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

Q2 2022
Earnings Conference Call Transcript

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Tabreed Participants:

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

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Q2 2022 Earnings Call. I now have the pleasure of handing over the call to your host, Ms. Weaam Elataya. Madam, please go ahead.

Weaam Elataya

On behalf of the Tabreed Management Team, I welcome you all and thank you for joining us for the H1 2022 results conference call. I hope you are 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 like to 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 of Finance. Adel will begin with the opening remarks and provide an overview for H1 2022 performance and key highlights. Following that, Salik will discuss the financial performance in more detail. Adel will then conclude the presentation and we will open the line for your questions. Thank you and over to you, Adel.

Adel Al Wahedi

Thank you, Weeam, and thank you, everyone, for joining us today. I would like to highlight our first half of this year's performance. Total revenue grew by 12.3%, led by chilled water business growth of more than 13%. During the same period, EBITDA growth was 13.7%, which resulted in an EBITDA margin of 60% for the period. Net profit during the year increased by 3% to AED 240 million.

During the first half, we added capacity of over 32 kRTs, including 18 kRTs with the acquisition of Al Mouj district cooling assets in Oman in January this year. As part of Tabreed's strategy is to focus on chilled water as core business, during the second quarter, it sold its stake in a value chain business subsidiary, equal to 70% of Ian Banham & Associates, which is a mechanical and electrical consulting firm, for AED 5 million. As a result of this transaction, our financials include loss of AED 900,000.

Moving to the next slide, please. 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 one of the largest district cooling providers in the region, and currently operate 86 plants across the region, delivering over 1.24 million tonnes of cooling.

Over the last 12 months, our operation saved 2.2 billion kilowatt hours of energy consumption, enough to power over 126,000 homes for a year, and equivalent to over 1.32 million tonnes of saved CO_2 emissions. Today's results announcement will demonstrate a brief sustainable and resilient financial performance. In addition, we believe the carbon emission savings generated through our district cooling services are an essential enabler to allow the region's governments to meet their sustainable targets for the future.

The next slide will summarise our connected capacity. During the first half of this year, we added capacity of 32 kRTs across our operation. Of the total added capacity, 18 KRT in Oman with an acquisition of Al Mouj district cooling assets in January this year, and approximately

14 kRTs were added in the UAE and the balance in Bahrain. As you will be aware, in Q4 last year, we also had a step-up acquisition of the remaining 50% stake in Al Wajeez cooling plant in Abu Dhabi at Al Maryah Island, which has resulted in movement of 64 kRTs of capacity from equity accounted to fully consolidated.

Moving to the next slide, which summarises recent corporate development. This slide recounts the evolution of our performance over recent years. To summarise, Tabreed is a stable utility infrastructure business with long-term contracts with the high-profile customers. This provides the clear visibility of future earnings and cash flows. We currently have approximately 85% of our current capacity contracted for at least the next ten years.

The current connected capacity is 1.24 million RT, which has grown at an average rate of 11% since 2019. About 70% of our revenues are derived from fully government owned and partially government owned organisations, therefore diversifying the customer profile. Group revenue has grown by 13%, mainly from the core chilled water business, which has shown an average growth rate of 14% since 2019. Tabreed has a track record of delivering profitable growth. EBITDA has increased at an average rate of 17% per annum since 2019.

Our profitability is in line with historical averages, and we are confident of maintaining the margin levels over the long-term. Tabreed's performance during the last two years of the COVID pandemic and negative TPI demonstrates the robust and resilient nature of our business and the returns we generate. And now I will hand over to Salik for a detailed discussion of our income statement.

Salik Malik

Thank you, Adel, and good afternoon, everyone. Let me start by highlighting the key points on our income statement for the first half of this year. As mentioned, total revenue grew by almost 13%, driven by the robust performance in chilled water, which recorded a growth of 14%, compared to the same period last year. Other key factors driving this increase in revenue are around 10% of this growth was contributed from the consolidation of Al Wajeez that we did last year.

And also, the impact of the Saadiyat Island DC acquisition, which we did in Q1 last year. Oman added another 1% through the acquisition of Al Mouj at the start of this year. We also had some small benefit from the positive CPI inflation and the finance lease adjustments. The decline in VCB business was primarily due to the sale of our stake in IBA.

