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

Q4 and Full Year 2020
Earnings Conference Call Transcript

15 February 2021

Tabreed Participants:

Bader Al Lamki, Chief Executive Officer
Adel Salem Al Wahedi, Chief Financial Officer
Souad Jamal AlSerkal, Vice President – Strategic Communications

Presentation

Operator

Ladies and gentlemen, welcome to Tabreed's Fourth Quarter 2020 Earnings Call. I hand over the call to your host, Ms. Souad Jamal Al Serkal, Vice President, Strategic Communications. Madam, please go ahead.

Souad Al Serkal

Salaam Alaikum and hello to you all. This is Souad Jamal Al Serkal, the Vice President of Strategic Communications at Tabreed. On behalf of Tabreed management team I would welcome you all and thank you for joining us for the full year 2020 results conference call. I hope you are all keeping safe and healthy.

Given we are all working remotely, kindly excuse us for any technical issues on the 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 two of the presentation for the detailed disclaimer.

I would now request you to turn to slide number three for today's agenda. On today's call we have with us Mr. Bader Al Lamki, Chief Executive Officer, and Mr. Adel Al Wahedi, Chief Financial Officer. Bader will first provide an overview of the full year 2020 performance and key events. Following that, Adel will discuss the financial performance in more detail. Bader will then conclude the presentation and we will open the lines for your questions. Thank you, and over to you, Bader.

Bader Al Lamki

Thank you, Souad. Thank you everyone for joining us. Good morning or good afternoon from wherever you're calling in to this call. I would like to begin by providing an overview of the year. 2020 was a very challenging year for everyone, with unprecedented impact of the pandemic and all the changes that has brought to our lives. I am pleased to say that Tabreed has responded well to these difficult times and has provided uninterrupted service to all its customers throughout. We have many thousands of customers and we cool many of the region's most iconic landmarks.

Tabreed contributes positively to the region's growth through our 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 delivering about 1.4 million tons of cooling across the GCC. Our operations have saved over 2.26 billion kilowatt hours of energy consumption in 2020, enough to power over 128,000 houses for a year. An equivalent of reducing over 1.3 million tons of CO_2 emissions.

Moving on to the next slide, 2020 was an exceptional year for us. During the year we have not only recorded our strongest period of growth in our history, but we also developed a strong platform for future growth opportunities. The acquisition of Downtown District Cooling Concession from Emaar has provided a template for similar transactions and has also demonstrated our ability to seamlessly integrate such acquisition, even in the most difficult working environment of pandemic lockdown.

Our performance during the period is a testament to our resilient business model. We have provided uninterrupted service to all our customers and we have delivered both organic and inorganic growth. Today, Tabreed is stronger than ever before. We have a strong shareholders base and a management team with significant industry experience. We are working on various fronts from business developments to operation to help drive growth and improve our profitability.

Moving on to the next slide, Tabreed has delivered increasing growth in the recent years, averaging 9% capacity addition per annum since 2017. 2020 capacity grew at 19% compared to 2019, primarily driven by the acquisition of Downtown DCP, but organic growth also grew by 3%, an exceptional performance, given the impact of COVID-19.

We also saw consumption revenue increase by over 17% during the year. Tabreed's long term and price certain contracts enhance the revenue and earnings visibility of the Company. In addition, we also focus hard on efficiency and cost control. We have a number of projects in place to improve the efficiency of our operation and we have a number of research and development projects designed to further improve our efficiency going forward. 2020 has seen our EBITDA margin increase to 56%, partly driven by the Downtown acquisition and partly by the short term changes in capacity and consumption mix due to COVID.

Moving on to the next slide please. During the year we announced three acquisitions, all are strategic and important. Masdar was announced early on in the year and has achieved financial close later in the year. In addition to adding new capacities of growth, it also provided opportunity for important research and development. Masdar City is an important development, showcasing our broadest commitment to sustainability and district cooling as an essential element of the master plan.

The acquisition of Masdar district cooling concession added 9,500 RTs of new capacities, with a potential to maximal concession size of 69,000 RTs. As part of the acquisition, Tabreed gains access to geothermal wells. These provide an exciting opportunity to provide highly efficient and highly sustainable cooling solutions. Tabreed is currently conducting research to assess the feasibility of this solution.

