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

First Half 2018
Earnings Conference Call Transcript

2 August 2018

<u>Tabreed Participants:</u>

Jasim Husain Thabet, Chief Executive Officer
Stephen Ridlington, Chief Financial Officer
Saket Somani, Investor Relations

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Second Quarter 2018 earnings call. I will now hand over to Mr Saket Somani, Investor Relations. Sir, please go ahead.

Saket Somani

On behalf of Tabreed's management team, I welcome you all and thank you for joining us for the first half 2018 results conference call.

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 three of the presentation for today's agenda. Today's call will follow the usual pattern with Jasim, our CEO, providing an overview of the first half 2018 performance and key events. Following that, Steve, our CFO will discuss the financial performance in more detail. Jasim will then conclude the presentation and we will open the lines for your questions.

With that, I will now hand over to Jasim to begin today's presentation. Thank you and over to you Jasim.

Jasim Thabet

Thank you, Saket, and thank you everyone for joining us today. I would like to begin by highlighting our H1 2018 performance and providing a snapshot of recent events.

Overall, H1 2018 revenues grew 1.8% compared to H1 2017, with chilled water revenues increasing by 2.5%. The first half saw a robust growth in Tabreed EBITDA of 5.9% and as a result, we recorded EBITDA margins of 50% up from 48% for the same period last year. Connected capacity additions amounted to over 20,000 tons in the second quarter, most of that is attributed to the associates and joint ventures. We remain positive about the outlook for Tabreed and I am confident that we will deliver the recent announcement of 65,000 tons of new capacity additions over 2018 and 2019.

Turning to some other developments. In May 2018, IDB Infrastructure Fund acquired a significant stake in Saudi Tabreed, partly in the form of a subscription of new shares and partly through a purchase of existing shares from all current shareholders. As a result, Tabreed's holding in Saudi Tabreed decreased from 25% to 20%. The introduction of this fund as a strategic investor in Saudi Tabreed reaffirms its status as the number one provider of district cooling in the Kingdom and further strengthens our position to capitalise on new opportunities expected to arise in Saudi Arabia.

Moving to the next slide. Tabreed is the only publicly traded district cooling company in the world. The UAE is our base of operations where we have a presence in six Emirates providing

773,000 tons of cooling to our customers through our 63 plants. In addition to the UAE, we work with key strategic partners in four other GCC countries. We have a total of nine plants outside of the UAE providing over 341,000 tons of cooling to our customers. Around two-thirds of our capacity is consolidated, while the rest is equity accounted as associates and JVs.

The next slide outlines our capacity growth trends across the region. At the beginning of 2018, we announced that we expected to add at least 65,000 tons of new connected capacity during 2018 and 2019. During the second quarter of 2018, we added over 20,000 tons of capacity, mostly at our equity accounted entities. This takes our total capacity added during the first half of 2018 to over 21,500 tons. We remain confident of achieving our capacity guidance of 65,000 tons by the end of 2019, as all of this capacity is already fully contracted.

You may recall in the first quarter, we saw a shift of about 32,800 tons of capacity from UAE equity accounted line to UAE consolidated capacity, reflecting the acquisition of the 50% of S&T. 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 advantages of commercial opportunities as and when they present themselves.

If we can move to the next slide, which recaps the evolution of our performance over the past years. To summarise, Tabreed is a stable utility infrastructure business with long-term contracts with high profile customers. This provides us a clear visibility of our future earnings and cash flows. We currently have 90% of our capacity contracted for at least the next 10 years. Tabreed has a track record of delivering profitable growth. Our EBITDA has increased by 7% per year on average since 2015. We continue to generate strong cash flows and have a robust balance sheet for future growth.

I will now hand over to Steve to take us through the financial results in more detail.

Steve Ridlington
Thank you, Jasim, and good afternoon everybody, it is nice to talk to you again. Turning to slide 10, the income statement. I will just highlight a few of the key points for the first half of 2018.

As Jasim has already mentioned, we recorded 1.8% growth in revenues overall, with chilled water revenue growth at 2.5%. The main factors driving chilled water revenue growth were the acquisition of S&T Cool which added 1.7% and the impact of the CPI adjustment, which added a further 0.8%. Revenues at our value chain businesses declined by 10% in the first half.

