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

Q4 2022
Earnings Conference Call Transcript

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Tabreed Participants:

Adel Salem Al Wahedi, Chief Financial Officer
Salik Malik, Vice President – Finance
Kevin Hackett, Strategic Communications

Presentation

Kevin Hackett

On behalf of Tabreed's management team, I welcome you all and thank you for joining us for the Full Year 22 Results Conference Call. I hope everyone is 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 two of the presentation for the detailed disclaimer. I would now request you to turn to slide three for today's agenda.

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

Adel Salem Al Wahedi

Thank you, Kevin. Before presenting our 2022 financial results in detail, we are keen to reiterate some of the key highlights of the Tabreed sustainable investment case. Since establishing almost 25 years ago, Tabreed's business model is providing efficient, environmentally friendly cooling and delivering a steady growth in returns to our investors which is built upon attractive utility-like pass-through contracts.

We now have a total connected capacity, as of end of 22, at almost 1.3 million RT across GCC, with clear revenue visibility in the years to come. This has all resulted in consistent EBITDA margins of over 55% and operating cash flow growth of approximately around 20% annually since 2019.

We have always managed our cash flows to maximize our returns to shareholders through our disciplined investment in future growth, optimizing our capital structure, and maintaining a stable increase in dividend pay-outs whilst maintaining investment-grade status at every stage of our journey. This financial discipline coupled with our longstanding approach to ESG has led to sustainable value creation for our stakeholders over the years.

Moving to the next slide, the year 2022 key highlights. Core chilled water revenue grew by 14% and total group revenue grew by 13% in 2022. For the year ended '22, EBITDA growth is over 19% year on year at AED 1.2 billion, with a sustainable EBITDA margin of 56%. We had recorded a strong EBITDA to cash conversion before working capital adjustments at close to 100%. Our net income increased by 3% at AED 600 million.

Recap of the other highlights for the year. Acquisition of Al Mouj in January, beginning of year 2022, with a total concession of 32,000 RT. In new market, we established a new entity, Tabreed Egypt, with two greenfield projects. D5M Mall, with a total capacity of 6,000 RT. We signed a new concession contract of 30,000 RT with Egyptians for Healthcare Services, EHCS, for their new smart Medical City. We provide district heating and cooling as well.

Announced green financing framework, accompanied by a second-party opinion from Sustainalytics. In Q3, shareholders voted to amend Article 7 of the company's Articles of

Association to allow for 100% foreign ownership. Tabreed's Board of Directors has recommended a dividend for year 2022 of 13.5 fils, with 100% cash distribution, which represents a pay-out ratio of 64%. Moving to the next slide.

During year 2022, we added capacity of 54,000 RT across our operation, with an overall connected capacity of 1.3 million RT. Of the total new connected capacity, which represents a combination of the small inorganic addition and the new connections to our existing concession areas, mainly UAE, 34,500 RT, and Oman, 19,000 RT. During the year, capex spend of AED 184 million It is lower compared to the capex spend in previous year as, majorly, these additions were from existing concession areas, with lower capex requirements.

As we look forward across the next two years, the new capacity guidance for year 2023 and 24 is 120,000 RT. This is in line with the prior two guidance periods. Of this guided capacity, around 60% is expected to be contributed by consolidated entities, and the balance, 40%, by equity accounted entities. We remain confident of achieving the 22/23 period guidance, having already achieved 55,000 RT of the 120,000 RT guidance, all from consolidated entities.

Tabreed is a stable utility business, with long-term contracts with high-profile customers. Our group connected capacity is now at almost 1.3 million RT across the GCC and based on long 25-year contracts. Around 65% of our revenues are underpinned by wholly government-owned and partly government-owned organizations, which represents a strong customer credit profile. Tabreed's revenues have grown by 13.4% annually since 2019, with the utility business model leading to steady increases in revenues.

Our top line performance has translated to similarly attractive growth at the EBITDA, profits from operations and net income levels. The capacity charge in our revenue model has led to further predictability in earnings.

