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

Q3 and Nine Month 2019
Earnings Conference Call Transcript

3 November 2019

<u>Tabreed Participants:</u>

Stephen Ridlington, Chief Financial Officer

Richard Rose, Vice President – Finance

Marie Therese Hajj, Manager – Strategic Communications

Presentation

Operator
Ladies and gentlemen, welcome to Tabreed Third Quarter 2019 Earning Calls. Today's speakers are Mr. Steve Ridlington, CFO, and Mr. Richard Rose, VP Finance. I'll hand over to your host, Madam Marie Therese Hajj. Madam, please go ahead.

Marie Therese Hajj:
Thank you. Hi everyone. This is Marie Therese, from Strategic Communication Team at Tabreed. On behalf of Tabreed Management Team, I welcome you all and thank you for joining us for the third quarter 2019 results conference call. Before we begin our presentation, I would like to remind you all that some of the statements made in today's conference call may be forward-looking in nature and may involve risk and uncertainties. Kindly refer to Slide 2 of the presentation for the detailed disclaimer.

I would now request you to turn to Slide 3 for today's agenda. On today's call, we have with us Steve Ridlington, our Chief Financial Officer, and Mr Richard Rose, the Vice President Finance. Steve will provide an overview of the third quarter and nine months 2019 performance and key events. Following that, Richard will discuss the financial performance in more detail. Steve will then conclude the presentation and we will open the floor for your questions. Thank you and over to you, Steve.

Steve Ridlington:
Thank you, Marie. Thank you everybody for joining us on the conference call today. Let me begin as usual by highlighting our nine months of 2019 performance.

Nine months 2019 revenues grew by 3.5% year on year, led by a 3.8% increase in chilled water revenues. During the same period, EBITDA growth was 11.2% and as a result, our EBITDA margins expanded from 46% last year to 50% in 2019. IFRS 16 implementation had a favourable impact of 3% on EBITDA margins. Adjusted for this, EBITDA margins would be 47%, in line with last year. Richard will discuss the impact of IFRS 16 in more detail later. Net income growth was 3.1%. However, when last year's net income is adjusted to the profit on partial disposal of Saudi Tabreed, underlying net income increased by 15% compared to 9 months 2018.

We added over 15,400 refrigerated tons of new capacity during Q3 2019, of which 15,000 refrigerated tons were in Saudi Arabia. This takes our capacity addition during the nine months of 2019 to 30,000 RTs. We expect to meet our target of delivering 65,000 refrigerated tons of new capacity over 2019 and 2020.

Finally, we are pleased to have had our investment grade rating affirmed by Moody's during their recent review meeting. Moody's opinion is underpinned by our resilient cash flows, long-term contracts, low operating risk levels, strong market position in the Middle East and complementary shareholders.

Turning to Slide 6. This provides the usual overview of the company. 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 currently operate 75 plants across the region, delivering about 1.16 million refrigerated tons of cooling. Our operations saved around 2 billion kWh of energy consumption in 2018, enough to power 112.000 homes for a year, and equivalent to reducing about a million tons of CO_2 emissions.

Moving to the next slide, Slide 7. Tabreed is the only public traded and regional district cooling company in the world. The UAE is our base of operations, where we have a presence in six emirates, providing 780,000 tons of cooling to our customers through 63 plants. In addition to the UAE, we work with key strategic partners in four of the GCC countries. We have a total of 12 plants outside of the UAE, providing over 380,000 tons of cooling to our customers. Around two thirds of our capacity is consolidated while the rest is equity accounted as associates or joint ventures.

Moving to Slide 8, this slide outlines our capacity growth trends across the region. At the beginning of 2019, we announced that we expected to add at least 65,000 tons of new capacity, during 2019 and 2020. During the third quarter of this year we added 15,380 refrigerated tons of capacity, of which 15,000 of refrigerated tons were added at King Khalid International Airport in Saudi Arabia. This takes our total capacity additions in 2019 to 30,000 tons, split roughly 50-50 between consolidated and equity accounted entities. We remain confident of achieving our guidance of 65,000 tons of new additions by the end of 2020. Tabreed continues to demonstrate its ability to deliver 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 opportunity, as and when they present themselves.

Slide 9 provides the usual overview of headline performance. To summarise, Tabreed is a stable utility investment infrastructure business with long-term contracts with high-profile customers. This provides us clear visibility and future earnings and cash flows. We currently have 90% of our capacity contracted for at least the next 10 years. About 70% of our revenues are derived from fully government owned and partly government owned organisations, thereby limiting counterparty credit risk. Tabreed has a track record of delivering profitable growth. Net income and EBITDA have increased by 7% and 9% per year, respectively since 2016. I'll now hand over to Richard to talk about our financial results in more detail.