Moving on to the next slide, the Downtown DCP acquisition in April 2020 was Tabreed's most significant M&A transaction in its history. The Downtown DCP concession is one of the most prestigious district cooling concessions in the world, serving the world's tallest building, the Burj Khalifa, as well as Dubai Mall, Dubai Opera House, among others.

This acquisition is a landmark transaction for Tabreed, taking us from number four market share in Dubai to number two. Furthermore, the transaction took Tabreed into a long-term partnership with Emaar, with a potential for future growth. We successfully integrated the Downtown concession into our operation during the height of pandemic with no issues arising, demonstrating our commitment to operational excellence.

Moving on to the next slide, please. The most recent acquisition Tabreed announced in Abu Dhabi, the acquisition of two concessions on Saadiyat Island from Aldar further strengthens our position in Abu Dhabi and further reflects the trust and confidence our customers place in Tabreed. The acquisition will allow Tabreed to provide cooling to some of Abu Dhabi's most prestigious developments, including the Louvre Abu Dhabi, New York University, a number of hotels on Saadiyat beach, the Sheikh Zayed Museum and the Guggenheim Museum, both are coming up soon.

Aldar had been a partner and a customer of Tabreed for many years, and the sale of this concession cooling such prestigious assets reflects the quality of service we have always provided to them and the long-term partnership we have created. These three M&A transactions added a total concession capacity of over 390,000 RTs. We believe that there is more opportunities for both organic and inorganic growth opportunities in the future.

Turning to slide 11. As you are aware, the acquisition of Dubai Downtown was financed through the corporate facility for an amount of US $692 million, with a tenor of five years and 100% bullet repayment at maturity in 2025. This facility was successfully syndicated to a group of nine local and international banks during the second quarter of the year. This created both conventional and Islamic tranches. Despite the extremely challenging economic climate at that time, the syndication crystallised in lowest cost corporate facility in Tabreed's history.

This unprecedented low interest market has allowed us to fix almost all of our interest costs at historic low levels. We also raised a US $500 million bond, issued for seven years and 2.5% interest in October 2020. This issue was almost five times oversubscribed, reflecting the demand for Tabreed's credit. Furthermore, over 90% of the investors were from outside the EMEA region, reflecting the international reputation Tabreed has developed in recent years. Both Moody's and Fitch reaffirmed their investment grade rating to Tabreed following the Downtown acquisition and the bond issue.

Moving on to slide 12. This slide outlines our capacity growth trend across the region. At the beginning of 2020 we announced that we are expecting to add at least 75,000 RTs of new connection capacity by the end of 2021. Excluding M&A growth, during 2020 we've added 40,000 RTs of capacity across the region in addition to the Downtown DCP acquisition and Saadiyat. Of this capacity, around two-third was consolidated and the balance was through joint ventures and associated entities.

Based on the current signed contracts in hand, we expect to connect 120,000 RTs of capacity over 2021 and 2022. Of this we expect the split between consolidated level and equity, accounted joint venture, to be 80:20. Tabreed has always delivered on its forward-looking market guidance, and we continue to demonstrate our ability to deliver a steady increase in contracted capacity. I will now hand over to Adel, our CFO, to take us through some more financial highlights.

Adel Al Wahedi

Thank you, Bader, and thank you everyone for joining us today. I would like to begin by highlighting our full year 2020 performance. Chilled water business grew by 15.8% and total revenue grew by 14.5%. EBITDA for the year grew by 27%, and as a result our EBITDA margin expanded from 50% in 2019 to 56% in 2020. Net profit grew by 16.5%, with a margin of 32%. Total capacity additions during the year were over 220,000 RT, including the Downtown DCP acquisition. We guided growth of 75,000 RT of new capacity over 2020 and 2021. And on an organic basis connected 40,000 RT during 2020, achieving over 50% of the target during the year.