EBITDA for the quarter grew by 14% to AED 589 million. The growth in EBITDA was primarily driven by consolidation of Al Wajeez, the full year impact of Saadiyat district cooling assets and acquisition of Al Mouj and other new connections made during the last twelve months

The EBITDA margins were consistent at 60%, in line with our historical margins for the same quarter. The increase in net finance costs is due to the consolidation of debt of Al Wajeez upon the step-of acquisition in Q4 last year. The share of results of equity accounted entities has reduced again to Al Wajeez's position where we are now consolidating and counting it as a subsidiary, versus the equity previously. Net profit for the period increased by 2.9% compared to the last year.

We now move on to the next slide. This slide shows a summarized version of the balance sheet as of 30th June 2022. The key moments during the first half of this year, movement in intangibles represents the deconsolidation of IBA on divestment and the amortization. Increase in trade receivables mainly represents seasonality impacts, offset by the deconsolidation of IBA receivables on divestment. DSOs are at historically low level as of end of June.

A change in derivatives represents the positive movement in MTM, because of the existing interest rate swaps, reflecting the current hikes in the interest rate. Share capital was increased by AED 69 million, representing the issuance of the bonus shares to the shareholders as part of the bonus dividend that we have declared. A reduction in the debt represents the scheduled repayments of our project finance facility.

Turning to the next slide, which will look into the Cash Flow Statement. Our cash flow performance during the period has been extremely robust. Strong cash flow from operations at AED 597 million and cash from operations before working capital changes is positive. And the negative variance in working capital is mainly due to 2021 higher collections. We would like to mention here that the CFO to EBITDA ratio for the first half of this year was over 100%.

In the first half of this year, there was no significant investment in capex or acquisitions. And in comparatives, it reflects the payment of acquisition of Saadiyat Islands district cooling assets. Financing activity represents the normal debt servicing, and the increase versus the last year is due to the consolidation of Al Wajeez post the step-up acquisition. It also includes the dividend payment of AED 166 million.

Overall, the first half of 2022 recorded strong and robust cash from operations, resulting in a healthy closing cash balance, close to AED 1.3 billion and our revolving credit facility remaining unutilized at AED 590 million.

This liquidity, combined with our flexible capital structure, positions the group well to fund any future growth. Let us now turn to the slide on debt portfolio. This slide provides the usual background on the Tabreed's debt portfolio. As of June 2022. Tabreed has a net debt of AED 6 billion, though the debt has increased, compared to the same period last year, it is due to the consolidation of Al Wajeez debt on step-up acquisition. With a closing cash balance of AED 1.3 billion, therefore the overall net debt is at AED 6 billion. The net debt to EBITDA ratio improved to 5.4 times in June, compared to six times in December last year. This demonstrates the fact that Tabreed naturally delivers, over time, due to the strong cash generating characteristics of our business model.

Both Moody's and Fitch reaffirmed their investment grade ratings, following the 2021 acquisitions. This completes the detailed review of our results for the first half of this year. Now I'll hand it back to Adel to take us through the conclusion. Over to you, Adel.

Adel Al Wahedi

Thanks, Salik. Tabreed is a highly sustainable business, delivering significant power efficiencies, compared to other cooling alternatives. Sustainability is at the core of Tabreed's operation. It reflects the Company's commitment to energy efficiency and to the environment, and to the sustainable, socio-economic development of the region.

Tabreed has set its own target to support energy consumption reduction and emission prevention through innovative technology solutions and environmentally friendly practices. Various environment friendly initiatives are part of Tabreed's operation, such as 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 regulations of trade effluent.

All the above initiatives have saved over 2.21 billion kilowatt hours of energy consumption. As we said, enough to power around 126,000 homes for a year and equivalent to reducing around 1.32 million tonnes of CO2 emissions. Recently, we have just published, for the second year, our ESG report, and this is also demonstrating also our focus going forward in the ESG concept overall.

Moving to the next slide. As a stable utility business model, Tabreed continues to deliver a strong financial and operating performance, with rising profitability and consistent margins. We continue to work on various fronts, from business development to operations, to help drive further growth, whilst protecting and improving the shareholders' value.

