tabreed

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

Q1 2023
Earnings Conference Call Transcript

12 May 2023

Tabreed Participants:

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

Presentation

Kevin Hackett

Thank you. Hello, everyone. On behalf of Tabreed's management team, I welcome you all. And thank you for joining us for the Q1 2023 results conference call. Hope you're 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 two of the presentation for the detailed disclaimer. I would now ask everybody to turn to slide three for today's agenda.

On today's call, we have with us Adel Salem Al Wahedi, chief financial officer of Tabreed, and Salik Malik, our vice president for finance. Adel will begin with the opening remarks and provide an overview for Q1 2023 performance and key events. Following that, Salik will discuss the financial performance in more detail. Adel will then provide a brief overview of Tabreed's leadership team and, subsequently, conclude the presentation, we'll open the line for your questions. Thank you, and over to you, Adel.

Adel Salem Al Wahedi

Thank you, Kevin and everyone, for joining us today. I would like to highlight our first quarter 2023 performance as follows. Total group revenue and chilled water revenue increased by 10% to 464 million and 447 million respectively. The increases are organic and derive from new connected loads during the last 12 months and consumption volumes.

During the same period, EBITDA had increased to 268 million, with a sustainable margin of 58%. The company's net income has shown a remarkable growth of 168%, amounting to 236 million and net income, before the one-off income, also increased by 33.4% to 117 million.
At the Annual General Assembly on 20th March 2023, Tabreed shareholders had approved a cash dividend of 13.5 fils for the year 2022, representing a payout ratio of 64%, which was paid subsequently in April 2023. Further, I would like also to highlight that our third ESG report will be published by the end of June of this year.

Moving to the next slide, Tabreed is the first and one of the largest publicly-listed district cooling companies, with a strong presence in GCC and beyond. Currently, we operate 86 plants, delivering close to 1.3 million refrigerated tons of cooling. Our growth strategy is forecasted on exploring further opportunities in India and Egypt.

Our business model is highly cash generative, delivering significant power efficiencies compared to other cooling alternatives. At Tabreed, we prioritize financial discipline and sustainability, which is at the core of our long-term strategy. We are fully committed to the sustainable socioeconomic development of the region. Also, we continue to work diligently in all areas from business development to operations to drive growth and improve operational efficiencies.

Moving to the next slide, which summarizes our connected capacity, during this quarter, we successfully increased our operational capacity by 12,000 RT. This has brought our overall connected capacity to close to 1.276 million RTs. Of the total new connected capacity, which is purely organic, consists of new connection in our existing concession areas, mainly in UAE and Oman, 11.3k RT and 1k RT respectively. Total CAPEX spend in this quarter is 16.8 million, accounting for maintenance, replacement and growth efforts. It is lower as it's spent on new connections from our existing connections, which normally require lower CAPEX.

Moving to the next slide, as we look forward across the next two years, the new capacity guidance for 2023 and 2024 is 120,000 RT. This is in line with our previous guidance. Around 60% of this guided capacity is expected from the consolidated entities the remaining from equity accounted entities.

We remain confident of achieving 2022-2023 period guidance, having already achieved 67,000 RT of the 120,000 RT guidance, all from consolidated entities. Tabreed continues to demonstrate its 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 to the next section, the performance highlights, Tabreed operates a stable utility business model, entering into long-term contracts with reputable customers. The group's connected capacity has now reached 1.276 million RT across the GCC, based on an average contract term of 20 years.

Approximately 80% of the group's revenues are derived from contracts with fully government-owned or partly government-owned entities, which ensures a robust credit profile for its customers. As a results of the utility business model and its contracts with reputable customers, Tabreed has witnessed a steady increase in revenues with a growth rate of 16.4% annually since 2020.

Moving to the next slide, over the years, Tabreed's business has recorded a steady growth in its EBITDA, Profit from the Operations and net income level, which has mirrored its impressive top line performance. This growth has been supported by capacity charge components in our revenue model, which has increased predictability in earnings.

Over the past three years, our EBITDA, Operating and Net Income Margins have remained stable, averaging at 61%, 36% and 24% respectively. It demonstrates the sustainability and effective financial prudence of our business. We are confident in our ability to maintain these strong margin levels over the long term, as we continue to operate a robust and resilient business model.

Moving to the next slide, Tabreed has maintained a resilient cash flow from operations, allowing us to maintain our investment-grade rating with both credit rating agencies, Fitch and Moody's. The early settlement of one of our bank facilities led to a reduction in our total debt by AED 650 million, thus improving our gearing ratio from 53% to 49%. Now, I will hand over to Salik for the financial result detail.