I would like to outline our revised capacity guidance for the next two years based on current signed contracts in hand. We expect to connect at least 120,000 RT of new capacity over 2021 and 2022. This guidance updates and replaces the guidance we gave a year ago. Finally, as per our policy of growing dividend in line with the growth in business, the board has proposed a total shareholder payout of 11.5 fils, to be paid through a cash dividend of 5.75 fils per share and a bonus share issued at 2.22% or one share for every 45 shares held. In value terms this is approximately 10% up to 2019 and reflects the board's determination to return value to shareholders.

Moving on to the next slide. This slide recaps the evolution of our performance over the year. To summarise, Tabreed is a stable utility infrastructure business with long term contracts with high profile customers. This provides us clear visibility of future earnings and cash flows, and we currently have over 90% of our capacity contracted for at least the next ten years. About 80% of our revenues are derived from fully and partially government owned organisations, and therefore limiting counterparty risks.

Tabreed has a track record of delivering profitable growth. This again has increased by 16% per year since 2017. Our acquisition of Downtown cooling assets and the concession agreement with Emaar Group is a significant step toward penetrating the largest district cooling market in the world. I would like to reiterate that without the resilience of this model of Tabreed which is evident from our performance throughout 2020 despite the prevailing turbulent times.

So on to the financial slide, section three. Let me start by highlighting the key points on our income statement for 2020. Chilled water revenue recorded a growth of 15.8 during that period, key factors driving the movement. Downtown DCP 18%. New capacity additions 5%. Offset to a certain extent by an increase in finance lease amortisation and lower consumption due to pandemic.

Total revenue grew by 14.5%, primarily driven by chilled water business. Value chain business accounted for 3% of consolidated revenues and less than 1% of EBITDA. APD is a non-core business but continues to be profitable. EBITDA for 2020 grew by 27%, which is in line with our earlier discussion that Downtown margins are better. EBITDA margins for the period were 56% compared to 50% in the same period last year.

This margin enhancement was primarily driven by Downtown consolidation, partly offset on account of higher operating costs and administrative expenses. Finance costs for the period were higher due to the Downtown acquisition, however we were able to get lower rates compared to last year, resulting in some benefit.

Share of associates and JVs were lower due to subdued performance of some of our equity accounted entities, offset to a certain extent due to cost saving initiatives at some of the entities. Net income increased by 16.5%, and margins improved to 32% compared to 31% last year. We will now look at the statement of financial position on the next slide.

Significant movement in the balance sheet as at December 31st, 2020, compared to the end of 2019 were attributable to Downtown consolidation. 2.5% non-convertible bond of $500 million was issued with a maturity of seven years. The proceeds were used to acquire Saadiyat Island assets and refinance an existing term loan. Balance to be utilised for potential acquisition in 2021. Increase in receivables was primarily due to the short-term timing delays in collections from some customers.

Turning to the next slide, we will now take a look at the cash flow statement. Our cash flow from operations declined due to delay in receivables collection, as highlighted in the previous slide. We are aware of the challenges faced by our customers due to COVID-19, however we have long standing relationships with them and are working closely to accelerate collections. We have a very strong relationship which exists with our customers. Tabreed is an exclusive provider of cooling to them and we have continued providing our services to them over the years without any dispute. Historically they have always paid in full and we anticipate receivables to normalise soon. Our cash generating ability remains robust, driven by long term price certain contracts and enabling investment in growth. Let me now turn to the slide on the debt portfolio.

This slide provides the usual background on Tabreed's debt portfolio as of December 2020. Tabreed has 5.4 billion of net debt at a gearing ratio of 53%. We are confident that our ability to generate strong cash flows will enable us to manage the leverage profile and bring it back in line with the guidance provided by the rating agencies within 18 months. That concludes the detailed review of our results for 2020. I will now pass back to Mr. Bader for the closing comments.

Bader Al Lamki

Thank you, Adel. Before we open the lines for Q&A, let me make a few closing comments. As a stable utility-like business, Tabreed continues to deliver strong financial and operating performance, with rising profitability and stable margins. 2020 was a landmark year for growth, and we added over 180,000 RTs of capacity through acquisition. All these acquisitions have additional concession capacity which we hope and plan to connect in the future.

We continue to work on various fronts, from business development and operations to help drive growth and improve profitability. We remain committed to generate sustainable returns for our shareholders through providing environmentally friendly cooling solutions. That concludes our result presentation. Thank you for joining us, and I will now hand back to Souad and open for questions. Thank you.

