National Central Cooling Co. (PJSC)
(DFM: TABREED)

Q4 and Full Year 2021
Earnings Conference Call Transcript

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Tabreed Participants:

Khalid Al Marzooqi, Chief Executive Officer
Adel Salem Al Wahedi, Chief Financial Officer
Richard Rose, Senior Vice President – Finance
Weaam Elataya, Strategic Communications

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Q4 2021 Earnings Call. I now have the pleasure of handing over the call to your host, Ms. Weaam Elataya. Madam, please go ahead.

Weaam Elataya

Good afternoon. My name is Weaam Elataya, on behalf of Tabreed Management team, I welcome you all and thank you for joining us for the 2021 full year results conference call. I hope you are all safe and healthy.

Before we begin the presentation, I would like to remind you that some of the statements made in today's conference call, maybe forward looking in nature and may involve risks and uncertainties. Kindly refer to slide number two of the presentation for the detailed disclaimer. I will now request you to turn to slide three for today's agenda.

On today's call, we have with us Tabreed's Chief Executive Officer, Engineer Khalid Al Marzooqi and Tabreed Chief Financial Officer, Adel Salem Al Wahedi. Khalid will begin with opening remarks and provide an overview for Tabreed's 2021 performance and key events. Following that Adel will discuss the financial performance in more detail. Khalid will then conclude the presentation and we will open the floor for your questions. Thank you and over to you Khalid.

Khalid Al Marzooqi

Thank you all and welcome everybody to our call today. Tabreed is contributing to the region's growth through efficient and environmentally friendly cooling, enabling sustainable development. As our business grows, so does our positive environmental footprint. We are one of the largest cooling providers in the region and currently operate 86 plants across the region, delivering over 1.2 million tons of cooling.

Our operations saved over 2.33 billion kilowatt hours of energy consumption during '21. Enough to power 132,000 homes for a year and equivalent to over 1.3 million metric tons of saved CO_2 emissions. Today's results announcement will demonstrate Tabreed's sustainable and resilient financial performance. In addition, we believe that carbon emission savings generated through our district cooling services are an essential enabler to allow the regions governments to meet their sustainability targets for the future.

The next slide, which summarizes our connected capacities. During 2021, we added capacity of 40,000 RT's across our operation. Of the total added capacity about 39,000 RT's were added in the UAE and balance 1,000 RT in Bahrain. Our capacity numbers for prior periods have been adjusted for the divestment of Qatar Cool. In addition to the growth shown here, we purchased 50% of equity of cooling plant in Abu Dhabi, which will move the 64,000 of capacity from equity accounted to fully consolidated.

Slide seven shows historical performance and on capacity guidance to our new capacity guidance for 2022 & 2023. In 2020, we guided capacity additions of 75,000 tons for 2020 and 2021, which we exceeded with actual additions of 80,000. This builds in our track record of delivering guiding capacity across every two years cycle. At the beginning of '21, we guided expected addition of 120,000 RTs of new connected capacity by the end of '22. We have delivered over 40,000 in '21. We also added 19,000 in the early days of '22 with acquisition of

Al Mouj, DC Assets in Muscat, Oman. We remain confident of achieving the guided target by end of '22.

For 2022 and 2023 we're issuing new capacity guidance of 120,000 RTS. Of the guided capacity we expect 70% contributions from our consolidated entities and balance from equity accounted entities.

Tabreed continues to demonstrate this ability to deliver a steady increase in connected capacity in the region, driven by the growth in our key markets across the GCC and by successfully leveraging our regional network, to take advantage of commercial opportunities, as and when they present themselves.

Moving on to slide eight. During the year, our focus remained on further strengthening future growth opportunities. We started the year with achieving financial close on the Saadiyat Island DC asset acquisition. This added a concession of 88,000 RT and contracted capacity of over 35,000 RTs. As we see strong growth opportunities available in the UAE and other international markets, we undertook a strategic decision to divest our stake in Qatar Cool. We plan to use the proceeds in the markets with greater potential to enhance returns and shareholder value.