Salik Malik
Thank you, Adel, and good afternoon, everyone. Let me start by highlighting the key points on our income statement for the first quarter 2023. Total revenue grew by 10%, driven by the robust performance in chilled water, which recorded an annual growth of 10%. The increases are organic, from the new connections of 40,000 tons connected during the last 12 months.

Also, consumption volumes has recorded an increase which contributed a 2% growth in our revenues. Added to that is the 2022 CPI of 4.8%, contributing another 2% in overall blended revenue. The increase in operating costs is in line with the increase in customer volumes, and also some winter maintenance activities that we carried out during the first quarter.

In aggregation, our EBITDA grew by 2%, year on year, to 268 million during the first quarter, with a sustainable margin of 58%. Lower finance costs were associated with additional fixed deposit income of approximately AED 15 million during the first quarter, based on our healthy cash balances. During this quarter, there were two significant events which had a positive impact to our net income, namely
The liability management, backed by our healthy cash balance, Tabreed has approved to early-settle one of the facilities along with the associated hedge instrument during this quarter, resulting in reducing the future finance cost and improving our gearing This exercise resulted in other income of 100.6 million, which is a combination of a cash flow gain upon the unwinding of the hedges, and a reclassification of fair value of derivatives from other comprehensive income to P&L. This together, after a write-off of the unamortised transaction costs, the net gain from this transaction is around 80 million.

In addition, during the first quarter, PIF, the Saudi sovereign wealth fund, joined as a new shareholder in Saudi Tabreed along with the issuance of new shares. As a result, the groups holding in Saudi Tabreed diluted from 31.1% to 21.8%. This resulted in a one-off accounting gain of 49 million based on the fair valuation of the PIF transaction.

In summary, the net income for the first quarter is at 236 million, including other gains of 119 million recorded during the first quarter. Net income before one-offs is at 117 million, recording an increase of 33% compared to the same quarter last year.

Moving on to the next slide, talking about the balance sheet, the decrease in paid receivables represents a seasonality impact and an enhancement in our billing to cash conversion cycle. Increases in investments in associates represents a fair value adjustment of our investment in Saudi Tabreed post the PIF transaction.

Our net debt position, from 5.5 billion in December 2022, has reduced to 5.2 billion at the end of the first quarter. The decrease is due to the liability management exercise done at the end of Q1 this year, and in conjunction with the increase in our last 12 months average EBITDA, our leverage ratio of net debt to EBITDA improved to 4.27x.

Our fixed-rate loan and sukuk and the 100% hedged corporate loan facility have provided protection against interest expenses in the current environment of raising interest rates. The central banks across the major economies took measures to address the inflationary period during the past two years, which has protected us.

As a reminder, we have two facilities maturing in 2025. One is the corporate facility that we did during the acquisition of Downtown and the other one is the sukuk. This long-term facility allows us the penalty-free prepayment, and this will help to manage the refinancing risk over the life of the facility.

Other liabilities increased mainly due to the accounting of dividends during the quarter, which was paid late in April. To reiterate, during the second half of 2022, both Moody's and Fitch reaffirmed the investment-grade rating of Tabreed, Moody's at BAA3, and Fitch at BBB. It's an upgrade from a negative to a stable outlook. The movements in Equity Reserves and Other liabilities is due to the dividend payable that was settled in April.

Moving on to the next slide, our cash flow performance during the period remains robust, strong cash flow from operations of 323 million reflecting high collections across all of our customers. Our CFO to EBITDA ratio from Q1 was 120%. The cash flow from investment activities reflects the CAPEX required to grow and the maintenance CAPEX.

Financing activity represents the settlement of bank facilities as part of the liability management program that we undertook during this quarter. Overall, the first quarter 2023 recorded robust cash from operations resulting in a health closing cash balance of close to 1.4 billion. And our revolving credit facility of 590 million remains fully unutilized. This liquidity, combined with our flexible capital structure, positions the group well to fund the future growth.

The next slide. The net cash flow from operating activities before the working capital, which is equal into EBITDA, has increased to 268 million versus 264 million year on year. Free cash flow from operations has increased by 120% of EBITDA, driven by improved customer collections and better working capital management.

Investment in CAPEX is minimum as we are committed to disciplined, prudent investment opportunities in line with our board mandate. As you will have noticed, we are well-positioned to invest in any new opportunities which meets our threshold of internal IRR, and we remain competitive with our peers. With this, I conclude and hand it over to Adel to take you through the rest of the presentation. Over to you, Adel.

