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

Q3 2022
Earnings Conference Call Transcript

15 November 2022

Tabreed Participants:

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

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Q3 2022 Earnings Call. I now have the pleasure of handing over the call to your host, Mr. Kevin Hackett. Sir, please go ahead.

Kevin Hackett

On behalf of Tabreed's management team, I welcome you all, and thank you for joining us for the Q3 2022 results conference call. I hope everybody's keeping well and healthy. Before we begin our presentation, I'd 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 now request that you turn to slide three for today's agenda.

On today's call we have with us Adel Salem Al Wahedi, our chief financial officer, and Salik Malik, our vice president of finance. Adel will begin with the opening remarks and provide an overview for the Q3 2022 performance and key highlights. Following that, Salik will discuss the financial performance in more detail, and Adel will then conclude the presentation and we'll open up the lines for your questions. Thank you, and over to you, Adel.

Adel Al Wahedi

Thank you, Kevin, and thank you, everyone, for joining us today. I would like to highlight our Q3 2022 performance. Total revenue grew by 15%, led by the chilled water business growth of 14%. During the same period, EBITDA growth was 18%, resulting in an EBITDA margin of 55% for the period. Net profit during the year increased by 3%, to AED 400 million. In September this year, the shareholders voted to amend article 7 of the company's Articles of Association for 100% foreign ownership.

Tabreed Egypt, our new entity in Egypt, has signed a contract with a developer called Egyptians for Healthcare Services, EHCS, for their new smart medical city project called Capital Med. Tabreed will construct and operate this new sustainable energy plant, which is designed to meet the cooling and heating demands. It is a project with 19.5 kRT of cooling in phase one, with a total concession of 30 kRT for the entire development. It also includes 12 megawatts of space heating, thus providing a full end-to-end term solution. Tabreed published its second environmental social governance, ESG, report, offering greater insight into the company's activities and accomplishments, following our first report in 2021. Tabreed is committed to playing a key role in UAE's target towards net zero emissions by 2050.

Moving 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 one of the largest sustainable cooling providers in the region, and currently operate 86 plants across the region, delivering over 1.25 million tons of cooling.

Over the last 12 months, our operations saved approximately 2.3 billion kWh of energy consumption, enough to power over 128,000 homes for a year, and equivalent to save over 1.35 million tons of CO_2 emissions. Today's results announcement will demonstrate Tabreed's sustainable and resilient financial performance. In addition, we believe the carbon emissions savings generated through our sustainable cooling services are an essential enabler to allow the region's governments to meet their sustainability targets for the future.

Going to the next slide, during Q3 of this year, we added capacity of 17 kRT, and a total of 48 kRT during the first nine months of this year. It was achieved through organic and inorganic growth. We remain committed to achieve our guided target, 120 kRT, by the end of 2023. As you would be aware in the last quarter of last year, we also had the step-up acquisitions of the remaining 50% stake in Al Wajeez's cooling plant in Abu Dhabi, which has resulted in movement of 64 kRT of capacity from equity accounted to fully consolidated.

Moving to the next slide, this slide recaps the evolution of our performance over recent years. To summarize, Tabreed is a stable utility infrastructure business, with long-term contracts with high-profile customers. This provides the clear visibility of future earnings and cash flows. We currently have approximately 81% of our current capacity contracted for at least the next ten years.

The current connected capacity is 1.25 million RT, which has grown at an average rate of 9% since 2019. About two-thirds of our revenues are derived from fully government-owned and partially government-owned organizations, which represents a strong credit profile of our customer base. Group revenue has grown by 13%, mainly from the core chilled water business, which has shown an average growth rate of 13% 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. With the robust and resilient nature of our business, Tabreed has demonstrated its nimbleness in facing any organic challenges, and we are confident and ready to overcome the same in the future. I will now 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 nine months of 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. Other key factors driving this increase are 8% growth which was contributed by consolidation of Al Wajeez, and incremental impact of full-quarter for Saadiyat District Cooling and in consolidation which we did in Q1 last year. Oman consolidation added another 2% with the acquisition of Al Mouj. We also had some small benefits from positive CPI and the finance lease adjustment.