During 2021, we also acquired the remaining 50% stake in AlWajeez, which is an exclusive 80,000 RT district cooling scheme with 65,000 tons already connected supplying Al Maryah Island, Abu Dhabi which includes landmarks such as Abu Dhabi Global Market Square, Cleveland Clinic and Abu Dhabi, hotels and shopping malls, namely the Galleria. Moving on to next slide.

I would like to take a moment to mention our involvement in the winning consortium to supply utilities in the Red Sea project in the kingdom of Saudi Arabia. One of the so called Giga projects. Saudi Tabreed, which we hold 28% share, was part of the winning consortium led by ACWA. The multi utility project, which includes desalination, wastewater treatment, solid waste processing, district cooling plants and communication infrastructure. Saudi Tabreed will own 15% of the resulting multi utility entity providing these services to this development further establishing our brand in the region as leading DC players. The entire district cooling capacity for the project will be 32,500 RT for which Saudi Tabreed will be the O&M service provider. Perhaps the most significant feature of the Red Sea development is its power source, which be a 100% sustainable using only solar and wind power. Demonstrating that carbon neutral cooling is achievable.

Moving on to the leadership. This provides a background of our board members. Tabreed board is entirely non-executive. During the year there were changes to the board's composition, Ms. Anne-Laure de Chammard and Mr. Pierre Cheyron joined the board replacing Mr. Frédérique Dufresnoy and Mr. Sébastien Arbola, in addition to Mr. Musabbeh Al Kaabi joined the board, replacing Mr. Mohamed Al Ramahi, I would like to thank the departing board members for their unvaluable service to Tabreed group and welcome the new board members all of whom bring considerable experience and knowledge to their roles. Moving on to the management team.

As you're aware that I joined the company in last May '21 and we had an opportunity to interact during our Q2, '21 earnings call. Other recent change in the management team is the introduction of Mr. Antonio Di Cecca, replacing Mr. Jean-François as the Chief Operating Officer. Mr. Antonio has over 22 years of experience in energy sector, including five years in an international energy agency and 11 years with Engie where he performed numerous roles. I would like to send Jean-François for a service to the group as COO and welcome Antonio into his new role.

The Tabreed management team has a wealth of experience and is well equipped to guide Tabreed through the coming years. I will now hand over to Adel, our Chief Financial Officer to take you through the performance highlights and financials for 2021.

Adel Al Wahedi

Thank you Khalid, and thank you everyone for joining us today. I would like to highlight our '21 performance total revenue grew by more than 12% led by the chilled water business growth of 11.6% and value chain business growth of 35%. During the same period, EBITDA growth was 6% surpassing AED 1 billion Dirhams and resulting a margin of 53% for the series. Net profit during the year increased by 6.3% to a record of AED 585 million Dirhams.

During the year, we added capacity of over 40,000 RT and we delivered on our earlier capacity as mentioned by Mr. Khalid, the guidance of the 75,000 RT for 2021. Our '21 financial included consolidation of Saadiyat Island district cooling assets for over 10 months, which added additional 35,000 RT capacity. We also acquired Al Mouj district cooling assets in Oman in January this year with the contracted capacity of 18,000 RT. Saudi Tabreed was part of ACWA Power led consortium, that was awarded the multi utility project with 15% ownership. I would like to reiterate our Revised capacity guidance for the next two years. Based on current signed contracts in hand, we expect to connect at least 120,000 RT of new capacity over 22 and 23. To deliver maximum value for our shareholder, Tabreed board proposed dividend of 12 fills are similar to last year to be paid through a cash dividend of 6 fils per share, and the bonus share issued at 2.5% or one share for every 40 shares held. Moving to the next slide.

This slide recaps the evaluation of performance of a recent year. To summarize Tabreed is a stable utility infrastructure business with long term contracts with high profile customers. This provides us clear visibility of future earnings and cash flows. We currently have approximately 90% of our current capacity contracted for at least next 10 years. About 80% of our revenues are derived from fully government or partly government owned organizations, therefore limiting counterparty risk. Furthermore, contracts are long-term in nature, providing strong revenue visibility.