Tabreed has solid corporate governance and market leading transparency, demonstrated by a non-executive board composition. The second party opinion in our green financing framework confirms the positive environmental impact of our core district cooling operations. Our partnership with IFC for expansion in India is experiencing some momentum, and we are confident of receiving new contracts in the near term.

I would like to reiterate that a big performance during the last two years of the COVID pandemic and challenging business conditions, demonstrate the robust and resilient nature of our business. Thank you all for joining us, and I will now hand back to and to Weeam to open the Q&A line.

Weaam Elataya

Thank you, Adel. That concludes our results presentation. I will now request the operator to open the lines for Q&A.

Questions & Answers

Operator

Thank you. If you would like to ask a question today, please press star, followed by the number one, on your telephone keypad. If you have joined online, please use the Q&A chat box function provided. If you choose to withdraw your question, please press star, followed by two. When preparing to ask your question, please ensure your phone is unmuted locally.

Our first question comes through on the chat box from Thomas Mathew Kamco Invest.

Thanks for the call and taking my questions. I have a few. One, for capacity, post the 120 KRT that gets added over 2022 and 2023. What amount of capacity is left from total concession capacity across projects to be connected? The second question, how is the market looking for new signings and acquisitions within the UAE? The third question. For the Saudi consortium-led project, how should we look at pricing and margins? Thank you.

Salik Malik

Good afternoon. Thanks, Thomas, for your multiple questions. I'll break down these three questions. For first one, the capacity guidance that we have guided, we are still confident of achieving that 120,000 RT spread across 2022 this year and later. So, so far, as you are aware, we have already connected 32,000 RT and we are confident to meet that 120,000 RT targets.

But the question regarding the remaining concession. As you are aware, and it's already in the public knowledge, Thomas, we have acquired recently a lot of concessions as well, including our existing concessions in Raha Beach and Yas Island. The concessions in downtown DCP, we still have 100,000 RT to be connected. And then the Saadiyat, which is still, only 50% has been connected and there is remaining. So, overall, I would say there is still a quarter of a million tonnes to be connected, and we expect that to be happening in the near future. So, we are quite confident to meet that, especially with this current economic boom within UAE, based on the higher oil prices, we are quite confident of achieving it. I hope that I've answered for you that question. And now how's the market looking for new signings and acquisitions?

As you have seen, in the last two years, we have done quite a few brownfield acquisitions. And we continue to see that there is still an appetite in the market, especially the real estate developers, are quite keen to incentivize themselves and to get these district cooling businesses, which they are having those captive assets to be divested from the core segments, that can earn more return. So, we are quite confident and we expect to sign few more, before it saturates. So, that's our expectation, and we are quite buoyant on that front.

With regard to the Saudi-led consortium, your third question. As we said last time, we are participating in this project, in this giga project, as an equity investor led by ACWA Consortium, and we will be getting the dividends as part of that. It's a completely different model. It's a mega utility projects, not just the district cooling. So, what we are expecting is that it will be a dividend starting in two years from now or three years. As soon as the project is complete and the profit is able to be generated from that. That answers all your questions, Thomas.

Operator

Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question today, please press star, followed by one on your telephone keypad. And if you have joined online, please use the Q&A chat box function provided. There will be a slight pause while we wait for questions to come through.

We have a question on the chat box. Can you describe your debt financing and refinancing plans for the next couple of years? Thank you.

Salik Malik

Thank you for your question. So, the debt financing, currently we have a debt, which is maturing only in 2025 first quarter. So, there is room for us to plan for the next refinancing that is due, which is in Q1 2025. That is basically the financing that we did in 2020 for the acquisition of downtown district cooling. And with regard to the raising interest rates as well, because all these corporate debt, almost 99% is hedged at a historically low levels. So, the raising financing cost is not a threat for us. We are quite confident as we have hedged . Refinancing, we will be looking into it next year or later for the RCF facility that we have.

Operator

Thank you We currently have no further questions, so I'll hand the call back over to Weeam for any closing remarks.

Weaam Elataya

That concludes our H1 2022 earnings call. We look 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 this call.

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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