Hello, 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 2019 Results Conference Call. So, on this call from Qatar Petroleum's Privatized Companies Affairs Group, we have Abdulla Al-Hay who is the Assistant Manager, Management Reporting and Riaz Khan who is the Investor Relations Lead.

So as usual, we'll conduct this conference with first, management reviewing the company's results followed by 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.

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 October 29th, GIS released its results for the 3rd quarter, and today in this call, we will go through these results and provide you an update on the key financial and operational aspects of GIS.

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 25 & 26;
- Secondly, Mr. Abdulla Al-Hay 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, GRSIA with 22% stake and the rest is publicly listed on Qatar Exchange.

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 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 25 & 26 of the IR deck, which covers various aspects of GIS's code of corporate governance in detail.

I will now hand over to Mr. Abdulla Al-Hay.

Abdulla Al-Hay: Thank you Riaz. Good afternoon and thank you all for joining us.

To start with, GIS's business performance in the first nine months of 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.
The Group's total revenue for the first nine months of 2019 grew 18% to reach QR 2.2 billion, compared to the corresponding period last year. 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 nine month period ended 30 September 2019, the Group has averaged an EBITDA of QR 526 million, representing a marginal decline of 4% compared to the same period of last year. Net profit for the nine month period ended 30 September 2019, reached QR 35 million, a decline of 12% compared to the same period last year.
When analyzing the profitability in more detail, as reflected on slide 12, the main contributor towards the marginal variance is mainly due to offsetting of significant increase in revenues contributing positively by QR 347 million, against a significant increase in direct costs amounting to QR 342 million.

The increase in revenues of 18%, mainly came from insurance segment, along with the aviation & drilling segments witnessing marginal increase.

The increase in direct costs of 21%, was mainly due to a notable increase in the insurance segment, as a result of higher reinsurance cost and net claims. The aviation segment witnessed a moderate increase in direct costs, while, catering and drilling segments reported a decline in costs compared to the last year.
Other variances, affecting the profitability, includes savings noted in General & Admin. Expenses amounting to QR 26 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 of QR 14 million and other expenses of QR 10 million, primarily as results of loss on disposal of fixed assets and booking of impairment provisions against damaged inventories in drilling segment.

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 drilling and insurance 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 quarterly performance,
the overall profitability has improved by 31% in comparison to the second quarter of 2019, mainly on the back of increased revenues by 2% and decline in financing costs by 13%.

Moving on to the balance sheet, the Group's total assets largely remained unchanged at QR 10.5 billion as at 30 September 2019. On the liquidity front, the closing cash, including short-term investments, improved by 25% to stood at QR 1.1 billion, with a total debt declined by 2% and stood at QR 4.9 billion as at 30 September 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 Abdulla.

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. All of the subsidiaries of the Group have significant market share in Qatar, with a state of the art technical expertise, in their respective field of services.

Now let's analyze segment wise performance.

Starting with Aviation, as detailed on slide 17, the overall profitability of this segment has remained strong with an overall increase in the bottom line earnings of 13% year-on-year basis. This was mainly due to increased revenues of 10%.

This growth was mainly driven by Aviation's international division that secured short-term contracts in Pakistan and South Africa, and supported by higher revenues by 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.

Coming on to the quarterly performance, the net profit seen a decline of 19% compared to the second quarter of 2019. This was primarily driven by decline in revenues which was reduced by 7%.

Moving on to insurance segment, as discussed on slide 19, the bottom line profitability decline by 88% year-on-year basis, mainly on the back of overall decline in gross and operating profits.

Although, the revenue were up by 76% compared to the same period 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. Notably, the segment secured three major contracts during the first nine months of the year.

But the growth in revenues was mainly offset against the increase in costs, which increased by 110% as compared to the last year. The increase in direct cost was mainly due to the Group's strategy to enter into a reinsurance model, in a bid to minimize the risk associated with medical insurance claims, wherein the claim settlement process would be carried out more efficiently.

Based on quarter on quarter analysis, the net losses increased by 17%, in comparison to the 2nd quarter of 2019, mainly on the back of higher direct costs, which increased by 4%, lower gains on held for trading portfolios and lower dividend income.

Now let's discuss Drilling business and you may refer to slide no. 21.

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 the first nine months of this year by 38%, when compared to the same period last year. This was mainly due to the increased revenues of 7%, whereas, the rig utilization marginally down by 3%.

