

**KIPCO's Q1 2018 earnings conference call  
May 17, 2018**

Zeina Nasreddin: Good afternoon everyone, and thank you for joining us today. This is Zeina Nasreddin, and on behalf of Arqaam Capital, I am pleased to welcome you to KIPCO's first quarter 2018 earnings conference call. I have here with me today Pinak Maitra, Group Chief Financial Officer, Mazen Hawwa, Group Senior Vice President of Finance and Operations, and Anuj Rohtagi, Director of Group Financial Control. Without any further delay, I will now turn the call over to Pinak.

Pinak Maitra: Thank you, Zeina. Good afternoon everyone, and thank you for joining us on this investor/analyst call. Ramadan Kareem to everyone. We are mindful that this is the first day of Ramadan so we will try to keep it to a decent clip. Before we start, I would like to read out a brief disclaimer. Some of the statements that will be made today will be forward looking. Such statements are based on KIPCO's current expectations, predictions, and estimates. They're not guarantees of future performance, achievements, or results. I would also like to refer you to our full disclaimer on page two of the presentation.

With that, I would like to turn over to page four of the booklet for all those who have it. I would like to begin with an update first on consolidated group results. As you would note, revenues are up 12.8% to 570 million dollars, and our net profits are up by close to 11% to 19 million dollars. On an EPS basis, it turns out to 0.5 cents per share. This is a decent start for us this year, slightly better than what we had expected, and it provides a positive outlook for the year.

KIPCO is one of the largest holding companies in the Middle East and North Africa with consolidated assets of 33 billion dollars approximately at the end of Quarter 1 2018. The group has significant ownership interests and a portfolio of more than 60 companies, operating across 24 countries. On page four, you will see that the group generated the revenue of 570 million dollars, and with that, I will ask you to move to page five, which refers to Burgan Bank.

You'll see on the top portion of the chart that the balance sheet of the bank has been stable, loan book at 14.5 billion dollars, a 1% decline. Deposit book at 13 billion dollars. We will talk a little bit about that as we progress. Asset quality is stable at 2.2% with a coverage ratio of 240%, a slight improvement over 2017-year end of 2.3%. When you look at the bottom portion of the chart, operating income has improved and is primarily driven by improvement in NIMs from 2.3% to 2.7%. If you look at the provisions, you see that the provisions are 753 million dollars. Close to 90% of them are general provisions. If you then translate them into what it means in terms of profitability, profits are up by 14% as a result of increase in revenue by about 8%.

In terms of deposits, the drop in the first quarter was a result of bank completing 350 million dollars three-year club deal, and therefore we had no needs for funds, and this deal was done to basically help the liquidity ratios of the bank. And then I will move on to slide six which talks about regional operations. You see the picture that the loan book is stable at 5.3 billion, deposits at 4.8 billion, again a function of a lot of liquidity at the overall group level. Net profits are up to 18 million dollars for the regional operations. Net margins show a steady picture, and I would describe it as improving steady. The AGB has got a healthy net interest margin of 4.6%. Burgan Bank Turkey 3.7% and as a portfolio of operations outside the region, we have a net interest margin of 3.1%.

Cost-income ratio are up relative to quarter 1 2017. More as a result of a one off in Bank of Baghdad, otherwise you will notice in the bottom portion of the chart, that other than Bank of Baghdad, we have got a stable downward cost-income trajectory for AGB and Burgan Bank Turkey, which are the bigger two franchises among the regional operations. Return on equity of the regional operations stood at 6.2% at the end of the 1st quarter.

Moving on to Gulf Insurance Group, again, the same theme continues. Our gross written premiums are up to 274 million dollars as compared to 262 million dollars in the first quarter of 2017. The Gulf Insurance Group has been a wonderful story in 2017. Gross premiums crossed 1 billion dollars, a 43% increase over the previous year, and GIG has now broken into the top ten insurance companies in the MENA region. The drivers for the growth has been: one organic growth, this is the result of one of strategic drivers for the KIPCO group that we get involved in sectors that have natural tailwind behind them. For the insurance business it means, that in the region where we do business, which is Morocco to Oman the insurance density and the insurance penetration is one of the lowest in the world.