Overall, our margins have been sustainable over time, with EBITDA, operating and net income margins averaging 55%, 35% and 30%, respectively, over the last three years. We are confident of maintaining these margin levels over the long term, given the robust and resilient nature of our business.

Over the year, our cash flows have been resilient and enabled us to fund growth and also steady sustainable distribution to our shareholders, whilst maintaining an investment grade rating with both credit rating agencies Fitch and Moody's. Our board has recommended a dividend of 13.5 fils, which is an increase of 1.5 fils over the previous year. This is to be distributed 100% in cash.

In summary, our shareholders have benefited from these cash flows with a consistent dividend stream, representing a pay-out ratio averaging 60% and the future upside growth potential. I will now handover to Salik, our VP, Finance, to take you through the financial results in detail for the year 2022.

Salik Malik

Thank you, Adel, and good afternoon, everyone. Let me start, highlighting the key points on our income statement for the year ended 2022. Total revenue grew by 13%, driven by the robust performance in chilled water, which recorded a growth of 14% compared to the same period last year.

Of the 14% growth in revenue of chilled water, 6.2% came from our full year impact of consolidation of Al Wajeez and Saadiyat District Cooling asset, acquired at various times in 2021. The acquisition of Al Mouj in Oman contributed another 1.4%, while the increase in consumption volumes had contributed 3.2%, resulting in an overall 14% growth year on year. Also, we had some small benefits from the positive CPI of 2021 which applied in 2022.

Operating cost increases are lower than the revenue, driven by the cost optimisation and operational efficiencies. Lower administrative costs reflects reimbursement of legal costs and reversal of doubtful provisions on settlement.

In aggregation, our EBITDA grew by 19% year on year to AED 1.2 billion, with a strong margin, at 56%, higher than our historical margins compared to the same period last year. Increase in finance cost is due to the full year impact of Al Wajeez debt consolidation, which we acquired in Q4 2021. Net profit for the year ended is at AED 600 million, representing an increase of 3% compared to last year.

Moving onto the next slide, and talking about the financial balance sheet as at end of 31st December. A decrease in receivables represents the settlement of overdue receivable balances and an improvement in overall billing to cash conversion cycle, and additionally, deconsolidation of IBA upon divestment in early 2022.

During the year 2022, we issued a bonus shares to cover the 50% dividend, and also, the reduction in debt represents the scheduled repayments of project finance facilities. Overall, our net debt position has reduced significantly from AED 6.2 billion in 2021 to AED 5.5 billion at the end of December.

It's coupled with the increase in EBITDA by 19.2%. The net debt-to-EBITDA leverage ratio reduced significantly by 1.48x to 4.49x. Our fixed rate bond and sukuk and 100% hedged corporate loan has provided interest expense protection in the current rising interest rate environment.

During 2022, central banks across major economies tackled inflation pressures, and this seems to be an ongoing concern, heading into the year ahead, for major industries. As you may recall, there are two facilities maturing in 2025, one of which is maturing in first half of 2025 and the other in the second half. The loan terms facility allows us penalty-free prepayments that will help to manage refinancing risk over the life of the facility.

During the second half of 2022, both Moody's and Fitch reaffirmed their investment-grade ratings for Tabreed, Moody's at Baa3 and Fitch at BBB, with an upgrade from negative outlook to stable outlook.

Moving on to the next slide, which is talking about the cash flow statement, our cash flow performance during the year has been extremely robust. Investing activities mainly represent capex payments on an ongoing expansion capex and greenfield projects, increasing our stake in Saudi Tabreed and the disposal of IBA. Financing activities mainly represent the debt servicing for the year and a cash dividend of Dirhams166 million that was paid in 2022 for 2021.