Adel Salem Al Wahedi

Thank you, Salik. I would like to provide a brief update on Tabreed's leadership. Corporate governance is a critical component of the letter G in ESG, an aspect that Tabreed's shareholders have always prioritized. This slide provides a background on our board members. On 20th March of this year, during the Annual General Assembly, Tabreed shareholders elected its board of directors for the upcoming three years.

Eight of the existing board members have been re-elected, and we have one new board member, Dr Alyazia Ali Al Kuwaiti. So, the board of directors, by this, we have now a little more than 20% women representatives on our board, as we have two now. I would like to take this opportunity to express our gratitude to His Excellency Dr Ahmad Belhoul Al Falasi who has stepped down during the year from the board, for his invaluable service to the Tabreed group. We also welcome the new board, whom brings extensive experience and knowledge. In summary, Tabreed has robust corporate governance and best practice, transparency, guided by a fully non-executive board composition.

Moving to the next slide, furthermore, our management team remains fully committed and led by our CEO, Khalid Al Marzooqi. Recent changes in the senior management team is the introduction of Nadia Bardawil as chief legal council, and Philippe Coquelle, chief development officer, who has replaced Francois-Xavier Boul.

Nadia Bardawil has more than 15 years of experience in working on the development and financing of energy and infrastructure projects in MENA and Europe. And Philippe has more than 20 years of experience within the international energy sector. He has performed numerous roles in project management, business development, project finance and mergers and acquisitions. The Tabreed management team has a wealth of experience and is well-equipped to guide Tabreed through the coming years.

Moving to the next slide, please, I would like to provide a brief overview of Tabreed's environmental footprint. Tabreed has set ambitious targets for reducing energy consumption and emissions. We will leverage innovative technology solutions and environmentally-friendly operating practices, such as the use of treated sewage effluent, thermal energy storage, seawater, emission monitoring, hazardous waste management and compliance with the trade effluent regulations to achieve these targets.

We are proud to report that Tabreed's operations have resulted in the saving of approximately 2.34 billion kilowatt-hours of energy consumption, enough to power over 133,000 homes for a year, and equivalent to the annual prevention of over 1.4 million tons of CO2 emissions. We believe that the carbon emissions prevented through our sustainable cooling services are essential in enabling governments in the region to meet their sustainability targets for the future.

As a result, Tabreed is committed to playing a key role in the UAE's net zero emissions target by 2050. And as we have this year zero sustainability and UAE will host CUP 28, we have many initiatives that it will be announced in its right time it will be individually, and also it will be in coordination with CUP 28 Office and the Ministry of Climate Change and Environment.

I will now request to the operator to open lines for questions and answers.

Questions & Answers

Operator

Thank you. As a reminder, if you would like to ask a question, please type your question into the Q&A chat box at the top of your screen. Thank you. Our first question for today comes from Rakesh Tripathi. He has a few questions. Hi, team, thank you for the presentation and congratulations on a good set of results. Can you comment a bit on the EBITDA margin decline this year, relative to the past four years?

Salik Malik

Thank you, Rakesh. Thank you for your comments and compliments, thank you. With regard to the EBITDA margin decline, the main reason for the increase in revenues are customer volumes. And as you know, customer volumes has a thin margin when it comes to the EBITDA. And similarly, as I mentioned in my talking points, we have to undertake a winter maintenance program this year, so that has also resulted in the higher costsand which is just a one-off in Q1. Because of a long winter, we took this as an opportunity to fix a lot of our maintenance-related programs, and that is why that blip you will notice.

Operator
Thank you. They continue, also, are there any more M&A deals currently being worked upon? Do you still see opportunities to acquire good assets?

Salik Malik

Thank you again, Rakesh. With regard to the M&A deals, as we say, we are constantly looking for new opportunities both in UAE and across the GCC, and also into our new markets. As you know, we are a listed entity, so we will be announcing such deals as and when it is to be announced as part of the DFM and its regulations.

Operator
Thank you. And finally, on the debt structure, what percentage of debt is fixed versus floating?

Salik Malik
Currently, we have two debt capital market instruments which are coming with a fixed coupon, and the other corporate facility, the main corporate facility that we took in 2020 at the time of the Downtown acquisition is 100% hedged. So, I would say that almost 99.9% of our debt is hedged. There are a few smaller-sized project finance facilities, which is hedged around 60% to 75%, that is why that 1% variation is there. I hope this answers your query, Rakesh.

Operator
This concludes our Q&A. I'll now hand back to Kevin Hackett for any final remarks.

Kevin Hackett
Thank you, everybody. That concludes our Q1 2023 earnings call. Until next time, bye and stay safe.

Note: This transcript has been edited to improve readability

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