The current connected capacity is over 1.21 million RT which has grown at an average rate of 10% since 2018. The core chilled water business has been growing at an average rate of 11% since 2018 and has been the primary driver of the group revenue. Tabreed has a track record of delivering profitable growth. EBITDA has increased at an average rate of 15% per annum since 2018. '21 profitability is in line with historical averages, and we are confident of maintaining the margin levels over long term. Tabreed performance during the last two years of the COVID pandemic and negative CPI demonstrates robust and resilience nature of our business and the returns we generate. Moving to the next slide.

Let me start by highlighting the key points on our income statements for 2021. Total revenue grew by 12% driven by robust performance of both chilled water and value chain business. Chilled water business recorded growth of 11.6% during the periods. Key factors driving this increase, recent acquisitions contributed around 12% of the growth, around 3% of the growth was contributed by new connection, increases in consumption volumes and overall improvement in operation and efficiency. And the last one, partly offset by negative CPI.

EBITDA for 21 grew by 6.6%. to 1,033 million Dirham. EBITDA margins for the period were 53%, marginally lower than last year and in line with the historic average. The growth in EBITDA was primarily driven by consolidation of acquired DC assets. Higher finance growth reflect the full year impact of two new facility raised during 2020 to fund the new acquisitions, as well as the consolidation of Al Wajeez. Other gains in '21, reflect the valuation gain arising from Al Wajeez acquisition. Net profit for the period increase by 6.3% compared to last year to records of 585 million Dirhams.

We will now look at the statement of financial position on the next slide. The increase in fixed assets and intangible represents addition due to acquisitions of Saadiyat Island district cooling assets and consolidation of Al Wajeez. Receivables are significantly improved on prior year falling by 23%, despite the 12% increase in revenues. This reflects strong collections from our largest customers and has resulted in DSO improving compared to prior period. The increase in debt mainly represents consolidation of Al Wajeez debt of 653 million Dirhams following the step-up acquisition done last year. The increase in other liabilities mainly represents these seasonality factor, coupled with acquisition of Saadiyat entities and Al Wajeez consolidation.

Turning to next slide. We will now take a look at the cashflow statement.

Our cashflow performance during the period has been extremely robust, strong cashflow from operations of 1.3 billion Dirhams, reflecting significantly higher collections across customers with significant inflows from our major customers in particular. DSOs improved strongly throughout the year and we have seen this trend continue to this year 2022. Capex outflows related the acquisition of the Saadiyat Island and Al Wajeez district cooling scheme, and also includes inflow from the divestment of Qatar Cool. Tabreed retains very strong liquidity with closing cash balance at the end of the period of at 1.2 billion Dirhams and our revolving credit facility remain unutilized. This liquidity combined with our flexible capital structure position the group well to fund future growth. Let me now turn onto the slide on debt portfolio.

This slide provides the usual background on Tabreed’s debt portfolio as of December 21. Tabreed has 6.2 billions Dirhams of net debt to increase during the year, reflect the consolidation of Al Wajeez. Net debt to EBITDA ratio of 5.97x in December 21, compared to 5.25x in September of 2020. We expect this to improve as the full EBITDA contribution from recent acquisition is reflected in our financial. Tabreed naturally delivered over time due to the strong cash generation, characteristics of our business models. Both Moody's and Fitch reaffirmed their investment grade ratings following the 2021 acquisition.

That completes the detailed review of our results for last year. I will now pass back to Khalid for the closing remarks.

Khalid Al Marzooqi

Thank you, Mr. Adel. So the conclusion, Tabreed is a highly sustainable business, delivering significant power efficiencies compared to the other cooling alternatives. Sustainability is at the core of Tabreed's operation. It reflects the company's commitment to energy efficiency and to their environment and to the sustainable socioeconomic development of the region. Tabreed has set own targets to support energy consumption reduction and emission prevention through innovative technology solution and environmentally friendly practices. Various environmentally friendly initiatives are part of Tabreed operations, such as use of treated sewage effluent, emission monitoring, thermal energy storage, use of seawater, management of hazardous waste and compliance with framework of the regulations of trade effluents. All the above initiatives have saved over 2.33 billion kilowatt hours of energy consumption in '21 alone, enough to power 132,000 homes for a year and equivalent to reducing 1.39 million tons of CO2 emissions