Richard Rose:
Thank you, Steve. Let me start by highlighting the key points on our income statement for nine months ending September 2019. Tabreed recorded overall revenue growth of 3.5%, with chilled water revenue increasing by 3.8%. The main factors driving chilled water revenue growth were the new capacity in the UAE and the new plant in Oman, which added 1.4%. CPI indexation on our capacity revenues added just over one percentage point. The acquisition and consolidation of S&T in Q1 2018 added about one percentage point; and the last factor is consumption growth. Revenues for our value chain businesses decreased by around 2.6%.

In the first nine months of 2019, IFRS 16 implementation resulted in reclassification of operating cost into depreciation of AED 15 million and finance cost of AED 13 million. Both depreciation and finance cost do not form part of EBITDA, resulting in 3% higher EBITDA margins. Adjusting for these, EBITDA margins would have been 47%, which is in line with last year. Other gains last year included AED 32.6 million on account of dilution of our stake in Saudi Tabreed. Net income adjusted for this one time gain on partial disposal of Saudi Tabreed in Q2 2018 would have grown by 15%.

We'll now turn to the statement on financial position on the next slide. Significant movements in the balance sheet as of the 30 September 2019 compared to the end of 2018 were due to IFRS 16. Increase in fixed assets was primarily due to the capitalisation of operating leases under the adoption of IFRS 16. Receivables increased, reflecting seasonality compared to December 2018, as well as short-term timing delays in customer collections. We are seeing strong October collections with a large portion of the overdue amounts received. Increase in corporate debt is primarily due to increase in lease liabilities on account of the IFRS 16 implementation.

Turning to the next slide, we'll now look at the cash flow statement. Tabreed continues to generate strong cash flows, which are being utilised to invest in growth and provide dividend returns to our shareholders. Operating cash flow increased by 8% over September 2018 and are strong at AED 174 million, reflecting higher profitability. There has been limited capital expenditure so far in 2019. Dividends received were higher last year, due to a special dividend received in Saudi Tabreed at the time of the dilution of our 5% stake in Q2 2018. Our cash generating ability remains robust, driven by long-term price certain contracts, which will enable investment and growth.

Let me now turn to our slide on the debt portfolio. This slide provides the usual background on Tabreed's debt portfolio as of September 2019. Key points to note are that Tabreed has AED 2.9 billion of net debt and a gearing ratio of 40%. However, it is important to note that IFRS 16 has increased reported debt by over AED 300 million and net debt to EBITDA by 0.2x. Excluding the impact of IFRS 16, both net debt and net debt to EBITDA are lower than a year earlier. Following the refinancing of our corporate debt with a seven-year Sukuk and new corporate loans last year, we have relatively light schedule repayments until 2025 when the Sukuk becomes due. Net debt and net debt to EBITDA have declined since 2016, as debt has been repaid and EBITDA has grown. That completes the detailed review of our nine months results to 2019 and I will now pass back to Steve.

Steve Ridlington:
Thank you, Richard. A few closing comments before we open the lines for Q&A. First, as a stable utility business, Tabreed continues to deliver strong financial and operating performance, with raising profitability, stable margins and robust cash flow. Second, we have added 15,000 RTs at our consolidated entities and 15,000 RTs of equity accounted entities during 2019. We are confident of achieving our capacity guidance targets over 2019 and 2020. Third, Tabreed has a flexible capital structure to fund future growth. As we have mentioned before, we will look at opportunities within and beyond the GCC. We'll provide you with updates as and when such opportunities materialise. Finally, Tabreed today is stronger than ever before. We have a stronger shareholder base and a management team

with a significant industry experience. We are working on various fronts from business development to operations to help fund growth and improve profitability.

Marie Therese Hajj:
Thank you, Steve. Thank you all for joining us today for the earning call. We will now take your questions. Please feel free to ask any questions you may have.

Question & Answers

Operator:
We have the first question from Divye Arora from Daman Investment, please go ahead.

Divye Arora:
Hi, thank you for the call. What we have seen is that, especially in the third quarter, there has been a good improvement in terms of the operating costs. There has been an improvement in EBIT margin. Adjusted for the IFRS 16 impact, the EBIT has grown by around 11% in the third quarter. For the nine months, the impact is not that big. So, just want to understand, for the third quarter, can we take it as a basis for the future? Can we expect you to grow your EBIT by 11% over the next one year, let's say the revenue growth is around 3 to 4% and CPIs around 1%, in that range? Can operating profit growth of 11% continue?

Steve Ridlington:
Thanks for the question. We don't give guidance of that nature. What we can say is that we are committed to and we are confident of delivering the growth in connected capacity that we set out at the beginning of this year, that is, 65,000 tons. We have delivered half of that so far this year. We also advised that half of the 65000 tons will be within the consolidated entities. You know what the CPI has been for 2019 so far and you can project what that might be for next year. So if you take those two things together, capacity growth and CPI expectations, you can come to a view on what the EBIT growth might be over the next 12 months or so. Thank you.