Moving to some of the key ratios in cash flows, net cash flows from operating activities, pre-working capital, an equivalent of EBITDA, increased by approximately 20% to AED 1.23 billion versus AED 1 billion in 2021. Given our disciplined approach to investment, net cash flows, pre-financing activities in 2022, increased to AED 1.14 billion compared to 2021, which were higher, subsequent to two major acquisitions that we did in the form of Saadiyat District Cooling assets in Q2 2021 and Al Wajeez in Q4 2021.

Our acquisition and expansion strategy is based on staying disciplined to always meeting and exceeding our internal IRR and achieving our thresholds. Now I will give back the mike to Adel, our CFO.

Adel Salem Al Wahedi
Thank you, Salik. Now I will give the highlights on our ESG commitment. I will start just to briefly update about Tabreed's leadership, and followed by our track record on the environmental footprint as well. Corporate governance is an essential part of the "G" in ESG and an element that Tabreed's shareholders have always prioritised.

This slide provides a background on our Board members. Tabreed's Board is entirely non-executive and independent. Dr. Bakheet Al Katheeri and Ms. Claire Béchaux joined our Board, replacing Mr. Mohammed Al Huraimel Al Shamsi and Ms. Anne-Laure de Chammard, respectively.

I would like to take this opportunity to thank the Board Members who have stepped down during the year for their invaluable service to the Tabreed group. At the same time, we welcome the new members, all of whom bring considerable experience and knowledge to the Board of Directors. In summary, Tabreed has robust corporate governance and best practice transparency, guided by our fully non-executive Board composition.

Furthermore, our management team remains fully committed too, led by our CEO, Khalid Al Marzooqi. A recent addition in the senior management team is the introduction of Dr. Yousif Al Hammadi as Chief Asset Management Officer. Dr. Yousif Al Hammadi has over 13 years of diversified experience in the government, oil and gas and construction sectors. Tabreed's management team has a wealth of experience and is well equipped to guide Tabreed through coming years.

During the year 2022, Tabreed proudly published its second ESG report, offering detailed insights into its sustainability-related activities and accomplishments. Tabreed has set its own targets for energy consumption and emissions reduction.

This will be achieved through a combination of innovative technology solutions and environmentally friendly operating practices such as the use of treated sewage effluent, emission monitoring, thermal energy storage, use of sea water, management of hazardous waste and compliance with the framework of the regulation of trade effluent.

We are proud of the fact that Tabreed's operations have saved approximately 2.3 billion kWh of energy consumption, enough to power over 131,000 homes for a year, and equivalent to an annual prevention of over 1.38 million tons of CO_2 emissions.

In addition, we believe that carbon emissions prevented, generated through our sustainable cooling services, are an essential enabler to allow the region's governments to meet their sustainability targets for the future. Tabreed is committed to playing a clear role in UAE targets towards net-zero emissions by 2050.

To recap, a quick reminder. We are one of the largest sustainable cooling providers in the region, with an international presence beyond the UAE, Saudi Arabia, Oman and Bahrain. Tabreed currently operates 86 plants across the region, delivering over 1.3 million RTs of cooling. Our growth strategy is centered on exploring further opportunities in India and Egypt.

We are contributing to the region's growth through efficient and environmentally friendly cooling, which, in turn, enables long-term sustainable development. As our business grows, so does Tabreed's positive environmental footprint.

We are part of DFM's UAE ESG Index, aimed to measure ESG best practices followed by UAE-listed companies. We continue to work on various fronts, from business development to operations, to help drive growth and improve profitability.

In summary, Tabreed is a highly cash-generating business, delivering significant power efficiencies compared to other cooling alternatives. Financial discipline and sustainability are at the core of Tabreed's long-term strategy. Our commitment to the sustainable social development of the region is fundamental and is second to none. I will now request the Operator to open the lines for Q&A.

Kevin Hackett
Thank you.

Questions & Answers

Operator
If you would like to register a question, please submit your written questions via the chat box found on your screen's interface. We will pause here briefly to allow your questions to generate.