EBITDA grew by 18% year on year, to 912 million. The growth in EBITDA was primarily driven by consolidation of Al Wajeez District Cooling assets, full-quarter impact of Saadiyat District Cooling assets, and the growth achieved during this year. EBITDA margins were at 55%, slightly higher than our historical margins compared to the same period last year.

Increase in net finance cost is due to consolidation of debt on Al Wajeez step-up acquisition last year. Share of results in equity accounted entities has reduced, again due to the consolidation of Al Wajeez upon the step-up acquisition. We have changed methods to subsidiary instead of the equity method. Net profit for the period increased by 3% compared to the last year.

We'll now look into the statement of financial position on the next slide. This shows the summarized version of the balance sheet as of 30th September 2022. The key moments in the nine months are as follows. Movement in intangibles is due to deconsolidation of IBA on investment disposal and amortization for the period. Increase in trade receivables mainly represents the seasonality impact offered by the consolidation of IBA receivables on investment disposal. As you will be aware, during early Q2 we issued bonus shares to cover the 50% dividend. Reduction in debt represents a scheduled repayments of project finance facilities.

We now come onto the cash flow statement. Our cash flow performance during the period has been extremely robust. Strong cash flow from operations of 866 million, slightly better than the last year for the same period before working capital adjustments. Our cash flow from operations to EBITDA ratio for Q3 was over 95%. As of Q3, there is no significant investment in CAPEX or acquisitions, however the comparative for last year represents CAPEX payments of 952 million made towards the acquisition of Saadiyat District Cooling assets net of sales proceeds from the Qatar Cool disposal.

Financing activity represents a normal debt servicing and the increases versus last year is due to consolidation of Al Wajeez post-set-up acquisition. It also includes dividend payments of 156 million. Overall the nine months, we recorded strong and robust cash from operations and resulting in a healthy closing cash balance of close to 1.5 billion. And our revolving credit facility of 590 million remains fully unutilised. This liquidity, combined with our flexible capital structure, positions the group well to fund future growth.

Now, we turn to the debt portfolio and return ratios. Tabreed's debt portfolio as of September 2022 is as follows. Tabreed had a net debt of AED 5.8 billion. Though the gross debt has increased, due to consolidation of net debt, debt has reduced overall due to higher cash balance. The are two facilities maturing in 2025, which are a corporate loan in H1 2025, and a sukuk in second of that year. The facility maturing is with an initial tenure of five years and has 100% bullet at maturity. This facility allows us penalty-free prepayments, allowing Tabreed to manage refinancing risk over the life of the facility. Our intention is to refinance the term loan before the sukuk repayment.

Net debt to EBITDA ratio improved, five times in September compared to six times in December 2021. As you will note, Tabreed naturally delivers over time, due to the strong cash-generating character of our business model and maintaining the investment-grade status is our goal. Following the 2021 acquisition, both Moody's and Fitch reaffirmed the investment-grade ratings, with Moody's at BAA3 and Fitch at BBB improved [from negative outlook to stable outlook]. This completes the detailed review of our results from Q3 2022. Now, I will hand it back to Adel to take you through the conclusion.

Adel Al Wahedi

Thank you, Salik. Tabreed is a highly sustainable business, delivering significant power efficiencies compared to other cooling alternatives. Sustainability is at the core of Tabreed's operations. It reflects the company's commitment to energy efficiency and to the environment, and to the sustainable socioeconomic development of the region.

Tabreed has set its own targets to support energy consumption reduction and emissions prevention through innovative technology solutions and environmentally friendly practices. Varies environmental-friendly initiatives are part of Tabreed's operations, such as use of treatment sewage effluent, emission monitoring, thermal energy storage, use of seawater, management of hazardous waste and compliance with the framework of the regulation of trade effluent.

All the above initiatives have saved over 2.26 billion kWh of energy consumption, enough to power around 128,000 homes for a year, and equivalent to reducing around 1.3 million tons of CO2 emissions, as discussed or explained earlier today.