The share of associates and joint ventures declined by AED 16 million in the first half, or 26% on a year earlier, mainly reflecting three things. The first is the impact of the new accounting standard, IFRS 15, which reduced the contribution from Qatar Cool by AED 8 million. A further AED 5 million reduction comes from Saudi Tabreed, reflecting slightly lower income and a lower Tabreed share in the associate. As Jasim has already mentioned, our share has declined from 25 to 20%. The final impact is from S&T moving from the joint venture line to be treated as fully consolidated.

Turning to finance costs, they were higher due to higher EIBOR and drawdown of our revolving credit facility to help fund the acquisition of S&T Cool. We expect to fully repay the revolving credit facility by the end of the year.

The AED 34 million contribution from other income mainly reflects the one-off gain of AED 32.6 million associated with the sale of a partial stake in Saudi Tabreed.

Overall, net income in the first half was AED 212 million, up 10% on the same period last year. EBITDA was AED 326 million, up 6%. EBITDA margins have increased from 48% in the first half of 2017 to 50% in the first half of 2018.

Turning to the next slide, the statement of financial position. Significant movements in the balance sheet as at 30th June 2018 compared to end 2017 were as follows. First, the increase in fixed assets primarily represents additions of AED 400 million on consolidation of S&T after acquisition of the 50% from Aldar. The decrease in associates and joint ventures reflects dividends received, the consolidation of S&T Cool, the partial disposal of Saudi Tabreed, and the IFRS 15 adjustment for Qatar Cool.

The increase in receivables reflects timing delays in collections, but we have seen a strong July with most of the overdue amounts collected. The reduction in equity and reserves is due to the 2017 dividend being paid in April this year, and the effect of implementation of IFRS 9 and IFRS 15. The increase in debt is mainly driven by the revolving credit facility drawdown of AED 275 million. As I have already mentioned, we expect to repay this by the year end. Gearing a was 42% at the end of the second quarter of 2018.

In summary, Tabreed's robust balance sheet positions us well for future growth opportunities.

Turning to the next slide, we will 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 was AED 281 million, relatively stable compared to the last year. Investment activities primarily reflect AED 252 million paid for the acquisition of S&T, offset by dividends received and proceeds from the partial disposal of Saudi Tabreed.

Financing outflows reflect the dividend and debt servicing payments offset by higher utilisation of revolving credit facility, as I have already mentioned. Our cash flow generating ability remains robust driven by long-term price sensitive contracts.

Let me now turn to the debt portfolio on slide 13. This provides the usual background on the debt portfolio. Key points to note are:

1. First, Tabreed has AED 3.3 billion of gross debt and a gearing ratio of approximately 42%.
2. Net debt and net debt to EBITDA have declined since 2016, as debt has been repaid and EBITDA has grown.
3. The debt maturity profile shows significant debt repayments in 2021 and 2027, which are the final maturity dates of our main corporate facilities.
4. Our debt is largely Dirham based and floating rate, though we hedge a significant part of the debt into fixed rates through plain vanilla interest rate swaps.
5. Our policy is to hedge between 50 and 75% of our debt, and the current hedge ratio is 57%.
6. Overall, we have a strong leverage profile and headroom available for funding future growth opportunities.

That completes the detailed review of our second quarter results, so let me now hand back to Jasim.

Jasim Thabet
Thank you, Steve. Before we open the lines for questions, let me make a few closing comments. First, we continue to deliver strong profitability and margins and robust cash flows. We have seen strong capacity additions in our equity accounted entities and we are confident of achieving our capacity guidance of adding 65,000 tons over 2018 and 2019. During the second quarter, we saw a partial disposal of our stake in Saudi Tabreed to accommodate a new strategic shareholder and registering a AED 33 million profit. Tabreed has a flexible capital structure to fund future growth. We will look at opportunities within and beyond the GCC and will provide you with updates as and when such opportunities materialise.

Today, Tabreed is stronger than ever than before. We have a stronger shareholder base and management team with significant industry experience. We are working on various fronts, from business development to operations to help drive the growth and improve the profitability of the company.