Around the next slide. As a stable utility business model, Tabreed continues to deliver strong financial and operating performance with rising profitability and margins. We continue to work on various fronts from business development to operations to help drive further growth. Tabreed has solid corporate governance and market leading transparency demonstrated by non-executive board composition. The second party opinion on our green financing framework confirms the positive environmental impact of our core DC operations. I would like to reiterate that Tabreed's performance during the last two years of the COVID pandemic and challenging business conditions demonstrate the robust and resilience nature of our business. Thank you for joining us. And I will now hand back to Weaam to conclude the call.

Weaam Elataya

Thank you, Khalid. That concludes our result presentation. I will now request the operator to open lines for Q&A.

Questions & Answers

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone keypad now. For those who have joined online, please press the flag icon to register your question. When preparing to ask your question, please ensure your phone is unmuted locally. Alternatively, you may submit a written question through the chat box. Our first question comes from Thomas Matthew of Kamco Invest. Thomas, your line is open, please. Go ahead.

Thomas Matthew

Hi, thanks for taking my question. Good afternoon to all. Pleased to be on the call. My first question is on the return expectations that you have for KSA and Egypt. These new projects and new geographies for Tabreed? So I'm just wondering if there's any sort of guidance that you can give on that front, even if a range in terms of margins and return expectations in terms of IRR or any other metrics that you look at. Also, I just wanted to check on the guidance of 120 KRT. Does that include your Saudi and your Egypt project? Those are my two questions. Thanks.

Richard Rose

Hi, Thomas, it's Richard here, SVP finance at Tabreed, just to take your questions and thanks very much for the very good questions. I think in terms of KSA, what I would say is we have our core business model of constructing and owning and operating district cooling assets. Our margin expectation are the same across the portfolio. I think in KSA, what we're seeing here with these Giga projects is a slightly different business model. As Khalid described, we're an equity owner in a multi utility organization. We will do the O&M of the district cooling, but our returns will be a blend of all those different services that multi utility company is going to provide. So it's early days here for us. I think from an IRR perspective, we're looking at similar levels of return to the core business that we have, but how that's going to impact on a line by line level on margins. It's a bit early to say at this stage.

Certainly in Egypt where we are looking to construct and then own and operate the mall there that we announced just a few days ago, the margin expectations will be very similar to those that we've given in the rest of the business.

So in terms of guidance. So I think our guidance historically we said, is organic growth. I think we've managed to deliver that level of organic growth and we would include Egypt as organic growth in that and we're going to construct the plant there. I think going forward where we see very, very small M&A activities, I think they'll be partly delivering the guidance, but yes, Egypt and Saudi are part of the guidance that we're giving for 2022 and 2023.

Thomas Matthew

Sure. And just to follow up, Egypt gets fully consolidated while KSA is going to be reflected in the equity accounted entities, right?

Richard Rose

That's correct. Yes.

Thomas Matthew

Thanks.

Operator

Thank you, Thomas. Our next question comes from Kawther Al Lawati, Bank Muscat, Kawther your line is open. Please go ahead.

Kawther Al Lawati

Hello. Good afternoon, everyone. Thank you very much for this update. I just have a small question regarding, what is your latest updates on Al Mouj assets, which is acquired in Oman. This is my only question

Richard Rose

Thanks. So this is a 2022 acquisition as far as accounting and consolidation is concerned. I think if you know, Muscat Oman, Al Mouj is the premier area of Muscat in Oman and the plant we've acquired there serves the whole of that Al Mouj development. And it will serve that as it grows as well. So the concession size is 32,000 tons. We have just over 18,000 tons connected at this point in time, we expect a small new connection to take place in this year. And then the concession area will, and the connected capacity will expand over the next few years to meet is that 32.5k ton full capacity. Just to reiterate to Tabreed Oman, is a consolidated entity. It's a subsidiary to Tabreed. We own 61% of in partnership with some Omani, primarily Omani pension funds that invest in that business as well.