GIG being market leaders in Kuwait, Bahrain, Jordan and Egypt is able to basically build on its superior market position and operating capability, and has continued to grow organically. Secondly, we have done inorganic acquisition of AIG's Turkey business in May 2017. This book is well seasoned and we have merged this business with our existing operations in Turkey. The third reason for the growth has been that at home in Kuwait where we were awarded the retiree's program management, it is called Afya. The contract basically insures 133 thousand customers through The Ministry of Health. The initial bid was for an annual contract which began in October 2016 and the negotiation is progressing for the next round of the award.

GIG continues to be in a good position given its history and customer satisfaction, that it has achieved with the retirees. The combined ratio as you will notice at the bottom chart of this page shows an improvement to 98 percent. This is expected to go down to the historical average of the mid to low 90s. The return on equity is a healthy 16.4%, a 4% improvement over last year and in line with the group target of 15% return on equity. With that, I will pass it

on to my colleague, Mr. Mazen Hawwa to talk about United Gulf Holding and United Real Estate Company.

Mazen Hawwa:

Thank you Pinak. Firstly, I would like to remind that United Gulf Holding was the result of the restructuring of UGB. It is basically a mirror of the old UGB which was restructured in 2017. During that time UGB was segregated into regulated entity from other investment holdings which remain at the holding level. On a consolidated basis United Gulf Holding performance stayed stable, revenue has grown by 11% supported by growth in fees and returns from the banking holding and returns from its investment in Burgan Bank. The bottom line was stable compared to the previous year and that was a result of increase in interest costs and provisions during quarter one. UGB's restructuring have led their regulated entity's capital structure to be significantly improved and today stands around 23% based on Basel 3.

Moving on to the next slide on United Real Estate Company, KIPCO's real estate arm. URC has witnessed a slight improvement in their top line revenues supported by the contracting services business, which also supported the slight improvement in their operating profit. On a bottom line basis, the results were slightly lower than last year, resulting from increase in cost of funds.

Overall, on the asset side, the assets remain stable at around 2 billion dollars. I will now hand over to Mr. Pinak to speak about OSN in the next slide.

Pinak Maitra:

Thank you Mazen. OSN is our Pay TV business. We continue to have strong confidence about the potential of this business. As you would see on slide 12, it shows how the MENA region is positioned relative to rest of the world. In our MENA region, the slide shows that the total population is about 345 million which is somewhat similar to that of America and that of the European Union. Now, the interesting thing is the last column on this page where the Pay TV penetration is 10% and when you compare that with Latin America which stands at 57%, UK at 54%, India at 82% and the US of course at 86%, it shows that there is a huge opportunity for this business to grow and that has been one of the drivers for KIPCO to be interested in this opportunity.

OSN is a leading Pay TV operator in the region. One of the things that is unique about OSN is that we are one of the few licensees in the world that are multi country. BSkyB is one, they had to acquire businesses in Germany and Italy to become a three country player. We currently have licenses for 25 countries in the MENA region. We currently are operating in only 7 of them. The subscriber base is around 1.1 million and so that is the state as of today. We have exclusive content which is key for the Pay TV business, from the 7 major Hollywood studios and we offer this over 159 channels. There are 2000 employees working in the business. So that is the broad overview of OSN.

The business, as we have reported in our financial statements has been facing headwinds of late and the primary driver has been to some extent a supply side pressure coming from increasing competitive demand for the content. But

despite that we have been able to hold on to most of our rights. The management team is focusing on digitizing the business and bringing about a radical change, including giving more power to the customer, by introducing a new pricing and packaging strategy that has been interesting. We believe that these efforts of allowing the business to get into stronger grounds to execute will continue to bear fruits in the coming years. In terms of financials our share of losses for Q1 2018 was 33 million dollars. This is compared to dollar 39 million dollars loss that we suffered in Q4 2017 and when you compare it with first quarter of 2017, the losses were 13.6 million dollars. Overall we expect the current year performance to be trending similar to last year. With that I will pass it on to Anuj to talk about United Industries.

Anuj Rohtagi:

Thank you Pinak. So on page 11 we have other key entities of the group. These are United Industries and Jordan Kuwait Bank. Both of these are steady businesses and provide quite a good diversification to overall portfolio of assets. Now quickly on United Industries Company, this primarily reflects our share of profits from two key assets which are Qurain Petrochemicals as well as SADAFCO. Now if you see our revenues have been around 24 million dollars and most of it gets translated into net profits of around dollar 18 million for the quarter. There has been steady growth in these businesses. If we then look at Jordan Kuwait Bank, the operations have again been steady and there has been a good maintenance of net interest margins at around 3.5%. There was 14 million dollars of net profit for this quarter.