We have had a question come through. Good afternoon, Salik and team. Congratulations on an excellent set of results in 2022. With strong cash flows and stable outlook, what is your view on potential refinancing of the 2025 term loan? Would you look to repay it out of internal cash in the future? Or are there plans to refinance it via capital market issuance during better market conditions? Also, do you still remain open to potential acquisitions? If so, should we expect these to be bolt-on or large-sized acquisitions and also on the RA?

Salik Malik

Thank you, Rakesh, and good afternoon again, and I really accept your compliments. Thank you. So with regard to your question on the refinancing, yes, the sukuk as well as the corporate loan that are due on 2025, yes, the plan is to refinance, provided that there are large-sized acquisitions.

But our aim is always to maintain our investment grade, as we have already mentioned. And as long as we are able to maintain that, and, at the same time, we are able to close those large-sized acquisitions, we will be able to refinance this on time.

Operator

We move on to our next question. Thank you for the presentation. Could you share any specific future acquisitions' plans for 2023?

Adel Salem Al Wahedi

Yes, hi. Thank you. See, the usual answer is that the company is in the growth mode and growth strategy currently. And we are identifying all types of acquisitions and growth, whether organic or inorganic, into different markets as well. Once we reach to any advanced stages in the right time, as per the SCA rules and DFM, definitely, it will be shared with you.

Operator

Our next question. I have two questions. The first is on margin. EBITDA margin has improved slightly. However, net margin contracted. Could you please suggest if this is because of cost pressure and inflation impact? How do you see this year in terms of cost pressure and expected net margin, taking into consideration the corporate tax impact? And second is on capex guidance for this year, and what debt level do you expect?

Salik Malik

Thank you for the question. It's Salik here. With regard to the EBITDA margin improvement and the subsequent reduction in the net income margin, so EBITDA margin, as I mentioned even in my presentation, has improved, and this is mainly due to the cost optimization and efficiencies in operational performance.

The reason for the net income margin reduction is due to the full-year impact of our acquisition of Al Wajeez in Q4 2021, which came with a project finance rate of almost AED 650 million, and the finance cost of the three other quarters has an impact. That is the reason you would notice a decline in net income margin. But we are very confident of maintaining these margins both in EBITDA and net income in near to medium term, and improve from there on.

And your next question on guidance, see, we have mentioned that 120,000 tons is our guidance for the next two years, for '23 and '24. And when it comes to the debt leverage, so our target is to maintain the investment grade status, and the key ratios are the net debt-to-EBITDA and the RCF by Moody's. So we will be continuing to operate and do the financial discipline in accordance with those thresholds.

Operator

Our next question. I have a couple of questions. One, for your 2023/24 capacity guidance, you mentioned that 40% is from equity-accounted participation. Which geographies are these expected to be connected? Two, for Q4 2022, 7,000 RT was connected in the UAE, fully consolidated capacity. Which project was this for? Number three, can you give us some guidance on new signings in the UAE and other markets? If you could give us a sense of the size of the signings.

Salik Malik

Yes. the guidance that we have given, the 60% from the consolidated and 40% from the associates is basically based on our current equity holdings that we have in our investee entities. Obviously, one of them is outside the UAE, which is Saudi. That could be the potential where it's coming from. In terms of detail by country, we generally don't disclose, but of course, we can take it up in a one-to-one call on this topic.

With regard to the Q4 2022 addition of 7,000 tons, it’s mainly from the UAE from our existing concession areas that we recently added in our portfolio, coming from Dubai and Abu Dhabi put together. And last but not least, your third question, this is around the guidance and new signings in UAE and other markets. This we will be announcing through the DFM, and any particular you have in mind, then you can please reach out to our Investor Relations, also our partner, Churchgate, and Riyad and myself.

Operator

This concludes our Q&A. I'll now hand back to the management team for any final remarks.

Kevin Hackett

Thank you, everyone. That concludes our year-end 2022 earnings call. Tabreed looks forward to interacting with you at our earnings 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 the call.

Note: This transcript has been edited to improve readability

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