Kawther Al Lawati

Sorry I just got out of the call by mistake and I didn't hear what you said. Could you just give me a summary of what you said again? I'm really sorry for that.

Richard Rose

Yeah. So just very quickly. So I don't bore anybody else on the call. So Al Mouj is a 2022 consolidated acquisition closed in 2022. It's 18,000 tons of connected capacity, concession capacity of 32.5 thousand tons. When it's fully built out to Tabreed Oman is a company we own 61% of. And I think anybody that knows the area will know that this is the primary development in Muscat Oman. And it's certainly one we're extremely proud to have been able to acquire.

Kawther Al Lawati

That's perfect. Thank you very much.

Operator

Thank you. As a reminder, if you would like to ask a question on today's call, please press star followed by one on your telephone keypad now. If you've joined us online, you can press the flag icon to register your question. Alternatively, you may submit a written question through the chat feature. Our next question today comes from Josefina Duran of Morgan Stanley. Please go ahead, Josefina.

Josefina Duran

Hi, thanks for the presentation. My question is related to your guidance. If I understand correctly, this is mostly driven by organic growth, but to have a sense of how much is your Capex guidance, how it's going to be funded going forward and tied to that. What do you expect for your leverage? Do you expect debt levels, slight increasing, decreasing from here?

Richard Rose

Hi, Josefina. Thanks very much for the question. I think there's a couple of questions in there. In terms of leverage, we manage our leverage to the guidance that we get from the rating agencies Fitch and Moody's that rate us. So we're currently BBB with Fitch and Baa3 with Moody's that gives us a bit of flexibility. because the rating agencies do allow some flexibility. When we make an acquisition for that leverage do peak up in the short term, as long as it's going to decline back down within their kind of normal boundaries for those ratings in the longer term. And certainly in all the acquisitions we've done, including those that we closed in 2021, we've been able to demonstrate to the agencies that is the pattern going forward, and they've been comfortable to retain those ratings.

And we anticipate that we'll continue to see a decline in leverage as the business matures and we see the full year consolidation of those new acquisitions taking place as Khalid and Adel said in the presentation, we are very highly cash generative business. I think you can see that from the cash flow this year, where the cash that we started the year with was primarily utilized for the Saadiyat acquisition, but we closed the year with almost the same balance because we generated so much cash in the year. So I think that means we do naturally deliver over time and we will see that pattern and going forward, if we have further acquisitions that are a considerable size, then we may need to add new leverage to the organization to close those transactions. I think for small acquisitions, like Al Mouj, things like that and for the organic growth that we've talked about, we wouldn't anticipate adding debt capacity to secure that sort of organic growth and the guided growth that we've given. We believe we're generating sufficient cash and holding sufficient cash to allow us to fund that growth without new debt. But if we do anything new that's major, the size or scale of the Downtown DCP or Saadiyat transactions, then we would probably need to add new debt to secure those. And then we would go back to the rate agencies and talk to them about how we're going to deliver over time in order to ensure that we retain those investment grade ratings.

In terms of the guidance that we give, historically we used to say 10,000 Dirhams per ton of new capacity was our Capex guidance. I think that has generally declined over the last few years. And we are now in the region of seven and a half to 10,000, depending upon the specific nature of the connection and the capacity we're adding. If it's seeing a significant network or a long connection then it's towards the top end of that. If it's relatively straightforward, it's towards bottom at the end, but it's in that range of seven and half to 10,000 Dirhams per ton of capacity.

Josefina Duran

And that's great. Thanks a lot. My other question is regarding your working capital. So I see an increase in previous years. Is this a normalization of what you've seen last year or what has changed?

Richard Rose

So, I think last year I was sitting here saying that we have some customers that pay us on an inconsistent basis. I often describe it as lumpy and that they will catch up. There are our largest customers, they are 100% government owned in the UAE. And I think what we're seeing this year is that they have caught up. So going forward, I think that Tabreed is a business, you need to look at long term. If you look at short periods, you might not get the right picture, but if you look at a long term period, then I think you will get the right picture. So, I refer you to the slides that show our long term trajectory in terms of margins and growth and capacity additions. Those are the trends that you should expect to see going forward rather than just looking at one period versus another period. I think the EBITDA margins that we have reflect our cash generating ability and that should be what drives the modeling, I think of cash flow into the business.