If we then go to page 12, this page speaks of our liability profile. As you know we have been very proactive in management of our borrowed funds. We have done deals anticipating basically the market situation and as you know the base rate for US dollar borrowings has gone up by roughly 60 basis points since our last EMTN issue. So that is a straight saving for us as our last 10-year bond was fixed at a very attractive 4.5%. Our assets are long term, hence we always target to extend our maturity profile and as we speak today our average maturity of our debt is more than 5 years. Our cash position remains very strong as we cover all our debt obligations till July 2020 which is a very strong position. We had recently done a KD bond issue and recognize the support that we received from Kuwait Dinar investors. With that I will pass on to Mr. Mazen to speak about IFRS 9 update.

Mazen Hawwa:

Thank you Anuj. IFRS 9 is now probably the most popular standard for Q1 probably across the world. It is basically the standard that replaces IAS 39 that used to deal with the measurement and categorization of financial assets and liabilities and hedge accounting. It was applicable from 1 January 2018. So KIPCO has elected as part of the implementation of this standard, to re-state the opening balance sheet and opening retained earnings. In particular, in relation to the changes affecting the fair value reserve, changes in credit provisions and non-controlling interests. The total impact of the implementation of the standard was around KD120 million with the main implication resulting from the implementation of the new credit provisioning model called the Expected Credit Loss model which resulted in a KD 118 million adjustments to the opening

retained earnings of KIPCO. This replaced the previous standard which was based on an Incurred Loss model. Much more details are available in KIPCO's financial statements, note 2 on page 9 in particular where we have presented all the implications and reconciliations to the balance sheet items.

The next few slides of the presentation provide useful information in terms of the balance sheet of KIPCO and detailed income statement. We will end the presentation here and will open the floor for Q&A.

- Operator: Our first question from Rakesh Tripathi from Franklin Templeton Investment. Please go ahead
- Rakesh: Hi Team, Thank you for the presentation. I have a question around two things, one is how much was the total dividend income that the Parent, at parent level KIPCO received in Q1 and how much was the parent level interest expense for the quarter
- Anuj Rohtagi: For 2018 we expect to receive around 24mn dinars and our interest expenses are around 40mn dinar, so you can take one fourth of that, so 10mn dinar per quarter
- Rakesh: Ok great thanks, would you have like some data on how much of dividend income was received in Q1, any approximate number as of now.
- Anuj Rohtagi: Most of our dividends comes in the form of dividend that we receive from subsidiaries and associates, so that is the bulk of our income. If you look at, most of the income will be received in Q2 as most of these are listed entities, they report their financials. They come out by end of March or so and so the receipts happen in quarter 2.
- Rakesh: Ok, ok. Thank you very much. Thank you.
- Anuj Rohtagi: Welcome.
- Operator: Thank you our next question from Taher Safieddine from Citigroup. Please go ahead.
- Taher: Hi good afternoon gentlemen, this is Tahir from Citigroup in Dubai. My question is mainly on the share of results of media joint venture which I believe is OSN. Clearly this business has been coming under severe pressure over the past quarter. Looking at the extent of the losses in FY17 and then in Q1 2018. Can we just get a better understanding I mean if I remember correctly 2 years ago this was the growth driver of the business with plans may be to take it public and so on and clearly things have turned south in the past 5 to 6 quarters. Can we get the understanding what is happening exactly there? Is it the competition of the Netflix and the others that are pushing this business into higher cost and

severe losses and any guidance in terms of when do you expect improvements within the segment would be helpful? Thank you.

Pinak Maitra:

Good afternoon Taher, Thank you for that question. So, the story goes like this. Until the challenge in 2016 3rd quarter the business was as you rightly pointed out growing beautifully quarter on quarter. We had competitive pressures on the supply side from a state business that operates on non-commercial basis and obviously given the MENA market growth opportunity, we choose to compete for the rights that resulted in increase in the cost base of our content cost and that has been the primary reason why the performance is adversely affected. Contracts with the studios are multi year and in the negotiations, we obviously had work out a solution and they preferred to be with OSN because they know OSN and the group from 1996 so it was a tried and tested relationship. Also in order to avoid bunching of more than a few studios to mature in any one year, OSN had the studio contracts maturing over many years. Now to cut a long story short, these competitive pressures resulted OSN in basically talking to studios and that resulted us to pay for 2017 and 2018 for subscribers that we would have actually acquired in 2019 and beyond. So that has been, what I describe as a temporary turbulence but given the value of this whole sector in our region and the fact that we are a dominant player, fact that we have been operating in this business and we understand it quite well, we were able to make choice and take this decision.