Questions & Answers

Operator

Our first question comes from Zafar Nazim from JP Morgan. Zafar, your line is now open, please go ahead.

Zafar Nazim

Yes, thanks very much for the call. Very helpful. I had a question about your balance sheet and your leverage ratio. As you know, on the back of the acquisitions that you made this year your leverage ratio has increased quite significantly, to almost 5.2- 5.3 times. And it seems that there are other potential opportunities out there which can come around this year for further acquisitions. So I was wondering, what is your threshold? What is the max that you can potentially go to in terms of leveraging the balance sheet? And what is your comfort leverage level? You may increase the leverage I guess for the short term and bring it down. So what's your comfort level and what's the maximum you can go to? And also at what point would you consider issuing equity to partially or fully fund any acquisition? What leverage would make you think about issuing equity?

Adel Al Wahedi

Thank you, Zafar. Our threshold, is to maintain the investment grade rating provided by the rating agencies. This is the main guidance, and according to that we will pursue what our shareholders are ready to support for debt growth through different options. And as I said at the beginning, through maintaining the investment grade of the rating agencies. Whether it is an equity or other types of funding, this is everything which will be studied very well, based on the developments and the progress based on that.

Zafar Nazim

Okay, got it. Thank you very much.

Operator

Thank you very much, Zafar. Our next question comes from Thomas Mathew from Kamco Invest. Thomas, your line is open, please go ahead.

Thomas Matthew

Hi. Thanks for taking my questions. I had a couple of questions. One was in terms of your guidance for 2021 and 2022 in terms of connecting 120k RTs. I was just wondering, what is the backdrop for the upgrade from let's say 75k in 2020 and 2021 that you've announced in the prior year? If you could give some sort of a break up in terms of how you're approaching this number. Also in terms of any sort of M&A acquisitions, I just wanted to know what strategy you would be looking at? Would you be open to it and what are the criteria that you're looking for to see this being practified?

My next question is in terms of dividends. I was just wondering if you could give some sort of guidance in terms of dividends for 2021 and 2022. Do we assume that it would be, especially on the cash building side, would it be more in line with what has been announced for 2020? And my third question would be in terms of the strategic rationale behind the sale of QatarCool and what's the thinking behind that as well. Thanks for taking my questions.

Adel Al Wahedi

For the first question, regarding the guidance of the growth of the capacity and the RTs, that guidance is through the organic growth and the acquisitions. The related part of this question also, our strategy pursuing the growth. That organic growth is normal wherever we have our footprint. Outside of that we will continue to connect available capacity through current plans or even additional plans.

When it comes to the acquisitions or inorganic part, this depends on every opportunity, every prospect. It will be studied very well, location wise how we can add value to that market and to our stakeholders whether shareholders, lenders, clients etc. This is the strategy about our acquisitions.

The second question was about the dividend for this year and coming year. Tabreed always wants to grow the value to our shareholders and stakeholders as well. It has to be a win-win situation for all. That will be decided at every year and based on the situation or the status for that year, considering any growth prospects we have pursued. It is a balance between our commitment to retain value for shareholders and considering M&A growth. Like you know it was recommended yesterday by our board to the shareholders for the AGA meeting it is 50/50 between the cash dividend and the bonus shares.

About your third question, about QatarCool. QatarCool we have had some discussions with the other stakeholders, shareholders regarding our QatarCool investment. It is possible that these discussions will lead to an exit transaction in next twelve months, therefore we are obliged to disclose the investment as for sale, according to the IFRS treatments. There are no terms or details available to discuss at this time. We will inform the DFM and investors at the appropriate time if any transaction is maturing.

Thomas Matthew

All right. Thank you.

Operator

Thank you very much, Thomas. We currently have no further questions, so I will now hand back to Souad and the management team for closing comments.

Souad Al Serkal

Thank you very much. So this concludes our end of year earnings call. Tabreed looks forward to interacting with you all at our earnings and conference calls and investor conferences. Should you have any further questions, please do not hesitate to contact us. Have a great day and thank you once again for joining this call, and stay safe.

Note: This transcript has been edited to improve readability

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