Josefina Duran

Okay. That's clear. Well and my last question, sorry, I know margins are very high and but there have been a contraction from last year. I think it's on the gross profit as well. So, are you seeing any pressure from cost increases or what's the driver of that?

Richard Rose

I think Josefina, I just reiterate that if you look long term, then the margins are pretty consistent. So, the most important margins in our business are the EBITDA margin, the net Income margin. I think EBITDA margin in particular this year's number 53%. It's slightly below last year, which was an exceptional year, but it is above the previous two years. So the long term trend is right there in the right ballpark.

I think as I said, when you look at just two periods, you might not get the right picture. And I think what we've seen in 2021 is a short term, slight contraction, but probably back to, from an EBITDA perspective, at least the right kind of normal level, I think 2020 was slightly exceptional. As far as EBITDA margins are concerned and net income margins, I think going forward that kind of 30 to 33% level is what you should anticipate seeing. I think we haven't seen anything in the business, which is going to have any long term impact on our margins. So the long term trends that you see and that we publish should be how you think about the business going forward.

Josefina Duran

Thanks, a lot.

Operator

Thank you, Josefina. Our next question comes from Rakesh Tripathi of Franklin Templeton. Please go ahead Rakesh.

Rakesh Tripathi

Yes. Hi, thank you very much for the presentation. I just wanted to clarify something you mentioned earlier, just the size of the Red Sea project. What is the kind of capacity addition that we should expect from this and will this be over 2022 – 2023, these two years?

Richard Rose

Hi. Rakesh. Yeah. Thanks your question. The Red Sea project, as I said, or as Khalid the CEO said is a multi-utility project. The district cooling capacity within that multi utility project is 32.5k tons. In terms of timing, I think I don't have the timing on that, but it is going to take some time. It's not going to be in 2022. We're not going to see any service commencement in 2022. It's going to be beyond that. These are very large projects, and they will take time to develop.

Rakesh Tripathi

For sure. Thank you.

Operator

Thank you, Rakesh. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star followed by one on your telephone keypad now. Or if you've joined us online, you can press the flag icon. Alternatively, you may submit a written question through the chat feature online. Our next question comes from Yawar Saeed, from International Securities. Please go ahead.

Yawar Saeed

Hi. Thank you for the call. I have two questions the first is on, there was a news story that we considering acquisition of Majid Al Futtaim's cooling asset, any update on that. And plus also, can you shed some light on the impact of corporate tax on your performance? Will you be paying the same 9% and from when you it'll be implemented on you, if it gets implemented.

Richard Rose

Right. Thanks, Yawar, I think, let me take that corporation tax question first. Because I think that's probably a question on most people's minds. It's very early days the corporation tax answer. We receive very little guidance from the authorities here in the UAE to date. What our understanding is that our first taxable period is most likely to be 2024. So we have some time to understand the regulations when they are published and to plan accordingly. I think, until the more detailed regulations come out, which we anticipate being in the second half of 2022, it's very difficult for us to do any more at this point in time, other than say what I've said. In terms of your other question on Majid Al Futtaim, we're not going to comment on media speculation, I'm afraid on this call. What I would say is that we still believe we have significant capacity for growth within our balance sheet and as I say, capacity to grow further and we're very interested in continuing to look at these big transactions in the market, but we can't comment any further this time.

Operator

Thank you. Yawar. That was our final question. So I would like to hand back to Ms. Weaam for any closing remarks.

Weaam Elataya

That concludes our 2021 full year results planning conference call. We look forward to interacting with you at our earnings conference calls and investor conferences. Do you have any further questions, please don't hesitate to contact us. Have a great day and once again, thank you for joining this call.

Operator

Ladies and gentlemen, thank you for joining today's call. You may now disconnect.

Note: This transcript has been edited to improve readability

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