Based on quarter on quarter analysis, an improvement of 42% was recorded in terms of net losses, in comparison to the 2nd quarter of 2019, mainly on the back of improved revenues by 1% and reduced finance costs.

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 remining 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 rigs directly from Seadrill, and any additional rigs required will be sourced from an unrelated third-party shipyard.

Finally, moving on to catering business, as discussed on slide 23, the segment was impacted due to the demobilization of major contracts and a reduction in labour accommodation occupancy, which affected the overall profitability of the segment and a decline of 72% was noted in the bottom line profitability. Although, based on quarter on quarter analysis, the segments shown some resilience in terms of net earnings by reporting a marginal profit, as compared to small losses reported in the second quarter of 2019.

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: Thank you very much. Ladies and gentlemen, if you would like to queue for questions today, 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, that's star one on the telephone keypad to queue for questions. We'll pause for a moment now to allow everyone an opportunity to signal.

Bobby Sarkar: Hi, guys. This is Bobby Sarkar. I just wanted to start things off by asking a question of my own. If you look at the insurance segment, you said the direct costs were up sequentially. What's driving this increase in direct costs? I see that you have restarted the reinsurance model for medical operations. Are you also outsourcing claims processing and other related activities as you had before to AXA? And then what do you expect in terms of the cost performance of this division going forward?

And then secondly for the gulf drilling JV, we've had announcements in terms of the overall size of the contract and the terms or the length of the contract. If you could talk a little bit about how that impacts you guys, GIS or GDI, on a net income or EBITDA or cash flow level, just high level stuff, that would be great. Thank you so much.

Abdulla Al-Hay: All right, thank you. Thank you, Bobby. Going to your first question about the insurance, as you mentioned there, the cost has been increased mainly due to the claims that we received since we had new contracts with the new companies and there are a lot of beneficiaries using this insurance. So also, what brings this cost to make – to increase that cost, we enter to a reinsurance model with AXA again that would help us minimise the risk and stop the bleeding of the cost to an acceptable level where we can make a profit out of that model

Going to the GDI joint venture, the first – your question is how that would improve our numbers. Actually, we're going to have – we're going to manage all these new rigs. We have the contract. It is a locked contract for three years with an option of extension for the next also three years. So we will be having good money coming to the joint venture by managing these rigs and by mobilising the rigs. So these are the two sources of money that we're going to generate from the joint venture.

Bobby Sarkar: Great. Thank you. Just sort of a quick follow up on the insurance segment. Since you had moved into an in-house insurance model and you're moving back into a reinsurance model, would that mean that we will have cost streamlining and/or headcount reduction at Al Koot? Thank you.

Abdulla Al-Hay: Yeah, definitely, definitely. We're going to protect ourselves by going to the reinsurance model.

Bobby Sarkar: Okay, great. Thank you.

Abdulla Al-Hay: Thank you.

Operator: We have one question on the line. Caller, we'll now take your question. Your line is now open. Please go ahead.

Caller: Hello.

Abdulla Al-Hay: Hello.

Caller: Yes, hi. I have actually a couple of questions. The first question is on this new contract, the contract which is related to North Field expansion. And what I want to understand is that you mentioned that you will be managing these rigs.

Abdulla Al-Hay: Yeah.

Caller: So does it mean that you'll get a separate management fee like a management fee in addition to the rig rate which is – which would be charged by the JV?

Abdulla Al-Hay: Okay. What is your next – what is your other question or you want me to answer your question?

Caller: No, no, yeah, I can ask that one also. In terms of the type of rigs, you mentioned in the presentation, it's like a premium jack-up rig. So compared to what you already have, the offshore, eight offshore rigs that you already have, is it like a similar type of rig or is it different? Like what's the difference between these two types?

Abdulla Al-Hay: Okay, all right. All right. With regard to the management fees, yes, like the model the model we are in that Seadrill will provide with us the rigs as an asset. We, as the GDI, we have all the experience to run these rigs. So our portion of that is managing that rig. So we will be having all the engineer, all the management to run these rigs. I hope this can answer your question. With regards to the premium jack-up rigs, yes, it is a new rig with a new technology to the market so this is a bigger rig with bigger horsepower.

Caller: I see. And in terms of the deployment of the rigs, you mentioned in the presentation, it will start in – like it will happen in phases in 2020. So is there like a time – will it start from middle of the year? Is there like a specific time where this will start operation?

Abdulla Al-Hay: It will start operation in the first quarter of 2020 and some of them will start even at the second quarter.

