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

Q1 2022
Earnings Conference Call Transcript

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Tabreed Participants:

Adel Salem Al Wahedi, Chief Financial Officer
Salik Malik, Acting Vice President – Finance
Weaam Elataya, Strategic Communications

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Q1 2022 Earnings Call. I now have the pleasure of handing over the call to your host, Ms. Weaam Elataya. Madam, please go ahead.

Weaam Elataya

Thank you. On behalf of Tabreed's management team, I welcome you all and thank you for joining us for the Q1 2022 Results Conference Call. I hope you are all keeping safe and healthy. Before we begin our presentation, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to Slide Number 2 of the presentation for a detailed disclaimer. I would now request you to turn to Slide 3 for today's agenda.

On today's call, we have with us Adel Al Wahedi, Chief Financial Officer, and Salik Malik, Acting Vice-President of Finance. Adel will begin with opening remarks and provide an overview for Q1 2022 performance and key highlights. Following that, Salik will discuss the financial performance in more detail. Adel will then conclude the presentation, and we will then open the line for your questions. Thank you and over to you, Adel.

Adel Al Wahedi

Thank you, Weaam. And thank you, everyone, for joining us today. I would like to highlight our first quarter of this year's performance. The total revenue grew by more than 17% led by the Chilled Water business growth of 19.6%. During the same period, EBITDA growth was 16%, resulting in EBITDA margin of close to 63% for that period.

Net profit during the year increased by 3.1% to record AED 88.2 million. During the quarter, we added capacity over 26k RT, including 18k RT, which with the acquisition of Al Mouj District cooling assets in Muscat, Oman, in January of this year.

In the month of March, we published our Green Financing Framework which will help the company meet its commitments and finance new projects to support its business strategy and vision. Further, I would also like to highlight that we are expected to publish our second ESG report by end of this month.

Moving to the next slide, please. 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 district cooling providers in the region and currently operate 86 plants across the region, delivering over 1.24 million tonnes of cooling.

Over the last 12 months, our operations saved over 2.3 billion kWh of energy consumption, enough to power over 132,000 homes for a year, and equivalent to over 1.38 million tonnes of saved CO_2 emissions.

Today's results announcement will demonstrate Tabreed's sustainable and resilient financial performance. In addition, we believe the carbon emission savings generated through our district cooling services are an essential enabler to allow the region's Government to meet their sustainability targets for the future.

The next slide which summarises our connected capacity. During first quarter of this year, we added capacity of 26k RTs across our operation. Of the total added capacity, 18k RT in Oman was an acquisition of the Al Mouj District cooling asset in January in Oman, and approximately 7.5k RTs were added in the UAE, and the balance 500 RT in Bahrain.

As you would be aware, in the last quarter of last year, or the fourth quarter of last year, we also has a set of acquisitions of a remaining 50% stake in Al Wajeez Cooling Plant in Abu Dhabi, Al Maryah Island, which has resulted in movement of 64k RT of capacity from equity accounted to fully consolidated.

Moving to the next slide, which summarises recent corporate developments. 2021 was another stellar year for Tabreed and DC markets in the region. I think you will agree that the pandemic has brought significant change, and Tabreed has demonstrated its resilience and agility to adapt quickly and responded to this evolving situation in a very positive way.

We also entered into a strategic partner with IFC, a subsidiary of World Bank, to expand in India with a mandate to develop projects in the next five years. We have established JV-based out of Singapore with 75% being owned by Tabreed and 25% by IFC.

We completed a small acquisition of Al Mouj development through Tabreed Oman in January this year. This is a district cooling plant serving the iconic and luxurious Wave development in Muscat, home to a mixed range of residential, commercial and hospitality venues, including the Kempinski Hotel. It's a concession for 30 years and 28,500 tonnes capacity. And currently the contracted capacity is over 18k RT as has been explained earlier.

We also announced our entry into Egypt by a partnership agreement with Gascool and Marakez. Once again, this demonstrates the board and the management commitment to diversify and expand into new markets beyond GCC. In March of this year, we published our Green Financing Framework, enabling us to target the Green Financing instruments and attracting Green Financing industries. The target is that by 2027 Tabreed's debt facility should be green.

Tabreed continues to deliver a strong and robust financial performance with a CAGR of 12% revenue and 16% in EBITDA since 2019. Similar to last year, which saw Tabreed's first equity dividend, reducing dividend cash flow by 50%, the board and shareholders once again adapted the same in '22 to support the growth strategy and demonstrated their commitment to protect the ratings and improve the credit metrics.

Earlier this year, Tabreed appointed Mr. Antonio Di Cecca as Chief Operating Officer in the place of Jean-François, who has moved to another assignment with an energy group.

Moving to the next slide. This slide recaps the evolution of our performance over recent years. To summarise, Tabreed is a stable utility infrastructure business with long-term contracts with high-profile customers. This provided a clear visibility of our future earnings and cash flows.

