

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

First Half 2021 Earnings Conference Call Transcript

11 August 2021

Tabreed Participants:

Khalid Al Marzooqi, Chief Executive Officer

Adel Salem Al Wahedi, Chief Financial Officer

Souad Jamal AlSerkal, Vice President – Strategic Communications

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Q2 2021 Earnings Call. I now have the pleasure of handing over the call to your host, Ms. Souad Jamal Al Serkal, Vice President of Strategic Communications. Madam, please go ahead.

Souad Jamal Al Serkal

Thank you so much, and hello again. My name is Souad Jamal Al Serkal, the Vice President of Strategic Communications here at Tabreed. On behalf of Tabreed management team, I would like to welcome you all and thank you for joining us for the H1 2021 Results Conference Call. Hope you are all keeping safe and healthy.

And 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 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 Mr. Khalid Al Marzooqi, our Chief Executive Officer; and Mr. Adel Al Wahedi, our Chief Financial Officer. Khalid will begin with the opening remarks and provide an overview of the first half of 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 line for your questions.

Thank you, and over to you, Khalid.

Khalid Al Marzooqi

Thank you, Souad, and thank you, everyone, for joining us today. This is the first time I'm speaking to you all. As you are aware, I have joined Tabreed as the CEO in May 2021. I spent over 25 years in the energy sector. Prior to joining Tabreed, I was Chief Operating Officer for Dolphin Energy, overseeing the downstream division in UAE, prior to which I was Senior Vice President of Dolphin's Technical Service division. In addition to those roles, I've also occupied 2 more roles in the Abu Dhabi Department of Transport earlier and ADCO.

I'm excited to be part of Tabreed and to contribute to the significant transformation of the company. Tabreed remains committed to driving shareholders value through growth in our existing core GCC markets and selectively pursuing opportunities outside of GCC.

Tabreed recently unveiled its new branding and corporate identity, built around essential for progress as a core brand positioning and closely aligned with the company's strategy, reflecting Tabreed's core values. The branding is more modern and new market dynamics, and articulating the company's role in society, that of a catalyst for change with progress in its central tenet.

We move on to the next slide. Moving on, I would like to highlight the H1 2021 performance. Total revenue grew by 22%, led by chilled water business growth of 22% and value chain business growth of 28%. During the same period, EBITDA growth was 25%, and as a result, our EBITDA margins expanded from 59% in H1 2020 to 60% in H1 2021. Net profit during H1 2021 increased by 4% to AED 233 million.

During the first half of the year, we added capacity of over 13,000 RT. Despite limited capacity addition during the first half of '21, we remain confident in achieving our target of delivering 120,000 RT of new capacity over '21 and next year, '22.

The last quarter also marked the first anniversary of partnership with Emaar Properties for the exclusive provision of energy efficient district cooling services to landmark development in Downtown Dubai.

Moving on to the next slide. 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 the largest district cooling provider in the region and currently operate 87 plants across the region, delivering over 1.41 million tons of cooling. Our operations saved over 2.26 billion kilowatt hours of energy consumption in last year, enough to power 128,000 homes for a year or equivalent to reducing over 1.35 million tons of CO² emission.

Moving on to the next slide. This slide outlines our capacity growth trends across the region. At the beginning of '21, we announced that we expected to add at least 120,000 RT of new connected capacity by the end of '22. Of this, we expect around 80% to be contributed by consolidated entities and balance 20% from equity accounted entities. Again, we are confident of delivering this target.

Then in last year, we had guided a capacity of 75,000 RT for 2020 and 2021, for which we added over 53,000 RT of capacity till date since 2020. The first half has been relatively slow in terms of new capacity addition and expect faster growth in the remaining part of the year. Saudi Arabia has strong growth potential. Going forward, we expect around 15% of the guided capacity for '21 and '22 to be contributed by Kingdom of Saudi Arabia.

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

If you follow me to the next slide please. This slide recaps the evolution of our performance over the years. 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 over 90% of our capacity contracted for at least the next 10 years.