On the OTT front, you would see that Netflix came on to the OSN platform and it suggests that they now understand the challenges of doing business in our region and that it's a market where it takes years and years to basically establish all the things that are necessary to deal with the customer. To sum up in 2017 and 2018 we are more affected because of the actions of the government players who are operating on non-commercial basis when compared to new OTT players such as Netflix or Starzplay.

The other dimension has been that in the first three quarters of 2017, this region suffered multiple shocks. Those shocks came from: one- fairly weak oil price levels in the early part of the year, followed by the geo-political challenges within GCC that we all saw. In the early part of the year, we also had the challenge of Egyptian Pound devaluation and as the year progressed, in Saudi we had massive exodus of people. Over eight hundred and fifty thousand people have left Saudi over the last 12 months. So, the combination of these things created a weak customer demand scenario. So it was on one hand the cost going up and the second drop in the demand side. Now the good news is that the business actual EBITDA was lower than budget by 1 million only. So this shows that the business had tremendous capacity to absorb both the cost increase and the drop-in demand.

And then we come into 2018 and see the introduction of VAT in Saudi Arabia and UAE which continues to basically create a drag in the customer's decision to incur, an obligation for a 6 month or a 12-month timeframe. So, those are the difficulties that the business faced. The good news is that Kuwait is now coming

back, Egypt is now coming back, emerging market is showing strength and in the last two weeks, we also seeing strength in Saudi Arabia. So, what we are seeing perhaps is that the business has passed the worst phase. It has now reached some stability and we expect in 2019 things will get better, because of three things: one, customer will now be better placed to make decisions in terms of the many offerings and the customer we expect will come to understand that the OSN product is the best product. Point 2 is overall economic sentiment is improving for the better and third one is lots of activity carried on in the company to know the customer better, to serve the customer better, to continue to connect with the customer and digitization of the business which means taking cost out of the business. The combination of these things, makes us hopeful that 2019 will be the turnaround year of the business.

Taher: Okay, that's very clear. Thank you very much.

Operator: Thank you. Ladies and gentlemen, it's a reminder, if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding.

Zeina: Ok, thanks again for the presentation. I just have a quick question concerning subscriber growth, so basically after the launching of rebranded OTT I just wanted to get a feel of pickup in the subscriber growth. Has there been a pickup in subscriber growth and what is your target for 2018 or 2019, if any?

Pinak Maitra: Thank you very much Zeina for that question. Basically, WAVO is on soft launch, it is expected that in the fourth quarter we will see the full launch of WAVO. It is in test period and there are lots of things that are going to happen on the platform. Whatever is happening on WAVO today is really not indicative of what is the potential of the platform. I want to draw to your attention to the broader picture. Today if you look at the world, you see that the most successful player that everybody knows in the world in the OTT space is Netflix and that people equate it to entertainment which is quite interesting. We all know the success story of Netflix and its market cap of 140 billion or so. Today Netflix has roughly 125 million subscribers, that's one data point I want to bring to your attention. The other data point I want to bring to your attention is that subscribers paying any money on OTT offerings in our region are less than half a million on a total potential subscriber's base in excess of 300 million.

So, this region offers a great opportunity and we have to get the technology and the customer experience and the content position of WAVO right, so we are taking our time. Everybody would like to get it done yesterday, but management team is working very hard and so those are the things that are happening. Clearly the Ramadan that is in progress, the World Cup that is coming are periods where typically we don't want to launch something that is very good and that's very exciting to our customer base in the region. We are expecting net growth significantly higher than last year. At the beginning of the year we were about 1 million total subscribers on OSN and we expect to be around 1.1 million subscribers and let's see where WAVO ends up. There are not enough data points to really guide you on the digital platform but we clearly see

that we are building up a product that is very superior that we believe customer will like and chose to buy.

Zeina: Ok, thank you.

Operator: We have no other questions at the moment. Dear speaker, back to you.

Pinak Maitra: Thank you very much all the participants. We appreciate you participating in the call and we look forward to joining you in the next quarter call. Good evening to all of you or good afternoon wherever you are in the world. Bye.