Caller: Okay. So by end of the year, all six rigs will be operational?

Abdulla Al-Hay: Yes. By end of 2020, all the six rigs will be in operation.

Caller: And you will be earning – I mean, basically, you will be earning revenue from these rigs by then, right?

Abdulla Al-Hay: Yes. So the numbers should change

Caller: Okay, right. Okay, thank you very much.

Abdulla Al-Hay: Thank you so much.

Operator: We will now take our next question from Shabbir Kagalwala. Caller, your line is now open. Please go ahead.

Shabbir Kagalwala – Al Rayan Investments: Hi, thank you for hosting the call. Two questions. The first one, insurance, can you tell us what was the insurance segment last year profit for the nine months?

Abdulla Al-Hay: Sure.

Shabbir Kagalwala: And what is the profit over the last – for these nine months this year?

Abdulla Al-Hay: Sure. I will give it to you just hold on. The insurance profit for the last nine months last year comparing, it was 49 million. This year, it is 6 million.

Shabbir Kagalwala: Sorry?

Abdulla Al-Hay: This year is 6 million; last year is 49 million.

Shabbir Kagalwala: So the additional – so apparently, the additional business that you won last year or during this part of the year, it's meaning that the loss ratio is more than 100%, am I correct?

Abdulla Al-Hay: You know, you cannot say that, the loss ratio is more than 100%. But we...

Shabbir Kagalwala: May I know what is your loss ratio right now for the new business?

Abdulla Al-Hay: You know, the claims coming to us right now, we have received huge claims. And we started – we have gone with the reinsurance model just to stop accumulating more cost to the company as you know that we have signed many contracts during the last year.

Shabbir Kagalwala: Okay. So what is the insurance percentage you want to cede? I mean, do you want to cede 100% of the insurance business or like 60, 70, 80? What percentage do you aim to cede?

Abdulla Al-Hay: To what?

Shabbir Kagalwala: What percentage of the business you want to cede to reinsurance? I mean, you want to give it to reinsurance companies like what percentage because if you have written a policy of QR100 million, would you like to keep – give this whole business to reinsurance and to keep similar margin or you want to keep certain risk with you like 80% given to reinsurance, 20% kept with you or 60% given and 40% kept with you? What is the ceding model?

Abdulla Al-Hay: I don't have this number with me right now, what is the percentage with AXA. If you want to know the exact percentage, you can drop us an email and we can get back to you.

Shabbir Kagalwala: Okay, good, thank you. And regarding the GDI, the rigs which you are in the process of leasing out and running, would the pricing of the rig impact the profitability of the company or you are just getting a management fee per rig? I mean, how the model works, it's like a fixed fee that you get or is it like a margin of the fee?

Abdulla Al-Hay: Yeah. As I have explained earlier that we have the rigs from our joint – from our partner and we manage these rigs and we are making profit from these rigs. Our rig has been higher at the market rate.

Shabbir Kagalwala: So for GDI, the profit will be like exposed to the market or it will have like a fixed profit like a management fee? You'll get a fee for doing all the management.

Abdulla Al-Hay: Yeah, it's different from rig-to-rig. Each rig has a different requirement. So the management rate will – rig-to-rig.

Shabbir Kagalwala: No, I understand that. Everyone would have a different pricing but I'm trying to understand – what I'm talking – my question is, are the mechanics of the JV partner is that you would get a fixed service management charge for managing the rig or you will be sharing the profitability of – like your JV partner, you share like whatever percentage that you agree with the partner.

Abdulla Al-Hay: Yeah. It is both, both models. We will share the profit and we will take also the management fees from that joint venture.

Shabbir Kagalwala: Thank you.

Abdulla Al-Hay: You're welcome.

Operator: There are currently no more questions queued. Just as a reminder, it is star one to queue for questions today. It appears there are no further questions queuing. I will now turn the call back over to the speakers for any further remarks.

Bobby Sarkar: Hi, thank you. This is Bobby again. Thank you, everyone, for attending the call. Thank you, Abdulla. Thank you, Riaz. This will conclude the third quarter call. Please do get in touch with the investor relations team at QP and/or the team at QNBFS for any further questions or details. The dial-in details for the replay are also listed in the invitation that we have sent out. Thank you, everyone.

Abdulla Al-Hay: Thank you all. Thanks a lot.

Operator: Ladies and gentlemen, this will conclude our conference call for today. Thank you very much for your participation and you may now disconnect.