Divye Arora:
To understand, what are you doing in terms of, let's say cost-cutting or the costs are not growing proportionally with the EBIT revenues. There are some efficiencies that you are trying to achieve, so can we understand what exactly are those?

Steve Ridlington:
Certainly, our costs are not growing as fast as our revenues. There is a little bit of electrical efficiencies and water efficiencies within the business. That aside there are no specific cost-cutting measures going on within the business today.

Divye Arora:
Okay, all right. And in terms of the plan for expansion into other countries let's say in India or Egypt, you announced a project a few months back in India, so that would take its time, but is there anything else other than that, that you think could be progressed in Egypt or India?

Steve Ridlington:
We will announce new projects as and when they are closed. I can't provide anything specific, but what I can say is, you're absolutely right, we announced one project in India, 5,000 tons initially, rising thereafter. We are looking at other opportunities in India. We are looking at opportunities in Egypt. We are also looking at opportunities in Kuwait, as well as in our existing business areas. As and when we close something, we will surely let you know of new projects additions.

Divye Arora:
Okay, all right. This is a last thing on the dividend side, is there any update on the policy right now or we have to wait till fourth quarter for that?

Steve Ridlington:
No update on the policy. The policy remains in place that we will grow the dividends in line with our business and we will be making announcements on our dividends once the shareholders have reviewed / approved which is usually at the end of first quarter or early second-quarter next year.

Divye Arora:
Okay, fine, thank you.

Operator:
Thank you, next question from Ahmed Madi, from AB Invest, please go ahead.

Ahmed Madi:
My question is about Qatar and the business over there. The first question is given the big growth in Qatari State and given the Qatar 2022 World Cup, is there any benefit or there is any extra capacity addition? And is there a problem in bringing back the funds back to UAE, from profits in Qatar?

Steve Ridlington:
First of all, the World Cup in 2022 won't have a huge impact on our business. Our business is in the West Bay and The Pearl. There might be some additional business arriving at a hotel, new hotel rooms and so on, but I think it will be relatively short lived and a relatively small impact on the business. Nevertheless, the business continues to do well. It's meeting its budget, it's connecting new customers and it's collecting revenues from those customers. There is no restriction on the payment of dividends between Qatar and the UAE, so dividends can be paid as and when they are declared. The Board did decide unanimously last year not to pay a dividend for 2018, preferring to retain the money in the company for potential growth opportunities. So there hasn't been a dividend flow, but there certainly can be, if, as, and when the Board approves such dividends.

Operator:
Thank you, we have one more question from Divye Arora from Daman Investment, please go ahead.

Divye Arora:
Hi, just to know, is there any update on the merger & acquisition side? Is there anything up for grabs in the UAE, Abu Dhabi or Dubai? A few months before we heard that Emaar wanted to sell its district cooling business. Any update on that further? Thank you.

Steve Ridlington:
Thanks for the question. Again, as indicated earlier, we don't comment on what may or may not be happening in the world of M&A. If, as and when any deal with any potential seller is concluded, we would update the markets. We continue to talk, as we've always said, to many different players and acquisitions are certainly on our radar, but nothing specific to update on at this point in time.

Operator:
Thank you, we have a new question from Zeeshan Bagwan, form Abu Dhabi Capital Group; please go ahead.

Zeeshan Bagwan:
Could you please give some further clarity on what is the leading to these timing delays in customer collections and should we expect this trend to improve going forward?

Richard Rose:
Hi, thanks for the question, generally we see that one or two customers can be a bit sticky with their payments to us, but our customers are paying. As I said in the main presentation, we had excellent collections during October this year and historically we have seen that where at the quarter end our receivables spike up slightly, they drop very quickly afterwards. We don't have an on-going build-up of receivables within our balance sheet. So, what's going to happen in the future? I can't really predict that. All I can say is that we're comfortable with our collections and our customers are paying.

Zeeshan Bagwan:
Okay, thank you, but this increase, is it more towards the government side of the private customers? Some further understanding on this?

Richard Rose:
If you look at our customer profile, we have a significant proportion of the revenue in a relatively small number of customers. A spike up in our receivables usually relates to one or two of our larger customers. But as I say, it's not an ongoing pervasive issue, the collections in October have been excellent.

Operator:
Thank you, As we have no more questions, back to the management for the conclusion...

Marie Therese Hajj:
With this now we conclude our Q3 2019 earnings call. Tabreed looks forward to interacting with you at our next earnings conference call and investor conferences. Should you have

any further questions, please do not hesitate to contact us. Have a great day and thank you once again for joining us. Thank you.

Operator:
Thank you, ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.

Note: This transcript has been edited to improve readability

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