We currently have approximately 85% of our recent capacity contracted at least for the next ten years, the current connected capacity of 1.24 RT, which has grown at an average rate of 10% since 2019. About 70% of our revenues are derived from fully Government-owned or partially Government-owned organisations, therefore, diversifying the customer profile.

Group revenue has grown by 12% mainly from core Chilled Water business, which has shown an average growth rate of 14% since 2019.

Tabreed has a track record of delivering profitable growth. EBITDA has increased at an average rate of 16% per annum since 2019. Our profitability is in line with the historic averages, and we are confident of maintaining the margin levels over long-term.

Tabreed's performance during the last two years of the COVID pandemic and negative CPI demonstrates the robust and resilient nature of our business and the returns that we generated. I will now hand over to Salik for detailed discussion of our income statement.

Salik Malik

Thank you, Adel. And good afternoon, everyone. Let me start by highlighting the key points on our income statement for Q1 2022. As mentioned by Adel, total revenue grew by 17% driven by robust performance in Chilled Water, which recorded a growth of 20% compared to the same quarter last year.

Other key factors driving this increase in revenue are the recent acquisitions in 2021, both Saadiyat and the step-up acquisition that we did in Q4 last year of Al Wajeez, have contributed around 14% of the growth. Around 6% of the growth was contributed by the new connections, increase in consumption volumes, and overall improvement in our operational efficiencies in our existing portfolio. We also had some small benefit from the positive CPI adjustments that took place at the start of this year.

EBITDA for the first quarter grew by 16% to absolute value of AED 264 million, an increase of almost AED 37 million year-on-year of the quarter. The growth in EBITDA was primarily driven by consolidation of Saadiyat and Al Wajeez DC assets. EBITDA margins were at 63%, in line with our historical margins for the same quarter.

Increase in net finance costs is due to consolidation of debt of Al Wajeez upon the step-up acquisition in Q4 last year. Share of results of equity accounted entities has reduced, again due to the same factor of Al Wajeez step-up acquisition, resulting in a change in accounting as a subsidiary versus the previous accounting method of equity method of accounting. Net profit for the period increased by 3.1% compared to the last year, delivering an overall net income of AED 88.2 million.

We'll now move on to the next slide, which is talking about the financial position. This is a slide showing 4summarized version of the balance sheet as at 31st March 2022. The key movements in the first quarter are as follows. Fixed assets and intangible movements are present in Q1 amortisation. The accounts receivable are lower, mainly from the improved collections and a catch-up of last year from top five major customers.

DSOs as of end of March has improved significantly and at historical low-levels for Tabreed. Changes in derivatives represent a positive MTM movement in our existing interest rate swaps, reflecting the current hikes in the interest rate market. Increase in other liabilities mainly reflects the cash dividend payable of AED 166 million, which was subsequently paid in first week of April 2022. Share capital was increased following the bonus share issuance and the first quarter profits.

Turning on to the next slide for the cash flow. Our cash flow performance during the period has been extremely robust. Strong cash flow from operations of AED 391 million reflecting significantly higher collections across all customer segments. And among them was the top five major customers.

Our cash-from-operations-to-EBITDA ratio for Q1 was at over 140% compared to the full year last year 2021 at 120%. In Q1 this year, there is no significant investment in capex or acquisitions. And in the comparative, it reflects the payment on the acquisition of Saadiyat Island District cooling asset. Financing activity represents a normal debt service, and the increase versus last year is due to the consolidation of Al Wajeez, post the step-up acquisition we did.

Overall, the first quarter 2022 recorded a strong and robust cash from operations, resulting in a healthy closing cash balance of close to AED 1.5 billion, and our revolving credit facility of almost AED 600 million remains fully unutilised. This liquidity, combined with our flexible capital structure, positions the Group well to fund the future growth.

Now, moving on to the next slide where we talk about the debt portfolio as of end of March 2022. Tabreed has a net debt of AED 5.9 billion. Though the debt has increased, but it is due to the consolidation of Al Wajeez and also the step-up acquisition. Net debt has reduced due to the high cash balance that we have seen in the previous slide.

The overall-net-debt-to-EBITDA ratio has improved to 5.5 times in March compared to 6.0 times in December 2021 last year. Tabreed, as we all know, naturally delevers over time due to the strong cash-generating characteristic of our business model. Both Moody's and Fitch veer from their investment grade status following the 2021 acquisitions.

This completes the detailed review of our results for first quarter 2022. Now I'll hand it over back to Mr. Adel to take you through the conclusions.

Adel Al Wahedi

Thanks, Salik. Moving to the next slide. Tabreed is a highly sustainable business delivering significant power efficiencies compared to other cooling alternatives. Sustainability is at the core of Tabreed's operations and reflects the company's commitment to energy efficiency and to the environment and to the sustainable socioeconomic development of the region.

Tabreed has fixed its own targets to support energy consumption reduction and emissions prevention through innovative technology solutions and environmentally sustainable practices. Various environmentally-friendly initiatives are part of Tabreed's operation, such as use of treatment sewage effluent, emission monitoring, thermal energy storage, use of seawater, management of hazardous waste, and compliance with the framework of the regulations of trade effluent.