About 80% of our revenues are derived from fully government-owned or partly government-owned organizations, therefore limiting counterparty risks. Also the contracts are long term in nature of around 25 years, providing better revenue visibility. The current connected capacity is over 1.41 million RT, which has grown at a CAGR of 8% since 2018. In the same terms, the chilled water business has been growing at a CAGR of 10% since 2018, and has been primary driver for the group revenue.

Tabreed has a track record of delivering profitable growth. EBITDA has increased at a CAGR of 17% since 2018. All the 3 recent acquisitions of Downtown DCP, Masdar and Saadiyat Island DC assets have helped us build a strong platform for future growth opportunities. These M&As have added significant concession capacity, which we anticipate to connect in the coming years.

I will now hand over to Adel who will talk about our financial results in more detail. Please.

Adel Salem Al Wahedi

Thank you, Khalid. Let me start by highlighting the key points on our income statement for H1 2021. Total revenue grew by 22%, driven by robust performance of both chilled water and value chain business. Chilled water business recorded a growth of 22% during the period. Key factors driving this increase were recent acquisitions contributed over 15% of the growth; balance sheet contributed to new connections, increasing consumption volumes and overall improvement in operational efficiency, partly offset by negative CPI.

Value chain business accounted for 4% of consolidated revenues and less than 1% of EBITDA. VCB is a noncore business but continues to be profitable.

EBITDA for 2021 grew by 25% to AED 518 million. EBITDA margins for the period were 60%, in line with last year. The growth in EBITDA was primarily driven by consolidation of Downtown DCP, Masdar and Saadiyat Island DC assets.

Higher finance cost reflects 2 new loans raised last year for funding new acquisitions. Other gains in previous year mainly represents gain on contract amendment with an existing client. Share of associates and JV, higher primarily due to better performance coupled with fixed cost savings and operational efficiency. Net profit for the period increased by 4% compared to last year.

We will now look at the statement of financial position on the next slide. Main highlights, increase in fixed assets and intangibles represent additions due to acquisition of Saadiyat Island DC assets. Receivables are in line with year-end given the growth in our business and in the last few months. DSOs have remained stable since the year-end. Increase in other liabilities mainly represents seasonality factor and acquisition of Saadiyat entities.

Turning to the next slide. We will now take a look at the cash flow statement. Our cash flow generation during the period has been stronger than last year same period. Higher collections from customers in the current period. DSOs remain stable since the year-end. CapEx outflows relate to the acquisitions of the Saadiyat Island assets. Tabreed retained strong liquidity with closing cash balances at the end of the period at AED 551 million, and our revolving credit facility remains unutilized.

Let me now turn to the slide on debt portfolio. This slide provides the usual background in Tabreed's debt portfolio. As of June 2021, Tabreed has AED 6.1 billion of net debt and a gearing ratio of 53% at the quarter end. Net debt-to-EBITDA ratio improved to 5.7x in June 2021 compared to 6.8x in June 2020. We expect this to further improve as the full EBITDA contribution from recent acquisitions is reflected in our financials. Both the Moody's and Fitch reaffirmed their investment-grade rating following the Downtown acquisition and the bond issue.

That completes the detailed review of our results of the first half of this year. I will now pass back to Khalid for closing comments.

Khalid Al Marzooqi

Thank you, Adel. In addition to the good news that we already announced, we would like to add a few points as well.

In March '21, Tabreed published its first ESG report and it's available on our web page under Sustainability section. We encourage you all to go through it moving ahead. Tabreed is a highly sustainable business, delivering significant power efficiencies compared to other cooling alternatives. Tabreed continues to make considerable progress on its business objectives while also ensuring the health and safety of its staff across all its operational sites.

Under the current circumstances, despite the pandemic, the Company maintained business continuity while ensuring the health and safety of its staff and partners across all Tabreed entities. This resilience, combined with our commitment to the communities in which we operate, our staff and customers, and to the highest levels of governance across our operations reflect our very strong ESG credentials.