Overall, we remain cautiously optimistic about the rest of 2018, our core chilled water business provides stable, predictable revenues and profits, and we continue to see growth opportunities across the GCC.

Now, we can open the line for your questions.

Question and Answer Session

Operator
Our first question comes from Jonathan Milan from Waha Capital. Please go ahead.

Jonathan Milan
Good afternoon gentlemen and thank you very much for taking the time for the call. Are there further plans for expansions outside of the UAE, and potentially outside of, say, Saudi and Qatar and Oman, and perhaps direct expansions rather than through minority ownership? Are there plans for acquisitions within the UAE as well? Thank you.

Jasim Thabet
In terms of growth outside the UAE, historically our focus has been on the UAE and growth throughout the GCC. We are the number one district cooling provider in the GCC. Now we feel confident to look at opportunities outside the GCC. So, to answer your question in short - yes, we're exploring opportunities outside the GCC and when the time is right and we have contracts in place or about to sign contracts, we'll make the relevant disclosures and keep the analysts updated.

The second question was inorganic growth in the UAE. We have demonstrated that we can grow through acquisition – for example the acquisition of 50% of S&T that we completed earlier this year. We have an appetite to grow in the UAE and if the opportunities present themselves, we will follow through and execute them if it makes sense for us.

Jonathan Milan
Great and when it comes to acquisitions making sense, what's the target IRR, so what's the IRR that you would target or what is acceptable for you?

Jasim Thabet
Usually it is low double-digit.

Jonathan Milan
Okay and is there a cost optimisation plan for Tabreed currently to reduce some of the overhead cost? Is there room to cut some fat and optimise costs, operations?

Jasim Thabet
There is always room for optimisation and that's something we're always looking at to make us more cost-effective and competitive in the market. I'm not going to give you a number, but that's something we continuously look at in the company.

Operator
Our next question comes from Said Michel, CI Capital. Please go ahead.

Said Michel
I have the first question and I follow on Jonathan's question regarding any expected expansion. Do you have a target multiple do you use before getting any expansion aside the IRR you can get?

Steve Ridlington
We look at a range of factors and it depends on the nature of the project as to what is important, so we'll look at EBITDA multiples, return on equity, IRR, as Jasim has already mentioned. The IRR is the critical measure, but we do look at others as well. We don't have specific targets for anything else. We look at it in the round and assess on the basis of all of those different measures.

Said Michel
Another question regarding these 65 thousand RTs, which we had expected for 2018/2019, you had almost for now 20,000 and they have been connected, so the remaining, is there a specific timeline for the second half, for example, how it would be executed?

Steve Ridlington
No specific timeline. We've said 65,000 tons by the end of 2019. I think we indicated last time that there may be more of an emphasis towards the second half of this year and into 2019, so let's wait and see. It's very difficult to be precise on the timing of these real estate developments, but certainly by the end of 2019 we will have delivered the 65,000 tons.

Operator
Our next question comes from Jonathan Milan from Waha Capital. Please go ahead.

Jonathan Milan
Just one quick follow-up question. Are there any plans to sell the stake in the Qatari entity?

Jasim Thabet
There are no plans for us to sell our stake in our Qatari entity. The business is operating normally and it has its own management, and it is business as usual for us.

Jonathan Milan
And there are no issues, for example, receiving dividends from this entity, correct? I mean, I can still see dividend payments being received in the cash flow statement.

Jasim Thabet
There's no issues with our entity there.

Jonathan Milan
What I meant was receiving dividend payments from that entity, so if the entity wants to pay dividend in Qatari riyals. Obviously, in Qatari riyals, would there be an issue or anything with regards to transferring from Qatari riyals to U.S. dollars and back into Dirham?

Jasim Thabet
No, Jonathan, I am not aware of any restrictions on transferring money. The business fundamentals for that entity are strong and we have no issues. We are happy with the business.

Saket Somani
That concludes our Q2 2018 earnings call. Tabreed will be attending multiple investor events during the rest of the year and we look forward to interacting with you then. You can find the contact details on the last slide of the presentation. Should you have any further questions, please don't hesitate to contact us? Thank you once again for joining this call.

Note: This transcript has been edited to improve readability

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