Next slide. As a stable utility business model, Tabreed continues to deliver strong financial and operating performance with rising profitability and consistent margins. Also, we continue to work on various fronts, from business development to operations, to help drive further growth whilst protecting and improving the shareholder's value. Tabreed has solid corporate governance and market-leading transparency, demonstrated by a non-executive board composition. The second-party opinion on our green financing framework confirms a positive environmental impact of our core sustainable cooling operations. During the year, we added capacity of 48 kRT through organic and inorganic growth and will move forward to achieve the guided target of 120 kRT growth by the end of 2023.

Tabreed, further, is expanding in the Egyptian market through our second project, Capital Med. I would like to reiterate that the robust and resilient nature of Tabreed's business, as well as the returns, Tabreed has demonstrated its agile proactiveness in facing any economic challenges. And we are confident and ready to deliver the same or even better in the future. Thank you for joining us today. And I will now hand back to Kevin to open the Q&A line.

Questions & Answers

Operator

Thank you. As a reminder, if you would like to register an audio question, please press star followed by one on your telephone keypad. If you change your mind, please press star followed by two. And those of you connecting online, you can type your question into the Q&A chat box. We've had a question sent in to us asking, thanks for taking my questions and congrats on a great set of numbers. Firstly, my first question is on the 15K RT added in Q3 in the UAE. Which concession is this additional for?

Salik Malik

Thank you very much for this question. Thomas, I appreciate you opened the lines and your question. So then, the question, 15 kRTs expected, 17 kRTs that we added in Q3, and it's basically in our existing concession areas, which is spread across Abu Dhabi and Dubai, Raha Beach and downtown DCP.

Operator

And secondly asking, can we safely assume that you would sign a greenfield concession in India via your partnership with IFC in 2023, what would be the average ticket size of the opportunities in India?

Adel Al Wahedi

Adel again, here. We are exploring the opportunities in Indian market and we cannot mention anything now, and once we reach a level that we can share anything with the market, we will do so.

Operator

And then thirdly, is there any update on acquisition opportunities of DC assets in the UAE which RE developers and operators are offloading?

Adel Al Wahedi

As you can understand, we are always to the market to make business. We are into the dialogue with the different potential clients or investors, or even developers. And this is always happening, is the case. And again, once we reach a state that we can announce something to the market, we will do so.

Operator

The next question says can you please discuss briefly, regarding near-term inorganic growth plans? Also, can you please talk about any near to medium-term plans to approach debt capital markets for another issuance?

Salik Malik

Thank you, Rakesh for this question. As Adel mentioned in his previous answer, as and when we come close to the signing of any brownfield acquisitions, we will definitely inform the market and accordingly to the press as well. When it comes to the debt capital markets, approaching, today we are having we are, as I said in my cash flow presentation, we are in a position to fund organically the cash from the internal funds, and then, later on, we will take it to the debt capital markets. Hope this answers your query.

Operator

Our next question says, thank you for the great presentation. My question is is there any update on the acquisition of Majid Al Futtaim assets?

Adel Al Wahedi

As you can understand, we are a listed company, so we cannot talk about anything that is not something really reached to final stage or any conclusion of it. Though, we still are continuing to approach any prospects in the market, like any other players. Thank you.

Operator

Our next question says, does the management plan to increase the dividends?

Adel Al Wahedi

As you can understand, this is the shareholder's decision, and that decision always depends on so many factors, about the liquidity, about the growth plans, about so many things. And we cannot stipulate anything as of now shall I know that the next call that we will be in a position to share the announcement of the decision at that time.

Operator

As a reminder, for any further questions, that's star followed by one on your telephone keypad, or you can type your questions if you're connecting online, via the Q&A chat box. We have no further questions, so I'll hand back for any closing remarks.

Kevin Hackett

Thank you, everyone. That concludes our Q3 2022 earnings call. We look forward to interacting with you at our earnings conference calls and investor conferences, and should you have any further questions, please don't hesitate to contact us. Have a great day. Thank you once again for joining the 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

For further information, please contact:

Rajiv Pandya
Investor Relations
Email: Tabreed@churchgatepartners.com

Salik Malik
Vice President, Finance
Tel: +971 2202 0397
Email: smalik@tabreed.ae

Riyad Hammad
Head of Treasury and IR
Tel: +971 2202 0367
Email: rhammad@tabreed.ae