Moving on to the next slide please. Before we open the lines for Q&A, let me summarize. As a stable utility business model, Tabreed continues to deliver strong financial and operating performance with rising profitability and margins. Tabreed has a strong investor base and experienced management team, solid corporate governance and market-leading transparency demonstrated by Board composition with over 50% Independent Directors, including the Chairman as well.

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, and we'll provide you with updates as and when such opportunities materialize. We continue to work on various fronts, from business development to operations, to help drive growth and improve profitability.

That concludes the presentation for our H1 earnings. Thank you for your time today, and we will now take any questions you may have.

Questions & Answers

Operator

Our first question comes from Jai Andrew Lawrence of Al Mal Capital. Jai, your line is now open. Please go ahead.

Jai Lawrence

This is Jai from Al Mal Capital. Congratulations on a great set of numbers. I was just wondering, is there any progress on the Saudi front in terms of winning projects that you were bidding on previously with the mega projects that are coming up in Saudi?

Khalid Al Marzooqi

Saudi Arabia, as I said, has just been a great area of growth for us, as I mentioned in my presentation. We are evaluating some new businesses that's coming up in Saudi Arabia. And hopefully, once they transpire, you will be the first to know.

Operator

Our next question comes from Danah AlOthman of NBK Capital. Your line is now open. Please go ahead.

Dana Al Othman

I have 2 questions, if I may. The first is, is there any update on the timeline of exits from Qatar operations? And second, any update on India and Egypt growth?

Khalid Al Marzooqi

So for Qatar, I mean there are no updates on Qatar from what we informed the last time. And definitely, we will inform our shareholders and individual investors of the outcome, as soon as we have some update.

As far as international market is concerned, I think India is part of it. We are still evaluating our options there in the international market, and we are following it up very closely. And hopefully, once something comes up and actually solidifies, we will update market as soon as possible

Operator

Our next question comes from Rakesh Tripathi of Franklin Templeton. Jai, your line is now open. Please go ahead.

Rakesh Tripathi

So a few questions from my end. Number one, if you could just remind us a bit on the RCF size and the maturity that's available as of now to the company. Secondly, I didn't get it, if you spoke about this in the previous question. Any updates on acquisition plans? Is there anything that you are actively looking at as of now? What's happening on that front? And thirdly, on your leverage, I suppose the understanding as of now is that leverage improves as the EBITDA contribution from the new acquisition starts to show up. But if you were to go for any additional acquisitions, then how do you plan to manage or delever and how the rating agencies would look at that?

Adel Salem Al Wahedi

Yes, regarding the RCF, the current RCF that we have has tenor is up to Q2 next year. And its value is AED 590 million.

Regarding the growth expansion, the question. As you said, the company always is going to study. There are many opportunities in the market, whether in the region or any interesting markets. And we will pursue that once we see if it is something really attractive. And definitely, we will share this with the market upon materializing, for sure.

About the how to fund and about the growth, you know that the shareholder, they decided, the growth, which is something important. This is a strategy for the time being. Tabreed, is rated investment grade by Fitch and Moody's. And also, we will maintain that, and we will not go investment grade status. So that we will manage this growth, considering that strategic objective for us always to maintain and the ratings.

For 2020, the dividend distribution, if you try and remember, it was as 50-50, cash and bonus shares. And this is a clear message that the shareholders always, they will back up that growth

story. And whenever there is also an execution and additional splits required, definitely that they will do. I hope that I answered.

Rakesh Tripathi

Yes. Yes, you did. So RCF, you mentioned was \$590 million, right? USD 590 million up to 2023?

Adel Salem Al Wahedi

No, dirhams.

Rakesh Tripathi

Ok. Thank You.