All the above initiatives have saved over 2.3 billion kWh of energy consumption, enough to power around 132,000 homes for a year and equivalent to reducing around 1.38 million tonnes of CO2 emissions.

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 district cooling operations.

I would like to reiterate that Tabreed's performance during the last two years of COVID pandemic and challenging business conditions demonstrates the robust and resilient nature of our business. Thank you for joining us today, and I will now hand back to Weaam to open the Q&A line. Thank you.

Weaam Elataya

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

Questions & Answers

Operator

Thank you. If you would like to ask a question, please press star followed by the number one on your telephone keypads. If you have joined online, please tick the Request to Join flag icon. If you choose to withdraw your question, please press star followed by the number two. On preparing to ask your question, please ensure your phone is unmuted locally. As a reminder, that's star followed by number one on your telephone keypads. And if you have joined online today, please tick the Request to Speak flag icon. Thank you, and our first question comes from Rakesh Tripathi of Franklin Templeton. Rakesh, please go ahead, your line is open.

Rakesh Tripathi

Good evening and thank you very much for the call and the presentation. I had one question. If you could talk a little bit on future M&A plans, what should we expect? As far as the business traction is concerned, should we expect more acquisitions to come in the medium-term or more organic growth to be pursued from here on?

Then, secondly, in connection to the same thing, if you could also talk about, do you plan to use the cash on books as of now, the cash balance size going up after the solid collection and solid cash flow in Q1? So how do you plan to use this cash? Where should we see this cash being deployed?

Salik Malik

Hi, and thanks, Rakesh. In terms of the M&A activities, the market is still open for the opportunities. And we have seen the consolidation in the district cooling market in the last two years, which was an exceptional period when you compare to the history.
But we do anticipate that there are still a few other opportunities in the market. We continue to target that. And as and when we are close to those transactions, we would definitely inform through the market, DFM basically. And your second question, if I'm not mistaken, it's on the closing cash balance. Am I right?

Rakesh Tripathi

Yes. And, basically, the use of the cash. How do you plan to deploy that cash?

Salik Malik

So currently we have seen this working capital change because of the collection that we had witnessed during the first quarter. This was a cash-up, and this was always expected. And we also expect some kind of transactions in the market that's there, and our BD team is working on it.

So keeping in mind definitely, and that's one of the reasons that during the annual general meeting the shareholders had recommended a 50% scrip of dividend in order to be ready for any potential M&A activity that may spring on the targets that we are following. So we are ready to fund those and then take out to the market at some stage. That's the idea behind it.

Rakesh Tripathi

So just to confirm, this is basically surplus that you basically prefer to keep on the books for now for any potential opportunities that you might see?

Salik Malik

Correct, absolutely. So, yes, this is a temporary phenomenon, but, yes, if once any potential transactions materialise, we should be in a position to go and execute it and do the financial close of this transaction.

Rakesh Tripathi

Great, thanks. And on leverage, can you talk a little bit about the kind of path that you see as far as the leverage to acquire these concerns from year on? I understand that you don't have any material maturities coming up before 2025.

And in that respect, basically, the question is, just to understand, how do you see the leverage evolving? Do you want to keep this level of debt and this grow the EBITDA, grow the business, so that the leverage metrics automatically reduce? Is that how you see it, or are there plans to at some point maybe start looking at deleveraging and paying out some of this debt, repay some of it? How do you see the whole leverage position evolving?

Salik Malik

Thanks, Rakesh. So it's multiple questions in one question. I appreciate that. Really good question. Yes, as you're aware, Rakesh, Tabreed naturally delevers over time, and due to the strong cash-generating capacity, where EBITDA margins on an annualised basis is close to 50% and a little above, yes.

And when it comes to the leveraged target, as we have mentioned in the past, there is no set target, but we are committed to maintain the investment-grade status. And we have reiterated in various platforms, indeed, our CEO, CFO and the board members, in various public platforms, they have mentioned this, that they would like to maintain our investment-grade status.

And the current ratings requirement on the leverage is very clear, and that's available for both Fitch and Moody's. So the Moody's, they track with our CF ratio, which should be more than 10%. And when it comes Fitch, the conventional net debt to EBITDA is at 4.5x. And post these acquisitions, we have gone a bit higher, but those have been agreed. And we delivered the set timeframe to be back within the threshold of the metrics set by both these agencies.

So, yes, and we expect naturally to delever this, going forward. And, as you know, our business generates almost 50% of EBITDA, yes. And that's how we would like to manage. And if any new transaction comes, we would definitely look for the free cash available to fund. If not, definitely, we will look into the liability management that may come in future.

Rakesh Tripathi

Great. Thank you. That’s very clear. Thanks a lot.

Operator

It appears we currently have no further questions. We’ll hand the call back over to Weaam for any closing remarks.

Weaam Elataya

That concludes our Quarter 1 2022 Earnings Call. Tabreed looks forward to interacting you at our other earning conference calls and investor conferences. Should you have any further questions, please don’t hesitate to contact us. Have a great day, and thank you once again for joining us on 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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