Operator

Our next question comes from Divye Arora of Daman Investment

Divye Arora

My question is linked to, again, the balance sheet structure and the future acquisitions. So currently, we know, as per your presentation, that net debt-to-EBITDA is around 5.7x. And that's the reason, because you were saying you want to maintain your investment grade rating, and that's why you cut the dividend last year. I'm talking about the cash dividend.

So going forward, you have some acquisitions in the pipeline, which you have heard in the media also. So do you think, for you to maintain this investment-grade rating, there will be a need to raise more capital, do a right issue if needed?

Adel Salem Al Wahedi

Thank you, Divye, for the question. As I said, the growth is the strategy for the time being. Maintaining the investment grade, it is something red line. We will not leave it at all. And the shareholders, they will take the right decision whenever we reach that point, and we require any sort of funding. We will explore all options that we have and definitely we'll select the best for Tabreed.

Divye Arora

All right. And so in terms of dividend, we should continue to assume that the payout ratio on the cash basis in the next couple of years, because you're looking for acquisitions, the payout ratio would continue to be around 30% on a cash basis?

Adel Salem Al Wahedi

See. Have always the strategy of the company, whenever there is a growth into the results and the net income, definitely, the payout has to increase. It is that simple strategy that we have and approved by our shareholders.

Divye Arora

But it is not aligned with what happened last year, right? Because last year, the payout was reduced from 65% to 30%. The dividend was reduced, I'm talking about the cash dividend, from AED 10 to AED 60.

Adel Salem Al Wahedi

Okay. Yes, you are talking about the cash part of it. No, this is for the same thing. It depends on the situation exactly where we will be standing on, okay? Our funding options, if there is any need for that, definitely, it will be raised to the shareholder. They will explore all options, and they will take the right decision. But most important message from this, always they will be available for the support.

Divye Arora

And in terms of the 2 acquisitions that we have heard about in the market, one is Dubai Airport one, and the other one is Majid Al Futtaim. Are these still in the market, these 2? Or has the situation improved, especially for Majid Al Futtaim? Have they pulled out from this thing from the sale? And how about Dubai Airport?

Adel Salem Al Wahedi

As a listed company, we cannot disclose anything. Once something materializes, definitely, it will be shared according to the DFM disclosure rule.

Divye Arora

Okay. Thanks

Operator

Our next question comes from Thomas Mathew of Kamco Invest.

Thomas Matthew

I just had one question on the Saudi operations and how you're seeing Saudi sort of look at growth and look to sort of achieve growth? Just wanted to know any sort of guidance as to how you're seeing growth sort of being garnered from that operation? There are many mega projects there and at the same time, there's also this aspect where most of those district cooling assets, all those projects are still handled by the developers. And I'm just trying to

understand how you are envisioning growth from your Saudi operations and any guidance would be helpful.

Khalid Al Marzooqi

Well, there is no denying the fact that Saudi Arabia has a huge potential. It's a large market for district cooling, hence our presence there. Basically, most of those investors eventually they either are going to invest and hand over to the district cooling operators. So Tabreed will be there, as a player who understand the potential of the market and along with our partners in Saudi Arabia.

We see it as the second largest market, I believe, as far as size is concerned. And definitely, we are looking to partners in the Saudi Arabia. There are many ways of how this is going to be working out. And we will just pick the one that works best with our partners in Saudi Arabia and we will move forward with that.

Thomas Matthew

All right. I just have a follow-up on that. I think it's been mentioned in the past that the return expectations always is in the range of 10% to 12%, and that's largely for the UAE operations. In Saudi, is it fair enough to sort of assume a similar sort of return expectations for Tabreed's pursuits there? Or is it a different range altogether?

Khalid Al Marzooqi

I don't believe we will be at the liberty to comment on that one..

Operator

We currently have no further questions. I'll hand back to the management team for closing.

Souad Jamal Al Serkal

And this concludes our H1 2021 earnings call of Tabreed. We look forward to interacting with you at our earnings conference call and investor conference in the future. Should you have any further questions, please do not hesitate to contact us. Have a great day. Thank you once again for joining the call and stay safe.

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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